Morning Insight

MAY 20, 2019

	17-May	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	37,931	1.4	(3.4)	5.9
NIFTY Index	11,407	1.3	(3.2)	6.4
NSEBANK Index	29,450	2.1	(3.5)	9.9
NIFTY 500 Index	9,330	1.2	(4.6)	5.7
CNXMcap Index	16,875	1.2	(7.5)	4.1
BSESMCAP Index	13,887	0.5	(8.5)	4.8
World Indices				
Dow Jones	25,764	(0.4)	(3.0)	(0.7)
Nasdaq	7,816	(1.0)	(2.3)	4.4
FTSE	7,349	(0.1)	(1.5)	1.7
NIKKEI	21,250	0.9	(4.0)	(0.6)
Hangseng	27,946	(1.2)	(7.3)	(2.5)
Shanghai	2,882	(2.5)	(12.4)	3.8

Value traded (Rs cr)	17-May	% Chg Day
Cash BSE	2,354	10.6
Cash NSE	35,392	16.8
Derivatives	330,071	(83.4)

Net inflows (Rs cr)	16-May	MTD	YTD
FII	(924)	(2,950)	65,271
Mutual Fund	711	6,562	3,901

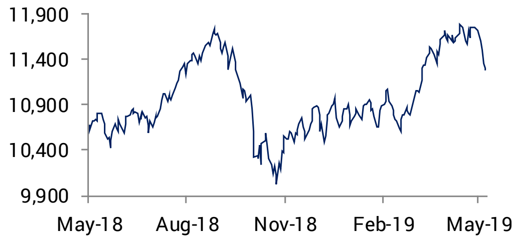
Nifty Gainers & Losers 17-May	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
Zee Entertainkent	346	7.2	21.3
BPCL	376	4.5	6.6
Ulttratech Cement	4,513	3.9	0.6
Losers			
Yes Bank Ltd	138	(3.6)	82.7
Bharti Airtil	325	(1.8)	4.5
Indusind Bank	1,358	(1.5)	4.6

Advances / Declines (BSE) 17-May	A	B	T	Total	% total
Advances	295	555	55	905	100
Declines	157	407	56	620	69
Unchanged	9	26	7	42	5

Commodity	17-May	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (US$/BBL)	73.3	1.5	1.8	9.2
Gold (US$/OZ)	1,277.6	(0.7)	0.1	(4.6)
Silver (US$/OZ)	14.4	(1.0)	(3.5)	(10.0)

Debt / Forex Market	17-May	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.3	7.4	7.4	7.3
Re/US$	69.6	70.2	69.7	71.1

Nifty



Source: Bloomberg

News Highlights

- The RBI's central board is set to meet in Chennai for two days beginning Monday to discuss the most comprehensive agenda after Shaktikanta Das took over as governor in December. The discussions will range from the revised norms for resolution of stressed assets to tightening of regulatory norms for (NBFCs), according to RBI sources. (BS)
- Industry body Association of Power Producers (APP) has urged the finance ministry to provide relief from double taxation on imported coal for the dry fuel-starved electricity generating firms. APP has shot off a letter to Revenue Secretary Ajay Bhushan Pandey seeking removal of GST on import freight for coal. (ET)
- The NITI Aayog has drawn up a plan for creating an institutional framework for artificial intelligence (AI) in the country. It has circulated a cabinet note to provide Rs 75 bn in funding for creation of cloud computing platform called AIRAWAT and research institutes. (ET)
- Acquisition of **Mindtree** is the topmost agenda for **Larsen & Toubro** at the moment and eventually the mid-sized IT firm is going to be transformed into a big company, L&T Group Chairman A M Naik said. (BS)
- HDFC Capital Advisors, a wholly-owned subsidiary of **HDFC**, will now mentor, partner and invest in property technology companies that drive innovation and efficiencies within the affordable housing ecosystem. (ET)
- CARE Ratings has downgraded **Reliance Capital's** long-term debt and subordinated debt rating by three notches from "A" to "BBB" due to reasons including defaults by two of its subsidiaries Reliance Home Finance and Reliance Commercial Finance. (BS)
- **Yes Bank** has decided to sell more of its bad loans to funds instead of to asset reconstruction companies (ARC), seeking to reverse its earlier policy on dealing with NPAs after regulatory scrutiny. (ET)
- **Indian Hotels Co. (IHCL)** and Singapore's sovereign wealth fund GIC will set up a three-year, Rs 40 bn investment platform to acquire hotels in the luxury, upper-upscale and upscale segments. (ET)
- **Oil India** is planning to exit from two major blocks in the US and Russia. (BS)
- **National Mineral Development Corporation** is mulling to own 100 per cent stake in Australian arm Legacy iron by acquiring the remaining 24 per cent shares and delisting it from the Australian Stock Exchange (ASX), a senior official of the PSU has said. (BS)
- **Indian Oil Corp** will evaluate the implications of US sanctions if Iran was to invest in its subsidiary Chennai refinery's Rs 357 bn expansion, its Chairman Sanjiv Singh said. (IE)

What's Inside

- **Result Update**: Wonderla Holidays Ltd, Praj Industries Ltd, The Phoenix Mills Ltd, Gabriel India 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

WONDERLA HOLIDAYS LTD (WHL)

PRICE RS.298 **TARGET RS.347** **BUY**

WHL Q4FY19 results were better than our estimates due to strong footfall in Bangalore, recovery in footfall of Kochi park and better than estimated margins.

Key Highlights

- Net revenue for the quarter grew by 10.4% yoy to Rs 607 mn driven by 6.8% yoy growth in footfall and 2.6% yoy growth in average revenue per footfall. Footfall growth was driven by 10.5% yoy growth in Bangalore park and recovery in footfall growth rate in Kochi park with 4.8% yoy growth, shows sign of recovery after Kerala floods.
- EBITDA margin for the quarter grew by 170 bps yoy to 29.5% and was above our estimates of 25% due to strong footfalls across parks and improved cost efficiency.
- The management is positive on future growth prospects and guided for 10-12% footfall growth and 13-15% revenue growth in FY20. The EBITDA margin has limited scope to grow significantly and is expected to peak out at 43%, as the company intends to increase focus on branding.

Valuation & outlook

- We are positive on the future potential of theme parks in India and maintain our long term positive view on the company for running the business efficiently despite challenges. We have marginally revised our EPS estimates for FY20E and introduce our estimates for FY21E.
- The stock is trading at PE of 25.1x and 19.7x based on FY20E and FY21E EPS of Rs 11.9 and Rs 15.3 per share, respectively. We maintain Buy on the stock with a revised DCF based target price of Rs 347 (Vs Rs 341 earlier).

Quarterly performance table (standalone)

Year to March (INR mn.)	Q4FY19	Q4FY18	% Chg	Q3FY19	% Chg
Net Revenues	**607**	**549**	**10.4**	**761**	**(20.2)**
Direct operating expenses	70	64	9.0	86	(19.5)
Gross Profit	537	485	10.6	674	(20.3)
Employee Expenses	91	99	(8.1)	96	(4.7)
Other Expenses	267	233	14.5	281	(4.9)
Operating Expenses	428	396	8.0	463	(7.6)
EBITDA	**179**	**153**	**16.8**	**298**	**(40.0)**
EBITDA margin	29.5%	27.8%		39.1%	
Depreciation	99	98	0.9	99	0.2
Other income	29	15	98.4	26	12.2
Net finance expense	0	2	(98.7)	0	(92.4)
Profit before tax	**109**	**67**	**61.6**	**225**	**(51.5)**
Provision for taxes	39	31	27.6	79	(50.9)
Reported net profit	**70**	**37**	**89.9**	**145**	**(51.9)**
Net profit Margin	11.5	6.7		19.1	
Tax rate (% of PBT)	35.8	45.3		35.4	

Source: Company

Stock Details

Market cap (Rs mn)	:	16783
52-wk Hi/Lo (Rs)	:	384 / 259
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	41,590
Shares o/s (mn)	:	57

Source: Bloomberg

Financial Summary - Standalone

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	2,820	3,275	3,869
Growth (%)	4.3	16.1	18.1
EBITDA	1,143	1,337	1,647
EBITDA margin (%)	40.5	40.8	42.6
PAT	554	674	862
EPS	9.8	11.9	15.3
EPS Growth (%)	44	22	28
Book value (Rs/share)	145	155	169
Dividend per share (Rs)	1.5	1.5	1.5
ROE (%)	7.0	8.0	9.4
ROCE (%)	8.6	9.9	12.1
P/E (x)	30.6	25.1	19.7
EV/EBITDA (x)	14.0	12.1	9.9
P/BV (x)	2.1	1.9	1.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	71.3	71.2	71.0
FII	10.1	10.3	10.5
DII	5.8	5.6	5.8
Others	12.9	12.9	12.7

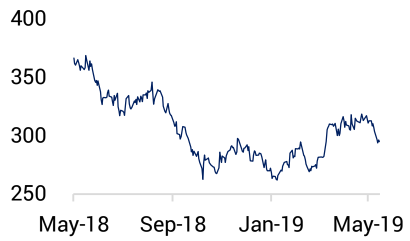
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Wonderla Holidays	(5.7)	8.5	2.4
Nifty	(3.2)	6.4	6.8

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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Revenue grew by 10.4% on strong footfalls in Bangalore and Kochi park

Net revenue for the quarter grew by 10.4% yoy to Rs 607 mn (Vs estimates of Rs 667mn) driven by 6.8% yoy growth in footfall and 2.6% yoy growth in average revenue per footfall. Growth in footfall was higher than our estimates of 5.3% due to 10.5% yoy growth in Bangalore park and recovery in footfall growth rate in Kochi park with 4.8% yoy growth. However, Hyderabad park witnessed slower growth rate of 4.8%. The company is targeting to penetrate in other parts of Telangana and AP in terms of ad campaign to attract visitors and is positive on future growth of footfall in the park. Bangalore witnessed strong growth in footfall due to increased group visits.

Average revenue per visitor grew at a lower rate of 2.6% on yoy due to lower ticket and non-ticket realization particularly in Bangalore park led by change in mix in terms of visitors. The company witnessed increased shares of group visitors as against walk-ins. This was due to increased booking from groups like school as holidays started early this year. Further, the company has taken lower price hike in Bangalore and Hyderabad and no hike in Kochi due to floods. This year, the company has taken an average price hike of 5%.

Operating performance (park-wise)

	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Footfall	**586**	**549**	**6.8%**	**760**	**-22.9%**
Kochi	193	184	4.8%	260	-26.0%
Bangalore	219	199	10.5%	290	-24.5%
Hyderabad	174	166	4.8%	210	-17.0%
Avg Revenue per footfall (Rs per footfall)	**984**	**959**	**2.6%**	**960**	**2.6%**
Kochi	869	846	2.7%	823	5.6%
Bangalore	1098	1099	-0.1%	1091	0.7%
Hyderabad	969	915	5.9%	947	2.3%
Avg ticket Realization per ticket	**723**	**710**	**1.8%**	**708**	**2.1%**
Kochi	638	630	1.3%	596	7.0%
Bangalore	824	826	-0.2%	829	-0.6%
Hyderabad	691	660	4.7%	679	1.8%
Avg Non ticket Realization per ticket	**261**	**249**	**4.8%**	**252**	**3.7%**
Kochi	231	216	6.9%	227	1.9%
Bangalore	274	273	0.4%	262	4.5%
Hyderabad	278	255	9.0%	268	3.6%

Source: Company

EBITDA margins improved on cost efficiency

EBITDA for the quarter grew by 16.8% yoy to Rs 179 mn (Vs estimates of Rs 167 mn) with margins improved by 170 bps yoy to 29.5% (vs estimates of 25%). The margins improved on decent footfalls and improved cost efficiency. PAT for the quarter grew by 90% yoy to Rs 70 mn (Vs our estimates of Rs 62 mn) due to strong operating performance. As per the management, EBITDA margin has limited scope to grow significantly and is expected to peak out at ~43%, as the company intends to increase focus on branding.

Maintained growth outlook across parks

The management has remained optimistic about the performance of all the three parks and expects this positive trend in footfall to continue in the future also. The company has guided for 10-12% footfall growth and 13-15% revenue growth in FY20. The footfall growth will be driven by increased market penetration initiatives, focused media promotions and contribution of online portals like MakeMyTrip, Paytm etc. The company believes that Kochi has stabilized after the floods and is hopeful that Kochi park will continue to show good growth, going forward.

Other highlights

- The resort income grew by 25.2% yoy to Rs 29.8 mn. Initiatives towards more long stays in Bangalore resort resulted in substantial rise in occupancy, from 32% in Q4FY18 to 52% in Q4FY19.
- The share of non-ticket revenue increased to 30.1% from 29.1% on yoy.
- The company is awaiting clarity on local body taxes for the amusement park industry in the state before starting construction of park in Chennai. The company has invested Rs 1 bn in acquiring and developing 62 acres land for Chennai park. The total capex in the project is estimated at Rs 3.5 bn.
- The company is not focusing on any other new park in the near future and explore the same in future after completing Chennai park. It will be adding some new attractions across all parks in FY20E.
- There is a risk from general elections in Q1FY20 and hence this may impact the quarterly performance. However, the company is investing more on promotions over last year which can mitigate the impact of elections in the quarter.

Outlook and valuation

We are positive on future growth potential of theme parks in India and maintain our long term positive view on the company for running the business efficiently despite challenges. We have marginally revised our EPS estimates for FY20E and introduce our estimates for FY21E. The stock is currently trading at PE of 25.1x and 19.7x based on FY20E and FY21E EPS of Rs 11.9 and Rs 15.3 per share, respectively. We maintain Buy on the stock with a revised DCF based target price of Rs 347 (Vs Rs 341 earlier), as we roll forward our valuations.

Revision in estimates

Particulars (Rs mn)	Previous estimates		Actual Estimates	Revised Estimates	% Change		New
	FY19E	FY20E	FY19A	FY20E	FY19A	FY20E	FY21E
Revenue	2879	3346	2820	3275	-2.0	-2.1	3869
EBITDA margin (%)	39.2	40.9	40.5	40.8	134 bps	-8 bps	42.6
PAT	546	685	554	674	1.5	-1.5	862
EPS (Rs)	9.7	12.1	9.8	11.9	1.1	-1.4	15.3

Source: Kotak Securities Private Client Research

Company Background

Wonderla Holidays Ltd (WHL) is the largest amusement park chain in India with over 17 years of successful operations. It has entertained over 30 mn visitors across its parks in Kochi, Bangalore and Hyderabad. The company is promoted by Mr. Arun Chittilappilly and Mr. Kochouseph Chittilappilly, who also incorporated VGuard Industries Ltd. The promoters have operational experience in the amusement park industry since 2000. The promoters launched the first amusement park in Kochi in 2000 under the name Veegaland, later successfully launched the second park in Bangalore in 2005 and third park in Hyderabad in 2016 under the name "Wonderla". The company also operates Wonderla Resort attached to its amusement park in Bangalore. It is a three Star leisure resort with has 84 luxury rooms and 4 banquet halls / conference rooms. WHRL has vast experience in running amusement parks resulting in understanding customer preferences. This enables it to conceptualize and develop innovative rides. The company has an Inhouse manufacturing facility located at Kochi which manufactures /constructs rides and attractions for all of its parks.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	**2,705**	**2,820**	**3,275**	**3,869**
% change yoy	2.9	4.3	16.1	18.1
EBITDA	**891**	**1,143**	**1,337**	**1,647**
% change yoy	33.0	28.3	16.9	23.2
Depreciation	365	395	425	455
EBIT	**526**	**748**	**912**	**1,192**
Other Income	78	96	96	96
Interest	12	4	1	1
Profit Before Tax	**592**	**840**	**1,007**	**1,287**
% change yoy	22.1	41.9	19.8	27.8
Tax	207	286	332	425
as % of EBT	35.0	34.1	33.0	33.0
PAT	385	554	674	862
% change yoy	13.5	43.9	21.7	27.8
Shares outstanding (mn)	57	57	57	57
EPS (Rs)	**6.8**	**9.8**	**11.9**	**15.3**
DPS (Rs)	1.5	1.5	1.5	1.5
CEPS (Rs)	13.3	16.8	19.5	23.3
BVPS (Rs)	136.7	144.8	155.3	169.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	565	565	565	565
Reserves	7,161	7,620	8,210	8,987
Net worth	7,726	8,185	8,775	9,552
Borrowings	-	10	10	10
Net Deferred tax	759	694	694	694
Total Liabilities	**8,485**	**8,889**	**9,479**	**10,256**
Net block	8,337	8,014	7,889	7,733
Capital work in progress	155	336	1,536	2,736
Total fixed assets	8,492	8,350	9,425	10,470
Investments	122	501	501	501
Inventories	71	62	72	86
Sundry debtors	12	15	17	20
Cash and equivalents	249	428	299	91
Loans and advances & Others	32	38	38	38
Total current assets	364	543	426	234
Sundry creditors and others	214	210	244	288
Provisions	554	599	629	660
Total CL & provisions	769	809	873	949
Net current assets	(405)	(266)	(447)	(715)
Misc Expenses	277	305	-	-
Total Assets	**8,485**	**8,889**	**9,479**	**10,256**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-Tax Profit	592	840	1,007	1,287
Depreciation	365	395	425	455
Change in WC	117	41	51	59
Other operating activities	(146)	(379)	(27)	(425)
Operating Cash Flow	**928**	**897**	**1,456**	**1,377**
Capex	(1,190)	(253)	(1,500)	(1,500)
Free Cash Flow	**(262)**	**644**	**(45)**	**(123)**
Change in Investments	629	(379)	-	-
Investment cash flow	**(561)**	**(632)**	**(1,500)**	**(1,500)**
Equity Raised	-	-	-	-
Debt Raised	(139)	10	-	-
Dividend	(85)	(85)	(85)	(85)
Other financing activity	20	(10)	-	-
CF from Financing	**(203)**	**(85)**	**(85)**	**(85)**
Change in Cash	164	180	(129)	(208)
Opening Cash	85	249	428	299
Closing Cash	**249**	**428**	**299**	**91**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	32.9	40.5	40.8	42.6
EBIT margin (%)	19.4	26.5	27.8	30.8
Net profit margin (%)	14.2	19.6	20.6	22.3
Adjusted EPS growth (%)	13.5	43.9	21.7	27.8
Balance Sheet Ratios:				
Receivables (days)	2	2	2	2
Inventory (days)	10	8	8	8
Loans & Advances	4	5	4	4
Payable (days)	29	27	27	27
Cash Conversion Cycle (days)	(13)	(12)	(13)	(14)
Asset Turnover (x)	0.3	0.3	0.3	0.4
Net Debt/ Equity (x)	(0.0)	(0.1)	(0.1)	(0.1)
Return Ratios:				
RoCE (%)	6.3	8.6	9.9	12.1
RoE (%)	5.1	7.0	8.0	9.4
Valuation Ratios:				
P/E (x)	44.0	30.6	25.1	19.7
P/BV (x)	2.2	2.1	1.9	1.8
EV/EBITDA (x)	18.6	14.0	12.1	9.9
EV/Sales (x)	6.1	5.7	4.9	4.2

Source: Company, Kotak Securities – Private Client Research

Result Update

PRAJ INDUSTRIES LTD

PRICE RS.130 **TARGET RS.146** **ADD**

Praj's performance has been on an improving track. The company reported all-round good performance in FY19 though Q4FY19 profits missed our estimates.

Key Highlights

- The company posted robust increase in revenue of 34% y-o-y
- At Rs 9.3 bn, order book is up 37% in FY19.
- The management is seeing an uptick in order enquiries, which is positive as it is looked as a precursor for future order intake

Valuation and Outlook

Since the opportunity size is large in Bio CNG and 2G ethanol, we believe that the stock valuations could continue to be resilient. We thus value the stock at 23x FY21E (earlier 23x FY20E) and arrive at a price target of Rs 146, which provides upside of 12% from current levels. We maintain our "ADD" rating on the stock given moderate upside.

Stock Details

Market cap (Rs mn)	:	23611
52-wk Hi/Lo (Rs)	:	168 / 72
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	2,767,007
Shares o/s (mn)	:	182

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	11,411	13,962	16,717
Growth (%)	23.6	22.4	19.7
EBITDA	883	1,427	1,711
EBITDA margin (%)	7.7	10.2	10.2
PAT	682	1,023	1,163
EPS	3.7	5.6	6.4
EPS Growth (%)	73	50	14
BV (Rs/share)	40.8	44.5	49.0
Dividend/share (Rs)	1.6	1.6	1.6
ROE (%)	9.3	13.1	13.6
ROCE (%)	9.3	13.2	13.7
P/E (x)	34.8	23.2	20.4
EV/EBITDA (x)	23.5	13.8	10.7
P/BV (x)	0.7	0.6	0.6

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	33.1	33.1	33.2
FII	13.8	13.8	14.6
DII	19.1	19.1	17.2
Others	34.0	34.0	34.9

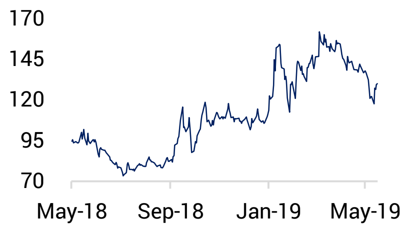
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Praj Industries	(9.1)	(3.8)	19.0
Nifty	(3.2)	6.4	6.8

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Quarterly performance

(Rs mn)	Q4FY19	Q4FY18	YoY (%)
Gross Sales	**3682**	**2745**	**34.1**
Excise	0	0	
Net Sales	**3682**	**2745**	**34.1**
Raw material cost	2013	1372	46.8
Staff costs	398	393	1.3
Other expenditure	928	711	30.7
Forex loss/(gain)	-52	-40	28.0
Total Expenditure	3288	2435	35.0
PBIDT	**394**	**311**	**26.8**
Depreciation	54	61	-10.4
Other Income	74	101	-26.8
EBIT	**414**	**351**	**17.8**
Interest	2	3	-40.0
PBT	**412**	**348**	**18.3**
Tax	78	80	-2.1
PAT	**334**	**268**	**24.4**
EPS (Rs)	**1.8**	**1.5**	
PBDIT (%)	10.7	11.3	
Raw matl cost to sales (%)	54.7	50.0	
Staff cost to sales (%)	10.8	14.3	
Other expenditure to sales (%)	25.2	25.9	
Tax rate (%)	19.0	23.0	

Source: Company

Reported Vs Estimated performance

Rs mn	Reported	Estimated
Revenue	3682	3500
EBITDA %	10.7%	12.8%
PAT	334	378

Source: Kotak Securities – Private Client Research

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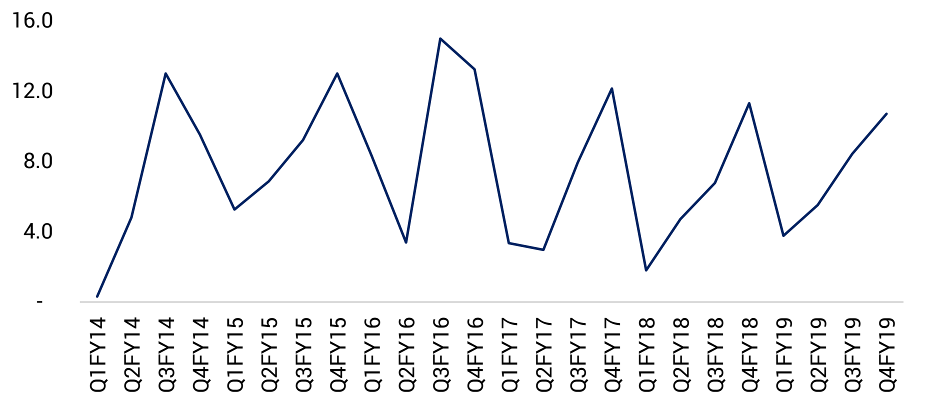
Result Highlights

- Consolidated revenue for Q4FY19 stood at Rs 3.6 bn (up 34% on y-o-y basis) due to a combination of improvement in order book (up 37% y-o-y) and efficient execution rate.
- Gross margins for the quarter contracted by 472 bps y-o-y to 45.3%. Changes in gross margins are a function of project mix and segment mix.
- Employee costs rose marginally to Rs 398 mn vs Rs 393 mn on a y-o-y basis. Employee costs are expected to remain sedate due to reduction in headcount from 901 nos in FY17 to 884 in FY18.
- EBITDA margins for the quarter stood at 10.7% vs 11.3% on a y-o-y basis due to higher revenue booking leading to greater absorption of fixed costs.
- Tax rate for the quarter stood at 19% vs 23% on a y-o-y basis as the tax rate at its subsidiary – Prah Hi Purity Systems was lower during the quarter.
- For the quarter, PAT stood at Rs 334 mn vs Rs 268 mn in the corresponding quarter of the previous fiscal.

EBITDA margin (%)



Source: Company

Order intake was weak in the quarter but full year order intake grew strongly

Order intake declined 18% y-o-y to Rs 3.1 bn, which the management attributed partly to likely deferral of project finalizations by corporates on account of the ongoing general elections.

As compared to earlier quarters, when the order intake would average ~ R 2.0-2.5 bn per quarter, this is the fifth quarter of Rs3.0 bn plus order intake.

The management indicated that since the enquiry levels were strong, growth in order intake should sustain this momentum in the coming quarters.

Order intake on a full year basis grew to Rs 13.9 bn, up 34% over the preceding fiscal.

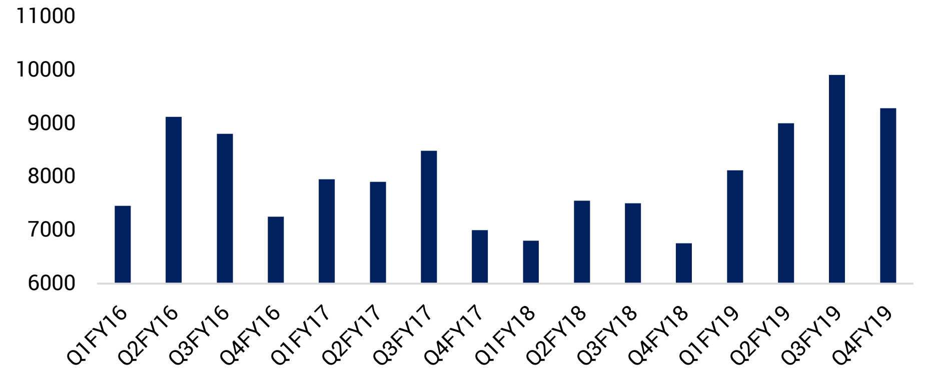
Order intake mainly composes of Bioenergy (77% - mainly ethanol), Engineering business (18% - includes engineering products, breweries and water and waste water treatment) and HiPurity systems (5%- subsidiary of the company). Around 30% of orders came from overseas markets.

By and large, the management was optimistic on emerging scenario (sugar sector bailout package, 2G ethanol orders, Bio CNG opportunity etc).

The management is also positive on its subsidiary – Praj Hi Purity Systems (PHPS) and expects the potential shift of API manufacturing from China to India to benefit the company. PHPS is into high purity water used mainly by the Pharma industry.

Praj had been struggling in scaling up its order book which had led to significant disenchantment among the investor community. However, going by the healthy order intake in FY19, the order book is now on a much better footing and gives us comfort on the earnings growth in FY20E.

Order book (Rs mn)



Source: Company

Industry developments

The government has in FY19 released sugar bailout package which aims to help improve liquidity of Indian sugar industry through interest subvention on soft loans for augmenting ethanol production capacity and zero liquid discharge solutions

The new National Policy on Biofuels – 2018 enhances economics and sustainability of distillery operations for Praj's existing and potential customers by - expanding the range of permitted feedstock for ethanol production, viability gap funding, additional tax incentives, higher purchase price for output for 2G ethanol Bio refineries.

In Sept 2018, the Union government had announced Rs 55 bn package for the sugar industry, including over two-fold jump in production aid to cane growers and transport subsidy to mills for exports. The package is expected to be enlarged to accommodate a higher proportion of applications within this scheme

The Cabinet Committee on Economic Affairs (CCEA) approved raising the ex-mill price of ethanol from different feedstock. This empowers sugar industry to determine optimal product mix, enhancement of distillery utilization and capacity augmentation.

Ethanol procurement price

Rs/Lit	Current	Earlier
Sugar cane juice	59	na
B Heavy molasses	52.4	47.1
C Heavy molasses	43.46	43.7

Source: Industry reports

While the measures taken by the government to address the distress in the sugar sector is a welcome move, the Praj management noted that for the sugar sector to place orders for ethanol making plants, there has to be an improvement in their financials.

For ethanol supply year 2018-19, India is on course to record its highest-ever ethanol blending rate of 7.2% in the current ethanol year as against 4.22% for the last year

Ethanol Procured by OMCs

	bn lit
2013-14	0.38
2017-18	1.5
2018-19E	2.6

Source: ET

The Cabinet Committee on Economic Affairs (CCEA) has approved the "Pradhan Mantri JI-VAN Yojana" that has allocated Rs.18 bn for supporting 12 numbers of 2G Commercial projects. Additionally, Rs.1.5 bn have been allocated for supporting 10 numbers of advanced biofuel demonstration Projects

Conference call highlights

- The Government is implementing steps to widen and diversify the Bio-Energy landscape. In sync with this, the Government envisages setting up of 5000 Compressed Bio-Gas (CBG) plants nationwide in a phased manner with 250 plants by year 2020, 1000 plants by 2022, and 5000 plants by 2025. These plants are expected to produce 15 million tons of CBG per annum, which is about 40% of the current CNG consumption of 44 million tons. CBG is a complementary renewable transportation fuel converted from Agriculture residue, press mud, cattle dung, and municipal solid waste. This bio-gas will then be compressed and distributed as an alternative to vehicular CNG.
- In reference to this, Praj had announced the ground-breaking of its first of its kind integrated demo plant of CBG. The company unveiled its roadmap for commercialization of CBG technology and reaffirmed its readiness by way of required infrastructure to execute multiple CBG plants with advanced technology and designs. This can be a large opportunity in the long term if there is the requisite intent from the government. The government's plan is to set up 5000 CBG plants across the country by 2025.
- The management expects tax rate to inch closer to 33% levels in FY20E.
- The company has cash balance of Rs 2.5 bn (11% of market cap), part of which is attributed to client advances (Rs 1.7 bn).

Earnings Revision - FY20

Rs mn	Earlier	Revised
Revenue	13098	13962
EBITDA %	10.4	10.2
EPS	5.8	5.6
% change		-3.4%

Source: Kotak Securities – Private Client Research

Rating and Target Price

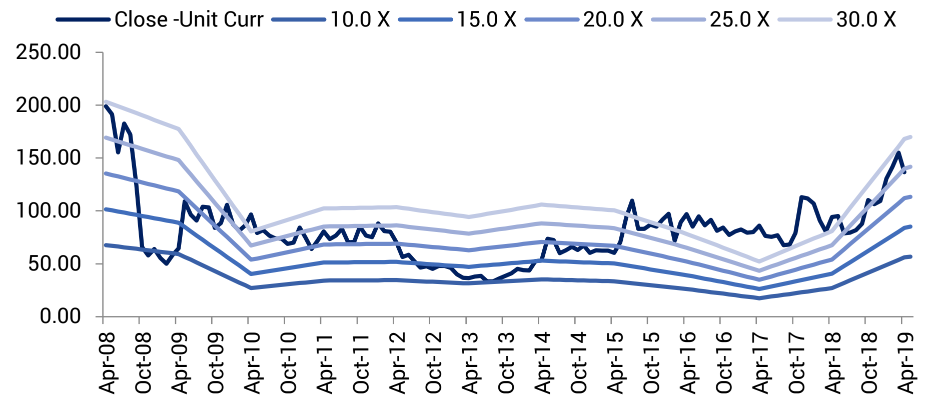
The Praj stock has been a strong outperformer in FY19 on the back of government initiatives on higher ethanol blending with an objective to 1) conserve foreign exchange on crude imports 2) reduce environment pollution and 3) support the domestic sugar industry which has been reeling under unremunerative prices of sugar led by overproduction.

In September 2018, the Cabinet Committee on Economic Affairs also raised the procurement price of ethanol derived from 100 per cent sugarcane juice to Rs 59.13 per litre from the earlier rate of Rs 47.13 per litre. As a result, order enquiries have improved and order intake has also gained traction.

Given the government focus on 1) ethanol blending 2) development of BIO CNG and 3) support for sugar industry through higher realization on ethanol, we believe that the order intake would be strong in the near to medium term for Praj. Hence, we maintain our positive view on the company's business and earnings outlook.

Since the opportunity size is large in Bio CNG and 2G ethanol, we believe that the stock valuations could continue to be resilient. We thus value the stock at 23x FY21E (earlier 23x FY20E) and arrive at a price target of Rs 146, which provides upside of 12% from current levels. We maintain our "ADD" rating on the stock given moderate upside.

Forward PE band for Praj Industries



Source: Kotak Securities – Private Client Research

Company Background

Praj was incorporated in November 1985 as Praj Counseltech Pvt Ltd. It was promoted by a technocrat team comprising Mr. Pramod Chaudhari and associates. Praj is in the business of process design, engineering, fabrication, and commissioning of bio-fuels plants, brewery plants, waste water treatment plants, bio-consumables and process equipment and systems. While significant revenue comes from sale of ethanol process technology, plants, and equipment; and brewery plant and equipment, Praj is building a sizeable portfolio of business from water and wastewater treatment systems, high-purity systems, and critical process equipment.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	**9,235**	**11,411**	**13,962**	**16,717**
% change YoY	(3.3)	23.6	22.4	19.7
EBITDA	**516**	**883**	**1,427**	**1,711**
% change YoY	(24.9)	71.3	61.5	19.9
Other Income	172.1	233.1	290.0	300.0
Depreciation	240.9	229.5	245.0	265.0
EBIT	**275**	**654**	**1,182**	**1,446**
% change YoY	(41.0)	138.1	80.7	22.3
Net interest	11.4	7.6	10.0	10.0
Profit before tax	**435.4**	**879.4**	**1,461.7**	**1,735.5**
% change YoY	-30.9	102.0	66.2	18.7
Tax	135.2	197.2	438.5	572.7
as % of PBT	31.1	22.4	30.0	33.0
Profit after tax	**300.2**	**682.2**	**1,023.2**	**1,162.8**
Minority interest	0.0	0.0	0.0	0.0
Share of profit of associates	0.0	0.0	0.0	0.0
Net income	300.2	682.2	1,023.2	1,162.8
% change YoY	(25.1)	127.3	50.0	13.6
Shares outstanding (m)	182.7	182.7	182.7	182.7
EPS (reported) (Rs)	1.6	3.7	5.6	6.4
CEPS (Rs)	3.5	5.0	6.9	7.8
DPS (Rs)	1.6	1.6	1.6	1.6

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	793	879	1,940	3,269
Accounts receivable	2,625	3,053	3,500	4,200
Inventories	808	1,264	1,530	1,832
Loans and Adv & Others	1,704	1,660	1,660	1,660
Current assets	5,930	6,856	8,630	10,961
Misc exp.	943	939	939	939
LT investments	2,009	2,105	2,105	2,105
Net fixed assets	2,198	2,128	1,733	1,318
Def tax assets	118	93	93	93
Total assets	**11,207**	**12,121**	**13,499**	**15,416**
Payables	3,635	4,564	5,200	6,300
Others	0	0	0	0
Current liabilities	3,635	4,564	5,200	6,300
Provisions	244	284	350	350
LT debt	60	0	0	0
Min. int	7	7	7	7
Equity	362	365	365	365
Reserves	6,900	6,901	7,577	8,393
Total liabilities	**11,207**	**12,121**	**13,499**	**15,416**
BVPS (Rs)	178	239	307	307

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
PBDIT	516	883	1,427	1,711
Direct tax paid	(135)	(197)	(438)	(573)
Adjustments	210	(455)	-	-
Cash flow from operations	590	231	988	1,138
Net Change in Working Capital	356	191	(11)	98
Net Cash from Operations	**947**	**422**	**977**	**1,236**
Capital Expenditure	(250)	(140)	150	150
Cash from investing	(239)	158	290	300
Net Cash from Investing	**(489)**	**17**	**440**	**450**
Interest paid	(11)	(8)	(10)	(10)
Issue of Shares/(buyback)	-	-	-	-
Dividends Paid	(346)	(346)	(346)	(346)
Debt Raised	(43)	-	-	-
Net cash from financing	**(400)**	**(354)**	**(356)**	**(356)**
Net change in cash	57	86	1,060	1,330
Free cash flow	696	282	1,127	1,386
Cash as in balance sheet	**793**	**879**	**1,940**	**3,269**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	5.6	7.7	10.2	10.2
EBIT margin (%)	3.0	5.7	8.5	8.6
Net profit margin (%)	3.3	6.0	7.3	7.0
Receivables (days)	103.8	97.7	91.5	91.7
Inventory (days)	31.9	40.4	40.0	40.0
Sales/gross assets(x)	2.3	2.7	3.5	4.3
Interest coverage (x)	45.2	116.2	142.7	171.1
Debt/equity ratio(x)	-	-	-	-
ROE (%)	5.9	9.3	13.1	13.6
ROCE (%)	5.6	9.3	13.2	13.7
EV/ Sales	2.3	1.8	1.4	1.1
EV/EBITDA	40.7	23.5	13.8	10.7
Price to earnings (P/E)	60.1	34.8	23.2	20.4
Price to book value (P/B)	3.2	3.2	2.9	2.7

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	91565
52-wk Hi/Lo (Rs)	:	732 / 489
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	106,668
Shares o/s (mn)	:	153

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Sales	19,816	19,805	20,342
Growth (%)	22.3%	-0.1%	2.7%
EBITDA	9,931	10,128	10,640
EBITDA margin (%)	50.1%	51.1%	52.3%
Net profit	4,210	3,499	3,682
EPS (Rs)	27.5	22.8	24.0
Growth (%)	73.7%	-16.9%	5.2%
BVPS (Rs)	226.6	246.3	267.2
DPS (Rs)	2.6	2.6	2.6
ROE (%)	13.3	9.7	9.4
ROCE (%)	10.1	9.6	9.9
P/E (x)	21.8	26.3	25.0
EV/EBITDA (x)	12.7	13.1	12.4
P/BV (x)	2.6	2.4	2.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	62.8	62.8	62.8
FII	27.9	27.9	27.9
DII	4.3	4.3	4.2
Others	5.0	5.0	5.1

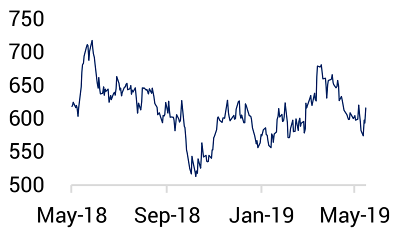
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
The Phoenix Mills	(4.6)	(0.4)	(1.6)
Nifty	(3.2)	6.4	6.8

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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THE PHOENIX MILLS LTD

PRICE RS.600 **TARGET RS.754** **BUY**

Phoenix mills ltd's results for the quarter were much ahead of our estimates due to strong revenue recognition in Kessaku residential development project on receipt of OC during Q4FY19. Excluding that too, profit from core annuity income generating businesses of retail, hospitality & commercial offices was ahead of our estimates. Rental growth was driven by the strong operational performance of Market City malls – PMC Pune & PMC Mumbai. Strong performance of St Regis and commercial office portfolio also aided the financial performance. We believe that rental renegotiations, new project launches and completion of under-construction assets are likely to maintain healthy performance for the company going forward. Residential revenues are likely to witness contraction going forward due to revenue recognition largely done during FY19.

Key highlights

- During Q4FY19, consolidated revenues were up by 65.6% YoY with strong margins of 52% led by healthy improvement in consumption levels and rental income. Retail segment revenues are likely to remain strong going forward too with rental renegotiations and consumption improvement.
- Debt has moved up marginally as the debt on under-construction portfolio is moving up with improved pace of execution.
- Company has commenced work at all three under development assets – at Hebbal Bengaluru and Pune, Lucknow & Palladium at Ahmedabad and company is well placed to achieve its target of 11-12 msft of operational retail portfolio by FY23

Consolidated financial highlights

Rs mn	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net Sales	**7232**	**4366**	**65.6%**	**4404**	**64.2%**
Total Expenditure	3461	2205	57.0%	2180	58.8%
EBITDA	**3772**	**2162**	**74.5%**	**2225**	**69.5%**
EBITDA %	52%	49.5%		50.5%	
Depreciation	514	513		523	
EBIT	**3258**	**1649**	**97.6%**	**1702**	**91.4%**
Interest	826	836		917	
EBT(exc other income)	2432	813	199.3%	785	209.7%
Other Income	329	145		170	
PBT	**2761**	**957**	**188.3%**	**955**	**189.1%**
Exceptional item	481	0		0	
PBT after exc item	3242	957	238.6%	955	239.5%
Tax	510	7		175	
Tax%	15.7%	0.7%		18.3%	
PAT	2732	951	187.3%	780	250.2%
Minority interest	558	112		108	
Share of profit of associates	110	87		36	
Net profit	**2284**	**926**	**146.7%**	**709**	**222.4%**
Other comprehensive income	-331	5		8	
Total income	1953	931	109.9%	716	172.7%
Equity Capital	306	306		306	
Face Value (In Rs)	2	2		2	
EPS	**15**	**6.0**	**146.7%**	**4.6**	**222.4%**

Source: Company

Valuation and outlook

At current price of Rs 600, stock is trading at 26.3x and 25x P/E and 13.1x and 12.4x EV/EBITDA on FY20/21 consolidated estimates respectively. We continue to remain positive on the company and roll forward our price target on FY21 estimates. We maintain BUY with a revised price target of Rs 754 (Rs 707 earlier) based on sum of the parts methodology on FY21 estimates.

Revenue growth ahead of our estimates

Phoenix mills ltd's revenues for the quarter were much ahead of our estimates due to strong revenue recognition in Kessaku residential development project on receipt of OC during Q4FY19.

High Street Phoenix: During Q4FY19, High Street Phoenix has registered 8% YoY improvement in rental income while average trading density was down by 2% YoY at Rs 2827 per sq ft per month. Current average rentals improved 6% YoY and stand at nearly Rs 392 per sq ft per month (vs Rs 369 per sq ft per month during Q2FY18) as the new lease deals have significantly higher minimum guarantee than the current mall average. Trading density during FY19 was impacted by construction activity related to metro-line work going outside the HSP which impacted the traffic. Also, the area of Lifestyle and PVR was under renovation and North Sky zone took some time to pick up which impacted the consumption and trading density during the year. Company believes that commencement of mall by Oberoi realty is not going to impact the consumption for HSP as the demand is significant in the catchment area.

Market cities:

Chennai market city: For the quarter, Chennai market city revenues grew by 12% YoY and were led by 8% YoY improvement in rental income. Rentals per sq ft were up by 5% YoY at Rs 137 per sq ft per month. Consumption was down by 1% for Q4FY19. Palladium Chennai performance has also aided the Chennai market city performance. Palladium Chennai is currently in the first year of operations and EBITDA margin will start improving once the mall stabilizes and occupancy increases above 90%. However, these revenues are not included in the consolidated financials.

Bengaluru market city revenues have witnessed an increase of 6% YoY with 8% YoY improvement in rental income. Trading density and consumption have started witnessing improvement. Rentals per sq ft for Bengaluru market city were up by 6% YoY at Rs 118 per sq ft per month.

Kurla market city: Kurla market city continues to lead with highest growth rates for consumption, Trading density & EBITDA. Consumption (up 20% YoY) and trading density (up 6% YoY) have witnessed a healthy improvement for Kurla market city and rentals have also witnessed an improvement of 4% YoY.

Pune market city: Pune market city has seen 5% improvement in revenues led by 13% improvement in rental income. Trading density is up by 6% YoY and rentals per sq ft for Pune market city were up by 10% YoY. High consumption has led to strong rental and operational performance.

Renewals expected going forward: Out of the total lease renewals, nearly 49% of High Street Phoenix and Palladium in Mumbai and 50% of PMC Pune and 63% of PMC Mumbai are likely to come for renewals between FY20-22. High Street Phoenix and Palladium has 21%/16%/12% renewals expected in FY20/21/22 respectively. Pune market city is likely to see 11%/20%/19% lease renewals during FY20/21/22 respectively while Kurla market city is likely to see 5%/24%/34% lease renewals during FY20/21/22 respectively. Bangalore market city lease renewals for nearly 5%/26%/38% of the area are likely to come during FY20/21/22 respectively while for Chennai market city, lease renewals of 2%/20%/31% are likely to come during FY20/21/22 respectively. These renewals are likely to aid rental growth for the company.

Commercial and residential portfolio: For One-Bangalore West, it had handed over for flats for Towers 1-5. PML received OC for Tower 6 and company is planning to launch Tower 7 in June 2019. For Kessaku, company received the occupancy certificate for 5 towers which resulted in strong revenue recognition of Rs 3852 mn during Q4FY19. Out of the total sales value of Rs 20821 mn during FY19 from One Bangalore West, Kessaku and Crest, Chennai, PML has recognized revenues of Rs 19421 mn during FY19 and remaining is likely to be recognized during FY20.

Commercial portfolio comprises of Phoenix House, Art Guild, Phoenix Paragon Plaza, Centrium with 81% of available area leased out to Tier 1 clients and now Fountainhead – Pune for which leasable area is 0.16 msf - 82% area has been leased out of the net leasable area of 1.32 mn sq ft. Under-development area in commercial portfolio includes 0.54 mn sq ft of Fountainhead, Pune and 0.42 mn sq ft of Phoenix market city Chennai. For Art-Guild house, nearly 78% of leasable area is likely to come up for renewal in next 4 years and nearly 39% of leasable area is likely to come up renewal for Phoenix Paragon plaza.

Hotels portfolio – Q4FY19 room occupancy at St Regis, Mumbai stood at 87% at an ARR of Rs. 12514 while room occupancy at Courtyard by Marriott, Agra stood at 83% at an ARR of Rs 4795. St Regis has emerged as a preferred hospitality destination in South Mumbai with large areas available for banquet halls. Company expects its strong performance to continue and margins also to improve from current levels.

Status of under-development projects

Project	Partnership / owned	Land Size	Development Potential	Comments
PMC Wakad, Pune	ISML – alliance with CPPIB (PML stake: 51%)	15 Acres	1.6 msf (1.1 msf retail)	**Construction in progress.** Expect operations to commence during FY23
PMC Hebbal, Bengaluru		13 Acres	1.8msf (1.2 msf retail)	**Construction in Progress**. Expect operations to start during FY23
PMC Indore		19 Acres	1.0 msf retail	**Construction in Progress**. Expect operations to commence during FY21
PMC Lucknow	100% owned	13.5 Acres	0.9 msf retail	Construction well underway. **Expect operations to commence during H2 FY20**
Palladium, Ahmedabad	50:50 alliance with BSafal group	5.2 Acres	0.7 msf retail	PML's third Palladium mall, after Mumbai & Chennai. **Construction in Progress.** Expect operations to commence during FY22

Source: Company

Net profit performance ahead of our estimates

Net profit for the quarter came ahead of our estimates due to sharp increase in revenue recognition at the Bangalore project. Adjusted with the profits of real estate projects, net profits for the full year stood at Rs 3222 mn.

Operating margins improved on YoY basis. Average interest rate of debt has now started to move up sequentially and is now at 9.38%. Consolidated debt has moved up marginally on sequential basis at Rs 45.5 bn with Rs 41.5 bn coming from operational portfolio and Rs 3.98 bn from under-development portfolio. Debt on operational portfolio is coming down with steady annuity income while debt on under-construction portfolio is moving up with improved pace of execution. Upon operationalization of the underdevelopment retail assets, construction loans are expected to be converted into lease-rental discounting (LRD) loans backed by the asset's annual income generation ability.

We tweak our estimates to factor in FY19 financials as well as lower revenue booking from residential segment as significant revenues have already been recognized from its projects.

Valuation and recommendation

At current price of Rs 600, stock is trading at 26.3x and 25x P/E and 13.1x and 12.4x EV/EBITDA on FY20/21 consolidated estimates respectively. We continue to remain positive on the company and roll forward our price target on FY21 estimates. We maintain BUY with a revised price target of Rs 754 (Rs 707 earlier) based on sum of the parts methodology on FY21 estimates.

Sum of the parts valuation on FY21estimates

Segments	Per share
High Street Phoenix and Phase 4	363
Market cities	262
Residential	5
Big Apple and Commercial	21
CPPIB	55
Hospitality	47
Total	**754**

Source: Kotak Securities – Private Client Research

About the company

Phoenix mills is a key developer and manager of prime retail-led assets in city centers, with a gross portfolio of 17.5 million sq. ft spread over 100+ acres of prime land in key gateway cities of India. It has 8 Malls spread over 6 mn ft in 6 major cities along with commercial centres in Mumbai with rent generating leasable area of 1.16 mn sq ft. Residential projects under development have 3.72 mn sq ft of saleable area. It also has 2 Hotel (588 Keys) managed by renowned global operators in its portfolio.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	**16,198**	**19,816**	**19,805**	**20,342**
% change YoY	(11.2)	22.3	(0.1)	2.7
EBITDA	**7,774**	**9,931**	**10,128**	**10,640**
% change YoY	(8.2)	27.8	2.0	5.1
Other Income	556	851	1,000	1,000
Depreciation	1,983	2,042	2,135	2,266
EBIT	**6,347**	**8,740**	**8,994**	**9,375**
% change YoY	(9.2)	37.7	2.9	4.2
Net interest	3,476	3,506	3,928	4,048
Extra ord income	-	481	-	-
Profit before tax	**2,871**	**5,716**	**5,066**	**5,327**
% change YoY	4.1	99.1	(11.4)	5.2
Tax	758	1,099	1,520	1,598
as % of PBT	26.4	19.2	30.0	30.0
Profit after tax	2,113	4,617	3,546	3,729
Min int & profits from assoc	(308)	407	47	47
Adjusted Net income	2,422	4,210	3,499	3,682
% change YoY	26.8	73.9	(16.9)	5.2
Shares outstanding (m)	153.1	153.3	153.3	153.3
EPS (reported) (Rs)	**15.8**	**27.5**	**22.8**	**24.0**
CEPS (Rs)	28.8	40.8	36.8	38.8
DPS (Rs)	2.60	2.60	2.60	2.60

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	449	1,920	1,443	2,271
Accounts receivable	1,292	1,955	1,682	1,728
Inventories	6,615	8,986	7,596	7,802
Loans and Adv & Others	3,730	5,031	5,244	5,257
Current assets	12,086	17,892	15,965	17,058
Other non current assets	1,997	1,630	1,630	1,630
LT investments and goodwill	9,191	11,161	8,461	8,461
Net fixed assets	61,700	70,476	72,841	75,076
Total assets	**84,973**	**101,159**	**98,898**	**102,225**
Payables	3,381	5,780	4,612	4,737
Others	1,396	-	-	-
Current liabilities	4,777	5,780	4,612	4,737
Provisions	1,101	806	1,265	1,265
LT debt	42,359	47,595	50,595	50,595
Min. int and def tax liabilities	8,219	12,236	4,664	4,664
Equity	306	307	307	307
Reserves	28,211	34,435	37,454	40,656
Total liabilities	**84,973**	**101,159**	**98,898**	**102,225**
BVPS (Rs)	186.2	226.6	246.3	267.2

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	6,656	8,815	8,947	9,328
Depreciation	1,983	2,042	2,135	2,266
Change in working capital	2,891	557	282	(140)
Chg in other net current assets	6,052	2,692	(7,113)	-
Operating cash flow	17,581	14,106	4,251	11,454
Interest	(3,476)	(3,506)	(3,928)	(4,048)
Tax	(758)	(1,099)	(1,520)	(1,598)
Cash flow from operations	**13,347**	**9,502**	**(1,197)**	**5,808**
Capex	(15,027)	(10,818)	(4,500)	(4,500)
(Inc)/dec in investments	(3,931)	(1,970)	2,700	-
CF from investments	**(18,958)**	**(12,788)**	**(1,800)**	**(4,500)**
Proceeds from issue of equity	-	-	-	-
Increase/(decrease) in debt	5,689	5,237	3,000	-
Proceeds from share premium	-	-	-	-
Dividends	(442.3)	(479.4)	(479.9)	(479.9)
Cash flow from financing	**5,247**	**4,757**	**2,520**	**(480)**
Opening cash	812	449	1,920	1,443
Closing cash	**449**	**1,920**	**1,443**	**2,271**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	48.0	50.1	51.1	52.3
EBIT margin (%)	39.2	44.1	45.4	46.1
Net profit margin (%)	15.0	21.2	17.7	18.1
Receivables (days)	31.1	29.9	31.0	31.0
Inventory (days)	181.1	143.7	140.0	140.0
Sales/assets(x)	0.3	0.3	0.3	0.3
Interest coverage (x)	1.8	2.5	2.3	2.3
Debt/equity ratio(x)	1.6	1.4	1.4	1.3
ROE (%)	9.6	13.3	9.7	9.4
ROCE (%)	8.9	10.1	9.6	9.9
EV/ Sales (x)	7.7	6.4	6.7	6.5
EV/EBITDA (x)	16.0	12.7	13.1	12.4
Price to earnings (x)	37.9	21.8	26.3	25.0
Price to book value (x)	3.2	2.6	2.4	2.2
Price to Cash Earnings (x)	20.9	14.7	16.3	15.5

Source: Company, Kotak Securities – Private Client Research

Result Update

GABRIEL INDIA LTD (GABRIEL)

PRICE RS.141 **TARGET RS.153** **ADD**

Gabriel's 4QFY19 results were mixed. In a challenging demand environment, the company was able to report marginal growth in revenues. Raw material cost pressure led to below expected operating margin and net profit.

Stock Details

Market cap (Rs mn)	:	20196
52-wk Hi/Lo (Rs)	:	159 / 115
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	90,423
Shares o/s (mn)	:	144

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Sales	20,765	22,322	24,555
Growth (%)	13.3	7.5	10.0
EBITDA	1,778	2,003	2,342
EBITDA margin (%)	8.6	9.0	9.5
Net profit	950	1,092	1,294
EPS (Rs)	6.6	7.6	9.0
Growth (%)	0.8	15.0	18.5
Book value (Rs/share)	41	47	54
Dividend per share (Rs)	1.5	1.6	1.6
ROE (%)	17.0	17.3	17.9
ROCE (%)	24.9	25.1	26.0
P/E (x)	21.3	18.5	15.7
EV/EBITDA (x)	10.9	9.4	7.7
EV/Sales (x)	0.9	0.8	0.7

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	52.8	54.0	54.0
FII	10.9	11.9	10.9
DII	1.9	0.7	1.4
Others	34.5	33.3	33.7

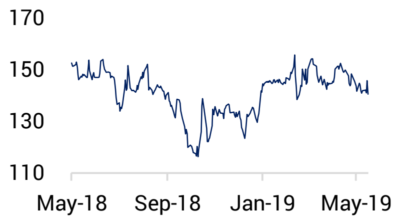
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Gabriel India	(5.7)	1.5	3.3
Nifty	(3.2)	6.4	6.8

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Key Highlights

Gabriel reported revenue of Rs5,103mn in 4QFY19, 2.7% higher YoY and flat growth QoQ. Company witnessed growth in the two wheeler segment; but performance in the passenger vehicle segment was weak for the company. Due to high raw material prices and delay in negotiation with customer led to EBITDA margin contracting by 261bps YoY. Fall in EBITDA led to net profit declining by 33% YoY to Rs173mn.

Valuation and Outlook

Gabriel's revenue growth is broadly dependent on the OEM's (85% in FY19). We expect automobile growth going ahead to receive boost from low base and expected pre-buying ahead of BSVI implementation. Management highlighted that raw material cost pass through negotiations will conclude in 1QFY20. We thereby expect gradual sequential improvement in EBITDA margin for the company. In view of weak demand, we have marginally revised our FY20/FY21 estimates lower. We rate the stock as ADD with revised price target of Rs153 (earlier Rs160). We value the company at PER of 17x (unchanged) FY21E earnings.

Quarterly performance

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
Revenues	**5,103**	**4,968**	**2.7**	**5,100**	**0.1**
Total expenditure	4,760	4,504	5.7	4,670	1.9
RM consumed	3,774	3,546	6.4	3,705	1.8
Employee cost	374	361	3.8	378	(0.9)
Other expenses	612	598	2.4	587	4.4
EBITDA	**343**	**464**	**(26.0)**	**430**	**(20.3)**
EBITDA margin (%)	6.7	9.3	-	8.4	-
Depreciation	105	107	(1.9)	100	4.3
Interest cost	8	7	11.2	6	36
Other Income	27	25	10.1	26	4.4
Exceptional gain / (loss)					
PBT	**257**	**374**	**(31.2)**	**350**	**(26.4)**
PBT margins (%)	5.0	7.5		6.9	
Tax	84	117	(28.0)	130	(34.8)
Tax rate (%)	32.8	31.4	-	37.0	-
Reported PAT	**173**	**257**	**(32.7)**	**220**	**(21.5)**
PAT margins (%)	3.4	5.2	-	4.3	-
EPS (Rs)	**1.2**	**1.8**	**(32.7)**	**1.5**	**(21.5)**

Source: Company

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Result Highlights

Gabriel reported revenue of Rs5,103mn in 4QFY19, in comparison with Rs4,968mn reported in 4QFY18. Our calculations suggest, the company witnessed strong revenue growth in the two wheeler segment but sharp decline in passenger vehicle segment. Gabriel's key customers in the 2W segment are TVS Motors (TVSM), Honda Motorcycles & Scooters India and Yamaha India (Yamaha). In 4QFY19, TVSM and Yamaha's yoy production growth was flat and HMSI reported 32% YoY fall in production. Revenue growth by Gabriel in the two wheeler segment despite low production by its customers indicate that the company gained market share in the two wheeler segment in 4QFY19. In the passenger vehicle segment, Gabriel's weak performance can be attributed towards segment volume decline (4% PV segment de-growth YoY) and loss of business from a high volume model (Gabriel is not a supplier to new Wagon R). Commercial vehicle segment production was up by ~1% YoY and given high market share in this segment, we believe Gabriel's growth in this segment to have broadly mirrored the industry growth.

EBITDA in the quarter came in at Rs343mn, 26% decline YoY. Sharp fall in EBITDA can be attributed to significant rise in raw material cost. Raw material cost increased from 71.4% of sales in 4QFY18 to 73.9% in 4QFY19. Gabriel has commodity cost price changes pass through with the customers and the same happens with a lag. However, given weak demand for automobiles and cost pressure on OEM's, the negotiations with the customers got delayed this time and impacted the company's operating performance in 4QFY19. Further INR depreciation too led to increase in raw material cost for the company (in FY19 ~15% of raw material were imports). EBITDA margin declined from 9.3% in 4QFY18 to 6.7% in 4QFY19 – lowest since 3QFY14. Weak operational performance led to PAT declining by 33% YoY to Rs173mn. Gabriel's revenue came in ahead of our estimate, but EBITDA and PAT was well below expectation.

Conference Call Highlights

- Management expects FY20 to be a volatile year for the auto industry. While 1QFY20 is expected to be weak, demand will likely improve from July 2019 onwards; however 4QFY20 performance is uncertain due to BSVI implementation. Company expects the two wheeler / passenger vehicle / commercial vehicle industry to grow by 5-7%, 3-5% and 10% respectively.

- In FY19, Gabriel's segment-wise YoY revenue growth was – 21% in motorcycle, 40% in scooters, 27% in commercial vehicle and revenue decline in passenger vehicle segment. Company has high market share in the shock absorber segment but the same in front fork is less than 20%. However, the share for Gabriel in front fork is now improving. Activa will come with front fork and Gabriel's new front fork plant will supply to Activa. Gabriel has recently entered front fork business with HMSI through Shine model.

- Gabriel increased its share of business with certain key customers in the two wheeler segment. Market share gain came on the back of start of business or higher share of business from models like Gixxer, Burgman, Interceptor, Radeon and Apache. Gabriel is currently supplying to all models of Royal Enfield – except for high volume Classic model. Company has won business for new Classic model. Gabriel's share of business with Royal Enfield is expected to increase from current 20% to 30% with start of supplies to new Classic. Company's share of business with Bajaj Auto is consistent at 20%.

- Company's new projects in the passenger vehicle segment includes – new Alto (replacement contract business; to start in August 2019), new XUV500, new Thar (both are replacement contract business), Peugeot Citroen (new business), Volkswagen / Skoda 2.0 platform (new business) and Tata Motors Tiago (new business, to start in 3QFY20). In the railway segment, the company has got development orders for Train 18 (Vande Bharat).
- In exports, the company entered Latin America. Company also won an order from DAF Trucks (Europe) worth Rs300mn.
- On the cost front, the company has initiated cost reduction program. In 4QFY19, company's raw material cost was on the higher side. Company's cost pass through negotiation with customer's was delayed and the management stated that the raw material price pass through contracts will conclude in 1QFY19 (by May/June 2019). Management expects FY20 margins to be better than FY19.
- Gabriel's raw material imports in FY19 was Rs 2.2bn. Company sources raw material from multiple countries. Currency fluctuations for Gabriel's sourcing from China does not get compensated by OEM's. Currency fluctuations for sourcing done from other countries (Europe, Japan, Thailand - as directed by customers) is compensated by the customers. Company is working on localization and the import content is coming down and the trend is likely to continue going ahead.
- Gabriel's upcoming new plant for supply of front fork to HMSI is on track. HMSI has indicated to the company to start supplying front fork from this plant in 4QFY20 (delayed by two months).
- Gabriel's share of business with its top customers are – TVSM -65%, HMSI – 25%, Yamaha – 60%, MSIL – 28% (including old Wagon R), M&M – 50%.
- Capacity utilization is – 2W – 80%+, passenger vehicle – 60% and commercial vehicle – 80%

Outlook and Valuations

Gabriel's revenue growth is broadly dependent on the OEM's (85% in FY19). Gabriel gained market share in the two wheeler segment but lost in the passenger vehicle segment. In 1QFY20, auto demand is expected to be weak, we expect gradual pick-up in demand from 2QFY20 onwards. We expect automobile growth going ahead to receive boost from low base and expected pre-buying ahead of BSVI implementation.

Management highlighted that raw material cost pass through negotiations will conclude in 1QFY20. We thereby expect gradual sequential improvement in EBITDA margin for the company. Gabriel has also initiated cost reduction program and the results of that are expected in coming quarters.

In view of weak demand, we have marginally revised our FY20/FY21 estimates lower. We rate the stock as ADD with revised price target of Rs153 (earlier Rs160). We value the company at PER of 17x (unchanged) FY21E earnings.

Change in estimates

		FY20E			FY21E	
Rs mn	Old	New	% chg	Old	New	% chg
Revenues	22,751	22,322	(1.9)	25,194	24,555	(2.5)
EBITDA margin (%)	9.2	9.0	-	9.6	9.5	-
Adjusted PAT	1,154	1,092	(5.4)	1,351	1,294	(4.3)

Source: Kotak Securities – Private Client Research

Key risk

Slowdown in auto demand and significant increase in input cost are key risk to our estimates and target price.

Company Background

Gabriel is the flagship company of ANAND Group. Gabriel was set up in 1961 in collaboration with Maremont Corporation (now Gabriel Ride Control Products of Arvin Meritor Inc, USA). The company provides wide range of ride control products, including shock absorbers, struts and front forks to the automotive segment. Gabriel segment revenue mix is - 62% from two wheeler, 24% from passenger vehicle and 14% from commercial vehicle segment. In terms of channel mix – revenue from OEM / replacement/ exports stands at 85%/11%/4%. Company has seven manufacturing facility and four satellite plants in India.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	**18,331**	**20,765**	**22,322**	**24,555**
% change YoY	20.6	13.3	7.5	10.0
EBITDA	**1,713**	**1,778**	**2,003**	**2,342**
% change YoY	17.2	3.8	12.7	16.9
Depreciation	383	411	447	532
EBIT	**1,330**	**1,367**	**1,556**	**1,810**
% change YoY	20.0	2.8	13.8	16.3
Net interest	29	29	22	20
Other Income	71	92	95	141
Exceptional income/(loss)	0	0	0	0
Profit before tax	**1,372**	**1,431**	**1,630**	**1,931**
% change YoY	21.6	4.3	13.9	18.5
Tax	429	481	538	637
as % of PBT	31.3	33.6	33.0	33.0
Profit after tax	**942**	**950**	**1,092**	**1,294**
Adjusted PAT	942	950	1,092	1,294
% change YoY	14.0	0.8	15.0	18.5
Shares outstanding (m)	144	144	144	144
Adjusted EPS (Rs)	**6.6**	**6.6**	**7.6**	**9.0**
DPS (Rs)	1.4	1.5	1.6	1.6

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash (incl. current investmt)	1,123	954	1,561	2,353
Accounts receivable	2,792	2,843	3,119	3,431
Inventories	1,491	1,653	1,817	1,995
Loans and Adv & Others	537	697	736	779
Current assets	5,942	6,147	7,233	8,558
LT investments	23	23	23	23
Net fixed assets (incl. WIP)	3,043	3,522	3,612	3,680
Total assets	**9,008**	**9,692**	**10,869**	**12,261**
Payables	2,650	2,610	2,874	3,162
Other liabilities	528	632	693	762
Current Liabilities	3,179	3,242	3,567	3,924
Provisions	278	288	317	345
Deferred Tax Liability	198	191	191	191
Debt	104	70	70	70
Equity	144	144	144	144
Reserves	5,105	5,756	6,580	7,588
Total liabilities	**9,008**	**9,692**	**10,869**	**12,261**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	1,330	1,367	1,556	1,810
Depreciation	383	411	447	532
Change in working capital	(348)	(254)	(176)	(203)
Chg in other net current asset	(3)	(45)	49	54
Operating cash flow	1,361	1,479	1,877	2,193
Interest	(29)	(29)	(22)	(20)
Tax (deferred tax adj.)	(372)	(488)	(538)	(637)
Other Income	71	92	95	141
EO income	-	-	-	-
Others	36	(48)	-	-
Cash flow from operations	**1,067**	**1,006**	**1,412**	**1,677**
Capex	(526)	(890)	(537)	(600)
(Inc)/decrease in investments	(359)	155	468	-
Cash flow from investments	**(885)**	**(735)**	**(69)**	**(600)**
Proceeds from issue of equities	0	(0)	0	-
Increase/(decrease) in debt	22	(34)	-	-
Proceeds from share premium	-	-	-	-
Dividends	(231)	(251)	(268)	(286)
Cash flow from financing	**(209)**	**(285)**	**(268)**	**(286)**
Opening cash	527	500	486	1,561
Closing cash	**500**	**486**	**1,561**	**2,353**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Margins				
EBITDA margin (%)	9.3	8.6	9.0	9.5
EBIT margin (%)	7.3	6.6	7.0	7.4
Adj. net profit margin (%)	5.1	4.6	4.9	5.3
Working capital days				
Inventory (days)	30	29	30	30
Receivable (days)	56	50	51	51
Payable (days)	53	46	47	47
Ratios				
Debt/equity ratio (x)	0.0	0.0	0.0	0.0
ROE (%)	19.3	17.0	17.3	17.9
ROCE (%)	27.3	24.9	25.1	26.0
Valuations				
EV/ Sales	1.0	0.9	0.8	0.7
EV/EBITDA	11.2	10.9	9.4	7.7
Price to earnings (P/E)	21.5	21.3	18.5	15.7
Price to book value (P/B)	3.9	3.4	3.0	2.6

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.

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