



© 2018 Equirus All rights reserved

Rating Information	
Price (Rs)	308
Target Price (Rs)	361
Target Date	31st Mar'19
Target Set On	18th Jan'18
Implied yrs of growth (DCF)	20
Fair Value (DCF)	308
Fair Value (DDM)	107
Ind Benchmark	BSEMETL
Model Portfolio Position	No

Stock Information	
Market Cap (Rs Mn)	1,302,666
Free Float (%)	35.08 %
52 Wk H/L (Rs)	331/226.75
Avg Daily Volume (1yr)	2,309,633
Avg Daily Value (Rs Mn)	657
Equity Cap (Rs Mn)	8,451
Face Value (Rs)	2
Bloomberg Code	HZ IN

Ownership	Recent	3M	12M
Promoters	64.9 %	0.0 %	0.0 %
DII	31.3 %	0.0 %	0.5 %
FII	2.2 %	0.0 %	-0.9 %
Public	1.7 %	0.0 %	0.4 %

Price %	1M	3M	12M
Absolute	3.6 %	-4.6 %	16.3 %
Vs Industry	-3.5 %	-7.7 %	-16.3 %
VEDL	5.9 %	-1.4 %	33.7 %
HINDALCO	1.7 %	-7.8 %	43.4 %

Standalone Quarterly EPS forecast				
Rs/Share	1Q	2Q	3Q	4Q
EPS (17A)	2.5	4.5	5.5	7.2
EPS (18E)	4.4	5.3	5.3	6.1

Hindustan Zinc Ltd.

3QFY18 Results: Estimate (↑), TP (↓), Rating (↔)

Regular Coverage

Strong zinc prices keep earnings momentum, retain LONG

Absolute: LONG

Relative: OVERWEIGHT

17% ATR in 14 Months

Metals & Mining

Hindustan Zinc (HZ) reported an in-line operating performance for 3QFY18. While sales volumes came in higher than EE, this was negated by increased costs due to a spike in commodity prices. Supply deficit in the zinc market is expected to continue in 2018 as well, and therefore zinc prices should remain firm. Driven by the planned ramp-up of underground mines, management is confident of achieving 1.2mn tons of mined metal production in FY20. We raise our FY19E zinc/lead pricing assumptions by 6%/4%, leading to an 8% increase in EBITDA estimates; however, PAT estimates stand upgraded by only ~1% on expectations of higher depreciation charges & lower other income. Retain LONG with a Mar'19 TP of Rs 361 set at 3.5x FY19 BV.

New mine production to slightly bridge zinc supply gap, but continued deficit to support prices: Over the next two years, new mine supply is expected from Australia, India and South Africa. In Australia, supply would largely be driven by Dugald River expansion (170k tpa) and New Century tailing production (270k tpa). Vedanta's Gamsberg mine and part production at Glencore's 500k tpa mines should also begin in 2HCY18. Despite such incremental supply, an industry report suggests that the zinc market would remain in deficit over 2018, in 2019 though it might be in slight surplus, but going back to deficit again in 2020. We therefore expect zinc prices to remain firm, going ahead.

Underground production ramping up well, on track for 1.2mn ton mined metal capacity in FY20: FY18 would be the last year of production from Rampura Agucha (RA) open-cast mine; however, production ramp-up at underground mines has been impressive with 85% contribution in 9MFY18. The SK mine reached 4.5mtpa production in 3Q. The RA underground mine shaft is expected to start ore production from 3QFY19, enabling HZ to reach 1.2mtpa mined metal production in FY20. The SK mine is also in the process of taking regulatory approvals to increase ore mining capacity to 6mn tons.

Sharply higher input costs push up COP by 19% yoy; lower other income weighs on PAT: Prices of key inputs like coal increased sharply yoy as well as qoq, leading to a 19% yoy and 4% qoq increase in COP per tonne. Input costs should decline from 4QFY18 as the company will start getting some quantity of linkage coal. Other income was lower due to lower investment corpus and a 67bps increase in G-Sec yields during 3Q, leading to MTM losses on investment.

Estimate Revision:

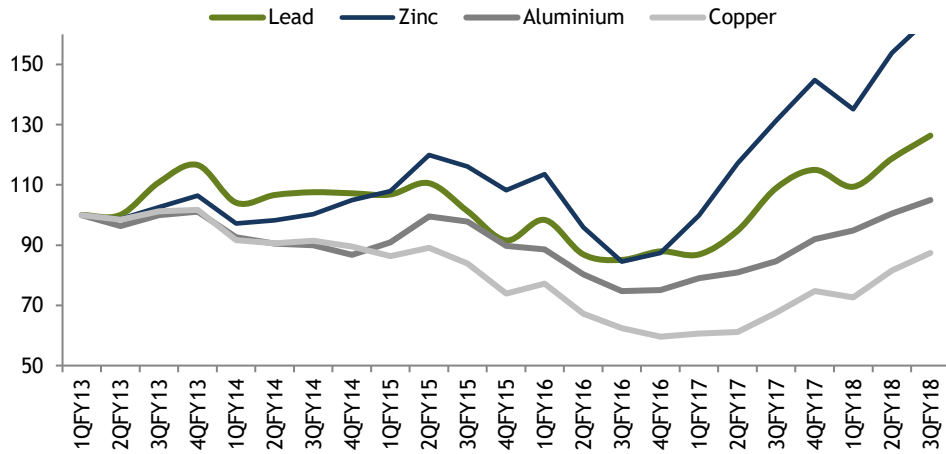
Rs Mn	Current		Change from previous (%)	
	FY18E	FY19E	FY18E	FY19E
Sales	215,328	239,814	-1.9%	-2.3%
EBITDA	121,065	145,854	0.1%	8.1%
PAT	89,225	110,891	-5.6%	0.5%
EPS	21.1	26.2	-5.6%	0.5%

**Increase in Sales as we moved to Gross from Net Sales*

Consolidated Financials

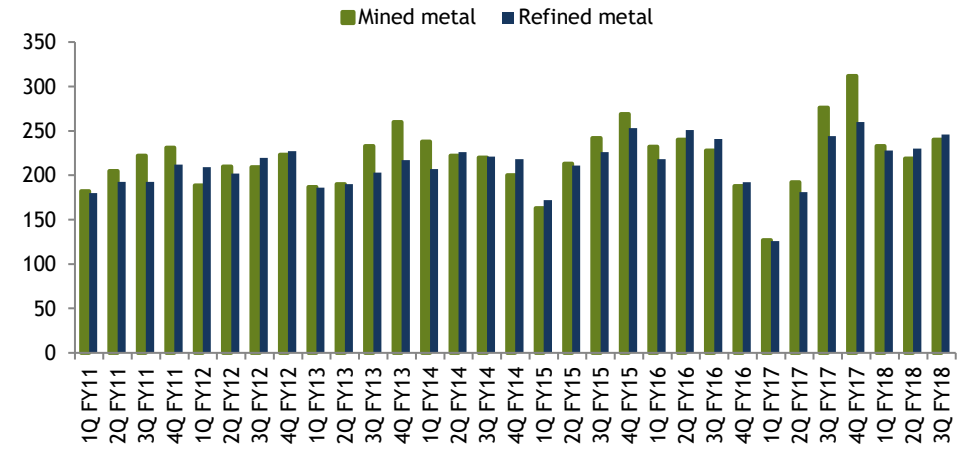
Rs. Mn YE Mar	FY17A	FY18E	FY19E	FY20E
Sales	172,707	215,328	239,814	243,265
EBITDA	97,393	121,065	145,854	143,234
Depreciation	17,874	16,970	17,820	19,132
Interest Expense	2,015	2,440	240	240
Other Income	24,494	17,002	18,115	23,396
Reported PAT	83,372	90,445	110,891	110,443
Recurring PAT	83,162	89,225	110,891	110,443
Total Equity	307,708	365,099	436,325	495,916
Gross Debt	79,078	5,930	5,930	5,930
Cash	321,292	234,187	314,373	398,545
Rs Per Share	FY17A	FY18E	FY19E	FY20E
Earnings	19.7	21.1	26.2	26.1
Book Value	73	86	103	117
Dividends	29.4	6.5	7.8	10.0
FCFF	43.1	4.9	28.4	32.0
P/E (x)	15.7	14.6	11.7	11.8
P/B (x)	4.2	3.6	3.0	2.6
EV/EBITDA (x)	11.0	8.9	6.9	6.4
ROE (%)	24 %	27 %	28 %	24 %
Core ROIC (%)	52 %	69 %	67 %	72 %
EBITDA Margin (%)	56 %	56 %	61 %	59 %
Net Margin (%)	48 %	41 %	46 %	45 %

Exhibit 1: Quarterly average prices of base metal indexed to 100: Zinc, lead have outperformed others



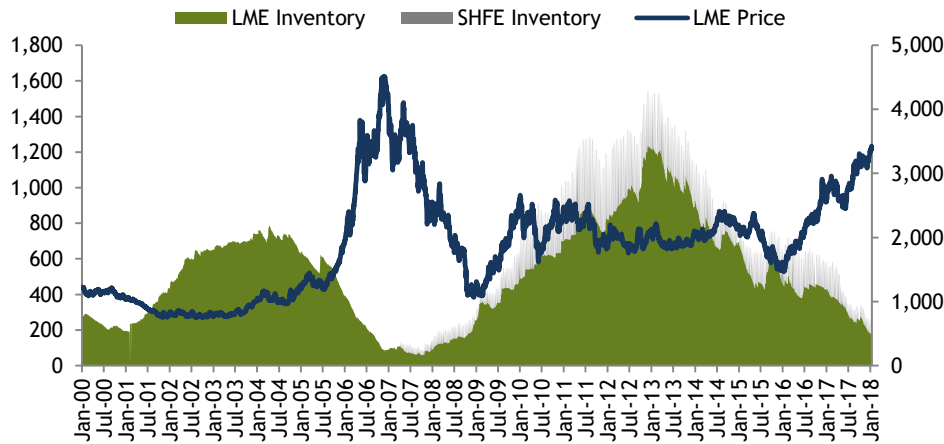
Source: Bloomberg, Equirus Securities

Exhibit 3: Quarterly mined and refined zinc & lead (in '000 tons)



Source: Company

Exhibit 2: Zinc LME price vs. LME & SHFE combined inventories



Source: Bloomberg, Equirus Securities

Earnings call takeaways

Zinc market

- Zinc and lead were the best performers on the LME in 2017, with a 26% and 28% appreciation respectively.
- Zinc fundamentals remain strong, primarily driven by dwindling concentrate supplies from mines, and refined metal inventory reaching multi-year lows.
- Global zinc consumption is expected at 14.8mn tonnes and mine supply at 13.8mn tonnes in 2018, resulting in further tightening of prices
- In India, demand is expected to grow at 4-5% over the next few years led by economic reforms and infrastructure development.
- Inventory levels are at 7 days - at a multi-year low - and have declined due to an increase in demand, resulting in a deficit of ~2mn tonnes.
- Management expects markets to stabilize only after stock levels reach 35-40 days.

Production, sales & cost

- FY18 is the final year of transition, from open cast to fully underground mining, for HZ. About 85% of the total production in 9MFY18 has come from underground mines.
- Mined metal production for 3QFY18 grew 10% qoq but declined 13% yoy to 240kt. The yoy decline in production stemmed from a drop in overall ore grade due to the mine mix and lower production from RA open cast mine. For 9MFY18, production of mined metal was up 16% yoy to 693kt. Production from underground mines offset the lower production from open cast mines.
- Refined zinc-lead metal production was up 7% qoq to 246kt; integrated zinc production increased 4% qoq to 200kt.
- Integrated saleable lead production stood at 46kt, up 18% yoy and 20% qoq.
- The saleable refined silver production was down 6% qoq/up 12% yoy at 132MT.
- For 9MFY18, integrated zinc/lead/silver production was up by 28%/26%/24% yoy.
- Revenues grew 10% yoy/12% qoq to Rs 58.46bn on higher lead and silver volumes and strong zinc and lead LME realizations, partly offset by lower zinc volume and INR appreciation.
- For 9MFY18, revenues were up 35% yoy on higher metal volumes and prices.

- Due to strong LME prices, HZ made a forward sale of 220kt of zinc and 30kt of lead at US\$ 3,084 and US\$ 2,418 respectively, for Jan-Jun'18. Of this, 165kt (150kt zinc, 15kt lead) is for 4QFY18 and the rest for 1QFY19. No further hedging was done in 3Q.
- COP for zinc was at Rs 66,118/tonne, up 4% qoq/14% yoy. The yoy increase was led by a 25% increase in prices of coal and met coke, and lower overall grades.
- Average grade of zinc is expected to increase in the coming quarters.
- HZ has paid off its remaining Rs 5.93bn debt and is now debt-free.
- Tax rate is expected to be ~24% for FY18.
- Average grade of zinc/lead was 6.15/1.86 of the total grade of 8.01 in 3QFY18. In 3QFY17, zinc grade was 8.6 and lead 1.79, taking the total grade to 10.39. Going ahead, zinc grade is expected to stabilize around ~8.5.

Guidance & future initiatives

- Capital mine development increased by 55% yoy to 9,685 meters across all mines. For 9MFY18, mine development was up 69% yoy to 28,126 meters.
- RA mine achieved mine development of 5,958 meters. Production at the mine is expected to start as per schedule in 3QFY19.
- The SK mine attained mine development of 4,527 meters in 3Q. Ore production should begin in 3QFY19. The new 1.5mtpa capacity mill would likely commission by 2QFY19.
- The Zawar mine achieved mine development of 6,555 meters during 3Q, while debottlenecking to 2.7mtpa was completed. A second mill of 2mtpa capacity is scheduled to commission by 3QFY19.
- The Fumer project at Chanderiya is likely to be completed by mid-FY19.
- The expert appraisal committee of MoEF has approved expansion of ore production at Rajpura Dariba from 0.9mtpa to 1.08mtpa, and at Kayad from 1.0mtpa to 1.2mtpa.
- Production guidance: Production of mined metal would be higher than that of FY17. Refined zinc metal would be around 950kt and refined silver metal over 500MT.
- Management maintained guidance of achieving 1.2mn TPA mined metal capacity and 650MT of silver capacity by FY20.
- US\$ COP is likely to be in the range of US\$ 950-US\$ 975/tonne due to a continuous increase in input prices.
- HZ expects to get coal linkages during 4QFY18, which may reduce COP.



Quarterly performance, standalone

Rs mn	3QFY18	3QFY18E	2QFY18	3QFY17	% Change			Comments
					3QFY18E	2QFY18	3QFY17	
Net Sales	59,220	58,541	53,090	49,799	1%	12%	19%	
Raw Material, Stores & Spares	2,310	18,957	1,240	907	-88%	86%	155%	
Mining Royalty	7,020	6,698	5,670	7,166	5%	24%	-2%	
Employee Cost	1,950	0	2,250	1,783		-13%	9%	
Other Expenses	15,500	0	13,690	12,110		13%	28%	
Total Expenditures	26,780	25,655	22,850	21,965	4%	17%	22%	
EBITDA	32,440	32,886	30,240	27,834	-1%	7%	17%	
Depreciation	4,810	3,226	3,940	4,589	49%	22%	5%	
EBIT	27,630	29,661	26,300	23,245	-7%	5%	19%	
Interest	170	60	840	451	183%	-80%	-62%	
Other Income	2,980	3,997	4,870	5,882	-25%	-39%	-49%	
PBT	30,440	33,597	30,330	28,676	-9%	0%	6%	
Tax	8,140	7,391	7,790	5,477	10%	4%	49%	
Recurring PAT	22,300	26,206	22,540	23,199	-15%	-1%	-4%	
Extraordinaries	1,900	0	-2,910	201				
Reported PAT	20,400	26,206	25,450	22,998	-22%	-20%	-11%	
EPS (Rs)	5.3	6.2	5.3	5.5	-15%	-1%	-4%	
EBITDA Margin	54.8%	56.2%	57.0%	55.9%	-140 bps	-218 bps	-111 bps	
EBIT Margin	46.7%	50.7%	49.5%	46.7%	-401 bps	-288 bps	-2 bps	
PBT Margin	51.4%	57.4%	57.1%	57.6%	-599 bps	-573 bps	-618 bps	
PAT Margin	34.4%	44.8%	47.9%	46.2%	-1032 bps	-1349 bps	-1173 bps	
Tax Rate	26.7%	22.0%	25.7%	19.1%	474 bps	106 bps	764 bps	
Mined Metal Production (k tonnes)	240	228	219	276	5%	10%	-13%	
Refined Metal Production (k tonnes)	246	228	230	244	8%	7%	1%	
Integrated Silver (tonnes)	132	120	140	118	10%	-6%	12%	
Zinc (US\$/tonne)	3,236	3,197	2,963	2,518	1%	9%	29%	
Lead (US\$/tonne)	2,492	2,497	2,334	2,150	0%	7%	16%	
Silver (US\$/oz)	16.7	16.7	16.8	17.2	0%	-1%	-3%	
USD-INR	64.7	64.7	64.3	67.5	0%	1%	-4%	

Company Snapshot

How we differ from Consensus

	-	Equirus	Consensus	% Diff	Comment
EPS	FY18E	21.1	24.3	-13 %	In-line with consensus in FY19, consensus FY18 numbers should be cut post result updates due to lower other income
	FY19E	26.2	27.2	-3 %	
Sales	FY18E	215,328	222,938	-3 %	
	FY19E	239,814	246,069	-3 %	
PAT	FY18E	90,445	102,522	-12 %	
	FY19E	110,891	114,386	-3 %	

Our Key Investment arguments:

- Zinc prices to remain high due to supply side constraints and increasing demand.
- With ramp up of underground mines, company will be able to improve its mined metal production over the coming years and is on track to achieve its FY20 guidance.
- With recent rally in price of base metals with Zinc and Lead outperforming others, we remain positive on the stock

Key Drivers

	FY16	FY17	FY18E	FY19E	FY20E
Mined metal Volume (mn tons)	888,924	907,000	935,847	1,002,536	1,069,743
Refined Zinc (mn tons)	758,938	671,000	787,549	823,464	872,937
Refined Lead (mn tons)	151,576	140,000	160,298	179,072	196,806
Total refined metal (mn tons)	910,514	811,000	947,847	1,002,536	1,069,743
Zinc LME Price (US\$/ton)	1,834	2,450	2,990	3,200	3,000
Lead LME Price (US\$/ton)	1,763	2,050	2,372	2,450	2,400
Silver (US\$/Kg)	534	628	597	591	582
US\$-INR Exchange Rate	65.5	67.1	64.6	65.0	65.0

Risk to Our View: Fall in zinc & lead LME prices.

Comparable valuation		Mkt Cap Rs. Mn.	Price Target	Target Date	EPS			P/E			BPS		P/B		RoE			Div Yield	
Company	Reco.				CMP	FY17A	FY18E	FY19E	FY17A	FY18E	FY19E	FY17A	FY18E	FY17A	FY18E	FY17A	FY18E	FY17A	FY18E
Hindustan Zinc	Long	308	1,302,666	361	Mar'19	19.7	21.1	26.2	15.7	14.6	11.7	72.8	3.6	24 %	27 %	28 %	9.5 %	2.1 %	
Vedanta Ltd	NR	327	1,214,407	NR	NR	20.5	26.6	37.5	15.9	12.3	8.7	88.0	2.2	37 %	40 %	20 %	5.4 %	1.3 %	
Hindalco	NR	254	569,991	NR	NR	14.3	21.5	24.6	17.7	11.8	10.3	103.6	2.1	11 %	13 %	10 %	0.4 %	0.7 %	

Key Triggers

- Hike in LME prices

Sensitivity to Key Variables	% Change	% Impact on EPS
LME Zinc price	1 %	1.1 %
Silver volumes	1 %	0.2 %
-	-	-

DCF Valuations & Assumptions

Rf	Beta	Ke	Term. Growth	Debt/IC in Term. Yr
6.7 %	1.0	12.5 %	0.0 %	4.2 %

-	FY18E	FY19E	FY20-22E	FY23-27E	FY28-32E
Sales Growth	25 %	11 %	5 %	6 %	6 %
NOPAT Margin	36 %	41 %	41 %	41 %	41 %
IC Turnover	1.43	1.69	1.69	1.69	1.69
RoIC	68.8 %	66.6 %	69.9 %	71.2 %	71.2 %

Years of strong growth	1	2	5	10	15
Valuation as on date (Rs)	206	238	266	302	332
Valuation as of 30 th Sep'18	231	268	299	340	373

We value the stock at 3.5x Mar'19 BV deriving our Mar'19 PT of Rs.361. DCF based valuation suggest Mar'19 PT of Rs. 308.

Company Description:

Hindustan Zinc is world's second largest zinc mining and smelting company having its operations in India. HZ has 82% share in domestic zinc market. Company's edge lies in its fully integrated operations. RampuraAgucha, which supplied ~88% of its zinc mined metal, is world's largest zinc mine. During FY12 zinc, lead and silver contributed 72%, 10% and 11% of revenues. Combined zinc & lead smelting capacity of the company is 1,064k TPA. It also operates 474MW of thermal power plant for captive requirement and 274MW of wind power capacity.

Standalone Quarterly Earnings Forecast and Key Drivers

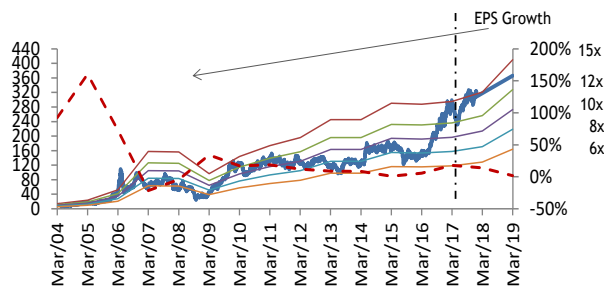
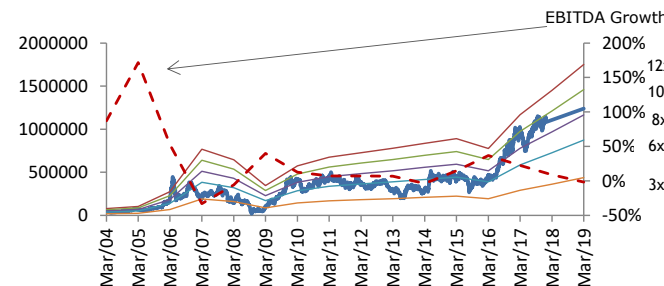
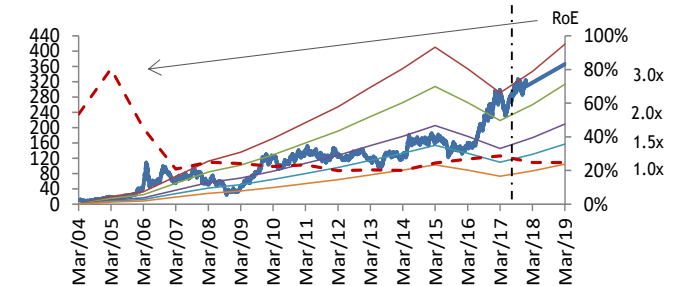
Rs in Mn	1Q17A	2Q17A	3Q17A	4Q17A	1Q18A	2Q18A	3Q18A	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E	FY17A	FY18E	FY19E	FY20E
Revenue	25,306	35,000	49,799	62,602	45,760	53,090	59,220	57,258	59,610	59,610	60,297	60,297	172,707	215,328	239,814	243,265
EBITDA	11,309	20,770	27,834	37,480	23,840	30,240	32,440	34,545	36,301	36,301	36,625	36,625	97,393	121,065	145,854	143,234
Depreciation	3,644	4,320	4,589	5,321	3,600	3,940	4,810	4,620	4,332	4,414	4,496	4,578	17,874	16,970	17,820	19,132
EBIT	7,664	16,450	23,245	32,159	20,240	26,300	27,630	29,925	31,969	31,887	32,129	32,047	79,519	104,095	128,033	124,102
Interest	712	710	451	142	1,370	840	170	60	60	60	60	60	2,015	2,440	240	240
Other Income	6,101	7,700	5,882	4,811	5,300	4,870	2,980	3,852	4,092	4,184	4,670	5,169	24,494	17,002	18,115	23,396
PBT	13,053	23,440	28,676	36,829	24,170	30,330	30,440	33,717	36,002	36,011	36,739	37,157	101,998	118,657	145,909	147,258
Tax	2,680	4,420	5,477	6,259	5,410	7,790	8,140	8,092	8,640	8,643	8,817	8,918	18,835	29,432	35,018	36,814
Recurring PAT	10,374	19,020	23,199	30,570	18,760	22,540	22,300	25,625	27,361	27,368	27,922	28,239	83,162	89,225	110,891	110,443
Extraordinary	-574	170	201	-6	-210	-2,910	1,900	0	0	0	0	0	-209	-1,220	0	0
Reported PAT	10,948	18,850	22,998	30,576	18,970	25,450	20,400	25,625	27,361	27,368	27,922	28,239	83,372	90,445	110,891	110,443
EPS (Rs)	2.46	4.50	5.49	7.23	4.44	5.33	5.28	6.06	6.48	6.48	6.61	6.68	19.68	21.12	26.24	26.14
Key Drivers																
Mined zinc & lead (mn t)	127,000	192,000	276,000	312,000	233,000	219,000	240,000	243,847	248,589	248,589	252,679	252,679	907,000	935,847	1,002,536	1,069,743
Refined zinc & lead (mn t)	126,000	181,000	244,000	260,000	228,000	230,000	246,000	243,847	248,589	248,589	252,679	252,679	811,000	947,847	1,002,536	1,069,743
Silver (t)	89	107	118	139	115	140	132	120	140	140	140	140	453	507	560	600
Zinc LME (US\$)	1,918	2,255	2,518	2,770	2,596	2,963	3,236	3,150	3,200	3,200	3,200	3,200	2,450	2,990	3,200	3,000
Lead LME (US\$)	1,719	1,873	2,150	2,269	2,161	2,334	2,492	2,450	2,450	2,450	2,450	2,450	2,050	2,372	2,450	2,400
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sequential Growth (%)																
Revenue	-19 %	38 %	42 %	26 %	-27 %	16 %	12 %	-3 %	4 %	0 %	1 %	0 %	-	-	-	-
EBITDA	-14 %	84 %	34 %	35 %	-36 %	27 %	7 %	6 %	5 %	0 %	1 %	0 %	-	-	-	-
EBIT	-31 %	115 %	41 %	38 %	-37 %	30 %	5 %	8 %	7 %	0 %	1 %	0 %	-	-	-	-
Recurring PAT	-52 %	83 %	22 %	32 %	-39 %	20 %	-1 %	15 %	7 %	0 %	2 %	1 %	-	-	-	-
EPS	-52 %	83 %	22 %	32 %	-39 %	20 %	-1 %	15 %	7 %	0 %	2 %	1 %	-	-	-	-
Yearly Growth (%)																
Revenue	-30 %	-13 %	45 %	100 %	81 %	52 %	19 %	-9 %	30 %	12 %	2 %	5 %	21 %	25 %	11 %	1 %
EBITDA	-32 %	3 %	88 %	187 %	111 %	46 %	17 %	-8 %	52 %	20 %	13 %	6 %	50 %	24 %	20 %	-2 %
EBIT	-49 %	-11 %	79 %	188 %	164 %	60 %	19 %	-7 %	58 %	21 %	16 %	7 %	38 %	31 %	23 %	-3 %
Recurring PAT	-47 %	-12 %	26 %	42 %	81 %	19 %	-4 %	-16 %	46 %	21 %	25 %	10 %	3 %	7 %	24 %	0 %
EPS	-47 %	-12 %	26 %	42 %	81 %	19 %	-4 %	-16 %	46 %	21 %	25 %	10 %	3 %	7 %	24 %	0 %
Margin (%)																
EBITDA	45 %	59 %	56 %	60 %	52 %	57 %	55 %	60 %	61 %	61 %	61 %	61 %	56 %	56 %	61 %	59 %
EBIT	30 %	47 %	47 %	51 %	44 %	50 %	47 %	52 %	54 %	53 %	53 %	53 %	46 %	48 %	53 %	51 %
PBT	52 %	67 %	58 %	59 %	53 %	57 %	51 %	59 %	60 %	60 %	61 %	62 %	59 %	55 %	61 %	61 %
PAT	41 %	54 %	47 %	49 %	41 %	42 %	38 %	45 %	46 %	46 %	46 %	47 %	48 %	41 %	46 %	45 %

Consolidated Financials

P&L (Rs Mn)	FY17A	FY18E	FY19E	FY20E
Revenue	172,707	215,328	239,814	243,265
Op. Expenditure	75,314	94,263	93,960	100,031
EBITDA	97,393	121,065	145,854	143,234
Depreciation	17,874	16,970	17,820	19,132
EBIT	79,519	104,095	128,033	124,102
Interest Expense	2,015	2,440	240	240
Other Income	24,494	17,002	18,115	23,396
PBT	101,998	118,657	145,909	147,258
Tax	18,835	29,432	35,018	36,814
PAT bef. MI & Assoc.	83,162	89,225	110,891	110,443
Minority Interest	0	0	0	0
Profit from Assoc.	0	0	0	0
Recurring PAT	83,162	89,225	110,891	110,443
Extraordinaires	-209	-1,220	0	0
Reported PAT	83,372	90,445	110,891	110,443
FDEPS (Rs)	19.7	21.1	26.2	26.1
DPS (Rs)	29.4	6.5	7.8	10.0
CEPS (Rs)	23.9	25.1	30.5	30.7
FCFPS (Rs)	43.1	4.9	28.4	32.0
BVPS (Rs)	72.8	86.4	103.3	117.4
EBITDAM (%)	56 %	56 %	61 %	59 %
PATM (%)	48 %	41 %	46 %	45 %
Tax Rate (%)	18 %	25 %	24 %	25 %
Sales Growth (%)	21 %	25 %	11 %	1 %
FDEPS Growth (%)	3 %	7 %	24 %	0 %

Balance Sheet (Rs Mn)	FY17A	FY18E	FY19E	FY20E
Equity Capital	8,451	8,451	8,451	8,451
Reserve	299,257	356,648	427,874	487,465
Networth	307,708	365,099	436,325	495,916
Long Term Debt	79,078	5,930	5,930	5,930
Def Tax Liability	7,604	8,000	8,000	8,000
Minority Interest	0	0	0	0
Account Payables	123,055	63,360	72,119	93,844
Other Curr Liabi	172	431	454	458
Total Liabilities & Equity	517,616	442,820	522,828	604,148
Net Fixed Assets	101,770	118,830	117,010	113,878
Capital WIP	30,713	18,320	18,320	18,320
Others	38,982	40,540	40,540	40,540
Inventory	19,358	17,828	18,774	18,936
Account Receivables	1,360	3,904	4,111	4,147
Other Current Assets	4,141	9,210	9,699	9,783
Cash	321,292	234,187	314,373	398,545
Total Assets	517,616	442,820	522,828	604,148
Non-cash Working Capital	-98,368	-32,849	-39,989	-61,437
Cash Conv Cycle	-207.9	-55.7	-60.9	-92.2
WC Turnover	-1.8	-6.6	-6.0	-4.0
FA Turnover	1.3	1.6	1.8	1.8
Net D/E	-0.8	-0.6	-0.7	-0.8
Revenue/Capital Employed	0.4	0.5	0.6	0.6
Capital Employed/Equity	1.1	1.1	1.2	1.1

Cash Flow (Rs Mn)	FY17A	FY18E	FY19E	FY20E
PBT	101,998	118,657	145,909	147,258
Depreciation	17,874	16,970	17,820	19,132
Others	209	1,220	0	0
Taxes Paid	18,835	29,432	35,018	36,814
Change in WC	87,208	-65,519	7,140	21,448
Operating C/F	188,454	41,896	135,850	151,024
Capex	-7,720	-23,230	-16,000	-16,000
Change in Invest	0	0	0	0
Others	-75	35	0	0
Investing C/F	-7,794	-23,195	-16,000	-16,000
Change in Debt	79,078	-73,148	0	0
Change in Equity	0	0	0	0
Others	-168,742	-32,658	-39,665	-50,852
Financing C/F	-89,665	-105,806	-39,665	-50,852
Net change in cash	90,994	-87,105	80,186	84,172
RoE (%)	24 %	27 %	28 %	24 %
RoIC (%)	21 %	24 %	27 %	23 %
Core RoIC (%)	52 %	69 %	67 %	72 %
Div Payout (%)	179 %	37 %	36 %	46 %
P/E	15.7	14.6	11.7	11.8
P/B	4.2	3.6	3.0	2.6
P/FCFF	7.1	63.4	10.9	9.6
EV/EBITDA	11.0	8.9	6.9	6.4
EV/Sales	6.2	5.0	4.2	3.8
Dividend Yield (%)	9.5 %	2.1 %	2.5 %	3.2 %

TTM P/E vs. 2 yr forward EPS growth

TTM EV/EBITDA vs. 2 yr forward EBITDA growth

TTM P/B vs. 2 yr forward RoE


Historical Consolidated Financials

P&L (Rs Mn)	FY14A	FY15A	FY16A	FY17A	Balance Sheet (Rs Mn)	FY14A	FY15A	FY16A	FY17A	Cash Flow (Rs Mn)	FY14A	FY15A	FY16A	FY17A
Revenue	136,360	147,884	142,264	172,707	Equity Capital	8,451	8,451	8,451	8,451	PBT	79,697	95,701	85,256	101,998
Op. Expenditure	66,706	73,688	77,488	75,314	Reserve	365,726	425,080	365,401	299,257	Depreciation	7,846	6,442	7,207	17,874
EBITDA	69,654	74,196	64,777	97,393	Networth	374,176	433,531	373,852	307,708	Others	-17,638	-27,449	-26,161	209
Depreciation	7,846	6,442	7,207	17,874	Long Term Debt	0	0	0	79,078	Taxes Paid	16,445	20,334	18,216	18,835
EBIT	61,808	67,754	57,569	79,519	Def Tax Liability	17,145	26,507	26,831	7,604	Change in WC	1,251	947	16,912	87,208
Interest Expense	492	235	169	2,015	Minority Interest	0	0	0	0	Operating C/F	54,712	55,307	64,999	188,454
Other Income	18,381	28,182	27,856	24,494	Account Payables	15,288	16,767	28,564	123,055	Capex	-17,088	-16,110	-15,791	-7,720
PBT	79,697	95,701	85,256	101,998	Other Curr Liabi	10,158	13,115	1,138	172	Change in Invest	-22,467	-21,959	-16,992	0
Tax	10,651	13,921	4,158	18,835	Total Liabilities & Equity	416,767	489,920	430,385	517,616	Others	0	0	0	-75
PAT bef. MI & Assoc.	69,046	81,780	81,098	83,162	Net Fixed Assets	91,473	94,462	98,213	101,770	Investing C/F	-39,555	-38,070	-32,782	-7,794
Minority Interest	0	0	0	0	Capital WIP	15,409	20,047	23,628	30,713	Change in Debt	0	0	0	79,078
Profit from Assoc.	0	0	0	0	Others	29,394	43,373	59,704	38,982	Change in Equity	0	0	0	0
Recurring PAT	69,046	81,780	81,098	83,162	Inventory	11,982	12,118	10,582	19,358	Others	-15,774	-19,020	-32,208	-168,742
Extraordinaires	0	0	-612	-209	Account Receivables	3,995	6,588	2,441	1,360	Financing C/F	-15,774	-19,020	-32,208	-89,665
Reported PAT	69,046	81,780	81,711	83,372	Other Current Assets	9,136	5,481	5,520	4,141	Net change in cash	-617	-1,783	9	90,994
EPS (Rs)	16.3	19.4	19.2	19.7	Cash	255,378	307,851	230,298	321,292	RoE (%)	20 %	20 %	20 %	24 %
DPS (Rs)	3.5	4.4	27.8	29.4	Total Assets	416,767	489,920	430,385	517,616	RoIC (%)	19 %	19 %	19 %	21 %
CEPS (Rs)	18.2	20.9	20.9	23.9	Non-cash Working Capital	-333	-5,695	-11,159	-98,368	Core RoIC (%)	41 %	39 %	33 %	52 %
FCFPS (Rs)	3.7	4.1	7.7	43.1	Cash Conv Cycle	-0.9	-14.1	-28.6	-207.9	Div Payout (%)	25 %	27 %	173 %	179 %
BVPS (Rs)	88.6	102.6	88.5	72.8	WC Turnover	-409.9	-26.0	-12.7	-1.8	P/E	18.9	15.9	16.1	0.0
EBITDAM (%)	51 %	50 %	46 %	56 %	FA Turnover	1.3	1.3	1.2	1.3	P/B	3.5	3.0	3.5	0.0
PATM (%)	51 %	55 %	57 %	48 %	Net D/E	-0.7	-0.7	-0.6	-0.8	P/FCFF	83.6	74.7	40.2	7.1
Tax Rate (%)	13 %	15 %	5 %	18 %	Revenue/Capital Employed	0.4	0.4	0.3	0.4	EV/EBITDA	15.5	14.1	17.4	0.0
Sales growth (%)	7 %	8 %	-4 %	21 %	Capital Employed/Equity	1.0	1.0	1.1	1.1	EV/Sales	7.9	7.1	7.9	0.0
FDEPS growth (%)	0 %	18 %	-1 %	3 %						Dividend Yield (%)	0.0 %	0.0 %	0.0 %	0.3 %

Equirus Securities

Research Analysts	Sector/Industry	Email	Equity Sales	E-mail	
Abhishek Shindadkar	IT Services	abhishek.shindadkar@equirus.com	Vishad Turakhia	vishad.turakhia@equirus.com	
Ashutosh Tiwari	Auto, Metals & Mining	ashutosh@equirus.com	Subham Sinha	subham.sinha@equirus.com	
Depesh Kashyap	Mid-Caps	depesh.kashyap@equirus.com	Sweta Sheth	sweta.sheth@equirus.com	
Devam Modi	Power & Infrastructure	devam@equirus.com	Viral Desai	viral.desai@equirus.com	
Dhaval Dama	FMCG, Mid-Caps	dhaval.dama@equirus.com	Dealing Room		
Manoj Gori	Consumer Durables	manoj.gori@equirus.com	Ashish Shah	ashishshah@equirus.com	
Maulik Patel	Oil and Gas	maulik@equirus.com	Ilesh Savla	ilesh.savla@equirus.com	
Praful Bohra	Pharmaceuticals	praful.bohra@equirus.com	Manoj Kejriwal	manoj.kejriwal@equirus.com	
Rohan Mandora	Banking & Financial Services	rohan.mandora@equirus.com	Dharmesh Mehta	dharmesh.mehta@equirus.com	
Associates		E-mail		E-mail	
Ankit Choudhary		ankit.choudhary@equirus.com	Sandip Amrutiya	sandipamrutiya@equirus.com	
Bharat Celly		bharat.celly@equirus.com	Compliance Officer		E-mail
Harshit Patel		harshit.patel@equirus.com	Jay Soni	jay.soni@equirus.com	
Meet Chande		meet.chande@equirus.com	Corporate Communications		E-mail
Parva Soni		parva.soni@equirus.com	Mahdokht Bharda	mahdokht.bharda@equirus.com	
Pranav Mehta		pranav.mehta@equirus.com			
Ronak Soni		Ronak.soni@equirus.com			
Samkit Shah		samkit.shah@equirus.com			
Shreepal Doshi		shreepal.doshi@equirus.com			
Varun Baxi		varun.baxi@equirus.com			
Vikas Jain		vikas.jain@equirus.com			

Rating & Coverage Definitions:
Absolute Rating

- LONG : Over the investment horizon, ATR >= Ke for companies with Free Float market cap > Rs 5 billion and ATR >= 20% for rest of the companies
- 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. We intend to publish updates on Lite coverage stocks only an opportunistic basis and subject to our ability to contact the management. Our rating and estimates for Lite coverage stocks may not be current. Spot coverage is meant for one-off coverage of a specific company and in such cases, earnings forecast and target price are optional. Spot coverage is meant to stimulate discussion rather than provide a research opinion.

Registered Office:

Equirus Securities Private Limited
Unit No. 1201, 12th Floor, C Wing, Marathon Futurex,
N M Joshi Marg, Lower Parel,
Mumbai-400013.
Tel. No: +91 - (0)22 - 4332 0600
Fax No: +91- (0)22 - 4332 0601

Corporate Office:

3rd floor, House No. 9,
Magnet Corporate Park, Near Zydus Hospital, B/H Intas Sola Bridge,
S.G. Highway Ahmedabad-380054
Gujarat
Tel. No: +91 (0)79 - 6190 9550
Fax No: +91 (0)79 - 6190 9560

© 2017 Equirus Securities Private Limited. All rights reserved. For Private Circulation only. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Equirus Securities Private Limited

Analyst Certification

I, Ashutosh Tiwari, author to this report, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Disclosures

Equirus Securities Private Limited (ESPL) having Corporate Identification Number U65993MH2007PTC176044 is registered in India with Securities and Exchange Board of India (SEBI) as a trading member on the Capital Market (Reg. No. INB231301731), Futures & Options Segment (Reg. No. INF231301731) of the National Stock Exchange of India Ltd. (NSE) and on Cash Segment (Reg. No. INB011301737) of Bombay Stock Exchange Limited (BSE). ESPL is also registered with SEBI as Research Analyst under SEBI (Research Analyst) Regulations, 2014 (Reg. No. INH000001154), as a Portfolio Manager under SEBI (Portfolio Managers Regulations, 1993 (Reg. No. INP000005216) and as a Depository Participant of the Central Depository Services (India) Limited (Reg. No. IN-DP-324-2017). There are no disciplinary actions taken by any regulatory authority against ESPL. ESPL is a subsidiary of Equirus Capital Pvt. Ltd. (ECPL) which is registered with SEBI as Category I Merchant Banker and provides investment banking services including but not limited to merchant banking services, private equity, mergers & acquisitions and structured finance.

As ESPL and its associates are engaged in various financial services business, it might have: - (a) received compensation (except in connection with the preparation of this report) from the subject company for investment banking or merchant banking or brokerage services in the past twelve months; (b) managed or co-managed public offering of securities for the subject company in the past twelve months; or (c) have received a mandate from the subject company; or (d) might have other financial, business or other interests in entities including the subject company (ies) mentioned in this Report. ESPL & its associates, their directors and employees may from time to time have positions or options in the company and buy or sell the securities of the company (ies) mentioned herein. ESPL and its associates collectively do not own (in their proprietary position) 1% or more of the equity securities of the subject company mentioned in the report as the last day of the month preceding the publication of the research report. ESPL or its Analyst or Associates did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ESPL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ESPL has not been engaged in market making activity for the subject company.

The Research Analyst engaged in preparation of this Report:-

(a) has not received any compensation from the subject company in the past twelve months; (b) has not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) has not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) has not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the research report; (f) might have served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

This document is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession of this document are required to inform themselves of, and to observe, such applicable restrictions. Please delete this document if you are not authorized to view the same. By reading this document you represent and warrant that you have full authority and all rights necessary to view and read this document without subjecting ESPL and affiliates to any registration or licensing requirement within such jurisdiction.

This document has been prepared solely for information purpose and does not constitute a solicitation to any person to buy, sell or subscribe any security. ESPL or its affiliates are not soliciting any action based on this report. The information and opinions contained herein is from publicly available data or based on information obtained in good faith from sources believed to be reliable but ESPL provides no guarantee as to its accuracy or completeness. The information contained herein is as on date of this report, and is subject to change or modification and any such changes could impact our interpretation of relevant information contained herein. While we would endeavour to update the information herein on reasonable basis, ESPL and its affiliates, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent ESPL and its group companies from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document including the merits and risks involved. This document is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. ESPL and its group companies, employees, directors and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. ESPL/its affiliates do and seek to do business with companies covered in its research report. Thus, investors should be aware that the firm may have conflict of interest.

A graph of daily closing prices of securities is available at <http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp> and www.bseindia.com (Choose a company from the list on the browser and select the “three years” period in the price chart).

Disclosure of Interest statement for the subject Company	Yes/No	If Yes, nature of such interest
Research Analyst’ or Relatives’ financial interest	No	
Research Analyst’ or Relatives’ actual/beneficial ownership of 1% or more	No	
Research Analyst’ or Relatives’ material conflict of interest	No	

Disclaimer for U.S. Persons

ESPL/its affiliates are not a registered broker-dealer under the U.S. Securities Exchange Act of 1934, as amended (the “1934 act”) and under applicable state laws in the United States. In addition Equirus is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act” and together with the 1934 Act, the “Acts”), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by Equirus, including the products and services described herein are not available to or intended for U.S. persons. The information contained in this Report is not intended for any person who is a resident of the United States of America or a resident of any jurisdiction, the laws of which imposes prohibition on soliciting the securities business in that jurisdiction without going through the registration requirements and/ or prohibit the use of any information contained in this report. This Report and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services and/or shall not be considered as an advertisement tool. “U.S. Persons” are generally defined as a natural person, residing in the United States or any entity organized or incorporated under the laws of the United States. US Citizens living abroad may also be deemed “US Persons” under certain rules.