BP WEALTH

Steel Authority of India Limited

Initiating Coverage

'SAIL'ing towards a stronger future

August 2018

Table of Content

Steel Authority of India Ltd

Buy

BP WEALTH

Metals | Initiating Coverage — 29th August 2018

Company Overview

Steel Authority of India (SAIL) is largest state owned steel producers in India with 75% stake held by Government of India (GoI). The company is an integrated iron and steel maker, producing both carbon and special steel for industries like construction, engineering, power, railway, automotive, consumer durables, defense etc. At present, SAIL owns and operates five integrated steel plants viz., Bhilai Steel Plant (BSP), Durgapur Steel Plant (DSP), Rourkela Steel Plant (RSP), Bokaro Steel Plant (BSL) and IISCO Steel Plant (ISP). In addition to this the company also has three special steel plants i.e. Alloy Steel Plant, Salem Steel Plant and Visvesvaraya Iron & Steel Plant. SAIL is one of the largest steel maker with 21MTPA of crude steel capacity. The company has 100% captive iron ore mines whereas as it fulfills most of its coal requirement through imports. SAIL is the largest supplier for rails and heavy plates in India and enjoys a near monopoly position in market.

Investment Rationale

Better Product Mix, Improvement in employee productivity and Expansion & Modernisation project to improve operational performance

Company is going through a capex cycle where crude steel production will increase by 6MT from 15MT in FY18 to 21MT expected by FY21. This additional capacity will increase the production of long and flat products. SAIL's current product portfolio consists of high proportion of low margin, semi finished products. As part of capex plan, company has added facilities which will aid to covert semi-steel products to value added high margin products like coated steel, Cold Rolled coils/sheets, colour coated sheets, rails, structurals etc. The one parameter where company has done exceptionally well is in improving employee productivity ratio. Over the years, company has tried to cut down the number of employees but not at the cost of operations to be affected. In fact, the production has gone up with better use of technology, automation, training sessions etc. This activity has brought drastic improvement in employee production ratio from 214 tonnes of crude steel production/year/employee in FY08 to 344 tonnes of crude steel production/year/employee in FY18 whereas number of employees reduced from 128804 in FY08 to 76870 in FY18. The expansion & modernization project brought economy of scale, better blast furnace productivity and capacity utilization from 70% in FY18 to 90% in FY20 would result in better gross margins from 53% in FY18 to 59% in FY20.

Stronger macros helping company to deliver better results

Government of India levied anti-dumping duty on imports of HRC and CRC from various countries, including China and Japan, at a reference rate of $489/t in case of HR coils and $576/t in case of cold rolled products, to protect the Indian steel industry. With both international prices and domestic prices having rallied significantly on the back of an improving global economy and improved outlook for the domestic industry, we believe that the turnaround is sustainable and strong prices should persist, because of strong domestic demand. On the back of favourable prices and an improved product mix, average realisations are expected to improve by 10% from Rs.41876/t to Rs.46,091/t in FY19E (currently prices stand at Rs. 48645/t and we have built in lower prices going ahead).

Positive FCF will help to deleveraging debt going forward

Company being proceeding with Expansion and Modernisation project over the years, has managed to keep its Debt-Equity ratio well below 1.3x at the end of FY18. The debt stood at nearly ~Rs.42,000 crores in FY18. It is likely that company can able to generate free cash flow due near completion of capital expenditure and better cash flow from operations. It is expected it to generate Rs.7,369.6 crores in FY19, Rs.11,426.6 crores in FY20. Through this, we expect company to bring down debt levels to 36,000 crores odd levels. Moreover, on account of debt repayment, interest cost is expected to decline in FY20. In a nutshell, net debt equity ratio and interest coverage ratio able to improve from 1.1x and 1.6x in FY18 to 0.6x and 5.0x in FY20.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook — **Positive**

Stock

CMP (Rs)	80
Target Price (Rs)	99
BSE code	500113
NSE Symbol	SAIL
Bloomberg	SAIL IN
Reuters	SAIL.BO

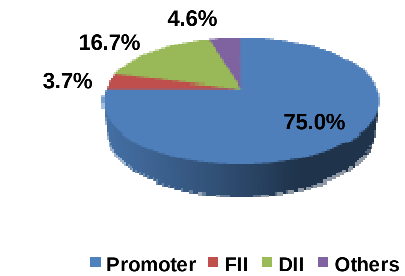
Key Data

Nifty	11,691.9
52 Week H/L (Rs)	101/53
O/s Shares (Crores)	413
Market Cap (Bn)	330
Face Value (Rs)	10

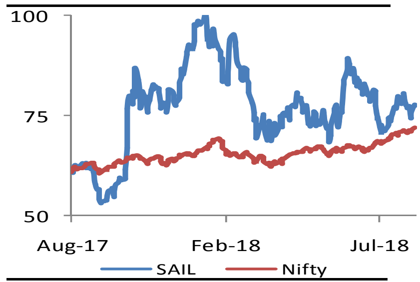
Average volume

3 months	1,62,41,360
6 months	1,53,58,250
1 year	1,48,39,260

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

Kunal Kothari

kunalkothari@bpwealth.com

022-61596408

Financial Performance to improve going forward

FY18 was the year of revival not only for the overall global steel cycle but also for the Indian steel industry and SAIL. During Q1FY19, SAIL reported EBITDA/tonne of Rs.7879/t, the highest since Q1FY11 primary aided by lower RM costs and increase in realization. Blended realization rose to Rs.48645/t (+27% YoY/ 7% QoQ). Company has Sales volume stood at 3.27MT (+8% YoY/ -12.5% QoQ) against production volume of 3.6 MT (+12% YoY/flat QoQ). Going forward, strong volume from the much delayed capex is likely to come through. With the increase in production the EBITDA margins are expected to post 17.9% in FY19E and 18.4% in FY20E from 8% in FY18 and EBITDA/tonne to grow from from Rs.3279/t in FY18 to Rs.8246/t in FY19E and Rs.8037/t in FY20E. Company's rising interest cost will also start to decline on account of repayment of debt. Post capitalization of new assets, depreciation is expected to go upto Rs.3321 crores in FY20E. Company has trimmed net losses to Rs. 566 crores in FY18 and we expect it to post sharp turnaround with profit of Rs.4313 crores in FY19E and Rs. 5440 crores in FY20E. We believe, SAIL offers an attractive play on the cycle given the high operating (high fixed cost) and financial leverage.

Why we like this stock & valuation methodology

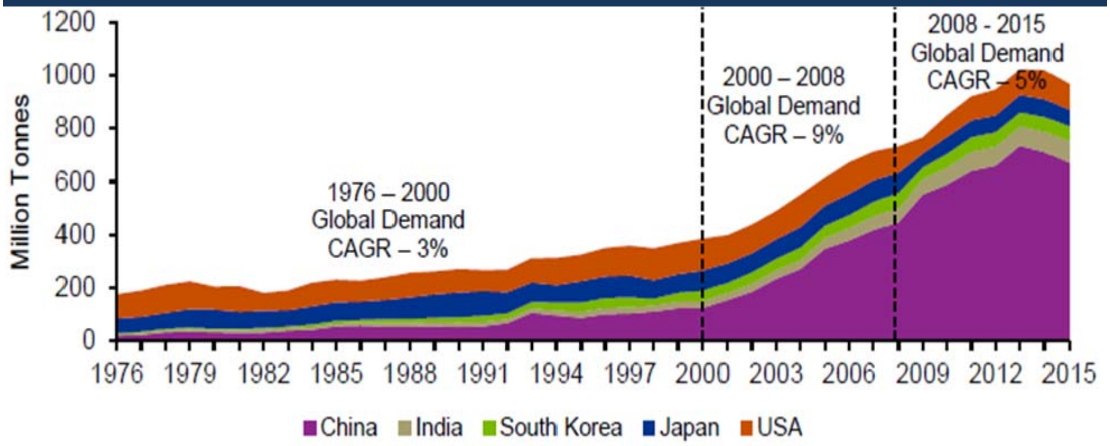
Overall steel cycle is favourable and steel price environment remains positive for the company. However, strong volume growth from much delayed capex will bring breakthrough in profitability going forward. SAIL, with current capacity utilization of 70%, places an attractive play on the cycle. It is significantly leveraged to the domestic demand cycle given its dominant long product portfolio. As and when SAIL does ramp up +90% utilization, EBITDA/t recovery could be steep given improvement in operational efficiency. As the visibility on earnings improved, we expect Net Sales to grow CAGR of 14% from FY18-FY20, EBITDA margin is set to improve to 18.4% and PAT to see turnaround with profit of Rs.5440 in FY20E. We initiate coverage on the stock & recommend 'BUY' rating by assigning EV/ EBITDA 5.2x to its FY20E EBITDA (which is 30% discount to 5 year average of 7.4x). We arrive at a target price of Rs.105 (potential upside of 32%) for an investment horizon of 12-15 months.

Key Financials					
YE March (Rs. Crores)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Revenue	**39,098**	**44,502**	**57,560**	**70,843**	**74,876**
Revenue Growth (Y-oY)	*(15.2%)*	*13.8%*	*29.3%*	*23.1%*	*5.7%*
EBITDA	**(2,903)**	**67**	**4,636**	**12,675**	**13,744**
EBITDA Growth (Y-o-Y)	*(161.7%)*	*(102.3%)*	*6809.5%*	*173.4%*	*8.4%*
Net Profit	**(4,176)**	**(2,756)**	**(281)**	**4,314**	**5,441**
Net Profit Growth (Y-o-Y)	*(326.6%)*	*(34.0%)*	*(89.8%)*	*1632.9%*	*26.1%*
Diluted EPS	**(10.1)**	**(6.7)**	**(0.7)**	**10.4**	**13.2**
Diluted EPS Growth (Y-o-Y)	*-326.6%*	*-34.0%*	*-89.8%*	*1632.9%*	*26.1%*
No of Diluted shares (crores)	**413**	**413**	**413**	**413**	**413**
Key Ratios					
EBITDA (%)	**-7.4%**	**0.2%**	**8.1%**	**17.9%**	**18.4%**
NPM (%)	-10.7%	-6.2%	-0.5%	6.1%	7.3%
RoE (%)	**-10.0%**	**-6.6%**	**-0.8%**	**11.7%**	**12.5%**
RoCE (%)	-7.1%	-3.6%	2.1%	12.2%	13.1%
Tax Rate %	**41.5%**	**39.9%**	**30.2%**	**33.0%**	**33.0%**
Book Value Per share (Rs.)	97	90	89	100	111
Valuation Ratios					
P/E (x)	**-7.4x**	**-11.2x**	**-110.1x**	**7.2x**	**5.7x**
EV/EBITDA	-21.9x	1035.9x	15.7x	5.3x	4.3x
P/BV (x)	**0.8x**	**0.8x**	**0.8x**	**0.8x**	**0.7x**
Market Cap. / Sales (x)	0.8x	0.7x	0.5x	0.4x	0.4x

Capacity Overhang Clouding the Global Industry

The demand for steel has grown over time with increasing industrialization, from 200 MT in 1976 to more than 1000 MT in 2015. However, it was only after the turn of the century that the global steel demand has increased rapidly. As evident from below, global steel demand increased at an accelerated rate of 9% CAGR during the period 2000 – 2008, effectively doubling in the short period.

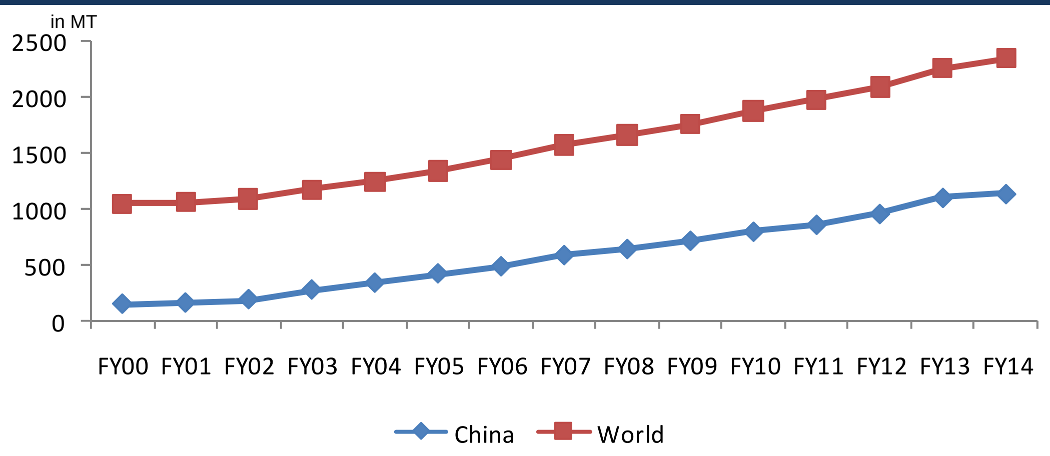
Global Steel Cycle and rise of China



Source: World Steel Association, BP Equities Research

Steel consumption shows strong link with economic growth. It is understandable since the economic growth will drive the consumption leading to increased spending on automobiles, white goods, housing etc. In current scenario, China is the key driver of global demand. China's economy grew at an unprecedented pace and demand for steel also grew rapidly. This drove a capacity addition super cycle which saw almost 1300MT of steelmaking capacity added worldwide in the period 2000-2014, doubling the global capacity to 2350MT. Of it, China accounted for majority of capacity addition leading to increase in its share from mere 15% to 50% in 2015.

China dominating capacity addition super cycle

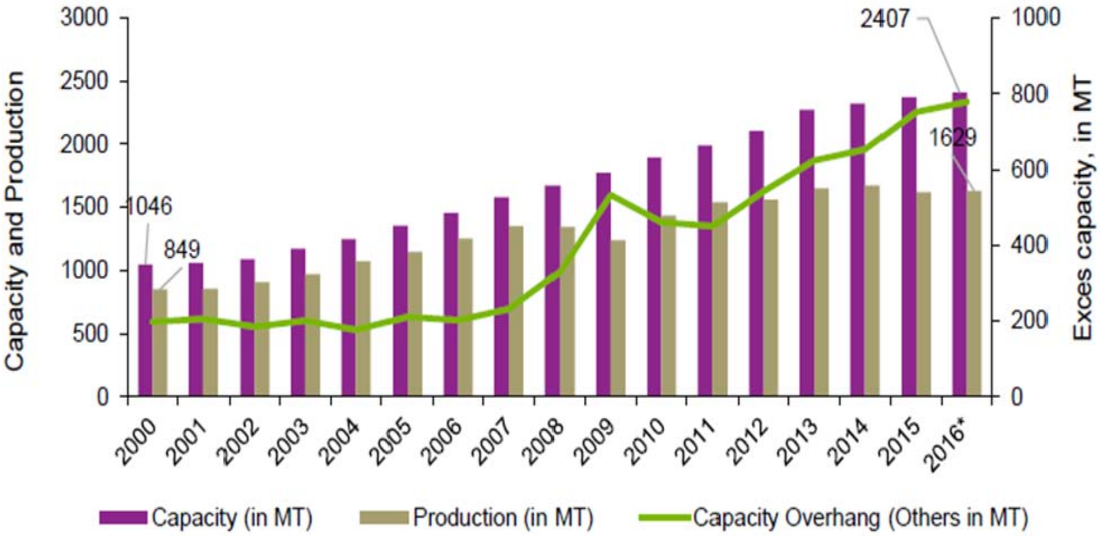


Source: World Steel Association, BP Equities Research

However since 2013, China's economy has slowed down. With the slowdown in economy growth, investments in infrastructure sector also diminished. This has led to a significant drop in the growth of steel demand across the world. As the demand slowed down, the capacities have idled, leading to overcapacity of 400-450MT in China. Similar overcapacity scenario observed in other major producers such as Japan, and South Korea as well.

Put together, the global excess capacity is estimated at 800MT, one third of installed base.

Overcapacity built up lead to global supply glut



Source: World Steel Association, BP Equities Research

This has led to a supply glut in the global steel market, which in turn has led to a sharp decline in the prices of steel products. Declining prices have caused severe erosion in profitability of steel companies, across the globe. In order to protect their domestic steel industries from cheap imports, several countries have imposed duties of which USA tops the list with 30% import duty on steel against China. On the other hand, China itself is suffering losses due to underutilization of capacity, use of low cost low grade iron ore and coal and rise in pollution level. Owing to this, China has initiated supply side reforms by decreasing its steel capacity by 150 MT till 2020. Use of high grade iron ore, conversion from BF-BOF to EAF route and reduction in coal consumption are some of the reforms currently undertaken. Moreover, global economy is growing steadily; this will augment well for steel consumption. Hence, steel prices have again recovered on the back of increase in raw material prices and other factors.

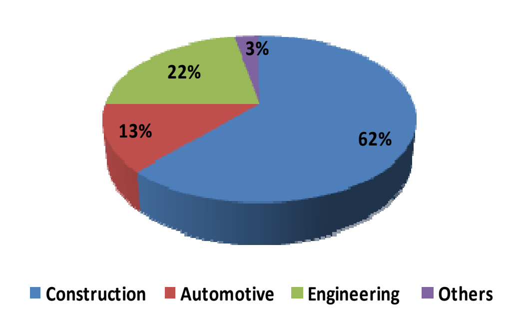
Indian Steel Industry – A sustainable growth story

Post liberalization, the steel industry has witnessed unprecedented growth. From, modest 22MT in 1991, it has grown drastically to reach a capacity of 134MT in 2018. In Fact, recently India overtook Japan to become the second largest producer in the world. What differentiates Indian steel industry from the other major producers of steel is the fact that the growth in the domestic steel industry has been driven by increase in domestic consumption of steel rather than increase in exports. The steel industry also enjoys inherent advantages in terms of availability of high grade iron ore and non-coking coal along with relatively young workforce with competitive labour cost. These factors have so far ably supported the growth of steel industry in the country.

Particulars	Figures as on FY18
Capacity	132MT
Production	104MT
Consumption	90MT
Top 5 players share in total capacity	57%
(SAIL, JSPL, Tata Steel, JSW Steel, RINL)	
SAIL share in total capacity	16%
SAIL share in total production	15%
Avg Capacity Utilisation	80%
Avg Capacity Utilisation by top 5	90%

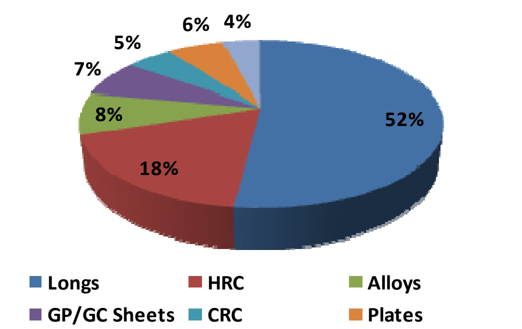
Source: BP Equities Research

Demand Drivers (Segment wise)



Source: BP Equities Research

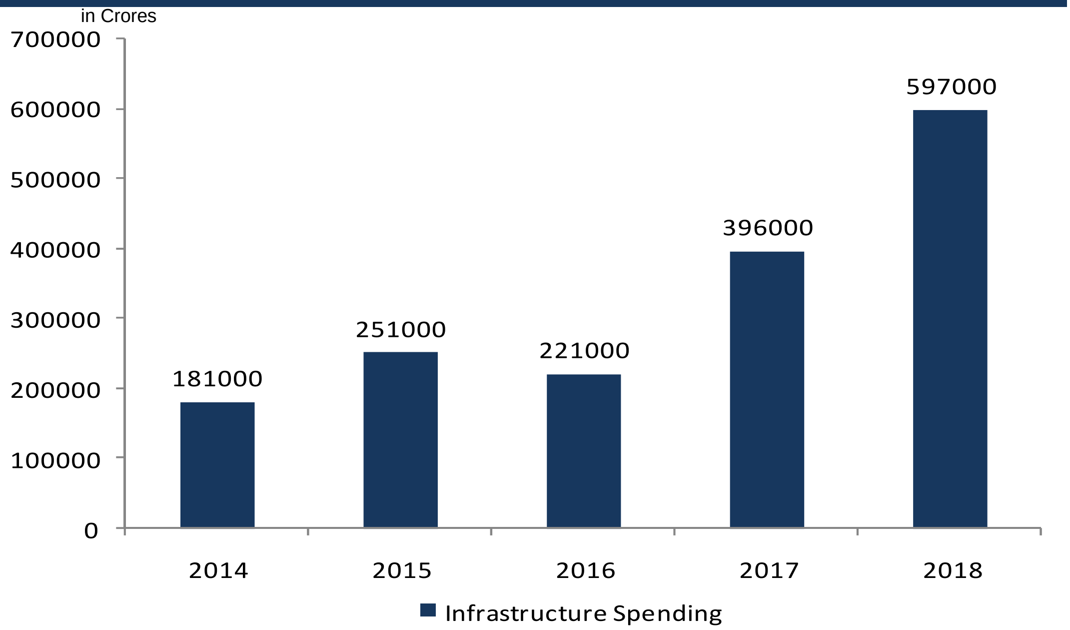
Domestic segmentation of steel industry



Source: BP Equities Research

There is significant potential for growth, given the low per capita steel consumption of 68kgs, as compared to world average of 208kgs. Steel consumption in rural areas remains an area of concern. The current per capita consumption is 10kgs and notably, Assam, Uttar Pradesh, Bihar, Odisha, West Bengal and North east areas are having per capita consumption of less than 20kg. Overall economic growth, and more specifically accelerated spending in infrastructure sectors including roads, railways, automobiles along are expected to create significant demand for steel in the country. The focus on the Make in India initiative is overall expected to give a fresh boost to steel consumption through defence and shipbuilding. During 2014-2018, Government has increased the allocation of budget for infrastructure spending from 181000 crores in 2014 to 597000 crores in 2018, a CAGR of 35%.

Government renewed focus to infrastructure development



Source: BP Equities Research

Government has taken various landmark decisions in favour of steel industry which has helped to revive from challenging times. They are as follows:

- ⇒ Minimum import price
- ⇒ Safeguard and antidumping duties
- ⇒ Recognition of steel industry as priority sector
- ⇒ As per National Steel Policy 2017 set a target of per capita steel consumption of 160kg by 2030. This would require crude steel production of 255MT and capacity of 300MT.
- ⇒ Mandatory use of domestic produced steel for government projects.
- ⇒ Various housing programs such as PMAY, Saansad Adarsh Gram Yojna etc.
- ⇒ Significant use of Steel in Railways such as coaches, stations, foot over bridges etc.

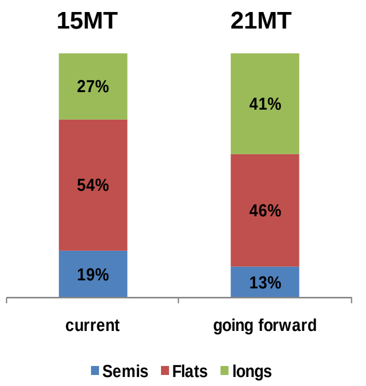
Investment Rationale

Various measures to enhance operational margins

Better Product Mix

Company is going through capex cycle through with crude steel production will increase by 6MT from 15MT in FY18 to 21MT expected by FY21. This additional capacity will increase the production of long and flat products. SAIL's current product portfolio consist high proportion of low margin, semi finished products. As part of capex plan, company has added facilities which will aid to covert semi-steel products to value added high margin products like coated steel, Cold Rolled coils/sheets, colour coated sheets, rails, structurals etc. On this account , company targets to decrease the proportion of semi-steel products from 19% to 13% and enhance long products from 26.8% to 41% whereas flat products will notice increase in volumes but its proportion to total will decrease from 5.9% to 46%. Owing to this, it is expected company will be able garner more realization/tonne leading to expansions of operational margins.

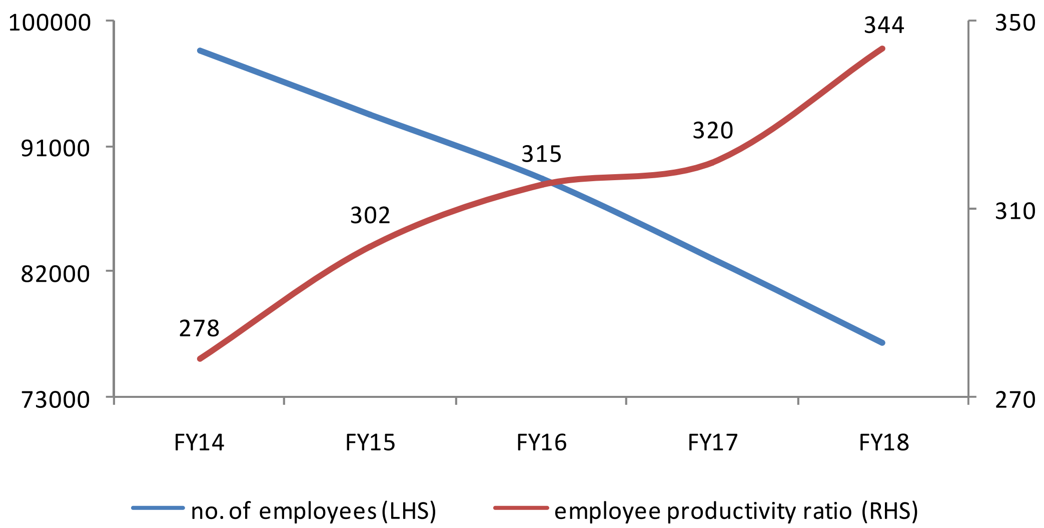
Post capex can garner more net sales realisation from better product mix



Improvement in Employee productivity

The one parameter where company has done exceptionally well is in improving employee productivity ratio. Over the years, company has tried to cut down the number of employees but not at the cost of operations to be affected. In fact, the production has gone up with better use of technology, automation, training sessions etc. It has improved employee mix ratio with increase in <30 age group and decrease in >50 age group employees. This activity has brought drastic improvement in employee production ratio from 214 tonnes of crude steel production/year/employee in FY08 to 344 tonnes of crude steel production/year/employee in FY18 whereas number of employees reduced from 128804 in FY08 to 76870 in FY18. This has enhanced production levels while employee cost remained muted.

Drastically improvement in employee productivity along with decrease in no. of employees



Source: BP Equities Research

Expansion & Modernization project will improve operational performance

SAIL undertook a major capacity expansion and modernization project FY11 onwards and has outlay of approx. 61831 crores and 10250 crores for iron ore mine acquisition. This has reached near completion stage as 53584 crores already spend (87%) and company is expected to spend 4000 crores each in FY19 and FY20. This has helped to increase in production capacity and also improvement in various techno-economic variables. Likewise, economy of scale, better blast furnace productivity and capacity utilization from 70% in FY18 to 90% in FY20 would result in better gross margins from 53% in FY18 to 59% in FY20.

SAIL to emerge as India's largest steel producer

Capex Outlay	Amount (in Crores)
Capacity Expansion	39131
New line of Value Added Products	7000
Technology Upgradation	3500
Repair/Modification	12200
Mines Acquisition	10250
Total Capex (ex mines)	**61831**
Capex Completed till FY18	**53584**
Capex Completion %	**87%**

Source: Company, BP Equities Research

Plant	Hot Metal		Crude Steel		Saleable Steel	
	17-18	Post Expansion	17-18	Post Expansion	17-18	Post Expansion
Bhilai Steel Plant	4.3	7.5	4.1	7	3.7	6.6
Durgapur Steel Plant	2.3	2.5	2	2.2	2	2.1
Rourkela Steel Plant	3.3	4.5	3.2	4.2	2.9	4
Bokaro Steel Plant	4.1	5.8	3.7	4.6	3.5	4.2
IISCO Steel Plant	2.1	2.9	1.8	2.5	1.7	2.4
Visvesvaraya Steel Plant	0	0.3	0	0.2	0	0.2
Alloy Steel Plant			0.1	0.5	0.1	0.4
Salem Steel Plant			0.1	0.2	0.2	0.3
Total	**16.1**	**23.5**	**15**	**21.4**	**14.1**	**20.2**

Source: Company, BP Equities Research

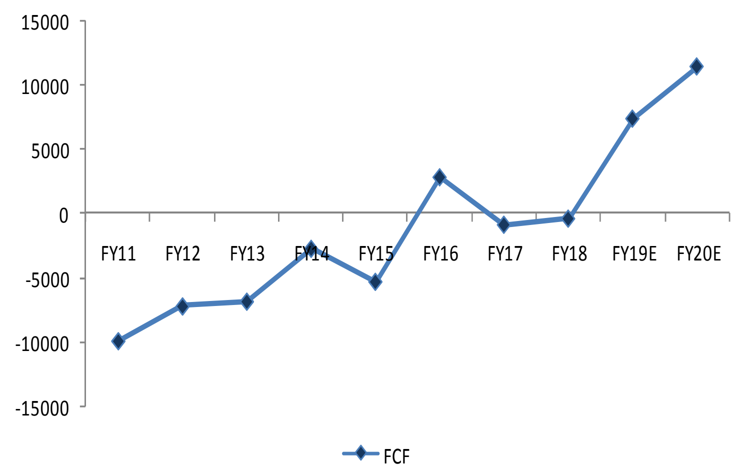
Stronger macros helping company to deliver better results

Government of India levied anti-dumping duty on imports of HRC and CRC from various countries, including China and Japan, at a reference rate of $489/t in case of HR coils and $576/t in case of cold rolled products, to protect the Indian steel industry. With both international prices and domestic prices having rallied significantly on the back of an improving global economy and improved outlook for the domestic industry, we believe that the turnaround is sustainable and strong prices should persist, because of strong domestic demand. On the back of favourable prices and an improved product mix, average realisations are expected to improve by 10% from Rs.41876/t to Rs.46,091/t in FY19E **(currently prices stand at Rs. 48645/t and we have built in lower prices going ahead)**.

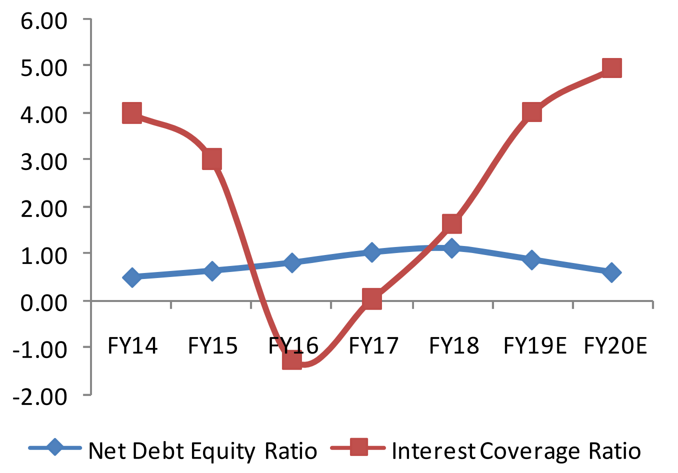
Positive FCF will help to deleveraging debt going forward

Company being proceeding with Expansion and Modernisation project over the years, has managed to keep its Debt-Equity ratio well below 1.3x at the end of FY18. The debt stood at nearly ~Rs.42,000 crores in FY18. It is likely that company can able to generate free cash flow due near completion of capital expenditure and better cash flow from operations. It is expected it to generate Rs.7,369.6 crores in FY19, Rs.11,426.6 crores in FY20. Through this, company aims to bring down debt levels to 31,000 crores odd levels. Moreover, on account of debt repayment, interest cost is expected to decline in FY20. In a nutshell, net debt equity ratio and interest coverage ratio able to improve from 1.1x and 1.6x in FY18 to 0.6x and 5.0x in FY20.

Free Cash Flow trend



Net Debt Equity ratio and Interest coverage ratio

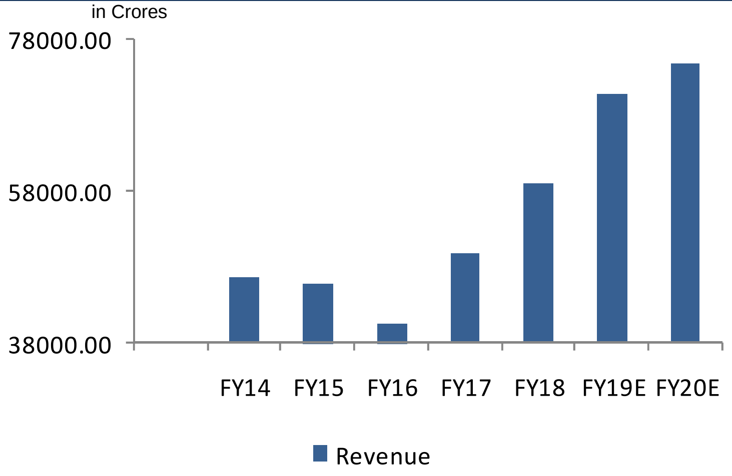


Source: Company, BP Equities Research

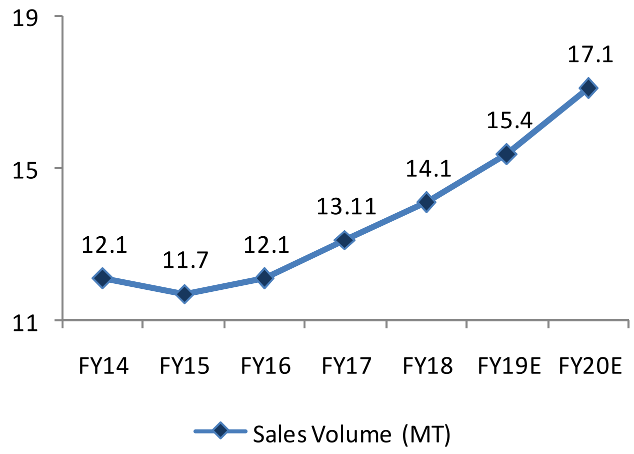
Financial Performance to improve further

FY18 was the year of revival not only for the overall global steel cycle but also for the Indian steel industry and SAIL. During Q1FY19, SAIL reported EBITDA/tonne of Rs.7879/t, the highest since Q1FY11 primary aided by lower RM costs and increase in realization. Blended realization rose to Rs.48645/t (+27% YoY/ 7% QoQ). Company has Sales volume stood at 3.27MT (+8% YoY/ -12.5% QoQ) against production volume of 3.6 MT (+12% YoY/flat QoQ). Going forward, strong volume from the much delayed capex is likely to come through. With the increase in production the EBITDA margins are expected to post 17.9% in FY19E and 18.4% in FY20E from 8% in FY18 and EBITDA/tonne to grow from from Rs.3279/t in FY18 to Rs.8246/t in FY19E and Rs.8037/t in FY20E. Company's rising interest cost will also start to decline on account of repayment of debt. Post capitalization of new assets, depreciation is expected to go upto Rs.3321 crores in FY20E. Company has trimmed net losses to Rs. 566 crores in FY18 and we expect it to post sharp turnaround with profit of Rs.4313 crores in FY19E and Rs. 5440 crores in FY20E. We believe, SAIL offers an attractive play on the cycle given the high operating (high fixed cost) and financial leverage.

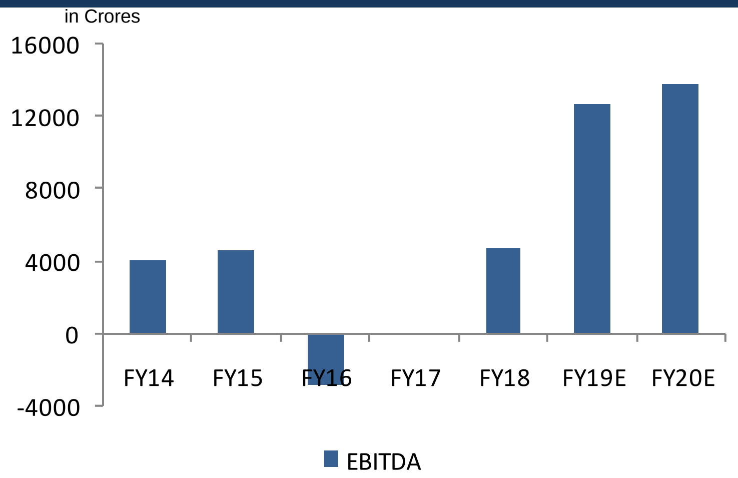
Revenue Trend



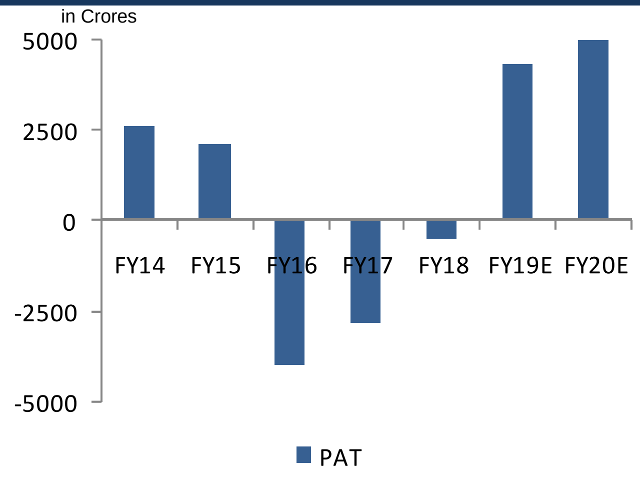
Sales Volume trend



EBITDA trend



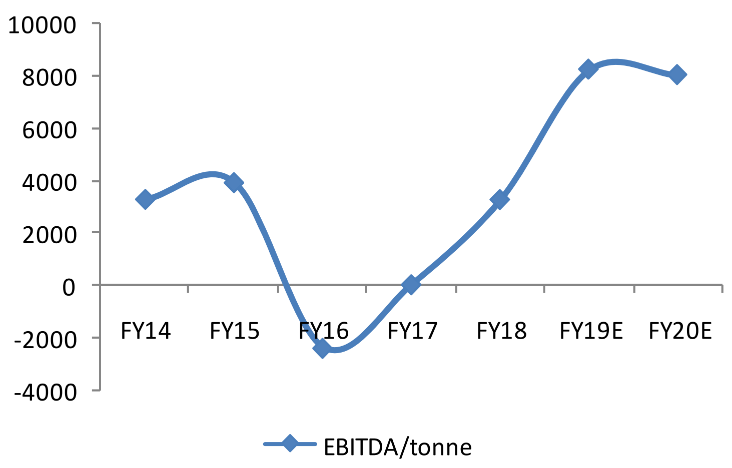
PAT trend



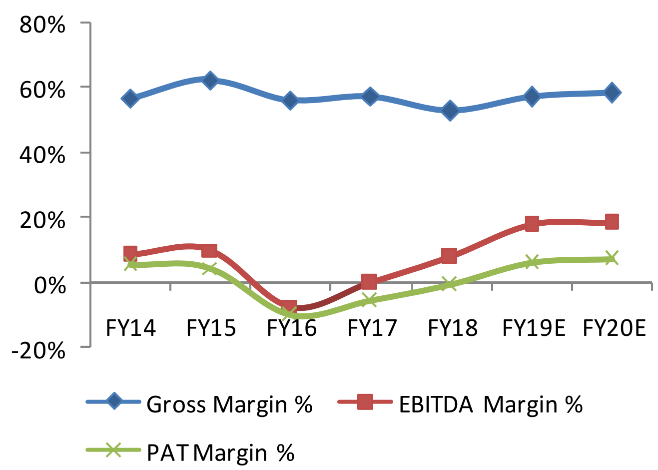
Company Background

Steel Authority of India (SAIL) is largest state owned steel producers in India with 75% stake held by Government of India (GoI). The company is an integrated iron and steel maker, producing both carbon and special steel for industries like construction, engineering, power, railway, automotive, consumer durables, defense etc. At present, SAIL owns and operates five integrated steel plants viz., Bhilai Steel Plant (BSP), Durgapur Steel Plant (DSP), Rourkela Steel Plant (RSP), Bokaro Steel Plant (BSL) and IISCO Steel Plant (ISP). In addition to this the company also has three special steel plants i.e. Alloy Steel Plant, Salem Steel Plant and Visvesvaraya Iron & Steel Plant. SAIL is one of the largest steel maker with 21MTPA of crude steel capacity. The company has 100% captive iron ore mines whereas as it fulfills most of its coal requirement through imports. SAIL is the largest supplier for rails and heavy plates in India and enjoys a near monopoly position in market.

EBITDA/t trend



Gross/EBITDA/PAT Margin trend



Source: Company, BP Equities Research

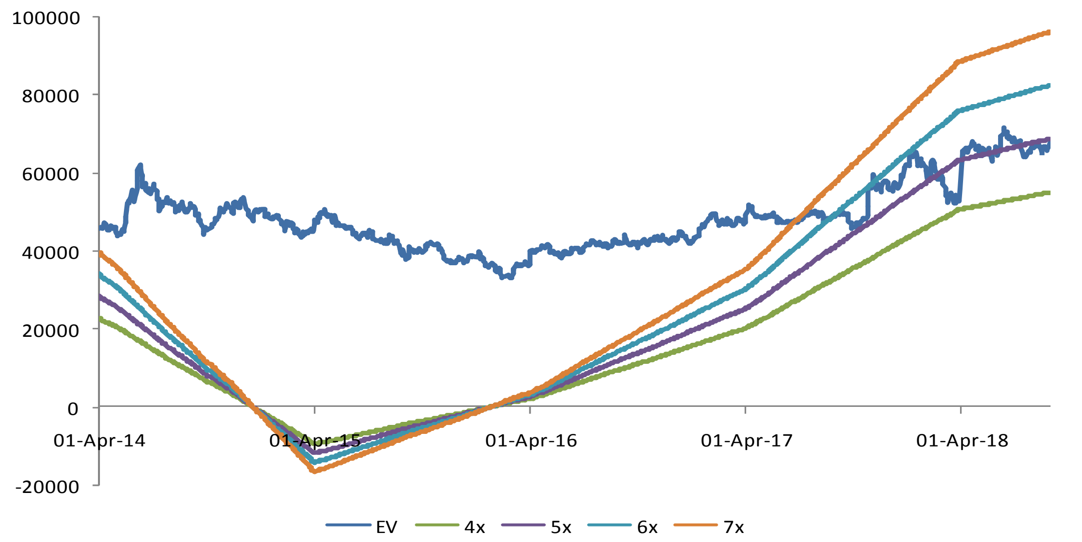
⇒ **Peer group comparison**

Company	CMP	M Cap	Steel Capacity		EPS		EV/EBITDA	
	(Rs.)	(Rs. Bn)	FY18	FY21	FY19E	FY20E	FY19E	FY20E
SAIL Ltd	80	328	15MT	21MT	10.4	13.2	5.3	4.3
Tata Steel	595	716	18MT	23MT^	78	80	5.2	5.1
JSW Steel	390	945	13MT	18MT	31	32	7.6	7.4

*Source: BP Equities Research, * Bloomberg estimate, ^ capacity expansion can extend to FY22*

⇒ **PE Band**

PE Band - Steel Authority of India Ltd



Source: BP Equities Research, Ace Equity

Key Risks and concerns:

⇒ Failure to ramp up the production

⇒ Non improvement of Operational performance

⇒ Slowdown in global and domestic demand

⇒ Increase in raw material prices

Valuation Summary	FY20E
SAIL Ltd	
CMP	80
No. of shares (no. in crores)	413
Market Cap (in crores)	33,457
Assigned Multiple	**5.2**
EBITDA FY20 (in crores)	13,744
EV Derived (in crores)	68,720
Debt (in crores)	36,000
Cash (in crores)	8,077
Estimated Market Cap (in crores)	40,796
Target Price	**105**
Upside	**32%**

Source: Company, BP Equities Research

Valuation & Outlook

Overall steel cycle is favourable and steel price environment remains positive for the company. However, strong volume growth from much delayed capex will bring breakthrough in profitability going forward. SAIL, with current capacity utilization of 70%, places an attractive play on the cycle. It is significantly leveraged to the domestic demand cycle given its dominant long product portfolio. As and when SAIL does ramp up +90% utilization, EBITDA/t recovery could be steep given improvement in operational efficiency. As the visibility on earnings improved, we expect Net Sales to grow CAGR of 14% from FY18-FY20, EBITDA margin is set to improve to 18.4% and PAT to see turnaround with profit of Rs.5440 in FY20. We initiate coverage on the stock & recommend 'BUY' rating by assigning EV/ EBITDA 5.2x to its FY20 EBITDA (which is 30% discount to 5 year average of 7.4x). We arrive at a target price of Rs.105 (potential upside of 32%) for an investment horizon of 12-15 months.

Profit & Loss A/c					
YE March (Rs. Crores)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Revenue	**39,098**	**44,502**	**57,560**	**70,843**	**74,876**
Growth %	*-15.2%*	*13.8%*	*29.3%*	*23.1%*	*5.7%*
Total Revenue	**39,098**	**44,502**	**57,560**	**70,843**	**74,876**
Less:					
Raw Material Consumed	17,723	21,279	27,877	30,331	31,122
Employee Cost	9,729	8,964	8,866	9,100	9,400
Other Expenses	14,549	14,192	16,182	18,737	20,610
Total Operating Expenditure	**42,001**	**44,435**	**52,924**	**58,168**	**61,132**
EBITDA	**(2,903)**	**67**	**4,636**	**12,675**	**13,744**
Growth %	*-161.7%*	*-102.3%*	*6809.5%*	*173.4%*	*8.4%*
Less: Depreciation	2,404	2,682	3,066	3,194	3,322
EBIT	**(5,307)**	**(2,615)**	**1,570**	**9,481**	**10,422**
Growth %	*-289.8%*	*-50.7%*	*-160.0%*	*504.1%*	*9.9%*
Interest Paid	2,300	2,528	2,823	3,157	2,772
Non-operating Income	529	449	415	391	470
Extraordinary Income	0	(217)	26	(277)	0
Profit Before tax	**(7,078)**	**(4,910)**	**(811)**	**6,438**	**8,121**
Tax	(2,938)	(1,960)	(245)	2,125	2,680
Net Profit	**(4,177)**	**(2,756)**	**(281)**	**4,314**	**5,441**
Adjusted Profit	**(4,176)**	**(2,539)**	**(308)**	**4,591**	**5,441**
Reported Diluted EPS Rs	**(10.1)**	**(6.7)**	**(0.7)**	**10.4**	**13.2**
Growth %	*-326.6%*	*-34.0%*	*-89.8%*	*1632.9%*	*26.1%*
Adjusted Diluted EPS Rs	**(10.1)**	**(6.1)**	**(0.7)**	**11.1**	**13.2**
Growth %	*-326.6%*	*-39.2%*	*-87.9%*	*1591.4%*	*18.5%*

Source: Company, BP Equities Research

Common Sized Profit & Loss Account					
YE March (Rs. Crores)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Less:					
Raw Material Consumed	45.3%	47.8%	48.4%	42.8%	41.6%
Employee Cost	24.9%	20.1%	15.4%	12.8%	12.6%
Other Expenses	37.2%	31.9%	28.1%	26.4%	27.5%
Total Operating Expenditure	**107.4%**	**99.8%**	**91.9%**	**82.1%**	**81.6%**
EBITDA	**-7.4%**	**0.2%**	**8.1%**	**17.9%**	**18.4%**
Depreciation	6.1%	6.0%	5.3%	4.5%	4.4%
Interest Paid	5.9%	5.7%	4.9%	4.5%	3.7%
Non-operating Income	1.4%	1.0%	0.7%	0.6%	0.6%
Extraordinary Items	0.0%	-0.5%	0.0%	-0.4%	0.0%
Profit Before Tax	**-18.1%**	**-11.0%**	**-1.4%**	**9.1%**	**10.8%**
Current tax	-7.5%	-4.4%	-0.4%	3.0%	3.6%
Profit After Tax	**-10.7%**	**-6.2%**	**-0.5%**	**6.1%**	**7.3%**
Adjusted Profit	**-10.7%**	**-5.7%**	**-0.5%**	**6.5%**	**7.3%**

Source: Company, BP Equities Research

Cash Flows Statement					
YE March (Rs. Mn)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
PAT	**(4,176.5)**	**(2,756.2)**	**(281.4)**	**4,313.5**	**5,440.9**
(Less)/Add: Extraordinary Income/Expense	0.0	216.7	(26.4)	277.4	0.0
Less: Non Operating Income	(529.2)	(449.5)	(415.2)	(391.0)	(470.4)
Add: Depreciation	2,404.4	2,681.6	3,066.0	3,193.7	3,321.5
Add: Interest Paid	2,300.5	2,527.8	2,822.8	3,157.0	2,772.0
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	**(0.8)**	**2,220.5**	**5,165.7**	**10,550.6**	**11,064.1**
(Inc)/Dec in Current Assets	(746.5)	(354.8)	(2,805.8)	(2,355.9)	(818.8)
Inc/(Dec) in Current Liabilities	2,447.2	3,437.0	5,034.3	7,103.5	6,374.3
Changes in Inventory	3,327.4	(1,027.9)	(1,288.2)	(3,928.7)	(1,192.8)
Net Cash Generated From Operations	**5,027.2**	**4,274.9**	**6,106.0**	**11,369.6**	**15,426.6**
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(6,619.5)	(6,812.7)	(11,391.2)	(4,000.0)	(4,000.0)
(Inc)/Dec in Capital Work In Progress	4,400.6	1,651.8	4,880.0	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Others)	3,057.6	(54.5)	1,374.3	(45.1)	(49.7)
Add: Non Operating Income Income	529.2	449.5	415.2	391.0	470.4
(Inc)/Dec in Intangible Assets	(2,397.5)	42.0	(1,190.9)	1,222.7	0.0
Net Cash Flow from/(used in) Investing Activities	**(1,029.6)**	**(4,723.8)**	**(5,912.7)**	**(2,431.4)**	**(3,579.3)**
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	(2,145.1)	3,806.1	2,383.3	(1,021.5)	(5,000.0)
Inc/(Dec) in Reserves & Surplus	904.3	(353.0)	185.8	0.0	0.0
Inc/(Dec) in Equity	(30.9)	0.0	0.0	0.0	0.0
Dividend Paid	0.0	0.0	0.0	0.0	(826.1)
Less: Interest Paid	(2,300.5)	(2,527.8)	(2,822.8)	(3,157.0)	(2,772.0)
Adjustments	(2,715.9)	(226.4)	0.0	(0.0)	0.0
Exceptional Item	0.0	(216.7)	26.4	(277.4)	0.0
Net Cash Flow from Financing Activities	**(6,288.0)**	**482.2**	**(227.2)**	**(4,455.9)**	**(8,598.1)**
Net Inc/Dec in cash equivalents	**(2,290.4)**	**33.3**	**(33.8)**	**4,482.3**	**3,249.2**
Opening Balance	**2,635.9**	**345.6**	**378.8**	**345.0**	**4,827.3**
Closing Balance Cash and Cash Equivalents	**345.5**	**378.8**	**345.0**	**4,827.3**	**8,076.5**

Balance Sheet					
YE March(Rs. mn)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Liabilities					
Equity Capital	4,131	4,131	4,131	4,131	4,131
Reserves & Surplus	36,021	32,912	32,816	37,130	41,744
Equity	**40,151**	**37,042**	**36,947**	**41,260**	**45,875**
Net Worth	**40,151**	**37,042**	**36,947**	**41,260**	**45,875**
Minority Interest					
Net Deferred tax liability/(Asset)	3,296	1,272	535	535	535
Total Loans	**33,071**	**38,901**	**42,022**	**41,000**	**36,000**
Capital Employed	**76,518**	**77,215**	**79,503**	**82,795**	**82,410**
Assets					
Gross Block	77,778	84,591	95,982	99,982	103,982
Less: Depreciation	31,836	34,292	37,358	40,551	43,873
Net Block	**45,942**	**50,299**	**58,625**	**59,431**	**60,109**
Capital WIP	24,927	23,275	18,395	18,395	18,395
Investments	**1,771**	**1,826**	**451**	**497**	**546**
Others - A	2,703	2,661	3,852	2,629	2,629
Current Assets					
Inventories	14,708	15,736	17,024	20,953	22,146
Sundry Debtors	3,151	2,935	3,871	4,764	5,036
Cash and Bank Balance	346	379	345	4,827	8,077
Current Investments			0	0	0
Loans and Advances	4,139	4,869	5,736	7,060	7,462
Other Current Assets	1,946	1,787	2,789	2,928	3,074
Total Current Assets	**24,289**	**25,705**	**29,766**	**40,532**	**45,793**
Less:Current Liabilities & Provisions					
Sundry Creditors	3,984	5,218	7,527	10,075	10,648
Provisions	2,660	2,942	2,724	2,853	2,988
Other Current Liabilities	16,471	18,392	21,335	25,761	31,427
Total Current Liabilities & Provisions	**23,114**	**26,551**	**31,586**	**38,689**	**45,064**
Capital Applied	**76,518**	**77,215**	**79,503**	**82,795**	**82,410**

Source: Company, BP Equities Research

Key Ratios					
YE March (Rs. Crores)	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Key Operating Ratios					
EBITDA Margin (%)	-7.4%	0.2%	8.1%	17.9%	18.4%
Tax / PBT (%)	41.5%	39.9%	30.2%	33.0%	33.0%
Net Profit Margin (%)	-10.7%	-6.2%	-0.5%	6.1%	7.3%
RoE (%)	-10.0%	-6.6%	-0.8%	11.7%	12.5%
RoCE (%)	-7.1%	-3.6%	2.1%	12.2%	13.1%
Current Ratio (x)	1.1x	1.0x	0.9x	1.0x	1.0x
Dividend Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Book Value Per Share (Rs.)	97.2	89.7	89.4	99.9	111.1
Financial Leverage Ratios					
Debt/ Equity (x)	0.8x	1.0x	1.1x	0.9x	0.6x
Interest Coverage (x)	-1.3x	0.0x	1.6x	4.0x	5.0x
Growth Indicators %					
Growth in Gross Block (%)	9.3%	8.8%	13.5%	4.2%	4.0%
Sales Growth (%)	(15.2%)	13.8%	29.3%	23.1%	5.7%
EBITDA Growth (%)	(161.7%)	(102.3%)	6809.5%	173.4%	8.4%
Net Profit Growth (%)	(326.6%)	34.0%	89.8%	1632.9%	26.1%
Diluted EPS Growth (%)	(326.6%)	34.0%	89.8%	1632.9%	26.1%
Turnover Ratios					
Debtors Days	29	24	25	25	25
Creditors Days	37	43	52	52	52
Inventory Days	137	129	108	108	108

Source: Company, BP Equities Research

BP WEALTH

Research Desk	Tel: +91 22 61596464
Institutional Sales Desk	Tel: +91 22 61596403/04/05

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP EQUITIES Pvt. Ltd (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392