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EQUITY MARKETS

India	Change %			
	5-Jul	1-day	1-mo	3-mo
Sensex	35,575	(0.2)	1.1	5.8
Nifty	10,750	(0.2)	0.6	4.0
Global/Regional indices				
Dow Jones	24,357	0.8	(3.1)	1.8
Nasdaq Composite	7,586	1.1	(1.3)	9.7
FTSE	7,603	0.4	(1.4)	5.8
Nikkei	21,740	0.9	(3.9)	0.8
Hang Seng	28,254	0.3	(9.6)	(5.3)
KOSPI	2,262	0.2	(7.8)	(6.8)
Value traded – India				
Cash (NSE+BSE)	281		306	333
Derivatives (NSE)	15,181		6,159	12,774
Deri. open interest	3,637		3,509	3,774

Forex/money market

	Change, basis points			
	5-Jul	1-day	1-mo	3-mo
Rs/US\$	68.8	2	192	388
10yr govt bond, %	8.1	(2)	2	52

Net investment (US\$ mn)

	4-Jul	MTD	CYTD
	FIs	157	36
MFs	342	-	10,439

Top movers

Best performers	Change, %			
	5-Jul	1-day	1-mo	3-mo
TCS IN Equity	1,880	0.8	9.0	27.5
HUVR IN Equity	1,688	0.7	7.4	22.8
KMB IN Equity	1,365	(0.0)	3.7	22.0
NEST IN Equity	9,957	1.0	2.0	19.3
MM IN Equity	912	1.4	(0.2)	18.2
Worst performers				
HDIL IN Equity	20	(1.5)	(4.6)	(52.5)
RCOM IN Equity	14	(1.1)	(15.6)	(44.6)
UT IN Equity	4	1.2	1.2	(36.8)
IDBI IN Equity	48	(7.1)	(16.1)	(34.2)
TTMT IN Equity	262	(2.1)	(11.5)	(28.2)

JULY 06, 2018

CHANGE IN RECO.

Coverage view: **Neutral**

Price (₹): **125**

Target price (₹): **160**

BSE-30: **35,575**

Upgrade to BUY. We upgrade Ashok Leyland to BUY (from ADD) as we believe that risk reward is favorable after a 19% correction in the stock price over the last three months. We believe that concerns on slowdown in the MHCV industry are unwarranted; tonnage growth continues to outpace volume growth, which reflects healthy demand environment and positive freight growth outlook. We expect MHCV industry volumes to grow at 13% CAGR over FY2018-20E led by (1) freight growth, (2) pick-up in road construction and mining activity and (3) regulatory factors (overloading ban, implementation of BS-VI emission norms, etc.). Maintain target price at ₹160.

Company data and valuation summary

Ashok Leyland

Stock data

52-week range (Rs) (high,low) 168-99

Market Cap. (Rs bn) 366.9

Shareholding pattern (%)

Promoters 51.3

FIs 37.2

MFs 6.5

Price performance (%)

	1M	3M	12M
Absolute	(14.5)	(15.0)	23.0
Rel. to BSE-30	(16.1)	(19.7)	8.1

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	5.4	6.2	8.9
EPS growth (%)	8.0	15.3	43.2
P/E (X)	23.2	20.2	14.1
Sales (Rs bn)	262.5	305.9	369.7
Net profits (Rs bn)	15.7	18.2	26.0
EBITDA (Rs bn)	27.4	31.6	42.5
EV/EBITDA (X)	13.4	10.3	7.5
ROE (%)	23.7	23.4	28.4
Div. Yield (%)	1.9	1.5	2.1

Slowdown concerns overdone: Expect 13% volume CAGR in MHCV industry over FY2018-20E

We note that higher tonnage segments continue to outpace industry volume growth over the last few quarters; tonnage volumes for the industry grew by 70%/30% yoy as compared to volume growth of 54%/25% in 3QF18 and 4QFY18 respectively. Even in the first two months of FY2019, tonnage growth was 155% yoy while industry volumes were up 140% yoy (see Exhibit 1). Strong growth in higher tonnage segments reflects a healthy demand environment and positive freight growth outlook by fleet operators.

We believe that (1) the MHCV industry will grow at 13% CAGR over FY2018-20E (9%/16% yoy in FY2019/20E) and (2) Ashok Leyland will maintain market share (despite aggression by Tata Motors) driven by innovative product launches and expansion of network in East and North India. Apart from freight growth, industry growth will be driven by (1) continued pick-up in road construction and mining activity, (2) overloading ban in certain key states such as Uttar Pradesh, Rajasthan, AP, etc. (we don't believe that the government will legalize 20% overloading, which has been highlighted in recent media reports) and (3) pre-buying ahead of implementation of BS-VI emission norms from April 1, 2020.

Expect increase in revenue mix from relatively less cyclical segments over the medium term

We expect revenue mix from relatively less cyclical segments (exports, spares and defense) to increase to 19% by FY2021E from 15% in FY2018, which augurs well for the company's profitability. This will be driven by new order wins in the defense segment and the company's efforts to increase spare part revenues. Additionally, given the new model launch pipeline across segments, the company has the potential to gain market share in the LCV segment from 8% currently.

Expect the company to deliver 21% EPS CAGR over FY2018-21E

We expect the company to deliver 21% EPS CAGR over FY2018-21E led by (1) 14% revenue CAGR and (2) 90 bps EBITDA margin expansion. Our TP of ₹160 (unchanged) is based on 17X March 2020E EPS + ₹8/share value of Ashok Leyland's stake in Hinduja Leyland Finance.

Hitesh Goel

Nishit Jalan

Exhibit 1: Tonnage growth in MHCV industry continues to outpace volume growth
MHCV domestic volume and tonnage on quarterly basis, March fiscal year-ends, 2016-19 (units, %)

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	April-May 2018
7.5-12 Ton																	
Volumes (units)	8,177	9,075	9,704	10,554	8,798	10,643	11,512	13,277	10,451	10,866	10,473	12,445	7,612	13,917	15,336	20,191	9,301
Average tonnage carried (tons)	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9
Tonnage volumes (tons)	73,593	81,675	87,336	94,986	79,182	95,787	103,608	119,493	94,059	97,794	94,257	112,005	68,508	125,253	138,024	181,719	83,709
12-16 Ton																	
Volumes (units)	7,270	7,371	8,342	9,802	9,348	11,600	9,738	13,675	10,850	10,829	10,286	13,157	5,898	9,066	9,268	10,944	5,340
Average tonnage carried (tons)	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
Tonnage volumes (tons)	94,510	95,823	108,446	127,426	121,524	150,800	126,594	177,775	141,050	140,777	133,718	171,041	76,674	117,858	120,484	142,272	69,420
16-25 Ton																	
Volumes (units)	11,356	11,428	13,352	13,601	11,851	14,593	13,053	18,511	14,178	14,082	14,581	19,808	7,342	11,752	17,227	18,377	10,751
Average tonnage carried (tons)	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18
Tonnage volumes (tons)	204,408	205,704	240,336	244,818	213,318	262,674	234,954	333,198	255,204	253,476	262,458	356,544	132,156	211,536	310,086	330,786	193,518
25-35 Ton																	
Volumes (units)	10,211	12,860	12,251	17,730	13,181	19,399	16,239	22,235	13,861	11,990	13,673	26,503	11,409	20,592	25,179	32,522	15,839
Average tonnage carried (tons)	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27
Tonnage volumes (tons)	275,697	347,220	330,777	478,710	355,887	523,773	438,453	600,345	374,247	323,730	369,171	715,581	308,043	555,984	679,833	878,094	427,653
> 35 Ton																	
Volumes (units)	3,515	4,900	5,521	8,883	7,154	9,851	10,422	13,408	9,809	6,865	7,609	12,885	7,611	16,026	20,144	24,251	10,992
Average tonnage carried (tons)	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
Tonnage volumes (tons)	105,450	147,000	165,630	266,490	214,620	295,530	312,660	402,240	294,270	205,950	228,270	386,550	228,330	480,780	604,320	727,530	329,760
Total Domestic truck volumes (ur	40,529	45,634	49,170	60,570	50,332	66,086	60,964	81,106	59,149	54,632	56,622	84,798	39,872	71,353	87,154	106,285	52,223
YoY chg (%)				32.4	24.2	44.8	24.0	33.9	17.5	(17.3)	(7.1)	4.6	(32.6)	30.6	53.9	25.3	139.9
Total tonnage (tons)	753,658	877,422	932,525	1,212,430	984,531	1,328,564	1,216,269	1,633,051	1,158,830	1,021,727	1,087,874	1,741,721	813,711	1,491,411	1,852,747	2,260,401	1,104,060
YoY chg (%)				45.7	30.6	51.4	30.4	34.7	17.7	(23.1)	(10.6)	6.7	(29.8)	46.0	70.3	29.8	154.6

Source: SIAM, Kotak Institutional Equities

Exhibit 2: We expect Ashok Leyland's market share to remain flat over the next three years in MHCV industry
MHCV domestic volumes and market share by OEMs, March fiscal year-ends, 2010-21E (units, %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Volumes												
Tata Motors	154,123	192,127	207,014	143,381	110,187	127,011	156,961	148,901	168,013	184,814	216,233	205,421
Ashok Leyland	57,096	83,104	81,091	70,552	51,827	66,442	98,809	102,313	116,534	127,810	148,158	140,246
Eicher	21,230	30,185	37,406	35,051	24,391	24,971	31,363	34,584	39,188	42,323	47,402	45,032
Swaraj Mazda	5,778	7,810	7,961	7,719	5,496	5,914	6,167	7,258	4,648	4,880	5,124	5,381
M&M	—	843	3,820	3,806	3,243	4,397	6,983	8,188	10,785	11,324	12,683	12,049
Others	5,858	8,660	11,414	7,750	5,483	4,005	2,090	1,219	1,055	1,108	1,241	1,179
Total	244,085	322,729	348,706	268,259	200,627	232,740	302,373	302,463	340,223	372,259	430,841	409,307
YoY growth (%)												
Tata Motors	35.8	24.7	7.7	(30.7)	(23.2)	15.3	23.6	(5.1)	12.8	10.0	17.0	(5.0)
Ashok Leyland	21.2	45.6	(2.4)	(13.0)	(26.5)	28.2	48.7	3.5	13.9	9.7	15.9	(5.3)
Eicher	61.5	42.2	23.9	(6.3)	(30.4)	2.4	25.6	10.3	13.3	8.0	12.0	(5.0)
Swaraj Mazda	46.8	35.2	1.9	(3.0)	(28.8)	7.6	4.3	17.7	(36.0)	5.0	5.0	5.0
M&M	—	—	353.1	(0.4)	(14.8)	35.6	58.8	17.3	31.7	5.0	12.0	(5.0)
Others	34.6	47.8	31.8	(32.1)	(29.3)	(27.0)	(47.8)	(41.7)	(13.5)	5.0	12.0	(5.0)
Total	34.1	32.2	8.0	(23.1)	(25.2)	16.0	29.9	0.0	12.5	9.4	15.7	(5.0)
Market share												
Tata Motors	63.1	59.5	59.4	53.4	54.9	54.6	51.9	49.2	49.4	49.6	50.2	50.2
Ashok Leyland	23.4	25.8	23.3	26.3	25.8	28.5	32.7	33.8	34.3	34.3	34.4	34.3
Eicher	8.7	9.4	10.7	13.1	12.2	10.7	10.4	11.4	11.5	11.4	11.0	11.0
Swaraj Mazda	2.4	2.4	2.3	2.9	2.7	2.5	2.0	2.4	1.4	1.3	1.2	1.3
M&M	—	0.3	1.1	1.4	1.6	1.9	2.3	2.7	3.2	3.0	2.9	2.9
Others	2.4	2.7	3.3	2.9	2.7	1.7	0.7	0.4	0.3	0.3	0.3	0.3
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: Company, Kotak Institutional Equities

Exhibit 3: We estimate 9% yoy volume CAGR over FY2018-21E for Ashok Leyland
Ashok Leyland volume assumptions, March fiscal year-ends, 2012-21E (units)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Buses	20,638	18,643	14,951	13,151	19,586	17,725	13,708	14,805	15,989	17,268
Trucks	61,252	51,909	36,876	53,291	79,223	84,588	102,826	113,005	132,169	122,977
LCV	398	360	—	—	—	—	—	—	—	—
Dost	7,383	34,794	27,283	25,117	28,512	30,951	42,063	50,476	60,571	60,571
Domestic volumes	89,671	105,706	79,110	91,559	127,321	133,264	158,597	178,285	208,729	200,816
Buses	5,207	4,857	4,377	7,571	6,135	4,877	6,512	8,140	10,175	10,684
Trucks	6,944	3,594	4,100	3,670	4,811	6,102	8,386	10,483	13,103	14,413
LCV	774	425	75	1,330	2,091	823	1,285	1,606	2,008	2,209
Export volumes	12,925	8,876	8,552	12,571	13,037	11,802	16,183	20,229	25,286	27,306
Buses	25,845	23,500	19,328	20,722	25,721	22,602	20,220	22,945	26,164	27,952
Trucks	68,196	55,503	40,976	56,961	84,034	90,690	111,212	123,487	145,272	137,391
LCV	1,172	785	75	1,330	2,091	823	1,285	1,606	2,008	2,209
Dost	7,383	34,794	27,283	25,117	28,512	30,951	42,063	50,476	60,571	60,571
Total volumes	102,596	114,582	87,662	104,130	140,358	145,066	174,780	198,514	234,015	228,122
Growth (% yoy)										
Buses	1.0	(9.7)	(19.8)	(12.0)	48.9	(9.5)	(22.7)	8.0	8.0	8.0
Trucks	(2.5)	(15.3)	(29.0)	44.5	48.7	6.8	21.6	9.9	17.0	(7.0)
LCV	(43.2)	(9.5)	—	—	—	—	—	—	—	—
Dost	—	—	(21.6)	(7.9)	13.5	8.6	35.9	20.0	20.0	—
Domestic volumes	6.8	17.9	(25.2)	15.7	39.1	4.7	19.0	12.4	17.1	(3.8)
Buses	8.3	(6.7)	(9.9)	73.0	(19.0)	(20.5)	33.5	25.0	25.0	5.0
Trucks	31.4	(48.2)	14.1	(10.5)	31.1	26.8	37.4	25.0	25.0	10.0
LCV	372.0	(45.1)	(82.4)	1,673.3	57.2	(60.6)	56.1	25.0	25.0	10.0
Export volumes	26.0	(31.3)	(3.7)	47.0	3.7	(9.5)	37.1	25.0	25.0	8.0
Buses	2.4	(9.1)	(17.8)	7.2	24.1	(12.1)	(10.5)	13.5	14.0	6.8
Trucks	0.1	(18.6)	(26.2)	39.0	47.5	7.9	22.6	11.0	17.6	(5.4)
LCV	35.5	(33.0)	(90.4)	1,673.3	57.2	(60.6)	56.1	25.0	25.0	10.0
Dost	—	—	(21.6)	(7.9)	13.5	8.6	35.9	20.0	20.0	—
Total volumes	8.9	11.7	(23.5)	18.8	34.8	3.4	20.5	13.6	17.9	(2.5)

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: We estimate Ashok Leyland to deliver 21% EPS CAGR over FY2018-21E
 Profit and loss, balance sheet and cash flow statement, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model										
Volumes	102,596	114,582	87,662	104,130	140,358	145,066	174,780	198,514	234,015	228,122
Net sales	128,318	124,812	99,434	135,622	189,373	201,401	262,479	305,899	369,723	393,501
EBITDA	12,561	8,765	1,666	10,266	22,546	22,026	27,391	31,642	42,480	44,392
Other income	266	291	492	982	1,176	1,363	1,898	795	2,219	3,522
Interest	(2,415)	(3,436)	(4,356)	(3,673)	(2,476)	(1,554)	(1,312)	—	—	—
Depreciation	(3,528)	(3,808)	(3,770)	(4,163)	(4,879)	(5,179)	(5,546)	(6,131)	(7,031)	(7,931)
Prior period items/ extraordinary items	16	2,896	5,057	1,009	(8,102)	(3,354)	(122)	—	—	—
Profit before tax	6,900	4,707	(912)	4,422	8,266	13,301	22,308	26,306	37,668	39,983
Current tax	(775)	—	—	(39)	(4,220)	(3,137)	(6,773)	(8,155)	(11,677)	(12,395)
Deferred tax	(465)	(370)	1,206	(1,035)	(149)	2,067	91	—	—	—
Net profit	5,660	4,337	294	3,348	4,045	10,164	15,535	18,151	25,991	27,588
Adjusted profit	5,644	1,442	(4,763)	2,584	9,938	14,579	15,748	18,151	25,991	27,588
Earnings per share (Rs)	1.9	0.5	(1.6)	0.9	3.4	5.0	5.4	6.2	8.9	9.4
Balance sheet										
Equity	42,123	44,551	44,479	51,187	54,071	61,261	71,648	83,243	99,846	117,469
Deferred tax liability	4,904	5,274	4,068	5,103	3,291	1,269	2,984	2,984	2,984	2,984
Total Borrowings	30,979	43,554	46,903	33,497	24,150	21,448	10,023	—	—	—
Current liabilities	41,152	37,588	32,630	43,328	46,225	56,422	81,205	92,749	108,522	118,716
Total liabilities	119,157	130,967	128,080	133,115	127,737	140,400	165,860	178,976	211,352	239,169
Net fixed assets	54,617	59,708	58,414	53,757	48,678	51,767	51,871	55,741	58,710	60,779
Investments	15,345	23,376	27,897	26,488	19,804	28,789	58,026	28,789	41,789	57,789
Cash	326	139	117	7,513	15,627	9,120	10,044	41,159	49,912	56,669
Other current assets	47,962	46,861	39,612	42,080	29,280	38,992	29,363	36,733	44,386	47,377
Miscellaneous expenditure	908	882	2,040	3,277	14,347	11,734	16,555	16,555	16,555	16,555
Total assets	119,157	130,967	128,080	133,115	127,737	140,400	165,860	178,976	211,352	239,169
Free cash flow										
Operating cash flow (including working capital changes)	11,473	7,283	5,564	13,759	16,830	21,548	54,183	27,661	38,923	39,199
Capital expenditure	(6,906)	(6,438)	(2,071)	(2,059)	(1,659)	(3,660)	(5,321)	(10,000)	(10,000)	(10,000)
Investments	(3,031)	(5,136)	391	2,158	3,700	(10,702)	(28,803)	29,238	(13,000)	(16,000)
Free cash flow	1,535	(4,291)	3,884	13,858	18,870	15,958	50,611	17,661	28,923	29,199
Ratios										
Gross margin (%)	26.8	26.9	23.5	26.5	30.3	30.6	29.1	28.2	28.4	27.6
EBITDA margin (%)	9.8	7.0	1.7	7.6	11.9	10.9	10.4	10.3	11.5	11.3
PAT margin (%)	4.4	3.5	0.3	2.5	2.1	6.1	6.0	5.9	7.0	7.0
Debt/equity (X)	0.7	0.9	1.0	0.6	0.6	0.4	0.2	—	—	—
Net debt/equity (X)	0.3	0.9	1.0	0.5	0.2	0.2	(0.0)	(0.6)	(0.6)	(0.5)
Book Value , excluding revaluation reserve (Rs/share)	11.3	12.3	11.9	14.6	14.7	17.4	19.8	23.8	29.5	35.5
BVPS, excl. revaluation reserve	17.7	12.6	0.8	8.6	9.1	26.1	28.7	28.4	33.3	29.0
RoACE (%)	10.4	8.3	4.1	6.5	7.4	19.6	23.6	26.4	33.3	29.0

Source: Company, Kotak Institutional Equities estimates

JULY 06, 2018

UPDATE

Coverage view: **Attractive**

Price (₹): 990

Target price (₹): 930

BSE-30: 35,575

AGM takeaways—a vision and more disruptions. RIL's chairman focused on the consumer business of Jio and retail in his AGM speech, while reinforcing his vision of strategic transition to a technology platform company with an objective of scaling up consumer profits at parity level to energy and petrochemicals business over the next decade. Effective reduction in price of JioPhone to ₹501 under exchange, rollout of JioGigaFiber and launch of new commerce platform (retail) could be the next big disruptions. Maintain REDUCE on full valuations.

Company data and valuation summary

Reliance Industries

Stock data

52-week range (Rs) (high,low)	1,036-712
Market Cap. (Rs bn)	5,707.9

Shareholding pattern (%)

Promoters	46.2
FIs	26.5
MFs	2.7

Price performance (%)

	1M	3M	12M
Absolute	1.8	6.2	33.7
Rel. to BSE-30	(0.1)	0.3	17.4

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	59.1	67.9	77.4
EPS growth (%)	16.9	14.9	13.9
P/E (X)	16.3	14.2	12.5
Sales (Rs bn)	3,916.8	4869.6	5,285.4
Net profits (Rs bn)	349.9	402.2	458.1
EBITDA (Rs bn)	641.8	812.9	953.8
EV/EBITDA (X)	12.6	10.1	8.5
ROE (%)	11.6	11.9	12.1
Div. Yield (%)	0.6	0.7	0.7

Chairman reinforces his vision of strategic transformation to a technology platform company

RIL's chairman reinforced his vision of a strategic transition to a technology platform company with three key verticals of (1) mobile connectivity, (2) fiber connectivity and (3) new commerce platform for the retail business. RIL also indicated its optimism on three new technology-backed platform business opportunities in crucial sectors of agriculture, education and healthcare. This transformation will be well supported by Jio's strength of network capacity, which has been doubled over the past 12 months with current utilization remaining below 20%.

Targeting more subscribers by reducing cost of JioPhone to ₹501 and rollout of JioGigaFiber

Jio has already achieved a subscriber-base of more than 215 mn customers to date including over 25 mn JioPhone users. The company intends to expand it substantially by—(1) offering customers an option to exchange existing feature phones for a new JioPhone under 'Monsoon Hungama' offer for ₹501 (déjà vu—July 2003?), with a target to reach 100 mn users in a short period of time and (2) launch of fiber-based broadband service, 'JioGigaFiber', along with a set-top box for TV from August 15 across 1,100 cities, with a target to connect 50 mn households. RIL is also planning to introduce three most popular apps, YouTube, WhatsApp and Facebook for JioPhone users and launch a premium JioPhone2 with better screen and keyboard at ₹2,999, both from August 15.

Updates on energy and petchem business

RIL indicated that new PX units and ROGC are operating substantially higher than their design capacity. DTA gasification complex has stabilized in less than 120 days as compared to 9-12 months required by global peers for such a project. The company plans to further enhance the level of integration by adding new chemical chains and capacity to produce new materials and high-value composites. RIL, along with BP, is pursuing integrated gas field development in KG D-6 block with a target to commence production by CY2020 and ramp up to peak levels of 30-35 mcm/d by CY2022. RIL also indicated merging Reliance Holdings USA with standalone entity.

Recent weaknesses in refining and petchem margins warrant a caution

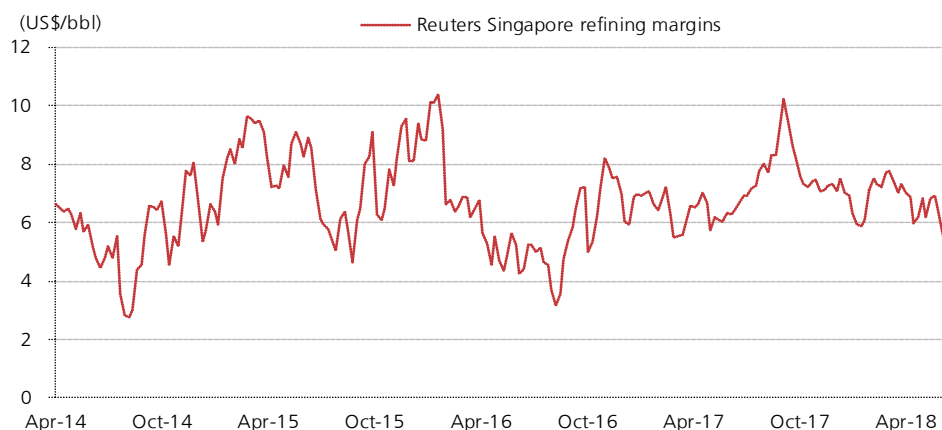
We highlight that recent weaknesses in regional refining and petchem margins warrant a caution, even as we expect them to normalize seeking comfort from global supply-demand balance. Singapore complex margins have declined sharply to US\$4/bbl in the recent week led by sustained weakness in cracks across products. Asian petchem margins have also moderated over the past few months across key polymers amid sharp increase in crude/naphtha prices.

Tarun Lakhota

Rohit Chordia

Akshay Bhor

Exhibit 1: Singapore complex refining margins decline to US\$4/bbl in the recent week
Weekly Singapore refining margins (US\$/bbl)



Reuters Singapore refining margins, March fiscal year-ends (US\$/bbl)								
	2012	2013	2014	2015	2016	2017	2018	2019
1Q	8.2	6.7	6.6	5.8	8.1	5.1	6.4	6.1
2Q	8.9	9.1	5.2	4.8	6.2	5.1	8.3	
3Q	6.4	6.6	5.4	6.3	8.0	6.7	7.3	
4Q	7.5	8.5	6.2	8.6	7.8	6.4	7.0	
Average	7.8	7.7	5.9	6.3	7.5	5.8	7.2	6.1

Source: Reuters, Kotak Institutional Equities

Exhibit 2: Margin for key polymers have moderated in the recent months
Asia chemical margins, calendar year-ends (US\$/ton)

	Annual average margins				Quarterly average					Monthly average					Recent			
	2015	2016	2017	2018YTD	3Q17	4Q17	1Q18	2Q18	qoq (%)	Mar	Apr	May	June	mom (%)	Jun 8	Jun 15	Jun 22	Jun 29
Ethylene chain																		
Ethylene – naphtha	575	671	655	677	657	693	714	641	(10.3)	746	722	543	657	21.1	646	667	697	660
HDPE – 1.015 x ethylene	117	25	(42)	(87)	(46)	(115)	(86)	(89)	4.3	(125)	(167)	9	(110)	NA	(94)	(110)	(110)	(145)
LLDPE – 1.015 x ethylene	104	39	(30)	(124)	(21)	(109)	(120)	(129)	7.7	(151)	(180)	(47)	(160)	239.8	(139)	(175)	(175)	(190)
LDPE – 1.015 x ethylene	148	93	55	(93)	35	(50)	(88)	(99)	12.4	(124)	(142)	(19)	(135)	591.2	(114)	(150)	(150)	(165)
HDPE – naphtha	709	712	630	609	628	597	648	571	(12.0)	641	574	570	567	(0.5)	571	577	607	535
LLDPE – naphtha	695	725	642	573	653	603	614	531	(13.5)	615	562	514	517	0.6	526	512	542	490
LDPE – naphtha	739	780	727	603	708	662	646	561	(13.1)	642	599	542	542	0.1	551	537	567	515
Propylene chain																		
Propylene – naphtha	298	315	384	433	415	346	453	413	(8.9)	448	422	397	419	5.7	426	417	437	395
PP – 1.01 x propylene	265	228	158	161	159	196	162	160	(1.6)	167	163	152	164	8.2	164	169	174	174
PP – naphtha	571	550	550	604	583	551	625	583	(6.8)	625	595	559	594	6.3	601	597	622	580
Styrene chain																		
Benzene – naphtha	194	240	327	255	292	265	311	199	(36.1)	285	227	188	182	(3.3)	201	186	182	153
Styrene – 0.81 x benzene – 0.29 x ethylene	197	203	216	280	259	197	259	300	15.8	233	252	314	335	6.8	349	350	318	292
Polystyrene – 0.98 styrene	177	169	159	190	169	183	180	201	11.3	237	202	197	202	2.6	185	185	244	233
PS – naphtha	726	780	855	907	877	828	930	885	(4.8)	948	882	860	912	6.0	921	917	947	880
Vinyl chain																		
EDC – (0.3 x ethylene)	(39)	(62)	(92)	(134)	(123)	(199)	(172)	(97)	(43.7)	(154)	(140)	(77)	(73)	(5.1)	(94)	(101)	(101)	(61)
PVC – 1.025 (0.235 x ethylene + 0.864 x EDC)	320	339	402	407	456	421	442	371	(16.0)	436	399	379	337	(11.2)	352	361	361	325
PVC – naphtha	333	427	407	328	449	315	364	293	(19.7)	392	339	254	284	11.9	276	287	317	280
Polyester/intermediates																		
PSF – 0.85 x PTA – 0.34 x MEG	362	297	382	273	378	336	295	252	(14.5)	315	273	235	247	5.4	—	—	267	—
PFY – 0.85 x PTA – 0.34 x MEG	700	486	576	590	608	616	620	560	(9.6)	640	598	545	537	(1.3)	—	—	557	—
PTA – 0.67 x PX	96	97	109	161	122	117	141	181	28.5	160	163	169	212	25.6	210	210	218	219
PX – naphtha	330	373	340	341	338	294	361	321	(11.0)	361	333	320	311	(2.6)	321	315	312	297
MEG – naphtha	284	262	357	372	414	339	406	339	(16.5)	348	406	319	291	(8.7)	295	300	288	276
MEG – 0.6 x ethylene	136	19	162	211	207	151	211	212	0.7	131	218	262	157	(40.2)	167	161	119	144
PSF – naphtha	684	644	745	675	773	666	705	646	(8.4)	722	684	608	645	6.1	—	—	672	—
PFY – naphtha	1,022	833	939	992	1,003	946	1,030	954	(7.4)	1,047	1,009	918	935	1.9	—	—	962	—

Source: Platts, Kotak Institutional Equities

Key assumptions behind earnings model

- ▶ **Refining margins.** We model FY2019-21 refining margins at US\$12/bbl, US\$12.5/bbl and US\$12.5/bbl, reflecting robust underlying fundamentals due to improving global refining operating rates from a favorable demand-supply balance. Our refining assumption includes incremental contribution of US\$0.3-0.5/bbl from fuel marketing business, as being accounted by the company.

Exhibit 3: Major assumptions for RIL's refining segment, March fiscal year-ends, 2014-21E (US\$/bbl)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Exchange rate (Rs/US\$)	60.5	61.1	65.5	67.1	64.5	67.6	68.0	69.0
Crude throughput (mn tons)								
SEZ refinery	37.7	37.2	37.1	37.3	36.9	37.3	37.3	37.3
DTA refinery	30.3	30.9	32.4	32.8	32.8	32.8	32.8	32.8
Total crude throughput	68.0	68.0	69.5	70.1	69.8	70.0	70.0	70.0
Blended refining margins (US\$/bbl)	8.1	8.6	10.8	11.0	11.7	12.0	12.5	12.5

Source: Company, Kotak Institutional Equities estimates

- ▶ **Chemical margins.** We expect petchem sales volumes to increase to 18.9 mn tons by FY2021 from 16.4 mn tons in FY2018, led by full ramp-up of expansion projects. We estimate blended petchem EBITDA to increase to around US\$236/ton in FY2019-20 from US\$221/ton in FY2018 led by (1) expected strength in polyesters cycle and (2) further integration benefits from RIL's new projects; we assume margins to moderate subsequently to US\$228/ton in FY2021.

Exhibit 4: Major assumptions for RIL's petchem segment, March fiscal year-ends, 2014-21E (US\$/ton)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Exchange rate (Rs/US\$)	60.5	61.1	65.5	67.1	64.5	67.6	68.0	69.0
Production volumes (mn tons)								
Polymers	4.5	4.3	4.6	4.5	4.9	5.5	5.8	5.8
PE	1.0	1.0	1.0	1.1	1.4	1.9	2.1	2.1
PP	2.8	2.7	2.8	2.7	2.8	2.9	2.9	2.9
PVC	0.7	0.6	0.8	0.7	0.7	0.7	0.7	0.7
Polyesters	1.6	1.8	2.2	2.3	2.4	2.6	2.7	2.8
PFY	0.7	0.9	0.8	0.7	0.8	0.9	1.0	1.1
PSF	0.6	0.6	0.6	0.7	0.6	0.7	0.7	0.7
PET	0.3	0.4	0.8	0.8	1.0	1.0	1.0	1.0
Fiber intermediates	4.7	4.9	6.4	6.9	9.0	9.8	10.1	10.3
PX	2.0	2.2	2.3	2.3	3.7	4.1	4.3	4.5
PTA	2.0	2.1	3.4	3.9	4.1	4.3	4.4	4.4
MEG	0.7	0.6	0.7	0.7	1.2	1.4	1.4	1.4
Total volumes	10.8	11.0	13.2	13.6	16.4	17.9	18.6	18.9
Petchem EBITDA per ton (US\$/ton)	148	141	129	153	221	236	236	228

Source: Company, Kotak Institutional Equities estimates

- ▶ **Jio.** We have assumed paid subscriber base to increase to a substantial 380 mn by FY2021E with an ARPU of ₹130/month. Our assumptions result in ₹632 bn of revenues and ₹361 bn of EBITDA with 57% margins.

Exhibit 5: Reasonable assumptions for Jio

Financial model of R-Jio, March fiscal year-ends, 2018-26E (₹ bn)

	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Assumptions									
Subscriber base at end-period (mn)	187	286	346	380	403	424	451	478	508
Subscriber market share (%)	17	26	30	32	33	34	36	37	39
ARPU (Rs/month)	150	120	124	130	140	150	153	158	162
EBITDA margins (%)	33	41	49	57	59	60	60	61	62
Profit model									
Revenues	202	348	500	632	759	870	952	1,047	1,149
Interconnect	(43)	(39)	(36)	—	—	—	—	—	—
LF/SUC	(18)	(33)	(50)	(69)	(82)	(94)	(102)	(113)	(123)
Network operating costs	(49)	(95)	(110)	(124)	(131)	(138)	(145)	(152)	(160)
Employee costs	(10)	(18)	(26)	(34)	(42)	(50)	(55)	(59)	(64)
SG&A and other costs	(15)	(21)	(33)	(45)	(56)	(70)	(79)	(86)	(93)
EBITDA	67	142	245	361	448	518	570	638	710
Other income	0	1	1	1	1	1	1	1	1
Finance cost	(20)	(44)	(63)	(92)	(119)	(118)	(103)	(85)	(63)
Depreciation and amortization	(36)	(56)	(72)	(84)	(94)	(101)	(110)	(119)	(129)
Profit before taxes	11	44	111	185	237	301	359	435	520
Current tax	(2)	(13)	(37)	(62)	(80)	(101)	(121)	(147)	(176)
Deferred tax	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(4)
Net income/(loss)	7	29	73	121	155	197	235	284	340
Contribution to RIL's EPS (Rs)	1	5	12	20	26	33	40	48	57
Balance sheet									
Net-worth	1,029	1,058	1,131	1,252	1,407	1,604	1,838	2,123	2,462
Effective net debt	1,400	1,768	1,801	1,949	1,835	1,671	1,467	1,212	902
Invested capital	2,278	2,746	2,941	3,312	3,464	3,601	3,744	3,896	4,059
Cash flow									
Operating cash flow	(20)	41	100	177	240	299	346	405	471
Working capital	(29)	12	12	11	10	9	7	8	8
Capital expenditure	(358)	(511)	(286)	(326)	(292)	(185)	(189)	(199)	(210)
Free cash flow	(407)	(458)	(173)	(138)	(41)	124	163	214	269
Returns (%)									
RoAE	0.8	2.7	6.7	10.2	11.7	13.1	13.6	14.4	14.8
RoACE	0.9	2.2	3.9	5.9	7.2	8.4	9.2	10.2	11.3
CRoCI	2.5	4.1	6.3	8.0	9.4	10.4	11.0	11.8	12.6
Adjusted CRoCI	2.5	4.1	6.3	8.0	9.4	10.4	11.0	11.8	12.6

Source: Kotak Institutional Equities estimates

Exhibit 6: Segment break-up of consolidated EBITDA, March fiscal year-ends, 2014-21E (₹ bn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
EBITDA								
Petrochemicals	107	111	137	165	259	285	299	297
Refining and marketing	178	191	268	286	290	306	321	324
Oil and gas	67	76	69	13	17	28	24	38
Organized retail	4	8	9	12	25	40	52	63
Digital services	—	—	—	(1)	67	142	245	361
Others	(7)	(12)	(65)	(12)	(16)	13	13	14
Total	348	374	417	462	642	813	954	1,097

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: RIL's earnings have high leverage to refining margins

Sensitivity of RIL's consolidated EPS to key variables, March fiscal year-ends, 2019-21E

	Fiscal 2019E			Fiscal 2020E			Fiscal 2021E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Exchange rate (Rs/US\$)	66.6	67.6	68.6	67.0	68.0	69.0	68.0	69.0	70.0
Net profits (Rs bn)	392.5	402.2	411.8	449.9	458.1	466.4	502.5	510.9	519.2
EPS (Rs)	66.3	67.9	69.5	76.0	77.4	78.8	84.8	86.3	87.7
% upside/(downside)	(2.4)		2.4	(1.8)		1.8	(1.6)		1.6
Blended refining margins									
Margins (US\$/bbl)	11.0	12.0	13.0	11.5	12.5	13.5	11.5	12.5	13.5
Net profits (Rs bn)	374.7	402.2	429.6	435.3	458.1	481.0	487.7	510.9	534.0
EPS (Rs)	63.3	67.9	72.5	73.5	77.4	81.2	82.4	86.3	90.2
% upside/(downside)	(6.8)		6.8	(5.0)		5.0	(4.5)		4.5

Source: Kotak Institutional Equities estimates

Exhibit 8: Our SoTP valuation of Reliance is ₹930 per share

Sum-of-the-parts valuation of Reliance Industries, FY2020E basis (₹)

	EBITDA (Rs bn)	EV/EBITDA (X)	EV (Rs bn)	Valuation (Rs/share)
Petrochemicals	299	6.5	1,942	328
Refining and marketing	321	6.5	2,083	352
Domestic E&P (a)	37	7.0	258	44
US shale	12	7.0	84	14
Retailing	52	20.0	1,039	175
Digital services (b)			2,638	445
Total enterprise value			8,045	1,358
Consolidated net debt			2,538	429
Implied equity value			5,507	930

Source: Kotak Institutional Equities estimates

Exhibit 9: Standalone profit model, balance sheet, cash model, March fiscal year-ends, 2014-21E (₹ mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)								
Net sales	3,901,170	3,290,760	2,331,580	2,420,250	2,900,420	3,644,009	3,693,004	3,767,640
EBITDA	308,770	316,020	393,470	432,560	517,410	604,708	631,622	647,587
Other income	89,360	87,210	78,210	87,090	82,200	80,455	83,771	84,457
Finance cost	(32,060)	(23,670)	(25,620)	(27,230)	(46,560)	(58,351)	(60,584)	(45,882)
Depreciation, depletion and amortization	(87,890)	(84,880)	(85,900)	(84,650)	(95,800)	(125,234)	(127,118)	(145,758)
Pretax profits	278,180	294,680	360,160	407,770	457,250	501,578	527,690	540,403
Extraordinary items	—	—	—	—	—	—	—	—
Current tax	(58,120)	(61,240)	(78,010)	(83,330)	(89,530)	(105,133)	(141,358)	(155,301)
Deferred tax	(220)	(6,250)	(8,310)	(10,190)	(31,600)	(38,175)	(20,265)	(17,722)
Net profits	219,840	227,190	273,840	314,250	336,120	358,270	366,067	367,381
Adjusted net profits	219,840	227,190	273,840	314,250	336,120	358,270	366,067	367,381
Adjusted EPS (Rs)	34.0	35.1	42.3	48.3	53.1	56.6	57.8	58.0
Balance sheet (Rs mn)								
Total equity	1,970,910	2,161,760	2,539,980	2,883,130	3,146,470	3,459,748	3,777,363	4,092,830
Deferred taxation liability	122,150	126,770	237,470	247,660	279,260	317,435	337,700	355,422
Total borrowings	899,680	976,170	1,071,040	1,074,460	1,168,810	986,583	872,830	578,186
Other liabilities	683,090	713,150	968,250	1,262,210	1,580,710	1,557,658	1,408,533	1,376,983
Total liabilities and equity	3,675,830	3,977,850	4,816,740	5,467,460	6,175,250	6,321,425	6,396,427	6,403,421
Cash	366,240	115,710	68,920	17,540	27,310	79,032	122,042	98,635
Other assets	937,750	833,250	590,840	652,230	891,250	956,458	962,700	972,245
Total fixed assets	1,511,220	1,903,160	2,584,480	2,873,190	3,004,470	3,033,714	3,059,464	3,080,321
Investments	860,620	1,125,730	1,572,500	1,924,500	2,252,220	2,252,220	2,252,220	2,252,220
Total assets	3,675,830	3,977,850	4,816,740	5,467,460	6,175,250	6,321,425	6,396,427	6,403,421
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	235,920	236,020	241,240	265,620	342,010	425,734	426,694	442,925
Working capital	145,150	83,150	149,470	195,330	205,320	11,740	(55,367)	(41,095)
Capital expenditure	(324,560)	(427,200)	(202,160)	(302,660)	(247,000)	(221,184)	(247,409)	(159,009)
Investments	(351,430)	(235,360)	(258,410)	(285,590)	(375,800)	—	—	—
Other income	69,290	67,720	45,410	24,240	30,960	80,455	83,771	84,457
Free cash flow	(225,630)	(275,670)	(24,450)	(103,060)	(44,510)	296,744	207,690	327,278
Ratios (%)								
Debt/equity	43.0	42.7	38.6	34.3	34.1	26.1	21.2	13.0
Net debt/equity	0.8	7.5	8.8	11.1	13.2	5.8	1.5	(4.7)
RoAE	10.8	10.3	10.7	10.5	10.2	9.9	9.2	8.5
RoACE	8.6	7.8	8.2	8.3	8.4	8.5	8.3	7.9
Adjusted RoACE	12.2	12.8	16.8	19.7	21.4	16.7	13.7	13.1
CRoCI	9.9	8.3	8.0	8.0	8.2	8.8	8.6	8.4
Adjusted CRoCI	15.1	13.3	16.0	18.0	16.7	13.2	12.6	12.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: Consolidated profit model, balance sheet, cash model, March fiscal year-ends, 2014-21E (₹ bn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs bn)								
Net sales	4,345	3,754	2,740	3,054	3,917	4,870	5,285	5,698
EBITDA	348	374	417	462	642	813	954	1,097
Other income	89	85	75	94	89	88	91	92
Finance cost	(38)	(33)	(37)	(38)	(81)	(118)	(140)	(156)
Depreciation, depletion and amortization	(112)	(115)	(116)	(116)	(167)	(215)	(235)	(268)
Pretax profits	287	310	339	401	483	568	670	765
Minority interest/share of associates	0	0	2	(0)	1	1	1	1
Extraordinary items	—	—	46	—	11	—	—	—
Effective tax	(62)	(75)	(89)	(102)	(133)	(166)	(213)	(255)
Net profits	225	236	299	299	361	402	458	511
Adjusted net profits	225	236	253	299	350	402	458	511
Adjusted EPS (Rs)	38	40	43	51	59	68	77	86
Balance sheet (Rs bn)								
Total equity	1,987	2,185	2,316	2,637	2,935	3,292	3,702	4,161
Deferred tax liability	119	130	205	212	245	281	301	320
Minority interest	10	30	34	29	35	35	34	33
Total borrowings	1,388	1,609	1,807	1,966	2,188	2,485	2,575	2,447
Other liabilities	785	1,091	1,629	2,224	2,709	2,765	2,581	2,597
Total liabilities and equity	4,288	5,045	5,990	7,068	8,113	8,858	9,192	9,558
Cash	380	125	110	30	43	90	146	129
Loans and advances	280	307	29	37	50	50	50	50
Other assets	687	663	917	1,032	1,341	1,452	1,497	1,543
Total fixed assets	2,329	3,185	4,094	5,185	5,851	6,438	6,670	7,007
Investments	613	765	840	784	829	829	829	829
Total assets	4,288	5,045	5,990	7,068	8,113	8,858	9,192	9,558
Free cash flow (Rs bn)								
Operating cash flow, excl. working capital	266	264	211	212	353	498	567	669
Working capital	110	18	78	155	185	6	(58)	(44)
Capital expenditure	(601)	(634)	(469)	(781)	(740)	(796)	(586)	(555)
Other income	67	66	37	15	23	88	91	92
Free cash flow	(157)	(285)	(143)	(400)	(178)	(205)	15	162
Ratios (%)								
Debt/equity	69.8	73.6	78.0	74.6	74.5	75.5	69.5	58.8
Net debt/equity	25.9	51.6	71.8	84.8	80.0	77.1	64.8	55.4
RoAE	11.2	10.7	10.5	11.2	11.6	11.9	12.1	12.0
RoACE	7.9	7.0	7.0	7.2	8.1	8.5	8.7	9.1
Adjusted RoACE	11.3	11.3	12.3	13.1	12.0	8.8	8.1	8.6
CRoCI	9.7	7.7	6.6	6.2	7.4	8.2	8.7	9.0
Adjusted CRoCI	15.9	13.5	11.8	12.2	10.2	8.8	9.3	9.7

Source: Company, Kotak Institutional Equities estimates

JULY 06, 2018

UPDATE

Coverage view: **Cautious**

Price (₹): 220

Target price (₹): 315

BSE-30: 35,575

Gradual progress. We met SHKL's CEO, director strategy and CFO recently and here are our takeaways (1) demand outlook has improved across fragrances and flavors segment, (2) RM supply challenges are easing and SHKL is raising prices to mitigate impact; progress on both fronts is, however, gradual. Normalization of RM situation and benefits of price increases should result in full recovery in margins only in 2HFY19, (3) SHKL is also hopeful of signing a big logo soon, a much-awaited growth kicker. We trim our margin assumptions and cut FY2019-21E estimates by 3-5%. Retain BUY with unchanged TP.

Company data and valuation summary

S H Kelkar

Stock data

52-week range (Rs) (high,low)	314-219
Market Cap. (Rs bn)	31.9

Shareholding pattern (%)

Promoters	57.1
FIs	21.1
MFs	2.0

Price performance (%)

	1M	3M	12M
Absolute	(4.1)	(13.2)	(15.1)
Rel. to BSE-30	(5.9)	(18.0)	(25.4)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	7.4	8.3	10.6
EPS growth (%)	2.1	11.8	28.4
P/E (X)	29.8	26.6	20.7
Sales (Rs bn)	10.3	11.5	13.1
Net profits (Rs bn)	1.1	1.2	1.5
EBITDA (Rs bn)	1.6	2.0	2.5
EV/EBITDA (X)	20.7	17.3	13.5
ROE (%)	12.8	13.3	15.3
Div. Yield (%)	0.8	0.8	0.9

Key takeaways from the meeting

We met Kedar Vaze (CEO), B Ramakrishnan (Director Strategy) and Ratul Bhaduri (CFO) at SHKL. Below are our key takeaways:

- ▶ **Improving demand outlook for both segments.** SHKL is witnessing pickup in volume growth across both fragrances (88% of revenues) and flavors (12% of revenues). Flavors is growing faster led by strong demand from savory snacks and sweets. Pick up in underlying growth will likely be visible in the June-2018 quarterly results. Reported revenue growth may be a tad lower as the company has discontinued pass-through sales that contributed about ₹100-120 mn/quarter (earlier SHKL procured and supplied a particular RM to select clients at a negligible margin). The EBITDA impact of this would be marginal.
- ▶ **RM supply situation and profitability outlook.** Disruption in the supply of a few key raw materials (mainly due to a fire at BASF's manufacturing facility in Germany) pushed up RM prices resulting in a 520 bps yoy decline in the company's gross margin to 39.1% in the March 2018 quarter. The management indicated that the supply situation has improved on the margin; there is still shortage but SHKL is able to procure rationed quantity of RM. SHKL has increased prices of a few products to pass on RM cost inflation. Given these factors, the company expects normalization in profitability in the next 2-3 quarters.
- ▶ **Strategy: 3 geos X 3 capabilities**— SHKL's management briefly articulated its strategy. It is focused on three geographies— India, Indonesia and Italy (sees opportunity locally as well as in other European markets). On capabilities front, the company has capabilities to cater to (1) fabric care (largest volume category). The acquisition of Tanishka products helped SHKL acquire encapsulation technology used in this space, (2) fine fragrances (most profitable category). The acquisition of CFF helped the company ramp up its technical prowess for this category, and (3) air care. Its Italian acquisition has helped on this front as well.

Rohit Chordia

Jaykumar Doshi

Aniket Sethi

- ▶ **Rationale for recent acquisitions**— SHKL recently acquired 66.7% stake in China-based Anhui Ruibang Aroma, manufacturer of aroma ingredient Tonalid (musk fragrance products). SHKL has about 70% share in global Tonalid market. With this acquisition, its market share will rise to 85-90%. The key rationale for this acquisition was to further consolidate the Tonalid market in order to improve profitability and dominate the profit pool. Earlier this year, SHKL acquired an Italian player, Creative Flavours & Fragrances (CFF). The management indicated that this acquisition helped (a) it acquire capabilities in fine fragrances and air care and (b) expand its footprint in Milan which is an important market by itself and a critical base to cater to European nations.

Even as there is merit in these acquisitions, we believe successful integration, talent retention and extraction of synergies is always an uphill task in overseas acquisitions. We will wait and see the progress of these tuck-in acquisitions.

- ▶ **Big logo wins.** Big logo wins are critical for sustained outperformance of industry growth rates. We note that the wait for a big logo win is on since its IPO in October 2015. The management indicated that it is hopeful of signing a big logo soon, bringing an end to the long wait.
- ▶ **Talent acquisition.** SH Kelkar has hired Sampath Kumar as Head of Innovation for flavors. Prior to this, he worked as a senior flavorist with Takasago, Givaudan, Symrise and IFF. The company already has a strong existing team of 13-14 perfumers for its fragrances business.
- ▶ **IFF recently announced the acquisition of Frutarom for US\$7.1 bn.** This transaction will make the combined entity the second largest fragrances and flavors player globally. SHKL's management indicated that it does not see any impact of this consolidation on its business. If at all, acquisition of Frutarom, may reduce competitive intensity (often driven by Frutarom).

We cut FY2019-21E earnings estimate by 3-5%

We have trimmed our GM assumption for 1HFY19 to factor in slower-than-earlier-estimated recovery in margins. We have also incorporated the impact of discontinuation of pass-through sales (research service income) and lowered quarterly revenue expectations by about ₹100-120 mn (EBITDA impact of this development is marginal as SHKL procured some RM on behalf of its customers and supplied to them at negligible margin).

Exhibit 1: Key changes to estimates (as per Ind-AS), FY2019-21E

	Revised			Earlier			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Net revenues (Rs mn)	11,473	13,125	15,264	11,691	13,366	15,447	(1.9)	(1.8)	(1.2)
EBITDA (Rs mn)	1,953	2,470	2,922	2,058	2,560	3,007	(5.1)	(3.5)	(2.9)
EBITDA margin (%)	17.0	18.8	19.1	17.6	19.2	19.5			
Net income (Rs mn)	1,197	1,537	1,884	1,265	1,593	1,938	(5.4)	(3.5)	(2.8)
EPS (Rs/share)	8.3	10.6	13.0	8.8	11.0	13.4	(5.4)	(3.5)	(2.8)

Source: Kotak Institutional Equities estimates

Exhibit 2: SHK: Consolidated profit & loss, balance sheet and cash flow (as per Ind AS), March fiscal year-ends, 2015-21E

	IGAAP			Ind-AS			
	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)							
Net operating revenues	8,355	9,249	9,805	10,251	11,473	13,125	15,264
EBITDA	1,178	1,498	1,658	1,622	1,953	2,470	2,922
Other income	246	105	116	216	36	35	32
Interest expense	(185)	(202)	(52)	(40)	(20)	—	—
Depreciation	(293)	(297)	(194)	(238)	(265)	(298)	(327)
Pretax profits	945	1,103	1,528	1,560	1,704	2,208	2,627
Tax	(241)	(372)	(480)	(506)	(564)	(730)	(870)
Minority Interest/share of profit from associ	—	—	—	16	57	60	127
Recurring PAT	704	731	1,048	1,070	1,197	1,537	1,884
Extraordinary items	—	—	—	(129)	—	—	—
Reported net income	704	731	1,048	942	1,197	1,537	1,884
Wtd average no. of shares - FD (mn)	132	138	145	145	145	145	145
Fully diluted EPS (Rs)	5.3	5.3	7.2	7.4	8.3	10.6	13.0
Balance sheet (Rs mn)							
Total shareholder's equity	5,005	7,161	8,118	8,571	9,463	10,652	12,057
Preference share capital/ CCPS	92	—	—	—	—	—	—
Total borrowings	2,417	846	734	1,933	1,933	1,633	1,433
Deferred tax liability	(50)	10	33	82	82	82	82
Minority interest	—	—	—	—	—	—	—
Total liabilities and equity	7,464	8,016	8,884	10,586	11,478	12,367	13,571
Net fixed assets incl CWIP	2,842	2,454	3,038	3,978	4,273	4,394	4,537
Investments	—	354	497	1,108	1,108	1,108	2,108
Cash	759	822	555	239	29	100	(767)
Net current assets	3,864	4,386	4,795	5,262	6,068	6,765	7,694
Total assets	7,464	8,016	8,884	10,586	11,478	12,367	13,571
Free cash flow (Rs mn)							
Operating cash flow (excl working capital)	993	1,126	1,260	1,326	1,476	1,835	2,221
Working capital	(375)	(275)	(248)	(467)	(806)	(697)	(929)
Capital expenditure	(218)	(238)	(1,008)	(1,178)	(560)	(419)	(471)
Free cash flow	400	613	4	(319)	110	720	822
Key ratios (%)							
Sales growth	9.7	10.6	5.9	4.5	12.0	14.4	16.3
EBITDA growth	(14.1)	27.2	10.7	(2.2)	20.4	26.5	18.3
PAT growth	(11.0)	3.8	43.5	2.1	11.8	28.4	22.6
EBITDA margin	14.1	16.2	16.9	15.8	17.1	18.9	19.2
Gross margin	44.9	44.5	45.4	45.1	45.6	46.9	47.0

Source: Kotak Institutional Equities estimates

JULY 06, 2018

UPDATE

BSE-30: 35,575

1QFY19E preview: multi-year high growth comps off a low base. We forecast aggregate (coverage universe) revenue, EBITDA and PAT growth of 13.5%, 21.8% and 22.7%, respectively for 1QFY19E. These are all multi-year high numbers. To be sure, these come off a low 1QFY18 (pre-GST) base. That said – (a) there is an improvement in underlying demand trends and (b) the margin outlook remains positive as competitive intensity continues to be generally benign.

Revenues: low base + rural pickup = a 21-quarter high aggregate growth print

We forecast a 13.5% yoy revenue growth in aggregate for our consumer universe. We expect the staples (+14% yoy) pack to grow marginally ahead of the discretionary pack (+13% yoy). We note that some of the discretionary names TTAN had a particularly strong 1QFY18 and the same weighs on the marginally-below-staples growth for the discretionary pack.

Rural pickup and low base are likely to reflect in strong volume growth prints across companies and categories with the few notable exceptions being (a) Colgate – not regaining share from Patanjali yet, (b) Marico's Saffola franchise; interventions to drive volume growth yet to deliver, and (c) Bajaj Corp. We expect strong volume growth comps for Britannia (market acceleration + share gains), HUVR (continues to fire on all cylinders), APNT (rural pickup), JUBI (success of EDV-99) and Pidilite.

Pricing contribution to growth, like-on-like, is likely to remain on the lower side as companies have (a) not had a reason to raise prices; rising RM is yet to reflect in consumption prices in most cases, and (b) been careful on price hikes in the backdrop of anti-profiteering noise. Now that we are past the first anniversary of GST implementation, we gather that companies are looking to raise prices to pass on RM inflation. This should provide additional pricing kicker to growth going forward.

Margins: GST benefits (optical + structural) + benign competitive intensity = further expansion

We forecast an aggregate 140 bps yoy expansion in EBITDA margin for our coverage universe, 210 bps for the aggregate staples pack and 90 bps for the discretionary pack. Of the 140 bps EBITDA margin expansion, roughly 50 bps (110 bps for staples, flattish for discretionary) comes from gross margin expansion and the balance 90 bps from operating leverage and GST-related input tax credit benefits. We bake in strong margin expansion for most large names – Dabur (+340 bps), GSK-CH (+320 bps), GCPL (+286 bps), JYL (+255 bps), Nestle (+442 bps), UNSP (+339 bps), and UBBL (+449 bps). Our margin expansion estimate for HUVR is a modest +211 bps while we expect JUBI to report a healthy +405 bps margin expansion. Marico is the only names for which we forecast a margin decline (112 bps on account of continued high copra inflation). We expect aggregate A&P intensity to be flattish yoy.

Net income: growth in line with EBITDA growth

We expect a 24-quarter high 22.7% growth in recurring PAT for our coverage universe with the staples pack likely to see a PAT growth as high as 30% while the discretionary pack clocks 17%. Several companies (APNT, Dabur, GSK-CH, GCPL, HUVR, JYL, JUBI, NEST, PAG, TGBL, TTAN, UNSP, UBBL) are likely to report 25%+ PAT growth for the quarter as low-base, benign competition and GST tailwinds all contribute. Aggregate ETR is likely to be flattish at around 32.4%. ITC and BJCOR are likely to be the only two names to report single-digit PAT growth (we forecast 6.6% yoy PAT growth for ITC and 9.3% for BJCOR).

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Exhibit 1: KIE consumer universe valuation summary

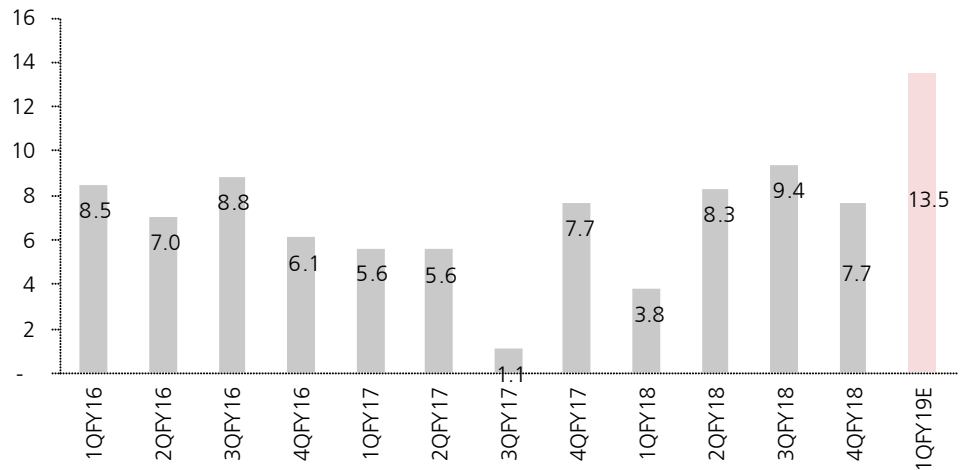
Company	Rating	TP	4-Jul-18	Upside /	Mkt cap.		EPS (Rs)			EPS Growth, %			PER (X)			EPS	Sales
		(Rs)	Price (Rs)	(downside)	(Rs bn)	(US\$ m)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	CAGR - (2018-20E), %	
Consumer Products																	
Asian Paints	REDUCE	1,100	1,290	(15)	1,237	18,194	20.5	24.4	27.9	2.9	18.7	14.7	62.8	52.9	46.2	16.7	15.4
Bajaj Corp	ADD	520	409	27	60	887	14.1	16.8	18.6	(10.5)	18.7	10.5	28.9	24.3	22.0	14.5	14.0
Britannia Industries	ADD	6,000	6,300	(5)	756	11,117	83.7	104.1	126.5	13.5	24.4	21.5	75.3	60.5	49.8	22.9	15.4
Coffee day Enterprises	REDUCE	340	259	31	53	786	3.4	8.6	13.7	53.0	149.7	59.4	75.6	30.3	19.0	99.5	12.0
Colgate-Palmolive (India)	ADD	1,300	1,166	11	317	4,665	23.8	27.3	31.9	15.2	14.6	16.9	49.0	42.8	36.6	15.8	12.0
Dabur India	REDUCE	350	380	(8)	669	9,837	7.8	9.0	10.1	7.2	16.1	11.7	48.9	42.1	37.7	13.9	13.0
GlaxoSmithKline Consumer	ADD	6,750	6,427	5	270	3,975	166.5	188.6	211.1	6.6	13.3	11.9	38.6	34.1	30.4	12.6	10.8
Godrej Consumer Products	REDUCE	1,020	1,264	(19)	861	12,662	21.4	25.1	28.5	11.6	17.6	13.3	59.2	50.3	44.4	15.5	11.9
Hindustan Unilever	REDUCE	1,430	1,676	(15)	3,627	53,341	24.5	28.1	31.8	24.8	14.9	13.0	68.5	59.6	52.8	13.9	12.2
ITC	ADD	315	264	19	3,232	47,525	9.0	9.7	10.8	8.2	8.0	11.6	29.5	27.3	24.5	9.8	8.1
Jubilant Foodworks	BUY	1,500	1,429	5	188	2,772	14.6	23.9	33.2	191.7	64.1	39.2	98.2	59.8	43.0	51.1	17.0
Jyothy Laboratories	ADD	220	241	(9)	88	1,290	4.4	5.5	6.5	35.1	25.4	17.2	54.8	43.7	37.3	21.2	13.4
Manpasand Beverages	SELL	132	172	nm	20	289	8.7	11.5	16.6	36.9	32.5	44.0	19.8	14.9	10.4	38.1	36.6
Marico	ADD	345	343	1	443	6,510	6.3	7.3	8.3	2.0	15.9	13.7	54.4	46.9	41.2	14.8	14.2
Nestle India	ADD	9,500	9,863	(4)	951	13,985	127.1	168.3	190.8	21.1	32.5	13.4	77.6	58.6	51.7	22.5	11.9
Page Industries	SELL	18,200	28,028	(35)	313	4,597	311.1	392.4	482.1	30.3	26.1	22.9	90.1	71.4	58.1	24.5	19.8
Pidlite Industries	REDUCE	1,050	1,068		548	8,055	18.0	21.7	26.1	7.5	20.4	20.4	59.2	49.2	40.9	20.4	16.4
S H Kelkar	BUY	315	222	42	32	473	7.4	8.8	11.0	2.1	18.2	25.9	30.0	25.4	20.2	22.0	14.2
Tata Global Beverages	REDUCE	285	278	2	176	2,583	7.3	9.5	11.3	20.7	29.4	19.1	37.9	29.3	24.6	24.2	6.6
Titan Co.	SELL	800	887	(10)	787	11,575	12.5	16.2	19.5	45.3	29.3	20.6	70.7	54.7	45.4	24.8	20.8
United Breweries	SELL	1,000	1,178	(15)	312	4,582	14.9	19.4	23.9	71.6	29.7	23.4	78.9	60.8	49.3	26.5	13.7
United Spirits	SELL	560	667	(16)	485	7,132	7.6	10.7	13.6	39.1	40.5	27.4	87.7	62.4	49.0	33.8	9.9
Varun Beverages	ADD	750	767	(2)	140	2,056	11.5	16.8	21.8	378.1	45.5	29.8	66.5	45.7	35.2	37.4	20.8
KIE universe					15,564	228,887				13.0	16.6	15.0	51.4	44.1	38.3	14.8	12.9
KIE universe (ex-ITC)					12,193	179,306				15.8	21.5	16.7	63.2	52.0	44.5	18.6	14.1

	Price performance (%)				EV/EBITDA (X)			EV/Sales (X)			FCF yield (%)			Dividend yield (%)	
	1-mo	3-mo	6-mo	1-yr	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2019E	2020E
Asian Paints	0	14	10	16	38.4	33.0	28.7	7.3	6.3	5.4	0.6	1.1	1.7	0.8	1.0
Bajaj Corp	(11)	(11)	(16)	5	22.8	19.6	16.7	6.9	6.0	5.3	2.9	3.5	4.5	3.2	3.4
Britannia Industries	9	25	36	68	49.8	39.1	32.1	7.5	6.5	5.6	0.8	1.2	1.5	0.6	0.7
Coffee day	(9)	(14)	(6)	4	13.0	11.4	9.6	2.1	1.9	1.7	2.7	2.3	1.7	-	-
Colgate-Palmolive (India)	(5)	8	8	5	28.1	24.6	21.1	7.5	6.7	5.9	1.8	2.4	2.6	1.4	1.6
Dabur India	(1)	13	7	29	41.8	36.2	31.7	8.6	7.6	6.7	1.5	1.9	2.2	1.0	1.2
GlaxoSmithKline Consumer	(2)	6	0	19	26.5	22.8	19.6	5.4	4.9	4.3	2.4	2.3	2.6	1.4	1.6
Godrej Consumer Products	11	16	28	28	42.9	36.5	31.9	9.1	8.0	7.1	2.5	2.0	2.2	0.7	0.8
Hindustan Unilever	7	23	24	54	49.0	41.4	36.3	10.3	9.1	8.2	1.4	1.6	1.8	1.3	1.4
ITC	(2)	2	1	(22)	20.5	18.7	16.6	7.7	7.2	6.6	2.6	2.8	3.2	2.3	2.7
Jubilant Foodworks	12	24	55	179	41.9	29.7	22.9	6.1	5.3	4.5	0.0	1.3	1.9	0.1	0.2
Jyothy Laboratories	17	26	27	36	33.9	28.0	24.3	5.2	4.5	3.9	0.9	2.0	2.5	0.4	0.6
Manpasand Beverages	(10)	(54)	(64)	(56)	8.4	5.8	4.4	1.6	1.2	0.9	(8.2)	0.8	7.2	0.4	0.9
Marico	6	5	6	6	38.6	32.4	28.2	6.9	6.0	5.3	1.0	2.1	2.5	1.4	1.6
Nestle India	0	18	25	44	42.4	32.9	29.0	9.2	8.1	7.2	1.8	2.2	2.4	1.2	1.3
Page Industries	13	24	14	61	57.4	45.4	37.3	12.2	10.1	8.4	1.1	1.0	1.3	0.6	0.7
Pidlite Industries	(5)	12	18	30	40.0	33.3	27.4	8.8	7.5	6.4	0.8	1.1	1.7	0.7	0.8
S H Kelkar	(3)	(12)	(23)	(15)	20.9	16.6	13.2	3.3	2.9	2.5	(0.9)	(0.0)	2.3	0.8	0.9
Tata Global Beverages	9	3	(11)	85	20.0	16.9	14.5	2.5	2.3	2.1	1.4	2.7	2.9	1.1	1.3
Titan Co.	0	(2)	(1)	66	47.5	36.2	29.0	4.8	3.9	3.3	(0.6)	0.6	1.0	0.5	0.6
United Breweries	1	22	9	46	34.8	29.0	25.1	5.6	4.8	4.2	0.6	1.3	1.7	0.2	0.3
United Spirits	1	6	(10)	32	50.2	37.0	30.7	6.3	5.6	5.0	2.5	1.4	1.6	-	0.3
Varun Beverages	2	20	12	47	20.1	16.2	13.9	4.2	3.2	2.8	(3.0)	0.7	1.7	-	-
KIE FMCG universe	3	12	11	20	34.0	29.0	25.1	7.5	6.6	5.8	1.5	1.8	2.2	0.9	1.1
KIE universe (ex-ITC)	3	14	13	39	40.9	33.7	28.9	7.5	6.5	5.7	1.2	1.6	1.9	0.8	1.0
Sensex	2	8	5	14											

Source: Company, Kotak Institutional Equities estimates

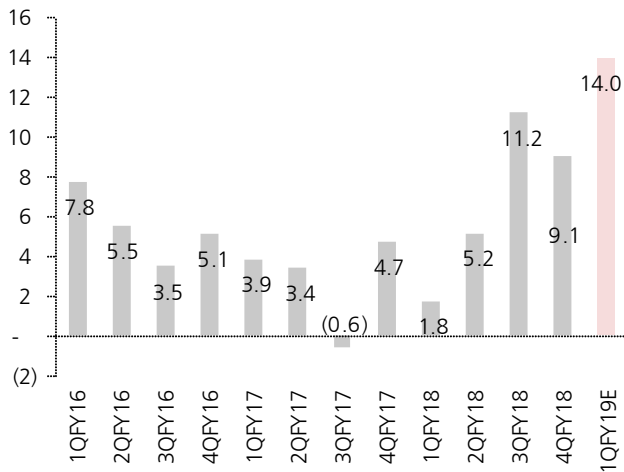
Aggregate sectoral trends (in charts)

Exhibit 2: Overall revenue growth to accelerate to highest levels in 21 quarters
KIE consumer universe revenue growth trends, yoy (%)



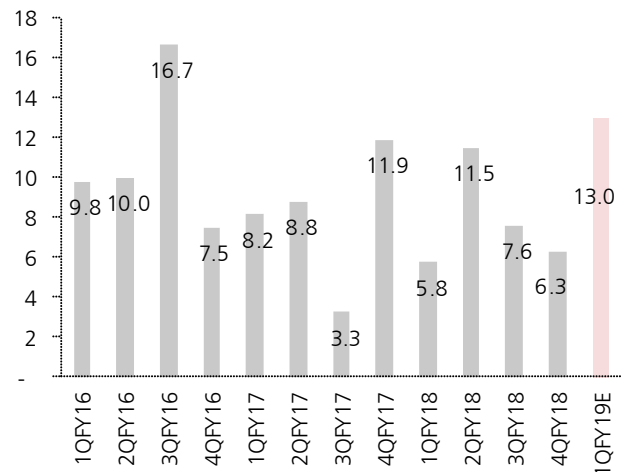
Source: Company, Kotak Institutional Equities

Exhibit 3: Staples revenue growth to rise to 14% yoy
KIE consumer staples universe revenue growth trends, yoy (%)



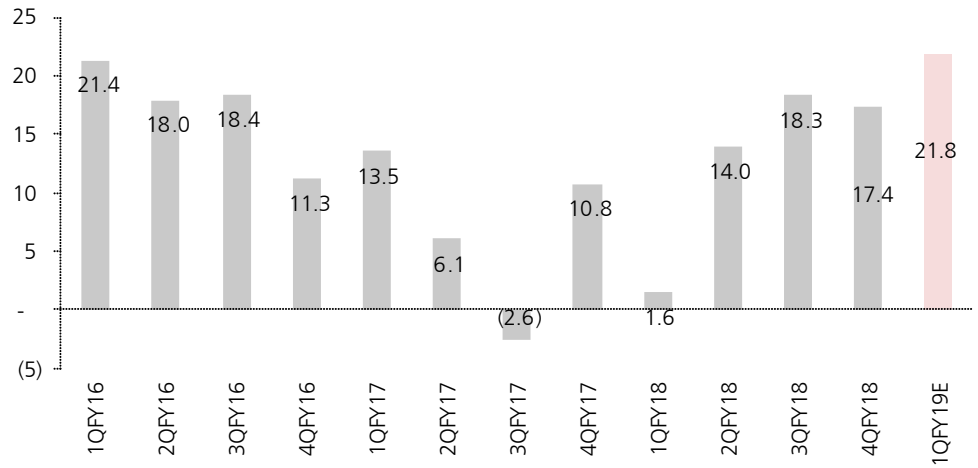
Source: Company, Kotak Institutional Equities

Exhibit 4: Discretionary to grow at a marginally lower pace
KIE consumer discretionary universe revenue growth trends, yoy (%)



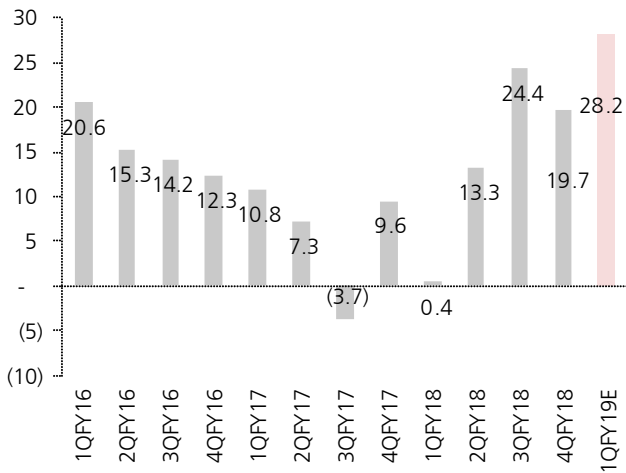
Source: Company, Kotak Institutional Equities

Exhibit 5: Overall EBITDA to grow at 20%+ aided by GST-led savings and higher operating leverage
KIE consumer universe EBITDA growth trends, yoy (%)



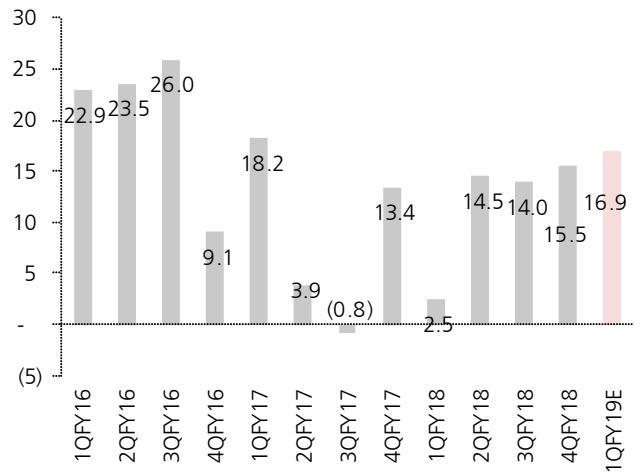
Source: Company, Kotak Institutional Equities

Exhibit 6: Staples EBITDA growth to see sharp increase
KIE consumer staples universe EBITDA growth trends, yoy (%)



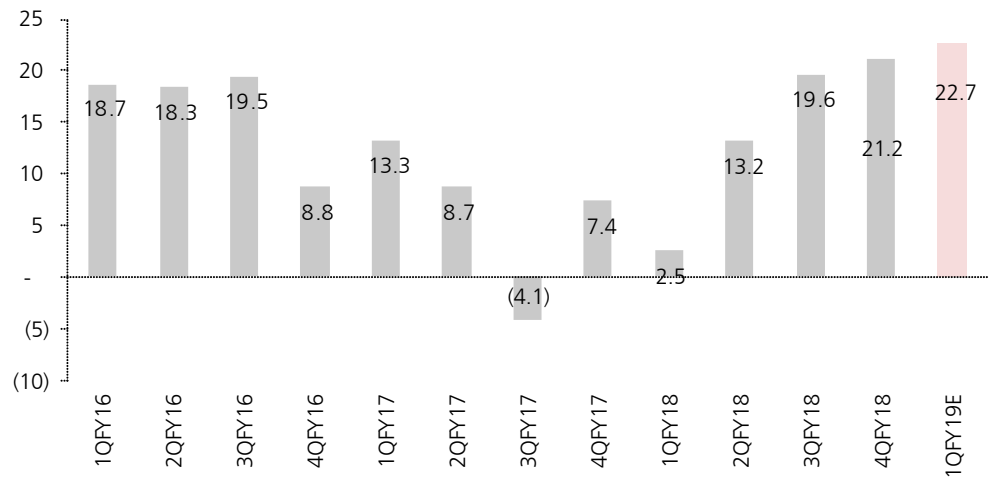
Source: Company, Kotak Institutional Equities

Exhibit 7: Discretionary also could see some further uptick
KIE consumer discretionary universe EBITDA growth trends, yoy (%)



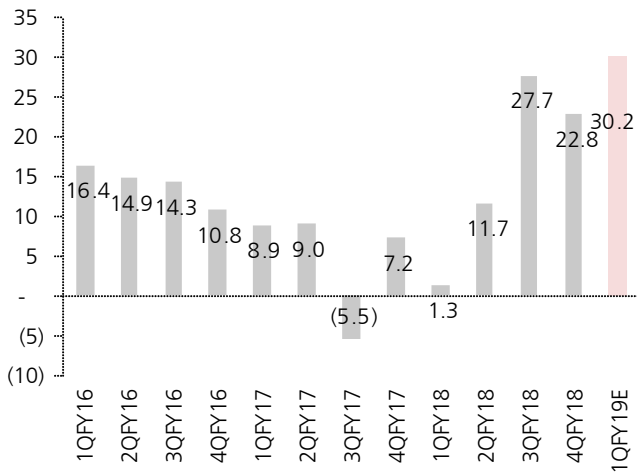
Source: Company, Kotak Institutional Equities

Exhibit 8: Overall PAT to grow at 23% levels
KIE consumer universe PAT growth trends, yoy (%)



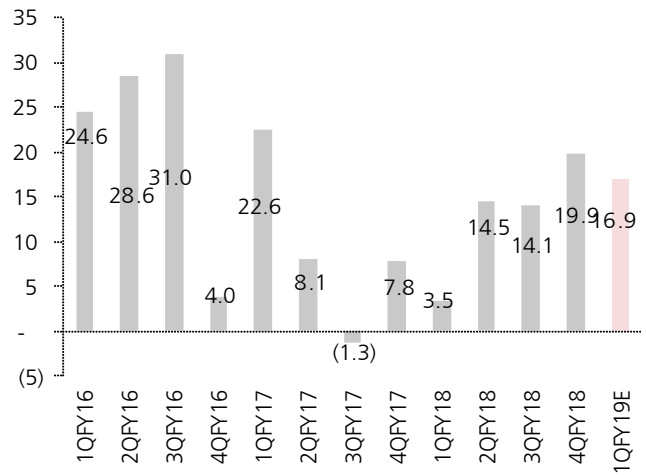
Source: Company, Kotak Institutional Equities

Exhibit 9: Staples PAT likely to grow at ~30% yoy
KIE consumer staples universe PAT growth trends, yoy (%)



Source: Company, Kotak Institutional Equities

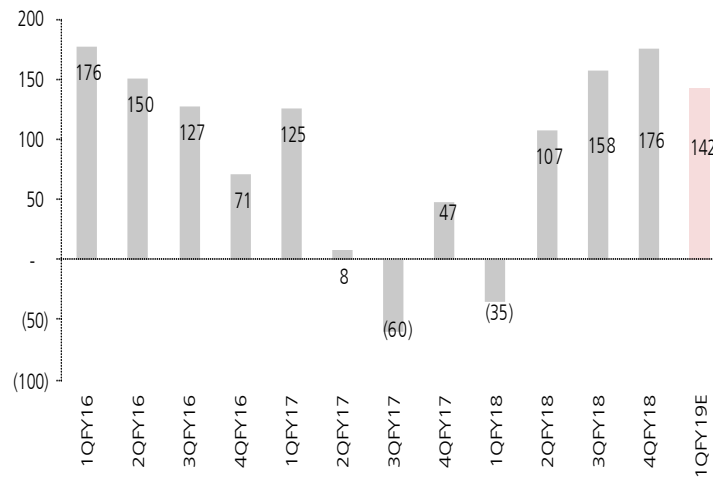
Exhibit 10: Discretionary could also grow at higher teen levels
KIE consumer discretionary universe PAT growth trends, yoy (%)



Source: Company, Kotak Institutional Equities

Exhibit 11: Aggregate EBITDA margin expansion driven by combination of favorable factors

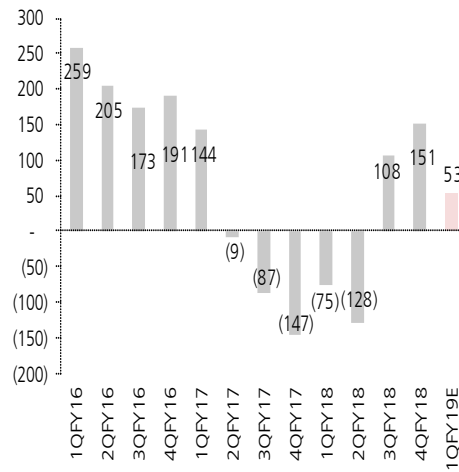
KIE consumer universe EBITDA margin change yoy (bps)



Source: Company, Kotak Institutional Equities

Exhibit 12: Favorable RM environment (except oil)

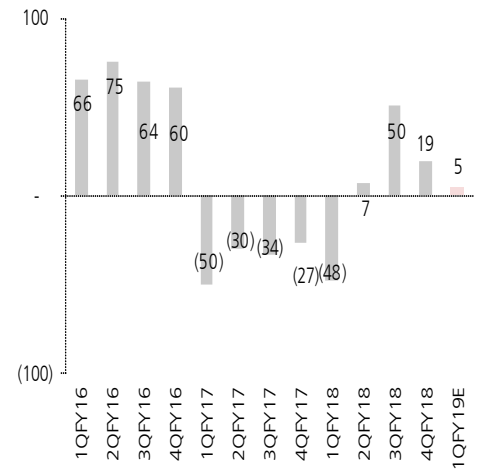
KIE consumer universe gross margin change yoy (bps)



Source: Company, Kotak Institutional Equities

Exhibit 13: Aggregate A&SP spends should see a modest rise

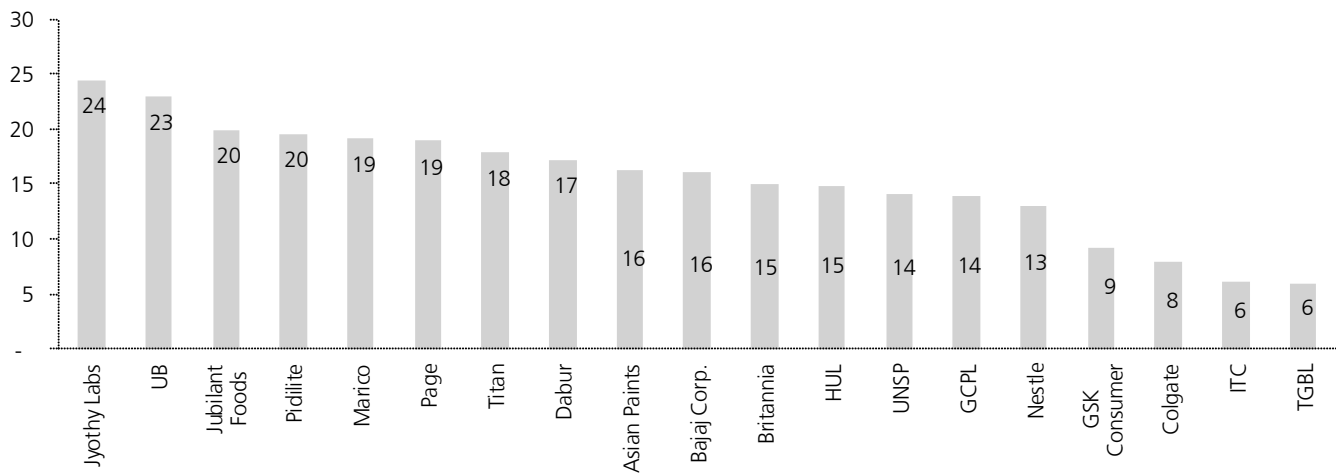
KIE consumer universe A&SP change yoy (bps)



Source: Company, Kotak Institutional Equities

Company-wise estimates for 1QFY19 (in charts)

Exhibit 14: JYL, UBBL, PIDI, Marico, Page to post strong revenue growth; ITC and TGBL to post relatively subdued growth
KIE consumer universe company-wise revenue growth estimate for 1QFY19, yoy (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 15: Volume growth looks optically higher due to weak base (impacted by GST-led destocking)

KIE consumer universe company-wise revenue growth trends, yoy (%)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY19 - 2yr CAGR
Staples										
Bajaj Corp. - Almond Drop Hair Oil	2.2	1.6	(4.2)	(7.1)	(6.6)	6.5	4.5	6.0	7.0	(0.0)
Britannia Industries - Domestic	8.0	8.0	2.0	2.0	2.0	6.0	13.0	13.0	13.0	7.4
Colgate - Overall	6.0	4.0	(11.0)	(3.0)	(5.0)	(0.9)	12.0	5.0	4.0	(0.6)
Dabur - Domestic	4.1	4.5	(5.2)	2.4	(4.4)	7.2	13.0	6.0	15.0	4.9
GSK Consumer	—	(3.0)	(17.0)	(0.7)	(3.0)	2.4	17.0	5.0	8.0	2.4
GCPD - Soaps	10.0	(5.0)	(8.0)	5.0	(8.0)	15.0	15.0	8.0	8.0	(0.3)
HUL (FMCG business)	4.0	(1.0)	(4.0)	4.0	—	4.0	11.0	8.0	14.0	6.8
Marico - Domestic	8.0	3.4	(4.0)	10.0	(9.0)	8.0	9.4	6.0	10.0	0.0
Marico - Parachute	7.0	(6.0)	(1.0)	15.0	(9.0)	12.0	15.0	1.0	11.0	0.5
Marico - Saffola	11.0	8.0	6.0	6.0	(9.0)	3.0	—	1.0	8.0	(0.9)
Marico - Value-added hair oils	9.0	11.0	(12.0)	10.0	(8.0)	12.0	8.0	10.0	14.0	2.4
Discretionary										
Asian Paints (Domestic paints)	12.0	12.0	3.0	10.0	2.0	9.0	6.0	8.0	14.0	7.8
ITC - Cigarettes	3.0	4.0	(1.0)	—	2.0	(7.0)	(5.0)	(4.0)	(2.5)	(0.3)
Jubilant Foodworks - SSG	(3.2)	4.2	(3.3)	(7.5)	6.5	5.5	17.8	24.0	19.0	12.6
Page (overall)	21.3	10.7	8.7	10.8	13.4	11.1	11.3	15.2	9.8	11.6
Pidlite - Domestic consumer business	9.0	7.8	(1.5)	8.2	—	15.0	23.0	15.0	20.0	9.5
Titan - Jewelry (tonnage)	6.0	(32.0)	4.0	37.0	49.0	49.0	6.0	13.7	9.0	27.4
United Breweries (overall)	6.0	(1.0)	(8.0)	(9.4)	—	11.0	10.4	12.3	16.0	7.7
United Spirits (overall)	—	0.9	(5.0)	(8.2)	(18.9)	(15.9)	(13.9)	(9.0)	8.2	(6.3)

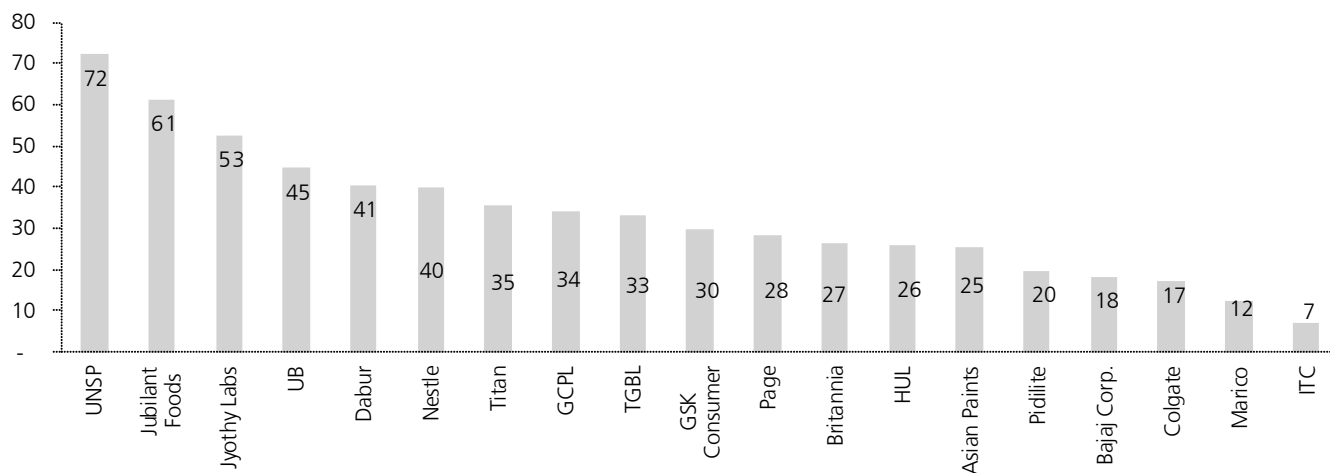
Note:

(1) Asian Paints, Britannia Industries and ITC are KIE estimates.

Source: Company, Kotak Institutional Equities estimates

Exhibit 16: Strong EBITDA growth across companies led by UNSP, JUBI, JYL, UBBL and Dabur

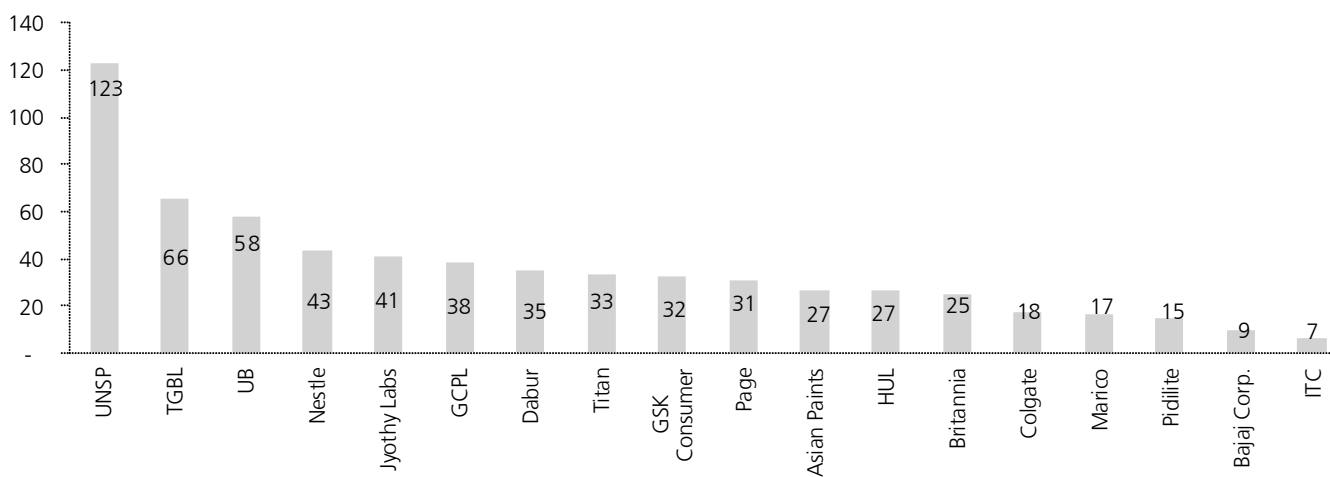
KIE consumer universe company-wise EBITDA growth estimate for 1QFY19, yoy (%)



Source: Company, Kotak Institutional Equities estimates

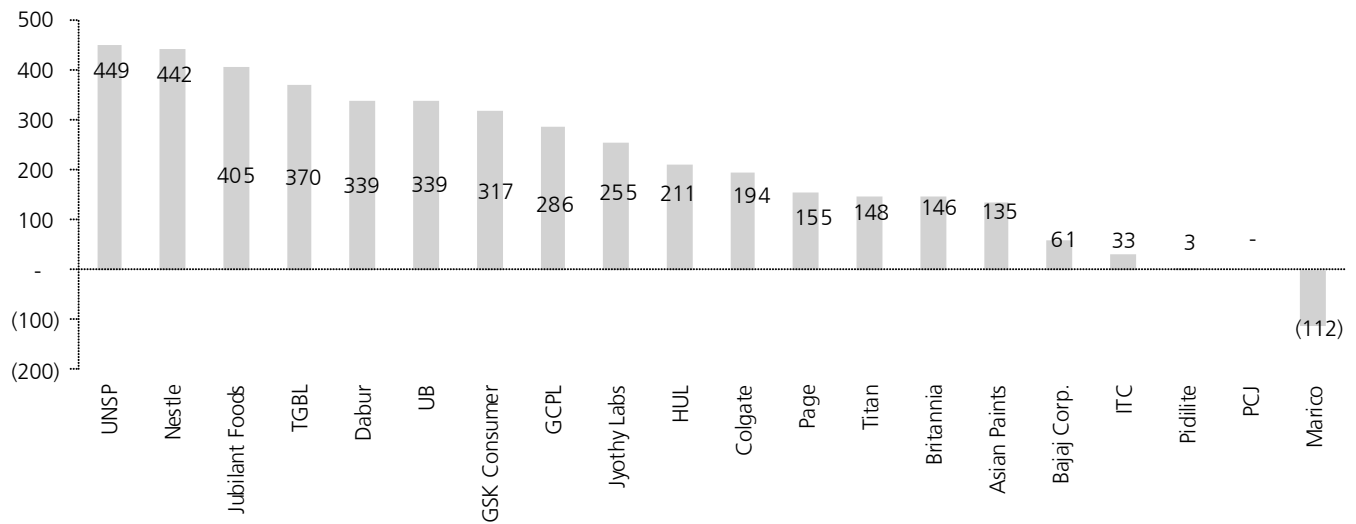
Exhibit 17: PAT growth robust across most companies

KIE consumer universe company-wise recurring PAT growth estimate for 1QFY19, yoy (%)



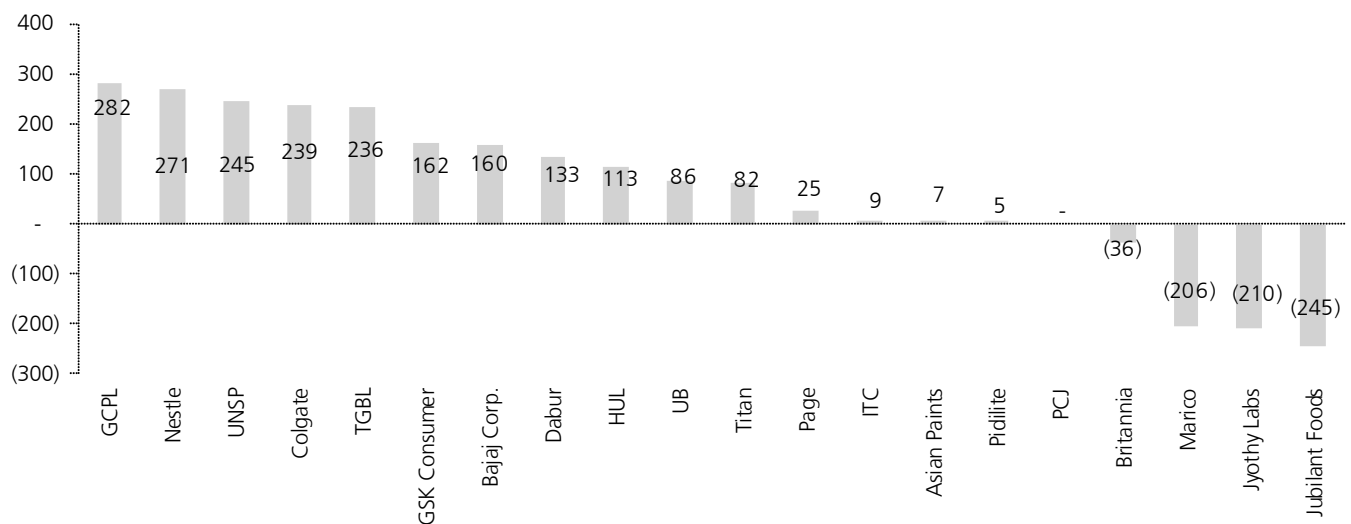
Source: Company, Kotak Institutional Equities estimates

Exhibit 18: EBITDA margin to expand across most companies led by UNSP, Nestle, JUBL and TGBL
KIE consumer universe company-wise EBITDA margin change estimate for 1QFY19, yoy (bps)



Source: Company, Kotak Institutional Equities estimates

Exhibit 19: Favorable RM environment except oil commodities along with higher pricing contribution to help companies
KIE consumer universe company-wise GM change estimate for 1QFY19, yoy (bps)



Source: Company, Kotak Institutional Equities estimates

Exhibit 20: Stable to deflationary trends in agri commodities; oil commodities seeing cost inflation
Quarterly movement in inputs/commodities

No	Commodity	Unit	1QFY19	% chg - local currency			% chg - currency Adj.			Inflationary = +3%	Deflationary = -3%
				qoq	yoy	vs FY18	qoq	yoy	vs FY18	Companies impacted	
Agri Commodities											
1	Tea - India Avg.	Rs/Kg	130	17	(0)	1	17	(0)	1	HUL, TGBL	
2	Tea - World Avg.	USD/MT	2,953	1	(6)	(5)	5	(3)	(1)	HUL, TGBL	
3	Tea - Mombassa/Kenya	USD/Kg	3	(9)	(10)	(10)	(6)	(7)	(7)	HUL, TGBL	
4	Coffee Arabica - Intl.	US cents/Pound	141	(1)	(6)	(4)	3	(3)	(1)	HUL, Nestle, TGBL	
5	Coffee Robusta - Intl.	US cents/Pound	91	(2)	(12)	(8)	2	(9)	(5)	HUL, Nestle, TGBL	
6	Sugar - domestic	Rs/Quintal	3,136	(10)	(20)	(18)	(10)	(20)	(18)	HUL, Nestle, GSKCHL, ITC, Dabur, Britannia	
7	Wheat	Rs/Quintal	1,753	(2)	1	(1)	(2)	1	(1)	ITC, Nestle, GSKCHL, Britannia	
8	Barley	Rs/Quintal	1,480	1	(2)	0	1	(2)	0	GSKCHL	
9	Maize (corn)	USD/MT	178	9	13	15	13	17	19	Colgate, HUL, Dabur (Sorbitol)	
10	Liquid Milk - domestic	Rs/Ltr	34	2	(24)	(9)	2	(24)	(9)	Nestle, GSKCHL, Jubilant Foodworks, Britannia	
11	Milk Powder - domestic	Rs/Kg	253	(0)	(12)	(5)	(0)	(12)	(5)	Nestle, GSKCHL, Britannia	
12	Cocoa Bean	USD/MT	1,955	(20)	(11)	(15)	(17)	(8)	(11)	Nestle	
Oil Commodities											
13	Crude Oil - Brent	USD/Barrel	74	11	48	29	16	54	34	HUL, GCPL, Jyothy Labs, Asian Paints, Pidilite	
14	Palm oil	Rs/MT	64,852	9	25	19	14	30	24	HUL, GCPL, Jyothy Labs	
15	PFAD	USD/MT	525	(15)	(16)	(16)	(11)	(13)	(12)	HUL, GCPL, Jyothy Labs	
16	Light liquid paraffin (LLP)	Rs/Ltr	47	(2)	11	8	(2)	11	8	Marico, Dabur, Bajaj Corp	
17	Copra	Rs/Quintal	13,211	(4)	45	14	(4)	45	14	Marico, Dabur	
18	Coconut oil	Rs/Quintal	18,215	(2)	43	15	(2)	43	15	Marico, Dabur	
19	Rice Bran oil	Rs/10Kg	647	8	16	12	8	16	12	Marico	
20	Kardi oil/ Safflower oil	Rs/MT	1,316	(7)	27	4	(7)	27	4	Marico	
21	Sunflower oil	Rs/MT	71,107	4	21	12	4	21	12	Marico	
22	Groundnut oil	Rs/MT	83,144	(6)	(17)	(9)	(6)	(17)	(9)	Marico, Dabur	
23	Linseed oil	Rs/MT	79,372	(3)	(1)	1	(3)	(1)	1	Marico, Dabur, Bajaj Corp, Asian Paints	
24	Castor oil	Rs/MT	84,877	(4)	(14)	(11)	(4)	(14)	(11)	Marico, Dabur, Bajaj Corp, Asian Paints	
25	Mentha oil	Rs/Kg	1,549	(1)	50	13	(1)	50	13	Emami, Colgate, HUL, Dabur	
Chemicals/Paints/Other Commodities											
26	Caustic soda	Rs/ 50Kg	2,376	(4)	1	3	(4)	1	3	HUL, GCPL, Jyothy Labs	
27	Soda ash	Rs/ 50Kg	1,234	(1)	(3)	(0)	(1)	(3)	(0)	HUL, GCPL, Jyothy Labs	
28	LAB	Rs/Kg	108	3	10	9	3	10	9	HUL, Jyothy Labs	
39	HDPE - domestic	Rs/Kg	121	7	19	17	7	19	17	All companies	
30	PAN	Rs/Kg	80	14	(11)	7	14	(11)	7	Asian Paints	
31	PENTA	Rs/Kg	115	—	—	—	—	—	—	Asian Paints	
32	Tio2 Anatase	Rs/Kg	182	(2)	8	2	(2)	8	2	Asian Paints	
33	Tio2 Rutile	Rs/Kg	215	2	—	2	2	—	2	Asian Paints	
34	Tio2 Dupont	Rs/Kg	258	6	(5)	3	6	(5)	3	Asian Paints	
35	Turpentine oil	Rs/Ltr	96	20	22	26	20	22	26	Asian Paints	
36	Formaldehyde	Rs/Kg	26	7	16	12	7	16	12	Asian Paints	
37	Acrylic acid	Rs/Kg	125	5	18	13	5	18	13	Asian Paints	
38	Vinyl Acetate - China	USD/MT	1,300	4	45	23	9	50	28		
39	Styrene - domestic	Rs/Kg	98	(6)	(5)	(6)	(6)	(5)	(6)	Asian Paints	
40	Gold	Rs/10gm	30,901	2	7	5	2	7	5	Titan, Jewellery companies	
41	Diamond price index	USD/Carrat	120	1	2	2	6	6	6	Titan, Jewellery companies	

Source: Bloomberg, Kotak Institutional Equities

Exhibit 21: INR has appreciated against a lot of currencies; this is likely to drag reported growth for IBD for consumer companies
 Movement of rupee versus relevant international currencies for KIE consumer universe

Currency	Period end			Average rate			Companies impacted
	30st Jun 2018	31st Mar 2017	qoq (%)	1QFY19 Avg	1QFY18 Avg	yoy (%)	
Euro	80.0	80.3	(0)	79.9	71.0	13	Dabur, TGBL
USD	68.5	65.1	5	67.0	64.5	4	All Companies
GBP	90.4	91.2	(1)	91.1	82.5	10	GCPL, TGBL
Canada	52.1	50.5	3	51.9	48.0	8	TGBL
Australia	50.7	50.0	1	50.7	48.4	5	TGBL
SL	0.4	0.4	3	0.4	0.4	0	GCPL, Marico, Dabur, Asian Paints
Bangladesh	0.8	0.8	4	0.8	0.8	(1)	GCPL, Marico, Dabur, Asian Paints, Pidilite
Nepal	0.6	0.6	-	0.6	0.6	(0)	Dabur, Asian Paints
Indonesia	0.5	0.5	2	0.5	0.5	(1)	GCPL
Malaysia	17.0	16.9	1	16.9	14.9	14	Marico (Revenue), GCPL/HUL (Palm oil imports)
Vietnam	0.3	0.3	4	0.3	0.3	3	Marico
South Africa	5.0	5.5	(9)	5.3	4.9	9	GCPL, Marico, TGBL
Nigeria	0.2	0.2	5	0.2	0.2	(9)	GCPL, Dabur
Kenya	0.7	0.6	5	0.7	0.6	7	GCPL, TGBL
Turkey	14.9	16.5	(10)	15.4	18.0	(15)	Dabur
Egypt	3.8	3.7	4	3.8	3.6	6	Marico, Dabur, Pidilite
Middle East (AED)	18.6	17.7	5	18.2	17.6	4	GCPL, Marico, Dabur, Asian Paints, Pidilite
Argentina	2.4	3.2	(27)	2.9	4.1	(30)	GCPL
Uruguay	2.2	2.3	(5)	2.2	2.3	(2)	GCPL
Chile	1.0	1.1	(3)	1.1	1.0	11	GCPL
Poland	18.3	19.0	(4)	18.7	16.8	11	TGBL
Czech	3.1	3.2	(3)	3.1	2.7	17	TGBL
Russia	1.1	1.1	(5)	1.1	1.1	(4)	TGBL

Source: Bloomberg, Kotak Institutional Equities

Exhibit 22: Results preview for KIE consumer universe for the quarter ending June 2018 (Rs mn)

Company	Jun-17	Mar-18	Jun-18E	yoy (%)	qoq (%)	Comments
Asian Paints (consolidated)						
Revenues	38,152	44,836	44,366	16.3	(1.0)	We estimate 14% volume growth in the domestic decoratives business aided partly by the low base (2%) of the pre-GST June 2017 quarter.
Gross margin (%)	42.8	43.2	42.9	6 bps	-35 bps	
EBITDA	6,654	8,399	8,334	25.3	(0.8)	EBITDA margin expansion reflects operating leverage; we estimate flattish gross margins despite the recent RM inflation as we factor in the mitigating effects of price increases and strategic sourcing.
EBITDA margin (%)	17.4	18.7	18.8	134 bps	5 bps	
Net income	4,249	4,810	5,394	26.9	12.1	
EPS (Rs/share)	4.4	5.0	5.6	26.9	12.1	
Bajaj Corp.						
Revenues	1,974	2,216	2,291	16.0	3.4	We expect 7% yoy growth in ADHO volumes partly aided by market share gains; it translates into flattish 2-year CAGR, in line with recent trends. We also expect some price-led growth; the company has taken price hikes recently. Sharp jump in other operating income (VAT refunds) yoy is a 300 bps tailwind to yoy revenue growth.
Gross margin (%)	65.2	67.3	66.8	159 bps	-53 bps	
EBITDA	606	718	718	18.3	(0.1)	Weak rupee and inflation in LLP price would put some sequential pressure on GM. We model 100 bps decline in EBITDA margin led by qoq drop in GM and higher A&P costs pertaining to product refresh (NOMARKS cream).
EBITDA margin (%)	30.7	32.4	31.3	60 bps	-109 bps	
Net income	550	554	601	9.3	8.5	
EPS (Rs/share)	3.7	3.8	4.1	9.3	8.5	
Britannia Industries (consolidated)						
Revenues	22,637	25,375	26,022	15.0	2.5	We model 13% growth in biscuit volumes and 3.5% increase in realizations (price/mix). Subsidiary performance is likely to remain a drag on consolidated performance.
Gross margin (%)	38.7	38.5	38.4	-37 bps	-12 bps	
EBITDA	3,285	3,971	4,157	26.6	4.7	We expect EBITDA margin to expand 145 bps yoy largely aided by operating leverage (off a low base). RM trends are favorable; however, we believe a bulk of the benefits have been passed on to the consumer/trade and accordingly build in flattish GM.
EBITDA margin (%)	14.5	15.6	16.0	146 bps	32 bps	
Net income	2,160	2,636	2,698	24.9	2.4	
EPS (Rs/share)	18.0	22.0	22.5	24.9	2.3	
Colgate						
Revenues	9,781	10,917	10,562	8.0	(3.2)	Our topline growth estimate of 8% yoy bakes in 4% volume and a similar realization growth. Our volume growth assumption translates into largely flattish 2-yr CAGR.
Gross margin (%)	63.4	65.7	65.8	239 bps	9 bps	
EBITDA	2,218	3,075	2,601	17.2	(15.4)	We expect 200 bps yoy expansion in EBITDA margin led by GST-related tailwinds and operating efficiencies.
EBITDA margin (%)	22.7	28.2	24.6	194 bps	-355 bps	
Net income	1,286	1,788	1,512	17.6	(15.4)	
EPS (Rs/share)	4.7	6.6	5.6	17.6	(15.4)	
Coffee Day Global (CDGL) - coffee business only						
Revenues	4,404	4,712	5,031	14.2	6.8	Our revenue growth estimate bakes in (a) 25 net café additions qoq, (b) 6% growth in retail ASPD, and (c) around 20% yoy growth in vending machine count.
Gross margin (%)	51.4	53.8	52.0	63 bps	-177 bps	
EBITDA	648	743	830	28.1	11.7	We expect modest GM expansion on a yoy basis driven by improved product mix; higher EBITDA margin expansion reflects expected operating leverage benefits.
EBITDA margin (%)	14.7	15.8	16.5	178 bps	73 bps	
Net income	103	82	195	89.1	136.6	
EPS (Rs/share)	0.6	0.5	1.1	89.1	136.6	
Dabur (consolidated)						
Revenues	17,845	20,236	20,909	17.2	3.3	We model around 18% like-for-like growth in domestic revenues on the back of 15% volume growth – base quarter was impacted by GST-led destocking.
Gross margin (%)	48.8	50.5	50.1	133 bps	-39 bps	
EBITDA	3,034	4,758	4,264	40.6	(10.4)	GST tailwinds along with GM expansion should drive a 339 bps yoy expansion in EBITDA margins.
EBITDA margin (%)	17.0	23.5	20.4	339 bps	-313 bps	
Net income	2,737	3,962	3,687	34.7	(6.9)	
EPS (Rs/share)	1.6	2.2	2.1	34.7	(6.9)	
GSK Consumer						
Revenues	9,853	11,796	10,749	9.1	(8.9)	Our revenue growth forecast bakes in 9% growth in domestic revenues, 20% in exports, and 5% in auxiliary income. Domestic revenue growth is a combination of 8% volumes and 1% realization growth.
Gross margin (%)	65.2	68.3	66.9	162 bps	-147 bps	
EBITDA	1,664	2,500	2,155	29.6	(13.8)	We estimate 316 bps yoy expansion in EBITDA margin on low base (base quarter volumes and margins were impacted due to transition to GST).
EBITDA margin (%)	16.9	21.2	20.1	316 bps	-115 bps	
Net income	1,322	2,118	1,747	32.2	(17.5)	
EPS (Rs/share)	31.4	50.4	41.5	32.2	(17.5)	
GCPL (consolidated)						
Revenues	21,773	25,289	24,786	13.8	(2.0)	We estimate 16.5% revenue growth for the standalone business and 11% for the subsidiaries (aggregate); we bake in 15%, 13%, and 17% yoy growth for the HI, soaps, and hair color segments respectively.
Gross margin (%)	53.5	59.0	56.3	281 bps	-270 bps	
EBITDA	3,494	5,969	4,687	34.1	(21.5)	We expect the strong margin expansion trend to continue on the back of strategic low-cost RM stock and sharp focus on costs.
EBITDA margin (%)	16.0	23.6	18.9	286 bps	-470 bps	
Net income	2,327	4,234	3,216	38.2	(24.0)	
EPS (Rs/share)	3.4	6.2	4.7	38.2	(24.0)	

Source: Company, Kotak Institutional Equities estimates

Exhibit 22 (continued): Results preview for KIE consumer universe for the quarter ending June 2018 (Rs mn)

Company	Jun-17	Mar-18	Jun-18E	yoy (%)	qoq (%)	Comments
HUL (standalone)						
Revenues	85,290	90,970	97,848	14.7	7.6	
Gross margin (%)	52.1	52.6	53.3	113 bps	67 bps	We expect the sector bellwether to report another solid quarter with 20% comparable topline growth driven by 14% UVG.
EBITDA	18,660	20,480	23,469	25.8	14.6	
EBITDA margin (%)	21.9	22.5	24.0	210 bps	147 bps	We estimate a modest 210 bps expansion in EBITDA margin yoy, driven equally by mix-led GM expansion and operating leverage. We do expect A&P intensity to stay high.
Net income	12,920	14,090	16,397	26.9	16.4	
EPS (Rs/share)	6.0	6.5	7.6	26.9	16.4	
ITC (standalone)						
Revenues	98,765	104,792	104,750	6.1	(0.0)	
Gross margin (%)	61.2	61.8	61.2	8 bps	-58 bps	We expect another modest earnings print for ITC as yoy decline in cigarette volumes continues. We bake in 2.5% yoy decline with further deterioration in mix.
EBITDA	36,682	40,365	39,248	7.0	(2.8)	
EBITDA margin (%)	37.1	38.5	37.5	32 bps	-106 bps	We expect acceleration in growth in the FMCG and Hotels business, partly aided by low base in both the segments.
Net income	25,605	29,327	27,296	6.6	(6.9)	
EPS (Rs/share)	2.1	2.4	2.2	6.6	(6.9)	
Jubilant Foodworks						
Revenues	6,787	7,797	8,141	19.9	4.4	We model 19% SSG (aided by favourable base and Everyday Value 99 (EDV 99) offer) and 20% topline growth; we have modeled 8 store additions (net) on yoy basis, Domino's + DD combined.
Gross margin (%)	76.4	74.3	73.9	-246 bps	-40 bps	
EBITDA	795	1,277	1,283	61.4	0.5	
EBITDA margin (%)	11.7	16.4	15.8	404 bps	-62 bps	We expect EBITDA margin to expand 404 bps yoy despite 245 bps contraction in GM, aided by leverage, cost saving initiatives and GST-related tailwinds. We expect marginal drop in margins on sequential basis on account of EDV 99 and higher A&SP during IPL.
Net income	238	681	640	168.3	(6.0)	
EPS (Rs/share)	3.6	10.3	9.7	168.2	(6.0)	
Jyothy Laboratories (consolidated)						
Revenues	3,672	5,161	4,571	24.5	(11.4)	We expect 30% comparable growth in underlying revenues driven by 20% volume growth. This is largely on the back of a weak base which was impacted by GST-destocking.
Gross margin (%)	52.6	50.5	50.5	-210 bps	-2 bps	
EBITDA	416	877	634	52.5	(27.8)	
EBITDA margin (%)	11.3	17.0	13.9	254 bps	-314 bps	Estimated EBITDA margin expansion of 254 bps yoy is largely on the back of cost rationalization efforts along with operating leverage benefits.
Net income	260	520	368	41.2	(29.2)	
EPS (Rs/share)	1.4	2.9	2.0	41.2	(29.2)	
Marico (consolidated)						
Revenues	16,815	14,801	20,024	19.1	35.3	We model 19.5% growth in the standalone business, led by 10% volume growth (off a low base) in the domestic consumer business. We model double-digit volume growth for Parachute and VAHO; expect Saffola performance to be weak despite favorable base.
Gross margin (%)	47.8	46.6	45.7	-206 bps	-94 bps	
EBITDA	3,243	2,523	3,637	12.2	44.2	
EBITDA margin (%)	19.3	17.0	18.2	-113 bps	111 bps	Gross margins likely to remain under pressure on account of sustained copra inflation. EBITDA margin decline likely to be lower on account of operating leverage.
Net income	2,320	1,806	2,710	16.8	50.1	
EPS (Rs/share)	1.8	1.4	2.1	16.8	50.1	
Nestle						
Revenues	23,865	27,368	26,944	12.9	(1.6)	We model 13% growth in net domestic revenues aided by robust growth in both Maggi and non-Maggi portfolio.
Gross margin (%)	54.8	58.8	57.5	271 bps	-130 bps	
EBITDA	4,430	6,915	6,192	39.8	(10.5)	
EBITDA margin (%)	18.6	25.3	23.0	441 bps	-229 bps	We model 440 bps expansion in EBITDA margin driven by GST tailwinds and operating leverage benefits.
Net income	2,634	4,240	3,772	43.2	(11.0)	
EPS (Rs/share)	27.3	44.0	39.1	43.2	(11.0)	
Page Industries						
Revenues	6,962	6,084	8,277	18.9	36.0	We expect 19% revenue growth aided by 10% volume growth and 9% price/mix-led growth.
Gross margin (%)	54.2	62.6	54.5	25 bps	-814 bps	
EBITDA	1,365	1,468	1,751	28.3	19.2	
EBITDA margin (%)	19.6	24.1	21.2	154 bps	-298 bps	We model broadly flat GM and 150 bps expansion in EBITDA margin aided by operating leverage.
Net income	853	942	1,114	30.6	18.2	
EPS (Rs/share)	76.5	84.5	99.9	30.6	18.2	

Source: Company, Kotak Institutional Equities estimates

Exhibit 22 (continued): Results preview for KIE consumer universe for the quarter ending June 2018 (Rs mn)

Company	Jun-17	Mar-18	Jun-18E	yoy (%)	qoq (%)	Comments
Pidilite Industries (consolidated)						
Revenues	15,203	14,853	18,178	19.6	22.4	We model 20% yoy growth in underlying volume as well as similar revenue growth for the consumer bazaar (CBP) business partly aided by low base. Reported standalone revenue growth would be lower around 19% on account of GST-related accounting changes (comparable at about 21%). We model flat EBITDA margin (yoy basis) for the quarter as impact of RM inflation and rupee depreciation on standalone performance (VAM, a key RM, is up substantially) will be offset by improving profitability of subsidiaries.
Gross margin (%)	51.5	52.1	51.5	4 bps	-57 bps	
EBITDA	3,210	2,739	3,843	19.7	40.3	
EBITDA margin (%)	21.1	18.4	21.1	2 bps	269 bps	
Net income	2,265	1,976	2,596	14.6	31.3	
EPS (Rs/share)	4.4	3.9	5.1	15.7	32.6	
S H Kelkar and Company (consolidated)						
Revenues	2,350	2,851	2,675	13.8	(6.2)	We estimate 13.8% growth in consolidated revenues aided by low base and the general uptick in aggregate FMCG demand. Service revenue decline will be a drag.
Gross margin (%)	48.0	39.1	42.6	-543 bps	350 bps	
EBITDA	427	271	346	(19.0)	27.8	RM challenges will continue to put pressure on margins; we expect 540 bps yoy decline in GM. That said, the supply situation is easing gradually and our GM forecast builds 350 bps improvement on qoq basis.
EBITDA margin (%)	18.2	9.5	12.9	-525 bps	343 bps	
Net income	268	213	204	(23.8)	(4.4)	
Recurring EPS (Rs/share)	1.9	1.7	1.4	(23.8)	(15.4)	
EPS (Rs/share)	1.9	1.7	1.4	(23.8)	(15.4)	
Tata Global Beverages (consolidated)						
Revenues	17,044	16,884	18,067	6.0	7.0	We model 6% growth in consolidated revenues aided by about 8% growth in domestic tea business partially negated by subdued growth in the international business.
Gross margin (%)	46.6	44.3	49.0	236 bps	466 bps	
EBITDA	2,442	1,457	3,257	33.4	123.5	We model 370 bps yoy expansion in EBITDA margin aided by robust margin expansion in the domestic tea business and cost saving initiatives. Higher PAT growth aided by lower ETR.
EBITDA margin (%)	14.3	8.6	18.0	370 bps	939 bps	
Net income	1,193	611	1,978	65.7	223.7	
EPS (Rs/share)	1.9	1.0	3.1	65.7	223.7	
EPS (Rs/share)	1.9	1.0	3.1	65.7	223.7	
Titan Industries						
Revenues	39,099	39,168	46,080	17.9	17.6	We model 18%, 7.5% and 10% yoy growth in jewelry, watches and eyewear revenues, respectively.
Gross margin (%)	23.8	29.0	24.7	81 bps	-435 bps	
EBITDA	3,888	4,554	5,264	35.4	15.6	We expect jewelry EBIT margins to expand 150 bps yoy, driven by SSG-led leverage and ongoing A&P rationalization.
EBITDA margin (%)	9.9	11.6	11.4	147 bps	-21 bps	
Net income	2,772	3,362	3,689	33.1	9.7	
EPS (Rs/share)	3.1	3.8	4.2	33.1	9.7	
EPS (Rs/share)	3.1	3.8	4.2	33.1	9.7	
United Breweries						
Revenues	16,742	14,693	20,574	22.9	40.0	We expect 23% yoy growth in revenues aided by 16% growth in volume. Price hikes in key states should also help top-line growth.
Gross margin (%)	52.7	52.8	53.5	86 bps	69 bps	
EBITDA	3,184	2,082	4,609	44.8	121.3	We model a sharp 338 bps yoy expansion in operating margins aided by operating leverage and cost savings initiatives.
EBITDA margin (%)	19.0	14.2	22.4	338 bps	822 bps	
Net income	1,619	909	2,550	57.5	180.6	
EPS (Rs/share)	6.1	3.4	9.6	57.5	180.6	
EPS (Rs/share)	6.1	3.4	9.6	57.5	180.6	
United Spirits (standalone)						
Revenues	17,818	21,737	20,338	14.1	(6.4)	We model 14% net revenue growth led by 9.3% growth in underlying volumes off a low base. On a reported basis, we expect a lower volume growth of 8.2% yoy on account of low-end franchising impact.
Gross margin (%)	46.0	48.8	48.5	245 bps	-32 bps	
EBITDA	1,574	2,741	2,710	72.2	(1.1)	We model 245 bps yoy expansion in gross margin on account of RM softness. At an EBITDA level, we expect the expansion to be higher at 449 bps yoy driven by leverage benefits and cost rationalization measures.
EBITDA margin (%)	8.8	12.6	13.3	449 bps	71 bps	
Net income	637	1,867	1,421	123.0	(23.9)	
EPS (Rs/share)	4.4	12.8	9.8	123.0	(23.9)	
EPS (Rs/share)	4.4	12.8	9.8	123.0	(23.9)	
Varun Beverages (consolidated)						
Revenues	16,334	10,948	20,792	27.3	89.9	We expect 27% net revenue growth driven by 22% volume growth (low base and kicker from consolidation of acquired territories; organic volume growth would be about 10% at consolidated level and 12% for India business) and 4% price-led growth.
Gross margin (%)	52.1	55.1	51.0	-107 bps	-410 bps	
EBITDA	4,805	1,727	6,030	25.5	249.2	We model 42 bps yoy drop in EBITDA margin largely due to lower profitability of acquired territories and distribution rights for Tropicana and Quaker oat drinks.
EBITDA margin (%)	29.4	15.8	29.0	-42 bps	1322 bps	
Net income	2,456	186	3,270	33.1	1,654.9	
EPS (Rs/share)	13.5	1.0	17.9	33.1	1,654.9	
EPS (Rs/share)	13.5	1.0	17.9	33.1	1,654.9	

Source: Company, Kotak Institutional Equities estimates

June 2018: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
2-Jul	3-Jul	4-Jul	5-Jul	6-Jul	7-Jul	8-Jul
9-Jul	10-Jul	11-Jul	12-Jul	13-Jul	14-Jul	15-Jul
Dish TV India	IndusInd Bank Tata Consultancy Services		Karnataka Bank	Bajaj Corp. Infosys		
16-Jul	17-Jul	18-Jul	19-Jul	20-Jul	21-Jul	22-Jul
Hindustan Unilever	Ashok Leyland ICICI Lombard	Bandhan Bank Mahindra CIE Automotive Mindtree UltraTech Cement	Bajaj Finance Bajaj Finserv Kotak Mahindra Bank RBL Bank	Bajaj Auto Bajaj Holdings & Investment Bata India HDFC Standard Life Kansai Nerolac Paints Wipro	HDFC Bank	
23-Jul	24-Jul	25-Jul	26-Jul	27-Jul	28-Jul	29-Jul
L&T Infotech	GlaxoSmithkline Pharma Hexaware Technologies Info Edge (India)	Crompton Greaves Consumer GRUH Finance Hero MotoCorp	Bharat Financial Inclusion Cholamandalam Investment Colgate-Palmolive (India) Dr Reddys Laboratories WABCO India	Coromandel International MMFSL		
30-Jul	31-Jul	1-Aug	2-Aug	3-Aug	4-Aug	5-Aug
Godrej Consumer Products HDFC IDFC IDFC Bank Shree Cement	Dabur India	Aditya Birla Fashion Torrent Power	Marico			PI Industries
6-Aug	7-Aug	8-Aug	9-Aug	10-Aug	11-Aug	12-Aug
		PNB Housing		Dr Lal Pathlabs Timken India		
13-Aug	14-Aug	15-Aug	16-Aug	17-Aug	18-Aug	19-Aug

Source: NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)		RoE (%)		Dividend yield (%)			ADVT 3mo (US\$ mn)				
		05-Jul-18	Target price (Rs)				2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E					
Automobiles																													
Amara Raja Batteries	REDUCE	773	780	0.8	132	1.9	171	28	33	39	(1.6)	21.2	15.5	28.0	23.1	20.0	14.9	12.3	10.5	4.5	3.9	3.3	17.0	18.0	18.0	0.5	0.6	0.7	5.9
Apollo Tyres	BUY	252	340	34.9	144	2.1	541	13	20	25	(38.0)	48.6	24.7	18.8	12.7	10.2	10.4	7.4	6.2	1.4	1.3	1.2	8.5	11.1	12.5	1.3	1.2	1.2	10.8
Ashok Leyland	BUY	125	160	28.0	367	5.3	2,926	5.4	6.2	8.9	8.0	15.3	43.2	23.2	20.2	14.1	13.4	10.3	7.5	5.1	4.4	3.7	23.7	23.4	28.4	1.9	1.5	2.1	35.4
Bajaj Auto	SELL	2,967	2,800	(5.6)	859	12.5	289	140	160	176	6.0	14.0	10.0	21.2	18.6	16.9	14.7	13.2	11.6	4.5	4.0	3.6	22.9	22.8	22.3	2.0	2.2	2.4	18.9
Balkrishna Industries	BUY	1,149	1,260	9.6	222	3.2	193	37	51	63	4.8	35.4	24.6	30.7	22.7	18.2	16.3	12.4	9.9	5.4	4.5	3.7	19.0	21.6	22.1	0.3	0.4	0.4	8.8
Bharat Forge	SELL	615	650	5.7	286	4.2	466	16	22	27	10.1	38.0	19.4	38.0	27.5	23.1	18.3	15.5	13.1	6.2	5.3	4.5	17.2	20.7	21.1	0.7	0.8	0.9	10.6
CEAT	ADD	1,269	1,600	26.0	51	0.7	40	65	101	113	(29.5)	55.4	12.6	19.6	12.6	11.2	9.6	8.1	6.9	2.0	1.7	1.5	10.4	14.6	14.4	0.9	0.8	0.8	14.0
Eicher Motors	SELL	27,888	26,000	(6.8)	760	11.1	27	792	995	1,200	29.3	25.5	20.6	35.2	28.0	23.2	25.4	20.4	16.6	14.1	10.2	7.6	46.4	42.3	37.5	0.1	0.1	0.1	17.2
Escorts	BUY	865	1,170	35.2	74	1.5	89	39	56	69	71.3	43.6	23.6	22.3	15.5	12.6	12.7	9.4	7.4	3.0	2.6	2.2	13.5	16.8	17.7	0.5	1.0	1.2	17.3
Exide Industries	SELL	261	225	(13.7)	222	3.2	850	8	10	11	0.6	23.7	11.1	31.8	25.7	23.1	17.8	14.9	13.2	4.1	3.7	3.4	13.5	15.2	15.3	0.9	1.2	1.3	8.1
Hero Motocorp	SELL	3,506	3,500	(0.2)	700	10.2	200	185	206	227	9.5	11.1	10.1	18.9	17.0	15.5	11.8	10.6	9.4	5.9	5.2	4.6	33.8	32.6	31.6	2.4	2.9	3.2	17.3
Mahindra CIE Automotive	ADD	261	275	5.2	99	1.4	378	10	13	15	107.0	35.8	12.9	27.2	20.1	17.8	13.3	10.1	8.8	2.7	2.4	2.1	10.4	12.5	12.4	—	—	—	2.9
Mahindra & Mahindra	BUY	912	1,015	11.3	1,134	16.5	1,138	38	44	50	22.0	15.6	14.8	24.0	20.8	18.1	15.8	13.5	11.6	3.4	3.0	2.7	15.1	15.4	15.7	0.8	1.0	1.1	32.2
Maruti Suzuki	ADD	9,347	9,700	3.8	2,824	41.1	302	256	330	395	5.1	29.2	19.6	36.6	28.3	23.7	20.5	16.0	12.9	6.8	5.8	4.9	19.8	22.0	22.6	0.7	0.9	1.1	61.1
Motherson Sumi Systems	SELL	294	265	(9.8)	619	9.0	2,105	8	11	14	6.1	37.7	21.7	35.9	26.1	21.5	13.6	10.4	8.7	6.3	5.4	4.5	19.0	22.1	22.9	0.8	0.9	1.1	13.3
MRF	REDUCE	75,477	76,000	0.7	320	4.7	4	2,669	3,896	4,447	(23.9)	46.0	14.1	28.3	19.4	17.0	12.8	9.5	8.1	3.3	2.8	2.4	12.3	15.7	15.4	0.1	0.1	0.1	7.6
Schaeffler India	BUY	5,405	6,000	11.0	90	1.3	17	143	171	207	22.0	19.4	21.1	37.7	31.6	26.1	22.2	19.1	15.5	5.3	4.7	4.1	15.0	15.8	16.9	0.3	0.6	0.8	0.7
SKF	REDUCE	1,712	1,700	(0.7)	88	1.3	51	58	70	81	24.6	20.8	16.4	29.7	24.6	21.1	18.4	15.8	13.2	4.8	4.2	3.6	16.1	17.0	17.2	0.7	0.8	1.0	0.4
Tata Motors	BUY	262	445	70.1	888	12.1	3,396	20	24	38	(28.0)	18.0	63.0	13.1	11.1	6.8	3.9	3.5	2.9	0.9	0.9	0.8	8.8	8.0	11.9	—	—	—	62.8
Timken	SELL	747	660	(11.7)	51	0.7	68	14	19	25	(5.3)	42.3	27.5	55.2	38.8	30.4	30.8	21.5	17.1	7.2	6.2	5.2	13.9	17.1	18.5	0.1	0.1	0.1	0.4
TVS Motor	SELL	571	410	(28.1)	271	3.9	475	14	17	21	18.7	23.0	22.0	40.9	33.2	27.2	24.9	19.5	16.2	9.4	8.0	6.7	25.1	26.0	26.7	0.6	0.9	1.1	11.6
WABCO India	SELL	6,956	6,350	(8.7)	132	1.9	19	144	169	223	27.8	17.4	32.2	48.4	41.2	31.2	31.4	26.8	20.3	8.6	7.2	6.0	19.5	19.1	21.0	0.1	0.1	0.2	0.5
Automobiles	Neutral				10,333		150				(0.9)	23.2	25.5	26.5	21.5	17.1	11.7	9.8	8.0	3.8	3.3	2.9	14.2	15.5	16.9	0.8	1.0	1.1	357.5
Banks																													
Axis Bank	ADD	511	600	17.4	1,312	19.1	2,567	1	20	39	(92.6)	1,735.5	100.1	475.7	25.9	13.0	—	—	—	2.5	2.2	1.9	0.5	7.7	13.8	1.0	0.6	1.2	64.7
Bank of Baroda	NR	113	—	—	300	4.4	2,652	(9)	20	23	(253.2)	323.2	10.5	(12.3)	5.5	5.0	—	—	—	1.3	1.0	0.7	(5.8)	12.6	12.3	—	—	—	29.6
Bank of India	ADD	85	120	40.5	149	2.2	1,744	(35)	(6)	16	(134.7)	82.2	366.7	(2.5)	(13.9)	5.2	—	—	—	1.3	1.6	1.0	(21.3)	(3.6)	9.5	—	(1.4)	3.8	12.4
Canara Bank	ADD	244	300	23.1	179	2.6	733	(58)	(2)	60	(406.6)	97.3	4,031.4	(4.2)	(158.6)	4.0	—	—	—	1.5	1.5	0.9	(11.9)	(0.3)	11.8	—	—	—	30.7
City Union Bank	ADD	187	190	1.8	124	1.8	665	9	10	12	6.4	16.2	13.0	21.0	18.0	16.0	—	—	—	3.2	2.8	2.4	15.3	15.5	15.5	0.2	1.0	1.1	1.9
DCB Bank	ADD	169	210	24.4	52	0.8	308	8	11	13	13.8	32.2	20.5	21.2	16.0	13.3	—	—	—	2.1	1.9	1.7	10.9	12.0	12.9	—	0.6	0.7	5.8
Equitas Holdings	BUY	136	190	40.0	46	0.7	340	0.9	4.4	8.3	(80.4)	374.7	88.2	146.7	30.9	16.4	—	—	—	2.1	2.0	1.8	1.4	6.4	11.0	—	—	—	4.5
Federal Bank	BUY	82	130	58.2	162	2.4	1,972	4.5	5.8	7.8	(7.5)	29.5	34.9	18.4	14.2	10.5	—	—	—	1.4	1.3	1.2	8.0	9.0	11.2	1.2	1.4	1.9	17.7
HDFC Bank	REDUCE	2,124	1,900	(10.5)	5,531	80.4	2,595	67	77	93	18.7	14.7	20.0	31.5	27.5	22.9	—	—	—	5.3	4.0	3.5	17.9	16.6	16.2	0.6	0.7	0.8	74.6
ICICI Bank	BUY	272	400	47.3	1,746	25.4	6,429	11	15	25	(31.1)	46.5	64.1	25.8	17.6	10.7	—	—	—	2.1	1.8	1.6	6.6	9.1	13.7	0.6	1.1	1.9	91.8
IDFC Bank	NR	38	—	—	131	1.9	3,404	2.5	1.6	3.3	(16.0)	(38.5)	109.8	15.2	24.7	11.8	—	—	—	0.9	0.8	0.8	5.7	3.4	6.9	1.3	0.8	1.7	9.0
IndusInd Bank	REDUCE	1,964	1,800	(8.4)	1,180	17.2	600	60	73	88	25.3	20.7	21.6	32.7	27.1	22.3	—	—	—	5.1	4.2	3.6	17.1	18.1	17.1	—	0.4	0.5	29.2
J&K Bank	BUY	50	105	108.7	28	0.4	557	4	8	11	111.6	116.7	44.4	13.8	6.4	4.4	—	—	—	0.6	0.5	0.5	3.4	6.9	9.4	—	3.1	4.5	0.4
Karur Vysya Bank	ADD	99	120	21.2	72	1.1	727	5	4	14	(52.2)	(22.8)	274.8	20.8	27.0	7.2	—	—	—	1.4	1.4	1.2	6.1	4.2	14.7	0.6	0.9	3.5	1.8
Punjab National Bank	ADD	76	90	19.1	209	3.0	2,761	(44)	(39)	9	(814.7)	13.4	124.1	(1.7)	(2.0)	8.1	—	—	—	4.5	(3.4)	(12.9)	(32.4)	(31.3)	8.2	—	(11.1)	2.7	32.1
RBL Bank	SELL	564	450	(20.3)	238	3.5	420	15	20	25	27.3	32.9	21.8	37.3	28.1	23.0	—	—	—	3.6	3.3	3.0	11.5	12.0	13.2	0.4	0.5	0.7	9.8
State Bank of India	BUY	256	370	44.3	2,289	33.3	8,925	(7)	18	37	(155.8)	NM	106.1	NM	14.2	6.9	—	—	—	2.0	1.6	1.2	(3.2)	7.1	13.2	—	0.1	0.2	77.9
Ujivan Financial Services	REDUCE	375	420	11.9	45	0.7	121	1	22	29	(96.5)	3,564.0	30.0	622.1	17.0	13.1	—	—	—	2.7	2.3	2.0	0.4	14.2	16.1	0.0	0.6	0.8	7.5
Union Bank	ADD	79	130	63.6	93	1.3	1,169	(45)	1	24	(655.5)	101.4	3,896.2	(1.8)	129.8	3.2	—	—	—	1.3	1								

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price (Rs)	Upside (%)	Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		05-Jul-18			(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E		
NBFCs																													
Bajaj Finance	REDUCE	2,330	1,850	(20.6)	1,347	19.6	46	63	82	38.5	34.9	30.0	50.1	37.2	28.6	—	—	—	8.1	6.8	5.6	20.5	19.9	21.5	0.2	0.3	0.3	42.0	
Bajaj Finserv	ADD	6,069	5,900	(2.8)	966	14.0	174	206	266	13.5	18.7	28.8	34.9	29.4	22.8	—	—	—	4.8	3.9	3.3	15.3	14.5	15.6	0.2	0.2	0.2	14.0	
Bharat Financial Inclusion	NA	1,185	—	—	165	2.4	33	43	54	55.5	31.1	27.2	36.3	27.7	21.8	—	—	—	5.5	4.5	3.6	16.7	17.9	18.5	—	—	—	10.6	
Cholamandalam	REDUCE	1,492	1,510	1.2	233	3.4	62	76	92	35.5	22.3	20.8	24.0	19.6	16.2	—	—	—	4.8	4.0	3.3	20.6	21.0	21.2	0.4	0.6	0.7	7.1	
HDFC	ADD	1,931	2,075	7.5	3,251	47.3	75	58	67	52.1	(23.1)	15.2	25.6	33.3	28.9	—	—	—	5.1	4.4	4.0	23.9	14.3	14.5	1.0	1.1	1.2	70.5	
HDFC Standard Life Insurance	SELL	462	405	(12.3)	929	13.5	6	6	7	24.4	14.8	10.9	83.5	72.7	65.6	—	—	—	21.6	19.3	17.2	27.3	28.0	27.7	0.3	0.3	0.4	14.1	
ICICI Lombard	SELL	703	600	(14.7)	319	4.6	19	26	30	22.0	36.4	17.0	37.1	27.2	23.2	—	—	—	7.0	5.9	5.0	20.8	23.7	23.5	0.6	0.9	1.1	1.9	
ICICI Prudential Life	BUY	367	500	36.2	527	7.7	11	12	13	(3.7)	3.8	7.6	32.5	31.3	29.1	—	—	—	8.0	6.7	5.6	25.0	23.2	20.9	1.5	0.5	0.6	12.0	
IIFL Holdings	SELL	662	625	(5.6)	211	3.1	29	34	41	32.4	17.3	21.4	23.2	19.8	16.3	—	—	—	4.2	3.6	3.1	19.0	19.3	20.0	0.9	1.1	1.3	1.6	
L&T Finance Holdings	REDUCE	146	185	26.3	292	4.2	7	10	12	23.7	34.6	24.1	20.0	14.8	11.9	—	—	—	2.3	2.1	1.8	14.2	14.7	16.1	1.2	1.4	1.4	10.1	
LIC Housing Finance	ADD	476	605	27.2	240	3.5	44	50	58	3.2	13.8	17.5	10.9	9.6	8.2	—	—	—	1.8	1.5	1.3	14.5	14.3	14.4	1.4	1.6	1.9	12.4	
Magma Fincorp	BUY	163	200	22.4	44	0.6	10	12	15	1,014.5	24.6	25.8	16.8	13.5	10.7	—	—	—	1.7	1.6	1.4	10.2	12.9	14.1	0.5	1.1	1.4	3.1	
Mahindra & Mahindra Financial	REDUCE	459	475	3.5	284	4.1	15	22	26	105.0	53.5	16.6	31.6	20.6	17.7	—	—	—	3.3	2.9	2.6	11.3	14.0	14.8	0.9	1.3	1.6	11.7	
Max Financial Services	BUY	420	650	54.9	113	1.6	5	6	6	(20.4)	36.9	1.8	91.5	66.9	65.7	—	—	—	—	—	—	6.5	8.3	8.0	—	0.5	0.5	4.8	
Muthoot Finance	ADD	409	480	17.3	164	2.4	43	38	40	45.6	(10.8)	4.0	9.5	10.7	10.3	—	—	—	2.1	1.8	1.6	24.1	18.4	16.9	2.4	2.2	2.2	4.5	
PNB Housing Finance	REDUCE	1,133	1,375	21.4	190	2.8	50	61	77	57.8	23.0	25.3	22.8	18.5	14.8	—	—	—	3.0	2.7	2.4	14.0	15.2	16.8	0.8	0.3	0.3	9.9	
SBI Life Insurance	ADD	665	815	22.5	665	9.7	12	15	18	20.8	26.0	22.9	57.7	45.8	37.2	—	—	—	10.3	8.7	7.3	19.4	20.6	21.3	0.3	0.3	0.4	5.6	
Shriram City Union Finance	ADD	1,962	2,325	18.5	129	1.9	66	101	140	174	19.6	39.4	23.8	19.5	14.0	11.3	—	—	2.5	2.2	1.9	12.5	15.5	16.7	0.9	0.9	1.1	1.0	
Shriram Transport	ADD	1,152	1,400	21.5	261	3.8	69	105	125	24.7	52.1	18.7	16.7	11.0	9.2	—	—	—	2.2	1.9	1.7	13.1	17.6	18.0	1.0	1.3	1.5	24.0	
NBFCs	Neutral				10,331	150				38.0	7.0	19.3	30.0	28.1	23.5				5.1	4.3	3.8	16.8	15.4	16.1	0.7	0.7	0.8	573.8	
Cement																													
ACC	SELL	1,390	1,205	(13.3)	261	3.8	49	54	66	32.7	10.6	23.0	28.5	25.8	21.0	15.1	14.0	11.3	2.8	2.6	2.4	10.1	10.5	11.9	1.2	1.2	1.2	10.5	
Ambuja Cements	REDUCE	207	215	3.6	412	6.0	8	7	9	29.7	(1.3)	27.0	27.6	28.0	22.0	9.1	9.0	7.3	2.0	1.9	1.8	7.4	7.0	8.6	1.7	1.7	1.7	9.0	
Dalmia Bharat	ADD	2,344	2,900	23.7	209	3.0	60	98	128	55.4	62.6	30.3	38.8	23.9	18.3	12.2	9.3	7.5	3.4	3.0	2.6	9.7	13.4	15.2	0.1	0.1	0.1	5.2	
Grasim Industries	BUY	969	1,275	31.6	637	9.3	47	52	69	(30.1)	9.1	32.8	20.4	18.7	14.1	11.8	7.3	6.7	1.1	1.1	1.0	7.0	5.8	7.2	0.6	0.6	0.6	13.7	
India Cements	REDUCE	109	135	23.6	34	0.5	3	5	9	(42.5)	56.2	84.4	33.4	21.4	11.6	9.4	8.1	6.4	0.6	0.6	0.6	2.0	3.0	5.3	0.9	0.9	0.9	6.6	
J K Cement	REDUCE	856	1,000	16.8	60	0.9	43	51	83	25.1	17.0	65.0	19.8	16.9	10.3	10.3	10.9	8.8	3.0	2.6	2.2	16.2	16.7	23.2	0.9	0.9	0.9	0.6	
JK Lakshmi Cement	ADD	317	425	33.9	37	0.5	4	18	33	(35.7)	311.2	79.6	71.0	17.3	9.6	13.3	8.0	5.7	2.6	2.3	1.9	3.7	14.1	21.5	0.6	0.6	0.6	0.5	
Orient Cement	ADD	116	165	42.8	24	0.3	2	8	12	237.8	250.7	64.8	53.5	15.3	9.3	11.8	7.5	5.5	2.3	2.1	1.8	4.4	14.3	20.6	0.6	1.3	1.7	0.2	
Shree Cement	SELL	16,434	12,700	(22.7)	573	8.3	35	397	486	662	3.4	22.3	36.2	41.4	33.8	24.8	22.2	16.8	13.1	6.4	5.5	4.6	16.7	17.6	20.2	0.3	0.3	0.3	4.6
UltraTech Cement	SELL	3,936	3,000	(23.8)	1,081	15.7	89	119	153	(7.0)	33.1	28.9	44.0	33.1	25.7	20.4	16.0	13.4	4.2	3.8	3.3	9.9	12.0	13.7	0.3	0.3	0.3	17.1	
Cement	Cautious				3,327	48				6.1	21.2	33.4	32.0	26.4	19.8	14.3	10.4	8.8	2.4	2.2	2.0	7.5	8.5	10.3	0.6	0.6	0.6	67.8	

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside (%)	Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)		RoE (%)		Dividend yield (%)			ADVT 3mo (US\$ mn)				
		05-Jul-18	(Rs)				2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E					
Consumer products																													
Asian Paints	REDUCE	1,321	1,100	(16.8)	1,267	18.4	959	21	24	28	2.9	18.7	14.7	64.4	54.2	47.3	39.3	33.8	29.4	15.1	13.3	11.9	24.6	26.1	26.6	0.7	0.8	1.0	16.6
Bajaj Corp.	ADD	414	520	25.7	61	0.9	148	14	17	19	(10.5)	18.7	10.5	29.3	24.6	22.3	23.1	19.8	16.9	12.4	12.0	11.4	42.3	49.4	52.4	2.9	3.1	3.4	0.4
Britannia Industries	ADD	6,307	6,000	(4.9)	757	11.0	120	84	104	126	13.5	24.4	21.5	75.4	60.6	49.9	49.9	39.1	32.2	22.2	17.6	14.3	32.9	32.4	31.6	0.4	0.6	0.7	9.1
Coffee Day Enterprises	REDUCE	259	340	31.5	55	0.8	211	3	8	13	49.1	149.7	59.4	77.3	31.0	19.4	13.2	—	—	2.3	2.1	1.9	3.1	7.2	10.4	—	—	—	1.2
Colgate-Palmolive (India)	ADD	1,149	1,300	13.1	313	4.5	272	24	27	32	15.2	14.6	16.9	48.3	42.2	36.1	27.7	24.3	20.8	20.5	20.7	17.5	46.2	48.8	52.6	2.1	1.4	1.7	7.7
Dabur India	REDUCE	377	350	(7.1)	666	9.7	1,762	8	9	10	7.2	16.1	11.7	48.5	41.8	37.4	41.0	35.5	31.1	11.6	11.7	10.2	25.9	27.9	29.1	2.0	1.0	1.2	8.3
GlaxoSmithKline Consumer	ADD	6,407	6,750	5.4	269	3.9	42	166	189	211	6.6	13.3	11.9	38.5	34.0	30.3	26.4	22.7	19.5	7.7	7.0	6.4	21.2	21.7	22.2	1.2	1.4	1.6	2.2
Godrej Consumer Products	REDUCE	1,248	1,020	(18.2)	850	12.4	681	21	25	28	11.5	17.6	13.3	58.4	49.7	43.8	41.4	35.2	30.7	13.6	11.8	10.2	25.2	25.4	24.9	0.6	0.7	0.8	8.8
Hindustan Unilever	REDUCE	1,688	1,430	(15.3)	3,654	53.1	2,160	25	28	32	25.0	14.9	13.0	68.8	59.9	53.0	49.4	41.7	36.6	51.5	46.2	40.4	78.1	81.4	81.3	1.2	1.2	1.4	27.5
ITC	ADD	273	315	15.6	3,325	48.4	12,275	9	10	11	7.8	7.8	12.4	30.6	28.3	25.2	19.9	18.2	16.1	6.5	6.1	5.8	19.4	20.3	22.2	1.9	2.1	2.5	40.3
Jubilant Foodworks	BUY	1,417	1,500	5.9	187	2.7	132	15	24	33	191.7	64.1	39.2	97.3	59.3	42.6	41.6	28.8	21.6	19.3	14.1	10.8	21.7	27.5	28.8	0.1	0.1	0.2	38.2
Jyothy Laboratories	ADD	238	220	(7.4)	86	1.3	364	4	6	6	35.1	25.4	17.2	53.9	43.0	36.7	33.0	27.3	23.6	7.5	6.5	5.7	14.3	16.3	16.6	0.2	0.4	0.6	1.5
Manpasand Beverages	SELL	163	132	—	19	0.3	114	9	11	13	37.6	21.3	26.5	18.7	15.4	12.2	9.7	6.5	5.2	1.5	1.4	1.2	8.3	9.3	10.7	0.3	0.3	0.3	3.3
Marico	ADD	346	345	(0.2)	446	6.5	1,291	6	7	8	7.4	16.7	13.7	55.2	47.3	41.5	38.9	32.7	28.5	17.5	16.2	15.0	33.2	35.7	37.5	1.2	1.4	1.6	8.1
Nestle India	ADD	9,957	9,500	(4.6)	960	14.0	96	127	168	191	21.1	32.5	13.4	78.4	59.2	52.2	43.1	33.5	29.5	28.1	25.8	23.7	36.6	45.5	47.3	0.9	1.1	1.3	8.9
Page Industries	SELL	28,007	18,200	(35.0)	312	4.5	11	311	392	482	32.5	26.1	22.9	90.0	71.4	58.1	57.3	45.3	37.3	36.9	28.8	23.0	45.9	45.3	44.0	0.5	0.6	0.7	7.6
Pidlite Industries	REDUCE	1,063	1,050	(1.2)	540	7.8	508	18	22	26	7.5	20.4	20.4	58.9	48.9	40.6	39.4	32.7	27.0	15.1	12.7	10.6	26.0	28.2	28.5	0.6	0.7	0.8	14.0
S H Kelkar and Company	BUY	220	315	42.9	32	0.5	145	7	8	11	2.1	11.8	28.4	29.8	26.6	20.7	20.7	17.3	13.5	3.7	3.4	3.0	12.8	13.3	15.3	0.8	0.8	0.9	0.3
Tata Global Beverages	REDUCE	271	285	5.1	171	2.5	631	7	10	11	20.7	29.4	19.1	36.9	28.5	24.0	19.5	16.4	14.1	2.4	2.3	2.2	7.0	8.3	9.4	0.9	1.1	1.3	13.8
Titan Company	SELL	838	800	(4.5)	744	10.8	888	13	16	20	43.3	26.7	20.6	65.5	51.7	42.9	44.9	34.2	27.4	14.6	12.3	10.3	24.3	25.8	26.2	0.4	0.5	0.7	36.3
United Breweries	SELL	1,144	1,000	(12.6)	302	4.4	264	15	19	24	71.6	29.7	23.4	76.6	59.1	47.9	33.8	28.1	24.3	11.3	9.7	8.2	15.7	17.6	18.6	0.2	0.3	0.3	9.6
United Spirits	SELL	629	560	(11.0)	457	6.6	727	8	11	14	39.1	40.5	27.4	82.7	58.9	46.2	47.5	35.0	28.9	18.3	12.4	9.2	24.9	25.1	22.8	—	—	0.3	19.2
Varun Beverages	ADD	753	750	(0.4)	137	2.0	183	12	17	22	377.8	45.4	29.8	65.4	44.9	34.6	19.9	16.0	13.7	7.8	6.7	5.7	12.1	16.0	17.7	—	—	0.1	1.2
Consumer products	Cautious				15,612	227					15.0	16.4	15.2	51.6	44.3	38.4	33.6	28.5	24.6	12.6	11.4	10.2	24.5	25.8	26.6	1.1	1.2	1.4	284.2
Energy																													
BPCL	REDUCE	372	390	5.0	806	11.7	1,967	40	39	41	(1.5)	(3.6)	5.3	9.2	9.6	9.1	7.5	7.0	6.5	2.1	1.9	1.7	24.8	21.1	20.0	5.7	4.2	4.4	38.2
Castrol India	ADD	161	215	33.9	159	2.3	989	7	8	9	3.3	13.6	10.9	23.4	20.6	18.5	14.6	12.9	11.6	15.6	14.7	14.4	67.9	73.6	78.6	3.0	3.7	4.4	4.1
GAIL (India)	BUY	346	410	18.5	780	11.3	2,255	20	25	27	21.8	23.2	8.3	16.9	13.8	12.7	10.6	8.8	8.2	1.9	1.8	1.6	11.7	13.5	13.5	2.1	2.5	2.6	20.4
GSPL	SELL	177	170	(4.0)	100	1.5	564	12	11	11	34.5	(7.0)	(4.6)	14.9	16.1	16.8	7.5	6.3	6.2	2.0	1.8	1.6	14.0	11.7	10.2	1.0	0.9	0.9	1.5
HPCL	REDUCE	256	320	24.8	391	5.7	1,524	42	32	33	(3.2)	(23.4)	3.4	6.1	8.0	7.8	5.5	7.2	7.4	1.6	1.5	1.3	28.7	19.3	18.2	6.6	5.1	5.2	31.8
Indraprastha Gas	SELL	255	240	(5.8)	178	2.6	700	10	12	13	19.0	16.5	12.0	24.7	21.2	18.9	15.5	13.4	11.8	5.1	4.4	3.8	22.4	22.2	21.5	0.8	1.0	1.2	10.3
IOCL	REDUCE	155	160	3.2	1,505	21.9	9,479	21	17	18	(24.8)	(17.9)	7.4	7.6	9.2	8.6	4.4	5.1	4.7	1.3	1.2	1.2	18.5	14.0	14.0	7.4	4.3	4.7	27.9
Mahanagar Gas	ADD	812	850	4.7	80	1.2	99	48	52	54	21.5	6.5	5.3	16.8	15.8	15.0	10.2	9.1	8.5	3.8	3.4	3.0	24.3	22.8	21.4	2.3	2.5	2.7	8.5
ONGC	ADD	156	200	27.9	2,007	29.2	12,833	17	21	21	3.1	19.6	(1.3)	9.0	7.5	7.6	4.9	3.8	3.7	0.9	0.8	0.8	9.9	11.5	10.7	4.2	4.5	4.5	17.5
Oil India	SELL	206	220	7.0	233	3.4	1,135	25	24	24	22.6	(1.3)	(0.7)	8.3	8.4	8.5	6.5	5.9	5.9	0.8	0.8	0.8	9.8	9.7	9.2	5.0	5.3	5.3	3.6
Petronet LNG	BUY	219	280	27.7	329	4.8	1,500	14	16	18	22.1	17.3	13.2	15.8	13.5	11.9	10.5	9.0	7.6	3.4	3.0	2.6	23.3	23.4	23.3	2.1	2.6	3.4	11.5
Reliance Industries	REDUCE	965	930	(3.6)	5,708	83.0	5,922	59	68	77	16.9	14.9	13.9	16.3	14.2	12.5	12.6	10.1	8.5	1.9	1.7	1.5	11.6	11.9	12.1	0.6	0.7	0.7	101.3
Energy	Attractive				12,277	179					1.0	5.8	7.3	11.9	11.3	10.5	7.9	7.0	6.4	1.6	1.4	1.3	13.3	12.8	12.6	2.8	2.4	2.5	276.7

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		05-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E		2020E
Industrials																													
ABB	SELL	1,182	1,100	(7.0)	251	3.6	212	20	26	34	12.1	31.2	31.7	59.7	45.5	34.5	32.8	28.0	21.2	6.9	6.4	5.6	12.2	14.6	17.3	0.3	0.8	0.8	1.6
BHEL	SELL	68	81	19.5	249	3.6	3,671	2.2	2.6	5.4	62.7	19.4	106.9	30.8	25.8	12.5	7.1	6.4	3.2	0.8	0.8	0.8	2.5	3.0	6.1	2.7	3.2	6.6	8.9
Carborundum Universal	SELL	319	310	(2.8)	60	0.9	189	11	14	17	22.8	25.4	20.2	28.0	22.3	18.5	15.1	11.2	9.6	3.9	3.5	3.1	14.6	16.4	17.6	0.7	1.3	1.6	0.3
CG Power and Industrial	BUY	58	65	11.7	36	0.5	627	0.8	3.1	4.3	(72.2)	275.7	40.5	71.3	19.0	13.5	10.6	8.0	6.5	1.3	1.4	1.4	1.5	7.3	10.4	—	—	—	5.9
Crompton Greaves Consumer	SELL	229	210	(8.4)	144	2.1	627	5.2	6.2	7.5	13.3	20.0	20.9	44.4	37.0	30.6	27.3	23.0	19.5	18.2	12.6	9.7	49.5	40.5	35.9	0.7	0.9	1.1	3.0
Cummins India	REDUCE	656	680	3.6	182	2.6	277	24	28	32	(7.8)	16.1	13.9	27.1	23.3	20.5	23.8	20.5	16.9	4.6	4.3	4.0	17.4	18.9	20.1	2.3	2.2	2.6	4.6
Havells India	SELL	546	460	(15.7)	341	5.0	625	11	14	17	16.6	26.2	19.6	49.3	39.0	32.6	31.3	24.8	20.3	9.1	8.1	7.0	19.8	21.9	23.0	0.6	0.9	1.1	10.1
Kalpataru Power Transmission	BUY	398	530	33.3	61	0.9	153	19	24	34	36.5	24.3	39.8	20.5	16.5	11.8	8.6	7.1	5.7	2.3	2.0	1.8	11.7	13.1	16.1	0.6	0.6	0.6	0.6
KEC International	BUY	332	430	29.4	85	1.2	257	18	22	29	51.1	22.0	34.4	18.6	15.2	11.3	10.0	8.3	6.6	4.3	3.5	2.8	25.7	25.2	27.1	0.7	0.9	1.2	3.4
L&T	BUY	1,254	1,560	24.4	1,758	25.6	1,401	52	62	76	22.4	19.4	23.0	24.3	20.3	16.5	20.3	16.7	14.8	3.5	3.2	2.9	15.0	16.5	18.2	1.3	1.8	2.2	41.1
Siemens	SELL	972	975	0.3	346	5.0	356	24	30	37	22.5	23.0	23.2	40.2	32.6	26.5	22.7	18.1	14.5	4.2	4.0	3.7	10.9	12.6	14.5	1.0	1.3	1.5	3.5
Thermax	REDUCE	1,028	1,065	3.6	123	1.8	113	21	30	42	(3.6)	44.2	42.8	49.9	34.6	24.2	30.4	21.5	15.3	4.3	3.9	3.5	8.8	11.8	15.3	0.6	0.8	0.9	0.9
Voltas	SELL	517	525	1.5	171	2.5	331	17	19	22	12.6	8.3	15.6	29.9	27.6	23.9	24.8	21.1	17.5	4.4	3.9	3.5	15.9	15.0	15.5	0.8	0.8	1.0	14.5
Industrials	Neutral				3,807	55					19.8	21.6	28.9	29.6	24.4	18.9	19.6	16.2	13.4	3.2	3.0	2.8	10.8	12.3	14.6	1.2	1.5	2.0	98.4
Infrastructure																													
Adani Ports and SEZ	BUY	362	470	29.9	749	10.9	2,071	20	20	23	6.1	(0.2)	14.7	18.1	18.1	15.8	13.0	12.5	11.0	3.6	3.0	2.6	21.5	18.1	17.9	0.6	0.7	0.9	26.2
Ashoka Buildcon	BUY	233	310	33.3	44	0.6	188	13	13	13	34.6	0.5	5.2	18.4	18.3	17.4	14.8	12.5	11.1	2.3	2.0	1.8	13.0	11.4	10.7	0.7	1.1	0.7	1.0
Container Corp.	SELL	636	635	(0.1)	310	4.5	487	18	21	26	7.3	20.0	21.4	36.0	30.0	24.7	23.7	18.5	14.6	3.3	3.1	2.8	9.4	10.6	11.9	2.7	1.4	1.7	8.7
Dilip Buildcon	BUY	655	1,220	86.2	90	1.3	137	46	54	69	76.5	16.1	28.0	14.1	12.1	9.5	8.2	5.9	4.9	3.6	2.8	2.1	29.5	25.9	25.4	—	—	—	8.5
Gateway Distriparks	BUY	170	250	46.9	19	0.3	109	8	8	9	12.1	(1.2)	17.5	22.2	22.5	19.2	21.2	10.5	8.8	1.8	3.6	3.2	8.2	10.8	17.6	4.1	—	1.8	0.8
Gujarat Pipavav Port	BUY	109	170	55.7	53	0.8	483	4.1	5.9	7.2	(20.6)	43.7	22.5	26.6	18.5	15.1	13.0	10.8	8.5	2.6	2.6	2.5	9.8	14.0	16.8	3.1	4.4	5.4	0.8
IRB Infrastructure	BUY	209	330	58.0	73	1.1	351	23	31	33	10.8	36.8	7.1	9.3	6.8	6.3	7.1	6.7	7.2	1.3	1.1	1.0	14.5	17.6	16.3	1.1	1.5	1.9	11.5
Mahindra Logistics	BUY	594	540	(9.2)	42	0.6	71	10	14	18	16.2	42.8	31.2	60.6	42.4	32.3	35.0	23.5	17.8	10.1	8.4	6.9	18.2	21.6	23.5	—	—	—	0.8
Sadbhav Engineering	BUY	276	440	59.2	47	0.7	172	13	18	18	17.4	38.4	2.2	21.5	15.5	15.2	15.0	11.9	9.3	2.5	2.2	2.0	12.5	15.2	13.7	—	—	—	0.8
Infrastructure	Attractive				1,427	21					10.9	10.5	15.5	19.7	17.8	15.4	12.6	11.2	9.8	3.1	2.7	2.4	15.8	15.4	15.5	1.1	0.9	1.2	59.0
Internet																													
Info Edge	BUY	1,230	1,390	13.0	150	2.2	122	23	26	32	33.3	13.9	25.9	54.7	48.0	38.1	45.2	35.6	27.1	7.1	5.7	5.2	13.4	13.2	14.3	0.4	0.6	0.7	1.5
Just Dial	BUY	566	550	(2.9)	38	0.6	67	21	25	28	21.7	16.7	12.9	26.7	22.8	20.2	15.8	13.2	11.0	3.9	3.4	3.0	15.2	15.9	15.6	—	0.4	0.5	45.1
Internet	Cautious				188	3					28.0	14.8	21.4	45.1	39.3	32.4	34.7	28.2	22.3	6.1	5.0	4.5	13.5	12.8	13.9	0.4	0.6	0.6	46.6
Media																													
DB Corp.	REDUCE	256	295	15.2	47	0.7	184	18	20	24	(14.1)	13.2	18.8	14.5	12.8	10.8	7.7	6.8	5.7	2.8	2.7	2.6	19.9	21.5	24.5	5.1	6.2	7.8	0.5
DishTV	ADD	72	84	16.2	133	1.9	1,925	(0.4)	1.7	3.0	(143.0)	482.0	76.2	NM	42.9	24.4	11.8	6.4	5.2	2.1	2.0	1.8	(2.3)	4.7	7.8	—	—	—	10.1
Jagran Prakashan	REDUCE	135	168	24.5	42	0.6	311	10	12	14	(6.0)	21.7	15.3	13.5	11.1	9.6	6.1	5.5	4.8	2.0	2.1	2.0	14.8	18.1	20.9	2.2	3.7	6.7	0.8
PVR	REDUCE	1,377	1,425	3.5	64	0.9	47	27	38	50	25.5	39.8	33.2	51.3	36.7	27.5	17.2	14.2	11.7	6.0	5.2	4.5	12.3	15.2	17.5	0.1	0.3	0.4	6.1
Sun TV Network	REDUCE	771	925	20.0	304	4.4	394	29	35	39	10.2	20.7	10.9	26.8	22.2	20.0	17.9	15.0	13.1	6.6	5.9	5.3	26.3	28.1	27.9	1.3	2.3	2.6	22.3
Zee Entertainment Enterprises	ADD	552	625	13.3	530	7.7	960	15	17	20	7.8	13.8	16.8	36.7	32.3	27.6	23.9	20.6	17.3	7.0	6.2	5.4	20.3	20.3	20.9	0.5	0.8	1.0	14.5
Media	Attractive				1,120	16					(1.5)	30.3	20.1	34.4	26.4	22.0	16.6	12.8	10.9	4.7	4.4	3.9	13.7	16.5	17.9	0.9	1.4	1.8	54.3

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EVEBITDA (X)			P/B (X)		RoE (%)		Dividend yield (%)			ADVT 3mo (US\$ mn)			
		05-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E				
Metals & Mining																													
Coal India	ADD	270	326	20.6	1,678	24.4	6,207	11	27	28	(24.2)	138.2	3.0	23.9	10.0	9.7	17.8	6.4	6.0	6.9	6.4	6.6	26.7	66.1	66.4	6.1	7.4	9.2	13.2
Hindalco Industries	BUY	220	315	43.0	495	7.2	2,229	22	27	31	155.4	23.5	14.3	10.1	8.2	7.1	6.4	5.4	4.7	0.9	0.8	0.7	9.7	10.4	10.8	0.5	0.5	0.5	41.2
Hindustan Zinc	REDUCE	274	325	18.6	1,158	16.8	4,225	22	24	28	9.3	13.6	13.8	12.7	11.2	9.9	7.8	6.4	5.2	3.2	2.7	2.3	27.2	26.4	25.6	2.9	2.9	3.0	9.1
Jindal Steel and Power	REDUCE	212	255	20.4	205	3.0	968	(8)	8	18	59.3	194.2	129.1	(25.0)	26.5	11.6	9.7	6.9	5.9	0.7	0.7	0.6	(2.7)	2.6	5.7	—	—	—	28.4
JSW Steel	ADD	310	345	11.1	750	10.9	2,417	27	27	25	83.9	(0.7)	(5.7)	11.6	11.7	12.4	7.6	7.1	7.6	2.6	2.2	1.9	24.8	20.4	16.5	1.1	1.1	1.1	19.3
National Aluminium Co.	ADD	60	85	42.3	115	1.7	1,933	4	7	7	12.7	63.0	11.1	14.5	8.9	8.0	5.8	3.9	3.5	1.1	1.1	1.1	7.7	12.4	13.6	9.5	9.2	9.2	13.3
NMDC	REDUCE	103	125	21.4	326	4.7	3,164	12	10	10	43.3	(16.5)	3.6	8.8	10.5	10.2	4.8	6.4	6.1	1.3	1.3	1.2	15.8	12.5	12.4	5.3	5.3	5.3	4.0
Tata Steel	ADD	553	700	26.5	634	9.2	1,205	67	69	82	62.6	3.1	18.4	8.2	8	6.7	6.2	6.1	6.2	1.1	1.0	0.9	17.2	13.1	13.9	1.7	1.8	1.8	68.5
Vedanta	BUY	221	415	87.5	823	12.0	3,717	22	37	43	9.6	71.9	16.9	10.2	6.0	5.1	5.6	4.2	3.5	1.3	1.2	1.0	12.9	20.6	21.4	3.6	5.0	5.9	58.5
Metals & Mining	Attractive				6,184	90					32.3	41.4	11.3	13.1	9.2	8.3	7.4	5.8	5.3	1.9	1.7	1.5	14.3	18.0	18.4	3.5	4.0	4.7	255.6
Pharmaceutical																													
Apollo Hospitals	ADD	1,048	1,090	4.0	146	2.1	139	8	19	26	(46.9)	124.3	38.0	124.2	55.4	40.1	22.3	19.1	16.1	4.5	4.2	3.9	3.4	7.9	10.2	0.2	0.5	0.6	6.5
Aurobindo Pharma	ADD	616	640	3.9	361	5.2	584	42	43	46	6.0	2.3	7.9	14.7	14.4	13.4	10.3	9.9	8.9	3.1	2.6	2.2	23.2	19.5	16.6	0.7	0.8	1.0	20.9
Biocon	SELL	628	300	(52.2)	377	5.5	601	6	8	15	(39.2)	27.1	84.9	101.3	79.7	43.1	45.4	33.4	22.0	6.7	6.3	5.6	6.9	8.1	13.7	0.3	0.4	0.8	23.6
Cipla	BUY	627	650	3.7	504	7.3	805	18	26	34	40.2	48.7	30.8	35.8	24.1	18.4	18.6	13.6	10.8	3.5	3.1	2.7	10.2	13.6	15.9	0.6	0.9	1.1	23.9
Dr Lal Pathlabs	REDUCE	920	865	(6.0)	77	1.1	83	20	25	29	7.0	20.8	18.5	45.0	37.2	31.4	27.3	22.9	19.2	9.7	8.1	6.8	23.5	23.7	23.4	0.5	0.5	0.6	1.3
Dr Reddy's Laboratories	REDUCE	2,299	2,250	(2.1)	381	5.5	166	59	100	134	(18.5)	69.8	33.3	38.9	22.9	17.2	18.0	11.4	8.5	3.0	2.7	2.4	7.8	12.5	13.9	1.0	0.7	0.9	29.8
HCG	REDUCE	284	305	7.2	25	0.4	85	2	3	5	(40.0)	120.9	57.3	181.9	82.3	52.3	23.9	18.6	15.9	4.7	4.4	4.1	2.8	5.5	8.1	—	—	—	0.2
Laurus Labs	ADD	482	540	12.0	51	0.7	106	16	22	34	(11.9)	37.3	54.4	30.4	22.2	14.3	14.7	12.0	8.8	3.4	3.0	2.5	11.9	14.4	18.8	—	—	—	0.9
Lupin	REDUCE	923	800	(13.3)	417	6.1	450	38	35	45	(32.9)	(7.7)	28.6	24.2	26.2	20.4	14.8	13.2	10.8	3.0	2.8	2.5	12.6	11.1	12.9	0.5	0.6	0.7	31.4
Narayana Hrudayalaya	ADD	236	275	16.6	48	0.7	204	3	4	7	(38.1)	52.2	76.9	93.8	61.6	34.8	26.0	19.6	14.4	4.7	4.3	3.9	5.1	7.3	11.7	—	—	—	0.4
Sun Pharmaceuticals	REDUCE	567	500	(11.8)	1,360	19.8	2,406	15	17	24	(47.5)	12.0	42.0	37.4	33.4	23.5	22.1	18.1	13.3	3.6	3.3	2.9	9.8	10.2	13.1	0.4	0.6	0.9	51.2
Torrent Pharmaceuticals	NR	1,420	—	—	240	3.5	169	40	46	61	(27.4)	15.1	32.9	35.4	30.8	23.2	19.9	14.2	11.8	5.2	4.6	4.0	15.1	14.9	17.2	1.1	0.7	1.0	5.2
Pharmaceuticals	Neutral				3,988	58					(27.6)	18.9	32.6	33.9	28.5	21.5	18.8	15.1	11.9	3.7	3.3	2.9	10.9	11.7	13.7	0.5	0.6	0.9	195.4
Real Estate																													
Brigade Enterprises	BUY	205	340	66.0	28	0.4	136	11	9	9	(17.7)	(15.1)	(1.6)	18.5	21.8	22.1	11.1	11.3	11.1	1.2	1.2	1.1	7.6	5.5	5.2	1.2	1.2	1.2	0.4
DLF	RS	181	—	—	323	4.7	1,784	19.6	6.5	3.9	403.9	(66.9)	(39.6)	9.2	27.9	46.2	27.8	12.1	12.0	0.9	0.9	0.9	11.7	3.2	1.9	1.1	1.1	1.1	18.0
Godrej Properties	SELL	706	400	(43.3)	162	2.4	216	11.6	16.8	19.2	21.9	43.9	14.9	60.6	42.1	36.7	151.7	108.0	76.7	6.8	5.8	5.0	11.8	14.9	14.7	—	—	—	2.7
Oberoi Realty	REDUCE	458	520	13.6	166	2.4	340	13	66	46	14.0	418.8	(30.8)	36.0	6.9	10.0	27.0	9.9	13.0	2.6	1.9	1.6	7.3	31.2	17.3	0.4	0.4	0.4	3.4
Prestige Estates Projects	ADD	275	315	14.7	103	1.5	375	13	10	10	24.3	(24.2)	8.4	21.9	28.9	26.6	15.0	15.6	15.6	2.2	2.1	1.9	10.3	7.3	7.5	0.5	0.5	0.5	1.0
Sobha	REDUCE	477	510	6.9	45	0.7	95	22	20	23	30.9	(7.5)	14.8	21.8	23.6	20.6	13.2	13.4	12.6	1.6	1.6	1.5	7.6	6.8	7.4	1.5	1.5	1.5	1.9
Sunteck Realty	REDUCE	369	330	(10.6)	54	0.8	140	15	18	20	4.8	20.2	6.9	24.2	20.1	18.8	15.6	17.2	16.0	2.0	1.8	1.7	9.7	9.4	9.2	0.3	0.3	0.3	1.8
Real Estate	Neutral				882	13					140.1	(10.1)	(21.7)	16.9	18.8	24.0	23.6	14.3	14.8	1.6	1.5	1.4	9.3	7.8	5.8	0.7	0.7	0.7	29.2

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		05-Jul-18	(Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E		2020E
Technology																													
HCL Technologies	REDUCE	931	1,010	8.5	1,296	18.8	1,409	62	68	71	5.3	9.0	5.0	14.9	13.7	13.1	10.5	8.8	8.1	3.6	3.0	2.7	24.8	23.8	21.9	0.9	3.1	3.3	32.4
Hexaware Technologies	SELL	446	420	(5.8)	132	1.9	304	16	20	22	19.8	20.5	12.5	27.2	22.5	20.0	19.4	16.3	13.9	6.8	5.9	5.0	26.6	27.8	27.0	0.9	1.8	1.8	11.9
Infosys	ADD	1,284	1,350	5.1	2,804	40.8	2,175	65	70	76	3.0	8.1	9.5	19.9	18.4	16.8	13.7	12.5	11.3	4.3	4.1	3.7	21.8	22.7	23.1	2.2	3.4	3.0	78.1
L&T Infotech	ADD	1,648	1,650	0.1	284	4.1	175	64	73	84	13.9	14.5	15.7	25.9	22.6	19.6	22.6	16.9	14.1	7.5	6.2	5.2	31.8	30.0	29.0	1.0	1.5	1.6	4.4
Mindtree	ADD	999	1,015	1.6	164	2.4	165	35	43	52	37.8	23.2	23.2	28.9	23.5	19.0	21.0	14.7	11.9	6.0	5.1	4.4	21.4	23.6	24.9	1.1	1.3	1.6	30.5
Mphasis	SELL	1,087	760	(30.1)	210	3.1	193	44	52	56	14.4	18.3	8.2	24.8	21.0	19.4	17.9	14.4	12.9	3.8	3.5	3.2	14.6	17.4	17.1	1.8	1.8	1.8	11.5
TCS	REDUCE	1,880	1,650	(12.2)	7,199	104.7	3,829	67	78	84	1.1	15.0	8.8	27.9	24.2	22.3	20.7	17.6	16.0	8.3	7.7	7.1	29.4	32.7	33.1	1.3	2.7	2.9	108.3
Tech Mahindra	ADD	647	775	19.8	571	8.3	891	43	45	53	33.1	6.6	15.8	15.2	14.2	12.3	11.1	8.6	7.0	3.1	2.6	2.3	21.5	19.9	19.7	2.2	1.4	1.6	35.0
Wipro	REDUCE	264	295	11.7	1,195	17.4	4,507	17	19	21	(3.1)	11.1	13.7	15.6	14.0	12.3	9.8	8.3	7.2	2.5	2.1	2.0	16.0	16.3	16.6	0.4	0.6	3.8	11.6
Technology	Cautious				13,855	201					1.6	9.9	9.8	21.6	19.7	17.9	15.7	13.4	12.1	5.1	4.6	4.2	23.7	23.5	23.5	1.4	2.6	2.9	323.6
Telecom																													
Bharti Airtel	ADD	363	470	29.3	1,453	21.1	3,997	5	(4)	0	(42.9)	(187.4)	104.6	76.8	(87.8)	1,923.3	8.1	9.2	7.4	2.1	2.2	2.2	2.8	(2.4)	0.1	1.5	0.3	0.0	36.7
Bharti Infratel	REDUCE	303	285	(6.1)	561	8.2	1,850	14	13	11	(7.4)	(8.7)	(9.0)	22.1	24.2	26.5	8.0	8.8	9.3	3.3	3.5	3.5	15.7	14.0	13.1	4.8	3.3	3.0	15.1
IDEA	REDUCE	55	75	37.6	238	3.5	4,359	(10)	(15)	(14)	(656.8)	(54.9)	6.4	(5.7)	(3.7)	(3.9)	12.3	22.5	16.7	0.9	1.1	1.6	(16.0)	(26.9)	(34.0)	—	—	—	16.9
Tata Communications	ADD	596	725	21.7	170	2.5	285	2	4	8	(84.3)	121.9	117.7	362	163.0	74.9	10.8	9.7	8.5	34.0	27.4	19.8	4.5	18.6	30.7	1.1	1.1	1.3	4.6
Telecom	Cautious				2,421	35					(94.7)	(1,906.6)	36.2	769.8	(42.6)	(66.7)	8.8	10.4	8.6	2.1	2.3	2.5	0.3	(5.5)	(3.7)	2.0	0.9	0.7	73.3
Utilities																													
CESC	ADD	910	1,180	29.6	121	1.8	133	87	102	118	67.1	16.8	15.5	10.4	8.9	7.7	7.6	5.6	4.9	0.8	0.8	0.7	7.9	8.8	9.4	1.4	1.1	1.2	6.1
JSW Energy	REDUCE	68	80	18.1	111	1.6	1,640	3.1	5.9	8.2	(19.2)	92.2	38.7	22.1	11.5	8.3	7.0	5.5	4.5	1.0	1.0	0.9	4.7	8.5	11.0	3.0	3.0	3.0	2.0
NHPC	ADD	23	30	30.2	236	3.4	10,260	2.4	3.1	3.2	(17.3)	26.9	1.8	9.4	7.4	7.3	8.9	7.0	6.8	0.8	0.8	0.7	8.5	10.4	10.2	6.1	7.5	7.6	2.1
NTPC	BUY	152	190	24.9	1,255	18.2	8,245	11	15	16	(7.6)	30.9	4.4	13.4	10.2	9.8	10.9	8.5	7.9	1.2	1.1	1.1	9.5	11.6	11.3	3.7	2.9	3.1	13.4
Power Grid	BUY	182	250	37.6	950	13.8	5,232	16	19	21	9.6	19.3	13.6	11.5	9.7	8.5	8.3	7.1	6.5	1.7	1.6	1.4	15.8	17.1	17.5	2.9	3.4	3.9	30.4
Reliance Power	SELL	31	43	40.1	86	1.3	2,805	3.5	5.1	5.2	(16.4)	45.6	2.7	8.8	6.1	5.9	7.7	6.6	6.4	0.4	0.4	0.3	4.5	6.1	5.9	—	—	—	4.4
Tata Power	ADD	71	97	36.1	193	2.8	2,705	5.3	7.8	8.7	(9.6)	46.1	11.2	13.3	9.1	8.2	10.2	9.4	8.6	1.3	1.1	1.0	10.7	12.9	12.7	—	—	—	5.9
Utilities	Attractive				2,952	43					(2.4)	28.6	9.0	12.2	9.5	8.7	9.2	7.6	7.0	1.2	1.1	1.0	9.7	11.5	11.6	3.2	3.1	3.3	64.2

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		05-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E		
Others																														
Astral Poly Technik	SELL	972	625	(35.7)	116	1.7	120	15	19	23	20.8	28.0	23.0	66.3	51.8	42.1	37.3	28.9	23.5	11.4	9.5	7.8	18.8	20.0	20.3	0.1	0.1	0.1	1.2	
Avenue Supermarts	SELL	1,546	860	(44.4)	965	14.0	624	13	16	20	47.9	28.6	26.4	123.0	95.7	75.7	72.1	55.2	43.3	20.8	17.1	13.9	18.5	19.6	20.3	—	—	—	—	
Bayer Cropscience	REDUCE	4,543	4,000	(12.0)	179	2.6	34	86	105	124	4.4	22.7	17.5	52.9	43.1	36.7	42.8	33.4	26.8	8.8	7.6	6.6	15.4	18.8	19.2	0.4	0.5	0.5	0.5	
Dhanuka Agritech	REDUCE	550	690	25.5	27	0.4	49	26	28	32	7.7	8.9	15.4	21.4	19.6	17.0	15.7	13.5	11.3	4.3	3.7	3.2	21.9	20.1	20.0	1.0	1.1	1.3	0.1	
Godrej Agrovet	ADD	609	650	6.7	117	1.7	189	12	16	20	6.9	39.8	24.6	52.9	37.8	30.4	27.2	21.0	17.0	6.8	5.9	5.0	14.7	16.9	17.9	0.3	0.4	0.5	2.4	
Godrej Industries	RS	606	—	—	204	3.0	336	15	16	20	6.8	8.9	24.2	41.6	38.2	30.7	37.0	31.3	34.1	5.6	5.0	4.4	14.4	13.9	15.1	0.3	0.3	0.3	5.0	
InterGlobe Aviation	BUY	1,076	1,430	32.9	414	6.0	383	59	71	98	27.2	21.8	37.5	18.4	15.1	11.0	10.4	8.5	5.8	5.8	4.3	3.2	41.3	33.0	33.8	0.6	0.7	0.9	26.7	
Kaveri Seed	SELL	552	470	(14.9)	36	0.5	66	32	31	33	18.4	(3.7)	6.1	17.3	17.9	16.9	14.6	15.0	13.5	4.7	4.0	3.5	23.6	24.0	21.9	1.1	1.4	1.8	5.0	
PI Industries	BUY	800	900	12.5	110	1.6	138	27	33	41	(20.0)	25.0	23.2	30.1	24.1	19.5	22.2	17.5	13.9	5.7	4.8	3.9	20.7	21.7	22.1	0.4	0.5	0.6	1.7	
Rallis India	ADD	185	235	26.8	36	0.5	195	9	11	13	(1.5)	26.4	19.7	21.5	17.0	14.2	13.7	11.2	9.5	3.0	2.7	2.4	14.6	16.9	18.1	1.8	2.0	2.2	0.8	
SIS	REDUCE	1,145	1,250	9.1	84	1.2	73	23	36	43	44.0	58.5	20.6	50.8	32.0	26.6	27.2	20.7	17.0	8.1	6.8	5.7	20.2	23.4	23.3	0.3	0.5	0.6	0.6	
SRF	BUY	1,628	2,110	29.6	93	1.4	57	80	92	123	(10.4)	14.4	33.6	20.2	17.7	13.3	12.5	9.9	8.0	2.6	2.3	2.0	13.7	14.0	16.4	0.7	0.8	0.9	9.9	
Tata Chemicals	ADD	693	760	9.6	177	2.6	255	51	46	52	6.5	(11.2)	13.6	13.5	15.2	13.4	7.4	6.4	5.3	1.6	1.5	1.4	13.8	10.0	10.5	3.2	2.2	2.5	9.0	
TeamLease Services	SELL	2,939	1,750	(40.5)	50	0.7	17	43	59	75	28.0	37.4	27.2	68.2	49.6	39.0	71.1	50.4	39.0	11.4	9.3	7.5	18.2	20.6	21.2	—	—	—	2.4	
UPL	ADD	623	850	36.4	317	4.6	507	43	73	82	20.9	71.2	11.9	14.5	8.5	7.6	10.1	8.8	7.4	3.4	2.9	2.4	26.4	23.6	22.4	1.3	1.5	1.7	13.8	
Vardhman Textiles	ADD	1,209	1,400	15.8	69	1.0	56	103	130	140	(8.0)	26.4	7.4	11.7	9.3	8.6	9.9	7.3	6.6	1.4	1.3	1.1	12.7	14.3	13.8	1.2	1.7	2.5	1.0	
Whirlpool	SELL	1,500	1,240	(17.4)	190	2.8	127	28	37	45	13.0	33.9	22.5	54.3	40.5	33.1	32.0	24.6	19.8	10.6	8.8	7.3	21.4	23.7	24.1	0.3	0.4	0.6	1.0	
Others					3,186	46						15.0	15.9	22.8	31.2	26.9	21.9	20.1	16.6	13.5	5.7	4.8	4.1	18.1	17.8	18.6	0.6	0.6	0.7	81.2
KIE universe					106,578	1,549						(6.2)	29.7	25.0	26.4	20.4	16.3	12.3	10.4	9.2	2.9	2.6	2.4	11.0	12.9	14.6	1.3	1.5	1.8	
KIE universe (ex-energy)					94,301	1,371						(8.4)	38.0	29.7	31.4	22.8	17.5	13.9	11.6	10.1	3.3	2.9	2.7	10.4	12.9	15.2	1.2	1.4	1.7	

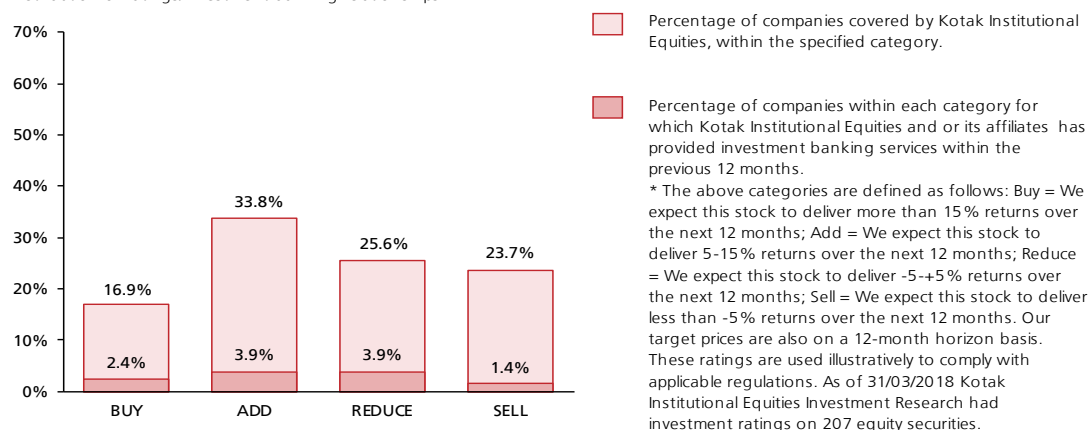
Notes:

- (a) We have used adjusted book values for banking companies.
 (b) 2018 means calendar year 2017, similarly for 2019 and 2020 for these particular companies.
 (c) Exchange rate (Rs/US\$)= 68.78

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2018

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our target prices are also on a 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive, Neutral, Cautious.

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