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# Greaves Cotton Ltd.

1QFY19 Result: Estimate (↓), TP (↑), Rating (↓)

Regular Coverage

Absolute: SHORT  
Relative: UNDERWEIGHT  
9% Downside in 13months

Challenges in core business, downgrade to SHORT

Industrials

Greaves Cotton (GRV) posted a modest 10% yoy growth in its 1QFY19 EBITDA to Rs 609mn despite last year's favourable base as 3W/4W engine volumes grew only 4% yoy; however, growth in gen-sets, power tillers and aftermarket was strong. Despite a rural pickup, the diesel 3W industry is growing at a moderate pace due to a shift towards e-rickshaws and CNG vehicles. We believe GRV's sweet spot is the aftermarket segment where its multi-brand retail and Greaves Care initiatives would grow strongly. While gen-sets are growing well & GRV is set to enter the higher KVA segment, but it has limited pricing power and margin-dilutive growth. Due to challenges in its core 3W/4W engine segment, we remain negative and downgrade the stock to SHORT (from REDUCE) with a Sep'19 TP of Rs 127 set at 16x Sep'19 EPS (Jun'19 TP: Rs 125).

**Aftermarket sales doing well; segment to continue shining:** GRV started multi-brand retail around two years back to capitalize on its strong aftermarket network which has increased from 3,500 earlier to 5,000 now. Through multi-brand retail, GRV caters to all types of 3W parts. GRV also started Greaves Care outlets last year for servicing 3Ws; it had 51 outlets as of Mar'18 and 74 as of Jun'18, and management plans to take the number to 150 by Mar'19.

**Diesel 3Ws a declining segment, GRV's electric/CNG power-train tie-ups yet to bear fruit:** Diesel 3W segment is on a structural decline due to pollution caused by diesel and a shift towards cheaper e-rickshaws. GRV is working with Altigreen for electric 3W power-train solutions; however, our industry interactions suggest that this will be a product for high-speed electric 3Ws rather than normal e-rickshaws which are taking away share from diesel 3Ws. High-speed 3Ws will mostly replace the current CNG 3Ws, so the product might not address problems in GRV's key segment. GRV is working with Pinnacle for petrol/CNG BS-VI engines, but we will have to see that how many OEMs the company can tap when the final product is developed. GRV is seeing traction in CNG offerings for larger 3Ws (6+1) but has limited market footprint as of now.

**Gen-sets, tillers growing well; performance of electric pump-sets yet to be seen:** Tiller volumes more than doubled in 1Q and growth is likely to remain strong going ahead as well. Gen-set volumes also grew in double digits and with the entry into higher KVA segment from 1QFY19, volume growth is likely to be strong. Diesel/kerosene pump-sets are declining, and the company has recently launched electric pumps; however, being a late entrant, GRV is yet to prove its mettle in this space.

## Standalone Estimate Revision:

| RsMn   | Current |        | Change from previous (%) |       |
|--------|---------|--------|--------------------------|-------|
|        | FY19E   | FY20E  | FY19E                    | FY20E |
| Sales  | 19,852  | 21,877 | 0.7%                     | 2.8%  |
| EBITDA | 2,778   | 3,106  | -2.8%                    | 0.6%  |
| PAT    | 1,836   | 1,986  | -3.0%                    | 0.6%  |
| EPS    | 7.5     | 8.1    | -2.8%                    | 0.6%  |

## Consolidated Financials

| Rs. Mn            | YE Mar | FY18A  | FY19E  | FY20E  | FY21E  |
|-------------------|--------|--------|--------|--------|--------|
| Sales             |        | 17,921 | 19,854 | 21,879 | 23,004 |
| EBITDA            |        | 2,553  | 2,778  | 3,107  | 3,266  |
| Depreciation      |        | 524    | 563    | 662    | 767    |
| Interest Expense  |        | 8      | 9      | 6      | 6      |
| Other Income      |        | 458    | 481    | 482    | 474    |
| Reported PAT      |        | 2,024  | 1,836  | 1,986  | 2,019  |
| Recurring PAT     |        | 1,549  | 1,840  | 1,986  | 2,019  |
| Total Equity      |        | 9,650  | 9,722  | 9,798  | 9,906  |
| Gross Debt        |        | 0      | 2      | 2      | 2      |
| Cash              |        | 5,391  | 5,701  | 5,385  | 5,429  |
| Rs. Mn            | YE Mar | FY18A  | FY19E  | FY20E  | FY21E  |
| Earnings          |        | 6.3    | 7.5    | 8.1    | 8.3    |
| Book Value        |        | 40     | 40     | 40     | 41     |
| Dividends         |        | 5.5    | 6.0    | 6.5    | 6.5    |
| FCFF              |        | 7.5    | 8.2    | 6.5    | 8.0    |
| P/E (x)           |        | 23.3   | 19.6   | 18.2   | 17.9   |
| P/B (x)           |        | 3.7    | 3.7    | 3.7    | 3.6    |
| EV/EBITDA (x)     |        | 12.1   | 11.1   | 10.0   | 9.5    |
| ROE (%)           |        | 16 %   | 19 %   | 20 %   | 20 %   |
| Core ROIC (%)     |        | 24 %   | 31 %   | 33 %   | 32 %   |
| EBITDA Margin (%) |        | 14 %   | 14 %   | 14 %   | 14 %   |
| Net Margin (%)    |        | 9 %    | 9 %    | 9 %    | 9 %    |

## Rating Information

|                             |             |
|-----------------------------|-------------|
| Price (Rs)                  | 148         |
| Target Price (Rs)           | 127         |
| Target Date                 | 30th Sep'19 |
| Target Set On               | 14th Aug'18 |
| Implied yrs of growth (DCF) | 15          |
| Fair Value (DCF)            | 105         |
| Fair Value (DDM)            | 0           |
| Ind Benchmark               | BSEAUTO     |
| Model Portfolio Position    | NA          |

## Stock Information

|                         |              |
|-------------------------|--------------|
| Market Cap (Rs Mn)      | 36,057       |
| Free Float (%)          | 49.00 %      |
| 52 Wk H/L (Rs)          | 160.1/112.35 |
| Avg Daily Volume (1yr)  | 834,922      |
| Avg Daily Value (Rs Mn) | 108          |
| Equity Cap (Rs Mn)      | 488          |
| Face Value (Rs)         | 2            |
| Bloomberg Code          | GRV IN       |

| Ownership | Recent | 3M     | 12M    |
|-----------|--------|--------|--------|
| Promoters | 51.0 % | 0.0 %  | 0.0 %  |
| DII       | 19.9 % | 1.0 %  | -7.0 % |
| FII       | 6.9 %  | 0.2 %  | -0.2 % |
| Public    | 22.2 % | -1.2 % | 7.2 %  |

| Price %     | 1M     | 3M      | 12M     |
|-------------|--------|---------|---------|
| Absolute    | 3.2 %  | 6.7 %   | -1.1 %  |
| Vs Industry | 2.5 %  | 12.6 %  | -4.9 %  |
| CUMMINSIND  | 4.0 %  | -12.0 % | -24.1 % |
| KIRLOSENG   | -2.4 % | -20.1 % | -35.3 % |

## Standalone Quarterly EPS forecast

| Rs/Share  | 1Q  | 2Q  | 3Q  | 4Q  |
|-----------|-----|-----|-----|-----|
| EPS (18A) | 1.4 | 1.8 | 1.4 | 2.0 |
| EPS (19E) | 1.6 | 2.0 | 1.9 | 2.0 |

## Earnings call takeaways

### Engine segment

- GRV has a technology tie-up with Pinnacle for BS-VI E CO2 petrol/CNG 3W engines, which would be 30% more fuel efficient than current 3Ws in the market. It intends to launch this product by 2020.
- Altigreen engines are in the alpha stage of development
- GRV is in discussions with OEMs to offer BS-VI multi-cylinder engines.
- It intends to offer battery swapping and charging through its Greaves Care/ aftermarket network for electric 3Ws.
- The diesel engine segment grew by 10% while the entire industry by 50%, largely driven by CNG engines.
- The company sold 1,300 CNG engines vs. 700 CNG engines in the year-ago period.
- GRV is in advanced discussions with almost all its OEM customers for BS-VI diesel engines.
- The company took a 4% price hike in the engine business during 1QFY19.
- Engine business grew 4% by volume in automobiles at 74,580 vs ~71,000 in 1QFY18.
- While CNG share in the market is ~50%, the trend is in the favor of CNG.
- CNG contributes ~2% to GRV's total engine sales.

### Aftermarket

- In the aftermarket segment, GRV currently covers nearly 80% parts of 3Ws.
- Aftermarket Segment growth was greater than overall company average growth. GRV is also entering the 2W spares business.
- Greaves Care is an asset-light model, with outlets working under the franchisee model. The company has 74 operational Greaves Care outlets as at 1QFY19-end, and plans to take the number to 150 by fiscal-end.
- The company has started the distribution of Fuchs lubricants.
- GRV intends to expand its multi-brand portfolio to cover the entire market.

- Management expects the aftermarket segment to grow well in FY19 driven by multi-brand spares.
- Aftermarket has better margins than the engine business.
- GRV has about 5,000 touch points in the aftermarket segment.

### Others

- The company has launched electric pump-sets in the current year. It also plans to enter the solar pump-set business in the near future.
- Current sales mix: Engines 48%, aftermarket 24%, others (gen-sets, agri and trading) 28%.
- In 1QFY19, engine volumes were at 74,580 units (vs. 71,615 in 1QFY18), P/K pump-sets at 16,830 (vs. 16,992), diesel pump-sets at 3,173 (vs. 3,720), tillers at 1,800 (vs. 820), and gen-sets at 1,300 (vs. 1,100).
- GRV expects a 7% increase in employee costs for the whole year.
- Management expects gross margins to sustain at 1QFY19 levels.
- Topline grew 13% yoy in 1QFY19 to Rs 4.58bn as against Rs 4.06bn in 1QFY18.
- 1QFY19 EBITDA came in at Rs 609mn, up 10% from Rs 554mn in 1QFY18.
- EBITDA margins declined 33bps yoy in 1Q to 13.3%.
- Cost control measures helped in tackling RMC inflation.
- Effective tax rate for 1QFY19 stood at 31.5% as against 30.9% in 1QFY18.
- Cash and liquid assets are at Rs 6.05bn.
- Capex of ~Rs 1bn in FY19 largely focused R&D expenses.
- At an annual level, the 3W market size is ~0.65mn vehicles.

**Quarterly performance, standalone**

| Rs Mn                     | 1QFY19       | 1QFY19E      | 4QFY18       | 1QFY18       | % Change    |             |            | Comments |
|---------------------------|--------------|--------------|--------------|--------------|-------------|-------------|------------|----------|
|                           |              |              |              |              | 1QFY19E     | 4QFY18      | 1QFY18     |          |
| Net Sales                 | 4,582        | 4,773        | 4,862        | 4,063        | -4%         | -6%         | 13%        |          |
| Cost of Goods sold        | 3,092        | 3,188        | 3,322        | 2,720        | -3%         | -7%         | 14%        |          |
| Employee cost             | 466          | 444          | 380          | 416          | 5%          | 23%         | 12%        |          |
| Other Expenses            | 414          | 449          | 461          | 373          | -8%         | -10%        | 11%        |          |
| <b>Total Expenditures</b> | <b>3,972</b> | <b>4,081</b> | <b>4,163</b> | <b>3,509</b> | <b>-3%</b>  | <b>-5%</b>  | <b>13%</b> |          |
| <b>EBITDA</b>             | <b>609</b>   | <b>692</b>   | <b>699</b>   | <b>554</b>   | <b>-12%</b> | <b>-13%</b> | <b>10%</b> |          |
| Depreciation              | 125          | 135          | 131          | 120          | -7%         | -5%         | 5%         |          |
| <b>EBIT</b>               | <b>484</b>   | <b>557</b>   | <b>567</b>   | <b>434</b>   | <b>-13%</b> | <b>-15%</b> | <b>11%</b> |          |
| Interest                  | 5            | 1            | 6            | 2            | 256%        | -18%        | 133%       |          |
| Other Income              | 103          | 112          | 150          | 103          | -7%         | -31%        | 0%         |          |
| <b>PBT</b>                | <b>582</b>   | <b>668</b>   | <b>711</b>   | <b>535</b>   | <b>-13%</b> | <b>-18%</b> | <b>9%</b>  |          |
| Tax                       | 184          | 207          | 233          | 184          | -11%        | -21%        | 0%         |          |
| <b>Recurring PAT</b>      | <b>398</b>   | <b>461</b>   | <b>478</b>   | <b>352</b>   | <b>-14%</b> | <b>-17%</b> | <b>13%</b> |          |
| Extraordinaries           | 4            | 0            | -68          | -60          |             |             |            |          |
| <b>Reported PAT</b>       | <b>395</b>   | <b>461</b>   | <b>546</b>   | <b>412</b>   | <b>-14%</b> | <b>-28%</b> | <b>-4%</b> |          |
| EPS (Rs)                  | 1.6          | 1.9          | 2.0          | 1.4          | -14%        | -17%        | 13%        |          |
| EBITDA Margin             | 13.3%        | 14.5%        | 14.4%        | 13.6%        | -120 bps    | -107 bps    | -33 bps    |          |
| EBIT Margin               | 10.6%        | 11.7%        | 11.7%        | 10.7%        | -112 bps    | -110 bps    | -12 bps    |          |
| PBT Margin                | 12.7%        | 14.0%        | 14.6%        | 13.2%        | -128 bps    | -192 bps    | -47 bps    |          |
| PAT Margin                | 8.6%         | 9.7%         | 11.2%        | 10.1%        | -104 bps    | -262 bps    | -152 bps   |          |
| Tax Rate                  | 31.6%        | 31.0%        | 32.8%        | 34.3%        | 58 bps      | -117 bps    | -272 bps   |          |
| <b>Cost as % of Sales</b> |              |              |              |              |             |             |            |          |
| Raw Material              | 67.5%        | 66.8%        | 68.3%        | 67.0%        | 70 bps      | -84 bps     | 54 bps     |          |
| Employee Cost             | 10.2%        | 9.3%         | 7.8%         | 10.2%        | 88 bps      | 235 bps     | -7 bps     |          |
| Other Expenses            | 9.0%         | 9.4%         | 9.5%         | 9.2%         | -37 bps     | -45 bps     | -14 bps    |          |

## Company Snapshot

### How we differ from Consensus

|       | -     | Equirus | Consensus | % Diff | Comment   |
|-------|-------|---------|-----------|--------|---|
| EPS   | FY19E | 7.5     | 7.8       | -4 %   | We are below consensus due to lower growth and margin estimates |
|       | FY20E | 8.1     | 8.5       | -4 %   |   |
| Sales | FY19E | 19,854  | 19,368    | 3 %    |   |
|       | FY20E | 21,879  | 21,453    | 2 %    |   |
| PAT   | FY19E | 1,836   | 1,914     | -4 %   |   |
|       | FY20E | 1,986   | 2,118     | -6 %   |   |

### Key Assumptions:

| Standalone                   | FY18          | FY19E         | FY20E         | FY21E         |
|------------------------------|---------------|---------------|---------------|---------------|
| 3W Volumes                   | 276,650       | 289,889       | 298,586       | 274,699       |
| 4W Volumes                   | 35,524        | 42,081        | 45,448        | 49,083        |
| Engine Segment Sales (Rs mn) | 17,665        | 18,963        | 20,898        | 21,926        |
| Other Sales (Rs mn)          | 732           | 890           | 978           | 1,076         |
| <b>Total Sales (Rs mn)</b>   | <b>18,397</b> | <b>19,852</b> | <b>21,877</b> | <b>23,002</b> |
| EBITDA Margin                | 14.2%         | 14.0%         | 14.2%         | 14.2%         |

**Risk to Our View:** Rise in commodity prices and increased competition from foreign diesel engine manufacturers.

### Key Triggers

Any auto OEM planning to enter the SCV market will have to either develop engines in-house or look at an independent engine supplier. Selection of GRVas an engine supplier would be a key stock price trigger.

| Comparable valuation |       | Mkt Cap<br>Rs. Mn. | Price<br>Target | Target<br>Date | EPS         |       |       | P/E   |       |       | BPS   |       |       | P/B   |       |       | RoE   |       |       | Div Yield |       |
|----------------------|-------|--------------------|-----------------|----------------|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------|-------|
| Company              | Reco. |                    |                 |                | CMP         | FY18A | FY19E | FY20E | FY18A | FY19E | FY20E | FY18A | FY19E | FY20E | FY18A | FY19E | FY20E | FY18A | FY19E | FY20E     | FY18A |
| Greaves Cotton       | LONG  | 148                | 36,057          | 127            | 30th Sep'19 | 6.3   | 7.5   | 8.1   | 23.3  | 19.6  | 18.2  | 39.5  | 3.7   | 16 %  | 19 %  | 20 %  | 3.8 % | 4.2 % |       |           |       |
| CUMMINSIND           | NR    | 674                | 186,694         | NR             | NR          | 25.7  | 27.1  | 31.2  | 26.2  | 24.8  | 21.6  | 62.3  | 10.0  | 25 %  | 23 %  | 18 %  | 1.5 % | -     |       |           |       |
| KIRLOSENG            | NR    | 251                | 36,298          | NR             | NR          | 10.0  | 12.5  | 14.6  | 25.1  | 20.2  | 17.2  | 108.5 | 4.3   | 10 %  | 12 %  | 9 %   | 1.0 % | -     |       |           |       |

| Sensitivity to Key Variables | % Change | % Impact on EPS |
|------------------------------|----------|-----------------|
| Raw material cost            | 5 %      | -16 %           |
| -                            | -        | -               |
| -                            | -        | -               |

### DCF Valuations & Assumptions

| Rf    | Beta | Ke     | Term. Growth | Debt/IC in Term. Yr |
|-------|------|--------|--------------|---------------------|
| 7.7 % | 0.9  | 12.8 % | 3.0 %        | 0.0 %               |

|              | FY18E | FY19E | FY20-22E | FY23-27E | FY28-32E |
|--------------|-------|-------|----------|----------|----------|
| Sales Growth | 9%    | 10%   | 7%       | 6%       | 6%       |
| NOPAT Margin | 8%    | 8%    | 8%       | 8%       | 8%       |
| IC Turnover  | 2.85  | 2.97  | 3.06     | 3.06     | 3.06     |
| RoIC         | 23.6% | 25.3% | 26.4%    | 26.4%    | 26.4%    |

|                           |    |    |    |     |     |
|---------------------------|----|----|----|-----|-----|
| Years of strong growth    | 1  | 2  | 5  | 10  | 15  |
| Valuation as on date (Rs) | 69 | 75 | 81 | 88  | 94  |
| Valuation as of Sept'18   | 78 | 85 | 92 | 100 | 107 |

Based on DCF, assuming 15 years of 9.2% CAGR growth and 26% average ROIC, we derive our Sep'19 fair value of Rs 109.

### Company Description:

Greaves Cotton Ltd, incorporated in 1922, is a leading manufacturer and marketer of diesel/petrol engines, gensets, agro equipment and construction equipment. The company is a key supplier of diesel engines to leading auto OEMs that manufacture small commercial vehicles (SCVs).



Standalone Quarterly Earnings Forecast and Key Drivers

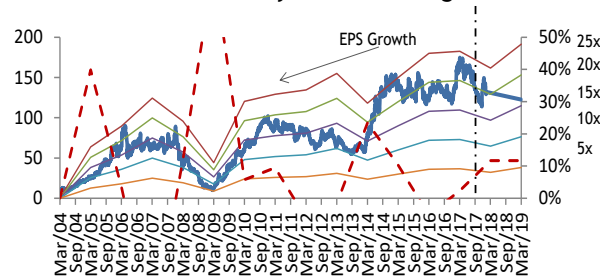
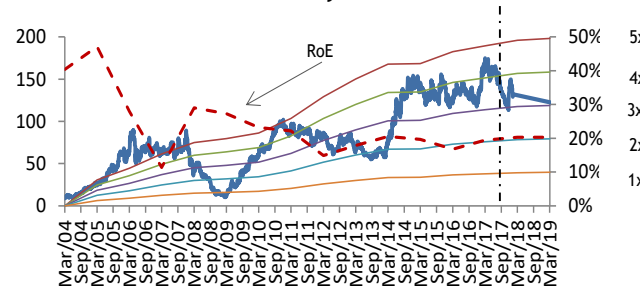
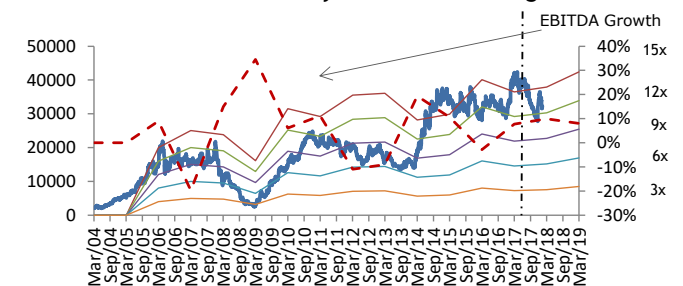
| Rs in Mn                     | 1Q18A  | 2Q18A  | 3Q18A  | 4Q18A  | 1Q19E  | 2Q19E  | 3Q19E  | 4Q19E  | 1Q20E  | 2Q20E  | 3Q20E  | 4Q20E  | FY18A   | FY19E   | FY20E   | FY21E   |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|
| Revenue                      | 4,063  | 4,524  | 4,473  | 4,862  | 4,582  | 5,047  | 4,963  | 5,260  | 5,118  | 5,534  | 5,448  | 5,777  | 17,921  | 19,852  | 21,877  | 23,002  |
| Cost of Goods sold           | 2,720  | 3,040  | 3,016  | 3,322  | 3,092  | 3,386  | 3,331  | 3,530  | 3,434  | 3,713  | 3,656  | 3,876  | 12,099  | 13,339  | 14,679  | 15,434  |
| Employee cost                | 416    | 452    | 424    | 380    | 466    | 469    | 462    | 489    | 476    | 515    | 507    | 537    | 1,673   | 1,886   | 2,035   | 2,139   |
| Selling and Admin expenses   | 373    | 353    | 410    | 461    | 414    | 474    | 467    | 494    | 481    | 520    | 512    | 543    | 1,597   | 1,849   | 2,056   | 2,162   |
| EBITDA                       | 554    | 679    | 622    | 699    | 609    | 717    | 705    | 747    | 727    | 786    | 774    | 820    | 2,553   | 2,778   | 3,106   | 3,266   |
| Depreciation                 | 120    | 141    | 132    | 131    | 125    | 142    | 145    | 151    | 156    | 164    | 168    | 175    | 524     | 563     | 662     | 767     |
| EBIT                         | 434    | 537    | 491    | 567    | 484    | 575    | 560    | 596    | 570    | 622    | 606    | 646    | 2,029   | 2,215   | 2,444   | 2,500   |
| Interest                     | 2      | -2     | 2      | 6      | 5      | 1      | 1      | 1      | 1      | 1      | 1      | 1      | 8       | 9       | 6       | 6       |
| Other Income                 | 103    | 110    | 90     | 150    | 103    | 127    | 133    | 117    | 115    | 124    | 130    | 113    | 453     | 481     | 482     | 474     |
| PBT                          | 535    | 649    | 579    | 711    | 582    | 701    | 692    | 712    | 684    | 745    | 735    | 757    | 2,474   | 2,687   | 2,921   | 2,968   |
| Tax                          | 184    | 220    | 249    | 233    | 184    | 221    | 218    | 224    | 216    | 235    | 239    | 246    | 930     | 847     | 935     | 950     |
| Recurring PAT                | 352    | 429    | 330    | 478    | 398    | 480    | 474    | 488    | 469    | 510    | 496    | 511    | 1,545   | 1,840   | 1,986   | 2,018   |
| Extraordinary                | -60    | -64    | -228   | -68    | 4      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | -466    | 4       | 0       | 0       |
| Reported PAT                 | 412    | 494    | 558    | 546    | 395    | 480    | 474    | 488    | 469    | 510    | 496    | 511    | 2,011   | 1,836   | 1,986   | 2,018   |
| EPS (Rs)                     | 1.44   | 1.76   | 1.35   | 1.96   | 1.63   | 1.97   | 1.94   | 2.00   | 1.92   | 2.09   | 2.03   | 2.09   | 6.32    | 7.54    | 8.13    | 8.27    |
| <b>Key Drivers</b>           |        |        |        |        |        |        |        |        |        |        |        |        |         |         |         |         |
| 3W Volumes                   | 63,000 | 76,000 | 66,650 | 71,000 | 64,890 | 79,800 | 70,649 | 74,550 | 66,837 | 82,194 | 72,768 | 76,787 | 276,650 | 289,889 | 298,586 | 274,699 |
| 4W Volumes                   | 6,000  | 9,300  | 10,224 | 10,000 | 9,900  | 10,137 | 11,144 | 10,900 | 10,692 | 10,948 | 12,036 | 11,772 | 35,524  | 42,081  | 45,448  | 49,083  |
| -                            | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -       | -       | -       | -       |
| -                            | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -       | -       | -       | -       |
| -                            | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -       | -       | -       | -       |
| -                            | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -       | -       | -       | -       |
| <b>Sequential Growth (%)</b> |        |        |        |        |        |        |        |        |        |        |        |        |         |         |         |         |
| Revenue                      | 4 %    | 11 %   | -1 %   | 9 %    | -6 %   | 10 %   | -2 %   | 6 %    | -3 %   | 8 %    | -2 %   | 6 %    | -       | -       | -       | -       |
| Cost of Goods sold           | 4 %    | 12 %   | -1 %   | 10 %   | -7 %   | 10 %   | -2 %   | 6 %    | -3 %   | 8 %    | -2 %   | 6 %    | -       | -       | -       | -       |
| EBITDA                       | 4 %    | 23 %   | -8 %   | 12 %   | -13 %  | 18 %   | -2 %   | 6 %    | -3 %   | 8 %    | -2 %   | 6 %    | -       | -       | -       | -       |
| EBIT                         | 6 %    | 24 %   | -9 %   | 16 %   | -15 %  | 19 %   | -2 %   | 6 %    | -4 %   | 9 %    | -3 %   | 7 %    | -       | -       | -       | -       |
| Recurring PAT                | -13 %  | 22 %   | -23 %  | 45 %   | -17 %  | 20 %   | -1 %   | 3 %    | -4 %   | 9 %    | -3 %   | 3 %    | -       | -       | -       | -       |
| EPS                          | -13 %  | 22 %   | -23 %  | 45 %   | -17 %  | 20 %   | -1 %   | 3 %    | -4 %   | 9 %    | -3 %   | 3 %    | -       | -       | -       | -       |
| <b>Yearly Growth (%)</b>     |        |        |        |        |        |        |        |        |        |        |        |        |         |         |         |         |
| Revenue                      | 1 %    | 3 %    | 11 %   | 24 %   | 13 %   | 12 %   | 11 %   | 8 %    | 12 %   | 10 %   | 10 %   | 10 %   | 10 %    | 11 %    | 10 %    | 5 %     |
| EBITDA                       | -8 %   | -13 %  | 3 %    | 31 %   | 10 %   | 6 %    | 13 %   | 7 %    | 19 %   | 10 %   | 10 %   | 10 %   | 5 %     | 9 %     | 12 %    | 5 %     |
| EBIT                         | -12 %  | -19 %  | 1 %    | 39 %   | 11 %   | 7 %    | 14 %   | 5 %    | 18 %   | 8 %    | 8 %    | 8 %    | 3 %     | 9 %     | 10 %    | 2 %     |
| Recurring PAT                | -20 %  | -25 %  | -22 %  | 18 %   | 13 %   | 12 %   | 44 %   | 2 %    | 18 %   | 6 %    | 5 %    | 5 %    | -13 %   | 19 %    | 8 %     | 2 %     |
| EPS                          | -20 %  | -25 %  | -22 %  | 18 %   | 13 %   | 12 %   | 44 %   | 2 %    | 18 %   | 6 %    | 5 %    | 5 %    | -13 %   | 19 %    | 8 %     | 2 %     |
| <b>Margin (%)</b>            |        |        |        |        |        |        |        |        |        |        |        |        |         |         |         |         |
| EBITDA                       | 14 %   | 15 %   | 14 %   | 14 %   | 13 %   | 14 %   | 14 %   | 14 %   | 14 %   | 14 %   | 14 %   | 14 %   | 14 %    | 14 %    | 14 %    | 14 %    |
| EBIT                         | 11 %   | 12 %   | 11 %   | 12 %   | 11 %   | 11 %   | 11 %   | 11 %   | 11 %   | 11 %   | 11 %   | 11 %   | 11 %    | 11 %    | 11 %    | 11 %    |
| PBT                          | 13 %   | 14 %   | 13 %   | 15 %   | 13 %   | 14 %   | 14 %   | 14 %   | 13 %   | 13 %   | 13 %   | 13 %   | 14 %    | 14 %    | 13 %    | 13 %    |
| PAT                          | 9 %    | 9 %    | 7 %    | 10 %   | 9 %    | 10 %   | 10 %   | 9 %    | 9 %    | 9 %    | 9 %    | 9 %    | 9 %     | 9 %     | 9 %     | 9 %     |

**Consolidated Financials**

| P&L (Rs Mn)          | FY18A  | FY19E  | FY20E  | FY21E  |
|----------------------|--------|--------|--------|--------|
| Revenue              | 17,921 | 19,854 | 21,879 | 23,004 |
| Op. Expenditure      | 15,368 | 17,076 | 18,772 | 19,738 |
| EBITDA               | 2,553  | 2,778  | 3,107  | 3,266  |
| Depreciation         | 524    | 563    | 662    | 767    |
| EBIT                 | 2,029  | 2,215  | 2,444  | 2,500  |
| Interest Expense     | 8      | 9      | 6      | 6      |
| Other Income         | 458    | 481    | 482    | 474    |
| PBT                  | 2,479  | 2,687  | 2,921  | 2,969  |
| Tax                  | 930    | 847    | 935    | 950    |
| PAT bef. MI & Assoc. | 1,549  | 1,840  | 1,986  | 2,019  |
| Minority Interest    | 0      | 0      | 0      | 0      |
| Profit from Assoc.   | 0      | 0      | 0      | 0      |
| Recurring PAT        | 1,549  | 1,840  | 1,986  | 2,019  |
| Extraordinaires      | -475   | 4      | 0      | 0      |
| Reported PAT         | 2,024  | 1,836  | 1,986  | 2,019  |
| FDEPS (Rs)           | 6.3    | 7.5    | 8.1    | 8.3    |
| DPS (Rs)             | 5.5    | 6.0    | 6.5    | 6.5    |
| CEPS (Rs)            | 8.5    | 9.8    | 10.8   | 11.4   |
| FCFPS (Rs)           | 7.5    | 8.2    | 6.5    | 8.0    |
| BVPS (Rs)            | 39.5   | 39.8   | 40.1   | 40.6   |
| EBITDAM (%)          | 14 %   | 14 %   | 14 %   | 14 %   |
| PATM (%)             | 9 %    | 9 %    | 9 %    | 9 %    |
| Tax Rate (%)         | 38 %   | 32 %   | 32 %   | 32 %   |
| Sales Growth (%)     | -18 %  | 11 %   | 10 %   | 5 %    |
| FDEPS Growth (%)     | -35 %  | 19 %   | 8 %    | 2 %    |

| Balance Sheet (Rs Mn)      | FY18A  | FY19E  | FY20E  | FY21E  |
|----------------------------|--------|--------|--------|--------|
| Equity Capital             | 488    | 488    | 488    | 488    |
| Reserve                    | 9,161  | 9,234  | 9,310  | 9,418  |
| Networth                   | 9,650  | 9,722  | 9,798  | 9,906  |
| Long Term Debt             | 0      | 0      | 0      | 0      |
| Def Tax Liability          | 275    | 352    | 352    | 352    |
| Minority Interest          | 0      | 0      | 0      | 0      |
| Account Payables           | 2,730  | 1,718  | 1,890  | 1,988  |
| Other Curr Liabi           | 808    | 1,946  | 2,145  | 2,255  |
| Total Liabilities & Equity | 13,462 | 13,739 | 14,185 | 14,501 |
| Net Fixed Assets           | 2,778  | 3,215  | 3,553  | 4,336  |
| Capital WIP                | 276    | 276    | 276    | 276    |
| Others                     | 422    | 337    | 337    | -413   |
| Inventory                  | 1,094  | 1,251  | 1,379  | 1,450  |
| Account Receivables        | 2,527  | 2,720  | 2,997  | 3,151  |
| Other Current Assets       | 973    | 238    | 258    | 272    |
| Cash                       | 5,391  | 5,701  | 5,385  | 5,429  |
| Total Assets               | 13,462 | 13,739 | 14,185 | 14,501 |
| Non-cash Working Capital   | 1,057  | 545    | 598    | 630    |
| Cash Conv Cycle            | 21.5   | 10.0   | 10.0   | 10.0   |
| WC Turnover                | 16.9   | 36.4   | 36.6   | 36.5   |
| FA Turnover                | 5.9    | 5.7    | 5.7    | 5.0    |
| Net D/E                    | -0.6   | -0.6   | -0.5   | -0.5   |
| Revenue/Capital Employed   | 1.9    | 2.0    | 2.2    | 2.3    |
| Capital Employed/Equity    | 1.0    | 1.0    | 1.0    | 1.0    |

| Cash Flow (Rs Mn)  | FY18A  | FY19E  | FY20E  | FY21E  |
|--------------------|--------|--------|--------|--------|
| PBT                | 2,479  | 2,687  | 2,921  | 2,969  |
| Depreciation       | 524    | 563    | 662    | 767    |
| Others             | -329   | -4     | 0      | 0      |
| Taxes Paid         | 919    | 847    | 935    | 950    |
| Change in WC       | 1,041  | 513    | -54    | -31    |
| Operating C/F      | 2,796  | 2,912  | 2,595  | 2,754  |
| Capex              | -16    | -915   | -1,000 | -800   |
| Change in Invest   | -973   | 0      | 0      | 0      |
| Others             | 17     | 0      | 0      | 0      |
| Investing C/F      | -972   | -915   | -1,000 | -800   |
| Change in Debt     | 0      | 0      | 0      | 0      |
| Change in Equity   | 0      | 0      | 0      | 0      |
| Others             | -1,625 | -1,685 | -1,911 | -1,911 |
| Financing C/F      | -1,625 | -1,685 | -1,911 | -1,911 |
| Net change in cash | 199    | 312    | -316   | 43     |
| RoE (%)            | 16 %   | 19 %   | 20 %   | 20 %   |
| RoIC (%)           | 16 %   | 18 %   | 20 %   | 20 %   |
| Core RoIC (%)      | 24 %   | 31 %   | 33 %   | 32 %   |
| Div Payout (%)     | 80 %   | 96 %   | 96 %   | 95 %   |
| P/E                | 23.3   | 19.6   | 18.2   | 17.9   |
| P/B                | 3.7    | 3.7    | 3.7    | 3.6    |
| P/FCFF             | 19.7   | 18.0   | 22.6   | 18.4   |
| EV/EBITDA          | 12.1   | 11.1   | 10.0   | 9.5    |
| EV/Sales           | 1.7    | 1.5    | 1.4    | 1.3    |
| Dividend Yield (%) | 3.8 %  | 4.2 %  | 4.5 %  | 4.5 %  |

**TTM P/E vs. 2 yr forward EPS growth**

**TTM P/B vs. 2 yr forward RoE**

**TTM EV/EBITDA vs. 2 yr forward EBITDA growth**


**Historical Consolidated Financials**

| P&L (Rs Mn)          | FY15A  | FY16A  | FY17A  | FY18A  | Balance Sheet (Rs Mn)      | FY15A  | FY16A  | FY17A  | FY18A  | Cash Flow (Rs Mn)  | FY15A  | FY16A  | FY17A  | FY18A  |
|----------------------|--------|--------|--------|--------|----------------------------|--------|--------|--------|--------|--------------------|--------|--------|--------|--------|
| Revenue              | 16,977 | 16,161 | 16,344 | 17,921 | Equity Capital             | 488    | 488    | 488    | 488    | PBT                | 1,740  | 2,693  | 2,464  | 2,479  |
| Op. Expenditure      | 14,986 | 13,487 | 13,911 | 15,368 | Reserve                    | 7,742  | 8,423  | 8,765  | 9,161  | Depreciation       | 477    | 456    | 469    | 524    |
| EBITDA               | 1,991  | 2,674  | 2,434  | 2,553  | Networth                   | 8,231  | 8,911  | 9,253  | 9,650  | Others             | -576   | 578    | -475   | -329   |
| Depreciation         | 477    | 456    | 469    | 524    | Long Term Debt             | 0      | 0      | 0      | 0      | Taxes Paid         | 441    | 851    | 737    | 919    |
| EBIT                 | 1,514  | 2,218  | 1,965  | 2,029  | Def Tax Liability          | 270    | 269    | 274    | 275    | Change in WC       | 1,051  | -576   | -577   | 1,041  |
| Interest Expense     | 24     | 10     | 8      | 8      | Minority Interest          | 0      | 0      | 0      | 0      | Operating C/F      | 2,251  | 2,301  | 1,144  | 2,796  |
| Other Income         | 249    | 485    | 507    | 458    | Account Payables           | 1,451  | 1,941  | 2,199  | 2,730  | Capex              | -441   | 37     | -160   | -16    |
| PBT                  | 1,740  | 2,693  | 2,464  | 2,479  | Other Curr Liabi           | 1,655  | 654    | 710    | 808    | Change in Invest   | -1,511 | -817   | 440    | -973   |
| Tax                  | 273    | 935    | 680    | 930    | Total Liabilities & Equity | 11,607 | 11,775 | 12,435 | 13,462 | Others             | 162    | 80     | 80     | 17     |
| PAT bef. MI & Assoc. | 1,467  | 1,758  | 1,784  | 1,549  | Net Fixed Assets           | 3,263  | 2,874  | 2,921  | 2,778  | Investing C/F      | -1,790 | -701   | 359    | -972   |
| Minority Interest    | 0      | 0      | 0      | 0      | Capital WIP                | 84     | 245    | 147    | 276    | Change in Debt     | -1     | 0      | 0      | 0      |
| Profit from Assoc.   | 0      | 0      | 0      | 0      | Others                     | 257    | 312    | 317    | 422    | Change in Equity   | 0      | 0      | 0      | 0      |
| Recurring PAT        | 1,467  | 1,758  | 1,784  | 1,549  | Inventory                  | 1,064  | 1,081  | 1,294  | 1,094  | Others             | -595   | -1,664 | -1,479 | -1,625 |
| Extraordinaires      | 630    | -251   | -25    | -475   | Account Receivables        | 2,314  | 2,006  | 2,702  | 2,527  | Financing C/F      | -596   | -1,664 | -1,479 | -1,625 |
| Reported PAT         | 836    | 2,009  | 1,809  | 2,024  | Other Current Assets       | 1,092  | 1,463  | 816    | 973    | Net change in cash | -135   | -63    | 24     | 199    |
| EPS (Rs)             | 6.0    | 7.2    | 7.3    | 6.3    | Cash                       | 3,533  | 3,794  | 4,238  | 5,391  | RoE (%)            | 18 %   | 21 %   | 20 %   | 16 %   |
| DPS (Rs)             | 2.5    | 5.5    | 5.5    | 5.5    | Total Assets               | 11,607 | 11,775 | 12,435 | 13,462 | RoIC (%)           | 17 %   | 20 %   | 19 %   | 16 %   |
| CEPS (Rs)            | 8.0    | 9.1    | 9.2    | 8.5    | Non-cash Working Capital   | 1,364  | 1,956  | 1,904  | 1,057  | Core RoIC (%)      | 21 %   | 26 %   | 25 %   | 24 %   |
| FCFPS (Rs)           | 2.0    | 6.6    | 6.2    | 7.5    | Cash Conv Cycle            | 29.3   | 44.2   | 42.5   | 21.5   | Div Payout (%)     | 86 %   | 80 %   | 89 %   | 80 %   |
| BVPS (Rs)            | 33.7   | 36.5   | 37.9   | 39.5   | WC Turnover                | 12.4   | 8.3    | 8.6    | 16.9   | P/E                | 24.6   | 20.5   | 20.2   | 0.0    |
| EBITDAM (%)          | 12 %   | 17 %   | 15 %   | 14 %   | FA Turnover                | 5.1    | 5.2    | 5.3    | 5.9    | P/B                | 4.4    | 4.0    | 3.9    | 0.0    |
| PATM (%)             | 9 %    | 11 %   | 11 %   | 9 %    | Net D/E                    | -0.4   | -0.4   | -0.5   | -0.6   | P/FCFF             | 75.0   | 22.4   | 23.9   | 19.7   |
| Tax Rate (%)         | 16 %   | 35 %   | 28 %   | 38 %   | Revenue/Capital Employed   | 2.0    | 1.9    | 1.8    | 1.9    | EV/EBITDA          | 16.6   | 12.3   | 13.3   | 0.0    |
| Sales growth (%)     | -27 %  | -29 %  | -24 %  | -18 %  | Capital Employed/Equity    | 1.1    | 1.0    | 1.0    | 1.0    | EV/Sales           | 1.9    | 2.0    | 2.0    | 0.0    |
| FDEPS growth (%)     | -5 %   | -10 %  | -24 %  | -35 %  |                            |        |        |        |        | Dividend Yield (%) | 1.7 %  | 3.8 %  | 3.8 %  | 3.8 %  |



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• ADD: ATR >= 5% but less than Ke over investment horizon

• REDUCE: ATR >= negative 10% but <5% over investment horizon

• SHORT: ATR < negative 10% over investment horizon

**Relative Rating**

• OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon

• BENCHMARK: likely to perform in line with the benchmark

• UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon

**Investment Horizon**

Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter.

**Lite vs. Regular Coverage vs. Spot Coverage**

We aim to keep our rating and estimates updated at least once a quarter for Regular Coverage stocks. Generally, we would have access to the company and we would maintain detailed financial model for Regular coverage companies.

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