



TOP PICKS

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All stocks prices in this PPT are based 26 December 2016 closing levels.

Hero MotoCorp

CMP: Rs3,008; Rating: Buy; M-cap: US\$8.8bn; TP: Rs3,409: Upside: 13%



- **Worst behind, volumes to normalize:** Post de-monetization, volumes and enquires had dried up for two-wheelers with Hero reporting low double-digit YoY decline in November. However, our channel checks suggest that demand has improved on the ground, though not closer to normal levels. Since two-wheelers are low ticket priced items compared to cars and CVs, we expect two-wheelers to recover first within the auto space and feel that the worst is behind. Hero remains our top pick as we believe that strong brand pull for Hero models will result in market share gains for the company over FY17-19E
- **Key Beneficiary of Rural demand and Seventh pay commission:** Rural sentiment has improved in recent months on the back of good monsoons thereby driving a double digit volume growth for Hero Motocorp in YTD FY17. Company derives close to 50% of its sales from rural areas and is likely to be a key beneficiary of uptick in rural demand. Also the impact of seventh pay commission will likely be witnessed in coming months which should drive volumes.
- **Attractive Valuations:** Hero Motocorp currently trades at 14.4x FY19E earnings. We believe valuations at current levels offer limited downside. Recommend buy rating on the stock with a target price of Rs 3,409.

Standalone

Y/E March	FY15	FY16	FY17E	FY18E	FY19E
Volumes sold	66,31,703	66,32,122	67,36,097	74,63,310	82,91,234
YoY (%)	6.2	0.0	1.6	10.8	11.1

Source: Company, Nirmal Bang Institutional Equities Research

Shareholding (%)	FY13	FY14	FY15	FY16	Sep-16
Promoter	52.2	39.9	34.6	34.6	34.6

Source: BSE

Shareholding (%)	Sep-16
LIC	5.5
Aberdeen	4.0
Massachusetts Mutual Life Insurance	3.2
Lazard	2.2
Franklin	1.8

Source: Bloomberg

Income Statement (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	2,75,853	2,85,993	2,95,146	3,31,534	3,73,514
% growth	9.1	3.7	3.2	12.3	12.7
Raw Material	1,97,539	1,93,149	1,96,694	2,24,684	2,56,883
Staff	11,729	13,196	13,916	15,394	17,036
Other expenses	31,164	35,178	36,826	39,635	42,397
Total Expenditure	2,40,431	2,41,523	2,47,435	2,79,714	3,16,316
EBITDA	35,422	44,470	47,710	51,821	57,197
% growth	0.1	25.5	7.3	8.6	10.4
EBITDA margin (%)	12.8	15.5	16.2	15.6	15.3
Other income	4,927	3,911	5,661	7,253	8,837
Interest	111	22	22	22	22
Gross Profit	78,314	92,844	98,452	1,06,850	1,16,631
% growth	11.2	18.6	6.0	8.5	9.2
Depreciation	5,400	4,414	4,867	5,464	6,145
Profit Before Tax	34,838	43,946	48,484	53,588	59,868
% growth	21.5	26.1	10.3	10.5	11.7
Tax	9,432	12,622	13,827	15,342	18,028
Effective tax rate (%)	27.1	28.7	28.5	28.6	30.1
Net Profit	25,407	31,324	34,656	38,246	41,840
% growth	20.5	23.3	10.6	10.4	9.4
Extraordinaries	(1,550)	-	-	-	-
Reported Net Profit	23,856	31,324	34,656	38,246	41,840
% growth	13.1	31.3	10.6	10.4	9.4
EPS (Rs)	127.2	156.9	173.5	191.5	209.5
% growth	20.5	23.3	10.6	10.4	9.4
DPS (Rs)	60.0	72.0	85.0	85.0	85.0
Payout (%)	47.2	45.9	49.0	44.4	40.6

Cash Flow (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
EBIT	33,399	43,967	48,505	53,610	59,889
(Inc.)/Dec in working capital	(3,359)	4,462	(2,035)	1,000	980
Cash flow from operations	30,040	48,429	46,470	54,610	60,869
Other income	4,737	3,807	5,661	7,253	8,837
Other expenses	1,795	1,134	-	-	-
Depreciation	5,400	4,414	4,867	5,464	6,145
Tax paid	9,998	11,032	13,827	15,342	18,028
Net cash from operations	22,500	39,138	31,848	37,479	40,150
Capital expenditure	(11,530)	(15,278)	(13,000)	(15,500)	(15,500)
Net cash after capex	10,970	23,860	18,848	21,979	24,650
Other investing activities	11,651	(7,435)	1,812	(747)	(3,163)
Cash from Financial Activities	(22,305)	(16,840)	(20,166)	(20,166)	(20,166)
Opening cash	664	980	565	1,059	2,124
Closing cash*	980	565	1,059	2,124	3,445
Change in cash	316	(415)	494	1,066	1,320
*Unpaid dividend/unrealised exchange gain	613	749	727	628	727

Balance Sheet (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Equity	399	399	399	399	399
Reserves	65,014	79,048	93,538	1,11,640	1,33,336
Net worth	65,413	79,448	93,938	1,12,040	1,33,735
Net Deferred Tax Liab	(422)	2,627	2,278	2,278	2,278
LT Liabilities/provisions	656	844	844	844	844
Liabilities	65,647	82,919	97,060	1,15,162	1,36,858
Gross Block	81,140	93,969	1,06,969	1,22,469	1,37,969
Depreciation	52,013	55,602	60,469	65,832	72,077
Net Block	29,127	38,367	46,501	56,637	65,892
Capital work-in-progress	7,126	6,054	6,054	6,054	6,054
Long-term Investments	8,638	10,194	10,194	13,194	15,194
Other long-term assets	6,770	9,441	9,441	9,441	9,441
Inventories	8,155	6,730	7,663	9,497	11,694
Debtors	13,896	12,828	13,759	15,449	17,390
Cash	1,593	1,314	1,786	2,752	4,172
Liquid Investments	22,903	32,470	35,970	40,970	50,970
Other Current assets	6,275	6,009	6,324	7,101	7,994
Total Current assets	52,821	59,351	65,503	75,769	92,220
Creditors	31,494	32,501	32,780	37,057	41,906
Other current liabilities/provisions	7,341	7,988	7,852	8,876	10,037
Total current liabilities	38,834	40,488	40,632	45,933	51,943
Net current assets	13,987	18,863	24,871	29,837	40,277
Total Assets	65,647	82,919	97,060	1,15,162	1,36,858

Profitability & Return ratios	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	12.8	15.5	16.2	15.6	15.3
EBIT margin (%)	10.9	14.0	14.5	14.0	13.7
Net profit margin (%)	9.2	11.0	11.7	11.5	11.2
ROE (%)	41.9	43.2	40.0	37.1	34.0
ROCE (%)	49.5	53.9	47.6	43.7	40.5
Working capital & Liquidity ratios					
Receivables (days)	15	17	17	17	17
Inventory (days)	10	10	10	11	12
Payables (days)	46	48	48	48	48
Cash Conversion Cycle (WC days)	(20)	(21)	(21)	(20)	(19)
Current ratio (x)	1.4	1.5	1.6	1.6	1.8
Quick ratio (x)	1.2	1.3	1.4	1.4	1.6
Valuation ratios					
EV/Sales (x)	2.1	2.0	1.9	1.7	1.5
EV/EBITDA (x)	16.3	12.8	11.8	10.7	9.5
P/E (x)	23.6	19.2	17.3	15.7	14.4
P/BV (x)	9.2	7.6	6.4	5.4	4.5

Source: Company, Nirmal Bang Institutional Equities Research

Maruti Suzuki India

CMP: Rs5,108; Rating: Buy; M-cap: US\$23.0bn; TP: Rs6,504; Upside: 26%



- **Strong product pipeline over next two years:** MSIL has a strong product pipeline with various models lined up for launch over the next two years. In the immediate near term, the company will be launching Ignis model in January, followed by Baleno RS. As seen in the past, MSIL's new launches are aggressively priced and are usually successful in gaining market share. We expect a similar trend to continue because of the new launches and expect a strong double digit CAGR of 12% over FY17-19E.
- **Impact of de-monetization limited:** Most of MSIL's models had a waiting period when de-monetization was announced and hence the impact on volumes was not seen in November. With a planned year shut-down in December, the company had built inventory at dealers' end in November. We expect minimal impact on MSIL due to de-monetization and expect volume run rate to normalize by April 2017.
- **Valuation:** Following a robust product pipeline, we expect MSIL to report double-digit volume growth over FY17E/FY18E, driving market share gains for the company. We expect margins to remain ~16% in FY17E/FY18E, which will drive double-digit earnings growth in the coming years. The stock currently trades at a premium valuation of 18x/15x FY18E/FY19E earnings, respectively, which, in our view, is justified given the comfort on margin expansion and volume growth visibility. We have an Buy rating on the stock with target price of Rs6,504 (21x September 2018E earnings).

Standalone

Y/E March	FY15	FY16	FY17E	FY18E	FY19E
Volume sold	12,92,404	14,35,824	15,49,086	17,37,701	19,40,292
YoY(%)	11.9	11.1	7.9	12.2	11.7

Source: Company, Nirmal Bang Institutional Equities Research

Shareholding (%)	FY13	FY14	FY15	FY16	Sep-16
Promoter	56.2	56.2	56.2	56.2	56.2

Source: BSE

Shareholding (%)	Sep-16
LIC	5.6
Blackrock	1.3
HDFC AMC	1.3
Abu Dhabi	1.2
Prudential ICIC IAMC	1.0

Source: Bloomberg

Income Statement (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	4,99,706	5,77,463	6,66,565	7,73,703	8,92,224
% growth	14.3	15.6	15.4	16.1	15.3
Raw Material	3,50,080	3,87,800	4,36,219	5,02,027	5,81,464
Staff	16,066	19,887	24,859	29,831	34,603
Other expenses	66,431	79,991	1,00,585	1,19,027	1,37,099
Total Expenditure	4,32,577	4,87,678	5,61,663	6,50,885	7,53,166
EBITDA	67,129	89,785	1,04,902	1,22,818	1,39,058
% growth	31.7	33.7	16.8	17.1	13.2
EBITDA margin (%)	13.4	15.5	15.7	15.9	15.6
Other income	8,316	4,619	23,095	25,410	29,215
Interest	2,060	815	774	1,161	387
Gross Profit	1,49,626	1,89,663	2,30,346	2,71,675	3,10,760
% growth	20.8	26.8	21.4	17.9	14.4
Depreciation	24,703	28,239	25,877	29,954	32,579
Profit Before Tax	48,682	65,350	1,01,346	1,17,112	1,35,307
% growth	33.1	34.2	55.1	15.6	15.5
Tax	11,570	19,636	26,966	31,620	33,692
Effective tax rate (%)	23.8	30.0	26.6	27.0	24.9
Net Profit	37,112	45,714	74,380	85,492	1,01,616
% growth	33.4	23.2	62.7	14.9	18.9
Reported Net Profit	37,112	45,714	74,380	85,492	1,01,616
% growth	33.4	23.2	62.7	14.9	18.9
EPS (Rs)	122.9	151.3	246.2	283.0	336.4
% growth	33.4	23.2	62.7	14.9	18.9
DPS (Rs)	25.0	35.0	49.5	49.5	58.9
Payout (%)	20.3	23.1	20.1	17.5	17.5

Cash Flow (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
EBIT	50,741	66,165	1,02,263	1,18,668	1,36,290
(Inc.)/Dec in working capital	7,457	14,657	(8,881)	247	2,483
Cash flow from operations	58,198	80,822	93,382	1,18,915	1,38,773
Other income	9,768	6,794	23,095	25,410	29,215
Other expenses	480	1,163	-	-	-
Depreciation	24,703	28,239	25,877	29,954	32,579
Tax paid	10,407	19,099	27,004	31,727	33,840
Net cash from operations	63,207	84,331	69,160	91,733	1,08,297
Capital expenditure	(31,487)	(25,812)	(44,000)	(37,500)	(37,500)
Net cash after capex	31,720	58,519	25,160	54,233	70,797
Other investing activities	(12,613)	(45,947)	(4,600)	(30,026)	(38,011)
Cash from Financial Activities	(19,621)	(12,364)	(18,793)	(19,228)	(21,883)
Opening cash	6,297	183	391	2,159	7,139
Closing cash	5,782	391	2,158	7,139	18,041
Change in cash	(515)	208	1,767	4,980	10,903

Balance Sheet (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Equity	1,510	1,510	1,510	1,510	1,510
Reserves	2,35,532	2,68,561	3,16,764	3,74,847	4,43,884
Net worth	2,37,042	2,70,071	3,18,275	3,76,357	4,45,394
Net Deferred Tax Liab	4,810	4,741	4,741	4,741	4,741
LT Liabilities/provisions	3,980	4,244	4,244	4,244	4,244
Short-term Loans	353.6	774	774	774	774
Long-term Loans	1,448	0	0	0	0
Total Loans	1,802	774	774	774	774
Liabilities	2,47,634	2,79,830	3,28,034	3,86,116	4,55,153
Gross Block	2,64,617	2,94,092	3,38,092	3,75,592	4,13,092
Depreciation	1,42,024	1,66,414	1,92,291	2,22,245	2,54,824
Net Block	1,22,593	1,27,678	1,45,801	1,53,347	1,58,268
Capital work-in-progress	18,828	10,069	10,069	10,069	10,069
Long-term Investments	98,176	1,69,127	1,83,627	2,07,627	2,41,627
Other long-term assets	13,934	13,587	13,587	18,587	23,587
Inventories	26,859	31,321	37,692	43,790	50,537
Debtors	10,698	12,986	16,154	18,767	21,659
Cash	183	391	1,761	5,735	16,186
Liquid Investments	29,964	8,730	13,730	35,730	57,730
Other Current assets	14,258	18,067	20,874	24,251	27,987
Total Current assets	81,962	71,495	90,210	1,28,273	1,74,098
Creditors	54,181	70,133	80,018	90,946	1,05,237
Other current liabilities/provisions	33,678	41,993	35,243	40,841	47,259
Total current liabilities	87,859	1,12,126	1,15,261	1,31,787	1,52,496
Net current assets	(5,897)	(40,631)	(25,050)	(3,514)	21,602
Total Assets	2,47,634	2,79,830	3,28,034	3,86,116	4,55,153

Profitability & Return ratios	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	13.4	15.5	15.7	15.6	15.4
EBIT margin (%)	8.5	10.7	11.8	11.8	11.8
Net profit margin (%)	7.4	7.9	11.1	10.9	11.2
ROE (%)	16.6	18.0	25.3	24.7	24.8
ROCE (%)	18.0	23.4	26.1	26.2	25.5
Working capital & Liquidity ratios					
Receivables (days)	9	8	9	9	9
Inventory (days)	16	19	21	21	21
Payables (days)	44	47	52	51	51
Current ratio (x)	0.9	0.6	0.8	1.0	1.1
Quick ratio (x)	0.6	0.4	0.5	0.6	0.8
Valuation ratios					
EV/Sales (x)	3.1	2.7	2.3	2.0	1.7
EV/EBITDA (x)	22.8	17.3	14.7	12.4	10.7
P/E (x)	42.1	34.1	21.0	18.3	15.4
P/BV (x)	6.6	5.8	4.9	4.1	3.5

Source: Company, Nirmal Bang Institutional Equities Research

Swaraj Engines

CMP: Rs1,310; Rating: Buy; M-cap: US\$240mn; TP: Rs1,591; Upside: 21%



- **Strong market share gains to continue:** Swaraj Engines lost market share in 1HFY17 to peers as its YoY growth lagged compared to peers who were growing on a lower base following a double digit YoY decline in FY16, while Swaraj reported a YoY growth in FY16. We believe that Swaraj will continue to gain market share in FY17 and expect market share gains from 3QFY17 onwards as strong brand pull has had limited impact on Swaraj's tractor sales after de-monetization in November.
- **Consistent outperformance compared to industry growth:** Swaraj Engines has consistently outperformed industry growth on the back of strong outperformance of Swaraj Tractors after its acquisition by M&M in FY08. It is noteworthy that Swaraj Tractors currently commands a market share of ~16% versus 9% in FY08 and consistently gained market share even when the demand environment was weak. Over FY10-FY16, Swaraj Engines posted a CAGR of 9% versus industry CAGR of 3%. In FY16, the company has reported just a 1% YoY drop in volumes at a time when industry volume fell in double digits. M&M's tractor volumes were also down 8% in FY16, indicating that Swaraj brand of tractors has further gained market share.
- **Valuation:** We continue to believe the tractor sales recovery story and like SEL because of its strong financials and quality earnings. We expect strong 25%/24% EBITDA/PAT CAGR, respectively, over FY17-FY19E for SEL backed by demand recovery and market share gain. We have retained our existing earnings and introduced FY19E numbers, rolling forward our target multiple to September 2018E earnings and retained Buy rating on SEL with a revised target price of Rs1,591 (20x September 2018E earnings).

Standalone

Y/E March	FY15	FY16	FY17E	FY18E	FY19E
Volume sold	64,595	64,088	75,624	90,749	1,08,898
YoY (%)	(12.8)	(0.8)	18.0	20.0	20.0

Source: Company, Nirmal Bang Institutional Equities Research

Shareholding (%)	FY13	FY14	FY15	FY16	Sep-16
Promoter	50.6	50.6	50.6	50.6	50.6

Source: BSE

Shareholding (%)	Sep-16
Pinebridge Investments	5.5
DSP Blackrock	3.2
HDFC AMC	2.1
Jupiter Investment Management	1.4
Cataraman Management	1.3

Source: Bloomberg

Income Statement (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	5,397	5,259	6,354	7,820	9,625
% growth	(11.3)	(2.6)	20.8	23.1	23.1
Raw Material	4,091	3,957	4,734	5,787	7,122
Staff	308	319	324	414	510
Other expenses	251	247	273	328	404
Total Expenditure	4,650	4,523	5,331	6,530	8,037
EBITDA	747	736	1,023	1,290	1,588
% growth	(17.6)	(1.5)	38.9	26.1	23.1
EBITDA margin (%)	13.8	14.0	16.1	16.5	16.5
Other income	162	163	188	209	220
Interest	0	0	0	0	0
Gross Profit	1,306	1,302	1,620	2,033	2,502
% growth	(10.5)	(0.3)	24.5	25.5	23.1
Depreciation	132	138	153	164	173
Profit Before Tax	778	761	1,057	1,334	1,635
% growth	(20.5)	(2.2)	39.0	26.2	22.5
Tax	260	249	353	447	546
Effective tax rate (%)	33.4	32.7	33.4	33.5	33.4
Net Profit	518	512	704	888	1,089
% growth	(22.7)	(1.1)	37.5	26.1	22.6
EPS (Rs)	41.7	41.2	56.7	71.5	87.7
% growth	(22.7)	(1.1)	37.5	26.1	22.6
DPS (Rs)	33	33	40	45	45
Payout (%)	79	80	71	63	51

Cash Flow (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
PBT	778	760	1,057	1,334	1,635
(Inc.)/Dec in working capital	81	130	40	41	54
Cash flow from operations	859	891	1,098	1,376	1,688
Other income	(162)	(161)	(187)	(201)	(215)
Other expenses	-	-	-	-	-
Depreciation	132	139	153	164	173
Tax paid	(273)	(238)	(353)	(447)	(546)
Net cash from operations	556	630	711	893	1,100
Capital expenditure	(164)	(271)	(190)	(190)	(190)
Net cash after capex	392	359	521	703	910
Other investing activities	57	134	201	(25)	(41)
Cash from Financial Activities	(505)	(492)	(597)	(672)	(672)
Opening cash	62	6	7	132	137
Closing cash	6	7	131	137	335
Change in cash	(56)	1	124	5	197

Balance Sheet (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Equity	124	124	124	124	124
Reserves	1,997	2,016	2,123	2,338	2,754
Net worth	2,121	2,140	2,247	2,462	2,878
Net Deferred Tax Liab	63	76	76	76	76
LT Liabilities/provisions	22	26	26	26	26
Total Loans	-	-	-	-	-
Liabilities	2,206	2,242	2,348	2,563	2,979
Gross Block	1,634	1,936	2,126	2,316	2,506
Depreciation	795	918	1,087	1,251	1,424
Net Block	838	1,017	1,039	1,065	1,082
Capital work-in-progress	48	3	3	3	3
LT Investments	-	-	-	-	-
Other long-term assets	58	42	42	42	42
Inventories	331	277	385	495	636
Debtors	69	75	104	150	210
Cash	1,399	1,743	1,867	2,098	2,551
Cash equivalents	6	7	132	137	335
Other bank balance	1392	1736	1736	1961	2216
ST Investments	420	104	104	104	104
Other Current assets	90	104	104	104	104
Total Current assets	2,309	2,303	2,565	2,952	3,606
Trade payables	482	540	718	915	1,170
Other current liabilities/provisions	566	584	584	584	584
Total current liabilities	1,048	1,124	1,302	1,499	1,754
Net current assets	1,261	1,179	1,264	1,453	1,852
Total Assets	2,206	2,242	2,348	2,563	2,979

Key ratios	FY15	FY16	FY17E	FY18E	FY19E
Profitability & Return ratios					
EBITDA margin (%)	13.8	14.0	16.1	16.5	16.5
EBIT margin (%)	11.4	11.4	13.7	14.4	14.7
Net profit margin (%)	9.6	9.7	11.1	11.4	11.3
ROE (%)	24.5	24.0	32.1	37.7	40.8
ROCE (%)	18.7	18.1	24.8	29.2	32.2
Working capital & Liquidity ratios					
Receivables (days)	5	5	6	7	8
Inventory (days)	27	21	22	23	24
Payables (days)	48	47	49	51	53
Cash Conversion Cycle (WC days)	(16)	(21)	(21)	(21)	(21)
Net WC-ex cash (days)	4	(24)	(38)	(33)	(29)
Current ratio (x)	2.2	2.0	2.0	2.0	2.1
Quick ratio (x)	1.9	1.8	1.7	1.6	1.7
Valuation ratios					
EV/Sales (x)	2.8	2.8	2.3	1.8	1.4
EV/EBITDA (x)	19.9	19.7	14.1	11.0	8.6
P/E (x)	31.4	31.8	23.1	18.3	14.9
P/BV (x)	7.7	7.6	7.2	6.6	5.7

Source: Company, Nirmal Bang Institutional Equities Research

VST Tillers

CMP: Rs1,695; Rating: Buy; M-cap: US\$216mn; TP: Rs2,329; Upside: 37%



- **New launches expected to drive double-digit YoY volume growth over FY17-FY19E:** We expect VST's volumes (tillers and tractors) to post 11% CAGR over FY17E-FY19E backed by demand recovery, new launches in tiller space and higher HP tractors. A major portion of VST's revenues come from two products in tiller space, and two products in tractor space (18HP and 22 HP). VST is a small player in the tractor segment with overall market share of 2% as it is present in lower HP segment of the tractor industry i.e. <30HP.
- **Strong structural bet:** VST is a strong structural bet in increased farm mechanisation amid lower tractor penetration. India is the largest tractor market in the world, but also one of the smallest when it comes to tillers. Despite being the biggest tractor market, India's tractor penetration is the lowest in the world at 0.8HP/hectare versus 3.0-4.0HP/hectare in case of developed countries.
- **Strong financials, no need for capex for three to four years:** VST, with low double-digit net margin and strong double-digit EBITDA margin, is one of the most profitable farm equipment companies in India. Given the strong profitability and cash flow from operations, the company has strategically invested its profits in adding capacity, which currently stands at 30,000 per annum in case of tractors and 60,000 in case of tillers, currently running at 40% of its capacity. With ample capacity in place, VST does not need any capex in the near term and can meet the demand for next three to four years. With strong free cash flow, double-digit return ratios and a debt-free balance sheet, VST is a quality stock and a structural bet in the farm mechanisation space. We value the company with a 12-month target price of Rs2,329 (20x September 2018E earnings)

Standalone

Y/E March	FY15	FY16	FY17E	FY18E	FY19E
Volume - Tractor	6,694	7,801	9,595	11,130	12,946
YoY (%)	(10.2)	16.5	23.0	16.0	16.3
Volume - Tiller	23,103	27,387	27,935	30,885	33,942
YoY (%)	(15.2)	18.5	2.0	10.6	9.9

Source: Company, Nirmal Bang Institutional Equities Research

Shareholding (%)	FY13	FY14	FY15	FY16	Sep-16
Promoter	53.8	53.8	54.0	54.0	54.0

Source: BSE

Shareholding (%)	Sep-16
Pinebridge Investments	8.6
Axis AMC	3.2
Mitshubishi Heavy Industries	2.9
HDFC AMC	2.9
Goldman Sachs Group	2.3

Source: Bloomberg

Income Statement (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	5,516	6,467	7,308	8,393	9,631
% growth	(11.6)	17.2	18.0	16.0	16.0
Raw Material	3,571	4,211	4,816	5,510	6,343
Staff	406	454	577	604	684
Other expenses	535	673	738	881	1,011
Total Expenditure	4,513	5,338	6,132	6,996	8,038
EBITDA	1,003	1,129	1,177	1,397	1,593
% growth	(15.7)	12.5	4.2	18.8	14.0
EBITDA margin (%)	18.2	17.5	16.1	16.6	16.5
Other income	119	123	150	164	178
Interest	22	26	21	17	15
Gross Profit	1,945	2,255	2,492	2,883	3,288
% growth	(8.8)	16.0	10.5	15.7	14.1
Depreciation	94	125	120	144	164
Profit Before Tax	1,006	1,100	1,186	1,401	1,593
% growth	(17.6)	9.4	7.7	18.1	13.7
Tax	310	359	385	455	526
Effective tax rate (%)	30.9	32.6	32.5	32.5	33.0
Net Profit	695	741	800	945	1,067
% growth	(16.2)	6.6	8.0	18.1	12.9
EPS (Rs)	80.5	85.8	92.6	109.4	123.5
% growth	(16.2)	6.6	8.0	18.1	12.9
DPS (Rs)	15.0	15.0	20.0	23.0	24.5
Payout (%)	18.6	17.5	21.6	21.0	19.8

Cash Flow (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
EBIT	1,027	1,126	1,206	1,417	1,608
(Inc.)/Dec in working capital	(445)	104	58	(248)	(281)
Cash flow from operations	581	1,230	1,264	1,170	1,327
Other income	(55)	(54)	150	164	178
Other expenses	(45)	(46)	-	-	-
Depreciation	94	125	120	144	164
Tax paid	(316)	(392)	(385)	(455)	(526)
Net cash from operations	260	864	1,149	1,022	1,143
Capital expenditure	(226)	(55)	68	91	107
Net cash after capex	34	808	1,217	1,113	1,251
Other investing activities	97	(384)	(760)	(807)	(1,042)
Cash from Financial Activities	(173)	(338)	(229)	(256)	(270)
Opening cash	222	180	266	495	545
Closing cash	180	266	495	545	484
Change in cash	(42)	86	229	50	(61)

Y/E March (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Equity	86	86	86	86	86
Reserves	3,549	4,115	4,707	5,413	6,226
Net worth	3,635	4,201	4,794	5,500	6,312
Net Deferred Tax Liab	47	46	46	46	46
LT Liabilities/provisions	341	387	387	387	387
Total Loans	-	-	-	-	-
Liabilities	4,024	4,633	5,226	5,932	6,744
Gross Block	1,846	1,891	1,943	1,995	2,048
Depreciation	499	621	741	885	1,045
Net Block	1,347	1,270	1,202	1,110	1,003
Capital work-in-progress	21	28	28	28	28
Investments	94	165	165	165	165
Other long-term assets	92	115	115	115	115
Inventories	1,002	804	1,043	1,196	1,372
Debtors	939	1,238	1,021	1,173	1,346
Cash	184	277	495	545	484
Other current assets/invst	1,043	1,438	1,938	2,438	3,138
Total current assets	3,168	3,756	4,497	5,351	6,339
Trade payables	165	323	403	460	529
Other current liabilities/provisions	532	378	378	378	378
Total current liabilities	697	701	781	838	907
Net current assets	2,471	3,055	3,715	4,513	5,433
Total Assets	4,024	4,633	5,225	5,932	6,744

	FY15	FY16	FY17E	FY18E	FY19E
Profitability & Return ratios					
EBITDA margin (%)	18.2	17.5	16.1	16.6	16.5
EBIT margin (%)	16.5	15.5	14.5	14.9	14.8
Net profit margin (%)	12.6	11.5	10.9	11.3	11.1
ROE (%)	20.6	18.9	17.8	18.4	18.1
ROCE (%)	19.3	20.0	18.6	19.6	19.8
ROIC (%)	26.0	27.6	28.8	33.4	35.9
Working capital & Liquidity ratios					
Receivables (days)	65	61	51	51	51
Inventory (days)	62	51	52	52	52
Payables (days)	43	21	24	24	24
Cash Conversion Cycle (WC days)	84	91	79	79	79
Current ratio (x)	4.5	5.4	5.8	6.4	7.0
Quick ratio (x)	3.1	4.2	4.4	5.0	5.5
Valuation ratios					
EV/Sales (x)	2.6	2.2	1.9	1.7	1.5
EV/EBITDA (x)	14.4	12.7	12.0	10.1	8.9
P/E (x)	21.1	19.7	18.3	15.5	13.7
P/BV (x)	4.0	3.5	3.1	2.7	2.3

Source: Company, Nirmal Bang Institutional Equities Research

Bharat Financial Inclusion

CMP: Rs480; Rating: Buy; M-Cap: US\$1.02bn; TP: Rs1,140; Upside: 137%



- **Microfinance industry – huge demand-supply gap**
 - We believe the overall demand for microfinance in India could be Rs2.25trn–3.00trn. SHGs as well as NBFC-MFIs are able to meet only ~30% of potential demand, indicating huge under-penetration. We expect FY16-FY19 disbursement and AUM CAGR of 33% and 38%, respectively
- **Demonetisation Impact**
 - Collections have impacted post demonetisation, however it is slowly coming back towards normalcy. Overall collection has improved to 91% as against 89% last month. 4 week lag collection is at 98%. Distress in UP & Maharashtra is expected to correct post elections.
- **Special Investigation Team (SIT)**
 - SIT is set up by state of Maharashtra to investigate irregularities and will submit its report to RBI. We expect company to get a clean chit, as they charge the lowest interest rate in the economy and does collection from centers and does not visit borrowers home.
- **Credit risk under check on process improvement**
 - Stringent regulation by RBI including setting up of credit bureaus and geographical diversification has kept credit risk under check.
- **Cost optimisation and operating leverage are profitability drivers**
 - With increase in scale and lower growth in non-loan officers, we expect cost-to-AUM ratio to improve from 6.3% currently to 5.3% in FY19.
- **Entry barriers already in place**
 - Spread cap of 10% and restriction on borrowers to not borrow from more than two MFIs will act as an entry barrier to new players.

Matrix on AUM per loan officer	FY12	FY13	FY14	FY15	FY16
Members in each JLG	5	5	5	5	5
Average JLG per centre	3.2	3.6	4.1	4.7	5.2
Average member per centre	15.9	17.8	20.7	23.3	25.8
Working days of loan officer per week	5.0	5.0	5.0	5.0	5.0
Centres per day attended by loan officer	3.9	5.0	7.0	6.7	6.0
Centres per week attended by loan officer	19.6	24.9	34.8	33.7	30.2
Members serviced by loan officer per week	312	444	722	787	778
Average AUM per member (Rs)	5,205	7,766	8,682	11,434	16,554
Average AUM per loan officer (Rsmn)	1.6	3.4	6.3	9.0	12.9

Income Statement (Rs Mn)	FY15	FY16	FY17E	FY18E	FY19E
Interest income	5,665	9,539	12,799	17,132	21,579
Income on loan securitisation	668	1,103	1,965	2,619	3,404
Other Interest	442	562	649	714	785
Interest expenses	2,791	4,846	6,207	8,018	10,222
Net interest income	3,984	6,358	9,207	12,447	15,547
Loan origination fees	455	726	1,309	1,659	2,156
Other Income	802	1,276	1,615	2,262	3,195
Net Revenue	5,241	8,360	12,132	16,367	20,898
Operating expenses	3,205	4,035	5,677	7,463	9,412
-Employee expenses	2,319	2,924	4,175	5,512	6,972
-Other expenses	886	1,112	1,501	1,952	2,439
Operating profit	2,036	4,325	6,455	8,904	11,486
Provisions	100	386	682	1,426	1,796
PBT	1,936	3,939	5,772	7,478	9,690
Tax	59	909	(969)	579	2,031
PAT	1,877	3,030	6,741	6,899	7,659

Balance Sheet (Rs Mn)	FY15	FY16	FY17E	FY18E	FY19E
Share capital	1,263	1,273	1,376	1,376	1,376
Reserves & surplus	9,202	12,557	27,157	34,056	41,715
Networth	10,465	13,830	28,533	35,433	43,091
Borrowings	32,798	51,296	65,535	89,777	1,14,148
Other liability & provisions	3,724	6,411	5,407	6,155	7,796
Total liabilities	46,987	71,537	99,475	1,31,364	1,65,035
Fixed Assets	102	164	246	369	554
Investments	2	2	2	2	2
Loans	29,584	50,215	72,812	1,01,936	1,32,517
Cash	15,368	17,663	19,429	21,372	23,509
Other assets	1,931	3,493	6,986	7,685	8,453
Total assets	46,987	71,537	99,475	1,31,364	1,65,035

Ratio's	FY15	FY16	FY17E	FY18E	FY19E
Growth (%)					
Net Interest Income	53.2	59.6	44.8	35.2	24.9
Operating Profit	140.9	112.4	49.2	37.9	29.0
Profit After Tax	168.5	61.4	122.5	2.3	11.0
Business (%)					
Advance Growth	68.8	69.7	45.0	40.0	30.0
Gross Loan Growth (Incl Securitisation)		34.4	83.3	46.8	36.4
Spreads (%)					
Yield on BS loans	24.0	23.9	20.8	19.6	18.4
Cost of Borrowings	11.6	11.5	10.6	10.3	10.0
Spread	12.4	12.4	10.2	9.3	8.4
Spread (Incl inc on securitisation)		15.3	15.1	13.4	12.3
NIMs	11.6	11.3	11.5	11.5	11.1
Operational Efficiency (%)					
Cost to Income	61.2	48.3	46.8	45.6	45.0
Cost to Assets	8.9	6.8	6.6	6.5	6.4
Cost to AUM	8.7	6.8	6.0	5.6	5.3
Productivity (Rs Mn)					
Gross portfolio per Branch	33.0	58.4	77.9	96.6	114.2
Profit per Branch	1.5	2.3	4.6	4.3	4.3
Gross portfolio per Employee	4.3	6.4	6.8	7.7	8.7
Profit per Employee	0.2	0.3	0.4	0.3	0.3
CRAR (%)					
Tier I	31.7	23.1	33.2	29.4	27.1
Tier II	-	-	-	-	-
Total	31.7	23.1	33.2	29.4	27.1
Asset Quality (%)					
Gross NPA	0.1	0.1	0.6	1.4	2.0
Gross NPA (Excl AP)	0.1	0.1	0.6	1.4	2.0
Net NPA	0.0	0.0	0.1	0.1	0.1
Provision Coverage	45.8	53.7	83.3	92.9	95.0
Credit Cost	0.4	1.0	1.1	1.6	1.5
Credit Cost (% of AUM)	0.3	0.6	0.7	1.1	1.0
Return Ratio (%)					
ROE	24.9	24.9	31.8	21.6	19.5
ROA	5.2	5.1	7.9	6.0	5.2
Per Share (%)					
EPS	14.9	23.8	49.0	50.1	55.6
BV	82.9	108.6	207.3	257.4	313.1
ABV	82.8	108.5	206.8	256.7	312.1
ABV (Including DTA)	121.9	144.1	218.4	256.7	312.1
Valuation (x)					
P/E	32.3	20.2	9.8	9.6	8.6
P/BV	5.8	4.4	2.3	1.9	1.5
P/ABV	5.8	4.4	2.3	1.9	1.5
P/ABV (After considering DTA)	3.9	3.3	2.2	1.9	1.5

Source: Company, Nirmal Bang Institutional Equities Research

Federal Bank

CMP: Rs62; Rating: Buy; M-cap: US\$1.63bn; TP: Rs93; Upside: 49%



- **Consolidation phase is behind**
 - With asset quality problems easing, the management is targeting a credit growth of 15-20%.
- **One of the strongest liability franchise among regional banks**
 - Its liability franchise has further strengthened with the CASA deposit ratio of 33%. Also it has a market share of 12% in NRE deposits.
- **Asset quality – cautious approach yields results**
 - Average loan slippage ratio eased from 3%-4% earlier to 1%-2% (excluding few large ticket accounts).
- **Significant improvement in cost matrix**
 - With improvement in operating efficiency at recently opened branches (68% expansion over FY11) and muted branch expansion plan going forward, we expect the cost-to-asset ratio to improve by 10bps over the next two years.
- **Regional co-operative banks not allowed to collect old notes – improvement in CASA**
 - As a result we are expecting significant improvement in CASA.
- **RoA poised to recover**
 - The combination of NIM compression, lower balance sheet growth, higher branch expansion-related costs and elevated credit costs adversely impacted RoA. With the above stated determinants improving, we expect a 40-50bps improvement in RoA over the next two years.
- **Revamping its top management**
 - Its liability franchise has further strengthened with the CASA deposit ratio of 33%. Also it has a market share of 12% in NRE deposits.

Advances Break-up (%)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Retail	32.2	31.8	29.8	29.4	30.9
SME	27.3	26.6	26.1	25.9	25.1
Agri	12.1	11.5	11.4	10.9	10.5
Corporate	28.4	30.1	32.6	33.8	33.5
Total	100.0	100.0	100.0	100.0	100.0

Slippage (%)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Overall	3.2	4.4	3.9	1.9	1.7
Retail	1.4	1.5	2.0	1.5	1.3
SME	4.6	3.3	4.2	3.5	3.4
Agriculture	1.2	1.3	2.7	2.1	1.6
Corporate	4.5	9.3	5.6	1.0	0.8

Income Statement					
	FY15	FY16	FY17E	FY18E	FY19E
Interest Income	74,195	77,447	87,706	1,02,773	1,19,044
Interest expense	50,391	52,406	57,779	67,324	77,172
Net interest income	23,804	25,041	29,927	35,448	41,871
Fees	3,811	4,155	4,986	5,734	6,594
Other Income	2,413	2,437	2,442	3,245	3,835
Net Revenue	30,028	31,633	37,355	44,428	52,301
Operating Expense	16,309	18,668	20,825	23,605	26,751
-Employee Exp	8,920	10,529	11,873	13,578	15,521
-Other Exp	7,389	8,139	8,953	10,027	11,231
Operating Profit	13,719	12,965	16,530	20,823	25,549
Investment Profit	2,559	1,272	2,640	1,922	2,179
Pre-provision Profit	16,278	14,237	19,170	22,745	27,728
Provisions	1,067	7,041	5,746	5,672	6,669
-Loan Loss Provisions	2,584	5,848	5,354	5,280	6,277
-Provisions for investment	(806)	801	-	-	-
-Other Provisions	(711)	392	392	392	392
PBT	15,211	7,196	13,424	17,074	21,059
Taxes	5,153	2,440	4,564	5,805	7,160
PAT	10,058	4,756	8,860	11,269	13,899

Balance Sheet					
	FY15	FY16	FY17E	FY18E	FY19E
Equity Capital	1,713	3,438	3,438	3,438	3,438
Reserves & Surplus	75,669	77,475	83,642	92,012	1,03,011
Shareholder's Funds	77,382	80,913	87,080	95,450	1,06,449
Deposits	7,08,250	7,91,717	9,34,226	11,02,387	13,00,816
-Current deposits	40,566	46,304	53,429	61,837	71,759
-Saving deposits	1,77,269	2,14,222	2,49,849	2,91,889	3,51,418
-Term deposit	4,90,415	5,31,191	6,30,947	7,48,660	8,77,639
Borrowings	22,782	21,766	45,993	49,356	53,324
-Sub ordinate debt	2,000	2,000	6,845	7,518	8,312
Other liabilities	19,791	19,905	35,376	49,650	65,056
Total liabilities	8,28,205	9,14,301	11,02,675	12,96,842	15,25,646
Cash/Equivalent	47,801	54,199	70,789	87,605	1,07,448
Advances	5,12,850	5,80,901	7,09,159	8,43,688	10,02,431
Investments	2,44,092	2,22,175	2,57,802	2,91,434	3,31,120
Fixed Assets	4,666	5,200	5,325	5,575	5,825
Other assets	19,096	51,826	59,600	68,540	78,821
Total assets	8,28,505	9,14,301	11,02,675	12,96,842	15,25,646

Ratio's	FY15	FY16	FY17E	FY18E	FY19E
<i>Growth (%)</i>					
NII growth	6.8	5.2	19.5	18.4	18.1
Pre-provision profit growth	10	-12.5	34.6	18.7	21.9
PAT growth	19.9	-52.7	86.3	27.2	23.3
<i>Business (%)</i>					
Deposit growth	18.6	11.8	18	18	18
Advance growth	18.1	13.3	22.1	19	18.8
Business growth	18.4	12.4	19.7	18.4	18.4
CD	72.4	73.4	75.9	76.5	77.1
CASA	30.8	32.9	32.5	32.1	32.5
<i>Operating efficiency (%)</i>					
Cost-to-income	54.3	59	55.7	53.1	51.1
Cost-to-assets	2.2	2.3	2.3	2.2	2.1
<i>Productivity (Rs mn)</i>					
Business per branch	979.2	1096.3	1286.9	1466.5	1672.7
Business per employee	111.2	117	138.6	160.7	186.3
Profit per branch	8.1	3.8	6.9	8.5	10.1
Profit per employee	0.9	0.4	0.7	0.9	1.1
<i>Spreads (%)</i>					
Yield on advances	11.5	10.4	10.2	10	9.8
Yield on investments	7.6	7.5	7.7	7.7	7.7
Cost of deposits	7.1	6.7	6.4	6.3	6.2
Yield on assets	10.1	9.7	9.6	9.4	9.3
Cost of funds	7.1	6.6	6.2	6.1	5.9
NIMs	3.2	3.1	3.3	3.3	3.3
<i>Capital adequacy (%)</i>					
Tier I	14.8	13.4	11.9	11.1	10.5
Tier II	0.7	0.6	1.6	1.5	1.4
Total CAR	15.5	13.9	13.5	12.6	12
<i>Asset Quality (%)</i>					
Gross NPA	2	2.8	2.6	2.4	2.4
Net NPA	0.7	1.6	1.5	1.4	1.3
Provision coverage	64.7	43	44.2	43.6	43.8
Provision coverage (Incl Tech W/o)	83.9	72.1	72.6	72.3	71.5
Slippage	1.7	3.5	1.8	1.7	1.7
Credit-cost	0.4	1	0.8	0.6	0.6
<i>Return (%)</i>					
ROE	13.7	6	10.5	12.3	13.8
ROA	1.3	0.5	0.9	0.9	1
RORWA	2.1	0.9	1.4	1.5	1.5
<i>Per share</i>					
EPS	5.9	2.8	5.2	6.6	8.1
BV	45.2	47.1	50.7	55.5	61.9
ABV	43	41.5	44.6	48.8	54.1
<i>Valuation</i>					
P/E	10.6	22.6	12.1	9.5	7.7
P/BV	1.4	1.3	1.2	1.1	1
P/ABV	1.5	1.5	1.4	1.3	1.2

Source: Company, Nirmal Bang Institutional Equities Research

HDFC Bank

CMP: Rs1175; Rating: BUY; M-Cap: US\$44.2bn; TP: Rs1,570; Upside: 34%



- **Steady performance**
 - It has delivered steady performance year after year with no exposure to RBI's AQR, does reinstate our confidence on its asset quality of the highest standard.
- **One of the best liability franchise**
 - Its deposit franchise is strongest among peers. Despite healthy deposit growth, it has been able to consistently able to maintain
- **Retail segment continues to drive growth**
 - Retail segment accounted for 65% of loan book. Unsecured retail loans at 13% of loan book looks higher, however it is not a cause of concern as they have been managed well
- **Mr Aditya Puri will be around till FY20**
 - With recent stipulation of maximum age of 70 years, board has reappointed Mr.Aditya Puri till FY20.
- **Return Ratio's one of the best in industry**
 - With strong traction in NIMs and Fee Income, we expect long term ROA of ~2.0% and ROE of ~20% which will be one of the best in the industry.

Advances Break-up (%)					
(as per internal classification)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Retail	62.7	63.0	62.4	63.4	64.5
Corporate	37.3	37.0	37.6	36.6	35.5
Total	100.0	100.0	100.0	100.0	100.0
Further Break-up of Retail (%)					
Auto Loans	20.5	20.5	19.8	20.0	20.2
CVCE	11.0	10.8	10.7	10.5	10.5
Two Wheelers	2.2	2.2	2.2	2.2	2.2
Personal Loans	12.4	12.9	13.0	13.8	14.1
Business Banking (Secured)	21.9	21.7	21.1	20.3	20.6
Loans Against Securities	0.6	0.6	0.7	0.6	0.6
Credit Cards	6.9	7.2	7.1	7.1	6.7
Home loans	10.9	10.3	11.0	11.3	10.5
Gold/Others	1.7	1.6	1.6	1.6	1.6
Kisan Gold Card	7.5	7.3	7.9	7.5	7.8
Others	4.6	4.9	5.1	5.1	5.1
Total Retail	100.0	100.0	100.0	100.0	100.0

Income Statement					
	FY15	FY16	FY17E	FY18E	FY19E
Interest Income	4,84,699	6,02,214	6,89,438	8,02,337	9,47,956
Interest expense	2,60,742	3,26,299	3,61,554	4,09,153	4,72,460
Net interest income	2,23,957	2,75,915	3,27,884	3,93,184	4,75,496
Fees	65,842	77,590	89,229	1,07,074	1,28,489
Other Income	18,194	22,610	25,090	28,144	31,607
Net Revenue	3,07,993	3,76,115	4,42,203	5,28,402	6,35,592
Operating Expense	1,39,875	1,69,797	1,98,958	2,32,451	2,74,778
-Employee Exp	47,510	57,022	65,883	75,423	86,344
-Other Exp	92,365	1,12,775	1,33,075	1,57,028	1,88,433
Operating Profit	1,68,118	2,06,318	2,43,245	2,95,951	3,60,814
Investment Profit	5,928	7,317	9,555	8,898	6,877
Pre-provision Profit	1,74,046	2,13,635	2,52,800	3,04,850	3,67,691
Provisions	20,759	27,256	31,435	44,462	54,901
-Loan Loss Provisions	23,317	28,762	34,435	47,462	57,901
-Provisions for investment	-3,156	-2,874	-3,000	-3,000	-3,000
-Other Provisions	598	1,368	0	0	0
PBT	1,53,287	1,86,379	2,21,365	2,60,388	3,12,790
Taxes	51,128	63,417	74,379	87,490	1,05,097
PAT	1,02,159	1,22,962	1,46,986	1,72,898	2,07,692

Balance Sheet

	FY15	FY16	FY17E	FY18E	FY19E
Equity Capital	5,013	5,056	5,056	5,056	5,056
Reserves & Surplus	6,15,081	7,21,723	8,36,175	9,72,102	11,42,825
Shareholder's Funds	6,20,094	7,26,779	8,41,231	9,77,158	11,47,881
Deposits	45,07,956	54,64,242	64,47,806	78,66,323	95,96,914
-Current deposits	7,35,654	8,84,247	10,31,782	12,44,559	15,04,148
-Saving deposits	12,49,266	14,78,862	17,73,931	22,70,412	28,76,119
-Term deposit	25,23,036	31,01,133	36,42,093	43,51,352	52,16,647
Borrowings	4,52,136	5,30,185	5,83,297	6,59,897	7,53,349
-Sub ordinate debt	1,56,299	1,44,279	1,70,835	2,09,135	2,55,861
Other liabilities	3,24,845	3,67,251	4,41,751	5,30,390	6,28,421
Total liabilities	59,05,031	70,88,457	83,14,085	1,00,33,768	1,21,26,565
Cash/Equivalent	3,63,315	3,89,189	5,22,120	6,83,831	8,81,118
Advances	36,54,950	46,45,940	54,81,969	66,87,709	81,58,711
Investments	16,64,599	16,38,858	18,35,571	21,19,274	24,65,392
Fixed Assets	31,217	33,432	36,232	39,032	41,832
Other assets	1,90,950	3,81,038	4,38,194	5,03,923	5,79,511
Total assets	59,05,031	70,88,457	83,14,085	1,00,33,768	1,21,26,565

Ratio's	FY15	FY16	FY17E	FY18E	FY19E
Growth (%)					
NII growth	21.2	23.2	18.8	19.9	20.9
Pre-provision profit growth	21.2	22.7	18.3	20.6	20.6
PAT growth	20.5	20.4	19.5	17.6	20.1
Business (%)					
Deposit growth	22.7	21.2	18.0	22.0	22.0
Advance growth	20.6	27.1	18.0	22.0	22.0
Business growth	21.8	23.9	18.0	22.0	22.0
CD	81.1	85.0	85.0	85.0	85.0
CASA	44.0	43.2	43.5	44.7	45.6
Operating efficiency (%)					
Cost-to-income	45.4	45.1	45.0	44.0	43.2
Cost-to-assets	2.8	2.9	2.8	2.8	2.7
Productivity (Rs mn)					
Business per branch	2033.6	2236.8	2424.8	2735.7	3104.1
Business per employee	107.4	115.5	128.5	147.9	170.3
Profit per branch	25.5	27.2	29.9	32.5	36.3
Profit per employee	1.3	1.4	1.6	1.8	2.0
Spreads (%)					
Yield on advances	11.1	10.8	10.5	10.2	9.9
Yield on investments	7.4	8.5	8.6	8.6	8.6
Cost of deposits	5.7	5.9	5.6	5.3	5.0
Yield on assets	9.8	10.1	9.9	9.6	9.4
Cost of funds	5.3	5.6	5.2	5.0	4.7
NIMs	4.5	4.6	4.7	4.7	4.7
Capital adequacy (%)					
Tier I	13.7	13.2	13.0	12.6	12.2
Tier II	3.1	2.3	2.3	2.4	2.4
Total CAR	16.8	15.5	15.4	14.9	14.6
Asset Quality (%)					
Gross NPA	0.9	0.9	1.1	1.2	1.4
Net NPA	0.2	0.3	0.3	0.3	0.3
Provision coverage	73.9	69.9	69.4	74.4	78.1
Slippage	1.4	1.4	1.4	1.4	1.4
Credit-cost	0.6	0.6	0.6	0.7	0.7
Return (%)					
ROE	19.4	18.3	18.7	19.0	19.5
ROA	1.9	1.9	1.9	1.9	1.9
RORWA	2.7	2.6	2.6	2.5	2.5
Per share					
EPS	40.8	48.6	58.1	68.4	82.2
BV	247.4	287.5	332.8	386.5	454.1
ABV	249.9	287.6	329.7	381.0	445.5
Valuation					
P/E	28.9	24.2	20.2	17.2	14.3
P/BV	4.8	4.1	3.5	3.0	2.6
P/ABV	4.7	4.1	3.6	3.1	2.6

Source: Company, Nirmal Bang Institutional Equities Research

ICICI Bank

CMP: Rs248; Rating: BUY; M-Cap: US\$22.3bn; TP: Rs340; Upside: 37%



- **Front loading on stress recognition**
 - Management has stated out its accounts under watch list. Watch list is from 6 ailing sectors with rating below investment grade. Front loading of stress recognition in FY17 should elevate slippages in FY18-19.
- **Retail assets are well protected**
 - Corporate portfolio of the bank is admittedly going through a rough phase, whereas the quality of its retail portfolio is still intact. Bank has learned from its past mistake in unsecured retail credit.
- **Liability franchise is strengthened over the years**
 - Its CASA deposit ratio has improved significantly from 22% in FY07 to 46% in FY16. As a result, its NIM has improved from 2.2% in FY07 to 3.5% in FY16.
- **Healthy capital cushion**
 - Despite lower profitability, healthy capital adequacy of 16.2%, with Tier I ratio of 12.8% does provide us lot of comfort.
- **Unlocking potential in subsidiaries**
 - It derives ~20% of its value from its stake in subsidiaries. There is potential for unlocking of value in subsidiaries starting from its stake in its life insurance subsidiary.

Advances Break-up (%)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Retail Loans	44.0	43.8	46.6	46.4	47.9
Corporate	28.4	28.8	27.5	28.4	27.7
SME	4.3	4.6	4.3	4.0	4.3
International	23.3	22.8	21.6	21.2	20.1
Total	100.0	100.0	100.0	100.0	100.0
Further Break-up of Retail (%)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Commercial Vehicles	6.5	6.1	6.3	6.3	6.2
Housing	55.1	54.9	54	54.3	54.3
Auto	11.4	11.6	11	11	10.8
Business Banking	5.6	5.3	5.3	5.1	3.9
Personal Loans	4.6	4.8	5	5.2	5.4
Credit Cards	2.5	2.7	2.7	2.8	2.8
Rural+Others	14.3	14.6	15.7	15.3	16.6
Total	100.0	100.0	100.0	100.0	100.0

Income Statement						Ratio's	FY15	FY16	FY17E	FY18E	FY19E
	FY15	FY16	FY17E	FY18E	FY19E	Growth (%)					
Interest Income	4,90,911	5,27,394	5,57,628	6,23,933	7,04,375	NII growth	15.6	11.5	0.4	13.5	14.4
Interest expense	3,00,515	3,15,154	3,44,468	3,82,072	4,27,774	Pre-provision profit growth	18.8	21.0	11.3	-15.6	12.9
Net interest income	1,90,396	2,12,240	2,13,161	2,41,861	2,76,601	PAT growth	13.9	-13.0	14.8	-1.0	9.3
Fees	69,799	74,617	78,348	86,183	94,801	Business (%)					
Other Income	36,408	40,379	41,347	45,481	50,029	Deposit growth	8.9	16.6	15.0	15.0	15.0
Net Revenue	2,96,603	3,27,236	3,32,855	3,73,525	4,21,431	Advance growth	14.4	12.3	14.5	17.5	17.1
Operating Expense	1,14,958	1,26,836	1,44,158	1,61,609	1,81,343	Business growth	11.7	14.4	14.8	16.3	16.1
-Employee Exp	47,499	50,023	57,226	63,086	69,546	CD	107.2	103.3	102.9	105.1	107.0
-Other Exp	67,459	76,813	86,931	98,523	1,11,797	CASA	45.5	45.8	45.7	45.6	45.5
Operating Profit	1,81,645	2,00,400	1,88,698	2,11,916	2,40,087	Operating efficiency (%)					
Investment Profit	15,554	38,235	77,011	12,274	13,095	Cost-to-income	38.8	38.8	43.3	43.3	43.0
Pre-provision Profit	1,97,199	2,38,635	2,65,709	2,24,190	2,53,182	Cost-to-assets	2.0	2.1	2.1	2.1	2.1
Provisions	39,050	1,16,678	1,34,299	72,770	87,750	Productivity (Rs mn)					
-Loan Loss Provisions	35,261	75,127	1,47,296	85,651	1,00,468	Business per branch	1849.6	1925.1	2027.0	2177.2	2348.6
-Provisions for investment	2,979	1,707	1,159	1,275	1,438	Business per employee	110.4	118.7	131.0	146.4	163.4
-Other Provisions	810	39,844	-14,156	-14,156	-14,156	Profit per branch	27.6	21.9	23.0	21.1	21.4
PBT	1,58,149	1,21,957	1,31,410	1,51,420	1,65,432	Profit per employee	1.6	1.3	1.5	1.4	1.5
Taxes	46,395	24,694	19,711	40,883	44,667	Spreads (%)					
PAT	1,11,754	97,263	1,11,698	1,10,537	1,20,766	Yield on advances	9.8	9.5	8.9	8.7	8.5
						Yield on investments	6.6	6.1	6.4	6.4	6.4
						Cost of deposits	5.9	5.5	5.4	5.2	5.1
						Yield on assets	8.6	8.6	8.3	8.2	8.1
						Cost of funds	5.5	5.3	5.1	5.0	4.8
						NIMs	3.3	3.4	3.2	3.2	3.2
						Capital adequacy (%)					
						Tier I	12.8	13.1	12.6	11.8	11.1
						Tier II	4.2	3.6	3.4	3.6	3.7
						Total CAR	17.0	16.6	16.0	15.4	14.8
						Asset Quality (%)					
						Gross NPA	3.8	5.8	7.8	6.6	5.8
						Net NPA	1.6	3.0	4.3	3.3	2.7
						Provision coverage	58.6	50.6	47.5	51.4	56.0
						Slippage	2.2	4.1	6.5	2.3	2.3
						Credit-cost	0.9	1.8	3.0	1.5	1.5
						Return (%)					
						ROE	14.5	11.4	12.0	11.0	11.2
						ROA	1.8	1.4	1.5	1.3	1.2
						RORWA	2.1	1.7	1.7	1.5	1.4
						Per share					
						EPS	19.3	16.7	19.2	19.0	20.8
						BV	138.7	154.3	167.0	179.0	192.8
						ABV	127.9	133.3	128.8	140.9	153.5
						Valuation					
						P/E	9.5	10.9	9.5	9.6	8.8
						P/BV	1.6	1.4	1.3	1.2	1.1
						P/ABV	1.7	1.6	1.7	1.5	1.4

Source: Company, Nirmal Bang Institutional Equities Research

Indusind Bank

CMP: Rs1060; Rating: BUY; M-Cap: US\$9.26bn; TP: Rs1,470; Upside: 39%



- **Strong growth ahead**
 - Management is targeting to double their branch network as well as customer base over 3 years. Management is targeting a credit growth of 25-30%.
- **Demonetisation impact needs to be seen on Auto/CV Segment**
 - Indusind Bank's has an exposure of 32% of its book to commercial vehicle segment, two wheeler, car loans and equipment financing. Demonetisation could have a negative impact on this segment.
- **New Innovation on a regular basis**
 - Some of the innovations are video branch, Option to choose account number, Denomination selection while withdrawing from ATMs, Direct connect to phone banking officer, higher interest rate on saving accounts
- **Mr Ramesh Sobti has got extension**
 - With recent stipulation of maximum age of 70 years, Mr.Sobti has got extension of his term to January 2018.
- **Return Ratio's one of the best in industry**
 - With strong traction in NIMs and Fee Income, we expect long term ROA of ~2.0% and ROE of ~18% which will be one of the best in the industry.

Advances Break-up (%)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Corporate & Comm. Banking	59.2	58.3	58.7	58.8	59.0
Large Corporates	26.5	26.8	28.6	29.2	27.9
Mid size Corporates	20.6	19.5	18.8	18.3	19.5
Small Corporates	12.0	12.0	11.3	11.4	11.6
Consumer Finance	40.8	41.7	41.3	41.2	41.0
Commercial vehicle	15.8	16.1	15.9	14.8	14.4
Utility vehicle	2.6	2.5	2.3	2.2	2.2
Small CV	2.5	2.5	2.3	2.3	2.3
Two Wheeler	3.6	3.7	3.4	3.3	3.2
Car	4.5	4.6	4.4	4.4	4.4
Tractor	0.0	0.0	0.0	1.3	1.5
Equipment financing	3.7	3.7	3.7	3.7	3.6
Credit cards	1.1	1.2	1.4	1.3	1.4
Loan against property	5.5	5.8	5.9	6.0	5.9
Home, Personal, Buss, Gold	1.5	1.7	1.9	2.0	2.1
Total	100.0	100.0	100.0	100.0	100.0

Income Statement						Ratio's					
	FY15	FY16	FY17E	FY18E	FY19E		FY15	FY16	FY17E	FY18E	FY19E
Interest Income	96,919	1,15,807	1,43,305	1,77,416	2,19,936	Growth (%)					
Interest expense	62,717	70,641	83,723	1,02,783	1,25,863	NII growth	18.3	32.1	31.9	25.3	26.0
Net interest income	34,202	45,166	59,582	74,633	94,073	Pre-provision profit growth	19.3	33.7	27.0	25.6	25.1
Fees	15,484	22,315	28,563	36,275	45,344	PAT growth	27.4	27.5	26.7	27.6	24.7
Other Income	7,397	9,132	10,784	12,934	15,514	Business (%)					
Net Revenue	57,083	76,613	98,930	1,23,843	1,54,932	Deposit growth	22.5	25.4	25.0	25.0	25.0
Operating Expense	27,259	36,721	48,006	59,706	74,542	Advance growth	24.8	28.5	28.9	28.0	27.4
-Employee Exp	9,805	12,361	15,851	19,512	24,299	Business growth	23.6	26.9	26.9	26.5	26.2
-Other Exp	17,454	24,360	32,155	40,194	50,243	CD	92.8	95.1	98.1	100.4	102.4
Operating Profit	29,824	39,892	50,924	64,137	80,390	CASA	34.1	35.2	35.1	35.1	35.1
Investment Profit	1,158	1,522	1,677	1,939	2,265	Operating efficiency (%)					
Pre-provision Profit	30,982	41,414	52,601	66,075	82,656	Cost-to-income	47.8	47.9	48.5	48.2	48.1
Provisions	3,891	6,722	8,718	10,068	12,838	Cost-to-assets	3.0	3.2	3.4	3.4	3.4
-Loan Loss Provisions	4,429	6,141	8,447	9,748	12,446	Productivity (Rsmn)					
-Provisions for investment	(664)	295	272	320	392	Business per branch	1784.3	1814.2	1918.7	2080.5	2297.3
-Other Provisions	126	286	-	-	-	Business per employee	74.7	78.7	91.9	107.6	124.3
PBT	27,091	34,692	43,882	56,007	69,817	Profit per branch	22.4	22.9	24.1	26.4	28.8
Taxes	9,154	11,828	14,920	19,042	23,738	Profit per employee	0.9	1.0	1.2	1.4	1.6
PAT	17,937	22,864	28,962	36,965	46,079	Spreads (%)					
						Yield on advances	12.5	11.8	11.5	11.3	11.1
						Yield on investments	7.2	6.4	6.7	6.4	6.4
						Cost of deposits	7.7	6.8	6.4	6.2	6.0
						Yield on assets	10.7	10.2	10.1	10.0	9.9
						Cost of funds	7.1	6.4	6.1	5.9	5.8
						NIMs	3.8	4.0	4.2	4.2	4.2
						Capital adequacy (%)					
						Tier I	11.2	14.9	12.9	12.1	11.5
						Tier II	0.9	0.6	0.8	1.1	1.2
						Total CAR	12.1	15.5	13.8	13.1	12.7
						Asset Quality (%)					
						Gross NPA	0.8	0.9	1.2	1.3	1.4
						Net NPA	0.3	0.4	0.4	0.4	0.4
						Provision coverage	62.6	58.6	64.3	68.0	72.7
						Slippage	1.4	1.1	1.2	1.2	1.2
						Credit-cost	0.5	0.6	0.7	0.6	0.6
						Return (%)					
						ROE	18.2	16.2	15.3	16.9	18.0
						ROA	1.8	1.8	1.8	1.9	1.9
						RORWA	2.3	2.2	2.1	2.1	2.1
						Per share					
						EPS	33.9	38.4	48.7	62.1	77.4
						BV	200.8	297.2	340.0	395.7	466.7
						ABV	196.8	291.8	331.9	385.1	454.3
						Valuation					
						P/E	31.3	27.6	21.8	17.1	13.7
						P/BV	5.3	3.6	3.1	2.7	2.3
						P/ABV	5.4	3.6	3.2	2.8	2.3
Balance Sheet											
	FY15	FY16	FY17E	FY18E	FY19E						
Equity Capital	5,294	5,950	5,950	5,950	5,950						
Reserves & Surplus	1,01,009	1,70,872	1,96,354	2,29,490	2,71,741						
Shareholder's Funds	1,06,303	1,76,822	2,02,304	2,35,440	2,77,691						
Deposits	7,41,345	9,30,003	11,62,504	14,53,130	18,16,412						
-Current deposits	1,23,561	1,54,780	1,89,655	2,33,249	2,87,741						
-Saving deposits	1,29,436	1,72,462	2,18,962	2,77,087	3,49,744						
-Term deposit	4,88,348	6,02,761	7,53,886	9,42,793	11,78,927						
Borrowings	2,06,181	2,21,559	2,93,471	3,83,362	4,95,725						
-Sub ordinate debt	13,439	8,089	15,280	24,269	35,506						
Other liabilities	37,330	72,186	85,792	98,340	1,11,383						
Total liabilities	10,91,159	14,00,570	17,44,071	21,70,272	27,01,211						
Cash/Equivalent	1,07,791	1,01,119	1,27,784	1,59,550	1,99,257						
Advances	6,87,882	8,84,193	11,39,944	14,59,632	18,59,243						
Investments	2,48,594	3,12,143	3,58,643	4,16,768	4,89,425						
Fixed Assets	11,576	12,553	13,553	14,553	15,553						
Other assets	35,316	90,562	1,04,146	1,19,768	1,37,733						
Total assets	10,91,159	14,00,570	17,44,071	21,70,272	27,01,211						

Source: Company, Nirmal Bang Institutional Equities Research

Manappuram Finance

CMP: Rs59; Rating: Buy; M-cap: US\$0.75bn; TP: Rs145; Upside: 147%



- **Entering the growth phase**
 - FY16 marked an end to the company's three-year long consolidation phase. Key factors in the growth of gold loans were stable gold prices, steady LTV regime, a level-playing field, weak players shifting out and de-focus by banks.
- **Demonetisation Impact**
 - Collections as well as disbursement are impacted on account of shortage of availability of new currency. Collections were 70% of normal in november. Situation is expected to normalise within next couple of months.
- **De-risking gold loan portfolio from volatility in gold prices**
 - It has moved to short-term (3-6 months) loan products with a maximum LTV of 75% which has helped the company in bringing down auctions losses significantly.
- **Diversification into non-gold products**
 - It has embarked on a strategy of diversifying into microfinance, home loan, CV financing and LAP. Non-gold portfolio forms 12% of AUM in FY16 against 4% in FY15.
- **Robust asset quality**
 - Despite moving to 90-day recognition for NPAs (a year ahead of regulatory requirement) GNPA's eased significantly backed by its strategy of de-risking gold loans. Also, the company has provided 40bps for standard assets (a year ahead of regulatory requirement).
- **Return ratios to strengthen further**
 - With likely strong growth in AUM, stable margins, contained credit costs and operating as well as financial leverage to kick in, we expect RoA/RoE to improve further by 90bps/840bps to strong levels of 3.8%/21.6%, respectively in FY19E.

Advances Break-up (%)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Gold	93.2	91.1	88.2	87.2	85.5
MFI	5.3	6.6	8.7	9.5	10.8
Housing	0.4	0.8	1.1	1.3	1.5
CV	0.6	0.8	1.1	1.3	1.5
LAP	0.4	0.4	0.4	0.4	0.4
Other	0.1	0.3	0.4	0.3	0.3
Total	100.0	100.0	100.0	100.0	100.0

AUM Break-up Regionwise (%)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
South	67	66	65	65	65
North	11	12	12	12	11
West	14	14	15	15	15
East	8	8	8	8	9

Other data points	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Average AUM per Branch (Rs Mn)	29.2	30	31.3	35.4	38.6
No of Customers (mn)	1.9	1.9	1.9	2.1	2.2
Average Ticket Size (per loan)	30,763	31,129	32,463	34,439	35,608
Average Ticket Size (customer)	51,481	51,547	52,231	55,073	56,801
Gold Holding (tonnes)	57	59	60	63	66
Loan per gram	1,662	1,648	1,691	1,792	1,879

Income Statement						Ratio's					
Rs Mn	FY15	FY16	FY17E	FY18E	FY19E	Growth (%)	FY15	FY16	FY17E	FY18E	FY19E
Interest Income	19,682	23,490	32,973	40,200	48,554	Net Interest Income	4.0	28.5	49.2	17.3	19.9
Interest Expense	8,774	9,474	12,059	15,675	19,158	Operating Profit	13.3	33.7	93.8	13.5	16.4
Net Interest Income	10,908	14,016	20,913	24,526	29,395	Profit After Tax	20.1	30.8	97.7	10.7	17.1
Non Interest Income	252	249	385	579	713	Business (%)					
Net Revenue	11,160	14,265	21,298	25,105	30,108	Advance Growth	16.7	18.3	35.1	25.5	23.2
Operating expenses	6,741	8,358	9,850	12,111	14,978	Spreads (%)					
-Employee expenses	3,145	4,327	5,336	6,829	8,798	Yield on loans	22.0	22.4	24.6	23.2	22.5
-Other expenses	3,596	4,031	4,515	5,282	6,180	Cost of Borrowings	10.7	10.4	10.3	10.1	9.9
Operating profit	4,419	5,907	11,448	12,993	15,130	Spread	11.4	12.0	14.3	13.1	12.6
Provisions	282	423	808	1,215	1,332	NIMs	12.2	13.3	15.6	14.1	13.6
PBT	4,137	5,484	10,639	11,778	13,798	Operational Efficiency (%)					
Tax	1,422	1,932	3,617	4,005	4,691	Cost to Income	60.4	58.6	46.3	48.2	49.7
PAT	2,715	3,552	7,022	7,774	9,107	Cost to AUM	7.5	8.0	7.4	7.0	7.0
						Productivity (Rs Mn)					
						AUM per Branch	27.9	31.1	38.1	43.8	48.1
						AUM per Employee	5.9	6.1	7.2	8.1	8.9
						Employee per Branch	4.7	5.1	5.3	5.4	5.4
						CRAR (%)					
						Tier I	25.1	23.5	21.6	20.3	19.5
						Tier II	0.6	0.5	0.6	0.6	0.6
						Total	25.6	24.0	22.2	20.9	20.1
						Asset Quality (%)					
						Gross NPA	1.1	0.9	1.1	1.2	1.4
						Net NPA	0.9	0.7	0.8	0.7	0.7
						Provision Coverage	17.0	22.7	31.2	40.4	47.8
						Credit Cost (excluding std asset)	0.3	0.2	0.5	0.6	0.5
						Credit Cost (including std asset)	0.3	0.4	0.6	0.7	0.6
						Return Ratio (%)					
						ROE	10.6	13.2	23.3	21.8	21.6
						ROA	2.4	2.9	4.6	4.0	3.8
						Per Share (%)					
						EPS	3.2	4.2	8.3	9.2	10.8
						BV	31.3	32.8	38.9	45.8	54.2
						ABV	30.2	31.9	37.5	44.2	52.2
						Valuation (x)					
						P/E	18.2	13.9	7.0	6.4	5.4
						P/BV	1.9	1.8	1.5	1.3	1.1
						P/ABV	1.9	1.8	1.6	1.3	1.1

Source: Company, Nirmal Bang Institutional Equities Research

Muthoot Finance

CMP: Rs269; Rating: Buy; M-cap: US\$1.58bn; TP: Rs530; Upside: 97%



- **Strong pick-up in growth:**
 - After a four year long consolidation phase, strong pickup is expected in AUM growth. Key drivers are steady LTV regime, a level-playing field, weak players shifting out and de-focus by banks.
- **Demonetisation Impact**
 - Collections as well as disbursement are impacted on account of shortage of availability of new currency. Collections were 70% of normal in november. Situation is expected to normalise within next couple of months.
- **Right infrastructure mix in place, operating leverage to follow**
 - Company has the right infrastructure mix with 4,294 branches, over 23,000 employees and adequate capital (Tier I of 21%) to ride the growth phase. Given that 80% of cost is fixed in nature, we expect cost-to-AUM ratio to improve 50bps over next three years to 4.3%..
- **Focus on regular interest collection has de-risked the portfolio**
 - Rather than changing the product tenure, it encourages its customers to pay interest on a monthly basis, thereby helping overall LTV to remain at 75% throughout the term of the loan.
- **Diversification into non-gold products**
 - Company has embarked on a strategy of diversifying into microfinance (through the acquisition of Belstar), affordable housing finance (through a subsidiary) and consumer finance (through the acquisition of Asset Asia Finance Plc, Sri Lanka).
- **Return ratios to strengthen further**
 - With likely strong growth in AUM, stable margins, contained credit costs and operating as well as financial leverage to kick in, we expect RoA/RoE to improve further by 60bps/370bps to strong levels of 3.6%/18.8%, respectively in FY19E.

AUM Break-up Regionwise (%)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
South	56	56	54	53	52
North	22	22	22	22	23
West	16	16	17	18	18
East	6	6	7	7	7
AUM per branch (Rs Mn)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Overall	58.5	58.7	57.0	60.2	63.5
South	50.4	50.6	48.1	50.7	52.4
North	80.5	80.7	78.4	77.9	85.8
West	66.9	67.1	64.6	72.3	76.1
East	70.2	70.4	79.8	84.3	88.8
Other data points	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
No of loan accounts (mn)	6.8	6.9	6.6	6.9	7.2
Average Ticket Size (per loan)	36,507	36,146	36,872	37,424	38,053
Gold Holding (tonnes)	144	145	142	146	150
Loan per gram	1,727	1,723	1,717	1,771	1,830

Income Statement						Ratio's					
Rs Mn	FY15	FY16	FY17E	FY18E	FY19E	Growth (%)	FY15	FY16	FY17E	FY18E	FY19E
Interest Income	42,703	48,129	53,781	62,256	72,539	Net Interest Income	-5.2	18.1	15.7	12.7	15.9
Interest Expense	21,064	22,577	24,226	28,938	33,923	Operating Profit	-13.9	38.9	19.0	12.8	19.0
Net Interest Income	21,639	25,552	29,555	33,318	38,615	Profit After Tax	-14.0	20.7	34.5	14.0	19.0
Non Interest Income	544	621	861	847	1,000	Business (%)					
Net Revenue	22,183	26,173	30,417	34,165	39,615	Advance Growth	8.0	4.2	18.0	18.0	18.0
Operating expenses	11,532	11,382	12,816	14,316	15,994	Spreads (%)					
-Employee expenses	6,304	6,419	7,605	8,583	9,688	Yield on loans	19.0	20.2	20.3	19.9	19.6
-Other expenses	5,228	4,963	5,211	5,732	6,305	Cost of Borrowings	10.8	11.9	11.7	11.5	11.2
Operating profit	10,651	14,791	17,601	19,849	23,621	Spread	8.2	8.3	8.6	8.4	8.4
Provisions	371	1,625	850	1,050	1,241	NIMs	9.6	10.7	11.1	10.6	10.5
PBT	10,280	13,167	16,751	18,800	22,381	Operational Efficiency (%)					
Tax	3,575	5,072	5,863	6,392	7,609	Cost to Income	52.0	43.5	42.1	41.9	40.4
PAT	6,705	8,095	10,888	12,408	14,771	Cost to AUM	5.1	4.8	4.8	4.6	4.3
						Productivity (Rs Mn)					
						AUM per Branch	54.9	57.0	65.0	74.7	85.9
						AUM per Employee	10.2	10.7	11.8	13.6	15.6
						Employee per Branch	5.4	5.3	5.5	5.5	5.5
						CRAR (%)					
						Tier I	20.0	20.9	20.2	19.5	19.1
						Tier II	4.8	3.6	3.6	3.7	3.7
						Total	24.8	24.5	23.8	23.2	22.8
						Asset Quality (%)					
						Gross NPA	2.2	2.9	2.5	2.5	2.5
						Net NPA	1.9	2.5	2.1	2.1	2.1
						Provision Coverage	14.2	14.5	15.0	15.0	15.0
						Credit Cost (excluding std asset)	0.1	0.2	0.1	0.2	0.2
						Credit Cost (including std asset)	0.2	0.7	0.3	0.3	0.3
						Return Ratio (%)					
						ROE	14.3	15.1	18.1	18.1	18.8
						ROA	2.6	3.0	3.7	3.5	3.6
						Per Share (%)					
						EPS	16.9	20.3	27.3	31.1	37.0
						BV	127.8	140.8	160.3	183.0	211.0
						ABV	116.7	125.8	145.0	164.9	189.7
						Valuation (x)					
						P/E	16.0	13.3	9.9	8.7	7.3
						P/BV	2.1	1.9	1.7	1.5	1.3
						P/ABV	2.3	2.1	1.9	1.6	1.4

Source: Company, Nirmal Bang Institutional Equities Research

State Bank of India

CMP: Rs244; Rating: Buy; M-Cap: US\$27.93bn; TP: Rs315; Upside: 29%



- **Asset quality is showing signs of stabilization**
 - State Bank of India (SBI) will be the biggest beneficiary of likely improvement in the economy. Loan recovery is expected to gain traction from FY16. Lower restructured book as compared to its peers should help the bank in containing slippages
- **Unparallel deposit franchise**
 - SBI has excellent deposit franchise with domestic CASA deposit ratio at 43% which is likely to strengthen further post demonetisation
- **Mrs Arundhati Bhattacharya got extension**
 - Extension of the tenure of the current chairman adds to the continuity, specially driving synergies from merger of associate banks with SBI.
- **Initiatives on human resources front**
 - As much as 75% of grading of its employees will be based on quantifiable parameters. Also, SBI is working on talent management and career progression of its employees, with them being trained in at least two different areas. We believe it will be structurally very positive for the bank.
- **Capital cushion**
 - SBI is better placed among public sector banks in terms of capitalisation. Capital exhaustion will be limited considering the backdrop of slower credit off-take.

Advances Break-up (%)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Large Corporate	20.7	21.1	21.8	21.1	21.1
Mid Corporate	14.9	15.0	15.4	14.2	13.9
SME	12.9	12.7	12.6	12.4	11.2
Agriculture	8.6	8.5	8.3	8.5	8.7
Retail	21.2	21.6	21.7	23.0	23.7
International	21.6	21.2	20.3	20.8	21.5
Total	100.0	100.0	100.0	100.0	100.0

Further Break-up of Retail (%)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Home	58.7	58.3	58.3	58.6	58.7
Auto	11.7	12.0	11.8	11.8	11.8
Others	29.6	29.7	30.0	29.6	29.5
Total	100.0	100.0	100.0	100.0	100.0

Income Statement						Ratio's	FY15	FY16	FY17E	FY18E	FY19E
	FY15	FY16	FY17E	FY18E	FY19E	Growth (%)					
Interest Income	15,23,971	16,36,853	17,39,407	19,56,160	22,29,191	NII growth	11.6	3.4	4.5	16.4	16.9
Interest expense	9,73,818	10,68,035	11,44,961	12,64,049	14,19,823	Pre-provision profit growth	21.2	11.2	8.8	5.6	18.9
Net interest income	5,50,153	5,68,818	5,94,446	6,92,111	8,09,368	PAT growth	20.3	-24.0	38.3	18.9	28.9
Fees	1,31,728	1,44,160	1,73,744	1,91,846	2,20,622	Business (%)					
Other Income	58,278	87,420	91,585	1,04,377	1,18,307	Deposit growth	13.1	9.8	15.0	17.0	17.0
Net Revenue	7,40,159	8,00,398	8,59,776	9,88,333	11,48,297	Advance growth	7.5	12.6	9.8	17.9	17.8
Operating Expense	3,86,777	4,17,824	4,72,688	5,35,082	6,06,096	Business growth	10.5	11.0	12.6	17.4	17.3
-Employee Exp	2,35,371	2,51,138	2,86,000	3,25,991	3,71,914	CD	82.4	84.6	80.7	81.3	81.9
-Other Exp	1,51,406	1,66,686	1,86,688	2,09,091	2,34,182	CASA	41.3	42.6	44.9	45.6	45.5
Operating Profit	3,53,382	3,82,574	3,87,087	4,53,252	5,42,201	Operating efficiency (%)					
Investment Profit	35,753	50,004	83,690	43,943	49,083	Cost-to-income	52.3	52.2	55.0	54.1	52.8
Pre-provision Profit	3,89,135	4,32,578	4,70,777	4,97,195	5,91,283	Cost-to-assets	2.2	2.2	2.2	2.2	2.1
Provisions	1,95,996	2,94,836	2,71,301	2,56,615	2,81,231	Productivity (Rs mn)					
-Loan Loss Provisions	1,68,636	2,98,808	2,45,615	2,27,537	2,47,480	Business per branch	1761.4	1903.3	2022.5	2248.1	2504.6
-Investment Depreciation	(9,721)	(9,995)	636	-	-	Business per employee	134.9	153.8	173.1	203.3	238.5
-Other Provisions	37,081	6,023	25,050	29,078	33,751	Profit per branch	8.0	5.9	7.7	8.7	10.7
PBT	1,93,139	1,37,742	1,99,476	2,40,579	3,10,052	Profit per employee	0.6	0.5	0.7	0.8	1.0
Taxes	62,123	38,235	61,838	76,985	99,217	Spreads (%)					
PAT	1,31,016	99,507	1,37,639	1,63,594	2,10,835	Yield on advances	9.0	8.4	7.9	7.6	7.4
Balance Sheet						Yield on investments	8.3	8.7	8.7	8.7	8.7
	FY15	FY16	FY17E	FY18E	FY19E	Cost of deposits	6.0	6.0	5.7	5.4	5.2
Equity Capital	7,466	7,763	8,073	8,073	8,073	Yield on assets	8.6	8.5	8.2	8.0	7.8
Reserves & Surplus	12,76,916	14,34,981	19,38,530	20,68,081	22,44,874	Cost of funds	5.4	5.3	5.1	4.8	4.7
Shareholder's Funds	12,84,382	14,42,744	19,46,603	20,76,154	22,52,947	NIMs	3.1	2.9	2.8	2.8	2.8
Deposits	1,57,67,933	1,73,07,224	1,99,03,308	2,32,86,870	2,72,45,638	Capital adequacy (%)					
-Current deposits	12,45,723	13,98,070	16,57,678	19,96,035	23,91,911	Tier I	9.6	9.9	11.4	10.5	9.8
-Saving deposits	52,73,328	59,77,461	72,75,503	86,28,928	1,00,14,496	Tier II	2.4	3.2	2.3	2.3	2.4
-Term deposit	92,48,882	99,31,693	1,09,70,126	1,26,61,908	1,48,39,230	Total CAR	12.0	13.1	13.7	12.9	12.2
Borrowings	20,51,503	22,41,906	23,44,542	27,46,217	32,16,177	Asset Quality (%)					
-Sub ordinate debt	4,25,426	4,86,802	5,12,461	6,12,880	7,30,370	Gross NPA	4.3	6.5	6.8	6.2	5.5
Other liabilities	13,76,980	15,98,756	18,36,113	21,25,944	24,33,625	Net NPA	2.1	3.8	3.7	3.3	2.6
Total liabilities	2,04,80,798	2,25,90,630	2,60,30,566	3,02,35,186	3,51,48,387	Provision coverage	51.4	43.2	46.6	49.2	54.7
Cash/Equivalent	17,48,613	16,74,676	19,82,867	23,84,542	28,54,501	Provision coverage (incl w/off)	69.1	60.7	63.3	65.7	70.2
Advances	1,30,00,264	1,46,37,004	1,60,64,850	1,89,40,878	2,23,05,831	Slippage	2.3	4.6	2.6	2.3	1.8
Investments	49,50,274	47,70,973	59,39,211	66,15,923	74,07,677	Credit-cost	1.3	2.2	1.6	1.3	1.2
Fixed Assets	93,292	1,03,893	4,28,942	4,36,942	4,44,942	Return (%)					
Other assets	6,88,355	14,04,084	16,14,697	18,56,901	21,35,436	ROE	10.6	7.3	8.1	8.1	9.7
Total assets	2,04,80,798	2,25,90,630	2,60,30,566	3,02,35,186	3,51,48,387	ROA	0.7	0.5	0.6	0.6	0.6
						RORWA	1.1	0.8	1.0	1.0	1.1
						Per share					
						EPS	17.5	12.8	17.0	20.3	26.1
						BV	172.0	185.8	241.1	257.2	279.1
						ABV	135.1	114.0	127.2	140.8	168.1
						Valuation					
						P/E	10.4	14.2	10.7	9.0	7.0
						P/BV	1.1	1.0	0.8	0.7	0.7
						P/ABV	1.4	1.7	1.5	1.4	1.1

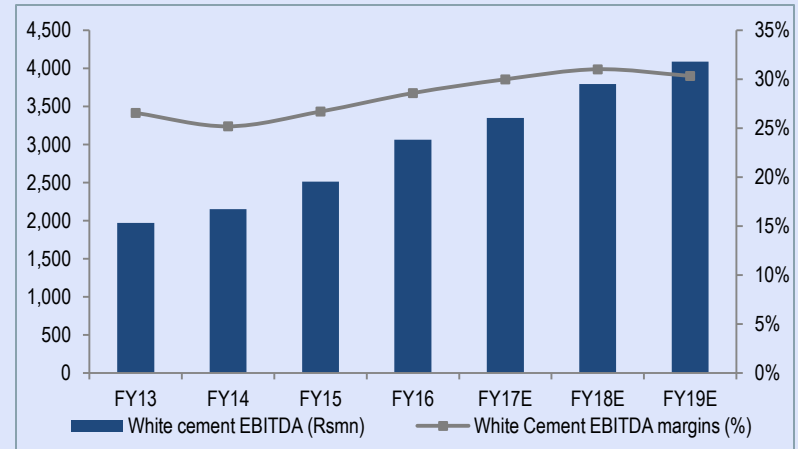
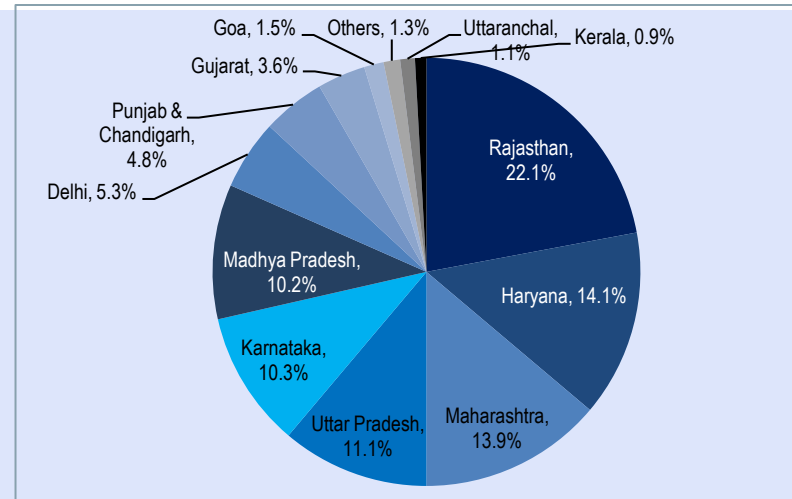
Source: Company, Nirmal Bang Institutional Equities Research

JK Cement

CMP: Rs641; Rating: Buy; M-cap: US\$657mn; TP: Rs1,008; Upside: 57%



- **Top pick in cement space:** We have recently changed our view on the cement sector from positive to Negative. We believe that the triple whammy of demonetisation, Real Estate Regulation Act (RERA) and Benami transactions Act is likely to lead to lower than expected demand and hence will result in greater pricing volatility. Despite this view, we like JK Cements as the company derives large part of its profitability from white cement business which we believe is relatively insulated.
- **White cement business is key value driver for JK Cement:** We believe that the impact of demonetisation and RERA will be limited on white cement business compared to the grey cement business. JK Cement is the third-largest white cement producer in the world with a capacity of 0.6mnmt in India and 0.6mnmt in UAE. The company derives ~60% of its total EBITDA and 30% of sales from white cement business. Hence we believe that the earnings of the company are relatively insulated compared to pure grey cement players. Given the higher profitability in white cement business, we believe that white cement should not be treated as a commodity like grey cement and deserves a higher multiple.
- **Grey cement performance likely to be subdued:** JK Cement's grey cement profitability is on the lower side with FY16 EBITDA/mt of Rs310 on account of weak prices in North India and a higher cost structure. While the management is addressing the cost problem, prices in North and other parts India have increased over the past few months. However, given our assumption of weak demand and pricing volatility for the sector, we believe that grey cement performance will remain subdued.
- **Financials and valuation:** We are factoring in 13% EBITDA and 38% PAT CAGR for the company over FY16E-FY19E. We have valued the stock on SOTP method to arrive at our target price of Rs1,008. Key downside risks to our Buy call include unforeseen incidents in reconstructing controlled flow (CF) silo at Karnataka plant, weak prices in North India and continued weak profitability in Gulf region.



Source: Company, Nirmal Bang Institutional Equities Research

Income Statement	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	33,440	35,599	35,137	38,917	43,737
Raw Material Costs	5,562	6,658	6,645	7,263	8,158
Employee Costs	2,025	2,314	2,332	2,599	2,975
Freight costs	7,344	7,474	6,880	7,593	8,611
Power and Fuel	7,935	7,408	6,747	7,554	8,648
Other Exp	6,067	6,460	6,385	7,013	7,801
Total Exp	28,933	30,413	28,983	32,068	36,231
Operating profit	4,506	5,186	5,850	6,850	7,506
OPM(%)	13	15	17	18	17
Other Income	646	504	226	251	151
Interest	2,194	2,696	2,513	2,268	2,039
Depreciation	1,366	1,563	1,695	1,748	1,791
PBT	1,592	1,431	1,867	3,085	3,827
Tax	22	416	560	925	1,148
Tax rate	1	29	30	30	30
Adjusted Profit	1,569	1,015	1,307	2,159	2,679
EPS	22.4	14.5	18.7	30.9	38.3

Cash Flow Statement	FY15	FY16	FY17E	FY18E	FY19E
Profit after tax	1,569	1,015	1,307	2,159	2,679
Add : Depreciation	1,366	1,563	1,695	1,748	1,791
Net change in Working capital	(175)	1,118	85	(515)	(629)
Net cash from operations	2,760	3,697	3,087	3,392	3,841
Capital expenditure	(2,512)	(2,704)	(2,000)	(1,500)	(1,250)
Sale of investments	(150)	(1,098)	-	-	-
Net cash from investing	(2,662)	(3,802)	(2,000)	(1,500)	(1,250)
Issue of shares	-	(0)	-	-	-
Increase in debt	2,882	409	(3,648)	(2,230)	(2,085)
change in DTL	114	486	-	-	-
Dividends paid incl. tax	(337)	(337)	(336)	(420)	(503)
Change in other LT liabilities	196	229	-	-	-
Change in reserves and surplus	(2,352)	(0)	-	-	-
Net cash from financing	503	787	(3,983)	(2,649)	(2,589)
Net Cash	602	681	(2,896)	(757)	2
Opening Cash	3,476	4,077	4,759	1,862	1,105
Closing Cash	4,077	4,759	1,862	1,105	1,108

Balance Sheet	FY15	FY16	FY17E	FY18E	FY19E
Equity Capital	699	699	699	699	699
Reserves & Surplus	15,766	16,445	17,416	19,156	21,331
Net Worth	16,465	17,144	18,116	19,855	22,031
Total Debt	26,087	26,495	22,848	20,618	18,533
Deferred tax liability	2,799	3,284	3,284	3,284	3,284
Other Long-term Liabilities	1,168	1,396	1,396	1,396	1,396
Total liabilities	46,518	48,320	45,644	45,154	45,244
Gross block	42,339	45,409	48,433	49,933	51,183
Accumulated depreciation	8,959	10,500	12,196	13,943	15,735
Net Block	33,380	34,908	36,237	35,990	35,448
Capital Work in Progress	1,912	1,524	500	500	500
Total Investments	3,145	4,243	4,243	4,243	4,243
NWC - Cash	4,005	2,886	2,801	3,316	3,945
Cash	4,077	4,759	1,862	1,105	1,108
Total assets	46,518	48,320	45,644	45,154	45,244

Key Ratios	FY15	FY16	FY17E	FY18E	FY19E
Growth (%)					
Sales	20.2	6.5	(1.3)	10.8	12.4
Operating Profits	25.0	15.1	12.8	17.1	9.6
Net Profits	61.7	(35.3)	28.7	65.2	24.1
Leverage (x)					
Debt:Equity	1.6	1.5	1.3	1.0	0.8
Net Debt:Equity	1.3	1.3	1.2	1.0	0.8
Profitability (%)					
OPM	13.5	14.6	16.6	17.6	17.2
NPM	4.7	2.9	3.7	5.5	6.1
ROE	9.2	6.0	7.4	11.4	12.8
Pre-tax ROCE	6.9	7.6	8.8	11.2	12.6
Valuation (x)					
P/E	28.6	44.1	34.3	20.8	16.7
P/B	2.7	2.6	2.5	2.3	2.0
EV/mt (\$)	83.9	83.9	80.2	77.9	77.9
EV/EBIDTA	14.8	12.8	11.4	9.7	8.9

Apar Industries

CMP: Rs560; Rating: Buy; M-cap: US\$318mn; TP: Rs690; Upside: 23%



- **Key beneficiary of strong transmission capex**

- First-mover advantage and market leadership in highly specialised products

- **Conductor segment to see volume and margin boost**

- Largest manufacturer and exporter of conductors in India
- Has 23% domestic market share and healthy exports (30% of order book)
- Conductor plant (150,000MT) operates at 100% utilisation since past 7 quarters
- Apar commissioned a new 30,000MT plant in Odisha in 2QFY17
- Guided for EBITDA/MT of Rs10,500/Rs11,500 in FY17E/FY18E vs Rs8,400 in FY16
- Better revenue mix with rising share of HEC conductors to drive margins

- **Oil segment to remain steady**

- Apar is world's 4th-largest transformer oil maker (45% domestic market share).
- Also sells white oil, auto lubes, industrial & rubber processing oil.
- Existing capacity of 442,000KL in India. 100,000KL plant at Sharjah to start in 3QFY17
- Guided for EBITDA/KL of Rs5,200/Rs5,500 in in FY17E/FY18E
- 765KV transformer oil, auto lubes, and industrial oil to drive margins

- **Cable segment stages healthy turnaround**

- Strong demand of elastomeric cables from solar, wind and defence sectors and scale up of power cables portfolio driving margins. Apar posted 6% EBITDA margin in FY16 and expects 8%/8.5% margin in FY17E and FY18E.

- **Healthy financials, reasonable valuation**

- 30% earnings CAGR over FY16-FY19E. RoCE to rise from 26% in FY16 to 33% in FY19E. Key beneficiary of buoyant transmission capex.
- Trading at 8x FY19E EPS. We assign 11x September 2018E (1HFY19) earnings.

% share of revenues	FY15	FY16	FY17E	FY18E	FY19E
Conductor	45.3	50.3	48.5	48.0	46.6
Oil	43.9	36.3	36.8	37.0	38.0
Cables	10.9	13.3	14.7	15.0	15.4

% share of EBITDA	FY15	FY16	FY17E	FY18E	FY19E
Conductor	46.7	36.6	41.7	42.7	40.6
Oil	40.0	52.6	43.4	42.1	42.9
Cables	12.6	10.8	14.9	15.2	16.5

Shareholding (%)	FY13	FY14	FY15	FY16	Sep-16
Promoter	58.9	62.5	62.5	58.2	58.2

Source: BSE

Profit and Loss Y/E Mar (Rsmn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Net Sales	51,219	50,800	52,748	58,105	64,410
% growth	10.6	(0.8)	3.8	10.2	10.8
Raw material cost	40,851	38,818	39,983	43,870	48,436
Staff cost	794	914	1,055	1,162	1,288
Other overheads	7,054	7,435	7,554	8,225	9,165
Total Expenditure	48,698	47,168	48,592	53,256	58,890
EBITDA	2,520	3,633	4,156	4,849	5,520
% growth	(15.3)	44.1	14.4	16.7	13.8
EBITDA margin (%)	4.9	7.2	7.9	8.3	8.6
Other income	18	34	127	140	154
Interest	1,499	1,514	1,188	1,288	1,215
Depreciation	312	378	443	515	554
Profit Before Tax	727	1,775	2,653	3,186	3,905
Tax	231	571	849	1,019	1,250
Net Profit	497	1,204	1,804	2,166	2,655
Exceptional items	(3)	432	-	-	-
Reported net profit	495	1,628	1,804	2,166	2,655
Adjusted net profit	498	1,196	1,804	2,166	2,655
% growth	(45.0)	140.4	50.8	20.1	22.6
PAT margin (%)	1.0	2.4	3.4	3.7	4.1
Adjusted EPS (Rs)	12.9	31.1	46.9	56.3	69.0
% growth	(45.0)	140.4	50.8	20.1	22.6

Balance Sheet Y/E March (Rsmn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Share capital	385	385	385	385	385
Reserves	6,913	8,208	9,550	11,162	13,124
Net worth	7,298	8,593	9,935	11,547	13,509
Minority Interest	12	17	17	17	17
Short-term Loans	3,867	2,638	1,938	1,438	938
Long-term Loans	948	837	837	837	837
Total Loans	4,815	3,475	2,775	2,275	1,775
Deferred Tax Liability Net	274	313	313	313	313
Liabilities	12,399	12,398	13,039	14,151	15,614
Gross Block	6,026	6,503	8,264	8,914	9,564
Depreciation	2,298	2,625	3,068	3,583	4,137
Net Block	3,728	3,878	5,196	5,331	5,426
Capital work-in-progress	102	561	150	150	150
Goodwill	217	101	101	101	101
Long-term Investments	53	1,091	1,091	1,091	1,091
Inventories	9,443	7,749	8,382	9,392	10,588
Debtors	12,670	10,888	11,561	13,054	14,823
Cash	1,005	1,370	1,041	1,106	1,313
Loans and advances	1,955	2,237	2,110	2,324	2,576
Other Current assets	386	51	105	116	129
Total Current assets	25,459	22,295	23,200	25,993	29,429
Creditors	15,730	14,055	14,788	16,586	18,578
Other current liabilities & provisions	1,430	1,473	1,910	1,927	2,005
Total current liabilities	17,160	15,528	16,698	18,514	20,583
Net current assets	8,299	6,767	6,502	7,479	8,846
Total Assets	12,399	12,398	13,039	14,151	15,614

Cash Flow Y/E March (Rs mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
EBIT	2,208	3,255	3,713	4,334	4,966
(Inc)/Dec in working capital	1,604	1,896	(63)	(912)	(1,160)
Cash flow from operations	3,812	5,152	3,650	3,421	3,806
Other income	18	34	127	140	154
Depreciation	312	378	443	515	554
Tax paid (-)	(181)	(533)	(849)	(1,019)	(1,250)
Minority interest (-)	1	(8)	-	-	-
Net cash from operations	3,962	5,023	3,371	3,057	3,265
Capital expenditure (-)	(582)	(986)	(1,350)	(650)	(650)
Net cash after capex	3,380	4,037	2,021	2,407	2,615
Interest paid (-)	(1,499)	(1,514)	(1,188)	(1,288)	(1,215)
Dividends paid (-)	(149)	(301)	(462)	(554)	(693)
Inc./(Dec.) in short-term borrowing	(3,213)	(1,229)	(700)	(500)	(500)
Inc./(dec.) in long-term borrowing	247	(111)	-	-	-
Inc./(dec.) in total borrowings	(2,967)	(1,340)	(700)	(500)	(500)
(Inc.)/Dec. in investments	(38)	(1,038)	-	-	-
Minority Interest	(6)	5	-	-	-
Cash from Financial Activities	(4,657)	(4,187)	(2,349)	(2,342)	(2,408)
Others	(24)	515	-	-	-
Opening cash	2,306	1,005	1,370	1,041	1,106
Closing cash	1,005	1,370	1,041	1,106	1,313
Change in cash	(1,301)	365	(328)	65	207

Key Ratios Y/E March	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Per share (Rs)					
EPS	12.9	42.3	46.9	56.3	69.0
Book value	189.6	223.2	258.1	299.9	350.9
Valuation (x)					
P/E	43.5	13.2	12.0	10.0	8.1
P/BV	3.0	2.5	2.2	1.9	1.6
EV/EBITDA	10.1	6.5	5.6	4.7	4.0
EV/Sales	0.5	0.5	0.4	0.4	0.3
Return ratio (%)					
RoCE	16.1	26.3	29.2	31.9	33.4
RoE	6.9	20.5	19.5	20.2	21.2
RoIC	18.4	30.6	35.6	37.9	39.5
Profitability ratio (%)					
EBITDA margin	4.9	7.2	7.9	8.3	8.6
EBIT margin	4.3	6.4	7.0	7.5	7.7
PAT margin	1.0	2.4	3.4	3.7	4.1
Turnover ratio					
Asset turnover ratio (x)	3.7	4.1	4.1	4.3	4.3
Debtor days	90	78	80	82	84
Inventory days	67	56	58	59	60
Creditors days	141	132	135	138	140
Solvency ratio (x)					
Debt-equity	0.7	0.4	0.3	0.2	0.1
Interest coverage	1.5	2.2	3.1	3.4	4.1

Source: Company, Nirmal Bang Institutional Equities Research

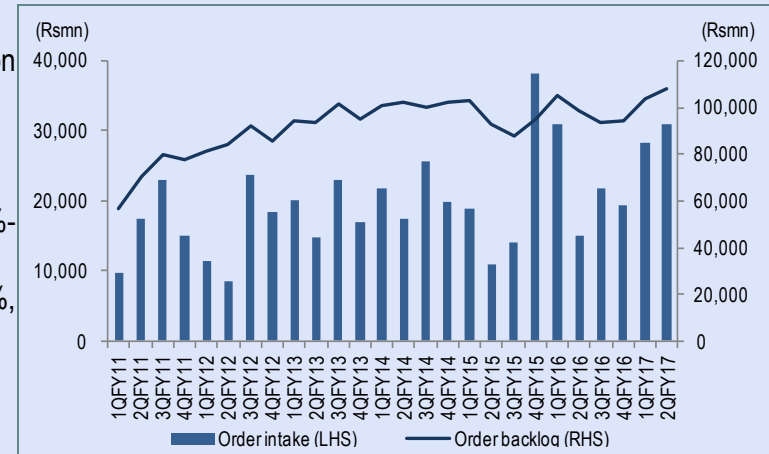
KEC International

CMP: Rs131; Rating: Buy; M-cap: US\$497mn; TP: Rs177; Upside: 35%



- **Transmission segment to remain buoyant**
 - Healthy order book of Rs74bn in transmission segment.
 - Total order book of Rs108bn, 1.3x book-to-bill, Rs38bn L1 position
 - Domestic growth drivers - state utilities (rising spend), HVDC projects, TBCB BOOT projects, PGCIL (KEC has 20% market share)
 - International markets (39% of order book) – scaling up in Far East (Rs20bn tenders bid), expansion in MENA (Rs150bn pipeline)
 - Transmission segment (74% of total revenue) margin at 9%-10%
- **Strong improvement in margin profile likely**
 - Turnaround in SAE Towers & cables segments and scale up in railways (9%-10% margin profile, same as T&D) to lead to healthy revival in margins.
 - FY16 EBITDA margin rose 200bps to 8%, 1HFY17 margin rose to 8.6%, management expects FY17E/FY18E margin of 8.6%/9%.
- **New business segments turning around**
 - Cable to turn profitable with launch of EHV cable up to 220KV
 - Rising opportunity in railway (Rs12bn order book as at 1HFY17)
 - Solar EPC entry – sales to jump from Rs1bn to Rs3bn YoY in FY17E
- **Healthy earnings growth likely over FY16-FY19E**
 - 29% adjusted earnings CAGR likely over FY16-FY19E. RoCE to rise from 15.5% in FY16 to 20.9% in FY19E
 - High scalability potential due to a strong T&D capex outlay likely over the next five years in India. We assign 12x September 2018E EPS.

Order inflow and order book position



Shareholding (%)	FY13	FY14	FY15	FY16	Sep-16
Promoter	44.6	49.4	50.1	50.8	50.8

Source: BSE

Profit & Loss Statement Y/E Mar (Rsmn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Net Sales	84,678	85,163	93,712	1,04,165	1,16,068
% growth	7.2	0.6	10.0	11.2	11.4
Raw material cost	64,527	62,198	67,941	75,311	83,569
Staff cost	5,865	6,424	7,216	7,917	8,821
Other overheads	9,168	9,749	10,496	11,562	13,000
Total Expenditure	79,560	78,370	85,653	94,790	1,05,390
EBITDA	5,118	6,793	8,059	9,375	10,678
% growth	3.8	32.7	18.6	16.3	13.9
EBITDA margin (%)	6.0	8.0	8.6	9.0	9.2
Other income	116	103	187	208	232
Interest	3,089	2,774	2,963	2,936	3,121
Depreciation	881	876	1,212	1,285	1,330
Profit Before Tax	1,264	3,246	4,071	5,362	6,460
Tax	561	1,331	1,506	1,930	2,325
Adjusted Net Profit	703	1,915	2,565	3,432	4,134
Extraordinaries	907	-	-	-	-
Reported Net Profit	1,610	1,915	2,565	3,432	4,134
Adjusted PAT margin (%)	0.8	2.2	2.7	3.3	3.6
Adjusted EPS (Rs)	2.7	7.4	10.0	13.3	16.1
% growth	(17.2)	172.3	33.9	33.8	20.5

Balance Sheet Y/E March (Rs mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Equity	514	514	514	514	514
Reserves	12,784	14,605	16,552	19,182	22,329
Net worth	13,298	15,119	17,067	19,696	22,843
Short-term Loans	14,523	19,124	18,224	17,474	16,724
Long-term Loans	7,370	6,020	6,020	6,020	6,020
Total Loans	21,894	25,144	24,244	23,494	22,744
Deferred Tax Liability Net	527	421	421	421	421
Liabilities	35,719	40,684	41,731	43,611	46,008
Gross Block	13,393	13,855	14,672	15,572	16,472
Depreciation	4,747	5,374	6,587	7,872	9,202
Net Block	8,646	8,481	8,085	7,700	7,270
Capital work-in-progress	164	117	200	200	200
Goodwill	3,943	4,180	4,180	4,180	4,180
Inventories	4,764	4,298	5,135	5,993	6,678
Debtors	38,529	44,948	47,241	51,369	57,239
Cash	2,063	1,113	1,432	1,465	1,680
Loans and advances	9,507	8,737	9,756	10,845	11,766
Other Current assets	9,655	9,261	10,308	11,458	12,768
Total Current assets	64,518	68,357	73,873	81,130	90,131
Creditors	33,248	29,391	32,575	36,521	41,212
Other current liabilities & provisions	8,305	11,059	12,032	13,078	14,561
Total current liabilities	41,553	40,451	44,607	49,599	55,773
Net current assets	22,965	27,906	29,266	31,531	34,358
Total Assets	35,719	40,684	41,731	43,611	46,008

Cash Flow Y/E March (Rs mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
EBIT	4,237	5,917	6,847	8,089	9,348
(Inc)/Dec in working capital	(2,340)	(5,891)	(1,040)	(2,232)	(2,611)
Cash flow from operations	1,897	26	5,807	5,857	6,737
Other income	116	103	187	208	232
Depreciation	881	876	1,212	1,285	1,330
Tax paid (-)	(547)	(1,437)	(1,506)	(1,930)	(2,325)
Net cash from operations	2,347	(433)	5,700	5,421	5,974
Capital expenditure (-)	230	(662)	(900)	(900)	(900)
Net cash after capex	2,577	(1,095)	4,800	4,521	5,074
Interest paid (-)	(3,089)	(2,774)	(2,963)	(2,936)	(3,121)
Dividends paid (-)	(272)	(309)	(617)	(802)	(987)
Inc./(Dec.) in short-term borrowing	(724)	4,600	(900)	(750)	(750)
Inc./(dec.) in long-term borrowing	1,344	(1,350)	-	-	-
Inc./(dec.) in borrowings	621	3,250	(900)	(750)	(750)
Cash from Financial Activities	(2,740)	167	(4,480)	(4,488)	(4,858)
Others	786	(22)	-	-	-
Opening cash	1,440	2,063	1,113	1,432	1,465
Closing cash	2,063	1,113	1,432	1,465	1,680
Change in cash	623	(951)	320	33	215

Key Ratios Y/E March	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Per share (Rs)					
EPS	2.7	7.4	10.0	13.3	16.1
Book value	51.7	58.8	66.4	76.6	88.9
Valuation (x)					
P/E	47.9	17.6	13.1	9.8	8.1
P/BV	2.5	2.2	2.0	1.7	1.5
EV/EBITDA	10.5	8.5	7.0	5.9	5.1
EV/Sales	0.6	0.7	0.6	0.5	0.5
Return ratio (%)					
RoCE	12.2	15.5	16.6	19.0	20.9
RoE	5.6	13.5	15.9	18.7	19.4
RoIC	12.9	16.2	17.1	19.6	21.6
Profitability ratio (%)					
EBITDA margin	6.0	8.0	8.6	9.0	9.2
EBIT margin	5.0	6.9	7.3	7.8	8.1
PAT margin	0.8	2.2	2.7	3.3	3.6
Turnover ratio					
Asset turnover ratio (x)	2.4	2.2	2.3	2.4	2.6
Debtor days	166	193	184	180	180
Inventory days	21	18	20	21	21
Creditors days	188	172	175	177	180
Solvency ratio (x)					
Debt-equity	1.6	1.7	1.4	1.2	1.0
Interest coverage	1.4	2.1	2.3	2.8	3.0

Source: Company, Nirmal Bang Institutional Equities Research

Power Mech Projects

CMP: Rs440; Rating: Buy; M-cap: US\$95mn; TP: Rs780; Upside: 77%



- **Integrated power infrastructure services firm**

- Provides erection, testing and commissioning (ETC) of thermal, hydro, and gas power plants. Offers O&M & AMC services to operate & maintain power plants

- **O&M segment key driver of revenue growth and margins**

- Manages 33GW out of 55GW operational private IPPs, a 60% market share
- Most profitable segment with EBITDA margin profile of 18%
- Future growth avenues – under construction and stuck private IPPs (57GW), Chinese power plants (60GW), tenders of SEBs and international markets
- 19% revenue CAGR likely over FY16-FY19E, to form 33% of FY19E revenue

- **Largest and credible ETC player**

- Largest ETC player in India, executed 34GW of 88GW IPPs under construction over the past five years, a 38% market share, 11% EBITDA margin profile
- Worked on 16 out of 21 super critical power plants in India and both UMPPs
- Near-term ETC pipeline of Rs15bn, ETC forms 8% of a cost of thermal plant
- Rs5bn p.a. opportunity for installation, erection & testing of FGD and SCR

- **Healthy financial franchise at inexpensive valuation**

- FY19E RoCE of 22%, fixed asset turn of 4x, EBITDA margin profile of ~13%
- Strong order book of Rs35bn (2.5x FY16 revenue), robust tender pipeline, we expect a 19% consolidated earnings CAGR over FY16-FY19E
- Attractively valued at 6.3x FY18E earnings. We assign 10x 1H FY19E EPS.

% share of revenues	FY15	FY16	FY17E	FY18E	FY19E
ETC	66.2	56.9	48.5	43.7	41.6
O&M	20.0	27.1	32.5	32.3	32.5
Civil	12.7	14.5	16.3	19.3	20.2
Subsidiaries	1.1	1.6	2.8	4.7	5.6

Shareholding (%)	Aug-15	FY16	Sep-16
Promoter	64.7	64.7	65.1

Source: BSE

Profit and Loss Y/E March (Rsmn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Net Sales	13,662	13,838	14,407	17,111	19,604
% growth	13.8	1.3	4.1	18.8	14.6
Raw material cost	10,578	10,190	9,984	11,806	13,527
Staff cost	1,202	1,545	2,233	2,618	2,960
Other overheads	213	275	314	437	501
Total Expenditure	11,992	12,011	12,531	14,861	16,988
EBITDA	1,670	1,827	1,876	2,250	2,616
% growth	7.5	9.4	2.7	19.9	16.3
EBITDA margin (%)	12.2	13.2	13.0	13.1	13.3
Other income	58	55	59	65	72
Interest	294	329	333	294	256
Depreciation	368	390	436	444	464
Profit Before Tax	1,066	1,163	1,167	1,578	1,968
Tax	350	406	408	552	689
Minority interest	2	2	4	6	8
Adjusted net profit	714	755	755	1,020	1,272
% growth	4.9	5.8	(0.1)	35.1	24.7
PAT margin (%)	5.2	5.5	5.2	6.0	6.5
EPS (Rs)	56.7	51.3	51.3	69.3	86.5
% growth	(8.8)	(9.5)	(0.1)	35.1	24.7

Balance Sheet Y/E March (Rs mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Share capital	126	147	147	147	147
Reserves	3,421	5,404	6,123	7,072	8,238
Net worth	3,547	5,551	6,270	7,219	8,385
Minority Interest	2	4	4	4	4
Short-term Loans	1,997	1,919	1,669	1,419	1,169
Long-term Loans	366	214	214	214	214
Current maturities of long term debt	213	227	200	200	200
Total Loans	2,576	2,359	2,082	1,832	1,582
Deferred Tax Liability Net	47	42	42	42	42
Liabilities	6,173	7,957	8,399	9,098	10,014
Gross Block	3,438	3,965	4,335	4,535	4,735
Depreciation	1,606	1,987	2,423	2,867	3,330
Net Block	1,832	1,978	1,912	1,668	1,405
Capital work-in-progress	170	220	50	50	50
Inventories	321	313	355	422	483
Debtors	1,954	2,727	2,881	3,375	3,760
Cash	678	686	799	877	1,044
Loans and advances	1,493	1,900	2,017	2,396	2,745
Other Current assets	4,031	5,237	5,403	6,160	7,155
Total Current assets	8,477	10,863	11,455	13,229	15,187
Creditors	2,221	2,711	2,599	2,976	3,335
Other current liabilities & provisions	2,085	2,393	2,420	2,875	3,293
Total current liabilities	4,307	5,104	5,019	5,850	6,629
Net current assets	4,170	5,759	6,436	7,379	8,558
Total Assets	6,173	7,957	8,399	9,098	10,014

Cash Flow Y/E March (Rs mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
EBIT	1,302	1,437	1,441	1,806	2,153
(Inc)/Dec in working capital	(1,400)	(1,581)	(564)	(865)	(1,012)
Cash flow from operations	(98)	(145)	876	942	1,141
Other income	58	55	59	65	72
Depreciation	368	390	436	444	464
Tax paid (-)	(381)	(411)	(408)	(552)	(689)
Minority interest (-)	(2)	(2)	(4)	(6)	(8)
Net cash from operations	(55)	(112)	959	892	979
Capital expenditure (-)	(522)	(585)	(200)	(200)	(200)
Net cash after capex	(577)	(698)	759	692	779
Interest paid (-)	(294)	(329)	(333)	(294)	(256)
Dividends paid (-)	(15)	(18)	(35)	(71)	(106)
Inc./(Dec.) in short-term borrowing	671	(64)	(277)	(250)	(250)
Inc./(dec.) in long-term borrowing	92	(152)	-	-	-
Inc./(dec.) in total borrowings	763	(216)	(277)	(250)	(250)
Minority Interest	1	2	-	-	-
Equity issue/(Buyback)	112	1,266	-	-	-
Cash from Financial Activities	567	705	(646)	(614)	(612)
Opening cash	688	678	686	799	877
Closing cash	678	686	799	877	1,044
Change in cash	(10)	7	113	78	167

Key Ratios Y/E March	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Per share (Rs)					
EPS	56.7	51.3	51.3	69.3	86.5
Book value	281.9	377.3	426.2	490.7	570.0
Valuation (x)					
P/E	7.8	8.6	8.6	6.3	5.1
P/BV	1.6	1.2	1.0	0.9	0.8
EV/EBITDA	5.0	4.5	4.1	3.3	2.7
EV/Sales	0.6	0.6	0.5	0.4	0.4
Return ratio (%)					
RoCE	24.1	20.3	17.6	20.6	22.5
RoE	22.7	16.6	12.8	15.1	16.3
RoIC	27.6	22.5	19.4	22.8	25.0
Profitability ratio (%)					
EBITDA margin	12.2	13.2	13.0	13.1	13.3
EBIT margin	9.5	10.4	10.0	10.6	11.0
PAT margin	5.2	5.5	5.2	6.0	6.5
Turnover ratio					
Total asset turnover ratio (x)	2.2	1.7	1.7	1.9	2.0
Fixed asset turnover ratio (x)	4.0	3.5	3.3	3.8	4.1
Debtor days	52	72	73	72	70
Inventory days	9	8	9	9	9
Creditors days	77	97	95	92	90
Solvency ratio (x)					
Debt-equity	0.7	0.4	0.3	0.3	0.2

Source: Company, Nirmal Bang Institutional Equities Research

TD Power Systems

CMP: Rs170; Rating: Buy; M-cap: US\$83mn; TP: Rs345; Upside: 103%



- **Key generator supplier to renowned global OEMs**
 - Key generator supplier to renowned global OEMs like Siemens, GE and Voith Hydro. Rising penetration among existing OEMs, fresh tie-ups with new OEMs and diversification in untapped verticals are key growth drivers.
- **Robust scale-up in generator sales likely**
 - Hydro generators (highest margins) likely to post 10% revenue CAGR over FY16-FY19E
 - Strong scale-up likely in gas generators (13% of FY16 sales, revenue to double in FY17E)
 - Maiden locomotive generators order received – 45 units for US market. Key future drivers are US market, global supplies and Bihar locomotive plant.
 - Steam is largest segment but affected by captive power slowdown (49% of FY16 sales). FY16 sales were flat, we factor 25%/10% YoY decline in FY17E/FY18E.
 - Exports a key driver at 75% of order book (39% direct and 36% deemed).
 - Overall, we expect 13% CAGR in generator revenue over FY16-FY19E
- **Closure of loss-making EPC business attained**
 - EPC business closed in 4QFY16. Exit costs, LDs & provision for bad debts fully provided.
- **Strong financial health to aid valuation**
 - EBITDA margin likely to jump from 1.3% in FY16 to 11.9% in FY19E with closure of EPC, better revenue mix & improved operating leverage.
 - Capacity utilisation (currently at 50%) to improve, healthy free cash flow (Rs1.5bn over FY17E-FY19E), high net cash per share (Rs60 in FY16 to rise to Rs81 in FY19E).

% share of generator sales	FY15	FY16	FY17E	FY18E	FY19E
Steam	49.0	49.0	36.0	27.7	25.3
Hydro	28.7	29.0	30.3	29.1	27.0
Gas engine	10.6	13.0	23.1	24.2	23.7
Locomotive	0.0	1.0	5.1	11.0	16.4

Shareholding (%)	FY13	FY14	FY15	FY16	Sep-16
Promoter	63.0	62.0	54.0	54.0	54.0

Source: BSE

Profit and Loss Y/E March (Rsmn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Net Sales	5,974	5,068	4,960	5,719	6,704
% growth	24.4	(15.2)	(2.1)	15.3	17.2
Raw material cost	4,533	3,679	3,273	3,763	4,391
Staff cost	652	661	670	743	804
Other overheads	648	661	533	584	710
Total Expenditure	5,833	5,001	4,476	5,091	5,906
EBITDA	141	67	484	628	798
% growth	(28.8)	(52.6)	623.5	29.8	27.1
EBITDA margin (%)	2.4	1.3	9.8	11.0	11.9
Other income	245	202	248	286	335
Interest	39	50	28	8	-
Depreciation	288	288	294	298	309
Profit Before Tax	60	(69)	409	608	824
Tax	68	23	102	164	227
Adjusted net profit	(8)	(92)	307	444	597
PAT margin (%)	(0.1)	(1.8)	6.2	7.8	8.9
Adjusted EPS (Rs)	(0.2)	(2.8)	9.2	13.4	18.0
% growth	(103.6)	1,008.8	(434.1)	44.7	34.5

Balance Sheet Y/E March (Rsmn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Share capital	332	332	332	332	332
Reserves	4,608	4,400	4,548	4,752	5,031
Net worth	4,940	4,733	4,880	5,085	5,363
Short-term Loans	574	276	76	-	-
Long-term Loans	-	-	-	-	-
Total Loans	574	276	76	-	-
Deferred Tax Liability Net	177	153	153	153	153
Liabilities	5,691	5,162	5,110	5,238	5,516
Gross Block	3,604	3,743	3,899	4,049	4,199
Depreciation	888	1,160	1,455	1,753	2,062
Net Block	2,716	2,582	2,445	2,297	2,137
Capital work-in-progress	-	7	-	-	-
Long-term Loans and advances	345	193	204	235	276
Inventories	760	881	910	1,018	1,139
Debtors	1,551	1,552	1,495	1,677	1,965
Cash	2,721	2,258	2,191	2,370	2,696
Short term Loans and advances	867	456	476	548	643
Total Current assets	5,900	5,147	5,072	5,613	6,443
Creditors	1,672	1,446	1,300	1,443	1,624
Other current liabilities & provisions	1,598	1,320	1,310	1,463	1,715
Total current liabilities	3,270	2,767	2,610	2,907	3,340
Net current assets	2,630	2,381	2,461	2,706	3,103
Total Assets	5,691	5,162	5,110	5,238	5,516

Cash Flow Y/E March (Rs mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
EBIT	(147)	(221)	189	330	489
(Inc)/Dec in working capital	384	(214)	(148)	(66)	(71)
Cash flow from operations	237	(435)	42	264	418
Other income	245	202	248	286	335
Depreciation	288	288	294	298	309
Tax paid (-)	(36)	(47)	(102)	(164)	(227)
Net cash from operations	733	8	482	684	836
Capital expenditure (-)	(270)	(161)	(150)	(150)	(150)
Net cash after capex	464	(152)	332	534	686
Interest paid (-)	(39)	(50)	(28)	(8)	-
Dividends paid (-)	(106)	(122)	(160)	(239)	(319)
Inc./(Dec.) in short-term borrowing	(56)	(297)	(200)	(76)	-
Inc./(dec.) in long-term borrowing	-	-	-	-	-
Inc./(Dec.) in total borrowing	(56)	(297)	(200)	(76)	-
(Inc.)/dec. in long term loans and advances	76	152	(11)	(31)	(40)
Cash from Financial Activities	(125)	(317)	(399)	(355)	(360)
Others	(21)	6	-	-	-
Opening cash	2,404	2,721	2,258	2,191	2,370
Closing cash	2,721	2,258	2,191	2,370	2,696
Change in cash	317	(463)	(67)	179	326

Y/E March	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Per share (Rs)					
EPS	(0.2)	(2.8)	9.2	13.4	18.0
Book value	148.6	142.4	146.8	153.0	161.4
Valuation (x)					
P/E	NA	NA	18.4	12.7	9.5
P/BV	1.1	1.2	1.2	1.1	1.1
EV/EBITDA	24.8	54.9	7.3	5.2	3.7
EV/Sales	0.6	0.7	0.7	0.6	0.4
Return ratio (%)					
RoCE	(2.6)	(4.3)	3.7	6.3	8.9
RoE	(0.2)	(1.9)	6.3	8.7	11.1
RoIC	(4.9)	(7.6)	6.5	11.5	17.3
Profitability ratio (%)					
EBITDA margin	2.4	1.3	9.8	11.0	11.9
PAT margin	(0.1)	(1.8)	6.2	7.8	8.9
Turnover ratio					
Total Asset turnover ratio (x)	1.0	0.9	1.0	1.1	1.2
Debtor days	95	112	110	107	107
Inventory days	46	63	67	65	62
Creditors days	135	143	145	140	135
Solvency ratio (x)					
Debt-equity	0.1	0.1	0.02	-	-

Source: Company, Nirmal Bang Institutional Equities Research

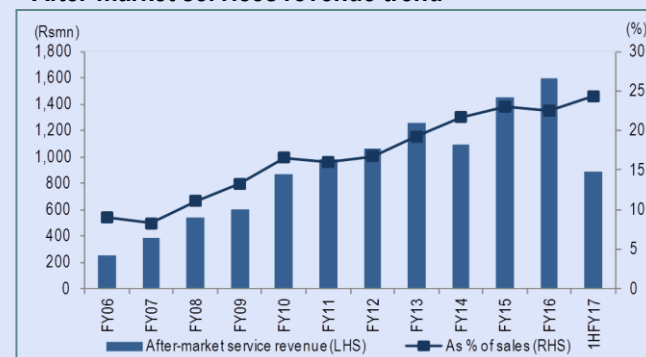
Triveni Turbine

CMP: Rs115; Rating: Buy; M-cap: US\$560mn; TP: Rs140; Upside: 22%

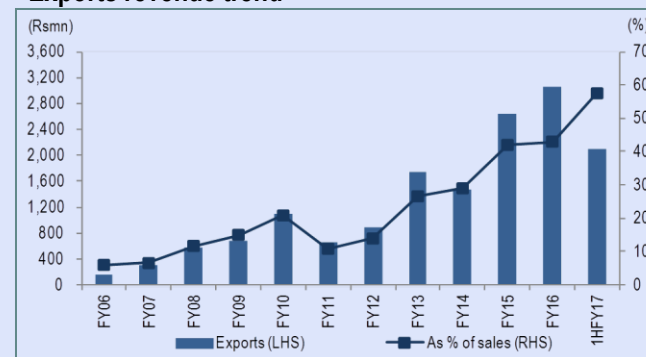


- **Technology-driven customised products**
 - Industrial turbines are customised as per end-user industry and output capacity. Hence low competition, high-margin business.
 - The 0-30MW segment is duopoly in India between Triveni (60% share) and Siemens
- **Rising exports and after-market services**
 - Both have aided margins and posted a healthy growth, thereby countering the slowdown in domestic market.
 - Exports form 57% of revenue in 1HFY17. Sugar, biomass, waste-to-energy, process co-gen, and CCPP are key demand drivers.
 - High-margin after-market services (24% of 1HFY17 revenue) is a key differentiator.
- **Scale-up of GE-Triveni joint venture (30-100MW segment)**
 - The JV won two orders worth Rs474mn in 1HFY17, four to five more orders are likely to fructify in 2HFY17
- **Recovery in domestic captive power generation market**
 - Market size plunged from 1,800MW in FY10 to 620MW in FY16, recovery to provide significant boost.
- **Healthy growth momentum likely over FY16-FY19E**
 - Revenue/earnings likely to post 18%/24% CAGR, respectively.
 - Strong financial health, robust margin profile (in excess of 20%), superlative return ratios (in excess of 40%), strong free cash flow and healthy dividend payout.
 - We assign 25x September 2018E (1HFY19) earnings.

After-market services revenue trend



Exports revenue trend



Shareholding (%)	FY13	FY14	FY15	FY16	Sep-16
Promoter	71.9	71.9	70.0	70.0	67.7

Source: BSE

Profit and Loss Y/E March (Rs mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Net Sales	6,255	7,081	8,297	9,780	11,630
% growth	23.1	13.2	17.2	17.9	18.9
Raw material cost	3,647	3,994	4,663	5,477	6,478
Staff cost	601	632	913	1,076	1,279
Other overheads	750	900	996	1,154	1,349
Total Expenditure	4,999	5,526	6,572	7,707	9,106
EBITDA	1,257	1,555	1,726	2,073	2,524
% growth	18.1	23.8	11.0	20.1	21.7
EBITDA margin (%)	20.1	22.0	20.8	21.2	21.7
Other income	277	139	266	313	384
Interest	5	3	0	0	0
Depreciation	145	140	149	182	194
Profit Before Tax	1,384	1,551	1,842	2,205	2,713
Tax	445	512	589	705	868
Net Profit	939	1,038	1,253	1,499	1,845
Share of profit from GET JV	0	0	74	127	152
Extraordinaries	(28)	-	-	-	-
Reported net profit	911	1,038	1,327	1,626	1,997
PAT margin	15.0	14.7	16.0	16.6	17.2
Adjusted EPS (Rs)	2.8	3.1	4.0	4.9	6.1
% growth	37.1	10.6	27.8	22.6	22.8

Balance Sheet Y/E March (Rs mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Share capital	330	330	330	330	330
Reserves	2,026	2,627	3,326	4,167	5,182
Net worth	2,356	2,957	3,656	4,497	5,512
Short-term Loans	7	-	-	-	-
Long-term Loans	5	4	-	-	-
Total Loans	12	4	-	-	-
Deferred Tax Liability Net	91	81	81	81	81
Liabilities	2,459	3,042	3,736	4,577	5,592
Gross Block	1,873	1,956	2,785	2,985	3,185
Depreciation	925	1,048	1,198	1,379	1,574
Net Block	948	908	1,587	1,606	1,611
Capital work-in-progress	61	329	-	-	-
Land	389	389	389	389	389
Long-term Investments	145	209	209	209	209
Inventories	1,187	1,583	1,773	2,010	2,294
Debtors	1,534	1,142	1,364	1,661	2,071
Cash	40	269	366	851	1,550
Loans and advances	496	507	568	750	924
Other Current assets	301	373	415	489	581
Total Current assets	3,559	3,874	4,486	5,761	7,421
Creditors	1,120	874	1,086	1,305	1,562
Other current liabilities & provisions	1,521	1,792	1,849	2,082	2,476
Total current liabilities	2,642	2,667	2,935	3,387	4,037
Net current assets	917	1,208	1,551	2,374	3,383
Total Assets	2,459	3,042	3,736	4,577	5,592

Cash Flow Y/E March (Rs mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
EBIT	1,112	1,415	1,577	1,892	2,329
(Inc)/Dec in working capital	(428)	(62)	(247)	(338)	(310)
Cash flow from operations	684	1,354	1,330	1,554	2,019
Other income	277	139	266	313	384
Depreciation	145	140	149	182	194
Tax paid (-)	(450)	(523)	(589)	(705)	(868)
Share of profit from GET JV	0	0	74	127	152
Net cash from operations	655	1,109	1,229	1,470	1,881
Capital expenditure (-)	(95)	(368)	(500)	(200)	(200)
Net cash after capex	560	741	729	1,270	1,681
Interest paid (-)	(5)	(3)	-	-	-
Dividends paid (-)	(335)	(437)	(628)	(785)	(982)
Inc./(Dec.) in short-term borrowing	(63)	(7)	-	-	-
Inc./(dec.) in long-term borrowing	-	(1)	(4)	-	-
Inc./(dec.) in total borrowings	(63)	(8)	(4)	-	-
(Inc.)/Dec. in investments	(65)	(65)	-	-	-
Cash from Financial Activities	(467)	(512)	(632)	(785)	(982)
Others	(60)	-	-	-	-
Opening cash	7	40	269	366	851
Closing cash	40	269	366	851	1,550
Change in cash	34	229	97	485	699

Y/E March	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Per share (Rs)					
EPS	2.8	3.1	4.0	4.9	6.1
Book value	7.1	9.0	11.1	13.6	16.7
Valuation (x)					
P/E	40.4	36.6	28.6	23.3	19.0
P/BV	16.1	12.8	10.4	8.4	6.9
EV/EBITDA	30.2	24.2	21.8	17.9	14.4
EV/Sales	6.1	5.3	4.5	3.8	3.1
Return ratio (%)					
RoCE	45.2	46.5	42.2	41.3	41.7
RoE	39.8	35.1	36.3	36.2	36.2
RoIC	48.9	55.2	49.9	53.8	60.8
Profitability ratio (%)					
EBITDA margin	20.1	22.0	20.8	21.2	21.7
EBIT margin	17.8	20.0	19.0	19.3	20.0
PAT margin	15.0	14.7	16.0	16.6	17.2
Turnover ratio					
Asset turnover ratio (x)	2.8	2.6	2.4	2.4	2.3
Debtor days	90	59	60	62	65
Inventory days	69	82	78	75	72
Creditors days	112	80	85	87	88

Source: Company, Nirmal Bang Institutional Equities Research

V-Guard Industries

CMP: Rs159; Rating: Buy; M-cap: US\$705mn; TP: Rs210; Upside: 32%



- **Well positioned for future growth**

- V-Guard Industries (VIL) posted 20.7% revenue CAGR over FY11-FY16 aided by successful expansion in non-south geography, strong product portfolio, & healthy market share
- Voltage stabiliser (aided by new Sikkim facility), water heaters (gaining market share), fans and pumps division to drive growth

- **Healthy improvement in profitability**

- Gross margin jumped from 26.1% in FY15 to 31.7% in 1HFY17. EBITDA margin rose from 7.6% in FY15 to 11% in 1HFY17. It was aided by cost savings from supply chain initiatives (project Udaan), improved operating leverage (network expansion from 205 distributors in FY12 to 624 distributors in FY16), better product mix, and benign commodity prices.
- VIL aims 50bps p.a. rise in EBITDA margin from FY18E by scaling up non-south margins.

- **Demonetisation unlikely to derail structural growth**

- Demonetisation and GST to shift market share of unorganised segment towards strong organised brands in long term.
- In near term, we have cut our 2HFY17 revenue growth estimate from 16% to 5%.
- Cable & wire segment to see value growth due to rising copper price & INR depreciation.

- **Strong financial franchisee to support valuation**

- Asset-light business model (60% products are outsourced), high fixed asset turn (above 7x)
- Healthy return ratios (RoCE likely to rise from 34.5% in FY16 to 37% in FY19E).
- Strong operating/free cash flow (Rs4.2bn/Rs2.9bn over FY16-FY19E).
- FY16-FY19E revenue/EBITDA/earnings CAGR of 14.6%/21.4%/27.2%, respectively
- Target price of Rs210 based on 30x September 2018E earnings (1HFY19)

% share of revenues	FY15	FY16	FY17E	FY18E	FY19E
Stabilisers	18.7	19.8	20.2	20.3	20.2
UPS	12.7	10.4	9.9	8.9	8.0
Pumps	10.8	11.3	11.3	11.4	11.3
Cable & wires	33.4	31.6	30.2	29.6	29.2
Water heater	12.9	13.7	13.9	14.5	14.9
Fan	7.9	9.5	10.2	10.9	11.6
Kitchen appliances	2.1	1.9	2.0	2.1	2.2
Switchgears	1.3	1.8	2.1	2.3	2.6

Shareholding (%)	FY13	FY14	FY15	FY16	Sep-16
Promoter	65.3	66.1	65.9	65.7	65.5

Source: BSE

Profit & Loss Y/E March (Rs mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Net Sales	17,459	18,623	20,438	23,995	28,010
% growth	15.0	6.7	9.7	17.4	16.7
Raw material cost	12,901	13,123	14,327	16,724	19,439
Staff cost	945	1,108	1,247	1,464	1,737
Other overheads	2,283	2,611	2,643	3,134	3,651
Total Expenditure	16,129	16,843	18,217	21,322	24,827
EBITDA	1,330	1,780	2,221	2,673	3,184
% growth	8.5	33.8	24.8	20.3	19.1
EBITDA margin (%)	7.6	9.6	10.9	11.1	11.4
Other income	45	72	131	151	183
Interest	206	89	21	-	-
Depreciation	154	154	172	195	220
Profit Before Tax	1,014	1,610	2,160	2,629	3,146
Tax	307	493	648	762	849
Net Profit	707	1,117	1,512	1,866	2,297
PAT margin (%)	4.1	6.0	7.4	7.8	8.2
Reported EPS (Rs)	2.4	3.7	5.0	6.2	7.6
% growth	0.8	57.9	35.4	23.5	23.1

Balance Sheet Y/E March (Rs mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Share capital	300	301	301	301	301
Reserves	3,478	4,407	5,520	6,844	8,416
Net worth	3,777	4,708	5,821	7,145	8,717
Short-term Loans	466	48	-	-	-
Long-term Loans	212	56	-	-	-
Total Loans	678	104	-	-	-
Deferred Tax Liability Net	92	75	75	75	75
Liabilities	4,547	4,886	5,896	7,219	8,792
Gross Block	2,407	2,526	2,927	3,377	3,727
Depreciation	783	916	1,088	1,283	1,503
Net Block	1,624	1,610	1,839	2,094	2,224
Capital work-in-progress	12	1	50	50	50
Long-term Investments	-	194	194	194	194
Inventories	2,609	2,047	2,355	2,703	3,089
Debtors	2,437	2,792	2,968	3,418	3,991
Cash	22	76	210	623	1,250
Loans and advances	544	434	756	888	1,036
Total Current assets	5,613	5,360	6,289	7,633	9,366
Creditors	1,934	1,511	1,609	1,833	2,077
Other current liabilities & provisions	768	768	867	918	964
Total current liabilities	2,702	2,279	2,476	2,751	3,042
Net current assets	2,912	3,081	3,813	4,882	6,324
Total Assets	4,547	4,886	5,896	7,219	8,792

Cash Flow Y/E March (Rs mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
EBIT	1,176	1,627	2,049	2,477	2,964
(Inc)/Dec in working capital	(251)	(116)	(597)	(656)	(816)
Cash flow from operations	925	1,511	1,452	1,821	2,148
Other income	45	72	131	151	183
Depreciation	154	154	172	195	220
Tax paid (-)	(310)	(511)	(648)	(762)	(849)
Net cash from operations	814	1,226	1,107	1,406	1,701
Capital expenditure (-)	(94)	(129)	(450)	(450)	(350)
Net cash after capex	720	1,097	657	956	1,351
Interest paid (-)	(206)	(89)	(21)	-	-
Dividends paid (-)	(162)	(253)	(398)	(543)	(724)
Inc./(Dec.) in short-term borrowing	(308)	(418)	(48)	-	-
Inc./(dec.) in long-term borrowing	(98)	(156)	(56)	-	-
Inc./(dec.) in total borrowings	(406)	(574)	(104)	-	-
(Inc.)/Dec. in investments	-	(194)	-	-	-
Cash from Financial Activities	(773)	(1,109)	(523)	(543)	(724)
Others	47	66	-	-	-
Opening cash	28	22	76	210	623
Closing cash	22	76	210	623	1,250
Change in cash	(6)	54	134	413	627

Key Ratios Y/E March	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Per share (Rs)					
EPS	2.4	3.7	5.0	6.2	7.6
Book value	12.6	15.6	19.3	23.7	29.0
Valuation (x)					
P/E	67.6	42.8	31.6	25.6	20.8
P/BV	12.7	10.2	8.2	6.7	5.5
EV/EBITDA	36.5	26.9	21.4	17.7	14.6
EV/Sales	2.8	2.6	2.3	2.0	1.7
Return ratio (%)					
RoCE	26.4	34.5	38.0	37.8	37.0
RoE	20.3	26.3	28.7	28.8	29.0
RoIC	26.5	35.6	40.5	41.7	43.1
Profitability ratio (%)					
EBITDA margin	7.6	9.6	10.9	11.1	11.4
EBIT margin	6.7	8.7	10.0	10.3	10.6
PAT margin	4.1	6.0	7.4	7.8	8.2
Turnover ratio					
Total asset turnover ratio (x)	3.8	3.8	3.5	3.3	3.2
Fixed asset turnover ratio (x)	7.3	7.4	7.0	7.1	7.5
Debtor days	51	55	53	52	52
Inventory days	74	57	60	59	58
Creditors days	55	42	41	40	39
Solvency ratio (x)					
Debt-equity	0.18	0.02	-	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Inox Leisure

CMP: Rs 225; Rating: Buy; M-cap: US\$ 323mn; TP: Rs303; Upside: 35%



- **Inox is the second largest player in the Indian Film exhibition industry** with multiplex screen capacity of ~20%. Inox has an improving revenue mix, maturing of screen portfolio and growth in operating metrics like ATP, SPH and advertisement rates.
- **Anti-profiteering Clause In GST Bill And Black Money Crusade to Hit Profits In FY17/FY18: (1) (2)** Expectation of likely lower occupancy rate in FY17/FY18 consequent to lack of availability of cash in the system in the immediate term and likely subdued consumer sentiment arising out of 'loss of wealth effect' from demonetisation.
- **Weaker than PVR operational metrics partly geography driven:** Inox has relatively more screens/seats in (1) Eastern part of India which is price sensitive compared to PVR which has a North focus & also has relatively higher ATPs and SPHs and (2) PVR has greater proportion of screens in the top cities and in more premium locations which gives it greater pricing power.
- **Focused on driving premiumisation:** Recently opened 7 Star cinema experience 'INSIGNIA' at its Nariman point property where ATP is 2x-6x of the company average. INOX is attempting to pamper a small sliver of its customers who can afford to pay more. While such capacity is miniscule currently, this will expand with time and drive realisations up in ticketing, F&B and advertising.
- **We have a 'Buy' rating on Inox with a September 2018 target price of Rs303:** We have cut our EBITDA estimates of Inox Leisure for FY17/FY18/FY19 by 11.5%/17.5%/4.3% due to the reasons mentioned above. We still maintain our EV/EBITDA multiples of 11x on Inox Leisure. Our thesis is also driven by an expectation that there is going to be a convergence of RoICs between Inox and PVR over the next 3 years.

Change in Operational Assumptions: Inox Leisure

Parameter	FY16A	New		
		FY17E	FY18E	FY19E
Number of screens (YE)	413	470	510	550
Growth (%)	11	14	9	8
Number of screens added	41	57	40	40
Footfalls (mn)	53	53	63	71
Growth (%)	30	(0)	18	13
Occupancy rate (%)	29.0	26.0	27.5	28.8
Gross ATP	170	179	189	198
Growth (%)	4	5	6	5
Net ATP	137	142	146	154
Growth (%)	2	4	3	5
Gross SPH	58	62	72	77
Growth (%)	5	7	16	6
Net SPH	50	53	59	63
Growth (%)	7	7	11	6
Advertisement revenues per screen	2.46	2.35	2.7	2.8
Growth (%)	(1.6)	(4.4)	14.4	5.0

Profit and Loss Statement					
(YE March) (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	10,168	13,327	14,267	17,919	21,213
Growth (%)	15.8	31.1	7.1	25.6	18.4
Entertainment Tax	1,215	1,738	1,949	2,683	3,189
Exhibition Cost (Distributor Share)	2,493	3,253	3,475	3,952	4,696
Food & Beverages Cost	496	661	700	969	1,162
Employee Benefits Expense	658	747	911	980	1,060
Property Rent, Conducting Fees	1,343	1,586	2,171	2,386	2,656
CAM, Power & Fuel, R&M and					
Other Expenses	2,736	3,443	3,727	4,534	4,904
Total Expenses	8,940	11,428	12,933	15,503	17,667
EBITDA	1,228	1,899	1,334	2,415	3,546
% of sales	12.1	14.3	9.4	13.5	16.7
Growth (%)	-6.2	54.7	-29.8	81.0	46.8
Depreciation & Amortization	758	803	867	1,077	1,231
EBIT	469	1,096	467	1,339	2,315
% of sales	4.6	8.2	3.3	7.5	10.9
Other income (net)	83	43	53	52	94
Interest	386	244	249	446	542
Exceptional Items	6	50	-	-	-
PBT	160	846	270	944	1,867
PBT margin (%)	1.6	6.3	1.9	5.3	8.8
Tax	-41	71	99	321	635
Effective tax rate (%)	(25.3)	8.4	36.5	34.0	34.0
Net profit	200	775	171	623	1,232
Growth (%)	(46)	287	(78)	264	98
Net profit margin (%)	2.0	5.8	1.2	3.5	5.8

Cash Flow (Rsmn) (YE March)	FY15	FY16	FY17E	FY18E	FY19E
EBIT	469	1,096	467	1,339	2,315
(Inc.)/dec. in working capital	(110)	38	304	378	207
Cash flow from operations	360	1,134	770	1,717	2,522
Other income	83	43	53	52	94
Depreciation & amortisation	758	803	867	1,077	1,231
Financial expenses	386	244	249	446	542
Tax paid	(41)	71	99	321	635
Dividends paid	0	0	0	0	0
Net cash from operations	855	1,665	1,342	2,078	2,671
Capital expenditure	1,354	1,032	2,341	2,030	2,110
Net cash after capex	(499)	634	(999)	48	561
Inc./(dec.) in debt	(143)	164	1,250	800	800
(Inc.)/dec. in investments	(3)	4	0	0	0
Equity Issuance	1,482	(1,629)	(673)	(0)	0
Cash from financial activities	1,336	(1,461)	599	(135)	(791)
Others	(869)	1,433	(1,411)	(387)	871
Opening cash	166	134	(130)	245	523
Closing cash	134	271	308	523	1,403
Change in cash	(31)	136	438	278	880

Balance Shee (Rsmn)					
(YE March)	FY15	FY16	FY17E	FY18E	FY19E
Equity capital	962	962	962	962	962
Reserves & surplus	6,127	5,273	4,771	5,394	6,626
Net worth	7,089	6,234	5,733	6,356	7,588
Interest in Inox Benefit Trust	- 327 -	327 -	327 -	327 -	327
Long term borrowings	2,005	2,169	3,419	4,219	5,019
Deferred Tax Liabilities (Net)	243	59	-	-	-
Other Long-term liabilities	43	24	965	965	965
Long term provisions	61	78	96	96	96
Total liabilities	9,115	8,237	9,886	11,309	13,341
Goodwill on consolidation	1,652	4	4	4	4
Net Fixed Assets	6,681	7,043	8,515	9,515	10,315
Long term loans and advances	1,813	1,938	2,382	2,968	3,527
Long-term investments	7	11	11	11	11
Other non-current assets	40	128	128	128	128
Cash & cash equivalents	134	271	308	523	1,403
Total Current assets	888	882	1,005	1,142	1,218
Total current liabilities	2,100	2,041	2,468	2,984	3,266
Net current assets	(1,213)	(1,159)	(1,463)	(1,841)	(2,048)
Total assets	9,115	8,237	9,886	11,309	13,341

Ratios (YE March)					
Per Share (Rs)	FY15	FY16	FY17E	FY18E	FY19E
FDEPS	2.2	8.4	1.9	6.8	13.4
Dividend Per Share	0.0	0.0	0.0	0.0	0.0
Book Value	73	64	59	65	79
Return ratios (%)					
RoE	3.8	12.2	3.0	10.9	18.5
RoCE	6.0	12.6	5.2	12.6	18.8
ROIC	6.1	13.1	5.4	13.3	20.7
Tunover Ratios					
Asset Turnover Ratio	1.1	1.6	1.4	1.6	1.6
Debtor Days	22	15	17	16	15
Working Capital Cycle Days	-44	-32	-37	-38	-35
Solvency Ratios					
Net Debt/Equity	0.3	0.3	0.7	0.7	0.6
Net Debt/EBITDA	1.8	1.0	3.0	1.9	1.3
Valuation ratios (x)					
PER	101	26	118	32	16
P/BV	3.0	3.4	3.7	3.3	2.8
EV/EBTDA	18.2	11.6	18.1	10.3	7.0
EV/Sales	2.2	1.7	1.7	1.4	1.2
M-cap/Sales	2.0	1.5	1.4	1.1	k 1.0

Source: Company, Nirmal Bang Institutional Equities Research

PVR

CMP: Rs 1,030; Rating: Buy; M-cap: US\$ 715mn; TP: Rs1,275; Upside: 24%



- **PVR is a prime beneficiary of the oligopolistic multiplex industry.** It is the largest multiplex operator in India (~25% share of screens), occupying space in the largest number of premium malls in various cities of India. It has a higher average ticket price (ATP), higher F&B spend per head (SPH) and the higher advertising revenue per screen compared to its second largest peer Inox.
- **Anti-profiteering Clause In GST Bill And Black Money Crusade to Hit Profits In FY17/FY18: (1)** The anti-profiteering clause in the revised GST bill will effectively result in almost all positives (including input tax credits) from GST implementation being passed on to consumers. We and the market had assumed some large benefits to flow in from GST. Industry sources, however, maintain that 'profiteering' is difficult to prove, as has been the experience in Malaysia and Australia apparently. Taking that into account, we are assuming in our estimates that a partial benefit of input tax credits is likely **(2)** Expectation of likely lower occupancy rate in FY17/FY18 consequent to lack of availability of cash in the system in the immediate term and likely subdued consumer sentiment arising out of 'loss of wealth effect' from demonetisation.
- **Drivers of our new estimates:** The new estimates assume 28% GST on ticket prices and 12% for F&B, unlike in the previous estimates where we assumed 22% GST for both tickets as well as F&B. In our previous estimates, we had also assumed that all input tax credits generated by companies will largely be retained by them which might not be the case now. We have also assumed that GST will be implemented from 1 April 2017. Now there is a risk that it could get postponed by one quarter.
- **We have cut our EBITDA estimates of PVR for FY17/FY18/FY19 by 9.3% /10.3% /9.5%.** This leads to new target prices for PVR of Rs1,275 based on September 2018 estimates. We still maintain our EV/EBITDA multiples of 12.5x for PVR and have a BUY rating on this stock.

Change in operational assumptions of PVR

Parameter	FY16A	New		
		FY17E	FY18E	FY19E
Number of screens (YE)	524	601	661	721
Growth (%)	13	15	10	9
Number of screens added	60	77	60	60
Footfalls (mn)	70	70	82	93
Growth (%)	18	(0)	18	14
Occupancy rate (%)	34.6	29.4	30.9	32.2
Gross ATP	188	195	210	220
Growth (%)	6	4	8	5
Net ATP	146	153	164	172
Growth (%)	5	5	7	5
Gross SPH	72	78	83	87
Growth (%)	13	8	6	5
Net SPH	67	72	74	78
Growth (%)	14	8	2	5
Advertisement revenues per screen	4.2	4.5	4.7	5.0
Growth (%)	10	8	5	5

Profit & Loss Statement (YE Mar) (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	14,771	18,688	20,968	25,654	30,232
Growth (%)	9.6	26.5	12.2	22.3	17.8
Exhibition Cost (Distributor Share)	3,422	4,190	4,431	5,769	6,901
Food & Beverages Cost	1,074	1,248	1,259	1,573	1,882
Employee Benefits Expense	1,430	1,853	2,047	2,105	2,361
Rent	2,735	3,148	3,716	4,217	4,970
Repairs & Maintenance,	569	718	921	1,012	1,193
Electricity & common area maintenance	1,911	2,110	2,510	2,947	3,473
Other Expenses	1,622	2,123	2,706	3,038	3,579
Total Expenses	12,763	15,389	17,589	20,661	24,360
EBITDA	2,008	3,299	3,379	4,992	5,873
Growth (%)	(5.4)	64.3	2.4	47.8	17.6
% of sales	13.6	17.7	16.1	19.5	19.4
Depreciation & Amortization	1168	1252	1540	1688	1896
EBIT	840	2047	1838	3305	3977
% of sales	5.7	11.0	8.8	12.9	13.2
Other income (net)	89	283	141	109	178
Interest	783	839	744	705	485
Exceptional Item	22	67	26	-	-
PBT	125	1425	1209	2491	3314
PBT margin (%)	0.8	7.6	5.8	9.7	11.0
Tax	8	232	428	847	1127
Effective tax rate (%)	6.5	16.3	35.4	34.0	34.0
Net profit	116	1,193	781	1,644	2,187
Minority Interest	11	5	4	-	-
Adjusted Net Profit	128	1,187	778	1,644	2,187
Growth (%)	(71)	830	(35)	111	33
Net profit margin (%)	0.9	6.4	3.7	6.4	7.2

Cash Flow (Rsmn) (YE March)	FY15	FY16	FY17E	FY18E	FY19E
EBIT	840	2,047	1,838	3,305	3,977
(Inc.)/dec. in working capital	(953)	213	(537)	692	341
Cash flow from operations	(112)	2,260	1,301	3,997	4,318
Other income	89	283	141	(109)	(178)
Depreciation & amortisation	1,168	1,252	1,540	1,688	1,896
Financial expenses	783	839	744	705	485
Tax paid	8	232	428	847	1,127
Dividends paid	50	112	113	225	282
Net cash from operations	304	2,612	1,698	3,798	4,142
Capital expenditure	1,272	2,220	6,879	2,502	2,622
Increase in other non current assets	429	664	(1,721)	4,428	869
Net cash after capex	(1,397)	(272)	(3,460)	(3,131)	652
Inc./(dec.) in debt	1,565	(614)	236	(800)	(1,600)
(Inc.)/dec. in investments	0	0	0	0	0
Equity Issuance	32	3,522	426	(0)	(0)
Cash from financial activities	1,597	2,909	662	(800)	(1,600)
Others	(434)	118	(3,161)	(2,177)	(1,239)
Opening cash	495	261	2,223	319	460
Closing cash	261	2,674	(41)	(3,458)	(3,979)
Change in cash	(234)	2,413	(2,264)	(3,777)	(4,439)

Balance Sheet (Rsmn) (YE March)	FY15	FY16	FY17E	FY18E	FY19E
Equity capital	415	467	467	467	467
Reserves & surplus	3,677	8,228	9,322	10,741	12,646
Networth	4,092	8,695	9,789	11,208	13,114
Minority Interest	383	401	-	-	-
Other liabilities	118	222	375	375	375
Total Debt	6,355	5,741	5,976	5,176	3,576
Total liabilities	10,947	15,059	16,140	16,759	17,065
Net Fixed Assets	9,376	10,603	15,570	15,870	16,170
Goodwill on consolidation	31	52	65	65	65
Long term loans and advances	3,075	3,175	-	4,428	5,296
Deferred tax asset	-	42	762	762	762
Other non-current assets	237	759	1,493	1,493	1,493
Cash & cash equivalents	261	2,674	41	3,458	3,979
Current assets	1,308	1,845	2,263	2,263	2,263
Current liabilities	3,341	4,091	3,972	4,664	5,005
Net current assets	(2,033)	(2,246)	(1,709)	(2,401)	(2,742)
Total assets	10,947	15,059	16,140	16,759	17,065

Ratios (YE March)					
Per Share (Rs)	FY15	FY16	FY17E	FY18E	FY19E
FDEPS	3.1	25.4	16.6	35.2	46.8
Dividend Per Share	0.9	2.0	2.0	4.0	5.0
Dividend Yield (%)	0.1	0.2	0.2	0.4	0.5
Book Value	88	186	209	240	281
Dividend Payout Ratio (incl DT)	39.2	9.5	14.5	13.7	12.9
Return ratios (%)					
RoE	3.2	18.6	8.4	15.7	18.0
RoCE	8.2	15.7	11.8	20.1	23.5
ROIC	8.5	17.7	12.9	18.2	19.3
Turnover Ratios					
Asset Turnover Ratio	1.4	1.4	1.3	1.6	1.8
Debtor days	19	18	20	17	14
Working Capital Cycle Days	(50.2)	(43.9)	(29.8)	(34.2)	(33.1)
Solvency Ratios					
Net Debt/Equity	1.5	0.4	0.6	0.8	0.6
Net Debt/EBITDA	3.0	0.9	1.8	1.7	1.3
Valuation ratios (x)					
PER	346.0	42.1	64.3	30.4	22.8
P/BV	12.2	5.7	5.1	4.5	3.8
EV/EBTDA	27.9	16.1	16.6	11.7	9.8
EV/Sales	3.8	2.8	2.7	2.3	1.9
M-cap/Sales	3.4	2.7	2.4	1.9	1.7

Source: Company, Nirmal Bang Institutional Equities Research

Shaily Engineering Plastics

CMP: Rs520; Rating: Buy; M-cap: US\$63mn; TP: Rs771; Upside: 48%



- **Commencement of CRC sales:** SEPL commenced child resistant closure (CRC) sales from October 2016 to a large domestic pharmaceutical company. Apart from this, the company received confirmation from two other drug manufacturers. In respect of second client, sales are supposed to commence in the current month while in case of third client sales are expected during December 2016-January 2017. SEPL has invested Rs300mn in its CRC plant. At full capacity utilisation, the plant can produce 100mn CRC caps and bottles, generating annual revenues of Rs600mn. The management expects the capacity utilisation level of its CRC plant to touch 65% by FY18E and 100% by FY19E.
- **New business confirmations to drive growth story:** SEPL has started the manufacture and supply of two new additional parts of Gillette shaving razor in 2QFY17. SEPL had doubled its capacity for Gillette India in 1QFY17 to meet incremental demand. SEPL also received business confirmation from one of the largest global skin care brands, affirming our thesis of the company's ability to establish relationship with big clients. SEPL has also confirmed a business contract with a domestic automobile ancillary company (supplier to India's largest automobile company) to supply a high-end plastic component. The Swedish home furnishing giant (SHFM) continues to add new product contracts to SEPL's kitty. SEPL received moulds from SHFM to manufacture and supply household brushes. Barring sales from Gillette India, other projects are expected to contribute to revenues from FY18.
- **Capex allocation for business consolidation and future growth:** The management gave capex guidance of Rs250mn spread across 2HFY17 and FY18. The idea behind the capex is to consolidate two pharmaceutical packaging plants into one and create a single unit for FMCG clients. Plant consolidation will help bring in improved efficiency and increase mining of existing clients. SEPL also plans to add 10 more moulding machines to its existing kitty of 106 machines. These additional machines are expected to drive the company's polymer processing capacity by more than 10%.
- **Valuation:** We are confident about the company's long-term growth story. We expect SEPL to clock revenue/EBITDA/PAT CAGR of 26.0%/34.5%/46.7%, respectively, over FY17E-FY19E. Targeting 20x1HFY19E EPS, we have retained our Buy rating on SEPL, valuing the stock at Rs771 (previous target Rs789), up 51% from the current market price.

Revenue from Operations (Net)	FY16	FY17E	FY18E	FY19E
SHFM	55%	56%	54%	55%
Non-SHFM	45%	41%	34%	30%
New (CRC)	0%	3%	12%	15%

**SHFM - Swedish Home Furnishing Major*

Shareholding (%)	FY13	FY14	FY15	FY16	Sep-16
Promoter	58.9	58.9	54.1	54.1	53.3

Source: BSE

Y/E March (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales (incl. OOI)	1,797	2,255	2,564	3,324	4,091
% growth	19.2	25.5	13.7	29.6	23.1
Other income	16	28	19	8	8
Total Income	1,813	2,283	2,584	3,332	4,099
Raw Material	1,029	1,222	1,386	1,775	2,158
Staff	195	234	267	307	356
Other expenses	308	409	472	627	782
Total Expenditure	1,532	1,865	2,125	2,709	3,295
EBITDA	265	390	440	615	795
% growth	9.9	47.3	12.7	39.8	29.3
EBITDA margin (%)	14.7	17.3	17.1	18.5	19.4
Depreciation	64	103	110	129	151
EBIT	201	288	329	486	644
EBIT margin (%)	11	13	13	15	16
Interest	67	101	84	86	89
Profit Before Tax	149	214	265	408	564
% growth	45.2	43.8	23.7	54.1	38.1
Tax	19	59	92	139	192
Effective tax rate (%)	12.7	27.7	34.8	34.0	34.0
Net Profit	130	155	173	269	372
% growth	97.3	19.1	11.5	55.9	38.1
EPS (Rs)	17.2	18.6	20.8	32.4	44.7
DPS (Rs)	2	4	4	4.5	4.5
Payout (%)	12%	21%	19%	14%	10%

Balance Sheet Y/E March (Rsmn)	FY15	FY16	FY17	FY18	FY19E
Share Capital	83	83	83	83	83
Reserves and Surplus	699	814	947	1,171	1,498
Shareholder's Funds	783	897	1,030	1,255	1,582
Non Current Liabilities					
Deferred tax liabilities (Net)	50	63	63	63	63
Long Term Borrowings	327	309	319	334	354
Long term Provisions	28	20	20	20	20
Current Liabilities					
Short term borrowings	369	201	191	181	171
Trade payables	151	187	209	267	325
Other current liabilities	195	191	218	283	348
Short term provisions	20	43	43	43	44
Total Liabilities	1,925	1,910	2,092	2,445	2,906
Total Gross Block	1,420	1,712	1,962	2,313	2,713
Accumulated Depreciation	651	739	849	978	1,129
Net Fixed assets	776	977	1,113	1,335	1,584
Long term loans and advances	91	46	45	45	45
Current Assets					
Current Investments	254	-	-	-	-
Inventories	201	225	247	316	384
Trade receivables	372	361	393	492	605
Cash and carry equivalents	59	132	124	87	117
Short term loans and advances	169	167	167	167	167
Total Assets	1,925	1,911	2,092	2,445	2,906

Cash Flow Y/E March (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
EBIT	216	306	348	494	652
(Inc.)/Dec in working capital	(208)	3	(6)	(44)	(58)
Cash flow from operations	8	309	343	450	594
Other income	(1)	-	-	-	-
Depreciation	64	103	110	129	151
Tax paid	(29)	(47)	(92)	(139)	(192)
Net cash from operations	42	365	361	440	553
Capital expenditure	(309)	(293)	(251)	(351)	(401)
Net cash after capex	(267)	73	111	89	153
(Increase)/Decrease in Investments	(254)	-	-	-	-
Other Investing activities	31	-	-	-	-
Net cash from investing activities	(376)	7	(251)	(351)	(401)
Cash from Financial Activities	320	(287)	(123)	(126)	(124)
Opening cash	245	59	132	124	87
Closing cash	59	132	124	87	117
Change in cash	(186)	73	(8)	(37)	29

	FY15	FY16	FY17E	FY18E	FY19E
Profitability & Return ratios					
EBITDA margin (%)	14.7	17.3	17.1	18.5	19.4
EBIT margin (%)	11.2	12.7	12.8	14.6	15.7
Net profit margin (%)	7.2	6.8	6.7	8.1	9.1
RoE (%)	21.5	18.4	17.9	23.6	26.2
RoCE (%)	11.9	15.0	16.4	21.4	24.1
Working capital & Liquidity ratios					
Receivables (days)	76	58	56	54	54
Inventory (days)	71	67	65	65	65
Payables (days)	54	56	55	55	55
WC days	93	70	66	64	64
Current ratio (x)	1.4	1.4	1.4	1.4	1.4
Quick ratio (x)	1.2	1.1	1.0	1.0	1.0
Valuation ratios					
EV/Sales (x)	2.6	1.9	1.7	1.3	1.1
EV/EBITDA (x)	17.6	11.3	10.0	7.2	5.6
Adj. P/E (x)	30.8	28.5	25.5	16.4	11.9
Adj. P/B (x)	5.1	4.9	4.3	3.5	2.8
Growth (%)					
Sales	19.8	26.0	13.1	28.9	23.0
EBITDA	9.9	47.3	12.7	39.8	29.3
PAT	97.3	19.1	11.5	55.9	38.1

Disclaimer: Bang Securities Pvt. Ltd & sister concerns owns 0.141mn shares (1.7% stake) in Shaily Engineering Plastics Ltd.

Aurobindo Pharma

CMP: Rs673; Rating: Buy; M-cap: US\$6.6bn; TP: Rs900; Upside: 34%



- **Change in business mix:** APL's business mix significantly improved over the past three years, with the contribution from formulations segment rising from 55% in FY12 to 78% in FY15 and we expect this mix to continue in the near future. Interestingly, the quality of earnings also improved significantly, with the contribution from low-margin ARV (anti-retroviral) segment - which accounted for 17% in FY12 - plunging to 8% in FY15 (in 9MFY16 it was 8%), while we expect it to be around 7% in FY18E.
- **Growth led by US business:** We expect APL's revenues to post a 12% CAGR over FY16- FY19E, with the US business to be key earnings growth driver. The contribution from US business rose from 25% in FY13 to 39% in FY15, while we expect it to further improve to 42% in FY19. We expect the growth momentum to be led by US business which is likely to post a 13% CAGR over FY16- FY19E led by the change in product mix with major focus on injectables, controlled substances and complex generics. The major thrust is expected from the huge ANDA pipeline which is awaiting approval from USFDA (US Food and Drug Administration). Currently, there are around 150+ ANDAs (highest among industry peers in India) awaiting approval.
- **Natrol acquisition to further aid US business:** APL acquired Natrol which provides the company a ready platform to foray into branded nutraceutical and dietary supplement business having a portfolio of dietary supplements, sports nutrition, functional foods, vitamins, minerals and weight-loss products.
- **Break-even in acquired product portfolio of Actavis:** APL had acquired the loss-making Actavis' European product portfolio. The business has now achieved breakeven. From a EBITDA loss of Euro 23m the business is now become profitable. We expect the business to post high single-digit margins in FY18 led by cost savings from the transfer of products to Indian units for manufacturing.
- **FCF generation-led debt reduction:** We expect FCF generation of around Rs22.8bn in the next two years as a result of the ramp-up in US sales and margin improvement in Europe. As a result, we expect the net debt-to-equity ratio to decline from 0.8x in FY15 to 0.1x in FY18E. APL's net debt stood at US\$662mn as of 9MFY16-end.
- We have assigned Buy rating with a target price of Rs900, valuing the stock at 18x Sep 18 earnings.

Income Statement (Rs Mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales (incl Other operating income)	1,21,205	1,38,961	1,63,406	1,84,309	1,93,524
% growth	50	15	18	13	5
Raw Material	-55,056	-61,575	-75,992	-84,263	-88,476
Manufacturing expenses	-	-	-	1	2
Staff	-13,023	-15,508	-18,024	-20,333	-21,350
R&D	-	-	-	-	-
Others	-27,187	-30,481	-31,015	-34,968	-36,544
Total Expenditure	-95,265	-1,07,565	-1,25,031	-1,39,563	-1,46,368
EBITDA	25,940	31,396	38,376	44,746	47,156
% growth	22	21	22	17	5
EBITDA margin (%)	21	23	23	24	24
Other income	967	682	631	708	708
Interest	-1,599	73	-928	-967	-871
Gross Profit	25,308	31,151	38,079	44,486	46,994
% growth	37	23	22	17	6
Depreciation	-3,326	-3,926	-4,817	-5,142	-5,296
Profit before tax	21,982	27,225	33,261	39,344	41,697
% growth	43	24	22	18	6
Tax	-5,966	-7,444	-8,482	-10,033	-10,632
Effective tax rate (%)	27	27	26	25	25
Profit after Tax	16,016	19,781	24,780	29,312	31,065
Minority Interest	45	39	20	20	20
Net Profit	16,061	19,820	24,800	29,332	31,085
% growth	37	23	25	18	6
Adj Profit	16,061	19,820	24,800	29,332	31,085
% growth	20	23	25	18	6
Adjusted EPS (Rs)	28	34	42	50	53
% growth	20	23	25	18	1
DPS (Rs) (Interim + Proposed)	4	2	2	2	2
Payout (%) (Interim + Proposed + Tax)	22	7	6	5	5

Cash Flow Statement (Rs Mn)	FY15	FY16	FY17E	FY18E	FY19E
EBIT	22,283	27,914	33,803	39,873	42,128
(Inc.)/Dec in working capital	-8,417	-7,383	-6,037	-4,854	-4,165
Cash flow from operations	13,866	20,531	27,766	35,018	37,963
Other income	967	-	406	458	458
Depreciation	3,326	3,926	4,817	5,142	5,296
Interest paid (-)	-709	-823	-928	-967	-871
Tax paid (-)	-4,956	-7,358	-8,482	-10,033	-10,632
Dividends paid (-)	-1,805	-1,616	-1,759	-1,759	-1,759
Extraordinary Items	-106	497	-	-	-
Net cash from operations	10,584	15,157	21,821	27,860	30,456
Capital expenditure (-)	-7,459	-15,682	-12,000	-5,000	-5,538
Net cash after capex	3,125	-525	9,821	22,860	24,918
Inc./(Dec.) in short-term borrowing	-473	7,341	452	3,692	2,550
Inc./(dec.) in long-term borrowing	3,881	-5,173	-847	-762	-686
Inc./(dec.) in borrowings	3,408	2,169	-395	2,930	1,864
(Inc.)/Dec. in investments	-6,675	-	-	-	-
Equity issue/(Buyback)	68	72	-	-	-
Cash from Financial Activities	-3,200	2,241	-395	2,930	1,864
Others	2,965	1,881	-	-	-
Opening cash	1,801	4,611	8,344	17,770	43,559
Closing cash	4,691	8,246	17,770	43,559	70,341
Change in cash	2,890	3,597	9,426	25,790	26,782

Balance Sheet (Rs Mn)	FY15	FY16	FY17E	FY18E	FY19E
Equity	292	585	585	585	585
Reserves	51,267	69,982	93,023	1,20,595	1,49,919
Net worth	51,559	70,567	93,608	1,21,180	1,50,504
Short-term Loans	25,021	32,290	32,742	36,435	38,985
Long-term Loans	13,615	8,472	7,625	6,862	6,176
Total Loans	38,636	40,762	40,367	43,297	45,161
Deferred Tax Liability	2,105	2,364	2,364	2,364	2,364
Minority Interest	258	596	596	596	596
Other long term liabilities	244	235	235	235	235
Liabilities	1,29,145	1,56,992	1,88,131	2,22,689	2,55,468
Gross Block	54,461	62,110	74,110	79,110	84,648
Depreciation	17,405	19,713	24,530	29,672	34,968
Net Block	37,056	42,398	49,581	49,438	49,680
Capital work-in-progress	4,196	10,238	10,238	10,238	10,238
Long-term Investments and other non current assets	4,904	4,343	4,343	4,343	4,343
Inventories	36,113	40,881	48,073	53,020	55,671
Debtors	35,392	41,719	49,058	53,020	55,671
Cash	4,691	8,344	17,769	43,559	70,341
Other Current assets	11,498	9,070	9,070	9,070	9,524
Total Current assets	82,988	1,00,014	1,23,971	1,58,670	1,91,208
Creditors	20,511	25,268	27,757	31,812	33,403
Other current liabilities	15,832	17,201	23,205	23,205	23,205
Total current liabilities	61,364	74,759	83,704	91,452	95,593
Net current assets	21,624	25,256	40,266	67,218	95,615
Total Assets	1,29,145	1,56,992	1,88,131	2,22,689	2,55,468

Ratios	FY15	FY16	FY17E	FY18E	FY19E
Reported EPS	27.5	33.9	42.4	50.1	53.1
Adjusted EPS	27.5	33.9	42.4	50.1	53.1
DPS	2.2	2.5	2.5	2.5	2.5
BV/share	88.3	120.6	160.0	207.1	257.2
Dividend Payout (%)	22.2	7.4	5.9	5.0	4.7
Performance Ratios					
ROE (%)	36.1	32.5	30.2	27.3	22.9
ROCE (%)	19.9	19.5	19.6	19.4	17.6
Valuation Ratios					
P/E (x)	26.6	19.9	15.9	13.4	12.7
P/BV (x)	7.6	5.6	4.2	3.2	2.6
EV/Net Sales (x)	3.5	3.1	2.5	2.1	1.9
EV/EBITDA (x)	16.5	13.6	10.9	8.8	7.8
Efficiency Ratios					
Fixed Asset turnover (x)	2.1	1.9	1.9	2.1	2.0
Working capital/Sales (x)	-0.2	0.0	0.1	0.0	-
Receivable days	106.6	109.6	109.6	105.0	105.0
Inventory days	108.8	107.4	107.4	105.0	105.0
Payable days	136.0	149.8	133.3	137.8	137.8

Source: Company, Nirmal Bang Institutional Equities Research

Cipla

CMP: Rs563; Rating: Buy; M-cap: US\$7.1bn; TP: Rs700; Upside: 24%



- We expect high teens to mid twenties growth in Cipla's earnings over the next five year driven by ANDA approvals in the US. Approvals in the HIV and Oncology space should drive growth in the near term (upto FY-18), while respiratory portfolio should drive growth FY-19 onwards
- Margin expansion driven by a superior product and geography mix should help the company post earnings growth faster than the revenue growth. We also anticipate gross margins to expand on back of the recent prioritization exercise under which Cipla has decided to exit geographies which are unprofitable.
- We expect Cipla to accelerate its filing in the complex dosage forms (nanoparticles, microsphere and liposomal drugs) which should strengthen future growth prospects.
- Cipla business deserves a higher multiple than peers as the existing revenue and earnings base does not have any lumpy components and hence is relatively derisked.
- Recent monetization of 16.7% stake in Chase pharma asserts our bullish stance on its lead compound CPC-201. We believe there is a high probability that CPC-201 will be commercialized and Cipla would also receive the pending milestone payments.
- Investment in Stempeutics is a potentially underappreciated asset and can help Cipla post a surprise.
- We value the base business of Cipla at 24x FY-18 earnings and allot a value of INR 40 per share to Cipla's new venture which include
 - Disruptive biosimilar platform
 - Cipla Innovation which includes investment in Chase pharma and Stempeutics
 - Consumer healthcare business

Income Statement (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Net sales	1,15,110	1,38,872	1,61,221	1,87,367	2,14,909
% growth	11.0%	20.6%	16.1%	16.2%	14.7%
Raw material costs	41,897	51,184	59,845	68,751	78,439
Staff costs	19,737	24,471	27,652	29,587	31,659
R&D Costs	8,440	10,415	12,898	15,364	18,052
Other expenditure	26,811	31,119	35,787	41,613	47,807
Total expenditure	96,885	1,17,189	1,36,181	1,55,315	1,75,956
EBITDA	21,620	25,010	31,374	39,373	47,370
% growth	1.4%	15.7%	25.4%	25.5%	20.3%
EBITDA margin (%)	18.8	18.0	19.5	21.0	22.0
Other income	1,656	2,089	2,089	2,089	2,089
Interest costs	1,683	1,613	2,447	2,532	2,622
Gross profit	73,213	87,688	1,01,377	1,18,616	1,36,470
% growth	12.8%	19.8%	15.6%	17.0%	15.1%
Depreciation	5,047	5,417	6,334	7,321	8,417
Profit before tax	16,542	20,069	22,593	29,519	36,330
% growth	-12.0%	21.3%	12.6%	30.7%	23.1%
Tax	4,000	4,396	5,196	6,642	8,174
Effective tax rate (%)	24.2%	21.9%	23.0%	22.5%	22.5%
Net profit	11,807	15,059	16,782	22,263	27,541
% growth	-15.0	27.5	11.4	32.7	23.7
EPS (Rs)	14.7	18.7	20.8	27.6	34.2
% growth	-15.1%	27.5%	11.4%	32.7%	23.7%
DPS (Rs)	2.0	2.0	2.5	3.0	3.5
Payout (%)	13.6%	10.7%	12.0%	10.9%	10.2%
Dividend on equity shares	2	2	3	3	4

Cash Flow Statement (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
PBT	16,542	20,069	22,593	29,519	36,330
(Inc.)/dec. in working capital	-7,186	-3,148	-2,808	-8,613	-9,012
Cash flow from operations	9,356	16,921	19,785	20,906	27,318
Other income	-819	-2,089	-2,089	-2,089	-2,089
Depreciation	5,047	5,417	6,334	7,321	8,417
Interest paid (-)	1,683	1,613	2,447	2,532	2,622
Tax paid (-)	-3,923	-1,393	-5,196	-6,642	-8,174
Exceptional Items	30	0	0	0	0
Other non cash expense	359	0	0	0	0
Net cash from operations	11,734	20,469	21,281	22,029	28,095
Capital expenditure (-)	-9,389	-48,661	-12,898	-14,521	-16,118
Net cash after capex	2,345	-28,192	8,384	7,509	11,976
Non operating Income / Interest exp.	-1,351	476	-358	-444	-533
Inc./(dec.) in borrowings	5,078	34,896	-2,219	2,838	2,989
(Inc.)/dec. in investments	-346	-4,864	0	0	0
Equity issue/(buyback)/Dividends paid	-1,756	-1,611	-2,014	-2,417	-2,820
Cash from financial/investing activities	1,648	28,713	-6,680	-2,112	-2,453
Opening cash	1,756	5,640	8,714	12,507	19,992
Closing cash	5,640	8,714	12,507	19,992	31,605
Change in cash	3,970	705	3,793	7,486	11,613

Balance Sheet (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Equity	1,606	1,607	1,607	1,607	1,607
Reserves	1,06,409	1,16,967	1,31,736	1,51,581	1,76,303
Net worth	1,08,015	1,18,574	1,33,342	1,53,188	1,77,910
Minority Interest	1,805	2,696	3,191	3,685	4,179
Other long term liabilities	5,327	6,348	6,348	6,348	6,348
Short-term loans	13,925	49,695	17,271	20,109	23,098
Long-term loans	3,093	2,219	32,424	32,424	32,424
Total loans	17,018	51,914	49,695	52,533	55,522
Liabilities	1,57,175	2,08,926	2,29,239	2,55,593	2,87,204
Gross block	68,584	80,249	93,147	1,07,667	1,23,786
Depreciation	5,047	5,417	6,334	7,321	8,417
Net block	74,105	1,10,786	1,17,350	1,24,550	1,32,250
Other long term assets	4,658	7,954	7,954	7,954	7,954
Long-term investments	2,498	1,764	1,643	1,523	1,403
Inventories	37,806	38,080	44,303	51,581	59,249
Debtors	20,043	23,593	27,447	31,957	36,708
Cash	9,543	14,520	18,312	25,798	37,411
Loans and advances	10,043	15,489	15,489	15,489	15,489
Other current assets	18,522	20,333	24,188	28,698	33,448
Total current assets	75,914	88,422	1,02,291	1,21,566	1,45,597
Creditors	15,772	14,095	21,364	24,540	27,946
Other current liabilities	9,239	15,299	15,299	15,299	15,299
Total current liabilities	38,936	79,089	53,934	59,948	66,343
Net current assets	36,978	9,333	48,357	61,618	79,254
Total assets	1,57,175	2,08,926	2,29,239	2,55,593	2,87,204

Ratios	FY15	FY16	FY17E	FY18E	FY19E
Profitability & return ratios					
EBITDA margin (%)	18.78	18.01	19.46	21.01	22.04
EBIT margin (%)	15.83	15.61	15.53	17.11	18.13
Net profit margin (%)	10.90	11.29	10.79	12.21	13.10
RoE (%)	11.75	13.94	14.15	16.70	17.98
RoCE (%)	17.58	19.51	20.73	19.34	20.99
Working capital & liquidity ratios					
Receivables (days)	63.9	63.0	63.0	63.0	63.0
Inventory (days)	329.4	271.6	270.2	273.8	275.7
Payables (days)	137.4	100.5	130.3	130.3	130.0
Current ratio (x)	1.9	1.1	1.9	2.0	2.2
Quick ratio (x)	1.0	0.6	1.1	1.2	1.3
Valuation ratios					
EV/sales (x)	3.9	3.2	2.9	2.5	2.1
EV/EBITDA (x)	20.7	17.6	14.9	11.7	9.5
P/E (x)	38.4	30.1	27.0	20.4	16.5
P/BV (x)	4.2	3.8	3.4	3.0	2.5

Source: Company, Nirmal Bang Institutional Equities Research

Claris Lifesciences

CMP: Rs 328; Rating: Buy; M-cap: US\$210mn; TP: Rs480; Upside: 46%



- **Claris Lifesciences (CLL)** is one of the largest pure play specialty generic injectable companies in India. It is one of the few large manufacturers of some complex injectable products like Diprovan and Iron Sucrose in the world. We initiate coverage on CLL with a Buy rating and a target price of Rs480 based on 14x FY18E EPS.
- **Proven execution and competitive strengths in the US:** CLL has received approval for 16 abbreviated new drug applications or ANDAs in the US so far and out of the 16 it has launched 13. The blended market share of CLL in these 13 ANDAs is close to 25%, which speaks volumes about the company's competitive strengths in the sterile injectable space.
- **ANDA pipeline to allow existing US business to grow multifold from the current level:** A robust pipeline comprising 25 ANDAs is expected to be launched over the next 18-24 months and includes lucrative opportunities like generic Iron Sucrose and generic Diprovan. These ANDAs cumulatively represent branded product sales worth US\$1500mn. Assuming a 20% value market share for CLL (in line with existing market share trend), one can look forward to US\$300mn in incremental sales from these ANDAs
- **Strategic value provides a strong hedge on the downside:** Over the past several years, MNC players have been aggressively grabbing up pure play sterile injectable assets. The rush for sterile assets is driven by:
 - a) The need to consolidate for better price control and probably weed out Indian competition
 - b) Attractiveness of sterile injectable space.
 - c) CLL figuring among the top 20 injectable players in the US in terms of number of product approvals.

Income Statement (Rsmn)	FY15 (15mth)	FY16	FY17E	FY18E	FY19E	Balance Sheet (Rsmn)	FY15 (15mth)	FY16	FY17E	FY18E	FY19E
Net sales	8,861	7,947	8,287	10,806	14,198	Equity	546	546	546	546	546
% growth	25.1	-10.3	4.3	30.4	31.4	Reserves	12,621	11,977	12,971	14,461	17,102
Raw material costs	3,546	2,721	2,072	2,719	3,362	Net worth	13,167	12,523	13,516	15,007	17,648
Staff costs	926	868	1,188	1,391	1,627	Net deferred tax liabilities	97	295	295	295	295
R&D Costs	134	351	373	373	373	Short-term loans	1,839	1,710	1,659	2,168	2,814
Other expenditure	1,838	2,148	2,374	2,564	2,769	Long-term loans	2,734	3,551	2,776	2,087	1,502
Total expenditure	7,416	6,943	6,461	7,506	8,636	Other Long term liabilities	100	141	141	141	141
EBITDA	2,418	1,482	2,653	3,573	5,732	Liabilities	21,838	21,104	20,496	22,067	25,009
% growth	7.4	-38.7	79.0	34.7	60.4	Gross block	11,097	11,797	12,347	12,847	13,847
EBITDA margin (%)	27.3	18.6	32.0	33.1	40.4	Depreciation	355	754	1,248	1,762	2,316
Other income	863	405	359	439	588	Net block	10,743	11,042	11,099	11,085	11,531
Interest costs	483	428	333	319	324	Capital work-in-progress	28	104	104	104	104
Gross profit	5,315	5,226	6,215	8,087	10,836	Long-term investments	2,023	1,181	1,181	1,181	1,181
% growth	15.2	-1.7	18.9	30.1	34.0	Inventories	938	944	719	944	1,167
Depreciation	491	429	494	514	554	Debtors	2,292	2,267	2,396	3,129	4,119
Profit before tax	1,445	625	1,826	2,740	4,854	Cash	4,142	3,632	3,064	3,692	4,974
% growth	34.4	-56.7	192.1	50.1	77.2	Loans and advances	1,328	1,172	1,172	1,172	1,172
Tax	-122	284	584	877	1,553	Other current assets	141	167	167	167	167
Effective tax rate (%)	-8.4	45.5	32.0	32.0	32.0	Total current assets	8,840	8,183	7,518	9,103	11,599
Net profit before associates	1,567	341	1,242	1,863	3,301	Creditors	1,268	1,456	1,108	1,454	1,799
% growth	85.6	-78.2	264.4	50.1	77.2	Other current liabilities	2,633	1,429	1,001	915	810
EPS (Rs)	25.9	-10.6	22.8	34.2	60.5	Total current liabilities	5,740	4,594	3,768	4,538	5,423
% growth	99.2	-141.1	NA	50.1	77.2	Net current assets	3,100	3,589	3,750	4,566	6,176
DPS (Rs)	0.0	2.0	4.6	6.8	12.1	Long Term Loans and Advances and other Non current assets	204	594	594	594	594
Payout (%)	0.0	NA	20.0	20.0	20.0	Total assets	21,838	21,104	20,496	22,067	25,009

Cash Flow Statement (Rsmn)	FY15 (15mth)	FY16	FY17E	FY18E	FY19E	Ratios	FY15 (15mth)	FY16	FY17E	FY18E	FY19E
PBT	1,445	1,003	1,826	2,740	4,854	Profitability & return ratios					
(Inc.)/dec. in working capital	-1,748	-496	-251	-611	-870	EBITDA margin (%)	27.3	18.6	32.0	33.1	40.4
Cash flow from operations	-303	508	1,575	2,129	3,985	EBIT margin (%)	21.8	13.2	26.0	28.3	36.5
Other income	-609	352	-359	-439	-588	Net profit margin (%)	17.7	4.3	15.0	17.2	23.2
Depreciation	490	429	494	514	554						
Interest paid (-)	483	428	333	319	324	RoE (%)	11.9	2.7	9.2	12.4	18.7
Tax paid (-)	-504	-332	-584	-877	-1,553	RoCE (%)	12.1	6.5	13.2	17.9	27.0
Net cash from operations	-443	1,385	1,459	1,646	2,721	Working capital & liquidity ratios					
Capital expenditure (-)	-6,670	-1,166	-550	-500	-1,000	Receivables (days)	207.9	194.3	194.3	194.3	194.3
Net cash after capex	-7,113	219	909	1,146	1,721	Inventory (days)	96.5	126.7	126.7	126.7	126.7
Inc./(dec.) in short-term borrowing	784	-129	-51	509	646	Payables (days)	130.5	195.3	195.3	195.3	195.3
Inc./(dec.) in long-term borrowing	1,876	819	-1,203	-775	-689	Current ratio (x)	1.4	1.9	1.5	1.8	2.0
Dividends paid (-)	-672	-	-248	-373	-660	Quick ratio (x)	1.0	1.8	1.4	1.6	1.8
Inc./(dec.) in borrowings	2,660	690	-1,254	-266	-43	Valuation ratios					
(Inc.)/dec. in investments	5,470	763	0	0	0	EV/sales (x)	1.8	2.1	2.0	1.4	0.9
Interest paid / Interest earned	-466	-429	26	120	264	EV/EBITDA (x)	6.4	11.2	6.2	4.2	2.3
Cash from financial activities	6,993	1,024	-1,476	-518	-439	P/E (x)	12.1	52.5	14.4	9.6	5.4
Opening cash	738	618	1,861	1,294	1,922	P/BV (x)	1.4	1.4	1.3	1.2	1.0
Closing cash	618	1,861	1,294	1,922	3,204						
Change in cash	-120	1,244	-568	628	1,282						

Source: Company, Nirmal Bang Institutional Equities Research

Dr. Reddy's

CMP: Rs3,041; Rating: Buy; M-cap: US\$7.8bn; TP: Rs3,950; Upside: 30%



- US Business should scale up two to four fold from current levels. The proprietary drug pipeline should drive larger part of the upside. XP23829 for psoriasis is a potential blockbuster Intranasal migraine spray in Phase 3 development would be a best in class asset and can expand the nasal spray migraine market.
- DRL has established capabilities in developing complex injectables. With about \$16b of injectable products expiring by FY-2020, of the 79 ANDA filings that are pending approval in the US for DRL, 24 are for injectables. Out of the 24 filings, 13 represent complex one's
- Emerging Market sales is on a depressed base currently and we believe it's the time to be optimistic. Over the last two years DRL has scaled up several folds its product filing in the emerging market and we should see the markets delivering fruits from FY-18 onwards. With the recent production cuts, we expect some revival in emerging markets.
- 20 -24 ANDA launches expected by FY-18 and together with ramp up of recent new launches in the proprietary division should allow high single to low teen revenue growth in the US over the next two years.
- Domestic Business of DRL should continue to grow faster than the industry
- The company can leverage its strong free cash flows for a potential acquisition to further strengthen its growth trajectory
- The recent acquisition of 8 ANDA candidates from Teva may potentially further favorably help the near to mid term growth prospects.
- On a conservative basis, we expect the company to treble its net income from current levels by FY-2022. The recent launches from Promius are performing well, with Sernivo almost aggregating to \$15--\$20m annual run rate

Income Statement (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E	Balance Sheet (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Net sales	1,48,189	1,54,708	1,46,447	1,88,607	2,21,285	Equity	852	853	853	853	853
% growth	12.1	4.4	-5.3	28.8	17.3	Reserves	1,10,450	1,27,483	1,37,888	1,65,181	2,00,238
Raw material costs	62,786	62,427	62,384	75,005	86,092	Net worth	1,11,302	1,28,336	1,38,741	1,66,034	2,01,091
Staff costs	29,446	31,420	34,248	37,330	40,690	Net deferred tax liabilities	1,779	767	767	767	767
R&D Costs	17,449	17,834	20,412	20,747	23,678	Short-term loans	21,857	22,718	20,893	26,473	30,329
Other expenditure	13,139	14,282	13,358	17,254	22,688	Long-term loans	14,307	10,685	8,810	1,310	1,310
Total expenditure	1,22,820	1,25,963	1,30,402	1,50,336	1,73,148	Other Non Current Liabilities	3,379	3,216	3,216	3,216	3,216
EBITDA	34,581	38,681	27,179	49,803	59,979	Liabilities	1,94,762	2,07,650	2,12,357	2,55,170	2,95,387
% growth	3.8	11.9	-29.7	83.2	20.4	Gross block	72,011	81,746	92,433	1,03,957	1,14,598
EBITDA margin (%)	23.3	25.0	18.6	26.4	27.1	Intangible Assets and Goodwill	17,463	25,953	24,730	23,809	23,020
Other income	917	874	927	927	927	Net block	48,090	53,961	57,209	60,759	63,015
Interest costs	1,092	876	779	729	830	Other Non Current Assets	9,371	8,048	8,048	8,048	8,048
Gross profit	85,403	92,281	84,063	1,13,602	1,35,193	Inventories	25,529	25,578	24,212	31,183	36,585
% growth	12.7	8.1	-8.9	35.1	19.0	Debtors	40,755	41,306	39,100	49,038	55,321
Depreciation	8,100	8,833	9,899	10,251	10,507	Cash	5,394	4,921	12,306	31,279	55,397
Profit before tax	28,163	27,140	18,980	41,056	51,571	Loans and advances	11,282	11,010	10,422	13,422	15,748
% growth	5.9	-3.6	-30.1	116.3	25.6	Other current assets	36,878	36,873	36,329	37,632	38,253
Tax	5,984	7,127	4,073	8,811	11,068	Total current assets	1,19,838	1,19,688	1,22,370	1,62,554	2,01,304
Effective tax rate (%)	21.2	20.0	21.5	21.5	21.5	Creditors	10,660	12,300	11,643	14,995	17,593
Net profit	22,179	20,013	14,907	32,245	40,503	Other current liabilities	53,335	52,346	49,180	68,848	71,410
% growth	3	-10	-26	116	26	Total current liabilities	63,995	64,646	60,823	83,843	89,004
EPS (Rs)	130	117	88	190	238	Net current assets	55,843	55,042	61,547	78,711	1,12,301
% growth	3.0	-9.6	-25.3	116.3	25.6	Total assets	1,94,762	2,07,650	2,12,357	2,55,170	2,95,387
DPS (Rs)	20	20	22	24	27						
Payout (%)	15.4	17.0	25.1	12.8	11.2						
Dividend on equity shares	20	20	22	24	27						
Tax on dividend	694	694	761	838	921						

Cash Flow Statement (Rsmn)	FY15	FY16	FY17E	FY18E	FY19E	Ratios	FY15	FY16	FY17E	FY18E	FY19E
EBIT	28,194	26,567	18,980	41,056	51,571	Profitability & return ratios					
(Inc.)/dec. in working capital	-15,040	-188	940	-9,395	-5,828	EBITDA margin (%)	23.3	25.0	18.6	26.4	27.1
Cash flow from operations	13,154	26,379	19,919	31,661	45,743	EBIT margin (%)	17.9	19.3	11.8	21.0	22.4
Other income	-950	-1,081	-308	-354	-407	Net profit margin (%)	15.0	12.9	10.2	17.1	18.3
Depreciation	8,100	10,250	9,899	10,251	10,507						
Other non Cash Expenses	10,125	12,713	0	0	0	RoE (%)	19.9	15.6	10.7	19.4	20.1
Tax paid (-)	-5,396	-7,014	-4,073	-8,811	-11,068	RoCE (%)	21.1	21.5	11.7	23.6	24.4
Net cash from operations	25,033	41,247	25,437	32,746	44,775	Working capital & liquidity ratios					
Capital expenditure (-)	-15,431	-22,727	-11,617	-12,526	-11,567	Receivables (days)	100.4	97.5	94.9	91.3	87.6
Net cash after capex	9,602	18,520	13,821	20,221	33,208	Inventory (days)	148.4	149.6	141.7	151.7	155.1
Inc./(dec.) in short-term borrowing	4,068	-273	-1,825	5,579	3,856	Payables (days)	62.0	71.9	68.1	73.0	74.6
Inc./(dec.) in long-term borrowing	-3,716	-11,706	-110	-1,875	-7,500	Current ratio (x)	1.9	1.9	2.0	1.9	2.3
Interest Paid / Other income	-273	366	0	0	0	Quick ratio (x)	1.5	1.5	1.6	1.6	1.9
Inc./(dec.) in borrowings	352	-11,979	-1,935	3,704	-3,644	Valuation ratios					
(Inc.)/dec. in investments	-8,290	1,021	0	0	0	EV/sales (x)	3.6	3.4	3.5	2.6	2.1
Equity issue/(buyback)/Dividends	-3,381	-4,105	-4,501	-4,952	-5,447	EV/EBITDA (x)	15.3	13.6	18.9	9.8	7.7
Cash from financial activities	-4,118	-17,001	-6,436	-1,247	-9,090	P/E (x)	23.4	25.9	34.7	16.0	12.8
Opening cash	8,451	5,394	4,921	12,306	31,279	P/BV (x)	4.7	4.0	3.7	3.1	2.6
Closing cash	5,394	4,921	12,306	31,279	55,397						
Change in cash	-1,989	3,823	7,385	18,974	24,118						

Source: Company, Nirmal Bang Institutional Equities Research

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