Morning Insight

JULY 26, 2018

Equity		% Chg		
	25-Jul	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	36,858	0.1	3.9	6.8
NIFTY Index	11,132	(0.0)	3.4	5.3
NSEBANK Index	27,031	0.2	1.6	8.9
NIFTY 500 Index	9,450	(0.0)	2.3	1.1
CNXMcap Index	18,505	0.0	0.1	(7.1)
BSESMCAP Index	16,255	0.2	(0.8)	(10.3)
World Indices				
Dow Jones	25,414	0.7	4.7	4.5
Nasdaq	7,932	1.2	4.9	11.4
FTSE	7,658	(0.7)	1.6	3.2
NIKKEI	22,614	0.5	1.1	1.2
Hangseng	22,614	0.5	1.1	1.2
Shanghai	28,921	0.9	(0.1)	(3.8)

Value traded (Rs cr)	25-Jul	% Chg Day
Cash BSE	3,373	(0.5)
Cash NSE	32,393	(6.3)
Derivatives	NA	NA

Net inflows (Rs cr)	24-Jul	MTD	YTD
FII	54	(2,041)	(6,881)
Mutual Fund	(199)	5,512	74,115

Nifty Gainers & Losers	Price	Chg	Vol
25-Jul	(Rs)	(%)	(mn)
Gainers			
Indiabulls Housing	1,307	3.9	3.1
SBI	272	1.9	13.1
Bajaj Finser	6,950	1.8	0.4
Losers			
NTPC	151	(4.1)	12.7
Lupin	797	(2.9)	1.8
HCL Technologies	964	(2.8)	2.8

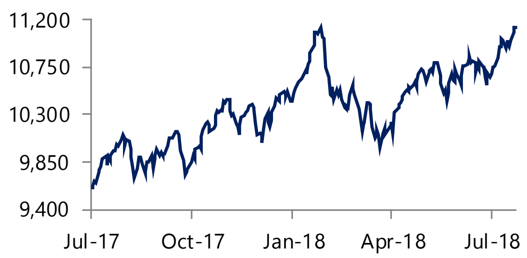
Advances / Declines (BSE)

25-Jul	A	B	T	Total	% total
Advances	175	604	52	831	100
Declines	211	486	43	740	89
Unchanged	2	18	12	32	4

Commodity		% Chg		
	25-Jul	1 Day	1 Mth	3 Mths
Crude (US$/BBL)	74.6	0.8	(2.3)	(0.3)
Gold (US$/OZ)	1,232	0.6	(2.1)	(6.4)
Silver (US$/OZ)	15.6	0.9	(4.2)	(5.5)

Debt / forex market	25-Jul	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.8	7.8	7.7
Re/US$	68.8	68.9	68.1	66.9

Nifty



News Highlights

- In a move that could potentially deliver a big blow to pharmaceutical companies in India, an apex advisory board on drugs approved a report backing the health ministry's decision to ban many fixed dose combination (FDC) medicines. (ET)
- The National Company Law Appellate Tribunal (NCLAT) dismissed cement manufacturers' plea, challenging the order of fair trade regulator CCI to impose a penalty of Rs 67 bn for alleged cartelisation. (ET)
- The government has moved Delhi High Court to enforce a USD 3.8 billion recovery from **Reliance Industries**, Shell and **ONGC** following an English court ruling over its share from the Panna-Mukta and Tafields in western offshore, Oil Minister Dharmendra Pradhan said. (ET)
- **IndiGo** said it has grounded several Airbus A320neo aircraft, and is awaiting spare engines from United Technologies Corp.'s Pratt & Whitney (PW). (Mint)
- Mobile tower arm of telecom major **Bharti Airtel,** Infratel said it has received clearance from stock exchanges for its merger with Indus Towers. It will now approach National Company Law Tribunal for its approval, the company said. (Mint)
- The Chandigarh bench of the National Company Law Tribunal (NCLT) approved the resolution plan by single bidder Liberty House to acquire the assets of debt-laden **Amtek Auto Ltd.** The company was among the first list of 12 large bad loan accounts that the Reserve Bank of India (RBI) identified for insolvency resolution. (Mint)
- The Cabinet is expected to soon consider **IDBI Bank's** proposal to issue fresh equity to the Life Insurance Corporation of India (LIC), offering the insurer a controlling 51 per cent stake in the lender as the government pushes for the deal to be completed by September. (ET)
- **Maruti Suzuki** is in on track to reach 2 million units sales milestone by FY-20 and has set a goal of attaining a target to sell 3 million vehicles by 2025. (ET)
- **Hindustan Copper** said its board will meet to review the status of qualified institutional placement (QIP) for raising Rs 14bn. (ET)
- The National Company Law Tribunal (NCLT) bench here has rejected the resolution plan offered for **Jyoti Structures.** It has directed the Resolution Professional (RP) appointed for the insolvent engineering, procurement and construction (EPC) entity to file applications for its liquidation. (BS)

What's Inside

- **Sector Update:** Cement
- **Result Update:** JSW Steel Ltd, Century Plyboards (I) Ltd, IRB Infrastructure Developers Ltd, Larsen & Toubro Ltd, Hero MotoCorp Ltd.
- **Forthcoming events**

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

Sector Update

CEMENT SECTOR

Key highlights

- The National Company Law Appellate Tribunal upheld the Rs 63 bn fine imposed on a group of cement companies by the Competition Commission of India for cartelisation.
- Companies are likely to challenge the judgement in the Supreme court and hence the actual impact and timeline of provisions is difficult to ascertain right now.
- Current valuations may get impacted as higher provisioning may be required by the companies and it may result in some de-rating of the sector with companies not being able to enjoy higher valuation multiples. However, we continue to believe that pricing power would not get impacted completely.
- We would turn cautious on the sector owing to the impending provision which may be required to be made. However, we continue to remain positive on companies where growth is likely to be led by volume uptick such as Ultratech Cements and Shree Cements

NCLAT upholds Rs 63 bn fine CCI fine on cement companies

The National Company Law Appellate Tribunal upheld the Rs 63 bn fine imposed on a group of cement companies by the Competition Commission of India for cartelisation. The tribunal also said it finds no merit in the plea filed by the cement companies challenging the antitrust regulator's decision to penalise the manufacturers for cartelization.

Background of the case

During June 2012, CCI fined cement companies for cartelization and eleven companies have been fined at 50% of their profit for FY10 and FY11. CCI had alleged that companies had reduced their capacity utilizations to reduce supplies in the market and raised prices.

Eleven companies include ACC, Ambuja Cements Limited, Ultratech Cements, JK Cements, India Cements, Madras Cements, Century Cements, Binani Cements, Lafarge India, Jaypee Cements and Shree Cement. As per CCI, these companies held more than 57.23% of market share in India in the said time frame and hence have used their dominant position to increase cement prices despite different manufacturing costs of production and transportation.

Penalty amount

Companies	Rs mn
ACC	11,476
Ambuja Cements	11,639
Ultratech cements	11,755
Jaiprakash Associates	13,236
JK Cement	1,285
India Cement	1,874
Madras Cements	2,586
Century Cements	2,740
Binani Cement	1,673
Lafarge india	4,800
Shree Cement	3,975

Source: Companies; NCLAT

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Companies had challenged the CCI penalty in COMPAT and COMPAT had granted a stay on the CCI order subject to deposition of 10% penalty amount and levy of 12% interest per annum on the balance amount if the appeal is dismissed. The Government had made changes in the constitution and operations of Tribunals, under which all matters with COMPAT have been transferred to the National Company Law Appellate Tribunal ("NCLAT").

Outcome of NCLAT proceedings

The National Company Law Appellate Tribunal upheld the Rs 63 bn fine imposed on a group of cement companies by the Competition Commission of India for cartelization.

Impact on the sector

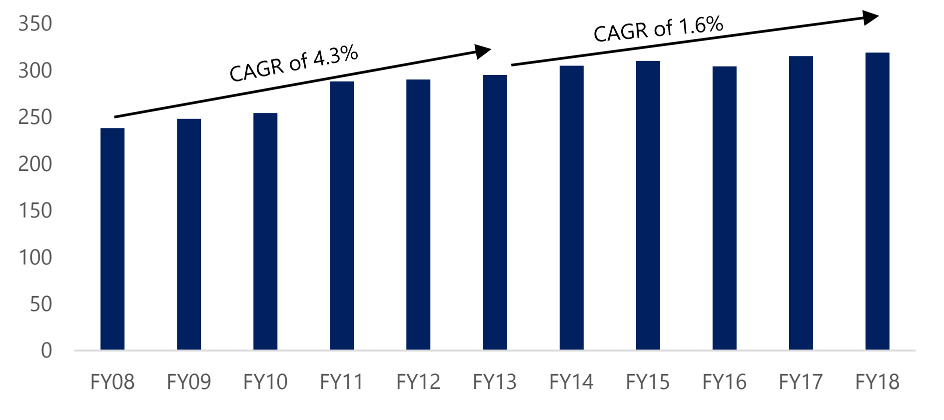
Pricing power

There is a general assumption that pricing power of the cement companies would get impacted after the current ruling. We believe that pricing power would not be completely impacted by this ruling.

Interestingly, if we look at the average pricing of the sector since FY08, over a 10 year period from FY08-FY18, cement prices have grown at a CAGR of nearly 3%. On slicing this duration into 5 year time frames, we arrive at a pricing CAGR of 4.3% between FY08-FY13 which could be corroborated to demand growth during that period when demand growth had peaked at even around 11% in 2010.

Post the CCI ruling which came in June, 2012, cement pricing grew at a CAGR of 1.6% between FY13-FY18. This period between FY13-FY18 was also impacted by demand slowdown and it does not necessarily indicate that companies increased prices despite demand slowdown.

Closing average all india cement price (Rs/50 kg bag)



Source: Dealer feedback, Kotak Securities – Private Client Research

Companies are likely to challenge the outcome

Cement companies are likely to challenge the outcome of NCLAT in Supreme Court on the fine imposed on them for alleged cartelization. However, till the time the proceedings run, companies may be required to deposit either full or some amount of the penalty imposed on them. So far, companies have deposited only 10% of the penalty amount.

Remaining is being shown as contingent liabilities

Companies had been confident that there would be no case of cartelization against them based on the legal opinion and hence no provision was made in the accounts for the same. These liabilities were shown as contingent liability in their books.

Uncertainty persists on the actual impact

If companies have to provide, it is going to impact the FY19/FY20 financials – the extent will be difficult to ascertain currently due to lack of clarity on the final amount – whether it will include the interest charges too on the balance amount. Along with this, the uncertainty also persists for players which have acquired assets such as Ultratech acquiring Jaiprakash Cement and Century cement plants.

Our take on valuations

Current valuations may get impacted as higher provisioning may be required by the companies and it may result in some de-rating of the sector with companies not being able to enjoy higher valuation multiples. However, we continue to believe that pricing power would not get impacted completely.

Since it is difficult to ascertain the timeline as well as final amount to be paid currently, we revise our target valuations downwards to factor in expected provisioning of the penalty amount and reduction in enterprise valuations. We would turn cautious on the sector owing to the impending provision which may be required to be made.

However, we continue to remain positive on companies where growth is likely to be led by volume uptick such as Ultratech Cements and Shree Cements. Post revising our valuation multiples, we arrive at a revised price target of Rs 4385 on Ultratech Cement based on 16x EV/EBITDA on FY20 estimates (as against 17x EV/EBITDA earlier). We thus downgrade the Ultratech Cements to ACCUMULATE.

On Shree Cement, we arrive at price target of Rs 18487 on Shree Cements based on 17x EV/EBITDA on FY20 estimate and adding value of power business and hence recommend ACCUMULATE owing to limited upside from the current levels.

India Cements penalty amount is much lower than other players, but cash flows of India cement are much poorer that Ultratech Cement and Shree Cement. We arrive at a revised price target of Rs 115 based on 6x EV/EBITDA on FY20 estimates. Owing to limited upside, we recommend REDUCE on India Cements.

Financials (Standalone): Ultratech Cements

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**238,914**	**297,901**	**350,756**	**387,838**
% change YoY	0.8	24.7	17.7	10.6
EBITDA	**49,690**	**58,833**	**71,701**	**81,968**
% change YoY	7.4	18.4	21.9	14.3
Other Income	6,600	5,947	6,000	6,000
Depreciation	12,679	17,636	19,798	20,588
EBIT	**43,610**	**47,144**	**57,903**	**67,380**
% change YoY	14.5	8.1	22.8	16.4
Net interest	5,714	11,863	14,913	13,091
Profit before tax	37,896	35,281	42,989	54,289
% change YoY	14.9	(6.9)	21.8	26.3
Tax	11,482	10,706	12,897	16,287
as % of PBT	30.3	30.3	30.0	30.0
Profit after tax	**26,414**	**24,576**	**30,093**	**38,002**
Other Comprehensive income	(196)	293	293	293
Net income	26,218	24,869	30,386	38,295
% change YoY	10.5	(5.1)	22.2	26.0
Shares outstanding (m)	274.4	274.5	274.6	274.6
EPS (reported) (Rs)	**95.5**	**90.6**	**110.7**	**139.5**
CEPS (Rs)	141.7	154.8	182.7	214.4
DPS (Rs)	10.0	10.5	10.5	10.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	509	639	1,168	533
Accounts receivable	12,762	17,142	17,298	19,126
Inventories	22,250	31,015	30,751	34,002
Others	15,781	12,808	16,160	16,668
Current assets	51,301	61,604	65,378	70,330
Good will&Other non CA	4,525	26,895	26,895	26,895
LT investments	95,755	66,894	66,894	66,894
Net fixed assets	241,169	387,271	387,472	386,884
Total assets	**392,750**	**542,664**	**546,639**	**551,003**
Payables	17,138	23,435	24,024	26,564
Others	35,859	33,087	33,087	33,087
Current liabilities	52,997	56,523	57,112	59,651
Provisions	4,302	6,221	9,693	9,693
LT debt	62,716	188,950	161,950	128,950
Other liabilities	33,325	31,741	31,741	31,741
Equity	2,745	2,746	2,746	2,746
Reserves	236,665	256,484	283,398	318,222
Total liabilities	**392,750**	**542,664**	**546,639**	**551,003**
BVPS (Rs)	872.4	944.3	1,042.0	1,168.8

Source: Company, Kotak Securities – Private Client Research;

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	43,414	47,437	58,196	67,673
Depreciation	12,679	17,636	19,798	20,588
Change in working capital	6,154	(3,876)	(2,655)	(3,048)
Chg in other current and non-current assets	6,589	(26,552)	3,472	-
Operating cash flow	68,836	34,645	78,811	85,213
Interest	(5,714)	(11,863)	(14,913)	(13,091)
Tax	(11,482)	(10,706)	(12,897)	(16,287)
CF from operations	**51,640**	**12,077**	**51,001**	**55,836**
Capex	(12,672)	(163,738)	(20,000)	(20,000)
(Inc)/dec in investments	(16,229)	28,861	-	-
CF from investments	**(28,901)**	**(134,877)**	**(20,000**	**(20,000)**
Proceeds from issue of equity	-	-	-	-
Increase/(decrease) in debt	(19,849)	126,234	(27,000)	(33,000)
Proceeds from share premium	-	-	-	-
Dividends	(3,138.9)	(3,304.1)	(3,471.6)	(3,471.6)
CF from financing	**(22,988)**	**122,930**	**(30,472)**	**(36,472)**
Opening cash	758	509	639	1,168
Closing cash	509	639	1,168	533

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	20.8	19.7	20.4	21.1
EBIT margin (%)	18.3	15.8	16.5	17.4
Net profit margin (%)	11.0	8.3	8.7	9.9
Receivables (days)	18.3	18.0	18.0	18.0
Inventory (days)	32.6	32.0	32.0	32.0
Sales/Net fixed assets(x)	1.0	0.8	0.9	1.0
Interest coverage (x)	7.6	4.0	3.9	5.1
Debt/equity ratio (x)	0.3	0.5	0.6	0.5
ROE (%)	11.5	10.0	11.1	12.6
ROCE (%)	14.5	12.6	12.9	15.0
EV/Tonne ($)	240.4	256.2	186.3	181.3
EV/ Sales (x)	4.5	4.1	3.4	3.0
EV/EBITDA(x)	21.7	20.9	16.8	14.3
Price to earnings (x)	42.3	44.7	36.6	29.0
Price to book value (x)	4.6	4.3	3.9	3.5

Source: Company, Kotak Securities – Private Client Research

Financials (Standalone): Shree Cements

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**84,292**	**98,331**	**121,600**	**131,890**
% change YoY	52.9	16.7	23.7	8.5
EBITDA	**23,672**	**24,728**	**29,650**	**32,150**
% change YoY	68.3	4.5	19.9	8.4
Other Income	5,077	3,891	5,000	5,000
Depreciation	12,147	8,994	14,870	14,553
EBIT	**16,602**	**19,624**	**19,780**	**22,597**
% change YoY	32.6	18.2	0.8	14.2
Net interest	1,294	1,353	2,596	2,464
Pre-operative expenses				
Profit before tax	**15,308**	**18,272**	**17,184**	**20,133**
% change YoY	30.3	19.4	(6.0)	17.2
Tax	1,917	4,430	4,296	5,033
as % of PBT	12.5	24.2	25.0	25.0
Net income	**13,391**	**13,832**	**12,888**	**15,100**
% change YoY	17.3	3.3	(6.8)	17.2
Shares outstanding (m)	34.8	34.8	34.8	34.8
EPS (reported) (Rs)	**384.4**	**397.0**	**369.9**	**433.4**
CEPS (Rs)	733.0	655.2	796.7	851.1
DPS (Rs)	140.0	50.0	50.0	50.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	1,110	1,209	12,593	21,003
Accounts receivable	10,553	15,440	13,326	14,454
Inventories	13,145	15,690	14,992	16,260
Others	1,061	1,110	1,211	1,267
Current assets	25,869	33,449	42,122	52,984
LT investments	43,273	57,273	57,273	57,273
Net fixed assets	33,096	50,163	51,293	52,740
Total assets	**102,237**	**140,886**	**150,688**	**162,997**
Payables	3,517	7,273	3,665	3,975
Others	1,493	-	1,666	1,807
Current liabilities	5,010	7,273	5,330	5,781
LT debt	20,442	43,312	41,812	40,312
Other liabilities	(196)	1,333	3,432	3,432
Equity	348	348	348	348
Reserves	76,633	88,620	99,766	113,123
Total liabilities	**102,237**	**140,886**	**150,688**	**162,997**
BVPS (Rs)	2,210	2,554	2,874	3,257

Source: Company, Kotak Securities – Private Client Research;

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT(Less pre-operative exp)	16,602	19,624	19,780	22,597
Depreciation	12,147	8,994	14,870	14,553
Change in working capital	(8,074)	(5,169)	870	(1,945)
Chg in other net current assets	4,019	1,366	1,999	(56)
Operating cash flow	24,695	24,815	37,519	35,148
Interest	(1,294)	(1,353)	(2,596)	(2,464)
Tax	(1,917)	(4,430)	(4,296)	(5,033)
CF from operations	**21,484**	**19,033**	**30,626**	**27,651**
Capex	(12,096)	(26,062)	(16,000)	(16,000)
(Inc)/decrease in investments	(9,615)	(14,001)	-	-
Dividends	(4,878)	(1,742)	(1,742)	(1,742)
CF from investments	**(26,589)**	**(41,804)**	**(17,742)**	**(17,742)**
Proceeds from issue of equity	-	-	-	-
Increase/(decrease) in debt	5,385	22,870	(1,500)	(1,500)
Proceeds from share premium	-	-	-	-
CF from financing	**5,385**	**22,870**	**(1,500)**	**(1,500)**
Opening cash	830	1,110	1,209	12,593
Closing cash	1,110	1,209	12,593	21,003

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	28.1	25.1	24.4	24.4
EBIT margin (%)	19.7	20.0	16.3	17.1
Net profit margin (%)	15.9	14.1	10.6	11.4
Receivables (days)	30.9	40.0	40.0	40.0
Inventory (days)	39.8	45.0	45.0	45.0
Sales/assets (x)	2.5	2.0	2.4	2.5
Interest coverage (x)	12.8	14.5	7.6	9.2
Debt/equity ratio (x)	0.2	0.4	0.5	0.4
ROE (%)	18.4	16.7	13.6	14.1
ROCE (%)	18.4	17.1	14.4	15.3
EV/Ton($)	321.3	243.7	223.6	199.3
EV/ Sales (x)	6.9	6.0	4.8	4.3
EV/EBITDA (x)	24.7	24.0	19.6	17.8
Price to earnings (x)	45.5	44.1	47.3	40.4
Price to book value (x)	7.9	6.8	6.1	5.4
Price to Cash Earnings (x)	23.9	26.7	22.0	20.6

Source: Company, Kotak Securities – Private Client Research

Financials (Standalone): India Cements

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**50,669**	**51,609**	**57,487**	**59,778**
% change YoY	19.9	1.9	11.4	4.0
EBITDA	**8,610**	**6,928**	**8,587**	**9,978**
% change YoY	12.0	(19.5)	23.9	16.2
Other Income	165	194	150	150
Depreciation	2,571	2,559	2,752	2,927
EBIT	**6,205**	**4,563**	**5,985**	**7,201**
% change YoY	8.8	(26.5)	31.2	20.3
Net interest	3,605	3,402	3,606	3,667
Profit before tax	**2,600**	**1,161**	**2,379**	**3,534**
% change YoY	30.0	(55.3)	104.9	48.6
Tax	867	155	785	1,166
as % of PBT	33.3	13.3	33.0	33.0
Profit after tax	**1,733**	**1,006**	**1,594**	**2,368**
Net extra-ordinary income	(55)	63	-	-
Net income	1,679	1,069	1,594	2,368
% change YoY	22.0	(36.3)	49.1	48.6
Shares outstanding (m)	308.2	308.2	308.2	308.2
EPS (reported) (Rs)	**5.4**	**3.5**	**5.2**	**7.7**
CEPS (Rs)	13.8	11.8	14.1	17.2
DPS (Rs)	0.01	0.80	0.80	0.80

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	68	84	324	867
Accounts receivable	5,089	6,295	6,340	6,593
Inventories	7,450	6,723	8,662	9,008
Others	16,649	15,395	15,645	16,107
Current assets	29,256	28,496	30,971	32,574
Misc exp.	-	-	-	-
LT investments	6,190	5,884	5,884	5,884
Net fixed assets	69,488	69,675	69,423	68,996
Total assets	**106,453**	**104,055**	**106,278**	**107,453**
Payables	13,180	11,759	13,890	14,443
Others	-	-	-	-
Current liabilities	13,180	11,759	13,890	14,443
LT debt	32,814	34,135	32,635	31,135
Other liabilities	9,359	6,158	6,403	6,403
Equity	3,082	3,082	3,082	3,082
Reserves	48,018	48,922	50,269	52,391
Total liabilities	**106,453**	**104,055**	**106,278**	**107,453**
BVPS (Rs)	166	169	173	180

Source: Company, Kotak Securities – Private Client Research;

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	6,150	4,563	5,985	7,201
Depreciation	2,571	2,559	2,752	2,927
Change in working capital	(1,873)	(1,899)	145	(44)
Chg in other net curnt assets	(1,860)	(2,048)	(4)	(462)
Operating cash flow	4,988	3,175	8,878	9,622
Interest	(3,605)	(3,402)	(3,606)	(3,667)
Tax	(867)	(155)	(785)	(1,166)
CF from operations	**517**	**(382)**	**4,487**	**4,789**
Capex	(827)	(1,228)	(2,500)	(2,500)
(Inc)/dec in investments	(683)	307	-	-
CF from investments	**(1,510)**	**(921)**	**(2,500)**	**(2,500)**
Proceeds from issue of equity	-	-	-	-
Increase/(decrease) in debt	1,393	1,321	(1,500)	(1,500)
Proceeds from share premium	(387)	-	-	-
Dividends	(2)	(2)	(247)	(247)
CF from financing	**1,005**	**1,319**	**(1,747)**	**(1,747)**
Opening cash	57	68	84	324
Closing cash	68	84	324	867

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	17.0	13.4	14.9	16.7
EBIT margin (%)	12.2	8.8	10.4	12.0
Net profit margin (%)	3.3	2.1	2.8	4.0
Receivables (days)	37.6	40.3	40.3	40.3
Inventory (days)	48	50	55	55
Sales/Net assets (x)	0.7	0.7	0.8	0.9
Interest coverage (x)	0.5	0.3	0.4	0.6
Debt/equity ratio (x)	0.6	0.6	0.6	0.6
ROE (%)	3.3	2.1	3.0	4.4
ROCE (%)	7.5	5.4	7.0	8.3
EV/Tonne ($)	57.3	58.8	57.1	55.2
EV/ Sales (x)	1.2	1.2	1.1	1.0
EV/EBITDA (x)	7.1	9.1	7.1	5.9
Price to earnings (x)	20.7	32.6	21.8	14.7
Price to book value (x)	0.7	0.7	0.7	0.6

Source: Company, Kotak Securities – Private Client Research

kotak Securities

Result Update

JSW STEEL LTD (JSTL)

PRICE RS.317 TARGET RS.340 ACCUMULATE

JSTL's Q1FY19 numbers were above our estimates, driven by strong performance at standalone level and sharp improvement in US plate and pipe mills. The sales volume of value added products and special products increased by 6% YoY.

Key Highlights

- EBITDA/t in standalone operations increased further to Rs12,590/tonne in Q1FY19 from Rs11,950/tonne in 4QFY18, driven by 25.2%/6.1% YoY/QoQ increase in realisation and contribution from high margin products.
- The domestic sales grew 27% YoY, sales to automotive segment was up 57% YoY and retail sales during the quarter was up 25% YoY to 0.953MT. The steel volumes increased 9% YoY to 3.83MT (down 9% qoq), the long product volumes increased by 16%YoY to 0.87MT while flat volumes increased by 6% YoY to 2.73MT.
- The U.S plate and pipe mill registered higher utilisation and reported EBITDA of US$10.69 mn during the quarter.

Valuation & outlook

- Going ahead, we believe that, volume growth likely to remain in the range of 2-3% for the next 2 years and expansion will support the earnings from FY21. Besides volume, higher sales in the domestic markets, increase in value-added sales, ramp-up of captive iron-ore mines of 4.3MT, installation of pipe conveyor (operational by Oct'18) and operation of coke oven and pellet plant will aid earnings. At CMP, the stock trades at 6.8x and 6.6x FY19E and FY20E, EV/EBITDA. Though we expect strong performance to continue due to change in product mix, but due to weak global sentiment we recommend Accumulate, with a revised target price of Rs340 (earlier Rs355).

Quarterly performance table

Y/E March (Rsmn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net sales	**205,190**	**159,770**	**28.4**	**213,360**	**(3.8)**
Raw Materials	102,130	82,430		108,190	
% of sales	49.8	51.6		50.7	
Power & Fuel	16,080	13,490		15,150	
% of sales	7.8	8.4		7.1	
Total Expenditure	154,140	133,600		160,460	
Operating profit	**51,050**	**26,170**	**95.1**	**52,900**	**(3.5)**
OPM (%)	**24.9**	**16.4**		**24.8**	
Depreciation	9,050	8,190		8,650	
Interest	8,870	9,450		8,830	
EBT	33,130	8,530		35,420	
Other income	580	410		450	
PBT	**33,710**	**8,940**	**277.1**	**35,870**	**(6.0)**
Provision for tax	10,530	2,840		7,150	
ETR (%)	31.2	31.8		19.9	
PAT	**23,180**	**6,100**		**28,720**	
Share of Profit	210	140		70	
PAT (reported)	**23,390**	**6,240**	**274.8**	**28,790**	**(18.8)**

Source: Company, Kotak Securities – Private Client Research

Stock Details

Market cap (Rs mn)	:	766500
52-wk Hi/Lo (Rs)	:	347 / 211
Face Value (Rs)	:	1
3M Avg. daily volume	:	4,119,852
Shares o/s (m)	:	2417

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	715,030	729,632	755,579
Growth (%)	28.6	2.0	3.6
EBITDA	147,940	167,098	172,900
EBITDA margin (%)	20.7	22.9	22.9
PAT	61,130	68,946	71,645
EPS	25.7	28.5	29.6
EPS Growth (%)	73.5	12.8	3.9
BV (Rs/share)	116	140	167
Dividend/share (Rs)	3.2	3.2	3.2
ROE (%)	22.2	20.6	17.3
ROCE (%)	16.5	17.8	16.3
P/E (x)	12.1	10.9	10.5
EV/EBITDA (x)	7.7	6.8	6.6
P/BV (x)	2.7	2.2	1.8

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	41.8	41.8	41.7
FII	19.9	19.9	19.8
DII	17.9	7.0	2.6
Others	19.5	31.4	36.0

Source: Company

Price Performance (%)

(%)	1M	3M	6M
JSW Steel	(4.5)	(1.4)	9.0
Nifty	3.4	5.3	0.6

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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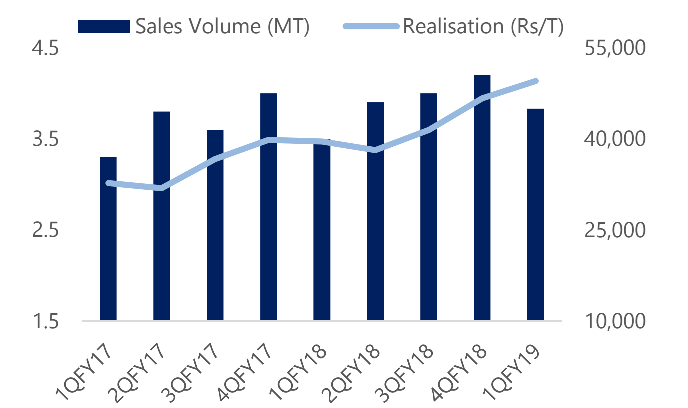
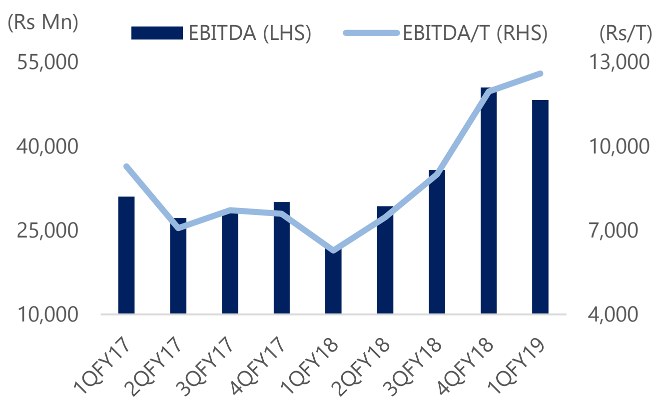
Strong performance

1QFY19 performance was driven by strong operating performance at standalone operations and US plate and pipe mill. The standalone operations was driven by improvement in realisation and higher other operating income (GST credit of Rs3.09 bn) resulting in EBITDA/t of Rs12,590/tonne (US$188/tonne), all-time high. Realisation during the quarter increased by 25.2%/6.1% YoY/QoQ to Rs49,514/tonne (up by Rs2,834/tonne QoQ) higher than estimates. The realizations in the quarter were aided by higher domestic sales as export sales declined to only 12% of the sales in 1QFY19 (from 15% in 4QFY18). The company's higher exposure to flat products, along with higher automotive sales helped it to post 6% qoq rise in standalone realizations. Domestic sales volumes increased by 27% YoY to 3.3MT (down 7% QoQ) as compared to 3.55MT in 4QFY18. This, coupled with improvement in operating performance, negated the impact of rising input costs, resulting in a strong performance at the EBITDA level. Standalone EBITDA during the quarter grew 119.4% YoY to Rs48.22 bn (down 4.4% QOQ), with an EBITDA margin of 25.4%. EBITDA/T came in at Rs12,590/tonne.

Sales volume and realisation trend



Operating performance trend



Source: Company, Kotak Securities – Private Client Research

Subsidiary performance

Subsidiaries EBITDA during the quarter increased to Rs2.8bn from Rs2.5bn in 4QFY18. The US plate and pipe mill operated at 35% and 10%, respectively, and reported EBITDA of US$10.69 mn, as against US$3.25 mn in 4QFY18. The benefit of US operations was partly offset by declined in JSW coated performance, which was impacted by lagged transmission of substrate costs.

US Plate & Pipe Mill

Y/E Mar	1QFY19	1QFY18	YoY (%)	4QF18	QoQ (%)
Plate Mill					
Production (mn tonnes)	80,777	65,491	23.3	71,015	13.7
Capacity Utilisation (%)	35	28		30	
Sales (mn tonnes)	65,809	52,410	25.6	52,835	24.6
Pipe Mill					
Production (mn tonnes)	14,021	4,598	204.9	12,142	15.5
Capacity Utilisation (%)	10	3		9	
Sales (mn tonnes)	14,574	5,618	159.4	12,222	19.2
US$ mn					
Turnover	91.82	25.3	262.9	59.93	53.2
EBITDA + Other Income	10.7	(5.5)	---	3.25	228.9

Source: Company

JSW Steel Coated Products

Y/E Mar	1QFY19	1QFY18	YoY (%)	4QF18	QoQ (%)
Production (mn tonnes)	0.43	0.41	4.9	0.48	(10.4)
Sales (mn tonnes)	0.43	0.40	7.5	0.47	(8.5)
Net Sales (Rs mn)	30,310	21,940	38.1	30,430	(0.4)
EBITDA (Rs mn)	1220	1590	(23.3)	2020	(39.6)
PAT (Rs mn)	420	740	(43.2)	870	(51.7)
Realisation (Rs/T)	70,488	54,850	28.5	64,745	8.9
EBITDA (Rs/T)	2,837	3,975	(28.6)	4,298	(34.0)

Source: Company

Update on acquisition

Acero Junction Holdings Inc: The company acquired 100% stake in Acero, USA at an investment of US$81 mn. The facilities at Acero include a 1.5 MTPA Electric Arc Furnace (EAF), and a 3.0 MTPA Hot Strip Mill (HSM).. The company plans to start operations by October 2018.

Aferpi: The company concluded acquisition of 100% stake for € 55 mn on cash free, debt free basis. Aferpi has 1.3MT rolling facility and the operations is expected to commence by the next quarter.

Monnet Ispat and Energy: The resolution plan submitted by the consortium of JSW Steel and AION Investments has been approved by NCLT and written order is awaited.

Other Highlights:

- The company reported an increase in net-debt by Rs10.7 bn to Rs391 bn due to MTM impact of rupee depreciation (Rs8.7 bn impact).
- Iron ore costs increased 14% YoY during the quarter due to higher iron ore prices and change in sourcing mix.
- Coking coal during the quarter stood at US$205/tonne and the management expect to remain flat in 2QFY19.
- JSTL has guided for organic expansion at Lucchini, Italy and Acero, USA by 4MT each and the same will be completed in phases. Capacity expansion of the CRM complex and Blast Furnace at Vijaynagar and augmentation of steel capacity to 10.7MT at Dolvi are progressing as per schedule.
- To bring down the cost of production, the company has guided that its pipe conveyor project will be ready by Oct'18 and will have capacity to handle iron ore of ~20MT (initially it will be operated to handle 12MT).

Recommend Accumulate

Going ahead, we believe that, volume growth likely to remain in the range of 2-3% for the next 2 years and expansion will support the earnings from FY21. Besides volume, higher sales in the domestic markets, increase in value-added sales, ramp-up of captive iron-ore mines of 4.3MT, installation of pipe conveyor (operational by Oct’18) and operation of coke oven and pellet plant will aid earnings. At CMP, the stock trades at 6.8x and 6.6x FY19E and FY20E, EV/EBITDA. Though we expect strong performance to continue due to change in product mix, but due to weak global sentiment we recommend Accumulate, with a revised target price of Rs340 (earlier Rs355).

Company background

The flagship company of the JSW Group, JSW Steel is India's leading integrated manufacturer of carbon steel products, with an export presence in over 100 countries across five continents. The Company has significantly expanded its steelmaking capacity in India. It has increased from 1.6 MTPA in 2002 to an installed crude steel capacity of 18.0 MTPA in 2016, through organic and inorganic growth strategies. Its current operations in India comprises 12.50 MTPA (around 70% of the capacity) of flat products and 5.50 MTPA (around 30% of the capacity) of long products. JSW Steel's extensive portfolio of flat and long products includes hot rolled coils, sheets and plates, cold rolled coils and sheets, galvanised and galvalume products, pre-painted galvanised and galvalume products, thermo mechanically treated ('TMT') bars, wire rods and special steel bars, rounds and blooms, plates and pipes of various sizes and cold rolled non-grain oriented products. The Company is also one of India's largest producers and exporters of coated flat steel products. Globally, the company own a plate and pipe mill in the US, and mining assets in the US, Chile and Mozambique.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Net sales	**556,046**	**715,030**	**729,632**	**755,579**
Growth (%)	33.8	28.6	2.0	3.6
Operating expenses	434,304	567,090	562,534	582,679
EBITDA	**121,742**	**147,940**	**167,098**	**172,900**
Growth (%)	90.2	21.5	12.9	3.5
Depreciation &amortisation	34,299	33,870	34,347	37,718
EBIT	**87,444**	**114,070**	**132,751**	**135,182**
Other income	1,521	1,670	1,921	2,209
Interest paid	37,681	37,010	32,936	31,628
Exceptional Items	0	2,640	0	0
PBT	**51,284**	**76,090**	**101,735**	**105,763**
Tax	16,743	15,380	33,573	34,902
Effective tax rate (%)	32.6	20.2	33.0	33.0
Net profit	34,541	60,710	68,163	70,862
Minority interest	691	420	783	783
Reported Net profit	35,231	61,130	68,946	71,645
Growth (%)	134.9	73.5	12.8	3.9

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	14,851	10,630	25,076	38,755
Other Current assets	201,189	224,660	233,588	240,057
Investments	13,671	17,620	17,620	17,620
Net fixed assets	622,215	630,910	692,638	756,420
Goodwill & intangible assets	8,717	7,070	7,070	7,070
Other non-current assets	18,920	28,810	32,341	36,118
Minority interest	2,460	4,647	5,112	5,623
Total assets	**882,023**	**924,347**	**1,013,445**	**1,101,663**
Current liabilities	188,429	222,100	224,792	228,614
Borrowings	437,223	396,700	411,700	421,700
Other non-current liabilities	29,892	25,560	28,020	30,772
Total liabilities	655,544	644,360	664,512	681,085
Share capital	2,417	2,417	2,417	2,417
Reserves & surplus	224,062	277,570	346,516	418,160
Shareholders' funds	226,479	279,987	348,933	420,577
Total equity & liabilities	**882,023**	**924,347**	**1,013,445**	**1,101,663**

Source: Company, Kotak Securities – Private Client Research;

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
Pre-tax profit	51,284	78,730	101,735	105,763
Depreciation	34,299	33,870	34,347	37,718
Chg in working capital	(38,665)	(11,010)	(6,236)	(2,647)
Other operating activities	31,719	22,200	(637)	(3,274)
Operating CF	**78,636**	**123,790**	**129,210**	**137,560**
Capital expenditure	(45,002)	(49,910)	(96,075)	(101,500)
Chg in investments	(7,116)	2,489	152	152
Other investing activities	1,180	1,260	0	0
Investing CF	**(50,938)**	**(46,161)**	**(95,923)**	**(101,348)**
Debt raised/(repaid)	10,249	(40,190)	15,000	10,000
Dividend (incl. tax)	2,182	6,550	905	905
Other financing activities	30,445	35,110	32,936	31,628
Financing CF	**(22,378)**	**(81,850)**	**(18,841)**	**(22,533)**
Net chg in cash & bank bal.	5,320	(4,221)	14,446	13,679
Closing cash & bank bal	14,851	10,630	25,076	38,755

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
Profitability and return ratios (%)				
EBITDAM	21.9	20.7	22.9	22.9
EBITM	15.7	16.0	19.1	18.7
NPM	6.3	8.3	9.9	9.8
RoE	15.6	22.2	20.6	17.3
RoCE	12.8	16.5	17.8	16.3
Per share data (Rs)				
EPS	14.6	25.7	28.5	29.6
BV	93.7	115.8	140.5	166.9
DPS	1.0	3.2	3.2	3.2
Valuation ratios (x)				
PE	21.4	12.1	10.9	10.5
P/BV	3.3	2.7	2.2	1.8
EV/EBITDA	9.7	7.7	6.8	6.6
EV/Sales	2.1	1.6	1.6	1.5
Other key ratios				
D/E (x)	1.9	1.4	1.2	1.0
DSO (days)	27	24	24	24

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	55621
52-wk Hi/Lo (Rs)	:	364 / 224
Face Value (Rs)	:	1
3M Avg. daily vol	:	289,312
Shares o/s (m)	:	222

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	19,672	24,695	28,482
Growth (%)	15.0	25.5	15.3
EBITDA	3,061	3,951	4,529
EBITDA margin (%)	15.6	16.0	15.9
Net profit	1,561	2,221	2,652
EPS (Rs)	7.0	10.0	11.9
Growth (%)	(6.0)	42.3	19.4
BVPS (Rs)	37.7	46.4	57.1
DPS (Rs)	1.0	1.0	1.0
ROE (%)	20.2	23.7	23.0
ROCE (%)	16.5	21.7	22.7
P/E (x)	35.6	25.0	21.0
EV/EBITDA (x)	19.8	15.3	13.1
P/BV (x)	6.6	5.4	4.4

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	72.3	72.0	72.0
FII	10.3	11.2	11.1
DII	5.4	4.9	4.7
Others	12.1	12.0	12.2

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Century Plyboards	(4.8)	(25.9)	(26.2)
Nifty	3.4	5.3	0.6

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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CENTURY PLYBOARDS LTD

PRICE RS.250 **TARGET RS.323** **BUY**

Century Plyboard results were ahead of our estimates. Growth in revenues was largely led by volume gains in plywood, laminate along with MDF plant ramp up. MDF plant had commissioned during Q3FY18 and is likely to witness improved capacity utilization going forward. However, the volume gain in plywood segment was offset to some extent by pricing pressure as well as lower revenues from commercial vineer. Pricing and margin pressure continued in MDF during Q1FY19 also owing to increased competition. We believe that growth going ahead is likely to be led by volume gains in each segment and pricing growth may remain largely subdued.

Key highlights

Revenue growth of 22.5% YoY was in line with our estimates and was largely led by volume gains in plywood and laminate along with MDF plant ramp up. Margins have also improved with MDF revenues forming 22% of overall revenues with better margins than plywood. Lower than expected depreciation charges led to net profit coming ahead of our estimates.

Valuation and outlook

At Rs 250, stock is currently trading at 25x/20.9x P/E and 15.3x/13.1x EV/EBITDA on FY19/20 estimates. We tweak our estimates to factor in lower margins in MDF along with changed depreciation policy. We maintain our price target of Rs 323 based on 27 x FY20 estimated earnings. We continue to maintain BUY recommendation on Century Plyboards as we believe that with increase compliance towards e-way bill implementation, volumes in plywood and laminate are likely to witness improvement. Capacity ramp up in MDF will also aid revenue growth.

Financial highlights

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net Sales	**5,373**	**4,386**	**22.5**	**5,441**	**(1.3)**
Total Expenditure	4,507	3,775	19.4	4,610	(2.2)
EBITDA	**865**	**611**	**41.7**	**832**	**4.1**
EBITDA margins (%)	16.1	13.9		15.3	
Depreciation	108	132		277	
EBIT	**757**	**479**	**58.1**	**554**	**36.6**
Interest	135	63		122	
EBT (Exc other income)	623	416	49.7	432	44.0
Other operating income	5.8	5.5		13.0	
EBT	**628**	**421**	**49.1**	**445**	**41.1**
Tax	175	80		88	
Tax (%)	27.8	19.0		19.8	
Profit After Tax	**454**	**341**	**33.0**	**357**	**27.0**
Other comprehensive inc/(loss)	(1.3)	(5.2)		3.7	
Net profit	**452**	**336**		**361**	
Equity Capital	222.5	222.5		222.5	
Face Value (In Rs)	1	1		1	
EPS (Rs)	**2.0**	**1.5**	**34.7**	**1.6**	**25.4**

Source: Company

Revenue growth lower than our expectations

Revenue growth of 22.5% YoY is largely led by volume gains in plywood and laminate along with MDF plant ramp up. Realizations remained under pressure for plywood and stood flat for laminate division on year on year basis but plywood realizations have started improving on a sequential basis as company has taken price hikes in May 2018. For Q1FY19, plywood volumes were up by 8% YoY but realization were down by 4% YoY. Laminate volumes for Q1FY19 were up by 27% while realizations were up by just 1% YoY. MDF volumes were up by 9% QoQ (since plant was commissioned in Q3FY18 itself) while realization is down by 1% QoQ.

Plywood division realizations were down by change in the product mix. Company has introduced a new range which caters to the category between premium and Sainik brand and which can give competition to the second grade brands. These categories are 20-25% cheaper than the premium brands. Through these categories, company would try to capture the share of unorganized segment and hence the realizations were impacted in the last two quarters. Going ahead also, company expect plywood volumes to grow by 14-15% for FY19 largely in the mid and lower segment category while premium segment volumes are likely to grow by only 7-8%.

Laminate division volumes are likely to grow further with incremental volumes from new expansion. Going ahead, company expects 15-20% growth in laminate volumes with commissioning of additional lines. Out of expansion of additional 2 lines in Laminates unit, 1 line has become operational from 21st January 2018.

MDF - MDF plant had commenced commercial production from Q3 and during Q1FY19 company sold 29659 CBM during the quarter at an average realization of Rs 23544 per CBM. Company has mentioned during Q4FY18 that due to increased competition, it had reduced prices from April-May, 2018 which is reflected in lower realization and lower margins during Q1FY19. Going ahead, we expect the capacity utilization to move up while company has reduced the margin guidance to 15% (from 20% earlier) due to increased competition and supplies in the market. In last 1-1.5 years, the MDF capacity in the industry has more than doubled which makes it very difficult for producers to hike prices going forward. We expect capacity utilization to improve to 75%/95% for FY19/20 respectively.

We maintain our estimates and expect overall revenues to grow at a CAGR of 20% between FY18-20 led by higher volumes in plywood, improved utilization in laminates and MDF division.

Operating margins in line with our estimates

Operating margins improved to 16.1% for Q1FY19 as compared to 13.9% in Q1FY18. Margins improved in plywood division despite lower plywood realization due to lower overhead expenses and reduction in core vineer prices. Plywood realization was lower due to change in the product mix. Commercial vineer supplies are coming from Soloman island which have lower realizations. Laminate division margins declined sequentially as well as on yearly basis due to higher raw material cost such as melamine, phenol, paper which they couldn't pass through. Also there were constraints on supply for exports so company couldn't export high ended value products during the quarter. Going forward, laminate margins should improve.

MDF margins stood at 13% and realizations of the company for the quarter stood at Rs 23544 per CBM. MDF margins were impacted due to price cuts taken by competition. Company expects margins to improve to 15% in the MDF segment owing to cost reduction measures taken by it. We also lower our estimates for MDF margins and expect margins of 15% going forward – lower than the current margins of peers.

We revise our estimates to factor in lower margins in MDF and expect margins to improve to 16%/15.9 % by FY19/20 respectively. (earlier assumption of 16.2%/16.2% by FY19/20 respectively)

Net profit better than estimates

Net profit performance was ahead of our estimates due to lower than expected depreciation. Company has changed the depreciation policy from WDV to straight line method and hence full year depreciation is also likely to be lower. Tax rate has also moved up during the quarter since the exemption for plants in Assam got over and company has set up new units in Assam which will have tax exemption for 8 years but ramp up of revenues is yet to take time from those tax exempted units. For the full year, company expects the tax rate to be around MAT ie 21-22%. Company has an exposure of Rs 2.94 bn in various currencies including ECB, buyers credit, working capital and due to rupee depreciation during the quarter, forex loss stood at Rs 131.1 mn. Out of this, Rs 66.2 mn has been treated as borrowing cost while remaining Rs 64.1 mn is taken off from EBITDA. Company has now reduced the exposure to Rs 2.43 bn to reduce the impact of forex losses.

We tweak our estimates to factor in lower MDF margins and lower depreciation charges and expect net profits to grow at a CAGR of 30% between FY18-20.

Valuation and recommendation

At Rs 250, stock is currently trading at 25x/20.9x P/E and 15.3x/13.1x EV/EBITDA on FY19/20 estimates. We tweak our estimates to factor in lower margins in MDF along with changed depreciation policy. We maintain our price target of Rs 323 based on 27 x FY20 estimated earnings. We continue to maintain BUY recommendation on Century Plyboards as we believe that with increase compliance towards e-way bill implementation, volumes in plywood and laminate are likely to witness improvement. Capacity ramp up in MDF will also aid revenue growth.

Company background

Century plyboards is a leading player in plywood and laminate segment. In order to cater to varied customer preferences, companies have widened their product portfolio with multiple products at various price points. Century ply has expanded its laminate capacity and has entered into MDF and particle board recently. Company is also engaged in the container freight station (CFS) at Kolkata Port and also ventured into the readymade furniture market in 2013.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**17,825**	**19,672**	**24,695**	**28,482**
% change YoY	8.0	10.4	25.5	15.3
EBITDA	**2,920**	**3,061**	**3,951**	**4,529**
% change YoY	6.0	4.8	29.1	14.6
Other Income	227	67	25	25
Depreciation	524	810	649	730
EBIT	**2,623**	**2,317**	**3,327**	**3,823**
% change YoY	7.0	(11.7)	43.6	14.9
Net interest	286	327	472	416
Profit before tax	**2,337**	**1,990**	**2,855**	**3,407**
% change YoY	18.0	(14.8)	43.5	19.3
Tax	481	424	628	750
as % of PBT	20.6	21.3	22.0	22.0
Profit after tax	**1,856**	**1,567**	**2,227**	**2,658**
Other adj	(20)	(6)	(6)	(6)
Net income	1,836	1,561	2,221	2,652
% change YoY	9.0	(15.0)	42.3	19.4
Shares outstanding (m)	222.5	222.5	222.5	222.5
EPS (reported) (Rs)	**8.3**	**7.0**	**10.0**	**11.9**
CEPS (Rs)	10.6	10.7	12.9	15.2
DPS (Rs)	-	1.0	1.0	1.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	538	165	139	119
Accounts receivable	3,353	3,145	3,721	4,292
Inventories	2,638	3,382	3,779	4,358
Loans and Adv & Others	2,478	2,166	2,503	2,693
Current assets	9,007	8,858	10,142	11,462
Other non current assets	241	157	157	157
LT investments	960	960	961	961
Net fixed assets	5,336	6,618	7,468	7,738
Total assets	**15,545**	**16,593**	**18,728**	**20,318**
Payables	1,411	1,764	1,993	2,299
Others	381	285	285	285
Current liabilities	1,791	2,049	2,278	2,583
Provisions	185	15	268	268
LT debt	6,482	6,048	5,748	4,648
Min. int and def tax liabilities	-	101	101	101
Equity	223	223	223	223
Reserves	6,864	8,157	10,110	12,495
Total liabilities	**15,545**	**16,593**	**18,727**	**20,317**
BVPS (Rs)	31.8	37.7	46.4	57.1

Source: Company, Kotak Securities – Private Client Research;

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	2,604	2,311	3,321	3,818
Depreciation	524	810	649	730
Change in working capital	(389)	129	(1,082)	(1,034)
Chgs in other net current assets	237	(347)	253	-
Operating cash flow	2,975	2,903	3,141	3,514
Interest	(286)	(327)	(472)	(416)
Tax	(481)	(424)	(628)	(750)
CF from operations	**2,208**	**2,153**	**2,041**	**2,348**
Capex	(2,955)	(2,092)	(1,500)	(1,000)
(Inc)/dec in investments	(464)	(0)	(0)	(0)
CF from investments	**(3,419)**	**(2,092)**	**(1,500)**	**(1,000)**
Proceeds from issue of equity	-	-	-	-
Increase/(decrease) in debt	1,560	(434)	(300)	(1,100)
Proceeds from share premium	-	-	-	-
Dividends	-	-	(267.9)	(267.9)
CF from financing	**1,560**	**(434)**	**(568)**	**(1,368)**
Opening cash	190	538	165	139
Closing cash	539	165	138	119

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	16.4	15.6	16.0	15.9
EBIT margin (%)	14.7	11.8	13.5	13.4
Net profit margin (%)	10.3	7.9	9.0	9.3
Receivables (days)	63.7	60.3	55.0	55.0
Inventory (days)	55.2	55.9	55.9	55.9
Sales/assets(x)	3.3	3.0	3.3	3.7
Interest coverage (x)	9.2	7.1	7.1	9.2
Debt/equity ratio(x)	0.9	0.8	0.6	0.5
ROE (%)	29.8	20.2	23.7	23.0
ROCE (%)	22.1	16.5	21.7	22.7
EV/ Sales (x)	3.4	3.1	2.4	2.1
EV/EBITDA (x)	20.8	19.8	15.3	13.1
Price to earnings (x)	30.3	35.6	25.0	21.0
Price to book value (x)	7.9	6.6	5.4	4.4
Price to Cash Earnings (x)	23.6	23.5	19.4	16.4

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	68181
52-wk Hi/Lo (Rs)	:	286 / 184
Face Value (Rs)	:	10
3M Avg. daily vol	:	2,372,979
Shares o/s (m)	:	351

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	58,628	64,099	75,617
Growth (%)	(1.8)	9.3	18.0
EBITDA	28,480	28,615	32,210
EBITDA margin (%)	48.6	44.6	42.6
Net profit	9,197	10,172	11,905
EPS (Rs)	26.2	28.9	33.9
Growth (%)	28.5	10.6	17.0
Book value (Rs/share)	162.0	188.5	220.0
DPS (Rs)	2.0	2.0	2.0
ROE (%)	16.8	16.5	16.6
ROCE (%)	8.7	7.2	7.3
P/E (x)	7.4	6.7	5.7
EV/EBITDA (x)	11.7	12.5	12.4
P/BV (x)	1.2	1.0	0.9

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	57.4	57.4	57.4
FII	20.7	23.9	23.6
DII	14.1	12.0	12.0
Others	7.6	6.7	7.1

Source: Company

Price Performance (%)

(%)	1M	3M	6M
IRB Infrastructure	(11.8)	(23.5)	(20.5)
Nifty	3.4	5.3	0.6

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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IRB INFRASTRUCTURE DEVELOPERS LTD (IRB)

PRICE RS.194 | **TARGET RS.271** | **BUY**

IRB's results were ahead of our estimates led by better than expected execution and margins. Company targets to achieve Rs 100 bn of revenues and Rs 10 bn of net profits by FY20. During H2FY19, company expects to begin construction on the HAM projects after achieving financial closure.

Key highlights

BOT revenues for Q1FY19 are not completely comparable due to transfer of assets to InVIT last year. EPC revenues have started improving sequentially with commencement of construction on new projects. Consolidated operating margins witnessed an improvement due to higher proportion of BOT projects owing to transfer of assets to InVIT. Net profit performance stood ahead of our estimates despite higher tax rate due to better than expected revenue growth.

Valuation and outlook

At Rs 194, stock is trading at 6.7x/5.7x P/E and 12.5x/12.4x EV/EBITDA on FY19/20 respectively. We maintain our estimates but incorporate higher cost of equity for valuing the projects and arrive at a revised price target of Rs 271 based on sum of the parts valuation on FY20 estimates (Rs 292 earlier). Owing to adequate upside from current levels, we upgrade the stock to BUY from ACCUMULATE earlier.

Consolidated Financial highlights

	Q1FY19			Q1FY18		
(Rs mn)	EPC	BOT	Total	EPC	BOT	Total
Revenues	**10,351**	**5,482**	**15,832**	**13,624**	**5,081**	**18,705**
YoY (%)	(24.0)	7.9	(15.4)			
EBITDA	**3,005**	**4,915**	**7,920**	**4,348**	**4,365**	**8,713**
EBITDA (%)	29.0	89.7	50.0	31.9	85.9	46.6
Depreciation	99	1,246	1,345	243	1,573	1,816
EBIT	**2,906**	**3,669**	**6,575**	**4,105**	**2,792**	**6,897**
Interest	737	1,740	2,477	919	1,936	2,854
EBT	**2,169**	**1,929**	**4,098**	**3,187**	**856**	**4,043**
YoY (%)	(31.9)	125.2	1.3			
Tax	748	849	1,597	1,070	596	1,666
Tax (%)	34.5	44.0	39.0	33.6	69.5	41.2
PAT	**1,421**	**1,080**	**2,501**	**2,117**	**261**	**2,378**
Minority interest	0	0	0		0	0
Net profit	1,421	1,080	2,501	2,117	261	2,378
YoY (%)	(32.9)	314.1	5.2			
Net profit w/o MAT credit	1,421	1,080	2,501	2,117	261	2,378
Shares (mn)	351.5	351.5	351.5	351.5	351.5	351.5
EPS	**4.0**	**3.1**	**7.1**	**6.0**	**0.7**	**6.8**

Source: Company

Revenues ahead of our estimates but not comparable with last year

Revenue growth was led by ramp up of execution on new projects and tolling commencement on three Rajasthan projects which were under-construction last year. Company's current order book stands at Rs 141 bn with Rs 59 bn in ongoing projects, while Rs 81.6 bn from projects yet to commence construction. There are delays witnessed in completion of Yedeshi-Aurangabad and Goa-Kundapur projects due to delay in hand over of land parcels and towards this, a suitable compensation claim will also be submitted to NHAI in due course. These projects are currently at advanced stage of completion.

Company continues to maintain its target to achieve Rs 100 bn of revenues and Rs 10 bn of net profits by FY20 which is expected to be led by strong EPC revenue growth and tolling of all BoT projects. The completion of concession for Mumbai-Pune project is likely to get compensated by higher EPC and annuity payments from the recent HAM projects.

Toll revenues trend across all projects for the quarter:

For the quarter, **Mumbai-Pune project** witnessed just 1.4% YoY improvement in revenues. Due to major repairs around Mumbra Bypass, traffic got diverted to other routes resulting in flattish toll revenue for Mumbai-Pune project during the quarter. Pune-Nashik and Pune-Solapur witnessed 4.5%/-1.75% YoY change in toll revenues respectively.

Ahmedabad-Vadodara project witnessed 13.7% growth in revenues. Company is negotiating with NHAI and State highway authorities to start tolling this project at 1.25 times the existing toll rate of Ahm-Vadodara project as it is causing loss of revenues to this project. It has also filed for claims with NHAI to compensate for the loss of revenues and things should start progressing on that in next 15-30 days. Company has refinanced the interest rate to 9.25% (reduction of 2.25%) which should significantly reduce cash losses for the project.

Agra Etawah project has also contributed to Rs 231 mn of revenues during Q1FY19 on commencement of 75% of the tolling on 4 lane stretch. For Agra-Etawah project, there is some bit of traffic diversion which is being witnessed but toll revenues are expected to improve once full 100% tolling commences in 3 months.

Kaithal Tollway Pvt. Ltd (SPV) had started partial toll collection at 87% on this project from 8th September, 2017, four months ahead of the scheduled commercial operation date but toll collection is impacted due to 13% still under construction and traffic not plying fully because of this.

Solapur Yedeshi project witnessed robust toll collection even with 93% tolling as on date. Tolling has commenced for three Rajasthan projects and there is no premium outgo until FY21 so cash flows are likely to be strong.

Equity requirements for the existing projects as well as new projects: Company has Rs 12.6 bn worth of cash as the end of FY18 and Rs 9.5 bn worth investment (including InVIT units) and with strong cash flows going forward, we expect these requirements to be met via internal accruals.

Project wise equity requirement (Rs mn)

	FY19	FY20	FY21
Agra-Etawah	3,108		
Udaipur-RJ border	953	1,866	
Gulabpura-Chittorgarh	207	2,000	
Kishangarh-Gulabpura	767	1,957	
Hapur-Moradabad	2,908	5,161	3,285
Puducherry - Poondiankuppam	142	525	423
Poondiankuppam - Sattanathapuram	228	857	724
Vadodara-Mumbai Expressway Pkg 1	262	1,008	488
Total	**8,576**	**13,374**	**4,919**

Source: Company

Better than expected revenues and margins led to net profits coming ahead of estimates

Consolidated operating margins witnessed an improvement due to higher proportion of BOT projects.

Net profit performance stood ahead of our estimates despite higher tax rate due to better than expected revenue growth.

Tax rate has moved up higher since tax exemption of Mumbai-Pune is now over. Net debt on consolidated basis currently stands at nearly Rs 113.8 bn. Cash on standalone basis stood at nearly Rs 13.5 bn while debt including OD stood at Rs 30 bn.

Valuation and recommendation

At Rs 194, stock is trading at 6.7x/5.7x P/E and 12.5x/12.4x EV/EBITDA on FY19/20 respectively. We maintain our estimates but incorporate higher cost of equity for valuing the projects and arrive at a revised price target of Rs 271 based on sum of the parts valuation on FY20 estimates (Rs 292 earlier). Owing to adequate upside from current levels, we upgrade the stock to BUY from ACCUMULATE earlier.

Sum of the parts valuation

	EBITDA (FY20E)	Multiple	EV (Rs mn)	Value per share
Core construction division	17740	4	70959	202
BOT projects (based on FY20)	Cost of equity (%)	13.5%		94
IRB's stake valuation in InVIT			6902	20
Real estate investment valuations	1250 acres	1	1300	4
Net debt at standalone			17000	48
Total				**271**

Source: Kotak Securities – Private Client Research

Company background

IRB Infrastructure Developers Ltd (IRB) is India's leading and one of the largest private roads and highways infrastructure developers, with presence in BOT and HAM space. The Company has a portfolio of 17 owned projects and 7 projects under O&M contracts as a Project manager for IRB InvIT. Of the 17 owned projects, 7 projects are under operational BOT space; 3 under HAM space; 4 projects under Tolling & Construction, another 2 projects under advanced stages of construction and 1 project under development stage. The Company has successfully completed 7 Concessions till date.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**59,691**	**58,628**	**64,099**	**75,617**
% change YoY	13.6	(1.8)	9.3	18.0
EBITDA	**31,715**	**28,480**	**28,615**	**32,210**
% change YoY	13.8	(10.2)	0.5	12.6
Other Income	-	1,267	3,343	3,868
Depreciation	8,548	5,440	6,589	7,413
EBIT	**23,167**	**24,307**	**25,369**	**28,666**
% change YoY	19.8	4.9	4.4	13.0
Net interest	13,327	9,667	11,865	12,444
Profit before tax	**9,840**	**14,640**	**13,504**	**16,221**
% change YoY	13.1	48.8	(7.8)	20.1
Tax	2,685	5,444	3,332	4,316
as % of PBT	27.3	37.2	24.7	26.6
Profit after tax	**7,154**	**9,197**	**10,172**	**11,905**
Minority interest	1	-	-	-
Net income	**7,155**	**9,197**	**10,172**	**11,905**
% change YoY	11.8	28.5	10.6	17.0
Shares outstanding (m)	351.5	351.5	351.5	351.5
EPS (reported) (Rs)	**20.4**	**26.2**	**28.9**	**33.9**
CEPS (Rs)	44.7	41.6	47.7	55.0
DPS (Rs)	2.00	2.00	2.00	2.00

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	13,077	12,678	1,236	1,420
Accounts receivable	2,804	2,999	3,161	3,729
Inventories	3,527	4,873	4,390	5,179
Others	5,934	7,034	7,000	7,442
Current assets	25,341	27,584	15,787	17,770
Misc exp.	831	300	300	300
LT investments	1,459	9,455	9,455	9,455
Net fixed assets	311,942	367,193	404,406	456,126
Assets held for sale	126,836	-	-	-
Total assets	**466,409**	**404,532**	**429,948**	**483,651**
Payables	4,507	4,058	5,795	6,837
Others	3,632	5,238	5,238	5,238
Current liabilities	8,139	9,296	11,033	12,075
Provisions	1,420	747	1,498	1,498
LT debt	163,395	285,768	299,368	340,968
NHAI premium obligation	138,680	51,153	51,153	51,153
Other liabilities	102,049	643	643	643
Equity	3,515	3,515	3,515	3,515
Reserves	49,211	53,411	62,739	73,800
Total liabilities	**466,409**	**404,532**	**429,948**	**483,651**
BVPS (Rs)	150.0	162.0	188.5	220.0

Source: Company, Kotak Securities – Private Client Research;

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	23,167	24,307	25,369	28,666
Depreciation	8,548	5,440	6,589	7,413
Change in working capital	1,306	(1,989)	2,057	(316)
Chgs in other net curnt assts	(22,798)	21,639	785	(442)
Operating cash flow	10,223	49,397	34,800	35,321
Interest	(13,327)	(9,667)	(11,865)	(12,444)
Tax	(2,685)	(5,444)	(3,332)	(4,316)
CF from operations	**(5,789)**	**34,287**	**19,602**	**18,560**
Capex	71,196	(60,692)	(43,802)	(59,132)
(Inc)/dec in investments	(1,096)	(7,996)	-	-
Dividends	(843.6)	(843.6)	(843.6)	(843.6)
CF from investments	**69,256**	**(69,531)**	**(44,645)**	**(59,976)**
Proceeds from issue of equity	-	-	-	-
Inc/(dec) in debt	4,221	122,373	13,600	41,600
Proceeds from share premium	-	-	-	-
Premium deferment	(69,619)	(87,527)	0	0
CF from financing	**(65,398)**	**34,846**	**13,600**	**41,600**
Opening cash	15,008	13,077	12,678	1,236
Closing cash	13,077	12,678	1,236	1,420

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	53.1	48.6	44.6	42.6
EBIT margin (%)	38.8	41.5	39.6	37.9
Net profit margin (%)	12.0	15.7	15.9	15.7
Receivables (days)	18	18	18	18
Inventory (days)	20	26	25	25
Sales/Net assets (x)	0.2	0.2	0.2	0.2
Interest coverage (x)	1.7	2.5	2.1	2.3
Debt/equity ratio (x)	3.2	4.1	4.8	4.5
ROE (%)	14.2	16.8	16.5	16.6
ROCE (%)	10.9	8.7	7.2	7.3
Valuations				
EV/ Sales (x)	3.6	5.7	5.6	5.3
EV/EBITDA (x)	6.8	11.7	12.5	12.4
Price to earnings (x)	9.5	7.4	6.7	5.7
Price to book value (x)	1.3	1.2	1.0	0.9
Price to Cash Earnings (x)	4.3	4.7	4.1	3.5

Source: Company, Kotak Securities – Private Client Research

kotak Securities

Result Update

LARSEN & TOUBRO LTD (L&T)

PRICE RS.1320 **TARGET RS.1520** **BUY**

Stock Details

Market cap (Rs mn)	:	1851262
52-wk Hi/Lo (Rs)	:	1470 / 1113
Face Value (Rs)	:	2
3M Avg. daily volume	:	2,207,222
Shares o/s (m)	:	1402

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	1,197	1,340	1,499
Growth (%)	8.8	12.0	11.8
EBITDA	136	154	172
EBITDA margin (%)	11.3	11.5	11.5
PAT	73.7	85.6	98.0
EPS	52.6	61.0	69.9
EPS Growth (%)	22.0	16.1	14.5
BV (Rs/share)	397.0	437.9	487.6
Dividend/share (Rs)	18.0	18.0	18.0
ROE (%)	13.7	14.6	15.1
ROCE (%)	6.7	6.3	6.2
P/E (x)	25.5	21.6	18.9
EV/EBITDA (x)	20.3	17.4	15.2
P/BV (x)	3.3	3.0	2.7

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	0.0	0.0	0.0
FII	18.7	18.7	16.9
DII	38.9	38.9	16.0
Others	29.7	29.7	67.1

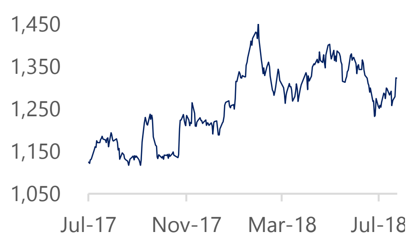
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Larsen & Toubro	4.1	(3.1)	(6.8)
Nifty	3.4	5.3	0.6

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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L&T reported all round good numbers which exceeded our estimates on all fronts including Revenue, EBITDA, PAT and order intake front. The company has started the fiscal well, which should help it to meet its overall profit and order intake guidances.

Key Highlights

- The company reported 19% growth in revenue. EBITDA grew at a faster pace aided by modest margin expansion. Consequently, PAT grew at a strong pace in Q1FY19.
- Order intake during the quarter rose 37% y-o-y to Rs 361 bn and order book stands at Rs 2.7 trn (up marginally). Ordering has been driven by government entities. Private sector capex (including real estate) still remains muted though there are nascent signs of investments taking place in metal industry.
- The company booked profit on sale of 1) Kattupalli port – Rs 3.5 bn and 2) divestment of stake in Invit – Rs 4.0 bn. This was offset by provisions the company made on a dispute with a realty company. The matter is subjudice but the company provided Rs 7.35 bn towards this and is part of the Operating expenses.
- There was a change in accounting policy from April 2018, as per which the company had to provide for Expected Credit Loss (ECL) on contracts in progress. However, the net effect was marginal due to writebacks in some business divisions.
- The company also changed the policy on recognition of realty income from "Percentage of Completion" method to full completion method, which led to booking of higher realty income than would have been the case otherwise.

Valuation and Outlook

On forward earnings basis, L&T is trading at 21.6x and 18.9x FY19E and FY20E consolidated earnings respectively. Valuations have eased in recent quarters given factors like slippage in order intake and weakening macro-economic factors. We believe that valuations are now reasonable, thus prompting us to move the rating a notch higher. We maintain our target price of Rs 1520 (unchanged) on the stock, valuing it at 21x FY20 earnings. Due to adequate upside, we upgrade rating to "BUY".

Key Q4FY18 result highlights (Consolidated results)

- Revenue growth was strong at 18.8% y-o-y led by Hydrocarbon, and Services businesses. Revenue growth has improved compared to the previous quarters of FY18.
- International revenue grew at a faster clip at 22% y-o-y while the domestic market revenue grew at 16% y-o-y. While International revenue were mostly driven by IT/ITES and Hydrocarbons, domestic revenue was driven by Financial Services and Development projects.
- EBITDA margins for the quarter expanded by 90 bps y-o-y to 9.5% due to improved execution and higher growth in services business.

Quarterly performance

Rs mn (Consolidated)	Q1 FY19	Q1 FY18	YoY (%)
Net sales	**282,835**	**238,109**	**18.8**
Total op expenses	253,702	217,541	16.6
Raw material	41,574	35,995	15.5
Sub-contracting charges	50,950	49,626	2.7
Construction materials	46,151	38,066	21.2
Purchase of trading goods	2,901	3,605	(19.5)
Other operating expenses	31,129	24,132	29.0
Sales and admin exp	21,631	16,871	28.2
Personnel	42,815	35,306	21.3
Finance cost of financial services activity	16,550	13,941	18.7
Operating Profit	**29,133**	**20,568**	**41.6**
Other income	2,440	3,849	(36.6)
Depreciation	6,449	5,513	17.0
EBIT	**25,125**	**18,904**	**32.9**
Interest	3,648	3,651	(0.1)
PBT	**21,477**	**15,253**	**40.8**
Current Tax	7,702	5,022	53.3
Deferred tax	1,644	(425)	(486.9)
PAT before minority interest and share from associate cos	12,131	10,656	13.8
Share of profits from assciate companies	2589	(372)	(795.3)
Minority interest	(2,572)	(1,358)	89.5
Exceptional items		0	
Reported PAT	**12,148**	**8,926**	**36.1**
EPS (Rs)	**8.68**	**6.38**	
EBITDA (%)	9.5	8.6	
Raw Matl costs to sales (%)	14.7	15.1	
Sub-contracting costs to sales (%)	18.0	20.8	
Construction materials costs to sales (%)	16.3	16.0	
Purchase of trading goods costs to sales (%)	1.0	1.5	
Total material and contracting expenses	50.1	53.5	
Other op expenses costs to sales (%)	11.0	10.1	
Sales and admin costs to sales (%)	7.6	7.1	
Personnel costs to sales (%)	15.1	14.8	
Total tax rate (%)	44	30	

Source: Company

Reported Vs Estimated performance

(Rs mn)	Reported	Estimated
Revenue	282,835	264301
EBITDA (%)	9.5	9.5
PAT	12,148	11226

Source: Kotak Securities – Private Client Research

- Employee costs rose 21% y-o-y in line with growth in headcount and scale of operations. The management indicated that the company has increased its employee intake in the "Services" divisions.
- Sales and General administration costs rose due to higher cost provisions in the financial services and business development expenses.
- Other income at Rs 2.4 bn, down 37% yoy, mainly due to lower treasury income as a result of increase in bond yields.
- Depreciation rose 17% y-o-y to Rs 6.4 bn while the interest cost remained flat on a y-o-y basis.

- As a result of strong EBITDA growth but offset by lower other income, PBT rose 41% y-o-y to Rs 21.4 bn.
- Provision for tax rose to Rs 93.5 bn as compared to Rs 45.9 bn on a y-o-y basis (higher dividend distribution tax and the company did not take benefit of provisions on WIP/Realty in tax)
- Consequent to the higher tax outgo, the company posted PAT before exceptional items of Rs 12.1 bn vs Rs 8.9 bn in the corresponding quarter of the previous fiscal.
- Gross borrowings (excluding the financial services vertical) increased marginally to Rs 330 bn in Q1FY19 vs Rs 323 bn in Q4FY18, mainly arising out of higher working capital engagement.

Divisional performance

Infrastructure

- Revenue growth was good at (+10%) y-o-y in Q1FY19 led by heavy Civil engineering and Water treatment business. During the quarter, the company moved MMH (Materials Handling) segment revenue from “Others” earlier to merge with the Infrastructure segment.
- Segment EBITDA stood margins at 6.8%, decline of 30 bps on a y-o-y basis. The decline was partly due to ECL provision on WIP of ~ Rs 320 mn.

Power

- The Power segment reported revenue decline of 39% y-o-y which was mainly due to depleting order book and power sector challenges.
- EBITDA margins were higher on a y-o-y basis at 4.1%.
- The Power generation Equipment/EPC segment continues to remain plagued with overcapacity leading aggressive competition among rivals for scarce orders.

Heavy Engineering Segment (Process plant and Nuclear)

- This division reported robust revenue growth of 29% yoy due strong execution progress in process plant jobs.
- EBITDA margins rose sharply to 36.1% vs 12.3% on a y-o-y basis. The segment margin benefited from stage of execution and settlement of claims.

Defence Engineering Segment

- This division reported a robust revenue growth of 37% yoy, aided by robust execution of order book.
- EBITDA margins rose sharply to 11.1% vs -4.4% on a y-o-y basis (Corresponding quarter of previous fiscal included inventory writedown on shipbuilding inventory).
- Shipyard continues to report weak profits in view of low utilization levels.

Electrical & Automation (E&A) Segment

- This segment reported modest growth of 13% y-o-y, which was mainly attributed to growth in the Switchboards and Control & Automation products business.
- EBITDA margins expanded 300 bps y-o-y to 13.3%, which was mainly attributed to "Standard Products" group and cost efficiencies across multiple Business Units.
- The company has signed undertaking for sale of this business to Schneider Electric for Rs 140 bn, subject to regulatory clearances

Hydrocarbon division

- Segment posted strong revenue growth of 39% yoy for the quarter aided by improved execution of international order book.
- The segment reported EBITDA margin of 7.0%, expansion of 20 bps y-o-y, which was attributed to variations related to stage of job and good execution of orders.

IT & *Technology Services Segment*

- This segment reported 31% yoy growth in revenue driven by digital services, Bank and Financial Services, Energy & Utilities and CPG, Retail & Pharma verticals.
- Segment EBITDA Margins expanded 330 bps y-o-y to 24.8%, aided by improved operational efficiencies.
- The company continues to focus on better manpower utilization, favourable currency movement, and operational excellence

Others segment

- This segment constitutes Industrial Products & Machinery and Realty businesses.
- Revenues rose 53% on a yoy basis mainly due to higher booking of real estate sales.
- EBITDA margin of 26.5% vs 21.3% on a y-o-y basis. EBITDA margin excludes provision for a disputed project in realty business.
- Revenue & Margin growth contributed by Realty business - largely due to Adoption of Completed Contract Method under new Accounting Standard (IND AS -115)
- The segment reported strong EBITDA margins gain on a y-o-y basis as Q4FY17 had losses and inventory writedown in shipbuilding division.

Development projects Segment

- This segment includes Power Development, Kattupalli Port and Hyderabad Metro. The segment reported quarterly revenue growth of 81% on a y-o-y mainly on account of higher power generation in Nabha Power.
- The company reported quarterly EBITDA margin 30.4% due to profit on sale of the Kattupalli port. The company also accounted for Rs 4.0 bn in profit on divestment in Invit (The company divested five road concessions to Investment Trust)

Strong order intake driven by domestic as well as overseas orders.

- Order inflows for the quarter and fiscal stood at Rs 361 bn, up 36.7% on a y-o-y basis.
- Order intake for the quarter was driven by uptick in domestic as well as international market orders.
- Order backlog stands at Rs 2.7 trn, up marginally on a y-o-y basis with the domestic market accounting for 77% of order backlog.

Conference call highlights

- The management noted that the ordering momentum from PSUs in roads, water and urban infra remains strong. The financing is coming from state and central government, cash rich PSUs and JICA/ADB.
- The management noted that although the industrial activity is improving, it is yet to gain momentum. The GDP growth is led by consumption which will trigger the next wave of capacity expansion in coming years. Thus, the company will be a late-cycle beneficiary of industrial capex.
- The company consummated kattupalli port transaction in Q1FY19 which has led to Rs 3.5 bn profit on sale.
- As per under Ind AS 115, the company is required to provide for credit loss on ongoing contracts as well. The impact on this count was however negligible in Q1FY19.
- The company is locked in a court dispute on a realty project. Although the matter is subjudice right now, the company has provided large chunk of provisions nevertheless. The company has provided for Rs 4.85 bn towards this and additional Rs 2.5 bn on WIP impairment.
- Depreciation increased due to impairment on capital WIP on some slow-moving hydro power projects

Management guidance for FY19E

- For FY19E, the management has guided for 12-15% growth.
- On EBITDA margin in FY19E (excluding the services business comprising of Development business + IT&TS+Financial Services), the management has guided for 25 bps increase.
- For FY19E, the company has guided for 10-11% growth in order intake.

Upgrade to Buy

These are early days, hence we are not making any change in FY19 earnings.

On forward earnings basis, L&T is trading at 21.6x and 18.9x FY19E and FY20E earnings respectively.

We maintain our target price of Rs 1520 on the stocks, valuing it at 21x FY20 earnings. Due to adequate upside, we upgrade rating to “BUY”.

Company background

Larsen & Toubro is a major technology, engineering, construction, manufacturing and financial services conglomerate, with global operations. L&T addresses critical needs in key sectors - Hydrocarbon, Infrastructure, Power, Process Industries and Defence - for customers in over 30 countries around the world.

With over 7 decades of a strong, customer focused approach, the company has unmatched expertise across Technology, Engineering, Construction, Infrastructure Projects and Manufacturing, and maintain a leadership in most major lines of business. The Company's manufacturing footprint extends across eight countries in addition to India. L&T has several international offices and a supply chain that extends around the globe.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**1,100**	**1,197**	**1,340**	**1,499**
% change YoY	7.9	8.8	12.0	11.8
EBITDA	**111**	**136**	**154**	**172**
% change YoY	5.8	22.4	13.8	11.8
Other Income	14.0	14.3	15.0	15.5
Depreciation	23.7	19.3	20.5	21.2
EBIT	**101**	**131**	**149**	**167**
% change YoY	(11.3)	2.6	33.5	(100.0)
Net interest	13.4	15.4	16.3	17.4
Profit before tax	**88**	**115**	**132**	**149**
% change YoY	10.6	31.4	14.9	12.8
Tax	21	32	36	40
as % of PBT	24.5	27.8	27.0	27.0
Profit after tax before ex items	66.2	83.2	96.6	109.0
% change YoY	20.6	25.7	16.1	12.8
Exceptional items	1.2	1.2	0.0	0.0
Reported PAT	**67**	**84**	**97**	**109**
Minority interest	(4)	(6)	(7)	(7)
Share of profit loss from asso	(3)	(4)	(5)	(5)
Consolidated PAT	**60**	**74**	**86**	**98**
Shares outstanding (m)	1,402.0	1,402.0	1,402.0	1,402.0
EPS (before exp items) (Rs)	43.1	52.6	61.0	69.9
CEPS (Rs)	59.1	65.4	75.7	85.0
DPS (Rs)	18.0	18.0	18.0	18.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	56	80	347	509
Accounts receivable	280	347	367	411
Inventories	41	48	51	57
Loans and Adv & Others	701	777	777	777
Current assets	1,078	1,253	1,543	1,755
Intangible assets	132	149	149	149
Other assets	528	703	703	703
Investments	198	153	153	153
Net fixed assets	168	128	127	126
Def tax assets	17	21	21	21
Total assets	**2,121**	**2,407**	**2,697**	**2,908**
Payables	601	378	378	378
Others	-	273	273	273
Current liabilities	601	651	651	651
Provisions	32	30	32	32
Debt	940	1,075	1,267	1,367
Other liabilities	10	38	70	105
Equity	2	3	3	3
Reserves	500	554	611	681
Minority Interest	36	56	63	69
Total liabilities	**2,121**	**2,407**	**2,697**	**2,908**
BVPS (Rs)	358	397	438	488

Source: Company, Kotak Securities – Private Client Research;

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
PBDIT	111	136	154	172
Direct tax paid	(32)	(32)	(36)	(40)
Adjustments	14	(36)	(5)	(5)
Cash flow from operations	**92**	**68**	**114**	**128**
Net Change in Working Capital	(30)	(102)	(22)	(49)
Net Cash from Operations	62	(34)	92	78
Capital Expenditure	(30)	(20)	(20)	(20)
Cash from investing	**(68)**	**(100)**	**15**	**16**
Net Cash from Investing	(97)	(120)	(5)	(5)
Interest paid	13	15	16	17
Issue of Shares/(buyback)	1	-	-	-
Dividends Paid	(21)	(28)	(28)	(28)
Debt Raised	58	135	192	99
Others	(16)	57	0	0
Net cash from financing	**35**	**179**	**180**	**89**
Net change in cash	0	25	267	162
Free cash flow	33	(54)	72	58
cash at end	54.1	80.3	347.2	509.5

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	10.1	11.3	11.5	11.5
EBIT margin (%)	9.2	10.9	11.1	11.1
Net profit margin (%)	5.5	6.2	6.4	6.5
Receivables (days)	92.8	105.7	100.0	100.0
Inventory (days)	13.7	14.8	14.0	14.0
Sales/gross assets(x)	7.5	11.2	12.7	14.3
Interest coverage (x)	8.3	8.8	9.4	9.9
Debt/equity ratio(x)	1.9	1.9	2.1	2.0
ROE (%)	12.5	13.7	14.6	15.1
ROCE (%)	6.6	6.7	6.3	6.2
EV/ Sales	2.4	2.3	2.0	1.7
EV/EBITDA	23.4	20.3	17.4	15.2
Price to earnings (P/E)	31.3	25.5	21.6	18.9
Price to book value (P/B)	3.7	3.3	3.0	2.7

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	621492
52-wk Hi/Lo (Rs)	4200 / 3034
Face Value (Rs)	2
3M Avg. daily volume	402,727
Shares o/s (m)	200

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenues	322,305	353,940	393,201
Growth (%)	13.1	9.8	11.1
EBITDA	52,802	54,265	60,621
EBITDA margin (%)	16.4	15.3	15.4
Adj. Net profit	36,973	36,627	40,801
Adj. EPS (Rs)	185.1	183.4	204.3
Adj. EPS Growth (%)	9.5	(0.9)	11.4
Book value (Rs/share)	589.3	658.3	730.2
Dividend per share (Rs)	95.0	110.0	120.0
ROE (%)	33.8	29.4	29.4
ROCE (%)	46.0	41.6	41.8
P/E (x)	16.8	17.0	15.2
EV/EBITDA (x)	10.7	10.4	9.1
P/BV (x)	5.3	4.7	4.3

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	34.6	34.6	34.6
FII	39.6	41.9	42.3
DII	14.4	12.0	11.5
Others	11.4	11.4	11.5

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Hero MotoCorp	(13.2)	(16.3)	(12.9)
Nifty	3.4	5.3	0.6

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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HERO MOTOCORP LTD (HMC)

PRICE RS.3110 TARGET RS.3473 ACCUMULATE

HMC's 1QFY19 results came in slightly below expectations. Higher commodity prices and increased tax led to flat YoY net profit, despite 14% volume growth.

Key Highlights

HMC reported revenue of Rs88.1bn in 1QFY19, 10.4% growth over 1QFY18. HMC sold 2.1mn two wheelers in 1QFY19, 13.6% higher as compared with same quarter last year. EBIDTA in 1QFY19 came in at Rs13.8bn, 6.3% growth over 1QFY18 EBITDA of Rs13bn. EBITDA margin for the company was under pressure in 1QFY19 due to expiry of benefits at the Haridwar plant and commodity price increase. During the quarter, company reported PAT of Rs9.09bn, as compared with Rs9.1bn reported in 1QFY18. PAT was lower than our estimate due to 3% below estimated EBITDA, lower other income and higher tax provision.

Valuation and Outlook

HMC is expected to benefit from demand recovery in rural segment. However, aggressive stance adopted by Bajaj Auto to gain market share, could impact company's performance in the entry level motorcycle segment. Given intense competitive pressure in the entry level motorcycle segment, margins are expected to witness contraction in FY19. We cut our volume, margin assumption and assigned PE multiple in view of aggressive pricing strategy adopted by Bajaj Auto. We downgrade the stock to ACCUMULATE (earlier BUY) with a revised price target of Rs3,473 (earlier Rs4,353).

Quarterly performance

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Revenues	**88,098**	**79,805**	**10.4**	**85,640**	**2.9**
Total expenditure	74,325	66,846	11.2	71,935	3.3
RM consumed	61,650	54,030	14.1	57,931	6.4
Employee cost	4,131	3,737	10.6	3,809	8.5
Other expenses	8,544	9,079	(5.9)	10,195	(16.2)
EBITDA	**13,773**	**12,959**	**6.3**	**13,706**	**0.5**
EBITDA margin (%)	15.6	16.2	-	16.0	-
Depreciation	1,482	1,330	11.4	1,483	(0.1)
Interest cost	21	16	33.5	15	37.0
Other Income	1,157	1,317	(12.1)	1,665	(30.5)
Exceptional item					-
PBT	**13,427**	**12,931**	**3.8**	**13,872**	**(3.2)**
PBT margins (%)	15.2	16.2		16.2	
Tax	4,336	3,790	14.4	4,198	3.3
Tax rate (%)	32.3	29.3	-	30.3	
Reported PAT	**9,092**	**9,140**	**(0.5)**	**9,674**	**(6.0)**
PAT margins (%)	11.3	10.4	-	11.3	-
EPS (Rs)	**45.5**	**45.8**	**(0.5)**	**48.4**	**(6.0)**
Volumes (nos)	2,106,629	1,853,647	13.6	2,001,595	5.2
Net Realization (Rs)	41,820	43,053	(2.9)	42,786	(2.3)
RM cost per vehicle (Rs)	29,265	29,148	0.4	28,942	1.1

Source: Company

Result Highlights

Volume growth remained strong during the quarter

HMC reported revenue of Rs88.1bn in 1QFY19, 10.4% growth over 1QFY18. HMC sold 2.1mn two wheelers in 1QFY19, 13.6% higher as compared with same quarter last year. Average selling price (ASP) in the quarter declined by 2.9% YoY on product mix change and expiry of Haridwar plant benefit. As compared with 4QFY18, ASP was lower as 4QFY18 included Rs700mn benefit from Haridwar plant (other operating income decline d QoQ from Rs2.72bn to Rs1.79bn). ASP in the quarter was 2% below estimate. HMC took a price hike in July 2018 and expects to take another price hike in Sept/Oct 2018.

Commodity price increase impacted operational performance

EBIDTA in 1QFY19 came in at Rs13.8bn, 6.3% growth over 1QFY18 EBITDA of Rs13bn. Sequentially, EBITDA growth remained flat. During the quarter, raw material cost increased from 67.7% in 1QFY18 to 70% in 1QFY19. Increase in commodity cost and expiry of Haridwar plant benefit translated into gross margin decline from 32.3% in 1QFY18 to 30% in 1QFY19. Employee cost growth related to annual hike. Other expenses were lower in the quarter and that partially lowered the impact of input cost on EBITDA margin. In 1QFY19, EBITDA margin declined from 16.2% in 1QFY18 to 15.6% and was slightly lower than our estimate of 15.8%.

Lower other income and higher tax rate impacts net profit

During the quarter, company reported PAT of Rs9.09bn, as compared with Rs9.1bn reported in 1QFY18. Other income in the quarter was lower by 12% YoY and 31% QoQ. Tax rate increased from 29.3% in 1QFY18 to 32.3% in 1QFY19 on account of expiry of benefit from the Haridwar plant. PAT was lower than our estimate due to 3% below estimated EBITDA, lower other income and higher tax provision.

Conference Call Highlights

Management expects the domestic two wheeler industry to grow in double-digit in FY19. Rural growth is currently 200-300bps higher than growth in the urban areas and the management expects this trend to continue going forward. HMC increased its market share in the deluxe / commuter motorcycle segment from 69.2% in 1QFY18 to 70.6% in 1QFY19.

Despite aggressive pricing strategy by competition in the entry level motorcycle segment, HMC increased its market share in this segment from 55% in FY17 to 60% in FY18. During 1QFY19, HMC witnessed 20% volume growth in the entry level motorcycle segment. Management alluded that HMC has not changed its strategy on investment on any particular brand.

In FY19, HMC will be launching scooters in the 125cc segment and motorcycle (Xtreme 200R) in the premium segment.

Scooter segment industry growth is largely coming from the 125cc segment (this segment grew by 80% in 1QFY19). Share of 125cc segment in the scooter segment now stands at 21% for the industry. Margins in 125cc scooter is higher than 110cc scooter.

HMC expects double digit volume growth in exports in FY19. In Bangladesh, the company has 30% retail market share.

HMC's Halol plant production was 300,000 units in FY18 and is expected to increase to 600,000 units in FY19 and to 900,000 units in FY20. From the Halol plant, the company gets SGST refund for local sales. In FY20, along with benefits from Halol plant and upcoming Andhra Pradesh plant, the company expects to offset the loss of Haridwar plant benefit expiry.

Major impact of commodity price increase came in 1QFY19 and remaining impact will come in 1QFY19. Management expects commodity price to stabilize from 2HFY19. Under the cost cutting program, company expect benefit of 30-40bps to margins.

Current inventory levels are I the normal range of 4-6 weeks, but the same will increase as the industry heads towards the festive season.

Hero Fincorp financed 13% (273,000 units) of HMC volumes in 1QFY19. HMC has ~42% stake in Hero FinCorp.

Outlook and Valuation

Two wheeler demand in the domestic market has been strong. Unlike past few years, the motorcycle segment too is witnessing robust demand; led by pick-up in rural demand. With expected normal monsoons and government focus/initiatives to drive farm income, we believe the two wheeler industry to continue healthy volume growth in the coming quarters. With 50-555% of volumes coming from rural areas, HMC is expected to benefit from demand recovery in rural segment. However, aggressive stance adopted by Bajaj Auto to gain market share, could impact company's performance in the entry level motorcycle segment. In the scooter segment, the company's continues to lose market share with volume performance coming below expectation. Management expects that new launches in the 125cc segment will help the company gain market share. HMC reported 14% overall volume growth in FY18 and 1QFY19. We factor ~8% volume CAGR for HMC over FY18-FY20E. We have lowered our volume assumption in view of Bajaj Auto's aggressive market share gain strategy.

EBITDA margin for the company was under pressure in 1QFY19 on two broad counts – expiry of tax benefits at the Haridwar plant and commodity price increase. To counter the increase in input cost, company undertook a price hike in July 2018 and expects to take another price hike in Sep/Oct 2018. Company expect to offset the full impact of Haridwar plant benefit expiry in FY20 through volume ramp-up at Halol plant and start of Andhra Pradesh plant. LEAP (cost cutting program) is expected to contribute 30-40bps to margin and positive impact of operating leverage is also expected to play out. However, given intense competitive pressure in the entry level motorcycle segment, we cut our margin estimates for HMC.

In view of above mentioned reason, we cut our earnings estimate by ~10% for FY19/FY20. We downgrade the stock to ACCUMULATE (earlier BUY) with revised price target of Rs3,473 (earlier Rs4,353). In view of expected fall in EBITDA margin and cut in earnings growth, we assign PE multiple to 17x (earlier 19x).

Change in estimates

	FY19			FY20		
(Rs mn)	Old	New	% chg	Old	New	% chg
Revenues	364,473	353,940.2	(2.9)	401,023	393,201	(2.0)
EBITDA margin (%)	16.3	15.3		16.4	15.4	
PAT	41,318	36,627	(11.4)	45,754	40,801	(10.8)

Source: Kotak Securities – Private Client Research

Risk

Price war in the two wheeler segment remains key risk to volume and margin assumption.

Company background

HMC is the largest two wheeler player in India. In 2001, the company became the largest two-wheeler manufacturing company in India and globally in terms of unit volume sales in a calendar year. HMC is the market leader in the domestic motorcycle segment with 50% market share (overall two wheeler domestic market share is ~37%). In FY17, the company surpassed 70 million units in cumulative sales since its inception. HMC's extensive sales and service network, comprising of authorised dealerships, service & parts outlets, and dealer-appointed outlets, spans over 6,000 customer touch points across the country. Company's manufacturing plants are located at Gurugram, Dharuhera, Haridwar, Neemrana and Vadodara.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**285,005**	**322,305**	**353,940**	**393,201**
% change YoY	(0.3)	13.1	9.8	11.1
EBITDA	**46,348**	**52,802**	**54,265**	**60,621**
% change YoY	4.2	13.9	2.8	11.7
Depreciation	4,927	5,556	6,050	6,570
EBIT	**41,421**	**47,246**	**48,215**	**54,051**
% change YoY	3.4	14.1	2.1	12.1
Net interest	61	63	70	70
Other Income	5,224	5,258	5,718	6,020
Exceptional income/(loss)	0	0	0	0
Profit before tax	**46,585**	**52,441**	**53,863**	**60,001**
% change YoY	6.0	12.6	2.7	11.4
Tax	12,813	15,468	17,236	19,200
as % of PBT	27.5	29.5	32.0	32.0
Profit after tax	**33,771**	**36,973**	**36,627**	**40,801**
Adjusted PAT	33,771	36,973	36,627	40,801
% change YoY	7.8	9.5	-0.9	11.4
Shares outstanding (m)	200	200	200	200
Adjusted EPS (Rs)	**169.1**	**185.1**	**183.4**	**204.3**
DPS (Rs)	85.0	95.0	110.0	120.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	46,776	57,325	59,131	68,575
Accounts receivable	15,619	15,202	17,455	19,391
Inventories	6,563	8,236	9,269	10,270
Loans and Adv & Others	15,889	17,556	19,280	21,160
Current assets	84,846	98,318	105,135	119,397
LT investments	13,490	19,341	21,341	23,341
Net fixed assets	48,606	49,729	59,496	62,926
Total assets	**146,943**	**167,388**	**185,972**	**205,663**
Payables	32,473	33,188	36,849	40,936
Other liabilities	8,071	9,647	10,612	11,673
Current Liabilities	40,543	42,835	47,460	52,609
Provisions	1,143	1,747	1,922	2,114
Deferred Tax Liability	4,143	5,117	5,117	5,117
Debt	0	0	0	0
Equity	399	399	399	399
Reserves	100,714	117,289	131,073	145,424
Total liabilities	**146,943**	**167,388**	**185,972**	**205,663**

Source: Company, Kotak Securities – Private Client Research;

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	41,421	47,246	48,215	54,051
Depreciation	4,927	5,556	6,050	6,570
Change in working capital	3,343	(540)	374	1,150
Chg in other net current asset	1,821	514	(585)	(627)
Operating cash flow	51,512	52,775	54,054	61,144
Interest	(61)	(63)	(70)	(70)
Tax	(10,895)	(14,495)	(17,236)	(19,200)
Other Income	5,224	5,258	5,718	6,020
EO income	-	-	-	-
Others	(55)	64	-	-
CF from operations	**45,726**	**43,540**	**42,466**	**47,894**
Capex	(11,636)	(6,679)	(15,816)	(10,000)
(Inc)/dec in investments	(13,088)	(16,354)	(4,089)	(12,000)
CF from investments	**(24,725)**	**(23,032)**	**(19,905)**	**(22,000)**
Proceeds from issue of equities	0	0	-	-
Increase/(decrease) in debt	-	-	-	-
Proceeds from share premium	23	52	-	-
Dividends	(20,970)	(20,512)	(22,843)	(26,450)
CF from financing	**(20,947)**	**(20,461)**	**(22,843)**	**(26,450)**
Opening cash	1,314	1,367	1,413	1,131
Closing cash	1,367	1,413	1,131	575

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
Margins				
EBITDA margin (%)	16.3	16.4	15.3	15.4
EBIT margin (%)	14.5	14.7	13.6	13.7
Adj. net profit margin (%)	11.8	11.5	10.3	10.4
Working capital days				
Inventory (days)	9	8	9	9
Receivable (days)	18	17	18	18
Payable (days)	38	37	38	38
Ratios				
Debt/equity ratio (x)	0.0	0.0	0.0	0.0
ROE (%)	35.7	33.8	29.4	29.4
ROCE (%)	47.6	46.0	41.6	41.8
Valuations				
EV/ Sales	2.0	1.7	1.6	1.4
EV/EBITDA	12.4	10.7	10.4	9.1
Price to earnings (P/E)	18.4	16.8	17.0	15.2
Price to book value (P/B)	6.1	5.3	4.7	4.3

Source: Company, Kotak Securities – Private Client Research

Forthcoming Events

Forthcoming events

Date	Event
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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Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	–	We expect the stock to deliver negative returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	-	We advise investor to subscribe to the IPO.
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NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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