Economy News

- The Centre is likely to propose two rates for biscuits, depending on prices, at the goods and services tax (GST) Council meeting on Saturday. It would also make a case to tax gold at 5 per cent. (BS)
- The Western India Electrical Accessories Manufacturers Association has appealed to the GST Council to lower the goods and services tax on electrical equipment from the proposed 18-28 per cent to 12 per cent. (BS)
- Public sector banks (PSBs) are resisting the Central government's move to include them in the new exchange-traded fund (ETF). According to sources, all the state-owned lenders have expressed concern that divestment by the government in the proposed new ETF could impact their public sector character and complicate capital-raising plans (BS)
- Monsoon entered the Indian mainland on Tuesday, a couple of days ahead of schedule, aided partly by a cyclone in the Bay of Bengal, according to the Indian meteorological department. (HT)

Corporate News

- **Eveready Industries Ltd** said it will transfer its packet tea business to a joint venture with **McLeod Russel India Ltd,** the world's biggest producer of tea. Both companies belong to the Khaitan family-controlled Williamson Magor Group. (Mint)
- **Cadilla Healthcare Ltd** is in talks to raise around Rs10 bn through a qualified institutional placement (QIP) of shares, three people aware of the development said. (Mint)
- The control and management of debt-ridden automobile component maker **Amtek Auto** might slip out of the hands of its current promoters as they seek large investments in the company to bring down debt. (BS)
- FMCG major **Nestle India** launched iron fortified Maggi noodles aimed at iron deficient (anaemic) people in the country. (ET)
- Indian energy giant **Adani Group** said that it has struck a deal on royalties payments with the Queensland government for its 21.7 billion dollars coal mine project in Australia, a major breakthrough for the controversy-hit Carmichael venture which was stuck in limbo. (BL)
- **Piramal Finance Ltd,** subsidiary of **Piramal Enterprises Ltd** has expanded into the auto components space through two financing deals aggregating Rs 5.65 bn. (BL)
- **Tata Motors**-owned Jaguar Land Rover (JLR) has reduced prices of select models by up to Rs 10.9 lakh from immediate effect to pass on benefits of new tax rates under GST expected to be rolled out in July. (BS)
- Engineering giant **Larsen & Toubro (L&T)** said its construction arm has won orders worth Rs. 51.46 bn across business segments. (BL)
- To sooth some nerves, **RCom** in a statement said, "Post signing of binding documents for the Aircel and Brookfield transactions, RCOM has formally advised all its lenders that it will be making repayment of an aggregate amount of Rs 250 bn from the proceeds of these two transactions, on or before 30th September 2017. (BS)
- India's largest polyester-based packaging film company **Jindal Poly Films** is in advanced negotiations to acquire the European operations of DuPont Teijin Films (DTF) for Rs 20 bn ($300 million), said several people with knowledge of the mater. DTF is an equal joint venture between the two leading chemicals companies. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

Equity

		% Chg		
	30 May 17	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	31,159	0.2	4.1	8.4
NIFTY Index	9,625	0.2	3.4	8.4
BANKEX Index	26,403	0.6	4.3	12.4
SPBSITIP Index	10,309	0.4	7.2	(0.6)
BSETCG INDEX	17,562	(1.0)	(1.7)	14.5
BSEOIL INDEX	14,209	0.5	(1.7)	5.0
CNXMcap Index	17,412	1.1	(3.7)	5.6
SPBSSIP Index	14,924	0.5	(2.9)	9.0
World Indices				
Dow Jones	21,029	(0.2)	0.4	1.0
Nasdaq	6,203	(0.1)	2.6	6.5
FTSE	7,527	(0.3)	4.5	3.6
NIKKEI	19,678	(0.0)	2.4	2.9
HANGSENG	25,702	0.2	4.6	8.5

Value traded (Rs cr)

	30 May 17	% Chg - Day
Cash BSE	3,301	(8.8)
Cash NSE	24,189	(7.1)
Derivatives	-	-

Net inflows (Rs cr)

	30 May 17	% Chg	MTD	YTD
FII	(808)	155.5	9,583	51,594
Mutual Fund	449	(41.7)	6,725	27,408

FII open interest (Rs cr)

	30 May 17	% Chg
FII Index Futures	19,663	2.3
FII Index Options	54,847	1.4
FII Stock Futures	69,837	2.3
FII Stock Options	4,447	22.0

Advances / Declines (BSE)

30 May 17	A	B	T	Total	% total
Advances	183	469	34	686	43
Declines	112	670	72	854	54
Unchanged	3	30	6	39	2.5

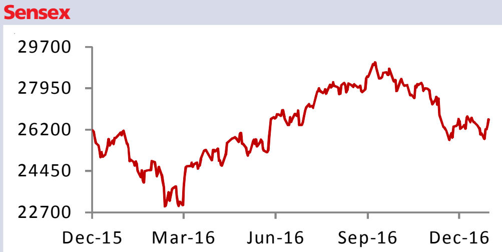
Commodity

		% Chg		
	30 May 17	1 Day	1 Mth	3 Mths
Crude (US$/BBL)	49.5	(0.4)	0.3	(8.4)
Gold (US$/OZ)	1,262.4	(0.4)	(0.4)	0.4
Silver (US$/OZ)	17.4	(0.1)	0.1	(6.1)

Debt / forex market

	30 May 17	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.7	6.7	7.0	6.9
Re/US$	64.7	64.5	64.2	66.7

Sensex



RESULT UPDATE

Pankaj Kumar
pankajr.kumar@kotak.com
+91 22 6218 6434

INSECTICIDES INDIA

PRICE: RS. 642 **RECOMMENDATION: BUY**
TARGET PRICE: RS.721 **FY19 P/E: 14.2x**

Insecticides India Ltd Q4FY17 results were inline with our estimates. Net revenue for the quarter declined marginally by 1.2% yoy to Rs 1.76 bn and was broadly inline with our estimates. The growth in topline was impacted due to seasonality factor and lower excise duty refund (on yoy). EBITDA for the quarter grew by 64% yoy to Rs 134 mn with EBITDA margins at 7.6% which improved by 300 bps yoy. PAT for the quarter grew by 1140% yoy to Rs 60 mn on a low base of last year led by lower finance expenses and strong growth at operating level. The company had launched Green Label and Suzuka in FY17 which are expected to ramp up further in terms of revenue contribution in FY18. Further, it has a pipeline of 4-5 new products including inlicensed 9(3) registration products and reengineered off-patented products (like Green Label). The management is targeting for over 15% revenue growth with improved margins in FY18E based on positive outlook on demand led by normal monsoon forecast.The implementation of GST may result some shift in revenue from Q1FY18 to Q2FY18, but would broadly be neutral for the company. We have marginally revised our FY18E estimates and introduce FY19E estimates. We recommend Buy (Vs Accumulate earlier) with revised target price of Rs 721 (Vs Rs 621 earlier) as we roll forward our valuation multiple to FY19E.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Revenue	11074	12735	14773
Growth (%)	12.1	15.0	16.0
EBITDA	1139	1387	1638
EBITDA margin (%)	10.3	10.9	11.1
PBT	800	1050	1312
PAT	581	767	931
EPS	28.1	37.1	45.1
EPS Growth(%)	48.0	31.9	21.5
CEPS (Rs)	36	45	53
Book value (Rs/share)	224	258	299
Dividend per share (Rs)	2	3	3
ROE (%)	13.3	15.4	16.2
Core ROCE (%)	14.8	16.9	18.8
Net cash (debt)	(2171)	(1938)	(1690)
NW Capital (Days)	119	118	118
P/E (x)	22.8	17.3	14.2
P/BV (x)	2.9	2.5	2.1
EV/EBITDA (x)	13.6	11.0	9.1
EV/Sales (x)	1.4	1.2	1.0

Source: Company, Kotak Securities - Private Client Research

Result Table

Year to March (Rs Mn)	Q4FY17	Q4FY16	%Change	Q3FY17	%Change
Net Revenues	1,760	1,781	(1.2)	1,591	10.6
Raw Materials Cost	1,202	1,100	9.3	962	24.9
Gross Profit	558	681	(18.1)	628	(11.3)
Employee Expenses	102	116	(12.2)	111	(8.2)
Other Expenses	322	484	(33.3)	357	(9.7)
Operating Expenses	1,626	1,700	(4.3)	1,430	13.7
EBITDA	134	81	64.4	161	(16.9)
EBITDA margin	7.6%	4.6%		10.1%	
Depreciation	40	40	(0.0)	40	(1.7)
Other income	3	4	(18.8)	1	177.5
Net finance expense	27	32	(15.1)	47	(41.4)
Profit before tax	70	14	411.6	75	(6.8)
Provision for taxes	11	9	19.0	21	(50.5)
Reported net profit	60	5	1,139.7	54	10.6
As % of net revenues					
COGS	68.3	61.8		60.5	
Employee cost	5.8	6.5		7.0	
Other Expenses	18.3	27.2		22.4	
Operating expenses	92.4	95.4		89.9	
EBITDA	7.6	4.6		10.1	
Reported net profit	3.4	0.3		3.4	
Tax rate (% of PBT)	15.1	65.0		28.5	

Source: Company

Q4FY17 revenue inline with our estimates

- Net sales for the quarter declined marginally by 1.2% yoy to Rs 1.76 bn and was broadly inline with our estimates. The growth in topline was impacted due to seasonality factor and lower excise duty refund on yoy.Q4FY17 normally contributes lower in the range of 16-18% to the annual topline due to seasonality factor.

- In FY17, the company reported 12.1% yoy growth in revenue with 12.9% growth in formulation and 6.4% growth in technicals segment. B2B segment contributed 28% to FY17 revenue and B2C was at 78%. The mix has marginally improved towards B2C segment with 78% contribution in FY17 as against 77% in FY16.
- Contribution of Navratna products was at 55% of the branded sales Vs 52% in FY16 and further expected to improve to 60% of branded sales in FY18 revenue. This was on account of strong performance in Green Label (Bispyribac Sodium 10% SC) which contributed Rs 750 mn to FY17 revenue. The company is targeting Rs 1.5 bn revenue from the product in FY18 with relatively lower margins than last year (in the range of 18-20% margin in FY17) as 1-2 new players are expected to enter in the product which may result in lower margins due to increased competition.
- On the other hand, super 11 products witnessed lower contribution of 11% to FY17 revenue as against 13% in FY16, due to lower instance of diseases in the crops where these are mostly catering to.

EBITDA grew by 64% on improved margins on yoy

- EBITDA for the quarter grew by 64% yoy to Rs 134 mn (Vs estimates of Rs 132 mn) with EBITDA margins at 7.6% (vs estimates of 7.2%) which improved by 300 bps yoy. Margins improved on lower other expenses and low base of last year.
- EBITDA margin for the full year was 10.3% improved by 110 bps yoy. The management is targeting further improvement in margins to the extent of over 50 bps on increased contribution from high margin Navratna products including Green Label.
- PAT for the quarter grew by 1140% yoy to Rs 60 mn (Vs estimates of Rs 60 mn) on a low base of last year led by lower finance expenses and strong growth at operating level.
- The working capital increased at the end of the quarter as the company built up low cost raw material inventory for FY18.As a result, the net debt of the company increased on yoy.

Strong product pipeline for next year

- The company has launched 2-3 new products in FY17 of which Green Label contributed significantly in the first year with Rs 750 mn revenue. Further, it launched Suzuka which is expected to contribute meaningfully in FY18.
- The company has recently launched biological product Kayakalp which is its own product and would help in improving soil health and reduce use of chemical fertilizer.
- Further, the company has a pipeline of 4-5new molecules which includes inlicensed 9(3) molecules. It targets to launch one more re-engineered offpatent product in current year.

Targets for over 15% revenue growth in FY18

- The management is targeting for over 15% revenue growth with improved margins in FY18 based on positive outlook on demand due to normal monsoon forecast.
- The implementation of GST may result some shift in revenue from Q1FY18 to Q2FY18, but would be broadly be neutral for the company.

Outlook and valuation

We believe that IIL is well placed to grow in agro chemical sector which is growing at double digits rate and has positive growth outlook for the long term. Further, IIL is aiming to position itself as niche player by moving up in the value chain and adding new products which will drive growth in the long term. We believe that

We recommend Buy on Insecticides India with a price target of Rs.721

the company would be able to meet its revenue growth guidance of over 15% in FY18. We have marginally revised our FY18 estimates and introduced FY19E estimates assuming 16% revenue growth. The stock is trading at PE of 17.3x and 14.2x on FY18E and FY19E EPS of Rs 37.1 and Rs 45.1 respectively and is available at over 40% discount to its peers in the sector. We recommend Buy (Vs Accumulate earlier) with revised target price of Rs 721 (Vs Rs 621 earlier) as we roll forward our valuation multiple to FY19, by valuing the stock at 16x FY19E EPS of 45.1.

Change in estimates

Particulars	Previous		Actual	Revised	New	% Change	
(Rs Mn)	FY17E	FY18E	FY17A	FY18E	FY19E	FY17A	FY18E
Revenue	11317	13452	11074	12735	14773	-2%	-5%
EBITDA margin (%)	10.1	10.7	10.3	10.9	11.1	1%	2%
PAT	583	802	581	767	931	-0.3%	-4.4%
EPS	28.2	38.8	28.1	37.1	45.1	-0.3%	-4.4%

Source: Kotak Securities Private Client Research

RESULT UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6218 6432

IRB INFRASTRUCTURE DEVELOPERS LTD

PRICE: RS. 224 **RECOMMENDATION: BUY**
TARGET PRICE: RS.295 **FY19E (PE)x :9.2x**

Result highlights

- Revenues of the company for Q4FY17 were ahead of our estimates on improvement in construction revenues.
- Consolidated operating margins improved across both the divisions and stood at 51.4% vs 49.3% during Q4FY17 due to higher proportion of BOT revenues in the overall mix.
- Net profit improved by 37% YoY for Q4FY17 and stood ahead of our estimates due to better than expected revenue growth and margins.
- We revise our estimates to factor in lower than expected toll collection in Ahd-Vadodara project and Amritsar Pathankot project while we also incorporate the transfer of 6 projects to InVIT. We arrive at a revised price target of Rs 295 on FY19 estimates (Rs 287 earlier on FY18 estimates). We continue to remain positive on the stock and maintain BUY rating on IRB Infrastructure.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	59,691	58,900	63,840
Growth (%)	13.6	(1.3)	8.4
EBITDA	31,715	27,943	30,125
EBITDA margin (%)	53.1%	47.4%	47.2%
PBT	9,840	12,166	12,284
Net profit	7,155	8,465	8,678
EPS (Rs)	20.4	24.1	24.7
Growth (%)	12.5	18.3	2.5
CEPS(Rs)	44.7	41.8	45.2
B/v (Rs/share)	157.8	179.4	201.7
DPS (Rs)	2.0	2.0	2.0
ROE (%)	13.7	14.3	13.0
ROCE (%)	11.2	11.1	12.4
Net debt	143,484	120,766	135,726
P/E (x)	11.2	9.5	9.2
P/BV (x)	1.4	1.3	1.1
EV/Sales (x)	3.7	3.4	3.4
EV/EBITDA (x)	7.1	7.2	7.2

Source: Company, Kotak Securities - Private Client Research

Consolidated financial highlights

	Q4FY17			Q4FY16		
Rs mn	EPC	BOT	Total	EPC	BOT	Total
Revenues	10619	5942	16561	9780	5932	15712
YoY %	8.6%	0.2%	5.4%			
EBITDA	3353	5154	8507	2653	5087	7741
EBITDA %	31.6%	86.8%	51.4%	27.1%	85.8%	49.3%
Depreciation	159	2104	2264	181	2043	2224
EBIT	3194	3050	6244	2472	3044	5517
Interest	1005	2255	3260	827	2439	3265
EBT	2188	795	2983	1646	606	2251
YoY %	33.0%	31.3%	32.5%			
Tax	877	35	911	596	131	727
Tax%	40.1%	4.4%	30.5%	36.2%	21.6%	32.3%
PAT	1312	760	2072	1050	475	1524
Minority interest	0	0	0		13	13
Net profit	1312	760	2072	1050	462	1511
YoY %	25.0%	64.6%	37.1%			
Net profit w/o MAT credit	1312	760	2072	1050	462	1511
Shares(mn)	351.5	351.5	351.5	351.5	351.5	351.5
EPS	3.7	2.2	5.9	3.0	1.3	4.3

Source: Company

Revenue growth led by improvement in construction revenues

Revenue growth for the quarter stood at 5.4% YoY and was led by improved construction revenues. EPC revenues grew by 8.6% for Q4FY17 while toll revenues were largely flat as the traffic did not fully recover from demonetization.

EPC revenues are largely led by execution of Solapur-Yedeshi, Yedeshi-Aurangabad, Goa-Kundapur, Rajasthan Kaithal project and Agra Etawah project while toll revenues were impacted by demonetization in comparison with last quarter. Traffic growth was also impacted due to reduction in commercial traffic but now it has started coming back to normal.

Toll revenues trend across all projects for the quarter: For the quarter, Mumbai-Pune project witnessed 11.1% YoY improvement in revenues during the quarter while Surat-Dahisar witnessed a 9% decline in revenues during the quarter. Tumkur-Chitradurg witnessed 5.62% YoY growth in revenues and Ahmedabad-Vadodara witnessed 7% growth in revenues. Bharuch-Surat revenues were flat YoY and MVR witnessed a 9% YoY decline. Amritsar-Pathankot project witnessed a flat YoY trend in revenues while Jaipur-Deoli revenues declined by 2% YoY while Talegaon Amravati toll collections grew by nearly 15% YoY. Agra Etawah project has also contributed to Rs 261 mn of revenues during Q4FY17.

Healthy order inflows during current fiscal till date

Company's current order book stands at Rs 99.5 bn with Rs 38.2 bn in ongoing projects, Rs 7.02 bn in O&M phase while Rs 54.36 bn from recently awarded projects. During the current fiscal, company has received a healthy order inflow of road BOT projects totaling nearly 329 km on NH-79 and NH-8. With this IRB had met its order inflow guidance for the current fiscal which was expected to be around 300-400km. These contiguous stretches of roads would also help in optimizing overall costs and would result in improved utilization of its assets

Financial closure of these projects is likely to be completed between June-August, 2017.

Post the InVIT issue, IRB has received Rs. 26 bn as consideration for sale of its equity shareholding in six Project SVPs transferred to IRB InvIT Fund. Consideration to IRB was paid as follows- Rs. 16.81 bn Upfront and Units in IRB InvIT Fund worth Rs. 8.89bn. Thus, going ahead, till the amount is invested in projects, IRB is likely to witness increased other income on interest on bank balance as well as 10-12% yield on its units in InVIT fund.

We revise our estimates to factor in lower than expected toll collection in Ahd-Vadodara project and Amritsar Pathankot project while we also incorporate the transfer of 6 projects to InVIT. We expect revenues of Rs 58.9 bn/Rs Rs 63.8 bn for FY18/19 respectively.

Operating margins ahead of our estimates

Operating margins in the construction division stood at 31.6% while margins also remained strong in the BOT division at 86.8% for Q4FY17. Consolidated margins stood at 51.4% for Q4FY17 as against 49.3% in Q4FY16 due to change in revenue mix. We revise our estimates and expect margins of 47.4/47.2% for FY17/18 respectively.

Net profit growth ahead of our estimates due to claim compensation

Net profit reported a growth of 37% YoY for Q4FY17 due to better than expected revenues and margins. Net debt on consolidated basis stands at nearly Rs 151 bn while standalone borrowings stand at around Rs 30 bn.

For these under-construction projects, company expects an equity commitment of Rs 17 bn to be invested over next 3 years. It expects to put in Rs 5 bn/ 5.5 bn/ 5 bn during FY18/19/20 respectively. We revise our estimates and expect net profits of Rs 8.4 bn/Rs 8.6 bn for FY18/19 respectively.

Valuation and recommendation

We recommend Buy on IRB INFRASTRUCTURE DEVELOPERS LTD with a price target of Rs.295

At current price of Rs 224, stock is trading at 9.5x and 9.2x P/E on FY18 and FY19 respectively. We revise our estimates to factor in lower than expected toll collection in Ahd-Vadodara project and Amritsar Pathankot project while we also incorporate the transfer of 6 projects to InVIT. We arrive at a revised price target of Rs 295 on FY19 estimates (Rs 287 earlier on FY18 estimates). We continue to remain positive on the stock and maintain BUY rating on IRB Infrastructure.

Sum of the parts valuation

	EBITDA(FY19E)	Multiple	EV(Rs mn)	Value per share
Core construction division	**11153**	**5**	**55766**	**159**
BOT projects(based on FY19)	**Cost of equity(%)**			
Operational projects				
Thane Ghodbunder	12.5%		1645	5
Mumbai Pune	11.4%		8316	24
Pune-Sholapur	12.5%		255	1
Pune Nashik	12.5%		1173	3
Amritsar-Pathankot	13.5%		4005	11
Ahmedabad-Vadodara	13.5%		5498	16
Under construction projects				
Goa Kundapur	13.5%		9112	26
Solapur-Yedeshi	13.5%		6969	20
Yedeshi-Aurangabad	13.5%		11182	32
Rajasthan - Kaithal	13.5%		10758	31
IRB's stake valuation in InVIT			**8682**	**25**
Real estate investment valuations	**1250 acres**	**1**	**1300**	**4**
Net debt at standalone		**21013**	**60**	
Total			**295**	

Source: Kotak Securities - Private Client Research

RESULT UPDATE

Teena Virmani
teena.virmani@kotak.com
+91 22 6218 6432

IL&FS TRANSPORTATION NETWORKS LTD

PRICE: RS. 102 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.112 **FY19 P/E(x) : 14.1x**

Result highlights

Company's net profit performance on standalone basis was marginally ahead of our estimates. Standalone revenues have declined in FY17 due to completion of few large sized projects. On consolidated basis, construction division revenues stood largely flat. Elsamax revenues grew by 9.3% YoY while toll revenues reported an improvement of 5% YoY. Margins were quite strong owing to strong margins in construction division as projects were nearing completion. High interest expense continued to weigh on the profitability but increase in other income owing to higher stake sale as well as increased dividend income boosted net profit.

We have witnessed that company is working towards reducing the debt and interest expense. Debt refinancing, bond issue, InViT, expected stake sale (Yu He expressway), claim settlement are likely to be watched out closely going ahead as these measures are likely to reduce debt and interest expense sharply. It has also bagged EPC projects which should increase revenue visibility going forward.

We incorporate consolidated financials post Ind-AS adoption and arrive at a revised price target of Rs 112 on FY19 estimates. Owing to limited from the current levels, we recommend ACCUMULATE on the stock and would look for better entry points to buy the stock.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	79,844	74,653	70,871
Growth (%)	0.5	(6.5)	(5.1)
EBITDA	31,597	23,337	24,245
EBITDA margin (%)	39.6%	31.3%	34.2%
PBT	1,249	1,550	2,205
Net profit	1,456	1,927	2,377
EPS (Rs)	4.4	5.9	7.2
Growth (%)	(53.3)	32.4	23.3
CEPS(Rs)	15.5	16.8	18.8
B/v value(Rs/share)	205.5	209.0	213.8
DPS (Rs)	2.0	2.0	2.0
ROE (%)	2.2	2.8	3.4
ROCE (%)	9.0	6.7	6.3
Net debt	288,862	312,255	337,511
NWC (Days)	93	58	58
P/E (x)	23.1	17.4	14.1
P/BV (x)	0.5	0.5	0.5
EV/Sales (x)	4.1	4.7	5.3
EV/EBITDA (x)	10.4	15.1	15.6

Source: Company, Kotak Securities - Private Client Research

Consolidated Financial highlights

DESCRIPTION	FY16	FY17	YoY%
Net Sales	80358.4	79844.2	-0.6%
Total Expenditure	55137.0	48246.8	-12.5%
EBITDA	25221.4	31597.4	25.3%
EBITDA %	31.4%	39.6%	
Depreciation	1964.0	3657.2	
EBIT	23257.4	27940.2	20.1%
Interest	25739.6	30863.3	
EBT(exc other income)	-2482.2	-2923.1	
Other Income	3205.3	4172.0	
PBT	723.1	1248.9	72.7%
Tax	877.4	741.1	
Tax %	121.3%	59.3%	
PAT	-154.3	507.8	
Minority Interest	-708.4	-785.4	
Shares of Associates	315.3	162.5	
Consolidated net profit	869.4	1455.7	67.4%
Other comprehensive inc	676.5	-1771.5	
Net profit	1545.9	-315.8	
Equity Capital	3289.6	3289.6	
Face Value (In Rs)	10.00	10.00	
EPS (Rs)	2.64	4.43	

Source: Company

Revenues impacted by project completion

On consolidated basis, construction income for the year stood largely flat and execution was impacted by reduced construction activity as Chenani Nashri project was completed during FY17 and Barwa Adda and Rapid Metro Rail are nearing completion. Projects like Kher Sinnar, Barwa Adda and Kiratput Ner Chowk are likely to get over during FY18 and execution going forward is likely to be led by commencement of work on new projects. Company has commenced work on Srinagar Sonmarg project, Amravati Chikali, Fagne Gujarat which are likely to aid revenue growth in FY18. Also, ITNL has bagged a few EPC projects such as Chennai Metro Rail Limited project in JV worth Rs 3.7 bn, 2 road projects in MP worth Rs 3.74 bn which will also add to overall execution going forward.

Order Book of the company currently stands at (i) BOT - Rs 118.1 bn, (ii) EPC - Rs 5.41 bn and (iii) International - $ 257 million.

Toll and annuity income reported growth of 5% YoY for FY17 and led by improvement in toll collection. Elsamax revenue growth stood at 9.3% YoY for FY17 led by healthy order book.

We expect the work on Srinagar Sonmar project to pick up pace going ahead along with Amravati Chikali, Fagne Gujarat and ROBs. We expect construction revenues improve in FY18 but decline in FY19 owing to completion of pending construction on Kiratpur Ner, Barwa Adda and Kher Sinnar. However, with completion of Chenani Nashri, Kher Sinnar, Barwa Adda and Kiratpur Ner Chowk, toll/annuity income is likely to move up going forward.

We thus expect consolidated revenues of Rs 74.6 bn/Rs 70.87 bn for FY18/19 respectively.

Key risks to our revenue estimates would come from lower than expected revenue booking from Srinagar Sonmarg project. Also with the expected InVIT issue, 4 projects are expected to be transferred from the company to InVIT, and hence this can also change our estimates for toll/annuity going forward.

Key developments during last quarter

During Q1FY18, company bagged a contract for rehabilitation and development of National Road no 1 with length of 165 km including construction of 33 new bridges in the People's Democratic Republic of Laos for nearly Rs 11 bn. The amount is payable over 7 years of which nearly 60% is payable during construction period of 42 months.

Refinancing of debt -

a) During Q1FY18, company refinanced the debt at its Jharkhand project for development of 5 road stretches on its debt of Rs 17.3 bn. This led to reduction of 205 basis point in average interest cost to 9.45%.

b) It has also refinanced the debt of Rs 17.12 bn at its Moradabad Bareily project. This led to reduction of 202 basis point in average interest cost to 10.17%.

c) During Q4FY17, it refinanced the debt of Rs 7.15 bn at its Hazaribag Ranchi project. This led to reduction of 282 basis point in average interest cost to 8.56%.

It also received orders worth Rs 1.75 bn in JV for road projects by Madhya Pradesh Road Development Corporation Ltd.

Better than expected margins and higher other income boosted net profits on yearly basis

Strong operating margins of 39.6% and higher other income boosted net profits in comparison with FY16. Higher savings in the construction cost and projects nearing completion led to better construction margins Net profit performance was broadly in line with our estimates which was impacted by higher than expected interest expense but compensated by better than expected margins also.

Gross borrowing stands at nearly Rs 310 bn at the consolidated level and at Rs

116.7 bn at standalone level. This is likely to increase post company achieves financial closure of pending projects but is likely to peak out in next 1-1.5 years. Pending investment worth Rs 5.4 bn is expected to be made in FY18/19. However, company is planning to come out with an InVIT issue which will help in reducing the borrowings by nearly Rs 35 bn.

Key things to watch out for going forward for the company are -

A) Refinancing of debt - ITNL is looking for refinancing of its debt in atleast 4 more projects. Things have progressed in 3 projects while remaining four projects - Jorbat Shillong, Chenani Nashri, Pune Solapur and RIDCOR - are likely to be considered in H1FY18. This would help in reducing the interest rate by nearly 200 bps and hence correspondingly lower interest expense by nearly Rs 3-4 bn.

B) Company is also looking for a bond issue for a size of nearly Rs 50 bn. This would also help in replacing the high cost debt with a low cost bond issue.

C) InViT - ITNL has taken a board approval for raising funds through InViT of around Rs 42 bn. Amount to be raised is expected to be utilised for debt reduction. Four projects including 3 annuity - Jharkhand projects, Hazaribag Ranchi, North Karnataka Expressway and one toll project- Sikar Bikaner are being considered to be transferred in InViT.

D) Arbitration claims- Company has filed for arbitration for three of its projects where cost overruns were witnessed - Moradabad Bareilly, Pune Solapur, Jorbat Shilong and has filed for claims worth Rs 20 bn.

We recommend ACCUMULATE on IL&FS Transportation Networks Ltd with a price target of Rs.112

Decision on all these measures is expected in next 12-18 months which would help in reducing the leverage as well as interest expense going forward.

Valuation and recommendation

At current price of Rs 102, stock is trading at 17.4x and 14.1x P/E on FY18 and FY19 respectively. We incorporate consolidated financials post Ind-AS adoption and arrive at a revised price target of Rs 112 on FY19 estimates. Owing to limited from the current levels, we recommend ACCUMULATE on the stock and would look for better entry points to buy the stock.

Sum of the parts valuation

FY19	EBITDA	EV/EBITDA or CoE (%)	Per share
Core construction	4479.5	5	68
Toll Projects		12.50%	185
Annuity projects		12.50%	35
Other investments		12.50%	29
Net debt at standalone			204
Total			**112**

Source: Kotak Securities - Private Client Research

RESULT UPDATE

Jatin Damania
jatin.damania@kotak.com
+91 22 6218 6440

MOLD-TEK PACKAGING

PRICE: RS. 287 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.304 **FY19 P/E: 16.8x**

Mold Tek Packaging (MTPL) reported better than expected numbers. Standalone revenue stood at Rs814mn, up 15.5%/20.2% YoY/QoQ. EBITDA during the quarter grew 29.6% QoQ to Rs132mn, with an EBITDA margin of 16.3% vs 15.1% in 3QFY17, the sequential expansion in margin is attributed to the higher contribution from IML. PAT during the quarter stood at Rs70mn. Consolidated PAT stood at Rs58 mn vs estimates of Rs53 mn. Management has indicated that, with the execution of "Dairy Milk Lickables" order, the contribution from IML has increased to 52.7% in Q4FY17 from 40-41% in 3QFY17 and expect momentum to continue. We expect volume growth to remain strong and with new incremental orders coming into IML segment, we expect EBITDA margin to also remain strong in the coming quarters. At CMP, stock trades at 17x FY19E earnings. We maintain our Accumulate rating on the stock, with a revised target price of Rs 304 (earlier Rs290), valuing it at 18x FY19E earnings.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	3,089	3,585	4,099
Growth (%)	12.1	16.1	14.3
EBITDA	494	616	808
EBITDA margin (%)	16.0	17.2	19.7
PBT	383	509	702
Net profit	243	339	467
Adj EPS (Rs)	8.8	12.3	16.9
Growth (%)	0.7	39.7	37.8
CEPS (Rs)	12.5	16.2	21.0
BV (Rs/share)	55	65	76
Dividend / share (Rs)	3.6	4.0	5.0
ROE (%)	15.8	18.9	22.3
ROCE (%)	17.1	19.0	21.9
Net cash (debt)	(271)	(287)	(290)
EV/EBITDA (x)	16.7	13.4	9.8
EV/Sales (x)	2.7	2.3	1.9
P/E (x)	32.8	23.5	17.0
P/CEPS (x)	23.0	17.8	13.7
P/BV (x)	5.2	4.4	3.8

Source: Company, Kotak Securities - Private Client Research

Y/E March (Rsmn)	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Net sales	814	705	15.5	677	20.2
Materials	493	405		402	
% of sales	60.5	57.5		59.3	
Employee Expenses	78	66		66	
% of sales	9.6	9.3		9.8	
Total Expenditure	682	574		575	
Operating profit	132	131	1.0	102	29.6
OPM (%)	16.3	18.6		15.1	
Depreciation	26	22		25	
Interest	6	2		4	
EBT	101	107		73	
Other income	5	3		9	
PBT	106	110	(3.6)	82	29.1
Exceptional Item	2	-		-	
Provision for tax	38	37		27	
-effective tax rate	35.7	34.0		32.3	
PAT (reported)	70	73	(3.7)	56	25.7
Minority/ Share of Profit	0	0		0	
PAT (Adjusted)	70	73	(3.7)	56	25.7
NPM (%)	8.6	10.3		8.2	

Source: Company

Strong volume and higher contribution of IML boost operating performance: Volume during the quarter strong stood at 4,844 kg, up 6.2%/17% YoY/QoQ. The sharp jump in the volume is attributed to the execution of "Mondelez" order (IML order). The current monthly run rate for the order stands at 3mn per month and is expected to go to 4.5mn per month from June 2017 onwards, owing to greater acceptance of the product in modern retail channel. Higher volume, coupled with increase in contribution of IML, resulted in 29.6% QoQ jump in EBITDA to Rs132 mn, with an EBITDA margin of 16.3%. EBITDA/kg stood at Rs27.3/kg vs Rs24.7/kg in 3QFY17.

RAK to achieve break-even by 2QFY18: MTPL started commercial production at its wholly owned subsidiary RAK, which has installed capacity of 2500 tonnes of pails. However, the ramp-up of the facility is slower than expected. Currently, RAK is operating at 25-30% capacity utilisation and expected to improve to 40% by end of FY18E and to 75% in FY19E. Given the high expenses in the initial stages, we do not expect any contribution to profit from RAK in FY18E. Management expect RAK will achieve break-even by 2QFY18.

Food and FMCG a key catalyst: Lubricant sand paint industry contributes nearly 93-94% of the overall revenue, with Asian paints (non-IML) and Castrol being the largest customers. However, going ahead, we believe that, with the increasing monthly run rate of the Mondelez order, the revenue from food and FMCG industry should increase to 15-18% by the end of FY18E and would remain at higher levels in FY19E as well. As for the next two years, incremental orders will be from food and FMCG segments, give the lined-up of new product development. Besides Cadbury, expected order inflow from GSK, Nestle, Haldiram, to name a few would further strengthen the contribution from the Food and FMCG segment. Company is planning to launch couple of more products (sipper for beverages, generic product for ice cream, to name few) in the month of September and November, which would further strengthen the overall product mix in the favor of IML. Since all the orders in Food and FMCG segment are in IML categories, we expect EBITDA margin to remain strong and EBITDA/kg to increase to Rs30/kg by the end of FY19E from ~Rs27/kg in FY17. Food and FMCG segment garner higher margin in the range of 22-25% as compared to 15-17% in lubricant and paint industry in non-IML categories.

We recommend ACCUMULATE on Mold-Tek Packaging with a price target of Rs.304

Limited upside, maintain Accumulate: Going ahead, we believe that the increasing contribution of IML would support the company's profitability in the next two years (FY18E and FY19E). Increased contribution from food and FMCG sector (high margin 22 - 25%) would further strengthen Mold-Tek Packaging earnings, as the company is expected to close a couple of orders in the segment. We expect EBITDA margin to remain strong as the contribution from the Food and FMCG segment to increase to 15-18% by the end of FY18E. Increasing share of IML in the overall revenue mix, makes us believe that the company could be a good investment idea with a return ratio in the range if 19-20% for the next two years. Stock has rallied ~12% since our last update on 26th April 2017 and now offer limited upside, we maintain Accumulate rating on stock, with a revised target price of Rs304. At CMP, stock trades at 17x FY19E earnings.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
30-Dec	ABIRLANUVO	Turquoise Investments & Finance	B	1,500,000	1,360.6
30-Dec	ABIRLANUVO	Igh Holdings Pvt Ltd	B	4,200,000	1,358.7
30-Dec	ABIRLANUVO	Reliance Tax Saver Elss Fund	S	724,000	1,366.0
30-Dec	ABIRLANUVO	Reliance Regular Saving Fund Eqt Optn	S	700,000	1,366.0
30-Dec	ABIRLANUVO	Reliance Growth Fund	S	1,659,200	1,366.0
30-Dec	ACIASIA	Abjayoni Trading Pvt Ltd	S	11,018,400	0.1
30-Dec	ARNAVCORP	Bulltext Reality Pvt Ltd	S	1,123,829	2.5
30-Dec	DUNE	Kunal Bawa	S	30,157	6.4
30-Dec	DUNE	Kamleshkumar Deoraj Jain	B	29,635	6.4
30-Dec	GUJAUTO	Venu Gupta	S	10,000	176.8
30-Dec	JUNCTION	Sahil Gupta	B	16,000	24.0
30-Dec	JUNCTION	Hem Sec Ltd	S	16,000	23.5
30-Dec	MACINTR	Makesworth Projects & Developers	B	21,000	22.3
30-Dec	MARG	Sapna Bagamar	B	200,000	10.5
30-Dec	RELICAB	Aryaman Broking Limited	B	30,000	25.7
30-Dec	RIBATEX	Rapid Credit & Holdings Pvt Ltd	S	60,000	43.3
30-Dec	RIBATEX	Indra Pratap Singh (Huf)	B	60,300	42.9
30-Dec	SECHE	Shriram Credit Company Ltd	S	763,073	1.9
30-Dec	SHAHFOOD	Vijay Kantilal Sheth	S	4,707	80.4
30-Dec	SHAHFOOD	Karan Pradip Shah	B	6,100	80.4
30-Dec	VAL	Aryaman Broking Ltd	B	44,000	26.8
30-Dec	VAL	Daisy Distributors Pvt Ltd	S	44,000	26.8
30-Dec	VISHAL	Lts Investment Fund Ltd	B	78,000	375.0

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
AUROPHARMA	582	13.58	NA	19.39
ADANIPORTS	341	4.03	NA	3.68
BANKBARODA	179	3.08	NA	10.25
Losers				
POWERGRID	204.95	-1.98	NA	6.12
BPCL	740	-1.97	NA	2.47
INFRATEL	373	-1.67	NA	1.27

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.

Fundamental Research Team

Dipen Shah
IT, Economy
dipen.shah@kotak.com
+91 22 6218 5409

Ruchir Khare
Capital Goods, Engineering
ruchir.khare@kotak.com
+91 22 6218 6431

Meeta Shetty, CFA
Pharmaceuticals
meeta.shetty@kotak.com
+91 22 6218 6425

Jayesh Kumar
Economy
kumar.jayesh@kotak.com
+91 22 6218 5373

Sanjeev Zarbade
Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6218 6424

Ritwik Rai
FMCG, Media
ritwik.rai@kotak.com
+91 22 6218 6426

Jatin Damania
Metals & Mining
jatin.damania@kotak.com
+91 22 6218 6440

K. Kathirvelu
Production
k.kathirvelu@kotak.com
+91 22 6218 6427

Teena Virmani
Construction, Cement
teena.virmani@kotak.com
+91 22 6218 6432

Sumit Pokharna
Oil and Gas
sumit.pokharna@kotak.com
+91 22 6218 6438

Pankaj Kumar
Midcap
pankajr.kumar@kotak.com
+91 22 6218 6434

Arun Agarwal
Auto & Auto Ancillary
arun.agarwal@kotak.com
+91 22 6218 6443

Amit Agarwal
Logistics, Paints, Transportation
agarwal.amit@kotak.com
+91 22 6218 6439

Nipun Gupta
Information Technology
nipun.gupta@kotak.com
+91 22 6218 6433

Technical Research Team

Shrikant Chouhan
shrikant.chouhan@kotak.com
91 22 6218 5408

Amol Athawale
amol.athawale@kotak.com
+91 20 6620 3350

Derivatives Research Team

Sahaj Agrawal
sahaj.agrawal@kotak.com
+91 79 6607 2231

Malay Gandhi
malay.gandhi@kotak.com
+91 22 6218 6420

Prashanth Lalu
prashanth.lalu@kotak.com
+91 22 6218 5497

Prasenjit Biswas
prasenjit.biswas@kotak.com
+91 33 6625 9810

Disclosure/Disclaimer