Initiating Coverage

JANUARY 14, 2019

Stock Details

Market cap (Rs mn)	:	13268
52-wk Hi/Lo (Rs)	:	522 / 185
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	131,482
Shares o/s (mn)	:	54

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	49,312	57,513	64,083
Growth (%)	27.0	16.6	11.4
EBITDA	3,459	3,853	4,229
EBITDA margin (%)	7.0	6.7	6.6
PAT	1,080	1,242	1,524
EPS	19.9	22.8	28.0
EPS Growth (%)	25.2	14.9	22.7
BV (Rs/share)	192	213	238
Dividend/share (Rs)	2.0	2.0	2.0
ROE (%)	10.8	11.3	12.4
ROCE (%)	11.8	12.5	13.1
P/E (x)	12.2	10.6	8.6
EV/EBITDA (x)	6.2	5.5	5.0
P/BV (x)	1.3	1.1	1.0

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	62.9	62.9	62.9
FII	1.3	1.4	1.2
DII	2.3	0	0
Others	33.4	35.7	35.7

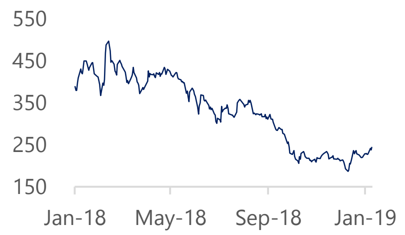
Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Surya Roshni Ltd	26.5	18.7	(27.8)
Nifty	1.2	5.0	(0.3)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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SURYA ROSHNI LTD (SURL)

PRICE RS.242 | **TARGET RS.328** | **BUY**

We initiate coverage on Surya Roshni Ltd (SURL) with 'BUY' rating and a target price of Rs328 based on SOTP (Sum of the parts) valuation methodology. We believe that SURL valuations can get rerated on back of 1/ potential demerger of company's consumer electrical and steel pipes business 2/ strong growth in company's estimated consolidated profits through FY18-20E driven by a/ meaningful growth in fans & consumer appliance segments supported by improved penetration on the current lower base b/ stability in LED prices c/ recovery in the pipes business driven by improved public spending in infrastructure. We project c.18.7% CAGR between FY18-20 in consolidated profits from Rs.1.08 bn in FY18 to Rs 1.5 bn in FY20E, expect improved return ratios and balance sheet strengthening-building a case for stock re-rating. At current price of Rs 242, SURL stock is trading attractive -at 5x EV/EBITDA and 8.6x P/E on FY20E earnings.

Key Investment Arguments

India's Long-Term lighting/consumer appliances Story – Stays strong

Data from ELCOMA shows that the lighting industry in India has been on the rise and would maintain growth at 16% CAGR between FY15-20. This transition has been driven by 1/ a swift change in technology globally towards cost/power efficient LED based solutions, 2/ increased affordability of LED bulbs, 3/ international mandate to arrest global warming 4/ massive government programs through EESL (Energy Efficiency Services Ltd) focused on changing street lights/commercial buildings light to LED and 5/ rural electrification augmenting demand in areas which were not present ever before.

Second largest player in Indian Lighting Industry with dominating presence in tier-ii/iii cities and rural areas

The company commands strong market positioning in tier ii/iii cities and rural India driven by its extensive reach across length & breadth of India. We tend to believe that Surya Roshni would likely outpace the industry growth, as tier ii/iii and rural parts of India are expected to remain buyout in the near to medium term. Various welfare schemes, introduced by the Indian government and rural electrification drive could potentially benefit company's operations going ahead.

Consumer Durable segment offers enormous potential to SURL

Leveraging on its strong brand equity, SURL has also entered into consumer durable (CD) market in the fans (Domestic' & Industrial) category in FY14. Commendably, in a short period of four years it could gain No. 6 position in the fan market.

Despite intense competition from the domestic and international players, we believe that SURL has enough space to grow in this category, given large market potential and very little organized sector presence.

Extensive distribution network across India

The company has a strong distribution reach spread across India. Distribution franchise includes a wide network of over 2500 distributors and 2.5 lakh country wide retailers. This facilitates the company in rapidly scaling-up of new product into the market.

Recovery in steel pipes division; company likely to benefit from its marquee 'Prakash Surya' brand

SURL has over four decades of presence and owns 'Prakash Surya' brand in the steel pipe industry. The company holds leadership position in ERW and Spiral API grade pipes which are used in transportation of oil and natural gas, city gas distribution, oil exploration, water pipeline etc.

We believe that the sophisticated manufacturing base and vast distribution network (with 70% of product sold through dealers network) makes SURL a unique play.

Exports contributes to c.20% of Steel Pipes division revenues. While it has presence in more than 50 countries, it holds indomitable position in the GCC countries backed by 'Prakash Surya' Brand.

High growth in revenue/PAT to flow into FY19/FY20; recovery in core business likely to aid to free cash flow generation

We project growth at 13.9% CAGR between FY18-20 in revenues from Rs.49.3 bn in FY18 to Rs. 64 bn in FY20E.

We believe that the higher proportion of steel pipes sales would lead to margin contraction over FY19/20. Note that this trend does not speak adverse about company's business as steel pipes business attracts lower margin than the lighting/CD business. In our projections, we build EBITDA margin at 6.7% and 6.6% in FY19E and FY20E respectively against 7% in FY18.

In our projections, we build increased debt in FY19 (and subsequently reduction in FY20) driven by the increased working capital need in the pipe business. Note that our debt forecast does not include the advantages that can flow from channel financing.

Rerating ahead- Conglomerate discount should get narrowed with the demerger of consumers and steel pipes business

As per management, though at the nascent stage, company has been exploring the potential benefits/opportunities that can be achieved by the demerger of these two unrelated business. We believe that the corporate action would likely provide an enhanced focus on both the businesses and narrow the valuation gap of the B2C business vis-à-vis peer group.

Attractive valuation; Initiate coverage on the SURL stock with BUY rating and a SOTP based target price of Rs 328

At current price of Rs 242, SURL stock is trading at attractive valuation- EV/EBITDA 5 x (sharp discount to peer group, discussed later in this report). Going forward, we assume that the discount to the peer group would likely get bridged on back of 1/ improvement in company's profitability and 2/ potential de-merger of the two businesses.

We arrive at SOTP based target price of Rs 328 (implying 36% upside from current levels) and recommend 'BUY' on SURL stock.

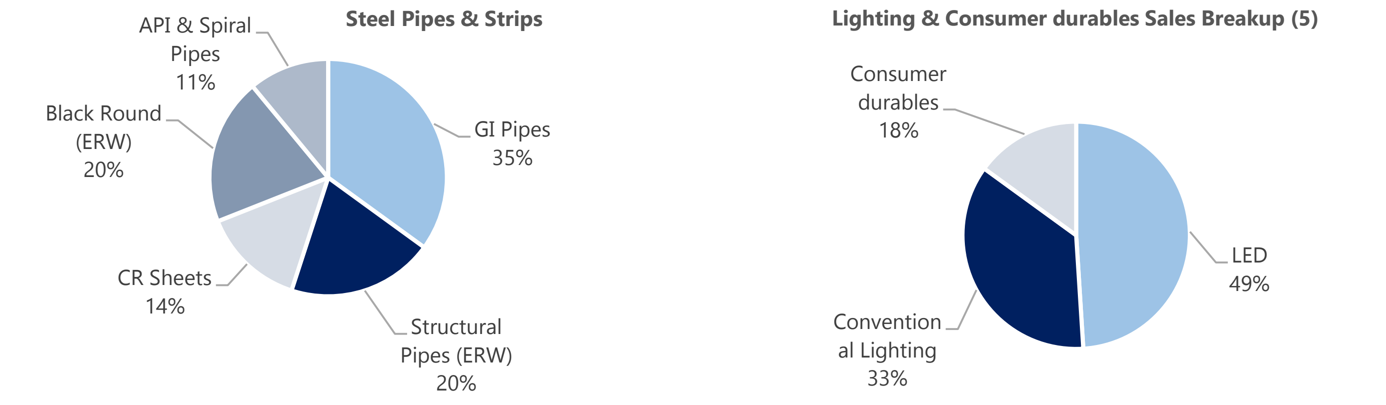
Key Concerns; 1/ fluctuation in input price can likely have a diminishing effect on company's margins (mainly in pipes business) 2/ company has been trying to revamp its brand image in the urban areas to target the youth population in the premium segment. A weaker branding initiative can potentially disrupt company's growth plans.

COMPANY BACKGROUND

SURL (estd. 1973), founded by Mr J.P Agarwal, is a manufacturing company with business interest aligned broadly divided into two areas- Lighting and Steel pipes. Under Lighting, the Company offers a wide range of lighting products- from GLS, CFL, Luminaries to LEDs and luminaries. Company also operates its fans and appliances business where it offers several models of fans and kitchen appliances. Consumer appliances includes a range of products - Mixer Grinders, Juicer Mixer Grinders, Induction Cooktops, Toasters, Dry Irons, Steam Irons, Water Heaters and Air Coolers, Glass Cooktops etc.

The Company's lighting manufacturing units are located in Uttarakhand and Madhya Pradesh. While company manufactures an array of pipes, it has been the largest manufacturer of ERW-GI pipes in India. The company's pipe manufacturing units are located in Haryana, Gujarat, Andhra Pradesh and Madhya Pradesh. SURL has a wide presence across the length and breadth of India along with considerable overseas presence spread across 50 countries. The merger of its associate company Surya Global (with effect from 1st April 2016) has boosted company's position in the industry.

Product wise Revenue Breakup-2018



Source: Company

Lighting & consumer durables business key details

<table>
<tr><th></th><th colspan="2">FY17</th><th colspan="2">FY18</th></tr>
<tr><td>Sales Rs mn</td><td colspan="2">12822</td><td colspan="2">13833</td></tr>
<tr><td>LED y/y (%)</td><td colspan="2">77%</td><td colspan="2">45%</td></tr>
<tr><td>Plant Locations</td><td colspan="2">Kashipur (Utrakhand)</td><td>Gwalior (M.P)</td><td>Noida (NCR)</td></tr>
<tr><td>Unit Set up</td><td colspan="2">1984</td><td>1992</td><td>2012</td></tr>
<tr><td>Products</td><td colspan="4">Manufacturing of LED lights (Lamps, Street lights, Down-Lighters, Pannels, Lumanaries etc). Conventional lights (GLS, FTL, CFL, HID) and Fan & Home appliances. Company ranked as 6th in the Fans Industry.</td></tr>
<tr><td>Exports</td><td colspan="4">To more then 40 Countries including Middle East and U.K (GE,Osram & Tungsram</td></tr>
<tr><td>Marketing Network</td><td colspan="4">Over 2500 Dealers and 2,50,000 Countrywide Retailers across PAN India</td></tr>
<tr><td>Raw materials Suppliers</td><td colspan="4">Hindalco, Tata , Reliance, Nichia, Mitsui, Foshan Nationstar, Dongguan, Glass Bond, MLS etc</td></tr>
<tr><td colspan="5">SRL – Production Capacity mn (Per annum)</td></tr>
<tr><td>LED Bulbs</td><td>LED Street Lights</td><td colspan="2">LED Tubes & Fittings</td><td>GLS</td></tr>
<tr><td>90</td><td>3.6</td><td colspan="2">10</td><td>200</td></tr>
</table>

Source: Company

Steel Pipes & Strips business key details

	FY17		FY18	
Sales Rs mn	26049		35545	
Value Increase (%)	13%		36%	
Volume Growth (%)	7%		20%	
Plant Locations	**Bahadurgarh (Haryana)**	**Malanpur (M.P)**	**Hindupur (A.P)**	**Anjar – (Bhuj- - Gujarat)**
Unit Setup	1973	2010	2017	2010
Products	ERW Steel pipes (GI Black, Hollow section) Spiral, API, 3LPE coated & CR sheets			
Exports	More than 50 countries (UAE, Australia, Egypt, EU, Canada, US etc.)			
Marketing Network	Over 250 Dealers and 21,000 Retailers (B2C-70%)			
Raw materials Suppliers	SAIL, JSW Steel, Hindustan Zinc, Tata Steel, Essar Steel, Posco, Angang, Sngang, Zaporzhstal etc			
Production Capacity	**Particular**		**Capacity**	
(MT Per annum)	ERW Pipes (including GI-2,50,000 MT)		9,00,000	
	CR Sheets		1,15,000.00	
	Spiral		2,00,000.00	
	3LPE coating		External: 1,850,000 sq mtr. Internal: 1,100,000 sq mtr	

Source: Company

KEY INVESTMENT ARGUMENTS

India's Long-Term lighting/consumer appliances Story – Stays strong

Data from ELCOMA shows that the Indian lighting industry has been on the rise and would maintain growth at 16% CAGR between FY15-20.

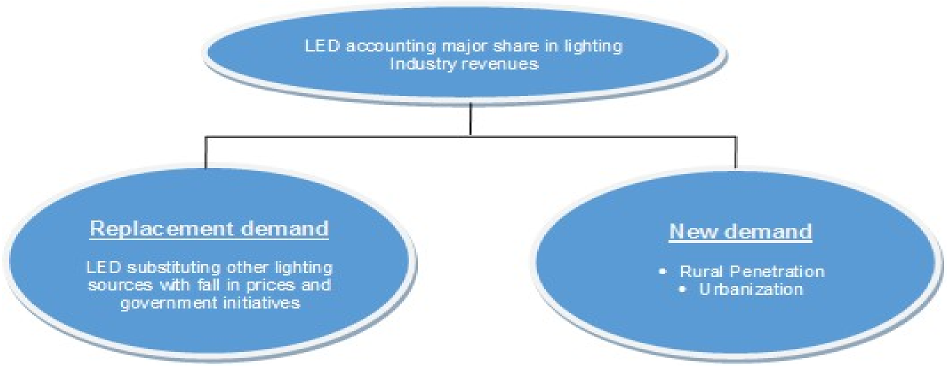
Growing at an exceptional rate (20% CAGR between FY18-20) to reach Rs 224 bn by FY20, Light Emitting Diode (LED) is now the dominant lighting technology across all applications. Other technologies that are still present (although declining) are Fluorescent Lighting (FTL and CFL) incandescent bulb and High Intensity Discharge (HID) lamps.

The conventional lighting (including CFL), on other hand has been on a decline mode since four years. The market is currently going through a demand shift from CFL to LED bulbs. The lower margin CFL bulbs now form a small percentage of the category.

Further, LED lighting costs/prices have continued to drop across all applications, leading to higher uptake from consumers. Street lighting and LED lamps market- the demand has particularly been stimulated by EESL programs, enabling wider penetration for lamps and consolidated sourcing for streetlights.

LED bulbs and LED based Luminaires, over the years have evolved and now constitutes more than 60% of the category turnover. This transition has been driven by 1/ a swift change in technology globally towards cost/power efficient LED based solutions, 2/ decline in average prices of LED, 3/ international mandate to arrest global warming (emission standards) 4/ massive government programs through EESL (Energy Efficiency Services Ltd) focusing on changing street lights/commercial buildings to LED and 5/ rural electrification creating demand in area which were never present before.

LED DRIVERS



Source: Industry, Kotak Securities – Private Client Research

Company's LED product portfolio includes professional luminaires like streetlights, floodlights, downlights, spotlight and panels apart from the existing portfolio of LED bulbs, luminaires and tubelights.

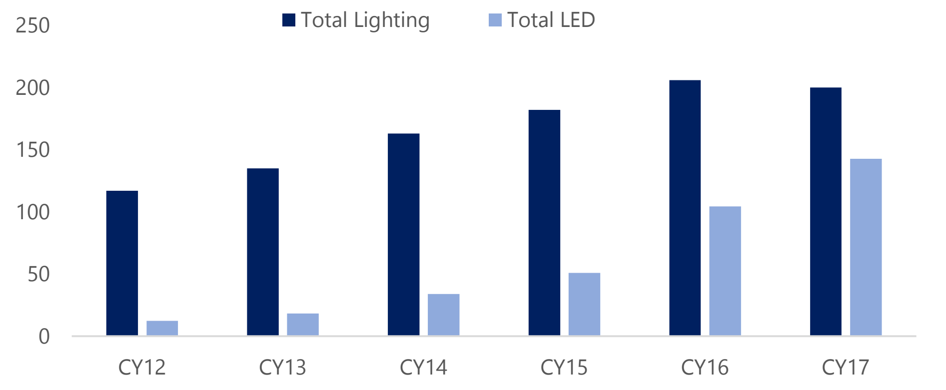
The major players in this category includes established brands (Indian and overseas) viz. Phillips, Surya Roshni, Bajaj Electricals, Crompton Greaves consumers electrical company limited, Havells, Syska LED, Wipro etc.

…..Indian Government has been promoting energy efficient procurement - a key driver of LED penetration

Approximately 300 mn units of LED have been sourced by EESL in last few years. Additionally, various government schemes have been introduced post 2014 to boost LED implementation in India. Major schemes are DDUGJY (Deen Dayal

Upadhyaya Gram Jyoti Yojana)-improve electrical supply in rural India, Bijli Har Ghar Yojana (Saubhagya) -to electrify 40 million families in rural and urban areas and Unnat Jyoti - affordable LED for all (UJALA) through EESL, DELP (Domestic Efficient Lighting Programme), Street Light National Programme (SLNP).

Indian Lighting Industry trend (Rs bn)



Source: Company, Kotak Securities – Private Client Research

Various government schemes launched to increase LED penetration in India.

Domestic Efficient Lighting Programme (DELP)

Domestic consumers account for 25-27% of the total electricity demand in India. GoI (Government of India) wishes to promote efficient lighting in the household sector in order to reduce electricity consumption by around 50 billion kWh every year at the national level. For this, GoI plans to replace incandescent lamps, which are mostly used in households, with LED lamps.

According to GoI, around 770 million units would have to be replaced by March 2019. From 2015 onwards, the government has started to make available LEDs at a significantly subsidized cost and differed payments in installments adjusted in monthly electricity bills.

Street Light National Programme (SLNP)

SLNP was launched to replace street lights with energy efficient lighting options. Targeting 100 cities initially, GoI aims to replace 35 million units of street lighting points with LEDs by March 2019. Expected to push LED sales, further enriching the lighting industry's prospects going ahead.

Increasing awareness drives for LED lighting

In order to tackle the power deficit crisis, India aims to save energy by implementing energy-efficient technologies. Many LED conclaves have been conducted in various cities across India. Also, the Ministry of Power has appropriately used media to increase awareness on energy-efficient lighting solutions.

…..progression in urban and rural housing bids long term growth potential for LED

Growth in the urban and rural housing is likely to drive demand for electric lighting over the next five years. Semi-urban and rural housing projects are expected to get a boost owing to increasing government investments in the medium term. Apart from government assistance under the Ministry of Housing and Urban Poverty Alleviation (MHUPA), urban housing will be driven by a change in demographic patterns and increase in the number of nuclear families. Smart cities mission, aims to provide funds for energy efficient ecosystem in 98 cities across the country and improved standard of living shall also boost demand for decorative lightings in the urban areas.

We also believe that the reasons for growing popularity of LED/luminaries also include changing preferences (increasing bias towards branded products) and lifestyle patters in India. The growing awareness among consumers and better design availability is shifting consumer preference, thus driving the LED market growth.

Further, low penetration of LEDs/sustainable electricity supply in India would provide significant opportunity to the industry players to expand sales and volume led margins. Growing number of households in the budget segment along with increasing disposable income would result in sustainable growth going ahead.

…share of informal (unorganized) players expected to descend on implementation of GST and e-way bill

Domestic market comprises of innumerable small, unorganized players (generally rated low on quality metrics) who meet close to 40% of the total demand. The organized segment is fairly consolidated with top six players accounting for about 70% of the organized market. We believe that the two pragmatic events that have happened in FY18 are – 1/ implementation of GST and 2/ the e-way bill. The electrical and lighting industry is expected to extensively benefit from these moves. The price differential between the branded and unbranded products is expected to narrow down, leading to a demand shift from unorganized to organized sector.

Absence of strict quality issues in the lighting industry offered unorganized sector to flourish in the initial phase of growth. However, with increasing penetration of LED lighting, standardization and reliability issues have been rapidly gaining prominence. As per the study conducted by Nielson across major metro cities in India, 71% of LED brands across 200 electrical retail outlets were found to be non-compliant with consumer safety standards, as prescribed and mandated for lighting products by the Bureau of Indian Standards (BIS) and the Union Ministry of Electronics and Information Technology. In the next four to five years, we believe that, with enhanced focus on compliance and quality, leading players like Phillips, Surya Roshni, Bajaj Electricals and Havells would emerge as the ultimate beneficiaries.

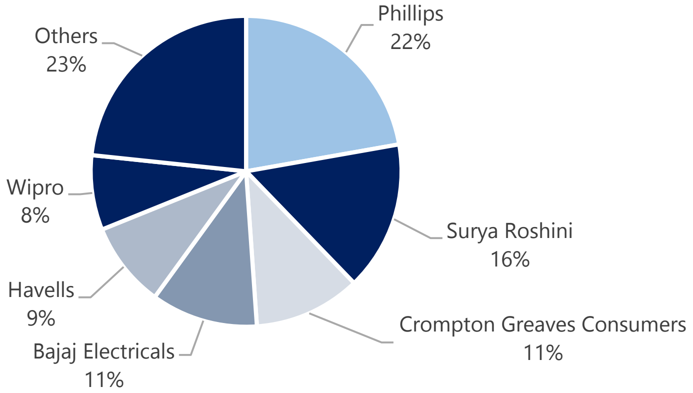
…..however competitive landscape intensifying in lighting industry due to lower entry barriers

Driven by relatively low entry barriers, India has witnessed emergence of numerous electric lighting players in the last seven years-both in organized and unorganized space. The unorganized players often have regional presence with little manufacturing capability. These players largely depend on imports from China.

Despite top six players accounting for c.70% of the overall organized market in lighting, the competition in the segment remains steep due to commoditized nature of the product. The market continues to be highly price sensitive. Although strong brands perform better than others, pricing has remained constrained due to huge competition within the organized as well as unorganized segments.

Phillips is the market leader with c.22% market share in the lighting space followed by SURL with c.16% market share (over 20% market share in conventional lighting). We believe that Bajaj Electricals, which enjoys a dominating position as well, has lost some market share over the last three years due to ongoing restructuring in its distribution strategy (theory of constraint based distribution franchise).

Market Share-Indian lighting industry



Source: Company, Industry

Competition Matrix

Ranking	Fans	Lighting	Appliances
1	Crompton	Phillips	Bajaj Electricals
2	Orient	Surya Roshni	Phillips
3	Havells	Crompton Greaves Consumers	Usha
4	Bajaj Electricals	Havells	Havells
5	USHA	Bajaj Electricals	Crompton

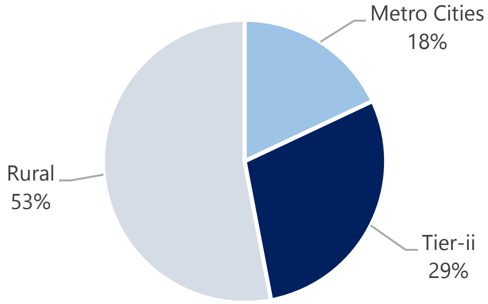
Source: Kotak Securities – Private Client Research

Second largest player in Indian Lighting Industry with dominating presence in tier-ii/iii cities and rural areas

Between FY15-18, SURL has made radical changes in its lighting portfolio-replacing CFL sales by LED based solutions. It commendably achieved exponential growth in volumes to compensate for falling LED prices. Company has also taken initiatives to enhance its lighting product portfolio and launched premium LED lighting range of LED-down lighters, battens, lamps, street sights, flood lights and decorative luminaires.

Our interaction with industry players suggests that 'Surya' holds a strong brand positioning in the tier ii/iii areas. On back of the restructuring measures undertaken, SURL has fought back its market share which it had lost in the initial era of LED evolution. SURL is the second largest player in the Indian Lighting Industry with14% market share. For SURL c.82% of lighting sales is derived from the rural/tier ii areas.

Urban/Semi Urban Revenue mix



Source: Company

We tend to believe that Surya Roshni is favouably placed vis-à-vis other players, as meaningful growth is expected in tier ii/iii and rural parts of India (discussed above-various rural welfare schemes recently introduced by the Indian government and rural electrification drive could potentially benefit company's operations going ahead).

...reasonable presence in the EESL space

EESL has been the other area, where company has marked its selective presence. Currently 4 million Street Lights have been replaced in which SURL contributed 1.2 million. The Street Light segment is going to play a very important role in giving a very high surge to LED business in India.

Consumer Durable segment offers enormous potential to SURL

Over the past few years, major electrical companies have diversified into consumer durables space- mainly fans and kitchen appliances categories. Success story of Havells has attracted other players' viz. V-Guard, Eveready Industries, Polycabs and most recently Finolex Cables. Having met with the initial success, the move has been driving the new phase of growth for these companies.

Electrical fans have been one area which has caught attention of almost all of these players. As per the industry participants, the Indian electrical fan industry grew at a CAGR of 9% during 2009-18 to reach c. Rs 65 bn currently. Demand for electric fans in India is largely met locally. Imports account for 8-10% of the total share, mainly from China (85% share in the exports pie). Largely rganized brands command 75% cumulative market share.

Similar to the lighting industry, urban/ semi-urban areas typically account for replacement demand for electric fans, whereas rural areas (including suburbs) forms the new market. As per our understanding, the average life of a fan in Indian market conditions is around ten years and replacement market accounts for c.65% of industry sales. New demand, on the other hand is a function of increase in housing activities, urbanization and rural penetration.

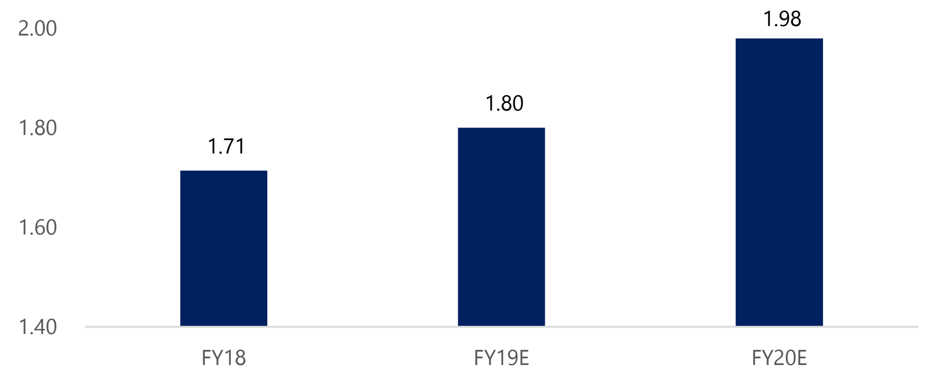
We note that, the growth was primarily led by volumes in the last few years as pricing in the economy segment was virtually capped, severed by fierce competition. Our interaction with various industry participants suggests that the industry would likely observe some moderation over the next five years due to higher base and improved fan penetration vis-à-vis FY09-18 period.

…however branded players are expected to gain market share from the organized sector due to GST

Industry expects the share of organized sector to expand clocking a healthy CAGR of 7-8% over FY18-22 at the expense of the unorganized players. Consequently, the organized segment's share is expected to increase to reach 85% in the next five years (Source: Industry).

Another trend that has been emerging rapidly is the outsourcing of the manufacturing activities by large players (rather is building/expanding capacities) to the smaller players especially by the new entrants' viz. Eveready. Industrial demand for electrical fans is also expected to increase with the government's focus on manufacturing sector with schemes like Make in India.

Fans division revenue trend (Rs bn)



Source: Kotak Securities – Private Client Research

Leveraging on its strong brand equity and distribution network, SURL has also entered into consumer durable (CD) market in the fans (Domestic' & Industrial) category in FY14. Commendably in a short period of four years it could gain relevant position in the fan market. Following the market trend, it kept innovating and launched a wide category of designer and colourful ceiling, pedestal & wall mounting fans. SURL achieved sales of Rs. 1.7 bn during FY18 in the fans division.

Additionally, company has benefited from supplying CR sheets to the fan manufacturers. Appliances (and fans) uses CR sheets in the manufacturing of motors, stamping & blade etc.

SURL has been deploying resources for creating a Pan-India distribution network in CD category. Besides, company also plans to leverage its presence in all modern format stores and E-commerce platforms. Within the CD division, 'Fans' is the largest segment, accounting for 80% of CD and 13% of the overall B2C sales of the company.

….new product launches to boost CD revenue growth

Our interaction with various industry stakeholders suggests that the premiumization/new product launches of fans has been driving the industry margins currently and the trend is expected to gain further grounds going ahead.

SURL has been expanding its base in this category by launching new variants including energy efficient fans, plated fans, Kids fans and under-lite fans. With enhanced market penetration, management expect consumer appliances division to grow at 13-15% CAGR over the next five years.

We note that small home appliances category still has a low level of penetration in India. Key players like Havells, Crompton Greaves consumers have almost been consistently growing at 15-17% since past several years. Growing disposable income with Indian households and evolving lifestyle patterns in India is leading to shift in preference for premium products.

…other consumer durable (OCD) segment could grow by leveraging existing distribution channel

In FY15 company expanded its CD portfolio to include other contemporary electrical appliances (mainly brown goods) like- Water Heaters, Room Heaters, Dry Irons, Steam Irons and Immersion Heater and Kitchen appliances like Mixer Grinder, Induction Cookers, Toasters etc. SURL OCD division (ex-fans consumer durables) is still sub-par with sales at Rs. 450 mn in FY18 for it being a late entrant.

We believe that despite intensifying competition from domestic and international players, market would remain attractive due to demand shifting towards branded products. In line with successful players, we believe that the company could potentially mine its distribution channel to penetrate deeper into the OCD space. With mid-range positioning and a relatively strong franchise in rural/tier ii(iii) cities, we believe that SURL can potentially emerge as a dominant player in this segment in the long term.

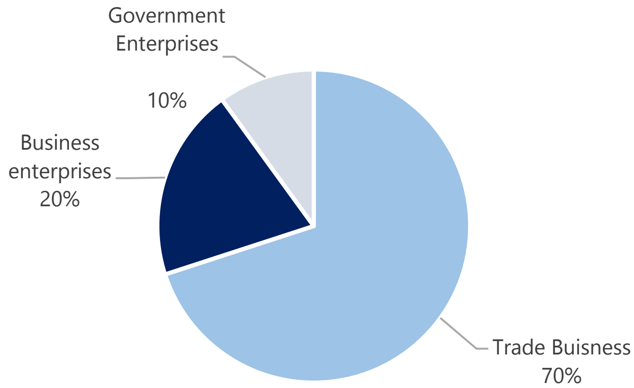
Key consumer appliances

Source: Company

Extensive distribution network spread across India

SURL distribution franchise spreads across India with a network of over 2500 distributors and 2.5 lakh countrywide retailers. Company has a long-lasting relationship with channel partners (c.50% of B2C channel partners have 5+ years of association with the company) driven by attractive dealer rewarding programs. Primary network is supported by a strong secondary sales network, which promotes effective communication/feedback mechanism with the market. This enables the company to rapidly scale-up its presence in new product categories.

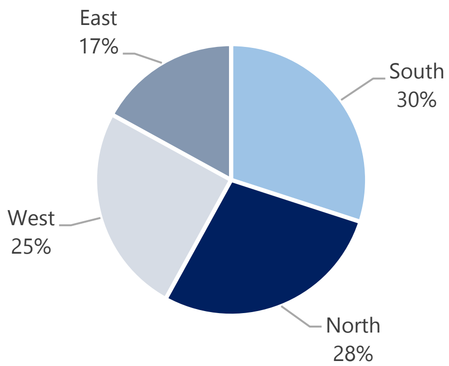
Channel wise sales composition



Source: Company, Kotak Securities – Private Client Research

SURL has leadership positioning in various states such as- AP, Telegana, Madhya Pradesh, Chhattisgarh, Uttar Pradesh and Jharkhand. It also has a dominant position in Karnataka, Delhi, Maharashtra, Bihar, Rajasthan and Uttaranchal. It has an undisputed dominant positioning in the tier ii/rural areas (discussed above).

Revenue breakup by region



Source: Company, Kotak Securities – Private Client Research

Recovery in steel pipes division; company to benefit from its marquee 'Prakash Surya' brand

Steel pipes demand (viz. tubes, pipes, API, 3LPE coated pipes, HR coil, hollow section, CR sheets) is mainly driven by the growth/ spending in the infrastructure activities- shipping, aviation, housing, roads & highways, power and oil & gas industry. Steel tube and pipe industry has witnessed pickup public spending in infrastructure projects and other sectors viz. oil & gas transportation and city gas distribution etc. Recovery in the global economy has also supported the demand in the last few years.

Steel pipes industry mainly comprises of-seamless, SAW, ERW pipes, galvanized pipes, steel sections and steel panels. India has evolved as the leading ERW steel tubes manufacturing hub in the world with the domestic demand levels of c.10 MTPA.

Following the acute five-year decline between FY11-16 (due to prolonged period of inactivity in infrastructure sector and wide demand supply gap due to fallen prices of inventory), Indian pipe industry turned positive in 2016. We detail the key factors below that have ensured industry wide revival.

- The National Steel Policy 2017 provides a long term vision for the sector and will boost the Steel sector as government targets steel capacities to 300 Million MT by 2030 as against present capacity of 128 Million MT.
- New Exploration Licensing policy (NELP) and Hydrocarbon Exploration Policy (HELP), has emphasized on maximizing the domestic exploration of oil and gas to attain self-sufficiency. We believe that this auger well for company's business as it would entail huge capital expenditure of over Rs 2.3 trillion through FY17-20 by major Hydrocarbon companies thereby generating amplified demand for company's products.
- The Govt. of India stipulated 15% value addition in India in bidding for projects above Rs. 500 mn which provides level playing field to domestic manufacturer.
- The Unified Gas Policy thrusts on City Gas Distribution projects, laying of new Oil and Gas pipe lines, exploration of new gas fields and increase in crude prices generating huge demand of API pipes. SURL, will be benefited as these pipes can be manufactured at Anjar and Bahadurgarh Plants.
- Increase of spent on infrastructure projects, project of linking of rivers across the country, affordable housing, and smart city development shall boost the demand for steel pipes.
- The auctioning of NPA Companies through NCLT shall stop unwarranted competition and improve the margins of the Company.

Sector side demand drivers

Sector	Demand drivers
Oil & Gas	Rapid rise in the demand for energy has been key to drive the growth of steel tubes and pipes. India will have a natural gas pipeline grid of 30,000 km that will connect the consumption centers of fuels sources by 2017, Out of which 12,000 kms of gas pipelines and another 12,000 km of oil pipelines is to be constructed.
Shipping and Port	At present there are 187 minor and 13 major ports in India which translates into c.1 billion TPA capacity. Indian port sector has been in expansion mode since last few years.
Rural Infrastructure	The Government of India adopted several initiatives and programmes to ensure rural sector growth. It has set massive target for the rural development including- Rs 250 bn for the Rural Infrastructure Development Fund (RIFD).
Housing for All 2022 Mission	In the Union Budget of 2015 Government has announced the scheme of housing for all by 2022, besides various incentives to buy and build homes. It has also set up a mission of low cost affordable housing. These schemes by the government will definitely create a demand for steel pipes and tubes.
Roads & Highways	Rise in population and development in rural and urban economy has created demand for surface transport infrastructure. The Union government approved several projects under Bharatmala & NHDP programme.
Urbanization	Urban India contributes to around 63% of India's GDP, which is expected to rise to 75% by 2030-31. About 31% of India's population is estimated to be living in urban areas; this proportion is likely to rise to 49% by 2031, creating increased real estate demand and indirectly add to steel pipes demand.
Sanitization	Swatch Bharat Abhiyaan is the lead program of the Government i.e. need for sanitations in all houses. Government is planning ""Swatch Bharat Abhiyan" to cover every household with sanitation facility by the year 2019.

Source: Kotak Securities – Private Client Research, Industry sources

…distribution channel accounts for 70% of company's steel pipes sales

At first sight, steel pipe business might appear to be a B2B franchise in nature. However, we highlight that the company (unlike peer group like-APL Apollo, Ratnamani Metals) derives 70% of its pipes sales through B2C format-sold mainly in the hardware shops).

Company's brand is backed by extensive distribution network which includes- 250 dealers and 21,000 retailers. Company's client base includes prominent OEM manufacturers.

…supported by the positive trends in the overseas markets…

Steel pipes and tube manufacturing has been one of the rapidly growing industries across the globe. Other countries that manufactures steel pipes and tubes include China, Turkey, Italy and the US.

Demand driver includes- increased consumption in housing, infrastructure construction, automobile and energy sectors. The Indian steel tubes and pipes are preferred across the globe for their superior quality as well as low-costs and geographical advantage.

The Company exports to over 50 countries globally, across the Middle East, Europe, Africa and Asia. Exports accounts for nearly 20% of pipes segment revenues with GI pipes being the major export product for the company. As per management, India's more than 70% of ERW-GI pipes export is shipped by the company.

Further, export demand for Steel pipes is expected to remain strong over the near term on account of Infrastructure Development for Dubai Expo 2020 and 2022 FIFA World Cup in Qatar.

…SURL offers wide product range in pipes segment backed by unswerving brand strength

SURL has over four decades of presence and owns robust brand (under 'Prakash Surya' brand) in the steel pipe industry. In India, it is the largest GI pipe manufacturer and a prominent ERW pipe manufacturer with installed capacity of 900,000 MT per annum (manufactures ERW pipes from OD ½" to 16" as per various national & international specifications). It also manufactures (CR Sheets) Cold Rolled sheets (installed capacity is 115,000 MT per annum). It has Spiral pipe manufacturing units with installed capacity of 200,000 (including offline of 140000 MT).

Key Products-Steel Pipes

Source: Company

Also, the company has recently commenced operations at 3 LPE coated pipes facility (capacity of 1.85 mn sq mt for external coating and 1.1 mn for internal coating of ERW/Spiral pipes). This would also lead to the increased capacity utilization of its API/spiral pipes. Company has been observing a robust demand for API pipes which are used mainly in oil and gas sector, oil transportation, city gas distribution, water pipelines etc.

…SURL to benefit from its strategic plant locations

The Company's ERW pipe manufacturing plant and Cold rolling strip mill are located at Bahadurgarh, (NCR) and Gwalior (M.P.). Domestic ERW pipe industry is expected to grow at c.8-10% CAGR through FY18-21 and the current market size is estimated at USD 5 bn.

SURL merged its associate company SGSTL in 2016 having manufacturing facility in Anjar (Gujarat) in proximity to India's two major ports-Kandla and Mundra. Company has proficiently leveraged its strategic location to make significant inroads into exports market.

To further enhance its reach and product offering, SURL has set up a new M.S. Black and GI pipe manufacturing unit in Hindupur, (AP). The Hindupur plant is situated in the premium market of South India. The plant enables the company to save on logistic cost, increase market reach and also reduce its dependence on Bahadurgarh plant. The plant has played a vital role in strengthening company's overall position in the steel pipes industry.

…'Prakash Surya' a marquee brand in Indian steel pipe Industry

SURL steel pipe brand 'Prakash Surya' enjoys strong positioning in the Indian and overseas (mainly Middle East) markets. Competition varies across pipe categories. With 3 LPE capacity at Anjar coming on- stream, SURL is not only expected to save on coating cost but is also likely to gain market share in API and spiral space.

Competition matrix- pipe division

Pipe Category	Major Competitor(s)	SURL Strategy	Remark
GI Pipes	Jindal Saw	Market leader with 35% market share	India's 70% ERW-GI Pipes exports are shipped by SURL
Structural Pipes	APL Apollo	Company eyeing to increase market share	Started in FY15, SURL aspires to become a dominant player in this space
CR Sheets	Tata Steel, Bhushan Steel, JSW, Essar, SAIL	Prominent player-NCR	SURL to focus on increasing efficiency in this segment
API 3LPE	Jindal Saw, Maharashtra Seamless, Ratnamani, Welspun	SURL focus would be to gain presence in the value added segments	Primary market is Oil & Gas, SURL tends to gain from coating facility
Spiral	Welspun	3LPE capacity to benefit Spiral segment as well	Capacity utilization expected to increase from current 55% levels in next two/three years

Source: Company, Kotak Securities – Private Client Research

…'make in India effect' to boost domestic steel pipes manufacturing

Ministry of Steel, tenders have recently included the clause of minimum 15% domestic value addition. Similarly, tenders arising from the Ministry of Petroleum & Natural Gas have a PPLC (Purchase Preference with Local Content) of minimum 20% for Indian suppliers. This has helped to curb international competition, especially from our Chinese counterparts and has greatly improved industry's profitability.

High growth in revenue/PAT to flow into FY19/FY20; recovery in the core business likely to aid to free cash flow generation

We project growth at 13.9% CAGR between FY18-20 in revenues from Rs.49.3 bn in FY18 to Rs 64 bn in FY20E on back of 1/ sustained (volume led and stable price) growth in lighting division, 2/ exponential growth in the consumer appliance segment supported by deeper penetration and lower base 3/ improving demand in pipes business.

Key Assumptions

Within the consumer revenue stream, we expect consumer appliances division to grow at 12.4% CAGR, lighting at 12.1% CAGR and pipes business to grow at 14.5% CAGR over FY18-20. We note that the fans/consumer durable business reported flat y/y growth in FY18 due to one off factors related to the restructuring of product portfolio/business strategy.

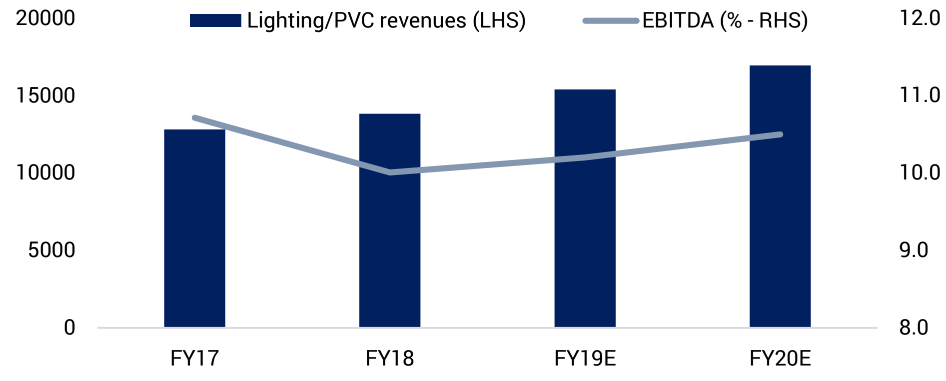
SURL, however is poised to report y/y growth in fans/CD business driven by new product launches and premiumization drive. We also believe that company's strong presence in the buyout semi-urban and rural areas would benefit, (especially in near/medium term) on back of augmented welfare schemes in the election year, due in May-19.

…LED prices have started to stabilize after a significant fall in last two years; volumes likely to drive margins in the lighting segment

Bears might argue that the increased competition in the LED space could keep on exerting the downward pressure on the LED prices. We, however take comfort from the price stability reported in the recent EESL contracts (LED prices stable at Rs 44-48 per bulb). We highlight that the price of LED bulbs have corrected beyond CFL bulbs (for government contracts) now and industry players believe that unhealthy competition has come down off late. Moreover, price erosion had been more rampant in the LED bulbs and street lighting space which accounts c.80% of LED demand. Other LED solutions like LED tube-light/luminaries have remained relatively resilient to rapid price erosion.

Further in the lighting business, management (and the Industry) believes that the LED price erosion trend has started to fade out and volumes would drive the overall revenues/profitability for the Industry. In our estimates, we build margin contraction/bottoming out in the LED business in FY19E and expect recovery from 2HFY19-FY20E onwards.

Lighting Revenue trend (Rs mn)



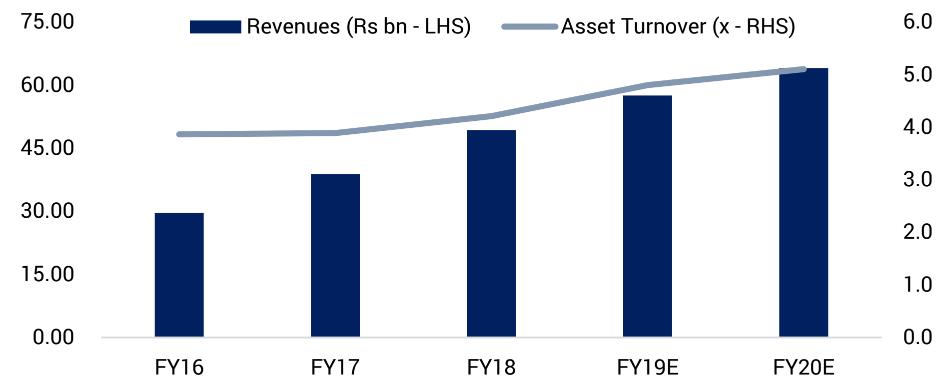
Source: Company, Kotak Securities – Private Client Research

Lighting/PVC pipes margin trend

(Rs mn)	FY17	FY18	FY19E	FY20E
Lighting	**10291**	**11301**	**12381**	**14217**
y/y %		**9.8**	**10.2**	**14.8**
LED	4538	6829	9561	12238
y/y %		50.5	40.0	28.0
Conventional	5753	4472	2820	1980
y/y %		(22.3)	(36.9)	(29.8)
Consumer Durables	**2148**	**2153**	**2370**	**2722**
y/y %		0.2	10.1	14.8
Fans	1713	1714	1800	1980
y/y %		0.1	5.0	10.0
Home Appliances	435	439	571	742
y/y %		0.9	30.0	30.0
PVC-Pipe Fitting	**384**	**377**	**440**	**500**
y/y %		(1.8)	16.7	13.6

Source: Company, Kotak Securities – Private Client Research

SURL Revenue Trend



Source: Company, Kotak Securities – Private Client Research

Unlike some of the other brown goods players, SURL has strategized on the in-house manufacturing of most of the product lines in the lighting segment. This provides an enhanced control on the quality aspects. Further, in the INR depreciating environment, we believe SURL would turn out to be more competitive in the LED space where imports form an integral part for the peer group. The trend has been confirmed especially over the last two quarters, where companies like Crompton Greaves have highlighted the need of increased indigenization.

..Steel pipes business expected to show strong traction over FY19/20

We project revenue growth at 14.5% CAGR between FY18-20 in the pipes business from Rs.35.5 bn in FY18 to Rs 46.6 bn in FY20E on back of 1) ongoing recovery in demand for pipes in the domestic/international market, 2) protectionist attitude of the Indian government, augers well for the domestic manufacturers. We note that pipes sales volume across major product categories have been gaining traction over the last few quarters.

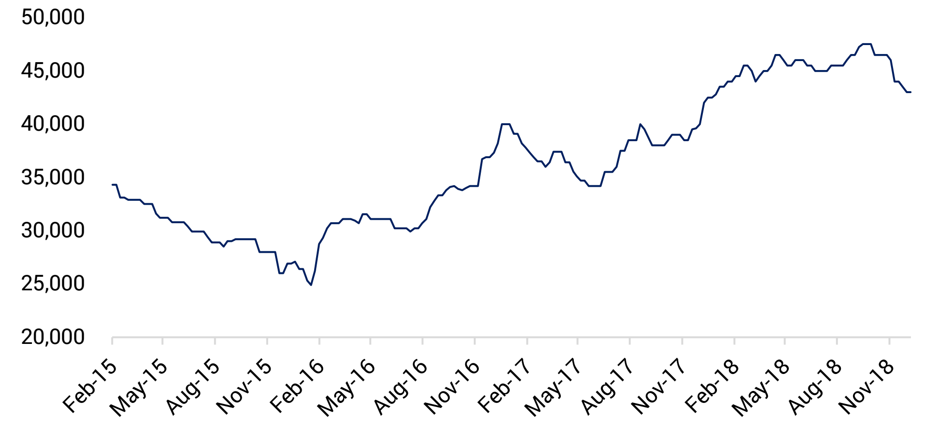
SURL has also demonstrated its ability to maintain margins in the steel pipe business. Blended EBITDA/MT is expected to improve over FY19/20 driven by API, CR sheets and structural pipes divisions.

In our estimates, we build EBITDA/MT at Rs 3000 and c.Rs 3100 for FY19 and FY20 respectively (reported EBITDA/tonne in Q2FY19 at Rs 2967). We expect the company to be able to deliver volumes at 8 lakh and 8.6 lakh MT in FY19 and FY20 respectively (considering full operations at Hindupur unit).

We highlight that the overseas business constitutes to nearly 15% of company's pipes business. We do not anticipate major shift in the revenue mix going ahead. We also expect that the company would protect its margin on back of its ability to pass on the input price inflation. Delivery period across pipe categories ranges from one to six months.

We are encouraged by the company's ability to protect margin across most of the pipes categories in 1HFY19.

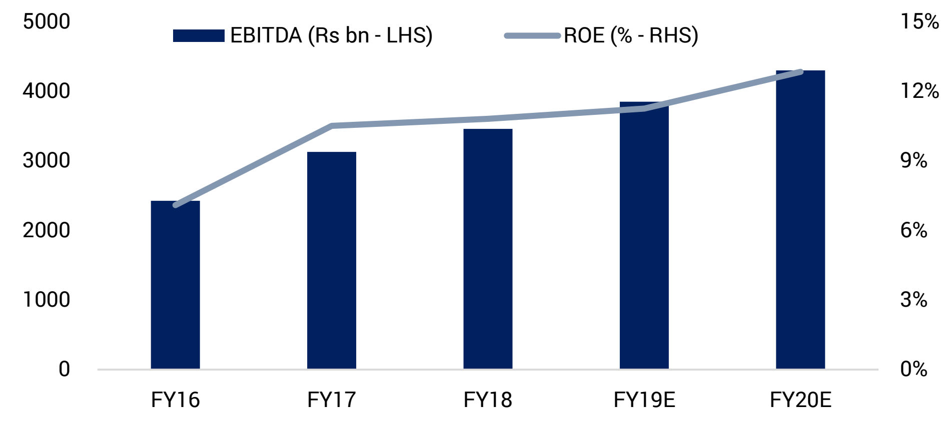
HRC prices (Rs/ton)



Source: Industry

We believe that the higher proportion of steel pipes sales would lead to margin contraction over FY19/20. Note that this trend does not speak adverse about company's business as steel pipes business attracts lower margin than the lighting/CD business. In our projections, we build EBITDA margin at 6.7% and 6.6% in FY19E and FY20E respectively against 7% in FY18.

EBITDA Trend



Source: Company, Kotak Securities – Private Client Research

Company would maintain capex at Rs 600 mn-700 mn per year over FY19/20. We project ROE of c.13.1% in FY20 vis-à-vis 11.8% in FY18.

…. expect borrowings to peak out and coverage ratio to improve over FY19/20

In our projections, we build increased debt in FY19 (and subsequently reduction in FY20) driven by the increased working capital need in the pipe business. We estimate interest expense at Rs 11.5 bn and Rs 11 bn in FY19 and FY20 respectively. Note that our debt forecast does not include the advantages that can flow from channel financing.

We project moderate reduction in working capital form 84 days in FY18 to 79 days in FY20 with inventory/debtors at c.61/53 days in FY18 to 61/51 days in FY20.

SURL Working capital

(Rs mn)	FY18	FY19E	FY20E
Net Working capital (non-cash)	11291	13210	13910
Net Working capital (non-cash) in days	84	84	79
Current Assets	17210	20169	21595
Inventory	8286	9769	10534
inventory days	61	62	60
Sundry Debtors	7126	8351	8778
Debtors days	53	53	50
Other current assets	1798	2048	2282
Cash	247	115	101
Current liabilities	5919	6959	7685
Sundry creditors	4086	4885	5408
in days	39	40	40
other current liabilities	1523	1764	1968
in days	12	12	12
provisions	310	310	310

Source: Kotak Securities - Private Client Research

Rerating ahead- Conglomerate discount should get narrowed with the demerger of consumers and steel pipes business

Typically, consumer durables companies trade at a much premium valuations vis-à-vis steel pipe companies due to the higher capital efficiency, better return ratios and lower capital requirements.

Similar company in the listed space is Bajaj Electricals, having two (diverse) verticals-1/ Consumer appliances & lighting and 2/ E&P business. Table below exhibits the peer discounts for these companies (a higher conglomerate discount, in our opinion despite significant run up in Bajaj Electricals stock price in last one year).

SURL management has recognized the need of having two separate entities- having a precise focus and dedicated bandwidth for both the lighting/consumer durable and pipes business. *As per management, though at the nascent stage, company has been exploring the potential benefits/opportunities that can arise following the demerger of these two unrelated business.*

We believe that the corporate action would likely provide an enhanced focus on both the businesses and finally lead to the re-rating of company's stock.

Peer group comparison

Peer Valuation	Sales Rs mn			EBITDA (%)			PAT			EV/EBITDA (x)			P/E (x)		
	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Havells India**	82,690	97,037	111,440	12.9	12.9	13.3	6,490	8,471	10,142	36.0	33.2	28.0	65.7	51.0	42.4
Crompton Greaves Consumer**	40,800	46,800	53,740	12.7	12.7	13.1	3,238	3,739	4,593	26.0	24.1	20.3	40.0	38.7	31.6
Symphony**	7,980	9,810	12,265	26.6	20.5	21.7	1,926	1,614	2,133	41.0	38.7	29.3		49.9	38.0
Eveready Industries India Ltd*	14,563	15,316	16,943	7.2	9.0	10.0	546	786	1,140	14.8	11.3	9.2	25.3	17.6	12.1
Bajaj Electricals*	47,075	59,110	66,722	6.2	7.0	7.7	1,730	1,991	2,588	19.7	15.1	11.3	29.5	28.3	19.7
Surya Roshini*	49,312	54,203	59,720	7.0	7.1	7.2	1,080	1,242	1,578	6.0	5.4	4.9	11.7	10.2	8.0
Whirlpool of India Ltd**	49,850	55,410	64,630	9.2	12.0	12.4	3,507	4,298	5,211	32.4	25.2	20.9	54.8	40.9	33.7
Pipe companies															
APL Apollo**	51,020	66,878	77,755	6.2	6.4	6.7	1,600	1,780	2,332	10.1	8.8	7.2	19.1	16.9	12.2
Maharashtra Seamless*	21,497	28,282	35,170	14.5	20.5	21.4	2,001	3,724	4,838	9.7	5.2	4.0	15.7	8.5	6.5
Ratnamani Metals**	17,900	22,655	26,253	11.7	16.5	17.7	1,518	2,039	2,509	14.6	12.0	9.6	25.8	21.5	17.6

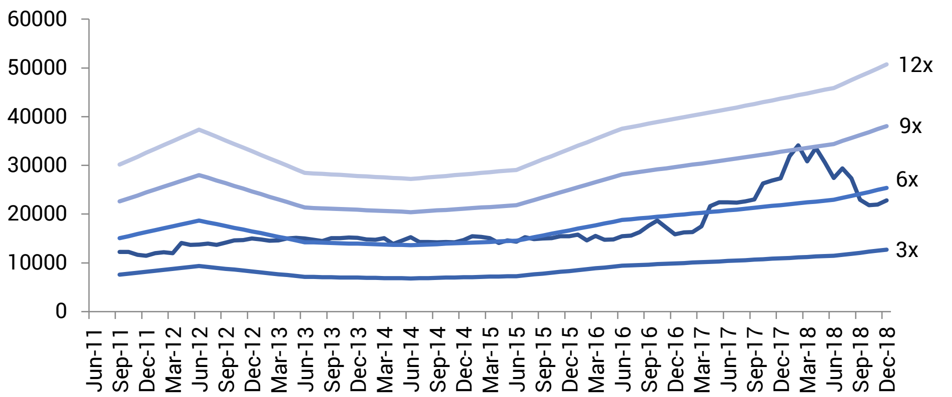
*Source: Kotak-PCG Research, * Kotak PCG-Research Estimates ** Bloomberg Consensus estimate*

Attractive valuation on relative basis; Initiate coverage on the SURL stock with BUY rating and a SOTP based target price of Rs 328

At current price of Rs 242, SURL stock is trading at attractive valuation- EV/EBITDA 5 x (sharp discount to peer group, refer above table).

To compute our SOTP based target, we used the multiples for the peers by division (listed in the table above) as per Kotak-PCG/ Bloomberg consensus estimates. While we acknowledge that a conglomerate discount is warranted (as inferred in the table), we highlight that the implied upside remains attractive. We value SURL using SOTP valuation methodology- ascribe EV/EBITDA of 14x (in line with PER ascribed to Bajaj Electricals, c. 15% discount to Crompton Greaves consumers limited) to the lighting business and 6x (in line with peer group, c.15% discount to Maharashtra Seamless) to the steel pipe business.

EV/EBITDA



Source: Kotak Securities – Private Client Research

Going forward, we assume that the discount to the peer group would likely get bridged on back of 1/ improvement in company's profitability 2/ potential de-merger of the two businesses.

Valuation Summary

(Rs mn)	FY20E
EBITDA (Lighting/CD)	1796
Target EV/EBITDA (Lighting/CD)	14.0
Target EV (Lighting/CD) (a)	**25147**
EBITDA (Steel Pipes)	2516
Target EV/EBITDA (Steel Pipes)	6.0
Target EV (Steel Pipes)(b)	**15098**
Target EV (SURL) (a+b)	**40245**
Less Debt	10714
Add Cash	247
Implied Market Capitalization	29777
Conglomerate Discount @40%	11911
Target Market Capitalization	**17866**
Target price per share (SURL)	**328**

Source: Kotak-PCG Research

We arrive at SOTP based target price of Rs 328 (implying 36% upside from current levels) and recommend 'BUY' on SURL stock.

Key Concerns

1/SURL future growth depends on its success in home appliances segment, which is highly competitive and has been dominated by few strong brands like Havells, Crompton Consumers etc. Delays in new product launches and establishing credible name in this space could pose threat to our investment thesis 2/ fluctuation in input price can likely have a diminishing effect on company's margins (mainly in pipes business) 3/ company has been trying to revamp its brand image in the urban areas to target the youth population in the premium segment. A weak branding initiative can potentially disrupt company's growth plans.

ANNEXURES

Annexure 1: GI (Galvanized Iron) pipes

GI (Galvanized Iron) pipes are class of pipes used in a variety of applications as well as industries. Galvanization is a process in which iron or steel is coated with a layer of zinc to protect them from corrosion or rusting. Pure iron is very ductile and contains no carbon. The metal zinc lasts long and helps to increase the life of iron or steel. Galvanized Iron pipes and steel are used in most of the structural applications and come with a layer of zinc to give 100% protection from rusting. These pipes and tubes come in numerous sizes and shapes according to the specific requirements of the customers.

Features of Galvanized Iron pipes

- Higher durability
- Easier welding
- Anti-rust coating and superb finish
- Enhanced resistance to corrosion
- Enriched quality standards

Annexure 2: Types of Oil & Gas Pipelines

1/ Gathering Pipelines

Gathering pipelines are used to deliver the oil or gas product from the source to processing plants or storage tanks. These are commonly fed by 'Flowlines', each connected to individual wells in the ground. Additionally, subsea pipes used for collecting product from deep water production platforms are included in this category.

Typical products carried by gathering pipelines include; natural gas, crude oil (or combinations of these 2 products), natural gas liquids, such as ethane, butane and propane. In a gathering pipeline, raw gas is usually carried at pressures of approximately 715 psi.

Compared to other pipelines, lengths in this category are relatively short – approximately 200 metres long. They are typically much smaller than transmission pipelines, usually under 18" diameter (but for crude oil typically 2 – 8")

2/ Transmission Pipeline

Transmission pipelines are used to transport crude oil, NGLs, natural gas and refined products for long distances across states, countries and continents.

They are used to move the product from the production regions to distribution centers, Transmission pipelines operate at high pressures, ranging from 200 up to 1,200 psi, with each transmission line using compressor stations (for gas lines) and pump stations (for crude oil and liquid products).These large pipes are up to 42" diameter, with most being more than 10" diameter.

3/ Distribution pipelines

Distribution pipelines are a system made up of 'mains' and 'service' lines, used by distribution companies. These are categorized between high-pressure transmission lines and low-pressure service lines. Made of steel, cast iron, plastic and copper, pressures can vary and go up to c.200psi.

4/ Flowlines

Flowlines carry a mixture of oil, gas, water and sand and are normally no more than 12” diameter in size. Regular maintenance helps to prevent small leaks from increasing in volume over time.

5/ FEEDER PIPELINES

Feeder pipelines are used to move the product from processing facilities and storage tanks to the long-distance transmission pipelines. The product may be crude oil, natural gas or natural gas liquids. Feeder lines are typically 6 to 12” diameter.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Revenues	**49,312**	**57,513**	**64,083**	**69,209**
% change y/y	27.0	16.6	11.4	8.0
EBITDA	3,459	3,853	4,229	4,845
% change y/y	10.5	11.4	9.8	14.5
Depreciation	873	880	885	910
EBIT	**2,586**	**2,973**	**3,344**	**3,935**
% change y/y	12.7	15.0	12.5	17.6
Net Interest	1,052	1,150	1,100	1,050
Earnings Before Tax	**1,561**	**1,853**	**2,274**	**2,885**
% change y/y	32.8	18.7	22.7	26.8
Tax	481	612	751	952
as % of EBT	30.8	33.0	33.0	33.0
XO Items	-	-	-	-
Recurring PAT	**1,080**	**1,242**	**1,524**	**1,933**
% change y/y	25.2	14.9	22.7	26.8
Shares outstanding (m)	54.4	54.4	54.4	54.4
EPS (Rs)	19.9	22.8	28.0	35.5
DPS (Rs)	2.0	2.0	2.0	2.1
CEPS	35.9	39.0	44.3	52.2

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
Cash and cash equivalents	247	115	101	192
Accounts receivable	7,126	8,351	8,778	9,481
Inventories	8286	9769	10534	11377
Other current assets	8,286	9,769	10,534	11,377
Current Assets	**17,210**	**20,169**	**21,595**	**23,133**
Net fixed assets	10,719	11,319	11,819	12,319
Investments	-	-	-	-
Other non-current assets	380	380	380	380
Total Assets	**28,556**	**31,983**	**33,895**	**36,024**
Debt	10,714	12,000	11,800	11,500
Equity & reserves	10,473	11,575	12,960	14,884
Other liabilities	1,450	1,450	1,450	1,450
Current Liabilities	**5,919**	**6,959**	**7,685**	**8,190**
Total Liabilities	**28,556**	**31,983**	**33,895**	**36,024**
BVPS (Rs)	192	213	238	274

Source: Company, Kotak Securities – Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY18	FY19E	FY20E	FY21E
PBT	**1,561**	**1,853**	**2,274**	**2,885**
Depreciation	873	880	885	910
Current liabilities incl provisions	794	1,040	727	505
Increase in inventory	(1,736)	(1,484)	(765)	(843)
Increase in sundry Debtors	(808)	(1,225)	(427)	(702)
Increase in advances	-	-	-	-
Tax Paid	(481)	(612)	(751)	(952)
Other Adjustments	23	(259)	(241)	(2)
Net cash from operations	**227**	**194**	**1,702**	**1,801**
(Inc)/Dec in Fixed Assets	(471)	(1,480)	(1,385)	(1,410)
Net investments	-	-	-	-
Net cash from investing	**(471)**	**(1,480)**	**(1,385)**	**(1,410)**
Change in Borrowings	401	1,286	(200)	(300)
Dividend Paid	(132)	(132)	(132)	(139)
Net Cash from financing	**269**	**1,154**	**(332)**	**(299)**
Net Cash Flow	24	(132)	(15)	92
Cash at the end of year	**247**	**115**	**101**	**192**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY18	FY19E	FY20E	FY21E
EBITDA margin (%)	7.0	6.7	6.6	7.0
EBIT margin (%)	5.2	5.2	5.2	5.7
Net profit margin (%)	2.2	2.2	2.4	2.8
Receivables (days)	52.7	53.0	50.0	50.0
Inventory (days)	61.3	62.0	60.0	60.0
Sales / Net Fixed Assets (x)	4.2	4.8	5.1	5.3
Interest coverage (x)	2.5	2.6	3.0	3.7
Debt/ equity ratio	1.0	1.0	0.9	0.8
ROE (%)	10.8	11.3	12.4	13.9
ROCE (%)	11.8	12.5	13.1	14.6
EV/ Sales	0.4	0.4	0.3	0.3
EV/EBITDA	6.2	5.5	5.0	4.4
Price to earnings (P/E)	12.2	10.6	8.6	6.8
Price to book value (P/B)	1.3	1.1	1.0	0.9
Price to cash earnings	6.7	6.2	5.5	4.6

Source: Company, Kotak Securities – Private Client Research

Rating Scale

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	–	We expect the stock to deliver negative returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	**Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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