

Top Research Picks

- ➔ Kwality: B2C transformation in progress
- ➔ Siemens India: Sale of healthcare biz in line with global strategy

Other Research

- ➔ India Financials: Credit Tracker: Credit growth stable at 11.6% YoY

8 March 2016



NOT RATED

Kwality

KLD IN

B2C transformation in progress

KLD, one of India's largest organised dairy players, is set to transform itself into a major B2C player by launching a slew of value-added retail products. To this end, it is setting up a new facility at its existing plant in Haryana (Rs 4bn investment) and enhancing its milk procurement network (Rs 1.25bn). These measures should further boost growth for KLD (revenue/earning CAGR of ~38% over FY11-FY15) by strengthening its product and margin profile. The stock is trading at a P/E of 11.2x FY15 EPS. NOT RATED.

- ➔ **Right place, right time:** Indian dairy sector is estimated to be ~Rs 5tn in size, with ~80% of the market still unorganised. In this huge and largely unorganised market, KLD is one of the largest private sector dairy players in North India with six milk processing plants and a total processing capacity of ~3mn litres of milk/day. With a gradual shift in consumer preference towards high-quality branded dairy products, players such as KLD – with huge processing capacities, a solid milk procurement network and a range of products – are set to emerge as key beneficiaries.
- ➔ **Transforming into a B2C player:** KLD, which generates 69% of its domestic revenue from institutional clients, is set to transform into a B2C player by launching more value-added products for its retail clients. To this end, it plans to invest ~Rs 5.25bn in setting up a 750,000 litre/day value-added plant (in Haryana at its existing plant; set to come on-stream by Q4FY17) and strengthening its milk procurement network. The Haryana plant would manufacture high-growth, high-margin value-added products such as flavoured milk, yoghurt, cheese and UHT milk, helping the company increase its retail share in its overall revenue mix.
- ➔ **Strong financial profile:** Over the last five years, KLD has clocked a strong ~38.3%/38% CAGR in its revenues/adj. PAT along with healthy return ratios. KLD trades at 11.2x FY15 EPS. We do not have a rating on the stock.

Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13A	FY14A	FY15A
Revenue (INR mln)	16,080	24,162	39,297	50,110	58,783
EBITDA (INR mln)	1,010	1,666	2,208	2,945	3,522
Adjusted net profit (INR mln)	459	923	1,056	1,449	1,665
Adjusted EPS (INR)	2.3	4.5	5.2	7.1	7.6
Adjusted EPS growth (%)	155.9	101.0	14.4	37.2	6.8
DPS (INR)	0.1	0.1	0.1	0.1	0.1
ROIC (%)	19.0	23.1	18.9	18.2	16.5
Adjusted ROAE (%)	66.3	67.9	45.4	40.7	30.5
Adjusted P/E (x)	44.0	21.9	19.1	13.9	13.1
EV/EBITDA (x)	23.7	15.6	12.8	10.4	9.2
P/BV (x)	22.2	11.2	7.1	4.7	3.3

Source: Company, Bloomberg, RCML Research



4 March 2016

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PRICE CLOSE (03 Mar 16)
INR 99.45

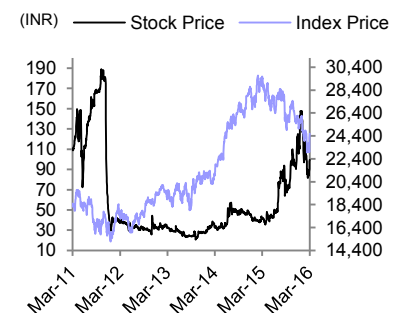
MARKET CAP
INR 21.8 bln
USD 323.0 mln

SHARES O/S
218.7 mln

FREE FLOAT
23.0%

3M AVG DAILY VOLUME/VALUE
2.2 mln / USD 3.9 mln

52 WK HIGH 52 WK LOW
INR 153.80 INR 34.75





Per Share Data

Y/E 31 Mar (INR)	FY11A	FY12A	FY13A	FY14A	FY15A
Reported EPS	2.3	4.5	5.2	7.1	7.6
Adjusted EPS	2.3	4.5	5.2	7.1	7.6
DPS	0.1	0.1	0.1	0.1	0.1
BVPS	4.5	8.9	14.0	21.1	30.4

Valuation Ratios

Y/E 31 Mar (x)	FY11A	FY12A	FY13A	FY14A	FY15A
EV/Sales	1.5	1.1	0.7	0.6	0.6
EV/EBITDA	23.7	15.6	12.8	10.4	9.2
Adjusted P/E	44.0	21.9	19.1	13.9	13.1
P/BV	22.2	11.2	7.1	4.7	3.3

Financial Ratios

Y/E 31 Mar	FY11A	FY12A	FY13A	FY14A	FY15A
Profitability & Return Ratios (%)					
EBITDA margin	6.3	6.9	5.6	5.9	6.0
EBIT margin	6.1	6.6	5.4	5.6	5.6
Adjusted profit margin	2.9	3.8	2.7	2.9	2.8
Adjusted ROAE	66.3	67.9	45.4	40.7	30.5
ROCE	18.9	22.9	18.1	17.4	16.2
YoY Growth (%)					
Revenue	52.6	50.3	62.6	27.5	17.3
EBITDA	93.8	65.0	32.5	33.4	19.6
Adjusted EPS	155.9	101.0	14.4	37.2	6.8
Invested capital	94.6	62.7	38.8	28.7	24.8
Working Capital & Liquidity Ratios					
Receivables (days)	77	81	78	85	82
Inventory (days)	14	14	10	12	16
Payables (days)	11	5	6	11	9
Current ratio (x)	4.2	5.0	5.4	4.8	10.9
Quick ratio (x)	0.0	0.1	0.4	0.1	0.3
Turnover & Leverage Ratios (x)					
Gross asset turnover	35.0	32.5	39.8	38.2	41.9
Total asset turnover	3.6	3.3	3.5	3.2	3.1
Net interest coverage ratio	2.6	2.4	2.2	2.4	2.3
Adjusted debt/equity	4.6	3.6	3.1	2.5	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13A	FY14A	FY15A
Tax burden (Net income/PBT)	75.8	98.2	89.8	85.9	84.9
Interest burden (PBT/EBIT)	62.1	59.1	55.8	60.0	60.0
EBIT margin (EBIT/Revenue)	6.1	6.6	5.4	5.6	5.6
Asset turnover (Revenue/Avg TA)	357.6	332.6	346.5	320.5	307.8
Leverage (Avg TA/Avg equities)	649.3	534.1	487.2	438.6	349.3
Adjusted ROAE	66.3	67.9	45.4	40.7	30.5



Income Statement

YE 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14A	FY15A
Total revenue	16,080	24,162	39,297	50,110	58,783
EBITDA	1,010	1,666	2,208	2,945	3,522
EBIT	975	1,591	2,105	2,815	3,269
Net interest income/(expenses)	(371)	(652)	(937)	(1,167)	(1,426)
Other income/(expenses)	2	1	7	40	117
Exceptional items	0	0	0	0	0
EBT	606	940	1,176	1,688	1,961
Income taxes	(146)	(17)	(119)	(239)	(295)
Extraordinary items	0	0	24	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	459	924	1,081	1,449	1,666
Adjustments	0	0	(24)	0	0
Adjusted net profit	459	923	1,056	1,449	1,665

Balance Sheet

YE 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14A	FY15A
Accounts payables	262	303	1,017	1,941	801
Other current liabilities	0	0	0	0	0
Provisions	163	152	245	343	703
Debt funds	4,242	6,680	9,620	10,960	12,491
Other liabilities	3	3	6	8	14
Equity capital	203	203	203	203	219
Reserves & surplus	707	1,607	2,642	4,081	6,431
Shareholders' fund	911	1,810	2,845	4,284	6,649
Total liabilities and equities	5,580	8,948	13,733	17,535	20,659
Cash and cash eq.	15	131	863	315	517
Accounts receivables	4,146	6,602	10,091	13,312	13,246
Inventories	634	1,001	1,033	1,874	2,910
Other current assets	370	386	606	341	1,215
Investments	0	0	0	0	0
Net fixed assets	419	640	731	1,058	673
CWIP	0	1	86	220	1,184
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(9)	(5)	12	8	15
Other assets	5	192	311	409	899
Total assets	5,580	8,948	13,733	17,535	20,659

Cash Flow Statement

YE 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14A	FY15A
Net income + Depreciation	495	998	1,159	1,579	1,918
Interest expenses	371	652	937	1,167	1,426
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(2,289)	(2,804)	(3,194)	(2,842)	(3,175)
Other operating cash flows	29	20	(24)	82	0
Cash flow from operations	(1,394)	(1,134)	(1,122)	(14)	170
Capital expenditures	(454)	(297)	(279)	(591)	(832)
Change in investments	0	0	0	0	0
Other investing cash flows	180	(12)	(1)	5	(253)
Cash flow from investing	(274)	(309)	(280)	(586)	(1,085)
Equities issued	0	(1)	(21)	13	913
Debt raised/repaid	2,053	2,439	2,939	1,340	1,532
Interest expenses	(371)	(652)	(937)	(1,167)	(1,426)
Dividends paid	(24)	(24)	(24)	(24)	(26)
Other financing cash flows	8	0	30	0	49
Cash flow from financing	1,666	1,762	1,987	163	1,042
Changes in cash and cash eq	(3)	319	586	(436)	126
Closing cash and cash eq	15	131	863	315	517

SELL
TP: INR 750.00
▼ 28.2%

Siemens India

SIEM IN

Sale of healthcare biz in line with global strategy

The board of SIEM has approved the sale of its healthcare business to Siemens Healthcare, a subsidiary of Siemens AG, for a consideration of Rs 30.5bn (or ~2x FY16 sales), and distribute 50% of the net consideration as special dividend. As per management, the sale is in line with Siemens AG's global strategy of managing the healthcare business under a separate entity. We build the transaction into our estimates while maintaining SELL on the stock due to its expensive valuations.

- ➔ **Healthcare revenue contribution at 14%:** SIEM's healthcare business contributed 10%/13.5%/13.6% of FY13/FY14/FY15 net sales (Rs 11bn/Rs 14.4bn/Rs 15.1bn) and 17.4%/9.1%/8.5% of EBIT. As per management, ~87% of the segment's revenues were derived from products imported from Siemens AG and its subsidiaries; such imports are a part of the trading business and hence carry lower margins. About 13% of the business included services (10%) and domestically manufactured products (3%).
- ➔ **Limited synergy with healthcare business:** Sale of the healthcare business is in line with Siemens AG's global strategy of managing the healthcare business under a separate entity so as to address the global challenges facing this segment. Further, management believes that there are limited synergies between the company's healthcare and other business segments. Finally, India's changing healthcare space, which is likely to focus on domestic manufacturing and value products, would have warranted additional investments from SIEM in future.
- ➔ **View:** We expect the deal to close in FY16 and build the transaction (including special dividend for FY16) into our estimates. We believe current valuations (at PE of 65x Mar 17) are expensive given the company's muted growth and returns profile, even as cash flows remain strong. We also expect the high import content in product lines to cap margins. Maintain SELL with a Mar'17 TP of Rs 750.

Financial Highlights

Y/E 30 Sep	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (INR mln)	106,783	105,124	78,263	93,858	103,727
EBITDA (INR mln)	6,100	9,761	7,826	9,573	10,580
Adjusted net profit (INR mln)	3,188	6,034	5,203	6,206	7,043
Adjusted EPS (INR)	9.0	16.9	14.6	17.4	19.8
Adjusted EPS growth (%)	85.2	89.3	(13.8)	19.3	13.5
DPS (INR)	6.0	6.0	39.1	6.0	6.0
ROIC (%)	8.1	16.9	16.3	17.3	20.3
Adjusted ROAE (%)	7.6	12.7	8.8	9.0	9.6
Adjusted P/E (x)	116.6	61.6	71.5	59.9	52.8
EV/EBITDA (x)	59.9	36.9	44.7	34.8	31.0
P/BV (x)	8.5	7.3	5.5	5.2	4.9

Source: Company, Bloomberg, RCML Research


4 March 2016

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PRICE CLOSE (04 Mar 16)

INR 1,044.10

MARKET CAP

INR 371.8 bln
USD 5.5 bln

SHARES O/S

355.5 mln

FREE FLOAT

31.3%

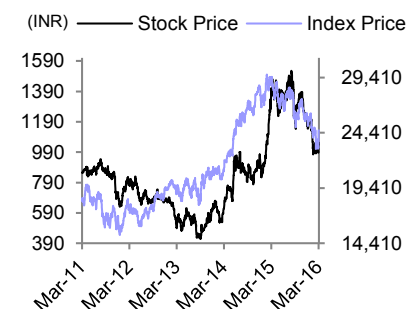
3M AVG DAILY VOLUME/VALUE

0.3 mln / USD 5.0 mln

52 WK HIGH

INR 1,553.52

52 WK LOW

INR 968.60


SELL

TP: INR 750.00

▼ 28.2%

Siemens India

SIEM IN



Company Update

INDIA

CAPITAL GOODS

Per Share Data

Y/E 30 Sep (INR)	FY14A	FY15A	FY16E	FY17E	FY18E
Reported EPS	17.4	33.2	90.4	17.4	19.8
Adjusted EPS	9.0	16.9	14.6	17.4	19.8
DPS	6.0	6.0	39.1	6.0	6.0
BVPS	122.9	144.0	188.6	199.0	211.7

Valuation Ratios

Y/E 30 Sep (x)	FY14A	FY15A	FY16E	FY17E	FY18E
EV/Sales	3.4	3.4	4.5	3.5	3.2
EV/EBITDA	59.9	36.9	44.7	34.8	31.0
Adjusted P/E	116.6	61.6	71.5	59.9	52.8
P/BV	8.5	7.3	5.5	5.2	4.9

Financial Ratios

Y/E 30 Sep	FY14A	FY15A	FY16E	FY17E	FY18E
Profitability & Return Ratios (%)					
EBITDA margin	5.7	9.3	10.0	10.2	10.2
EBIT margin	3.6	7.2	7.1	7.6	7.8
Adjusted profit margin	3.0	5.7	6.6	6.6	6.8
Adjusted ROAE	7.6	12.7	8.8	9.0	9.6
ROCE	6.5	11.2	8.0	7.0	7.4
YoY Growth (%)					
Revenue	(5.9)	(1.6)	(25.6)	19.9	10.5
EBITDA	45.0	60.0	(19.8)	22.3	10.5
Adjusted EPS	85.2	89.3	(13.8)	19.3	13.5
Invested capital	(4.9)	(9.8)	(5.3)	(3.1)	(4.2)
Working Capital & Liquidity Ratios					
Receivables (days)	127	116	123	96	100
Inventory (days)	48	51	58	45	47
Payables (days)	95	97	106	83	86
Current ratio (x)	1.3	1.5	2.1	2.0	2.0
Quick ratio (x)	0.2	0.4	1.0	0.9	0.9
Turnover & Leverage Ratios (x)					
Gross asset turnover	3.9	3.6	2.5	2.9	3.1
Total asset turnover	1.1	1.0	0.7	0.8	0.8
Net interest coverage ratio	46.6	104.6	102.1	110.6	113.1
Adjusted debt/equity	(0.3)	(0.4)	(0.6)	(0.6)	(0.6)

DuPont Analysis

Y/E 30 Sep (%)	FY14A	FY15A	FY16E	FY17E	FY18E
Tax burden (Net income/PBT)	37.1	35.6	13.8	67.0	67.0
Interest burden (PBT/EBIT)	225.6	223.1	683.6	129.0	129.6
EBIT margin (EBIT/Revenue)	3.6	7.2	7.1	7.6	7.8
Asset turnover (Revenue/Avg TA)	106.1	101.0	73.6	82.9	83.8
Leverage (Avg TA/Avg equities)	239.5	219.1	179.6	164.0	169.2
Adjusted ROAE	7.6	12.7	8.8	9.0	9.6

SELL

TP: INR 750.00

▼ 28.2%

Siemens India

SIEM IN



Company Update

INDIA

CAPITAL GOODS

Income Statement

YE 30 Sep (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Total revenue	106,783	105,124	78,263	93,858	103,727
EBITDA	6,100	9,761	7,826	9,573	10,580
EBIT	3,808	7,604	5,525	7,180	8,113
Net interest income/(expenses)	(82)	(73)	(54)	(65)	(72)
Other income/(expenses)	467	1,604	2,295	2,147	2,470
Exceptional items	4,399	7,827	30,000	0	0
EBT	4,194	9,136	7,765	9,263	10,512
Income taxes	(2,404)	(5,131)	(5,563)	(3,057)	(3,469)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	6,189	11,833	32,203	6,206	7,043
Adjustments	(3,001)	(5,799)	(27,000)	0	0
Adjusted net profit	3,188	6,034	5,203	6,206	7,043

Balance Sheet

YE 30 Sep (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Accounts payables	26,937	23,646	17,300	20,873	23,155
Other current liabilities	16,908	12,687	9,445	11,327	12,519
Provisions	14,779	16,460	12,254	14,696	16,242
Debt funds	0	0	0	0	0
Other liabilities	522	1,217	1,217	1,217	1,217
Equity capital	712	712	712	712	712
Reserves & surplus	43,044	50,554	66,447	70,153	74,696
Shareholders' fund	43,757	51,266	67,159	70,865	75,408
Total liabilities and equities	102,904	105,277	107,376	118,979	128,539
Cash and cash eq.	11,210	20,959	38,420	43,008	48,706
Accounts receivables	36,874	30,183	22,471	26,948	29,782
Inventories	10,472	9,509	6,957	8,394	9,312
Other current assets	15,708	16,812	12,516	15,010	16,589
Investments	82	1,764	1,764	1,764	1,764
Net fixed assets	13,556	13,854	13,052	11,659	10,192
CWIP	409	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	3,738	3,175	3,175	3,175	3,175
Other assets	10,854	9,021	9,021	9,021	9,021
Total assets	102,903	105,277	107,376	118,979	128,539

Cash Flow Statement

YE 30 Sep (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Net income + Depreciation	5,479	8,191	7,504	8,599	9,510
Interest expenses	549	1,677	2,349	2,212	2,542
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,603)	719	766	(512)	(312)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	4,425	10,587	10,620	10,300	11,740
Capital expenditures	(1,816)	(2,045)	(1,500)	(1,000)	(1,000)
Change in investments	(350)	1,682	27,000	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,166)	(363)	25,500	(1,000)	(1,000)
Equities issued	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(549)	(1,677)	(2,349)	(2,212)	(2,542)
Dividends paid	(2,500)	(2,500)	(16,310)	(2,500)	(2,500)
Other financing cash flows	5,962	3,703	0	0	0
Cash flow from financing	2,914	(474)	(18,659)	(4,712)	(5,042)
Changes in cash and cash eq	5,172	9,749	17,461	4,588	5,698
Closing cash and cash eq	11,210	20,959	38,420	43,008	48,706

4 March 2016

India Financials: Credit Tracker

Credit growth stable at 11.6% YoY

As per RBI data, credit growth for the fortnight ended 19 February was stable at 11.6% YoY while deposit growth declined to 11.0% YoY. Investment growth slumped to 7.7% YoY which led to a 50bps decline in SLR to 26.8% vs. the previous fortnight. Credit growth has been weak over the last few months due to low corporate demand and a lack of fresh investments. We do not see material improvement ahead and forecast 12% YoY growth for FY16.

- ➔ **Credit growth stable at 11.6%:** As per RBI data, credit growth for the fortnight ended 19 February remained stable at 11.6% vs. 11.5% the previous fortnight. In absolute terms, credit offtake increased by Rs 0.2trn vs. Rs 0.6trn in the fortnight ended 5 February. Weakness over the last few months has stemmed from low corporate demand and a lack of fresh projects. As per sectoral deployment of bank credit, growth in non-food credit as of Jan'16 improved to 9.8% YoY. Growth in the agri/retail segments picked up to 13.4%/18.1% YoY while that in the services sector moderated to 8.9% YoY. A slowdown was observed across sub-sectors such as food processing (-2.4%), beverages & tobacco (-4.6%) and cement & cement products (-3.8%).
- ➔ **Deposit growth dips to 11%:** Deposit growth declined to 11.0% YoY (down Rs 0.1tn to Rs 93.5trn). Investment growth tumbled to 7.7% vs. 9.9% in the previous fortnight, which drove SLR lower by 50bps FoF to 26.8%. Banks have been consciously keeping SLR balances above the regulated levels of 21.5% as this helps them meet LCR requirements. In our view, slow credit offtake is another contributing factor which should keep SLR elevated in coming months as well.
- ➔ **FY16 loan growth to remain at ~12%:** We do not expect any material improvement in credit growth for FY16 and build in modest ~12% YoY growth for the year. Mid-tier PSU banks are likely to grow below the system due to asset quality stress. This should lead to market share gains for private banks, especially mid-tier names such as YES and IIB, which we expect will grow much higher than the industry.



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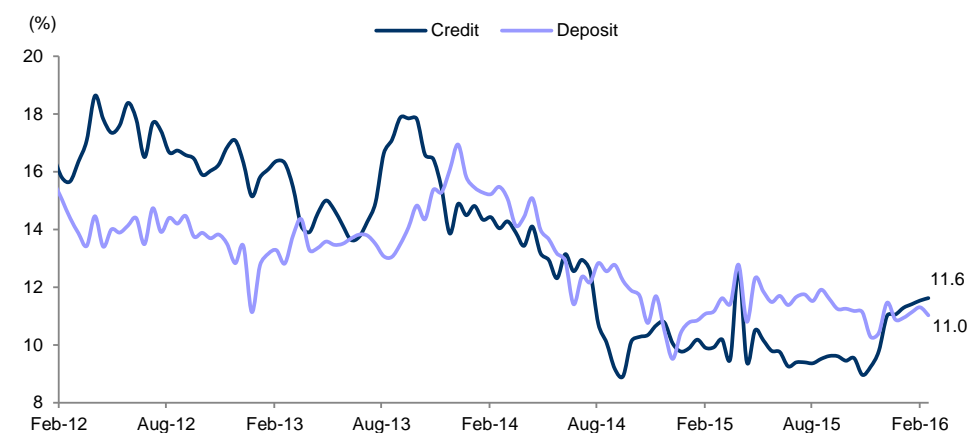
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Key data

Particulars	20-Feb-15	19-Feb-16
Deposits (Rs trn)	84.2	93.5
YoY growth (%)	11.2	11.0
YTD growth (%)	6.6	4.9
Loans (Rs trn)	64.3	71.7
YoY growth (%)	9.9	11.6
YTD growth (%)	6.0	5.0
CD ratio (%)	76.3	76.7
SLR ratio (%)	27.8	26.8

Source: RBI

Fig 1 - Credit and deposit growth in the banking system



Source: RBI, RCML Research

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