Economy News

- With two weeks to go for the goods and services tax (GST) roll-out, the GST Council reduced the rates for 66 items and expanded the scope of the composition scheme for the benefit of small traders, manufacturers, and restaurateurs. The composition scheme is a presumptive taxation scheme allowing small traders, manufacturers and restaurants to pay a 1-5 per cent GST rate on sales without tax credits. (BS)
- Finance Minister will meet heads of public sector banks to discuss the issue of non-performing assets and the steps being taken by them to expedite the recovery of bad loans that have crossed Rs 6 trn. (BS).
- The Maharashtra government announced a loan waiver for farmers and decided to form a committee to decide the criteria of debt relief, after which cultivators called off their protests. (BS)

Corporate News

- **Aurobindo Pharma Limited** is hoping to receive three-four product approvals in the oncology space from the US Food and Drug Administration (US FDA) before March 2018. (BS)
- **Oil and Natural Gas Corp (ONGC)** is keen to acquire India's third-biggest fuel retailer **HPCL** in a Rs 422.54 bn deal after finding **Bharat Petroleum Corp Ltd (BPCL)** too expensive to buy. (BS)
- **Reliance Industries (RIL)** has commissioned its last crystallisation train of the para-xylene (PX) complex at Jamnagar. (ET)
- The mining disruption at the Surda copper mine will affect the state owned the **Hindustan Copper** for sometime. The India Resources Ltd (IRL), the mining contractor, terminated the contract to operate the mine with effect from June two. (FE)
- Muted coal demand and eroding profitability have forced **Coal India** to `production closure' of 37 loss-making underground mines in the current fiscal to save between Rs 8 - Rs 10 bn annually. (ET)
- **Tata Motors,** concluded a long-pending wage settlement agreement with its workers in Sanand, Gujarat, as it gears up for higher production in the state, with rising demand for hatchback Tiago and its sibling Tigor, which are produced out of the plant. (ET)
- **India Cements Ltd** is repositioning itself to meet modern-day requirements of the industry, with focus on market expansion, exports and specialty cements as key strategies based on its belief that the category has transformed from a commodity business into one driven by brand and quality. (BS)
- At a time when many state-run lenders are grappling with non-performing assets and looking to the government for support, the country's largest lender, the **State Bank of India,** has said that it will not need capital infusion from the Centre during this financial year or the next. (ET)
- **Maruti Suzuki,** is now bigger than the rest of the industry put together for the first time in over a decade. In the first two months (April & May) of the current financial year (FY17-18), the company sold 274,329 passenger vehicles (cars, vans and utility vehicles) in the domestic market, about 19,300 more than the 254,930 units sold by the rest of the industry players put together. (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

	9 Jun 17	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	31,262	0.2	3.6	8.0
NIFTY Index	9,668	0.2	2.8	8.2
BANKEX Index	26,820	0.5	4.3	13.5
SPBSITIP Index	10,101	(0.8)	0.8	(3.4)
BSETCG INDEX	17,703	0.1	(1.3)	14.7
BSEOIL INDEX	13,799	(0.2)	(3.3)	3.9
CNXMcap Index	17,994	0.5	(1.4)	10.5
SPBSSIP Index	15,549	0.5	0.1	14.3
World Indices				
Dow Jones	21,272	0.4	1.8	1.8
Nasdaq	6,208	(1.8)	1.4	5.9
FTSE	7,527	1.0	1.2	2.5
NIKKEI	20,013	0.5	0.3	1.7
HANGSENG	26,030	(0.1)	3.0	10.0

Value traded (Rs cr)

	9 Jun 17	% Chg - Day
Cash BSE	3,078	(58.4)
Cash NSE	22,334	(0.5)
Derivatives	NA	NA

Net inflows (Rs cr)

	7 Jun 17	% Chg	MTD	YTD
FII	2,073	2,220	9,957	50,548
Mutual Fund	(1)	(98)	10,473	31,154

FII open interest (Rs cr)

	7 Jun 17	% Chg
FII Index Futures	22,671	4.6
FII Index Options	64,453	3.5
FII Stock Futures	73,489	0.5
FII Stock Options	7,176	6.2

Advances / Declines (BSE)

9 Jun 17	A	B	T	Total	% total
Advances	160	567	58	785	100
Declines	137	570	48	755	96
Unchanged	1	26	9	36	5

Commodity

	9 Jun 17	% Chg 1 Day	1 Mth	3 Mths
Crude (US$/BBL)	46.1	0.5	(3.7)	(5.0)
Gold (US$/OZ)	1,267.9	(0.7)	3.3	5.5
Silver (US$/OZ)	17.2	(1.3)	4.6	1.5

Debt / forex market

	9 Jun 17	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.5	6.5	6.9	6.9
Re/US$	64.3	64.2	64.6	66.7

Sensex

COMPANY UPDATE

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MIRZA INTERNATIONAL

PRICE: RS.155 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.161 **FY19E P/E: 14.4x**

MIL management in Q4FY17 concall stated that company intends to double the revenue from domestic market in FY18 assuming strong contribution from new products and 20-25% growth in existing domestic brand business. The company has launched new products in sports segment and mid-range products under brand name Bondstreet. The management does not expect any major growth in exports business in FY18 due to challenging demand environment in Europe, challenges faced by retailers in US and European market, Rupee appreciation, etc. On overall basis, the management has guided for over 20% growth in FY18 revenue with 19-20% EBITDA margins. As per management, the ban on sale of cattle for slaughter at animal markets will not have any material impact on company's business as raw hides are sourced from organized slaughter houses who source cattles through agents. We are positive on long term growth story of the company based on increasing focus on domestic market with new products/brands introduced in recent time. We maintain our estimates and recommend Reduce (Vs Accumulate) rating as recent appreciation in stock price leaves limited upside over our target price of Rs 161.

Summary table (Standalone)

(Rs mn)	FY17	FY18E	FY19E
RRevenue	9357	11185	13173
Growth (%)	1.1	19.5	17.8
EBITDA	1605	2005	2507
EBITDA margin (%)	17.2	17.9	19.0
PBT	1064	1443	1934
PAT	712	966	1294
EPS	5.9	8.0	10.8
EPS Growth(%)	(9)	36	34
CEPS (Rs)	8	11	14
Book value (Rs/share)	42	49	57
Dividend per share (Rs)	0.9	1.2	1.6
ROE (%)	15.0	17.8	20.3
ROCE (%)	19.7	24.0	27.5
Net cash (debt)	(1424)	(1364)	(1288)
NW Capital (Days)	129	132	134
P/E (x)	26.2	19.3	14.4
P/BV (x)	3.7	3.2	2.7
EV/EBITDA (x)	12.5	10.0	8.0
EV/Sales (x)	2.1	1.8	1.5

Source: Company, Kotak Securities - Private Client Research

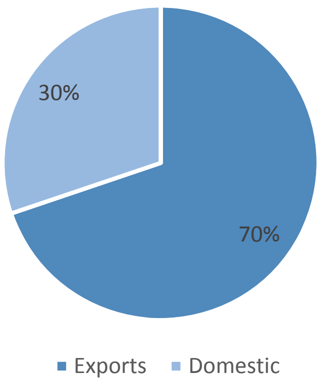
Targets to grow domestic business at 100% in FY18

- Domestic brand business witnessed 28% yoy growth in FY17 where the company is aggressively focusing on. This was driven by 21% yoy growth in domestic footwear segment and 52% yoy growth in apparel segment.
- The company targets to double its revenue of domestic brand business (Redtape existing+ Bondstreet + Redtape sports) in FY18. Further, it intends to double the revenue share of domestic business to 50% by FY20 from 25% in FY17.

Aiming for strong performance of new products in domestic market

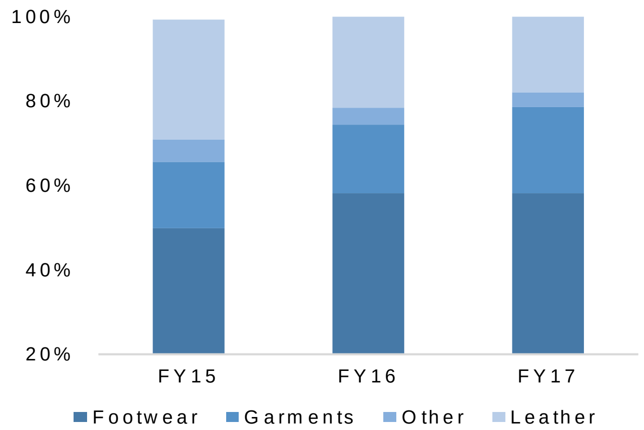
- MIL targets ~Rs 2 bn revenue from the new products (Bondstreet and Redtape sports in FY18).
- Bondstreet targeted at mid segment in price range of Rs 1500-1800 has got strong response post soft launch in October 2016. Bondstreet is made of polymer and is manufactured inhouse. The company expects ~1-1.2 mn pairs volume in FY18.
- Sports shoes launched in April 17 under brand name Redtape with price range of Rs 3700-4500 has also got good response. The company is importing the same from China and Vietnam. Redtape sports shoes are at par with Nike and Adidas in terms of quality and is available at 40-50% discount to their respective variants in Nike and Adidas. The company expects ~0.6-0.7 mn pair of volume in FY18.

Domestic exports breakup



Source: Company

Domestic breakup



Source: Company

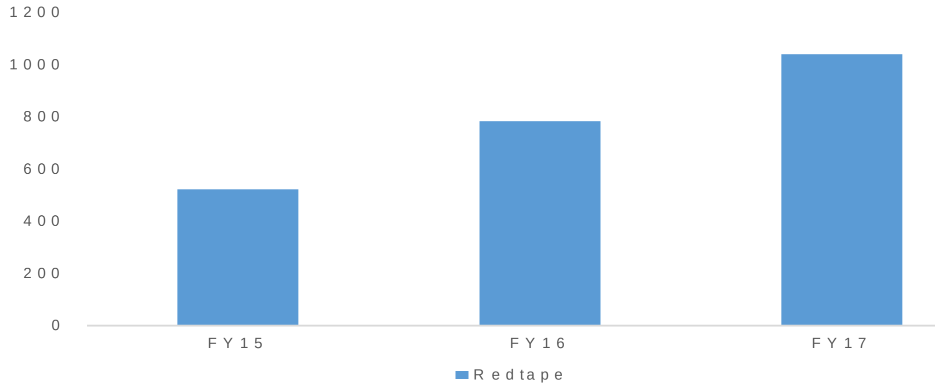
Raw material supply is not a challenge despite

- As per management, the ban on sale of cattle for slaughter at animal markets will not have any material impact on company's business. As per management, the ban would be applicable to animal supply to slaughter house through animal markets, which is a small portion of the total supply and major supply of animals to slaughter houses are through agents who source directly from the farmers.
- The company does not see any challenges due to closure of illegal slaughter house in UP as it sources raw materials from organized players.

Expect 0-5% growth in exports in FY18

- In FY17, MIL witnessed 5% yoy decline in overall exports segment, but witnessed strong performance in Redtape brand exports which grew by 33% yoy in FY17 due to strong performance of Redtape brand in UK. The white label business took a hit due to challenging demand environment in Europe, challenges faced by retailers in US and European market, Rupee appreciation, etc.
- The management do not expect any major growth in exports business in FY18 due to challenging demand environment in Europe, challenges faced by retailers in US and European market, Rupee appreciation, etc. The company targets for 0-5% revenue growth in exports business.

Performance of Redtape in International market



Source: Company

No major capex plan, Adopted 15-20% dividend payout

- The company has no major capex plan as it already has surplus capacity on tannery side. While in shoes, the company can meet its future growth with a small capex of not more than Rs 250-300 mn per annum as it has surplus land at its existing unit.
- The company has a low debt of Rs 1.5 bn and is expected to remain at current level as the working capital may inch up slightly to grow its new products.
- The company has announced its dividend policy where it has indicated for a dividend payout ratio in the range of 15-20%. In FY17, it announced a dividend of Rs 0.9 per share (Vs Rs 0.5 per share in FY16) which implies 15% payout.

Outlook and valuation

We recommend REDUCE on Mirza International with a price target of Rs.161

We are positive on long term growth story of the company based on increasing focus on domestic market with new products/brands introduced in recent time. Based on FY18E and FY19E EPS of Rs 8.0 and Rs 10.8, the stock is trading at PE of 19.3x and 14.4x respectively and is available at a discount to its peers in the footwear business. There is scope for re-rating in the stock, if domestic brand business ramps up further and becomes sizeable. We maintain our estimates and recommend **Reduce** (Vs Accumulate) rating as recent appreciation in stock price leaves limited upside over our target price of Rs 161 (based on 15x on FY19E EPS of Rs 10.8).

Company Update

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Petronet LNG Ltd (PLNG)

Price: Rs.432 **Recommendation: ACCUMULATE**
Target Price: Rs.462 **FY19E P/E: 14.5x**

Spot LNG prices continues to trade lower in a range of US$5.1 - 5.5/mmbtu due to large liquefaction plants coming up in Australia and US. Further, the long term LNG prices are expected to be lower due to supply glut. Needless to say, spot LNG prices may see short-term fluctuations due to seasonal demand. Softer LNG prices will continue to attract demand from various sectors and thus helping PLNG to perform, we opine. Any demand pick up from the power sector despite closure of Power System Development Fund (PSDF) scheme may contribute as incremental gas demand. Additionally, there is a strong possibility of ban on furnace oil and petroleum coke in NCR, resulting in incremental demand on LNG.

With GDF International, France (holding 10% stake) selling its stake in PLNG, the ongoing concern of selling pressure is behind us. 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.

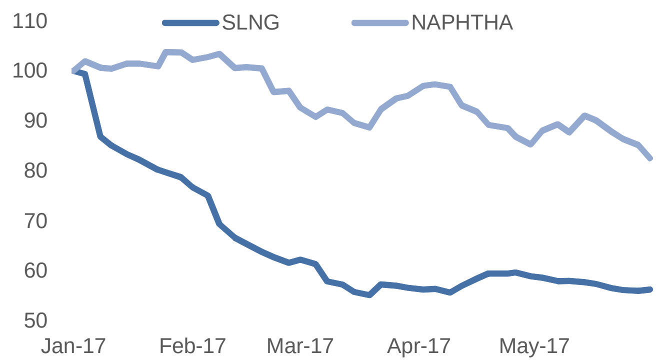
We expect FY18E earnings to be better driven by acceleration in volume growth, supported by expansion. We estimate FY18 EPS of Rs.26.9 and FY19 EPS of Rs.29.7. At CMP, we believe that the stock is reasonably valued at 14.5x FY19E earnings. The Board has recommended a dividend of Rs.5/share (as against Rs.2.5/share in FY16) and 1:1 bonus share. We have factored higher volumes led by higher spot LNG demand. Considering the medium-term positive triggers, we revise our DCF based target price upward to Rs.462 (earlier Rs.457) including equity value of 26% stake in Dahej Port. However, due to limited upside we maintain accumulate rating on the stock.

Summary table

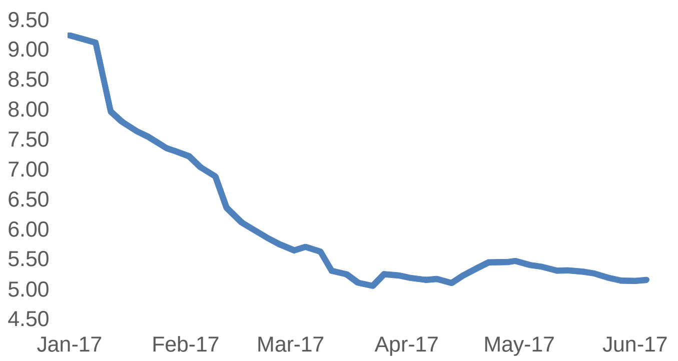
(Rs mn)	FY17	FY18E	FY19E
Net Sales	249,627	293,427	322,660
Growth (%)	-8	17.5	10
EBIDTA	29,389	33,187	35,418
EBIDTA margin (%)	11.8	11.3	11
PBT	23,602	28,040	30,939
Net profit	17,057	20,189	22,276
EPS (Rs)	22.7	26.9	29.7
Growth (%)	108	18.4	10.3
CEPS (Rs)	27.7	32.4	35.6
BV (Rs/share)	108	127	148
DPS (Rs)	5	6.5	7
ROE (%)	22.9	22.2	20.9
ROCE (%)	17.5	20.1	20.8
Net Cash (Debt)	7,635	25,674	39,768
NW Capital (Days)	11.8	12.4	13.3
EV/Sales (x)	1.4	1.1	1
EV/EBIDTA (x)	11.7	9.8	8.8
P/E (x)	19	16	14.5
P/BV (x)	4	3.4	2.91
P/CEPS (X)	15.6	13.3	12.1

Source: Company, Kotak Securities - Private Client Research

Spot LNG prices vs Naphtha



Spot LNG prices (US$/bbls)



Source:Bloomberg. Note: Chart is index

Key Risks and Concerns

- **Geo-political risk:** Any gas supply disruption from Qatar can have meaningful impact on the earnings. Though current situation is under control.
- Availability of LNG at reasonable prices on a long term basis has remained a key worry.
- **Regulatory risk: A**ny 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.
- Project execution risk.

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'17 and Sep'17. 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.

Petronet Gas Purchase, Sales Agreements

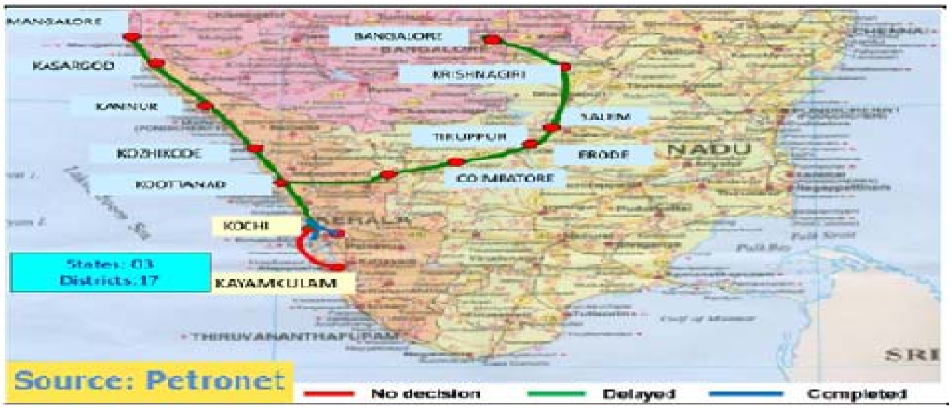
Petronet Gas Purchase, Sales Agreements	**MMTPA**
A). Petronet' s LNG procurement	
Ras Laffan (RasGas), Qatar	7.50
Gorgon LNG project, Exxon -mobil Australia	1.44
Balance: Spot/Short-term contract	6.70
B). Gas sale agreements - Take or pay agreement	6.0-7.0
Ras Laffan 7.5 mmtpa contract	
a). Gail	4.50
b). Indian oil	2.25
c). BPCL	0.75
Other contract	
d). Gujarat state petroleum corporation	1.25
e). Torrent Power	0.50
Dahej 5 mmtpa expansion	
f). Gujarat state petroleum corporation	1.00
g). Gail	2.50
h). Indian oil	1.50
i). BPCL	1.00
Total Gas sales agreements	**15.75**

Source: Company

We would like to highlight that 100% capacity is booked giving decent revenue visibility. 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-Mangalore pipeline update** - Petronet's Kochi terminal (5 mmtpa) continues to operate below 10% due to a lack of output pipelines to Bangalore and Mangalore. Currently, only 41 kms of the Kochi- Koottanad-Bangalore-Mangalore pipeline is operational, with 1,063 km under construction. BPCL's Kochi refinery is the terminal's only major customer, prompting Petronet to offer LNG storage, reloading and bunkering services to generate additional revenue. Petronet's long-term contract with Exxon Mobil calls for imports of 1.44 mmtpa of LNG. Of this, 0.5 mmtpa are expected to be consumed at the Kochi terminal, with the rest directed to the Dahej facility.

Gail India's Kochi-Mangalore Pipeline



Source: Bloomberg

Recently, three out of four spreads of Mangalore pipeline have 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 July'17. Further, PLNG is also starting work on the Bengaluru sector. The company is currently supplying gas to two consumers - Fertilisers & Chemicals Travancore (FACT's fertilizer plant) and BPCL's 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. Srilanka and Bangladesh.

- **4th LNG vessel:** PLNG has acquired 26 percent stake in LNG vessel Prachi with an investment of Rs.750 mn.

Key assumptions

- **RLNG volumes:** We expect meaningful ramp-up in Petronet's RLNG volumes to 833 TBTUs in FY18E, 910 TBTUs in FY19E versus 714 TBTUs in FY17 led by (1) completion of ongoing expansion project at Dahej terminal, and (2) gradual increase in utilization of Kochi terminal.

Valuation & Recommendation

We maintain ACCUMULATE on Petronet LNG Ltd with a price target of Rs.462

We expect FY18E earnings to be better driven by acceleration in volume growth, supported by expansion. We estimate FY18 EPS of Rs.26.9 and FY19 EPS of Rs.29.7. At CMP, we believe that the stock is reasonably valued at 14.5x FY19E earnings. The Board has recommended a dividend of Rs.5/share (as against Rs.2.5/share in FY16) and 1:1 bonus share. We have factored higher volumes led by higher spot LNG demand. Considering the medium-term positive triggers, we revise our DCF based target price upward to Rs.462 (earlier Rs.457) including equity value of 26% stake in Dahej Port. However, due to limited upside 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:

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 Celcius), 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 regas- sification terminal where it is reheated, turned into gas and distributed to customers through a pipeline network.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
9-Jun	ARAMBHAN	GARNET INTERNATIONAL LIMITED	S	700,000	47.5
9-Jun	ARAMBHAN	MANGAL SAVITRI BIZCON PR LTD	B	705,000	47.49
9-Jun	GULFOILLUB	LOCAL GOVT SUPERANNUATION SCH	S	878,574	810
9-Jun	GULFOILLUB	MORGAN STANLEY INVEST INDIAN EQ F	B	878,574	810
9-Jun	PRIME	ULLAS GIRISHBHAI SHAH	S	18,000	76.35
9-Jun	RCIIND	DINESH SHAH	S	69,203	180.39
9-Jun	RCIIND	DINESH SHAH	B	69,687	180.47
9-Jun	REFNOL	FOUR SESSION	S	19,500	38
9-Jun	REFNOL	RAJENDRA KUMAR SANCHETI	B	19,500	38
9-Jun	SHETR	SALASAR STOCK BROKING LIMITED	B	100,000	55.66
9-Jun	SINCLAIR	ADITYA DEORAH	B	30,000	313.1
9-Jun	SINCLAIR	XTENDED BUSINESS REPORTING LTD	B	30,000	308
9-Jun	SINCLAIR	XANDER INVESTMENT HOLDING X LTD	S	872,953	308.93
9-Jun	SINCLAIR	SANIDHYA MITTAL	B	50,000	305
9-Jun	SINCLAIR	RAJESH MITTAL	B	50,000	305
9-Jun	SINCLAIR	KARUNA MITTAL	B	50,000	305
9-Jun	SINCLAIR	JAYA HARSHAD BHATT	B	40,000	309.53
9-Jun	SINCLAIR	CRONY VYAPAR PVT LTD	B	29,994	308.32
9-Jun	SITINET	ESSEL INTERNATIONAL LIMITED	S	17,013,828	28.35
9-Jun	SITINET	DIGITAL SATELLITE HOLDINGS P LTD	B	17,013,828	28.35
9-Jun	UNIABEXAL	DHIREN SHEVANTILAL SHAH	S	10,000	334

Source: Bseindia.com

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
VEDANTA LTD	245	4.4	(0.0)	21.0
MARUTI SUZUK	7,465	3.0	(0.0)	1.1
HINDALCO IND	202	1.9	(0.0)	9.1
Losers				
TECH MAHINDR	387	(2.7)	(0.0)	2.79
GAIL INDIA L	381	(1.9)	(0.0)	3.25
ITC LTD	306	(1.8)	(0.0)	10.07

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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