

MAY 29, 2018

Equity	% Chg				
	28-May	1 Day	1 Mth	3 Mths	
<b>Indian Indices</b>					
SENSEX Index	35,165	0.7	0.6	2.9	
NIFTY Index	10,689	0.8	(0.0)	1.9	
NSEBANK Index	26,614	1.3	4.8	6.0	
NIFTY 500 Index	9,308	1.0	(1.4)	0.5	
CNXMcap Index	19,052	1.4	(5.3)	(3.1)	
BSESMCAP Index	17,426	1.6	(4.5)	(3.9)	
<b>World Indices</b>					
Dow Jones	24,753	(0.2)	1.8	(1.1)	
Nasdaq	7,434	0.1	4.4	2.2	
FTSE	7,730	0.2	3.0	6.9	
NIKKEI	22,481	0.1	(0.7)	1.1	
Hangseng	22,481	0.1	(0.7)	1.1	
Shanghai	30,792	0.7	1.1	(0.7)	
<b>Value traded (Rs cr)</b>					
	28-May	% Chg Day			
Cash BSE	2,978	6.5			
Cash NSE	30,128	(2.6)			
Derivatives	-	-			
<b>Net inflows (Rs cr)</b>					
	25-May	MTD	YTD		
FII	(2,047)	(3,502)	3,895		
Mutual Fund	760	5,830	51,583		
<b>Nifty Gainers &amp; Losers</b>					
28-May	Price (Rs)	Chg (%)	Vol (mn)		
<b>Gainers</b>					
SUN PHARMA I	500	7.1	16.0		
HINDUSTAN PE	313	6.1	12.0		
BHARAT PETRO	402	5.6	7.2		
<b>Losers</b>					
TECH MAHINDR	675	(3.9)	9.0		
POWER GRID C	207	(2.4)	9.8		
HCL TECH LTD	895	(2.4)	1.3		
<b>Advances / Declines (BSE)</b>					
28-May	A	B	T	Total	% total
Advances	68	270	46	384	100
Declines	320	798	83	1,201	313
Unchanged	4	11	16	31	8
<b>Commodity</b>					
	28-May	1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	75.5	0.2	1.1	14.7	
Gold (US\$/OZ)	1,298	(0.3)	(1.8)	(1.5)	
Silver (US\$/OZ)	16.5	(0.2)	(0.2)	0.4	
<b>Debt / forex market</b>					
28-May	1 Day	1 Mth	3 Mths		
10 yr G-Sec yield %	7.7	7.8	7.8		
Re/US\$	67.4	67.8	66.7		

## Nifty



Source: Bloomberg

## News Highlights

- ▶ In a bid to assist loss-making power distribution companies (discoms), the CERC has proposed that payment which they make to power generators would be according to the energy supply to discoms, rather than just plant availability. (BS)
- ▶ After nearly three years of stagnation, paper prices have started firming up. Industry official said global players have taken a price hike of 6-8 per cent in the past one and a half months and the rupee has also depreciated during the same period, which gives Indian companies room to hike prices. (BS)
- ▶ Addressing the problem of evacuating coal from remote locations to feed power plants, **Coal India** is embarking on power production itself, which it believes will help ease the high demand for thermal power in the country. This will mark Coal India's maiden entry into thermal power generation. (BS)
- ▶ The Tamil Nadu government ordered the closure of **Vedanta** Group's Sterlite copper plant at Thoothukudi. The development comes after 13 people were killed last week in police firing during protests. (BS)
- ▶ **UltraTech** appears to have won the race for Binani Cement after lenders, decided to sell the bankrupt cement maker to the country's biggest cement producer. (ET)
- ▶ India's largest hospital chain **Apollo**, Dubai-based **Aster DM** and Bengaluru-based **Narayan Health (NH)**, in partnership with the Piramal Group, have emerged as early bidders for the acquisition of Seven Hills assets. (ET)
- ▶ **Zydus Cadila** has received final approval from the US health regulator to market Nystatin ointment and Omeprazole and sodium bicarbonate capsules. (ET)
- ▶ The Burman family combine has withdrawn its binding offer to take over **Fortis Healthcare** and given its consent to the hospital chain's board to reopen the bidding process. The combine has expressed disappointment over the board's indecision and lack of support from certain shareholders for their Rs 18 bn investment proposal. (BS)

## What's Inside

- ▶ **Result Update:** CUMMINS INDIA LIMITED, VRL LOGISTICS LIMITED, TALBROS AUTOMOTIVE LIMITED, ENGINEERS INDIA LTD, LARSEN AND TOUBRO, VA TECH WABAG LTD, TIME TECHNOPLAST LTD, NATIONAL ALUMINIUM COMPANY

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

## Result Update

### Stock Details

Market cap (Rs mn)	:	196798
52-wk Hi/Lo (Rs)	:	1044 / 671
Face Value (Rs)	:	2
3M Avg. daily volume	:	530,088
Shares o/s (m)	:	277

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	49,518	55,219	62,620
Growth (%)	0.1	11.2	13.1
EBITDA	7,325	8,651	10,262
EBITDA margin (%)	14.4	15.3	16.4
Adj. PAT	7,084	7,707	9,081
EPS	23.5	27.8	32.8
EPS Growth (%)	-11.2	18.2	17.8
BV (Rs/share)	144	148	156
Dividend/share (Rs)	15.0	20.0	20.0
ROE (%)	18.3	19.1	21.6
ROCE (%)	17.1	17.9	20.1
P/E (x)	30.2	25.5	21.7
EV/EBITDA (x)	24.5	20.8	17.5
P/BV (x)	4.9	4.8	4.5

Source: Kotak Securities - PCG; Company

### Shareholding Pattern (%)

(%)	Mar-18	Dec-17	Sep-17
Promoters	51.0	51.0	51.0
FII	14.1	14.6	14.6
DII	21.7	13.8	13.5
Others	13.0	20.6	20.9

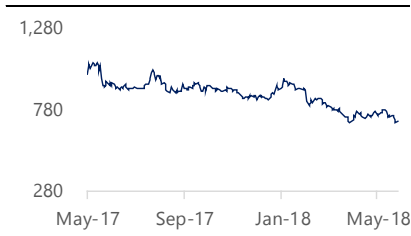
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Cummins India	-6.6	(10.8)	-18.0
Nifty	0.0	1.9	3.2

Source: Bloomberg

### Price chart



Source: Bloomberg

### Ruchir Khare

ruchir.khare@kotak.com  
+91 22 6218 6431

## CUMMINS INDIA LIMITED

**Rs 710,**

**TARGET Rs.785**

**ACCUMULATE**

Cummins India missed our Q4FY18 estimates. Domestic power generation business continues to suffer from low private sector capex. Operating margins contracted y/y in the quarter due to evident pricing pressure driven by increased competition in the key product categories.

### Key Highlights

- Cummins India reported 4.1% y/y revenue growth in Q4FY18 at Rs 12.3 Bn (flat y/y growth in FY18). Revenues were driven by 29.6% y/y growth (on the low base of Q4FY17) in the exports revenues, reported at Rs 3.9 Bn. Domestic sales, reported at Rs 8.1 Bn declined 4.8% y/y.
- Operating margin contracted to 14% in Q4FY18 against 14.4% in Q4FY17 driven by 1/ lower volumes in power generation business 2/ company's inability to push price hikes to offset cost inflation.

### Valuation & Outlook

We teak our FY19/FY20 earnings estimate downward to factor in pricing pressure in the domestic market and continued headwinds in the key export geographies. In our previous updates we have argued that Cummins India can surprise the market by potential margin improvement driven by favorable product mix and recovery in exports. However, we change our view (primarily driven by the management commentary post Q4FY28 earnings call that emphasized on company's inability to push price hikes) and now believe that pricing pressures might continue over the next few quarters. We now value Cummins India at PER 24x FY20 earnings (FY26x PER earlier); move recommendation to 'ACCUMULATE' from BUY earlier with revised target price of Rs 785 (Rs 862 earlier).

### Consolidated Result

Rs mn	Q4FY18	Q4FY17	YoY %	Q3FY18	QoQ
Net Sales / Income from Operations	12332	11844	4.1	13547	(9.0)
Other Income	664	511	30.0	501	32.5
Purchase of traded goods	1753	2147	(18.4)	1661	5.5
Consumption of Raw Materials	6278	5560	12.9	6885	(8.8)
Staff Cost	1180	1069	10.4	1317	(10.4)
Other Expenses	1391	1368	1.7	1716	(18.9)
Operating Expenditure	10602	10144	4.5	11579	(8.4)
EBITDA	1730	1700	1.8	1968	(12.1)
Interest & Finance Charges	34	49		34	
Depreciation	273	208	31.0	237	15.4
Exceptional Item	0	0		0	
Profit / (Loss) before tax	2087	1954	6.8	2198	(5.0)
Exceptional Item	0	0		0	
Tax provision	475	369	28.7	475	0.1
PAT	1612	1585	1.7	1723	(6.5)
Adj PAT	1612	1585	1.7	1723	(6.5)
adj EPS	5.8	5.7	1.7	6.2	(6.5)
EBITDA%	14.0	14.4		14.5	
Raw material cost to sales %	65.1	65.1		63.1	
Tax rate %	22.8	18.9		21.6	

Source: Company, Kotak-PCG Research

## Result Highlights

Cummins India reported 4.1% y/y revenue growth in Q4FY18 at Rs 12.3 Bn (flat y/y growth in FY18). Revenues were driven by 29.6% y/y growth (on the low base of Q4FY17) in the exports revenues, reported at Rs 3.9 Bn. Domestic sales, reported at Rs 8.1 Bn declined 4.8% y/y.

Power Gen segment net sales reported at Rs 3.3 Bn (flat growth y/y) in the quarter. Lack of major investments in high real estate projects, large hospitals, data centers and airports etc has led to sluggish growth in this segment. Management, however on contrary sounded more confident about the recovery in domestic powergen business and has guided for 7-8% y/y growth in FY19.

Domestic Revenue Breakup Rs (mn)	Q4FY18	Q4FY17	YoY%	Q3FY18	QoQ%
Power Generation	3300	3300	0.0	3300	0.0
Industrial	1970	2000	(1.5)	2060	(4.4)
Distribution	2700	2850	(5.3)	3620	(25.4)

Source: Company, Kotak-PCG Research

Industrial segment reported net sales at Rs 1.9 Bn in Q4FY18. In FY18, industrial segment reported 12% y/y growth led by improved public spending on various infrastructure projects like roads and railways. We believe that the momentum in the industrial business would last into FY19/20, driven by strong tailwinds in construction and railways. We note that the company is well poised to benefit from this trend as it enjoys leadership position in the construction segment within the industrial segment and similar dominant positioning in most of the product categories it is present into. Industrial division is likely to outperform power generation segment over the next few quarters.

Distribution business de-grew 5.5% y/y to Rs 2.7 Bn in Q4FY18. Distribution segment grew 6.4% y/y in FY18. Management however stated that the broader outlook in the domestic business could further improve going ahead. We also note that the higher growth in Industrial sales, would likely pull the distribution sales upward as longer the engines run, higher the need for spare-parts/maintenance.

**Low LHP volumes affected exports;** Export sales at Rs 3.9 Bn (grew c.30% y/y, on the low base of Q4FY17). Demand for LHP engines continues to remain soft currently. While demand from Africa and Middle East continues to remain down, management sounded hopeful as recent rally in Crude oil and other commodities could lead to the recovery in these regions.

**Operating margin contracted Y/Y;** operating margin contracted to 14% in Q4FY18 against 14.4% in Q4FY17 driven by 1/ lower volumes in power generation business 2/ company's inability to push price hikes to offset cost inflation. Management believes that savings from cost rationalization measures undertaken by the company and implementation of six sigma would likely address this issue to a large extent.

While the margins could have bottomed out, we believe that the recovery would be slower than our prior assumption. Competitive intensity has been increasing in almost all the segments, by both domestic and international players getting attracted towards Indian market. This is getting evident by the deterioration in company's margin, reported in the past several quarters (EBITDA range 16-17% in FY15-16 vis-à-vis 14.4% reported in FY18).

### Other takeaways from Q4FY18 earnings call

- Management guided for a domestic growth of 9-10% y/y in FY19 led by continued momentum in Industrial business and 7-8% y/y growth in powergen business. Despite being hopeful, management refrained from giving aggressive guidance for exports.
- Management shared its outlook on India office center complex and technological center. Management explained that India office complex houses Cummins India employees and have rented out the remainder area to the Cummins group companies on arm's length transaction basis. Once matured, the property can yield c. Rs 1 Bn as rental income.

- The company has been able to grow its market share to 65 % in terms of volumes in the HHP segment (market size 2500 units, flat y/y) in FY18.

**Valuation and Recommendation- Target price cut to Rs 785 largely due to reduced ascribed exit PER multiple on Cummins India stock**

We teak our FY19/FY20 earnings estimate downward (expect FY20 EPS of Rs 32.8 vis-à-vis Rs 33.2 earlier) to factor in pricing pressure in the domestic market and continued headwinds in the key export geographies. In our previous updates we have argued that Cummins India can surprise the market by potential margin improvement driven by favorable product mix and recovery in exports. However, we change our view (primarily driven by the management commentary post Q4FY28 earnings call that emphasized on company's inability to push price hikes) and now believe that pricing pressures might continue over the next few quarters. This shall continue to exert pressure on company's valuations in the near to medium term.

This has led us to set in line our exit PER multiple with the challenges faced by the company currently. We now value Cummins India at PER 24x FY20 earnings (FY26x PER earlier); move recommendation to 'ACCUMULATE' from BUY earlier with revised target price of Rs 785 (Rs 862 earlier).

**About the company**

Cummins India Limited, 51 percent subsidiary of US based Cummins Inc limited, is India's leading manufacturer of diesel and natural gas engines. One of the eight legal entities of the Cummins Group in India, Cummins India Limited comprises of three business units - Engine, Power Systems, and Distribution. Cummins India is a market leader in the key product categories in India. Exports (including exporting to Cummins group of companies globally) constitute to be a major part of Cummins India limited revenues.

## Financials - Standalone

### Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>49581</b>	<b>49518</b>	<b>55219</b>	<b>62620</b>
% change yoy	7.8	0.1	11.2	13.1
<b>EBITDA</b>	<b>8019</b>	<b>7325</b>	<b>8651</b>	<b>10262</b>
% change yoy	3.4	(8.7)	18.1	18.6
Depreciation	848	939	1080	1134
<b>EBIT</b>	<b>9249</b>	<b>8671</b>	<b>10131</b>	<b>12199</b>
% change yoy	0.3	(6.3)	16.8	20.4
Other Income	2079	2285	2559	3071
Net Interest	168	148	250	250
Earnings Before Tax	9082	8522	9881	11949
% change yoy	(0.5)	(6.2)	15.9	20.9
Extraordinary Gains/(losses)	0	561	0	0
Tax	1736	2000	2174	2868
<b>Net Income adj</b>	<b>7346</b>	<b>7084</b>	<b>7707</b>	<b>9081</b>
% change yoy	(2.9)	(11.2)	18.2	17.8
EPS (Rs)	26.5	23.5	27.8	32.8
DPS (Rs)	14.0	15.0	20.0	20.0
CEPS	29.6	28.9	31.7	36.9

Source: Company, Kotak Securities – Private Client Research

### Cash Flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>PBT</b>	<b>9082</b>	<b>8522</b>	<b>9881</b>	<b>11949</b>
Depreciation	848	939	1080	1134
Current liabilities incl provisions	625	2336	1863	2531
Increase in inventory	382	246	(828)	(831)
Increase in sundry Debtors	(175)	(3706)	1160	(1622)
Increase in advances	(79)	(873)	0	0
Tax Paid	(1736)	(2000)	(2174)	(2868)
Other Adjustments	(362)	1582	1041	(124)
<b>Net cash from operations</b>	<b>8585</b>	<b>7047</b>	<b>12023</b>	<b>10169</b>
Purchase of fixed Assets	(270)	(1527)	(3580)	(3134)
Net investments	(6496)	(2631)	(15)	0
Other investment activities	739	5527	(590)	0
<b>Net cash from investing</b>	<b>(6027)</b>	<b>1369</b>	<b>(4185)</b>	<b>(3134)</b>
Change in Borrowings	2508	6	(6)	0
Dividend Paid	(4671)	(5005)	(6673)	(6673)
<b>Net Cash from financing</b>	<b>(2163)</b>	<b>(4999)</b>	<b>(6680)</b>	<b>(6673)</b>
Cash at the end of year	1292	4709	5868	6230

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>Cash and cash equivalents</b>	<b>1292</b>	<b>4709</b>	<b>5868</b>	<b>6230</b>
Accounts receivable	9557	13263	12103	13725
Inventory	5621	5375	6203	7034
<b>Current Assets</b>	<b>18790</b>	<b>22326</b>	<b>22112</b>	<b>24690</b>
Investments	9753	12798	12813	12813
Net fixed assets	12240	12828	15328	17328
Current Liabilities	9568	11904	13767	16298
Other non-current assets	9627	7361	8520	8882
<b>Total Assets</b>	<b>40842</b>	<b>43409</b>	<b>45006</b>	<b>47414</b>
Debt	2508	2514	2508	2508
Other liabilities(deferred tax)	327	583	507	507
Equity & reserves	37422	39861	40894	43302
Other liabilities	584	450	1096	1096
<b>Total Liabilities</b>	<b>40842</b>	<b>43409</b>	<b>45006</b>	<b>47414</b>
BVPS (Rs)	135	144	148	156

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>EBITDA margin (%)</b>	<b>15.8</b>	<b>14.4</b>	<b>15.3</b>	<b>16.4</b>
EBIT margin (%)	18.7	17.5	18.3	19.5
Net profit margin (%)	14.8	14.3	14.0	14.5
Receivables (days)	70.4	97.8	80.0	80.0
Inventory (days)	41.4	39.6	41.0	41.0
Sales / Net Fixed Assets (x)	4.1	3.9	3.6	3.6
Interest coverage (x)	55.1	58.5	40.5	48.8
Debt/ equity ratio	0.1	0.1	0.1	0.1
<b>ROE (%)</b>	<b>20.3</b>	<b>18.3</b>	<b>19.1</b>	<b>21.6</b>
<b>ROCE (%)</b>	<b>19.5</b>	<b>17.1</b>	<b>17.9</b>	<b>20.1</b>
EV/ Sales	3.6	3.6	3.3	2.9
<b>EV/EBITDA</b>	<b>22.4</b>	<b>24.5</b>	<b>20.8</b>	<b>17.5</b>
<b>Price to earnings (P/E)</b>	<b>26.8</b>	<b>30.2</b>	<b>25.5</b>	<b>21.7</b>
Price to book value (P/B)	5.3	4.9	4.8	4.5
Price to cash earnings	24.0	24.5	22.4	19.3

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	32980
52-wk Hi/Lo (Rs)	:	492 / 306
Face Value (Rs)	:	10
3M Avg. daily volume (mn)	:	120,988
Shares o/s (m)	:	90

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	19,222	22,280	25,610
Growth (%)	6.6	15.9	14.9
EBITDA	2,341	3,112	3,624
EBITDA margin (%)	12.2	14.0	14.2
PBT	1,394	2,011	2,392
Net profit	926	1,347	1,603
EPS (Rs)	10.2	14.8	17.6
Growth (%)	14.0	45.5	19.0
CEPS (Rs)	20.8	25.9	29.4
Book value (Rs/share)	63.3	71.0	80.1
Dividend/share (Rs)	6.0	6.0	7.0
ROE (%)	16.0	20.8	21.9
ROCE (%)	21.3	28.1	29.0
Net cash (debt)	(1,209)	(494)	(178)
Net WC (Days)	12.8	16.7	15.4
EV/EBITDA (x)	16.9	12.5	10.6
P/E (x)	41.4	28.4	23.9
P/Cash Earnings	20.1	16.2	14.3
P/BV (x)	6.6	5.9	5.2

Source: Kotak Securities - PCG; Company

### Shareholding Pattern (%)

(%)	Mar-18	Dec-17	Sep-17
Promoters	68.1	68.0	67.5
FII	12.0	12.4	11.6
DII	11.8	11.0	11.0
Others	8.0	8.6	9.9

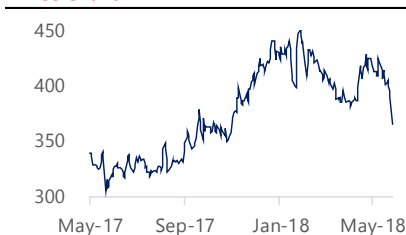
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
VRL Logistics	-14.0	(10.5)	-10.8
Nifty	0.0	1.9	3.2

Source: Bloomberg

### Price chart



Source: Bloomberg

### Amit Agarwal

agarwal.amit@kotak.com  
+91 22 6218 6439

## VRL LOGISTICS LIMITED (VRL)

Rs 365

TARGET Rs.440

BUY

A Mixed Bag - VRL Logistics (VRL) reported a mixed Q4 with in-line revenue but margins lower than estimate. There was significant improvement in the BS with further debt reduction.

### Key Highlights

- Q4 is a seasonally weak quarter for VRL in which the company has reported sales at Rs 4.9 bn (+11% YoY) highest ever for the company, with benefits of GST implementation and E-way bill coming to the company.
- But increasing fuel cost (crude +30% YoY) and increasing cost of regulatory compliance has impacted operational performance. Company reported EBIDTA of Rs 444 mn with EBIDTA margin of 9.1% (-350 bps QoQ and -30 bps YoY).
- The company has repaid debt during the quarter. Debt currently stands at Rs 600 mn (from Rs 1740 mn in March end 2017) which lowered the interest cost in the quarter
- Consequently PAT was reported Rs 119 mn almost in line with our estimate of Rs 167 mn
- Company has guided for 10% YoY volume growth over FY18 to FY20E
- The Company has completed the buy-back of 9,00,000 Equity Shares

### Valuation & outlook

We see VRL as a Logistics player which has created a niche for itself in the transport industry and a player who has overcome the nuances of the industry through effective practices within the company. This has enabled the company to outperform its peers in every financial parameter. The GST Act, Motor Vehicle Act and E-way bill are expected to improve business prospects of the company with full benefits accruing from FY19E. We estimate strong earnings growth in medium term for the company with improvement in EBIDTA margins and return ratios. Continue to value the company at 25x FY20 earnings and Recommend BUY with an unchanged TP of Rs 440

### Quarterly performance table

Rs mn	Q4FY17	Q3FY18	Q4FY18	YoY%	QoQ%
Sales	4428	4893	4892	10.5	0.0
Operating exp	3286	3305	3514	6.9	6.3
Employee	674	911	879	30.4	-3.5
Other	51	59	55	7.8	-6.8
Total operating exp	4011	4275	4448	10.9	4.0
EBIDTA	417	618	444	6.5	-28.2
EBIDTA %	9.4	12.6	9.1		
Depreciation	238	245	245	2.9	0.0
Other income	21	37	21	0.0	-43.2
Finance cost	51	20	22	-56.9	10.0
Exceptional	0	0	0		
PBT	149	390	198	32.9	-49.2
Tax	65	136	79	21.5	-41.9
RPAT	84	254	119	41.7	-53.1

Source: Company, Kotak Securities – Private Client Research



### Operational performance

**Trucking segment** - In Q4FY18, the trucking segment revenue growth of 11% YoY was led by 7%/4% YoY growth in tonnage/realization. On QoQ basis, 3% revenue growth was led by 4% growth in tonnage and 1% decline in realization. During FY18, growth in GT segment (6% YoY) was led by higher realization, while tonnage remained flattish YoY. During Q4, realizations were lower QoQ, as company continued to give discounts to its customers in 4Q (like in 3Q). Further, higher diesel prices weren't passed on to the customers, which impacted EBITDA margin, which fell to 10.1% vs. 11.8% YoY/12.7% QoQ. In Q1FY19, company has taken a price hike from 1st May on 60% routes of the GT segment, primarily to offset to the increase in fuel cost and other costs and also planning for hike in June on 20% of the routes.

**Passenger segment** - Revenue growth of 10% YoY in Q4 was led by 5% growth each in passengers/realization. 11% QoQ decline in revenue was led by 6%/5% decline in realization and number of passengers respectively. Bus segment EBITDA margin dropped to 4.2% vs. 2.9% YoY/15.9% QoQ.

### Current Capex has aligned with GST

Management of VRL had indicated that the company has most of the infrastructure in place to cater to the changing requirement of clients in the medium term. Accordingly, we had envisaged that the next phase of capex for the company would be now primarily towards purchase of larger and modern trucks, new Volvo buses and expansion of hubs. The upcoming capex was estimated to be in sync with the requirement mandated by GST over FY18 to FY20E. We estimate the company to spend around Rs 5.3 bn per annum over FY18 to FY20E as capex of which the company has already planned capex of Rs 4 bn towards modern trucks. Also with strong operational cash flow of Rs 8 bn per annum, we expect the BS quality to improve for VRL.

Capex Planned (Rs mn)	FY19E	FY20E
Trucks	1600	1500
Buses	100	100
Other vehicles	50	50
Hubs	300	300
<b>Total</b>	<b>2050</b>	<b>1950</b>

Source: Company, Kotak Securities – Private Client Research

### Improvement in performance going forward

We estimate that the various legislative changes like GST Act, Motor Vehicle Amendment Act, Scrappage policy and E-Way bill to yield benefits for VRL from FY19 with benefits increasing further in FY20/FY21. Healthy GDP growth, improvement in trade and various road infra projects of the government would further add to the growth of the company.

#### For VRL we expect,

- Improvement in tonnage in the trucking segment with enhanced client base
- Improvement in occupancy in the bus segment with improved geographical reach
- Operating leverage to play-out which would lead to improvement in margins and return ratios

### Outlook and Valuation

We see VRL as a Logistics player which has created a niche for itself in the transport industry and a player who has overcome the nuances of the industry through effective practices within the company. This has enabled the company to outperform its peers in every financial parameter. The GST Act, Motor Vehicle Act and E-way bill are expected to improve business prospects of the company with full benefits accruing from FY19E. We estimate strong earnings growth in medium term for the company with improvement in EBIDTA margins and return ratios. Continue to value the company at 25x FY20 earnings and Recommend BUY with an unchanged TP of Rs 440.

### Company Background

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



## Financials - Standalone

### Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	18,030	19,222	22,280	25,610
% change YoY	4.4	6.6	15.9	14.9
Opex	13,315	14,180	16,101	18,468
Employee cost	1,902	2,026	2,300	2,638
Other expenses	634	675	767	879
Total Operating expd	15,851	16,881	19,168	21,986
EBITDA	2,179	2,341	3,112	3,624
Depreciation	933	975	1,014	1,081
EBIT	1,246	1,366	2,098	2,543
Other income	92	143	100	100
Interest expense	174	115	187	251
Profit before tax	1,164	1,394	2,011	2,392
Tax	352	468	664	789
ETR (%)	30.2	33.6	33.0	33.0
Profit after tax	812	926	1,347	1,603
JV & Associates	0	0	0	0
Net income	812	926	1,347	1,603
% change YoY	-28.4	14.0	45.5	19.0
Shares outstanding (m)	91	91	91	91
EPS	8.9	10.2	14.8	17.6

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash	194	653	521	1,408
Debtors	811	865	1,003	1,152
Inventory	216	231	267	307
Loans & advances	1,262	1,346	1,560	1,793
Other current assets	180	192	223	256
Total current assets	2,470	2,633	3,052	3,509
LT investments	1	1	1	1
Net fixed assets	6,817	6,710	7,536	7,905
Total assets	9,482	9,999	11,112	12,823
Creditors	1,659	1,768	2,050	2,356
Provisions	198	211	245	282
Other current liabilities	0	0	0	0
Total current liabilities	1,857	1,980	2,295	2,638
LT debt	1,242	1,308	1,337	1,790
Minority Interest	0	0	0	0
Equity Capital	912	912	912	912
Reserves	5,471	5,798	6,565	7,481
Networth	6,383	6,710	7,477	8,393
Total liabilities	9,482	9,997	11,110	12,822

Source: Company, Kotak Securities – Private Client Research

### Cash Flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
PAT	812	926	1,347	1,603
Depreciation +DTL	968	1,022	1,080	1,160
Change in working capital	(26)	(41)	(104)	(113)
Cash flow from operations	1,754	1,907	2,324	2,650
Capex	(786)	(868)	(1,840)	(1,450)
Investments	-	-	-	-
Cash flow from investments	(786)	(868)	(1,840)	(1,450)
Equity issuance	-	-	-	-
Debt raised	(494)	66	30	453
Dividend Paid	(538)	(646)	(646)	(766)
Miscellaneous items	-	-	-	-
Cash flow from financing	(1,032)	(580)	(616)	(313)
Net cash flow	(64)	459	(133)	887
Opening cash	258	194	653	521
Closing cash	194	653	521	1,408

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	12.1	12.2	14.0	14.2
EBIT margin (%)	6.9	7.1	9.4	9.9
Net profit margin (%)	4.5	4.8	6.0	6.3
ROE (%)	13.0	14.1	19.0	20.2
ROCE (%)	17.3	19.3	26.1	27.8
DPS	5.0	6.0	6.0	7.0
Dividend payout (%)	66.2	69.8	48.0	47.8
Book Value (Rs/share)	70.0	73.6	82.0	92.0
Working capital turnover (days)	12.1	12.0	11.6	11.6
Debt Equity (x)	0.2	0.2	0.2	0.2
PER (x)	41.0	35.9	24.7	20.8
P/C (x)	18.7	17.1	13.7	12.0
Dividend yield (%)	1.4	1.6	1.6	1.9
P/B (x)	5.2	5.0	4.5	4.0
EV/Sales (x)	1.9	1.8	1.5	1.3
EV/ EBITDA (x)	15.1	13.8	10.7	9.2

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	3669
52-wk Hi/Lo (Rs)	:	354 / 172
Face Value (Rs)	:	10
3M Avg. daily volume (mn)	:	28,775
Shares o/s (m)	:	12

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	3,930	4,566	5,150
Growth (%)	21.0	16.2	12.8
EBITDA	408	494	591
EBITDA margin (%)	10.4	10.8	11.5
Adjusted Net profit	207	266	349
Adjusted EPS (Rs)	17	22	28
Growth (%)	69.7	28.1	31.5
B/v (Rs/share)	145	162	188
Dividend P/S (Rs)	1.5	1.5	1.5
ROE (%)	12.4	14.0	16.1
ROCE (%)	11.5	12.5	14.1
P/E (x)	17.7	13.8	10.5
EV/EBITDA (x)	11.7	10.0	8.0
P/BV (x)	2.1	1.8	1.6

Source: Kotak Securities - PCG; Company

### Shareholding Pattern (%)

(%)	Mar-18	Dec-17	Sep-17
Promoters	56.6	56.6	56.6
FII	0.1	0.1	0.0
DII	2.0	2.0	2.2
Others	41.2	41.3	41.2

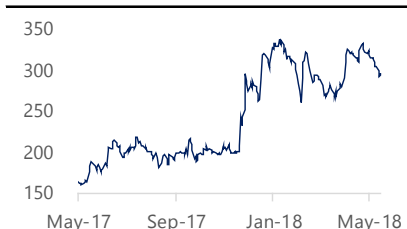
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Talbros Automotive	(7.4)	3.2	3.8
Nifty	(0.0)	1.9	3.2

Source: Bloomberg

### Price chart



Source: Bloomberg

### Arun Agarwal

arun.agarwal@kotak.com  
+91 22 6218 6443

## TALBROS AUTOMOTIVE LIMITED (TBA)

Rs 298

TARGET Rs.396

BUY

TBA reported strong 4QFY18 results and the same came in ahead of our expectation. While revenues grew across segments' forging segment reported significantly high increase in revenues.

### Key Highlights

- Consolidated revenue (excludes JV revenue) grew by 33% YoY with forging segment witnessing 99% YoY increase in revenues. Consolidated EBITDA in the quarter stood at Rs128mn, 84% higher YoY. TBA reported margin improvement from 8.4% in 4QFY17 to 11.6% in 4QFY18. PAT in the quarter came in at Rs76mn, 170% higher over 4QFY17 consolidated PAT of Rs28mn.

### Outlook and Valuation

We expect robust growth in TBA's revenue across segments. Expected healthy volume growth outlook across auto segment and new orders will drive revenue growth for the company. In our view, forging business and MMT will likely support high revenue growth in FY19/FY20. Led by expected robust growth in revenue and cost saving program by the company, we expect gradual expansion in EBITDA margin for the company. We retain BUY on the stock with revised price target of Rs396 (earlier Rs389).

### Consolidated Result Highlight

#### Quarterly performance - Consolidated

Rs mn	4QFY18	4QFY17	YoY%	3QFY18	QoQ%
Revenues	1,102	830	32.7	1,020	8.0
Total expenditure	973	760	28.0	909	7.1
RM consumed	622	479	29.9	580	7.2
Employee cost	131	114	14.6	133	(1.6)
Other expenses	221	168	31.8	196	12.6
EBITDA	128	70	84.0	111	15.6
EBITDA margin (%)	11.6	8.4	-	10.9	-
Depreciation	41	31	30.2	33	22.2
Interest cost	35	41	(14.7)	35	(0)
Other Income	21	27	(23.5)	20	4.4
Exceptional gain / (loss)					
PBT	73	24	200.2	62	17.4
PBT margins (%)	6.6	2.9		6.1	
Tax	14	11	31.3	20	(30.1)
Tax rate (%)	19.5	44.7	-	32.8	-
Share of profit in JV	17	14	14.8	15	11.9
Reported PAT	76	28	169.9	57	59
PAT margins (%)	6.9	3.4	-	5.6	-
EPS (Rs)	6.1	2.3	169.9	4.6	33.1

Source: Company, Kotak Securities – Private Client Research

TBA's consolidated revenue grew by 32.7% YoY to Rs1,102mn. Consolidated revenue only includes standalone gasket and forging revenue; as for joint venture, under IndAS, the net profit is taken in share of profit from JV/associates. TBA reported healthy revenue growth cross all business in 4QFY18 and FY18. Gasket business revenues (including Nippon Leakless Talbros (NLT) JV) in the quarter was up by 15% YoY. Forging business revenue grew by 99% YoY to Rs372mn on the back of new business. Magnetti Marelli Talbros Chassis Systems (MMT) JV revenue

in the quarter grew by 22.8% YoY to Rs164mn, led by strong volume growth of Baleno and Brezza (MMT is single source supplier to these models). Talbro's Marugo Rubber (TMR) revenue in the quarter was up by 36.8% YoY to Rs57mn in 4QFY18.

In FY18, consolidated revenue grew by 16% YoY (comprising standalone gasket and forging business). Standalone gasket revenue grew by 9% YoY to Rs2,920mn. On the back of new business, forging revenues in FY18 stood at Rs1,150mn, 62% higher over FY17 revenue of Rs710mn. NLT JV revenue grew by 9% YoY to Rs47mn (TBA's share). MMT JV witnessed 26% YoY increase in revenues and TMR revenue growth in FY18 stood at 33%.

Consolidated EBITDA in the quarter stood at Rs128mn, 84% higher YoY. Growth in EBITDA relates to growth in standalone gasket and forging revenues and improvement in margins. Robust revenue growth in gasket and forging business translated into operating leverage benefit and that along with cost reduction initiatives helped the company improve its EBITDA margin from 8.4% to 11.6% YoY. Joint venture business EBITDA margin (including other income) in the quarter was – NLT JV – 20.3%, MMT JV – 7.9% and TMR JV – 7.8%. Forging business EBITDA margin was ~13% (including other income) in 4QFY18.

PAT in the quarter came in at Rs76mn, 170% higher over 4QFY17 consolidated PAT of Rs 28mn. Tax rate in the quarter was on the lower side as the company benefited from R&D approval in 4QFY18. Share of profit in JV's increased from Rs14mn in 4QFY17 to Rs17mn in 4QFY18.

### **Conference Call Highlights**

In the gasket business, the management expects growth to be driven by volume growth and new business in exports. In heat shields, given slow response in the domestic passenger vehicle segment, the company is targeting OEM's in export market.

Management is optimistic on strong growth in the forging business, led by robust order book. In FY18, company generated Rs200mn revenue from BMW order and expects this revenue to increase to Rs250mn in FY19. From the Dana Spicer order, company will start production in the coming months and is expecting revenue of Rs200mn in FY19 (annual business is Rs350mn). TBA is also in the process of securing a new order worth Rs100mn in the coming months. Management expects revenue of Rs1.4bn in forging business in FY19. Current capacity utilization in the forging business is ~70% and new presses of higher tonnage are being added in this segment.

In MMT JV, the company is targeting revenue of Rs1.25bn in FY19 and Rs1.6-1.7bn in FY20. Growth in this segment is expected to be driven by volume growth at Maruti Suzuki, improved order visibility from Bajaj Auto for its quadricycle, scale-up of JLR order and new business. MMT is the single source supplier for Baleno and Brezza and the company is looking at setting up an assembly unit in Gujarat – for supply to Suzuki Japan's facility in Japan. Bajaj Auto has given order for 25,000 front suspension (Rs6,500 cost per set) for its quadricycle.

In the TMR JV, the company is witnessing strong revenue traction from Maruti Suzuki and buy-back by the Japanese partner. In 4QFY18, this JV posted positive PAT. Hoses business is still in losses and the company expects cash PAT turnaround in FY19.

TBA plans to spend ~Rs230mn as capex (TBA's share and excludes higher tonnage press for the forging business). Of this Rs170mn is expected to be done in the standalone business and Rs60mn in JV's.

Cost saving in the form of post shield technology adoption and localization will continue in FY19.

### Outlook and Valuation

We expect robust growth in TBA's revenue across segments. In the gasket business, TBA is the market leader in the two wheeler and the commercial vehicle segment. Both these segments are expected to grow strongly in FY19 and we expect TBA to benefit from the same. Forging business has strong order book and as per the management more orders are in pipeline. This provides high visibility to growth in the forging business over the next two years. JV's like MMT and TMR too are witnessing strong revenue traction on the back of growth in existing business and new orders.

Led by expected robust growth in revenue and cost saving program by the company, we expect gradual expansion in EBITDA margin for the company.

We have marginally revised our numbers upwards on strong 4QFY18 performance and improved growth outlook. We retain BUY on the stock with revised price target of Rs396 (earlier Rs389). We value the stock at a PE of 14x (unchanged) on FY20E earnings.

### Change in estimates

Rs mn	FY19			FY20		
	Old	New	% change	Old	New	% change
Revenues	4,525	4,566	0.9	5,093	5,150	1.1
EBITDA margin (%)	10.5	10.8	-	11.4	11.5	-
Adjusted PAT	249	266	6.9	343	349	1.8

Source:

### Company Background

Talbro Automotive Components Limited, the flagship manufacturing company of the Group, manufactures automotive & industrial Gaskets in collaboration with Coopers Payen of UK. Currently company manufactures gaskets & heat shields, forgings, suspension systems, anti-vibration components and hoses. TBA has three joint ventures – Nippon Leakless Talbro Pvt. Ltd (JV partner - Leakless Corporation – Japan), Magneti Marelli Talbro Chassis Systems Pvt. Ltd. (JV partner - Magneti Marelli - Italy) and Talbro Marugo Rubber Pvt. Ltd. (JV partner - Marugo Rubber - Japan). In terms of revenue (as per Indian Gaap), 64% of revenues comes from gaskets, 22% from forging, 10% from MMT JV and 4% from TMR JV.

## Financials - Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>3,249</b>	<b>3,930</b>	<b>4,566</b>	<b>5,150</b>
% change YoY	-17.1	21.0	16.2	12.8
<b>EBITDA</b>	<b>315</b>	<b>408</b>	<b>494</b>	<b>591</b>
% change YoY	-27.2	29.8	20.9	19.8
Depreciation	123	142	158	170
<b>EBIT</b>	<b>191</b>	<b>266</b>	<b>336</b>	<b>421</b>
% change YoY	-31.4	39.1	26.3	25.2
Net interest	159	139	150	149
Other Income	64	63	66	70
Exceptional income/(loss)	0	22	0	0
Profit before tax	96	211	253	342
% change YoY	-32.1	119.4	19.5	35.4
Tax	21	52	70	92
as % of PBT	22.3	24.4	27.7	27.0
Share of profit from JV	47.4	69.2	83.1	99.7
Profit after tax	122	229	266	349
<b>Adjusted PAT</b>	<b>122</b>	<b>207</b>	<b>266</b>	<b>349</b>
% change YoY	5.0	69.7	28.1	31.5
Shares outstanding (m)	12	12	12	12
<b>Adjusted EPS (Rs)</b>	<b>9.9</b>	<b>16.8</b>	<b>21.5</b>	<b>28.3</b>
DPS (Rs)	1.5	1.5	1.5	1.5

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	66	78	139	129
Accounts receivable	897	1,242	1,314	1,481
Inventories	988	1,092	1,248	1,405
Loans and Adv & Others	241	296	325	349
Current assets	2,191	2,708	3,026	3,365
LT investments	537	632	632	632
Net fixed assets	1,204	1,310	1,474	1,454
<b>Total assets</b>	<b>3,933</b>	<b>4,650</b>	<b>5,132</b>	<b>5,451</b>
Payables	931	1,372	1,439	1,622
Other liabilities	247	223	231	242
Current Liabilities	1,178	1,595	1,670	1,865
Provisions	39	46	46	52
Deferred Tax Liability	27	42	42	42
Debt	1,134	1,173	1,375	1,165
Equity	123	123	123	123
Reserves	1,431	1,671	1,876	2,203
<b>Total liabilities</b>	<b>3,933</b>	<b>4,650</b>	<b>5,132</b>	<b>5,451</b>
BVPS (Rs)	126	145	162	188

Source: Company, Kotak Securities – Private Client Research

### Cash Flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	191	266	336	421
Depreciation	123	142	158	170
Change in working capital	187	(8)	(161)	(141)
Change in other net current asset	206	(72)	(21)	(7)
Operating cash flow	708	328	312	444
Interest	(159)	(139)	(150)	(149)
Tax / Deferred tax	(65)	(37)	(70)	(92)
Other Income	64	63	66	70
EO income / Others	137	55	(38)	-
Profit from JV	47	69	83	100
<b>Cash flow from operations</b>	<b>732</b>	<b>339</b>	<b>203</b>	<b>372</b>
Capex	(145)	(248)	(321)	(150)
(Increase)/decrease in investments	(465)	(95)	-	-
<b>Cash flow from investments</b>	<b>(610)</b>	<b>(343)</b>	<b>(321)</b>	<b>(150)</b>
Proceeds from issue of equities	(0)	-	0	-
Increase/(decrease) in debt	(121)	39	202	(210)
Proceeds from share premium	-	-	-	-
Dividends	(22)	(22)	(22)	(22)
<b>Cash flow from financing</b>	<b>(143)</b>	<b>17</b>	<b>180</b>	<b>(232)</b>
Opening cash	86	66	78	139
Closing cash	66	78	139	129

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>Margins</b>				
EBITDA margin (%)	9.7	10.4	10.8	11.5
EBIT margin (%)	5.9	6.8	7.4	8.2
Adj. net profit margin (%)	3.8	5.3	5.8	6.8
<b>Working capital days</b>				
Inventory (days)	111	101	100	100
Receivable (days)	101	115	105	105
Payable (days)	105	127	115	115
<b>Ratios</b>				
Debt/equity ratio (x)	0.7	0.7	0.7	0.5
ROE (%)	8.5	12.4	14.0	16.1
ROCE (%)	9.5	11.5	12.5	14.1
<b>Valuations</b>				
EV/ Sales	1.5	1.2	1.1	0.9
EV/EBITDA	15.1	11.7	10.0	8.0
Price to earnings (P/E)	30.1	17.7	13.8	10.5
Price to book value (P/B)	2.4	2.1	1.8	1.6

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	88057
52-wk Hi/Lo (Rs)	:	206 / 132
Face Value (Rs)	:	5
3M Avg. daily volume (mn)	:	1,621,278
Shares o/s (m)	:	632

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	17,876	25,247	28,081
Growth (%)	23.4	41.2	11.2
EBITDA	4,131	5,554	6,739
EBITDA margin (%)	23.1	22.0	24.0
PAT	3,779	4,837	5,636
EPS	5.6	7.2	8.4
EPS Growth (%)	16.3	28.0	16.5
BV (Rs/share)	34	36	40
Dividend/share (Rs)	4.0	3.7	4.3
ROE (%)	15.0	20.5	22.0
ROCE (%)	14.9	20.3	21.9
P/E (x)	24.8	19.4	16.6
EV/EBITDA (x)	16.7	12.4	10.2
P/BV (x)	4.1	3.8	3.5

Source: Kotak Securities - PCG; Company

### Shareholding Pattern (%)

(%)	Mar-18	Dec-17	Sep-17
Promoters	52.0	52.0	54.2
FII	5.6	5.9	6.6
DII	26.6	18.3	13.9
Others	15.7	23.9	25.3

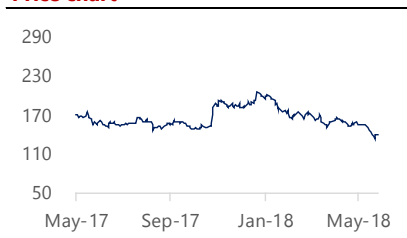
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Engineers India	(10.9)	(19.5)	(24.4)
Nifty	0.0	1.9	3.2

Source: Bloomberg

### Price chart



Source: Bloomberg

### Ruchir Khare

ruchir.khare@kotak.com

+91 22 6218 6431

## ENGINEERS INDIA LTD (EIL)

Rs 139

TARGET RS.187

BUY

EIL Q4FY18 result missed our estimates on poor execution in PMC division. Order inflows remain tepid in the quarter; current order backlog reported at Rs 78 Bn implying four year of revenue visibility.

### Key Highlights

- Revenue grew 15% y/y, reported at Rs 5.1 Bn in Q4FY18 driven by increased execution in LSTK (Lumpsum turnkey projects) division. This led to sharp contraction in EIL reported EBITDA margin to 11.3% vis-à-vis 12.3% in Q4FY17.
- In Q4FY18, PMC (Project management and consultancy) division reported sales at Rs 3.4 Bn (declined 4% y/y). EBIT margin for the segment expanded to 26.6% vis-à-vis 37.2% (unsustainably higher margins reported last year) in Q4FY17. In Q4FY18, PMC division reported sales at Rs 3.4 Bn (declined 4% y/y). EBIT margin for the segment expanded to 26.6% vis-à-vis 37.2% (unsustainably higher margins reported last year) in Q4FY17.

### Valuation & Outlook

We reiterate our long term positive view on EIL; our investment thesis is predicated upon 1) increased awarding of large ticket domestic hydrocarbon PMC orders and 2) sustainability in company's margin profile driven by higher proportion of PMC orders in FY20.

Following the earnings changes made to our forecasts, we revise our target price (value FY20 core earnings at PER 23x) downwards to Rs 187 (Rs 204 earlier); maintain 'BUY' rating on EIL's stock. Delays in the awarding of key orders can pose threat to our earnings estimate.

### Quarterly financials

Rs mn	Q4FY18	Q4FY17	YoY %	Q3FY18	QoQ%
Revenues	5097	4429	15.1	4734	7.7
Employee expenses	1856	2790	(33.5)	1890	(1.8)
Sub-Contract Payments	1135	479	136.8	551	105.8
Construction Material	505	202	150.5	248	103.3
Other expenses	1027	416	147.0	696	47.6
Total Expenses	4522	3886	16.4	3386	33.6
EBITDA	575	543	5.9	1348	(57.4)
Other income	479	571	(16.1)	393	21.9
Depreciation	58	60	(4.5)	59	(2.4)
EBIT	996	1054	(5.4)	1682	(40.8)
Net Interest	4	30		1	
PBT	993	1024	(3.0)	1681	(41.0)
Total tax	304	363	(16.5)	597	(49.2)
PAT	689	660	4.4	1084	(36.4)
EPS (Rs)	1.0	1.0	4.4	1.6	(36.4)
EBITDA (%)	11.3	12.3		28.5	(60.4)
Tax Rate (%)	30.6	35.5		35.5	(13.9)

Source: Company



## Result Highlights

Revenue grew 15% y/y, reported at Rs 5.1 Bn in Q4FY18 driven by increased execution in LSTK (Lumpsum turnkey projects) division. This led to sharp contraction in EIL reported EBITDA margin to 11.3% vis-à-vis 12.3% in Q4FY17.

In Q4FY18, PMC division reported sales at Rs 3.4 Bn (declined 4% y/y). EBIT margin for the segment contracted to 26.6% vis-à-vis 37.2% (unsustainably higher margins reported last year) in Q4FY17. Within PMC division, domestic and overseas business accounted to revenues of Rs 2.8 Bn and c. Rs 520 mn respectively. LSTP division revenues grew substantially to Rs 1.7 Bn in Q4FY18 vis-à-vis Rs 920 mn in Q4FY17. EBIT margin in LSTK division stood at c.7% in the quarter. Other income reported at Rs 479 mn in the quarter against Rs 571 mn in Q4FY17.

Segment Results (Rs mn)	Q4FY18	Q4FY17	YoY %	Q3FY18	QoQ%
Consultancy & Engineering projects	3372	3509	(3.9)	3845	(12.3)
Lumpsum Turnkey Projects	1725	920	87.4	889	94.0
Consultancy & Engineering projects	896	1305	(31.3)	1440	(37.7)
Lumpsum Turnkey Projects	121	325	(62.8)	108	12.2
Segment Margins %					
Consultancy & Engineering projects	26.6	37.2		37.4	
Lumpsum Turnkey Projects	7.0	35.3		12.1	

Source: Company

EIL's order backlog, reported at Rs 78 Bn at the end of FY18 (almost flat y/y). Currently, PMC order book stands close to Rs 41.2 Bn (51% of total order book) and turnkey orders stands at Rs 35.6 Bn. In the quarter, order inflows remained weak, reported at Rs 743 mn, entirely in the consulting division.

Management shared positive outlook for order inflows in domestic market driven by brownfield expansion of several small sized refineries (with capacities less than 3 mmtpa) over FY18-19. In greenfield projects, we believe HPCL Barmer refinery (expected refinery cost is Rs 410 Bn) could be 5-7% of total cost could get awarded in 1HFY19.

We strongly believe that order booking/margins have bottomed out in the domestic business as various players in Indian hydrocarbon industry (both upstream and downstream) are likely to expand capacities to meet growing energy demand of India. Further, we believe (consistent with management view) that the international market (mainly Middle East and Africa) can potentially recover driven by rising crude oil prices.



### Potential orders from the following Hydrocarbon expansion plans over FY19-20

Project	Client	Scope Jobs Rs Bn	Estimated Consultancy
Bina refinery expansion	BPCL	Expansion from 6 mn MT to 7.8 mn MT	1 to 1.25
Bina refinery expansion	BPCL	9 mn MT Grassroot expansion	9 to 10
Kochi propylene derivatives	BPCL	Propylene derivatives	2.5 to 5
Bhatinda Expansion	HPCL	a) Low cost initial expansion. B) Doubling of capacity. C) Petrochemical integration.	4 to 4.5
Numaligarh Expansion	BPCL		Na
Barmer Refinery	HPCL	Greenfield refinery with petrochemical plant	25
Barauni Refinery	IOC	Expansion by 6 mn MT and petrochemical integration	Na
West Coast refinery	IOC	BPCL, HPCL, IOC	30

Source: Company, Kotak-PCG Research

### Business Outlook: financials likely to show growth in FY19/FY20 led by improved ordering/execution in domestic hydrocarbon orders

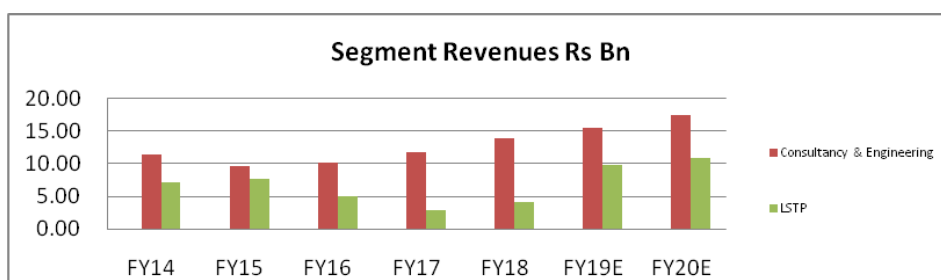
We believe that order inflows in domestic market shall be driven by brownfield expansion of several small sized refineries (with capacities less than 3 mmtpa) over FY19-20. In greenfield projects, management sounded almost certain of winning HPCL Barmer refinery (expected refinery cost is Rs 410 Bn) project in 1HFY19. West Coast refinery (40 mn tonnes project; value Rs 1.4 trillion, PMC scope could be 5-7% of total cost) could get awarded over FY20. Currently land acquisition process is going on for this project.

We project PMC order book to grow meaningfully over the next two years driven by domestic business.

Order book assumptions (Rs mn)	FY17	FY18	FY19E	FY20E
Closing Order Book	77619	78731	91717	94812
Consultancy	40208	41739	54525	58398
YoY %	33.6%	3.8%	30.6%	7.1%
LSTP	37411	36992	37193	36414
YoY %	380.5%	-1.1%	0.5%	-2.1%
Order flows				
Consultancy	22963	16608	28234	21175
YoY %	66.9%	(27.7)%	70.0%	-25.0%
LSTP	34118	4797	10000	10000
YoY %	1450.8%	-85.9%	108.5%	0.0%

Source: Company, Kotak-PCG Research

We project revenue growth at 25 % CAGR between FY18-20 from Rs 17.8 Bn in FY18 to Rs 28 Bn in FY20. Within the revenue streams, we expect consultancy & engineering business to grow at 12% CAGR (earlier 15% CAGR) in the same period. Lumpsum turnkey project segment (LSTP) is expected to grow substantially at 62% CAGR (earlier 57% CAGR) between FY18-20.



Source: Company, Kotak PCG-Research

We believe that EBITDA margin would contract in FY19 driven by increased proportion of LSTK orders but this does not speak adverse about EILs profitability. Note that LSTK order are awarded (or won) on open book estimate basis and company's margins remain secured as contract terms includes price variation clause. Further, we expect EBITDA margins to normalize (rather expand) in FYFY20 on back of PMC orders. We build EBITDA margin at 22% and 24% in FY19 and FY20 respectively.

### Change in estimates

We update our earnings model and factor slippage of some part of revenues (as per management directions from FY20 revenues). Key changes are detailed in the table below.

Change in earning estimate	FY19			FY20		
	Revised	Old	% Change	Revised	Old	% Change
Revenue	25247	25,466	(0.9)	28081	29,016	(3.2)
EBITDA	5554	5,602	(0.8)	6739	7,109	(5.2)
EBITDA (%)	22.0	22.0		24.0	24.5	
PAT	4837	5,234	(7.6)	5636	6,253	(9.9)
PAT (Core)	3613	3,869	(6.6)	4412	4,655	(5.2)
EPS	7.2	8.3	(13.5)	8.4	9.3	(9.9)
EPS (Core)	5.4	5.7	(6.6)	6.5	6.9	(5.2)

### VALUATION AND RECOMMENDATION

Following the earnings changes made to our forecasts, we revise our target price downwards to Rs 187 (Rs 204 earlier); maintain 'BUY' rating on EIL's stock. Delays in the awarding of key orders can pose threat to our earnings estimate.

Valuation Table	Rs mn (FY20)
Core PAT	4,412
PER (x)	23
Net Cash	24816
Target valuation	126297
Target Valuation (Target Price) per share (Rs)	187

Source: Kotak-PCG Research

### About the company

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

## Financials - Standalone

### Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>14,486</b>	<b>17,876</b>	<b>25,247</b>	<b>28,081</b>
% change yoy	(4.1)	23.4	41.2	11.2
<b>EBITDA</b>	<b>3,022</b>	<b>4,131</b>	<b>5,554</b>	<b>6,739</b>
% change yoy	53.3	36.7	34.5	21.3
Depreciation	225	238	236	245
<b>EBIT</b>	<b>2,797</b>	<b>3,892</b>	<b>5,318</b>	<b>6,494</b>
% change yoy	62.3	39.2	36.6	22.1
Net Interest	32	6	6	6
Other Income	2236.6	1795	1800	1800
Earnings Before Tax	5,002	5,682	7,113	8,289
% change yoy	16.5	13.6	25.2	16.5
Tax	1,751	1,902	2,276	2,652
as % of EBT	35.0	32.0	32.0	32.0
Extraordinary Income	0	0	0	0
<b>Recurring PAT</b>	<b>3,250</b>	<b>3,779</b>	<b>4,837</b>	<b>5,636</b>
% change yoy	10.0	16.3	28.0	16.5
EPS (Rs)	4.8	5.6	7.2	8.4
DPS (Rs)	3.0	4.0	3.7	4.3
CEPS	5.2	6.0	7.5	8.7

Source: Company, Kotak Securities – Private Client Research

### Cash Flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
PBT	5,002	5,682	7,113	8,289
Depreciation	225	238	236	245
Current liabilities incl provisions	2,071	6,185	60	1,482
Increase in inventory	10	-	-	-
Increase in sundry Debtors	(67)	(1,619)	(914)	(714)
Increase in advances	14	4	(7)	(8)
Other Current Assets	(121)	(487)	(2,807)	(870)
Tax Paid	(1,751)	(1,902)	(2,276)	(2,652)
Other Adjustments	(801)	891	0	0
<b>Net cash from operations</b>	<b>4,582</b>	<b>8,992</b>	<b>1,404</b>	<b>5,771</b>
Purchase of fixed Assets	(55)	(212)	(386)	(395)
Net investments	(4,943)	2,967	-	-
Other investment activities	(655)	(285)	1272	(1)
<b>Net cash from investing</b>	<b>(5,652)</b>	<b>2,470</b>	<b>886</b>	<b>(396)</b>
Change in Borrowings	0	0	0	0
Dividend Paid	(2,438)	(3,251)	(3,015)	(3,497)
Issue of common equity	-	(6,500)	-	-
<b>Net Cash from financing activities (2,438)</b>	<b>(9,751)</b>	<b>(3,015)</b>	<b>(3,497)</b>	
Net Cash Flow	(3,509)	1,711	(725)	1,878
Cash at the end of year	23,105	24,816	24,091	25,969

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>Cash and cash equivalents</b>	<b>23,105</b>	<b>24,816</b>	<b>24,091</b>	<b>25,969</b>
Accounts receivable	3,831	5,449	6,364	7,078
Loans & advances	108	103	111	118
<b>Current Assets</b>	<b>8,392</b>	<b>10,493</b>	<b>14,221</b>	<b>15,813</b>
Investments	5,695	2,728	2,728	2,728
Net fixed assets	2,231	2,204	2,354	2,504
Current Liabilities	15,216	21,400	21,460	22,942
Other non-current assets	3763	4062	2790	2791
<b>Total Assets</b>	<b>27,970</b>	<b>22,903</b>	<b>24,724</b>	<b>26,863</b>
Debt	-	-	-	-
Other liabilities	211	224	224	224
Equity & reserves	27,760	22,679	24,500	26,639
<b>Total Liabilities</b>	<b>27,970</b>	<b>22,903</b>	<b>24,724</b>	<b>26,863</b>
BVPS	41.2	33.7	36.4	39.5

Source: Company, Kotak Securities – Private Client Research

\* FY18 Equity & reserves (and BVPS) are adjusted for the equity buy back

### Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>EBITDA margin (%)</b>	<b>20.9</b>	<b>23.1</b>	<b>22.0</b>	<b>24.0</b>
EBIT margin (%)	19.3	21.8	21.1	23.1
Net profit margin (%)	22.4	21.1	19.2	20.1
Adjusted EPS growth (%)	10.0	16.3	28.0	16.5
Receivables (days)	96.5	111.3	92.0	92.0
Sales / Net Fixed Assets (x)	6.1	7.2	9.8	10.5
Debt/ equity ratio	-	-	-	-
<b>ROE (%)</b>	<b>11.6</b>	<b>15.0</b>	<b>20.5</b>	<b>22.0</b>
<b>ROCE (%)</b>	<b>11.6</b>	<b>14.9</b>	<b>20.3</b>	<b>21.9</b>
EV/ Sales	4.8	3.9	2.7	2.5
<b>EV/EBITDA</b>	<b>22.8</b>	<b>16.7</b>	<b>12.4</b>	<b>10.2</b>
<b>Price to earnings (P/E)</b>	<b>28.8</b>	<b>24.8</b>	<b>19.4</b>	<b>16.6</b>
Price to book value (P/B)	3.4	4.1	3.8	3.5
Price to cash earnings	27.0	23.3	18.5	15.9

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	1928914
52-wk Hi/Lo (Rs)	:	1470 / 1108
Face Value (Rs)	:	2
3M Avg. daily volume	:	2,071,924
Shares o/s (m)	:	1401

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs bn)	FY18	FY19E	FY20E
Revenue	1,197	1,340	1,499
Growth (%)	9	12	12
EBITDA	136	144	172
EBITDA margin (%)	11	11	12
PAT	74	81	100
EPS	53	58	71
EPS Growth (%)	22	10	24
BV (Rs/share)	398	435	487
Dividend/share (Rs)	18	18	18
ROE (%)	14	14	15
ROCE (%)	7	6	6
P/E (x)	27	24	19
EV/EBITDA (x)	21	19	16
P/BV (x)	3	3	3

Source: Kotak Securities - PCG; Company

### Shareholding Pattern (%)

(%)	Mar-18	Dec-17	Sep-17
Promoters	0.0	0.0	0.0
FII	18.8	16.9	17.2
DII	39.1	16.0	13.4
Others	29.3	67.1	69.4

Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Larsen & Toubro	(0.1)	4.4	13.0
Nifty	0.0	1.9	3.2

Source: Bloomberg

### Price chart



Source: Bloomberg

### Sanjeev Zarbade

sanjeev.zarbade@kotak.com

+91 22 6218 6424

## LARSEN AND TOUBRO

**Rs 1378 TARGET Rs.1520 FY20E 19.3x, ACCUMULATE**

L&T numbers were broadly in line on all fronts including Revenue, EBITDA and PAT front. While order intake was sluggish in the first half of FY18, there has some good uptick in Q4FY18 which enabled it to meet its revised full year order intake guidance.

### Key Highlights

- ❑ The company reported 9% growth in revenue in FY18, but missed out on the annual guidance as execution during the fiscal was sluggish due to various factors like GST implementation and weak demand for real estate.
- ❑ Order intake during the fiscal rose 7% to Rs 1529 bn and order book stands at Rs 2.6 trn (up marginally). Order intake was driven by domestic public sector which offset the slack in international orders.
- ❑ Cash flow from operations declined in FY18 due to higher working capital engagement.
- ❑ Private sector capex (including real estate) still remains muted though there are nascent signs of investments taking place in metal industry, the management noted.

### Valuation and Outlook

On forward earnings basis, L&T is trading at 23.8x and 19.0x FY19E and FY20E earnings respectively.

We maintain our target price of Rs 1520 on the stocks, valuing it at 21x FY20 earnings (earlier 25x FY19E). We have accorded lower exit multiple in view of moderate growth guidance by the management given the tepid industrial/infrastructure investment scenario.

Due to moderate upside, we maintain "Accumulate", thereby advising clients to buy on declines.

Rs mn (Consolidated)	Q4FY17	Q4FY17	YoY (%)	Q3FY17	QoQ (%)
Net sales	406781	368280	10.5	287475	41.5
Total op expenses	352,876	324,929	8.6	256,035	37.8
Raw material	44,318	50,296	-11.9	42,377	4.6
Sub-contracting charges	94,848	83,464	13.6	56,427	68.1
Construction materials	95,886	74,859	28.1	58,188	64.8
purchase of trading goods	3,713	5,850	-36.5	2,843	30.6
Other operating expenses	30,681	38,068	-19.4	23,935	28.2
sales and admin exp	26,379	23,983	10.0	18,604	41.8
Personnel	41,284	35,004	17.9	38,375	7.6
Finance cost of financial services activity	15,767	13,403	17.6	15,286	3.1
Operating Profit	53905	43351	24.3	31440	71.5
Other income	4328	3995	8.3	2129	103.3
Depreciation	4,924	7,227	-31.9	4,545	8.3
EBIT	53,308	40,119	32.9	29,024	83.7
Interest	4,181	2,966	40.9	3,625	15.3
PBT	49128	37152	32.2	25399	93.4
current Tax	17,954	8,640	107.8	7,957	125.6
deferred tax	(3,374)	(5,268)	-35.9	(585)	477.1
PAT before minority interest and share from associate cos	34548	33780	2.3	18027	91.6
Share of profits from associate companies	1168	834	-240.1	-1711	-31.7
Minority interest	-1705	-1558	9.4	-1279	33.3
Exceptional items	0	-2810	-100.0	-137.5	-100.0
Reported PAT	31675	30246	4.7	14900	112.6
EPS Rs	22.64	21.62		10.65	
EBITDA (%)	13.3%	11.8%		10.9%	
Raw Matl costs to sales (%)	10.9%	13.7%		14.7%	
Sub-contracting costs to sales (%)	23.3%	22.7%		19.6%	
construction materials costs to sales (%)	23.6%	20.3%		20.2%	
Purchase of trading goods costs to sales (%)	0.9%	1.6%		1.0%	
Total material and contracting expenses	58.7%	58.2%		55.6%	
Other op expenses costs to sales (%)	7.5%	10.3%		8.3%	
sales and admin costs to sales (%)	6.5%	6.5%		6.5%	
Personnel costs to sales (%)	10.1%	9.5%		13.3%	
Total tax rate %	30%	9%		29%	

### Reported Vs Estimated performance

Rs mn	Reported	Estimated
Revenue	406,781	416,156
EBITDA %	13.3	12.0
PAT	31,675	32,792

### Key Q4FY18 result highlights (Consolidated results)

Revenue growth was moderate at 10.5% y-o-y led by Infrastructure, Hydrocarbon, and Services businesses. Revenue growth has improved compared to the earlier quarters of FY18.

EBITDA margins for the quarter expanded by 150 bps y-o-y to 13.3% due to decline in "other operating expenses" coupled with robust execution.

Employee costs rose 17.9% y-o-y in line with growth in headcount and scale of operations. The management indicated that the company has increased its employee intake in the "Services" divisions.

Sales and General administration costs rose due to higher credit provisions in the financial services.

Other income at Rs 4.3 bn, up 8% y-o-y, and was mainly contributed by treasury income.

Depreciation declined 32% y-o-y to Rs 4.9 bn and quarterly interest cost rose 41% yoy to Rs 4.1 bn, in line with growth in the finance and lending business.

As a result of strong EBITDA growth and aided by lower depreciation but offset by higher interest cost, PBT rose 32.2% y-o-y to Rs 49.1 bn.

Provision for tax rose to Rs 14.5 bn as compared to Rs 3.3 bn on a y-o-y basis, which was mainly attributed to provisions for 14A (provision disallows any expenditure incurred towards the earning of exempt income) and timing differences for dividend distribution tax credit from subsidiaries.

Consequent to the higher tax outgo, the company posted PAT before exceptional items of Rs 31.6 bn vs Rs 33.0 bn in the corresponding quarter of the previous fiscal.

The company reported decline in cash flow from operations at Rs 52.1 bn in Q4FY18 vs Rs (+)ve 65.1 bn in Q4FY17. Even on a full year basis, there was a drop in cash flow from operations.

Gross borrowings (excluding the financial services vertical) increased to Rs 333 bn in FY18 vs Rs 309 bn in FY17, mainly arising out of higher working capital engagement.

### Divisional performance

#### Infrastructure

Revenue growth was good at (+15%) y-o-y in Q4FY18 led by growth driven by heavy Civil engineering and Water treatment business.

Segment EBITDA margins stood at 13.5% in the quarter and was flat on a y-o-y basis.

#### Power

The Power segment reported revenue decline of 18% y-o-y which was mainly due to depleting order book and power sector challenges.

EBITDA margins were higher on a y-o-y basis at 4.2%.

The Power generation Equipment/EPC segment continues to remain plagued with overcapacity leading to aggressive competition among rivals for scarce orders.

#### Heavy Engineering Segment

This division reported a robust revenue growth of 26% yoy due strong execution progress in defence jobs.

EBITDA margins declined to 18.1% vs 27.7% on a y-o-y basis. The segment margin declined due to stage of job execution; margins being higher in the final stages as profit visibility is the highest.

### **Electrical & Automation (E&A) Segment**

This segment reported modest growth of 6% y-o-y, which was mainly attributed to growth in the Switchboards and Control & Automation products business.

EBITDA margins expanded 30 bps y-o-y to 19.7%, which was mainly attributed to "Standard Products" group and cost efficiencies across multiple Business Units.

The company has signed undertaking for sale of this business to Schneider Electric for Rs 140 bn, subject to regulatory clearances

### **Hydrocarbon division**

This segment posted strong revenue growth of 38% yoy for the quarter aided by improved execution of international order book.

The segment reported EBITDA margin of 6.0%, contraction of 370 bps y-o-y, which was attributed to variations related to stage of job (as noted earlier).

### **IT & Technology Services Segment**

This segment reported 24% yoy growth in revenue driven by digital services, Bank and Financial Services, Energy & Utilities and CPG, Retail & Pharma verticals.

Segment EBITDA Margins expanded 60 bps y-o-y to 21.0%.

The company continues to focus on better manpower utilization, favourable currency movement, and operational excellence

### **"Others" segment**

This segment constitutes Metallurgical & Material Handling, Industrial Products & Machinery, Realty and Shipbuilding businesses.

Revenues declined 28% on a yoy basis mainly due to lower industrial offtake, weak real estate sales and delayed client clearance/lower order book in Metallurgical and Material Handling business.

Realty business slowed down due to RERA, delayed approvals and demonetisation measures.

The segment reported strong EBITDA margins gain on a y-o-y basis as Q4FY17 had losses and inventory writedown in shipbuilding division.

### **"Development projects" Segment**

This segment includes Power Development, Kattupalli Port and Hyderabad Metro. The segment reported quarterly revenue growth of 21% on a y-o-y mainly on account of higher power generation.

The company reported quarterly EBITDA loss (14.4% margin) due to provision for disputed receivables related to Nabha power of Rs 2.0 bn.

### **Weak order intake due to decline in overseas orders.**

- Order inflows for the quarter and fiscal stood at Rs 497 bn and Rs 1529 bn, up 4.3% and 6.9% respectively.
- Order Inflow was tepid in the fiscal due to muted domestic capex cycle on one hand and delay in project finalization on the other.
- Order intake for the fiscal was mainly driven by domestic market orders (up 15% at Rs 1.17 trn) while the international orders declined 13% (Rs 359 bn).



- Order backlog stands at Rs 2.63 trn, up marginally on a y-o-y with the domestic market accounting for 76% of order backlog.

### Management guidance for FY19E

- As against a revenue growth guidance of 12% in FY18, the company reported revenue growth of 9%. Execution was sluggish due to factors like GST implementation.
- For FY19E, the management has guided for 12-15% growth, which appears a tad aggressive given that order book is flattish.
- On EBITDA margin in FY19E (excluding the services business comprising of Development business + IT&TS+Financial Services), the management has guided for 25 bps increase.
- The guidance on order intake in FY18 was initially at 12-14%, but was later revised down to 0-5%; the company achieved the revised guidance. For FY19E, the company has guided for 10-11% growth in order intake.

### Earnings Revision

	FY19	
Rs mn	Earlier	Revised
Revenue	1394	1316.0
EBITDA %	10.5	11.5
EPS	60.8	57.8
% change		-4.9%

### Rating: Maintain Accumulate due to moderate upside

On forward earnings basis, L&T is trading at 23.8x and 19x FY19E and FY20E earnings respectively.

We maintain our target price of Rs 1520 on the stocks, valuing it at 21x FY20 earnings (earlier 25x FY19E). We have accorded lower exit multiple in view of moderate growth guidance by the management given the tepid industrial/infrastructure investment scenario.

Due to moderate upside, we maintain "Accumulate", thereby advising clients to buy on declines.

### Company Background

Larsen & Toubro is a major technology, engineering, construction, manufacturing and financial services conglomerate, with global operations. L&T addresses critical needs in key sectors - Hydrocarbon, Infrastructure, Power, Process Industries and Defence - for customers in over 30 countries around the world. The Company's manufacturing footprint extends across eight countries in addition to India. L&T has several international offices and a supply chain that extends around the globe.

## Financials - Standalone

### Profit and Loss Statement (Rs bn)

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>1,100</b>	<b>1,197</b>	<b>1,340</b>	<b>1,499</b>
% change YoY	7.9	8.8	12.0	11.8
<b>EBITDA</b>	<b>111</b>	<b>136</b>	<b>144</b>	<b>172</b>
% change YoY	5.8	22.4	6.0	20.0
Other Income	14.0	14.3	15.0	15.5
Depreciation	23.7	19.3	16.4	18.4
<b>EBIT</b>	<b>101</b>	<b>131</b>	<b>142</b>	<b>169</b>
% change YoY	-11.3	2.6	33.5	-100.0
Net interest	13.4	15.4	16.3	17.4
Profit before tax	88	115	126	152
% change YoY	10.6	31.4	9.3	20.8
Tax	21	32	34	41
as % of PBT	24.5	27.8	27.0	27.0
Profit after tax before exceptional items	66.2	83.2	91.9	111.0
% change YoY	20.6	25.7	10.4	20.8
Exceptional items	1.2	1.2	0.0	0.0
Reported PAT	67	84	92	111
Minority interest	(4)	(6)	(7)	(7)
Share of profit loss from associate cos	(3)	(4)	(5)	(5)
Consolidated PAT	60	74	81	100
Shares outstanding (m)	1,399.0	1,399.0	1,399.0	1,399.0
EPS (before exp items) (Rs)	43.2	52.7	57.8	71.5
CEPS (Rs)	59.3	65.6	69.5	84.6
DPS (Rs)	18.0	18.0	18.0	18.0

Source: Company, Kotak Securities – Private Client Research

### Cash Flow Statement (Rs bn)

(Year-end March)	FY17	FY18	FY19E	FY20E
PBDIT	111	136	144	172
Direct tax paid	-32	-32	-34	-41
Adjustments	14	-36	-5	-5
Cash flow from operations	92	68	105	127
Net Change in Working Capital	-30	-102	-22	-49
<b>Net Cash from Operations</b>	<b>62</b>	<b>-34</b>	<b>83</b>	<b>77</b>
Capital Expenditure	-30	-20	-20	-20
Cash from investing	-68	-100	15	16
<b>Net Cash from Investing</b>	<b>-97</b>	<b>-120</b>	<b>-5</b>	<b>-5</b>
Interest paid	13	15	16	17
Issue of Shares/(buyback)	1	0	0	0
Dividends Paid	-21	-28	-28	-28
Debt Raised	58	135	192	99
Others	-16	57	0	0
<b>Net cash from financing</b>	<b>35</b>	<b>179</b>	<b>180</b>	<b>89</b>
Net change in cash	0	25	258	162
Free cash flow	33	-54	63	57
cash at end	54	80	339	500

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs bn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	56	80	339	500
Accounts receivable	280	347	367	411
Inventories	41	48	51	57
Loans and Adv & Others	701	777	777	777
Current assets	1,078	1,253	1,534	1,745
Intangible assets	132	149	149	149
Other assets	528	703	703	703
Investments	198	153	153	153
Net fixed assets	168	128	131	133
Def tax assets	17	21	21	21
<b>Total assets</b>	<b>2,121</b>	<b>2,407</b>	<b>2,692</b>	<b>2,905</b>
Payables	601	378	378	378
Others	0	273	273	273
Current liabilities	601	651	651	651
Provisions	32	30	32	32
Debt	940	1,075	1,267	1,367
Other liabilities	10	38	70	105
Equity	2	3	3	3
Reserves	500	554	606	678
Minority Interest	36	56	63	69
<b>Total liabilities</b>	<b>2,121</b>	<b>2,407</b>	<b>2,692</b>	<b>2,905</b>
BVPS (Rs)	359	398	435	487

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	10.1	11.3	10.7	11.5
EBIT margin (%)	9.2	10.9	10.6	11.3
Net profit margin (%)	5.5	6.2	6.0	6.7
Receivables (days)	92.8	106	100	100
Inventory (days)	13.7	15	14	14
Sales/gross assets(x)	7.5	11.2	12.2	13.4
Interest coverage (x)	8.3	8.8	8.8	9.9
Debt/equity ratio(x)	1.9	1.9	2.1	2.0
ROE (%)	12.5	13.7	13.9	15.5
ROCE (%)	6.6	6.7	6.0	6.3
EV/ Sales	2.4	2.4	2.1	1.8
EV/EBITDA	24.1	20.9	19.2	15.7
Price to earnings (P/E)	32.6	26.6	23.8	19.3
Price to book value (P/B)	3.8	3.5	3.2	2.8

Source: Company, Kotak Securities – Private Client Research

## Company Update

### Stock Details

Market cap (Rs mn)	:	24410
52-wk Hi/Lo (Rs)	:	750 / 441
Face Value (Rs)	:	2
3M Avg. daily volume	:	202,707
Shares o/s (m)	:	55

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	34,746.1	38,220.7	42,042.7
Growth %	8.3	10.0	10.0
EBITDA	2,918.0	3,287.0	3,615.7
EBITDA margin %	8.4	8.6	8.6
PAT	1,353.0	1,695.4	1,998.2
EPS (Rs)	24.8	31.1	36.6
Growth %	32.1	25.3	17.9
BV (Rs/share)	206.8	237.5	272.5
DPS (Rs)	4.0	4.0	4.0
ROE %	12.7	14.0	14.6
ROCE %	10.9	11.7	12.8
P/E (x)	18.2	14.5	12.3
EV/EBITDA (x)	9.5	7.2	6.3
P/BV (x)	2.2	1.9	1.7

Source: Kotak Securities - PCG; Company

### Shareholding Pattern (%)

(%)	Mar-18	Dec-17	Sep-17
Promoters	24.7	24.7	24.7
FII	24.7	25.8	26.7
DII	20.1	19.8	22.3
Others	30.5	29.7	26.3

Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Va Tech Wabag	-12.3	-18.9	-25.5
Nifty	0.0	1.9	3.2

Source: Bloomberg

### Price chart



Source: Bloomberg

### Sanjeev Zarbade

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

## VA TECH WABAG LTD

Rs 452

TARGET Rs.550

BUY

VA Tech (VAW) reported weak set of numbers which missed our estimates on revenue, EBITDA margin as well as profit front. The company has also missed out on the order intake guidance in FY18, thereby leading to decline in order book.

### Key Highlights

- Order intake declined 12% to Rs 31.9 bn against management guidance of Rs 40-42 bn.
- Order book at Rs 68 bn, down 7% over FY17.
- Gross borrowings rose further to Rs 4.8 bn. Net borrowings of Rs 2.9 bn.

### Valuation and Outlook

At the current price, the stock has corrected 38% from its high of Rs 750. In view of the long term potential in water and waste water treatment and reasonable valuations, we reiterate "BUY" with price target of Rs 550, valuing the stock at 15x FY20 earnings (earlier Rs 672, based on 19x FY19 earnings). Collection of retention money on APGENCO projects remains the key trigger for the current investor sentiment to start looking up, we believe. Reiterate BUY.

Rs mn	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Net Sales	10375	11317	-8.3	8647	20.0
					#DIV/0!
Total Expenditure	9427	10001	-5.7	7870	19.8
(Increase) / Decrease In Stocks	30	1217	-97.6	28	5.3
Cost of Services & Raw Materials	8096	7841	3.2	6823	18.7
Other Expenses	633	361	75.4	351	80.2
Employee Cost	669	582	14.9	669	0.1
PBIDT	948	1316	-28.0	777	22.1
Other Income	26	3	693.9	8	211.9
Operating Profit	974	1,320	-26.2	785.1	24.1
Depreciation	45	52	-12.4	43	4.6
EBIT	929	1,268	-26.7	741.8	25.2
Interest	158	161	-1.4	142	11.2
PBT	771	1,107	-30.4	599	28.5
Tax	145	326	-55.5	248	-41.5
Profit After Tax	625	781	-19.9	351.1	78.1
Minority Interest	(38)	(38)	0.5	-57.7	-34.7
Shares of Associates	9	13	-32.1	7.2	26.4
Provisions	-	-		0.0	0.0
Consolidated Net Profit	597	757	-21.2	300.6	98.5
EBITDA excl other op income (%)	9.1	11.6		9.0	
Material costs to sales (%)	78.3	80.0		79.2	
Staff costs to sales (%)	6	5		8	
Other expenditure to sales (%)	6.1	3.2		3.4	
Tax rate (%)	30	30		30	
EPS (Rs)	10.9	13.9		5.5	

### Quarterly performance – Reported Vs Estimated

Rs mn	Reported	Estimated
Revenue	10375	12000
EBITDA %	9.48	12.00
PAT	596	780

### Q4FY18 Consolidated results highlights

Revenue - consolidated revenue stood at Rs 10.4 bn (-8.3% YoY) and fell well short of our revenue estimates.

EBITDA for the quarter stood at Rs 948 mn (down 28% YoY), which was lower than estimates due to 250 bps contraction in EBITDA margins on a y-o-y basis.

EBITDA margins for the quarter stood at 9.5% vs 11.6% on a y-o-y basis, mainly due to under-absorption of fixed overheads.

Share of profits from associates stood at Rs 9 mn vs Rs 13 mn on a y-o-y basis. The company reported PAT of Rs 597 mn vs Rs 757 mn in corresponding quarter of the previous fiscal.

Consolidated gross debt stands at Rs 4.8 bn as compared to Rs 4.2 bn and Rs 3.1 on a q-o-q and y-o-y basis.

Cash levels stand at Rs 1.85 bn vs Rs 2.6 bn on a y-o-y basis, mainly due to higher engagement in working capital.

Consolidated Order backlog stands at Rs 68 bn (Rs 73 bn on a y-o-y basis). Order book has declined in FY18 due to sluggish pace of order accretion. Notwithstanding the decline, the revenue visibility provided by order book is adequate at 23.6 months of trailing four quarter revenues.

Order intake in FY18 stood at Rs 31.9 bn (vs Rs 36.2 bn on a y-o-y basis); the decline being caused by delay in finalization of large orders in India as well as Overseas markets.

### Maintained Guidance

The company missed out on its revenue guidance of Rs 38-40 bn in FY18 due to tepid order book. For the current fiscal, the management has given revenue guidance of Rs 40-42 bn, which implies a growth of 15-21% over FY18 revenues.

The company also missed out on its order intake guidance of Rs 43-45 bn in FY18 as actual order intake was at Rs 31.9 bn. For the current fiscal, the management has given order intake guidance of Rs 53-57 bn, which implies a growth of 66-79% over FY18 figure. The management believes that couple of large orders have got delayed and some of these should materialize in FY19, which should help the company meet its guidance.

### Analyst meet highlights

#### Namami Gange Project – A major opportunity in FY19

VAW has already won three orders from Namami Gange project; 1) Rs 1.5 bn order for 60,000 m<sup>3</sup>/day WWTP –Pahari, Bihar, 2) Rs 2.5 bn Sewerage Network at Karmalichak, Bihar and 3) Upgradation of two sewage treatment plants at Haridwar.

While the above order wins are important but the major orders will come from the "Integrated City Management" model. In this, the company is expecting large scale projects summing up to ~ Rs 50 bn in Kanpur, Allahabad, Patna and Kolkata. VAW expects to win at least two of these "Integrated City Management" orders in current fiscal.

Of the overall opportunity of Rs 200 bn from the Namami Gange project, the company expects atleast Rs 150 bn of orders to be placed in FY19.

## Working Capital

The management noted the increase in working capital and attributed it to 1) delay in amendment on GST and 2) Delay in receivables from APGENCO orders.

The company expects that once the APGENCO retention money is collected, the company would again become a “net cash” company.

### APGENCO orders

The management highlighted that APGENCO orders had 20% retention amount. Out of the total receivables of Rs 28.7 bn, APGENCO accounts for Rs 5.0 bn, which has remained more or less the same on a q-o-q basis.

The first of the two APGENCO projects (Kakatiya) was completed in 2016 and now with the end of defect liability period in current fiscal, VAW expects to receive Rs 1.0 bn from the retention amount.

As regards, the second APGENCO project (Rayalseema), the company indicated that Commercial Operation Date (COD) has been achieved in March 2018 and hence it should collect a sizeable portion of retention money by September 2018.

Overall, the company expects to collect Rs 4.5 bn (60-65% of retention money) from both the APGENCO projects by September 2018, which will substantially reduce the overall working capital.

### Earnings Revision

	FY19	
Rs mn	Earlier	Revised
Revenue	38198	38220.67
EBITDA (%)	9.4	8.6
EPS	35.4	31.3
Change		-11.7%

### Valuation – Maintain BUY

VAW is trading at 14.5x and 12.3x, FY19 and FY20 earnings respectively. The Wabag stock has corrected in past few months on 1) weak order intake in FY18 2) Decline in order book 3) Higher working capital engagement especially in case of APGENCO orders.

At the current price, the stock has corrected 38% from its high of Rs 749. In view of the long term growth potential in water and waste water treatment and reasonable valuations, we reiterate “BUY” with price target of Rs 550, valuing the stock at 15x FY20 earnings (earlier Rs 672, based on 19x FY19 earnings).

### Background

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

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

## Financials - Standalone

### Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	32079	34746	38221	42043
% change yoy	26	8	10	10
<b>EBITDA</b>	<b>2967</b>	<b>2918</b>	<b>3287</b>	<b>3616</b>
% change yoy	37	-2	13	10
Other Income	112	57	110	110
Depreciation	191	178	185	185
<b>EBIT</b>	<b>2775</b>	<b>2740</b>	<b>3102</b>	<b>3431</b>
% change yoy	41	-1	13	11
Net Interest	526	577	567	437
Earnings Before Tax	2362	2219	2644	3103
% change yoy	53	-6	19	17
Provisions	0	0	0	0
Tax	-667	-774	-899	-1055
as % of EBT	-28	-35	-34	-34
Net Income adj	1695	1445	1745	2048
% change yoy	92	-15	21	17
Share of profit from associates	-573	10	0	0
Minority Interest	-98	-102	-50	-50
Reported Net Income	1024	1353	1695	1998
Shares outstanding (m)	55	55	55	55
Adj EPS (Rs)	19	25	31	37
DPS (Rs)	4	4	4	4
CEPS	22	28	34	40

Source: Company, Kotak Securities – Private Client Research

### Cash Flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
PBDIT	2967	2918	3287	3616
Direct tax paid	-770	-774	-899	-1055
Adjustments	-151	177	0	0
Cash flow from operations	2045	2321	2388	2561
Net Change in Working Capital	-1862	-4035	2364	-1079
<b>Net Cash from Operations</b>	<b>183</b>	<b>-1715</b>	<b>4752</b>	<b>1482</b>
Capital Expenditure	-139	-118	-150	-150
Cash from investing	327	214	110	110
<b>Net Cash from Investing</b>	<b>188</b>	<b>96</b>	<b>-40</b>	<b>-40</b>
Interest paid	-526	-577	-567	-437
Issue of Shares	0	0	0	0
Other liabilities	539	1	0	0
Dividends Paid	-264	-255	-255	-255
Debt Raised	-683	1682	-2683	0
<b>Net cash from financing</b>	<b>-933</b>	<b>852</b>	<b>-3506</b>	<b>-692</b>
Net change in cash	-562	-767	1206	750
Free cash flow	44	-1832	4602	1332
<b>cash at end</b>	<b>2391</b>	<b>1852</b>	<b>3058</b>	<b>3807</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	2615.6	1851.7	3057.6	3807.3
Accounts receivable	25114.9	28731.8	29843.5	32827.9
Inventories	385.0	382.2	385.0	385.0
Loans and Advances	408.7	348.4	409.0	409.0
Other current assets	2163.0	3054.0	2617.9	2879.6
<b>Current Assets</b>	<b>30687.2</b>	<b>34368.1</b>	<b>36313.0</b>	<b>40308.9</b>
Invest/Loans and Adv.	825.6	780.7	780.7	780.7
Intangible Assets	691.4	732.1	732.1	732.1
Net fixed assets	1053.0	992.1	957.1	922.1
Deferred tax assets	246.8	247.0	247.0	247.0
CWIP	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>33505</b>	<b>37120</b>	<b>39030</b>	<b>42991</b>
Payables	18162.9	18540.1	21675.8	23843.4
Provisions	521.3	553.5	521.0	521.0
<b>Current liabilities</b>	<b>18684.2</b>	<b>19093.6</b>	<b>22196.8</b>	<b>24364.4</b>
LT debt	3090.8	4773.1	2090.0	2090.0
Other liabilities	1626.9	1520.2	1520.2	1520.2
Equity & reserves	9931.1	11395.7	12836.0	14579.2
Minority Interest	172.5	337.5	387.5	437.5
<b>Total Liabilities</b>	<b>33505</b>	<b>37120</b>	<b>39030</b>	<b>42991.4</b>
BVPS (Rs)	182.0	208.8	235.2	267.2

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	9.2	8.4	8.6	8.6
EBIT margin (%)	8.7	7.9	8.1	8.2
Net profit margin (%)	5.3	4.2	4.6	4.9
Receivables (days)	285.8	301.8	285.0	285.0
Inventory (days)	4.4	4.0	3.7	3.3
Sales / Net Fixed Assets (x)	30.5	35.0	39.9	45.6
Interest coverage (x)	5.6	5.1	5.8	8.3
Debt/equity ratio(x)	0.3	0.4	0.2	0.1
ROE (%)	10.7	12.7	14.0	14.6
ROCE (%)	13.7	10.9	11.7	12.8
EV/ Sales	0.8	0.8	0.6	0.5
EV/EBITDA	8.4	9.5	7.2	6.3
Price to earnings (P/E)	24.0	18.2	14.5	12.3
Price to book value (P/B)	2.5	2.2	1.9	1.7
Price to cash earnings	20.3	16.1	13.1	11.3

Source: Company, Kotak Securities – Private Client Research



## Result Update

### Stock Details

Market cap (Rs mn)	:	34465
52-wk Hi/Lo (Rs)	:	233 / 116
Face Value (Rs)	:	1
3M Avg. daily volume	:	231,458
Shares o/s (m)	:	226

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	31,834	37,045	42,601
Growth (%)	16	16	15
EBITDA	4,741	5,718	6,561
EBITDA margin (%)	15	15	15
PAT	2,195	3,017	3,538
EPS	10	13	16
EPS Growth (%)	49	37	17
BV (Rs/share)	66	41	44
Dividend/share (Rs)	1	1	1
ROE (%)	16	19	18
ROCE (%)	13	15	15
P/E (x)	15	11	10
EV/EBITDA (x)	9	7	6
P/BV (x)	2	2	2

Source: Kotak Securities - PCG; Company

### Shareholding Pattern (%)

(%)	Mar-18	Dec-17	Sep-17
Promoters	52.4	52.5	52.6
FII	19.4	19.2	19.4
DII	9.1	9.0	9.1
Others	19.2	19.3	19.0

Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Time Technoplast	(6.6)	(12.1)	(18.2)
Nifty	0.0	1.9	3.2

Source: Bloomberg

### Price chart



Source: Bloomberg

### Sanjeev Zarbade

sanjeev.zarbade@kotak.com

+91 22 6218 6424

## TIME TECHNOPLAST LTD

Rs 148

TARGET Rs.214

BUY

Time Technoplast reported healthy operating level performance for Q4FY18. Profits exceeded our estimates.

### Key Highlights

- The company reported volume growth of 15% in FY18
- The share of value added products has been at 18% of the total sales FY18 as against 12% in the previous year.
- The company commissioned several new expansion projects during the fiscal and well within budget.

### Valuation and Outlook

At CMP, TTL is trading at P/E of 11x and 10x FY19E and FY20E earnings respectively, which is attractive as it is at a discount to midcap index valuation. In recent months, the TTL stock has been derated in line with general sell-off in the midcaps and smallcaps universe. However, the Q4FY18 results should put at rest concerns related to growth and profit margins. Reiterate BUY

### Q4FY18 Results

Rs mn	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Net Sales	9427	8101	16.4	7547	24.9
Material costs	6588	5717	15.2	5224	26.1
Staff costs	432	396	9.2	347	24.4
Other expenditure	948	862	9.9	813	16.7
Total Expenditure	7968	6975	14.2	6384	24.8
PBIDT	1459	1126	29.6	1163	25.5
Depreciation	386	325	18.6	334	15.5
Other Income	11	14	-21.5	2	497.9
EBIT	1085	815	33.1	831	30.5
Interest	247	216	14.5	210	17.9
PBT	837	599	39.8	621	34.8
Tax	267	161	65.6	140	90.3
Minority Interest	17	7.15	137.8	13.5	25.9
Net Profit after Minority Interest	554	431	28.6	468	18.4
EPS (Rs)	2.6	2.1		2.2	
EBITDA (%)	15.5	13.9		15.4	
Material costs to sales (%)	69.9	70.6		69.2	
Other expenditure (%)	10.1	10.6		10.8	
Tax rate (%)	31.8	26.9		22.6	

	Reported	Estimated
Net sales	9427	8453
EBITDA %	15.5%	13.7
PAT	554	454

## Consolidated results highlights

- The company reported consolidated net revenues of Rs 9.4 bn in Q4FY18, up 16.4% YoY. For the fiscal, the company delivered revenue of Rs 31.8 bn, growth of 15.6%.
- Volume growth was at 15% during FY18; indian and overseas markets grew 14% and 17% respectively.
- The management reflected optimism in the demand scenario on account of the ongoing shift in manufacturing of chemicals from developed countries to India.
- The company's overseas business accounts for 30% of sales. Moreover, the company has earned market leadership in most of its overseas geographies.
- Share of value added products like (IBCs and Mox films) in FY18 rose to 18% as compared to 12% on a y-o-y basis.
- The operating margin for the quarter stood at 15.5%, an expansion of 160 bps on a YoY basis.
- India & Overseas EBITDA margins in FY18 was at 15.48% and 14.87% (FY'17 – 14.92% & 14.30%) respectively.
- Despite cost pressure from commodities like HDPE, gross margins for the quarter expanded 70 bps y-o-y to 30.1%, which could be attributed to the higher share of value added products in revenue.
- Geography-wise, the EBITDA margins in India is more or less same as in the overseas locations. However, net profit margins are higher in overseas due to lower tax rates.
- Interest cost reversed its declining trend and rose 14% y-o-y to Rs 247 mn in Q4FY18.
- Tax rate stood at 31.8% and 24.0% in Q4FY18 and FY18 respectively (as against 26.9% and 25% respectively in Q4FY17 and FY17).
- Net profits grew by 28.6% y-o-y to Rs 554 mn driven by healthy revenue growth coupled and margin expansion.
- Gross debt on consolidated basis stands at Rs 7.7 bn, which is more or less at the same level as in the corresponding quarter of the previous fiscal.

### Capex Update:

The company undertook capex of Rs 2.4 bn (as against plan of Rs 2.34 bn) in FY18 consisting of Rs 1.2 bn and Rs 1.22 bn on maintenance and value added products resp.

### highlights:

- Completed brownfield expansion of composite cylinder to double the capacity from 700K to 1.4 Mn
- Completed brownfield expansion of MOX films to double the capacity from 6000 Tons to 12,000 Tons
- Completed brownfield expansion of manufacturing of Intermediate Bulk containers (IBC) at three overseas locations Malaysia, Vietnam and Sharjah (UAE). Now the company have manufacturing facilities of IBC at all overseas locations.
- Company's subsidiary TPL Plastech Ltd. has set up greenfield manufacturing facility for Industrial Packaging products at Vizag (A.P.).

- In addition to above the company has increased polymer processing capacity by 24,000 T at various existing locations.

### Reiterate BUY

At CMP, TTL is trading at P/E of 11x and 10x FY19E and FY20E earnings respectively, which is attractive as it is at a discount to midcap index valuation. In recent months, the TTL stock has been derated in line with general sell-off in the midcaps and smallcaps universe. However, the Q4FY18 results should put at rest concerns related to growth and profit margins.

We continue to maintain our positive stance on the company in view of healthy earnings growth coupled with good return ratios. We value the stock at 14x FY20 earnings and arrive at a price target of Rs 214 (unchanged).

### Background

TTL's products are based on the polymer platform and has access to major plastic moulding technologies including blow moulding and injection moulding.

The key product categories for the company are Industrial packaging products, lifestyle products (door mats, chairs, syringes), technical products (automotive components), infrastructure products (pipes and monolithic construction) and new products (composite cylinders). The largest segment is the industrial packaging accounting for 59% of revenues.

The company enjoys dominant market share in the industrial packaging business in India. The company's multi-locational advantage enables it to respond to customer needs in an efficient basis. Also the company keeps coming out with innovations in its product offerings.

### User breakup for packaging products

No.	User Segment	share of business (%)
1	Speciality Chemicals	31
2	FMCG	29
3	Paints & Inks	12
4	Pharmaceuticals	5
5	construction chemicals and Adhesives	13
6	Lube oils & Addictives	5
7	Food	3
8	Others	2
	Total	100

## Financials - Standalone

### Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	27,546	31,834	37,045	42,601
% change YoY	13.7	15.6	16.4	15.0
EBITDA	4,042	4,741	5,718	6,561
% change YoY	16.2	17.3	20.6	14.7
Other Income	22.2	70.0	70.0	70.0
Depreciation	1,155.0	933.9	848.2	1,004.2
EBIT	2,910	3,877	4,940	5,626
% change YoY	15.9	33.3	27.4	13.9
Interest	901.1	915.1	867.5	852.3
Profit before tax	2,009	2,962	4,072	4,774
% change YoY	29.7	47.5	37.5	17.2
Tax	494	711	977	1,146
as % of PBT	24.6	24.0	24.0	24.0
Minority Interest	43.4	56.3	77.4	90.7
Profit after tax before exceptional items	1,471.2	2,194.9	3,017.5	3,537.6
% change YoY	6.5	49.2	37.5	17.2
Exceptional items	-	-	-	-
<b>Reported PAT</b>	<b>1,471</b>	<b>2,195</b>	<b>3,017</b>	<b>3,538</b>
Shares outstanding (m)	226.1	226.1	226.1	226.1
EPS (before exp items) (Rs)	6.5	9.7	13.3	15.6
CEPS (Rs)	11.6	13.8	17.1	20.1
DPS (Rs)	0.7	0.8	0.9	0.9

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	656	327	64	-105
Accounts receivable	5,782	6,703	7,612	8,754
Inventories	5,473	6,409	7,409	8,520
Other current assets	1,761	1,910	2,100	2,100
Current assets	13,672	15,349	17,184	19,268
Intangible assets	6	6	6	0
Other assets	168	220	220	220
LT investments	0	0	0	0
Net fixed assets	11,873	12,932	14,684	16,279
Def tax assets	0	0	0	0
<b>Total assets</b>	<b>25,719</b>	<b>28,507</b>	<b>32,094</b>	<b>35,768</b>
Payables	3,861	4,789	5,176	5,953
Others	0	0	0	0
Current liabilities	3,861	4,789	5,176	5,953
Provisions	170	83	190	190
LT debt	7,227	7,775	7,999	7,499
Other liabilities	341	42	42	42
Equity	226	226	226	226
Reserves	13,039	14,605	17,398	20,710
Def tax liability	471	581	581	581
Minority Interest	384	405	482	573
<b>Total liabilities</b>	<b>25,719</b>	<b>28,507</b>	<b>32,094</b>	<b>35,768</b>
BVPS (Rs)	59	66	78	93

Source: Company, Kotak Securities – Private Client Research

### Cash Flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
PBDIT	4,042	4,741	5,718	6,561
Direct tax paid	(396)	(711)	(977)	(1,146)
Adjustments	-330	0	0	0
Cash flow from operations	3,316	4,030	4,741	5,415
Net Change in Working Capital	-1,460	-1,164	-1,605	-1,477
Net Cash from Operations	1,856	2,866	3,135	3,938
Capital Expenditure	-2,124	-2,686	-2,600	-2,600
Cash from investing	30	70	70	70
Net Cash from Investing	-2,094	-2,616	-2,530	-2,530
Interest paid	-901	-915	-868	-852
Issue of Shares/(buyback)	1,477	0	0	0
Dividends Paid	-145	-212	-225	-225
Debt Raised	-239	549	223	-500
Net cash from financing	192	-578	-869	-1,577
Net change in cash	-46	-329	-264	-169
Free cash flow	-267	180	535	1,338
cash at end	656	327	64	-105

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	14.7	14.9	15.4	15.4
EBIT margin (%)	10.6	12.2	13.3	13.2
Net profit margin (%)	5.3	6.9	8.1	8.3
Receivables (days)	76.6	76.9	75.0	75.0
Inventory (days)	72.5	73.5	73.0	73.0
Sales/gross assets(x)	1.5	2.5	2.4	2.4
Interest coverage (x)	4.5	5.2	6.6	7.7
Debt/equity ratio(x)	0.5	0.5	0.5	0.4
ROE (%)	11.8	15.6	18.6	18.3
ROCE (%)	10.4	13.0	14.9	15.2
EV/ Sales	1.5	1.3	1.1	1.0
EV/EBITDA	10.0	8.7	7.3	6.3
Price to earnings (P/E)	23.1	15.5	11.2	9.6
Price to book value (P/B)	2.6	2.3	1.9	1.6

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	140814
52-wk Hi/Lo (Rs)	:	98 / 61
Face Value (Rs)	:	5
3M Avg. daily volume (nr)	:	11,734,580
Shares o/s (m)	:	1933

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	96,183	103,498	105,654
Growth (%)	19.5%	7.6%	2.1%
EBITDA	13,975	23,238	24,355
EBITDA margin (%)	14.5%	22.5%	23.1%
PAT	7,998	14,248	15,042
EPS	4.1	7.5	7.8
EPS Growth (%)	14.9%	78.2%	5.6%
BV (Rs/share)	51	54	57
Dividend/share (Rs)	5.0	4.0	4.0
ROE (%)	7.6	13.6	13.6
ROCE (%)	10.5	18.1	18.5
P/E (x)	17.6	9.9	9.4
EV/EBITDA (x)	7.6	5.1	4.7
P/BV (x)	1.3	1.3	1.3

Source: Kotak Securities - PCG; Company

### Shareholding Pattern (%)

(%)	Mar-18	Dec-17	Sep-17
Promoters	60.2	60.2	65.4
FII	6.4	7.1	6.6
DII	21.2	21.7	18.2
Others	12.2	11.0	9.8

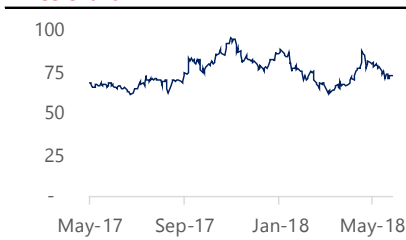
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Nalco	(10.8)	6.3	(11.2)
Nifty	0.0	1.9	3.1

Source: Bloomberg

### Price chart



Source: Bloomberg

### Jatin Damania

Jatin.damania@kotak.com

+91 22 6218 6440

# NATIONAL ALUMINIUM COMPANY

PRICE RS. 73

TARGET RS.100

BUY

National Aluminium (NALCO) Q4FY18 numbers were below our estimates, due to one-off increase in employee costs, pertaining to the revised provisions of gratuity. The alumina performance improved sharply QoQ backed by higher volume and strong realisation and we expect the trend to continue to FY19E as well.

### Key Highlights

- Higher production and destocking of inventories supported 9% YoY growth in Alumina sales volume to 440KT (+71% QoQ). Aluminium sales volume during the quarter stood at 112KT.
- The aluminium segment reported EBIT loss of Rs2.02 bn, largely due to higher alumina transfer price for smelting coupled with increase in power & fuel costs impacting aluminium segment profitability.
- Management stated that the average alumina realisation during Apr-May 2018 is ~US\$535/tonne, last shipment was tendered at US\$488/tonne. During the same period, the company booked 6 shipments, out of 10 targeted for the quarter.

### Valuation & outlook

- We have revised estimates marginally higher for FY20E to Rs7.8 (earlier Rs7.7), as we revise our price and cost assumptions. We believe near term earnings likely to remain strong for the integrated players and the company who is long on Alumina, will benefit to a large extent. Management expects alumina prices to hover in the range of US\$435-485/tonnes, as against the average of US\$371/tonne in FY18, which is due to supply disruptions in Brazil. Besides this, improving fundamental of aluminium (widening deficit outside China) should support the aluminium prices and NALCO's earnings in the coming quarter. At CMP, the stock trades at 5.1x/4.7x FY19E/FY20E EBITDA, which in our view is attractive. Hence, we reiterate our BUY rating, with an unchanged target price of Rs100.

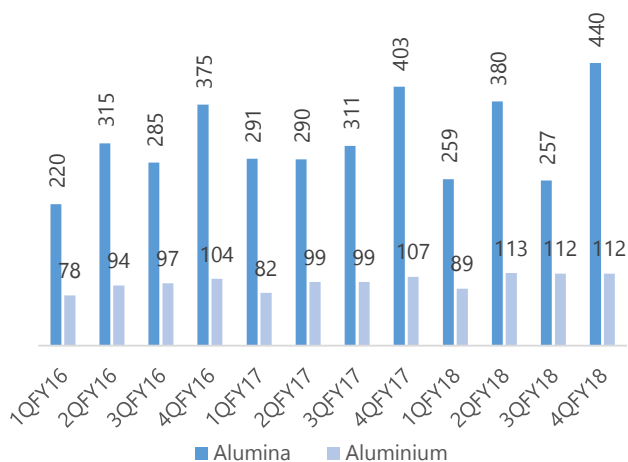
### Quarterly performance table

Particulars (Rs Mn)	4QFY18	4QFY17	% YoY	3QFY18	% QoQ
<b>Net sales</b>	<b>28,632</b>	<b>25,497</b>	<b>12.3</b>	<b>23,888</b>	<b>19.9</b>
Raw Materials	5,854	4,552	28.6	3,459	
Power & Fuel	7,163	5,890	21.6	6,940	3.2
% of sales	25.0	23.1		29.1	
<b>EBITDA</b>	<b>4,897</b>	<b>4,275</b>	<b>14.6</b>	<b>3,437</b>	<b>42.5</b>
<b>EBITDA Margin (%)</b>	<b>17.1</b>	<b>16.8</b>		<b>14.4</b>	
Depreciation	1,268	1,086		1,243	
Interest	6	10		5	
<b>EBT</b>	<b>3,623</b>	<b>3,179</b>		<b>2,189</b>	
Other income	573	620		766	
<b>PBT</b>	<b>4,197</b>	<b>3,798</b>	<b>10.5</b>	<b>2,955</b>	<b>42.0</b>
Exceptional Item	64	(30)		8,015	
Provision for tax	1,690	1,084		3,752	
<b>PAT</b>	<b>2,571</b>	<b>2,684</b>	<b>(4.2)</b>	<b>7,218</b>	<b>(64.4)</b>
NPM (%)	9.0	10.5		30.2	

Source: Company, Kotak Securities – Private Client Research

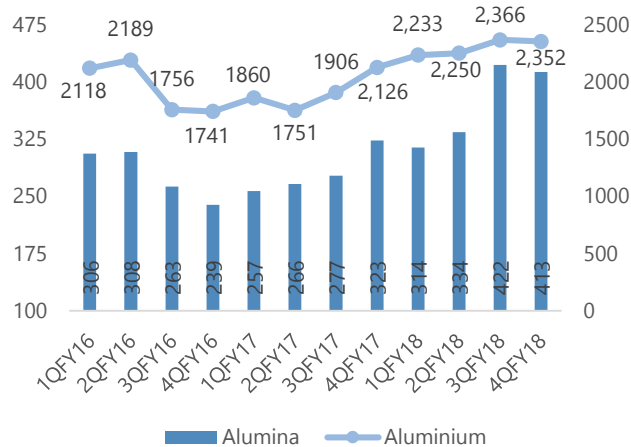
**Aluminium segment continued to drag:** EBITDA during the quarter grew 14.6%/42.5% YoY/QoQ to Rs4.89 bn, with an EBITDA margin of 17.1% below estimates. The operating performance was impacted by Rs4.23 bn one off provision, pertaining to gratuity. Alumina volume during the quarter increased to 440KT as against production volume of 55KT (up 8% QoQ). This, coupled with the firm alumina realisation, led to 28%/42% QoQ/YoY increase in alumina sales to Rs17.42 bn. But, higher alumina transfer pricing and rise in input costs resulted in loss of Rs2.02 bn at the EBIT level for aluminium segment. Power & fuel costs at Rs7.16bn were higher by 21.6% YoY. Given the increase in cost curve globally and widening deficit outside China supported by strong demand, will improve profitability across smelters. It will increase aluminium prices higher and would support NALCO's earnings.

**Alumina and aluminium volume trend ('000 T)**



Source: Company

**Alumina and aluminium realisation trend (US\$/T)**



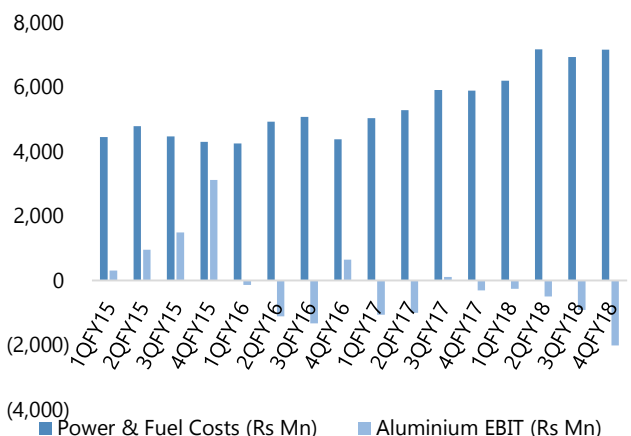
Source: Company

**Segmental Performance**

Y/E Mar (Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
<b>Segment Revenue</b>					
Chemicals	17,415	13,644	27.6	12,233	42.4
Aluminium	16,952	16,789	1.0	16,885	0.4
<b>Segment EBIT</b>					
Chemicals	6,424	4,082	57.4	3,896	64.9
Aluminium	(2,015)	(304)	--	(911)	

Source: Company

**Aluminium Performance**



Source: Company

**Maintain BUY:** We have revised estimates marginally higher for FY20E to Rs7.8 (earlier Rs7.7), as we revise our price and cost assumptions. We believe near term earnings likely to remain strong for the integrated players and the company who is long on Alumina, will benefit to a large extent. Management expects alumina prices to hover in the range of US\$435-485/tonnes, as against the average of US\$371/tonne in FY18, which is due to supply disruptions in Brazil. Besides this, improving fundamental of aluminium (widening deficit outside China) should support the aluminium prices and NACL's earnings in the coming quarter. At CMP, the stock trades at 5.1x/4.7x FY19E/FY20E EBITDA, which in our view is attractive. Hence, we reiterate our BUY rating, with an unchanged target price of Rs100.

### **Company Background**

National Aluminium Company is one of the largest integrated Bauxite-Alumina-Aluminium- Power Complex in the Country. The Company has a 68.25 lakh TPA Bauxite Mine & 21.00 lakh TPA (normative capacity) Alumina Refinery located at Damanjodi in Koraput dist. of Odisha, and 4.60 lakh TPA Aluminium Smelter & 1200MW Captive Power Plant located at Angul, Odisha. NALCO has bulk shipment facilities at Vizag port for export of Alumina/Aluminium and import of caustic soda and also utilises the facilities at Kolkata and Paradeep ports. The company has registered sales offices in Delhi, Kolkata, Mumbai, Chennai and Bangalore and 11 (eleven) stockyards at various locations in the Country to facilitate domestic marketing. The Company is low cost producer of metallurgical grade alumina in the World as per Wood McKenzie report.



## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>Net sales</b>	<b>80,500</b>	<b>96,183</b>	<b>103,498</b>	<b>105,654</b>
Growth (%)	20.1	19.5	7.6	2.1
Operating expenses	69,704	82,209	80,260	81,299
<b>EBITDA</b>	<b>10,797</b>	<b>13,975</b>	<b>23,238</b>	<b>24,355</b>
Growth (%)	30.8	29.4	66.3	4.8
Depreciation	4,804	4,804	4,850	4,920
<b>EBIT</b>	<b>5,993</b>	<b>9,171</b>	<b>18,388</b>	<b>19,435</b>
Other income	4,083	2,997	2,899	3,038
Interest paid	27	20	22	22
Extraordinary items	(410)	8,239	0	0
<b>PBT</b>	<b>9,639</b>	<b>20,386</b>	<b>21,265</b>	<b>22,451</b>
Tax	2,962	6,964	7,018	7,409
Effective tax rate (%)	30.7	34.2	33.0	33.0
Net profit	6,677	13,422	14,248	15,042
<b>Adjusted Net profit</b>	<b>6,268</b>	<b>21,661</b>	<b>14,248</b>	<b>15,042</b>
<b>Growth (%)</b>	<b>0.1</b>	<b>14.9</b>	<b>78.2</b>	<b>5.6</b>

Source: Company, Kotak Securities – Private Client Research

### Cashflow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
Pre-tax profit	9,639	20,386	21,265	22,451
Depreciation	4,804	4,804	4,850	4,920
Chg in working capital	8,503	766	(9,650)	(336)
Total tax paid	2,850	5,515	7,018	7,409
Other operating activities	(911)	66	3	961
<b>Operating CF</b>	<b>19,185</b>	<b>20,507</b>	<b>9,450</b>	<b>20,587</b>
Capital expenditure	(10,612)	(8,246)	(11,438)	(7,824)
Chg in investments	(3,840)	5,503	(1,663)	0
<b>Investing CF</b>	<b>(14,452)</b>	<b>(2,743)</b>	<b>(13,102)</b>	<b>(7,824)</b>
Equity raised/(repaid)	(26,619)	0	0	0
Debt raised/(repaid)	(160)	(56)	(0)	0
Dividend (incl. tax)	4,523	12,891	9,046	9,046
Other financing activities	0	0	0	0
<b>Financing CF</b>	<b>(31,302)</b>	<b>(12,947)</b>	<b>(9,047)</b>	<b>(9,046)</b>
Net chg in cash & bank bal.	(26,569)	4,817	(12,698)	3,717
<b>Closing cash &amp; bank bal</b>	<b>22,872</b>	<b>27,690</b>	<b>14,992</b>	<b>18,708</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	22,872	27,690	14,991	18,708
Other Current assets	32,433	30,796	38,709	39,512
Investments	12,600	7,097	8,760	8,760
Net fixed assets	77,105	80,547	83,138	85,616
<b>Total assets</b>	<b>145,010</b>	<b>146,129</b>	<b>145,598</b>	<b>152,596</b>
Current liabilities	29,968	29,097	27,359	27,826
Borrowings	535	478	478	478
Other non-current liabilities	12,456	11,515	12,902	13,544
Total liabilities	42,959	41,090	40,739	41,848
Share capital	9,665	9,665	9,665	9,665
Reserves & surplus	92,387	95,375	95,195	101,083
Shareholders' funds	102,052	105,040	104,859	110,747
Minority interest	0	0	0	0
<b>Total equity &amp; liabilities</b>	<b>145,010</b>	<b>146,129</b>	<b>145,598</b>	<b>152,596</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
<b>Profitability and return ratios (%)</b>				
EBITDAM	13.4	14.5	22.5	23.1
EBITM	7.4	9.5	17.2	18.0
NPM	8.3	14.0	13.8	14.2
RoE	6.8	7.6	13.6	13.6
RoCE	7.9	10.5	18.1	18.5
<b>Per share data (Rs)</b>				
Adj. EPS	3.6	4.1	7.5	7.8
FDEPS	3.6	4.1	7.5	7.8
CEPS	5.9	9.4	10.2	10.5
BV	52.8	51.1	53.8	56.9
DPS	2.8	5.7	4.0	4.0
<b>Valuation ratios (x)</b>				
PE	20.2	17.6	9.9	9.4
P/BV	1.4	1.3	1.3	1.3
EV/EBITDA	9.8	7.6	5.1	4.7
EV/Sales	1.3	1.1	1.1	1.1
<b>Other key ratios</b>				
DSO (days)	9	12	12	12

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

### Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- RS** – **Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

### FUNDAMENTAL RESEARCH TEAM

<b>Sanjeev Zarbade</b> Capital Goods, Engineering sanjeev.zarbade@kotak.com +91 22 6218 6424	<b>Ruchir Khare</b> Capital Goods, Engineering ruchir.khare@kotak.com +91 22 6218 6431	<b>Amit Agarwal</b> Logistics, Paints, Transportation agarwal.amit@kotak.com +91 22 6218 6439	<b>Nipun Gupta</b> Information Technology nipun.gupta@kotak.com +91 22 6218 6433
<b>Teena Virmani</b> Construction, Cement, Building Mat teena.virmani@kotak.com +91 22 6218 6432	<b>Ritwik Rai</b> FMCG, Media ritwik.rai@kotak.com +91 22 6218 6426	<b>Jatin Damania</b> Metals & Mining jatin.damania@kotak.com +91 22 6218 6440	<b>Jayesh Kumar</b> Economy kumar.jayesh@kotak.com +91 22 6218 5373
<b>Arun Agarwal</b> Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	<b>Sumit Pokharna</b> Oil and Gas sumit.pokharna@kotak.com +91 22 6218 6438	<b>Pankaj Kumar</b> Midcap pankajr.kumar@kotak.com +91 22 6218 6434	<b>K. Kathirvelu</b> Production k.kathirvelu@kotak.com +91 22 6218 6427

### TECHNICAL RESEARCH TEAM

<b>Shrikant Chouhan</b> shrikant.chouhan@kotak.com 91 22 6218 5408	<b>Amol Athawale</b> amol.athawale@kotak.com +91 20 6620 3350
--	---

### DERIVATIVES RESEARCH TEAM

<b>Sahaj Agrawal</b> sahaj.agrawal@kotak.com +91 79 6607 2231	<b>Malay Gandhi</b> malay.gandhi@kotak.com +91 22 6218 6420	<b>Prashanth Lalu</b> prashanth.lalu@kotak.com +91 22 6218 5497	<b>Prasenjit Biswas, CMT, CFTe</b> prasenjit.biswas@kotak.com +91 33 6625 9810
---	---	---	--

## Disclosure/Disclaimer

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house. Kotak Securities Limited is a corporate trading and clearing member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSE). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). We are registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise/warning/deficiency letters/ or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to clients as well as our prospects.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Kotak Securities Limited (KSL) may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. The views provided herein are general in nature and does not consider risk appetite or investment objective of particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with KSL. Kotak Securities Limited is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation. Kotak Securities Limited does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Details of Associates are available on our website ie [www.kotak.com](http://www.kotak.com)

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months: No

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report. Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No  
 Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No.

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

"A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com) and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart)."

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: [www.kotak.com/www.kotaksecurities.com](http://www.kotak.com/www.kotaksecurities.com). Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230, MSE INE 260808130/INB 260808135/INF 260808135, AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing. Investments in securities market are subject to market risks, read all the related documents carefully before investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com).

In case you require any clarification or have any concern, kindly write to us at below email ids:

- **Level 1:** For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at [ks.demat@kotak.com](mailto:ks.demat@kotak.com) or call us on: Online Customers - 30305757 (by using your city STD code as a prefix) or Toll free numbers 18002099191 / 1800222299, Offline Customers - 18002099292
- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at [ks.escalation@kotak.com](mailto:ks.escalation@kotak.com) or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at [ks.servicehead@kotak.com](mailto:ks.servicehead@kotak.com) or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal) at [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com) or call on 91- (022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at [ceo.ks@kotak.com](mailto:ceo.ks@kotak.com) or call on 91- (022) 4285 8301.