

INDUSTRY REAL ESTATE

CMP (as on 17 May 2017) Rs 421

Target Price Rs 500

Nifty 9,526

Sensex 30,659

KEY STOCK DATA

Bloomberg SOBHA IN

No. of Shares (mn) 96

MCap (Rs bn) / (\$ mn) 41/645

6m avg traded value (Rs mn) 125

STOCK PERFORMANCE (%)

52 Week high / low Rs 450/216

3M 6M 12M

Absolute (%) 51.3 82.6 41.1

Relative (%) 43.6 65.7 22.2

SHAREHOLDING PATTERN (%)

Promoters 60.24

FIs & Local MFs 6.99

FPIs 27.98

Public & Others 4.79

Source : BSE

Long term story intact

Sobha Developers' (SDL) 4QFY17 net profit came in 30.6% ahead of estimates. This was led by contracting business, with 37% revenue contribution vs avg ~30% historically and two new projects hitting revenue threshold, adding Rs 630mn in realty segment. Net debt stood at Rs 20.7bn (0.78x net D/E), and with land/commercial assets' capex likely to remain low, debt may stabilise at current levels.

Pre-sales was muted at 0.7mn sqft (18.3% decline YoY). The new launch timeline (~3.5mn sqft) remains uncertain owing to RERA approvals. SDL will focus on monetising its current inventory of 17.9mn sqft.

Whilst SDL has not shared FY18E pre-sales guidance owing to RERA and GST headwinds, we model for 3.3mn sqft pre-sales in the base case, going by the cross-cycle average of 3mn sqft pre-sales. Upgrade to **BUY with an increased NAV of Rs 500/share (largely on account of 400bps reduction in WACC to 16.1%).**

Financial Summary*

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY16	FY17E	FY18E	FY19E
Net Sales	5,888	5,553	6.0	5,425	8.5	19,566	22,461	24,820	27,407
EBITDA	1,202	1,176	2.2	989	21.5	4,430	4,197	5,389	6,000
APAT	470	277	69.7	396	18.7	1,381	1,607	2,038	2,429
Diluted EPS (Rs)	4.8	2.8	69.7	4.0	18.7	14.1	16.4	20.8	24.8
P/E (x)						29.9	25.7	20.3	17.0
EV / EBITDA (x)						14.1	14.8	11.6	10.6
RoE (%)						5.3	5.2	6.9	7.9

Source: Company, HDFC sec Inst Research, * Consolidated

Key Highlights

- Strong financial performance:** SDL's revenue came in 17.2% ahead of our estimates, owing to greater contribution from the contracting business. Sobha Dream Acres and Silicon Oasis new phases hit revenue recognition and contributed Rs 630mn incrementally. EBITDA margins expanded 218bps QoQ to 20.4%.
- Capex pickup towards FY18E end:** SDL incurred Rs 180mn capex on commercial assets and generated a net cash flow of Rs 412mn during FY17. Going forward, SDL may step up APMC capex, and pay Rs 1.6bn Kochi land dues to Puravankara towards FY18E end. This may result in debt increase. Liquidity may worsen in case pre-sales slows down, impacting customer collections.
- Near-term outlook:** SDL has not given FY17E pre-sales guidance, owing to RERA uncertainty and resultant delays in approvals. While the underlying real estate market remains dull, we expect the next few quarters to be challenging for the sector. We advice any correction as a buying opportunity.

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Revenue, EBIDTA and net profit grew 6.0%, 2.2% and 69.7% YoY ahead of our estimates by 17.2%, 19.1% & 30.6% respectively

Adjusted Real Estate margins (ex-contractual sale) came in at 23.6%

Higher-than-expected contribution from contract business (37% vs 27% YoY), resulted in revenue outperformance

Two projects subsequent phases hit revenue threshold and contributed Rs 630mn revenue

FY17 revenue, EBIDTA and net profit grew 14.8%, (5.3%) & 16.4% yoy respectively

During 4QFY17, SDL booked ~0.7 mn sqft pre-sales volumes and Rs 4.5bn in pre-sales value

For FY17, SDL pre-sales volume/value stood at 3mn sqft/Rs 18.1bn respectively

Quarterly Financial Snapshot (Consolidated)

Particulars	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY17	FY16	YoY (%)
Net Sales	5,888	5,553	6.0	5,425	8.5	22,461	19,566	14.8
Material Expenses	(3,436)	(3,182)	8.0	(3,262)	5.3	(13,191)	(10,243)	28.8
Employee Expenses	(432)	(436)	(0.9)	(432)	0.0	(1,779)	(1,762)	1.0
Other Operating Expenses	(818)	(759)	7.8	(742)	10.2	(3,294)	(3,131)	5.2
EBITDA	1,202	1,176	2.2	989	21.5	4,197	4,430	(5.3)
Interest Cost	(397)	(362)	9.7	(364)	9.1	(1,497)	(1,637)	(8.6)
Depreciation	(173)	(189)	(8.5)	(157)	10.2	(638)	(597)	6.9
Other Income	125	108	15.7	69	81.2	386	343	12.5
PBT	757	733	3.3	537	41.0	2,448	2,539	(3.6)
Share of profit from associates	10	62	-	70	-	129	30	
Tax	(297)	(518)	(42.7)	(211)	40.8	(970)	(1,188)	(18.4)
APAT	470	277	69.7	396	18.7	1,607	1,381	16.4

Source: Company, HDFC sec Inst Research

Margin Analysis (Consolidated)

MARGIN ANALYSIS	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)	FY17	FY16	YoY (bps)
Material Expenses % Net Sales	58.4	57.3	105	60.1	(177)	58.7	52.4	638
Employee Expenses % Net Sales	7.3	7.9	(51)	8.0	(63)	7.9	9.0	(109)
Other Oper Expenses % Net Sales	13.9	13.7	22	13.7	22	14.7	16.0	(134)
EBITDA Margin (%)	20.4	21.2	(76)	18.2	218	18.7	22.6	(396)
Tax Rate (%)	39.2	70.7	(3,143)	39.3	(6)	39.6	46.8	(717)
APAT Margin (%)	8.0	5.0	299	7.3	68	7.2	7.1	10

Source: Company, HDFC sec Inst Research

Pre-sales Trend

Pre-sales trend	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY17	FY16	YoY (%)
Sales Volume (mn sqft)	0.7	0.9	(18.3)	0.6	17.9	3.0	3.4	(11.3)
Sales Value (Rs mn)	4,496	5,347	(15.9)	3,732	20.5	18,108	20,119	(10.0)
Average Realization (Rs/sqft)	6,216	6,037	3.0	6,082	2.2	6,032	5,946	1.5

Source: Company, HDFC sec Inst Research

SDL has about 17.9mn sqft of unsold area, of which 6.2mn sqft has been opened up for sale

We expect 2mn sqft of annual pre-sales from inventory <Rs 15mn/unit, and 1mn sqft average pre-sales from inventory >Rs 15mn/unit

In the absence of significant new launches and stable demand, SDL may achieve 3mn sqft annual pre-sales from the existing inventory

New launches may add 1mn sqft annually, resulting in 4mn sqft of pre-sales potential

RERA, GST headwinds desisted SDL from sharing FY18E pre-sales guidance

- RERA compliance will call for significant management manhours, leading to a slow down in sales efforts. We model for ~3mn sqft of new pre-sales during FY18E, largely from the existing inventory of 17.9mn sqft. New launches could take place in 2HFY18E. For the first time, SDL has not shared pre-sales guidance owing to uncertain RERA and GST headwinds.
- SDL has 17.9mn sqft area to be sold, of which ~6.2mn sqft is opened for sale, and 11.7mn sqft yet to be opened.
- FY12-FY17's average pre-sales run-rate of 3.4mn sqft, implies liquidation of unsold inventory in a time frame of ~5.3 years.
- With ~59.2% (10.6mn sqft) of the unsold inventory below the Rs 15mn ticket size, SDL may continue with annual pre-sales of 2.2mn sqft (average pre-sales in the <Rs 15mn bracket over FY12-FY17 period).
- In the >Rs 15mn bracket, SDL has sold an average 1.2mn sqft over the FY12-FY17 period. With a similar run-rate, SDL may achieve ~1mn sqft of pre-sales in the segment. Combining the two, we expect SDL to deliver ~3mn sqft pre-sales over the next 2 to 3 years.
- New launches may bolster this number, as ~20-30% pre-sales contribution annually comes from new projects. With launches of ~3-4mn sqft (SDL share) planned annually, we build in about 1mn sqft of pre-sales incrementally over the next three years (~1mn sqft annually in pre-sales).
- **This can take the annual pre-sales number to 4mn sqft in a stable demand environment. For FY18E, due to multiple headwinds we expect 3.3mn sqft pre-sales.**

Pre-sales Trend

Area sold (mn sqft)	FY12	FY13	FY14	FY15	FY16	FY17	Average	Unsold Inventory - FY17
< Rs5mn	0.0	0.0	0.1	0.2	0.3	0.1	0.1	0.4
Rs5mn to Rs10mn	0.7	0.5	1.0	1.0	1.6	1.2	1.0	5.1
Rs10mn to Rs15mn	1.3	1.2	1.3	1.2	0.7	0.8	1.1	5.1
Cumulative Rs 5 to Rs 15mn - A	2.0	1.7	2.4	2.4	2.6	2.1	2.2	10.6
Rs15mn to Rs20mn	0.7	1.4	0.2	0.2	0.2	0.2	0.5	3.1
Rs20mn to Rs25mn	0.5	0.7	0.2	0.2	0.2	0.4	0.4	1.8
Rs25mn to Rs30mn			0.2	0.1	0.1	0.1	0.1	0.5
>Rs30mn			0.7	0.4	0.3	0.3	0.4	2.0
Cumulative Rs 15 to Rs 30mn - B	1.2	2.0	1.2	0.9	0.8	1.0	1.2	7.3
Total - A + B	3.2	3.8	3.6	3.3	3.4	3.0	3.4	17.9

Source: Company, HDFC sec Inst Research

Consolidated net D/E to peak at 0.9x during FY18E

Cost of debt has been coming down for SDL and stands at 10.42% as of end-FY17, a reduction of 141bps YoY

Customer collections would remain stable and help curtail further balance sheet deterioration

Worst case scenario: Consolidated net D/E to peak at 0.9x

- SDL's consolidated net D/E decreased from 0.5x in 4QFY14 to 0.78x during 4QFY17. This was primarily on account of outgo for land payments and working capital financing.
- With an outlay Rs 10bn expected for the APMC commercial project, net debt may increase by another Rs 1.3bn by FY19E. Net D/E may remain stable at 0.8x. In-line with SDL's lean capex guidance, the company incurred a capex of Rs 180mn on commercial assets during FY17E. The capex may step up during FY18E, as the construction of APMC projects picks up.
- While we remain cautious on rising debt levels, we expect SDL to monetise the non-core land bank to fund the capex of the APMC project. SDL may not have near-term liquidity concerns, as cash flows from real estate/contractual business continue to be robust.
- We expect consolidated gross debt to increase to Rs 22.3bn by FY19E (an increase of Rs 1.5bn from current levels). Net D/E will peak at 0.9x in a worst case scenario.

Debt/Equity Ratio Trend (X) (Consolidated)

(Rs mn)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Net debt (Rs mn)	15,320	16,780	17,610	18,130	20,300	20,968	20,666	20,604	20,250	20,602	20,838	20,736
Net D/E (x)	0.65	0.7	0.71	0.75	0.82	0.83	0.81	0.8	0.78	0.81	0.80	0.78
Cost of Debt %	12.74	12.64	12.68	12.6	12.5	12.14	11.98	11.83	11.58	11.26	10.99	10.42

Source: Company, HDFC sec Inst Research

Customer collections healthy, will deleverage balance sheet

- SDL's customer collections from real estate development have improved in 4QFY17, and stand at Rs 4.9bn. The contractual segment contributed ~Rs 2.1bn.
- Despite the slowing down of new launches, the strategy to monetise the existing inventory may result in customer collections remaining largely stable.
- Collection demand will be higher for mid-cycle projects. This will alleviate pressure on the balance sheet and induce deleveraging.
- Further, new launches will also support acceleration in customer collections, albeit at a slower pace. Demand for customer advance is ~25-30% within three months of a new project launch.

Customer Collections

(Rs mn)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Real Estate	4,618	4,993	4,866	3,924	3,238	4,134	4,021	3,964	4,131	4,907	4,331	4,860
Contractual	1,307	2,262	1,716	2,084	1,671	1,987	1,691	1,833	1,677	1,705	1,849	2,090
Total	5,925	7,255	6,582	6,008	4,909	6,121	5,712	5,797	5,808	6,612	6,180	6,950

Source: Company, HDFC sec Inst Research

We expect SDL's pre-sales momentum to remain muted, on the back of limited new launches of 3.5mn sqft over FY18E and ~2.8mn sqft of unsold inventory <Rs 15mn/unit

The key volume driver will be ~7.8mn sqft area, which is yet to be opened and is <Rs 15mn in value. Besides, ~3.5mn sqft of new launches planned will add incrementally to pre-sales

Development margins to remain in 20-25% band

SDL to report blended EBIDTA margins of 21-22%

Key assumptions and estimates

Summary Of Key Assumptions And Estimates

	Estimates			Growth (%)			Comments
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	
Volume assumptions							
Residential (mn sqft)	3.0	3.3	3.6	(11.3)	10.5	9.4	Expect muted volume growth (1) Delay in new launches, (2) Long sales cycle in existing high value unsold inventory of ~17.9mn sqft and (3) Slower demand are key contributing factors
Total	3.0	3.3	3.6	(11.3)	10.5	9.4	
Realization							
Residential (Rs/sqft)	6,032	6,002	6,470	1.5	(0.5)	7.8	Absolute realisation to improve with Gurgaon/Kochi launch. Product mix is the key driver for YoY growth
Presales							
Rs mn	18,108	19,908	23,466	(10.0)	9.9	17.9	Sales pick up post demonetisation, on low base
Earnings forecast							
Real estate Sales (Rs mn)	14,884	17,521	19,744	19.6	17.7	12.7	15.2% FY17-19E sales CAGR
Contractual	7,577	7,298	7,663	22.1	(3.7)	5.0	Flattish growth in contracting business
Total	22,461	24,820	27,407	20.4	10.5	10.4	FY17-19E revenue CAGR at 10.5%
EBIDTA Real estate (Rs mn)	3,060	4,294	4,851	(12.5)	40.3	13.0	25.9% FY17-19E EBIDTA CAGR on back of real estate margin expansion
EBIDTA Contract (Rs mn)	1,137	1,095	1,150	22.1	(3.7)	5.0	Contracting EBIDTA to remain muted as margin remains stable and growth is muted
Total EBIDTA (Rs mn)	4,197	5,389	6,000	(5.3)	28.4	11.3	19.6% FY17-19E EBIDTA CAGR
EBIDTA margin Real estate(%)	20.6	24.5	24.6	(755.3)	394.8	5.8	Margin expansion on back of higher contribution from > Rs 10mn projects
EBIDTA margin Contract(%)	15.0	15.0	15.0	-	-	-	
EBIDTA Margin (%)	18.7	21.7	21.9	(506.7)	302.8	17.9	Change in mix to high value products to result in margin expansion. Legacy projects completion to result in lower cost overruns

22.9% FY17-19E PAT CAGR on low FY17E base. SDL recorded cost estimate revisions of Rs 561mn during FY17

Strong cash flows from operations to be spent on land acquisition, Rs 10bn capex on APMC project and Interest payment

Cash flow shortfall to be made up with higher borrowings. We expect net D/E to peak at 0.9x during FY18E

Demonetisation impact is largely behind the company

	Estimates			Growth (%)			Comments
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	
Net interest expense*	1,497	1,820	1,865	(8.6)	21.6	2.4	Interest to increase as debt may inch up on account of APMC capex and payment for Kochi land to Puravankara
Avg. interest rate (%)	6.7	8.1	8.1	(92.8)	135.6	-	Average interest cost lower as we build in 30% interest cost capitalisation
PAT (Rs mn)	1,607	2,038	2,429	16.4	26.8	19.2	Profit to improve as during FY17E, SDL recorded Rs 561mn in cost estimate revisions
PAT Margin (%)	7.2	8.2	8.9	(25.0)	105.6	65.0	Change in PAT margins in line with overall estimates
EPS (Rs)	16.4	20.8	24.8	16.4	26.8	19.2	

Source: Company, HDFC sec Inst Research

Cash Flow Forecast

Rs mn	Estimates			Comments
	FY17E	FY18E	FY19E	
Cash flows forecast				
CFO (a)	5,179	5,705	3,890	
CFI – (b)	(3,166)	(3,833)	(2,318)	Capex of Rs 10bn to be incurred on APMC project over 3-4 years
FCF (a+b)	2,013	1,872	1,572	Strong cash flow recovery during FY17-19E
CFF (c)	(1,992)	(1,760)	(1,861)	Interest outflow to impact cash flow negatively
Total change in cash (a+b+c)	21	112	(288)	The net change in cash doesn't impact debt position materially

Source: Company, HDFC sec Inst Research

We value the real estate business at Rs 206/share, future developable land bank at Rs 414/share, contracting and manufacturing business (C&M) at Rs 56/share, rental assets at Rs 25/share, refundable deposits at Rs 41/share to arrive at gross NAV of Rs 742/share

From the gross NAV, we deduct the net debt (Rs 218/share) and unpaid land bank value (Rs 23/share) to arrive at Rs 500/share as our NAV based target price

With the demonetisation impact largely behind and implementation of RERA, sector cost of capital will come down. To factor this in we have decreased WACC from 20.6% to 16.1%, resulting in NAV increase from Rs 381/sh to Rs 500/sh

Valuation: Increase NAV target to Rs 500/sh

SoTP Valuation

- We upgrade SDL to BUY from NEUTRAL, with an increased SOTP-based target price of Rs 500/share. We value the real estate business at Rs 206/share, future developable land bank at Rs 414/share, contracting and manufacturing business (C&M) at Rs 56/share, rental assets at Rs 25/share, refundable deposits at Rs 41/share to arrive at a gross NAV of Rs 742/share. From the gross NAV, we deduct the net debt (Rs 218/share) and unpaid land bank value (Rs 23/share), to arrive at Rs 500/share as our NAV-based target price.
- We don't assign any NAV discount to SDL, as we have only valued the projects that have visibility over the next five years. For the land bank beyond that period, we ascribed 30% discount to the current market value. The implied P/BV for the land bank comes in at 1.67x FY17 land book value.
- We have also incorporated the valuation of SDL's upcoming APMC commercial project. This project envisages a Rs 10bn outlay for developing ~2.8mn sqft lease area (~0.7mn sqft will be handed over to APMC). SDL will be leasing out 2.1mn sqft at an average rate of ~Rs 50/sqft/month. The work is taking place, albeit slowly, and serious outlay will only start from late FY18E.

Sum Of The Parts

	Old - Rs mn (Rs/share)	Old - Rs (Rs/share)	New - Rs mn (Rs/share)	New - Rs (Rs/share)	Comments
Gross NAV Residential	18,415	188	20,167	206	DCF-based NAV.
Land Bank	31,111	317	40,523	414	At 30% discount to current market prices. Implied P/BV is 1.67x
Contractual/Manufacturing	5,536	56	5,536	56	At 5x FY19E EV/EBIDTA
Rental assets/APMC	1,922	20	2,467	25	Discounting at 13% cap rate viz. school, hospital etc
Refundable JDA Deposits	3,983	41	3,983	41	FY16 balance sheet number
Total Gross NAV	60,967	622	72,677	742	
Less net debt	(21,395)	(218)	(21,395)	(218)	Net debt end FY18E
Unpaid land cost	(2,247)	(23)	(2,247)	(23)	Puravankara Kochi and other land banks
NAV	37,325	381	49,035	500	

Source: Company, HDFC sec Inst Research

Our base property price assumption is at a 10-20% discount to current prices in SDL's key macro markets

Real estate development: NAV calculation methodology

- We have divided SDL's entire land bank into current and future developments (based on information given by the company).
- We have arrived at the sale price/sqft and the anticipated sales volumes for each project based on our discussions with industry experts.
- We have deducted the cost of construction, based on our assumed cost estimates, which have been arrived at after discussions with industry experts.
- We have further deducted marketing and other costs which have been assumed at 5% of the sales revenue.
- We have then deducted income tax based on the tax applicable for the project.
- The resultant cash inflows at the project level have been discounted based on WACC of 16.1% (cost of equity 22% based on beta of 2.2, cost of debt 13% and debt/equity ratio of 0.45x). All the project-level NAVs have been summed up to arrive at the NAV of the company.
- In case of future land bank, we have valued at 30% discount to current prices and not taken into account the construction margins.
- For annuity income generating assets, we have value the cash flows at a cap rate of 13%.
- From the NAV, we have deducted the net debt as of FY18E to arrive at the final valuation of the company.

Key valuation assumptions

- In the exhibit below, we highlight our sales and cost inflation forecasts. We expect property prices to appreciate in-line with WPI inflation, i.e. 5%, and the cost of construction to grow at 6%. We forecast other costs including marketing, SGA and employee cost at 5% of sales.

Base Case Assumptions (%)

Discount rate	16.1
Annual rate of inflation-sales price	5
Annual rate of inflation-cost of construction	6
Other costs – marketing, SGA, employee cost (as % of sales)	5
Tax rate (%)	33

Source: Company, HDFC sec Inst Research

- In the exhibit below, we highlight our sales price and construction cost forecasts. Our pricing assumptions are 10-20% discount to the currently prevailing prices.

Base Price And Construction Cost Assumptions

Location	Prices Rs/sq ft	Cost Rs/sq ft
Bangalore	5,500	2,400
Mysore	3,700	1,800
Pune	4,800	2,200
Chennai	4,900	2,200
Kochi	6,500	3,000
Hosur	4,500	1,800
Thrissur	4,500	2,200
Coimbatore	4,400	2,200
Gurgaon	7,500	3,425
Calicut	4,500	1,800

Source: Company, HDFC sec Inst Research

1% increase in average base sale price impacts our NAV positively by 2.5%

Every 100bps increase in sale price inflation impacts our NAV positively by 20.4%

100bps increase in cost inputs decreases our NAV by 12.1%

100bps increase in discounting rate impacts our NAV negatively by 4.7%

NAV sensitivity analysis

Sensitivity to our assumption of property price

- Our model is sensitive to changes in the assumptions regarding property prices. For every 1% change in the base property prices, the NAV will change by approximately 2.5%.

NAV Sensitivity To Change In Average Sale Price

% change in sale price	(10)	(5)	0	5	10
NAV/share (Rs)	368	436	500	564	633
Change in NAV (%)	(26.4)	(12.9)	-	12.8	26.5

Source: Company, HDFC sec Inst Research

Sensitivity of NAV to changes in sale inflation

- In our base case, we have assumed an annual sale price inflation of 5%. For every 100bps increase in the annual sale price inflation, the NAV will increase by approximately 20.4%.

NAV Sensitivity To Change In Sales Inflation

Sales inflation rates (%)	3	4	5	6	7
NAV/share (Rs)	315	406	500	602	716
Change in NAV (%)	(37.0)	(18.8)	-	20.4	43.0

Source: Company, HDFC sec Inst Research

Sensitivity of NAV to changes in cost inflation

- In our base case, we have assumed cost inflation to be 6%. For every 100bps increase in construction cost inflation, the NAV will change by approximately 12.1%.

NAV Sensitivity To Change In Cost Inflation

Cost inflation rates (%)	4	5	6	7	8
NAV/share (Rs)	605	557	500	440	378
Change in NAV (%)	20.8	11.3	-	(12.1)	(24.4)

Source: Company, HDFC sec Inst Research

The combined impact of a 100bps increase in sale price inflation and cost inflation will be a NAV increase of 8.3%.

Sensitivity of NAV to changes in discount rate

- In our base case, we have assumed a discount rate of 16.1%. For every 100bps increase in the discount rate, the NAV will fall by 4.7%.

NAV Sensitivity To Change In WACC

WACC rates (%)	14.1	15.1	16.1	17.1	18.1
NAV/share (Rs)	550	525	500	477	457
Change in NAV (%)	10.0	4.9	-	(4.7)	(8.8)

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	24,406	19,566	22,461	24,820	27,407
Growth (%)	12.3	(19.8)	14.8	10.5	10.4
Material Expenses	13,428	10,243	13,191	14,094	15,925
Employee Expenses	1,977	1,762	1,779	2,110	2,330
Other Operating Expenses	2,827	3,131	3,294	3,227	3,152
EBIDTA	6,173	4,430	4,197	5,389	6,000
EBIDTA (%)	25.3	22.6	18.7	21.7	21.9
EBIDTA Growth (%)	2.4	(28.2)	(5.3)	28.4	11.3
Other Income	149	343	386	167	182
Depreciation	723	597	638	761	745
EBIT	5,600	4,176	3,945	4,795	5,437
Interest	1,883	1,637	1,497	1,820	1,865
PBT	3,716	2,539	2,448	2,975	3,572
Tax	1,277	1,188	970	1,011	1,215
PAT	2,439	1,351	1,478	1,963	2,358
Share of profits	(59)	30	129	75	71
EO items (net of tax)	-	-	-	-	-
APAT	2,380	1,381	1,607	2,038	2,429
APAT Growth (%)	1.3	(42.0)	16.4	26.8	19.2
EPS	24.3	14.1	16.4	20.8	24.8
EPS Growth (%)	1.3	(42.0)	16.4	26.8	19.2

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	981	981	981	981	981
Reserves	23,337	24,634	25,599	27,198	29,030
Total Shareholders Funds	24,318	25,614	26,580	28,178	30,011
Minority Interest	148	156	156	156	156
Long Term Debt	20,588	22,362	22,362	22,862	23,462
Short Term Debt	-	-	-	-	-
Total Debt	20,588	22,362	22,362	22,862	23,462
Deferred Taxes	1,631	2,538	2,538	2,538	2,538
Long Term Provisions & Others	-	-	-	-	-
TOTAL SOURCES OF FUNDS	46,684	50,670	51,636	53,735	56,167
APPLICATION OF FUNDS					
Net Block	3,151	5,644	5,517	5,256	5,011
CWIP	524	454	3,454	6,954	8,954
Goodwill	-	-	-	-	-
Investments	0.2	0.2	0.2	0.2	0.2
Inventories	27,284	27,909	43,429	42,862	47,558
Debtors	2,724	2,764	3,255	3,400	3,754
Cash & Equivalents	1,631	1,333	1,355	1,467	1,179
ST Loans & Advances, Others	27,047	28,185	29,966	31,105	32,255
Total Current Assets	58,687	60,191	78,004	78,834	84,746
Creditors	4,785	4,187	4,606	5,666	6,969
Other Current Liabilities & Provns	10,894	11,432	30,734	31,644	35,575
Total Current Liabilities	15,678	15,620	35,340	37,310	42,544
Net Current Assets	43,008	44,572	42,664	41,524	42,202
Misc Expenses & Others	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	46,684	50,670	51,636	53,735	56,167

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
PBT before minority	3,716	2,809	2,255	2,975	3,572
Non-operating & EO items	(6,191)	(4,989)	(4,338)	(5,556)	(6,182)
Taxes	(845)	(619)	(902)	(1,011)	(1,215)
Interest expenses	1,753	1,547	1,456	1,820	1,865
Depreciation	723	634	627	761	745
Working Capital Change	(1,319)	3,449	6,081	6,716	5,105
OPERATING CASH FLOW (a)	(2,164)	2,830	5,179	5,705	3,890
Capex	(634)	(1,442)	(3,500)	(4,000)	(2,500)
Free cash flow (FCF)	(2,798)	1,388	1,679	1,705	1,390
Investments	(24)	43	-	-	-
Others	60	51	334	167	182
INVESTING CASH FLOW (b)	(599)	(1,349)	(3,166)	(3,833)	(2,318)
Share capital Issuance	-	-	-	-	-
Debt Issuance	6,544	1,774	-	500	600
Interest expenses	(2,369)	(2,554)	(1,456)	(1,820)	(1,865)
Dividend	(803)	(827)	(536)	(439)	(596)
FINANCING CASH FLOW (c)	3,372	(1,607)	(1,992)	(1,760)	(1,861)
NET CASH FLOW (a+b+c)	609	(126)	21	112	(288)
Closing Cash & Equivalents	1,664	1,333	1,355	1,467	1,179

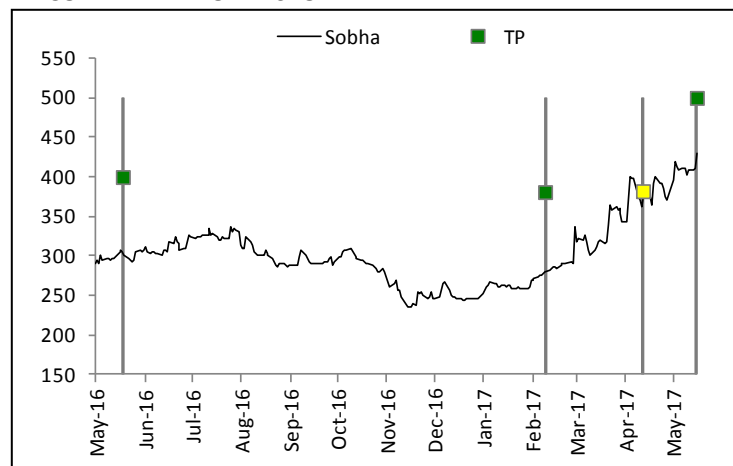
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY15	FY16	FY17E	FY18E	FY19E
PROFITABILITY (%)					
GPM	45.0	47.6	41.3	43.2	41.9
EBITDA Margin	25.3	22.6	18.7	21.7	21.9
APAT Margin	9.8	7.1	7.2	8.2	8.9
RoE	10.6	5.3	5.2	6.9	7.9
Core RoCE	13.3	8.6	7.7	9.1	9.9
RoCE	13.3	8.6	7.7	9.1	9.9
EFFICIENCY					
Tax Rate (%)	34.4	46.8	39.6	34.0	34.0
Asset Turnover (x)	0.5	0.4	0.4	0.5	0.5
Inventory (days)	386	515	580	635	602
Debtors (days)	40	51	49	49	48
Payables (days)	77	84	71	76	84
Cash Conversion Cycle (days)	348	482	557	608	566
Debt/EBITDA (x)	3.3	5.0	5.3	4.2	3.9
Net D/E	0.8	0.8	0.8	0.8	0.7
Interest Coverage	3.0	2.6	2.6	2.6	2.9
PER SHARE DATA					
EPS (Rs/sh)	24.3	14.1	16.4	20.8	24.8
CEPS (Rs/sh)	31.6	20.2	22.9	28.5	32.4
DPS (Rs/sh)	7.0	7.0	4.7	3.8	5.2
BV (Rs/sh)	248.0	261.2	271.0	287.3	306.0
VALUATION					
P/E	17.3	29.9	25.7	20.3	17.0
P/BV	1.7	1.6	1.6	1.5	1.4
EV/EBITDA	9.8	14.1	14.8	11.6	10.6
OCF/EV (%)	(3.6)	4.5	8.3	9.1	6.1
FCF/EV (%)	(4.6)	2.2	2.7	2.7	2.2
FCFE/Market Cap	9.1	7.7	4.1	5.3	4.8
Dividend Yield (%)	1.7	1.7	1.1	0.9	1.2

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
20-May-16	306	BUY	400
10-Feb-17	281	BUY	381
13-Apr-17	378	NEU	381
17-May-17	421	BUY	500

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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