Morning Insight

MAY 9, 2019

	8-May	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	37,789	(1.3)	(2.4)	3.4
NIFTY Index	11,359	(1.2)	(2.1)	3.8
NSEBANK Index	28,994	(1.0)	(2.9)	6.2
NIFTY 500 Index	9,340	(1.2)	(3.1)	3.4
CNXMcap Index	16,965	(1.0)	(6.3)	2.2
BSESMCAP Index	14,129	(1.2)	(5.7)	3.5
World Indices				
Dow Jones	25,967	0.0	(0.7)	3.4
Nasdaq	7,943	(0.3)	0.4	8.8
FTSE	7,271	0.1	(2.1)	2.8
NIKKEI	21,603	(1.5)	(2.1)	4.9
Hangseng	29,003	(1.2)	(5.4)	2.1
Shanghai	2,894	(1.1)	(11.9)	9.1

Value traded (Rs cr)	8-May	% Chg Day
Cash BSE	1,920	(12.7)
Cash NSE	31,602	3.2
Derivatives	1,324,483	34.9

Net inflows (Rs cr)	7-May	MTD	YTD
FII	2,811	764	68,985
Mutual Fund	426	172	(2,490)

Nifty Gainers & Losers 8-May	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
UPL Ltd	962	1.1	2.4
JSW Steel Ltd	289	0.4	7.9
BPCL	380	0.3	3.8
Losers			
Zee Entertainment	332	(10.2)	67.3
Reliance Ind	1,299	(3.3)	14.6
Bajaj Finance	2,921	(3.2)	1.2

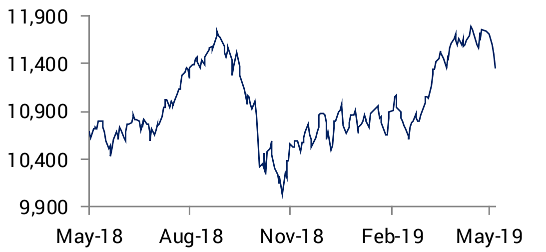
Advances / Declines (BSE)

8-May	A	B	T	Total	% total
Advances	83	192	30	305	100
Declines	375	765	70	1,210	397
Unchanged	3	22	15	40	13

Commodity	8-May	% Chg 1 Day	1 Mth	3 Mths
Crude (US$/BBL)	69.7	(1.0)	(1.3)	12.2
Gold (US$/OZ)	1,280.9	(0.3)	(1.8)	(2.5)
Silver (US$/OZ)	14.8	(0.5)	(2.6)	(6.4)

Debt / Forex Market	8-May	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.4	7.4	7.4	7.3
Re/US$	69.7	69.4	69.7	71.3

Nifty



Source: Bloomberg

News Highlights

- The Sebi nudged stock exchanges to consider capping sectoral weightage in their benchmark indices, said people with the direct knowledge of the development. (BS)
- A NSSO's report revealing that one-third of the companies on the MCA 21 portal — used to calculate GDP data in the new series — are untraceable has left experts divided and provided ammunition to the opposition to question the government on the accuracy of the economic data. (BS)
- Following the NCLT directive, **RCom** informed the stock exchanges that the administration of the corporate debtor would be taken over by the interim resolution professional (RP) and the corporate insolvency resolution process (CIRP) would resume. (BS)
- Enforcement Directorate (ED) has begun an initial probe into Etihad Airways PJSC's investment in Jet Privilege Pvt. Ltd (JPPL), the frequent-flyer programme of **Jet Airways (India) Ltd.** (Mint)
- In a move that might throw a spanner in **NBCC's** grand plans of winning the bid for the beleaguered **Jaypee Infratech** projects, Anuj Jain, the interim resolution professional in a letter to the committee of creditors, categorically said that the state-run infrastructure firm's proposal is conditional and based on being granted relief from income-tax liabilities. (BS)
- Just when it seemed on the brink of ending to Patanjali's management, its battle for acquiring beleaguered edible oil maker **Ruchi Soya** has hit another hurdle. This time, the objections have come from a couple of creditors of the debt-laden firm, DBS Bank Singapore and DBS India. (BS)
- Shares of **Essel** group companies fell 2-10 per cent on worries about its stake sale getting delayed. Meanwhile, Reliance Mutual Fund (MF) unwound its loan-against-shares (LAS) exposure to the group. Sources said the fund house recovered over Rs 4 bn of its debt exposure by liquidating the promoters' pledged shares held as collateral. (BS)
- Promoters of **Eros International**, who had pledged nearly 48 per cent of their stake to lenders, have now increased their pledging, as the loan-against-shares model increasingly comes into question amid issues faced by peer companies such as **Zee Entertainment**. (BS)
- **L&T** has bought 3.96% stake in **Mindtree** from the open market to increase its holding in the company to 23.92 % ahead of the open offer that is scheduled to begin on May 14. (ET)
- With the NCLAT allowing banks to declare the defaulting accounts of **IL&FS** group as NPAs, the RBI withdrew its previous circular asking banks, financial institutions to declare details of their exposure to the group that are bad loans. (BS)
- The Competition Commission said it has approved acquisition of 6.5 per cent stake by General Atlantic Group in **PNB Housing Finance** in a Rs 9.25 bn deal. (ET)
- The government has approved a proposal of **Lupin** to take more time for completion of its project at Indore SEZ with proposed investment of Rs 2.1 bn. (ET)

What's Inside

- **Result Update**: Supreme Industries Ltd, VIP Industries Ltd, Essel Propack Ltd & Chennai Petroleum Corporation Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Result Update

SUPREME INDUSTRIES LTD

PRICE RS.1021 TARGET RS.1124 ADD

Supreme Industries Ltd (SIL) Q4FY19 result was below our estimates on account of lower than estimated volume and EBITDA margins.

Key Highlights

- SIL Q4FY19 revenue was below our estimates on account of 1) slower volume growth of 10.4% yoy (Vs 15% estimates) due to decline in industrial segment and 2) 7.1% yoy decline in realization due to sharp correction in raw material prices.
- EBITDA margin in the quarter was at 13.2% fell by 630 bps yoy and was below our estimates due to sharp reduction in raw material prices resulting in inventory losses. The company has largely taken impact of inventory loss in Q4FY19 with some impact expected in Q1FY20 as well.
- SIL has incurred Rs 3.8 bn of capex in FY19 which can add ~Rs 7.6 bn revenue in FY20E. Further, it targets Rs 3-3.5 bn capex in FY20E as well.
- The management has guided for 9-10% volume growth and 12-15% value growth in core business with EBITDA margin estimated at 12.5-15% in FY20E.

Valuation & outlook

- SIL has gained market share in plastic pipes segment and is positive on strong growth in the same in FY20E as well, based on demand from building segment. We have cut our FY20E EPS estimates by 16.3%, based on lower volume and margin assumption and introduced estimates for FY21E.
- The stock is presently trading at PE of 29.3x and 24.5x on FY20E and FY21E EPS of Rs 34.8 and Rs 41.6 per share, respectively. We downgrade our rating on the stock to ADD (Vs BUY earlier) with revised target price of Rs 1124 (vs Rs 1165), valuing the stock at 27x (vs 28x on FY20E) on FY21E earnings, as we roll forward our rating on the stock.

Quarterly performance table (Consolidated)

Particulars (Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net Sales	**15309**	**14713**	**4.1%**	**14104**	**8.5%**
Expenditure	13289	11845	12.2%	12348	7.6%
RM Cost	10610	9454	12.2%	9734	9.0%
Employee Cost	720	705	2.1%	628	14.6%
Other Expenditure	1959	1686	16.2%	1986	-1.3%
EBITDA	**2020**	**2868**	**-29.6%**	**1756**	**15.0%**
EBITDAM (%)	13.2%	19.5%		12.5%	
Other Income	31	37	-16.8%	74	-58.5%
PBIDT	2051	2905	-29.4%	1831	12.0%
Depreciation	481	414	16.3%	455	5.8%
Interest	64	56	14.8%	52	23.0%
PBT	**1505**	**2435**	**-38.2%**	**1324**	**13.7%**
Exceptional Items	224	122		-52	
PBT (Aft exceptional items)	1729	2557	-32.4%	1271	36.0%
Tax	489	774	-36.8%	462	5.8%
PAT	**1240.6**	**1783.1**	**-30.4%**	**809.8**	**53.2%**
Equity Capital	254.1	254.1	0.0%	254.1	0.0%
EPS	**9.8**	**14.0**	**-30.4%**	**6.4**	**53.2%**

Source: Company

Stock Details

Market cap (Rs mn)	:	129688
52-wk Hi/Lo (Rs)	:	1380 / 936
Face Value (Rs)	:	2
3M Avg. daily vol (mn)	:	75,680
Shares o/s (mn)	:	127

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	56,120	61,241	68,650
Growth (%)	13.0	9.1	12.1
EBITDA	7,846	8,544	10,052
EBITDA margin (%)	14.0	14.0	14.6
PAT	4,486	4,426	5,289
EPS	35.3	34.8	41.6
EPS Growth (%)	3.9	-1.3	19.5
BV (Rs/share)	170	189	216
Dividend/share (Rs)	13.0	13.0	13.0
ROE (%)	22.2	19.4	20.6
ROCE (%)	26.9	26.4	28.2
P/E (x)	28.9	29.3	24.5
EV/EBITDA (x)	16.8	15.3	12.8
P/BV (x)	6.0	5.4	4.7

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	49.7	49.7	49.7
FII	7.0	10.3	10.9
DII	22.8	18.9	18.7
Others	20.5	21.0	20.7

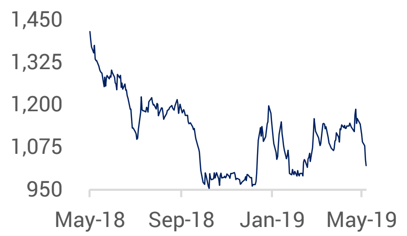
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Supreme Industries	(9.9)	2.3	2.3
Nifty	(2.1)	3.8	7.2

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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

Q4FY19 revenue below our estimates

SIL Q4FY19 revenue was below our estimates on account of 1) slower volume growth of 10.4% yoy (Vs 15% estimates) due to decline in industrial segment and 2) 7.1% yoy decline in realization due to sharp correction in raw material prices, resulting in price reduction across segments. Revenue for the quarter grew by 4.1% (vs estimates of 12.3% yoy growth) to Rs 15.3 bn.

The volume in industrial segment declined by 23.8% yoy and consumer business grew by 3.2% led by product mix, while plastic pipes grew at healthy 14.7% in volume terms despite industry growing at slower pace. Volume in the packaging segment revived after decline in the past three quarters. As per management, cross laminated film business has bottomed out and is expected to see improvement in the company quarters. In order to compete against new entrants in cross laminated film business, the company had offered discounts for its products in the past few quarters.

SIL is positive on plastic pipes business and has grown at faster than market in Q4FY19 and FY19 as well. The company is positive on demand from affordable housing segment as well as agri segment. In consumer segment, the company is focused on high value furniture rather than commoditized furniture and is positive on consumer demand from the segment. Based on this, the management has guided for 9-10% volume growth and 12-15% value growth in FY20E in core business. In absolute terms, the company has guided for core business revenue of Rs 61-62.5 bn in FY20E.

Segment-wise volume of plastic products business

Sales tonnes	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Plastic Pipes	83476	72779	14.7%	70026	19.2%
Packaging	13527	10225	32.3%	15667	-13.7%
Industrial	10907	14319	-23.8%	9885	10.3%
consumer	6099	5909	3.2%	5404	12.9%
Total	**114009**	**103256**	**10.4%**	**100982**	**12.9%**

Source: Company

Segment wise realization of plastic products business

Realization Per Kg	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Plastic Pipes	113	114	-0.9%	114	-1.2%
Packaging	197	241	-18.1%	196	0.7%
Industrial	187	179	4.7%	201	-7.1%
consumer	158	161	-2.0%	200	-20.9%
Total	132	142	-7.1%	140	-5.4%

Source: Company

EBITDA margin missed our estimates on raw material volatility

The EBITDA margin in the quarter was at 13.2% and was below our estimates of 16% due to sharp reduction in raw material prices resulting in inventory losses. Volatility in crude and forex also impacted price of imported raw material. During the quarter, polymer prices corrected by 12.5% in short span of time and the impact of inventory loss is mostly taken in Q4FY19, some impact would also be seen in Q1FY20 as well. As a result, PAT for the quarter declined by 30.4% yoy to Rs 1.2 bn (Vs estimates of Rs 1.4bn). The prices of other Polymers have improved to some extent from their lowest level and the company expects it to remain affordable. Keeping volatility in input prices in mind, the company has guided for EBITDA margin of 12.5-15% in FY20E, however targeted to maintain long term margins in the range of 14-15%.

Segmental EBITDA margins in plastic products business

	Q4FY19	Q4FY18	Q3FY19
Plastic Pipes	12.6%	17.8%	12.3%
Packaging	15.3%	23.4%	14.5%
Industrial	12.0%	16.0%	9.9%
Consumer durables	22.6%	29.4%	15.6%

Source: Company

Status of capex plan

The company has incurred ~Rs 3.8 bn of capex with large part in FY19 which can add ~Rs 7.6 bn in FY20. In the current year, it has done capex at 11 of its existing units which increased its capacity to 605,000 tonne per annum. The current capacity includes Rs 419,000 tonnes of plastic piping, 69,000 tonnes of industrial products, 34,000 tonnes of furniture and 83,000 tonnes of packaging product. Further in FY20E, SIL targets for Rs 3-3.5 bn of capex across segment which can increase capacity by ~50,000 tonnes.

Other highlights

- Average net borrowing level during FY19 remained at Rs. 2.7 bn as against Rs. 3.4 bn in FY18 with average cost of borrowing at 8.23% in FY19 Vs 7.12% on yoy.
- The overall turnover of value added products increased to Rs.19.44 bn as compared to Rs.17.34 bn in FY18 (~35% of product sales), achieving growth of 12%.
- The company had participated in 20 international exhibitions in FY19 for it's various products. This has boosted its export turnover from US$16.93 mn to US$ 23.05 mn.
- In FY19, the company has realized Rs. 810 mn from sale of 38,718 sq. ft. of the real estate premises with PAT of Rs. 350 mn (from construction business).

Outlook and valuation

SIL management believes that the plastic demand from pipes segment to be strong on account of government emphasis on infrastructure activities and favourable policies related to affordable housing. We like SIL for its track record of profitable growth with high returns ratios and believe that its strong product profile and long term benefits from GST will support its growth in the longer run. We have cut our FY20E revenue and EPS estimates by 6.4% and 16.3% respectively on lower volume and EBITDA margin assumptions. We have also introduced estimates for FY21E. We have assumed 9% and 10.8% growth in volume and 2% and 1% growth in realization in FY20E and FY21E respectively. The stock is presently trading at PE of 29.3x and 24.5x on FY20E and FY21E EPS of Rs 34.8 and Rs 41.6 per share, respectively. We downgrade our rating on the stock to ADD (Vs BUY earlier) with revised target price of Rs 1124 (vs Rs 1165 earlier), valuing the stock at 27x on FY21E (vs 28x on FY20E earlier) earnings, as we roll forward our rating on the stock to FY21E.

Revision in estimates

Particulars (Rs mn)	Previous FY20E	Revised FY20E	% Change FY20E
Revenue	65,412	61,241	(6.4)%
EBITDA	10,049	8,544	(15.0)%
EBITDA margin (%)	15.4	14.0	(140) bps
PAT	5,287	4,426	(16.3)%
EPS	41.6	34.8	(16.3)%

Source: Kotak Securities - Private Client Research

Company Background

Supreme Industries Ltd (SIL) established in 1942, is engaged in the business of plastic and related products with a long history in Indian plastic industry. It is one of the major players in the plastic pipes business with 12.5% domestic market share (FY18) with established brand equity. It is the largest plastic processor in India processing capacity over 6 lakh tonne per annum. The company manufactures and sells diverse range of plastic products broadly categorized across 5 different verticals, plastic piping system, packaging products, industrial products, consumer products, and others with FY19 revenue contribution of 56.5%, 18.6%, 15.8%, 7.1% and 2%, respectively. Its products cater to diverse sectors such as Agriculture, Infrastructure, Housing, Packaged Foods, Sports goods, Potable Water Supply & Sanitation, Auto, Electronics, Horticulture, Floriculture, etc.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	**49,663**	**56,120**	**61,241**	**68,650**
% change yoy	11.3	13.0	9.1	12.1
Direct Cost	32,858	38,199	41,685	46,316
Employee Cost	2,419	2,546	2,801	3,081
Other Expenses	6,516	7,529	8,212	9,201
Total Expenses	41,792	48,274	52,697	58,598
EBITDA	**7,871**	**7,846**	**8,544**	**10,052**
% change yoy	3	(0)	9	18
Depreciation	1,672	1,835	2,061	2,299
EBIT	**6,200**	**6,010**	**6,483**	**7,753**
Other Income	48	78	86	94
Interest	219	260	158	158
Exceptional / profit from asso.	347	816	144	144
Profit Before Tax	6,375	6,644	6,554	7, 833
% change yoy	3	(3)	10	20
Tax	2,057	2,158	2,128	2,544
as % of EBT	34	37	33	33
PAT	**4,318**	**4,486**	**4,426**	**5,289**
% change yoy	15	4	(1)	20
Shares outstanding (mn)	127	127	127	127
EPS (Rs)	**34.0**	**35.3**	**34.8**	**41.6**
DPS (Rs)	12.0	13.0	13.0	13.0
CEPS (Rs)	47.1	49.8	51.1	59.7
BVPS (Rs)	149.1	169.5	189.2	215.6

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	254	254	254	254
Reserves	18,695	21,286	23,779	27,136
Net worth	18,949	21,540	24,033	27,390
Borrowings	2,476	1,781	1,781	1,781
Net Deferred Tax	1,134	1,204	1,204	1,204
Total Liabilities	**22,559**	**24,524**	**27,017**	**30,374**
Gross Block	25,406	28,531	32,031	35,531
Accumulated Depreciation	11,872	13,446	15,506	17,805
Net block	13,534	15,210	16,525	17,726
Capital work in progress	626	900	900	900
Total fixed assets	14,160	16,110	17,425	18,626
Investments	2,194	2,404	2,404	2,404
Inventories	6,970	7,504	7,898	8,853
Sundry debtors	3,820	3,874	4,027	4,514
Cash and equivalents	320	321	1,219	2,795
Loans and advances & Others	62	66	70	73
Total current assets	12,595	13,370	14,898	18,004
Sundry creditors and others	6,344	7,510	7,859	8,810
Provisions	204	240	240	240
Total CL & provisions	6,548	7,750	8,099	9,050
Net current assets	6,047	5,620	6,798	8,954
Other Assets (net)	158	390	390	390
Total Assets	**22,559**	**24,524**	**27,017**	**30,374**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-Tax Profit	6,375	6,644	6,554	7,833
Depreciation	1,672	1,835	2,061	2,299
Interest & others	219	260	158	158
Change in WC	(830)	265	(200)	(495)
Tax Paid	(2,057)	(2,158)	(2,128)	(2,544)
Operating Cash Flow	**5,379**	**6,847**	**6,445**	**7,251**
Capex	(2,590)	(3,399)	(3,500)	(3,500)
Free Cash Flow	2,788	3,448	2,945	3,751
Investments & others	(222)	(210)	0	0
Investment cash flow	**(2,813)**	**(3,609)**	**(3,500)**	**(3,500)**
Equity Raised	0	0	0	0
Debt Raised	(314)	(696)	0	0
Dividend	(1,784)	(1,932)	(1,932)	(1,932)
Interest & other fin activity	(911)	(609)	(115)	(243)
CF from Financing	**(3,008)**	**(3,237)**	**(2,047)**	**(2,175)**
Change in Cash	(442)	1	898	1,576
Opening Cash	762	320	321	1,219
Closing Cash	**320**	**321**	**1,219**	**2,795**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	15.8	14.0	14.0	14.6
EBIT margin (%)	12.5	10.7	10.6	11.3
Net profit margin (%)	8.7	8.0	7.2	7.7
Receivables (days)	24	25	24	24
Inventory (days)	54	47	47	47
Payable (days)	48	45	45	45
Net Working Capital (days)	44	38	37	42
Asset Turnover (x)	2.1	2.1	2.0	2.0
Net Debt/ Equity (x)	0.1	0.1	0.0	(0.0)
RoCE (%)	30.1	26.9	26.4	28.2
RoE (%)	24.0	22.2	19.4	20.6
P/E (x)	30.0	28.9	29.3	24.5
P/BV (x)	6.9	6.0	5.4	4.7
EV/EBITDA (x)	16.8	16.8	15.3	12.8
EV/Sales (x)	2.7	2.3	2.1	1.9

Source: Company, Kotak Securities – Private Client Research

Result Update

VIP INDUSTRIES LTD (VIP)

PRICE RS.420 **TARGET RS.460** **ADD**

VIP Industries has reported a strong topline growth, but operational performance was impacted by unfavorable macro developments including depreciation of rupee, higher crude prices and rupee volatility. Aggressive pricing, unfavorable product mix and higher ad spend also impacted the margins.

Key Highlights

- VIP reported healthy sales growth to Rs 4.35 bn (+20% YoY) on the back of strong demand for branded luggage
- However, higher RM prices during the quarter, aggressive pricing, unfavorable product mix and INR volatility impacted the margins for the company, resulting in an EBIDTA of Rs 396 mn with EBIDTA margin of 9.1 % (-590 bps YoY).
- This is second straight quarter of weak operational performance of the company and could be a base for performance in H1FY20
- Consequently PAT was reported at Rs 260 mn below our expectation. We interpret the results as weak for the company.

Valuation & Outlook

Two continuous weak quarter of operational performance (Q4FY19 and Q3FY19) is not providing us with confidence of strong performance for VIP in H1FY20, the kind of strong performance the company experienced in FY18 and H1FY19 which saw significant re-rating for the stock.

We continue to estimate the company to be a major beneficiary of increasing penetration of luggage bags and back packs in the country, improving living standards leading to increased air and rail travel and also the desire for travellers to have branded luggage. However, we are not comfortable with the macros and the strategy (aggressive pricing) and business model (China sourcing). Under current circumstances, for VIP, we estimate a revenue CAGR of 11% with fall in margins from highs of FY18 over FY19 to FY21E. Recommend ADD (from BUY) with a reduced price target of Rs 460 (from Rs.515) valuing the stock at 33X FY21E earnings (from 39x).

Quarterly performance (standalone).

Rs mn	Q4FY18	Q3FY19	Q4FY19	YoY (%)	QoQ (%)
Net sales	**3,626**	**4,301**	**4,350**	**20.0**	**1.1**
Raw material cost	1678	2436	2283	36.1	-6.3
Employee cost	423	489	551	30.3	12.7
Other expenses	981	1057	1120	14.2	6.0
Total Expd	3082	3982	3954	28.3	-0.7
EBIDTA	**544**	**319**	**396**	**-27.2**	**24.1**
EBIDTA %	15.0	7.4	9.1	-39.3	22.7
Depreciation	35	32	47	34.3	46.9
Other income	24	26	20		
Interest cost	0	0	0		
PBT	**533**	**313**	**369**	**-30.8**	**17.9**
Taxes	180	110	109	-39.4	-0.9
PAT	**353**	**203**	**260**	**-26.3**	**28.1**

Source: Company

Stock Details

Market cap (Rs mn)	:	59445
52-wk Hi/Lo (Rs)	:	647 / 365
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	568,773
Shares o/s (mn)	:	141

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Sales	17,847	19,482	21,819
Growth (%)	26.6	9.2	12.0
EBITDA	2,137	2,570	2,902
EBITDA margin (%)	12.0	13.2	13.3
Net profit	1,391	1,735	1,962
EPS (Rs)	9.8	12.3	13.9
Growth (%)	8.9	24.7	13.1
Book value (Rs/share)	39.6	47.0	55.4
Dividend per share (Rs)	3.5	4.0	4.5
ROE (%)	24.8	26.1	25.0
ROCE (%)	35.5	36.3	34.9
EV/EBITDA (x)	26.4	22.0	19.5
P/E (x)	42.7	34.3	30.3
P/BV (x)	10.6	8.9	7.6

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	53.5	53.5	53.5
FII	10.5	10.5	12.1
DII	8.1	8.1	7.3
Others	27.9	27.9	27.1

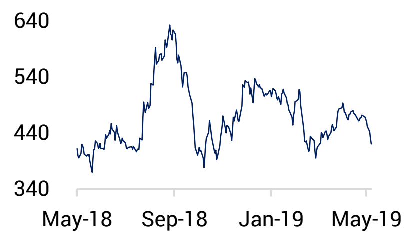
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
VIP Industries	(9.5)	(14.1)	(7.3)
Nifty	(2.1)	3.8	7.2

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Amit Agarwal
agarwal.amit@kotak.com
+91 22 6218 6439

Currents quarter's performance was propelled by volume growth across segments including VIP, Aristocrat, Alfa, Skybags, Caprese and Carlton attributed to:

1. Increasing penetration of luggage bags
2. Customer preference for branded products
3. Substantial brand availability with wide distribution network
4. Diversified product portfolio
5. Implementation of GST
6. Healthy domestic air traffic

Management commented that mass brand VIP Aristocrat contributed to the revenue growth. Contribution from sales of small ticket items like backpack and handbags was also healthy.

Performance across channels

The **Hypermarket channel** continues to witness the strongest growth amongst all channels suggesting that Indian consumers are showing preference towards affordable luggage and convenience of modern shopping formats which are clean and air conditioned. Management indicated that VIP enjoys market leadership in modern trade. **E-commerce** is another channel which is slowly picking-up for the company with Indian consumers not only in metros but also in tier 2 and 3 towns hooking on to e-com. General Trade channel has registered very good sales growth during the quarter due to focused efforts on each segment including distribution and direct dealers. The **Company-owned stores** and **exclusive franchise stores** also continue to do well. **Canteen Stores Department (CSD)** channel remain stable for the company.

Raw material situation is currently not healthy

Management indicated that the company has been experiencing increasing raw material trend (since Q3FY19) in both the 2 major categories of inputs - polypropylene (for hard luggage) and polycarbonate. Other raw material like polyester, canvas, denim, PU leather, copper, aluminum, zipper head and hardware accessories have also shown an inflationary trend.

VIP sources more than 70% of its soft luggage from China and its sourcing cost increases if USD appreciates against the rupee. YTD the USD has been stable vs. the INR. However, the volatility in INR has contributed to cost inflation for VIP.

Adverse RM prices, aggressive pricing and unfavorable product mix impacted the margins of the company in the quarter.

Sourcing from China gradually shifting to Bangladesh

Due to increasing labour costs and other reasons, the company is gradually reducing its dependency on China and increasing its sourcing from Bangladesh through its wholly owned subsidiaries (total 3 subsidiaries) in Bangladesh set-up with an investment of Rs 150 mn. VIP has flexibility in increasing the capacities with minimum capex and within a short time-frame.

Sales from Bangladesh operations increased 126.7% YoY to Rs 1.29 bn in FY19.Going forward by FY20, we expect the sourcing of soft luggage to fall from China to 90% and with share of Bangladesh increasing to 10% (currently negligible) which would aid margins going forward.

Risk-reward fair —Recommend ADD

In recent years in India, luggage and handbags have managed to shed their traditional utilitarian tag and have now evolved as lifestyle products. Increasing business and leisure travels coupled with rising disposable income and organized retailing have led to increased demand for luggage. Within this category, the demand for brand names has grown, as consumers aspire for goods that are branded, durable and count as status symbol. We expect VIP to be one of the largest beneficiaries of this change in the country. However, the macro-economic variables can play spoilsport for the company.

Under current circumstances, for VIP, we estimate a revenue CAGR of 11% with fall in margins from highs of FY18 over FY19 to FY21E. Recommend ADD (from BUY) with a reduced price target of Rs 460 (from Rs.515) valuing the stock at 33X FY21E earnings (from 39x).

Company Background

VIP Industries, established in the year 1971, is a leading luggage maker in India offering a wide range of products in hard luggage and soft luggage segments including school bags, trolleys, backpacks, suitcases, executive cases, duffels and overnight travel solutions. Some of its brands include VIP, Caprese, Alfa, Aristocrat, Buddy and Carlton. The company is Asia's No.1 luggage manufacturer and transforming its business strategy from time to time. The company has manufacturing facilities located at Haridwar in Uttarakhand, Jalgaon, Nagpur and Nashik in Maharashtra. The company has set up a subsidiary in Bangladesh to manufacture and market luggage and bags. The company is maintaining its market share of 50% in the organized luggage industry by offering wide range of product mix like Carlton and VIP catering to high-end segment, Aristocrat caters to mid-segment, Skybags cater to mid and sub-mid segment and Alfa for lower-end price segment.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	**14,095**	**17,847**	**19,482**	**21,819**
% change YoY	10.5	26.6	9.2	12.0
Raw material cost	6,759	7,140	9,408	9,858
Employee cost	1,415	1,582	1,938	2,026
Other expenses	3,259	3,456	4,364	5,028
Total Operating expd	11,433	12,178	15,710	16,912
EBITDA	**1,917**	**2,137**	**2,570**	**2,902**
Depreciation	124	148	157	163
EBIT	**1,793**	**1,989**	**2,412**	**2,739**
Other income	104	89	100	105
Interest expense	0	0	0	0
Profit before tax	**1,897**	**2,078**	**2,512**	**2,844**
Tax	620.0	687.0	777.2	881.6
ETR (%)	32.7	33.1	30.9	31.0
Profit after tax	**1,277**	**1,391**	**1,735**	**1,962**
Minorities& Associates	0	0	0	0
Net income	**1,277**	**1,391**	**1,735**	**1,962**
% change YoY	50.4	8.9	24.7	13.1
Shares outstanding (m)	142	142	142	142
EPS	**9.0**	**9.8**	**12.3**	**13.9**
DPS	3.0	3.5	4.0	4.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	430	412	895	1,318
Debtors	1,520	1,936	2,020	2,327
Inventory	3,168	4,060	4,400	4,932
Loans and advances	666	849	900	1,025
Other current assets	56	68	76	84
Total current assets	5,409	6,913	7,396	8,369
LT investments	600	500	600	750
Net fixed assets	719	822	964	1,054
Total assets	**7,158**	**8,646**	**9,856**	**11,491**
Creditors	1,692	2,180	2,315	2,625
Provisions	257	310	289	367
Other current liabilities	397	554	601	655
Total current liabilities	2,345	3,044	3,204	3,647
LT debt	3	0	0	0
Minority Interest	0	0	0	0
Equity	283	283	283	283
Reserves	4,527	5,318	6,369	7,560
Networth	4,810	5,601	6,652	7,843
Total liabilities	**7,158**	**8,646**	**9,856**	**11,491**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
PAT	1,277	1,391	1,735	1,962
Depreciation	124	148	157	163
Changes in working capital	(372)	(804)	(324)	(529)
Cash flow from operations	**1,029**	**735**	**1,569**	**1,596**
Capex	(228)	(251)	(300)	(252)
Investments	79	100	(100)	(150)
Cash flow from investments	**(149)**	**(151)**	**(400)**	**(402)**
Equity issuance	-	-	-	-
Debt raised	(10)	(3)	-	-
Dividend Paid	(514)	(599)	(685)	(770)
Miscellanous items	-	-	-	-
Cash flow from financing	**(524)**	**(602)**	**(685)**	**(770)**
Net cash flow	356	(18)	484	423
Opening cash	73	430	412	895
Closing cash	**430**	**412**	**895**	**1,318**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	13.6	12.0	13.2	13.3
EBIT margin (%)	12.7	11.1	12.4	12.6
Net profit margin (%)	9.1	7.8	8.9	9.0
ROE (%)	26.5	24.8	26.1	25.0
ROCE (%)	37.3	35.5	36.3	34.9
Dividend payout (%)	40.2	43.1	39.5	39.3
BVPS (Rs)	34.0	39.6	47.0	55.4
Working capital turnover (days)	74.5	65.0	62.0	62.0
Debt Equity (x)	0.0	-	-	-
PER (x)	46.5	42.7	34.3	30.3
P/C (x)	42.4	38.6	31.4	28.0
Dividend yield (%)	0.7	0.8	1.0	1.1
P/B (x)	12.4	10.6	8.9	7.6
EV/Sales (x)	4.1	3.3	3.0	2.7
EV/ EBITDA (x)	29.0	26.4	22.0	19.5

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	41917
52-wk Hi/Lo (Rs)	:	138 / 85
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	210,780
Shares o/s (mn)	:	315

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	27,069	29,090	31,960
Growth (%)	10.6	7.5	9.9
EBITDA	4,991	5,382	5,913
EBITDA margin (%)	18.4	18.5	18.5
PAT	1,925	2,082	2,384
EPS	6.4	6.6	7.6
EPS Growth (%)	12.2	8.1	14.5
BV (Rs/share)	44	49	56
Dividend/share (Rs)	1.3	1.3	1.3
ROE (%)	14.5	13.2	13.4
ROCE (%)	12.4	12.6	13.2
P/E (x)	21.8	20.1	17.6
EV/EBITDA (x)	7.9	7.5	7.0
P/BV (x)	3.0	2.7	2.3

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	57.0	57.1	57.2
FII	16.3	15.9	15.4
DII	3.5	4.1	5.0
Others	23.2	22.8	22.4

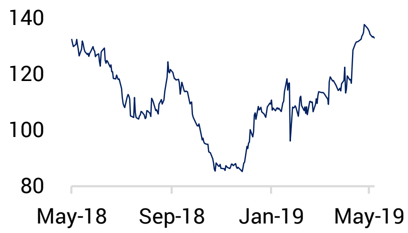
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Essel Propack Ltd	12.7	22.2	52.3
Nifty	(2.1)	3.8	7.2

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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

ESSEL PROPACK LTD

PRICE RS.133 **TARGET RS.130** **REDUCE**

Essel Propack 4QFY19 operating performance was in-line with estimates, with an EBITDA margin of 19%, up 50bps YoY, supported by improvement in non-oral care revenue composition. Indian operations continue to get impacted by lower offtake by key customers largely into beauty and cosmetics and oral care segment. However, management expects volume to pick up in India in the coming quarters and confident of achieving 15% revenue growth in FY20E.

Key Highlights:

- Revenue during the quarter grew 10.4% YoY to Rs6.94bn (flat QoQ basis), driven by both oral and non-oral care categories. EAP, EUROPE, America, and AMESA registered 8%, 16.3%, 29.3% and 1.5% YoY growth respectively.
- Assam unit reported revenue of Rs150 mn in FY19. The management expects it to operate at rated capacity and reach revenue of Rs400 mn in the coming years.
- Oral care accounted for 57.3%, up from 56.5% in 3QFY19 of the revenue and non-oral contribution stood at 42.7%. For FY19, oral care contribution stood at 57.6% and non-oral care at 42.4%.
- Management indicated business development efforts are yielding results in the region with US and Mexico commercializing the new business and expects the traction to continue going forward as well.
- Agreement (stake sale) with Blackstone will not only bring the customer revenue synergies, but also give access to Blackstone global network of experts, improve the cost efficiencies and support for capital infusion either for acquisitions or expansions.
- Gross Debt as at end of FY19 stood at Rs 6.34 bn, down Rs1.3 bn YoY. Net Debt as at March 2019 is Rs 4.99 bn.
- We have revised our earnings estimates downwards for FY20E to Rs6.6 (earlier Rs8), factoring slowdown in AMESA region (particularly India) and have introduced FY21E with an estimate of Rs7.6.

Quarterly table

Particulars (Rs Mn)	4QFY19	4QFY18	% YoY	3QFY19	% QoQ
Net Sales	**6,937**	**6,284**	**10.4**	**6,944**	**(0.1)**
Other Income	93	89		33	
Total Income	7,029	6,373		6,977	
Raw Material Consumed	2,970	2,744		2,994	
Employee Expenses	1,265	1,087		1,305	
Other Expenses	1,386	1,293		1,333	
TOTAL EXPENDITURE	5,621	5,122	9.7	5,632	(0.2)
EBITDA	**1,316**	**1,162**	**13.2**	**1,313**	**0.2**
EBITDA Margin (%)	19.0	18.5		18.9	
Depreciation	496	430		470	
Exceptional Items	31	-			
EBIT	**943**	**821**	**14.8**	**875**	**7.7**
Interest	156	136		161	
PBT	**786**	**686**		**715**	
Tax	224	228		191	
Fringe Benefit Tax	-	-		-	
Deferred Tax	29	(17)		65	
Reported Profit after Tax	**534**	**474**		**458**	
Minority Interest	9	7		9	
Profit/Loss of Associate Company	(1)	(20)		6	
Profit	**524**	**448**	**16.9**	**455**	**15.2**

Source: Company, Kotak Securities – Private Client Research

Valuation

With the regulatory framework in place in pharma, volume in India business is likely to grow in the coming quarters, but subdued demand from the oral care customer and beauty and cosmetics customer can negate the benefit of the same. The ongoing shift towards laminated packaging by customers in pharmaceuticals, beauty and cosmetics industry is expected to drive growth of laminated packaging. Blackstone will help the company to capture the incremental market share in the beauty and cosmetics segment in Europe, Latin America and China from its existing portfolio of companies. Increasing presence in emerging markets and further penetration into non-oral category is expected to support the earnings CAGR of 12% during the FY19-FY21E period, but re-rating of earnings multiple seems to be limited. Hence, we continue to maintain **Reduce** on the stock, with a unchanged target price of Rs130, valuing at 17x FY21E earnings. At CMP, the stock is trading at 20.1x/17.6x FY20E/FY21E earnings.

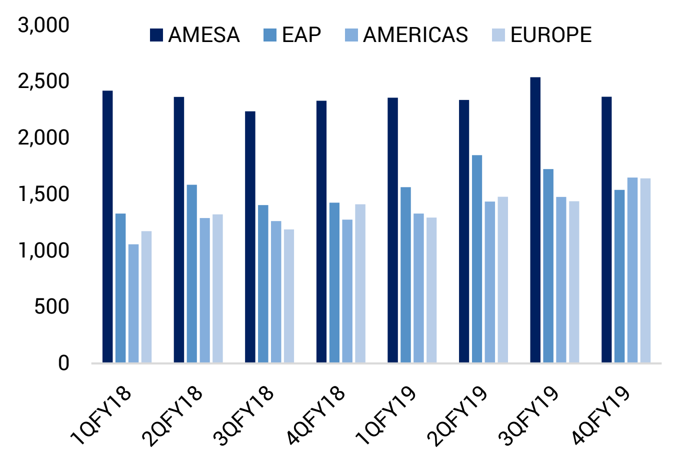
AMESA region impacted by slowdown in India

Essel Propack's India operations got impacted by the change lower offtake by key customer. Egypt continued to post strong performance, supported by both oral as well as non-oral category. Due to lower volume from non-oral category in India and slowdown in the FMCG industry also impacted oral care business. As a result, EBITDA margin during the quarter declined to 21.2% from 24% in 4QFY18. As far as pharmaceutical industry is concerned, management indicated that, regulation issues have been addressed by the industry and the company is able to bag order for supplying laminated tubes for "Soframycin". Though we believe going ahead, the contribution from pharma industry to grow compared to FY19, but subdued demand from the oral care customer and beauty and cosmetics customer to offset its benefit. As a result, we expect, AMESA region to report flat revenue growth of FY20E (higher than expected contribution from Egypt, can be an upside risk).

Revenue grew across region

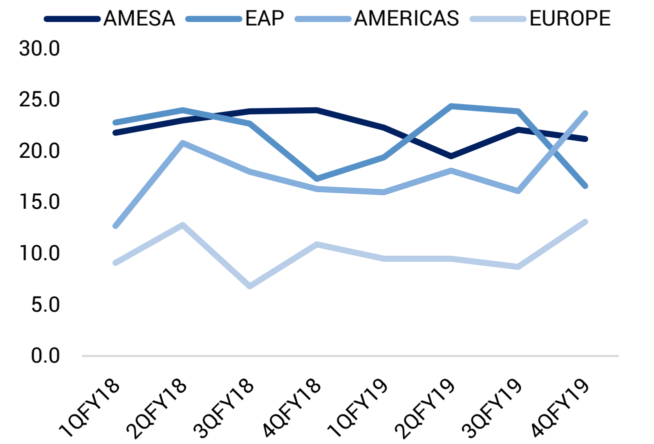
The revenue growth during the quarter was supported by all the regions and change in product mix towards non-oral care category YoY (declined QoQ). EAP registered 8% growth, driven by an increase in the non-oral care revenue composition by 5.9%. Revenue in Europe was up 17.1%, 29.3% in America and 1.5% in AMESA. Given the higher contribution from the non-oral category (+6.8% YoY) in America (contributed mainly from the U.S and Mexico), helped the region to report an expansion in EBITDA margin to 23.7% as against 16.3% in Q4FY18. Europe region operating performance improved by 220 bps YoY. Strong performance from America and Europe offset the impact of weak performance in AMESA and EAP.

Region wise Revenue contribution (Rs Mn)



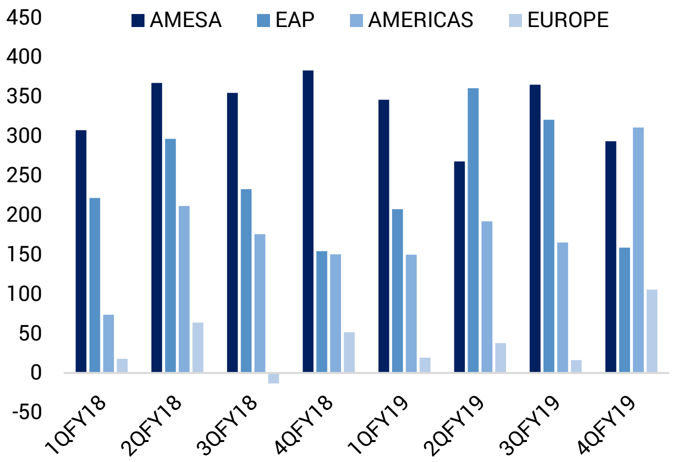
Source: Company, Kotak Securities – Private Client Research

Region wise EBITDA margin (%)



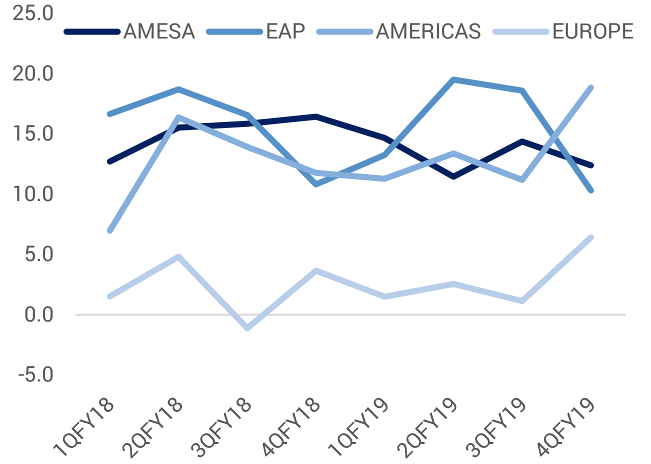
Source: Company, Kotak Securities – Private Client Research

Region wise EBIT contribution (Rs Mn)



Source: Company, Kotak Securities – Private Client Research

Region wise EBIT margin (%)



Source: Company, Kotak Securities – Private Client Research

Company Background

Essel Propack (ESEL) is a part of the Essel group. It is the largest global specialty packaging company manufacturing laminated, seamless or extruded plastic tubes catering to the FMCG and pharma space. Employing over 2,600 people in 12 countries working through 25 state-of-the-art facilities, Essel is the largest global specialty packaging company in the world, offering preferred solutions to leading brands. The company dominates the oral care market with global market share of 36% and 65% market share in India. ESEL's operations are spread across regions like AMESA (Africa, Middle East & South Asia - Egypt and India), EAP (China and Philippines), Americas (US, Mexico and Colombia) and Europe (UK, Germany, Poland and Russia). The company incurred significant losses from its European operations when it moved the plant to Poland from the UK in FY07. With operational efficiencies and improvement in orders, ESEL was able to turn around its European operations into profitable units by FY15.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Net sales	**24,464**	**27,069**	**29,090**	**31,960**
growth (%)	6.3	10.6	7.5	9.9
Operating expenses	19,817	22,078	23,708	26,047
EBITDA	**4,648**	**4,991**	**5,382**	**5,913**
growth (%)	10.3	7.4	7.8	9.9
Depreciation &amortisation	1,671	1,861	1,949	2,077
EBIT	2,977	3,130	3,433	3,835
Other income	264	285	162	157
Interest paid	549	613	487	435
Exceptional items	-60	84	0	0
PBT	2,631	2,886	3,108	3,557
Tax	889	932	995	1,138
Effective tax rate (%)	33.8	32.3	32.0	32.0
Net profit	1,742	1,954	2,113	2,419
Minority interest	26	29	32	35
Reported Net profit	**1,716**	**1,925**	**2,082**	**2,384**
growth (%)	10.6%	12.2%	8.1%	14.5%

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash & Bank balances	1,736	1,344	911	880
Other Current assets	9,740	9,686	11,328	12,364
Investments	131	168	168	168
Net fixed assets	12,258	13,486	14,316	15,218
Other non-current assets	627	517	517	517
Total assets	**24,492**	**25,201**	**27,240**	**29,146**
Current liabilities	4,300	4,941	5,552	5,885
Borrowings	7,340	5,819	5,407	4,837
Other non-current liabilities	302	510	510	510
Total liabilities	11,943	11,270	11,468	11,231
Share capital	628	631	631	631
Reserves & surplus	11,878	13,249	15,087	17,228
Shareholders' funds	12,507	13,880	15,718	17,859
Minority interest	43	52	54	57
Total equity & liabilities	**24,492**	**25,201**	**27,240**	**29,146**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Net profit before tax	2,631	2,886	3,108	3,557
Depreciation	1,671	1,861	1,949	2,077
Interest	549	613	487	435
Others	(254)	(53)	0	0
Opt Profit before WC Changes	4,597	5,307	5,543	6,070
WC Changes	(152)	695	(1,031)	(703)
Cash Gene from Op.	4,446	6,002	4,512	5,367
Direct Taxes Paid	889	932	995	1,138
Cash from Ope act	**3,556**	**5,070**	**3,518**	**4,228**
Purchases of F.A	(1,172)	(2,820)	(2,576)	(2,780)
Investment	22	(37)	0	0
Others	0	0	0	0
Cash from Inv Act	**(1,151)**	**(2,857)**	**(2,576)**	**(2,780)**
Proc from Issue of Eq Shares	0	2	0	0
Net loans	(1,708)	(1,521)	(413)	(570)
Dividend Paid	478	473	475	475
Interest	549	613	487	435
Others	1,075	0	0	0
Cash from Fin Act	**(1,660)**	**(2,605)**	**(1,374)**	**(1,480)**
Net Increase in Cash	745	(392)	(433)	(31)
Cash at End	**1,736**	**1,344**	**911**	**880**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Profitability and return ratios (%)				
EBITDAM	19.0	18.4	18.5	18.5
EBITM	12.2	11.6	11.8	12.0
NPM	6.8	7.4	7.2	7.5
RoE	13.2	14.5	13.2	13.4
RoCE	12.2	12.4	12.6	13.2
Per share data (Rs)				
O/s shares (mn)	314	314	315	315
EPS	5.5	6.4	6.6	7.6
FDEPS	5.5	6.4	6.6	7.6
CEPS	10.6	12.3	12.8	14.2
BV	39.8	44.2	49.3	55.9
DPS	1.2	1.3	1.3	1.3
Valuation ratios (x)				
PE	24.3	21.8	20.1	17.6
P/BV	3.3	3.0	2.7	2.3
EV/EBITDA	9.1	7.9	7.5	7.0
EV/Sales	1.8	1.5	1.4	1.3
Other key ratios				
D/E (x)	0.6	0.4	0.3	0.3
DSO (days)	62	64	64	64

Source: Company, Kotak Securities – Private Client Research

Result Update

CHENNAI PETROLEUM CORPORATION LTD (CPCL)

PRICE RS.242 **TARGET RS.257** **ADD**

Dismal Performance: Multiple adverse factors impacted the performance of the company. However, Net loss for the quarter stood lower at Rs.249 mn vs loss of Rs.3,630 mn in Q3FY19. Weak refining margins due to steep correction in product prices and higher operating cost impacted the performance during the quarter. We do believe quarterly earnings volatility will continue with wide swings in crude and product prices.

CPCL's GRM should see some gains accrue from the recently commissioned Rs. 31bn residue upgradation project and the Rs. 3bn revamp of the diesel hydro desulphurization unit.

Key Highlights

- Average GRM stood lower at US$3.7/bbl in FY19 as against US$ 6.42/bbl in FY18 due to meaningful fall in crude and product prices.
- Operating cost per unit has decreased to US$2.37/bbl (-18% qoq and -19% yoy) in Q4FY19 due to economies of scale. In FY19, operating cost increased to US$2.91/bbl v/s US$2.41/bbl partly due to lower crude throughput and higher other expenses. With the increase in production volume and cost control initiative, we expect it to come down further, going ahead.

Valuation & outlook

We expect regional GRM to remain stable (at US$5.5/bbl) as global refining capacity addition is likely to be in line with oil demand growth. We are introducing FY21E earnings and roll-forward our valuation to FY21E earnings. Further, CPCL's GRM should see some gains accruing from the residue up-gradation project and the diesel hydro desulphurization unit. Hence, we now expect CPCL to report an EPS of Rs.8 in FY20E and Rs. 51.3 in FY21E supported by better distillate yields and higher crude throughput. We believe that the stock is reasonably valued at 4.2x EV/EBIDTA on FY21E. We now recommend ADD (earlier BUY) on the stock with a revised price target of Rs.257/share (earlier Rs.301/share). We have valued CPCL based on PE multiple of 5x FY21, which is at a significant discount to its peers considering its size, NCI, and lower refinery margin profile.

Quarterly performance table (Consolidated)

Particulars (Rs Mn)	Q4FY19	Q3FY18	Q4FY18	YoY (%)	QoQ (%)
Revenue	**127,652**	**120,055**	**127,101**	**0**	**6.3**
Incr/(Decr) in stock	755	(4,870)	(404)		
Total Expenditure	126,611	118,634	123,145	3	6.7
EBIDTA	**1,795**	**(3,450)**	**3,551**	**(49)**	**NM**
Depreciation	1,308	1,105	1,107	18	18
EBIT	**487**	**(4,555)**	**2,444**	**(80)**	**NM**
Other income	117	99	90	30	18
Interest-net	1,067	1,091	787	36	(2)
PBT	**(463)**	**(5,547)**	**1,747**	**NM**	**NM**
Extra ordinary Exp/(Inc)	3	4	3		
Tax	(171)	(1882)	(37)		
Share of Profit of JV	(46)	(39.00)			
PAT	**(249)**	**(3,630)**	**1,781**	**NM**	**NM**
Basic EPS	(2)	(24)	12	(2)	(24)

Source: Company.

Stock Details

Market cap (Rs mn)	:	36126
52-wk Hi/Lo (Rs)	:	345 / 197
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	567,398
Shares o/s (m)	:	149

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	522,012	519,768	536,698
Growth (%)	18.1%	-0.4%	3.3%
EBITDA	5,692	10,289	18,928
EBITDA margin (%)	1.1%	2.0%	3.5%
PAT	-2,054	1,177	7,641
EPS	-13.8	7.9	51.3
EPS Growth (%)	NM	NM	NM
BV (Rs/share)	232	260	295
Dividend/share (Rs)	-	2.0	12.6
ROE (%)	NM	3.2	18.5
ROCE (%)	2.4	5.9	12.8
P/E (x)	NM	30.6	4.7
EV/EBITDA (x)	17.4	8.2	4.2
P/BV (x)	1.0	0.9	0.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	67.3	67.3	67.3
FII	9.0	9.0	9.0
DII	12.9	12.9	12.9
Others	10.8	10.8	10.8

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Chennai Pet	(3.9)	9.1	(10.4)
Nifty	(2.1)	3.8	7.2

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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

Average product spread with Dubai crude ($/bbls)

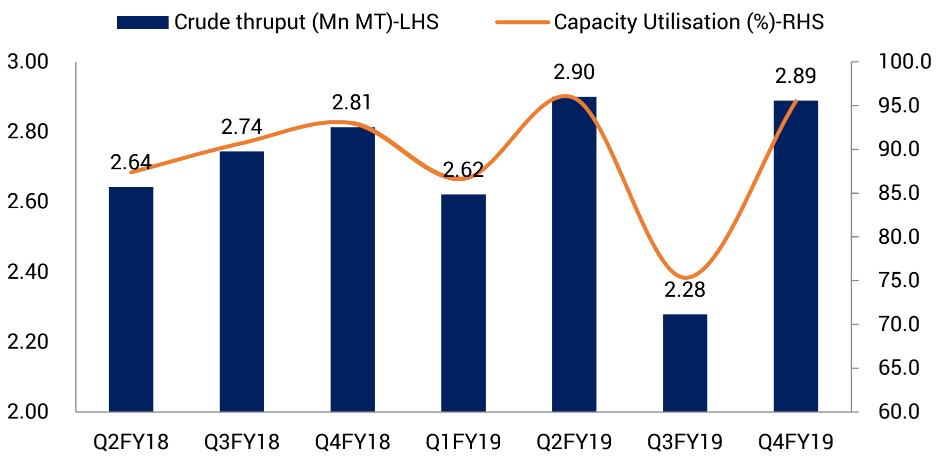
	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20*	QoQ	QoQ (%)
INR/USD	64.3	67.1	70.1	72.1	70.5	69.4	(1.1)	(1.6)
Diesel	14.7	15.1	15.3	18.1	13.1	12.1	(1.0)	(7.9)
Jet/SKO	13.7	12.9	12.3	16.2	11.5	9.7	(1.8)	(15.6)
Petrol	9.6	8.8	8.3	4.1	(0.1)	6.1	6.2	
Naphtha	15.5	15.8	17.2	10.7	7.7	8.9	1.2	15.6
FO	(13.8)	(15.4)	(12.9)	(6.8)	(8.7)	(11.0)		
Dubai Crude price	64.1	71.7	73.9	67.4	63.2	70.6	7.3	11.6
Brent crude oil	67.2	75.0	75.8	68.6	63.8	71.5	7.7	12.1
Singapore GRM	6.0	5.4	5.9	5.4	4.0	3.1	(0.9)	(23.2)
Arab light-heavy	2.9	3.1	2.3	2.2	1.4	1.7	0.2	17.6
SPOT LNG ($/mmbtu)	9.1	8.5	10.4	9.5	6.4	4.9	(1.5)	(23.5)
FO ($/bbls)	50.2	56.3	60.9	60.8	54.5	57.6	3.1	5.7
Naphtha	79.6	87.6	91.1	78.1	71.0	79.5	8.5	12.0

*Source: Bloomberg; *till date*

Quarterly result analysis – Q4FY19

- **Revenue growth:** CPCL's net revenue increased 6% qoq to Rs.128 bn (as against our expectation of Rs.124 bn) due to 27% qoq increase in crude throughput.
- **Crude throughput:** CPCL reported higher crude throughput of 2.89 mmt, (27% qoq and 3% yoy) resulting in higher capacity utilization (96% in Q4FY19 v/s 75% in Q3FY19). In Q3FY19, due to planned maintenance of the refinery the crude throughput was lower. From 6th Oct'18, CPCL has shut a 74,000 bopd crude unit at its 210,000 bpd Manali refinery for one month for maintenance.

CPCL's crude throughput and capacity utilization



Source: Company

- **Implied refining margins:** CPCL's implied GRMs stood higher at US$ 3.11/bbl as against US$ (-) 1.07/bbl in Q3FY19 partly due to some recover in product and crude oil prices. The company has not disclosed details about inventory gain/(losses).
- Average GRM stood lower at US$3.7/bbl in FY19 as against US$ 6.42/bbl in FY18 due to meaningful fall in crude and product prices. Given that CPCL is a standalone and simple refiner, it has a very high earning sensitivity to GRMs.

- **Raw material cost including purchases of finished goods:** Raw material cost increased 16% qoq to Rs.94.4 bn (+11% yoy) mainly due to higher crude throughput. In Q4FY19, average crude oil price decreased by 34% qoq to US$ 63.5/bbl in line with international crude oil prices.
- **Employee cost:** Staff cost was flat sequentially at Rs.1.1 bn (-44% yoy). Employee cost to sales ratio (%) has decreased 10 bps qoq to 1%.
- **Other expenses:** CPCL's other expenditure increased by 2% qoq to Rs.2.5 bn (+26% yoy). Operating cost per unit has decreased to US$2.37/bbl (-18% qoq and -19% yoy) due to economies of scale. With the increase in production volume, we expect it to come down further, going ahead.
- **Operating profit:** CPCL reported an EBIDTA of Rs. 1.8 bn in Q4FY19 as against Rs.3.5 bn loss in Q3FY19 on account of higher refining margins, higher sales volume, and presumably inventory gains.
- **Interest cost:** CPCL's interest cost has decreased by 2% qoq to Rs.1.1 bn (includes preference dividend). We expect interest cost to increase in FY20 due to higher borrowings. Gross debt increased to Rs.63 bn as on 31st March 2019 from Rs.29 bn as on 31st March 2018.
- Preference Shares are treated as financial liability as per Ind AS 32, as these are redeemable on maturity for a fixed determinable amount and carry fixed rate of dividend. Correspondingly, in line with the requirements of Ind AS 32, proportionate preference dividend including dividend distribution tax thereon, has been provisionally accrued as finance cost for Q4FY19. However, as per the Companies Act 2013, the preference shares are treated as part of share capital and the provisions of the Act relating to declaration of Preference Dividend at the end of the year would be applicable.
- **Depreciation:** In Q4FY19, depreciation cost increased 18% yoy to Rs. 1.3 bn (+18% qoq). Net block as on 31st March 2019 stood at Rs. 70.6 bn as against Rs.59 bn as on 31st March 2018.
- **Other income**: In Q4FY19, other income has increased meaningfully 18% qoq (partly base effect) to Rs.117 mn (+30% yoy) party due to higher interest and dividend income earned.
- **Forex Gain:** In Q4FY19, the company reported a forex gain of Rs. 410 mn on dollar debt as against Rs.750 mn in Q3FY19 and a forex loss of Rs.774 mn in Q4FY18. This has marginally helped the company in reducing its losses.
- **PAT:** Multiple global adverse factors impacted the quarterly performance of the company. However, Net loss for the quarter stood lower at Rs.249 mn vs Rs.3,630 mn in Q3FY19.

Key Developments

- **Expansion Plans:** IOC (promoter of CPCL) has indicated that Iran (Naftiran Intertrade, the Swiss subsidiary of National Iranian Oil Company, holds a 15.4% stake in CPCL) is looking to invest in CPCL for expansion and up-gradation of its refinery. CPCL plans to shut down the 1 million tonne per year (i.e ~20,000 bbl/d) Nagapattinam refinery and replace it with a new 9 million tonne per annum unit (i.e ~1,80,000 bbl/d) over the next 5-6 years with an investment of around Rs.356.98 bn (US$ 5.1 bn). CPCL plans to achieve financial closure of the refinery expansion in 2019. It also plans to build a petrochemicals plant of about 0.475 mmtpa. We have not modeled the same as we await a financial closure.
- **Future Projects:** CPCL is currently implementing a number of projects to improve reliability, profitability and to meet product quality specifications.

The total cost of these projects which are under implementation is estimated to be Rs.25.4 bn.

- With the completion of the new crude oil pipeline project, the BS-VI Project is likely to be completed in FY20.
- CPCL is also planning to set up a 9 mmtpa refinery at Cauvery Basin, Nagapattinam at an estimated cost of Rs.274.5 bn (plus or minus 30%). In principle approval has been obtained for this project. The proposed new project will play an important role in meeting future energy needs of Tamilnadu State. Preparation of detailed feasibility report is underway.

Maintain ADD

We are introducing FY21E earnings and roll-forward our valuation to FY21E earnings. Hence, we now expect CPCL to report an EPS of Rs.8 in FY20E and Rs. 51.3 in FY21E supported by better distillate yields, weaker INR/USD and higher crude throughput. We believe that the stock is reasonably valued at current price. We now recommend ADD (earlier BUY) on the stock with a revised price target of Rs.257/share (earlier Rs.301/share). We have valued CPCL based on PE multiple of 5x FY21, which is at a significant discount to its peers considering its size, NCI, and lower refinery margin profile.

Valuation

Particulars Unit FY21E	Unit	
EPS (FY21E)	Rs./share	51.3
Target – P/E	x	5
Target price (Rs/share)	**Rs. Mn**	**257**
CMP	Rs. Mn	242
Potential upside/(downside)	**%**	**6.0**

Source: Kotak Securities - Private Client Research

Key Risk and Concerns:

- Wide fluctuations in crude, forex and product prices can impact the margins.
- If global fuel supply exceeds demand then margins can be under pressure and vice-versa.
- Any delay in executing the project can significantly impact the valuations.
- Large outlay for new projects exposes CPCL to significant project implementation risks

Company Background

Incorporated in 1965, Chennai Petroleum Corporation Limited (CPCL), formerly known as Madras Refineries Limited (MRL) was formed as a joint venture between the Government of India (74%, GoI), AMOCO (13%) and National Iranian Oil Company (13% equity stake) In 1985, AMOCO sold its equity stake to GOI and the shareholding pattern of GOI and NIOC changed to 84.62% and 15.38% respectively. Later in 1992, GOI disinvested 16.92% of the paid up capital in favor of Unit Trust of India, Mutual Funds, Insurance Companies and Banks, thereby reducing its holding to 67.7 %. CPCL came out with a public issue in 1994 wherein GoI and NIOC divested part of their equity stakes and CPCL's shares were listed on stock exchanges. As a part of the restructuring steps taken up by the Government of India, Indian Oil Corporation Ltd. acquired equity from GoI in FY 2001. In July 2003, NIOC transferred their entire shareholding to Naftiran Inter trade Company Limited, an affiliate, in line with the formation agreement, as part of their organizational restructuring.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	**4,41,892**	**5,22,012**	**5,19,768**	**5,36,698**
% change YoY	8.8	18.1	-0.4	3.3
EBITDA	**21,184**	**5,692**	**10,289**	**18,928**
% change YoY	7.4	-73.1	80.7	84.0
Other Income	285	519	526	590
Depreciation	3,402	4,525	4,556	4,732
EBIT	**17,738**	**1,158**	**5,733**	**14,195**
% change YoY	8.7	-93.5	395.1	147.6
Net interest	3,209	4,198	4,446	3,659
Profit before tax	**14,530**	**-3,040**	**1,287**	**10,536**
% change YoY	7.0	-120.9	NM	NM
Tax	5,453	-847	270	3,056
as % of PBT	37.5	27.9	21.0	29.0
Profit after tax	**9,077**	**-2,193**	**1,017**	**7,481**
Minority interest	0	0	0	0
Share of profit of associates	195	140	160	160
Net income	**9,272**	**-2,054**	**1,177**	**7,641**
% change YoY	-11.8	NM	NM	NM
Shares outstanding (m)	149	149	149	149
EPS (reported) (Rs)	**62.3**	**-13.8**	**7.9**	**51.3**
CEPS (Rs)	85.1	16.6	38.5	83.1
DPS (Rs)	18.5	0.0	2.0	12.6

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	87.0	97.7	50.0	51.0
Accounts receivable	15,695	16,237	15,664	16,174
Inventories	47,591	48,470	45,569	47,053
Loans and Adv & Others	4,928	5,824	5,822	5,833
Current assets	68,301	70,629	67,105	69,111
Misc exp.	0	0	0	0
LT investments	1,526	1,591	1,591	1,591
Net fixed assets	73,233	81,768	87,268	92,768
Total assets	**1,43,060**	**1,53,987**	**1,55,964**	**1,63,470**
Payables	44,437	37,375	41,863	47,811
Others	24,438	14,743	22,856	23,569
Current liabilities	68,875	52,118	64,718	71,380
Provisions	3,204	3,425	3,413	3,476
LT debt	28,890	63,175	47,964	43,510
Min. int and def tax liabilities	2,123	705	1,221	1,221
Equity	1,489	1,489	1,489	1,489
Reserves	38,480	33,076	37,158	42,394
Total liabilities	**1,43,060**	**1,53,988**	**1,55,964**	**1,63,470**
BVPS (Rs)	268	232	260	295

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	17,738	1,158	5,733	14,195
Depreciation	3,402	4,525	4,556	4,732
Change in working capital	27,628	(23,482)	20,004	4,719
Chgs in other net current assets				
Operating cash flow	48,768	(17,799)	30,293	23,646
Interest	(3,209)	(4,198)	(4,446)	(3,659)
Tax	(5,453)	847	(270)	(3,056)
CF from operations	**40,106**	**(21,150)**	**25,577**	**16,932**
Capex	(10,181)	(13,060)	(10,056)	(10,232)
(Inc)/dec in investments	(125)	(65)	-	-
CF from investments	**(10,307)**	**(13,125)**	**(10,056)**	**(10,232)**
others	-	(0)	-	-
Increase/(decrease) in debt	(26,088)	34,286	(15,211)	(4,454)
Proceeds from share premium	-	-	-	-
Dividends	(3,794)	-	(358)	(2,244)
CF from financing	**(29,882)**	**34,286**	**(15,568)**	**(6,699)**
Opening cash	169	87	98	50
Closing cash	**87**	**98**	**50**	**51**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	4.8	1.1	2.0	3.5
EBIT margin (%)	4.0	0.2	1.1	2.6
Net profit margin (%)	2.1	(0.4)	0.2	1.4
Receivables (days)	10.8	11.2	11.0	11.0
Inventory (days)	39.3	33.9	32.0	32.0
Sales/gross assets(x)	5.5	6.3	5.7	6.1
Interest coverage (x)	5.5	0.3	1.3	3.9
Debt/equity ratio(x)	0.7	1.8	1.2	1.0
ROE (%)	24.9	NM	3.2	18.5
ROCE (%)	15.5	2.4	5.9	12.8
EV/ Sales	0.1	0.2	0.2	0.1
EV/EBITDA	3.1	17.4	8.2	4.2
Price to earnings (P/E)	3.9	NM	30.6	4.7
Price to book value (P/B)	0.9	1.0	0.9	0.8

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	**Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

FUNDAMENTAL RESEARCH TEAM

Rusmik Oza
Head of Research
rusmik.oza@kotak.com
+91 22 6218 6441

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

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

Cyndrella Carvalho
Pharmaceuticals
cyndrella.carvalho@kotak.com
+91 22 6218 6426

Ledo Padinjarathala, CFA
Research Associate
ledo.padinjarathala@kotak.com
+91 22 6218 7021

Sanjeev Zarbade
Cap. Goods & Cons. Durables
sanjeev.zarbade@kotak.com
+91 22 6218 6424

Ruchir Khare
Cap. Goods & Cons. Durables
ruchir.khare@kotak.com
+91 22 6218 6431

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

Krishna Nain
M&A, Corporate actions
krishna.nain@kotak.com
+91 22 6218 7907

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

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

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

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

Deval Shah
Research Associate
deval.shah@kotak.com
+91 22 6218 6425

TECHNICAL RESEARCH TEAM

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

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

Faisal Shaikh, FRM, CFTe
Research Associate
faisalf.shaikh@kotak.com
+91 22 62185499

Siddhesh Jain
Research Associate
siddhesh.jain@kotak.com
+91 22 62185498

DERIVATIVES RESEARCH TEAM

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

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

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

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

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