



Economy News

- ▶ The defence ministry has finalised its roadmap for the selection of private sector companies for mega military production orders, with an elaborate procedure spelt out in a new policy to be unveiled this week. (ET)
- ▶ The new fiscal year began on a sour note for bank credit growth, which slipped to 4.32% in the fortnight to 28 April, much lower than the 63-year low level of 5.08% in fiscal 2017, the latest Reserve Bank of India (RBI) data showed. (Mint)
- ▶ Boosted by a surge in demand, India's 12 major ports saw cargo traffic increase by 6.27% to 55.75 million tonnes (MT) in April, the first month of the current fiscal. (Mint)
- ▶ India has for the first time ever signed a contract to import LPG from Iran as it looks at additional sources of cooking fuel to meet rising domestic demand. State-owned oil firms will import one very large gas carrier (VLGC), or 44,000 tonnes, per month for an initial six-month period, industry sources said. (ET)
- ▶ The government is expected to soon allow commercial release of three genetically modified (Bt) and indigenously developed varieties of cotton seed, for the first time. (BS)
- ▶ Banks can initiate loan recovery proceedings without waiting for an account to be formally classified as non-performing, as the latest amendments to banking rules allow for faster resolution of their bad debt problem, a senior government official said. (ET)

Corporate News

- ▶ Novelis, a wholly owned subsidiary of **Hindalco Industries**, sold a 50% stake in its Ulsan, South Korea facility to Kobe Steel for \$315 million, creating an equally owned joint venture with the Japanese producer of aluminium roll. The transaction is expected to close by September this year. (ET)
- ▶ **Century Textiles and Industries Ltd (CTIL)**, a part of the B.K. Birla Group, is in advanced talks to sell its paper business to JK Paper Ltd in a deal valuing the paper division at close to Rs50 bn by enterprise value, two people aware of the development said. (Mint)
- ▶ International Finance Corp. (IFC) is planning to invest as much as \$200 million in India's largest mortgage lender **Housing Development Finance Corp. Ltd (HDFC)**. (Mint)
- ▶ The Competition Commission of India (CCI) approved the merger between **Zee Entertainment Enterprises Ltd's** DTH platform **Dish TV** and Videocon d2h, the direct-to-home television arm of **Videocon Industries Ltd**. (Mint)
- ▶ **Bharti Airtel** said it was committing a capital expenditure of \$3 billion this financial year, of which \$500 million would be spent in Africa. (BS)
- ▶ **Claris Lifesciences**, which recently divested its stake in a joint venture, Otsuka Pharmaceutical India Pvt Ltd (OPIPL), might be looking at exiting the pharmaceutical business altogether. (BS)
- ▶ **Tata Motors** reported over 9 per cent decline in global sales in April at 73,691 units, including that of Jaguar Land Rover (JLR) vehicles. Sales of luxury brand Jaguar Land Rover grew 2.41 per cent to 41,923 units in April compared with 40,933 units in the same month of 2016. (ET)

Equity

	10 May 17	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	30,248	1.1	1.5	6.8
NIFTY Index	9,407	1.0	1.8	7.0
BANKEX Index	25,940	0.4	4.6	11.9
SPBSITIP Index	9,879	(0.4)	(1.8)	(1.9)
BSETCG INDEX	18,086	0.6	3.2	16.8
BSEOIL INDEX	14,395	0.8	2.0	9.9
CNXMcap Index	18,357	0.6	3.7	13.1
SPBSSIP Index	15,662	0.8	4.9	15.1
World Indices				
Dow Jones	20,943	(0.2)	1.4	3.3
Nasdaq	6,129	0.1	4.5	6.9
FTSE	7,385	0.6	0.3	1.7
NIKKEI	19,900	0.3	6.3	2.8
HANGSENG	25,015	0.5	4.5	6.8

Value traded (Rs cr)

	10 May 17	% Chg - Day
Cash BSE	3,438	(9.3)
Cash NSE	24,298	3.1
Derivatives	454,818	37.6

Net inflows (Rs cr)

	9 May 17	% Chg	MTD	YTD
FII	(581)	134	(1,396)	40,615
Mutual Fund	229	(81)	2,401	23,083

FII open interest (Rs cr)

	9 May 17	% Chg
FII Index Futures	17,172	6.2
FII Index Options	64,393	5.6
FII Stock Futures	70,831	1.5
FII Stock Options	5,636	7.4

Advances / Declines (BSE)

	10 May 17	A	B	T	Total	% total
Advances	195	648	91	934	58	
Declines	104	457	66	627	39	
Unchanged	-	29	12	41	3	

Commodity

	10 May 17	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	47.5	0.4	(11.0)	(11.7)
Gold (US\$/OZ)	1,220.5	0.3	(4.0)	(1.0)
Silver (US\$/OZ)	16.2	0.5	(11.1)	(9.4)

Debt / forex market

	10 May 17	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.9	6.9	6.8	6.9
Re/US\$	64.6	64.3	64.6	66.9

Sensex



RESULT UPDATE

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PETRONET LNG LTD (PLNG)**PRICE: Rs.436****TARGET PRICE: Rs.457****RECOMMENDATION: ACCUMULATE****FY19E P/E: 15.5x**

- **PLNG's Q4FY17 result is better than our and market expectations. The company has reported a PAT of Rs.4.7 bn (vs. our expectation of Rs.4.5 bn) up 92% yoy and 18% qoq (base effect), resulting in a quarterly EPS of Rs.6.3 and CEPS of Rs.7.6. The Board has recommended a dividend of Rs.5/share (as against Rs.2.5/share in FY16) and 1:1 bonus share.**
- **We expect LNG consumption to rise in India with lower customs duty, increasing government focus on pollution control and fuel economics. Additionally, there is a strong possibility of ban on furnace oil and petroleum coke in NCR, resulting in incremental demand on LNG.**
- **We expect FY18E earnings to be driven by acceleration in volume growth, supported by expansion. We are introducing FY19 estimates. At CMP, we believe that the stock is reasonably valued at 15.5x FY19E earnings. Considering the medium-term positive triggers, we revise our DCF based target price upward to Rs.457 (earlier Rs.412) including equity value of 26% stake in Dahej Port. However, we maintain ACCUMULATE rating on the stock.**

Summary table

(Rs mn)	FY17	FY18E	FY19E
Net Sales	249,627	294,531	320,097
Growth (%)	-8.0	18.0	8.7
EBIDTA	29,389	31,693	33,536
EBIDTA margin (%)	11.8	10.8	10.5
PBT	23,602	26,505	29,016
Net profit	17,057	19,084	20,892
EPS (Rs.)	22.7	25.4	27.9
Growth (%)	108.0	11.9	9.5
CEPS (Rs.)	27.7	30.9	33.7
BV (Rs./share)	107.9	126.2	145.6
DPS (Rs.)	5.00	6.00	7.00
ROE (%)	22.9	21.1	19.9
ROCE (%)	17.5	19.1	19.7
Net Cash (Debt)	7,635	24,659	37,771
NW Capital (Days)	11.8	12.3	13.2
EV/Sales (x)	1.4	1.1	1.0
EV/EBIDTA (x)	11.7	10.3	9.4
P/E (x)	19.0	17.0	15.5
P/BV (x)	4.01	3.43	2.97
P/CEPS (X)	15.7	14.0	12.8

Source: Company, Kotak Securities - Private Client Research

Key highlights

- In FY17, Dahej RLNG terminal operated at 106% capacity utilization (on expanded capacity of 15 mmtpa). In FY17, PLNG processed 728 TBTUs of LNG including Kochi (~26% yoy higher). Of this Dahej terminal alone processed 714 TBTUs as against 566 TBTUs in FY16 due to capacity expansion. In Q4FY17, Dahej terminal processed 177 TBTU of LNG and operated at around 92% of its average increased name plate capacity.
- **Kochi-Mangalore pipeline update:** In the concall, the management highlighted that three out of four spreads of Mangalore pipeline have been awarded. Hence, out of 440 kilometers of pipeline, nearly 330 Kms of pipeline has already been awarded. Balance 110 km is expected to be award by June/July'17. Further, PLNG is also starting work on the Bengaluru sector.
- PLNG has acquired 26 percent stake in LNG vessel Prachi with an investment of Rs.750 mn. This is PLNG's fourth investment in LNG vessel.
- **LNG price outlook:** Currently, spot LNG prices (~USD 5.5-6/mmbtu) are trading lower than long-term gas prices resulting in higher demand for spot LNG as against long-term gas. The company guided that with lower crude oil prices long-term LNG prices are expected to come down.

Results table

(Rs mn)	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
Net Sales	63,651	60,653	4.9	1.0
Total Expenditure	57,487	55,688	3.2	1.0
EBIDTA	6,163	4,965	24.1	1.5
Depreciation	1,016	800	27.0	0.7
EBIT	5,147	4,164	23.6	1.7
Other income	1,508	(26)		
Interest-net	469	535	(12.3)	(9.2)
PBT	6186	3603	71.7	21.4
Tax	1,478	1,150		
PAT	4,708	2,453	91.9	18.4
EPS (Rs)	6.3	3.3	91.9	18.4

Source: Company

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

Key developments

- **Dahej RLNG facility** - With the completion of Dahej RLNG expansion, the Gujarat plant capacity has increased by 50% to 15 mmtpa capacity. Dahej capacity was expanded in two tranches in Aug'16 and Sep'16. EPC contract for further expansion of Dahej terminal to 17.5 mmtpa has been awarded and work is under progress as scheduled. In Q4FY17, the Dahej terminal processed RLNG at 177 TBTUs, higher by 85% yoy but lower by 7% qoq.

We would like to highlight that full 15 mmtpa capacity is fully booked giving decent revenue visibility. Take or pay agreement is entered with GAIL (2.5 mmtpa), GSPC incremental (1.0 mmtpa), IOC (1.5 mmtpa), BPCL (1 mmtpa) and Torrent power (1 mmtpa). Post this expansion, the company is planning for further expansion of Dahej terminal from 15 mmtpa to 17.5 mmtpa with addition of one LNG storage tank and 2.5 mmtpa regasification facilities. The company has awarded one EPC contract for regasification facilities.

- **Kochi facility** - The company is currently supplying gas to two consumers - Fertilisers & Chemicals Travancore (FACT's fertilizer plant) and Kochi refinery.
- **New business initiatives** - PLNG has over the years gained extensive experience in LNG handling capabilities. Now, it is taking steps to develop a small scale LNG market in India. Some of the initiatives undertaken are as follows:
 - a) **PLNG to develop LNG bunkering:** PLNG and Inland waterways authority of India (IWAI) will work together to develop the operation of LNG barges on Ganga, National Waterway-1, by the end of 2018. With this India's inland waterways will switch from diesel to LNG bunkers, reducing carbon emissions without additional operating costs.
 - b) **LNG as automotive fuel:** For land transportation, PLNG plans to provide LNG as automotive fuel for heavy duty trucks by setting up LNG dispensing stations on major highways.
 - c) **LNG as marine fuel:** In relation to water transportation, the company plans to provide LNG as marine fuel to LNG powered inland waterway barges, especially for national waterway.
 - d) **LNG powered locomotive:** The Company is also in discussion with railway authorities to introduce LNG powered locomotive in India.
- **Overseas expansion** - PLNG is planning to spread its wings and is exploring possibility of setting up of LNG Terminal outside India and is in discussion with a few of our neighboring countries viz. Sri Lanka and Bangladesh.
- **4th LNG vessel:** PLNG has acquired 26 percent stake in LNG vessel Prachi with an investment of Rs.750 mn.

Result Analysis

- **Revenue and realization:** PLNG's revenue for Q4FY17 was at Rs.63.7 bn which is up 1% on sequential basis and 5% yoy. The average net realization (LNG sold and service provided) was up 9% qoq to Rs. 360 per mmbtu (-43% yoy). In Q4FY17, the Dahej terminal processed highest-ever quantity of RLNG at 177 TBTUs, higher by 85% yoy but down 7% qoq. In FY17, PLNG processed 728 TBTUs of LNG (~26% yoy higher) as against 580 TBTUs in FY16.
- **Raw material cost:** Raw material cost (RLNG) for Q4FY17 was at Rs.55.2 bn down 1% qoq due to fall in international LNG prices. Raw material as a percentage of sales has decreased 150 bps qoq to 86.8%.
- **Net-back (Net revenue less raw material cost):** Net-back for Q4FY17 was at Rs.8.4 bn up 14% qoq mainly on account of higher sales and lower raw material cost. However, per unit net back was up 23% qoq to Rs.47.6/mmbtu.

Quarterly financials

	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
Margin (%)				
EBITDA Margin	9.7	8.2	1.5	0.0
EBIT Margin	8.1	6.9	1.2	0.1
Adj PAT Margin	7.4	4.0	3.4	1.1
Other Income/PBT	24.4	(0.7)		
Tax/PBT	23.9	31.9	(0.3)	1.9
Expenses (Rs. Mn)				
Raw Material consumption (Incl. Forex				
loss or gain on RM)	55,220	54,927	1	(1)
Staff costs	181	188	(4)	(7)
Other Expenditure	2,086	573	264	80
Total	57,487	55,688	3.2	1.0
Expenses Ratio (%)				
RM/Sales	86.8	90.6	(3.8)	(1.5)
Employee Cost to Sales	0.28	0.31	(0.0)	(0.0)
Other Expenditure/Sales	3.28	0.94	2.3	1.44

Source: Company

- **Staff cost:** Employee cost decreased 7% qoq (base effect) and 4% yoy to Rs.181 mn.
- **Other expenditure** increased significantly 80% qoq and 264% yoy to Rs.2.086 bn due to expansion of Dahej terminal. Other expenditure as a percentage of sales increased 144 bps qoq and 230 bps yoy to 3.28%. We expect going ahead other expenses as a percentage of sales to reduce.
- **Operating profit (EBIDTA):** For Q4FY17, the operational profit increased 1.5% qoq to Rs.6.2 bn (+24% yoy). The company recorded EBIDTA margin of 9.7% increased 150 bps yoy but flat sequentially. Higher operating profit is supported by higher tariff.
- **Depreciation:** In Q4FY17, PLNG's depreciation cost has increased by 0.7% qoq and 27% yoy to Rs.1 bn. The company has capitalized Dahej phase-III and storage tanks.
- In Q4FY17, **finance cost** reduced 9.2% qoq to Rs.469 mn (-12% yoy). Earlier, PLNG has replaced its rupee loan of ~Rs 10.32 bn (average cost 11% annually) with lower cost unsecured bonds of Rs 10 bn (~9% annually) placed in the Indian market. Gross debt as on 31st March 2017 stands lower at Rs.23.3 bn. With strong operating cash flow, PLNG has partly paid off its debt.
- **PBT** for Q4FY17 was at Rs.6.2 bn up 21% on sequential basis and 72% yoy on account of higher operating income, lower interest cost and higher other income.
- **Income tax:** The Company paid tax of Rs.1.48 bn (at an average rate of 23.9% in Q4FY17 v/s 22% in Q3FY17). The company got tax benefits under Sec 80IA and investment allowance for Dahej expansion.
- **PAT** for Q4FY17 was at Rs.4.7 bn up 18% qoq on account of higher operating income, higher other income and partly due to base effect. The Company reported quarterly EPS of Rs.6.3 and CEPS of Rs.7.63.

We maintain ACCUMULATE on Petronet LNG with a price target of Rs.457

Valuation & Recommendation

We expect FY18E earnings to be driven by acceleration in volume growth, supported by expansion. We are introducing FY19 estimates. At CMP, we believe that the stock is reasonably valued at 15.5x FY19E earnings. Considering the medium-term positive triggers, we revise our target price upward to Rs.457 (earlier Rs.412) including equity value of 26% stake in Dahej Port. However, we maintain **ACCUMULATE** rating on the stock.

Company back ground

Petronet LNG is India's largest importer of liquefied natural gas (LNG) at its Dahej plant. It has expanded the Dahej capacity to 15 mmtpa.

PLNG has a firm supply contract with Qatar's RasGas for 8.5 mmtpa for which it has a back-to-back sales contract. It also imports LNG on a spot basis depending on its ability to market the same in domestic market.

Similarly, it also imports cargos on behalf of other importers for a fee. The company currently charges Rs 42.57 per MMBTU as regasification charges, which are set to go up 5% every year in January.

Petronet LNG terminal

Dahej terminal expansion from 10 to 15 mmtpa



LNG terminal at Kochi



Source: Company

Notes: LNG is natural gas in its highly compact liquid form. When natural gas is cooled to minus 260 degrees Fahrenheit (or minus 162 degrees Celsius), it is reduced to one six-hundredth of its original volume and becomes a clear, non-toxic liquid. LNG offers a safe and economical means for transporting natural gas over long distances to locations beyond the reach of pipelines. LNG is loaded on specialized ships and delivered to a regasification terminal where it is reheated, turned into gas and distributed to customers through a pipeline network.

Key Risk and Concerns:

- 1). Regulatory risk: Any capping of margins by PNGRB will negatively impact its earnings and growth. However, management has indicated that imported LNG does not fall under the preview of PNGRB.
- 2). Project execution risk.

RESULT UPDATE

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CARBORUNDUM UNIVERSAL LTD (CUMI)

PRICE: Rs.294
TARGET PRICE: Rs.338

RECOMMENDATION: BUY
FY19E P/E: 17.4x

CUMI reported Q4FY17 result in line with our estimates; management shared positive outlook across key product categories

We increase FY19 earnings estimate by 4.2% to factor in increased sales from value added products with superior realizations in domestic and international business. We roll forward our target price on FY19; value CUMI stock at 20x FY19 estimated earnings (23x FY18 earnings earlier) and move recommendation to 'BUY' from 'Accumulate' with revised price target of Rs 338 (Rs 305 earlier).

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	21,125	26,063	30,629
Growth (%)	8.7	23.4	17.5
EBITDA	3,540	4,822	5,819
EBITDA margin (%)	16.8	18.5	19.0
PBT	2428	3915	4849
Net profit	1,841	2,623	3,249
EPS (Rs)	8.8	13.6	16.9
Growth (%)	27.5	54.4	24.6
CEPS (Rs)	13.9	19.3	23.2
BV (Rs/share)	77.3	86.5	97.8
DPS (Rs)	2.3	3.8	4.9
ROE (%)	12.2	17.1	18.8
ROCE (%)	10.7	14.2	16.2
Net cash (debt)	(30)	317	701
NW Capital (Days)	105.7	97.4	101.2
EV/Sales (x)	2.6	2.1	1.8
EV/EBITDA (x)	16.1	11.8	9.8
P/E (x)	33.5	21.7	17.4
P/Cash Earnings (x)	21.1	15.2	12.7
P/BV (x)	3.8	3.4	3.0

Source: Company, Kotak Securities - Private Client Research

Consolidated Result

(Rs mn)	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Income from Operations	5599	5017	11.6	5273	6.2
Decrease/ (Increase) in stock	19	45		2	
Material consumed	1645	1470	11.9	1502	9.5
Purchase of traded goods	294	342		255	
Employee expenses	695	587	18.6	695	0.1
Power and fuel	667	519	28.3	684	(2.5)
Other expenses	1297	1175	10.3	1250	
Total Expenses	4616	4138	11.6	4387	5.2
EBITDA	983	879	11.8	886	10.9
Other income	13	60	(77.7)	67	(79.9)
Depreciation	248	216	15.2	243	2.2
EBIT	748	724	3.4	710	5.4
Finance cost	42	52	(19.8)	40	
Exceptional Items	0	0		0	
Foreign exchange dif expense	(60)	(44)		(77)	
PBT	646	627	3.0	592	9.1
Total tax	224	219	2.1	181	23.9
Minority Interest	(20)	(37)		(26)	
Share of profit/loss form associate	41	24		52	
PAT	444	395	12.3	437	1.4
Adjusted PAT	444	395	12.3	437	1.4
Other comprehensive income	0	198		113	
Total comprehensive income	444	593		550	
Adj. EPS (Rs)	2.4	2.1	12.3	2.3	1.4
EBITDA (%)	17.6	17.5		16.8	
Tax Rate (%)	34.6	34.9		30.5	
RM/Sales	35.0	37.0		33.4	

Source: Company, Kotak Securities - Private Client Research

Subsidiaries Result

(Rs mn)	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Income from Operations	1777	1542	15.2	1938	(8.3)
EBITDA	402	327	22.9	393	2.4
PAT	(11)	103		199	(105.7)
EBITDA%	22.6	21.2		20.3	

Source: Kotak Securities - Private Client Research

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Result Highlights

CUMI consolidated revenue stood at Rs 5.6 Bn in Q4FY17, up 11.6% YoY driven mainly by abrasives and ceramics divisions. Standalone revenue reported 10% YoY growth at Rs 3.8 Bn (8.8% YoY growth in FY17) on back of a/ market share gain in domestic abrasives market and b/ improved sales in industrial ceramics business. We note that earlier in Q3FY17 earnings call management highlighted that CUMI abrasives segment underperform the competition due to higher proportion of counter sales. However, we believe that the effect of demonetization in largely over and abrasives division could further benefit from increased momentum in the sales of coated abrasives. We believe that the company is well poised to benefit from recovery in infrastructure spending creating demand for company's products.

In international abrasives business, management maintained that the business environment is recovering at a reasonable pace, mainly in Russia, where CUMI is present through its subsidiary VAW. The abrasives part of Russian business has cut losses in FY17. We note that company has lost c.5000 MT in VAW in 1HFY17 due to issues related to power supply. Company has taken necessary step to restore power and management expects to make up for the lost volumes in FY18. Capacity utilization in VAW is fairly high and company has planned to expand capacity for thin wheeled and coated abrasives in Russia. Abrasives division reported, consolidated sales of Rs 2.6 Bn in Q4FY17 vis-à-vis Rs 2.3 Bn in Q4FY16. EBIT margins for abrasives segment stood at 10.6% in Q4FY17.

Segment reporting (Consolidated)

	Q4FY17	Q4FY16	YoY %	Q3FY17	QoQ
Segment Revenue (Rs mn)					
Abrasives	2631	2,377	10.7	2539.7	3.6
Ceramics	1324	1,111	19.2	1081	22.5
Electrominerals	1993	1,869	6.6	2000	(0.3)
Segment EBIT (Rs mn)					
Abrasives	279	239	16.9	287	(2.7)
Ceramics	209	162	29.2	163	27.8
Electrominerals	207	270	(23.3)	214	(3.2)
Segment Margins (%)					
Abrasives	10.6	10.0		11.3	
Ceramics	15.8	14.6		15.1	
Electrominerals	10.4	14.5		10.7	

Source: Company, Kotak Securities - Private Client Research

Ceramics business reported sales at Rs 1.3 Bn in Q4FY17(+19.2% YoY) in Q3FY17 at consolidated level, led by improved demand for value added/engineered ceramics. However project related part of ceramics business continues to remain challenging. Outlook for metalized cylinder (Metz) remains encouraging and volumes are expected to further improve in FY18. Commissioning of NTK plant (currently in setting up phase) would contribute to revenues from FY18 onwards. Management anticipates that the refractory business would also recover, being aided by successful shifting and commissioning of Thukela plant. EBIT margins improved to 15.8% in Q4FY17 against 14.6% in Q4FY16. We believe that with increased contribution from value added products, ceramics division would report further margin expansion going ahead (ceramics division reported 14% EBIT margin in FY17).

Electrominerals division (EMD), consolidated sales stood at c.Rs 2 Bn in Q4FY17 (+ 6.5% YoY). Demand for specialty products continues to remain strong in EMD division as well. With streamlining of operation in Russia (fixing power related issues) management expects significant ramp up in EMD business going ahead. CUMI has successfully shifted Thukela/Foskor plants in India and these businesses would start contributing from the current quarter itself (while fully realizing potential during the course of the current financial year).

Power & fuel costs, reported sharp rise at Rs 667 mn (+28.3% in Q4FY17) due to increase in power cost in Kerela. Consolidated EBITDA margins stood at 17.6% in the quarter. CUMI reported a forex loss of Rs 60 mn against loss of Rs 44 mn in Q4FY16. EBITDA margins in the quarter are primarily led by increased volumes in value added products and cost savings in the international subsidiaries.

Finance cost reduced to Rs 42 mn in Q4FY17 from Rs 52 mn in Q4FY16 on account of substantial reduction in debt (net debt reported at Rs 30 mn at the end of FY17 against Rs 1.2 Bn in FY16).

Valuation and Recommendation

We increase FY19 earnings estimate by 4.2% to factor in a/expected pickup in demand for key products and b/ increased sales from value added products with superior realizations.

**We recommend BUY on
Carborundum Universal Ltd
with a price target of
Rs.338**

We roll forward our target price on FY19; value CUMI stock at 20x FY19 estimated earnings (23x FY18 earnings earlier) and move recommendation to '**BUY**' from 'Accumulate' with revised price target of Rs 338 (Rs 305 earlier).

RESULT UPDATE

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ZEE ENTERTAINMENT ENTERPRISES LTD (ZEEL)

PRICE: Rs.516
TARGET PRICE: Rs.470

RECOMMENDATION: SELL
FY19E P/E: 25.5x

Zee Entertainment's operating financials are in line with our estimates, at the headline level. The results indicate that domestic advertising revenues are holding up better than our expectations, but also carry a warning of (potentially recurring) weakening in international revenues. Domestic subscription revenues, weaker than our estimates in this quarter, could also see significant pressures going forward (on the implementation of TRAI's tariff order). Net-net, while we continue to project healthy 14%/40% CAGR in EBITDA/EPS through FY17-FY19E, we recognize that ZEEL is likely to face considerable uncertainty in the quarters to come, particularly with regard to domestic subscription/ advertising revenue trade-off. We therefore see reason to opt for a conservative 23X FY19E PER multiple, on earnings that may turn out to be mere liner extrapolations for a potentially chaotic business environment. Maintain SELL, while we raise our price target to Rs 470 (Rs 400 earlier, as we roll-forward to FY19).

Summary table

(Rs mn)	FY17E	FY18E	FY19E
Sales	64,341	67,774	76,301
Growth (%)	10.7	5.3	12.6
EBITDA	19,269	21,184	24,996
EBITDA margin (%)	29.9	31.3	32.8
PBT	16,780	22,520	29,893
Adj. PAT	9,975	14,745	19,439
Adj. EPS	10.4	15.4	20.2
Growth (%)	16.7	47.9	31.8
CEPS (Rs)	11.3	16.3	21.1
BV (Rs/share)	75.6	86.4	100.6
Dividend / share (Rs)	2.7	3.8	5.1
ROE (%)	17.4	19.0	21.7
ROCE (%)	15.7	16.6	19.1
Net cash (debt)	22,358	33,987	48,342
NWCapital (Days)	88.7	91.1	84.9
P/E (x)	47.7	33.6	25.5
P/BV (x)	6.8	6.0	5.1
EV/Sales (x)	7.2	6.7	5.8
EV/EBITDA (x)	26.2	21.4	17.6

Source: Company, Kotak Securities - Private Client Research

Results Summary

Rs mn, FY Ends Mar	4QFY17	4QFY16	% chg y/y	3QFY17	% chg q/q
Income from operations	15,280	15,218	0.4	16,391	-6.8
Advertising Revenues	8,469	8,472	0.0	9,555	-11.4
Subscription Revenues	5,580	5,944	-6.1	5,935	-6.0
Other Sales	1,231	802	53.5	902	36.4
Expenses	10,593	11,109	-4.6	11,233	-5.7
Operating Cost	6,527	6,913	-5.6	7,035	-7.2
Employee Expenses	1,593	1,222	30.3	1,419	12.2
Advertising and Publicity	1,073	1,258	-14.6	1,049	2.3
Other Expenses	1,400	1,717	-18.4	1,731	-19.1
EBITDA	4,687	4,110	14.0	5,158	-9.1
Margin (%)	30.7	27.0		31.5	
Depreciation and Amortzn.	316	209	51.1	249	27.0
EBIT	4,371	3,900	12.1	4,909	-11.0
Other Income	549	375	46.4	525	4.7
Financial Expenses	1,122	1,333	-15.8	90	1143.6
Fair Value through P&L	-470	-835	-43.7	714	-165.9
PBT	4,269	3,778	13.0	4,630	-7.8
Exceptional Item	12,234	0	NM	0	NM
PBT after exceptional items	16,503	3,778	336.8	4,630	256.5
Tax	1,464	1,573	-6.9	2,081	-29.6
Net Profit for the period	15,039	2,205	582.1	2,549	490.0
Associate/ Minority	103	60	71.1	-41	-351.7
PAT after Minority/ Associate	15,142	2,265	568.5	2,508	503.8
Other Comprehensive Income	-1,031	-97	959.3	101	-1122.5
Total Comprehensive Income	14,112	2,168	550.9	2,609	440.9

Source: Company Reports

Zee Entertainment's 4QFY17 financials, at the headline level, have come in broadly in line with estimates. Revenues registered 0.4% y/y growth, modestly below estimates. Advertising revenues were flat in the quarter, and subscription revenues registered 6% y/y decline - we note that the financials carry the impact of sale of sports business of the company, and are not strictly comparable on a y/y basis. Both advertising and subscription revenues came in below our estimates. However, other sales registered significant growth in the quarter, offsetting misses on the advertising and subscription income lines.

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Advertising revenues of the company were adversely impacted by sharp decline in international advertising revenues, while domestic advertising revenues grew 8.1%, despite the sale of sports business in the quarter. Ex-international, ex-sports, advertising revenue growth in the quarter was 8.6% - ahead of our estimates. International advertising revenues were impacted by two significant factors - weak economic conditions in the Middle-East as well as certain regulatory changes in Bangladesh. Although the management refused to provide any guidance about revenue growth in international operations, it appears to us that a lot of the weakness witnessed in the quarter is likely to be recurring in nature.

Subscription revenues registered a decline, apart from the exclusion of sports for a month, due to: a/ lumpy subscription revenues in 4QFY16, and b/ due to decline in international subscription revenues, which have also suffered on some disturbances.

Other sales, which largely constitute revenues from syndications, movies, and live events, registered a sharp rise in the quarter.

Operating expenses declined on expected lines, due to lower expenses on sports (consolidation for two months, and higher costs of two events held last year). Employee expenses rose sequentially on incentive payouts. Advertising and publicity expenses came in lower than our expectations, and aided a modest beat on the EBITDA line. Growth in PBT is lower than our estimates, on higher expensing of investments.

The first phase of sale of sports business to Sony Pictures Network has been completed and \$330 mn has been received during the quarter, which drives the exceptional items. The company's release indicates that ZEEL shall look to utilize these funds to extinguish its preference share liability.

Following are highlights from the comments made by the management during the conference call: a/ the adverse impact of demonetization is largely behind, in so far as advertising expense by companies is concerned. TV industry advertising revenues shall likely register low teen growth in the coming year, b/ the company refrained from providing guidance on subscription revenue, given uncertainties relating with the tariff order; management however said that assuming rationality from industry players, domestic subscription revenues could see mid-teens/ high teens growth c/ the company shall aim to maintain EBITDA margin of over 30% in the coming years, and depending on the phasing of investments, the company could see higher margins in the nearer - term (roughly to the extent of 300-400 bps), d/ the company is raising investments in content, including movies for its library, movie production, digital, and music, e/ on the impact of the (acquired) RBN channels, the management believes that (while these brought in substantial losses earlier), the impact of these on EBITDA shall be positive from the very first year.

Outlook and Investment View

To summarize our assessment of the company's business situation vis-à-vis our last update: a/ the company's domestic advertising revenues are holding up better than our prior expectations, given the weakness that the company's flagship Hindi GEC has seen. We believe this outperformance (relative to our expectations) is a result of the strength that the company's regional channels (especially Marathi and Tamil) have shown. b/ unexpectedly, international revenues of the company have crashed in the quarter. International revenue stream of the company, along with its strong domestic subscription revenue stream, is what separates ZEEL from relative new-comers (such as Viacom18) in so far as profitability is concerned. The sharp decline in international revenues witnessed in the quarter shall reduce the comfort investors have placed in the sustenance of ZEEL's dominance in international markets (note that ZEEL shores up about 60-65% of the international revenues generated by all Indian channels). c/ given that there is a significantly higher likelihood of the tariff order being implemented, the risks to ZEEL's business model could be fairly large. There is an incentive for compa-

nies (such as MSM, Viacom18) to consider business models that would be unthinkable for entrenched broadcasters (pure FTA, as an extreme example, in case that the company generates net subscription revenues that could be offset by higher advertising); accordingly, 'rationality' may have different meanings for different participants.

That said, we think the consensus is, for now, bound to favour a linear view of advertising and subscription revenues, and we think that the changes to ZEEL's (consensus) earnings estimates shall be modest (even) following the higher likelihood of sea-change in the distribution of TV channels. While the consensus earnings may not be wrong (our estimates are, in fact, c.4% ahead of consensus), we emphasize that there is a significant risk to these; implementation of the tariff order could lead to big changes in competitive intensity and could have implications for ZEEL's competitive positioning.

We maintain SELL on Zee Entertainment Enterprises Ltd with a price target of Rs.470

We estimate 5.3%/12.6% growth in sales for ZEEL in FY18/19 (the deceleration in FY18 is on account of sports business being in the base, and zero growth expected in international advertising revenues, and our belief that ZEEL is likely to register advertising revenue growth in line with the industry. We factor in 2.9 ppt expansion in margins through the forecast period, on absence of losses in sports business. Net profit is likely to be sharply higher as ZEEL has incurred significant losses on fair value through P/L, which is assumed to be zero going forward (adds ~Rs 2.5 to EPS estimates in FY18/19); further, there are benefits of higher other income. Our FY18 estimates have been cut 4% on lower expectations from international operations.

Thus, while EPS growth of the company is likely to be strong, we expect operating income to register relatively low growth, and we believe there could be significant downside risks to our estimates, due to which we see reason to exercise caution in valuation of the stock. We value the stock at 23X FY19E PER, or Rs 470 (up from Rs 400 earlier, as we roll-forward to FY19). Maintain **SELL**.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
10-May	AMRAFIN	Lts Investment Fund Ltd	B	69,600	58.7
10-May	BESTSTEEL	Mangal Savitri Bizcon Pvt Ltd	S	1,00,000	106.0
10-May	BRONZE	Vaghela Prakash Kantilal	B	25,980	5.0
10-May	GHUSHINE	Choice Equity Broking Pvt Ltd	B	30,000	15.2
10-May	GHUSHINE	Akshat Ashok Gupta	S	30,000	15.2
10-May	HILTON	Rajasthan Global Securities Pvt Ltd	B	88,900	22.0
10-May	HILTON	Rahn And Bodmer	S	1,83,803	22.0
10-May	IFL	Srk Tradelinks Pvt Ltd	B	18,000	13.0
10-May	KIRLFER	Pivotal Business Managers Llp	B	7,50,000	96.0
10-May	KOCL	Basant Marketing Pvt Ltd	S	2,81,060	3.0
10-May	LOOKS	Hirani Sagar Pravinbhai	B	2,10,600	16.1
10-May	LOOKS	Hemant Rajendrabhai Shah	S	1,01,227	16.1
10-May	LOOKS	Kiranbhai Shah Chandrikaben	S	70,500	15.9
10-May	MHEL	Sunil Devram Panchmatiya	S	24,000	20.0
10-May	MNIL	Mani Enterprise	B	48,000	98.3
10-May	NOVAPUB	Epoch Mercantiles Pvt Ltd	S	23,950	72.4
10-May	RADHEY	Amarjit Yadav	S	20,000	12.8
10-May	RADHEY	Anupama Choudhary	S	20,000	12.9
10-May	RADHEY	Linkup Financial Consu Pvt Ltd	S	20,001	12.8
10-May	RADHEY	Faithful Cloth Marchants Pvt Ltd	S	1,00,000	12.9
10-May	RADHEY	Swapnil Kashinath Kawli	B	42,550	12.8
10-May	RADHEY	Atulkumar Shantilal Shah	B	50,000	13.0
10-May	RADHEY	Sabiraben Azizbhai Ranpuri	B	25,000	12.8
10-May	RADHEY	Ajij Hasanali Ranpuri	B	25,000	12.8
10-May	RADHEY	Piyush Jayantilal Malade	B	20,000	12.8
10-May	RADHEY	Piyush Jentilal Malde	B	20,000	12.9
10-May	RELSTRUCT	Shweta Samirbhai Shah	B	96,000	30.0
10-May	RELSTRUCT	Swetsam Stock Holding Pvt Ltd	B	96,000	30.0
10-May	RELSTRUCT	Sagar Samir Shah	B	96,000	30.0
10-May	RELSTRUCT	Samir Rohitbhai Shah	B	96,000	30.1
10-May	RELSTRUCT	Alfa Fiscal Services Pvt Ltd	S	3,96,000	30.0
10-May	SAL	Thar Commercial Finance Pvt Ltd	S	1,25,228	38.4
10-May	SWISSGLA	Chander Mohan Bhatia .	S	32,008	171.9
10-May	VCU	Hirani Sagar Pravinbhai	B	1,98,945	17.0
10-May	VCU	Kiranbhai Shah Chandrikaben	S	1,49,500	17.0

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Bharti Airtel	373	8.0	NA	24.4
Hindustan Unilever	996	4.7	NA	2.9
Zee Entertainment	516	4.2	NA	5.7
Losers				
Tata Power	82	(1.9)	NA	5.9
Wipro	500	(1.8)	NA	0.8
Ultratech Cement	4,368	(1.5)	NA	0.2

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
11 May	Asian Paint, GPPL, HCL Tech, MT Educare earnings expected
12 May	Havells, Nestle India earnings expected

Source: www.Bseindia.com

RATING SCALE

Definitions of ratings

BUY	- We expect the stock to deliver more than 12% returns over the next 9 months
ACCUMULATE	- We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	- We expect the stock to deliver 0% - 5% returns over the next 9 months
SELL	- We expect the stock to deliver negative returns over the next 9 months
NR	- Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
RS	- Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	- Not Available or Not Applicable. The information is not available for display or is not applicable
NM	- Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	- Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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