MORNING INSIGHT
kotak Securities
PRIVATE CLIENT RESEARCH
MAY 16, 2017

Economy News

- India's oil marketing companies cut petrol price by Rs 2.16/litre and diesel by Rs 2.10/litre tracking the weakness in global crude oil prices in the trailing fortnight and the corresponding fall in the prices of the Indian crude basket. (FE)
- Exports in April grew at 19.4 per cent, resulting in growth for eight consecutive months, but the trade difference was the highest in 29 months because of a 49.2 per cent jump in imports. The increase in imports was because of rising commodity prices and inbound shipments of gold, but it was also an indication of industrial recovery. (BS)
- FICCI's latest Economic Outlook Survey has pegged India's gross domestic product (GDP) growth at around 7.4 percent for the fiscal year 2017-18. The pick-up in overall GDP growth will also be supported by an improvement in industry and services sector growth. (BS)

Corporate News

- **Alembic Pharmaceuticals** has received approval from the US health regulator for Fenofibric Acid Delayed-Release capsules used for lowering high cholesterol and increasing good cholesterol. (ET)
- Sudanese government's refusal to extend an oilfield licence to **ONGC Videsh Limited** comes amid dues worth $418 million owed to OVL by the African nation. Sudan refused to extend the oilfield licence to operate Block 2B, which expired last November, saying it wanted higher royalties, tax, and profit petroleum. (BS)
- **Colgate-Palmolive,** will ramp up its herbal portfolio in the next few quarters. It has been working on its naturals portfolio for nearly two years and first responded to the herbal revolution, kicked off by Patanjali, in June-July of 2015 when it launched Active Salt Neem toothpaste, its first indigenously developed one. (BS)
- SEBI approved **Tata Consultancy Services' (TCS)** Rs. 160 bn buyback offer, The company, the country's top software services exporter, said the buyback offer will open on May 18 and close on May 31 this month. It will buy back 56 mn equity shares, about 3% of total equity, at Rs 2,850 a piece. (ET)
- **ICICI Bank,** announced up to 30 basis points reduction in home loans up to Rs 3 mn in a bid to boost affordable housing in the country. (BL)
- **Dr Reddy's Laboratories** has launched the generic version of Sofosbuvir and Velpatasvir fixed-dose combination under the brandname Resof Total in India. It is used for the treatment of adult patients with chronic Hepatitis C Virus, Genotype 1,2,3,4,5 or 6 infection without cirrhosis or with compensated cirrhosis. (BL)
- The well thought out merger of **ACC** and **Ambuja Cements** is expected to be less disruptive on operations and employee as they have already formed a joint venture company OneIndia BSC. OneIndia handles the procurement, accounting, billing, hiring and data management of both the companies for the last one year. (BL)
- SBI Card will merge its two operating units after the exit of its part-owner GE Capital. SBI Card is a joint venture of **State Bank of India** and GE Capital, and operates through two businesses. Mint
- **Maruti Suzuki India Ltd** will launch today, the new version of their popular Dzire compact sedan, in an attempt to revive growth in a segment that the car already dominates. Mint
- State-run **Rural Electrification Corp (REC)** said that it will extend financial assistance of Rs 857.23 bn to Tamil Nadu power utilities TANGEDCO and TANTRANSCO. (ET)

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

Equity

	15 May 17	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	30,322	0.4	2.9	7.1
NIFTY Index	9,445	0.5	3.2	7.6
BANKEX Index	25,928	0.8	4.8	11.9
SPBSITIP Index	9,982	(0.4)	2.6	(3.4)
BSETCG INDEX	17,988	0.3	3.9	17.8
BSEOIL INDEX	14,379	0.7	1.1	10.6
CNXMcap Index	18,406	0.9	4.9	14.4
SPBSSIP Index	15,650	0.8	5.2	16.7
World Indices				
Dow Jones	20,982	0.4	2.6	1.8
Nasdaq	6,150	0.5	5.9	5.8
FTSE	7,454	0.3	1.7	2.4
NIKKEI	19,870	(0.1)	8.4	2.7
HANGSENG	25,372	0.9	4.1	4.8

Value traded (Rs cr)

	15 May 17	% Chg - Day
Cash BSE	3,268	(11.4)
Cash NSE	22,917	(9.0)
Derivatives	318,067	(14.4)

Net inflows (Rs cr)

	12 May 17	% Chg	MTD	YTD
FII	916	(36)	2,319	44,331
Mutual Fund	(720)	216	2,655	23,337

FII open interest (Rs cr)

	12 May 17	% Chg
FII Index Futures	18,129	0.3
FII Index Options	67,681	0.9
FII Stock Futures	72,361	0.9
FII Stock Options	6,779	3.7

Advances / Declines (BSE)

15 May 17	A	B	T	Total	% total
Advances	202	610	71	883	55
Declines	96	481	86	663	42
Unchanged	1	30	18	49	3

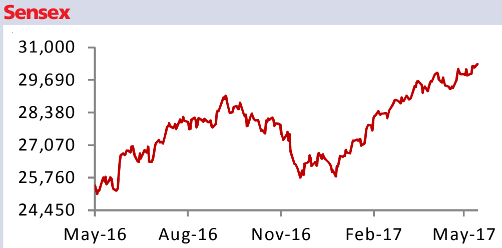
Commodity

	15 May 17	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (US$/BBL)	49.0	0.4	(7.8)	(8.1)
Gold (US$/OZ)	1,230.7	0.2	(4.0)	(0.4)
Silver (US$/OZ)	16.6	0.8	(10.0)	(7.8)

Debt / forex market

	15 May 17	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.8	6.9	6.8	6.9
Re/US$	64.1	64.3	64.5	66.9

Sensex



INITIATING COVERAGE

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

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BODAL CHEMICALS LTD (BCL)

PRICE: Rs.158 **RECOMMENDATION: BUY**
TARGET PRICE: Rs.210 **FY19E P/E: 9.9x**

Bodal Chemicals (BCL) is a fully integrated manufacturer of dye intermediates /dyestuff and has diversified into specialty chemicals. Stricter environmental norms and increased costs have substantially eroded the low cost advantage of Chinese dye manufacturers. BCL, with presence across dyestuff value chain and strong domestic/exports penetration, is aptly placed to take benefit of the opportunities in dyestuff industry. It commands a market share of ~3% of the global and ~10% of the domestic dyestuff industry. In terms of dye intermediates, its market share is at ~5% at the global level and ~20% domestically. Its position in the industry and lucrative (high margin) expansion plans, make us believe that, the company could report ~19% CAGR growth both in revenue and PAT, with an EBITDA margin in the range of 17-18% during the FY17-FY19E period. Given its integrated business model and diversification into specialty chemicals, we believe the stock is available at attractive valuation of 11.1x/9.7x FY18E/FY19E earnings. For superior RoE of 27-30%, we feel the company should warrant higher multiples. We are valuing company at 13x FY19E earnings and have arrived at a target price of Rs210, implying upside of 33%. We initiate coverage with BUY rating.

Stock details

BSE Code	: 524370
NSE Code	: BODALCHEM
Avg Volume	: 424481
Market Cap (mn)	: 17238
Free Float (%)	: 35.83
52 week High/Low	: 167.9/82
Shares O/s (mn)	: 109.1

Summary table

(Rs mn)	FY17E	FY18E	FY19E
Sales	11,986	14,492	16,875
Growth (%)	31.7	20.9	16.4
EBITDA	2,193	2,624	2,991
EBITDA margin (%)	18.3	18.1	17.7
PBT	1,891	2,322	2,677
Net profit	1,229	1,510	1,740
Adj EPS (Rs)	10.9	13.8	15.9
Growth (%)	42.9	22.8	15.3
CEPS (Rs)	13.5	16.5	19.2
BV (Rs/share)	31	44	59
Dividend / share (Rs)	0.9	1.1	1.3
ROE (%)	34.3	31.2	27.1
ROCE (%)	19.0	19.2	18.3
Net cash (debt)	(644)	(682)	(353)
EV/EBITDA (x)	7.9	6.4	5.3
EV/Sales (x)	1.5	1.2	0.9
P/E (x)	14.5	11.4	9.9
P/CEPS (x)	11.7	9.5	8.2
P/BV (x)	5.0	3.6	2.7

Source: Company, Kotak Securities - Private Client Research

Key investment argument

- **Dyestuff expansion, commissioning of LABSA and liquid dyestuff to support revenue.** BCL revenue is bifurcated into 3 categories with dye intermediates comprising the majority share of 60% as of FY16. Dyestuff constitutes 25% and basic chemicals comprises 11%. BCL plans to expand its existing dyestuff capacity of 17,000 tonnes by another 24,000 tonnes over the next 3-4 years. This capacity will come in three phases of 8,000 tonnes each with annual capex of Rs280mn, spread across FY18E-FY20. The first phase is expected to come on stream in Q4FY18. Capacity would be further expanded by ~16,000 MTPA over the next three years. BCL recently commissioned an 18,000 tonne Linear Alkyl Benzene Sulphonic Acid (LABSA) capacity with revenue coming in at Rs.240mn 9MFY17. The company has also recently commissioned a 10800 tonne liquid dyestuff facility, which is a high margin business (EBITDA margin of 20-21%). With the increasing capacities of dyestuff, captive consumption of intermediates should increase in next 2-3 years from 45% to 75%. Besides this, optimum utilisation of LABSA and Liquid dyestuff would help the company to report 19% revenue CAGR during the FY17-FY19E period.
- **Acquisition of SPS - right step to expand capacity:** We note that, environment clearance is the key to enhance the capacity. Now, with the required approval in place, we believe that acquisition of SPS should enable company to expand its dyestuff manufacturing capacity. With this acquisition, BCL's positioning in the domestic dye intermediates (DI) industry has further strengthened compared to other DI manufacturers.
- **Integrated dye manufacturer with 3% share in global market.** BCL, which has presence across the value chain from Basic chemicals (~45% consumed captively) to intermediates (40% consumed captively) and finally to dyestuff manufacturing, is able to garner higher EBITDA margins. EBITDA margin during 9MFY17 stood at 18.8%, higher than 16.5% in FY16. Major reason for the jump in margin is the higher realisation of Vinyl Sulphone and H-acid. Though we expect realisation of Vinyl Sulphone and H-acid to decline from the level of FY17, we expect EBITDA margin to remain in the range of 17-18% during FY18E-FY19E, supported by integrated business model and higher captive consumption of intermediates.

- **Healthy balance sheet and robust cash flows.** Strong operating performance in the last 3 years has helped the company to generate significant cash flow from operations in FY15 (Rs1.9 bn) and FY16 (Rs1.3 bn). This led to decline in debt from Rs.3.7bn in FY14 to Rs1.43 bn in FY16, with D/E of 0.6x. Strong performance has also led to strong return ratios. With the expectation of strong EBITDA margin and a stable working capital cycle, cash flow from operations (CFO) is likely to remain strong for the next two years (average of ~Rs1.7bn for the next 2 years). Strong operating performance would also help the company to report healthy RoE of 31.2% and 27.1% in FY18E and FY19E respectively

Outlook and Valuation

With the recent capacity expansions in dyestuff, JV with Trion and the introduction of LABSA & liquid dyestuff, we expect the growth momentum to continue for BCL during FY17E-FY19E as well. Given its integrated business model, diversification into speciality chemicals, healthy balance sheet and strong return ratios, we believe that stock is available at attractive valuations of 11.4x/9.9x FY18E/ FY19E earnings. We initiate coverage with **BUY** rating and a target price of Rs210, valuing it at 13x FY19E earnings.

Key Risks

Regulatory Environment; Increase in Raw Material Prices; Foreign Exchange Variation; Execution of capex plan and any steep correction in DI and dyestuff prices.

RESULT UPDATE

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

MT EDUCARE LTD

PRICE: RS.79 **RECOMMENDATION: SELL**
TARGET PRICE: RS.70 **FY18E P/E: 16.8x**

MT's operating revenue for the quarter grew at 12.7% yoy to Rs 661 mn primarily on account of higher growth in working capital intensive skill development segment. The Robomate business continued to disappoint with 50% yoy decline in the quarter. In the year, the company could achieve Rs 210 mn revenue in the segment as against revised target of Rs 300 mn, despite aggressive branding exercise which dragged its margins for the full year. The fee income for the quarter also declined by 20% yoy on decline in student counts in school segment. The interest expenses grew by 293% yoy to Rs 57.1 mn on increased working capital, which has resulted in higher gross debt at ~Rs 1.5 bn Vs Rs 1.15 bn on qoq. We believe that below expected performance in Robomate, decline in fee income and rise in debt are causes of concern. We have cut FY18E earnings estimates by 38% factoring in slower growth, lower margins and higher interest expenses. We have been maintaining cautious view on the stock for past few quarters and we do not see any major recovery in the performance in next few years. *We discontinue our coverage on the stock with Sell rating (Vs Reduce earlier) with revised target price of Rs 70 (Vs Rs 106 earlier).*

Summary Table (Consolidated)

(Rs mn)	FY16	FY17	FY18E
Revenue	2,871	3,011	3,104
Growth (%)	26.5	4.9	3.1
EBITDA	579	491	570
EBITDA margin (%)	20.2	16.3	18.4
PBT	489.9	279.6	275.6
PAT	338	172	187
EPS	8.5	4.3	4.7
EPS Growth(%)	31.0	-49.2	9.0
CEPS (Rs)	12.4	9.1	10.2
BV (Rs/share)	34.5	39.5	43.6
Dividend / share (Rs)	2.0	0.0	0.7
ROE%	24.7	10.9	10.8
ROCE%	28.3	12.6	11.8
Net cash (debt)	-235.1	-1284.2	-965.2
NW Capital (Days)	1.3	49.7	45.2
P/E (x)	9.3	18.3	16.8
P/BV (x)	2.3	2.0	1.8
EV/EBITDA (x)	5.8	9.0	7.2
EV/Sales (x)	1.2	1.5	1.3

Source: Company, Kotak Securities - Private Client Research

Quarterly result table (Consolidated)

(Rs mn)	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Operating Revenue	661.0	586.6	12.7%	635.6	4.0%
Expenditure	548.8	492.8	11.4%	622.5	-11.8%
Direct Expenses	296.5	303.5	-2.3%	316.6	-6.4%
Employee Cost	94.5	99.8	-5.3%	114.2	-17.3%
Other Expenses	157.8	89.4	76.5%	191.6	-17.6%
EBITDA	**112.2**	**93.8**	**19.6%**	**13.1**	**756.3%**
EBITDAM%	17.0%	16.0%	1.0%	2.1%	
Other Income	30.3	17.9	69.5%	29.2	3.8%
PBIDT	142.5	111.7	27.6%	42.3	236.9%
Depreciation	50.7	41.9	20.9%	50.1	1.2%
Interest	57.1	14.5	293.5%	49.3	15.9%
PBT	**34.7**	**55.3**	**-37.2%**	**-57.1**	**-160.8%**
Tax	10.9	5.8	89.2%	-12.7	-185.6%
PAT	**23.8**	**49.5**	**-51.9%**	**-44.4**	**-153.6%**
PATM (%)	3.6%	8.4%		-7.0%	
Equity Capital	398.2	398.2	0.0%	398.2	0.0%
EPS (Rs)	**0.6**	**1.2**	**-51.9%**	**-1.1**	**-153.6%**

Source: Company

Revenue growth driven by working capital intensive Skill development business

- Net revenue for the quarter grew by 12.7% yoy to Rs 661 mn (Vs estimates of Rs 558 mn). The revenue growth in the quarter was driven by 100% yoy growth in operating income which includes skill development business, but the fee income for the quarter declined by 20% yoy which is a cause of concern.
- The company is aiming to reduce exposure in working capital intensive skill development segment in FY18.

- School segment witnessed 24% yoy decline in volume on increased focus on CBSE and ICSE segment. The volume in school segment may continue to witness a decline in FY18.
- The management expects growth in school and science segment in value terms on higher realization due to focus on national level courses.

Robomate disappointed despite aggressive advertisement campaign

- The Robomate business continued to disappoint with 50% yoy decline in the quarter.
- In the year, the company could achieve Rs 210 mn revenue in the segment as against revised target of Rs 300 mn, despite aggressive branding exercise.
- The company marketed Robomate+ brand aggressively through TVC with their brand ambassador Amitabh Bachchan which dragged its EBITDA margin for the year. In FY18, MT would not be doing any such aggressive campaign.
- The management expects 20% yoy growth in the segment in FY18.

Segment-wise Revenue break up

(Rs mn)	Q4FY16	Q4FY17	YoY (%)	FY16	FY17	YoY (%)
Operating Revenue	587	661	13%	2,871	3,011	5%
School	143	160	12%	803	800	0%
Science	154	180	17%	974	970	0%
Commerce + MBA + Skill development	128	270	111%	588	1,010	72%
Robomate (Non MT)	162	51	-69%	506	231	-54%

Source: Company

Breakup of students serviced in the quarter

(Nos)	FY16 total	FY17 total	YoY (%)	Q4FY16 additions	Q4FY17 additions	YoY (%)
School	36,544	27,661	-24%	3,684	752	-80%
Science	24,436	28,318	16%	4,406	1,838	-58%
Commerce (Incl. skill development & MBA)	40,338	80,293	99%	6,659	12,290	85%
Robomate	52,328	22,890	-56%	5,493	3,037	-45%
Total	153,646	159,162	4%	20,242	17,917	-11%

Source: Company

Interest cost continued to rise on higher debt

- EBITDA for the quarter grew by 20% yoy to Rs 112.2mn (Vs estimates of Rs 98.5 mn). EBITDA margins in the quarter was at 17% Vs estimates of 17.7%.
- The company reported net profit of Rs 23.8mn, which declined by 52% yoy on higher interest expenses.
- The interest expenses grew by 293% yoy to Rs 57.1 mn on increased working capital resulting in higher gross debt at ~Rs 1.5 bn Vs Rs 1.15 bn on qoq, which is a cause of concern.
- Working capital of the company has been rising for past 2-3 quarter on account higher credit period in Robomate product business from B2B customers, increased contribution from skill development business, etc which resulted higher borrowings.
- The company has refinanced its debt by tying up for Rs1.1 term loan from Xander Finance, of which, Rs 800 mn is availed so far. As per the management, this will result in 150 bps decline in cost of debt (from 15% to 13.5%)

Valuation and View

We discontinue our coverage and recommend SELL on MT Educare Ltd with a price target of Rs.70

We believe that below expected performance in Robomate, decline in fee income and rise in debt are causes of concern. We have cut FY18E earnings estimates by 38% factoring in slower growth, lower margins and higher interest expenses. We have been maintaining cautious view on the stock for past few quarters and we do not see any major recovery in the performance in next few years. **We discontinue our coverage on the stock with SELL rating (Vs Reduce earlier) with revised target price of Rs 70 (Vs Rs 106 earlier) based on 15x FY18E earnings.**

Change in estimates

Particulars (Rs mn)	Previous FY17E	Previous FY18E	Actual FY17	% Chg in estimates FY18E	% Chg FY18E
Revenue	2,907	3,435	3,104	3,104	-9.6%
EBITDA	477	660	570	570	-13.7%
EBITDA margin (%)	16.4	19.2	18.4	18.4	-84.3%
PAT	172	302	187	187	-38.0%
EPS (Rs)	4.3	7.6	4.7	4.7	-38.0%

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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

SIEMENS INDIA LTD

PRICE: RS.1421 **RECOMMENDATION: SELL**
TARGET PRICE: RS.1170 **FY19E P/E: 42.4x**

Siemens reported encouraging growth in order inflows in Q2FY17 across divisions. PAT outperformed our estimate on back of superior order execution across key verticals.

We maintain that currently at PER of 42.4x FY18 earnings company's stock fully discounts 1) gradual recovery in the domestic market, led by increased public spending across various infrastructure projects and 2) potential margin expansion in medium/long term from improved focus on core business. We therefore maintain 'SELL' recommendation with unchanged target price of Rs 1170 (ascribe PER of 35x on FY18 earnings).

Summary table

(Rs mn)	FY16	FY17E	FY18E
Sales	108358	122421	141743
Growth (%)	2.6	13.0	15.8
EBITDA	9701	12242	16159
EBITDA margin (%)	9.0	10.0	11.4
PBT	38834	12651	16862
Net profit	7791	8856	11803
EPS (Rs)	22.1	25.2	33.5
Growth (%)	19.9	13.7	33.3
CEPS (Rs)	28.8	31.2	39.8
B V (Rs/share)	186.3	204.9	231.8
Dividend/share (Rs)	25.6	5.7	5.7
ROE (%)	13.3	12.9	15.4
ROCE (%)	13.0	12.5	15.0
Net cash (debt)	34761	36954	40577
NW Capital (Days)	23.7	9.9	19.0
EV/Sales (x)	4.5	3.9	3.4
EV/EBITDA (x)	49.4	39.2	29.7
P/E (x)	64.2	56.5	42.4
P/Cash Earnings	49.3	45.6	35.7
P/BV (x)	7.6	6.9	6.1

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)
Sales	**29288**	**27836**	**5.2**	**22933**	**27.7**
Other Income	529	270	95.7	623	(15.1)
(Increase)/decrease in stock in trade	964	(79)		(1037)	
Raw materials	18996	18530	2.5	15806	20.2
Employee cost	3339	3573	(6.5)	3365	(0.8)
other expenditure	3204	2751	16.5	2462	30.1
Total Expenses	26502	24774	7.0	20596	28.7
EBITDA	**2786**	**3062**	**(9.0)**	**2337**	**19.2**
depreciation	502	590	(15.0)	483	3.9
EBIT	**2813**	**2742**	**2.6**	**2477**	**13.6**
Finance cost	**21**	**21**	**(3.1)**	**20**	**1.4**
PBT	**2792**	**2721**	**2.6**	**2456**	**13.7**
Exceptional Item gain/(loss)	72	0		0	
Tax	1001	946	5.8	856	16.9
PAT	**1863**	**1775**	**5.0**	**1600**	**16.4**
Adj. PAT	**1791**	**1775**	**0.9**	**1600**	**12.0**
Adj.EPS	**5.1**	**5.0**	**0.9**	**4.5**	**12.0**
Raw materials/sales	68.1	66.3		64.4	
EBITDA (%)	9.5	11.0		10.2	
Tax Rate (%)	35.8	34.8		34.9	

*Source: Company; *Q2FY16 reported financials include Healthcare division numbers*

Result Update

Revenues (ex-healthcare; Siemens India divested its stake in healthcare division in FY16) grew 24% YoY in Q2FY17 at Rs 29.2 Bn (adjusted for excise) driven by all the segments. In the analyst meet, management highlighted that improved public spending in infrastructure, viz. railways, power transmission and digitization augers well for company's business.

Power and gas division reported gross revenue at Rs 4 Bn (+14.5% YoY). Management highlighted that 35 GW of power generation capacity is expected to get retired and replaced by newer plants. This would likely provide meaningful opportunities in the power and gas division over the next few years. EBIT margin for the segment stood at 14% in the quarter (quarterly aberration) against 18.2% in Q2FY16 (note that being a diversified company, such reporting aberrations often exist in Siemens India).

Energy management division reported 32.9% YoY growth in revenues at Rs 12.3 Bn in Q2FY17. Management highlighted that the continued thrust on 1) inclusion of HVDC technology in long distance power transmission, 2) dedicated transmission corridors and 3) inter regional transmission projects (including power transmission to neighbouring countries like Bangladesh and Sri Lanka auger well for energy management division. In power transmission, technology upgrade of transmission grid and sustained emphasis on reducing aggregate technical and commercial losses (smart grid implementation) are driving the demand currently. EBIT margins for the segment stood at 7.4% in the quarter.

Segmental detail

(Rs mn)	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)
Segment Revenue					
Power and gas	4012	3505	14.5	3476	15.4
Energy Management	12321	9269	32.9	8575	43.7
Building Technologies	1154	916	26.0	930	24.1
Mobility	3678	2545	44.6	2922	25.9
Digital Factory	5235	4454	17.5	4429	18.2
Process Industries and Drives	5796	5602	3.5	5483	5.7
Healthcare	na	4410	nm	0	nm
Segment EBIT (Rs mn)					
Power and gas	563	639	(12.0)	652	(13.7)
Energy Management	911	859	6.1	578	57.6
Building Technologies	23	56	(59.0)	53	(56.6)
Mobility	133	260	(48.9)	272	-
Digital Factory	312	401	(22.1)	217	44.2
Process Industries and Drives	267	333	(19.8)	-45	(691.8)
Healthcare	na	-10	nm	0	nm
Segment margin %					
Power and gas	14.0	18.2		18.8	
Energy Management	7.4	9.3		6.7	
Building Technologies	2.0	6.1		5.7	
Mobility	3.6	10.2		9.3	
Digital Factory	6.0	9.0		4.9	
Process Industries and Drives	4.6	5.9		(0.8)	
Healthcare	nm	(0.2)			

Source: Company

In Q2FY17, Building Technologies and mobility segments have reported revenues at Rs 1.1 Bn (+26% YY) and 3.6 Bn (+44.6% YY) respectively.

EBIT margins for Building Technologies segment stood at 2% vis-à-vis 6.1% in Q2FY16. We believe that increased investments in smart cities projects auger well for this segment. Management stated that increased public spending in-metro rail project, airports, ports and railways along with improved prospects in emerging field of data centers, telecom etc. have been driving segment growth.

Mobility segment EBIT stood at 3.6% in Q2FY17 against 10.2% in Q2FY16 (segment reported 6.1% EBIT margin in 1HFY17). Management reiterated positive outlook for railway segment on back of 1) upgradation of overall railway network including electrification, modernization and speed. Metro rail is another area where railways have been focusing and new Metro Policy is awaited in next few months.

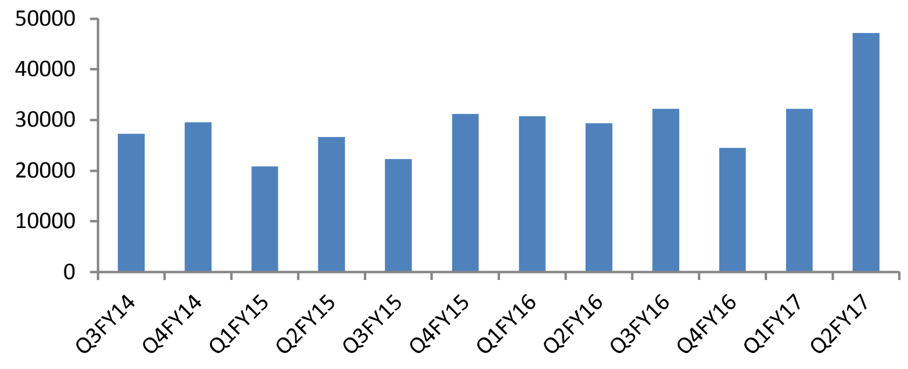
Digital factory division reported 17.5% YY revenue growth at Rs 5.2 Bn in the quarter. EBIT margin in the segment stood at 6% in Q2FY17 against 9% in Q2FY16. Management highlighted that private capex is still low in India primarily due to excess capacity within the private players. Current average capacity utilization stands at c.65% among various industries.

Process industries and drives division has reported 3.5% YY revenue growth at Rs 5.7 Bn in the quarter (11.7% YY growth in 1HFY17) with EBIT of Rs 267 mn. Management expect strong demand from wind turbine component market going ahead.

In Q2FY17, company reported EBITDA margin at 9.5% vis-à-vis 11% in Q2FY16. We believe that superior execution of projects, increased localization (currently Siemens has 22 manufacturing facalities in India which is in consistency with government 'Make in India' drive) and favourable product mix can led to margin improvement over FY17-18.

Order inflow stood at Rs 47.2 Bn in Q2FY17 (Rs 79.4 Bn in 1HFY17). Order book at the end of 1HFY17 stood close to Rs 132.7 Bn. Order inflows in 2QFY17 were also driven by Rs 16.8 Bn HVDC order (Pigalur, Tamil Nadu to Thrissur Kerela) from PGCIL.

Order inflow (Rs mn)



Source: Company, Kotak Securities - Private Client Research

Valuation & Recommendation

We maintain SELL on Siemens India Ltd with a price target of Rs.1170

We maintain that currently at PER of 42.4x FY18 earnings company's stock fully discounts 1) gradual recovery in the domestic market, led by increased public spending across various infrastructure projects and 2) potential margin expansion in medium/long term from improved focus on core business. We therefore maintain 'SELL' recommendation with unchanged target price of Rs 1170 (ascribe PER of 35x on FY18 earnings).

RESULT UPDATE

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

CHENNAI PETROLEUM CORPORATION LTD (CPCL)

PRICE: RS.416 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.455 **FY19E P/E: 5.9x**

CPCL's Q4FY17 PAT decreased by 41% qoq (base effect) to Rs.1.7 bn reflecting lower crude throughput, one-time investment write-offs, higher operating expenses (includes one-time charge) and higher depreciation/ interest expense. CPCL has reported lower throughput of 2.09 mmt, resulting in mere 69% capacity utilization in Q4FY17. The Company has declared a dividend of Rs.21/share, resulting in 5% dividend yield.

Indian Oil Corporation's Chairman has reiterated that merger of CPCL with IOC (parent company) is inevitable. We expect news flow on merger will keep the stock in focus. However, the merger is subject to couple of approvals and it is difficult to put a timeline for the same.

We are introducing FY19 estimates. We expect CPCL to report an EPS of Rs.64.3/share in FY18E and an EPS of Rs.70.1 in FY19E. Higher earnings will be supported by higher GRMs and improvement in operational efficiency. At CMP, we believe that the stock is fairly valued at a PE of 5.94x FY19E earnings. Due to limit upside, we maintain ACCUMULATE on the stock with a revised price target of Rs.455 (earlier Rs.350). We have valued CPCL based on PE multiple of 6.5x FY19 (target PE), which is at a significant discount to its peers.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	405,859	430,249	445,460
Growth (%)	16.1	6.0	3.5
EBITDA	19,382	19,891	20,548
EBITDA margin (%)	4.78	4.62	4.61
PBT	13,651	14,694	15,896
Net profit	10,298	10,579	11,445
EPS (Rs)	64.6	64.3	70.1
Growth (%)	30.8	-0.6	9.0
Book value(Rs/share)	222	260	301
DPS (Rs)	21.00	21.02	22.90
ROE (%)	36.5	26.7	25.0
ROCE (%)	21.2	19.8	21.4
Net debt/(cash)	44,808	34,675	25,545
NW Capital (days)	22.2	21.7	21.7
P/E (x)	6.4	6.5	5.9
P/BV (x)	1.9	1.6	1.4
EV/Sales (x)	0.26	0.22	0.20
EV/EBITDA (x)	5.5	4.9	4.3

*Source: Company, Kotak Securities - Private Client Research; Note: * EPS is after adjusting preference share dividend*

Results table

Financial CPCL (Rs.mn)	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
Net Sales/Income from ops	**94,781**	**91,648**	**3**	**(11)**
Incr/(Decr) in stock	(2,531)	(1,696)		
Total Expenditure	88,554	85,950	3	(11)
EBITDA	**3,696**	**4,002**	**(8)**	**(31)**
Depreciation	780	747	4	17
EBIT	**2,916**	**3,255**	**(10)**	**(38)**
Other income	242	165	47	304
Interest-net	752	774	(3)	16
PBT	**2,407**	**2,646**	**(9)**	**(41)**
Extra ordinary Exp/(Inc)	618			
Tax	81	168	(0.5)	(93.2)
PAT	**1,708**	**2,479**	**(31)**	**(41)**
Equity Capital	1,490	1,490		
EPS (Rs)	**11.47**	**16.6**	**(31)**	**(41)**

Source: Company

Key Risk and Concerns:

1). Wide fluctuations in crude, forex and product prices can impact the margins.

2). If global fuel supply exceeds demand then margins can be under pressure and vice-versa.

3). Any delay in executing the project can significantly impact the valuations.

4). Large outlay for new projects exposes CPCL to significant project implementation risks

KEY DEVELOPMENTS

BS-IV diesel project update

In order to meet BS IV standards, CPCL will be using Diesel hydroelectric de-sulphuriser reactor to reduce sulphur content in diesel. The Company has already imported the reactor (weighing 673 tons, having a length of 37.52 meters with a width of 8.30 meters and height 7.30 meters) and is in the process of implementation.

BS IV compliant fuels have low sulphur level at 50 ppm. Under BS III norms, petrol and diesel have sulphur content of 150 ppm and 350 ppm, respectively. The reduced sulphur content will greatly lower air pollution levels caused by auto emissions.

Singapore refining margins and product prices improved

In Q4FY17, refining margins have improved due to rise in petrol and naphtha spread. Singapore GRMs have increased by 15% qoq to US$ 6.3/bbl (average).

Petroleum product spreads (US$/bbl)

Particulars	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	QoQ (%)	% chG
INR/USD	67.5	66.9	67.0	67.4	67.0	(0.5)	(0.7)
Diesel	10.5	10.1	10.7	12.1	12.1	0.0	0.0
Jet/SKO	12.6	10.7	10.8	12.2	11.2	(0.9)	(7.8)
Petrol	13.2	9.5	6.5	10.0	11.2	1.2	12.0
Naphtha	16.5	13.3	9.7	13.5	15.1	1.6	12.1
FO	(9.3)	(14.3)	(10.8)	(9.1)	(10.1)	(1.0)	(11.1)
Dubai Crude price	30.7	43.0	43.4	47.9	52.8	4.9	10.3
Brent crude oil	35.2	47.0	47.0	51.1	54.6	3.5	6.9
Singapore GRM	6.5	5.0	4.3	5.5	6.3	0.8	15.0
Arab light-heavy	2.7	2.8	2.9	2.9	2.7	(0.2)	(7.4)
SPOT LNG	4.9	4.5	5.3	7.1	6.8	(0.3)	(4.6)

Source: Bloomberg

Project status:

The Company is investing on resid-upgradation project to produce value added products and a 42-inch crude oil pipeline from Chennai port to CPCL's Manali refinery (expected to be completed by 2017).

The company has undertaken following projects aimed at 1). Capacity expansion, 2). Production of value added products, and 3). Quality up-gradation.

Expansion and Capex plans

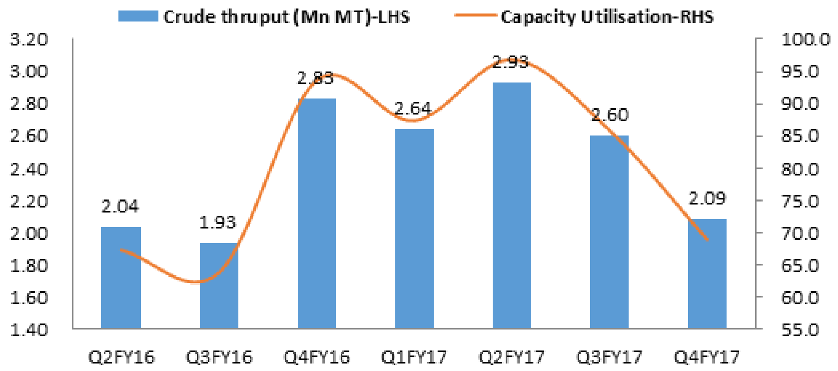
Particulars	Details	Capex (Rs.bn)
Resid up-gradation project	To increase distillate yields and lower raw material cost (crude oil)	31.1
42-inch crude oil pipeline from Chennai port to CPCL's Manali refinery	Improve safety	2.58
BS-IV diesel project	Revamping existing DHDS unit from 1.8 to 2.34 mmtpa	3.67
Cauvery Basin refinery	Installation of 2x10 TKL new Diesel storage tanks for direct coastal loading	NA
BS-VI diesel project	Revamping existing DHDT unit from 1.8 to 2.4 mmtpa	NA
BS-VI MS project	Installation of a new FCC gasoline desulphurization unit with a capacity of 0.6 mmtpa	NA

Source: Company

Q4FY17 results analysis

Crude throughput: In Q4FY17, CPCL reported lower crude throughput of 2.09 mmt, lower 20% qoq and 26% yoy, resulting in just 69% capacity utilization. Lower crude throughput is due to planned shut-down. In FY17, CPCL processed 10.256 MMTPA as against 10.25 MMTPA crude throughput in FY16 despite impact of severe cyclone "Vardah" that hit Chennai in Dec'16.

CPCL's crude throughput and capacity utilization



Source: Company

Refining margins: In FY17, CPCL reported a GRM of US$6.05/bbl as against US$5.27/bbl in FY16. Implied GRMs stands higher at US$6.99/bbls in Q4FY17 as against implied GRMs of US$6.28/bbls in Q3FY17 led by better realizations.

Net revenue growth - In Q4FY17, CPCL reported net revenue at Rs.94.8 bn, higher 3% yoy but lower 11% qoq. Sequential decrease in revenue is mainly on account of lower crude throughput.

Margin Ratio (%)

	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
EBITDA Margin	3.90	4.37	(0.5)	(1.1)
EBIT Margin	3.08	3.55	(0.5)	(1.3)
Adj PAT Margin	2.45	2.70	(0.3)	(0.3)
Other Income/PBT	10.07	6.24	3.8	8.6
Tax/PBT	3.36	6.34	(3.0)	(25.6)

Source: Company

Expenses (Rs. Mn)

	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
Raw Material consumption	57,493	48,521	18	(8)
Purchases of Stock in Trade	596	423	41	296
Staff costs	2,223	1,152	93	135
Other Expenditure	1,652	2,107	(22)	(17)
Excise Duty	26,590	33,746	(21)	(21)
Total	88,554	85,950	3	(11)

Source: Company

Expenses Ratio (%)

	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
RM to VOP	62.3	53.9	8.4	2.6
Pur. of stock in Trade/Sales	0.6	0.5	0.17	0.5
Employee to Sales	2.4	1.3	1.1	1.5
Mfg exp. To Sales	1.8	2.3	(0.6)	(0.1)
Excise Duty (Net) To Sales	28.1	36.8	(8.8)	(3.6)

Source: Company

Raw material Cost: In Q4FY17, raw material cost decreased 8% qoq to Rs.57.5 bn (+18% yoy) mainly due to lower crude throughput.

Staff Cost includes one-off: Employee cost increased significantly by 135% qoq to Rs.2.2 bn (+93% yoy) in Q4FY17. Employee cost includes an estimated provision of Rs.1.1 bn (inclusive of one-time impact on changes/impact on retirement benefits towards pay revision due from 1st Jan'17 pending finalization of revision in pay and benefits).

Other expenditure: In Q4FY17, CPCL's other expenditure decreased meaningfully by 17% qoq (higher base) to Rs.1.65 bn (-22% yoy). Operating cost per unit has increased on account of higher employee expenses and lower production.

Operating profit (Rs. Mn) - CPCL reported lower EBIDTA profit of Rs.3.7 bn in Q4FY17 as against Rs.5.4 bn in Q3FY17 on account of lower production, and higher employee cost.

Impairment of assets: In Q4FY17, the Company has made a provision for impairment of assets (Cauvery Basin refinery) worth Rs. 617.9 mn. This is in-line with Ind As-36.

Finance cost: CPCL has reported higher interest cost at Rs.752 mn, 16% qoq but lower 3% yoy. As on 31st Mar'17, the gross debt stands at Rs.44.98 bn (short term and long term) as against Rs.35.61 bn as on 31st Mar'16. As per Ind As, preference shares is treated as financial liability as these are redeemable on maturity for a fixed determinable amount and carry fixed rate of dividend.

Other Income: In Q4FY17, CPCL's other income increased by 304% qoq (base effect) to Rs.242 mn (+47% yoy). Other income consists of interest and dividend income.

Profit before tax (PBT): CPCL reported lower PBT of Rs.2.4 bn in Q4FY17 as against a profit of Rs.4.1 bn in Q3FY17 mainly on account of lower production, higher operating cost and higher depreciation charge.

Net profit - CPCL's Q4FY17 PAT decreased by 41% qoq (base effect) to Rs.1.7 bn reflecting lower crude throughput, one-time investment write-offs, higher operating expenses and higher deprecation charge.

Overall Investment Summary

We are introducing FY19 estimates. We expect CPCL to report an EPS of Rs.64.3/ share in FY18E and an EPS of Rs.70.1 in FY19E. Higher earnings will be supported by higher GRMs assumption and improvement in operational efficiency. At CMP, we believe that the stock is fairly valued at a PE of 5.94x FY19E earnings. Due to limit upside, we maintain ACCUMULATE on the stock with a revised price target of Rs.455. We have valued CPCL based on PE multiple of 6.5x FY19 (target PE), which is at a discount to its peers.

Valuation

Particulars Unit FY19E	Unit	
EPS (FY19E)	Rs./share	70
Target - P/E	x	6.5
Target price (Rs/share)	Rs. Mn	455
CMP	Rs. Mn	416
Potential upside/(downside)	%	9.5

Source: Kotak Securities - Private Client Research

Business Background

We maintain ACCUMULATE on Chennai Petroleum Corporation Ltd with a price target of Rs.455

Incorporated in 1965, Chennai Petroleum Corporation Limited (CPCL), formerly known as Madras Refineries Limited (MRL) was formed as a joint venture between the Government of India (74%, GoI), AMOCO (13%) and National Iranian Oil Company (13% equity stake) In 1985, AMOCO sold its equity stake to GOI and the shareholding pattern of GOI and NIOC changed to 84.62% and 15.38% respectively. Later in 1992, GOI disinvested 16.92% of the paid up capital in favor of Unit Trust of India, Mutual Funds, Insurance Companies and Banks, thereby reducing its holding to 67.7 %. CPCL came out with a public issue in 1994 wherein GoI and NIOC divested part of their equity stakes and CPCL's shares were listed on stock exchanges. As a part of the restructuring steps taken up by the Government of India, Indian Oil Corporation Ltd. acquired equity from GoI in FY 2001. In July 2003, NIOC transferred their entire shareholding to Naftiran Inter trade Company Limited, an affiliate, in line with the formation agreement, as part of their organizational restructuring.

Key features of CPCL's refinery

Originally, CPCL refinery (grass-root refinery) was set up with an installed capacity of 2.5 Million tonnes per annum (MMTPA) with an investment of Rs. 430 Mn. Later, the refinery capacity was increased. Currently, CPCL has two refineries with a combined refining capacity of 12.1 MMTPA. The Manali refinery has a capacity of 11.5 MMTPA and is a complex (Nelson Complexity Index of 7.9) refinery with fuel, lube, wax and petrochemical feedstock production facilities. CPCL's second refinery is located at Cauvery Basin at Nagapattinam. In 1993, the Cauvery basin refinery (CBR) was set-up with a capacity of 0.5 MMTPA and later enhanced to 1.0 MMTPA (simple refinery). It also has a lube refining capacity of 0.27 mtpa and a wax production capacity of 30,000 mtpa.

RESULT UPDATE

Ritwik Rai
ritwik.rai@kotak.com
+91 22 6218 6426

COLGATE PALMOLIVE (INDIA) LTD.

PRICE: RS.994 **RECOMMENDATION: SELL**
TARGET PRICE: RS.980 **FY19E P/E: 35.5X**

Colgate reported in-line revenues and gross margins for the quarter; however, advertising expenses came in significantly ahead of expectations (+24% y/y). The results indicate that the company is making a big push, amid less favourable circumstance, to drive volumes and market share. Colgate's pricing actions indicate that the company is likely willing to sacrifice margins to tide over the market share loss to "naturals". We cut our FY18E EPS 10%, and raise our price target (marginally) to Rs 980 as we roll forward to FY19E. Given the run-up in the stock since our last update, as well as weaker outlook for medium-term earnings growth, we downgrade the stock to SELL (ACCUMULATE earlier).

Summary table

(Rs mn)	FY17E	FY18E	FY19E
Sales	44,899	49,388	55,068
Growth (%)	3.0	10.0	11.5
EBITDA	9,449	10,329	11,144
EBITDA margin (%)	23.9	23.8	23.0
PBT	8,514	9,580	10,734
Adj. Net profit	5,774	6,610	7,621
Adj. EPS (Rs)	21.2	24.3	28.0
Growth (%)	(5.7)	14.5	15.3
CEPS (Rs)	26.1	29.5	33.3
BV (Rs/share)	46.8	57.1	67.6
Dividend/share (Rs)	10.0	12.0	15.0
ROE (%)	45.3	42.6	41.5
ROCE (%)	47.9	45.0	43.6
Net cash (debt)	2,943	7,411	11,844
NW Capital (Days)	-39	-42	-43
P/E (x)	46.8	40.9	35.5
P/BV (x)	21.2	17.4	14.7
EV/Sales (x)	6.8	6.1	5.3
EV/EBITDA (x)	28.3	25.5	23.2

Source: Company, Kotak Securities - Private Client Research

Results Summary

Rs mn, FY Ends Mar	4QFY17	4QFY16	% chg y/y	3QFY17	% chg q/q
Net sales (incl excise duty)	**11,718**	**11,424**	**2.6**	**9,816**	**19.4**
Raw Material expenses	3,877	3,939	-1.6	3,159	22.7
Excise Duty	1,392	1,345	3.5	1,166	19.3
Gross Profit	**6,449**	**6,140**		**5,491**	
Gross Margin (%)	62.5	60.9		63.5	
Employee Expenses	763	745	2.4	652	17.0
Advertising	1,443	1,164	24.0	839	71.9
Other Expenses	1,849	1,894	-2.4	1,955	-5.4
EBITDA	**2,394**	**2,336**	**2.5**	**2,045**	**17.1**
Margin (%)	20.4	20.5		20.8	
Depreciation and Amortization	341	297	14.8	342	-0.1
EBIT	**2,052**	**2,039**	**0.7**	**1,703**	**20.5**
Other Operating Income	49	77	-35.9	96	-48.5
Other Income	80	114	-29.5	109	-26.5
Financial Expenses	0	0		0	
PBT	**2,182**	**2,230**	**-2.1**	**1,908**	**14.4**
Provision for Tax	756	797	-5.1	630	20.1
PAT	**1,426**	**1,433**	**-0.5**	**1,278**	**11.5**
Other Comprehensive Income	-23	4	-667.5	-18	23.4
Total Comprehensive Income	1,403	1,437	-2.3	1,260	11.4

Source: Company Reports

Colgate (India) (henceforth "Colgate") reported in-line sales, with 3% y/y growth in sales. The company reported 3% decline in volumes, as a result of softness in wholesale channels (post demonetization, there have been regulatory hurdles that have affected the industry). The company reported toothpaste volume market share of 55.1% and toothbrush volume share of 47.4% for the year.

Raw material expenses declined 1.6%, due to decline in overall sales volume. On improved pricing, the copmany registered 1.3 ppt expansion in gross margins during the quarter.

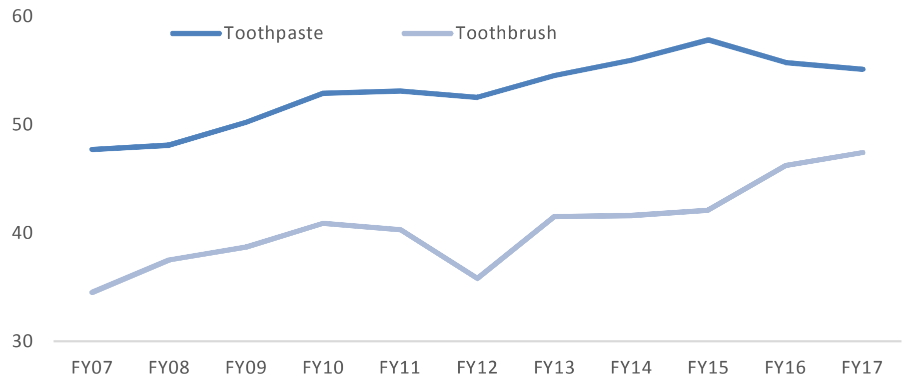
Advertising expenses of the company registered 24% y/y growth, on account of significant brand building measures taken by Colgate during the quarter . This has been the key negative for the quarter, in so far as underperformance relative to our estimates is concerned. We note that most FMCG copmanies that have reported results thus far have cut their advertising spends in the quarter (% sales basis). Employee and other expenses for the quarter were flattish; other expenses came in lower than estimates. On account of higher advertising expenses alone, reported EBITDA missed estimates by 13%. Due to lower than expected other income, reported PAT came in 16% below estimates.

On the conference call, the management said that the company has taken measures to minimize disruptions to the supply chain during demonetization; however, following regulation on cash usage by wholesalers, there has been significant impact on the channel. Further, the company is preparing for the challenges (including an impact on trade pipeline) during GST rollout. Over the next few years, the management expressed hope that the copmany shall be able to drive penetration in rural areas (current toothpaste penetration of 74%), and drive higher consumption of toothpaste in urban areas. The management noted that rural growth in toothpaste was higher than urban growth, and that weakness was actually being seen on the premium end of the spectrum. On competitive factors, the company maintained that it shall further target the naturals segment through innovations and drive usage of current naturals portfolio through stronger brand building (thus the advertising expenses).

Outlook and Investment View

Colgate has, over the past decade or so, been able to utilize several drivers to deliver earnings growth and (therefore) returns. Drivers of gross profit growth have typically included both market share gains (healthy volume growth) and consistent pricing improvements (8 ppt GM expansion over FY08 - FY17 with 13% sales CAGR).

Colgate market share (%)



Source: Company Reports

Over the past two years, however, the company has lose market share to Patanjali and Dabur. Colgate has been making attempts to enter the "naturals" space (Colgate Salt and Cibaca Vedshakti); however, the decline has not been arrested, as yet.

Colgate's new initiative "Cibaca Vedshakti" targets Patanjali at price; the company has raised the price of Colgate Dental Care significantly, while pricing Vedshakti at a significant discount to peers. Also, the company has raised advertising spends meaningfully to ensure performance. As of now, Vedshakti has just 0.5% market share.

We believe the company has made a bold move in so far as taking on its competitors is concerned; however, there remain possibilities of cannibalization and (therefore) margin dilution as a result. We think there is a high likelihood that Colgate shall have to, in the medium-term, sacrifice one of its gross profit drivers (volumes or pricing).

We recommend SELL on Colgate Palmolive (India) Ltd with a price target of Rs.980

We forecast 10%/12% growth in sales for the company in FY18/FY19. We expect margins to decline 90 bps through FY17-FY19E, and forecast Rs 24.3/Rs28 EPS for FY18E/FY19E. We value Colgate at 35X FY19E PER, or Rs 980 (Rs 953 earlier, on roll forward to FY19). The stock has run up significantly since our last update, while expectations on growth have weakened. We downgrade Colgate to **SELL** (ACCUMULATE earlier).

RESULT UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6218 6432

KAJARIA CERAMICS LTD

PRICE: RS.715 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.757 **FY19E P/E: 28.3x**

Revenues for Q4FY17 were ahead of our estimates and sales have started reviving back post demonetization. Operating margins were under pressure due to higher operational costs. Net profit came ahead of our estimates due to better than expected revenues. Gas prices have also moved up during the quarter but impact of higher gas prices was restricted to some extent by rupee appreciation. We believe that company would continue to gain on market share due to its enhanced presence in Tier 2/3/4 cities as well as enhanced dealer network. Introduction of value added products, GST implementation, improvement in capacity utilization as well as increased presence in different cities are expected to aid revenue growth going forward.

We introduce FY19 estimates and roll forward our valuations to FY19. We arrive at a revised price target of Rs 757 based on 30x FY19 estimated earnings as against Rs 627 earlier based on 28x FY18 estimates. We had earlier reduced our valuation multiple downwards (from 30x to 28x in Dec, 2016) to factor in the impact of demonetization. With sales returning to normalcy and innovation and brand promotion initiatives will help the company to remain a market leader and hence stock will trade at higher valuation multiples. Owing to limited upside from current levels, we maintain ACCUMULATE rating on the stock. We would advise investors to look for better entry points to enter into the stock.

Summary table

(Rs mn)	FY17E	FY18E	FY19E
Sales	25,456	29,758	34,009
Growth (%)	6%	17%	14%
EBITDA	4,923	5,981	6,836
EBITDA margin (%)	19.3	20.1	20.1
PBT	3,963	5,236	6,040
Net profit	2,524	3,472	4,008
EPS(Rs)	15.9	21.9	25.2
Growth(%)	10%	38%	15%
CEPS(Rs)	21.0	27.1	30.8
BVPS(Rs)	71.1	90.1	112.4
DPS (Rs)	2.5	2.5	2.5
ROE (%)	24.6	27.1	24.9
ROCE (%)	32.4	35.0	33.1
Net debt (cash)	217	(2,115)	(5,039)
NW capital (Days)	45.0	45.0	45.0
P/E (x)	45.0	32.7	28.3
P/BV (x)	10.1	7.9	6.4
EV/Sales (x)	4.5	3.7	3.2
EV/EBITDA (x)	23.1	18.6	15.9

Source: Company, Kotak Securities - Private Client Research

Consolidated Financial highlights

(Rs mn)	Q4FY17	Q4FY16	YoY (%)
Net Sales	**7196.9**	**6585.8**	**9.3%**
Total Expenditure	5899.3	5224.1	12.9%
(Increase) / Decrease In Stocks	166.5	40.1	
Cost of Services & Raw Materials	1799.9	1857.7	
As % of sales	25.0%	28.2%	
Purchase of Finished Goods	795.1	504.9	
As % of sales	11.0%	7.7%	
Operating & Manufacturing Expenses	0.0	965.1	
As % of sales	0.0%	14.7%	
Electricity, Power & Fuel Cost	2430.7	1200.3	
As % of sales	33.8%	18.2%	
Employee Cost	707.1	656.0	
As % of sales	9.8%	10.0%	
EBITDA	**1297.6**	**1361.7**	**-4.7%**
EBITDA %	18.0%	20.7%	
Depreciation	204.9	199.3	
EBIT	**1092.7**	**1162.4**	**-6.0%**
Interest	78.2	104.0	
EBT(exc other income)	1014.5	1058.4	-4.1%
Other Income	87.9	28.5	
PBT	**1102.4**	**1086.9**	**1.4%**
Tax	380.7	397.7	
Tax%	34.5%	36.6%	
PAT	**721.7**	**689.2**	**4.7%**
Minority Interest	21.9	3.5	
Consolidated Net Profit	699.8	685.7	2.1%
NPM (%)	9.7%	10.4%	
Equity Capital	158.9	158.9	
Face Value (In Rs)	1.00	1.00	
Basic EPS before Extraordinary Items	4.40	4.32	2.1%

Source: Company

Revenue ahead of our estimates

Revenues for Q4FY17 were ahead of our estimates and sales have started reviving back post demonetization. For Q4FY17, consolidated revenues grew by 9.3% YoY and 19% QoQ. Strong pick-up in sales on QoQ and YoY basis indicates that impact of demonetization is fading away and company's sales are back to normal. Company has been quick enough to shift to the other mode of payments and post demonetization, the amount of cash transactions had reduced drastically.

Volumes witnessed a growth of 10.9% YoY and 21.2% QoQ. Average realizations were down by 1.5% YoY and 2% QoQ. Revenues from own production improved by 14% YoY while revenues from JVs declined by 16% YoY. Performance of the JVs have started improving which were impacted by demonetization as well as demand related issues. Sequentially, sales volumes from JVs improved by 21.4% QoQ and sales value was up by 14.6% qoq. However sales value declined by 16% YoY due to sharp decline in JV plant realizations. Sales from imports has gone up by 93.5% YoY. Sanitaryware and faucets division has reported 55.5% YoY improvement in revenues. Volumes are likely to improve going forward as liquidity improves in the system.

Realizations improved from own manufacturing plants on yearly basis but have witnessed a decline of 10% YoY from JV plants. Realizations from own production stood at Rs 366 per sq m, up 2.9% YoY; realizations from JV plants stood at Rs 351 per sq m, down 10% YoY and realizations from imported products stood at Rs 315 per sq m, up 1% YoY. Average realizations for the company on the whole during quarter stood at Rs 373 per sq m, down by 1.5% YoY.

Sales and volume break up

Mn sq m	Q4FY17	Q4FY16	YoY (%)
Own manufacturing	10.52	9.49	10.9%
JV	6.06	6.5	-6.8%
Imports/outsourced	2.74	1.43	91.6%
Total	19.32	17.42	10.9%
Revenues (Rs mn)			
Own manufacturing	3846	3372.4	14.0%
JV	2126.7	2535	-16.1%
Imports/outsourced	862	445.4	93.5%
Sanitaryware	362.2	233	55.5%

Source: Company

Performance of JV's was impacted in past few quarters due to demand slowdown as well as quality issues. Demand has started reviving back and company expects the sales performance to start improving from these JV plants. Taurus Tiles expansion which commenced production during June 15, was shut due to lack of demand since Q3FY17 till February but had commenced production since March, 2017

Company has an annual capacity of 68.6 mn sq meter. It is also expanding the capacity of its Gailpur plant by 3.5 mn sq m which is expected to be completed by Sep, 2017. Post the expansion at Floera Ceramics for polished vitrified tiles for 5.7MSM in AP by FY18, company's capacity is likely to get enhanced to 77.8 MSM.

We introduce FY19 estimates and expect revenues to grow at a CAGR of 15.5% between FY17-19.

Operating margins impacted by higher operational expenses

Operating margins for the quarter stood at 18% vs 20.7% for Q4FY16. Margins were impacted due to higher operational expenses. Gas prices have moved up by nearly 10% in the quarter but rupee appreciation and introduction of value added products have restricted the impact on the margins. We maintain our estimates and expect margins of 20.1% going forward.

Net profit performance stood ahead of our estimates

Net profit came ahead of our estimates due to better than expected revenues. We introduce FY19 estimates and expect net profits to grow at a CAGR of 26% between FY17-19.

Valuation and recommendation

Stock is currently trading at valuations of 32.7x and 28.3x P/E on FY18 and FY19 estimates respectively. We believe that company would continue to benefit on market share due to its value added products, enhanced presence in Tier 2/3/4 cities as well as enhanced dealer network. Most of its dealers have shifted towards other means of transactions such as cheque, credit card and company expects the shift to be much faster going ahead.

We maintain ACCUMULATE on Kajaria Ceramics Ltd with a price target of Rs.757

We introduce FY19 estimates and roll forward our valuations on FY19. We arrive at a revised price target of Rs 757 based on 30x FY19 estimated earnings as against Rs 627 earlier based on 28x FY18 estimates. We had earlier reduced our valuation multiple downwards (from 30x to 28x in Dec, 2016) to factor in the impact of demonetization. With sales now getting back to normal and company is also adding ultra-large tile slabs and other value added products coupled with increased branding spend, we believe that it will continue to remain a market leader and hence stock will trade at higher valuation multiples. Owing to limited upside from current levels, we maintain **ACCUMULATE** rating on the stock. We would advise investors to look for better entry points to enter into the stock.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
15-May	ARCFIN	Vijaya Parsharam Salvi	B	3,19,000	17.0
15-May	ATHCON	Lalit Ramakant Salunkhe	S	50,000	18.3
15-May	BESTSTEEL	Mangal Savitri Bizcon Pvt Ltd	B	1,20,000	104.6
15-May	BOSTONTEK	Saurabh Jain	S	64,817	14.1
15-May	LEHAR	J S L Enterprises	B	1,25,026	57.0
15-May	MEERA	Retsina Marketing Pvt Ltd	B	1,23,000	35.1
15-May	MEERA	Nimesh Ramanbhai Naik	B	33,000	36.2
15-May	MEERA	Kamlesh Ramanlal Naik	B	48,000	36.4
15-May	MEERA	Mukeshbhai Narsinhbhai Dobaria	B	24,000	36.5
15-May	MEFCOMCAP	Mahendra Vasantrai Doshi	B	62,181	11.7
15-May	MEFCOMCAP	Cityon Nano Technology Pvt Ltd	S	60,000	11.7
15-May	PGL	Jignesh Amrutlal Thobhani	S	2,00,000	13.7
15-May	PURPLE	Aisha Dhiraj Gogia	S	50,000	29.0
15-May	PURPLE	Pattammal N. Murlidharan	B	47,950	29.0
15-May	RADHEY	Linkup Financial Cons Pvt Ltd	S	18,999	11.7
15-May	RADHEY	Paras Vinodrai Shah	B	50,000	11.7
15-May	RADHEY	Zodiac Vanijya Pvt Ltd	S	26,000	11.7
15-May	SIMRAN	Vinod Ramnivas Garg	B	35,388	53.9
15-May	SIMRAN	Aequitas Investment Cons Pvt Ltd	B	20,000	53.9
15-May	TGBHOTELS	Varsha Sachin Patkar	B	5,00,000	68.8
15-May	TGBHOTELS	Rathi Global	S	5,00,000	68.8
15-May	UNIAUTO	Prateek Jain	B	72,000	50.0
15-May	UNIAUTO	Hem Financial Services Ltd	S	60,000	50.0
15-May	WISEC	Vilas Shivram Salvi	B	65,000	5.0
15-May	WISEC	Arun Kochar	S	65,000	5.0

Source: Bseindia.com

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Tata Steel	456	4.4	NA	9.8
Hindalco Ind	198	3.9	NA	18.2
DRL	2,676	3.7	NA	0.9
Losers				
Aurobindo Pharma	614	(1.6)	NA	1.1
Infosys Ltd	952	(1.3)	NA	3.7
Bharti Infra	371	(1.0)	NA	0.8

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
16 May	Shree Cement, Tamilnadu Petroproducts, earnings expected
17 May	Hindustan Unilever, JSW Steel, MRPL, NIIT Ltd earnings expected
18 May	Bajaj Auto, Cummins India, GDL, HMVL, Pidilite Industries,

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.

Fundamental Research Team

Dipen Shah
IT, Economy
dipen.shah@kotak.com
+91 22 6218 5409

Sanjeev Zarbade
Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6218 6424

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

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

Ruchir Khare
Capital Goods, Engineering
ruchir.khare@kotak.com
+91 22 6218 6431

Ritwik Rai
FMCG, Media
ritwik.rai@kotak.com
+91 22 6218 6426

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

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

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

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

Nipun Gupta
Information Technology
nipun.gupta@kotak.com
+91 22 6218 6433

Jayesh Kumar
Economy
kumar.jayesh@kotak.com
+91 22 6218 5373

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

Technical Research Team

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

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

Derivatives Research Team

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

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

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

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

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