RESULT UPDATE

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BLUE DART EXPRESS (BDE)

PRICE: RS.4250 **RECOMMENDATION: BUY**
TARGET PRICE: RS.5150 **FY19E PE: 41.3X**

Weak business environment (esp. B2B segment), poor off-take of volumes by corporates and retail customers in the month of June 2017 before implementation of GST and competition were the factors responsible for weak performance of BDE in Q1FY18. However, improved outlook, a fresh strategy under the observation of Mckinsey, implementation of GST, and benign fuel cost are expected to keep the growth momentum healthy with improvement in margins and return ratios going forward. For BDE, we expect 9% volume CAGR, 10%revenue CAGR and 22% earnings CAGR over FY17 to FY19E with ROE of 27% and ROCE of ~30% in FY19. BDE continue to remain as one of the key stocks to invest in the courier space which is expected to benefit from formalization of the sector and the boom of the ecommerce segment. Maintain BUY with an unchanged TP of Rs.5150.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	26,870	29,374	32,550
Growth (%)	5.2	9.3	10.8
EBITDA	2,704	3,685	4,065
EBITDA margin (%)	10.1	12.5	12.5
PBT	2,233	3,248	3,653
Net profit	1,458	2,176	2,448
EPS (Rs)	61.3	91.4	102.8
Growth (%)	-30.2	33.0	11.1
CEPS (Rs)	79.7	110.3	121.7
Book value (Rs/share)	220	294	378
Dividend/share (Rs)	15.0	18.0	19.0
ROE (%)	27.8	31.1	27.2
ROCE (%)	25.0	31.1	29.7
Net cash (debt)	(419)	(1,121)	(1,051)
Net WC (Days)	45.2	46.2	47.2
EV/EBITDA (x)	37.6	27.8	25.1
P/E (x)	69.4	46.5	41.3
P/Cash Earnings	53.3	38.5	34.9
P/BV (x)	19.3	14.5	11.3

Source: Company, Kotak Securities – Private Client Research

Quarterly financials

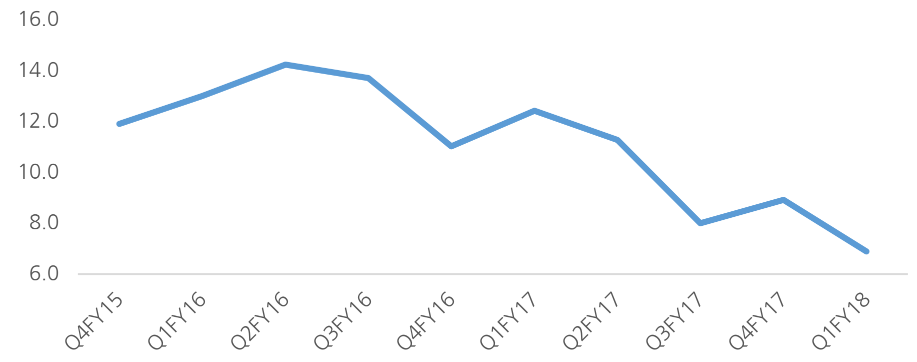
(Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Sales	**6,214**	**6,632**	**7,200**	**6,822**	**6,666**
Freight and Handling cost	3,809	4,182	4,496	4,292	4,300
Employee	993	1,012	1,201	1,057	1,176
Other cost	640	690	927	865	731
Operating cost	5,442	5,884	6,624	6,214	6,207
EBIDTA	**772**	**748**	**576**	**608**	**459**
EBIDTA (%)	12.4	11.3	8.0	8.9	6.9
Depreciation	109	109	111	110	114
Other income	83	70	66	60	57
Interest	77	79	78	78	78
PBT	**669**	**630**	**453**	**480**	**324**
Taxes	227	202	171	175	113
ETR	33.9	32.1	37.7	36.5	34.9
PAT	**442**	**428**	**282**	**305**	**211**
Equity	238	239	239	239	239
EPS (Rs)	**18.6**	**17.9**	**11.8**	**12.8**	**8.8**

Source: Company

Highlights of the quarter

- Company has reported around 4% YoY/flat QoQ improvement in volumes primarily in the B2C segment
- Volume was impacted in the June 2017 due to uncertainty over GST and input tax credit
- Sales was reported at Rs 6.67 bn (-2.3% QoQ and +7% YoY).
- Employee cost was reported at Rs 1.18 bn (+11% QoQ and +18% YoY) which dented the margins of the company at 6.9% (-200 bps QoQ). The company hired a total of 600 employees in FY17 (highest ever) and Q1FY18 employee cost included hikes and bonuses.
- Subdued revenue growth (+7% YoY) coupled with BDE's fixed cost model led to a sharp decline in EBIDTA margins (down 550bps YoY). However, we view this as a one-off event and expect healthy earnings growth going forward.
- Depreciation and interest cost and other income continue to be stable for the company.
- Consequently PAT was reported at Rs 211 mn vs. our expectation of Rs 314 mn
- We do not extrapolate BDE's Q1FY18 performance to the whole of FY18, since we believe this was due to a one-off event (transition to GST). We maintain our earnings estimate for FY18 and FY19.

Negative Operating leverage of Blue Dart – EBITDA margins (%)



Source: Company

Mckinsey submits it strategy for the company

BDE had hired Mckinsey & Company and spent a total of Rs 350 mn to prepare a strategy for BDE for developing new products, reduce operating cost, improve utilization level of assets, geographical expansion and to face competition. Mckinsey has submitted the strategy and we expect the implementation of the strategy from H2FY18 which should bear positive results for the company going forward.

Healthy outlook

As per various agencies, air cargo traffic is estimated to grow at 10% CAGR and surface cargo traffic at 8% CAGR over the next 5 years which bodes well for companies like BDE. These above coupled with implementation of GST is further healthy for BDE.

BDE already have a robust brand name, systems and infra in place to capture the above growth. BDE currently has a fleet of 6 aircraft (5 Boeing 757), 9185 vehicles, 582 facilities, 20 ground hubs and a dedicated skilled staff of 10000+ employees who work around the clock to yield results for the company. The above mentioned infrastructure is unparalleled in the courier industry which helps BDE to deliver safely, on time and differentiate itself from other players.

Current infrastructure of BDE

Infrastructure	No's	Remark
Aircraft	6	1850 tonnes per day
Air network station	7	
Vehicles	9185	5 lakh shipments per day
Facilities	582	Retail Outlets
Blue darters	10000+	Dedicated and trained
Ground hubs	20	Hub and spoke model
Network routes	166	Centipede model
Countries served	220+	

Source: Company

Healthy volume growth to improve earnings growth

For FY17, tonnage handled for BDE grew 7.7% YoY to 641,284 tonnes while shipments grew 10% YoY to 185 million. Volume growth in the air express industry is largely driven by a robust outlook in industries like banking financial services & insurance (BFSI), ecommerce, pharmaceuticals and automotive. Management of BDE expects volume for BDE to grow at 9% over the next two years supported by an addition of a freight plane to BDE's fleet in FY16. BDE's presence in the fastest growing segment of the logistics sector and its dominant position in air express with continuously expanding presence in the ground express segment would enable it to garner higher tonnage.

Volume trends for BDE

Segment	FY14	FY15	FY16	FY17	FY18E	FY19E
Domestic shipments in lakhs	1264.0	1397.0	1595.0	1850.2	2072.2	2300.2
International shipments in lakhs	9.11	8.90	8.94	10.19	11.01	11.89
Total weight in '000' tonnes	513,474	558,537	595,623	641,284	699,000	761,910
% growth	-13.6	8.8	6.6	7.7	9.0	9.0

Source: Company, Kotak Securities – Private Client Research

Revenue growth to pick up from Q2FY18; margins to improve

Growth in the B2B segment decelerated in Q1FY18 as the industry adjusted their operations to the implementation of GST. We expect normalisation of business activities from Q2FY18 onwards, which should drive volume growth in this segment. We see implementation of GST as a long-term positive for organized and large logistics players such as BDE.

Further, shipments in the B2C segment (e-com business) should pick up from Q2FY18, given onset of the festive season (stocking for Diwali should happen in Q2FY18).

Pickup in volume growth would also ramp up overall utilization of the network and offset the negative operating margins seen in Q1FY18. We expect EBIDTA margins to improve from Q2FY18 and normalise at around 12.5%.

Maintain EPS forecasts, retain BUY

We believe the subdued Q1FY18 performance was a result of a one-off event (rollout of GST) and hence, we have not extrapolated it to whole of FY18. Instead given the positive outlook on likely pickup in the B2B and B2C business from Q2FY18 onwards, we maintain our FY18 estimates. Having said that, we believe that the Q2FY18 performance should provide a true assessment of the business.

We forecast BDE to register revenue growth of 10% pa through FY17-19E and its PAT should grow faster at 22% pa over FY17-19E.

We maintain BUY on Blue Dart Express with a price target of Rs.5150

BDE trades expensively on near-term earnings (41x FY19E EPS) considering the transition phase to GST, tough environment for the B2B segment and consolidation in the e-com industry. However, we think investors would focus on its track record and creditability of the company, market share, and most importantly, superior return ratios across the business cycle. The stock remain as one of the key stocks to invest in the courier space which is expected to benefit from formalization of the sector and the boom of the ecommerce segment. Effective implementation of the Mckinsey strategy is expected to add further value to the stock further. Maintain **BUY** with an unchanged TP of Rs 5150 at 50x FY19E.

RESULT UPDATE

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ESCORTS LTD

PRICE: RS.669 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.710 **FY19E PE: 18.8X**

Escorts 1QFY18 results came on expected lines. Revenue for the quarter stood at Rs11.4bn, 11% growth YoY (company restated its 1QFY17 numbers), EBITDA margin came in at 8.5% versus 8.7% in 1QFY17 and adjusted net profit in the quarter was Rs626mn versus Rs565mn in corresponding quarter last year. Good monsoon is expected to translate into robust tractor volume growth in FY18. Company indicated strong revenue growth in the construction equipment and railway equipment segment in the company years. EBITDA margin is expected to improve further from cost cutting initiatives across segments, employee cost saving from VRS, higher capacity utilization, turnaround at construction equipment division and product mix change. We retain ACCUMUALTE rating on the stock with unchanged price target of Rs710.

Summary table - Consolidated

(Rs mn)	FY17	FY18E	FY19E
Sales	41,453	50,653	55,695
Growth (%)	17.2	22.2	10.0
EBITDA	3,095	5,106	6,099
EBITDA margin (%)	7.5	10.1	11.0
PBT	2,091	4,290	5,476
Adjusted PAT	1,687	3,399	4,238
Adjusted EPS (Rs)	14.1	28.5	35.5
Growth (%)	84.1	101.5	24.7
CEPS (Rs)	19.4	34.1	41.4
Book Value (Rs/share)	136	159	190
Dividend per share (Rs)	1.5	1.5	1.5
ROE (%)	9.7	19.3	20.4
ROCE (%)	14.3	25.1	26.8
Net cash / (debt)	1,996	2,870	6,239
NWCapital (Days)	5	2	9
P/E (x)	47.4	23.5	18.8
P/BV (x)	4.9	4.2	3.5
EV/Sales (x)	1.9	1.5	1.3
EV/EBITDA (x)	25.2	15.1	12.1

Source: Company, Kotak Securities – Private Client Research

Quarterly Data

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Revenues	**11,423**	**10,314**	**10.8**	**10,223**	**11.7**
Total expenditure	10,448	9,413	11.0	9,480	10.2
RM consumed	7,802	7,007	11.4	7,022	11.1
Employee cost	1,153	1,092	5.6	1,070	7.7
Other expenses	1,492	1,315	13.5	1,387	7.6
EBITDA	**975**	**900**	**8.3**	**744**	**31.2**
EBITDA margin	8.5	8.7	-	7.3	-
Depreciation	178	139	27.9	167	6.3
Interest cost	80	85	(6.9)	112	(29.0)
Other Income	205	102	101.0	183	12.0
EO income/(loss)		(96)	-	151	-
PBT	**923**	**682**	**35.3**	**798**	**15.7**
PBT margins	8.1	6.6		7.8	
Tax	297	213	-	203	-
Tax rate	32.1	31.2	-	25.5	-
Reported PAT	**626**	**470**	**33.4**	**595**	**5.3**
PAT margins	5.5	4.6	-	5.8	-
Other Comprehensive Income	(4)	0		51	
Total Comprehensive Income	623	470	32.5	646	(3.6)

Source: Company

Segmental Revenues

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Agri Machinery	9,421	8,592	9.7	8,018	17.5
Auto Ancillary	-	216	(100.0)	16	(100.0)
Railway Equipment	652	579	12.8	666	(2.0)
Construction Equipment	1,646	1,371	20.0	1,840	(10.6)

Source: Company

Volumes

in units	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Tractor	17561	16363	7.3	14978	17.2
CE	886	739	19.9	1,037	(14.6)

Source: Company

Average Selling Price

Rs / unit	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Tractor	536,470	525,068	2.2	535,335	0.2
CE	1,857,342	1,855,769	0.1	1,774,791	4.7

Source: Company

Result highlights

- Revenue during the quarter increased from Rs10.3bn in 1QFY17 to Rs11.4bn and was in line with our estimate of Rs11.5bn.
- Escorts Agri Machinery (EAM) segment revenues grew by 9.7% YoY on the back of 7.3% increase in tractor volumes and 2.2% rise in average selling price (ASP). On a QoQ basis, volume growth was high on account of seasonal demand for tractors.
- Construction Equipment (CE) segment revenues during the quarter grew by 20% YoY to Rs1.65bn. Revenue growth was completely driven by volume increase as ASP remained flat YoY. Sequentially, CE volume declined due to seasonal factor.
- In the railway equipment division (RED) division, revenue was Rs652mn, 13% higher YoY. RED revenue was down by 2% QoQ.
- Gross margin performance in the quarter was mixed with 40bps decline YoY and 40bps increase QoQ. Price hike and cost material reduction efforts supported gross margins YoY, despite increase in commodity prices.
- Employee cost increased on account of annual increments. Other expenses in 1QFY18 were on the higher due to higher spend on R&D and sales promotion.
- EBITDA during the quarter was up by 8% YoY at Rs975mn (our estimate was Rs1bn). EBITDA margin for the quarter was 8.5% as against 8.7% in 1QFY17 and 7.3% in 4QFY17.

Segmental margins

(Rs mn)	1QFY18	1QFY17	4QFY17
Agri Machinery	10.8	11.3	10.1
Auto Ancillary	-	(12.1)	22.8
Railway Equipment	9.9	16.3	10.8
Construction Equipments	(2.1)	(5.8)	2.1

Source: Company

- EAM segment EBIT margin declined YoY from 11.3% to 10.8%. Rise in input cost and adverse forex mix impacted margins in this segment.
- CE business EBIT losses came down YoY as volumes improved by 20% and steps taken on saving cost. However, on a QoQ basis, 15% volume decline led to EBIT loss as against EBIT profit in 4QFY17.
- Railway equipment division EBIT margin was lower YoY and QoQ on account of product mix.
- Other income for the quarter was high as it included Rs40mn exceptional income from helicopter sale.
- Adjusted for exceptional items, PAT for the quarter grew by 11% YoY. 1QFY18 PAT of Rs626mn was in line with our estimate of Rs624mn.

Conference Call Highlights

- Management expects the domestic tractor industry volumes in FY18 to grow by 10-15%. In 1QFY18, domestic industry grew by 8.5% YoY to 177,028 units. In 2QFY18, the management expects the industry to grow by 18-20%, driven by good monsoon, early onset of festive season and wholesale dispatches deferment from 1QFY18 to 2QFY18 (dealer inventory reduced ahead of GST). Escorts wholesale domestic volumes in 1QFY18 grew by 6.2% as against 9% growth in retail volumes. During the quarter, Escorts market share decline by 20bps YoY to 9.7%.
- During 1QFY18, industry volumes in Escorts strong markets (North and Central region) grew by 18%, whereas opportunity market (West and South) witnessed 3% decline. Management expects similar trend to continue in 2QFY18.

- On the back of various new products introduced, tractor exports will witness strong growth in the coming years.
- In the CE segment, company expects 12% volume CAGR over the next few years. Demand in this segment is generally strong in second half (Oct-Mar) as compared with first half (April-Sep). Company expects this segment to be EBIT positive in FY18 (full year basis).
- Railway Equipment Division has order book of Rs1.4bn to be executed over the next 6-7 months. Management expects this business revenue to grow at 15-20% CAGR for the next three years.
- Due to GST, the company will be compensating dealers on stock at dealer end and will also bear one-time cost on stock at its own depots. As of 30th June 2017, ~7,000 units was lying in stock at dealer / company depot (with dealer being at 4,000-5,000 tractors). Company will have bear cost equivalent to ~7-8% of the selling price of tractor. On this count, there could be one-time loss of ~250mn to the company in 2QFY18.
- Company is looking to launch VRS in 2QFY18. If launched, company expects 100-200 employees would opt for VRS. Company may have to incur VRS cost of Rs250-500mn (Rs2.5mn cost per employee). In three years, Escorts plans to incur Rs1.4-1.5bn towards offering VRS to 400-500 employees.
- In FY18, company aims to achieve EBIT margin of 11.5-12% in EAM business, EBIT positive in CE business and 13-14% in RED.
- In the tractor segment, company did not take any price hike in 1QFY18. Even post GST, company did not take any pricing action. Last pricing action of 1.2% was taken in March 2017.
- Tax rate in FY18 will be 30-31%.
- Gross debt as on end quarter was Rs1.79bn (Rs940 long term debt and Rs850 working capital). Debt is down from Rs2.63bn as of end FY17.

Outlook

- Backed by good monsoon, tractor industry is expected to grow at healthy rate for second consecutive year. For FY19, while monsoons will be critical, we expect some positive impact of two good monsoons and government focus on improving farmer's income.
- Strong government focus on infrastructure segment will drive demand in the construction equipment segment.
- In the railway equipment division, the company expects to grow its revenues at 15-20% CAGR over the next three years.
- EBITDA margin is expected to improve further from cost cutting initiatives across segments, employee cost saving from VRS, higher capacity utilization, turnaround at construction equipment division and product mix change.

We retain ACCUMULATE rating on Escorts Ltd with a price target of Rs.710

- Company expects strong volume growth for the industry in 2QFY18. Escorts would further benefit from robust demand in its strong markets. However, 2QFY17 results could include couple of exceptional losses – loss on tractor inventory at dealer end / company depot due to GST and possible VRS implementation.
- We retain ACCUMUALTE rating on the stock with unchanged price target of Rs710. We value the stock at 20x FY19E earnings.

Key risk

Lower than expected tractor sales growth can have substantial impact on our earnings estimates and target price.

RESULT UPDATE

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THE INDIA CEMENTS LTD

PRICE: RS.202 **RECOMMENDATION: BUY**
TARGET PRICE: RS.234 **FY19E EV/EBITDA: 7.0X**

Results of the company were lower than our estimates and were impacted by issues such as destocking owing to GST implementation, drought and sand mining ban in Tamil Nadu and steep increase in pet coke prices in comparison with last year. Revenues for Q1FY18 are not exactly comparable with last year mainly due to amalgamation of Trinetra Cement and Trishul Concrete Ltd. Revenues are up by 22% YoY led by volume improvement (inc Trinetra Cement) of 15.1% YoY and net realization improvement of 7% YoY. Sharp increase in power and fuel and staff expenses impacted margins and profitability as against our estimates.

At current market price of Rs 202, stock is trading at 8.2x and 7.0x EV/EBITDA on FY18 and FY19 estimates respectively. We continue to remain positive on the company despite results coming lower than expectations as we believe that post amalgamation, company has realigned its business verticals which would enable it to clean its balance sheet and reduce the loans and advances. Reduced leverage, improved working capital and enhanced capacity coupled with expected improvement in demand in southern region are likely to provide a re-rating to the stock. We maintain our price target of Rs 234 based on average of 8x EV/EBITDA and $80 per tonne on FY19 estimates. Maintain BUY.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	50,669	54,400	60,275
Growth (%)	19.9	7.4	10.8
EBITDA	8,613	9,500	10,775
EBITDA margin (%)	17.0	17.5	17.9
PBT	2,602	3,607	5,010
Net profit	1,736	2,416	3,357
EPS (Rs)	5.5	7.8	10.9
Growth (%)	22.0	43.8	38.9
CEPS (Rs)	13.8	16.9	20.1
Book value (Rs/share)	165.8	173.7	184.5
Dividend per share (Rs)	0.0	0.0	0.0
ROE (%)	3.3	4.6	6.1
ROCE (%)	7.7	8.5	9.9
Net cash (debt)	(29,147)	(27,299)	(24,635)
NW Capital (Days)	52	63	63
EV/Sales (x)	1.6	1.4	1.2
EV/EBITDA (x)	9.2	8.2	7.0
P/E (x)	37.0	25.8	18.5
P/BV (x)	1.2	1.2	1.1

Source: Company, Kotak Securities – Private Client Research

Financial highlights

(Rs mn)	Q1FY18	Q1FY17	YoY (%)
Net Sales (adj with excise)	**12,818**	**10,521**	**22%**
Expenditure	10,962	8,507	
Inc/Dec in trade	199	0	
RM	2,071	1,777	
As a % of net sales	16.2	16.9	
Staff cost	1,147	793	
As a % of net sales	8.9	7.5	
Power and fuel	2,858	2,019	
As a % of net sales	22.3	19.2	
Transportation & Handling	2,847	2,325	
As a % of net sales	22.2	22.1	
Other expenditure	1,840	1,593	
As a % of net sales	14.4	15.1	
Operating Profit	1,856	2,014	-8%
Operating Profit Margin	14.5	19.1	
Depreciation	630	511	
EBIT	**1,226**	**1,503**	**-18%**
Interest	874	825	
EBT (exc other income)	353	678	
Other Income	52	32	
EBT	**405**	**710**	
Tax	140	271	
Tax Rate (%)	34.6	38.1	
PAT	**265**	**440**	**-40%**
Net Profit	265	440	
NPM (%)	2.1%	4.2%	
Equity Capital	3,081.5	3,071.8	
EPS (Rs)	0.9	1.4	

Source: Company

Revenues lower than our estimates

Company's revenues for the quarter are not comparable due to amalgamation of Trinetra Cement and Trishul Concrete Ltd. Revenue growth of 22% YoY was led by 15% YoY growth in cement dispatches and 7% YoY growth in cement realizations. Cement dispatches (including clinker) in Q1FY18 stood at 2.656 MT (up 15% YoY). Revenue from cement segment stood at Rs 12.68 bn while freight revenues stood at Rs 42.5 mn, infra revenues of Rs 52 mn and wind mill revenues at Rs 40 mn for Q1FY18.

On like to like comparison, including Trinethra volumes, the growth in volumes was largely flat during the quarter. During the quarter, company had lost nearly 3 lac tonne of sales in Tamil Nadu. This was compensated by higher sales in AP/Telangana. The company also produced lesser clinker during the quarter due to maintenance work on its plants. However, the problems related to sand mining are over now and construction activity has started thereby aiding cement volumes. Along with this, after the maintenance activity got over, all plants are now operating at optimum utilization.

Cement industry demand and offtake in southern region was impacted during Q1FY18 quite badly owing to drought, sand mining ban and continued impact of demonetization on real estate led demand. Southern industry witnessed a negative growth of 5-6% during Q1FY18. Demand was down by nearly 11% in TN and Kerala, 1% in Karnataka, 12% in AP/Telangana while improvement was being witnessed in Maharashtra, Gujarat, MP, Rajasthan and also in exports. We believe that with continued focus of government on infrastructure, low cost housing and also significant demand from AP/Telangana, demand growth should start reviving over medium to long term.

Since demand had declined in most of the southern regions, company witnessed volume improvement mainly in regions like Maharashtra, Gujarat, MP and Rajasthan.

We maintain our estimates and expect revenues to grow at a CAGR of 9.1% between FY17-19.

Operating margins impacted by steep rise in power and fuel costs

Operating margin for Q1FY18 witnessed a decline on YoY basis mainly due to higher power and fuel and freight costs and staff costs.

EBITDA for cement division stood at Rs 1850 mn while for freight, EBITDA was 11 mn and for wind mill, EBITDA was Rs 40 mn, for infra the EBITDA was negative Rs 45 mn. Thus, EBITDA per tonne for cement stands at Rs 697 as against Rs 857 in Q1FY18.

Per tonne analysis

	Q1FY18	Q1FY17
Dispatches (mn tonne)	2.656	2.307
YoY (%)	15.1	
Pure Grey cem realisation/tonne	4795	4521
YoY	6.1%	
Cost Per tonne		
Inc/dec in material	75	0
Raw material	780	770
Staff cost	432	344
Power and fuel	1076	875
Transportation &Handling	1072	1008
Other expenditure	693	690
Total cost per tonne	**4127**	**3688**
Cement EBITDA per tonne	697	857

Source: Company, Kotak Securities – Private Client Research

During the quarter, company fulfilled nearly 83% of coal requirement via pet coke with average price of around $90 per tonne and Q4FY17 average was $85 per tonne. Current prevailing prices are around $90 per tonne. So this can result in power and fuel cost per tonne remaining at similar levels going forward for the company.

The staff cost has also moved up during the quarter due to provisioning of ESOP cost on the basis of difference between grant value and market value as at the end of the quarter. Company would continue to make provisions for ESOPs every quarter as per the norms of accounting standard.

We maintain our estimates and expect some moderation in raw material costs going forward while freight and power and fuel costs per tonne are likely to remain at similar levels. Further uptrend in cement prices is likely to provide margin improvement going forward.

Net profit performance impacted by lower margins

Net profit performance was impacted by lower margins. Company is continuously working to improve the balance sheet and reducing the leverage. We maintain our estimates and expect net profits to grow to Rs 2.4 bn/Rs 3.3 bn for FY18/19 led by volume improvement, operating leverage owing to utilization improvement as well as demand improvement.

Valuation and recommendation

We maintain BUY on India Cements Ltd with a price target of Rs.234

At current market price of Rs 202, stock is trading at 8.2x and 7.0x EV/EBITDA on FY18 and FY19 estimates respectively. We continue to remain positive on the company despite results coming lower than expectations as we believe that post amalgamation, company has realigned its business verticals which would enable it to clean its balance sheet and reduce the loans and advances. Reduced leverage, improved working capital and enhanced capacity coupled with expected improvement in demand in southern region are likely to provide a re-rating to the stock. We maintain our price target of Rs 234 based on average of 8x EV/EBITDA and $80 per tonne on FY19 estimates. Maintain **BUY**.

RESULT UPDATE

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LARSEN & TOUBRO LTD

PRICE: RS.1159 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.1274 **FY19E PE: 19.1X**

L&T reported mixed set of numbers. While the domestic execution gained momentum resulting in higher than expected revenue growth, there was pressure on margins. PAT beat our estimates aided by higher other income and lower tax provisions. However, order intake came in lower than estimates due to subdued overseas markets. On the positive side, there were improvements on the balance sheet front with the company reporting higher "Cash from Operations" and decline in working capital to sales ratio. The main trigger on the stock would be the award of major orders like LPD (~ Rs 200 bn). On forward earnings basis, L&T is trading at 22.9x and 19.1x FY18 and FY19 earnings respectively. We value the stock at 21x FY19 earnings and arrive at a price target of Rs 1274 (unchanged). Due to moderate upside, we maintain "ACCUMULATE", thereby advising clients to buy on declines.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	1100110	1230,423	1394,433
Growth (%)	7.9	11.8	13.3
EBITDA	110,747	126,436	144,014
EBITDA margin (%)	10.1	10.3	10.5
PBT	88874	102406	120734
Net profit	60,412	70,779	85,008
EPS (Rs)	42.3	50.6	60.8
Growth (%)	41.4	19.6	20.1
CEPS (Rs)	59.3	67.9	78.8
BV (Rs/share)	326.7	357.1	397.7
Dividend / share (Rs)	18.0	18.0	18.0
ROE (%)	13.4	14.8	16.1
ROCE (%)	3.7	3.7	4.0
Net cash (debt)	(881000)	(976000)	(989100)
NW Capital (Days)	121.4	123.5	123.5
EV/Sales (x)	2.3	2.1	1.9
EV/EBITDA (x)	22.6	20.5	18.1
P/E (x)	27.4	22.9	19.1
P/BV (x)	1.6	1.4	1.3

Source: Company, Kotak Securities – Private Client Research

Quarterly performance - Consolidated

(Rs mn)	Q1 FY18	Q1 FY17	YoY (%)
Gross sales	239,898	218,738	10
Excise duty	1,789	1,473	21
Net sales	**238,109**	**217,265**	**10**
Total op expenses	217,541	198,375	10
Raw material	35,995	39,006	(8)
Sub-contracting charges	49,626	39,525	26
Construction materials	38,066	31,766	20
Purchase of trading goods	3,605	3,106	16
Other operating expenses	24,132	21,706	11
Sales and admin exp	16,871	15,725	7
Personnel	35,306	34,200	3
Finance cost of financial services activity	13,941	13,343	4
Operating Profit	**20,567**	**18,890**	**9**
Other income	3,849	3,058	26
Depreciation	5,513	4,648	19
EBIT	**18,903**	**17,300**	**9**
Interest	3,651	3,248	12
PBT	**15,253**	**14,052**	**9**
Current Tax	5,022	6,053	(17)
Deferred tax	(425)	(565)	(25)
PAT before minority interest and share from associate cos	10,655	8,564	24
Share of profits from associate companies	-372	-1736	(79)
Minority interest	-1358	-732	85
Reported PAT	**8,925**	**6,096**	**46**
EPS Rs	**6.38**	**4.36**	
EBITDA (%)	8.6	8.7	
Raw Matl costs to sales (%)	15.1	18.0	
Sub-contracting costs to sales (%)	20.8	18.2	
construction materials costs to sales (%)	16.0	14.6	
Purchase of trading goods costs to sales (%)	1.5	1.4	
Total material and contracting expenses	53.5	52.2	
Other op expenses costs to sales (%)	10.1	10.0	
Sales and admin costs to sales (%)	7.1	7.2	
Personnel costs to sales (%)	14.8	15.7	
Tax rate %	30	39	

Source: Company

Earnings estimates

(Rs mn)	Reported	Estimated	Comments
Revenue	239,897	238,905	In-line execution
EBITDA (%)	8.6	8.7	Minor miss in EBITDA margins
PAT	8,925	8,255	Higher than expected PAT led by higher other income

Source: Company, Kotak Securities – Private Client Research

Key result highlights (Consolidated results)

- Execution hurdles led to weak revenue. Revenue growth was moderate at 10% y-o-y led by uptick in domestic execution. Segment-wise, revenue growth was supported by Infrastructure, Hydrocarbon and E&A businesses.
- EBITDA margins for the quarter contracted by 10 bps y-o-y to 8.6% due to higher material and subcontracting costs. The company optimized employee costs through automation and productivity improvements. Sales and General administration costs rose due to higher credit provisions in the financial services.
- Depreciation rose 19% yoy mainly due to asset impairment upon capacity rebalancing in Middle East.
- Other income increased 26% y-o-y to Rs 3.8 bn, largely due to higher treasury income. Quarterly interest cost rose 12% yoy to Rs 3.7 bn.
- As a result of moderate revenue growth, higher other income but offset by slight margin contraction and higher depreciation, PBT rose 9% y-o-y to Rs 15.2 bn.
- The company reported reduction in tax expense to Rs 5.0 bn vs Rs 6.0 bn on a y-o-y basis.
- Consequent to the lower tax outgo, the company posted PAT before exceptional items of Rs 8.9 bn vs Rs 6.1 bn in the corresponding quarter of the previous fiscal.
- The company reported positive cash flow from operations of Rs 3.9 bn in Q1FY18 vs Rs (-) 9.2 bn in Q4FY17.
- Gross borrowings (excluding the financial services vertical) increased to Rs 339 bn in Q1FY18 vs Rs 309 bn in Q4FY17. There has been an increase in D/E ratio. However, on the positive side, there has been a net reduction in working capital to 20% of sales vs 23% on a y-o-y basis.

Divisional performance

Infrastructure

- Revenue growth was healthy during this quarter led by improved execution of transportation and infrastructure segments. The execution was strong in the domestic market, which is a positive as there have been sustained execution headwinds in the past quarters.
- EBITDA margins in the quarter (8.1%, down 110 bps y-o-y) were impacted due to job mix and cost overruns on extended stay in a few projects.

Power

- The segment reported revenue modest growth of 2% y-o-y which was mainly due to weak order book.
- EBITDA margins were weak at 1.3% in the quarter, mainly due to sub-optimal utilization of assets in view of the weak order book and highly competitive market.

Heavy Engineering Segment

- This division reported a revenue contraction of 7% yoy due to weak order book.
- EBITDA margins rose to 15.9% vs 14.9% on a y-o-y basis.

- Profitability in the Forgings business continued to remain weak on account under-utilisation of capacity. This segment includes the contribution of the Forgings business but consolidation is done at PAT level in the P&L as per the equity method.

Electrical & Automation (E&A) Segment

- This segment reported impressive growth of 21% y-o-y, which was mainly attributed to higher offtake from industrial and agriculture sectors. The growth was partly aided by inventory destocking in the first quarter.
- EBITDA margins expanded 250 bps y-o-y to 10.3%, attributed to higher operational efficiencies.

Hydrocarbon division reported robust revenue growth and minor profits

- Segment posted good revenue growth of 19% yoy for the quarter aided by improved execution of existing order book.
- The segment reported EBITDA margin of 6.8%, gain of 400 bps y-o-y, which was driven by execution progress, operational efficiency and close out of legacy jobs.

IT & Technology Services Segment

- This segment reported 8% yoy growth in revenue driven by BFS, Energy & Utilities and CPG, Retail & Pharma verticals.
- Segment EBITDA Margins contracted 40 bps y-o-y to 21.5%.
- The company continues to focus on better manpower utilization, favourable currency movement, and operational excellence

"Others" segment

- This segment includes various products/business like Construction Equipment, Industrial Valves, Shipping as well as Realty business.
- Revenues declined marginally on a yoy basis mainly due to lower real estate sales.
- Realty business revenue declined due to completion of first phase of projects at Powai and Parel. The clearances are yet to materialize for second phase of projects at Powai, Parel and Bengaluru. This is impacting sales growth in the current fiscal from the real estate projects.
- The segment reported minor expansion in EBITDA margins to 2.2% due to improved performance of the shipbuilding division.

Development projects Segment

- This segment includes Power Development, Port and Hyderabad Metro. The segment reported quarterly revenue contraction of 28% y-o-y mainly on account of slower construction progress in Hyderabad Metro and lower PLF in Nabha Power.
- The company reported quarterly EBITDA loss (4.1% margin) due to lower revenues and non-recognition of disputed revenues in Nabha Power.

Weak order intake due to decline in overseas orders

- Order inflows for the quarter stood at Rs 264 bn, down 10% on a y-o-y basis, mainly due to 40% decline in contribution from Middle East and other overseas geographies.
- Domestic order inflow rose 14% y-o-y in a challenging environment characterized by muted domestic capex and delay in awards.
- So far as outlook is concerned, the management indicated not seeing major improvement in domestic order finalization activity.

- Order backlog at Rs 2.6 trn, up marginally on a y-o-y with the domestic market accounting for 74% of order backlog.
- The company sees an order pipeline of Rs 6.0 trn. Some of the major orders in the pipeline include 1) Landing Platform Docks – Rs 200 bn, 2) Mumbai Transharbour – Rs 150 bn, 3) Bandra-Versova Sea Link – Rs 75 bn, 4) Mumbai Coastal Road 5) Mumbai-Nagpur Expressway – Rs 250 bn 6) Zojilla Tunnel – Rs 80 bn 7) Anti-submarine guns Rs 80-100 bn, 8) Artillery guns – Rs 65 bn.

Management guidance for FY18

- Maintained revenue growth guidance at 12%.
- EBITDA margin (excluding the services business comprising of Development business + IT&TS+Financial Services) guidance of 25 bps increase.
- Maintained growth in order intake guided at12-14% for FY18.
- Management commentary was mixed. The outlook on domestic private sector as well as in the MENA region is likely to remain subdued, the management opined. The management also indicated that despite the talk on several major investment programmes, the actual progress on the ground was discouraging.
- However, the company was positive on the defence business and expects to bag major orders in FY18. However, it avoided to hazard a guess on the timing of the orders like Landing Platform Docks due to the nature of the defence equipment ordering.
- Submarine orders, if received, will only happen in FY19 and likely to be delivered over a 5-6 year period.

Rating: Maintain Accumulate due to moderate upside

- On forward earnings basis, L&T is trading at 22.9x and 19.1x FY18 and FY19 earnings respectively.

We maintain ACCUMULATE on Larsen & Toubro Ltd with a price target of Rs.1274

- We value the stock at 21x FY19 earnings and arrive at a price target of Rs 1274 (unchanged).
- Due to moderate upside, we maintain "ACCUMULATE", thereby advising clients to buy on declines.

RESULT UPDATE

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NIIT LTD

PRICE: RS.102 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.110 **FY19E PE: 11.5X**

NIIT Ltd moved to Ind AS from this quarter due to which numbers are not strictly in line with the numbers reported earlier as per IndGAAP. On the restated numbers as per Ind AS revenues declined by about 1% sequentially and was flat on YoY basis. Revenue from focus area grew by 10% YoY. EBITDA margins came below our estimates at 7.8% down 100bps YoY. Margins within CLS business improved marginally to 15% despite transition cost whereas SNC margins had a sharp decline of 100bps YoY due to appreciation of rupee (25% of SNC revenue comes from China and EMEA). New programs like DigiNxt and StackRoute are tracking ahead of expectations. We remain optimistic on the future prospects of NIIT. NIIT has launched new programs in S&C business and added new clients in CLS, which should support future growth. Also, company reduced its net debt substantially to Rs.402mn down by Rs.902mn YoY. We await more clarity on growth prospects and the corresponding profitability in the Skills business as well as the on-line business, though. Our FY19E EPS stands at Rs.8.9 and our DCF-based PT stands revised to Rs.110 (Rs.102 earlier), based on FY19 earnings. We downgrade to ACCUMULATE due to recent run up in stock price.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	9,870	10,528	11,567
Growth (%)	-2.0	6.7	9.9
EBITDA	718	986	1,288
EBITDA margin (%)	7.3	9.4	11.1
PBT	56	481	807
PAT	(60)	374	662
Sh of pft - NIIT Tech	587	641	805
Net profit	527	1,015	1,467
EPS (Rs)	3.2	6.1	8.9
Growth (%)	(19.2)	92.6	44.6
CEPS (Rs)	6.0	8.7	11.7
Book value (Rs/share)	50.0	54.0	60.8
Dividend per share (Rs)	1.8	2.0	2.0
ROE (%)	(2.6)	13.4	17.9
ROCE (%)	3.9	12.8	17.6
Net cash (debt)	(439)	497	1,409
NW Capital (Days)	12.2	9.4	12.9
P/E (x)	32.0	16.6	11.5
P/BV (x)	2.0	1.9	1.7
EV/Sales (x)	1.8	1.6	1.3
EV/EBITDA (x)	24.1	16.6	12.0

Source: Company, Kotak Securities – Private Client Research

1QFY18 result update

(Rs mn)	1QFY18	4QFY17	QoQ (%)	4QFY16	YoY (%)
Income *	**2099**	**2113**	**-0.7**	**2100**	**0.0**
Expenditure	1936	1945		1916	
EBIDTA	**163**	**168**	**-3.0**	**184**	**-11.4**
Depreciation	102	109		119	
EBIT	**61**	**59**	**3.3**	**65**	**-6.1**
Interest	0	0		0	
Other Income	-11	12		-14	
PBT	**50**	**71**	**-29.7**	**51**	**-1.9**
Tax	46	22		14	
PAT	**4**	**49**		**37**	
Share of profit	241	152		169	
Adjusted PAT	245	201	21.9	206	18.7
E O items	0	0		0	
Shares (mns)	165.5	165.5		165.5	
EPS (Rs)	**1.5**	**1.2**		**1.2**	
EBIDTA (%)	7.8	8.0		8.8	
EBIT (%)	2.9	2.8		3.1	
Net Profit (%)	0.2	2.3		1.8	

Source: Company

Corporate learning Group (CLG) growth guidance maintained

On restated numbers as per IndAS revenues grew by 7% YoY in INR terms. EBITDA margins at 14.6% was flat YoY, despite having transition costs in the RECO (Real Estate Council of Ontario) deal where costs are being incurred whereas the revenues will start accruing later by mid FY21. Management maintains margin at 15% despite higher investments in RECO deal in coming quarters. NIIT added 2 new MTS clients during the quarter taking the total number to 36. Fresh order intake was at USD 20.6mn up 23% YoY with revenue visibility of USD 191mn as per IndAS.

CLG business update

Particulars	Q1FY17	Q4FY17	Q1FY18
Fresh order intake (US $mn)	16.70	37.20	20.60
Revenue Visibility (US $mn)	161.00	184.00	191.00
No of new customers added	2.00	2.00	2.00
No of MTS Clients	31.00	34.00	36.00

Source: Company

SNC margins impacted by rupee appreciation; growth from focused area muted

Skill and Careers (SNC) business declined by 8% YoY and EBITDA margins came in at 0.6%.Margins of SNC business were impacted due to rupee appreciation as about 25% of its revenue comes from China and other EMEA. Revenue grew by 1% in focused area and margins were at 5%. Training.com saw 600 paid registration during the quarter and revenue visibility increased by Rs.10mn to Rs.60 mn from previous quarter. Stackroute and Diginxt received overwhelming response and had enrollment at 3682 students. Company tied up with 10 universities during the quarter to provide Digital content as part of their curriculum which the management is quite optimistic about. For the quarter company reported revenues of about Rs.11mn and EBITDA loss of Rs.30mn. Company continues to focus on this business with IT and banking vertical remaining the key areas of focus. However traction in the banking segment was subdued with lower than expected enrolments during the quarter.

School business continues to decline on planned ramp down

School business which contributed about 11% of the total revenue declined by 12% YoY as Government business continues to ramp down. Growth in Go forward (IP led business) was healthy at 4% YoY. EBITDA margins declined sequentially by 200bp but remained flat YoY to 8%.Company continues to add private schools without incurring any capital expenditure for the same. Company is also looking to explore B2C space within this business.

School Learning Group

Particulars	1QFY17	4QFY17	1QFY18
Focused IP school Biz (%)	33.00	58.00	45.00
School added (No.)	139.00	392.00	157.00
Order in take (Rs mn)	106.00	213.00	87.00

Source : Company

Revenue break up

(Rs mn)	1QFY18
Skills & Career	741.00
Schools	263.00
Corporate	1095.00

Source: Company

Valuations and recommendation

We have tweaked our model to incorporate changes as per IndAS accounting. The initiatives taken by the new management have led to consistent improvement in revenue growth and earlier-than-expected benefits on margins. Our DCF – based TP to Rs.110 v/s Rs.102, to accommodate the changed near-term assumptions. We downgrade to ACCUMULATE, due to recent run up in the stock price.

Concerns

- A slower-than-expected recovery in the global economy could impact revenue growth of NIIT.
- Steep rupee appreciation v/s major global currencies may impact the financials of NIIT.

Bulk deals

Bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Qty of Shares	Avg Price
28-Jun	7NR	G R D Securities Limited	S	1,12,000	27.1
28-Jun	7NR	Manish Bhavanji Bheda	B	1,12,000	27.1
28-Jun	AMARJOTHI	Anil Kumar Goel	S	84,000	237.1
28-Jun	BRIDGESE	Dinesh Ghewar Chand Jain	S	24,692	11.3
28-Jun	BRIDGESE	Vedanshi Urvish Shah	B	35,701	11.2
28-Jun	CHEMTECH	Varun S Jhunjhunwala	B	80,000	16.2
28-Jun	CHLOGIST	Elara India Opportunities Fund Limited	B	14,00,000	23.0
28-Jun	CHLOGIST	Taru Lalitkumar Gandhi	S	15,00,000	23.0
28-Jun	DASL	Parikshit Mahatma	S	50,000	19.2
28-Jun	DWEKAM	Virendrakumar Jayantilal Patel	B	4,05,644	3.1
28-Jun	DWEKAM	Jayshriben Dhirendrakumar Maniar	S	9,12,192	3.1
28-Jun	FRANKLININD	Sayar S Bhandari	S	36,500	25.0
28-Jun	FRANKLININD	Prabhavatiben Natvarbhai Patliya	B	19,000	25.0
28-Jun	FRONTSEC	Sharad Jain	S	45,000	60.0
28-Jun	FRONTSEC	Ajai Chowdhry	B	50,000	60.0
28-Jun	HEMORGANIC	Amol Janu Gondal	S	26,023	16.5
28-Jun	JIGAR	Chandulal Raghavjibhai Patel	B	80,000	35.2
28-Jun	JIGAR	Dharaben Gordhanbhai Vaghasiya	B	48,000	36.0
28-Jun	JIGAR	Akg Investment Scenario Private Limited	S	36,000	34.0
28-Jun	METALCO	Khandelwal Galva Strips Private Limited	B	49,700	33.2
28-Jun	METALCO	Microne Tex Fab Private Limited	S	50,000	33.2
28-Jun	PANKAJPO	Garnet International Limited	B	3,55,187	7.1
28-Jun	PANKAJPO	Balram Chainrai	S	3,55,187	7.1
28-Jun	PRERINFRA	Shah Mittal Mukeshkumar	B	60,913	30.0
28-Jun	PRERINFRA	Vishal Mukesh Kumar Shah	S	70,006	30.0
28-Jun	RELSTRUCT	G R D Securities Limited	S	1,26,000	39.6
28-Jun	SRIND	Universal Cyber Infoway Private Limited	S	1,20,000	9.5
28-Jun	STARLITE	Bonanza Portfolio Limited	S	1,22,819	51.0
28-Jun	VEERENRGY	Aspire Emerging Fund	B	3,50,000	23.5
28-Jun	WOMENSNEXT	Nikhil Vora	S	22,000	53.2

Source: www.bseindia.com

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
HDFC	1,785	3.3	NA	7.9
Yes Bank	1,842	3.1	NA	8.6
Infosys	997	2.7	NA	5.6
Losers				
DRL	2,465	(5.9)	NA	1.6
Lupin Ltd	1,064	(4.2)	NA	2.3
Sun Pharma	551	(3.7)	NA	4.1

Source: Bloomberg

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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