

INDUSTRY INFRASTRUCTURE

CMP (as on 01 Jun 2017) Rs 315

Target Price Rs 360

Nifty 9,616

Sensex 31,138

KEY STOCK DATA

Bloomberg SADE IN

No. of Shares (mn) 172

MCap (Rs bn) / (\$ mn) 54/840

6m avg traded value (Rs mn) 42

STOCK PERFORMANCE (%)

52 Week high / low Rs 351/220

3M 6M 12M

Absolute (%) 15.7 14.7 13.6

Relative (%) 8.2 (2.6) (3.0)

SHAREHOLDING PATTERN (%)

Promoters 46.76

FIs & Local MFs 26.31

FPIs 17.15

Public & Others 9.78

Source : BSE

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Execution-led recovery

SEL reported 4QFY17 RPAT beat of 64%, led by strong revenue growth (20.4% YoY). Revenue is expected to ramp up further, as execution of three (out of seven) HAM projects has begun, two more projects will start contributing from 2QFY18E and the balance two by 3QFY18E. SEL's net debt has increased to Rs 16.3bn (+Rs 2.7bn QoQ), as it paid Rs 1.6bn mobilisation advance to NHAI. Debtors continue to remain at Rs 16.7bn, and are expected to decrease as the HAM project's execution picks up in FY18E.

SEL has guided for Rs 60-70bn of new orders during FY18E. The balance sheet remains stable, with net d/e at Rs 0.98x vs 0.85x during 3QFY17. SEL expects to reduce debt by Rs 4.5bn in FY18E.

SEL has maintained its FY18E revenue guidance of Rs 38bn+. We cut FY18-19E EPS by 4-7% to factor in higher interest/taxes. Upgrade SEL to BUY from NEU with a TP of Rs 360/sh.

Financial Summary (Standalone)

| Year Ending March (Rs mn) | 4QFY17 | 4QFY16 | YoY (%) | 3QFY17 | QoQ (%) | FY16 | FY17E | FY18E | FY19E |
|---------------------------|--------|--------|---------|--------|---------|--------|--------|--------|--------|
| Net Sales | 10,329 | 8,580 | 20.4 | 8,648 | 19.4 | 31,863 | 33,203 | 39,318 | 45,543 |
| EBITDA | 1,096 | 908 | 20.7 | 938 | 16.8 | 3,348 | 3,556 | 4,236 | 4,919 |
| APAT | 682 | 355 | 92.1 | 524 | 30.1 | 1,326 | 1,860 | 1,829 | 2,327 |
| Diluted EPS (Rs) | 4.0 | 2.07 | 92.1 | 3.06 | 30.1 | 7.7 | 10.8 | 10.7 | 13.6 |
| P/E (x) | | | | | | 40.7 | 29.0 | 29.5 | 23.2 |
| EV / EBITDA (x) | | | | | | 19.7 | 19.7 | 15.1 | 13.0 |
| RoE (%) | | | | | | 9.0 | 11.7 | 10.4 | 11.9 |

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- Roads drive 4QFY17 performance:** SEL's 4QFY17 financial performance was led by 46.7% YoY growth in the transportation segment revenue. With entire HAM orders moving into execution by 3QFY18E, roads segment will be key revenue driver.
- Balance sheet recovery from 2QFY18E:** SEL's net debt increased by Rs 2.7bn QoQ to Rs 16.5bn, as it repaid Rs 1.6bn of interest-bearing NHAI advances. SEL has progress-based billing in HAM projects vs milestone-based billing in EPC. This, along with Rs 5.3bn of mobilisation advance, will result in WC improvement. SEL expects Rs 4.5bn debt reduction during FY18E.
- HAM projects' execution key re-rating trigger:** All the seven HAM projects will start contributing revenue from 3QFY18E. SEL has guided for BOT revenue of Rs 13.5bn (4x FY17E revenue). This shall be the key driver for further re-rating. We remain constructive on SEL.

SEL delivered strong YoY 4QFY17 net revenues /EBIDTA/APAT growth of 20.4/20.7/92.1% respectively ahead of our estimate by 3.6/4.9/64%

EBITDA margins expanded 2.7/-23.7bps YoY/QoQ (in-line with our estimates) to 10.6%

PBT was 10% ahead of our estimate. Owing to MAT credit, RPAT came 64% ahead of estimate

FY17 order inflows stood at Rs 47bn, including L1 status of Rs 15.7bn in two HAM projects (Waranga Mahagaon and Udaipur bypass). Order backlog is Rs 76.8bn excluding L1 of Rs 15.7bn

We have cut our FY18/19E EPS estimates by 4-7% to factor in higher interest expense and tax

Standalone Quarterly Financial

| Particulars (Rs mn) | 4QFY17 | 4QFY16 | YoY (%) | 3QFY17 | QoQ (%) | FY17 | FY16 | YoY (%) |
|----------------------------|---------------|--------------|-------------|--------------|-------------|---------------|---------------|-------------|
| Net Revenues | 10,329 | 8,580 | 20.4 | 8,648 | 19.4 | 33,203 | 31,863 | 4.2 |
| Material Expenses | (8,106) | (6,900) | 17.5 | (6,986) | 16.0 | (26,552) | (25,805) | 2.9 |
| Employee Expenses | (379) | (315) | 20.1 | (319) | 18.7 | (1,366) | (1,228) | 11.2 |
| Other Expenses | (748) | (456) | 64.1 | (405) | 84.9 | (1,729) | (1,482) | 16.7 |
| EBITDA | 1,096 | 908 | 20.7 | 938 | 16.8 | 3,556 | 3,348 | 6.2 |
| Depreciation | (243) | (335) | (27.7) | (250) | (2.9) | (1,000) | (971) | 3.1 |
| EBIT | 853 | 573 | 49.0 | 688 | 24.0 | 2,556 | 2,377 | 7.5 |
| Interest Cost | (507) | (436) | 16.1 | (347) | 45.9 | (1,534) | (1,507) | 1.8 |
| Other Income (inc EO Item) | 369 | 277 | 33.2 | 164 | 124.4 | 875 | 970 | (9.8) |
| PBT | 716 | 413 | 73.2 | 505 | 41.6 | 1,897 | 1,840 | 3.1 |
| Tax | (33) | (64) | (47.7) | 19 | (276.6) | (18) | (467) | (96.1) |
| RPAT | 682 | 349 | 95.3 | 524 | 30.1 | 1,878 | 1,373 | 36.8 |
| EO Items (Adj For Tax) | | 6 | | - | | (18) | (47) | (61.4) |
| APAT | 682 | 355 | 92.1 | 524 | 30.1 | 1,860 | 1,326 | 40.3 |

Source: Company, HDFC sec Inst Research

Margin Analysis

| | 4QFY17 | 4QFY16 | YoY (bps) | 3QFY17 | QoQ (bps) | FY17 | FY16 | YoY (%) |
|--------------------------------|-------------|-------------|--------------|-------------|---------------|-------------|-------------|--------------|
| Material Expenses % Net Sales | 78.5 | 80.4 | (195.0) | 80.8 | (230.4) | 80.0 | 81.0 | (102.0) |
| Employee Expenses % Net Sales | 3.7 | 3.7 | (0.8) | 3.7 | (2.3) | 4.1 | 3.9 | 26.0 |
| Other Ope Expenses % Net Sales | 7.2 | 5.3 | 193.0 | 4.7 | 256.4 | 5.2 | 4.7 | 55.7 |
| EBITDA Margin (%) | 10.6 | 10.6 | 2.7 | 10.8 | (23.7) | 10.7 | 10.5 | 20.3 |
| Tax Rate (%) | 4.7 | 15.5 | (1081.7) | (3.7) | 842.6 | 1.0 | 25.4 | (2440.6) |
| APAT Margin (%) | 6.6 | 4.1 | 246.5 | 6.1 | 54.2 | 5.6 | 4.2 | 144.1 |

Source: Company, HDFC sec Inst Research

Change Of Estimates

| (INR mn) | FY18E | | | FY19E | | |
|--------------------|--------|--------|----------|--------|--------|-----------|
| | Old | New | % Change | Old | New | % Change |
| Revenues | 39,239 | 39,318 | 0.2 | 46,174 | 45,543 | (1.4) |
| EBIDTA | 4,227 | 4,236 | 0.2 | 5,079 | 4,919 | (3.2) |
| EBIDTA Margins (%) | 10.8 | 10.8 | (0.0bps) | 11.0 | 10.8 | (20.0bps) |
| APAT | 1,904 | 1,829 | (4.0) | 2,506 | 2,327 | (7.1) |
| Adj. EPS (INR) | 11.1 | 10.7 | (4.0) | 14.6 | 13.6 | (7.1) |

Source: Company, HDFC sec Inst Research

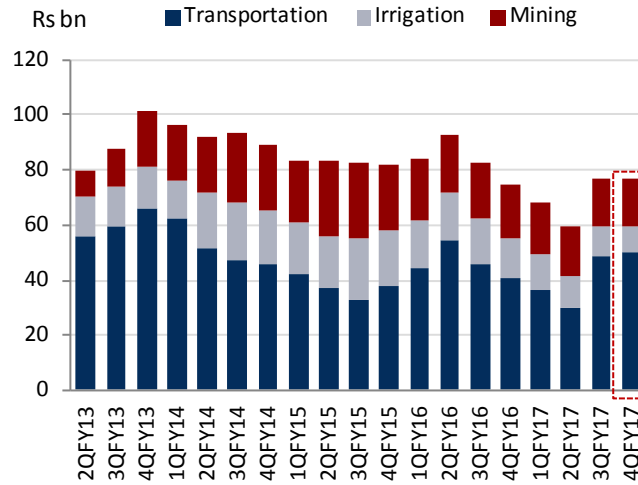
With pick up in roads segment, share of road orders have been growing

Within the roads vertical, captive BOT projects have been increasing on back of new HAM projects

Share of roads in revenue has been increasing; mining segment is stable and irrigation has been highly volatile

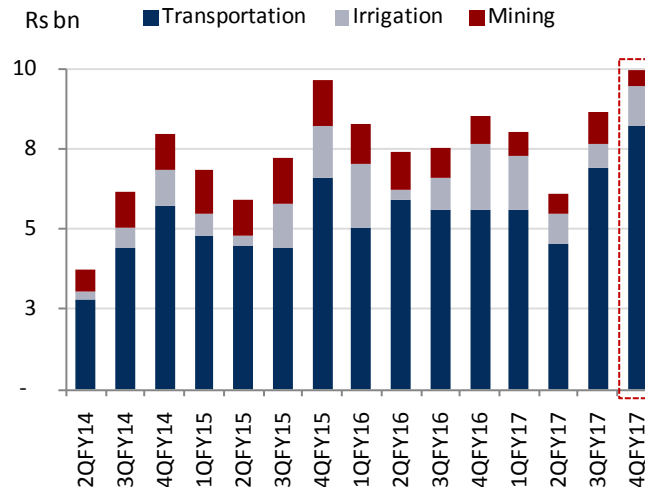
Within roads, captive BOT projects have been the main contributors to revenue earlier. With limited awards in BOT over last two years, BOT's order book share has come down from 47.2% end-1QFY14 to 1.7% as of 2QFY17. With HAM projects wins the trend has started reversing from 4QFY17

Road's Share In Order Book Has Been Growing



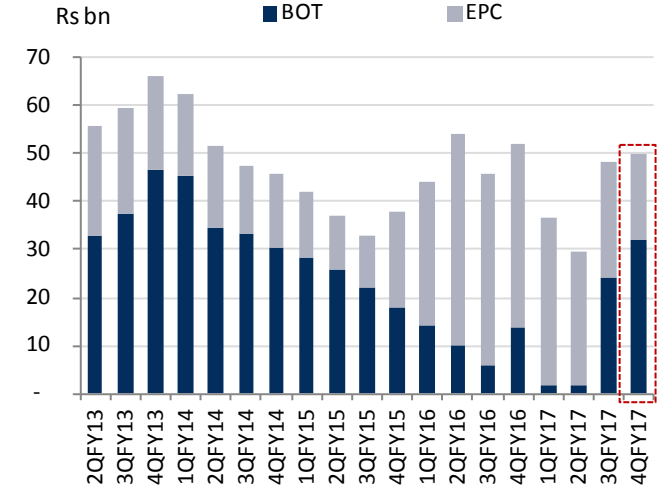
Source: Company, HDFC sec Inst Research

Road's Share Of Revenue Increasing



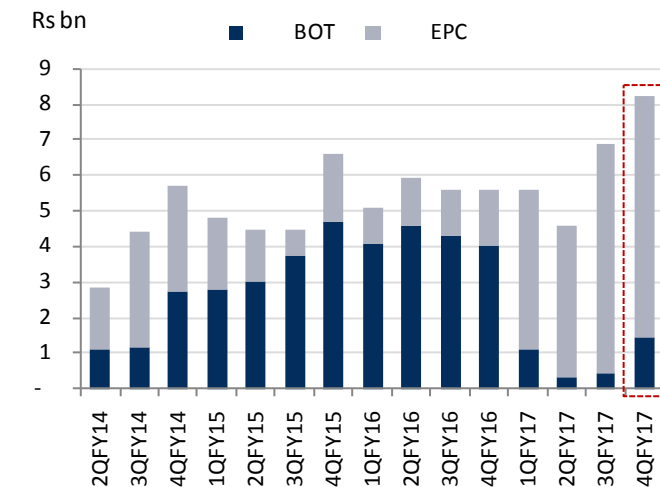
Source: Company, HDFC sec Inst Research

Road Orders: Captive BOT (HAM) Increasing



Source: Company, HDFC sec Inst Research

Captive BOT (HAM) Road Revenue Share To Go Up



Source: Company, HDFC sec Inst Research

We expect SEL's order book to multiply 1.5x over FY17-19E

Roads, mining and irrigation segments shall be the key drivers of the order book

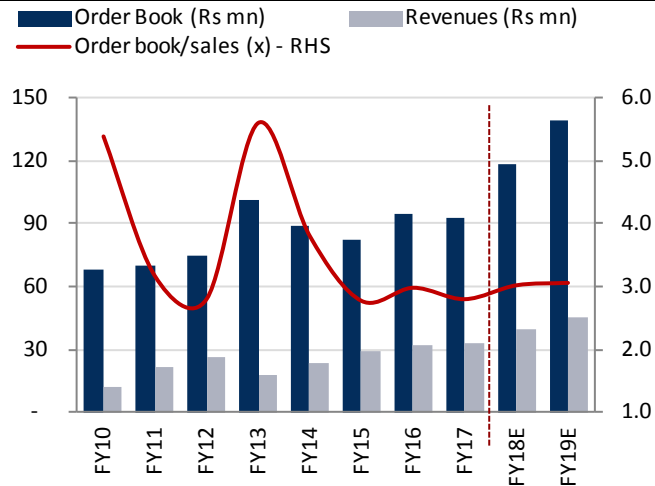
SEL is evaluating Mining development orders. Annual revenue potential could be Rs9-10bn for SEL.

After the Delhi metro experience, SEL is looking to bid for Elevated Metro projects. This could add incrementally to the order book and revenue growth

FY17-19E order inflow CAGR of 18.4% will largely be driven by roads segments

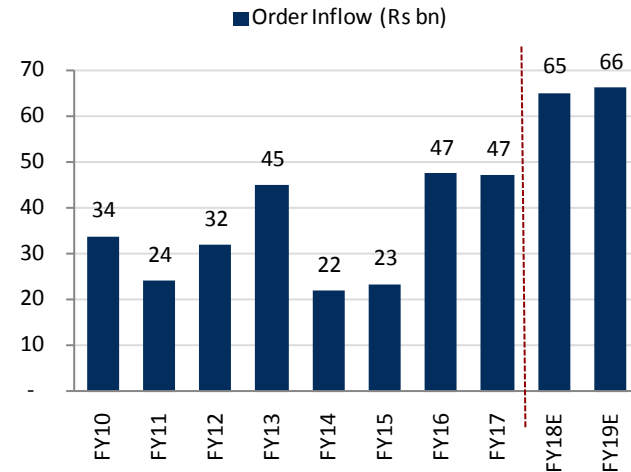
Roads vertical contributes about 65% to the order book, followed by mining and irrigation at 22% and 13%, respectively

Order Book To Multiply 1.5x Over FY17-19E



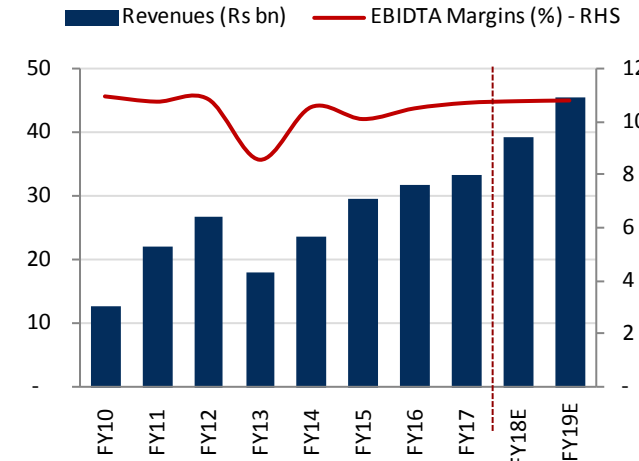
Source: Company, HDFC sec Inst Research

Order Inflow CAGR Of 18.4% Over FY17-19E



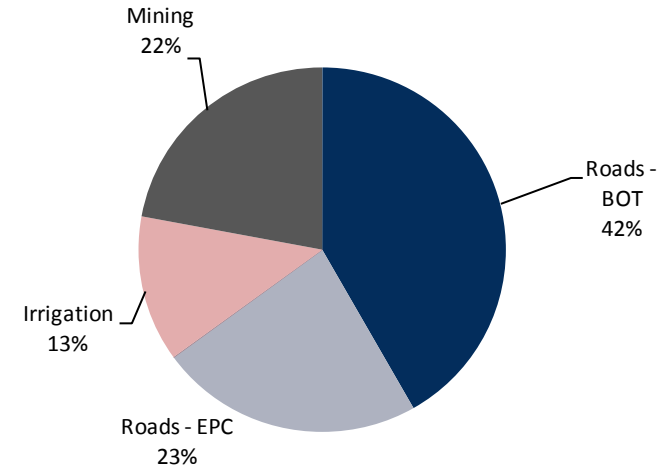
Source: Company, HDFC sec Inst Research

EBIDTA Margin To Remain At 10.5-11% In FY17-19E



Source: Company, HDFC sec Inst Research

Order Book Mix: FY17 (%)



Source: Company, HDFC sec Inst Research

We expect SEL to deliver 17.1% FY17-19E revenue CAGR

SEL had guided for Rs 60-70bn of new orders for FY18E

EBIDTA margins to remain in 10.5-11% range, as new HAM orders have 100bps higher margins vs EPC orders

SEL expects to bring down standalone debt by Rs 4.5bn in FY18E. New HAM orders have time-based billing vs milestone-based billing in EPC orders. This will help reduce WC demand.

SEL is also expected to receive about Rs 5.3bn mobilisation advance by Dec-17E; this will also reduce WC demand

We have estimated 11.9% adjusted EPS CAGR for FY17-19E. Tax rate will ramp up to as MAT credit will get over by FY18E

Key Assumptions And Estimates

| Key Assumptions Rs mn | FY17E | FY18E | FY19E | Growth% | | | Comments |
|--------------------------|---------------|---------------|---------------|------------|-------------|-------------|---|
| | | | | FY17E | FY18E | FY19E | |
| Closing order book | 92,584 | 118,344 | 138,855 | 7.4 | 27.8 | 17.3 | We expect 22.5% FY17-19E order book CAGR on the back of strong bid pipeline |
| Order book growth (%) | 7.4 | 27.8 | 17.3 | | | | |
| New order booking | 47,030 | 65,078 | 66,055 | 21.0 | 38.4 | 1.5 | We estimate 18.5% FY17-19E CAGR. SEL's strong credential in roads, mining and irrigation segment will drive ordering. SEL is also looking at Metro projects now, and this segment can add incrementally to the order backlog |
| Book to bill ratio | 2.8 | 3.0 | 3.0 | | | | Book to bill ratio to remain stable |
| Total Revenue | 33,203 | 39,318 | 45,543 | 4.2 | 18.4 | 15.8 | With a pick up in order booking, we estimate 17.1% FY17-19E revenue CAGR. |
| Growth (%) | 4.2 | 18.4 | 15.8 | | | | |
| EBIDTA | 3,556 | 4,236 | 4,919 | 6.2 | 19.1 | 16.1 | FY17-19E EBIDTA CAGR of 17.6% is higher than revenue CAGR, owing to margin expansion. New captive HAM orders have 100bps higher margins |
| EBIDTA margin (%) | 10.7 | 10.8 | 10.8 | 20.3 | 6.3 | 2.7 | Margins' expansion on account of higher margins in new HAM order |
| Depreciation | 1,000 | 993 | 1,078 | 3.1 | (0.8) | 8.6 | |
| Financial Charges | 1,534 | 1,777 | 1,364 | 1.8 | 15.8 | (23.3) | We expect borrowing cost to reduce on account of a cut in interest rates and recovery of loans given to SIPL and higher mobilisation advance for HAM project. SEL has guided for Rs 2bn reduction in debt by 2QFY18E, and another Rs 2bn by 4QFY18E |
| PBT | 1,897 | 2,286 | 3,373 | 3.1 | 20.5 | 47.6 | FY17-19E PBT CAGR of 33.4% |
| PBT margin (%) | 5.7 | 5.8 | 7.4 | (6.2) | 10.1 | 159.2 | PBT margin expansion in line with EBIDTA expansion and reduction in interest expense |
| Tax | 18 | 457 | 1,046 | (96.1) | 2,393.7 | 128.7 | |
| Tax rate (%) | 1.0 | 20.0 | 31.0 | | | | Tax rate to move higher, and MAT benefit will get over by FY18E |
| APAT | 1,860 | 1,829 | 2,327 | 40.3 | (1.7) | 27.3 | FY17-19E PAT CAGR of 11.9%. This is on account of tax ramp up |
| Net margin (%) | 5.6 | 4.7 | 5.1 | 144.1 | (95.2) | 45.9 | Margin to remain stable |

SEL to generate surplus-free cash flow over FY17-19E. This shall be utilised to reduce debt

| Key Assumptions Rs n | FY17E | FY18E | FY19E | Growth% | | | Comments |
|------------------------------|---------|---------|---------|---------|-------|--------|--|
| | | | | FY17E | FY18E | FY19E | |
| Gross Block Turnover | 3.4 | 3.8 | 4.0 | 0.1 | 12.7 | 5.6 | Improvement on account of new orders inflow |
| Debtor days | 147 | 138 | 112 | 35.0 | (6.3) | (19.1) | |
| CFO - a | (2,651) | 7,777 | 2,066 | | | | Cash flow improvements in line with EBIDTA growth and EBIDTA margins expansion |
| CFI - b | 319 | 520 | (304) | | | | We are building cumulative Rs 800mn Capex over FY18-19E |
| FCF - a+b | (3,041) | 7,277 | 1,066 | | | | Strong free cash flow generation as growth picks up |
| CFF - c | 2,284 | (6,018) | (3,405) | | | | Surplus cash flows utilized to repay debt |
| Total change in cash - a+b+c | (48) | 2,279 | (1,643) | | | | |

Source: HDFC sec Inst Research

We value standalone EPC business at Rs 244/share (18x one-year forward Mar-19E EPS)

Mining Development Opportunity can add about 20% to our FY19E EPS. We await order wins in this segment before incorporating in our numbers

We value SEL stake in SIPL at 20% holding company discount to current market capitalisation of SIPL at Rs 103/sh.

We upgrade SEL to BUY with a SOTP based target price of Rs360 /share (earlier SOTP of Rs 327/share)

Outlook and valuation

Target Price of Rs 360 implies ~14.3% upside

Valuation methodology

- We have valued SEL at 18x one-year forward vs 15x earlier. Our rationale for multiple expansion is (1) Robust order book at 2.8x FY17 revenue, (2) Improving balance sheet (FY19E net D/E will improve to 0.5x from 0.98x end FY17), (3) EBIDTA margins expansion, and (4) New order accretion from the Metro segment. With SIPL turning cash positive, it may be in position to return SEL loans and may not require further equity support for Hybrid BOT/Toll projects. This shall help SEL to retire its own debt.
- SEL is chasing opportunities in Mining Development and Operations (MDO). The company would be bidding for long term MDO opportunities in a JV with overseas partners. In case of a win, MDO may add ~Rs 10bn in annual revenues and Rs 700mn in profit. This will be a ~20% upside to our FY19E numbers. There is limited completion in this segment, as a number of qualified

bidders are less than 10 viz. BGR Mining, NCC, Adani, Sainik, EMTA, Sadbhav, AMR Construction. Besides, it requires a huge outlay on mining capex, with asset turns of 1.5x and asset life of 5-6yrs.

- Government-led spends in the infrastructure sector will continue to drive stock performance and SEL, with its strong credentials, will likely benefit from the pickup in ordering activity. The company, over the past many years, has built strong pre-qualification in potentially large ordering segments such as roads, mining and irrigation.
- **We upgrade SEL to BUY from NEU with a SOTP-based target price of Rs 360/share (vs. Rs 327/share earlier). We value the (1) Standalone EPC business at Rs 244/share (18x one-year forward Mar-19 EPS) and (2) SEL stake in SIPL at 20% holding company discount to current market capitalisation at Rs 116/sh.**

SOTP Valuation

| Particulars | Segments | Value (Rs mn) | Value per share (Rs) | Rationale |
|--------------------|----------------------------|---------------|----------------------|---|
| Sadbhav Standalone | Core construction business | 41,907 | 244 | At 18x FY19E EPS |
| SIPL stake | Subsidiary | 19,837 | 116 | We have valued the 68.6% stake of SEL in SIPL by giving a 20% holding company discount to current market capitalization (at Rs 103/share) |
| Total | | 61,774 | 360 | |

Source: HDFC sec Inst Research

Income Statement (Standalone)

| Year ending March (Rs mn) | FY15 | FY16 | FY17 | FY18E | FY19E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Revenues | 29,698 | 31,863 | 33,203 | 39,318 | 45,543 |
| Growth (%) | 25.9 | 7.3 | 4.2 | 18.4 | 15.8 |
| Material Expenses | 24,362 | 25,805 | 26,552 | 31,976 | 37,254 |
| Employee Expenses | 974 | 1,228 | 1,366 | 1,455 | 1,594 |
| Other Expenses | 1,360 | 1,482 | 1,729 | 1,651 | 1,776 |
| EBIDTA | 3,002 | 3,348 | 3,556 | 4,236 | 4,919 |
| EBIDTA (%) | 10.1 | 10.5 | 10.7 | 10.8 | 10.8 |
| EBIDTA Growth (%) | 20.6 | 11.5 | 6.2 | 19.1 | 16.1 |
| Depreciation | 817 | 971 | 1,000 | 993 | 1,078 |
| EBIT | 2,185 | 2,377 | 2,556 | 3,243 | 3,841 |
| Other Income (Incl EO Items) | 655 | 970 | 875 | 820 | 896 |
| Interest | 1,382 | 1,507 | 1,534 | 1,777 | 1,364 |
| PBT | 1,459 | 1,840 | 1,897 | 2,286 | 3,373 |
| Tax | 321 | 467 | 18 | 457 | 1,046 |
| RPAT | 1,137 | 1,373 | 1,878 | 1,829 | 2,327 |
| OCI/EO (Loss) / Profit (Net Of Tax) | (119) | (47) | (18) | - | - |
| APAT | 1,018 | 1,326 | 1,860 | 1,829 | 2,327 |
| APAT Growth (%) | (17.6) | 30.3 | 40.3 | (1.7) | 27.3 |
| EPS | 5.9 | 7.7 | 10.8 | 10.7 | 13.6 |
| EPS Growth (%) | (27.1) | 30.2 | 40.3 | (1.7) | 27.3 |

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

| As at March (Rs mn) | FY15 | FY16 | FY17E | FY18E | FY19E |
|---|---------------|---------------|---------------|---------------|---------------|
| SOURCES OF FUNDS | | | | | |
| Share Capital | 172 | 172 | 172 | 172 | 172 |
| Reserves | 13,349 | 14,543 | 15,766 | 17,354 | 19,440 |
| Total Shareholders Funds | 13,521 | 14,715 | 15,937 | 17,525 | 19,612 |
| Long Term Debt | 5,583 | 4,891 | 4,891 | 4,891 | 4,091 |
| Short Term Debt | 5,381 | 7,275 | 11,615 | 7,615 | 6,615 |
| Total Debt | 10,964 | 12,167 | 16,507 | 12,507 | 10,707 |
| Deferred Taxes | 244 | 232 | 232 | 232 | 232 |
| Other Long Term Liabs & LT Provs | 337 | 32 | 32 | 32 | 32 |
| TOTAL SOURCES OF FUNDS | 25,065 | 27,145 | 32,707 | 30,295 | 30,582 |
| APPLICATION OF FUNDS | | | | | |
| Net Block | 5,357 | 5,550 | 4,982 | 4,489 | 4,411 |
| Investments | 5,313 | 5,278 | 5,678 | 5,978 | 6,178 |
| Long Term Loans & Advances | 5,588 | 6,413 | 6,013 | 5,513 | 5,513 |
| Other Non-current Assets | 293 | 378 | 378 | 378 | 378 |
| Total Non-current Assets | 16,551 | 17,620 | 17,051 | 16,359 | 16,481 |
| Inventories | 2,134 | 1,406 | 1,329 | 1,752 | 2,041 |
| Debtors | 9,067 | 9,994 | 16,829 | 12,927 | 14,973 |
| Cash & Equivalents | 351 | 366 | 318 | 2,597 | 955 |
| ST Loans & Advances | 6,506 | 5,948 | 6,186 | 6,463 | 7,487 |
| Other Current Assets | 641 | 852 | 910 | 969 | 1,123 |
| Total Current Assets | 18,699 | 18,566 | 25,572 | 24,709 | 26,579 |
| Creditors | 4,411 | 3,703 | 4,094 | 4,847 | 5,615 |
| Other Current Liabilities | 4,154 | 4,084 | 4,912 | 4,847 | 5,615 |
| Short Term Provisions | 1,620 | 1,255 | 910 | 1,077 | 1,248 |
| Total Current Liabilities & Provns | 10,185 | 9,041 | 9,915 | 10,772 | 12,478 |
| Net Current Assets | 8,514 | 9,525 | 15,656 | 13,937 | 14,101 |
| TOTAL APPLICATION OF FUNDS | 25,065 | 27,145 | 32,707 | 30,295 | 30,582 |

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

| Year ending March (Rs mn) | FY15 | FY16 | FY17E | FY18E | FY19E |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Reported PBT | 1,137 | 1,337 | 1,458 | 2,286 | 3,373 |
| Non-operating & EO items | (148) | (289) | (709) | (820) | (896) |
| Interest expenses | 1,381 | 1,506 | 1,835 | 1,777 | 1,364 |
| Depreciation | 817 | 849 | 958 | 993 | 1,078 |
| Working Capital Change | (2,963) | (1,105) | (6,179) | 3,998 | (1,807) |
| Taxes | (589) | (659) | (15) | (457) | (1,046) |
| OPERATING CASH FLOW (a) | (365) | 1,639 | (2,651) | 7,777 | 2,066 |
| Capex | (1,489) | (860) | (390) | (500) | (1,000) |
| Free cash flow (FCF) | (1,854) | 779 | (3,041) | 7,277 | 1,066 |
| Investments | (1,027) | (248) | 709 | 1,020 | 696 |
| INVESTING CASH FLOW (b) | (2,516) | (1,108) | 319 | 520 | (304) |
| Share capital Issuance | 3,153 | 2 | - | - | - |
| Debt Issuance | 662 | 1,119 | 4,340 | (4,000) | (1,800) |
| Interest expenses | (1,325) | (1,495) | (1,835) | (1,777) | (1,364) |
| FCFE | (2,517) | 403 | (536) | 1,500 | (2,098) |
| Dividend | (124) | (145) | (221) | (241) | (241) |
| FINANCING CASH FLOW (c) | 2,366 | (519) | 2,284 | (6,018) | (3,405) |
| NET CASH FLOW (a+b+c) | (515) | 12 | (48) | 2,279 | (1,643) |
| Closing Cash & Equivalents | 351 | 366 | 318 | 2,597 | 955 |

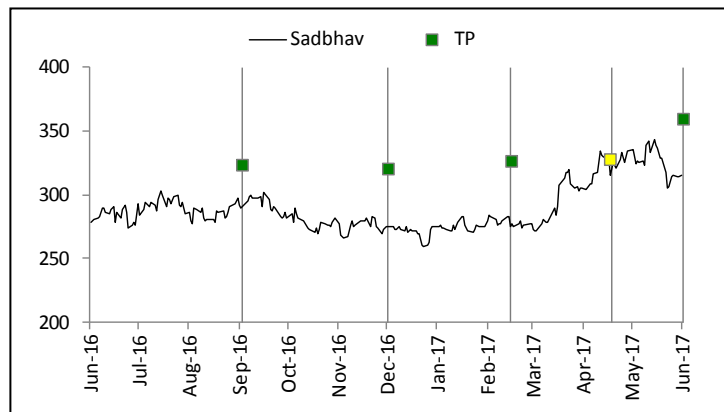
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

| | FY15 | FY16 | FY17E | FY18E | FY19E |
|------------------------------|-------|------|-------|-------|-------|
| PROFITABILITY (%) | | | | | |
| GPM | 18.0 | 19.0 | 20.0 | 18.7 | 18.2 |
| EBITDA Margin | 10.1 | 10.5 | 10.7 | 10.8 | 10.8 |
| EBIT Margin | 7.4 | 7.5 | 7.7 | 8.2 | 8.4 |
| APAT Margin | 3.8 | 4.3 | 5.7 | 4.7 | 5.1 |
| RoE | 7.5 | 9.0 | 11.7 | 10.4 | 11.9 |
| Core RoCE | 8.8 | 8.3 | 9.5 | 11.9 | 11.3 |
| RoCE | 10.8 | 11.4 | 12.7 | 15.0 | 13.9 |
| EFFICIENCY | | | | | |
| Tax Rate (%) | 22.0 | 25.4 | 1.0 | 20.0 | 31.0 |
| Asset Turnover (x) | 3.5 | 3.4 | 3.4 | 3.8 | 4.0 |
| Inventory (days) | 26 | 16 | 15 | 16 | 16 |
| Debtors (days) | 101 | 109 | 147 | 138 | 112 |
| Other Current Assets (days) | 160 | 156 | 148 | 124 | 116 |
| Payables (days) | 54 | 42 | 45 | 45 | 45 |
| Other Current Liab (days) | 75 | 62 | 64 | 55 | 55 |
| Cash Conversion Cycle (days) | 158 | 177 | 201 | 178 | 144 |
| Debt/EBITDA (x) | 3.7 | 3.6 | 4.6 | 3.0 | 2.2 |
| Net D/E | 0.78 | 0.80 | 1.02 | 0.57 | 0.50 |
| Interest Coverage | 1.6 | 1.6 | 1.7 | 1.8 | 2.8 |
| PER SHARE DATA | | | | | |
| EPS (Rs/sh) | 5.9 | 7.7 | 10.8 | 10.7 | 13.6 |
| CEPS (Rs/sh) | 12.2 | 14.6 | 15.9 | 18.7 | 22.6 |
| DPS (Rs/sh) | 0.7 | 0.9 | 1.1 | 1.2 | 1.2 |
| BV (Rs/sh) | 78.8 | 85.8 | 92.9 | 102.2 | 114.3 |
| VALUATION | | | | | |
| P/E | 53.1 | 40.7 | 29.0 | 29.5 | 23.2 |
| P/BV | 4.0 | 3.7 | 3.4 | 3.1 | 2.8 |
| EV/EBITDA | 21.5 | 19.7 | 19.7 | 15.1 | 13.0 |
| OCF/EV (%) | (0.6) | 2.5 | (3.8) | 12.2 | 3.2 |
| FCF/EV (%) | (2.9) | 1.2 | (4.3) | 11.4 | 1.7 |
| FCFE/Market Cap (%) | (4.7) | 0.7 | (1.0) | 2.8 | (3.9) |
| Dividend Yield (%) | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 |

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



| Date | CMP | Reco | Target |
|-----------|-----|------|--------|
| 6-Sep-16 | 290 | BUY | 324 |
| 2-Dec-16 | 275 | BUY | 321 |
| 16-Feb-17 | 275 | BUY | 327 |
| 18-Apr-17 | 328 | NEU | 327 |
| 1-Jun-17 | 315 | BUY | 360 |

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:

I, **Parikshit Kandpal, MBA**, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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