Equity Research
May 15, 2017

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Market data as on May 12, 2017

INDICES

		% chg (DoD)
BSE Sensex	30188	(0.2)
S&P CNX Nifty	9401	(0.2)
BSE 100	9776	(0.3)
BSE 200	4123	(0.4)

OVERSEAS MARKETS#

		% chg (DoD)
Dow Jones	20897	(0.1)
Nasdaq Comp.	6121	0.1
S&P 500	2391	(0.2)
Hang Seng	25303	0.6
Nikkei	19842	(0.2)

ADVANCES/DECLINES (BSE)

Group	A	B	S
Advances	86	311	551
Declines`	212	780	856
Unchanged	1	26	148

FII TURNOVER (BSE+NSE)* (Rs mn)

Bought	Sold	Net
51120	36770	14,350

NEW HIGHS AND LOWS (BSE)

Group	A	B	S
High	15	32	8
Lows	1	7	6

CURRENCY

US$1 = Rs64.30

*FII turnover (BSE + NSE) as on May 11, 2017

ICICI Securities I-Sec

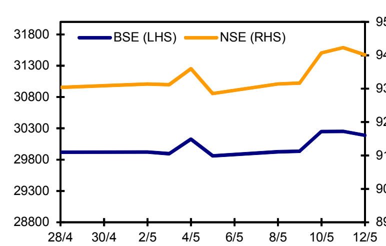
India Update

Contents

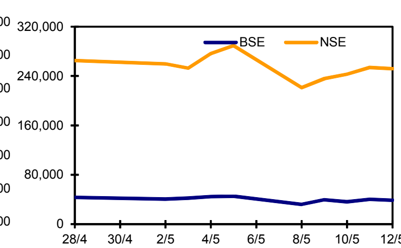
Highlights

Sector/event	Impact
PAINTS: Asian Paints – Q4FY17 result review and earnings revision	Asian Paints' Q4FY17 consolidated sales grew 8.9% YoY to Rs44.2bn and standalone revenues grew by 10.5% YoY to Rs37.6bn, driven by healthy low double-digit volume growth (11-12%) in decorative paint volumes, higher than expected 7-8% growth. The volume beat signifies strong recovery post demonetisation to the double digit growth trajectory. For FY17, standalone sales grew by 8% driven by a volume growth of ~10%. Value growth is lower on account of a price cut of ~2-3% in Feb'16, slightly offset by the price hike taken on 1-Mar'17. Consolidated gross margin was down 148bps YoY (I-Sec: down 175bps) to 44% due to raw material cost increases. Consolidated EBITDA margin contracted 100bps YoY (I-Sec: down 113bps) to 18%. Consolidated EBITDA was up 2.1% YoY to Rs7.1bn, primarily driven by revenue growth. Other income grew by 47% YoY to Rs701mn. Consolidated adjusted PAT grew 10.4% YoY to Rs4.6bn beating our estimated Rs4.3bn on account of better-than-expected volume growth. With a healthy volume growth recovery to the double digit growth trajectory in Q4FY17, we have revised upward our revenue estimates by 0.7% and 2.2% for FY18 and FY19 respectively. We expect standalone decorative paints volume growth of 12% and 14% for FY18 and FY19 respectively. The company effected price hikes of 3% on 1-Mar'17 and ~2.7% on 1-May'17. Aided by consecutive price hikes and recent correction in raw material prices, we now expect margins to sustain at the current levels. Consequently, our earnings estimates are revised upward by 3.2% and 6.0% for FY18 and FY19 respectively. We maintain HOLD with a revised target price of Rs1,136/share based on FY19E EPS. We expect consolidated sales and earnings to register CAGRs of 18.9% and 19.5% respectively, over FY17-FY19. At CMP, the stock is trading at 40.7x FY19E EPS.

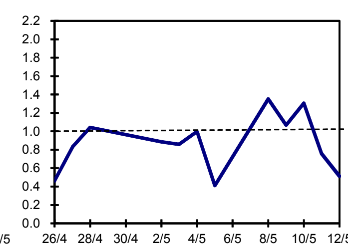
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances & Declines ratio (BSE)



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Asian Paints (Hold) PAINTS

Q4FY17 RESULTS REVIEW AND EARNINGS REVISION

Healthy volume growth recovery **Rs1,166**

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Target price Rs1,136

Earnings revision

(%)	FY18E	FY19E
Revenue	↑ 0.7	↑ 2.2
EBITDA	↑ 4.7	↑ 7.7
EPS	↑ 3.2	↑ 6.0

Target price revision

Rs1136 from Rs1,021

Asian Paints' Q4FY17 consolidated sales grew 8.9% YoY to Rs44.2bn and standalone revenues grew by 10.5% YoY to Rs37.6bn, driven by healthy low double-digit volume growth (11-12%) in decorative paint volumes, higher than expected 7-8% growth. The volume beat signifies strong recovery post demonetisation to the double digit growth trajectory. For FY17, standalone sales grew by 8% driven by a volume growth of ~10%. Value growth is lower on account of a price cut of ~2-3% in Feb'16, slightly offset by the price hike taken on 1-Mar'17. Consolidated gross margin was down 148bps YoY (I-Sec: down 175bps) to 44% due to raw material cost increases. Consolidated EBITDA margin contracted 100bps YoY (I-Sec: down 113bps) to 18%. Consolidated EBITDA was up 2.1% YoY to Rs7.1bn, primarily driven by revenue growth. Other income grew by 47% YoY to Rs701mn. Consolidated adjusted PAT grew 10.4% YoY to Rs4.6bn beating our estimated Rs4.3bn on account of better-than-expected volume growth. With a healthy volume growth recovery to the double digit growth trajectory in Q4FY17, we have revised upward our revenue estimates by 0.7% and 2.2% for FY18 and FY19 respectively. We expect standalone decorative paints volume growth of 12% and 14% for FY18 and FY19 respectively. The company effected price hikes of 3% on 1-Mar'17 and ~2.7% on 1-May'17. Aided by consecutive price hikes and recent correction in raw material prices, we now expect margins to sustain at the current levels. Consequently, our earnings estimates are revised upward by 3.2% and 6.0% for FY18 and FY19 respectively. We maintain HOLD with a revised target price of Rs1,136/share based on FY19E EPS. We expect consolidated sales and earnings to register CAGRs of 18.9% and 19.5% respectively, over FY17-FY19. At CMP, the stock is trading at 40.7x FY19E EPS.

Table 1: Valuation summary

		Y/E Mar	EPS (Rs)	P/E (x)	EV/E (x)		
Price (11/5/17) (Rs)	1,166	FY16	18.7	62.2	40.3	M.Cap. (Rs bn)	1,120
52 wk Range (Rs)	1,217/798	FY17P	20.1	58.1	37.5	M.Cap (US$ bn)	17.4
Dividend yield FY18E (%)	0.9	FY18E	23.6	49.4	31.7	Shares Out (mn)	959.2
BSE Sensex	30251	FY19E	28.6	40.7	26.1	Free Float (%)	50.0

Source: Company data, I-Sec research

- **Healthy low double digit volume growth:** Consolidated revenues grew 8.9% YoY to Rs44.2bn. Standalone revenues grew 10.5% YoY to Rs37.6bn driven by healthy low double-digit volume growth (11-12%) in decorative paint volumes, higher than expected 7-8% volume growth. The volume beat signifies strong recovery post demonetisation to the double digit growth trajectory. For FY17, standalone sales grew by ~8% driven by a volume growth of 10%. Value growth is lower on account of a price cut of ~2-3% in Feb'16, slightly offset by the price hike taken on 1-Mar'17. The international business registered a 7.4% volume growth in FY17 (15% in constant currency terms) aided by good growth in Nepal, Jamaica, Fiji and Middle East. Sleek & Ess Ess continued to be slightly impacted by demonetisation.

- **Raw material price inflation impacts margins:** In Q4FY17, consolidated gross margin was down 148bps YoY (I-Sec: down 175bps) to 44% due to raw material cost increases. Consolidated EBITDA margin contracted 100bps YoY (I-Sec: down 113bps) to 18%. Consolidated EBITDA increased by 2.1% YoY to Rs7.1bn, primarily driven by revenue growth. The company effected price hikes of 3% on 1-Mar'17 and ~2.7% on 1-May'17. With the consecutive price hikes and recent correction in raw material prices, we expect the margins to sustain at the current levels going forward.

- **Maintain HOLD with revised target price of Rs1,136 (earlier Rs1,021):** With a better-than-expected volume growth recovery to the double digit growth trajectory in Q4FY17, we have revised upward our revenue estimates by 0.7% and 2.2% for FY18 and FY19 respectively. We expect standalone decorative paints volume growth of 12% and 14% for FY18 and FY19 respectively. Aided by consecutive price hikes and recent correction in raw material prices, we now expect margins to sustain at the current levels. Consequently, our earnings estimates are revised upward by 3.2% and 6.0% for FY18 and FY19 respectively. We maintain HOLD on the stock, valuing it at a triangulated average of P/E (Rs1,146: 40x FY19E EPS), DCF (Rs1,156: assuming WACC of 10.3% and terminal growth of 4%), and MCap/Sales (Rs1,105: 4.9x FY19E net sales), to arrive at a target price of Rs1,136/share (39.7x FY19E EPS). At CMP, the stock is trading at 40.7x FY19E EPS.

Table 2: Q4FY17 consolidated financial performance

Rs mn	Q4FY17	Q4FY16	% YoY	Q3FY17	% QoQ
Net revenues	**44,162**	**40,538**	***8.9***	**43,540**	***1.4***
Raw materials	22,194	20,048	*10.7*	22,045	*0.7*
% of sales	*56.2*	*54.7*	*148 bps*	*56.0*	*16 bps*
Excise duty	4,638	3,871	*19.8*	4,170	*11.2*
% of sales	*10.5*	*9.5*	*95 bps*	*9.7*	*82 bps*
Employee costs	2,652	2,677	*(1.0)*	2,643	*0.3*
% of sales	*6.7*	*7.3*	*-59 bps*	*6.7*	*-1 bps*
Other expenditure	7,560	6,971	*8.4*	6,918	*9.3*
% of sales	*19.1*	*19.0*	*11 bps*	*17.6*	*155 bps*
Total expenditure	**37,044**	**33,568**	***10.4***	**35,777**	***3.5***
EBITDA	**7,119**	**6,971**	***2.1***	**7,763**	***(8.3)***
EBITDA margin (%)	*18.0*	*19.0*	*-100 bps*	*19.7*	*-171 bps*
Other income	701	476	*47.4*	415	*69.1*
PBDIT	**7,820**	**7,446**	***5.0***	**8,178**	***(4.4)***
Depreciation	835	722	*15.7*	855	*(2.4)*
PBIT	**6,985**	**6,725**	***3.9***	**7,323**	***(4.6)***
Interest	90	149	*(39.5)*	92	*(1.7)*
PBT	**6,895**	**6,576**	***4.9***	**7,231**	***(4.6)***
Tax	2,205	2,280	*(3.3)*	2,465	*(10.6)*
% of PBT	32	35	*(7.8)*	34	*(6.2)*
PAT before ass. & MI	**4,690**	**4,295**	***9.2***	**4,766**	***(1.6)***
Share of profit from associates	106	59	*78.3*	127	*(16.6)*
Minority interest	174	168	*3.7*	231	*(24.7)*
Extraordinary	-	-	-	-	-
PAT	**4,622**	**4,187**	***10.4***	**4,662**	***(0.9)***
Adj. PAT	**4,622**	**4,187**	***10.4***	**4,662**	***(0.9)***
EPS (Rs)	**4.8**	**4.4**	***10.4***	**4.9**	***(0.9)***

Source: Company data, I-Sec research

Details in our report '*Healthy volume growth recovery*' dated May 12, 2017.

Nestle India (Downgrade to Add) FMCG

Q4FY17 RESULTS REVIEW AND RECOMMENDATION CHANGE

Volume driven growth; margins decline Rs6,821

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Target price Rs7,384

Earnings revision

(%)	CY17E	CY18E
Sales	↓ 2.8	↓ 4.3
EBITDA	↓ 8.1	↓ 9.9
EPS	↓ 10.5	↓ 12.4

Target price change

Rs7,384 from Rs8,035

Nestlé India (Nestlé) reported Q1CY17 numbers below our expectations on lower than expected revenue growth. Revenue and PAT grew 8.7% and 14.8%, respectively. Key positive from the result was volume growth across segments. EBITDA margin contracted due to lower gross margin and higher staff cost and other expenditure. We remain positive on Nestlé's long term growth potential and expect earnings CAGR of 22.8% over CY16-CY18; we also expect RoE to expand. Given ~20% stock price performance over past 3 months, we downgrade Nestle to ADD from Buy with revised target price of Rs7,384 (49.3x CY18E).

Table 1: Valuation summary

		Y/E Dec	EPS (Rs)	P/E (x)	EV/E (x)		
Price (12/5/17) (Rs)	6,821	CY15	110.4	61.8	42.0	M.Cap. (Rs bn)	658
52 wk Range (Rs)	7237/5008	CY16	99.3	68.7	38.6	M.Cap (US$ bn)	10.2
Dividend yield CY17E (%)	1.2	CY17E	123.7	55.1	32.2	Shares Out (mn)	96.4
BSE Sensex	30188	CY18E	149.7	45.6	26.8	Free Float (%)	37.2

Source: Company data, I-Sec research

- **Volume led revenue growth:** Nestlé reported revenue growth of 8.7% YoY. This was the first quarter on a normalised base post re-launch of *Maggi* noodles. The company indicated that volume led growth was witnessed across segments. Considering the low food inflation, we believe Nestlé will not raise prices aggressively; even though carryover of price hikes boosted realisations. Domestic revenues grew 9.4% and exports were up 0.6% YoY due to lower sales primarily to Nepal and Bhutan.

- **Gross margins contract:** Nestlé's gross margin contracted 67bps YoY due to higher commodity prices and change in revenue mix (higher share of *Maggi* noodles). Higher staff cost (57bps) and 'other expenditure' (45bps) led to EBITDA margin decline of 169bps YoY. The effective tax rate was down 654bps YoY and adjusted net profit was up 14.8% YoY.

- **Focus on volume growth:** The company has introduced 30+ new products and variants in past 12 months. It is also investing aggressively in trade to drive volume growth. *Maggi* noodles volumes have reached 70% of pre-crisis (CY14) levels in CY16. We believe the exit rate was higher at 80-85%, indicating strong recovery in *Maggi* volumes. We expect the company to report revenue CAGR of 14.2% over CY16-CY18.

- **Downgrade to ADD:** We expect Nestlé to report PAT CAGR of 22.8% over CY16-CY18. Its RoE is expected to improve from 32.8% in CY16 to 42.2% in CY18. While we remain positive that Nestlé will generate strong value for its shareholders, pricing led growth will be muted in CY17 along with temporary issues post GST roll out. Given ~20% stock price performance over past 3 months, we downgrade the stock to **ADD** from *Buy* with revised target price of Rs7,384. (49.3x CY18E EPS).

Table 2: Q1CY17 financial performance

(Rs mn, year ending December 31)

	Q1CY17	Q1CY16	YoY gr.	Q4CY16	QoQ gr.	Q1CY17E	% Var.
Net revenues	**24,919**	**22,837**	***9.1***	**22,663**	***10.0***	**27,215**	***(8.4)***
Expenditure							
Raw materials	10,939	9,872	*10.8*	9,601	*13.9*	11,644	*(6.1)*
% of revenue	*43.9*	*43.2*	*1.6*	*42.4*	*3.6*	*42.8*	*2.6*
Employee costs	2,461	2,126	*15.8*	2,282	*7.9*	2,941	*(16.3)*
% of revenue	*9.9*	*9.3*	*6.1*	*10.1*	*(1.9)*	*10.8*	*(8.6)*
Other expenditure	6,345	5,713	*11.1*	6,862	*(7.5)*	6,976	*(9.0)*
% of revenue	*25.5*	*25.0*	*1.8*	*30.3*	*(15.9)*	*25.6*	*(0.7)*
Total expenditure	**19,745**	**17,711**	***11.5***	**18,745**	***5.3***	**21,561**	***(8.4)***
EBITDA	**5,174**	**5,127**	***0.9***	**3,918**	***32.1***	**5,654**	***(8.5)***
EBITDA margin (%)	*20.8*	*22.4*	*(7.5)*	*17.3*	*20.1*	*20.8*	*(0.1)*
Other income	416	353	*17.7*	415	*0.2*	383	*8.4*
PBDIT	**5,590**	**5,480**	***2.0***	**4,332**	***29.0***	**6,037**	***(7.4)***
Depreciation	867	891	*(2.8)*	873	*(0.8)*	980	*(11.6)*
PBIT	**4,723**	**4,589**	***2.9***	**3,459**	***36.5***	**5,057**	***(6.6)***
Interest	228	259	*(12.2)*	210	*8.2*	38	
PBT	4,495	4,329	*3.8*	3,249	*38.4*	5,018	*(10.4)*
Prov. for tax	1,428	1,658	*(13.9)*	1,276	*11.9*	1,606	*(11.1)*
% of PBT	*31.8*	*38.3*	*(17.1)*	*39.3*	*(19.1)*	*32.0*	*(0.8)*
Adjusted PAT	**3,068**	**2,671**	***14.8***	**1,973**	***55.5***	**3,412**	***(10.1)***
Extraordinary	(89)	(94)	-	(306)	-	-	-
Reported PAT	**2,978**	**2,578**	***15.5***	**1,667**	***78.7***	**3,412**	***(12.7)***

Source: Company data, I-Sec research

Details in our report '*Volume driven growth; margins decline*' dated May 15, 2017.

Titan Company (Downgrade to Add) FMCG

Q4FY17 RESULTS REVIEW AND RECOMMENDATION CHANGE

Growth tailwinds ahead

Rs495

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Target price Rs529

Earnings revision

(%)	FY18E	FY19E
Sales	↓ 3.2	↓ 3.3
EBITDA	↓ 6.5	↓ 7.1
EPS	↓ 6.1	↓ 7.0

Target price revision

TRs529 from Rs488

Titan reported healthy Q4FY17 numbers with revenue and PAT growth of 43.4% and 8.6%, respectively. Favourable base helped the company report strong set of numbers for jewellery segment. Watches segment continued to disappoint, despite favourable base, due to weaker exports. Sharp increase in ad-spend and one-time employee bonus of Rs130mn impacted EBITDA margin which was down 120bps YoY. We continue to like Titan due to following reasons: 1) Jewellery industry will see a tectonic shift from unorganised to organised over the next 5 years, and Titan being the market leader among organised players will be a key beneficiary, 2) focus on wedding market will boost growth in jewellery segment, 3) issues such as GHS, gold on lease, mandatory hallmarking and mandatory PAN card are sorted, and 4) GST is not expected to result in any sharp increase in taxes on jewellery. Though we expect Titan to report earnings CAGR of 24.8% over FY17-FY19 with rising return ratios, we believe 63% stock price performance over past 6 months limits upside. Hence, we downgrade the stock to ADD with revised target price of Rs529 (35.2x FY19).

Table 1: Valuation summary

		Y/E Mar	EPS (Rs)	P/E (x)	EV/E (x)		
Price (12/5/17) (Rs)	495	FY16	8.0	61.6	46.4	M.Cap. (Rs bn)	439
52 wk Range (Rs)	501/303	FY17P	9.7	51.2	36.1	M.Cap (US$ bn)	6.8
Dividend yield FY18E (%)	0.7	FY18E	11.8	41.9	28.2	Shares Out (mn)	887.8
BSE Sensex	30188	FY19E	15.0	32.9	22.1	Free Float (%)	46.9

Source: Company data, I-Sec research

- **Jewellery segment gearing up well:** The jewellery segment reported revenue growth of 55% YoY with grammage growth of 37% YoY. Same store sales growth was 52% YoY. The favorable base quarter, due to 1) strike in most stores for ~1 month, and 2) impact of imposition of mandatory PAN card rule for jewellery purchase of more than 0.2mn, helped the company post healthy growth. The ratio of studded jewellery also expanded from 27.6% in FY16 to 29.2% in FY17, helping boost margins. The company has increased the focus on wedding jewellery and management expects its revenue share to expand from 20% at beginning of FY17 to 40% by FY21 (current share 22-23%).

- **Watch business continues to disappoint:** Watches business continued to disappoint with 10.8% revenue growth. Exports continued to decline but domestic sales growth was strong. The company now has a portfolio of 4 products under the smart watches segment.

- **Downgrade to ADD:** We expect Titan to report earnings CAGR of 24.8% over FY17-FY19. Titan's RoE is also expected to move upward from 21.9% in FY17 to 24.7% in FY19. However, with 63% stock price performance over past 6 months, we believe the upside is limited at current valuations and hence, we downgrade the stock to **ADD** from *Buy* with revised price target of Rs529 (35.2x FY19E).

Table 2: Q4FY17 financial performance

(Rs mn, year ending March 31)

	Q4FY17	Q4FY16	YoY % gr.	Q3FY17	QoQ % gr.	Q4FY17E	% Variance
Net sales	34,297	23,915	43.4	38,372	-10.6	34,399	*-0.3*
Other operating income	-	-		-		211	
Total operating income	34,297	23,915	43.4	38,372	-10.6	34,610	*-0.9*
Expenditure	-	-		-		-	
Raw materials consumed	25,701	16,907	52.0	29,505	-12.9	25,552	*0.6*
% of Op. Inc.	74.9	70.7		76.9		73.8	
Employees cost	1,755	1,352	29.8	1,779	-1.4	1,609	*9.1*
% of Op. Inc.	5.1	5.7		4.6		4.6	
Advertising	1,303	910	43.3	1,193	9.2	972	*34.1*
% of Op. Inc.	3.8	3.8		3.1		2.8	
Other expenditure	2,817	2,659	6.0	2,226	26.6	3,180	*-11.4*
% of Op. Inc.	8.2	11.1		5.8		9.2	
Total Expenditure	31,576	21,827	44.7	34,703	-9.0	31,312	*0.8*
EBITDA	2,721	2,088	30.3	3,668	-25.8	3,298	*-17.5*
EBITDA Margin (%)	7.9	8.7		9.6		9.5	
Other Income	273	257	5.9	127	115.5	286	*-4.8*
PBDIT	2,994	2,346	27.6	3,795	-21.1	3,585	*-16.5*
Depreciation	224	229	-2.2	238	-5.9	330	*-32.1*
PBIT	2,769	2,117	30.8	3,556	-22.1	3,255	*-14.9*
Interest	82	104	-20.6	84	-2.0	151	*-45.7*
PBT	2,687	2,013	33.5	3,472	-22.6	3,103	*-13.4*
Prov for Tax	658	144	356.4	936	-29.7	838	*-21.5*
% of PBT	24.5	7.2		26.9		27.0	
PAT	2,029	1,869	8.6	2,537	-20.0	2,265	*-10.4*
Extraordinary Item	(766)	(479)	59.8	(842)	-9.0	-	
PAT After extraordinary	1,264	1,390	-9.1	1,695	-25.4	2,265	*-44.2*

Source: Company data, I-Sec research

Details in our report '*Growth tailwinds ahead*' dated May 15, 2017.

Dr. Reddy's Lab (Hold) PHARMA

Q4FY17 RESULTS REVIEW AND EARNINGS REVISION

Weak Q4, valuations fair

Rs2,581

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Target price Rs2,680

Earnings revision

(%)	FY18E	FY19E
Sales	(1.4)	(1.1)
EPS	(7.5)	(6.4)

Target price revision

Rs2,680 from Rs2,864

We maintain our HOLD rating on Dr. Reddy's Laboratories (Dr. Reddy's), considering lower than expected performance in Q4FY17 but expectation of gradual recovery over mid to long term. Near term headwinds would continue on account of warning letter on two API and one formulation plants, 483 observations on Bachupally (Hyderabad) facility and increased competition in key products like generic Vidaza and Valcyte. Revenue during Q4FY17 declined 5.4% YoY to Rs35.5bn (I-sec est. Rs38bn) mainly due to lower sales in US and PSAI. EBITDA margin declined 340bps YoY to 17.4% vs est. 22.9% led by lower gross margin (impacted by few one-off items and lower US sales). Though the company continues to invest in strengthening its product pipeline into niche segments like biosimilars, complex generics and injectables, we believe that product approvals would get delayed until resolution takes place with USFDA over the warning letter and 483 observations. We expect domestic formulations business to recover going forward and good traction in the proprietary product portfolio.

Table 1: Valuation summary

		Y/E Mar	EPS (Rs)	P/E (x)	EV/E (x)		
Price (12/5/17) (Rs)	2,581	FY16	140.1	18.4	12.0	M.Cap. (Rs bn)	428
52 wk Range (Rs)	4335/2581	FY17P	76.3	33.9	19.0	M.Cap (US$ bn)	6.6
Dividend yield FY18E (%)	0.7	FY18E	113.5	22.8	13.8	Shares Out (mn)	165.7
BSE Sensex	30188	FY19E	148.9	17.4	11.0	Free Float (%)	73.2

Source: Company data, I-Sec research

- **Continued competitive pressure in US impacted revenue:** US revenue declined 19% YoY due to increased competition in generic *Vidaza* and *Valcyte* coupled with pricing pressure in base portfolio. We don't expect any significant pick-up in US business in FY18. India business grew 8.4% YoY, recovered from 2.4% growth in Q3FY17. Emerging markets business reported a decline of 13.5% YoY on account of no sales in Venezuela. Recovery in Russia continued and revenue grew strong 47.4% YoY led by strong currency and volume increase. Europe business grew 17.5% YoY.

- **Gross margin hit by low US sales and few one-offs:** EBITDA margins declined 340bps YoY mainly due to 450bps drop in gross margins. As per management, few one-off items such as inventory provision, impairment at Bristol plant and higher manufacturing overheads impacted margin by 400bps. We expect EBITDA margin to be in the range of 21-23% over FY18-19 with continued recovery in India and Russia businesses and gradual ramp-up in US sales.

- **Outlook:** Owing to delay in product approvals in US and temporary disruptions in the India business, we have reduced FY18 and FY19 revenue estimates by 1-2% and earnings estimates by 6-7%. Overall, we expect revenue and earnings to grow at 11.8% and 39.7% over FY17-19E on low base of FY17.

- **Valuations and risks:** We maintain our **HOLD** rating with a revised target price of Rs2,680/share based on 18x FY19E earnings (earlier Rs2,864/share). Key upside risks are: earlier-than-expected resolution of the USFDA issue and lower-than-expected pressure on the EBITDA margin. Key downside risk is: escalation of the warning letter to import alert.

Table 2: Q4FY17 result review

(Rs mn, year ending March 31)

	Q4FY17	Q4FY16	YoY % Chg	Q3FY17	QoQ % Chg
Net Sales	**35,542**	**37,562**	**(5.4)**	**37,065**	**(4.1)**
Gross Profit	18,517	21,276	(13.0)	21,899	(15.4)
EBITDA	**6,169**	**7,797**	**(20.9)**	**8,526**	**(27.6)**
Other income	607	366	65.8	276	119.9
PBIDT	**6,776**	**8,163**	**(17.0)**	**8,802**	**(23.0)**
Depreciation	3,204	3,032	5.7	2,924	9.6
Interest	48	(1,663)	(102.9)	(44)	(209.1)
PBT	**3,189**	**2,485**	**28.3**	**5,922**	**(46.1)**
Tax	64	1,220	(94.8)	1,221	(94.8)
Adjusted PAT	**3,453**	**3,459**	**(0.2)**	**4,701**	**(26.5)**
Extra ordinary income/ (exp.)	(335)	(4,309)		-	
Reported PAT	**3,125**	**1,265**	**147.0**	**4,701**	**(33.5)**
EBITDA margins (%)	17.4	20.8	(340bps)	23.0	560bps

Source: Company data, I-Sec research

Table 3: Revenue mix

(Rs mn, year ending March 31)

	Q4FY17	Q4FY16	YoY % Chg	Q3FY17	QoQ % Chg
Global Generics	**29,138**	**30,775**	**(5.3)**	**30,638**	**(4.9)**
North America	15,349	18,950	(19.0)	16,595	(7.5)
Europe	2,066	1,759	17.5	2,148	(3.8)
India	5,711	5,267	8.4	5,947	(4.0)
Russia & Other CIS	4,507	3,058	47.4	4,110	9.6
ROW	1,505	1,741	(13.5)	1,838	(18.1)
PSAI	**5,401**	**5,766**	**(6.3)**	**5,400**	**0.0**
North America	532	742	(28.3)	1,259	(57.7)
Europe	2,539	2,586	(1.8)	1,828	38.9
India	395	603	(34.5)	409	(3.4)
ROW	1,935	1,835	5.4	1,904	1.6
Proprietary Products & others	1,003	645	55.5	1,027	(2.3)
Total	**35,542**	**37,563**	**(5.4)**	**37,065**	**(4.1)**

Source: Company data, I-Sec research

Details in our report '*Weak Q4, valuations fair*' dated May 15, 2017.

Dalmia Bharat (Add) CEMENT

Q4FY17 RESULTS REVIEW AND EARNINGS REVISION

Higher volumes, lower cost drive outperformance Rs2,526

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Target price Rs2,675

Earnings revision

(%)	FY18E	FY19E
Sales	↓ 0.4	↓ 0.3
EBITDA	↑ 4.0	↑ 2.4
EPS	↑ 39.2	↑ 27.0

Target price revision

Rs2,675 from Rs2,040

Dalmia Bharat's (DBEL) Q4FY17 EBITDA increased 8% YoY to Rs5.5bn (I-Sec: Rs4.6bn) led by strong 17.3% YoY / 27.8% QoQ volume growth (I-Sec: 7.3% YoY growth). Cement realisation declined by 0.7% YoY / increased 0.4% QoQ to Rs4,619 (I-sec: Rs4,594). Consolidated net debt declined by ~Rs7.5bn during FY17 to Rs52bn. DBEL has received ~Rs6bn in Apr'17 from KKR as per the terms of the placement of agreement which will be utilised to repay debt. The proposed restructuring process for group simplification and consolidation is expected to get completed in FY18. We have factored in amalgamation of DBEL with OCL (unrated, 75% owned by DBEL) and then re-naming OCL to DBEL in our financials FY18 onwards. The proposed merger will potentially result in better cash fungibility; while resulting in net ~8% equity dilution to account for minority shareholders of OCL. Factoring higher volumes and lower costs, we raise FY18-19E EBITDA by ~2-4%; while impact on PAT is higher led by base effect and merger is expected to be EPS accretive from first year itself. The said restructuring will improve holding structure and return ratios. Hence, we increase target multiple by one notch to 10x EV/E (earlier 9x EV/E). We raise our SoTP-based target price to Rs2,675/share (earlier: Rs2,040/share) based on 10x Mar'20 EV/E (earlier based on Mar'19 EV/E) discounted to Jun'19E (on quarterly rollover). Maintain ADD. Any further expansion / acquisition, unrelated diversification, and lower-than-expected ramp-up in utilisation pose downside risks.

Table 1: Valuation summary

		Y/E Mar	EPS (Rs)	P/E (x)	EV/E (x)		
Price (12/5/17) (Rs)	2,526	FY17	38.9	65.0	15.5	M.Cap. (Rs bn)	225
52 wk Range (Rs)	2526/621	FY18E	72.5	34.8	12.8	M.Cap (US$ bn)	3.5
Dividend yield FY18E (%)	0.4	FY19E	97.9	25.8	10.9	Shares Out (mn)	89.0
BSE Sensex	30188	FY20E	125.6	20.1	9.0	Free Float (%)	42.2

Source: Company data, I-Sec research

- **Revenues grew 16% YoY to Rs21.9bn (I-Sec: Rs19.7bn):** Cement revenues (including other operating income) were up 16% YoY to Rs21.0bn, ~10% above I-sec estimates, while refractory revenues declined by 2% YoY to Rs835mn. Cement volumes grew 17% YoY / 28% QoQ (I-Sec: 4.16mnte) to 4.55mnte. Volumes in OCL increased by 3.4% YoY / 32.4% QoQ; while ex-OCL volumes increased ~29% YoY / 25% QoQ led by ramping-up of utilisation at Belgaum plant and North-East plants, entry/expansion into newer markets (like UP/ MP/ Export to Nepal and Sri Lanka).

- **Blended EBITDA/te declined by 8.1% YoY to Rs1,212/te (I-Sec: Rs1,113).** Blended costs/te increased by just 1% YoY as increase in raw material plus power & fuel cost/te (+19.4% YoY, +15.1% QoQ) were partly offset by higher operating leverage. Increase in petcoke prices, slag consumption and outside clinker purchase led to increase in the same. Freight cost/te declined by 2% YoY in Q4FY17. DBEL PAT almost doubled on YoY basis to Rs1.8bn (I-Sec: Rs652mn).

- **Net debt further narrowed by ~Rs7.5bn during FY17 to Rs52bn** owing to strong cash flow generation and better working capital management. We expect it to further decline to Rs25.1bn by FY20 and ND:E ratio to improve from 0.94x in FY17 to 0.3x by FY20.

- **We factor 10% volume and 4% realisation CAGR over FY17-20** and expect blended EBITDA/te to increase to Rs1,440/te by FY20 from Rs1,244/te in FY17.

Table 2: Q4FY17 result review

(Rs mn, year ending March 31)

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	I-Sec estimates	% variance
Net Sales*	**21,850**	**18,901**	**15.6**	**17,393**	**25.6**	**19,949**	**9.5**
Volumes	4.55	3.88	17.3	3.56	27.8	4.16	9.3
Blended realisations	4,802	4,871	(1.4)	4,886	(1.7)	4,790	0.3
Other operating income							
Raw Materials	4,220	3,233	30.5	2,564	64.6	3,025	39.5
Personnel Cost	1,375	1,423	(3.4)	1,610	(14.6)	1,642	(16.3)
Power and Fuel	3,165	2,042	55.0	2,454	29.0	2,942	7.6
Freight and Selling	4,112	3,578	14.9	3,209	28.2	3,858	6.6
Other Expenses	3,463	3,509	(1.3)	3,345	3.5	3,847	(10.0)
Total Expenses	**16,334**	**13,785**	**18.5**	**13,182**	**23.9**	**15,314**	**6.7**
EBITDA	**5,517**	**5,116**	**7.8**	**4,211**	**31.0**	**4,634**	**19.0**
EBITDA/te	1,212	1,319	(8.1)	1,183	2.5	1,113	9.0
Interest	1,998	2,070	(3.5)	2,198	(9.1)	2,110	(5.3)
Depreciation	1,509	1,673	(9.8)	1,593	(5.3)	1,625	(7.2)
Other Income	715	632	13.1	712	0.4	719	(0.6)
Recurring pre-tax income	**2,724**	**2,005**	**35.9**	**1,131**	**140.9**	**1,617**	**68.4**
Extraordinary income/(expense)	-	-		-		-	
Taxation	565	688	(17.9)	624	(9.3)	647	(12.6)
Minority Interest	319	369	(13.7)	151	111.7	318	0.0
Reported Net Income	**1,841**	**948**	**94.2**	**357**	**415.7**	**652**	**182.3**
Recurring Net Income	**1,841**	**948**	**94.2**	**357**	**415.7**	**652**	**182.3**

Source: Company data, I-Sec research; *adjusted for excise duty

Details in our report '*Higher volumes, lower cost drive outperformance*' dated May 15, 2017.

GlaxoSmithKline Consumer (Downgrade to Add) FMCG

Q4FY17 RESULTS REVIEW AND RECOMMENDATION CHANGE

Volume decline continues Rs5,301

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Target price Rs5,643

Earnings revision

(%)	FY18E	FY19E
Revenue	↓ 3.3	↓ 2.5
EBITDA	↓ 3.4	↓ 3.0
PAT	↓ 1.8	↓ 1.7

Target price revision
Rs5,643 from Rs5,853

GSK Consumer's Q4FY17 print was weak with revenue and PAT growth of 2.3% and 8.4%, respectively. Volumes declined ~1% YoY. The company is increasingly focusing on initiatives to drive growth at bottom of pyramid via price cuts of its sachets and expand its share in North and West markets. Limited cost pressures and hence limited price hikes may boost the volume growth. Normal monsoon will also support higher volume growth. We expect GSK Consumer to report 9% revenue CAGR over FY17-FY19. The stock is trading at 5 year mean PE- 1 Standard deviation which supports the valuations. However, with lack of any major growth driver, we downgrade the stock to ADD from BUY with revised target price of Rs5,643. (29.3x FY19E).

Table 1: Valuation summary

		Y/E Mar	EPS (Rs)	P/E (x)	EV/E (x)		
Price (12/5/17) (Rs)	5,301	FY16	163.3	32.3	23.3	M.Cap. (Rs bn)	223
52 wk Range (Rs)	6787/4902	FY17P	156.1	33.8	22.9	M.Cap (US$ bn)	3.5
Dividend yield FY18E (%)	1.5	FY18E	173.4	30.4	20.9	Shares Out (mn)	42.1
BSE Sensex	30188	FY19E	192.3	27.5	18.7	Free Float (%)	27.5

Source: Company data, I-Sec research

- **Lacklustre performance continues:** GSK Consumer reported volume decline of ~1% in Q4FY17. The revenue growth remains uninspiring in-spite of 1) the company has cut prices of its sachets and is focussing on driving growth at bottom of pyramid 2) its price hikes are less than inflation and the affordability of its products has improved 3) the company is investing in North and West India to drive the growth and 4) favourable base.

- **Market share loss:** *Horlicks* has lost volume and value market share by 160bps and 130bps, respectively in FY17 and at the same time *Boost* has also lost volume and value market share by 10bps and 40bps, respectively. Though there were some changes to the retail panel data, we believe the competitive intensity has increased post entry by Patanjali (*Powervita*) and *Ojusvita*. The management has indicated that it has gained some market share in HFD segment in March and April 2017.

- **No major inflationary pressure:** The management has indicated that there is no major inflationary pressure and overall costs moved up 1.3-1.4% in FY17 over FY16. It also indicated that 4% price hike is sufficient in FY18 to pass on the cost pressures. Though we expect limited price hikes to boost volume growth, it will impact overall revenue growth.

- **Downgrade to ADD:** We expect GSKCH to report earnings CAGR of 11% over FY17-FY19 and its return ratios to contract. Considering the stock is trading near past 5 years mean PE – 1 Standard deviation, we believe the valuations provide support. However, due to lack of any major trigger in immediate future, we downgrade the stock to **ADD** with target price of Rs5,643 (29.3x FY19E).

Table 1: Q4FY17 financial performance

(Rs mn, year ending March 31)

Y/e March (Rs mn)	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ(%)	Q4FY17E	% Variance
Revenue	**11,019**	**10,774**	***2.3***	**8,604**	***28.1***	**11,962**	***(7.9)***
Expenditure							
Raw materials	3,764	3,457	*8.9*	2,771	*35.8*	3,671	*2.5*
% of revenue	*34.2*	*32.1*		*32.2*		*30.7*	
Employee cost	1,036	1,428	*(27.4)*	1,067	*(2.9)*	1,303	*(20.4)*
% of revenue	*9.4*	*13.3*		*12.4*		*10.9*	
Advertisement	1,735	1,553	*11.7*	924	*87.8*	2,197	*(21.0)*
% of revenue	*15.7*	*14.4*		*10.7*		*18.4*	
Other expenditure	2,312	2,198	*5.2*	2,165	*6.8*	2,367	*(2.3)*
% of revenue	*21.0*	*20.4*		*25.2*		*19.8*	
Total expenditure	**8,848**	**8,636**	***2.5***	**6,927**	***27.7***	**9,538**	***(7.2)***
EBITDA	**2,171**	**2,139**	***1.5***	**1,677**	***29.4***	**2,425**	***(10.5)***
EBITDA Margin	*19.7*	*19.8*		*19.5*		*20.3*	
Other income	710	501	*41.7*	559	*26.9*	694	*2.3*
PBDIT	**2,880**	**2,639**	*9.1*	**2,236**	*28.8*	**3,118**	*(7.6)*
Depreciation	177	146	*21.3*	171	*3.7*	150	*18.0*
PBIT	**2,703**	**2,493**	***8.4***	**2,065**	***30.9***	**2,968**	***(8.9)***
Interest	9	3	*234.6*	6	*38.1*	6	*45.0*
PBT	**2,695**	**2,491**	***8.2***	**2,059**	***30.9***	**2,962**	***(9.0)***
Prov for tax	936	869	*7.7*	695	*34.6*	1,019	*(8.2)*
% of PBT	*34.7*	*34.9*		*33.8*	*2.9*	*34.4*	
PAT	**1,759**	**1,622**	***8.4***	**1,364**	***28.9***	**1,943**	***(9.5)***
Extraordinary items	27	162	*(83.1)*	119	*(77.1)*	-	-
Reported PAT	**1,786**	**1,784**	***0.1***	**1,483**	***20.4***	**1,943**	***(8.1)***

Source: Company data, I-Sec research

Details in our report '*Volume decline continues*' dated May 15, 2017.

Glenmark Pharma (Downgrade to Hold) PHARMA

Q4FY17 RESULTS REVIEW AND RECOMMENDATION CHANGE

Weak Q4, US business disappoints Rs760

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Target price Rs788

Earnings revision

(%)	FY18E	FY19E
Sales	(8.2)	(7.9)
EPS	(18.2)	(17.8)

Target price revision
Rs788 from Rs1,016

Glenmark Pharma (Glenmark) reported weak Q4FY17 mainly on account of lower sales of generic Zetia, higher R&D spend and forex losses. Revenue grew 6.5% YoY to Rs24.6bn (I-Sec est. Rs29bn) and EBITDA margin (ex forex loss) expanded 110bps YoY to 21.1% but lower than estimated 33.5% due to substantially lower revenue from generic Zetia in exclusivity period (FTF). We believe that it would have generated sales of ~US$40mn in Q4FY17 vs estimated US$110mn. Further, base US business has seen ~15% price erosion, which was a negative surprise. We cut revenue and EPS estimates by 7-8% and 17-18% respectively for FY18-19 to factor in higher price erosion, increased R&D spend and higher interest cost. We believe valuation may remain under pressure in near to mid-term due to flat EPS in FY18E, pricing pressure in US and low visibility on debt repayment. We downgrade the stock to HOLD with revised target of Rs788/share.

Table 1: Valuation summary

		Y/E Mar	EPS (Rs)	P/E (x)	EV/E (x)		
Price (12/5/17) (Rs)	760	FY16	28.0	28.2	16.9	M.Cap. (Rs bn)	214
52 wk Range (Rs)	1029/692	FY17P	41.4	19.1	12.8	M.Cap (US$ bn)	3.3
Dividend yield FY18E (%)	0.6	FY18E	41.7	18.9	12.1	Shares Out (mn)	282.2
BSE Sensex	30188	FY19E	46.3	17.0	10.9	Free Float (%)	53.5

Source: Company data, I-Sec research

- **Disappointing US performance, EMs also declined:** US revenue grew 54.2% YoY to US$149.5mn led by generic *Zetia*. However, it came much below our estimate of US$215mn and we estimate revenue Zetia to be just ~US$40mn in Q4FY17. India business grew 6.9% YoY affected by NLEM and FDC ban and high base. EU and API business also declined 15.1% and 10.4% YoY respectively. Revenue from RoW markets degrew 3.1% YoY, while Latam business revenue dropped 44.5% YoY due to Venezuela impact.

- **High R&D spend and forex loss impacted margins:** Reported EBITDA margin declined 190bps YoY to 18.1% (I-Sec est. 33.5%) due to higher R&D spend (300bps) and forex loss of Rs740mn in other expenses. Adjusted margin stood at 21.1%, but was still below estimate due to lower than expected revenue from generic *Zetia* during the quarter. We expect base business EBITDA margin to remain subdued going forward (21-22%) due to continued pricing pressure in US business and elevated R&D spend.

- **Outlook:** We expect revenue growth to remain under pressure in FY18 due to high base (with Zetia exclusivity in FY17) and continued pricing pressure in US. Overall, we expect 6.6% revenue and 5.8% adjusted PAT CAGR over FY17-19 with EBITDA margin remaining flat at ~22%. Continued capex of ~US$100mn per year and elevated R&D spend would constraint free cash flow generation.

- **Valuations and risks:** We downgrade the stock to HOLD from ADD with a revised target price of Rs788/share based on 17x FY19E earnings (earlier Rs1,016 based on 18x FY19E earnings). Key upside risks are stable pricing in US and more than expected free cash flow. Key downside risks are regulatory hurdles and unfavourable currency fluctuation.

Table 2: Q4FY17 performance

(Rs mn, year ending March 31)

	Q4FY17	Q4FY16	% Ch YoY	Q3FY17	% Ch QoQ
Net Sales	**24,572**	**23,067**	**6.5**	**25,350**	**(3.1)**
EBITDA	5,178	4,625	12.0	7,650	(32.3)
Other income	(513)	117	(538.6)	146	(452.1)
PBIDT	**4,666**	**4,742**	**(1.6)**	**7,796**	**(40.2)**
Depreciation	689	584	18.0	625	10.2
Interest	697	475	46.7	617	12.8
PBT	**3,280**	**3,682**	**(10.9)**	**6,553**	**(50.0)**
Tax	(107)	604	(117.7)	1,794	(106.0)
Adjusted PAT	**3,438**	**2,817**	**22.0**	**4,759**	**(27.8)**
Extra ordinary income/ (exp.)	(1,549)	(1,590)		-	
Reported PAT	**1,838**	**1,488**	**23.5**	**4,759**	**(61.4)**
EBITDA margins (%)	21.1	20.0	110bps	30.2	(910)bps

Source: Company data, I-Sec research

Table 3: Sales mix

(Rs mn, year ending March 31)

	Q4FY17	Q4FY16	% Ch YoY	Q3FY17	% Ch QoQ
India	5,769	5,398	6.9	5,169	11.6
US	10,004	6,520	53.4	12,308	(18.7)
ROW	2,889	2,980	(3.1)	2,511	15.1
EU	2,298	2,705	(15.1)	1,957	17.4
Latam	1,340	2,416	(44.5)	947	41.5
Total Formulations	**22,301**	**20,019**	**11.4**	**22,892**	**(2.6)**
APIs	1,997	2,229	(10.4)	1,921	4.0
Out-Licensing/other operating income	274	819		537	(49.0)
Total Revenue	**24,572**	**23,067**	**6.5**	**25,350**	**(3.1)**

Source: Company data, I-Sec research

Details in our report '*Weak Q4, US business disappoints*' dated May 15, 2017.

Arvind (Buy) BARNDS & TEXTILES

Q4FY17 RESULTS REVIEW AND EARNINGS REVISION

Strong B&R to offset weak textiles Rs396

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Target price Rs455

Earnings revision

(%)	FY18E	FY19E
Revenue	↓ 0.6	↓ 1.7
EBITDA	↓ 15.2	↓ 13.5
PAT	↓ 16.1	↓ 9.7

Arvind's (ARVND) Q4FY17 consolidated EBITDA declined 10% YoY to Rs2.3bn (I-Sec: Rs2.6bn) mainly led by weak margins in textiles business. EBITDA margin in textiles declined by 260bps YoY to 12.7% (I-Sec: 16.6%) led by an increase in cotton prices. However, operating leverage benefit, EBITDA break-even in emerging brands along with reduced losses from specialty retail led to ~280bps YoY margin expansion in Brands & Retail (B&R) to 7.1% (I-Sec: 6.6%). Revenue grew 10.4% YoY to Rs24.6bn, in line with our estimates. B&R grew 22% Yo (I-Sec: 19%) while textile division grew 8% YoY (I-Sec: 7%). For FY18, management guided overall EBITDA margin to decline YoY due to continuing pressure on textile margins largely on account of rupee appreciation and change in product mix; while margins in B&R to expand by 150bps. Factoring lower margin assumptions in textiles, we cut EBITDA estimates by 14-15% in FY18-19 and introduce FY20 estimates. We maintained our SoTP-based target price of Rs455/share based on implied 10x Mar'20E discounted to Jun'19E (earlier implied 10x Jun'19 EV/E). Maintain BUY.

Table 1: Valuation summary

		Y/E Mar	EPS (Rs)	P/E (x)	EV/E (x)		
Price (12/5/17) (Rs)	396	FY17	12.4	30.2	13.9	M.Cap. (Rs bn)	102
52 wk Range (Rs)	421/239	FY18E	15.4	25.7	13.0	M.Cap (US$ bn)	1.6
Dividend yield FY18E (%)	0.6	FY19E	21.8	18.2	10.5	Shares Out (mn)	258.5
BSE Sensex	30188	FY20E	28.4	13.9	8.6	Free Float (%)	56.9

Source: Company data, I-Sec research

Key positives

- Textile segment revenues grew by 8% YoY to Rs14.6bn led by 27% YoY revenue growth in garment division.
- B&R segment revenue growth of 22% YoY to Rs8.3bn is commendable despite some impact of demonetisation felt in MBO channel in Jan & Feb. Value fashion retail stores *Unlimited* revenue grew by 29% YoY with 30.2% like-to-like (LTL) growth; while power brands revenue grew by 21% YoY with 5.4% LTL growth.
- B&R margin increased by 350bps YoY to 7.1% led by i) 280bps YoY margins improvement in power brands to 12.7%; ii) EBITDA break-even in emerging brands; and iii) reduced losses in specialty retail.
- EBIT losses in Arvind Internet have narrowed to Rs207mn in Q4FY17 vs Rs284mn in Q3FY17.

Key negatives

- Margins in textiles segment declined by 260bps YoY/470bps QoQ to 12.7% led by 15% YoY increase in cotton prices. The management expects continuing pressure on textile margins in FY18 on account of currency appreciation and change in mix.
- Denim division's revenues declined by 2% YoY due to 4% YoY volume decline

Table 2: Q4FY17 results review (consolidated)

(Rs mn, year ending March 31)

	Q4FY17	Q3FY16	% YoY	Q2FY17	% QoQ	I-sec estimates	Variance
Net sales	**24,648**	**22,328**	**10.4**	**23,355**	**5.5**	**24,621**	**0.1**
Raw materials	11,956	9,941	20.3	10,344	15.6	10,905	9.6
Employees cost	2,589	2,386	8.5	2,880	(10.1)	3,058	(15.3)
Power and Fuel	1,300	1,180	10.2	1,208	7.6	1,274	2.1
Project expenses	42	22	94.0	22	88.7	23	79.0
Stores consumption	1,242	1,228	1.1	1,119	11.0	1,180	5.3
Other expenses	5,285	4,968	6.4	5,411	(2.3)	5,523	(4.3)
Foreign Exchange Loss/ (Gain)	(71)	38	NM	11	NM	11	NM
Total Expenses	**22,342**	**19,762**	**13.1**	**20,995**	**6.4**	**21,974**	**1.7**
EBITDA	**2,306**	**2,566**	**(10.1)**	**2,359**	**(2.2)**	**2,647**	**(12.9)**
Interest	585	900	(35.0)	676	(13.5)	631	(7.3)
Depreciation	827	629	31.4	734	12.8	755	9.6
Other income	284	190	49.0	109	160.0	168	68.9
Recurring pre-tax income	**1,178**	**1,227**	**(4.0)**	**1,059**	**11.3**	**1,429**	**(17.5)**
Extraordinary income/(expense)	(89)	(0)	NM	(27)	NM	-	NM
Taxation	131	267	(51.0)	280	(53.3)	457	(71.4)
PBT befor Minority interest	**958**	**960**	**(0.2)**	**752**	**27.4**	**972**	**(1.4)**
Minority interest	-	-	NM	-	NM	(47)	NM
Share of profit/ (loss) of joint ventures	11	18	(37.1)	(20)	(156.3)	34	(66.6)
Reported Net Income	**969**	**978**	**(0.9)**	**732**	**32.4**	**958**	**1.1**
Recurring Net Income	**1,058**	**979**	**8.2**	**759**	**39.4**	**958**	**10.5**
Ratios (%)							
Gross margin	*51.5*	*55.5*	*-399 bps*	*55.7*	*-422 bps*	*55.7*	*-422 bps*
EBITDA margin	*9.4*	*11.5*	*-214 bps*	*10.1*	*-75 bps*	*10.8*	*-140 bps*
Net profit margin	*4.3*	*4.4*	*-9 bps*	*3.3*	*104 bps*	*3.9*	*40 bps*

Source: Company data, I-Sec research

Details in our report '*Strong B&R to offset weak textiles*' dated May 15, 2017.

Dr Lal Pathlab (Buy) PHARMA

Q4FY17 RESULTS REVIEW AND EARNINGS REVISION

Growth recovers, expect it to improve further Rs891

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Target price Rs1,130

Earnings revision

(%)	FY18E	FY19E
Sales	(2.1)	(2.9)
EPS	(2.4)	(3.2)

Target price revision

Rs1,130 from Rs1,160

Dr Lal Pathlabs (Dr Lal) reported Q4FY17 results below our estimates mainly due to lower than anticipated volume growth as recovery post demonetization is slower than expectation. Revenue grew 11.2% YoY to Rs2.2bn (I-sec est. Rs2.3bn) and lower revenue growth also impacted EBITDA margin which stood at 22.4% (I-sec est. 26.5%). Adj. PAT declined 10.7% YoY to Rs309mn below our estimate Rs403mn due to lower revenue and margins. The management believes that demonetization impact is behind now and growth should improve going forward. However, competitive pressure may impact pricing. We reduce our revenue and PAT estimates marginally by 2-3% and 2-4% respectively for FY17-19 to factor in potential impact from increased competition. We remain positive on long term outlook of Dr Lal considering its strong brand franchise in the organized market with sustainable high growth, expansion potential, and strong free cash flow generation and improving return ratios. With recent correction in stock price, the valuation appears attractive and risk reward highly favourable. We maintain BUY with revised target price of Rs1,130/share.

Table 1: Valuation summary

		Y/E Mar	EPS (Rs)	P/E (x)	EV/E (x)		
Price (12/5/17) (Rs)	891	FY16	16.0	55.7	33.8	M.Cap. (Rs bn)	74
52 wk Range (Rs)	1248/550	FY17P	18.7	47.8	29.8	M.Cap (US$ bn)	1.2
Dividend yield FY18E (%)	0.4	FY18E	23.7	37.6	24.2	Shares Out (mn)	83.1
BSE Sensex	30188	FY19E	28.2	31.6	20.2	Free Float (%)	41.8

Source: Company data, I-Sec research

- **Growth rate recovers:** Dr Lal witnessed continued impact of demonetization to some extent on the business and hence, revenue growth stood at just 11.3% YoY during Q4FY17 with just 7.7% volume growth. Though, volume growth recovered from 5% in Q3FY17 and we expect it to improve to double digit in FY18. The company's average price realization stood at Rs686/patient, implying growth of 4.4% YoY. The revenue impact of demonetization was ~2-3% for the year because large part of walk-in and network customers were based on cash transactions. Total number of samples stood at 29.3mn for FY17 (26.3mn in FY16) and total number of patients stood at 13.3mn in FY17 (12mn in FY16).

- **Lower volumes impacted the profitability:** Dr Lal reported EBITDA margin at 22.4% (flat QoQ) lower than estimated 26.5% mainly due to lower revenue which was impacted by lower volumes. We believe that this is temporary and would recover with recovery in revenue growth. However, adjusted for costs pertaining to ESOPs and CSR, adjusted EBITDA margin stood at 24.5%.

- **Consistent high growth with strong free cashflow generation:** We expect Dr Lal to continue to outperform industry growth and to witness 18.5% revenue CAGR with EBITDA and PAT to grow at 19.2% and 23.0% CAGR respectively over FY17-19. Despite increase in capex for expansion, we expect it to generate free cashflow of ~Rs3.5bn in the next two years. RoE and RoCE would remain strong at 25.5% and 32.9% respectively in FY19.

- **Valuation:** We maintain BUY with revised DCF-based target price of Rs1,130/share (earlier Rs1,160). Key downside risks are: Prolonged impact of demonetization on the business, competition risk, and delay in commissioning of Kolkata lab.

Table 2: Q4FY17 performance

(Rs mn, year ending March 31)

	Q4FY17	Q4FY16	YoY % Chg	Q3FY17	QoQ % Chg
Net Sales	**2,199**	**1,977**	**11.2**	**2,074**	**6.0**
EBITDA	493	541	(8.9)	470	**5.0**
Other income	61	62	(0.5)	67	**(8.5)**
PBIDT	**554**	**603**	**(8.1)**	**537**	**3.3**
Depreciation	79	73	9.1	71	**12.0**
Interest	1	3		1	
PBT	**474**	**528**	**(10.2)**	**465**	**1.9**
Tax	163	181	(10.1)	155	**5.1**
Minority Interest	2	-	-	1	
Adjusted PAT	**309**	**347**	**(10.7)**	**309**	**0.2**
Extra ordinary income/ (exp.)	-	-		-	
Reported PAT	**309**	**347**	**(10.7)**	**309**	**0.2**
EBITDA margins (%)	22.4	27.4	(500)bps	22.6	(20)bps

Source: Company data, I-Sec research

Details in our report '*Growth recovers, expect it to improve further*' dated May 15, 2017.

CPI Monitor Strategy

MAY 2017

CPI drops to all time low since launch of new series: Prints 3% in Apr ’17

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- Retail prices registered a growth of 2.99% y/y in Apr '17, down from 3.89% y/y in the previous month due to fall in food and transport prices
- Core inflation was a big positive as it printed a 19 month low of 4.53%, down from 4.91% in the previous month
- Drop in the core inflation was on account of transport and communication costs which rose 4% % y/y in Apr '17, down from 6% y/y in March
- Vegetables and pulses continue to drag CPI down: Together, vegetables and pulses shaved off 0.9% from overall inflation
- Sugar price inflation on a steady decline trajectory – sugar prices grew 11.4% y/y in Apr '17, down from 16.9% y/y in the previous month. Sugar prices rose at an average rate of 19.7% in FY17

Details in our report ‘*CPI drops to all time low since launch of new series: Prints 3% in Apr ’17*’ dated May 12, 2017.

Sector update OIL&GAS

WEEKLY

China diesel consumption weakens/declines, petrol decelerates

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IOC (BUY)
Target price Rs459

HPCL (HOLD)
Target price: Rs531

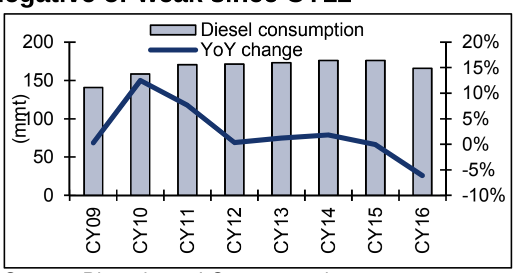
BPCL (HOLD)
Target price: Rs698

RIL (HOLD)
Target price: Rs1,419

Key recent developments/data points in the oil & gas sector are:

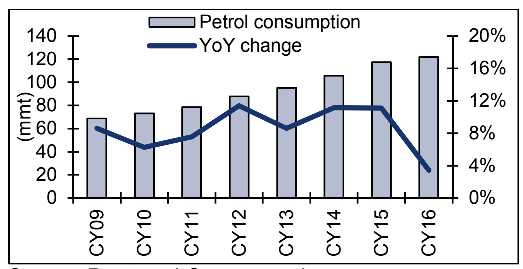
- **Chinese diesel consumption in CY17-TD is up 0.5% YoY but declined by 6.1% YoY in CY16; petrol demand is up 2.2% YoY in CY17-TD (CY16: up 3.4% YoY).**
- **US petrol consumption declined 2.6% YoY in the W.E.05-May'17, 3.6% YoY in CY17-TD and 1% YoY in Q4CY16.**
- **Q1FY18-TD Singapore GRM is at US$6.5/bbl, RIL's GRM at US$8.6-9.0/bbl and OMCs' at US$6.6-7.3/bbl; Singapore GRM was US$5.5-6.2/bbl in last two weeks.**
- **US oil production in W.E. 05-May'17 is up 10% from end-Sep'16 level; US onshore oil rig count, a lead indicator of production, is up 34% in CY17-TD.**
- **Monthly LPG and kerosene price hikes have resumed in Apr'17 and would continue until Jul'17; LPG and kerosene prices are up 6%-30% since Jun'16.**
- **Chinese diesel demand weak/down since CY12 while petrol demand weak since FY16:** Chinese diesel consumption was up 8%-12% YoY in CY10-CY11, but growth was just 0.3%-1.8% YoY in CY12-CY14. Chinese diesel consumption peaked in CY14 and was down 0.03%-6.1% YoY in CY15-CY16, but is up 0.5% YoY in Q1CY17. Chinese petrol consumption growth was strong at 6%-11% YoY in CY09-CY15, but has weakened to 3.4% YoY in CY16 and to 2.2% YoY in Q1CY17.

Chinese diesel consumption growth negative or weak since CY12



Source: Bloomberg, I-Sec research

Chinese petrol consumption growth has weakened in CY16 and CY17-TD



Source: Reuters, I-Sec research

- **US petrol consumption continues to decline:** US petrol consumption declined 2.6% YoY in the W.E. 5-May'17, 2.7% YoY in Q2CY17-TD, 3.9% YoY in Q1CY17 and 1% YoY in Q4FY16. Singapore GRM and petrol cracks, which are at US$6.5-12.0/bbl in Q1FY18-TD, had declined to US$5.5-10/bbl in the W.E. 5-May'17, but has recovered to US$6.2-11.5/bbl in the W.E. 12-May'17. We estimate Q1FY18-TD GRM at US$8.6-9.0/bbl for RIL and US$6.6-7.3bbl for OMCs.
- **US oil production and rig count continues to rise:** Total US oil production at 9.31m b/d in W.E. 05-May'17 is up 10% from 8.5m b/d in end-Sep'16. US Shale oil output at 5.07m b/d in Apr'17 is up 13.7% from 4.5m b/d in Oct'16. US oil rig count (a lead indicator of oil output) is up by 6 to 703 in the W.E. 5-May'17 and is up 34% in CY17-TD. EIA estimates US oil output to rise to 9.5m b/d in CY18 but, if current rate of production rise (100k b/d) continues, output may be much higher in CY18.

- **LPG and kerosene price hikes resume and to continue until Jul'17:** Monthly hike in LPG and kerosene prices started from Jul'16 and continued until Feb'17. There was no price hike in Mar'17, but hikes have resumed from Apr'17 with press reports suggesting hikes may continue until Jul'17. LPG price has been hiked by Rs23.6/cylinder (6%) and kerosene by Rs4.5/l (30%) since Jul'17.
- **OMCs' uncompensated import cost on LPG at Rs51bn in FY18E:** Government, which currently bears the entire LPG subsidy, gains from the LPG price hike. Oil marketing companies (OMCs) continue to bear the uncompensated import cost, which was at Rs35/cylinder in FY17 and is currently at Rs31/cylinder. We estimate uncompensated import cost hit of Rs51bn on OMCs in FY18 (Rs53bn in FY17).

Details in our report '*China diesel consumption weakens/declines, petrol decelerates'* dated May 15, 2017.

Results date reckoner

May 2017

Sun	Mon	Tue	Wed	Thu	Fri	Sat
	1 Dabur	**2** Kensai Nerolac, SCUF, Marico	**3** Alembic Pharma, ATFL, Dewan Housing	**4** HDFC, Emami, L&T Infotech, TCOM, Cera, MCX	**5** Equitas , NIIT Tech, Eicher Motors, Orient Cement	**6**
7	**8** Bharti Infratel, UBI, Canara Bank	**9** GCPL, Bharti Airtel, PLNG, IndiGo, GMDC	**10** ZEEL, Hero MotoCorp, Dalmia Bharat	**11** Asian Paints, GSK Consumer, HCL Tech, Arvind, Glenmark, Havells	**12** Dr. LaL Pathlab, Nestle, Dr Reddys, Titan, ABFRL	**13** JK Cement, Idea
14	**15** Colgate, Vedanta, Kajaria Ceramics	**16** Shree Cement, PNB, Quess Corp, Tata Steel	**17** JSW Steel, HUL, JK Lakshmi Cement	**18** Bajaj Auto, HMVL, Pidilite, Karur Vysya Bank, BoB, CESC, Akzo, TeamLease, HSIL, Muthoot Finance, GDL, DB Corp	**19** HT Media, Motherson, MHRIL, VRL, Tata Power, Grasim, SBI	**20** Chambal
21	**22** GAIL, Godrej Ind,	**23** Century Ply, ENIL, JSPL	**24** Lupin	**25** Prism Cement, GSPL, IOC, MphasiS, Ashok Leyland, Bosch, CONCOR, Page Ind,	**26** Tech Mahindra, TV Today, Tata Chemicals, Sun Pharma, HPCL	**27** Cadila, PTC India
28	**29** Info Edge, BHEL, Bajaj Electricals	**30** Thermax, M&M, BEL, TTK Prestige, Berger, Wabco, Hindalco, Ramco Cement	**31**			

Recent reports/updates

Analyst	Company/Sector	Date
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Krupal / Dharmesh	Arvind : Strong B&R to offset weak textiles	May 15
Anand / Aniruddha	Nestle India: Volume driven growth; margins decline	May 15
Anand / Aniruddha	Titan Company: Growth tailwinds ahead	May 15
Anand / Aniruddha	GlaxoSmithKline Consumer: Volume decline continues	May 15
Sriraam / Vinay	Dr Reddy's Lab: Weak Q4, valuations fair	May 15
Sriraam / Vinay	Glenmark Pharma: Weak Q4, US business disappoints	May 15
Sriraam / Vinay	Dr Lal Pathlab: Growth recovers, expect it to improve further	May 15
Vidyadhar / Hemang	Oil&Gas Weekly: China diesel consumption weakens/declines, petrol decelerates	May 15
Anagha / Siddharth	CPI Monitor: CPI drops to all time low since launch of new series	May 12
Nimit / Rahil	Asian Paints: Healthy volume growth recovery	May 12
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ANALYST CERTIFICATION

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