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EQUITY MARKETS

India	Change %			
	8-Feb	1-day	1-mo	3-mo
Sensex	51,349	1.2	5.3	22.6
Nifty	15,116	1.3	5.4	23.3
Global/Regional indices				
Dow Jones	31,329	0.6	0.7	10.6
Nasdaq Composite	13,942	0.6	5.6	17.2
FTSE	6,555	1.0	(4.6)	10.9
Nikkei	29,389	2.1	4.4	20.8
Hang Seng	29,319	0.1	5.2	14.0
KOSPI	3,091	(0.9)	(1.9)	27.9
Value traded – India				
Cash (NSE+BSE)	824		850	350
Derivatives (NSE)	24,967		17,730	14,647
Deri. open interest	5,650		4,928	3,884

Forex/money market

	Change, basis points			
	8-Feb	1-day	1-mo	3-mo
Rs/US\$	73.0	4	(28)	(118)
10yr govt bond, %	6.5	-	35	30

Net investment (US\$ mn)

	5-Feb	MTD	CYTD
FIs	194	414	23,258
MFs	(153)	1,380	(7,030)

Top movers

Best performers	Change, %			
	8-Feb	1-day	1-mo	3-mo
TTMT in Equity	336	6.3	69.5	141.7
TTMT/A in Equity	136	7.4	66.0	140.5
VEDL in Equity	178	2.0	(2.2)	87.9
DLFU in Equity	313	2.5	26.1	86.5
SBIN in Equity	397	1.0	38.8	81.1
Worst performers				
RIL in Equity	1,951	1.4	0.9	(3.8)
DABUR in Equity	518	(0.6)	(4.0)	(1.7)
BIOS in Equity	409	0.4	(12.2)	(1.4)
BRIT in Equity	3,474	(1.9)	(2.8)	(1.1)
DRRD in Equity	4,860	1.2	(9.0)	(0.9)

February 08, 2021

INITIATING COVERAGE

Sector view: *Attractive*

CMP (₹): 801

Fair Value (₹): 960

BSE-30: 51,349

Retail reboot. We initiate coverage on Phoenix Mills with a BUY rating and Fair Value estimate of Rs960/share, offering 20% upside to CMP of Rs801/share. PHNX offers investors the opportunity to align with the long-term growth in organized retail that will likely benefit from continued urbanization and rising income levels. In our view, the near-term impact due to Covid-19 is likely transient and will not substantially alter the purchasing habits of the retail consumer in India.

Initiate coverage with BUY rating and Fair Value estimate of Rs960/share

We initiate coverage on Phoenix Mills with a BUY rating and Fair Value estimate of Rs960/share. PHNX currently trades at 14X adjusted EV/EBITDA and 30X P/E on FY2023E, even as the company will likely grow earnings at 16% CAGR between FY2020 and FY2025E on the back of expansion of retail portfolio to 11 mn sq. ft (from 7 mn sq. ft currently) and office portfolio to 2.4 mn sq. ft (from 1.3 mn sq. ft). Our Fair Value estimate comprises 79% of the value being ascribed to operational projects, 7% value to the under-construction portfolio, while under-development projects comprise the balance 14%. On an asset basis, retail malls account for a bulk of the value (75%) followed by commercial offices (20%), hotels (3%) and residential developments (3%).

Covid-19 impact likely transient, expect a bounce back with increased consolidation

In our view, the current lockdown impact on revenues of retail malls is likely transient, and will not have much impact on the longer-term structural growth story for retailing in India, which we expect will grow to US\$523 bn by FY2030E from US\$119 bn currently. In our view, retail malls cater to the rising aspirations of an increasingly urbanized India. The top players in India account for 23% of the overall mall capacity (80 mn sq. ft), and we expect a few sizeable players to continue to garner a disproportionate share of the increased mall space.

Earnings CAGR of 16% between FY2020 and FY2025E aided by doubling of portfolio

PHNX will likely double its portfolio of operational assets to 13.3 mn sq. ft by FY2025E (from 7.2 mn sq. ft in FY2020), yielding a 16% CAGR in PAT between FY2020 and FY2025E. PHNX has an outstanding capex plan of Rs19 bn for the increased asset portfolio comprising Rs17 bn towards completion of retail malls and another Rs2 bn for completion of its office portfolio.

Structural shift in purchasing habits, lower rentals remain key risk for Phoenix Mills

A structural shift in the purchasing habits of consumers, and a possible shift towards 'work-from-home' for service companies could put to risk demand for retail and commercial space in India, and consequently lead to downward pressure on rentals. Execution slippages could delay aggressive commissioning plans for retail and commercial portfolio.

Murtuza Arsiwalla

Samrat Verma

Company data and valuation summary

Company data	Stock data	High	Low	Price performance	1M	3M	12M
Rating: BUY	52-week range (Rs)	979	465	Absolute (%)	5.1	46.0	32.3
				Rel to BSE-30 (%)	0.4	19.0	(1.8)
Current price (Rs)	Priced at close of:	8-Feb-21		Forecast/valuation	2021E	2022E	2023E
801	Capitalization			EPS (Rs)	0.8	21.0	28.0
	Market cap (Rs bn)	137,930		P/E (X)	1,003.7	38.1	28.6
	Net debt/(cash) (Rs mn)	34,060		RoAE (%)	0.3	7.2	9.0
	Free float (%)	54		EV/EBITDA (X)	27	15	13
	Share outstanding (mn)	172					

Source: Company data, Kotak Institutional Equities estimates

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OVERVIEW: BANKING ON NORMALCY

Exhibit 1: Phoenix Mills will see 16% CAGR in PAT between FY2020 and FY2025E

Key financial metrics for Phoenix Mills, March fiscal year-ends, 2017-25E (Rs mn, %)

	Revenues		EBITDA		PAT		RoAE	RoACE	EV/EBITDA	P/E
	(Rs mn)	(Growth)	(Rs mn)	(Growth)	(Rs mn)	(Growth)	(%)	(%)	(X)	(X)
2017	18,246	3	8,469	8	1,910	56	7.6	11.1	24	64
2018	16,198	(11)	7,774	(8)	2,421	27	9.7	9.2	21	51
2019	19,816	22	9,931	28	3,729	54	13.3	10.2	17	33
2020	19,411	(2)	9,671	(3)	3,270	(12)	9.3	8.5	18	38
2021E	11,059	(43)	6,353	(34)	261	(92)	0.6	4.2	27	528
2022E	19,157	73	10,945	72	3,530	NA	7.1	7.8	16	39
2023E	22,067	15	12,358	13	4,596	30	8.6	8.6	14	30
2024E	26,092	4	14,742	9	5,718	24	9.8	9.9	12	24
2025E	28,822	33	16,312	32	7,015	23	11.0	10.8	10	20

Notes:

(a) EV/EBITDA has been computed on attributable basis.

(b) RoACE has been computed on pre-tax basis.

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Phoenix Mills will see 16% CAGR in PAT over the next five years

Phoenix Mills: Profit model, balance sheet, cash model, March fiscal year-ends, 2015-25E (Rs mn)

	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Profit model											
Net sales	16,533	17,795	18,246	16,198	19,816	19,411	11,059	19,157	22,067	26,092	28,822
EBITDA	7,619	7,869	8,469	7,774	9,931	9,671	6,353	10,945	12,358	14,742	16,312
Depreciation	(1,681)	(1,773)	(1,953)	(1,983)	(2,042)	(2,076)	(2,190)	(2,249)	(2,238)	(2,644)	(2,794)
EBIT	5,938	6,096	6,516	5,791	7,889	7,595	4,163	8,696	10,121	12,098	13,518
Interest	(3,956)	(4,425)	(4,230)	(3,476)	(3,506)	(3,478)	(3,978)	(4,334)	(4,342)	(4,779)	(4,481)
Other income	312	302	472	556	851	585	157	1,069	1,275	1,671	2,065
Pre-tax profits	2,295	1,974	2,758	2,871	5,235	4,702	342	5,430	7,054	8,990	11,102
Tax	(493)	(767)	(858)	(758)	(1,099)	(1,221)	(211)	(1,654)	(2,074)	(2,464)	(3,054)
Net income	1,801	1,207	1,900	2,113	4,136	3,481	131	3,777	4,980	6,525	8,048
Minority interests	(553)	—	—	(135)	(760)	(538)	97	(575)	(781)	(1,242)	(1,524)
Share of profit of associates	43	17	10	442	353	326	33	329	397	435	491
PAT (after minority interest)	1,292	1,224	1,910	2,421	3,729	3,270	261	3,530	4,596	5,718	7,015
Reported PAT	354	1,224	1,522	2,421	4,220	3,347	261	3,530	4,596	5,718	7,015
Earnings per share (Rs)	0.2	5.8	7.5	13.2	24.2	21.8	1.7	20.2	26.6	33.4	41.3
Balance sheet											
Total equity	16,737	18,686	21,501	28,517	34,741	37,084	48,345	51,446	55,527	60,645	66,973
Minority interests	6,212	4,511	2,797	4,661	12,233	12,788	12,691	13,266	14,048	15,290	16,814
Total borrowings	30,462	36,436	33,542	34,509	39,810	41,075	45,371	50,671	50,171	47,571	43,971
Current liabilities	13,002	13,379	12,242	17,284	14,371	14,499	14,568	14,553	13,820	13,902	14,694
Total liabilities and equity	66,413	73,011	70,081	84,972	101,156	105,446	120,974	129,936	133,566	137,407	142,452
Net fixed assets	41,303	43,517	41,746	52,965	61,516	60,817	63,627	75,378	76,041	85,397	82,602
CWIP	2,138	1,949	3,277	5,025	8,960	15,341	17,263	11,222	9,162	2,053	2,553
Goodwill	—	260	3,273	3,711	3,711	3,711	3,711	3,711	3,711	3,711	3,711
Current assets	19,927	24,577	16,449	14,135	18,132	19,096	30,059	33,130	38,199	39,865	47,268
Investments	1,997	1,600	4,096	8,290	7,450	5,897	5,830	6,126	6,194	6,232	6,288
Deferred tax asset	1,047	1,108	1,252	846	1,386	585	485	370	260	150	30
Total assets	66,413	73,011	70,092	84,972	101,156	105,446	120,974	129,936	133,566	137,407	142,452
Free cash flow											
Operating cash flow excl. working capital	7,055	7,374	7,831	7,042	9,165	8,973	5,495	10,383	11,864	14,286	15,912
Working capital changes	(1,419)	(1,940)	5,904	7,417	(7,175)	(985)	2,479	(384)	(162)	1,141	2,125
Capital expenditure	(266)	(3,856)	(1,847)	(15,013)	(14,606)	(7,801)	(6,922)	(7,959)	(840)	(4,891)	(500)
Free cash flow	5,370	1,577	11,888	(554)	(12,616)	187	1,052	2,040	10,863	10,535	17,538
Ratios (%)											
Debt/equity	1.8	1.9	1.6	1.2	1.1	1.1	0.9	1.0	0.9	0.8	0.7
Net debt/equity (X)	1.8	1.8	1.5	1.2	1.1	1.1	0.6	0.6	0.5	0.4	0.1
Debt/EBITDA	4.0	4.6	4.0	4.4	4.0	4.2	7.1	4.6	4.1	3.2	2.7
Net debt/EBITDA	3.9	4.4	3.9	4.4	3.8	4.1	4.8	3.0	2.2	1.5	0.6
RoAE (%)	2.1	6.9	7.6	9.7	13.3	9.3	0.6	7.1	8.6	9.8	11.0
RoACE (%) (pre-tax)	11.1	10.8	11.1	9.2	10.2	8.5	4.2	7.8	8.6	9.9	10.8

Source: Company, Kotak Institutional Equities estimates

INITIATE WITH BUY RATING AND FAIR VALUE ESTIMATE OF RS960/SHARE

We initiate coverage on Phoenix Mills with a BUY rating and Fair Value estimate of Rs960/share. At CMP, Phoenix trades at 14X adjusted EV/EBITDA and 30X P/E on FY2023E. Trading multiples should be seen in the context of 16% CAGR in earnings over the next five years on the back of near-doubling of operating assets.

Initiate coverage with Fair Value of Rs960/share

We initiate coverage on Phoenix Mills with a Fair Value of Rs960/share, using a capitalization rate of 7.5% for retail assets and 8% on commercial offices on FY2023E EBITDA of Rs12.3 bn (attributable EBITDA of Rs11.2 bn) that yields an enterprise value of Rs235 bn and equity value of Rs204 bn (attributable equity value of Rs165 bn). In the case of under-construction assets, the capitalization rate has been applied on the normalized EBITDA that has been discounted back to March 2023E. We have ascribed a 12X EV/EBITDA multiple to the two hotel properties, and run a discounted cash flow for the unsold residential inventory that is worth Rs21 bn (1.8 mn sq. ft) at current market values.

Phoenix Mills is currently trading at 14X EV/EBITDA (attributable) and 30X P/E on FY2023E earnings. We estimate growth in EBITDA of 11% CAGR between FY2020 and FY2025E, in comparison to EBITDA growth of 5% CAGR in the past five years. The growth in earnings is on the back of commissioning of five new malls aggregating 5 mn sq. ft, in addition to six operating malls with 4.9 mn sq. ft as of March 2020, and commissioning of two office spaces (1.1 mn sq. ft) on an extant asset base of 1.3 mn sq. ft.

Exhibit 3: Phoenix Mills currently trades at an EV/EBITDA of 14X on March 2023E earnings
Key financial and valuation metrics for Phoenix Mills, March fiscal year-ends, 2017-23E (Rs mn)

	2017	2018	2019	2020	2021E	2022E	2023E
Revenue	18,246	16,198	19,816	19,411	11,059	19,157	22,067
EBITDA	8,469	7,774	9,931	9,671	6,353	10,945	12,358
Attributable EBITDA	6,451	7,583	9,315	9,256	6,162	10,011	11,201
PAT	1,910	2,421	3,729	3,270	261	3,530	4,596
Net debt	32,730	34,060	37,891	39,668	30,591	33,189	27,049
Attributable net debt	29,954	33,916	36,865	39,716	26,871	25,013	19,145
Net worth	21,501	28,517	34,741	37,084	48,345	51,446	55,527
At CMP of Rs801/share							
EV/EBITDA (X)	18.3	20.2	16.2	16.8	26.5	15.6	13.3
Adj. EV/EBITDA (X)	23.6	20.6	17.1	17.6	26.7	16.2	14.0
P/E (X)	106.6	60.8	33.1	36.7	470.6	39.6	30.1
P/B (X)	5.7	4.3	3.5	3.3	2.8	2.7	2.5
At FV of Rs960/share							
EV/EBITDA (X)	21.2	23.3	18.6	19.3	30.8	18.1	15.5
Adj. EV/EBITDA (X)	27.4	23.9	19.8	20.2	31.1	19.0	16.4
P/E (X)	127.7	72.9	39.6	44.0	564.0	47.5	36.1
P/B (X)	6.8	5.2	4.2	4.0	3.4	3.2	3.0
Growth (%)							
Revenue	2.5	(11.2)	22.3	(2.0)	(43.0)	73.2	15.2
EBITDA	7.6	(8.2)	27.8	(2.6)	(34.3)	72.3	12.9
PAT	56.0	26.8	54.0	(12.3)	(92.0)	1,253.1	30.2
Margins (%)							
EBITDA	46.4	48.0	50.1	49.8	57.4	57.1	56.0
PAT	10.4	13.0	20.9	17.9	1.2	19.7	22.6
Return ratios (%)							
RoAE	7.6	9.7	13.3	9.3	0.6	7.1	8.6
RoACE	11.1	9.2	10.2	8.5	4.2	7.8	8.6
Net debt/EBITDA	3.9	4.4	3.8	4.1	4.8	3.0	2.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: SoTP-based Fair Value of Rs960/share based on March 2023E earnings
SoTP of Phoenix Mills, March fiscal year-ends (Rs mn)

	Year	DF	Valuations (Rs mn)			Equity	Ownership (%)	Attributable value			Area (mn sq. ft)
			EBITDA	EV	Net debt			(Rs mn)	(Rs/share)	(%)	
Retail											
Operational											
HSP & Palladium, Mumbai	2023E	1.00	2,856	38,086	(9,561)	47,647	100	47,647	278	29	0.77
Phoenix MarketCity, Bengaluru	2023E	1.00	1,576	21,017	(301)	21,318	51	10,872	63	7	1.00
Phoenix MarketCity, Chennai	2023E	1.00	1,800	24,002	4,392	19,610	50	9,805	57	6	1.22
Phoenix MarketCity, Mumbai	2023E	1.00	1,114	14,859	5,930	8,929	100	8,929	52	5	1.14
Phoenix MarketCity, Pune	2023E	1.00	1,501	20,014	4,174	15,839	100	15,839	92	10	1.19
Phoenix United, Lucknow	2023E	1.00	216	2,875	403	2,472	100	2,472	14	2	0.33
Phoenix United, Bareilly	2023E	1.00	245	3,270	406	2,864	100	2,864	17	2	0.31
Phoenix Palassio, Lucknow	2023E	1.00	878	11,707	4,151	7,556	100	7,556	44	5	0.90
Operational			10,187	135,832	9,595	126,237	84	105,986	617	64	6.86
Under construction											
Phoenix MarketCity West, Wakad, Pune	2025E	0.80	720	7,654	2,901	4,753	51	2,424	14	1	1.10
Phoenix MarketCity, Hebbal, Bengaluru	2025E	0.80	1,067	11,345	3,001	8,344	51	4,255	25	3	1.20
Phoenix MarketCity, Indore	2023E	1.00	623	8,301	4,204	4,097	51	2,089	12	1	1.00
Palladium, Ahmedabad	2023E	1.00	458	6,102	3,191	2,911	50	1,456	8	1	0.70
Under construction			2,868	33,402	13,298	20,104	51	10,224	60	6	4.00
Under development											
HSP & Palladium, Mumbai				6,250		6,250	100	6,250	36	4	0.50
Phoenix MarketCity, Bengaluru				775		775	51	395	2	0	0.31
Under development				7,025		7,025	95	6,645	39	4	0.81
Retail			13,055	176,259	22,892	153,367	80	122,855	716	75	11.67
Commercial											
Operational											
Phoenix Paragon Plaza	2023E	1.00	393	4,911	501	4,410	80	3,528	21	2	0.31
Fountainhead Tower-1	2023E	1.00	109	1,361	(274)	1,635	75	1,226	7	1	0.17
Art Guild House	2023E	1.00	579	7,243	—	7,243	100	7,243	42	4	0.63
Centrium	2023E	1.00	66	820	—	820	100	820	5	0	0.12
Phoenix House	2023E	1.00	131	1,639	—	1,639	100	1,639	10	1	0.10
East Court	2023E	1.00	27	338	—	338	100	338	2	0	0.03
Operational			1,305	16,310	227	16,084	92	14,793	86	9	1.36
Under construction											
Fountainhead Tower-2&3	2025E	0.80	306	3,046	1,500	1,546	75	1,160	7	1	0.66
Phoenix MarketCity, Chennai	2024E	0.89	210	2,340	1,000	1,340	50	670	4	0	0.42
Classic Mall			—	—	—	—	—	—	—	—	—
Under construction			515	5,386	2,500	2,886	63	1,830	11	1	1.08
Under development											
High Street Phoenix			—	12,500	—	12,500	100	12,500	73	8	1.00
Phoenix MarketCity, Whitefield, Bengaluru			—	2,500	—	2,500	51	1,275	7	1	1.00
Phoenix MarketCity West, Wakad, Pune			—	1,224	—	1,224	51	624	4	0	0.60
Phoenix MarketCity, Hebbal, Bengaluru			—	3,000	—	3,000	51	1,530	9	1	1.20
Under development			—	19,224	—	19,224	83	15,929	93	10	3.80
Commercial			1,820	40,921	2,727	38,194	238	32,552	190	20	6.24
Hotels											
The St. Regis	2023E	1.00	929	11,143	3,276	7,868	73	5,743	33	3	395
Courtyard by Marriot	2023E	1.00	78	942	1,741	(799)	80	(640)	(4)	(0)	193
Hotels			1,007	12,085	5,017	7,068	72	5,104	30	3	588
Residential											
One Bangalore West			427	3,890	525	3,365	80	2,692	16	2	
Kessaku			200	2,409	525	1,884	80	1,508	9	1	
Residential			627	6,300	1,050	5,250	80	4,200	24	3	
Operational			13,126	170,527	15,889	154,639	84	130,083	758	79	8.22
Under construction			3,383	38,788	15,798	22,991	52	12,054	70	7	5.08
Under development			—	26,249	—	26,249	86	22,574	132	14	4.61
Grand total			16,509	235,565	31,686	203,878	81	164,711	960	100	17.91

Source: Kotak Institutional Equities estimates

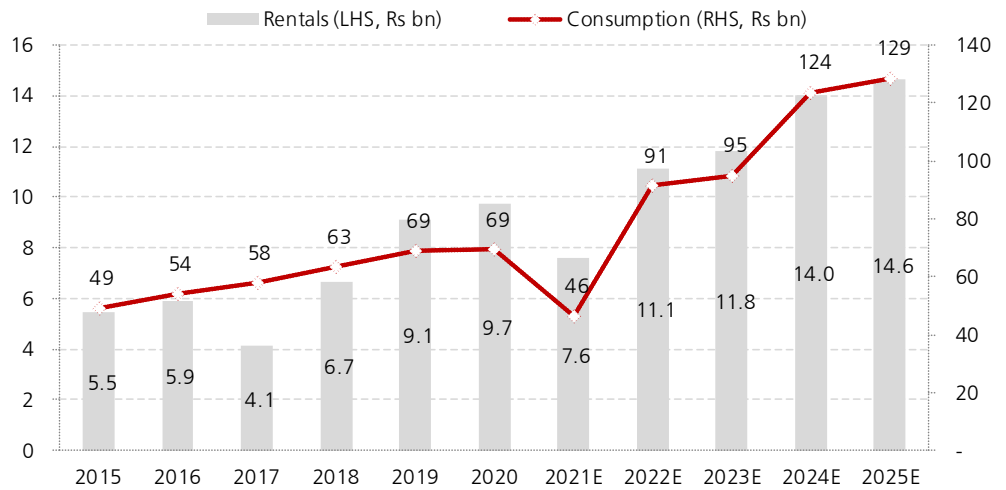
We use the income capitalization method for valuing Phoenix Mills due to the stable and predictable nature of earnings of its operating assets that have followed a steady growth path linked to an increase in consumption. We highlight that the operational assets of Phoenix have seen growth in consumption at 7% CAGR over the past five years, yielding a rental growth of 12.2%. We forecast rental growth at 8.5% CAGR between FY2020 and FY2025E on the back of consumption growth at 13% CAGR over the same period.

Exhibit 5: A 1% reduction in capitalization rate will increase Fair Value by Rs135/share
Sensitivity of Phoenix Mills Fair Value to WACC and Cap. rate (% , Rs/share)

		Cap. rate (%)		
		-1	7.5 /8	+1
WACC (%)	10	1,095	962	861
	12	1,092	960	858
	16	1,086	955	854

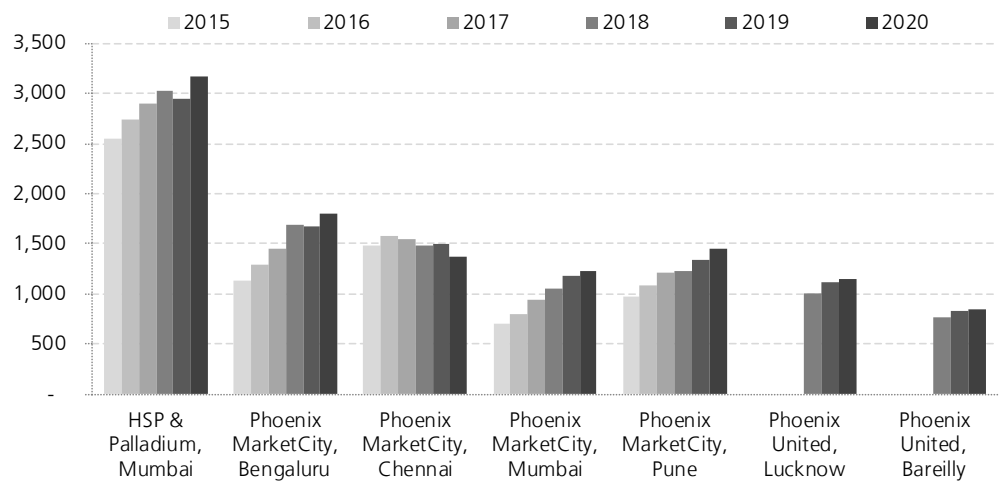
Source: Kotak Institutional Equities estimates

Exhibit 6: We estimate retail rentals for Phoenix Mills to ramp-up to Rs15 bn by FY2025E
Annual rentals for Phoenix Mills (retail), March fiscal year-ends, 2015-25E (Rs bn)



Source: Company, Kotak Institutional Equities estimates

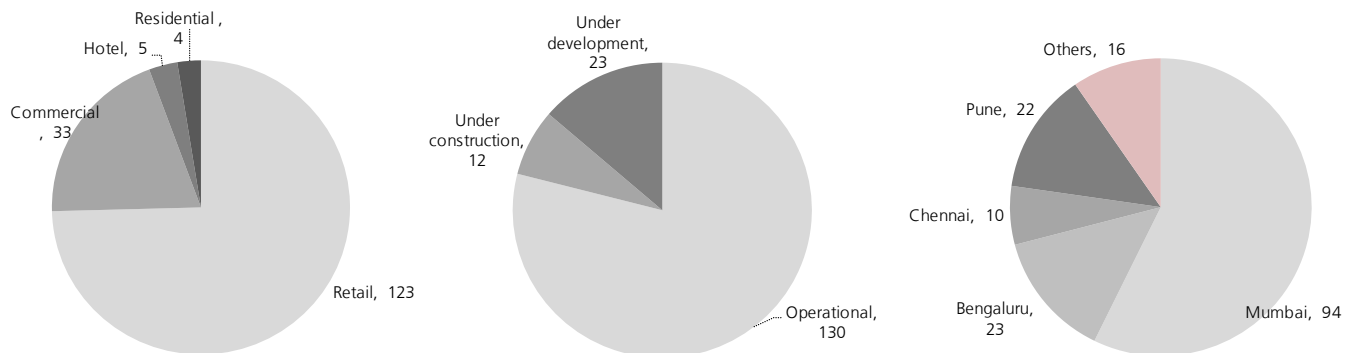
Exhibit 7: Most malls have seen consistent improvement in trading density
Trading density of operating malls, March fiscal year-ends, 2016-20 (Rs per sq. ft)



Source: Company, Kotak Institutional Equities estimates

On an asset-type wise valuation, a bulk of the value (75%) is attributable to the retail business, followed by 20% of the value assigned for commercial business, while hotels (3%) and residential developments (3%) form a smaller part of the overall value. We note that operational assets account for 79% of the overall value, which alters the risk of execution slippages as well as the need for new leases. On a geographical basis, a bulk of the value comes from Mumbai (57%) with High Street Phoenix in Lower Parel alone accounting for 40% of the overall value.

Exhibit 8: Mumbai, retail and operational form a bulk of the valuations for Phoenix Mills
Composition of SoTP by stage of asset, business-type and city (Rs bn)



Source: Company, Kotak Institutional Equities estimates

We note that our Fair Value estimate implies an EV/EBITDA of 16X on operating assets, with EBITDA in FY2023E at similar levels as in FY2020. At CMP of Rs805, the stock fully values the operational retail portfolio while assigning no credit to the under-construction as well as development pipelines. We factor same-store rental to revert to FY2020 levels by FY2023 for the retail business.

Exhibit 9: Growth in rentals is largely premised on new assets being constructed
Composition of rental between operational and under-construction assets, March fiscal year-ends, 2020-25E (Rs mn)

	2020	2023E	2025E	Growth	
				2020-23E	2020-25E
Operational	9,738	10,012	10,622	0.9	1.8
Under construction	—	1,820	4,025		
Retail	9,738	11,832	14,646	6.7	8.5
Operational	1,441	1,725	2,145	6.2	8.3
Under construction	—	508	508		
Commercial	1,441	2,232	2,653	15.7	13.0
Rental	11,178	14,064	17,299	8.0	9.1

Source: Company, Kotak Institutional Equities estimates

Impact of Covid-19 likely transient, mall expansion to play out beyond FY2022E

In our view, the impact of the current lockdown, and consequent impact on rentals will likely be transient, and we do not factor in dramatic shifts in consumer purchasing patterns as well as rental agreements post FY2022E. We have factored revenue decline of 45% in FY2021E on the back of lower rentals due to loss of top-up revenues linked to actual consumption as well as some downward negotiation on minimum guarantee rentals for 1QFY21.

Exhibit 10: We estimate the leasable area to grow at 13% CAGR over the next five years

Key assumptions for retail, commercial and hotels business, March fiscal year-ends, 2015-25E (Rs mn)

	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Retail + Commercial											
Leasable area (mn sq. ft)	6.48	6.48	6.48	7.28	7.28	7.32	8.22	9.92	11.00	13.30	13.30
Occupancy (%)	57.67	57.27	57.98	59.21	92.22	92.40	87.40	84.47	85.78	83.85	88.38
Rental (Rs mn)	5,470	5,969	6,602	9,172	10,435	11,178	9,111	12,813	14,064	16,487	17,299
Rental (Rs/sq. ft)	122	134	147	177	130	138	106	127	124	123	123
Hotels											
Hotel Keys	588	588	588	588	588	588	588	588	588	588	588
Occupancy (%)	45	63	65	72	76	74	23	73	73	73	73
ARR	8,199	8,167	8,687	9,167	9,491	9,958	6,834	8,278	8,692	9,127	9,583
RevPAR (Rs/day)	3,690	5,156	5,652	6,636	7,188	7,343	1,602	6,073	6,377	6,695	7,030

Source: Company, Kotak Institutional Equities estimates

Phoenix Mills is looking to grow its retail portfolio from 6.9 mn sq. ft spread across eight projects to 11 mn sq. ft through the addition of four new malls in Bengaluru, Pune, Indore and Ahmedabad. Phoenix Mills is also looking to capitalize on office space on its extant land bank through near doubling of its commercial real estate portfolio from 1.3 mn sq. ft currently to 2.4 mn sq. ft by FY2025E. We further highlight that Phoenix Mills further has the potential of developing 0.8 mn sq. ft of retail space and 3.8 mn sq. ft of office space across extant projects. Exhibit 11 highlights Phoenix Mills' growth plans for its retail and commercial portfolios.

Exhibit 11: Phoenix Mills is looking to near-double its retail presence

Details of under-construction and development portfolio of Phoenix Mills (mn sq. ft)

	Retail	Office	Total
Portfolio under construction			
Phoenix Millennium, Wakad, Pune	1.10	—	1.10
Phoenix Mall of Asia, Hebbal, Bengaluru	1.20	—	1.20
Phoenix Citadel, Indore	1.00	—	1.00
Palladium, Ahmedabad	0.70	—	0.70
Fountainhead -Tower 2 & 3	—	0.66	0.66
Phoenix MarketCity, Chennai	—	0.42	0.42
Sub - total	4.00	1.08	5.08
Portfolio under planning			
High Street Phoenix	0.50	1.00	1.50
Phoenix MarketCity, Whitefield, Bengaluru	0.31	1.00	1.31
Phoenix Millennium, Wakad, Pune	—	0.60	0.60
Phoenix Mall of Asia, Hebbal, Bengaluru	—	1.20	1.20
Sub - total	0.81	3.80	4.61
Total	4.81	4.88	9.69

Source: Company, Kotak Institutional Equities estimates

Phoenix Mills trades at a discount to annuity companies, premium to developers

At 14X EV/EBITDA on FY2023E earnings, Phoenix Mills trades at a 9% premium to average real estate companies in India. However, the stock is at 16% discount to listed REITs in India which have a high and long-term visibility on earnings. We note annuity assets have traditionally enjoyed superior multiples owing to stable and sustainable growth profile of earnings. We highlight that annuity assets in India have enjoyed a stable growth profile with higher-than-inflation growth in rental streams.

Exhibit 12: Phoenix Mills trades at 14X EV/EBITDA at a discount to annuity portfolios of other office companies
Valuation summary of real estate companies under coverage, March fiscal year-ends, 2020-23E (Rs mn)

Developer	Mkt Cap. (Rs mn)	Price (Rs/share)	Rating	FV (Rs/share)	Book value (Rs/share)				Price-to-book ratio (X)			
					2020	2021E	2022E	2023E	2020	2021E	2022E	2023E
Brigade	59,445	285	BUY	310	112	105	116	132	2.6	2.7	2.5	2.2
DLF	774,896	313	REDUCE	240	139	142	148	154	2.2	2.2	2.1	2.0
Embassy REIT	331,753	350	ADD	375	289	278	266	252	1.2	1.3	1.3	1.4
GPL	359,014	1,424	SELL	810	191	196	211	243	7.5	7.3	6.8	5.9
Lemon Tree	34,106	43	BUY	35	10	9	8	8	4.1	4.8	5.1	5.1
Mindspace	195,690	330	ADD	330	38	281	277	273	8.6	1.2	1.2	1.2
Oberoi	208,871	574	ADD	590	237	257	283	313	2.4	2.2	2.0	1.8
Phoenix Mills	136,928	801	BUY	955	242	282	300	324	3.3	2.8	2.7	2.5
Prestige	113,564	283	ADD	275	141	136	146	164	2.0	2.1	1.9	1.7
Sobha	43,767	461	BUY	440	256	259	284	326	1.8	1.8	1.6	1.4
Sunteck	53,682	367	BUY	300	208	216	233	248	1.8	1.7	1.6	1.5

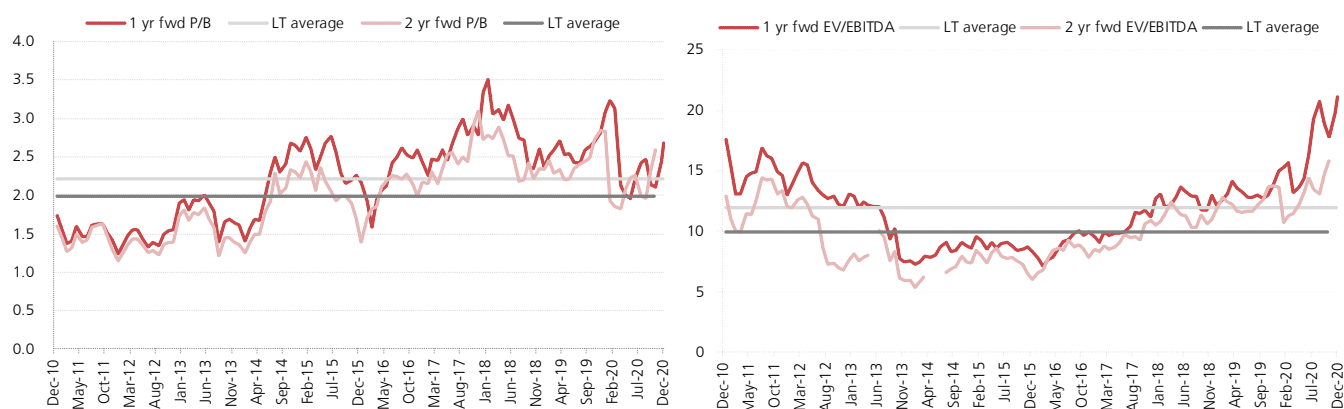
Developer	EV/EBITDA (X)				Adj. EV/EBITDA (X)			
	2020	2021E	2022E	2023E	2020	2021E	2022E	2023E
Brigade	15.3	23.8	7.8	7.0	3.8	9.4	7.4	(20.7)
DLF	80.4	57.9	42.6	41.7	15.6	16.1	12.8	11.7
Embassy REIT	23.9	23.5	20.7	18.8	21.8	21.5	19.1	17.5
GPL	107.2	(444.0)	142.7	64.2	52.2	(52.2)	57.7	34.7
Lemon Tree	19.2	57.0	17.1	11.7	23.5	73.6	22.0	15.9
Mindspace	25.0	20.4	16.5	14.8	25.0	20.4	16.5	14.8
Oberoi	21.1	19.7	15.6	14.0	(184.1)	39.8	26.2	15.7
Phoenix Mills	18.3	25.9	14.9	12.7	19.2	26.7	16.2	14.0
Prestige	8.1	10.1	7.7	6.4	8.3	10.4	7.2	8.8
Sobha	6.7	7.6	5.6	4.8	5.1	3.7	3.2	3.9
Sunteck	38.3	33.2	16.5	18.3	5.4	5.8	5.5	5.3

Note: Adjusted EV/EBITDA takes into consideration (1) attributable ownership for annuity portfolios, (2) adjust enterprise value for land bank, and (3) takes gross cash flows instead of accounting EBITDA for development business.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates

We highlight that Phoenix Mills is trading at a premium to its own long-term trading multiples, owing to the current uncertainty of business beyond Covid-19. In our view, malls will likely move back to normalized business by end-FY2022E and will not have a structural impact on the earnings profile of the assets.

Exhibit 13: Phoenix Mills is currently trading at premium to its historical multiples owing to earnings impact of Covid-19
P/B and EV/EBITDA multiple for Phoenix Mills (X)



Source: Bloomberg, Company, Kotak Institutional Equities estimates

Proposed transaction with GIC sets new benchmark on valuations

Phoenix Mills (along with its subsidiaries) has signed a non-binding term sheet agreement with an affiliate of GIC Private Limited to form a retail-led mixed use platform. The proposed transaction values 2.33 mn sq. ft of retail assets and 1.03 mn sq. ft of office space at an enterprise value of Rs56-57 bn (KIE Rs45 bn) implying a capitalization rate of 6.5% on NOI of Rs3.7 bn in FY2020. We estimate EBITDA of Rs3.5 bn in FY2022E from the proposed assets. This marks a new benchmark in capitalization rates involving transactions by private equity players. GIC will initially infuse equity in the specific subsidiaries to take up 26% ownership in the assets, which will likely be increased to 35% within a period of twelve months. Phoenix Mills may consider various options to monetize the platform, including by way of a REIT over a period of 3-5 years.

Exhibit 14: GIC's acquisition at a trailing capitalization rate of 6.5% sets a new benchmark
Transactions in commercial real estate over the past few years

Asset	City	Transaction	Area		Buyer	Value (Rs mn)	Cap. rate (%)	
			(mn sq. ft)				Minium	Maximum
Phoenix Mills (Malls, office)	Mumbai	4QCY20	3.36		GIC	57,000	6.50	6.60
Embassy Tech Village	Bengaluru	4QCY20	9.20		Embassy REIT	97,800	7.50	7.60
Prestige Estate (Office + malls)	Bengaluru	4QCY20	10.00		Blackstone	91,600	8.00	8.50
Global Village Tech Park	Bengaluru	3QCY19	4.12		Blackstone	21,050	7.80	8.00
Weikfield IT Citi Info Park	Pune	3QCY19	1.08		Xander	9,000	8.00	8.20
One BKC	Mumbai	3QCY19	0.70		Blackstone	25,000	7.90	8.10
Waverock	Hyderabad	1QCY19	2.32		Shapoorji & Allianz	18,000	7.90	8.10
SP Infocity	Chennai	4QCY18	2.70		Mapletree Investments	24,000	7.80	8.00
One Indiabulls Park	Chennai	2QCY18	1.92		Blackstone	9,000	8.20	8.40
One Indiabulls Centre	Mumbai	1QCY18	1.67		Blackstone	19,250	8.00	8.20
Hiranandani	Mumbai	1QCY17	1.00		Brookfield Asset Mgmt.	60,000	8.30	8.50
BPTP	Gurugram	1QCY16	0.80		RMZ	8,500	8.50	8.70
Exora Business Park	Bengaluru	3QCY15	2.13		Prestige Estates	6,000	9.20	9.40
247 Park	Mumbai	2QCY15	1.14		Blackstone	10,500	9.30	9.50
Nirlon Tech Park	Mumbai	2QCY15	3.30		GIC	12,800	9.50	9.70
Average							8.40	8.60

Source: CBRE, Companies, Kotak Institutional Equities

Phoenix Mills will transfer (1) Phoenix Market City, Mumbai (1.14 mn sq. ft), (2) Phoenix Market City, Pune (1.19 mn sq. ft), (3) Art Guild House (0.63 mn sq. ft), (4) Phoenix Paragon Plaza (0.31 mn sq. ft), and (5) Centrium (0.1 mn sq. ft).

Simplified structure; contribution from operational assets make it REIT-ready

Phoenix Mills largely has (1) 100% ownership of individual asset SPVs, (2) high contribution from operational assets with a long history, and (3) residential and hotel assets held in separate SPVs. This makes the extant structure REIT-ready with limited transaction costs and the benefit of enjoying fiscal and taxation benefits available to a REIT. In our view, Phoenix Mills will likely consider a REIT-like structure upon completion of the current phase of capacity expansion as well as lowering the leverage, both of which will help improve the yield profile of the REIT.

Exhibit 15: Phoenix Mills has a simplified ownership structure with each asset in a separate SPV
Corporate structure of Phoenix Mills

Malls				Commercial			
Operational	Area	Entity Name	Ownership	Operational	Area	Entity Name	Ownership
HSP & Palladium, Mumbai	0.77	Standalone	100	Phoenix Paragon Plaza	0.31	Graceworks	67
Phoenix MarketCity, Mumbai	1.14	Offbeat Developers	100	The Centrium	0.12	Standalone	100
Phoenix MarketCity, Chennai	1.22	Classic Mall Development	50	Art Guild House	0.63	Standalone / Offbeat Developers	100
Phoenix MarketCity, Bengaluru	1.00	Island Star Mall Developers	51	Phoenix House	0.10	Standalone	100
Phoenix MarketCity, Pune	1.22	Vamona Developers	100	Fountainhead Tower-1	0.17	Alliance Spaces	75
Phoenix United, Lucknow	0.33	UPAL Developers	100	East Court	0.03	Vamona Developers	100
Phoenix United, Bareilly	0.31	Blackwood Developers	100	Under development	Area	Entity Name	Ownership
Phoenix Palassio, Lucknow	0.90	Destiny Hospitality	100	Fountainhead Tower-2&3	0.66	Alliance Spaces	75
Under development	Area	Entity Name	Ownership	Phoenix MarketCity, Chennai	0.42	Classic Mall Development	50
Phoenix Millenium, Wakad, Pune	1.10	Alyssum	51	HSP, Mumbai	1.00	Under planning	
Phoenix Mall of Asia, Hebbal, Bengaluru	1.20	Sparkle One	51	PMC, Bengaluru	1.00	Under planning	
Phoenix MarketCity, Indore	1.00	Insight	51	PMC, Pune	0.60	Under planning	
Palladium, Ahemdabad	0.70	SGH Realtors LLP	50	PMC, Hebbal, Bengaluru	1.20	Under planning	
HSP & Palladium, Mumbai	0.50	Under planning					
Phoenix MarketCity, Bengaluru	0.31	Under planning					
Hotels				Residential			
Operational	Keys	Entity Name	Ownership		Area	Entity Name	Ownership
The St. Regis	395	Pallazio Hotels and Leisure	73	One Bangalore West	2.2	Palladium Construction	80
Courtyard by Marriot	193	Palladium Construction	80	Kessaku	0.99	Palladium Construction	80
				Crest - A & B	0.26	Classic Housing Projects Pvt Ltd	50
				Crest - C	0.28	Classic Housing Projects Pvt Ltd	50

Source: Company, Kotak Institutional Equities

COVID-19 IMPACT LIKELY TRANSIENT, INDUSTRY WILL BOUNCE BACK

India's organized retail market is likely to grow at 17% CAGR over the next five years, to become a US\$256 bn opportunity. In our view, the current Covid-19-linked slowdown is likely transient and will normalize by end-FY2022E. We note that India's per capita retail space is among the lowest in comparison to developed countries, and will likely provide a long runway for growth for the 80 mn sq. ft of mall space currently operational in the country.

Long runway of growth for organized retailers in India

India's retail market is highly unorganized and while penetration of organized retail has been on the rise, several categories such as food and grocery and apparel offer a long runway of growth to organized retailers. We estimate India's organized retail market to maintain a 17% CAGR in growth up to FY2025E to become a US\$256 bn market from a more modest US\$119 bn in FY2020.

Rising income levels, increasing urbanization, and a growing population have catered to increasing consumerism in urban India—this will likely continue to drive consumer spends in India, ahead of the world. Exhibit 16 shows the growth of consumption spends in India, while Exhibit 17 shows the share of India's organized retail in comparison to other global economies.

Exhibit 16: India's organised retail market likely to grow at 17% CAGR

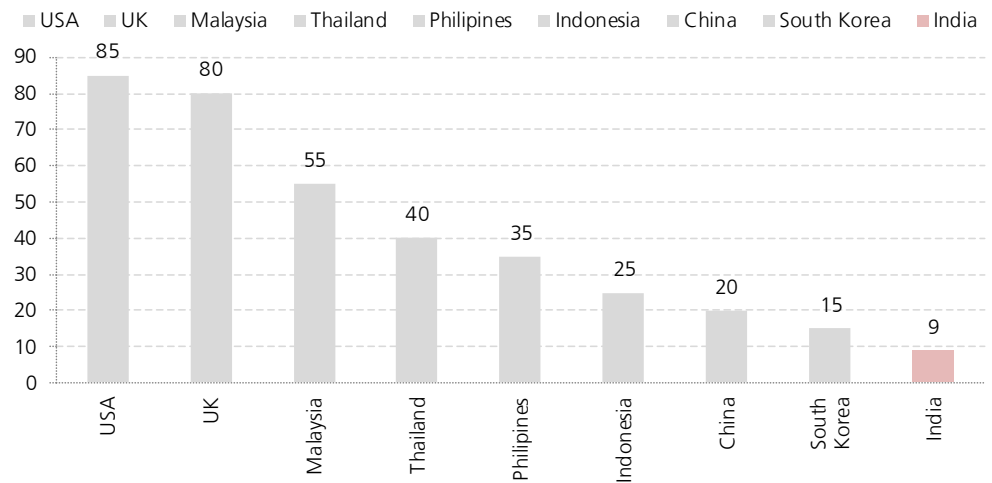
Snapshot of India's retail market, March fiscal year-ends, 2017-25E (US\$ bn)

	2017	2020	2025E	2030E	2020-25E CAGR (%)	2025-30E CAGR (%)
Nominal GDP	2,464	3,555	6,265	10,557	12	11
Private consumption	1,454	2,062	3,634	6,123	12	11
Private consumption as proportion of GDP (%)	59	58	58	58		
Merchandise retail	710	990	1,708	2,751	12	10
Merchandise retail as proportion of private consumption (%)	49	48	47	47		
Organized retail	67	119	256	523	17	15
Organized retail as proportion of retail (%)	9	12	15	19		

Source: Technopak, Kotak Institutional Equities estimates

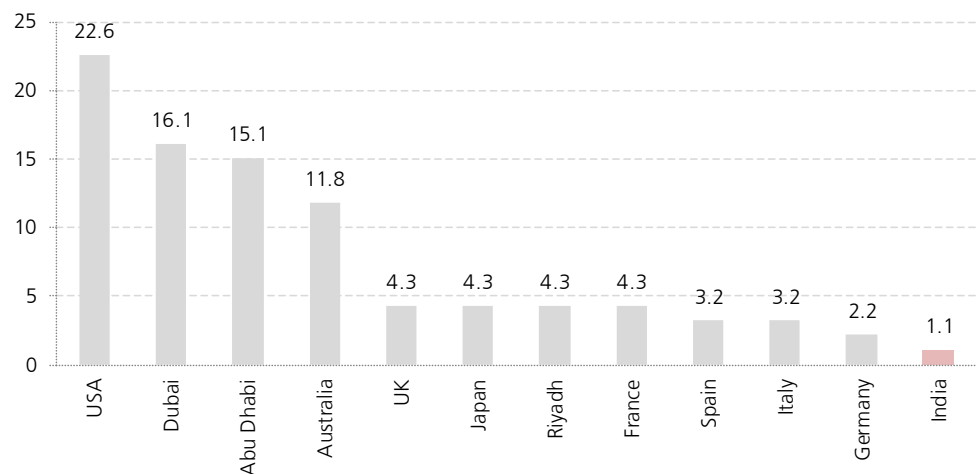
We highlight that at 9% India has among the lowest shares of organized retail as a percentage of GDP compared to most global peers, and this can only accelerate with the advent of organized retail. On a per capita, India has the lowest per capita organized retail space as compared to other major economies. Addition of approximately 140 mn middle-income and approximately 21 mn high-income households by 2030, constituting approximately 51% of the total share of income is expected to spur consumption and might increase the need for retail space in India.

Exhibit 17: Organised retail forms a poor 9% of overall retail spend in India
Share of organised retail in comparison to overall retail spend across countries (%)



Source: Anarock, Kotak Institutional Equities

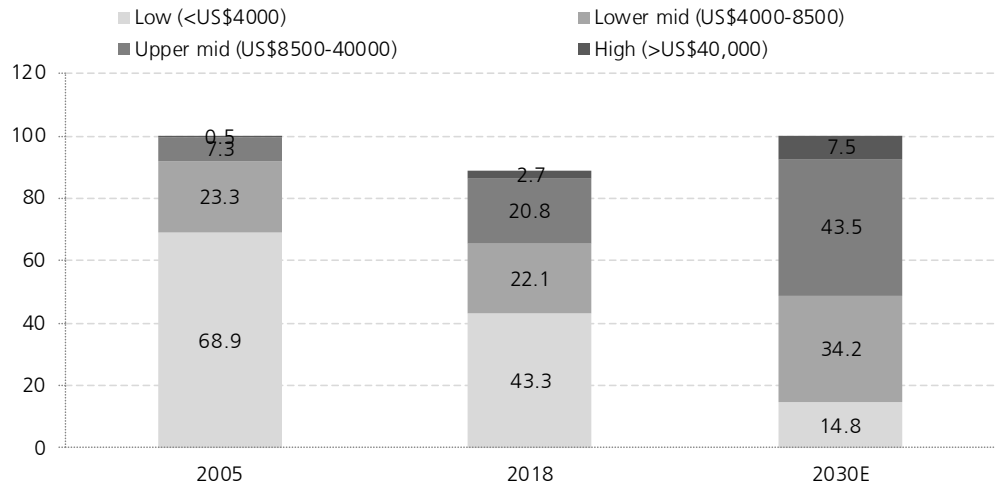
Exhibit 18: India's per capita retail space is abysmally low compared to the world
Retail space per capita (sq. ft)



Source: CBRE, Kotak Institutional Equities

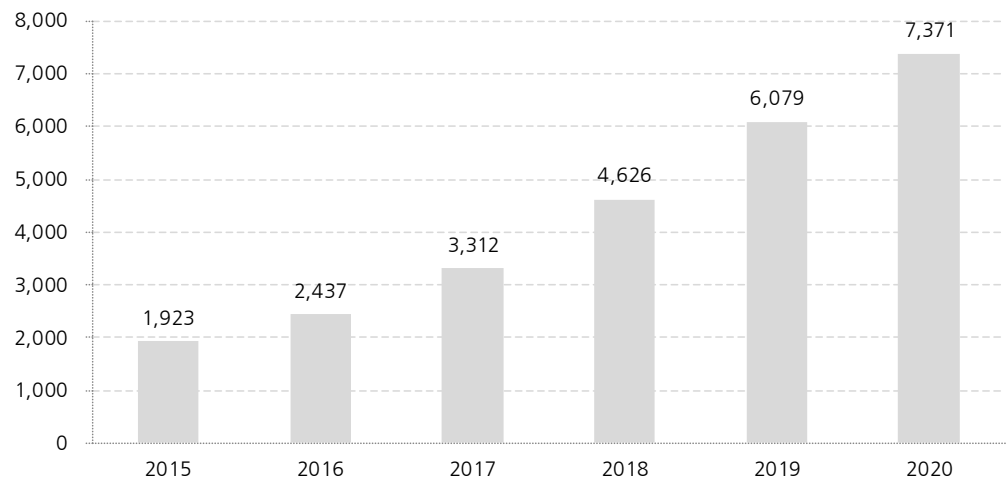
We also highlight the improving composition of household income, with 43% of the population in the low income category as of CY2018 compared to 69% in CY2005. This trend is likely to further improve with a more modest 15% of the population in the low income category by CY2030E. As a corollary, India's credit card spends have grown at an aggressive 30% CAGR over the past five years (See Exhibit 20).

Exhibit 19: Increasing per capita income will aid retail spends by Indians
 Evolution of household income per annum profile of India (%)



Source: World Economic Forum, Kotak Institutional Equities

Exhibit 20: Credit card spends in India have grown at 30% CAGR over the past five years
 Credit card spends in India, March fiscal year-ends, 2015-20 (Rs bn)

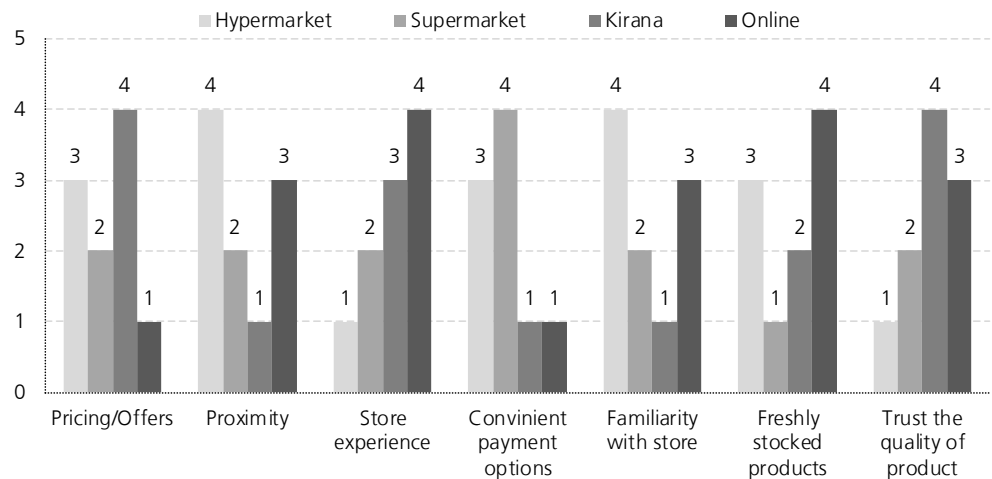


Source: RBI, Kotak Institutional Equities

Challenge from online stores to brick and mortar

Large scale mall formats, such as those set up by Phoenix Mills face competition from traditional local stores as well as new format online stores. Malls differentiate themselves by being places of social entertainment and gathering, as well as the preferred mode of purchase for higher ticket items that involve element of choice, increased customization and individual preferences. Local stores are preferred for small ticket day-to-day items. Online stores are less time consuming and preferred for mid-value items that have a fair amount of standardized and repetitive purchases. In our view, each format has its own strengths and has found a niche among consumers. Malls lead in purchases of apparels, jewelry and shoes, expensive electronics, food and beverages while online stores work for groceries, mobiles and other low value items of daily use. Exhibit 21 highlights the strengths of each of the formats.

Exhibit 21: High-value items have a preference for mall purchases
Strengths of each of the market formats on a point scale of 5



Source: BCG, Kotak Institutional Equities

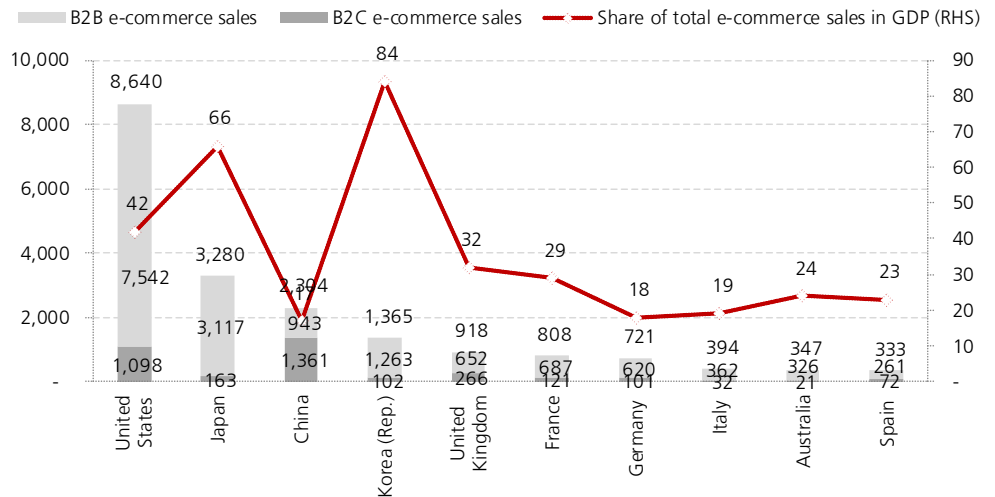
We do note that increasing internet penetrating will likely result in online platforms eating into the share of wallet of overall retail spends. However, as we have seen in more developed markets, that transition is slow and still leaves enough growth opportunities for large retail malls such as those of Phoenix Mills. Exhibit 22 shows our estimates for growth in e-tail markets, while Exhibit 23 shows e-commerce sales across global economies.

Exhibit 22: Indian e-commerce market size could cross US\$117 bn by 2025E
Top-down estimation of Indian e-commerce market-size, March fiscal year-ends, 2015-25E

	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2030E	2020-25 CAGR (%)	2025-30 CAGR (%)
Population (mn)	1,257	1,269	1,281	1,293	1,305	1,318	1,330	1,343	1,354	1,367	1,380	1,422	0.9	0.2
Internet penetration (%)	24	27	33	38	49	55	60	64	67	70	73	78		
Internet population (mn)	302	343	422	494	637	725	798	859	907	957	1,007	1,109	8.5	1.0
Number of online shoppers (mn)	30	40	50	69	96	120	144	173	200	230	263	378	19.1	2.7
Buyer penetration (%)	10	12	12	14	15	17	18	20	22	24	26	34		
Online money spent (Rs)	8,015	11,307	12,437	14,303	16,448	18,093	20,807	23,720	26,804	30,020	33,323	53,666	12.8	2.1
Yoy increase in online spend (%)	148	41	10	15	15	10	15	14	13	12	11	10		
Total e-tail market size (Rs bn)	240	452	623	980	1,579	2,173	3,001	4,092	5,367	6,915	8,752	20,279	34	5
Total e-tail market size (US\$ bn)	4	7	9	15	23	31	40	55	72	92	117	270	32.5	4.8
Yoy growth (%)		76	34	64	49	36	30	37	31	29	27			

Source: IAMAI, Census 2011, TRAI, Kotak Institutional Equities estimates

Exhibit 23: E-commerce (B2B and B2C) sales value was 30% of global GDP in 2018 at US\$25.6 tn
E-commerce sales in top-10 economies (in 2018) (USD bn)



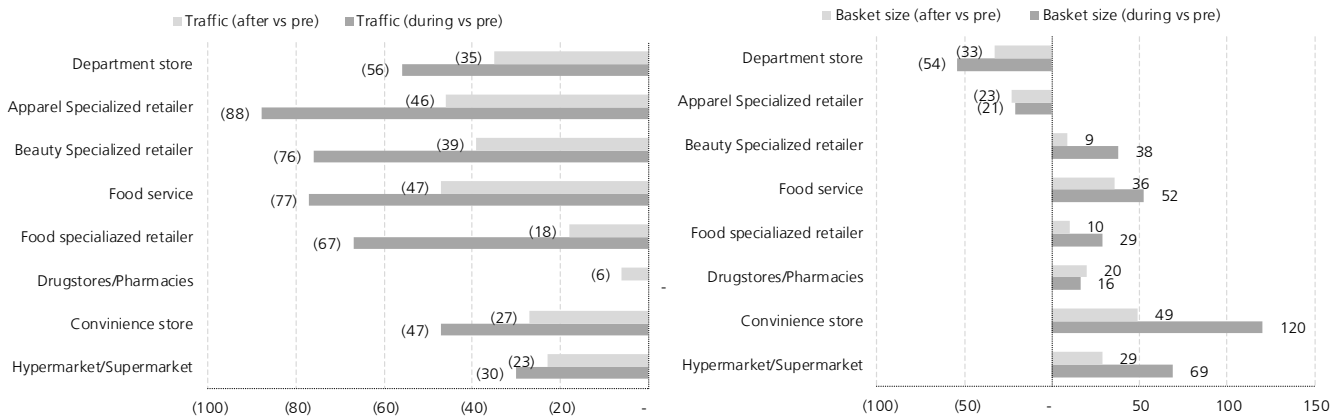
Source: United Nations conference on Trade and Commerce

Impact of Covid-19 likely to be transient

The economic lockdown due to Covid-19 had hit the retail segment the most, with malls in complete shutdown virtually no business for occupants. There have been several discussions between retailers and mall owners to arrive at an amicable solutions on rentals, owing to the drastic drop in revenues in recent times. Mall owners offered partial-to-full waivers of rentals for the period of the shut-down (1QFY21) while aligning rentals more to consumption and lowering minimum guarantees for the rest of FY2021E.

A look at the country-wise impact of Covid-19 shows that China (the first country to be impacted by Covid-19) has seen a sharp re-bounce from peak-Covid levels in terms of footfalls coming back to retail spaces and malls. Even though footfalls are short of pre-Covid levels, the revival has been encouraging.

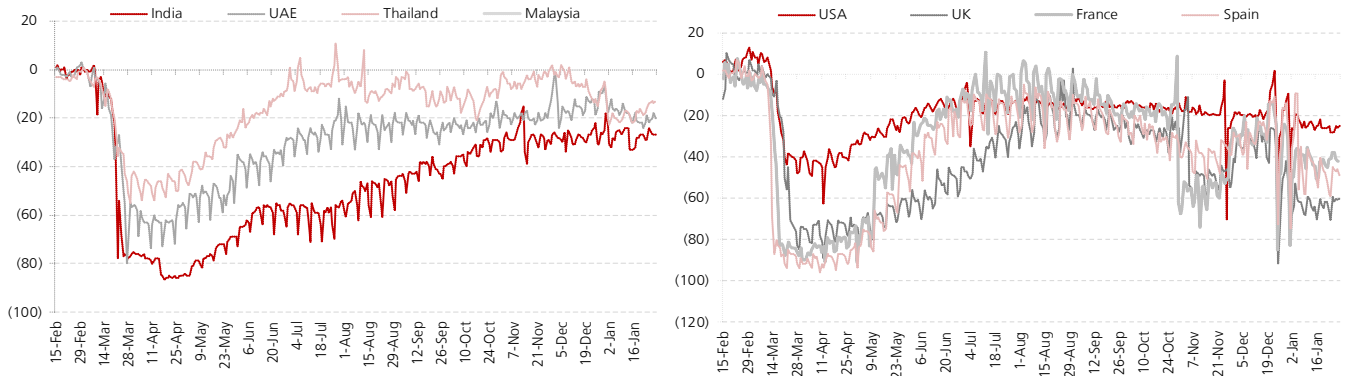
Exhibit 24: China has shown a marked improvement in shopping patterns post Covid-linked lockdowns
Impact on traffic and basket size during and after the pandemic (%)



Source: McKinsey, Kotak Institutional Equities

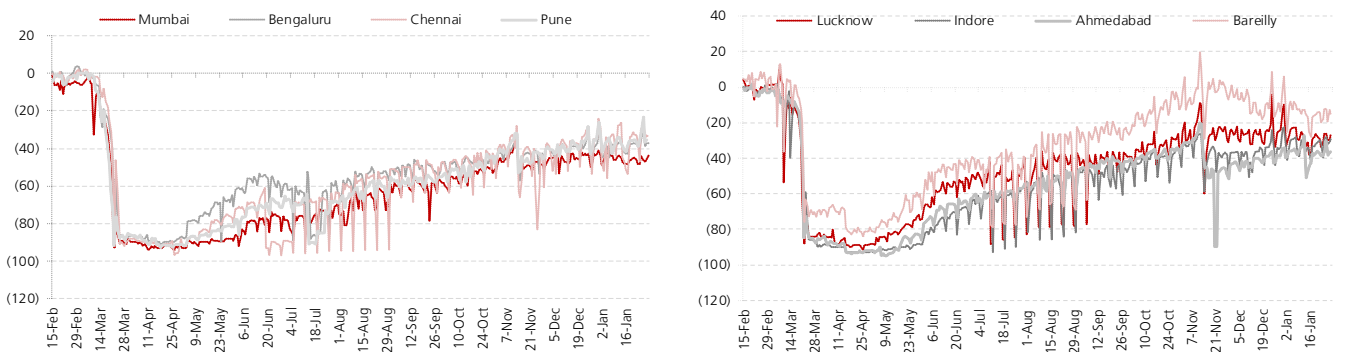
Google mobility data shows an 80% drop in people movement to retail and recreational spaces. The experience with other countries has been similar, though most countries have already been on the path to recovery ahead of India. We do however highlight the risk of a second lock down as can be seen in the trends in UK and other European countries.

Exhibit 25: India has been on a steady path to recovery, but still lags several countries in terms of people moving back to retail places
 Quantum of movement in retail and recreational places in comparison to pre-Covid base-line data (%) (as of January 29, 2021)



Source: Google, Kotak Institutional Equities

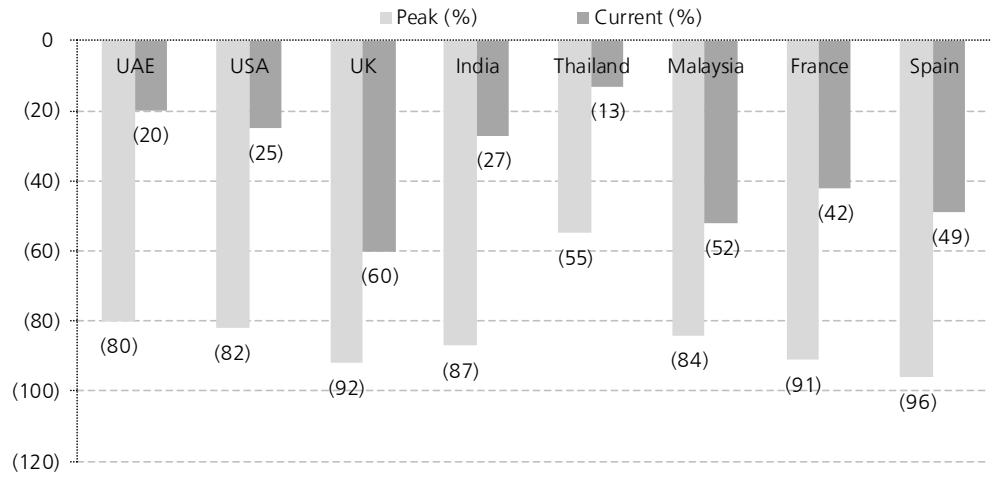
Exhibit 26: Tier-22 cities in India have witnessed a much faster movement of people to retail places than tier-1 cities
 Quantum of movement in retail and recreational places in comparison to pre-Covid base-line data (%) (as of January 29, 2021)



Source: Google, Kotak Institutional Equities

Exhibit 27: Countries have recovered substantially from the peak drop in movement to retail spaces

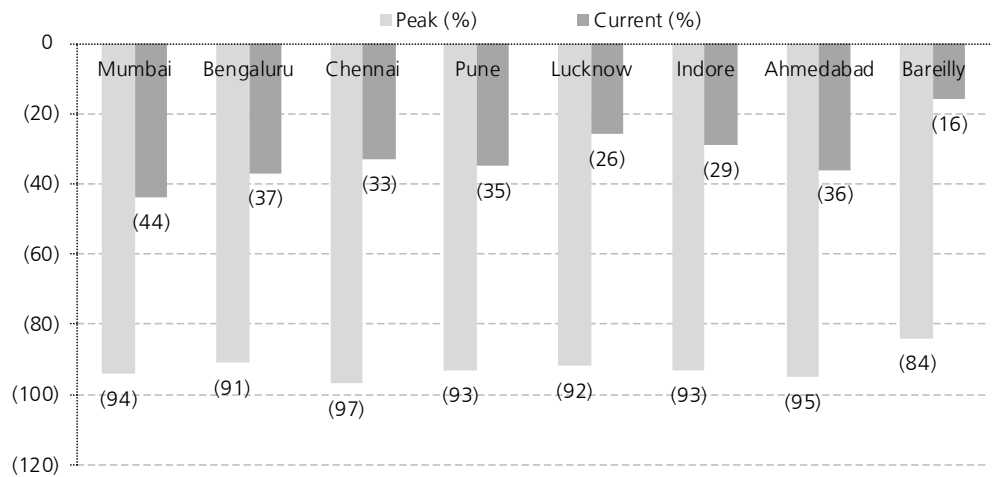
Decline in mobility to retail and recreational spaces (%) (as of January 29, 2021)



Source: Google, Kotak Institutional Equities

Exhibit 28: Tier-1 cities in India still have ~37% decline in mobility of people to retail spaces

Decline in mobility to retail and recreational spaces (%) (as of January 29, 2021)



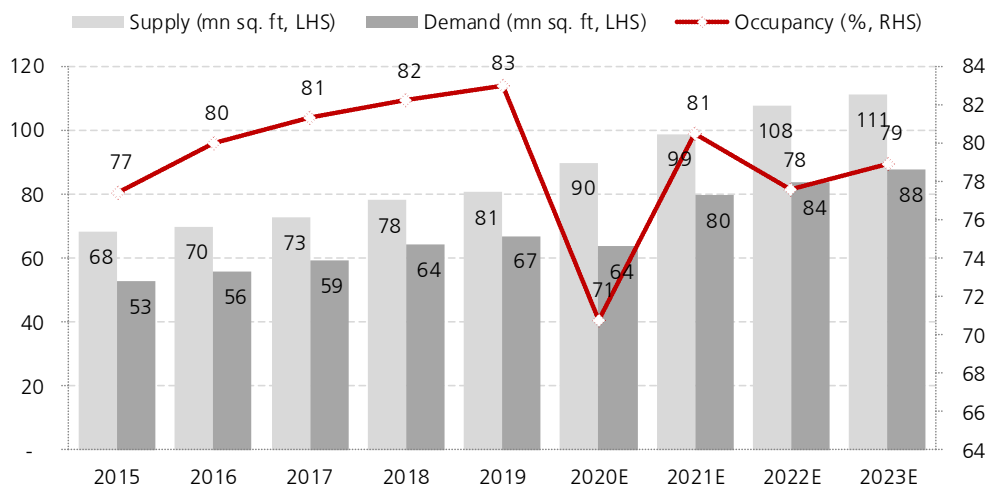
Source: Google, Kotak Institutional Equities

India's retail space likely to grow at 8% CAGR by CY2023E

India's retail mall spaces emerged mostly over the past two decades, absorbing 49 mn sq. ft over the past decade. The organized retail mall space among the top-7 cities currently stands at 81 mn sq. ft and is likely to grow at 8% CAGR to 111 mn sq. ft by CY2023E. The average occupancy of retail malls over the past five years has remained in a narrow range at 81%, which will likely drop to 71% in CY2020E due to the pandemic but will likely normalize to the 80% mark in the following years.

Exhibit 29: Retail spaces will likely face a drop in occupancy in CY2020E

Demand, supply and vacancy for retail spaces, December calendar year-end, 2015-23E (mn sq. ft, %)

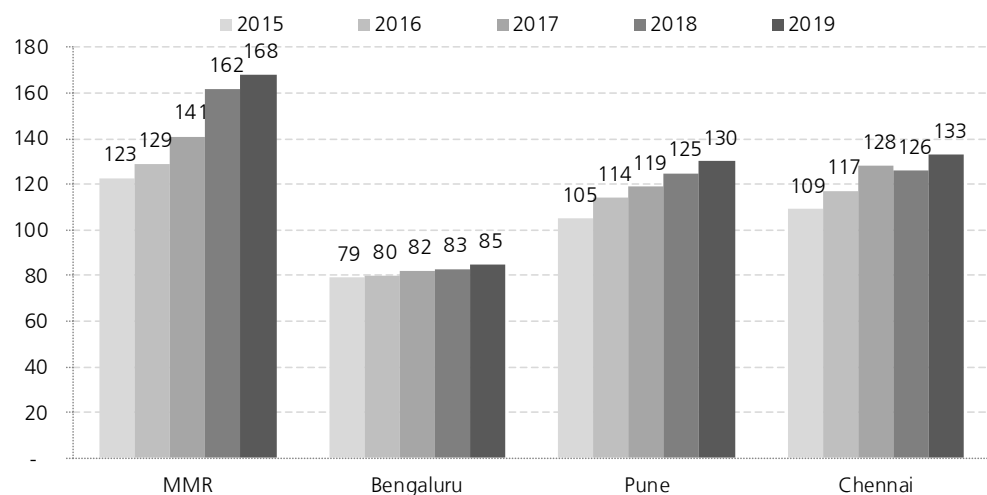


Source: CBRE, Kotak Institutional Equities estimates

We highlight that mall rentals over the past five years have grown at 5% CAGR since CY2015, though Mumbai has seen a higher CAGR of 8%, while rentals in Bengaluru on average have been more subdued at 2% CAGR.

Exhibit 30: Mall rentals have seen a steady increase over the years

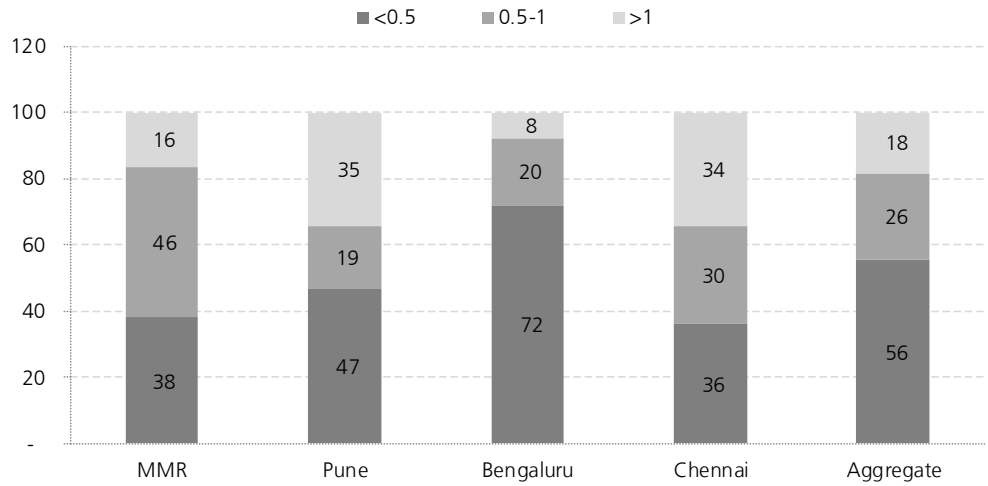
Trends in mall rentals across key markets, December calendar year-ends, 2015-19 (Rs/sq. ft per month)



Source: CBRE, Kotak Institutional Equities

We highlight that a bulk (56%) of the malls in India are smaller than 0.5 mn sq. ft, whereas consumer preference is shifting towards larger mall spaces (>1 mn sq. ft) which account for only 18% of the overall supply—a key differentiator for Phoenix Mills compared to its peers.

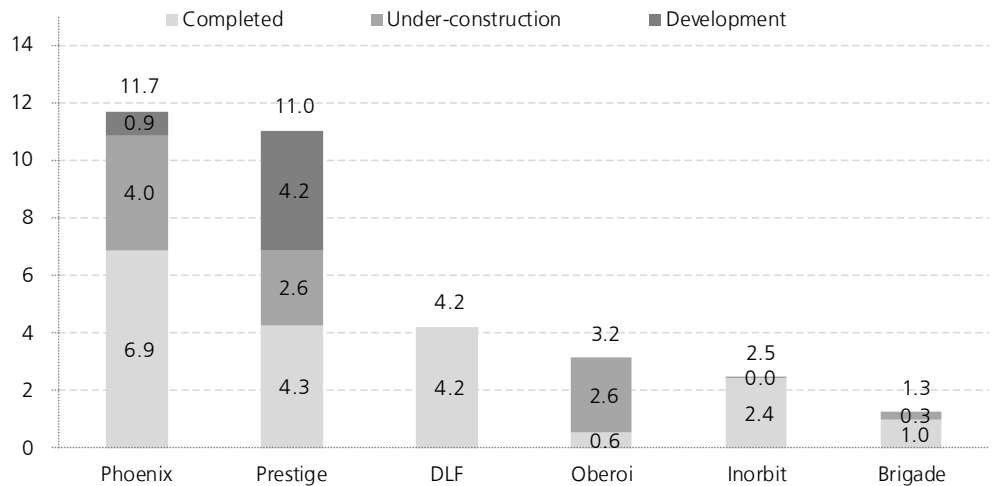
Exhibit 31: Large malls such as those of Phoenix still contribute a smaller share in the retail mix
Composition of malls by sizes across cities (%)



Source: CBRE, Kotak Institutional Equities

Our assessment of the top-5 players show that they collectively have an inventory of 19 mn sq. ft representing 24% of the overall industry size. The capital intensive nature of the business likely acts as a natural entry barrier, with the large format mall chains continuing to dominate the space. We also note that aside from Prestige Malls (assets to be acquired by Blackstone) and Phoenix Mills which are dedicated mall owners, several other companies are developers with regional concentration and have a presence in the mall business.

Exhibit 32: Phoenix Mills has the largest portfolio of retail malls among real estate players
Composition of completed, under-construction and future development by companies (mn sq. ft)

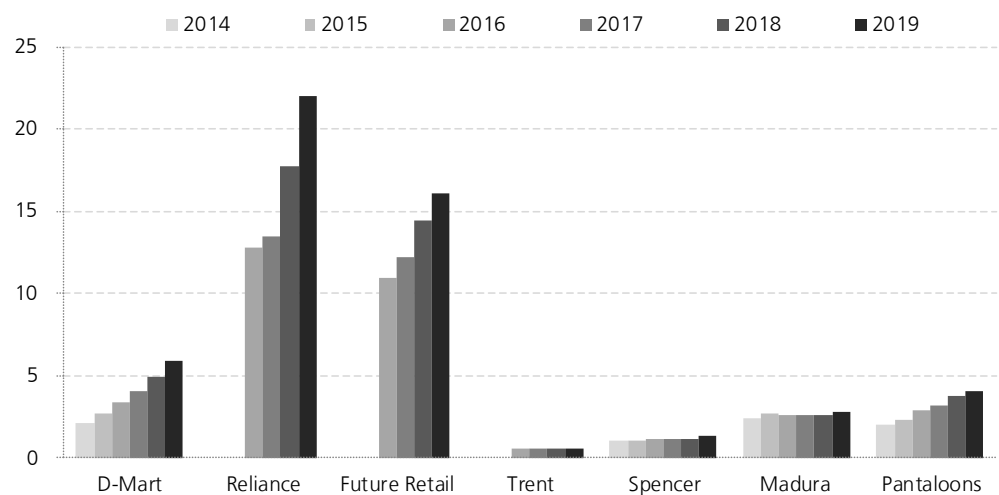


Source: Company, Kotak Institutional Equities

Strong growth, concentration amongst top retail brands in the country

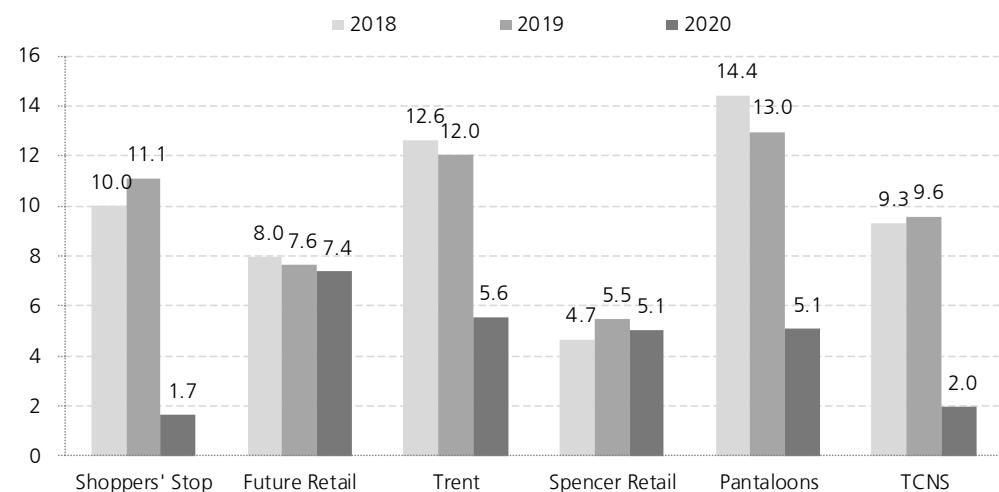
Our analysis of the top-6 retailers in India shows a strong concentration of occupants representing 14% of retail spends. The top retailers had an aggregate revenue of Rs1.6 tn that has grown at 59% CAGR over the past three years. We note that the top retailers house the marquee brands that position themselves for retail malls in India. We highlight that rental cost account for 8-12% of the revenues for these companies.

Exhibit 33: Top retailers in India have seen their store space increases at 16% CAGR between 2016-19
Area occupied by large retailers in India, March fiscal year-ends, 2014-2019 (mn sq. ft)



Source: Companies, Kotak Institutional Equities

Exhibit 34: Rental cost account for 8-12% of revenues for major retailers in India
Rental cost as a percentage of revenues, March fiscal year-ends, 2018-20 (%)



Source: Companies, Kotak Institutional Equities

KEY RISKS: SHIFT IN PURCHASING HABITS, LOWERED RENTALS REMAIN KEY RISK

Any structural shift in purchasing habits of customers leading to weak rental trends for retail malls would pose a key risk to Phoenix Mills. Incremental investments of Phoenix Mills are also being made towards city-centric office towers—the company's inability to fill-up the large office spaces in a world that is looking to increasingly adopt 'work-from-home' policies may further dent potential earnings.

Slower-than-expected ramp-up or a second wave could further dent earnings

Phoenix Mills is steadily resuming operations across mall assets. The implications of the near two quarters of lockdown have been (1) loss of rental top-up that is linked to consumption (in the absence of consumption), (2) relief/ re-negotiation of extant rental agreements for tenants to help them overcome the immediate business loss, (3) risk to occupancy as several tenants (such as movie theaters, restaurant and bars) may find it unviable to resume operations with a marked reduction in people density, as required for compliance with social distancing guidelines. We have currently factored a 22% yoy drop in revenues, 567 bps yoy drop in occupancy for mall assets in FY2021E and resumption of normalcy in early FY2022E.

Phoenix Mills has proactively engaged with its retail tenants and licensees in connection with the shutdown of their operations and the resultant downturn in their business. The company has been providing waivers and moratoriums on a portion/all of minimum guarantee rentals for a part of/full year FY2021. This has seen the company's rental income in the current financial year having a lower percentage of minimum guarantee rental payments and a higher percentage of income attributable to revenue share arrangements.

We are encouraged that in the case of malls that were allowed to open, a large number of stores resumed operations with average daily spends clocking close to 40-55% of the spends during the same time the year prior.

Exhibit 35: Area under operation in malls has reached 93% as of November 2020 across major malls
Quantum of leasable area permitted to open and operational (mn sq. ft)

	Area (mn sq. ft)			Operational (%)	
	Total	Permissible	Opearational	Overall	Permissible
Jun-20	5.96	1.35	1.13	19.0	83.7
Jul-20	6.90	1.74	1.54	22.3	88.5
Aug-20	6.90	4.10	3.66	53.0	89.3
Sep-20	6.90	4.92	4.58	66.4	93.1
Oct-20	6.90	5.46	4.91	71.2	89.9
Nov-20	6.90	6.05	5.61	81.3	92.7

Source: Company, Kotak Institutional Equities

Exhibit 36: Consumption in November 2020 has reached 87% of prior year across malls
Consumption trends across recently opened malls (%)

	HSP & Palladium	PMC	PMC	PMC	PMC & Palladium	Pallasio
	Mumbai	Bengaluru	Pune	Mumbai	Chennai	Lucknow
Mom change (%)						
Oct-20	36	43	64	50	30	50
Nov-20	40	33	34	40	29	41
Qoq change (%)						
2QFY21	57	82	57	57	30	
Yoy change (%)						
November 4th week	89	99	94	85	66	NA

Source: Company, Kotak Institutional Equities

Changing purchase habits and the preferences for online purchase

Online shopping gives consumers an alternative and time saving medium compared to brick and mortar shopping. The new norms for social distancing could further make the shift towards online retailing. However, experience has shown that consumers prefer brick and mortar stores for certain purchase segments such as food and apparel as well as high ticket purchases in the electronics segment, even as they make repeat/standardized online purchases. Further, malls have become a place of entertainment besides making retail purchases, an edge that will remain over online competition.

Setting up of new malls could fragment footfalls

The malls of Phoenix Mill have mostly enjoyed the 'preferred mall' tag in most cities in which they operate. However, the development of new, larger and more modern malls, such as Maker Maxity mall in BKC and Oberoi Mall in Worli, amongst others could possibly fragment footfalls and pose risks to consumption at extant malls of Phoenix Mills. Exhibit 37 highlights the competing malls (operational as well as under construction) for Phoenix Mills in various cities.

Exhibit 37: Operational and upcoming malls pose risks to consumption levels at extant Phoenix malls
Consumption trends across recently opened malls (%)

Phoenix Malls'	Size (msf)	Competing mall	Size (msf)
HSP & Palladium, Mumbai	0.77	Atria Mall	0.30
PMC Bengaluru	1.00	VR Bengaluru	0.90
PMC Chennai	1.22	Grand Square	0.40
Phoenix Palladio, Lucknow	0.90	Gardens Galleria Mall	0.20
PMC Pune	1.19	Inorbit Mall	0.55
PMC Mumbai	1.14	R-city mall	1.20

Source: Company, Kotak Institutional Equities

Equity infusion allays concerns on debt servicing

Phoenix Mills concluded an equity raise of Rs11 bn (Rs 611/share) in August, 2020 allaying concerns on debt servicing for its current outstanding loans of Rs45.7 bn. Further, the recently proposed transaction wherein GIC will infuse Rs14.7 bn of equity for 26% stake gives an additional liquidity infusion. We note that Phoenix Mills has a balance capex of Rs19 bn across projects under construction, and has reasonable head-room for raising construction finance across these projects. Interest coverage (Interest/ EBITDA) in 2QFY21 improved to 1X, although still sub-optimal compared to the interest coverage ratio of 0.4X in FY2020.

Delay in completion of projects could have an impact on earnings forecasts

Phoenix Mills is constructing 5.8 mn sq. ft of incremental projects that are in various stages of implementation. Migration of labor workers and stoppage of construction work would have already delayed originally envisaged commissioning timelines. Execution of construction projects is even otherwise susceptible to various execution and regulation related risk. Delays in implementation of project could alter the earnings profile for Phoenix Mills.

EARNINGS CAGR OF 16% BETWEEN FY2020 AND FY2025

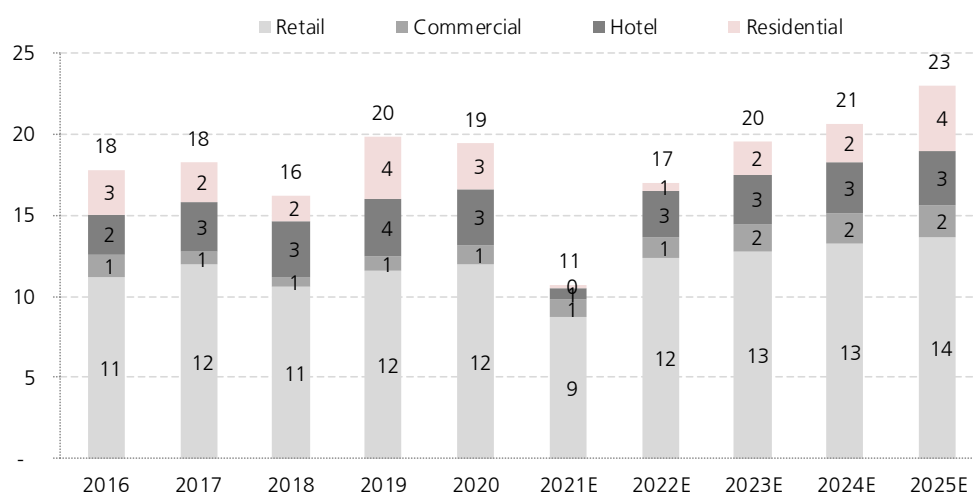
Phoenix Mills will report a growth of 16% CAGR in PAT between FY2020 and FY2025E, aided by (1) commissioning of 4.9 mn sq. ft of new mall space, (2) commissioning of 1.08 mn sq. ft of new office space, and (3) growth in consumption trends and improvement in rentals. Phoenix has already incurred Rs26 bn for the expansion projects under way, and will incur incremental capex of Rs19 bn over the next three years. Leverage remains comfortable at 1.1X net debt to equity, and will enable the company to overcome the forced shut-down on account of Covid-19.

PAT growth likely to clock 16% CAGR over next five years

Phoenix Mills will likely record 16% CAGR in PAT and 8% CAGR in revenues between FY2020 and FY2025E, in comparison to the 3.3% CAGR in revenues (20% CAGR in PAT) over the past five years. Revenue growth will have a higher contribution from the retail segment (9% CAGR) and commercial office (12% CAGR), with little incremental contribution from the residential and hotel segment that are lower focus areas for the company.

Exhibit 38: We estimate rental revenues to grow to Rs23 bn by FY2025E

Composition of revenues by segment, March fiscal year-ends, 2016-25E (Rs bn)



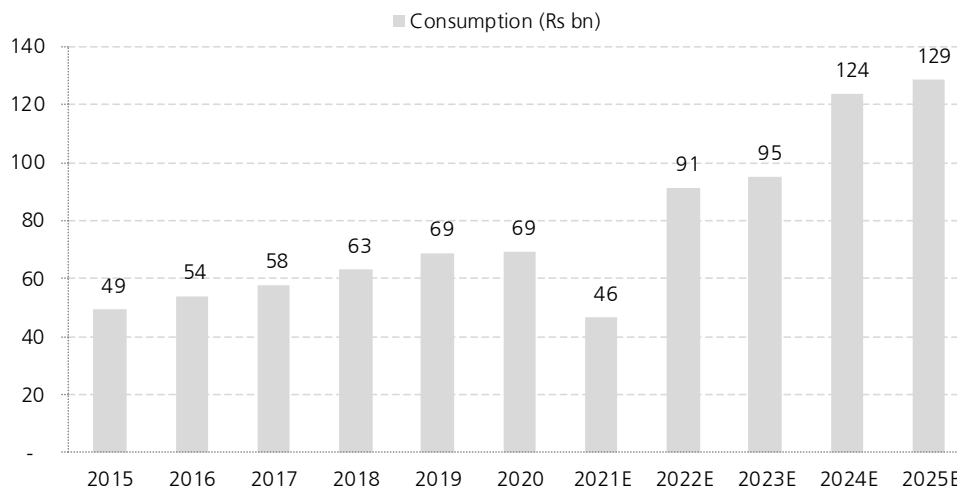
Source: Company, Kotak Institutional Equities estimates

We highlight that the growth in the retail and office segment is on the back of expansion of the overall portfolio to 13.3 mn sq. ft from 7.2 mn sq. ft currently, through construction of four malls aggregating 4 mn sq. ft and two new office spaces aggregating 1.08 mn sq. ft.

Overall consumption from the retail malls is estimated to grow to Rs129 bn by FY2025E from Rs69 bn in FY2020 (13% CAGR) out of which new malls contribute Rs40 bn of incremental consumption while extant malls see 5% CAGR in consumption to Rs87 bn. We highlight that Phoenix Mills has reported consumption growth of 7% CAGR over the past five years from existing malls.

Our forecast for rentals remain within 12% of overall consumption, though we note that Phoenix has shown strong growth trends in consumption and mall density over the past five years, even with malls like High Street Phoenix that have amongst the highest trading density in the country.

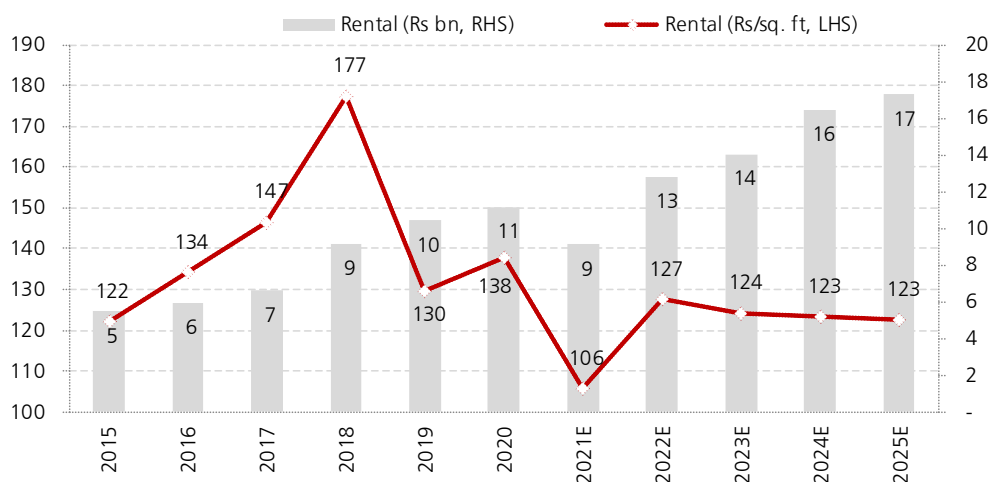
Exhibit 39: We estimate consumption across Phoenix Mill's portfolio to grow to Rs129 bn by FY2025E
Consumption across the mall portfolio of Phoenix Mill, March fiscal year-ends, 2015-25E (Rs bn)



Source: Company, Kotak Institutional Equities estimates

We highlight that average rentals for Phoenix Mills have grown at a CAGR of 7% over the past five years. Mall rentals have a combination of minimum guarantee and top-up that is a function of consumption. Overall, we do factor a 23% drop in rentals from malls and offices in FY2021E owing to loss of revenue linked rentals as well as potential downward negotiation in rentals mutually agreed with clients. We note that revenue from retail malls comprises of two components—rentals and recoveries. As discussed, the former comprises of minimum guarantee rentals and a top-up linked to actual consumption in the mall.

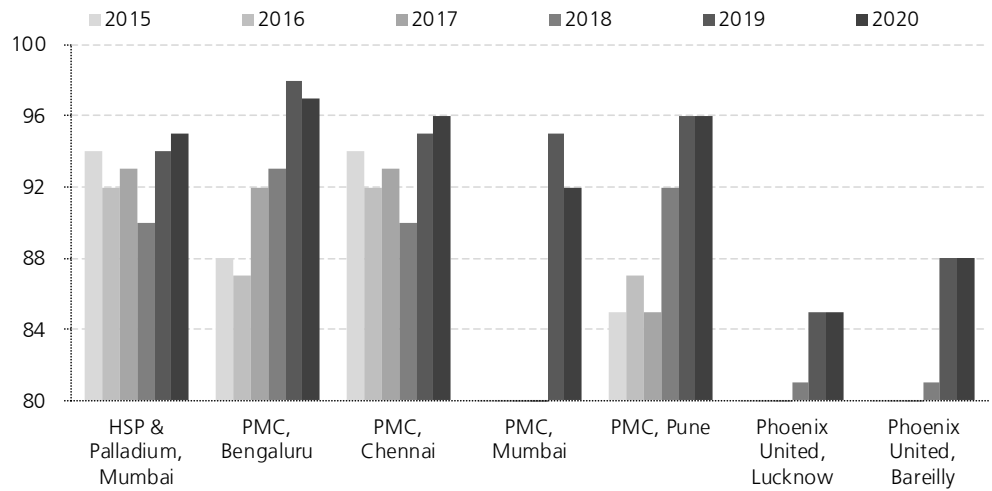
Exhibit 40: Reducing dominance of Mumbai in the overall portfolio leads to drop in rental rates
Rental for annuity portfolio of Phoenix Mills, March fiscal year-ends, 2015-25E (Rs bn, Rs/sq. ft)



Source: Company, Kotak Institutional Equities estimates

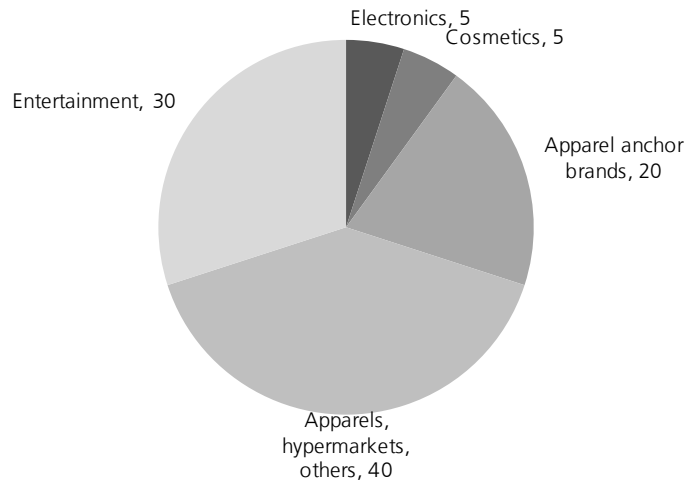
We note that Phoenix Mills has traditionally enjoyed healthy occupancy across its mall portfolio, a trend that will likely be tested in FY2021E as several troubled retailers test the resilience of their business models. Exhibit 41 highlights the occupancy levels across malls enjoyed by Phoenix Mills, while Exhibit 42 shows the mix of business in their malls.

Exhibit 41: Occupancy for mature assets continues to remain at ~90% for Phoenix Mills
Occupancy for annuity portfolio of Phoenix Mills, March fiscal year-ends, 2015-20 (%)



Source: Company, Kotak Institutional Equities

Exhibit 42: Apparels and entertainment from ~90% of tenant base for Phoenix Mills
Tenant mix for Phoenix Mills, March fiscal year-ends, 2020 (%)



Source: Company, Kotak Institutional Equities

As an extension of their well-entrenched mall spaces, Phoenix Mills is looking to aggressively build an office portfolio from its relatively smaller presence in office spaces so far. Phoenix Mills’ office portfolio strategy mostly revolves around their retail business, with office towers being built on extant mall structure. Management sees the same as complementary, as the office goes would act as captive audience for the mall space on leaner week days, and the tenants view the retail and F&B space as an additional facility in proximity to their office spaces. Phoenix Mills strategy is a reflection of a time-tested strategy such as the IFC in Hong Kong.

We note that that Phoenix Mills has an extant office portfolio of 1.3 mn sq. ft across six office spaces, and they are looking at building another 1.08 mn sq. ft across existing malls in Pune and Chennai.

Phoenix Mills own two hotel assets—St Regis in Mumbai (395 keys) and Courtyard by Marriot in Agra (193 keys). The operating performance of these hotels has been steadily improving over the past five years, however, we expect the hotel segment to be most vulnerable in FY2021E and build occupancy to drop to 23% with a further 31% yoy drop in ADR in FY2021E. In our view, the hotel segment will likely recover only by end-FY2022E.

Leasing business operates at high margins, with most cost being reimbursed

Phoenix Mills enjoys high operating margins—over 35%, with cost to business restricted to upkeep of common areas including security, housekeeping lighting and air-conditioning.

The expansion of margins from FY2020 is on account of lower contribution from the residential and hotel business, with incremental revenues contributed from higher margin retail (>50%) and commercial business (>80%). As highlighted, Phoenix Mills recovers common area maintenance and other sundry incomes over and above base rentals. Phoenix Mills endeavors to recover their entire operating cost through such recoveries such that rental income equates EBITDA. Exhibit 43 highlights the blended margins of Phoenix Mills, as well as margins for individual business.

Exhibit 43: Rental business operates at higher margins compared to hotels and residential
Segment-wise revenues and margins for Phoenix Mills, March fiscal year-ends, 2015-25E (Rs mn)

	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Phoenix Mills											
Revenues	16,533	17,795	18,246	4,367	19,816	19,411	10,734	17,035	19,514	20,637	22,962
Cost	(10,594)	(11,699)	(11,730)	(2,716)	(11,927)	(11,816)	(6,571)	(8,339)	(9,394)	(8,540)	(9,444)
EBIT	5,939	6,096	6,516	1,651	7,889	7,595	4,163	8,696	10,121	12,098	13,518
Margins (%)	36	34	36	38	40	39	39	51	52	59	59
Retail + Commercial											
Revenues	14,943	15,601	12,967	1,834	12,428	13,118	9,760	13,601	14,467	15,085	15,655
Cost	(3,778)	(4,156)	(4,510)	(4,262)	(4,567)	(4,574)	(2,384)	(4,645)	(4,876)	(5,118)	(5,372)
EBIT	7,040	6,278	5,431	964	5,153	6,011	5,115	8,050	8,843	10,514	10,972
Margins (%)	47	40	42	53	41	46	52	59	61	70	70
Residential											
Revenues	—	—	2,225	1,559	3,795	2,794	210	571	2,041	2,395	3,992
Cost	—	—	(1,563)	(1,067)	(1,936)	(1,766)	(99)	(246)	(1,132)	(1,230)	(1,919)
EBIT	—	—	662	491	1,859	1,028	111	325	909	1,165	2,074
Margins (%)			30	32	49	37	53	57	45	49	52
Hospitality											
Revenues	1,590	2,195	3,053	974	3,592	3,500	764	2,863	3,007	3,157	3,315
Cost	(2,692)	(2,377)	(2,630)	(778)	(2,715)	(2,944)	(1,828)	(2,543)	(2,638)	(2,738)	(2,843)
EBIT	(1,102)	(182)	423	196	877	556	(1,064)	321	369	419	472
Margins (%)	(69)	(8)	14	20	24	16	NA	11	12	13	14

Source: Company, Kotak Institutional Equities estimates

Operating cost for Phoenix Mills has inflated at 2.5% CAGR on a per sq. ft per month basis. We factor operating cost to maintain a 5% inflationary trend over the next five years. The cost for Phoenix Mills is largely fixed and includes – electricity expenses, maintenance, repairs, security charges and house-keeping. Exhibit 44 gives a composition of cost for Phoenix Mills.

Exhibit 44: Fixed operating costs have grown at a CAGR of 5% over FY2015-20 for Phoenix Mills
Fixed operating cost for Phoenix Mills, March fiscal year-ends, 2015-25E (Rs mn)



Source: Company, Kotak Institutional Equities

Exhibit 45: Earnings for Phoenix Mills are expected to grow at a CAGR of 16% over FY2020-2025E aided by commissioning of new assets
Phoenix Mills (Consolidated): Profit model, March fiscal year-ends, 2015-2025E (Rs mn)

	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Realty	4,574	4,173	3,205	1,562	3,798	2,802	210	571	2,041	2,395	3,992
Rental	6,515	7,128	7,846	7,624	8,664	9,138	7,743	11,035	12,082	14,391	15,111
Service	3,054	3,238	3,381	3,122	3,103	3,313	2,022	4,088	4,312	5,504	5,743
Room rent	635	944	1,230	1,394	1,536	1,558	344	1,303	1,369	1,437	1,509
Food and beverage	955	1,251	1,539	1,723	1,762	1,621	351	1,309	1,375	1,443	1,516
Others	799	1,061	1,045	775	952	980	388	850	889	921	951
Revenues	16,533	17,795	18,246	16,198	19,816	19,411	11,059	19,157	22,067	26,092	28,822
Expenses	(8,914)	(9,926)	(9,777)	(8,424)	(9,884)	(9,740)	(4,706)	(8,213)	(9,709)	(11,350)	(12,510)
EBITDA	7,619	7,869	8,469	7,774	9,931	9,671	6,353	10,945	12,358	14,742	16,312
Depreciation / amortisation	(1,681)	(1,773)	(1,953)	(1,983)	(2,042)	(2,076)	(2,190)	(2,249)	(2,238)	(2,644)	(2,794)
EBIT	5,938	6,096	6,516	5,791	7,889	7,595	4,163	8,696	10,121	12,098	13,518
Other income	312	302	472	556	851	585	157	1,069	1,275	1,671	2,065
Finance cost	(3,956)	(4,425)	(4,230)	(3,476)	(3,506)	(3,478)	(3,978)	(4,334)	(4,342)	(4,779)	(4,481)
Pre-tax profits	2,295	1,974	2,758	2,871	5,235	4,702	342	5,430	7,054	8,990	11,102
Current tax	(706)	(798)	(668)	(367)	(1,091)	(422)	(111)	(1,539)	(1,964)	(2,354)	(2,934)
Deferred tax	213	31	(190)	(391)	(8)	(799)	(100)	(115)	(110)	(110)	(120)
PAT	1,801	1,207	1,900	2,113	4,136	3,481	131	3,777	4,980	6,525	8,048
Minority interests	(553)	—	—	(135)	(760)	(538)	97	(575)	(781)	(1,242)	(1,524)
Share of profit of associates	43	17	10	442	353	326	33	329	397	435	491
PAT (after minority interest)	1,292	1,224	1,910	2,421	3,729	3,270	261	3,530	4,596	5,718	7,015
Exceptional items	(938)	—	(387)	—	491	78	—	—	—	—	—
Reported PAT	354	1,224	1,522	2,421	4,220	3,347	261	3,530	4,596	5,718	7,015
Dividend	(319)	(337)	(367)	(398)	(460)	—	—	(429)	(515)	(601)	(687)
Distribution tax	(3)	(3)	(3)	(3)	(45)	—	—	—	—	—	—
Retained PAT	32	884	1,152	2,019	3,715	3,347	261	3,101	4,081	5,118	6,328
EPS (Rs)											
Fully diluted	0.21	5.77	7.51	13.17	24.23	21.84	1.70	20.23	26.62	33.38	41.28
DPS (Rs)	2.20	2.20	2.40	2.60	3.00	—	—	2.50	3.00	3.50	4.00
Margins (%)											
EBITDA	46	44	46	48	50	50	57	57	56	56	57
Adjusted net income	11	7	10	13	21	18	1	20	23	25	28
Effective tax rate (%)	21	39	31	26	21	26	62	30	29	27	28
Growth (%)											
Revenues	—	8	3	(11)	22	(2)	(43)	73	15	18	10
EBITDA	—	3	8	(8)	28	(3)	(34)	72	13	19	11
Net profit	—	(5)	56	27	54	(12)	(92)	1,253	30	24	23

Source: Company, Kotak Institutional Equities estimates

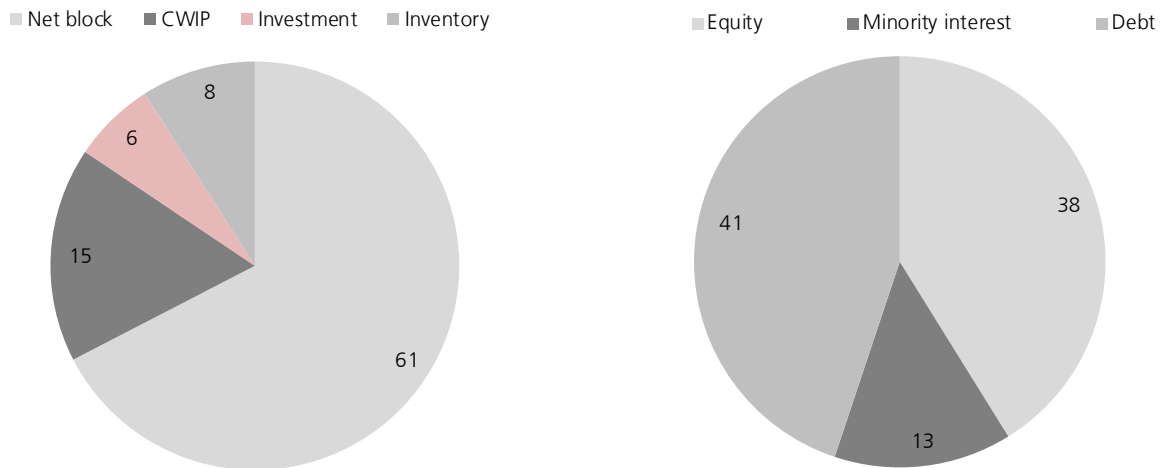
Balance sheet—productively deployed, balanced leverage

Phoenix Mills has a capital employed of Rs90.4 bn with gross capital invested of Rs89 bn for investment in 6 mn sq. ft of operational retail space, 1.3 mn of office space, two hotels (593 keys), and inventory of 1.8 mn sq. ft of unsold residential space.

We highlight that CWIP comprises Rs15.3 bn towards construction of 4.9 mn sq. ft of retail space and 1.08 mn sq. ft of commercial space.

Phoenix Mills has adopted a conservative leverage policy, with net debt to capital employed standing at 44%, and minority investments including the equity infused by CPPIB accounting of 14% (Rs13 bn).

Exhibit 46: Phoenix Mills has employed capital of Rs90 bn—Rs76 bn invested in operational and ongoing office and commercial assets
Composition of Phoenix Mills balance sheet, March fiscal year-ends, 2020 (Rs bn)

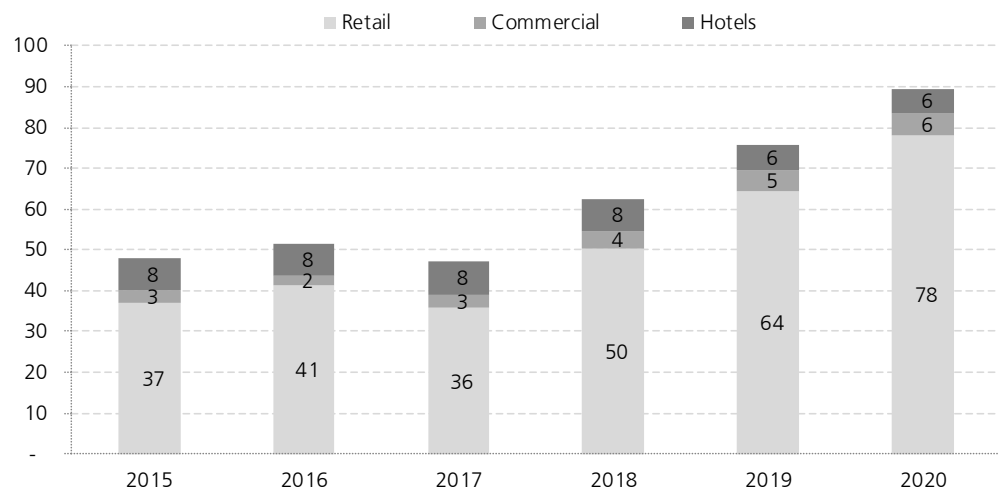


Source: Company, Kotak Institutional Equities

Phoenix Mills has low investment in working capital—receivables typically do not exceed two months of revenues, inventory investment of Rs8 bn largely attributable to the unsold residential inventory held under Palladium Construction.

We note that on a segmental basis, capital employed is primarily towards retail and commercial business, with investment in hotels and residential business a smaller Rs5.9 bn. Exhibit 47 highlight deployment of capital across various business segments.

Exhibit 47: Retail malls with Rs78 bn of capital have 87% of total capital employed
Segment-wise deployment of capital for Phoenix Mills, March fiscal year-ends, 2015-20 (Rs bn)



Source: Company, Kotak Institutional Equities

We highlight that overall RoCE for Phoenix Mills stands at 11% for FY2020, with average RoCE of 14% over the past five years. We note that investment in annuity assets is capital intensive, and return ratios improve through the life of the asset owing to inflation (and consumption) linked growth in rentals on historical capital cost. In terms of segment-wise break up, retail business has most superior return profile followed by offices and hotels.

Exhibit 48: Higher deployment of capital in annuity assets leads to low return ratios in initial years
Segment-wise return on capital employed (pre-tax) for Phoenix Mills, March fiscal year-ends, 2015-20 (Rs bn)

	2015	2016	2017	2018	2019	2020
Retail	13	13	15	14	11	10
Commercial	15	10	10	8	18	18
Hotels	5	6	10	14	19	20

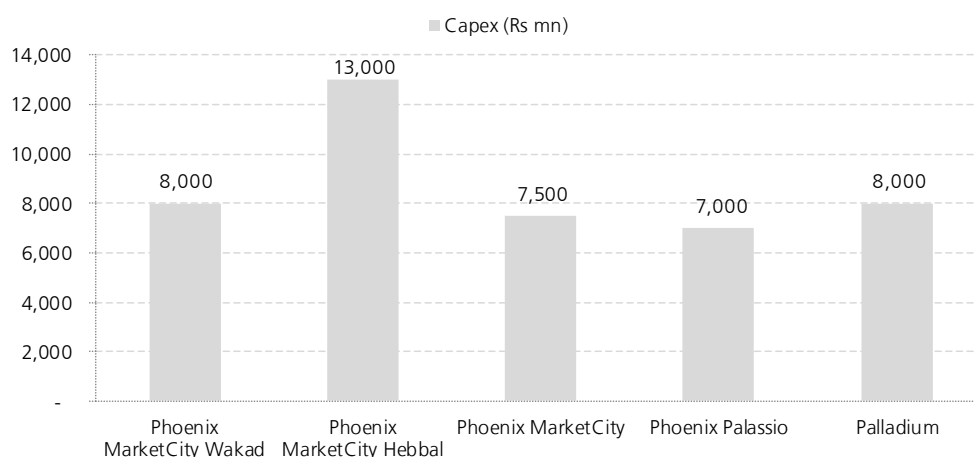
Source: Company, Kotak Institutional Equities

Capex of Rs19 bn to be incurred over the next five years

Phoenix Mills has a project capex of Rs19 bn towards completion of 5.9 mn sq. ft comprising four malls (4.9 mn sq. ft) and two offices (1.08 mn sq. ft). Phoenix Mill has so far incurred a capex of Rs26 bn towards the completion of these projects through a larger proportion of equity funding, and will likely fund the balance capex through higher proportion of debt funding. We estimate commissioning of all projects to complete by FY2023E, starting with the commissioning of Phoenix Citadel in Lucknow in FY2022E.

Phoenix Mills has concluded the opening of the mall in Lucknow, that was delayed on account of the Covid-19 linked lockdown. Exhibit 49 gives the commissioning and capex program for Phoenix Mills over the next three years.

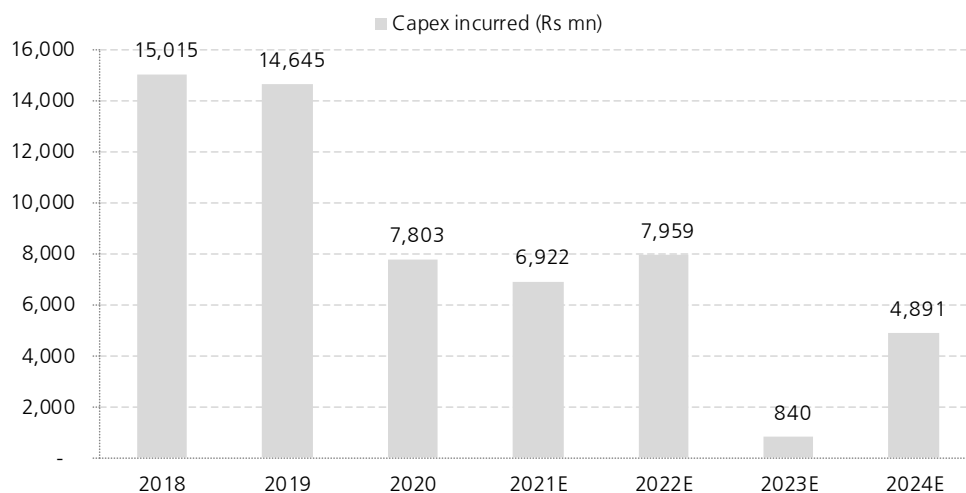
Exhibit 49: Phoenix Mills plans to incur capex of Rs15 bn for completion of upcoming malls
Asset-wise capex plans for Phoenix Mills (Rs mn)



Source: Company, Kotak Institutional Equities estimates

We highlight the project cost for Phoenix Mills at Rs8,877/sq. ft for retail and Rs4,845/sq. ft for commercial offices reflects (1) low historical land cost, (2) no need for new and incremental approval costs, and (3) expansion of extant structures such that new foundations and pilings are not required.

Exhibit 50: Phoenix Mills has incurred capex of Rs37.5 bn in the past three years on upcoming malls
Capital expenditure on under-construction assets, March fiscal year-ends, 2018-24E (Rs mn)



Source: Company, Kotak Institutional Equities estimates

Leverage—fresh equity infusion likely allays leverage concerns

Phoenix Mills has a net debt of Rs40 bn and an attributable debt of Rs39.7 bn. Net debt includes Rs5 bn for funding of projects under construction while the balance is for operational projects.

On a segmental basis, a bulk of the debt is for the retail business, followed by commercial, while hotel and residential portfolios have limited debt. We expect debt for Phoenix Mills to peak at Rs50.6 bn in FY2022E. We note that Phoenix Mills has usually been conservatively leveraged, with average net debt to equity of 1.4X, and net debt to EBITDA of 4X.

In August 2020, Phoenix Mills raised Rs11 bn through incremental equity issuance and it improved the overall cash position of the company to Rs18 bn by September 2020. More importantly, Phoenix Mills has not taken any debt for the current projects under-construction, which gives it ample leeway to raise project finance for the under-construction projects.

Exhibit 51: Phoenix Mills has an outstanding debt of Rs45.7 bn leading to net debt/equity of 1.4X
Composition of debt for Phoenix Mills, March fiscal year-ends, 2019-23E (Rs mn)

	2019	2020	2021E	2022E	2023E
Retail	32,138	31,856	21,000	20,920	15,754
Hospitality	5,457	4,777	6,300	5,866	5,017
Commercial	2,687	2,507	1,413	1,760	1,132
Residential	1,207	1,050	1,050	1,050	1,050
Operational	41,490	40,190	29,764	29,596	22,953
Retail	3,255	4,947	4,947	4,947	4,947
Commercial	725	595	595	595	595
Under construction	3,980	5,542	5,542	5,542	5,542
Total	45,469	45,731	30,591	33,189	27,049

Source: Company, Kotak Institutional Equities estimates

Exhibit 52: Phoenix Mills has employed Rs91 bn of capital funded by Rs40 bn of debt (as of March 2020)

Phoenix Mills (Consolidated): Balance sheet, March fiscal year-ends, 2015-2025E (Rs mn)

	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Share capital	290	306	306	306	307	307	343	343	343	343	343
Reserves/surplus	16,447	18,380	21,194	28,211	34,435	36,777	48,001	51,103	55,184	60,301	66,629
Shareholders' funds	16,737	18,686	21,501	28,517	34,741	37,084	48,345	51,446	55,527	60,645	66,973
Non-controlling interests	6,212	4,511	2,797	4,661	12,233	12,788	12,691	13,266	14,048	15,290	16,814
Debt	30,462	36,436	33,542	34,509	39,810	41,075	45,371	50,671	50,171	47,571	43,971
Deferred tax liabilities	1,047	1,108	1,252	846	1,386	585	485	370	260	150	30
Capital employed	53,411	59,633	57,839	67,687	86,785	90,947	106,407	115,383	119,746	123,505	127,758
Gross block	46,316	50,339	50,068	63,242	73,765	75,034	80,034	94,034	96,934	108,934	108,934
Accumulated depreciation	(5,038)	(6,861)	(8,355)	(10,303)	(12,277)	(14,239)	(16,428)	(18,677)	(20,914)	(23,559)	(26,353)
Net block	41,278	43,479	41,713	52,939	61,488	60,795	63,606	75,357	76,020	85,375	82,581
Intangible assets	25	38	33	25	27	21	21	21	21	21	21
CVIP	2,138	1,949	3,277	5,025	8,960	15,341	17,263	11,222	9,162	2,053	2,553
Investment	1,997	1,600	4,096	8,290	7,450	5,897	5,830	6,126	6,194	6,232	6,288
Goodwill	0	260	3,273	3,711	3,711	3,711	3,711	3,711	3,711	3,711	3,711
Current assets	19,927	24,577	16,449	14,135	18,132	19,096	30,059	33,130	38,199	39,865	47,268
Inventory	11,783	13,240	9,455	6,615	8,986	8,161	7,834	7,613	6,484	5,256	3,339
Trade receivables	2,192	3,201	1,470	1,292	1,955	2,017	759	1,348	1,907	2,076	2,660
Cash	920	1,956	812	449	1,920	1,407	14,780	17,482	23,122	25,847	34,583
Loans and advances	4,323	5,559	429	379	275	218	218	218	218	218	218
Other current assets	709	622	4,282	5,400	4,996	7,293	6,468	6,468	6,468	6,468	6,468
Current liabilities	13,002	13,379	12,242	17,284	14,371	14,499	14,568	14,553	13,820	13,902	14,694
Trade payables	1,050	1,217	1,116	1,048	1,479	1,117	762	1,104	1,185	1,328	1,383
Other current liabilities	11,190	11,518	10,338	15,136	12,263	12,621	13,045	12,688	11,875	11,813	12,550
Provisions	762	643	788	1,100	630	761	761	761	761	761	761
Capital employed	53,411	59,633	57,851	67,687	86,785	90,947	106,407	115,383	119,746	123,505	127,758
Key ratios (%)											
Debt/equity	1.82	1.95	1.56	1.21	1.15	1.11	0.94	0.98	0.90	0.78	0.66
Net debt/equity (X)	1.77	1.85	1.52	1.19	1.09	1.07	0.63	0.65	0.49	0.36	0.14
Debt /EBITDA (X)	4.00	4.63	3.96	4.44	4.01	4.25	7.14	4.63	4.06	3.23	2.70
Net debt/EBITDA (X)	3.88	4.38	3.86	4.38	3.82	4.10	4.82	3.03	2.19	1.47	0.58
RoAE (%)	2.11	6.91	7.58	9.68	13.34	9.32	0.61	7.08	8.59	9.84	10.99
RoACE (%) (pre-tax)	11.12	10.79	11.09	9.23	10.21	8.55	4.22	7.84	8.61	9.95	10.76
Book value per share (Rs)	115	122	140	186	227	242	282	300	324	353	390
P/BV (X)	6.95	6.57	5.72	4.31	3.54	3.32	2.85	2.68	2.48	2.27	2.06

Source: Company, Kotak Institutional Equities estimates

Healthy cash generation, current investment cycle to complete by FY2023E

Phoenix Mills has seen steady operating cash flows over the past five years (6.7% CAGR), that will likely grow at 7.8% CAGR over the next five years. Phoenix enjoys a healthy cash conversion ratio with EBITDA to operating cash flow conversion, with limited investment in working capital as highlighted previously.

We expect Phoenix Mills to complete the current capex cycle by FY2023E that will enhance the free cash generation for the company, and allow the company to focus on the project pipeline beyond the current projects under construction. The proposed stake sales to GIC for projects in Mumbai and Pune, will further infuse additional equity that could act as incremental growth capital for the company.

Exhibit 53: Continued spend on construction of new assets has led to weak FCF even as operational cash flows continue to remain healthy
Cash flow statement for Phoenix Mills, March fiscal year-ends, 2015-2025E (Rs mn)

	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Net profit before tax	1,357	1,587	2,758	2,874	5,716	4,780	375	5,759	7,451	9,425	11,593
Depreciation	1,681	1,773	1,953	1,983	2,042	2,076	2,190	2,249	2,238	2,644	2,794
Interest expense	3,956	4,425	4,230	3,476	3,506	3,478	3,978	4,334	4,342	4,779	4,481
Interest income	(179)	(188)	(321)	(168)	(372)	(423)	(157)	(1,069)	(1,275)	(1,671)	(2,065)
Dividend income	(25)	(5)	(4)	(14)	(36)	(29)	—	—	—	—	—
Profit on sale of investments	(70)	(71)	(37)	(206)	(217)	(105)	—	—	—	—	—
Others	1,226	744	143	(12)	(583)	87	—	—	—	—	—
OCF before working capital changes	7,946	8,264	8,722	7,933	10,056	9,864	6,386	11,274	12,755	15,177	16,803
Trade and other receivables	(1,594)	(1,806)	2,741	(1,119)	(2,286)	(2,128)	1,258	(590)	(559)	(169)	(584)
Inventories	(367)	(1,457)	3,785	2,840	(2,372)	825	327	221	1,130	1,228	1,917
Trade and other payables	542	1,323	(622)	5,696	(2,518)	318	68	(15)	(733)	82	792
Changes in working capital	(1,419)	(1,940)	5,904	7,417	(7,175)	(985)	2,479	(384)	(162)	1,141	2,125
Cash flow from operations	6,527	6,324	14,626	15,350	2,881	8,880	8,864	10,890	12,593	16,318	18,929
Direct taxes paid	(891)	(1,352)	(438)	(208)	(804)	(1,082)	(111)	(1,539)	(1,964)	(2,354)	(2,934)
Net cash from flom operating activities	5,636	4,972	14,189	15,142	2,077	7,798	8,753	9,351	10,630	13,963	15,994
(Purchase) / sale of PPE	(266)	(3,856)	(1,847)	(15,013)	(14,606)	(7,801)	(6,922)	(7,959)	(840)	(4,891)	(500)
(Purchase) / sale of investments	(1,325)	96	(2,429)	(440)	609	—	67	(296)	(68)	(38)	(56)
Interest received	179	172	284	113	442	593	157	1,069	1,275	1,671	2,065
Dividend received	25	5	4	14	36	29	—	—	—	—	—
Others	367	(306)	452	(2,922)	1,003	3,148	—	—	—	—	—
Cash flow from investing activities	(1,020)	(3,889)	(3,536)	(18,249)	(12,516)	(4,031)	(6,698)	(7,186)	367	(3,258)	1,509
Proceeds/ (Repayment) of long term borrowings	202	4,909	(2,735)	349	2,347	(653)	4,296	5,300	(500)	(2,600)	(3,600)
Short term loans availed/(repaid)	(240)	161	44	61	2,954	1,531	—	—	—	—	—
Interest paid	(4,017)	(4,469)	(4,321)	(3,516)	(3,329)	(3,256)	(3,978)	(4,334)	(4,342)	(4,779)	(4,481)
Proceeds from non controlling shareholders	(150)	(3,341)	(4,007)	6,298	8,986	17	—	—	—	—	—
Issue of equity share	30	2,760	22	25	49	46	11,000	—	—	—	—
Dividend paid	(372)	(726)	(83)	(442)	(480)	(555)	—	(429)	(515)	(601)	(687)
Cash flow from financing activities	(4,546)	(707)	(11,080)	2,774	10,527	(2,870)	11,318	536	(5,357)	(7,980)	(8,768)
Net change in cash	69	376	(427)	(333)	88	897	13,373	2,702	5,640	2,725	8,735
Opening cash balance	851	570	1,068	641	308	396	1,407	14,780	17,482	23,122	25,847
Closing cash balance	920	946	641	308	396	1,293	14,780	17,482	23,122	25,847	34,583

Source: Company, Kotak Institutional Equities estimates

PHOENIX MILLS: INDIA'S FIRST CHAIN OF MALLS

Phoenix Mills began life as a textile manufacturer and forayed into development of retail spaces towards the turn of the millennium with its first retail property High Street Phoenix in Mumbai in 1987. Over the past three decades, the company has built a sizeable portfolio comprising 6.9 mn sq. ft of retail space spread across eight locations and six cities, supplemented by office spaces in Mumbai and Pune as well as a small hotel portfolio. Phoenix Mills is looking to near-double its portfolio size through continued investment in retail and commercial portfolios.

Largest retail portfolio in the country, with marquee properties

Phoenix Mills has a portfolio of approximately 22.69 mn sq. ft across completed, under-construction and future projects spanning retail spaces, commercial offices, hotels and residential projects. Phoenix Mills has emerged as the largest mall operator in India, with nine malls with leasable area of 6.9 mn sq. ft. Phoenix Mills currently has four malls with an aggregate leasable area of 4 mn sq. ft that are in various stages of implementation that will likely be commissioned by FY2024E. Phoenix Mills also has 1.3 mn sq. ft of operational commercial real estate aggregating between the two cities of Mumbai and Pune. Phoenix Mills is looking to add another 1.1 mn sq. ft through expansion at Fountainhead Pune as well as new commercial properties at its mall in Chennai.

Phoenix Mills' retail portfolio consists of nine completed retail properties comprising approximately 6.9 mn sq. ft and four under-construction retail properties (4 mn sq. ft). In addition, their portfolio includes six completed, one under-construction and five under-planning commercial office projects, four completed and one under-construction residential projects and two completed hotels and one hotel under planning.

Phoenix Mills' commercial office development portfolio consists of approximately 6.97 mn sq. ft (including areas sold). Their residential development portfolio consists of approximately 3.73 mn sq. ft of total saleable area, of which they have sold approximately 2.12 mn sq. ft. Their hospitality portfolio consists of a hotel each in Mumbai and Agra having a total of 588 keys, and one planned hotel property in Bengaluru with an estimated 300 keys.

Phoenix Mills was one of the first real estate developers in India to transform a textile mill property into a modern, multi-use retail-led integrated development – the High Street Phoenix and Palladium mall in Lower Parel, Mumbai. This development comprises a mall of approximately 0.77 mn sq. ft of gross leasable area consisting of retail, entertainment and commercial office space of approximately 0.10 mn sq. ft of gross leasable area. The St. Regis Hotel, Mumbai - a 395 key luxury hotel, and Phoenix Towers - residential apartment towers, were built in partnership by the company, along with as parking lots.

Exhibit 54: Phoenix Mills has an operational (retail and commercial) area of 8.2 mn sq. ft to be supplemented by 5 mn sq. ft by FY2024E
Break up of properties--operational, under-construction and under-planning of Phoenix Mills (as of 31st December, 2020)

Project	Location	Area		Entity	Ownership (%)	Status	Commissioning
		(mn sq. ft)	Stores (#)				
Retail							
High Street Phoenix and Palladium		0.77	271			Completed	2008
HSP Densification - Phoenix House conversion and Palladium Lower Ground floor	Lower Parel, Mumbai	0.15	NA	The Phoenix Mills Limited	Project directly owned by company	Planned	2021
HSP Densification - The Rise 1 (retail)		0.35	NA			Planned	—
Phoenix Marketcity, Bengaluru	Bengaluru	1	295	Island Star Mall Developers	51	Completed	2013
		0.31	NA			Planned	—
Phoenix Marketcity, Pune	Viman Nagar, Pune	1.22	342	Vamona Developers	100	Completed	2012
Phoenix Marketcity, Mumbai	Kurla, Mumbai	1.14	312	Offbeat Developers	100	Completed	2011
Phoenix Marketcity, Chennai	Velachery, Chennai	1.22	259	Classic Mall Development	50	Completed	2013
Phoenix United	Lucknow	0.33	127	Upal Developers	100	Completed	2011
Phoenix United	Bareilly	0.31	132	Blackwood Developers	100	Completed	2013
Phoenix Pallasio	Lucknow	0.90	262	Destiny Retail Mall Developers	100	Completed	2020
Phoenix Citadel	Indore	1.00	NA	Insight Mall Developers	51	Ongoing	2022
Palladium Mall, Ahmedabad	Ahmedabad	0.70	NA	SGH Realty LLP, True Value Infrabuild LLP	50	Ongoing	2022
Phoenix Mall of Asia	Hebbal, Bengaluru	1.20	NA	Sparkle One Mall Developers	51	Ongoing	2024
Phoenix Millenium	Wakad, Pune	1.10	NA	Alyssum Developers	51	Ongoing	2024
Total		11.70					
Commercial							
Phoenix House	Lower Parel, Mumbai	0.10	—	The Phoenix Mills Limited	100	Completed	1995
Centrium	Kurla, Mumbai	0.10	—	Offbeat Developers	100	Completed	2013
East Court	Viman Nagar, Pune	0.03	—	Vamona Developers	100	Completed	2011
Art Guild House	Kurla, Mumbai	0.63	—	Offbeat Developers	100	Completed	2017
Phoenix Paragon Plaza	Kurla, Mumbai	0.31	—	GraceWorks Realty & Leisure	67	Completed	2015
Fountainhead Tower 1	Pune	0.17	—	Alliance Spaces	75	Completed	2018
Fountainhead Tower 2 and 3	Pune	0.66	—	Alliance Spaces	75	Ongoing	2021
Offices at Phoenix Mall of Asia	Hebbal, Bengaluru	1.20	—	Sparkle One Mall Developers	51	Planned	—
The Rise 1 (Commercial)	Lower Parel, Mumbai	1.00	—	The Phoenix Mills Limited	100	Planned	—
Offices at Phoenix Marketcity, Bengaluru	Bengaluru	1.00	—	Island Star Mall Developers	51	Planned	—
Offices at Phoenix Millenium	Wakad, Pune	0.60	—	Alyssum Developers	51	Planned	—
Office tower at Palladium	Chennai	0.42	—	Classic Mall Development	50	Ongoing	—
Total		6.22					
Residential							
		Saleable	Unsold				
Phoenix Towers	Lower Parel, Mumbai	Fully sold	Fully sold	The Phoenix Mills Limited	100	Completed	Completed
Crest, Chennai (Towers A and B)	Chennai	0.26	0.03	Classic Housing Projects	50	Completed	2018
Crest, Chennai (Towers C)	Chennai	0.28	0.04	Classic Mall Development	50	Completed	2018
Kessaku	Bengaluru	0.99	0.71	Palladium Constructions	80	Completed	2019
One Bangalore West	Bengaluru	2.2	1.1	Palladium Constructions	80	Ongoing	2025
Total		3.73	1.88				
Hotels							
St. Regis	Lower Parel, Mumbai	395		Pallazio Hotels & Leisure	73	Completed	—
Courtyard by Marriott	Agra	193		Palladium Constructions	80	Completed	—
Grand Hyatt	Bengaluru	300		Island Star Mall Developers	51	Planned	—
Total		888					

Source: Company, Kotak Institutional Equities

Phoenix also has three residential developments aggregating 4 mn sq. ft (2.1 mn sq. ft sold) at Bengaluru and Chennai. Phoenix has two hotel properties aggregating 588 keys—St Regis in Mumbai (395 keys) and Courtyard by Marriott in Agra (193 keys). Exhibit 54 showcases the overall portfolio and equity ownership of the company across assets in India.

Strategy—large consumption centers in India's largest cities

Phoenix Mills has a track record of establishing 'consumption-centers' in prime locations in several of India's largest cities, such as Mumbai, Pune, Bengaluru and Chennai. They were among the first real estate developers in India to introduce large retail-led mixed-use developments, which resulted in the creation of a large-scale, retail-led, mixed-use center at High Street Phoenix, in turn creating location equity for Lower Parel, Mumbai. They focus on selective opportunities and believe that having projects located in prime locations of under-served micro-markets, with proximity to residential and commercial catchment areas, in India's largest cities allows them to attract high-end tenants, receive premium lease revenues and cater to a large population of consumers with substantial discretionary incomes.

They have a longstanding relationship with several domestic and global retail brands, such as Zara, H&M, Mango, Armani Exchange, MAC, GAS, GAP, Steve Madden, Aldo, Sephora, Diesel, Lifestyle and PVR Cinemas, across their retail developments. They further believe that several of their global retail tenants have opened among their first few stores for their brands in India at Phoenix malls.

As part of their ongoing growth strategy, they intend to continue to evaluate the performance of retail business in certain non-competing micro-markets, including Mumbai, Bengaluru and Chennai and other growth locations in which they currently do not have a presence such as Navi Mumbai, Hyderabad, Chandigarh, New Delhi, and Gurugram for prospective growth opportunities.

Phoenix Mills is looking to focus on the development of malls and commercial properties, the latter as brownfield expansions on existing mall sites such that the captive audience of the commercial properties adds to weekday footfalls at the mall. The extant land ownership as well as physical infrastructure limits the capex needs for new expansions in the commercial segment.

Phoenix Mills is also open to partner with land owners, for part ownership (or potential buy outs) for malls in new cities, but primarily focusses on being the leading mall in any city of operation having built malls of an average size of 1 mn sq. ft with 250 stores on average.

Phoenix Mills is not looking to deploy incremental capital on residential real estate or the hotel segment, traditional investments made by the company, with increased focus on annuity assets such as malls and offices.

Open to partner with land owners, platform deals with large private equity

Phoenix Mills entered into an arrangement with CPPIB, to sell 50% stake in Phoenix Market City, Bengaluru (Island Star Mall) at an enterprise value of Rs17 bn in April 2017. CPPIB infused equity of Rs16.6 bn into the company, which was used for the development of three more malls—(1) Phoenix Market City, Hebbal, (2) Phoenix Market City, Wakad, and (3) Phoenix Market City, Indore. Phoenix Mills subsequently acquired two land parcels in Hebbal and Wakad and an under-construction asset in Indore utilizing the proceeds of Rs16 bn from the equity infusion by CPPIB. As of June 30, 2020, Island Star Mall Developers Private Limited, the project specific company that owns these projects through its wholly-owned subsidiaries, has invested Rs5.2 bn, Rs8.62 bn and Rs3.5 bn in Phoenix Millennium, Pune, Phoenix Mall of Asia, Bengaluru and Phoenix Citadel, Indore, respectively, with no drawdowns having been made under the financing facilities for these projects as yet. Exhibit 55 highlights details of land acquisitions made by Phoenix Mills under ISML.

Exhibit 55: ISML acquired 28 acres land for Rs83.3 bn offering development potential of 3.6 mn sq. ft
Details of land acquisitions made by Phoenix Mills under ISML

	Size (acres)	Cost (Rs mn)	Development potential
Wakad, Pune	15	1,940	1.8 mn sq. ft including 1 mn sq. ft of retail
Hebbal, Bengaluru	13	6,390	1.8 mn sq. ft including 1 mn sq. ft of retail

Source: Company, Kotak Institutional Equities

Phoenix Mills has a track record of acquiring and integrating assets to grow their portfolio of developments. For example, they acquired Phoenix Citadel, Indore in July 2018, which is currently under construction and is estimated to commence operations in the FY2022E. They also acquired Phoenix Palassio, Lucknow, a brownfield asset in August 2018 and were able to complete its construction and commence its operations on July 8, 2020.

Phoenix Mills has also partnered with local land owners, such as the JV in Ahmedabad and Chennai, or the part ownership of Phoenix in the residential development in Bengaluru.

Merger of Phoenix Hospitality further consolidates ownership

Phoenix Mills has proposed the amalgamation of Phoenix Hospitality Co. Pvt. Ltd. (PHCPL) with Phoenix Mills. Phoenix Mills currently owns 56.92% in PHCPL while the balance 43.08% is owned by Ruia International Holding Co. Pvt. Ltd (RIHCPL), which is a promoter group company. The amalgamation will result in issuance of 6.27 mn shares (627 shares for every 100 shares in PHCPL held by RIHCPL resulting in increase in promoter ownership by 1.92% (from 45.56% to 47.48%). The transaction helps consolidate the ownership of Phoenix Mills—making three entities holding office, residential and hotel assets into wholly-owned entities as seen in Exhibit 56.

Exhibit 56: Amalgamation of PHCPL helps consolidated ownership in office assets

Details of entities wherein PML's ownership will increase and assets held by them

Company	Asset	Area (mn sq. ft)			Residential Operational	Hotel (Keys) Operational	Ownership (%)	
		Retail Operational	Office Operational	Future			Current	Proposed
Starboard Hotels	Palladium Chennai	0.22		0.43			50	100
Alliance Spaces	Fountainhead		0.17	0.66			75	100
Palladium Construction	One Bangalore West / Kesaku / Mariott Agra				3.19	193	80	100
Graceworks Realty and Leisure	Phoenix Paragon Plaza		0.43				80	100
Total		0.22	0.60	1.09	3.19	193		

Source: Company, Kotak Institutional Equities

From textile mills to retail malls

Phoenix Mills was incorporated in 1905 as a cotton textile mill on a 17.3 acre land parcel in Lower Parel, Mumbai (present day High Street Phoenix). The company was listed in 1959. Phoenix Commercial House was established in 1986, on a part of the land parcel of Phoenix Mills while Phoenix Towers utilized part of the land parcel as a residential development. Atul Ruia the current managing director, and second generation member of the family, started establishing the retail presence of Phoenix Mills in 1987 having set up the first bowling alley and subsequently the first hyper market in Mumbai in 2001. Along the way in 2007 the company planned to set up Phoenix Market City across key cities like Mumbai, Bengaluru, Pune and Chennai. Phoenix Mills has over the years established themselves as the premier shopping destination in the city of their operation, with aspirations to have a pan-India presence with fourteen malls aggregating 11.74 mn sq. ft of retail space.

Exhibit 57: Phoenix has established itself as a pan-India retail player with 11.7 mn sq. ft of space
Evolution of Phoenix Mills over the years

Year	Event
1905	Commenced textile manufacturing
1986	Made Phoenix House commercial centre
1987	Entered real estate market with HSP as most frequented destination
1996	Opened The Bowling Co. in HSP complex
2001	Introduced first hyper market concept at HSP, Mumbai
2006	Announced Palladium Hotel, opened 7 screen multiplex within HSP
2007	Development of PMC at Mumbai, Bengaluru, Chennai and Pune
2009	Launched Palladium Mall in HSP complex, East Court at PMC Pune
2011	Launched PMC at Mumbai, Bengaluru and Pune
2012	Launched Palladium Hotel, opened 7 screen multiplex within HSP Launched One Bangalore West residential tower Launched Art Guild House and Phoenix Paragon Plaza at PMC, Mumbai
2013	Launched PMC Chennai
2015	Launched Courtyard by Marriott, Agra Launched luxury residential project in Bengaluru
2016	St. Regis, Mumbai begins operations
2017	Partnered with CPPIB
2018	Launched Palladium Chennai
2019	Launched Fountainhead Tower 1

Source: Company, Kotak Institutional Equities

Seasoned management team, holding on since inception of retail business

Phoenix Mills is headed by Mr Atul Ruia, MD and Promoter who is assisted by a team of 108 employees who work on the day-to-day management of the company. Mr Shishir Agarwal, MD has been with the company for 21 years having associated himself with the transition of the company from a single asset owner to a chain of successful malls.

Exhibit 58: Phoenix management team has been with the company for over 20 years

Profiles of key management personnel of Phoenix Mills

Atul Ruia	Shishir Srivastava	Pradumna Kanodia	Rajendra Kalkar
Chairman & Managing Director	Jr. Managing Director	Director- Finance	President - West & Whole time director
Mr. Atul Ruia is a graduate in Chemical Engineering from the University of Pennsylvania and holds a degree in Business Management from the Wharton School of Finance. He joined the Board of PML in 1996 and is the key visionary, pioneer and force behind the development of High Street Phoenix, Mumbai's first retail-led mixed use destination.	Mr. Shishir Shrivastava graduated from IIM, Bengaluru and has been associated with the Phoenix Group since 1999 in various capacities. While he was instrumental in shaping up High Street Phoenix to its current reputation, he also laid the foundation for the service and advisory verticals and saw through the successful culmination of the hotel The St. Regis, Mumbai and Phoenix MarketCity projects, launched in phases.	Mr. Pradumna Kanodia is a qualified Chartered Accountant and Company Secretary. He has over 29 years of experience in corporate management, finance and commercial matters, fiscal and strategic planning, budgeting and cash flow management. He heads the finance and accounts teams and plays a key role in fund raising and liaising with banks for debt funding.	Mr. Rajendra has over 28 years of experience with an expertise in P&L management and driving the strategic intent for the overall business of large retail and mall management companies. He is the President West for Retail business and has oversight of High Street Phoenix Centre with a focus on future development of the property. With the ongoing expansion, Rajendra additionally manages several corporate responsibilities for all operational Malls.

Source: Company, Kotak Institutional Equities

- ▶ Atul Ruia, aged 49, is the Chairman and Non-Executive Director of the company. He holds a bachelor's degree of science in economics from the University of Pennsylvania. He was involved in launching High Street Phoenix at Lower Parel, Mumbai and has been involved in establishing the Phoenix Market City projects across India. Currently, he is a member of the board of directors of other companies such as R.R. Hosiery Private Limited and Ashok Apparels Pvt. Ltd. He has been a member of the board since November 19, 1996.
- ▶ Shishir Shrivastava, aged 44, is the Managing Director of the company. He holds a diploma in hotel management and catering technology from the National Council for Hotel Management and Catering Technology, New Delhi. He has been with the company since 2002 in various capacities in the areas of corporate strategy, private equity fund raising and investor relations. He was involved in launching High Street Phoenix at Lower Parel, Mumbai. He has been involved in establishing the Phoenix Market City projects across India. He was involved in the re-branding of the Palladium Hotel to The St. Regis, Mumbai. Currently, he is on the boards of directors of other companies such as Pallazzio Hotels and Leisure Limited and Upal Hotels Private Limited. He has been a member of the board since March 18, 2010.
- ▶ Pradumna Kanodia, aged 55, is the Director-Finance and Chief Financial Officer of the company. He is a fellow member of the Institute of Chartered Accountants of India and an associate member of the Institute of Company Secretaries of India. He heads the finance and accounts teams and plays a role in fund raising and liaising with banks for debt funding. Currently, he is on the boards of directors of other companies such as Acme Hospitality Services Private Limited and Pallazzio Hotels and Leisure Limited. He has been a member of the board since April 28, 2011.

Growth moderates further. Britannia's revenue growth decelerated to 6% (KIE 10%) with pickup in OOH consumption and diversification of consumer purchase basket. BRIT continued to gain share and its profitability was impressive (EBITDA up 22% yoy; margin up 250 bps to 19.3%). Covid triggered a surge in product trials and penetration for biscuits/ packaged foods. It remains to be seen how BRIT builds on this momentum for sustained revival of its biscuits portfolio growth rate and scales up new growth engines. We cut FY2022-23E EPS by 6% and revise FV to Rs3,875 (from Rs4,150). ADD

Britannia Industries				Forecasts/valuations			
Stock data				2021E	2022E	2023E	
CMP(Rs)/FV(Rs)/Rating	3,474/3,875/ADD			EPS (Rs)	78.5	73.5	85.9
52-week range (Rs) (high-low)	4,010-2,100			EPS growth (%)	33.3	(6.5)	17.0
Mcap (bn) (Rs/US\$)	837/11.5			P/E (X)	44.2	47.3	40.4
ADTV-3M (mn) (Rs/US\$)	2,925/40			P/B (X)	26.5	18.1	16.7
Shareholding pattern (%)				EV/EBITDA (X)	33.3	33.9	29.6
Promoters	50.6			RoE (%)	49.5	44.9	42.5
FPIs/MFs/BFIs	16.0/6.5/5.9			Div. yield (%)	3.1	2.0	2.2
Price performance (%)				Sales (Rs bn)	131	137	153
Absolute	1M	3M	12M	EBITDA (Rs bn)	26	25	28
	(2.8)	(1.1)	6.8	Net profits (Rs bn)	19	17	20
Rel. to BSE-30	(7.7)	(19.3)	(14.4)				

3QFY21 – Revenue momentum slows; efficiency gains drive profitability

Consolidated revenue grew 6% yoy to Rs31.6 bn, 4% below our estimate. GM expanded 225 bps yoy to 43.1% (KIE: 41.4%). Gross profit at Rs13.6 bn (up 12% yoy) was in line with our estimate. Staff costs (up 8% yoy) and other expenses (up 4% yoy) were lower than estimates. EBITDA (Rs6.1 bn, +22% yoy) was 5% higher than our estimate led by efficiencies in factory productivity, waste reduction, and supply chain. EBITDA margin stood at 19.3% (up 250 bps yoy) and 165 bps higher than our estimate. Interest cost grew 34% yoy due to gross debt increase. PAT grew 22% yoy to Rs4.6 bn (+13% above our estimate). Domestic volumes grew 4% yoy and price/mix contributed about 1-2%. Revenue growth has moderated significantly from 26%/11% yoy in 1Q/2Q to 6% yoy in 3Q. Subsidiary performance – Revenue grew 14% yoy broad-based across bakery, dairy and overseas businesses. Robust GM expansion drove 34% yoy gross profit growth and 101% yoy EBITDA growth. Gross margin/EBITDA margin stood at 67.7%/21.8% respectively. Benign milk prices supported profitability in the dairy subsidiary.

Normalized level of revenue growth and margin sustenance are key watch-outs

With diversification in consumer purchase basket, post-Covid (mean-reversion towards OOH food consumption), biscuits category has witnessed sharp sequential growth moderation (higher than expected). GT and rural markets have performed strongly, while MT and institutional channels continue to be impacted. BRIT continued to gain market share.

Key focus areas for BRIT include– (1) accelerate pace of new launches (in core and adjacencies; product innovation in wafers, cakes and croissants) and scale up of new category forays (which have slowed in recent quarters), (2) further expand direct reach/rural distribution, (3) normalization in A&P spends to support new launches, and (4) sustain Covid-led operational efficiencies to maintain profitability; management expressed intent to maintain margins notwithstanding moderate RM inflation (stable input cost in flour/sugar, sharp inflation in Palm oil and slight pick-up in milk prices after a deflationary phase).

We trim FY2022-23E earnings by 6% and revise RV to Rs3,875 (Rs4,150 earlier)

We trim FY2022-23E revenue growth forecast by 4%, margin assumption by 50 bps and EPS by 6%. We revise DCF-based FV to Rs3,875 (from Rs4,150), implying 45X FY2023E PE.

Jaykumar Doshi

Sushruta Mishra

Aniket Sethi

Conference call takeaways

- ▶ **Demand environment.** BRIT's 3Q revenue growth at 6% yoy was below expectations with meaningful moderation over 1HFY21. Revenue growth has moderated from 26% yoy in 1Q and 11% in 2Q, indicating some fatigue in biscuits category as out-of-home food consumption picks up and consumers diversify their purchase basket. Management noted continued healthy growth in the general trade channel with sustained rural demand and recovery in urban demand. Modern trade (~10% sales contribution in 3Q) and institutional channels continued to be subdued. Travel clusters, offices, and hotels segments dragged on revenue performance in 3Q. E-Commerce channel (~1% sales contribution) registered strong growth. The company continues to invest towards direct reach expansion, rural distribution, higher sales productivity and improved brand equity. BRIT noted continued market share gains during the quarter. With consumer downtrading towards trusted value brands, pace of market share gain has been higher for Parle compared to BRIT over 9MFY21, while unorganized/smaller players have lost market share. Hindi belt sustained the growth momentum during the quarter.
- ▶ **Strong margin delivery, but sustenance will be a key watch-out.** BRIT noted moderate overall inflation (~1% yoy) in input cost basket with significant increase in palm oil prices (+25% yoy). Flour/milk witnessed 7%/15% yoy deflation in 3Q. The company targets to maintain operating margin going forward on the back of productivity efforts even as A&P spends and pace of new launches accelerate. BRIT noted continued efforts to sustain Covid-led operational efficiencies with – (1) 7% increase in factory productivity, (2) ~30% reduction in wastages, (3) ~50% higher direct dispatches from factories to distributors and (4) ~10% reduction in depot space. Share of direct dispatches has increased to ~22% compared to ~8% pre-Covid.
- ▶ **New launches/category forays update.** With Covid-led supply chain disruption and increased focus on high-throughput SKUs, the pace of new launches and related investments have slowed down over recent quarters. Going forward, the company plans to accelerate the pace of new launches in affordable packs (in line with stronger rural growth), and premium-end products, in core as well as adjacent categories. Recent launches in cakes (Rs5/10 layer cakes), and wafers (Rs10 Treat Cream wafers) have witnessed good consumer traction. Croissants have registered good growth in test markets post product revamp. BRIT has now scaled up to No.2 position in market share and No.1 position in distribution reach in wafers category.
- ▶ **Adjacency businesses.** BRIT registered healthy growth in Middle East and Africa business. Other international markets continued the growth momentum in 3Q. Bakery business (bread, rusk) saw improvement in profitability. Dairy business witnessed good profitability with benign milk prices. Cheese continued the double-digit growth momentum. Dairy drinks portfolio (milkshakes, lassi) saw recovery with pick-up in out of home consumption post Covid.
- ▶ **Others. (1) IT transformation project** – BRIT highlighted a significant IT transformation project (to be completed by FY21end) towards upgradation of ERP systems, improved dealer management, and installation of vendor management system. These investments are expected to translate into lesser inventory write-off, lower stock levels, improved conversion of orders into billing and better data capture/analytics to improve decision making. **(2) Capex** for FY21E is expected at ~Rs2 bn. BRIT has cumulatively invested ~Rs7 bn in the Ranjangoan plant till now, with total planned capex of Rs15 bn by 2024. **(3) Hindi belt states** account for ~35-40% of the overall biscuits market. Over the past three years, BRIT's market share has improved from 1/3rd of national average to 1/2nd of national average in the Hindi belt states.

Exhibit 1: Britannia - Key changes to estimates FY2021-23E

	Revised			New			Change (%)			FY2020-22E	
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	CAGR (%) / Change (bps)	
										Revised	Earlier
Net operating revenues (Rs mn)	131,386	137,214	152,558	133,717	142,942	158,886	(1.7)	(4.0)	(4.0)	8.8	11.0
Revenue growth (%)	13.3	4.4	11.2	15.3	6.9	11.2					
EBITDA (Rs mn)	25,671	24,774	28,316	25,665	26,523	30,199	0.0	(6.6)	(6.2)	15.9	20.0
EBITDA margin (%)	19.5	18.1	18.6	19.2	18.6	19.0	34 bps	-50 bps	-45 bps	216 bps	266 bps
Net income (Rs mn)	18,870	17,650	20,643	18,480	18,809	22,048	2.1	(6.2)	(6.4)	12	15
EPS (Rs/share)	78.5	73.5	85.9	76.9	78.3	91.8	2.1	(6.2)	(6.4)	12	15
Other assumptions											
Gross margin (%)	42.3	41.6	41.8	41.8	41.7	41.9	49 bps	-12 bps	-11 bps	127 bps	139 bps
Volume growth - Biscuits (%)	9.0	1.0	7.5	11.0	4.0	7.5	-200 bps	-300 bps	0 bps		
Realisation growth - Biscuits (%)	2.0	2.0	3.0	2.5	2.0	3.0	-50 bps	0 bps	0 bps		

Source: Kotak Institutional Equities estimates

Exhibit 2: Britannia - Interim consolidated results, March fiscal year-ends (Rs mn)

	3QFY21			3QFY20			2QFY21			KIE Est			yoy			qoq			9MFY21			9MFY20			(% chg.)			FY2021E			FY2020			(% chg.)		
Net operating income	31,656	32,849	29,827	34,191	(4)	6	(7)	100,054	87,319	15	131,386	115,996	13																							
Material cost	(18,014)	(19,243)	(17,642)	(19,651)	(6)	2	(8)	(57,624)	(51,975)	11	(75,809)	(69,275)	9																							
Gross profit	13,642	13,606	12,185	14,540	0	12	(6)	42,430	35,344	20	55,577	46,721	19																							
Gross margin (%)	43.1	41.4	40.9	42.5	167 bps	224 bps	56 bps	42.4	40.5	193 bps	42.3	40.3	202 bps																							
Employee cost	(1,318)	(1,356)	(1,216)	(1,345)	(3)	8	(2)	(4,032)	(3,658)	10	(5,387)	(4,867)	11																							
Other expenditure	(6,209)	(6,446)	(5,949)	(6,441)	(4)	4	(4)	(18,359)	(17,797)	3	(24,519)	(23,422)	5																							
Total expenditure	(25,541)	(27,045)	(24,806)	(27,437)	(6)	3	(7)	(80,015)	(73,430)	9	(105,715)	(97,564)	8																							
EBITDA	6,115	5,804	5,020	6,754	5	22	(9)	20,039	13,889	44	25,671	18,432	39																							
OPM (%)	19.3	17.7	16.8	19.8	164 bps	248 bps	-44 bps	20.0	15.9	412 bps	19.5	15.9	364 bps																							
Other income	826	540	652	735	53	27	12	2,497	2,008	24	2,978	2,794	7																							
Interest	(318)	(435)	(237)	(298)	(27)	34	7	(872)	(499)	75	(1,262)	(769)	64																							
Depreciation	(486)	(497)	(467)	(485)	(2)	4	0	(1,450)	(1,363)	6	(1,945)	(1,848)	5																							
Pretax profits	6,137	5,412	4,969	6,706	13	24	(8)	20,214	14,034	44	25,443	18,609	37																							
Tax	(1,611)	(1,405)	(1,273)	(1,750)	15	27	(8)	(5,304)	(3,705)	43	(6,667)	(4,550)	47																							
PAT	4,526	4,007	3,696	4,956	13	22	(9)	14,910	10,330	44	18,775	14,059	34																							
Minority interest/share of associates	31	15	31	30				92	69		95	95																								
Recurring PAT	4,558	4,022	3,726	4,987	13	22	(9)	15,002	10,399	44	18,870	14,154	33																							
Extraordinary items	—	—	—	(5)				(5)	(120)		—	(128)																								
Net profit (reported)	4,558	4,022	3,726	4,981	13	22	(9)	14,997	10,278	46	18,870	14,026	35																							
Recurring EPS (Rs)	19.0	16.7	15.5	20.8	13	22	(9)	62.4	43.3	44	78.7	59.0	33																							
Income tax rate (%)	26.2	26.0	25.6	26.1	28 bps	63 bps	15 bps	26.2	26.4	-16 bps	26.2	24.4	175 bps																							
Costs as a percentage of sales																																				
Material cost	56.9	58.6	59.1	57.5	-168 bps	-225 bps	-57 bps	57.6	59.5	-194 bps	57.7	59.7	-203 bps																							
Employee cost	4.2	4.1	4.1	3.9	3 bps	8 bps	22 bps	4.0	4.2	-16 bps	4.1	4.2	-10 bps																							
Other expenditure	19.6	19.6	19.9	18.8	-1 bps	-34 bps	77 bps	18.3	20.4	-204 bps	18.7	20.2	-154 bps																							

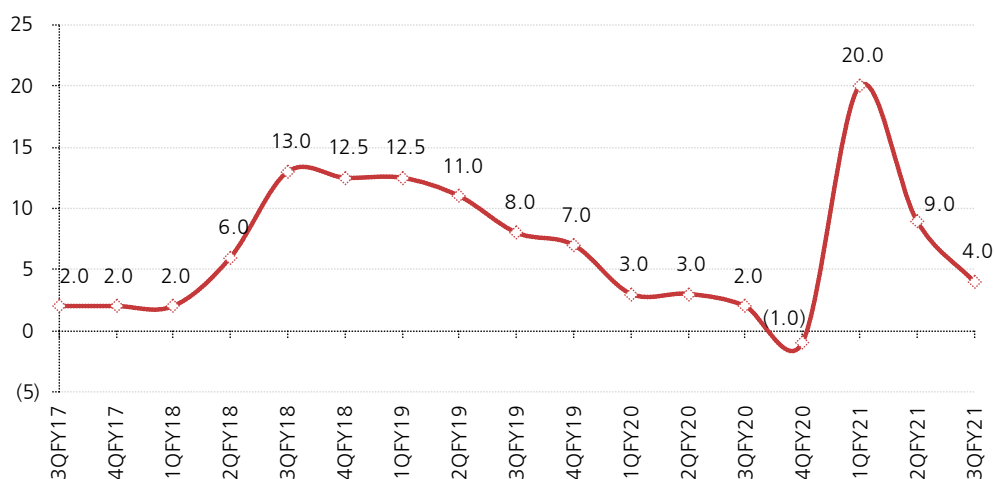
Source: Kotak Institutional Equities estimates, Company

Exhibit 3: Britannia - Interim standalone results, March fiscal year-ends (Rs mn)

	3QFY21	3QFY21E	3QFY20	2QFY21	(% chg.)			9MFY21	9MFY20	(% chg.)	FY2021E	FY2020	(% chg.)
					KIE Est	yoy	qoq						
Net operating income	29,787	31,012	28,192	32,276	(4)	6	(8)	94,262	82,947	14	123,658	109,867	13
Material cost	(17,410)	(18,545)	(16,951)	(19,188)	(6)	3	(9)	(55,868)	(49,987)	12	(73,217)	(66,577)	10
Gross profit	12,377	12,467	11,241	13,087	(1)	10	(5)	38,394	32,960	16	50,441	43,290	17
Gross margin (%)	41.6	40.2	39.9	40.5	135 bps	167 bps	100 bps	40.7	39.7	99 bps	40.8	39.4	138 bps
Employee cost	(1,011)	(1,033)	(923)	(1,044)	(2)	10	(3)	(3,099)	(2,792)	11	(4,112)	(3,689)	11
Other expenditure	(5,659)	(5,886)	(5,501)	(5,834)	(4)	3	(3)	(16,661)	(16,765)	(1)	(22,320)	(21,894)	2
Total expenditure	(24,080)	(25,464)	(23,374)	(26,067)	(5)	3	(8)	(75,628)	(69,544)	9	(99,648)	(92,160)	8
EBITDA	5,707	5,548	4,818	6,209	3	18	(8)	18,634	13,403	39	24,010	17,707	36
OPM (%)	19.2	17.9	17.1	19.2	127 bps	207 bps	-8 bps	19.8	16.2	360 bps	19.4	16.1	329 bps
Other income	778	500	646	712	56	20	9	2,363	2,603	(9)	2,848	3,354	(15)
Interest	(287)	(400)	(221)	(267)	(28)	30	7	(773)	(445)	74	(1,100)	(652)	69
Depreciation	(409)	(415)	(384)	(407)	(1)	6	1	(1,216)	(1,124)	8	(1,619)	(1,517)	7
Pretax profits	5,789	5,233	4,858	6,247	11	19	(7)	19,007	14,438	32	24,139	18,893	28
Tax	(1,505)	(1,361)	(1,254)	(1,624)	11	20	(7)	(4,942)	(3,644)	36	(6,276)	(4,192)	50
PAT	4,284	3,872	3,604	4,623	11	19	(7)	14,065	10,793	30	17,863	14,701	22
Extraordinary items	—	—	—	—	—	—	—	—	238	—	—	143	—
Net profit (reported)	4,284	3,872	3,604	4,623	11	19	(7)	14,065	11,031	28	17,863	14,843	20
Recurring EPS (Rs)	17.8	16.1	15.0	19.2	11	19	(7)	58.5	44.9	30	74.5	61.3	22
Income tax rate (%)	26.0	26.0	25.8	26.0	-1 bps	17 bps	-1 bps	26.0	25.2	75 bps	26.0	22.2	381 bps
Costs as a percentage of sales													
Material cost	58.4	59.8	60.1	59.5	-136 bps	-168 bps	-101 bps	59.3	60.3	-100 bps	59.2	60.6	-139 bps
Employee cost	3.4	3.3	3.3	3.2	6 bps	12 bps	16 bps	3.3	3.4	-8 bps	3.3	3.4	-4 bps
Other expenditure	19.0	19.0	19.5	18.1	1 bps	-52 bps	92 bps	17.7	20.2	-254 bps	18.0	19.9	-188 bps

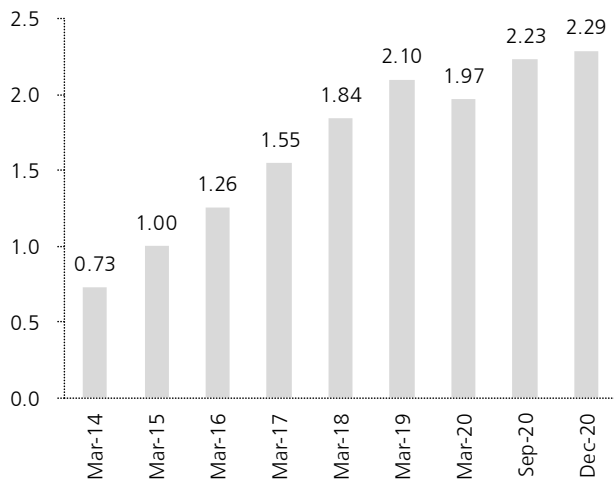
Source: Kotak Institutional Equities estimates, Company

Exhibit 4: Britannia - Domestic business volumes grew 4% in 3Q



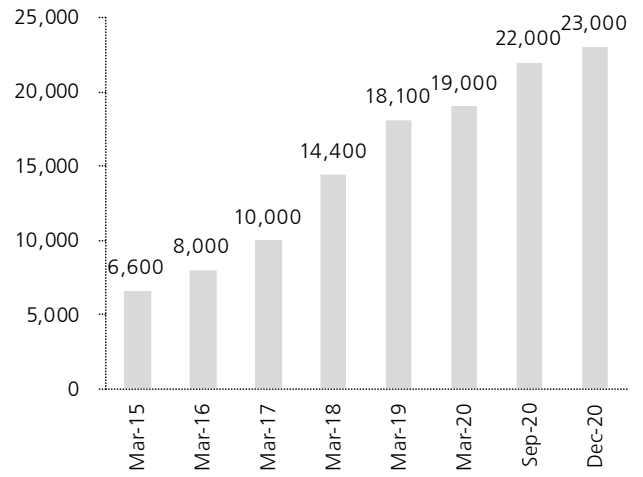
Source: Company, Kotak Institutional Equities

Exhibit 5: Britannia - Direct reach outlets (mn)



Source: Company, Kotak Institutional Equities

Exhibit 6: Britannia - Number of rural preferred dealers



Source: Company, Kotak Institutional Equities

Exhibit 7: Britannia - Consolidated P&L, Balance sheet and Cash-flow statement (as per Ind-AS), 2018-23E, March fiscal year-ends (Rs mn)

	2018	2019	2020	2021E	2022E	2023E
Profit model (Rs mn)						
Net sales	98,295	109,735	114,440	129,441	134,997	150,031
Other operating income	845	812	1,556	1,945	2,217	2,527
Net operating income	99,140	110,547	115,996	131,386	137,214	152,558
EBITDA	15,017	17,334	18,432	25,671	24,774	28,316
Other income	1,664	2,065	2,794	2,978	2,627	3,061
Interest	(76)	(91)	(769)	(1,262)	(1,610)	(1,406)
Depreciation	(1,421)	(1,619)	(1,848)	(1,945)	(2,002)	(2,197)
Pretax profits	15,184	17,689	18,609	25,443	23,789	27,774
Tax	(5,142)	(6,125)	(4,550)	(6,667)	(6,233)	(7,226)
Minority Interest/share of net loss of associated	1	27	95	95	95	95
Extraordinary items	—	—	(128)	—	—	—
Net income	10,042	11,591	14,026	18,870	17,650	20,643
Recurring net income	10,042	11,591	14,154	18,870	17,650	20,643
Earnings per share (Rs)	41.8	48.2	58.9	78.5	73.5	85.9
Balance sheet (Rs mn)						
Total shareholder's equity	34,062	42,533	44,028	31,556	46,185	50,007
Total borrowings	1,782	1,558	15,352	29,312	26,212	23,112
Deferred tax liability	(226)	(99)	(69)	(69)	(69)	(69)
Minority interest	131	327	357	262	167	72
Total liabilities and equity	35,750	44,318	59,668	61,061	72,496	73,123
Net fixed assets	14,052	16,444	17,643	17,919	18,932	20,071
Goodwill	1,282	1,304	1,390	1,390	1,390	1,390
Investments	10,943	14,910	29,077	21,577	21,577	21,577
Cash	1,864	1,098	1,229	9,021	19,525	18,826
Net Current assets	7,609	10,562	10,330	11,156	11,072	11,260
Total assets	35,750	44,318	59,668	61,062	72,496	73,123
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	10,205	11,583	13,571	20,155	19,199	21,716
Working capital	2,283	(25)	1,274	(826)	83	(187)
Capital expenditure	(4,212)	(3,994)	(2,434)	(2,221)	(3,016)	(3,336)
Free cash flow	8,276	7,564	12,411	17,109	16,266	18,193
Growth						
Revenue growth	9.5	11.5	4.9	13.3	4.4	11.2
EBITDA growth	17.5	15.4	6.3	39.3	(3.5)	14.3
EPS growth	13.5	15.4	22.1	33.3	(6.5)	17.0
Ratios (%)						
Gross margin (%)	38.4	40.6	40.3	42.3	41.6	41.8
EBITDA margin (%)	15.1	15.7	15.9	19.5	18.1	18.6
Net profit margin (%)	10.1	10.5	12.2	14.4	12.9	13.5
ROE (%)	32.9	30.3	32.7	49.9	45.4	42.9
ROCE (%)	27.9	25.4	23.9	28.7	24.9	26.3
Key assumptions (%)						
Biscuits Volume growth (%)	7.0	8.0	1.0	9.0	1.0	7.5
Biscuits Realisation growth (%)	1.2	4.4	2.0	2.0	2.0	3.0

Source: Company, Kotak Institutional Equities estimates

Mixed bag. GCPL delivered 10% revenue growth, in line with its pre-earnings update. Growth was powered by soaps (+15%), recovery in Hair Colors (+14%), GUAM (+17% c/c) and LATAM (+35% c/c). HI growth at 7% was a tad soft and Indonesia registered a weak quarter (-2% c/c). GCPL tackled gross margin pressure well through cost controls; EBITDA grew 10% yoy and EBITDA margin was flat. GCPL is well-placed to gain from the underlying tailwinds in the health and hygiene space. Key to stock performance and re-rating is consistent broad-based growth across key segments and geographies. ADD.

Godrej Consumer Products				Forecasts/valuations			
Stock data				2021E	2022E	2023E	
CMP(Rs)/FV(Rs)/Rating	735/795/ADD			16.2	18.2	20.9	
52-week range (Rs) (high-low)	808-425			17.6	12.3	14.7	
Mcap (bn) (Rs/US\$)	752/10.4			45.4	40.4	35.2	
ADTV-3M (mn) (Rs/US\$)	1,307/18			8.3	7.5	6.8	
Shareholding pattern (%)				EV/EBITDA (X)	31.5	28.0	24.5
Promoters	63.2			RoE (%)	19.5	19.4	20.2
FPIs/MFs/BFIs	26.8/1.6/1.4			Div. yield (%)	1.0	1.3	1.6
Price performance (%)				Sales (Rs bn)	109	120	132
Absolute	1M	3M	12M	EBITDA (Rs bn)	24	27	30
Rel. to BSE-30	(2.0)	9.8	13.7	Net profits (Rs bn)	17	19	21
	(6.9)	(10.4)	(8.9)				

3QFY21 – decent quarter with no surprises

GCPL's 3Q revenues were in line with the company's pre-earnings update. Second-straight quarter of double-digit revenue growth was driven by (1) strong performance of soaps (+15% value; ~10% volume) with the company taking calibrated price hikes in-light of sharp RM inflation, (2) sustained recovery in GAUM (+15 yoy) and LATAM businesses (+12% yoy) and (3) rebound in hair colors (+14% yoy). HI business grew 7% yoy with good growth in the electric and aerosol formats and continued weakness in the burning formats. Indonesia reported a weak print due to macro headwinds and increased competitive intensity in wet wipes.

Net operating revenues grew 10% yoy to Rs30.5 bn. Gross margin contracted 170 bps yoy to 55.1% (KIE: 55.6%). GM contraction was largely due to RM inflation in soaps (PFAD) and 50 bps yoy fall in aggregate subsidiary GM (international business). Employee costs were up 7% yoy, A&P spends were up 11% yoy while other expenditure was up just 1% yoy. Tight costs control managed to offset gross profit weakness (lower GMs). EBITDA was up 10% yoy to Rs6.9 bn, 1% below our estimate. EBITDA margins came in at 22.7%, flat yoy. PBT was up 14% yoy to Rs6.35 bn. Recurring PAT was up 17% yoy to Rs4.9 bn.

A few tailwinds with some turnarounds; sustenance of performance is key

GCPL is well-placed to benefit from the underlying momentum in the health and hygiene categories (soaps and other hygiene products). Management had recently highlighted that hand wash penetration in India is up to about 34% from 19% in the past 8-9 months, which would have taken five years but for Covid. However, the concerns in HI don't appear to be over yet. While traction at the premium-end (electric, aerosols) is decent, GCPL continues to struggle in the mass segment. On the international front, turnaround in the Africa business has been good amidst low expectations. Indonesia business, which was seeing strong momentum till some back, has slowed down due to weak macro and higher competitive intensity.

We tweak estimates and revise FV to Rs795 (Rs805 earlier)

We tweak revenue growth, margin forecast and broadly maintain estimates. Reiterate ADD and revise FV to Rs795 (from Rs805), implying 38X FY2023E earnings.

Jaykumar Doshi

Aniket Sethi

Sushruta Mishra

Conference call highlights

- ▶ **Focus on Hygiene products will continue.** GCPL is looking at a much larger play in the hygiene products (beyond the base sanitizers) given that the play has become broad-based now. It expects innovation in the category to continue going forward. The company is also focusing on floor and toilet cleaner products given their under-penetration. The increase in consumer focus on health and hygiene is expected to aid category growth for some time.
- ▶ **Home Insecticides (HI).** GCPL's India HI portfolio grew 7% in 3QFY21 (9MFY21: +11%). Growth was strong in aerosols, electric formats (strong growth in Flash LV – seeded in 30 mn machines till now and another 10 mn machines will be seeded soon) and non-mosquito portfolio. However, performance in burning formats and personal repellents continued to remain weak. There has been a resurgence of unorganized players in the burning format. GCPL continues to drive premiumisation in the category with the launch of Good knight Gold Flash, Good knight Smart Spray and Good knight Natural Neem products. The company also has a strong innovation pipeline in the segment and will also enhance focus on micro-marketing initiatives.
- ▶ **Hair color.** GCPL reported a good recovery in the segment (+14% yoy) led by an uptick in overall category growth. The company continues to gain share in the category. The shampoo based hair color is seeing decent traction post the national scale-up.
- ▶ **Soaps and impact of RM inflation.** Gross margins in the soaps segment have been impacted by sharp RM inflation (mainly PFAD; 30-50% yoy). GCPL has taken a calibrated approach to price hikes and have gained market shares in the process. The company will continue to prioritize growth in the category and will balance margins through various initiatives including cost savings.
- ▶ **Indonesia.** Wet wipes comprise 14-15% of the Indonesia product portfolio. A new entrant in the segment has been engaging in price competition, hurting GCPL. Other than this, the overall industry continues to face headwinds. There has been a gradual recovery in air fresheners and strong traction in hygiene (GCPL has launched a Saniter Health Soap). Nevertheless, GCPL believes that expansion of GT channel is a big opportunity for them – GT is 1/3rd of its business versus 50-60% for the industry. The company has tried to expand its direct reach in the country to 120,000 outlets from 80-85,000 outlets two years back. GCPL intends to increase the reach to 200,000 outlets. They are also open to bolt-on acquisitions in the country.
- ▶ **GAUM.** On the recovery in the Africa business, the management said that it did have some competitive advantage during the initial period of Covid-19; it is now retaining these customers. The company has taken some initiatives on improving GTM and the building blocks will be executed in the next 6-9 months. West and South Africa are doing quite well and the company believes that the growth rates are sustainable.
- ▶ **Other key points.** (1) Rural growth was much ahead of urban for GCPL. (2) GCPL will continue to focus on cross-pollination of brands and categories. (3) GCPL does not expect much negative impact from the PH controversy in soaps. (4) On ad-spends, the management said that they will be more skewed towards growth in case there is a need of growth and margin trade-off. The company will continue to invest for brand equity.

Exhibit 1: Interim consolidated results of Godrej Consumer Products, March fiscal year-ends (Rs mn)

	3QFY21	3QFY21E	3QFY20	2QFY21	(% chg.)			9MFY21	9MFY20	(% chg.)	FY2021E	FY2020	(% chg.)
					KIE Est	yoy	qoq						
Net sales	30,253	30,383	27,551	28,939	(0)	10	5	82,303	76,938	7	108,452	98,265	10
Other operating income	301	249	230	213	(1)	10	3	676	632	11	954	843	13
Net operating revenues	30,554	30,632	27,781	29,151	(0)	10	5	82,979	77,570	7	109,406	99,108	10
Material cost	(13,733)	(13,604)	(12,023)	(12,833)	1	14	7	(37,210)	(33,512)	11	(48,682)	(42,617)	14
Gross Profit	16,822	17,027	15,757	16,318	(1)	7	3	45,769	44,058	4	60,724	56,491	7
Gross Margin (%)	55.1	55.6	56.7	56.0	-54 bps	-167 bps	-93 bps	55.2	56.8	-165 bps	55.5	57.0	-150 bps
Employee cost	(2,865)	(2,822)	(2,687)	(2,667)	2	7	7	(8,150)	(8,005)	2	(10,988)	(10,188)	8
Advertising and promotion	(2,291)	(2,167)	(2,063)	(2,086)	6	11	10	(5,424)	(6,126)	(11)	(7,059)	(7,391)	(4)
Other expenditure	(4,732)	(5,037)	(4,700)	(4,837)	(6)	1	(2)	(13,805)	(13,316)	4	(18,461)	(17,481)	6
Total expenditure	(23,620)	(23,629)	(21,474)	(22,423)	(0)	10	5	(64,589)	(60,958)	6	(85,190)	(77,678)	10
EBITDA	6,935	7,002	6,307	6,729	(1)	10	3	18,390	16,612	11	24,216	21,430	13
EBITDA margin (%)	22.7	22.9	22.7	23.1	-17 bps	-1 bps	-39 bps	22.2	21.4	74 bps	22.1	21.6	51 bps
Other income	150	200	235	139	(25)	(36)	8	507	715	(29)	933	1,123	(17)
Interest	(241)	(320)	(477)	(313)	(25)	(50)	(23)	(1,037)	(1,559)	(33)	(1,475)	(2,174)	(32)
Depreciation	(491)	(535)	(490)	(509)	(8)	0	(4)	(1,494)	(1,441)	4	(2,030)	(1,973)	3
Pretax profits	6,353	6,347	5,574	6,045	0	14	5	16,367	14,326	14	21,644	18,406	18
Tax	(1,400)	(1,540)	(1,354)	(1,464)	(9)	3	(4)	(3,823)	(3,274)	17	(5,099)	(4,336)	18
PAT	4,954	4,807	4,220	4,581	3	17	8	12,544	11,052	13	16,545	14,071	18
Minority interest	2	2	6	2	20	(68)	20	(1)	10	(105)	8	8	0
PAT after MI	4,956	4,809	4,226	4,583	3	17	8	12,543	11,063	13	16,553	14,079	18
Extraordinary items	65	—	226	(2)				1,007	1,604		1,007	887	
Net profit (reported)	5,021	4,809	4,452	4,580	4	13	10	13,550	12,667	7	17,559	14,966	17
Recurring EPS (Rs)	4.8	4.7	4.1	4.5	3	17	8	12.3	10.8	13	16.2	13.8	18
Income tax rate (%)	22.0	24.3	24.3	24.2	-224 bps	-227 bps	-220 bps	23.4	22.9	50 bps	23.6	23.6	0 bps
Costs as a % of sales													
Material cost	44.9	44.4	43.3	44.0	53 bps	166 bps	92 bps	44.8	43.2	164 bps	44.5	43.0	149 bps
Employee cost	9.4	9.2	9.7	9.1	16 bps	-30 bps	22 bps	9.8	10.3	-50 bps	10.0	10.3	-24 bps
Advertising and promotion	7.5	7.1	7.4	7.2	42 bps	6 bps	34 bps	6.5	7.9	-137 bps	6.5	7.5	-101 bps
Other expenditure	15.5	16.4	16.9	16.6	-96 bps	-144 bps	-111 bps	16.6	17.2	-53 bps	16.9	17.6	-77 bps

Source: Company, Kotak Institutional Equities

Exhibit 2: Interim standalone results of Godrej Consumer Products, March fiscal year-ends (Rs mn)

	3QFY21	3QFY21E	3QFY20	2QFY21	(% chg.)			9MFY21	9MFY20	(% chg.)	FY2021E	FY2020	(% chg.)
					KIE Est	yoy	qoq						
Net sales	16,583	16,542	14,918	16,504	0	11	0	46,671	42,721	9	60,779	53,613	13
Other operating income	365	334	321	288	9	14	27	875	885	(1)	1,277	1,132	13
Net operating income	16,948	16,876	15,239	16,792	0	11	1	47,546	43,605	9	62,056	54,745	13
Material cost	(7,235)	(7,046)	(6,092)	(7,192)	3	19	1	(20,462)	(17,884)	14	(26,630)	(22,460)	19
Gross Profit	9,713	9,830	9,147	9,600	(1)	6	1	27,084	25,721	5	35,426	32,285	10
Gross Margin (%)	57.3	58.3	60.0	57.2	-94 bps	-272 bps	14 bps	57.0	59.0	-203 bps	57.1	59.0	-189 bps
Employee cost	(984)	(886)	(844)	(931)	11	17	6	(2,975)	(2,749)	8	(3,767)	(3,192)	18
Advertising and promotion	(1,731)	(1,647)	(1,554)	(1,609)	5	11	8	(4,077)	(4,629)	(12)	(5,213)	(5,566)	(6)
Other expenditure	(2,279)	(2,520)	(2,339)	(2,391)	(10)	(3)	(5)	(6,883)	(6,894)	(0)	(9,354)	(9,050)	3
Total expenditure	(12,229)	(12,099)	(10,828)	(12,123)	1	13	1	(34,397)	(32,156)	7	(44,964)	(40,267)	12
EBITDA	4,718	4,777	4,411	4,669	(1)	7	1	13,149	11,449	15	17,092	14,477	18
EBITDA margin (%)	27.8	28.3	28.9	27.8	-47 bps	-111 bps	3 bps	27.7	26.3	139 bps	27.5	26.4	109 bps
Other income	117	190	228	194	(38)	(49)	(40)	533	672	(21)	786	913	(14)
Interest	(44)	(70)	(130)	(67)	(37)	(66)	(34)	(232)	(377)	(38)	(330)	(580)	(43)
Depreciation	(206)	(220)	(213)	(210)	(6)	(3)	(2)	(618)	(606)	2	(830)	(814)	2
Pretax profits	4,585	4,677	4,296	4,587	(2)	7	(0)	12,832	11,137	15	16,718	13,996	19
Tax	(1,072)	(1,006)	(917)	(1,082)	7	17	(1)	(2,939)	(2,342)	25	(3,720)	(2,815)	32
PAT	3,514	3,672	3,379	3,505	(4)	4	0	9,893	8,795	12	12,998	11,181	16
Extraordinary items	0	—	270	1				(157)	600		(157)	618	
Net profit (reported)	3,514	3,672	3,649	3,506	(4)	(4)	0	9,736	9,395	4	12,841	11,799	9
EPS (Rs)	3.4	3.6	3.3	3.4	(4)	4	0	9.7	8.6	12	12.7	10.9	16
Income tax rate (%)	23.4	21.5	21.3	23.6	186 bps	202 bps	-22 bps	22.9	21.0	187 bps	22.3	20.1	213 bps
Costs as a % of sales													
Material cost	42.7	41.8	40.0	42.8	93 bps	271 bps	-15 bps	43.0	41.0	202 bps	42.9	41.0	188 bps
Employee cost	5.8	5.3	5.5	5.5	55 bps	26 bps	26 bps	6.3	6.3	-5 bps	6.1	5.8	23 bps
Advertising and promotion	10.2	9.8	10.2	9.6	45 bps	2 bps	63 bps	8.6	10.6	-205 bps	8.4	10.2	-177 bps
Other expenditure	13.4	14.9	15.3	14.2	-149 bps	-190 bps	-80 bps	14.5	15.8	-134 bps	15.1	16.5	-146 bps

Source: Company, Kotak Institutional Equities

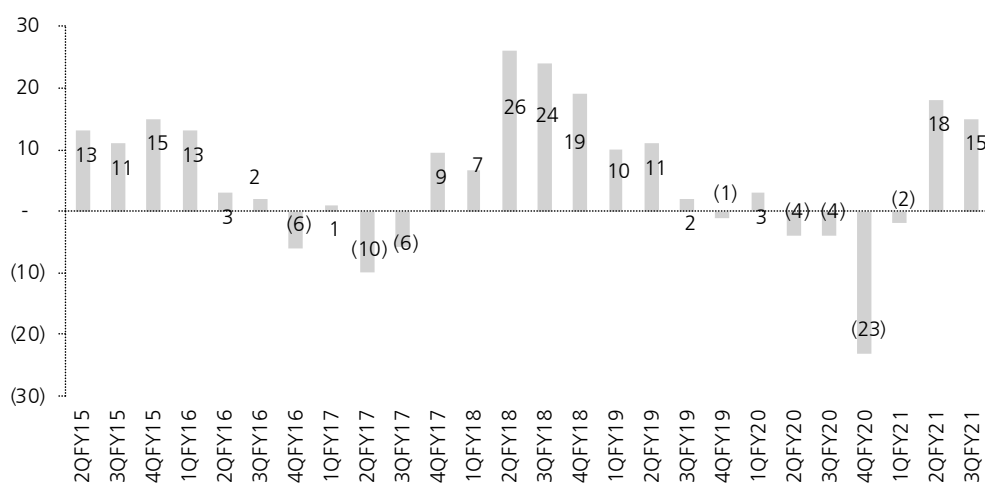
Exhibit 3: Key changes to consolidated earnings (Ind-AS), GCPL, March fiscal year-ends, 2021-23E

	Revised			Earlier			Change (%)			FY2020-22E		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	CAGR (%) / Change (bps)	Revised	Earlier
Consolidated												
Revenues (Rs mn)	109,406	120,414	132,424	105,558	119,160	131,598	3.6	1.1	0.6		10.2	9.7
Revenue growth (%)	10.4	10.1	10.0	6.5	12.9	10.4						
EBITDA (Rs mn)	24,216	26,924	30,359	23,518	27,483	31,016	3.0	(2.0)	(2.1)		12.1	13.2
EBITDA (%)	22.1	22.4	22.9	22.3	23.1	23.6						
PAT (Rs mn)	16,553	18,583	21,319	16,003	18,885	21,623	3.4	(1.6)	(1.4)		14.9	15.8
EPS (Rs/share)	16.2	18.2	20.9	15.7	18.5	21.2	3.4	(1.6)	(1.4)			
Standalone												
Revenues (Rs mn)	62,056	67,849	74,557	60,068	67,181	74,355	3.3	1.0	0.3		11.3	10.8
Revenue growth (%)	13.4	9.3	9.9	9.7	11.8	10.7						
EBITDA (Rs mn)	17,092	18,224	20,320	16,823	18,697	20,888	1.6	(2.5)	(2.7)		12.2	13.6
EBITDA (%)	27.5	26.9	27.3	28.0	27.8	28.1						

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Soaps saw a strong 15% yoy growth in value terms

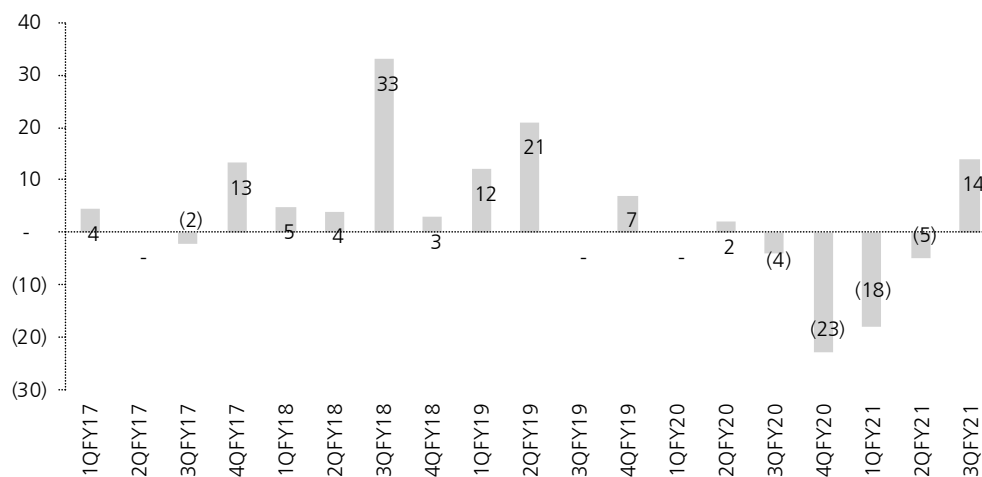
GCPL's soaps value growth trends (%)



Source: Company, Kotak Institutional Equities

Exhibit 5: Hair colors sales were up 14% yoy

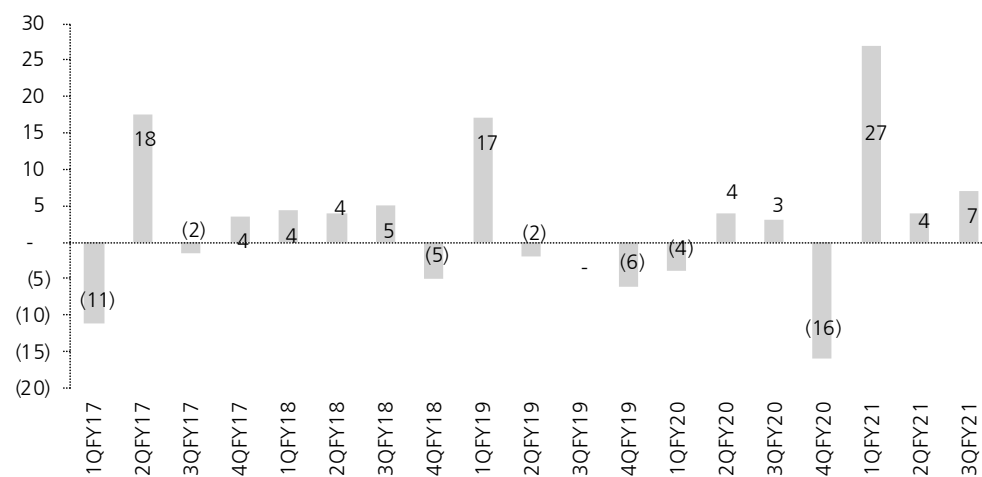
GCPL's hair colors revenue growth trend (%)



Source: Company, Kotak Institutional Equities

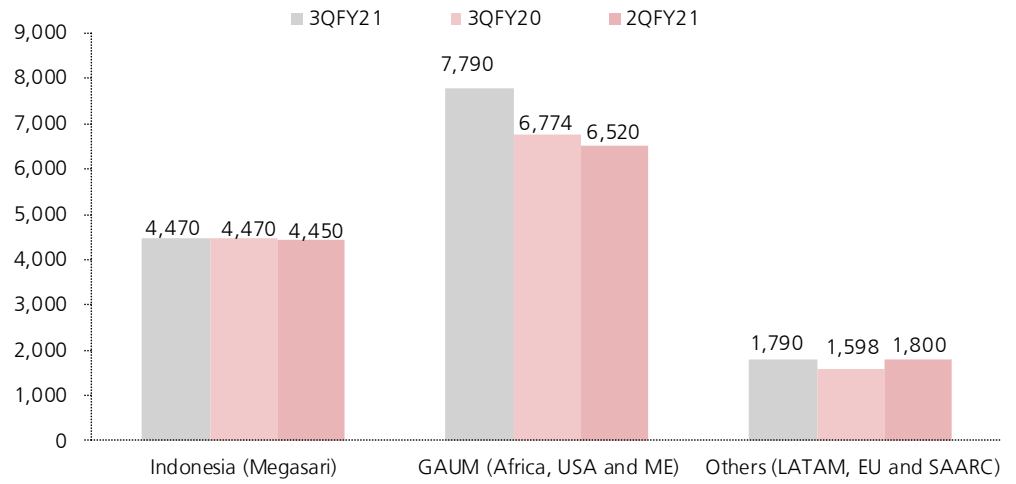
Exhibit 6: Household insecticides (HI) posted a 7% increase in revenue

GCPL's HI revenue growth trend (%)



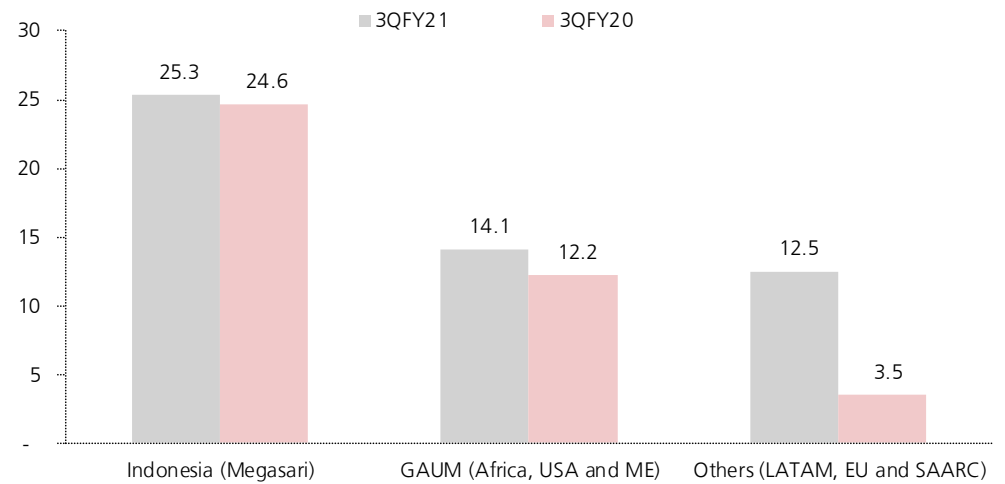
Source: Company, Kotak Institutional Equities

Exhibit 7: IBD – good performance for GAUM and others cluster
GCPL's geography-wise IBD revenue breakup (Rs mn)



Source: Company, Kotak Institutional Equities

Exhibit 8: Margins expanded for Indonesia and Others businesses
GCPL's geography-wise IBD margins (%)



Source: Company, Kotak Institutional Equities

Exhibit 9: Currency impact was mixed for the quarter

GCPL's international business revenue growth trends, yoy (%)

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Reported growth											
Indonesia	9.0	13.0	9.0	19.0	5.0	17.0	13.0	9.0	9.0	5.0	—
GAUM (Africa, US & ME)	10.0	13.0	14.0	11.0	(1.0)	(6.0)	(1.0)	(16.0)	(22.0)	10.0	15.0
Others	6.0	(26.0)	(3.0)	(35.0)	10.0	24.0	(3.0)	1.0	(4.0)	41.0	12.0
- LatAm											
- Europe											
Constant currency growth											
Indonesia	10.0	14.0	7.0	14.0	4.0	13.0	9.0	6.0	5.0	3.0	(2.0)
GAUM (Africa, US & ME)	5.0	4.0	4.0	5.0	2.0	(2.0)	6.0	(13.0)	(23.0)	10.0	17.0
Others	8.0	2.0	41.0	16.0	56.0	38.0	38.0	23.0	23.0	46.0	35.0
- LatAm											
- Europe											
Exchange rate impact											
Indonesia	(1.0)	(1.0)	2.0	5.0	1.0	4.0	4.0	3.0	4.0	2.0	2.0
GAUM (Africa, US & ME)	5.0	9.0	10.0	6.0	(3.0)	(4.0)	(7.0)	(3.0)	1.0	—	(2.0)
Others	(2.0)	(28.0)	(44.0)	(51.0)	(46.0)	(14.0)	(41.0)	(22.0)	(27.0)	(5.0)	(23.0)
- LatAm											
- Europe											

Note:

(1) GAUM includes Africa, USA and Middle East.

(2) Others include LATAM, Europe and SAARC; separate disclosure discontinued from 1QFY19.

Source: Company, Kotak Institutional Equities

Exhibit 10: Key consolidated revenue and profit assumptions for GCPL March fiscal year-ends (Rs mn)

	2019	2020	2021E	2022E	2023E
Revenue breakup (Rs mn)					
Domestic					
- Soaps	18,920	17,760	20,602	22,044	23,807
- Hair colour	6,729	6,270	6,458	7,427	8,095
- Household insecticides	22,540	21,900	25,185	27,200	29,512
- Others	7,400	7,890	8,679	10,068	11,880
IBD					
- Indonesia	15,249	16,959	17,849	19,634	21,794
- Africa (including SON)	24,560	23,162	24,089	26,979	29,677
- Others	7,702	5,556	6,861	7,548	8,151
yoy growth (%)					
Domestic					
- Soaps	5.0	(6.1)	16.0	7.0	8.0
- Hair colour	8.2	(6.8)	3.0	15.0	9.0
- Household insecticides	(0.4)	(2.8)	15.0	8.0	8.5
- Others	23.5	6.6	10.0	16.0	18.0
IBD					
- Indonesia/	12.6	11.2	5.3	10.0	11.0
- Africa (including SON)	12.2	(5.7)	4.0	12.0	10.0
- Others	(32.4)	(27.9)	23.5	10.0	8.0

Source: Company, Kotak Institutional Equities

Exhibit 11: GCPL: Consolidated Profit model, balance sheet, cash flow model (Ind-AS), March fiscal year-ends, 2018-2023E (Rs mn)

	2018	2019	2020	2021E	2022E	2023E
Profit model (Rs mn)						
Net revenues	97,680	102,211	98,265	108,452	119,378	131,293
EBITDA	20,630	21,176	21,430	24,216	26,924	30,359
Other income	1,828	2,020	1,966	1,887	2,133	2,758
Interest expense	(1,607)	(2,243)	(2,174)	(1,475)	(1,267)	(1,227)
Depreciation	(1,557)	(1,700)	(1,973)	(2,030)	(2,297)	(2,560)
Extraordinary items	1,796	8,624	887	1,007	—	—
Pretax profits	21,089	27,878	20,136	23,604	25,493	29,330
Tax	(4,047)	(3,537)	(4,336)	(5,099)	(5,882)	(6,887)
Minority Interest	11	6	8	8	8	8
Net Income	17,053	24,348	15,809	18,513	19,619	22,451
PAT after MI but before EO/Norm tax	14,505	14,791	14,079	16,553	18,583	21,319
Earnings per share (Rs)	14.2	14.5	13.8	16.2	18.2	20.9
Balance sheet (Rs mn)						
Total shareholder's equity	62,583	72,669	78,984	90,920	100,345	110,419
Total borrowings	35,076	33,821	35,184	20,684	19,984	19,284
Other financial liabilities	7,540	2,176	1,886	1,886	1,886	1,886
Deferred tax liability	1,946	(4,728)	(5,701)	(5,701)	(5,701)	(5,701)
Minority Interest	—	—	—	—	—	—
Total liabilities and equity	107,144	103,937	110,352	107,789	116,514	125,888
Net fixed assets incl CWIP	83,989	87,223	92,366	93,274	93,782	93,470
Investments	9,973	5,160	6,720	6,720	6,720	6,720
Cash	9,602	8,947	7,702	3,597	11,799	21,514
Net current assets	3,581	2,607	3,566	4,199	4,213	4,184
Total assets	107,144	103,937	110,352	107,789	116,514	125,888
Free cash flow (Rs mn)						
Operating cash flow (excl working capital)	17,543	17,463	18,620	19,361	21,303	23,751
Working capital	(155)	6	(2,613)	(633)	(14)	29
Capital expenditure	(3,115)	(2,077)	(1,520)	(2,939)	(2,806)	(2,248)
Free cash flow	14,273	15,392	14,487	15,789	18,483	21,532
Key ratios (%)						
Sales growth	5.7	4.6	(3.9)	10.4	10.1	10.0
EPS growth	11.2	2.0	(4.8)	17.6	12.3	14.7
EBITDA margin	21.0	20.5	21.6	22.1	22.4	22.9
Gross margin	56.6	55.8	57.0	55.5	56.3	56.8
Ad spends (% of sales)	8.2	8.1	7.5	6.5	7.2	7.4
ROE (%)	25.1	21.9	18.6	19.5	19.4	20.2
ROCE (%)	14.0	14.7	13.7	15.4	16.5	17.1

Source: Company, Kotak Institutional Equities estimates

FEBRUARY 08, 2021

RESULT

Sector view: **Attractive**

CMP (₹): **2,758**

Fair Value (₹): **2,750**

BSE-30: **51,349**

In-line performance. TRP's 3QFY21 revenues and EBITDA were largely in line with our estimates. The domestic segment remained strong at 7% yoy growth; weak US performance was offset by recovery in other segments while continued cost savings aided strong margin performance. We like TRP's compounding story in the domestic market while recovery in other segments (Germany, Brazil) bodes well even as US performance remains weak. Reiterate REDUCE as we await better entry points.

Torrent Pharmaceuticals				Forecasts/valuations		
Stock data				2021E	2022E	2023E
CMP(Rs)/FV(Rs)/Rating	2,758/2,550/REDUCE			71.0	88.2	103.5
52-week range (Rs) (high-low)	3,031-1,583			23.6	24.2	17.4
Mcap (bn) (Rs/US\$)	467/6.4			38.8	31.3	26.6
ADTV-3M (mn) (Rs/US\$)	1,279/18			8.3	7.1	6.0
Shareholding pattern (%)				EV/EBITDA (X)	19.1	16.6
Promoters	71.2			RoE (%)	21.4	22.7
FPIs/MFs/BFIs	12.2/7.2/0.0			Div. yield (%)	0.9	1.1
Price performance (%)				Sales (Rs bn)	84	94
Absolute	1M	3M	12M	EBITDA (Rs bn)	25	28
Rel. to BSE-30	(3.3)	7.9	37.5	Net profits (Rs bn)	12	15
	(8.1)	(12.0)	10.2			

Operationally in line; weak US performance offset by other segments

TRP's 3QFY21 revenues were in line with our estimates. The domestic segment posted 7% yoy growth (in line versus KIE). The US business continued its declining trend registering US\$39 mn sales (-US\$4 mn vs KIE), US\$4 mn qoq reduction impacted by lack of new launches and price erosion in base business. Germany business bounced back with 21% yoy growth (+5% vs KIE) with issues on quality control now largely behind while Brazil also recovered posting 34% qoq growth. Gross margins declined 70 bps qoq (-120 bps vs KIE) impacted by lower export incentive and geographical mix. Staff costs and R&D were lower than our estimates benefitting from reduction of MRs in domestic market. Continued benefits from lower promotional spends led to lower other expenses. Consequently, EBITDA was largely in line with our estimates despite lower gross profit, with 3QFY21 EBITDA margins at 30.4% (-70 bps vs KIE). Lower tax rate led to PAT exceeding our estimates by 14%. Cash-flow generation remains robust with TRP generating Rs12 bn FCF, which was primarily used for debt repayment.

Domestic story on track; US to remain weak in near term

TRP continued its strong performance in the domestic formulations business and we believe domestic market performance should remain the focus area, given the segment will account for >65% of FY2023 EBITDA. PCPM remained healthy at Rs0.8 mn (+14% yoy) in 3QFY21 benefitting from restructuring of field force (decline of 200 MRs in 3QFY21). TRP's restructuring exercise aimed at reducing focus on slow-growth brands will continue in 4Q and is in line with management's previous guidance of Rs1 mn PCPM through productivity gains. With strong chronic portfolio and new launches in the diabetes segment, TRP remains well-positioned to deliver 11% CAGR in domestic sales over FY2022-23E. We expect the US business to remain muted in near term with a rebound likely only after resolution of Indrad/Dahej WL (2HFY22) though recovery in Germany after resolution of quality control issues will aid performance across other segments over FY2022-23E. Deleveraging remains on track with strong FCF generation.

Limited upside at current levels; REDUCE

Our earnings estimates remain largely unchanged for FY2022-23E. Retain REDUCE with a revised FV of Rs2,750 (from Rs2,550) based on 16X FY2023E EBITDA (25X P/E adjusted for amortization).

Kumar Gaurav

Exhibit 1: Torrent Pharma interim results
March fiscal year-ends (Rs mn)

	3QFY21	3QFY21E	3QFY20	2QFY21	(% chg.)			yoy					
					3QFY21E	3QFY20	2QFY21	9MFY21	9MFY20	(% chg.)	FY2021E	FY2020E	(% chg.)
Sales	19,950	19,950	19,660	20,170	0.0	1.5	(1.1)	60,680	59,930	1.3	82,205	79,390	3.5
Raw material	(5,620)	(5,387)	(5,420)	(5,540)	4.3	3.7	1.4	(16,510)	(16,390)	0.7	(22,551)	(21,670)	4.1
Employee expenses	(3,630)	(3,780)	(3,540)	(3,630)	(4.0)	2.5	0.0	(10,990)	(10,930)	0.5	(14,675)	(14,290)	2.7
R&D expenses	(1,120)	(1,200)	(1,100)	(1,190)	(6.7)	1.8	(5.9)	(3,390)	(3,760)	(9.8)	(4,521)	(4,940)	(8.5)
Other expenses	(3,510)	(3,650)	(4,200)	(3,460)	(3.8)	(16.4)	1.4	(10,760)	(12,630)	(14.8)	(14,924)	(16,790)	(11.1)
EBITDA	6,070	5,934	5,400	6,350	2.3	12.4	(4.4)	19,030	16,220	17.3	25,534	21,700	17.7
Other income	80	50	530	60				180	1,070		400	1,220	
Exceptionals	—	—	—	—				—	—		—	—	
Interest	(910)	(850)	(1,110)	(920)				(2,850)	(3,490)		(3,941)	(4,510)	
Depreciation	(1,670)	(1,650)	(1,630)	(1,650)				(4,930)	(4,860)		(6,764)	(6,540)	
Pretax profits	3,570	3,484	3,190	3,840	2.5	11.9	(7.0)	11,430	8,940	27.9	15,228	11,870	28.3
Pretax profits - adjusted	3,570	3,484	3,190	3,840	2.5	11.9	(7.0)	11,430	8,940	27.9	15,228	11,870	28.3
Tax	(600)	(871)	(680)	(740)				(2,150)	(1,830)		(3,198)	(1,620)	
Minority interest	—	—	—	—				—	—		—	—	
Net income - reported	2,970	2,613	2,510	3,100	13.7	NM	(4.2)	9,280	7,110	30.5	12,030	10,250	17.4
Net income - adjusted	2,970	2,613	2,510	3,100	13.7	18.3	(4.2)	9,280	7,110	30.5	12,030	9,720	23.8
EPS (Rs)	17.6	15.5	14.9	18.3	13.7	NM	(4.2)	54.9	42.1	30.5	71.1	60.7	17.2
EPS (Rs) - adjusted	17.6	15.5	14.9	18.3	13.7	18.3	(4.2)	54.9	42.1	30.5	71.1	57.5	23.6
Tax rate (%)	16.8	25.0	21.3	19.3				18.8	20.5		21.0	13.6	
Segment wise sales													
Domestic Formulation	9,300	9,407	8,710	9,630	(1.1)	6.8	(3.4)	28,180	26,770	5.3	37,693	35,170	7.2
US	2,920	3,182	3,810	3,270	(8.2)	(23.4)	(10.7)	9,920	11,370	(12.8)	12,756	15,230	(16.2)
Brazil	1,730	1,701	1,890	1,290	1.7	(8.5)	34.1	4,420	5,190	(14.8)	6,221	7,150	(13.0)
Other branded	1,910	1,898	1,950	2,000	0.7	(2.1)	(4.5)	6,250	5,710	9.5	8,381	7,760	8.0
Other generics	2,650	2,520	2,190	2,610	5.2	21.0	1.5	7,720	7,310	5.6	10,322	9,470	9.0
CRAMS and others	1,440	1,243	1,110	1,370	15.9	29.7	5.1	4,220	3,570	18.2	6,832	4,610	48.2
Total	19,950	19,950	19,660	20,170	0.0	1.5	(1.1)	60,710	59,920	1.3	82,205	79,390	3.5
% margin													
Gross margin	71.8	73.0	72.4	72.5				72.8	72.7		72.6	72.7	
Staff cost	18.2	18.9	18.0	18.0				18.1	18.2		17.9	18.0	
R&D expenses	5.6	6.0	5.6	5.9				5.6	6.3		5.5	6.2	
Other expenditure	17.6	18.3	21.4	17.2				17.7	21.1		18.2	21.1	
EBITDA - adjusted	30.4	29.7	27.5	31.5				31.4	27.1		31.1	27.3	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: We tweak our FY2021-23E estimates by 1-2%
March fiscal year-ends, 2021-23E (Rs mn, %)

	New estimates (Rs mn)			Old estimates (Rs mn)			Earnings revision (%)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Sales	82,205	91,705	101,284	83,700	94,269	102,897	(1.8)	(2.7)	(1.6)
Gross profits	59,654	66,087	72,999	60,887	67,974	74,442	(2.0)	(2.8)	(1.9)
EBITDA	25,534	27,152	30,355	25,152	28,325	31,191	1.5	(4.1)	(2.7)
PAT	12,030	14,222	16,972	11,859	14,569	17,109	1.4	(2.4)	(0.8)
EPS (Rs)	71.1	84.1	100.3	70.1	86.1	101.1	1.4	(2.4)	(0.8)

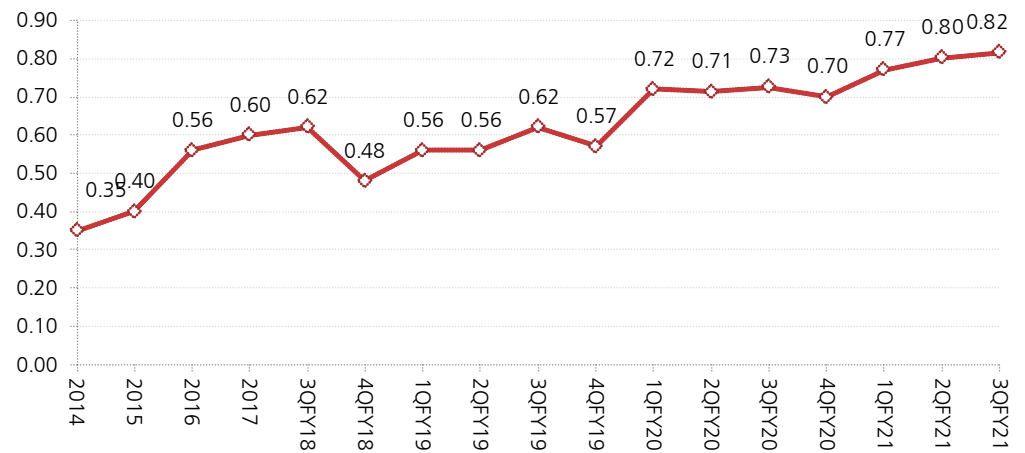
Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Three facilities under WL/OAI

Unit name	Business Operations	Last inspected	Status	US revenue contribution (%)	Key pending products	Comments
Indrad	API, Formulations	Apr-19	WL	25-35	Around 15-20 ANDAs pending	Oral solids. None of the pending products are limited competition/meaningful opportunity
Dahej	API, Formulations	Mar-19	OAI	20-25	Around 12-18 ANDAs pending	Oral solids. None of the pending products are limited competition/meaningful opportunity
Pithampur	Formulations	2016	VAI	0-5	< 5 ANDAs pending	Dermatology. None of the pending products are limited competition/meaningful opportunity
Levittown	Formulations	Mar-19	WL	10-15	Around 5-8 ANDAs pending	Oral liquids. None of the pending products are limited competition/meaningful opportunity
Vizag	API	Feb-19	NAI	NA	NA	API facility

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Torrent Pharma – productivity improvement led by field force attrition
March fiscal year-ends, 2014-3QFY21 (Rs mn)



Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Torrent Pharma – revenue build-up

March fiscal year-ends, 2015-23E (Rs mn)

	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Domestic formulations	16,138	18,340	19,770	23,510	32,340	35,170	37,693	42,308	46,857
Export formulations	27,008	42,530	33,350	32,430	39,660	39,610	37,680	42,864	47,785
US	8,320	26,710	13,460	11,000	15,890	15,230	12,756	14,366	15,622
LatAm	6,590	5,060	7,000	7,090	6,890	7,150	6,221	7,216	7,937
RoW	5,970	4,270	4,780	5,220	6,790	7,760	8,381	9,722	11,277
Germany	6,128	6,490	8,110	9,120	10,090	9,470	10,322	11,561	12,948
CRAMS	5,120	6,000	5,450	4,080	4,774	4,610	5,532	5,532	5,643
Total	48,266	66,870	58,570	60,020	76,774	79,390	80,905	90,705	100,284
% yoy growth									
Domestic formulations	39	14	8	19	38	9	7	12	11
Export formulations	2	57	(22)	(3)	22	(0)	(5)	14	11
US	14	221	(50)	(18)	44	(4)	(16)	13	9
LatAm	14	(23)	38	1	(3)	4	(13)	16	10
RoW	(15)	(28)	12	9	30	14	8	16	16
Germany	(3)	6	25	12	11	(6)	9	12	12
CRAMS	59	17	(9)	(25)	17	(3)	20	0	2
Total	15	39	(12)	2	28	3	2	12	11
% of total sales									
Domestic formulations	33	27	34	39	42	44	47	47	47
Export formulations	56	64	57	54	52	50	47	47	48
US	17	40	23	18	21	19	16	16	16
LatAm	14	8	12	12	9	9	8	8	8
RoW	12	6	8	9	9	10	10	11	11
Germany	13	10	14	15	13	12	13	13	13
CRAMS	11	9	9	7	6	6	7	6	6
Total	100	100	100	100	100	100	100	100	100

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Torrent Pharma - profit and loss, balance sheet, cash model
March fiscal year-ends, 2015-23E (Rs mn)

	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Profit and loss statement									
Net sales	46,534	66,870	58,570	60,020	76,730	79,390	82,205	91,705	101,284
COGS	(14,148)	(15,770)	(17,910)	(16,740)	(22,190)	(21,670)	(22,551)	(25,618)	(28,284)
Gross profit	32,386	51,100	40,660	43,280	54,540	57,720	59,654	66,087	72,999
Staff cost	(8,418)	(8,420)	(9,930)	(11,350)	(14,040)	(14,290)	(14,675)	(15,409)	(16,487)
SG&A	(11,856)	(12,890)	(12,630)	(13,810)	(15,280)	(16,790)	(14,924)	(18,208)	(19,573)
R&D	(1,910)	(2,450)	(4,320)	(4,630)	(5,380)	(4,940)	(4,521)	(5,319)	(6,583)
EBITDA	10,201	27,340	13,780	13,490	19,840	21,700	25,534	27,152	30,355
Pretax profits	9,398	23,430	10,880	9,310	5,620	11,870	15,228	18,003	22,041
Tax	(1,888)	(6,100)	(1,540)	(2,530)	(1,260)	(1,620)	(3,198)	(3,781)	(5,069)
Net profit	7,510	17,330	9,340	6,780	4,360	10,250	12,030	14,222	16,972
Shares outstanding (mn)	169	169	169	169	169	169	169	169	169
EPS (Rs)	44.4	102.4	55.2	40.1	25.8	60.6	71.1	84.1	100.3
Balance sheet									
Current assets	40,587	46,882	53,842	52,623	50,375	50,090	50,256	55,276	60,967
Net block	15,999	20,177	23,909	28,400	32,800	35,300	35,322	35,206	34,953
Goodwill and intangibles	17,804	17,591	16,575	52,631	47,501	43,730	39,444	35,157	30,871
Fixed assets	38,524	43,697	47,408	89,809	90,834	90,290	86,026	81,624	77,084
Total assets	79,111	90,579	101,250	142,432	141,209	140,380	136,282	136,900	138,051
Current liabilities	17,208	22,823	26,226	28,510	30,401	43,910	43,642	47,115	49,320
Debt	32,955	28,533	27,794	64,627	60,381	58,403	46,693	34,523	22,353
Other long-term liabilities	4,038	4,278	3,724	3,069	3,183	(10,173)	(10,173)	(10,173)	(10,173)
Total liabilities	54,201	55,633	57,744	96,205	93,966	92,140	80,162	71,465	61,500
Shareholders' equity	24,910	34,946	43,506	46,227	47,244	48,240	56,120	65,435	76,552
Total liabilities and equity	79,111	90,579	101,250	142,432	141,209	140,380	136,282	136,900	138,051
Cash flow									
Profit before taxes	9,398	23,434	10,881	9,310	5,617	11,870	15,228	18,003	22,041
Depreciation and amortisation	1,907	2,376	3,069	4,086	6,177	6,540	6,764	6,902	7,039
Change in working capital	(4,094)	4,236	(1,435)	(3,601)	994	(3,860)	(1,112)	(1,562)	(2,426)
Other adjustments	890	(2,625)	(2,388)	(853)	5,193	(630)	(3,198)	(3,781)	(5,069)
Total operational cash flow	8,102	27,421	10,127	8,942	17,981	13,920	17,682	19,563	21,585
Investment cash flow									
Investment in fixed assets	(2,426)	(5,991)	(4,868)	(7,913)	(6,628)	(4,060)	(2,500)	(2,500)	(2,500)
Acquisitions	(19,539)	(2,310)	(1,298)	(39,619)	—	—	—	—	—
Total investment cash flow	(21,623)	(8,379)	(7,869)	(47,070)	(2,413)	(1,510)	(2,500)	(2,500)	(2,500)
Total financing cash flow	12,123	(14,352)	(1,918)	34,174	(13,145)	(15,490)	(15,860)	(17,077)	(18,025)
Free cash flow	5,677	21,430	5,259	1,029	11,353	9,860	15,182	17,063	19,085
Margins and ratios									
Gross profit margin (%)	69.6	76.4	69.4	72.1	71.1	72.7	72.6	72.1	72.1
EBITDA margin (%)	21.9	40.9	23.5	22.5	25.9	27.3	31.1	29.6	30.0
Tax rate (%)	20.1	26.0	15.0	27.2	18.0	13.6	21.0	21.0	23.0
RoAE (%)	37.1	46.0	40.9	19.5	12.2	15.4	22.3	23.2	23.7
RoACE (%)	29.4	28.0	27.5	13.3	10.3	12.5	14.2	15.9	18.0

Source: Company, Kotak Institutional Equities estimates

FEBRUARY 09, 2021

RESULT

Sector view: **Cautious**

CMP (₹): 551

Fair Value (₹): 465

BSE-30: 51,349

Value trap. Sun reported 10% yoy decline in ad revenues, 15-30% underperformance versus peers. Core business EBITDA growth was muted at 3%. Sun's underinvestment in the core TV business has led to continued loss of ad market share; Sun Network has lost leadership in South to Star and at this rate Sun TV could also cede leadership to Star Vijay in the foreseeable future. We tweak estimates, rollover and maintain REDUCE with revised FV of Rs465 (from Rs435). Use the recent rally in stock price to book profit.

Sun TV Network				Forecasts/valuations			
Stock data				2021E	2022E	2023E	
CMP(Rs)/FV(Rs)/Rating	551/465/REDUCE			EPS (Rs)	37.8	40.4	42.4
52-week range (Rs) (high-low)	570-260			EPS growth (%)	6.6	6.9	4.9
Mcap (bn) (Rs/US\$)	218/3			P/E (X)	14.6	13.6	13.0
ADTV-3M (mn) (Rs/US\$)	1,817/25			P/B (X)	3.6	3.5	3.3
Shareholding pattern (%)				EV/EBITDA (X)	10.3	9.4	8.9
Promoters	75.0			RoE (%)	25.5	26.1	26.3
FPIs/MFs/BFIs	10.9/5.2/1.1			Div. yield (%)	4.5	5.0	5.4
Price performance (%)				Sales (Rs bn)	33	40	43
Absolute	1M	3M	12M	EBITDA (Rs bn)	18	20	21
Rel. to BSE-30	4.5	26.6	13.8	Net profits (Rs bn)	15	16	17
	(0.8)	3.3	(8.8)				

3QFY21— Ad revenue underperformance continues

Ad revenues (incl. slot sale fees) declined 10% yoy (KIE +2%) to Rs3.1 bn. We attribute Sun's underperformance versus Zee (high single digit ad growth) and Star (20-25% ad growth in South) to continued viewership share loss. Domestic subscription revenues grew 3% yoy (KIE 7%) due to delay in conclusion of contracts with distributors. Overseas subscription revenues declined 22% due to pending closure of contracts in overseas markets. Core business EBITDA grew 3% yoy to Rs4.7 bn, 9% below our estimate on revenue miss. IPL revenues for part of the quarter stood at Rs2.1 bn and operating profit was Rs794 mn. Net profit was up 18% yoy to Rs4.4 bn largely due to IPL (not in the base quarter) and it was 7% below our estimate. Sun declared interim dividend of Rs5/share.

Underinvestment in core business and lack of strategy and progress in digital is worrying

Sun's underinvestment in the core business has led to continued loss in viewership share and ad market share. Sun Network has lost leadership in South to Star. More importantly, we gather that ad revenues of *Star Vijay* (Star's Tamil GEC) were neck-to-neck with that of *Sun TV* in 3Q partly aided by Bigg Boss Tamil. Even on normalized basis, Star Vijay's ad sales would be about 20% below of that of Sun TV as against 30% that of Sun TV five years ago.

On the digital front, Sun's present approach is tactical in nature with little focus on making the business future-proof. For instance—Sun has given Jio access to its entire movie library and catch-up content; it opted for monetization of asset (maximizing short-term gains) as against leveraging it to strengthen its own digital platform. The disconnect between management's guidance and actual investments in content and digital continues. In our view, Sun needs to significantly step up investments in digital as well as TV failing which it faces the risk of losing out in the medium term.

We tweak FY2022-23 estimates, rollover and revise FV to Rs465 (from Rs435); REDUCE

We cut FY2021E EPS, marginally increase FY2022-23E EPS, rollover and revise FV to Rs465 valuing Sun at 11X FY2023E earnings. Valuations are undemanding on absolute basis as well as relative to the broader market but we do not see any room for re-rating and Sun is losing market share in legacy TV business and the business is not future-proof.

Jaykumar Doshi

Exhibit 1: Interim standalone financials of Sun TV Network (Rs mn)

	3QFY21	2QFY21E	3QFY20	2QFY21	% chg.			9MFY21	9MFY20	% chg.	FY2021E	FY2020	% chg.
					KIE	yoy	qoq						
Total revenues	9,723	10,095	8,150	7,562	(4)	19	29	23,346	26,693	(12.5)	32,675	34,044	(4.0)
Ad revenues (incl slot sales)	3,098	3,550	3,460	2,450	(13)	(10)	26	6,808	10,692	(36.3)	10,246	13,625	(24.8)
Domestic subscription rev	4,240	4,400	4,120	4,270	(4)	3	(1)	13,970	12,867	8.6	17,541	15,637	12.2
- DTH	2,240	2,350	2,070	2,320	(5)	8	(3)	6,720	6,217	8.1	9,176	8,267	11.0
- Cable	2,000	2,050	2,050	1,950	(2)	(2)	3	6,210	5,420	14.6	8,365	7,370	13.5
International subscription rev	290	370	410	370	(22)	(29)	(22)	1,040	1,230	(15.4)	1,400	1,640	(14.6)
IPL revenues	2,091	1,750	—	454				2,545	2,444	4.1	2,545	2,444	4.1
Others (incl. Sun Pictures)	5	25	160	18				24	691		225	699	(67.8)
Total expenditure	(4,404)	(4,310)	(3,782)	(3,454)	2	16	27	(11,208)	(13,658)	(17.9)	(15,554)	(18,302)	(15.0)
Direct costs (programming)	(1,224)	(1,200)	(1,106)	(1,002)	2	11	22	(2,897)	(4,070)	(28.8)	(4,163)	(4,992)	(16.6)
Employee costs	(673)	(760)	(710)	(724)	(12)	(5)	(7)	(2,127)	(2,193)	(3.0)	(3,061)	(2,924)	4.7
SG&A expenses	(523)	(450)	(531)	(497)	16	(1)	5	(1,515)	(1,545)	(2.0)	(2,566)	(2,209)	16.2
IPL expenses	(1,297)	(950)	—	(318)				(1,615)	(1,384)	16.7	(1,454)	(1,384)	5.1
Depreciation expense	(220)	(220)	(220)	(220)	—	—	—	(655)	(650)	0.8	(935)	(880)	6.3
Movie amortization	(467)	(730)	(1,216)	(693)	(36)	(62)	(33)	(2,399)	(3,815)	(37.1)	(3,375)	(5,913)	(42.9)
EBIT	5,320	5,785	4,367	4,107	(8)	22	30	12,138	13,035	(6.9)	17,121	15,742	8.8
EBIT margin (%)	54.7	57.3	53.6	54.3				52.0	48.8		52.4	46.2	
Other income	621	600	636	516	3	(2)	20	2,223	1,924	15.5	2,836	2,495	13.7
Interest expense	(15)	(20)	(19)	(16)				(48)	(59)	(19.1)	(80)	(78)	2.8
PBT	5,926	6,365	4,985	4,607	(7)	19	29	14,312	14,900	(3.9)	19,877	18,159	9.5
Extraordinaries	—	—	—	—				—	—		—	(180)	
Tax provision	(1,508)	(1,604)	(1,250)	(1,148)	(6)	21	31	(3,607)	(3,502)	3.0	(5,069)	(4,261)	19.0
Minority interest	—	—	—	—				—	—		101	—	
Reported PAT	4,418	4,761	3,735	3,459	(7)	18	28	10,705	11,398	(6.1)	14,910	13,718	8.7
Adjusted PAT	4,418	4,761	3,735	3,459	(7)	18	28	10,705	11,398	(6.1)	14,910	13,898	7.3
EPS (Rs/share)	11.2	12.1	9.5	8.8	(7)	18	28	27.2	28.9	(6.1)	37.8	35.3	7.3
Tax rate (%)	25.4	25.2	25.1	24.9				25.2	23.5		25.5	23.5	
Core business financials (excluding IPL)													
Revenues	7,633	8,345	8,150	7,108	(9)	(6)	7	20,801	24,249		30,131	31,600	(4.7)
Adjusted EBITDA (a)	4,746	5,205	4,587	4,192	(9)	3	13	11,863	12,625	(6.0)	17,101	15,562	9.9
EBITDA margin (%)	62.2	62.4	56.3	59.0				57.0	52.1		56.8	49.2	
IPL franchise													
Revenues	2,091	1,750	—	454				2,545	2,444	4.1	2,545	2,444	4.1
Operating costs	(1,297)	(950)	—	(318)				(1,615)	(1,384)	16.7	(1,589)	(1,384)	14.8
Operating profit	794	800	—	136				929	1,060	NA	956	1,060	(10)

Source: Companies, Kotak Institutional Equities estimates

Exhibit 2: Revised earnings estimates of Sun TV Network, FY2021-23E (Rs mn)

	Revised			Previous			Change (%)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Advertising revenues (incl. slot sale)	10,246	13,360	14,078	10,380	13,025	13,661	(1)	3	3
Domestic subscription revenues	17,541	19,287	20,965	17,619	19,142	20,664	(0)	1	1
- DTH subscription revenues	9,176	10,002	10,752	9,217	9,816	10,405	(0)	2	3
- Cable subscription revenues	8,365	9,285	10,214	8,402	9,326	10,259	(0)	(0)	(0)
Overseas subscription revenues	1,400	1,400	1,400	1,500	1,500	1,500	(7)	(7)	(7)
Radio revenues	719	898	970	719	898	970	0	0	0
Sun Pictures (movie production)	—	1,750	1,750	1,500	1,750	1,750	(100)	0	0
Other operating revenues (incl IPL)	2,770	3,425	3,575	2,475	3,425	3,575	12	0	0
Total revenues	32,675	40,120	42,739	34,193	39,741	42,120	(4)	1	1
Direct expenses	4,163	6,717	7,441	4,953	6,627	7,308	(16)	1	2
Employee expenses	3,061	3,628	3,901	3,061	3,628	3,901	0	0	0
SG&A expenses	4,020	4,364	4,538	3,734	4,350	4,521	8	0	0
D&A expenses (incl movie amortization)	4,310	6,560	7,060	4,510	6,960	7,160	(4)	(6)	(1)
Total expenditure	15,554	21,270	22,940	16,259	21,567	22,889	(4)	(1)	0
EBIT	17,121	18,850	19,798	17,934	18,174	19,231	(5)	4	3
EBIT margin (%)	52.4	47.0	46.3	52.4	45.7	45.7			
PAT	14,910	15,935	16,724	15,329	15,431	16,301	(3)	3	3
EPS (Rs/share)	37.8	40.4	42.4	38.9	39.2	41.4	(3)	3	3
Key assumptions									
Ad revenue (incl slot sale) growth (%)	(25.1)	30.4	5.4	(24.1)	25.5	4.9			
Domestic subs revenue growth (%)	12.2	10.0	8.7	12.7	8.6	7.9			
- DTH subscription revenue growth (%)	11.0	9.0	7.5	11.5	6.5	6.0			
- Cable subscription revenue growth (%)	13.5	11.0	10.0	14.0	11.0	10.0			
Overseas subscription revenue growth (%)	(14.6)	—	—	(8.5)	—	—			
Radio revenue growth (%)	(28.0)	25.0	8.0	(28.0)	25.0	8.0			
Movies amortization expense	3,375	5,575	6,075	3,575	5,975	6,175	(6)	(7)	(2)
IPL operating profit / (loss)	956	1,269	1,388	798	1,269	1,388	—	—	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: BARC ratings market share, 1-Apr-17 to 29-Jan-21 (Week 14, 2017 to Week 4, 2021) (%)

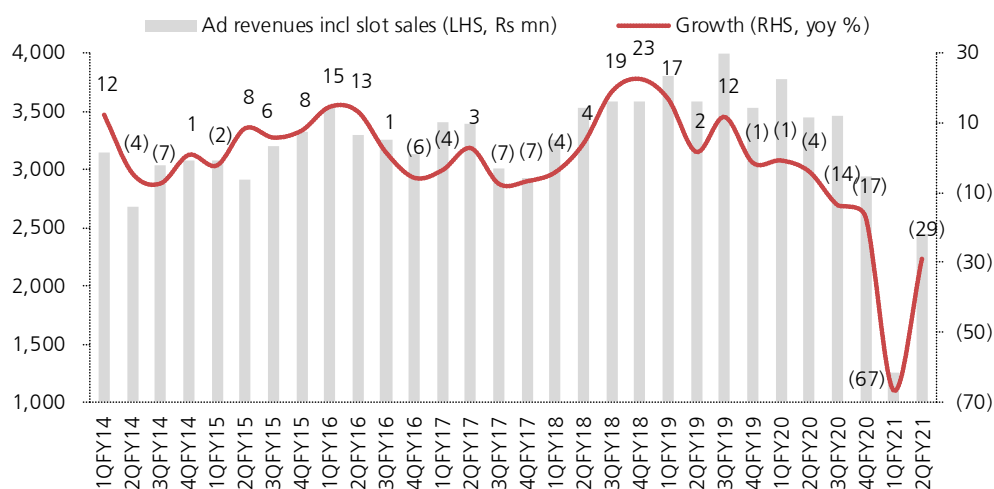
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21E
Tamil GEC (Urban + Rural)- Viewership share in the top 6 channels (%)																
Sun TV	55.9	49.2	51.5	49.3	45.5	44.2	41.5	40.2	39.6	41.1	44.2	45.8	46.4	41.1	38.4	39.9
STAR Vijay	16.5	24.0	21.4	19.9	20.7	21.5	21.8	22.7	23.5	25.7	22.6	20.8	18.1	21.9	27.0	26.4
Zee Tamil	13.2	13.9	15.2	17.6	19.6	20.9	22.7	22.1	22.5	19.6	20.3	19.1	15.6	22.0	20.9	20.4
Polimer	4.7	3.7	3.6	3.2	3.1	2.5	2.1	2.1	1.7	1.4	1.3	1.3	2.2	1.4	1.3	1.4
Kalaignar TV	3.1	2.8	3.4	3.3	2.4	2.2	2.0	3.9	3.9	3.5	3.5	4.0	5.0	3.3	2.9	2.6
Jaya TV	3.9	3.8	2.4	2.3	2.2	2.3	2.3	1.6	1.3	1.8	1.7	2.8	4.2	2.9	2.7	2.7
Colors Tamil				1.5	3.7	3.1	3.8	3.4	3.3	3.0	2.8	3.1	3.9	3.3	3.0	3.1
Sun Life	2.8	2.5	2.4	2.8	2.9	3.2	3.8	4.0	4.1	3.9	3.5	3.1	4.6	4.1	3.7	3.6
Total of top 8	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Telugu GEC (Urban + Rural)- Viewership share in the top 4 channels (%)																
Zee Telugu	24.3	22.9	24.6	24.0	26.8	25.1	24.8	24.9	23.6	21.1	20.9	21.8	21.5	25.2	25.2	27.4
Star Maa TV	22.2	27.7	24.5	25.7	27.8	30.1	31.9	31.0	33.4	36.3	36.6	33.8	30.1	34.2	38.1	35.0
Gemini TV (Sun)	29.4	25.6	24.4	24.8	22.4	22.0	21.6	19.6	20.5	19.9	19.6	21.2	24.4	17.7	15.2	15.7
ETV Telugu	24.1	23.8	26.4	25.6	23.0	22.8	21.8	24.5	22.5	22.7	22.8	23.2	24.0	23.0	21.6	21.9
Total of Top 4	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Kannada GEC (Urban + Rural)- Viewership share in the top 5 channels (%)																
Colors Kannada	34.4	35.0	34.8	35.0	33.9	33.5	32.4	31.2	28.1	23.9	24.7	19.1	16.9	20.2	23.8	25.5
Colors Super	8.0	8.4	11.4	10.3	8.0	8.9	10.7	9.2	10.2	9.6	7.4	6.4	4.5	2.7	3.1	3.2
Zee Kannada	25.6	24.5	22.3	24.7	25.0	29.2	29.6	31.3	32.1	35.9	38.1	39.5	31.9	34.9	34.0	35.5
Udaya TV (Sun)	13.6	16.4	18.7	18.0	18.8	17.0	16.1	16.7	16.9	16.9	15.6	18.2	29.1	21.8	16.9	15.2
Star Suvarna	18.3	15.6	12.8	12.0	14.4	11.3	11.1	11.7	12.7	13.7	14.3	16.8	17.6	20.4	22.1	20.6
Total of Top 5	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Malayalam GEC (Urban + Rural)- Viewership share in the top 4 channels (%)																
Star Asianet	54.9	51.9	43.7	48.1	52.8	52.7	49.7	46.9	43.9	46.0	49.1	49.6	36.3	42.6	49.9	53.3
Surya TV (Sun)	15.5	20.1	20.3	18.4	16.6	16.8	14.2	12.4	12.6	11.2	11.0	12.3	20.6	14.3	10.5	9.7
Mazhavil Manorama	18.2	16.7	21.3	16.9	15.5	15.8	15.0	17.3	17.8	16.0	15.3	14.4	17.4	14.3	13.7	12.3
Flowers TV	11.4	11.3	14.8	16.6	15.1	14.7	17.0	19.3	19.8	18.3	14.2	12.9	15.3	17.0	13.9	13.4
Zee Keralam						4.0	4.1	5.9	8.5		10.4	10.8	10.4	11.7	12.0	11.3
Total of Top 4	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes:

(1) Top 5-7 channels (relevant channels) in each genre are considered for market share calculation.

Source: BARC data, Kotak Institutional Equities

Exhibit 4: Trends in Sun's ad revenue growth



Source: Company, Kotak Institutional Equities

Exhibit 5: Consolidated financial summary of Sun TV Network, FY2013-23E (Rs mn)

	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Profit model (Rs mn)											
Net sales	19,230	22,236	23,954	25,698	26,457	29,630	37,825	35,199	32,675	40,120	42,739
EBIT	9,674	10,314	10,619	12,693	13,694	15,538	19,438	15,937	17,121	18,850	19,798
Other income	722	866	989	1,106	1,538	1,423	2,271	2,607	2,836	2,463	2,550
Interest (expense)/income	(49)	(46)	(23)	(22)	(10)	(11)	(17)	(128)	(80)	(80)	(80)
Pretax profits	10,347	11,134	11,586	13,777	15,222	16,950	21,693	18,416	19,877	21,233	22,268
Tax-cash	(3,359)	(3,730)	(3,760)	(4,755)	(5,203)	(5,822)	(7,511)	(4,340)	(5,069)	(5,414)	(5,678)
Tax-deferred	53	48	—	—	—	—	—	—	—	—	—
Minority interest	54	28	(6)	(68)	288	224	137	(45)	101	116	134
Recurring PAT	7,096	7,480	7,820	9,015	10,307	11,351	14,320	13,989	14,910	15,935	16,724
Recurring EPS (Rs)	18.0	19.0	19.8	22.9	26.2	28.8	36.3	35.5	37.8	40.4	42.4
Balance sheet (Rs mn)											
Total equity	27,854	30,954	33,481	35,263	40,285	46,121	54,510	56,500	59,548	62,435	64,924
Deferred Tax	284	260	226	176	521	763	1,056	851	851	851	851
Total borrowings	—	—	—	—	—	—	—	—	—	—	—
Current liabilities	3,006	3,082	2,262	2,765	2,941	5,832	5,612	6,936	4,975	7,666	8,450
Total capital	32,396	35,636	37,450	40,894	43,782	52,756	61,222	64,334	65,422	71,000	74,273
Cash	6,599	10,810	12,924	16,850	15,925	20,812	29,479	29,536	33,301	34,363	34,894
Current assets	12,000	11,075	12,716	14,950	11,519	15,632	16,788	19,944	17,638	21,038	22,596
Total fixed assets	8,564	7,976	7,330	4,544	7,841	7,763	7,785	7,330	7,330	7,280	7,280
Intangible assets	5,233	5,775	4,481	4,551	4,421	4,246	4,166	3,925	4,925	5,925	6,925
Total assets	32,396	35,636	37,450	40,894	43,782	52,756	62,786	65,233	67,794	73,322	76,545
Free cash flow (Rs mn)											
Operating cash flow, excl. WC	10,325	12,358	13,034	13,300	12,794	14,216	18,903	19,049	16,363	19,996	21,181
Working capital (WC)	(1,926)	(710)	(1,519)	(254)	(293)	(1,221)	(662)	(2,492)	345	(709)	(775)
Capital expenditure	(4,037)	(4,305)	(4,400)	(3,735)	(5,324)	(4,357)	(5,553)	(6,601)	(5,080)	(7,075)	(7,575)
Other income	403	773	823	938	1,089	1,423	1,021	2,217	2,836	2,463	2,550
Free cash flow	4,765	8,116	7,938	10,249	8,267	10,061	13,709	12,173	14,465	14,675	15,380
Ratios (%)											
Debt/equity	—	—	—	—	—	—	—	—	—	—	—
Net debt/equity	(24)	(35)	(39)	(48)	(40)	(45)	(54)	(52)	(56)	(55)	(54)
RoAE	26	25	24	26	27	26	28	25	25	26	26
RoACE	27	25	24	26	26	25	28	25	25	26	26
Ratios (%)											
Ad revenue (incl slot sale) growth (%)	7.6	0.1	4.8	5.6	(3.7)	9.7	7.0	(8.3)	(25.1)	30.4	5.4
Domestic subs revenue growth (%)	3.2	25.9	14.5	10.5	15.7	18.9	16.9	19.3	12.2	10.0	8.7
- DTH subscription revenue growth (%)	12.0	20.2	17.3	11.3	12.2	12.3	15.2	(2.8)	11.0	9.0	7.5
- Cable subscription revenue growth (%)	(14.7)	41.2	8.1	8.3	24.6	33.9	20.2	60.1	13.5	11.0	10.0
Overseas subscription revenue growth (%)	22.3	21.2	8.8	5.5	7.4	7.1	8.5	(8.4)	(14.6)	—	—
Radio revenue growth (%)	25.9	20.4	20.2	11.2	(47.7)	15.3	8.0	(10.0)	(28.0)	25.0	8.0
Movies amortization expense	3,202	3,827	5,261	4,292	3,442	3,783	5,900	5,988	3,375	5,575	6,075

Source: Company, Kotak Institutional Equities estimates

Pantaloons leads 3Q performance. ABFRL posted 20% yoy revenue decline, against our estimate of 29% yoy decline, on account of faster recovery across both Madura and Pantaloons. Higher revenues and higher cost savings led to healthy EBITDA margin of 18%. We raise FY2022-23 EBITDA by ~8% on marginally higher revenues and cost savings. This coupled with roll-forward to March 2023 drives a higher SoTP-based FV of Rs200 (Rs180 earlier). The deleveraging story remains intact; retain BUY.

Aditya Birla Fashion and Retail

Stock data				Forecasts/valuations			
				2021E	2022E	2023E	
CMP(Rs)/FV(Rs)/Rating	164/200/BUY			EPS (Rs)	(6.1)	3.2	4.3
52-week range (Rs) (high-low)	281-96			EPS growth (%)	(226.4)	152.1	34.4
Mcap (bn) (Rs/US\$)	147/2.1			P/E (X)	(26.7)	51.3	38.2
ADTV-3M (mn) (Rs/US\$)	413/6			P/B (X)	7.2	5.9	5.1
Shareholding pattern (%)				EV/EBITDA (X)	41.9	10.4	9.0
Promoters	59.8			RoE (%)	(35.5)	12.7	14.2
FPIs/MFs/BFIs	6.1/18.2/3.4			Div. yield (%)	0.0	0.0	0.0
Price performance (%)				Sales (Rs bn)	55	92	103
Absolute	1M	3M	12M	EBITDA (Rs bn)	4	14	16
	(1.2)	7.4	(36.1)	Net profits (Rs bn)	(6)	3	4
Rel. to BSE-30	(6.2)	(12.4)	(48.8)				

Festive spike led to quicker-than-expected recovery; growth in e-commerce channel continues

ABFRL reported 20% yoy decline in revenues (vs KIE estimate of 29% yoy decline), on account of better-than-expected ramp-up across both Lifestyle and Pantaloons brands. This was driven by festive season demand (across offline and online channels in November 2020), wedding season and pent-up demand. Lifestyle business recovered to 81% of last year levels, with the retail channel recording 92% recovery. Pantaloons reported lower-than-expected revenue decline of 25% yoy (mall business was down 30%; high street declined 18% yoy; LTL of -27%).

Impressive cost rationalization bodes well for the future

Gross margins grew marginally to 52.3% (vs 52% in 3QFY20) possibly on account of lower discounting and lower inventory provisioning. EBITDA of Rs3.7 bn was 2X of what we had expected and was boosted by operating leverage as well as better cost controls (continued lower ad-spends, corporate travel, employee expenses (down 26% yoy) as well as in rental expense (down 3% yoy) in 3QFY21). EBIT margin of 11.2% was ~180 bps higher on a yoy basis. We believe that some of these savings may sustain post-Covid also.

Funds inflow to drive deleveraging and a stronger balance sheet

Aided by the healthy performance of businesses along with aggressive cost and working capital control measures, ABFRL generated ~Rs5.9 bn cash in 3QFY21. Net debt currently stands at Rs580 mn as funds were received from Flipkart Group (~Rs15 bn) and rights issue (Rs7.5 bn in 9MFY21). The company could close FY2021 with debt of Rs2.5-3.0 bn, though it will have to assume debt in order to fund the Sabyasachi acquisition (~Rs 4 bn of cash outflow). This will still be a remarkable improvement over March 2020 debt levels of Rs25 bn.

Maintain BUY: well-positioned for future growth

We believe ABFRL can emerge as a stronger retailer post-Covid, especially as several competitors are struggling with liquidity-related issues. We raise FY2022-23 EBITDA by 8% as we build in revenue recovery as well as better margins due to sustainable cost rationalization. This coupled with roll-forward to March 2023 leads to a revised FV of Rs200 (Rs180 earlier). Retain BUY.

Garima Mishra

Shubhangi Nigam

Exhibit 1: Revenue print came in better-than-expected due to faster recovery across segments

Standalone quarterly financials of ABFRL, March fiscal year-ends (Rs mn)

	3QFY21			3QFY20			Change (%)			Yoy growth			Yoy growth		
	20,590	18,084	25,625	10,186	KIE	yoy	qoq	9MFY21	9MFY20	(%)	FY2021E	FY2020E	(%)		
Revenue from operations	20,590	18,084	25,625	10,186	14	(20)	102	33,976	69,357	(51)	54,885	87,425	(37)		
COGS	(9,823)	(9,042)	(12,301)	(5,354)	9	(20)	83	(17,051)	(33,258)	(49)	(26,763)	(42,058)	(36)		
Gross profit	10,767	9,042	13,323	4,832	19	(19)	123	16,925	36,099	(53)	28,122	45,368	(38)		
Gross margin (%)	52.3	50.0	52.0	47.4	229 bps	30 bps	485 bps	49.8	52.0		51.2	51.9			
Employee cost	(2,044)	(2,328)	(2,757)	(1,691)	(12)	(26)	21	(6,142)	(7,888)	(22)	(8,068)	(10,584)	(24)		
Rental expense	(1,526)	(999)	(1,565)	(652)	53	(3)	134	(2,457)	(3,809)	(35)	(2,551)	(4,869)	(48)		
Other expenses	(3,512)	(3,979)	(4,910)	(2,508)	(12)	(28)	40	(8,172)	(13,778)	(41)	(13,907)	(17,661)	(21)		
Total expenses	(16,906)	(16,347)	(21,534)	(10,203)	3	(21)	66	(33,822)	(58,733)	(42)	(51,290)	(75,172)	(32)		
EBITDA	3,685	1,737	4,091	(17)	112	(10)	nm	154	10,624	nm	3,596	12,254	(71)		
EBITDA margin (%)	17.9	9.6	16.0	(0.2)				0.5	15.3	-97 bps	6.6	14.0	-53 bps		
Finance costs	(1,095)	(1,351)	(1,047)	(1,440)	(19)	5	(24)	(3,788)	(3,046)	24	(4,503)	(4,227)	7		
Depreciation and amortization expense	(2,271)	(2,378)	(2,208)	(2,375)	(4)	3	(4)	(6,980)	(6,478)	8	(9,291)	(8,768)	6		
Other income	570	1,400	145	1,408	(59)	293	(60)	3,744	486	671	4,585	651	604		
PBT	888	(592)	981	(2,424)				(6,871)	1,585	nm	(5,613)	(91)			
Tax expense	(224)	151	(1,315)	611				1,723	(1,727)	nm	—	(1,361)	(100)		
PAT	664	(440)	(334)	(1,813)				(5,148)	(142)	nm	(5,613)	(1,452)	nm		
EPS	0.7	1.0	(0.4)	(2.0)							1.5	4.2			
Tax rate (%)	25.2	25.6	134.0	25.2							—	nm			
Costs as % of revenue from operations (%)															
COGS	47.7	50.0	48.0	52.6	-229 bps	-30 bps	-485 bps	50.2	48.0	5 bps	48.8	48.1	1 bps		
Employee cost	9.9	12.9	10.8	16.6	-294 bps	-83 bps	-667 bps	18.1	11.4	59 bps	14.7	12.1	21 bps		
Rental expense	7.4	5.5	6.1	6.4	189 bps	130 bps	102 bps	7.2	5.5	32 bps	4.6	5.6	-17 bps		
Other expenses	17.1	22.0	19.2	24.6	-494 bps	-210 bps	-756 bps	24.1	19.9	21 bps	25.5	20.2	26 bps		
Segmental performance															
Madura Fashion & Lifestyle	12,631	10,865	15,521	7,153	16	(19)	77	22,182	42,358	(48)	50,315	44,691	13		
Pantaloons	8,113	7,219	10,829	3,686	12	(25)	120	12,621	28,875	(56)	31,940	28,613	12		
Total revenue	20,744	18,084	26,350	10,839	15	(21)	91	34,802	71,233	(51)	82,256	73,305	12		
Less: inter-segment revenue	(18)	—	(523)	(558)				(565)	(1,673)	(66)	(1,078)	(1,489)	(28)		
Net sales	20,726	18,084	25,827	10,281	15	(20)	102	34,237	69,560	(51)	81,177	71,816	13		
EBIT															
Madura Fashion & Lifestyle	832		947	(706)		(12)		(2,347)	2,486						
Pantaloons	891		998	(380)		(11)		(1,219)	2,239						
Total EBIT	1,722		1,945	(1,086)		(11)		(3,566)	4,725						
Less: inter-segment EBIT	(175)		15	(1)				(183)	(176)						
Total EBIT	1,547		1,960	(1,086)		(21)		(3,749)	4,549						
EBIT margin excl. inter-segment elimination (%)															
Madura Fashion & Lifestyle	6.6		6.1	(9.9)				(10.6)	5.9						
Pantaloons	11.0		9.2	(10.3)				(9.7)	7.8						
Total EBIT	8.3		7.4	(10.0)				(10.2)	6.6						

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Strong qoq margin expansion across segments

Segmental quarterly performance of ABFRL, March fiscal year-ends (Rs mn)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	Yoy (%)
Net Sale Value (by format)																
Madura																
Lifestyle brands	8,910	9,770	9,830	10,150	9,450	10,900	11,370	11,320	10,060	12,540	12,950	10,720	1,900	5,310	10,260	(21)
Fast Fashion	1,200	970	990	810	880	880	1,020	800	800	750	890	410	na	na	na	nm
Other businesses	390	450	560	650	710	840	1,060	1,070	1,250	1,340	1,480	1,160	500	1,850	2,370	60
Total Madura	10,500	11,190	11,380	11,610	11,040	12,620	13,450	13,190	12,110	14,630	15,320	12,290	2,400	7,160	12,630	(18)
Pantaloons	7,310	7,400	7,500	6,410	8,130	7,870	9,610	6,330	8,900	9,150	10,830	6,260	820	3,690	8,110	(25)
Elimination	(120)	(550)	(330)	(490)	(30)	(430)	(240)	(380)	(340)	(810)	(520)	(380)	10	(560)	20	(104)
Total	17,690	18,040	18,550	17,530	19,140	20,060	22,820	19,140	20,670	22,970	25,630	18,170	3,230	10,290	20,760	(19)
EBITDA																
Madura																
Lifestyle brands	640	1,300	1,150	1,660	770	1,400	1,320	1,690	940	1,580	1,380	660	(670)	390	1,920	39
Fast Fashion	(140)	(120)	(230)	(50)	(60)	(100)	(120)	(50)	(90)	—	(40.0)	(340)	na	na	na	nm
Other businesses	(130)	(160)	(80)	(120)	(250)	(170)	(190)	(240)	(220)	(210)	(210)	(320)	(440)	220	220	(205)
Total Madura	370	1,020	840	1,490	460	1,130	1,010	1,400	630	1,370	1,130	—	(1,110)	610	2,140	89
Pantaloons	460	350	650	270	780	520	880	130	870	640	1,090	(380)	(720)	710	1,900	74
Elimination	(10)	(360)	(10)	(20)	(20)	(40)	(30)	(43)	60	(230)	30	(40)	(20)	30	190	533
Total	820	1,010	1,480	1,740	1,220	1,610	1,860	1,487	1,560	1,780	2,250	(420)	(1,850)	1,350	4,230	88
EBITDA margin																
Madura																
Lifestyle brands	7.2	13.3	11.7	16.4	8.1	12.8	11.6	14.9	9.3	12.6	10.7	6.2	(35.3)	7.3	18.7	806 bps
Fast Fashion	(11.7)	(12.4)	(23.2)	(6.2)	(6.8)	(11.4)	(11.8)	(6.3)	(11.3)	—	(4.5)	(82.9)	na	na	na	nm
Other businesses	(33.3)	(35.6)	(14.3)	(18.5)	(35.2)	(20.2)	(17.9)	(22.4)	(17.6)	(15.7)	(14.2)	(27.6)	(88.0)	11.9	9.3	2347 bps
Total Madura	3.5	9.1	7.4	12.8	4.2	9.0	7.5	10.6	5.2	9.4	7.4	—	(46.3)	8.5	16.9	957 bps
Pantaloons	6.3	4.7	8.7	4.2	9.6	6.6	9.2	2.1	9.8	7.0	10.1	(6.1)	(87.8)	19.2	23.4	1336 bps
Total	4.6	5.6	8.0	9.9	6.4	8.0	8.2	7.8	7.5	7.7	8.8	(2.3)	(57.3)	13.1	20.4	1160 bps

Source: Company, Kotak Institutional Equities

Key trends: (1) aggressive store expansion to follow especially in tier II/III towns, (2) revenues from athleisure and innerwear segments grew 24% on a yoy basis, (3) recovery in high street stores significantly better than malls, and (4) e-commerce and other new commerce models have received decent traction. The company highlighted that 300+ stores were opened in 9MFY21. Pantaloons e-commerce sales grew 2.3X yoy on the back of stronger assortment and own site grew at 50% yoy.

Exhibit 3: Madura added 127 net new stores (including value stores) in 3QFY21

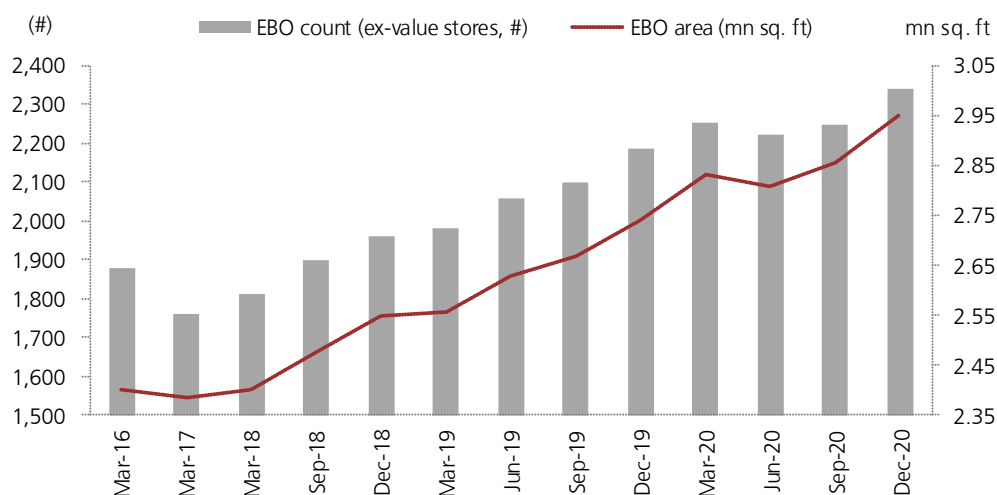
Retail touch-points of Madura, March fiscal year-ends (#)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Madura stores (#)															
EBOs	1,862	1,769	1,798	1,813	1,838	1,897	1,959	1,980	2,057	2,096	2,656	2,699	2,662	2,686	2,813
MBOs	4,700	4,600	4,850	4,982	5,019	14,000	16,000	18,000	19,800	22,000	24,000	25,000	23,700	26,000	39,900
SIS	3,500	3,700	3,750	4,054	4,126	4,153	4,326	5,077	5,200	5,403	6,261	6,514	6,754	6,589	6,835
Total	10,062	10,069	10,398	10,849	10,983	20,050	22,285	25,057	27,057	29,499	32,917	34,213	33,116	35,275	49,548

Source: Company, Kotak Institutional Equities

Exhibit 4: Madura added 94 new EBO stores in 3Q taking total store count (ex-value stores) to 2,341

Madura's EBO count excluding value stores (#, LHS) and retail area (mn sq. ft, RHS)



Source: Company, Kotak Institutional Equities

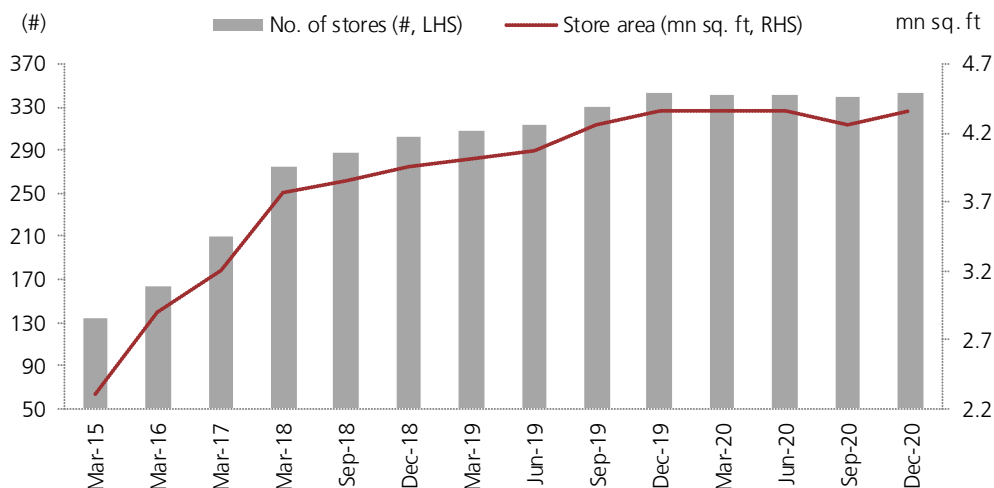
Exhibit 5: Wholesale channel remains weak and will be slow to recover; e-commerce on a strong trajectory

Channel-wise NSV of Madura, March fiscal year-ends (Rs mn)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	Yoy growth (%)
NSV by channel (Rs mn)																
Wholesale	3,200	5,010	3,430	4,580	3,560	5,180	4,110	4,930	3,490	5,950	3,940	4,110	350	720	1,440	(63)
Retail	4,240	3,140	4,470	3,920	4,100	3,540	4,950	4,300	4,500	4,040	6,420	4,580	710	2,360	5,910	(8)
Others	1,480	1,620	1,930	1,660	1,810	2,180	2,310	2,090	2,070	2,550	2,590	2,030	840	2,230	2,910	12
Total	8,920	9,770	9,830	10,160	9,470	10,900	11,370	11,320	10,060	12,540	12,950	10,720	1,900	5,310	10,260	(21)
Channel mix (%)																
Wholesale	36	51	35	45	38	48	36	44	35	47	30	38	18	14	14	
Retail	48	32	45	39	43	32	44	38	45	32	50	43	37	44	58	
Others	17	17	20	16	19	20	20	18	21	20	20	19	44	42	28	

Source: Company, Kotak Institutional Equities

Exhibit 6: Pantaloons opened 7 new stores and shut 2 stores in 3Q
Pantaloons store count (#) and area (mn sq. ft)



Source: Company, Kotak Institutional Equities

Takeaways from the results call

- ▶ **Business performance.** November was an exceptionally good month boosted by Diwali sales (all festive season sales got booked in November), so December month revenues came off from those high levels. Footfalls remain low in larger cities and bigger malls. Smaller cities and high street have showed faster recovery. Management expects normalcy in footfalls and revenues to return by 4QFY21. ABFRL will open 200+ stores in Lifestyle and 25-30 in Pantaloons during FY2021 and will accelerate the pace of store addition in FY2022. Wholesale channel remains weak but is set to recover by 4QFY21. Pantaloons 12-season model is helping in optimizing inventory levels for the business.
- ▶ **Cost reduction.** ABFRL was able to save Rs10.3 bn of fixed cost in 9MFY21 of which Rs1.57 bn of savings accrued in 3QFY21. Also, the company demonstrated strong cash flow from operations (including reduction of inventory by Rs3.25 bn). Fabrics and yarn prices, especially cotton, have increased in the past 5-6 months and cotton is the primary raw material for ABFRL. Current inventory was bought 3-6 months back but going ahead the company will try to increase prices as required though will still want to remain competitive.
- ▶ **Industry update.** (1) E-commerce continues to post strong growth, and new digital-led sales channels emerging. (2) Value fashion players continue to expand in Tier 2 and Tier 3 markets and are being supported by some down-trading from customers and the growth of essentials. (3) Significant shift towards casual and unstructured clothing; sportswear, activewear, and loungewear are emerging as the new winners. (4) Recovery in high street stores is significantly better than stores in malls.
- ▶ **Omni-channel strategy.** Targeted digital marketing initiatives helped in improving customer visits on their digital platform. Hyperlocal delivery services, O2O service, WhatsApp commerce have been piloted and are seeing decent demand. WhatsApp commerce has picked up for both Pantaloons (100 stores) and many of Madura stores as well. Both for Pantaloons and Madura, ABFRL now has the capability to take orders from own websites and deliver through stores without using third-party retailers. The company expects 10-15% revenue share from e-commerce by March 2021. For Pantaloons, e-commerce revenue share is expected to reach 4-5% in FY2021.

- ▶ **Lifestyle brands.** Primary sales through wholesale channel are down 63% yoy as sales were controlled to help in liquidation of existing inventory in the wholesale channel. This will pick up in 4QFY21 as secondary sales are now back up to 70-80% of last year levels. Improved gross margins and strong cost-control measures drove EBIT margin expansion of 50 bps yoy to 6.6%. We note that ABFRL is trying to rapidly scale omni-channel coverage by offering hyperlocal deliveries, Buy Online Ship from Store and WhatsApp commerce. Strong net addition of 229 stores in 3Q took overall store count to 2,341. Aggressive network expansion into newer markets with focus on smaller towns has started. PE Red opened 300 stores in 9MFY21. The company has piloted six Allen Solly men stores with 1,000 sq. ft in area.
- ▶ **Pantaloons.** Mall business was down 30%; high street was lower by 18% yoy. In general metro/tier I markets lagged smaller towns in terms of recovery. The decline in revenues was split across smaller towns declining 15% and big cities by 30% yoy. New channels like e-commerce are scaling up. Further, Pantaloons significantly invested in digital marketing leading to enhanced coverage of omni-channel to 15% of network. Seven new stores were added this quarter to take net store count to 344 (339 in 2QFY21) as two stores were shut as well. Private label merchandise for winter season were held back and hence the share of private label in overall revenues declined. Pantaloons looks to double its revenues in next 3-4 years as levers such as better merchandizing strategy, fresh drop of merchandise every two weeks, contemporary brand positioning and new retail identity, store expansion plan and improved store economics come in place.
- ▶ **Other businesses.** Each of the constituents of other businesses posted their best-ever performance in terms of profitability on the back of a yoy growth this quarter. (1) Innerwear and Athleisure. Revenues grew 24% on a yoy basis led by strong demand for Innerwear and Athleisure categories. Robust e-commerce channel recorded sales growth of 270%. (2) American Eagle. It grew 42% yoy, backed by strong penetration of denim category. E-commerce grew 170% yoy. (3) Forever 21. Sharp recovery of 80% on a yoy basis. Own site delivered yoy sales increase of 3X. (4) Global brands. It delivered 20% yoy growth. Own ecommerce site grew 500% yoy. (5) Ethnic wear. This is gradually scaling up on the back of new categories and traction on online channels. The company signed an agreement to acquire 51% stake in 'Sabyasachi', a designer brand from India. Jaypore grew 15% yoy backed by strong online sales and growth in home category.

Raise estimates to bake in better-than-expected cost cuts savings

We raise FY2022-23 EBITDA estimates by ~8% as we build in decent revenue build-up as well as better margins due to sustainable cost rationalization. These coupled with roll-forward to March 2023 leads to a revised FV of Rs200 (Rs180 earlier).

Exhibit 7: Key changes to estimates for ABFRL, March fiscal year-ends, 2021-23E

	New estimates			Old estimates			% revision		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Total									
Revenue (Rs mn)	54,885	91,704	103,483	62,325	89,396	101,031	(11.9)	2.6	2.4
Revenue growth (%)	(37)	67	13	(29)	43	13			
Gross profit (Rs mn)	28,122	48,280	54,436	32,377	46,978	53,052	(13.1)	2.8	2.6
Gross margin (%)	51	53	53	52	53	53			
EBITDA (Rs mn)	3,596	14,480	16,333	4,032	13,370	15,185	(10.8)	8.3	7.6
EBITDA margin (%)	6.6	15.8	15.8	6.5	15.0	15.0			
PBT (Rs mn)	(5,613)	2,997	5,442	(5,178)	1,844	4,458	NM	62.5	22.1
Net Profit (Rs mn)	(5,613)	2,997	4,027	(5,178)	1,844	3,299	NM	62.5	22.1
EPS (Rs)	(6.1)	3.2	4.3	(5.7)	2.0	3.5	NM	62.5	22.1
EPS growth (%)	226	(152)	34	201	(135)	79			

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: After the deceleration in FY2021, we expect revenues to fully recover only by FY2022

Details of key assumptions, March fiscal year-ends

	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Lifestyle brands											
Revenues (Rs mn)				36,330	36,170	37,170	41,980	44,220	26,820	48,574	52,725
Yoy growth (%)					(0)	3	13	5	(39)	81	9
EBITDA (Rs mn)				3,133	3,946	3,977	5,055	8,058	1,728	10,223	10,881
EBITDA margin (%)				9	11	11	12	18	6	21	21
SSSG (%)				0	(6)	9	5	5	(23)	35	6
Period-ending store count (#)				1,877	1,761	1,813	1,980	2,253	2,403	2,528	2,653
Period-ending store area (sq. ft)				2.6	2.6	2.6	2.8	3.1	3.3	3.5	3.7
Pantaloon											
Revenues (Rs mn)	12,851	16,610	18,510	21,570	25,520	28,620	31,940	35,139	20,892	33,924	40,078
Yoy growth (%)		29	11	17	18	12	12	10	(41)	62	18
EBITDA (Rs mn)	661	334	727	1,030	1,260	1,730	2,310	5,247	3,306	4,585	5,609
EBITDA margin (%)	5	2	4	5	5	6	7	15	16	14	14
SSSG (%)	—	(2)	6	6	3	(3)	1	3	(43)	41	7
Period-ending store count (#)	95	107	134	163	209	275	308	342	352	417	472
Period-ending store area (sq. ft)	1.7	2.0	2.3	2.9	3.2	3.8	4.0	4.4	4.8	5.6	6.4
Other businesses											
Revenues (Rs mn)	—	—	—	2,450	4,640	6,020	7,202	8,079	7,174	9,205	10,680
Yoy growth (%)					89	30	20	12	(11)	28	16
EBITDA (Rs mn)				(380)	(831)	(1,030)	(1,264)	(976)	(1,438)	(329)	(157)
EBITDA margin (%)				(15)	(18)	(17)	(18)	(12)	(20)	(4)	(1)
Total											
Revenues (Rs mn)	12,851	16,610	18,510	60,350	66,330	71,810	81,121	87,438	54,885	91,704	103,483
Yoy growth (%)		29	11	226	10	8	13	8	(37)	67	13
EBITDA (Rs mn)	661	334	727	3,784	4,375	4,677	6,101	12,330	3,596	14,480	16,333
EBITDA margin (%)	5	2	4	6	7	7	8	14	7	16	16

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: SoTP-based Fair Value of Rs200/share

	2023E
Lifestyle brands	
EBITDA (Rs mn)	10,881
EV/EBITDA (X)	13
EV (Rs mn)	141,449
Pantaloons	
EBITDA (Rs mn)	5,609
EV/EBITDA (X)	11
EV (Rs mn)	61,699
Other businesses	
Revenues (Rs mn)	10,680
EV/revenues (X)	1.3
EV of other businesses	13,349
Total EV	216,497
Net debt (Rs mn)	28,597
March equity value (Rs mn)	187,900
Fair value as of March 2023 (Rs/sh)	200

Notes:

(a) Debt above is inclusive of lease rent liability.

Source: Kotak Institutional Equities estimates

Exhibit 10: Snapshot of standalone financials of ABFRL, March fiscal year-ends, 2013-23E

	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Profit model											
Revenue from operations	12,851	16,612	18,507	60,346	66,330	71,814	81,177	87,879	54,885	91,704	103,483
Gross profit	5,108	7,090	8,502	32,822	35,942	37,820	41,928	45,637	28,122	48,280	54,436
EBITDA	661	334	727	3,784	4,375	4,683	5,541	12,118	3,596	14,480	16,333
Depreciation and amortisation expense	(544)	(1,090)	(1,835)	(3,381)	(2,425)	(2,805)	(2,823)	(8,853)	(9,291)	(9,339)	(9,593)
EBIT	117	(756)	(1,108)	403	1,950	1,878	2,717	3,265	(5,695)	5,141	6,740
Other income	632	51	28	264	382	328	648	653	4,585	1,545	1,673
Finance costs	(1,438)	(1,173)	(1,202)	(1,765)	(1,797)	(1,716)	(1,874)	(4,247)	(4,503)	(3,688)	(2,970)
Profit before tax	(689)	(1,877)	(2,281)	(1,098)	535	490	1,491	(329)	(5,613)	2,997	5,442
Taxation	—	—	—	—	—	688	1,721	(1,321)	—	—	(1,415)
Profit after tax	(689)	(1,877)	(2,281)	(1,098)	535	1,178	3,212	(1,650)	(5,613)	2,997	4,027
Diluted EPS (Rs/share)	(9.9)	(20.2)	(24.6)	(1.4)	0.7	1.5	4.2	(2.1)	(6.9)	3.2	4.3
Weighted average number of shares - diluted (mn)	70	93	93	773	773	773	773	773	808	932	938
Balance sheet											
Shareholders' funds	7,695	5,795	3,456	9,055	9,582	10,931	14,289	10,878	20,795	26,292	30,319
Total debt	17,307	10,821	13,106	14,764	20,317	18,615	17,029	27,830	13,213	10,213	7,000
Long-term liabilities	388	485	607	4,325	1,111	872	925	123	123	123	123
Total shareholders' funds + liabilities	25,390	17,100	17,169	28,144	31,010	30,418	32,242	63,922	59,298	62,298	63,626
Net fixed assets	16,508	16,580	15,831	23,486	25,121	26,282	25,779	27,808	24,647	25,511	26,522
Investments	8,000	60	—	344	242	42	42	142	1,700	1,700	1,700
Net current assets excluding cash	4	(418)	449	3,324	4,008	1,381	1,872	8,248	(204)	4,134	4,089
Total assets	25,390	17,100	17,169	28,144	31,010	30,418	32,242	63,922	59,298	62,298	63,626
Key ratios (%)											
Revenue growth		29	11	226	10	8	13	8	(37)	67	13
EBITDA growth		(50)	118	421	16	7	18	119	(71)	303	13
EPS growth		173	22	(52)	(149)	120	173	(151)	287	(153)	34
Gross margin	40	43	46	54	54	53	52	52	51	53	53
EBITDA margin	5.1	2.0	3.9	6.3	6.6	6.5	6.8	13.8	6.6	15.8	15.8
Tax rate	—	—	—	—	—	(141)	(115)	(402)	—	—	26
Debt/equity (X)	2	2	4	2	2	2	1	5	2	1	1
RoE	(18)	(28)	(49)	(18)	6	11	25	(13)	(35)	13	14
RoCE	6	(3)	(6)	3	8	9	23	41	(2)	11	10
Cash flow	5	2	4	6	7	7	7	14	7	16	16
Operating profit before working capital changes	543	294	737	3,850	4,644	5,699	7,910	8,150	1,690	16,025	16,591
Change in working capital/ other adjustments	(516)	408	(1,096)	(741)	(461)	2,627	(491)	(6,376)	8,584	(4,338)	45
Capital expenditure	(8,234)	6,813	(1,087)	(1,859)	(4,403)	(3,767)	(2,320)	(4,728)	(2,346)	(4,539)	(4,686)
Free cash flow	(8,207)	7,515	(1,447)	1,250	(221)	4,559	5,099	(2,953)	7,928	7,147	11,950

Source: Company, Kotak Institutional Equities estimates

Favorable trends. NARH's 3QFY21 revenues recovered to 96% of pre-Covid levels, with India business normalizing to pre-Covid levels in December. Cayman continued its outperformance aided by a better payor mix while new units at Gurugram/Dharmshila have also broken even. With gradual recovery in international and continued strong performance at Tier-2 units and Cayman, NARH is well positioned to deliver robust EBITDA growth over FY2022-23 with improving RoCE profile. **BUY.**

Narayana Hrudayalaya				Forecasts/valuations			
Stock data				2021E	2022E	2023E	
CMP(Rs)/FV(Rs)/Rating	490/540/BUY			EPS (Rs)	(3.0)	9.7	12.6
52-week range (Rs) (high-low)	525-204			EPS growth (%)	(151.6)	421.4	31.0
Mcap (bn) (Rs/US\$)	101/1.4			P/E (X)	(163.1)	50.7	38.7
ADTV-3M (mn) (Rs/US\$)	131/2			P/B (X)	9.3	7.9	6.5
Shareholding pattern (%)				EV/EBITDA (X)	69.2	19.2	16.2
Promoters	63.9			RoE (%)	(5.6)	16.8	18.4
FPIs/MFs/BFIs	8.5/16.3/1.4			Div. yield (%)	0.0	0.0	0.0
Price performance (%)				Sales (Rs bn)	25	36	40
Absolute	1M	3M	12M	EBITDA (Rs bn)	2	5	6
Rel. to BSE-30	8.5	43.2	40.3	Net profits (Rs bn)	(1)	2	3
	3.1	16.8	12.4				

Promising recovery trends in India business; Cayman shines

NARH's 3QFY21 revenues recovered to 96% of pre Covid levels, largely in line with our expectations. India business revenues decline 10% with mature centers revenue declining 13% yoy. Recovery at flagship units remains gradual with Bangalore and Kolkata clusters posting 23% and 8% yoy revenue decline due to high reliance on elective procedures and outstation patients which was compensated by strong performance in non-flagship Tier 2 units as well as continued ramp-up in new units (21% yoy growth). Cayman unit sustained its strong performance recording 30% yoy growth (25% in c/c) benefitting from increased footfalls of local patients, increased focus on outpatient segment and recalibration of prices. Gross margins increased 40 bps qoq (versus -50 bps qoq KIE). Employee expenses and SG&A remain below pre-Covid levels, indicating strong cost controls. Consolidated EBITDA returned back to 3QFY20 levels despite mature clusters at 50% of pre-Covid EBITDA led by strong performance at Cayman and impressive scale-up at new units. EBITDA loss at new units declined 100 mn yoy (60 mn qoq decline) with Dharmshila and Gurugram breaking even. NARH's cash flow generation continues to impress with net debt declining Rs700 mn qoq to Rs4.3 bn.

New and Tier-2 units witnessing strong traction; Cayman has turned a corner

NARH's India business revenues have normalized to pre-Covid levels in December with flagship units now at 89% of pre-Covid levels. Tier-2 units, which benefitted from travel restrictions, are now operating above pre-Covid levels and we believe NARH's enhanced brand presence in these cities will help sustain footfalls. NARH's execution at Gurugram and Dharmshila, particularly in onco has also been impressive with units breaking even ahead of guidance. With international segment gradually recovering, decline in Covid cases driving improvement in patient mix and improving maturity profile, India business remains on a strong footing. Cayman's impressive performance on the back of higher local patients, increased focus on outpatients and recalibration of billing led to strong margin improvement and we expect some benefits to sustain over FY2022-23 even as payor mix partially weakens. With performance improving across segments, we expect NARH to deliver 20% RoCE by FY2023E with robust FCF.

Increase FY2022-23E EBITDA by 9-11%; BUY

We revise our FY2022-23E EBITDA by 9-11% to bake in faster breakeven at new units and strong Cayman performance. Revise FV to Rs540 (from Rs375 earlier) based on 18X FY2023E EBITDA.

Kumar Gaurav

Exhibit 1: NARH 3QFY21 EBITDA largely in line with estimates
3QFY21 Interim results, March fiscal year-ends (Rs mn)

	(% chg.)												
	3QFY21E	3QFY21E	3QFY20	2QFY21	3QFY21E	3QFY20	2QFY21	9MFY21	9MFY20	% chg.	FY2021E	FY2020	% chg.
Revenues	7,504	7,644	7,852	6,007	(2)	(4)	25	17,446	23,849	(27)	25,267	31,278	(19)
COGS	(1,988)	(1,987)	(1,848)	(1,616)	0	8	23	(4,709)	(5,666)	(17)	(6,696)	(7,453)	(10)
Gross profit	5,515	5,657	6,004	4,391	(2)	(8)	26	12,736	18,183	(30)	18,572	23,825	(22)
Employee expenses	(1,567)	(1,549)	(1,717)	(1,476)	1	(9)	6	(4,572)	(5,134)	(11)	(6,200)	(6,737)	(8)
Other expenses	(2,899)	(2,981)	(3,261)	(2,648)	(3)	(11)	9	(7,757)	(9,777)	(21)	(10,844)	(12,859)	(16)
EBITDA	1,049	1,126	1,027	268	(7)	2	292	407	3,272	(88)	1,528	4,229	(64)
EBITDA (adjusted for Ind-AS)	922	997	964	139	(8)	(4)	565	32	3,046	(99)	1,116	3,838	(71)
Depreciation	(465)	(462)	(464)	(462)				(1,391)	(1,307)		(1,918)	(1,858)	
EBIT	584	664	563	(195)	NM	4	(400)	(984)	1,965		(390)	2,371	
Other income	46	—	55	104				196	167		251	238	
Finance costs	(186)	(194)	(206)	(194)				(577)	(645)		(846)	(853)	
Exceptional items	—	—	—	—				—	—		—	(109)	
PBT	445	470	412	(285)	NM	8	(256)	(1,365)	1,487		(984)	1,756	
Tax	(8)	(117)	(88)	261				590	(387)		400	(423)	
Minorities/associates	(29)	0	(10)	(10)				(49)	(31)		(30)	(36)	
PAT (adjusted)	408	352	314	(34)	NM	30	(1,293)	(823)	1,070		(614)	1,189	
Number of shares	204	204	204	204				204	204		204	204	
EPS	2.0	1.7	1.5	(0.2)	NM	30	(1,293)	(4.0)	5.2		(3.0)	5.8	
As % of sales													
Gross profit	73.5	74.0	76.5	73.1				73.0	76.2		73.5	76.2	
Employee cost	20.9	20.3	21.9	24.6				26.2	21.5		24.5	21.5	
Other expenses	38.6	39.0	41.5	44.1				44.5	41.0		42.9	41.1	
EBITDA margin	14.0	14.7	13.1	4.5				2.3	13.7		6.0	13.5	
EBITDA margin (pre-Ind-AS) (%)	12.3	13.0	12.3	2.3				0.2	12.8		4.4	12.3	
Revenues (Rs mn)													
Mature centers	5,345	5,408	6,146	3,973	(1)	(13)	35	12,019	18,706	(36)	16,952	25,492	(34)
New centers	744	765	616	577	(3)	21	29	1,685	1,840	(8)	3,170	1,448	119
India hospitals	6,089	6,173	6,762	4,550	(1)	(10)	34	13,704	20,546	(33)	20,123	26,940	(25)
Cayman	1,415	1,471	1,090	1,457	(4)	30	(3)	3,742	3,303	13	5,145	4,338	19
Consolidated revenues	7,504	7,644	7,852	6,007	(2)	(4)	25	17,446	23,849	(27)	25,267	31,278	(19)
EBITDA (Rs mn)													
Mature centers	393	479	842	(393)	NM	(53)	(200)	(941)	0	(544,305)	(407)	3,446	(112)
New centers	(41)	(70)	(143)	(108)	(41)	(71)	(62)	(342)	(149)	130	(380)	(581)	(35)
India hospitals	352	409	699	(501)	NM	(50)	(170)	(1,283)	(149)	762	(787)	2,865	(127)
Cayman	570	588	265	639	(3)	115	(11)	1,316	1,210	9	1,904	973	96
Consolidated EBITDA	922	997	964	139	(8)	(4)	565	32	1,061	(97)	1,116	3,838	(71)
EBITDA margin (pre-Ind-AS) (%)													
Mature centers	7.4	8.9	13.7	(9.9)				(7.8)	0.0		(2.4)	13.5	
New centers	(5.5)	(9.2)	(23.2)	(18.7)				(20.3)	(8.1)		(12.0)	(40.1)	
India hospitals	5.8	6.6	10.3	(11.0)				(9.4)	(0.7)		(3.9)	10.6	
Cayman	40.3	40.0	24.3	43.9				35.2	36.6		37.0	22.4	
Consolidated EBITDA	12.3	13.0	12.3	2.3				0.2	4.4		4.4	12.3	

Source: Company, Kotak Institutional Equities

Exhibit 2: We increase our FY2022-23E EBITDA estimate by 9-11%
Earnings revision table, March fiscal year-ends, 2021-23E (Rs mn, %)

	New estimates			Old estimates			Change (%)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenues	25,267	35,586	40,207	25,208	35,310	39,695	0.2	0.8	1.3
EBITDA	1,528	5,396	6,165	1,211	4,951	5,758	26.2	9.0	7.1
EBITDA (LFL, Ind-AS adjusted)	1,116	4,964	5,712	762	4,459	5,219	46.5	11.3	9.4
PBT	(984)	2,697	3,519	(1,491)	2,126	3,008	NM	26.8	17.0
PAT	(614)	1,974	2,585	(1,521)	1,550	2,205	NM	27.4	17.2
EPS	(3.0)	9.7	12.6	(7.4)	7.6	10.8	NM	27.4	17.2
EBITDA margin (%)	6.0	15.2	15.3	4.8	14.0	14.5			
EBITDA margin (%) (LFL, Ind-AS adjusted)	4.4	14.0	14.2	3.0	12.6	13.1			

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: EBITDA growth driven by new units and Cayman
Earnings revision table, March fiscal year-ends, 2018-23E (Rs mn, %)

	2018	2019	2020E	2021E	2022E	2023E
EBITDA (Rs mn)						
Existing centers	2,443	2,918	3,446	(407)	3,055	3,736
New centers	(405)	(703)	(581)	(380)	(100)	—
Cayman	85	663	973	1,904	2,009	1,976
Consolidated EBITDA (adjusted for Ind-AS)	2,123	2,878	3,838	1,116	4,964	5,712
Consolidated EBITDA (post IndAS)	2,123	2,878	4,229	1,528	5,396	6,165
Growth (%)						
Existing centers		19.4	18.1	(111.8)	NM	22.3
New centers		NM	NM	NM	NM	NM
Cayman		NM	46.7	95.6	5.6	(1.7)
Consolidated EBITDA		35.6	33.3	(70.9)	344.7	15.1

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Ramp-up of new hospitals to drive revenue growth
Cluster wise revenue break-up, March fiscal year-ends, 2016-23E (Rs mn)

	2016	2017	2018	2019	2020	2021E	2022E	2023E
Operational beds								
Karnataka cluster	2,039	2,049	2,107	2,101	2,029	2,019	2,039	2,089
East India cluster	1,421	1,548	1,666	1,729	1,729	1,729	1,779	1,829
Others	1,122	833	1,394	1,474	1,524	1,554	1,584	1,614
Heart centers	386	386	371	322	345	345	345	345
Managed centers	720	720	587	498	112	112	112	112
Cayman			106	106	106	106	106	106
Total	5,688	5,536	6,125	6,230	5,845	5,865	5,965	6,095
Occupancy (%)								
Karnataka cluster	54.8	53.0	55.0	49.5	50.5	32.0	49.0	51.0
East India cluster	58.1	57.0	60.0	56.2	56.5	41.0	55.0	56.0
Others	52.2	47.0	37.1	40.0	43.0	35.0	45.0	50.0
Heart centers	39.0	40.0	40.0	50.0	48.0	35.0	48.0	49.0
Managed centers	NM	NM	NM	NM	NM	NM	NM	NM
Cayman			27.0	32.1	34.0	36.0	37.0	37.0
Total	54.2	52.2	51.0	49.1	50.2	35.8	49.7	52.2
ARPOB (Rs)								
Karnataka cluster	18,082	21,507	22,740	27,819	29,046	30,041	31,543	33,435
East India cluster	18,356	19,863	20,000	22,068	23,503	24,208	25,418	26,944
Others	15,068	18,630	23,288	24,153	27,776	28,887	31,487	34,321
Heart centers	20,456	20,000	20,001	21,001	22,471	23,595	25,246	27,266
Managed centers	NM	NM	NM	NM	NM	NM	NM	NM
Cayman			273,781	306,542	287,671	369,370	369,370	373,064
Overall ARPOB	17,534	20,822	21,918	24,616	26,447	27,298	29,066	31,159
Revenues (Rs mn)								
Karnataka cluster	6,895	8,294	9,737	10,565	10,921	7,084	11,503	13,002
East India cluster	5,484	6,221	7,044	7,809	8,191	6,264	9,078	10,073
Others	2,423	2,765	4,144	5,193	6,482	5,735	8,192	10,109
Heart centers	1,113	1,127	1,102	1,240	1,347	1,040	1,526	1,682
Managed centers	161	376	187	—	—	—	—	—
Cayman			596	3,811	4,338	5,145	5,288	5,341
Total revenues	16,075	18,782	22,809	28,609	31,279	25,267	35,586	40,207
Revenue growth (%)								
Karnataka cluster	11	20	17	8	3	(35)	62	13
East India cluster	33	13	13	11	5	(24)	45	11
Others	16	14	50	25	25	(12)	43	23
Heart centers		1	(2)	13	9	(23)	47	10
Managed centers								
Cayman					14	19	3	1
Total revenues	18	17	21	25	9	(19)	41	13

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: We expect strong recovery in FY2022

Financial summary, March fiscal year-ends, 2011-22E (Rs mn)

	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net revenues	8,393	10,951	13,639	16,138	18,782	22,809	28,609	31,278	25,267	35,586	40,207
Gross profit	6,065	8,138	10,232	12,267	14,423	17,244	21,734	23,825	18,572	26,975	30,356
EBITDA	813	1,201	1,292	1,746	2,289	2,123	2,878	4,229	1,528	5,396	6,165
EBITDA (adjusted for Ind-AS)	813	1,201	1,292	1,746	2,289	2,123	2,878	3,821	1,116	4,964	5,712
Depreciation & amortisation	(460)	(574)	(667)	(761)	(799)	(1,000)	(1,374)	(1,858)	(1,918)	(2,119)	(2,269)
EBIT	353	626	625	985	1,489	1,123	1,505	2,371	(390)	3,277	3,896
Net interest	(15)	(60)	(332)	(148)	(43)	(279)	(547)	(615)	(594)	(580)	(377)
Profit before tax	338	567	294	837	1,446	845	957	1,756	(984)	2,697	3,519
Tax & deferred tax	(100)	(213)	(175)	(301)	(524)	(290)	(341)	(423)	400	(693)	(904)
Less: minority interest	(7)	(22)	(24)	(4)	(1)	—	1	1	—	—	—
Net income (reported)	248	317	(109)	212	831	514	592	1,189	(614)	1,974	2,585
EPS (reported) (Rs)	1.3	1.7	(0.5)	1.0	4.1	2.5	2.9	5.8	(3.0)	9.7	12.6
Balance sheet											
Cash & equivalents	254	281	296	241	341	353	1,007	1,841	2,496	3,725	6,696
Debtors	915	1,342	1,429	1,518	1,569	2,790	2,664	2,622	2,423	3,900	3,855
Other current assets	592	766	885	1,101	1,105	1,651	1,602	1,401	1,698	2,066	2,230
Current assets	1,761	2,388	2,610	2,860	3,016	4,793	5,274	5,864	6,617	9,690	12,781
Fixed assets (incl. goodwill)	6,647	7,581	9,281	10,683	11,348	18,830	18,943	18,662	18,291	18,180	17,980
Other non-current assets	1,223	1,588	1,758	2,021	2,104	1,733	2,154	4,384	3,937	3,429	2,860
Total assets	9,632	11,557	13,649	15,564	16,468	25,356	26,370	28,911	28,845	31,300	33,622
Short-term loans	313	522	985	700	369	376	115	108	108	108	108
Creditors and other liabilities	1,262	2,019	1,803	2,702	3,135	4,722	4,988	5,894	5,532	6,860	7,455
Current liabilities	1,575	2,542	2,788	3,401	3,504	5,098	5,103	6,003	5,640	6,969	7,564
Long-term loans	2,246	2,808	2,635	1,876	1,798	6,963	8,020	7,070	8,070	7,070	6,070
Other liabilities (incl. deferred)	291	376	571	1,524	1,532	2,935	2,432	4,474	4,385	4,537	4,679
Total liabilities	4,112	5,725	5,995	6,801	6,835	14,996	15,555	17,546	18,095	18,575	18,313
Equity	5,520	5,832	7,654	8,763	9,633	10,360	10,815	11,365	10,751	12,725	15,309
Total equity and liabilities	9,632	11,557	13,649	15,564	16,468	25,356	26,370	28,911	28,846	31,300	33,622
Cash flow											
Operating cash flow excl. working capital	666	1,034	1,161	1,524	2,109	2,088	2,703	3,946	1,958	4,703	5,260
Working capital	(220)	66	(394)	217	84	(265)	83	488	(460)	(516)	475
Interest expenses	(165)	(281)	(390)	(253)	(206)	(316)	(553)	(509)	(653)	(653)	(534)
Capex	(1,301)	(1,291)	(982)	(905)	(1,350)	(5,575)	(1,500)	(1,159)	(1,100)	(1,500)	(1,500)
FCF	(1,020)	(472)	(604)	583	637	(4,068)	733	2,766	(256)	2,035	3,701
Ratios (%)											
EBITDA margin (%)	9.7	11.0	9.5	10.8	12.2	9.3	10.1	13.5	6.0	15.2	15.3
RoE (%)	4.5	5.4	(1.4)	2.4	8.6	5.0	5.5	10.5	(5.7)	15.5	16.9
RoCE (%) (post-tax)	3.0	4.7	3.8	5.9	8.7	4.3	5.6	10.8	(1.4)	15.0	19.6
Net debt/equity (X)	0.4	0.5	0.4	0.3	0.2	0.7	0.7	0.5	0.5	0.3	(0.0)

Source: Company, Kotak Institutional Equities estimates

FEBRUARY 08, 2021

RESULT

Sector view: **Attractive**

CMP (₹): **105**

Fair Value (₹): **145**

BSE-30: **51,349**

Normalizing operations. Performance in 3QFY21 has reached pre-Covid levels but was impacted by delayed start of projects and higher commodity prices. Management is confident of scaling up inflows and execution in coming quarters. ABL's standalone balance sheet remains strong and the company is well-equipped to take care of pending equity investments. Overhang of ACL asset monetization continues to remain. Revise estimates by 2% for FY2023 and Fair Value to Rs145 (from Rs135) on roll-forward. Retain BUY.

Ashoka Buildcon				Forecasts/valuations			
Stock data				2021E	2022E	2023E	
CMP(Rs)/FV(Rs)/Rating	104/145/BUY			11.9	12.0	13.1	
52-week range (Rs) (high-low)	117-37			(13.9)	0.8	9.4	
Mcap (bn) (Rs/US\$)	30/0.5			8.8	8.7	8.0	
ADTV-3M (mn) (Rs/US\$)	194/3			1.0	0.9	0.8	
Shareholding pattern (%)				EV/EBITDA (X)	7.1	6.0	5.0
Promoters	54.5			RoE (%)	12.2	11.2	11.2
FPIs/MFs/BFIs	3.2/27.2/0.1			Div. yield (%)	1.8	1.8	2.0
Price performance (%)				Sales (Rs bn)	39	45	50
Absolute	1M	3M	12M	EBITDA (Rs bn)	5	5	6
Rel. to BSE-30	11.4	67.5	(8.1)	Net profits (Rs bn)	3	3	4
	6.3	36.5	(25.5)				

3QFY21 performance at PAT level in line with our estimates

ABL's execution has now reached pre-Covid levels on improved labor availability and strong order book. EBITDA margin at 10.8% was lower than our estimates on certain projects not reaching margin threshold. Moderation in margins was expected after strong 14.7% margins in 1HFY21 were seen on receipt of claims. The company has reduced the guidance on full-year margins to 11-11.5% as against earlier guidance of around 12-13% due to higher commodity prices. Lower-than-expected tax expense and higher other income resulted in PAT coming in line with our estimates. Toll collection has recovered sharply qoq and yoy. Order inflow during the quarter was weak at Rs5 bn yielding an order book of Rs92 bn.

Inflows and execution to catch up in coming quarters

ABL's order inflow was weak during the quarter but it expects to bag Rs25 bn/Rs50-60 bn during 4QFY21/FY2022 from roads and non-roads segments. It is diversifying into buildings, water and solar EPC for growing the non-roads segment. With labor and supply chain completely normalizing, we expect ABL to benefit from execution ramp-up in road EPC and HAM projects like Tumkur packages and Kandi Ramsanpalle along with expected order inflows. We expect timely payments from NHAI, railways along with diversification into other segments and sufficient liquidity for equity investments to take care of execution ramp-up from current levels.

Overhang of SBI-Macquarie exit remains

Overhang on valuations from pending exit of SBI-Macquarie from ACL's portfolio continues to remain despite toll collection showing a fast recovery. The company expects to complete the process in the near future with binding offer and documentation to be complete by March 2021 and expects to receive funds by 2QFY22. It has invested Rs18 bn of equity in the ACL portfolio and Rs9 bn in HAM portfolio so far.

Revise estimates by 2% and Fair Value to Rs145 (from Rs135); retain BUY

We revise our estimates by 2% to factor in improved order inflow and execution along with downward revision in margins. Revise Fair Value to Rs145 on roll-forward to Dec 2022.

Teena Virmani

Aditya Mongia

Exhibit 1: Performance at PAT level was in line with our estimates.
Ashoka Buildcon 3QFY21 results (standalone), March fiscal year-ends (Rs mn)

	3QFY21	3QFY21E	3QFY20	2QFY21	% change			9MFY21	9MFY20	% change	FY2021E	FY2020	% change
					vs est.	yoy	qoq						
Total sales	9,807	10,192	9,836	8,775	(4)	(0)	12	24,306	26,827	(9)	38,550	39,374	(2)
Expenses	(8,752)	—	(8,592)	(7,465)		2	17	(21,122)	(23,260)	(9)	(33,959)	(33,518)	1
RM / operating expenses	(8,069)		(7,734)	(6,336)		4	27	(18,749)	(20,912)	(10)	(30,490)	(29,975)	2
Employee benefit expenses	(437)		(529)	(435)		(17)	0	(1,280)	(1,396)	(8)	(1,782)	(1,820)	(2)
Other expenses	(246)		(329)	(694)		(25)	(65)	(1,094)	(952)	15	(1,687)	(1,723)	(2)
EBITDA	1,055	1,223	1,243	1,309	(14)	(15)	(19)	3,183	3,567	(11)	4,591	5,857	(22)
Other income	473	303	369	499	56	28	(5)	1,454	1,103	32	1,607	1,449	11
Interest	(183)	(193)	(200)	(197)	(5)	(8)	(7)	(546)	(645)	(15)	(774)	(855)	(9)
Depreciation	(216)	(239)	(283)	(218)	(10)	(24)	(1)	(656)	(821)	(20)	(920)	(1,111)	(17)
PBT	1,129	1,094	1,129	1,393	3	(0)	(19)	3,435	3,204	7	4,505	5,340	(16)
Tax	(272)	(284)	(274)	(346)	(4)	(1)	(21)	(841)	(975)	(14)	(1,171)	(1,468)	(20)
Net profit	856	809	855	1,047	6	0	(18)	2,594	2,229	16	3,333	3,872	(14)
Exceptional items	—	—	—	—				—	—		—	—	
Extraordinary items (net of tax)	—	—	—	—				—	—		—	—	
Reported PAT	856	809	855	1,047	6	0	(18)	2,594	2,229	16	3,333	3,872	(14)
Key ratios (%)													
Construction exp./ sales	82.3		78.6	72.2				77.1	78.0		79.1	76.1	
Staff cost/ sales	4.5		5.4	5.0				5.3	5.2		4.6	4.6	
Other exp./ sales	2.5		3.3	7.9				4.5	3.5		4.4	4.4	
EBITDA margin	10.8	12.0	12.6	14.9				13.1	13.3		11.9	14.9	
PBT margin	11.5	10.7	11.5	15.9				14.1	11.9		11.7	13.6	
Effective tax rate	24.1	26.0	24.2	24.8				24.5	30.4		26.0	27.5	
PAT margin	8.7	7.9	8.7	11.9				10.7	8.3		8.6	9.8	
EPS (Rs)	3.0	2.9	3.0	3.7				9.2	7.9		11.9	13.8	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Traffic growth has improved across most of its projects and crossed pre-Covid levels

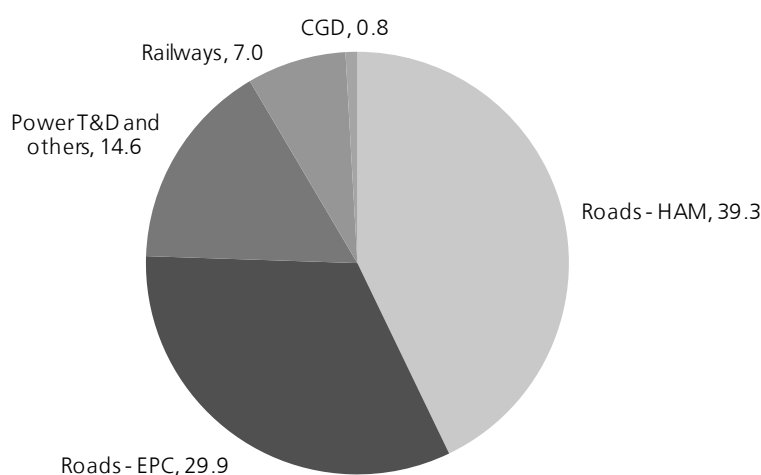
Trajectory of toll collections for key BOT projects for the quarter (Rs mn)

Revenues (Rs mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Quarterly collections															
Bhandara	156	150	168	174	167	160	168	178	174	168	180	182	117	179	214
Durg	190	185	202	207	195	193	199	207	198	190	200	201	131	197	237
Jaora-Nayagaon	474	503	530	523	516	516	497	490	460	432	439	424	225	424	449
Indore Edlabad (ABL)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Belgaum Dharwad	214	208	231	224	230	218	233	235	237	213	234	226	118	201	277
Pimpalgaon – Nasik – Gonde	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Sambalpur Baragarh	145	141	166	180	180	173	181	184	171	166	164	173	107	170	191
Dhankuni- Kharagpur	786	757	783	849	893	888	867	884	905	915	907	879	536	933	1,070
Total	1,966	1,944	2,080	2,158	2,181	2,148	2,146	2,177	2,145	2,085	2,123	2,084	1,234	2,105	2,438
Revenue growth (%)															
Bhandara	0.9	3.0	13.6	13.9	6.8	6.9	—	2.1	4.3	4.9	6.7	2.6	(32.8)	6.4	19.1
Durg	0.5	3.3	9.8	7.2	2.5	4.0	(1.5)	(0.2)	1.6	(1.1)	0.2	(2.9)	(34.1)	3.5	18.5
Jaora-Nayagaon	16.3	18.2	17.2	12.1	9.1	2.7	(6.1)	(6.4)	(11.0)	(16.3)	(11.8)	(13.5)	(51.0)	(1.9)	2.3
Indore Edlabad	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Belgaum Dharwad	15.2	16.9	22.6	16.6	7.2	4.8	1.0	4.6	3.0	(2.5)	0.4	(3.6)	(50.3)	(5.3)	18.4
Pimpalgaon – Nasik – Gonde	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Sambalpur Baragarh	23.7	15.1	28.7	28.2	23.9	22.3	9.2	2.0	(4.6)	(4.1)	(9.3)	(6.0)	(37.4)	2.5	16.6
Dhankuni- Kharagpur	19.3	16.3	22.8	15.6	13.6	17.2	10.7	4.0	1.3	3.1	4.6	(0.6)	(40.7)	2.0	18.0
Tariff hike (%)															
Bhandara	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	2.5	2.5	2.5	2.5	4.0	4.0	4.0	4.0	1.7	1.7
Durg	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	2.5	2.5	2.5	2.5	4.0	4.0	4.0	4.0	1.7	1.7
Jaora-Nayagaon	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Indore Edlabad	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Belgaum Dharwad	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	3.7	3.7	3.7
Pimpalgaon – Nasik – Gonde	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Sambalpur Baragarh	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	3.7	3.7	3.7
Dhankuni- Kharagpur	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	3.7	3.7	3.7
Total	10.9	10.3	15.5	10.9	7.1	6.1	(0.9)	(3.3)	(5.5)	(6.7)	(5.1)	(8.3)	(44.1)	(2.7)	11.0
Traffic growth (%)															
Bhandara	3.4	5.6	16.5	16.8	9.5	4.3	(2.4)	(0.4)	1.8	0.9	2.6	(1.4)	(35.3)	4.6	17.1
Durg	3.1	5.9	12.6	10.0	5.1	1.5	(3.9)	(2.6)	(0.8)	(4.9)	(3.7)	(6.7)	(36.7)	1.8	16.5
Jaora-Nayagaon	8.7	10.5	9.5	4.8	1.9	(4.0)	(12.3)	(12.5)	(16.8)	(21.7)	(17.6)	(19.2)	(54.2)	(8.3)	(4.3)
Belgaum Dharwad	10.5	12.1	17.5	11.8	2.8	0.5	(3.2)	0.3	(1.2)	(6.5)	(3.8)	(7.6)	(52.1)	(8.7)	14.2
Sambalpur Baragarh	18.6	10.4	23.4	22.9	18.8	17.3	4.7	(2.2)	(8.5)	(8.1)	(13.0)	(9.9)	(39.6)	(1.1)	12.5
Dhankuni- Kharagpur	14.4	11.5	17.8	10.9	8.9	12.4	6.1	(0.2)	(2.8)	(1.2)	0.3	(4.7)	(42.8)	(1.6)	13.9
Total	10.9	10.3	15.5	10.9	7.1	6.1	(0.9)	(3.3)	(5.5)	(6.7)	(5.1)	(8.3)	(44.1)	(2.7)	11.0

Source: Company, Kotak Institutional Equities

Exhibit 3: Break-up of order book of Rs92 bn across segments

Order book details, March fiscal year-ends (Rs bn)



Source: Company, Kotak Institutional Equities

Exhibit 4: Segmental break-up of standalone financials of Ashoka Buildcon, March fiscal year-ends

	2016	2017	2018	2019	2020	2021E	2022E	2023E
Total								
Order inflows	28,250	39,255	11,534	72,000	39,355	42,256	51,899	61,267
Order backlog	41,110	70,047	58,488	83,811	83,792	89,238	98,354	111,961
Revenues	19,541	20,065	24,463	38,190	39,374	38,550	44,697	49,765
Yoy growth (%)	(1)	3	22	56	3	(2)	16	11
EBITDA	2,498	2,427	2,934	5,151	4,991	4,591	5,229	5,829
Yoy growth (%)	(0)	(3)	21	76	(3)	(8)	14	11
EBITDA margin (%)	12.8	12.1	12.0	13.5	12.7	11.9	11.7	11.7
Roads								
Order inflows	28,250	23,358	9,702	57,000	35,715	32,144	41,787	50,144
Order backlog	32,910	51,949	42,558	65,927	67,201	72,925	81,545	94,096
Revenues	8,955	11,142	19,093	25,720	29,750	26,419	33,167	37,593
Power T&D & others								
Order inflows	—	15,897	1,832	15,000	3,640	10,112	10,112	11,123
Order backlog	8,200	18,098	15,930	17,884	16,591	16,312	16,809	17,865
Revenues	9,230	5,999	4,000	10,900	8,042	10,390	9,616	10,067
Sales								
Revenues	1,100	1,715	1,370	1,570	1,582	1,740	1,914	2,106

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Revision in estimates for Ashoka Buildcon (standalone), March fiscal year-ends, 2019-23E (Rs mn)

	2019	2020	New estimates			Old estimates			% revision		
			2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Income statement											
New orders	72,000	39,355	42,256	51,899	61,267	42,256	50,887	55,976	—	2	9
Yoy growth (%)	524.3	(45.3)	7.4	22.8	18.1	7.4	20.4	10.0			
Net revenue	38,206	39,374	38,550	44,697	49,765	37,749	43,861	48,052	2	2	4
Yoy growth (%)	56.2	3.1	(2.1)	15.9	11.3	(4.1)	16.2	9.6			
EBITDA	5,151	5,856	4,591	5,229	5,829	4,803	5,435	5,954	(4)	(4)	(2)
EBITDA margin (%)	13.5	14.9	11.9	11.7	11.7	12.7	12.4	12.4	-82 bps	-70 bps	-68 bps
Other income	1,157	1,449	1,607	1,216	1,216	1,212	1,027	1,027			
Interest & finance charges	(907)	(855)	(774)	(813)	(855)	(774)	(811)	(846)			
Depreciation	(763)	(1,111)	(920)	(1,091)	(1,223)	(956)	(1,115)	(1,247)			
PBT	4,638	5,340	4,505	4,542	4,966	4,285	4,536	4,887	5	—	2
Tax	(1,307)	(1,468)	(1,171)	(1,181)	(1,291)	(1,114)	(1,179)	(1,271)			
PAT	3,331	3,872	3,333	3,361	3,675	3,171	3,356	3,616	5	—	2
EPS (Rs)	11.9	13.8	11.9	12.0	13.1	11.3	11.9	12.9	5	—	2

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Sum-of-the-parts valuation of Ashoka Buildcon

Details of valuation of key projects, March fiscal year-ends (Rs/share)

	Value (Rs mn)	Stake (%)	Proportional value (Rs mn)	Per share value (Rs)	Methodology
Ashoka Concession Limited (ACL)		81	19,415	69	
Bhandara	(637)	51	(198)	(1)	One year fwd valuation
Durg	714	51	222	1	One year fwd valuation
Jaora - Nayagaon	13,236	38	3,044	11	One year fwd valuation
Belgaum Dharwad	2,709	100	1,653	6	One year fwd valuation
Pimpalgaon-Nasik-Gonde	503	26	80	0	One year fwd valuation
Sambalpur Baragarh	550	100	336	1	One year fwd valuation
Dhankuni- Kharagpur	6,684	100	4,077	15	One year fwd valuation
Projects with no equity contribution from Macquarie					
Chennai ORR	6,368	50	3,184	11	One year fwd valuation
KSHIP-II	980	100	631	2	One year fwd valuation
Bagewadi Saundatti	585	100	585	2	One year fwd valuation
Hungund Talikot	(202)	100	(202)	(1)	One year fwd valuation
Kharar Ludhiana	2,115	100	2,115	8	Based on 1X P/BV
Ranastalam to Anandpuram	1,521	100	1,521	5	Based on 1X P/BV
Khairatunda - Barwa Adda	726	100	726	3	Based on 1X P/BV
Belgaum-Khanapur	505	100	505	2	Based on 1X P/BV
Tumkur-Shivamoga package I	445	100	449	2	Based on 1X P/BV
Tumkur-Shivamoga package II	674	100	687	2	Based on 1X P/BV
Less value to make good 12% IRR ⁽¹⁾			(9,350)	(33)	
Core construction business	25,467	100	25,467	91	4.5X Dec-22E EBITDA less debt
Value of ABL projects			5,176	18	
ABL asset portfolio	385	100	385	1	NPV of remaining year EBITDA less debt
Jaora - Nayagaon	13,236	36	4,791	17	One year fwd valuation
Other investments	2,794	100	597	2	
Other investments	597	100	597	2	1X investments
Total			41,305	147	

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Standalone financial snapshot of Ashoka Buildcon, March fiscal year-ends, 2013-23E (Rs mn)

	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Profit model											
Total sales	16,376	15,566	19,667	19,378	20,065	24,463	38,206	39,374	38,550	44,697	49,765
Expenditure	(14,354)	(13,582)	(17,169)	(16,881)	(17,638)	(21,528)	(33,055)	(33,518)	(33,959)	(39,468)	(43,936)
Operating expenses	(13,489)	(12,726)	(16,075)	(15,580)	(15,992)	(19,524)	(30,300)	(29,975)	(30,490)	(35,446)	(39,458)
Employee cost	(431)	(492)	(614)	(730)	(745)	(1,067)	(1,490)	(1,820)	(1,782)	(2,066)	(2,300)
Other expenses	(434)	(365)	(481)	(571)	(901)	(938)	(1,265)	(1,723)	(1,687)	(1,956)	(2,178)
EBITDA	2,022	1,984	2,498	2,498	2,427	2,934	5,151	5,856	4,591	5,229	5,829
PBT	1,711	1,690	1,939	2,125	2,164	2,895	4,638	5,340	4,505	4,542	4,966
Tax	(533)	(499)	(517)	(644)	(403)	(524)	(1,307)	(1,468)	(1,171)	(1,181)	(1,291)
PAT	1,178	1,191	1,422	1,481	1,761	2,370	3,331	3,872	3,333	3,361	3,675
Weighted diluted number of shares	281	281	281	281	281	281	281	281	281	281	281
EPS based on diluted shares (Rs)	4.2	4.2	5.1	5.3	6.3	8.4	11.9	13.8	11.9	12.0	13.1
Balance sheet											
Shareholders funds	8,539	9,328	10,543	16,958	17,228	19,263	22,120	25,989	28,693	31,420	34,401
Share capital	527	790	793	936	936	936	1,404	1,404	1,404	1,404	1,404
Reserves & surplus	8,013	8,538	9,750	16,022	16,292	18,327	20,717	24,586	27,290	30,016	32,997
Loan funds	2,733	2,240	4,447	2,631	1,768	1,251	7,306	3,539	4,539	4,539	4,539
Deferred tax liabilities (net)	(7)	(20)	(99)	(199)	(304)	(349)	(519)	(475)	(475)	(475)	(475)
Total sources of funds	11,265	11,547	14,891	19,390	18,692	20,165	28,907	29,053	32,757	35,484	38,465
Net fixed assets	2,416	2,267	1,871	1,548	1,847	2,324	3,854	3,586	3,416	3,625	3,832
Investments	7,454	9,757	10,904	12,300	13,065	13,182	13,641	14,112	17,112	18,246	18,364
Cash & bank balances	338	305	256	274	638	1,235	550	2,911	1,251	2,463	4,544
Net current assets (excl. cash)	1,057	(782)	1,861	5,268	3,142	3,424	10,863	8,444	10,978	11,149	11,725
Total application of funds	11,265	11,547	14,891	19,390	18,692	20,165	28,907	29,053	32,757	35,483	38,465
Cash flow statement											
Cash flow from operating activities											
Operating profit before working capital changes	2,332	2,055	2,772	2,939	2,941	3,765	5,703	6,758	6,144	6,391	7,045
Adjustments for working capital changes	2,345	1,803	(3,030)	(5,787)	2,125	(282)	(4,452)	2,069	(2,534)	(171)	(576)
Income tax paid	(453)	(478)	(489)	(696)	(508)	(570)	(1,176)	(1,414)	(1,171)	(1,181)	(1,291)
Net cash flow from operating activities	4,271	3,380	(747)	(3,544)	4,558	2,914	75	7,413	2,439	5,039	5,177
Purchase of fixed assets	(517)	(367)	(199)	(314)	(684)	(1,018)	(1,639)	(551)	(750)	(1,300)	(1,430)
Purchase of non-current investments	(2,789)	(2,306)	(1,014)	(360)	(765)	(117)	(251)	(241)	(3,000)	(1,134)	(118)
Net cash flow from investing activities	(3,243)	(2,337)	(913)	(167)	(1,244)	(988)	(5,517)	(566)	(3,696)	(2,380)	(1,548)
FCF	1,026	1,039	(1,660)	(3,740)	3,314	1,926	(1,591)	7,029	(1,257)	2,659	3,629
Growth (%)											
Revenue growth	22.4	(4.9)	26.3	(1.5)	3.5	21.9	56.2	3.1	(2.1)	15.9	11.3
EBITDA growth	4.5	(1.9)	25.9	0.0	(2.8)	20.9	75.5	13.7	(21.6)	13.9	11.5
Recurring PAT growth	12.8	1.1	19.4	4.1	18.9	34.6	40.5	16.2	(13.9)	0.8	9.4
Key ratios											
EBITDA margin (%)	12.3	12.7	12.7	12.9	12.1	12.0	13.5	14.9	11.9	11.7	11.7
PAT margin (%)	7.2	7.7	7.2	7.6	8.8	9.7	8.7	9.8	8.6	7.5	7.4
Net debt to equity (X)	0.3	0.2	0.4	0.1	0.1	0.0	0.3	0.0	0.1	0.1	(0.0)
ROE (%)	14.4	13.3	14.3	10.8	10.3	13.0	16.1	16.1	12.2	11.2	11.2
ROCE (%)	13.7	13.6	14.7	10.7	10.1	12.4	17.9	16.4	11.9	12.1	12.5

Source: Company, Kotak Institutional Equities estimates

FEBRUARY 08, 2021

UPDATE

BSE-30: 51,349

Good start to CY2021. Overall growth in individual APE was moderate at 7% yoy for private players in January 2021, higher than 3% yoy growth in December 2020 and 7% yoy decline in November 2020. Moderation in retail protection has likely been arrested; traction in traditional business and pickup in ULIPs likely supported volumes. Group APE remained strong (up 20% yoy) likely led by the credit protect business. Among major players, individual APE growth was strong for HDFC Life (up 24% yoy), Max Life (up 15% yoy) and Bajaj Life (up 32% yoy); SBI Life was muted while ICICI Prudential Life declined 7% yoy.

Individual APE up 7% yoy for private life insurers

Individual APE for the private sector increased 7% yoy in January 2021, higher than 3% yoy growth in December 2020 and 7% yoy decline in November 2020. Pickup in the individual business likely indicates gradual increase in demand for ULIPs led by rally in capital markets and strong demand for non-par savings products. Moderation in growth of the protection business from peak levels has likely been arrested (individual non-single sum assured to individual non-single premium for private players was 25X in January 2021 compared to 23X in December 2020; it was however lower than 31X in January 2020 and 35X in 2QFY21). Overall APE was up 8% yoy led by 20% yoy growth in the group business; this tends to be volatile. Group APE growth remains strong likely due to pickup in the credit protect business (group sum assured up 7% yoy). LIC's individual APE declined 45% yoy on a high base (99% yoy growth in January 2020).

Highlights of key companies

HDFC Life: strong month. HDFC Life reported 24% yoy increase in individual APE in January 2021, higher than 4% and 20% yoy growth over the previous two months. Group APE was up 14% yoy; group sum assured was down 1% yoy. HDFC Life's individual sum assured was down 16% yoy likely reflecting that majority of growth was driven by the traditional segment (par and non-par).

ICICI Prudential Life: yet to recover despite normalizing base. ICICI Prudential Life reported 7% yoy decline in individual APE in January 2021 on a low base (down 5% yoy in January 2020). On a weak base, growth has started to normalize (down 26% yoy in 3QFY21); it however remains significantly lower than industry average. Pickup in ULIPs likely supported premiums during the month. Strong growth in group APE at 18% yoy cushioned APE partially (down 6% yoy).

SBI Life: muted. SBI Life's individual APE was muted at 1% yoy in January 2021 (up 7% yoy in December 2020 and 17% yoy in January 2020). Individual sum assured was marginally lower (down 6% yoy); retail protection has likely held on better than industry average (individual sum assured down 12% yoy for private players in January 2021 while individual APE increased 7% yoy). Growth in group APE was strong at 70% yoy.

Max Life: another strong month. Max Life' individual APE was up 15% yoy while individual sum assured was up 8% yoy indicating that protection has likely fared better than industry average. Strong traction in non-par savings has additionally supported growth for Max Life. Max has fared better than most peers during the pandemic. Group APE was up 16% yoy while group sum assured increased 75% yoy; credit life has likely revived from December 2020.

Bajaj strong; Aditya Birla Sun Life moderates, Tata AIA weak on a high base. Among other major players, individual APE growth was strong for Bajaj Life at 32% yoy; growth is likely driven by the non-par segment while protection remained muted (individual sum assured down 10% yoy). Group APE was down 5% yoy; group fund business has remained weak. Aditya Birla Sun Life's individual APE moderated to 12% yoy from 20% yoy in December 2020 (low base of 3% yoy decline in January 2020). Tata AIA's individual APE increased 4% yoy. On a high base growth has moderated over the past three months (up 9% yoy in December 2020 and down 1% yoy in November 2020 compared to 18-37% yoy growth observed over July-October 2020).

QUICK NUMBERS

- Individual APE up 7% yoy for private players
- Individual sum assured down 11% yoy for private players
- Group APE up 20% yoy for private players

Nischint Chawathe

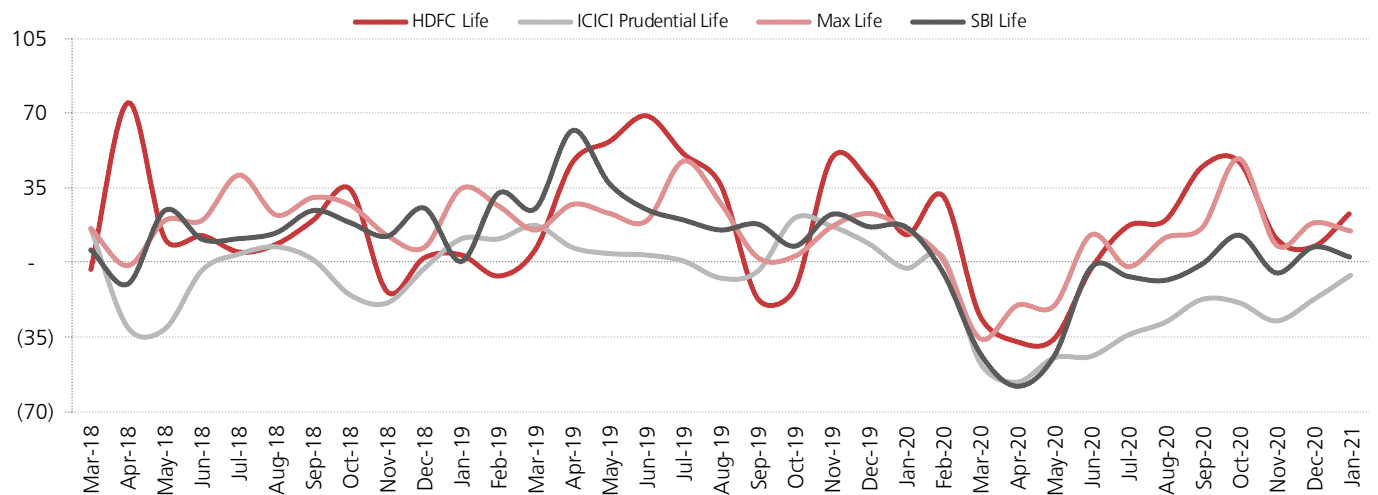
M B Mahesh, CFA

Dipanjan Ghosh

Abhijeet Sakhare

Ashlesh Sonje

Exhibit 1: HDFC Life's growth remains higher than peers
 APE growth, March fiscal year-ends, March 2018-December 2020 (%)



Source: IRDAI, LIC Council

Exhibit 2: Individual APE up 7% yoy for private life insurers
 APE in individual and group business, March fiscal year-ends, December 2020, 9MFY21 (Rs mn)

	Jan-21				10MFY21							
	Individual	yoy growth (%)	Group	yoy growth (%)	Total	yoy growth (%)	Individual	yoy growth (%)	Group	yoy growth (%)	Total	yoy growth (%)
Aegon Religare	15	(75)	8	(7)	23	(64)	316	(46)	24	47	340	(43)
Aviva	128	3	3	(27)	131	2	927	3	48	(45)	975	(1)
Bajaj Allianz	2,415	32	263	(5)	2,678	27	17,199	14	2,574	0	19,773	12
Bharti Axa	554	5	13	18	567	5	4,073	(16)	99	(41)	4,172	(17)
Aditya Birla Sun Life	1,742	12	74	(7)	1,816	11	14,303	6	1,964	47	16,267	10
Canara HSBC	1,085	16	17	69	1,102	17	6,768	(14)	740	77	7,508	(10)
Pramerica	82	(36)	14	(10)	96	(33)	928	(31)	84	(74)	1,013	(39)
Edelweiss Tokio	349	1	4	(16)	353	1	2,818	11	18	(42)	2,836	10
Future Generali	281	(9)	12	(83)	293	(23)	2,137	(23)	96	(73)	2,233	(29)
HDFC Life	7,084	24	736	14	7,820	23	53,200	10	7,541	10	60,740	10
ICICI Prudential	5,769	(7)	366	18	6,135	(6)	38,819	(30)	3,641	35	42,460	(27)
IDBI Federal	306	21	35	137	341	28	2,018	(13)	86	(25)	2,104	(14)
India First	712	1	68	(32)	780	(3)	6,034	(4)	887	9	6,922	(2)
Exide Life	527	(21)	10	6	537	(21)	4,068	(23)	58	(16)	4,126	(23)
Kotak	1,704	6	223	38	1,927	9	11,619	(4)	1,483	(32)	13,102	(8)
Max Life	4,797	15	62	16	4,858	15	34,608	11	388	10	34,995	11
PNB MetLife	1,338	6	61	41	1,399	7	10,060	(3)	299	(18)	10,358	(4)
Reliance Life	801	13	13	693	814	15	6,660	(6)	105	92	6,765	(5)
SBI Life	11,971	1	477	70	12,449	2	77,752	(8)	6,786	45	84,538	(5)
Shriram Life	411	12	30	104	441	16	3,624	1	201	18	3,825	2
Star Union Daichi	563	39	26	154	589	41	4,931	11	203	107	5,134	13
Tata AIA	2,798	4	49	141	2,847	5	23,901	16	144	25	24,045	16
Private players	45,432	7	2,566	20	47,998	8	326,763	(4)	27,469	15	354,232	(3)
LIC	28,316	(45)	8,732	36	37,048	(36)	226,269	(17)	98,234	(7)	324,504	(14)
Total Premium	73,748	(22)	11,297	32	85,045	(17)	553,032	(10)	125,704	(3)	678,736	(9)

Source: IRDAI, LIC Council, Kotak Institutional Equities

Exhibit 3 Individual sum assured down 11% yoy

Sum assured, March fiscal year-ends, December 2020, 9MFY21 (Rs mn)

	Jan-21				10MFY21							
	Individual	yoy growth (%)	Group	yoy growth (%)	Total	yoy growth (%)	Individual	yoy growth (%)	Group	yoy growth (%)	Total	yoy growth (%)
Aegon Religare	7,768	(36)	0		7,768	(36)	89,436	(28)	0		89,436	(28)
Aviva	1,871	(29)	0	(100)	1,871	(31)	16,838	(33)	470	24	17,309	(32)
Bajaj Allianz	47,731	26	132,707	(25)	180,438	(16)	605,907	161	670,633	(51)	1,276,539	(20)
Bharti AXA	10,928	21	6,772	(74)	17,700	(49)	97,526	(12)	53,304	(56)	150,830	(35)
Birla Sunlife	37,978	(4)	12,797	19	50,775	1	359,166	(9)	71,442	(13)	430,608	(9)
Canara HSBC OBC	15,383	(10)	7,318	32	22,701	0	189,584	38	45,943	(10)	235,527	25
DHFL Pramerica	864	(27)	6,002	(16)	6,866	(18)	8,040	(36)	33,078	(83)	41,118	(80)
Edelweiss Life	8,589	(53)	1,617	8	10,206	(48)	98,537	(40)	7,796	(32)	106,334	(40)
Future Generali	3,155	(53)	5,761	12	8,916	(25)	33,589	(41)	28,573	(44)	62,162	(43)
HDFC Standard Life	192,188	(16)	315,868	(1)	508,056	(7)	1,782,325	(0)	1,860,498	(31)	3,642,823	(19)
ICICI Prudential	190,285	(26)	158,248	17	348,533	(11)	1,795,101	(17)	1,001,886	(11)	2,796,987	(15)
Fortis IDBI	4,912	22	5,865	2	10,777	10	34,422	(26)	29,716	(42)	64,138	(34)
India First	14,158	0	161,068	0	175,226	0	132,995	104	1,337,672	24	1,470,667	29
Exide Life	8,247	(38)	57	(98)	8,304	(49)	108,898	(16)	20,157	16	129,055	(13)
Max Life	193,150	8	47,291	75	240,440	16	1,756,999	24	246,931	53	2,003,931	27
PNB MetLife	34,914	0	149,582	49	184,496	36	481,149	61	791,087	(18)	1,272,236	1
Reliance Life	14,587	57	(567)	(47)	14,020	70	121,437	21	(6,351)	25	115,086	21
SBI Life	138,434	(6)	54,390	7	192,824	(3)	1,004,284	(13)	391,693	(4)	1,395,977	(11)
Shriram Life	11,085	3	23,189	40	34,274	25	87,365	(12)	132,840	(31)	220,205	(25)
Star Union Daichi	6,629	30	9,852	115	16,481	70	63,529	17	63,874	85	127,404	44
Tata AIG	146,371	(29)	3,598	32	149,970	(28)	1,553,982	1	15,783	(46)	1,569,765	0
Private players	1,145,335	(11)	1,208,523	7	2,353,859	(3)	10,994,724	6	7,422,129	(21)	18,416,854	(7)
LIC	666,865	(48)	12,620	(57)	679,485	(48)	3,933,911	(31)	314,150	115	4,248,061	(27)
Total sum assured	1,812,201	(30)	1,221,144	6	3,033,344	(19)	14,928,635	(7)	7,736,279	(19)	22,664,914	(11)

Source: IRDAI, LIC Council, Kotak Institutional Equities

Exhibit 4: APE growth improved mom

Yoy growth in adjusted individual business premium, March fiscal year-ends, December 2019- December 2020 (%)

	2015	2016	2017	2018	2019	2020	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	2QFY20	2QFY21	3QFY20	3QFY21	10MFY20	10MFY21
Bajaj Allianz	(22.6)	(7.5)	40.9	38.3	24.7	10.6	20.7	23.6	(39.1)	0.3	(18.0)	13.6	28.9	12.5	16.2	3.0	(5.3)	41.3	31.7	30.2	18.9	27.1	13.7	24.9	14.3
Aditya Birla Sun Life	(11.8)	(7.7)	35.3	14.9	59.9	0.5	(3.3)	(2.2)	(38.3)	(24.5)	10.3	15.6	0.5	(6.3)	36.1	21.4	(26.2)	19.8	12.1	13.6	9.1	7.3	3.4	12.0	6.5
Canara HSBC	17.9	35.2	38.5	33.5	11.9	6.5	13.7	(0.6)	(45.5)	(52.1)	(53.7)	(26.1)	(14.7)	(25.2)	(23.3)	39.0	(6.4)	(14.6)	16.0	16.0	(21.6)	36.7	(1.5)	21.9	(14.2)
HDFC Life	25.0	12.3	9.1	30.8	5.4	19.0	11.5	29.0	(27.8)	(28.6)	(33.2)	(3.1)	12.2	13.9	43.2	45.3	20.4	3.8	24.4	17.2	22.0	23.5	19.1	28.3	10.2
ICICI Prudential Life	41.3	8.1	29.0	16.4	(4.9)	(6.4)	(4.8)	(14.7)	(49.0)	(55.1)	(52.4)	(43.5)	(36.5)	(29.2)	(23.9)	(21.6)	(30.8)	(23.9)	(7.3)	(6.0)	(29.9)	14.3	(25.5)	2.0	(30.4)
India First	5.5	38.1	82.3	42.9	18.3	24.9	0.1	42.6	(7.2)	(69.5)	(46.9)	(9.9)	1.7	8.1	(4.5)	27.6	6.8	1.1	1.5	35.1	1.0	46.1	9.5	30.2	(3.5)
Kotak	32.8	52.2	28.1	31.0	5.9	(1.3)	14.6	(1.1)	(38.5)	(16.3)	4.9	23.7	0.8	0.3	(5.7)	(3.8)	(23.2)	(12.7)	6.1	17.4	(1.9)	15.4	(13.9)	13.9	(3.6)
Max Life	10.2	8.0	25.5	21.8	20.7	5.2	15.1	0.9	(35.9)	(19.5)	(19.5)	13.3	(2.0)	11.2	16.3	48.9	7.5	18.3	14.7	22.8	8.6	15.8	22.0	19.4	11.2
Reliance Life	7.3	(25.6)	(22.8)	5.4	20.5	1.9	1.3	4.2	(11.9)	(65.1)	(6.7)	8.2	(2.9)	0.6	(1.2)	5.7	(1.1)	2.8	13.1	(6.3)	(1.2)	3.1	2.5	4.0	(6.2)
SBI Life	11.0	37.0	38.9	31.1	15.0	9.1	16.9	(4.9)	(42.1)	(73.0)	(45.9)	(5.0)	(14.4)	(14.1)	(4.4)	14.0	(5.7)	6.9	0.8	15.9	(10.9)	15.1	4.8	18.9	(8.2)
Star Union Daichi	18.6	(9.0)	64.4	(4.5)	(1.9)	(2.1)	(2.1)	(1.3)	(55.7)	(65.9)	(34.5)	(25.8)	25.3	12.1	3.5	45.9	17.5	30.8	38.5	8.8	10.2	13.4	28.4	13.1	11.3
Tata AIA	(4.0)	158.6	73.1	33.4	59.7	20.6	30.7	47.8	(36.3)	37.0	3.3	18.0	18.2	33.9	25.0	36.9	(0.9)	8.6	4.3	26.1	25.6	29.9	12.3	36.4	16.1
Private sector	15.8	14.0	26.6	24.3	12.5	4.8	10.1	4.0	(39.8)	(40.3)	(32.1)	(7.0)	(7.1)	(5.8)	3.6	14.4	(7.1)	3.0	7.0	11.1	(3.0)	16.3	2.7	15.3	(4.2)
LIC	(26.3)	2.9	14.7	13.4	4.5	8.3	98.5	(7.3)	(64.5)	(47.9)	(3.1)	7.5	9.6	2.1	4.8	6.0	(54.3)	4.1	(45.4)	5.4	5.4	39.5	(22.4)	27.1	(17.2)
Total	(10.4)	8.3	20.7	19.3	9.0	6.2	45.8	(0.6)	(50.2)	(43.7)	(19.8)	(1.4)	(0.3)	(2.3)	4.1	10.7	(33.0)	3.4	(21.8)	8.7	0.4	25.6	(8.6)	20.3	(10.0)

Source: IRDAI, LIC Council, Kotak Institutional Equities

Exhibit 5: Overall APE up 4% yoy for private life insurers in 3QFY21

Adjusted premium equivalent of life insurance players, March fiscal year-ends, 2013-2020, 1QFY21, 2QFY21, 3QFY21

	APE (Rs bn)										YoY (%)										Market share (%)											
	2013	2014	2015	2016	2017	2018	2019	2020	1QFY21	2QFY21	3QFY21	2013	2014	2015	2016	2017	2018	2019	2020	1QFY21	2QFY21	3QFY21	2013	2014	2015	2016	2017	2018	2019	2020	1QFY21	2QFY21
Bajaj Allianz Life	14	11	9	9	12	17	21	22	4	6	7	(17)	(18)	(2)	34	37	22	9	(7)	17	16	2	2	2	2	2	2	3	3	3	3	
Birla Sunlife	11	9	9	8	11	12	19	19	4	5	6	(17)	(7)	(3)	30	12	57	(1)	17	11	5	2	2	2	2	2	2	2	3	2	3	
DHFL Pramerica	1	1	2	2	4	4	2	0	0	0	0	(17)	63	11	21	75	(10)	(50)	(42)	(40)	(36)	0	0	0	0	1	0	0	0	0	0	
Exide	5	5	4	5	6	6	7	7	1	1	1	(3)	(12)	10	27	2	7	1	(33)	(25)	(16)	1	1	1	1	1	1	1	1	1	1	
HDFC Life	32	25	32	36	41	53	57	69	12	21	20	(2)	26	14	13	30	8	19	(22)	26	19	5	7	7	6	7	7	8	8	9	9	
ICICI Prudential Life	34	33	46	51	65	75	73	71	7	13	16	(5)	41	10	27	16	(3)	(48)	(27)	(21)	6	10	10	10	10	9	8	5	6	7		
Max Life	15	18	20	21	27	33	39	41	6	11	12	17	10	8	26	22	21	5	(4)	9	22	3	4	4	4	4	4	5	4	5	5	
Reliance Life	10	12	13	10	7	7	9	9	1	2	2	19	8	(26)	(24)	3	20	1	(28)	(2)	5	2	3	2	1	1	1	1	1	1		
SBI Life	26	30	33	45	63	80	94	103	12	26	34	14	10	36	40	28	16	10	(30)	(5)	5	6	7	9	10	11	12	12	9	12	15	
Private players	189	182	211	242	306	376	427	451	63	113	130	(3)	16	15	26	23	14	6	(23)	(0)	4	36	45	47	49	51	53	51	45	51	56	
LIC	326	331	253	279	324	361	382	441	76	109	102	1	(23)	10	16	11	6	16	(15)	8	(21)	64	55	53	51	49	47	49	55	49	44	
Total industry	515	513	464	521	630	737	809	892	140	222	232	(0)	(9)	12	21	17	10	10	(19)	4	(9)											

Source: IRDA, LIC Council

Exhibit 6: LIC gained market share in individual business mom

Trend in adjusted individual business market share, March fiscal year-ends, December 2019- December 2020 (%)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	2QFY20	2QFY21	3QFY20	3QFY21	10MFY20	10MFY21
Bajaj Allianz	1.9	3.1	3.9	4.0	2.8	3.0	3.1	2.9	3.0	3.0	3.2	3.2	3.3	2.5	3.0	2.6	3.1	2.4	3.1
Birla Sunlife	1.6	2.4	3.6	2.8	2.8	3.0	2.4	2.2	2.8	2.4	2.4	2.9	2.4	2.2	2.4	2.3	2.6	2.2	2.6
Canara HSBC	1.0	1.5	1.6	0.7	0.7	1.1	1.1	1.0	1.5	1.3	1.3	1.4	1.5	1.5	1.2	1.4	1.3	1.3	1.2
HDFC Life	6.0	8.8	10.1	10.5	8.9	10.8	10.1	9.1	10.1	9.5	10.1	8.5	9.6	8.0	9.8	7.1	9.2	7.9	9.6
ICICI Prudential	6.6	9.7	8.0	8.5	5.5	5.8	6.5	6.8	7.3	7.5	7.8	6.8	7.8	9.9	6.9	9.1	7.3	9.1	7.0
Kotak	1.7	2.8	4.5	2.5	2.2	2.2	2.0	1.8	2.3	1.7	1.9	2.3	2.3	2.1	2.0	2.2	2.0	2.0	2.1
Max Life	4.4	6.9	9.2	5.8	4.6	6.7	5.8	6.3	7.0	5.9	6.1	6.6	6.5	5.9	6.4	5.0	6.3	5.1	6.3
Reliance Life	0.8	1.4	1.7	1.4	1.3	1.1	1.1	1.3	1.1	1.1	1.1	1.3	1.1	1.2	1.2	1.1	1.2	1.2	1.2
SBI Life	12.6	10.2	11.5	5.8	8.7	12.1	12.4	12.1	13.8	13.7	15.7	19.3	16.2	14.4	12.8	14.6	16.7	13.8	14.1
Tata AIA	2.8	5.0	5.5	7.4	4.6	4.6	3.8	4.1	4.6	4.1	4.2	4.4	3.8	3.3	4.2	3.5	4.3	3.3	4.3
Private sector	45.0	61.6	70.0	57.9	48.8	57.6	55.2	54.4	62.7	57.4	62.7	64.6	61.6	59.5	57.5	56.8	61.9	55.5	59.1
LIC	55.0	38.4	30.0	42.1	51.2	42.4	44.8	45.6	37.3	42.6	37.3	35.4	38.4	40.5	42.5	43.2	38.1	44.5	40.9

Source: IRDAI, LIC Council, Kotak Institutional Equities

Exhibit 7: Individual sum assured down 11% yoy for private players

Yoy growth in individual sum assured, March fiscal year-ends, 2019-2020, December 2019- December 2020 (%)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	2QFY20	2QFY21	3QFY20	3QFY21	10MFY20	10MFY21
Bajaj Allianz	43.4	71.5	(6.2)	126.5	358.8	691.2	213.8	123.1	84.5	77.3	46.1	88.5	26.3	7.1	137.5	4.8	70.3	8.9	160.6
Aditya Birla Sun Life	(5.7)	(0.5)	(38.2)	(22.7)	(7.1)	(2.6)	(8.4)	(18.8)	(13.1)	16.4	(26.2)	(0.9)	(3.9)	5.2	(13.3)	1.3	(6.2)	4.6	(8.8)
Canara HSBC	22.2	(8.4)	(25.5)	146.3	70.7	67.9	96.7	66.4	31.4	61.7	(6.1)	(25.9)	(10.2)	24.7	60.9	24.2	1.2	22.1	37.7
HDFC Life	28.1	37.4	7.7	31.9	(4.2)	31.0	15.5	0.3	3.9	6.2	(23.8)	(23.8)	(15.7)	17.1	6.6	29.2	(15.2)	22.5	(0.4)
ICICI Prudential Life	5.6	14.9	(15.5)	(17.3)	(31.0)	(0.2)	(24.5)	14.9	(25.4)	(2.3)	(23.0)	(25.5)	(25.7)	11.8	(11.7)	14.9	(18.5)	15.3	(16.7)
India First	21.2	27.2	(16.5)	70.0	651.8	146.1	33.0	43.1	13.3	88.6	53.5	56.8	103.4	50.1	28.8	25.0	63.2	25.9	104.0
Kotak	14.5	5.2	(21.4)	21.4	91.9	117.4	62.3	41.6	33.2	45.8	12.4	10.5	13.5	25.1	44.8	13.9	20.0	14.4	40.1
Max Life	21.7	4.0	(12.8)	12.6	35.5	61.5	60.8	42.4	20.1	24.7	(15.2)	2.0	7.6	0.7	41.0	16.5	2.0	11.7	23.9
Reliance Life	(5.8)	(1.1)	(14.6)	(52.4)	5.8	18.1	9.2	24.1	37.1	59.4	40.1	33.3	56.7	1.8	23.8	2.6	42.3	8.1	21.3
SBI Life	16.0	(11.4)	(52.5)	(78.4)	(56.3)	(14.2)	(0.4)	4.1	0.9	9.7	(12.1)	(14.1)	(5.9)	5.4	1.6	14.6	(7.7)	18.7	(13.3)
Star Union Daichi	(6.6)	(6.0)	(60.8)	(76.3)	(33.5)	2.8	64.5	33.8	13.2	34.7	17.7	34.4	29.7	(6.3)	28.3	4.9	28.2	4.0	17.4
Tata AIA	73.8	154.1	24.7	197.8	41.4	27.1	9.5	(2.9)	(23.9)	(14.0)	(28.6)	(25.4)	(28.6)	77.0	(7.7)	53.5	(23.1)	71.6	1.0
Private sector	20.0	27.9	(14.7)	25.4	12.4	37.6	15.8	12.3	(2.3)	9.3	(17.4)	(13.6)	(11.5)	15.4	8.4	18.9	(8.7)	19.5	4.5
LIC	148.0	(12.8)	(73.0)	(81.2)	(45.9)	(10.4)	(12.9)	(7.5)	9.2	(1.2)	(61.0)	(3.2)	(48.0)	(3.2)	(3.7)	76.1	(31.7)	41.0	(30.8)
Total	61.5	14.9	(37.7)	(4.3)	(2.9)	24.6	7.6	6.7	0.8	5.9	(39.1)	(10.3)	(29.7)	9.4	5.0	36.1	(17.6)	26.3	(7.9)

Source: IRDAI, Kotak Institutional Equities

Exhibit 8: Protection business has moderated from peak levels

Individual non-single sum assured to individual non-single premium, March fiscal year-ends, 2019-2020, December 2019- December 2020 (X)

	2019	2020	Jan-20	Feb-20	Mar-20	Jul-05	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	2QFY20	2QFY21	3QFY20	3QFY21	10MFY20	10MFY21
Bajaj Allianz	17	17	21	22	24	17	41	85	98	36	29	23	27	23	18	20	15	29	15	22	15	35
Aditya Birla Sun Life	30	29	26	30	27	29	35	30	28	28	25	22	27	27	20	22	31	25	26	24	29	25
HDFC Life	40	41	42	45	52	41	77	54	41	38	35	32	33	27	25	28	39	35	40	28	39	35
ICICI Prudential	33	41	42	46	54	41	93	75	63	48	65	37	41	41	36	34	39	50	35	39	39	48
Kotak	30	32	29	29	32	32	63	77	61	56	48	47	54	46	33	29	34	50	30	41	32	48
Max Life	45	46	43	41	45	46	109	107	65	70	54	42	41	38	36	41	41	54	46	38	46	52
SBI Life	14	14	12	15	13	14	14	14	14	16	17	14	14	12	10	12	13	15	13	12	14	13
Tata AIA	57	81	77	107	92	81	172	102	67	67	60	52	56	51	44	53	82	59	73	50	75	65
Private players	29	32	31	37	38	32	81	61	45	39	37	29	31	27	23	25	31	35	29	26	31	34
LIC	21	22	25	19	19	22	6	10	16	16	17	23	21	22	22	25	20	18	24	22	22	19
Overall	26	28	28	31	33	28	50	35	33	29	29	27	27	25	23	25	27	28	27	25	27	28

Source: IRDAI, LIC Council, Kotak Institutional Equities

Exhibit 9: Ticket size increase for most players

Average policy size in individual non-single segment, December 2019- December 2020 (Rs)

	Jan-20	Dec-20	Jan-21	YoY (%)	MoM (%)
Aegon Religare	34,944	20,690	18,659	(47)	(10)
Aviva	55,420	85,938	78,715	42	(8)
Bajaj Allianz	56,708	69,432	66,006	16	(5)
Bharti Axa	40,932	56,363	56,869	39	1
Aditya Birla Sun Life	70,778	96,453	82,386	16	(15)
Canara HSBC Oriental	80,071	58,056	72,894	(9)	26
DHFL Pramerica	39,799	33,172	31,380	(21)	(5)
HDFC Life	69,088	83,884	81,933	19	(2)
ICICI Prudential	82,767	90,704	94,597	14	4
IDBI Federal	81,933	76,358	77,995	(5)	2
IndiaFirst	51,166	47,124	45,374	(11)	(4)
Kotak Life	67,206	60,652	68,295	2	13
Exide Life	38,979	41,712	43,087	11	3
Edelweiss Tokio	43,484	68,362	61,783	42	(10)
Max Life	73,740	84,673	83,304	13	(2)
Reliance	44,868	54,564	48,814	9	(11)
SBI	74,234	76,847	68,585	(8)	(11)
Shriram	15,428	17,990	14,703	(5)	(18)
Star Union	70,555	74,632	62,660	(11)	(16)
Tata AIA	56,463	86,517	80,860	43	(7)
LIC	12,622	15,604	10,836	(14)	(31)

Source: IRDAI, LIC Council, Kotak Institutional Equities

Exhibit 10: Ticket size broadly flat for private players in 10MFY21

Average policy-size in individual non-single segment, 2009-2020, 9MFY21 (Rs)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	10MFY21
Bajaj Allianz	15,024	14,598	12,566	13,428	17,151	22,216	26,857	28,170	37,066	45,448	56,128	61,716	52,792
Exide	17,861	21,622	23,311	26,221	24,704	25,014	26,214	24,594	31,413	31,855	33,225	35,057	36,034
Reliance Life	13,796	13,713	10,704	10,330	12,951	19,145	25,145	24,544	25,380	33,636	38,891	43,677	45,024
SBI Life	33,625	30,880	37,099	25,266	27,315	27,499	28,103	34,098	47,109	54,929	58,977	63,293	61,407
Tata AIA	13,839	16,255	17,537	22,368	20,144	20,810	32,577	44,411	57,204	62,780	63,712	55,740	69,889
HDFC Life	24,941	37,201	46,297	43,584	39,559	34,811	43,839	38,211	42,345	45,244	49,774	66,213	69,099
ICICI Prudential	19,686	29,081	28,462	27,533	34,570	41,948	72,582	88,373	94,759	93,116	81,902	87,093	77,021
Aditya Birla Sun Life	19,941	13,722	16,348	13,849	18,468	20,062	25,480	23,700	30,445	42,518	59,852	65,309	71,472
Aviva	18,057	29,427	30,961	28,200	30,032	29,012	39,995	42,580	57,923	70,440	64,861	59,093	64,374
Max Life	13,198	16,546	20,869	25,973	29,564	32,999	38,909	44,569	51,057	55,836	58,749	66,634	69,268
Sahara Life	8,230	9,008	7,952	6,540	5,969	7,397	6,534	8,780	11,782	14,072	NA	NA	NA
Shriram Life	16,928	21,982	18,767	12,897	12,700	13,627	13,727	13,815	18,820	17,382	16,617	16,755	17,323
Bharti Axa Life	14,229	24,840	20,868	19,952	22,030	29,960	40,491	40,464	39,017	40,695	36,973	30,751	48,024
Future Generali Life	12,903	13,308	10,859	15,566	13,673	16,842	34,786	42,945	44,659	19,704	52,925	56,435	56,468
IDBI Federal	29,239	35,271	28,082	25,994	21,763	24,845	29,066	30,856	36,158	40,836	45,328	62,455	71,181
Canara HSBC	82,635	62,624	62,372	66,162	49,016	54,072	53,981	57,487	67,193	78,115	70,658	64,492	49,218
Aegon Religare	12,910	32,576	28,402	25,374	22,015	26,883	36,630	28,475	22,807	24,278	24,236	31,686	24,852
Pramerica	12,102	18,645	19,021	13,525	13,134	16,897	25,838	27,324	28,332	37,979	41,575	39,923	43,394
Star Union Dai-ichi	29,220	29,529	30,483	19,333	18,608	27,033	39,855	41,301	50,424	50,941	59,081	71,746	68,591
Private Total	18,686	21,005	21,851	21,956	25,296	28,345	36,669	39,193	48,008	52,943	56,235	60,977	60,415
LIC	5,885	7,169	7,595	8,649	7,983	8,180	10,516	10,399	11,718	12,510	13,128	13,904	15,146
Grand Total	9,942	11,208	11,000	11,142	10,865	11,312	16,403	16,969	20,341	22,549	24,197	25,326	27,938

Source: IRDAI, LIC Council, Kotak Institutional Equities

Share of single premium at 41% for private players

Share of single premium was broadly stable mom at 41%; it has however dropped from peak levels of 46-54% observed over June-November 2020. Marginal moderation in share of single premiums likely indicates some moderation in share of single pay annuity or lumpsum payout products.

Exhibit 11: Share of single premium at 41% for private players

Share of single premium to total premium, March fiscal year-ends, December 2019- December 2020 (%)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	2QFY20	2QFY21	3QFY20	3QFY21	10MFY20	10MFY21
Bajaj Allianz	58	57	58	70	42	34	67	49	52	72	50	57	48	60	58	59	61	60	57
Birla Sunlife	32	63	51	78	28	66	60	57	56	53	56	53	31	54	58	53	54	49	56
HDFC Life	61	66	70	72	53	59	71	72	71	67	63	64	59	64	71	64	65	64	66
ICICI Prudential	33	19	38	31	14	37	32	51	31	38	43	35	46	30	37	35	47	30	37
Kotak Life	46	43	39	50	35	36	41	46	35	48	56	41	47	30	37	35	47	39	43
Max Life	24	25	29	34	31	30	29	28	30	32	34	30	26	24	29	29	31	27	30
Reliance Life	5	7	7	6	4	4	5	5	6	7	3	7	5	5	5	6	6	5	5
SBI Life	25	42	39	86	50	57	61	59	62	50	43	31	36	45	61	37	40	41	52
Private sector	37	38	45	63	39	46	54	54	50	50	47	40	41	42	53	40	45	42	48
LIC	60	73	86	65	68	89	81	87	84	84	81	78	79	72	84	67	81	65	82
Total	52	58	72	64	61	80	72	78	73	73	68	63	64	63	74	59	68	58	71

Source: IRDAI, LIC Council, Kotak Institutional Equities

Private players lost market share in group business on mom basis

Private players lost ~300 bps market share in group business on mom basis to 23%. Among major private players, HDFC Life, Max Life retained its market share on mom basis and SBI gained market share while it declined for others.

Exhibit 12: Group business market was ~23% for private players

Market share in group business, March fiscal year-ends, December 2019-December 2020 (%)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	2QFY20	2QFY21	3QFY20	3QFY21	10MFY20	10MFY21
Bajaj Allianz	3.2	2.5	2.0	5.6	0.8	0.4	3.2	1.2	1.4	4.0	1.7	3.2	2.3	2.1	1.9	2.1	3.0	2.0	2.0
Birla Sunlife	0.9	2.4	1.5	4.8	0.5	1.6	1.7	1.2	1.3	1.3	2.3	2.0	0.7	1.3	1.4	1.4	1.9	1.0	1.6
HDFC Life	7.5	7.1	7.0	9.1	2.1	2.4	7.9	7.2	7.0	7.4	6.2	6.7	6.5	5.6	7.4	5.2	6.8	5.3	6.0
ICICI Prudential	3.6	12.9	2.2	1.3	4.9	0.5	2.3	2.0	3.8	3.3	3.5	5.3	3.2	2.3	2.7	2.0	4.1	2.1	2.9
Kotak	1.9	2.0	1.8	1.4	0.6	0.5	0.9	0.8	1.6	1.3	1.2	2.0	2.0	1.6	1.1	1.9	1.5	1.7	1.2
Max Life	0.6	0.5	0.3	0.3	0.1	0.1	0.2	0.3	0.3	0.4	0.5	0.5	0.5	0.3	0.3	0.3	0.5	0.3	0.3
Reliance Life	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.4	0.2	0.1	0.1	0.0	0.0	0.2	0.0	0.1
SBI Life	3.3	3.3	1.8	18.0	2.9	3.3	7.4	5.9	7.5	5.2	4.1	3.3	4.2	4.6	6.9	3.4	4.2	3.6	5.4
Private sector	25	33	18	42	15	10	27	20	24	25	24	26	23	20	24	19	25	18	22
LIC	75	67	82	58	85	90	73	80	76	75	76	74	77	80	76	81	75	82	78

Source: IRDAI, LIC Council, Kotak Institutional Equities

Exhibit 13: SBI Life remains most attractive

Valuation comparison for life insurers, March fiscal year-ends, 2019-22E

Company	Rating	FV (Rs)	Price (Rs)	Market cap. (Rs bn)	Embedded value (Rs bn)				VNB margin (%)				Price/EV (X)				Price/VNB (X)				Price/EVOP (X)				Operating RoEV (%)			
					2020	2021E	2022E	2023E	2020	2021E	2022E	2023E	2020	2021E	2022E	2023E	2020	2021E	2022E	2023E	2020	2021E	2022E	2023E				
HDFC Life	ADD	705	684	1,382	207	264	313	371	26	26	26	27	6.7	5.2	4.4	3.7	72	65	55	45	42	35	29	24	18	19	18	19
ICICI Prudential Life	BUY	560	477	685	230	271	309	355	22	26	24	24	3.0	2.5	2.2	1.9	43	44	40	33	21	22	18	15	15	14	14	15
Max Life	NR	-	729	252	100	115	129	147	22	21	22	23	2.7	2.3	2.1	1.8	30	32	27	22	19	20	17	15	20	17	17	18
SBI Life	BUY	1,250	859	859	263	319	374	438	19	20	21	22	3.3	2.7	2.3	2.0	43	39	31	26	19	19	15	13	20	17	18	18

Source: Company, Bloomberg, Kotak Institutional Equities estimates

December 2020: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
8-Feb	9-Feb	10-Feb	11-Feb	12-Feb	13-Feb
	Adani Ports & SEZ	3M India	ACC	Apollo Hospitals Enterprise	Amara Raja Batteries
	AIA Engineering	ABB	Ashok Leyland	Bharat Forge	Idea Cellular
	Aster DM Healthcare	Aurobindo Pharma	Bosch	Cochin Shipyard	Rajesh Exports
	Berger Paints India	Bank of India	Coal India	Dilip Buildcon	Sunteck Realty
	Endurance Technologies	Bata India	GIC	Glenmark Pharmaceuticals	
	Indian Overseas Bank	Eicher Motors	Gujarat Pipavav Port	GMR Infrastructure	
	Lemon Tree Hotel	GAIL (India)	HCG	Godrej Industries	
	Mahanagar Gas	Gujarat State Petronet	ITC	Grasim Industries	
	Max Financial Services	Hindalco Industries	Karur Vysya Bank	Hindustan Aeronautics	
	Muthoot Finance	Indraprastha Gas	MRF	Info Edge (India)	
	Tata Steel	Metropolis Healthcare	Natco Pharma	Motherson Sumi Systems	
	Torrent Power	Mindspace REIT	NHPC	National Aluminium Co.	
	Varroc Engineering	Page Industries	Oil India	New India Assurance	
		S H Kelkar and Company	Petronet LNG	Oil & Natural Gas Corp.	
		Titan Co.	Piramal Enterprises	Phoenix Mills	
		Ujjivan Financial Services	Power Finance Corporation	Siemens	
			Power Grid	Sobha	
			Prestige Estates Projects	Timken India	
				Voltas	
15-Feb	16-Feb	17-Feb	18-Feb	19-Feb	20-Feb
	Schaeffler India		Ambuja Cements	Mahindra CIE Automotive	
	Varun Beverages				

Source: NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M
		8-Feb-21	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	(US\$ mn)
Automobiles & Components																													
Amara Raja Batteries	REDUCE	977	730	(25)	167	2.3	171	36	46	52	(7)	28	13	27	21.4	18.9	14.9	11.9	10.3	4.1	3.6	3.1	15.8	17.7	17.6	0.9	1.2	1.3	11.7
Apollo Tyres	REDUCE	249	210	(16)	158	2.2	638	4.6	12.9	16.7	(45)	183	29	54.6	19.3	14.9	7.6	7.2	5.9	1.4	1.3	1.3	2.8	7.1	8.7	0.5	1.1	1.1	40
Ashok Leyland	BUY	136	115	(15)	399	5.5	2,936	(0.3)	3.4	7.5	(121)	1,413	117	NM	39.4	18.1	54.1	18.7	10.8	5.5	5.0	4.2	NM	13.4	25	0.0	0.8	1.7	54
Bajaj Auto	BUY	4,237	4,400	4	1,226	17	289	158	191	222	(10)	21	16	26.8	22.2	19.1	21.1	16.5	13.8	5.6	5.1	4.6	22	24	25	2.2	2.7	3.1	49
Balkrishna Industries	SELL	1,841	1,250	(32)	356	4.9	193	52	62	77	4	19	24	35.6	29.8	23.9	21.0	17.5	14.2	6.4	5.6	4.9	18.9	20	22	1.2	1.3	1.4	25
Bharat Forge	SELL	643	320	(50)	299	4.1	466	(0.2)	12.6	19.0	(102)	7,097	50	NM	50.9	33.9	59.0	25.2	19.1	5.7	5.3	4.7	NM	10.8	14.7	0.0	0.5	0.5	27
CEAT	ADD	1,614	1,500	(7)	65	0.9	40	99	107	124	59	8	16	16.2	15.0	13.0	8.3	7.5	6.6	2.0	1.8	1.6	13.1	12.7	13.1	0.7	0.7	0.7	9.1
Eicher Motors	SELL	2,970	1,920	(35)	812	11.1	272	57	84	109	(16)	48	31	52.5	35.5	27.2	38.3	27.9	21.6	8.5	7.1	5.9	17.3	22	24	0.4	0.4	0.4	65
Endurance Technologies	REDUCE	1,471	1,020	(31)	207	2.8	141	34	49	59	(16)	45	22	44	30.2	24.8	20.3	15.4	13.0	6.1	5.2	4.4	13.9	17.3	17.9	0.4	0.6	0.7	3.2
Escorts	BUY	1,433	1,700	19	127	2.6	101	77	89	100	42	15	12	18.5	16.1	14.4	10.2	8.8	7.4	2.8	2.4	2.1	15.1	15.1	14.8	0.8	0.9	1.0	36
Exide Industries	REDUCE	215	180	(16)	182	2.5	850	8.3	10.3	11.3	(17)	24	10	25.9	20.9	19.1	13.8	11.6	10.5	2.8	2.6	2.4	10.9	12.7	12.9	2.1	2.1	2.1	13.9
Hero Motocorp	SELL	3,495	3,000	(14)	698	9.6	200	144	179	206	(10)	24	15	24.3	19.6	17.0	16.0	12.4	10.6	4.6	4.2	3.8	19.6	23	24	2.7	3.1	3.5	62
Mahindra CIE Automotive	SELL	172	110	(36)	65	0.9	378	1.8	8.2	12.1	(81)	347	48	94.1	21.0	14.2	18.1	9.5	7.1	1.4	1.3	1.2	1.5	6.4	8.8	—	—	—	0.3
Mahindra & Mahindra	BUY	928	1,000	8	1,154	15.8	1,138	33	48	55	38	45	16	28.3	19.4	16.8	17.2	13.2	11.2	2.9	2.6	2.3	10.5	14.1	14.5	0.4	0.8	0.9	71
Maruti Suzuki	SELL	7,575	5,700	(25)	2,288	31.4	302	160	230	299	(15)	44	30	47	33	25	32.9	20.8	15.1	4.4	4.0	3.6	9.6	12.8	15.0	0.7	0.8	1.0	130
Motherson Sumi Systems	ADD	163	155	(5)	514	7.0	3,158	2.7	7.5	9.0	(26)	173	20	59.6	21.8	18.1	11.9	6.4	5.3	4.3	3.5	2.8	7.5	17.7	17.1	0.7	1.0	1.1	31
MRF	SELL	90,871	68,000	(25)	385	5.3	4	2,441	3,281	3,947	(27)	34	20	37	27.7	23.0	13.7	11.2	9.3	2.9	2.6	2.4	8.1	10.0	10.9	0.1	0.1	0.1	52
Schaeffler India	SELL	4,878	3,500	(28)	152	2.1	31	87	139	166	(26)	61	19	56	35	29	28.4	19.0	16.0	4.8	4.2	3.7	8.8	12.8	13.5	—	—	—	1.1
SKF	REDUCE	2,423	1,450	(40)	120	1.6	49	43	54	67	(26)	26	23	56	45	36	41.3	31.5	25.5	8.1	7.1	6.1	14.4	15.9	16.9	4.5	0.4	0.5	1.4
Tata Motors	SELL	336	180	(46)	1,209	15.2	3,829	(8)	18	25	60	320	39	NM	18.3	13.2	6.7	4.4	3.8	2.0	1.8	1.6	NM	10.5	12.9	—	—	—	332
Timken	SELL	1,377	830	(40)	104	1.4	75	22	36	43	(34)	65	20	63	38	32	36.6	23.6	19.6	7.6	6.4	5.5	11.1	18.1	18.4	0.1	0.1	0.1	1.0
TVS Motor	SELL	641	360	(44)	304	4.2	475	11	17	21	(19)	65	22	61	37	30	24.0	17.9	15.4	7.9	6.8	5.9	13.4	19.9	21	0.7	0.7	0.8	28
Varroc Engineering	BUY	465	380	(18)	63	0.9	135	(20)	23	35	(10,817)	214	56	NM	20.5	13.1	14.3	6.6	5.3	2.3	2.1	1.8	NM	10.1	13.8	—	—	—	1.5
Automobiles & Components																													
Banks	Cautious				11,056	151.0					5	107	27	51.7	25.0	19.7	15.1	10.5	8.7	3.8	3.4	3.0	7.3	13.6	15.2	0.9	1.0	1.2	1,044
AU Small Finance Bank	SELL	1,032	720	(30)	317	4.3	304	38.7	27.4	33.7	75	(29)	23	27	38	31	—	—	—	6.2	5.2	4.4	23.7	14.0	14.8	—	—	—	14.5
Axis Bank	BUY	736	675	(8)	2,254	30.9	3,060	22.7	42.2	51.3	294	85	22	32	17.5	14.3	—	—	—	2.4	2.1	1.9	7.5	12.2	13.3	0.5	0.9	1.0	190
Bandhan Bank	ADD	331	375	13	533	7.3	1,610	15.7	20.3	24.6	(17)	30	21	21.1	16.3	13.5	—	—	—	3.2	2.7	2.2	15.3	16.9	17.2	—	—	—	69
Bank of Baroda	ADD	81	80	(1)	374	5.1	4,627	7.9	17.4	20.7	572	120	18	10	4.6	3.9	—	—	—	0.7	0.6	0.5	5.4	11.1	12.0	2.0	4.3	5.1	51
Canara Bank	REDUCE	158	115	(27)	261	3.6	1,647	10.9	9.3	18.4	150	(15)	99	14.6	17.1	8.6	—	—	—	0.8	0.8	0.7	3.4	2.7	5.2	—	—	—	58
City Union Bank	REDUCE	172	160	(7)	127	1.7	737	7.8	8.0	10.5	21	2	32	22	21.5	16.3	—	—	—	2.5	2.3	2.1	10.4	9.8	11.9	0.8	0.8	1.1	5.6
DCB Bank	BUY	114	150	32	35	0.5	310	10.6	12.2	16.3	(2)	15	33	10.7	9.3	7.0	—	—	—	1.1	1.0	0.9	9.9	10.4	12.5	0.9	1.1	1.4	4.1
Equitas Holdings	BUY	89	100	13	30	0.4	342	7.8	8.3	16.3	30	5	97	11.3	10.8	5.5	—	—	—	1.1	1.0	0.8	9.2	8.8	15.4	—	—	—	3.4
Equitas Small Finance Bank	BUY	47	50	6	54	0.7	1,138	2.9	3.6	4.9	27	23	36	16.1	13.1	9.6	—	—	—	1.6	1.5	1.3	11.0	11.5	13.8	—	—	—	0.0
Federal Bank	BUY	83	90	9	165	2.3	1,993	7.5	8.5	12.4	(3)	14	45	11.1	9.7	6.7	—	—	—	1.1	1.0	0.9	9.9	10.5	13.9	2.0	2.3	3.3	38
HDFC Bank	ADD	1,605	1,550	(3)	8,844	121.2	5,483	55.4	65.2	76.4	16	18	17	29	25	21	—	—	—	4.6	4.0	3.5	16.6	17.2	17.6	0.7	0.8	0.9	226
ICICI Bank	BUY	630	650	3	4,347	59.6	6,893	24.8	31.1	35.2	102	26	13	25	20.2	17.9	—	—	—	3.2	2.8	2.5	13.1	14.0	14.2	0.8	1.0	1.1	198
IndusInd Bank	ADD	1,035	950	(8)	784	10.7	756	33.9	62.6	80.6	(47)	85	29	30	16.5	12.8	—	—	—	2.0	1.8	1.6	7.1	11.4	13.2	0.5	0.9	1.2	207
Karur Vysya Bank	BUY	58	65	11	47	0.6	799	4.7	6.6	9.4	61	39	43	12	8.9	6.2	—	—	—	0.8	0.7	0.7	5.6	7.4	10.0	2.1	2.9	4.2	2.2
Punjab National Bank	REDUCE	38	36	(5)	398	5.5	10,481	2.3	4.8	6.2	369	106	29	16	7.9	6.1	—	—	—	0.7	0.7	0.6	3.4	5.7	6.9	—	—	—	61
RBL Bank	BUY	247	270	9	148	2.0	597	9.8	23.9	31.0	(2)	146	29	25	10.3	8.0	—	—	—	1.2	1.1	1.0	5.0	10.8	12.7	0.6	1.5	1.9	68
SBI Cards and Payment Services	ADD	984	1,030	5	925	12.7	939	13.0	19.8	30.1	(2)	53	52	76	49.7	32.6	—	—	—	14.3	11.3	8.5	20.7	25	30	0.1	0.1	0.2	22
State Bank of India	BUY	397	450	13	3,544	48.6	8,925	23.5	35.8	44.9	45	52	26	17	11.1	8.8	—	—	—	1.8	1.5	1.3	8.6	11.9	13.2	0.1	0.1	0.1	231
Ujivan Financial Services	BUY	249	345	39	30	0.4	121	33.6	44.2	-	25	32	(100)	7	5.6	-	—	—	—	1.2									

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares			EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M
		8-Feb-21	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	(US\$ mn)		
Building Products																															
Astral Poly Technik	SELL	2,069	985	(52)	312	4.3	151	24	26	32	46	10	21	86	79	65	51.7	45.9	37.9	17.2	14.6	12.5	22	20	21	0.1	0.2	0.4	7.3		
Building Products	Cautious				312	4.3					46	10	21	86	78	65	51.7	45.9	37.9	17.1	14.5	12.5	19.9	18.6	19.2	0.1	0.2	0.4	7.3		
Capital goods																															
ABB	SELL	1,482	980	(34)	314	4.3	212	7.5	20.0	26.4	(57)	166	32	197	74	56	144.2	50.4	38.1	8.9	8.3	7.6	4.5	11.6	14.1	0.4	0.5	0.6	3.8		
Ashoka Buildcon	BUY	105	145	38	29	0.4	281	11.9	12.0	13.1	(14)	1	9	8.8	8.8	8.0	7.1	6.0	5.0	1.0	0.9	0.9	12.2	11.2	11.2	1.8	1.8	2.0	2.7		
Bharat Electronics	BUY	141	140	(1)	343	4.7	2,437	7.4	7.9	8.1	(1)	7	3	19.1	17.9	17.3	12.1	10.9	10.0	3.1	2.8	2.6	17.0	16.6	15.7	2.0	2.1	2.2	30		
BHEL	SELL	40	31	(22)	139	1.9	3,482	(4.4)	2.2	3.1	(4)	149	42	NM	18.5	13.0	(7.9)	7.3	5.7	0.5	0.5	0.5	NM	2.6	3.7	(4.9)	2.2	2.7	31		
Carborundum Universal	ADD	505	450	(11)	96	1.3	189	15	19	22	5	23	19	33	27	23	19.8	15.7	13.1	4.7	4.2	3.7	14.7	16.3	17.3	0.8	1.0	1.2	2.1		
Cochin Shipyard	BUY	348	520	50	46	0.6	132	35	43	43	(27)	20	1	9.8	8.2	8.1	4.9	4.9	4.5	1.1	1.0	1.0	12.0	13.4	12.5	3.4	3.6	4.0	2.0		
Cummins India	BUY	792	750	(5)	220	3.0	277	25	33	38	(3)	33	16	32	24	21	32.4	22.8	19.3	5.0	4.7	4.4	16.1	20	22	1.7	2.3	2.6	15.8		
Dilip Buildcon	BUY	502	515	3	69	0.9	137	25	45	61	(19)	83	35	20	11.1	8.2	6.9	5.3	4.6	1.7	1.5	1.3	8.9	14.5	16.7	0.1	0.2	0.2	1.9		
IRB Infrastructure	BUY	109	145	33	38	0.5	351	7	10	11	(65)	45	7	15.3	10.5	9.8	6.2	5.7	4.5	0.6	0.5	0.5	3.7	5.3	5.4	3.5	1.4	2.1	1.4		
Kalpataru Power Transmission	BUY	374	475	27	56	0.8	153	25	39	43	(2)	57	12	15.1	9.6	8.6	5.3	4.5	3.9	1.5	1.2	1.1	10.4	13.5	12.9	0.9	1.2	1.4	2.5		
KEC International	BUY	423	410	(3)	109	1.5	257	22	29	36	1	31	24	19.1	14.6	11.8	10.8	8.5	7.0	3.3	2.8	2.3	18.7	21	21	0.6	0.7	0.9	2.5		
L&T	BUY	1,552	1,720	11	2,179	29.9	1,403	50	81	99	(21)	60	24	31	19.3	15.6	21.0	15.4	13.8	3.1	2.8	2.6	11.1	15.5	17.3	1.1	1.6	2.0	10.5		
Siemens	SELL	1,879	1,150	(39)	669	9.2	356	35	40	41	66	13	4	53	47	45	38.3	33.7	32.6	6.5	5.9	5.5	12.7	13.1	12.6	0.5	0.6	0.6	14.5		
Thermax	SELL	1,147	1,080	(6)	137	1.9	113	25	33	43	34	29	32	45	35	27	31.8	25.5	19.6	31.8	25.5	19.6	9.3	11.6	14.5	1.1	1.4	1.8	1.2		
Capital goods	Attractive				4,443	60.9					(16)	68	20	36	21	18.0				2.8	2.6	2.4	7.8	12.1	13.3	0.9	1.4	1.7	216		
Commercial & Professional Services																															
SIS	BUY	420	460	10	62	0.9	149	23	21	25	51	(9)	19	18.4	20	16.9	12.2	11.3	9.9	3.7	3.1	2.7	22	16.7	17.0	0.3	0.2	0.3	1.3		
TeamLease Services	ADD	3,506	3,030	(14)	60	0.8	17	53	70	95	159	31	37	66	50	37	57.6	42.4	31.9	9.0	7.7	6.3	14.7	16.5	18.9	—	—	—	1.1		
Commercial & Professional Services	Attractive				122	1.7					66	(0)	24	28	28	23	19.5	17.2	14.6	5.1	4.4	3.7	18.2	15.4	16.2	0.1	0.1	0.2	2		
Commodity Chemicals																															
Asian Paints	SELL	2,417	2,550	6	2,318	31.8	959	32	41	48	19	26	19	75	60	50	48.1	40.0	34.3	19.7	16.8	14.4	28	30	31	0.6	0.8	1.0	87		
Berger Paints	SELL	752	565	(25)	730	10.0	971	7	10	12	4	40	22	107	76	63	64.9	48.5	40.7	23.3	19.7	16.6	24	28	29	0.2	0.4	0.5	11.8		
Kansai Nerolac	REDUCE	588	610	4	317	4.3	539	10	12	15	1	21	26	59	49	39	38.0	32.1	25.8	7.7	7.0	6.4	13.6	15.1	17.3	0.5	0.7	0.9	3.3		
Tata Chemicals	ADD	536	540	1	136	1.9	255	17	33	38	(46)	94	15	31	16.0	14.0	8.7	6.2	5.4	1.0	1.0	0.9	3.4	6.3	6.9	1.1	2.2	2.5	41		
Commodity Chemicals	Neutral				3,502	48.0					3	34	20	74	55	46	41.4	33.0	28.2	10.9	9.8	8.8	14.7	17.7	19.0	0.5	0.8	1.0	143		
Construction Materials																															
ACC	REDUCE	1,764	1,875	6	331	4.5	188	76	91	97	5	19	7	23	19.4	18.2	10.8	9.0	7.9	2.7	2.5	2.4	12.1	13.5	13.4	2.2	2.6	2.7	36		
Ambuja Cements	BUY	274	300	9	545	7.5	1,986	12	14	17	16	18	21	22	19.0	15.8	8.8	7.0	5.6	2.4	2.1	1.9	10.3	11.8	12.9	6.2	1.0	1.2	29		
Dalmia Bharat	BUY	1,333	1,500	13	249	3.4	187	40	48	68	189	20	41	33	28	19.5	9.8	8.6	6.8	2.3	2.1	1.9	7.0	8.0	10.3	—	—	—	3.4		
Grasim Industries	ADD	1,211	1,100	(9)	797	10.9	657	59	83	107	13	39	29	20	14.6	11.4	9.7	7.3	5.8	1.3	1.2	1.1	6.7	8.6	10.2	0.1	0.3	0.5	35		
J K Cement	ADD	2,308	2,000	(13)	178	2.4	77	81	117	138	27	43	18	28	19.8	16.7	13.6	10.3	8.9	5.0	4.0	3.3	19.1	23	22	0.4	0.4	0.4	4.5		
JK Lakshmi Cement	BUY	368	400	9	43	0.6	118	26	30	35	10	16	16	14.2	12.3	10.6	6.3	5.9	5.6	2.2	1.9	1.6	16.7	16.6	16.7	1.1	1.2	1.4	2.2		
Orient Cement	ADD	93	90	(3)	19	0.3	205	7.7	6.3	8.6	82	(18)	37	12.1	14.8	10.8	5.8	6.4	5.7	1.5	1.4	1.3	13.4	10.1	12.7	2.1	2.1	2.1	1.0		
Shree Cement	SELL	28,022	18,250	(35)	1,011	13.9	36	595	800	933	37	34	17	47	35	30	25.8	20.2	17.3	6.9	5.9	5.0	15.6	18.1	18.0	0.4	0.4	0.4	24		
UltraTech Cement	ADD	6,368	5,800	(9)	1,838	25.2	289	187	243	292	41	30	20	34	26	22	17.7	14.1	12.1	4.2	3.6	3.1	13.0	14.8	15.4	0.2	0.3	0.4	60		
Construction Materials	Attractive				5,011	68.7					28	29	22	29	23	18.6	13.3	10.6	8.8	2.9	2.6	2.3	10.0	11.6	12.5	1.0	0.6	0.6	195		

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M	
		8-Feb-21	(Rs)	(%)	(Rs bn) (US\$ bn)	(mn)	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	(US\$ mn)	
Consumer Durables & Apparel																													
Crompton Greaves Consumer	SELL	408	285	(30)	256	3.5	627	8.0	9.9	11.4	1	24	15	51	41	36	38	32	27	14.2	11.2	8.9	31	30	28	0.7	0.6	0.6	12.3
Havells India	SELL	1,126	820	(27)	705	9.7	626	18	21	24	49	17	18	64	55	46	44	38	32	14.2	12.4	10.7	24	24	25	0.5	0.6	0.8	44
Page Industries	REDUCE	29,202	25,200	(14)	326	4.5	11	285	461	545	(7)	62	18	102	63	54	65	43	36	34.2	27.0	22.1	36	48	45	0.5	0.9	1.1	20
Polycab	ADD	1,317	1,300	(1)	196	2.7	149	49	57	63	(4)	16	10	27	23	21	17	15	13	4.4	3.8	3.3	17.7	17.8	16.8	0.5	0.6	0.6	10.2
TCNS Clothing Co.	REDUCE	419	390	(7)	26	0.4	66	(6.7)	11.3	15.5	(162)	269	37	NM	37	27	85	13	10.2	4.2	3.6	3.1	NM	10.4	12.2	—	—	—	0.4
Voltas	SELL	1,040	655	(37)	344	4.7	331	14	21	25	(14)	52	16	74	49	42	65	41	35	7.5	6.7	6.1	10.5	14.5	15.2	0.3	0.5	0.6	26
Whirlpool	SELL	2,375	1,930	(19)	301	4.1	127	26	48	63	(30)	85	30	91	49	38	56	34	26	10.9	9.8	8.9	12.5	21	25	0.3	0.8	1.3	4.6
Consumer Durables & Apparel	Cautious				2,155	29.5					(1)	37	18	63	46	39	43	32	27	10.7	9.2		16.9	20	20	0.5	0.7		118
Consumer Staples																													
Bajaj Consumer Care	ADD	264	300	14	39	0.5	148	15	16	18	22	7	8	17.2	16.1	15.0	13.8	12.5	11.1	5.1	4.4	3.8	32	29	27	3.0	3.0	3.4	3.0
Britannia Industries	ADD	3,474	3,875	12	837	11.5	240	79	73	86	33	(6)	17	44	47	40	33	34	30	26.5	18.1	16.7	49	45	43	3.1	2.0	2.2	40
Colgate-Palmolive (India)	ADD	1,589	1,680	6	432	5.9	272	35	38	43	24	9	13	45	42	37	29.6	27.2	24.2	26.4	25.2	24.0	59	62	67	2.1	2.3	2.6	17.6
Dabur India	ADD	518	555	7	916	12.6	1,767	10	11	13	13	14	53	47	41	44	37	33	12.6	11.5	10.4	25	26	27	1.2	1.4	1.5	28	
Godrej Consumer Products	ADD	735	795	8	752	10.3	1,022	16	18	21	18	12	15	45	40	35	31	28	24	8.3	7.5	6.8	19.5	19.4	20	1.0	1.3	1.6	17.9
Hindustan Unilever	ADD	2,237	2,625	17	5,255	72.0	2,343	34	41	49	9	20	20	66	55	46	45	38	32	12.2	11.9	11.4	31	22	25	1.5	1.7	2.1	79
ITC	BUY	233	255	9	2,868	39.3	12,318	10	12	13	(10)	19	8	22	18.9	17.4	16.2	13.4	12.2	4.4	4.2	4.1	18.9	22	23	3.8	4.5	4.9	113
Jyothy Laboratories	ADD	155	170	10	57	0.8	367	6.0	6.3	7.1	28	4	14	26	25	22	18.2	17.4	15.5	4.3	4.0	3.8	17.3	16.9	18.0	2.3	2.6	2.9	1.5
Marico	ADD	411	450	9	531	7.3	1,290	9.1	10.2	11.3	12	12	11	45	40	36	32	28	25	15.9	14.6	13.4	37	38	38	1.7	1.9	2.1	15.8
Nestle India	REDUCE	17,218	17,500	2	1,660	22.8	96	220	260	301	8	18	16	78	66	57	51	44	39	76.3	51.3	37.3	103	93	75	1.1	0.9	1.0	36
Tata Consumer Products	ADD	597	610	2	550	7.5	922	10	12	14	25	19	21	60	50	42	34	30	25	3.8	3.6	3.4	6.5	7.4	8.5	0.6	0.7	0.8	34
United Breweries	ADD	1,270	1,375	8	336	4.6	264	4	26	33	(74)	513	28	305	50	39	88	28	22	9.3	7.9	6.8	3.1	17.2	18.8	0.1	0.5	0.7	11.7
United Spirits	ADD	580	680	17	422	5.8	727	6	14	17	(48)	136	22	98	41	34	45	26	22	9.7	7.8	6.7	10.3	21	21	—	—	0.9	24
Varun Beverages	BUY	887	1,100	24	256	3.5	289	11	29	36	(33)	164	25	81	31	25	23	14	12	6.9	5.8	4.8	9.0	20	21	0.2	0.3	0.3	4.9
Consumer Staples	Attractive				14,911	204.4					2	21	14	46	38	33	32	27	23	9.1	8.5	8.0	19.9	22	24	1.9	2.0	2.3	426
Diversified Financials																													
Bajaj Finance	SELL	5,498	4,000	(27)	3,313	45.4	600	77	144	191	(13)	87	33	72	38	29	—	—	—	9.1	7.5	6.1	13.4	21	23	0.1	0.3	0.3	299
Bajaj Finserv	ADD	10,021	10,050	0	1,595	21.9	159	276	437	566	30	58	29	36	23	17.7	—	—	—	5.0	4.3	3.7	14.0	20	22	0.1	0.1	0.1	124
Cholamandalam	BUY	461	540	17	378	5.2	820	24	33	35	88	35	7	19.1	14.2	13.3	—	—	—	4.0	3.2	2.7	22	24	21	0.6	0.8	0.8	33
HDFC	ADD	2,733	2,750	1	4,921	67.4	1,789	66	73	87	(36)	11	20	42	38	31	—	—	—	4.5	4.2	3.8	11.7	11.5	12.8	0.8	0.9	1.1	175
HDFC AMC	SELL	3,087	2,175	(30)	657	9.0	213	63	72	82	7	15	13	49	43	38	—	—	—	14.2	12.3	10.7	31	31	30	1.1	1.3	1.5	16.6
IIFL Wealth	ADD	1,180	1,250	6	103	1.4	90	38	45	58	61	17	30	31	26	20	—	—	—	4.0	3.7	3.5	12.1	14.6	17.9	6.8	2.5	2.9	0.8
L&T Finance Holdings	ADD	91	105	16	193	2.6	2,005	5	10	12	(45)	104	27	19.3	9.5	7.5	—	—	—	1.2	1.1	1.0	6.3	11.9	13.5	1.6	1.7	1.7	28
LIC Housing Finance	ADD	437	430	(2)	221	3.0	505	53	71	79	12	33	12	8.2	6.2	5.5	—	—	—	1.3	1.1	1.0	14.0	16.5	16.1	2.1	2.7	3.1	44
Mahindra & Mahindra Financial	BUY	184	195	6	228	3.1	1,232	8	14	18	(49)	89	25	24	13.0	10.3	—	—	—	1.6	1.5	1.4	7.0	11.0	12.6	0.6	1.5	1.9	28
Muthoot Finance	REDUCE	1,177	1,150	(2)	472	6.5	401	83	94	104	11	12	11	14.1	12.5	11.3	—	—	—	3.3	2.8	2.3	26	24	22	1.4	1.6	1.8	38
Shriram City Union Finance	BUY	1,487	1,500	1	98	1.3	66	145	180	193	(5)	24	7	10.3	8.3	7.7	—	—	—	1.3	1.1	1.0	12.5	13.9	13.3	1.2	1.8	1.9	1.2
Shriram Transport	BUY	1,420	1,525	7	359	4.9	253	103	134	161	(7)	30	20	13.8	10.6	8.8	—	—	—	1.7	1.5	1.3	13.1	14.7	15.5	1.1	1.4	1.7	80
Diversified Financials	Attractive				12,597	172.6					(11)	36	19	34	25	21				4.2	3.7	3.4	12.3	14.8	16.0	0.7	0.8	0.9	869

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M	
		8-Feb-21	(Rs)	(%)	(Rs bn) (US\$ bn)	(mn)	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	(US\$ mn)	
Electric Utilities																													
CESC	BUY	606	815	34	80	1.1	133	96	106	117	(3)	11	10	6.3	5.7	5.2	5.1	4.2	3.7	0.6	0.6	0.5	11.2	10.3	10.4	7.4	2.3	2.7	5.5
JSW Energy	REDUCE	72	70	(2)	118	1.6	1,640	5.6	5.7	7.0	(11)	0	24	12.7	12.7	10.2	6.5	5.7	5.1	0.9	0.9	0.8	7.6	7.1	8.2	—	—	—	3.4
NHPC	ADD	24	26	7	244	3.3	10,045	3.0	3.2	3.2	6	6	1	8.2	7.7	7.6	11.0	9.9	9.3	0.8	0.7	0.7	9.3	9.5	9.2	6.8	7.4	7.4	2.9
NTPC	BUY	100	125	25	992	13.6	9,697	15	15	17	32	4	8	6.8	6.6	6.1	8.4	6.4	5.4	0.8	0.7	0.7	12.2	11.8	11.8	4.0	4.6	5.0	49
Power Grid	BUY	213	220	4	1,112	15.2	5,232	22	26	28	8	19	8	9.8	8.2	7.6	7.1	6.3	5.8	1.6	1.5	1.3	17.0	18.6	18.3	5.1	6.1	6.5	32
Tata Power	ADD	90	95	6	288	3.9	3,196	3.5	5.2	5.8	(20)	46	12	25.4	17.4	15.6	8.8	8.8	8.2	1.3	1.2	1.1	5.7	7.3	7.6	—	—	—	41
Electric Utilities	Attractive				2,834	38.8					14	11	8	8.9	8.0	7.4				1.1	1.0	0.9	11.8	12.2	12.2	4.2	4.6	5.0	134
Fertilizers & Agricultural Chemicals																													
Bayer Cropscience	SELL	5,533	3,900	(30)	249	3.4	45	141	156	176	9	11	13	39	35	31	28	25	21	8.1	6.8	5.8	22	21	20	0.5	0.6	0.6	2.7
Dhanuka Agritech	SELL	777	680	(12)	37	0.5	48	43	41	45	43	(3)	10	18.3	18.8	17.1	14.0	13.9	12.2	4.3	3.7	3.2	26	21	20	1.4	1.6	2.0	1.0
Godrej Agrovet	SELL	500	455	(9)	96	1.3	192	15	18	21	29	24	15	34	27	24	19	15	13	3.9	3.5	3.2	12.2	13.7	14.2	1.0	1.3	1.5	1.3
PI Industries	SELL	2,237	1,825	(18)	339	4.7	148	51	61	73	53	20	20	44	37	31	31	25	20	6.3	5.7	4.9	19.1	16.5	17.2	0.3	0.5	0.6	19.0
Rallis India	ADD	272	310	14	53	0.7	195	12	15	18	30	26	21	23.1	18.3	15.1	16.3	12.9	10.6	3.3	2.9	2.5	15.3	16.9	17.8	1.0	1.1	1.2	2.2
UPL	SELL	538	430	(20)	411	5.6	765	34	39	43	46	15	10	16	13.8	12.6	8.1	7.3	6.5	2.3	2.0	1.8	15.0	15.4	15.2	1.6	1.9	2.1	77
Fertilizers & Agricultural Chemicals	Cautious				1,185	16.2					40	16	13	25	22	19.3	12.6	11.2	9.9	3.8	3.3	2.9	14.9	15.3	15.3	0.9	1.1	1.3	103
Gas Utilities																													
GAIL (India)	BUY	131	140	7	593	8.1	4,510	8	10	11	(39)	29	11	16.4	12.7	11.4	11.8	9.0	7.8	1.3	1.2	1.2	8.0	9.9	10.5	3.0	3.8	4.6	44
GSPL	SELL	214	200	(6)	121	1.7	564	13	12	8	(23)	(11)	(32)	16.2	18.1	26.7	6.7	7.1	9.3	1.6	1.5	1.5	10.6	8.7	5.6	0.9	1.1	0.9	3.1
Indraprastha Gas	ADD	544	500	(8)	381	5.2	700	16	23	26	(3)	42	11	33.7	23.7	21.2	24.0	17.1	15.1	6.5	5.5	4.7	21	25	24	0.5	0.9	1.3	26
Mahanagar Gas	BUY	1,111	1,200	8	110	1.5	99	65	91	96	(12)	39	6	17.0	12.2	11.5	10.9	7.7	6.9	3.3	2.8	2.5	20	25	23	2.3	3.1	3.8	16.0
Petronet LNG	BUY	242	300	24	363	5.0	1,500	20	22	24	11	11	11	12.4	11.1	10.1	6.8	6.2	5.7	3.1	2.9	2.8	26	27	29	6.1	7.2	8.5	18.3
Gas Utilities	Attractive				1,567	21.5					(21)	22	8	17.3	14.1	13.1	10.9	8.9	8.1	2.1	2.0	1.9	12.2	14.0	14.2	2.9	3.6	4.3	108
Health Care Services																													
Apollo Hospitals	ADD	2,730	2,240	(18)	393	5.4	139	(3)	40	60	(119)	1,261	50	NM	68.9	45.8	30.5	22.4	20.2	11.5	10.4	9.0	NM	15.9	21	(0.1)	0.6	0.9	48
Aster DM Healthcare	BUY	158	225	43	79	1.1	500	3.6	8.8	11.0	(40)	148	25	44.3	17.9	14.3	8.6	6.4	5.5	2.3	2.1	1.8	5.3	12.1	13.5	—	—	—	0.7
Dr Lal Pathlabs	SELL	2,410	1,520	(37)	201	2.8	83	33	40	43	22	23	7	73.3	59.6	55.6	46.0	37.0	34.4	17.0	14.7	12.8	25	26	25	0.6	0.8	0.8	5.8
HCG	BUY	156	150	(4)	20	0.3	143	(9)	(2)	(2)	28	73	27	NM	NM	NM	15.9	8.8	7.6	2.3	2.4	2.5	NM	NM	NM	—	—	—	0.3
Metropolis Healthcare	SELL	2,175	1,510	(31)	111	1.5	51	37	41	46	24	10	11	58.6	53.2	47.8	38.2	31.6	28.1	17.1	14.2	11.9	32	29	27	0.5	0.6	0.6	3.4
Narayana Hrudayalaya	BUY	490	540	10	100	1.4	204	(3.0)	9.7	12.6	(152)	421	31	NM	50.7	38.7	69.2	19.2	16.2	9.3	7.9	6.5	NM	16.8	18.4	—	—	—	1.8
Health Care Services	Attractive				903	12.4					(57)	317	30	221.3	53.0	40.9	26.6	18.6	16.5	8.5	7.6	6.7	3.8	14.4	16.4	0.2	0.5	0.6	60
Hotels & Restaurants																													
Jubilant Foodworks	BUY	2,810	3,150	12	371	5.1	132	17	43	54	(26)	144	26	160.8	65.9	52.2	45.5	28.5	23.9	29.2	21.2	16.5	19.2	37	36	0.2	0.5	0.6	45
Lemon Tree Hotels	BUY	43	35	(19)	34	0.5	790	(1.5)	(0.0)	0.7	(1,168)	99	5,898	NM	NM	64.3	65.6	20.2	13.8	4.8	5.1	5.1	NM	NM	7.9	—	0.8	1.3	2.1
Hotels & Restaurants	Attractive				405	5.6					(64)	413	36	369.2	72.0	52.9	47.5	27.0	21.7	20.6	16.7	13.8	5.6	23	26	0.2	0.5	0.7	47

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M		
		8-Feb-21	(Rs)	(%)	(Rs bn) (US\$ bn)	(mn)	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	(US\$ mn)		
Insurance																														
HDFC Life Insurance	ADD	684	705	3	1,382	18.9	2,010	7.6	9.6	11.9	18	27	24	90	71	58	—	—	—	17.9	16.1	14.3	21	24	26	0.3	0.4	0.4	46	
ICICI Lombard	SELL	1,473	1,075	(27)	670	9.2	454	33	34	38	26	3	13	45	43	38	—	—	—	8.9	7.8	6.7	22	19.9	18.8	0.2	0.4	0.5	17.6	
ICICI Prudential Life	BUY	477	560	17	685	9.4	1,436	9	11	13	16	29	16	55	43	37	—	—	—	8.0	7.0	6.1	15.4	17.4	17.5	0.3	0.4	0.5	17.4	
Max Financial Services	NR	729	—	—	252	3.4	343	10	27	16	(6)	180	(40)	76	27	45	—	—	—	—	—	—	—	—	—	—	—	—	—	17.4
SBI Life Insurance	BUY	859	1,250	46	859	11.8	1,001	13	16	19	(7)	23	15	65	53	46	—	—	—	9.5	8.2	7.2	15.5	16.6	16.6	0.2	0.3	0.3	22	
Insurance	Attractive				3,847	52.7					13	33	9	65.1	49.0	45				10.9	8.8	8.2	16.7	17.9	18.1	0.2	0.3	0.3	120	
Internet Software & Services																														
Info Edge	SELL	5,059	2,910	(42)	650	8.9	128.3	26	43	53	(4)	69	23	196.3	116.4	94.9	187.4	109.3	86.9	14.3	13.1	11.8	9.5	11.7	13.1	0.1	0.2	0.3	51	
Just Dial	SELL	640	570	(11)	40	0.5	61.8	27	30	36	(35)	9	20	23.4	21.5	17.9	15.9	14.4	11.9	3.2	2.8	2.4	13.4	13.9	14.4	—	—	—	13.7	
Internet Software & Services	Cautious				690	9.5					(17)	48	22	138.0	93.0	76.2	130.0	87.5	71.4	11.9	10.8	9.7	8.6	11.6	12.7	0.1	0.2	0.2	65	
IT Services																														
HCL Technologies	ADD	958	1,120	17	2,599	35.6	2,716	50	53	58	21	7	10	19.3	18.2	16.6	12.2	11.1	9.7	4.3	3.7	3.1	25	22	20	1.1	1.4	1.4	98	
Infosys	BUY	1,304	1,530	17	5,553	76.1	4,250	46	52	60	17	14	15	28.6	25.1	21.9	19.0	16.7	14.5	7.5	6.7	5.9	28	28	29	2.0	2.3	2.7	173	
L&T Infotech	REDUCE	4,102	3,810	(7)	717	9.8	176	108	128	151	25	19	17	38.0	31.9	27.2	25.5	22.7	19.5	10.9	8.8	7.2	32	31	29	0.8	0.9	1.0	23	
L&T Technology Services	ADD	2,701	2,700	(0)	284	3.9	106	64	89	106	(18)	39	20	42.5	30.5	25.4	26.6	20.0	16.6	8.8	7.3	6.1	22	26	26	0.6	0.8	1.0	10.8	
Mindtree	SELL	1,739	1,410	(19)	286	3.9	165	67	76	82	74	15	7	26.1	22.7	21.2	16.8	15.1	13.9	7.4	6.0	5.0	31	29	26	1.1	1.3	1.4	24	
Mphasis	REDUCE	1,632	1,480	(9)	305	4.2	187	66	76	85	5	14	12	24.6	21.5	19.2	16.0	13.9	12.3	4.7	4.2	3.8	20	21	21	2.1	2.1	2.1	9.1	
TCS	REDUCE	3,214	3,070	(4)	12,061	165.3	3,744	89	106	119	4	19	12	35.9	30.2	27.1	24.9	21.3	19.1	13.2	11.1	10.3	38	40	40	1.0	2.0	3.0	144	
Tech Mahindra	BUY	983	1,135	16	856	11.7	880	52	60	68	13	16	13	19.0	16.4	14.5	11.2	9.7	8.3	3.6	3.2	2.9	19.8	21	21	2.3	2.4	2.6	61	
Wipro	ADD	435	465	7	2,488	34.1	5,662	19	21	23	12	13	12	23.4	20.8	18.6	15.3	14.0	12.2	4.6	3.9	3.3	19.3	19.9	19.2	0.5	1.1	1.1	81	
IT Services	Attractive				25,148	344.6					11	14	12	29.2	25.5	22.7	19.4	17.0	15.1	7.8	6.7	5.9	27	26	26	1.2	1.9	2.4	624	
Media																														
DB Corp.	REDUCE	87	81	(7)	15	0.2	175	5.3	14.1	14.2	(66)	167	1	16.4	6.2	6.1	5.3	2.7	2.8	0.9	0.9	0.9	5.4	14.3	14.6	2.3	13.8	15.0	0.5	
Jagran Prakashan	REDUCE	44	37	(16)	12	0.2	281	3.9	7.3	8.4	(44)	87	NA	11.2	6.0	NA	2.6	1.7	NA	0.6	0.6	NA	5.7	10.3	11.5	4.6	11.4	11.4	0.3	
PVR	BUY	1,520	1,650	9	92	1.3	55	(93)	40	60	(420)	143	53	NM	38.4	25.1	(25.4)	14.4	11.2	4.0	3.7	3.2	NM	10.0	13.7	(0.6)	0.3	0.4	41	
Sun TV Network	REDUCE	551	465	(16)	217	3.0	394	38	40	42	7	7	5	14.6	13.6	13.0	10.3	9.4	8.9	3.6	3.5	3.3	26	26	26	4.5	5.0	5.4	25	
Zee Entertainment Enterprises	REDUCE	220	240	9	211	2.9	960	12	17	18	8	38	11	18.2	13.2	11.9	11.0	8.0	6.9	2.1	1.9	1.7	12.0	15.1	15.1	1.6	1.8	2.0	60	
Media	Cautious				548	7.5					(24)	65	11	23.4	14.2	12.9	13.7	8.4	7.5	2.5	2.3	2.2	10.8	16.5	16.9	2.5	3.4	3.7	127	
Metals & Mining																														
Hindalco Industries	BUY	279	375	34	627	8.6	2,220	28	34	36	57	21	6	10.0	8.3	7.8	6.1	5.3	4.7	1.0	0.9	0.8	10.1	11.0	10.5	0.4	0.4	0.4	59	
Hindustan Zinc	BUY	297	335	13	1,256	17.2	4,225	19	23	24	17	23	3	15.8	12.9	12.5	9.7	7.7	7.4	3.9	3.9	3.9	22	30	31	7.2	7.7	8.0	6.7	
Jindal Steel and Power	BUY	307	380	24	313	4.3	1,020	58	36	36	863	(38)	(2)	5.3	8.4	8.6	3.8	4.4	4.2	0.8	0.8	0.7	17.2	9.5	8.6	—	—	—	41	
JSW Steel	ADD	418	415	(1)	1,010	13.8	2,402	30	29	35	201	(5)	22	13.7	14.5	11.8	7.7	7.1	6.0	2.3	2.0	1.7	18.2	14.8	15.7	0.5	0.5	0.5	38	
National Aluminium Co.	SELL	51	30	(41)	94	1.3	1,866	2.4	2.0	2.9	228	(16)	43	20.8	24.8	17.4	7.0	8.9	7.9	0.9	0.9	0.9	4.4	3.6	5.0	0.0	2.0	2.9	15.6	
NMDC	REDUCE	118	95	(19)	361	4.9	2,931	14.0	10.3	10.0	(4)	(26)	(3)	8.4	11.4	11.8	8.6	19.5	(25.3)	1.2	1.1	1.1	14.5	10.1	9.3	3.0	4.4	4.2	18.2	
Tata Steel	BUY	703	800	14	813	11.1	1,146	53	82	96	51	54	17	13.2	8.6	7.3	7.5	6.1	5.7	1.1	1.0	0.9	8.3	11.9	12.4	2.2	2.4	2.5	177	
Vedanta	REDUCE	178	180	1	662	9.1	3,717	24	21	26	262	(10)	24	7.5	8.4	6.8	4.1	3.8	3.3	1.2	1.2	1.1	16.3	14.7	17.4	15.7	9.5	9.8	66	
Metals & Mining	Attractive				5,136	70.4					99	4	12	11.0	10.5	9.4	6.4	5.9	5.5	1.5	1.4	1.3	13.6	13.0	13.3	4.5	4.0	4.1	421	

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3mo	
		8-Feb-21	(Rs)	(%)	(Rs bn)	(mn)	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	(US\$ mn)	
Oil, Gas & Consumable Fuels																													
BPCL	BUY	420	425	1	911	12.5	1,967	37	37	39	250	0	6	11.4	11.4	10.7	8.5	8.8	8.0	2.3	2.1	1.9	20.8	18.9	18.3	4.1	4.4	4.7	50.7
Coal India	BUY	142	180	27	872	12.0	6,163	17.4	17.4	18.3	(36)	0	5	8.1	8.1	7.8	8.5	7.0	6.2	2.9	3.0	3.1	34.1	36.1	39.6	14.1	14.1	14.1	34.3
HPCL	BUY	230	260	13	343	4.7	1,499	57	34	35	700	(40)	4	4.0	6.7	6.5	5.6	7.8	7.1	1.0	0.9	0.8	26.7	13.8	13.2	5.0	5.2	6.2	26.0
IOCL	BUY	104	115	10	980	13.4	9,181	19.4	14.6	15.5	592	(25)	6	5.4	7.1	6.7	5.1	5.6	5.4	0.9	0.9	0.8	18.1	12.6	12.5	7.6	6.3	6.7	35.2
Oil India	SELL	118	70	(41)	128	1.8	1,084	3.6	6.2	9.5	(82)	71	52	32.4	18.9	12.4	10.3	8.2	6.5	0.5	0.5	0.5	1.6	2.7	4.1	0.7	2.1	3.2	2.5
ONGC	SELL	100	60	(40)	1,254	17.2	12,580	4.7	7.0	12.2	(65)	51	73	21.4	14.2	8.2	5.5	4.7	3.5	0.5	0.5	0.5	2.5	3.7	6.2	2.0	2.9	4.5	45.7
Reliance Industries	ADD	1,951	2,050	5	11,566	158.5	6,032	73	85	101	10	15	20	26.6	23.1	19.2	15.8	10.5	8.5	2.3	2.1	1.9	9.2	9.7	10.3	0.4	0.4	0.4	404.4
Oil, Gas & Consumable Fuels	Attractive				16,055	220.0					27	5	20	16.9	16.1	13.5	10.3	8.3	6.8	1.7	1.5	1.4	9.8	9.2	10.2	2.0	2.0	2.2	599
Pharmaceuticals																													
Aurobindo Pharma	REDUCE	957	830	(13)	561	7.7	586	59	60	63	22	1	6	16.1	16.0	15.1	9.7	9.2	8.3	2.5	2.2	2.0	15.7	14.0	13.2	0.8	0.9	1.1	45.6
Biocon	SELL	409	310	(24)	491	6.7	1,202	6.2	8.8	11.1	0	42	25	66	46	37	28.0	20.7	16.9	5.1	4.7	4.2	7.7	10.1	11.4	0.5	0.8	0.9	30.9
Cipla	BUY	847	950	12	683	9.4	806	32	34	50	66	8	45	27	24.7	17.0	14.8	13.9	9.7	3.8	3.4	2.9	14.2	13.6	17.0	0.7	0.8	1.1	76.1
Divis Laboratories	REDUCE	3,782	3,300	(13)	1,004	13.8	265	75	90	103	44	20	15	50	42.2	36.9	35.3	29.7	25.8	11.7	9.9	8.4	23.1	23.4	22.8	(0.7)	(0.8)	(0.9)	62.9
Dr Reddy's Laboratories	SELL	4,860	4,300	(12)	808	11.1	166	157	194	258	20	24	33	31	25.1	18.8	17.8	14.1	10.8	4.7	4.1	3.4	15.3	16.4	18.3	0.5	0.7	0.7	92.3
Gland Pharma	REDUCE	2,323	2,200	(5)	379	5.2	163	61	76	89	22	25	17	38	30.7	26.2	26.7	22.4	18.6	6.4	5.3	4.4	16.8	17.3	16.9	—	—	—	—
Laurus Labs	REDUCE	357	340	(5)	192	2.6	536	19	19	24	287	5	22	19	18.4	15.0	13.4	12.0	9.6	6.9	5.0	3.8	35.9	27.4	25.1	—	—	—	17.5
Lupin	ADD	1,073	1,200	12	487	6.7	450	25	43	52	17	68	23	42	25	20.5	17.4	12.0	9.8	3.6	3.2	2.8	8.4	12.7	13.7	0.4	0.6	0.7	49.8
Sun Pharmaceuticals	ADD	635	635	0	1,523	20.9	2,406	25	24	29	48	(2)	19	26	26	21.9	16.6	14.9	12.7	3.2	2.9	2.6	12.6	11.8	12.0	0.4	0.8	0.9	78.7
Torrent Pharmaceuticals	REDUCE	2,758	2,750	(0)	467	6.4	169	71	84	100	24	18	19	39	33	27	19.4	17.8	15.6	8.3	7.1	6.1	21.4	21.7	22.2	0.9	1.1	1.3	17.5
Pharmaceuticals	Attractive				6,594	90.4					38	13	22	30	27	22.1	17.9	15.5	12.8	4.4	3.9	3.4	14.4	14.3	15.3	0.3	0.5	0.6	471
Real Estate																													
Brigade Enterprises	BUY	285	310	9	59	0.8	204	(3.7)	14.0	19.4	(158)	480	38	NM	20.4	14.7	23.8	7.8	7.0	2.7	2.5	2.2	NM	12.7	15.6	0.9	0.9	0.9	1.1
DLF	REDUCE	313	240	(23)	775	10.6	2,475	4.7	7.8	8.9	298	65	14	66	40.3	35.4	52.1	38.5	38.2	2.2	2.1	2.0	3.4	5.4	5.9	0.6	0.6	0.6	66.3
Embassy Office Parks REIT	ADD	350	375	7	332	4.5	772	11	13	15	14	19	15	31	26	23	20.5	18.2	16.6	1.3	1.3	1.4	4.0	4.9	6.0	6.3	7.4	8.5	4.5
Godrej Properties	SELL	1,424	810	(43)	359	4.9	252	6	14	32	(48)	156	125	254	99	44	(444)	142.7	64.2	7.3	6.8	5.9	2.9	7.1	14.2	—	—	—	26.5
Mindspace REIT	ADD	330	330	0	196	2.7	593	14	16	18	69	10	13	22.8	20.9	18.4	18.5	15.0	13.5	1.2	1.2	1.2	9.1	5.7	6.5	2.5	6.2	6.6	2.4
Oberoi Realty	ADD	574	590	3	209	2.9	364	22	28	32	13	31	13	26.7	20.4	18.1	19.7	15.6	14.0	2.2	2.0	1.8	8.7	10.4	10.6	0.3	0.3	0.3	4.5
Phoenix Mills	BUY	801	960	20	138	1.9	172	2	21	27	(93)	1,253	30	527	39	29.9	26.5	15.6	13.3	2.8	2.7	2.5	0.6	7.1	8.6	—	0.3	0.4	3.2
Prestige Estates Projects	ADD	283	275	(3)	114	1.6	401	4	11	20	(58)	185	71	70	25	14.4	10.1	7.7	6.4	2.1	1.9	1.7	3.0	8.1	12.6	0.5	0.5	0.5	2.5
Sobha	BUY	461	440	(5)	44	0.6	95	11	33	50	(64)	212	51	43.4	13.9	9.2	7.5	5.5	4.8	1.8	1.6	1.4	4.1	12.2	16.5	1.5	1.5	1.5	2.5
Sunteck Realty	BUY	367	300	(18)	54	0.7	140	9	18	16	23	109	(13)	42	19.9	22.8	31.9	15.9	17.6	1.7	1.6	1.5	4.1	8.2	6.7	0.3	0.3	0.3	2.9
Real Estate	Attractive				2,278	31.2					48	67	26	55	33	26.0	26.9	18.8	16.3	2.2	2.1	2.0	3.9	6.4	7.8	1.3	1.8	1.9	116
Retailing																													
Aditya Birla Fashion and Retail	BUY	164	200	22	147	2.0	915	(6.1)	3.2	4.3	(226)	152	34	NM	51	38	41.9	10.4	9.0	7.2	5.9	5.1	NM	12.7	14.2	—	—	—	5.7
Avenue Supermarts	SELL	2,984	1,885	(37)	1,933	26.5	648	18	33	43	(15)	87	28	167	90	70	109	60	46	15.8	13.4	11.3	9.9	16.2	17.6	—	—	—	26.4
Titan Company	ADD	1,542	1,625	5	1,369	18.8	888	10	23	29	(38)	123	25	149	67	53	82	42	34	18.7	15.5	12.8	13.1	25.4	26.2	0.2	0.4	0.5	52.2
Retailing	Attractive				3,449	47.3					(43)	198	27	228	76	60	91	44	35	15.9	13.3	11.2	7.0	17.4	18.6	0.1	0.2	0.2	84

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3mo	
		8-Feb-21	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	(US\$ mn)
Speciality Chemicals																													
Castrol India	BUY	134	165	24	132	1.8	989	6.0	9.0	9.8	(28)	50	8	22.1	14.8	13.7	14.3	9.8	9.0	9.3	8.7	8.0	43.0	61.0	61.2	4.1	6.0	6.4	3.4
Pidilite Industries	REDUCE	1,734	1,760	2	881	12.1	508	22	29	35	(5)	30	23	79	61	49	54	41	34	17.1	14.7	12.6	23.1	26.0	27.5	0.4	0.6	0.7	23.0
S H Kelkar and Company	BUY	123	130	5	17	0.2	141	8.5	8.8	9.9	83	3	13	14.5	14.1	12.4	9.3	8.2	7.3	1.8	1.6	1.5	13.4	12.2	12.6	1.2	1.8	2.4	1.7
SRF	ADD	5,635	5,600	(1)	334	4.6	58	186	225	288	35	21	28	30.3	25.1	19.6	17.6	15.1	12.2	4.9	4.2	3.5	18.7	18.3	19.6	0.3	0.3	0.4	19.1
Speciality Chemicals	Attractive				1,364	18.7					2	30	21	47	36	29.7	29.2	23.0	19.3	9.6	8.3	7.1	20.5	23.1	23.8	0.7	1.1	1.2	47
Telecommunication Services																													
Bharti Airtel	BUY	597	710	19	3,259	44.7	5,456	(4.6)	11.7	22.2	NM	NM	NM	NM	51.1	26.9	9.6	7.6	6.3	5.4	5.2	4.6	NM	10.4	18.1	1.0	1.0	1.0	141.8
Indus Towers	ADD	240	250	4	647	8.9	2,695	17.8	17.8	18.8	20	(0)	6	13.4	13.5	12.8	5.3	5.0	4.7	4.4	4.2	4.0	34.0	31.9	32.4	9.6	6.7	6.7	37.7
Vodafone Idea	RS	12	—	—	336	4.6	28,735	(8.7)	(6.8)	(5.0)	NM	NM	NM	NM	NM	NM	11.1	8.9	7.3	(0.9)	(0.7)	(0.5)	167.0	47.1	26.5	—	—	—	62
Tata Communications	BUY	1,024	1,200	17	292	4.0	285	48	55	64	21	13	17	21.2	18.8	16.1	9.0	8.0	6.9	NM	21.5	9.7	NM	245	83.4	0.4	0.6	0.7	3.1
Telecommunication Services	Attractive				4,533	62.1					41	68	166	NM	NM	100.2	9.2	7.5	6.3	11.6	14.2	16.1	NM	NM	16.0	2.1	1.7	1.7	244
Transportation																													
Adani Ports and SEZ	BUY	582	600	3	1,183	16.2	2,032	23	32	37	(15)	39	16	25.4	18.3	15.8	17.9	13.0	11.0	4.0	3.4	2.9	17.0	20.2	19.7	0.6	0.8	0.9	54.3
Container Corp.	SELL	502	455	(9)	306	4.2	609	12	16	20	(27)	27	29	41	32	25	21.8	18.0	14.4	3.0	2.9	2.8	7.4	9.1	11.4	1.3	1.7	2.2	18.4
Gateway Distriparks	BUY	166	150	(10)	21	0.3	125	5.4	4.8	7.4	29	(12)	54	30.4	34.5	22.4	9.5	9.7	8.2	1.4	1.4	1.4	4.9	4.1	6.2	1.8	1.8	1.8	0.9
GMR Infrastructure	BUY	27	26	(2)	160	2.2	6,036	(3.7)	(1.4)	(0.5)	(23)	63	65	NM	NM	NM	86.9	18.9	13.4	(3.8)	(3.4)	(4.3)	66.3	18.3	7.4	—	—	—	8.3
Gujarat Pipavav Port	BUY	96	120	25	47	0.6	483	4.8	6.3	7.3	(21)	31	15	20.1	15.3	13.3	9.1	7.8	6.8	2.2	2.3	2.3	11.2	14.7	17.0	4.7	6.1	7.0	1.2
InterGlobe Aviation	BUY	1,696	1,960	16	653	8.9	383	(14.2)	83	119	(2,095)	158	43	NM	20	14.3	NM	-	-	-	-	-	NM	101.1	65.0	—	—	—	40
Mahindra Logistics	REDUCE	509	440	(13)	36	0.5	71	7.2	12.9	17.7	(20)	81	37	71	39	29	-	-	-	-	-	-	9.1	15.0	18.1	—	—	—	0.6
Transportation	Attractive				2,405	33.0					(139)	638	32	NM	24	17.8	24.7	10.8	8.7	5.9	4.8	3.9	NM	20.6	22.0	0.6	0.7	0.8	124
KIE universe					156,972	2,151					30.2	31.3	20.6	30	23.2	19.2	14.5	11.8	10.1	3.3	3.0	2.7	10.9	12.9	14.1	1.2	1.4	1.7	

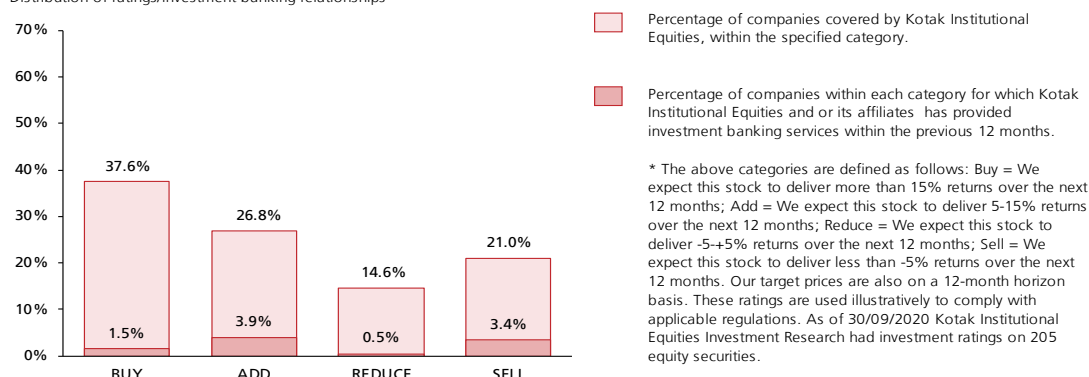
Notes:

- (a) We have used adjusted book values for banking companies.
(b) 2021 means calendar year 2020, similarly for 2022 and 2023 for these particular companies.
(c) Exchange rate (Rs/US\$)= 72.97

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of December 31, 2020

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

Our Fair Value estimates are also on a 12-month horizon basis.

Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

Other definitions

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

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