MORNING INSIGHT

kotak Securities

PRIVATE CLIENT RESEARCH

MAY 22, 2017

Economy News

- Opec and other oil producers are on course to agree an extension of supply cuts at a meeting on Thursday, with Saudi Arabia saying most participants are on board with the plan to rein in a global supply glut. (BS)
- India will soon bar Chinese power companies from projects in the power sector on security concerns after a policy that will define new conditions for foreign firms eyeing the multibillion-dollar market in one of the fastest growing major economies in the world.
- A formal office memorandum, expected in a month. (ET)
- After having fixed the rates of the goods and services tax (GST) on almost all commodities and services, the powerful federal tax body GST Council is trying to ensure that businesses pass on any tax reduction benefit to consumers when the new indirect tax regime comes into force on 1 July. (Mint)
- Aircraft leasing costs will go up with the introduction of five per cent levy under the goods and service tax (GST). At present, cross-border aircraft leases carried out by scheduled airlines are not subject to Customs duty, central excise and value-added tax (VAT). (BS)

Corporate News

- The Delhi Airport Metro Express Private Limited (DAMEPL), a subsidiary of **Reliance Infrastructure,** petitioned the Delhi High Court for early payment of the arbitration award it has won against the DMRC. Last week, the RInfra-promoted DAMEPL was awarded total compensation of Rs 46.7 Bn by a three-member Arbitral Tribunal in an unanimous decision against the DMRC. (BS)
- The **NTPC** may be mandated to meet its entire auxiliary power requirement through domestically manufactured solar equipment. Auxiliary power is used by NTPC to run its thermal plants. This power is consumed during plant start-ups and shutdowns, operation of plant machinery. (BL)
- **Natco Pharma** has received environment clearance (EC) for its Rs 480-crore expansion project in Telangana that would generate 1,500 jobs. The proposal is to increase the production capacity of 66 Active Pharmaceutical Ingredients (APIs) and API intermediates at a time with research and development activity from 115.5 tonnes per annum (TPA) to 645 TPA. (BL)
- **Zuari Agro Chemicals** board has approved revamp of its ammonia-urea plants at a cost of Rs 13 Bn. Zuari Agro Chemicals has an integrated facility in Goa with an annual installed capacity of 9,46,000 tonnes of fertilisers. (BS)
- With an objective to enhance the value chain of petroleum products, **Bharat Petroleum Corporation Limited (BPCL)** is replacing the old 30-inch crude pipeline with 20-inch insulated pipeline from South Tanker Berth Jetty to Kochi Refinery. (BS)
- Oil Ministry may block any attempt by state-owned GAIL, IOC, ONGC and BPCL to buy 10 per cent stake of France's GDF International in **Petronet LNG Ltd** as it is keen to keep the liquefied natural gas importer a private limited company. (BS)
- **Motherson Sumi Systems Ltd (MSSL)** has lined up capital expenditure (capex) of Rs20 Bn for the current fiscal, mainly on the upcoming nine plants in five countries including India. (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

		% Chg		
	19 May 17	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	30,465	0.1	3.7	5.5
NIFTY Index	9,428	(0.0)	3.4	5.6
BANKEX Index	25,859	0.4	5.8	8.6
SPBSITIP Index	10,117	(0.7)	4.5	(0.9)
BSETCG INDEX	17,670	(0.2)	1.3	15.5
BSEOIL INDEX	14,034	(0.8)	(1.8)	2.7
CNXMcap Index	17,921	(0.6)	0.7	9.6
SPBSSIP Index	15,227	(0.9)	0.4	12.2
World Indices				
Dow Jones	20,805	0.7	1.3	0.1
Nasdaq	6,084	0.5	2.9	3.8
FTSE	7,471	0.5	5.0	2.3
NIKKEI	19,591	0.2	5.6	1.5
HANGSENG	25,175	0.2	5.5	4.8

Value traded (Rs cr)

	19 May 17	% Chg - Day
Cash BSE	3,895	(0.5)
Cash NSE	29,194	3.6
Derivatives	646,479	(25.3)

Net inflows (Rs cr)

	18 May 17	% Chg	MTD	YTD
FII	360	(69)	4,911	46,923
Mutual Fund	230	(178)	2,591	23,273

FII open interest (Rs cr)

	18 May 17	% Chg
FII Index Futures	18,218	(3.0)
FII Index Options	73,266	0.9
FII Stock Futures	72,228	(0.8)
FII Stock Options	7,903	1.7

Advances / Declines (BSE)

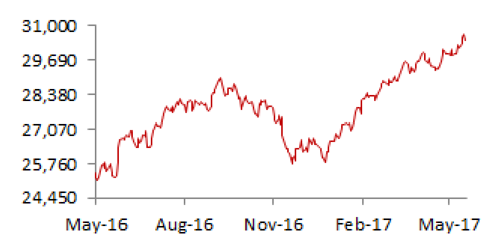
19 May 17	A	B	T	Total	% total
Advances	96	294	53	443	28
Declines	202	808	102	1,112	70
Unchanged	3	18	18	39	2

Commodity

		% Chg		
	19 May 17	1 Day	1 Mth	3 Mths
Crude (US$/BBL)	50.9	1.0	2.5	(5.1)
Gold (US$/OZ)	1,252.0	(0.2)	(2.6)	1.6
Silver (US$/OZ)	16.8	0.5	(5.9)	(6.4)

Debt / forex market

	19 May 17	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.71	6.677	6.856	6.852
Re/US$	64.6	64.8	64.6	66.9



RESULT UPDATE

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DB CORP

PRICE: RS.369 **RECOMMENDATION: BUY PER**
TARGET PRICE: RS.572 **FY19E P/E: 11.7x**

DB Corp's results missed estimates modestly, as circulation revenues came in below estimates. Advertising revenues, flattish in the quarter, have likely remained below trend in April (weakness in real-estate being the key factor); however, the management expressed confidence about low-teens growth in advertising revenues for the full-year (favourable base of 2HFY17). We continue to forecast strong growth over FY17-FY19E on the back of recovery post demonetization/ positive impact of "election supercycle" that DB Corp shall begin to experience, starting 3QFY18. Maintain BUY, with a price target of Rs 572 (unchanged).

Summary table

(Rs mn)	FY17E	FY18E	FY19E
Sales	22,580	24,846	28,491
Growth (%)	10.0	10.0	14.7
EBITDA	6,422	7,457	9,594
EBITDA margin (%)	28.4	30.0	33.7
PBT	5,655	6,744	9,027
Net profit	3,748	4,350	5,823
EPS (Rs)	20.4	23.7	31.7
Growth (%)	24.2	16.0	33.9
CEPS (Rs)	25.1	28.6	36.8
Book value (Rs/share)	82.4	92.8	106.8
Dividend per share (Rs)	9.5	11.0	14.7
ROE (%)	24.7	25.5	29.6
ROCE (%)	23.1	23.9	28.1
Net cash (debt)	1,265	3,170	5,609
NWC (Days)	24	25	27
VALUATION PARAMETERS			
P/E (x)	18.1	15.6	11.7
P/BV (x)	4.5	4.0	3.5
EV/Sales (x)	2.9	2.6	2.2
EV/EBITDA (x)	10.4	8.7	6.5

Source: Company, Kotak Securities - Private Client Research

Results Summary

Rs mn, FY Ends Mar	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Revenues:	5097	5703	5286	6273	5171
- o/w Advertising	3600	4136	3740	4530	3567
- o/w Circulation	1136	1176	1179	1243	1217
-o/w Other	361	391	367	500	387
Expenses:					
-Raw Material Expenses	1580	1600	1634	1769	1606
(Driver) : NP Prices (Rs/ MT)	33645	33979	34750	35358	35887
(Driver): NP Quantity (MT)	46970	47074	47029	50027	44752
Growth, Raw Material Expenses	4%	10%	9%	6%	2%
-Personnel Expenses	995	1064	1072	1085	1059
-Operating Expenses	1363	1218	1067	1436	1384
EBITDA	1159	1821	1513	1982	1122
Margin	22.7%	31.9%	28.6%	31.6%	21.7%
Depreciation	216	211	216	218	218
Interest Expenses	30	34	6	30	5
Other Income	52	42	42	36	51
PBT	965	1619	1335	1771	951
Provision for Tax	361	568	440	590	309
Effective Tax Rate	37.4%	35.1%	33.0%	33.3%	32.5%
PAT (bef. Minority/ Assoc.)	604	1050	894	1181	642

Source: Copmany Reports

- DB Corp's 4QFY17 revenues missed estimates modestly, as circulation revenues came in below estimates. The company reported 1% decline in advertising revenues, on expected lines, as effects of demonetization continued to linger, and RERA had an additional negative impact on real - estate advertising. In the quarter, the company saw categories such as education performing well, while real-estate, FMCGs, performed poorly. Circulation revenues growth came in largely through yield growth.
- Raw material prices increased only modestly even as newsprint prices rose 6%, as volume growth was weak; the company also reduced its pagination and paper grammage in the quarter to establish better control on newsprint costs.
- Personnel and other expenses were largley in line with estimates. We note that the company's cost initiatives have started out in this quarter; the coming quarters are likely to see further attempts in cost rationalization across the board.
- Reported EBITDA, down 3% y/y, came in 5% below estimates on account of

lower circulation revenues. Reported PAT, up 6% y/y, was 3% below estimates, as higher other income partly offset miss on EBITDA.

- The board did not declare a final dividend in the quarter. On the conference call, the management indicated that the board would like to review other efficient ways to return cash to shareholders.

Outlook and Investment View

- The management indicated that advertising expenditures are still lagging behind the trend that one witnessed pre-demonetization. In the real estate sector, the management indicated that normalcy would return only gradually, with some regulatory help. Even so, the management said that for FY18 as a whole, advertising revenue growth shall likely be similar to what was witnessed in the pre-demonetization period (since 2HFY17, a washout, would provide a low base for growth). Circulation revenue growth is likely to be contained to higher single digits.

- We agree with the management's assessment of advertising revenue growth for the company. In addition to the low-base, the company shall also benefit from the elections in the state of Gujarat (~20% of the company's circulation). Circulation revenue growth forecast of the management is incrementally a negative for our estimates.

- However, we believe the company shall have adequate cost drivers to compensate for weaker circulation revenue growth. We make changes to our revenue/ cost assumptions, but our earnings estimates are largely maintained for FY19.

- Print media companies have, over the recent past, suffered from a lack of a metric of readership. In this context, we note that IRS data is likely to come in by the end of CY2017/ beginning of 2018. We expect that, given circulation initiatives taken by the copmany over the past two years, the data shall be a positive for DB Corp.

- We are constructive on the management's comments about exploring other means to return cash to shareholders. At the present point, we believe there is a lot of irrational anxiety about newspaper publishers which has depressed valuations; as such, there is a case for exploring options.

We recommend BUY on DB Corp with a price target of Rs.572

- We continue to have a positive stance on DB Corp, as we think: a/ DB Corp has a diversified geographical presence as also a focus on the urban markets within, b/ within the newspaper publisher space, we find DB Corp's disclosures are superior to other entities, c/ DB Corp is all set to benefit from an "election supercycle, which starts with the Gujarat election (Dec, 2017), and peaks out in FY19; in this context, street estimates underestimate the earnings of the company.

RESULT UPDATE

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HINDUSTAN MEDIA VENTURES LTD. (HMVL)

PRICE: RS.277 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.307 **P/E FY19E:9.9X**

HMVL's 4QFY17 results have come in below estimates. Going forward, we see some risks to the company's margins from circulation growth initiatives likely in Uttar Pradesh. We are also wary about cash utilization. We value the stock at 11X FY19E PER (discount versus DB Corp is justified on higher non-operating income, in addition with the risks associated with cash usage). We downgrade the stock to ACCUMULATE (BUY earlier).

Summary table

(Rs mn)	FY17E	FY18E	FY19E
Sales	9,333	10,214	11,116
Growth (%)	1.6	9.4	8.8
EBITDA	2,055	2,110	2,336
EBITDA margin (%)	22.0	20.7	21.0
PBT	2,612	2,570	2,851
PAT	1,936	1,850	2,053
EPS	26.4	25.2	28.0
Growth (%)	7.2	-4.4	11.0
CEPS (Rs)	29.1	28.7	32.7
Book value (Rs/share)	148.8	172.6	199.1
Dividend per share (Rs)	1.2	1.2	2.2
ROE (%)	19.4	15.7	15.0
ROCE (%)	20.2	16.5	15.9
Net cash (debt)	2,299	3,986	5,962
NWC (Days)	10.2	10.0	9.9
VALUATION PARAMETERS			
P/E (x)	10.5	11.0	9.9
P/BV (x)	1.9	1.6	1.4
EV/Sales (x)	1.9	1.6	1.3
EV/EBITDA (x)	8.8	7.7	6.2

Source: Company, Kotak Securities - Private Client Research

Results Sumary

Rs mn , FY Ends Mar	4QFY17	4QFY16	% chg y/y	3QFY17	% chg q/q
Revenues	2343	2272	3.1%	2303	1.7%
Advertising Revenues	1745	1694	3.0%	1688	3.4%
Circulation Revenues	552	523	5.5%	561	-1.6%
Other Operating Revenues	46	55	-16.2%	54	-14.7%
Raw Material Expenses	813	868	-6.3%	859	-5.3%
Personnel Expenses	248	329	-24.6%	64	286.2%
Other Expenses	709	552	28.4%	970	-27.0%
EBITDA	573	523	9.6%	409	40.0%
Margin	24.4%	23.0%		17.8%	
Depreciation	50	61	-17.5%	50	1.0%
EBIT	522	462	13.2%	359	45.4%
Interest Expenses	34	27	25.2%	39	-11.8%
Other Income	167	189	-11.9%	215	-22.5%
PBT	655	624	5.1%	536	22.3%
Provision for Tax	191	179	6.8%	98	95.6%
Effective Tax Rate	29.1%	28.6%		18.2%	
PAT	464	445	4.3%	438	6.0%

Source: Copmany Reports

- HMVL reported 3% y/y growth in revenues, with 3% growth in advertising revenues and 5.5% y/y growth in circulation revenues. Revenues missed our estimates significantly, since advertising revenue growth of the company should have benefited significantly from the Uttar Pradesh elections in the quarter. HMVL's advertising revenue growth, although apparently higher than industry growth (DB Corp has reported a 1% decline), are still a disappointment. The company noted that while Uttar Pradesh revenue growth fared well during the quarter, revenues from Bihar suffered a decline (strong base, as per management).
- Circulation revenue growth was in line with estimates. It appears to us that circulation revenue growth was yield-led, since raw material expenses have actually declined significantly, even as newsprint prices have actually registered a rise (in case of DB Corp, a rise of 5% in newsprint prices on average). Line items personnel expenses and other expenses are not comparable on a year-on-year basis, due to reorganization affected as regards the web operations of the company and its parent, HT Media Ltd.
- Reported EBITDA came in 12% below estimates as a result of underperformace in advertising revenues. Reported PAT also missed estimates by 12%.
- The company's board has announced an interim dividend of Rs 1.2/ share,

which is a disappointment, considering that the cash on the copmany's balance sheet continues to rise beyond reasonable explanation. On the conference call, the management said that the cash shall be deployed into expansion of circulation in Uttar Pradesh, and exploration of inorganic opportunities. As per management, the cash shall run short of requirements, if a significant acquisition opportunity presented itself.

Outlook and Investment View

- When we had initiated on HMVL, we had in mind the differential in advertising rates versus Dainik Jagran, and the favourable readership statistics of the company, due to which we thought the company shall outperform peers. We had also thought the the case for outperformance was strong given the favourable election cycle that the company shall see relative to peers. On the key risk regarding cash, we had thought that there are few opportunities that could be so large as to deploy the cash that the company had. As a result, we thought, that the street was perhaps being overcautious in its assessment of risks as regards deployment of cash.
- HMVL's management too had, in earlier periods, indicated that the cash would be accumulated until a certain point (perhaps just ahead of Rs 5 Bn), which would be sufficient to cover risks of agression from competitors and pursue reasonable organic/ inorganic opportunities.
- In this context, we are surprised by the management's comments about the acquisition path that they foresee. Given that the company itself, who owns the third largest newspaper in Hindi, has an enterprise value of Rs 1.2 Bn (if one includes investments in net cash), we fear the company may end up paying excessively for an acquisition, if they foresee the existing cash and investments to fall short of requirements.
- In the meanwhile, while HMVL results have outperformed peers, on expected lines, the company has not gained as much ground as we had believed earlier, as competitor Jagran has likely dropped rates, depressing market yields. HMVL's state election cycle has thus passed without as much operating profit growth as we had anticipated.
- HMVL's operating earnings are likely to see some weakness from the expansion in circulation that the management has planned, at least in the short-term.

We recommend Accumulate on HMVL with a price target of Rs.307

- We are therefore inclined to be conservative in our valuation of HMVL going forward, since we believe the company is now likely to be in-line with/ below peers' growth, and HMVL's constant conservation of cash is likely to be a source of greater concern for investors. We value HMVL at 11XFY19E PER, or Rs 307. In view of the limited upside, we downgrade the stock to ACCUMULATE (BUY earlier).

RESULT UPDATE

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TATA POWER

PRICE: RS.84.2 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.89 **FY19 P/E 10.7x**

Tata Power reported higher than expected recurring profits in the quarters aided mainly by higher profitability at its coal mining operations.

Demand for power has continued to remain weak which is reflected in decline in standalone revenue.

Coal prices have risen in recent months which has improved profitability of coal mining investments.

We value the stock at 1.4x FY19 book value and arrive at a target price of Rs 89 (unchanged) and maintain "Accumulate", thereby advising clients to buy on declines.

Rs mn	Q4FY17	Q4 FY16	YoY (%)
Net Sales	71668	72977	-2%
Fuel (coal+fuel+change in stock)	25187	19540	29%
Cost of power purchased	17660	24462	-28%
Staff cost	3819	3160	21%
Raw material consumed	3787	3050	24%
Purchase of goods	96	102	-5%
Cost of components	1637	1865	-12%
Transmission charges	571	525	9%
Other expenditure	5443	6559	-17%
Total Expenditure	58201	59262	-2%
PBIDT	13467	13716	-2%
Other Income	1624	2147	-24%
Depreciation	5698	4410	29%
EBIT	9393	11452	-18%
Interest	8973	8589	4%
Gain/(loss) on exc rate	637	-783	-
Regulatory income (net)	-1832	2762	-
Regulatory income (net) for earlier years	0	0	-
PBT	-775	4842	-
Tax	-1496	1199	-
Share of associate profit after tax	3324	-2552	-
Minority Interest	-156	-613	-
Adj Profit After Tax	3890	479	-
Exceptional items	-6515	-262	-
Reported PAT	-2625	217	-
EPS	1.44	0.18	713%
EBITDA (%)	18.8%	18.8%	

Source: Company,

Reported vs Estimates performance on consolidated basis in Q4FY17

Rs mn	Reported	Estimated
Revenue	72559	75050
EBITDA %	19	20.2
Recurring PAT	3890	3692

Source: Company, Kotak Securities - Private Client Research

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	279.0	299.4	320.4
Growth %	-25.6	7.3	7.0
EBITDA	58.5	64.2	68.9
EBITDA margin %	21.0	21.5	21.5
PBT	-3.1	12.2	15.9
Reported net profit	7.5	18.7	21.2
Adjusted EPS (Rs)	5.9	6.9	7.8
Growth %	82.3	17.2	13.7
CEPS	10.1	14.7	15.6
Book value (Rs/share)	52.9	59.4	66.8
DPS (Rs)	1.3	1.3	1.3
ROE %	14.3	12.3	12.4
ROCE %	5.4	5.5	5.8
Net cash (debt)	-420.9	-367.9	-336.0
NWC (Days)	-33.1	-36.9	-40.3
EV/EBITDA (x)	10.4	8.6	7.6
P/E (x)	14.3	12.2	10.7
P/Cash Earnings	8.3	5.7	5.4
P/BV (x)	1.6	1.4	1.3

Source: Company, Kotak Securities - Private Client Research

Consolidated Performance -

- Revenue declined 2% y-o-y to Rs 71.7 bn on account of 1) reduced power purchase in the Mumbai License area 2) Lower demand from Tata Steel.
- EBITDA declined to Rs 13.4 bn vs Rs 13.7 bn, on a y-o-y basis mainly due to lower demand for power.
- Interest cost increased 4% due to increase in debt due to general/maintenance capex.
- During the quarter, the company has wrote-off Rs 6.51 bn on account of exercise of "Put option" related to Docomo case.
- Share of profits from associate companies rose to Rs 3.3 bn vs loss of Rs 2.5 bn on a y-o-y basis, largely attributed to improved performance of the coal mining operations as a result of rise in international coal prices.
- Due to the exceptional charge of Rs 6.5 bn, the company reported loss of Rs 2.65 bn vs profit of Rs 217 mn on a y-o-y basis.

Coal Mines in Indonesia: Improving realization augers well for profits

- Realisations for the quarter stood (net of royalty) at USD 54.9 per ton vs USD 40.7 per ton on a y-o-y basis.
- Coal volumes decreased to 14.1 mn ton vs 14.7 mn tons on y-o-y basis.
- Cost of production increased to USD 31.8 per ton vs USD 29.9 per ton on account of rise in fuel prices.
- Post the implementation of IND AS, the 30% investment in coal mining operations in Indonesia is now being accounted as associate company. Hence, only share of profits is added at the PAT level in consolidated level numbers. During the quarter, the share of profits from associate companies has increased significantly.

CGPL (Mundra 4000 MW unit):

- The average realization at Mundra was Rs 2.39/unit in FY17 vs Rs 2.51/Unit in FY16.
- During the fiscal, the company sold 25.3 bn units vs 23.7 bn on y-o-y basis. Availability increased to 76% in FY17 vs 70% in FY16.
- Coal prices have firmed up in global markets which has increased the hardship (fuel cost under-recoveries) on CGPL's operations. Total under-recovery in FY17 has increased to Rs 0.6 per unit vs Rs 0.3 per unit y-o-y.
- Interest cost reduced to (-)vs Rs 6.7 bn bn vs Rs 12.9 bn on a y-o-y basis due to refinancing of INR debt and favourable MTM of Interest rate Swap.
- Forex loss in FY17 stood at Rs (-) 2.3 bn vs Rs (-) 5.9 bn in FY16.
- Due to higher underrecovery of fuel prices, PBT for FY17 stood at (-)ve Rs 8.5 bn vs a loss of Rs (-) 9.99 bn.
- On the issue of the compensatory tariff demanded by Tata Power, the company is weighing legal options like whether to seek advise/clarification from the Court or CERC that commission has the general regulatory powers under Section 79(1)(b) even incase tariff is determined under section 63. Simultaneously, other options for loss mitigation is also being considered like 1) sourcing competitive coal from other geographies 2) Blending of coal to optimize coal cost 3) Improve Operational efficiency and 4) Sale of Power above 80% availability

Maintain Accumulate with a unchanged target price of Rs 89

We recommend Accumulate on Tata Power with a price target of Rs.89

- We remain positive on Tata Power. We believe the stock offers value unlocking potential. We expect the company to mitigate/neutralize losses in CGPL project through various coal sourcing options. In addition to this, the company's Solar modules manufacturing business is also seeing traction and has reported good leap in profits in FY17. The defence business (Strategic Electronics Division) has significant potential due to government's thrust on indigenization of defence equipments. We remain positive on TPL and maintain Accumulate with an unchanged target price of Rs 89, based on 1.4x FY19 BV.

RESULT UPDATE

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MOTHERSON SUMI SYSTEMS LIMITED (MSSL)

PRICE: RS.424 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.439 **FY19 PE -21.9x**

MSSL's 4QFY17 revenues and PAT came in ahead of expectation. MSSL reported robust revenue growth in India and overseas operations. EBITDA margin at key subsidiaries improved during the quarter. We remain optimistic on MSSL's standalone business growth on account of healthy growth outlook for the passenger car industry and increasing wiring harness content in vehicles. At foreign subsidiaries, strong order book and ramp-up at recently started multiple new plants will drive revenue growth and margin expansion. During the quarter company completed PKC Group acquisition and that will be a key growth driver for the company in coming years. We upgrade the stock to REDUCE (earlier SELL) with revised price target of Rs439 (earlier Rs297). We increase our FY18 estimates as we incorporate PKC's financials in the consolidated numbers. We also introduce FY19 estimates and roll-over our target price onFY19 expected earnings.

Summary table

(Rs mn)	FY17E	FY18E	FY19E
Sales	424,752	550,346	616,907
Growth (%)	10	30	12
EBITDA	42,665	59,267	71,842
EBITDA margin (%)	10.0	10.8	11.6
PBT	28,996	43,511	55,979
Net profit	16,591	21,715	27,191
EPS (Rs)	11.8	15.5	19.4
Growth (%)	22.8	30.9	25.2
CEPS (Rs)	19.4	24.1	28.8
Book value (Rs/share)	59	72	89
Dividend per share (Rs)	2.0	2.0	2.0
ROE (%)	27.5	23.6	24.1
ROCE (%)	18.8	21.0	24.9
Net cash (debt)	(67,289)	(59,493)	(39,972)
NWC (Days)	23	26	29
P/E (x)	35.9	27.4	21.9
P/BV (x)	7.2	5.9	4.8
EV/Sales (x)	1.6	1.2	1.0
EV/EBITDA (x)	15.5	11.0	8.8

Source: Company, Kotak Securities - Private Client Research

Standalone Result Highlights

Quarterly performance (Standalone)

Rs mn	4QFY17	4QFY16	YoY%	3QFY17	QoQ%
Revenues	**17,390**	**14,620**	**18.9**	**15,664**	**11.0**
Total expenditure	13,923	11,546	20.6	12,515	11.2
RM consumed	9,391	7,744	21.3	8,347	12.5
Employee cost	2,476	2,051	20.7	2,082	18.9
Other expenses	2,056	1,752	17.4	2,087	(1.5)
EBITDA	**3,467**	**3,073**	**12.8**	**3,148**	**10.1**
EBITDA margin (%)	**19.9**	**21.0**	**-**	**20.1**	**-**
Depreciation	507	506	0.3	500	1.4
Interest cost	(124)	73	(268.8)	100	(223.9)
Other Income	457	376	21.6	401	14
Exchange Differences (net loss)	(107)	29	(170)		
Exceptional income/(loss)					
PBT	**3,648**	**2,842**	**28.4**	**3,120**	**16.9**
PBT margins (%)	**21.0**	**19.4**		**19.9**	
Tax	921	454	103.0	990	(7.0)
Tax rate (%)	25.2	16.0	-	31.7	-
Reported PAT	**2,727**	**2,388**	**14.2**	**2,130**	`
PAT margins (%)	**15.7**	**16.3**	**-**	**13.6**	**-**
Other Comprehensive Income	28.3	(15.4)		(18.6)	
Total Comprehensive Income	2,756	2,373	16.1	2,111	30.5
Reported EPS (Rs)	**1.9**	**1.8**	**7.6**	**1.5**	**28.1**

Source: Copmany Reports

- Standalone revenues in 4QFY17 grew strongly on account higher volumes and rising content per vehicle. Accordingly, revenues grew by 19% YoY to Rs17.4bn. Though copper prices were higher YoY, company highlighted that cost increase pass through happens with a 3-6 month lag.
- As compared with 3QFY17, revenues increased by 11%, primarily driven by higher volumes, in our view.
- Gross margins for the quarter slipped to YoY and QoQ as rising commodity prices. As stated earlier, cost increase pass through happens with a 3-6 month lag.

- Employee cost rise pertains to annual increments and increased in manpower for future growth. Other expenses increase partly is on account of higher volumes.
- EBITDA margin in 4QFY17 came in at 19.9%, lower YoY on account of lower gross margins. Sequentially, EBITDA margin witnessed marginal decline.
- Interest cost was negative as it includes forex fluctuation impact (as per Ind AS).
- PAT for the quarter stood at Rs2.7bn, 14% growth YoY and 28% increase QoQ.

SMRPBV Result Highlights

- Revenues at SMRPBV (includes SMR/SMP) grew by 19% YoY to Euro1,229mn. At SMR, revenue growth stood at 15% YoY and at SMP revenue increase was higher at 21% YoY. In the past one year, various new plants have started operations and that contributed to robust increase in revenues for the company.
- SMRPBV EBITDA margin improved YoY from 7.9% in 4QFY16 to 8.7% in 4QFT17. SMR's EBITDA margin at 12.9% remained strong and almost similar to 4QYF16 EBITDA margin of 13.1%. For SMP, improved meaningfully YoY (on a low base) to 6.8%.
- SMRPBV's PAT (concern share) increased by 27% YoY to Euro28mn. In FY17, SMRPBV PAT growth stood at 28% YoY to Euro73mn.

Consolidated Result Highlights

Quarterly performance (Consolidated)

Rs mn	4QFY17	4QFY16	YoY%	3QFY17	QoQ%
Revenues	**112,839**	**98,549**	**14.5**	**106,041**	**6.4**
Total expenditure	100,296	88,563	13.2	95,294	5.2
RM consumed	67,041	57,593	16.4	65,427	2.5
Employee cost	21,748	19,544	11.3	19,964	8.9
Other expenses	11,507	11,426	0.7	9,903	16.2
EBITDA	**12,543**	**9,986**	**25.6**	**10,747**	**16.7**
EBITDA margin (%)	**11.1**	**10.1**	**-**	**10.1**	**-**
Depreciation	2,707	3,362	(19.5)	2,733	(0.9)
Interest cost	838	696	20.4	1,084	(22.7)
Other Income	948	55	1,629.0	433	118.6
Exchange Differences (net loss)	138	32	(346)		
Exceptional income/(loss)	(974)				
PBT	**8,833**	**5,951**	**48.4**	**7,710**	**14.6**
PBT margins (%)	**7.8**	**6.0**		**7.3**	
Tax	2,198	528	316.8	2,845	(22.7)
Tax rate (%)	24.9	8.9	-	36.9	-
PAT (before minority interest/associates profit)	6,635	5,424	22.3	4,864	36.4
Share of associates/ Minority Interest	1,887	1,174	60.7	706	167.5
Reported PAT	**4,748**	**4,249**	**11.7**	**4,159**	**14.2**
PAT margins (%)	**4.2**	**4.3**		**3.9**	
Other Comprehensive Income	(1,788)	761		(1,249)	
Total Comprehensive Income	2,960	5,011	(40.9)	2,910	1.7
Reported EPS (Rs)	**3.4**	**3.2**	**5.3**	**3.0**	**14.2**

Source: Copmany Reports

- Consolidated revenues grew by 15% YoY to Rs112.8bn - driven by strong growth at India business and key subsidiaries.
- EBITDA margin contracted YoY - largely due to YoY fall in EBITDA margin in the standalone business. For subsidiaries, EBITDA margin improved YoY.
- PAT for the quarter grew 12% YoY to Rs4.74bn. Rise in other income related to treasury income. Exceptional loss pertains to cost incurred in connection with PKC acquisition.

Outlook and Valuation

- We expect robust revenue growth in the standalone business on account of expected strong growth in the passenger vehicle industry and rising content per car. Wiring harness will get more complex under BSVI and we thereby see strong growth prospects for the company's standalone business.
- At subsidiaries, revenue growth will be driven by strong order book and start of new plants. In FY17, SMRPBV won new orders worth Euro4bn. Further execution of new orders worth Euro4.6bn started in FY17. SMRPBV's total order book stands at ~Euro13bn.
- EBITDA margin for the company is expected to expand in the coming years. Standalone business margin will likely remain robust on increasing value addition. At SMRPBV, EBITDA margin will be driven by cost efficiencies, operating leverage benefit from ramp-up in new facilities and expected reduction in start-up cost as majority of the planned new plants will become operational in the near to medium term.
- MSSL has completed acquisition of PKC Group. This acquisition will help MSSL expand its global presence in the wiring harness business in the MHCV segment. Further, it will also give the company a strong foothold in North America and Europe business and opportunities to increase footprint in markets like China and Brazil. PKC's acquisition will also give access to new set of clients to MSSL.
- We increase our FY18 estimates as we incorporate PKC's financials in the consolidated numbers. We also introduce FY19 estimates and roll-over our target price onFY19 expected earnings.

We recommend Reduce on MSSL with a price target of Rs.439

- We increase on target price on the stock to Rs439 (earlier Rs297) on following counts - 1/. Roll-over to FY19 estimated earnings (earlier valued on FY18 estimated earnings) 2/. Incorporating PKC Group financials in our estimates on successful completion of acquisition 3/. Increasing our valuation multiple on strong growth outlook and 4/. Increase in our Indian business estimates on robust growth outlook.
- We value the standalone business at 30x PE on FY19E EPS (earlier Rs187 valued at 30x PE on FY18E earnings) and arrive at a target price of Rs259. We value subsidiaries/JV at 10x FY19E EV/EBITDA and arrive at a target price of Rs180 (earlier Rs110 valued at 8x FY18E EV/EBITDA, excluding PKC acquisition). We upgrade the stock to REDUCE (earlier SELL).

Change in estimates

Consolidated (Rs mn) - FY18

Rs mn	Old	New	% change
Revenues	511,207	550,346	7.7
EBITDA margin (%)	11.0	10.8	-
Adjusted PAT	19,882	21,715	9.2

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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BAJAJ AUTO LIMITED (BAL)

PRICE: RS.2,973 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.3,124 **FY19 PE - 16.2x**

BAL's 4QFY17 financial performance was weak YoY, impacted by volume de-growth, input cost pressures and certain one-off's. Revenues during the quarter declined 9% YoY, EBITDA margin contracted YoY and reported net profits was down by 16% YoY. In the domestic market, we expect gradual pick-up in company's volume. In exports, management indicated that volumes bottomed out in FY17 and remain cautiously optimistic on growth in FY18. Further, lower base will likely aid export volume growth for the company in FY18. Due to certain headwinds like higher raw material cost and rising cost of consumer acquisition, company expects EBITDA margin in FY18 to be lower as compared with FY17. Given slow recovery in company's domestic volumes, uncertainty in exports and weak margin guidance, we cut our FY18 earnings estimates. We introduce FY19 estimates and roll over our target price based on FY19 earnings estimate. We recommend ACCUMULATE rating (earlier BUY) on the stock with revised price target of Rs3,124 (earlier Rs3,208).

Summary table

(Rs mn)	FY17E	FY18E	FY19E
Sales	424,752	550,346	616,907
Growth (%)	10	30	12
EBITDA	42,665	59,267	71,842
EBITDA margin (%)	10.0	10.8	11.6
PBT	28,996	43,511	55,979
Net profit	16,591	21,715	27,191
EPS (Rs)	11.8	15.5	19.4
Growth (%)	22.8	30.9	25.2
CEPS (Rs)	19.4	24.1	28.8
Book value (Rs/share)	59	72	89
DPS(Rs)	2.0	2.0	2.0
ROE (%)	27.5	23.6	24.1
ROCE (%)	18.8	21.0	24.9
Net cash (debt)	(67,289)	(59,493)	(39,972)
NWC (Days)	23	26	29
P/E (x)	35.9	27.4	21.9
P/BV (x)	7.2	5.9	4.8
EV/Sales (x)	1.6	1.2	1.0
EV/EBITDA (x)	15.5	11.0	8.8

Source: Company, Kotak Securities - Private Client Research

Result Highlights

Quarterly performance

Rs mn	4QFY17	4QFY16	YoY%	3QFY17	QoQ%
Total Revenues	**48,973**	**53,595**	**(8.6)**	**50,669**	**(3.3)**
Total expenditure	39,913	42,061	(5.1)	40,230	(0.8)
RM consumed	33,203	35,333	(6.0)	33,841	(1.9)
Employee cost	2,273	2,024	12.3	2,427	(6.3)
Other expenses	4,438	4,705	(5.7)	3,962	12.0
EBITDA	**9,060**	**11,534**	**(21.4)**	**10,439**	**(13.2)**
EBITDA margin (%)	**18.5**	**21.5**	**-**	**20.6**	**-**
Depreciation	757	761	(0.5)	772	(1.9)
Interest cost	2	4	(38.5)	3	(8)
Other Income	2,936	2,569	14.3	3,193	(8.0)
PBT	**11,236**	**13,338**	**(15.8)**	**12,858**	**(12.6)**
PBT margins (%)	**22.9**	**24.9**		**25.4**	
Tax	3,218	3,844	(16.3)	3,612	(10.9)
Tax rate (%)	28.6	28.8	-	28.1	-
Reported PAT	**8,018**	**9,493**	**(15.5)**	**9,246**	**(13.3)**
PAT margins (%)	**16.4**	**17.7**	**-**	**18.2**	**-**
Other Comprehensive Income	1,259	208		(254)	
Total Comprehensive Income	9,277	9,701	(4.4)	8,992	3.2
EPS (Rs)	**32.1**	**33.5**	**(4.4)**	**31.1**	**3.2**
Total Volumes	787,627	872,458	(9.7)	851,645	(7.5)
ASP (Rs)	62,178	61,430	1.2	59,495	4.5
RM cost per vehicle (Rs)	42,155	40,498	4.1	39,735	6.1

Source: Company

- Revenues in 4QFY17 declined by 9% YoY to Rs49bn. Fall in revenues was due to 10% YoY decrease in sales volume. During 4QFY17, domestic volumes were recovering from demonetization impact. Exports remained subdued due to weak demand and currency availability issues in key export markets.
- Domestic volumes was down by 14% YoY. However, 9% increase in average selling price (ASP) arrested the YoY decline in domestic revenues to 6%. We believe that higher share of spare revenues (due to lower volumes), product mix change and price hikes led sharp YoY increase in ASP.
- In exports, revenues declined by 12% YoY (to Rs17.78bn), led by 9.7% volume decline and 2.6% lower ASP. Decrease in ASP was on account of lower share of three wheelers in the mix.
- Spare part revenues for the quarter was Rs6.91bn as against Rs6.53bn in 4QFY16. In FY17 spare part revenues increased to Rs27.22bn (Rs20bn is domestic spare part sales), from Rs25.42bn in FY16.
- Gross margins for the quarter slipped YoY and QoQ to 32.2% due to sharp increase in input cost, increase in cost due to introduction of BSIV vehicles and negative change in product mix. Management highlighted that competitors were still selling BSIII products and discounts were high to clear BSIII inventory, BAL found it difficult to take required price hike. Increase of cost on BSIV vehicle is ~Rs600-700 per vehicle and the company took Rs500 price hike on motorcycle and Rs1,000 price hike in the 3W segment in 4QFY17.
- Other expenses in 4QFY17 included Rs160mn towards discount given during BSIII to BSIV transition and Rs740mn on account of CSR disbursement. Majority portion of CSR disbursement happened in 4QFY17 (during 9MFY17 CSR disbursement was Rs210mn). Despite these additional cost, other expenses were lower YoY, partly due to lower volumes.
- EBITDA margin for the quarter stood at 18.5% as against 21.5% in 4QFY16 and 20.6% in 3QFY17. Lower gross margins and certain one-off's impacted EBITDA margin for the quarter. Adjusting for one-off's, EBITDA margin would have been ~20%.
- Led by decline in 21% YoY fall in EBITDA, BAL's net profit for the quarter declined by 16% YoY to Rs8bn, lower than our expectation of Rs8.4bn.

Conference Call Highlights

- In the domestic market, company expects to underperform the wholesale industry performance in 1QFY18 as competitors dealer stock were liquidated during end March 2017 (on high discounts) and competitors will replenish dealer inventory levels. BAL will not be launching new products in 1HFY18.
- Domestic 3W demand is currently under stress. However, the company expects that new permits will drive volume in the future - though timing remains an issue. Company have good visibility on ~35,000-40,000 new permits getting issued.
- On exports, the company is cautiously optimistic and expects reasonable volume growth in FY18. Company expects to export ~425,000-450,000 units in 1QFY18. Exports in May 2018 is expected to be in excess of 130,000 units. Company expects that volumes in key markets like Nigeria and Sri Lanka will de-grow in FY18. Growth is expected to come markets like Philippines, Nepal, Latin America and various new territories entered in recent time.
- Management stated that they are fairly hedged for FY18 and expect to realize Rs67/$, similar to its realization in FY17.
- Management indicated that raw material cost pressure (100bps further impact) will continue in 1QFY18. Company has so far not effected a price hike in 1QFY18, but the company expects that it will happen soon.

- Company expects EBITDA margins in FY18 to be lower than FY17 EBITDA margins for the company and the industry.
- GST rate will translate into any meaningful change in selling price.
- FY18 capex is expected to ~Rs2bn.
- Management do not expect any material impact of tax exemption on the EBITDA (due to Pantnagar plant tax exemption getting over), as excise is already paid on input cost. However, there could be some impact on tax rate. Company guided for ~30% tax rate, going ahead.

Outlook and Valuations

- Overall two wheeler demand in India is expected to be healthy. We expect BAL's domestic volume to witness gradual improvement over the next few months.
- Domestic three wheeler demand is expected to be weak in the near term. New permits will drive volume - though the timing remains uncertain.
- In exports, the management highlighted that volumes have bottomed out and volumes in FY18 is expected to witness growth. Lower export base will be favorable for growth in FY18.
- Company expects FY18 EBITDA margin to be lower than FY17 due to certain cost headwinds.

We recommend Accumulate on Bajaj Auto with a price target of Rs.3,124

- We revise in FY18 estimates lower to factor in slower than expected recovery in BAL's domestic volumes, uncertainty in export outlook and lower EBITDA margin guidance. We introduce FY19 estimates and expect recovery in volume growth and margins for the company.
- We rate the stock ACCUMULATE (earlier BUY) with revised target price of Rs3,124 (earlier Rs3,208). We value the share at 17x FY19 estimated earnings.

Change in estimates

FY18

Rs mn	Old	New	% change
Revenues	269,880	253,380	(6.1)
EBITDA margin (%)	21.0	19.5	-
Adjusted PAT	48,896	43,237	(11.6)

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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GRASIM INDUSTRIES LTD

PRICE: RS.1120 **RECOMMENDATION:ACCUMULATE**
TARGET PRICE: RS.1236 **FY19E (PE)X: 13.3X**

Result highlights

- Revenue growth largely in line with our estimates. Volumes continued to remain strong in VSF division and strong pricing in international markets supported firm prices during the quarter. VSF and Cement sales volume increased by 2% YoY each during the quarter while chemical division volumes declined by 6% YoY.
- Operating margins improved on yearly basis across VSF due to higher realization and improved sales mix. However, sequentially margins have witnessed a decline.
- Net profit performance for the quarter came ahead of our estimates due to lower than expected tax expense.
- At current price of Rs 1120, stock is trading at 15x and 13.3x P/E and 7.9x and 5.8x EV/EBITDA on FY18 and FY19 estimates respectively. We change our estimates to factor in revised financials of Ultratech Cements and roll forward the valuation on FY19. We arrive at a revised price target of Rs 1236 on FY19 estimates. (Rs 1058 earlier) The change in target price is also due to change in the value of holding company investments. We continue to recommend ACCUMULATE rating on the stock and would advise investors to buy the stock on declines.

Summary table

(Rs mn)	FY17E	FY18E	FY19E
Sales	360,684	400,948	466,101
Growth (%)	0%	11%	16%
EBITDA	73,851	79,236	102,344
EBITDA margin (%)	20.5%	19.8%	22.0%
PBT	58,229	62,523	75,135
Net profit	31,673	34,787	39,430
EPS (Rs)	67.9	74.6	84.5
Growth (%)	34.3	9.8	13.3
CEPS (Rs)	106.6	118.8	137.7
Book value (Rs/share)	557.5	603.8	660.0
Dividend Per Share (Rs)	22.5	22.5	22.5
ROE (%)	12.6	12.8	13.4
ROCE (%)	19.2	17.4	18.9
Net cash (debt)	22,723	(100,984)	(73,041)
NWC (days)	81	71	71
EV/Sales (x)	1.4	1.6	1.3
EV/EBITDA (x)	6.8	7.9	5.8
P/E (x)	16.5	15.0	13.3
P/BV (x)	2.0	1.9	1.7

Source: Company, Kotak Securities - Private Client Research

Consolidated financial highlights

Consolidated financials	Q4FY17	Q4FY16	YoY%
Rs million			
Net sales	99954	94546	5.7%
Expenditure	81222	76013	6.9%
Operating profit	18732	18533	1.1%
Operating margin	18.7%	19.6%	
Depreciation	4721	5080	
EBIT	14012	13453	4.2%
Interest	1763	1566	
EBT(exc other income)	12249	11888	3.0%
Other income	2679	2526	
Sale of non-core assets	0	279	
EBT	14927	14135	5.6%
Tax	4291	3583	
Tax%	28.7%	25.3%	
PAT	10636	10553	0.8%
Other comprehensive inc	4008	-989	
Total	14644	9564	53.1%
Equity capital	933.7	933.6	
EPS	22.8	22.6	

Source: Company

Revenue growth largely in line with our estimates

Revenue growth largely in line with our estimates. Volumes continued to remain strong in VSF division and strong pricing in international markets supported firm prices during the quarter. VSF and Cement sales volume increased by 2% YoY each during the quarter while chemical division volumes declined by 6% YoY. Segment wise performance of the company is shown below -

- **VSF:** VSF division revenue was up by 12% YoY with full ramp up of Vilayat Plant and higher sales of speciality fibre. Sales volume was up by 2% YoY at 133K Tonne. Overall VSF prices were up by 11% YoY with uptrend in global prices, rupee depreciation and better product mix. VSF/Cotton prices remained firm during the quarter but PSF prices declined in line with crude prices. Even though the captive pulp plant at Harihar remained shut from February'17 onward, due to water shortage, the production of VSF remained unaffected as the business ensured running of operations with external pulp supplies. Volumes are likely to remain strong going forward with higher sale of speciality fibre and higher proportion of domestic sales. During FY17, share of speciality fibre has moved up to 36% of total volume vis-à-vis 33% YoY. Price volatility in VSF is also expected to reduce due to limited capacity addition in China. Also, with expected decline in cotton stock in season 16-17, consumption is expected to be higher than production, thereby aiding prices.
- Chemicals: Chemical division revenues increased by 11% YoY. Caustic soda volumes moved down by 6% YoY to 194K Tonne as lower chlorine demand restricted caustic soda production. With new capacities on stream, pressure was felt on chlorine prices. Post merger with Aditya Birla Chemicals Ltd, Caustic Soda capacity has increased by 78% to nearly 804K TPA (including ~59K TPA under acquisition by ABCIL) with presence across India. It is also expanding the caustic capacity from 804K TPA to 1048K TPA which would include 144K TPA brownfield expansion at Vilayat (for which environmental clearance is expected shortly) and 100K TPA debottlenecking at various plants. Expanded capacity to commence from Q4FY18 would cater to the growth from user industries such as Textile, Aluminium, Soap and detergent etc
- Cement: Cement division revenues reported an increase of 3% YoY as volumes were impacted by subdued housing demand. Post acquisition of JP units and its own greenfield expansion, the capacity of Ultratech Cements would be enhanced to 95 MT.
- We revise our estimates to factor in revised financials of Ultratech Cements and also introduce FY19 estimates. We expect revenues to grow at a CAGR of 13.6% between FY17-19.

Restructuring of business

The board of directors have approved a Composite Scheme of Arrangement between the Company, Aditya Birla Nuvo Limited and Aditya Birla Financial Services Limited. The transaction, subject to regulatory approvals, entails implementation of the scheme through two steps:

1. Merger of ABNL into Grasim; and

2. Upon implementation of the merger, demerger of its Financial Services business resulting in a listed financial services company with 57% owned by post-merger Grasim and the balance being held by post-merger Grasim shareholders on a proportionate basis

The enhanced shares of Grasim post restructuring would stand at 655 mn. The transaction is likely to be completed by Q2FY18.

Operating margins ahead of our estimates

Sequentially higher pulp prices, higher sulphur prices impacted the margins of VSF division. Prices of pulp have now started coming down so margins should be restored going forward. On yearly basis, VSF margins witnessed an improvement led by better realizations YoY as well as better sales mix and operational efficiencies on incremental volumes from Vilayat plant. Margin decline in chemical division was mainly due to sharp increase in power cost. However, volume growth of 33% in Chlorine value added products restricted sharp decline in EBITDA in chemical division. Cement margins were impacted by higher power and fuel cost and freight costs.

We maintain our estimates and expect operating margins of 19.8%/22% for FY18/FY19 respectively.

Net profit performance ahead of our estimates

Net profit performance for the quarter came ahead than our estimates due to lower than expected tax rate. We tweak our estimates to factor in revised financials of Ultratech cements, as well as introduce FY19 estimates. We expect net profits to grow at a CAGR of 11.5% between FY17-19.

Valuation and recommendation

At current price of Rs 1120, stock is trading at 15x and 13.3x P/E and 7.9x and 5.8x EV/EBITDA on FY18 and FY19 estimates respectively. We change our estimates to factor in revised financials of Ultratech Cements and roll forward the valuation on FY19. We arrive at a revised price target of Rs 1236 on FY19 estimates. (Rs 1058 earlier) The change in target price is also due to change in the value of holding company investments. We continue to recommend ACCUMULATE rating on the stock and would advise investors to buy the stock on declines.

We recommend Accumulate on GRASIM INDUSTRIES LTD with a price target of Rs.1236

Sum of the parts valuation based on FY19 estimates

Division	EBITDA(Rs mn)	EV/EBITDA(x)	EV(Rs mn)	Rationale
VSF division	17728	3	53184	Based on relative valuations
Chemical division	7440	3	22320	Based on relative valuations
Net cash(standalone)			8652	
Total			**84156**	
Valuation of 60.3% holding in Ultratech			469313	At a holding company disc of 40%
Investments			23054	At a holding company discount of 40%
Total valuation			**576523**	
Value per share(Rs)			**1236**	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

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CUMMINS INDIA LIMITED

PRICE: RS.980 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.1018 **FY19E (PE)X: 28.9X**

Cummins India underperformed Q4FY17 estimates on back of contraction in exports demand. Robust growth in domestic market offset subdued export performance in the quarter. Operating margins also disappointed due to unfavourable product mix.

Management gave FY18 growth guidance to 5-10% YY growth in domestic and flat to negative growth in international business. We roll forward our target price on FY19 estimates; ascribe PER of 30x FY19 earnings (earlier 32x on FY18 earnings) and move recommendation to 'Accumulate' (BUY earlier) with revised target price of Rs 1018 (Rs 1045 earlier).

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	50774	54101	62332
Growth (%)	7.8	6.6	15.2
EBITDA	8019	8600	9991
EBITDA margin (%)	15.8	15.9	16.0
PBT	9082	9940	11330
Net profit	7346	8251	9404
EPS (Rs)	26.5	29.8	33.9
Growth (%)	(2.9)	12.3	14.0
CEPS (Rs)	29.6	33.0	37.2
BV (Rs/share)	124.5	137.9	155.5
Dividend/share (Rs)	14.0	14.0	14.0
ROE (%)	22.2	22.7	23.1
ROCE (%)	21.2	21.8	22.3
Net cash (debt)	1535	2088	3185
NW Capital (Days)	43	37	30
EV/Sales (x)	5.3	5.0	4.3
EV/EBITDA (x)	32.7	30.5	26.3
P/E (x)	37.0	32.9	28.9
P/Cash Earnings	33.2	29.7	26.4
P/BV (x)	7.9	7.1	6.3

Source: Company, Kotak Securities - Private Client Research

Rs mn	Q4FY17	Q4FY16	% YY	Q3FY17	% QoQ
Net Sales / Income from Operations	11844	10659	11.1	13550	(12.6)
Other Income	511	498	2.6	461	10.8
Purchase of traded goods	2147	470	357.3	1201	78.9
Consumption of Raw Materials	5560	6106	(8.9)	7744	(28.2)
Staff Cost	1069	1005	6.3	1101	(3.0)
Other Expenses	1368	1290	6.0	1462	(6.4)
Operating Expenditure	10144	8871	14.3	11507	(11.8)
EBITDA	1700	1788	(4.9)	2043	(16.8)
Interest & Finance Charges	49	24		55	
Depreciation	208	206	1.3	225	(7.3)
Exceptional Item	0	0		0	
Profit / (Loss) before tax	1954	2056	(5.0)	2224	(12.2)
Exceptional Item					
Tax provision	369	386	(4.4)	466	(20.7)
PAT	1585	1670	(5.1)	1759	(9.9)
Adj PAT	1585	1670	(5.1)	1759	(9.9)
Other comprehensive income	(29.6)	(22.6)		(22.5)	
Total Comprehensive Income	1555	1647		1736	
adj EPS	5.7	6.0	(5.1)	6.3	(9.9)
EBITDA%	14.4	16.8		15.1	
Raw material cost to sales %	65.1	61.7		66.0	
Tax rate %	18.9	18.8		20.9	

Source: Company

Result Highlights

Cummins India reported 11.1% YY revenue growth (adjusted for excise duty) in Q4FY17 at Rs 11.8 Bn driven by 18.4% YY growth in domestic gross sales (reported quarter at Rs 9.3 Bn). Exports de-grew 6.5% YY at Rs 3.01 Bn affected by weak demand for low KVA engines.

Domestic revenues, reported at Rs 9.3 Bn were led by strong recovery in all divisions including power generation, industrial and distribution divisions. Power Gen segment net sales stood at Rs 3.3 Bn in the quarter (+13.8% YY).

Industrial segment reported net sales at Rs 2 Bn in Q4FY17 up 33.3% YY. Management stated that the company continues to observe traction led by improved infrastructure spending viz. railways, mining and defense (marine) sectors.

Management gave FY18 revenue growth guidance of 8-10% YY in domestic business despite increased competition from local and international players across product categories. We believe that the industrial division would outperform power generation sales over FY18 on back of improved momentum in infrastructure spending. Exports outlook remains challenging with subdued demand for low KVA (de-grew 14.3%YY in Q4FY17) engines. Demand from Africa and Europe has been languishing currently.

In Q4FY17, revenues from automotive and distribution divisions stood at Rs 300 mn and Rs 2.8 Bn respectively.

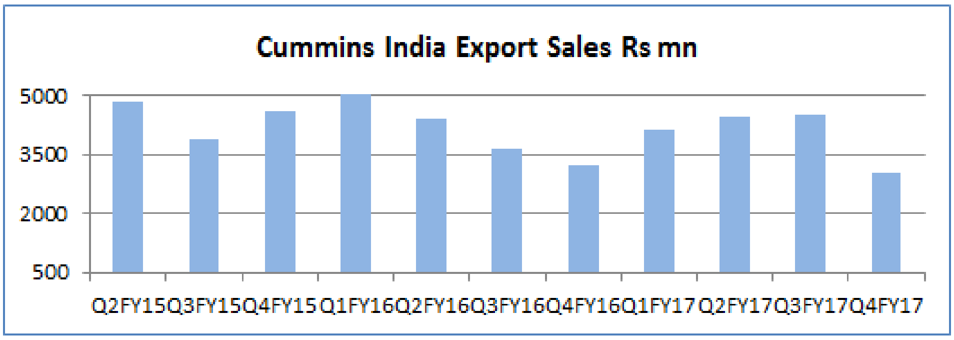
Domestic Revenue Breakup Rs

(mn)	Q4FY17	Q4FY16	YY%	Q3FY17	QoQ%
Power Generation	3300	2900	13.8	3500	(5.7)
Industrial	2000	1500	33.3	1900	5.3
Automotive	300	250	20.0	100	200.0
Distribution	2850	2350	21.3	3250	(12.3)

Source: company, Kotak-PCG Research

Low LHP volumes affected exports;

Export sales at Rs 3.01 Bn (de-grew c.7% YY) due to weak demand for low KVA engines. Heavy duty exports reported 17.6% YY growth, reported at Rs 1.2 Bn in the quarter. Management has guided for flat to negative 5% YY growth in export revenues in FY18.



Source: company, Kotak-PCG Research

Exports KVA Sales Rs (mn)	Q4FY17	Q4FY16	YY%	Q3FY17	QoQ%
LHP	600	700	(14.3)	950	(36.8)
Mid Range	800	1000	(20.0)	1190	(32.8)
Heavy Duty	200	170	17.6	340	(41.2)
HHP	1200	1200	0.0	1800	(33.3)
Spares	200	150	33.3	230	(13.0)

Source: company, Kotak-PCG Research

Operating margin contracted YY due to unfavourable product mix

The major disappointment came in on operating margin front. Company reported operating margin at 14.4% in Q4FY17 against 16.8% in Q4FY16 due to unfavourable product mix. Management believes that savings from cost rationalization measures undertaken by the company and implementation of six sigma would likely address this issue to an extent. Further, company should benefit from volumes picking up in the domestic business. We turn skeptical of profitability (tweak FY18/FY19 EBITDA by 15 and 20 bps downwards) in the exports business given the severe contraction in low KVA engines volumes.

Other highlights

- Management expects Industrial segment to drive growth and potentially double revenues in next three years.
- Compressors division is in the cyclical downturn and has declined 8% YY in Q4FY17. Decline in compressors have largely been offset by meaningful growth in construction, mining, railways and marine divisions.
- In exports, Cummins India is observing reduction in volumes; pricing however has remained stable so far.
- In power generation, demand for high HP engines has been driven by hospitality, reality, services and data centers.

We recommend Accumulate on Cummins India Limited with a price target of Rs.1018

Valuation and Recommendation

- Management gave FY18 growth guidance to 5-10% YY growth in domestic and flat to negative growth in international business. We roll forward our target price on FY19 estimates; ascribe PER of 30x FY19 earnings (earlier 32x on FY18 earnings) and move recommendation to 'Accumulate' (BUY earlier) with revised target price of Rs 1018 (Rs 1045 earlier).

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Tata Steel Ltd	494	8.2	NA	49.4
Bharti Infra	390	3.6	NA	2.3
India bulls f	1,082	2.7	NA	1.8
Losers				
Tech Mahindra	431	(2.9)	NA	1.8
ACC Ltd	1,694	(2.1)	NA	0.4
Bosch Ltd	24,191	(2.0)	NA	0.02

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
22 May	Allcargo Logistics, Engineers India Ltd 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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