Economy News

- Union Railway Minister Suresh Prabhu, kick-started surveys of seven new broad-gauge railway lines in Arunachal Pradesh. The minister said that currently projects worth about Rs. 900 Bn are being executed in the northeast. (ET)
- The Road Ministry signed 34 memorandums of understanding with investment potential of over Rs.2 trillion, which will improve multi-modal logistics at the India Integrated Transport and Logistics Summit. (BL)
- The central bank imposed a corrective action plan (CAP) on a wide range of restructurings exercised by banks. Such a CAP was till now applicable for only the Joint Lenders' Forum (JLF) mechanism. (ET)

Corporate News

- **Steel Authority of India Ltd (SAIL)** is willing to take over a stressed asset if it is offered. In case an asset is put on the block, a public sector company could become the first port of call for public sector banks. In fact, banks had explored the option of giving the management of at least two steel companies where they had invoked strategic debt restructuring. (BS)
- Dhamra, owned by **Adani Ports & Special Economic Zone (APSEZ)** has turned profitable after nearly six years. The port had kicked off commercial operations in May 2011. (BS)
- **M&M** has decided that all new vehicle platforms, including light commercial vehicles (LCVs), coming from its stable will be architectured keeping in mind the requirements for electric variants. The move will make it easier for Mahindra to offer electric variants on all its new models, unlike now where it must reengineer and retrofit the electric drivetrains to existing models. (BS)
- **Tata Motors** and the Sanand plant workers are likely to sign a wage settlement agreement for five years (2015-2020) by June this year. Earlier, Tata had signed a landmark wage settlement with Pune Workers' Union in March for three years from September 2015 to August 2018, where a portion of workers' salaries was linked to their performance. (BS)
- **ACC** and **Ambuja** had concluded with a decision to initiate the process for exploring the possibility of a merger. Both companies have constituted a special committee of directors, with a majority of them being independent directors, to consider the matter. (BS)
- US based KKR & Co would invest Rs 3 Bn in **Walchand Nagar Industries,** one of India's oldest business groups, in a structured-financing deal that would help the Mumbai-based conglomerate realign its businesses and repay some of its term loans. (ET)
- **Deepak Fertilisers and Petrochemicals Corporation** has completed the process of demerging its core business - fertiliser and technical ammonium nitrate - into a wholly-owned subsidiary Smartchem Technologies. (BL)
- **Marico** is targeting 10 per cent of its sales from e-commerce. Having acquired a 35 per cent stake recently in Ahmedabad-based start-up Beardo, the FMCG major will be relying on such acquisitions to give a boost to its online sales in categories such as premium male grooming and hair fall. (BL)
- A stake sale in **GTL Infrastructure Ltd** could see the telecom infrastructure firm valued at more than Rs11,000 crore, two people aware of the development said. (Mint)

Equity

	5 May 17	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	29,859	(0.9)	0.5	5.5
NIFTY Index	9,285	(0.8)	0.9	5.9
BANKEX Index	25,680	(0.6)	5.1	10.6
SPBSITIP Index	9,750	(0.4)	(3.9)	0.4
BSETCG INDEX	17,686	(0.7)	2.5	14.4
BSEOIL INDEX	14,199	(1.6)	1.7	7.7
CNXMcap Index	18,049	(1.0)	3.7	11.6
SPBSSIP Index	15,356	(0.8)	4.6	13.3
World Indices				
Dow Jones	21,007	0.3	1.7	4.8
Nasdaq	6,101	0.4	3.8	7.4
FTSE	7,297	0.7	(0.7)	1.5
NIKKEI	19,446	0.7	4.3	4.6
HANGSENG	24,476	(0.8)	1.2	4.5

Value traded (Rs cr)

	5 May 17	% Chg - Day
Cash BSE	4,329	1.8
Cash NSE	28,923	4.7
Derivatives	401,284	(46.9)

Net inflows (Rs cr)

	4 May 17	% Chg	MTD	YTD
FII	(140)	50	(567)	41,445
Mutual Fund	258	(65)	-	19,356

FII open interest (Rs cr)

	4 May 17	% Chg
FII Index Futures	15,236	(3.7)
FII Index Options	57,507	4.9
FII Stock Futures	69,190	(0.5)
FII Stock Options	4,017	16.0

Advances / Declines (BSE)

5 May 17	A	B	T	Total	% total
Advances	72	232	53	357	22
Declines	227	888	104	1,219	76
Unchanged	-	13	8	21	1

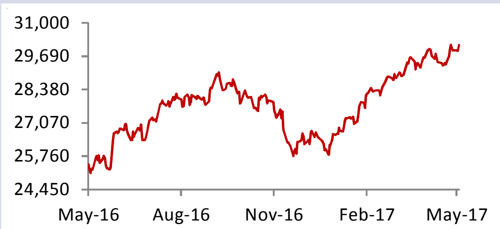
Commodity

	5 May 17	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (US$/BBL)	46.9	1.4	(10.3)	(10.5)
Gold (US$/OZ)	1,228.1	(0.2)	(2.4)	(1.0)
Silver (US$/OZ)	16.3	(0.1)	(9.9)	(7.7)

Debt / forex market

	5 May 17	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.9	7.0	6.7	6.4
Re/US$	64.4	64.2	64.9	67.2

Sensex



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

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NIIT TECHNOLOGIES LTD (NIITT)

PRICE: RS.470 **RECOMMENDATION: ACCUMULATE**

TARGET PRICE: RS.518 **FY19E P/E: 8.6x**

NIITT reported strong growth of 3.4% sequentially (ex Settlement amount) beating our estimates of 0.8% growth. Margins were in line with our estimates at 17.6% (ex settlement amount), an expansion of 90bps QoQ. Key positive was the healthy order intake of USD112mn (6th consecutive quarter of intake over USD100mn), with 12 month executable order book at USD 320mn. US business reported good growth on the back of expansion in key accounts due to increased traction of Incessant. GIS business also reported strong growth. NIITT has won 17 out of 18 smart city projects. With healthy order intake and positive discussion for FY18, growth is set to accelerate in FY18, with Q1FY18 expected to break the usual Q1 weakness momentum. We expect USD revenue growth of 8.8% and 9% for FY18 & FY19 respectively. Digital revenues increased to 21% of revenues during the quarter, growing by 14% sequentially. NIITT announced a dividend of Rs.12.5 for FY17 and hopes to maintain a similar payout of 35% in future too. Our FY18 & FY19 earnings stand at Rs.46.9 (Rs.48.2) & Rs.54.6 per share respectively. Valuation at 10x/8.6x FY18/19 P/E are relatively inexpensive (with cash accounting for 25% of market cap). However, we downgrade the stock to ACCUMULATE from BUY earlier due to recent run-up in stock price. Our target price of Rs.518 (Rs.482 earlier) will discount FY19 earning by 9.5x. We will watch out for consistency in revenue growth before according higher valuations. The company will have net cash of about Rs.126 per share by FY18 end, as per our estimates.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	28,021	29,594	32,510
Growth (%)	4.5	5.6	9.9
EBITDA	4,878	5,011	5,691
EBITDA margin (%)	17.4	16.9	17.5
PBT	3,761	3,946	4,561
Net profit	2,755	2,881	3,354
EPS (Rs)	44.9	46.9	54.6
Growth (%)	(2.1)	4.6	16.4
CEPS (Rs)	65.6	68.5	76.2
BV (Rs/share)	274.6	309.2	351.5
Dividend/share (Rs)	12.0	12.0	12.0
ROE (%)	16.8	16.1	16.5
ROCE (%)	22.6	21.8	21.8
Net cash (debt)	7,208	6,928	7,701
NW Capital (Days)	63.9	62.2	61.8
P/E (x)	10.5	10.0	8.6
P/BV (x)	1.7	1.5	1.3
EV/Sales (x)	0.8	0.7	0.7
EV/EBITDA (x)	4.4	4.4	3.7

Source: Company, Kotak Securities - Private Client Research

4QFY17 results - Strong revenue performance with in-line margins

(Rs mn)	3QFY17	4QFY17	% Chg	4QFY16	% Chg
Income	**6938**	**7447**	**7.3**	**6847**	**8.8**
Income (ex settlement)	6938	7176	3.4	6847	4.8
Income(in USD mn)	96.25	103.07	7.1	97.33	5.9
Expenditure	5776	5923		5586	
Operating Profit	**1162**	**1524**	**31.2**	**1261**	**20.9**
Depreciation	321	312		287	
Gross Profit	**841**	**1212**	**44.1**	**974**	**24.4**
Interest	0	0		0	
Other Income	59	-12		39	
PBT	**900**	**1200**	**33.3**	**1013**	**18.5**
Tax	228	265		184	
PAT	**672**	**935**	**39.1**	**829**	**12.8**
Minority interest & EO	48	72		39	
Adjusted PAT	**624**	**863**	**38.3**	**790**	**9.2**
Extra Ordinary items	0	-140		0	
Shares (mns)	61	61		61	
EPS (Rs)	**10.2**	**16.3**		**12.9**	
Margins					
OPM (%)	16.7	20.5		18.4	
GPM (%)	12.1	16.3		14.2	
NPM (%)	9.7	12.6		12.1	

Source: Company

Revenues beat estimates; Q1 expected to break the usual weakness trend

- NIITT reported a 3.4% QoQ growth in revenues in INR terms against our expectation of 0.8%. Growth was aided by strong operational performance and revival of US Business.
- Net profit at Rs.935mn (adjusted for one time settlement with Government) came ahead of our expectations of Rs.887mn.
- DSO reduced further by 5 days QoQ to 64 days, continuing the trend that has played out aided by change in business mix i.e. exit from Government-focused business.
- Hedging gains were at Rs.157mn v/s Rs.126mn in 3QFY17. NIITT was not impacted by the sharp appreciation in currency as it translates revenues at month start rate.
- Management indicated that, it expects to see sequential growth in constant currency terms in Q1FY18, breaking the usual trend of revenue weakness that it sees in Q1 on account of seasonality in GIS business.
- The slowdown in growth of GIS business in Q1 would be well compensated by the ramp-up of deals won in certain BFS clients in US and Smart City projects in India.

BFS momentum improves, while T&T drag continues

- BFSI revenues were up 4.1% sequentially, contributing 42% of the total revenue. Growth was led by ramp up in Key Accounts.
- Company added 2 new clients in NITL, including one being offered as platform services hosted on the cloud.
- NIITT management sounded confident about FY18 prospects for BFS vertical with strong momentum within existing client base and demand improvement from US clients.
- Insurance vertical is expected to remain soft with caution and uncertainty with regard to Brexit process being on, though it is expected to be better than FY17.
- T&T vertical was down 1.1% sequentially and contributed 31% of total revenue. Decline in revenue was primarily due to deprecation of Euro and GBP.
- Within T&T vertical, company won a large engagement of EURO 20mn plus during the quarter. This is with a large airline in EMEA.
- Management maintained its moderate outlook for T&T Vertical, with continues challenges being faced.

GIS outlook remains strong

- GIS had a strong growth during the quarter backed by Smart City program deal wins. Out of 18 Smart city deals allotted, NIITT has won 17. Management is confident of continuing the traction in FY18 too.
- GIS revenues were at Rs.526mn in 4Q v/s Rs.352mn in 3QFY17. Margins too improved to 33% from 22% in previous quarter.
- NIITT has started offering services in India and has already bagged a smart city projects in 17 cities including Bhubaneshwar, Nagpur and Dharamshala.
- NIITT is working as an OEM along with System Integrators and will be providing its GIS platforms to the SI.
- The Government revenues will increase because of increased smart city revenues, but payment terms will be better from the SIs.

Order booking at $112mn v/s $101mn in previous quarter

- The order booking for the quarter was at $112mn, as against $101mn in 3Q and $143mn in 2QFY17, $101mn in 1QFY17. This was the sixth consecutive quarter of order booking of above $100mn.
- The order-book executable over the next 12 months improved to $320mn from the past trend of $300m.The strong executable order book gives confidence to the management of improved FY18 revenues over FY17.

Particulars

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Order bkg ($mns)	120	101	143	101	112
Executable in 12M ($mns)	301	307	309	311	320

Source: Company

Margins were higher QoQ

- Margins were higher by about 90bps, sequentially and came in above estimates at 17.6%. Excluding hedging gains, they were at 15.6% about 40bps higher QoQ. The hedging gain was at Rs.157mn v/s a gain of Rs.126mn in 3Q.
- Strong growth in margins was a result of traction in BFSI in US and growth in GIS vertical.
- GIS margins improved to 33% from 22% in previous quarter. Proyecta which contributes about 2% of total revenue had a sharp decline in margin to -20% from -4% in previous quarter.

Management remains confident of FY18 prospects

- NIITT management sounded confident about FY18 prospects highlighting both a momentum within existing client base and improvement in demand trends in verticals like financial services.
- Management expects sequential growth through each of the quarters in FY18 and indicated that it would expect margins in FY18 to be similar/slightly better in FY18 on constant currency basis.
- Further it expects Q1FY18 margins to be better than Q1FY17.

Future prospects

- We have tweaked our earnings estimates in light of the management commentary and potential macro headwinds from Brexit, etc.
- We expect USD revenues to grow by 8.8% and 9% in FY18 and FY19 respectively.
- Rupee is assumed to average 65.4/USD in FY18 and 66.6 / USD in FY19.
- PAT is, thus, expected to amount to Rs.2.88bn in FY18 and Rs.3.35bn in FY19, leading to EPS of Rs.46.9 (Rs.48.2) and (Rs.54.6), respectively.

Valuations and recommendation

We recommend ACCUMULATE on NIIT Technologies with a price target of Rs.518

- In our DCF model, we have incorporated a benign operating environment in our near term assumptions for the company.
- A WACC of 12% and terminal growth of 2% leads us to a fair value of Rs.518 for the stock (Rs.482 earlier). At those levels the stock will quote at about 9.5x FY19 earnings, which is reasonable, in our view.
- The stock is quoting at 8.6x FY19 earnings, which leaves adequate upside from the current levels. We downgrade to **ACCUMULATE** from BUY earlier due to recent run up in stock price. We note that, the stock may remain ranged in the near term, on visa / immigration concerns in US.

Concerns

- Rupee appreciation beyond our assumed levels could provide a downward bias to our earnings estimates.
- A delayed recovery in major global economies could impact growth prospects of NIITT.

RESULT UPDATE

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EICHER MOTORS LIMITED (EML)

PRICE: RS.25833 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.27203 **FY19E P/E: 27.8x**

EML's 4QFY17 reported numbers were on expected lines. Strong 21% volume growth resulted into 23% YoY growth in consolidated revenues. EBITDA margin at 31% was almost similar QoQ, but higher YoY. Consolidated PAT grew by 33% YoY. Profit from VECV JV jumped multifold YoY. Currently, Royal Enfield (RE) is facing capacity issue and hence sequential volume growth has been low. New plant will commence production from August 2017 and we thereby expect sales volume to improve in 2HFY18. VECV operational performance during the quarter was strong - despite challenging environment. We revise our FY18 lower to align our sales volumes with production guidance given by the company. We also introduce FY19 estimates and roll-over our target to FY19E financials. We raise the target price on the stock to Rs27,203 (earlier Rs24,164) and upgrade the stock to ACCUMULATE (earlier REDUCE).

Summary table (Standalone)

(Rs mn)	FY17	FY18E	FY19E
Sales	70,380	89,176	105,747
Growth (%)	13.7	26.7	18.6
EBITDA	22,058	28,682	34,423
EBITDA margin (%)	31.3	32.2	32.6
PBT	22,770	29,983	36,592
Rep Net profit	15,600	20,688	25,248
EPS (Rs)	573.3	760.3	927.9
Growth (%)	26.6	32.6	22.0
Cons Net profit	16,585	22,517	27,479
Cons EPS (Rs)	611	829	1,012
Cons EPS Growth (%)	30	36	22
CEPS (Rs)	630	825	1,005
BV (Rs/share)	1,442	2,087	2,900
Dividend / share (Rs)	100	100	100
ROE (%)	51	43	37
ROCE (%)	75	62	54
Net cash (debt)	35,623	54,436	76,400
NWCapital (Days)	(37)	(37)	(37)
P/E (x)	45.1	34.0	27.8
P/BV (x)	17.9	12.4	8.9
EV/Sales (x)	9.5	7.3	5.9
EV/EBITDA (x)	30.3	22.6	18.2

Source: Company, Kotak Securities - Private Client Research

Quarterly performance (Standalone)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Revenues	**18,844**	**15,449**	**22.0**	**18,336**	**2.8**
Total expenditure	12,934	10,869	19.0	12,508	3.4
RM consumed	9,908	8,418	17.7	9,690	2.2
Employee cost	1,014	742	36.7	1,015	(0.2)
Other expenses	2,012	1,709	17.7	1,802	11.7
EBITDA	**5,910**	**4,580**	**29.0**	**5,828**	**1.4**
EBITDA margin (%)	31.4	29.6	-	31.8	-
Depreciation	430	374	14.8	355	21.1
Interest cost	7	6	19.3	7	(4.2)
Other Income	550	1,099	(49.9)	590	(7)
PBT	**6,024**	**5,299**	**13.7**	**6,056**	**(0.5)**
PBT margins (%)	32.0	34.3		33.0	
Tax	1,909	1,489	28.2	1,904	0.2
Tax rate (%)	31.7	28.1	-	31.4	-
Reported PAT	**4,116**	**3,809**	**8.0**	**4,152**	**(0.9)**
PAT margins (%)	21.8	24.7	-	22.6	-
Other Comprehensive Income	6	(9)		(3)	
Total Comprehensive Income	4,121	3,800	8.4	4,149	(0.7)
Reported EPS (Rs)	**151.6**	**140.4**	**8.0**	**153.0**	**(0.9)**
Volumes (Units)	178,345	147,618	20.8	173,838	2.6
Net Realization (Rs)	105,016	104,287	0.7	105,105	(0.1)
RM cost per vehicle (Rs)	55,556	57,028	(2.6)	55,742	(0.3)

Source: Company

Standalone Result Highlight

- Standalone business reported revenues of Rs18.8bn, 22% higher YoY. Growth in revenues was largely on account of 21% increase in sales volume; average selling price (ASP) improved by 1% YoY.
- Sequentially revenue growth stood at 3%, driven by similar increase in volumes. Volume growth on a QoQ basis has been low due to capacity constraint.
- Gross margins during the quarter improved by 191bps YoY and 27bps to 47.4%.

- Employee cost continues to increase substantially as the company is investing for future growth. Other expenses rose by 18% YoY largely reflecting 21% YoY increase in volumes.
- EBITDA margin increased YoY from 29.6% to 31.4% - broadly reflecting higher gross margins. Sequentially EBITDA margin declined by 40 bps due to negative operating leverage.
- Other income slid YoY due to lower dividend from VECV. VECV paid Rs520mn (EML's share) as dividend during the quarter.
- Standalone PAT for the quarter grew by 8% to Rs4.1bn.

VECV Result Highlights

Quarterly performance (VECV) - Derived

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Volumes	16,916	15,276	10.7	11,462	47.6
Revenues	25,540	20,740	23.1	18,850	35.5
EBITDA	2,090	930	124.7	1,300	60.8
EBITDA margin (%)	8.2	4.5	-	6.9	
PAT	1,160	60	1,833.3	570	103.5

Source: Company

- VECV reported relatively strong operational performance in a challenging environment. Volume growth for the quarter stood at 11% and that along with increase in ASP translated into 23% jump in revenues.
- EBITDA margin for the stood at 8.2% as against 4.5% in 4QFY16 and 6.9% in 3QFY17. Margins improvement on a YoY basis came on a low base. Sequential EBITDA margin expansion came on account of 48% growth in volumes.
- On the back of revenue growth and EBITDA margin improvement, VECV JV PAT for the quarter increased manifold YoY to Rs1.16bn.

Quarterly performance (Consolidated)

(Rs mn)	4QFY17	4QFY16	YoY%	3QFY17	QoQ%
Revenues	**18,881**	**15,322**	**23.2**	**18,348**	**2.9**
Total expenditure	13,033	10,854	20.1	12,577	3.6
RM consumed	9,925	8,331	19.1	9,691	2.4
Employee cost	1,060	775	36.8	1,058	0.2
Other expenses	2,048	1,748	17.2	1,829	12.0
EBITDA	**5,848**	**4,468**	**30.9**	**5,770**	**1.3**
EBITDA margin (%)	31.0	29.2	-	31.4	-
Depreciation	432	373	15.9	356	21.4
Interest cost	11	6	91.2	10	13.5
Other Income	551	453	21.6	590	(7)
Exceptional item			-		-
PBT	**5,956**	**4,543**	**31.1**	**5,995**	**(0.7)**
PBT margins (%)	31.5	29.6		32.7	
Tax	1,890	1,440	31.2	2,000	(5.5)
Tax rate (%)			-		-
PAT (bef minority int/asso profit)	4,066	3,103	31.0	3,995	1.8
Profit from JV	528	328	61.0	187	182
Reported PAT	**4,594**	**3,431**	**33.9**	**4,182**	**9.9**
PAT margins (%)	24.3	22.4		22.8	
Other Comprehensive Income	7	(6)		(11)	
Total Comprehensive Income	4,601	3,425	34.3	4,171	10.3
Reported EPS (Rs)	169.3	126.4	33.9	154.1	9.9

Source: Company

Conference Call Highlights

- Re order intake is higher than current production. Average waiting period for Classic 350 (highest selling model for the company) is ~2 months.
- RE's new manufacturing facility at Vallam Vadagal near Chennai will commence operation from August 2017. With this new facility coming on stream during the year, company's total capacity will stand increased to 900,000 units per annum. For FY18, management gave production guidance of 825,000 units.
- Company expects monthly production with full ramp-up of Phase I will stand ~75,000-80,000 per month. At the same plant, company has space to come up with Phase 2; though no decision has been taken to start Phase 2 capacity. However, phase 2 capacity can take monthly production run-rate to 100,000 units per month.
- RE will launch one new product in FY18 (expected to be higher CC product than existing range). Apart from this, the company will also launch some variants/upgrades on existing products.
- For RE, top 20 cities account for 40-45% of sales and these markets are growing in excess of 15%. Majority of RE customers are upgraders from other motorcycle brands (100-150cc). However, company also highlighter that share of first tome buyers in the mix is increasing for the company. Share of RE replacement buyers is not significant.
- RE dealerships as of end FY18 stood at 675 stores.
- On RE exports, the company indicated that are working on long term growth. Company has identified markets like Thailand, Indonesia, Columbia and Brazil as growth opportunities. Company will add 25 exclusive stores in international market in FY18.
- In FY18, EML will invest Rs8bn towards capex in FY18. Capex will include new capacity, product development and two technical centers (one in India and UK each). VECV will invest Rs4.5bn towards capex in FY18.
- Company indicated that the BSIII inventory at VECV was quite low and the same is managed through exports.

Outlook

- New capacity will help the help grow volumes, which has seen little traction in recent months due to capacity constraint. We build in 18% volume CAGR for the company over FY17-FY19E.
- VECV's volume performance in the near term is likely to tepid due to expected weak demand for CV's. However, over the longer term, we expect healthy volume growth and market share gain.

We recommend ACCUMULATE on Eicher Motors Ltd with a price target of Rs.27203

- EBITDA margins are expected to stay broadly healthy for the company.
- We lower our FY18 estimates to bring in sales volume assumption in line with management FY18 production guidance. We also introduce FY19 estimates and roll-over our target to FY19E financials.
- We raise the target price on the stock to Rs27,203 (earlier Rs24,164) and upgrade the stock to **ACCUMULATE** (earlier REDUCE). We value the RE business at a PE of 27x (unchanged) on FY19 adjusted EPS to arrive at value of Rs24,649. VECV business is valued at 13x (unchanged) FY19 EV/EBITDA to arrive at value of Rs2,554.

RESULT UPDATE

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APOLLO TYRES (APTY)

PRICE: RS.246 | **RECOMMENDATION: ACCUMULATE**

TARGET PRICE: RS.261 | **FY19E P/E: 8.5x**

Impacted by high raw material cost, APTY has reported weak 4QFY17 results. Revenues during the quarter grew at a healthy rate, supported by volume growth in Indian and European operations. Sharp and swift increase in natural rubber impacted margin performance during the quarter. Higher other income and lower tax provision provided some support to net profit. PAT for the quarter declined by 22% YoY. Management remains confident of strong volume growth in FY18. Impact of high raw material prices is expected to be felt in 1QFY18 as well. Further, at European operations, start-up cost of Hungary plant will keep margins subdued. While margins are expected to stay subdued in 1HFY18, we expect gradual improvement from 2HFY18 onwards. We revise our FY18 estimates marginally lower and raise our FY19 estimates. Given recent sharp run-up in stock price, upside from current levels is limited and we thereby rate the stock as ACCUMULATE (BUY earlier) with revised price target of Rs261 (earlier Rs245).

Summary table

(Rs mn)	FY17E	FY18E	FY19E
Sales	131,800	159,361	184,042
Growth (%)	11.8	20.9	15.5
EBITDA	18,464	21,473	26,394
EBITDA margin (%)	14.0	13.5	14.3
PBT	14,359	16,410	20,032
Adj Net profit	10,990	12,328	14,773
Adjusted EPS (Rs)	21.6	24.2	29.0
Growth (%)	3.6	12.2	19.8
CEPS (Rs)	30.7	34.9	41.2
BV (Rs/share)	143.2	163.8	189.2
Dividend / share (Rs)	3.0	3.0	3.0
ROE (%)	16.3	15.8	16.4
ROCE (%)	16.6	16.2	17.8
Net cash (debt)	(25,132)	(28,310)	(26,993)
NW Capital (Days)	63	60	56
P/E (x)	11.4	10.2	8.5
P/BV (x)	1.7	1.5	1.3
EV/Sales (x)	1.1	1.0	0.8
EV/EBITDA (x)	8.1	7.1	5.8

Source: Company, Kotak Securities - Private Client Research

Standalone result highlights

Quarterly performance (Standalone)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Revenues	**23,838**	**21,804**	**9.3**	**22,010**	**8.3**
Total expenditure	21,070	17,825	18.2	18,786	12.2
RM consumed	15,100	11,927	26.6	12,801	18.0
Employee cost	1,406	1,447	(2.9)	1,451	(3.1)
Other expenses	4,564	4,451	2.5	4,534	0.7
EBITDA	**2,768**	**3,979**	**(30.4)**	**3,224**	**(14.1)**
EBITDA margin (%)	11.6	18.3	-	14.6	-
Depreciation	931	682	36.6	676	37.8
Interest cost	213	239	(10.8)	232	(8.1)
Other Income	469	226	107.1	235	99.5
Exceptional item			-		-
PBT	**2,093**	**3,285**	**(36.3)**	**2,551**	**(18.0)**
PBT margins (%)	8.8	15.1		11.6	
Tax	330	1,019	(67.6)	697	(52.6)
Tax rate (%)	15.8	31.0	-	27.3	-
Reported PAT	**1,763**	**2,267**	**(22.2)**	**1,855**	**(4.9)**
PAT margins (%)	7.4	10.4	-	8.4	-
Other Comprehensive Income	0	(12)		(20)	
Total Comprehensive Income	1,763	2,255	(21.8)	1,835	(3.9)
Reported EPS (Rs)	**3.5**	**4.5**	**(22.2)**	**3.6**	**(4.9)**

Source: Company

- Standalone revenues for the quarter stood at 9% YoY to Rs23.8bn. Revenue growth came on the back of 9% volume growth. During the quarter passenger car radial (PCR) and farm tyre segment witnessed 20% YoY increase in volumes. For the truck segment volume growth stood at mid-single digit. Company took ~3% price hike during the quarter, however, the same did not reflect much as it was taken during March 2017.
- Gross margins during the quarter declined from 44.1% in 4QFY16 and 41.2% in 3QFY17 to 35.1% in 4QFY17. Reasons for the same include sharp and swift increase in natural rubber prices and staggered and delayed increase in selling prices.

- Led by sharp fall in gross margins, EBITDA margin for the quarter stood at 11.6% as against 18.3% in 4QFY16 and 14.6% in 3QFY17.
- Rise in depreciation is due to capitalization of additional capacity at Chennai plant. Other income increased sharply YoY and the management indicated that there were no one-off's in other income. Tax rate was lower during the quarter which we expect was due to full year adjustments.
- PAT for the quarter declined by 22% YoY.

Consolidated result highlights

Quarterly performance (Consolidated)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Revenues	**33,256**	**30,149**	**10.3**	**34,579**	**(3.8)**
Total expenditure	29,557	25,186	17.4	29,585	(0.1)
RM consumed	18,691	14,788	26.4	18,108	3.2
Employee cost	4,120	4,272	(3.6)	4,502	(8.5)
Other expenses	6,746	6,126	10.1	6,975	(3.3)
EBITDA	**3,699**	**4,963**	**(25.5)**	**4,993**	**(25.9)**
EBITDA margin (%)	11.1	16.5	-	14.4	-
Depreciation	1,366	1,209	13.0	1,135	20.4
Interest cost	248	241	3.1	283	(12.5)
Other Income	500	204	144.4	373	33.9
Exceptional item			-		-
PBT	**2,585**	**3,718**	**(30.5)**	**3,949**	**(34.5)**
PBT margins (%)	7.8	12.3		11.4	
Tax	303	983	(69.2)	991	(69.4)
Tax rate (%)	11.7	26.4	-	25.1	-
PAT (bef minority int/asso profit)	2,282	2,735	(16.6)	2,958	(22.8)
Share of associates/Minority Int	-	15	-	1	-
Reported PAT	**2,282**	**2,721**	**(16.1)**	**2,957**	**(22.8)**
PAT margins (%)	6.9	9.0		8.6	
Other Comprehensive Income	(1,013)	926		(1,630)	
Total Comprehensive Income	1,269	3,647	(65.2)	1,327	(4.4)
Reported EPS (Rs)	**4.5**	**5.3**	**(16.1)**	**5.8**	**(22.8)**

Source: Company

- Consolidated revenues for the quarter increased by 10% YoY to Rs33.3bn. Both Indian and European operations reported healthy volume growth for the company in 4QFY17.
- During 4QFY17, revenues stood at Rs10bn, 16% higher YoY. During the quarter, APTY witnessed 20% growth in PCR volumes. Vredestein (manufacturing activity in Netherland) revenues increased from Euro99mn in 4QFY16 to Euro118mn, growth of 20% YoY. In FY17, Vredestein revenues increased from Euro423mn in FY16 to Euro456mn.
- Reifencom revenues in 4QFY17 and FY17 came in at Euro247mn and Euro160mn respectively.
- Gross margins during the quarter declined as natural rubber prices witnessed sharp increase.
- Led by increase in raw material cost, seasonally weak quarter for Reifencom business (negative 5% EBITDA margin) and delayed pricing action in India (no price hike in Europe), EBITDA margin came down from 16.5% in 4QFY16 to 11.1% in 4QFY17. At Vredestein, EBITDA margin was 10.6% in 4QFY17.
- Consolidated PAT for the quarter declined by 16% YoY to Rs2.28bn. Reported PAT was lower than our expectation of Rs2.42bn.

Conference Call Highlights

- Management maintains a positive demand outlook for the company and industry. APTY is looking at double digit volume growth in FY18.
- In FY17, company witnessed 20% volume growth in the PCR segment, while volume growth in truck segment was flat. Company expects to outperform industry growth in PCR segment in FY18 too. APTY's capacity utilization in the PCR segment is ~85% and the company will have to add capacity going ahead.
- In the 2W segments, volumes were impacted due to demonetization. In FY18, the company averaged 100,000 tyres per month and expects to average 200,000 tyres per month in FY18.
- Chinese imports are down by 50% from the peak. Company pointed out that there are expectations that Chinese imports could go up. However, management also stated that GST could be deterrent to Chinese imports. Chinese imports has increased their product prices by 10-15% and accordingly difference between Indian and Chinese TBR prices has narrowed down from 30% to 23% (APTY has taken 6% price hike).
- In Europe too, the demand outlook given by the company is positive. In FY17, company's volumes in Europe grew by 12%, ahead of the industry growth.
- In India, the company has taken ~6% price hike since start of 4QFY17. APTY took a price hike of 3% in 4QFY17 and another 3% in April 2017. Price hike in PCR and TBB (Truck Bus Bias) segment was ~6% and 3-3.5% in TBR (Truck Bus Radial) segment. Company indicated that they will enforce future price hike whenever possible.
- For European operations, the company announced ~8% price hike (in line with industry). However the same has not yet been implemented by the industry and APTY. Furthermore, the prices are hiked only for winter tyres.
- Company indicated that there is potential to improve Reifencom business margins, which currently stands at ~2% on an annualized basis.
- Raw material cost basket increased by 13% in 4QFY17 and the company expects it to increase by another 10% in 1QFY18. Company expects that 23% increase in raw material cost (over 4QFY17 to 1QFY18) will require ~15% price hike. So far the company has taken 6% price increase.
- Average raw material price in 4QFY17 - Natural Rubber - Rs155/kg, Synthetic Rubber - Rs150/kg, Steel Cord - Rs110/kg, Tyre Cord Fabric - Rs270/kg and Carbon Black - Rs60/kg.
- In Europe, the margins in the near term are expected to be weak due to pressure from raw material cost and start of new Hungary plant. Management said that Hungary operations will start making difference in FY19 and expect to pick-up overall Europe operations margins by FY20.
- For the Chennai plant, full capacity will come on stream by mid 2018 and company expects to achieve 90% capacity utilization at this plant by FY19.
- At the Hungary plant, full capacity in the PCR segment will come on stream in FY19. Thereby FY20 will be the first year of full capacity available for the company. APTY will start supplying to OEM's in FY18.
- In FY18, capex is expected to Rs25bn, 50% each for India and European operations. For European operations, capex will include Euro180mn towards Hungary plant.
- In Andhra Pradesh, the company is acquiring land and expects construction to start in 2HFY18. Company is looking to acquire 200 acres and targets to produce all product categories in due course. Under the first phase, the company will develop a 2W plant. However, the new plant will dependent upon ramp-up in 2W sales for the company. Capex towards AP plant will be low in FY18 and will largely start coming in from FY19.

- In consolidated revenues - 75% contribution was from replacement and 25% came from OEM. Trucks and cars accounted for more than 80% of revenues.
- Gross debt for the quarter stood at Rs34bn as of end 4QFY17. Standalone and consolidated net debt as of end FY17 stood at Rs1.25bn and 2.7bn respectively.

Outlook

- On the back of new capacities coming on stream in India and Europe, ramping up in two wheeler segment, reduction in Chinese TBR imports and demand environment improving, APTY is expected to witness healthy growth in revenues over the FY18-FY19.
- After witnessing a sharp increase from September 2016 to February 2017, natural rubber prices has corrected in the past two months. Further, the APTY and the competitors have taken price hikes. We expect gradual improvement in EBITDA margins for the company.
- Government have initiated probe against TBR dumping from China and the decision is awaited. Any positive development on this event will can potentially give strong boost to TBR/TBB volumes. APTY derives significant proportion of sales from truck tyres and it could be a key beneficiary if Chinese TBR imports are further curbed.
- APTY is currently on a capex mode and we thereby expect the company's debt to remain in FY18. From FY19, we expect debt levels to start coming down. Even at peak debt, the company's debt:equity will likely remain under 0.5x.

We recommend ACCUMULATE on Apollo Tyres with a price target of Rs.261

- We expect the company to take further price hikes to offset raw material cost increase. We thereby increase our revenue estimates. However, margins in 1HFY18 are expected to be subdued and we thereby lower our FY18 margin assumption. We thereby revise our FY18 estimates marginally lower and raise our FY19 estimates
- We rate the stock **ACCUMULATE** (earlier BUY) with revised price target of Rs261 (earlier Rs245). We value the stock 9x (unchanged).

Change in estimates

Consolidated	FY18E			FY19E		
(Rs mn)	Old	New	% chg	Old	New	% chg
Revenues	154,873	159,361	2.9	178,816	184,042	2.9
EBITDA Margin (%)	13.9	13.5		14.0	14.3	
PAT	12,408	12,328	-0.6	13,840	14,773	6.7

Source: Kotak Securities - Private Client Research

Key Risk

Lower than expected volume growth and significant increase in raw material cost are key risks to our earnings estimates.

RESULT UPDATE

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GE SHIPPING CO (GESCO)

PRICE: RS.428 **RECOMMENDATION: SELL**
TARGET PRICE: RS.360 **FY19E P/E: 7.3x**

Weakness continues

Q3FY17 for GESCO has been marked by decrease in daily earnings in the product segment, decrease in revenues both YoY and QoQ, fall in EBIDTA margins (780 bps QoQ and 460 YoY), higher interest payment, impairment loss of Rs 1.74 bn and net loss. Weak global shipping markets and lower crude prices which negatively impacts the offshore segment has been negatively impacting the performance of GESCO. Increased scrapping, slow new orders, lower bunker prices and stable demand for commodities is positive for the company, but we estimate that pressure of supply of ships to continue to keep freight rates subdued. Broadly, we estimate weak earnings for GESCO over FY17 to FY19E. We continue to value GESCO at 0.67 x (2/3) of the NAV of Rs 540 (from Rs 525) . Maintain SELL with an increased TP of Rs 360 (from Rs 350).

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	31,163	33,047	34,109
Growth (%)	-18.1	6.0	3.2
EBITDA	15,927	18,024	17,990
EBITDA margin (%)	51.1	54.5	52.7
PBT	8,558	10,067	9,853
Net profit	7,702	9,060	8,868
EPS (Rs)	51.1	60.1	58.8
Growth (%)	-27.4	17.6	-2.1
CEPS (Rs)	111.0	107.8	106.6
BV (Rs/share)	606	654	700
Dividend / share (Rs)	10.6	12.0	12.0
ROE (%)	8.4	9.2	8.4
ROCE (%)	7.1	7.5	7.0
Net cash (debt)	(14,776)	(8,725)	(966)
NW Capital (Days)	(21.5)	(20.9)	(19.9)
EV/EBITDA (x)	5.0	4.1	3.6
P/E (x)	8.4	7.1	7.3
P/Cash Earnings	3.9	4.0	4.0
P/BV (x)	0.7	0.7	0.6

Source: Company, Kotak Securities - Private Client Research

Consolidated quarterly performance

(Rs mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Sales	**8,767**	**8,077**	**8,137**	**7,494**	**7,455**
Growth QOQ %	-7.5	-7.9	0.7	-7.9	-0.5
Growth YOY %	-0.8	-14.7	-21.3	-20.9	-15.0
Direct expenses	2,025	1,241	1,371	1,337	1,746
Employee cost	1,449	1,466	1,500	1,470	1,531
Other expenses	1,048	957	891	820	906
Expenditure	4,522	3,664	3,762	3,627	4,183
EBIDTA	**4,245**	**4,413**	**4,375**	**3,867**	**3,272**
EBIDTA %	48.42	54.64	53.77	51.60	43.89
Depreciation	1,786	1,753	1,868	1,720	1,776
Impairment	1,455	0	0	171	1,742
EBIT	**1,004**	**2,660**	**2,507**	**1,976**	**-246**
Interest	705	776	953	897	1,150
Profit from sale of ships	2	384	1	0	0
Other income	916	467	669	648	232
PBT	**1,217**	**2,735**	**2,224**	**1,727**	**-1,164**
Tax	315	400	301	308	237
Effective tax rate %	25.88	14.63	13.53	17.83	-20.36
PAT	**902**	**2,335**	**1,923**	**1,419**	**-1,401**
Exceptional	-327	547	762	1,066	1,046
PAT (after exceptions)	**575**	**2,882**	**2,685**	**2,485**	**-355**
Equity	1,508	1,508	1,509	1,510	1,511
EPS (Rs)	**3.8**	**19.1**	**17.8**	**16.5**	**-2.3**

Source: Company

Current shape of shipping markets

BULK: The Baltic Dry Index (BDI) continue to trade at lower levels primarily due to slowdown in the Chinese economy, slowing global demand for raw materials including iron ore, coal, cement and steel leading to mismatch of demand and supply of vessels with supply far exceeding the demand. Infact, freight rates in the bulk sector are currently so low that it fails to cover even the operating cost of running a vessel. (Without taking into account possible financing). This is the only reason why many bulk companies were thrown out of business globally in the last 3 years.

TANKER: On the other, crude continues to trade between $48-$50 with higher production by US and minimum cut in production by OPEC. Last year, with lower crude oil prices, net importing countries like China and India were importing more crude keeping the tanker segment at higher levels. However, these imports have slown down impacting the tanker segment. The Tanker market has also weakened due to tanker fleet growth this year amplified by the slowing demand environment.

What we believe?

The supply side remains the source of most problems and despite some recent corrections, the order book still casts a long shadow over every segment. Crude tanker rates have remained volatile since the start of the year. Rates dropped from their peak for the last 3 years , mostly due to excess vessel supply as vessels returned from dry docking and a few Newbuild entered the market. On the other hand, though Baltic Dry Index has rebounded from record low of 290 points in February, we believe that still the dry bulk rates are very weak and would remain weak in near term.

TCY earnings for GESCO - weak trend across segments

TCY ($/day)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Crude Carrier	33,838	25,426	23,591	19,231	20,897
Product Carrier	21,613	20,122	19,975	16,285	15,868
Bulk Carrier	4,418	5,784	6,324	6,972	8,345

Source: Company

Current shipping fleet of GESCO - 3.45 mn dwt

Segment	No's	Avg Average (yrs.)
Crude Carriers	12	12.8
Product Carriers	15	8.4
Gas Carrier	2	21.0
Tankers total	29	11.7
Capesize	1	5.0
Kamsarmax	8	2.7
Supramax	7	9.4
Dry Bulk total	16	5.1
Total	**45**	**9.2**

Source: Company

GESCO has added ships, both in tanker and the dry bulk segment and the fleet size has increased from 37 ships aggregating 2.88 mn dwt to 45 ships to 3.45 mn dwt Company has taken advantage of the low asset prices and has added ships in the last 12 months. However, due to sustained weakness in the shipping markets, the assets have not been value accretive for the company.

Greatship India Limited (GIL)- 100% subsidiary of GESCO.

Current fleet of GIL

Segment	No's
350 feet Jack up	4
PSV	4
AHTS	8
MPSSV	2
ROV	5

Source: Company

Company currently has a fleet of 23 offshore assets including four 350 feet jack rig, Even, these assets are not yielding the desired results due to low crude prices.. Performance of offshore segment remains weak due to lower crude prices

Business environment and sentiments to remain weak

Weak global shipping markets (esp. bulk) and lower crude prices which negatively effects the offshore segment are estimated to result into weak earnings and return ratios for shipping companies including GESCO which is estimated to translate into weak sentiments and continue to de-rate the sector.

Valuation and recommendation:

We maintain SELL on GE Shipping Co with a price target of Rs.360

The supply side remains the source of most problems and despite some recent corrections, the order book still casts a long shadow over every segment. The company has added assets in the shipping segment not citing recovery but to only take advantage of the low asset prices. We believe that it is difficult to predict the length of the current down cycle but estimate that GESCO has the expertise to hold through this low phase with an expanded fleet. Even the offshore segment is estimated to remain weak with lower crude prices.

Broadly, we estimate a weak earning profile for GESCO over FY17 to FY19E. With sustained weak shipping markets and weak crude and impending threat of further impairment, we have introduced FY19 numbers with a weak returns profile. We continue to value GESCO at 0.67 x (2/3) of the NAV of Rs 540 (from Rs 525). Maintain **SELL** with an increased TP of Rs 360 (from Rs 350).

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
05-May	ARCFIN	Veenit Builders Pvt Ltd	S	4,78,001	13.0
05-May	ARCFIN	Venkateshwara Industrial Promotion	S	3,50,000	13.0
05-May	ARCFIN	Ethan Constructions Pvt Ltd	B	2,80,000	13.0
05-May	ARCHITORG	Shree Mallikarjun Trad Invest Pvt Ltd	B	50,000	66.3
05-May	ARCHITORG	Vishwamurte Trad Invest Pe Ltd	B	50,000	66.3
05-May	ARCHITORG	Shweta Samirbhai Shah	S	97,123	66.3
05-May	BNRSEC	Savita Arya .	S	36,541	29.0
05-May	DBCORP	Icici Prudential Life Insurance Co Ltd	B	33,23,619	350.0
05-May	DBCORP	Amansa Holdings Pvt Ltd	S	37,72,562	350.1
05-May	DELTA	Shyamal Sardar	B	65,000	19.8
05-May	MAJESAUT	Sanjay Devkinandan Gupta	S	70,000	101.2
05-May	MAJESAUT	Anil Kumar Goel	B	69,374	101.2
05-May	MNIL	Shree Bhuvanakaram Tradinvest	B	70,000	99.7
05-May	MNIL	Ska Securities And Financial Services	S	40,000	101.0
05-May	OCTAWARE	Vicky Rajesh Jhaveri	S	20,800	91.1
05-May	OCTAWARE	Jhaveri Trading & Investment Pvt Ltd	S	40,000	90.3
05-May	OCTAWARE	Manlike Chemical & Pharma Co	B	35,200	91.1
05-May	OCTAWARE	Aryaman Broking Limited	B	56,000	90.3
05-May	PRITIKAUTO	Ashok Ghanchand Vohra (Huf)	S	1,00,000	56.2
05-May	PROFINC	Arvind Shantilal Shah	B	30,000	201.5
05-May	PROFINC	Ambe Securities Pvt Ltd	S	69,000	202.2
05-May	SADBHIN	Nomura Asset Mgmt Singapore Ltd Astro Trust Series Triceratop	B	1,32,25,812	104.5
05-May	SADBHIN	Amansa Investments Limited	S	1,32,25,812	104.5
05-May	SHREERAM	Citigroup Global Markets Mauritius	S	3,75,000	63.5
05-May	SYMBIOX	Ethan Constructions Pvt Ltd	S	1,92,810	17.6
05-May	SYMBIOX	Venera Property Pvt Ltd	S	2,64,672	17.3
05-May	VIKASECO	Harsha Goyal	S	15,00,000	23.5
05-May	VIKASECO	New Leaina Investments Limited	B	20,00,000	23.6
05-May	VIRTUALG	Pragish Textiles Pvt Ltd	B	25,80,000	5.6

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Indiabulls	1,106	2.7	NA	3.5
ACC Ltd	1,660	2.2	NA	0.6
Adani Ports	345	1.6	NA	8.2
Losers				
Bank of Baroda	187	(4.3)	NA	27.1
Tata Motors	420	(3.9)	NA	9.5
Hindalco Ind	186	(3.5)	NA	19.9

Source: Bloomberg

Forthcoming events

Company/Market	
Date	**Event**
8 May	ABB, Canara Bank, Union Bank earnings expected
9 May	Alembic Ltd, Blue Star, Carborundum Universal, Petronet LNG earnings expected
10 May	HeromotoCorp, Siemens India, ZEEL earnings expected
11 May	Asian Paint, GPPL, HCL Tech, MT Educare earnings expected
12 May	Havells, Nestle India earnings expected

Source: www.Bseindia.com

RATING SCALE

Definitions of ratings

BUY – We expect the stock to deliver more than 12% returns over the next 9 months

ACCUMULATE – We expect the stock to deliver 5% - 12% returns over the next 9 months

REDUCE – We expect the stock to deliver 0% - 5% returns over the next 9 months

SELL – We expect the stock to deliver negative returns over the next 9 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 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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