Economy News

- The government has notified regulations for voluntary liquidation under the insolvency and bankruptcy code. Companies, LLPs and any other person incorporated with limited liability can opt for voluntary liquidation. (Mint)
- A special CBI Court on Tuesday issued summons to Naveen Jindal, Chairman and Managing Director of Jindal Steel and Power Ltd (JSPL) and others in case related to alleged irregularities in the allocation of Urtan North coal block of Madhya Pradesh. (Mint)
- El Nino still has a 50% chance of developing later this year, but all international modesl say that if it develops, it will be weak, the Australian weather office said. (ET)

Corporate News

- **IDBI Bank Ltd's** list of troubles just grew longer. On Tuesday, rating company Icra Ltd downgraded the lender's outstanding debt worth Rs259 Bn, including the so-called additional tier-1 (AT-1) bonds, citing its weak capital position. Crisil was the first rating agency to downgrade the bank's bonds earlier this month. (Mint)
- Shares of **Videocon Industries Ltd** fell for the second straight session on Tuesday and nose-dived 20% amid reports of loan repayment worries. (Mint)
- UTI Asset Management Co. Ltd is ready to launch an initial public offering (IPO) and will offer to sell 26-30% of its equity, three people with direct knowledge of the matter said, asking not to be identified. The stake comes from the holdings of the asset manager's four state-run sponsors, **State Bank of India, Bank of Baroda, Punjab National Bank** and Life Insurance Corp. of India (LIC), all of whom have agreed to dilute their stake, the three people added. (Mint)
- **JK Paper Ltd** is raising about $50 million from the World Bank's private sector lending arm International Finance Corp. (IFC). (Mint)
- The proposed joint venture (JV) between World's largest steelmaker ArcelorMittal and domestic giant **SAIL** is in final stages and may be finalised this month, Union Minister Chaudhary Birender Singh said today. SAIL and ArcelorMittal have inked pact to set up a Rs 50 Bn auto-grade steel plant.(Mint)
- Moody's Investors Service on Tuesday changed **Airtel** credit outlook to negative from stable, as pressure on earnings is likely to continue, with Reliance Jio trying to increase its subscriber base by offering low tariff. (Mint)
- Air-conditioner maker **Voltas** and Turkey's Ardutch have agreed to set up a joint venture company in India with equity capital of USD 100 million, marking the former's foray into consumer durables sector. (ET)
- HDFC Life, one of the country's leading private sector life insurance companies, seems to be reverting to its original plan of going for an initial public offering (IPO), a decision that was taken almost a year back. Senior company officials told Business Standard that HDFC Life was getting back into the IPO mode since getting regulatory approvals for a merger with Max Life was taking an inordinate amount of time. (BS)

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

	22 May 17	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	30,571	0.3	4.1	5.8
NIFTY Index	9,438	0.1	3.5	5.6
BANKEX Index	25,700	(0.6)	5.2	7.9
SPBSITIP Index	10,151	0.3	4.9	(2.2)
BSETCG INDEX	17,757	0.5	1.8	15.8
BSEOIL INDEX	13,855	(1.3)	(3.0)	1.7
CNXMcap Index	17,721	(1.1)	(0.4)	8.3
SPBSSIP Index	15,054	(1.1)	(0.7)	10.8
World Indices				
Dow Jones	20,895	0.4	1.7	0.4
Nasdaq	6,134	0.8	3.8	5.1
FTSE	7,496	0.3	5.4	3.1
NIKKEI	19,678	0.4	5.6	1.5
HANGSENG	25,391	0.9	5.8	5.5

Value traded (Rs cr)

	22 May 17	% Chg - Day
Cash BSE	4,610	18.3
Cash NSE	22,606	(22.6)
Derivatives	646,479	(25.3)

Net inflows (Rs cr)

	19 May 17	% Chg	MTD	YTD
FII	3,173	782	8,444	50,456
Mutual Fund	9	(99)	4,945	25,628

FII open interest (Rs cr)

	19 May 17	% Chg
FII Index Futures	19,687	8.1
FII Index Options	73,768	0.7
FII Stock Futures	75,623	4.7
FII Stock Options	7,812	(1.2)

Advances / Declines (BSE)

22 May 17	A	B	T	Total	% total
Advances	79	304	47	430	25
Declines	218	804	113	1,135	65
Unchanged	47	113	10	170	10

Commodity

	22 May 17	% Chg 1 Day	1 Mth	3 Mths
Crude (US$/BBL)	50.9	(0.4)	2.6	(6.5)
Gold (US$/OZ)	1,260.6	0.4	(1.7)	1.0
Silver (US$/OZ)	17.2	1.7	(4.3)	(5.6)

Debt / forex market

	22 May 17	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.667	6.71	6.924	6.939
Re/US$	64.5	64.6	64.4	67.0

Sensex

RESULT UPDATE

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TATA MOTORS (TAMO)

PRICE: Rs.451 **RECOMMENDATION: BUY**
TARGET PRICE: Rs.539 **FY19 PE- 8.4x**

TAMO's 4QFY17 results was better than our and street expectation. Standalone business continued to report losses, on expected lines. JLR's performance improved QoQ and was better than expected. While results were lower YoY, there was substantial improvement over 3QFY17. Despite growth in volumes, we expect the standalone business to continue to report losses in FY18/FY19 - though the quantum of loss is expected to come down. On the back of healthy demand across key geographies and new products, JLR's volume growth outlook remains positive. Company indicated that JLR's EBITDA margin in FY18 could witness pressure. Assuming current GBP rate remains unchanged, hedging losses will likely start reducing from 4QFY18 and FY19 margins can witness strong expansion. We revise our FY18 estimates lower and introduce FY19 estimates. We upgrade the stock to BUY (ACCUMULATE earlier) with revised price target of Rs539 (earlier Rs507).

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	2,696,925	2,991,612	3,459,935
Growth (%)	(2.1)	10.9	15.7
EBITDA	334,988	388,545	478,984
EBITDA margin (%)	12.4	13.0	13.8
PBT	93,148	161,652	219,985
Net profit	74,544	132,118	183,200
EPS (Rs)	22.0	38.9	54.0
Growth (%)	(32.4)	77.2	38.7
CEPS (Rs)	74.7	94.4	119.2
Book value (Rs/share)	171.0	209.9	263.8
Dividend per share (Rs)	-	-	-
ROE (%)	10.7	20.4	22.8
ROCE (%)	11.4	19.8	22.2
Net cash (debt)	(233,701)	(252,373)	(225,554)
NWC	(26)	(29)	(30)
P/E (x)	20.5	11.6	8.4
P/BV (x)	2.6	2.1	1.7
EV/Sales (x)	0.7	0.6	0.5
EV/EBITDA (x)	5.3	4.6	3.7

Source: Company, Kotak Securities - Private Client Research

Standalone result highlights

Standalone Quarterly performance (Rs mn)

Rs mn	4QFY17	4QFY16	YoY%	3QFY17	QoQ%
Revenues	**135,867**	**127,997**	**6.1**	**102,054**	**33.1**
Total expenditure	**132,220**	**115,837**	**14.1**	**101,434**	**30.4**
RM consumed	95,608	83,551	14.4	74,791	27.8
Employee cost	9,325	7,854	18.7	8,454	10.3
Other expenses	27,286	24,433	11.7	18,189	50.0
EBITDA	**3,647**	**12,160**	**(70.0)**	**620**	**488.0**
EBITDA margin (%)	**2.7**	**9.5**	**-**	**0.6**	**-**
Depreciation	8,096	5,660	43.0	7,290	11.1
Interest cost	4,545	4,336	4.8	4,137	9.9
Other Income	1,143	1,108	3	940	22
Exceptional income / (loss)	(330)	95		(449)	
PBT	**(8,181)**	**3,367**		**(10,316)**	**-**
PBT margins (%)	**(6.0)**	**2.6**		**(10.1)**	
Tax	109	(613)	-	143	
Tax rate (%)	(1.3)	(18.2)	-	(1.4)	-
Reported PAT	**(8,290)**	**3,979**		**(10,459)**	**-**
PAT margins (%)	**(6.1)**	**3.1**	**-**	**(10.2)**	**-**
OCI	**793.0**	**426.5**		**(61.9)**	
TCI	**(7,497)**	**4,406**		**(10,521)**	
Reported EPS (Rs)	**(2.4)**	**1.2**	**-**	**(3.1)**	**-**

Source: Company, Kotak-PCG Research

Revenues from the standalone business grew by 6% YoY to Rs136bn. Growth in revenues came equally from volume increase and rise in average selling price.

Passenger vehicle volumes grew by 35% YoY in 4QFY17. However, commercial vehicle performance was weak with company reporting 5% YoY decline in volumes during the quarter. Relatively subdued demand and BSIII-BSIV transition impacted commercial vehicles performance in the quarter.

Gross margins during the quarter declined YoY on account of rise in commodity

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prices, high discounting and inferior product mix (lower share of commercial vehicle volumes in the mix).

As a result of low volume growth, employee cost and other expenses per vehicle inched up YoY, thereby leading to negative operating leverage.

EBITDA margins suffered YoY on account of lower gross margins and negative operational leverage. EBITDA margin declined YoY from 9.5% to 2.7%. 4QFY16 was strong quarter for commercial vehicle sales for the company and that led to high margin base. As compared with 3QFY17, EBITDA margin improved on a low base.

Depreciation increase relates to capitalization of various new products in the past one year.

Led by weak operational performance, TAMO reported standalone loss of Rs8.3bn as against profit of Rs4bn reported in 4QFY16. Sequentially losses came down for the company.

JLR Result Highlights

JLR Quarterly performance (GBP mn)

Rs mn	4QFY17	4QFY16	YoY%	3QFY17	QoQ%
Revenues	**7,268**	**6,601**	**10.1**	**6,537**	**11.2**
Total expenditure	**6,211**	**5,698**	**9.0**	**5,926**	**4.8**
RM consumed	4,507	3,868	16.5	3,869	16.5
Employee cost	652	648	0.6	648	0.6
Other expenses (net)	1,052	1,182	(11.0)	1,409	(25.3)
EBITDA	**1,057**	**903**	**17.1**	**611**	**73.0**
EBITDA margin (%)	**14.5**	**13.7**	**-**	**9.3**	**-**
Depreciation	449	378	18.8	409	9.8
Foreign exchange gain/(loss)	17	(42)	-	(62)	-
Net Interest expense	11	13	(15.4)	5	120.0
Share of profit / (Loss) from Joint Venture	46	49	(6.1)	35	31.4
Exceptional item	16	58	-	85	-
PBT	**676**	**577**	**17.2**	**255**	**165.1**
PBT margins (%)	**9.3**	**8.7**		**3.9**	
Tax	**119**	**105**	**13.3**	**88**	**35.2**
Tax rate (%)	**17.6**	**18.2**	**-**	**34.5**	**-**
Reported PAT	**557**	**472**	**18.0**	**167**	**233.5**
PAT margins (%)	**7.7**	**7.2**		**2.6**	
Volumes (nos)	**158,801**	**149,895**	**5.9**	**130,910**	**21.3**
Realization (GBP)	**45,768**	**44,037**	**3.9**	**49,935**	**(8.3)**

Source: Company

JLR's 4QFY17 operational performance was better than our expectation. Revenue for the quarter was lower than our estimates as the company made an accounting change. Gains/loss on realized hedges related to revenues is now adjusted in revenues (as against adjusted to cost earlier). This accounting change led to lower revenues (due to forex loss) during the quarter and increased EBITDA margin (due to lower revenue base).

Revenues for the quarter stood at GBP7.27bn, 10% higher over 4QFY16. Volumes during the quarter grew by 6% and average selling price (ASP) improved by 4% YoY.

Gross margin slipped YoY due to product mix change and rising input cost.

Other expenses was lower YoY as 4QFY16 included one-time reserves and charges of GBP166m for the recall in the U.S. of potentially faulty passenger airbags supplied by Takata, doubtful debts and previously capitalised investment.

EBITDA margin for the quarter, stood at 14.5% higher YoY due to lower other expenses. Adjusted for 4QFY16 one-off, margins declined YoY due to lower gross margins. As compared with our estimates, margins was ahead of our expectation; partly due to accounting change mentioned above (~100bps positive impact in 4QFY17). Realized hedge loss during the quarter was GBP 413mn

Depreciation charges increased on account of new launches, increased R&D activity, and capex. During the quarter, JLR reported foreign exchange gain of GBP17mn (includes mark to market of unrealized forex options and commodity hedges and revaluation of long term foreign currency debt) as against forex loss of GBP42mn in 4QFY16. JLR share of profit in China JV stood at GBP46mn as against GBP49mn in 4QFY16.

JLR's PAT in 4QFY17 grew by 18% YoY to GBP557mn. 4QFY17 reported PAT was the highest in past 9 quarters.

In 4QFY17, JLR raised Euro650mn (7 year bond) and GBP300mn (4 year bond) issued in January 2017 with coupons of 2.20% and 2.75% respectively.

In April 2017, JLR did an agreement to changes in legacy defined benefit pension plans including moving the basis from final salary to career average. Accordingly, JLR will be reporting GBP400mn gain in 1QFY18.

JLR has declared an interim dividend of GBP150mn to Tata Motors and the same will be paid in June 2017.

Consolidated Result

Consolidated Quarterly performance (Rs mn)

Rs mn	4QFY17	4QFY16	YoY%	3QFY17	QoQ%
Revenues	**772,172**	**795,099**	**(2.9)**	**639,330**	**20.8**
Total expenditure	664,160	673,843	(1.4)	576,927	15.1
RM consumed	475,152	464,613	2.3	400,123	18.8
Employee cost	70,274	77,209	(9.0)	70,446	(0.2)
Other expenses	118,735	132,021	(10.1)	106,358	11.6
EBITDA	**108,012**	**121,256**	**(10.9)**	**62,403**	**73.1**
EBITDA margin (%)	**14.0**	**15.3**	**-**	**9.8**	**-**
Depreciation	46,702	43,455	7.5	42,300	10.4
Interest cost	11,640	13,794	(15.6)	8,707	33.7
Other Income	2,342	2,117	10.6	1,674	39.9
Exceptional gain / (loss)	(356)	(7,242)		(7,085)	
PBT	**51,655**	**58,883**	**(12.3)**	**5,986**	**762.9**
PBT margins (%)	**6.7**	**7.4**		**0.9**	
Tax	12,396	11,366	9.1	8,670	43.0
Tax rate (%)	24.0	19.3	-	144.8	-
PAT (before minority interest/associates profit)	**39,259**	**47,517**	**-**	**(2,684)**	**-**
Share of associates/Minority Interest	3,700	4,242	(12.8)	3,621	2.2
Reported PAT	**42,959**	**51,759**	**(17.0)**	**938**	**4,481.3**
PAT margins (%)	**5.6**	**6.5**		**0.1**	
OCI	18,705	(46,043)		(27,017)	
TCI	61,663	5,716		(26,080)	
Reported EPS (Rs)	**12.6**	**15.2**	**(17.0)**	**0.3**	**4,481.3**

Source: Kotak-PCG Research

4QFY17 consolidated revenues declined by 3% YoY due to translation loss (GBP depreciated YoY). Revenue was below estimates as the company made accounting changes at JLR. EBITDA margin contracted due to sharp YoY deterioration in standalone business performance. Reported PAT for the quarter was lower by 17% YoY largely due to 11% YoY decline in EBITDA.

Outlook

Company has charted a long term plan for improving its performance in the domestic passenger vehicle and commercial vehicle segment. Over the next two years, we expect continued healthy volume traction in the passenger car business - driven by new products. In the commercial vehicle segment, we expect demand in MHCV segment to remain subdued in 1HFY18. Over the medium to long term, we anticipate gradual improvement in demand.

Despite growth in volumes, we expect the standalone business to continue report losses in FY18/FY19 - though the quantum of loss is expected to come down.

JLR's volume growth outlook remains positive. Company indicated that demand outlook is healthy in China, US, Europe and UK (though Brexit impact remains uncertain). Demand outlook is weak and uncertain in South America and MENA countries. In FY18, JLR will be ramping-up the recently launched Discovery (in February 2017) and will launch new products like Range Rover Velar and XF Sportbrake. I-Pace and another new product is expected to be launched in CY18/FY19.

Company highlighted that EBITDA margin in FY18 will likely witness pressure (similar to FY17). Due to high competition, incentives are expected to increase in FY18. JLR's long term target (5 years) is to achieve an 8-10% EBIT margin. Company stated that at 31st March 2017 GBP rate (assuming there is no further GBP deprecation), hedging losses is expected to start coming down from 4QFY18. Thereby FY19 margins could get a significant boost.

We revise our FY18 estimates lower to factor in accounting change at JLR that will drive revenues lower, delayed recovery in commercial vehicle demand, increased capex guidance at JLR in FY18, and relatively weak JLR margin guidance for FY18. We lower our revenue estimates by 11% and EBITDA by 13%. Our EBITDA margin estimate remains unchanged as FY18 JLR margin pressure will get offset by revision in JLR accounting (lower revenue base due to loss on hedges will positively impact margins).

We introduce FY19 estimates and roll over our target price to FY19E earnings. We upgrade the stock to BUY (ACCUMULATE earlier) with revised price target of Rs539 (earlier Rs507). We have valued the standalone business / JLR (including China JV) / other subsidiaries at Rs57/ Rs459/Rs24 respectively (earlier valued at Rs58/ Rs428/Rs21 respectively). We value the standalone business on 1x book value (unchanged), JLR UK business at adjusted EV/EBIDTA of 3.5x (earlier 3.75x) and China JV at PE of 10x (unchanged).

We recommend BUY on Tata Motors with a price target of Rs.539

Change in estimates

	FY18		
Rs mn	**Old**	**New**	**% change**
Revenues	3,364,907	2,991,612	(12.5)
EBITDA margin (%)	13.0	13.0	(0.4)
Reported Net profit	167,356	132,118	(26.7)

Source: Kotak Securities - Private Client Research

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RESULT UPDATE

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NAGARJUNA CONSTRUCTION COMPANY (NCC)

PRICE: Rs.91 **RECOMMENDATION: BUY**
TARGET PRICE: Rs.107 **FY19E (PE)x :16.4x**

Result highlights: Company's revenues for Q4FY17 were lower than our estimates and were impacted by demonetization, UP elections and delays in payments from some clients. Margins witnessed decline due to lower revenue booking. Interest expense continued to decline in line with the debt reduction as well as lower interest rates. Order inflow stood healthy during FY17 but was below the target of Rs 120 bn for the company. We tweak our FY18 estimates and introduce FY19 estimates. We continue to maintain BUY on the stock.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	78,921	86,813	93,758
Growth (%)	-4	10	8
EBITDA	6,852	7,813	8,438
EBITDA margin (%)	8.7	9.0	9.0
PBT	2,633	4,088	4,669
Net profit	2,216	2,698	3,081
EPS (Rs)	4.0	4.9	5.5
Growth (%)	-1	22	14
CEPS (Rs)	6.0	7.1	7.9
Book value (Rs/share)	64.8	69.3	74.4
Dividend per share (Rs)	0.4	0.4	0.4
ROE (%)	6.3	7.2	7.7
ROCE (%)	11.8	13.9	14.2
Net cash (debt)	(13,018)	(12,892)	(11,970)
NWC	146.0	146.0	146.0
P/E (x)	22.8	18.7	16.4
P/BV (x)	1.4	1.3	1.2
EV/Sales (x)	0.8	0.7	0.7
EV/EBITDA (x)	9.3	8.1	7.4

Source: Company, Kotak Securities - Private Client Research

Financial highlights

Rs million	Q4FY17	Q4FY16	YoY%
Net Sales	21,394	24,522	-13%
Expenditure	19,653	22,431	
Inc/Dec in stock	632	803	
Raw material	7,521	9,930	
As a % of net sales	38.11%	43.77%	
Other const exp	2,534	2,455	
As a % of net sales	11.85%	10.01%	
Labour	7,597	8,049	
As a % of net sales	35.51%	32.82%	
Staff cost	871	774	
As a % of net sales	4.07%	3.16%	
Other exp	498	419	
As a % of net sales	2.33%	1.71%	
EBITDA	1,742	2,091	-17%
EBITDA margin	8.14%	8.53%	
Depreciation	(276)	(275)	
EBIT	1,465	1,816	-19%
Interest	(1,022)	(1,307)	
EBT(exc other income)	443	510	
Other Income	(3)	564	
EBT	440	1,074	
Tax	197	(210)	
Tax%	-44.63%	19.58%	
PAT	637	864	-26%
NPM%	2.98%	3.52%	
Other comp inc	(137)	(238)	
Net profit	501	626	-20%
Equity Capital	1111.87	1111.87	
EPS	1.15	1.55	

Source: Company

Revenues lower than our estimates

Revenue growth for the quarter declined by 13% YoY, lower than our estimates. This was impacted by slowdown in the economy owing to demonetization, UP election schedule as well as delays in payments from clients especially in electrical and water division which resulted in slow execution of water and electrical projects. Demonetization had impacted the movement of trucks due to which raw material couldn't reach the construction sites on time.

Current order book of the company stands at Rs 180.88 bn. Order book currently is diversified across roads, building, oil and gas (46%), water and railways (19%), irrigation (11%), electrical (9%), mining (10.3%), international (5.3%) and metals and power (marginal). Order inflow during FY17 stood at Rs 92.2 bn (Rs 93.12 bn in 9MFY17) as company had reduced the order booking from the mining project in house to Rs 18.7bn from Rs 30.5 bn taken during Q3FY17. And there is also a Rs 3 bn of reduction in international project. Inflow was diversified across building, roads, water supply, irrigation, electrical and mining. The company had a target of an order inflow of Rs 120 bn for FY17 and thus the inflow was lower than guidance due to delays in finalization of projects in UP post elections where company was already declared L1. NCC expects the inflow to ramp up going forward as it is expecting orders from Telangana government, AP government and also L1 in Lucknow Balia expressway project.

For FY18, the company has guided for an order inflow of Rs 100 bn and revenues to grow by 8-10%. Due to lower than expected performance in FY17, we revise our FY18 estimates (earlier sales expected Rs 92 bn) and expect revenues to grow at a CAGR of 9% between FY17-19.

Operating margins impacted by lower execution

Operating margin for Q4FY17 stood at 8.14%, lower than our estimates due to lower than expected revenue booking. We believe that operating margin is likely to remain strong going forward as new order inflows are coming at higher margins. We maintain our margin assumptions and expect operating margin of 9 % going forward for the company.

Net profit performance impacted by lower than expected revenue booking and margins

Net profits (including other comprehensive income) declined by 20% YoY led by lower than expected revenues and margins.

Current debt stands at Rs 15.77 bn and NCC has managed to reduce gross debt by Rs 3 bn during FY17. During the quarter, company also received payments pertaining to receivables from electrical project and also received income tax refund of Rs 1.27 bn. This resulted in bringing down the debt for FY17.

Interest expense has been continuously coming down in line with debt reduction and improvement of company's rating with banks. Average cost of borrowing is also likely to come down further with improvement in credit rating of the company.

NCC also has an arbitration award of Rs2.0 bn. Company expects Rs 210-220 mn from NHAI to be received during Q1FY18 while another Rs 680 mn is under progress to be received from various state governments. For the existing road projects, the company has already achieved the securitization of future annuity cash flows for OB Infra and it had refinanced the loans of Pondicherry-Tindivaram. Out of the total investments of Rs 16bn, it has invested Rs 11-12 bn in real estate and Rs 4 bn in road assets. Hence no further investment is required. Company plans to monetize the land bank and expects to receive Rs 1.3-1.4 bn in FY18 which will be utilized by the subsidiary to repay loans to parent company NCC. Hence even with increase in the pace of execution in FY18 and going forward, the company expects the debt to remain in the range of Rs 18-20 bn.

We revise our FY18 estimates and introduce FY19 estimates. We expect net profits of Rs 2.7 bn (Rs 3.03 bn earlier) and Rs 3.08 bn for FY18 and FY19 respectively.

Valuation and recommendation

At current price, stock is trading at 18.7x and 16.4x P/E and 8.1x and 7.4x EV/EBITDA on FY18 and FY19 estimates respectively. Post rolling forward our valuations on FY19 estimates, we arrive at a revised price target of Rs 107 based on

sum of the parts valuation. (Rs 105 earlier). We continue to recommend BUY on the stock.

We recommend BUY on NAGARJUNA CONSTRUCTION COMPANY with a price target of Rs.107

Sum of the parts valuation(FY19)	Rs per share	Rationale
Core business valuation	94	Based on 17x one year forward P/E multiple
Road BOT	4	Based on NPV and P/BV methodology
Real estate and other inv	5	Based on P/BV of 0.75x of investments
International	3	Based on P/BV of 1x of investments
Total value per share	107	

Source: Kotak-PCG Research estimates

RESULT UPDATE

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ENGINEERS INDIA LTD (EIL)

PRICE: RS.162 **RECOMMENDATION: BUY**
TARGET PRICE: RS.195 **P/E FY19X: 17.9**

EIL reported Q4FY17 results, below estimates due to one off factors, adjusted for these costs result was higher than our estimates. Improved execution in PMC division and provision write back in LSTK (Lumpsun Turnkey Projects) led to PAT (net off one off costs) higher than our estimates. Order inflows remained encouraging in the quarter with order backlog at Rs 77 Bn implying three to four years revenue visibility.

We reiterate our long term positive view on EIL; however cut FY19 earnings estimate to factor in 1) execution of current order book commencing meaningfully from Q2FY18 onwards (thus believe that major growth would get reported in FY19 and beyond) and 2) moderate delays in Greenfield orders like Barmer refinery (not accounting for Maharashtra refinery currently). We value EIL at per 23x FY19 core earnings and main BUY rating with revised target price of Rs 195.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	14,486	17,398	27,417
Growth (%)	(4.1)	20.1	57.6
EBITDA	3,022	3,132	6,925
EBITDA margin (%)	20.9	18.0	25.3
PBT	5002	5185	8970
Net profit	3,250	3,526	6,100
EPS (Rs)	4.8	5.2	9.1
Growth (%)	10.0	8.5	73.0
CEPS (Rs)	5.2	5.6	9.4
BV (Rs/share)	41.1	42.5	47.2
DPS (Rs)	2.8	3.3	3.7
ROE (%)	12.0	12.5	20.2
ROCE (%)	12.0	12.5	20.1
Net cash (debt)	26,400	27,481	32,055
NW Capital (Days)	(111.3)	(98.5)	(83.2)
EV/Sales (x)	5.7	4.8	3.0
EV/EBITDA (x)	27.4	26.5	12.0
P/E (x)	33.6	31.0	17.9
P/Cash Earnings (x)	31.4	29.2	17.3
P/BV (x)	3.9	3.8	3.4

Source: Company

Quarterly Financials

Rs mn	Q4FY17	Q4FY16	YoY %	Q3FY17	QoQ%
Revenues	4429	3018	46.8	3250	36.3
Employee expenses	2790	1449	92.5	1553	79.7
Sub-Contract Payments	479	305	57.3	399	20.0
Constrction Material	202	235	(14.2)	121	66.6
Other expenses	416	512	(18.8)	367	13.2
Total Expenses	3886	2501	55.4	2441	59.2
EBITDA	543	518	4.9	810	(32.9)
Other income	571	663	(13.9)	559	2.2
Depreciation	60	59	2.2	59	2.2
EBIT	1054	1122	(6.1)	1309	(19.5)
Net Interest	30	1		1	
PBT	1024	1120	(8.6)	1309	(21.8)
Total tax	363	304	19.5	458	(20.7)
PAT	660	816	(19.1)	850	(22.4)
EPS (Rs)	1.0	1.2	(19.1)	1.3	(22.4)
EBITDA (%)	12.3	17.1		24.9	(50.8)
Tax Rate (%)	35.5	27.1		35.0	1.4

Source: Company

Result Highlights

Revenue grew 46.8% YY to Rs 4.4 Bn in Q4FY17 on back of healthy order book execution. Operating margin, however contracted sharply to 12.3% from 17.1% in Q4FY16 due to inclusion of provision of Rs 906 mn against gratuity and Rs 200 mn against salary revision under sevent pay commission (reflected in higher employee expense of Rs 2.7 Bn in Q4FY17 against Rs 1.4 Bn in Q4FY16).

Adjusted for this, EBITDA margin stood at 32.8% driven by 1) increased proportion of PMC (Project Management Consultancy) division which attracts higher margins (PMC margins improved 970 bps YY) and 2) provision write back of Rs 390 mn in LSTK segment (trend expected to continue in 4QFY17) and Rs 180 mn in PMC business.

In Q4FY17, PMC division reported 21.5% YY increase in sales, reported at Rs 3.5 Bn. EBIT margin for the segment expanded to 37.2% vis-à-vis 27.5% in Q4FY16. Margin in PMS division was aided by 1) operating leverage and 2) provision write back of Rs 180 mn In Q4FY17, Management is confident of increasing the over-

all margin profile in FY18.

LSTP division revenues stood at Rs 920 mn in Q4FY17 vis-à-vis Rs 131 mn in Q4FY16. LSTP division significant increase in EBIT margin, reported at 35.3% driven by provision write back of Rs 390 mn in the LSTK division.

Other income stood at Rs 571 mn in the quarter on back of strong balance sheet.

Segment Results (Rs mn)	Q4FY17	Q4FY16	YoY %	Q3FY17	QoQ%
Consultancy & Engineering projects	3509	2887	21.5	2706	29.7
Lumpsum Turnkey Projects	920	131	603.1	544	69.3
Consultancy & Engineering projects					
Consultancy & Engineering projects	1305	794	64.4	797	63.7
Lumpsum Turnkey Projects	325	-194	nm	155	nm
Segment Margins %					
Consultancy & Engineering projects	37.2	27.5		29.5	
Lumpsum Turnkey Projects	35.3	(148.2)		28.5	

Source: Company

Order inflows improved in FY17; order inflows expected to pick up on back of brownfield/Greenfield expansions by OMCs

EIL's order backlog stood at Rs 77.6 Bn at the end of FY17 against Rs 37.8 Bn in the end of FY16. Currently, PMC order book stands close to Rs 40 Bn (51% of total order book) and turnkey orders stands at Rs 37.4 Bn.

In the quarter, order inflows stood at Rs 32 Bn which includes Rs 10.2 Bn of consulting and Rs 21.9 Bn of LSTK orders. Order inflows in Q4FY17 was primarily supported by HPCL Visag refinery brownfield expansion/modernization project of Rs 25 Bn.

Management stated that order flows are likely to be driven by 1) upgradation of key refineries to BS-VI norms by the year 2020 (most of the orders already awarded/won by the company in FY17), 2) large greenfield orders like Maharashtra refinery (40 mn tonnes project; value Rs 1 trillion, PMC scope could be 5-7% of total cost) to be executed by HPCl, BPCL, IOCL and HPCL Vizag refinery (awarded in Q4FY17, size Rs 25 Bn), 3) brownfield expansion of various refineries is likely to pick up and non-Hydrocarbons orders like Namami Ganga should also report growth. Management has also shared optimism for possible orders coming in from Barmer HPCL refinery (expected refinery cost is Rs 410 Bn) order.

We believe that the long term prospects of the business appears strong as strengthened financial health of OMCs (on back of low oil prices) augers well for EIL's business.

International ordering appears to be muted at this point. However, progress in Dangote refinery (contract value close to Rs 10 Bn), Nigeria has been satisfactory so far. Management is confident of winning further expansion packages from Dangote refinery estimate at c. Rs 4 Bn.

VALUATION AND RECOMMENDATION

We project revenue growth at 38% CAGR between FY17-19 from Rs. 14.4 Bn in FY17 to Rs. 27.4 Bn in FY19E driven mainly by large ticket orders execution in the domestic hydrocarbon business (current order book estimates at c. Rs 77.6 Bn).

We build EBITDA margin at 18% and 25.3% in FY18 and FY19 respectively. Af-

We recommend BUY on Engineers India Ltd with a price target of Rs.195

fecting the changes we estimate FY19 core earnings at Rs 4.5 Bn in FY19 against 5.6 Bn earlier. We note that since order inflows and its execution is more certain now, we do not foresee any threat regarding cancellation of these orders. However delays of one or two quarters is not rule out.

We reiterate our long term positive view on EIL; however cut FY19 earnings estimate to factor in 1) execution of current order book commencing meaningfully from Q2FY18 onwards (thus believe that major growth would get reported in FY19 and beyond) and 2) moderate delays in Greenfield orders like Barmer refinery (not accounting for Maharashtra refinery currently). We value EIL at per 23x FY19 (earlier 21x FY19) core earnings and main BUY rating with revised target price of Rs 195.

Valuation Table	Rs mn (FY19)
Core PAT	4,536
PER (x)	23
Net Cash	26238
Fair valuation	130558
Fair Valuation (Target Price) (Rs)	195

Source: Kotak-PCG Research

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.
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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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