

MAY 23, 2019

	22-May	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	39,110	0.4	1.2	9.0
NIFTY Index	11,738	0.2	1.2	8.8
NSEBANK Index	30,527	0.7	2.8	13.6
NIFTY 500 Index	9,598	0.2	(0.0)	7.6
CNXMcap Index	17,348	(0.1)	(2.3)	4.9
BSESMCAP Index	14,369	0.5	(2.9)	6.3
World Indices				
Dow Jones	25,777	(0.4)	(3.3)	(1.0)
Nasdaq	7,751	(0.4)	(4.6)	3.0
FTSE	7,334	0.1	(2.5)	2.2
NIKKEI	21,283	0.1	(5.2)	(1.5)
Hangseng	27,706	0.2	(8.6)	(5.0)
Shanghai	2,892	(0.5)	(10.2)	2.5

Value traded (Rs cr)	22-May	% Chg Day
Cash BSE	2,498	(18.6)
Cash NSE	34,788	(6.6)
Derivatives	527,886	(0.9)

Net inflows (Rs cr)	21-May	MTD	YTD
FII	1,560	(1,834)	66,387
Mutual Fund	(1,060)	6,502	3,840

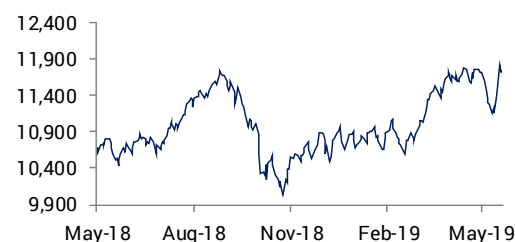
Nifty Gainers & Losers	Price	Chg	Vol
22-May	(Rs)	(%)	(mn)
Gainers			
Indusind Bank	1,519	4.9	18.6
Sun Pharma	421	3.0	7.3
BPCL	384	2.6	7.8
Losers			
Tech Mahindra	750	(3.0)	5.9
Indiabulls Housing	785	(2.9)	12.8
Yes Bank	138	(2.5)	58.7

Advances / Declines (BSE)					
22-May	A	B	T	Total	% total
Advances	277	543	55	875	100
Declines	180	405	50	635	73
Unchanged	4	30	19	53	6

	22-May	% Chg		
		1 Day	1 Mth	3 Mths
Commodity				
Crude (US\$/BBL)	70.7	(0.5)	(5.2)	5.3
Gold (US\$/OZ)	1,273.3	(0.1)	0.1	(4.1)
Silver (US\$/OZ)	14.4	(0.0)	(2.7)	(9.3)

Debt / Forex Market	22-May	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.3	7.3	7.5	7.4
Re/US\$	69.7	69.7	69.7	71.1

Nifty



Source: Bloomberg

News Highlights

- ▶ The Employees' Provident Fund Organisation (EPFO) is wary of its investments in private sector bonds and may choose to not invest in such instruments for the time being, sources said. (BS)
- ▶ CBI has decided to investigate the "wider angle" and "wider conspiracy" involved in the Rs 500 bn NSE co-location scam. CBI assured Delhi HC it will probe 'all the people' named in PIL. (BL)
- ▶ Sterlite Copper (**Vedanta**) expressed hope that it will resume operations in the next couple of months at its Tutocrin plant, which was shut after 13 people died during protests a year ago. (Mint)
- ▶ **NBCC** is unlikely to dilute certain conditions, including exemption from tax liability, in its offer for debt-laden Jaypee Infratech but is ready to negotiate on the proposal related to unsold flats, sources said. Jaypee Infratech's lenders have started negotiations with NBCC on the latter's bid to acquire the realty firm. (BS)
- ▶ Banks might agree to acquire up to a 20 per cent stake in **Jet Airways** as the Hinduja group is not keen to exceed its shareholding beyond 30 per cent in the grounded airline, sources close to the development said a day ahead of a crucial meeting at the Etihad headquarters in Abu Dhabi. (BS)
- ▶ Tata Sons is planning to tap the foreign loan market to raise \$2 billion, its largest such borrowing till date, as group companies including **Tata Steel** and **Tata Motors** are expected to need liquidity support from the conglomerate's holding company. (ET)
- ▶ Credit rating agencies are in the dark about the fate of the 'loans' taken by Essel Group entities from **Yes Bank**. Two closely held firms controlled by Essel promoters have not submitted the customary 'no-default certificate' to the rating agency, Acuité, which tracks the debt while the private sector lender is silent on whether the borrowing companies have missed servicing loans. (ET)
- ▶ **DLF** is looking to double its rental portfolio to Rs 47 bn in the next three years. The company's rental arm, DLF Cyber City Developers (DCCDL), had a rental of Rs 25.1 bn in FY19 and has forecast a rental growth of 20 per cent on a CAGR basis. (BS)
- ▶ **IndiGo (Intergobe Aviation)** now commands nearly half of the market share. IndiGo market share rose three percentage points to 49.9 per cent while overall growth turned negative in April due to closure of Jet Airways. BS
- ▶ After a four-year decline that erased 65 per cent from the value of **Sun Pharmaceutical Industries**, Shanghvi is preparing to bounce back. He's doing it by borrowing a page from Big Pharma's playbook: investing in higher-margin patented medicines rather than relying solely on copying drugs. (BS)
- ▶ **Future Consumer (FCL)** plans to raise Rs 2.8 bn from the International Finance Corporation (IFC) and Verinvest SA, a private equity and venture capital entity. The proposed fund raising will support the company's Rs 3.5 bn investment plan and to repay debt. (BS)
- ▶ HDFC Capital, the property fund-management arm of **HDFC**, is in talks with leading developers in Kolkata and Ahmedabad to float an affordable housing platform, said a source. (BS)

What's Inside

- ▶ **Result Update:** Engineers India Ltd, VA Tech Wabag Ltd, VRL Logistics Ltd

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

Result Update

ENGINEERS INDIA LTD (EIL)

Stock Details

Market cap (Rs mn)	:	71564
52-wk Hi/Lo (Rs)	:	142 / 100
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	2,484,971
Shares o/s (mn)	:	632

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	24,443	28,740	34,488
Growth (%)	36.7	17.6	20.0
EBITDA	3,711	4,814	5,729
EBITDA margin (%)	15.2	16.8	16.6
PAT	3,639	4,408	5,045
EPS	5.8	7.0	8.0
EPS Growth (%)	(3.7)	21.1	14.4
BV (Rs/share)	36.1	36.3	36.6
Dividend/share (Rs)	4.6	5.6	6.4
ROE (%)	16.0	19.3	21.9
ROCE (%)	15.1	19.8	23.6
P/E (x)	19.4	16.1	14.0
EV/EBITDA (x)	12.2	9.2	7.4
P/BV (x)	4.1	4.1	4.0

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	52.0	52.0	52.0
FII	6.5	6.5	4.4
DII	26.5	26.5	26.9
Others	15.0	15.0	16.6

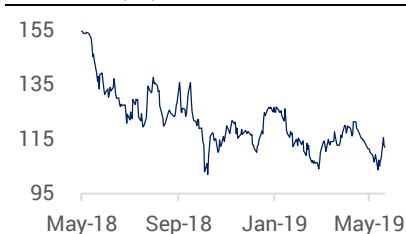
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Engineers India	(1.7)	6.6	(3.0)
Nifty	1.2	8.8	11.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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PRICE RS.113

TARGET RS.147

BUY

EIL Q4FY19 result was in line with our estimates; order inflows remained strong in FY19. Current order backlog reported at record Rs 104.8 bn imply four to five years of revenue visibility.

Key Highlights

- Revenue grew 20.2% y/y, reported at Rs 6.1 bn in Q4FY19 driven by LSTK (Lumpsum turnkey projects) division. EBITDA margin expanded to 15.2% vis-à-vis 11.3% in Q4FY18.
- In Q4FY19, PMC division reported sales at Rs 3.5 bn (+4.5% y/y). EBIT margin for the segment expanded to 28.7% vis-à-vis 26.6% in Q4FY18. LSTK division revenues grew substantially to Rs 2.3 bn in Q4FY19 vis-à-vis Rs 1.7 bn in Q4FY18. EBIT margin in LSTK division reported at c.7% in the quarter.

Valuation & Outlook

We believe that EIL stock is trading at cheap valuation at PER 14.9x FY20 core earnings. We value FY20 core earnings (excluding other income adjusted for tax) at PER 22x and maintain BUY with revised target price of Rs 147 (Rs 153 earlier).

Quarterly financials

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenues	6126	5097	20.2	5770	6.2
Employee expenses	1918	1856	3.3	1972	(2.8)
Sub-Contract Payments	1417	1135	24.9	1018	39.2
Construction Material	1234	505	144.4	1282	(3.7)
Other expenses	624	1027	(39.2)	550	13.6
Total Expenses	5193	4522	14.8	4822	7.7
EBITDA	933	575	62.3	949	(1.6)
Other income	596	479	24.4	519	14.9
Depreciation	58	58	0.7	53	9.0
EBIT	1471	996	47.7	1414	4.1
Net Interest	4	4		4	
PBT	1467	993	47.8	1410	4.0
Total tax	518	304	70.6	491	5.5
PAT	949	689	37.8	920	3.2
EPS (Rs)	1.5	1.1	37.8	1.5	3.2
EBITDA (%)	15.2	11.3		16.4	(7.3)
Tax Rate (%)	35.3	30.6		34.8	1.4

Source: Company

Result Highlights

Revenue grew 20.2% y/y, reported at Rs 6.1 bn in Q4FY19 driven by LSTK (Lumpsum turnkey projects) division. EBITDA margin expanded to 15.2% vis-à-vis 11.3% in Q4FY18 due to 1/ 210 bps increase in PMC (project management & consultancy) EBIT margin and 2/ reduced un-allocable expense, reported at Rs 299 mn in Q4FY19 against Rs 500 mn in Q4FY18.

In Q4FY19, PMC division reported sales at Rs 3.5 bn (+4.5% y/y). EBIT margin for the segment expanded to 28.7% vis-à-vis 26.6% in Q4FY18. Within PMC division, domestic and overseas business accounted to revenues of Rs 3 bn and c. Rs 456 mn respectively. LSTK division revenues grew substantially to Rs 2.3

bn in Q4FY19 vis-à-vis Rs 1.7 bn in Q4FY18. EBIT margin in LSTK division reported at c.7% in the quarter. Other income reported at Rs 596 mn in the quarter against Rs 479 mn in Q4FY18.

Segment Revenues

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Consultancy & Engineering projects	3522	3372	4.5	3425	2.8
Lumpsum Turnkey Projects	2345	1725	36.0	2345	0.0
EBIT					
Consultancy & Engineering projects	1011	896	12.8	1019	(0.7)
Lumpsum Turnkey Projects	163	121	34.8	143	14.1
EBIT Margins %					
Consultancy & Engineering projects	28.7	26.6		29.7	
Lumpsum Turnkey Projects	7.0	7.0		6.1	

Source: Company

EIL's order backlog, reported at Rs 104.8 bn at the end of FY19 (+33% y/y). Currently, PMC order book amounts to Rs 43.1 bn (38.5% of total order book) and turnkey orders amounts to Rs 68.7 bn. FY19, order inflows remained robust (however, as expected it moderated in Q4FY19), reported at Rs 58.9 bn, which includes- Rs 15.8 bn in the consulting division and Rs 43 bn in the LSTK division.

Management has guided for revenue growth of c.15% for FY20 (conservative in our opinion, given record order backlog and improved execution expected post Lok Sabha elections) mainly in PMC division. We note that the order pipeline remains strong, potentially arising from greenfield/brownfield expansion by leading refineries.

Potential orders from the following Hydrocarbon expansion plans over FY20/21

Project	Client	Scope	Estimated Consultancy Jobs (Rs bn)
Bina refinery expansion	BPCL	Expansion from 7.8 mn MT to 15 mn MT	1 to 1.25
Kochi propylene derivatives	BPCL	Propylene derivatives	2.5 to 5
Bhatinda Expansion	HPCL	a) Low cost initial expansion. B) Doubling of capacity. C) Petrochemical integration.	4 to 4.5
Numaligarh Expansion	BPCL	Brownfield expansion 3 to 9 MMTPA	4.8-5
Barauni Refinery	IOC	Expansion by 6 mn MT and petrochemical integration	na
Panipat Refinery expansion	IOC	8-10 mn MMTPA brownfield expansion	8 to 8.5
West Coast refinery	IOC	BPCL, HPCL, IOC	30
Mangalore brownfield expansion	MRPL	Brownfield expansion 15 to 25 MMTPA	8 to 8.5
Kakinada Petrochemical Complex	Haldia Petrochemicals	Refinery and Petrochemical Project	18

Source: Company, Kotak Securities – Private Client Research

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

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

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

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

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

Valuation and Recommendation

We believe that EIL stock is trading at cheap valuation at PER 14.9x FY20 core earnings. We value FY20 core earnings (excluding other income adjusted for tax) at PER 22x and maintain BUY with revised target price of Rs 147 (Rs 153 earlier).

Valuation Table

	Rs mn (FY20)
Core PAT	3,063
PER (x)	22
Net Cash	25618
Target valuation	93015
Target Valuation (Target Price) per share (Rs)	147

Source: Kotak Securities – Private Client Research

About the company

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

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	17,876	24,443	28,740	34,488
% change yoy	23.4	36.7	17.6	20.0
EBITDA	4,131	3,711	4,814	5,729
% change yoy	36.7	(10.2)	29.7	19.0
Depreciation	238	232	236	240
EBIT	3,892	3,478	4,578	5,489
% change yoy	39.2	(10.6)	31.6	19.9
Net Interest	6	6	6	6
Other Income	1795	1959	2007	2046
Earnings Before Tax	5,682	5,432	6,580	7,530
% change yoy	13.6	(4.4)	21.1	14.4
Tax	1,902	1,793	2,171	2,485
as % of EBT	33.5	33.0	33.0	33.0
Extraordinary Income	0	0	0	0
Recurring PAT	3,779	3,639	4,408	5,045
% change yoy	16.3	(3.7)	21.1	14.4
EPS (Rs)	6.0	5.8	7.0	8.0
DPS (Rs)	4.0	4.6	5.6	6.4
CEPS	6.4	6.1	7.3	8.4

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19*	FY20E	FY21E
PBT	5,682	5,432	6,580	7,530
Depreciation	238	232	236	240
Current liabilities incl provisns	6,185	2,027	3,404	5,442
Increase in inventory	-	-	-	(1)
Increase in sundry Debtors	(1,619)	(712)	(1,083)	(1,449)
Increase in advances	4	(7)	(8)	(8)
Other Current Assets	(487)	(1,756)	(1,177)	(1,575)
Tax Paid	(1,902)	(1,793)	(2,171)	(2,485)
Other Adjustments	0	0	0	0
Net cash from operations	8,101	3,423	5,780	7,694
Purchase of fixed Assets	(212)	(382)	(386)	(390)
Net investments	2,967	1	(500)	(500)
Other investment activities	(285)	1272	(1)	(1)
Net cash from investing	2,469	891	(887)	(891)
Change in Borrowings	0	0	0	0
Dividend Paid	(3,048)	(3,511)	(4,253)	(4,867)
Issue of common equity	(6,580)	-	-	-
Net Cash from financing act	(8,860)	(3,511)	(4,253)	(4,867)
Net Cash Flow	1,711	803	640	1,936
Cash at the end of year	24,816	25,618	26,258	28,194

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	24,816	25,618	26,258	28,194
Accounts receivable	5,449	6,161	7,244	8,693
Loans & advances	103	111	118	127
Other current assets	4,940	6,697	7,874	9,450
Current Assets	10,493	12,968	15,236	18,269
Net fixed assets	2,204	2,354	2,504	2,654
Investments	2,728	2,727	3,227	3,727
Other non-current assets	4061	2790	2791	2792
Total Assets	44,303	46,458	50,016	55,636
Debt	-	-	-	-
Equity & reserves	22,679	22,807	22,962	23,140
Other liabilities	224	224	224	224
Current Liabilities	21,400	23,427	26,831	32,273
Total Liabilities	44,303	46,458	50,017	55,637
BVPS	35.9	36.1	36.3	36.6

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	23.1	15.2	16.8	16.6
EBIT margin (%)	21.8	14.2	15.9	15.9
Net profit margin (%)	21.1	14.9	15.3	14.6
Adjusted EPS growth (%)	0.2	(0.0)	0.2	0.1
Receivables (days)	111.3	92.0	92.0	92.0
Sales / Net Fixed Assets (x)	6.5	8.7	10.0	11.7
Debt/ equity ratio	-	-	-	-
ROE (%)	15.0	16.0	19.3	21.9
ROCE (%)	15.3	15.1	19.8	23.6
EV/ Sales	2.6	1.8	1.5	1.2
EV/EBITDA	11.1	12.2	9.2	7.4
Price to earnings (P/E)	18.7	19.4	16.1	14.0
Price to book value (P/B)	4.1	4.1	4.1	4.0
Price to cash earnings	17.6	18.3	15.2	13.4

Source: Company, Kotak Securities – Private Client Research

Result Update

VA TECH WABAG LTD

Stock Details

Market cap (Rs mn)	: 16497
52-wk Hi/Lo (Rs)	: 461 / 243
Face Value (Rs)	: 2
3M Avg. daily vol (Nov)	: 131,776
Shares o/s (mn)	: 55

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	27,810	31,519	36,800
Growth (%)	(19.6)	13.3	16.8
EBITDA	1,941	2,511	3,110
EBITDA margin (%)	7.0	8.0	8.5
PAT	1,050	1,172	1,408
EPS	19.2	21.5	25.8
EPS Growth (%)	(20.1)	11.6	20.1
BV (Rs/share)	196	213	234
Dividend/share (Rs)	4.0	4.0	4.0
ROE (%)	9.5	10.5	11.6
ROCE (%)	8.0	9.4	9.8
P/E (x)	15.3	13.7	11.4
EV/EBITDA (x)	10.4	7.6	6.4
P/BV (x)	1.5	1.4	1.3

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	24.7	24.7	24.7
FII	20.6	20.6	20.9
DII	9.1	9.1	12.8
Others	45.7	45.7	41.6

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Va Tech Wabag	4.4	5.9	6.5
Nifty	1.2	8.8	11.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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PRICE Rs.300

TARGET Rs.335

ADD

VA Tech (VAW) reported weak set of numbers which were lower than our estimates on revenue and profit front. EBITDA margin bore the brunt of lower revenues as some key overseas projects are yet to pick up momentum. On the positive side, order wins have been healthy in FY19, thereby leading to much improved order book.

Key Highlights

- Revenue declined 35% y-o-y in Q4FY19 as recently won major orders in overseas markets are yet to pick up full execution momentum.
- Consequently, margins declined sharply on lower revenue booking and resultant negative operating leverage. Forex translation loss of Rs 64 mn (Rs 62 mn in Q4FY19) further weighed on the margins.
- The company reported significant miss on revenue guidance of Rs 40-42 bn in FY19. Revenue guidance for FY20E stands at Rs 35-37 bn.

Valuation and Outlook

VAW is trading at 13.7x and 11.4x, FY20E and FY21E earnings respectively. In view of the long term growth potential in water and waste water treatment and reasonable valuations, we move rating to "ADD" (earlier BUY) with price target of Rs 335 (earlier Rs 338), valuing the stock at 13x FY21E (earlier 13x FY20 earnings).

We will turn more bullish if 1) receipt of retention money from APGENCO and 2) and improvement in project execution rate.

Quarterly performance

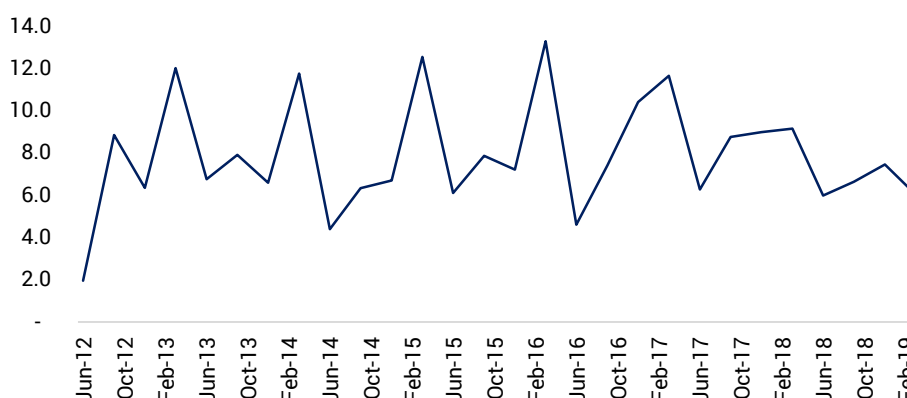
Rs mn	Q4FY19	Q4FY18	YoY (%)
Net Sales	6793	10375	-34.5
Total Expenditure	6384	9427	-32.3
(Increase) / Decrease In Stocks	6	30	-80.4
Cost of Services & Raw Materials	5021	8096	-38.0
Other Expenses	823	633	30.0
Employee Cost	535	669	-20.1
EBIDTA	409	948	-56.9
Other Income	27	26	3.8
Operating Profit	436	974	-55.2
Depreciation	42	45	-6.8
EBIT	394	929	-57.6
Interest	240	158	51.7
PBT	154	770	-80.1
Tax	-186	145	-228.1
Profit After Tax	340	625	-45.7
Minority Interest	63	(38)	-268.2
Shares of Associates	5	9	-48.4
Consolidated Net Profit	408	596	-31.7
EBITDA excl other op income (%)	6.0	9.1	
Material costs to sales (%)	74.0	78.3	
Staff costs to sales (%)	8	6	
Other expenditure to sales (%)	12.1	6.1	
Tax rate (%)	(121)	19	
EPS (Rs)	7.5	10.9	

Source: Company

4QFY19 Consolidated results highlights

- Revenue stood at Rs 6.8 bn, down 35% YoY and was sharply lower than our revenue estimate of Rs 10.8 bn.
- Normally, the fourth quarter accounts for 30-35% of the full year revenue but in Q4FY19, revenue were only 24% of the annual revenue figure. The management attributed this to delay in commencement of key overseas projects.
- EBITDA for the quarter stood at Rs 409 mn (down 57% YoY), which was lower than our estimates due to margin decline as a result of lower revenue booking coupled with forex loss of Rs 64 mn (Rs 62 mn in Q4FY18).
- EBITDA margins for the quarter stood at 6.9% vs 9.8% on a y-o-y basis as key orders are yet to pick full momentum.
- Interest cost rose to Rs 240 mn, up 52% y-o-y on account of higher working capital and interest rates.

Quarterly EBITDA Margins (%)



Source: Company

- The company reported PAT of Rs 408 mn vs Rs 596 mn in corresponding quarter of the previous fiscal. Profits were shored up by tax writeback on account of refund order received under 80IA.

Working Capital remains elevated hence borrowings rose further

Working Capital continued to be at elevated level in FY19. Receivables at Rs 17 bn in FY19 (marginally down). In terms of Receivables Days of Sales, the figure rose to 224 days in FY19 as against 182 days in FY18.

On account of high working capital, gross borrowings rose to Rs 5.8 bn in FY19 as against Rs 4.8 bn in FY18.

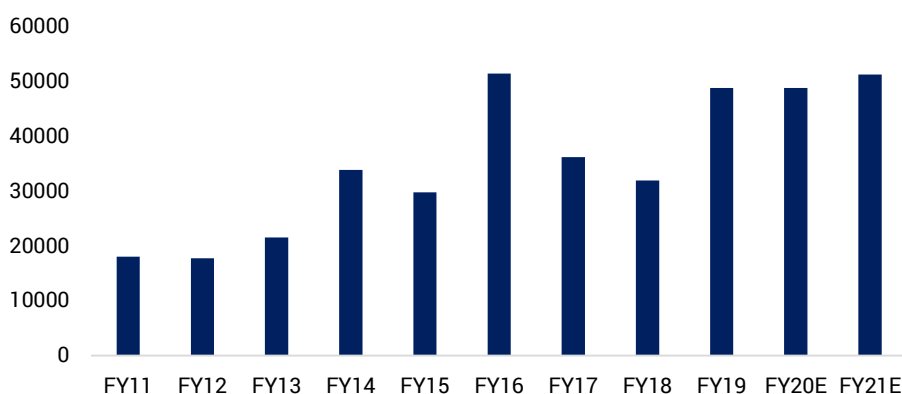
Receivables have deteriorated mainly due to two power projects that the company has been executing in the states of Andhra Pradesh and Telangana as part of a consortium. Due to the certain circumstances, the company had to take over the project as consortium leader in 2014-15 and a corporate insolvency resolution process was ordered against the erstwhile consortium lead member Tecpro Systems Limited ('Tecpro') in 2017-18. The amounts receivable from these projects of Rs. 4.2 bn, which are net of expected credit loss accounted as per company's accounting policy, are recoverable progressively upon satisfactory completion of the contractual milestones. The Company is also pursuing legal action to recover an amount of Rs. 695 mn from Tecpro and has filed an appeal with National Company Law Appellate Tribunal. We note that satisfactory resolution of these pending receivables remains the key for stock performance.

Order book is healthy as order intake in FY19 was strong

Consolidated Order backlog at the end of FY19 stands at Rs 85.9 bn as against Rs 68.0 bn on a y-o-y basis. Order book has improved significantly in FY19 due to accretion of some large orders. The revenue visibility provided by order book has also improved to 37 months of trailing four quarter revenues.

Order intake in Q4FY19 declined y-o-y to (albeit on a high base) at Rs 13.1 bn. However, for the full year of FY19, order intake (Rs 48.7 bn) reported strong growth of 53% over FY18.

Order intake Rs mn

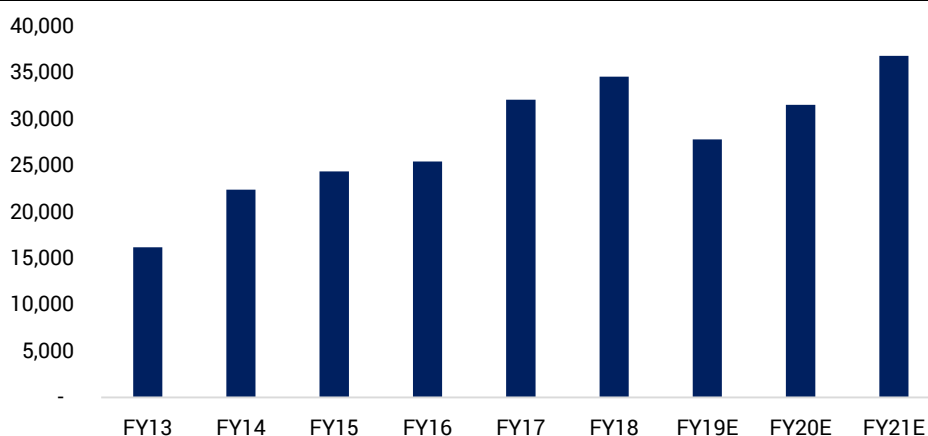


Source: Company, Kotak Securities – Private Client Research

Management Guidance

For the second year in a row, the company missed out on its revenue guidance. For the current fiscal, the management has given revenue guidance of Rs 35-37 bn. We are projecting revenue of Rs 31.5 bn, preferring to stay conservative in view of the past slippage in revenue guidance.

Revenue (Rs mn)



Source: Company, Kotak Securities – Private Client Research

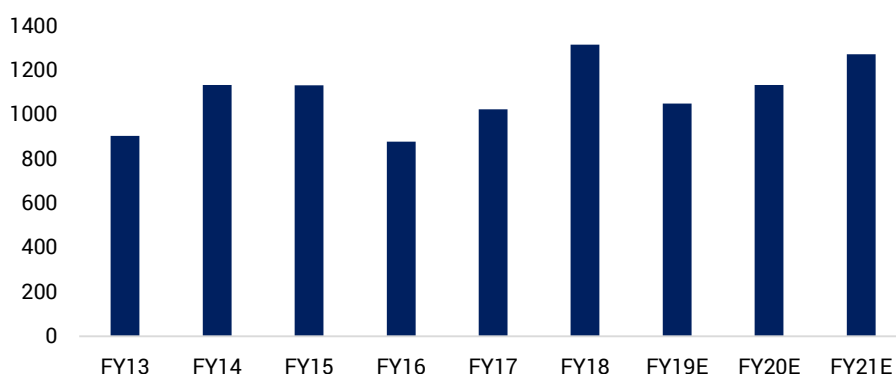
Also, the company missed out on its order intake guidance of Rs 53-57 bn in FY19 as actual order intake was at Rs 48.7 bn. For the current fiscal, the management has given order intake guidance of Rs 50-54 bn, which implies a growth of 4-13% over FY19 order intake. We are not building in any growth in order intake in FY20E, mainly due to 1) this being an election year and 2) high base of FY19.

Earnings Revision - FY20

(Rs mn)	Earlier	Revised
Revenue	35833	31519
EBITDA (%)	8.6	8.0
EPS	26.1	21.5
Change		-17.7%

Source: Kotak Securities – Private Client Research

PAT (Rs mn)



Source: Company, Kotak Securities – Private Client Research

Outlook

The VAW stock has underperformed the market and the sector peers on account of 1) weak earnings in FY19 and 2) compression in cash flow generation due to elevated working capital thereby leading to increase in debt. The much anticipated collection of receivables pertaining to the APGENCO project has continues to get delayed, much to the disappointment of the investors.

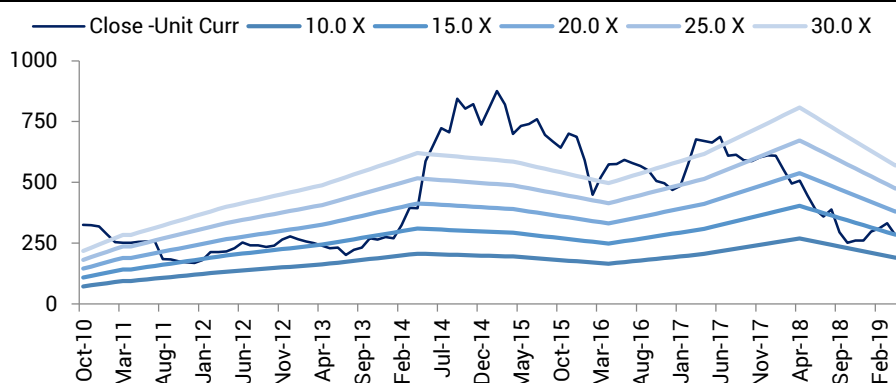
Considering these factors, we ascribe a lower target price to the stock, post which the upside is moderate and hence we move rating to ADD from BUY earlier.

Valuation – Recommend ADD

VAW is trading at 13.7x and 11.4x, FY20E and FY21E earnings respectively. In view of the long term growth potential in water and waste water treatment and reasonable valuations, we move rating to “ADD” with price target of Rs 335 (earlier Rs 338), valuing the stock at 13x FY21E (earlier 13x FY20 earnings).

We will turn more bullish if 1) receipt of retention money from APGENCO and 2) and improvement in project execution rate.

Forward PE band



Source: Kotak Securities – Private Client Research

Background

VAW is a multinational player in the water treatment industry with market presence in India, the Middle East, North Africa, Central and Eastern Europe, China and South East Asia through its principal offices in India, Austria, the Czech Republic, China, Switzerland, Algeria, Romania, Tunisia, UAE, Libya and Macao. VAW is headquartered in Chennai and operations are conducted through its overseas subsidiaries and branch and representative offices. VAW shares strategic and technical expertise across Subsidiaries that allows research, operational and marketing synergies.

VAW has R & D centres located in Chennai, India and at Vienna and Winterthur in Austria and Switzerland respectively. Wabag Austria and Wabag Wassertechnik own 157 patents which include both process and product patents. Wabag Austria has also applied for 51 patents that are pending.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	34,573	27,810	31,519	36,800
% change yoy	7.8	(19.6)	13.3	16.8
EBITDA	2,918	1,941	2,511	3,110
% change yoy	(1.6)	(33.5)	29.3	23.9
Other Income	57	44	50	60
Depreciation	178	168	174	181
EBIT	2,739	1,774	2,336	2,930
% change yoy	(1.3)	(35.3)	31.7	25.4
Net Interest	577	753	854	860
Earnings Before Tax	2,219	1,064	1,533	2,129
% change yoy	(6.0)	(52.1)	44.1	38.9
Provisions/Exceptional items/ Extraordinary items	0	0	0	0
Tax	(774)	(205)	(383)	(724)
as % of EBT	(34.9)	(19.3)	(25.0)	(34.0)
Net Income adj	1,445	859	1,149	1,405
% change yoy	(14.8)	(40.5)	33.8	22.3
Share of profit from associates	26	33	33	33
Minority Interest	(155)	158	(10)	(30)
Reported Net Income	1,315	1,050	1,172	1,408
Shares outstanding (m)	55	55	55	55
Adj EPS (Rs)	24.1	19.2	21.5	25.8
DPS (Rs)	4.0	4.0	4.0	4.0
CEPS	27.4	22.3	24.7	29.1

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19*	FY20E	FY21E
PBDIT	2,918	1,941	2,511	3,110
Direct tax paid	(825)	(205)	(383)	(724)
Adjustments	(204)	(1,574)	-	-
Cash flow from operations	1,888	162	2,127	2,386
Net Chg in Working Capital	(3,777)	(49)	82	(2,127)
Net Cash from Operations	(1,889)	113	2,210	259
Capital Expenditure	(64)	(58)	(60)	(40)
Cash from investing	164	(16)	50	60
Net Cash from Investing	100	(74)	(10)	20
Interest paid	(577)	(753)	(854)	(860)
Issue of Shares	0	-	-	-
Other liabilities	(664)	260	-	-
Dividends Paid	(267)	(260)	(255)	(255)
Debt Raised	1,682	1,064	-	-
Net cash from financing	174	310	(1,109)	(1,116)
Net change in cash	(1,615)	349	1,091	(836)
Free cash flow	(1,953)	55	2,150	219
cash at end	1,441	1,790	2,881	2,045

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	1,441	1,790	2,881	2,045
Accounts receivable	17,199	17,076	17,271	20,165
Inventories	382	154	385	385
Loans and Advances	348	449	449	449
Other current assets	14,998	14,998	17,011	19,862
Current Assets	34,368	34,467	37,998	42,906
Investments/Loans and Advan	831	840	840	840
Intangible Assets	732	606	606	606
Net fixed assets	992	882	768	627
Deferred tax assets	380	991	991	991
CWIP	-	-	-	-
Total Assets	37,303	37,786	41,202	45,969
Payables	19,206	19,066	21,588	25,206
Provisions	692	533	533	533
Current liabilities	19,898	19,599	22,121	25,739
LT debt	4,773	5,837	5,837	5,837
Other liabilities	899	1,494	1,471	1,468
Equity & reserves	11,396	10,689	11,606	12,759
Minority Interest	338	167	167	167
Total Liabilities	37,303	37,786	41,202	45,969
BVPS (Rs)	208.8	195.9	212.7	233.8

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	8.4	7.0	8.0	8.5
EBIT margin (%)	7.9	6.4	7.4	8.0
Net profit margin (%)	4.2	3.1	3.6	3.8
Receivables (days)	181.6	224.1	200.0	200.0
Inventory (days)	4.0	2.0	4.5	3.8
Sales / Net Fixed Assets (x)	34.8	31.5	41.0	58.7
Interest coverage (x)	5.1	2.6	2.9	3.6
Debt/equity ratio(x)	0.4	0.5	0.5	0.5
ROE (%)	12.3	9.5	10.5	11.6
ROCE (%)	11.1	8.0	9.4	9.8
EV/ Sales	0.6	0.7	0.6	0.5
EV/EBITDA	6.7	10.4	7.6	6.4
Price to earnings (P/E)	12.2	15.3	13.7	11.4
Price to book value (P/B)	1.4	1.5	1.4	1.3
Price to cash earnings	10.8	13.2	12.0	10.1

Source: Company, Kotak Securities – Private Client Research

Result Update

VRL LOGISTICS LTD (VRL)

PRICE Rs.264

TARGET Rs.325

BUY

Stock Details

Market cap (Rs mn)	:	23819
52-wk Hi/Lo (Rs)	:	425 / 237
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	78,366
Shares o/s (mn)	:	90

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	21,096	23,190	25,691
Growth (%)	9.7	9.9	10.8
EBITDA	2,341	2,439	2,725
EBITDA margin (%)	11.6	11.8	11.9
PAT	920	1,068	1,229
EPS	10.2	11.8	13.6
EPS Growth (%)	0.5	22.0	13.6
BV (Rs/share)	72.0	77.2	83.1
Dividend/share (Rs)	5.5	6.0	7.0
ROE (%)	14.6	15.9	17.0
ROCE (%)	19.0	19.5	20.9
P/E (x)	26.0	22.4	19.5
EV/EBITDA (x)	9.9	8.8	7.9
P/BV (x)	3.7	3.4	3.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	68.1	68.0	67.5
FII	6.8	12.4	11.6
DII	18.0	11.0	11.0
Others	7.2	8.6	9.9

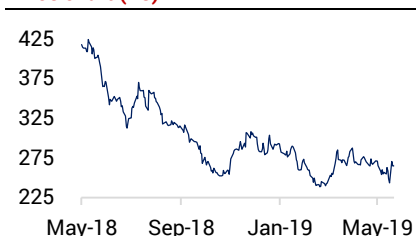
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
VRL Logistics	(0.6)	7.6	(13.9)
Nifty	1.2	8.8	11.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

VRL's Q4FY19 performance was weak across segments. The trucking segment reported weak volume growth of 2%, while the bus segment was weak in a seasonally weak quarter. Near term weakness may stay due to weak macros and poor demand situation. However long term prospects remain healthy with improving country-wide GST compliance and favourable regulatory environment. Maintain Buy with a reduced TP of Rs 325 (from Rs 355)

Key Highlights

- VRL has reported total sales at Rs 5.13bn (+4.8% YoY) led by weak volume growth in the trucking division. Trucking division reported low single digit volume growth. We believe the division benefitted from GST implementation and increase in axle load, but was impacted by weakness in domestic trade.
- Q4 is a seasonally weak quarter for the bus division and in Q4FY19, the division continued with its seasonal trend and reported revenues of Rs 889 mn, but EBIT of just Rs 28 mn.
- Higher diesel prices, weak business environment and increasing cost of regulatory compliance (GST implementation) impacted operational performance. Company reported EBITDA of Rs 599 mn with EBITDA margin of 11.7% (-90 bps QoQ)
- Consequently PAT was reported Rs 205 mn below our estimate of Rs 243 mn

Quarterly Performance

(Rs mn)	Q4FY18	Q3FY19	Q4FY19	YoY (%)	QoQ (%)
Sales	4892	5512	5129	4.8	-6.9
Operating exp	3514	3806	3557	1.2	-6.5
Employee	879	944	906	3.1	-4.0
Other	55	65	67	21.8	3.1
Total operating exp	4448	4815	4530	1.8	-5.9
EBIDTA	444	697	599	34.9	-14.1
EBIDTA %	9.1	12.6	11.7		
Depreciation	245	253	255	4.1	0.8
Other income	21	12	19	-9.5	58.3
Finance cost	22	36	37	68.2	2.8
Exceptional	0	0	0		
PBT	198	420	326	64.6	-22.4
Tax	79	154	121	53.2	-21.4
RPAT	119	266	205	72.3	-22.9

Source: Company, Kotak Securities – Private Client Research

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Segmental Performance

Sales (Rs mn)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Trucking	3965	4098	4189	4402	4165
Bus	834	1072	811	1032	889
Power	20	54	117	27	23
Air chartering	43	33	26	24	24
Others	29	27	27	27	28
Total	4891	5284	5170	5512	5129
EBIT (Rs mn)					
Trucking	275	295	366	445	415
Bus	-27	120	-84	101	28
EBIT Margin					
Trucking	6.9	7.2	8.7	10.1	10.0
Bus	-3.2	11.2	-10.4	9.8	3.1

Source: Company

In Q4FY19, the **trucking segment** reported revenue growth of 5% YoY which was led by 2%/4% YoY growth in tonnage/realization. Volumes remain intact for VRL in weak macro environment due to 1) LTL nature of the business; 2) Aggressive marketing by the company in a hub and spoke model and 3) Geographical expansion by the company. Higher diesel prices negatively impacted the operating margins, with the company passing some to the customers.

Bus division-Q4 is a seasonally weak quarter for the bus division and the division continued with its seasonal trend and reported revenues of Rs 889 mn but EBIT of just Rs 28 mn, impacting the overall performance of the company.

Higher diesel prices is negative for VRL

Diesel prices in Mumbai is currently at Rs 73 per litre (up from Rs 68 per litre QoQ). Higher diesel prices in a weak demand environment negatively impacts VRL.

Current Capex has aligned with GST

Management of VRL had indicated that the company has most of the infrastructure in place to cater to the changing requirement of clients in the medium term, Accordingly, we had envisaged that the next phase of capex for the company would be now primarily towards purchase of larger and modern trucks, new Volvo buses and expansion of hubs. The upcoming capex would be in sync with the requirement mandated by GST and adhere to the new Axle Load norms, we estimate the company to spend around Rs 2.7 bn over the next 2 years as capex.

Improvement in performance going forward

We estimate that the various legislative changes like GST Act, Motor Vehicle Amendment Act, Scrappage policy and Axle Load norms, to fully yield benefits for VRL from FY21. Healthy GDP growth, improvement in trade and various road infra projects of the government would further add to the growth of the company.

For VRL we expect,

- Improvement in tonnage in the trucking segment with enhanced client base
- Improvement in occupancy in the bus segment with improved geographical reach

- Operating leverage to play-out which would lead to improvement in margins and return ratios
- Management has guided for 10% YoY volume growth per annum over the next 3 years

Valuation & outlook

We see VRL as a Logistics player which has created a niche for itself in the transport industry and a player who has overcome the nuances of the industry through effective practices within the company. This has enabled the company to outperform its peers in every financial parameter. The GST Act, Motor Vehicle Act and E-way bill are expected to improve business prospects of the company with full benefits accruing from FY21E. We estimate strong earnings growth in long term for the company with improvement in EBIDTA margins and return ratios. Near term weakness may stay due to weak macros and poor demand situation. We continue to remain positive on the company and value the company at 24x FY21 earnings and Recommend BUY with a reduced TP of Rs 325 (from Rs 355).

Company Background

VRL is a leading Pan-India surface logistics, parcel delivery and luxury bus services provider, owning and operating a large fleet of commercial vehicles and luxury buses providing general parcel, priority parcel delivery, courier, full-truckload (FTL) and passenger bus services through its widespread transportation network. We believe that the differentiated service offerings, large integrated hub-and-spoke transportation network, extensive operational and maintenance infrastructure and in-house technology systems would enable the company to report healthy growth

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	19,222	21,096	23,190	25,691
% change YoY	6.6	9.7	9.9	10.8
Opex	14,349	14,744	17,191	19,023
Employee cost	2,026	3,667	2,456	2,718
Other expenses	675	246	819	906
Total Operating expd	17,050	18,657	20,465	22,647
EBITDA	2,172	2,439	2,725	3,044
Depreciation	975	1,005	1,081	1,150
EBIT	1,197	1,434	1,643	1,894
Other income	143	80	100	120
Interest expense	115	109	149	180
Profit before tax	1,225	1,405	1,594	1,834
Tax	468	485	526	605
ETR (%)	38.2	34.5	33.0	33.0
Profit after tax	757	920	1,068	1,229
JV & Associates	0	0	0	0
Net income	757	920	1,068	1,229
% change YoY	-6.8	21.5	16.1	15.0
Shares outstanding (m)	91	90	90	90
EPS	8.4	10.2	11.8	13.6

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19*	FY20E	FY21E
PAT	757	920	1,068	1,229
Depreciation +DTL	1,022	1,054	1,134	1,211
Change in working capital	(41)	(64)	(71)	(85)
Cash flow from operations	1,738	1,910	2,131	2,355
Capex	(868)	(1,831)	(1,450)	(1,200)
Investments	-	-	-	-
Cash flow from investments	(868)	(1,831)	(1,450)	(1,200)
Equity issuance	(414)	-	-	-
Debt raised	30	648	416	4
Dividend Paid	(646)	(596)	(650)	(759)
Miscellaneous items	-	-	-	-
Cash flow from financing	(1,030)	52	(234)	(755)
Net cash flow	(160)	131	447	400
Opening cash	260	100	231	678
Closing cash	100	231	678	1,078

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash	100	231	678	1,078
Debtors	865	949	1,044	1,156
Inventory	231	253	278	308
Loans & advances	1,346	1,477	1,623	1,798
Other current assets	192	211	232	257
Total current assets	2,633	2,890	3,177	3,520
LT investments	1	1	1	1
Net fixed assets	6,710	7,536	7,905	7,954
Total assets	9,446	10,660	11,762	12,554
Creditors	1,768	1,941	2,133	2,364
Provisions	211	232	255	283
Other current liabilities	0	0	0	0
Total current liabilities	1,980	2,173	2,389	2,646
LT debt	1,337	1,985	2,401	2,405
Minority Interest	0	0	0	0
Equity Capital	903	903	903	903
Reserves	5,224	5,597	6,068	6,598
Networth	6,127	6,500	6,971	7,501
Total liabilities	9,446	10,660	11,762	12,554

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	11.3	11.6	11.8	11.9
EBIT margin (%)	6.2	6.8	7.1	7.4
Net profit margin (%)	3.9	4.4	4.6	4.8
ROE (%)	12.1	14.6	15.9	17.0
ROCE (%)	17.7	19.0	19.5	20.9
DPS	6.1	5.5	6.0	7.0
Dividend payout (%)	85.3	64.7	60.9	61.7
Book Value (Rs/share)	67.9	72.0	77.2	83.1
Working capital turnover (days)	12.0	11.9	11.8	11.8
Debt Equity (x)	0.2	0.3	0.3	0.3
PER (x)	31.6	26.0	22.4	19.5
P/C (x)	13.5	12.1	10.9	9.8
Dividend yield (%)	2.3	2.1	2.3	2.6
P/B (x)	3.9	3.7	3.4	3.2
EV/Sales (x)	1.3	1.2	1.1	1.0
EV/ EBITDA (x)	10.8	9.9	8.8	7.9

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% 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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