Sobha

BUY

INDUSTRY	REAL ESTATE
CMP *(as on 8 Aug 2018)*	**Rs 495**
Target Price	**Rs 644**
Nifty	11,450
Sensex	37,888
KEY STOCK DATA	
Bloomberg	SOBHA IN
No. of Shares (mn)	95
MCap (Rs bn) / ($ mn)	47/687
6m avg traded value (Rs mn)	147

STOCK PERFORMANCE (%)

52 Week high / low			**Rs 695/345**
	3M	6M	12M
Absolute (%)	(6.7)	(11.2)	31.3
Relative (%)	(14.3)	(21.3)	13.0

SHAREHOLDING PATTERN (%)

Promoters	55.94
FIs & Local MFs	8.47
FPIs	30.27
Public & Others	5.32

Source : BSE

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Launches to drive performance

1QFY19 Revenue (not comparable on account of IND AS 115 transition) came in at Rs 6.0bn (-12.0% YoY, -22.3% QoQ). IND AS-115 adjustments resulted in SDL reversing Rs 32.6bn revenue and Rs 7.6bn of profits and this will be re-recognized over the next 8-10 quarters depending on individual project completion. SDL has planned 9mn sqft of new launches over the next 3-4 quarters as the strategy remains to keep sufficient inventory in core markets, coinciding with project completion. SDL has been gaining market share and claims to be amongst Top 2 developers in Bengaluru.

SDL remains constructive on its core Bengaluru market (~50% pre-sales) and is seeing good recovery in NCR and Kerala. The strategy is to build well balance portfolio of affordable luxury/luxury segment. Affordable segment (Rs 50-60L/ unit) will drive the volumes in key markets. Over longer term SDL wants to multiply volumes 2x to ~6mn sqft. We maintain BUY with NAV of Rs 644/share.

Key highlights

- **GIFT city foray:** With land already paid for in FY18 itself, SDL plans to launch 0.5mn sqft (affordable residential) in Ph-1 (out of 1.3mn sqft) in 2QFY19E. With a plethora of commercial establishments coming up in GIFT City in addition to functioning educational institutions, SDL plans to target the workers/investors in GIFT city.
- **Net D/E at 0.80x (as per AS-11&18):** Aided by robust collections net debt has stabilized to ~0.79-0.80x over the past 2 quarters. Further land monetization will aid the capex requirements required for APMC/ commercial likely from FY20E onwards. SDL has stated that it will target to maintain 0.8x Net D/E.
- **Contractual segments continue to perform well:** Contractual and manufacturing segments continue to do well (1QFY19 revenue – Rs 2.4bn; +37% YoY). Current order book of Rs 24.4bn is its highest ever and provides further impetus for growth in this segment with management guiding for Rs 3bn/qtr revenue run rate.

Financial Summary*

Rs mn	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	5,977	6,789	(12.0)	7,696	(22.3)	22,462	27,870	30,993	33,512
EBITDA	1,306	1,215	7.5	1,364	(4.3)	4,199	5,197	6,301	6,948
APAT	526	477	10.3	654	(19.6)	1,666	2,168	2,654	3,003
Diluted EPS (Rs)	5.5	5.0	10.3	6.8	(19.6)	17.3	22.9	28.0	31.7
P/E (x)						28.6	21.7	17.7	15.6
EV / EBITDA (x)						16.3	13.3	11.1	10.1
RoE (%)						5.2	8.0	9.3	9.8

Source: Company, HDFC sec Inst Research, * Consolidated

In the absence of IND AS 115, revenue would have been higher by Rs 2.4bn and net profit would be higher by Rs 246mn

EBIDTA margins expanded 395 bps YoY to 21.9% and 413bps QoQ

SDL recorded healthy 1.0mn sqft of pre-sales for 1QFY19 (+17.8% YoY, -5.5% QoQ)

Average realization came in at Rs 6,373/sqft (-7.7% YoY, -1.3% QoQ)

Quarterly Financial Snapshot (Consolidated)

Particulars	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Net Sales	**5,977**	**6,789**	***(12.0)***	**7,696**	***(22.3)***
Material Expenses	(3,156)	(4,016)	*(21.4)*	(4,705)	*(32.9)*
Employee Expenses	(517)	(491)	*5.3*	(526)	*(1.7)*
Other Operating Expenses	(998)	(1,067)	*(6.5)*	(1,101)	*(9.4)*
EBITDA	**1,306**	**1,215**	***7.5***	**1,364**	***(4.3)***
Interest Cost	(541)	(449)	*20.5*	(518)	*4.4*
Depreciation	(149)	(135)	*10.4*	(135)	*10.4*
Other Income	124	97	*27.8*	196	*(36.7)*
PBT	**740**	**728**	***1.6***	**907**	***(18.4)***
Share of jointly controlled entity	-	-	-	-	-
Tax	(214)	(251)	*(14.7)*	(253)	*(15.4)*
RPAT	**526**	**477**	***10.3***	**654**	***(19.6)***

Source: Company, HDFC sec Inst Research

Margin Analysis (Consolidated)

	1QFY19	1QFY18	YoY (bps)	4QFY18	QoQ (bps)
Material Expenses % Net Sales	52.8	59.2	*(635)*	61.1	*(833)*
Employee Expenses % Net Sales	8.6	7.2	*142*	6.8	*182*
Other Operating Expenses % Net Sales	16.7	15.7	*98*	14.3	*239*
EBITDA Margin (%)	21.9	17.9	*395*	17.7	*413*
Tax Rate (%)	28.9	34.5	*(556)*	27.9	*102*
APAT Margin (%)	8.8	7.0	*177*	8.5	*30*

Source: Company, HDFC sec Inst Research

Pre-sales Trend

Pre-sales trend	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Sales Volume (mn sqft)	1.0	0.8	*17.8*	1.0	*(5.5)*
Sales Value (Rs mn) (SDL's share)	6,119	5,628	*8.7*	6,558	*(6.7)*
Average Realization (Rs/sqft) (SDL's share)	6,373	6,903	*(7.7)*	6,457	*(1.3)*

Source: Company, HDFC sec Inst Research

Net D/E increased marginally from 0.79x to 0.80x QoQ

Net debt stood at Rs 22.6bn (+Rs 0.6bn QoQ)

Cost of debt has been consistently reducing for SDL (cumulative reduction of 275bps over the last 11 quarters), and stands at 9.31% as of end-1QFY19

SDL's customer collections from real estate development in 1QFY19 stood at Rs 5.03bn a drop QoQ

The contractual segment witnessed a QoQ drop in collections to ~Rs 2.3bn.

Worst-case scenario: Consolidated net D/E peaks at 0.8x (as per erstwhile accounting standards)

- Net D/E increased marginally from 0.79x to 0.80x QoQ. Net debt stood at Rs 22.6bn (+Rs 0.6bn QoQ). This was in line with investment in new opportunities. Another Rs 500mn likely expected for land payouts.
- Even with an outlay of Rs 10bn over next 3-4 years expected for the APMC commercial project (starting only in FY20E), net debt may further inch up only marginally on account of the strong operating cash flows.
- We expect debt to remain at comfortable levels over FY19-20E. Net D/E may remain stable at 0.8x levels. SDL may not have near-term liquidity concerns, as cash flows from real estate/contractual business continue to be robust. SDL continues to explore options for monetization old land parcels where development is still suspect.
- We expect consolidated gross debt to stabilize at Rs 24.9bn by FY20E. Net D/E will peak at 0.8x in a worst-case scenario.

Debt/Equity Ratio Trend (X) (Consolidated)

(Rs mn)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY19*
Net debt (Rs mn)	20,604	20,250	20,602	20,838	20,736	20,247	22,832	23,276	21,991	22,625	22,625
Net D/E (x)	0.80	0.78	0.81	0.80	0.78	0.75	0.84	0.86	0.79	0.80	1.09
Cost of Debt %	11.83	11.58	11.26	10.99	10.42	10.06	9.88	9.74	9.39	9.31	9.31

Source: Company, HDFC sec Inst Research; *As per IND AS 115

Real Estate collections improve

- SDL's customer collections from Real Estate development have declined QoQ in 1QFY19, and stand at Rs 5.03bn. The contractual segment also witnessed drop in collections QoQ to ~Rs 2.34bn.
- Collection demand will be higher for mid-cycle projects. This will alleviate pressure on the balance sheet and induce deleveraging.
- SDL has 6-8 new launches in the pipeline across existing locations with 3-4 projects in advanced stages. Management has guided for 9mn sqft of new area releases in the next 3-4 quarters across 6 cities (with Bengaluru continuing to be the key area. This will also support acceleration in customer collections.

Customer Collections

(Rs mn)	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Real Estate	4,021	3,964	4,131	4,907	4,331	4,860	5,740	4,330	4,870	5,980	5,030
Contractual	1,691	1,833	1,677	1,705	1,849	2,090	1,560	2,600	1,870	3,130	2,340
Total	5,712	5,797	5,808	6,612	6,180	6,950	7,300	6,930	6,740	9,110	7,370

Source: Company, HDFC sec Inst Research

Expect volume uptick on (1) Improving market in Bangalore (2) 9mn sqft launches over 3-4 quarters (3) Company has moved past the GST and RERA headwinds

Absolute realization to remain flattish as pricing comfort recovery still not on the horizon

Margins have bottomed out and we expect increasing share of real estate contribution to drive the margins upwards

Key Assumptions And Estimates

Summary Of Key Assumptions And Estimates

	Estimates		Growth (%)		Comments
	FY19E	FY20E	FY19E	FY20E	
Volume assumptions					
Residential (mn sqft)	3.9	4.1	27.8	6.4	Expect volume uptick on (1) Improving market in Bangalore (2) 3-4 launches are in advanced stages and (3) Company has moved past the GST and RERA headwinds
Total	3.9	4.1	27.8	6.4	
Realization					
Residential (Rs/sqft)	7,849	7,785	2.2	(0.8)	Absolute realisation to remain flattish as pricing comfort still not on the horizon
Presales					
Rs mn	30,432	32,112	30.7	5.5	
Earnings forecast					
Sales (Rs mn)	23,330	26,219	18.4	12.4	
Contractual	7,663	7,293	(6.1)	(4.8)	Flattish growth in contracting business as Infosys business decreasing
Total	**30,993**	**33,512**	**11.2**	**8.1**	**FY19-20E revenue growth at 8.1%**
EBIDTA Real estate (Rs mn)	5,152	5,854	29.7	13.6	
EBIDTA Contract (Rs mn)	1,150	1,094	(6.1)	(4.8)	De-growth in contracting EBIDTA, as non-Infosys business has about 200bps lower EBIDTA margins
Total EBIDTA (Rs mn)	**6,301**	**6,948**	**21.2**	**10.3**	**10.3% FY19-20E EBIDTA growth**
EBIDTA margin Real estate(%)	22.1	22.3	192.4	24.6	
EBIDTA margin Contract(%)	15.0	15.0	-	-	
EBIDTA Margin (%)	20.3	20.7	168.3	40.2	Margins have bottomed out and we expect increasing share of real estate contribution to drive the margins upwards
Net interest expense*	2,191	2,264	10.8	3.4	Interest to inch up slightly on the back of increased capex expected in FY19-20E for commercial/ APMC projects
Avg. interest rate (%)	9.2	9.2	51.3	(0.0)	Average interest cost lower, as we build in 30% interest cost capitalisation
PAT (Rs mn)	**2,654**	**3,003**	**22.4**	**13.1**	**13.1% FY19-20E PAT growth**
PAT Margin (%)	8.6	9.0	78.3	39.6	Change in PAT margins in-line with overall estimates
EPS (Rs)	28.0	31.7	22.4	13.1	

Source: Company, HDFC sec Inst Research

Strong cash flows from operations to be spent on land acquisition, Rs 10bn capex on APMC project and interest payment. Capex on APMC to pick up from FY20E

Cash flow shortfall to be made up with higher borrowing

Cash Flow Forecast

Rs mn	Estimates		Comments
	FY19E	FY20E	
Cash flows forecast			
CFO - a	3,164	6,471	
CFI - b	(1,248)	(3,290)	Capex of Rs 10bn to be incurred on the APMC project over 3-4 years starting from FY20E
FCF - a+b	1,916	3,180	Strong cash flow recovery during FY19-20E
CFF-c	(1,990)	(2,463)	Interest outflow to impact cash flow negatively
Total change in cash - a+b+c	(74)	717	The net change in cash doesn't impact the debt position materially

Source: Company, HDFC sec Inst Research

We value the real estate business at Rs 222/share, future developable land bank at Rs 501/share, contracting and manufacturing business (C&M) at Rs 82/share, rental assets at Rs 45/share, refundable deposits at Rs 44/share to arrive at a gross NAV of Rs 893/share.

From the gross NAV, we deduct the net debt (Rs 245/share) and unpaid land bank value (Rs 4/share), to arrive at Rs 644/share as our NAV-based target price

Valuation: NAV target Rs 644/sh

SoTP valuation

- We maintain BUY on SDL, with an increased SOTP-based target price of Rs 644/share. We value the real estate business at Rs 222/share, future developable land bank at Rs 501/share, contracting and manufacturing business (C&M) at Rs 82/share, rental assets at Rs 45/share, refundable deposits at Rs 44/share to arrive at a gross NAV of Rs 893/share. From the gross NAV, we deduct the net debt (Rs 245/share) and unpaid land bank value (Rs 5/share), to arrive at Rs 636/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 the current market 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 sq ft lease area (~0.7mn sqft will be handed over to APMC). SDL will be leasing 2.1mn sq ft at an average rate of ~Rs 50/sq ft/month. The work is taking place, albeit slowly, and serious outlay will only start in FY20E.

Sum Of The Parts

	Rs mn	Rs/share	Comments
Gross NAV Residential	21,033	222	DCF-based NAV.
Land Bank	47,531	501	At project discounted GAV
Contractual/Manufacturing	7,750	82	At 7x FY19E EV/EBIDTA
Rental assets/APMC	4,234	45	Discounting at 12% cap rate viz. school, hospital etc
Refundable JDA Deposits	3,059	44	Balance sheet number
Total Gross NAV	**84,730**	**893**	
Less net debt	(23,192)	(245)	Net debt as on Mar-19E
Unpaid land cost	(500)	(4)	
NAV	**60,808**	**644**	

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 from the company).
- We have arrived at the sales price/sq ft 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 13.5% (cost of equity 17.2% based on beta of 1.5, cost of debt 13% and debt/equity ratio of 0.85x). All the project-level NAVs have been summed up to arrive at the NAV of the company.
- In case of a future land bank, we have valued at 20% discount to current prices, and not taken into account construction margins.
- For annuity income-generating assets, we have valued cash flows at a cap rate of 12%.
- From the NAV, we have deducted the net debt as of FY19E, 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 at 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 sales price impacts our NAV positively by 2.5%

Every 100bps increase in sales 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 prices

- 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)	474	561	**644**	726	814
Change in NAV (%)	(26.4)	(12.9)	-	12.8	26.5

Source: Company, HDFC sec Inst Research

Sensitivity of NAV to changes in sales inflation

- In our base case, we have assumed an annual sales 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)	405	522	**644**	775	920
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)	778	716	**644**	566	486
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 sales price inflation and cost inflation will be an increase in NAV of 8.3%.

Sensitivity of NAV to changes in discount rate

- In our base case, we have assumed a discount rate of 15%. For every 100bps increase in the discount rate, NAV will fall by 4.7%.

NAV Sensitivity To Change In WACC

WACC rates (%)	12	13	14	15	16
NAV/share (Rs)	708	675	**644**	614	587
Change in NAV (%)	10.0	4.9	-	(4.7)	(8.8)

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	**19,566**	**22,462**	**27,870**	**30,993**	**33,512**
Growth (%)	***(19.8)***	***14.8***	***24.1***	***11.2***	***8.1***
Material Expenses	10,243	13,190	16,840	18,958	20,854
Employee Expenses	1,762	1,779	1,985	2,170	2,351
Other Operating Expenses	3,131	3,294	3,848	3,564	3,359
EBIDTA	**4,429**	**4,199**	**5,197**	**6,301**	**6,948**
EBIDTA (%)	***22.6***	***18.7***	***18.6***	***20.3***	***20.7***
EBIDTA Growth (%)	***(28.2)***	***(5.2)***	***23.8***	***21.2***	***10.3***
Other Income	343	386	495	507	498
Depreciation	597	638	544	596	632
EBIT	4,175	3,947	5,148	6,212	6,814
Interest	1,637	1,497	1,978	2,191	2,264
PBT	**2,539**	**2,450**	**3,170**	**4,021**	**4,549**
Tax	1,188	970	1,002	1,367	1,547
PAT	**1,350**	**1,480**	**2,168**	**2,654**	**3,003**
Share of profits	30	129	-	-	-
EO items (net of tax)	89	58	-	-	-
APAT	**1,469**	**1,666**	**2,168**	**2,654**	**3,003**
APAT Growth (%)	***(38.3)***	***13.4***	***30.1***	***22.4***	***13.1***
EPS	**15.0**	**17.3**	**22.9**	**28.0**	**31.7**
EPS Growth (%)	***(38.3)***	***15.5***	***32.1***	***22.4***	***13.1***

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

As at March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	981	963	948	948	948
Reserves	24,667	25,482	26,751	28,606	30,810
Total Shareholders Funds	**25,648**	**26,445**	**27,699**	**29,554**	**31,758**
Minority Interest	**-**	**-**	**-**	**-**	**-**
Long Term Debt	20,586	22,219	23,312	24,312	24,912
Short Term Debt	1,216	-	-	-	-
Total Debt	**21,803**	**22,219**	**23,312**	**24,312**	**24,912**
Deferred Taxes	**2,361**	**2,684**	**2,521**	**3,025**	**3,630**
Long Term Provisions & Others	**249**	**163**	**185**	**204**	**224**
TOTAL SOURCES OF FUNDS	**50,062**	**51,511**	**53,717**	**57,095**	**60,525**
APPLICATION OF FUNDS					
Net Block	**3,729**	**3,173**	**2,796**	**2,200**	**2,068**
CWIP	**454**	**799**	**1,345**	**2,845**	**5,845**
Goodwill	**-**	**-**	**-**	**-**	**-**
Investments	**293.9**	**0.2**	**1,125.0**	**1,125.0**	**1,125.0**
Investment Property	**1,997.0**	**1,979.5**	**1,961**	**2,216**	**2,504**
Other Non Current Assets	**4,888.3**	**4,860.4**	**4,873**	**5,092**	**5,209**
Inventories	42,649	50,960	48,349	59,732	58,276
Debtors	2,522	2,267	3,272	4,076	3,681
Cash & Equivalents	1,185	1,468	1,194	1,120	1,838
ST Loans & Advances, Others	22,906	23,423	25,333	26,983	27,933
Total Current Assets	**69,262**	**78,118**	**78,148**	**91,911**	**91,728**
Creditors	3,182	7,693	7,205	8,551	9,246
Other Current Liabilities & Provns	27,380	29,726	29,325	39,743	38,709
Total Current Liabilities	**30,563**	**37,419**	**36,530**	**48,293**	**47,954**
Net Current Assets	**38,699**	**40,699**	**41,618**	**43,618**	**43,774**
Misc Expenses & Others	**-**	**-**	**-**	**-**	**-**
TOTAL APPLICATION OF FUNDS	**50,062**	**51,512**	**53,717**	**57,095**	**60,524**

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT before minority and Share of profits	2,539	2,449	3,171	4,021	4,549
Non-operating & EO items	(245)	(326)	(340)	(507)	(498)
Taxes	(617)	(679)	(837)	(1,367)	(1,547)
Interest expenses	1,459	1,327	1,780	2,191	2,264
Depreciation	597	638	544	596	632
Working Capital Change	151	130	(888)	(1,770)	1,069
OPERATING CASH FLOW (a)	**3,884**	**3,539**	**3,430**	**3,164**	**6,471**
Capex	(1,076)	(316)	(617)	(1,500)	(3,500)
Free cash flow (FCF)	2,808	3,223	2,813	1,664	2,971
Investments	(1,841)	(199)	124	(255)	(288)
Others	467	534	331	507	498
INVESTING CASH FLOW (b)	**(2,451)**	**20**	**(163)**	**(1,248)**	**(3,290)**
Share capital Issuance	-	(582)	(620)	-	-
Debt Issuance	1,964	(40)	1,088	1,000	600
Interest expenses	(2,464)	(2,602)	(2,606)	(2,191)	(2,264)
Dividend	(827)	(232)	(290)	(799)	(799)
FINANCING CASH FLOW (c)	**(1,327)**	**(3,455)**	**(2,428)**	**(1,990)**	**(2,463)**
NET CASH FLOW (a+b+c)	**106**	**103**	**840**	**(74)**	**717**
Closing Cash & Equivalents	1,185	1,468	1,194	1,120	1,838

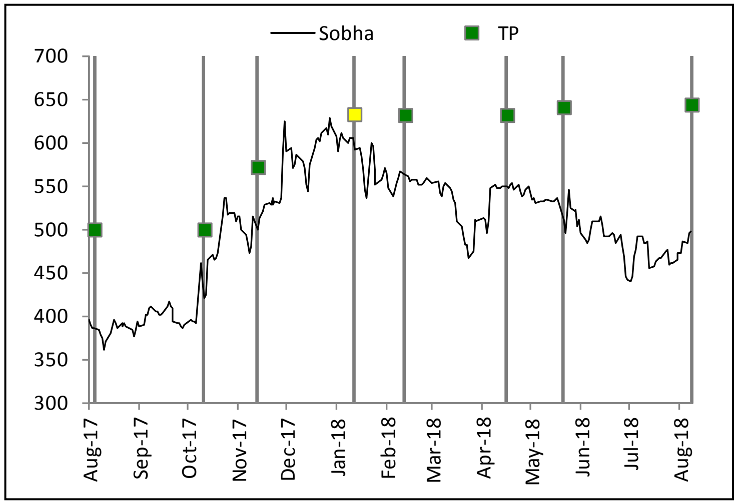
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	47.6	41.3	39.6	38.8	37.8
EBITDA Margin	22.6	18.7	18.6	20.3	20.7
APAT Margin	7.5	7.4	7.8	8.6	9.0
RoE	5.3	5.2	8.0	9.3	9.8
Core RoCE	8.7	7.8	9.9	11.4	11.8
RoCE	5.1	5.3	7.1	7.8	8.1
EFFICIENCY					
Tax Rate (%)	46.8	39.6	31.6	34.0	34.0
Asset Turnover (x)	0.4	0.4	0.5	0.6	0.6
Inventory (days)	652	761	650	636	643
Debtors (days)	49	39	36	43	42
Payables (days)	74	88	98	93	97
Cash Conversion Cycle (days)	627	711	589	587	588
Debt/EBITDA (x)	4.9	5.3	4.5	3.9	3.6
Net D/E	0.8	0.8	0.8	0.8	0.7
Interest Coverage	2.6	2.6	2.6	2.8	3.0
PER SHARE DATA					
EPS (Rs/sh)	15.0	17.3	22.9	28.0	31.7
CEPS (Rs/sh)	21.1	23.9	28.6	34.3	38.3
DPS (Rs/sh)	7.0	2.0	2.5	7.0	7.0
BV (Rs/sh)	261.5	274.6	292.0	311.6	334.8
VALUATION					
P/E	33.0	28.6	21.7	17.7	15.6
P/BV	1.9	1.8	1.7	1.6	1.5
EV/EBITDA	15.6	16.3	13.3	11.1	10.1
OCF/EV (%)	5.6	5.2	5.0	4.5	9.2
FCF/EV (%)	4.1	4.7	4.1	2.4	4.2
FCFE/Market Cap	9.8	6.7	8.3	5.7	7.6
Dividend Yield (%)	1.4	0.4	0.5	1.4	1.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
8-Aug-17	384	BUY	500
11-Oct-17	421	BUY	500
13-Nov-17	500	BUY	572
12-Jan-18	592	NEU	632
13-Feb-18	561	BUY	632
16-Apr-18	550	BUY	632
22-May-18	511	BUY	641
9-Aug-18	495	BUY	644

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:
We, **Parikshit Kandpal, MBA**, and **Kunal Bhandari, ACA**, authors and the names 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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