KCP Ltd

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Cement & Sugar	Rs. 95.5	Buy at CMP and add on declines	Rs. 79-85	Rs. 122-136	2-3 quarters

HDFCSec Scrip Code	KCPLTDEQNR
BSE Code	590066
NSE Code	KCP
Bloomberg	KCPL IN
CMP (as on 14 July, 16)	Rs. 95.5
Equity Capital (Rs crs)	12.89
Face Value (Rs)	1.00
Equity Sh Outstanding crs	12.89
Market Cap (Rs crs)	1231.0
Book Value (Rs)	47.7
Avg. 52 Week Volumes	403743
52 Week High	Rs. 101.3
52 Week Low	Rs. 58.1

Shareholding Pattern % (March 2016)	
Promoters	47.34
Institutions	7.57
Non Institutions	45.09
Total	100.00

Fundamental Research Analyst:
Zececa Mehta
zececa.mehta@hdfcsec.com

KCP is a 75 year old diversified business group with a turnover of about Rs. 1300 crore with interests in Cement, Heavy Engineering, Sugar, Power. It has 9 manufacturing locations over various geographies in India and Vietnam.

Investment Rationale

- Locational advantage expected to drive cement sales, rising capacity utilisation expected to improve operating leverage
- Cement and Sugar Price uptick to help improve margins
- Capacity expansion at Muktyala to drive Cement revenues
- Upturn in heavy engineering business can result in significant upside
- Other businesses sweeten the deal through cost savings and diversification benefits
- Sugar capacity expansion in Vietnam could bring upsides to top and bottom line

Risks and Concerns

- Financial Risks
- Competition Risk
- Changes in Govt. policies w.r.t levy of additional duties and other matters
- Slowdown in macro economy affects engineering segment
- Volatility in global sugar industry/prices

Outlook and view

Going forward, the future for both Cement and Engineering segments looks positive in the long term with the Government focus on development of infrastructure. The cement market in India is expected to grow at a compound annual growth rate (CAGR) of ~9 percent during the period 2014-2019. KCP's business may improve over the near term driven by sustained improvement in cash accruals on account of volume uptick and healthy realizations in the cement segment, and ramping up of enhanced capacity in the sugar segment.

We think that investors could buy the stock at the CMP and add on declines to Rs. 79-85 band for sequential targets of Rs. 122 and Rs. 136 over 2-3 quarters.

Financial Summary

Particulars (Rs in Cr)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Total Operating Income	1016.3	1136.3	1043.1	1187.1	1296.0	1477.9	1743.4
Operating Profit	191.8	107.1	109.4	166.7	237.5	282.3	331.2
OPM (%)	18.9	9.4	10.5	14.0	18.3	19.1	19.0
Reported Profit After Tax	106.1	65.2	34.5	50.9	93.9	97.3	115.0
PATM (%)	10.4	5.7	3.3	4.3	7.2	6.6	6.6
EPS (Rs.)	8.2	5.1	2.7	3.9	7.3	7.5	8.9
PE (x)	11.6	18.9	35.7	24.2	13.1	12.7	10.7
EV/EBITDA	6.1	7.7	10.9	8.2	6.5	6.2	5.6
RoNW (%)	21.1	13.0	6.7	9.3	15.3	14.1	14.9

(Source: Company, HDFC Sec)

Company Profile

The KCP group was founded in 1941 by Mr. V Ramakrishna, a first-generation entrepreneur who set up a sugar-manufacturing unit (which was later demerged to KCP Sugar). The group's cement division commenced operations in 1958 and it currently operates two cement units in Andhra Pradesh (AP): at Macherla in Guntur district (capacity of 0.8 mtpa) and Muktyala in Krishna district (capacity of 1.8 mtpa). The company offers heavy manufacturing capabilities with a fully integrated steel foundry, heavy fabrication, and heavy machine shops with assembly facilities in Thiruvottiyur, Chennai and Arakkonam (100 km from Chennai). KCP Vietnam, which commenced operations in 1999, has a capacity of 6000 tons of cane per day (tcd), which is expected to increase to about 10,000 tcd. The group has also constructed a 128-room four-star hotel in Hyderabad, which commenced operation from April 2016. This hotel has been handed over to M/s Accor Hotels for commercial operations, under the brand name of 'Mercure'.

KCP also has various captive power sources such as hydro power plant, solar power plant, wind power plant, waste heat recovery plant and thermal power plant.

Power Type	Capacity (MW)	Supply to
Hydel	8.25	Macherla Cement Plant
Wind	3.75	Heavy Engineering Division
Thermal (Waste Heat Recovery)	2.5	Macherla Cement Plant
Solar	1.15	Established to contribute to renewable energy and to accrue Renewable Energy Certificates
Thermal	18	Muktyala Cement Plant

The company has a subsidiary namely KCP Vietnam Industries Ltd (has interest in Sugar business in Vietnam) in which the company has 66.67% stake. The company also has a JV with Five Cails, France in which KCP has 40% stake. The JV is named as Fives Cail KCP Ltd. and it specializes on engineering and design aspects of a sugar plant.

As a group, the company has over 9 manufacturing locations in India and Vietnam. As part of project execution it has set up over 40 sugar factories and 12 cement factories in India and overseas.

Investment Rationale

Locational advantage expected to drive cement demand

KCP made foray into the cement business in 1958 with the commissioning of a 200 ton facility in Macherla, AP. The company manufactures grade 53 OPC and PPC cement variants. Since its inception, the cement business has grown exponentially to a total installed capacity of 2.6 mn tons. Both the cement plants enjoy a great locational advantage as they are situated on border of two states, AP and Telangana.

Amravati (the new capital city of AP) is to be built on 217.23 square kilometres land in Guntur district, on the banks of the Krishna River. The city will be 12 kilometres south-west of Vijayawada city and 24 kilometres north of Guntur City. In addition to this, there are a lot of infrastructure projects in the pipeline for Andhra Pradesh and Telangana like the proposed East Coast Economic Corridor, Dedicated Freight Corridor, Diamond Quadrilateral High Speed Rail and National Waterways.

The state is focused on developing Amaravati as the new capital for which more than 33,000 acres of land has already been acquired through an innovative land-pooling scheme. On 25th May 2016, Andhra Pradesh released the master plan for Amaravati. As per the master plan designed by the Singapore government, the capital city spans an area of 217 sq. km. between Vijayawada and Guntur towns, and leverages resources of the Krishna river that flows in the region. The newest capital in the country incorporates the concepts of Vastu and Feng Shui, the Indian and Chinese sciences of construction, touches three national highways, and will be fed by seven growth corridors including those from Hyderabad to Machlipatnam Port and from Chennai to Visakhapatnam. The plan envisages creating 5.6 million jobs in the capital and its environs that will be home to 13.5 million people by 2050.

Andhra Pradesh, having lost a significant resource base after the bifurcation, is finding it difficult to compete with its revenue surplus neighbouring developed states. However, the government is trying to overcome the difficulties and convert the crisis into an opportunity to lay a solid foundation for a 'Sun Rise Andhra Pradesh'. The vision of the government is to make Andhra Pradesh as one of the first three high-performing states in India by 2022, the best state in India by 2029, and finally to make it the best destination in the world by 2050. The government has started various initiatives to achieve these objectives.

Cement Division	FY12	FY13	FY14	FY15
Cement produced (MT)	12,88,007	17,28,281	15,55,224	13,79,195
Capacity Utilisation (%)	69.47%	78.92%	71.34%	63.27%
Clinker produced (MT)	12,43,267	15,51,444	13,09,164	12,35,757
Cement sold (MT)	12,65,354	17,24,569	15,61,587	13,81,012

Increasing capacity utilisation expected to improve operating leverage

Cement Industry in South India has faced an oversupply scenario since the past five years (except the last two quarters) due to policy paralysis and political instability in the region, completion of incremental capacity building and tepid growth of the Indian economy in general. Cement plants located in the South were operating at a sub optimal level of ~55% in general.

Cement companies with factories in Andhra Pradesh will get a shot in the arm as the State Government plans to procure more than two million tonnes of cement this year for its infrastructure and social development projects as the central government has enhanced the budgetary allocation to state governments, thus giving the state governments flexibility to increase their spending on rural infrastructure upgrades.

As the demand-supply balance improves, capacity utilization should start inching up after a seven-year decline which may help KCP achieve a higher capacity utilisation. This may help the company achieve higher operating leverage and may contribute to higher EBITDA margins. However given the substantial overcapacity, the utilization rates could gradually rise to 73-77% over 2-4 years. Further high capital costs for new plants warrant a significant price improvement to make economic returns viable.

Price uptick to help improve margins

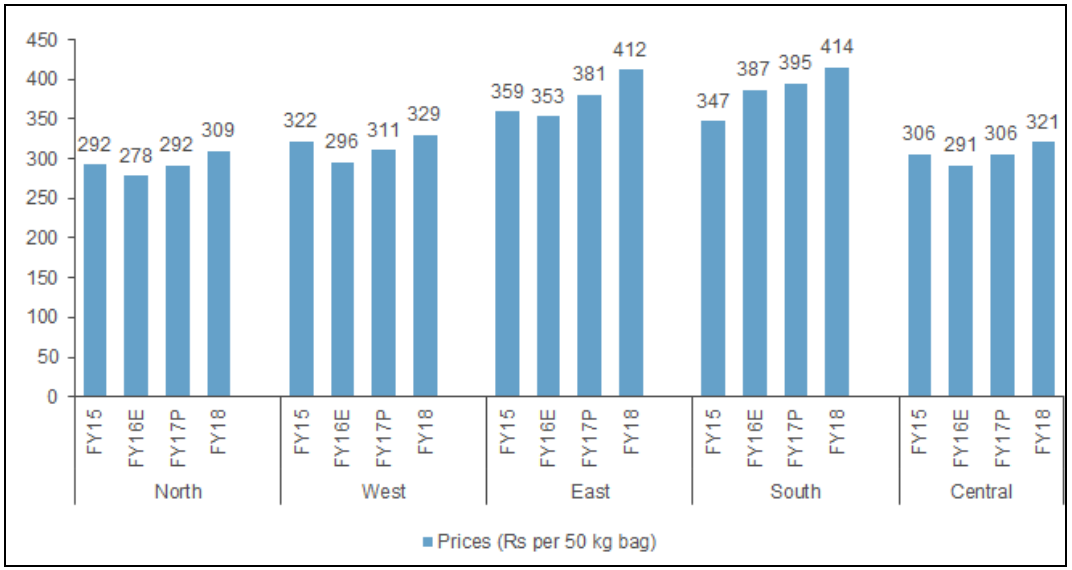
According to the channel checks, the cement prices in the past one month (i.e. June 2016) have seen improvement of an average Rs. 20 per bag (cement bags weighing 50 kilograms) in South India. Since cement players in South India had been maintaining a strict pricing discipline, there has been an increase of about 3% in cement prices on MoM basis (from May 2016 to June 2016). Cement prices in South India have seen a continuous improvement in the month gone by after a steep decline in March-April 2016. Experts believe there will be one more round of price hike.

	Prices (in Rs/bag)			Jun-16	
	Jun-15	May-16	Jun-16	m-o-m	y-o-y
North	260	291	294	0.9%	12.8%
South	397	350	359	2.8%	-9.5%
East	361	344	351	2.2%	-2.8%
West	292	289	294	1.7%	0.6%
Central	286	302	300	-0.6%	4.8%
North-East	385	346	343	-0.9%	-11.0%
Pan-India	325	317	322	1.6%	-0.9%

(Source: Crisil Research)

After the formation of stable governments in many southern states after elections in Tamil Nadu and Kerala, experts believe that the spending on projects will increase in the next 1-2 quarters and, hence, the cement demand should also see a positive rub-off effect. Also, AP and Telangana are seeing good traction in irrigation and infra-led projects. This is positive as cement demand in AP and Telangana had been lagging other south Indian states, pulling down realisations. The anticipated pick-up in infrastructure and housing development (due to increased allocation in Union Budget 2016-17) is likely to revive capacity utilisation, setting off operating leverage advantage for cement companies gradually in the coming quarters.

Going for long term view, Crisil expects the cement prices to be on rise for the next two years with South region having the highest cement prices as shown below



(Source: Crisil Research)

Capacity expansion at Muktyala to drive revenue

KCP is planning to expand production capacity of its cement unit located at Muktyala, Krishna district in Andhra Pradesh. The company plans to double the production from current 1.8 million tonnes per annum to 3.5 MTPA. The company has another unit about 0.8 million tone at Macherla. So the total capacity could rise to 4.3-4.4 MTPA capacity of the cement. The new capacity would take about 18-20 months to be commissioned (from June 2016). The company is spending around Rs 400 crore, which would be funded through internal accruals and loans, Rs 100 crore would be internal accrual and rest would be raised from banks. KCP has also acquired land required for expansion of the unit. There is a moratorium of three years on the fresh debt (repayments to begin from FY2020 by which time a large portion of the current term debt would be repaid) which will help stabilise operations and manage liquidity. Implementation of the project without any time or cost overrun, and ramp-up of volume post stabilization will be important to track. While large capital expenditure exposes KCP to project-

related risks, management's track record of successfully executing large projects will mitigate credit risk profile. Also notwithstanding the debt addition the group's financial risk profile is expected to remain adequate.

Upturn in heavy engineering business can result in significant upside

After establishing a sugar co-operative in 1941, KCP branched out to the heavy engineering (HE) business in 1955. The company offers heavy manufacturing capabilities with a fully integrated steel foundry, heavy fabrication, and heavy machine shops with assembly facilities in Thiruvottiyur, Chennai and Arakkonam (100 km from Chennai). The Thiruvottiyur plant is in close proximity to Chennai, Ennore and L & T Katupalli ports and both the plants are well connected to national highway routes.

The Engineering sector, being closely associated with the manufacturing and infrastructure sectors of the economy is of strategic importance to India's economy. Growth in the sector is driven by various sub-sectors such as infrastructure, power, steel, automotive, oil and gas, consumer durables etc. The Make in India campaign in order to succeed has to get the attention of several infrastructure and engineering multinationals.

In FY15, the performance of the Engineering Division of the company was not satisfactory. With no real economic development there were literally no major orders. With the continuing stagnation in the Heavy Capital Goods sector, the demand for the engineering unit has been deeply impacted and the unit had to accept even low or nil contribution orders to keep the unit afloat. The division which had clocked sales of Rs.222 cr in FY12 and a PBIT of Rs.37.1 cr suffered later on and reported sales of Rs.93 cr in FY15 (though recovering to Rs.159 cr in FY16) and EBIT loss of Rs.15.4 cr in FY15 (though recovering to a EBIT loss of Rs.6.1 cr in FY16).

A turnaround was expected only by the H2FY16 (by the management) which it hoped would revive the fortunes of the ailing engineering capital goods industry. In Q4FY16, the company did see growth of 26% QoQ in revenue of engineering division. This presents a significant upside potential on account of better performance of the Engineering division due to improvement in infrastructural and industrial investments, capabilities of the division, it's close proximity to all the major transportation routes and its diversified clientele of reputed companies.

This division's profitability has high sensitivity to sales and in case the Indian economy sees a revival in FY17/FY18, then this division could do very well.

Other businesses sweeten the deal through cost savings and diversification benefits

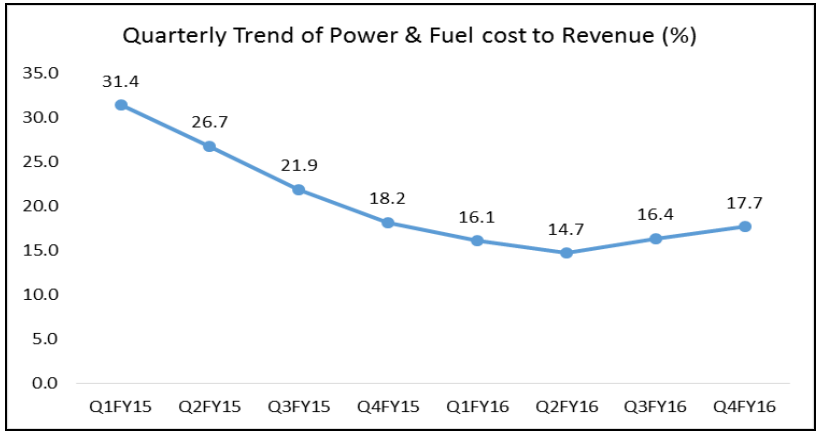
Presently, the cement business is the main driver for the top line and the bottom line for KCP. But the company has other business interests other than cement such as power, execution of turnkey sugar plants and ethanol distilleries, hospitality and building materials. These businesses have a relatively low share of the top line and the bottom line. A brief snapshot of the power division is given below:

The power division of KCP was setup to meet the power needs of its cement and heavy engineering businesses. Details of the power plants operated by its power division are given below:

Power Type	Capacity (MW)	Supply to
Hydel	8.25	Macherla Cement Plant
Wind	3.75	Heavy Engineering Division
Thermal (Waste Heat Recovery)	2.5	Macherla Cement Plant
Solar	1.15	Established to contribute to renewable energy and to accrue Renewable Energy Certificates
Thermal	18	Muktyala Cement Plant

As a result of captive generation of power, the company has been able to save on its power and fuel costs which help improve EBITDA margins. However, the company's current cost of power from its captive power plant is higher compared to the power supplied by the grid. But, captive power plant is necessary as grid power is irregular and inconsistent. Captive power ensures uninterrupted power supply and smooth running of the kiln, thereby reducing costs.

It is hoped that a decent monsoon would replenish the waters in the reservoirs for the current fiscal which would result in good power generation from the Hydel plant. The company has commissioned the 18MW Thermal power plant in Jan 2015 which would ensure quality power availability to the cement units. The Solar Plant has been a great boon by providing fossil free power and also in bringing of REC (Renewal Energy Certificates).



Fives Cail KCP JV

Fives Cail-KCP designs and supplies process equipment and complete plants for sugar, refining and bio-ethanol industries from cane. Fives Cail specializes on engineering and design aspects of a sugar plant in order to optimize process efficiency of sugar machinery and the general plant layout. Since Fives Cail does not have any manufacturing facilities of its own, it sub-

contracts critical equipment manufacturing with KCP besides other sub-suppliers. Further, KCP also provides after-sales service and supply of spare parts to its customers.

Fives Cail KCP Ltd - JV	FY12	FY13	FY14	FY15
Turnover Rs.Cr.	201.56	43.93	128.45	105.67
PBT Rs. Cr.	6.31	-17.07	7.89	1.31

Hospitality

In order to unlock value from one of their several investments in land, KCP had proposed the construction of a business grade four star hotel at a prime property in Somajiguda, Hyderabad at the cost of about Rs. 187 crore. It is a 4 star business hotel with 128 rooms which is to be operated by AAPC Hotel management Private Limited under the brand name "Mercure", which has over 750 hotels worldwide. It is located at the heart of Hyderabad in the Somajiguda area, which is a major business centre and shopping destination in the city.

Hyderabad is currently the capital of both AP and Telangana, has a booming IT sector, and is also a frequented tourist destination for both domestic and foreign travelers. A reduced supply of new rooms has benefitted hotel rooms in cities like Hyderabad, which has seen highest revenue per available room in the past 4 years. Also, the debt taken for the hotel project is not expected to put a strain on the company's cash flows. Because of the Hotel's locational advantage and low financial and demand risks, we expect the hotel would not impact the profitability and financial position of KCP and would help unlock value of one of its many investments in land done over several decades of its existence.

The hotel was ready for operations on 12th April 2016, and then it was handed over to the operator M/s Accor Hotels for commercial operations.

Building Materials

The company is looking at various ways and means of adding value and keeping its close proximity to its customers. On these lines, the company has since launched the Building Materials Division at Muktyala with the production of Bricks, Normal and Colored pavers and Hollow Blocks in a very small way. Based on the feedback from the market, more such units would be launched in different areas.

Vietnam sugar business helps cushion volatility in cement business

KCP, through its subsidiary KCP Vietnam (in which KCP has 66.7% stake), is a major player in the Vietnam sugar industry. Beginning as a supplier of sugar machinery to local factories in Vietnam in the 1990s, on the invitation of the Vietnam government, the company set up a 2,500 tcd sugar plant in 1999. The current manufacturing capacity is at 6,000 tcd through 2 plants in Son Hoa (5,000 tcd capacity) and Dong Xuan (1,000 tcd capacity) districts in Phuyen Province.

Sugar business in Vietnam is less volatile and more profitable compared to sugar business in India. Sugar revenues constituted 32% of total consolidated sales and 40% of consolidated EBIT in FY16. The segment has shown consistent growth

in revenues and profits over the past decade. Five-year (2011-16) revenue CAGR in sugar business has been at 11%. EBIT margin declined over the past few years on account of lower sugar prices globally including Vietnam.

The sugar business in Vietnam has improved during the year 2015-2016 primarily because of the improvement in international prices during the second half of the year. According to the Vietnam Sugarcane and Sugar Association (VSSA), sugar mills in Vietnam turned out 1.2 million tonnes of sugar in the 2015-2016 as sugarcane crop saw a fall of 1.4 million tonnes from the previous crop. This is the second consecutive sugar crop with a sharp fall in production.

As per media reports, there was drought condition in Vietnam in 2015 which reduced Vietnam sugar production to 14-16 percent, and raised domestic sugar prices by 35.6 percent from 2015. Sugar supply woes pushed domestic prices higher even in the current year. Each kilogram of domestic sugar fetches between 16,500 Vietnamese Dong (VND)-17,100 VND in June 2016 while it was priced at 12,750 VND-13,400 VND last year.

The Company had obtained an investment license from Province People's Committee for expanding the Son Hoa factory to 10,000 TCD in two phases. The company has almost completed the first phase of expansion (from 5,000 TCD to 8,000 TCD), whose effect will be seen in 2016-17 and the balance phase of expansion (from 8,000 TCD to 10,000 TCD) is also likely to be completed in 2017-18. It will also help reduce the time needed to cultivate sugarcane from five or six months to 120 days. The company has developed 17,000 hectares of sugarcane farms in the districts of Son Hoa, Phu Hoa, Dong Xuan and Song Cau.

The growth in by-products of sugar industry like co-gen power, rectified spirit, ethanol, etc has been significant. Further, sugar prices are volatile and thus companies having only sugar units are put to risk. To overcome these factors and local conditions, the company is in active discussion for putting up a co-gen power plant and a distillery which also ensures that by-products are put to commercial use. The company plans to invest in a 60klpd (kilo litres per day) capacity distillery project to produce fuel grade ethanol and liquor grade ethanol. The company has already acquired land spread over an area of 15.15 hectare and other regulatory formalities are under process to implement this project.

KCP Vietnam Industries Ltd	FY12	FY13	FY14	FY15
Crushing capacity (TPD)	6000	6000	6000	6000
Cane Crushed (Mts.)	895424	838332	1091521	838265
Sugar Produced (Mts.)	83359	88280	103357	110239
Recovery rate (%)	8.53%	8.68%	8.87%	9.74%
Avg Sales Realisation (Rs/mt)	44668	45314	43546	40703
PBT (Rs. in Crore)	66.36	62.45	49.86	51.26

Risks and Concerns

- The company faces financial risk from fluctuations in interest rate, exchange rate and commodity prices. The company has well defined policies for foreign exchange, treasury investments, interest rate and imported coal hedging. The policies are reviewed periodically to align with the changes in financial market practices and regulations
- The Cement Industry is becoming intensely competitive with the foray of new entrants and some of the existing players adopting inorganic growth strategies. To mitigate this risk, the company is leveraging on its expertise, experience and its created capacities to increase market share, enhance brand equity/visibility and enlarge product portfolio and service offerings. Cement demand and prices in South India are both volatile with wild swings. This could impact its utilization and margins.
- Any increase in the statutory levies imposed in the Budget on coal or any other raw material can increase the cost of production of cement.
- As the company is exposed to heavy engineering segment in which it manufactures machines for various industries, the biggest problem for the capital goods companies (clients of KCP) is the sluggish economic growth. Additionally slower projects execution will percolate to thinning margins and, as a result, earnings will be disappointing.
- Another serious risk (w.r.t. Fives Cail operation) is the obsolescence of the present equipments with the ever changing technology. With the sub optimal utilization, such costs are likely to be huge and would be a burden on the engineering units.
- The Vietnam sugar business is dependent on the fortunes of the demand and supply of global sugar industry. For e.g., due to any surplus in both domestic and international sugar markets, sugar prices will remain under pressure which could deter the sugar producers from going ahead with their expansion plans. This can also give rise to immense competition, with pressure on margins.
- Trade and economy ministers from 12 countries signed the Trans-Pacific Partnership (TPP), the biggest trade deal in history in New Zealand during Feb 2016. The nations joining the pact are Canada, Brunei, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, Australia, the United States, Japan and Vietnam. Under the TPP, sugar firms were among those who benefitted the least. While TPP rival Australia was the world's third largest sugar exporter and could produce a tonne of sugar at about 20 USD, Vietnam, one of the least productive sugar manufacturers, could produce a tonne of sugar at between 55 USD and 60 USD. Vietnam must face up to the stiff competition in the next three years, so local firms should stabilise and expand the cultivated area as well as enhance productivity and output to join the game.

Financials

FY16 Result Review

During FY16, the consolidated revenue was up by 9% to Rs. 1296 crore mainly driven by Cement (contributed 52.5% to FY16 revenue) and Sugar (contributed 31.4% to FY16 revenue) segments. Also on YoY basis, there was a substantial jump in revenues of Engineering and Power segment. The revenue from the engineering segment came at Rs. 159 crore from Rs. 93 crore in FY15 and that of power segment came in at Rs. 78.85 crore vs Rs. 33.29 crore in FY15. During Jan 2015, the company commissioned 18 MW Thermal power plant at Muktyala which resulted in spurt in power sales.

In line with the revenue, EBIT of Cement division grew by 54% YoY to Rs. 110.51 crore and contributed 57% to total EBIT while EBIT of Sugar segment grew by 36% YoY to Rs. 78.43 crore and contributed 40% to total EBIT on KCP. Also due to control in operational cost as a percentage to sales (raw material cost down to 49.4% from 51% in FY15, Power & Fuel cost down to 9.3% from 12.2% in FY15, Freight cost down to 9% from 9.1% in FY15 and Other expenses down to 7.9% from 8.4% in FY15), operating profit rose by 42% to Rs. 237.5 crore with OPM at 18.3% rise of about 430 bps YoY. Power cost fell due to the commissioning of captive power plant by the company at Muktyala which ensured stable power supply to the cement unit.

Due to slight rise in interest cost and nearly similar depreciation charges, PBT rose by 75% to Rs. 141.6 crore which led to PAT after minority interest/ share of associates of Rs. 93.35 crore, up by 85% YoY.

Estimations

For FY17, we have estimated consolidated total operating income to grow by 14% to Rs. 1477.9 crore. The growth is mainly driven by Cement and Sugar divisions growing by 16% and 17% respectively. Cement growth is led by increase in capacity utilisation, price uptick in South India and locational advantage with respect to the development of infrastructure in Andhra Pradesh and Telangana along with the new capital of Amaravati. Sugar revenue will be more driven by value rather than volume due to pressure on the supply side which will result to rise in price as observed currently. Having said that, the partial effect of expansion of capacity from 6,000 tcd to 8,000 tcd will come in FY17. Engineering segment is expected to grow by 11% to Rs. 176.5 crore due to the improved macro-economic scenario and pick up in manufacturing and infrastructure sectors.

Operating Profit is set to rise by 19% to Rs. 282.3 crore with OPM at 19.1%, rise of about 80 bps YoY. This is driven by cost efficiencies in power and freight cost and playing of operating leverage. We expect the interest cost to rise by 32% to Rs. 69 crore. Depreciation costs would also be high by 34% to Rs. 64.8 crore considering increase in capacity in sugar division and some capex for cement expansion. Thus the PBT is expected to grow by 9% YoY to Rs. 154 crore. With higher tax rate of 18%, we assume PAT before minority interest to come in at Rs. 126.3 crore. Considering the profitable growth in KCP Vietnam, we have assumed minority interest at Rs. 29 crore as against Rs. 24.1 crore in FY16. Hence, PAT after minority interest would come at Rs. 97.3 crore, up by 4% YoY.

For FY18, we have estimated consolidated total operating income to grow by 18% to Rs. 1743.4 crore. The growth is mainly driven by Engineering and Sugar divisions growing by 24% and 19% respectively. Engineering segment is expected to grow to Rs. 218.85 crore due to the improved macro-economic scenario and pick up in manufacturing and infrastructure sectors. Sugar revenue, now in this year, will be more driven by volume rather than value considering full effect of capacity expansion from 8,000 tcd to 10,000 tcd. Sugar prices which are on high last two years are expected to come down due to increase in supply in Vietnam. Cement is expected to grow by 17% YoY to Rs. 1039.48 crore led by increase in capacity utilisation and partial effect of the increase in the production at Muktyala cement plant from current 1.8 million tonnes per annum to 3.5 MTPA. (as it is assumed to get commissioned by Dec2017- Feb2018).

Operating Profit is set to rise by 17% to Rs. 331.2 crore with OPM at 19%. This is driven by cost efficiencies in power and freight cost and playing of operating leverage. We expect the interest cost to rise by 13% to Rs. 77.7 crore due to the debt taken for expansion of cement capacity at Muktyala (whose revenue effect will come in partially in FY18). Depreciation costs would also be high by 17% to Rs. 76 crore considering increase in capacity in sugar division and effect of cement plant expansion. Thus the PBT is expected to grow by 19% YoY to Rs. 183.6 crore. With higher tax rate of 20%, we assume PAT before minority interest to come in at Rs. 146.9 crore. Considering the profitable growth in KCP Vietnam, we have assumed minority interest at Rs. 31.9 crore as against Rs. 29 crore in FY17. Hence, PAT after minority interest would come at Rs. 114.97 crore, up by 18% YoY.

Conclusion & Recommendation

Going forward, the future for both Cement and Engineering segments looks positive in the long term with the Government focus on development and infrastructure. The cement market in India is expected to grow at a compound annual growth rate (CAGR) of ~9 percent during the period 2014-2019. Government plans of 100 smart cities, construction of state capital in AP augurs well for cement industry as well as our company. It is worth noting that per capita consumption of cement in India is less than 200 kg against world average of about 500 kg, a number which suggests a growth in demand, given a proper platform for growth. Rise in GDP from various initiatives, should provide an additional impetus for especially the cement sector given the strong correlation between the GDP growth and the cement industry.

Recently on 4th April 2016, CRISIL revised its rating outlook on the long-term bank facilities, non-convertible debentures and fixed deposits of KCP Ltd to Positive from Stable. The outlook revision reflects CRISIL's belief that the KCP group's business risk profile may improve over the near term driven by sustained improvement in cash accruals on account of volume uptick and healthy realizations in the cement segment, and ramping up of enhanced capacity in the sugar segment. The ratings continue to reflect the group's established track record in the cement sector in South India and the sugar sector in Vietnam. The ratings also factor in the group's gradually improving financial risk profile, marked by healthy gearing and adequate debt protection metrics.

KCP's business may improve over the near term driven by sustained improvement in cash accruals on account of volume uptick and healthy realizations in the cement segment, and ramping up of enhanced capacity in the sugar segment.

We are valuing KCP Ltd using the SoTP method. We are valuing the Engineering & Power segments on basis of its expected book value of FY18 (70% of BV taken), Cement is valued at EV/tonne of $60 & $65 for sequential targets (an average of current and future capacity considered), and Sugar segment is assigned PE of 9x & 11x respectively for our sequential target prices.

Segments	1st target price	2nd target price
Engineering (70% of FY18E BV)	3	3
Cement (EV/Tonne)	93	102
Power (70% of FY18E BV)	4	4
Sugar (PE Basis)	20	25

Hotel & Others	2	2
Target Price	**122**	**136**

Figures in Rs.

We think that investors could buy the stock at the CMP and add on declines to Rs. 79-85 band for sequential targets of Rs. 122 and Rs. 136 over 2-3 quarters.

Particulars (Rs in Cr)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Total Operating Income	1016.3	1136.3	1043.1	1187.1	1296.0	1477.9	1743.4
Operating Profit	191.8	107.1	109.4	166.7	237.5	282.3	331.2
OPM (%)	18.9	9.4	10.5	14.0	18.3	19.1	19.0
Reported Profit After Tax	106.1	65.2	34.5	50.9	93.9	97.3	115.0
PATM (%)	10.4	5.7	3.3	4.3	7.2	6.6	6.6
EPS (Rs.)	8.2	5.1	2.7	3.9	7.3	7.5	8.9
PE (x)	11.6	18.9	35.7	24.2	13.1	12.7	10.7
EV/EBITDA	6.1	7.7	10.9	8.2	6.5	6.2	5.6
RoNW (%)	21.1	13.0	6.7	9.3	15.3	14.1	14.9

(Source: Company, HDFC sec)

Financials

Quarterly – Standalone

Particulars (Rs cr)	Q4FY16	Q4FY15	% chg	Q3FY16	% chg	FY16	FY15	% chg
Income from Operations	186.8	163.2	14.5%	165.9	12.6%	734.8	594.1	23.7%
Other Operating Income	3.7	3.5		3.5		15.0	13.1	
Total Income	**190.5**	**166.7**	**14.3%**	**169.4**	**12.5%**	**749.8**	**607.2**	**23.5%**
Raw Material Cost	74.9	47.3	58.2%	57.0	31.4%	251.7	163.4	54.1%
Employee Expenses	16.3	12.8	27.0%	15.6	4.1%	66.3	52.6	26.1%
Power & Fuel	33.0	29.7	11.4%	27.1	21.7%	119.1	143.8	-17.2%
Freight	23.5	24.3	-3.2%	22.7	3.5%	98.7	88.2	11.8%
Other Expenses	14.9	18.7	-20.2%	16.7	-11.0%	67.4	62.7	7.4%
Total Expenditure	**162.5**	**132.7**	**22.5%**	**139.2**	**16.8%**	**603.1**	**510.7**	**18.1%**
Operating Profit	**28.0**	**34.0**	**-17.6%**	**30.2**	**-7.3%**	**146.7**	**96.5**	**52.0%**
Other Income	1.7	9.5	-81.7%	0.5	253.1%	3.8	12.5	-69.2%
PBIDT	29.7	43.5	-31.6%	30.7	-3.2%	150.5	109.0	38.1%
Interest	10.6	13.5	-21.9%	11.1	-4.8%	45.4	48.9	-7.1%
Exchange (gain)/loss	0.0	0.0		0.0		0.0	0.0	
PBDT	**19.2**	**29.9**	**-35.9%**	**19.6**	**-2.3%**	**105.1**	**60.1**	**74.9%**
Depreciation	10.0	9.8	2.1%	11.1	-9.6%	39.1	34.3	14.0%
Exceptional Item	0.0	0.0		0.0		0.0	1.3	
PBT	9.1	20.1	-54.6%	8.5	7.3%	66.0	24.5	169.7%

Tax (including DT & FBT)	10.3	6.6	55.8%	3.2	218.8%	22.6	8.0	180.6%
Adjusted Profit After Tax	**-1.2**	**13.5**	**-109.0%**	**5.3**	**-123.0%**	**43.4**	**16.4**	**164.4%**
Exceptional Item	-0.6	0.0		0.0		-0.6	-0.6	
Reported Profit After Tax	**-1.8**	**13.5**	**-113.1%**	**5.3**	**-133.5%**	**42.8**	**15.9**	**170.1%**
EPS (Rs.)	-0.1	1.0		0.4		3.3	1.2	
Equity	12.9	12.9		12.9		12.9	12.9	
			bps		**bps**			**bps**
OPM (%)	**14.99**	**20.82**	**-583**	**18.21**	**-323**	**19.96**	**16.24**	**371**
PATM (%)	**-0.92**	**8.07**	**-899**	**3.11**	**-403**	**5.71**	**2.61**	**310**

(Source: Company, HDFC sec)

Segment Revenue	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Engineering	11.04	12.75	25.17	3.29	27.83	20.81	9.86	12.46
Cement	148.47	157.32	149.78	179.59	202.42	181.81	179.49	202.18
Power	6.03	6.03	4.53	16.71	18.11	18.93	20.46	21.35
Unallocated	0.25	0.26	0.29	0.00	0.91	1.00	0.68	0.72
Sub Total	**165.79**	**176.36**	**179.77**	**199.59**	**249.27**	**222.55**	**210.49**	**236.71**
Less: Inter segment revenue	5.73	5.71	4.27	12.46	13.78	12.86	15.23	15.15
Less: Excise Duty	21.77	21.9	21.86	23.93	28.24	27.07	25.88	31.01
Net Sales	**138.29**	**148.75**	**153.64**	**163.2**	**207.25**	**182.62**	**169.38**	**190.55**
Segment Results								
Engineering	-4.02	0.33	0.19	-13.35	1.55	-1.48	-3.41	-6.94
Cement	1.31	19.71	10.6	40.13	41.18	22.38	22.08	24.87
Power	4.06	3.59	3.52	2.97	3.76	3.23	2.5	2.95
Unallocated	0.00	0.00	0.00	0.00	0.00	0.00	-0.08	-0.64
EBIT	**1.35**	**23.63**	**14.31**	**29.75**	**46.49**	**24.13**	**21.09**	**20.24**
Less: Finance cost	11.6	11.95	11.77	13.54	12.18	11.56	11.1	10.57
Less: Unallocable expd	0.67	0.00	0.07	0.00	0.13	0.00	1.48	1.4
Add: Interest Income	0.00	0.31	0.00	3.87	0.00	1.58	0.00	0.00
EBT	**-10.92**	**11.99**	**2.47**	**20.08**	**34.18**	**14.15**	**8.51**	**8.27**
Segment Margins								
Engineering	-36.4	2.6	0.8	-405.8	5.6	-7.1	-34.6	-55.7
Cement	0.9	12.5	7.1	22.3	20.3	12.3	12.3	12.3
Power	67.3	59.5	77.7	17.8	20.8	17.1	12.2	13.8

(Source: Company, HDFC sec)

Profit & Loss – Consolidated

Particulars	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Net Sales	**1015.0**	**1135.4**	**1042.4**	**1174.0**	**1279.1**	**1459.7**	**1723.8**
Other Operating Income	1.3	0.9	0.7	13.1	16.9	18.2	19.7
Total Income	**1016.3**	**1136.3**	**1043.1**	**1187.1**	**1296.0**	**1477.9**	**1743.4**
Total Expenditure	**824.5**	**1029.2**	**933.7**	**1020.4**	**1058.5**	**1195.6**	**1412.2**
Raw Material Cost	455.9	526.3	489.1	598.3	632.4	715.3	847.3
Employee expense	65.3	65.1	69.6	71.3	88.2	100.5	116.8
Power & Fuel	161.9	209.8	166.0	144.6	120.4	136.0	162.1
Freight Outward	54.5	144.7	122.9	107.9	116.9	130.1	151.7
Other Expenses	86.9	83.4	86.1	98.3	100.6	113.8	134.2
Operating Profit	**191.8**	**107.1**	**109.4**	**166.7**	**237.5**	**282.3**	**331.2**
Other Income	44.5	81.0	38.2	15.4	4.8	5.5	6.0
PBIDT	**236.2**	**188.1**	**147.7**	**182.1**	**242.2**	**287.8**	**337.2**
Interest	41.5	39.7	46.3	51.5	52.3	69.0	77.7
PBDT	**194.7**	**148.4**	**101.4**	**130.7**	**189.9**	**218.8**	**259.6**
Depreciation	41.0	44.4	47.1	48.2	48.3	64.8	76.0
Exceptional Item	0.0	4.9	0.0	1.3	0.0	0.0	0.0
PBT	**153.7**	**99.0**	**54.2**	**81.1**	**141.6**	**154.0**	**183.6**
Tax (including DT & FBT)	26.2	14.0	4.3	13.1	23.6	27.7	36.7
Profit After Tax before MI and extraordinary	**127.5**	**85.0**	**49.9**	**68.0**	**118.0**	**126.3**	**146.9**
Extraordinary Item	0.0	0.0	0.0	-0.6	-0.6	0.0	0.0
Profit After Tax before MI	**127.5**	**85.0**	**49.9**	**67.5**	**117.5**	**126.3**	**146.9**
Less: Minority Interest and exceptional	21.5	19.8	15.4	17.1	24.10	29.00	31.90
Reported PAT	**106.1**	**65.2**	**34.5**	**50.4**	**93.9**	**97.3**	**115.0**

(Source: Company, HDFCSec)

Particulars	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Segment Revenue							
Engineering	221.72	125.15	137.44	92.97	159.00	176.49	218.85
Y-o-Y % change		*-44%*	*10%*	*-32%*	*71%*	*11%*	*24%*
Cement	542.32	708.46	636.50	627.90	765.90	888.44	1039.48
Y-o-Y % change		***31%***	***-10%***	***-1%***	***22%***	***16%***	***17%***
Power	19.05	13.17	19.92	33.29	78.85	82.79	89.42
Y-o-Y % change		***-31%***	***51%***	***67%***	***137%***	***5%***	***8%***
Sugar	340.61	421.47	371.38	539.85	460.10	538.32	640.60
Y-o-Y % change		***24%***	***-12%***	***45%***	***-15%***	***17%***	***19%***
Unallocated	2.45	2.13	0.85	0.00	3.31	3.00	3.00
Sub Total	**1126.15**	**1270.38**	**1166.09**	**1294.01**	**1467.16**	**1689.04**	**1991.34**

Less: Inter segment revenue	20.57	15.46	21.88	29.97	57.41	70.94	83.64
Less : Excise duty	89.26	118.64	101.12	90.07	113.76	140.19	164.29
Net Sales	**1016.32**	**1136.28**	**1043.09**	**1173.97**	**1295.99**	**1477.91**	**1743.42**

(Source: Company, HDFCSec)

Particulars	FY12	FY13	FY14	FY15	FY16
Segment Results					
Engineering	37.12	21.12	2.06	-15.40	-6.15
Y-o-Y % change		*-43%*	*-90%*	*-848%*	*-60%*
Cement	53.83	10.27	20.70	71.74	110.51
Y-o-Y % change		***-81%***	***102%***	***247%***	***54%***
Power	7.48	-1.17	12.27	14.13	12.45
Y-o-Y % change		***-116%***	***-1149%***	***15%***	***-12%***
Sugar	69.41	63.67	51.14	57.76	78.43
Y-o-Y % change		***-8%***	***-20%***	***13%***	***36%***
Unallocated	-1.07	-1.12	-1.27	0.00	-0.83
EBIT	**166.77**	**92.77**	**84.90**	**128.23**	**194.41**
Less: Finance cost	41.54	39.71	46.31	51.45	52.34
Less: Unallocable expd	0.00	0.00	0.00	0.00	1.31
Add: Interest Income	28.43	45.97	15.63	3.47	0.00
EBT	**153.66**	**99.03**	**54.22**	**80.25**	**140.76**

(Source: Company, HDFCSec)

Balance Sheet – Consolidated

Particulars (Rs in Cr)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Equity & Liabilities							
Shareholders' Funds	**501.8**	**503.6**	**517.8**	**543.9**	**615.2**	**689.1**	**773.0**
Equity Share Capital	12.9	12.9	12.9	12.9	12.9	12.9	12.9
12% Redeemable cumulative Non-convertible Preference shares	20.0	15.0	8.0	0.0	0.0	0.0	0.0
Reserves & Surplus	468.9	475.7	496.9	531.0	602.3	676.2	760.1
Non-Current Liabilities	**308.9**	**360.8**	**502.4**	**538.1**	**614.4**	**799.0**	**954.7**
Minority Interest	40.4	57.2	67.6	83.1	121.7	150.7	182.6
Long Term borrowings	181.0	192.5	312.5	318.3	334.4	478.5	584.6
Deferred Tax Liabilities (Net)	48.6	55.2	56.2	64.8	86.7	97.1	108.7
Trade Payables	0.3	0.3	0.5	1.6	2.7	0.0	0.0
Other Long Term Liabilities	35.9	51.8	61.5	65.8	64.2	67.4	72.8
Long Term Provisions	2.7	3.8	4.1	4.5	4.8	5.3	6.0
Current Liabilities	**364.3**	**399.8**	**332.4**	**320.3**	**365.6**	**426.2**	**486.9**

Short Term Borrowings	84.4	134.5	102.0	43.2	52.0	77.9	96.8
Trade Payables	66.1	75.4	82.5	66.6	72.2	78.0	87.3
Other Current Liabilities	178.7	168.3	142.8	181.1	224.2	251.1	281.3
Short Term Provisions	35.2	21.6	5.1	29.4	17.2	19.3	21.6
Total Equity & Liabilities	**1175.0**	**1264.2**	**1352.5**	**1402.3**	**1595.2**	**1914.4**	**2214.6**
Assets							
Non-Current Assets	**640.3**	**731.9**	**803.9**	**824.4**	**1055.0**	**1313.1**	**1481.6**
Fixed Assets	**615.6**	**671.2**	**745.0**	**765.4**	**973.2**	**1221.9**	**1381.5**
Net Block (Tangible Assets)	590.9	568.3	569.5	643.5	850.6	978.2	1338.2
Intangible Assets	0.1	0.1	0.2	0.5	1.7	2.0	2.3
Capital Work-in-Progress	24.6	102.9	175.3	121.4	120.9	241.8	41.0
Non-Current Investments	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Long -term Loans and Advances	15.8	54.2	51.3	53.3	75.3	84.4	92.8
Trade Receivables	4.1	1.2	1.5	0.6	1.6	1.8	2.0
Other Non-Current Assets	0.0	0.5	1.3	0.3	0.1	0.2	0.5
Current Assets	**534.7**	**532.3**	**548.7**	**578.0**	**540.2**	**601.3**	**733.1**
Inventories	232.4	200.4	266.9	230.6	219.9	263.9	329.9
Trade Receivables	137.0	86.4	93.9	66.0	141.3	166.7	208.4
Cash & Cash Equivalents	49.8	107.7	31.7	101.1	45.0	16.6	22.2
Short Term Loans & Advances	112.0	131.8	151.2	173.1	133.2	153.1	171.5
Other Current Assets	3.6	6.0	5.0	7.3	0.9	1.0	1.1
Total Assets	**1175.0**	**1264.2**	**1352.5**	**1402.3**	**1595.2**	**1914.4**	**2214.6**

(Source: Company, HDFCSec)

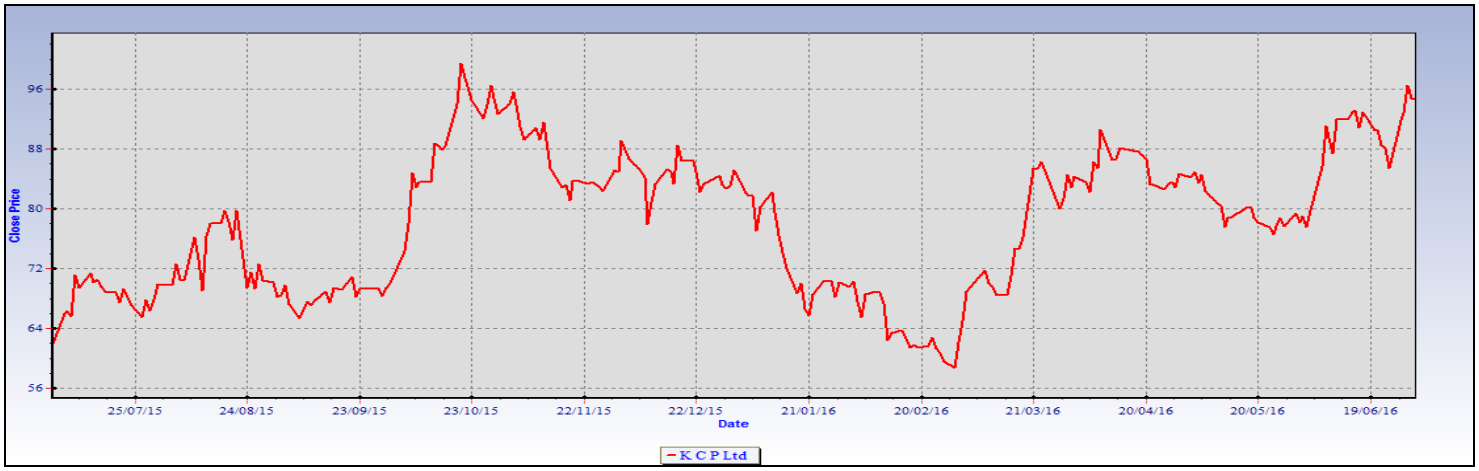
Key Financial Ratios – Consolidated

Particulars	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
No of Equity Shares	12.9	12.9	12.9	12.9	12.9	12.9	12.9
Current Market Price	95.5	95.5	95.5	95.5	95.5	95.5	95.5
Market Capitalization	1231.0	1231.0	1231.0	1231.0	1231.0	1231.0	1231.0
Enterprise Value	1446.7	1450.3	1613.8	1491.4	1572.4	1770.8	1890.1
Adj. EPS	9.9	6.6	3.9	5.3	9.2	9.8	11.4
FD EPS	8.2	5.1	2.7	3.9	7.3	7.5	8.9
Cash EPS (PAT + Depreciation)	11.4	8.5	6.3	7.6	11.0	12.6	14.8
PE(x)	11.6	18.9	35.7	24.4	13.1	12.7	10.7
Book Value (Rs.)	38.9	39.1	40.2	42.2	47.7	53.5	60.0
P/BV (x)	2.5	2.4	2.4	2.3	2.0	1.8	1.6
OPM (%)	18.9	9.4	10.5	14.0	18.3	19.1	19.0

PBT (%)	15.1	8.7	5.2	6.8	10.9	10.4	10.5
NPM (%)	10.4	5.7	3.3	4.2	7.2	6.6	6.6
ROCE (%)	25.4	16.7	10.8	14.6	19.4	17.9	18.0
RONW (%)	21.1	13.0	6.7	9.3	15.3	14.1	14.9
Debt-Equity	0.5	0.6	0.80	0.66	0.63	0.8	0.9
Current Ratio	1.5	1.3	1.7	1.8	1.5	1.4	1.5
Mcap/Sales(x)	1.2	1.1	1.2	1.0	0.9	0.8	0.7
EV/EBITDA	6.1	7.7	10.9	8.2	6.5	6.2	5.6

(Source: Company, HDFCSec)

One Year Price Chart



Fundamental Research Analyst: Zececa Mehta (zececa.mehta@hdfcsec.com)

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

"HDFC Securities Ltd. is a SEBI Registered Research Analyst having registration no. INH000002475."

Disclosure:

We /I, **(Zececa Mehta)**, **(MMS)**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest. **Any holding in stock – No**

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HDFC Securities Ltd or its affiliates to any registration or licensing requirement within such jurisdiction.

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

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

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

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

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

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

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

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

HDFC Securities or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HDFC Securities nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HDFC Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

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

This report has been prepared by the Retail Research team of HDFC Securities Ltd. The views, opinions, estimates, ratings, target price, entry prices and/or other parameters mentioned in this document may or may not match or may be contrary with those of the other Research teams (Institutional, PCG) of HDFC Securities Ltd.