

MAY 29, 2019

	28-May	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	39,750	0.2	1.7	10.8
NIFTY Index	11,929	0.0	1.5	10.5
NSEBANK Index	31,598	(0.2)	5.3	17.9
NIFTY 500 Index	9,816	0.1	1.3	9.6
CNXMcap Index	17,994	(0.0)	1.5	7.6
BSESMCAP Index	15,020	0.4	1.4	9.7
<b>World Indices</b>				
Dow Jones	25,348	(0.9)	(4.5)	(2.2)
Nasdaq	7,607	(0.4)	(6.7)	1.0
FTSE	7,269	(0.1)	(2.3)	2.7
NIKKEI	21,260	0.4	(5.6)	(1.7)
Hangseng	27,391	0.4	(8.7)	(4.7)
Shanghai	2,910	0.6	(5.3)	(1.3)

<b>Value traded (Rs cr)</b>	28-May	% Chg Day
Cash BSE	2,704	(9.2)
Cash NSE	52,932	39.2
Derivatives	1,058,883	20.2

<b>Net inflows (Rs cr)</b>	27-May	MTD	YTD
FII	2,934	2,190	70,411
Mutual Fund	190	6,519	3,857

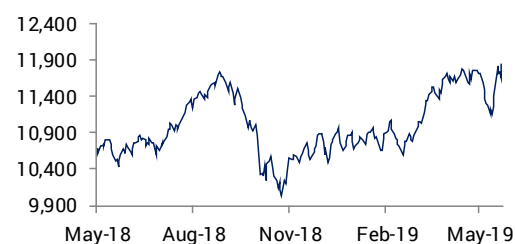
<b>Nifty Gainers &amp; Losers</b>	Price	Chg	Vol
28-May	(Rs)	(%)	(mn)
<b>Gainers</b>			
Zee Entertainment	382	5.8	36.7
Yes Bank	153	4.1	81.7
Infosys	728	2.8	23.9
<b>Losers</b>			
Bharti Infra	269	(3.8)	5.4
Hero MotoCorp	2,743	(2.8)	0.8
Grasim Ind	911	(2.6)	5.2

<b>Advances / Declines (BSE)</b>					
28-May	A	B	T	Total	% total
Advances	238	540	71	849	100
Declines	221	429	48	698	82
Unchanged	2	23	13	38	4

	28-May	% Chg		
		1 Day	1 Mth	3 Mths
<b>Commodity</b>				
Crude (US\$/BBL)	69.6	(0.8)	(3.5)	5.3
Gold (US\$/OZ)	1,279.4	(0.7)	0.0	(2.5)
Silver (US\$/OZ)	14.4	(1.7)	(3.6)	(7.9)

<b>Debt / Forex Market</b>	28-May	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.1	7.2	7.4	7.4
Re/US\$	69.7	69.5	70.0	70.7

## Nifty



Source: Bloomberg

## News Highlights

- ▶ The new government can start by cutting corporate tax to 25 percent and removing exemptions, said eminent economist Arvind Panagariya. (Moneycontrol)
- ▶ The thumping victory of the coalition led by Prime Minister Narendra Modi is expected to revive public market fund-raising activity such as initial public offerings (IPO) and qualified institutional placements (QIP) after three quarters of scant activity. (Livemint)
- ▶ More fliers and higher yields lifted low-fare airline **SpiceJet Ltd's** March quarter net profit by 22% from a year ago, despite the grounding of its Boeing 737 Max aircraft. However, the numbers still failed to meet market estimates. (Livemint)
- ▶ Foreign direct investment (FDI) in India declined for the first time in the last six years in 2018-19, falling by 1 per cent to \$44.37 billion as overseas fund inflows subsided in telecom, pharma and other sectors, official data showed. (moneycontrol)
- ▶ State-run **Punjab National Bank (PNB)** has set aside about Rs 9.0 bn as provisioning charges against loans sanctioned to the cash-strapped Jet Airways. (moneycontrol)
- ▶ The **State Bank of India (SBI)** is preparing to raise Rs.150 bn to Rs.180 bn through what is expected to be India's largest qualified institutional placement (QIP) in the next few weeks, said three people aware of the development. (Livemint)
- ▶ Drug maker **Aurobindo Pharma** has posted a consolidated net profit of Rs.5.8 bn for the quarter ended March, a 10.8% increase over the year-earlier period's Rs.5.2 bn. (Hindu)
- ▶ Textile group **Welspun** may take partial ownership in the slum rehabilitation projects that **Dewan Housing Finance Ltd (DHFL)** has financed, offering a boost to the lender's efforts to raise cash. (ET)
- ▶ Hyundai Motor India Ltd (HMIL), the country's second-largest passenger vehicle maker, has secured more than 20,000 bookings for its compact SUV, Venue, in less than a month. (Hindu)
- ▶ **IRB Infrastructure Developers** has reported a 13.24 per cent decline in consolidated net profit to Rs 2.0 bn during the quarter ended March 31, 2019 as against Rs 2.4 bn in the year-ago period due to increase in interest costs across some of its projects but has a strong order book for the 2020 fiscal. (Hindu)

## What's Inside

- ▶ **Result Update:** AIA Engineering Ltd, Time Technoplast Ltd, Sterling Tools Ltd and Dollor Industries Ltd

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

## Result Update

# AIA ENGINEERING LTD (AIA)

### Stock Details

Market cap (Rs mn)	:	161288
52-wk Hi/Lo (Rs)	:	2026 / 1423
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	28,713
Shares o/s (mn)	:	94

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	30,695	36,834	42,359
Growth (%)	29.0	20.0	15.0
EBITDA	6,599	7,735	9,107
EBITDA margin (%)	22.0	21.0	21.5
PAT	5,114	6,008	6,995
EPS	54.2	63.7	74.2
EPS Growth (%)	15.3	17.5	16.4
BV (Rs/share)	367	422	487
Dividend/share (Rs)	6.8	8.1	9.7
ROE (%)	15.8	16.2	16.3
ROCE (%)	11.5	11.9	12.6
P/E (x)	32.4	27.6	23.7
EV/EBITDA (x)	24.9	21.2	18.0
P/BV (x)	4.8	4.2	3.6

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	58.5	58.5	58.5
FII	21.6	21.6	22.5
DII	14.3	14.3	13.7
Others	5.4	5.4	5.1

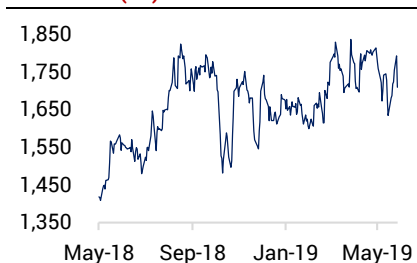
Source: Bloomberg

### Price Performance (%)

(%)	1M	3M	6M
AIA Engineering	(5.2)	(0.3)	7.2
Nifty	1.5	10.5	11.2

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE RS.1723

TARGET RS.1705

SELL

AIA Q4FY19 revenues/PAT outperformed our estimate driven by the mining division. Margin contracted y/y (as anticipated) on higher employee and other expenses.

### Key Highlights

- AIA reported net revenue at Rs 8.8 Bn (+19.3% y/y) driven by over 35% volume growth in mining division.
- Operating margin, reported 21.6% y/y in the quarter was impacted by higher employee cost and other expenses.

### Valuation & Outlook

We roll forward our estimates on FY21E earnings and value AIA Engineering at PER 23x FY21 earnings and arrive at revised target price of Rs 1705 (Rs 1700 earlier). We retain 'REDUCE' rating on company's stock.

### Consolidated Financials Q4FY19

(Rs mn)	Q4FY19	Q4FY18E	YoY (%)	Q3FY19	QoQ (%)
<b>Net Sales</b>	<b>8,872</b>	<b>7,439</b>	<b>19.3</b>	<b>7,264</b>	<b>22.1</b>
Inc/dec in stock	175	207		(1,127)	
Raw materials	3,603	2,928	23.1	3,662	(1.6)
Staff cost	323	285	13.5	323	0.3
Other exp.	2,858	2,353	21.5	2,755	3.7
Total exp.	6,960	5,773	20.5	5,612	24.0
<b>EBIDTA</b>	<b>1,913</b>	<b>1,665</b>	<b>14.9</b>	<b>1,652</b>	<b>15.8</b>
Other income	236	495	(52.3)	289	(18.4)
Depreciation	227	138	64.2	216	4.9
<b>EBIT</b>	<b>1,922</b>	<b>2,022</b>	<b>(5.0)</b>	<b>1,726</b>	<b>11.4</b>
Interest	20	29	(30.9)	20	(3.0)
PBT	1,902	1,994	(4.6)	1,705	11.6
Tax & deferred tax	344	475	(27.7)	413	(16.8)
<b>PAT</b>	<b>1,559</b>	<b>1,519</b>	<b>2.6</b>	<b>1,292</b>	<b>20.6</b>
adj EPS	16.5	16.1	2.6	13.7	20.6
Raw Materials / Sales (%)	42.6	42.1		34.9	
EBITDA (%)	21.6	22.4		22.7	
Tax (%)	18.1	23.8		24.2	

Source: Company

In Q4FY19, AIA Engineering Ltd reported sales volume of 80033 MT against 66375 MT in Q4FY18 and 59235 MT of mill internals in Q3FY19. Growth in the quarter was driven by mining division (volumes up 35% y/y), reported at 50407 MT. The company reported net revenue at Rs 8.8 Bn (+19.3% y/y).

Operating margin, reported 21.6% y/y (declined 80 bps y/y) in the quarter was impacted by higher employee cost (+13.5% y/y, reported at Rs 323.4 mn) and increased other expenses (+21.4% y/y).

We believe that the company is well poised to benefit from the growth in the high chrome mill internals mining space. This when viewed in light of the fact that the company has been incurring additional costs to capture new market in the mining space, makes us more confident about out FY20 projections getting achieved. Incremental volume growth in mining estimated to be in the range of 40,000-50,000 MT per year.

### Ruchir Khare

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

Management highlighted that the opportunity landscape over medium to long term horizon remaining unchanged with the total addressable annual mining replacement market estimated at around 3 million TPA coupled with a very low penetration of high chrome consumable wear parts in mining. Bulk of future growth is expected to come from exports, mainly in mining segment. The company reported order backlog at Rs 6.37 Bn at the end of FY19.

Depreciation expense increased 64% y/y, reported at 227 mn due to recent capacity addition programs undertaken by the company. Lower tax rate in Q4FY19 (tax expense at Rs 344 mn in Q4FY19) resulted in 2.6% y/y increase in PAT, reported at Rs 1.5 Bn in the quarter.

### **Valuation and Recommendation**

We roll forward our estimates on FY21 earnings and value AIA Engineering at PER 23x FY21 earnings and arrive at revised target price of Rs 1705 (Rs 1700 earlier). We retain 'REDUCE' rating on company's stock.

### **Company background**

AIA Engineering is Ahmedabad based company, specializes in design, development, manufacturing and servicing of high chrome wear, corrosion and abrasion resistant casting used in cement, mining and thermal power generation industries.

Company has successfully build market in the mining space over the period of last ten years and currently has presence in over 40 countries.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>24,452</b>	<b>30,695</b>	<b>36,834</b>	<b>42,359</b>
% change yoy	8.9	29.0	20.0	15.0
<b>EBITDA</b>	<b>5,357</b>	<b>6,599</b>	<b>7,735</b>	<b>9,107</b>
% change yoy	(1.5)	24.5	21.8	15.0
Depreciation	656	789	830	850
<b>EBIT</b>	<b>4,701</b>	<b>5,810</b>	<b>6,905</b>	<b>8,257</b>
% change yoy	(16.4)	23.6	18.8	19.6
Net Interest	69	76	75	76
Earnings Before Tax	5,850	6,944	8,230	9,582
% change yoy	(16.9)	23.8	19.1	19.8
Tax	1,414	1,830	2,222	2,587
as % of EBT	24.2	26.4	27.0	27.0
<b>Recurring PAT</b>	<b>4,436</b>	<b>5,114</b>	<b>6,008</b>	<b>6,995</b>
% change yoy	(3.0)	15.3	17.5	16.4
Shares outstanding (m)	94.3	94.3	94.3	94.3
<b>EPS (Rs)</b>	<b>47.0</b>	<b>54.2</b>	<b>63.7</b>	<b>74.2</b>
DPS (Rs)	5.6	6.8	8.1	9.7
CEPS	53.9	62.5	72.4	83.0

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
PBT	5,850	6,944	8,230	9,582
Depreciation	656	789	830	850
Current liabilities incl provisions	626	(713)	505	686
inc in inventory	(193)	(2,325)	(214)	(1,327)
inc in sundry Debtors	(1,053)	(1,050)	(2,019)	(1,478)
inc in advances	(4)	30	-	-
Tax Paid	(1,414)	(1,830)	(2,222)	(2,587)
Other Adjustments	(1015)	548	(1395)	(454)
<b>Net cash from operations</b>	<b>3,453</b>	<b>2,393</b>	<b>3,715</b>	<b>5,272</b>
Purchase of fixed Assets	(671)	(1,789)	(1,830)	(1,850)
Net investments	(1,323)	(519)	-	-
Other investment activities	(682)	-	-	-
<b>Net cash from investing</b>	<b>(2,676)</b>	<b>(2,307)</b>	<b>(1,830)</b>	<b>(1,850)</b>
Change in Borrowings	(74)	-	-	-
Dividend Paid	(531)	(638)	(765)	(918)
<b>Net Cash from financing</b>	<b>(605)</b>	<b>(638)</b>	<b>(765)</b>	<b>(918)</b>
Net Cash Flow	172	(552)	1,119	2,503
<b>Cash at the end of year</b>	<b>2,650</b>	<b>2,098</b>	<b>3,217</b>	<b>5,720</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	2,650	2,098	3,217	5,720
Accounts receivable	6,014	7,064	9,082	10,561
Inventories	5,534	7,859	8,073	9,400
Other current assets	1,829	1,632	3,027	3,482
<b>Current Assets</b>	<b>13,377</b>	<b>16,555</b>	<b>20,183</b>	<b>23,442</b>
Net fixed assets	7,505	8,505	9,505	10,505
Investments	10,919	11,437	11,437	11,437
Goodwill (intangible assets)	219	219	219	219
Other non-current assets	3566	2633	3752	6256
<b>Total Assets</b>	<b>35,586</b>	<b>39,350</b>	<b>45,097</b>	<b>51,860</b>
Debt	1,231	1,231	1,231	1,231
Equity & reserves	30,093	34,570	39,813	45,889
Other liabilities	1,026	1,026	1,026	1,026
<b>Current Liabilities</b>	<b>3,236</b>	<b>2,523</b>	<b>3,027</b>	<b>3,714</b>
<b>Total Liabilities</b>	<b>35,586</b>	<b>39,350</b>	<b>45,097</b>	<b>51,860</b>
BVPS (Rs)	319	367	422	487

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	23.5	22.0	21.0	21.5
EBIT margin (%)	19.2	18.9	18.7	19.5
Net profit margin (%)	18.1	16.7	16.3	16.5
Receivables (days)	90	90	90	91
Inventory (days)	83	80	80	81
Sales / Net Fixed Assets (x)	0.8	1.0	1.0	1.1
Interest coverage (x)	68	77	92	109
Debt/ equity ratio	0.0	0.0	0.0	0.0
ROE (%)	15.5	15.8	16.2	16.3
ROCE (%)	10.7	11.5	11.9	12.6
EV/ Sales	6.7	5.3	4.5	3.9
EV/EBITDA	30.7	24.9	21.2	18.0
Price to earnings (P/E)	37.3	32.4	27.6	23.7
Price to book value (P/B)	5.5	4.8	4.2	3.6
Price to cash earnings	32.6	28.1	24.3	21.1

Source: Company, Kotak Securities – Private Client Research

## Result Update

## TIME TECHNOPLAST LTD

### Stock Details

Market cap (Rs mn)	:	23078
52-wk Hi/Lo (Rs)	:	165 / 74
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	269,842
Shares o/s (mn)	:	226

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	35,637	41,339	47,954
Growth (%)	15	16	16
EBITDA	5,235	6,143	7,199
EBITDA margin (%)	15	15	15
PAT	2,028	2,495	3,095
EPS	9	11	14
EPS Growth (%)	12	23	24
BV (Rs/share)	41	44	49
Dividend/share (Rs)	1	1	1
ROE (%)	13	14	15
ROCE (%)	15	16	17
P/E (x)	11.4	9.2	7.5
EV/EBITDA (x)	6	5	4
P/BV (x)	1	1	1

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	51.2	51.2	52.4
FII	21.8	21.8	19.3
DII	9.0	9.0	9.0
Others	17.9	17.9	19.3

Source: Bloomberg

### Price Performance (%)

(%)	1M	3M	6M
Time Technoplast	8.9	15.5	(6.8)
Nifty	1.5	10.5	11.2

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Sanjeev Zarbade

sanjeev.zarbade@kotak.com

+91 22 6218 6424

PRICE RS.102

TARGET RS.110

ADD

Time Technoplast reported good set of Q4FY19 earnings which came ahead of our estimates. Revenue growth of 15% in FY19 was in line with the company's guidance.

### Key Highlights

- For FY19, revenue growth stood at 14.9% y-o-y, with India and Overseas geographies contributing 71% and 29% of revenue respectively.
- The value added products grew by 20% in FY19. The share of value added products is 19% of the total sales in FY19 as against 18% in FY18
- The company undertook capex of Rs 2.2 bn in FY19 consisting of Rs 1.7 bn and Rs 584 mn on capacity expansion in established products and rest on value added products respectively.

### Valuation and Outlook

At the current price, the stock is trading at P/E of 9.2x and 7.5x FY20E and FY21E earnings respectively. In FY19, the TTL stock has been derated in line with general sell-off in the midcaps and smallcaps universe coupled with weak 9MFY19 earnings and risk aversion towards stocks having promoter share pledges. We continue to value the stock at 10x FY20E earnings (ten year average forward PE) and arrive at a price target of Rs 110 (Rs 108 earlier). We will consider according a higher target multiple on further progress on company's endeavor to improve ROCE, which currently is at 15 %. Since the upside is modest from the current levels, we maintain "ADD" rating.

### Key Risk/Concerns

Promoter pledge shares stand at 17% of its holding.

### Q4FY19 Results

(Rs mn)	Q4FY19	Q4FY18	YoY (%)
<b>Net Sales</b>	<b>10821</b>	<b>9427</b>	<b>14.8</b>
Material costs	7657	6588	16.2
Staff costs	498	432	15.1
Other expenditure	970	948	2.4
Total Expenditure	9124	7968	14.5
<b>PBIDT</b>	<b>1697</b>	<b>1459</b>	<b>16.3</b>
Depreciation	384	386	-0.4
Other Income	24	11	109.7
<b>EBIT</b>	<b>1336</b>	<b>1085</b>	<b>23.2</b>
Interest	274	247	10.8
<b>PBT</b>	<b>1062</b>	<b>837</b>	<b>26.8</b>
Tax	303	267	13.6
Minority Interest	21.5	17	26.5
Net Profit after Minority Interest	737	554	33.2
<b>EPS (Rs)</b>	<b>3.5</b>	<b>2.6</b>	
EBITDA (%)	15.7	15.5	
Material costs to sales (%)	70.8	69.9	
Other expenditure (%)	9.0	10.1	
Tax rate (%)	28.5	31.8	
NPM (%)	6.8	5.9	

Source: Company

### Quarterly earnings

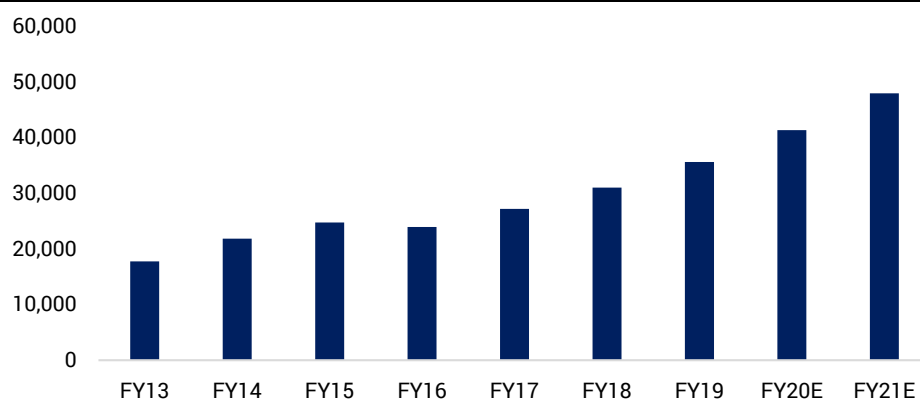
	Reported	Estimated
Net sales	10821	10841
EBITDA %	15.7%	15.3
PAT	737	669

Source: Kotak Securities – Private Client Research

### Consolidated results highlights

- The company reported consolidated net revenues of Rs 10.8 bn in Q4FY19, up 14.8% YoY.
- For FY19, revenue growth stood at 14.9% y-o-y, with India and Overseas geographies contributing 71% and 29% of revenue respectively.
- Volume growth was at 15% during FY19 with both the Indian as well as overseas markets growing at the same rate.
- The management reflected optimism in the demand scenario on account of the ongoing shift in manufacturing of chemicals from developed countries to India.

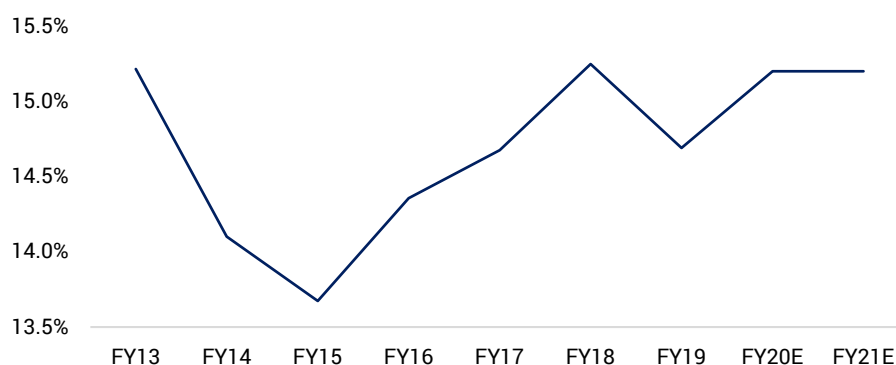
### Revenue (Rs mn)



Source: Company and Kotak Securities – Private Client Research

- The value added products grew by 20% in FY19. The share of value added products is 19% of the total sales in FY19 as against 18% in FY18. The company's focus remains to increase the share of value added products in its revenue.
- Capacity utilization has been steadily inching up and now stands at 82% on an overall basis, while the Indian and Overseas plant utilisation levels stand at 85% and 76% respectively.

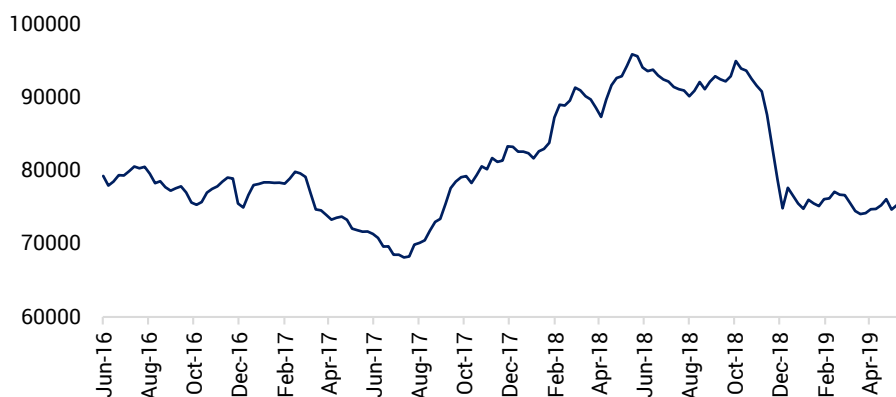
### EBITDA margin (%)



Source: Company and Kotak Securities – Private Client Research

Gross margins contracted to 29.2% in Q4FY19 as compared to 30.1% in Q4FY18. This is despite drop in HDPE prices on a y-o-y basis (18.5% down) and q-o-q basis (12.9% down).

#### HDPE prices in Rs/ton



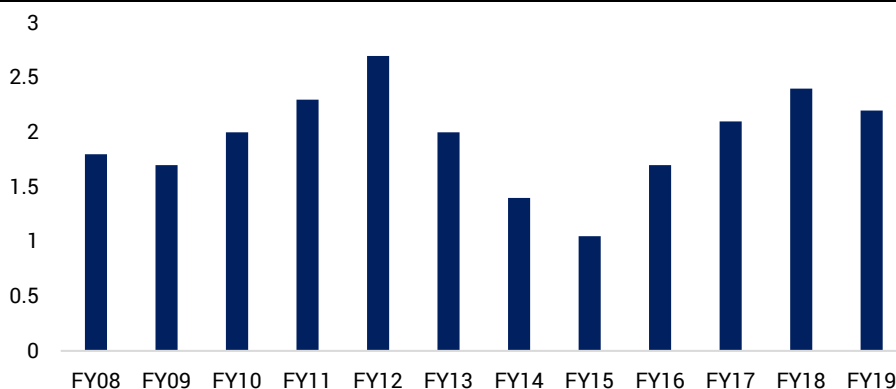
Source: Bloomberg

- 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 and rose 10.8% y-o-y to Rs 274 mn in the fourth quarter.
- Tax rate stood at 28.5% in Q4FY19 as against 31.8% in corresponding quarter of the previous fiscal.
- Net profits rose by 33.2% y-o-y to Rs 737 aided by higher other income, moderate growth in interest expenses and lower tax rate.
- Gross debt on consolidated basis stands at Rs 8.4 bn (as against Rs 7.8 bn in FY18).

#### Capex Update

- The company undertook capex of Rs 2.2 bn in FY19 consisting of Rs 1.7 bn and Rs 584 mn on capacity expansion in established products and rest on value added products respectively.
- Completed greenfield expansion at Chicago, USA for manufacturing of IBC Bottle.
- Completed brownfield expansion in India and overseas locations for future growth.

#### Capex (Rs bn)



Source: Company

## New products launches

The company started supply of newly launched new generation multilayer PE pipes for power / communication cable duct with silicon in-lining. The pipes/ducts have substantial business potential specially in Smart Cities.

It launched new range of next Generation Matting products i.e. Duro Gel & Duro Comfort.

The company is innovating new applications of the MOX films. It is launching new products in the market like Truck covers, Pond Liners, Mulching Film & Poly house Films.

## Earnings Change - FY20E

Rs mn	Earlier	Revised
Revenue	41363	41,339
EBITDA (%)	15.0	14.9
EPS	11.0	11.0
% change		0%

Source: Kotak Securities – Private Client Research

## Valuation and Rating

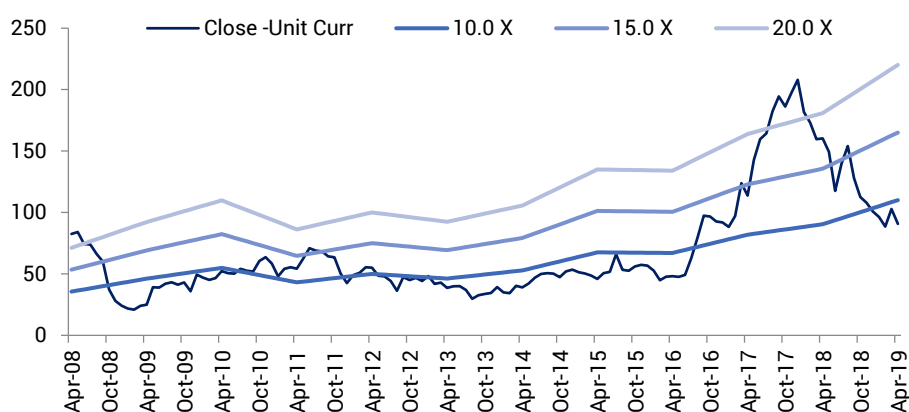
At the current price, the stock is trading at P/E of 9.2x and 7.5x FY20E and FY21E earnings respectively.

In FY19, the TTL stock has been derated in line with general sell-off in the midcaps and smallcaps universe coupled with weak 9MFY19 earnings and risk aversion towards stocks having promoter share pledges.

We continue to value the stock at 10x FY20E earnings (ten year average forward PE) and arrive at a price target of Rs 110 (Rs 108 earlier). We will consider according a higher target multiple on further progress on company's endeavor to improve ROCE, which currently is at 15 %.

Since the upside is modest from the current levels, we maintain "ADD" rating.

## Forward PE band



Source: Kotak Securities – Private Client Research



## 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
	<b>Total</b>	<b>100</b>

Source: Company

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>31,027</b>	<b>35,637</b>	<b>41,339</b>	<b>47,954</b>
% change YoY	12.6	14.9	16.0	16.0
<b>EBITDA</b>	<b>4,731</b>	<b>5,235</b>	<b>6,143</b>	<b>7,199</b>
% change YoY	17.0	10.7	17.3	17.2
Other Income	21.5	32.2	40.0	40.0
Depreciation	1,372	1,461	1,708	1,957
<b>EBIT</b>	<b>3,380</b>	<b>3,806</b>	<b>4,475</b>	<b>5,282</b>
% change YoY	16.2	12.6	17.6	18.0
Interest	875	986	1,014	990
<b>Profit before tax</b>	<b>2,505</b>	<b>2,820</b>	<b>3,461</b>	<b>4,292</b>
% change YoY	24.7	12.6	22.7	24.0
Tax	651	734	900	1,116
as % of PBT	26.0	26.0	26.0	26.0
Minority Interest	47.6	57.8	65.8	81.6
PAT bef excpnl items	1,806	2,028	2,495	3,095
% change YoY	22.7	12.3	23.0	24.0
Exceptional items	-	-	-	-
<b>Reported PAT</b>	<b>1,806</b>	<b>2,028</b>	<b>2,495</b>	<b>3,095</b>
Shares outstanding (m)	226.1	226.1	226.1	226.1
<b>EPS (before exp items) (Rs)</b>	<b>8.0</b>	<b>9.0</b>	<b>11.0</b>	<b>13.7</b>
CEPS (Rs)	14.1	15.4	18.6	22.3
DPS (Rs)	0.8	0.9	0.9	0.9

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
PBDIT	4,731	5,235	6,143	7,199
Direct tax paid	(651)	(734)	(900)	(1,116)
Adjustments	372	112	-	-
Cash flow from operations	4,452	4,613	5,243	6,083
Net Change in Working Capital	(1,164)	(1,841)	(2,038)	(1,939)
<b>Net Cash from Operations</b>	<b>3,287</b>	<b>2,772</b>	<b>3,205</b>	<b>4,144</b>
Capital Expenditure	(2,686)	(2,297)	(2,300)	(2,400)
Cash from investing	21	32	40	40
<b>Net Cash from Investing</b>	<b>(2,665)</b>	<b>(2,265)</b>	<b>(2,260)</b>	<b>(2,360)</b>
Interest paid	(875)	(986)	(1,014)	(990)
Issue of Shares/(buyback)	-	-	-	-
Dividends Paid	(212)	(225)	(225)	(225)
Debt Raised	548	630	95	(500)
<b>Net cash from financing</b>	<b>(538)</b>	<b>(581)</b>	<b>(1,144)</b>	<b>(1,715)</b>
Net change in cash	84	(74)	(200)	69
Free cash flow	601	475	905	1,744
<b>Cash at end</b>	<b>740</b>	<b>666</b>	<b>467</b>	<b>536</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	740	666	467	536
Accounts receivable	6,703	7,842	8,947	10,379
Inventories	6,409	7,373	8,947	10,379
Other current assets	1,910	2,068	2,100	2,100
Current assets	15,762	17,950	20,462	23,394
Intangible assets	6	6	6	0
Other assets	220	274	220	220
LT investments	0	0	0	0
Net fixed assets	12,932	13,768	14,360	14,804
Def tax assets	0	0	0	0
<b>Total assets</b>	<b>28,919</b>	<b>31,997</b>	<b>35,047</b>	<b>38,417</b>
Payables	4,789	5,201	5,776	6,700
Others	0	0	0	0
Current liabilities	4,789	5,201	5,776	6,700
Provisions	83	92	190	190
LT debt	7,775	8,405	8,500	8,000
Other liabilities	454	415	361	361
Equity	226	226	226	226
Reserves	14,605	16,466	18,736	21,606
Def tax liability	581	730	730	730
Minority Interest	405	463	528	610
<b>Total liabilities</b>	<b>28,919</b>	<b>31,997</b>	<b>35,047</b>	<b>38,417</b>
BVPS (Rs)	66	74	84	97

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	15.2	14.7	14.9	15.0
EBIT margin (%)	10.9	10.7	10.8	11.0
Net profit margin (%)	5.8	5.7	6.0	6.5
Receivables (days)	78.9	80.3	79.0	79.0
Inventory (days)	75.4	75.5	79.0	79.0
Sales/gross assets(x)	2.4	2.4	2.4	2.4
Interest coverage (x)	5.4	5.3	6.1	7.3
Debt/equity ratio(x)	0.5	0.5	0.4	0.4
ROE (%)	12.9	12.9	14.0	15.2
ROCE (%)	14.8	15.0	16.0	17.4
EV/ Sales	1.0	0.9	0.8	0.6
EV/EBITDA	6.4	5.9	5.1	4.2
Price to earnings (P/E)	12.8	11.4	9.2	7.5
Price to book value (P/B)	1.6	1.4	1.2	1.1

Source: Company, Kotak Securities – Private Client Research

## Result Update

# STERLING TOOLS LTD (STL)

### Stock Details

Market cap (Rs mn)	:	7918
52-wk Hi/Lo (Rs)	:	409 / 175
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	12,611
Shares o/s (mn)	:	36

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Sales	5,122	5,547	6,047
Growth (%)	13.1	8.3	9.0
EBITDA	859	976	1,081
EBITDA margin (%)	16.8	17.6	17.9
Net profit (adjusted)	449	479	535
Adjusted EPS (Rs)	12.5	13.3	14.9
Growth (%)	(7.8)	6.7	11.8
Book value (Rs/share)	78.9	89.8	102.2
Dividend per share (Rs)	2.0	2.0	2.0
ROE (%)	16.9	15.8	15.5
ROCE (%)	21.4	20.5	21.0
P/E (x)	17.4	16.3	14.6
EV/EBITDA (x)	9.5	8.2	7.0
P/BV (x)	2.8	2.4	2.1

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	65.3	65.3	65.3
FII	0	0	0
DII	7.6	7.6	6.7
Others	27.1	27.1	28.0

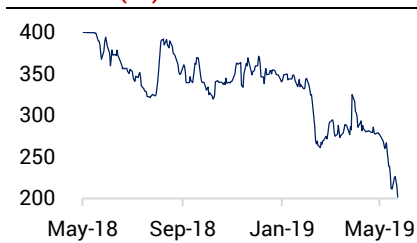
Source: Bloomberg

### Price Performance (%)

(%)	1M	3M	6M
Sterling Tools	(20.8)	(22.9)	(37.8)
Nifty	1.5	10.5	11.2

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE RS.217

TARGET RS.238

ADD

STL's 4QFY19 results continues to remain weak; impacted on account of lower automobile production and higher input cost.

### Key result highlight

STL's 4QFY19 revenue came in at Rs1183mn, decline of ~10% over 4QFY18 revenue of Rs1,312mn. In 4QFY19, automobile production was down in segments like two wheeler and commercial vehicle, that led to weak revenue performance as STL's revenues are broadly domestic OEM dependent. Raw material cost pressure continued in 4QFY19 as pass through to customer happens with a lag of 3-12 months. Further, lower revenue translated into negative operating leverage. On the above mentioned reasons, EBITDA declined by 22% YoY. PAT for the quarter was Rs74mn, as against Rs118mn reported in 4QFY18.

### Outlook and Valuation

In 2HFY19, domestic automobile demand has witnessed considerable slowdown and the same is reflected in the financial performance of STL. Demand weakness is expected to persist in 1QFY20 and we expect gradual improvement from 2QFY20 onwards. Lower base and expected pre-buying ahead of BSVI implementation will likely support growth in 2HFY20. With softness in raw material prices and likely pass through of earlier cost increase, we expect EBITDA margin to improve over 4QFY19. Due to weak 4QFY19 performance and weak demand scenario, we cut our FY20 earnings estimate. We rate the stock as ADD with revised target price of Rs238 (earlier Rs307) valuing 16x PER FY21E earnings.

### Quarterly performance

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
<b>Revenues</b>	<b>1,183</b>	<b>1,312</b>	<b>(9.8)</b>	<b>1,233</b>	<b>(4.0)</b>
Total expenditure	1,021	1,106	(7.6)	1,055	(3.2)
RM consumed	492	514	(4.2)	473	4.2
Employee cost	91	82	11.0	91	0.1
Power & Fuel Charges	84	94	(10.7)	103	(19.1)
Consumption of stores and spares	100	105	(5.0)	110	(8.8)
Other expenses	254	311	(18.3)	278	(8.7)
<b>EBITDA</b>	<b>162</b>	<b>206</b>	<b>(21.6)</b>	<b>178</b>	<b>(9.2)</b>
EBITDA margin (%)	13.7	15.7	-	14.4	-
Depreciation	50	42	18.7	48	4.4
Interest cost	16	10	66.8	6	147
Other Income	17	15	11.8	11	56.1
Exceptional gain / (loss)					
<b>PBT</b>	<b>113</b>	<b>170</b>	<b>(33.7)</b>	<b>134</b>	<b>(16.2)</b>
PBT margins (%)	9.5	12.9		10.9	
Tax	39	52	(24.4)	52	(24.5)
Tax rate (%)	34.7	30.4	-	38.5	-
<b>Reported PAT</b>	<b>74</b>	<b>118</b>	<b>(37.7)</b>	<b>83</b>	<b>(11.1)</b>
PAT margins (%)	6.2	9.0	-	6.7	-
<b>EPS (Rs)</b>	<b>2.0</b>	<b>3.3</b>	<b>(37.7)</b>	<b>2.3</b>	<b>(11.1)</b>

Source: Company

Arun Agarwal

arun.agarwal@kotak.com

+91 22 6218 6443

## Result Highlights

- STL's revenue in 4QFY19 stood at Rs1,183mn, 10% lower as compared with 4QFY18. During 4QFY19, automobile demand was weak and OEM's also resorted towards inventory rationalization. As a result, YoY production declined across key segments like two wheeler (down 10% YoY) and passenger vehicle (down 4% YoY). In the two wheeler segment, Honda Motorcycle and Scooters India (HMSI) is a key customer and its production in 4QFY19 was down by 32% YoY. Maruti Suzuki, another key customer for the company reported 5% YoY decline in production. Tractor industry domestic sales fell by 8.5% YoY in 4QFY19.
- Company's EBITDA was lower by 21.6% YoY to Rs162mn. Fall in EBITDA was on account of 10% lower revenue and impact of raw material cost increase. Raw material cost (as a % of sales) increased from 39.2% in 4QFY18 to 41.6% in 4QFY19. In the past one year, raw material prices has increased significantly and the pass through of these cost happens with a lag of 3-12 months (as per contract with different customer). Till end 4QFY19, partial pass through has happened and the balance pass through will likely happen in 1HFY20. Further, lower revenue led to negative operating leverage (11% increase in employee cost amid 10% fall in revenue). EBITDA margin contracted from 15.7% in 4QFY18 to 13.7% in 4QFY19.
- Interest cost increased due to rise in debt. The company is setting a new plant and the funding for the same is been done through mix of internal accrual and debt. High tax rate and increased in depreciation further dented net profit. STL's net profit came in at Rs74mn as against Rs118mn in 4QFY18.

## Outlook and Valuation

In 2HFY19, domestic automobile demand has witnessed considerable slowdown and the same is reflected in the financial performance of STL. The company is largely a domestic OEM dependent player and supplying fasteners to all the segments in the auto industry. Demand weakness is expected to persist in 1QFY20 and we expect gradual improvement from 2QFY20 onwards. Lower base and expected pre-buying ahead of BSVI implementation will likely support growth in 2HFY20.

In FY19, the raw material prices witnessed consistent increase and as a result the company's margins suffered. With softness in raw material prices and likely pass through of earlier cost increase, we expect EBITDA margin to improve over 4QFY19. Further, we also expect the company to undertake cost control exercise in the subdued demand environment.

STL's new plant in Bangalore is expected to start production in 2QFY20. The company will be investing ~Rs900-950mn in phase 1 for an initial capacity of 5,000-6,000 MT per annum. STL's return ratios suffered in FY19 on account of contraction in margins, increased capex and rise in working capital. Given weak demand, we expect the RoE to stay between 15-16%. While the debt for the company increased in FY19, debt-equity remains low at 0.3x.

Due to weak 4QFY19 performance and weak demand scenario, we cut our FY20 earnings estimate. We have introduced FY21 estimates with an EPS of Rs.14.9. We rate the stock as ADD with revised target price of Rs238 (earlier Rs307). We value the stock at PE of 16x (earlier 20x on FY20E earnings) on FY21E earnings. Reason for cut in assigned PE multiple are – slowdown in automobile demand, contraction in EBITDA margin, lower earnings growth and decline in RoE.

**Key Risk**

Slowdown in automobile demand – STL's sales is largely dependent on OEM's. Any slowdown in sales will impact STL's financial performance,

Raw material cost increase – STL has cost pass through clause with its customers but negotiation time-frame varies between 3 months to 12 months. Thereby in an event of increasing raw material price, the pass through will likely happen with a lag, thereby impacting margins and earnings in the intermediate term. Furthermore, some customers does not pass on full increase in input cost and the same needs to be absorbed by the company.

**Company Background**

STL is one of the leading suppliers of fasteners to the domestic automobile manufacturers. Company manufactures high tensile cold forged fasteners across all the segments in the automobile space. Apart from the domestic OEM's, company also supplies its products in the domestic aftermarket and also export it to Europe. Company's domestic clients includes Honda Motorcycle, Maruti Suzuki, Honda Cars, Ashok Leyland, M&M, Escorts and Tata Motors. STL highlighted that they enjoy a market share of ~27-28%, second to Sundram Fasteners market share of 32-35%. Company's products includes – standard fasteners, chassis fasteners, engine fasteners and special fasteners.

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>4,529</b>	<b>5,122</b>	<b>5,547</b>	<b>6,047</b>
% change YoY	22.1	13.1	8.3	9.0
<b>EBITDA</b>	<b>907</b>	<b>859</b>	<b>976</b>	<b>1,081</b>
% change YoY	19.8	(5.2)	13.6	10.8
Depreciation	176	191	228	269
<b>EBIT</b>	<b>731</b>	<b>669</b>	<b>748</b>	<b>812</b>
% change YoY	23.8	(8.5)	11.9	8.5
Net interest	38	37	76	58
Other Income	56	64	71	78
Exceptional income/(loss)	0	0	0	0
<b>Profit before tax</b>	<b>749</b>	<b>696</b>	<b>743</b>	<b>831</b>
% change YoY	24.1	(7.1)	6.8	11.8
Tax	263	247	265	296
as % of PBT	35.1	35.5	35.6	35.6
<b>Profit after tax</b>	<b>487</b>	<b>449</b>	<b>479</b>	<b>535</b>
<b>Adjusted PAT</b>	<b>487</b>	<b>449</b>	<b>479</b>	<b>535</b>
% change YoY	24.1	(7.8)	6.7	11.8
Shares outstanding (m)	36	36	36	36
<b>Adjusted EPS (Rs)</b>	<b>13.5</b>	<b>12.5</b>	<b>13.3</b>	<b>14.9</b>
DPS (Rs)	2.0	2.0	2.0	2.0

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	731	669	748	812
Depreciation	176	191	228	269
Change in working capital	(119)	(285)	(28)	(82)
Chg in other net current asset	(87)	117	(71)	6
Operating cash flow	701	691	878	1,005
Interest	(38)	(37)	(76)	(58)
Tax	(267)	(236)	(265)	(296)
Other Income	56	64	71	78
EO income	-	-	-	-
Others	(4)	-	-	-
<b>Cash flow from operations</b>	<b>448</b>	<b>483</b>	<b>608</b>	<b>728</b>
Capex	(213)	(892)	(332)	(250)
(Inc)/decrease in investments	(545)	1	(55)	(150)
<b>Cash flow from investments</b>	<b>(759)</b>	<b>(891)</b>	<b>(387)</b>	<b>(400)</b>
Proceeds from issue of equities	4	-	-	-
Increase/(decrease) in debt	(59)	520	(123)	(250)
Proceeds from share premium	439	-	-	-
Dividends	(87)	(87)	(87)	(87)
<b>Cash flow from financing</b>	<b>298</b>	<b>433</b>	<b>(210)</b>	<b>(337)</b>
Opening cash	28	15	39	50
<b>Closing cash</b>	<b>15</b>	<b>39</b>	<b>50</b>	<b>41</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Fixed Assets	1,584	2,285	2,389	2,370
Long Term Investments	189	229	229	229
Current Assets	1,775	2,103	2,216	2,500
Inventory	545	825	825	897
Sundry Debtors	455	422	502	547
Liquid Investments	535	495	550	700
Cash & Bank	15	39	50	41
Loans/ Adv and other assets	226	323	289	315
<b>Total Assets</b>	<b>3,548</b>	<b>4,617</b>	<b>4,834</b>	<b>5,099</b>
Equity Capital	72	72	72	72
Reserves & Surplus	2,408	2,770	3,162	3,611
Total Debt	343	862	739	489
Deferred Tax Liability	152	164	164	164
Current Liabilities	572	749	697	763
Sundry creditors	365	328	380	414
Other current liabilities	182	395	288	317
Provisions	25	26	29	32
<b>Total liabilities</b>	<b>3,548</b>	<b>4,617</b>	<b>4,834</b>	<b>5,099</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
<b>Margins</b>				
EBITDA margin (%)	20.0	16.8	17.6	17.9
EBIT margin (%)	16.1	13.1	13.5	13.4
Adj. net profit margin (%)	10.7	8.8	8.6	8.8
<b>Working capital days</b>				
Inventory (days)	44	59	54	54
Receivable (days)	37	30	33	33
Payable (days)	29	23	25	25
<b>Ratios</b>				
Debt/equity ratio (x)	0.1	0.3	0.2	0.1
ROE (%)	23.6	16.9	15.8	15.5
ROCE (%)	30.4	21.4	20.5	21.0
<b>Valuations</b>				
EV/ Sales	1.7	1.6	1.4	1.3
EV/EBITDA	8.4	9.5	8.2	7.0
Price to earnings (P/E)	16.1	17.4	16.3	14.6
Price to book value (P/B)	3.2	2.8	2.4	2.1

Source: Company, Kotak Securities – Private Client Research

## Result Update

## DOLLAR INDUSTRIES LTD

### Stock Details

Market cap (Rs mn)	:	14534
52-wk Hi/Lo (Rs)	:	434 / 225
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	10,286
Shares o/s (mn)	:	57

Source: Bloomberg

### Financial Summary - Standalone

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	10288	11410	12751
Growth (%)	11.2	10.9	11.7
EBITDA	1357	1515	1698
EBITDA margin (%)	13.2	13.3	13.3
PAT	753	809	923
EPS	13.3	14.3	16.3
EPS Growth (%)	18	7	14
Book value (Rs/share)	74	86	100
Dividend per share (Rs)	1.7	1.8	2.1
ROE (%)	19.5	17.9	17.5
ROCE (%)	21.7	21.1	21.3
P/E (x)	19.5	18.2	15.9
EV/EBITDA (x)	12.2	10.9	9.7
P/BV (x)	3.5	3.0	2.6

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	57.3	57.3	57.0
FII	0.3	0.3	0.4
DII	8.1	8.1	8.1
Others	34.3	34.3	34.5

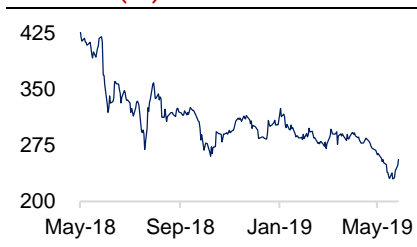
Source: Bloomberg

### Price Performance (%)

(%)	1M	3M	6M
Dollar Industries	(5.4)	(5.3)	(16.7)
Nifty	1.5	10.5	11.2

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE Rs.259

TARGET Rs.293

ADD

DIL Q4FY19 results were below our estimates at operating level due to higher raw material prices and employee expenses.

### Key Highlights

- DIL reported marginally lower than expected revenue growth of 9.4% yoy with EBITDA margin declined 20 bps yoy to 11.6% due higher raw material and employee expenses. In FY19, the company reported 11.2% yoy growth in revenue driven by 6% growth in volumes. Its major brands Dollar Bigboss and Missy continued to perform well in the year and are expected to maintain growth in FY20E as well.
- The company is in process of consolidation. It has completed first phase of pilot project in weaker geographies through its consultant in order to strengthen distribution and increase penetration. In FY20E, it will run similar project in stronger geographies.
- DIL management has maintained its guidance of 15% revenue growth over a longer period with improved margins. The company has not given any guidance for FY20E.

### Quarterly Financial Table (standalone)

Year to March (INR Mn.)	Q4FY19	Q4FY18	% Chg	Q3FY19	% Chg
<b>Net Revenues</b>	<b>2,978</b>	<b>2,722</b>	<b>9.4</b>	<b>2,445</b>	<b>21.8</b>
Raw Materials Cost	1,402	1,157	21.2	975	43.9
Gross Profit	1,576	1,565	0.7	1,471	7.1
Employee Expenses	92	79	15.7	85	7.8
Sub-contract Exp	557	623	(10.5)	468	19.1
Other Expenses	583	541	7.7	549	6.0
Operating Expenses	2,634	2,400	9.8	2,077	26.8
<b>EBITDA</b>	<b>344</b>	<b>322</b>	<b>6.7</b>	<b>368</b>	<b>(6.5)</b>
EBITDA margin	11.6%	11.8%		15.1%	
Depreciation	27	31	(13.1)	31	(13.5)
Other income	7	8	(7.3)	11	(35.8)
Net finance expense	49	35	38.7	39	25.7
Profit before tax	275	264	4.4	309	(10.9)
Provision for taxes	50	77	(35.7)	116	(56.9)
<b>Reported net profit</b>	<b>226</b>	<b>186</b>	<b>21.0</b>	<b>194</b>	<b>16.5</b>
As % of net revenues					
COGS	47.1	42.5		39.9	
Employee cost	3.1	2.9		3.5	
Sub-contract Exp	18.7	22.9		19.1	
Other Expenses	19.6	19.9		22.5	
Operating expenses	88.4	88.2		84.9	
Reported net profit	7.6	6.8		7.9	
Tax rate (% of PBT)	18.1	29.3		37.4	

Source: Company

Pankaj Kumar

pankajr.kumar@kotak.com

+91 22 6218 6434

## Valuation & outlook

The company is in process of strengthening its internal systems and improving distribution of high value brands. We have cut our EPS estimates for FY20E by 8.7% and introduced estimates for FY21E. The stock is trading at PE of 18.2x and 15.9x on FY20E and FY21E EPS of Rs 14.3 and Rs 16.3, respectively. We downgrade our rating to ADD (Vs Buy) with revised target price of Rs 293 (Vs Rs 344 earlier), valuing the stock at 18x FY21E (vs 23x FY20E earlier), as well roll forward our valuation to FY21E. We have factored in risk related to slowdown in earnings growth due to consolidation in business and increased macroeconomic challenges.

## Revenue grew at 9.4%, marginally missed estimates

Net revenue in Q4FY19 grew at 9.4% yoy to Rs 2.98 bn (as against our estimates of Rs 3.03 bn). In FY19, the company reported 11.2% yoy growth in revenue driven by 6% growth in volumes. Its major brands Dollar Big Boss and Missy continued to perform well in the year and are expected to maintain growth in FY20E as well. Force Nxt witnessed slower growth of 5% growth in FY19, as the company is in process of strengthening distribution of the brand with wide product range. The company is adopting corrective measures for distribution for premium segment has impacted growth in Force NXT. It ran first phase of pilot project in weaker geographies through its consultant in order to strengthen distribution and increase penetration. In FY20E, it will run similar project in stronger geographies. Based on the success of the same, it will adopt the new strategy suggested by the consultant on pan India basis.

In FY19, 42% revenue contributed by Bigboss, 36% by regular, 2% by Force NXT, 8% by Missy, 4% by Force Gowear and 7% by Ultra. In terms of product segment, Men's innerwear contributed 81% revenue, 10% by women's innerwear and casualwear, 1% by kids, 7% by thermal wear and 1% were others. The company is focusing on strengthening its retail presence by increasing presence in modern retail, online, etc. These channels as of now contributed only 3% of revenue, which the company intends to increase to over 10% in future. The company is also focusing on expanding product range in Missy, Force NXT and Bigboss by adding new product ranges in athleisure segment.

## EBITDA margin below our estimates

EBITDA for the quarter grew by 6.7% yoy to Rs 344 mn and was below our estimates of Rs 377 mn, due to lower than expected EBITDA margin at 11.6% (vs our estimates of 12.4%) led by increased raw material price and employee expenses. The raw material prices increased on account of higher cotton yarn prices. The company incurred Rs 1 bn of adspend in FY19 which was higher than its budget of Rs 870 mn due to new TVC for Bigboss and higher adspend in Missy. The company targets to rationalize adspend in FY20E with lower ad budget of Rs 900 mn in FY20E. PAT for the quarter grew by 7.6% yoy to Rs 194 mn as against estimates of Rs 205 mn.

## Maintained revenue growth guidance of 15% in the longer run

DIL has guided for 15% revenue growth with improved EBITDA margin over a longer period. The company expects that the benefits from strengthening of its system through appointment of consultant would take some more time in terms yielding complete results. In the longer run, the company aims to achieve 15% EBITDA margins. This will be achieved by its focus towards premiumization, improvement in product mix, improved distribution model, etc.



### Other highlights

- JV with Pepe jeans for innerwear products is operating well despite delay in roll out of business. The products have initially been launched in southern market and would further be launched in Northern and select Western market in FY20E. The JV company reported Rs 60 mn revenue in FY19 and targets to achieve ~Rs 300 mn in FY20E. The company has invested Rs 70 mn in JV and would further invest Rs 290 mn in the next three years
- The company is positive on its new variants of its products being launched in Bigboss and Missy and expects the same to grow at faster pace.
- The company does not require any major capex in the next two years and would continue to follow asset light strategy by focusing on sourcing from third party vendors.
- Working capital witnessed increase of 15 days in FY19 due to liquidity concerns in the channel which resulted in higher inventory and debtors. The company intends to control debtors based on various majors adopted as part of restructuring of its channel.

### Outlook and valuation

The company is positive on its business in the longer run and aims to grow at 15% revenue CAGR over a longer period with better margins. Presently, it is undergoing through transformation phase and is focusing on strengthening of its internal systems through appointment of consultant and improving distribution of high value brands.

We have cut our EPS estimates for FY20E by 8.7% and introduced estimates for FY21E. The stock is trading at PE of 18.2x and 15.9x on FY20E and FY21E EPS of Rs 14.3 and Rs 16.3, respectively. We downgrade our rating to ADD (Vs Buy) with revised target price of Rs 293 (Vs Rs 344 earlier) valuing the stock at 18x FY21E (vs 23x FY20E earlier) as well roll forward our valuation to FY21E. We have factored in risk related to slowdown in earnings growth due to consolidation in business and increased macroeconomic challenges.

#### Revision in estimates

Particulars (Rs mn)	Previous estimates	Revised estimates	% Change	New
	FY20E	FY20E	FY20E	FY21E
Revenue	11,988	11410	-4.8	12751
EBITDA margin (%)	13.3	13.3	0 bps	13.3
PAT	886	809	-8.7	923
EPS (Rs)	15.6	14.3	-8.7	16.3

Source: Kotak Securities – Private Client Research

### Company Background

Dollar Industries Limited was promoted by Dindayal Gupta under the name Bhawani Textiles and now has created substantial presence in India under the Dollar umbrella. The company is present across segment in innerwear space with its brands Big Boss, Force NXT, Missy, Champion, Ultra, Force Go Wear, etc. Its brands are also marketed in over 10 countries which includes UAE, Oman, Jordan, Qatar, Kuwait, Bahrain, Yemen, Iraq, Nepal and Sudan. The company manufactures more than 350 products across all innerwear segments. The company's manufacturing facilities are located at Kolkata, Tirupur, Delhi and Ludhiana. It has fully integrated facility at Tirupur with presence in spinning (400 tonnes per annum), knitting (300 tonnes per annum), dyeing and bleaching (400 tonnes per annum), cutting (0.3 mn pcs per day), elastic manufacturing, stitching and packaging and caters to high end products.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>9,256</b>	<b>10,288</b>	<b>11,410</b>	<b>12,751</b>
% change yoy	3.1	11.2	10.9	11.7
<b>EBITDA</b>	<b>1,239</b>	<b>1,357</b>	<b>1,515</b>	<b>1,698</b>
% change yoy	33.8	9.5	11.7	12.0
Depreciation	122	111	119	126
<b>EBIT</b>	<b>1,117</b>	<b>1,246</b>	<b>1,397</b>	<b>1,572</b>
Other Income	20	22	22	22
Interest	179	157	174	174
<b>Profit Before Tax</b>	<b>958</b>	<b>1,110</b>	<b>1,244</b>	<b>1,420</b>
% change yoy	43.5	15.9	12.1	14.1
Tax	318	358	435	497
as % of EBT	33.2	32.2	35.0	35.0
<b>PAT</b>	<b>640</b>	<b>753</b>	<b>809</b>	<b>923</b>
% change yoy	47.3	17.6	7.5	14.1
Shares outstanding (mn)	57	57	57	57
<b>EPS (Rs)</b>	<b>11.3</b>	<b>13.3</b>	<b>14.3</b>	<b>16.3</b>
DPS (Rs)	1.6	1.7	1.8	2.1
CEPS (Rs)	13.4	15.2	16.4	18.5
BVPS (Rs)	62.2	73.6	86.1	100.3

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-Tax Profit	958	1,110	1,244	1,420
Depreciation	122	111	119	126
Change in WC	(1221)	(906)	(587)	(699)
Other operating activities	(251)	(442)	(435)	(497)
<b>Operating Cash Flow</b>	<b>(392)</b>	<b>(126)</b>	<b>341</b>	<b>350</b>
Capex	(79)	(128)	(100)	(100)
Free Cash Flow	(471)	(254)	240	250
Change in Investments	(47)	(41)	(90)	-90
<b>Investment cash flow</b>	<b>(126)</b>	<b>(169)</b>	<b>(190)</b>	<b>(190)</b>
Equity Raised	1169	0	0	0
Debt Raised	(464)	412	0	0
Dividend & others	(91)	(103)	(104)	(118)
<b>CF from Financing</b>	<b>615</b>	<b>309</b>	<b>(104)</b>	<b>(118)</b>
Change in Cash	97	14	47	41
Opening Cash	97	194	207	254
<b>Closing Cash</b>	<b>193</b>	<b>207</b>	<b>254</b>	<b>296</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	113	113	113	113
Reserves	3,414	4,063	4,769	5,573
Net worth	3,527	4,177	4,882	5,687
Borrowings	1,700	2,112	2,112	2,112
Other net liability	69	-	-	-
<b>Total Liabilities</b>	<b>5,296</b>	<b>6,289</b>	<b>6,994</b>	<b>7,798</b>
Gross block	1,572	1,701	1,801	1,901
Depreciation	888	998	1,117	1,243
Net block	684	702	683	658
Capital work in progress	21	20	20	20
Total fixed assets	705	722	704	678
Investments	50	91	181	271
Inventories	2,829	3,246	3,600	4,023
Sundry debtors	2,717	3,476	3,856	4,308
Cash and equivalents	194	207	254	296
Loans and advances & Others	236	329	378	434
Total current assets	5,976	7,258	8,087	9,061
Sundry creditors and others	1,412	1,776	1,970	2,202
Provisions	23	21	23	25
Total CL & provisions	1,435	1,797	1,993	2,227
Net current assets	4,541	5,460	6,094	6,834
Other net assets	-	15	15	15
<b>Total Assets</b>	<b>5,296</b>	<b>6,289</b>	<b>6,994</b>	<b>7,798</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	13.4	13.2	13.3	13.3
EBIT margin (%)	12.1	12.1	12.2	12.3
Net profit margin (%)	6.9	7.3	7.1	7.2
Adjusted EPS growth (%)	40.7	17.6	7.5	14.1
<b>Balance Sheet Ratios:</b>				
Receivables (days)	107	123	123	123
Inventory (days)	112	115	115	115
Loans & Advances	9	12	12	12
Payable (days)	56	63	63	63
Cash Conversion Cycle	172	187	188	188
Asset Turnover	1.8	1.6	1.6	1.6
Net Debt/ Equity	0.4	0.5	0.4	0.3
<b>Return Ratios:</b>				
RoCE (%)	24.2	21.7	21.1	21.3
RoE (%)	24.0	19.5	17.9	17.5
<b>Valuation Ratios:</b>				
P/E (x)	22.9	19.5	18.2	15.9
P/BV (x)	4.2	3.5	3.0	2.6
EV/EBITDA (x)	13.1	12.2	10.9	9.7
EV/Sales (x)	1.7	1.6	1.5	1.3

Source: Company, Kotak Securities – Private Client Research

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### Definitions of ratings

<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
<b>SELL</b>	–	We expect the stock to deliver < -5% returns over the next 12 months
<b>NR</b>	–	<b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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<b>NM</b>	–	<b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.
<b>NOTE</b>	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

### FUNDAMENTAL RESEARCH TEAM

<b>Rusmik Oza</b> Head of Research rusmik.oza@kotak.com +91 22 6218 6441	<b>Arun Agarwal</b> Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	<b>Amit Agarwal</b> Transportation, Paints, FMCG agarwal.amit@kotak.com +91 22 6218 6439	<b>Krishna Nain</b> M&A, Corporate actions krishna.nain@kotak.com +91 22 6218 7907	<b>K. Kathirvelu</b> Support Executive k.kathirvelu@kotak.com +91 22 6218 6427
<b>Sanjeev Zarbade</b> Cap. Goods & Cons. Durables sanjeev.zarbade@kotak.com +91 22 6218 6424	<b>Ruchir Khare</b> Cap. Goods & Cons. Durables ruchir.khare@kotak.com +91 22 6218 6431	<b>Jatin Damania</b> Metals & Mining, Midcap jatin.damania@kotak.com +91 22 6218 6440	<b>Deval Shah</b> Research Associate deval.shah@kotak.com +91 22 6218 6425	
<b>Teena Virmani</b> Construction, Cement, Buildg Mat teena.virmani@kotak.com +91 22 6218 6432	<b>Sumit Pokharna</b> Oil and Gas, Information Tech sumit.pokharna@kotak.com +91 22 6218 6438	<b>Pankaj Kumar</b> Midcap pankajr.kumar@kotak.com +91 22 6218 6434		

### 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	<b>Faisal Shaikh, FRM, CFTe</b> Research Associate faisalf.shaikh@kotak.com +91 22 62185499	<b>Siddhesh Jain</b> Research Associate siddhesh.jain@kotak.com +91 22 62185498
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### 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
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"A graph of daily closing prices of securities is available at <https://www.nseindia.com/ChartApp/install/charts/mainpage.jsp> 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)."

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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: Toll free numbers 18002099191 / 1860 266 9191
- **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.
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