

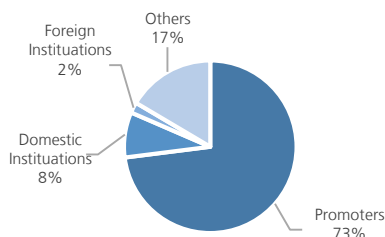
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Stock details

BSE code	: 500710
NSE code	: AKZOINDIA
Market cap (Rs bn)	: 83
Free float (%)	: 27
52-wk Hi/Lo (Rs)	: 2090/1465
Avg. daily volume	: 12940
Shares o/s (m)	: 46.7

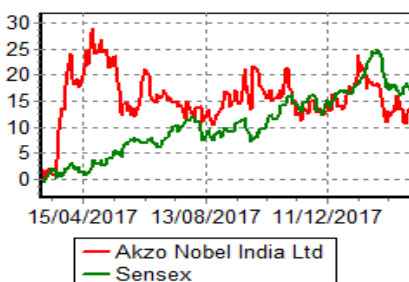
Summary table

(Rs mn)	FY18E	FY19E	FY20E
Sales	30,151	33,193	36,543
Growth (%)	6.7	10.1	10.1
EBITDA	3,396	3,853	4,494
EBITDA margin (%)	11.3	11.6	12.3
PBT	3,256	3,678	4,276
Net profit	2,279	2,574	2,993
EPS (Rs)	48.8	55.1	64.1
Growth (%)	-6.2	12.9	16.3
CEPS (Rs)	62.1	69.5	79.7
Book Value (Rs/share)	239.5	263.6	291.7
Dividend / share (Rs)	24.4	27.6	32.0
ROE (%)	19.7	20.1	21.1
ROCE (%)	28.8	29.5	31.0
Net cash (debt)	1,848	2,988	3,985
NW Capital (Days)	3.6	1.9	1.6
EV/EBITDA (x)	19.8	17.7	15.4
P/E (x)	35.9	31.7	27.3
P/Cash Earnings	28.2	25.2	21.9
P/BV (x)	7.3	6.6	6.0

Source: Company, Kotak Securities – Private Client Research

Share holding pattern

Source: Capitaline

One-year performance (Rel to Sensex)

Source: Capitaline

AKZO NOBEL INDIA LTD

PRICE: RS.1770

TARGET PRICE: RS.2250

RECOMMENDATION: BUY

FY20E PE: 27.3x

Akzo Nobel NV, the world's largest paint company, operates in India through its subsidiary Akzo Nobel India (Akzo) operating primarily in the decorative paint segment through its well-known brand "Dulux" and in the area of performance coating and specialty chemicals. Akzo in India enjoys ~9% market share in decorative paints in India serviced through its network of 9,000 plus dealers and 90 depots and six manufacturing facilities. We expect the company to report ~14.5% earnings CAGR over FY18-20E driven by ~9% revenue CAGR and improving margins. Strong growth in volumes should translate into improvement in operating margin and return ratios for the company. Broadly, we are of the opinion that the demand environment to remain healthy for paint companies including Akzo which would enable them to continue to command premium valuation in the consumption Industry. Despite comparable performance, Akzo trades a steep discount to market leader Asian Paints and peers Kansai Nerolac and Berger in the paint industry. We initiate coverage on Akzo with a BUY rating based on 35x FY20E earnings, which is the average one year forward multiple for the company and also at 22% discount to PE multiple of peers and arrive at a target price of Rs 2250. We believe the valuation gap to narrow between Akzo and other players and which is one of the key triggers for the stock.

Key Investment arguments

- One of the key players in the decorative paint industry.** Akzo is the fourth largest player in the decorative paint industry with a market share of 9%. The Company's Decorative Paints business manufactures the Dulux brand of paints for interior and exterior decoration and protection as well as products for surface preparation and wood care. In the decorative paints business, Akzo has presence in premium as well as mass market and economy segments, with strong positioning in the premium segment. The company continuously launches innovative new products to stay ahead of the competition and improve market share. Going forward, macro developments like nuclear families, availability of easy finance for housing, governments thrust on affordable housing etc. are expected to push up the per-capita consumption of paints in the country and sustain the growth momentum in decorative segment for the company.
- Emerging player in industrial segment.** Industrial segment primarily involves marine coating, powder coating, metal coating and automotive paints. Key drivers for the industrial segment include infrastructure support provided by the government and the private sector, construction of various freight corridors and industrial parks, various policies of the Indian government revolving around housing projects, smart city mission and 'Make in India' policy and most importantly growth of the automotive segment. Akzo has presence in each area of industrial paints which contributes 10% of its overall revenues.
- Building on strong chemical platforms.** In Specialty Chemicals segment, Akzo operates in Polymer Chemistry and Surface Chemistry businesses, which cater to oil & gas, personal care and agrochemical industries. It is one of the most specialised areas under painting and Akzo is an established player in the segment. In FY17, this segment recorded a turnover of Rs 2.65 bn (+34% YoY) with PAT of Rs 214 mn (+42% YoY). Akzo is in final stages to sell the specialty chemical business, post which we will update our financials accordingly.

- ❑ **Continued focus on marketing and improved products.** Despite slowdown, Akzo is focused on improving its brand image and improve geographical reach through increasing its dealer base, effective regular advertisement, investment in R&D and introduction of niche products which should yield results for the company in the long run.

Valuation

The listed players in the paint industry have been trading at premium valuations as the sector continues to perform well exhibiting double digit volume growth for the last 20 years. The prospects also remain healthy with strong GDP growth, rising disposable income, shortening re-painting cycle and increasing per-capita consumption of paints. Amongst the established players in an Oligopoly market, Akzo trades at a discount to peers and market leader. We prefer to use a P/E approach to value the stock (like any other consumer company) and give a value of 35x FY20E earnings which is the average one year forward multiple for the company and also at 22% discount to PE multiple of peers and arrive at a target price of Rs 2250. We believe the valuation gap to narrow between Akzo and other players and which is one of the key triggers for the stock. We initiate coverage on Akzo with a BUY rating and at TP of Rs 2250.

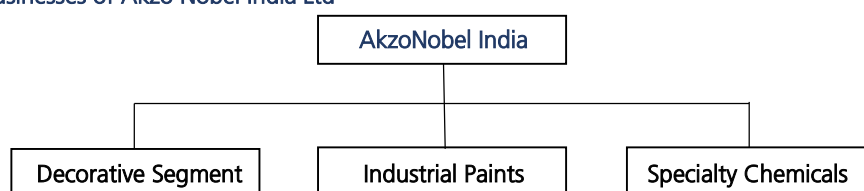
Risk and concerns

- ❑ Weak macro environment leading to poor demand for decorative paints
- ❑ Prolong slowdown in the economy leading to weak capex cycle impacting industrial demand
- ❑ Sharp increase in raw material prices coupled with inability to take price hikes
- ❑ Increasing competition

Company Background

Akzo Nobel NV, the world's largest paints company, operates in India through its subsidiary Akzo Nobel India (AKZO) which it acquired as a part of the global acquisition of Imperial Chemicals Industries (ICI) Plc. in FY08 for USD16bn. Its brand portfolio includes well-known brands such as Dulux, Sikkens, Glidden and International. The company has its headquarter in Amsterdam and operates in more than 80 countries. Akzo in India enjoys ~9% market share in decorative paints in India serviced through its network of 9000 plus dealers, 90 depots and six manufacturing facilities.

Businesses of Akzo Nobel India Ltd



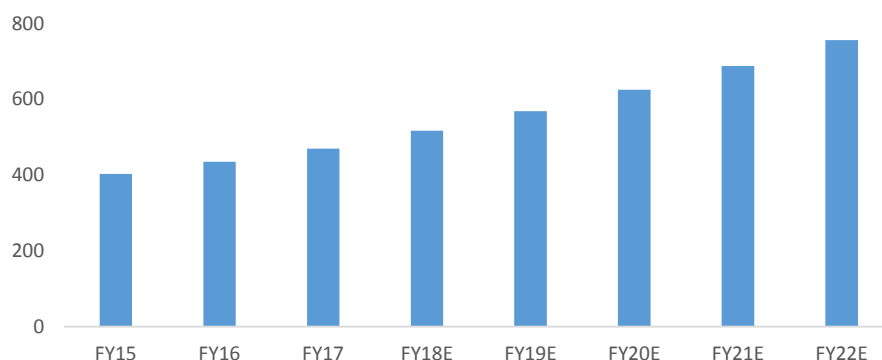
Source: Company

INDIAN PAINT INDUSTRY

The paints industry in India grew at a CAGR of 12.9% from FY12 to FY15 to Rs 403 bn backed by: 1) higher disposable income in both- urban and rural areas, 2) historically low consumption of paints which offers potential headroom for growth, 3) rising awareness of branded paints with better quality and longer durability, 4) Shortening of repainting cycle, 5) Increasing demand for new homes, 6) Healthy growth in the auto segment and 7) Capex by the private sector. The repainting cycle is now approximately 7-10 years compared to around 15 years earlier. While the per-capita consumption has risen to 2.75kg in FY17 from 2.2kg in FY08 and from 2.57 kg in FY12 (average is ~15kgs in developed markets). These factors supported the industry's growth in FY16 and FY17 as well. In FY17, the industry's value grew by 8% on a YoY basis to Rs 470 bn. As per AC Nielsen, the India paint industry is expected to grow at a CAGR of 10% over FY18E-22E.

We believe organized players to significantly benefit from this growth as they have expanded their distribution network, reaching out to more cities and towns, particularly in semi-urban and rural parts; investing significantly behind new product offerings across price points and creating more customers connect via significant investments in advertising & publicity.

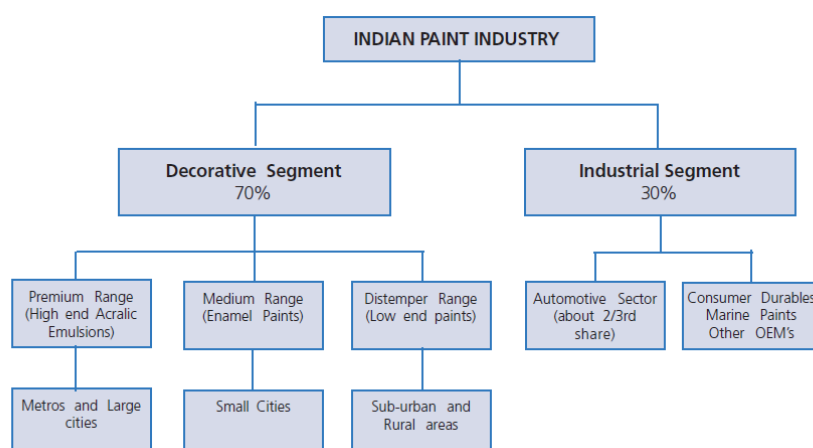
Size of Indian Paint Industry (Rs bn)



Source: Industry

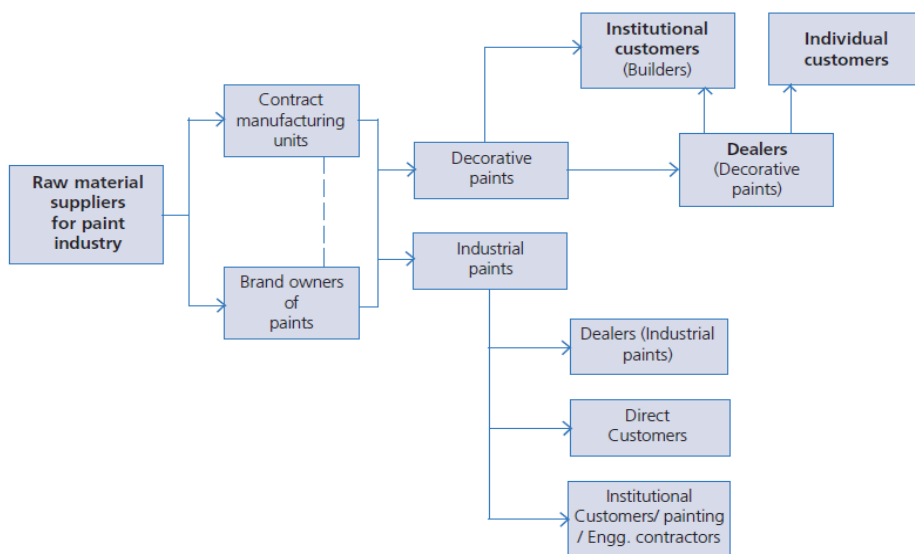
The paint industry is broadly divided into two key segments – decorative and industrial – in the ratio ~ 70:30 in favor of decorative, which is growing at a faster pace to industrial paints.

Indian Paint Industry



Source: Industry

Paint industry value chain



Source: Industry

Decorative paint Industry

Decorative paints account for over 70% of the overall paint market in India and include wall finishes for interior and exterior use, enamels, wood finishes and ancillary products such as primers, putties, etc. Over the past five years, the share of decorative has risen from 67% to over 70% now. Organized players dominate with ~80% of the decorative market, while the 20% share is accounted for by unorganized/local players. The lower-end distemper segment is fairly fragmented, with many unorganized players operating in this segment.

Indian Decorative paint market share

The decorative segment is the faster growing paints category, having registered a CAGR of 13% over FY12-17. The growth is a result of 1) Healthy growth in Tier 2 and 3 cities, 2) Healthy growth in emulsions sub-segment (+25% over the past five years) with customers upgrading to high end products. As emulsion is a high end product with superior margins, this trend bodes well for paint companies. Wood coatings too have been growing at high teens. The distempers and enamels segments are growing at a relatively lower pace. Demand for decorative paints is also influenced by seasonality factor: 1) Festive season (October to December) and 2) Wedding season (October to June).

Key sub-categories in decorative segment

Sub-category	Quality	Use	Growth
Emulsion	High	Interior and exterior painting	High
Enamels	Mid	Finishing	High to Mid
Distemper	Low	Whitewashing	Mid to low

Source: Industry

In the last few years, decorative paints have experienced a shift away from solvent-based products, in favour of water-based. The share of water-based products has risen over the years and these now account for a ~50% share vs. the solvent-based share at 50%. In water-based solvents, water is used as a medium for dilution – these are more durable, offer better finish and are higher margin products.

Industrial Paint Industry

The industrial paint segment accounts for ~30% of the Indian paint industry in value terms and is primarily solvent based with few water applications. Industrial paint is mainly a B2B market with paint companies working closely with their customers to develop formulation to match their requirements. The segment can be further sub-divided into key sub-categories of automotive paints, protective coatings, GI paints (general industrial), powder coating, coil coating and others. The sales contribution of the dealer channel is low in industrial as compared to decorative.

Current share of key sub-segments for industrial paints

Segment	Share (%)	Key Players
Performance Coatings & General Industrial	32	AKzoNobel, KNPL, Berger
Auto OEM	28	KNPL, Asian Paints, BASF
Auto Refinish	14	AKzoNobel, BASF
Powder coating	12	KNPL, Asian Paints
Others	14	All

Source: Industry

GDP growth, economic environment, private sector capex cycle, auto sector demand and demand for white goods determine the prospects of Industrial Paints in the country,

The industrial paints segment is dominated by organized players, as it requires specialized technology, higher capital investments and good relationships with institutional/industrial buyers.

Comparison of Decorative & Industrial paint segments

Parameter	Decorative Paints	Industrial Paints
Size (FY17 Rs bn)	329	141
Customer Base	Mostly Retail (B2C)	Mostly Corporates (B2B)
Dealer Involvement	High	Low
Pricing Power	High	Low
Operating Margins	~20%	~11%
Estimated CAGR over FY18 to FY22E	10%	8%
Key Paint types	Emulsion, Enamels	General Industrial, Auto OEM
Market leader	Asian Paints	KNPL

Source: Industry

INVESTMENT THESIS

Akzo is one of the key players in the decorative painting segment

Akzo manufactures the Dulux brand of paints for interior and exterior decoration and protection as well as products for surface preparation and wood care. The focus of the company is on quality, aesthetics and high performance in terms of longevity, washability and stain resistance, anti-color fading, water proofing, ease of application, faster drying times, low VOC and odour, and so on. The paints are also free from any added lead, mercury or chromium compounds, underlining the importance that Akzo gives to caring for the environment.

Product port-folio of Akzo in Decorative segment

Product name	Market	Usage	Striking features
Dulux Velvet Touch 'Pearl Glo'	Premium	Interior wall finish	Washability, stain resistance and anti-fungal properties
Dulux Velvet Touch 'Trends'	Premium	Interior wall finish	Designer
Dulux WeatherShield	Mid	Exterior	Temperature resistant
Dulux WeatherShield Max	Mid	Exterior	Long lasting, anti-fungal
Dulux WeatherShield Ultra Clean	Premium	Exterior	High performance, durable
Dulux WeatherShield Clear	Mid	Exterior	Anti-fungal
Dulux WeatherShield Tex	Mid	Exterior	Tough, durable and water repellent
Dulux TileShield	Mid	Exterior	Long-lasting protection and an aesthetic appearance
Dulux Promise	Low	Exterior	Economical, superior technology and environment-friendly
Dulux Gloss	Premium	Wood and metal finish	Superior and tough finish

Source: Company

Akzo currently has a market share of 9% in the organized decorative paint segment and we estimate the share to increase going forward, as the size of the organized decorative segment increases with implementation of GST and desire for branded products with consumers. Other drivers include rising disposable income, healthy GDP growth, rural penetration for branded players, shorter repainting cycle, new home demand and so on.

Performance in decorative segment by the organized sector

Company	Sales (Rs bn)		Organized market share (%)	
	FY15	FY17	FY15	FY17
Akzo	22.8	25.4	8.1	9.0
Asian Paints	115.8	137.7	41.1	48.8
Kansai Nerolac	19.5	22.0	6.9	7.8
Berger Paints	34.6	36.4	12.3	12.9

Source: Company, Kotak Securities – Private Client Research

Emerging player in Industrial paints

Industrial paints include a wide range of industrial activity like, oil & gas (including downstream expansion projects/ offshore exploration, etc.), power, waste water management, mining, high value infrastructure (HVI), chemical and general industries. The major driving factors for the markets are boost in government projects and investment in infrastructure like 100 smart cities, freight and industrial corridors, 'Make in India' etc.

Akzo is a growing player in Industrial paints with 2% organized market share and is planning to gain market share in the Industrial segment through the following steps: 1) Expanding the distribution reach; 2) Maintaining a robust cost-efficient mid-range products and 3) Acquired the industrial coating business of BASF limited for Rs 119 mn which was successfully integrated with the existing industrial coating business.

Presence of Akzo in Industrial paints

Segment	Usage	Outlook
Marine coating	Ship Construction	Neutral
Powder coating	Automobiles, white goods, General Industrial	Positive
Metal coating	Building and construction	Positive
Vehicle refinishes	Vehicle repairs and re-painting	Positive
Specialty coating	2 wheelers, white goods, auto interior	Positive

Source: Company, Kotak Securities – Private Client Research

Leader in Specialty chemicals

This segment contributes around 10% of the overall revenues and has been growing at healthy pace for the company since the last 2 years. The growth has picked up in this segment post change in product portfolio of the company which now includes a number of imported products from the parent.

Akzo sells strong portfolio of Specialty chemicals (with over 2000 products) to diversified set of industries including oil and gas, metals and mining, agricultural industries, pulp industry, plastics (polymer) industry, buildings and infrastructure, consumer packaged goods etc.

Presence of Akzo in Specialty chemicals

Segment	Usage	Outlook
Industrial Chemicals	Plastic, detergent, construction	Positive
Bleaching chemicals	Personal care Industry	Positive
Paper Chemical	Pulp and paper Industry	Positive
Functional Chemicals	Agriculture, food processing	Positive

Source: Company, Kotak Securities – Private Client Research

Demerger of Specialty chemical business on the cards

Akzo has signed a definitive agreement to divest its specialty chemicals business as a going concern to an affiliate of the Akzo Nobel Group for Rs 3.2 bn. The intention of the company is to focus on core decorative and industrial painting business post demerger in line with business of any conventional paint company. We expect this text- book strategy to be helpful for the Indian business. The demerger is estimated to be completed in near term (which the company expects to happen by end March 2018), post which we would update our financials accordingly.

Details of the Divestment

Parameter	Value
FY17 sales	Rs 2650 mn
FY17 PAT	Rs 214 mn
Consideration	Rs 3.2 bn
Trailing PE (for disinvestment value)	15x
Facility	Mahad manufacturing business
No of employees	80
Debt for the business	Nil

Source: Company

Strong Parentage

Akzo Nobel India operates under the patronage of Parent AKzoNobel Netherland (73% shareholding) and receive support in the form of 1) An established brand name; 2) Credibility; 3) Established product portfolio; 4) Experience and 5) Global relationships. All of these is essential for the company to face competition and grow at a healthy pace.

Brief Comparison of Paint Companies

Parameter	Akzo	APL	KNPL	Berger
No of Dealers	9000	42000	20000	20000
No of Tinting Machines	7000	30240	15000	14000
Focus Area	All	All	High to Mid	Mass Products
Focus segment	Decorative	Decorative	Industrial	Decorative
Key Markets in India	North/East	South/West	North/West	North/East
Decorative Segment market share (%)	9.0	49.0	8.0	9.0
Industrial Segment market share (%)	2.0	11.0	18.0	6.5
Promotional expenditure in decorative (%)	6.0	7.0	9.0	7.0
Operating Margins (%)	12.0	19.0	18.0	16.0

Source: Company, Kotak Securities – Private Client Research

FINANCIAL ANALYSIS

Revenue to grow at 9% CAGR over FY18E to FY20E

Demand for paints has remained healthy for paint companies in the past and would continue to remain healthy in medium term. For Akzo, we estimate volume growth of 8% with intermittent price increases and decreases (based on demand and raw material situation). This would lead to a revenue CAGR of 9% over FY18E to FY20E.

Volume and Revenue trend for Akzo

Details	FY15	FY16	FY17	FY18E	FY19E	FY20E
Volume in (mn litres)	252.7	274.8	295.4	295.6	322.2	351.2
Realisations (Rs per litre)	100.0	102.0	102.0	102.0	103.0	104.1
Net Sales (Rs mn)	25,270	26,401	28,249	30,151	33,193	36,543

Source: Company, Kotak Securities – Private Client Research

Raw Material and Pricing Power

Paint Industry uses two key raw material including crude derivatives and Titanium Dioxide. The Paint industry is currently experiencing increase in prices of raw material since the last 3 quarters. Almost ~60% of the raw material are crude derivatives and with crude at \$65/barrel (+20% YoY), prices of crude derivatives have also increased. Even prices of pigments like Titanium Dioxide, Iron oxide and Zinc oxide have increased. To counter this, the management of paint companies including Akzo have resorted to price increase and optimization.

We are not worried about the raw material situation, as paint companies always pass on the increase in raw material prices to customers without hurting the volumes. It is important to note that paint cost about 20% of overall painting cost and hence doesn't influence paint demand.

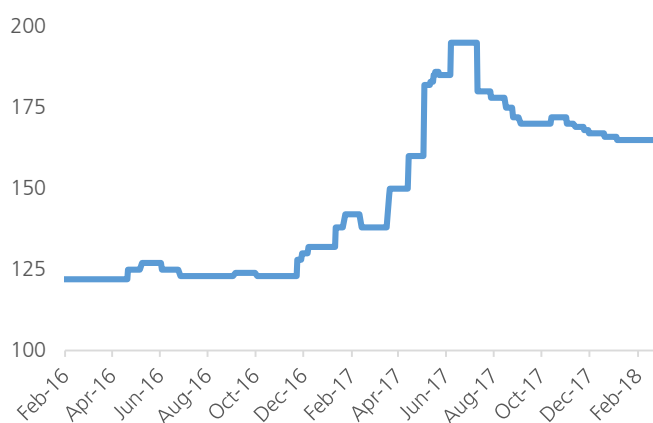
We estimate the margins of the company to remain stable with intermittent price increases (and even decreases) based on demand and market situation.

Typical cost-sheet in a painting job

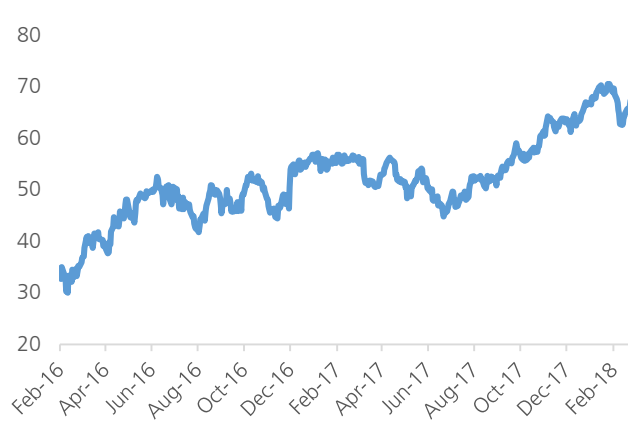
Particulars	Cost %
Two coats of paints	20
Cost of labour	60
Other expenditure	5
Profit of the contractor	15
Total cost of painting	100

Source: Industry, Kotak Securities – Private Client Research

Prices of Titanium dioxide (US\$/MT)



Prices of crude (USD/barrel)



Source: Bloomberg

DuPont Analysis

With improvement in margins and asset turnover, we expect the return ratios of the company to improve going forward

DuPont analysis of Akzo

Parameter	Ratio	FY16	FY17	FY18E	FY19E	FY20E
EBIT margin	EBIT/ Revenue	11.6	12.1	10.9	11.2	11.8
Asset Turn over	Revenue /Capital employed	2.2	2.7	2.7	2.6	2.6
Financial Leverage	Capital Employed/ Equity	1.0	1.0	1.0	1.0	1.0
Interest Burden	PBT/EBIT	1.0	1.0	1.0	1.0	1.0
Tax burden	PAT/PBT	0.7	0.7	0.7	0.7	0.7
ROE (%)	PAT/Equity	16.7	23.2	19.7	20.1	21.1
EBIT Margin	EBIT/ Revenue	11.6	12.1	10.9	11.2	11.8
Capital Turnover	Revenue/ Capital Employed	2.2	2.7	2.7	2.6	2.6
ROCE (%)	EBIT/Capital Employed	25.4	33.1	28.8	29.5	31.0

Source: Kotak Securities – Private Client Research

Capex and BS Analysis

Akzo has six manufacturing facilities in India at Bangalore, Hyderabad, Mohali, Thane, Raigad and Gwalior with a total capacity of over 4 lakh Kilo litres per annum (operating at 70% capacity). All these facilities are set-up by the company, and later upgraded and expanded continually YoY by the company. Recently, Akzo also tied-up with Atul, a Lalbhai Group company, for setting up a manufacturing joint venture in Gujarat (50:50 JV) for production of monochloro acetic acid (MCA), a key raw material for crop protection and other chemicals. This plant is estimated to be operational by end of 2019.

Going forward also, we expect the company to add new facilities and also expand current facilities on continuous basis which would entail a total investment of ~Rs2 bn over FY18 to FY20E for Akzo.

Healthy free cash flow generation of Rs 8.5 bn should further strengthen the BS of the company.

Debt and cash flow analysis

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Gross Debt	129	140	191	237	283
Networth	11,944	10,185	11,183	12,310	13,621
Cash	1,231	1,107	2,039	3,224	4,268
Operating cash flow	3,267	1,746	3,116	3,487	3,742
Free cash flow	2,695	1,076	2,521	2,897	3,108
Capex	572	670	595	590	634

Source: Industry, Kotak Securities – Private Client Research

OUTLOOK AND VALUATION

The listed players in the paint industry have been trading at premium valuations as the sector continues to perform well exhibiting double digit volume growth for the last 20 years. The prospects also remain strong with strong GDP growth, rising disposable income, shortening re-painting cycle and increasing per-capita consumption of paints.

We expect the company to report ~14.5% earnings CAGR over FY18-20E driven by ~9% revenue CAGR and improving margins. Strong growth in volumes should translate into improvement in operating margin and return ratios for the company.

Amongst the established players in an Oligopoly market, Akzo trades at a discount to peers and market leader. We prefer to use a P/E approach to value the stock (like any other consumer company) and give a value of 35x FY20E earnings which is the average one year forward multiple for the company and also at 22% discount to PE multiple of peers and arrive at a target price of Rs 2250. We believe the valuation gap to narrow between Akzo and other players and which is one of the key triggers for the stock. We initiate coverage on Akzo with a BUY rating and at TP of Rs 2250.

Akzo Forward PE- 7 Year average discount of 23% to top three



Source: Bloomberg

Historical average one-year forward PE for top-3 players

Year	Average one year forward PE of top 3 players (x)	Discount for Akzo in %
FY11	20.0	14
FY12	20.7	15
FY13	23.7	19
FY14	27.0	34
FY15	34.0	16
FY16	36.0	25
FY17	41.0	25
10 M FY18	44.5	32

Source: Bloomberg

Relative valuation

Company	CMP (Rs)	Market Cap (Rs bn)	ROE (%)		ROCE (%)		PE (x)	
			FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Asian Paints limited	1110	1131	25.0	23.2	32.1	30.2	45.2	39.8
Kansai Nerolac	490	263	23.6	23.3	34.8	34.5	41.2	36.1
Berger Paints	247	233	23.1	21.7	27.6	26.4	42.1	38.2
Akzo Nobel India	1775	83	21.9	23.1	29.5	31.0	31.7	27.3

Source: Kotak Securities – Private Client Research

FINANCIALS

Profit and Loss Statement

(Rs mn)	FY17	FY18E	FY19E	FY20E
Net sales	28,249	30,151	33,193	36,543
Raw Material Cost	15,826	17,229	18,782	20,472
Employee cost	2,625	2,651	2,990	3,300
Other expenses	6,310	6,875	7,569	8,276
Operating expenses	24,761	26,756	29,341	32,048
Operating profit	3,488	3,396	3,853	4,494
Other income	493	500	520	540
Depreciation	565	620	671	730
Interest	32	19	24	28
Tax	953	977	1,103	1,283
PAT	2,431	2,279	2,574	2,993
(Associates-Minorities)	-	-	-	-
Consolidated PAT	2,431	2,279	2,574	2,993

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)

(Rs mn)	FY17	FY18E	FY19E	FY20E
Consolidated PAT	2,431	2,279	2,574	2,993
Non-cash items	278	718	781	859
Cash profit	2,709	2,997	3,356	3,852
Inc. in working capital	963	(119)	(131)	109
Operating cash flow	1,746	3,116	3,487	3,742
Capital expenditure	670	595	590	634
Free cash flow	1,076	2,521	2,897	3,108
Dividends	3,903	1,379	1,558	1,811
Equity raised	-	-	-	-
Debt raised	11	51	46	46
Inc. in minority interests	-	-	-	-
Investments	(2,692)	261	200	300
Miscellaneous items	-	-	-	-
Net cash flow	(124)	932	1,186	1,043
Opening cash	1,231	1,107	2,039	3,224
Closing cash balance	1,107	2,039	3,224	4,268

Source: Company, Kotak Securities - Private Client Research

Balance Sheet

(Rs mn)	FY17	FY18E	FY19E	FY20E
Equity	467	467	467	467
Reserves	9,622	10,522	11,539	12,721
Deferred tax liability	96	194	304	432
<i>Net-worth</i>	<i>10,185</i>	<i>11,183</i>	<i>12,310</i>	<i>13,621</i>
Debt	140	191	237	283
Minority interests	-	-	-	-
Capital employed	10,325	11,374	12,547	13,904
Fixed Assets	5,423	5,398	5,316	5,220
Investments	3,439	3,700	3,900	4,200
Working capital	356	237	106	216
Cash	1,107	2,039	3,224	4,268
Capital deployed	10,325	11,374	12,547	13,904

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

(Rs mn)	FY17	FY18E	FY19E	FY20E
Topline growth (%)	7.0	6.7	10.1	10.1
Bottomline growth (%)	19.0	(6.2)	12.9	16.3
Operating margins (%)	12.3	11.3	11.6	12.3
FDEPS (Rs/share)	52.1	48.8	55.1	64.1
CEPS (Rs/share)	64.2	62.1	69.5	79.7
DPS (Rs/share)	69.3	24.4	27.6	32.0
BV (Rs/share)	218.1	239.5	263.6	291.7
PER (x)	33.6	35.9	31.7	27.3
P/C (x)	27.3	28.2	25.2	21.9
Dividend yield (%)	4.0	1.4	1.6	1.8
P/B (x)	8.0	7.3	6.6	6.0
EV/Sales (x)	2.7	2.6	2.3	2.1
EV/ EBITDA (x)	19.4	19.8	17.7	15.4
Debt/Equity (x)	0.0	0.0	0.0	0.0
Tax break (x)	0.7	0.7	0.7	0.7
Consolidation factor (x)	1.0	1.0	1.0	1.0
RoE (%)	23.2	19.7	20.1	21.1
RoCE (%)	33.1	28.8	29.5	31.0

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
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- 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.
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- 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 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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