

INDUSTRY REAL ESTATE

CMP (as on 23 Jan 2019) Rs 440

Target Price Rs 525

Nifty 10,882

Sensex 36,108

KEY STOCK DATA

Bloomberg OBER IN

No. of Shares (mn) 364

MCap (Rs bn) / (\$ mn) 160/2,244

6m avg traded value (Rs mn) 190

STOCK PERFORMANCE (%)

52 Week high / low Rs 610/351

3M 6M 12M

Absolute (%) 11.6 (8.8) (13.8)

Relative (%) 4.9 (7.2) (13.7)

SHAREHOLDING PATTERN (%)

Promoters 67.70

FIs & Local MFs 4.49

FPIs 25.40

Public & Others 2.41

Source : BSE

Parikshit Kandpal

parikshitd.kandpal@hdfcsec.com
+91-22-6171-7317

Kunal Bhandari

kunal.bhandari@hdfcsec.com
+91-22-6639-3035

Weak pre-sales

Coming off a fairly impressive 1HFY19, ORL posted disappointing pre-sales in Goregaon and Worli. Despite Sky City continuing its strong >50 units/qtr performance, pre-sales (including JV) dropped to 0.14mn sqft in 3QFY19 (vs 0.24mn sqft QoQ). Revenue/EBITDA/PAT came 21/38/11% below est.

Real estate sector is facing multiple headwinds with (1) Muted demand in the luxury segment due to high prices, (2) Tightening NBFC liquidity posing completion challenges and (3) RERA hitting mid tier developers which are now staring at potential defaults over next 6M. Inventory liquidation will lead to suppressed prices and impact sector profitability.

Organized players universe is increasing as stressed assets are up for sale/bailout. This shall level ORL brand premium over time. High Capex intensity and lower sales velocity poses near term challenges. A strong balance sheet, a robust execution track record and a mix of Residential/Annuity assets gives us

Financial Summary*

(Rs mn)	3QFY19	3QFY18	YoY	2QFY19	QoQ	FY18	FY19E	FY20E	FY21E
Net Sales	5,286	3,562	48.4	5,921	(10.7)	12,654	25,850	28,265	33,892
EBITDA	1,881	1,926	(2.4)	2,958	(36.4)	6,752	12,048	12,873	15,451
APAT	1,379	1,202	14.7	2,138	(35.5)	4,588	8,335	12,158	14,231
Diluted EPS (Rs)	3.8	3.5	7.1	5.9	(35.5)	13.5	22.9	33.4	39.1
P/E (x)						32.5	19.2	13.2	11.2
EV / EBITDA (x)						24.4	13.5	12.9	10.5
RoE (%)						7.8	11.8	14.1	14.4

Source: Company, HDFC sec Inst Research, * Consolidated

comfort. Maintain BUY with a reduced TP of Rs 525/sh.

Highlights of the quarter

- Pre-sales muted, new launches postponement signals weak demand: 38% drop in pre-sales QoQ and postponement of Goregaon Phase 3 and Thane launch to Sep-19 signal weak demand. ORL attributed it to high existing inventory in Goregaon and Elections.
- Commerz II entirely leased/ Commerz III launch imminent: With rent free period getting over, Commerz II occupancy will move to near 100% (vs 63.7% currently) by Mar-19E. ORL is in advance stages of pre-leasing 20% area in Commerz III and construction should start by early 1QFY20E.
- Near-term outlook: Whilst sectoral headwinds remain, ORL is currently in a re-investing phase on the asset side and a monetization phase in its residential business. Any positive traction in demand will lead to significant re-rating even though the stock may underperform in the near term.

Revenue: Rs 5.3bn (+48% YoY, -11% QoQ, 21% miss, 18% higher on IND AS 115)

EBITDA: Rs 1.9bn (-2% YoY, -36% QoQ, 38% miss).

Margins: 35.6% (vs 54.1% YoY/ 50.0% QoQ)

The dip in margins is majorly on account of higher contribution of Sky City (with higher interest cost and entire land cost loaded in initial towers) vs Goregaon projects earlier (which have much higher margins)

Other Income: Rs 202mn (+385% YoY, -27% QoQ). The YoY increase is on the back of Rs 12bn QIP in Jun-18

APAT: Rs 1.4bn (+14.7% YoY, -35.5% QoQ, 11% miss, 9% higher on IND AS 115)

Average realization stood at Rs 16,407/sqft

Quarterly Financial Snapshot (Consolidated)

Particulars	3QFY19	3QFY18	YoY	2QFY19	QoQ	9MFY19	9MFY18	YoY (%)
Net Sales	5,286	3,562	48.4	5,921	(10.7)	20,090	9,205	118.3
Material Expenses	(2,975)	(1,371)	117.0	(2,574)	15.6	(9,304)	(3,359)	177.0
Employee Expenses	(174)	(150)	16.1	(193)	(10.1)	(553)	(515)	7.3
Other Operating Expenses	(257)	(115)	122.9	(196)	31.0	(777)	(411)	89.0
EBITDA	1,881	1,926	(2.4)	2,958	(36.4)	9,456	4,919	92.2
Interest Cost	(49)	(18)	169.4	(58)	(16.4)	(156)	(50)	213.3
Depreciation	(114)	(122)	(6.5)	(110)	3.7	(330)	(373)	(11.6)
Other Income	202	42	384.9	277	(27.2)	550	187	193.7
PBT	1,920	1,828	5.0	3,067	(37.4)	9,520	4,684	103.3
Tax	(573)	(635)	(9.7)	(940)	(39.0)	(2,963)	(1,550)	91.2
Net Profit	1,347	1,193	12.9	2,127	(36.7)	6,557	3,134	109.2
Share of Profit	32	10	241.1	11	197.2	55	26	115.7
RPAT	1,379	1,202	14.7	2,138	(35.5)	6,612	3,159	109.3
EO items	-	-	0.0	-	0.0	-	-	0.0
APAT	1,379	1,202	14.7	2,138	(35.5)	6,612	3,159	109.3

Source: Company, HDFC sec Inst Research

Margin Analysis (Consolidated)

as % Sales	3QFY19	3QFY18	YoY	2QFY19	QoQ	9MFY19	9MFY18	YoY (bps)
Material Expenses	56.3	38.5	1,779	43.5	1,281	46.3	36.5	982
Employee Expenses	3.3	4.2	(91)	3.3	2	2.8	5.6	(284)
Other Operating Expenses	4.9	3.2	162	3.3	155	3.9	4.5	(60)
EBITDA	35.6	54.1	(1,850)	50.0	(1,438)	47.1	53.4	(637)
Tax Rate	29.8	34.7	(489)	30.6	(80)	31.1	33.1	(197)
Net Margin	26.1	33.8	(766)	36.1	(1,001)	32.9	34.3	(141)

Source: Company, HDFC sec Inst Research

Pre-sales Trend

	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)	9MFY19	9MFY18	YoY (%)
Sales Volume (mn sqft)	0.1	0.2	(3.0)	0.2	(38.3)	0.7	0.4	59.0
Sales Value (Rs mn)	2,416	4,063	(40.5)	5,675	(57.4)	14,326	10,466	36.9
Average Realisation (Rs/sqft)	16,407	26,774	(38.7)	23,781	(31.0)	21,300	24,742	(13.9)

Source: Company, HDFC sec Inst Research

While there were zero sales in the Worli project, the Goregaon projects too witnessed significant dips in pre-sales

Sky City project continued to stand out with 51 units sold (vs 57 units in 2QFY19)

ORL continues to have high unsold inventory (launched) of 4.5mn sqft

Under IND AS 115 recognition of margins on projects will be only once the 'internal thresholds' are met

Enigma/360W is yet to reach margin recognition threshold (targeted during 2QFY20E)

Pre-sales disappoint

- During 3QFY19, the Worli project (Three Sixty West) witnessed nil sales vs 5/4 units being sold during 2Q/1QFY19. There was infact a reversal of Rs 138mn.
- In continuation with 1HFY19 (when the subvention scheme was rolled out), Mulund projects continued to witness better traction in 3QFY19, with 14 flats (vs 15 in 2QFY19) in Eternia and 7 flats (vs 3 in 2QFY19) in Enigma being sold. The Exquisite project, coming off a strong 2QFY19 with 10 units sold, struggled with only 1 unit sold in 3QFY19. Esquire, which offers more choices than Exquisite, also continued to witness a dip in sales from 54/22 units in 1Q/2QFY19 to 12 units in 3QFY19.

The Borivali project continued to stand out with 51 units sold vs 57 units QoQ .

- FY19-20E trend:** Pre-sales will be diversified across different micro-markets and projects. ORL continues to have high unsold inventory (launched) of 4.5mn sqft. The subvention schemes coupled with the improved traction in Sky City has largely driven the sales in 9MFY19.
- Under IND AS 115 recognition of margins on projects will be only once the 'internal thresholds' are met. Enigma/360W is yet to reach margin recognition threshold (targeted during 2QFY20E).

Project Summary: Rs 25.3bn Sales Yet To Be Recognised (excluding 360 West project)

Project	Area (msf)	Area sold as of 3QFY19 (mnsf)	#Inventory as of 3QFY19 (mnsf)	Sales Value (Rs mn)	Average realisation (Rs/sqft)	PoCM (%)	Balance Revenues to be recognised (Rs mn)	Cash to be received (Rs mn)
Oberoi Esquire*	2.1	1.5	0.6	24,564	15,889	100%	-	378
Oberoi Exquisite*	1.5	1.4	0.1	23,510	16,487	100%	-	88
Oberoi 360 West\$	2.3	0.5	1.8	21,356	40,515	<20%	@N.A	10,783
Oberoi Prisma^	0.3	0.2	0.0	4,077	17,576	100%	-	75
Oberoi Eternia&	2.1	0.6	0.4	8,570	14,624	34%	5,650	3,931
Oberoi Enigma&	2.0	0.4	0.7	5,843	14,734	<25%	4,794	2,660
Oberoi Skycity!	4.6	1.5	1.0	24,765	15,999	40%	14,877	11,583
Total	15.0	6.3	4.5	112,685	17,997		25,320	29,497

Source: Company, HDFC sec Inst Research * Goregaon, \$ Worli, ^JVLRL, &Mulund, ! Borivali, # inventory of area opened for sale, @Under IND AS being consolidated below EBITDA as profits from associates

A healthy balance sheet, superior land bank and strong execution capability place ORL in top quartile vs. peers

Enjoying a dominant position

- ORL is best placed amongst its western peers on account of its superior land bank quality, access to finance, healthy balance sheet, and greater potential for a successful foray into newer markets.
- The micro factors are supported by strong execution, quality construction and the management's bandwidth. We have highlighted our findings in the exhibit below to arrive at an overall competitive positioning.

Overall Competitive Positioning Of Real Estate Developers

	Macro* competitive - 30% weight	Business\$ competitive - 25% weight	Land bank & pricing - 20% weight	Balance sheet positioning - 25% weight	Overall	Comments
Oberoi						Top quartile with minimal net debt, higher return ratios and strong cash flows
Godrej						A top quartile on macro competitive, while mid-quartile on all other parameters. High leverage is the key overhang. We rate it mid-quartile
HDIL						Middling in all parameters
Hiranandani						Overall a mid-quartile
Raheja						Middling in all parameters
Sunteck						Overall a mid-quartile on account of low leverage, high return ratios
Wadhwa						Overall a mid-quartile
Kolte Patil						Mid-quartile on all parameters

Source: Company, HDFC sec Inst Research, *Macro – affordability, brand; \$Businesss Competitive – Execution, vendor tie-up, construction quality

- On overall competitive positioning, the top real estate players in the western markets are Oberoi, Godrej, Sunteck and Kolte Patil. However, ORL, with the right mix of an attractive land bank, superior execution capability, branding, balance sheet strength and underlying business fundamentals, remains best poised amongst peers.
- Although their scores differ on these factors, we see limited differences on an overall basis.

We expect ORL to deliver 20.7/23.4% pre-sales growth in FY20/21E respectively

Realization will change depending on the product mix

We have estimated 30.7% APAT CAGR over FY18-20E

Key Assumptions And Estimates

Summary Of Key Assumptions And Estimates

	Estimates			Growth (%)			Comments
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	
Volume assumptions							
Residential (mn sqft)	0.9	1.1	1.3	50.8	20.7	23.4	
Average rate (Rs/sqft)	23,403	26,637	25,669	(8.9)	13.8	(3.6)	
Pre sales value (Rs mn)	20,603	28,304	33,664	37.4	37.4	18.9	Pre-sales momentum to pickup with launches
Rental Income:							
Area for lease (msf)	1.6	1.6	1.6	-	-	-	Oberoi Mall, Commerz and Commerz-II key assets
Average occupancy (%)	95.5	95.5	95.5	1,229	-	-	Occupancy to gradually pick up during FY19E owing to leasing momentum picking up in Commerz-II
Average Rental (Rs/sqft/month)	142	149	156	(1.6)	5.0	5.0	New lease rentals to be in line with re-negotiated lease rentals. Increase in share of office space rentals to reduce average rental/sqft
Rental income (Rs mn)	2,671	2,805	2,945	12.8	5.0	5.0	Lease rentals to pick up on the back of incremental leasing in Commerz-II
Earnings forecast							
Sales real estate (Rs mn)	20,185	22,330	27,674	123.3	10.6	23.9	Borivali, Goregaon and Mulund key revenue drivers. Worli Project will be treated as Profit from associates and will directly add to PAT
Income from hospitality	2,367	2,472	2,582	85.2	4.4	4.4	Income from Westin and Worli hotel to remain stable over FY19-21E.
Annuity assets	3,298	3,463	3,636	41.0	5.0	5.0	Commerz-II lease pick-up is key volume driver.
Total	25,850	28,265	33,892	104.3	9.3	19.9	We await finality on the selection of thresholds for revenue recognition in individual projects
EBIDTA (Rs mn)	12,048	12,873	15,451	78.4	6.8	20.0	13% CAGR for FY19-21E
EBIDTA Margin (%)	46.6	45.5	45.6	(675.2)	(106.4)	4.5	Blended margins to remain in the range of 45-46%
Net interest expense*	233	291	350	240	25	20	
Net Profit	8,261	8,626	10,291	81.5	4.4	19.3	30.7% CAGR for FY18-20E
Profit from Associates	74	3,532	3,939				Contribution from Worli 360W to flow directly as associate profits
Adjusted PAT (Rs mn)	8,335	12,158	14,231	81.7	45.9	17.0	

Source: Company, HDFC sec Inst Research

Cash Flow Forecast

Rs mn	Estimates			Comments
	FY19E	FY20E	FY21E	
Cash Flows Forecast				
CFO - a	1,699	(1,368)	5,256	
CFI - b	(232)	(511)	(575)	
FCF - a+b	1,467	(1,879)	4,680	Free cash flow to remain strong in FY19E
CFF-c	11,299	(971)	(2,234)	FY19E aided by Rs 12.0bn of gross fund raise
Total change in cash - a+b+c	12,766	(2,850)	2,446	

Source: Company, HDFC sec Inst Research

Change in Estimate

Rs mn	FY19E Old	FY19E New	%/ (bps) Change	FY20E Old	FY20E New	%/ (bps) Change
Revenues	28,767	25,850	(10.1)	34,769	28,265	(18.7)
EBIDTA	14,027	12,048	(14.1)	17,276	12,873	(25.5)
EBIDTA Margins (%)	48.8	46.6	(215.3)	49.7	45.5	(414.4)
APAT	9,310	8,335	(10.5)	13,258	12,158	(8.3)
Adj. EPS (INR)	25.6	22.9	(10.5)	36.5	33.4	(8.3)

Source: HDFC sec Inst Research

We have revised our estimate to factor in weak sales momentum across projects in Goregaon and Mulund with Enigma yet to hit margin recognition threshold

We have also factored in weak realization trends and sectoral headwinds impacting pricing

Valuation: Maintain BUY with reduced NAV target of Rs 525/sh

SoTP valuation

- We have adopted the DCF methodology to arrive at ORL's NAV. We value the residential real estate business at Rs 259/sh, hotels at Rs 21/sh, commercial annuity assets at Rs 117/sh, social infrastructure at Rs 9/sh, other assets at Rs 49/sh and net debt at Rs 16/sh to arrive at the total SoTP valuation of Rs 437/sh. We ascribe a NAV premium of 20% and maintain BUY stance with SOTP of Rs 525/sh vs. Rs 543/sh earlier.
- We continue to assign 20% NAV premium to ORL, as we ascribe terminal value factor and benefits of new DP and strategic shift towards volumes driven growth. We have only valued the projects that have visibility over the next five years. For the land bank beyond that period, we ascribe 1x P/BV for invested equity.
- Our valuation also incorporates Glaxo Worli and advances given by ORL to Oasis Worli (360W). Oasis Worli was launched in 1QFY17. The pick-up in sales velocity post the launch will reflect in higher net cash levels that will impact the valuation positively.
- There is some visibility emerging around Glaxo Worli. We estimate about ~1.7mn sq ft of saleable area. Of this, ~1mn sqft will be a retail mall and balance Office/Hotel (a 90 room signature hotel). Mall approvals (Worli and Borivali) are in place, and initial preparatory works have started with a 3QFY21E completion deadline. As of now, we have valued Worli Glaxo on the land value, and have not ascribed any development margins.

Sum Of The Parts

	Rs mn	(Rs/share)	Comments
Gross NAV Residential	93,991	259	DCF-based NAV.
Gross NAV Hotels	7,545	21	8x FY19E EV/EBIDTA
Gross NAV Commercial	42,416	117	DCF-based NAV
Social Infra	3,134	9	Discounting at 12% cap rate viz. school, hospital etc
Other Assets	17,828	49	Oasis Worli advances of Rs 10.5bn valued at Rs 5.8bn. Investments in other projects at 1x P/BV, viz. Sangam city, Juhu hotel etc.
Less: Net Debt	5,909	16	Net debt end FY20E
NAV	159,006	437	
SOTP	206,707	525	At 1.2x NAV. Premium of 20% to factor in the DP gains, Terminal Value

Source: Company, HDFC sec Inst Research

Location	Gross NAV (Rs mn)	Rs/Share
Residential		
Goregaon	19,194	53
JVLR	1,063	3
Worli - Residential	15,457	43
Mulund	11,973	33
Borivali	20,006	55
Thane	26,298	72
Total Residential	93,991	259
Hotels		
Westin Hotel	4,254	12
Worli Hotel	3,291	9
Total Hotel	7,545	21
Commercial		
Commerz-All Phases	28,717	79
Oberoi Mall	9,280	26
Worli Commercial	4,419	12
Total Commercial	42,416	117
Grand Total	143,952	396

Source: Company, HDFC sec Inst Research

Real estate development: NAV calculation methodology

- We have divided ORL's entire land bank into residential/commercial projects (based on the 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 the 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 inflow at the project level has been discounted, based on WACC of 11% (cost of equity 12% based on beta of 0.6x and debt/equity ratio of 0.2x). All the project-level NAVs have been summed up to arrive at the final value of the company.
- For commercial offices, we have discounted rentals using 11% WACC for the forecasted period and terminal value using the cap rate of 11%.
- Social infrastructure created by ORL, viz, school, hospital, etc, have been discounted using a cap rate of 12%.
- Other assets have been valued at 1x P/BV of invested equity.
- From the NAV, we have deducted the net debt/(cash) as of FY19E to arrive at the final valuation of the company.

Our base property price assumption is at a 0-5% premium to the current prevailing prices on account of ORL's brand pull

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 cost of construction to grow at 5%. We forecast other costs including marketing, SGA and employee cost at 5% of sales.

Base Case Assumptions (%)

Discount Rate	11
Annual Rate Of Inflation-Sales Price	5
Annual Rate Of Inflation-Cost Of Construction	5
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 moderate, and at a 0-5% premium to the current prevailing prices on account of ORL's 15-20% brand premium vs. peers.

Base Property Price And Construction Cost Assumptions

Location	Prices Rs/sq ft	Cost Rs/sq ft
Goregaon	16,000	5,500
Worli	40,000	8,500
Mulund	12,500	5,000
JVLR	15,000	5,000
Borivali	12,700	4,500

Source: Company, HDFC sec Inst Research

1% increase in the average base sale price impacts our NAV positively by 3.1%

Every 100bps increase in sales price inflation impacts our NAV positively by 5.3%

100bps increase in cost inputs decreases our NAV by 2.9%

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 made regarding property prices. For every 1% change in the base property prices, the NAV will change by approximately 3.1%.

NAV Sensitivity To Change In Average Sales Price

% change in sale price	(10)	(5)	0	5	10
NAV/share (Rs)	362	444	525	606	687
Change in NAV (%)	(31.0)	(15.5)	-	15.4	30.9

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 5.3%.

NAV Sensitivity To Change In Sales Inflation

Sales inflation rates (%)	3	4	5	6	7
NAV/share (Rs)	475	498	525	553	575
Change in NAV (%)	(9.4)	(5.1)	-	5.3	9.5

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 2.9%.

NAV Sensitivity To Change In Cost Inflation

Cost inflation rates (%)	3	4	5	6	7
NAV/share (Rs)	554	539	525	510	494
Change in NAV (%)	5.5	2.7	-	(2.9)	(5.9)

Source: Company, HDFC sec Inst Research

The combined impact of a 100bps increase in sales price inflation and cost inflation will be a NAV increase of 2.4%.

Sensitivity of NAV to changes in discount rate

- In our base case, we have assumed a discount rate of 11%. For every 100bps increase in the discount rate, the NAV will fall by 4.9%.

NAV Sensitivity To Change In WACC

WACC rates (%)	9	10	11	12	13
NAV/share (Rs)	579	550	525	500	471
Change in NAV (%)	10.4	4.9	-	(4.7)	(10.3)

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	11,137	12,654	25,850	28,265	33,892
Growth (%)	(21.4)	13.6	104.3	9.3	19.9
Material Expenses	4,372	4,679	12,641	14,177	16,983
Employee Expenses	642	672	776	791	949
Other Operating Expenses	423	551	386	424	508
EBIDTA	5,701	6,752	12,048	12,873	15,451
EBIDTA (%)	51.2	53.4	46.6	45.5	45.6
EBIDTA Growth (%)	(15.7)	18.4	78.4	6.8	20.0
Other Income	473	266	741	620	581
Depreciation	495	491	454	564	607
EBIT	5,679	6,527	12,335	12,928	15,425
Interest	56	69	233	291	350
PBT	5,623	6,459	12,102	12,637	15,075
Tax	1,868	1,907	3,841	4,010	4,784
PAT	3,754	4,551	8,261	8,626	10,291
Minority Interest	-	-	-	-	-
Profit from associates	31	36	74	3,532	3,939
EO Items	0				
APAT	3,786	4,588	8,335	12,158	14,231
APAT Growth (%)	(13.1)	21.2	81.7	45.9	17.0
EPS	11.2	13.5	22.9	33.4	39.1
EPS Growth (%)	(13.1)	21.2	69.6	45.9	17.0

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	3,393	3,396	3,636	3,636	3,636
Reserves	53,864	57,528	77,135	88,583	101,981
Total Shareholders Funds	57,257	60,924	80,771	92,219	105,617
Minority Interest	-	-	-	-	-
Long Term Debt	7,494	6,786	6,796	6,811	6,311
Short Term Debt	1,193	10,154	10,165	10,182	9,630
Total Debt	8,686	16,941	16,962	16,993	15,941
Deferred Taxes	(997)	(1,087)	(1,087)	(1,087)	(1,087)
Long Term Provisions & Others	799	1,153	1,153	1,153	1,268
TOTAL SOURCES OF FUNDS	65,745	77,930	97,798	109,278	121,738
APPLICATION OF FUNDS					
Net Block	2,297	2,088	1,752	1,438	1,081
CWIP	1,095	1,125	1,181	1,240	1,302
Goodwill	-	-	-	-	-
Investment Property	7,154	7,677	7,754	7,832	7,910
Other Non Current Assets	1,490	1,503	1,503	1,503	1,653
Investments, LT Loans & Advances	18,243.0	24,066	24,787	25,531	26,297
Inventories	37,664	42,467	44,451	59,605	68,624
Debtors	1,058	1,813	1,902	2,121	2,519
Cash & Equivalents	3,517	1,167	13,933	11,085	13,530
ST Loans & Advances, Others	11,087	18,884	20,134	21,484	22,934
Total Current Assets	53,325	64,331	80,421	94,294	107,606
Creditors	17,780	22,817	19,558	22,517	24,068
Other Current Liabilities & Provns	79	43	43	43	43
Total Current Liabilities	17,859	22,860	19,600	22,559	24,111
Net Current Assets	35,466	41,472	60,821	71,735	83,495
Misc Expenses & Others	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	65,745	77,930	97,798	109,278	121,738

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT before minority	5,623	6,459	12,176	16,169	19,015
Non-operating income & EO items	(361)	(230)	(741)	(620)	(581)
Taxes	(1,825)	(1,997)	(3,841)	(4,010)	(4,784)
Interest expenses	718	69	233	291	350
Depreciation	495	491	454	564	607
Working Capital Change	(2,845)	(8,014)	(6,583)	(13,762)	(9,350)
OPERATING CASH FLOW (a)	1,805	(3,223)	1,699	(1,368)	5,256
Capex	(763)	(311)	(174)	(309)	(312)
Free cash flow (FCF)	1,042	(3,534)	1,525	(1,677)	4,944
Investments	82	(6,346)	(799)	(821)	(844)
Others	(3,709)	266	741	620	581
INVESTING CASH FLOW (b)	(4,389)	(6,391)	(232)	(511)	(575)
Share capital Issuance	0	3	12,000	-	-
Debt Issuance	3,880	8,254	21	31.6	(1,052)
Interest expenses	(525)	(69)	(233)	(291)	(350)
Dividend	0	(924)	(488)	(711)	(832)
FINANCING CASH FLOW (c)	3,356	7,265	11,299	(971)	(2,234)
NET CASH FLOW (a+b+c)	771	(2,350)	12,766	(2,850)	2,446
Non-operating and EO items					
Closing Cash & Equivalents	3,517	1,167	13,933	11,085	13,530

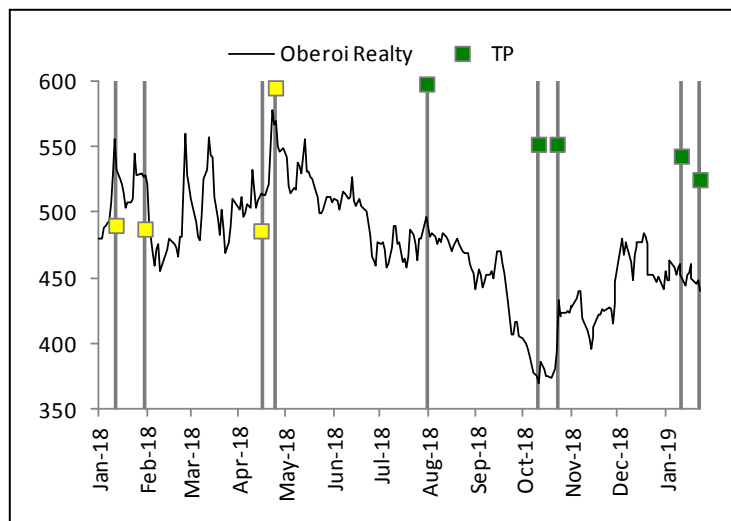
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	60.7	63.0	51.1	49.8	49.9
EBITDA Margin	51.2	51.2	46.6	45.5	45.6
APAT Margin	34.0	36.3	32.2	43.0	42.0
RoE	6.8	7.8	11.8	14.1	14.4
Core RoCE	13.6	13.6	22.2	25.0	25.1
RoCE	12.6	13.0	19.6	21.0	21.6
EFFICIENCY					
Tax Rate (%)	33.2	29.5	31.7	31.7	31.7
Asset Turnover (x)	0.2	0.2	0.4	0.3	0.4
Inventory (days)	1,164	1,156	614	672	690
Debtors (days)	36	41	26	26	25
Payables (days)	555	585	299	272	251
Cash Conversion Cycle (days)	645	612	341	426	465
Debt/EBITDA (x)	1.5	2.5	1.4	1.3	1.0
Net D/E	0.1	0.3	0.0	0.1	0.0
Interest Coverage	102	95	53	44	44
PER SHARE DATA					
EPS (Rs/sh)	11.2	13.5	22.9	33.4	39.1
CEPS (Rs/sh)	12.6	15.0	24.2	35.0	40.8
DPS (Rs/sh)	0.0	0.7	2.6	3.2	3.5
BV (Rs/sh)	168.7	179.6	222.1	253.6	290.5
VALUATION					
P/E	39.4	32.5	19.2	13.2	11.2
P/BV	2.6	2.5	2.0	1.7	1.5
EV/EBITDA	27.1	24.4	13.5	12.9	10.5
OCF/EV (%)	0.0	(0.0)	0.0	(0.0)	0.0
FCF/EV (%)	0.7	(2.1)	0.9	(1.0)	3.0
Dividend Yield (%)	0.0	0.2	0.6	0.7	0.8

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
12-Jan-18	533	NEU	490
1-Feb-18	529	NEU	487
16-Apr-18	514	NEU	486
26-Apr-18	569	NEU	594
31-Jul-18	496	BUY	598
11-Oct-18	375	BUY	552
23-Oct-18	395	BUY	552
11-Jan-19	460	BUY	543
23-Jan-19	440	BUY	525

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 & 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.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts 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 HSL 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. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

