Morning Insight

JULY 23, 2018

Equity		% Chg		
	20-Jul	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	36,496	0.4	2.7	6.0
NIFTY Index	11,010	0.5	2.2	4.2
NSEBANK Index	26,873	0.3	1.2	7.7
NIFTY 500 Index	9,286	0.5	0.1	(0.7)
CNXMcap Index	18,055	0.9	(3.0)	(9.3)
BSESMCAP Index	15,721	0.4	(5.6)	(13.5)
World Indices				
Dow Jones	25,058	(0.0)	1.9	2.5
Nasdaq	7,820	(0.1)	1.7	9.7
FTSE	7,679	(0.1)	(0.0)	3.8
NIKKEI	22,698	(0.3)	(0.4)	1.5
Hangseng	22,698	(0.3)	(0.4)	1.5
Shanghai	28,224	0.8	(3.7)	(6.7)

Value traded (Rs cr)	20-Jul	% Chg Day
Cash BSE	2,766	8.5
Cash NSE	29,180	3.6
Derivatives	524,535	(71.2)

Net inflows (Rs cr)	19-Jul	MTD	YTD
FII	(242)	(2,597)	(7,437)
Mutual Fund	(29)	3,625	72,228

Nifty Gainers & Losers	Price	Chg	Vol
20-Jul	(Rs)	(%)	(mn)
Gainers			
Bajaj Finance Ltd	2,721	8.0	7.4
Bajaj Finserv Ltd	6,664	5.8	1.0
Sun Pharma	560	2.8	2.7
Losers			
Bajaj Auto Ltd	2,840	(8.8)	5.0
HPCL	275	(3.2)	4.1
Indian Oil Corp	161	(2.9)	4.7

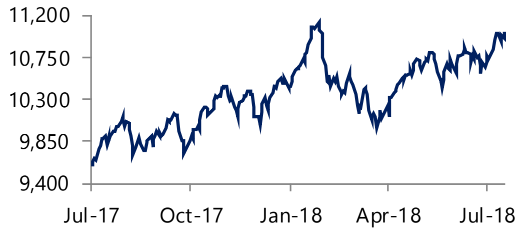
Advances / Declines (BSE)

20-Jul	A	B	T	Total	% total
Advances	218	425	47	690	100
Declines	169	617	80	866	126
Unchanged	2	29	12	43	6

Commodity		% Chg		
	20-Jul	1 Day	1 Mth	3 Mths
Crude (US$/BBL)	72.9	(0.2)	(3.5)	(2.4)
Gold (US$/OZ)	1,232	0.7	(2.9)	(7.0)
Silver (US$/OZ)	15.5	1.3	(5.7)	(6.7)

Debt / forex market	20-Jul	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.8	7.8	7.7
Re/US$	68.9	69.1	68.1	66.1

Nifty



Source: Bloomberg

News Highlights

- In its 28th meeting, the GST Council gave its approval to slash tax rates on over 100 items that were in the highest 28 per cent tax bracket under the Goods and Services Tax. GST rates on articles including consumer durables like smaller television sets, refrigerators, washing machines, paints and varnishes, lithium ion batteries, and more were brought down from 28 per cent to 18 per cent. (Business Today)
- Synthetic textile manufacturers are planning to cut the prices of their products by at least 5 per cent from August following the government's decision to reduce the effective GST (goods and services tax) rate on its raw materials by 7 per cent from July 27. (BS)
- India's export of finished steel slumped by 33.7 per cent to 1.351 million tonnes (MT) during the first quarter of the current fiscal. The country had exported 2.037 MT finished steel during the same quarter a year ago, the Joint Plant Committee said in its latest report. (ET)
- The **Phoenix Mills (PML)** announced that it has formed a 50:50 joint venture with Ahmedabad-based BSafal group to acquire a 5.16-acre land located on Sarkhej-Gandhinagar (SG) Highway with an investment of Rs 2.3 Bn. (Moneycontrol)
- **UPL** Corporation has signed a definitive pact with Platform Specialty Products Corporation to acquire Arysta LifeScience Inc. and its subsidiaries in a $4.2 billion all-cash deal. (Moneycontrol)
- An arbitration tribunal has ruled in favour of **SpiceJet,** in a share purchase dispute with former promoter Kalanithi Maran and rejected the latter's Rs.13.2 Bn claim for loss on account of non-issuance of share warrants. (BS)
- **Orient Cement** plans to invest about Rs 20 Bn on expanding its facility in Adilabad district in Telangana. The construction of the plant is expected to start within four months once the final clearance from MoEF is received. (BL)
- **Federal Bank** has received the regulatory nod to open offices in Bahrain, Kuwait and Singapore, but is awaiting local clearances before it starts operations. (ET)
- **Corporation Bank** has said that its board has approved plan to raise Rs 25 Bn by issuing shares to the government. The process to raise funds will be subject to all necessary approvals of the Reserve Bank of India, Securities and Exchange Board of India, the central government and shareholders of the Bank. (Moneycontrol)
- US sanctions on Iran and pressure on India to reduce oil imports from the Persian Gulf nation pose a significant short-term supply risk and can impact profitability of Indian refiners, says **Mangalore Refinery and Petrochemicals Ltd (MRPL).** (ET)

What's Inside

- **Initiating Coverage:** Arvind Ltd
- **Company Update:** Jindal Stainless (Hisar) Ltd
- **Result Update:** Havells India Ltd, Kansai Nerolac Paints 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

Initiating Coverage

ARVIND LTD

PRICE RS. 398 **TARGET RS. 500** **BUY**

Stock Details

Market cap (Rs mn)	:	105684
52-wk Hi/Lo (Rs)	:	479 / 353
Face Value (Rs)	:	10
3M Avg. daily vol	:	1,737,962
Shares o/s (m)	:	259

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	108261	121495	139008
Growth (%)	17.2	12.2	14.4
EBITDA	9650	11464	14723
EBITDA margin (%)	8.9	9.4	10.6
PAT	3158	4211	6506
EPS	12.2	16.3	25.2
EPS Growth (%)	(1)	33	54
Book value (Rs/share)	158	172	194
Dividend per share (Rs)	2.4	2.4	2.4
ROCE (%)	8.8	10.2	13.3
ROE (%)	8.1	9.9	13.8
P/E (x)	32.6	24.4	15.8
EV/EBITDA (x)	13.8	11.6	9.0
P/BV (x)	2.5	2.3	2.1

Source: Kotak Securities - PCG; Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	42.9	42.9	42.9
FII	21.9	27.1	27.1
DII	18.6	13.8	14.1
Others	16.6	13.8	15.9

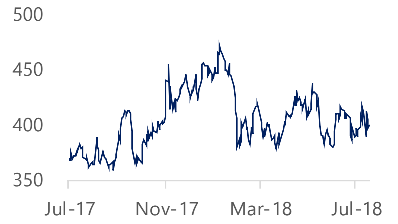
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Arvind Ltd	(1.5)	(5.2)	(11.0)
Nifty	2.2	4.2	1.1

Source: Bloomberg

Price chart



Source: Bloomberg

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Arvind Ltd promoted by Lalbhai family, is a leading textiles company with presence in textiles, branded apparel and engineering business. Its branded apparel business has a portfolio of 15 international licensed brands (such as US Polo, Arrow, Tommy Hilfiger, Calvin Klein, etc) and 12 in-house brands (such as Flying Machine) which are managed by qualified professionals. We expect all its brands to be profitable in FY19E, resulting in 230 bps improvement in EBITDA margins of the branded apparel business between FY18-20E. Further, its verticalization strategy in its textiles business by focusing on garmenting business would positively impact the RoCE of the business. We believe that Arvind being a major player in branded apparel business and having long history in textiles business would be benefited by rising disposable income, growth in retail sector and increasing preference towards branded apparels. We believe that the demerger of branded apparel and engineering business would unlock value of each of the businesses post listing. We initiate coverage on the stock with BUY recommendation and SOTP based target price of Rs 500.

Key investment argument

- **Largest portfolio of brands managed by qualified professionals.** Arvind has a portfolio of 15 international licensed brands and 12 in-house brands targeting different segments and are managed by qualified and experienced professionals. The company has delivered robust track record in certain brands in terms of their sales performance in India and built relationship of over 20 years with the brand owners. Based on this, the company registered revenue and EBIT CAGR (organic + inorganic) of 22.3% and 32.1%, respectively in branded apparel business in FY13-18. We expect that the trend to continue with 20.6% CAGR in revenue and 41.2% CAGR in EBITDA in FY18-20E.

- **Margins to improve with all brands business turning profitable.** Over the years, Arvind had built up strong portfolio of licensed international brands and has been investing in growing them. The rise in scale of operation of these brands resulted in increased contribution to the bottomline. At the end of FY18, barring three brands, all others were EBITDA positive. The balance three brands are expected to be profitable in FY19E led by increased scale of operation. In addition, its Power brands like Arrow, US Polo and Flying Machine which command higher margins should maintain their pace in terms of growth. Based on this, we expect 230 bps improvement in EBITDA margins of branded apparel business in FY18-20E.

- **Verticalization of textiles business would positively impact returns ratios.** The company has adopted verticalization strategy in order to move up in value chain by increasing focus on garmenting business. This strategy is based on its strong customer relationship and high quality raw material supply through inhouse manufacturing. Presently, the company is utilizing 10% of its fabric capacity for garmenting and targets to achieve 30-35% in the next three to four years. We believe that the verticalization strategy would positively impact the RoCE of the textiles business in the longer run as garmenting business has higher returns ratios. Further, the company's focus towards low cost destination would help it in competing against international peers.

- **Demerger to create focused approach on individual businesses.** Arvind has taken decision to demerge its branded apparel and engineering business into separate companies and list them separately. The branded apparel business will be demerged into Arvind Fashions Ltd. (AFL) and engineering business will be demerged into Anup Engineering Ltd (AEL). The demerger would create three separately listed companies focusing on three different business which will lead to increase in focus of individual businesses. We believe that the demerger would also unlock value of each of the businesses post listing expected in next 3-6 months.

- **Positive outlook for Indian textiles sector.** The textile industry in India has grown at a CAGR of over 10% in 2009-17 (July 2017) and is expected to reach US$ 250 bn by 2019. The current fashion retail market is ~ US$ 46 bn and is expected to grow at a CAGR of 9.7% to reach US$ 115 bn by 2026. The growth is driven by increasing preference towards brands, favorable demographics led by large young population, increasing urbanization, entry of international brands, etc.

Outlook & Valuation

We expect company's revenue and PAT to grow at a CAGR of 13.4% and 43.5%, respectively in FY18-20E driven by 27% volume CAGR in garments business, 20.6% CAGR growth in branded retail business, all brands turning profitable and improved operating leverage across segments. We expect 170 bps improvement in EBITDA margins in FY18-20E. This will have positive impact on earnings, cash flows and returns ratios.

The stock is presently trading at FY19E/20E PE of 24.4/15.8 based on EPS of Rs. 16.3/25.2 respectively. We have valued Arvind on sum of the parts basis (SOTP) where we have assigned FY20E EV/EBITDA multiple of 16x to the branded apparel business, 8x to the textile business and 13x to the engineering business. We initiate coverage on the stock with BUY recommendation and SOTP based target price of Rs 500.

Risks & Concerns

- Major revision in license terms of foreign brands
- Lower export incentive
- Raw material or forex volatility

Company Update

JINDAL STAINLESS (HISAR) LTD (JSHL)

PRICE RS.121 **TARGET RS.227** **BUY**

Hisar unit (JSHL) of Jindal stainless (JSL) has always been a profitable unit even in the turbulent times, despite being located in a landlocked area. Given JSHL's market position and 7.5% demand (improving infrastructure) CAGR for the next decade, we believe the group is well poised to capture higher market share. Besides this, the increase in contribution from VAP to 65% of the overall sales mix, will help the company to sustain its earnings. We continue to remain positive on the company given its sustainable earnings, however strengthening dollar index and trade war could weigh on valuation multiples across the metal sector.

Key Highlights

- India continues to be the second largest consumer of stainless steel and the demand is expected to grow at 7.5% CAGR over 2017-2027E to 6.5MT, supported by the demand from Architectural, Building and Construction (ABC) and Automobile Railway and Transport (ART).
- JSHL and JSL control about 50% of the overall stainless steel market in India, balance is unorganized players and import. In order to increase its market share in VAP, the company is increasing its CR capacity through debottlenecking, which will increase its VAP portfolio to 65% from about 50% at present.
- The management's focus will be on improving operating efficiency, higher utilisation of the cold rolling facility and higher penetration in specialty products. The revenue growth is likely to remain modest going ahead, in our view.
- The management expects the company to be net cash company in the next two years, supported by the strong operating performance.

Valuation & outlook

- We believe, an increasing share of Cold Rolled (JSHL's focus) in the overall product mix, will help the EBITDA to grow at a CAGR of ~8% during the FY18-FY20E period, with margin in the range of 12-12.5%. Besides this, the subsidiary's strong performance will also be a potential growth driver. Given the higher market share and improving profitability with a change in product mix to VAP, return ratios are likely to remain strong and will be higher compared to its European peers. We believe with higher domestic demand, market leadership and superior return, the company should trade at a premium to their overseas counterparts, who are trading in the range of 5-6.5x 1yr forward EV/EBITDA. We factor in the sharp fall in Jindal Stainless (JSL) price (36.6% stake)in our price target, We now value core business at 5x (earlier 6x) FY20E EV/EBITDA and investment in JSL (36.6% stake) at 25% holding company discount, thereby arriving at a revised target price of Rs227 (earlier Rs318). At CMP, the stock is trading at 3.0x/2.3x FY19E/FY20E EV/EBITDA. *There could be upside risk to the price target if JSL price appreciates in the future.*

Key risks

Increase in raw material prices; slowdown in economy

Stock Details

Market cap (Rs mn)	:	28784
52-wk Hi/Lo (Rs)	:	252 / 121
Face Value (Rs)	:	2
3M Avg. daily volume	:	867,216
Shares o/s (m)	:	236

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	103,571	108,237	113,190
Growth (%)	33.2	4.5	4.6
EBITDA	12,306	13,363	14,245
EBITDA margin (%)	11.9	12.3	12.6
Net profit	5,912	5,068	5,786
Adj EPS (Rs)	25.1	21.5	24.5
Growth (%)	106.1	(14.3)	14.1
BV (Rs/share)	62	84	109
ROE (%)	40.1	25.6	22.6
ROCE (%)	27.8	27.2	28.1
EV/EBITDA (x)	3.4	3.0	2.3
P/E (x)	4.8	5.6	4.9
P/BV (x)	1.9	1.4	1.1

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	57.7	57.7	57.7
FII	21.3	19.3	19.3
DII	2.7	3.8	5.1
Others	17.9	19.2	18.0

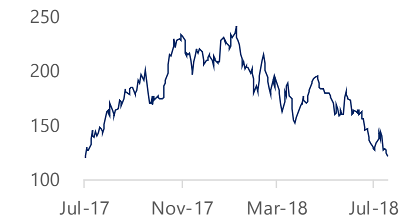
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Jindal Stainless Hisar	(22.1)	(37.2)	(41.5)
Nifty	2.2	4.2	1.1

Source: Bloomberg

Price chart



Source: Bloomberg

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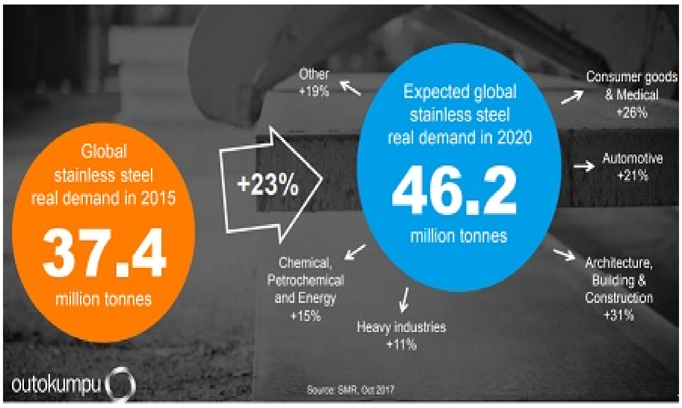
Stainless steel demand looks buoyant

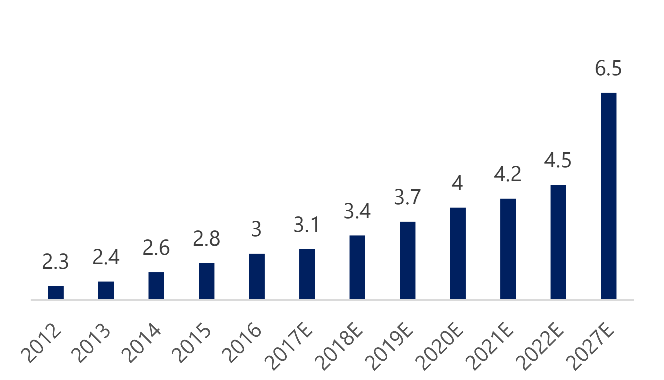
Supported by higher spending by the government on infrastructure activities and increase in per capita GDP, the SS per capita consumption has increased to 2.5kg and is expected to double in the next decade. Domestic SS consumption grew at 7.6% CAGR in the last decade and going ahead also demand looks buoyant, given its under penetration in medical and infra applications. Demand for stainless steel has grown multifold both in the domestic market as well as globally. As the application has moved from mere crockery to architecture, building, and other infrastructure related activities, which currently account for 25% of the total stainless steel consumption. As per industry estimates, the demand is likely to grow at 7.5% CAGR during 2017-27E.

Global SS demand to grow to 46.2MT by 2020



Source: Outopumpu

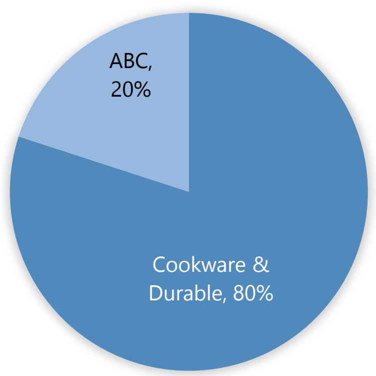
Domestic demand growth (%)



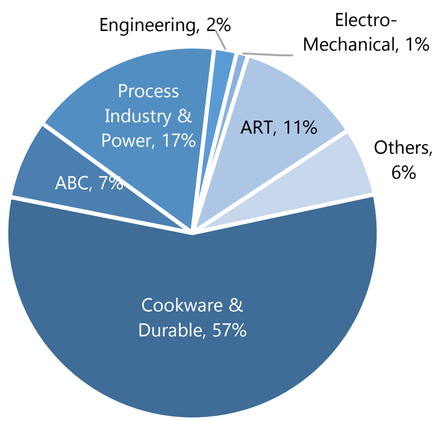
Source: Company

Changing consumption pattern

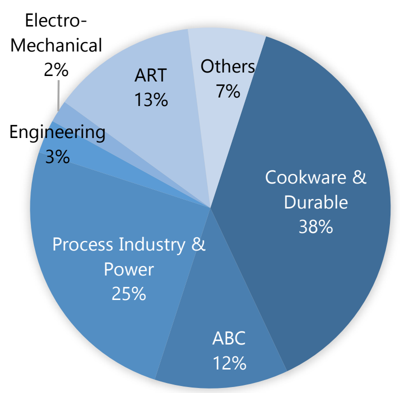
1998



2015



2023E



Source: Company

Leader in value added products

At the combined level, JSL group is the market leader in domestic stainless steel production, with a consistent ~50% market share for more than a decade. Of the total domestic installed capacity of 3.3MT, the group accounts for 50% (1.6MT) of installed capacity, Salem accounts for 0.18MT and the remaining comes from unorganized players.

Domestic installed capacity

Company	Capacity (MT)
Jindal Stainless Hisar	0.80
Jindal Stainless	0.80
Salem Steel	0.18
Unorganised Players	1.52
Total	**3.30**

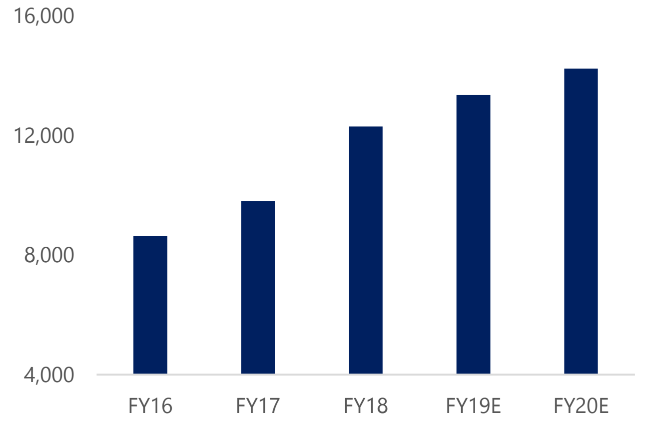
Source: Company, Industry data

In the domestic market, the flat product accounts for 71% of the total demand, while the balance is long products. We believe, the Jindal group (JSL) stands to gain in the domestic market as compared to other players in SS markets, as others SS unit are not being utilized optimally and reporting losses, as compared to JSHL profitable operations.

VAP supporting margin

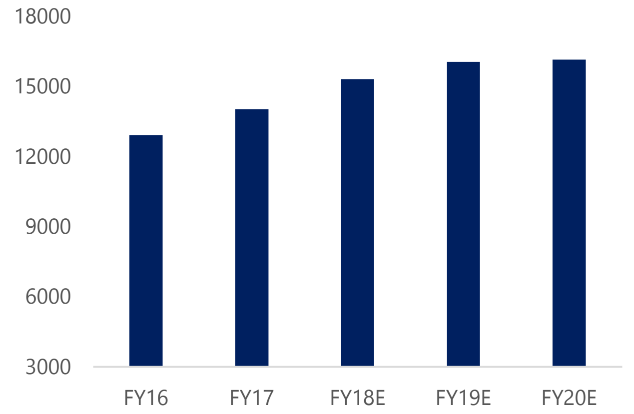
JSHL has been into value-added products (VAP), especially Coins, Specialty Products, Defence and Automobiles. JSHL and JSL control 50% of the overall stainless steel market in India, balance is unorganized players and imports). In order to increase its market share in VAP, the company is increasing its CR capacity through debottlenecking, which will increase its VAP portfolio to 65% from 50% currently. Going ahead, we believe that, higher contribution from VAP, and sustenance of CVD on Chinese imports, JSHL will be able to improve its margins from 11.9% in FY18 to 12.6% in FY20E.

Increase in share of VAP to support EBITDA (Rs Mn)



Source: Company, Kotak Securities – Private Client Research

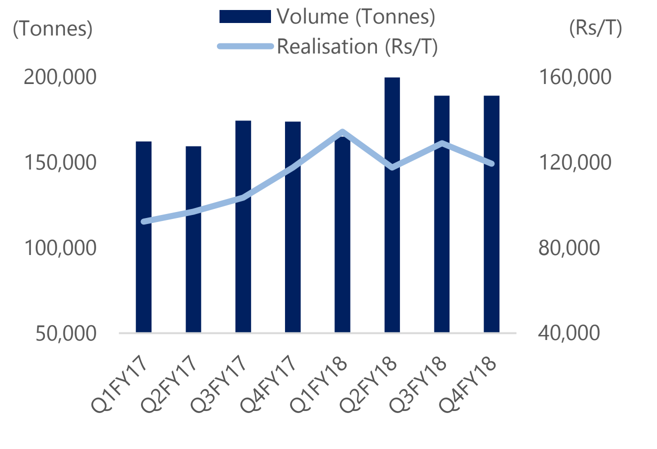
EBITDA/T to improve (Rs/T)



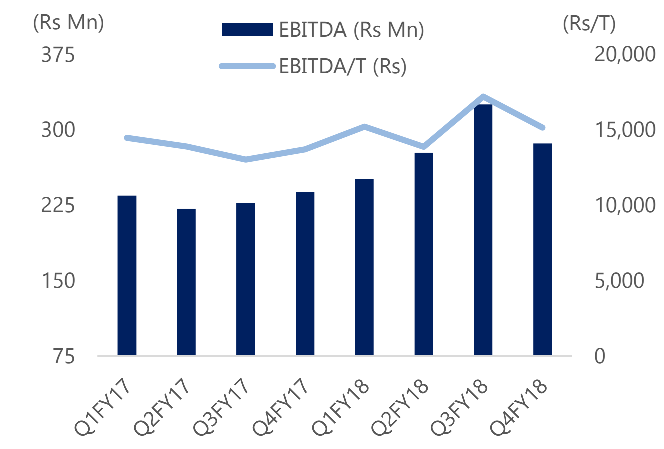
Source: Company, Kotak Securities – Private Client Research

On the global front, due to increase in nickel and manganese ore prices, producers, started focusing on developing higher grade SS products to protect their margins. Even in the domestic market, JSHL is the pioneer in developing higher grade products and along with JSL, they accounts for 70% of the 300 series market.

Quarterly sales trend



Quarterly EBITDA and EBITDA/T

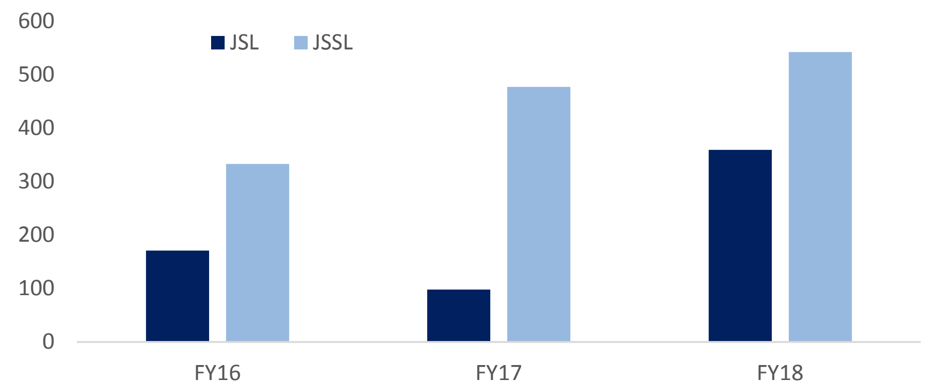


Source: Company, Kotak Securities – Private Client Research

Subsidiary performance improving

JSHL's subsidiary, Jindal Lifestyle caters to various products starting from Modular Kitchen to Cooking utensils under the brand name Arttd'nox. Given its business model, we foresee a huge potential going ahead.

Subsidiary Performance: EBITDA (Rs Mn)



Source: Company, Kotak Securities – Private Client Research

Maintain BUY

Given the higher market share and improving profitability with a change in product mix to VAP, return ratios are likely to remain strong and will be higher compared to its European peers. We believe that, higher domestic demand, market leadership and superior return, the company should trade at a premium to their overseas counterparts, who are trading in the range of 5-6.5x 1yr forward EV/EBITDA. We factor in the sharp fall in Jindal Stainless (JSL) price (36.6% stake) in our price target, We now value core business at 5x (earlier 6x) FY20E EV/EBITDA and investment in JSL (36.6% stake) at 25% holding company discount, thereby arriving at a revised target price of Rs227 (earlier Rs318). At CMP, the stock trades at 5.6x/4.8x FY19E/FY20E earnings and on EV/EBITDA, it trades at 3.0x/2.3x FY19E/FY20E EBITDA.

SOTP valuation

(Rs mn)	FY20
Standalone	
EBITDA	13,609
EV/EBITDA (par with global peers of 6-7x)	5
Enterprice Value	68,047
Net Debt	28,101
Market Cap (A)	**39,946**
Subsidiaries	
Steelway (4x EBITDA)	1,177
Lifestyle	3,236
Net Debt	911
Market Cap (B)	**3,501**
JSL 36.6% stake* (C)	**10,068**
Total: A+B+C	**53,515**
Target	**227**

Source: Company, Kotak Securities – Private Client Research; Note as on 20th Jul, 2018*

Peer comparison

	RoE (%)		RoCE (%)		P/E (x)		EV/EBITDA (x)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
JSHL	25.6	22.6	27.2	28.1	6.0	5.2	3.2	2.5
Acerinox	11.9	12.3	4.7	4.6	12.6	11.6	6.9	6.5
Aperam	11.1	11.5	7.6	7.1	10.9	10.0	5.8	5.3
Outokumpu	7.9	9.4	5.4	5.1	12.1	8.3	6.1	5.2
Peers average	10.3	11.1	5.9	5.6	11.9	10.0	6.3	5.7

Source: Bloomberg, Company, Kotak Securities - Private Client Research

Company Background

JSHL was formerly a part of JSL. Pursuant to the approval of the composite Scheme of Arrangement by the Hon'ble High Court of Punjab & Haryana at Chandigarh, the plant was transferred from JSL to JSHL. Jindal Stainless (Hisar) Limited has integrated its operations on a strategy of both, backward and forward integration, starting from melting, casting, hot rolling to cold rolling and other value additions. Hisar plant is an integrated Stainless Steel plant with a capacity of 8,00,000 tpa. JSHL is the world's largest SS producer of strips for razor blades and India's largest producer of coin blanks, catering to Indian and International mint needs. JSHL was first in popularizing the 200 series throughout the world. JSHL caters to a diversified market and no single customer accounts for over 5% of total sales. Specialty product division caters to the high end precision and specialty stainless steel requirements of reputed Indian and International customers.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Net Sales	**77,745**	**103,571**	**108,237**	**113,190**
% Growth	7.5	33.2	4.5	4.6
Raw Materials	50,013	69,846	73,691	76,851
% of Net Sales	64.3	67.4	68.1	67.9
Employee Cost	1,761	2,087	2,271	2,312
% of Net Sales	2.3	2.0	2.1	2.0
Power & Fuel	6,338	8,044	7,950	8,300
% of Net Sales	8.2	7.8	7.3	7.3
Other Expenses	9,824	11,287	10,961	11,483
% of Net Sales	12.6	10.9	10.1	10.1
EBITDA	**9,809**	**12,306**	**13,363**	**14,245**
EBITDA Margin (%)	12.6	11.9	12.3	12.6
Depreciation	2,852	2,843	3,005	3,093
EBIT	**6,956**	**9,464**	**10,358**	**11,151**
Interest Exps.	4,314	4,082	3,884	3,551
EBT	**2,642**	**5,382**	**6,474**	**7,601**
Exceptional Items	283	-196	0	0
Other Income	650	1,161	1,102	1,047
PBT	**3,575**	**6,347**	**7,576**	**8,648**
Tax-Total	1,171	2,335	2,508	2,862
PAT after M.I/Asso. Share	**2,869**	**5,912**	**5,068**	**5,786**
PAT Margin (%)	3.1	3.9	4.7	5.1

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Sources of Funds				
Equity Capital	472	472	472	472
Reserves and Surplus	8,459	14,274	19,342	25,128
Shareholders' Funds	8,931	14,746	19,814	25,600
Minority Interes	218	315	315	315
Total Loan Funds	35,535	28,511	27,794	22,594
Total Liabilities	**44,684**	**43,572**	**47,923**	**48,508**
Appl. Of Funds				
Gross Block	33,243	34,171	35,252	36,252
Accumulated Depn.	9,808	12,134	15,165	18,282
Net Fixed Assets	23,435	22,037	20,087	17,970
Capital WIP	421	662	662	662
Goodwill	863	863	863	863
Investment	9,530	14,999	14,999	14,999
Inventories	17,161	16,737	17,336	18,485
Sundry Debtors	10,497	8,466	12,450	12,450
Cash and Bank Bal	136	152	856	2,821
Loans and Advances	4,777	3,650	3,650	3,650
Total Current Assets	32,572	29,004	34,292	37,406
Current Liabilities	22,137	23,993	22,980	23,391
Net Current Assets	10,435	5,011	11,312	14,014
Total assets	**44,683**	**43,572**	**47,923**	**48,508**

Source: Company, Kotak Securities – Private Client Research;

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
Net profit before tax	4,078	5,186	6,474	7,601
Depreciation	5,697	2,843	3,005	3,093
Interest	4,297	4,082	3,884	3,551
Others	(2,929)	36	0	0
Opt Profit before WC Chges	11,143	12,147	13,363	14,245
WC Changes	(2,874)	5,807	(6,357)	(737)
Cash Gene from Op.	8,269	17,954	7,006	13,508
Direct Taxes Paid	(1,368)	(2,335)	(2,508)	(2,862)
Cash from Ope act	**6,901**	**15,619**	**4,498**	**10,645**
Purchases of F.A	(1,392)	(1,681)	(1,056)	(977)
Investment	(16,351)	(3,996)	0	0
Others	0	1,161	1,102	1,047
Cash from Inv Act	**(17,744)**	**(4,517)**	**47**	**71**
Proc from Issue of Eq Shares	0	294	(0)	0
Net loans	15,108	(7,391)	43	(5,200)
Interest paid	(4,297)	(4,082)	(3,884)	(3,551)
Dividend paid & Others	0	91	0	0
Cash from Fin Act	**10,811**	**(11,088)**	**(3,841)**	**(8,751)**
Net Increase in Cash	(31)	15	704	1,965
Cash at Beginning	168	137	152	855
Others	0	0	0	0
Cash at End	**137**	**152**	**855**	**2,821**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
O/s Shares (mn)	236	236	236	236
Per Share (Rs)				
EPS	12	25	21	25
Cash EPS	24.2	37.1	34.2	37.6
Book value	37.9	62.5	84.0	108.5
Valuation (x)				
P/E	10.0	4.8	5.6	4.9
Price/Book value	3.2	1.9	1.4	1.1
EV/EBITDA	5.5	3.4	3.0	2.3
EV/Sales	0.7	0.4	0.4	0.3
Profit ratios (%)				
RoE	32.1	40.1	25.6	22.6
RoCE	22.2	27.8	27.2	28.1
Margin (%)				
EBITDA	12.6	11.9	12.3	12.6
EBIT	8.9	9.1	9.6	9.9
PAT	3.1	3.9	4.7	5.1
Turnover (Days)				
Inventory	80.6	59.0	58.5	59.6
Debtors	49.3	29.8	42.0	40.1
Creditors	117.7	95.1	87.6	85.5
Debt/EquitY	4.0	1.9	1.4	0.9

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	350515
52-wk Hi/Lo (Rs)	:	593 / 450
Face Value (Rs)	:	1
3M Avg. daily volume	:	1,247,695
Shares o/s (m)	:	625

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	81,386	99,387	115,784
Growth (%)	32.7	22.1	16.5
EBITDA	10,493	13,318	15,747
EBITDA margin (%)	12.9	13.4	13.6
PAT	7,006	8,779	10,379
EPS	11.2	14.1	16.6
EPS Growth (%)	17.4	25.3	18.2
BV (Rs/share)	60	67	74
Dividend/share (Rs)	4.5	5.5	6.5
ROE (%)	18.7	21.1	22.3
ROCE (%)	15.2	17.6	18.9
P/E (x)	49.8	39.7	33.6
EV/EBITDA (x)	31.9	25.1	21.3
P/BV (x)	9.3	8.4	7.5

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	59.6	59.6	61.5
FII	24.8	24.9	25.0
DII	5.2	5.1	3.5
Others	10.2	10.3	10.0

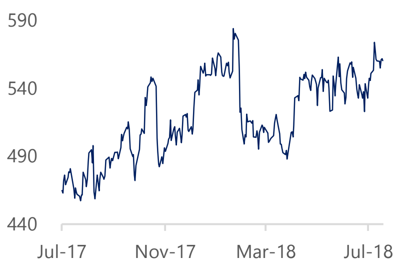
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Havells India	4.8	2.2	2.3
Nifty	2.2	4.2	1.1

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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HAVELLS INDIA LTD (HIL)

PRICE RS.560 TARGET RS.500 SELL

HIL Q1FY19 PAT was slightly lower than our estimates due to lower margins in the lighting segment. However we are encouraged by the sales and margin growth reported in other segments/Lloyd. We see margin expansion in FY19/20, consistent with management view.

Key Highlights

- Havells reported 39.5% y/y revenue growth at Rs 25.9 Bn in Q1FY19 driven by consumer durables and lighting business. Ex-lloyd revenues grew 19% y/y.
- Operating margin, reported at 12% in Q1FY19 was driven by the higher contribution margin in switchgear, cables, consumer durables and Lloyd business.
- Lloyd reported revenue of Rs 7.08 Bn and EBITDA margin at 9.3% in Q1FY19.

Valuation & Outlook

We maintain our FY20 earnings estimate. In view of expensive valuations (at PER 33.6x FY20 earnings) we maintain 'SELL' rating with unchanged target price of Rs 500.

Quarterly performance - Standalone

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net Income	**25,963**	**18,605**	**39.5**	**25,349**	**2.4**
Decrease/ (Increase) in stock	(104)	610		(437)	
Raw Material consumed	16,322	11,355	43.7	16,165	1.0
Employee expenses	1,970	1,619	21.7	1,637	20.3
Other expenses	3,506	2,562	36.8	3,361	4.3
Advertising expenses	1,156	735	57.4	1,046	
Total expenditure	22,851	16,881	35.4	21,772	5.0
EBITDA	**3,113**	**1,724**	**80.5**	**3,577**	**(13.0)**
Other income	292.2	348.0	(16.0)	257.4	13.5
Depreciation	350.4	335.8	4.3	347.5	0.8
EBIT	**3,054**	**1,737**	**75.9**	**3,487**	**(12.4)**
Finance Cost	26	34	(25.0)	84	(69.5)
Exceptional items	0.0	0.0		(90.7)	
Adj.PBT	**3,029**	**1,703**	**77.9**	**3,403**	**(11.0)**
Tax	935	489	91.2	1,055	(11.4)
Reported PAT	**2,094**	**1,214**	**72.5**	**2,257**	**(7.2)**
Adjusted PAT	**2,094**	**1,214**	**72.5**	**2,348**	**(10.8)**
Adj EPS	**3.4**	**1.9**	**72.5**	**3.8**	**(10.8)**
EBITDA (%)	12.0	9.3		14.1	
PAT (%)	8.1	6.5		9.3	
RM/Sales (x)	62.5	64.3		62.0	
Tax Rate (%)	30.9	28.7		31.0	

Source: Company

Result highlights

Havells reported 39.5% y/y revenue growth at Rs 25.9 Bn in Q1FY19 driven by the consumer durables, switchgear and lighting business. Q1FY19 reported financials of HIL includes Lloyd electric numbers and therefore are not comparable on y/y basis (HIL acquired Lloyd electric in Q1FY18 for an EV of Rs 18 Bn). Adjusted for Lloyd sales, revenue grew 19% y/y (22% adjusted for excise) in Q1FY19. We highlight that Q1FY18 was affected by disruptions caused by GST transition and channel destocking.

Operating margin, reported at 12% in Q1FY19 was driven by the higher contribution margin in the switchgear, cables, consumer durables and Lloyd business. Employee expense increased 22% y/y to Rs 1.97 Bn (after remaining at around Rs 1.6 Bn in the last three quarters).

Electrical Consumer division (ECD) reported 29.5% y/y revenue growth at Rs 4.7 Bn in the quarter. Consumer durable segment contribution margin expanded to 28.7% against 22.2% in Q1FY18. ECD margins in Q1FY18 were affected by lower volumes due to GST transition, on q/q basis, HIL has maintained margins. ECD division continues to grow on back of fans and new launches. HIL continues to maintain leadership position in the premium category fans with over 40% market share. In overall fan category, HIL enjoys c.17% market share.

Management highlighted that various product categories have the potential to exponentially grow within the ECD segment. In water heater, HIL has become India's third largest player. Similar potential is being offered by air coolers, solar heater etc.

Segment reporting (Standalone)

	1QFY19	1QFY18	% YoY	4QFY18	QoQ%
Standalone Revenues (Rs mn)					
Switchgear	4,041	3,557	13.6	3,946	2.4
Cable and Wires	7,499	7,196	4.2	7,689	(2.5)
Lighting and fixtures - India	2,583	2,721	(5.1)	3,227	(20.0)
Electrical consumer durables	4,759	3,676	29.5	4,646	2.4
Lloyd	7,081	2,672	165.0	5,841	21.2
Contribution (Rs mn)					
Switchgear	1,549	1,307	18.5	1,523	1.7
Cable and Wires	1,279	859	48.8	1,318	(3.0)
Lighting and fixtures - India	711	766	(7.1)	998	(28.7)
Electrical consumer durables	1,367	816	67.5	1,262	8.4
Lloyd	1,370	394	248.1	1,283	6.8
Contribution (%)					
Switchgear	38.3	36.7		38.6	
Cable and Wires	17.0	11.9		17.1	
Lighting and fixtures - India	27.5	28.1		30.9	
Electrical consumer durables	28.7	22.2		27.2	
Lloyd	19.4	14.7		22.0	

Source: Company

Lighting division reported c.5% y/y revenue decline at Rs 2.6 Bn in the quarter and c.20% q/q decline due to contraction in EESL revenues. HIL has strategized to be extremely selective in the EESL business going ahead. The LED business has been driving the sales for the company and is expected to remain strong going ahead.

Cable and wire division reported 4.2% y/y revenue growth at Rs 7.5 Bn in Q1FY19. Cable division reported contribution margin at 17% n Q1FY19. Switchgear division reported 13.6% y/y revenue growth at Rs 4 Bn aided by 1/ lower base of Q1FY18 and 2/ market share gain post GST. Housing market continues to remain below par. Contribution margins stood at 38.3% in the segment vis-à-vis 36.7% in Q1FY18.

Lloyd reported revenue of Rs 7.08 Bn in Q1FY19 with contribution margin at 19.4%. Diverse forex movement led to sequential contraction in operating margins. We believe that the initiatives taken at Lloyd, for distribution/cost improvements, have started to pay off. Management believes that the Lloyd brand perception has been gaining grounds, however being a relatively small player in AC Industry has enough room to grow. Government's recent move to cut GST rate from 28% to 18% in ACs augers well in long run.

Management also highlighted that it aims for a double digit growth in Lloyd in FY19 and the 3.5 Bn capex program for setting up 0.6 mn units of ACs by the end of FY19 is on track.

Valuation and Recommendation

We maintain our FY20 earnings estimate. In view of expensive valuations (at PER 33.6x FY20 earnings) we maintain 'SELL' rating with unchanged target price of Rs 500 (value at PER 30x FY20 earnings.

About the company

Havells India Ltd incorporated in 1983, is India's fastest growing player engaged in manufacturing of electrical products like switchgears (domestic and industrial), cables & wires and consumer appliances like fans and luminaries. Leveraging on its strong distribution franchise, efficient R&D base and several years of experience in the industry, company is all set to benefit from the spurt in perceptible consumer product demand in India. Increasing disposable income and changing lifestyle pattern with a peculiar shift in consumer preference towards premium products augers well for the company's business. Company has its manufacturing facilities in Haridwar, Baddi, Noida, Sahibabad, Faridabad, Alwar and Neemrana along with seven state-of-the-art manufacturing plants located across Europe, Latin America & Africa

Historically, company has been earning major part of its revenue from electric wires and cable division. However, over the past ten years, company has been dedicating its resources for establishing itself in India's fast moving consumer electrical market.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**61,352**	**81,386**	**99,387**	**115,784**
% change yoy	14.1	32.7	22.1	16.5
EBITDA	**8,241**	**10,493**	**13,318**	**15,747**
% change yoy	9.4	27.3	26.9	18.2
Depreciation	1,196	1,395	1,604	1,845
EBIT	**7,044**	**9,098**	**11,713**	**13,901**
% change yoy	8.7	29.1	28.8	18.7
Net Interest	122	240	190	110
Earnings Before Tax	8,265	10,028	12,723	15,041
% change yoy	17.2	21.3	26.9	18.2
Tax	2,297	3,022	3,944	4,663
as % of EBT	29.9	29.8	31.0	31.0
Extraordinary Items	(578)	119	0	0
Recurring PAT	**5,968**	**7,006**	**8,779**	**10,379**
% change yoy	17.6	17.4	25.3	18.2
Shares outstanding (m)	624.1	624.1	624.1	624.1
EPS (Rs)	9.6	11.2	14.1	16.6
DPS (Rs)	3.5	4.5	5.5	6.5
CEPS	11.5	13.5	16.6	19.6

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	19,375	15,262	31,495	37,115
Accounts receivable	2,285	3,254	5,446	6,344
Other Current assets	804	1,432	1,575	1,732
Inventories	9,284	16,217	19,061	22,205
Current Assets	12,373	20,902	26,081	30,282
Investments	4,747	1,692	1,692	1,692
Net fixed assets	12,099	27,314	32,314	35,314
Total Assets	**48,594**	**65,170**	**91,582**	**104,403**
Provisions	1,102	1,541	2,995	3,489
Current Liabilities	12,508	22,862	44,928	52,341
Debt	1,980	270	270	270
Other liabilities(deferred tax)	268	3,105	1,840	1,840
Equity & reserves	32,736	37,391	41,548	46,462
Total Liabilities	**48,594**	**65,169**	**91,582**	**104,403**
BVPS (Rs)	52	60	67	74

Source: Company, Kotak Securities – Private Client Research;

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
Profit Before Tax	7,687	10,147	12,723	15,041
Depreciation	1,196	1,395	1,604	1,845
Current liabilities incl provisions	3,207	10,793	23,521	7,907
inc in inventory	1,440	6,932	2,844	3,145
inc in sundry Debtors	709	969	2,192	898
inc in advances	-	-	-	-
Tax Paid	2,297	3,022	3,944	4,663
Other Adjustments	(232)	(3,243)	384	157
Net cash from operations	**8,454**	**14,536**	**28,485**	**15,930**
Purchase of fixed Assets	(1,255)	(573)	(7,870)	(4,845)
Net investments	89	3,056	-	-
Adjustment for non-Cash items	(182)	(14653)	-	-
Net cash from investing	**(1,570)**	**(12,440)**	**(7,629)**	**(4,845)**
Long term borrowings	1,980	(1,710)	-	-
Short term borrowings	-	(810)	-	-
Dividend Paid	(3,142)	(3,689)	(4,622)	(5,464)
Net Cash from financing act	**(1,162)**	**(6,209)**	**(4,622)**	**(5,464)**
Net Cash Flow	5,722	(4,113)	16,233	5,621
Cash at the end of year	19,374	15,262	31,495	37,116

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	13.4	12.9	13.4	13.6
EBIT margin (%)	12.1	11.5	11.2	11.8
Net profit margin (%)	9.4	9.7	8.6	8.8
Adjusted EPS growth (%)	17.6	17.4	25.3	18.2
Receivables (days)	61.1	112.4	55.0	55.0
Inventory (days)	55.2	72.7	70.0	70.0
Sales / Net Fixed Assets (x)	3.1	4.6	4.3	8.2
Interest coverage (x)	58.0	38.0	61.6	126.4
Debt/ equity ratio	0.1	0.0	0.0	0.0
ROE (%)	18.2	18.7	21.1	22.3
ROCE (%)	13.2	15.2	17.6	18.9
EV/ Sales	5.5	4.1	3.4	2.9
EV/EBITDA	40.6	31.9	25.1	21.3
Price to earnings (P/E)	58.5	49.8	39.7	33.6
Price to book value (P/B)	10.7	9.3	8.4	7.5
Price to cash earnings	48.7	41.5	33.6	28.5

Source: Company, Kotak Securities – Private Client Research

kotak Securities

Result Update

KANSAI NEROLAC PAINTS LTD (KNPL)

PRICE RS.477 **TARGET RS.600** **BUY**

Stock Details

Market cap (Rs mn)	:	258035
52-wk Hi/Lo (Rs)	:	614 / 427
Face Value (Rs)	:	1
3M Avg. daily volume	:	201,267
Shares o/s (m)	:	539

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	46,024	51,634	57,742
Growth (%)	15.1	12.2	11.8
EBITDA	7,869	9,488	10,692
EBITDA margin (%)	17.1	18.4	18.5
PAT	5,134	6,390	7,281
EPS	9.5	11.9	13.5
EPS Growth (%)	2.0	24.5	13.9
BV (Rs/share)	53.3	63.4	74.8
Dividend/share (Rs)	3.0	2.6	3.0
ROE (%)	19.3	20.3	19.6
ROCE (%)	29.1	30.0	28.9
P/E (x)	50.1	40.2	35.3
EV/EBITDA (x)	29.4	24.6	21.7
P/BV (x)	8.9	7.5	6.4

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	75.0	75.0	75.0
FII	5.5	6.5	6.5
DII	10.0	9.1	9.1
Others	9.4	9.4	9.4

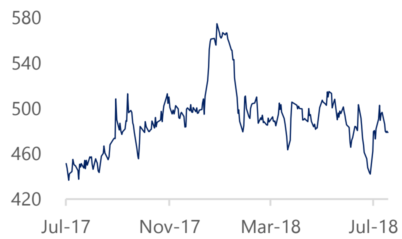
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Kansai Nerolac	1.1	(2.0)	(9.1)
Nifty	2.2	4.2	1.1

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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Healthy quarter, strong trend continues

Strong volume growth in the decorative segment, stable volumes in the industrial segment and raw material price inflation were the highlights of the results for KNPL during the quarter.

Key Highlights

- As per management commentary, KNPL experienced double digit YoY growth across segments led by decorative segment. Management commented that raw material price inflation, volatility in crude prices and INR depreciation was more pronounced this quarter which impacted the operating margins. Management is making efforts to increase product prices and reduce various cost to counter the situation.
- Sales (excluding GST) was reported at Rs 13.76 bn (+24.7% QoQ and +17.2% YoY) in a seasonally strong quarter for paint companies. EBIDTA was reported at Rs 2.21 bn with Ebidta margin of 16% (+70 bps QoQ and -150 bps YoY).Consequently PAT was reported at Rs 1.4 bn (+32.4% QoQ and +1% YoY).
- Management is confident of strong volume and sales growth and bounce back of operational performance. Even we believe that the situation is healthy for paint companies in every segment including decorative paints, industrial as well as auto paints. Maintain BUY with an unchanged TP of Rs 600 at 44x FY20E earnings.

Valuation and Outlook

We estimate that branded paint demand will remain robust in a country like India where per capita consumption is very low and 30% paint market is still unorganised. Management of KNPL also indicated that the volume trends remain strong for the company and expect the trend to continue in medium term. For KNPL, we estimate 9% volume CAGR over FY18 – FY20E with stable margins and ROE of ~19.6% and ROCE of ~28.9% for FY20E.Maintain BUY with an unchanged TP of Rs 600 at 44x FY20E earnings.

Quarterly Performance

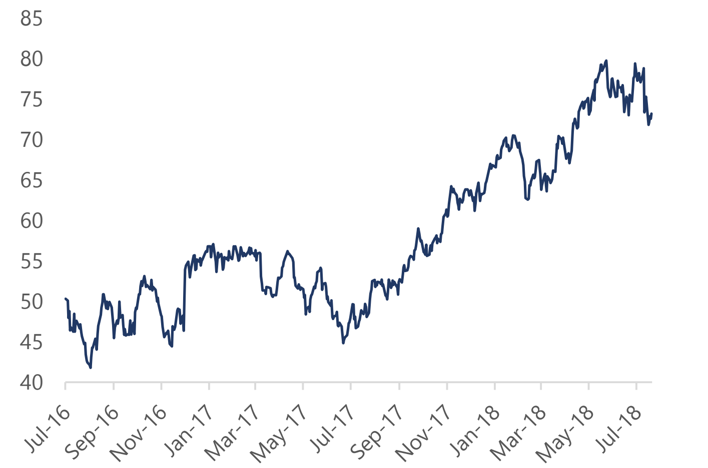
(Rs mn)	Q1FY18	Q4FY18	Q1FY19	QoQ (%)	YoY (%)
Net Sales	**11,737**	**11,035**	**13,759**	**24.7**	**17.2**
Raw Material consumed	7,068	6,842	8,491	24.1	20.1
Employee cost	531	571	636	11.4	19.8
Other expenses	2,083	1,933	2,427	25.6	16.5
Total operating cost	9,682	9,346	11,554	23.6	19.3
EBITDA	**2,055**	**1,689**	**2,205**	**30.6**	**7.3**
Ebidta %	17.5	15.3	16.0		
Depreciation	181	197	204	3.6	12.7
Interest	0	0	0		
Other income	199	186	136	-26.9	-31.7
PBT	**2,073**	**1,678**	**2,137**	**27.4**	**3.1**
Exceptional	0	0	0		
Taxes	683	621	738	18.8	8.1
ETR (%)	33	37	35		
PAT	**1,390**	**1,057**	**1,399**	**32.4**	**0.6**
Equity	539	539	539		
EPS	2.6	2.0	2.6		

Source: Company

Raw Material and Pricing Power

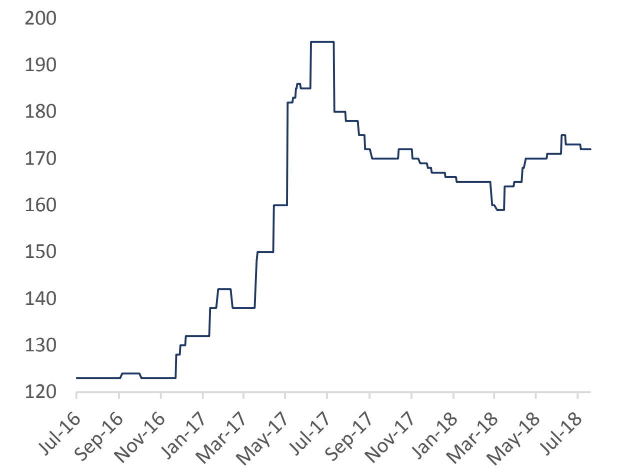
Paint Industry uses two key raw material including crude derivatives and Titanium Dioxide. The Paint industry is experiencing increase in prices of raw material since the last 3 quarters. Almost ~60% of the raw material are crude derivatives and with crude at $73/barrel (+30% YoY), prices of crude derivatives have also increased. Even prices of pigments like Titanium Dioxide, Iron oxide and Zinc oxide have increased. Even INR volatility has contributed to cost inflation for the company. To counter this, the management of paint companies including KNPL have resorted to price increase and cost optimization. We expect KNPL to completely pass on cost inflation to consumers by end of Q2FY19 and return to high double digit operating margins

Brent crude (US$/barrel)



Source: Bloomberg

Titanium dioxide imported from China (US$/MT)



Source: Bloomberg

Sales was driven by all the segments

Management indicated the sales performance of Q1FY19 could be attributed to:

- Double digit volume growth in the decorative segment post the festive season
- Strong automotive demand and Improved capex cycle in the economy (primarily government projects) leading to healthy demand in the industrial segment

Automobile demand remains strong in India

Industrial segment contributes ~45% to KNPL's revenues with automotive segment contributing 75% of the industrial segment revenues. KNPL's strong dominance in automotive paints segment is supplemented by its parent Kansai's association with global OEMs that have a strong presence in India.

Going forward the following factors would keep the demand momentum strong for automobiles:

- Increasing disposal income,
- Seventh pay commission pay-out
- Expectation of normal monsoon
- Strong exports and
- Several new launches by all the companies (as announced in Auto Expo 2018)

Domestic car production data

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	Q1FY19
Total	3,125,800	3,236,568	3,092,783	3,222,946	3,413,859	3,791,000	4,090,000	864,000
YoY Growth	6.1	3.5	-4.4	4.2	5.9	11.0	7.9	

Source: SIAM

Decorative segment expected to remain strong

KNPL has maintained a low double digit volume growth rate in the decorative segment for the last 12 quarters in the decorative segment outperforming the performance of market leader Asian Paints and peer Berger Paints driven by:

1) New product offerings - New product launches which are eco-friendly, lead free, low VOC etc.
2) Aggressive marketing by KNPL- KNPL is one of the largest spender on Advertisement, which is around 9% of the decorative segment revenue as against 6% of Asian Paints and Berger
3) Improving geographical reach – north India is the strongest market for KNPL, now the company is focussing on West and South (which are strongholds of Asian Paints)
4) Huge Dealer Base – Company current has 20000+ dealers which is growing at 10% CAGR. These dealers are serviced through 102 depots.
5) Aggressive sales pitch and higher dealer margins
6) Connecting directly with the customers through initiatives like tinting machines- 75% of the dealers of the company have tinting machines
7) Other factors like increasing disposable income, shortening painting cycle to 5 years (from 10 years over a decade) and increase in per-capita consumption to 3.3 kg (from 1.5 kg over a decade)

Facilities and Capex

KNPL has four manufacturing facilities situated at Lote in Maharashtra, Bawal at Haryana, Jainpur in UP and Hosur in Tamil Nadu. During FY16, KNPL sold its factory land in Chennai and is in process of starting manufacturing facilities in Gujarat and Punjab. Installed capacity currently stands at ~431,000 tonnes with utilization rate of ~75%. Healthy addition of capacities is a lead indicator that the demand for paints is going to remain healthy over the next few years

Current and upcoming facilities of KNPL

		Capacity in Metric tonnes		
Capacity	Year	Addition	Annual	Capex (Rs bn)
Existing	FY17/FY18	67,000	431,000	3.5
Addition	FY19	36,000	467,000	1.8
	FY20			
	FY21	60,000	527,000	1.8

Source: Company

Latest development – reduction in GST a big positive for the company

Paint industry was paying excise of 12.5% and 15% VAT under the old regime. So introduction of GST rate of 28% in July 2017 did not change the price at the consumer end with some adjustment happening only at the dealer end.

Post the current reduction of GST rate from 28% to 18%, we expect paint companies (they had shown intent earlier also) to reduce the prices and pass on the benefit partially to consumers which is estimated to boost the volumes for paint industry. Partially the benefit of lower GST would be retained by the paint companies as a cushion against rising raw material prices. Both the reactive steps by the industry would aid the margins and bottom line of paint companies going forward.

Company background

Kansai Nerolac Paints Ltd. (KNPL), a subsidiary of Kansai Paint, Japan, is one of India's leading paint companies and the largest player in the industrial segment. KNPL had its beginning as Gahagan Paints and Varnishes Co. Ltd. in the year 1920. In over 93 years of its existence the Company has built a strong brand and gained a reputation for high quality, innovation and differentiated product offerings. The Company has 4 manufacturing facilities at Lote in Maharashtra, Bawal in Haryana, Jainpur in UP and in Hosur in Tamil Nadu with a total capacity of 4.31 lakh metric tonnes per annum. The company is the market leader in the automotive coating segment in India with a dominant market share. Over the years, it has maintained its leadership position in the Industrial Coatings segment with a wide range of products in the Automotive, Powder, General Industrial and High performance Coatings space.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**39,996**	**46,024**	**51,634**	**57,742**
% change YoY	4.4	15.1	12.2	11.8
Raw material cost	21,265	24,986	27,395	30,583
Employee cost	1,472	1,693	1,897	2,117
Other expenses	9,978	11,476	12,855	14,350
Total Operating expd	32,715	38,155	42,146	47,050
EBITDA	**7,281**	**7,869**	**9,488**	**10,692**
Depreciation	695	759	750	775
EBIT	**6,586**	**7,110**	**8,738**	**9,917**
Other income	981	725	800	950
Interest expense	0	0	0	0
Profit before tax	**7,567**	**7,835**	**9,538**	**10,867**
Tax	2,536	2,701	3,148	3,586
ETR (%)	33.5	34.5	33.0	33.0
Profit after tax	5,031	5,134	6,390	7,281
Minorities& Associates	0	0	0	0
Net income	**5,031**	**5,134**	**6,390**	**7,281**
% change YoY	41.0	2.0	24.5	13.9
Shares outstanding (m)	539	539	539	539
EPS	9.3	9.5	11.9	13.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash	4,776	5,871	7,375	10,351
Debtors	5,904	6,771	7,795	9,046
Inventory	7,032	7,640	8,795	10,206
Other current assets	2,117	1,910	2,199	2,552
Total current assets	15,053	16,321	18,789	21,804
LT investments	835	1,000	1,000	1,000
Net fixed assets	11,094	13,817	16,471	18,059
Total assets	**31,758**	**37,009**	**43,636**	**51,215**
Creditors	5,607	6,430	7,402	8,590
Other current liabilities	1,377	1,515	1,742	2,003
Total current liabilities	6,984	7,945	9,144	10,593
LT debt	330	330	330	330
Minority Interest	0	0	0	0
Equity Capital	539	539	539	539
Reserves	23,905	28,195	33,622	39,753
Networth	24,444	28,734	34,161	40,292
Total liabilities	**31,758**	**37,009**	**43,636**	**51,215**
BVPS (Rs)	**45.4**	**53.3**	**63.4**	**74.8**

Source: Company, Kotak Securities – Private Client Research;

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
PAT	5,031	5,134	6,390	7,281
Depreciation	1,456	1,569	1,694	1,851
Change in working capital	(2,293)	(307)	(1,269)	(1,566)
Cash flow from operations	**4,194**	**6,396**	**6,816**	**7,566**
Capex	(2,018)	(3,482)	(3,405)	(2,363)
Investments	165	(165)	-	-
Cash flow from investments	**(1,853)**	**(3,647)**	**(3,405)**	**(2,363)**
Equity issuance	-	-	-	-
Debt raised	-	(10)	(3)	-
Dividend Paid	(1,908)	(1,654)	(1,908)	(2,226)
Miscellanous items	-	-	-	-
Cash flow from financing	**(1,908)**	**(1,664)**	**(1,911)**	**(2,226)**
Net cash flow	433	1,086	1,500	2,976
Opening cash	4,343	4,776	5,871	7,375
Closing cash	4,776	5,861	7,372	10,351

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	18.2	17.1	18.4	18.5
EBIT margin (%)	16.5	15.4	16.9	17.2
Net profit margin (%)	12.6	11.2	12.4	12.6
ROE (%)	22.4	19.3	20.3	19.6
ROCE (%)	33.1	29.1	30.0	28.9
DPS	3.0	2.6	3.0	3.5
Dividend payout (%)	37.9	32.2	29.9	30.6
Working capital turnover (days)	63.2	65.2	63.7	65.9
Debt Equity (x)	0.0	0.0	0.0	0.0
PER (x)	51.1	50.1	40.2	35.3
P/C (x)	39.6	38.4	31.8	28.2
Dividend yield (%)	0.6	0.5	0.6	0.7
P/B (x)	10.5	8.9	7.5	6.4
EV/Sales (x)	6.3	5.5	4.9	4.4
EV/ EBITDA (x)	30.6	29.4	24.6	21.7

Source: Company, Kotak Securities – Private Client Research

Forthcoming events

Date	Event
23-Jul	ACC, Hindustan Zinc, Saregama earnings expected
24-Jul	Asian Paint, Century Ply, Kajaria Ceramics, Radico Khaitan earnings expected
25-Jul	Crompton Greaves, Hero MotoCorp, JSW Steel, KPIT, L&T earnings expected
26-Jul	Biocon, Colgate Palmolive, Concor, Dr. Reddy's, Eveready Ind, ITC, Jindal Stainless (Hisar), Maruti Suzuki India, Petronet LNG, Tata Power earnings expected
27-Jul	Bank of Baroda, Genus Power, HCL Tech, ICICI Bank earnings expected
28-Jul	Balmer Lawrie, JK Cement, Persistent earnings expected
30-Jul	Axis Bank, GSPL, HDFC, IDFC, IDFC Bank, Shree Cement, Tech Mahindra earnings expected
31-Jul	BEL, Bludart, Castrol India, Dabur, MGL, Redington, Supreme Ind, Tata Motors, Tech Mahindra, Vedanta,

Source: www.bseindia.com

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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
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	–	We expect the stock to deliver negative returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	-	We advise investor to subscribe to the IPO.
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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