Q3FY19 Review

Auto Sector

February 20, 2019

Automobile Industry | Uncertainties Priced-In | Outlook Optimistic | Strategy - Cherry Picks

The year 2018 started of well, but towards the end the demand gradually started coming off on account of higher fuel prices, insurance bouncer, an increase in the vehicle prices, floods in certain states, etc. In addition, there were hardly any big ticket launches. The year 2018 was a difficult one for automotive industry majorly impacted due to poor consumer sentiments. On the expected lines, Q3FY19 was a depressed quarter for the automobile industry, impacted by the twin effects of lower volume sales on one side and sharp rise in the commodity prices on the other side. Hence, the volumes as well as realization impacted; offset by some price increase and similarly, the margins declined.

The Passenger Vehicle industry continues to see speed bumps and rough ride on account of depressed consumer sentiments; while, the Two Wheelers performance remained mixed; the Commercial Vehicle industry was the worst impacted on account of liquidity crunch and changes in the axle load norms; Three-Wheelers continue to see demand fatigue in the domestic, while exports remained strong; Tractors industry has seen a little slowdown in the growth on account of lower sowing of Rabi crops and a high base. Maruti's 3rd quarter was very unusual as it was most impacted by multiple headwinds; Hero MotoCorp stayed firm and reported a flattish numbers for the quarter; we are happy with Bajaj Auto's strategy of gaining market share; surprised by TVS Motors as it exceeded the expectations by reporting all around performance; Eicher Motors reported a subdued quarter led by fall in the 2W as well as CV volumes and a decline in the margins; Ashok Leyland reported a poor performance as it missed on all the counters; Tata Motors standalone performance was impressive, but, majorly impacted by multiple headwinds in JLR & one-off non-cash expense; M&M has reported a decent set of performance as compared to other automotive players and by looking at the poor festival season; Escorts continues to report robust numbers and posted remarkable show on all the parameters.

Despite of the short term blips, we are optimistic on the medium to long term outlook for the automotive industry and believes the worst is already priced in most of the stocks. We are seeing some trends emerging, as the fuel prices as well as commodity prices came down sharply, there will be a good number of new launches expected in the new 2019 year (Tata Harrier and upgraded WagonR received overwhelming response, few launches in SUVs are expected from various OEMs and will see good launches under Rs. 10L bracket) and to meet the new safety standards, all the legacy models have to go & fresh ones should come. Moreover, from our recent dealers' check, we understand that the impact of higher insurance prices is fading now and the consumers are slowly accepting it as an advantage to have a long term insurance for a vehicle. For the next two months of this fiscal, festivals & marriage seasons could lift the volumes higher and from the ground check we are sensing that the Q4 to be better than Q3.

We feel there is an intense competition in the two-wheeler space; while the commercial vehicle is poised for a downturn after a five years of strong run-up; tractor industry is on its 3rd year of up cycle. Hence, the only area which would continue to see robust growth is the passenger vehicle industry, where the pure play is Maruti Suzuki. Going forward, the monthly volumes are expected to remain volatile due to certain regulatory changes, hence, the answer to this volatility is to cherry pick the stocks, which have some kind of competitive advantage over another. We recommend the following stocks to patient investors.

Automotive:

1. *Maruti Suzuki India Ltd*
2. *Bajaj Auto Ltd.*

Auto Ancillaries:

1. *Minda Industries Ltd.*
2. *Suprajit Engineering Ltd.*

Consumer Durable:

1. *Whirlpool of India Ltd.*
2. *Voltas*

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Maruti Suzuki India Ltd.

- The overall quarter was very unusual for the company as well as for the industry. Maruti Suzuki volumes were flat in 3QFY19 at 4.3L units, were impacted on account of subdued consumer sentiments.

- The company disappointed on the margin front, which declined by 590bps YoY to 9.8% in 3QFY19, which was one of the lowest margin seen in the last four years. We ascribe the below reasons for the same:

1. Sharp increase in the commodity prices
2. Adverse impact of FX rates
3. Increase in the marketing and sales expenditures
4. Higher costs in resources and capacities
5. Lower volumes, which led to operating deleverage
6. Unable to take the price increase due to intense competition

This was partly offset by the company's rigorous cost reduction efforts.

- We believe all the negatives are priced in the stock and strongly recommend lapping-up the stock at these levels as the structural story remains intact and one should not be worried about the short-term blips in the industry. Our fair value comes at 7,610.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Volumes (Nos.)	4,28,643	4,31,112	-0.6%	4,84,848	-11.6%
Blended Realization (Rs.)	4,58,850	4,47,290	2.6%	4,62,685	-0.8%
Net Sales	19,668	19,283	2.0%	22,433	-12.3%
EBITDA	1,931	3,038	-36.4%	3,431	-43.7%
EBITDA Margin	9.8%	15.8%	-5.9%	15.3%	-5.5%
PAT	1,489	1,799	-17.2%	2,240	-33.5%
PAT Margin	7.6%	9.3%	-1.8%	10.0%	-2.4%

Market Data	
Industry	Automobile
Last Closing Price	6,806
Fair Value	7,610
Face Value (INR)	5
52-w H/L	9,923/6,324
Market Cap (INR Crores)	2,05,588

13.3%	14.3%	13.6%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

Hero MotoCorp Ltd.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Volumes (Nos.)	17,98,905	17,09,107	5.3%	21,34,051	-15.7%
Blended Realization (Rs.)	43,720	42,796	2.2%	42,599	2.6%
Net Sales	7,865	7,314	7.5%	9,091	-13.5%
EBITDA	1,105	1,158	-4.6%	1,379	-19.9%
EBITDA Margin	14.0%	15.8%	-1.8%	15.2%	-1.1%
PAT	769	805	-4.5%	976	-21.2%
PAT Margin	9.8%	11.0%	-1.2%	10.7%	-1.0%

Market Data	
Industry	Automobile
Last Closing Price	2,643
Fair Value	3,071
Face Value (INR)	2
52-w H/L	3,862/2,562
Market Cap (INR Crores)	52,791

12.0%	9.9%	8.9%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

- Hero MotoCorp posted operationally disappointing numbers in Q3FY19. The volumes remain depressed led by muted consumer sentiments, however, realization improved on account of Rs. 500-600 price increase per vehicle.

- The EBITDA Margin fell majorly on account of rise in the commodity prices. However, the company managed to hold on to its guided margin range of 14-16% in Q3FY19. This proves the leader's capability in managing the costs despite of multiple headwinds. The recent softness in the commodities and price increase should eventually aid to improve its margins in the coming quarters. Hence, we trust that the margins have bottomed out and there are multiple tailwinds to take it higher in the coming quarters.

- Hero has a strong product pipeline, new launches can kick-start volume growth and the management has identified the reasons for falling market share and taking steps to arrest it by launching scooters and premium motorcycles.

- We believe these were temporary setbacks for the company/industry in the 3rd quarter and believe the 4th quarter and the next year will be better for the company. The upcoming marriage season, festivals in the month of March and improvement in the retail momentum should yield in better results in Q4FY19. Our fair value comes at 3,071.

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Bajaj Auto Ltd.

- Bajaj Auto's strategy is to gain the market share by sacrificing margins is working well. The company's hunger of gaining market share has yielded positive results as they gained share in the domestic from 18.6% in Q2FY19 to 20.3% in Q3FY19 and they aspire to take it to 24% soon. The realization was lower as the product mix was skewed towards lower CC motorcycles, high discounting and lower volume sales of 3Ws. The calculated EBITDA margin came in at 15.6% in Q3FY19, a decline of 400bps YoY on account of sharp increase in the commodity prices and inferior product mix.

- The realization and margin decline was expected, however, the corrections seems to be very sharp. We expect the margins to improve in Q4FY19 and will only see further improvement from Q1FY20 led by better product mix, softening commodity prices and operating leverage benefits.

- We expect the EBITDA Margin to climb higher on a QoQ basis as 1) higher dollar realization 2) softening commodity costs 3) better product mix and new launches in mid-higher level segment 4) price increased 5) operating leverage benefits along with rigorous cost rationalization measures.

- All the products and geographies performing fine. The company is a cash generating machine and we believe it has a lot of potential in the coming years both in 2Ws as well as 3Ws. Bajaj Auto is our cherry pick in these tough times and we strongly recommend to buy. Rolling over to FY21E, our fair value comes at 3,437.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Volumes (Nos.)	12,59,828	10,01,469	25.8%	13,39,444	-5.9%
Blended Realization (Rs.)	58,812	63,783	-7.8%	59,815	-1.7%
Net Sales	7,409	6,388	16.0%	8,012	-7.5%
EBITDA	1,156	1,250	-7.5%	1,368	-15.5%
EBITDA Margin	15.6%	19.6%	-4.0%	17.1%	-1.5%
PAT	1,102	952	15.7%	1,152	-4.4%
PAT Margin	14.9%	14.9%	0.0%	14.4%	0.5%

Market Data	
Industry	Automobile
Last Closing Price	2,783
Fair Value	3,437
Face Value (INR)	10
52-w H/L	3,214/2,425
Market Cap (INR Crores)	80,521

17.8% — Total Revenue CAGR FY18 -21E

14.0% — EBITDA Growth CAGR FY18 -21E

14.9% — PAT growth CAGR FY18-21E

TVS Motor Company Ltd.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Volumes (Nos.)	9,89,787	8,26,246	19.8%	10,88,335	-9.1%
Blended Realization (Rs.)	47,121	44,765	5.3%	45,882	2.7%
Net Sales	4,664	3,699	26.1%	4,993	-6.6%
EBITDA	376	301	25.0%	428	-12.2%
EBITDA Margin	8.1%	8.1%	-0.1%	8.6%	-0.5%
PAT	178	154	15.6%	211	-15.6%
PAT Margin	3.8%	4.2%	-0.3%	4.2%	-0.4%

Market Data	
Industry	Automobile
Last Closing Price	474
Fair Value	555
Face Value (INR)	1
52-w H/L	693/469
Market Cap (INR Crores)	22,510

13.0% — Total Revenue CAGR FY18 -21E

21.0% — EBITDA Growth CAGR FY18 -21E

22.0% — PAT growth CAGR FY18-21E

- The company's results came exceeding the street expectations. This was on the back of higher growth in the volumes as well as in the blended realization. The realization was surprisingly much higher on account of higher contribution from its premium brand, forex gain and price increase.

- The sentiments in the domestic is improving with outlook for exports remains stable. The new product launches are important ingredients for the growth ahead and TVS has a strong product pipeline.

- We believe the 8% level of margin in FY19E is sustainable with a gradual increase in the coming years and eventually leads to a lower double digit margin in the foreseeable future. This is on the back of localization efforts, better operating leverage and stringent cost rationalization efforts.

- Our fair value is firm at 555 and post the recent correction in the stock, we recommend patience investors to enter at this level. Risks remain 1) intense competition in the 2W space 2) continued lower pricing power 3) higher than expected increase in the commodity prices and 4) poor performance in the key geographies.

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Eicher Motors Ltd.

- The reason for the slowdown in the RE volume sales is due to increase in the cost of ownership led by 1) compulsory insurance for five years 2) the company in a baby steps increasing its prices ahead of safety regulation changes and due to rise in the RM costs. 3) Increasing competitive intensity. We believe, Royal Enfield has multiple products in its kitty, aftermarket, distribution reach, service parts availability, etc. All these things going strong for RE and there are many more exciting products in the pipeline to deal with the competition.

- New 650cc has received strong response from India as well as Overseas and we think it's still a vacant space as there is no competition in this zone. Hence, we believe that RE is a market creator and the competition always follows it. The company has the largest dealer network for any premium motorcycle manufacturer and has kept Maruti as a benchmark for further addition in small towns.

- For VECV, the EBITDA in the 3rd quarter declined by 17.7% YoY to Rs. 186 crores and margins declined by 210bps YoY to 6.6%. This was one of the poor performance from VECV largely led by heavy discounting in the industry. The volume growth in the 3rd quarter was lower than the previous quarter for the industry on account of on going liquidity issues and axle load norm changes. This we expect it to continue in the 4th quarter as well.

- We are optimistic on RE business division as the trend of premiumization in the motorcycling industry to continue in the future. For VECV, we consider it as a next leg of growth for the company. Our fair value comes at 24,813.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
RE Volumes (Nos.)	1,93,871	2,02,736	-4.4%	2,09,963	-7.7%
Blended Realization (Rs.)	1,20,753	1,11,919	7.9%	1,14,695	5.3%
Net Sales	2,341	2,269	3.2%	2,408	-2.8%
EBITDA	680	707	-3.9%	729	-6.8%
EBITDA Margin	29.0%	31.2%	-2.1%	30.3%	-1.3%
PAT	533	521	2.3%	549	-2.9%
PAT Margin	22.8%	23.0%	-0.2%	22.8%	0.0%

Market Data	
Industry	Automobile
Last Closing Price	20,354
Fair Value	24,813
Face Value (INR)	10
52-w H/L	32,210/18,780
Market Cap (INR Crores)	55,514

14.7%	15.8%	18.6%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

Ashok Leyland Ltd.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Volumes (Nos.)	43,763	46,627	-6.1%	51,958	-15.8%
Blended Realization (Rs.)	14,45,340	15,42,167	-6.3%	14,66,773	-1.5%
Net Sales	6,325	7,191	-12.0%	7,621	-17.0%
EBITDA	650	839	-22.6%	829	-21.6%
EBITDA Margin	10.3%	11.7%	-1.4%	10.9%	-0.6%
PAT	381	485	-21.4%	528	-27.8%
PAT Margin	6.0%	6.7%	-0.7%	6.9%	-0.9%

Market Data	
Industry	Automobile
Last Closing Price	79
Fair Value	72
Face Value (INR)	1
52-w H/L	168/78
Market Cap (INR Crores)	23,264

4.0%	-6.0%	-10%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

- Ashok Leyland has lost the market share in the 3rd quarter, the competition is intense and the discounting is very deep in the market. On the exports, the ME market is not doing well due to oil price volatility. While, the volumes in the SL market was lower due to political uncertainty. The fall in realization was led by high discounting in the market and change in the product mix towards lower tonnage commercial vehicles, which was due to changes in the axle load norms.

- EBITDA Margin fell by 140bps YoY to 10.3% in Q3FY19 on account of: 1) Increase in the RM costs. 2) Inability to pass-on these prices 3) Higher discounting in the system and 4) Negative operating leverage.

- As per our channel checks, we expect the pre-buying to happen only in Q4FY20. Hence, we expect, the initial quarters of FY20E to remain soft for the industry and growth to come back from December 2018 onwards till March 2019. FY20E to end on a flattish note and FY21E will see a de-growth in the industry, as the CV cycle will turn downside.

- The street is majorly concerned about 1) down cycle of the industry 2) uncertainty related to CEO transition 3) intense competition & 4) axle load norms. Hence, we don't recommend a fresh buying in spite of a sharp fall in the stock price.

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Tata Motors Ltd.

- Tata Motors standalone performance was robust, while weak sales in China and destocking impacted JLR's performance. The company's profits came in at negative Rs. 26,961 crores, majorly impacted by one-time exceptional item of Asset Impairment in JLR of Rs. 27,838 crores in Q3FY19. Additionally, the JLR's China JV reported a net loss of Rs. 138 crores vs. Rs. 253 crores of profit in Q3FY18.

The following are the problems Tata Motors is facing:
- High incentives (US)
- Market cyclicality (US)
- Brexit (UK & EU)
- Diesel uncertainty (UK & EU)
- Market cyclicality (UK & EU)
- Muted demand environment (India)
- Stabilization of axle load changes (India)
- Liquidity constraints (India)
- CV Down cycle (India)
- Trade wars (China)
- Macro headwinds (China)
- High Incentives (China)
- Low consumer confidence (China)
- Hard Brexit
- The US-China Trade Wars
- Negative FCF Generation

Steps taken to deal with the current headwinds:
1. To launch a number of models/refreshers to keep exciting consumers. It will continue to strengthen the product portfolio.
2. '*Project Charge*' is launched to focus on improving CFs, cost savings plan and reassessment of investment spending to ensure adequate returns.
3. The company has already planned to deal with the short term as well as the long term impact of Brexit. JLR continues to actively engage with government and trade bodies globally on the implications of a 'No Deal' Brexit. Tata Motors Turnaround 2.0 strategy continue to yield superior results both in the CV as well as PV divisions. The strong focus is on cash generation.
4. **China Market – Action Plans**

- The economic outlook is pessimistic and since 1990, it is the first time that the total passenger car market declined by 8%.
- The company started to focus on dealer profitability to lift the volumes. JLR discounts is higher than the competitors, and the management has planned to reduce it now.
- The management guided that although the China is not the fastest growing economy, but, it will continue to remain the largest car market in the world. The opportunity is enormous for the premium car market over there.
- Overall, expects the sales to stabilize in the next few months and to grow thereafter.

- We trust on the company's management and their prompt efforts in turning around the business. Tata Motors have been facing multiple headwinds simultaneously at present and these are macro issues, which are generally for the whole industry and not company specific. There is neither a default, nor any corporate governance issues, and these are short term blips, which will have an impact only in the near term. The sales continues to remain encouraging across other markets (except China). The improvement in the global growth environment, especially in China and the low base of FY19 would be very positive for the company next year. We are cautiously optimistic on the stock as all the negatives are priced in and prefer only value investor to enter at this price in a staggered manner for the holding period of at least two years to get a substantial returns. The fair value comes to 240 per share.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Standalone Volumes (Nos.)	1,71,354	1,72,130	-0.5%	1,90,283	-9.9%
JLR Volumes (Nos.)	1,44,600	1,54,400	-6.3%	1,30,652	10.7%
Standalone Realization (Rs.)	9,45,859	9,27,345	2.0%	9,32, 979	1.4%
JLR Realization (GBP)	43,036	40,868	5.3%	43,130	-0.2%
Net Sales	77,001	73,366	5.0%	72,112	6.8%
EBITDA	6,522	7,957	-18.0%	7,139	-8.6%
EBITDA Margin	8.5%	10.8%	-2.4%	9.9%	-1.4%
PAT	-26,961	1,251	-	-1,009	-
PAT Margin	-35.0%	1.7%	-	-1.4%	-

Market Data	
Industry	Automobile
Last Closing Price	164
Fair Value	240
Face Value (INR)	2
52-w H/L	377/142
Market Cap (INR Crores)	47,208

5%
Total Revenue CAGR FY18 -21E

7%
EBITDA Growth CAGR FY18 -21E

8%
PAT growth CAGR FY18-21E

Our View:
- The EU and UK MPs are taking several steps for a re-voting or a soft Brexit, which we will get to know by 29th March 2019 and we expect no country requires hard Brexit and eventually a slowdown in the Global growth. The JLR has already planned to keep production buffer stock to minimise the worst case scenario.

- The talks are on between the US and Chinese members to ease the trade war and issues between the two economies. From the feedback & understanding of the matter, we expect the results to be very positive in the coming month. This will lead to a positive sentimental impact on the global growth outlook.

- On the CV down cycle, we certainly doesn't expect that to happen, at least in FY20, majorly due to huge pre-buying ahead of the BS6 implementation. We trust once the government in power re-elected, will see more reforms and faster project execution, which is positive for the commercial vehicle industry. Additionally, there is a high possibility of a scrappage policy announcement in FY21E and GST reduction for the automobile industry. For the medium term, the retail growth to remain strong with robust infra spending & GDP growth.

- On the negative FCF generation, this is only due to the high investments required in the electric vehicles, new technologies and product developments. We believe this high capital expenditure is a must to stay ahead of the competition. This has been proven by JLR by launching fully premium electric vehicle (I-PACE), which is running successfully on roads and has three months of the order backlog.

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Mahindra & Mahindra Ltd.

- The company's volume growth for the quarter was decent as compared to other automotive players and by looking at the poor festive season. The PV industry sales were lower than the expectation led by soft urban demand, largely due to uncertain macro parameters.

- Things which impacted the volumes and margins in Q3FY19 are 1) Oil prices peaked at $86; 2) USD/INR reached 74-75 3) Commodity prices went up rapidly 4) Monsoons was below normal – sentiments issues in rural area. All these things have reversed now 1) Oil prices came down to $62 2) USD/INR stabilized at ~70 3) Commodity prices dropped and stabilized now 4) Loan waiver will do well for the farm loan community and Kharif output was good.

- All the negatives for Q3 has more or less reversed and hence, we are not seeing any reason now, why the demand should not pick up. In fact, the commodity pressures to be lower in FY20E. All this will eventually aid the company to grow much better in the 4th quarter and the coming year.

- We expect the focus of Govt's on rural and an election year will eventually benefit M&M. But, the outlook on the Global side continues to remain very uncertain led by trade wars, Brexit and rising debt levels. On Farm Equipment Segment: We expect a flattish industry growth in Q4FY19 due to high base and 10% growth in FY19E. Our fair value comes to Rs. 850 per share.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Automotive Volumes (Nos.)	1,43,160	1,28,851	11.1%	1,50,801	-5.1%
Tractor Volumes (Nos.)	89,747	81,304	10.4%	78,932	13.7%
Automotive Realization (Rs.)	5,52,860	5,52,003	0.2%	5,60,085	-1.3%
Tractor Realization (Rs.)	5,16,320	5,04,076	2.4%	5,10,322	1.2%
Net Sales	12,893	11,492	12.2%	12,790	0.8%
EBITDA	1,703	1,691	0.7%	1,849	-7.9%
EBITDA Margin	13.2%	14.7%	-1.5%	14.5%	-1.3%
PAT	1,396	1,306	6.9%	1,779	-21.5%
PAT Margin	10.8%	11.4%	-0.5%	13.9%	-3.1%

Market Data	
Industry	Automobile
Last Closing Price	632
Fair Value	850
Face Value (INR)	5
52-w H/L	992/616
Market Cap (INR Crores)	78,595

15.0%	14.0%	13.0%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

Escorts Ltd.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Tractor Volumes (Nos.)	25,743	18,930	36.0%	21,039	22.4%
Const. Equipment Volumes (Nos.)	1,413	1,087	30.0%	1,331	6.2%
Tractor Realization (Rs.)	5,02,098	5,01,004	0.2%	4,95,903	1.2%
Const. Equipment Realization (Rs.)	18,82,166	16,98,528	10.8%	18,71,450	0.6%
Net Sales	1,655	1,205	37.3%	1,398	18.4%
EBITDA	200	145	38.2%	157	27.3%
EBITDA Margin	12.1%	12.0%	0.1%	11.3%	0.9%
PAT	140	92	52.3%	103	36.4%
PAT Margin	8.5%	7.6%	0.8%	7.3%	1.1%

Market Data	
Industry	Automobile
Last Closing Price	636
Fair Value	907
Face Value (INR)	10
52-w H/L	1,019/543
Market Cap (INR Crores)	7,800

13.3%	16.7%	20.1%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

- The results were higher than the street expected. The revenues were higher led by robust volume growth and flat realization due to product mix. Escorts is playing a triple play of New Technologies + Better Product Mix and Expanding its distribution channels for robust growth in domestic as well as exports.

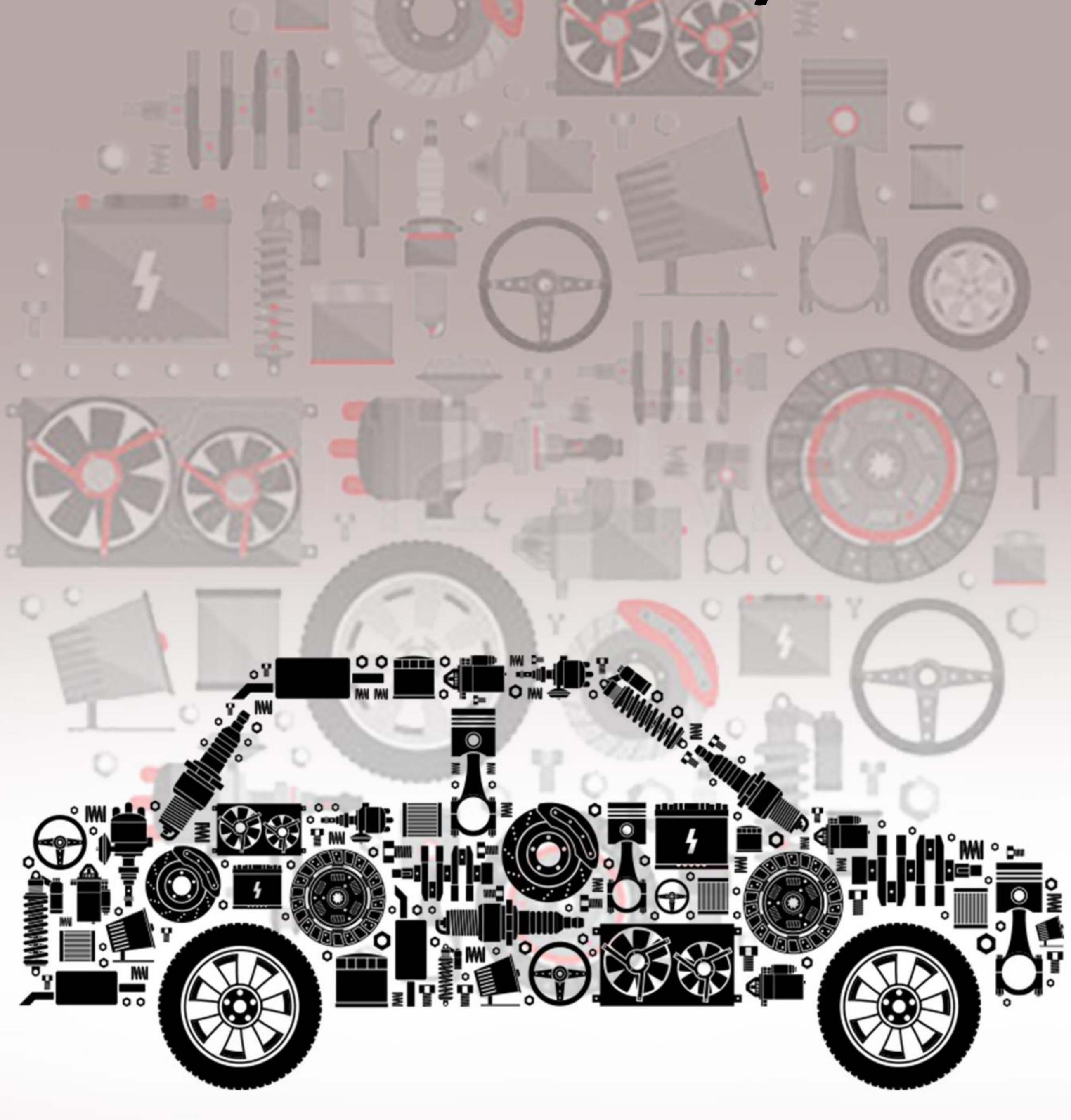
- Escorts Tractor improved its market share by 130bps YoY to 11.4% in Q3FY19. The aspiration is to take to 12.5-13% by FY20E end.

- The RM costs inched up due to increase in the commodity prices, lag in passing the costs to customers and inferior product mix. However, we believe the margins will increase gradually on account of softening commodity prices and rigorous efforts of the management on the cost rationalization. Also, the company increased the prices by 1% in November. We expect the margins to climb higher by 100bps YoY in FY20E.

- The Q4FY19 for the industry to remain near flattish led by high base, which grew by 49% YoY. However, by looking at the past performance of Escorts, we expect the company will beat the industry growth rate in the 4th quarter too and will grow in lower double digit. The exports outlook too remain optimistic. The fair value comes at Rs. 907 per share.

Q3FY19 Review

Auto Ancillary



Minda Industries Ltd.

- Minda Industries robust growth performance continues even during muted show from the OEMs. Its top line grew by 39% YoY to Rs. 1,470 crores in Q3FY19 led by superior performance in its 'Switches' (+71% YoY growth to Rs. 534 crores) as well as 'Others' segment (+50% YoY to Rs. 431 crores). The company's aftermarket as well as the inorganic inclusion of MRPL and I-Sys supported well in the overall growth. Mindarika and Minda Kosei, the two most important businesses have seen some volume impact on account of lower sales for 4W OEMs. This was offset by some improvement in some other businesses.

- Despite of increase in the commodity costs & subdued demand environment, the margins improved by 30bps YoY to 12.3% in Q3FY19. During the past few years, the company managed to improve the margins every year and we believe this improvement would continue gradually in the coming years as the company keeps on launching new higher margin products and its rigorous cost rationalization efforts will aid in achieving margin trajectory.

- The Triple Combination of a 'Large Customer Base' + 'Strong Tie-ups with the Global Technology Giants' + 'Diversified Product Portfolio' with improving market share in the majority of the products provides a strong competitive advantage for Minda Industries. We see enormous opportunities due to changing regulations. Our fair value comes at Rs. 359 per share.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	1,470	1,056	39.2%	1,522	-3.4%
EBITDA	180	126	42.8%	189	-4.7%
EBITDA Margin	12.3%	12.0%	0.3%	12.4%	-0.2%
PAT	81	66	23.0%	89	-8.4%
PAT Margin	5.5%	6.3%	-0.7%	5.8%	-0.3%

Market Data	
Industry	Automobile
Last Closing Price	287
Fair Value	359
Face Value (INR)	2
52-w H/L	455/256
Market Cap (INR Crores)	7,520

21.5%	25.3%	17.8%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

Suprajit Engineering Ltd.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	406	366	10.7%	391	3.6%
EBITDA	61	60	0.9%	53	14.2%
EBITDA Margin	15.0%	16.4%	-1.5%	13.6%	1.4%
PAT	39	28	38.8%	24	62.9%
PAT Margin	9.7%	7.7%	2.0%	6.1%	3.5%

Market Data	
Industry	Automobile
Last Closing Price	186
Fair Value	247
Face Value (INR)	1
52-w H/L	298/176
Market Cap (INR Crores)	2,603

14.1%	13.0%	10.8%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

- The company posted a decent set of numbers in this tough environment, where depressed sentiments, took a toll on the OEMs financial performance. The major reason for the decline in the margins was on account of increase in its core raw material costs and rise in the minimum wages.

- Healthy Growth Continues in Automotive Cable Division as the company has reported robust growth in its aftermarket and steady growth in OEM segment. It also won business in the PV segment for Parking Brake Cable and Gear Shifter Cable. The non-automotive cable division reported a decent set of numbers and has been taking several steps to explore newer segments viz. medical equipment devices, material handling, power sports vehicles, Agri machineries, construction equipment, marine, etc. We feel the strategy & the opportunity size is huge in these newer segments and can expect it to execute in 2-3 years of time frame. The Phoenix lamps segment performance remains subdued, however, the management is taking serious steps in turning around this business.

- We strongly believe in the company's business model and its potential growth in the medium to long term on account of its competitive positioning. We trust that the company is very ethical, well-diversified, a consistent performer and all this along with the stability in terms of performance should continue. Our fair value comes to Rs. 247 per share.

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Bharat Forge Ltd.

- The company has been reporting robust growth in its revenues every quarter from the last two years, driven by growth across its key segments and geographies. The Q4 outlook is good as the demand to sustain at current levels. The domestic CV industry remained soft from the last few months, however, the management expects the demand to come back in the next few months. The outlook for FY20E remains positive led by pre-buying ahead of the implementation of BS6 emission norms.

- On the international side too, the drop in the Class 8 trucks orders in the past few months was in line with the expectations and the management has guided for a normalized levels of orders over the next couple of months. On the European side, the demand is expected to remain stable going forward. The demand for Oil & Gas, Industrial and other industries remain robust.

- The overseas subsidiaries performance was impacted majorly on account of seasonality and WLTP issues. The company has been taking steps to revive the performance and expects positive outcome.

- The revenue opportunities from the new segments would come from 1) increase in the content per vehicle. 2) Industrial sectors and rail turbocharger. 3) Opportunities arising from the defence projects. 4) Other areas viz. Aerospace, Defence, Rail, Light weighting, etc. Over the years, the company expects to ramp up in these new sectors. Post the sharp corrections, we believe the valuations looks attractive given the diversified portfolio and strong BS. One can invest if the horizon is more than two years. Our fair value comes at Rs. 568 per share.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	1,693	1,391	21.7%	1,679	0.8%
Calculated EBITDA	526	416	26.3%	434	21.1%
EBITDA Margin	31.1%	29.9%	1.1%	25.9%	5.2%
PAT	310	228	35.8%	227	36.2%
PAT Margin	18.3%	16.4%	1.9%	13.5%	4.8%

Market Data	
Industry	Automobile
Last Closing Price	458
Fair Value	568
Face Value (INR)	2
52-w H/L	800/452
Market Cap (INR Crores)	21,315

15.0%
Total Revenue CAGR FY18 -21E

14.0%
EBITDA Growth CAGR FY18 -21E

21.0%
PAT growth CAGR FY18-21E

Motherson Sumi Systems Ltd.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	16,473	14,388	14.5%	15,105	9.1%
EBITDA	1,393	1,249	11.5%	1,300	7.2%
EBITDA Margin	8.5%	8.7%	-0.2%	8.6%	-0.1%
PAT	555	562	-1.2%	495	12.0%
PAT Margin	3.4%	3.9%	-0.5%	3.3%	0.1%

Market Data	
Industry	Automobile
Last Closing Price	131
Fair Value	174
Face Value (INR)	1
52-w H/L	240/128
Market Cap (INR Crores)	41,461

10.0%
Total Revenue CAGR FY18 -21E

13.0%
EBITDA Growth CAGR FY18 -21E

12.0%
PAT growth CAGR FY18-21E

- Motherson Q3FY19 was not that great on account of the tremendous amount of pressure in the system viz. tariff war, Brexit concerns, WLTP, weak domestic automotive demand, etc. The important thing is that the high capex spends has come to an end due to completion of almost all the greenfield plants. The complete focus is to improve RoCE, achieve FY20 targets and inorganic acquisition opportunities.

- The consolidated revenues were higher in Q3FY19 on account of good performance in the international countries and acquisition of Reydel & PKC incorporated. The consolidated margins declined on account of poor operational performance in domestic business, SMR and SMP subsidiaries.

- The company's standalone revenues declined by 3.6% YoY to Rs. 1,730 crores in Q3FY19 led by a slowdown in the domestic automotive industry. The standalone business in the coming years to benefit from the on-going premiumization in the PV industry and increasing content per vehicle. In addition, BS6 would increase the wiring harness by 20% due to higher complexity. The 2Ws can be an opportunity for Motherson due to transition towards fuel injection systems.

- The management has guided that they are on track to achieve its growth targets for FY20 and continues to seek inorganic opportunities. The stock has corrected ~46% from its 52W high majorly due to concerns about the on-going trade wars, Brexit and slowing global automotive demand. We believe the stock has priced in all the negatives and if anything positive comes up from the global side, will take the stock much higher from the current levels. We are optimistic on the management's capability to take the business higher in the coming years. Our fair value comes at Rs. 174 per share.

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Exide Industries Ltd.

- Exide Industries have been doing good on the top line from last few quarters. In Q3FY19, the net revenue growth was led by volume growth in Automotive, UPS and Solar Batteries. This growth is despite of muted OEM volume growth during the last few months. However, we are not convinced on the margins front as the company has been taking cost rationalization efforts, but failed to report any decent increase in the margins. The margin for Q3FY19 remained almost flat at 12.5%, this is in spite of a reasonable fall in the Lead prices. The Lead prices were USD 2,397/ton on 2nd July 2018, which fell to about USD 2,008/ton on 31st Dec 2018. Approximately a fall of 16%.

- We understand that the company has provided various incentives to its distributors, which help the company in regaining its share in the replacement market. The company has been advertising a lower priced batteries to gain share from the unorganised market. In addition, the opportunities arising from e-rickshaws, solar segment and widening distribution reach would aid to grow its top line in the coming years.

- The management's focus is on improving technologies, cost rationalization and along with a fall in the lead prices would aid in the improvement in the margins going ahead. Our fair value comes at Rs. 255 per share.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	2,497	2,278	9.6%	2,720	-8.2%
EBITDA	313	283	10.6%	333	-6.1%
EBITDA Margin	12.5%	12.4%	0.1%	12.2%	0.3%
PAT	155	154	0.5%	268	-42.2%
PAT Margin	6.2%	6.8%	-0.6%	9.9%	-3.7%

Market Data	
Industry	Automobile
Last Closing Price	205
Fair Value	255
Face Value (INR)	1
52-w H/L	305/203
Market Cap (INR Crores)	17,442

14.0%	15.0%	14.0%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

Amara Raja Batteries Ltd.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	1,695	1,553	9.1%	1,753	-3.3%
EBITDA	253	242	4.6%	237	6.8%
EBITDA Margin	14.9%	15.6%	-0.6%	13.5%	1.4%
PAT	131	134	-2.6%	120	8.9%
PAT Margin	7.7%	8.7%	-0.9%	6.9%	0.9%

Market Data	
Industry	Automobile
Last Closing Price	738
Fair Value	900
Face Value (INR)	1
52-w H/L	908/671
Market Cap (INR Crores)	12,598

11.0%	12.0%	11.0%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

- The top line performance continues to remain robust, however severe downfall in the margins, led to a decline in the profitability for the quarter. The company managed to improve its margins on a QoQ basis led by a decline in the lead prices. The margins are expected to remain between 14-16% band. The volumes were led by good growth in industrial battery volumes, while OEM demand remained soft and uncertainties continued in the telecom division.

- The company's utilisation is 90%+ and should benefit from the new capacity addition. It is also exploring newer industries where lead acid batteries can be used.

- Amara Raja continues to invest in the brand, technology and manufacturing capacities for the long term growth. We remain optimistic on the aggressive expansion of capacities and on the complete support of Johnson Controls, USA as a technology partner in developing better products. As the lead prices started coming down, we can expect a better performance in the next quarter. Our fair value comes at Rs. 900 per share.

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Jamna Auto Industries Ltd.

- The decline in higher tonnage vehicle sales during the quarter led to lower revenue growth for the same period. The EBITDA Margins were flat for the quarter on account of lower proportion of parabolic springs and higher sales of conventional springs, which are low margin products.

- The company's bottom line impacted by 10% YoY in Q3FY19 on account of flat operational performance, higher effective tax rate *(+550bps YoY to 38.2%)* and increase in the finance costs *(+51% YoY to Rs. 9 crores)*. This was offset by an increase in other income *(+123% YoY to Rs. 3.6 crores)*. The OEM:Replacement ratio was 85:15 for the quarter.

- We believe the CV demand would be higher in FY20E, but, the concern on CV down cycle post five years of run-up could suppress the demand for springs drastically in FY21E. Hence, in spite of a sharp fall in the stock price, we remain cautious and maintain our hold rating with a fair value of Rs. 54 per share.

- The upside risks to our estimate is announcement of the vehicle scrappage policy for FY21E and a reduction in the automotive GST rate, which should support the demand for the commercial vehicles. The company is also putting efforts to expand into the aftermarket.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	486	470	3.4%	548	-11.3%
EBITDA	64	61	3.4%	68	-6.6%
EBITDA Margin	13.1%	13.1%	0.0%	12.4%	0.7%
PAT	29	32	-10.0%	36	-19.6%
PAT Margin	5.9%	6.7%	-0.9%	6.5%	-0.6%

Market Data	
Industry	Automobile
Last Closing Price	50
Fair Value	54
Face Value (INR)	1
52-w H/L	103/49
Market Cap (INR Crores)	1,998

10.0%
Total Revenue CAGR FY18 -21E

9.8%
EBITDA Growth CAGR FY18 -21E

12.5%
PAT growth CAGR FY18-21E

Wabco India Ltd.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	700	650	7.7%	743	-5.8%
EBITDA	100	100	0.2%	123	-18.4%
EBITDA Margin	14.4%	15.4%	-1.1%	16.6%	-2.2%
PAT	60	64	-6.3%	96	-37.4%
PAT Margin	8.5%	9.8%	-1.3%	12.9%	-4.3%

Market Data	
Industry	Automobile
Last Closing Price	5,899
Fair Value	6,576
Face Value (INR)	5
52-w H/L	8,320/5,798
Market Cap (INR Crores)	11,188

12.0%
Total Revenue CAGR FY18 -21E

11.0%
EBITDA Growth CAGR FY18 -21E

13.0%
PAT growth CAGR FY18-21E

- The pain in the OEM volume sales, impacted Wabco's performance. Although the company has widened its portfolio by adding newer components viz. trailer ABS, air-disc brakes and opti-tyres. All this could possibly lift the volumes, higher than the industry growth.

- In Q3FY19, the net revenues slowdown and majorly due to depressed automotive demand in the market. This also impacted its EBITDA Margin by mainly due to operating de-leverage. The RM Costs inched up by 160bps YoY to 63.4% in Q3FY19 and employee expenses inclined by 40bps YoY to 9.3%, while the company managed to curtail its other expenses, which came down by 100 bps YoY to 12.9%. The overall margins fell and this has resulted into flat core EBITDA of Rs. 100 crores for the same period. The poor operational performance and higher effective tax rate of 35.3% *(increased by 520bps YoY)* has led to a decline in the bottom line for the quarter.

- The company is a leading manufacturer of brakes and 50% of its revenues comes from MHCV, 30% from exports and balance from the replacement market. This quarter MHCV sales were muted, however, we expect huge pre-buying before the implementation of BS6 and post that we think there are high chances that the GoI announce its new scrappage policy and a reduction in the GST rate for the automotive industry. This would continue the CV up cycle till FY21E.

- Additionally, with the government's focus on safety standards, Wabco is the direct beneficiary of this and can see high growth in FY20E and FY21E. The stock has priced in all the uncertainties in the near term and the valuations are at a comfortable levels. Our fair value comes at Rs. 6,576 per share. We recommend patience investors to invest for at least two years to gain substantial returns in this quality stock.

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NALANDA RESEARCH

Q3FY19 Review

Consumer Durables

Havells India Ltd.

- The overall revenues was supported across all its segments. On ECD, the growth was robust at about 33.5% YoY was led by fans, water heater and domestic appliances, but, EBIT margins declined sharply by 410bps YoY to 25.4% led by higher commodity prices and failed to raise the prices.
- On Lloyd, the revenue growth was good on account of high growth in LED TVs and lower base. The growth in the AC sales were lower due to poor summers & intense competition. The prices of ACs are expected to rise in the 4th quarter and commodities have also softened, hence, expect dual benefits for the AC makers.
- On Lighting & Fixtures, the growth was about 29% YoY and margins too improved by 100bps. The growth was led by volume and partially by value. There is a lot of replacement demand due to new technology and expects good opportunity is yet to tap.
- On Switchgears and Cable division, the government projects helped in growing this segment and we are optimistic for a few more quarters on account of the same.
- The overall margins were broadly impacted specially in ECD and Lloyd, however, the company is optimistic going ahead and expect the price increase and lower commodity prices to aid growth in the margins. The margins were impacted in this quarter majorly due to higher RM costs, rupee depreciation and delay in passing increased input costs to the customers. The higher effective tax rate further impacted the bottom line.
- We are optimistic on the company and expects the product expansion & Lloyd to benefit in the long term. Havells would always trade at a premium on account of top of the mind brand recall, strong distribution reach and positive FCF generation capabilities. Hence, we recommend a strong buy for a fair value of Rs. 749 per share.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	2,518	1,966	28.1%	2,191	14.9%
EBITDA	291	262	11.0%	263	10.9%
EBITDA Margin	11.5%	13.3%	-1.8%	12.0%	-0.5%
PAT	196	194	0.7%	179	9.5%
PAT Margin	7.8%	9.9%	-2.1%	8.2%	-0.4%

Market Data	
Industry	Automobile
Last Closing Price	677
Fair Value	749
Face Value (INR)	1
52-w H/L	753/484
Market Cap (INR Crores)	42,351

17.0%	19.0%	22.0%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

Voltas Ltd.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	1,492	1,375	8.5%	1,421	5.0%
EBITDA	116	114	1.3%	109	6.6%
EBITDA Margin	7.8%	8.3%	-0.6%	7.6%	0.1%
PAT	78	100	-22.3%	107	-27.0%
PAT Margin	5.2%	7.3%	-2.1%	7.5%	-2.3%

Market Data	
Industry	Automobile
Last Closing Price	521
Fair Value	612
Face Value (INR)	1
52-w H/L	665/471
Market Cap (INR Crores)	17,347

12.0%	10.0%	8.0%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

- Voltas net revenues growth was driven by Electro-Mechanical Projects & Services (+16% YoY) and its Engineering Products & Services (+20% YoY) divisions; offset by a decline in UCP segment's revenue by 3% YoY. The EBITDA Margin fell by 60bps YoY on account of rise in the RM costs; discounts in its UCP segment as the company needs to clear the inventories; negative operating leverage and higher dealers' incentives. The bottom line fell in the 3rd quarter on account of 1) higher finance costs *(+600% YoY to Rs. 13 crores)* 2) exceptional expenses of Rs. 12 crores vs. nil in Q3FY18. 3) Loss in JVs and associates *(Rs. -31 crores vs. Rs. 3 crores profits in Q3FY18)*. The loss in the JVs was majorly due to high launch costs of its new JV with Beko.
- UCP Segment: The revenues fell by 3% YoY on account of higher inventories with the dealers and the EBIT Margins fell by 450bps YoY to 8.5% in Q3FY19 due to the twin effect of a rise in the input costs and depreciation of the rupee.
- Electro-Mechanical Projects and Services: The segment revenues rose by 16% YoY and the margins climbed higher by 80bps YoY to 7.9% in the 3rd quarter. This is due to faster execution of better quality orders both in domestic as well as international locations. The order backlog stands at Rs. 5,000 crores *(domestic:exports Rs. 3,100 crores:Rs.1,900crores)*.
- The JV launched its products in the middle of September and hence due to higher A&P spends and launch related costs, the company reported losses for the quarter. The launch was supported by strong products and marketing efforts. This JV is building up its distribution network. The localization efforts are on and the JV is constructing a factory, which should commence production by end of CY19.
- We strongly recommend to buy Voltas on account of huge opportunity size, strong brand recognition, wider distribution reach and Beko JV would support sustainable growth in the coming years. Our fair value comes at Rs. 612 per share.

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Crompton Greaves Consumer Electricals Ltd.

- CG Consumer Electricals top line increased by 10% majorly led by 16% YoY growth in Electrical Consumer Durable (ECD) division in Q3FY19 & offset by a 2.4% decline in its lighting segment. The ECD segment performance was strong in fans and pumps sub-segment. Also, new launches and refreshers in certain categories helped it to perform strongly.

- The EBITDA Margin declined by 20bps YoY to 12.2% for the same period, impacted on account of rise in the raw material costs. Additionally, the margins were weak in the Lighting segment.

- The company has laid out steps to improve the margins viz. 1) direct sourcing from China. 2) moving LED production in-house *(at present its outsourced)* and 3) cost rationalization efforts.

- ECD to grow by 20%, led by new products and network expansion. The management is also looking inorganic route. It can enter into new segment over the next 2-3 years.

- The company started increasing its distribution reach from the last 6-9 months.

- The CG Consumer Electricals company has a strong product portfolio, pipeline for the new product launches is strong, top of the mind brand recall, market leadership in most of its products and good distribution reach. Hence, we maintain our Buy rating on the stock and fair value comes at Rs. 253 per share.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	1,030	938	9.8%	1,038	-0.7%
EBITDA	126	116	8.2%	124	1.7%
EBITDA Margin	12.2%	12.4%	-0.2%	11.9%	0.3%
PAT	80	70	14.6%	77	3.6%
PAT Margin	7.7%	7.4%	0.3%	7.4%	0.3%

Market Data	
Industry	Automobile
Last Closing Price	195
Fair Value	253
Face Value (INR)	2
52-w H/L	272/190
Market Cap (INR Crores)	12,237

13.0%	17.0%	21.0%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

Blue Star Ltd.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	1,099	932	17.9%	1,032	6.5%
EBITDA	42	42	-0.2%	58	-27.1%
EBITDA Margin	3.9%	4.6%	-0.7%	5.6%	-1.8%
PAT	-1	13	-	20	-
PAT Margin	-0.1%	1.4%	-1.5%	1.9%	-2.0%

Market Data	
Industry	Automobile
Last Closing Price	567
Fair Value	695
Face Value (INR)	2
52-w H/L	843/507
Market Cap (INR Crores)	5,462

13.0%	24.0%	29.0%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

- Blue Star has reported a loss in Q3FY19 on account of: 1) the company's platinum jubilee celebrations expense of Rs. 7.8 crores. 2) Provision of Rs. 14.5 crores towards exposure in its JV in Oman. The company's JV in Oman was not profitable and incurred cost overruns in the projects, hence, they have exited the JV.

- The company's revenues grew handsomely led by the robust double digit performance of all its segments. However, the margins impacted on account of higher provisions, one-offs and increase in the RM costs. The other income was higher by 191% YoY to Rs. 10 crores in Q3FY19 due to interest earned on IT refunds. The finance expense was higher by 78% YoY to Rs. 13 crores for the quarter on account of enhanced WC and increase in the interest rates.

- Electro-Mechanical Projects and Packaged AC Systems: The revenues grew by 16% YoY to Rs. 655 crores was driven by faster execution and better sales pickup in its central AC business. While EBIT margins fell by 80bps YoY to 4.6% in Q3FY19, impacted due to increase in the RM costs. The company sees growth opportunities led by improving infrastructural activities in the domestic and the focus remains to increase the pie in it. On the commercial AC business, Blue Star wants to increase the penetration in North India and continue to expand its network where they are not present.

- Unitary Products Segment: The revenues jumped higher by 22% YoY to Rs. 392 crores on account of good demand from deep freezers, storage water coolers, air coolers and water purifiers businesses. While the margins declined sharply by 250bps YoY to 2.4% in Q3FY19 led by pricing pressure in the room AC business on account of the higher inventories build-up. Additionally, higher spends on A&P also impacted the margins. The portfolio restructuring might increase the margins. Blue Star's market share stands at 12.8%, an increase of 50bps.

- Blue Star is gradually gaining market share and expanding its reach. Hence, we recommend investors to buy for a fair value of Rs. 695 per share.

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V-Guard Industries Ltd.

- The revenue growth during the quarter was driven by almost all its products, but, the growth in the pumps and wires was almost flat on account of a weak industry demand *(real estate slowdown)* and increase in the competitive intensity especially in the Kerala region.

- The non-south market reported 18% YoY growth, while southern markets delivered growth of 9% YoY. South:Non-South Mix stands at 63:37, little improved from 65:35 in Q3FY18. The management would like to take this ratio to 50:50 in the coming 4-5 years.

- The revenues are expected to grow by 15% CAGR over the next few years, driven by an increase in the penetration level, especially in the non-south regions and by introducing newer product categories.

- The EBITDA Margins declined led by 1) increase in the commodity prices; 2) volatility in the exchange rates; 3) pricing pressure in pumps and wires and 4) higher base. The management expects lower margin as a temporary phenomena and expects improvement going in Q4FY19 on account of increase in the product prices and softness in the commodity prices.

- V-Guard is likely to increase its touch points by 10-15% for the next five years from the base of 30,000 at present and is also seeking an inorganic opportunity. All this along with introducing high margin products in its kitty will eventually take its revenues and bottom line higher in the coming years. But, the company is trading at a little higher valuation and we don't see much upside from the current levels. Our fair value comes at Rs. 207 per share.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	594	530	12.2%	598	-0.6%
EBITDA	45	49	-9.0%	50	-9.8%
EBITDA Margin	7.6%	9.3%	-1.8%	8.3%	-0.8%
PAT	34	36	-5.8%	38	-11.7%
PAT Margin	5.7%	6.8%	-1.1%	6.4%	-0.7%

Market Data	
Industry	Automobile
Last Closing Price	187
Fair Value	207
Face Value (INR)	1
52-w H/L	255/159
Market Cap (INR Crores)	7,975

14.0%	23.0%	25.0%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

Whirlpool of India Ltd.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	1,212	968	25.2%	1,182	2.5%
EBITDA	98	89	9.5%	107	-9.0%
EBITDA Margin	8.1%	9.2%	-1.2%	9.1%	-1.0%
PAT	61	53	14.1%	79	-22.8%
PAT Margin	5.0%	5.5%	-0.5%	6.6%	-1.6%

Market Data	
Industry	Automobile
Last Closing Price	1,297
Fair Value	1,584
Face Value (INR)	10
52-w H/L	1,859/1,263
Market Cap (INR Crores)	16,642

16.0%	18.0%	22.0%
Total Revenue CAGR FY18 -21E	EBITDA Growth CAGR FY18 -21E	PAT growth CAGR FY18-21E

- The top line growth was on account of good festival seasons in the 3rd quarter and the low base as the festivals were in the 2nd quarter of last year. The EBITDA Margin declined by 120bps YoY in Q3FY19 on account of sharp increase in the commodity prices, fluctuation in the forex and hike in the import duties. The EBITDA grew by 9.5% YoY to Rs. 98 crores for the quarter, while the bottom like increased by 14% YoY to Rs. 61 crores for the same period. This is due to higher other income *(+26% YoY to Rs. 27 crores)* and lower effective tax rate of 35.5% *(-80bps YoY)*.

- We expect the EBITDA Margins to climb higher as the commodity prices have softened a bit and the USD/INR stabilized. In addition, the company has taken some price increase and will also get higher operating leverage in Q4FY19. All this will lead to an improvement in the margins going ahead.

- The management has given a positive outlook by stating that the mass market is showing positive signs and could reflect in higher growth going forward. We also remained optimistic about the business prospects.

- The company said its board considered and approved capacity enhancement, modernisation and introduction cum diversification of manufacturing lines at Ranjangaon and Puducherry plants with capital investment of Rs 407 crores over a period of next five years.

- We remain positive on the stock for the medium to long term given Whirlpool continues to expand its reach by 15-20%, especially in the semi-urban and rural areas. The focus remain on the premium offerings viz. front load washing machines and double-door refrigerators. They also entered into water purifiers, air purifiers and dishwashers. All this will lead to a healthy top line growth in the coming years. Hence, Whirlpool would continue to trade at a premium and given the recent correction in the stock price, one can invest safely in this stock for the next few years. Our fair value comes at Rs. 1,584 per share.

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Symphony Limited

- The revenues for the quarter were higher by 10% YoY to Rs. 240 crores, while the margins declined sharply due to a sharp increase in the input costs, poor product as well as market mix. The inventory levels too are very high due to two back to back poor summers. All its expenses as a percentage of net revenues increased higher on a YoY basis. The company's bottom line also saw a sharp fall by 43% YoY due to poor operational performance and lower other income *(-13% YoY to Rs. 13 crores)*. This is offset by a decline in effective tax rate by 190bps YoY to 27.5% in Q3FY19.

- The management guided that will maintain the gross margins at 49-50% level, however, EBITDA Margin would continue to fluctuate as it depends upon the several factors.

- Symphony in the near future would continue to remain a single product company *(air coolers)*. However, they are slowly diversifying into different geographies to reduce dependence on domestic.

- We can sense from the talks that the company could announce partial buyback of its shares due to high cash on its books. The timeliness for the same was not disclosed.

- The performance of its three subsidiaries are on track, but, Climate Technologies *(Australian subsidiary)* performance was below the expectations due to delayed summers in Australia. The management has initiated strategic measures to improve the performance and expects a decent set of numbers going forward.

- Symphony maintained its market share at 50%, despite intense competition from Voltas, Kenstar, Crompton and Bajaj. At present, there is no multinational company present in the air cooler segment. The company is leading the premiumization trend & expect it to continue. It could also get benefits from the rising consumption as elections are near and from now onwards, the base would be lower. We are optimistic on the company by looking at its past performance and future opportunities. Our fair value comes at Rs. 1,482 per share.

(INR Crores)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net Sales	240	219	9.6%	223	7.6%
Calculated EBITDA	43	79	-45.6%	43	0.0%
EBITDA Margin	17.9%	36.1%	-18.2%	19.3%	-1.4%
PAT	37	65	-43.1%	31	19.4%
PAT Margin	15.4%	29.7%	-14.3%	13.9%	1.5%

Market Data	
Industry	Automobile
Last Closing Price	1,173
Fair Value	1,482
Face Value (INR)	2
52-w H/L	1,992/812
Market Cap (INR Crores)	8,206

21.0%
Total Revenue CAGR FY18 -21E

16.0%
EBITDA Growth CAGR FY18 -21E

12.0%
PAT growth CAGR FY18-21E

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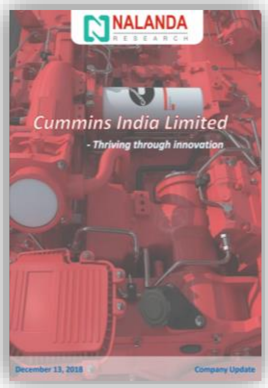

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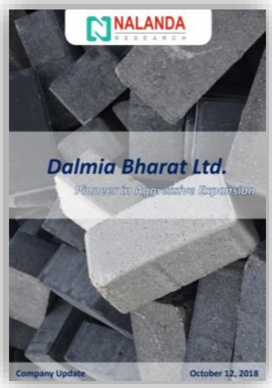

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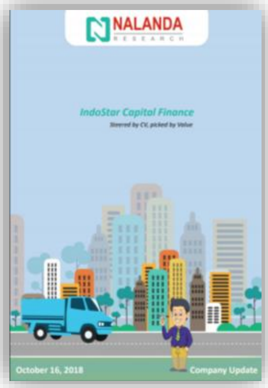

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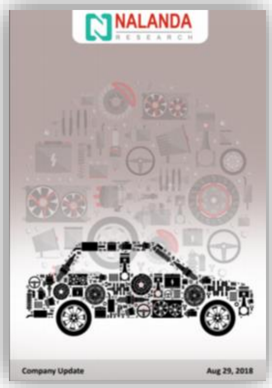

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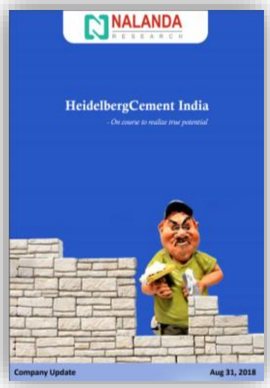

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