







- **Other key points.** (1) The company took price increase of 1.5% in the auto segment and 1.2% in tractor segment in 1QFY19 and is contemplating more price increases to offset input cost pressures, (2) farm implements machinery revenues in India increased by 41% yoy to ₹1 bn in 1QFY19, (3) Trakstar brand volumes increased by more than 100% yoy to 1,162 units in FYTD18 so far (April to July 2018 period); this is a separate subsidiary so revenues are not accounted in M&M+MVML financials (although some parts are supplied to the subsidiary which is accounted in M&M+MVML), (4) secondary freight and incentives were netted-off from both revenues and other expenses on this quarter, which impacted revenues by ₹1.14 bn but there was no impact on EBITDA and (5) the company reiterated its capex plus investments guidance to ₹150 bn over the next three years. Of this, ₹100 bn will be towards capital expenditure and ₹50 bn would be towards investments.

**Exhibit 1: 1QFY19 EBITDA was 4% above our estimates due to lower-than-expected other expenses**

Interim results of M&amp;M+MVML, March fiscal year-ends (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	Yoy (%)
					1QFY19E	1QFY18	4QFY18			
Volumes (units)	240,885	240,885	201,501	235,897		19.5	2.1	989,817	866,773	14.2
Net realization (Rs)	559,257	547,920	539,826	559,090	2.1	3.6	0.0	559,296	548,903	1.9
<b>Net sales</b>	<b>134,717</b>	<b>131,986</b>	<b>108,775</b>	<b>131,888</b>	<b>2.1</b>	<b>23.8</b>	<b>2.1</b>	<b>553,601</b>	<b>475,774</b>	<b>16.4</b>
Raw materials	(90,036)	(86,055)	(73,784)	(87,247)	4.6	22.0	3.2	(370,913)	(316,280)	17.3
Staff costs	(8,380)	(8,276)	(7,943)	(7,882)	1.2	5.5	6.3	(35,586)	(31,773)	12.0
Other expenses	(15,201)	(17,313)	(12,707)	(16,808)	(12.2)	19.6	(9.6)	(63,016)	(57,287)	10.0
Total expenses	(112,476)	(111,644)	(94,434)	(111,938)	0.7	19.1	0.5	(469,514)	(405,340)	15.8
<b>EBITDA</b>	<b>21,101</b>	<b>20,342</b>	<b>14,341</b>	<b>19,950</b>	<b>3.7</b>	<b>47.1</b>	<b>5.8</b>	<b>84,087</b>	<b>70,434</b>	<b>19.4</b>
Other income	1,930	1,400	1,283	1,659	37.8	50.4	16.3	10,618	9,518	11.6
Interest expense	(431)	(500)	(509)	(499)	(13.8)	(15.3)	(13.6)	(1,804)	(1,882)	(4.2)
Depreciation expense	(4,295)	(4,400)	(3,820)	(4,390)	(2.4)	12.4	(2.2)	(18,726)	(16,254)	15.2
Extraordinary income/exp	245	—	—	479				—	4,336	
Profit before tax	18,550	16,842	11,296	17,199	10.1	64.2	7.9	74,175	66,152	12.1
Tax expense	(5,978)	(5,474)	(3,778)	(5,650)	9.2	58.2	5.8	(22,994)	(19,920)	15.4
Profit after tax	12,572	11,368	7,518	11,549	10.6	67.2	8.9	51,181	46,232	10.7
<b>Adj PAT</b>	<b>12,572</b>	<b>11,368</b>	<b>7,518</b>	<b>11,214</b>	<b>10.6</b>	<b>67.2</b>	<b>12.1</b>	<b>51,181</b>	<b>43,197</b>	<b>18.5</b>
<b>EPS</b>	<b>11.0</b>	<b>10.0</b>	<b>6.6</b>	<b>9.9</b>	<b>10.6</b>	<b>67.2</b>	<b>12.1</b>	<b>45.0</b>	<b>38.0</b>	
Raw material cost as % of net sales	66.8	65.2	67.8	66.2				67.0	66.5	
Staff cost as % of net sales	6.2	6.3	7.3	6.0				6.4	6.7	
Other expenses as % of net sales	11.3	13.1	11.7	12.7				11.4	12.0	
Gross margin (%)	33.2	34.8	32.2	33.8				33.0	33.5	
<b>EBITDA margin (%)</b>	<b>15.7</b>	<b>15.4</b>	<b>13.2</b>	<b>15.1</b>				<b>15.2</b>	<b>14.8</b>	
Tax rate (%)	32.2	32.5	33.4	32.9				31.0	30.1	
<b>Volumes (units)</b>										
Automotive division	140,101	140,101	116,968	165,262		19.8	(15.2)	624,654	501,610	24.5
Tractors	100,784	100,784	84,533	70,635		19.2	42.7	365,163	365,163	—
<b>Total volumes</b>	<b>240,885</b>	<b>240,885</b>	<b>201,501</b>	<b>235,897</b>		<b>19.5</b>	<b>2.1</b>	<b>989,817</b>	<b>866,773</b>	<b>14.2</b>
<b>Volume mix (%)</b>										
Automotive division	58.2	58.2	58.0	70.1				63.1	57.9	
Tractors	41.8	41.8	42.0	29.9				36.9	42.1	
<b>Total volumes</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>				<b>100.0</b>	<b>100.0</b>	
<b>Segmental break up</b>										
<b>Revenue break up</b>										
Automotive	80,326	77,958	65,515	91,049	3.0	22.6	(11.8)			
Farm Equipment	50,069	49,027	40,316	37,161	2.1	24.2	34.7			
Others (including eliminations)	4,055	5,000	3,945	5,543						
<b>EBIT</b>										
Automotive	7,575	7,172	4,468	9,713	5.6	69.5	(22.0)			
Farm equipment	10,454	10,051	7,420	7,234	4.0	40.9	44.5			
<b>EBIT margin (%)</b>										
Automotive	9.4	9.2	6.8	10.7						
Farm equipment	20.9	20.5	18.4	19.5						
<b>Average selling prices (Rs)</b>										
Automotive	573,341	556,444	560,111	550,934	3.0	2.4	4.1			
Farm equipment	496,793	486,461	476,924	526,095	2.1	4.2	(5.6)			

Source: Company, Kotak Institutional Equities estimates

**Exhibit 2: Tractor industry volume mix (in terms of HP) improved marginally on yoy basis in 1QFY19**

HP-wise domestic tractor sales, March fiscal-year ends, 1QFY16-1QFY19 (units, %)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
<b>HP-wise sales volumes</b>													
Upto 20 hp	7,283	4,888	5,900	4,864	7,048	6,000	5,701	4,807	6,835	7,065	5,997	7,672	8,741
21-30 hp	8,116	6,595	8,884	6,585	8,568	7,239	8,505	6,231	8,191	11,068	9,846	10,941	12,789
31-40 hp	52,992	42,651	51,632	33,306	58,147	50,473	57,023	36,213	67,085	71,831	62,914	52,940	80,367
41-50 hp	65,815	46,157	64,095	50,331	79,992	63,704	81,123	60,442	83,133	83,268	85,387	83,819	106,956
51 hp and above	8,304	6,189	9,394	8,951	9,780	8,512	12,341	10,980	12,079	12,516	13,416	15,475	15,876
<b>Total</b>	<b>142,510</b>	<b>106,480</b>	<b>139,905</b>	<b>104,037</b>	<b>163,535</b>	<b>135,928</b>	<b>164,693</b>	<b>118,673</b>	<b>177,323</b>	<b>185,748</b>	<b>177,560</b>	<b>170,847</b>	<b>224,729</b>
<b>Break-up (%)</b>													
Upto 20 hp	5.1	4.6	4.2	4.7	4.3	4.4	3.5	4.1	3.9	3.8	3.4	4.5	3.9
21-30 hp	5.7	6.2	6.4	6.3	5.2	5.3	5.2	5.3	4.6	6.0	5.5	6.4	5.7
31-40 hp	37.2	40.1	36.9	32.0	35.6	37.1	34.6	30.5	37.8	38.7	35.4	31.0	35.8
41-50 hp	46.2	43.3	45.8	48.4	48.9	46.9	49.3	50.9	46.9	44.8	48.1	49.1	47.6
51 hp and above	5.8	5.8	6.7	8.6	6.0	6.3	7.5	9.3	6.8	6.7	7.6	9.1	7.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 3: M&M's tractor market share was declined by 270 bps yoy but improved by 380 bps qoq**

Player-wise domestic tractor market share, March fiscal year-ends, 1QFY16-1QFY19 (units, %)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
<b>Player-wise sales volumes</b>													
M&M	59,642	42,479	61,115	40,498	72,080	58,115	72,802	46,686	81,578	77,380	77,642	67,419	97,360
TAFE	33,194	25,644	32,334	22,154	36,295	28,939	31,604	22,642	34,458	40,243	33,760	27,807	42,351
Sonalika	17,689	12,520	15,910	12,603	18,725	15,638	20,237	14,690	22,165	21,270	19,770	23,039	25,371
Escorts	14,549	11,293	13,250	11,606	16,190	15,284	16,600	14,625	17,199	19,817	18,418	23,032	23,939
John Deere	7,481	6,309	8,295	8,090	10,887	8,691	13,815	10,787	12,707	15,259	17,267	16,966	18,379
Others	9,955	8,235	9,001	9,086	9,358	9,261	9,635	9,243	9,216	11,779	10,703	12,584	17,329
<b>Total</b>	<b>142,510</b>	<b>106,480</b>	<b>139,905</b>	<b>104,037</b>	<b>163,535</b>	<b>135,928</b>	<b>164,693</b>	<b>118,673</b>	<b>177,323</b>	<b>185,748</b>	<b>177,560</b>	<b>170,847</b>	<b>224,729</b>
<b>Market share (%)</b>													
M&M	41.9	39.9	43.7	38.9	44.1	42.8	44.2	39.3	46.0	41.7	43.7	39.5	43.3
TAFE	23.3	24.1	23.1	21.3	22.2	21.3	19.2	19.1	19.4	21.7	19.0	16.3	18.8
Sonalika	12.4	11.8	11.4	12.1	11.5	11.5	12.3	12.4	12.5	11.5	11.1	13.5	11.3
Escorts	10.2	10.6	9.5	11.2	9.9	11.2	10.1	12.3	9.7	10.7	10.4	13.5	10.7
John Deere	5.2	5.9	5.9	7.8	6.7	6.4	8.4	9.1	7.2	8.2	9.7	9.9	8.2
Others	7.0	7.7	6.4	8.7	5.7	6.8	5.9	7.8	5.2	6.3	6.0	7.4	7.7
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 4: Bolero and XUV500 volumes mix has increased (on yoy basis) in 1QFY19**  
Model-wise volumes of M&M, 1QFY15-1QFY19 (units, %)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
<b>Volumes (units)</b>													
Bolero	22,391	16,105	21,762	21,301	13,903	14,514	19,190	21,721	19,480	21,742	18,835	25,311	22,822
Scorpio	12,645	11,157	12,224	12,061	11,956	11,300	11,906	14,155	12,498	15,035	10,415	15,986	11,455
Xylo	2,044	1,996	1,621	1,613	1,521	1,831	1,396	1,840	1,691	2,131	1,351	2,146	1,465
XUV500	9,216	9,415	9,214	8,475	7,373	7,127	5,397	6,997	5,690	8,594	5,345	5,784	8,482
Quanto/NuvoSport	282	96	13	1,424	1,145	696	375	201	137	71	42	4	1
Rexton	110	52	28	38	21	13	83	4	3	1	18	64	6
TUV300		4,313	10,811	9,065	5,552	7,309	6,183	7,197	6,450	7,360	6,717	8,491	5,803
KUV100			1,154	13,056	13,086	8,268	5,751	8,593	5,579	4,263	7,471	8,229	4,509
Jeeps, Hard Tops	5,818	4,157	4,377	4,881	1,350	1,229	1,491	1,865	1,554	2,319	1,318	1,790	1,471
<b>Domestic utility vehicles</b>	<b>52,506</b>	<b>47,291</b>	<b>61,204</b>	<b>71,914</b>	<b>55,907</b>	<b>52,287</b>	<b>51,772</b>	<b>62,573</b>	<b>53,082</b>	<b>61,516</b>	<b>51,512</b>	<b>67,805</b>	<b>56,014</b>
<b>Volume mix (%)</b>													
Bolero	42.6	34.1	35.6	29.6	24.9	27.8	37.1	34.7	36.7	35.3	36.6	37.3	40.7
Scorpio	24.1	23.6	20.0	16.8	21.4	21.6	23.0	22.6	23.5	24.4	20.2	23.6	20.5
Xylo	3.9	4.2	2.6	2.2	2.7	3.5	2.7	2.9	3.2	3.5	2.6	3.2	2.6
XUV500	17.6	19.9	15.1	11.8	13.2	13.6	10.4	11.2	10.7	14.0	10.4	8.5	15.1
Quanto/NuvoSport	0.5	0.2	0.0	2.0	2.0	1.3	0.7	0.3	0.3	0.1	0.1	0.0	0.0
Rexton	0.2	0.1	0.0	0.1	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.1	0.0
TUV300			17.7	12.6	9.9	14.0	11.9	11.5	12.2	12.0	13.0	12.5	10.4
KUV100			1.9	18.2	23.4	15.8	11.1	13.7	10.5	6.9	14.5	12.1	8.0
Jeeps, Hard Tops	11.1	8.8	7.2	6.8	2.4	2.4	2.9	3.0	2.9	3.8	2.6	2.6	2.6
<b>Domestic utility vehicles</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 5: We expect 14% yoy growth in overall volumes in FY2019E; expect double-digit growth in both auto and tractor segments**  
Volume assumptions, March fiscal year-ends, 2012-21E (units)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Volumes (units)</b>										
Bolero	104,064	117,665	107,178	100,553	81,559	69,328	85,368	98,173	103,082	103,082
Scorpio	50,985	50,168	50,950	51,553	48,087	49,317	53,934	56,631	59,462	59,462
Xylo	27,691	25,067	13,970	8,472	7,274	6,588	7,319	7,319	7,319	7,319
XUV500	13,819	45,418	30,007	34,418	36,320	26,894	25,413	26,684	28,018	28,018
Quanto/Nuvo Sport	—	16,434	7,415	1,939	1,815	2,417	254	—	—	—
Rexton	—	1,783	1,843	1,010	228	121	86	100	100	100
Jeeps, Hard Tops	5,602	7,199	8,058	8,804	6,525	5,935	6,981	7,330	7,697	8,081
TUV300					24,189	26,241	29,018	30,469	31,992	31,992
KUV100 Petrol					6,395	17,000	14,000	14,700	15,435	16,670
KUV100 Diesel					7,816	18,698	11,413	11,984	12,583	11,325
Verito	17,895	15,348	9,734	3,184	3,393	3,219	725	725	725	725
U321	—	—	—	—	—	—	—	12,000	18,000	18,900
S201	—	—	—	—	—	—	—	6,000	30,000	31,500
Exports	29,176	32,457	29,660	30,196	36,033	37,241	28,247	31,072	34,179	37,597
<b>Passenger vehicles</b>	<b>249,232</b>	<b>311,539</b>	<b>258,815</b>	<b>240,129</b>	<b>259,633</b>	<b>262,999</b>	<b>262,758</b>	<b>303,186</b>	<b>348,592</b>	<b>354,771</b>
Yoy growth (%)		25.0	(16.9)	(7.2)	8.1	1.3	(0.1)	15.4	15.0	1.8
MTBL	13,818	11,902	8,161	8,915	12,130	14,340	17,229	18,952	22,742	21,605
Pick ups	73,134	102,885	123,715	129,800	140,219	150,382	181,380	208,587	229,446	229,446
Maxximo and Gio	79,539	71,348	53,872	29,157	27,141	26,598	33,248	36,572	40,230	40,230
3 wheelers	67,440	65,510	62,614	56,764	54,975	52,306	54,625	57,356	60,224	60,224
Tractors	235,452	223,885	267,634	234,025	213,591	262,992	317,533	365,163	394,376	414,095
<b>Total volumes</b>	<b>718,615</b>	<b>787,069</b>	<b>774,811</b>	<b>698,790</b>	<b>707,689</b>	<b>769,617</b>	<b>866,773</b>	<b>989,817</b>	<b>1,095,610</b>	<b>1,120,371</b>
Yoy growth (%)		9.5	(1.6)	(9.8)	1.3	8.8	12.6	14.2	10.7	2.3

Source: Company, Kotak Institutional Equities estimates

**Exhibit 6: We value M&M at ₹1,085/share**

SoTP, March fiscal year-ends (units)

	EPS (Rs/share)	Multiple (X)	Value per share (Rs)	Comment
M&M standalone + MVML	47.6	16.0	761	Based on 16X June 2020 less dividend income from subs
<b>Subsidiaries</b>			<b>324</b>	
Tech Mahindra			141	Based on KIE target price of Rs785/share
Mahindra Holidays			14	Based on current market price
M&M Financial Services Ltd			102	Based on KIE target price of Rs500/share
Mahindra Lifespace Developers Ltd			7	Based on current market price
Mahindra CIE Automotive Limited			13	Based on KIE target price of Rs 290/share
Mahindra Logistics			17	Based on KIE target price of Rs 575/share
Ssangyong Motors			30	Based on 6X CY2018E EBITDA
<b>SoTP-based value</b>			<b>1,085</b>	

Source: Company, Kotak Institutional Equities estimates

**Exhibit 7: We have increased our FY2019-21E EPS estimates by 1-2% on higher tractor volume assumptions**

Earnings revision table, March fiscal year-ends, 2019-21E (₹ mn, %)

	New estimates			Old estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
<b>M&amp;M+MVML</b>									
Volumes (units)	989,817	1,095,610	1,120,371	980,291	1,085,322	1,109,568	1.0	0.9	1.0
Net sales	553,601	630,400	679,902	548,765	625,072	674,197	0.9	0.9	0.8
EBITDA	84,087	95,708	98,861	82,370	93,781	97,578	2.1	2.1	1.3
EBITDA margin (%)	15.2	15.2	14.5	15.0	15.0	14.5			
Profit after tax	51,181	58,553	60,384	49,942	57,333	59,608	2.5	2.1	1.3
EPS FD	45.0	51.5	53.1	43.9	50.4	52.4	2.5	2.1	1.3
EPS FD (ex subs dividends)	40.9	47.2	48.6	40.0	46.4	48.1	2.3	1.8	1.1

Source: Kotak Institutional Equities estimates

**Exhibit 8: We expect M&M's EPS to grow by 12% CAGR over FY2018-21E**  
M&M+MVML profit model, balance sheet and cash flow, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Volumes	718,615	787,069	774,811	698,790	707,689	769,617	866,773	989,817	1,095,610	1,120,371
Avg realization	436,689	487,335	500,988	529,025	549,505	537,643	548,903	559,296	575,387	606,855
<b>Net sales</b>	<b>313,811</b>	<b>383,566</b>	<b>388,171</b>	<b>369,677</b>	<b>388,879</b>	<b>413,779</b>	<b>475,774</b>	<b>553,601</b>	<b>630,400</b>	<b>679,902</b>
Raw materials	223,947	273,971	269,199	257,269	265,013	280,192	316,280	370,913	422,368	458,934
Staff costs	17,946	19,977	23,108	24,936	25,720	29,920	31,773	35,586	39,856	43,842
Other expenses	30,306	36,326	43,383	41,440	45,683	49,625	57,287	63,016	72,468	78,265
Total expenses	272,199	330,274	335,690	323,645	336,416	359,737	405,340	469,514	534,692	581,041
<b>EBITDA</b>	<b>41,613</b>	<b>53,292</b>	<b>52,481</b>	<b>46,033</b>	<b>52,463</b>	<b>54,042</b>	<b>70,434</b>	<b>84,087</b>	<b>95,708</b>	<b>98,861</b>
Other income	4,735	5,697	6,648	8,201	7,845	12,064	9,518	10,618	12,318	14,218
Interest expense	2,874	2,964	3,611	3,039	2,653	2,426	1,882	1,804	2,041	2,041
Depreciation	6,699	8,178	9,760	10,980	12,047	16,745	16,254	18,726	21,125	23,525
Extraordinary income	1,083	906	528	3,357	60	5,485	4,336	—	—	—
Profit before tax	37,858	48,753	46,286	43,572	45,667	52,420	66,152	74,175	84,859	87,513
Tax expenses	7,887	12,410	7,235	9,339	12,230	13,181	19,920	22,994	26,306	27,129
<b>Profit after tax</b>	<b>29,970</b>	<b>36,343</b>	<b>39,051</b>	<b>34,233</b>	<b>33,438</b>	<b>39,239</b>	<b>46,232</b>	<b>51,181</b>	<b>58,553</b>	<b>60,384</b>
<b>Adj profit after tax</b>	<b>28,888</b>	<b>35,437</b>	<b>38,523</b>	<b>30,876</b>	<b>33,394</b>	<b>35,400</b>	<b>43,197</b>	<b>51,181</b>	<b>58,553</b>	<b>60,384</b>
EPS FD	25.4	31.1	33.9	27.1	29.3	31.1	38.0	45.0	51.5	53.1
EPS FD ex subs dividends	24.5	30.2	31.9	24.1	26.3	26.5	33.9	40.9	47.2	48.6
<b>Ratios (%)</b>										
EBITDA margin (%)	13.3	13.9	13.5	12.5	13.5	13.1	14.8	15.2	15.2	14.5
Gross margin (%)	28.6	28.6	30.6	30.4	31.9	32.3	33.5	33.0	33.0	32.5
Raw material cost as % of sales	71.4	71.4	69.4	69.6	68.1	67.7	66.5	67.0	67.0	67.5
Staff cost as % of sales	5.7	5.2	6.0	6.7	6.6	7.2	6.7	6.4	6.3	6.4
Other expenses as % of sales	9.7	9.5	11.2	11.2	11.7	12.0	12.0	11.4	11.5	11.5
Effective tax rate (%)	20.8	25.5	15.6	21.4	26.8	25.1	30.1	31.0	31.0	31.0

Source: Company, Kotak Institutional Equities estimates





### Summary of 1QFY19 results – healthy but no fireworks; a tad soft on margins

For 1QFY19, BRIT reported consolidated revenue, EBITDA and recurring PAT of ₹25.3 bn (+14% yoy, 2% below estimate), ₹3.9 bn (+19%, 6% below) and ₹2.58 bn (+20%, 5% below), respectively. Domestic core business volume growth of 12.5% was marginally below our expected 13% and translates into a 2-year CAGR of just above 5%. Management's commentary in the analyst meet suggested confidence in growth acceleration from these levels in the coming quarters. The confidence stems from the buoyant consumption demand environment as well as the continued success the company has seen in the Hindi belt as well as its LUP packs. 2-year CAGRs of revenues, gross profit, EBITDA and recurring PAT stood at 10%, 9%, 11%, 9%, respectively.

Consolidated EBITDA margins for the quarter stood at 15.4%, +64 bps yoy but 67 bps below our estimate. Gross margin expansion was a healthy 128 bps; flow through was, however, mitigated by sharper-than-expected increases in staff costs and other expenses. Standalone business saw revenue and EBITDA growth of 15% and 18% yoy, respectively. Aggregate subsidiary performance (revenues down 5%, EBITDA up 38% yoy) reflected the company's focus on profitability.

### Other key takeaways from the analyst meet

- ▶ The company is unveiling a new brand identity in the form of a new logo and new packaging across products to mark its centenary celebration. 'Excitement' and 'Goodness' would be the two key attributes the brand and products would stand for. The company intends to be aggressive ('dominate TV media like never before') for the new months while maintaining that this spend would not be detrimental to margins (adspend budget reallocation).
- ▶ The company indicated a 900 bps relative market share swing versus Parle – from being 600 bps lower to now 300 bps higher – in the biscuits category in the past five years. Impactful product innovation and distribution expansion have been the key drivers, per the company. There is more scope on both these fronts.
- ▶ Direct distribution has expanded to 1.9 mn outlets (of a total reach of 5 mn) from 0.73 mn at end-March 2014.
- ▶ Share in the Hindi belt, despite solid growth in the past few years, is still in the teens. The company indicated that the four states defined as part of this belt (Rajasthan, MP, UP, Gujarat) contribute 18% of BRIT's biscuits sales while being nearly 40% for the industry. 1QFY19 saw these states grow in the 22-37% yoy range.
- ▶ Full-fledged (with complete backward integration) dairy foray is still around 18 months away.
- ▶ New category selection is done on the following criteria – (1) should be a macro snacking opportunity, (2) should fit well with what Britannia does, (3) the product should have a high shelf life, and (4) product should lend itself to affordable pricing and mass distribution.
- ▶ The company expects the Croissant JV to deliver revenues of ₹2-2.5 bn in three years from launch. New launches are all likely to be gross margin accretive. Base bakery business would continue to account for a bulk of incremental capital allocation.
- ▶ On the international business, the company reiterated its plans to (1) accelerate exports using the expanded capacity in its new export-oriented Mundra SEZ factory and (2) set up local manufacturing presence in a new market every year. South East Asia and North/Central Africa remain the focus geographies.

Exhibit 1: Key changes to consolidated estimates (Ind-AS), Britannia, March fiscal year-ends, 2019-21E

	Revised			Earlier			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Net operating revenues (Rs mn)	112,992	130,516	149,840	114,243	131,956	151,489	(1.1)	(1.1)	(1.1)
EBITDA (Rs mn)	18,696	22,660	26,755	18,974	22,822	26,750	(1.5)	(0.7)	0.0
EBITDA margin (%)	16.5	17.4	17.9	16.6	17.3	17.7	-7 bps	6 bps	19 bps
Net income (Rs mn)	12,502	15,282	18,220	12,494	15,177	17,989	0.1	0.7	1.3
<b>EPS (Rs/share)</b>	<b>104.1</b>	<b>127.3</b>	<b>151.8</b>	<b>104.1</b>	<b>126.4</b>	<b>149.8</b>	<b>0.1</b>	<b>0.7</b>	<b>1.3</b>
<b>Other assumptions</b>									
Gross margin (%)	39.2	40.0	40.4	38.7	39.4	39.8			
Volume growth - Biscuits (%)	10.5	10.5	10.0	11.5	10.5	10.0	-100 bps	0 bps	0 bps
Realisation growth - Biscuits (%)	2.3	5.0	4.8	2.5	5.0	4.8	-25 bps	0 bps	0 bps

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Interim consolidated results of Britannia (as per Ind-AS), March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	(% chg.)	1QFY17	2-yr CAGR (%)
					KIE Est	yoy	qoq					
Net sales	25,272	25,868	22,248	25,099	(2)	14	1	111,746	98,295	14	21,063	10
Other operating income	166	154	389	277	8	(57)	(40)	1,246	845	48	345	
<b>Net operating income</b>	<b>25,438</b>	<b>26,022</b>	<b>22,637</b>	<b>25,375</b>	<b>(2)</b>	<b>12</b>	<b>0</b>	<b>112,992</b>	<b>99,140</b>	<b>14</b>	<b>21,408</b>	<b>9</b>
Material cost	(15,263)	(16,042)	(13,873)	(15,613)	(5)	10	(2)	(68,671)	(61,071)	12	(12,879)	
<b>Gross profit</b>	<b>10,175</b>	<b>9,980</b>	<b>8,764</b>	<b>9,762</b>	<b>2</b>	<b>16</b>	<b>4</b>	<b>44,322</b>	<b>38,069</b>	<b>16</b>	<b>8,529</b>	<b>9</b>
Gross margin (%)	40.0	38.4	38.7	38.5	164 bps	128 bps	152 bps	39.2	38.4	82 bps	39.8	
Employee cost	(1,086)	(1,034)	(926)	(1,084)	5	17	0	(4,561)	(4,016)	14	(868)	12
Other expenditure	(5,195)	(4,788)	(4,553)	(4,707)	9	14	10	(21,065)	(19,036)	11	(4,499)	7
<b>Total expenditure</b>	<b>(21,545)</b>	<b>(21,864)</b>	<b>(19,352)</b>	<b>(21,404)</b>	<b>(1)</b>	<b>11</b>	<b>1</b>	<b>(94,297)</b>	<b>(84,123)</b>	<b>12</b>	<b>(18,246)</b>	
<b>EBITDA</b>	<b>3,894</b>	<b>4,157</b>	<b>3,285</b>	<b>3,971</b>	<b>(6)</b>	<b>19</b>	<b>(2)</b>	<b>18,696</b>	<b>15,017</b>	<b>25</b>	<b>3,162</b>	<b>11</b>
<b>OPM (%)</b>	<b>15.4</b>	<b>16.1</b>	<b>14.8</b>	<b>15.8</b>	<b>-67 bps</b>	<b>64 bps</b>	<b>-42 bps</b>	<b>16.7</b>	<b>15.3</b>	<b>145 bps</b>	<b>15.0</b>	
Other income	420	399	352	444	5	19	(5)	1,882	1,664	13	394	
Interest	(24)	(23)	(13)	(24)	6	92	3	(88)	(76)	16	(15)	
Depreciation	(356)	(435)	(332)	(424)	(18)	7	(16)	(1,550)	(1,421)	9	(279)	
<b>Pretax profits</b>	<b>3,933</b>	<b>4,098</b>	<b>3,293</b>	<b>3,968</b>	<b>(4)</b>	<b>19</b>	<b>(1)</b>	<b>18,939</b>	<b>15,184</b>	<b>25</b>	<b>3,263</b>	<b>10</b>
Tax	(1,352)	(1,400)	(1,133)	(1,330)	(3)	19	2	(6,438)	(5,142)	25	(1,071)	
<b>PAT</b>	<b>2,581</b>	<b>2,698</b>	<b>2,160</b>	<b>2,638</b>	<b>(4)</b>	<b>20</b>	<b>(2)</b>	<b>12,501</b>	<b>10,041</b>	<b>24</b>	<b>2,192</b>	<b>9</b>
Minority interest/share of associates	1	0	0	(2)				1	1		(0)	
<b>Recurring PAT</b>	<b>2,582</b>	<b>2,698</b>	<b>2,160</b>	<b>2,636</b>	<b>(4)</b>	<b>20</b>	<b>(2)</b>	<b>12,502</b>	<b>10,042</b>	<b>24</b>	<b>2,191</b>	<b>9</b>
Extraordinary items	—	—	—	—				—	—		—	
<b>Net profit (reported)</b>	<b>2,582</b>	<b>2,698</b>	<b>2,160</b>	<b>2,636</b>	<b>(4)</b>	<b>20</b>	<b>(2)</b>	<b>12,502</b>	<b>10,042</b>	<b>24</b>	<b>2,191</b>	<b>9</b>
<b>Recurring EPS (Rs)</b>	<b>21.5</b>	<b>22.5</b>	<b>18.0</b>	<b>22.0</b>	<b>(4)</b>	<b>20</b>	<b>(2)</b>	<b>104.2</b>	<b>83.7</b>	<b>24</b>	<b>18.3</b>	<b>9</b>
Income tax rate (%)	34.4	34.2	34.4	33.5	20 bps	-4 bps	84 bps	34.0	33.9	12 bps	32.8	
<b>Costs as a percentage of sales</b>												
Material cost	60.0	61.6	61.3	61.5	-165 bps	-129 bps	-153 bps	60.8	61.6	-83 bps	60.2	
Employee cost	4.3	4.0	4.1	4.3	29 bps	17 bps	-1 bps	4.0	4.1	-2 bps	4.1	
Other expenditure	20.4	18.4	20.1	18.6	202 bps	31 bps	187 bps	18.6	19.2	-56 bps	21.0	

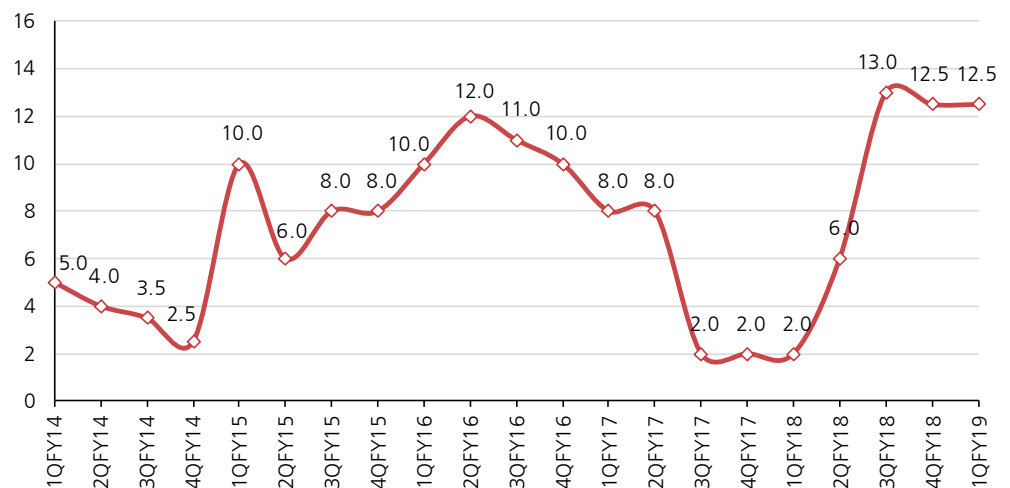
Source: Company, Kotak Institutional Equities

Exhibit 3: Interim standalone results of Britannia (as per Ind-AS), March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	(% chg.)	1QFY17	2-yr CAGR (%)
					KIE Est	yoy	qoq					
Net sales	23,869	24,303	20,772	23,570	(2)	15	1	105,210	92,059	14	19,494	11
Other operating income	198	194	422	313	2	(53)	(37)	1,396	981	42	356	
Net operating income	24,067	24,497	21,193	23,884	(2)	14	1	106,606	93,041	15	19,849	10
Material cost	(14,646)	(15,188)	(13,010)	(14,900)	(4)	13	(2)	(65,568)	(57,735)	14	(11,957)	
Gross profit	9,421	9,309	8,183	8,983	1	15	5	41,038	35,306	16	7,892	9
Gross margin (%)	39.1	38.0	38.6	37.6	114 bps	53 bps	153 bps	38.5	37.9	54 bps	39.8	
Employee cost	(801)	(740)	(655)	(813)	8	22	(2)	(3,411)	(2,949)	16	(590)	16
Other expenditure	(4,944)	(4,620)	(4,400)	(4,472)	7	12	11	(20,143)	(18,253)	10	(4,317)	7
Total expenditure	(20,390)	(20,548)	(18,065)	(20,185)	(1)	13	1	(89,122)	(78,936)	13	(16,864)	
EBITDA	3,677	3,949	3,128	3,699	(7)	18	(1)	17,484	14,105	24	2,985	11
OPM (%)	15.3	16.1	14.8	15.5	-85 bps	51 bps	-21 bps	16.4	15.2	124 bps	15.0	
Other income	385	384	340	400	0	13	(4)	1,747	1,559	12	376	
Interest	(5)	(4)	(3)	(3)	18	47	52	(15)	(15)	—	(3)	
Depreciation	(304)	(375)	(278)	(363)	(19)	9	(16)	(1,317)	(1,198)	10	(218)	
Pretax profits	3,754	3,954	3,187	3,733	(5)	18	1	17,900	14,452	24	3,141	9
Tax	(1,292)	(1,364)	(1,100)	(1,286)	(5)	17	0	(6,157)	(4,973)	24	(1,037)	
PAT	2,462	2,590	2,087	2,447	(5)	18	1	11,742	9,479	24	2,104	8
Extraordinary items	—	—	—	—	—	—	—	—	—	—	—	
Net profit (reported)	2,462	2,590	2,087	2,447	(5)	18	1	11,742	9,479	24	2,104	8
Recurring EPS (Rs)	20.5	21.6	17.4	20.4	(5)	18	1	97.9	79.0	24	17.5	8
Income tax rate (%)	34.4	34.5	34.5	34.4	-10 bps	-11 bps	-4 bps	34.4	34.4	-2 bps	33.0	
Costs as a percentage of sales												
Material cost	60.9	62.0	61.4	62.4	-115 bps	-54 bps	-154 bps	61.5	62.1	-55 bps	60.2	
Employee cost	3.3	3.0	3.1	3.4	30 bps	23 bps	-8 bps	3.2	3.2	3 bps	3.0	
Other expenditure	20.5	18.9	20.8	18.7	168 bps	-23 bps	181 bps	18.9	19.6	-73 bps	21.7	

Source: Company, Kotak Institutional Equities

Exhibit 4: BRIT delivered ~12.5% volume growth, a tad below our estimates



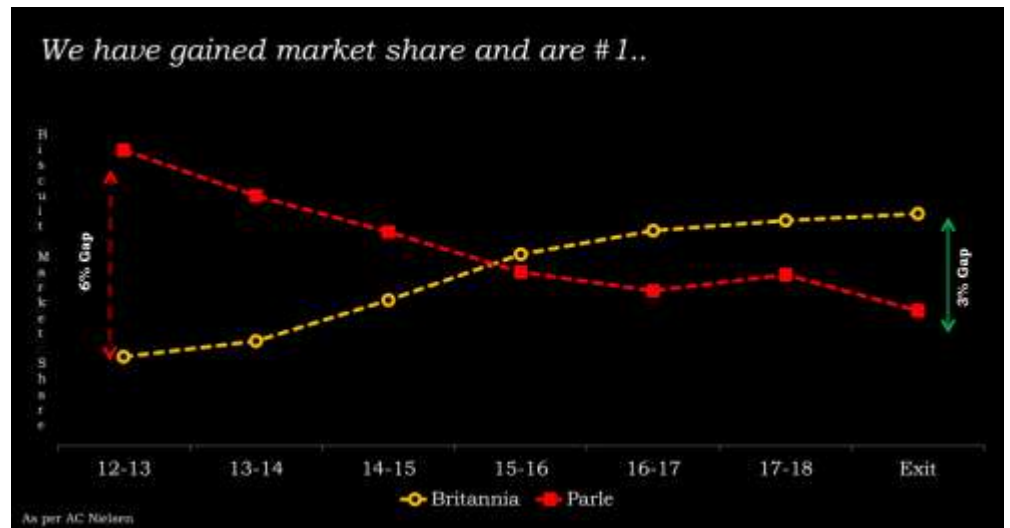
Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Britannia: Consolidated P&L, balance sheet, and cash flow statement (as per Ind-AS), 2016-2021E, March fiscal year-ends (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
<b>Profit model (Rs mn)</b>						
Net sales	83,254	89,623	98,295	111,746	129,071	148,178
Other operating income	718	918	845	1,246	1,445	1,662
<b>Net operating income</b>	<b>83,972</b>	<b>90,541</b>	<b>99,140</b>	<b>112,992</b>	<b>130,516</b>	<b>149,840</b>
EBITDA	12,144	12,782	15,017	18,696	22,660	26,755
Other income	1,244	1,505	1,664	1,882	2,387	2,978
Interest	(49)	(55)	(76)	(88)	(80)	(73)
Depreciation	(1,134)	(1,193)	(1,421)	(1,550)	(1,756)	(1,986)
<b>Pretax profits</b>	<b>12,205</b>	<b>13,040</b>	<b>15,184</b>	<b>18,939</b>	<b>23,210</b>	<b>27,674</b>
Tax	(3,961)	(4,197)	(5,142)	(6,438)	(7,929)	(9,454)
Minority Interest/share of net loss of associated	2	1	1	1	1	1
Extraordinary items	—	—	—	—	—	—
<b>Net income</b>	<b>8,245</b>	<b>8,845</b>	<b>10,042</b>	<b>12,502</b>	<b>15,282</b>	<b>18,220</b>
<b>Recurring net income</b>	<b>8,245</b>	<b>8,845</b>	<b>10,042</b>	<b>12,502</b>	<b>15,282</b>	<b>18,220</b>
<b>Earnings per share (Rs)</b>	<b>68.7</b>	<b>73.7</b>	<b>83.7</b>	<b>104.1</b>	<b>127.3</b>	<b>151.8</b>
<b>Balance sheet (Rs mn)</b>						
Total shareholder's equity	20,917	26,964	34,062	42,952	53,177	64,895
Total borrowings	1,238	1,157	1,782	1,632	1,482	1,332
Deferred tax liability	(444)	(231)	(226)	(226)	(226)	(226)
Minority interest	25	26	131	131	130	129
<b>Total liabilities and equity</b>	<b>21,736</b>	<b>27,916</b>	<b>35,750</b>	<b>44,489</b>	<b>54,563</b>	<b>66,130</b>
Net fixed assets	9,244	10,470	14,052	15,939	17,853	19,198
Goodwill	1,159	1,278	1,282	1,282	1,282	1,282
Investments	7,884	5,021	10,943	10,943	10,943	10,943
Cash	877	1,208	1,864	8,063	14,940	23,741
Net Current assets	2,572	9,940	7,609	8,263	9,545	10,966
<b>Total assets</b>	<b>21,736</b>	<b>27,916</b>	<b>35,750</b>	<b>44,489</b>	<b>54,563</b>	<b>66,130</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow, excl. working capital	8,263	8,926	10,205	12,947	15,468	18,097
Working capital	1,329	(4,514)	2,283	(654)	(1,282)	(1,421)
Capital expenditure	(2,494)	(3,663)	(4,212)	(3,437)	(3,671)	(3,332)
<b>Free cash flow</b>	<b>7,098</b>	<b>750</b>	<b>8,276</b>	<b>8,856</b>	<b>10,515</b>	<b>13,344</b>
<b>Growth</b>						
Revenue growth	6.9	7.8	9.5	14.0	15.5	14.8
EBITDA growth	40.6	5.3	17.5	24.5	21.2	18.1
EPS growth	52.0	7.3	13.5	24.5	22.2	19.2
<b>Ratios (%)</b>						
Gross margin (%)	40.3	38.3	38.4	39.2	40.0	40.4
EBITDA margin (%)	14.5	14.1	15.1	16.5	17.4	17.9
Net profit margin (%)	9.8	9.8	10.1	11.1	11.7	12.2
ROE (%)	49.4	36.9	32.9	32.5	31.8	30.9
ROCE (%)	61.2	46.1	42.3	42.3	41.8	40.7
<b>Key assumptions (%)</b>						
Biscuits Volume growth (%)	11.0	5.0	7.0	10.5	10.5	10.0
Biscuits Realisation growth (%)	(0.1)	5.0	0.6	2.3	5.0	4.8

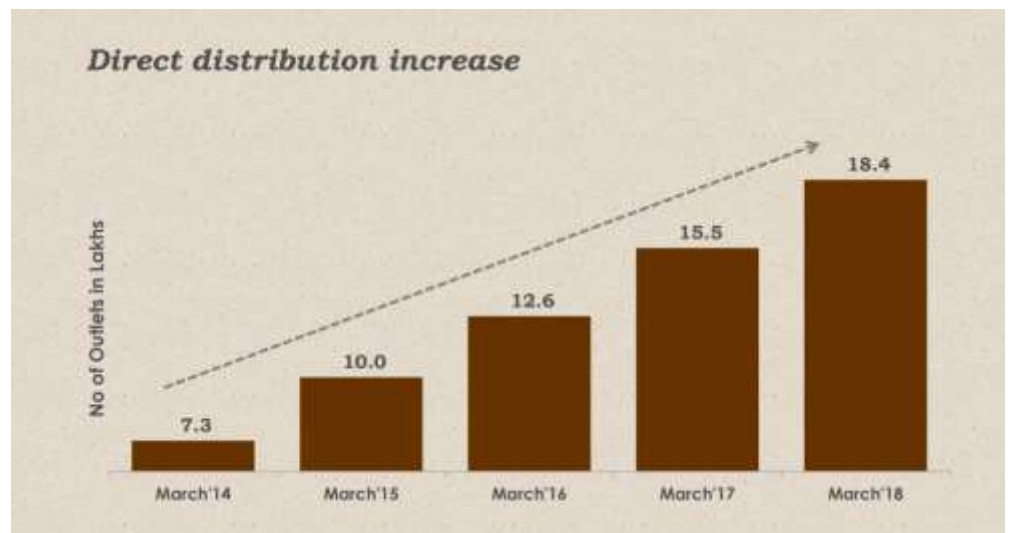
Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Britannia now has the largest market share in the biscuits category



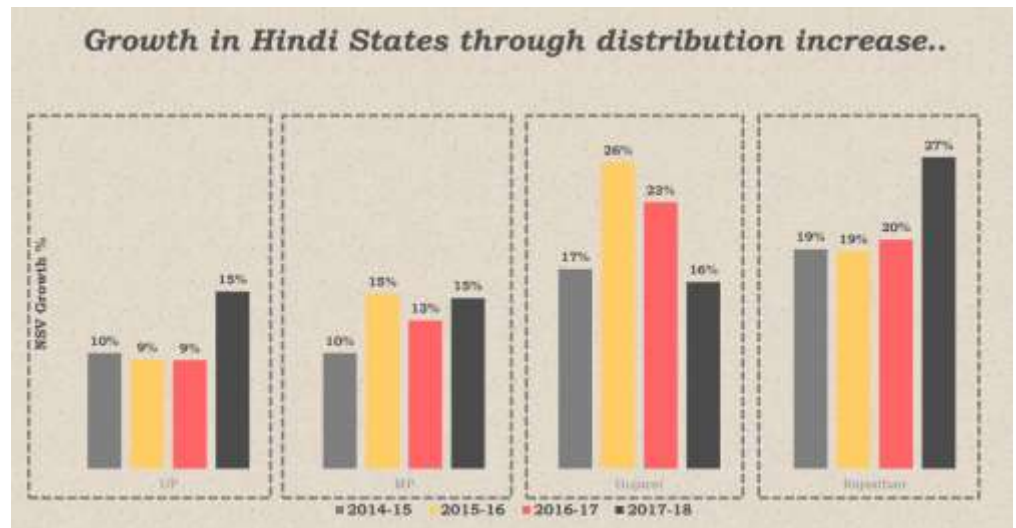
Source: Company

Exhibit 7: Britannia has been ramping up its direct distribution network...



Source: Company

Exhibit 8: ...which has helped it ramp up share in Hindi states



Source: Company

Exhibit 9: Britannia has also unveiled...



Source: Company

Exhibit 10: ...a new logo



Source: Company





### Other highlights of the quarter

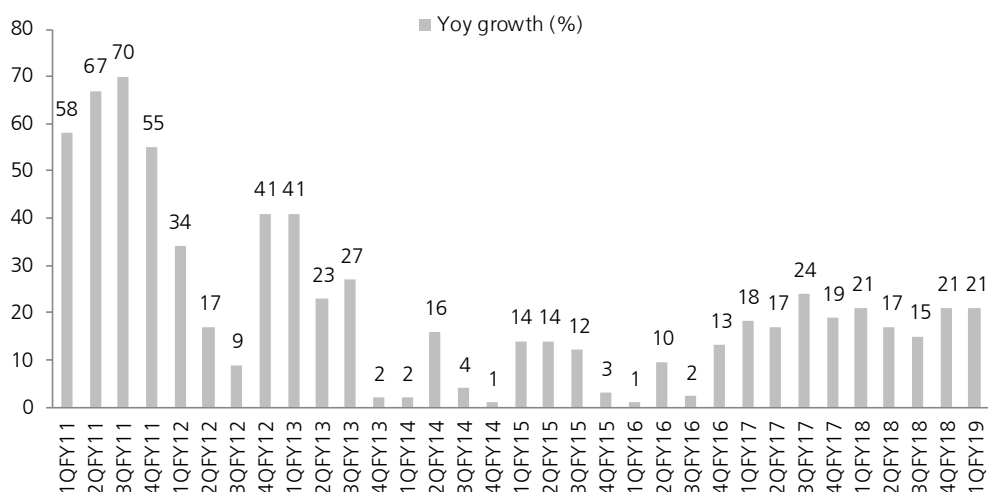
- ▶ Reported revenues in 1QFY19 are not comparable on a yoy basis due to change in accounting policy. Under new policy, “revenues from contracts with customers” are now reported net of cost of components sold; this has negatively impacted consolidated revenues by ₹15.4 bn in 1QFY19 (₹0.8 bn impact on standalone revenues). We note that accounting change does not impact EBITDA/PBT of the company.
- ▶ SMR’s EBITDA was ₹3.64 bn (+14% yoy); however, in EUR terms, EBITDA was flat yoy. Reported EBITDA margin was 11.2% (11.3% in 1QFY18, 13.1% in 4QFY18) on reported revenues of EUR403 mn. SMP’s EBITDA was ₹3.96 bn (+24% yoy); however, in EUR terms, EBITDA was up 9% yoy. Reported EBITDA margin was 6.2% (5.3% in 1QFY18, 6.7% in 4QFY18) on reported revenues of EUR792 mn. Start-up cost in the quarter was EUR15 mn in 1QFY19 versus EUR12 mn in 1QFY18 and EUR20 mn in 4QFY18. Sequentially, start-up costs declined due to commissioning of SMP’s Hungary plant in 1QFY19; start-up costs now pertain to only Tuscaloosa plant.
- ▶ The company has completed the Reydel acquisition and the financials of this entity will be consolidated from August 2, 2018. As per the company’s press release, CY2017 revenues and EBITDA for Reydel were US\$1.05 bn and US\$67 mn, respectively. We have incorporated Reydel into our financials.
- ▶ Order book for the company was EUR17.2 bn as of 4QFY18 versus EUR12.9 bn at the end of 4QFY17. This order book is related to new orders and repeat business in the SMRPBV business. This order book is an estimate of the company of the volume run-rate of the models of OEMs that they will be supplying to; hence, it should be viewed in that context.
- ▶ The company has inaugurated SMP Tuscaloosa (US) plant and will be commissioned in 3QFY19. The company has commissioned four new plants globally over the past two quarters while six plants are at different stages of completion globally (refer to Exhibit 6).
- ▶ Consolidated net debt for the company was ₹82.8 bn as of June 2018 from ₹76 bn in March 2018. Increase in net debt was possibly due to continued capital expenditure to commission new plants in the SMRPBV business. Standalone net debt was ₹9.9 bn in June 2018 versus ₹10.5 bn in March 2018.

Exhibit 1: 1QFY19 standalone EBITDA was 12% below our estimates on lower-than-expected EBITDA margin  
MSSL standalone 1QFY19 results, March fiscal year-ends (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(%chg.)			FY2019E	FY2018	Yoy (%)
					1QFY19E	1QFY18	4QFY18			
Net sales from operations	19,568	20,753	16,679	20,681	(5.7)	17.3	(5.4)			
Other operating income	474	400	528	389	18.4	(10.3)	21.7			
<b>Net sales</b>	<b>20,042</b>	<b>21,153</b>	<b>17,207</b>	<b>21,071</b>	<b>(5.3)</b>	<b>16.5</b>	<b>(4.9)</b>	<b>85,818</b>	<b>74,561</b>	<b>15.1</b>
Raw materials	(11,054)	(11,800)	(9,147)	(11,725)	(6.3)	20.8	(5.7)	(47,381)	(40,988)	
Staff costs	(2,977)	(2,850)	(2,517)	(2,813)	4.5	18.3	5.8	(12,106)	(10,619)	
Other expenses	(2,575)	(2,600)	(2,389)	(2,625)	(1.0)	7.8	(1.9)	(10,721)	(9,635)	
Exchange fluctuations	—	—	—	—						
Total expenses	(16,606)	(17,250)	(14,053)	(17,163)	(3.7)	18.2	(3.2)	(70,208)	(61,242)	
<b>EBITDA</b>	<b>3,435</b>	<b>3,903</b>	<b>3,154</b>	<b>3,908</b>	<b>(12.0)</b>	<b>8.9</b>	<b>(12.1)</b>	<b>15,611</b>	<b>13,319</b>	<b>17.2</b>
Depreciation	(544)	(535)	(529)	(531)	1.6	2.7	2.4	(2,243)	(2,183)	
<b>EBIT</b>	<b>2,892</b>	<b>3,368</b>	<b>2,625</b>	<b>3,377</b>	<b>(14.2)</b>	<b>10.2</b>	<b>(14.4)</b>	<b>13,368</b>	<b>11,136</b>	<b>20.0</b>
Other income	117	120	16	111				725	1,404	
Interest expense	(141)	(230)	(55)	(227)				(462)	(433)	
<b>Profit before tax</b>	<b>2,868</b>	<b>3,258</b>	<b>2,585</b>	<b>3,261</b>	<b>(12.0)</b>	<b>11.0</b>	<b>(12.1)</b>	<b>13,631</b>	<b>12,107</b>	<b>12.6</b>
Tax expense	(988)	(978)	(673)	(843)	1.1	46.8	17.2	(3,953)	(3,316)	
<b>Profit after tax</b>	<b>1,880</b>	<b>2,281</b>	<b>1,912</b>	<b>2,418</b>	<b>(17.6)</b>	<b>(1.7)</b>	<b>(22.3)</b>	<b>9,678</b>	<b>8,791</b>	<b>10.1</b>
<b>Adj PAT</b>	<b>1,880</b>	<b>2,281</b>	<b>1,912</b>	<b>2,418</b>	<b>(17.6)</b>	<b>(1.7)</b>	<b>(22.3)</b>	<b>9,678</b>	<b>8,791</b>	<b>10.1</b>
# of shares	2,105	2,105	2,105	2,105				2,105	2,105	
<b>EPS (Rs/share)</b>	<b>0.9</b>	<b>1.1</b>	<b>0.9</b>	<b>1.1</b>	<b>(17.6)</b>	<b>(1.7)</b>	<b>(22.3)</b>	<b>4.6</b>	<b>4.2</b>	<b>10.1</b>
Tax rate (%)	34.5	30.0	26.0	25.8				29.0	27.4	
<b>As a % of revenues</b>										
Raw material	55.2	55.8	53.2	55.6				55.2	55.0	
Staff costs	14.9	13.5	14.6	13.3				14.1	14.2	
Other expenses	12.8	12.3	13.9	12.5				12.5	12.9	
Gross margin (%)	44.8	44.2	46.8	44.4				44.8	45.0	
<b>EBITDA margin (%)</b>	<b>17.1</b>	<b>18.5</b>	<b>18.3</b>	<b>18.5</b>				<b>18.2</b>	<b>17.9</b>	
<b>EBITDA margin (ex forex)</b>	<b>17.1</b>	<b>18.5</b>	<b>18.3</b>	<b>18.5</b>				<b>18.2</b>	<b>17.9</b>	
<b>EBIT margin</b>	<b>14.4</b>	<b>15.9</b>	<b>15.3</b>	<b>16.0</b>				<b>15.6</b>	<b>14.9</b>	

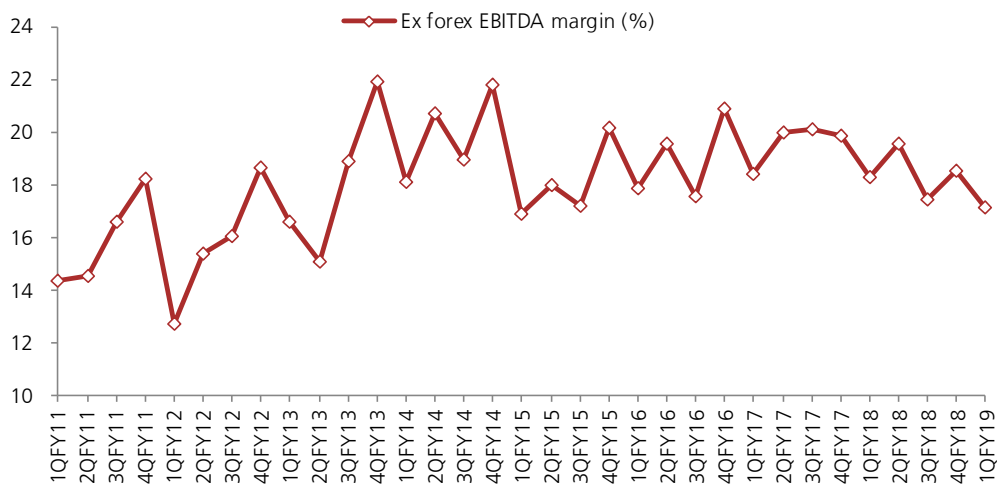
Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Standalone net sales grew by 21% yoy in 1QFY19 (adjusted for accounting changes)  
Motherson Sumi's standalone net sales growth, March fiscal year-ends, 2011-19 (%)



Source: Company, Kotak Institutional Equities

**Exhibit 3: Standalone EBITDA margin (ex-forex gain) was down 120 bps on yoy basis**  
 Standalone quarterly ex-forex EBITDA margin trend, March fiscal year-ends, 2011-19 (%)



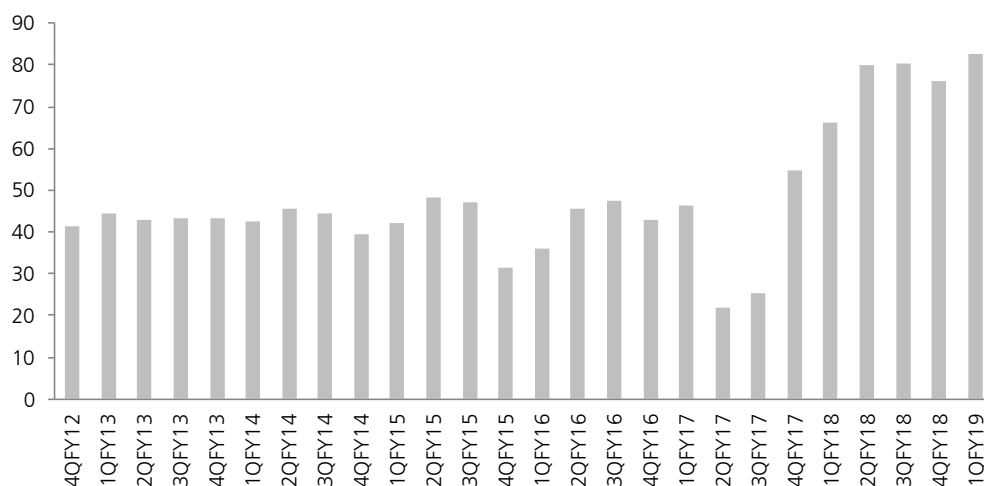
Source: Company, Kotak Institutional Equities

**Exhibit 4: Consolidated EBITDA was 12% below our estimates on lower profitability in both standalone and SMRPBV businesses**  
 MSSL consolidated 1QFY19 results, March fiscal year-ends (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(%chg.)			FY2019E	FY2018	Yoy (%)
					1QFY19E	1QFY18	4QFY18			
Net sales from operations	145,630		129,668	152,816		12.3	(4.7)			
Other operating income	2,125		1,618	1,263		31.3	68.3			
<b>Net sales</b>	<b>147,755</b>	<b>162,645</b>	<b>131,286</b>	<b>154,079</b>	<b>(9.2)</b>	<b>12.5</b>	<b>(4.1)</b>	<b>706,445</b>	<b>562,933</b>	<b>25.5</b>
Raw materials	(85,091)		(79,873)	(93,380)		6.5	(8.9)	(449,020)	(343,121)	
Staff costs	(32,303)		(25,812)	(30,165)		25.1	7.1	(123,959)	(110,678)	
Other expenses	(16,240)		(13,737)	(15,533)		18.2	4.6	(65,120)	(57,908)	
Exchange fluctuations	—		—	—				—	—	
Total expenses	(133,634)		(119,422)	(139,077)		11.9	(3.9)	(638,100)	(511,707)	
<b>EBITDA</b>	<b>14,121</b>	<b>16,096</b>	<b>11,864</b>	<b>15,001</b>	<b>(12.3)</b>	<b>19.0</b>	<b>(5.9)</b>	<b>68,345</b>	<b>51,226</b>	<b>33.4</b>
Depreciation	(4,471)	(4,100)	(3,768)	(4,069)		9.0	18.6	(19,781)	(15,752)	
<b>EBIT</b>	<b>9,650</b>	<b>11,996</b>	<b>8,096</b>	<b>10,933</b>	<b>(19.6)</b>	<b>19.2</b>	<b>(11.7)</b>	<b>48,564</b>	<b>35,474</b>	<b>36.9</b>
Other income	447	250	39	615		78.7	1,060.5	935	1,701	
Interest expense	(1,005)	(1,150)	(1,176)	(1,130)		(12.6)	(14.5)	(4,668)	(4,108)	
<b>Profit before tax</b>	<b>9,093</b>	<b>11,096</b>	<b>6,959</b>	<b>10,418</b>	<b>(18.1)</b>	<b>30.7</b>	<b>(12.7)</b>	<b>44,831</b>	<b>33,067</b>	<b>35.6</b>
Exceptional item	—	—	(1,502)	(207)				—	—	
Tax expense	(3,273)	(3,329)	(2,343)	(2,877)		(1.7)	39.7	(14,057)	(10,071)	
Share of profit from associates	364	250	358	241				1,519	1,381	
Minority interest	1,753	2,711	693	2,391				8,191	6,630	
<b>Profit after tax</b>	<b>4,431</b>	<b>5,306</b>	<b>2,780</b>	<b>5,184</b>	<b>(16.5)</b>	<b>59.4</b>	<b>(14.5)</b>	<b>24,102</b>	<b>15,970</b>	<b>50.9</b>
<b>Adj PAT</b>	<b>4,431</b>	<b>5,306</b>	<b>3,831</b>	<b>5,184</b>	<b>(16.5)</b>	<b>15.7</b>	<b>(14.5)</b>	<b>24,102</b>	<b>17,214</b>	<b>40.0</b>
# of shares	2,105	2,105	2,105	2,105				2,105	2,105	
<b>EPS (Rs/share)</b>	<b>2.1</b>	<b>2.5</b>	<b>1.8</b>	<b>2.5</b>				<b>11.4</b>	<b>8.2</b>	
Tax rate (%)	36.0	30.0	33.7	27.6				31.4	30.5	
<b>As a % of revenues</b>										
Raw material	57.6		60.8	60.6				63.6	61.0	
Staff costs	21.9		19.7	19.6				17.5	19.7	
Other expenses	11.0		10.5	10.1				9.2	10.3	
Gross margin (%)	42.4		39.2	39.4				36.4	39.0	
<b>EBITDA margin (%)</b>	<b>9.6</b>	<b>9.9</b>	<b>9.0</b>	<b>9.7</b>				<b>9.7</b>	<b>9.1</b>	
EBITDA margin (ex forex)	9.6	9.9	9.0	9.7				9.7	9.1	
EBIT Margin	6.5	7.4	6.2	7.1				6.9	6.3	

Source: Company, Kotak Institutional Equities estimates

**Exhibit 5: Consolidated net debt increased to ₹82.8 bn in 1QFY19 from ₹76 bn as of March 2018**  
MSSL consolidated net debt position, March fiscal year-ends, 2012-19 (₹ bn)



Source: Company, Kotak Institutional Equities

**Exhibit 6: Globally, six plants are at different stages of completion; MSS has commissioned four new plants over the past two quarters**  
Plans commissioned after FY2017 and upcoming plants, March fiscal year-ends, 2017-20

Location	Country	Product	Company	Start of production
Beijing	China	Door panels	SMP	Started in 1QFY17
Noida	India	Exterior mirror	SMR	Started in 1QFY17
Zitlaltepec	Mexico	Bumpers and rocker panels	SMP	Started in 1QFY17
Sanand	India	Wiring harness	Motherson Sumi	Started in 4QFY17
San Luis Potosi	Mexico	Exterior mirror	SMR	Started in 4QFY17
Noida	India	Wiring harness	Motherson Sumi	Started in 2QFY18
Pithampur	India	Wiring Harness	Motherson Sumi	Started in 2QFY18
Cheongju city,	Korea	Mirror parts	SMR	Started in 3QFY18
Yancheng	China	Exterior & Interior Mirror, Mirror parts (STI, Actuators)	SMR	Started in 3QFY18
Mosonszolnok	Hungary	Exterior mirror	SMR	Started in 4QFY18
Incheon	Korea	Mirror parts	SMR	Started in 4QFY18
Kecskemet	Hungary	Bumpers & Door panels	SMP	Started in 1QFY19
Túrkeve	Hungary	Polymer products	MATE	Started in 1QFY19
Tuscaloosa	USA	Bumpers & Door panels	SMP	3QFY19
Neustadt	Germany	Dashboard, Bumpers, Door Panels	SMP	3QFY19
Pithampur-II	India	Wiring Harness	Motherson Sumi	FY2019
Pithampur-III	India	Wiring Harness	Motherson Sumi	FY2019
Chennai	India	Exterior & Interior Mirror, Mirror parts (Actuators)	SMR	1QFY20
Thailand	Thailand	Wiring harness	Motherson Sumi	FY2020

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: We expect PKC Group's revenues to grow at 13% CAGR over FY2018-21E; we build in 300 bps expansion in EBITDA margin  
Income statement of PKC Group, March fiscal year-ends, 2012-21E (EUR mn)

	CY2012	CY2013	CY2014	CY2015	CY2016	FY2018	FY2019E	FY2020E	FY2021E
<b>Income statement (EUR mn)</b>									
Revenues	928	884	830	908	846	1,052	1,262	1,389	1,528
Other operating income	2	2	4	4	6	—	—	—	—
<b>Net sales</b>	<b>931</b>	<b>886</b>	<b>834</b>	<b>912</b>	<b>852</b>	<b>1,052</b>	<b>1,262</b>	<b>1,389</b>	<b>1,528</b>
RM cost	565	536	504	539	503	638	764	833	917
Staff costs	203	201	222	233	212	244	268	295	324
Other operating expenses	86	86	81	84	78	99	114	125	138
<b>EBITDA</b>	<b>76</b>	<b>63</b>	<b>26</b>	<b>56</b>	<b>59</b>	<b>72</b>	<b>117</b>	<b>136</b>	<b>149</b>
Depreciation	33	33	33	33	33	40	40	45	45
<b>EBIT</b>	<b>43</b>	<b>30</b>	<b>(7)</b>	<b>23</b>	<b>27</b>	<b>32</b>	<b>77</b>	<b>91</b>	<b>104</b>
Interest expense	6	7	4	5	4	3	2	1	1
Foreign currency exchange differences	(3)	(2)	1	1	(2)				
<b>Profit before tax</b>	<b>35</b>	<b>22</b>	<b>(11)</b>	<b>18</b>	<b>21</b>	<b>29</b>	<b>75</b>	<b>90</b>	<b>103</b>
Income tax	11	8	19	11	8	10	25	30	34
<b>Profit after tax</b>	<b>24</b>	<b>14</b>	<b>(29)</b>	<b>7</b>	<b>12</b>	<b>19</b>	<b>50</b>	<b>60</b>	<b>69</b>
<b>Ratios (%)</b>									
<b>EBITDA Margin</b>	<b>8.2</b>	<b>7.1</b>	<b>3.2</b>	<b>6.1</b>	<b>7.0</b>	<b>6.8</b>	<b>9.3</b>	<b>9.8</b>	<b>9.8</b>
EBIT Margin	4.7	3.4	(0.8)	2.5	3.1	3.0	6.1	6.5	6.8
Raw materials as % of sales	60.7	60.5	60.5	59.1	59.1	60.6	60.5	60.0	60.0
Employee costs as % of sales	21.8	22.7	26.6	25.6	24.9	23.1	21.2	21.2	21.2
Other expenses as % of sales	9.2	9.7	9.8	9.2	9.1	9.4	9.0	9.0	9.0
Effective tax rate	31.3	35.3	(174.9)	60.0	40.2	35.0	33.0	33.0	33.0
<b>Yoy growth (%)</b>									
Revenue		(4.8)	(5.9)	9.4	(6.6)	23.5	20.0	10.0	10.0
EBITDA		(16.7)	(58.2)	110.6	6.6	21.4	62.5	15.9	10.0
Net profit		(41.9)			70.4	51.5	166.5	19.5	15.1

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: We have increased our FY2019-21E consolidated EPS estimates by 3% as we factor in Reydel acquisition into our estimates  
Earnings revision table, March fiscal year-ends, 2019-21E (₹ mn, %)

	New estimates			Old estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
<b>Standalone</b>									
Net sales	85,818	98,779	108,843	85,818	98,779	108,843	—	—	—
<b>EBITDA</b>	<b>15,611</b>	<b>18,242</b>	<b>19,843</b>	<b>15,611</b>	<b>18,242</b>	<b>19,843</b>	—	—	—
Margin (%)	18.2	18.5	18.2	18.2	18.5	18.2			
Adj net profit	9,678	11,359	12,314	9,678	11,359	12,314	—	—	—
<b>Standalone EPS</b>	<b>4.6</b>	<b>5.4</b>	<b>5.8</b>	<b>4.6</b>	<b>5.4</b>	<b>5.8</b>	—	—	—
<b>Consolidated</b>									
Net sales	706,445	823,149	925,847	676,148	766,145	868,274	4.5	7.4	6.6
<b>EBITDA</b>	<b>68,345</b>	<b>81,989</b>	<b>92,254</b>	<b>66,883</b>	<b>78,972</b>	<b>88,891</b>	<b>2.2</b>	<b>3.8</b>	<b>3.8</b>
Margin (%)	9.7	10.0	10.0	9.9	10.3	10.2			
Adj net profit	24,102	29,290	33,315	23,502	28,535	32,381	2.6	2.6	2.9
<b>Consolidated EPS (Rs)</b>	<b>11.4</b>	<b>13.9</b>	<b>15.8</b>	<b>11.2</b>	<b>13.6</b>	<b>15.4</b>	<b>2.6</b>	<b>2.6</b>	<b>2.9</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 9: We value MSSL at ₹280 on an SoTP basis**  
Motherson Sumi sum-of-the-parts valuation methodology

	EPS (Rs)	Multiple (X)	Value (Rs/share)
June 2020 standalone EPS	5.5	23.0	127
June 2020 EPS of other subs (concern share)	8.9	17.0	151
<b>Equity value</b>			<b>278</b>
<b>Target price</b>			<b>280</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 10: We expect EBITDA contribution of PKC Group to increase going ahead as we build in improvement in EBITDA margin**  
Breakdown of key consolidated financials by different entities, March fiscal year-ends. 2016-21E (₹ mn, %)

	2016	2017	2018	2019E	2020E	2021E
<b>Revenues</b>						
Standalone	52,930	62,867	74,561	85,818	98,779	108,843
SMRPBV	146,868	169,851	189,672	218,039	248,760	286,074
PKC	—	—	79,431	100,998	111,098	122,208
Stoneridge and others	24,589	21,013	29,697	58,457	75,901	80,805
<b>Consolidated net revenues</b>	<b>224,387</b>	<b>253,731</b>	<b>373,361</b>	<b>463,312</b>	<b>534,538</b>	<b>597,929</b>
<b>EBITDA</b>						
Standalone	9,637	12,149	13,319	15,611	18,242	19,843
SMRPBV	10,681	13,466	14,278	17,970	21,391	24,690
PKC	—	—	5,435	9,356	10,847	11,932
Stoneridge and others	4,309	2,768	3,916	5,759	7,276	7,962
<b>Consolidated EBITDA</b>	<b>24,627</b>	<b>28,383</b>	<b>36,948</b>	<b>48,696</b>	<b>57,757</b>	<b>64,426</b>
<b>EBITDA margin (%)</b>						
Standalone	18.2	19.3	17.9	18.2	18.5	18.2
SMRPBV	7.3	7.9	7.5	8.2	8.6	8.6
PKC	—	—	6.8	9.3	9.8	9.8
Stoneridge and others	17.5	13.2	13.2	9.9	9.6	9.9
<b>Revenue mix (%)</b>						
Standalone	23.6	24.8	20.0	18.5	18.5	20.4
SMRPBV	65.5	66.9	50.8	47.1	46.5	53.5
PKC	—	—	21.3	21.8	20.8	22.9
Stoneridge and others	11.0	8.3	8.0	12.6	14.2	15.1
<b>EBITDA mix (%)</b>						
Standalone	39.1	42.8	36.0	32.1	31.6	30.8
SMRPBV	43.4	47.4	38.6	36.9	37.0	38.3
PKC	—	—	14.7	19.2	18.8	18.5
Stoneridge and others	17.5	9.8	10.6	11.8	12.6	12.4

Notes:

(a) We have accounted for only MSSL share of SMRPBV (50%) in consolidated operations in the above table.

Source: Company, Kotak Institutional Equities estimates

**Exhibit 11: We expect standalone earnings to grow at 12% CAGR during FY2018-21E**

Motherson Sumi standalone profit model, balance sheet and cash model, March fiscal year-ends, 2010-21E (₹ mn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model (Rs mn)</b>												
Net sales	17,049	28,236	35,718	43,041	45,245	49,850	52,930	62,867	74,561	85,818	98,779	108,843
<b>EBITDA</b>	<b>2,334</b>	<b>4,303</b>	<b>5,184</b>	<b>7,570</b>	<b>8,448</b>	<b>8,754</b>	<b>9,637</b>	<b>12,149</b>	<b>13,319</b>	<b>15,611</b>	<b>18,242</b>	<b>19,843</b>
Other income	857	756	881	865	990	763	1,708	1,680	1,404	725	777	836
Interest	252	284	548	485	324	208	474	124	433	462	462	462
Depreciation	646	830	1,172	1,453	1,530	2,071	2,008	1,977	2,183	2,243	2,558	2,873
<b>Profit before tax</b>	<b>2,293</b>	<b>3,946</b>	<b>4,345</b>	<b>6,497</b>	<b>7,584</b>	<b>7,238</b>	<b>8,863</b>	<b>11,728</b>	<b>12,107</b>	<b>13,631</b>	<b>15,999</b>	<b>17,344</b>
Current tax	814	979	1,188	1,801	2,295	2,348	2,515	3,556	3,316	3,953	4,640	5,030
Deferred tax	153	92	(15)	—	(62)	(259)	(169)	(100)	—	—	—	—
<b>Net profit</b>	<b>1,326</b>	<b>2,875</b>	<b>3,172</b>	<b>4,696</b>	<b>5,351</b>	<b>5,149</b>	<b>6,887</b>	<b>8,273</b>	<b>8,791</b>	<b>9,678</b>	<b>11,359</b>	<b>12,314</b>
<b>Earnings per share (Rs)</b>	<b>0.7</b>	<b>1.4</b>	<b>1.6</b>	<b>2.4</b>	<b>2.7</b>	<b>2.6</b>	<b>3.5</b>	<b>3.9</b>	<b>4.2</b>	<b>4.6</b>	<b>5.4</b>	<b>5.8</b>
<b>Balance sheet (Rs mn)</b>												
Equity	7,165	10,102	12,855	16,240	19,056	21,021	24,539	58,027	61,802	64,512	67,692	71,140
Deferred tax liability	135	225	214	177	115	—	—	—	—	—	—	—
Total Borrowings	4,130	7,927	9,552	9,273	7,578	5,336	4,852	12,935	11,550	11,550	11,550	11,550
Current liabilities	5,274	6,684	7,649	8,714	9,895	11,032	9,549	11,818	14,745	16,579	18,517	20,403
<b>Total liabilities</b>	<b>16,705</b>	<b>24,937</b>	<b>30,270</b>	<b>34,404</b>	<b>36,644</b>	<b>37,389</b>	<b>38,940</b>	<b>82,780</b>	<b>88,096</b>	<b>92,640</b>	<b>97,760</b>	<b>103,093</b>
Net fixed assets	7,528	10,584	13,432	15,057	14,863	15,017	14,741	14,363	16,291	17,548	18,489	19,116
Investments	2,355	3,427	3,704	5,132	5,821	7,320	7,230	44,772	46,539	46,539	46,539	46,539
Cash	365	381	202	658	191	1,461	185	1,891	1,054	1,078	1,261	2,042
Other current assets	6,438	10,545	12,912	13,547	15,769	13,591	16,783	21,755	24,213	27,476	31,471	35,396
Miscellaneous expenditure	18	—	19	10	—	—	—	—	—	—	—	—
<b>Total assets</b>	<b>16,705</b>	<b>24,937</b>	<b>30,270</b>	<b>34,404</b>	<b>36,644</b>	<b>37,389</b>	<b>38,940</b>	<b>82,780</b>	<b>88,096</b>	<b>92,640</b>	<b>97,760</b>	<b>103,093</b>
<b>Free cash flow (Rs mn)</b>												
Operating cash flow excl. working capital	2,498	3,824	5,364	6,488	7,044	7,093	7,568	9,057	10,389	12,038	13,983	15,193
Working capital changes	(506)	(2,498)	(1,073)	(488)	(351)	1,115	(785)	(1,989)	1,186	(1,429)	(2,056)	(2,040)
Capital expenditure	(2,048)	(3,730)	(3,673)	(3,182)	(1,526)	(2,113)	(1,731)	(2,522)	(4,111)	(3,500)	(3,500)	(3,500)
<b>Free cash flow</b>	<b>(56)</b>	<b>(2,404)</b>	<b>618</b>	<b>2,818</b>	<b>5,167</b>	<b>6,095</b>	<b>5,052</b>	<b>4,546</b>	<b>7,465</b>	<b>7,109</b>	<b>8,427</b>	<b>9,654</b>
<b>Ratios</b>												
Gross margin (%)	40.0	38.8	39.8	41.2	44.4	43.9	44.8	46.2	45.0	44.8	44.7	44.7
EBITDA margin (%)	13.7	15.2	14.5	17.6	18.7	17.6	18.2	19.3	17.9	18.2	18.5	18.2
PAT margin (%)	7.8	10.2	8.9	10.9	11.8	10.3	12.3	13.2	11.8	11.3	11.5	11.3
Net debt/equity (X)	0.5	0.7	0.7	0.5	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Book value (Rs/share)	3.6	5.1	6.5	8.2	9.6	10.6	12.4	27.6	29.4	30.6	32.2	33.8
RoAE (%)	23.4	33.3	27.6	32.3	30.3	25.7	28.6	20.0	14.7	15.3	17.2	17.7
<b>RoACE (%)</b>	<b>18.7</b>	<b>26.2</b>	<b>21.5</b>	<b>25.8</b>	<b>27.1</b>	<b>26.6</b>	<b>33.3</b>	<b>34.6</b>	<b>34.4</b>	<b>35.5</b>	<b>37.6</b>	<b>36.7</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 12: We expect consolidated earnings to grow at 25% CAGR during FY2018-21E**  
Motherson Sumi consolidated profit model, balance sheet and cash model, March fiscal year-ends, 2010-21E (₹ mn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model (Rs mn)</b>												
Net sales	67,022	81,756	147,141	256,170	307,210	350,319	372,163	423,756	562,933	706,445	823,149	925,847
<b>EBITDA</b>	<b>3,271</b>	<b>6,932</b>	<b>8,301</b>	<b>17,778</b>	<b>26,873</b>	<b>32,027</b>	<b>35,177</b>	<b>41,668</b>	<b>51,226</b>	<b>68,345</b>	<b>81,989</b>	<b>92,254</b>
Other income	3,331	2,341	2,070	170	176	177	392	2,642	1,701	935	1,451	1,860
Interest	573	497	1,649	2,495	2,944	3,178	3,450	3,749	4,108	4,668	4,330	3,543
Depreciation	2,601	2,465	3,796	7,145	8,172	9,206	10,872	10,591	15,752	19,781	23,236	25,966
<b>Profit before tax</b>	<b>3,428</b>	<b>6,312</b>	<b>4,926</b>	<b>8,308</b>	<b>15,934</b>	<b>19,819</b>	<b>21,246</b>	<b>29,970</b>	<b>33,067</b>	<b>44,831</b>	<b>55,874</b>	<b>64,606</b>
Current tax	1,237	1,859	2,060	3,805	5,169	5,218	5,193	9,103	10,071	14,057	17,537	20,282
Deferred tax	(76)	29	93	31	(174)	(846)	(1,287)	476	—	—	—	—
Minority interest	91	(523)	631	(70)	(3,316)	(4,294)	(4,814)	(6,180)	(6,630)	(8,191)	(10,718)	(12,848)
<b>Adj Net profit</b>	<b>2,361</b>	<b>3,903</b>	<b>2,596</b>	<b>4,411</b>	<b>7,622</b>	<b>9,866</b>	<b>12,617</b>	<b>16,225</b>	<b>17,214</b>	<b>24,102</b>	<b>29,290</b>	<b>33,315</b>
<b>Earnings per share (Rs)</b>	<b>1.2</b>	<b>2.0</b>	<b>1.5</b>	<b>2.2</b>	<b>3.8</b>	<b>5.0</b>	<b>6.4</b>	<b>7.7</b>	<b>8.2</b>	<b>11.4</b>	<b>13.9</b>	<b>15.8</b>
<b>Balance sheet (Rs mn)</b>												
Equity	11,649	16,087	18,717	22,890	29,593	33,238	43,971	82,727	98,842	115,976	137,088	161,536
Deferred tax liability	40	10	1,506	1,441	1,680	1,457	2,394	4,260	5,236	5,236	5,236	5,236
<b>Total Borrowings</b>	<b>8,180</b>	<b>12,635</b>	<b>46,023</b>	<b>48,556</b>	<b>47,758</b>	<b>51,979</b>	<b>60,688</b>	<b>103,493</b>	<b>103,730</b>	<b>103,730</b>	<b>88,730</b>	<b>68,730</b>
Current liabilities	15,921	19,633	49,289	52,175	66,696	78,892	76,863	110,895	137,571	168,247	197,453	223,593
Minority interest	2,027	2,276	5,027	4,025	7,896	10,142	15,123	22,322	29,600	29,600	29,600	29,600
<b>Total liabilities</b>	<b>37,817</b>	<b>50,641</b>	<b>120,562</b>	<b>129,088</b>	<b>153,623</b>	<b>175,708</b>	<b>199,038</b>	<b>323,697</b>	<b>374,979</b>	<b>422,789</b>	<b>458,106</b>	<b>488,695</b>
Net fixed assets	16,356	22,258	51,380	56,629	65,660	70,847	83,089	121,900	150,328	170,347	173,111	173,146
Investments	471	453	938	716	749	649	5,317	4,737	7,917	7,917	7,917	7,917
Cash	3,431	3,565	4,557	5,944	9,061	18,919	17,717	48,866	27,816	18,160	15,433	14,970
Other current assets	17,541	24,365	63,687	65,798	78,153	85,293	89,987	128,818	166,275	203,722	239,001	270,018
Miscellaneous expenditure	18	—	—	—	—	—	2,928	19,376	22,643	22,643	22,643	22,643
<b>Total assets</b>	<b>37,817</b>	<b>50,641</b>	<b>120,562</b>	<b>129,088</b>	<b>153,623</b>	<b>175,708</b>	<b>199,038</b>	<b>323,697</b>	<b>374,979</b>	<b>422,789</b>	<b>458,106</b>	<b>488,695</b>
<b>Free cash flow (Rs mn)</b>												
Operating cash flow excl. working capital	5,465	7,191	9,244	15,879	24,547	21,247	30,875	31,353	38,142	48,551	56,856	62,823
Working capital changes	(661)	(2,998)	(3,357)	(1,019)	2,403	12,650	(8,991)	6,644	(9,539)	(6,771)	(6,073)	(4,877)
Capital expenditure	(4,129)	(7,861)	(10,758)	(11,389)	(14,120)	(19,443)	(20,388)	(28,086)	(44,180)	(39,800)	(26,000)	(26,000)
<b>Free cash flow</b>	<b>674</b>	<b>(3,668)</b>	<b>(4,871)</b>	<b>3,471</b>	<b>12,830</b>	<b>14,454</b>	<b>1,496</b>	<b>9,911</b>	<b>(15,577)</b>	<b>1,980</b>	<b>24,783</b>	<b>31,946</b>
<b>Ratios</b>												
Gross margin (%)	37.8	37.1	35.1	35.7	37.0	38.3	39.8	39.2	39.0	36.4	35.7	35.7
EBITDA margin (%)	4.9	8.5	5.6	6.9	8.7	9.1	9.5	9.8	9.1	9.7	10.0	10.0
PAT margin (%)	3.5	4.8	1.8	1.7	2.5	2.5	3.4	3.7	2.8	3.4	3.6	3.6
Net debt/equity (X)	0.4	0.6	2.2	1.9	1.3	1.0	1.0	0.7	0.8	0.7	0.5	0.3
Book value (Rs/share)	5.9	8.1	9.4	11.5	14.9	16.7	22.2	39.3	47.0	55.1	65.1	76.7
RoAE (%)	24.2	28.1	17.5	21.2	29.0	31.4	32.7	25.6	19.0	22.4	23.1	22.3
<b>RoACE (%)</b>	<b>2.5</b>	<b>13.1</b>	<b>5.5</b>	<b>8.5</b>	<b>18.4</b>	<b>21.7</b>	<b>22.9</b>	<b>18.2</b>	<b>14.8</b>	<b>17.6</b>	<b>18.8</b>	<b>19.3</b>

Source: Company, Kotak Institutional Equities estimates







Exhibit 1: TVS Motor's 1QFY19 results were below expectations due to higher-than-expected tax rate and lower other income  
TVS Motor, standalone interim results, March fiscal year-ends (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	Yoy (%)
					1QFY19E	1QFY18	4QFY18			
<b>Volumes (units)</b>	<b>928,274</b>	<b>928,274</b>	<b>802,108</b>	<b>889,133</b>		<b>15.7</b>	<b>4.4</b>	<b>3,916,783</b>	<b>3,466,410</b>	<b>13.0</b>
Net realisations (Rs/vehicle)	45,716	46,957	42,382	44,906	(2.6)	7.9	1.8	45,600	43,646	4.5
<b>Net sales</b>	<b>42,437</b>	<b>43,589</b>	<b>33,995</b>	<b>39,928</b>	<b>(2.6)</b>	<b>24.8</b>	<b>6.3</b>	<b>178,605</b>	<b>151,296</b>	<b>18.1</b>
Inc/dec in stock	1,470	—	54	190						
Raw materials	(33,113)	(32,256)	(25,408)	(29,647)	(1.9)	24.8	7.4	(133,061)	(111,330)	19.5
Staff costs	(2,375)	(2,545)	(2,090)	(2,272)	(6.7)	13.6	4.5	(9,809)	(8,680)	13.0
Other expenses	(5,355)	(5,661)	(4,437)	(5,391)	(5.4)	20.7	(0.7)	(21,375)	(19,995)	6.9
Total expenses	(39,372)	(40,461)	(31,881)	(37,121)	(2.7)	23.5	6.1	(164,244)	(140,005)	17.3
<b>EBITDA</b>	<b>3,065</b>	<b>3,127</b>	<b>2,114</b>	<b>2,807</b>	<b>(2.0)</b>	<b>45.0</b>	<b>9.2</b>	<b>14,361</b>	<b>11,291</b>	<b>27.2</b>
Depreciation expense	(933)	(945)	(783)	(944)	(1.2)	19.1	(1.1)	(3,920)	(3,387)	
<b>EBIT</b>	<b>2,131</b>	<b>2,182</b>	<b>1,331</b>	<b>1,863</b>	<b>(2.3)</b>	<b>60.1</b>	<b>14.4</b>	<b>10,441</b>	<b>7,904</b>	<b>32.1</b>
Other income	173	250	571	240	(30.7)	(69.7)	(27.8)	1,177	1,448	
Interest expense	(180)	(185)	(107)	(183)	(2.6)	68.1	(1.3)	(680)	(566)	20.2
Profit before tax	2,124	2,247	1,794	1,921	(5.5)	18.4	10.6	10,938	8,785	24.5
Tax expense	(658)	(607)	(500)	(264)	8.5	31.7	148.9	(3,391)	(2,161)	
<b>Profit after tax</b>	<b>1,466</b>	<b>1,641</b>	<b>1,295</b>	<b>1,656</b>	<b>(10.6)</b>	<b>13.2</b>	<b>(11.5)</b>	<b>7,547</b>	<b>6,625</b>	<b>13.9</b>
<b>EPS</b>	<b>3.1</b>	<b>3.5</b>	<b>2.7</b>	<b>3.5</b>	<b>(10.6)</b>	<b>13.2</b>	<b>(11.5)</b>	<b>15.9</b>	<b>13.9</b>	<b>13.9</b>
<b>Ratios (%)</b>										
Raw material cost to net sales	74.6	74.0	74.6	73.8				74.5	73.6	
Staff cost to net sales	5.6	5.8	6.1	5.7				5.5	5.7	
Other expenses to net sales	12.6	13.0	13.1	13.5				12.0	13.2	
Gross margin (%)	25.4	26.0	25.4	26.2				25.5	26.4	
<b>EBITDA margin (%)</b>	<b>7.2</b>	<b>7.2</b>	<b>6.2</b>	<b>7.0</b>				<b>8.0</b>	<b>7.5</b>	
No of shares	475.1	475.1	475.1	475.1				475.1	475.1	
Tax rate (%)	31.0	27.0	27.8	13.8				31.0	24.6	
<b>Volume break up (units)</b>										
Motorcycles	251,015	251,015	230,646	222,329		8.8	12.9	1,017,935	916,811	11.0
Scooters	275,430	275,430	251,272	273,529		9.6	0.7	1,209,049	1,099,135	10.0
Mopeds	207,566	207,566	192,649	226,653		7.7	(8.4)	920,007	859,820	7.0
Three-wheelers	4,276	4,276	2,314	5,628		84.8	(24.0)	18,400	16,429	12.0
<b>Total domestic sales</b>	<b>738,287</b>	<b>738,287</b>	<b>676,881</b>	<b>728,139</b>		<b>9.1</b>	<b>1.4</b>	<b>3,165,392</b>	<b>2,892,195</b>	<b>9.4</b>
Motorcycles	136,225	136,225	99,404	124,028		37.0	9.8	548,456	438,765	25.0
Scooters	12,457	12,457	6,300	6,537		97.7	90.6	44,729	35,783	25.0
Mopeds	10,061	10,061	4,800	6,626		109.6	51.8	34,824	17,412	100.0
Three-wheelers	31,244	31,244	14,723	23,803		112.2	31.3	123,383	82,255	50.0
<b>Total export sales</b>	<b>189,987</b>	<b>189,987</b>	<b>125,227</b>	<b>160,994</b>		<b>51.7</b>	<b>18.0</b>	<b>751,392</b>	<b>574,215</b>	<b>30.9</b>
<b>Volume mix (%)</b>										
Motorcycles	27.0	27.0	28.8	25.0				26.0	26.4	
Scooters	29.7	29.7	31.3	30.8				30.9	31.7	
Mopeds	22.4	22.4	24.0	25.5				23.5	24.8	
Three-wheelers	0.5	0.5	0.3	0.6				0.5	0.5	
<b>Total domestic sales</b>	<b>79.5</b>	<b>79.5</b>	<b>84.4</b>	<b>81.9</b>				<b>80.8</b>	<b>83.4</b>	
Motorcycles	14.7	14.7	12.4	13.9				14.0	12.7	
Scooters	1.3	1.3	0.8	0.7				1.1	1.0	
Mopeds	1.1	1.1	0.6	0.7				0.9	0.5	
Three-wheelers	3.4	3.4	1.8	2.7				3.2	2.4	
<b>Total export sales</b>	<b>20.5</b>	<b>20.5</b>	<b>15.6</b>	<b>18.1</b>				<b>19.2</b>	<b>16.6</b>	

Source: Company, Kotak Institutional Equities estimates

**Exhibit 2: TVS' market share in domestic two-wheeler industry was down by 90 bps yoy in 1QFY19**

Domestic two-wheeler industry mix and TVS' market share across segments, March fiscal year-ends, 2010-19 (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
<b>Domestic two-wheeler industry mix (%)</b>										
Motorcycles	78.3	76.5	75.2	73.1	70.8	67.1	65.0	63.1	62.5	64.3
Scooters	15.6	17.6	19.0	21.2	24.3	28.2	30.6	31.9	33.3	32.0
Mopeds	6.0	5.9	5.8	5.7	4.9	4.7	4.4	5.1	4.3	3.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Market share of TVS (%)</b>										
Motorcycles	6.7	7.0	6.2	5.5	5.5	6.2	6.7	7.0	7.3	6.9
Scooters	20.5	21.6	19.5	14.5	12.7	15.2	15.4	14.7	16.4	15.1
Mopeds	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Overall two-wheeler industry</b>	<b>14.5</b>	<b>15.1</b>	<b>14.2</b>	<b>12.8</b>	<b>11.8</b>	<b>13.2</b>	<b>13.4</b>	<b>14.2</b>	<b>14.2</b>	<b>12.9</b>

Source: SIAM, Kotak Institutional Equities

**Exhibit 3: We have cut our FY2019-21E standalone EPS estimates by 5-10% due to increase in tax rate to 31% from 29%**

Earnings revision table for standalone entity, March fiscal year-ends, 2019-21E (₹ mn)

	New estimates			Old estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2020E	2019E	2020E	2020E
<b>Standalone</b>									
Volumes (units)	3,916,783	4,281,917	4,689,248	3,877,015	4,252,527	4,669,957	1.0	0.7	0.4
Net sales	178,605	201,979	229,796	175,433	198,676	226,430	1.8	1.7	1.5
EBITDA	14,361	17,086	20,518	14,629	17,208	20,298	(1.8)	(0.7)	1.1
EBITDA margin (%)	8.0	8.5	8.9	8.5	8.8	9.1			
<b>Adjusted net profit</b>	<b>7,547</b>	<b>9,286</b>	<b>11,701</b>	<b>8,341</b>	<b>10,156</b>	<b>12,259</b>	<b>(9.5)</b>	<b>(8.6)</b>	<b>(4.6)</b>
<b>EPS</b>	<b>15.9</b>	<b>19.5</b>	<b>24.6</b>	<b>17.6</b>	<b>21.4</b>	<b>25.8</b>	<b>(9.5)</b>	<b>(8.6)</b>	<b>(4.6)</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 4: We value TVS Motor at ₹405/share; we assign ₹50/share value to company's finance subsidiary (TVS Motor Services)**

SoTP valuation, March fiscal year-end, 2020E

	EPS (Rs)	Multiple (X)	Value per share (Rs)	Comments
June 2020 standalone EPS	20.8	17.0	354	
TVS Motor Services			50	Valued at 2X equity invested by TVS Motor (parent entity)
Total value per share			404	
<b>Target price</b>			<b>405</b>	

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: We expect company's volumes to grow at 11% CAGR over FY2018-21E  
TVS Motor, volume break-down across segments, March fiscal year-ends, 2010-21E (units)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Volumes (units)</b>												
<b>Domestic volumes</b>												
Motorcycles	493,396	632,150	621,738	558,468	572,732	667,624	712,002	776,934	916,811	1,017,935	1,088,501	1,167,138
Economy (Star City)	345,395	422,733	466,745	392,931	343,960	432,620	384,545	324,877	383,065	363,912	363,912	363,912
Executive (Victor & Phoenix)	38,258	66,239	10,185	43,475	88,357	37,660	65,828	155,703	133,067	113,107	118,762	124,700
Premium (Apache)	109,743	143,178	144,808	122,062	140,415	197,344	261,629	296,354	400,679	540,917	605,827	678,526
Scooters	299,370	446,776	496,584	424,183	456,975	684,569	773,597	826,291	1,099,135	1,209,049	1,354,134	1,516,630
Mopeds	564,584	697,778	776,916	788,761	722,920	755,503	723,767	890,367	859,820	920,007	966,008	1,014,308
<b>Total domestic 2W</b>	<b>1,357,350</b>	<b>1,776,704</b>	<b>1,895,238</b>	<b>1,771,412</b>	<b>1,752,627</b>	<b>2,107,696</b>	<b>2,209,366</b>	<b>2,493,592</b>	<b>2,875,766</b>	<b>3,146,991</b>	<b>3,408,643</b>	<b>3,698,077</b>
3 Wheelers	13,400	22,357	14,172	15,616	12,515	17,606	15,536	12,277	16,429	18,400	19,321	20,287
<b>Total domestic</b>	<b>1,370,750</b>	<b>1,799,061</b>	<b>1,909,410</b>	<b>1,787,028</b>	<b>1,765,142</b>	<b>2,125,302</b>	<b>2,224,902</b>	<b>2,505,869</b>	<b>2,892,195</b>	<b>3,165,392</b>	<b>3,427,963</b>	<b>3,718,363</b>
<b>Export volumes</b>												
Motorcycles	148,443	205,103	219,624	191,338	220,747	292,935	304,805	299,388	438,765	548,456	630,725	725,333
Scooters	9,192	18,156	32,199	17,369	18,693	22,457	38,930	44,572	35,783	44,729	49,202	54,122
Mopeds	6,905	6,295	9,076	3,308	7,252	9,679	14,780	20,152	17,412	34,824	38,306	42,137
<b>Total exports 2W</b>	<b>164,540</b>	<b>229,554</b>	<b>260,899</b>	<b>212,015</b>	<b>246,692</b>	<b>325,071</b>	<b>358,515</b>	<b>364,112</b>	<b>491,960</b>	<b>628,009</b>	<b>718,233</b>	<b>821,592</b>
3 Wheelers	1,716	17,503	25,567	33,574	68,327	90,773	95,285	56,977	82,255	123,383	135,721	149,293
<b>Total exports</b>	<b>166,256</b>	<b>247,057</b>	<b>286,466</b>	<b>245,589</b>	<b>315,019</b>	<b>415,844</b>	<b>453,800</b>	<b>421,089</b>	<b>574,215</b>	<b>751,392</b>	<b>853,953</b>	<b>970,885</b>
<b>Total volumes</b>	<b>1,537,006</b>	<b>2,046,118</b>	<b>2,195,876</b>	<b>2,032,617</b>	<b>2,080,161</b>	<b>2,541,146</b>	<b>2,678,702</b>	<b>2,926,958</b>	<b>3,466,410</b>	<b>3,916,783</b>	<b>4,281,917</b>	<b>4,689,248</b>
<b>YoY growth (%)</b>												
<b>Domestic volumes</b>												
Motorcycles	7.8	28.1	(1.6)	(10.2)	2.6	16.6	6.6	9.1	18.0	11.0	6.9	7.2
Economy (Star City)	—	22.4	10.4	(15.8)	(12.5)	25.8	(11.1)	(15.5)	17.9	(5.0)	0.0	0.0
Executive (Victor & Phoenix)	—	73.1	(84.6)	326.9	103.2	(57.4)	74.8	136.5	(14.5)	(15.0)	5.0	5.0
Premium (Apache)	—	30.5	1.1	(15.7)	15.0	40.5	32.6	13.3	35.2	35.0	12.0	12.0
Scooters	23.8	49.2	11.1	(14.6)	7.7	49.8	13.0	6.8	33.0	10.0	12.0	12.0
Mopeds	30.9	23.6	11.3	1.5	(8.3)	4.5	(4.2)	23.0	(3.4)	7.0	5.0	5.0
<b>Total domestic 2W</b>	<b>20.0</b>	<b>30.9</b>	<b>6.7</b>	<b>(6.5)</b>	<b>(1.1)</b>	<b>20.3</b>	<b>4.8</b>	<b>12.9</b>	<b>15.3</b>	<b>9.4</b>	<b>8.3</b>	<b>8.5</b>
3 Wheelers	—	66.8	(36.6)	10.2	(19.9)	40.7	(11.8)	(21.0)	33.8	12.0	5.0	5.0
<b>Total domestic</b>	<b>20.8</b>	<b>31.2</b>	<b>6.1</b>	<b>(6.4)</b>	<b>(1.2)</b>	<b>20.4</b>	<b>4.7</b>	<b>12.6</b>	<b>15.4</b>	<b>9.4</b>	<b>8.3</b>	<b>8.5</b>
<b>Export volumes</b>												
Motorcycles	(16.6)	38.2	7.1	(12.9)	15.4	32.7	4.1	(1.8)	46.6	25.0	15.0	15.0
Scooters	10.6	97.5	77.3	(46.1)	7.6	20.1	73.4	14.5	(19.7)	25.0	10.0	10.0
Mopeds	(1.9)	(8.8)	44.2	(63.6)	119.2	33.5	52.7	36.3	(13.6)	100.0	10.0	10.0
<b>Total exports 2W</b>	<b>(14.9)</b>	<b>39.5</b>	<b>13.7</b>	<b>(18.7)</b>	<b>16.4</b>	<b>31.8</b>	<b>10.3</b>	<b>1.6</b>	<b>35.1</b>	<b>27.7</b>	<b>14.4</b>	<b>14.4</b>
3 Wheelers	—	—	46.1	31.3	103.5	32.9	5.0	(40.2)	44.4	50.0	10.0	10.0
<b>Total exports</b>	<b>(14.0)</b>	<b>48.6</b>	<b>16.0</b>	<b>(14.3)</b>	<b>28.3</b>	<b>32.0</b>	<b>9.1</b>	<b>(7.2)</b>	<b>36.4</b>	<b>30.9</b>	<b>13.6</b>	<b>13.7</b>
<b>Total volumes</b>	<b>15.7</b>	<b>33.1</b>	<b>7.3</b>	<b>(7.4)</b>	<b>2.3</b>	<b>22.2</b>	<b>5.4</b>	<b>9.3</b>	<b>18.4</b>	<b>13.0</b>	<b>9.3</b>	<b>9.5</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: We expect overall revenues to grow at 15% CAGR over FY2018-21E  
TVS Motor, revenue break-down across segments, March fiscal year-ends, 2010-21E (₹ mn, %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Revenues (Rs mn)</b>												
<b>Domestic revenues</b>												
Motorcycles	15,854	22,215	21,477	20,410	21,564	24,676	28,018	32,215	37,716	44,721	50,481	56,564
Economy	9,412	12,682	13,539	11,871	10,307	11,329	11,387	9,584	10,917	10,371	10,579	10,896
Executive	1,339	2,517	407	1,826	3,534	1,506	2,765	6,540	5,477	4,702	5,036	5,446
Premium	5,103	7,016	7,530	6,713	7,723	11,841	13,866	16,092	21,322	29,648	34,866	40,221
Scooters	7,945	12,880	16,164	14,062	15,080	23,618	28,932	31,399	40,932	45,025	50,932	58,755
Mopeds	9,389	12,281	14,412	16,564	15,181	16,621	15,138	19,143	18,116	19,385	20,557	22,233
<b>Total domestic 2W</b>	<b>33,188</b>	<b>47,375</b>	<b>52,052</b>	<b>51,036</b>	<b>51,826</b>	<b>64,915</b>	<b>72,088</b>	<b>82,757</b>	<b>96,764</b>	<b>109,131</b>	<b>121,970</b>	<b>137,552</b>
3 Wheelers	1,051	1,568	941	1,379	1,198	1,581	1,395	1,105	1,449	1,639	1,721	1,861
<b>Total domestic</b>	<b>34,239</b>	<b>48,944</b>	<b>52,994</b>	<b>52,415</b>	<b>53,024</b>	<b>66,496</b>	<b>73,484</b>	<b>83,862</b>	<b>98,213</b>	<b>110,770</b>	<b>123,691</b>	<b>139,413</b>
<b>Export revenues</b>												
Motorcycles	4,608	6,312	7,753	8,071	9,751	13,475	14,344	13,922	26,326	33,236	38,986	45,731
Scooters	275	527	1,055	680	761	915	1,617	1,872	1,473	1,859	2,066	2,295
Mopeds	136	120	194	85	193	253	410	574	486	982	1,091	1,213
<b>Total exports 2W</b>	<b>5,019</b>	<b>6,959</b>	<b>9,002</b>	<b>8,836</b>	<b>10,706</b>	<b>14,643</b>	<b>16,371</b>	<b>16,368</b>	<b>28,285</b>	<b>36,078</b>	<b>42,144</b>	<b>49,239</b>
3 Wheelers	154	1,575	2,301	3,022	6,491	8,179	8,844	6,272	8,873	13,442	15,082	16,922
<b>Total exports</b>	<b>5,173</b>	<b>8,534</b>	<b>11,303</b>	<b>11,858</b>	<b>17,197</b>	<b>22,821</b>	<b>25,214</b>	<b>22,639</b>	<b>37,158</b>	<b>49,521</b>	<b>57,226</b>	<b>66,161</b>
<b>Total vehicle revenues</b>	<b>39,412</b>	<b>57,478</b>	<b>64,297</b>	<b>64,273</b>	<b>70,221</b>	<b>89,317</b>	<b>98,698</b>	<b>106,502</b>	<b>135,371</b>	<b>160,291</b>	<b>180,917</b>	<b>205,574</b>
Accessories and spare parts	4,218	5,402	6,966	7,417	9,473	10,931	12,384	14,861	15,926	18,315	21,062	24,221
<b>Total revenues</b>	<b>43,631</b>	<b>62,880</b>	<b>71,264</b>	<b>71,690</b>	<b>79,694</b>	<b>100,248</b>	<b>111,082</b>	<b>121,362</b>	<b>151,297</b>	<b>178,605</b>	<b>201,979</b>	<b>229,796</b>
YoY growth (%)		44.1	13.3	0.6	11.2	25.8	10.8	9.3	24.7	18.0	13.1	13.8
<b>Revenue mix (%)</b>												
Motorcycles	36.3	35.3	30.1	28.5	27.1	24.6	25.2	26.5	24.9	25.0	25.0	24.6
Economy	21.6	20.2	19.0	16.6	12.9	11.3	10.3	7.9	7.2	5.8	5.2	4.7
Executive	3.1	4.0	0.6	2.5	4.4	1.5	2.5	5.4	3.6	2.6	2.5	2.4
Premium	11.7	11.2	10.6	9.4	9.7	11.8	12.5	13.3	14.1	16.6	17.3	17.5
Scooters	18.2	20.5	22.7	19.6	18.9	23.6	26.0	25.9	27.1	25.2	25.2	25.6
Mopeds	21.5	19.5	20.2	23.1	19.0	16.6	13.6	15.8	12.0	10.9	10.2	9.7
<b>Total domestic 2W</b>	<b>76.1</b>	<b>75.3</b>	<b>73.0</b>	<b>71.2</b>	<b>65.0</b>	<b>64.8</b>	<b>64.9</b>	<b>68.2</b>	<b>64.0</b>	<b>61.1</b>	<b>60.4</b>	<b>59.9</b>
3 Wheelers	2.4	2.5	1.3	1.9	1.5	1.6	1.3	0.9	1.0	0.9	0.9	0.8
<b>Total domestic</b>	<b>78.5</b>	<b>77.8</b>	<b>74.4</b>	<b>73.1</b>	<b>66.5</b>	<b>66.3</b>	<b>66.2</b>	<b>69.1</b>	<b>64.9</b>	<b>62.0</b>	<b>61.2</b>	<b>60.7</b>
<b>Export revenues</b>												
Motorcycles	10.6	10.0	10.9	11.3	12.2	13.4	12.9	11.5	17.4	18.6	19.3	19.9
Scooters	0.6	0.8	1.5	0.9	1.0	0.9	1.5	1.5	1.0	1.0	1.0	1.0
Mopeds	0.3	0.2	0.3	0.1	0.2	0.3	0.4	0.5	0.3	0.6	0.5	0.5
<b>Total exports 2W</b>	<b>11.5</b>	<b>11.1</b>	<b>12.6</b>	<b>12.3</b>	<b>13.4</b>	<b>14.6</b>	<b>14.7</b>	<b>13.5</b>	<b>18.7</b>	<b>20.2</b>	<b>20.9</b>	<b>21.4</b>
3 Wheelers	0.4	2.5	3.2	4.2	8.1	8.2	8.0	5.2	5.9	7.5	7.5	7.4
<b>Total exports</b>	<b>11.9</b>	<b>13.6</b>	<b>15.9</b>	<b>16.5</b>	<b>21.6</b>	<b>22.8</b>	<b>22.7</b>	<b>18.7</b>	<b>24.6</b>	<b>27.7</b>	<b>28.3</b>	<b>28.8</b>
<b>Total vehicle revenues</b>	<b>90.3</b>	<b>91.4</b>	<b>90.2</b>	<b>89.7</b>	<b>88.1</b>	<b>89.1</b>	<b>88.9</b>	<b>87.8</b>	<b>89.5</b>	<b>89.7</b>	<b>89.6</b>	<b>89.5</b>
Accessories and spare parts	9.7	8.6	9.8	10.3	11.9	10.9	11.1	12.2	10.5	10.3	10.4	10.5
<b>Total revenues</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, Kotak Institutional Equities estimates

## Exhibit 7: We expect standalone net profit to grow at 21% CAGR over FY2018-21E

TVS Motor, standalone financial summary, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model (Rs mn)</b>										
Net sales	71,262	71,693	79,659	100,423	111,047	121,353	151,296	178,605	201,979	229,796
<b>EBITDA</b>	<b>4,694</b>	<b>4,090</b>	<b>4,822</b>	<b>6,066</b>	<b>8,099</b>	<b>8,571</b>	<b>11,291</b>	<b>14,361</b>	<b>17,086</b>	<b>20,518</b>
Other income	217	238	302	303	1,039	1,734	1,448	1,177	1,387	1,487
Interest	(571)	(480)	(254)	(274)	(487)	(440)	(566)	(680)	(727)	(392)
Depreciation	(1,175)	(1,304)	(1,317)	(1,533)	(2,361)	(2,878)	(3,387)	(3,920)	(4,288)	(4,656)
Exceptional income	—	(908)	(28)	—	—	—	—	—	—	—
<b>Profit before tax</b>	<b>3,165</b>	<b>1,636</b>	<b>3,525</b>	<b>4,562</b>	<b>6,289</b>	<b>6,987</b>	<b>8,785</b>	<b>10,938</b>	<b>13,458</b>	<b>16,957</b>
Tax expense	(674)	(476)	(909)	(1,083)	(1,397)	(1,406)	(2,161)	(3,391)	(4,172)	(5,257)
Reported PAT	2,491	1,160	2,616	3,478	4,893	5,581	6,625	7,547	9,286	11,701
<b>Adjusted net profit</b>	<b>2,491</b>	<b>1,804</b>	<b>2,637</b>	<b>3,478</b>	<b>4,893</b>	<b>5,581</b>	<b>6,625</b>	<b>7,547</b>	<b>9,286</b>	<b>11,701</b>
<b>Earnings per share (Rs)</b>	<b>5.2</b>	<b>3.8</b>	<b>5.6</b>	<b>7.3</b>	<b>10.3</b>	<b>11.7</b>	<b>13.9</b>	<b>15.9</b>	<b>19.5</b>	<b>24.6</b>
<b>Balance sheet (Rs mn)</b>										
Equity	11,693	12,247	14,153	16,454	19,583	24,083	28,804	33,635	39,577	47,066
Deferred tax liability	976	931	1,247	1,528	1,437	1,257	1,482	1,482	1,482	1,482
Total Borrowings	8,311	6,345	5,276	9,705	7,585	10,851	10,370	14,370	9,870	3,194
Current liabilities	9,363	10,767	13,760	16,869	19,932	21,719	29,981	31,715	35,237	39,428
Other liabilities	1,063	1,066	1,211	1,488	985	1,137	1,158	1,158	1,158	1,158
<b>Total liabilities</b>	<b>31,405</b>	<b>31,356</b>	<b>35,647</b>	<b>46,042</b>	<b>49,522</b>	<b>59,047</b>	<b>71,795</b>	<b>82,358</b>	<b>87,323</b>	<b>92,327</b>
Net fixed assets	10,781	10,476	11,738	14,190	17,506	20,462	25,030	28,110	28,822	29,166
Investments	9,309	8,688	8,959	10,125	12,149	15,879	20,354	21,589	22,789	23,989
Cash	130	175	826	54	327	85	109	1,531	1,423	1,121
Other current assets	11,185	12,017	14,124	21,674	19,540	22,622	26,302	31,129	34,290	38,051
<b>Total assets</b>	<b>31,405</b>	<b>31,356</b>	<b>35,647</b>	<b>46,042</b>	<b>49,522</b>	<b>59,047</b>	<b>71,795</b>	<b>82,358</b>	<b>87,323</b>	<b>92,327</b>
<b>Free cash flow (Rs mn)</b>										
Operating cash flow excl. working capital	3,783	3,685	3,625	4,699	6,658	7,754	8,848	10,970	12,914	15,261
Working capital changes	626	643	1,613	(3,851)	2,753	(514)	3,668	(3,093)	361	430
Capital expenditure	(1,768)	(995)	(2,580)	(4,052)	(4,872)	(6,122)	(7,698)	(7,000)	(5,000)	(5,000)
<b>Free cash flow</b>	<b>2,640</b>	<b>3,333</b>	<b>2,658</b>	<b>(3,203)</b>	<b>4,539</b>	<b>1,118</b>	<b>4,818</b>	<b>877</b>	<b>8,275</b>	<b>10,691</b>
<b>Ratios</b>										
Gross margin (%)	26.2	27.5	28.8	27.3	28.1	27.0	26.4	25.5	25.5	25.5
EBITDA margin (%)	6.6	5.7	6.1	6.0	7.3	7.1	7.5	8.0	8.5	8.9
PAT margin (%)	3.5	2.5	3.3	3.5	4.4	4.6	4.4	4.2	4.6	5.1
Net debt/equity (X)	0.7	0.5	0.3	0.6	0.4	0.4	0.4	0.4	0.2	0.0
Book Value (Rs/share)	24.6	25.8	29.8	34.6	41.2	50.7	60.6	70.8	83.3	99.1
RoAE (%)	23.0	15.1	20.0	22.7	27.2	25.6	25.1	24.2	25.4	27.0
<b>RoACE (%)</b>	<b>14.8</b>	<b>10.3</b>	<b>14.1</b>	<b>15.5</b>	<b>16.9</b>	<b>14.7</b>	<b>16.1</b>	<b>16.8</b>	<b>18.7</b>	<b>22.5</b>

Source: Company, Kotak Institutional Equities estimates





Exhibit 1: PNB – key quarterly P&L and balance sheet items  
March fiscal year-ends, 1QFY18-1QFY19 (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			2019E	2018	(% chg.)	2020E
					1QFY19E	1QFY18	4QFY18				
Interest income	131,132	116,680	121,364	113,846	12	8	15	501,182	482,100	4	492,905
Loans	92,084	79,077	81,448	74,108	16	13	24	342,003	318,331	7	362,954
Investments	34,049	34,619	34,036	34,701	(2)	0	(2)	137,729	139,470	(1)	107,164
Balance with RBI & banks	4,474	2,466	5,513	4,566	81	(19)	(2)	21,450	22,157	(3)	22,787
Others	525	519	366	472	1	44	11		2,143		
Interest expense	84,213	80,422	82,812	83,212	5	2	1	338,304	330,734	2	329,186
Net interest income	46,919	36,258	38,551	30,634	29	22	53	162,878	151,367	8	163,720
Non-int.income	19,592	20,671	23,318	15,611	(5)	(16)	26	74,782	88,809	(16)	74,345
Fee income	10,570	9,966	10,720	9,060	6	(1)	17	34,898	29,314	19	38,248
Total income	66,511	56,929	61,869	46,244	17	8	44	237,660	240,176	(1)	238,065
Op. expenses	24,564	32,666	29,696	50,718	(25)	(17)	(52)	130,454	135,091	(3)	129,025
Employee cost	14,273	21,450	19,373	39,000	(33)	(26)	(63)	88,034	91,688	(4)	84,516
Other cost	10,291	11,216	10,323	11,719	(8)	(0)	(12)	42,420	43,403	(2)	44,509
Operating profit	41,947	24,264	32,173	(4,474)	73	30	NM	107,206	105,085	2	109,040
Provisions and cont.	57,582	81,412	26,087	203,531	(29)	121	(72)	227,113	298,693	(24)	54,760
NPLs	49,580	71,915	22,647	144,100	(31)	119	(66)	206,113	278,421	(26)	53,760
Investment depreciation	7,180	15,000	2,410	6,260	(52)	198	15	21,000	20,272	4	1,000
PBT	(15,635)	(57,149)	6,086	(208,005)	NM	(357)	NM	(119,907)	(193,608)	(38)	54,280
Tax	(6,235)	(21,525)	2,652	(73,836)	NM	(335)	NM	(38,370)	(72,923)	(47)	17,370
Net profit	(9,400)	(35,624)	3,434	(134,169)	NM	(374)	NM	(81,537)	(120,685)	(32)	36,910
PBT - treasury + provisions	41,947	20,139	24,153	(6,634)	108	74	NM	90,706	72,519	25	96,540
Tax rate (%)	NM	NM	44	NM				NM	NM		32
<b>Key balance sheet details (Rs bn)</b>											
Total Deposit	6,303	6,294	6,256	6,422	0	1	(2)	6,077	6,422	(5)	5,749
Savings	2,212		2,115	2,229		5	(1)	2,063	2,229	(7)	1,909
Current	347		400	404		(13)	(14)	376	404	(7)	350
Term	3,744		3,741	3,790		0	(1)	3,638	3,790	(4)	3,490
Calculated CASA (%)	40.6		40.2	41.0		39 bps	-39 bps	40.1	41.0	-85 bps	39.3
Advances	4,153	4,337	3,997	4,337	(4)	4	(4)	4,403	4,337	2	4,556
Retail advances	748		679	762		10	(2)		762		
Investments	1,939	2,005	2,025	2,003	(3)	(4)	(3)	1,619	2,003	(19)	1,275
<b>Key calculated ratios (%)</b>											
Yield on advances	8.7		8.0	6.7		72 bps	198 bps	7.8	7.5	36 bps	8.1
Yield on investment	6.9		7.0	6.8		-8 bps	10 bps	7.6	7.2	40 bps	7.4
Cost of deposit	5.3		5.3	5.2		-2 bps	13 bps	5.4	5.2	18 bps	5.6
NIM	3.0		2.6	1.9		47 bps	112 bps	2.6	2.4	19 bps	2.8
Cost-to-income	36.9		48.0	109.7		-1107 bps	-7274 bps	54.9	56.2	-136 bps	54.2
CD ratio	65.9		63.9	67.5		200 bps	-164 bps	72.5	67.5	492 bps	79.3
Credit cost	4.7		2.2	13.0		246 bps	-834 bps	4.7	6.5	-181 bps	1.2
<b>Asset quality details</b>											
Gross NPL (Rs bn)	829		577	866		44	(4)	757	866	(13)	596
Gross NPL (%)	18.3		13.7	18.4		460 bps	-12 bps	13.9	18.4	-452 bps	10.5
Net NPL (Rs bn)	439		346	487		27	(10)	386	487	(21)	261
Net NPL (%)	10.6		8.7	11.2		191 bps	-66 bps	8.8	11.2	-246 bps	5.7
PCR-KS (%)	47.1		40.1	43.8		697 bps	328 bps	49.1	43.8	526 bps	56.2
PCR (inc. tech. write-off) (%)	61.8		58.2	58.4		357 bps	338 bps				
Slippages (Rs bn)	74		66	310		11	(76)	217	443	(51)	66
Slippages (annualized, %)	6.8		6.3	27.4		45 bps	-2064 bps	5.0	10.6	-555 bps	1.5
<b>Capital adequacy ratio (%)</b>											
CAR	9.62		11.64	9.20		-202 bps	42 bps		9.20		
Tier I	7.33		8.94	7.12		-161 bps	21 bps		7.12		
Tier II	2.29		2.70	2.08		-41 bps	21 bps		2.08		
<b>Other key parameters (#)</b>											
Branches	6,993		6,946	6,982		1	0	6,883	6,983	(1)	6,783

Source: Company, Kotak Institutional Equities estimates

### Slippages high at 6.8%

Slippages for 1QFY19 declined to ~7% from 27% in 4QFY18 (up 50 bps yoy). Out of the total slippages of ₹74 bn for the quarter, ₹17 bn was on account of slippages in the agricultural portfolio. Additionally, there was one lumpy account worth ₹3 bn, which slipped into NPL in the current quarter. Recoveries were high in the quarter at ₹55 bn (up 2X yoy) and upgradations increased to ₹29 bn (up 2.3X yoy). GNPL dropped 12 bps qoq 18.3% in 1QFY19. Net NPLs dropped 65 bps qoq to 10.6%. Calculated coverage ratio increased 330 bps qoq to 47%. The bank has taken the total provisions in the fraudulent gems and jewelry account to 63% from 50% earlier. Overall stressed accounts dropped ~40 bps qoq to 19.1%; standard restructured loans down ~30 bps qoq to 0.9%.

We expect slippages to moderate going ahead as corporate slippages decline during 2HFY19. We forecast GNPL to drop to 14% by FY2019E and further reduce to 9% by FY2021E.

#### Exhibit 2: Slippages high at 6.8%

Gross NPL movement for PNB, March fiscal year-ends, 1QFY17-1QFY19 (Rs bn)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Opening	558	567	565	556	554	577	576	575	554	577	576	575	866
Slippages	92	62	57	75	66	35	32	310	66	48	32	310	74
Reductions	84	64	65	77	43	35	33	19	43	49	33	19	111
Upgradations & recoveries	60	48	39	51	27	13	9	6	27	27	9	6	84
Writeoffs	24	16	26	26	16	22	24	13	16	22	24	13	26
Closing NPLs	567	565	556	554	577	576	575	866	577	576	575	866	829
Slippage (annualised)	9.0	6.3	5.8	7.7	6.3	3.5	3.1	27.4	6.3	4.8	3.1	27.4	6.8
Gross NPL (%)	13.8	13.6	13.7	12.5	13.7	13.3	12.1	18.4	13.7	13.3	12.1	18.4	18.3
Net NPL (%)	9.2	9.1	9.1	7.8	8.7	8.4	7.6	11.2	8.7	8.4	7.6	11.2	10.6
Standard restructured (%)	4.8	4.6	4.5	2.8	2.8	2.5	2.1	1.2	2.8	2.5	2.1	1.2	0.9

Source: Company, Kotak Institutional Equities

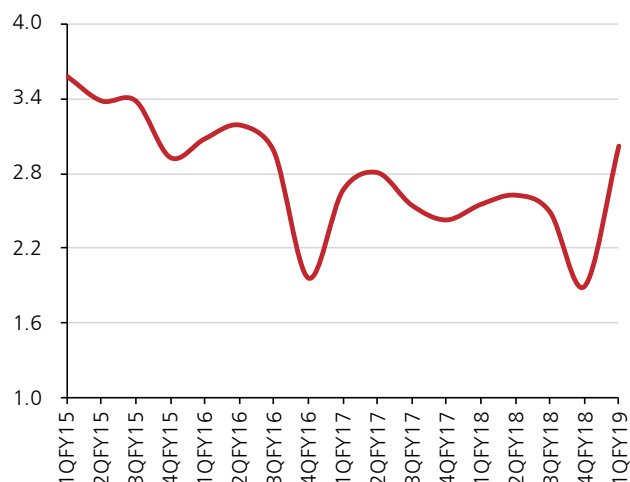
### Recovery in NCLT account leads to improvement in margins

Calculated NIM increased ~45 bps yoy and 110 bps qoq to 3% on the back of improvement in yield on advances (calculated) by ~75 bps yoy to 8.7%. Yields improved on the back of interest recognition in one resolved account under NCLT-1. Adjusting for the same, NIM was flat yoy at 2.6% and yields were flat yoy at ~8%. Cost of deposits (calculated) increased 13 bps qoq (flat yoy) to 5.3% on the back of fall in domestic CASA ratio (reported) to 43% (down 130 bps qoq).

We maintain our positive outlook on NIM as we expect lower interest reversals going ahead and additional income recognition from recoveries in NCLT accounts. We expect calculated NIM to improve 70 bps over FY2018-21E to 2.8%.

**Exhibit 3: NIM (calculated) increased on account of interest recognition from one account resolved under NCLT-1**

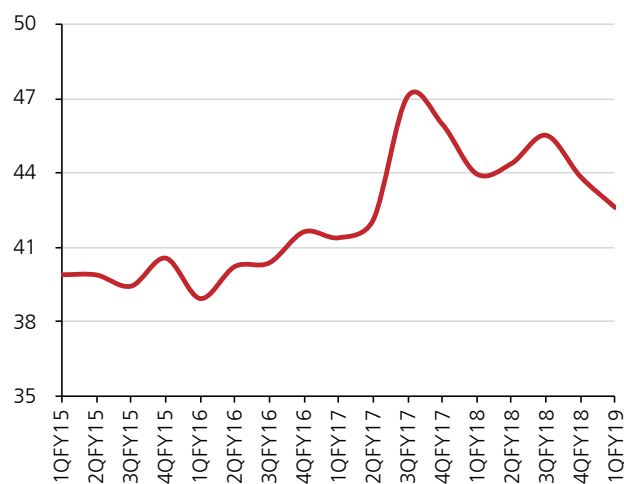
NIM, March fiscal year-ends, 1QFY15-1QFY19 (%)



Source: Company, Kotak Institutional Equities

**Exhibit 4: CASA ratio has dropped 130 bps qoq to 43%**

CASA ratio, March fiscal year-ends, 1QFY15-1QFY19 (%)



Source: Company, Kotak Institutional Equities

### Loan growth muted at 3% yoy

Advances growth was low at 4% yoy in 1QFY19. Retail advances, however, witnessed strong growth at 10% yoy. The share of retail loan book has increased to 18% from 13% in FY2015. Within retail, housing loan growth moderated to 14% yoy in 1QFY19 compared to 30% yoy in the 4QFY18. Large corporate loan growth increased to 7% yoy whereas growth in SME loan was modest at 4% yoy. International advances dropped 23% yoy. We forecast muted loan growth at 3% CAGR over FY2018-21E.

**Exhibit 5: Contribution of retail loans has increased to 18%**

Break-up of loans, March fiscal year-ends, 2010-1QFY19 (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Retail	10	10	10	10	11	13	14	16	18	18
Domestic corporates	48	47	44	42	41	38	38	38	42	43
Agriculture	16	15	16	12	15	16	16	16	16	17
SME	11	11	11	12	13	14	8	19	20	20
International	4	5	7	10	12	14	13	12	9	8

Notes:

(a) There is a reclassification in 1QFY18. Others include food credit, commercial real estate, services and other loans.

Source: Company, Kotak Institutional Equities

### Marginal drop in CASA ratio; surprised to see deposit growth still holding up

Deposits saw a steep decline in growth to 0.8% yoy in 1QFY19 from 3% yoy in 4QFY18. CASA ratio dropped to 43% (down 130 bps qoq). Growth in SA balances was muted at 5% yoy. CA dropped 13% yoy. The reliance on borrowings to fund loan growth decreased in this quarter with borrowings steeply declining 29% qoq (up 7% yoy).

We were quite surprised to see that the overall deposits (domestic) actually saw a growth in the current quarter (up 5% yoy and flat qoq). While there has been a marginal dip in period ending CASA on absolute basis (qoq), the performance on average daily basis has actually been quite impressive showing negligible impact caused by this crisis. Maintenance of a strong liability franchise amid an environment of uncertainty shows the strong brand value of the bank.

### Other key operational highlights for the quarter

- ▶ Non-interest income dropped 16% yoy in 1QFY19 driven by high drop in treasury gains and marginal drop in exchange income (down 2.6% yoy). Fee income declined 1.4% yoy, led by decline in processing fees (down 15% yoy) and LC/LG income (down 20% yoy).
- ▶ Cost to income ratio dropped sharply to 37% in 1QFY19 from 48% in 1QFY18 on the back of steep decline in employee expenses (26% down yoy). The company incurred additional provisions worth Rs633 mn for change in gratuity limits (deferred Rs1.3 bn for later quarters). We await further clarity on the same from the management behind the reason for sharp drop in employee expenses.
- ▶ Capital adequacy ratio stood at 9.6% with tier-1 at 7.3% (CET 1 at 6%). Growth in RWA dropped 9% yoy.

#### Exhibit 6: Changes to our estimates

Old and new estimates, March fiscal year-ends, 2019E-2021E (₹ mn)

	New estimates			Old estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Net interest income	162,878	163,720	182,590	143,886	151,189	167,828	13.2	8.3	8.8
Loan growth	1.5	3.5	2.5	(0.4)	(0.5)	1.5	197 bps	394 bps	99 bps
NIM	2.3	2.4	2.8	2.0	2.2	2.5	27 bps	18 bps	21 bps
NPL provisions	206,113	53,760	55,352	204,830	51,695	51,956	0.6	4.0	6.5
Non-interest income	74,782	74,345	83,142	69,198	76,203	84,325	8.1	(2.4)	(1.4)
Operating expenditure	130,454	129,025	128,435	130,454	129,025	128,435	—	—	—
PBT	(119,907)	54,280	80,943	(133,201)	45,673	70,761	(10.0)	18.8	14.4
PAT	(81,537)	36,910	54,232	(90,576)	31,058	47,410	(10.0)	18.8	14.4
PBT -treasury + NPL provisions	107,206	109,040	137,297	82,629	98,368	123,718	29.7	10.8	11.0

Source: Company, Kotak Institutional Equities estimates

**Exhibit 7: PNB – key growth rates and financial ratios**  
March fiscal year-ends, 2016-2021E (%)

	2016	2017	2018	2019E	2020E	2021E
<b>Growth rates (%)</b>						
Net loan	8.4	1.7	3.4	1.5	3.5	2.5
Total Asset	10.6	7.9	6.3	(4.2)	(2.8)	(2.2)
Deposits	10.3	12.4	3.3	(5.4)	(5.4)	(5.4)
Current	7.7	26.8	(11.9)	(6.9)	(6.9)	(7.0)
Savings	12.8	26.4	4.1	(7.4)	(7.5)	(7.6)
Fixed	9.4	4.1	4.8	(4.0)	(4.1)	(4.1)
Net interest income	(7.5)	(2.1)	(0.5)	9.2	0.5	11.5
Loan loss provisions	105.6	(31.5)	130.7	(26.0)	(73.9)	3.0
Total other income	1.9	49.2	(0.8)	(15.8)	(0.6)	11.8
Net fee income	1.5	15.8	(13.5)	20.0	10.0	11.0
Net capital gains	(2.3)	165.6	22.7	(49.3)	(24.2)	—
Net exchange gains	(14.3)	36.5	38.3	15.0	15.0	16.0
Operating expenses	(4.9)	(5.9)	44.0	(3.4)	(1.1)	(0.5)
Employee expenses	(12.4)	(15.6)	69.1	(4.0)	(4.0)	(4.0)
<b>Key ratios (%)</b>						
Yield on average earning assets	7.8	7.1	6.8	7.1	7.2	7.6
Yield on average loans	8.7	7.9	7.5	7.8	8.1	8.5
Yield on average investments	8.0	7.5	7.4	7.8	7.6	7.5
Average cost of funds	5.5	5.0	4.8	4.9	4.9	5.1
Interest on deposits	5.7	5.1	4.8	5.1	5.2	5.2
Difference	2.2	2.1	2.0	2.2	2.3	2.6
Net interest income/earning assets	2.5	2.3	2.1	2.3	2.4	2.8
New provisions/average net loans	4.4	2.9	6.5	3.0	1.2	1.2
Interest income/total income	71.8	62.6	62.7	68.5	68.8	68.7
Fee income to total income	13.1	13.5	11.7	14.1	15.5	15.4
Operating expenses/total income	46.8	39.2	56.8	54.9	54.2	48.3
Tax rate	26.7	34.1	37.3	32.0	32.0	33.0
Dividend payout ratio	—	—	—	—	—	—
Share of deposits						
Current	6.5	7.4	6.3	6.2	6.1	6.0
Fixed	62.8	58.2	59.0	59.9	60.7	61.6
Savings	30.6	34.4	34.7	34.0	33.2	32.5
Loans-to-deposit ratio	74.6	67.5	67.5	72.5	79.3	85.9
Equity/assets (EoY)	5.7	5.8	5.4	4.9	5.5	6.4
<b>Asset quality trends (%)</b>						
Gross NPLs	12.9	12.5	18.4	13.9	10.5	8.6
Net NPLs	8.6	7.8	11.2	8.8	5.7	3.3
Slippage	11.1	5.4	10.6	5.0	1.5	1.5
Provision coverage	36.5	40.9	43.8	49.1	56.2	69.6
<b>Dupont analysis (%)</b>						
Net interest income	2.4	2.2	2.0	2.2	2.3	2.6
Loan loss provisions	2.8	1.7	3.7	2.7	0.7	0.8
Net other income	0.9	1.3	1.2	1.0	1.0	1.2
Operating expenses	1.6	1.4	1.8	1.7	1.8	1.8
Invt. depreciation	0.1	0.1	0.3	0.3	0.0	0.0
(1- tax rate)	73.3	65.9	62.7	68.0	68.0	67.0
ROA	(0.8)	0.2	(1.7)	(1.1)	0.5	0.8
Average assets/average equity	17.4	18.9	19.7	21.5	21.0	17.9
RoE	(13.3)	3.6	(32.5)	(23.4)	10.7	13.8

Source: Company, Kotak Institutional Equities estimates

**Exhibit 8: PNB – P&L and balance sheet**  
March fiscal year-ends, 2016-2021E (₹ mn)

	2016	2017	2018	2019E	2020E	2021E
<b>Income statement</b>						
Total interest income	474,244	472,760	479,958	501,182	492,905	508,509
Loans	344,455	329,588	318,331	342,003	362,954	392,100
Investments	120,337	125,772	139,470	137,729	107,164	80,318
Cash and deposits	9,452	17,400	22,157	21,450	22,787	36,090
Total interest expense	321,126	322,828	330,734	338,304	329,186	325,919
Deposits from customers	298,026	299,337	304,555	316,826	305,049	290,236
Net interest income	153,118	149,932	149,224	162,878	163,720	182,590
Loan loss provisions	176,087	120,670	278,421	206,113	53,760	55,352
Net interest income (after prov.)	(22,970)	29,262	(129,197)	(43,234)	109,960	127,238
Other income	60,001	89,514	88,809	74,782	74,345	83,142
Net fee income	27,874	32,279	27,919	33,503	36,853	40,907
Net capital gains	9,993	26,543	32,566	16,500	12,500	12,500
Net exchange gains	4,269	5,828	8,061	9,271	10,661	12,367
Operating expenses	99,725	93,794	135,091	130,454	129,025	128,435
Employee expenses	64,259	54,207	91,688	88,034	84,516	81,130
Depreciation on investments	3,455	4,867	20,272	21,000	1,000	1,001
Pretax income	(66,149)	20,115	(195,751)	(119,907)	54,280	80,943
Tax provisions	(17,635)	6,867	(72,923)	(38,370)	17,370	26,711
<b>Net Profit</b>	<b>(48,514)</b>	<b>13,248</b>	<b>(122,828)</b>	<b>(81,537)</b>	<b>36,910</b>	<b>54,232</b>
% growth	(258.5)	(127.3)	(1,027.1)	(33.6)	(145.3)	46.9
PBT+provisions-treasury gains	105,401	121,108	72,376	92,706	98,540	126,797
% growth	(5.3)	14.9	(40.2)	28.1	6.3	28.7
<b>Balance sheet</b>						
Cash and bank balance	736,231	883,317	954,620	963,355	950,918	993,834
Cash	22,238	20,985	21,052	23,157	25,473	28,020
Balance with RBI	242,552	231,115	266,839	273,469	258,716	299,084
Balance with banks	105,307	103,620	105,811	105,811	105,811	105,811
Net value of investments	1,578,459	1,867,254	2,003,060	1,619,002	1,275,357	954,146
Govt. and other securities	1,249,506	1,461,828	1,520,464	1,238,846	895,202	573,990
Shares	45,333	53,579	43,830	43,830	43,830	43,830
Debentures and bonds	188,659	247,196	306,109	306,109	306,109	306,109
Net loans and advances	4,123,258	4,194,932	4,337,347	4,403,491	4,556,491	4,668,888
Fixed assets	52,227	62,733	63,493	44,615	39,385	40,760
Net Owned assets	52,227	62,733	63,493	44,615	39,385	40,760
Other assets	183,729	195,071	299,781	305,776	311,892	321,249
<b>Total assets</b>	<b>6,673,905</b>	<b>7,203,306</b>	<b>7,658,301</b>	<b>7,336,240</b>	<b>7,134,043</b>	<b>6,978,877</b>
Deposits	5,530,511	6,217,040	6,422,262	6,077,080	5,749,238	5,437,899
Current	361,570	458,533	403,742	375,965	349,933	325,545
Savings	1,694,264	2,141,626	2,228,731	2,063,364	1,908,931	1,764,773
Borrowings and bills payable	621,810	433,174	632,493	709,890	798,626	900,566
Other liabilities	138,482	134,622	192,803	192,803	192,803	192,803
Total liabilities	6,290,803	6,784,836	7,247,558	6,979,774	6,740,666	6,531,269
<b>Total shareholders' equity</b>	<b>383,101</b>	<b>418,470</b>	<b>410,743</b>	<b>356,466</b>	<b>393,376</b>	<b>447,608</b>

Source: Company, Kotak Institutional Equities estimates



Exhibit 1: Interim results of PI, March fiscal year-ends (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	Change (%)			FY2019E	FY2018	Change (%)
					Est.	Yoy	Qoq			
Sales	6,056	6,763	5,532	6,251	(10)	9	(3)	27,220	22,771	20
Raw material cost	(3,235)	(3,465)	(2,729)	(3,227)	(7)	19	0	(14,155)	(11,690)	21
Employee cost	(660)	(660)	(600)	(683)	0	10	(3)	(2,675)	(2,432)	10
Other expenses	(980)	(1,064)	(899)	(994)	(8)	9	(1)	(4,478)	(3,715)	21
<b>EBITDA</b>	<b>1,181</b>	<b>1,574</b>	<b>1,304</b>	<b>1,347</b>	<b>(25)</b>	<b>(9)</b>	<b>(12)</b>	<b>5,913</b>	<b>4,934</b>	<b>20</b>
Other income	102	120	126	191	(15)	(19)	(46)	620	603	3
Depreciation and amortization	(220)	(215)	(197)	(212)	2	12	4	(942)	(830)	14
Interest cost	(17)	(18)	(14)	(18)	(6)	22	(8)	(38)	(53)	(28)
Extraordinaries	—	—	—	—	—	—	—	—	—	—
<b>Profit before tax</b>	<b>1,046</b>	<b>1,461</b>	<b>1,219</b>	<b>1,307</b>	<b>(28)</b>	<b>(14)</b>	<b>(20)</b>	<b>5,552</b>	<b>4,653</b>	<b>19</b>
Tax (net)	(229)	(365)	(218)	(253)	—	—	—	(1,222)	(979)	25
Net income	817	1,096	1,001	1,054	(25)	(18)	(23)	4,331	3,675	18
<b>Adjusted net income</b>	<b>817</b>	<b>1,096</b>	<b>1,001</b>	<b>1,054</b>	<b>(25)</b>	<b>(18)</b>	<b>(23)</b>	<b>4,331</b>	<b>3,675</b>	<b>18</b>
<b>EPS (Rs)</b>	<b>5.9</b>	<b>7.9</b>	<b>7.2</b>	<b>7.6</b>	<b>(25)</b>	<b>(18)</b>	<b>(23)</b>	<b>31.3</b>	<b>26.6</b>	<b>18</b>
<b>Key ratios (%)</b>										
Gross margins	46.6	48.8	50.7	48.4	—	—	—	48.0	48.7	—
EBITDA margins	19.5	23.3	23.6	21.5	—	—	—	21.7	21.7	—
Effective tax rate	21.9	25.0	17.9	19.3	—	—	—	22.0	21.0	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Domestic ag-chem business grows from a low base; reported exports results muted due to Ind-AS adjustment

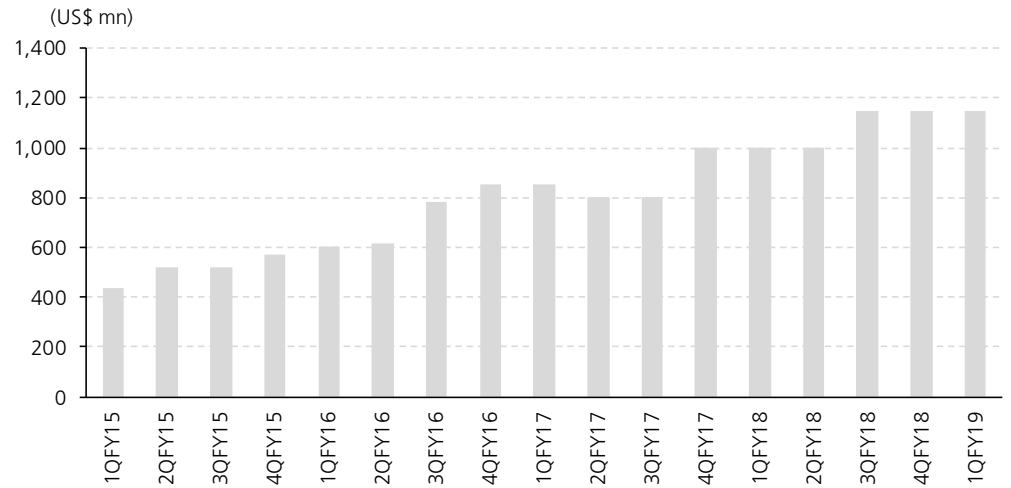
Segment-wise revenues of PI, 1QFY16 onwards (₹ mn)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
<b>Revenues (Rs mn)</b>													
- Domestic ag-chem	3,080	2,650	1,570	1,930	2,989	2,290	1,635	1,743	2,560	2,588	1,700	1,870	3,149
- CSM	2,840	2,110	3,684	4,110	3,400	3,151	3,244	4,313	2,972	3,023	3,680	4,381	2,909
Total	5,920	4,760	5,254	6,040	6,389	5,441	4,879	6,056	5,532	5,611	5,380	6,251	6,058
<b>Revenue-mix (%)</b>													
- Domestic ag-chem	52	56	30	32	47	42	34	29	46	46	32	30	52
- CSM	48	44	70	68	53	58	66	71	54	54	68	70	48

Source: Company, Kotak Institutional Equities



**Exhibit 3: CSM order book remains steady at US\$1.15 bn**  
Trend in the order book in the CSM business, 1QFY15 onwards (US\$ mn)



Source: Company, Kotak Institutional Equities

**Exhibit 4: PI stock is trading closer to its five-year average P/E of 23X**  
12-month forward P/E for PI (X)



Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 5: Comparative valuations for ag-chem companies

	Price	Market cap.	P/E (X)			EV/EBITDA (X)		
	(LC)	(US\$ mn)	2018	2019E	2020E	2018	2019E	2020E
<b>Global companies</b>								
BASF SE	81	86,127	12.4	12.4	11.5	7.1	7.4	6.9
Bayer AG	97	104,460	15.1	15.3	12.2	10.3	11.4	9.3
Dow DuPont	68	156,348	20.8	16.1	14.0	11.3	9.5	8.3
FMC Corp.	88	11,860	33.1	14.4	12.9	23.6	11.0	9.8
Nufarm Ltd	8	1,832	16.7	25.1	14.9	8.5	10.7	7.3
<b>Indian companies</b>								
Bayer CropScience	4,289	2,467	52.0	48.9	40.6	38.7	40.3	29.7
Dhanuka Agritech	612	437	25.6	23.8	21.8	17.7	17.5	15.1
PI Industries	766	1,538	28.8	24.5	19.3	21.3	17.5	13.7
Rallis India	204	577	23.3	23.6	20.1	14.3	14.7	13.2
UPL	647	4,797	18.2	15.1	13.2	12.1	10.4	8.9
Godrej Agrovet	646	1,806	59.9	56.1	40.1	29.6	28.8	22.2

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 6: Key assumptions, March fiscal year-ends (₹ mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Total operating revenues</b>	<b>11,514</b>	<b>15,955</b>	<b>19,403</b>	<b>20,963</b>	<b>22,768</b>	<b>22,771</b>	<b>27,220</b>	<b>32,512</b>	<b>38,298</b>
- CSM business	6,014	9,255	11,430	12,448	13,810	14,551	17,521	21,260	25,696
- Domestic ag-chem business	5,500	6,700	7,973	8,515	8,958	8,220	9,700	11,252	12,602
<b>Overall revenue growth (%)</b>	<b>31.0</b>	<b>38.6</b>	<b>21.6</b>	<b>8.0</b>	<b>8.6</b>	<b>0.0</b>	<b>19.5</b>	<b>19.4</b>	<b>17.8</b>
- CSM business	60.9	53.9	23.5	8.9	10.9	5.4	20.4	21.3	20.9
- Domestic ag-chem business	8.9	21.8	19.0	6.8	5.2	(8.2)	18.0	16.0	12.0
<b>Overall EBITDA margin (%)</b>	<b>15.7</b>	<b>18.1</b>	<b>19.2</b>	<b>20.6</b>	<b>24.3</b>	<b>21.7</b>	<b>21.7</b>	<b>22.7</b>	<b>23.1</b>
- CSM business	18.9	19.3	21.0	22.0	25.6	22.6	22.6	23.6	23.9
- Domestic ag-chem business	12.1	15.5	16.0	18.3	21.7	19.9	19.6	20.6	21.1

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Consolidated profit model, balance sheet and cash flow for PI, March fiscal year-ends (₹ mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model</b>									
Sales	11,514	15,955	19,403	20,963	22,768	22,771	27,220	32,512	38,298
<b>EBITDA</b>	<b>1,809</b>	<b>2,889</b>	<b>3,727</b>	<b>4,312</b>	<b>5,533</b>	<b>4,934</b>	<b>5,913</b>	<b>7,389</b>	<b>8,855</b>
Other income	82	157	237	355	366	603	620	823	1,045
Interest	(218)	(118)	(97)	(96)	(72)	(53)	(38)	(38)	(38)
Depreciation	(220)	(316)	(498)	(543)	(730)	(830)	(942)	(1,088)	(1,253)
Extraordinary items	(3)	—	184	—	(1)	—	—	—	—
<b>Profit before tax</b>	<b>1,450</b>	<b>2,612</b>	<b>3,552</b>	<b>4,028</b>	<b>5,095</b>	<b>4,653</b>	<b>5,552</b>	<b>7,085</b>	<b>8,609</b>
Tax expense	(477)	(733)	(1,093)	(913)	(501)	(979)	(1,222)	(1,594)	(1,937)
<b>PAT</b>	<b>973</b>	<b>1,879</b>	<b>2,459</b>	<b>3,116</b>	<b>4,594</b>	<b>3,675</b>	<b>4,331</b>	<b>5,491</b>	<b>6,672</b>
<b>EPS (Rs)</b>	<b>7.1</b>	<b>13.8</b>	<b>18.0</b>	<b>22.6</b>	<b>33.2</b>	<b>26.6</b>	<b>31.3</b>	<b>39.7</b>	<b>48.3</b>
<b>Balance sheet</b>									
Equity	5,317	6,945	8,965	11,709	16,272	19,248	22,952	27,648	33,354
Total borrowings	2,172	1,223	1,148	1,244	830	463	463	463	463
Deferred tax liability	483	437	369	438	—	—	—	—	—
Current liabilities and provisions	3,375	4,574	5,851	6,094	5,913	6,553	7,338	8,764	10,324
<b>Total liabilities</b>	<b>11,347</b>	<b>13,179</b>	<b>16,332</b>	<b>19,486</b>	<b>23,014</b>	<b>26,264</b>	<b>30,753</b>	<b>36,876</b>	<b>44,141</b>
Net fixed assets	5,386	5,692	6,659	9,455	10,223	10,876	11,683	12,845	13,843
Investments	5	5	5	3	833	1,607	1,607	1,607	1,607
Cash	161	438	341	560	1,326	1,307	3,382	5,734	9,149
Other current assets	5,795	7,045	9,326	9,468	10,631	12,475	14,081	16,690	19,543
<b>Total assets</b>	<b>11,347</b>	<b>13,179</b>	<b>16,332</b>	<b>19,486</b>	<b>23,014</b>	<b>26,264</b>	<b>30,753</b>	<b>36,876</b>	<b>44,141</b>
<b>Free cash flow</b>									
Operating cash flow	1,195	2,153	2,702	3,547	4,551	4,184	4,653	5,756	6,880
Working capital changes	(425)	(81)	(971)	20	(1,234)	(1,043)	(820)	(1,183)	(1,293)
Capital expenditure	(1,510)	(640)	(1,685)	(3,215)	(1,419)	(1,696)	(1,750)	(2,250)	(2,250)
<b>Free cash flow</b>	<b>(741)</b>	<b>1,432</b>	<b>46</b>	<b>352</b>	<b>1,898</b>	<b>1,444</b>	<b>2,083</b>	<b>2,323</b>	<b>3,337</b>
<b>Ratios</b>									
EBITDA margin (%)	15.7	18.1	19.2	20.6	24.3	21.7	21.7	22.7	23.1
Net debt/equity (X)	0.4	0.1	0.1	0.1	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)
Book value (Rs/share)	39	51	66	85	118	139	166	200	241
RoAE (%)	21.5	28.8	27.3	27.5	30.5	18.0	18.2	19.2	19.2
RoACE (%)	22.7	31.1	33.8	31.6	31.5	22.3	23.1	24.5	24.6

Source: Company, Kotak Institutional Equities estimates



Exhibit 1: Novelis' adjusted EBITDA increased 15% yoy to US\$332 mn (+4% qoq) aided by improved metal price spreads  
Interim results of Novelis, March fiscal year-ends (US\$ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	(% chg.)
					KIE	yoy	qoq			
Net sales	3,097	3,119	2,669	3,066	(1)	16	1	11,841	11,462	3
Expenditure	(2,725)	(2,805)	(2,382)	(2,750)	(3)	14	(1)	(10,577)	(10,272)	3
Cost of goods sold	(2,591)	(2,658)	(2,261)	(2,603)				(10,007)	(9,719)	
SG&A	(119)	(131)	(106)	(131)				(505)	(489)	
R&D	(15)	(16)	(15)	(16)				(65)	(64)	
<b>EBITDA</b>	<b>372</b>	<b>314</b>	<b>287</b>	<b>316</b>	<b>18</b>	<b>30</b>	<b>18</b>	<b>1,264</b>	<b>1,190</b>	<b>6</b>
Restructuring expenses	(1)	(2)	(1)	(1)				(12)	(34)	
<b>Reported EBITDA</b>	<b>371</b>	<b>312</b>	<b>286</b>	<b>315</b>	<b>19</b>	<b>30</b>	<b>18</b>	<b>1,252</b>	<b>1,156</b>	<b>8</b>
Depreciation	(86)	(88)	(90)	(87)				(369)	(354)	
<b>EBIT</b>	<b>285</b>	<b>224</b>	<b>196</b>	<b>228</b>	<b>27</b>	<b>45</b>	<b>25</b>	<b>883</b>	<b>802</b>	<b>10</b>
Interest Expense	(66)	(63)	(64)	(63)				(241)	(255)	
Extraordinary income (loss)	—	—	—	—				—	318	
Affiliate income / (loss)	—	—	—	—				(1)	(1)	
Other income (expenses)	(29)	(2)	12	(2)				17	(9)	
<b>Profit before tax</b>	<b>190</b>	<b>160</b>	<b>144</b>	<b>163</b>	<b>19</b>	<b>32</b>	<b>17</b>	<b>658</b>	<b>855</b>	<b>(23)</b>
Income tax	(53)	(48)	(43)	(54)				(197)	(233)	
<b>Profit after tax</b>	<b>137</b>	<b>112</b>	<b>101</b>	<b>109</b>	<b>23</b>	<b>36</b>	<b>26</b>	<b>461</b>	<b>622</b>	<b>(26)</b>
Minorities	—	—	—	—	—	—	—	5	13	
<b>Net income</b>	<b>137</b>	<b>112</b>	<b>101</b>	<b>106</b>	<b>23</b>	<b>36</b>	<b>29</b>	<b>466</b>	<b>635</b>	<b>(27)</b>
<b>Adjusted net income</b>	<b>113</b>	<b>112</b>	<b>103</b>	<b>101</b>	<b>1</b>	<b>10</b>	<b>12</b>	<b>466</b>	<b>420</b>	<b>11</b>
<b>Ratios (%)</b>										
Gross profit margin	16	15	15	15	155 bps	105 bps	124 bps	15	15	28 bps
EBITDA (adjusted)	12	10	11	10	194 bps	126 bps	171 bps	11	10	29 bps
EBITDA (reported)	12	10	11	10	197 bps	126 bps	171 bps	11	10	49 bps
EBIT	9	7	7	7	201 bps	186 bps	177 bps	7	7	46 bps
PBT margin	6	5	5	5	102 bps	74 bps	82 bps	6	7	-190 bps
Net income	4	4	4	3	84 bps	64 bps	97 bps	4	5	-154 bps
<b>Key metrics</b>										
Rolled shipments (kt)	797	803	785	805	(1)	2	(1)	3,236	3,188	1
Average realization (US\$/ton)	3,886	3,883	3,400	3,809				3,659	3,595	2
Adjusted EBITDA/ton (US\$/ton)	417	398	368	396	5	13	5	392	381	3
<b>Adjusted EBITDA (US\$ mn)</b>	<b>332</b>	<b>320</b>	<b>289</b>	<b>319</b>	<b>4</b>	<b>15</b>	<b>4</b>	<b>1,268</b>	<b>1,215</b>	<b>4</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 2: Novelis's adjusted EBITDA increased 15% yoy led by improved profitability in Asia and South America**  
 Novelis EBITDA and EBITDA/ton by geographical segment, March fiscal year-ends, 2015-2019, (US\$ mn, US\$/ton)

	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	(% change)	
														(yoy)	(qoq)
<b>EBITDA (US\$ mn)</b>															
North America	69	90	84	96	92	93	90	105	116	124	110	122	119	3	(2)
Europe	45	56	45	56	57	49	44	58	57	51	49	61	61	7	0
Asia	39	39	33	32	46	46	40	31	44	37	42	43	55	25	28
South America	59	51	76	92	73	82	81	101	72	90	106	93	97	35	4
<b>Total</b>	<b>212</b>	<b>236</b>	<b>238</b>	<b>277</b>	<b>268</b>	<b>270</b>	<b>255</b>	<b>292</b>	<b>289</b>	<b>302</b>	<b>305</b>	<b>319</b>	<b>332</b>	<b>15</b>	<b>4</b>
<b>EBITDA/ton (US\$)</b>															
North America	264	336	332	387	382	369	364	390	428	459	409	447	434	1	(3)
Europe	195	238	205	241	237	211	198	250	247	218	224	262	268	8	2
Asia	214	225	180	178	261	263	248	182	250	208	240	254	318	27	25
South America	628	455	618	728	753	719	675	856	673	750	764	715	795	18	11
<b>Total</b>	<b>276</b>	<b>299</b>	<b>306</b>	<b>351</b>	<b>355</b>	<b>349</b>	<b>340</b>	<b>370</b>	<b>368</b>	<b>377</b>	<b>383</b>	<b>396</b>	<b>417</b>	<b>13</b>	<b>5</b>
<b>Shipments ('000 tons)</b>															
North America	261	268	253	249	241	252	247	269	271	270	268	273	274	1	0
Europe	231	235	220	232	241	232	222	232	231	234	217	233	228	(1)	(2)
Asia	182	173	183	180	176	175	161	170	176	178	173	169	173	(2)	2
South America	94	112	123	127	97	114	120	118	107	120	138	130	122	14	(6)
<b>Total</b>	<b>768</b>	<b>788</b>	<b>779</b>	<b>788</b>	<b>755</b>	<b>773</b>	<b>750</b>	<b>789</b>	<b>785</b>	<b>802</b>	<b>796</b>	<b>805</b>	<b>797</b>	<b>2</b>	<b>(1)</b>

Source: Company, Kotak Institutional Equities estimates

### Aleris reports strong improvement

Aleris reported strong improvement in adjusted EBITDA to US\$85 mn (+29% yoy, +58% qoq) aided by higher metal price spreads and improved productivity. Among regions, EBITDA improvement was led by (1) North America EBITDA increasing to US\$55 mn (+50% yoy, +60% qoq), (2) Europe to US\$34 mn (-5% yoy, +25% qoq) and (3) Asia at US\$6 mn (US\$4 mn in 2QCY17). We highlight:

- ▶ **North America—favorable metal spreads aid earnings:** The improvement in EBITDA to US\$55 mn from US\$36 mn in 2QCY17 was largely aided by favorable metal spreads of US\$19 mn. *In our note dated June 15, 2018, we had earlier highlighted that the recycling spread has seen an improvement in 1QFY19, especially in the US.*
- ▶ **Europe—yoy down due to weakness in Aerospace earnings.** The Europe EBITDA was down 5% yoy to US\$34 mn as Aerospace weakness from ongoing supply chain destocking affected volume, mix, and rolling margins.

**Aleris—consolidated financials.** The company reported revenues of US\$931 mn (+20% yoy, +16% qoq), gross profit of US\$101 mn (+19% yoy, +62% qoq) and EBITDA (reported) of US\$26 mn (-62% yoy). The reported EBITDA was lower due to (1) loss on debt extinguishment of US\$49 mn, and (2) start-up costs of US\$23 mn.

The company reported a net-loss of US\$47 mn (US\$3 mn in 2QCY17) largely due to debt extinguishment costs and start-up costs. We note that Aleris refinanced debt US\$1.5 bn on June 25, 2018—the extinguishment costs pertains to redemption costs for the old senior notes and expensing the net unamortized discounts, debt issuance costs of the old senior notes.

### Novelis—region-wise performance

Novelis' earnings across geographies were as follows:

- ▶ **North America—one-off impact hurt earnings.** Novelis EBITDA increased 3% yoy to US\$119 mn (-2% qoq) led by 1% yoy increase in shipments to 274,000 tons and improvement in EBITDA/ton to US\$434 (+1% yoy, -3% qoq). We believe North America earnings would have been higher due to improved metal spreads (higher US Midwest premiums) but for lower shipments due to unplanned downtime for a North American auto customer. The overall automotive shipments for the company declined to 19% during the quarter from 19% earlier.
- ▶ **Europe—EBITDA increases 7% yoy.** Europe EBITDA increased 7% yoy to US\$61 mn (flat qoq) led by 8% yoy improvement in EBITDA/ton to US\$268 (+2% qoq). The shipments in Europe declined 1% yoy to 228,000 tons (+2% qoq).
- ▶ **Asia—sharp improvement.** The EBITDA for Asian operations increased 25% yoy to US\$55 mn (+28% qoq) led by improvement in EBITDA/ton to US\$318 (+27% yoy, +25% qoq). Shipments declined 2% yoy to 173,000 tons. The management highlighted that Asia earnings were aided by a mix of higher recycling spreads, favorable market conditions in the can sheet market and improvement in the product mix
- ▶ **South America—reports improved EBITDA/ton.** The South America EBITDA increased 35% yoy to US\$97 mn (+4% qoq) led by 18% yoy improvement in EBITDA/ton to US\$795 (+11% qoq). As per the management, higher metal spreads aided South America earnings as well. We also believe that weaker BRL/US\$ would have benefitted SA operations due to lower conversion costs in US\$ terms during the quarter.

### Other highlights from the results

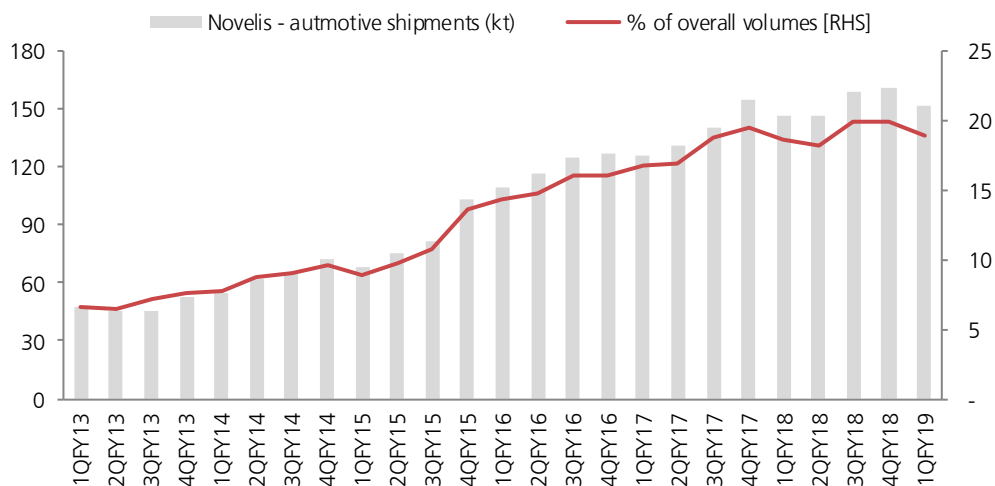
- ▶ **Free Cash Flows—US\$4 mn for the quarter.** The company reported FCF of -US\$4 mn in 1QFY19 (US\$406 mn in FY2018). FCF in FY2018 would have been higher but for increase in working capital/others of US\$176 mn in 1QFY19, due to higher prices, inventories. The company incurred capital expenditure of US\$54 mn in 1QFY19, paid interest of US\$65 mn and taxes of US\$41 mn on adjusted EBITDA of US\$332 mn.
  - ▶ The management has maintained its capex guidance of US\$450 mn for FY2019E.
- ▶ **Leverage ratio improves to 2.9X.** Novelis' leverage ratio improved to 2.9X in June 2018 from 3X in March 2018. The management stated that it maintains guidance of leverage ratio of 4X at the close to Aleris transaction and to reduce it to 3X in two years.

Exhibit 3: Novelis, Adjusted EBITDA calculation, March fiscal year-ends (US\$ mn)

	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Operating EBITDA	128	186	249	261	259	304	287	293	294	316	372
Extraordinary Income (loss)	—	—	—	—	(111)	0	0	0	0	0	0
Affiliate income/ (loss)	(1)	—	(1)	—	—	0	0	(1)	0	(3)	(3)
Other income/ (expenses) - net	32	16	(14)	(31)	(42)	(32)	12	(25)	6	(2)	(29)
Restructuring expenses, net	(4)	(10)	(19)	(1)	1	(32)	(3)	(4)	(27)	(1)	(1)
<b>Sub-total</b>	<b>155</b>	<b>192</b>	<b>215</b>	<b>229</b>	<b>107</b>	<b>240</b>	<b>296</b>	<b>263</b>	<b>273</b>	<b>310</b>	<b>339</b>
Unrealised gain (loss) on derivatives	15	1	22	6	(4)	13	(16)	18	(15)	(7)	4
Proportional consolidation	8	7	9	8	8	8	8	8	17	18	16
Restructuring charges, net	4	10	19	2	1	6	1	7	25	1	1
Other costs, net	—	2	5	10	144	25	—	6	5	(3)	(28)
<b>Underlying EBITDA</b>	<b>182</b>	<b>212</b>	<b>270</b>	<b>255</b>	<b>256</b>	<b>292</b>	<b>289</b>	<b>302</b>	<b>305</b>	<b>319</b>	<b>332</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 4: Novelis' automotive shipments declined to 19% of volumes due a customer downtime**  
Automotive rolled product shipment at Novelis, 1QFY13 – 1QFY19 ('000 tons, %)



Source: Company, Kotak Institutional Equities estimates

**Exhibit 5: Aleris' adjusted EBITDA improved to US\$85 mn led by higher metal spreads**  
Aleris—Income statement, 2QCY17 - 2QCY18 (US\$ mn)

	2QCY18	2QCY17	1QCY18	Change (%)		CY2017	CY2016	Change (%)
				yoy	qoq			
Shipments ('000 tons)	235	220	209	7	12	804	829	(3)
Revenues	931	776	802	20	16	2,857	2,664	7
Commercial margin	368	326	326			1,199	1,194	
Margin (%)	40	42	41			42	45	
Cost of sales	829	691	740			2,598	2,376	
Gross profit	101	86	63	19	62	259	288	(10)
Selling and admin expenses	50	51	51			221	219	
Restructuring expenses	1	1	1			3	1	
(Gain)/loss on derivative instr.	21	(13)	(34)			45	12	
Other operating expense	0	1	1			6	4	
Interest	35	31	34			124	83	
Other expense	37	4	0			35	2	
Income/(loss) before taxes	(43)	10	10			(174)	(32)	NM
Tax	4	13	5			40	40	
Net income/(loss)	(47)	(3)	5	NM	NM	(214)	(72)	NM
Adjusted EBITDA	85	66	54	29	58	200	206	(3)
Adjusted EBITDA/ton	361	300	256	20	41	249	248	0

Source: Company, Kotak Institutional Equities estimates









## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Target		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		Price (Rs) 7-Aug-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	
<b>NBFCs</b>																													
Bajaj Finance	SELL	2,747	2,000	(27.2)	1,587	23.1	575	43	68	90	29.2	56.6	31.9	63.3	40.4	30.6	—	—	—	10.0	8.2	6.6	19.7	22.4	24.0	0.1	0.2	0.3	56.9
Bajaj Finserv	REDUCE	6,994	6,100	(12.8)	1,113	16.2	159	176	245	307	10.3	39.7	25.2	39.9	28.5	22.8	—	—	—	5.6	4.5	3.8	15.6	17.5	18.1	0.2	0.2	0.2	18.9
Bharat Financial Inclusion	NA	1,203	—	—	168	2.4	139	33	43	54	55.5	31.1	27.2	36.8	28.1	22.1	—	—	—	5.6	4.5	3.7	16.7	17.9	18.5	—	—	—	10.2
Cholamandalam	REDUCE	1,438	1,500	4.3	225	3.3	156	62	90	110	35.5	44.8	22.1	23.1	15.9	13.1	—	—	—	4.6	3.7	3.0	20.6	24.5	24.3	0.5	0.8	0.9	7.8
HDFC	ADD	1,979	2,075	4.9	3,344	48.7	1,676	75	56	67	52.1	(25.8)	19.0	26.2	35.4	29.7	—	—	—	5.2	4.5	4.1	23.9	13.8	14.5	1.0	1.1	1.3	70.4
HDFC Standard Life Insurance	SELL	478	405	(15.3)	963	14.0	2,007	6	6	7	24.4	14.8	10.9	86.4	75.3	67.9	—	—	—	22.3	19.9	17.8	27.3	28.0	27.7	0.3	0.3	0.4	11.5
ICICI Lombard	SELL	766	620	(19.1)	348	5.1	454	19	26	32	22.0	37.1	21.5	40.4	29.4	24.2	—	—	—	7.7	6.4	5.4	20.8	23.8	24.2	0.5	0.8	0.9	2.2
ICICI Prudential Life	BUY	420	500	19.1	603	8.8	1,436	11	12	13	(3.7)	10.1	7.0	37.2	33.8	31.6	—	—	—	9.2	7.5	6.3	25.0	24.5	21.8	1.3	0.5	0.5	10.3
IIFL Holdings	SELL	687	625	(9.1)	219	3.2	319	29	38	45	32.4	31.5	18.6	24.1	18.3	15.4	—	—	—	4.3	3.3	2.8	19.0	20.5	20.0	0.9	1.2	1.4	1.5
L&T Finance Holdings	ADD	177	190	7.6	352	5.1	1,996	7	13	14	23.7	70.9	12.3	24.0	14.1	12.5	—	—	—	2.8	2.5	2.2	14.2	18.9	18.8	1.0	1.1	1.4	12.5
LIC Housing Finance	BUY	564	610	8.1	285	4.1	505	44	50	58	3.2	13.8	17.5	12.9	11.4	9.7	—	—	—	2.1	1.8	1.5	14.5	14.3	14.4	1.2	1.4	1.6	12.5
Magma Fincorp	BUY	147	200	36.2	40	0.6	237	10	12	15	1,014.5	24.6	25.8	15.1	12.1	9.6	—	—	—	1.5	1.4	1.3	10.2	12.9	14.1	0.5	1.2	1.6	1.6
Mahindra & Mahindra Financial	REDUCE	488	500	2.5	301	4.4	614	15	23	28	105.0	58.4	23.2	33.6	21.2	17.2	—	—	—	3.5	3.1	2.8	11.3	14.3	15.8	0.8	1.3	1.6	10.7
Max Financial Services	ADD	491	650	32.5	132	1.9	268	5	6	6	(20.4)	36.9	1.8	107.1	78.2	76.8	—	—	—	—	—	—	6.5	8.3	8.0	—	0.4	0.5	4.7
Muthoot Finance	ADD	420	480	14.3	168	2.4	400	43	38	40	45.6	(10.8)	4.0	9.8	10.9	10.5	—	—	—	2.2	1.9	1.7	24.1	18.4	16.9	2.4	2.1	2.2	4.9
PNB Housing Finance	REDUCE	1,306	1,375	5.3	219	3.2	167	50	61	77	57.8	23.0	25.3	26.2	21.3	17.0	—	—	—	3.4	3.2	2.7	14.0	15.2	16.8	0.7	0.3	0.3	10.0
SBI Life Insurance	ADD	686	785	14.4	686	10.0	1,000	12	15	18	20.8	26.0	22.9	59.5	47.2	38.4	—	—	—	10.7	9.0	7.5	19.4	20.6	21.3	0.3	0.3	0.4	3.9
Shriram City Union Finance	ADD	1,927	2,250	16.8	127	1.9	66	101	141	174	19.6	40.4	22.7	19.1	13.6	11.1	—	—	—	2.4	2.2	1.9	12.5	15.8	16.9	0.9	0.9	1.1	1.4
Shriram Transport	ADD	1,418	1,550	9.3	322	4.7	227	69	114	130	24.7	64.4	14.3	20.5	12.5	10.9	—	—	—	2.7	2.2	1.9	13.1	18.3	17.5	0.8	1.1	1.3	30.9
<b>NBFCs</b>	<b>Neutral</b>				<b>11,201</b>	<b>163</b>					<b>36.9</b>	<b>14.8</b>	<b>19.6</b>	<b>32.7</b>	<b>28.5</b>	<b>23.8</b>				<b>5.5</b>	<b>4.6</b>	<b>4.0</b>	<b>16.8</b>	<b>16.1</b>	<b>16.8</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>	<b>578.6</b>
<b>Cement</b>																													
ACC	SELL	1,535	1,270	(17.3)	288	4.2	188	49	62	70	32.7	27.0	13.8	31.5	24.8	21.8	16.8	13.7	11.8	3.1	2.8	2.6	10.1	11.9	12.5	1.1	1.1	1.1	15.5
Ambuja Cements	REDUCE	230	210	(8.7)	457	6.7	1,986	8	9	11	29.7	14.5	23.2	30.6	26.7	21.7	10.2	9.0	7.5	2.2	2.1	2.0	7.4	8.1	9.5	1.6	1.6	1.6	11.7
Dalmia Bharat	ADD	2,635	2,900	10.1	235	3.4	89	60	98	128	55.4	62.6	30.3	43.7	26.9	20.6	13.5	10.3	8.4	3.9	3.4	2.9	9.7	13.4	15.2	0.1	0.1	0.1	4.8
Grasim Industries	BUY	1,019	1,275	25.1	670	9.8	657	47	52	69	(30.1)	9.1	32.8	21.5	19.7	14.8	12.2	7.4	6.8	1.2	1.1	1.0	7.0	5.8	7.2	0.5	0.5	0.5	14.0
India Cements	REDUCE	122	135	10.7	38	0.5	308	3	5	9	(42.5)	56.2	84.4	37.3	23.9	13.0	10.0	8.6	6.8	0.7	0.7	0.7	2.0	3.0	5.3	0.8	0.8	0.8	7.7
J K Cement	ADD	773	890	15.1	54	0.8	70	43	45	79	59.3	3.7	75.4	17.9	17.2	9.8	9.8	10.2	8.4	2.7	2.4	2.0	16.2	15.0	22.3	1.0	1.0	1.0	0.6
JK Lakshmi Cement	ADD	320	370	15.7	38	0.5	118	4	11	28	(35.7)	153.5	147.9	71.5	28.2	11.4	13.3	9.9	6.4	2.6	2.4	2.0	3.7	8.9	19.5	0.6	0.6	0.6	0.4
Orient Cement	ADD	121	145	19.8	25	0.4	205	2	7	11	237.8	212.9	58.7	56.1	17.9	11.3	12.2	8.2	6.3	2.4	2.2	1.9	4.4	12.9	18.2	0.6	1.2	1.7	0.2
Shree Cement	SELL	17,216	12,500	(27.4)	600	8.7	35	397	421	630	3.4	6.0	49.7	43.3	40.9	27.3	23.3	19.0	14.3	6.7	5.9	4.9	16.7	15.4	19.7	0.3	0.3	0.3	5.3
UltraTech Cement	SELL	4,210	2,950	(29.9)	1,156	16.8	275	88	126	162	(7.8)	42.7	28.9	47.8	33.5	26.0	23.5	17.4	14.4	4.5	4.0	3.5	9.7	12.6	14.3	0.2	0.2	0.2	19.3
<b>Cement</b>	<b>Cautious</b>				<b>3,560</b>	<b>52</b>					<b>6.5</b>	<b>23.6</b>	<b>33.7</b>	<b>34.4</b>	<b>27.8</b>	<b>20.8</b>	<b>15.4</b>	<b>10.9</b>	<b>9.2</b>	<b>2.6</b>	<b>2.4</b>	<b>2.2</b>	<b>7.5</b>	<b>8.6</b>	<b>10.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>79.6</b>

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)
		7-Aug-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	
<b>Consumer products</b>																													
Asian Paints	REDUCE	1,424	1,325	(7.0)	1,366	19.9	959	21	27	33	2.9	32.1	20.3	69.4	52.5	43.7	42.4	32.9	27.2	16.2	14.2	12.4	24.6	28.8	30.3	0.6	0.8	1.0	21.7
Bajaj Corp.	ADD	411	470	14.4	61	0.9	148	14	15	17	(9.4)	7.8	10.3	28.7	26.7	24.2	22.7	21.3	18.2	12.3	12.4	12.3	42.8	46.3	51.2	2.9	3.2	3.4	0.4
Britannia Industries	ADD	6,200	6,700	8.1	744	10.8	120	84	104	127	13.5	24.5	22.2	74.1	59.5	48.7	49.0	39.0	31.9	21.9	17.3	14.0	32.9	32.5	31.8	0.4	0.6	0.7	11.1
Coffee Day Enterprises	REDUCE	265	340	28.2	56	0.8	211	3	8	13	49.1	149.7	59.4	79.3	31.8	19.9	13.5	—	—	2.4	2.2	2.0	3.1	7.2	10.4	—	—	—	0.9
Colgate-Palmolive (India)	ADD	1,145	1,250	9.2	311	4.5	272	24	27	32	15.2	14.7	15.6	48.2	42.0	36.3	27.6	24.1	21.0	20.4	20.6	17.6	46.2	48.8	52.2	2.1	1.4	1.7	8.2
Dabur India	REDUCE	443	390	(12.0)	783	11.4	1,762	8	9	10	7.2	17.3	12.9	57.0	48.6	43.1	48.3	40.7	35.1	13.7	13.7	11.9	25.9	28.1	29.6	1.7	0.8	1.0	13.7
GlaxoSmithKline Consumer	ADD	6,752	6,750	(0.0)	284	4.1	42	166	189	211	6.6	13.3	11.9	40.6	35.8	32.0	28.1	24.1	20.8	8.1	7.4	6.8	21.2	21.7	22.2	1.1	1.3	1.6	2.1
Godrej Consumer Products	SELL	1,300	1,100	(15.4)	885	12.9	681	21	25	29	11.5	18.8	13.7	60.9	51.2	45.1	43.1	36.4	31.6	14.1	12.1	10.4	25.2	25.4	24.8	0.5	0.7	0.7	10.0
Hindustan Unilever	REDUCE	1,730	1,570	(9.3)	3,745	54.5	2,160	25	29	33	25.0	19.5	13.2	70.5	59.0	52.1	50.6	40.9	36.0	52.8	46.2	39.2	78.1	83.5	81.4	1.2	1.2	1.4	35.8
ITC	ADD	301	330	9.6	3,678	53.5	12,275	9	10	11	7.8	8.2	12.3	33.8	31.2	27.8	22.2	20.2	17.8	7.2	6.8	6.4	19.4	20.4	22.2	1.7	1.9	2.2	48.8
Jubilant Foodworks	BUY	1,491	1,650	10.7	197	2.9	132	15	25	35	191.7	73.6	37.5	102.4	59.0	42.9	43.8	29.6	22.3	20.3	14.6	11.1	21.7	28.9	29.5	0.1	0.1	0.2	41.4
Jyothy Laboratories	ADD	221	240	8.7	80	1.2	364	4	6	7	(26.4)	27.6	16.7	50.1	39.3	33.7	30.7	26.2	22.3	7.0	6.1	5.3	14.4	16.6	16.8	0.2	0.5	0.7	1.7
Marico	ADD	362	375	3.7	467	6.8	1,291	6	7	8	7.4	8.9	20.0	57.7	53.0	44.1	40.7	36.8	30.4	18.4	17.4	16.1	33.2	33.7	37.9	1.1	1.3	1.5	9.9
Nestle India	ADD	10,538	11,000	4.4	1,016	14.8	96	127	171	197	21.1	34.2	15.7	82.9	61.8	53.4	45.6	35.4	30.6	29.7	27.3	25.1	36.6	46.1	49.0	0.8	1.1	1.3	8.7
Page Industries	SELL	29,949	21,000	(29.9)	334	4.9	11	311	392	482	32.5	26.1	22.9	96.3	76.3	62.1	61.3	48.5	39.9	39.4	30.8	24.6	45.9	45.3	44.0	0.4	0.6	0.7	8.3
Pidlite Industries	REDUCE	1,104	1,080	(2.2)	561	8.2	508	18	21	26	7.5	16.8	21.8	61.2	52.4	43.0	40.9	34.8	28.7	15.7	13.3	11.2	26.0	27.4	28.2	0.5	0.6	0.7	13.7
S H Kelkar and Company	BUY	197	315	59.7	29	0.4	145	7	8	11	2.1	11.8	28.4	26.6	23.8	18.6	18.6	15.6	12.2	3.3	3.0	2.7	12.8	13.3	15.3	0.9	0.9	1.0	0.3
Tata Global Beverages	REDUCE	238	250	5.2	150	2.2	631	7	8	9	20.7	7.7	17.0	32.3	30.0	25.6	17.0	16.5	14.5	2.1	2.1	2.0	7.0	7.9	7.9	1.1	1.3	1.5	13.8
Titan Company	SELL	927	840	(9.4)	823	12.0	888	13	16	20	43.3	25.6	21.8	72.5	57.8	47.4	49.7	38.4	30.6	16.2	13.6	11.5	24.3	25.6	26.3	0.4	0.5	0.6	38.5
United Breweries	SELL	1,154	1,000	(13.3)	305	4.4	264	15	19	24	71.6	29.7	23.4	77.3	59.6	48.3	34.1	28.3	24.5	11.4	9.7	8.3	15.7	17.6	18.6	0.2	0.3	0.3	11.1
United Spirits	REDUCE	588	590	0.4	427	6.2	727	8	10	13	39.1	34.7	30.9	77.3	57.4	43.8	44.5	33.4	27.0	17.1	11.7	8.6	24.9	24.2	22.7	—	—	0.3	18.5
Varun Beverages	ADD	742	750	1.1	135	2.0	183	12	17	22	377.8	45.4	29.8	64.4	44.3	34.1	19.6	15.8	13.6	7.7	6.6	5.6	12.1	16.0	17.7	—	—	0.1	1.6
<b>Consumer products</b>	<b>Cautious</b>				<b>16,438</b>	<b>239</b>					<b>14.5</b>	<b>17.6</b>	<b>16.1</b>	<b>54.5</b>	<b>46.3</b>	<b>39.9</b>	<b>35.5</b>	<b>29.8</b>	<b>25.6</b>	<b>13.4</b>	<b>12.1</b>	<b>10.8</b>	<b>24.6</b>	<b>26.1</b>	<b>27.1</b>	<b>1.0</b>	<b>1.1</b>	<b>1.3</b>	<b>320.1</b>
<b>Energy</b>																													
BPCL	REDUCE	394	390	(1.0)	855	12.4	1,967	40	39	41	(1.5)	(3.6)	5.3	9.8	10.2	9.6	7.9	7.4	6.9	2.3	2.0	1.8	24.8	21.1	20.0	5.3	3.9	4.1	31.8
Castrol India	SELL	161	155	(3.5)	159	2.3	989	7	7	8	3.3	2.9	10.1	23.4	22.7	20.6	14.6	14.2	12.8	15.6	14.9	14.6	67.9	67.1	71.5	3.0	3.4	3.9	4.1
GAIL (India)	BUY	374	410	9.6	844	12.3	2,255	20	25	27	21.8	23.2	8.3	18.3	14.9	13.7	11.5	9.5	8.8	2.1	1.9	1.8	11.7	13.5	13.5	1.9	2.3	2.4	22.6
GSPL	SELL	201	175	(12.9)	113	1.6	564	12	11	11	34.5	(6.5)	(0.5)	16.9	18.1	18.2	8.7	6.9	6.9	2.2	2.0	1.9	14.0	11.7	10.7	0.9	0.8	0.8	1.6
HPCL	REDUCE	289	320	10.9	440	6.4	1,524	42	32	33	(3.2)	(23.4)	3.4	6.9	9.0	8.7	6.0	7.8	7.9	1.8	1.7	1.5	28.7	19.3	18.2	5.9	4.5	4.7	29.5
Indraprastha Gas	SELL	298	240	(19.5)	209	3.0	700	10	12	13	19.0	16.5	12.0	28.9	24.8	22.2	18.3	15.9	14.1	5.9	5.1	4.5	22.4	22.2	21.5	0.7	0.8	1.0	11.6
IOCL	REDUCE	167	160	(3.9)	1,618	23.5	9,479	21	17	18	(24.8)	(17.9)	7.4	8.1	9.9	9.2	4.7	5.5	5.0	1.4	1.3	1.2	18.5	14.0	14.0	6.9	4.0	4.3	25.6
Mahanagar Gas	ADD	959	965	0.6	95	1.4	99	48	56	60	21.5	16.0	7.6	19.8	17.1	15.9	12.0	10.0	9.1	4.5	4.0	3.5	24.3	24.8	23.5	2.0	2.3	2.5	5.0
ONGC	ADD	167	200	19.7	2,144	31.2	12,833	17	20	20	3.1	16.8	0.3	9.6	8.2	8.2	5.1	4.0	3.8	0.9	0.9	0.8	9.9	11.2	10.6	3.9	4.0	4.2	18.8
Oil India	SELL	214	220	2.9	243	3.5	1,135	25	24	24	22.6	(1.3)	(0.7)	8.7	8.8	8.8	6.7	6.1	6.0	0.9	0.8	0.8	9.8	9.7	9.2	4.8	5.1	5.1	3.1
Petronet LNG	BUY	230	280	21.6	345	5.0	1,500	14	16	18	22.1	16.7	13.1	16.6	14.2	12.6	11.0	9.5	8.0	3.6	3.1	2.8	23.3	23.3	23.2	2.0	2.5	3.2	12.6
Reliance Industries	SELL	1,184	985	(16.8)	7,004	102.0	5,922	59	69	78	16.9	17.6	12.4	20.0	17.0	15.2	14.6	11.6	9.9	2.4	2.1	1.9	11.6	12.2	12.1	0.5	0.5	0.6	121.5
<b>Energy</b>	<b>Attractive</b>				<b>14,068</b>	<b>205</b>					<b>1.0</b>	<b>6.0</b>	<b>7.2</b>	<b>13.6</b>	<b>12.9</b>	<b>12.0</b>	<b>8.8</b>	<b>7.8</b>	<b>7.1</b>	<b>1.8</b>	<b>1.7</b>	<b>1.5</b>	<b>13.3</b>	<b>12.9</b>	<b>12.6</b>	<b>2.4</b>	<b>2.1</b>	<b>2.2</b>	<b>287.7</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Target			Mkt cap. (Rs bn) (US\$ 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)	
		Price (Rs) 7-Aug-18	price (Rs)	Upside (%)			2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E		
<b>Industrials</b>																													
ABB	SELL	1,209	1,020	(15.6)	256	3.7	212	20	26	29	12.1	30.1	14.2	61.0	46.9	41.1	33.6	27.4	24.6	7.1	6.5	5.9	12.2	14.5	15.1	0.3	0.7	0.7	1.2
BHEL	REDUCE	73	78	6.2	270	3.9	3,671	2.2	2.6	5.0	62.7	16.5	95.3	33.4	28.7	14.7	8.1	7.7	4.0	0.8	0.8	0.8	2.5	2.9	5.6	2.5	2.9	5.6	10.3
Carborundum Universal	SELL	354	322	(9.1)	67	1.0	189	11	14	17	22.8	25.0	21.4	31.0	24.8	20.5	16.8	13.6	11.1	4.3	3.9	3.4	14.6	16.3	17.8	0.5	1.2	1.5	0.3
CG Power and Industrial	BUY	59	65	10.0	37	0.5	627	0.8	3.1	4.3	(72.2)	275.7	40.5	72.4	19.3	13.7	10.7	8.1	6.6	1.4	1.5	1.4	1.5	7.3	10.4	—	—	—	7.6
Crompton Greaves Consumer	SELL	261	215	(17.5)	163	2.4	627	5.2	6.2	7.5	13.3	19.5	20.7	50.4	42.2	35.0	31.0	26.3	22.3	20.7	14.4	11.1	49.5	40.4	35.8	0.6	0.8	1.0	2.7
Cummins India	REDUCE	683	680	(0.4)	189	2.8	277	24	28	32	(7.8)	16.1	13.9	28.2	24.3	21.3	24.8	21.3	17.7	4.7	4.4	4.1	17.4	18.9	20.1	2.2	2.1	2.5	3.9
Havells India	SELL	678	485	(28.4)	424	6.2	625	11	14	17	16.6	26.6	20.5	61.2	48.3	40.1	39.2	31.0	25.3	11.4	10.0	8.7	19.8	22.0	23.2	0.5	0.7	0.9	13.2
Kalpataru Power Transmission	BUY	382	530	38.7	59	0.9	153	19	24	34	36.5	24.3	39.8	19.7	15.9	11.3	8.4	7.0	5.5	2.2	2.0	1.7	11.7	13.1	16.1	0.7	0.7	0.7	0.5
KEC International	BUY	318	410	28.9	82	1.2	257	18	21	27	51.1	16.9	29.7	17.8	15.2	11.7	9.7	8.5	6.9	4.1	3.3	2.7	25.7	24.1	25.2	0.6	0.7	0.9	3.0
L&T	BUY	1,296	1,600	23.5	1,816	26.4	1,401	52	63	70	22.4	21.7	10.9	25.1	20.6	18.6	20.7	16.4	15.8	3.6	3.3	3.0	15.0	16.8	16.8	1.2	1.8	2.0	43.6
Siemens	SELL	1,030	975	(5.3)	367	5.3	356	24	30	37	22.5	23.0	23.2	42.6	34.6	28.1	24.3	19.4	15.6	4.5	4.2	3.9	10.9	12.6	14.5	1.0	1.2	1.5	3.1
Thermax	REDUCE	1,155	1,065	(7.8)	138	2.0	113	21	30	42	(3.6)	44.2	42.8	56.0	38.8	27.2	34.1	24.3	17.3	4.8	4.4	3.9	8.8	11.8	15.3	0.5	0.7	0.8	0.7
Voltas	SELL	576	525	(8.8)	191	2.8	331	17	19	22	12.6	8.3	15.6	33.3	30.7	26.6	27.7	23.5	19.6	4.9	4.4	3.9	15.9	15.0	15.5	0.7	0.8	0.9	14.0
<b>Industrials</b>	<b>Neutral</b>				<b>4,058</b>	<b>59</b>					<b>19.8</b>	<b>22.5</b>	<b>20.5</b>	<b>31.6</b>	<b>25.8</b>	<b>21.4</b>	<b>20.6</b>	<b>16.7</b>	<b>14.6</b>	<b>3.4</b>	<b>3.2</b>	<b>2.9</b>	<b>10.8</b>	<b>12.4</b>	<b>13.8</b>	<b>1.1</b>	<b>1.4</b>	<b>1.8</b>	<b>104.3</b>
<b>Infrastructure</b>																													
Adani Ports and SEZ	BUY	372	460	23.6	771	11.2	2,071	18	19	23	(2.1)	1.2	21.1	20.1	19.9	16.4	13.5	13.6	11.2	3.7	3.1	2.7	19.8	17.0	17.7	0.5	0.5	0.6	23.9
Ashoka Buildcon	BUY	148	210	42.1	41	0.6	282	8	8	9	34.6	0.5	5.2	17.6	17.5	16.6	14.1	12.0	10.6	2.2	1.9	1.7	13.0	11.4	10.7	0.7	1.1	0.8	0.7
Container Corp.	SELL	638	635	(0.4)	311	4.5	487	18	21	25	7.1	17.4	20.9	36.1	30.8	25.5	23.9	18.9	15.0	3.3	3.1	2.8	9.4	10.3	11.6	2.7	1.4	1.6	7.5
Dilip Buildcon	BUY	866	1,220	40.9	118	1.7	137	46	54	69	76.5	16.1	28.0	18.6	16.1	12.6	10.3	7.5	6.2	4.8	3.7	2.8	29.5	25.9	25.4	—	—	—	8.8
Gateway Distriparks	BUY	178	250	40.4	19	0.3	109	8	7	8	11.2	(5.8)	15.2	23.4	24.8	21.6	22.2	11.1	9.2	1.9	3.3	2.9	8.2	9.8	14.5	3.9	—	1.7	0.8
Gujarat Pipavav Port	BUY	115	170	47.6	56	0.8	483	4.1	5.9	7.2	(20.6)	43.7	22.5	28.1	19.5	15.9	13.7	11.4	9.0	2.8	2.7	2.6	9.8	14.0	16.8	3.0	4.2	5.1	0.8
IRB Infrastructure	BUY	197	320	62.1	69	1.0	351	23	31	33	10.8	36.8	7.1	8.7	6.4	6.0	7.0	6.6	7.1	1.2	1.0	0.9	14.5	17.6	16.3	1.1	1.6	2.0	6.4
Mahindra Logistics	REDUCE	574	565	(1.5)	41	0.6	71	10	15	21	16.2	50.7	39.3	58.5	38.8	27.9	33.8	21.6	15.7	9.7	8.1	6.5	18.2	22.7	25.8	—	—	—	0.8
Sadbhav Engineering	BUY	283	440	55.8	48	0.7	172	13	18	18	17.4	38.4	2.2	22.0	15.9	15.5	15.2	12.1	9.4	2.6	2.3	2.0	12.5	15.2	13.7	—	—	—	0.9
<b>Infrastructure</b>	<b>Attractive</b>				<b>1,476</b>	<b>21</b>					<b>5.9</b>	<b>11.4</b>	<b>18.8</b>	<b>21.3</b>	<b>19.1</b>	<b>16.1</b>	<b>13.1</b>	<b>11.8</b>	<b>10.1</b>	<b>3.2</b>	<b>2.8</b>	<b>2.5</b>	<b>15.1</b>	<b>14.8</b>	<b>15.3</b>	<b>1.1</b>	<b>0.8</b>	<b>1.0</b>	<b>50.6</b>
<b>Internet</b>																													
Info Edge	ADD	1,459	1,425	(2.3)	178	2.6	122	23	26	33	33.3	14.9	27.5	64.8	56.4	44.3	54.6	42.7	32.3	8.4	6.7	6.0	13.4	13.2	14.3	0.4	0.6	0.6	2.5
Just Dial	ADD	570	610	7.0	38	0.6	67	21	26	30	21.7	23.0	15.0	26.8	21.8	19.0	16.0	12.3	10.0	3.9	3.4	2.9	15.2	16.7	16.6	—	0.5	0.5	48.5
<b>Internet</b>	<b>Cautious</b>				<b>216</b>	<b>3</b>					<b>28.0</b>	<b>17.6</b>	<b>23.0</b>	<b>51.9</b>	<b>44.1</b>	<b>35.9</b>	<b>40.8</b>	<b>32.2</b>	<b>25.4</b>	<b>7.0</b>	<b>5.7</b>	<b>5.1</b>	<b>13.5</b>	<b>12.9</b>	<b>14.2</b>	<b>0.3</b>	<b>0.5</b>	<b>0.6</b>	<b>51.1</b>
<b>Media</b>																													
DB Corp.	REDUCE	244	270	10.8	45	0.7	184	18	20	23	(14.1)	14.9	12.3	13.8	12.0	10.7	7.3	6.5	5.8	2.7	2.4	2.3	19.9	20.7	22.3	5.3	6.9	8.6	0.6
DishTV	ADD	68	90	33.0	125	1.8	1,925	(0.4)	1.8	3.4	(143.0)	514.6	88.2	NM	37.0	19.7	11.1	5.8	4.6	1.9	1.8	1.7	(2.3)	5.1	8.9	—	—	—	7.9
Jagran Prakashan	REDUCE	118	131	11.4	35	0.5	311	10	11	12	(9.3)	10.0	13.6	12.2	11.1	9.8	4.9	4.8	4.1	1.8	1.8	1.7	14.3	15.9	18.2	2.6	4.3	6.4	0.5
PVR	BUY	1,224	1,360	11.1	57	0.8	47	27	38	50	25.5	41.2	32.3	45.6	32.3	24.4	15.5	12.5	10.6	5.3	4.6	4.0	12.3	15.3	17.6	0.2	0.3	0.4	9.6
Sun TV Network	REDUCE	814	925	13.7	321	4.7	394	29	35	39	10.2	20.7	10.9	28.2	23.4	21.1	18.9	15.9	13.9	7.0	6.2	5.6	26.3	28.1	27.9	1.2	2.2	2.5	21.8
Zee Entertainment Enterprises	ADD	531	600	13.1	510	7.4	960	15	17	20	7.8	11.3	17.0	35.3	31.7	27.1	22.9	19.7	16.7	6.7	6.0	5.2	20.3	19.9	20.6	0.5	0.8	1.0	18.1
<b>Media</b>	<b>Attractive</b>				<b>1,092</b>	<b>16</b>					<b>(1.8)</b>	<b>28.7</b>	<b>21.0</b>	<b>33.7</b>	<b>26.2</b>	<b>21.6</b>	<b>16.2</b>	<b>12.4</b>	<b>10.6</b>	<b>4.6</b>	<b>4.3</b>	<b>3.8</b>	<b>13.7</b>	<b>16.3</b>	<b>17.7</b>	<b>0.9</b>	<b>1.4</b>	<b>1.8</b>	<b>58.4</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (US\$ 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)
		7-Aug-18	Target price (Rs)		2018	2019E		2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	
<b>Metals &amp; Mining</b>																													
Coal India	ADD	275	326	18.4	1,710	24.9	6,207	11	27	28	(24.2)	138.2	3.0	24.4	10.2	9.9	18.2	6.5	6.2	7.1	6.5	6.7	26.7	66.1	66.4	6.0	7.3	9.1	14.5
Hindalco Industries	BUY	219	305	39.3	492	7.2	2,229	22	27	31	155.4	23.9	13.6	10.0	8.1	7.1	6.4	5.4	4.7	0.9	0.8	0.7	9.7	10.5	10.7	0.5	0.5	0.5	35.1
Hindustan Zinc	ADD	286	290	1.5	1,207	17.6	4,225	22	22	26	9.3	3.7	14.7	13.3	12.8	11.2	8.2	7.4	6.1	3.4	2.9	2.5	27.2	24.4	24.2	2.8	2.8	2.8	8.1
Jindal Steel and Power	REDUCE	215	255	18.8	208	3.0	968	(8)	8	18	59.3	194.2	129.1	(25.3)	26.8	11.7	9.7	7.0	5.9	0.7	0.7	0.6	(2.7)	2.6	5.7	—	—	—	30.3
JSW Steel	ADD	341	350	2.8	823	12.0	2,417	27	30	27	83.9	10.2	(8.7)	12.7	11.5	12.6	8.1	7.1	7.8	2.9	2.4	2.0	24.8	22.4	17.3	1.0	1.0	1.0	20.5
National Aluminium Co.	ADD	66	85	28.5	128	1.9	1,933	4	7	7	12.7	63.0	11.1	16.0	9.8	8.8	6.7	4.4	4.1	1.2	1.2	1.2	7.7	12.4	13.6	8.6	8.3	8.3	9.3
NMDC	REDUCE	114	125	9.3	362	5.3	3,164	12	10	10	43.3	(16.5)	3.6	9.7	11.7	11.3	5.4	7.2	6.9	1.5	1.4	1.4	15.8	12.5	12.4	4.8	4.8	4.8	4.1
Tata Steel	ADD	573	700	22.1	656	9.5	1,205	67	69	82	62.6	3.1	18.4	8.5	8	7.0	6.3	6.2	6.3	1.2	1.0	0.9	17.2	13.1	13.9	1.7	1.7	1.7	70.8
Vedanta	BUY	227	370	63.1	843	12.3	3,717	22	32	39	9.6	49.1	19.7	10.5	7.0	5.9	5.7	4.7	3.8	1.3	1.2	1.1	12.9	18.0	19.4	3.5	4.3	5.1	51.7
<b>Metals &amp; Mining</b>	<b>Attractive</b>				<b>6,428</b>	<b>94</b>					<b>32.3</b>	<b>37.2</b>	<b>11.2</b>	<b>13.6</b>	<b>9.9</b>	<b>8.9</b>	<b>7.6</b>	<b>6.1</b>	<b>5.6</b>	<b>1.9</b>	<b>1.7</b>	<b>1.6</b>	<b>14.3</b>	<b>17.6</b>	<b>17.9</b>	<b>3.4</b>	<b>3.8</b>	<b>4.4</b>	<b>244.4</b>
<b>Pharmaceutical</b>																													
Apollo Hospitals	ADD	967	1,090	12.7	135	2.0	139	8	19	26	(46.9)	124.3	38.0	114.6	51.1	37.0	20.9	17.8	15.0	4.1	3.9	3.6	3.4	7.9	10.2	0.2	0.5	0.7	7.6
Aster DM Healthcare	BUY	168	240	42.7	85	1.2	505	3	5	7	163.1	64.2	59.2	61.0	37.2	23.3	16.9	12.6	10.1	3.0	2.8	2.5	5.9	7.8	11.4	-	-	-	0.4
Aurobindo Pharma	ADD	619	640	3.3	363	5.3	584	42	45	51	6.0	7.0	13.5	14.8	13.8	12.2	10.3	9.7	8.3	3.1	2.6	2.2	23.2	20.3	17.9	0.7	0.8	1.0	20.9
Biocon	SELL	574	330	(42.5)	344	5.0	601	6	8	15	(39.2)	35.9	75.7	92.6	68.2	38.8	41.6	29.7	19.9	6.1	5.7	5.1	6.9	8.7	13.9	0.2	0.5	0.9	22.8
Cipla	BUY	629	650	3.3	507	7.4	805	18	24	32	40.2	36.3	35.1	35.9	26.4	19.5	18.7	14.6	11.4	3.5	3.2	2.8	10.2	12.5	15.2	0.6	0.8	1.1	24.7
Dr Lal Pathlabs	REDUCE	936	865	(7.6)	78	1.1	83	20	25	29	7.0	20.8	18.5	45.8	37.9	32.0	27.8	23.3	19.5	9.9	8.2	6.9	23.5	23.7	23.4	0.5	0.5	0.6	1.6
Dr Reddy's Laboratories	REDUCE	2,259	2,150	(4.8)	375	5.5	166	59	89	118	(18.5)	50.2	32.8	38.3	25.5	19.2	17.7	12.8	9.1	3.0	2.7	2.4	7.8	11.1	12.6	1.1	0.6	0.8	36.7
HCG	REDUCE	278	305	9.8	24	0.4	85	2	3	5	(40.0)	120.9	57.3	177.6	80.4	51.1	23.4	18.3	15.5	4.6	4.3	4.0	2.8	5.5	8.1	—	—	—	0.2
Laurus Labs	ADD	435	500	14.9	46	0.7	106	16	16	29	(11.9)	2.4	79.9	27.4	26.8	14.9	13.5	12.4	8.6	3.1	2.8	2.3	11.9	10.9	17.1	—	—	—	0.5
Lupin	REDUCE	867	800	(7.7)	392	5.7	450	38	36	48	(32.9)	(5.1)	33.7	22.7	23.9	17.9	14.0	12.1	9.5	2.9	2.6	2.3	12.6	11.4	13.7	1.0	0.6	0.8	37.1
Narayana Hrudayalaya	ADD	252	265	5.2	51	0.7	204	3	3	6	(38.1)	23.0	103.2	100.2	81.5	40.1	27.6	23.1	16.1	5.0	4.7	4.2	5.1	5.9	11.0	—	—	—	0.4
Sun Pharmaceuticals	REDUCE	570	500	(12.2)	1,367	19.9	2,406	15	17	24	(47.5)	12.0	42.0	37.5	33.5	23.6	22.2	18.2	13.4	3.6	3.3	2.9	9.8	10.2	13.1	0.4	0.6	0.8	52.7
Torrent Pharmaceuticals	NR	1,683	—	—	285	4.1	169	40	47	61	(27.4)	18.0	29.6	42.0	35.6	27.5	23.2	15.5	13.3	6.2	5.4	4.7	15.1	15.3	17.2	0.9	0.6	0.8	6.1
<b>Pharmaceuticals</b>	<b>Neutral</b>				<b>4,052</b>	<b>59</b>					<b>(25.8)</b>	<b>17.5</b>	<b>34.9</b>	<b>34.0</b>	<b>29.0</b>	<b>21.5</b>	<b>18.7</b>	<b>15.2</b>	<b>11.7</b>	<b>3.7</b>	<b>3.3</b>	<b>2.9</b>	<b>10.7</b>	<b>11.4</b>	<b>13.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.8</b>	<b>211.7</b>
<b>Real Estate</b>																													
Brigade Enterprises	BUY	193	340	76.5	26	0.4	136	11	9	9	(17.7)	(15.1)	(1.6)	17.4	20.5	20.8	10.8	11.0	10.9	1.1	1.1	1.1	7.6	5.5	5.2	1.3	1.3	1.3	0.3
DLF	RS	187	—	—	333	4.9	1,784	19.6	6.5	3.9	403.9	(66.9)	(39.6)	9.5	28.8	47.7	28.5	12.4	12.2	0.9	0.9	0.9	11.7	3.2	1.9	1.1	1.1	1.1	16.4
Godrej Properties	SELL	717	400	(44.2)	164	2.4	216	10.9	13.3	15.8	13.5	22.1	19.1	66.0	54.1	45.4	(4,398.4)	318.0	165.5	6.9	4.6	4.2	11.1	10.5	9.7	—	—	—	2.6
Oberoi Realty	BUY	476	560	17.7	173	2.5	340	13	62	44	14.0	385.4	(28.0)	37.4	7.7	10.7	28.0	10.6	13.3	2.7	1.8	1.5	7.3	27.4	15.2	0.4	0.4	0.4	2.5
Prestige Estates Projects	ADD	252	315	24.8	95	1.4	375	13	10	10	24.3	(24.2)	8.4	20.1	26.5	24.5	14.3	14.8	14.9	2.0	1.9	1.8	10.3	7.3	7.5	0.6	0.6	0.6	1.1
Sobha	REDUCE	496	510	2.9	47	0.7	95	22	20	23	30.9	(7.5)	14.8	22.7	24.5	21.4	13.5	13.8	12.9	1.7	1.6	1.6	7.6	6.8	7.4	1.4	1.4	1.4	1.5
Sunteck Realty	REDUCE	438	330	(24.6)	64	0.9	140	15	18	20	4.8	20.2	6.9	28.7	23.8	22.3	18.3	19.9	18.5	2.3	2.1	2.0	9.7	9.4	9.2	0.3	0.2	0.2	1.7
<b>Real Estate</b>	<b>Neutral</b>				<b>903</b>	<b>13</b>					<b>139.3</b>	<b>(13.5)</b>	<b>(20.4)</b>	<b>17.3</b>	<b>20.0</b>	<b>25.1</b>	<b>24.8</b>	<b>14.7</b>	<b>15.2</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>9.3</b>	<b>7.3</b>	<b>5.5</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>26.0</b>

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)		EV/EBITDA (X)			P/B (X)		RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)		
		7-Aug-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
<b>Technology</b>																													
HCL Technologies	REDUCE	969	1,025	5.8	1,349	19.6	1,409	62	70	74	5.3	12.8	5.0	15.6	13.8	13.1	10.9	9.0	8.2	3.7	3.1	2.7	24.8	24.2	21.8	0.8	0.8	3.2	31.6
Hexaware Technologies	SELL	474	435	(8.2)	141	2.0	302	17	20	23	20.2	18.4	18.0	28.6	24.2	20.5	20.6	18.1	14.3	7.1	6.2	5.3	26.6	27.4	27.8	0.8	1.7	1.7	13.8
Infosys	ADD	1,368	1,400	2.3	2,988	43.5	2,175	65	71	78	3.0	9.7	10.4	21.2	19.3	17.5	14.7	13.2	11.8	4.6	4.3	3.9	21.8	23.0	23.5	2.0	3.2	2.9	79.8
L&T Infotech	ADD	1,692	2,000	18.2	293	4.3	175	64	83	94	13.9	30.5	13.0	26.6	20.4	18.1	23.4	15.6	13.1	7.7	6.2	5.0	31.8	33.5	30.7	1.0	1.4	1.5	4.4
Mindtree	ADD	948	1,115	17.6	155	2.3	165	35	43	53	37.8	24.9	23.6	27.5	22.0	17.8	19.9	13.7	11.0	5.7	4.9	4.2	21.4	23.9	25.2	1.2	1.4	1.7	24.2
Mphasis	SELL	1,190	760	(36.2)	230	3.4	193	44	52	56	14.4	18.3	8.2	27.1	22.9	21.2	19.7	16.0	14.3	4.2	3.8	3.5	14.6	17.4	17.1	1.7	1.7	1.7	11.5
TCS	REDUCE	1,967	1,790	(9.0)	7,532	109.7	3,829	67	82	89	1.1	21.2	8.8	29.2	24.1	22.1	21.7	17.6	16.2	8.6	7.6	7.4	29.4	33.4	33.8	1.3	2.1	3.6	98.0
Tech Mahindra	ADD	659	785	19.2	581	8.5	891	43	46	55	33.1	8.3	18.2	15.4	14.3	12.1	11.3	8.5	6.8	3.1	2.7	2.3	21.5	20.2	20.5	2.2	1.4	1.6	36.0
Wipro	REDUCE	277	295	6.3	1,255	18.3	4,507	17	19	22	(3.1)	11.8	14.6	16.4	14.7	12.8	10.4	9.2	8.0	2.6	2.2	2.1	16.0	16.4	16.8	0.4	0.5	3.6	12.6
<b>Technology</b>	<b>Cautious</b>				<b>14,524</b>	<b>211</b>					<b>1.6</b>	<b>13.1</b>	<b>9.7</b>	<b>22.7</b>	<b>20.1</b>	<b>18.3</b>	<b>16.5</b>	<b>13.8</b>	<b>12.4</b>	<b>5.4</b>	<b>4.8</b>	<b>4.4</b>	<b>23.7</b>	<b>23.8</b>	<b>24.1</b>	<b>1.3</b>	<b>2.0</b>	<b>3.2</b>	<b>311.9</b>
<b>Telecom</b>																													
Bharti Airtel	ADD	382	445	16.5	1,527	22.2	3,997	5	(6)	(4)	(42.9)	(221.5)	28.8	80.7	(66.4)	(93.3)	8.4	9.8	8.3	2.2	2.3	2.4	2.8	(3.4)	(2.5)	1.4	0.3	(0.2)	30.8
Bharti Infratel	REDUCE	286	285	(0.3)	529	7.7	1,850	14	13	12	(7.4)	(4.8)	(8.5)	20.8	21.8	23.9	7.5	8.1	8.6	3.1	3.3	3.3	15.7	14.6	13.7	5.0	3.7	3.4	12.0
IDEA	REDUCE	55	45	(18.1)	240	3.5	4,359	(10)	(17)	(17)	(656.8)	(75.6)	(2.4)	(5.7)	(3.3)	(3.2)	12.3	35.3	29.8	0.9	1.1	1.7	(16.0)	(29.7)	(41.1)	—	—	—	17.1
Tata Communications	ADD	582	725	24.7	166	2.4	285	2	4	8	(84.3)	121.9	117.7	353	159.2	73.1	10.7	9.5	8.4	33.2	26.8	19.4	4.5	18.6	30.7	1.1	1.1	1.3	4.2
<b>Telecom</b>	<b>Cautious</b>				<b>2,461</b>	<b>36</b>					<b>(94.7)</b>	<b>(2,354.7)</b>	<b>5.7</b>	<b>782.4</b>	<b>(34.7)</b>	<b>(36.8)</b>	<b>8.9</b>	<b>11.0</b>	<b>9.7</b>	<b>2.2</b>	<b>2.3</b>	<b>2.6</b>	<b>0.3</b>	<b>(6.8)</b>	<b>(7.0)</b>	<b>2.0</b>	<b>1.0</b>	<b>0.6</b>	<b>64.2</b>
<b>Utilities</b>																													
CESC	BUY	938	1,180	25.7	124	1.8	133	87	115	128	67.1	31.7	11.6	10.8	8.2	7.3	7.7	5.8	5.1	0.8	0.8	0.7	7.9	10.0	10.4	1.3	1.4	1.4	5.8
JSW Energy	REDUCE	67	70	3.9	110	1.6	1,640	3.1	5.1	6.5	(19.2)	65.9	26.8	22.0	13.2	10.4	6.9	5.7	4.7	1.0	0.9	0.8	4.7	7.2	8.5	-	-	-	1.7
NHPC	ADD	25	30	22.2	252	3.7	10,260	2.4	3.1	3.2	(17.3)	26.9	1.8	10.1	7.9	7.8	9.3	7.3	7.1	0.8	0.8	0.8	8.5	10.4	10.2	5.7	7.1	7.2	2.0
NTPC	BUY	159	190	19.6	1,310	19.1	8,245	11	15	16	(7.6)	30.9	4.4	13.9	10.7	10.2	11.2	8.7	8.0	1.3	1.2	1.1	9.5	11.6	11.3	3.5	2.8	2.9	14.2
Power Grid	BUY	189	250	32.2	989	14.4	5,232	16	19	21	9.6	19.3	13.6	12.0	10.1	8.9	8.5	7.2	6.6	1.8	1.6	1.5	15.8	17.1	17.5	2.8	3.3	3.8	30.8
Reliance Power	SELL	33	43	28.7	94	1.4	2,805	3.5	5.1	5.2	(16.4)	45.6	2.7	9.6	6.6	6.4	7.9	6.8	6.6	0.4	0.4	0.4	4.5	6.1	5.9	—	—	—	4.0
Tata Power	BUY	70	90	28.0	190	2.8	2,705	5.3	6.0	7.0	(9.6)	12.7	15.6	13.2	11.7	10.1	10.2	10.5	10.1	1.2	1.1	1.0	10.7	10.1	10.6	—	—	—	4.9
<b>Utilities</b>	<b>Attractive</b>				<b>3,070</b>	<b>45</b>					<b>(2.4)</b>	<b>26.8</b>	<b>8.6</b>	<b>12.7</b>	<b>10.0</b>	<b>9.2</b>	<b>9.4</b>	<b>7.8</b>	<b>7.2</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>	<b>9.7</b>	<b>11.4</b>	<b>11.4</b>	<b>2.9</b>	<b>2.9</b>	<b>3.1</b>	<b>63.5</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates



## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (US\$ 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)
		7-Aug-18	Target price (Rs)		2018	2019E		2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	
<b>Others</b>																													
Astral Poly Technik	SELL	1,056	640	(39.4)	126	1.8	120	15	19	25	20.8	30.2	28.8	72.0	55.3	43.0	40.5	29.8	23.6	12.4	9.7	8.0	18.8	19.8	20.5	0.1	0.1	0.1	1.1
Avenue Supermarts	SELL	1,628	860	(47.2)	1,016	14.8	624	13	16	20	47.9	28.6	26.4	129.4	100.7	79.6	75.9	58.1	45.6	21.9	18.0	14.7	18.5	19.6	20.3	—	—	—	—
Bayer Cropscience	REDUCE	4,279	4,100	(4.2)	169	2.5	34	88	106	130	6.4	20.5	23.1	48.9	40.6	33.0	40.3	29.7	24.2	8.2	7.1	6.1	15.7	18.9	20.0	0.4	0.5	0.6	0.5
Dhanuka Agritech	ADD	612	690	12.8	30	0.4	49	26	28	32	7.7	8.9	15.4	23.8	21.8	18.9	17.5	15.1	12.7	4.7	4.1	3.5	21.9	20.1	20.0	0.9	1.0	1.1	0.2
Godrej Agrovet	ADD	646	650	0.7	124	1.8	189	12	16	20	6.9	39.8	24.6	56.1	40.1	32.2	28.8	22.2	18.0	7.2	6.3	5.3	14.7	16.9	17.9	0.3	0.4	0.5	1.4
Godrej Industries	RS	629	—	—	212	3.1	336	15	16	20	6.8	8.9	24.2	43.2	39.7	31.9	38.1	32.3	35.2	5.9	5.2	4.5	14.4	13.9	15.1	0.3	0.3	0.3	4.7
InterGlobe Aviation	BUY	1,046	1,220	16.6	402	5.9	383	61	50	83	32.1	(17.9)	65.3	17.2	21.0	12.7	9.8	11.9	6.8	5.7	4.6	3.5	42.9	24.1	31.1	0.6	0.5	0.8	22.1
Kaveri Seed	SELL	599	470	(21.5)	40	0.6	66	32	31	33	18.4	(3.7)	6.1	18.7	19.4	18.3	15.9	16.5	14.9	5.1	4.3	3.8	23.6	24.0	21.9	1.0	1.3	1.7	5.3
PI Industries	BUY	769	875	13.7	106	1.5	138	27	31	40	(20.0)	17.9	26.8	28.9	24.6	19.4	21.3	17.4	13.6	5.5	4.6	3.8	20.7	20.5	21.7	0.4	0.5	0.6	1.5
Rallis India	ADD	204	220	8.1	40	0.6	195	9	10	12	(1.5)	17.2	19.4	23.6	20.1	16.9	14.7	13.2	11.2	3.3	3.0	2.7	14.6	15.8	17.1	1.6	1.8	2.0	0.8
SIS	REDUCE	1,051	1,130	7.5	77	1.1	73	22	33	40	43.3	48.5	21.1	46.9	31.6	26.1	25.2	19.7	16.5	7.4	6.3	5.2	20.1	21.8	21.7	0.2	0.3	0.3	0.7
SRF	BUY	1,828	2,110	15.5	105	1.5	57	80	92	123	(10.4)	14.4	33.6	22.7	19.9	14.9	13.7	10.8	8.8	2.9	2.6	2.3	13.7	14.0	16.4	0.7	0.7	0.8	11.5
Tata Chemicals	ADD	668	760	13.7	170	2.5	255	51	46	52	6.5	(11.2)	13.6	13.0	14.6	12.9	7.2	6.1	5.1	1.5	1.4	1.3	13.8	10.0	10.5	3.3	2.2	2.5	7.3
TeamLease Services	SELL	2,490	1,785	(28.3)	43	0.6	17	43	58	75	28.0	34.2	29.0	57.8	43.0	33.4	59.9	43.5	33.0	9.6	7.9	6.4	18.2	20.1	21.1	—	—	—	1.5
UPL	ADD	647	660	2.0	330	4.8	507	43	49	55	20.9	14.0	12.1	15.1	13.2	11.8	10.4	8.9	7.6	3.6	2.9	2.5	26.4	24.6	22.9	1.2	1.5	1.7	22.7
Vardhman Textiles	ADD	1,216	1,400	15.2	70	1.0	56	103	130	140	(8.0)	26.4	7.4	11.8	9.3	8.7	9.9	7.4	6.6	1.4	1.3	1.1	12.7	14.3	13.8	1.2	1.6	2.5	1.0
Whirlpool	SELL	1,745	1,240	(28.9)	221	3.2	127	28	37	45	13.0	33.9	22.5	63.1	47.1	38.5	37.6	29.0	23.5	12.3	10.2	8.5	21.4	23.7	24.1	0.2	0.4	0.5	1.1
<b>Others</b>					<b>3,280</b>	<b>48</b>					<b>16.1</b>	<b>7.4</b>	<b>26.5</b>	<b>31.8</b>	<b>29.6</b>	<b>23.4</b>	<b>20.6</b>	<b>18.1</b>	<b>14.4</b>	<b>5.8</b>	<b>5.0</b>	<b>4.2</b>	<b>18.3</b>	<b>16.8</b>	<b>18.1</b>	<b>0.5</b>	<b>0.5</b>	<b>0.7</b>	<b>83.2</b>
<b>KIE universe</b>					<b>112,985</b>	<b>1,644</b>					<b>(5.2)</b>	<b>27.2</b>	<b>25.1</b>	<b>27.6</b>	<b>21.7</b>	<b>17.4</b>	<b>12.9</b>	<b>10.9</b>	<b>9.7</b>	<b>3.1</b>	<b>2.8</b>	<b>2.5</b>	<b>11.2</b>	<b>12.9</b>	<b>14.6</b>	<b>1.3</b>	<b>1.4</b>	<b>1.7</b>	
<b>KIE universe (ex-energy)</b>					<b>98,916</b>	<b>1,440</b>					<b>(7.1)</b>	<b>34.4</b>	<b>29.8</b>	<b>32.3</b>	<b>24.1</b>	<b>18.5</b>	<b>14.4</b>	<b>12.0</b>	<b>10.6</b>	<b>3.5</b>	<b>3.1</b>	<b>2.8</b>	<b>10.7</b>	<b>12.9</b>	<b>15.2</b>	<b>1.1</b>	<b>1.3</b>	<b>1.6</b>	

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\$) = 68.69

Source: Company, Bloomberg, Kotak Institutional Equities estimates



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