Morning Insight

kotak Securities

JANUARY 29, 2019

		% Chg		
	28-Jan	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	35,657	(1.0)	(1.2)	6.9
NIFTY Index	10,662	(1.1)	(1.8)	6.3
NSEBANK Index	26,653	(1.7)	(1.7)	9.1
NIFTY 500 Index	8,877	(1.3)	(3.0)	5.5
CNXMcap Index	16,656	(2.1)	(6.4)	2.5
BSESMCAP Index	13,722	(2.0)	(6.1)	0.9
World Indices				
Dow Jones	24,528	(0.8)	6.4	0.3
Nasdaq	7,086	(1.1)	7.6	0.5
FTSE	6,747	(0.9)	0.2	(4.0)
NIKKEI	20,649	(0.6)	2.1	(3.4)
Hangseng	20,649	(0.6)	2.1	(3.4)
Shanghai	27,577	0.0	7.4	10.4

Value traded (Rs cr)	28-Jan	% Chg Day
Cash BSE	3,067	10.5
Cash NSE	35,283	0.5
Derivatives	898,683	24.1

Net inflows (Rs cr)	25-Jan	MTD	YTD
FII	735	(3,140)	(3,140)
Mutual Fund	55	6,723	6,723

Nifty Gainers & Losers 28-Jan	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
Zee Entertainment	373	17.2	121.3
Bharti Infra	287	2.7	8.3
Coal India	225	1.9	3.9
Losers			
Adani Ports	326	(12.8)	15.2
Indiabulls	699	(6.1)	5.6
Yes Bank	208	(5.5)	58.0

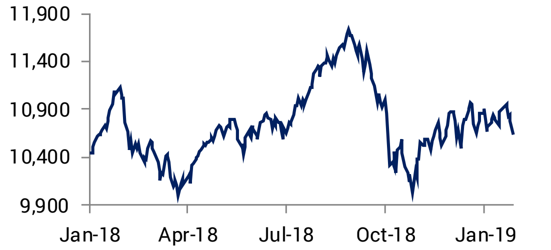
Advances / Declines (BSE)

28-Jan	A	B	T	Total	% total
Advances	95	172	28	295	100
Declines	333	871	70	1,274	432
Unchanged	2	18	14	34	12

Commodity		% Chg		
	28-Jan	1 Day	1 Mth	3 Mths
Crude (US$/BBL)	60.0	0.2	15.0	(22.4)
Gold (US$/OZ)	1,303.4	0.0	1.8	6.1
Silver (US$/OZ)	15.7	(0.0)	2.5	9.1

Debt / forex market	28-Jan	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.3	7.3	7.4	7.9
Re/US$	71.1	71.2	69.9	73.4

Nifty



Source: Bloomberg

News Highlights

- The government has kept the stake that it holds in various listed companies through the Specified Undertaking of Unit Trust of India (SUUTI) as an emergency option in its disinvestment plans, and will only offload a part of the stake in the remainder of 2018-19 if there is any shortfall from the Rs 800 bn target. (BS)
- After being through the various structural changes and demand pressures over the past two years, the real estate sector is expecting the upcoming Interim Union Budget for 2019-20 to rationalise the Goods & Services Tax (GST) rates for under-construction properties, further incentives for affordable housing, and convergence of stamp duties within the GST rates. (ET)
- At a time when there is controversy surrounding the listing of ONGC Videsh Ltd (OVL), the fully-owned overseas arm of **Oil and Natural Gas Corporation (ONGC),** Union Petroleum Minister Dharmendra Pradhan has said there is no such proposal before his ministry. (BS)
- **Jet Airways** is seeking shareholders' nod to convert its debt into equity, appoint bank nominees on the board and increase the authorised share capital of the company to enable the issue of fresh preference shares. (BS)
- **Tata Steel** announced it has signed a definitive agreement with China's HBIS Group to sell 70% stake in its Southeast Asia operations for a cash consideration of $327 mn. (BS)
- **Piramal Enterprises,** with Dutch partner APG Asset Management, has an exposure of Rs 2.25 bn to Essel Infraprojects, the infrastructure arm of Essel Group. (BS)
- **Bharti Airtel** is looking to consolidate its position as the market leader or emerge as a strong number 2 in 14 African nations, where the company has a presence, via inorganic growth by going for buyouts and mergers. (BS)
- **Ultratech** pumped in additional Rs 2 bn in 18 months to bring its Jaypee acquisition on par. (BS)
- **ITI** has received the go-ahead from the Securities & Exchange Board of India (Sebi) to float a follow on public offer (FPO), a move that will help the telecom PSU meet the minimum 25% public shareholding norm. (ET)
- **Persistent Systems** board approved buyback of up to 3 mn shares or 3.75% equity at maximum price not exceeding Rs 750 per share aggregating to Rs 2.25 bn. (BSE)
- **Power Grid Corporation of India** announced that POWERGRID NM Transmission, a wholly owned subsidiary of the company, secured through Tariff Based Competitive Bidding (TBCB) has successfully commissioned the Salem-Madhugiri 765 kV, S/C transmission line on 26 January 2019. (BS)

What's Inside

- **Initiating Coverage:** Pharma Sector – Divi's Laboratories, Dishman Carbogen Amics Limited; Suven Life Sciences
- **Result Update:** Genus Power Ltd, CDSL, Wonderla Holidays Ltd, Persistent Systems

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

Initiating Coverage

SECTOR REPORT: PHARMACEUTICALS

Sector Details

Nifty Pharma Index		
Mkt cap (Rs bn)	:	5,642
52-wk Hi/Lo (Rs)	:	10786 / 7900
No.of members	:	10
NSE Pharma Index Value		8,664
Pharma weight in Nifty (%)	:	2.36

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	6M	1Y	2Y	3Y
NSE Pharma Index	(4.1)	(10.9)	(16.4)	(24.3)
S&P BSE Pharma Index	(2.6)	(9.1)	(8.8)	(14.1)
Nifty	(5.5)	(3.7)	23.4	43.6
Sensex	(4.5)	(1.1)	27.9	45.7
Piramal Enterprise	(18.2)	(21.2)	27.0	125.9
Sun Pharma	(26.1)	(29.0)	(35.7)	(50.6)
Cipla	(22.6)	(20.8)	(15.2)	(14.8)
Dr Reddy's Labs	26.0	4.7	(12.3)	(12.8)
Lupin	6.1	(8.9)	(42.0)	(49.3)
Cadila Healthcare	(10.5)	(20.0)	(7.8)	11.8
Biocon	10.7	6.8	91.0	295.6
Divi Labs	33.6	31.5	108.0	30.5
Aurobindo	27.8	18.1	5.9	(6.6)
Glenmark	10.3	(0.4)	(29.7)	(15.9)
DCAL	(20.5)	(45.0)	(40.1)	(40.1)
Suven Life Science	(18.6)	(13.2)	5.5	(15.2)

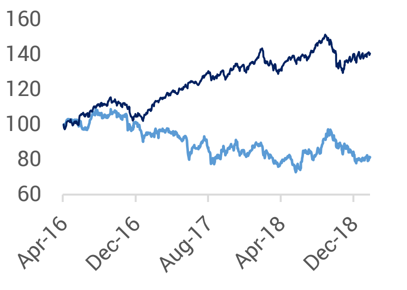
Source: Company, Kotak Securities - PCG

Index Performance (%)

(%)	1M	3M	6M
NSE Pharma Index	(1.7)	(5.0)	(4.1)
Nifty	(1.8)	6.3	(5.5)

Source: Bloomberg

Relative to Nifty



Source: Bloomberg

Global Pharma spend to grow at 3-6% CAGR over 2018-22E: Global Pharmacuetical spend amounted to USD1,135 bn in 2017 and the same is expected to increase to USD 1,415-1,445 bn by 2022E. Top 20 pharma players accounted for USD 518 bn of sales in 2017 which is forecast to increase to USD 624 bn by 2024E. This growth, driven primarily by the large number of new medicines, many of which will be specialty and orphan drugs, will be offset by the impact of losses of brand exclusivity.

Focus on Reaserch and Development reamins strong: The overall R&D spend of the top twenty players is expected to increase at 2.5% CAGR (2018-2024E) from USD 98bn in 2017 to USD 116.5bn in 2024E. The R&D spend by the top twenty players is expected to remain healthy at ~21.4% of revenue in 2024E (vs. 21.5% of revenue in 2017).

Shift in focus by Innovators: In terms of small molecules approvals, the focus has shifted towards priority approvals (accounting for 75% of approvals in 2018 vs. 28% in 2013). Moreover, the industry players are incorporating more biologics in their portfolios as evidenced by the proportion of biologic approvals increasing from 14% in 2013 to 27% in 2018. This shift is forecasted to amplify in the next decade with small molecules and biologics expected to garner equal number of FDA approvals in ten years.

Generics to see consolidation on the aisle: The limited patent expiry on the horizon over the next few years coupled with the high number of new Chinese players entering the market will ensure that strong competition remains in the generic space. Many larger players have started exiting few product ranges and segments. We anticipate this to lead to major consolidations considering the competition and reducing pie along with lower profitability. Growth in the generic segment is expected to remain stable at 5% CAGR (2018-2024E) as against 4.5% in the previous seven year period.

Contract Research and Manufacturing (CRAMS) offers growth opportunity: With the research and development spend slated to remain healthy going forward, the CRAMS space is expected to benefit. The total size of the Small molecule contract research market is estimated at ~USD 25-35 bn while the biologics outsourcing market is valued at ~USD 11-12bn. The number of molecules advancing to the next phase of clinical trials have increased over the past five years. The CRAMS market is fragmented with large scope for Indian companies to capitalize and establish themselves as strong players.

Initiating Coverage on DIVIs, DCAL and Suven: Analysis of global players PE based valuations indicates earnings trading at 16x-18x FY21E while Indian players are available at attractive valuations. Divi's and DCAL are expected to report greater than 30% EPS growth while Suven is expected to report 18% growth in earnings. The scale of business, the market positioning of Divis and DCAL offers an investment opportunity for the investors to garner the advantage of being in the CRAMS space. The distinct new drug development business coupled with consistent Core CRAMS segment of the company makes investing in Suven a prudent decision.

Cyndrella Carvalho
cyndrella.carvalho@kotak.com
+91 22 6218 6426

Ledo Padinjarathala, CFA
ledo.padinjarathala@kotak.com
+91 22 6218 7021

Table 1: Valuation

Company	CMP	MCap (Rs bn)	Target Price	Upside (%)	EPS (Rs) FY18	EPS (Rs) FY21E	CAGR (%)	PER (x) FY18	PER (x) FY21E
Divis	1473	391.2	1750	18.8	33.0	75.5	31.7	33.0	19.5
DCAL	211	34.0	450	113.3	9.6	23.8	35.4	33.5	8.9
Suven	187	23.8	425	119.1	9.7	16.1	18.3	17.2	11.6

Source: Kotak Securities – Private Client Research kotak Securities

Initiating Coverage

DIVI'S LABORATORIES LTD

PRICE RS.1473 TARGET RS.1750 BUY

Stock Details

Market cap (Rs mn)	:	391155
52-wk Hi/Lo (Rs)	:	1578 / 978
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	1,140,077
Shares o/s (mn)	:	265

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	39,128	46,624	56,080
Growth (%)	(4.7)	19.2	20.3
EBITDA	12,617	17,229	21,855
EBITDA Margin (%)	32.2	37.0	39.0
Net Profit	8,770	13,263	16,461
EPS (Rs)	33.0	50.0	62.0
Growth (%)	(17.3)	51.2	24.1
BVPS (Rs)	223.2	221.5	254.5
DPS (Rs)	24.0	24.0	25.0
ROE (%)	15.5	22.5	26.1
ROCE (%)	21.0	28.1	33.2
P/E (x)	33.0	29.5	23.8
EV/EBITDA (x)	13.1	9.7	7.4
P/BV (x)	4.9	6.6	5.8

Source: Company

Shareholding Pattern (%)

(%)	Dec-18	Sep-18	Jun-18
Promoters	52.0	52.0	52.0
FII	20.0	17.2	18.4
DII	15.0	17.2	16.3
Others	13.0	13.7	13.4

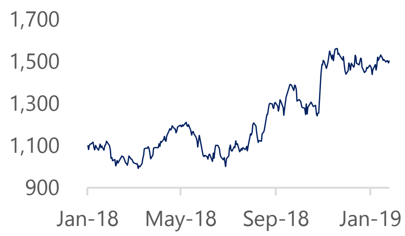
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Divis Lab	0.4	17.3	33.6
Nifty	(1.8)	6.3	(5.5)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Cyndrella Carvalho
cyndrella.carvalho@kotak.com
+91 22 6218 6426

Ledo Padinjarathala, CFA
ledo.padinjarathala@kotak.com
+91 22 6218 7021

Divis is a research focused manufacturing firm with an ideal mix of generic API and CRAMS segment. Company has strong free cash flow generating business and efficient asset turnovers. Company has recently announced a mega capex plan of Rs 12 bn over coming 2-3 years. It has set a record in the pharma industry by clearing its import alert last year within 10 months' time. Company has built strong long standing relationships with innovator MNCs globally which also helped during the import alert phase to sustain many contracts. The company has gained good traction in nutraceutical space after a decade almost and the growth trajectory is looking very strong going ahead.

Well balanced Business Mix – Company derives 55% of revenues from generic APIS and Nutraceuticals manufacturing and remaining from custom synthesis for global innovator companies. This mix has been almost equally divided over last few years and expected to grow upwards of 20% CAGR over coming two to three years. The top three products in generic API contributed close to 30% of overall sales in FY18. The custom synthesis business is expected to grow faster than the generic space however in the near-term due to China situation. The company is preparing itself to exploit certain generic API space to its advantage meaningfully.

Huge Capex Plan ensures growth upwards of 25% CAGR over FY19E to FY21E – Company has recently announced capex of Rs 12 bn which includes earlier announced capex of Rs 4 bn. This capex according to our analysis ensures growth upwards 25% over coming 2-3 years, as we look at healthy asset turnover reflected by company in past years of closer to 2x.

Pricing advantage and growth in the mature API: Top 5 products continue to be 46% of its sales which according to our analysis include 3 products from generic space and two from custom synthesis. We believe China pollution scenario has led to some price increase for these mature products in the industry and certain more generic opportunity. The company uses its strength of batch manufacturing in case of mature products which enable it to command a higher market share globally.

Balance sheet to strengthen further: Divi's Balancesheet has remained strong owing to the strong cash generating capabilities of the company. The total assets of the company as at 31Mar18 is reported at Rs. 67.8 bn and the same is expected to expand to Rs. 91.9 bn as at 31Mar21E mainly driven by the expansion plan of Rs. 12 bn on the anvil. Divi's also maintains a strong liquidity position as ascertained from the high short term investments (31Mar18: Rs. 18.9 bn) which is forecasted to grow further to Rs. 24.5 bn as at 31Mar21E.

Rich Valuation to get richer: We believe the key strength of the company is the management's strong research background coupled with robust execution with strong relations with global MNC. This makes the company one of its kind in Indian CRAMs space and very attractive from business prospect and investment angle. ROIC of the company stay close to 40% and the ROCE on average are above 30%. Looking at the balance sheet which hold 30% of assets in Cash we have separated the core business from the cash from a valuation perspective. We are valuing the stock at 25x FY21E at core EPS of Rs 67 equating to Rs 1640. Accounting for the cash on the books we add back the same (Rs.110) to arrive at the target price of Rs 1750 over 12 month horizon.

Key Risk to our assumptions – 1) USFDA compliance 2) Product concentration

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Net sales	**39,128**	**46,624**	**56,080**	**67,363**
Growth (%)	(4.7)	19.2	20.3	20.1
Operating expenses	(26,511)	(29,395)	(34,226)	(40,688)
Operating profit	12,617	17,229	21,855	26,675
Other operating income	0	0	0	0
EBITDA	**12,617**	**17,229**	**21,855**	**26,675**
Growth (%)	(12.7)	36.6	26.8	22.1
Depreciation	(1,425)	(1,618)	(1,905)	(2,287)
Other income	1,134	1,753	2,024	2,350
EBIT	**12,327**	**17,364**	**21,974**	**26,738**
Finance cost	(13)	(27)	(27)	(27)
Exceptional & extraordinary	0	0	0	0
Profit before tax	12,313	17,337	21,947	26,711
Tax (current + deferred)	(3,543)	(4,074)	(5,487)	(6,678)
P / L form discontinuing operations	0	0	0	0
Profit / (Loss) for the period	8,770	13,263	16,461	20,033
P/L of Associates, Min Int, Pref Div	0	0	0	0
Reported Profit / (Loss)	**8,770**	**13,263**	**16,461**	**20,033**
Adjusted net profit	8,770	13,263	16,461	20,033
Growth (%)	(17.3)	51.2	24.1	21.7

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Share capital	531	531	531	531
Reserves & surplus	58,717	58,279	67,028	79,349
Shareholders' funds	59,248	58,810	67,559	79,880
Minority Interests and others	0	0	0	0
Non-current liabilities	2,066	2,251	2,491	2,758
Long-term borrowings	0	0	0	0
Other non-current liabilities	2,066	2,251	2,491	2,758
Current liabilities	6,507	6,692	7,919	9,257
ST borrowings, Curr maturity	631	669	709	752
Other current liabilities	5,876	6,023	7,210	8,505
Total (Equity and Liabilities)	**67,821**	**67,753**	**77,969**	**91,895**
Non-current assets	22,470	24,126	28,302	33,640
Fixed assets (Net block)	21,160	23,252	27,471	32,851
Non-current Investments	0	0	0	0
Long-term loans and advances	390	0	0	0
Other non-current assets	920	874	830	789
Current assets	45,351	43,628	49,668	58,255
Cash & current investment	20,017	18,638	22,271	29,250
Other current assets	25,334	24,990	27,397	29,004
Total (Assets)	**67,821**	**67,753**	**77,969**	**91,895**
Total debt	631	669	709	752
Capital employed	61,945	61,731	70,759	83,390

Source: Company, Kotak Securities – Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit before tax	12,313	17,337	21,947	26,711
Depreciation	1,425	1,618	1,905	2,287
Change in working capital	(2,687)	484	(1,190)	(278)
Total tax paid	(2,855)	(3,883)	(5,276)	(6,446)
Others	13	27	27	27
Cash flow from oper. (a)	**8,209**	**15,584**	**17,413**	**22,302**
Capital expenditure	(2,561)	(3,319)	(6,124)	(7,667)
Change in investments	(2,586)	1,889	(3,401)	(4,081)
Others	111	46	44	42
Cash flow from inv. (b)	**(5,036)**	**(1,384)**	**(9,481)**	**(11,707)**
Free cash flow (a+b)	3,173	14,200	7,931	10,595
Equity raised/ (repaid)	0	0	0	0
Debt raised/ (repaid)	274	38	40	43
Dividend (incl. tax)	(7,403)	(7,403)	(7,712)	(7,712)
Others	4,294	(6,324)	(27)	(27)
Cash flow from fin. (c)	**(2,836)**	**(13,690)**	**(7,699)**	**(7,696)**
Net chg in cash (a+b+c)	338	510	232	2,899

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY18	FY19E	FY20E	FY21E
Adjusted EPS (Rs)	33.0	50.0	62.0	75.5
Growth	(17.3)	51.2	24.1	21.7
CEPS (Rs)	38.4	56.1	69.2	84.1
Book NAV/share (Rs)	223.2	221.5	254.5	300.9
Dividend/share (Rs)	24.0	24.0	25.0	25.0
Dividend payout ratio	84.4	55.8	46.9	38.5
EBITDA margin	32.2	37.0	39.0	39.6
EBIT margin	31.5	37.2	39.2	39.7
Tax rate	28.8	23.5	25.0	25.0
RoCE	21.0	28.1	33.2	34.7
Total debt/Equity (x)	0.0	0.0	0.0	0.0
Net debt/Equity (x)	(0.3)	(0.3)	(0.3)	(0.4)
Du Pont Analysis - ROE				
Net margin	22.4	28.4	29.4	29.7
Asset turnover (x)	0.6	0.7	0.8	0.8
Leverage factor (x)	1.1	1.1	1.2	1.2
Return on equity	15.5	22.5	26.1	27.2
PER	33.0	29.5	23.8	19.5
PCE	28.4	19.4	15.8	13.0
Price/Book	4.9	6.6	5.8	4.9
Yield (%)	3.5	3.5	3.6	3.6
EV/EBITDA	13.1	9.7	7.4	5.8

Source: Company, Kotak Securities – Private Client Research

Initiating Coverage

DISHMAN CARBOGEN AMICS LIMITED (DCAL)

PRICE RS.211 **TARGET RS.450** **BUY**

Stock Details

Market cap (Rs mn)	:	34014
52-wk Hi/Lo (Rs)	:	391 / 200
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	105,201
Shares o/s (mn)	:	161

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	16,527	18,716	21,333
Growth (%)	1.2	13.2	14.0
EBITDA	4,453	5,280	6,450
EBITDA Margin (%)	26.3	27.6	29.7
Net Profit	1,546	2,386	3,162
EPS (Rs)	9.6	14.8	19.6
Growth (%)	6.3	54.3	32.6
BVPS (Rs)	311	324	342
DPS (Rs)	0.7	1.1	1.5
ROE (%)	3.1	4.7	5.9
ROCE (%)	4.3	5.5	7.1
P/E (x)	33.5	14.3	10.8
EV/EBITDA (x)	4.6	3.8	7.0
P/BV (x)	1.0	0.7	0.6

Source: Company

Shareholding Pattern (%)

(%)	Dec-18	Sep-18	Jun-18
Promoters	61.4	61.4	61.4
FII	7.4	7.7	9.4
DII	13.0	11.9	11.3
Others	18.1	19.0	17.9

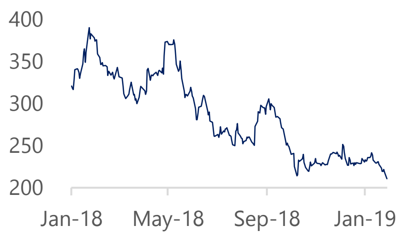
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Dishman	(10.2)	(6.7)	(20.5)
Nifty	(1.8)	6.3	(5.5)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Cyndrella Carvalho
cyndrella.carvalho@kotak.com
+91 22 6218 6426

Ledo Padinjarathala, CFA
ledo.padinjarathala@kotak.com
+91 22 6218 7021

Dishman Pharma is one of the global leaders in CRAMS pharmaceuticals space. The global R&D contracting benefits could be availed by focusing on DCAL business from Indian perspective. DCAL's oncology focused portfolio of R & D projects further adds to the investment attractiveness. Carbogen Amcis helps acquire and engage global R&D partners at early stage and enables company to offer sustained supplies using support from India and China operations. Company has achieved a significant operational efficiency in recent past by reducing focus on low yielding businesses like Vitamin D and marketable molecules. Sales growth was slower at 3% CAGR over FY15-18 which we expect to accelerate at 13% CAGR over FY18-20E given the traction in the R&D projects globally along with strong project pipeline. The margins of the company have improved meaningfully from 20% in FY15 to 26% in FY18.

CRAMS the strong strength with impressive late phase pipeline – CRAMS contributed to 76% of revenues in FY18 while remaining came from marketable molecules. CRAMS business has been the growth (5% CAGR) and margin (at 85% of total EBITDA FY18) driver for the company over FY15-18. Company's current development pipeline has 35-37 products in phase III out of which 15-17 are in late phase III. The order book presently stands at USD 95 mn. The highest concentration of the existing developmental pipeline is focused on oncology molecules (60% of overall 450 projects on hand presently).

Capacity utilization to add further operating leverage - Company has invested nearly Rs 300 mn in lab scale expansion at Carbogen Amcis to address urgent capacity constraint (running at 90-95% utilization). The management has decided to add the China facility under Carbogen Amcis to fully exploit partners manufacturing needs/demands and aims to make it USFDA approved soon (expect to have USFDA audit by 4QFY19). Indian facilities also to support operating leverage given the strong order book. The HiPo unit at Bavla is also expected to start operations at its remaining two units (Gamma & delta) by FY20.

Debt reduction key focus - Current gross debt on consolidated basis stands at Rs 9.2 bn and net debt at 7.5bn. Dishman has managed to achieve lower interest rate by conversion of rupee debt to foreign currency debt. As the cost of debt has gone down significantly, we expect the debt to be serviced rather than any early repayment given the lower cost.

Outlook and Valuation - We appreciate company's efforts to revive core margins despite flat revenues for almost last two years. Company's long term focus remains on turning the CMO holistic with addition of formulation technology and moving to add some own HiPO APIs. We believe that with strong pipeline of 15-17 late phase III projects and 20 in early phase III we expect strong earnings growth coupled with further margins improvement. Company's vision 2020, which would include listing of the Carbogen Amics business internationally (either Swiss or US) with the listing process expected to take some shape latest by 4QFY20E. We are looking at the ongoing business based on current pipeline and any new addition to add further value to the business. Valuing the company at 12x FY21E core EPS of Rs 28 and adding the pipeline value considering at-least 20% of late phase three over 4-5 years going commercial at Rs 100. Enabling us with a target price at Rs 450. At CMP of Rs 211, the stock trades at 11x FY19E core EPS of Rs 19 and 8x FY21E core EPS of Rs 28.

Key Risk to our assumptions – 1) USFDA compliance 2) R&D pipeline growth and focus on Oncology

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Net sales	**16,527**	**18,716**	**21,333**	**24,486**
Growth (%)	1.2	13.2	14.0	14.8
Operating expenses	(12,494)	(13,836)	(15,282)	(17,428)
Operating profit	4,033	4,880	6,050	7,058
Other operating income	421	400	400	400
EBITDA	**4,453**	**5,280**	**6,450**	**7,458**
Growth (%)	(1.8)	18.6	22.2	15.6
Depreciation	(2,114)	(2,135)	(2,157)	(2,178)
Other income	457	575	594	615
EBIT	**2,796**	**3,720**	**4,888**	**5,895**
Finance cost	(488)	(539)	(614)	(705)
Exceptional & extraordinary	0	0	0	0
Profit before tax	2,308	3,181	4,274	5,190
Tax (current + deferred)	(762)	(795)	(1,111)	(1,349)
P / L form discontinuing operations	0	0	0	0
Profit / (Loss) for the period	1,546	2,386	3,162	3,841
P/L of Associates, Min Int, Pref Div	0	0	0	0
Reported Profit / (Loss)	**1,546**	**2,386**	**3,162**	**3,841**
Adjusted net profit	1,546	2,386	3,162	3,841
Growth (%)	6.3	54.3	32.6	21

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Share capital	323	323	323	323
Reserves & surplus	50,751	52,916	55,794	59,289
Shareholders' funds	51,073	53,239	56,117	59,612
Minority Interests and others	0	0	0	0
Non-current liabilities	9,520	9,665	9,887	10,204
Long-term borrowings	5,250	4,987	4,738	4,501
Other non-current liabilities	4,271	4,677	5,150	5,703
Current liabilities	11,171	11,505	12,769	14,121
ST borrowings, Curr maturity	6,804	4,012	4,092	4,174
Other current liabilities	4,368	7,494	8,677	9,947
Total (Equity and Liabilities)	**71,765**	**74,409**	**78,774**	**83,937**
Non-current assets	56,303	57,729	59,983	60,762
Fixed assets (Net block)	16,836	17,603	18,971	18,897
Non-current Investments	1,014	1,065	1,118	1,174
Long-term loans and advances	427	483	551	632
Other non-current assets	38,026	38,578	39,343	40,059
Current assets	15,462	16,680	18,791	23,175
Cash & current investment	1,634	2,109	2,271	4,258
Other current assets	13,827	14,571	16,520	18,917
Total (Assets)	**71,765**	**74,409**	**78,774**	**83,937**
Total debt	9,183	8,724	8,038	7,412
Capital employed	67,397	66,916	70,097	73,990

Source: Company, Kotak Securities – Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit before tax	2,308	3,181	4,274	5,190
Depreciation	2,114	2,135	2,157	2,178
Change in working capital	(2,370)	2,636	(462)	(761)
Total tax paid	695	(624)	(1,010)	(1,243)
Others	488	539	614	705
Cash flow from oper. (a)	**3,236**	**7,867**	**5,573**	**6,069**
Capital expenditure	(2,764)	(2,902)	(3,525)	(2,104)
Change in investments	(1,562)	(51)	(53)	(56)
Others	(831)	(131)	(138)	(145)
Cash flow from inv. (b)	**(5,156)**	**(3,084)**	**(3,716)**	**(2,305)**
Free cash flow (a+b)	(1,921)	4,783	1,857	3,764
Equity raised/ (repaid)	0	0	0	0
Debt raised/ (repaid)	2,556	(3,054)	(169)	(155)
Dividend (incl. tax)	(139)	(215)	(285)	(346)
Others	(680)	(1,039)	(1,242)	(1,277)
Cash flow from fin. (c)	**1,737**	**(4,308)**	**(1,695)**	**(1,777)**
Net chg in cash (a+b+c)	(183)	475	162	1,987

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY18	FY19E	FY20E	FY21E
Adjusted EPS (Rs)	9.6	14.8	19.6	23.8
Growth	6.3	54.3	32.6	21.4
CEPS (Rs)	22.7	28.0	33.0	37.3
Book NAV/share (Rs)	310.9	324.3	342.2	363.8
Dividend/share (Rs)	0.7	1.1	1.5	1.8
Dividend payout ratio	9.0	9.0	9.0	9.0
EBITDA margin	26.3	27.6	29.7	30.5
EBIT margin	16.9	19.9	22.9	24.1
Tax rate	33.0	25.0	26.0	26.0
RoCE	4.3	5.5	7.1	8.2
Total debt/Equity (x)	0.2	0.2	0.2	0.1
Net debt/Equity (x)	0.2	0.1	0.1	0.1
Du Pont Analysis - ROE				
Net margin	9.4	12.7	14.8	15.7
Asset turnover (x)	0.2	0.3	0.3	0.3
Leverage factor (x)	1.4	1.4	1.4	1.4
Return on equity	3.1	4.7	5.9	6.7
PER	33.5	14.3	10.8	8.9
PCE	14.1	11.4	9.7	8.6
Price/Book	1.0	0.7	0.6	0.6
Yield (%)	0.3	0.5	0.6	0.7
EV/EBITDA	4.6	3.8	7.0	5.8

Source: Company, Kotak Securities – Private Client Research

Initiating Coverage

Stock Details

Market cap (Rs mn)	:	23751
52-wk Hi/Lo (Rs)	:	338 / 161
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	360,176
Shares o/s (mn)	:	127

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	6,253	6,377	7,253
Growth (%)	15.0	2.0	13.7
EBITDA	1,982	1,924	2,541
EBITDA Margin (%)	31.7	30.2	35.0
Net Profit	1,237	1,253	1,640
EPS (Rs)	9.7	9.8	12.9
Growth (%)	41.8	1.3	30.9
BVPS (Rs)	59.2	66.1	75.1
DPS (Rs)	2.4	2.5	3.2
ROE (%)	17.4	15.7	18.3
ROCE (%)	25.6	22.4	26.4
P/E (x)	17.2	19.0	14.5
EV/EBITDA (x)	10.1	10.0	7.3
P/BV (x)	2.8	2.8	2.5

Source: Company

Shareholding Pattern (%)

(%)	Dec-18	Sep-18	Jun-18
Promoters	60.0	60.0	60.0
FII	6.1	5.8	4.4
DII	2.4	2.1	2.3
Others	31.5	32.1	33.3

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Suven Life Science	(18.9)	(17.8)	(18.6)
Nifty	(1.8)	6.3	(5.5)

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Cyndrella Carvalho
cyndrella.carvalho@kotak.com
+91 22 6218 6426

Ledo Padinjarathala, CFA
ledo.padinjarathala@kotak.com
+91 22 6218 7021

SUVEN LIFE SCIENCES

PRICE RS.187 **TARGET RS.425** **BUY**

Suven Life Sciences is a research based service provider to global innovator companies by supplying intermediates for New Chemical Entities (NCE) development, which could potentially translate into long-term supplies if the drug is approved. Our analysis highlights that company's earnings have reached a sustainable base (three drugs commercialized over last three years) and will continue to improve on this base going ahead. The company has a strong balance sheet with the support of best management team. It has followed a unique path with the dream of new drug development (via using cash generated from its base CRAMS business) with its own efforts and focus on Alzheimer and central nervous system diseases, an investment opportunity with focused return.

Strong core CRAMS Research business – The CRAMS business is the bread earner for the company and has grown strongly over last three years (CAGR 9 % FY15-18). This business has established a new base with the help of increased number of projects in phase II and Phase I coupled with commercial/ pre-commercial supplies from FY14 onwards. Specialty chemical business segment has also grown at CAGR of 50% (FY12-FY17E). New capacity addition at Vizag plant (1.32bn invested) also provides ample room for any future capacity needs (i.e.3-4 years).

Robust R&D capabilities – The Company spends ~13% of its revenues on the development of its owned research new drug pipeline. The R&D spend has grown with a CAGR of 20% over FY15-18 while revenues grew at 5.6% CAGR (FY15E-18). The entire R&D spend is expensed straight from the P&L. This makes the balance sheet very strong with no capitalized asset risk. The key pipeline from its NCE base includes SUVN502, SUVN 3031, SUVN4010 and SUVN 911.

SUVN 502 – Near-term Monetization Opportunity - SUVN 502 -The molecule is currently in Phase II studies and the company has finished recruiting 563 patients closing the recruitment for phase II trial, taking the phase two trials to final stage of completion. This process can reach to final data output by 2QFY20.If data points turn positive, then this can be a huge opportunity for out-licensing. If out-licensed we expect it could garner an upfront of ~ USD 150-200mn. As the product advances to further development, it will attract milestone payments along with profit sharing depending on the terms of the deal inked.

Currently 5.7 mn people suffer from Alzheimer's disease ("AD") in US and is expected to reach 14 mn people by 2050. The total cost to the nation estimated to add up to USD 277 bn in 2018. Out of this ~USD 60 bn is from out of the pocket. AD is a prominent segment in need of new breakthrough since last two decades.

Valuations – We like Suven for its high margin profile (EBITDA margin of >30% and net margin of ~20%). After a soft FY19, we expect earnings to grow by 25-30% in the next two years. The Company shows steady return ratios of 22-25% ROIC and 18% ROE. We have valued the stock at 18x FY21E core EPS of Rs.19 (excluding the R&D spend) fetching a price of Rs.354. We have added the value of upfront from SUVN 502 and other 4 molecules put together at Rs 71 (i.e. Net Present Value of these molecules). Hence, on an aggregate basis we derive at our target price of Rs.450. There could be upside risk to the price target coming from company's R&D pipeline.

Key Risk to our assumptions – 1) USFDA compliance 2) NCE pipeline uncertainty

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Net sales	**6,253**	**6,377**	**7,253**	**8,422**
Growth (%)	15.0	2.0	13.7	16.1
Operating expenses	(4,271)	(4,453)	(4,711)	(5,266)
Operating profit	1,982	1,924	2,541	3,156
Other operating income	0	0	0	0
EBITDA	**1,982**	**1,924**	**2,541**	**3,156**
Growth (%)	53.5	(2.9)	32.0	24.2
Depreciation	(213)	(232)	(256)	(282)
Other income	233	236	239	278
EBIT	**2,001**	**1,928**	**2,524**	**3,152**
Finance cost	(46)	(58)	(76)	(95)
Exceptional & extradordinary	0	0	0	0
Profit before tax	1,955	1,870	2,448	3,058
Tax (current + deferred)	(718)	(617)	(808)	(1,009)
P / L form discontinuing operations	0	0	0	0
Profit / (Loss) for the period	1,237	1,253	1,640	2,049
P/L of Associates, Min Int, Pref Div	0	0	0	0
Reported Profit / (Loss)	**1,237**	**1,253**	**1,640**	**2,049**
Adjusted net profit	1,237	1,253	1,640	2,049
Growth (%)	41.8	1.3	30.9	25

Source: Company, Kotak Securities – Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit before tax	1,955	1,870	2,448	3,058
Depreciation	213	232	256	282
Change in working capital	(750)	592	(195)	(236)
Total tax paid	(467)	(594)	(782)	(981)
Others	46	58	76	95
Cash flow from oper. (a)	**998**	**2,158**	**1,803**	**2,217**
Capital expenditure	(238)	(998)	(600)	(650)
Change in investments	222	0	0	0
Others	0	0	0	0
Cash flow from inv. (b)	**(16)**	**(998)**	**(600)**	**(650)**
Free cash flow (a+b)	981	1,160	1,203	1,567
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	(445)	(3)	(2)	(2)
Dividend (incl. tax)	(371)	(328)	(485)	(606)
Others	(49)	(58)	(76)	(95)
Cash flow from fin. (c)	**(865)**	**(388)**	**(564)**	**(702)**
Net chg in cash (a+b+c)	117	772	639	865

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Share capital	127	127	127	127
Reserves & surplus	7,547	8,299	9,447	10,881
Shareholders' funds	7,674	8,426	9,574	11,008
Minority Intersts and others	0	0	0	0
Non-current liablities	294	315	343	377
Long-term borrowings	14	11	9	7
Other non-current liabilities	280	304	334	369
Current liabilities	1,168	1,096	1,208	1,309
ST borrowings, Curr maturity	249	249	249	249
Other current liabilities	918	847	958	1,060
Total (Equity and Liabilities)	**9,135**	**9,837**	**11,125**	**12,694**
Non-current assets	3,513	4,158	4,528	4,931
Fixed assets (Net block)	3,325	3,966	4,310	4,678
Non-current Investments	1	1	1	1
Long-term loans and advances	188	191	218	253
Other non-current assets	0	0	0	0
Current assets	5,622	5,679	6,597	7,763
Cash & current investment	2,996	3,767	4,407	5,272
Other current assets	2,627	1,912	2,191	2,491
Total (Assets)	**9,135**	**9,837**	**11,125**	**12,694**
Total debt	263	261	258	257
Capital employed	8,217	8,990	10,167	11,634

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY18	FY19E	FY20E	FY21E
Adjusted EPS (Rs)	9.7	9.8	12.9	16.1
Growth	41.8	1.3	30.9	24.9
CEPS (Rs)	11.4	11.7	14.9	18.3
Book NAV/share (Rs)	59.2	66.1	75.1	86.4
Dividend/share (Rs)	2.4	2.5	3.2	4.0
Dividend payout ratio	30.0	30.0	30.0	30.0
EBITDA margin	31.7	30.2	35.0	37.5
EBIT margin	32.0	30.2	34.8	37.4
Tax rate	36.7	33.0	33.0	33.0
RoCE	25.6	22.4	26.4	28.9
Total debt/Equity (x)	0.0	0.0	0.0	0.0
Net debt/Equity (x)	(0.4)	(0.4)	(0.4)	(0.5)
Du Pont Analysis - ROE				
Net margin	19.8	19.6	22.6	24.3
Asset turnover (x)	0.7	0.7	0.7	0.7
Leverage factor (x)	1.2	1.2	1.2	1.2
Return on equity	17.4	15.7	18.3	19.9
PER	17.2	19.0	14.5	11.6
PCE	14.7	14.3	11.2	9.1
Price/Book	2.8	2.8	2.5	2.2
Yield (%)	1.4	1.4	1.8	2.2
EV/EBITDA	10.1	10.0	7.3	5.6

Source: Company, Kotak Securities – Private Client Research

Result Update

GENUS POWER LIMITED

PRICE RS.30 **TARGET RS.40** **BUY**

Genus reported good numbers on the operational front and reported profits ahead of with estimates.

Outlook on EBITDA margins remains positive as material cost pressure is easing off.

Further, strong order book makes us comfortable on growth in FY19-20.

Key Highlights

- Strong revenue growth on the back of pick-up in execution.
- EBITDA margin expansion of 310 bps on a y-o-y basis led by robust revenue booking coupled with stable material prices and currency movement.
- Order book is up 22% to Rs 14.2 bn (net of GST) on a y-o-y basis.

Valuation and Outlook

The stock is trading at 11.5x and 11x FY19E and FY20E earnings respectively. We value the stock at 14x FY20E and arrive at a price target of Rs 40 (Unchanged). Reiterate BUY due to reasonable valuations, healthy profit growth and adequate upside.

Stock Details

Market cap (Rs mn)	:	7797
52-wk Hi/Lo (Rs)	:	81 / 23
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	331,997
Shares o/s (mn)	:	257.3

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	8,351	10,840	12,320
Growth (%)	30.0	29.8	13.7
EBITDA	930	1,308	1,441
EBITDA margin (%)	11.1	12.1	11.7
PAT	516	699	734
EPS	2.0	2.7	2.9
EPS Growth (%)	(11.0)	35.5	5.0
BV (Rs/share)	29.1	31.4	33.7
Dividend/share (Rs)	0.4	0.4	0.4
ROE (%)	7.1	9.0	8.8
ROCE (%)	12.6	13.9	14.5
P/E (x)	15.6	11.5	11.0
EV/EBITDA (x)	9.9	7.6	6.7
P/BV (x)	1.1	1.0	1.0

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	50.5	50.5	50.5
FII	1.6	1.8	1.9
DII	8.3	9.2	9.4
Others	39.6	38.5	38.3

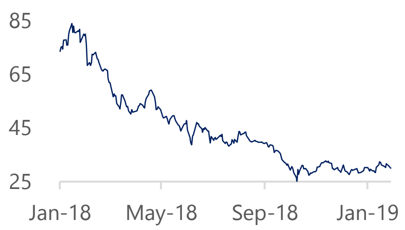
Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Genus Power	(0.2)	7.4	(25.7)
Nifty	(1.7)	6.4	(5.3)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Quarterly performance

(Rs mn)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	**2920.8**	**2001.8**	**46**	**2233.6**	**30.8**
Raw Material Consumed	2016	1610	25	1560	29.2
Stock Adjustment	16.2	-209.3	-108	-15.71	-203.1
Employee Expenses	254.2	213.2	19	232.8	9.2
Other Expenses	251.1	187.2	34	210.8	19.1
Operating expenditure	2538	1801	41	1988	27.6
PBIDT	**383**	**201**	**90**	**245**	**56.1**
Depreciation	51.2	43.3	18	47.2	8.5
Other Income	55.3	75.9	-27	34.4	60.8
EBIT	**387**	**234**	**66**	**233**	**66.5**
Interest	99.9	54	85	73.9	35.2
PBT	**287**	**180**	**60**	**159**	**81.1**
Tax	56.6	47.3	20	34.8	62.9
Reported Profit After Tax	231	132	74	124	86.2
EPS per share	**0.9**	**0.5**		**0.5**	
EBITDA (%)	13.1	10.0		11.0	
Raw material to sales (%)	69.6	70.0		69.2	
Employee costs to sales (%)	8.7	10.7		10.4	
Other expenditure to sales (%)	8.6	9.4		9.4	
Tax rate (%)	19.7	26.3		21.9	

Source: Company

Reported Vs Estimated performance

Rs mn	Reported	Estimated
Revenue	2921	2600
EBITDA (%)	13.1	10.0
PAT	231	132

Source: Kotak Securities – Private Client Research

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6218 6424

Result Highlights

Strong revenue growth

Genus reported strong revenue growth of 46% y-o-y in Q3FY19, led by robust demand for electric meters and aided by healthy order book.

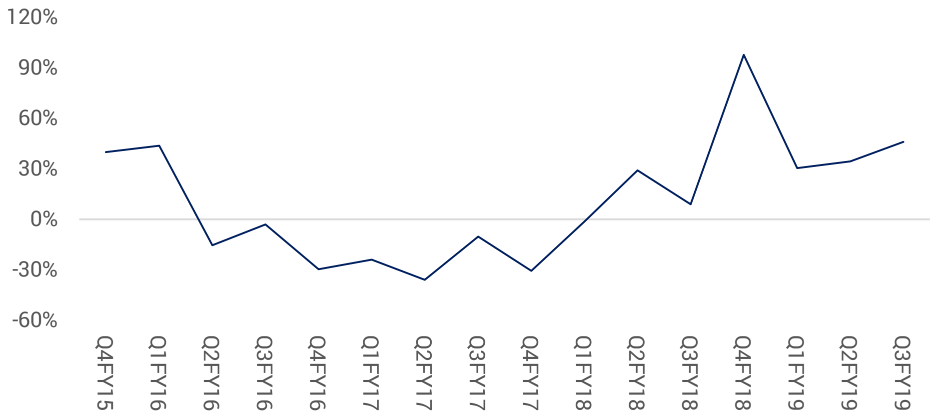
The company noted that its order execution has improved significantly compared to last year which has enhanced its operational efficiencies leading to higher profitability.

The company has started supplies for the first EESL order (Rs 4.5 bn) it received in FY18, which is also aiding revenue growth momentum. It has delivered 0.2 mn smart meters during the quarter.

In terms of revenue mix, revenue from sale of meters stood at Rs 2.75 bn while the balance revenue of Rs 170 mn were contributed by EPC projects.

Exports of meters grew at a good pace and the company has booked export revenue of Rs 530 mn in 9MFY19.

Revenue growth (%)



Source: Company

EBITDA margins higher on strong revenue growth

The company reported healthy expansion in EBITDA margins of 310 bps and 210 bps on a y-o-y and q-o-q basis.

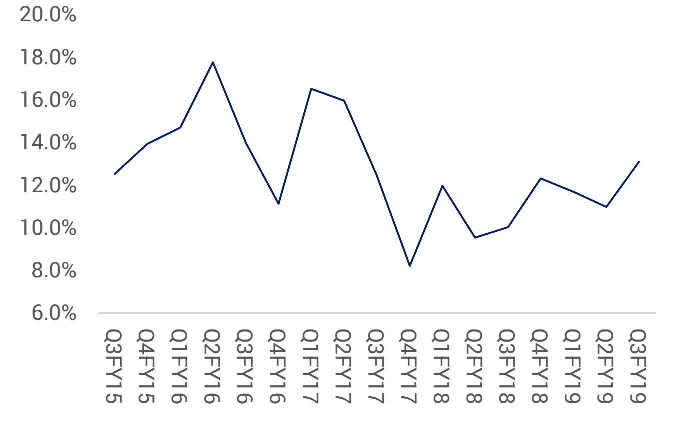
Gross margins have however rose to 30.4% vs 30.0% on a y-o-y basis, which is mainly attributed to cooling down in commodity prices – price of Polycarbonate used in meter casing had gone up sharply in in H1FY19.

The major contributor to margin gains was higher employee productivity as reflected by decrease in employee costs to sales to 8.7% in Q3FY19 as against 10.7% in Q3FY18.

Other expenditure rose at a brisk pace in line with the higher revenue growth.

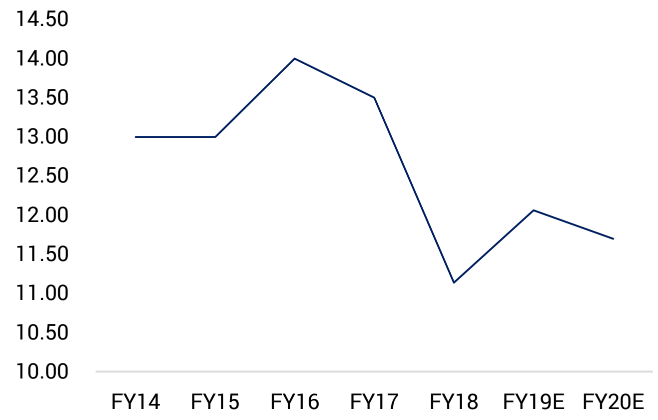
Unrealized MTM forex loss stood at Rs. 11 mn as against a gain of Rs. 7 mn in 9M FY18

Quarterly EBITDA margin (%)



Source: Company

Annual EBITDA margin (%)



Source: Kotak Securities – Private Client Research

Interest cost has gone up

Genus reported increase in interest cost by 85% y-o-y due to combined effect of

- higher revenue growth necessitating higher working capital engagement and
- higher than normal receivables and general increase in cost of borrowing

Strong order book getting stronger

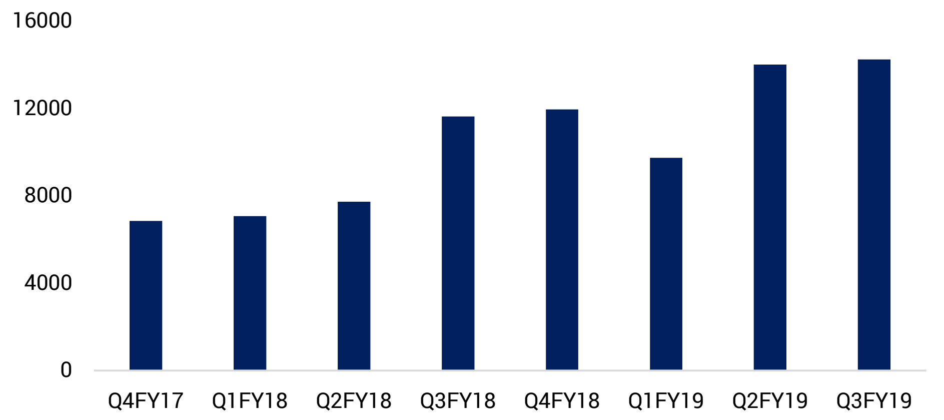
Order book at the end of Q3FY19 stands at Rs 14.2 bn as against Rs 11.6 bn at the end of Q3FY18.

Orders worth Rs 10 bn are to be delivered in the next twelve months.

As far as the order pipeline is concerned, the management noted that it has bid for new tenders worth Rs 12 bn.

The management highlighted that upcoming general elections is unlikely to cause a slowdown in order placement as most of the orders are being placed by state government entities. However, revenue growth could temporarily slow down in Q1FY20 due to bureaucratic attention being diverted to general elections.

Order book (Rs mn)



Source: Company

Conference call highlights

- The company expects to close the fiscal with good growth in revenue. The management is guiding for ~ Rs 11 bn revenue in FY19.
- Order book mix consists of Rs 13.5 bn and Rs 700 mn of meters and EPC orders respectively.
- In the recent EESL tender for supply of 5 mn smart meters, three Chinese companies had emerged lowest bidders. EESL has issued LOIs to these three companies but none of them has submitted performance guarantee so far.
- The management believes that if the USD/INR rate remains stable in the coming quarters, then it can improve upon its margins. It is negotiating with vendors for supply discounts in view of the adverse currency movement. Another factor that can aid margin expansion is that legacy orders (low margins) for supply of meters are now at very low levels.
- The management expects to reach EBITDA margins of 13-14% by the end of the fiscal driven by higher revenue booking and fixed cost absorption.
- The management expects tax rate to remain at 26-27% in FY19.
- Net debt at the end of Q3FY19 stood at Rs 1.0 bn.

Industry Scenario

Demand scenario for smart and prepaid meters remains strong.

- Average level of consumer metering in India is around 89%, with 28 out of 50 Govt. owned Utilities showing more than 90% consumer metering. Large number of consumers are still unmetered, with Electronic Meters or with defective meters, which does not enable proper accounting of energy.
- Government of India has requested states to go for smart/prepaid meters only in place of normal meters and exercise aggregation of quantities to achieve the benefits from economy of scale.
- The demand for smart metering market is set to witness robust growth on account of adoption of automated technologies across energy utilities to ensure load management, loss reduction and better customer service.
- The global market for smart meters is valued at USD 12.8 bn in 2017, and is expected to grow at a CAGR of 9.34% from 2017-2022.

Automated Meter Reading (AMI)/Smart Meters

- AMI systems are used for metering as well as monitoring the energy uses by consumer and its control near real-time meter readings, power outage notification, load disconnection/re-connection and power quality monitoring.
- For allowing different prices for consumption based on the time of day and season, which can be used to reduce peaks in demand.
- AMI/Smart meters can offer benefits to Utilities/consumers including AT&C loss reduction

Prepaid meters

- Prepaid meters require customer to make advance payment before use of electricity. If available credit is exhausted then supply of electricity is disconnected by the relay, which is reconnected only when consumer recharges credit again.
- Prepaid metering of electricity enhances utility revenue and reduces costs in multiple ways: accelerated cash-flow; theft avoidance; bad debt reduction; no cost towards meter reading & billing; lower administrative costs; advance demand planning; and no disconnect/re-connect costs

Earnings Outlook

On the basis of the strong order book, we project strong revenue growth in FY19. We project revenue growth of 21% CAGR over FY18-20E.

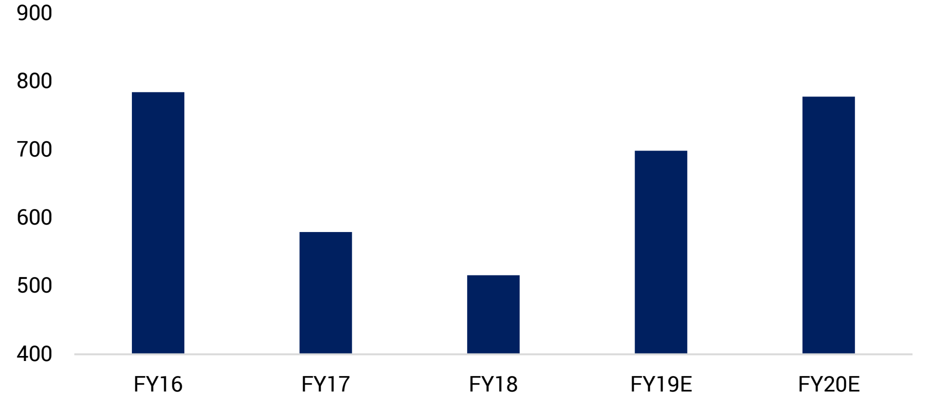
Forecast EPS to grow from Rs 2.0 per share in FY18E to Rs 2.9 per share in FY20E.

Earnings estimates

	FY19E		FY20E	
(Rs mn)	Earlier	Revised	Earlier	Revised
Revenue	10,519.0	10,840.1	11,428.0	12,320.0
EBITDA (%)	11.0	12.1	12.0	11.7
EPS (Rs)	2.4	2.7	2.7	2.9
% change		13.3%		5.8%

Source: Kotak Securities – Private Client Research

PAT (Rs mn)

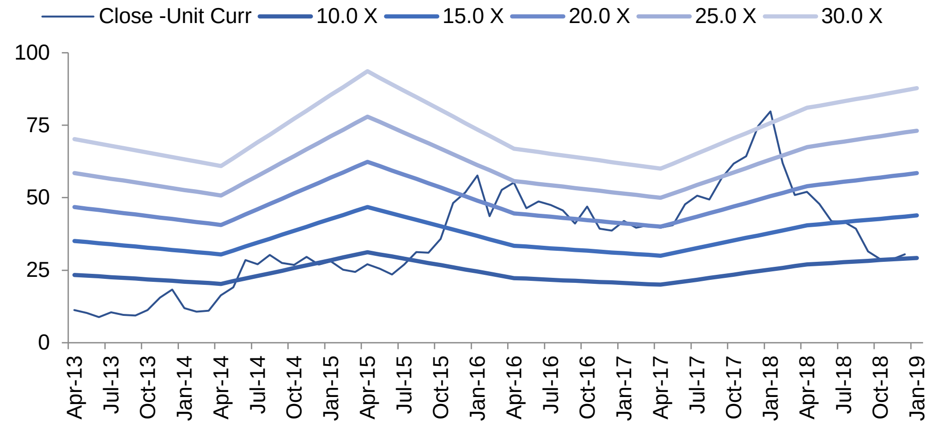


Source: Company, Kotak Securities – Private Client Research

Valuations

The stock is trading at 11.5x and 11x FY19E and FY20E earnings respectively. We value the stock at 14x FY20E and arrive at a price target of Rs 40 (Unchanged). Reiterate BUY due to reasonable valuations, healthy profit growth and adequate upside.

PE Chart



Source: Company, Kotak Securities – Private Client Research

Company Background

Genus is the flagship company of the USD 400 million Kailash group. The company primarily manufactures and distributes Electric meters (EMs)and hybrid microcircuits as well as executes power distribution management projects in India and across the world. It manufactures the entire range of EMs, ie from transformer meters to household and industrial meters. The company also has a rich clientele that includes the state electricity boards (SEBs) as well as private utility firms like Reliance Energy, the Torrent Group, Tata Power and JSW Energy.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**6,424**	**8,351**	**10,840**	**12,320**
% change yoy	(25.1)	30.0	29.8	13.7
EBITDA	**866**	**930**	**1,308**	**1,441**
% change yoy	(30.3)	7.4	40.6	10.2
Depreciation	153	171	190	210
EBIT	**712**	**759**	**1,118**	**1,231**
% change yoy	(35.4)	6.5	47.3	10.1
Net Interest	249	228	352	373
Other Income	240	220	142	160
Earnings Before Tax	704	751	908	1,019
% change yoy	(26.3)	6.7	20.9	12.2
Tax	125	235	209	285
as % of EBT	17.7	31.3	23.1	28.0
Net Income adj	579	516	699	734
% change yoy	(23.9)	(11.0)	35.5	5.0
Exceptional items	0.0	0.0	0.0	0.0
Reported Net Income	579	516	699	734
Shares outstanding (m)	257	257	257	257
EPS (Rs)	**2.3**	**2.0**	**2.7**	**2.9**
DPS (Rs)	0.4	0.4	0.4	0.4
CEPS	2.9	2.7	3.5	3.7

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	568	377	204	895
Accounts receivable	3,305	5,083	6,237	6,751
Stocks	1,160	1,956	2,524	2,869
Loans and Advances	-	-	-	-
Others	61	102	102	102
Current Assets	5,094	7,518	9,067	10,617
LT investments	3,242	3,083	3,082	3,082
Net fixed assets	1,620	1,655	1,715	1,775
Intangible assets	16	12	12	12
Deferred tax assets	459	367	367	367
CWIP	-	19	19	19
Other non current assets	385	563	563	563
Total Assets	**10,815**	**13,216**	**14,825**	**16,435**
Payables	942	2,497	3,000	3,500
Provisions	31	104	104	104
Current liabilities	973	2,601	3,104	3,604
LT debt	2,199	2,377	2,911	3,411
Other liabilities	598	735	735	735
Equity & reserves	7,045	7,485	8,060	8,670
Total Liabilities	**10,815**	**13,216**	**14,825**	**16,435**
BVPS (Rs)	27.4	29.1	31.4	33.7

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	866	930	1,308	1,441
Tax and adjustments	(232)	126	(209)	(285)
Cash flow from operations	634	1,056	1,098	1,156
Net Change in Working Capital	471	(1,061)	(1,218)	(359)
Net Cash from Operations	**1,105**	**(4)**	**(120)**	**797**
Capital Expenditure	(351)	(260)	(250)	(270)
Cash from investing	(593)	201	142	160
Net Cash from Investing	**(944)**	**(59)**	**(108)**	**(110)**
Interest paid	(249)	(228)	(352)	(373)
Issue of Shares	0	0	-	-
Dividends Paid	(108)	(108)	(127)	(123)
Debt Raised	(128)	178	534	500
Net cash from financing	**(484)**	**(158)**	**55**	**4**
Net change in cash	(323)	(221)	(173)	691
Free cash flow	754	(264)	(370)	527
cash at end	568	377	204	895

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	13.5	11.1	12.1	11.7
EBIT margin (%)	11.1	9.1	10.3	10.0
Net profit margin (%)	9.0	6.2	6.4	6.0
Adjusted EPS growth (%)	(23.9)	(11.0)	35.5	5.0
Receivables (days)	187.8	222.2	210.0	200.0
Inventory (days)	65.9	85.5	85.0	85.0
Sales / Net Fixed Assets (x)	4.0	5.0	6.3	6.9
ROE (%)	8.5	7.1	9.0	8.8
ROCE (%)	11.8	12.6	13.9	14.5
EV/ Sales	1.4	1.1	0.9	0.8
EV/EBITDA	10.2	9.9	7.6	6.7
Price to earnings (P/E)	13.9	15.6	11.5	11.0
Price to book value (P/B)	1.2	1.1	1.0	1.0
Price to cash earnings	11.0	11.7	9.1	8.5

Source: Company, Kotak Securities – Private Client Research

Result Update

CDSL

PRICE RS.226 **TARGET RS.285** **BUY**

Central Depository Services (CDSL) 3QFY19 operating performance was below our estimates, due to weak market conditions and sharp fall in primary market activities. Besides this, an increase in employee cost and other expenses also led to underperformance.

Key Highlights

- Central Depository Services (CDSL) has reported lower than estimated EBITDA in 3QFY19, which declined 13%/20.4% YoY/QoQ to Rs272 mn, with an EBITDA margin of 58.9%, down 220bps/540bps YoY/QoQ, due to lower contribution from KYC/online data related segment, transaction charges, decline in primary market activities and higher costs.
- However, the PAT was higher than estimates, due to higher than expected other income (MTM gain of Rs70 mn) and lower tax rate (19.2%). The company reported PAT of Rs328mn, up 29.3%/4.4% YoY/QoQ.
- CDSL continues to focus on increasing DPs with net beneficial owner accounts increased to 16.7 mn from 16 mn in 2QFY19, with an incremental market share of 63%. Overall market share improved at the end of 3QFY19 stood at 48%.

Valuation & outlook

Factoring 3QFY19 and 9MFY19 performance, we have revised our earnings estimates downwards for FY19E and FY20E to Rs9.8 (earlier Rs10.2) and Rs10.6 (earlier Rs11), respectively. We continue to maintain our positive view on CDSL's business model, having an annuity based revenue stream, new growth avenues of Insurance & Academics, fixed operating costs, robust cash flow generation coupled with a strong balance sheet and stable dividend policy. We reiterate our BUY rating with a revised target price of Rs285 (earlier Rs290). At CMP, the stock is trading at 23.2x/21.3x FY19E/FY20E earnings.

Quarterly performance table

Particulars (Rs Mn)	3QFY19	3QFY18	% YoY	2QFY19	% QoQ
Revenue	**462**	**511**	**(9.7)**	**531**	**(13.1)**
Employee Expenses	79	71	11.0	84	(5.7)
Other Expenses	126	103	22.7	85	47.5
Total Expenses	190	199		190	
EBITDA	**272**	**312**	**(13.0)**	**342**	**(20.4)**
EBITDA Margin (%)	58.9	61.1		64.3	
Depreciation	26	18	39.9	22	16.3
EBIT	**246**	**294**	**(16.3)**	**319**	**(23.0)**
Interest	0	0		0	
Other Income	161	59	171.1	97	64.8
Exceptional Items	0	0		0	
PBT	**406**	**353**	**15.1**	**417**	**(2.5)**
Tax	78	99	(21.3)	102	(23.6)
ETR (%)	19.2	28.1		24.5	
PAT	**328**	**254**	**29.3**	**315**	**4.4**

Source: Company, Kotak Securities – Private Client Research

Stock Details

Market cap (Rs mn)	:	23,735
52-wk Hi/Lo (Rs)	:	352 / 205
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	270,695
Shares o/s (m)	:	105

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	1,910	1,930	2,076
Growth (%)	30.8	1.0	7.6
EBITDA	1,137	1,094	1,187
EBITDA margin (%)	59.5%	56.7%	57.2%
PAT	1,032	1,020	1,110
EPS	9.9	9.8	10.6
EPS Growth (%)	20.3	-1.2	8.9
BV (Rs/share)	57	63	70
Dividend/share (Rs)	3.5	3.9	4.3
ROE (%)	17.2	15.4	15.3
ROCE (%)	17.8	15.1	14.7
P/E (x)	22.9	23.2	21.3
EV/EBITDA (x)	15.9	15.8	14.1
P/BV (x)	3.9	3.6	3.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	24.0	24.0	24.0
FII	1.6	2.2	2.3
DII	44.9	48.0	48.9
Others	29.5	25.8	24.8

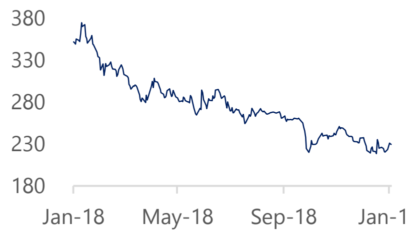
Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Central Dep Ser	2.6	(5.4)	(17.1)
Nifty	(1.8)	6.3	(5.5)

Source: Bloomberg

Price chart (Rs)



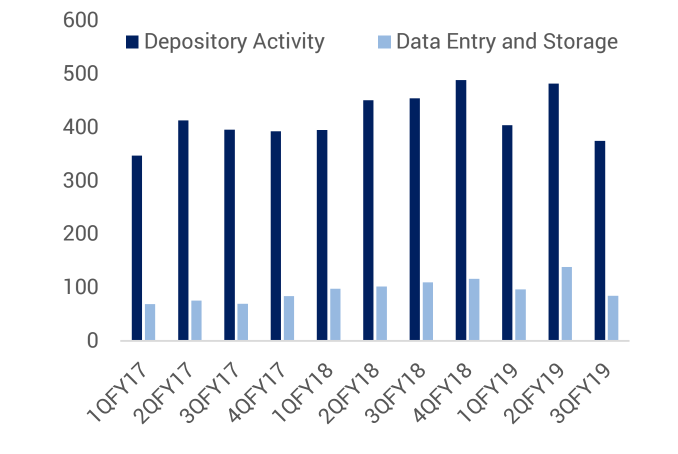
Source: Bloomberg

Jatin Damania
jatin.damania@kotak.com
+91 22 6218 6440

Weak market condition dragged revenue

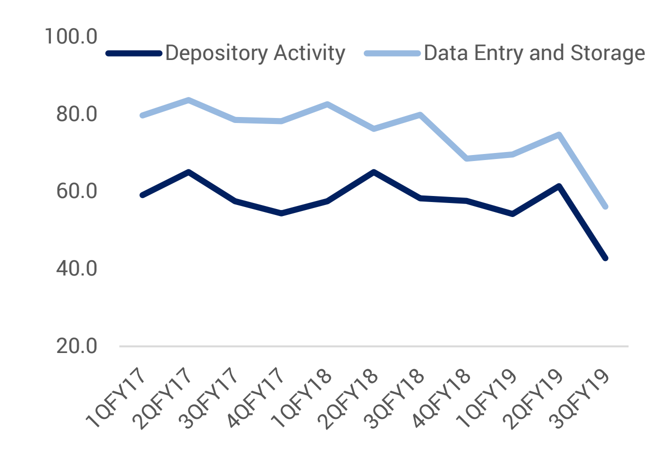
Revenue during the quarter declined 9.7%/13.1% YoY/QoQ to Rs462mn, due to 22.7% YoY decline in KYC/online data charges. In addition, owing to the volatile market condition, contribution from depository activities also declined 17.5%/22.3% YoY/QoQ. Weak market condition led to over 50% YoY fall in primary market activities. Transaction charges during the quarter declined to Rs95 mn from Rs127.1 mn in 3QFY18. During the quarter, the company added ~540 companies in unlisted space, which gave incremental revenue of Rs15mn (Rs7mn Annuity payment and Rs8mn towards onetime payment.

Segment wise revenue contribution (Rs Mn)



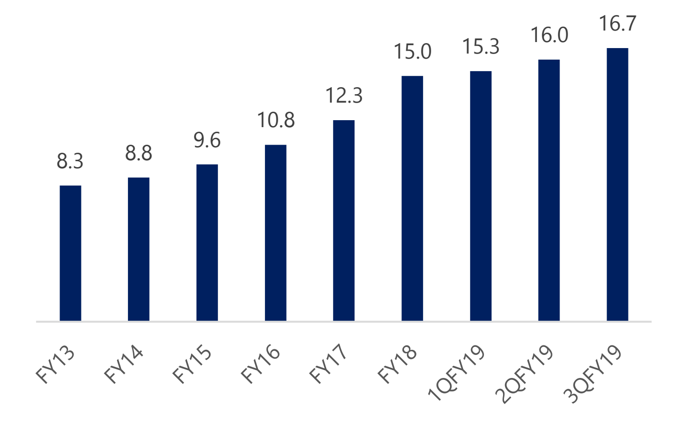
Source: Company

Segment wise EBIT Margin (%)



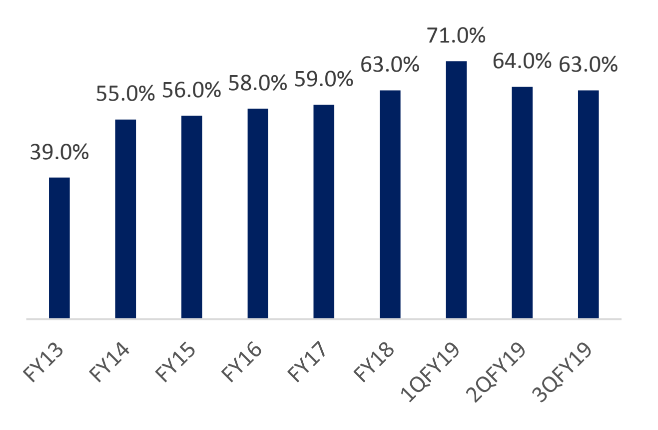
Source: Company

Growth in CDSL's Demat account (mn)



Source: Company

CDSL Incremental market share

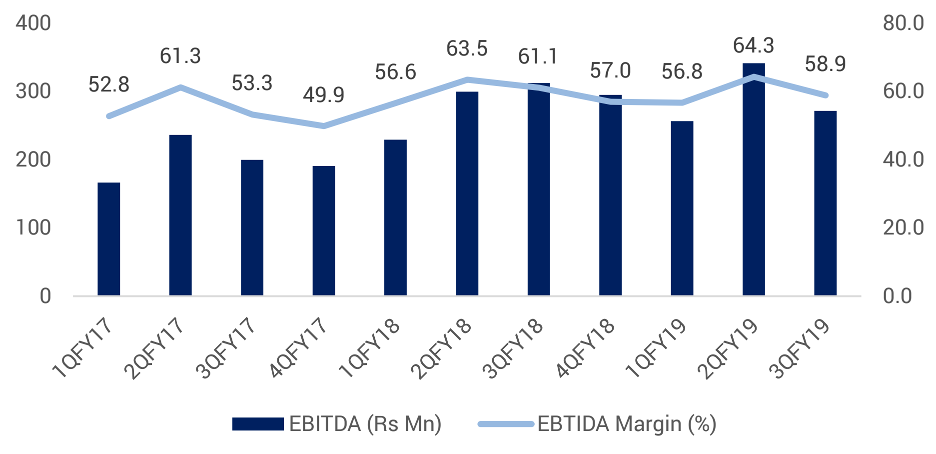


Source: Company

Margin below 60%:

EBITDA during the quarter declined 13%/20.4% YoY/QoQ to Rs272mn. After reporting an EBITDA margin of above 60% in 2QFY19, the company reported EBITDA margin of 58.9% in 3QFY19. The decline in EBITDA margin is largely attributed to the lower KYC/online data related charges and increase in overall expenses. Other expenses during the quarter increased due to increase in bad debt provisioning (Rs30 mn). We might see some provision in 4QFY19 also, which will weigh on operating performance.

EBITDA and EBITDA Margin (%) trend



Source: Company

Key Risks

a) Low pricing power, b) dependence on capital market volume, c) regulatory oversight, d) loss of KYC business after the appointment of Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) are the key risks to our estimates

Company Background

Central Depository Services (India) Limited ("CDSL" or the "Company") was set up with the objective of providing convenient, dependable and secure depository services at affordable cost to all market participants. A depository facilitates holding of securities in the electronic form and enables securities transactions to be processed by book entry by a Depository participant (DP) who as an agent of the depository, offers depository services to investors. CDSL is the leading securities depository in India by incremental growth of Beneficial Owner (BO) accounts over the last three Fiscal years.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net sales	**1,460**	**1,910**	**1,930**	**2,076**
growth (%)	18.8	30.8	1.0	7.6
Operating expenses	666	773	835	889
EBITDA	**794**	**1,137**	**1,094**	**1,187**
growth (%)	24.3	43.2	(3.8)	8.4
Depreciation	37	69	96	115
EBIT	**757**	**1,068**	**998**	**1,071**
Other income	408	347	405	455
Interest paid	0	0	0	0
PBT	**1,166**	**1,414**	**1,403**	**1,527**
Tax	300	378	379	412
Effective tax rate (%)	25.7	26.7	27.0	27.0
Net profit	**866**	**1,036**	**1,024**	**1,115**
Minority interest	8	5	5	5
Reported Net profit	858	1,032	1,020	1,110
Non-recurring items	0	0	0	0
Adjusted Net profit	858	1,032	1,020	1,110
growth (%)	48.2	20.3	(1.2)	8.9

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	483	411	542	862
Other Current assets	351	417	382	379
Investments	5,029	5,175	5,782	6,071
Net fixed assets	55	761	885	1,010
Goodwill & intangible assets	0	0	0	0
Other non-current assets	154	169	171	173
Total assets	**6,072**	**6,932**	**7,763**	**8,495**
Current liabilities	571	765	980	1,035
Borrowings	0	0	0	0
Other non-current liabilities	14	20	13	13
Total liabilities	584	785	993	1,048
Share capital	1,045	1,045	1,045	1,045
Reserves & surplus	4,288	4,943	5,557	6,226
Shareholders' funds	5,333	5,988	6,602	7,271
Minority interest	155	159	167	176
Total equity & liabilities	**6,072**	**6,932**	**7,763**	**8,495**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	1,159	1,410	1,403	1,527
Depreciation	37	69	96	115
Chg in working capital	47	129	235	39
Taxes	300	378	379	412
Others	20	(12)		
Operating CF	**963**	**1,218**	**1,355**	**1,268**
Capital expenditure	(53)	(706)	(125)	(125)
Chg in investments	(454)	(146)	(607)	(289)
Other investing activities	0	0	0	0
Investing CF	**(507)**	**(852)**	**(732)**	**(414)**
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	376	439	492	535
Financing CF	**(376)**	**(439)**	**(492)**	**(535)**
Net chg in cash & bank bal.	79	(73)	132	320
Closing cash & bank bal	**483**	**410**	**542**	**862**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability and return ratios (%)				
EBITDAM	54.4	59.5	56.7	57.2
EBITM	51.9	55.9	51.7	51.6
NPM	58.8	54.0	52.8	53.5
RoE	16.1	17.2	15.4	15.3
RoCE	14.2	17.8	15.1	14.7
Per share data (Rs)				
EPS	8.2	9.9	9.8	10.6
FDEPS	8.2	9.9	9.8	10.6
CEPS	8.6	10.5	10.7	11.7
BV	51.0	57.3	63.2	69.6
DPS	3.0	3.5	3.9	4.3
Valuation ratios (x)				
PE	27.5	22.9	23.2	21.3
P/BV	4.4	3.9	3.6	3.2
EV/EBITDA	22.8	15.9	15.8	14.1
EV/Sales	12.4	9.4	9.0	8.0
Other key ratios				
DSO (days)	33	36	40	40

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	16249
52-wk Hi/Lo (Rs)	:	398 / 259
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	35,714
Shares o/s (mn)	:	57

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	2705	2879	3346
Growth (%)	2.9	6.5	16.2
EBITDA	891	1130	1368
EBITDA margin (%)	32.9	39.2	40.9
PAT	385	546	685
EPS	6.8	9.7	12.1
EPS Growth (%)	14	42	25
Book value (Rs/share)	137	145	156
Dividend per share (Rs)	1.5	1.5	1.5
ROE (%)	5.1	6.9	8.1
ROCE (%)	6.3	8.4	10.2
P/E (x)	42.3	29.8	23.8
EV/EBITDA (x)	17.8	13.6	11.5
P/BV (x)	2.1	2.0	1.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	71.3	71.2	71.0
FII	10.1	10.3	10.5
DII	5.8	5.6	5.8
Others	12.9	12.9	12.7

Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Wonderla Holidays	6.5	7.5	(14.5)
Nifty	(1.8)	6.3	(5.5)

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Pankaj Kumar
pankajr.kumar@kotak.com
+91 22 6218 6434

WONDERLA HOLIDAYS LTD (WHL)

PRICE RS.288 **TARGET RS.341** **BUY**

WHL Q3FY19 results were better than our estimates due to strong foot fall in Bangalore and Hyderabad parks and robust recovery in footfalls of Kochi park.

Key Highlights

- Net revenue for the quarter grew by 19.1% yoy to Rs 761 mn driven by 23% and 12% yoy growth in footfall of Bangalore and Hyderabad parks respectively, Kochi park witnessed fast recovery with 1% yoy decline in Q3FY19 after 61.5% yoy decline in Q2FY19 due to Kerala floods.
- EBITDA margin for the quarter grew by 930 bps yoy to 39.1% and was above our estimates of 31% due to strong footfalls across parks and improved cost efficiency.
- The management is positive on future growth prospects of Hyderabad and Bangalore park and maintained positive growth outlook for these parks. On the other hand, Kochi park also expected to do well. The company targets to achieve 40% EBITDA margin in FY19E.

Valuation & outlook

- We are positive on the future potential of theme parks in India and maintain our long term positive view on the company for running the business efficiently despite challenges. We have upgraded our EPS estimates for FY19E and FY20E by 23% and 7.3% for FY19E and FY20E respectively factoring in sharp recovery in footfalls in Kerala.
- The stock is trading at PE of 29.8x and 23.8x based on FY19E and FY20E revised EPS of Rs 9.7 and Rs 12.1 per share, respectively. We maintain Buy on the stock with a revised DCF based target price of Rs 341 (Vs Rs 336 earlier).

Quarterly performance table (standalone)

Year to March (INR mn.)	Q3FY19	Q3FY18	% Chg	Q2FY19	% Chg
Net Revenues	**761**	**638**	**19.1**	**413**	**84.2**
Direct operating expenses	86	218	(60.3)	44	96.2
Gross Profit	**674**	**420**	**60.3**	**369**	**82.7**
Employee Expenses	96	98	(2.1)	87	9.5
Other Expenses	281	132	112.4	191	47.0
Operating Expenses	463	448	3.4	322	43.5
EBITDA	**298**	**191**	**56.3**	**91**	**228.7**
EBITDA margin (%)	39.1	29.8	9.297	21.9	
Depreciation	99	98	0.8	99	(0.3)
Other income	26	15	67.8	21	24.9
Net finance expense	0	3	(86.3)	0	6,300.0
Profit before tax	225	105	113.1	12	1,715.1
Provision for taxes	79	40	98.6	3	2,571.0
Reported net profit	**145**	**65**	**122.0**	**9**	**1,444.3**
Net profit Margin	19.1	10.2		2.3	
Tax rate (% of PBT)	35.4	37.9		24.0	

Source: Company

Revenue grew by 19% on strong footfalls and faster recovery in Kochi park

Net revenue for the quarter was at Rs 761 (Vs estimates of Rs 607mn) and grew by 19.1% yoy on account of 10.5% yoy growth in footfalls (Vs estimates of 13% yoy decline) while average revenue per visitor grew by 8.7% yoy (Vs estimates of 10% yoy growth). The footfall growth was driven by increased market penetration initiatives, focused media promotions and contribution of online portals like MakeMyTrip, Paytm etc. Shift in Dussehra festival from September last year to October this year also positively impacted realization which grew by 8.7% yoy.

The footfalls in Kochi park recovered sharply with mere 1% yoy decline as against 61.5% yoy decline in Q2FY19 when flood in Kerala impacted the footfalls. As per management, Kochi recorded a highly positive trend in footfall and revenue during November and December 2018 with 20% yoy rise in these months, after a weak October 2018 due to flood. The company believes that Kochi has stabilized after the floods and is hopeful that Kochi park will show good growth going forward.

Bangalore park continued to perform well in the quarter and witnessed 23% yoy growth in footfalls driven by strong contribution from online partners, increased footfalls of groups, etc. Further, Hyderabad park also witnessed improvement in footfalls with 12% yoy growth, after a weak Q2FY19 when the business took a hit due to high rainfall in the city and shift in festive season. However election in the state and rainfalls resulted in relatively lower growth in footfalls than Bangalore. The company expects this positive trend to continue in future also.

The share of non-ticket revenue increased to 25.6% from 24.2% on yoy on improved F&B business due to increased footfalls. The resort income declined by 1.4% yoy to Rs 31.3 mn.

Operating performance (parkwise)

	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Footfall (nos, 000)	760	688	10.5%	346	119.9%
Kochi	260	263	-1.1%	78	233.7%
Bangalore	290	237	22.6%	182	59.6%
Hyderabad	210	188	11.7%	86	144.1%
Avg Revenue per footfall (Rs per footfall)	960	883	8.7%	1118	-14.2%
Kochi	823	774	6.3%	1011	-18.6%
Bangalore	1091	1017	7.3%	1164	-6.2%
Hyderabad	947	868	9.1%	1119	-15.3%
Avg ticket Realization per ticket (Rs per footfall)					
	708	654	8.2%	840	-15.7%
Kochi	596	576	3.4%	763	-21.8%
Bangalore	829	765	8.3%	882	-6.1%
Hyderabad	679	624	8.8%	819	-17.1%
Avg Non ticket Realization per ticket (Rs per footfall)					
	252	228	10.2%	278	-9.6%
Kochi	227	197	14.8%	249	-8.8%
Bangalore	262	252	4.2%	281	-6.8%
Hyderabad	268	244	10.0%	300	-10.4%

Source: Company

EBITDA margins improved on cost efficiency

EBITDA for the quarter improved by 56.3% yoy to Rs 298 mn (Vs estimates of Rs 188 mn) with margins improved by 930 bps yoy to 39.1% (vs estimates of 31%). The margins improved on improved footfalls and operational efficiency. This was also supported by increased revenue share from non-ticket revenue and lower employee expenditure. PAT for the quarter grew by 122% yoy to Rs 145 mn (Vs our estimates of Rs 71 mn) due to strong operating performance. The company is positive on increasing its margins based on improved performance in its parks in coming quarters.

Maintained growth outlook across parks

The management has remained optimistic about the performance of three parks. As per the management, the footfall in Hyderabad and Bangalore is growing on expected lines and Kochi park also stabilized after floods. The company is hopeful that Kochi will also show good growth going forward. The management is expecting 13% growth in footfalls on consolidated basis with 40% EBITDA margins in FY19E.

Other highlights

- The company is awaiting clarity on local body taxes for the amusement park industry in the state before starting construction of park in Chennai. The company has invested Rs 1 bn in acquiring and developing 62 acres land for Chennai park. The total capex in the project is estimated at Rs 3.5 bn.
- The company is not focusing on any other new park in near future and explore the same in future after completing Chennai park. It is not planning for any major capex in the current year on new rides.
- There is a risk from General Elections to be scheduled in May 2019 and hence this may impact Q1FY20 performance. However, the company is investing more on promotions over last year which can mitigate the impact of elections in the quarter.

Outlook and valuation

We are positive on future potential of theme parks in India and maintain our long term positive view on the company for running the business efficiently despite challenges. We have upgraded our EPS estimates for FY19E and FY20E by 23% and 7.3% for FY19E and FY20E respectively factoring in sharp recovery in footfalls in Kerala. The stock is trading at PE of 29.8x and 23.8x based on FY19E and FY20E revised EPS of Rs 9.7 and Rs 12.1 per share, respectively. We maintain Buy on the stock with a revised DCF based target price of Rs 341 (Vs 336 earlier).

Revision in estimates

Particulars (Rs mn)	Previous		Revised		% Chg	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	2684	3256	2879	3346	7.3	2.8
EBITDA margin (%)	36.2	39.9	39.2	40.9	304 bps	97 bps
PAT	438	637	546	685	23.9	7.3
EPS (Rs)	7.8	11.3	9.7	12.1	23.9	7.3

Source: Kotak Securities Private Client Research

Company Background

Wonderla Holidays Ltd (WHL) is the largest amusement park chain in India with over 17 years of successful operations. It has entertained over 30 mn visitors across its parks in Kochi, Bangalore and Hyderabad. The company is promoted by Mr. Arun Chittilappilly and Mr. Kochouseph Chittilappilly, who also incorporated VGuard Industries Ltd. The promoters have operational experience in the amusement park industry since 2000. The promoters launched the first amusement park in Kochi in 2000 under the name Veegaland, later successfully launched the second park in Bangalore in 2005 and third park in Hyderabad in 2016 under the name “Wonderla”. The company also operates Wonderla Resort attached to its amusement park in Bangalore. It is a three Star leisure resort with has 84 luxury rooms and 4 banquet halls / conference rooms. WHRL has vast experience in running amusement parks resulting in understanding customer preferences. This enables it to conceptualize and develop innovative rides. The company has an Inhouse manufacturing facility located at Kochi which manufactures /constructs rides and attractions for all of its parks.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**2,628**	**2,705**	**2,879**	**3,346**
% change yoy	28.0	2.9	6.5	16.2
EBITDA	**670**	**891**	**1,130**	**1,368**
% change yoy	(21.1)	33.0	26.8	21.0
Depreciation	293	365	395	425
EBIT	**377**	**526**	**735**	**943**
Other Income	122	78	80	80
Interest	13	12	0	0
Profit Before Tax	485	592	815	1023
% change yoy	(44.2)	22.1	37.5	25.5
Tax	146	207	269	337
as % of EBT	30.1	35.0	33.0	33.0
PAT	**339**	**385**	**546**	**685**
% change yoy	(43.3)	13.5	41.8	25.5
Shares outstanding (mn)	57	57	57	57
EPS (Rs)	**6.0**	**6.8**	**9.7**	**12**
DPS (Rs)	1.5	1.5	1.5	1.5
CEPS (Rs)	11.2	13.3	16.7	20
BVPS (Rs)	131.1	136.7	144.9	156

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	565	565	565	565
Reserves	6,842	7,161	7,622	8,223
Net worth	7,407	7,726	8,187	8,788
Borrowings	139	-	-	-
Net Deferred tax	714	759	759	759
Total Liabilities	**8,259**	**8,485**	**8,946**	**9,546**
Net block	7,082	8,337	8,242	8,117
Capital work in progress	585	155	455	1,655
Total fixed assets	7,667	8,492	8,697	9,772
Investments	751	122	122	122
Inventories	90	71	79	92
Sundry debtors	9	12	12	14
Cash and equivalents	85	249	820	398
Loans and advances & Others	31	32	36	36
Total current assets	215	364	947	540
Sundry creditors and others	262	214	237	275
Provisions	405	554	582	611
Total CL & provisions	666	769	819	886
Net current assets	-451	-405	128	-347
Misc Expenses	293	277	-	-
Total Assets	**8,259**	**8,485**	**8,946**	**9,546**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	485	592	815	1,023
Depreciation	293	365	395	425
Change in WC	268	117	39	53
Other operating activities	408	-146	8	-337
Operating Cash Flow	**1,454**	**928**	**1,256**	**1,163**
Capex	-4,843	-1,190	-600	-1,500
Free Cash Flow	-3,389	-262	656	-337
Change in Investments	93	629	-	-
Investment cash flow	**-4,750**	**-561**	**-600**	**-1,500**
Equity Raised	0	-	-	-
Debt Raised	64	-139	-	-
Dividend	-85	-85	-85	-85
Other financing activity	3,122	20	-	-
CF from Financing	**3,101**	**-203**	**-85**	**-85**
Change in Cash	-195	164	572	-422
Opening Cash	280	85	249	820
Closing Cash	**85**	**249**	**820**	**398**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability Ratios				
EBITDA margin (%)	25.5	32.9	39.2	40.9
EBIT margin (%)	14.3	19.4	25.5	28.2
Net profit margin (%)	12.9	14.2	19.0	20.5
Adjusted EPS growth (%)	(43.3)	13.5	41.8	25.5
Balance Sheet Ratios:				
Receivables (days)	1	2	2	2
Inventory (days)	12	10	10	10
Loans & Advances	4	4	5	4
Payable (days)	36	29	30	30
Cash Conversion Cycle (days)	(18)	(13)	(14)	(15)
Asset Turnover (x)	0.3	0.3	0.3	0.4
Net Debt/ Equity (x)	(0.1)	(0.0)	(0.1)	(0.1)
Return Ratios:				
RoCE (%)	6.1	6.3	8.4	10.2
RoE (%)	5.9	5.1	6.9	8.1
Valuation Ratios:				
P/E (x)	48.0	42.3	29.8	23.8
P/BV (x)	2.2	2.1	2.0	1.9
EV/EBITDA (x)	23.3	17.8	13.6	11.5
EV/Sales (x)	5.9	5.9	5.3	4.7

Source: Company, Kotak Securities – Private Client Research

Result Update

PERSISTENT SYSTEMS LTD (PERSISTENT)

PRICE RS.565 **TARGET RS.764** **BUY**

Stock Details

Market cap (Rs mn)	:	45196
52-wk Hi/Lo (Rs)	:	915 / 532
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	233,059
Shares o/s (mn)	:	80

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	30,337	33,854	36,570
Growth (%)	5.4	11.6	8.0
EBITDA	4,687	6,057	6,580
EBITDA margin (%)	15.5	17.9	18.0
PAT	3,230	3,661	4,143
EPS	40.4	45.8	51.8
EPS Growth (%)	7	13	13
BV (Rs/share)	266	298	335
Dividend/share (Rs)	10.0	11.0	12.7
ROE (%)	16.0	16.2	16.4
ROCE (%)	18.4	22.8	21.7
P/E (x)	14.1	12.4	11.0
EV/EBITDA (x)	9.2	7.1	6.4
P/BV (x)	2.1	1.9	1.7

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	30.5	30.4	30.5
FII	23.5	26.5	26.5
DII	19.6	17.2	14.1
Others	23.6	22.6	28.9

Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Persistent Systems	(10.4)	1.5	(32.3)
Nifty	(1.8)	6.3	(5.5)

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Revenue growth in US$ term remains lower than expectation but gross margin and operating margin improved, notably in Q3FY19. The company added 25 new customers in Q3FY19. Going forward, the company indicated that margins will either improve or will remain stable and growth outlook remains strong in FY20E. New CEO will be announced in next 3-4 weeks which will help in organic and inorganic growth of the company.

Key Highlights

- Share Buyback: The Company has approved buy-back of equity shares under open market route for an aggregate amount not exceeding Rs. 2.25 bn (10% of net worth) at a maximum buy-back price not exceeding Rs.750 per share (at a significant premium).
- Interim dividend: Additionally, the company has declared an interim dividend of Rs.8 per share.
- Persistent's consolidated revenue increased by 2.2% qoq in dollar terms to US$ 121 mn (as against our expectation US$ 126.5 mn) led by 3.1% qoq increase in services revenue but high-margin IP revenue (US$ 30mn) declined 0.3% qoq despite low base.
- We would like to highlight that quarterly fluctuations are inherent in an IP-based business.
- In Q3FY19, gross profit increased 12.1% qoq to Rs.3.3 bn (13.4% yoy) supported by higher revenues and lower cost of revenue.
- The management attributed increase in operating profit to rupee depreciation (50bps +ve impact), better rates, better cost management, higher off-share assignment and utilization rate gone-up. Persistent reported meaningful increase in EBIDTA to Rs.1.7 bn in Q3FY19 (19% qoq and 24% yoy).
- Persistent had deposits of Rs.430 mn with Infrastructure Leasing & Financial Services Ltd. (IL&FS) and IL&FS Financial Services Ltd. and the same are due for maturity from Jan'19 to Jun'19. Cash and Investments as on 31st Dec'18 stood at Rs.15.34 bn. The company expects that there will not be any default and has accordingly not provided any provision for the same.

Valuation & outlook

We have lowered our EPS estimates to reflect 9MFY19 performance and accordingly, we now expect Persistent to report an EPS of Rs.45.8/share (earlier Rs.47.7) in FY19E and an EPS of Rs. 51.8/share (earlier Rs.61.3) in FY20E. Margin improvement and decent revenue visibility makes us positive on its growth prospects. We maintain BUY rating on Persistent and a multiple based price target of Rs.764/share (earlier Rs.870/share). Additionally, attractive valuations, cash rich balance sheet, strong free cash flow and healthy return ratios (ROE 16+% and ROCE 20+%) also provide high comfort. At CMP, the stock is valued at 6.4x EV/EBITDA and 11x P/E on FY20 basis. We have valued the stock at 14.7x PE multiple at a 30% discount to its peers.

Sumit Pokharna
sumit.pokharna@kotak.com
+91 22 6218 6438

Quarterly result update

Forex loss of Rs.241 mn in Q3FY19 included in other income.

P&L A/C (Rs. Mn)	Dec-18	Sep-18	Dec-17	YoY (%)	QoQ (%)
Services/Linear revenue (US$ Mn)	91	88	90	1.1	3.1
IP Led includes IBM Alliance (US$ Mn)	30	30	33	(8.1)	(0.3)
Cons. Revenue (US$ Mn)	**121**	**118**	**123**	**(1.4)**	**2.2**
Avg. Exchange Rate Rs./US$	72	71	65	10.7	1.2
Cons. Revenues (INR mn)	**8,642**	**8,356**	**7,919**	**9.1**	**3.4**
Cost of revenues	5,341	5,410	5,009	6.6	(1.3)
Cost of revenues to sales (%)	61.80	64.74	63.25	(1.5)	(2.9)
Gross profit	**3,301**	**2,946**	**2,910**	**13.4**	**12.1**
Gross margin (%)	38.2	35.3	36.7	1.45	2.9
SG&A expenses	1,598	1,510	1,535	4.1	5.9
SG&A expenses to sales (%)	18.5	18.1	19.4	(0.9)	0.4
EBITDA	**1,703**	**1,436**	**1,375**	**23.9**	**18.6**
Operating margin (%)	19.7	17.2	17.4	2.34	2.52
Depreciation	396	399	393	0.9	(0.6)
EBIT	**1,307**	**1,038**	**983**	**33.0**	**25.9**
Depreciation to Sales (%)	4.6	4.8	5.0	(0.4)	(0.2)
Other income+Forex gain	(12)	231	193	(106.0)	(105.0)
Interest-net	-	-	-		
PBT	**1,295**	**1,269**	**1,175**	**10**	**2**
Extra ordinary Exp/(Inc)	-	-	-		
Tax	378	387	258	46.3	(2)
Effective tax rate (%)	29.19	30.53	21.99	7.19	(1.34)
PAT	**917**	**881**	**917**	**0.1**	**4**
PAT margin (%)	10.6	10.5	11.6	(1.0)	0.1
EPS (Rs)	**11**	**11.0**	**11**	**0.1**	**4**

Source: company; Note: Services revenue is linear revenue.

Margin details

Strong improvement in operating margin.

	Q3FY19	Q2FY19	Q3FY18	YoY (%)	QoQ (%)
EBITDA Margin (%)	19.7	17.2	17.4	2.3	2.5
EBIT Margin (%)	15.1	12.4	12.4	2.7	2.7
Adj PAT Margin (%)	10.6	10.5	11.6	(1.0)	0.1
Other Income/PBT (%)	(0.9)	18.2	16.4	(17.3)	(19.1)
Tax/PBT (%)	29.2	30.5	22.0	7.2	(1.3)

Source: company

Key client metrics

Particulars	Dec-17	Sep-18	Dec-17	YoY (%)	QoQ (%)
Client base					
Customers billed					
a). Services	437	433	431	1	1
b). IP Led	192	178	268	(28)	8
Revenue concentration					
Top client	26.3%	25.7%	28.0%	-1.7%	0.6%
Top 5 clients	45.0%	43.3%	46.3%	-1.3%	1.7%
Top 10 clients	54.6%	52.4%	55.3%	-0.7%	2.2%
Non-Top10 clients	45.4%	47.6%	44.7%	0.7%	-2.2%
Relationship distribution					
USD 3mn+ Clients	20	18	19	1	2
USD1mn-3mn Clients	56	56	51	5	0

Source: company

Industry classification

	Dec-17	Sep-18	Dec-17	YoY (bps)	QoQ (bps)
Distribution					
ISV	39.8%	39.5%	38.5%	1.3	0.3
Enterprise	35.2%	34.9%	34.7%	0.5	0.3
IP Led	25.0%	25.6%	26.8%	(1.8)	(0.6)
Revenue (USD mn and QoQ growth)					
ISV	48.1	46.7	47.2	2.0	2.98
Change					
Enterprise	42.5	41.3	42.5	0.0	3.09
Change					
IP Led	30.2	30.3	32.8	(8.0)	(0.19)
Change					

Source: company

Note: ISVs includes product development work for product companies. ISV is not classified as digital and non-digital segment.

Quarterly result analysis

- **Revenue in US dollar terms:** Persistent's Q3FY19 consolidated revenue increased by 2.2% qoq in dollar terms to US$ 121 mn (as against our expectation US$ 126.5 mn) led by 3.1% qoq increase in services revenue but high-margin IP revenue (US$ 30mn) declined 0.3% qoq despite low base. We would like to highlight that quarterly fluctuations are inherent in an IP-based business.
- **Revenue (Rupee terms):** Consolidated revenues increased by 3.4% qoq to Rs.8.64 bn (+9% yoy) supported by 3% qoq increase in technology services revenue, Alliance-IBM increased by 3% qoq and Accelerite revenue increased by 12% qoq.
- **Staff Cost:** Employee cost increased by 0.7% qoq and 4.6% yoy to Rs.5.8 bn in Q3FY19 due to increase in total headcount. Staff cost to revenue (percent) decreased 160 bps qoq to 58.7% (-255 bps yoy).

Key manpower and execution metrics

Particulars	Dec-18	Sep-18	Dec-17	YoY (%)	QoQ (%)
Total headcount	9,530	9,302	9,109	5	2
Cons. Revenues (INR mn)	121	118	123	(1)	2
Technical (no. of employees)	8,761	8,566	8,460	4	2
Revenue Productivity ($/employee)	**13,793**	**13,802**	**14,483**	**(5)**	**(0)**
Sales & Business Development	266	247	206	29	8
Support	503	489	443	14	3
Net additions - Technical	195	-33	-139	(240)	(47)
- As % of opening base	2.1%	-0.4%	-1.5%		
Attrition – LTM	16.4%	15.4%	14.7%		

Source: company

- **Project related travel expenses:** Travel expenses as a percent of revenue went down by 25 bps qoq to 1.58%. In absolute terms, travel expenses have decreased by 11% qoq to Rs. 137 mn (26% yoy).
- **Gross Profit:** In Q3FY19, gross profit increased 12.1% qoq to Rs.3.3 bn (13.4% yoy) supported by higher revenues and lower cost of revenue.
- **SG&A expenses:** The Company's SG&A expenses increased 6% qoq to Rs.1.6 bn (+4.1% yoy). In Q3FY19, SG&A expenses as a percent of revenues increased by 40 bps qoq to 18.5%.

- **Operating profit (Rs. Mn):** The management attributed increase in operating profit to rupee depreciation, better rates, better cost management, higher off-share assignment and utilization rate gone-up. The management indicated that in Q4FY19 sales and marketing expenses will increase. Persistent reported meaningful increase in EBIDTA to Rs.1.7 bn in Q3FY19 (19% qoq and 24% yoy).
- **Operating margin (%):** EBITDA margin increased to 19.7% (+252 bps qoq and +234 bps yoy), due to lower operating cost, higher realization higher off-shore mix vs on-site mix and higher utilization.

Offshore billing has increased by 3% qoq which has improved margins.

Key margin drivers

	Dec-18	Sep-18	Dec-17	YoY (%)	QoQ (%)
Exchange rate (INR/USD)	71.5	70.7	64.6	10.7	1
Consolidated revenues (INR mn)	8,642	8,356	7,919	9.1	3
A. EXECUTION METRICS					
Utilization (Blended)	82.1%	81.9%	79.9%	2.20	0.20
Average realization (USD/p-m) - Blended					
Onsite	16,204	15,787	16,314	(0.7)	3
Offshore	4,392	4,372	4,220	4.1	0
Billed effort – Services (p-m) - Total					
Onsite	2,232	2,221	2,413	(7.5)	0
Offshore	12,403	12,097	11,922	4.0	3
B. COST DRIVERS					
Wage costs (INR mn)	5,075	5,040	4,853	4.6	1
Employee to Revenue (%)	58.7	60.3	61.3	(2.55)	(1.6)
SG&A (INR mn)	1,598	1,510	1,535	4.1	6
SG&A to revenues (%)	18.5	18.1	19.4	(0.89)	0.4
EBITDA (INR mn)	1,703	1,436	1,375	23.9	19
EBITDA margin	20	17	17	2.34	2.5

Source: company

- **Depreciation charge:** Depreciation has decreased marginally 0.6% qoq. Depreciation as a percentage of revenue stands at 4.6% in Q3FY19 v/s 4.8% in Q2FY19.
- **Forex loss:** Persistent reported a forex loss of Rs.240 mn during the quarter due to re-statement of debtors.
- **Profit before tax (PBT):** Persistent's PBT increased 2% qoq to Rs.1.3 bn in Q3FY19 (+10% yoy), supported by higher operating income and ,arginally lower depreciation charge.
- **PAT:** Persistent's PAT has increased 4% qoq to Rs.917 mn (flat yoy) due to higher PBT and lower taxes.

Key development

Enterprises are integrating applications through APIs by bringing internal data, external data and events together, building insights that are actionable. Machine Learning has become mainstream as customers move beyond dashboards to task centric actionable insights that are embedding Intelligence in applications. Businesses continue to march on their journey to become software driven which is helping Persistent win customers.

Key Wins

- Improving customer reach through enhanced digital experiences for a US-based financial products and services company
- Designing and development of tools for effective cash management implementation for one of the largest global investment banking enterprises
- Developing a cloud-based loan application system for a US-based bank
- Building an end-to-end portfolio management platform on OutSystems for a cloud-based credit management technology solutions provider in the United States
- Migrating of legacy CRM to Salesforce for a health and wellness provider
- Product engineering partner for an e-commerce giant - helping them to migrate their live digital assets and users, upon completion of crucial M&A activity.

Maintain BUY

We have lowered our EPS estimates to reflect 9MFY19 performance and accordingly, we now expect Persistent to report an EPS of Rs.45.8/share (earlier 47.7) in FY19E and an EPS of Rs. 51.8/share (earlier 61.3) in FY20E. Margin improvement and decent revenue visibility makes us positive on its growth prospects. We maintain BUY rating on Persistent and a multiple based price target of Rs.764/share (earlier Rs.870/share). Additionally, attractive valuations, cash rich balance sheet, strong free cash flow and healthy return ratios (ROE 16+% and ROCE 20+%) also provide high comfort. At CMP, the stock is valued at 6.4x EV/EBITDA and 11x P/E on FY20 basis. We have valued the stock at 14.7x PE multiple at a 30% discount to its peers.

Valuation

Particulars Unit FY20E	Unit	
EPS (FY20E)	Rs./share	51.8
Target – P/E	x	14.7
Target price (Rs/share)	Rs. Mn	764
CMP	Rs. Mn	568
Potential upside/(downside)	%	34

Source: Kotak Securities - Private Client Research

Key Risk and Concerns

- Wide currency fluctuation and INR appreciation will impact earnings. 80%-90% of Persistent’s foreign currency exposure is in USD.
- High client concentration – Top 1 client contributes >25% of the revenue.
- Continuous declining margins.
- Event-specific risks could impact IT budgets, cut discretionary spend and delay new deals.
- Higher investment in new products will put pressure on margins.
- Volatility in revenues sourced through the partners.

Company Background

Incorporated in 1990, Persistent is founded by Mr. Anand Deshpande. In 2000, it became one of the first companies in Asia to receive an investment from Intel 64 LLC. The Company provides product engineering services, platform based solutions and IP-based software products to its global customers. It designs, develops and maintains software systems and solutions, creates new applications and enhances the functionality of the customer's existing software products.

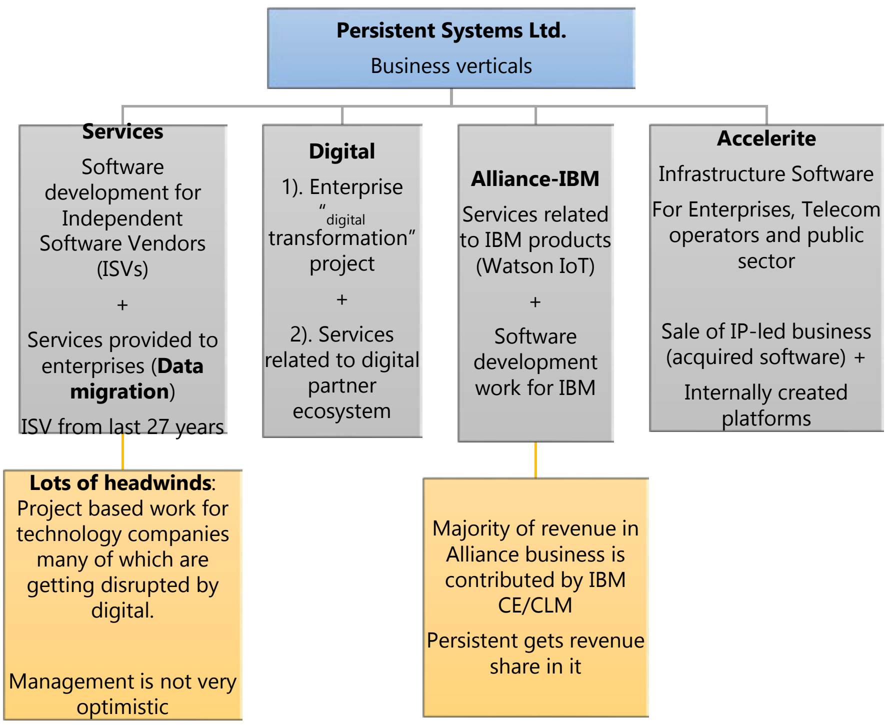
Note: Product engineering service can be defined as an engineering consulting activity, which uses various hardware, embedded, software and IT services solution for the designing and development of products.

It delivers services across all stages of the product life–cycle, which enables it to work with a wide–range of customers and allows it to develop, enhance and deploy its customers' software products. It has been recognized as one of the leading technology companies in the Deloitte Touche Tohmatsu Technology Fast 500 Asia Pacific 2009.

Persistent specializes in software product and technology services and has delivery centers in North America, Europe, and Asia. It has over 9,000 team members worldwide. The company is helping enterprises to transform their business to software-driven business. It has moved from effort-based company (limitations) to value-based company. Further, it has strong foot hold in building software products which offers a distinct advantage and a broader market for growth. It develops best-in-class solutions in key next-generation technology areas including Analytics, Big Data, Cloud Computing, Mobility and Social, for the healthcare and banking & financial services verticals.

Persistent has reorganized its business to four key growth areas which clearly highlights its focus areas. The company has transformed its business from outsourced product development to helping its customers to become software-driven business.

Four key business verticals



Source: Kotak Securities - Private Client Research. Note: CE: Continuous Engineering and CLM: Collaborative lifecycle management

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**28,784**	**30,337**	**33,854**	**36,570**
% change YoY	24.5	5.4	11.6	8.0
EBITDA	**4,653**	**4,687**	**6,057**	**6,580**
% change YoY	11.6	0.7	29.2	8.6
Other Income	843	1,190	696	1,018
Depreciation	1,490	1,585	1,608	1,778
EBIT	**4,007**	**4,293**	**5,145**	**5,820**
% change YoY	1.3	7.1	19.9	13.1
Net interest	1	1	1	1
Profit before tax	4,006	4,292	5,144	5,819
% change YoY	1.3	7.1	19.9	13.1
Tax	992	1,062	1,484	1,676
as % of PBT	24.8	24.7	28.8	28.8
Profit after tax	**3,014**	**3,230**	**3,661**	**4,143**
Minority interest	0	0	0	0
Share of profit of associates	0	0	0	0
Net income	3,014	3,230	3,661	4,143
% change YoY	1.4	7.2	13.3	13.2
Shares outstanding (m)	80	80	80	80
EPS (reported) (Rs)	**37.7**	**40.4**	**45.8**	**51.8**
CEPS (Rs)	54.4	52.9	65.9	69.9
DPS (Rs)	9.0	10.0	11.0	12.7

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	1,510	2,414	2,596	3,421
Accounts receivable	4,754	4,847	5,194	5,611
Inventories	0	0	0	0
Loans and Adv & Others	4,406	4,714	5,707	6,707
Current assets	10,669	11,975	13,497	15,739
Misc exp.	0	0	0	0
LT investments	6,839	8,797	10,843	11,843
Net fixed assets	5,649	5,174	4,640	4,342
Total assets	**23,157**	**25,947**	**28,981**	**31,924**
Payables	1,209	1,673	1,762	1,703
Others	1,428	1,344	1,500	1,533
Current liabilities	2,637	3,018	3,263	3,236
Provisions	1,701	2,011	2,215	2,263
LT debt	22	17	0	0
Min. int and Others	-196	-372	-372	-372
Equity	800	800	800	800
Reserves	18,194	20,473	23,075	25,996
Total liabilities	**23,157**	**25,947**	**28,981**	**31,924**
BVPS (Rs)	237	266	298	335

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	4,007	4,293	5,145	5,820
Depreciation	1,490	1,585	1,608	1,778
Change in working capital	(865)	113	(891)	(1,395)
Chgs in other net current assets	-	-	-	-
Operating cash flow	**4,632**	**5,990**	**5,862**	**6,203**
Interest	(1)	(1)	(1)	(1)
Tax	(992)	(1,062)	(1,484)	(1,676)
Cash flow from operations	**3,639**	**4,928**	**4,378**	**4,526**
Capex	(2,503)	(1,110)	(1,074)	(1,480)
(Inc)/dec in investments	(455)	(1,958)	(2,046)	(1,000)
Cash flow from investments	**(2,958)**	**(3,068)**	**(3,120)**	**(2,480)**
Others	268	12	-	-
Increase/(decrease) in debt	(11)	(5)	(17)	-
Proceeds from share premium	-	-	-	-
Dividends	(867)	(963)	(1,059)	(1,222)
Cash flow from financing	**(610)**	**(956)**	**(1,076)**	**(1,222)**
Opening cash	1,439	1,510	2,414	2,596
Closing cash	**1,510**	**2,414**	**2,596**	**3,421**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	16.2	15.5	17.9	18.0
EBIT margin (%)	13.9	14.1	15.2	15.9
Net profit margin (%)	10.5	10.6	10.8	11.3
Receivables (days)	60.3	58.3	56.0	56.0
Sales/gross assets(x)	1.6	1.5	1.5	1.4
ROE (%)	16.9	16.0	16.2	16.4
ROCE (%)	21.6	18.4	22.8	21.7
EV/ Sales	1.5	1.4	1.3	1.1
EV/EBITDA	9.4	9.2	7.1	6.4
Price to earnings (P/E)	15.1	14.1	12.4	11.0
Price to book value (P/B)	2.4	2.1	1.9	1.7

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
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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.

FUNDAMENTAL RESEARCH TEAM

Rusmik Oza
Head of Research
rusmik.oza@kotak.com
+91 22 6218 6441

Arun Agarwal
Auto & Auto Ancillary
arun.agarwal@kotak.com
+91 22 6218 6443

Amit Agarwal
Transportation, Paints, FMCG
agarwal.amit@kotak.com
+91 22 6218 6439

Nipun Gupta
Information Tech, Midcap
nipun.gupta@kotak.com
+91 22 6218 6433

Deval Shah
Research Associate
deval.shah@kotak.com
+91 22 6218 6423

Sanjeev Zarbade
Cap. Goods & Cons. Durables
sanjeev.zarbade@kotak.com
+91 22 6218 6424

Ruchir Khare
Cap. Goods & Cons. Durables
ruchir.khare@kotak.com
+91 22 6218 6431

Jatin Damania
Metals & Mining, Midcap
jatin.damania@kotak.com
+91 22 6218 6440

Cyndrella Carvalho
Pharmaceuticals
cyndrella.carvalho@kotak.com
+91 22 6218 6426

Ledo Padinjarathala, CFA
Research Associate
ledo.padinjarathala@kotak.com
+91 22 6218 7021

Teena Virmani
Construction, Cement, Buildg Mat
teena.virmani@kotak.com
+91 22 6218 6432

Sumit Pokharna
Oil and Gas, Information Tech
sumit.pokharna@kotak.com
+91 22 6218 6438

Pankaj Kumar
Midcap
pankajr.kumar@kotak.com
+91 22 6218 6434

Krishna Nain
M&A, Corporate actions
krishna.nain@kotak.com
+91 22 6218 7907

K. Kathirvelu
Support Executive
k.kathirvelu@kotak.com
+91 22 6218 6427

TECHNICAL RESEARCH TEAM

Shrikant Chouhan
shrikant.chouhan@kotak.com
+91 22 6218 5408

Amol Athawale
amol.athawale@kotak.com
+91 20 6620 3350

Faisal Shaikh, CFTe
Research Associate
faisalf.shaikh@kotak.com
+91 22 62185499

Siddhesh Jain
Research Associate
siddhesh.jain@kotak.com
+91 22 62185498

DERIVATIVES RESEARCH TEAM

Sahaj Agrawal
sahaj.agrawal@kotak.com
+91 79 6607 2231

Malay Gandhi
malay.gandhi@kotak.com
+91 22 6218 6420

Prashanth Lalu
prashanth.lalu@kotak.com
+91 22 6218 5497

Prasenjit Biswas, CMT, CFTe
prasenjit.biswas@kotak.com
+91 33 6625 9810

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