

 **Edelweiss**
Asia Conference 2019
August 13, 2019 | Hong Kong
August 14, 2019 | Singapore

INDIA 2025
Seeking Growth - The ESG Way



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Preface

At our recently concluded **Edelweiss Asia Conference**—held on August 13 in Hong Kong and August 14 in Singapore—we hosted 14 corporates and ~100 funds, making it a grand success. The mood was somber largely owing to: a) the global economic slowdown; b) the US-China trade war; c) Fed's 25bps rate cut called as mid-year adjustment; d) USD15tn money invested at negative yield; and e) slowdown blues in domestic auto & discretionary sectors. However, fall in the broader Indian market of late has triggered some curiosity in stocks that are starting to look interesting. Moreover, the USD2bn outflow from the domestic market in July, notwithstanding, we are confident that investors will flock back sooner, rather than later, as India's long-term structural story remains intact. We envisage brighter growth prospects in H2FY20 as the RBI's rate cuts and government spending provide the necessary growth triggers.

We hosted companies from a wide range of sectors—Banks, NBFCs, Consumers, Pharma, Auto Ancillaries, Dairy, among others. Large **banks** believe consolidation in the sector is inevitable, which is also aiding pricing power. **Consumer durables** and **retail** companies are pinning hopes on revival from H2FY20 riding the festive season, availability of more credit and government's infra push.

Media & entertainment companies mentioned that while structurally rising disposable incomes act as a tailwind, they do expect the current slowdown to take a toll on their advertising revenue growth. Though **auto ancillaries** players believe the slowdown is cyclical and envisage a revival in November spurred by the festive season, they admitted that the somber mood is likely to last the entire year. On the other hand, **pharma** companies were slightly upbeat anchored by the pricing stability in the US. **Dairy** companies too are optimistic as they have remained largely immune to the slowdown, except some down trading in the HORECA segment.

While corporates are optimistic that growth will perk up from H2FY20, they are a tad cautious in light of the current slowdown. Considering the tight liquidity situation, they have shifted focus to balance sheets and cash flows—a prudent strategy in our view. Consequently, the banking sector's credit growth has been subdued at ~11-12% in Q1FY20, curtailing balance sheet risks. This nevertheless bodes well from return ratios perspective.

Overall, though FY20 has started on a challenging note, investment opportunities are definitely on the horizon. And, with appropriate government interventions and RBI actions (through rate cuts and liquidity infusion), we expect business confidence to improve starting H2FY20, further boosted by the festive cheer.

We do hope that the one-on-one interactions at the **Edelweiss Asia Conference** gave investors a sneak peek in to the plethora of opportunities across a broad spectrum of sectors while affording insights in to the likely trajectory and quality of India's growth. Given the relatively cautious mood of investors, we believe **THIS TIME IT'S INDEED DIFFERENT!**

Contents

Preface	1
Axis Bank	3
Dr Reddy's Laboratories	7
Havells India	11
IDFC First Bank	15
KEI Industries	19
Kotak Mahindra Bank	23
Natco Pharma	27
Parag Dairy Products	31
Piramal Enterprises	35
PVR	37
Quess Corp	41
SKF	45
VMart Retail	49

AXIS BANK

Making credible changes, execution key

India Equity Research | Banking and Financial Services

Key takeaways

Macroeconomic scenario/industry outlook

- Underlying demand environment is quite weak across sectors; new investments are limited. However, some bright spots in chemicals, oil & gas and infra. Refinancing demand is strong, which is driving overall domestic loan growth. SME is showing signs of weakness.
- Demand for credit in micro enterprises is relatively better.

Business outlook

- Focused on sustainable medium-term RoE of 18%:** To achieve this, Axis Bank will have to cut cost to assets to around 2%, improve NIM towards higher-end of guidance (3.8%) and contain credit cost sustainably below long-term average.
- Asset quality:** The bank is more conservative in provisioning and recognition—has downgraded a few accounts, acknowledged the stress and also built a contingency buffer. BB & below best represents the pool of stress and there is nothing much outside of it. Delinquencies in retail broadly stable at incremental origination level and on outstanding book as well.
- Asset growth:** Retail continues to be key growth driver, particularly personal, education and small business loans.
- Building **operational efficiencies** through: a) rationalising man force; b) digital leverage; and c) lower promotion cost.

Differentiated steps undertaken

- On term deposits:** Strong focus on mobilising retail TD and increasing market share.
- Equity raising:** The purpose is growth capital since it expects to grow above industry average as well as higher than growth in recent past. Regulatory requirements (Basel norms) are setting high and the bank is likely to enhance the buffer it wants to have. Taking this in to consideration, Axis Bank has passed an enabling resolution to raise INR180bn (dilution of around 10%).
- Given the brouhaha around asset quality, the bank is investing more in to collection at this stage.
- With respect to subsidiaries:** The objective is to scale them to a level that they start contributing to the group's profitability meaningfully and management is keen on investing in to subsidiaries.

Financials

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	2,95,848	3,48,385	4,12,000	4,87,691
Net profit	2,757	46,766	96,650	1,38,013
Diluted EPS (INR)	1.1	18.2	36.9	52.7
Adj. BV (INR)	201.9	228.6	269.0	324.7
Price/ Adj book (x)	3.3	2.9	2.6	2.2
Diluted P/E (x)	626.0	37.0	19.0	13.3
ROE (%)	0.5	7.2	13.4	16.4

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: AXBK.BO, B: AXSB IN)

CMP	: INR 672
Target Price	: INR 761
52-week range (INR)	: 828 / 534
Share in issue (mn)	: 2,619.8
M cap (INR bn/USD mn)	: 1,761 / 24,634
Avg. Daily Vol.BSE/NSE('000)	: 10,824.7

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	17.6	18.2	23.0
MF's, FI's & BK's	22.7	20.7	19.0
FII's	47.0	48.3	45.9
Others	12.7	12.8	12.1
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(18.2)	(8.1)	(11.2)
3 months	(11.1)	(5.6)	(4.1)
12 months	11.2	(4.7)	0.1

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Management guidance

- Domestic loan growth will continue to be 5-7 percentage points higher than industry loan growth.
- Cost to asset will continue to trend down and will be at ~2% over the next three years.
- NIM in the near to medium term will range over 3.5-3.8%.
- Credit cost will settle below long-term average (of 115bps).

Investment conclusion

- Valuations capture upside risks and improved visibility on 18% RoE in current challenging environment is crucial for sustainable re-rating of the stock. At 2.2x FY21E P/ABV for RoE of 17% by FY21E we perceive limited upside. Hence, we maintain 'HOLD/SP'.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector				
Credit growth	12.0	14.0	17.0	17.0
Deposit growth	12.0	13.0	14.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	19.5	19.0	19.0
G-sec yield	6.5	7.0	7.1	7.1
Company				
Op. metric assumpt. (%)				
Yield on advances	8.4	8.8	8.5	8.3
Yield on investments	7.1	6.9	6.8	6.5
Yield on asset	7.7	8.0	7.7	7.5
Cost of funds	4.6	4.9	4.5	4.3
Net interest margins	3.1	3.2	3.2	3.3
Cost of deposits	4.4	4.7	4.3	4.2
Cost of borrowings	6.7	6.7	6.3	6.0
Spread	3.1	3.1	3.2	3.2
Tax rate (%)	(126.8)	32.9	30.0	30.0
Balance sheet assumption (%)				
Credit growth	17.7	13.6	17.0	21.3
Deposit growth	9.5	20.9	15.0	22.5
SLR ratio	17.3	17.1	17.3	17.0
Low-cost deposits	53.8	44.4	42.9	44.1
Gross NPA ratio	7.1	5.4	4.9	3.9
Net NPA ratio	3.8	2.3	1.8	1.2
Net NPA / Equity	26.2	16.9	13.3	9.2
Capital adequacy	17.4	15.8	15.4	15.0
Incremental slippage	8.3	2.9	2.8	2.8
Provision coverage	51.6	62.1	67.0	72.6

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Interest income	457,803	549,858	605,934	694,881
Interest expended	271,626	332,776	354,010	393,394
Net interest income	186,177	217,082	251,925	301,487
Non interest income	109,671	131,303	160,076	186,205
- Fee & forex income	94,146	104,715	122,368	144,049
- Misc. income	2,437	19,237	12,708	17,156
- Investment profits	13,088	7,352	25,000	25,000
Net revenue	295,848	348,385	412,000	487,691
Operating expense	139,904	158,334	169,916	186,549
- Employee exp	43,130	47,473	53,424	58,942
- Other opex	96,774	110,861	116,492	127,608
Preprovision profit	155,945	190,051	242,084	301,142
Provisions	154,729	120,310	104,012	103,980
Loan loss provisions	165,987	102,215	103,012	102,980
Investment depreciation	(2,110)	3,000	-	-
Other provisions	(9,148)	15,095	1,000	1,000
Profit Before Tax	1,216	69,741	138,072	197,162
Less: Provision for Tax	(1,541)	22,975	41,422	59,149
Profit After Tax	2,757	46,766	96,650	138,013
Shares o /s (mn)	2,567	2,572	2,620	2,620
Adj. Diluted EPS (INR)	1.1	18.2	36.9	52.7
Dividend per share (DPS)	0.0	1.0	2.0	2.0
Dividend Payout Ratio (%)	0.0	0.0	6.0	4.2

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
NII growth	2.9	16.6	16.1	19.7
Fees growth	13.5	11.2	16.9	17.7
Opex growth	14.7	13.2	7.3	9.8
PPOP growth	(0.9)	27.9	18.8	27.2
PPP growth	(11.3)	21.9	27.4	24.4
Provisions growth	27.7	(22.2)	(13.5)	0.0
Adjusted Profit	(92.5)	1,596.5	106.7	42.8

Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Yield on advances	8.4	8.8	8.5	8.3
Yield on investments	7.1	6.9	6.8	6.5
Yield on assets	7.7	8.0	7.7	7.5
Cost of funds	4.6	4.9	4.5	4.3
Net interest margins	3.1	3.2	3.2	3.3
Cost of deposits	4.4	4.7	4.3	4.2
Cost of borrowings	6.7	6.7	6.3	6.0
Spread	3.1	3.1	3.2	3.2
Cost-income	47.3	45.4	41.2	38.3
Tax rate	(126.8)	32.9	30.0	30.0

Banking and Financial Services

Balance sheet					(INR mn)				
As on 31st March	FY18	FY19	FY20E	FY21E					
Share capital	5,133	5,143	5,239	5,239					
Reserves & Surplus	629,320	661,620	771,648	903,888					
Net worth	634,453	666,763	776,887	909,127					
Sub bonds/pref cap	-	-	5,000	10,000					
Deposits	4,536,227	5,484,714	6,309,736	7,730,932					
Total Borrowings	1,480,161	1,527,758	1,628,177	1,763,898					
Other liabilities	262,455	330,731	390,263	478,072					
Total liabilities	6,913,296	8,009,966	9,110,063	10,892,029					
Loans	4,396,503	4,947,980	5,838,616	7,152,305					
Cash and Equivalents	434,549	672,046	633,003	747,350					
Gilts	1,040,530	1,202,394	1,373,259	1,614,121					
Others	498,231	547,299	573,041	600,070					
Fixed assets	39,717	40,366	35,806	30,970					
Other Assets	503,766	599,881	656,338	747,212					
Total assets	6,913,296	8,009,966	9,110,063	10,892,029					
Credit growth	17.7	13.6	17.0	21.3					
Deposit growth	9.5	20.9	15.0	22.5					
EA growth	15.4	15.7	14.2	20.1					
SLR ratio	17.3	17.1	17.3	17.0					
C-D ratio	104.1	97.8	99.4	98.4					
Low-cost deposits	53.8	44.4	42.9	44.1					
Provision coverage	51.6	62.1	67.0	72.6					
Gross NPA ratio	7.1	5.4	4.9	3.9					
Net NPA ratio	3.8	2.3	1.8	1.2					
Incremental slippage	8.3	2.9	2.8	2.8					
Net NPA / Equity	26.2	16.9	13.3	9.2					
Capital adequacy	17.4	15.8	15.4	15.0					
- Tier 1	14.3	12.5	12.1	11.7					

RoE decomposition (%)				
Year to March	FY18	FY19	FY20E	FY21E
Net int. income/assets	3.1	3.2	3.2	3.3
Fees/Assets	1.6	1.8	1.7	1.7
Invst. profits/Assets	0.2	0.1	0.3	0.3
Net revenues/assets	5.0	5.1	5.2	5.3
Operating expense/assets	(2.4)	(2.3)	(2.2)	(2.0)
Provisions/assets	(2.6)	(1.8)	(1.3)	(1.1)
Taxes/assets	0.0	(0.3)	(0.5)	(0.6)
Total costs/assets	(4.9)	(4.4)	(4.0)	(3.8)
ROA	0.0	0.7	1.2	1.5
Equity/assets	10.0	9.5	9.1	9.1
ROAE (%)	0.5	7.2	13.4	16.4

Valuation parameters				
Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	1.1	18.2	36.9	52.7
Y-o-Y growth (%)	(93.0)	1,593.1	102.9	42.8
BV per share (INR)	247.2	259.3	296.6	347.1
Adj. BV per share (INR)	201.9	228.6	269.0	324.7
Diluted P/E (x)	626.0	37.0	19.0	13.3
Price/ BV (x)	2.7	2.6	2.4	2.0
Price/ Adj. BV (x)	3.3	2.9	2.6	2.2
Dividend Yield (%)	0.0	0.1	0.3	0.3

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Axis Bank	24,634	19.0	13.3	2.6	2.2	13.4	16.4
DCB Bank	917	16.6	13.3	2.1	1.9	12.9	14.2
Federal Bank	2,356	11.8	9.5	1.6	1.4	12.9	14.2
HDFC Bank	84,915	23.8	18.9	3.6	3.2	15.9	17.4
ICICI Bank	37,636	16.6	13.3	2.8	2.4	14.5	16.1
IndusInd Bank	13,614	15.8	11.9	2.9	2.4	18.4	20.6
Kotak Mahindra Bank	40,195	29.2	24.4	4.7	4.1	14.0	14.7
Yes Bank	2,309	45.4	12.5	0.9	0.9	1.5	5.2
Median	-	16.6	12.8	2.5	2.1	13.4	14.7
AVERAGE	-	19.4	12.7	2.2	1.9	12.8	14.7

Source: Edelweiss research

DR.REDDYS LABORATORIES

Complex generics remain key focus

India Equity Research | Pharmaceuticals

Key takeaways

Macroeconomic scenario/industry outlook

- US pricing scenario has stabilised and strong pipeline of US approvals will start contributing in FY20 with 30 plus launches.
- Pace of USFDA inspections remains high as DRRD received two observations for Duvvada and five for the Bollaram API plant.
- Domestic volume growth remains a challenge, but DRRD has been able to beat the market by clocking mid-teens growth over the past few quarters.

Business outlook

- Company wants to achieve break-even in its proprietary products and biologics business over by FY21.
 - DRRD has already divested some of its proprietary assets and has rationalized the sales force
 - DRRD has exited direct commercialisation of the specialty business.
- Domestic operations have been reformed – filling-in leadership gaps & adding marketing capabilities. Company aims to become a top-10 domestic company.
- Encouraging regulatory reforms in China, where DRRD recently received approval for clopidogrel - largest product in the market. Company targets 70 products in China by 2026.

Differentiated steps undertaken

- Company follows an organic strategy, relying on its R&D expertise, to develop a strong pipeline comprising complex generics, specialty and biosimilars.
- DRRD has been optimising its cost structure without hesitating to divest loss making businesses and assets.
- Company has undertaken an aggressive domestic growth strategy, led by:
 - leadership changes, with a new India head and head of chronic business;
 - strategy reset with focus on depth versus width;
 - improved MR productivity led by use of hand-held CRM devices & a shift to chronic;
 - dedicated product development team; and
 - in-licensing of 10-12 innovative products from Amgen & UCB.

Financials

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenues	142,028	153,851	173,945	199,520
EBITDA	22,891	31,333	42,791	50,678
PAT	9,806	18,795	25,451	31,202
Adjusted Diluted EPS	59.2	113.4	153.6	188.3
Diluted Price to Earnings Ratio (P/E) (x)	44.8	23.4	17.3	14.1
Return on Average Equity (ROAE) (%)	7.8	14.1	16.9	17.8

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: REDY.BO, B: DRRD IN)

CMP	: INR 2555
Target Price	: INR 3400
52-week range (INR)	: 2,965 / 1,873
Share in issue (mn)	: 166.1
M cap (INR bn/USD mn)	: 424 / 5,824
Avg. Daily Vol.BSE/NSE('000)	: 897.7

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	26.8	26.8	26.8
MF's, FI's & BK's	13.8	14.5	16.0
FII's	30.7	30.9	29.7
Others	28.7	27.8	27.6
* Promoters pledged shares (% of share in issue)	:		1.2

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	(1.6)	(8.1)	(1.3)
3 months	(13.0)	(5.6)	(10.5)
12 months	13.3	(4.7)	(13.7)

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Management guidance

- DRRD is on track to launch more than 30 products in FY20.
- gSuboxone: Challenge was the uptake of generics as a whole. Now generic penetration is at 50%, so there is more room for penetration. DRRD is ~20% of the generic market.
- gNuvaring: Received CRL from USFDA. Approval delayed to FY21.
- gRevlimid: In legal proceedings. No date announced.
- Biosimilars: On track with rituximab studies: Patients are being enrolled.
- China: Bio studies will take about a year.

Investment conclusion

DRRD is one of the largest Indian generic companies in the world with presence in over 40 countries. The US is its largest market and contributes ~40% to revenue. It has one of the best complex generic pipelines, with over 100 ANDAs pending approval. In FY20, the company expects to launch 30 plus products in the US. India is its second-largest geography, where it has been clocking consistent mid-teens growth and has ambitions to enter the top-10. DRRD also has significant presence in Russia and China. In China, the company harbours ambitions of launching 70 products by 2026. Apart from strengths in developing niche generic products, vertical integration into APIs has enabled it to become a global generic powerhouse. We reiterate 'BUY/SP' with TP of INR3,400 (20x December 2020E EPS). The stock is trading at 14.1x FY21E earnings.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	142,028	153,851	173,945	199,520
Income from operations	142,028	153,851	173,945	199,520
Materials costs	65,724	70,421	75,666	87,789
R&D Cost	18,265	15,607	18,090	19,952
Total SG&A expenses	35,148	36,490	37,398	41,101
EBITDA	22,891	31,333	42,791	50,678
Operating profit	22,891	31,333	42,791	50,678
EBIT	11,129	18,933	30,434	38,036
Less: Interest Expense	(2,080)	(1,117)	(1,117)	(1,117)
Add: Other income	788.00	1,955.00	703.14	474.72
Profit Before Tax	13,997	22,005	32,254	39,627
Less: Provision for Tax	4,535	3,648	7,178	8,801
Associate profit share	344	438	375	375
Reported Profit	9,806	18,795	25,451	31,202
Adjusted Profit	9,806	18,795	25,451	31,202
Shares o /s (mn)	166	166	166	166
Adjusted Basic EPS	59.2	113.4	153.6	188.3
Diluted shares o/s (mn)	166	166	166	166
Adjusted Diluted EPS	59.2	113.4	153.6	188.3
Adjusted Cash EPS	130.1	188.2	228.1	264.6
Dividend per share (DPS)	20.0	20.0	20.0	20.0
Dividend Payout Ratio(%)	33.8	17.6	13.0	10.6

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Materials costs	46.3	45.8	43.5	44.0
S G & A expenses	24.7	23.7	21.5	20.6
Operating expenses	83.9	79.6	75.4	74.6
R & D cost	12.9	10.1	10.4	10.0
Depreciation	8.3	8.1	7.1	6.3
Interest Expense	(1.5)	(0.7)	(0.6)	(0.6)
EBITDA margins	16.1	20.4	24.6	25.4
Net Profit margins	6.9	12.2	14.6	15.6

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	0.9	8.3	13.1	14.7
EBITDA	(5.2)	36.9	36.6	18.4
PBT	(2.1)	57.2	46.6	22.9
Adjusted Profit	(18.5)	91.7	35.4	22.6
EPS	(18.5)	91.7	35.4	22.6

Balance sheet (INR mn)				
As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	830	830	830	830
Reserves & Surplus	125,630	139,327	160,800	188,025
Shareholders' funds	126,460	140,157	161,630	188,855
Long term borrowings	25,089	22,000	22,000	22,000
Short term borrowings	25,529	16,381	16,381	16,381
Total Borrowings	50,618	38,381	38,381	38,381
Long Term Liabilities	3,633	2,920	2,920	2,920
Def. Tax Liability (net)	(2,898)	(3,558)	(3,558)	(3,558)
Sources of funds	177,813	177,900	199,373	226,598
Depreciation	11,762	12,400	12,357	12,642
Net Block	57,869	54,088	53,731	56,089
Intangible Assets	48,610	48,269	48,269	48,269
Total Fixed Assets	106,479	102,357	102,000	104,358
Non current investments	4,653	3,342	3,342	3,342
Cash and Equivalents	20,968	24,757	35,157	47,472
Inventories	29,089	33,579	36,080	41,861
Sundry Debtors	40,617	39,869	45,076	51,704
Loans & Advances	18,971	16,296	23,234	26,650
Current Assets (ex cash)	88,677	89,744	104,391	120,215
Trade payable	16,052	14,553	15,637	18,142
Other Current Liab	28,111	28,766	29,818	30,586
Total Current Liab	44,163	43,319	45,455	48,728
Net Curr Assets-ex cash	44,514	46,425	58,935	71,487
Uses of funds	177,813	177,900	199,373	226,598
BVPS (INR)	763.1	845.7	975.3	1,139.6

Free cash flow (INR mn)				
Year to March	FY18	FY19	FY20E	FY21E
Reported Profit	9,806	18,795	25,451	31,202
Add: Depreciation	11,762	12,400	12,357	12,642
Interest (Net of Tax)	(1,406)	(932)	(868)	(869)
Others	(2,610)	(10,419)	(18,266)	(21,586)
Less: Changes in WC	(477)	(5,241)	(6,624)	(9,903)
Operating cash flow	18,029	25,085	25,297	31,293
Less: Capex	10,904	8,278	12,000	15,000
Free Cash Flow	7,125	16,807	13,297	16,293

Cash flow metrics				
Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	18,029	25,085	25,297	31,293
Financing cash flow	(3,971)	(17,447)	(3,977)	(3,977)
Investing cash flow	(15,295)	(6,967)	(12,000)	(15,000)
Net cash Flow	(1,237)	671	9,320	12,315
Capex	(10,904)	(8,278)	(12,000)	(15,000)
Dividend paid	(4,911)	(3,977)	(3,977)	(3,977)

Profitability and efficiency ratios				
Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	7.8	14.1	16.9	17.8
ROACE (%)	6.8	11.7	16.5	18.1
Inventory Days	160	162	168	162
Debtors Days	101	95	89	89
Payable Days	82	79	73	70
Cash Conversion Cycle	179	179	184	180
Current Ratio	2.5	2.6	3.1	3.4
Gross Debt/EBITDA	2.2	1.2	0.9	0.8
Gross Debt/Equity	0.4	0.3	0.2	0.2
Adjusted Debt/Equity	0.4	0.3	0.2	0.2
Net Debt/Equity	0.2	0.1	-	-
Interest Coverage Ratio	(5.4)	(16.9)	(27.2)	(34.1)

Operating ratios				
Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	0.8	0.9	0.9	0.9
Fixed Asset Turnover	1.3	1.5	1.7	1.9
Equity Turnover	1.1	1.2	1.2	1.1

Valuation parameters				
Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	59.2	113.4	153.6	188.3
Y-o-Y growth (%)	(18.5)	91.7	35.4	22.6
Adjusted Cash EPS (INR)	130.1	188.2	228.1	264.6
Diluted P/E (x)	43.2	22.5	16.6	13.6
P/B (x)	3.3	3.0	2.6	2.2
EV / Sales (x)	3.2	2.8	2.5	2.1
EV / EBITDA (x)	19.8	13.9	10.0	8.2
Dividend Yield (%)	0.8	0.8	0.8	0.8

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Dr.Reddys Laboratories	5,824	16.6	13.6	10.0	8.2	16.9	17.8
Aurobindo Pharma	4,945	12.4	11.8	8.8	7.7	18.7	16.8
Cadila Healthcare	3,130	15.7	14.4	10.5	9.2	11.7	11.7
Cipla	5,361	23.1	20.5	11.2	9.8	10.2	10.5
Lupin	4,631	24.3	16.7	10.6	9.0	9.7	13.0
Sun Pharmaceuticals Industries	14,287	26.0	22.2	14.3	12.2	9.7	10.2
Median	-	19.9	15.6	10.5	9.1	10.9	12.3
AVERAGE	-	19.7	16.5	10.9	9.4	12.8	13.3

Source: Edelweiss research

HAVELLS INDIA

Infra revival and Lloyd scale-up key

India Equity Research | Consumer Durables

Key takeaways

Macro-economic scenario/industry outlook

- During the current slowdown Havells has not pushed inventory in to the channel. This strategy has worked well with dealers in the past and hence management will continue with it.
- Consumer financing is on the rise with shift to large retail, where credit is more easily available.
- There have been multiple reasons for the slowdown: a) elections; b) NBFC liquidity issues; c) non-payment/ delayed payment by contractors; and d) real estate slump. The company sees most of the pressure coming from infra slowdown and there does not seem to be any issue with consumer demand. However, with government spending in infra now resuming, it envisages demand to improve.

Business outlook: Lloyd

- Overall Lloyd is on track, but there have been challenges:
- The company has expanded distribution, but key existing players cut back the same.
- Cost increased due to imports. Hence, the company had to raise prices while industry was pruning them.
- While demand was hurt, Lloyd has been able to reset its pricing earlier than planned.
- Now the company is not cutting prices even at the distribution level.
- Management expects the next one or two quarters to remain difficult.
- While Lloyd is shifting to in-house manufacturing, 40% will still be imported.
- Lloyd's share of organised retail has jumped from 7-8% to 25%.

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

MARKET DATA (R: HVEL.BO, B: HAVL IN)

CMP	: INR 677
Target Price	: INR 785
52-week range (INR)	: 807 / 550
Share in issue (mn)	: 625.8
M cap (INR bn/USD mn)	: 424 / 5,806
Avg. Daily Vol.BSE/NSE('000)	: 1,423.6

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	59.5	59.5	59.5
MF's, FI's & BK's	4.8	4.5	4.9
FII's	26.9	27.3	26.5
Others	8.7	8.7	9.0
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	(15.7)	(8.1)	(12.5)
3 months	(12.7)	(5.6)	(4.0)
12 months	(4.7)	(4.7)	(5.9)

Financials

(INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	81,386	100,576	114,518	134,653
Rev. growth (%)	32.7	23.6	13.9	17.6
EBITDA	10,493	11,922	13,772	17,027
Adjusted Profit	7,006	7,915	9,146	11,441
Adjusted diluted EPS (INR)	11.2	12.7	14.6	18.3
Diluted P/E (x)	60.4	53.5	46.3	37.0
EV/EBITDA (x)	39.0	34.5	29.7	23.9
ROAE (%)	20.0	19.8	20.4	22.7

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Differentiated steps undertaken

- Havells is focusing on four parameters:
- Shift of the brand from mass to mass premium.
- Distribution expansion and penetration.
- In-house manufacturing.
- Improving communication with higher ad spends.

Management guidance

- While staff costs are high because each unit has its own support structure, overall costs have peaked with big IT investments also done and investment in the business is now adequate.
- The rate of capex will moderate.
- Rigid control on receivables.
- **Lloyd:**
 - The company will focus on AC/refrigerators; TV will be phased out over time.
 - Lloyd currently constitutes 13-20% of the overall revenue and is expected to stay in that range. However, in terms of absolute revenue, the company targets to make it a INR50bn business from the current INR20bn.
- Havells intends to focus on doing business in India with no plans to do any acquisitions or investments outside India.
- Overall, management remains cautious of the overall environment, particularly Lloyd, which seems to be lagging versus their plans and initial expectations.

Investment conclusion

We expect Havells to continue to grow its domestic business led by strong product portfolio. The company is currently one of the fastest growing fan brands in the Indian market with ~15% share. In the switchgear market, Havells is the market leader in the low voltage segment with ~28% share. It has been highly successful in bolstering market share of existing products along with launching new products, which have received good response, driven by high brand visibility. The buyout of Lloyd brand imparts access to a high growth larger white good market adding USD2-5bn new market. We maintain **'BUY/SO'** recommendation/rating on the stock with a target price of INR785.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
Cables & Wires	0.3	20.5	12.0	18.1
Switchgears	(2.9)	18.0	11.8	17.2
Lighting & Fixtures	11.3	10.7	14.7	16.0
Consumer durables	10.5	27.0	24.9	19.1
Depreciation	7.0	7.0	6.5	5.4
Tax rate (%)	29.8	31.5	31.5	31.5
Capex (INR mn)	15,962	5,025	4,502	5,000

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Income from operations	81,386	100,576	114,518	134,653
Materials costs	49,808	62,786	71,375	83,135
Employee costs	6,497	8,324	9,612	11,071
Other mfg expenses	14,588	17,545	19,760	23,421
Total operating expenses	70,893	88,654	100,746	117,627
EBITDA	10,493	11,922	13,772	17,027
Depreciation	1,395	1,486	1,701	1,711
EBIT	9,098	10,436	12,071	15,316
Less: Interest Expense	240	159	183	189
Add: Other income	1,169.9	1,275.5	1,462.97	1,574.24
Profit Before Tax	10,147	11,553	13,351	16,702
Less: Provision for Tax	3,022	3,637	4,206	5,261
Add: Exceptional items	119	-	-	-
Reported Profit	7,125	7,915	9,146	11,441
Exceptional Items	119	-	-	-
Adjusted Profit	7,006	7,915	9,146	11,441
Shares o/s (mn)	625	626	626	626
Diluted shares o/s (mn)	625	626	626	626
Adjusted Diluted EPS	11.2	12.7	14.6	18.3
Adjusted Cash EPS	13.4	15.0	17.3	21.0
Dividend per share (DPS)	4.0	4.5	5.6	7.3
Dividend Payout Ratio(%)	42.8	43.0	45.9	48.4

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Operating expenses	87.1	88.1	88.0	87.4
EBITDA margins	12.9	11.9	12.0	12.6
Net Profit margins	8.8	7.9	8.0	8.5

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	32.7	23.6	13.9	17.6
EBITDA	27.3	13.6	15.5	23.6
Adjusted Profit	17.4	13.0	15.5	25.1

Consumer Durables

Balance sheet (INR mn)				
As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	625	626	626	626
Shareholders' funds	37,392	42,425	47,370	53,278
Long term borrowings	810	405	105	75
Short term borrowings	-	-	270	130
Total Borrowings	810	405	375	205
Long Term Liabilities	471	536	536	536
Sources of funds	40,742	46,583	51,498	57,236
Gross Block	15,622	18,654	23,156	28,156
Net Block	12,479	14,306	17,303	20,776
Capital work in progress	241	2,327	3,827	1,827
Intangible Assets	14,835	14,702	14,507	14,323
Total Fixed Assets	27,554	31,335	35,636	36,925
Non current investments	955	583	583	583
Cash and Equivalents	15,266	12,848	14,777	16,571
Inventories	16,217	19,170	21,315	24,826
Sundry Debtors	3,254	4,224	4,706	5,534
Loans & Advances	80	89	93	125
Other Current Assets	2,089	3,542	3,720	5,393
Current Assets (ex cash)	21,639	27,025	29,833	35,879
Sundry creditors	16,340	15,594	17,795	20,954
Provisions	8,333	9,614	11,537	11,768
Total Current Liab	24,672	25,208	29,332	32,722
Net Curr Assets-ex cash	(3,032)	1,819	503	3,158
Net Deferred tax	2,070	3,217	3,217	3,217
Uses of funds	40,742	46,583	51,498	57,236
BVPS (INR)	59.8	67.8	75.7	85.2

Free cash flow (INR mn)				
Year to March	FY18	FY19	FY20E	FY21E
Reported Profit	7,125	7,915	9,146	11,441
Add: Depreciation	1,395	1,486	1,701	1,711
Interest (Net of Tax)	(653)	(765)	(877)	(949)
Others	642	1,241	(403)	(437)
Less: Changes in WC	(2,568)	4,752	(1,316)	2,655
Operating cash flow	11,077	5,125	10,882	9,110
Less: Capex	15,962	5,025	6,002	3,000
Free Cash Flow	(4,885)	100	4,880	6,110

Cash flow metrics				
Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	11,077	5,125	10,882	9,110
Financing cash flow	(3,583)	(3,103)	(4,414)	(5,891)
Investing cash flow	(10,017)	1,782	(4,539)	(1,426)
Net cash Flow	(2,524)	3,803	1,929	1,793
Capex	(15,962)	(5,025)	(6,002)	(3,000)
Dividend paid	(2,998)	(3,402)	(4,201)	(5,533)

Profitability and efficiency ratios				
Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	20.0	19.8	20.4	22.7
ROACE (%)	25.0	25.8	26.7	30.3
Inventory Days	93	103	104	101
Debtors Days	12	14	14	14
Payable Days	83	93	85	85
Cash Conversion Cycle	23	24	32	30
Current Ratio	1.5	1.6	1.5	1.6
Gross Debt/EBITDA	0.1	-	-	-
Gross Debt/Equity	-	-	-	-
Adjusted Debt/Equity	-	-	-	-

Operating ratios				
Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	2.1	2.3	2.3	2.5
Fixed Asset Turnover	6.7	7.5	7.2	7.1
Equity Turnover	2.3	2.5	2.6	2.7

Valuation parameters				
Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	11.2	12.7	14.6	18.3
Y-o-Y growth (%)	17.4	12.9	15.5	25.1
Adjusted Cash EPS (INR)	13.4	15.0	17.3	21.0
Diluted P/E (x)	60.4	53.5	46.3	37.0
P/B (x)	11.3	10.0	8.9	8.0
EV / Sales (x)	5.0	4.0	3.5	3.0
EV / EBITDA (x)	39.0	34.5	29.7	23.9
Dividend Yield (%)	0.6	0.7	0.8	1.1

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Havells India	5,806	46.3	37.0	8.9	8.0	20.4	22.7
Bajaj Electricals	549	18.4	12.4	3.1	2.6	18.1	22.7
Voltas	2,806	33.0	26.8	4.3	3.8	13.9	15.2
Median	-	33.0	26.8	4.3	3.8	18.1	22.7
AVERAGE	-	32.6	25.4	5.5	4.8	17.5	20.2

Source: Edelweiss research

IDFC BANK

Credit cost key monitorable; retail push vital

India Equity Research | Banking and Financial Services

Key takeaways

Business outlook

- **On asset quality:** The bank does not have direct exposure to CCD, but an INR1bn exposure to Sical Logistics, which met its repayment obligation satisfactorily in June. Considering the current unfortunate events that happened, the Bank may create some provisioning against this exposure as a conservative measure, which would be decided in due course after internal discussions and turn out of further corporate **developments in the CCD group**. At this point, incremental stress book addition seems to be minimal/insignificant. The bank has INR14.61bn exposure to DHFL and Reliance Capital (including Reliance Home Finance) through NCDs and has provisioned up to 75% of this exposure, which is quite adequate. Technically, based on the repayment schedule and the repayment history, **the exposure** to these two entities are still current in the books of the bank.

The SME segment as a whole has been reeling under business pressure since demonetisation and the GST rollout. The bank has significant exposure to small and micro enterprises through products such as LAP and Unsecured SME Loans. Although there are pockets of industry segments and geographies that suffered business pressure, the bank has taken proactive steps to curb credit losses in the SME segment, which are usually very dynamic in nature. Historically, the bank has been able to showcase excellent credit performance on its SME Loans portfolio. The bank has strict underwriting policies to ensure asset quality, which are often tested and updated; hence, IDFC First Bank has not seen any significant stress on the retail segment, even in recent times. In the current scenario, the bank has further tightened its provisioning policies pertaining to the retail loan segment in order to have a strong hold on the credit performance of the portfolio. The bank expects to have 2.5–2.8% in credit losses in the overall retail financing segment.

- **Retailisation cornerstone of the bank's strategy:** Strategically, the bank has decided to run down its wholesale book (including infrastructure loans) and focus on the retail financing segment. In five years, the bank aspires to grow the retail loan book from INR440bn to INR1.1–1.2tn; INR560bn of corporate book will be run down to less than INR400bn; the bank will have INR150bn of PSLs; this will take overall portfolio from INR1.12tn to INR1.6–1.8tn.

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA (R: IDFB BO, B: IDFCFB IN)

CMP	: INR 45
Target Price	: INR 49
52-week range (INR)	: 57 / 33
Share in issue (mn)	: 4,782.5
M cap (INR bn/USD mn)	: 215 / 3,003
Avg. Daily Vol.BSE/NSE('000)	: 15,377.2

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	40.0	40.0	56.2
MF's, FI's & BK's	9.4	9.5	13.1
FII's	13.8	13.5	9.7
Others	36.8	37.0	21.0
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(5.2)	(8.1)	(11.2)
3 months	(15.6)	(5.6)	(4.1)
12 months	(0.7)	(4.7)	0.1

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Financials

(INR mn)

Year to March	FY19	FY20E	FY21E	FY22E
Net revenue	41,375	63,217	81,721	96,452
Net profit	(19,443)	(2,457)	9,319	13,248
Diluted EPS (INR)	(4.1)	1.5	2.1	2.8
Price/ Adj book (x)	1.2	1.2	1.1	1.1
Diluted P/E (x)	NA	NA	23.0	16.2
ROE (%)	(10.8)	(1.4)	5.1	6.9

Post-merger, the bank is investing in building its retail liability franchise and plans to add 600–700 branches over the next five–six years, out of which about 400 will be added in the first two years. According to the current trend, the Bank is mobilizing INR16–18bn of retail CASA and INR1–15bn of retail deposits per quarter.

- **With respect to NIMs:** Due to the loan book of erstwhile Capital First, which had higher yields, NIMs have expanded beyond 3.1% from 1.7% at the erstwhile IDFC Bank. Post-merger, the Bank is replacing legacy high cost borrowings with cheaper retail liabilities. The cost of borrowings hence has gradually come down to 7.75% from 8% in the wake of the merger. Retail assets now make up 40% of the overall funded assets. Over the next five years, the proportion of retail assets to overall assets is likely to increase up to 70%; hence the overall yield is likely to move to 13–13.5%, from 11.8% currently.

Management guidance

- The bank maintained its long-term targets of an RoA of 1.4–1.6% and an RoE of 13–15% over the next five–six years.
- NIMs would move from current 3.1% towards 5.2% (as retail proportion would be 70–75%). The bank aims to take the CASA ratio to 30% over the next five years.
- Fee income to assets will be 1.5% (as % of total assets)
- Cost ratios would remain elevated in the near term, but would improve to the targeted level of 50–55% over the period.
- Credit cost (as % of total assets) will be contained in the range of 1.2–1.3%.

Investment conclusion

We estimate the merged entity's RoE to be lower during the integration phase. However, a diversified product portfolio, aggressive management with a proven execution track record and adequate capital will lift RoE. Hence, the merger will be long-term value accretive. We maintain **'BUY/SP'**.

Financial Statements

Key assumptions

	FY18	FY19	FY20E	FY21E
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
Credit growth (%)	12.0	14.0	17.0	17.0
Deposit growth (%)	12.0	13.0	14.0	14.0
CRR (%)	4.0	4.0	4.0	4.0
SLR (%)	20.0	19.5	19.0	19.0
G-sec yield (%)	6.5	7.0	7.1	7.1

Income Statement

(INR mn)

Year to March	FY19	FY20E	FY21E	FY22E
Net revenues	41,375	63,217	81,721	96,452
Operating expense	32,874	47,329	54,371	62,454
- Employee exp	11,182	15,177	17,916	21,116
- Other opex	21,692	32,152	36,454	41,338
Preprovision profit	8,502	15,888	27,351	33,998
Provisions	15,461	18,985	13,525	14,406
PBT	(32,953)	(3,097)	13,826	19,592
Taxes	(13,510)	(640)	4,506	6,344
PAT	(19,443)	(2,457)	9,319	13,248
Diluted EPS	(4.1)	(0.5)	1.9	2.8

Growth ratios (%)

Year to March	FY19	FY20E	FY21E	FY22E
Net revenue	NA	52.8	29.3	18.0
Opex growth	NA	44.0	14.9	14.9
PPOP growth	NA	86.9	72.1	24.3
PPP growth	NA	173.8	144.3	48.6
Provisions growth	NA	22.8	(28.8)	6.5
PAT growth	NA	NA	(479.3)	42.2

Banking and Financial Services

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20E	FY21E	FY22E	
Liabilities					
Equity capital	47,817	47,817	47,817	47,817	
Reserves	133,776	132,100	139,663	150,379	
Net worth	181,593	179,917	187,480	198,196	
Sub bonds/pref cap	6,500	6,500	6,500	6,500	
Deposits	704,790	952,171	1,180,692	1,357,796	
Borrowings	716,002	535,892	470,897	504,194	
Other liabilities	85,630	89,055	93,508	98,183	
Total	1,694,515	1,763,535	1,939,077	2,164,869	
Assets					
Loans	1,068,716	1,216,353	1,358,651	1,534,859	
Investments					
Gilts	288,588	218,448	246,660	285,120	
Others	179,840	178,197	176,572	174,963	
Cash & equi	54,010	42,009	42,691	49,348	
Fixed assets	9,503	9,973	10,441	10,883	
Other assets	93,858	98,554	104,062	109,696	
Total	1,694,515	1,763,535	1,939,077	2,164,869	
Balance sheet ratios (%)					
Credit growth	44.1	13.8	11.7	13.0	
Deposit growth	46.2	35.1	24.0	15.0	
Earning Assets	1,591,154	1,655,008	1,824,574	2,044,290	

ROA decomposition (%)				
Year to March	FY19	FY20E	FY21E	FY22E
Net revenues/Assets	NA	3.9	4.7	5.0
Operating exp./Assets	NA	2.9	3.1	3.2
Provisions/Assets	NA	1.2	0.8	0.7
Taxes/Assets	NA	(0.0)	0.3	0.3
Total costs/Assets	NA	4.0	4.2	4.3
ROA	NA	(0.2)	0.5	0.7
Equity/Assets	NA	11.1	10.6	10.0
ROAE	NA	(1.4)	5.1	6.9

Merged	FY19E	FY20E	FY21E	FY22E
EPS (INR)	(4.1)	(0.5)	1.9	2.8
-growth (%)	NA	NA	NA	42.2
BV (INR)	38.0	37.6	39.2	41.4
P/BV (x)	1.0	1.0	1.0	0.9
P/E (x)	NA	NA	19.4	13.7
RoA (%)	(1.2)	(0.2)	0.5	0.7
RoE (%)	(10.8)	(1.4)	5.1	6.9

KEI INDUSTRIES

Electrifying growth to sustain

India Equity Research | Consumer Durables

Key takeaways

Macro-economic scenario/industry outlook

- In government schemes and UDAY, the government plans to provide more power to consumers to reduce power bills. Also, the number of T&D projects is increasing. The drivers of the industry are:
 - Power to All.
 - Affordable housing.
 - Metro projects.
 - Expansion in refinery, fertiliser, roads, steel, sea port and airports.
 - Railway revamp and electrification.
- The housing wires industry is growing at 12-14% with a lot of new houses being constructed in smaller cities. A single dealer serves around 20-25 outlets.
- Universal Cables is the only competitor in EHV cables and balance demand is imported. The demand for EHV cables is on the rise with the shift from overhead to underground cabling, particularly in big cities to prevent theft and increase safety.

Business outlook

KEI has five verticals:

- Institutional sales – INR10bn.
- Retail – INR14bn - Retail margin is 11% and incremental working capital is not required.
- Exports – INR6.5bn.
- EHV – INR1.7bn – is operating at 82% utilisation and has the potential to generate revenue of INR4bn at 100% utilisation.
- EPC – INR10bn.

T&D projects: 28-30% of cables go in to an EPC project. The requirement of cables comes one year after completion of 70% of project. The visibility is good.

Financials

(INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	34,588	42,270	50,560	59,318
Rev. growth (%)	31.6	22.2	19.6	17.3
EBITDA	3,384	4,422	5,423	6,489
Adjusted Profit	1,446	1,819	2,407	3,112
Adjusted diluted EPS (INR)	18.4	23.0	30.5	39.4
Diluted P/E (x)	24.6	19.7	14.9	11.5
EV/EBITDA (x)	12.5	8.7	7.0	5.8
ROAE (%)	27.1	26.3	27.0	27.1

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: KEIN.BO, B: KEII IN)

CMP	: INR 454
Target Price	: INR 520
52-week range (INR)	: 533 / 248
Share in issue (mn)	: 78.9
M cap (INR bn/USD mn)	: 36 / 513
Avg. Daily Vol.BSE/NSE('000)	: 202.2

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	45.9	45.9	45.9
MF's, FI's & BK's	19.0	19.1	16.5
FII's	12.1	10.8	9.2
Others	23.0	24.1	28.3
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer Goods Index
1 month	(7.3)	(8.1)	(1.0)
3 months	0.4	(5.6)	(5.0)
12 months	0.3	(4.7)	2.7

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Cash flow and debt: 50% of the free cash to be spent towards capex and balance towards debt repayment. Gross debt is expected to be maintained at INR8bn in spite of higher working capital with increasing business.

Other comments:

- There is natural hedge as inventory and order book match.
- The EHV cables business has high entry barriers of five years for approvals.

Management guidance for FY20 intact

- Revenue: INR50bn.
- Capex: INR1.0-1.2bn.
- Dealers: 8-10% growth in 1,500 dealers.
- Retail: It clocked INR14bn sales in FY19 and the company is targeting INR18bn retail sales in FY20. The 34% retail sales contribution in FY19 is expected to move to 40% by FY21.
- EHV: EHV revenue, which stood at INR1.7bn in FY19, is expected to increase to INR3.5bn in FY20.
- Ad spends: The company has a budget of INR180-200mn for ad spends through IPL logo, WI-India cricket, news channels along with others.
- The company does not have any plans to expand in to other product categories over the next ensuing two years.

Investment conclusion

KEI has sharpened focus on branding its retail cables, which has helped it post 20% plus CAGR over the past three years, complemented by rising distribution. Housing For All and improving power availability along with the government sharpening focus on power generation, transmission and distribution demand for cables is expected to expand significantly. KEI is among the few players to have an upper hand in B2B and EHV cables. We maintain '**BUY/SO**' recommendation/ rating on the stock with a target price of INR520.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
Cables	85.0	86.0	91.0	94.0
Stainless steel wires	88.0	94.0	96.0	99.0
Winding Housing & Flexible Wires	55.0	70.0	78.0	85.0
Cables (INR mn/km)	26.5	28.0	31.3	35.1
Stainless steel wires (INR '000/kg)	22.4	24.5	25.1	27.6
Winding Hsg & Flex. Wires (INR mn/km)	1.5	1.7	1.9	2.2
Order Intake for Turnkey Projects (INR bn)	(4.0)	20.0	12.0	15.0
Depreciation	7.2	6.5	7.6	8.0
Tax rate (%)	29.2	34.9	35.0	35.0

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Income from operations	34,588	42,270	50,560	59,318
Materials costs	24,111	29,347	35,064	42,798
Employee costs	1,468	1,734	2,060	2,379
Other mfg expenses	5,625	6,767	8,014	7,652
Total operating expenses	31,204	37,847	45,137	52,830
EBITDA	3,384	4,422	5,423	6,489
Depreciation	322	339	515	582
EBIT	3,062	4,083	4,908	5,907
Less: Interest Expense	1,113	1,362	1,307	1,233
Add: Other income	92.99	71.91	102.74	113.94
Profit Before Tax	2,042	2,793	3,703	4,787
Less: Provision for Tax	596	974	1,296	1,676
Reported Profit	1,446	1,819	2,407	3,112
Adjusted Profit	1,446	1,819	2,407	3,112
Shares o/s (mn)	78	79	79	79
Diluted shares o/s (mn)	78	79	79	79
Adjusted Diluted EPS	18.4	23.0	30.5	39.4
Adjusted Cash EPS	22.6	27.3	37.0	46.8
Dividend per share (DPS)	1.0	1.2	1.7	2.2
Dividend Payout Ratio(%)	5.4	5.2	5.5	5.5

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Operating expenses	90.2	89.5	89.3	89.1
EBITDA margins	9.8	10.5	10.7	10.9
Net Profit margins	4.2	4.3	4.8	5.2

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	31.6	22.2	19.6	17.3
EBITDA	25.8	30.7	22.6	19.7
Adjusted Profit	54.1	25.8	32.4	29.3

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	157	158	158	158	
Shareholders' funds	6,045	7,789	10,036	12,942	
Long term borrowings	1,457	717	717	717	
Short term borrowings	6,042	3,865	3,715	3,565	
Total Borrowings	7,498	4,583	4,433	4,283	
Long Term Liabilities	67	86	86	86	
Sources of funds	14,009	12,899	14,997	17,752	
Gross Block	4,673	5,830	6,780	7,280	
Net Block	4,070	4,887	5,321	5,239	
Capital work in progress	230	316	316	316	
Total Fixed Assets	4,300	5,203	5,637	5,555	
Non current investments	28	16	16	16	
Cash and Equivalents	763	1,953	2,140	2,532	
Inventories	5,556	6,896	8,358	9,918	
Sundry Debtors	10,206	10,946	13,160	15,927	
Loans & Advances	55	115	143	158	
Other Current Assets	1,259	2,514	3,143	3,614	
Current Assets (ex cash)	17,075	20,472	24,803	29,617	
Sundry creditors	6,272	10,203	12,008	14,088	
Provisions	1,885	4,541	5,592	5,879	
Total Current Liab	8,157	14,744	17,600	19,967	
Net Curr Assets-ex cash	8,918	5,728	7,204	9,650	
Net Deferred tax	398	442	442	442	
Uses of funds	14,009	12,899	14,997	17,752	
BVPS (INR)	77.1	98.7	127.2	164.0	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	1,446	1,819	2,407	3,112	
Add: Depreciation	322	339	515	582	
Interest (Net of Tax)	788	887	850	802	
Others	459	403	355	318	
Less: Changes in WC	1,121	(3,190)	1,476	2,446	
Operating cash flow	1,894	6,638	2,651	2,367	
Less: Capex	656	1,156	950	500	
Free Cash Flow	1,238	5,482	1,701	1,867	

Cash flow metrics		FY18	FY19	FY20E	FY21E
Year to March					
Operating cash flow		1,894	6,638	2,651	2,367
Financing cash flow		(684)	(4,392)	(1,617)	(1,590)
Investing cash flow		(763)	(1,011)	(847)	(386)
Net cash Flow		446	1,236	187	392
Capex		(656)	(1,156)	(950)	(500)
Dividend paid		94	115	162	209

Profitability and efficiency ratios		FY18	FY19	FY20E	FY21E
Year to March					
ROAE (%)		27.1	26.3	27.0	27.1
ROACE (%)		24.4	31.5	36.6	37.3
Inventory Days		80	77	79	78
Debtors Days		97	91	87	89
Payable Days		84	102	116	111
Cash Conversion Cycle		93	66	51	56
Current Ratio		2.1	1.4	1.4	1.5
Gross Debt/EBITDA		2.2	1.0	0.8	0.7
Gross Debt/Equity		1.2	0.6	0.4	0.3
Adjusted Debt/Equity		1.2	0.6	0.4	0.3

Operating ratios		FY18	FY19	FY20E	FY21E
Year to March					
Total Asset Turnover		2.7	3.1	3.6	3.6
Fixed Asset Turnover		8.5	9.4	9.9	11.2
Equity Turnover		5.7	5.4	5.0	4.6

Valuation parameters		FY18	FY19	FY20E	FY21E
Year to March					
Adj. Diluted EPS (INR)		18.4	23.0	30.5	39.4
Y-o-Y growth (%)		53.0	24.9	32.4	29.3
Adjusted Cash EPS (INR)		22.6	27.3	37.0	46.8
Diluted P/E (x)		24.6	19.7	14.9	11.5
P/B (x)		5.9	4.6	3.6	2.8
EV / Sales (x)		1.1	0.8	0.7	0.6
EV / EBITDA (x)		12.5	8.7	7.0	5.8
Dividend Yield (%)		0.2	0.3	0.4	0.5

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
KEI Industries	513	14.9	11.5	3.6	2.8	27.0	27.1
Finolex Cables	795	14.2	12.4	2.1	1.8	15.5	15.6
Havells India	5,806	46.3	37.0	8.9	8.0	20.4	22.7
Median	-	14.9	12.4	3.6	2.8	20.4	22.7
AVERAGE	-	25.1	20.3	4.9	4.2	21.0	21.8

Source: Edelweiss research

KOTAK MAHINDRA BANK

On strong footing

India Equity Research | Banking and Financial Services



Key Takeaways

Macroeconomic scenario/industry outlook

- The government is gathering feedback from corporate India and hence is likely to take some corrective measures to boost the economy. Though the cut in interest rate will spur demand, it will come with a lag.
- Some level of consolidation and mortality is inevitable in the sector. However, this does not pose a systemic risk.

Business outlook

- Pricing power is returning—overall, there isn't much underlying growth, but definitely there is a shift in growth between players and segments.
- Strategically, KMB has two key focus areas—building a low-cost deposit franchise and digital banking.
- KMB will not focus on a single segment or chase absolute returns; it will lend where risk-adjusted returns are appropriate.
- The bank perceives a consistent and medium-term opportunity and will be able to gain market share going forward. Management believes around 20% loan growth is achievable.

Differentiated steps undertaken

- On the corporate front, it largely does working capital financing.
- On the liability side, focus is on growing CASA—structurally happening. Incrementally, it is getting CASA at the rate of 2.0-2.5x the industry average. It tweaks rates in tandem with the changing environment—when >2x growth becomes 1.5x, it will cut rates.
- In the retail unsecured segment, KMB is sticking to customers of certain vintage and has tightened norms.

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: KTKM.BO, B: KMB IN)

CMP	: INR 1,505
Target Price	: INR 1,632
52-week range (INR)	: 1,556 / 1,002
Share in issue (mn)	: 1,909.6
M cap (INR bn/USD mn)	: 2,874 / 40,195
Avg. Daily Vol.BSE/NSE('000)	: 3,498.7

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	30.0	30.0	30.0
MF's, FI's & BK's	11.7	11.5	9.6
FII's	40.5	40.3	39.4
Others	17.8	18.2	21.0
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(2.8)	(8.1)	(11.2)
3 months	4.7	(5.6)	(4.1)
12 months	14.9	(4.7)	0.1

Financials

(INRmn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	1,81,782	2,06,782	2,46,158	2,87,042
Net profit	58,122	66,859	82,254	98,379
Diluted EPS (INR)	30.5	35.1	43.2	51.7
Adj. BV (INR)	238.9	284.5	321.2	365.1
Price/ Adj book (x)	5.5	4.5	4.0	3.5
Diluted P/E (x)	44.1	37.9	30.4	25.4
ROE (%)	14.4	13.2	14.0	14.7

Edelweiss Research is also available on www.edelresearch.com,
Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

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Management guidance

- Margin has been steady due to efficient liability management as well as better risk-adjusted returns focus on the asset side—NIM will be around 4.3%.
- Credit cost around 50-60bps.
- It never chases growth and lending will be based on risk-adjusted returns. However, advance growth estimated at around 20%.

Investment conclusion

- KMB's strong foundation – liability franchise, digitalisation, capital position and limited stress – to build a scalable and profitable model would yield results as competition from NBFCs/PSU banks wanes. We maintain 'BUY/SP'.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector				
Credit growth	12.0	14.0	17.0	17.0
Deposit growth	12.0	13.0	14.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	19.5	19.0	19.0
G-sec yield	6.5	7.0	7.1	7.1
Company				
Yield on advances	11.5	11.2	11.0	10.8
Cost of funds	6.1	6.2	6.0	5.9
Business business assumpt.				
Credit growth	24.4	21.1	22.2	21.3
Deposit growth	23.0	16.6	23.1	23.7
CASA	44.8	48.2	48.9	49.5
Slippages	1.3	1.3	1.3	1.3
Securities bus. Assump.				
Avg Daily Trading Vol.	127,613	138,892	162,708	188,583
Commission yields	2.0	1.5	1.6	1.6
PMS AUMs	114,488	137,386	164,863	197,836
IB assumption				
Fin adv. & transact. fee	1,571	1,636	1,933	2,186
Operating margin	47.5	54.3	50.6	52.2
Kotak Prime assumption				
Advance growth	14.8	14.8	14.8	14.8
Yield on advances	12.2	11.9	11.9	11.8
Cost of funds	8.4	8.5	8.5	8.5
Gross NPLs	1.5	1.6	1.6	1.7
Kotak AMC				
AUM growth	65.0	23.0	20.0	20.0
Management fees	0.3	0.3	0.3	0.3

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Interest income	279,820	328,672	386,934	459,125
Interest expended	157,701	187,139	217,661	260,060
Net interest income	122,118	141,533	169,273	199,065
Non interest income	59,663	65,249	76,885	87,977
- Fee & forex income	45,241	50,211	59,211	68,995
- Misc. income	14,332	14,948	17,584	18,892
- Investment profits	90	90	90	90
Net revenue	181,782	206,782	246,158	287,042
Operating expense	82,955	95,212	107,991	121,798
- Employee exp	37,208	40,764	45,396	50,429
- Other opex	45,747	54,448	62,595	71,369
Preprovision profit	98,826	111,570	138,167	165,244
Provisions	10,599	11,179	14,848	17,909
Profit Before Tax	88,228	100,391	123,319	147,335
Less: Provision for Tax	28,955	32,782	40,316	48,205
Profit After Tax	58,122	66,859	82,254	98,379
Adj. Diluted EPS (INR)	30.5	35.1	43.2	51.7
Dividend per share (DPS)	3.9	4.7	5.8	7.1
Dividend Payout Ratio (%)	6.9	7.1	7.2	7.3

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
NII growth	19.8	15.9	19.6	17.6
Fees growth	20.1	11.0	17.9	16.5
Opex growth	13.5	14.8	13.4	12.8
PPP growth	22.0	12.9	23.8	19.6
Provisions growth	14.0	5.5	32.8	20.6
Adjusted Profit	24.4	15.0	23.0	19.6

Balance sheet

(INR mn)

As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	9,515	9,515	9,515	9,515
Reserves & Surplus	456,116	547,017	621,973	711,735
Net worth	465,631	556,532	631,488	721,249
Deposits	1,937,011	2,258,801	2,781,631	3,439,839
Total Borrowings	715,539	828,312	958,851	1,108,443
Other liabilities	3,826	4,474	5,253	6,187
Total liabilities	3,122,006	3,648,119	4,377,222	5,275,717
Loans	1,731,151	2,096,084	2,562,089	3,108,133
Investments	775,359	869,746	1,044,793	1,271,339
Cash and Equivalents	206,528	213,094	230,822	275,822
Fixed assets	15,234	14,349	13,301	12,090
Other Assets	393,734	454,846	526,217	608,334
Total assets	3,122,006	3,648,119	4,377,222	5,275,717

Banking and Financial Services

RoE decomposition (%)

Year to March	FY18	FY19	FY20E	FY21E
Net int. income/assets	4.3	4.2	4.2	4.1
Fees/Assets	2.1	1.9	1.9	1.8
Net revenues/assets	6.4	6.1	6.2	6.0
Operating expense/assets	2.9	2.8	2.7	2.5
Provisions/assets	0.4	0.3	0.4	0.4
Taxes/assets	1.0	1.0	1.0	1.0
Total costs/assets	4.3	4.1	4.1	3.9
ROA	2.1	2.0	2.1	2.1
Equity/assets	14.5	15.2	14.9	14.1
ROAE (%)	14.4	13.2	14.0	14.7

Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	30.5	35.1	43.2	51.7
Y-o-Y growth (%)	20.4	15.0	23.0	19.6
BV per share (INR)	244.7	292.5	331.9	379.0
Adj. BV per share (INR)	238.9	284.5	321.2	365.1
Diluted P/E (x)	49.3	42.8	34.8	29.1
Price/ Adj. BV (x)	6.3	5.3	4.7	4.1
Price/Earnings (x)*	42.4	36.4	29.2	24.4
Price/ BV (x)*	5.3	4.4	3.8	3.3
Dividend Yield (%)	0.3	0.3	0.4	0.5

*adj for insurance

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Kotak Mahindra Bank	40,195	29.2	24.4	4.7	4.1	14.0	14.7
Axis Bank	24,634	19.0	13.3	2.6	2.2	13.4	16.4
DCB Bank	917	16.6	13.3	2.1	1.9	12.9	14.2
Federal Bank	2,356	11.8	9.5	1.6	1.4	12.9	14.2
HDFC Bank	84,915	23.8	18.9	3.6	3.2	15.9	17.4
ICICI Bank	37,636	16.6	13.3	2.8	2.4	14.5	16.1
IndusInd Bank	13,614	15.8	11.9	2.9	2.4	18.4	20.6
Yes Bank	2,309	45.4	12.5	0.9	0.9	1.5	5.2
Median	-	17.4	13.0	2.6	2.2	13.7	15.4
AVERAGE	-	21.4	14.0	2.4	2.1	12.9	14.9

Source: Edelweiss research

NATCO PHARMA

US de-risking key

India Equity Research | Pharmaceuticals

Key takeaways

Macro-economic scenario/Industry outlook

- US pricing scenario has now stabilised. The company now has stable share in *gCopaxone*. Flu season in the beginning of CY19 was weaker than in CY18, leading to a decline in *gTamiflu* sales, which also saw competition.
- Pace of USFDA inspections caught up with NTCPh as the company's Chennai API facility was inspected in July 2019, albeit with no observations.
- Volume uptake in Hep-C remains a structural challenge. Going forward, domestic will be led by growth in cardio-diabetes therapies.

Business outlook

- FY20 profitability guidance maintained at INR7.50bn and expects it to double over FY19-22 as sales from India/EMs double.
- The company will look to spend 6–8% of sales on R&D.
- NTCPh expects five–seven US filings in FY20.
- FY20 capex of INR3.75–4.0bn planned; already incurred INR0.6bn in Q1FY20.
- Canada and Brazil launches expected towards FY20 end.

Differentiated steps undertaken

- Company is looking to de-risk from the US, with robust growth in domestic and other markets like Brazil and Canada
- Company has invested in agrochemical, and expects this business to be operational towards the end of FY20. After commissioning, it could two–three years to drive sustainable growth.

Management guidance

- Oncology:** Hopeful of achieving 15% growth.
- Cardio-diabetes:** Benefitted from the launch of two first generic products in the domestic market—regorafenib and apixaban.
- Revlimid:** Already responded to some minor queries; expects approval over the next few months.
- Copaxone:** Copaxone has done well, NTCPh has 30% market share.
- Subsidiary business:** The run rate is about INR300mn a per quarter, which NTCPh the company hopes to double by 2022, i.e., INR2.50–3bn by 2022.
- Agrochemical business:** expects to contribute 15% of overall sales.

Financials

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net Revenues (INR mn)	21,531	20,315	22,448	23,696
EBITDA (INR mn)	9,284	7,948	8,477	9,021
Adjusted Diluted EPS (INR)	40.0	37.0	39.7	41.8
Diluted P/E (x)	13.8	14.9	13.9	13.2
ROAE (%)	29.4	19.6	18.2	16.6

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: NATP.BO, B: NTCPh IN)

CMP	: INR 548
Target Price	: INR 625
52-week range (INR)	: 849 / 480
Share in issue (mn)	: 181.8
M cap (INR bn/USD mn)	: 100 / 1,387
Avg. Daily Vol.BSE/NSE('000)	: 251.7

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	49.0	48.7	48.4
MF's, FI's & BK's	8.1	7.1	6.1
FII's	20.1	21.4	23.8
Others	22.7	22.8	21.7
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	3.7	(8.1)	(1.3)
3 months	2.9	(5.6)	(10.5)
12 months	(32.4)	(4.7)	(13.7)

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Investment conclusion

NTCPH focuses on complex generics in the US, with injectables being key. It holds the distinction of being first-to-file for niche opportunities and subsequently partnering with global generic players like Mylan, Actavis and Breckenbridge to market its limited competition products. Following the successful launch of gCopaxone and gDoxil, the company has invested in peptides and microspheres. In the domestic market, oncology growth remains robust but Hep-C erosion continues. NTCPH recent investments in cardio-diabetes are starting to bear fruits. It also has an emerging presence in Canada and Brazil. The company recently raised ~INR9bn with an eye on expanding footprint in non-US markets. Success hinges on de-risking US with robust growth in domestic and other markets. The stock is trading at an attractive 12.7x FY21E EPS. We retain 'BUY/SP' with a TP of INR625 (20x September 2020E EPS).

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	21,531	20,315	22,448	23,696
Other Operating Income	489	630	500	500
Income from operations	22,020	20,945	22,948	24,196
Materials costs	4,283	3,542	4,016	4,234
Employee costs	3,256	3,559	3,915	4,287
R&D Cost	1,000	1,000	1,147	1,210
Total SG&A expenses	-	4,096	4,475	4,476
Other Expenses	4,197	800	918	968
Total operating expenses	12,736	12,997	14,471	15,175
EBITDA	9,284	7,948	8,477	9,021
Operating profit	9,284	7,948	8,477	9,021
EBIT	8,622	7,138	7,560	8,016
Less: Interest Expense	154	193	241	241
Add: Other income	404.00	1,302.00	1,300.00	1,300.00
Profit Before Tax	8,872	8,247	8,618	9,075
Less: Provision for Tax	1,920	1,823	1,728	1,819
Less: Minority Interest	(10)	(20)	(20)	(20)
Reported Profit	6,962	6,444	6,911	7,276
Adjusted Profit	6,962	6,444	6,911	7,276
Shares o /s (mn)	174	174	174	174
Adjusted Basic EPS	40.0	37.0	39.7	41.8
Diluted shares o/s (mn)	174	174	174	174
Adjusted Diluted EPS	40.0	37.0	39.7	41.8
Adjusted Cash EPS	43.8	41.7	44.9	47.5
Dividend per share (DPS)	7.2	6.3	6.0	6.3
Dividend Payout Ratio(%)	18.1	16.9	15.0	15.0

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Materials costs	19.5	16.9	17.5	17.5
Staff costs	14.8	17.0	17.1	17.7
S G & A expenses	-	19.6	19.5	18.5
Operating expenses	57.8	62.1	63.1	62.7
R & D cost	4.5	4.8	5.0	5.0
Depreciation	3.0	3.9	4.0	4.2
Interest Expense	0.7	0.9	1.1	1.0
EBITDA margins	42.2	37.9	36.9	37.3
Net Profit margins	31.6	30.7	30.0	30.0

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	5.9	(5.6)	10.5	5.6
EBITDA	35.9	(14.4)	6.7	6.4
PBT	42.1	(7.0)	4.5	5.3
Adjusted Profit	43.3	(7.4)	7.2	5.3
EPS	43.3	(7.4)	7.2	5.3

Balance sheet (INR mn)				
As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	369	365	365	365
Reserves & Surplus	30,353	34,525	40,347	46,379
Shareholders' funds	30,722	34,890	40,712	46,744
Minority Interest	38	20	20	20
Short term borrowings	1,732	3,863	3,863	3,863
Total Borrowings	1,732	3,863	3,863	3,863
Long Term Liabilities	332	718	718	718
Def. Tax Liability (net)	139	116	116	116
Sources of funds	32,963	39,607	45,429	51,461
Gross Block	13,973	16,841	19,841	20,341
Depreciation	662	810	917	1,005
Net Block	10,127	12,185	14,268	13,763
Capital work in progress	4,800	6,376	6,376	6,376
Intangible Assets	59	87	-	-
Total Fixed Assets	14,986	18,648	20,644	20,139
Non current investments	81	199	199	199
Cash and Equivalents	2,521	4,282	21,275	13,389
Inventories	4,384	5,290	5,484	5,782
Sundry Debtors	6,375	5,062	6,265	6,606
Loans & Advances	45	71	71	71
Other Current Assets	7,982	8,767	(5,095)	8,967
Current Assets (ex cash)	18,786	19,190	6,725	21,426
Trade payable	2,691	2,170	2,756	2,906
Other Current Liab	1,497	1,254	1,370	1,498
Total Current Liab	4,188	3,424	4,126	4,404
Net Curr Assets-ex cash	14,598	15,766	2,599	17,022
Uses of funds	32,963	39,607	45,429	51,461
BVPS (INR)	176.4	200.3	233.8	268.4

Free cash flow (INR mn)				
Year to March	FY18	FY19	FY20E	FY21E
Reported Profit	6,962	6,444	6,911	7,276
Add: Depreciation	662	810	917	1,005
Interest (Net of Tax)	121	150	193	193
Others	(3,679)	(4,688)	10,722	(16,393)
Less: Changes in WC	(2,572)	185	(1,281)	(511)
Operating cash flow	6,638	2,531	20,023	(7,409)
Less: Capex	2,572	2,868	3,000	500
Free Cash Flow	4,066	(337)	17,023	(7,909)

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Natco Pharma	1,387	13.8	13.1	9.2	9.5	18.2	16.6
Cadila Healthcare	3,130	15.7	14.4	10.5	9.2	11.7	11.7
Glenmark Pharmaceuticals	1,452	14.6	13.7	8.4	7.8	12.2	11.6
Ipca Laboratories	1,683	20.1	17.4	13.3	11.1	17.8	17.4
Torrent Pharmaceuticals	3,915	34.6	25.6	15.4	13.1	16.2	19.4
Median	-	15.7	14.4	10.5	9.5	16.2	16.6
AVERAGE	-	19.8	16.8	11.4	10.2	15.2	15.3

Source: Edelweiss research

Cash flow metrics				
Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	6,638	2,531	20,023	(7,409)
Financing cash flow	(1,814)	678	(1,330)	(1,278)
Investing cash flow	(2,088)	(1,448)	(1,700)	800
Net cash Flow	2,737	1,761	16,993	(7,887)
Capex	(2,572)	(2,868)	(3,000)	(500)
Dividend paid	(1,176)	(1,260)	(1,088)	(1,037)

Profitability and efficiency ratios

Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	29.4	19.6	18.2	16.6
ROACE (%)	34.9	23.5	21.0	19.4
Inventory Days	335	498	490	486
Debtors Days	94	103	92	99
Payable Days	227	250	224	244
Cash Conversion Cycle	203	351	358	341
Current Ratio	5.1	6.9	6.8	7.9
Gross Debt/EBITDA	0.2	0.5	0.5	0.4
Gross Debt/Equity	0.1	0.1	0.1	0.1
Adjusted Debt/Equity	0.1	0.1	0.1	0.1
Net Debt/Equity	-	-	(0.4)	(0.2)
Interest Coverage Ratio	56.0	37.0	31.3	33.2

Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	0.8	0.6	0.5	0.5
Fixed Asset Turnover	2.3	1.8	1.7	1.7
Equity Turnover	0.9	0.6	0.6	0.5

Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	40.0	37.0	39.7	41.8
Y-o-Y growth (%)	43.3	(7.4)	7.2	5.3
Adjusted Cash EPS (INR)	43.8	41.7	44.9	47.5
Diluted P/E (x)	13.7	14.8	13.8	13.1
P/B (x)	3.1	2.7	2.3	2.0
EV / Sales (x)	4.4	4.7	3.5	3.6
EV / EBITDA (x)	10.2	12.0	9.2	9.5
Dividend Yield (%)	1.3	1.1	1.1	1.1

PARAG MILK FOODS

Healthy growth

India Equity Research | Dairy

Key takeaways

Industry/business outlook

- Parag has capacity of handling 2.9mn litres of milk per day. Milk procurement stood at 1.2-1.25mn litres per day in Q1FY20.
- Value-added products (VADP) form 70% of overall sales (23% cheese where it has 35% market share; 22% ghee; curd/paneer balance).
- Parag reported strong 15% YoY revenue growth in Q1FY20 driven by healthy 9–10% volume spurt.
- Milk procurement prices rose 12–13% to INR28/litre for Q1FY20. The drought effect of last year and a delayed monsoon this year impacted feed availability, leading to stress at the farmer level.
- Management reiterated commitment to improving the overall working capital cycle. Parag has not seen a visible improvement in its inventory levels and receivables were elevated due to higher SMP sales.

Differentiated steps undertaken

Health and nutrition segment

Parag has launched new variants of Avvatar and ventured in to new geographies and is now available in 21 states. Management is planning to increase this segment's share to 6.5% by FY21.

Vector Consulting

Parag implemented Vector's inputs on a larger scale by mapping 55,000 retail outlets across Mumbai and has already achieved 80% of them. The company is planning to implement the recommended TOC model across North India, particularly in the Delhi-NCR market.

Launches

- Launched "Pride of cows" in Singapore: Parag aims to double the Pride of Cows revenue over the next two years and expand the product portfolio by introducing variants under the same brand.
- Launched Avvatar Rapid: A hydration drink in the category fortified with whey protein and an ideal intra-workout drink.

Financials

Year to March	FY18	FY19E	FY20E	FY21E
Net Revenues (INR mn)	19,545	23,957	27,723	31,353
EBITDA (INR mn)	1,933	2,235	2,602	3,103
Adjusted PAT (INR mn)	871	1,207	1,245	1,514
Adjusted Diluted EPS (INR)	10.4	14.4	14.8	18.0
Diluted P/E (x)	17.8	12.9	12.5	10.3
EV/EBITDA (x)	9.5	8.2	7.0	5.8
RoE (%)	13.0	15.6	14.2	15.2

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	None

MARKET DATA (R: PAMF BO, B: PARAG IN)

CMP	: INR 161
Target Price	: INR 272
52-week range (INR)	: 318 / 160
Share in issue (mn)	: 84.1
M cap (INR bn/USD mn)	: 14 / 199
Avg. Daily Vol. BSE/NSE ('000)	: 275.5

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	46.0	46.0	46.0
MF's, FI's & BKs	7.2	12.3	12.1
FII's	17.4	14.5	13.5
Others	29.4	27.2	28.4
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(8.3)	(31.7)	(23.5)
3 months	(7.0)	(25.3)	(18.3)
12 months	(16.7)	(45.0)	(28.3)

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Overall outlook / Management guidance

- The company has not seen much slowdown, except some down trading in the HORECA segment with shift to margarine.
- Raw material prices are not down as yet, but expected to fall in September with seasonality.
- There is some deficit in fat led by higher SMP prices and a large ghee portfolio.
- Parag expects procurement cost to cool in the wake of a 'better' monsoon.
- While milk procurement prices rose 12–13%, as per management Parag effected two price hikes (8–9%) to pass on the increased procurement cost; full impact will reflect in ensuing quarters.
- Management maintained margin guidance of 11% (outlined in Vision 2020) will be achieved via price hikes, better product mix and cost control. This is post delivering 9% EBIDTA margin in Q1FY20.
- It will roll out new brown field capex by FY20 end as utilisation of IPO proceeds is done.

Investment conclusion

In light of the strong growth in VADP, expanding distribution and product launches, we estimate Parag to deliver sales/PBT CAGR of 14%/21% over FY19–21. We maintain 'BUY' with TP of INR276.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
B2C Share (% of revenue)	69.3	68.7	69.7	70.5
VADP Share (% of revenue)	64.8	65.4	66.8	68.5
Expenses (% of sales)				
Carriage & Transport	4.2	4.5	4.4	4.2
Ad Spends	3.6	3.5	3.6	3.8
Other Variable Costs	2.9	3.2	3.0	2.9
Fixed Costs	5.8	5.5	5.4	4.9
Financial assumptions				
Tax rate (%)	26.8	18.3	27.0	30.0
Capex (INR mn)	1,137	806	600	200
Ghee (%)	16.1	17.2	13.7	10.4
Butter (%)	(34.5)	2.0	(10.9)	(13.1)
Procurement price (INR/litre)	25.9	25.0	27.4	28.2
Procurement price increase (%)	(3.5)	(3.2)	9.5	3.0
Procurement (mn litres/day)	1.3	1.4	1.5	1.7
Growth (%)	8.0	11.7	6.5	12.2
Sales growth (%)				
UHT+lassi+buttermilk (%)	17.8	18.2	20.8	18.6
Curd (%)	17.8	32.3	22.9	17.5
Whey Processing (%)	(25.0)	2.9	12.6	10.4
Whey Consumer (%)	-	180.0	74.8	56.4
Pride of Cows (%)	25.0	28.0	20.0	20.0
Paneer (%)	51.0	62.5	33.1	27.8
Milkpowder (SMP) (%)	20.8	38.7	15.0	7.3
Fresh milk (%)	6.7	11.2	7.5	9.4
Flavoured Milk (%)	15.8	16.2	19.8	17.5

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	19,545	23,957	27,723	31,353
Materials costs	13,679	16,574	19,443	22,083
Gross profit	5,866	7,383	8,280	9,269
Employee costs	735	950	1,133	1,220
Other Expenses	3,198	4,198	4,545	4,946
Operating expenses	3,933	5,148	5,678	6,166
Total operating expenses	17,612	21,722	25,121	28,249
EBITDA	1,933	2,235	2,602	3,103
Depreciation	506	502	554	614
EBIT	1,427	1,733	2,048	2,489
Less: Interest Expense	357	358	377	363
Add: Other income	119.99	102.63	33.65	36.77
Profit Before Tax	1,190	1,478	1,705	2,163
Less: Provision for Tax	319	271	460	649
Reported Profit	871	1,207	1,245	1,514
Adjusted Profit	871	1,207	1,245	1,514
Shares o /s (mn)	84	84	84	84
Adjusted Basic EPS	10.4	14.4	14.8	18.0
Diluted shares o/s (mn)	84	84	84	84
Adjusted Diluted EPS	10.4	14.4	14.8	18.0
Adjusted Cash EPS	16.4	20.4	21.4	25.4
Dividend per share (DPS)	0.8	1.2	2.0	2.0
Dividend Payout Ratio(%)	7.2	8.3	13.5	11.1

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Gross margin	30.0	30.8	29.9	29.6
Operating expenses	20.1	21.5	20.5	19.7
Interest Expense	1.8	1.5	1.4	1.2
EBITDA margins	9.9	9.3	9.4	9.9
EBIT margins	7.3	7.2	7.4	7.9
Net Profit margins	4.5	5.0	4.5	4.8

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	12.9	22.6	15.7	13.1
EBITDA	120.4	15.6	16.4	19.3
PBT	(11,301.5)	24.2	15.4	26.9
Adjusted Profit	376.2	38.7	3.1	21.6
EPS	376.2	38.7	3.1	21.6

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	839	839	839	839	
Reserves & Surplus	6,328	7,432	8,475	9,788	
Shareholders' funds	7,167	8,271	9,314	10,627	
Long term borrowings	635	646	596	546	
Short term borrowings	2,741	2,223	2,173	2,123	
Total Borrowings	3,376	2,869	2,769	2,669	
Long Term Liabilities	94	41	47	53	
Def. Tax Liability (net)	(96)	(167)	(167)	(167)	
Sources of funds	10,541	11,014	11,964	13,183	
Gross Block	6,679	7,399	7,999	8,599	
Net Block	3,923	4,361	4,186	4,172	
Capital work in progress	204	290	290	290	
Intangible Assets	34	34	34	34	
Total Fixed Assets	4,161	4,686	4,511	4,497	
Non current investments	-	5	-	-	
Cash and Equivalents	489	123	146	344	
Inventories	4,379	4,629	5,327	6,050	
Sundry Debtors	2,517	2,786	3,266	3,780	
Loans & Advances	149	130	130	130	
Other Current Assets	2,069	1,893	2,356	2,665	
Current Assets (ex cash)	9,115	9,439	11,079	12,625	
Trade payable	3,033	2,971	3,462	3,933	
Other Current Liab	191	268	310	351	
Total Current Liab	3,224	3,239	3,772	4,283	
Net Curr Assets-ex cash	5,891	6,200	7,307	8,342	
Uses of funds	10,541	11,014	11,964	13,183	
BVPS (INR)	85.4	98.6	111.0	126.7	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	871	1,207	1,245	1,514	
Add: Depreciation	506	502	554	614	
Interest (Net of Tax)	357	358	377	363	
Others	(120)	(103)	(34)	(37)	
Less: Changes in WC	(1,286)	(308)	(1,107)	(1,035)	
Operating cash flow	328	1,656	1,035	1,420	
Less: Capex	781	806	600	600	
Free Cash Flow	(453)	850	435	820	

Cash flow metrics		FY18	FY19	FY20E	FY21E
Year to March					
Operating cash flow	328	1,656	1,035	1,420	
Financing cash flow	198	(954)	(644)	(628)	
Investing cash flow	(810)	(812)	(595)	(600)	
Net cash Flow	(284)	(110)	(204)	192	
Capex	(781)	(806)	(600)	(600)	
Dividend paid	(63)	(121)	(201)	(201)	

Profitability and efficiency ratios		FY18	FY19	FY20E	FY21E
Year to March					
ROAE (%)	13.0	15.6	14.2	15.2	
ROACE (%)	15.7	16.9	17.9	19.9	
Inventory Days	116	99	93	94	
ROA	8.8	11.2	10.8	12.0	
Debtors Days	40	40	40	41	
Payable Days	82	66	60	61	
Cash Conversion Cycle	73	73	73	74	
Current Ratio	3.0	3.0	3.0	3.0	
Gross Debt/EBITDA	1.7	1.3	1.1	0.9	
Gross Debt/Equity	0.5	0.3	0.3	0.3	
Adjusted Debt/Equity	0.5	0.3	0.3	0.3	
Interest Coverage Ratio	4.0	4.8	5.4	6.9	
LT debt /Cap empl. (%)	32.0	26.1	23.1	20.2	
Debt / Cap employed (%)	61.7	53.9	53.3	51.5	

Operating ratios		FY18	FY19	FY20E	FY21E
Year to March					
Total Asset Turnover	2.0	2.2	2.4	2.5	
Fixed Asset Turnover	5.4	5.7	6.4	7.4	
Equity Turnover	2.9	3.1	3.2	3.1	

Valuation parameters		FY18	FY19	FY20E	FY21E
Year to March					
Adj. Diluted EPS (INR)	10.4	14.4	14.8	18.0	
Y-o-Y growth (%)	376.2	38.7	3.1	21.6	
Adjusted Cash EPS (INR)	16.4	20.4	21.4	25.4	
Diluted P/E (x)	15.5	11.2	10.9	8.9	
P/B (x)	1.9	1.6	1.5	1.3	
EV / Sales (x)	1.0	0.8	0.7	0.6	
EV / EBITDA (x)	8.5	7.3	6.2	5.1	
Dividend Yield (%)	0.5	0.7	1.2	1.2	

PIRAMAL ENTERPRISES

Stable but environmental challenges persist

India Equity Research | Banking and Financial Services



Key takeaways

Macroeconomic scenario/Industry outlook

- Management believes that the real estate industry is undergoing consolidation with 90% of the players finding it difficult to survive – hence they are focusing on tier 1 players only.
- The volatility in markets has given rise to opportunities – many good assets are available cheap and various PE players are looking to partner the company to exploit these opportunities.

Business outlook

- The company would tread with caution and would let go of growth, if need be (liquidity is more important).
 - Plans to raise additional INR250bn in current year via debt and INR80–100bn of equity in the current year.
 - This entire capital and borrowing would be sufficient for the company even if all CPs run down.
- In housing loans, the company will not expand beyond 16 branches in the current year, and expects operating leverage to play out as investments are largely done.
- As part of the hypothetical stress-test carried out by the company, 18 deals (out of 242) surfaced that require proactive measures. Out of these, proactive measures have been taken on ten, with remaining eight being tackled. Of the eight deals (exposure of ~INR10bn), six deals would be cured over the next three–four months while remaining two (LG Delhi and Jain Heights, which are NPAs) would also be cured in coming quarters.
- Currently, there are only three developers wherein the exposure is above the 15% threshold – Lodha, Wadhva, and Omkar. The company is confident of bringing down its exposure thereof in this year itself.
 - **Lodha** – it has never defaulted (to Primal). Including prepayments for most of the accounts, the exposure has been brought down from INR43bn in September 2018 to INR31.8bn now (and to reduce to INR26bn by December 2019 and INR20bn by March 2020).
 - **Omkar** – There is no exposure to Omkar 1973 – exposure is to JDA projects (L&T Crescent Bay and **Piramal Mahalaxmi** against which there are INR7bn receivables).
 - **Nirmal** – Exposure is down to INR70mn from INR2bn.
 - It does not have any exposure to Aristo, Nahar, Supertech, and Amrapali developers.
 - Renewables – INR5bn worth of exposure to ACME was sold down during the quarter – loans to renewable are at holding company levels with very small exposure to AP.

EDELWEISS RATINGS

Absolute Rating	NOT RATED
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MARKET DATA (R: PIRA.BO, B: PIEL IN)

CMP	: INR 1,780
Target Price	: NA
52-week range (INR)	: 3,302 / 1,651
Share in issue (mn)	: 198.9
M cap (INR bn/USD mn)	: 354 / 4,962
Avg. Daily Vol.BSE/NSE('000)	: 807.1

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters %	46.1	46.1	46.1
MF's, FI's & BK's	9.1	9.1	9.1
FII's	28.5	28.5	28.5
Others	16.3	16.3	16.3
* Promoters pledged shares (% of share in issue)	0.0		

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	(1.8)	(6.5)	(4.7)
3 months	(4.2)	(20.1)	(15.9)
12 months	(2.5)	(37.4)	(34.9)

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Differentiated steps undertaken

- The focus would remain on retail home loans – retail forms 11% of book compared with 3% last year.
- Going forward, the company would look to diversify beyond real estate, infrastructure, and home loans (planning to get into consumer financing).

Management guidance

- While the environment is challenging, without giving any specific growth guidance, the company remains confident of taking advantage of opportunities (reducing competition) given its diversified loan book, healthy asset quality, and long-term fund availability.
- The commercial real estate continues to be strong—its share in the company's portfolio has gone up from 4% in 2015 to 15% now.

PVR

Blockbuster growth

India Equity Research | Media

Key takeaways

Macroeconomic scenario/industry outlook

- Migration from unorganised to organised retail to be positive.
- Rising disposable incomes and urbanisation to act as tailwinds.
- Current slowdown could impact advertising revenue growth.

Business outlook

- Ticket prices to jump significantly in the next six months.
- Content flow was weak in Q1FY20 due to IPL and World Cup.
- RJIO digital release statement: According to PVR, the statement is ambiguous; it does not mention how many movies will be launched on the platform; economically not viable for producers as 50-60% of revenue comes from theatres.
- For a movie like Super 30, Reliance would have to pay INR2bn to buy rights from filmmakers.
- SPI will continue to own 3% of the merged entity.
- Since the acquisition (10 months ago), it has clocked INR900mn EBITDA till now; will close 20% higher than expected (had guided for INR900-1,000mn for 12 months).
- PVR continues to be the best cinema exhibitor in the country with the best locations.
- Plan to rebrand SPI Screens as PVR Pallazo or PVR Escape.
- Average occupancy per luxury screen is doing well; benefits from Inox's luxury screens nearby.
- Q2 and Q3 are looking stronger than Q1 for FY20 in terms of content; the outlook is definitely bright.
- SPH grew due to a mix of value growth (change in product mix and up-selling) and higher uptake; expects SPH growth to be good this year.
- LTL box office growth is likely to be 5–7% on annual basis, typically because of 5–6% growth in ticket price.
- It takes 18–24 months for new screens to mature/hit steady state.
- No incremental update on the F&B issue; still waiting to hear from the Supreme Court.

Financials

Year to March	FY18	FY19	FY20E	FY21E
Revenues (INR mn)	23,341	30,856	36,411	41,485
Rev. growth (%)	7.9	32.2	18.0	13.9
EBITDA (INR mn)	4,018	5,863	12,411	14,303
Adjusted Profit (INR mn)	1,253	1,836	1,759	2,673
Adjusted Diluted EPS (INR)	26.8	39.3	36.4	55.3
EPS growth (%)	25.3	46.6	(7.4)	52.0
Diluted P/E (x)	54.0	36.9	39.8	26.2
EV/EBITDA (x)	18.4	13.8	9.6	8.2

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: PVRL.BO, B: PVRL IN)

CMP	: INR 1,448
Target Price	: INR 2,040
52-week range (INR)	: 1,834 / 1,099
Share in issue (mn)	: 46.8
M cap (INR bn/USD mn)	: 68 / 948
Avg. Daily Vol.BSE/NSE('000)	: 437.0

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	20.2	20.3	20.3
MF's, FI's & BK's	25.6	28.3	30.0
FII's	44.9	42.0	40.0
Others	9.3	9.4	9.7
* Promoters pledged shares (% of share in issue)	:	2.2	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Media Index
1 month	(12.5)	(8.1)	(11.4)
3 months	(17.6)	(5.6)	(18.6)
12 months	19.6	(4.7)	(37.6)

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- Will also look to grow off-screen advertising revenue and protecting customer experience—currently off-screen is below 10%.
- CCI has dismissed the matter over the VPF issue, which had been filed by Mr. Ronnie Screwvala; so there is no risk to VPF income.
- OTT: Despite many players, footfalls at PVR have been good; this is positive for the cinema exhibition business.
- Net debt of INR13.25bn at end-Q1FY20; growth will be largely funded via internal accruals.
- Premium screens are 10% of the total screen portfolio.

Differentiated steps undertaken

- Introduced gourmet food offerings for patrons.
- PVR has always been at the forefront of customer innovation—introduced cancellation of online advance ticket bookings.
- PVR has introduced better technology in select formats—4DX, Samsung Onyx screens and Screen X (to open soon).

Management guidance

- Screen addition was strong—opened 36 in Q1FY20 and on track to open 80-plus in FY20.
- Expects delays in real estate delivery; however, guidance takes these in to account, which could happen due to liquidity and slowdown issues.
- Confident of achieving 1,000 screens over the next 24 months.
- Has a good pipeline of screens that are undergoing fitouts; guidance will be revised, if needed.
- Capex for tier II/III markets tends to be INR20mn per screen and PVR is trying to cut it to INR17.5mn.
- ATP for tier II/III markets is INR120–140 and management is satisfied as long as occupancy is 25–30%. SPH for such markets is INR35–45 and management plans to take it to INR50–60.
- Advertising in tier II/III markets still needs to pick up; screen count in tier II/III is about 5% (about 40 screens).

Investment conclusion

Growth in Q2FY20 could be challenging given the strong base – *Sanju*, *Stree* and *Gold* – and risk from transitory slowdown in discretionary spends. However, over the long run, we remain enthused by PVR's expansion and innovation focus. We will keep tabs on: (1) contagion risk of LBT; and (2) aggression of OTTs. We retain our TM of 30x EPS rolling to December 2020E, to arrive at TP of INR2,040. We maintain '**BUY/SO**'.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
Int rate on debt (%)	12.0	14.5	16.0	9.0
Sales assumptions	-	-	1	-
Ad revenue growth (%)	17.9	19.1	13.1	16.1
Average Ticket Price	210.0	212.0	207.8	210.9
Footfall growth (%)				
F&B revenue growth (%)				
Cost assumptions	1	1	2	2
F&B COGS (% of F&B rev)	25.5	27.0	32.0	32.0
Personnel cost(% of rev)	10.9	10.9	11.0	11.0
Rent exp (% of rev)	17.6	-	-	-
Financial assumptions	1	1	2	2
Dis shr (% of tkt sales)	33.6	33.3	33.0	33.2
Tax rate (%)	36.0	36.5	35.0	35.0
Debtor days	20	20	20	20
Inventory days	10	10	10	10
Payable days	118	120	120	120
Cash conversion cycle	(87)	(90)	(90)	(90)

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	23,341	30,856	36,411	41,485
Film exhibition cost	5,377	7,019	8,101	9,080
COGS of F&B	1,591	2,387	2,790	3,167
Employee costs	2,541	3,373	4,005	4,563
Rent expense	4,111	-	-	-
Total SG&A expenses	5,703	12,213	9,103	10,371
Total operating expenses	19,323	24,992	23,999	27,182
EBITDA	4,018	5,863	12,411	14,303
Depreciation	1,537	1,913	4,951	5,888
EBIT	2,481	3,951	7,461	8,415
Less: Interest Expense	837	1,280	4,980	4,547
Add: Other income	313.39	331.4	331.4	350.00
Profit Before Tax	1,952	3,002	2,812	4,218
Less: Provision for Tax	704	1,097	984	1,476
Less: Minority Interest	(7)	57	57	57
Add: Exceptional items	(6)	-	-	-
Associate profit share	(7)	(12)	(12)	(12)
Reported Profit	1,247	1,836	1,759	2,673
Exceptional Items	(6)	-	-	-
Adjusted Profit	1,253	1,836	1,759	2,673
Shares o/s (mn)	47	47	48	48
Diluted shares o/s (mn)	47	47	48	48
Adjusted Diluted EPS	26.8	39.3	36.4	55.3
Dividend per share (DPS)	2.0	2.0	2.0	2.0
Dividend Payout Ratio(%)	7.5	5.1	5.5	3.6

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Film exhibition cost	23.0	22.7	22.2	21.9
COGS of F&B	6.8	7.7	7.7	7.6
Staff costs	10.9	10.9	11.0	11.0
Rent expense	17.6	-	-	-
S G & A expenses	24.4	39.6	25.0	25.0
EBITDA margins	17.2	19.0	34.1	34.5
Net Profit margins	5.3	6.1	5.0	6.6

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	7.9	32.2	18.0	13.9
EBITDA	12.6	45.9	111.7	15.2
Adjusted Profit	25.5	46.6	(4.2)	52.0
EPS	25.3	46.6	(7.4)	52.0

Media

Balance sheet (INR mn)				
As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	467	467	467	467
Reserves & Surplus	10,286	11,928	8,350	10,907
Shareholders' funds	10,754	12,395	8,818	11,374
Minority Interest	8	2,566	2,624	2,681
Long term borrowings	5,616	10,188	49,610	48,810
Short term borrowings	998	852	1,500	1,500
Total Borrowings	6,614	11,039	51,110	50,310
Long Term Liabilities	100	2,454	2,454	2,454
Def. Tax Liability (net)	(150)	848	848	848
Sources of funds	17,327	29,302	65,853	67,667
Gross Block	14,668	20,056	24,756	29,956
Net Block	11,271	14,900	47,941	48,049
Capital work in progress	1,017	2,208	2,300	2,300
Intangible Assets	4,629	13,108	12,554	11,959
Total Fixed Assets	16,917	30,216	62,795	62,307
Non current investments	176	89	89	89
Cash and Equivalents	339	352	4,091	6,423
Inventories	198	303	277	376
Sundry Debtors	1,556	1,839	2,003	2,282
Loans & Advances	2,483	2,858	2,858	2,897
Other Current Assets	1,666	3,327	3,327	3,327
Current Assets (ex cash)	5,902	8,326	8,464	8,881
Trade payable	2,511	3,677	3,582	4,028
Other Current Liab	3,496	6,004	6,003	6,004
Total Current Liab	6,007	9,681	9,585	10,032
Net Curr Assets-ex cash	(104)	(1,355)	(1,121)	(1,151)
Uses of funds	17,327	29,302	65,853	67,667
BVPS (INR)	230.1	265.2	182.4	235.3

Free cash flow (INR mn)				
Year to March	FY18	FY19	FY20E	FY21E
Reported Profit	1,247	1,836	1,759	2,673
Add: Depreciation	1,537	1,913	4,951	5,888
Interest (Net of Tax)	536	812	3,237	2,956
Others	561	751	1,481	1,310
Less: Changes in WC	(582)	(2,984)	233	(68)
Operating cash flow	4,463	8,296	11,194	12,895
Less: Capex	2,529	15,293	4,992	5,400
Free Cash Flow	1,933	(6,997)	6,202	7,495

Cash flow metrics				
Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	4,463	8,296	11,194	12,895
Financing cash flow	(660)	1,424	(2,795)	(5,463)
Investing cash flow	(4,054)	(10,154)	(4,661)	(5,050)
Net cash Flow	(251)	(434)	3,738	2,382
Capex	(2,529)	(15,293)	(4,992)	(5,400)
Dividend paid	(94)	(93)	(97)	(97)

Profitability and efficiency ratios				
Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	12.0	14.7	13.8	21.4
ROACE (%)	16.1	19.7	17.6	13.8
Inventory Days	10	10	10	10
Debtors Days	20	20	20	20
Payable Days	118	120	120	120
Cash Conversion Cycle	(87)	(90)	(90)	(90)
Current Ratio	1.0	0.9	1.3	1.5
Gross Debt/EBITDA	1.6	1.9	4.1	3.5
Gross Debt/Equity	0.6	0.7	4.5	3.6
Adjusted Debt/Equity	0.6	0.7	4.5	3.6
Interest Coverage Ratio	3.0	3.1	1.5	1.9

Operating ratios				
Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	1.4	1.3	0.8	0.6
Fixed Asset Turnover	1.5	1.4	0.8	0.7
Equity Turnover	2.2	2.4	2.8	3.3

Valuation parameters				
Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	26.8	39.3	36.4	55.3
Y-o-Y growth (%)	25.3	46.6	(7.4)	52.0
Adjusted Cash EPS (INR)	59.7	80.2	138.8	177.1
Diluted P/E (x)	54.0	36.9	39.8	26.2
P/B (x)	6.3	5.5	7.9	6.2
EV / Sales (x)	3.2	2.6	3.3	2.8
EV / EBITDA (x)	18.4	13.8	9.6	8.2
Dividend Yield (%)	0.1	0.1	0.1	0.1

QUESS CORP

Focus shifts from hyper-growth to cash generation

India Equity Research | Business Services

Key takeaways

Macro-economic scenario/industry outlook

- The Indian general staffing sector is pegged at around USD10bn with 3.3mn headcount. Growth in the sector during the previous few years was fuelled by transition of business focus from non-core to core operations.
- With India's workforce expected to clock ~3% CAGR and as employment shifts from non-contractual to contractual employment, flexi-staffing can clock 12-14% headcount CAGR over the next five-six years.
- India's facility management (FM) segment is pegged at ~USD3bn currently. FM remains a fragmented sector with a long tail of small and marginal players. This sector posted 17-18% CAGR in the previous decade and with rising needs from commercial set ups it is estimated to clock ~18% CAGR over the next five-seven years.

Business outlook

- General staffing: Quess, over the past two years, has raced past competition to become the market leader in the segment with ~223k associates employed. In Q1FY20 alone the company added ~32k associates (vis-à-vis 35k in FY19).
- The high growth will sustain as Quess continues to garner market share while improving its margin.
- Quess' presence in specialised staffing should lead to improved margin going forward.
- FM is a high growth sector and the company is focusing on ramping this up sharply (~27% of sales).

Differentiating steps undertaken

- Quess, after its speed run for growth, is now focusing on, consolidation, margin improvement and cash generation. Hence, over the past two quarter it has taken various initiatives such as:
 - Increasing higher margin business in overall portfolio.
 - More efficient billing and collecting.

Financials

Year to March	FY18	FY19	FY20E	FY21E
Revenues (INR mn)	61,673	85,270	101,460	115,553
EBITDA (INR mn)	3,544	4,646	6,720	7,555
Adjusted Profit (INR mn)	2,790	3,140	3,783	4,584
Adjusted Diluted EPS (INR)	21.8	17.5	21.9	27.4
EPS growth (%)	139.8	(19.8)	25.0	24.9
Diluted P/E (x)	21.1	26.3	21.0	16.8
EV/EBITDA (x)	18.0	14.7	10.2	8.7
ROACE (%)	12.3	11.9	14.1	15.1
ROAE (%)	14.8	12.1	13.1	14.1

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: QUEC BO, B: QUESS IN)

CMP	: INR 459
Target Price	: INR 703
52-week range (INR)	: 1,120 / 386
Share in issue (mn)	: 146.1
M cap (INR bn/USD mn)	: 67 / 940
Avg. Daily Vol. BSE/NSE ('000)	: 222.1

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	71.4	71.4	71.4
MF's, FI's & BKs	6.2	7.1	5.6
FII's	14.0	13.1	14.1
Others	8.4	8.4	8.9
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(8.3)	3.8	12.1
3 months	(7.0)	(30.2)	(23.2)
12 months	(16.7)	(52.6)	(35.9)

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Management guidance

- Putting a halt to its inorganically driven hyper growth strategy, management highlighted it is not planning further acquisitions over the next one year and will focus on consolidation of previous acquisitions.
- For FY20, management is targeting top-line growth of at least 20% with expanding margin from the current level.
- Management highlighted that its focus remains generation of cash and targets cash conversion (OCF/EBITDA) of over 50% and reducing debt to under 1.5x debt/EBITDA in FY20.
- On the Trimax JV receivable issue, management highlighted it is working with the committee of creditors and the regulatory authorities for transfer of money in escrow to Qess.

Investment conclusion:

Qess has slid 44% in the past six months owing to investor concerns on acquisitions, thereby substantially increasing the number of 'moving parts' over the past two years. Concerns around potential write-off of Trimax JV receivables have accentuated the correction. We strongly believe that the stock price now captures these concerns more than adequately. Factoring in sustainable organic earnings growth of 18–20% at an RoE of 14–15%, we believe the current 15x PE makes for attractive entry. We retain **'BUY'** with TP of INR703.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
P&S Sales	22.7	34.8	32.4	18.7
GTS Sales	57.9	49.7	11.0	7.6
IFM Sales	82.7	19.8	15.1	15.1
Industrial AM Sales	65.1	27.4	(10.0)	-
P&S EBITDA	5.5	5.3	5.8	5.8
GTS EBITDA	7.2	8.0	8.6	8.5
IFM EBITDA	7.3	8.6	8.7	8.5
Industrial AM EBITDA	5.1	5.9	(0.1)	(0.1)
Gross margins (%)	15.3	18.2	18.7	19.0
Capex (INR mn)	(3,837)	(1,260)	(3,500)	(1,000)
Net borrowings (INR mn)	(677)	1,262	1,788	(1,337)
Receivable (days)	42	39	36	37
Inventory days	20	21	31	31
Payable days	290	223	263	306
Cash conversion cycle	(228)	(163)	(197)	(239)

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	61,673	85,270	101,460	115,553
Materials costs	1,422	2,624	2,624	2,624
Gross profit	9,457	15,514	18,957	21,955
Employee costs	50,793	67,132	79,878	90,974
Other Expenses	5,914	10,868	12,237	14,400
Operating expenses	5,914	10,868	12,237	14,400
Total operating expenses	7,336	13,492	14,861	17,024
EBITDA	3,544	4,646	6,720	7,555
Depreciation	747	1,232	2,203	2,173
EBIT	2,796	3,414	4,517	5,382
Less: Interest Expense	755	1,144	1,508	1,515
Add: Other income	569.22	712.26	597.2	639.47
Profit Before Tax	2,611	2,983	3,607	4,506
Less: Provision for Tax	(483)	329	397	496
Less: Minority Interest	-	(2)	-	-
Associate profit share	4	(88)	-	-
Reported Profit	3,098	2,567	3,210	4,011
Exceptional Items	(308)	573	573	573
Adjusted Profit	2,790	3,140	3,783	4,584
Shares o/s (mn)	140	146	146	146
Adjusted Basic EPS	22.1	17.6	22.0	27.5
Diluted shares o/s (mn)	142	147	147	147
Adjusted Diluted EPS	21.8	17.5	21.9	27.4
Adjusted Cash EPS	17.1	26.6	40.8	46.1

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Gross margin	15.3	18.2	18.7	19.0
Operating expenses	9.6	12.7	12.1	12.5
Interest Expense	1.2	1.3	1.5	1.3
EBITDA margins	5.7	5.4	6.6	6.5
EBIT margins	4.5	4.0	4.5	4.7
Net Profit margins	4.5	3.7	3.7	4.0

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	42.9	38.3	19.0	13.9
EBITDA	48.9	31.1	44.7	12.4
Adjusted Profit	145.9	12.6	20.5	21.2
EPS	139.8	(19.8)	25.0	24.9

Balance sheet				
(INR mn)				
As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	1,455	1,461	1,461	1,461
Reserves & Surplus	23,153	25,795	29,005	33,016
Shareholders' funds	24,608	27,256	30,466	34,477
Minority Interest	16	31	31	31
Long term borrowings	2,686	2,090	2,090	2,090
Short term borrowings	6,976	5,411	5,411	5,411
Total Borrowings	9,662	7,502	7,502	7,502
Long Term Liabilities	2,536	3,213	3,213	3,213
Def. Tax Liability (net)	(1,556)	(1,926)	(1,926)	(1,926)
Sources of funds	35,266	36,075	39,285	43,296
Gross Block	3,843	4,637	8,137	9,137
Net Block	2,325	2,354	3,651	2,478
Capital work in progress	3,032	2,441	2,441	2,441
Intangible Assets	10,981	11,912	11,912	11,912
Total net fixed assets	16,338	16,707	18,004	16,831
Non current investments	888	900	900	900
Cash and Equivalents	10,339	6,240	5,714	8,839
Inventories	85	221	221	221
Sundry Debtors	9,207	9,132	10,866	12,375
Loans & Advances	5,055	6,910	6,910	6,910
Other Current Assets	5,517	8,077	9,611	10,946
Current Assets (ex cash)	19,864	24,340	27,607	30,452
Trade payable	1,481	1,729	2,057	2,343
Other Current Liab	10,684	10,386	10,886	11,386
Total Current Liab	12,165	12,115	12,943	13,729
Net Curr Assets-ex cash	7,699	12,225	14,664	16,723
Uses of funds	35,266	36,075	39,285	43,296
BVPS (INR)	175.2	186.9	209.0	236.5

Free cash flow				
(INR mn)				
Year to March	FY18	FY19	FY20E	FY21E
Reported Profit	3,098	2,567	3,210	4,011
Add: Depreciation	747	1,232	2,203	2,173
Interest (Net of Tax)	506	766	1,010	1,015
Others	(5,121)	(3,797)	(4,978)	(4,257)
Less: Changes in WC	(1,858)	(1,248)	(2,439)	(2,059)
Operating cash flow	1,087	2,016	3,885	5,001
Less: Capex	3,837	1,260	3,500	1,000
Free Cash Flow	(2,750)	756	385	4,001

Cash flow metrics				
Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	1,087	2,016	3,885	5,001
Financing cash flow	9,605	(4,453)	(1,508)	(1,515)
Investing cash flow	(8,098)	1,802	(2,903)	(361)
Net cash Flow	2,594	(635)	(526)	3,125
Capex	(3,837)	(1,260)	(3,500)	(1,000)

Profitability and efficiency ratios				
Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	14.8	12.1	13.1	14.1
ROACE (%)	12.3	11.9	14.1	15.1
Inventory Days	20	21	31	31
ROA	9.8	8.8	10.0	11.1
Debtors Days	42	39	36	37
Payable Days	290	223	263	306
Cash Conversion Cycle	(228)	(163)	(197)	(239)
Current Ratio	2.5	2.5	2.6	2.9
Debt/EBITDA (x)	2.7	1.6	1.1	1.0
Adjusted Debt/Equity	0.4	0.3	0.2	0.2
Net Debt/Equity	-	-	0.1	-
Interest Coverage Ratio	3.7	3.0	3.0	3.6
LT debt /Cap empl. (%)	7.6	5.8	5.3	4.8
Debt / Cap employed (%)	27.4	20.8	19.1	17.3

Operating ratios				
Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	2.2	2.4	2.7	2.8
Fixed Asset Turnover	5.3	6.2	6.8	7.7
Equity Turnover	3.3	3.3	3.5	3.6

Valuation parameters				
Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	21.8	17.5	21.9	27.4
Y-o-Y growth (%)	139.8	(19.8)	25.0	24.9
Adjusted Cash EPS (INR)	17.1	26.6	40.8	46.1
Diluted P/E (x)	21.0	26.2	21.0	16.8
P/B (x)	2.6	2.5	2.2	1.9
EV / Sales (x)	1.0	0.8	0.7	0.6
EV / EBITDA (x)	18.0	14.7	10.2	8.7

SKF INDIA

Automotive skids; industrials shines

India Equity Research | Bearing



Key takeaways

Industry/business outlook

- SKF's Q1FY20 revenue grew 3% YoY. While automotive declined 8% YoY, industrials and exports rose 9% and 24% YoY, respectively.
- Automotive (~38% of sales)
 - Down ~8% YoY driven by sharp 14% decline in OEM (14% fall in 2W; high single digit decline in cars and trucks; tractors posted double-digit decline).
 - Aftermarket, however, was up a modest ~5%. Management expects this sub-segment to grow at 10-15% going ahead.
- Industrial (~53% of sales; within industrial, aftermarket and OEM make up 50% each)
 - The segment grew a strong 9% YoY driven by healthy growth of 8% and 10% in OEMs and aftermarket, respectively.
- Railways (~7% contribution to top line) remained flat YoY and grew 23% QoQ.
 - SKF's market share in freight is in single digit and management expects freight to drive revenue within railways going ahead.
 - SKF is working on freight wagons for the Dedicated Freight Corridor wherein its bearings have been approved by the government and it has bagged a couple of orders.
 - It expects to be beneficiary of the government's move to shift from traditional to LHB coaches on the passenger side.
 - Within freight, it expects more demand from high performance Class K bearings which are 20% higher in realisation versus Class E bearings. It has all approvals in place to cater to this market.
 - SKF has mostly relied on its European group company to service railway demand till now, which will be replaced by SKF Tech going ahead.
 - Overall aftermarket sales growth is expected to be strong in automotive and industrial spurred by demand shifting from unorganised to organised players post-GST implementation.

Financials

Year to December	FY18	FY19E	FY20E	FY21E
Revenues (INR mn)	27,504	30,345	32,247	36,793
EBITDA (INR mn)	4,348	4,859	5,384	6,261
Adjusted Profit (INR mn)	2,959	3,358	3,537	4,262
Adjusted Diluted EPS (INR)	57.6	67.9	71.5	86.2
Diluted P/E (x)	33.0	28.0	26.6	22.1
EV/EBITDA (x)	21	18	16	13
ROACE (%)	24.4	28.7	29.1	30.2
ROAE (%)	16.2	19.0	19.6	20.6

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	None

MARKET DATA (R: SKFB.BO, B: SKF IN)

CMP	: INR 1,875
Target Price	: INR 2,179
52-week range (INR)	: 2,165 / 1,620
Share in issue (mn)	: 51.3
M cap (INR bn/USD mn)	: 96 / 1,323
Avg. Daily Vol. BSE/NSE ('000)	: 26.1

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	52.6	52.6	52.3
MF's, FI's & BKs	25.9	25.9	24.8
FII's	8.0	7.9	9.4
Others	13.5	13.6	13.5
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(8.3)	(8.6)	(0.3)
3 months	(7.0)	(5.0)	2.0
12 months	(16.7)	5.9	22.6

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August 21, 2019

- **Wind sector (~5% contribution to top line)** grew 100% YoY and 23% QoQ in Q1FY20 and the company expects the pick up to sustain for a few more quarters.
- **Capacity expansion:** SKF is currently operating at 71% utilisation level. Management guided for capex of INR500-1,000mn per year. SKF reiterated its stance of localising more production going ahead directionally.

Differentiated steps undertaken

- **HUB3:** Fully commissioned and trial run was completed in June and SKF is awaiting testing by OEMs. This will improve the company's value-added sales within auto.
- Management reiterated focus on innovation due to **migration from BSIV** to BSVI and then to electric vehicles. Since the company caters majorly to wheels rather than transmission, management envisages limited impact of EV migration.
- **Industrial: Rotating equipment program (REP):** SKF is moving from bearings sales to solutions. It is guaranteeing uptime on shaft for example.

Overall outlook / Management guidance

- **Auto:** Management believes the slowdown is cyclical and revival is likely in November with festive season, but mostly expects the slowdown to the last entire FY20.
- **Industrial:** Management expects the private capex (mostly infra led) cycle to kick off in a few quarters.
- **EV:** With the electrification in drive trains, management expects impact only on engines and not on wheel ends.
- On engines front, the number of bearings will fall with need to reduce leakage and friction. Hence, SKF will transition towards ceramic/hybrid bearings, which are more expensive and hence value growth will rise.

Investment conclusion

Factoring the slowdown in automotive OEM, we expect FY20E EPS growth at mere 5.3%. However, we retain FY21 EPS growth at 21%. That said, we remain structurally positive on SKF as its diversified portfolio (53:47 of industrials: auto) renders it a play on economic recovery. We maintain 'BUY' with TP of INR2,179 valuing at 26x (three years average) Q3FY21E.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector				
Auto OEM(2W) vol. growth	10.0	8.0	6.0	7.0
Auto OEM PV vol. growth	9.0	4.0	6.0	7.0
Auto CV ind. vol. growth	8.0	15.0	7.0	8.0
Company				
Raw Material (% net rev)	58.4	58.5	59.2	59.9
Auto 2W OEM vol. growth	11.0	6.0	-	7.0
Auto PV OEM vol. growth	6.5	2.5	1.5	10.0
Auto CV OEM vol. growth	29.0	2.0	(3.0)	7.0
Auto aftrmkt sale growth	6.3	9.7	2.8	11.2
Industrial sales growth	(4.0)	13.0	12.0	15.0
Export revenue growth	25.0	(25.0)	15.0	10.0
Industrial sales growth	(8.1)	22.9	12.5	17.7
Manufactured	60.4	55.0	52.7	51.3
Traded	39.6	45.0	47.3	48.7
Mfg. gross margin (%)	57.5	58.0	59.0	59.0
Traded gross margin (%)	13.2	17.5	17.5	17.5
Employee (% of net rev)	8.6	8.5	8.4	8.0
Admin exp(as % of rev)	17.2	16.9	15.7	15.2

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	27,504	30,345	32,247	36,793
Materials costs	16,068	17,765	19,097	22,032
Gross profit	11,436	12,581	13,150	14,762
Employee costs	2,368	2,583	2,711	2,925
Other Expenses	4,720	5,139	5,055	5,575
Operating expenses	7,087	7,722	7,766	8,501
Total operating expenses	23,156	25,487	26,862	30,532
EBITDA	4,348	4,859	5,384	6,261
Depreciation	457	464	531	637
EBIT	3,891	4,395	4,854	5,624
Less: Interest Expense	50	77	90	74
Add: Other income	713.6	923.8	678.16	907.03
Profit Before Tax	4,555	5,242	5,442	6,457
Less: Provision for Tax	1,596	1,884	1,905	2,196
Reported Profit	2,959	3,358	3,537	4,262
Adjusted Profit	2,959	3,358	3,537	4,262
Shares o /s (mn)	51	49	49	49
Adjusted Basic EPS	57.6	67.9	71.5	86.2
Diluted shares o/s (mn)	51	49	49	49
Adjusted Diluted EPS	57.6	67.9	71.5	86.2
Adjusted Cash EPS	65.2	76.3	82.3	99.1
Dividend per share (DPS)	14.0	12.0	22.0	22.0
Dividend Payout Ratio(%)	28.4	20.7	36.0	29.9

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Gross margin	41.6	41.5	40.8	40.1
Operating expenses	25.8	25.4	24.1	23.1
Interest Expense	0.2	0.3	0.3	0.2
EBITDA margins	15.8	16.0	16.7	17.0
EBIT margins	14.1	14.5	15.1	15.3
Net Profit margins	10.8	11.1	11.0	11.6

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	4.5	10.3	6.3	14.1
EBITDA	29.4	11.7	10.8	16.3
PBT	21.3	15.1	3.8	18.7
Adjusted Profit	21.3	13.5	5.3	20.5
EPS	24.6	17.8	5.3	20.5

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	513	494	494	494	
Reserves & Surplus	17,860	16,475	18,707	21,696	
Shareholders' funds	18,373	16,969	19,201	22,191	
Short term borrowings	850	900	900	900	
Total Borrowings	850	900	900	900	
Long Term Liabilities	281	324	324	324	
Def. Tax Liability (net)	(175)	(228)	(228)	(228)	
Sources of funds	19,329	17,965	20,196	23,186	
Gross Block	4,419	4,631	5,781	7,081	
Accumulated depreciation	1,667	2,096	2,627	3,263	
Net Block	2,752	2,535	3,154	3,817	
Capital work in progress	371	622	450	400	
Intangible Assets	2	2	2	2	
Total Fixed Assets	3,124	3,158	3,606	4,219	
Cash and Equivalents	8,962	6,780	9,458	11,225	
Inventories	4,029	4,610	4,186	4,708	
Sundry Debtors	4,908	5,213	5,124	5,746	
Loans & Advances	2,017	2,076	2,076	2,076	
Other Current Assets	1,048	901	901	901	
Current Assets (ex cash)	12,001	12,800	12,287	13,431	
Trade payable	3,897	3,491	3,872	4,406	
Other Current Liab	1,037	1,282	1,282	1,282	
Total Current Liab	4,934	4,774	5,154	5,689	
Net Curr Assets-ex cash	7,067	8,026	7,133	7,742	
Uses of funds	19,329	17,965	20,196	23,186	
BVPS (INR)	357.9	343.3	388.4	448.9	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	2,959	3,358	3,537	4,262	
Add: Depreciation	457	464	531	637	
Interest (Net of Tax)	(341)	(34)	-	-	
Others	(372)	(890)	(678)	(907)	
Less: Changes in WC	(820)	959	(893)	610	
Operating cash flow	3,522	1,939	4,283	3,382	
Less: Capex	184	463	978	1,250	
Free Cash Flow	3,339	1,476	3,305	2,132	

Cash flow metrics		FY18	FY19	FY20E	FY21E
Year to March					
Operating cash flow	3,522	1,939	4,283	3,382	
Financing cash flow	(1,885)	227	(594)	(365)	
Investing cash flow	(231)	(463)	(978)	(1,250)	
Net cash Flow	1,407	1,703	2,711	1,767	
Capex	(184)	(463)	(978)	(1,250)	
Dividend paid	(841)	(694)	(1,272)	(1,272)	

Profitability and efficiency ratios		FY18	FY19	FY20E	FY21E
Year to March					
ROAE (%)	16.2	19.0	19.6	20.6	
ROACE (%)	24.4	28.7	29.1	30.2	
Inventory Days	93	89	84	74	
ROA	15.5	18.0	18.5	19.6	
Debtors Days	67	61	59	54	
Payable Days	79	76	70	69	
Cash Conversion Cycle	81	74	72	59	
Current Ratio	4.2	4.1	4.2	4.3	
Debt/EBITDA (x)	0.2	0.2	0.2	0.1	
Debt/Equity (x)	-	0.1	-	-	
Adjusted Debt/Equity	-	0.1	-	-	
Interest Coverage Ratio	78.3	57.4	53.9	76.0	
LT debt /Cap empl. (%)	4.4	5.0	4.5	3.9	
Debt / Cap employed (%)	29.0	30.3	28.8	27.4	

Operating ratios		FY18	FY19	FY20E	FY21E
Year to March					
Total Asset Turnover	1.4	1.6	1.7	1.7	
Fixed Asset Turnover	9.6	11.5	11.3	10.6	
Equity Turnover	1.5	1.7	1.8	1.8	

Valuation parameters		FY18	FY19	FY20E	FY21E
Year to March					
Adj. Diluted EPS (INR)	57.6	67.9	71.5	86.2	
Y-o-Y growth (%)	24.6	17.8	5.3	20.5	
Adjusted Cash EPS (INR)	65.2	76.3	82.3	99.1	
Diluted P/E (x)	32.5	27.6	26.2	21.7	
P/B (x)	5.2	5.5	4.8	4.2	
EV / Sales (x)	3.3	2.9	2.7	2.3	
EV / EBITDA (x)	20.3	17.9	15.6	13.2	
Dividend Yield (%)	0.7	0.6	1.2	1.2	

V-MART RETAIL

Garnering arsenal to capture higher opportunity pie

India Equity Research | Retail

Key takeaways

Macro-economic scenario/industry outlook

- Management is bullish on the long-term market opportunity and VMart's ability to drive accelerated expansion.
- The economic scenario is definitely challenging, but according to the management, VMart's vendors are not facing liquidity crisis.
- VMart maintained its stance that competition continues to remain intense in 90% of the geographies it operates in. However, competition from regional players is waning owing to liquidity crunch, lower-than-desired sales per sq ft, elevated working capital cycle and limited breadth to open new stores.
- Looking ahead, with the overall market and consumer spending outlook evenly poised on expectations of a bountiful monsoon, VMart is gearing for the festive season—Durga Puja, Diwali and Chhath.

Business outlook

- VMart is targeting 3x jump in revenue over the next five years, implying ~24-25% CAGR guidance.
- Internal benchmark for a new store is to achieve sales per sq ft of INR750 p.m. / INR9,000 p.a
- The company has, hence, divided its operations in to four zones—North, UP, Bihar & Jharkhand and East—with each zone led by a zonal business head.
- In terms of store capex, it has not changed from the past—capex per store at INR1,400 sq ft with working capital almost equivalent to capital expenditure per store. Thus, each store will require capital employed of ~INR22-24mn.
- VMart has remained debt free so far and will not look to take leverage in spite of having strong store expansion plans.
- VMart's loyalty programme 'Value Club' is scaling up, with 1.1mn members currently and expected to grow at 20% YoY. Sales from loyalty members have increased 4% in FY19 with repeat purchases by 65% members.
- A new warehouse is likely to be opened (in next six-eight months) somewhere around Kolkata.

Financials

Year to March	FY18	FY19	FY20E	FY21E
Revenues (INR mn)	12,224	14,337	17,522	21,025
Rev. growth (%)	22.0	17.3	22.2	20.0
EBITDA (INR mn)	1,328	1,329	2,271	2,724
Adjusted Profit (INR mn)	777	714	782	997
Diluted EPS (INR)	42.9	39.4	43.3	55.2
EPS growth (%)	96.3	(8.2)	9.9	27.6
Enterprise Value / EBITDA (x)	23.5	23.3	15.2	12.5
ROAE (%)	25.2	18.9	17.6	19.1

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: VMAR.BO, B: VMART IN)

CMP	: INR 1,749
Target Price	: INR 2,366
52-week range (INR)	: 3,299 / 1,676
Share in issue (mn)	: 18.2
M cap (INR bn/USD mn)	: 32 / 444
Avg. Daily Vol.BSE/NSE('000)	: 13,498.3

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	52.5	53.0	54.0
MF's, FI's & BK's	5.7	5.6	4.7
FII's	31.1	30.9	30.0
Others	10.7	10.5	11.4
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Retail Index
1 month	(12.3)	(8.1)	(8.3)
3 months	(30.9)	(5.6)	(7.0)
12 months	(30.6)	(4.7)	(16.7)

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- Vendor base and its quality is one of the most important vectors of VMart's growth. The company has reduced active vendor base from ~1,250 to ~800 to ~400 currently.
- Technology adoption and upgradation across its planning, supply chain and logistics infrastructure is also underway.
- Does not expect online players to disrupt growth as their penetration is minuscule. In the geographies the company is targeting, online buying for apparels is low. People mostly buy white goods online.

Differentiated steps undertaken

- VMart has: (i) divided the business in to four geographical zones; (ii) appointed management heads for various functions; (iii) invested in building IT infrastructure & is entering omni channel; (iv) opened a new warehouse to fuel its cluster-based expansion; (v) accelerated store expansion pace; (vi) bolstered supply chain; and (vii) automated many operations across functions.
- The company is trying to reduce the time it takes from concept /design stage to bringing it to the store, a.k.a. Mind to Market, from ~150 days (a few quarters ago) to ~90-120 days now. Plan is to further shorten this time.
- All arrangements with vendors are on cost-plus basis. VMart has not seen any liquidity crunch at vendors' end. However, should a vendor require, VMart is happy to pay in 45 days along with receiving appropriate cash discount of ~1.0-1.5%.
- Sufficient investment has been made in IT infrastructure. With this every store manager now has a dashboard where on real time basis he can monitor metrics such as footfalls, sales per sq ft, conversion rate, etc.

Management guidance

- VMart is targeting 3x jump in revenue over the next five years, implying ~24-25% CAGR guidance.
- SSSG target for FY20 is 5-8%.
- Management expects some compression at the gross margin level. Management believes EBITDA margin of 9% will become the new normal.
- The company has upped its overall store expansion pace—opened 18, 30 and 43 net stores in FY17, FY18 and FY19, respectively. It is guiding to open between 50 and 60 stores p.a. over the next two years, i.e., addition of 25% sq ft on FY19 base. Of these new stores, ~50% will be in existing markets and balance in new markets.

Investment conclusion

VMart's strategy of increasing clusters coupled with healthy store additions is likely to drive growth and garner market share gains. We retain 25x EV/EBITDA (12-months' forward; ex-Ind AS 116) to arrive at TP of INR2,366. We retain **'BUY/SP'**. At CMP, the stock is trading at 12.5x FY21E EV/EBITDA (16.8x ex-Ind AS 116 FY21E EV/EBITDA).

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
SG&A and other costs	7	7	2	2
Same store sales growth (fashion)	9.0	3.7	6.5	6.5
Kirana stores (YoY growth)	2.3	36.8	(2.0)	(2.0)
Total no. of stores	171	214	269	329
New store sales (INR mn)	5,230	3,854	5,000	5,100
Rent exp (% of rev)	4.3	4.7	5.6	5.8
Advertising & Sales Promotion	2.1	2.4	2.4	2.4
COGS (% of revenue)	67.9	67.7	68.3	68.2
Employee expenses (% of revenue)	8.0	8.8	8.7	8.6
Depreciation as % of gross block	12.3	11.9	22.0	20.0
Inventory days	127	120	120	120
Payable day	72	59	59	59
Capex (INR mn)	(272)	451	790	791
Tax Rates	30.9	34.8	35.0	35.0

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	12,224	14,337	17,522	21,025
Materials costs	8,303	9,703	11,967	14,339
Gross profit	3,921	4,635	5,554	6,686
Employee costs	984	1,257	1,524	1,808
Rent and lease expenses	521	672	988	1,229
Ad. & sales costs	262	339	421	505
Other Expenses	826	1,037	350	420
Total operating expenses	2,593	3,305	3,283	3,962
EBITDA	1,328	1,329	2,271	2,724
Depreciation	229	276	669	765
EBIT	1,099	1,053	1,602	1,959
Less: Interest Expense	15	16	500	550
Add: Other income	41.41	59.23	100.00	125.00
Profit Before Tax	1,125	998	1,202	1,534
Less: Provision for Tax	348	382	421	537
Add: Exceptional items	-	(98)	-	-
Reported Profit	777	616	782	997
Exceptional Items	-	(98)	-	-
Adjusted Profit	777	714	782	997
Shares o /s (mn)	18	18	18	18
Diluted shares o/s (mn)	18	18	18	18
Adjusted Diluted EPS	42.9	39.4	43.3	55.2
Dividend per share (DPS)	2.0	1.7	5.2	6.6
Dividend Payout Ratio(%)	3.9	4.2	9.9	9.9

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Rent and lease expenses	4.3	4.7	5.6	5.8
Materials costs	67.9	67.7	68.3	68.2
Staff costs	8.0	8.8	8.7	8.6
S G & A expenses	6.8	7.2	2.0	2.0
EBITDA margins	10.9	9.3	13.0	13.0
Net Profit margins	6.4	5.0	4.5	4.7

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	22.0	17.3	22.2	20.0
EBITDA	60.8	0.1	70.9	19.9
Adjusted Profit	96.6	(8.1)	9.4	27.6
EPS	96.3	(8.2)	9.9	27.6

Balance sheet (INR mn)				
As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	181	181	181	181
Reserves & Surplus	3,293	3,911	4,600	5,478
Shareholders' funds	3,474	4,093	4,781	5,660
Long term borrowings	3	-	4,000	4,000
Total Borrowings	3	-	4,000	4,000
Long Term Liabilities	77	111	111	111
Def. Tax Liability (net)	(92)	(118)	(118)	(118)
Sources of funds	3,463	4,086	8,774	9,653
Gross Block	1,801	2,240	2,980	3,736
Net Block	1,412	1,622	5,706	5,715
Capital work in progress	35	40	40	40
Intangible Assets	35	33	70	87
Total Fixed Assets	1,483	1,695	5,816	5,842
Non current investments	63	98	98	98
Cash and Equivalents	461	675	1,070	1,515
Inventories	3,071	3,290	3,923	4,714
Sundry Debtors	-	-	-	-
Loans & Advances	84	122	122	122
Other Current Assets	245	320	320	320
Current Assets (ex cash)	3,400	3,733	4,365	5,157
Trade payable	1,668	1,483	1,943	2,328
Other Current Liab	276	632	632	632
Total Current Liab	1,944	2,114	2,575	2,960
Net Curr Assets-ex cash	1,456	1,618	1,791	2,197
Uses of funds	3,463	4,086	8,774	9,653
BVPS (INR)	192.0	225.7	264.9	313.6

Free cash flow (INR mn)				
Year to March	FY18	FY19	FY20E	FY21E
Reported Profit	777	616	782	997
Add: Depreciation	229	276	669	765
Interest (Net of Tax)	11	11	325	358
Others	(43)	130	75	68
Less: Changes in WC	397	270	173	406
Operating cash flow	577	763	1,678	1,780
Less: Capex	(272)	451	790	791
Free Cash Flow	849	312	888	989

Peer comparison valuation

Name	Market cap (USD mn)	EV / EBITDA (x)		EV / Sales (x)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
V-MART Retail	436	15.3	12.6	2.0	1.6	17.6	19.1
Aditya Birla Fashion and Retail Ltd	2,045	11.8	9.5	2.0	1.6	19.4	23.1
Future Lifestyle Fashions Limited	1,218	9.4	7.3	1.6	1.3	11.6	14.3
Shoppers Stop	461	7.2	6.2	1.3	1.1	13.5	21.2
TRENT LTD	2,344	29.7	22.2	5.0	3.9	12.8	19.3
Median	-	11.8	9.5	2.0	1.6	13.5	19.3
AVERAGE	-	14.7	11.5	2.4	1.9	15.0	19.4

Source: Edelweiss research

Cash flow metrics				
Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	577	763	1,678	1,780
Financing cash flow	(384)	(44)	(593)	(669)
Investing cash flow	(84)	(734)	(181)	(666)
Net cash Flow	109	(14)	904	446
Capex	272	(451)	(790)	(791)
Dividend paid	(30)	(26)	(77)	(99)

Profitability and efficiency ratios

Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	25.2	18.9	17.6	19.1
ROACE (%)	34.9	29.4	26.4	22.6
Inventory Days	127	120	120	120
Debtors Days	-	-	-	-
Payable Days	72	59	59	59
Cash Conversion Cycle	55	60	60	61
Current Ratio	2.0	2.1	2.1	2.3
Gross Debt/EBITDA	-	-	1.8	1.5
Gross Debt/Equity	-	-	0.8	0.7
Adjusted Debt/Equity	-	-	0.8	0.7
Interest Coverage Ratio	71.9	65.3	3.2	3.6

Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	3.7	3.8	2.7	2.3
Fixed Asset Turnover	8.9	9.2	4.7	3.6
Equity Turnover	4.0	3.8	3.9	4.0

Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	42.9	39.4	43.3	55.2
Y-o-Y growth (%)	96.3	(8.2)	9.9	27.6
Adjusted Cash EPS (INR)	55.6	54.6	80.4	97.6
Diluted P/E (x)	40.9	44.6	40.6	31.8
P/B (x)	9.2	7.8	6.6	5.6
EV / Sales (x)	2.6	2.2	2.0	1.6
EV / EBITDA (x)	23.6	23.5	15.3	12.6
Dividend Yield (%)	0.1	0.1	0.3	0.4

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Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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