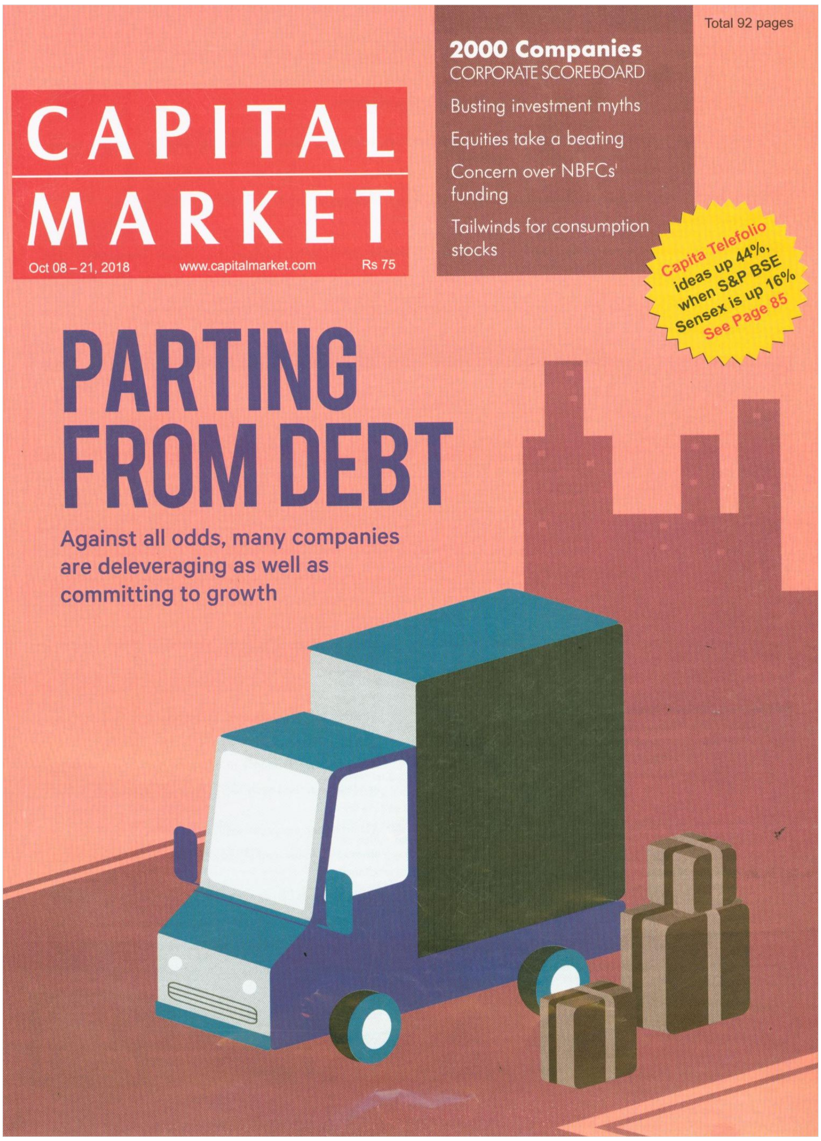
India Media Monitor

Capital Market
Fit and trim

Oct 10, 2018 | National | Pg No.: 1,8,9,10,11,12,13 | Cover Story | Bureau | Sq Cm: 3235 | AVE: 647058 | PR Value: 3235290



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CoverStory

Stocks

Fit and trim

The consistency in the reduction of debt has to be viewed along with improvement in the cash flow to sustain daily operations and grab new opportunities

Debt has the malignant power to bring down companies and destroy shareholders' wealth. Interest is a fixed expenditure, irrespective of the level of profitability. The decision to borrow appears sensible during an uptrend in the business cycle. An economic downturn makes even paying periodic principal and interest difficult.

Debt is not all about interest cost. Cash generated should match the debt-servicing outgo. Repayment schedules are largely customized to suit the projected cash-flows. The process is also termed as structured finance. Estimates going off the track result in a mismatch between cash inflow and outflow. A significant imbalance can affect day-to-day operations.

The movement of interest rates also shifts the balance of power from the borrowers to the lenders. Interest rates become competitive when the balance-sheet is strong, signaling the ability of the company to service the debt. Interest rates are arrived by taking into account the interest cost borne in a year upon the average debt. Average debt is calculated as the average of opening debt and closing debt in a financial year.

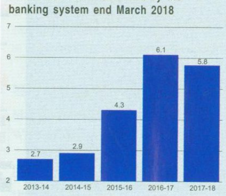
Interest cost is likely to include processing fees and bank charges and are termed as finance cost in the profit and loss account. Finance cost is usually more than the interest rate. The notes to accounts provide information about bank charges.

Borrowing from banks come with various financial and non-financial covenants. Companies have to seek the lenders' consent before seeking more debt or undertaking expansion plans. Such stipulations are mandated by banks to protect their interest but act as barriers for growth over the medium to long term.

The change in credit rating over the last few years provide insights about the capability to raise funds and refinance existing debt on better terms. High ratings imply flexibility in choosing the instrument to mop up capital. Also, companies are in a position to borrow at better rates.

Funds locked up

The gross bad debt was up to Rs 10.25 lakh crore and accounted for 11.8% of the total loans extended by the banking system end March 2018



GNPA figures are in percentage.

Diversion of funds is one of the major reasons for the gigantic mountains of non-performing debt in the banking system. Gross non-performing assets were up to about Rs 10.25 lakh crore end March 2018 from Rs 8.86 lakh crore end December 2017. The gross bad debt accounted for 11.8% of the total loans extended by the banking system. The amount indicates the quantum of funds stuck in unviable assets.

A quick resolution of debt is desirable. The Central government devised the Insolvency and Bankruptcy Code in 2016 to resolve the bad-loan menace in a timely manner. IBC, which has replaced the earlier multiple debt-resolution mechanisms, is still a work in progress. However, it has performed well so far compared with the earlier attempts.

Increase in debt and drop in business profitability are indicators of building of stress. The debt profile of the industry in which the company is operating should give an idea of the average rate at which peers have accessed funds. Divergence from the average should raise concern.

Many companies go for external borrowings as the interest rates are lower compared with those prevailing at home. The downside is currency risk. Companies have to hedge their positions in the derivatives markets to protect the balance sheets from volatility in the foreign exchange market. Hedging comes at a cost and might not fully protect the balance sheet from currency volatility. The sharp decline in the value of the rupee compared with the US dollar of late seems to have upset calculations of several companies. The benefit of lower interest rate, thus, can get neutralized. The track record of managing foreign debt offers clues to investors about the company's dexterity in walking the tightrope of keep finance cost down.

Once an enterprise falls into the debt trap, how to stick to the repayment schedule consumes a significant amount of management bandwidth. Promoters end up fire-fighting rather than growing the operations. Companies have to undergo a painful journey of business restructuring. Essentially, the exercise involves exiting non-core assets. Some companies opt for fresh issuance of equity, thereby diluting the holding of existing shareholders.

An impaired balance sheet and a weak cash-flow become obstacles in grabbing opportunities that open in the meantime. Organic and inorganic growth plans have to be put on the backburner.

In the process of deleveraging, there are instances of promoters losing management control as usually lenders have the choice of converting debt into equity in case of default. Ownership transition is a time-consuming affair. Crucial years are lost in the bargain. In sum, coming out of the debt trap is a painful affair. Companies take several years to recover from the setback or, worse, do not survive.

Long-term investment is the key for the small and retail investors to reap capital gain in the equity market. Entering the market for quick money seldom fetches good returns. Therefore, companies with moderate balance- sheet leverage should be preferred.

The Reserve Bank of India (RBI) has ramped up interest rates twice, by 25 basis

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points each in June 2018 and August 2018, after four years of pause. Several banks have increased their marginal cost of funds-based lending rates. A rising interest rate scenario is expected to strain the cash-flow of many. Any further hike in interest rates will worsen the situation for debt-laden companies. Inflation is a crucial factor as soaring prices will compel the RBI to embark on further tightening of interest rates.

As such, companies that have managed to reduce debt in recent years are potential investment candidates. Paring of debt improves profitability. Such companies get rerated.

Capital Market looked at the debt profile of companies from various angles. Companies that managed to reduce debt in the latest financial year as against the previous financial year were considered. Those to have reduced debt over the medium term were also taken into consideration. Many companies have performed exceptionally well by trimming debt every year over the last five years. In fact, the medium- term trend in deleveraging should reveal a clearer picture.

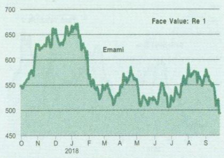
A note of caution: Cutting of the debt burden year after year is likely to mislead if companies assume debt in the subsequent years to meet their working capital needs or capital expenditure plans. Management commentary on balance-sheet leveraging should help. The corporate's policy on borrowings gives hints of future debt scenario. Absolute debt and the debt-to-equity ratio indicate to what extent the company has adhered to the stated debt policies. There are situations of a drop in the debt-to-equity ratio but an increase in the quantum of debt because of the rise in net worth. Such companies were ignored. In short, companies with absolute reduction in debt were only selected along with a decline in the debt-to-equity ratio.

Interestingly, there are companies that have clearly articulated their strategy of debt reduction in annual reports, presentations and conference calls. They have set targets to emerge debt-free.

Funds deployed for debt reduction come from internal accruals, fresh equity issuance or by offloading investments. Prepayment of debt through internal accruals is desirable. Also, if the debt reduction is leading to decline in interest cost needs to be seen. Otherwise, deleveraging can be due to smart window-dressing by resorting to short-term borrowings between two balance sheet dates to please the minority investors .

A dual feat

Emami reduced the net debt to Rs 118 crore in FY 2018 from Rs 390 crore in FY 2017 in spite of acquisition and new investments



CMP Rs 493 as on 28 September 2018. One-year return: -10.01%
S&P BSE Sensex one-year return: 15.81%

Companies taking debt in significant proportion on the liability side of the balance sheet and also having liquid and marketable investments and securities on the asset side are not uncommon. As part of treasury operations, well rated large companies borrow at a lower cost from banks and the money markets and deploy such funds in high-yielding investments to earn spread. In such cases, whether the strategy is delivering the desired results requires to be evaluated. Other non-operating income and interest cost help to draw appropriate conclusions.

Also, the net debt position has to be examined. Figures of liquid and marketable investments are not easily available. Investors have to rely on the numbers published by companies in presentations or commentary in annual reports.

Fast-moving consumer goods company **Emami** managed to reduce the net debt to Rs 118 crore in the fiscal year ended March 2018 (FY 2018) from Rs 390 crore in FY 2017. The remarkable feat was achieved in spite of the acquisition of Kesh King, sustained investments in new launches and capital expenditure. Finance cost decreased 40.9% to Rs 34.3 in FY 2018 from Rs 58 crore in FY 2017 due to repayment of liabilities.

Some of the popular personal- and health-care products in the portfolio include Emami, BoroPlus, Fair and Handsome, Zandu Chyawanprash, Navratna and Kesh King. The rural distribution network consists of 250 super stock-keepers and 6,500 sub-stock-keepers, providing access to over four lakh outlets.

The Pacharia plant in Assam, built at a cost of Rs 300 crore, was commissioned in FY 2018. The unit will be enjoying fiscal benefits for 10 years. Also, a third-party unit in Sri Lanka to manufacture country-specific products was started. The direct retail reach increased to over 8.5 lakh outlets end March 2018 compared with 7.3 lakh in the previous year. Around 500 salesmen were added to improve direct coverage and enhance execution capability at the point of sale. Next, the coverage was extended to 25,000 villages, with a population of over 5,000, from 12,000 villages in FY 2017.

Among the leading providers of customized business process management (BPM) services, **Firstsource Solutions** repaid debt worth US$ 61.7 million in FY 2018. The total debt in rupees narrowed to 30.3% to Rs 672.3 crore in FY 2018. The aim is to further trim down the long- term debt in the current financial year. Finance charges were down 10.8% in FY 2018. As part of the deleveraging exercise, a portion its domestic business was sold to Vertex Customer Management India Pvt Ltd in July 2017. Capital expenditure of Rs 62.5 crore was incurred in FY 2018 for refurbishment and maintenance of operation centers, technology upgrade and setting up of new operations centers.

The BPM services comprise customer- management services such as contact center, transaction processing and debt collection services including revenue-cycle management. There is presence in the US, the UK, India and Philippines. Major clients are in industries such as healthcare, telecommunications, media, utilities, banking, financial services and insurance. They include Fortune 500 and FTSE 100 companies. The US contributed 53.6% to the total revenues, followed by UK (43.6%) and India (2.8%), in FY 2018. Going forward, inorganic opportunities will be explored for growth.

Balkrishna Industries's total debt declined 37.6% to Rs 867.5 crore in FY 2018. Interest cost slid 32.6% in FY 2018. The segment of off-highway tyres (OHT), used for agricultural, industrial and construction purposes, in earthmovers and ports and for mining, forestry, lawn and garden and all terrain vehicles is a low-volume business but is highly specialized and capital-intensive. There is a need to maintain a large number of stock-keeping units to meet the

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diverse requirement of customers. The major markets for OHT include developed countries, particularly in Europe, and the US. Around 85% of the revenues came from exports in FY 2018.

For uninterrupted supply of key raw material, a carbon black plant, with capacity of 60,000 tonnes per annum (tpa), is being set up at the existing facility at Bhuj in Gujarat, mainly for captive use. The capital outlay is estimated at Rs 150 crore. The project is likely to be commissioned by March 2018. Bonus shares in the ratio of 1:1 were issued in November 2017. The stock was hammered brutally in early September 2018 in response to the unexpected announcement of about capex of US$ 100 million for setting up a new plant in the US.

Among the largest graphite electrode manufacturers in the world, with the largest single-location facility at Mandideep in Madhya Pradesh, and capacity of 80,000 tpa, **HEG** repaid the entire long-term debt in FY 2018. Total debt was down 56% to Rs 297.5 crore in FY 2018 even as it bore the brunt of a relatively high leveraged position in the recent past. A financial turnaround was staged in FY 2018, with profit of Rs 1097.2 crore as against losses of Rs 43.7 crore in FY 2017 and a tiny profit Rs 2.6 crore in FY 2016. Interest expense emerged a killer, at Rs 54.7 crore in FY 2017 and Rs 60.3 crore in FY 2016.

The owner and operator of thermal and hydel power generation capacities of 76.5 MW, mainly used for captive consumption, has shut down inefficient steel and graphite electrode capacities in China. Replacement of steel capacities by electric arc furnaces units is another favorable factor. Expansion is underway to increase the capacity of graphite electrode by 20,000 tpa at the existing unit, subject to securing supply of

Stumbling while running

Balkrishna Industries was hammered brutally early September 2018 on the unexpected capex of US$ 100 million for setting up a new plant in the US

CMP Rs 1020 as on 28 September 2018. One-year return: 19.65%
S&P BSE Sensex one-year return: 15.81%

Striking a balance

Prepayment of debt through internal accruals is desirable. Also, debt reduction should lead to decline in interest cost. Companies taking debt on the liability side and having liquid and marketable investments and securities on the asset side are not uncommon

COMPANY	HIGHLIGHTS
NCC	Debt has been consistently declining over the last five years. The debt-to-equity ratio was 0.62 times end March 2018 as against 1.56 times end March 2013. One of largest construction companies in India has presence in the segments of buildings and housing, roads, electrical, water and environment, irrigation, railways, power, metals and mining. Orders worth Rs 25304 crore were in the bag end FY 2018 as against Rs 9226 crore end FY 2017. The cumulative order book stood at Rs 32,532 crore end March 2018, translating into 3.9 times FY 2018 consolidated revenues.
Hinduja Global Solutions	Debt declined 12% in FY 2018. The debt-to-equity ratio lowered to 0.44 times end FY 2018 compared with 0.65 times end FY 2016. Among the leading companies in business process management, with domain expertise in back-office processing, contact centers and HR solutions operates 70 delivery centers and is present in seven countries: India, the UAE, Philippines, the UK, the US, Canada and Jamaica. Nearly 90% of the revenues come from the healthcare, telecom and technology, consumer and banking and financial services verticals.
NCL Industries	Over 80% of the revenues are derived from the cement business. Operations are mainly in south India, with an installed capacity of 2.70 million tonnes per annum (tpa). The remaining revenues are from segments such as cement bonded particle board, ready-mix concrete and hydro power. There is collaboration with AGT of Turkey, a global manufacturer with advanced technology in wood industry. A two-lakh-square-feet factory is being set up in Malkapur, Hyderabad, with capacity to produce 1,000 doors per shift. Production is scheduled to start in FY 2019. The expanded clinker and cement grinding unit and a 30,000-tpa board plant at Simhapuri in Telangana were commissioned last fiscal year. As much as Rs 202 crore was raised from qualified institutional investors. Of these, Rs 165 crore was utilized for redemption of non-convertible debentures.
Excel Industries	Debt was demolished on a net basis post following consistent reduction. Debt came down 90% to Rs 10 crore end FY 2018 from Rs 102.4 crore end FY 2014. The product lines comprise chemicals for the agro industry, specialty chemicals, polymer inputs and pharmaceutical active pharmaceutical ingredients and intermediates. The plan is to expand capacities of various products. The process has begun to obtain necessary regulatory approvals. The multiple-effect evaporator system installed at the Roha unit in Maharashtra will be commissioned in FY 2019. This up-scaling of the waste water treatment facility is in line with future needs.
Ramco Industries	Total debt nearly halved to Rs 212.5 crore end March 2018 from five years ago. The businesses are segregated into building products, wind mills (17 MW) and cotton yarn. The building products division makes fiber cement sheets, fiber cement boards, cement and fibre cement pressure pipes. The manufacturing unit at Kharagpur in West Bengal produced 73,260 tonnes of cement in FY 2018 as against 73,677 tonnes in FY 2017.
Jagran Prakashan	Debt slipped 52% to Rs 147.8 crore in FY 2018. Peak debt had stood at Rs 648 crore end FY 2015. Flagship newspaper Dainik Jagran enjoyed total readership of seven crore in FY 2018, among the highest in the media industry. A total of 10 publications with over 400 editions and sub-editions of print publications have a reader base of 8.4 crore. There is presence in 10 states, with publications in nine languages. As many as 39 radio stations have footprints across 12 states.

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needle coke, a key raw material that is in short supply. Mutual funds owned 2.26% stake and insurance companies 9.38% equity end June 2018.

Formally known as Cement Manufacturing Company, **Star Cement** is among the leading cement manufacturers in north-east India, with a market share of 23%. The substantial inflow of pending subsidy, given for units in the north-east, was utilized to repay debt in FY 2018, when a 0.4-million tpa (mtpa) expansion was commissioned. The subsidy was deployed to repay loans of Rs 375 crore. Total debt slid 46% to Rs 432.4 crore in FY 2018 from Rs 800.7 crore in FY 2017. Interest expense fell 32.8% in FY 2018. The intention is to become debt-free by FY 2019.

Cement capacity stood at 4.3 mtpa and clinker capacity at 2.6 mtpa, with 51 MW of power end March 2018. Of the seven manufacturing units, four are in Meghalaya, one in Assam and two are outsourced units located in West Bengal. Plants are strategically located close to the source of raw materials such as coal and limestone. The distribution network is spread across 11 states in eastern India, comprising 2,250 dealers and 9,000 retailers. The focus is on north Bengal and east Bihar, apart from north-east India.

The proposed two-mtpa grinding unit at Siliguri in West Bengal will be funded largely through internal accruals. The plant is likely to be commissioned in FY 2020. Also, a new unit, with capacity of two mtpa, is being contemplated in Durgapur, Bihar, by FY 2022.

On a net basis, **West Coast Paper Mills** repaid certain long- and short-term borrowings in FY 2018. Thus, total debt reduced 29% to Rs 315.2 crore and finance cost declined 17.8%. Despite plant maintenance- and modernization-related

Demolishing the odds

HEG repaid the entire long-term debt in FY 2018 even as it bore the brunt of a relatively high leveraged position in the recent past

CMP Rs 3328 as on 28 September 2018. One-year return: 272.72%
S&P BSE Sensex one-year return: 15.81%

United Spirits	Debt slid 59% to Rs 3430 crore end FY 2018 from a peak of Rs 8307 crore end FY 2014 2018. A maiden issue of non-convertible debentures amounting to Rs 750 crore was made to refinance the existing higher cost debt. Profit from operations, proceeds from sale of non-core assets and reduction in working capital were used to repay loans amounting to Rs 1056 crore in FY 2018. Renegotiation of borrowing rates and a favorable mix of debt resulted in total interest cost reducing Rs 108 crore in FY 2018. The largest spirits company in India produces 78.5 million cases per annum.
Mahindra Lifespace Devel	Borrowings plunged 67.2% to Rs 458.6 crore end FY 2018 from a peak of Rs 1401 crore four years ago. The debt-to-equity ratio has come down to 0.30 times. The Mahindra & Mahindra group real estate developer is working on 3.97 million square feet (sq ft). Forthcoming projects, new phases of ongoing projects and new projects in various stages of planning cover another 4.44 million sq ft. As many as 1,357 residential units aggregating to 1.16 million sq ft of saleable area were sold in FY 2018 compared with 863 units aggregating to 0.91 million sq ft in the previous year.
Meghmani Organics	There is presence in the three segments of pigments, agrochemicals and basic chemicals. Capex plan involving investments of Rs 640 crore was initiated in FY 2017. It involves three projects. The project to make chlormthane is expected to be commissioned by December 2018. The expansion of caustic soda and hydrogen peroxide is likely to go commercial by June 2019. Debt declined to Rs 385.8 crore end FY 2018 as against Rs 754.3 crore end FY 2014.
Century Textiles & Ind.	Borrowings reduced 23% end FY 2018 to Rs 5700 crore. Interest expense came down 18% or Rs 99 crore in FY 2018, giving a boost to the bottom line. Businesses include textiles, cement, pulp and paper and real estate. The focus is on business restructuring, ramping up growth businesses and reduction in interest cost. Grasim Industries was given the rights in February 2018´to manage and operate the viscose filament yarn business without transferring the underlying immoveable and moveable assets. The yarn and denim divisions were sold in FY 2018.
Sunteck Realty	The real estate developer operates in the Mumbai Metropolitan Region (MMR). A 100-acre project in the MMR was acquired under the aspiration segment and asset light model. There is ownership of 23 acres of land at Goregaon in Mumbai. The plan is to develop a mixed-use large format township. Borrowings were down 40% to Rs 568 crore end FY 2018. The debt-to-equity ratio decreased to 0.34 times end FY 2018 as against 0.64 times end FY 2017.
Bannari Amman Sugars	Debt declined 49% to Rs 533.8 crore end March 2018 from Rs 1534 crore end FY 2016. The debt-to-equity ratio came down to 0.71 times from 1.46 times. Interest cost was down 65% in FY 2018. There is presence in the business segments of sugar, power including wind mill (138 MW), distillery and granite. The installed capacity stood at 23700 tonnes crushed per day end March 2018.
Delta Corp	A debt-free status was achieved end FY 2018 after borrowings fell to Rs 2.3 crore end March 2018 compared with Rs 221 crore in the previous fiscal year. Along with subsidiaries, there are operates in Goa, Daman, Gurgaon and Sikkim in the gaming, hospitality and online skill gaming segments. A total of five casinos are operated in Goa and Sikkim. An acquisition, Gauss Networks Pvt Ltd, operates the online poker site, Adda52.com, the country's largest skill-based online poker platform.
Avenue Supermarts	Debt decreased 71% to Rs 439.2 crore end FY 2018, with the debt-to-equity ratio moderating to 0.23 times from 0.50 times in the previous fiscal year. As many as 155 retail stores are operated under the brand DMart in 11 states and one Union territory, covering in aggregate 4.9 million square feet. As many as 24 new stores were added in FY 2018. There are 24 distribution centers and six packing centers in Maharashtra, Gujarat, Telangana and Karnataka.

Source: Companies

shutdowns, the financial performance improved in FY 2018 on account of good demand along with increased product-mix, improved operating parameters and reduction in finance cost. The main business includes manufacturing of paper, paperboard and hardwood pulp as well optical fiber cable (OFC).

The cable division is working on a green-field expansion in Telangana for backward integration of raw materials required for OFC. The project's investment outlay has been estimated at Rs 110 crore over the next three years. Subsidiary West Coast Opticable is investing around Rs 10 crore for adding new facilities to make OFC.

Work on capex plans worth Rs 180 crore is underway at the paper unit at Dandeli in Karnataka. The aim is to increase production from existing machines, improve paper quality and produce new specialty products. The next step is to set up a new line for producing specialty products at Dandeli.

Towards self-sufficiency

The funding of the two-mtpa grinding unit of Star Cement in West Bengal will be through internal accruals. A new two-mtpa unit is being contemplated in Bihar

CMP Rs 111 as on 28 September 2018. One-year return: 5.59%
S&P BSE Mid-cap index one-year return: -15.93%

Shopper's Stop aims to become debt-free by end FY 2019. Debt decreased a whopping 86% to Rs 125.3 crore end FY 2018. Three focus areas include return ratios, debt-reduction and exit from non-core assets. The non-core businesses of mixed retail format under the brand Hypercity, entertainment centers under Timezone and duty-free airport retailing segments were sold to the Nuance Group.

The Chandru L. Raheja group company is considered a pioneer in organized retail. Various formats include department stores, specialty stores for beauty and books, toys

All-round deleveraging

Companies managing to reduce debt in the latest financial year as against the previous financial year and over the medium term and showing absolute reduction in debt along with a decline in the debt-to-equity ratio

COMPANY	CMP	MARKET CAP	52-WEEK		MF	TOTAL DEBT		DEBT-EQUITY		P/E	P/BV	DIVIDEND
	(Rs)	(Rs cr)	HIGH (Rs)	LOW (Rs)	(%)	(Rs cr)	CHG (%)	(TIMES)	CHG			YIELD (%)
Avenue Supermarts	1424.6	88907.1	1682.0	1022.4	2.84	439.3	-71%	0.23	-0.27	112.1	19.04	0
Balkrishna Industries	1104.5	21351.9	1467.4	806.5	12.35	867.5	-38%	0.30	-0.22	30.6	5.23	0.36
Balrampur Chini Mills	77.7	1773.8	179.0	58.8	5.17	989.8	-44%	0.87	-0.37	7.8	1.10	3.31
Bannari Amman Sugars	1649.4	2068.3	2625.0	1385.3	0.02	533.9	-49%	0.71	-0.58	24.4	1.82	0.61
Century Textiles	876.1	9785.1	1471.9	838.0	14.87	4369.3	-23%	1.93	-0.37	25.3	3.56	0.74
Delta Corp	219.1	5862.7	401.3	190.0	2.96	2.3	-99%	0.09	-0.17	33.5	3.48	0.46
Emami	520.7	23636.4	714.0	499.1	5.75	325.9	-31%	0.21	-0.13	71.2	11.74	0.67
Everest Industries	498.0	778.1	636.9	325.0	2.75	83.9	-58%	0.38	-0.28	15.2	1.95	1.31
Excel Industries	1686.9	2120.6	1907.0	404.1	0.01	10.0	-85%	0.08	-0.17	28.5	3.98	0.74
Firstsource Solutions	65.3	4508.1	83.9	36.0	3.69	672.3	-30%	0.37	-0.12	12.9	1.91	2.28
Godrej Agrovet	521.4	10011.4	736.8	516.0	3.64	409.8	-38%	0.44	-0.70	40.4	7.09	0.86
HEG	3590.1	14345.8	4559.8	865.0	2.26	297.5	-56%	0.34	-0.41	13.1	7.52	0.84
Hinduja Global	721.6	1502.6	1042.0	523.5	1.81	586.1	-12%	0.44	-0.15	7.4	1.01	1.38
Jagran Prakashan	113.0	3349.5	192.2	111.8	16.96	147.8	-52%	0.11	-0.13	10.8	1.64	2.79
JK Paper	162.6	2897.4	194.0	97.9	1.03	1309.5	-23%	1.01	-0.47	11.5	1.74	1.51
Mahindra Lifespace	456.3	2342.4	669.0	392.3	3.71	458.6	-30%	0.3	-0.13	20.2	1.14	1.31
Meghmani Organics	80.8	2054.7	129.4	74.7	0.16	385.8	-16%	0.53	-0.17	7.5	2.36	0.5
NCC	80.5	4832.2	141.9	77.0	30.92	2060.9	-20%	0.62	-0.23	24.7	1.18	1.24
NCL Industries	133.7	604.8	310.0	120.5	13.37	277.7	-20%	0.91	-0.39	15.5	1.31	1.87
Ramco Industries	207.5	1798.3	326.1	192.8	2.12	212.5	-37%	0.1	-0.03	10.7	0.62	0.24
Shoppers Stop	561.4	4939.8	690.0	446.0	13.59	125.4	-86%	0.73	-0.99	76.1	5.46	0.13
Star Cement	102.2	4284.5	151.4	90.0	7.31	432.4	-46%	0.47	-0.32	13.5	2.90	0.98
Sunteck Realty	424.1	6204.5	526.0	300.4	3.09	568.0	-40%	0.34	-0.3	24.0	2.36	0.34
United Spirits	532.5	38689.9	800.7	468.0	4.09	3430.3	-17%	1.8	-0.65	70.0	15.99	0
West Coast Paper	349.3	2307.1	399.9	169.8	9.03	315.3	-29%	0.38	-0.65	10.4	2.75	1.15

CMP (current market price) is closing as on 26 September 2018. Consolidated financials considered wherever available. MF (mutual fund) holding as of June 2018, except Jagran Prakashan (August 2018). Financials for FY 2018. P/E : Price to earnings ratio. P/BV : Price to book value. DY : Dividend yield.
Source: Capitaline Databases

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and stationery, and home décor. The focus is on digital channels is increasing, with websites and mobile apps being developed for marketing its products.

A total of 240 stores operating in various formats have aggregate retail space of 4.35 million square feet spread across 38 cities. These are run under brands such as Shopper's Stop, Homestop, Crossword, Mac, Clinique, Estee Lauder and Smashbox. A loyal customer base is something unique. Existing customers contribute about 75% to Shopper's Stop revenues. The plan is to open four-six department stores and eight-ten beauty stores each year for the next three years to reach a wider and broader footprint.

The total debt of **Everest Industries** slipped 58% to Rs 83.9 crore in FY 2018 from Rs 198 crore in FY 2017. The deleveraging process is going on for the last five years, with the debt-to-equity ratio sliding to a mere 0.38 times in FY 2018 from 0.66 times in FY 2017.

Established in 1934, the country's first manufacturer of fiber cement roofing sheets is now a multi-product company, with presence in building products segments of roofing, ceiling, wall, flooring, cladding products and pre-engineered steel buildings for industrial commercial and residential applications. Building products and solutions are available in one lakh villages and 600 cities. Cumulatively, 2,200 pre-engineered steel buildings across 275 cities have been designed and erected. Building products contributed 64% and steel building 36% to the revenues in FY 2018.

Building product plants have a capacity of 8.80 lakh tpa and steel building plants 72,000 tpa. Lately, coloured roofing sheets, which command 25% price premium over the regular roofing fibre cement roofing sheets, were launched. Further, rationalisation of the GST rate from 28% to 18% has ensured parity with metal roofing.

Godrej Agrovet raised Rs 291.5 crore through an initial public offering (IPO) in FY 2018. The IPO was oversubscribed 96 times. From the proceeds, working capital facilities of Rs 100 crore and commercial paper of Rs 150 crore were repaid. Total debt fell 38% to Rs 409.8 crore end March 2018.

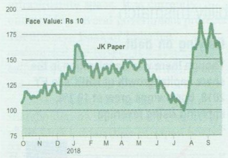
The agri-focused business is divided into five segments of animal feed, crop protection, oil palm, dairy and poultry and processed foods. The largest organised player in the compound animal feed market in India has a product portfolio comprising cattle feed, poultry feed, aqua feed and speciality feed. Its equal joint venture in Bangladesh has emerged as a leading player in the animal feed market in that country.

The crop-protection portfolio consists of plant growth regulators, organic manures, generic agrochemicals and specialised herbicides. These products are sold through 6,000 distributors on a pan-India basis. A majority equity stake was acquired in 2015 in Astec LifeSciences, a manufacturer of agrochemical active ingredients, bulk and formulations and intermediate products.

Milk and milk products are sold in Telangana, Andhra Pradesh, Tamil Nadu, Karnataka and Maharashtra under the Jersey brand. Animal feed contributed 49% to the revenue, followed by dairy (22%), crop protection (17%) and oil palm (11%), in FY 2018.

Cutting flab, running fast

JK Paper's total debt declined 23%. The highest-ever revenues, profit and production of 4.78 lakh tonnes were achieved in FY 2018



CMP Rs 145 as on 28 September 2018. One-year return: 35.04%
S&P BSE Mid-cap index one-year return: 7.78%

Raising funds, paring debt

Godrej Agrovet raised Rs 291.5 crore through an IPO in FY 2018. Working capital of Rs 100 crore and commercial paper of Rs 150 crore were repaid

CMP Rs 512 as on 28 September 2018. Six-month return: -19.68%
S&P BSE Sensex six-month return: 9.88%

JK Paper's total debt declined 23% to 1309.5 crore end March 2018 from end March 2017. The debt-to equity ratio was down to 1.01 times from end March 2018 from 1.48 times. Peak debt stood at Rs 2247.7 crore in FY 2014. Debt of Rs 460 crore was repaid in FY 2018. The highest-ever revenues and profit were reported in FY 2018. The highest-ever production of 4.78 lakh tonnes was achieved in the last fiscal year compared with 4.70 lakh tonnes in the previous year.

In significant move, a fibre line and a high-speed paper machine were installed at the JKPM units at Rayagada in Odisha, taking the installed capacity to 1.65 lakh tpa. With this, a major investment phase is over. The paper manufacturer has capacity of 4.55 lakh tpa and enjoys leadership position in the copier segment and is among the top two in coated paper space and a leading player in the packaging board area. Products are exported to over 50 countries.

Conclusion

Debt is not a stigma. The problem is caused by imprudent and aggressive deployment. Also, diversion of borrowed funds by management and promoters is another major concern. Companies resort to debt to avoid enlarging the capital base. Equity dilution adversely impacts the valuations. Interest cost provides a tax shield, thereby lowering the actual cost of debt.

Companies that have managed to reduce debt significantly in FY 2018 are likely to reap rich harvest in the current fiscal year. Companies that have repaid or prepaid debt in the second half of FY 2018 are more likely to stand out. Profit can increase in proportion to interest cost savings adjusted for tax in FY 2019.Better management of debt is another tool to reduce short term borrowings. Companies that have refinanced, that is, replaced high cost debt with lower cost debt, will benefit.

In a few cases, further debt reduction is desirable in view of the high leverage. Century Textiles had a debt-to-equity ratio 1.93 times end March 2018 despite deleveraging. In fact, debt reduction is just part of the story. Companies have to perform to create shareholders' wealth. Lower debt can provide balance- sheet and cash- flow comfort to investors, particularly in the present volatile markets.

— Venkatesh S