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- ▶ Robust growth in earnings; loan growth picks up momentum
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- ▶ Expensive valuations underpin our cautious stance; maintain REDUCE

#### Sector alerts

**Cement:** 1QFY19E preview - weak start to the year

- ▶ All-India cement prices subdued - marginal increase sequentially but a sharp fall from last year
- ▶ Costs to rise due to higher pet-coke prices, freight and other costs
- ▶ Volumes - we expect another good quarter but on a low base
- ▶ 1QFY19E earnings - we expect sharp yoy fall in earnings across names
- ▶ We maintain our cautious stance on the sector on expensive valuations, large capacity additions

#### Economy alerts

**Economy:** FX outlook: volatility abound

- ▶ Unabated global risks to keep the strength in USD intact
- ▶ INR weakness a function of adverse global and domestic risks
- ▶ INR to remain under pressure with some breather likely in the near term

### EQUITY MARKETS

India	Change %			
	10-Jul	1-day	1-mo	3-mo
Sensex	36,240	0.8	2.1	6.8
Nifty	10,947	0.9	1.5	5.1
<b>Global/Regional indices</b>				
Dow Jones	24,920	0.6	(1.6)	3.0
Nasdaq Composite	7,759	0.0	1.3	9.8
FTSE	7,692	0.1	(0.6)	6.0
Nikkei	21,772	(1.9)	(4.5)	0.5
Hang Seng	28,111	(2.0)	(9.5)	(9.3)
KOSPI	2,266	(1.2)	(8.3)	(7.4)
<b>Value traded – India</b>				
Cash (NSE+BSE)	300		304	331
Derivatives (NSE)	5,864		4,894	5,302
Deri. open interest	3,632		3,570	3,779

#### Forex/money market

	Change, basis points			
	10-Jul	1-day	1-mo	3-mo
Rs/US\$	68.8	10	127	360
10yr govt bond, %	8.2	1	(4)	57

#### Net investment (US\$ mn)

	9-Jul	MTD	CYTD
FIs	(108)	(206)	(828)
MFs	2	205	10,708

#### Top movers

Best performers	Change, %			
	10-Jul	1-day	1-mo	3-mo
TCS IN Equity	1,875	(0.4)	7.2	24.4
KMB IN Equity	1,372	(0.9)	3.7	21.8
HUVR IN Equity	1,687	(0.3)	5.3	19.7
YES IN Equity	371	2.2	10.6	19.0
APNT IN Equity	1,370	0.5	6.8	18.6

#### Worst performers

HDIL IN Equity	20	0.8	(13.4)	(52.4)
RCOM IN Equity	14	1.8	(10.9)	(38.9)
UT IN Equity	4	3.7	(18.3)	(36.1)
IDBI IN Equity	53	9.3	(13.2)	(26.0)
IDEA IN Equity	56	2.2	(12.5)	(24.5)

JULY 11, 2018

**RESULT**

 Coverage view: **Cautious**

 Price (₹): **1,875**

 Target price (₹): **1,790**

 BSE-30: **36,240**

**An excellent beginning.** TCS reported excellent revenue growth of 4.1% powered by large deal ramp-ups and turnaround in the BFSI vertical. The company is on track to achieve ~10% c/c revenue growth for FY2019. Even as we like the success in platform bets and integrated digital programs, we struggle to justify punchy valuations of 21X FY2020E earnings. We raise our EPS estimates by 3-5% for FY2019-21E largely on the back of revision to INR/USD assumptions. REDUCE due to expensive valuations.

**Company data and valuation summary**

TCS				Forecasts/Valuations			
Stock data				2018	2019E	2020E	
52-week range (Rs) (high,low)	1,924-1,167			EPS (Rs)	67.5	81.8	89.0
Market Cap. (Rs bn)	7,179.0			EPS growth (%)	1.1	21.2	8.8
Shareholding pattern (%)				P/E (X)	27.8	22.9	21.1
Promoters	71.9			Sales (Rs bn)	1,231.0	1,447.9	1,590.1
FIs	16.9			Net profits (Rs bn)	258.3	309.4	334.0
MFs	2.2			EBITDA (Rs bn)	325.2	397.2	432.0
Price performance (%)				EV/EBITDA (X)	20.6	16.7	15.4
Absolute	1M	3M	12M	ROE (%)	29.4	33.4	33.8
Rel. to BSE-30	7.3	27.7	54.0	Div. Yield (%)	1.3	2.2	3.8
	5.0	19.4	34.8				

**Strong revenue growth powered by large deal ramp-ups**

TCS reported c/c sequential revenue growth of 4.1% powered by ramp-up of large deals in the insurance and retail & CPG verticals (+3.6% c/c) and recovery in BFSI (+3.7% qoq). Cross-currency headwind was high at 250 bps. Most verticals maintained strong growth observed in the past few quarters. TCS reported EBIT margin of 25% with decline restricted to 40 bps qoq despite 170 bps headwind from wage revision (8% offshore and marginal increase onsite) due to efficiency gains (70 bps) and rupee depreciation (70 bps). Net profit of ₹73.4 bn (+23.5% yoy) beat our estimate by 5.6% led by higher-than-expected Fx gains and outperformance at the EBIT level.

**Banking vertical performance and commentary the surprise element**

The BFSI vertical contributes 31% to revenues and grew 3.7% qoq with nearly all sub-verticals and geos delivering strong growth. Of particular surprise was strong growth registered in the US banking segment noting headwinds from insourcing and captive shift by US banks. Management indicated that the impact of insourcing has been exaggerated and stabilized. Management's confidence on recovery in growth and sustenance of it is based on high participation in reapportionment of spending by select large banks in the US from internal spending to external scale digital initiatives. TCS along with a handful of other global firms including consulting ones have the ability and made the right investments to participate in these spends.

**Same old theme—excellent company trading at lofty valuations**

We expect ~10% c/c revenue growth in FY2019 powered by US\$8.8 bn worth of large deals signed in 2HFY18. The stock has delivered 34% return since the large deal announcements. It is plausible that the company may sign similar quantum of deals over the coming quarters and drive similar profile of growth in FY2020E. However, at 21X FY2020E earnings, the stock is more than pricing in such a scenario. Just to put this in context, TCS requires US\$2.1 bn of revenue addition in FY2019 followed by CAGR of 11% in incremental revenues for the next 7-8 years to justify the current market price. Addition of high absolute revenues every year is not easy; even its closest competitor Accenture added US\$1.6-2.7 bn of revenues on organic in its best years of FY2016-18E. We like plenty of things about TCS, especially the success of its platforms bets and ability to stitch together large multi-service deals delivered on outcome pricing model. However, we do not agree with the rich multiples ascribed by the market. REDUCE.

Kawaljeet Saluja

Jaykumar Doshi

Our FY2019-21E EPS increases by 3-5% due to change in INR/USD assumption by KIE economists. The revised INR/USD assumption stands at 68.75 and 69.5 for FY2019 and FY2020 against 67.5 and 68 earlier. We have assumed some retention of margin benefit from rupee depreciation in FY2019, which gets progressively competed away. Our FY2019 EBIT margin stands at 25.9%, which reduces to 25.5% by FY2021E. Our target price increases to ₹1,790 from ₹1,650 earlier due to EPS revision and change in multiple to 19X from 18.5X earlier.

Do note that TCS has provided the following commentary on margins “*This strong start gives us greater confidence in our ability to get our operating margin to our preferred range, while continuing to fund the digital investments that are differentiating us in the marketplace*”.

### The TCS differentiation and size challenge to sustain current valuations

TCS results and performance in the past few quarters demonstrate three important things.

- ▶ Impressive ability to proactively shape and structure large multi-service long-tenured deals delivered on outcome basis. This requires close working of different teams in an organization including finance in structuring these deals in an optimum manner. The best demonstration of this capability was literally doubling of M&G Prudential deal size in a matter of six months of initial signing.
- ▶ Platform bets that the company has consistently funded through its P&L over the past 10 years. The bet on insurance platform is reaping rich dividends as visible from multi-billion dollar deal signings (US\$5.4 bn) in 2HFY18.
- ▶ Success in digital deals. While TCS has stayed off the consulting course and in the process early stage digital opportunities, the company is well-positioned to capture opportunities in building of digital core, a much larger opportunity. Success in digital is visible in accelerated growth in digital services.

These are undoubted positives. The company may hit US\$1.9 bn of incremental revenues in the current year on the back of five large deals with TCV of US\$8.8 bn. These deals will provide incremental revenues of US\$550-650 mn in FY2019 or contribute 2.8-3.5% to growth. However, here’s the catch—even after excellent pace of large deal signings and strong start to the year, TCS will end up with just 10% growth in constant currency. To justify the current price (assuming CoE of 11%), TCS needs to add US\$2.1 bn of absolute revenues annually followed by 11% CAGR in incremental revenues for a period of eight years. To sustain the current pace of mega deals is a challenge, let alone acceleration in the same. This is to a large extent the reason for our cautious stance. However, such an analysis is fraught with one big risk—rupee depreciation. Currency depreciation brings down the hurdle growth rate quite a bit.

### Detailing the quantum of large deals and kicker to FY2019E growth

TCS has announced five mega deals in the past few months that form the bedrock of growth. These deals are –

- ▶ Large multi-year contract with Marks and Spencer that establishes TCS as the principal technology partner.
- ▶ US\$2.3 bn renewal of outsourcing contract with AC Nielsen that contains a small portion of incremental revenues.
- ▶ US\$2 bn+ contract with Transamerica that enhances digital capabilities and simplifies servicing of 10 mn+ policies into a single integrated platform.
- ▶ Scottish Widows deal that runs over 15 years and involves end-to-end policy administration services.

- ▶ 10-year deal with M&G Prudential valued at US\$690 mn. The partnership was extended further by an additional US\$668 mn bringing the total number of policies administered to 5.8 mn and deal size to US\$1,358 mn.

Cumulatively these deals are close to US\$8.8 bn in TCV and US\$900 mn in ACV (US\$550-650 mn incremental). These deals can contribute 2.5-3% to FY2019E revenues and will be a key growth driver.

### Digital—investments are paying off

Digital revenues grew 9.1% qoq and 44.8% yoy and now constitute 25% of overall revenues. While TCS has stayed off the consulting course and in the process early stage digital opportunities, the company is well-positioned to capture large opportunities in building of digital core, a much larger undertaking. TCS is well-positioned to capture chunkier portion of digital spends as the work moves to implementation phase from the current early stage investment in the experience layer. Industry analysts rank TCS ahead of offshore-heritage vendors across various digital competencies though it trails Accenture.

### Starts off with disclosure of TCV number for the quarter

TCS signed deals worth US\$4.9 bn in 1QFY19. This number includes all types of contracted deals, viz. fixed price programs, large deals and T&M programs. The book to bill ratio is just a shade under 1. The company intends to build on this by disclosing deal wins data on a quarterly basis, a good beginning. Over a period of time, it would be useful to understand the trend in TCV wins and can act as good proxy for revenue forecast.

### Key highlights from earnings call and 1QFY19 results

- ▶ **Margin walk-through.** EBIT margin declined 40 bps sequentially to 25% in 1QFY19 resulting from (1) 180 bps headwind from seasonal impact of wage hikes and promotions, (2) tailwind of 70 bps from operational efficiencies, which included SG&A leverage of 50 bps and (3) tailwind of 70 bps from rupee depreciation against the US dollar.
- ▶ **Commentary on verticals.** TCS reported strong growth outlook for all verticals. Specifically (1) BFSI- Spending of banks of all sizes, towards growth and transformation has revived, while insourcing trend has stabilized. Strong deal wins in the vertical gives good growth visibility in the medium term, (2) Retail & CPG- Brick and mortar clients have increased investments in digital to counter online players leading to increased spending, (3) communications- Post consolidation, the vertical is witnessing rise in investments in the developed markets.
- ▶ **Reclassification of verticals.** Travel & Hospitality vertical has been integrated with Retail & CPG vertical.
- ▶ **Client metrics.** TCS incrementally added 2 clients to US\$100 mn bucket and 5 clients to the US\$10 mn bucket during the quarter.
- ▶ **Non-RFP and platform deals.** Full service capabilities have uniquely positioned TCS to win large transformative non-RFP deals. TCS has a strong pipeline of such deals giving good visibility in the medium term. Visibility in platform deals is poor owing to lumpy nature of such deals.
- ▶ **Hiring and reskilling.** Total headcount reached 400,875 in 1QFY19. Net headcount addition of 5,877 in the quarter due to rebadging of employees. TCS reported that up to 1QFY19, 262,000 employees were trained on key technologies and more than 240,000 employees were trained on agile.

Exhibit 1: TCS Interim Results 1QFY19 (consolidated, IFRS)

	1QFY19	1QFY19E	1QFY18	4QFY18	% chg.			FY2019E	FY2018	% chg.
					KIE	yoy	qoq			
Re/US\$ rate	67.8	67.2	64.4	64.5	1.0	5.3	5.1	69.0	64.5	7.0
Revenues (US\$ mn)	5,051	5,091	4,591	4,972	(0.8)	10.0	1.6	20,992	19,089	10.0
Revenues	342,610	341,828	295,840	320,750	0.2	15.8	6.8	1,447,885	1,231,040	17.6
Cost of revenues	(200,830)	(199,543)	(172,910)	(185,240)	0.6	16.1	8.4	(835,227)	(712,880)	17.2
Gross profit	141,780	142,285	122,930	135,510	(0.4)	15.3	4.6	612,658	518,160	18.2
SG&A expenses	(56,000)	(58,547)	(53,790)	(54,040)	(4.3)	4.1	3.6	(237,308)	(213,140)	11.3
EBIT	85,780	83,739	69,140	81,470	2.4	24.1	5.3	375,350	305,020	23.1
Other Income	12,080	9,065	9,320	9,820	33.3	29.6	23.0	37,373	35,900	4.1
Profit before tax	97,860	92,804	78,460	91,290	5.4	24.7	7.2	412,723	340,920	21.1
Provision for tax	(24,240)	(23,065)	(18,960)	(22,040)	5.1	27.8	10.0	(102,396)	(82,120)	24.7
Net income before MI	73,620	69,739	59,500	69,250	5.6	23.7	6.3	310,326	258,800	19.9
Minority Interest	(220)	(214)	(50)	(210)				(907)	(540)	
Net income (before EO items)	73,400	69,525	59,450	69,040	5.6	23.5	6.3	309,420	258,260	19.8
Extraordinary items	—	—	—	—				—	—	
Net income	73,400	69,525	59,450	69,040	5.6	23.5	6.3	309,420	258,260	19.8
EPS (Rs/ share)	19.2	18.2	15.5	18.0	5.6	23.5	6.3	81.8	67.5	21.2
No of shares outstanding (mn)	3,829	3,829	3,829	3,829				3,784	3,829	
As % of revenues										
Gross profit margin	41.4	41.6	41.6	42.2				42.3	42.1	
Operating margin (EBIT)	25.0	24.5	23.4	25.4				25.9	24.8	
EBITDA	26.5	26.0	25.1	27.0				27.4	26.4	
SG&A expenses	16.3	17.1	18.2	16.8				16.4	17.3	
Tax rate (% of PBT)	24.8	24.9	24.2	24.1				24.8	24.1	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: TCS: key changes to FY2019E-21E estimates

Rs mn	New			Old			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues	1,447,885	1,590,149	1,728,917	1,418,443	1,554,308	1,715,061	2.1	2.3	0.8
EBIT	375,350	408,913	442,272	358,537	391,676	434,338	4.7	4.4	1.8
Net Profit	309,420	333,970	358,781	296,267	322,415	354,672	4.4	3.6	1.2
EPS (Rs/ share)	81.8	89.0	95.6	77.6	84.4	92.8	5.4	5.5	3.0
Revenues (US\$ mn) (a)	20,992	22,880	24,877	20,975	22,857	24,856	0.1	0.1	0.1
Revenue growth (%)	10.0	9.0	8.7	9.9	9.0	8.7			
Re/\$ rate	69.0	69.5	69.5	67.6	68.0	69.0	2.0	2.2	0.7
EBIT margin	25.9	25.7	25.6	25.3	25.2	25.3			

Source: Kotak Institutional Equities estimates

Exhibit 3: Revenue mix across geographies and verticals (June 2018)

	Revenues (US\$ mn)	Growth (%)		% of total	C/C growth (%)	
		QoQ	YoY		QoQ	YoY
<b>Total revenues</b>	<b>5,051</b>	<b>1.6</b>	<b>10.0</b>	<b>100.0</b>	<b>4.1</b>	<b>9.3</b>
<b>Revenue by geography</b>						
North America	2,576	3.2	6.9	51.0	3.7	7.0
Latin America	96	(3.5)	(0.5)	1.9	2.6	5.2
UK	783	3.6	22.7	15.5	8.2	18.7
Continental Europe	707	0.2	23.2	14.0	5.3	18.6
India	293	(5.0)	(8.8)	5.8	(1.0)	(4.7)
Asia Pacific	485	0.5	11.2	9.6	3.6	10.8
MEA	111	(10.6)	(3.2)	2.2	(4.6)	(3.6)
<b>Revenue by verticals</b>						
BFSI	1,571	1.6	5.3	31.1	3.7	4.1
Retail & CPG	838	1.6	14.1	16.6	3.6	12.7
Communication & Media	359	1.6	10.0	7.1	5.1	9.5
Manufacturing	369	0.2	8.5	7.3	2.3	6.9
Life sciences & healthcare	369	3.0	13.1	7.3	4.3	12.1
Energy & Utilities	242	1.6	32.0	4.8	5.2	30.9
Technology & Services	389	0.3	7.2	7.7	2.4	6.7
Regional markets and others	914	2.2	10.6	18.1	5.9	11.8
<b>Revenue by services</b>						
<b>Digital revenues</b>	<b>1,263</b>	<b>6.7</b>	<b>45.5</b>	<b>25.0</b>	<b>9.1</b>	<b>44.8</b>
Traditional (non-digital) revenues	3,788	(0.0)	1.7	75.0	NA	NA

Source: Company, Kotak Institutional Equities

Exhibit 4: Revenue growth across geographies and verticals in constant-currency terms

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
<b>Constant currency revenue (qoq %)</b>												
<b>Revenue by geography</b>												
North America	3.1	1.4	2.4	2.5	1.4	2.2	(1.8)	1.7	1.4	1.5	0.2	3.7
Latin America	6.2	13.3	1.8	0.3	(0.2)	12.5	(7.3)	2.8	5.7	5.0	(7.8)	2.6
UK	4.6	(0.7)	(0.4)	3.8	(0.1)	1.7	4.1	0.7	2.5	0.8	6.3	8.2
Continental Europe	2.0	2.3	3.6	4.6	3.7	(1.1)	7.1	5.9	5.3	2.6	4.5	5.3
India	7.8	(6.7)	2.2	8.5	(7.6)	10.3	9.3	1.5	(6.8)	0.5	2.9	(1.0)
Asia Pacific	4.1	0.4	1.1	1.3	3.5	(1.8)	1.9	1.2	3.0	—	4.0	3.6
MEA	12.9	(5.8)	9.5	3.3	2.2	3.8	2.1	0.7	1.0	(0.2)	0.5	(4.6)
<b>Revenue by verticals - NEW</b>												
BFSI								2.3	1.9	(1.5)	0.4	3.7
Retail & CPG								2.0	(0.9)	6.4	0.8	3.6
Communication & Media								3.9	1.4	2.2	1.5	5.1
Manufacturing								3.8	1.9	2.1	0.6	2.3
Life sciences & healthcare								4.7	3.6	2.5	1.3	4.3
Energy & Utilities								7.6	7.2	8.5	6.9	5.2
Travel & hospitality								7.0	8.0	2.9	5.1	
Technology & Services								3.7	3.4	0.1	0.7	2.4
Regional markets and others								(3.6)	(0.6)	0.5	5.6	5.9
<b>Revenue by services</b>												
Digital revenues						6.6	7.6	7.6	5.9	13.9	10.2	9.1
<b>Total growth</b>	<b>3.9</b>	<b>0.5</b>	<b>2.1</b>	<b>3.1</b>	<b>1.0</b>	<b>2.0</b>	<b>1.0</b>	<b>2.0</b>	<b>1.7</b>	<b>1.3</b>	<b>2.0</b>	<b>4.1</b>
<b>Constant currency revenue (yoy %)</b>												
<b>Revenue by geography</b>												
North America	10.5	9.7	11.7	9.7	7.9	8.7	4.3	3.5	3.6	2.8	4.9	7.0
Latin America	19.1	20.4	17.5	24.3	15.8	15.1	4.8	8.0	13.6	5.4	5.0	5.2
UK	8.9	9.3	6.4	7.4	2.5	4.9	9.7	6.3	9.2	8.2	10.7	18.7
Continental Europe	13.9	9.2	10.3	12.9	14.9	11.3	15.1	16.5	18.2	22.3	19.1	18.6
India	15.1	3.4	5.6	11.6	(4.5)	13.1	20.9	13.3	14.3	4.1	(2.3)	(4.7)
Asia Pacific	14.3	12.0	8.6	7.7	6.5	3.9	4.7	4.7	4.1	6.2	8.6	10.8
MEA	37.5	21.8	25.2	20.0	8.8	19.8	11.4	8.9	7.6	3.7	2.2	(3.6)
<b>Revenue by verticals - NEW</b>												
BFSI								5.1	4.7	0.2	2.9	4.1
Retail & CPG								(3.4)	(1.4)	3.0	8.4	12.7
Communication & Media								11.6	9.5	16.9	8.9	9.5
Manufacturing								10.2	9.6	9.5	8.6	6.9
Life sciences & healthcare								10.7	10.3	13.5	12.6	12.1
Energy & Utilities								20.3	22.7	29.4	33.7	30.9
Travel & hospitality								16.5	23.2	24.1	25.4	
Technology & Services								8.2	10.1	9.6	7.7	6.7
Regional markets and others								5.5	6.9	2.2	1.8	11.8
<b>Revenue by services</b>												
Digital revenues						30.2	22.7	26.0	31.0	39.6	42.8	44.8
<b>Total growth</b>	<b>12.0</b>	<b>9.9</b>	<b>10.4</b>	<b>10.1</b>	<b>7.0</b>	<b>8.6</b>	<b>7.5</b>	<b>6.3</b>	<b>7.1</b>	<b>6.2</b>	<b>7.2</b>	<b>9.3</b>

Notes:

(a) Travel &amp; Hospitality vertical included in Retail &amp; CPG vertical from Jun-18. Reclassification of verticals from Jun-18.

Source: Company, Kotak Institutional Equities

Exhibit 5: TCS' yoy constant-currency revenue growth

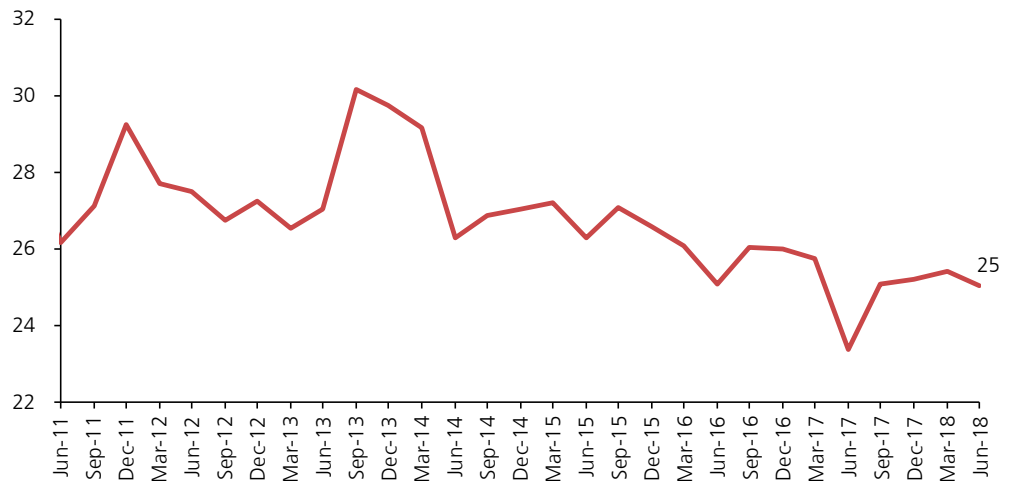


Notes:

(a) YoY growth in US\$ revenues until March 2015 and YoY growth in c/c terms thereafter.

Source: Company, Kotak Institutional Equities

Exhibit 6: TCS' EBIT margin (%)



Source: Company, Kotak Institutional Equities

Exhibit 7: TCS: client metrics

Client metrics	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
US\$1 mn clients	764	791	804	819	838	829	847	859	880	897	905	933	941	963	978
US\$5 mn clients	387	389	391	404	413	429	439	449	454	459	464	470	485	495	508
US\$10 mn clients	249	261	268	274	281	298	298	295	300	310	322	328	337	350	355
US\$20 mn clients	159	162	172	171	173	173	179	185	186	190	190	196	203	207	206
US\$50 mn clients	65	68	69	65	65	73	77	78	80	84	85	91	94	97	97
US\$100 mn clients	25	29	30	33	34	37	37	36	34	35	36	37	37	38	40

Source: Company, Kotak Institutional Equities



## Exhibit 8: TCS: quarterly operating metrics

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Revenues (US\$ mn)	4,145	4,207	4,362	4,374	4,387	4,452	4,591	4,739	4,787	4,972	5,051
Revenues (Rs mn)	273,640	284,486	293,050	292,840	297,350	296,420	295,840	305,410	309,040	320,750	342,610
Exchange rate (Re/US\$)	66.0	67.6	67.2	67.0	67.8	66.6	64.4	64.4	64.6	64.5	67.8
<b>Revenue by geography (%)</b>											
North America	53.5	54.0	53.5	54.0	55.0	53.3	52.5	51.9	52.0	50.2	51.0
Latin America	2.1	2.0	2.0	2.0	2.2	2.1	2.1	2.2	2.2	2.0	1.9
UK	15.9	14.9	14.8	13.8	13.3	13.7	13.9	14.0	14.1	15.2	15.5
Continental Europe	10.9	11.2	11.5	11.8	11.1	11.8	12.5	13.4	13.5	14.2	14.0
India	6.0	5.9	6.2	5.8	6.3	6.8	7.0	6.3	6.3	6.2	5.8
Asia Pacific	9.4	9.6	9.6	10.2	9.6	9.7	9.5	9.8	9.5	9.7	9.6
MEA	2.2	2.4	2.4	2.4	2.5	2.6	2.5	2.4	2.4	2.5	2.2
<b>Vertical split of revenues (%)</b>											
BFSI			33.3	33.6	33.9	32.9	32.5	32.6	31.6	31.1	31.1
Retail & CPG			13.5	13.0	13.0	12.3	16.0	15.9	16.7	16.6	16.6
Communication & Media			7.0	7.2	6.7	7.2	7.1	7.1	7.1	7.1	7.1
Manufacturing			6.8	7.0	6.9	6.9	7.4	7.4	7.5	7.4	7.3
Life sciences & healthcare			7.3	7.3	7.4	7.4	7.1	7.2	7.3	7.2	7.3
Energy & Utilities			3.6	3.7	3.6	3.7	4.0	4.2	4.5	4.8	4.8
Travel & hospitality			3.2	3.3	3.2	3.4					
Technology & Services			7.8	7.8	7.7	7.8	7.9	8.0	7.9	7.8	7.7
Regional markets and others			17.5	17.2	17.5	18.4	18.0	17.6	17.4	18.0	18.1
<b>Total</b>			<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Digital revenues</b>	<b>13.7</b>	<b>15.5</b>	<b>15.9</b>	<b>16.1</b>	<b>16.8</b>	<b>17.9</b>	<b>18.9</b>	<b>19.7</b>	<b>22.1</b>	<b>23.8</b>	<b>25.0</b>
<b>Client metrics</b>											
US\$1 mn clients	838	829	847	859	880	897	905	933	941	963	978
US\$5 mn clients	413	429	439	449	454	459	464	470	485	495	508
US\$10 mn clients	281	298	298	295	300	310	322	328	337	350	355
US\$20 mn clients	173	173	179	185	186	190	190	196	203	207	206
US\$50 mn clients	65	73	77	78	80	84	85	91	94	97	97
US\$100 mn clients	34	37	37	36	34	35	36	37	37	38	40
<b>Revenue by service offerings (%)</b>											
<b>IT solutions and services</b>											
- ADM	39.7	39.4	38.5	38.4	37.2	37.7					
- Enterprise solutions and Consulting	17.4	17.1	17.7	17.8	17.5	17.3					
- Assurance business	8.6	8.8	8.8	9.0	9.0	9.0					
Engineering & Industrial services	4.5	4.7	4.8	4.8	4.9	5.0					
Infrastructure services	15.2	15.2	15.5	15.7	16.8	16.2					
Asset leverage solutions	2.8	3.2	3.2	2.6	3.0	2.9					
BPO	11.8	11.6	11.5	11.7	11.6	11.9					
<b>Utilization rates (%)</b>											
- Including trainees	80.9										
- Excluding trainees	84.9										
<b>Employee metrics</b>											
Total employees - incl Indian subsidiaries	344,691	353,843	362,079	371,519	378,497	387,223	385,809	389,213	390,880	394,998	400,875
Gross addition	22,118	22,576	17,792	22,665	18,362	20,093	11,202	15,868	12,534		
Net addition	9,071	9,152	8,236	9,440	6,978	8,726	(1,414)	3,404	1,667	4,118	5,877
Attrition rate (%)	15.3	14.7	13.6	12.9	12.2	11.5	11.6	11.3	11.1	11.0	10.9
Attrition rate - qtrly annualized (%)	15.3	15.4	10.7	14.4	12.1	11.9	13.1	12.9	11.1		

## Notes:

- (a) TCS stopped disclosing fixed price/ time & material metrics and onsite/ offshore revenue mix from Jun-15 quarter.  
(b) TCS stopped disclosing utilization from Mar-16 quarter.  
(c) TCS stopped disclosing revenue split by service offerings from June -17 quarter

Source: Company, Kotak Institutional Equities

Exhibit 9: Profit model, balance sheet, cash model of TCS, March fiscal year-ends, 2014-21E (Rs mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model</b>								
Revenues	818,094	946,484	1,086,462	1,179,660	1,231,040	1,447,885	1,590,149	1,728,917
Cost of sales	(430,645)	(544,992)	(608,996)	(668,870)	(712,880)	(835,227)	(920,021)	(1,002,502)
SG&A expenses	(149,370)	(173,528)	(189,565)	(207,550)	(213,140)	(237,308)	(261,215)	(284,143)
<b>EBIT</b>	<b>238,079</b>	<b>227,964</b>	<b>287,901</b>	<b>303,240</b>	<b>305,020</b>	<b>375,350</b>	<b>408,913</b>	<b>442,272</b>
Other income	15,891	31,396	30,503	41,890	35,900	37,373	37,289	39,871
<b>Pre-tax profits</b>	<b>253,970</b>	<b>259,360</b>	<b>318,404</b>	<b>345,130</b>	<b>340,920</b>	<b>412,723</b>	<b>446,202</b>	<b>482,143</b>
Provision for tax	(60,712)	(60,828)	(75,027)	(81,560)	(82,120)	(102,396)	(111,251)	(122,695)
<b>Recurring net income</b>	<b>193,258</b>	<b>198,532</b>	<b>243,377</b>	<b>263,570</b>	<b>258,800</b>	<b>310,326</b>	<b>334,951</b>	<b>359,448</b>
Minority Interest	(2,092)	(2,048)	(1,229)	(680)	(540)	(907)	(981)	(667)
<b>Reported net income</b>	<b>191,166</b>	<b>196,484</b>	<b>242,148</b>	<b>262,890</b>	<b>258,260</b>	<b>309,420</b>	<b>333,970</b>	<b>358,781</b>
EPS (Rs)	48.8	50.2	61.4	66.7	67.5	81.8	89.0	95.6
<b>Balance Sheet</b>								
Shareholders funds	553,352	574,767	731,899	883,150	872,410	980,178	993,537	1,007,888
Borrowings	1,273	1,143	825	710	540	—	—	—
Minority interest	6,905	9,136	3,542	3,660	4,020	4,927	5,908	6,575
Other non-current liabilities	16,845	17,776	20,169	20,890	28,840	33,920	37,253	40,504
<b>Total liabilities</b>	<b>578,374</b>	<b>602,821</b>	<b>756,436</b>	<b>908,410</b>	<b>905,810</b>	<b>1,019,025</b>	<b>1,036,698</b>	<b>1,054,967</b>
Net fixed assets	103,644	115,716	117,900	117,410	116,000	123,229	130,753	137,492
Goodwill	39,797	37,115	38,120	37,210	38,840	38,840	38,840	38,840
Intangibles	1,772	2,193	1,343	470	120	120	120	120
Investments	37,673	2,282	3,431	3,440	3,010	3,010	3,010	3,010
Other non-current assets	66,630	97,968	90,393	89,740	94,185	94,185	94,185	94,185
Cash and bank balances	156,495	197,713	330,134	482,234	474,365	543,996	531,561	521,061
Net current assets excluding cash	172,363	149,836	175,116	177,906	179,290	215,645	238,229	260,259
<b>Total assets</b>	<b>578,374</b>	<b>602,821</b>	<b>756,436</b>	<b>908,410</b>	<b>905,810</b>	<b>1,019,025</b>	<b>1,036,698</b>	<b>1,054,967</b>
<b>Cash flow</b>								
Operating cash flow, excl. working capital	190,610	185,834	231,753	237,230	248,820	294,830	320,767	343,502
Working capital changes	(39,214)	9,447	(48,707)	(11,060)	(3,060)	(31,134)	(19,252)	(18,779)
Capital expenditure	(30,680)	(28,862)	(19,894)	(19,900)	(18,060)	(27,857)	(30,629)	(30,664)
Acquisitions	(4,524)	(2,637)	—	—	—	—	—	—
Other income	15,891	31,396	30,503	41,890	35,900	37,373	37,289	39,871
<b>Free cash flow</b>	<b>132,083</b>	<b>195,179</b>	<b>193,655</b>	<b>248,160</b>	<b>263,600</b>	<b>273,212</b>	<b>308,176</b>	<b>333,930</b>
<b>Ratios (%)</b>								
Gross profit margin	47.4	42.4	43.9	43.3	42.1	42.3	42.1	42.0
EBITDA margin	30.7	26.1	28.2	27.4	26.4	27.4	27.2	27.0
EBIT margin	29.1	24.1	26.5	25.7	24.8	25.9	25.7	25.6
EPS growth	37.4	2.8	22.5	8.6	1.1	21.2	8.8	7.4
RoAE	39.7	34.8	37.1	32.6	29.4	33.4	33.8	35.9

Source: Company, Kotak Institutional Equities estimates

**NIM pressure, as expected.** IIB reported 24% yoy earnings growth on the back of 20% yoy growth in operating profits. The bank reported 29% yoy loan growth but NIM compressed a bit as cost of funds has started to rise. Slippages were low and new disclosures on retail loans give comfort on near-term performance. Merger with BHAFIN is in its last leg and should be completed in the next few months. However, expensive valuations make it hard to take a positive view. Maintain REDUCE with TP at ₹1,900 (₹1,800 earlier).

### Company data and valuation summary

IndusInd Bank

#### Stock data

52-week range (Rs) (high,low) 1,995-1,526

Market Cap. (Rs bn) 1,161.9

#### Shareholding pattern (%)

Promoters 15.0

FIs 57.2

MFs 9.3

#### Price performance (%)

	1M	3M	12M
Absolute	2.5	4.7	24.0
Rel. to BSE-30	0.2	(2.1)	8.5

#### Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	60.1	70.6	87.3
EPS growth (%)	25.3	17.5	23.6
P/E (X)	32.2	27.4	22.2
NII (Rs bn)	75.0	100.9	133.1
Net profits (Rs bn)	36.1	50.1	61.9
BVPS	382.8	471.9	542.9
P/B (X)	5.1	4.1	3.6
ROE (%)	17.1	17.6	16.8
Div. Yield (%)	0.4	0.4	0.5

### Robust growth in earnings; loan growth picks up momentum

IIB reported strong earnings growth at 24% yoy driven by 20% yoy growth in operating profits. Revenues grew 16% yoy led by 20% NII growth on the back of solid loan growth of 29% yoy. NIM compressed 5 bps qoq to 3.9% as cost of deposits rose by 22 bps qoq to 6.2%. Modest other income growth at 12% yoy was led by drag in treasury income (down 29% yoy). Fee income maintained momentum (20% yoy). Rise in operating expenses was curtailed at 12% yoy leading to improvement in cost-to-income ratio by 80 bps qoq to 44%. Loan growth picked pace driven by sharp spike in vehicle loans, credit cards and corporate loans. Asset quality ratios were stable qoq with GNPL and NNPL at 1.2% and 0.5%, respectively. The bank has provided fresh disclosure on the behavior scoring of its vehicle finance portfolio, which is essentially an early warning indicator for this portfolio. Stable-to-improving ratio suggests no near-term risks.

### Concern on NIMs comes to the fore; loan mix shift or BHAFIN acquisition to ease pressure

As highlighted in the previous few quarters, the pressure on NIM came to the fore in the current quarter. Only a stronger-than-expected loan growth offset the disappointment that could have come on NII. While we see pricing power shifting to banks on the corporate side, we are still not sure if the retail lending yields can react at a similar pace that could put pressure on NIM for a few more quarters as some of the older low-yielding retail loans get repaid. Acquisition of BHAFIN or some marginal shift in loan mix can ease pressure on NIM.

### Expensive valuations underpin our cautious stance; maintain REDUCE

We maintain REDUCE rating on the stock with target price at ₹1,900 (from ₹1,800), valuing the bank at 3.5X book and ~22X FY2020E EPS for RoEs in the range of 17%. We do believe that the near-term risks of BHAFIN appear to be low considering that the cycle is quite favorable currently. However, our medium-term view is constrained by (1) higher risk for the MFI business that is now part of the business model of IndusInd Bank and (2) possible risk to revenues in its existing businesses considering that the competition intensity has only been rising in segments that IndusInd Bank is currently positioned in.

## REDUCE

JULY 11, 2018

### RESULT

Coverage view: **Attractive**

Price (₹): **1,935**

Target price (₹): **1,900**

BSE-30: **36,240**

### QUICK NUMBERS

- NII up 20% yoy; net profit increased 24% yoy in 1QFY19
- GNPL and NNPL ratios stable qoq at 1.2% and 0.5%, respectively
- Maintain REDUCE with TP at ₹1,900 (from ₹1,800)

M B Mahesh CFA

Nischint Chawathe

Dipanjana Ghosh

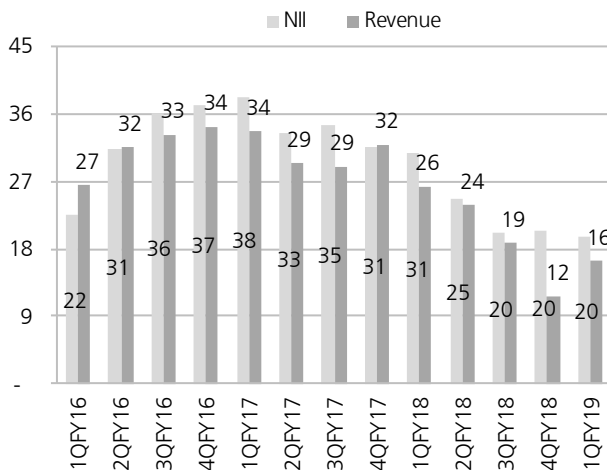
Exhibit 1: IndusInd Bank – quarterly financial statements  
March fiscal year-ends, 1QFY18-1QFY19 (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	(% chg.)	FY2020E
					1QFY19E	1QFY18	4QFY18				
<b>Income statement (Rs mn)</b>											
Interest income	50,682	49,516	41,355	46,501	2.4	22.6	9.0	227,916	172,808	31.9	297,963
Interest on advances	41,466	39,333	32,707	36,693	5.4	26.8	13.0	181,859	136,999	32.7	237,013
Interest on investments	8,610	9,431	7,265	8,305	(8.7)	18.5	3.7	41,486	30,744	34.9	55,169
Other interest	605	752	1,383	1,503	(19.5)	(56.3)	(59.7)	4,571	5,065	(9.7)	5,781
Interest expense	29,457	28,788	23,615	26,425	2.3	24.7	11.5	127,049	97,833	29.9	164,830
<b>Net interest income</b>	<b>21,224</b>	<b>20,727</b>	<b>17,741</b>	<b>20,076</b>	<b>2.4</b>	<b>19.6</b>	<b>5.7</b>	<b>100,867</b>	<b>74,975</b>	<b>34.5</b>	<b>133,134</b>
Non-int. income	13,016	12,130	11,673	12,085	7.3	11.5	7.7	60,868	47,501	28.1	68,100
Fee income	11,646	11,630	9,743	11,135	0.1	19.5	4.6	53,190	41,771	27.3	63,600
Treasury income	1,370	500	1,930	950	174.0	(29.0)	44.2	4,500	5,730	(21.5)	4,500
Non treasury income	11,646	11,630	9,743	11,135	0.1	19.5	4.6	56,368	41,771	34.9	63,600
<b>Total income</b>	<b>34,240</b>	<b>32,857</b>	<b>29,413</b>	<b>32,161</b>	<b>4.2</b>	<b>16.4</b>	<b>6.5</b>	<b>161,735</b>	<b>122,476</b>	<b>32.1</b>	<b>201,234</b>
Op. expenses	15,129	15,118	13,528	14,467	0.1	11.8	4.6	72,098	55,914	28.9	90,303
Employee cost	4,620	4,762	4,222	4,535	(3.0)	9.4	1.9	22,161	17,807	24.5	25,394
Other cost	10,509	10,356	9,306	9,932	1.5	12.9	5.8	49,937	38,108	31.0	64,909
<b>Operating profit</b>	<b>19,111</b>	<b>17,739</b>	<b>15,885</b>	<b>17,694</b>	<b>7.7</b>	<b>20.3</b>	<b>8.0</b>	<b>89,637</b>	<b>66,561</b>	<b>34.7</b>	<b>110,931</b>
Provisions and cont.	3,500	2,852	3,100	3,356	22.7	12.9	4.3	15,408	11,754	31.1	19,183
NPLs	2,090	2,679	2,100	2,820	(22.0)	(0.5)	(25.9)	13,608	9,010	51.0	18,683
PBT	15,611	14,887	12,786	14,338	4.9	22.1	8.9	74,229	54,807	35.4	91,748
Tax	5,254	4,926	4,420	4,808	6.7	18.9	9.3	24,124	18,747	28.7	29,818
<b>Net profit</b>	<b>10,357</b>	<b>9,961</b>	<b>8,365</b>	<b>9,531</b>	<b>4.0</b>	<b>23.8</b>	<b>8.7</b>	<b>50,104</b>	<b>36,060</b>	<b>38.9</b>	<b>61,930</b>
Tax rate (%)	33.7	33.1	34.6	33.5	57 bps	-92 bps	13 bps	32.5	34.2	-171 bps	32.5
<b>Op.profit excl. treasury gains</b>	<b>17,741</b>	<b>17,239</b>	<b>13,955</b>	<b>16,744</b>	<b>2.9</b>	<b>27.1</b>	<b>6.0</b>	<b>85,137</b>	<b>60,831</b>	<b>40.0</b>	<b>106,431</b>
<b>Key balance sheet items (Rs bn)</b>											
<b>Total deposits</b>	<b>1,589</b>	<b>1,644</b>	<b>1,337</b>	<b>1,516</b>	<b>(3.4)</b>	<b>18.8</b>	<b>4.8</b>	<b>2,147</b>	<b>1,516</b>	<b>41.6</b>	<b>2,846</b>
Savings deposits	477		316	459		51.2	4.0	646	459	40.7	870
Current deposits	213		189	208		12.3	2.0	291	208	39.5	397
Term deposits	899		832	849		8.1	5.9	1,211	849	42.6	1,579
CASA ratio (%)	43.4		37.8	44.0		562 bps	-58 bps	43.6	44.0	-40 bps	44.5
<b>Loans</b>	<b>1,507</b>	<b>1,455</b>	<b>1,164</b>	<b>1,450</b>	<b>3.6</b>	<b>29.4</b>	<b>3.9</b>	<b>1,953</b>	<b>1,450</b>	<b>34.7</b>	<b>2,444</b>
Retail credit	603		471	572		28.0	5.3				
Commercial vehicles	236		176	226		33.5	4.3				
Utility vehicles	30		24	29		24.7	5.6				
Cars	56		48	53		16.2	4.8				
2 wheelers	38		33	36		15.1	4.6				
3 wheelers	27		24	25		14.7	8.1				
Equipments	60		44	55		36.8	9.4				
Credit card	30		19	27		53.4	10.6				
Home loans/Personal loans	126		102	121		23.3	3.9				
Corporate Advances	450		330	443		36.0	1.5				
SME/Commercial banking	265		226	257		17.2	3.5				
Others	189		136	178		38.9	6.4				
<b>Asset quality (Rs mn)</b>											
GNPL	17,406		12,717	17,049		37	2	23,853	17,049	40	35,459
GNPL (%)	1.2		1.1	1.2		6 bps	-2 bps	1.2	1.2	2 bps	1.4
NNPL	7,624		5,083	7,457		50	2	10,041	7,457	35	14,627
NNPL (%)	0.5		0.4	0.5		7 bps	0 bps	0.5	0.5	0 bps	0.6
PCR (%)	56.2		60.0	56.3		-383 bps	-6 bps	57.9	56.3	164 bps	58.7
Restructured loans	690		2,000	760		(66)	(9)				
Restructured loans (%)	0.05		0.2	0.1		-13 bps	-1 bps				
<b>Key calculated ratios (%)</b>											
Yield on advances	11.3		11.4	10.7		-14 bps	53 bps	10.7	10.6	7 bps	10.8
Yield on investment	6.7		7.4	6.9		-67 bps	-20 bps	6.8	7.1	-32 bps	6.8
Yield on assets	9.6		9.5	9.4		4 bps	19 bps	9.3	9.2	8 bps	9.3
Cost of borrowings	6.1		6.1	5.9		2 bps	23 bps	5.8	5.8	1 bps	5.7
NIM	3.8		3.8	3.8		-7 bps	-3 bps	3.9	3.7	12 bps	4.0
Cost to income	44.2		46.0	45.0		-181 bps	-80 bps	44.6	45.7	-108 bps	44.9
Credit cost	0.6		0.7	0.8		-16 bps	-26 bps	0.8	0.7	10 bps	0.9
RoA	2.0		1.9	1.9		3 bps	3 bps	2.0	1.9	12 bps	1.9
RoE	18.1		16.9	17.4		118 bps	71 bps	18.2	17.2	95 bps	17.5
<b>Capital adequacy details (%)</b>											
CAR	14.7		16.2	15.0		-148 bps	-33 bps				
Tier-I	14.3		15.7	14.6		-137 bps	-29 bps				
<b>Key parameters (#)</b>											
Branches	1,410		1,210	1,400		17	1	1,625	1,400	16	1,825
ATM	2,285		2,090	2,203		9	4	2,553	2,203	16	2,903

Source: Company, Kotak Institutional Equities

**Exhibit 2: Revenue growth lags NII growth due to drop in treasury gains**

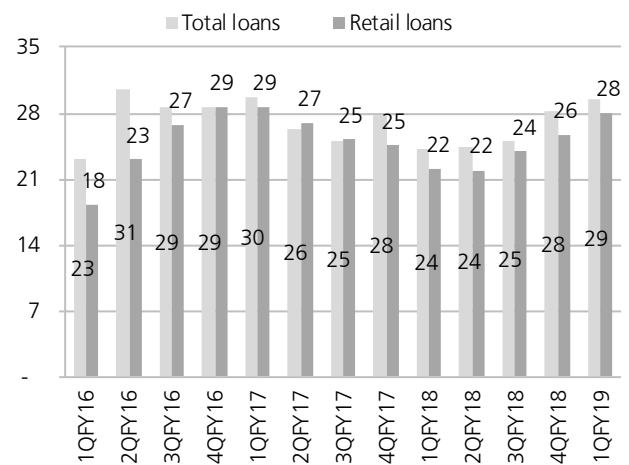
NII and total income growth, March fiscal year-ends, 1QFY16-1QFY19 (%)



Source: Company, Kotak Institutional Equities

**Exhibit 3: Overall loan growth continues to improve; up 29% yoy**

Total and retail loan growth, March fiscal year-ends, 1QFY16-1QFY19 (%)



Source: Company, Kotak Institutional Equities

**Asset quality stable qoq**

GNPL and NNPL ratios were flat qoq at 1.2% and 0.5%, respectively in 1QFY18. Slippages for the quarter dropped to 1.3% from 2.7% qoq. The drop in slippages was led by sharp drop in slippages in the corporate portfolio. Provision coverage ratio remained high at 56% (down 10 bps qoq). Contrary to the trends observed over the past three quarters, retail slippages dropped 50 bps qoq to 1.9%. On the retail side, asset quality improved across most product classes indicated by drop in GNPL ratio. GNPL was 1% for CV (down 8 bps qoq), 1.4% for UVs (down 10 bps qoq), 0.9% for CEs (down 20 bps qoq) and 0.7% for cars (flat qoq). While asset quality remained weak in the 2-W portfolio, GNPL showed marginal decrease by 17 bps qoq to 3.7%. Corporate slippages that stood high at 2.5% in FY2018 (3.6% in 4QFY18) dropped to 1.2%. The company has been gradually lending to companies with better credit profile.

IndusInd Bank published movement in weighted average risk score of the vehicle finance book, which hinted at gradual improvement in portfolio quality. Within the vehicle finance book, MHCVs and cars demonstrate superior risk profile compared to others.

We expect gross NPL ratio to be in the range of ~1.5% in medium term. We build in 1.6-2.1% slippages and ~80 bps of loan-loss provisions over the next few years.

**Exhibit 4: Slippages drop to 1.3%; corporate slippages show significant improvement**

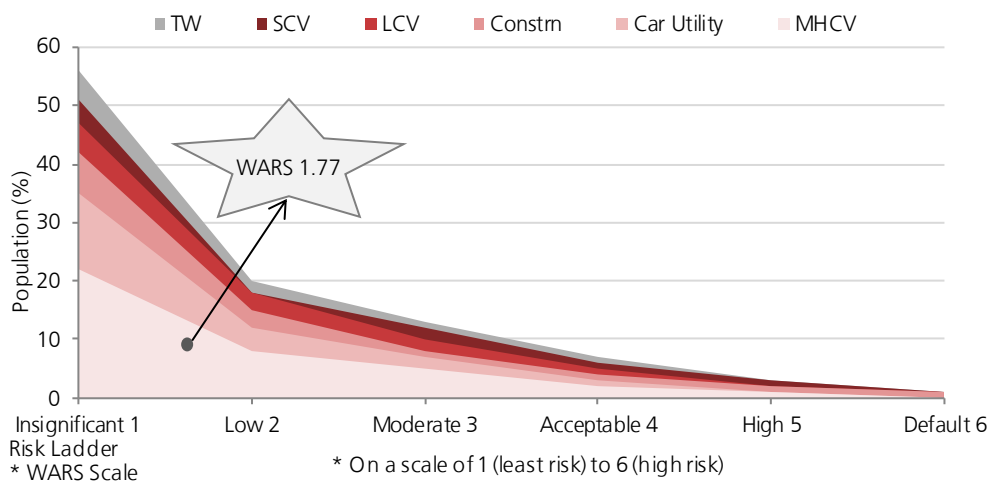
Gross and net NPL, March fiscal year-ends, 2011-1QFY19 (%)

	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Gross NPL (Rs mn)	2,659	3,471	4,578	6,208	5,629	7,768	10,549	17,049	17,406
Wholesale (Rs mn)	820	1,100	1,990	3,100	2,340	3,820	5,440	10,530	11,100
Retail (Rs mn)	1,840	2,370	2,600	3,110	3,280	3,950	5,110	6,520	6,310
Commercial vehicle (%)	1.2	1.0	1.0	1.4	1.3	1.0	0.9	1.0	1.0
Utility vehicle (%)	1.1	1.3	0.9	0.9	1.1	1.2	1.1	1.3	1.4
Construction equipments (%)	1.4	1.2	1.2	1.3	1.5	1.3	1.2	1.1	0.9
3 Wheeler (%)	0.6	0.9	0.8	0.9	0.9	1.0	0.9	1.3	1.1
2 Wheeler (%)	3.9	3.4	3.0	2.5	2.6	3.1	3.6	3.9	3.7
Cars (%)	1.6	1.0	0.7	0.5	0.6	0.5	0.7	0.7	0.7
Gross NPL ratio (%)	1.0	1.0	1.0	1.1	0.8	0.9	0.9	1.2	1.2
Net NPL (Rs mn)	728	947	1,368	1,841	2,105	3,218	4,389	7,457	7,624
Net NPL ratio (%)	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.5
Provision coverage (%)	72.6	72.7	70.1	70.4	62.6	58.6	58.4	56.3	56.2
Loan-loss provisions (%)	0.8	0.6	0.6	0.8	0.7	0.8	0.6	0.6	0.4
Slippages (%)	0.9	1.1	1.5	1.4	1.6	1.2	1.6	2.1	1.3
Wholesale (%)	0.7	0.7	1.1	0.6	1.1	1.0	1.8	2.5	1.2
Retail (%)	2.0	1.7	1.6	1.9	1.8	1.9	1.9	2.3	1.9

Source: Company, Kotak Institutional Equities

**Exhibit 5: Asset quality in the medium term is likely to be stable**

Behavioral scoring of vehicle finance portfolio, March fiscal year-end, 1QFY18



Source: Company, Kotak Institutional Equities estimates

**Exhibit 6: Commercial vehicles is probably at its sweetest point at this point**

Break-up of loans based on behavioral study, March fiscal year-end, 1QFY18

	Insignificant				Low				Moderate				Rest			
	Loan portfolio (Rs)	Value provided (x)	Amount (Rs)	Contribution to each segment (%)	Value provided (x)	Amount (Rs)	Contribution to each segment (%)	Value provided (x)	Amount (Rs)	Contribution to each segment (%)	Value provided (x)	Amount (Rs)	Contribution to each segment (%)	Value provided (x)	Amount (Rs)	Contribution to each segment (%)
CV	207,030	0.3	112,884	54.5	0.1	45,990	22.2	0.1	29,266	14.1	0.0	18,890	9.1			
Cars and utility	86,260	0.1	54,352	63.0	0.0	16,724	19.4	0.0	8,362	9.7	0.0	6,823	7.9			
Construction	59,940	0.1	29,266	48.8	0.0	12,543	20.9	0.0	4,181	7.0	0.0	13,950	23.3			
SCV	27,320	0.0	16,724	61.2	—	—	—	0.0	8,362	30.6	0.0	2,235	8.2			
Two wheelers	37,540	0.1	20,905	55.7	0.0	8,362	22.3	0.0	4,181	11.1	0.0	4,093	10.9			
<b>Total</b>	<b>418,090</b>		<b>234,130</b>	<b>56.0</b>		<b>83,618</b>	<b>20.0</b>		<b>54,352</b>	<b>13.0</b>		<b>45,990</b>	<b>11.0</b>			

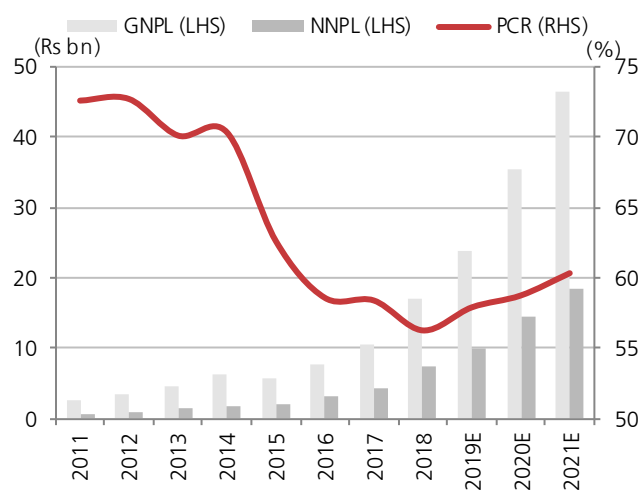
Notes:

- (a) These are purely estimates based on our understanding of the table and it has not been verified by the management. Few decimal changes can have a wide impact on distribution of the portfolio.
- (b) Commercial vehicles include medium and light commercial vehicles as we don't have a split between the two segments. Actual results can vary based on the split.
- (c) Rest includes acceptable 5/6 and default. Value is quite small and insignificant.

Source: Company, Kotak Institutional Equities estimates

**Exhibit 7: Stable trends on impaired loan ratio**

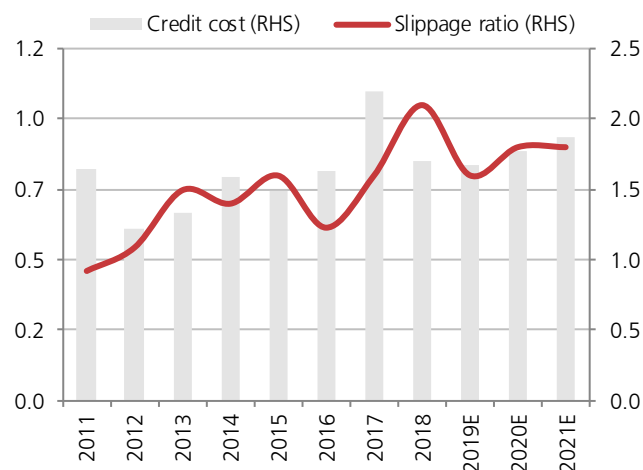
Gross and net NPL, March fiscal year-ends, 2011-2021E



Source: Company, Kotak Institutional Equities

**Exhibit 8: Credit cost to stabilize in medium term**

Gross, net NPL and credit cost ratio, March fiscal year-ends, 2011-2021E



Source: Company, Kotak Institutional Equities

**Margins shrink qoq as cost of funds has started to rise faster**

Reported margins compressed 5 bps qoq to 3.9% driven by rise in cost of deposits by 22 bps qoq during 1QFY19 while yields saw marginal improvement by 8 bps qoq during the same period. The rise in cost of deposits was on the back of marginal drop in CASA by 60 bps qoq.

Corporate yields improved in 1QFY19 by 9 bps qoq to 9.2%. Retail yields were flat qoq. This was driven by the asset mix where the low-yielding vehicle finance portfolio continued to grow at a fast pace and the relatively high-yielding home loan/LAP portfolio witnessed significant pricing pressure from other banks and NBFCs in the last quarter.

We expect NIM to improve primarily on the back of BHAFIN acquisition. Note that we are not factoring the full impact of BHAFIN merger at this point. The regulatory cost of BHAFIN on SLR/CRR is likely to be low considering that the balance sheet of BHAFIN has excess liquidity while the fully compliant PSL can help IndusInd Bank to lower its purchases of such loans from the market. Our key concern for a slightly more negative outlook comes from the standalone business where there is higher level of competition.

**Exhibit 9: Marginal NIOM (calculated) compression on the back of flat yields and rise in cost of deposits**

Drivers for margin expansion, March fiscal year-ends, 2011-1QFY19 (%)

	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
<b>Yield management measures (%)</b>									
Yield on advances	12.4	13.8	13.8	13.6	13.1	12.3	11.8	11.2	11.2
- Corporate and commercial	9.6	11.5	11.7	11.6	11.1	10.1	9.7	9.2	9.2
- Consumer finance	16.1	16.4	16.0	15.6	15.8	15.3	14.6	14.2	13.9
Cost of deposits	6.3	8.1	8.5	8.2	7.9	7.3	6.5	6.0	6.2
Costs of funds		7.3	7.3	6.9	6.7	6.0	5.4	5.1	5.4
NIM	3.5	3.3	3.4	3.7	3.7	3.9	4.0	4.0	3.9
<b>Composition of loans (%)</b>									
Retail loans to overall loans	44.4	49.2	50.5	45.0	41.3	41.3	40.3	39.5	40.0
Vehicle loans to overall loans	43.5	46.9	46.4	39.2	33.8	32.1	30.2	29.3	29.6

Source: Company, Kotak Institutional Equities

**Exhibit 10: CD rates increased 50 bps in 1QFY19**

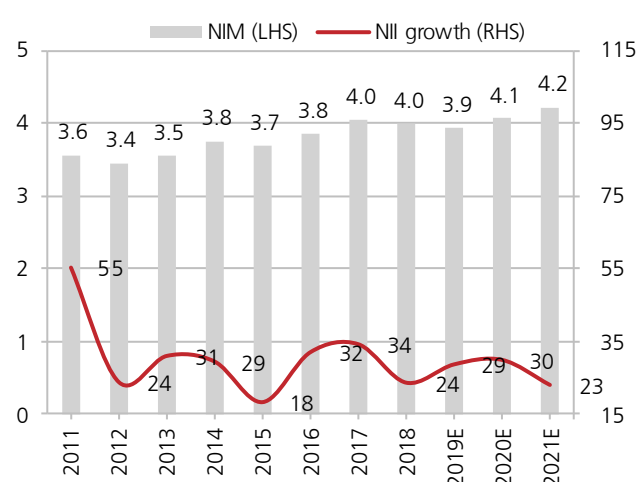
CD rates, July 2013 – July 2018 (%)



Source: Bloomberg, Kotak Institutional Equities

**Exhibit 11: NIM to improve marginally by FY2021E**

Net interest margin, March fiscal year-ends, 2011-2021E (%)



Source: Company, Kotak Institutional Equities

**Loan growth remains healthy; corporate loans gain traction**

Loan growth maintained strong momentum at 29% yoy in 1QFY19, a notch higher than those observed over the past few quarters. The retail segment witnessed 28% yoy growth in 1QFY19, which was marginally lower than non-retail loan growth at 30% yoy. The company has demonstrated strong loan growth recording 26% CAGR over the past 5 years.

Growth in retail loans was driven by both vehicle and non-vehicle portfolios with each recording similar yoy growth at 28% yoy in 1QFY19. Vehicle loans have seen strong traction over the past four quarters witnessing 17%, 20%, 24% and 28% yoy growth, respectively. Within the vehicle finance portfolio, CV, UVs and 3-W/ small CVs saw maximum growth at 33% yoy in 1QFY19; the pace of growth increasing gradually over the past four quarters. CEs also saw robust growth at 37% yoy. Growth in cars and 2-W was lower at 16% and 15% yoy, respectively in 1QFY19. Within the non-vehicle retail portfolio, credit cards continued to demonstrate strong growth at 53% yoy. Home loans/LAP also saw robust growth at 23% yoy. The share of home loans in the overall retail portfolio has broadly been stable at 21%.

Within the non-retail portfolio, corporate loans witnessed 36% yoy growth in 1QFY19. The growth in SME was low at 17% yoy. The share of SME loans dropped for the fourth quarter in a row to 29%. The share of corporate lending to better rated companies is on the rise.



We factor loan growth at ~30% CAGR over FY2018-21E primarily led by BHAFIN acquisition. We expect retail loans to grow at ~25% CAGR. Vehicle finance portfolio would continue to dominate the loan book but the bank is aggressively diversifying into other products to reduce the cyclicity of this business. IIB maintains a cautious stance on the LAP portfolio due to high pricing pressure on this segment.

**Exhibit 12: Loan mix broadly remains similar qoq**

Break-up of loans, March fiscal year-ends, 2011-1QFY19 (%)

	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Retail advances	44.4	49.2	50.5	45.0	41.3	41.3	40.3	39.5	40.0
Vehicle financing	43.5	46.9	46.4	39.2	33.8	32.1	30.2	29.3	29.6
Commercial vehicles	21.8	23.6	22.5	17.4	15.4	15.9	15.4	15.6	15.6
Utility vehicles	3.2	3.5	4.0	3.7	2.9	2.3	2.1	2.0	2.0
Cars	3.2	4.0	4.6	4.8	4.6	4.4	4.1	3.7	3.7
Two and three wheelers	9.7	9.7	9.1	8.1	6.8	5.8	5.0	4.2	4.3
Equipment	5.7	6.1	6.1	5.2	4.1	3.7	3.6	3.8	4.0
Home loans	0.9	1.6	3.4	4.9	6.5	7.8	8.5	8.4	8.4
Personal loans	—	0.7	0.8	0.8	1.0	1.4	1.5	1.9	2.0
Corporate advances	55.6	50.8	49.5	55.0	58.7	58.7	59.7	60.5	60.0
Large corporate advances	26.1	27.1	26.7	27.4	29.0	28.6	27.8	30.6	29.8
SME/commercial banking	19.3	15.2	14.6	17.6	16.7	18.8	19.6	17.7	17.6
Other loans	10.1	8.5	8.1	10.1	13.0	11.3	12.3	12.3	12.6

Source: Company, Kotak Institutional Equities

**Exhibit 13: Break-up of the corporate segment; power generation exposure has dropped 40 bps qoq top 3.7%**

March fiscal year-ends, 2011-1QFY19 (%)

	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Gems and Jewellery		1.4	1.9	1.6	2.4	6.0	6.1	5.2	4.8
Power generation	1.2	1.9	2.3	1.9	1.9	1.2	NA	4.1	3.7
Microfinance							2.5	2.8	3.7
Real Estate Developers	0.6		1.2	1.8	2.4	3.0	2.0	2.8	3.4
Services							2.3	2.2	3.1
Lease Rental	1.2	2.4	3.0	4.3	3.9	4.6	5.1	3.0	2.9
Constn related to infra.- EPC	2.8	2.5	1.9	1.5	2.4	1.6	1.7	2.8	2.5
Steel	1.1	1.3	1.4	1.4	1.4	1.7	1.8	1.6	2.5
Petroleum and products			1.1	0.9				1.2	1.9
Food beverages and processing					1.6	NA	NA	1.4	1.3
Telecom					2.0	3.1	3.5	NA	1.2
Roads/other infra									1.1
Power distribution							NA	NA	0.7
NBFCs (other than HFCs/HFLs)	6.8	5.4	3.3	2.6	2.3	2.2	1.3	NA	NA
Pharma	3.5	3.3	1.9	1.2	NA	0.9	NA	NA	NA
Paper				0.9	NA	NA	NA	NA	NA
Food credit				1.3	1.6	NA	NA	1.0	NA
Plastic & Plastic Products	1.2							NA	NA
Auto ancillaries								NA	NA
Hospital and medical services								NA	NA
Contract construction-civil							1.0	1.1	NA
Media, entertainment and adv.							1.2	NA	NA
Power transmission								0.9	NA
Engineering and machinery								0.8	NA
Other Industry		32.8	31.4	37.1	38.7	33.1	31.2	30.9	26.1

Source: Company, Kotak Institutional Equities

**Exhibit 14: Real estate exposure has dropped to 5% from ~11% in FY2017**

Break-up of exposure in the real estate sector, March fiscal year-ends, 2010-2018 (₹ mn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Real estate</b>									
Developers	1,310	4,360	1,360	5,160	16,429	33,675	42,424	25,017	48,837
Lease rental discounting	2,110	3,100	8,280	13,400	23,409	26,935	41,045	57,486	43,618
Lease rental discounting - others				7,150	10,762	11,806	10,042	8,664	7,748
Housing finance companies	3,610	3,710	1,500	1,210	400	5,083	12,831	14,908	1,901
Loans against property		940			2,532	37,409	56,917	73,386	3,741
<b>Total real estate</b>	<b>7,030</b>	<b>12,110</b>	<b>11,140</b>	<b>26,920</b>	<b>53,532</b>	<b>114,908</b>	<b>163,259</b>	<b>179,461</b>	<b>105,845</b>
<b>Trading</b>									
Wholesale			11,500	16,140	19,916	27,525	40,854	55,332	60,974
Retail			14,130	19,650	18,233	23,478	26,912	33,080	42,622
<b>Total exposure to trading</b>	<b>—</b>	<b>—</b>	<b>25,630</b>	<b>35,790</b>	<b>38,149</b>	<b>51,003</b>	<b>67,766</b>	<b>88,412</b>	<b>103,596</b>
<b>Total exposure</b>	<b>335,810</b>	<b>415,320</b>	<b>540,530</b>	<b>670,310</b>	<b>796,426</b>	<b>974,887</b>	<b>1,232,022</b>	<b>1,652,866</b>	<b>1,993,382</b>
Consumer finance division	82,660	116,120	169,900	220,590	241,880	240,295	281,347	342,597	501,972
Others	253,150	299,200	370,630	449,720	554,546	734,592	950,675	1,310,269	1,491,410
<i>Real estate to total exposure (%)</i>	<i>2.1</i>	<i>2.9</i>	<i>2.1</i>	<i>4.0</i>	<i>6.7</i>	<i>11.8</i>	<i>13.3</i>	<i>10.9</i>	<i>5.3</i>
<i>Real estate to exposure ex consumer (%)</i>	<i>2.8</i>	<i>4.0</i>	<i>3.0</i>	<i>6.0</i>	<i>9.7</i>	<i>15.6</i>	<i>17.2</i>	<i>13.7</i>	<i>7.1</i>
<i>Trading to total exposure (%)</i>			<i>4.7</i>	<i>5.3</i>	<i>4.8</i>	<i>5.2</i>	<i>5.5</i>	<i>5.3</i>	<i>5.2</i>
<i>Real estate to exposure ex consumer (%)</i>			<i>6.9</i>	<i>8.0</i>	<i>6.9</i>	<i>6.9</i>	<i>7.1</i>	<i>6.7</i>	<i>6.9</i>
<b>Loans and debentures -reported in balance sheet</b>									
Loans	207,042	263,587	353,164	446,416	555,386	691,406	893,859	1,151,070	1,480,348
Consumer finance division	83,010	116,190	172,370	224,010	247,850	284,120	365,490	455,290	572,400
Debenture and bonds	18,266	33,880	23,773	47,335	47,394	33,181	69,333	25,655	49,424
<b>Total</b>	<b>225,308</b>	<b>297,467</b>	<b>376,937</b>	<b>493,752</b>	<b>602,780</b>	<b>724,587</b>	<b>963,192</b>	<b>1,176,725</b>	<b>1,529,771</b>
<i>Loans and debentures to total exposure (%)</i>	<i>67.1</i>	<i>71.6</i>	<i>69.7</i>	<i>73.7</i>	<i>75.7</i>	<i>74.3</i>	<i>78.2</i>	<i>71.2</i>	<i>76.7</i>
<i>Loans and debentures to exposure, ex consumer (%)</i>	<i>56.2</i>	<i>60.6</i>	<i>55.2</i>	<i>60.0</i>	<i>64.0</i>	<i>60.0</i>	<i>62.9</i>	<i>55.1</i>	<i>64.2</i>

Source: Company, Kotak Institutional Equities

**Exhibit 15: Geographical distribution of vehicle loan portfolio across top 20 states (2015-2017)**

State	2015	2017
Tamil Nadu	10	11
Rajasthan	11	10
Kerala	10	9
Maharashtra	5	7
UP	6	6
Andhra Pradesh	5	6
Haryana	6	5
Gujarat	6	5
West Bengal	6	5
Telangana	3	5
Karnataka	3	4
Orissa	3	4
Punjab	4	3
Chhattisgarh	3	3
Jharkhand	3	3
Delhi	2	2
Bihar	2	2
Assam	2	2
Himachal Pradesh	1	1
Goa	1	1
Tripura	1	1
Others	7	5

Source: Company, Kotak Institutional Equities

**CASA ratio stands high at 43%; SA maintains growth momentum**

Deposit growth was strong at 19% yoy, a trend similar to previous quarters with modest CA growth at 12% yoy (up 2% qoq). SA growth momentum continued with 51% yoy increase. CASA ratio improved to ~43% in 1QFY19 (up 560 bps yoy). The bank has rapidly expanded its branch network (net addition of 200 branches in FY2018; 10 in 1QFY19), which is further expected to drive growth on the liability side.

**Exhibit 16: CA continues to drop; SA strong at 30% of deposits**

Break-up of CASA across private banks, March fiscal year-ends, 2011-1QFY19 (%)

	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
<b>IndusInd Bank</b>									
Current	18.3	16.2	16.3	16.2	16.7	16.6	15.5	13.7	13.4
Savings	8.9	11.1	13.0	16.4	17.5	18.5	21.4	30.3	30.0
<b>HDFC Bank</b>									
Current	22.3	18.4	17.7	16.7	16.3	16.2	18.0	15.1	NA
Savings	30.4	30.0	29.8	28.1	27.7	27.1	30.1	28.4	NA
<b>ICICI Bank</b>									
Current	15.4	13.7	12.6	13.0	13.7	14.0	15.3	15.9	NA
Savings	29.6	29.8	29.3	29.9	31.8	31.9	35.1	35.8	NA
<b>Axis Bank</b>									
Current	19.5	18.1	19.1	17.3	17.4	17.8	21.0	21.1	NA
Savings	21.6	23.5	25.2	27.7	27.4	29.6	30.4	32.7	NA
<b>Yes Bank</b>									
Current	8.6	9.9	10.0	9.5	9.3	9.8	13.4	14.4	NA
Savings	1.8	5.1	9.0	12.6	13.8	18.3	22.9	22.1	NA

Source: Company, Kotak Institutional Equities

**Exhibit 17: Fee income trends remain strong**

Comparison of non-interest income (ex-treasury) to income and proportion of assets, March fiscal year-ends, 1QFY16-1QFY19 (%)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
<b>Non-interest income (ex-treasury) to income</b>													
Axis Bank	26.0	30.7	30.8	35.9	25.2	28.4	24.2	33.4	28.6	31.0	32.7	34.2	NA
ICICI Bank	34.3	33.7	28.7	27.8	31.0	18.8	32.7	28.0	28.2	27.5	35.0	25.6	NA
HDFC Bank	26.4	25.9	25.6	26.7	23.9	24.0	24.0	26.1	24.7	24.3	25.5	28.6	NA
IndusInd Bank	36.5	35.9	36.1	35.5	33.6	34.0	34.1	34.6	33.1	33.7	34.9	34.6	34.0
Yes Bank	31.2	32.9	36.6	36.8	40.2	31.6	35.1	40.5	34.4	37.3	42.4	37.1	NA
<b>Non-interest income (ex-treasury) to assets</b>													
Axis Bank	1.4	1.6	1.7	2.0	1.4	1.5	1.3	1.8	1.4	1.4	1.5	1.5	NA
ICICI Bank	1.7	1.7	1.6	1.6	1.5	1.5	1.6	1.3	1.3	1.5	1.5	1.4	NA
HDFC Bank	1.5	1.5	1.5	1.6	1.4	1.4	1.4	1.5	1.4	1.4	1.5	1.7	NA
IndusInd Bank	2.4	2.3	2.4	2.4	2.3	2.3	2.3	2.4	2.2	2.2	2.3	2.1	2.2
Yes Bank	1.5	1.6	1.9	1.9	2.1	1.6	1.8	2.3	1.9	2.0	2.2	1.8	NA

Source: Company, Kotak Institutional Equities

**Exhibit 18: Bancassurance fees continues to rise**

Comparison of bancassurance and total fees across players, March fiscal year-ends, 2010-2018 (%)

	Bancassurance fee (Rs mn)										Bancassurance fee (% of fee income)									
	2010	2011	2012	2012 R	2013	2014	2015	2016	2017	2018	2010	2011	2012	2012 R	2013	2014	2015	2016	2017	2018
IndusInd Bank	1,001	1,611	1,878	799	1,073	1,120	1,657	1,479	2,119	3,450	30.0	31.4	26.3	11.2	11.1	9.2	9.7	6.4	7.1	10.0
Non life	449	669	563	250	273	310	397	481	589	961										
HDFC Bank	5,660	7,133	5,631	5,631	5,947	4,543	5,911	8,179	9,559	13,958	19.8	20.6	11.9	11.9	10.5	7.1	8.0	9.5	9.8	11.1
ICICI Bank	2,956	1,885	3,004	3,004	5,257	6,697	9,431	10,197	13,214	NA	5.8	3.4	5.4	5.4	9.3	10.5	13.4	13.2	16.3	NA
Axis Bank	1,251	2,294	3,723	3,723	5,106	6,620	8,623	8,894	9,972	10,728	4.5	6.2	8.0	8.0	9.6	11.9	13.6	12.8	13.7	13.5
Yes Bank	112	128	148	148	200	238	358	565	1,004	768	2.6	2.1	1.9	1.9	1.9	1.8	1.8	2.3	3.1	1.7

Source: Company, Kotak Institutional Equities

**Exhibit 19: Income from distribution of MFs saw a sharp spike in 2018**

Granular break-up of distribution income, March fiscal year-ends, 2010-2018 (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Distribution fee income	1,149	1,611	1,367	2,704	2,814	3,846	4,906	7,147	9,760
Life insurance	553	714	284	432	418	472	402	706	936
Non life insurance	449	669	250	273	310	397	481	589	961
Mutual fund	140	227	265	368	393	788	597	825	1,553
Total bancassurance	1,141	1,611	799	1,073	1,120	1,657	1,479	2,119	3,450
Growth (%)		41.1	(50.4)	34.4	4.4	47.9	(10.7)	43.3	62.8
Cards and others	8	1	569	1,630	1,694	2,189	3,426	5,028	6,310
Growth (%)				186.7	3.9	29.2	56.5	46.7	25.5
Credit card outstanding (#)			201,056	213,908	254,597	307,069	388,466	506,627	690,435
Growth (%)				6.4	19.0	20.6	26.5	30.4	36.3

Source: Company, Kotak Institutional Equities

**Exhibit 20: Cost per branch has shown improvement over the years**

Break-up of operating expenses, March fiscal year-ends, 2010-2018 (%)

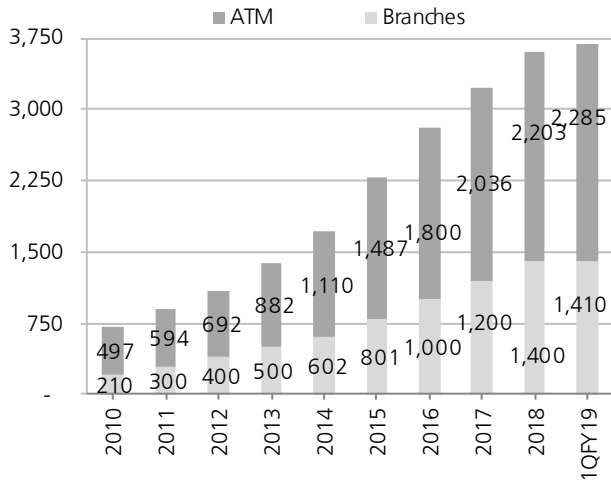
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating expenses (Rs mn)	7,360	10,085	13,430	17,564	21,851	28,701	36,721	47,831	55,914
Growth (%)	34.5	37.0	33.2	30.8	24.4	31.3	27.9	30.3	16.9
Employee expenses (Rs mn)	2,906	3,826	4,855	6,615	8,093	9,805	12,361	15,210	17,807
Growth (%)	55.3	31.7	26.9	36.3	22.3	21.2	26.1	23.1	17.1
Total employees (#)	5,383	7,008	9,370	11,502	15,590	19,121	23,060	25,314	25,517
Growth (%)	26.6	30.2	33.7	22.8	35.5	22.6	20.6	9.8	0.8
Cost per employee (Rs)	603,192	617,625	592,831	633,827	597,438	564,938	586,088	628,859	700,630
Growth (%)	22.6	1.2	(5.1)	11.0	(9.7)	(1.2)	4.5	12.1	16.1
Rent, rates and lighting (Rs mn)	688	893	1,096	1,664	1,878	2,346	2,713	3,266	3,730
Growth (%)	38.7	29.8	22.7	51.8	12.9	24.9	15.6	20.4	14.2
Branches (#)	210	300	400	500	602	801	1,000	1,200	1,400
Growth (%)	16.7	42.9	33.3	25.0	20.4	33.1	24.8	20.0	16.7
Cost/branch (Rs mn)	3.5	3.5	3.1	3.7	3.4	3.3	3.0	3.0	2.9
Growth (%)	28.0	(0.8)	(10.6)	18.1	(7.8)	(1.9)	(9.9)	(1.5)	(3.3)
Other costs	3,766	5,365	7,479	9,285	11,880	16,549	21,647	29,355	34,377
Growth (%)	21.4	42.5	39.4	24.1	27.9	39.3	30.8	35.6	17.1
Service provider fees	613	804	1,147	1,589	1,832	2,242	3,344	3,813	4,182
Growth (%)	6.8	31.1	42.6	38.5	15.3	22.4	49.2	14.0	9.7
(% of other costs)	16.3	15.0	15.3	17.1	15.4	13.5	15.4	13.0	12.2

Source: Company, Kotak Institutional Equities

**Other updates**

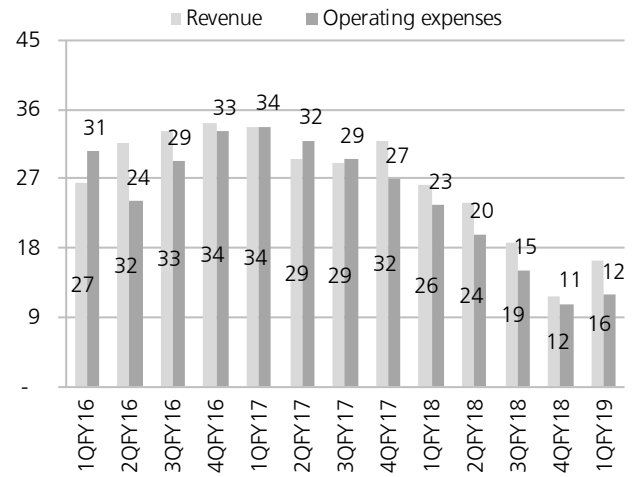
- ▶ Fee income growth was strong 20% yoy led by strong third-party fees (up 32% yoy), investment banking income (up 19% yoy) and general banking fees (up 25% yoy) while growth in trade fees and foreign exchange fees were low at 8% yoy and 15% yoy, respectively. Treasury gains dropped 29% yoy owing to high mark-to-market losses.
- ▶ CAR stood comfortable at 14.7% with tier-1 ratio of 14.3%. RWA growth at 25% yoy was broadly similar to 29% yoy loan growth in 1QFY19.

**Exhibit 21: Addition of 10 branches in 1QFY19**  
 Branches and ATM, March fiscal year-ends, 2010-1QFY19 (#)



Source: Company, Kotak Institutional Equities

**Exhibit 22: Revenue growth outpaced growth in operating expenses**  
 Operating expenses and revenue growth, March fiscal year-ends, 1QFY16-1QFY19 (%)



Source: Company, Kotak Institutional Equities



**Exhibit 23: IndusInd Bank – key parameters and balance sheet**  
March fiscal year-ends, 1QFY18-1QFY19

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
<b>Yield management measures (%)</b>					
Yield on advances	11.5	11.3	11.0	11.1	11.2
- Corporate and commercial banking	9.5	9.1	9.0	9.1	9.2
- Consumer finance division	14.5	14.4	14.0	13.9	13.9
Cost of deposits	6.2	5.9	5.9	6.0	6.2
NIM	4.0	4.0	4.0	4.0	3.9
<b>Asset quality details</b>					
Gross NPL(Rs mn)	12,717	13,453	14,987	17,049	17,406
Net NPLs (Rs mn)	5,083	5,369	5,922	7,457	7,624
Gross NPL (%)	1.1	1.1	1.2	1.2	1.2
Net NPL (%)	0.4	0.4	0.5	0.5	0.5
Provision coverage (%)	60.0	60.1	60.5	56.3	56.2
<b>Capital adequacy ratios (%)</b>					
CAR	16.2	15.6	15.8	15.0	14.7
Tier I	15.7	15.1	15.3	14.6	14.3
Tier II	0.5	0.5	0.5	0.4	0.4
<b>Other key details</b>					
Branches (#)	1,210	1,250	1,320	1,400	1,410
ATMs (#)	2,090	2,146	2,162	2,203	2,285
<b>Balance sheet snapshot (Rs mn)</b>					
<b>Capital and liabilities</b>					
Capital	5,990	6,147	6,000	6,148	6,000
Reserves and surplus	209,020	213,569	223,400	232,269	243,210
Deposits	1,336,730	1,414,406	1,460,860	1,516,392	1,588,620
Borrowings	274,040	235,577	233,670	382,891	370,400
Other liabilities and provisions	80,720	80,619	83,090	78,563	80,560
<b>Total</b>	<b>1,906,500</b>	<b>1,950,317</b>	<b>2,007,020</b>	<b>2,216,262</b>	<b>2,288,790</b>
<b>Assets</b>					
Cash and bank balance	64,150	63,575	68,270	109,624	86,580
Balance with bank and money at call	137,540	119,513	67,610	22,535	33,320
Investments	421,470	421,459	461,710	500,767	526,730
Advances	1,164,070	1,231,808	1,285,420	1,449,537	1,506,750
Fixed Assets	13,600	13,482	13,330	13,388	13,490
Other assets	105,670	100,480	110,690	120,412	121,920
<b>Total</b>	<b>1,906,500</b>	<b>1,950,317</b>	<b>2,007,030</b>	<b>2,216,262</b>	<b>2,288,790</b>

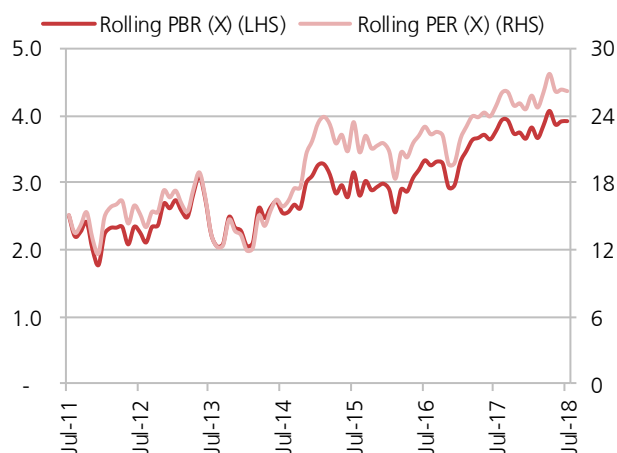
Source: Company, Kotak Institutional Equities

**Exhibit 24: IndusInd Bank—change in estimates**  
March fiscal year-ends, 2019-2021E (₹ mn)

	New estimates			Old estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2020E	2019E	2020E	2021E
Net loan growth (%)	34.7	25.2	24.3	34.1	23.0	33.2	58 bps	210 bps	-888 bps
Loans (Rs bn)	1,953	2,444	3,037	1,944	2,392	3,185	0.4	2.1	(4.7)
Total income	161,735	201,234	244,543	158,052	194,327	235,992	2.3	3.6	3.6
Net interest income	100,867	133,134	163,875	96,490	125,372	154,271	4.5	6.2	6.2
NIM (%)	4.1	4.2	4.1	3.9	4.1	4.2	17 bps	11 bps	-9 bps
Other income	60,868	68,100	80,668	61,562	68,955	81,721	(1.1)	(1.2)	(1.3)
Expenses	72,098	90,303	112,108	72,098	90,143	111,804	—	0.2	0.3
Employee cost	22,161	25,394	28,651	22,161	25,394	28,651	—	—	—
Other cost	49,937	64,909	83,457	49,937	64,749	83,153	—	0.2	0.4
Loan loss provisions	13,608	18,683	24,662	13,575	17,345	22,310	0.2	7.7	10.5
PBT	74,229	91,748	107,273	71,479	86,339	101,378	3.8	6.3	5.8
<b>PAT</b>	<b>50,104</b>	<b>61,930</b>	<b>72,409</b>	<b>48,249</b>	<b>58,279</b>	<b>68,430</b>	<b>3.8</b>	<b>6.3</b>	<b>5.8</b>
% growth yoy	38.9	23.6	16.9	33.8	20.8	17.4			
PBT-treasury+provisions	85,137	106,431	127,935	81,454	99,684	119,688	4.5	6.8	6.9

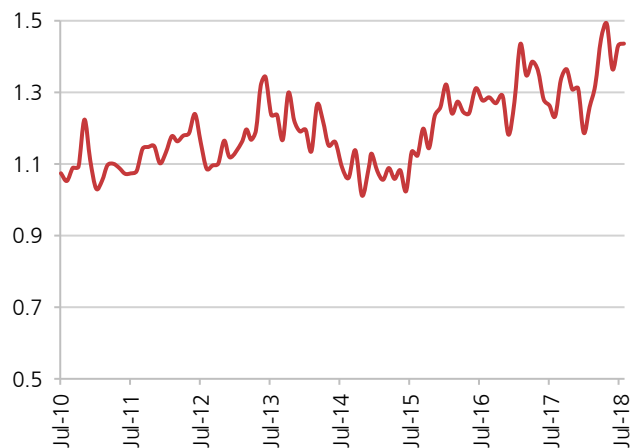
Source: Company, Kotak Institutional Equities estimates

**Exhibit 25: IIB is trading at 3.9X one-year forward book**  
March fiscal year-ends, July 2011 – July 2018 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

**Exhibit 26: IndusInd Bank's trading at premium to peers**  
IndusInd Bank premium to peers, July 2010 – July 2018 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

**Exhibit 27: IndusInd Bank – key growth rates and financial ratios**  
 March fiscal year-ends, 2016-2021E (%)

	2016	2017	2018	2019E	2020E	2021E
<b>Growth rates (%)</b>						
Net loan	28.5	27.9	28.2	34.7	25.2	24.3
Customer assets	28.1	28.1	29.3	33.4	24.4	23.8
Investments excl. CPs and debentures	41.1	24.9	28.6	56.5	27.3	25.5
Net fixed and leased assets	8.4	6.4	0.3	1.4	1.5	7.2
Cash and bank balance	(6.2)	84.2	(29.1)	24.5	28.0	24.6
Total assets	27.8	25.0	24.1	35.1	24.3	23.4
Deposits	25.4	36.1	19.8	41.6	32.5	27.6
Current	25.3	26.7	6.3	39.5	36.4	31.3
Savings	33.2	56.8	69.7	40.7	34.7	29.7
Fixed	23.4	32.6	6.2	42.6	30.4	25.5
Net interest income	32.1	34.2	23.7	34.5	32.0	23.1
Loan loss provisions	38.7	72.6	(0.5)	29.0	37.3	32.0
Total other income	29.4	26.5	13.9	28.1	11.9	18.5
Net fee income	31.8	29.7	17.8	20.0	18.0	18.0
Net exchange gains	16.2	9.9	0.2	16.0	16.0	16.0
Operating expenses	27.9	30.3	16.9	28.9	25.3	24.1
Employee expenses	26.1	23.1	17.1	24.5	14.6	12.8
<b>Key ratios (%)</b>						
Yield on average earning assets	9.9	9.6	9.2	9.3	9.3	9.3
Yield on average loans	11.8	11.4	10.6	10.7	10.8	10.7
Yield on average investments	6.3	7.0	7.1	6.8	6.8	6.8
Average cost of funds	6.6	6.2	5.8	5.7	5.7	5.6
Interest on deposits	6.8	6.3	5.8	5.8	5.8	5.7
<b>Difference</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	<b>3.6</b>	<b>3.7</b>	<b>3.7</b>
<b>Net interest income/earning assets</b>	<b>3.8</b>	<b>4.0</b>	<b>4.0</b>	<b>4.1</b>	<b>4.2</b>	<b>4.1</b>
<b>New provisions/average net loans</b>	<b>0.8</b>	<b>1.1</b>	<b>0.8</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>
Total provisions/gross loans	1.1	1.8	2.1	2.2	2.5	2.8
Fee income to total income	28.6	28.3	27.9	25.3	24.0	23.3
Net trading income to PBT	3.3	5.6	4.4	4.8	4.9	4.2
Exchange income to PBT	24.1	21.1	16.8	14.4	13.5	13.4
Operating expenses/total income	47.0	46.7	45.7	44.6	44.9	45.8
Operating expenses/assets	2.9	3.0	2.8	2.8	2.7	2.7
Tax rate	34.1	34.2	34.2	32.5	32.5	32.5
Dividend payout ratio	12.8	12.5	11.7	11.7	11.7	11.7
<b>Share of deposits (%)</b>						
Current	16.6	15.5	15.5	15.9	16.3	16.7
Fixed	64.8	63.1	59.4	58.5	57.6	56.7
Savings	18.5	21.4	25.1	25.6	26.1	26.6
Loans-to-deposit ratio	95.1	89.3	95.6	90.9	85.9	83.6
Equity/assets (EoY)	12.4	11.6	10.8	11.5	10.7	10.0
<b>Asset quality trends (%)</b>						
Gross NPL	0.9	0.9	1.2	1.2	1.4	1.5
Net NPL	0.4	0.4	0.5	0.5	0.6	0.6
Slippages	1.2	1.6	2.1	1.6	1.8	1.8
Provision coverage	58.6	58.4	56.3	57.9	58.7	60.3
<b>Dupont analysis (%)</b>						
Net interest income	3.5	3.8	3.7	3.9	4.0	3.9
Loan loss provisions	0.5	0.7	0.5	0.5	0.6	0.6
Net other income	2.6	2.6	2.4	2.3	2.0	1.9
Operating expenses	2.9	3.0	2.8	2.8	2.7	2.7
Inv. depreciation	—	—	—	—	—	—
(1- tax rate)	65.9	65.8	65.8	67.5	67.5	67.5
<b>RoA</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>
Average assets/average equity	9.5	8.8	9.5	9.2	9.1	9.8
<b>RoE</b>	<b>17.1</b>	<b>15.7</b>	<b>17.1</b>	<b>17.6</b>	<b>16.8</b>	<b>17.0</b>

Source: Company, Kotak Institutional Equities estimates



**Exhibit 28: IndusInd Bank – income statement and balance sheet**  
March fiscal year-ends, 2016-2021E (₹ mn)

	2016	2017	2018	2019E	2020E	2021E
<b>Income statement</b>						
Total interest income	115,807	144,057	172,807	227,916	297,963	369,615
Loans	92,446	114,791	136,999	181,859	237,013	294,475
Investments	17,806	24,669	30,744	41,486	55,169	67,850
Cash and deposits	5,555	4,597	5,065	4,571	5,781	7,290
Total interest expense	70,641	83,431	97,833	127,049	164,830	205,740
Deposits from customers	57,088	69,313	80,460	106,110	144,274	185,988
<b>Net interest income</b>	<b>45,166</b>	<b>60,626</b>	<b>74,974</b>	<b>100,867</b>	<b>133,134</b>	<b>163,875</b>
Loan loss provisions	6,141	10,600	10,546	13,608	18,683	24,662
Net interest income (after prov.)	39,025	50,026	64,429	87,258	114,450	139,213
Other income	32,969	41,715	47,501	60,868	68,100	80,668
Net fee income	22,315	28,953	34,119	40,943	48,313	57,009
Net capital gains	1,453	2,769	3,638	4,500	4,500	4,500
Net exchange gains	8,370	9,195	9,210	10,684	12,393	14,376
Operating expenses	36,721	47,831	55,914	72,098	90,303	112,108
Employee expenses	12,361	15,210	17,807	22,161	25,394	28,651
Depreciation on investments	295	314	1,209	900	—	—
Other provisions	286	—	—	900	500	500
Pretax income	34,693	43,597	54,807	74,229	91,748	107,273
Tax provisions	11,828	14,918	18,747	24,124	29,818	34,864
<b>Net profit</b>	<b>22,864</b>	<b>28,679</b>	<b>36,060</b>	<b>50,104</b>	<b>61,930</b>	<b>72,409</b>
Growth (%)	27.5	25.4	25.7	38.9	23.6	16.9
PBT - Treasury + Provisions	39,962	51,741	62,923	85,137	106,431	127,935
Growth (%)	34.1	29.5	21.6	35.3	25.0	20.2
<b>Balance sheet</b>						
Cash and bank balance	101,119	186,283	132,159	164,569	210,694	262,530
Cash	7,395	11,355	10,692	11,227	11,788	12,377
Balance with RBI	37,815	66,132	98,932	140,095	185,658	236,905
Balance with banks	55,908	26,578	9,287	13,248	13,248	13,248
Net value of investments	340,555	367,036	500,767	726,111	895,920	1,098,920
Government and other securities	252,680	314,523	403,660	633,480	807,318	1,013,944
Shares	413	1,612	2,919	2,919	2,919	2,919
Debentures and bonds	18,129	25,246	44,764	40,288	36,259	32,633
Net loans and advances	884,193	1,130,805	1,449,537	1,952,514	2,443,598	3,036,756
Fixed assets	12,553	13,352	13,388	13,579	13,783	14,782
Net owned assets	12,553	13,352	13,388	13,579	13,783	14,782
Other assets	90,561	89,023	120,412	138,473	159,244	183,131
<b>Total assets</b>	<b>1,428,982</b>	<b>1,786,499</b>	<b>2,216,262</b>	<b>2,995,247</b>	<b>3,723,239</b>	<b>4,596,119</b>
Deposits	930,003	1,265,722	1,516,392	2,147,319	2,845,693	3,631,183
Borrowings and bills payable	255,159	230,540	389,567	431,048	407,396	432,501
Other liabilities	66,848	83,760	71,886	71,886	71,886	71,886
<b>Total liabilities</b>	<b>1,252,010</b>	<b>1,580,023</b>	<b>1,977,845</b>	<b>2,650,253</b>	<b>3,324,975</b>	<b>4,135,570</b>
Paid-up capital	5,950	5,981	6,002	7,096	7,096	7,096
Reserves and surplus	171,022	200,495	232,268	337,897	391,168	453,453
<b>Total shareholders' equity</b>	<b>176,972</b>	<b>206,476</b>	<b>238,271</b>	<b>344,994</b>	<b>398,264</b>	<b>460,549</b>

Source: Company, Kotak Institutional Equities estimates

JULY 11, 2018

UPDATE

BSE-30: 36,240

**1QFY19E preview—weak start to the year.** We estimate a sharp fall in earnings (EBITDA: -13% yoy) in 1QFY19E due to lower prices and rising cost pressures led by higher fuel, other costs. We expect a 25% yoy fall in EBITDA/ton though improvement in volumes (+5-12% yoy, excluding those of acquired assets) will lend some support to earnings. The absence of a meaningful price increase amid rising cost pressures once again puts earnings estimates for the sector at risk, as industry utilization remains low.

#### All-India cement prices subdued—marginal increase sequentially but a sharp fall from last year

All-India cement prices increased marginally by ₹2/bag qoq in 1QFY19 with regional variations—prices were weak in the North (-₹10/bag), steady in Central, East and South (+₹1-3/bag) and increased in the West region (+₹13/bag), per our channel checks. We also highlight that prices are sharply down on yoy basis (-₹18/bag) as 1QFY18 saw a sharp price increase post the demonetization quarter. We expect realizations to decline by (1) 0-2% yoy in 1QFY19E for Pan-India names, (2) 3-11% yoy for North based regional names, and (3) 4-6% yoy for South, West based names (see Exhibits 3 & 4).

#### Costs to rise due to higher pet-coke prices, freight and other costs

We expect costs of all companies to increase due to an increase in pet-coke, freight costs and lower INR/US\$ rate (4% qoq fall)—we estimate that close to 35% of the costs of cement companies are impacted due to Fx movement (pet-coke prices as well as diesel in freight costs). Pet-coke prices have gone up 14% over the past six months (+13% in 4QFY18 and +1% in 1QFY19)—we expect the full cost impact from this quarter due to the lagged effect of inventories (see Exhibit 7). We also expect (1) higher slag prices to impact raw-material costs of a few names, and (2) increase in packaging costs due to an increase in poly propylene prices.

#### Volumes—we expect another good quarter but on a low base

Industry cement volumes (per DIPP) increased 11% yoy for April - May 2018 on a low base; 2-year volume CAGR works out to 4% for these two months. We expect pan-India companies to report volume growth of 6-8% yoy while Ultratech will also benefit from ramp-up of acquired assets of Jaiprakash (+31% yoy including acquired capacities) (Exhibits 2,6). We note that Ultratech's 1QFY18 volumes excluded acquired assets—these assets operated at average capacity utilization of 53% in FY2018 with gradual ramp-up over the quarters to close to 75% in 4QFY18. We factor in close to 7% volume growth for Ultratech's extant operations (ex-Jaiprakash). We expect volumes for regional names to grow by 5-12% yoy.

#### 1QFY19E earnings—we expect sharp fall in earnings across names

Despite higher volumes, we expect EBITDA of pan-India names to decline by 13-27% yoy due to weak cement prices and higher costs. We estimate EBITDA/ton of Pan-India names to decline by 22-29% yoy (-3 to -8% qoq) and regional names to decline by 17-50% yoy (-4 to -27% qoq). On average, for companies under our coverage, we estimate realizations to decline 1% yoy to ₹4,700/ton, costs to increase 6% yoy to ₹3,925/ton resulting in a 25% yoy decline in EBITDA to ₹775/ton (-4% qoq) (see Exhibits 1, 4 & 5).

#### We maintain our cautious stance on the sector on expensive valuations, large capacity additions

We maintain our cautious stance on the cement sector on expensive valuations and on expectations of moderate improvement in earnings over the next two years. The cost headwind on the back of rising fuel costs necessitates a sharp improvement in industry utilization for meaningful earnings improvement. However, we believe close to 70 mtpa of new capacities over the next three years will keep industry utilizations low (<70%).

Abhishek Poddar

Murtuza Arsiwalla

Samrat Verma

**Exhibit 1: We expect profitability of cement companies to decline in 1QFY19E due to weak prices and higher fuel, freight costs**  
Earnings estimate for cement companies for the quarter ended June 2018

	Ultratech Cement					ACC					Ambuja Cements				
	Jun-18	Jun-17	Mar-18	% (yoy)	% (qoq)	Jun-18	Jun-17	Mar-18	% (yoy)	% (qoq)	Jun-18	Jun-17	Mar-18	% (yoy)	% (qoq)
Sales, (mn tons)	16.4	12.6	17.6	31	(7)	7.1	6.7	7.1	6	0	6.4	6.1	6.2	6	3
Realization (Rs/ton)	5,163	5,263	5,103	(2)	1	4,647	4,597	4,626	1	—	4,662	4,667	4,602	(0)	1
Operating costs (Rs/ton)	4,223	4,024	4,138	5	2	4,139	3,886	4,076	7	2	3,868	3,653	3,787	6	2
<b>Profitability (Rs/ton)</b>	<b>940</b>	<b>1,239</b>	<b>965</b>	<b>(24)</b>	<b>(3)</b>	<b>508</b>	<b>711</b>	<b>550</b>	<b>(29)</b>	<b>(8)</b>	<b>794</b>	<b>1,013</b>	<b>815</b>	<b>(22)</b>	<b>(3)</b>

	Shree Cement					JK Lakshmi Cement					JK Cement				
	Jun-18	Jun-17	Mar-18	% (yoy)	% (qoq)	Jun-18	Jun-17	Mar-18	% (yoy)	% (qoq)	Jun-18	Jun-17	Mar-18	% (yoy)	% (qoq)
Sales, (mn tons)	6.4	5.9	6.4	8	(1)	2.4	2.3	2.3	5	4	1.9	1.7	2.4	12	(19)
Realization (Rs/ton)	4,152	4,146	4,157	0	(0)	3,820	3,944	3,896	(3)	(2)	3,828	4,296	3,888	(11)	(2)
Operating costs (Rs/ton)	3,232	2,979	3,195	8	1	3,499	3,417	3,456	2	1	3,597	3,557	3,617	1	(1)
<b>Profitability (Rs/ton)</b>	<b>921</b>	<b>1,167</b>	<b>962</b>	<b>(21)</b>	<b>(4)</b>	<b>320</b>	<b>527</b>	<b>440</b>	<b>(39)</b>	<b>(27)</b>	<b>231</b>	<b>739</b>	<b>271</b>	<b>(69)</b>	<b>(15)</b>

	India Cement					Orient Cement					Dalmia Cement				
	Jun-18	Jun-17	Mar-18	% (yoy)	% (qoq)	Jun-18	Jun-17	Mar-18	% (yoy)	% (qoq)	Jun-18	Jun-17	Mar-18	% (yoy)	% (qoq)
Sales, (mn tons)	2.9	2.7	3.1	8	(7)	1.5	1.4	1.7	5	(12)	4.3	4.0	5.2	8	(17)
Realization (Rs/ton)	4,598	4,857	4,528	(5)	2	3,821	4,065	3,696	(6)	3	5,135	5,160	5,093	(0)	1
Operating costs (Rs/ton)	4,101	4,158	4,014	(1)	2	3,425	3,229	3,251	6	5	3,981	3,765	3,956	6	1
<b>Profitability (Rs/ton)</b>	<b>497</b>	<b>699</b>	<b>514</b>	<b>(29)</b>	<b>(3)</b>	<b>396</b>	<b>836</b>	<b>445</b>	<b>(53)</b>	<b>(11)</b>	<b>1,154</b>	<b>1,395</b>	<b>1,137</b>	<b>(17)</b>	<b>1</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 2 : Volume growth of companies under coverage aided by Jaiprakash acquisition; excluding acquired assets, we factor volume growth of 7% in 1QFY19E**

Quarterly volumes of cement companies, March fiscal year-ends, 1QFY18 - 1QFY19E (mn tons)

	1QFY19E	1QFY18	4QFY18	Growth (%)	
				(yoy)	(qoq)
ACC	7.1	6.7	7.1	6	0
Ambuja	6.4	6.1	6.2	6	3
Ultratech	16.4	12.6	17.6	31	(7)
Shree Cement	6.4	5.9	6.4	8	(1)
India Cement	2.9	2.7	3.1	8	(7)
JK Cement	1.9	1.7	2.4	12	(19)
JK Lakshmi Cement	2.4	2.3	2.3	5	4
Dalmia Cement (ex-OCL)	2.6	2.4	3.2	8	(20)
Orient Cement	1.5	1.4	1.7	5	(12)
OCL India	1.7	1.6	1.9	7	(12)
<b>Total</b>	<b>49.3</b>	<b>43.3</b>	<b>52.1</b>	<b>14</b>	<b>(5)</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 3: All-India cement prices were subdued in 1QFY19E; prices decline in North region**  
Quarterly cement prices per region (Rs per 50 kg bag)

	1QFY18	3QFY18	4QFY18	1QFY19	1QFY19—change (%)	
					(yoy)	(qoq)
North	327	310	307	297	(9)	(3)
Central	330	316	322	322	(2)	—
East	347	329	335	336	(3)	—
West	325	304	306	319	(2)	4
South	376	338	347	350	(7)	1
<b>All India average</b>	<b>346</b>	<b>322</b>	<b>327</b>	<b>328</b>	<b>(5)</b>	<b>1</b>

Source: Industry, Kotak Institutional Equities estimates

**Exhibit 4: We estimate sharp decline in realizations of cement companies on yoy basis due to lower cement prices**  
Quarterly realizations of cement companies, March fiscal year-ends, 1QFY17 – 1QFY19E (Rs/ton)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19E	yoy growth (%)		
										3QFY18	4QFY18	1QFY19
<b>Pan India players</b>												
ACC	4,341	4,462	4,477	4,348	4,597	4,733	4,569	4,626	4,647	2	6	1
Ambuja	4,412	4,477	4,393	4,208	4,667	4,621	4,565	4,602	4,662	4	9	(0)
Ultratech	4,864	5,117	5,032	4,940	5,263	5,295	5,032	5,103	5,163	—	3	(2)
<b>Pan-India</b>	<b>4,628</b>	<b>4,809</b>	<b>4,742</b>	<b>4,620</b>	<b>4,944</b>	<b>5,007</b>	<b>4,819</b>	<b>4,893</b>	<b>4,933</b>	<b>2</b>	<b>6</b>	<b>(0)</b>
<b>North based players</b>												
Shree Cement	3,906	3,965	3,697	3,771	4,146	4,170	4,120	4,157	4,152	11	10	0
JK Cement	3,706	3,641	3,574	3,720	4,296	4,113	3,817	3,888	3,828	7	5	(11)
JK Lakshmi Cement	3,684	3,816	3,665	3,574	3,944	4,109	3,978	3,896	3,820	9	9	(3)
<b>North</b>	<b>3,817</b>	<b>3,866</b>	<b>3,666</b>	<b>3,717</b>	<b>4,125</b>	<b>4,144</b>	<b>4,023</b>	<b>4,045</b>	<b>4,019</b>	<b>10</b>	<b>9</b>	<b>(3)</b>
<b>South based players</b>												
India Cement	4,560	4,779	4,633	4,601	4,857	4,696	4,450	4,528	4,598	(4)	(2)	(5)
Dalmia Cement (ex-OCL)	4,779	4,741	4,491	4,513	5,115	5,044	4,906	4,880	4,930	9	8	(4)
OCL India	4,574	5,258	5,506	5,316	5,228	5,027	5,239	5,449	5,449	(5)	3	4
Orient Cement	3,126	3,273	3,632	3,443	4,065	3,996	3,737	3,696	3,821	3	7	(6)
<b>South</b>	<b>4,361</b>	<b>4,596</b>	<b>4,567</b>	<b>4,483</b>	<b>4,870</b>	<b>4,739</b>	<b>4,627</b>	<b>4,682</b>	<b>4,733</b>	<b>1</b>	<b>4</b>	<b>(3)</b>
<b>All-India</b>	<b>4,403</b>	<b>4,553</b>	<b>4,465</b>	<b>4,391</b>	<b>4,743</b>	<b>4,768</b>	<b>4,619</b>	<b>4,671</b>	<b>4,700</b>	<b>3</b>	<b>6</b>	<b>(1)</b>

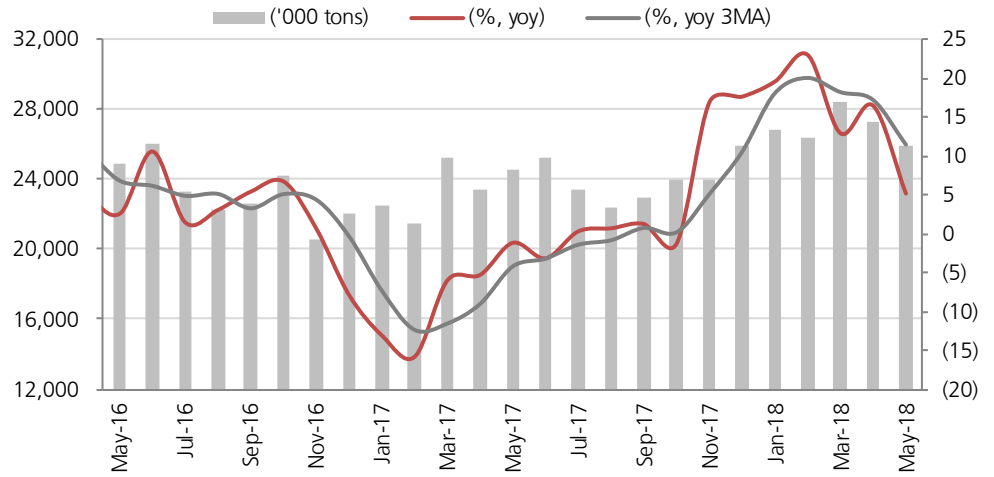
Source: Companies, Kotak Institutional Equities estimates

**Exhibit 5: We estimate EBITDA/ton of cement companies to decline due to lower realizations, increase in fuel freight costs**  
Quarterly EBITDA/ton of cement companies, March fiscal year-ends, 1QFY17 - 1QFY19E (Rs/ton)

(EBITDA/ton)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19E	yoy growth (%)		
										3QFY18	4QFY18	1QFY19
<b>Pan India players</b>												
ACC	662	426	309	483	711	557	473	550	508	53	14	(29)
Ambuja	1,009	684	589	606	1,013	706	865	815	794	47	34	(22)
Ultratech	1,080	1,037	949	957	1,239	1,089	841	965	940	(11)	1	(24)
<b>Pan-India</b>	<b>959</b>	<b>804</b>	<b>703</b>	<b>755</b>	<b>1,045</b>	<b>871</b>	<b>755</b>	<b>840</b>	<b>806</b>	<b>7</b>	<b>11</b>	<b>(23)</b>
<b>North based players</b>												
Shree Cement	1,287	1,351	989	856	1,167	1,094	1,041	962	921	5	12	(21)
JK Cement	615	398	452	670	739	570	376	271	231	(17)	(60)	(69)
JK Lakshmi Cement	557	545	452	317	527	505	448	440	320	(1)	39	(39)
<b>North</b>	<b>991</b>	<b>979</b>	<b>766</b>	<b>701</b>	<b>944</b>	<b>852</b>	<b>767</b>	<b>705</b>	<b>661</b>	<b>—</b>	<b>1</b>	<b>(30)</b>
<b>South based players</b>												
India Cement	873	935	750	651	699	672	614	514	497	(18)	(21)	(29)
Dalmia Cement (ex-OCL)	1,442	1,228	1,085	1,206	1,477	1,336	1,133	1,238	1,218	4	3	(18)
OCL India	1,144	977	1,248	1,223	1,271	1,013	1,038	968	1,057	(17)	(21)	(17)
Orient Cement	279	136	349	436	836	570	286	445	396	(18)	2	(53)
<b>South</b>	<b>987</b>	<b>902</b>	<b>869</b>	<b>888</b>	<b>1,068</b>	<b>912</b>	<b>802</b>	<b>827</b>	<b>807</b>	<b>(8)</b>	<b>(7)</b>	<b>(24)</b>
<b>All-India</b>	<b>971</b>	<b>863</b>	<b>750</b>	<b>770</b>	<b>1,026</b>	<b>875</b>	<b>766</b>	<b>809</b>	<b>775</b>	<b>2</b>	<b>5</b>	<b>(25)</b>

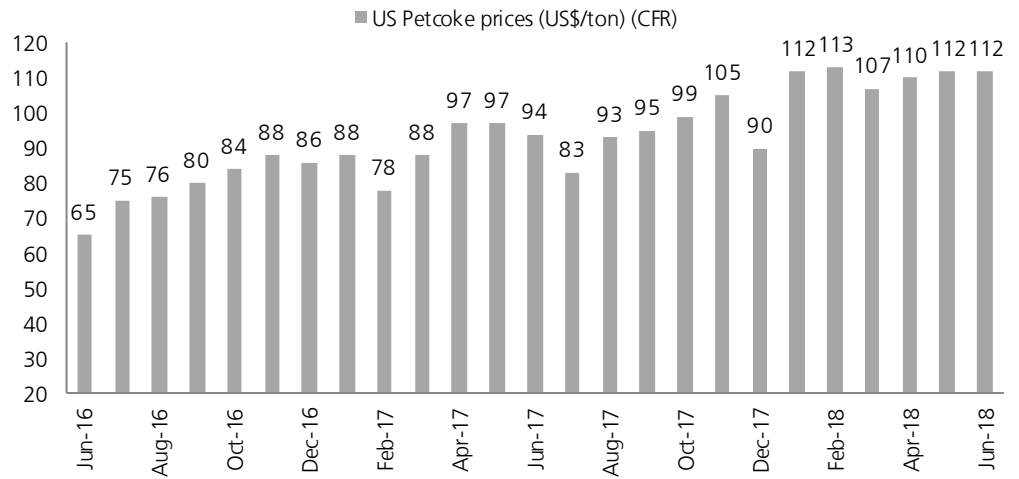
Source: Companies, Kotak Institutional Equities estimates

**Exhibit 6: As per DIPP data, cement volumes increased 10.7% yoy in April – May 2018**  
 Monthly cement production volumes in India, 2016 - 2018 ('000 tons, %)



Source: DIPP, Kotak Institutional Equities

**Exhibit 7: Pet-coke prices are up 14% in past 6 months—we expect the full impact from this quarter due to lagged effect of inventories**  
 US pet coke prices (CFR basis), 2016 - 2018 (US\$/ton)



Source: Company, Steelmint, Kotak Institutional Equities estimates

**Exhibit 8: We expect EBITDA of Pan-India names to decline by 1-27% yoy due to lower cement prices, higher fuel, freight costs**  
Earnings estimate of cement companies for the quarter ended June 2018 (Rs mn)

	1QFY18	4QFY18	1QFY19E	Change (%)		Comments
				yoy	qoq	
<b>ACC</b>						
Net sales	33,125	35,570	35,875	8	1	We factor 6% yoy growth in volumes to 7.1 mn tons (flat qoq) and expect subdued realizations (Rs4,740/ton, flat qoq). Cement prices in the company's key markets in South, North and Central were either flat sequentially or saw a marginal decline.
EBITDA	4,951	4,235	3,631	(27)	(14)	
EBIT	3,330	2,761	2,083	(37)	(25)	
PBT	4,768	3,712	3,055	(36)	(18)	
PAT	3,217	2,451	2,078	(35)	(15)	We estimate EBITDA/ton to decline 8% qoq to Rs510 (+5% yoy) due to increase in fuel and freight costs. We note that ACC now uses close to 70% pet-coke in its fuel mix and the pet-coke prices have risen by 14% in the past two quarters.
Extraordinaries	—	—	—			
PAT-reported	3,217	2,451	2,078	(35)	(15)	
EPS (Rs/share)	17.1	13.0	11.0	(35)	(15)	
<b>Ambuja Cements—standalone</b>						
Net sales	28,233	28,626	29,899	6	4	We expect 6% yoy growth in volumes at 6.4 mn tons (+9% qoq) on the back of a favorable base. We expect realizations to increase marginally by 1% qoq to Rs4,660/ton aided by price increase in West region, where the company has a significant presence.
EBITDA	6,131	5,071	5,092	(17)	0	
EBIT	4,692	3,679	3,672	(22)	(0)	
PBT	5,466	3,928	4,366	(20)	11	
PAT	3,922	2,718	3,056	(22)	12	We expect EBITDA/ton to decline by 3% qoq to Rs794 (-21% yoy) due to increase in fuel and freight costs.
Extraordinaries	—	—	—			
PAT-reported	3,922	2,718	3,056	(22)	12	
EPS (Rs/share)	2.6	1.8	2.0	(22)	12	
<b>Grasim Industries—standalone</b>						
Net sales	27,403	46,056	45,883	67	(0)	In the chemical operations, we expect volume growth of 14% yoy to 230,000 tons. We expect volume growth at VSF to be subdued (+5% yoy) as it continues to operate at high capacity utilization levels.
EBITDA	5,553	8,447	8,358	50	(1)	
EBIT	4,451	6,594	6,486	46	(2)	
PBT	5,036	7,128	7,026	40	(1)	
PAT	3,472	5,918	5,129	48	(13)	We expect VSF EBITDA to increase 27% yoy to Rs4.4 bn (+11% qoq) aided by improved realizations. In chemicals, we expect EBITDA to increase 60% yoy to Rs3.9 bn (-5% qoq) aided by higher volumes and realizations.
Extraordinaries	—	2,187	—			
PAT-reported	3,472	3,731	5,129	48	37	
EPS (Rs/share)	5.3	9.0	7.8	48	(13)	
<b>Shree Cement</b>						
Net sales	25,363	28,111	27,672	9	(2)	We expect (1) 8% yoy growth in volumes to 6.4 mn tons (-1% qoq) and (2) cement realizations to be flat qoq at Rs4,350/ton (blended) due to subdued prices in the company's key market in North.
EBITDA	6,800	6,294	5,949	(13)	(5)	
EBIT	4,488	3,964	3,549	(21)	(10)	
PBT	5,466	4,576	4,186	(23)	(9)	
PAT	4,401	3,992	3,140	(29)	(21)	We expect EBITDA/ton (blended) to decline by 4% qoq to Rs940 (-19% yoy) due to rising pet-coke and freight costs. We note that the company has a higher dependence on pet-coke than peers.
Extraordinaries	—	—	—			
PAT-reported	4,401	3,992	3,140	(29)	(21)	
EPS (Rs/share)	126.3	114.6	90.1	(29)	(21)	
<b>UltraTech Cement</b>						
Net sales	66,265	90,025	84,857	28	(6)	We model 31% yoy volume growth to 16.4 mn tons led by close to 8% yoy volume growth in the company's extant operations and ramp-up of acquired assets of Jaiprakash. We note that 1QFY18 volumes excluded volumes of Jaiprakash's acquired assets.
EBITDA	15,601	17,028	15,455	(1)	(9)	
EBIT	12,503	12,222	10,601	(15)	(13)	
PBT	12,870	9,934	8,357	(35)	(16)	
PAT	8,906	7,142	5,850	(34)	(18)	We expect EBITDA/ton to decline by 3% qoq to Rs940 (-24% yoy) due to (1) subdued realizations (Rs5,160/ton, +1% qoq) and (2) increase in fuel and freight costs.
Extraordinaries	—	2,263	—			
PAT-reported	8,906	4,880	5,850	(34)	20	
EPS (Rs/share)	32.5	26.1	21.3	(34)	(18)	

Source: Company, Kotak Institutional Equities estimates

**Exhibit 9: We estimate EBITDA of regional companies to decline by 11-50% yoy in 1QFY19E**  
Earnings estimate of cement companies for the quarter ended June 2018 (Rs mn)

	1QFY18	4QFY18	1QFY19E	Change (%)		Comments
				yoy	qoq	
<b>Dalmia Bharat</b>						
Net sales	20,589	26,380	22,048	7	(16)	We expect 8% yoy growth in volumes to 4.3 mn tons (-17% qoq) led by (1) 7% yoy volume growth in East operations to 1.7 mn tons and (2) 8% yoy growth for South to 2.6 mn tons.
EBITDA	5,566	5,891	4,955	(11)	(16)	
EBIT	4,034	4,030	3,076	(24)	(24)	
PBT	2,617	3,146	2,214	(15)	(30)	We expect blended realizations to increase by 1% qoq to Rs5,140/ton (-1% yoy) led by marginal increases in South (+Rs3/bag) and East (+Rs1/bag). We expect EBITDA/ton to increase by 1% qoq to Rs1,150/ton (-17% yoy) led by modest price hikes partially offset by higher fuel costs.
PAT	1,639	1,837	1,272	(22)	(31)	
Extraordinaries	—	—	—			
PAT-reported	1,639	1,837	1,272	(22)	(31)	
EPS (Rs/share)	18.5	20.7	14.3	(22)	(31)	
<b>JK Lakshmi Cement</b>						
Net sales	9,011	8,970	9,164	2	2	We expect cement volumes to grow by 5% yoy to 2.4 mn tons (+4% qoq), an improvement from 4QFY18 growth of only 2% due to lower non-trade sales.
EBITDA	1,203	1,013	769	(36)	(24)	
EBIT	765	554	305	(60)	(45)	
PBT	374	338	81	(78)	(76)	We expect realizations to decline 2% qoq to Rs3,820/ton (-3% yoy) due to pricing weakness in the company's key markets in North (-Rs10/bag qoq). We expect EBITDA/ton to decline 27% qoq Rs320/ton (-39% yoy) due to weak realizations and increase in fuel and freight costs.
PAT	283	338	55	(80)	(84)	
Extraordinaries	—	—	—			
PAT-reported	283	338	55	(80)	(84)	
EPS (Rs/share)	2.4	2.9	0.5	(80)	(84)	
<b>JK Cement</b>						
Net sales	10,415	13,160	10,878	4	(17)	We expect (1) grey cement volumes to grow by 12% yoy to 1.9 mn tons (-19% qoq) and white cement/wall putty volumes by 13% yoy to 0.29 mn tons (-10% qoq) and (2) grey cement realizations to decline by 2% qoq to Rs3,820/ton (-11% yoy) due to weak prices in North region (-Rs10/bag).
EBITDA	1,977	1,819	1,404	(29)	(23)	
EBIT	1,527	1,349	930	(39)	(31)	
PBT	1,033	1,321	901	(13)	(32)	We estimate grey cement EBITDA/ton to decline by 14% yoy to Rs191/ton (-68% yoy) due to weak realizations and increase in fuel costs. We expect white cement EBITDA to decline to Rs955 mn (-18% qoq, +37% yoy) due to higher fuel costs.
PAT	793	965	693	(13)	(28)	
Extraordinaries	—	—	—			
PAT-reported	793	965	693	(13)	(28)	
EPS (Rs/share)	11.3	13.8	9.9			
<b>India Cements</b>						
Net sales	12,901	13,978	13,189	2	(6)	We model 8% yoy growth in volumes to 2.9 mn tons (-7% qoq). The management earlier highlighted improvement in demand in the states of Karnataka, Kerala and Tamil Nadu.
EBITDA	1,856	1,585	1,424	(23)	(10)	
EBIT	1,226	921	754	(39)	(18)	
PBT	404	242	81	(80)	(66)	We expect realizations to increase by 1% qoq to Rs4,600/ton (-5% yoy) led by price increases in South (+Rs3/bag). Despite improved realizations, we expect EBITDA/ton to decline by 3% qoq to Rs500/ton (-29% yoy) due to higher fuel costs.
PAT	264	353	54	(79)	(85)	
Extraordinaries	—	—	—			
PAT-reported	264	353	54	(79)	(85)	
EPS (Rs/share)	0.9	1.1	0.2	(79)	(85)	
<b>Orient Cement</b>						
Net sales	5,682	6,197	5,608	(1)	(10)	We expect cement volumes to grow by 5% yoy to 1.47 mn tons (-12% qoq) and realizations to improve by 3% qoq to Rs3,820/ton (-6% yoy). Cement prices saw moderate increase in the company's key markets in West and South.
EBITDA	1,169	746	581	(50)	(22)	
EBIT	858	432	266	(69)	(38)	
PBT	589	182	15	(97)	(92)	Despite sequential improvement in realizations, increase in fuel and freight costs will hurt profitability. We expect EBITDA/ton to decline by Rs400/ton (-10% qoq, -50% yoy).
PAT	389	128	11	(97)	(92)	
Extraordinaries	—	—	—			
PAT-reported	389	128	11	(97)	(92)	
EPS (Rs/share)	1.9	0.6	0.1	(97)	(92)	

Source: Company, Kotak Institutional Equities estimates

JULY 11, 2018

UPDATE

BSE-30: 36,240

**FX outlook: volatility abound.** Fragile global risk sentiments and increasing domestic vulnerabilities have continued to weigh on INR in CY2018 after a stellar performance in CY2017. The unrelenting capital outflow from EMs is a reflection of the increasing global risks as DM monetary policies normalize and trade war threatens to derail the global economic recovery. Adverse global backdrop, deteriorating domestic macro scenario and domestic political uncertainty could continue to keep the INR under pressure. We expect USD-INR to range 67.5-71.0 for the rest of FY2019.

#### Unabated global risks to keep the strength in USD intact

We noted in our April 20 report (*FX outlook: more unknowns than knowns*) factors such as (1) trade wars translating into currency wars, (2) escalating geopolitical tensions, (3) secular uptrend in Brent and (4) faster G4 policy normalization to define the volatility in the FX space. Most of these adverse risks have transpired in 1QFY19, prompting us to revisit our forecasts. Trade tensions seem to be posing headwinds to global growth as reflected in the flattening yield curve (Exhibit 1). Another source of volatility has been policy dissonance across global central banks with the Fed signaling faster policy normalization while ECB postponing its rate hike decision to mid-2019. We pencil in another 50 bps of rate hike by the Fed in CY2018 and 75 bps in CY2019. The divergence in global monetary policy along with geopolitical risks should continue to provide a case for a secular USD strength in the medium term. The spillover from these uncertainties has led to the worst quarter for the EM currencies since CY2015. Such swings in EM currencies have prompted several central banks to use interest rate hike as a defense mechanism (Exhibit 2).

#### INR weakness a function of adverse global and domestic risks

In an already weakening domestic macro scenario, secular increase in crude prices (up around 18% in CYTD18) has increased the risks to India's twin deficit and inflation. We model CAD/GDP to deteriorate to 2.8% in FY2019 from 1.9% in FY2018 with overall balance at US\$(-)32.7 bn against US\$43.6 bn in FY2018 (Exhibit 3). Consequently, INR has been one of the worst Asian currencies in CY2018 even as there has been a steady FPI outflows from EMs in 1QFY19 (Exhibit 4). The recent correction in the INR is reflecting in the sharp correction in the REER after a prolonged period of significant overvaluation (Exhibit 5). Based on the REER, the INR has shifted into a marginally overvalued zone—probably signaling some stability in the near term.

#### INR to remain under pressure with some breather likely in the near term

We had noted in our April FX report if global and domestic risks play out, the INR could overshoot the previous historical lows of 68.89 against the USD. With most of the risks transpiring, the INR has touched new lows. We note that on an annual basis the INR has outperformed the 12-month forward premia in most of the years (Exhibit 6). Given the worsening global and domestic political and economic climate, we believe that this year will be different with INR depreciating more than what the forward premia indicated at the start of FY2019 (67.75 for March 2019). We expect the INR at around 69-70 against the USD by end-FY2019. While in the near term we see some scope for temporary retracement in USD-INR as the incremental domestic risks remain contained (FPI outflows have abated in the recent days), we maintain our depreciation bias through 2HFY19 as political risks and broad-based USD strength continue to weigh on sentiments. Overall, with several global risks starting to play out, we shift our USD-INR range to 67.5-71.0 for the rest of FY2019 (Exhibit 7).

#### QUICK NUMBERS

- We estimate FY2019 CAD/GDP at 2.8% with crude price assumption of US\$72.5/bbl
- We estimate overall BOP in FY2019 at US\$(-)32.7 bn
- USD-INR likely to be in 67.5-71.0 range for rest of FY2019

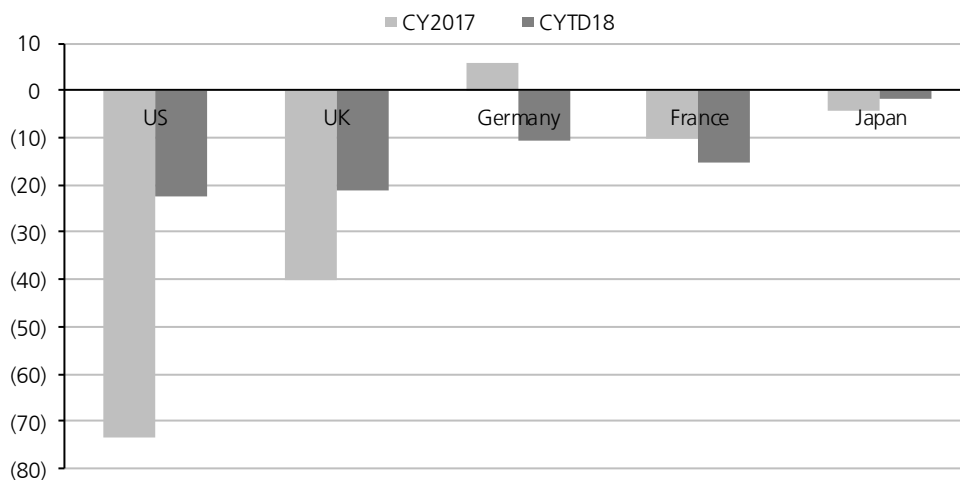
Upasna Bhardwaj

Suvodeep Rakshit



**Exhibit 1: Yield curve has flattened across DMs**

Change in 10-year-2-year spread over the period, December calendar year-ends (bps)



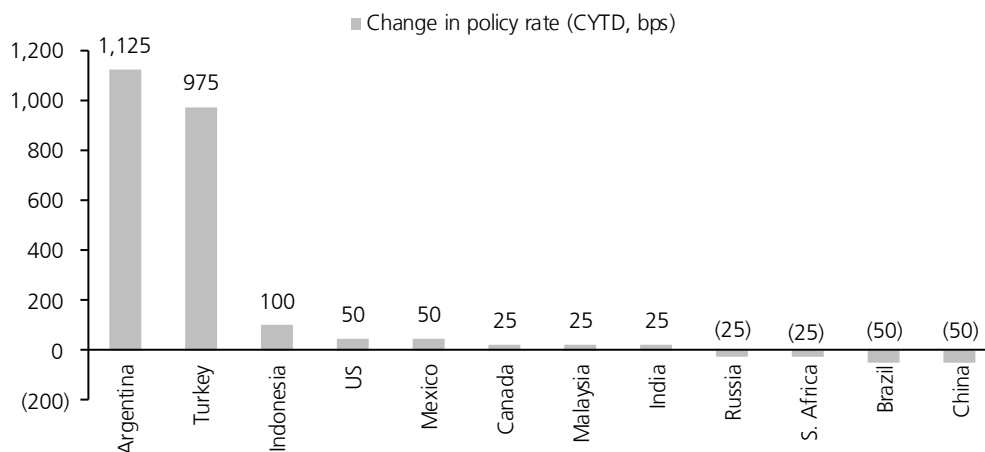
Notes:

(a) Negative indicates flattening of yield curve over specified period.

Source: Bloomberg, Kotak Economics Research

**Exhibit 2: Central banks have been using interest rates to support their currencies**

Central bank policy action in CYTD18



Notes:

(a) China's reserve requirement ratio is used.

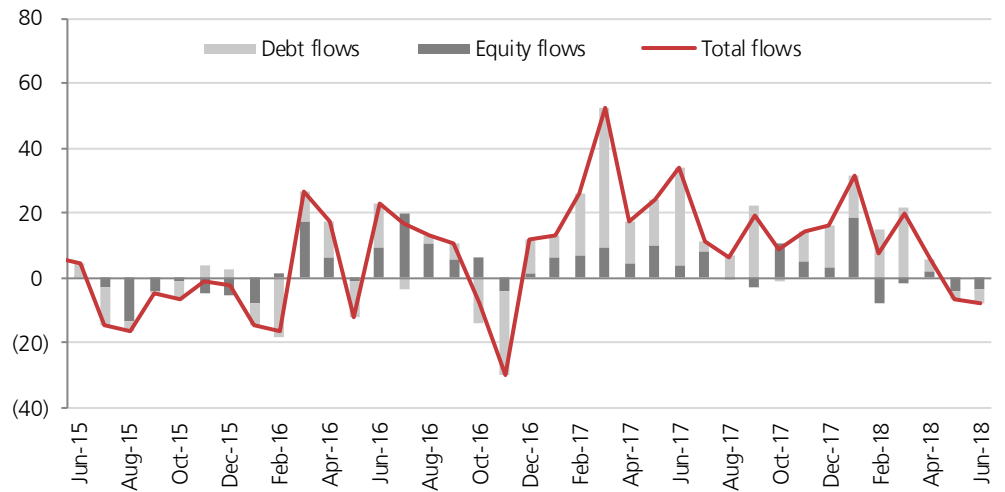
Source: Bloomberg, Kotak Economics Research

Exhibit 3: Deteriorating CAD/BOP will weigh on the INR in FY2019  
India's balance of payments, March fiscal year-ends, 2014-19E (US\$ bn)

	2014	2015	2016	2017	2018	2019E		
						Oil@67.5/bbl	Oil@72.5/bbl	Oil@80/bbl
<b>Current account</b>	<b>(32.4)</b>	<b>(26.8)</b>	<b>(22.2)</b>	<b>(15.3)</b>	<b>(48.7)</b>	<b>(67.2)</b>	<b>(74.7)</b>	<b>(85.9)</b>
GDP	1,858	2,038	2,103	2,270	2,602	2,714	2,714	2,714
<b>CAD/GDP (%)</b>	<b>(1.7)</b>	<b>(1.3)</b>	<b>(1.1)</b>	<b>(0.7)</b>	<b>(1.9)</b>	<b>(2.5)</b>	<b>(2.8)</b>	<b>(3.2)</b>
Trade balance	(147.6)	(144.9)	(130.1)	(112.4)	(160.0)	(182.9)	(190.4)	(201.6)
<b>Trade balance/GDP (%)</b>	<b>(7.9)</b>	<b>(7.1)</b>	<b>(6.2)</b>	<b>(4.9)</b>	<b>(6.2)</b>	<b>(6.7)</b>	<b>(7.0)</b>	<b>(7.4)</b>
- Exports	319	317	266	280	309	331	334	337
- oil exports	63	57	31	32	39	41	43	47
- non-oil exports	255	260	236	249	270	290	290	290
- Imports	466	461	396	393	469	514	524	539
- oil imports	165	138	83	87	109	132	142	157
- non-oil imports	301	323	313	306	360	382	382	382
- gold imports	29	34	32	28	34	33	33	33
Invisibles (net)	115	118	108	97	111	116	116	116
- Services	73	77	70	67	78	80	80	80
- software	67	70	71	70	72	74	74	74
- non-software	6.0	6.2	(1.8)	(2.6)	5.4	5.5	5.5	5.5
- Transfers	65	66	63	56	62	66	66	66
- Income (net)	(23)	(24)	(24)	(26)	(29)	(30)	(30)	(30)
<b>Capital account</b>	<b>48.8</b>	<b>89.3</b>	<b>41.1</b>	<b>36.5</b>	<b>91.4</b>	<b>42.0</b>	<b>42.0</b>	<b>42.0</b>
Percentage of GDP	2.6	4.4	2.0	1.6	3.5	1.5	1.5	1.5
Foreign investment	26	73	32	43	52	20	20	20
- FDI	22	31	36	36	30	30	30	30
- FPI	5	42	(4)	8	22	(10)	(10)	(10)
- Equities	14	15	(4)	9	2	(2)	(2)	(2)
- Debt	(8)	26	(0)	(1)	21	(8)	(8)	(8)
Banking capital	25	12	11	(17)	16	12	12	12
- NRI deposits	39	14	16	(12)	10	9	9	9
Short-term credit	(5.0)	(0.1)	(1.6)	6.5	13.9	6.0	6.0	6.0
ECBs	11.8	1.6	(4.5)	(6.1)	(0.2)	2.0	2.0	2.0
External assistance	1.0	1.7	1.5	2.0	2.9	2.0	2.0	2.0
Other capital account items	(10.8)	1.1	3.3	7.6	6.2	0.0	0.0	0.0
E&O	(0.9)	(1.1)	(1.1)	0.4	0.9	0.0	0.0	0.0
<b>Overall balance</b>	<b>15.6</b>	<b>61.4</b>	<b>17.9</b>	<b>21.6</b>	<b>43.6</b>	<b>(25.2)</b>	<b>(32.7)</b>	<b>(43.9)</b>
<b>Memo items</b>								
Average USD/INR	60.5	61.2	65.4	67.2	64.5	68.7	68.7	68.7
Average Brent (US\$/bbl)	107.6	86.5	47.5	49.0	57.6	67.5	72.5	80.0

Source: CEIC, Bloomberg, Kotak Economics Research estimates

**Exhibit 4: EMs have seen outflows over the past few months, especially debt outflows**  
Debt and equity inflows into emerging markets, calendar year-ends, 2015-18 (US\$ bn)



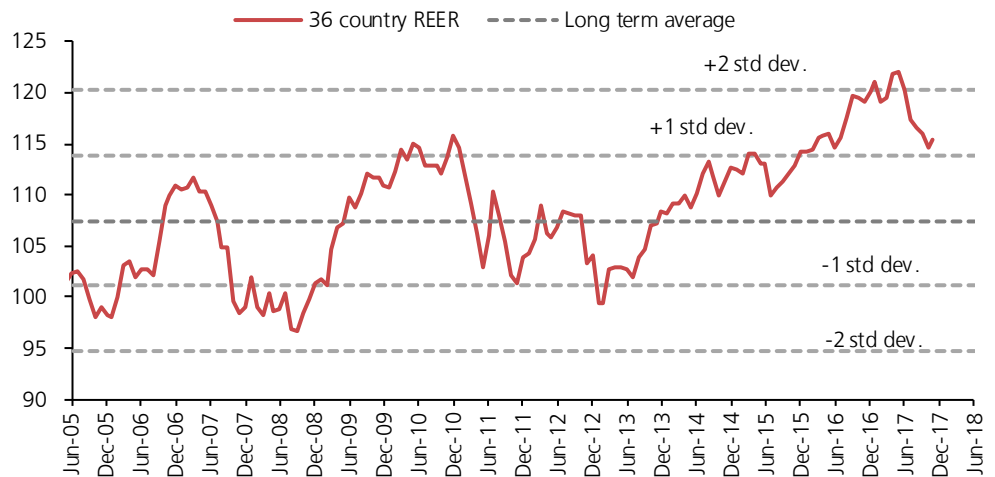
Notes:

(a) Countries included: Brazil, Bulgaria, Chile, Czech Republic, Hungary, India, Indonesia, Korea, Mexico, Poland, South Africa, Thailand, Turkey and Ukraine.

Source: IIF estimates, Kotak Economics Research

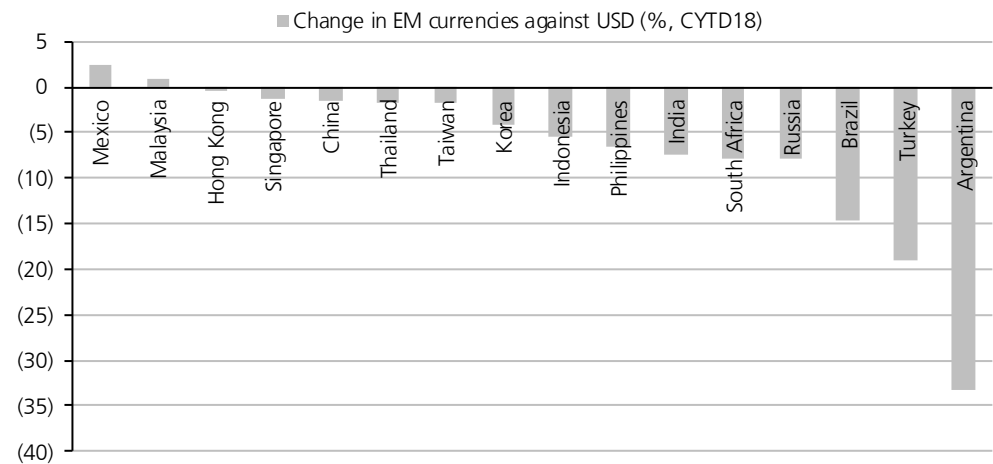
**Exhibit 5: INR REER has come off its peak over the past few months**

Trend in REER (36-country trade-weighted, 2004-05=100)



Source: CEIC, Kotak Economics Research

**Exhibit 6: INR has been one of the worst performing currencies in Asia in CYTD18**  
Change in Asian currencies against USD in CYTD18 (%)



Source: Bloomberg, Kotak Economics Research

**Exhibit 7: INR likely to range 65.0-71.0 in FY2019**

Trend and estimates of INR and major currencies against USD, March fiscal year-ends (X)

	2017	2018	2019E	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19E	3QFY19E	4QFY19E
<b>Average Rate</b>											
USD/INR	67.07	64.47	68.73	64.50	64.30	64.72	64.34	66.92	68.75	69.75	69.50
EUR/USD	1.09	1.17	1.16	1.10	1.17	1.18	1.23	1.19	1.18	1.15	1.13
GBP/USD	1.31	1.32	1.33	1.28	1.31	1.30	1.39	1.36	1.34	1.31	1.29
USD/JPY	108.5	110.8	110.5	111.1	111.0	112.9	108.4	109.1	110.0	111.0	112.0
<b>Depreciation (-)/appreciation (+) against USD (%)</b>											
INR	(2.4)	4.0	(6.2)	3.8	0.3	(0.6)	0.6	(3.8)	(2.7)	(1.4)	0.4
EUR	(0.9)	6.9	(0.7)	3.2	6.8	0.2	4.4	(3.0)	(1.4)	(2.1)	(1.7)
GBP	(13.5)	1.0	0.4	3.3	2.2	(0.6)	7.0	(2.2)	(1.5)	(2.2)	(1.5)
JPY	10.6	(2.1)	0.3	2.2	0.1	(1.7)	4.1	(0.6)	(0.8)	(0.9)	(0.9)

Source: Bloomberg, Kotak Economics Research estimates

June 2018: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
<b>9-Jul</b>	<b>10-Jul</b>	<b>11-Jul</b>	<b>12-Jul</b>	<b>13-Jul</b>	<b>14-Jul</b>	<b>15-Jul</b>
			Karnataka Bank	Bajaj Corp.	DCB Bank	
				Infosys		
<b>16-Jul</b>	<b>17-Jul</b>	<b>18-Jul</b>	<b>19-Jul</b>	<b>20-Jul</b>	<b>21-Jul</b>	<b>22-Jul</b>
Hindustan Unilever	Ashok Leyland	Bandhan Bank	ABB India	Bajaj Auto	HDFC Bank	
	CRISIL	Mahindra CIE Automotive	Bajaj Finance	Bajaj Holdings & Investment		
	Federal Bank	Mindtree	Bajaj Finserv	Bata India		
	ICICI Lombard	UltraTech Cement	Kotak Mahindra Bank	Havells India		
	Rallis India		RBL Bank	HDFC Standard Life		
	Zee Entertainment Enterprises			Kansai Nerolac Paints		
				Wipro		
<b>23-Jul</b>	<b>24-Jul</b>	<b>25-Jul</b>	<b>26-Jul</b>	<b>27-Jul</b>	<b>28-Jul</b>	<b>29-Jul</b>
L&T Infotech	Asian Paints	Crompton Greaves Consumer	Bharat Financial Inclusion	Coromandel International	J K Cements	
	GlaxoSmithkline Pharma	GRUH Finance	Biocon	ICICI Bank		
	Hexaware Technologies	Hero MotoCorp	Cholamandalam Investment	MMFSL		
	ICICI Pru Life	JSW Steel	Colgate-Palmolive (India)	Prestige Estates Projects		
	Info Edge (India)	Jubilant Foodworks	Dr Reddys Laboratories			
	Kajaria Ceramics	Tata Elxsi	WABCO India			
			Yes Bank			
<b>30-Jul</b>	<b>31-Jul</b>	<b>1-Aug</b>	<b>2-Aug</b>	<b>3-Aug</b>	<b>4-Aug</b>	<b>5-Aug</b>
Godrej Consumer Products	Bharat Electronics	Aditya Birla Fashion	Marico			P I Industries
HDFC	Castrol India	Exide Industries	The Ramco Cements			
IDFC	Dabur India	Torrent Power				
IDFC Bank						
Shree Cement						
Tech Mahindra						
<b>6-Aug</b>	<b>7-Aug</b>	<b>8-Aug</b>	<b>9-Aug</b>	<b>10-Aug</b>	<b>11-Aug</b>	<b>12-Aug</b>
	Mphasis	Cipla		Dr Lal Pathlabs		
		PNB Housing		Timken India		

Source: NSE, Kotak Institutional Equities

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)		RoE (%)		Dividend yield (%)			ADVT 3mo (US\$ mn)																					
		10-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E																						
<b>Automobiles</b>																																															
Amara Raja Batteries	REDUCE	821	780	(5.0)	140	2.0	171	28	33	39	(1.6)	21.2	15.5	29.7	24.5	21.2	15.8	13.1	11.2	4.8	4.1	3.6	17.0	18.0	18.0	0.5	0.6	0.7	6.1																		
Apollo Tyres	BUY	267	340	27.5	153	2.2	541	13	20	25	(38.0)	48.6	24.7	19.9	13.4	10.7	10.9	7.8	6.5	1.5	1.4	1.3	8.5	11.1	12.5	1.2	1.1	1.1	10.5																		
Ashok Leyland	BUY	134	160	19.4	393	5.7	2,926	5.4	6.2	8.9	8.0	15.3	43.2	24.9	21.6	15.1	14.4	11.1	8.1	5.5	4.7	3.9	23.7	23.4	28.4	1.8	1.4	2.0	36.6																		
Bajaj Auto	SELL	3,094	2,800	(9.5)	895	13.0	289	140	160	176	6.0	14.0	10.0	22.1	19.3	17.6	15.4	13.9	12.3	4.7	4.2	3.7	22.9	22.8	22.3	1.9	2.1	2.3	20.7																		
Balkrishna Industries	BUY	1,235	1,260	2.0	239	3.5	193	37	51	63	4.8	35.4	24.6	33.0	24.4	19.6	17.5	13.4	10.7	5.8	4.8	3.9	19.0	21.6	22.1	0.3	0.4	0.4	8.5																		
Bharat Forge	SELL	644	650	0.9	300	4.4	466	16	23	27	10.1	39.1	19.4	39.8	28.6	23.9	19.0	16.3	13.8	6.5	5.6	4.7	17.3	21.0	21.4	0.7	0.8	0.9	10.7																		
CEAT	ADD	1,313	1,600	21.9	53	0.8	40	65	101	113	(29.5)	55.4	12.6	20.3	13.1	11.6	9.9	8.3	7.1	2.0	1.8	1.6	10.4	14.6	14.4	0.9	0.8	0.8	13.6																		
Eicher Motors	SELL	28,289	26,000	(8.1)	771	11.2	27	792	995	1,200	29.3	25.5	20.6	35.7	28.4	23.6	25.8	20.7	16.9	14.3	10.4	7.7	46.4	42.3	37.5	0.1	0.1	0.1	17.5																		
Escorts	BUY	891	1,170	31.4	76	1.6	89	39	56	69	71.3	43.6	23.6	23.0	16.0	12.9	13.1	9.7	7.6	3.1	2.7	2.3	13.5	16.8	17.7	0.4	0.9	1.2	17.2																		
Exide Industries	SELL	273	225	(17.6)	232	3.4	850	8	10	11	0.6	23.7	10.9	33.3	26.9	24.2	18.6	15.6	13.9	4.3	3.9	3.5	13.5	15.2	15.3	0.9	1.1	1.3	8.2																		
Hero Motocorp	SELL	3,584	3,500	(2.3)	716	10.4	200	185	206	227	9.5	11.1	10.1	19.4	17.4	15.8	12.1	10.9	9.7	6.1	5.3	4.7	33.8	32.6	31.6	2.4	2.9	3.2	18.0																		
Mahindra CIE Automotive	ADD	263	275	4.7	99	1.4	378	10	13	15	107.0	35.8	12.9	27.3	20.1	17.8	13.4	10.1	8.8	2.7	2.4	2.1	10.4	12.5	12.4	—	—	—	3.0																		
Mahindra & Mahindra	BUY	931	1,015	9.1	1,157	16.8	1,138	38	44	50	22.0	15.6	14.8	24.5	21.2	18.5	16.1	13.7	11.9	3.5	3.1	2.7	15.1	15.4	15.7	0.8	0.9	1.1	32.7																		
Maruti Suzuki	ADD	9,531	9,700	1.8	2,879	41.8	302	256	330	395	5.1	29.2	19.6	37.3	28.9	24.1	20.9	16.4	13.2	6.9	5.9	5.0	19.8	22.0	22.6	0.7	0.9	1.0	61.6																		
Motherson Sumi Systems	SELL	307	265	(13.6)	646	9.4	2,105	8	11	14	6.1	37.7	21.7	37.5	27.2	22.4	14.1	10.8	9.0	6.5	5.6	4.7	19.0	22.1	22.9	0.7	0.9	1.1	13.3																		
MRF	REDUCE	75,944	76,000	0.1	322	4.7	4	2,669	3,896	4,447	(23.9)	46.0	14.1	28.5	19.5	17.1	12.9	9.5	8.2	3.3	2.8	2.4	12.3	15.7	15.4	0.1	0.1	0.1	7.3																		
Schaeffler India	BUY	5,575	6,000	7.6	93	1.3	17	143	171	207	22.0	19.4	21.1	38.9	32.6	26.9	23.0	19.8	16.0	5.5	4.8	4.3	15.0	15.8	16.9	0.3	0.6	0.7	0.7																		
SKF	REDUCE	1,778	1,700	(4.4)	91	1.3	51	58	70	81	24.6	20.8	16.4	30.8	25.5	21.9	19.2	16.5	13.8	5.0	4.3	3.8	16.1	17.0	17.2	0.7	0.8	0.9	0.2																		
Tata Motors	BUY	275	445	61.6	935	12.7	3,396	20	24	38	(28.0)	18.0	63.0	13.8	11.7	7.2	4.0	3.6	3.0	1.0	0.9	0.8	8.8	8.0	11.9	—	—	—	60.6																		
Timken	SELL	735	660	(10.2)	50	0.7	68	14	19	25	(5.3)	42.3	27.5	54.3	38.2	29.9	30.3	21.1	16.8	7.1	6.1	5.1	13.9	17.1	18.5	0.1	0.1	0.1	0.4																		
TVS Motor	SELL	585	410	(29.9)	278	4.0	475	14	17	21	18.7	23.0	22.0	41.9	34.1	27.9	25.5	19.9	16.6	9.6	8.2	6.9	25.1	26.0	26.7	0.6	0.9	1.1	11.7																		
WABCO India	SELL	7,063	6,350	(10.1)	134	1.9	19	144	169	222	27.8	17.8	31.3	49.1	41.7	31.7	32.0	27.2	20.6	8.8	7.3	6.0	19.5	19.2	20.9	0.1	0.1	0.2	0.5																		
<b>Automobiles</b>		<b>Neutral</b>		<b>10,652</b>		<b>154</b>		<b>(0.9)</b>			<b>23.3</b>			<b>25.5</b>		<b>27.3</b>		<b>22.1</b>		<b>17.6</b>		<b>12.1</b>		<b>10.1</b>		<b>8.3</b>		<b>3.9</b>		<b>3.4</b>		<b>3.0</b>		<b>14.2</b>		<b>15.5</b>		<b>16.9</b>		<b>0.8</b>		<b>0.9</b>		<b>1.1</b>		<b>359.6</b>	
<b>Banks</b>																																															
Axis Bank	ADD	533	600	12.7	1,368	19.9	2,567	1	20	39	(92.6)	1,735.5	100.1	495.8	27.0	13.5	—	—	—	2.6	2.3	1.9	0.5	7.7	13.8	0.9	0.6	1.1	64.2																		
Bank of Baroda	NR	120	—	—	316	4.6	2,652	(9)	20	23	(253.2)	323.2	10.5	(13.0)	5.8	5.3	—	—	—	1.4	1.1	0.8	(5.8)	12.6	12.3	—	—	—	28.6																		
Bank of India	ADD	90	120	32.7	158	2.3	1,744	(35)	(6)	16	(134.7)	82.2	366.7	(2.6)	(14.7)	5.5	—	—	—	1.4	1.7	1.1	(21.3)	(3.6)	9.5	—	(1.4)	3.6	11.5																		
Canara Bank	ADD	251	300	19.7	184	2.7	733	(58)	(2)	60	(406.6)	97.3	4,031.4	(4.4)	(163.1)	4.1	—	—	—	1.6	1.5	0.9	(11.9)	(0.3)	11.8	—	—	—	29.1																		
City Union Bank	ADD	174	190	9.5	127	1.8	665	9	10	12	6.4	16.2	13.0	19.5	16.8	14.8	—	—	—	3.0	2.6	2.3	15.3	15.5	15.5	0.2	1.1	1.2	2.0																		
DCB Bank	ADD	180	210	16.4	56	0.8	308	8	11	13	13.8	32.2	20.5	22.7	17.1	14.2	—	—	—	2.3	2.1	1.8	10.9	12.0	12.9	—	0.5	0.7	5.9																		
Equitas Holdings	BUY	141	190	34.7	48	0.7	340	0.9	4.4	8.3	(80.4)	374.7	88.2	152.5	32.1	17.1	—	—	—	2.2	2.1	1.8	1.4	6.4	11.0	—	—	—	4.4																		
Federal Bank	BUY	83	130	55.8	165	2.4	1,972	4.5	5.8	7.8	(7.5)	29.5	34.9	18.7	14.5	10.7	—	—	—	1.5	1.4	1.2	8.0	9.0	11.2	1.2	1.4	1.8	17.4																		
HDFC Bank	REDUCE	2,146	1,900	(11.5)	5,590	81.2	2,595	67	77	93	18.7	14.7	20.0	31.9	27.8	23.1	—	—	—	5.3	4.1	3.6	17.9	16.6	16.2	0.6	0.7	0.8	76.3																		
ICICI Bank	BUY	273	400	46.3	1,758	25.6	6,429	11	15	25	(31.1)	46.5	64.1	25.9	17.7	10.8	—	—	—	2.1	1.8	1.6	6.6	9.1	13.7	0.5	1.1	1.9	87.9																		
IDFC Bank	NR	39	—	—	134	2.0	3,404	2.5	1.6	3.3	(16.0)	(38.5)	109.8	15.6	25.4	12.1	—	—	—	0.9	0.9	0.8	5.7	3.4	6.9	1.3	0.8	1.7	9.0																		
IndusInd Bank	REDUCE	1,935	1,900	(1.8)	1,162	16.9	600	60	71	87	25.3	17.5	23.6	32.2	27.4	22.2	—	—	—	5.1	4.1	3.6	17.1	17.6	16.8	—	0.4	0.5	30.4																		
J&K Bank	BUY	51	105	107.1	28	0.4	557	4	8	11	111.6	116.7	44.4	13.9	6.4	4.5	—	—	—	0.6	0.5	0.5	3.4	6.9	9.4	—	3.1	4.5	0.4																		
Karur Vysya Bank	ADD	104	120	15.9	76	1.1	727	5	4	14	(52.2)	(22.8)	274.8	21.8	28.2	7.5	—	—	—	1.5	1.4	1.2	6.1	4.2	14.7	0.6	0.9	3.3	1.8																		
Punjab National Bank	ADD	78	90	15.6	215	3.1	2,761	(44)	(39)	9	(814.7)	13.4	124.1	(1.7)	(2.0)	8.4	—	—	—	4.6	(3.5)	(13.3)	(32.4)	(31.3)	8.2	—	(10.7)	2.6	30.0																		
RBL Bank	SELL	580	450	(22.4)	244	3.5	420	15	20	25	27.3	32.9	21.8	38.3	28.8	23.7	—	—	—	3.7	3.4	3.1	11.5	12.0	13.2	0.4	0.5	0.6	10.1																		
State Bank of India	BUY	264	370	40.3	2,354	34.2	8,925	(7)	18	37	(155.8)	NM	106.1	NM	14.6	7.1	—	—	—	2.1	1.6	1.2	(3.2)	7.1	13.2	-	0.1	0.2	76.1																		
Ujivan Financial Services	REDUCE	389	420	8.1	47	0.7	121	1	22	29	(96.5)	3,564.0	30.0	644.0	17.6	13.5	—	—	—	2.8	2.4	2.1	0.4	14.2	16.1	0.0	0.6	0.8	7.2																		
Union Bank	ADD	82	130	59.2	95	1.4	1,169																																								

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

Company	Rating	Target			Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		Price (Rs) 10-Jul-18	price (Rs)	Upside (%)			2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E		
<b>NBFCS</b>																													
Bajaj Finance	REDUCE	2,366	1,850	(21.8)	1,368	19.9	575	46	63	82	38.5	34.9	30.0	50.9	37.7	29.0	—	—	—	8.2	6.9	5.7	20.5	19.9	21.5	0.2	0.3	0.3	41.3
Bajaj Finserv	ADD	6,200	5,900	(4.8)	987	14.3	159	174	206	266	13.5	18.7	28.8	35.7	30.0	23.3	—	—	—	4.9	4.0	3.4	15.3	14.5	15.6	0.2	0.2	0.2	14.0
Bharat Financial Inclusion	NA	1,176	—	—	164	2.4	139	33	43	54	55.5	31.1	27.2	36.0	27.5	21.6	—	—	—	5.5	4.4	3.6	16.7	17.9	18.5	—	—	—	10.5
Cholamandalam	REDUCE	1,591	1,510	(5.1)	249	3.6	156	62	76	92	35.5	22.3	20.8	25.6	20.9	17.3	—	—	—	5.1	4.2	3.5	20.6	21.0	21.2	0.4	0.6	0.7	7.3
HDFC	BUY	1,943	2,075	6.8	3,273	47.6	1,676	75	58	67	52.1	(23.1)	15.2	25.8	33.5	29.1	—	—	—	5.1	4.4	4.0	23.9	14.3	14.5	1.0	1.1	1.2	70.0
HDFC Standard Life Insurance	SELL	476	405	(14.9)	957	13.9	2,007	6	6	7	24.4	14.8	10.9	86.0	74.9	67.6	—	—	—	22.2	19.8	17.7	27.3	28.0	27.7	0.3	0.3	0.4	13.6
ICICI Lombard	SELL	702	600	(14.5)	319	4.6	454	19	26	30	22.0	36.4	17.0	37.0	27.1	23.2	—	—	—	7.0	5.9	5.0	20.8	23.7	23.5	0.6	0.9	1.1	1.8
ICICI Prudential Life	BUY	375	500	33.4	538	7.8	1,436	11	12	13	(3.7)	3.8	7.6	33.2	32.0	29.7	—	—	—	8.2	6.8	5.7	25.0	23.2	20.9	1.5	0.5	0.6	12.0
IIFL Holdings	SELL	672	625	(7.0)	214	3.1	319	29	34	41	32.4	17.3	21.4	23.5	20.1	16.5	—	—	—	4.2	3.7	3.1	19.0	19.3	20.0	0.9	1.1	1.3	1.5
L&T Finance Holdings	REDUCE	155	185	19.1	310	4.5	1,996	7	10	12	23.7	34.6	24.1	21.2	15.7	12.7	—	—	—	2.4	2.2	1.9	14.2	14.7	16.1	1.1	1.3	1.3	9.8
LIC Housing Finance	BUY	496	610	22.9	250	3.6	505	44	50	58	3.2	13.8	17.5	11.4	10.0	8.5	—	—	—	1.9	1.6	1.4	14.5	14.3	14.4	1.4	1.6	1.8	12.5
Magma Fincorp	BUY	162	200	23.3	44	0.6	237	10	12	15	1,014.5	24.6	25.8	16.7	13.4	10.7	—	—	—	1.7	1.6	1.4	10.2	12.9	14.1	0.5	1.1	1.4	1.6
Mahindra & Mahindra Financial	REDUCE	482	475	(1.4)	298	4.3	614	15	22	26	105.0	53.5	16.6	33.2	21.6	18.5	—	—	—	3.4	3.1	2.8	11.3	14.0	14.8	0.8	1.3	1.5	11.6
Max Financial Services	BUY	457	650	42.2	123	1.8	268	5	6	6	(20.4)	36.9	1.8	99.7	72.9	71.6	—	—	—	—	—	—	6.5	8.3	8.0	—	0.5	0.5	5.0
Muthoot Finance	ADD	419	480	14.7	167	2.4	400	43	38	40	45.6	(10.8)	4.0	9.7	10.9	10.5	—	—	—	2.2	1.9	1.7	24.1	18.4	16.9	2.4	2.1	2.2	4.6
PNB Housing Finance	REDUCE	1,193	1,375	15.3	200	2.9	167	50	61	77	57.8	23.0	25.3	24.0	19.5	15.6	—	—	—	3.1	2.9	2.5	14.0	15.2	16.8	0.8	0.3	0.3	9.9
SBI Life Insurance	ADD	661	815	23.2	661	9.6	1,000	12	15	18	20.8	26.0	22.9	57.4	45.5	37.0	—	—	—	10.3	8.6	7.2	19.4	20.6	21.3	0.3	0.4	0.4	5.4
Shriram City Union Finance	ADD	1,961	2,325	18.6	129	1.9	66	101	140	174	19.6	39.4	23.8	19.5	14.0	11.3	—	—	—	2.5	2.2	1.9	12.5	15.5	16.7	0.9	0.9	1.1	0.9
Shriram Transport	ADD	1,206	1,400	16.1	274	4.0	227	69	105	125	24.7	52.1	18.7	17.5	11.5	9.7	—	—	—	2.3	2.0	1.7	13.1	17.6	18.0	0.9	1.2	1.4	24.8
<b>NBFCS</b>		<b>Neutral</b>			<b>10,525</b>	<b>153</b>					<b>38.0</b>	<b>7.0</b>	<b>19.3</b>	<b>30.6</b>	<b>28.6</b>	<b>24.0</b>				<b>5.1</b>	<b>4.4</b>	<b>3.9</b>	<b>16.8</b>	<b>15.4</b>	<b>16.1</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>	<b>566.2</b>
<b>Cement</b>																													
ACC	SELL	1,371	1,205	(12.1)	257	3.7	188	49	54	66	32.7	10.6	23.0	28.2	25.5	20.7	14.9	13.8	11.1	2.8	2.6	2.4	10.1	10.5	11.9	1.2	1.2	1.2	10.9
Ambuja Cements	REDUCE	204	215	5.2	406	5.9	1,986	8	7	9	29.7	(1.3)	27.0	27.2	27.5	21.7	8.9	8.8	7.1	2.0	1.9	1.8	7.4	7.0	8.6	1.8	1.8	1.8	9.2
Dalmia Bharat	ADD	2,357	2,900	23.1	210	3.1	89	60	98	128	55.4	62.6	30.3	39.0	24.0	18.4	12.3	9.3	7.5	3.4	3.0	2.6	9.7	13.4	15.2	0.1	0.1	0.1	5.2
Grasim Industries	BUY	991	1,275	28.7	651	9.5	657	47	52	69	(30.1)	9.1	32.8	20.9	19.2	14.4	12.0	7.3	6.7	1.1	1.1	1.0	7.0	5.8	7.2	0.6	0.6	0.6	13.4
India Cements	REDUCE	112	135	20.3	35	0.5	308	3	5	9	(42.5)	56.2	84.4	34.4	22.0	11.9	9.6	8.2	6.5	0.7	0.6	0.6	2.0	3.0	5.3	0.9	0.9	0.9	6.5
J K Cement	REDUCE	846	1,000	18.3	59	0.9	70	43	51	83	25.1	17.0	65.0	19.6	16.7	10.1	10.2	10.8	8.7	3.0	2.6	2.1	16.2	16.7	23.2	0.9	0.9	0.9	0.6
JK Lakshmi Cement	ADD	349	425	21.7	41	0.6	118	4	18	33	(35.7)	311.2	79.6	78.1	19.0	10.6	14.1	8.5	6.1	2.8	2.5	2.1	3.7	14.1	21.5	0.6	0.6	0.6	0.5
Orient Cement	ADD	115	165	44.0	23	0.3	205	2	8	12	237.8	250.7	64.8	53.1	15.1	9.2	11.7	7.5	5.4	2.3	2.1	1.7	4.4	14.3	20.6	0.7	1.3	1.7	0.1
Shree Cement	SELL	16,805	12,700	(24.4)	585	8.5	35	397	486	662	3.4	22.3	36.2	42.3	34.6	25.4	22.7	17.2	13.4	6.6	5.6	4.7	16.7	17.6	20.2	0.3	0.3	0.3	4.5
UltraTech Cement	SELL	3,960	3,000	(24.2)	1,087	15.8	275	89	119	153	(7.0)	33.1	28.9	44.2	33.3	25.8	20.5	16.1	13.5	4.2	3.8	3.3	9.9	12.0	13.7	0.3	0.3	0.3	17.4
<b>Cement</b>		<b>Cautious</b>			<b>3,356</b>	<b>49</b>					<b>6.1</b>	<b>21.2</b>	<b>33.4</b>	<b>32.3</b>	<b>26.6</b>	<b>20.0</b>	<b>14.4</b>	<b>10.5</b>	<b>8.8</b>	<b>2.4</b>	<b>2.3</b>	<b>2.1</b>	<b>7.5</b>	<b>8.5</b>	<b>10.3</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>68.4</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		10-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
<b>Consumer products</b>																													
Asian Paints	REDUCE	1,370	1,100	(19.7)	1,315	19.1	959	21	24	28	2.9	18.7	14.7	66.8	56.2	49.0	40.8	35.1	30.5	15.6	13.8	12.3	24.6	26.1	26.6	0.6	0.8	1.0	17.3
Bajaj Corp.	ADD	422	520	23.4	62	0.9	148	14	17	19	(10.5)	18.7	10.5	29.8	25.1	22.7	23.5	20.2	17.2	12.6	12.2	11.6	42.3	49.4	52.4	2.8	3.1	3.3	0.4
Britannia Industries	ADD	6,390	6,000	(6.1)	767	11.1	120	84	104	126	13.5	24.4	21.5	76.4	61.4	50.5	50.5	39.7	32.6	22.5	17.9	14.5	32.9	32.4	31.6	0.4	0.5	0.7	9.1
Coffee Day Enterprises	REDUCE	262	340	29.7	55	0.8	211	3	8	13	49.1	149.7	59.4	78.4	31.4	19.7	13.3	—	—	2.3	2.2	2.0	3.1	7.2	10.4	—	—	—	1.2
Colgate-Palmolive (India)	ADD	1,155	1,300	12.5	314	4.6	272	24	27	32	15.2	14.6	16.9	48.6	42.4	36.2	27.8	24.4	20.9	20.6	20.8	17.6	46.2	48.8	52.6	2.1	1.4	1.6	7.9
Dabur India	REDUCE	376	350	(7.0)	665	9.7	1,762	8	9	10	7.2	16.1	11.7	48.4	41.7	37.3	41.0	35.5	31.1	11.6	11.7	10.2	25.9	27.9	29.1	2.0	1.0	1.2	8.7
GlaxoSmithKline Consumer	ADD	6,293	6,750	7.3	265	3.8	42	166	189	211	6.6	13.3	11.9	37.8	33.4	29.8	25.9	22.2	19.1	7.6	6.9	6.3	21.2	21.7	22.2	1.2	1.4	1.7	2.2
Godrej Consumer Products	REDUCE	1,256	1,020	(18.8)	855	12.4	681	21	25	28	11.5	17.6	13.3	58.8	50.0	44.1	41.7	35.4	30.9	13.7	11.8	10.3	25.2	25.4	24.9	0.6	0.7	0.8	8.8
Hindustan Unilever	REDUCE	1,687	1,430	(15.2)	3,652	53.1	2,160	25	28	32	25.0	14.9	13.0	68.8	59.9	53.0	49.3	41.7	36.6	51.5	46.2	40.4	78.1	81.4	81.3	1.2	1.2	1.4	28.1
ITC	ADD	277	315	13.7	3,382	49.1	12,275	9	10	11	7.8	7.8	12.4	31.1	28.8	25.6	20.3	18.6	16.4	6.6	6.2	5.9	19.4	20.3	22.2	1.8	2.1	2.4	41.0
Jubilant Foodworks	BUY	1,416	1,500	6.0	187	2.7	132	15	24	33	191.7	64.1	39.2	97.3	59.3	42.6	41.6	28.8	21.6	19.3	14.1	10.8	21.7	27.5	28.8	0.1	0.1	0.2	37.6
Jyothy Laboratories	ADD	219	220	0.3	80	1.2	364	4	6	6	35.1	25.4	17.2	49.8	39.7	33.9	30.6	25.2	21.8	7.0	6.0	5.3	14.3	16.3	16.6	0.2	0.5	0.7	1.5
Manpasand Beverages	SELL	151	132	(12.6)	17	0.3	114	9	11	13	37.6	21.3	26.5	17.3	14.2	11.3	8.9	5.9	4.8	1.4	1.3	1.1	8.3	9.3	10.7	0.3	0.3	0.3	3.5
Marico	ADD	350	345	(1.5)	452	6.6	1,291	6	7	8	7.4	16.7	13.7	55.9	47.9	42.1	39.4	33.1	28.8	17.8	16.4	15.2	33.2	35.7	37.5	1.2	1.4	1.6	8.1
Nestle India	ADD	10,005	9,500	(5.0)	965	14.0	96	127	168	191	21.1	32.5	13.4	78.7	59.4	52.4	43.3	33.7	29.6	28.2	25.9	23.8	36.6	45.5	47.3	0.9	1.1	1.3	8.9
Page Industries	SELL	28,748	21,000	(27.0)	321	4.7	11	311	392	482	32.5	26.1	22.9	92.4	73.3	59.6	58.9	46.5	38.3	37.8	29.6	23.6	45.9	45.3	44.0	0.5	0.6	0.7	7.6
Pidilite Industries	REDUCE	1,074	1,050	(2.3)	546	7.9	508	18	22	26	7.5	20.4	20.4	59.6	49.5	41.1	39.8	33.1	27.3	15.3	12.8	10.7	26.0	28.2	28.5	0.6	0.7	0.8	14.0
S H Kelkar and Company	BUY	215	315	46.4	31	0.5	145	7	8	11	2.1	11.8	28.4	29.1	26.0	20.2	20.2	16.9	13.2	3.6	3.3	2.9	12.8	13.3	15.3	0.8	0.8	0.9	0.3
Tata Global Beverages	REDUCE	275	285	3.7	173	2.5	631	7	10	11	20.7	29.4	19.1	37.4	28.9	24.3	19.8	16.7	14.3	2.5	2.3	2.2	7.0	8.3	9.4	0.9	1.1	1.3	13.6
Titan Company	SELL	833	800	(3.9)	739	10.7	888	13	16	20	43.3	26.7	20.6	65.1	51.4	42.6	44.6	34.0	27.3	14.5	12.2	10.3	24.3	25.8	26.2	0.5	0.5	0.7	36.3
United Breweries	SELL	1,203	1,000	(16.9)	318	4.6	264	15	19	24	71.6	29.7	23.4	80.6	62.2	50.4	35.5	29.6	25.6	11.8	10.2	8.7	15.7	17.6	18.6	0.2	0.2	0.3	9.7
United Spirits	SELL	638	560	(12.3)	464	6.7	727	8	11	14	39.1	40.5	27.4	83.9	59.7	46.9	48.1	35.5	29.4	18.5	12.6	9.3	24.9	25.1	22.8	—	—	0.3	18.8
Varun Beverages	ADD	749	750	0.1	137	2.0	183	12	17	22	377.8	45.4	29.8	65.0	44.7	34.4	19.8	15.9	13.7	7.7	6.6	5.7	12.1	16.0	17.7	—	—	0.1	1.3
<b>Consumer products</b>	<b>Cautious</b>				<b>15,761</b>	<b>229</b>					<b>15.0</b>	<b>16.4</b>	<b>15.2</b>	<b>52.0</b>	<b>44.7</b>	<b>38.8</b>	<b>33.9</b>	<b>28.8</b>	<b>24.9</b>	<b>12.7</b>	<b>11.5</b>	<b>10.3</b>	<b>24.5</b>	<b>25.8</b>	<b>26.6</b>	<b>1.1</b>	<b>1.2</b>	<b>1.4</b>	<b>285.7</b>
<b>Energy</b>																													
BPCL	REDUCE	375	390	3.9	814	11.8	1,967	40	39	41	(1.5)	(3.6)	5.3	9.3	9.7	9.2	7.6	7.1	6.6	2.2	1.9	1.7	24.8	21.1	20.0	5.6	4.1	4.4	38.0
Castrol India	ADD	162	215	32.6	160	2.3	989	7	8	9	3.3	13.6	10.9	23.6	20.8	18.7	14.7	13.0	11.7	15.7	14.9	14.6	67.9	73.6	78.6	2.9	3.7	4.3	4.1
GAIL (India)	BUY	364	410	12.7	821	11.9	2,255	20	25	27	21.8	23.2	8.3	17.8	14.5	13.4	11.2	9.3	8.6	2.0	1.9	1.7	11.7	13.5	13.5	2.0	2.3	2.5	21.0
GSPL	SELL	179	170	(5.3)	101	1.5	564	12	11	11	34.5	(7.0)	(4.6)	15.1	16.3	17.1	7.7	6.4	6.3	2.0	1.8	1.7	14.0	11.7	10.2	1.0	0.9	0.9	1.5
HPCL	REDUCE	268	320	19.3	409	5.9	1,524	42	32	33	(3.2)	(23.4)	3.4	6.4	8.4	8.1	5.7	7.4	7.6	1.7	1.5	1.4	28.7	19.3	18.2	6.3	4.9	5.0	32.3
Indraprastha Gas	SELL	263	240	(8.7)	184	2.7	700	10	12	13	19.0	16.5	12.0	25.5	21.9	19.5	16.0	13.9	12.2	5.2	4.5	3.9	22.4	22.2	21.5	0.8	0.9	1.2	10.3
IOCL	REDUCE	155	160	3.1	1,508	21.9	9,479	21	17	18	(24.8)	(17.9)	7.4	7.6	9.2	8.6	4.4	5.1	4.7	1.3	1.2	1.2	18.5	14.0	14.0	7.4	4.3	4.7	27.6
Mahanagar Gas	ADD	820	850	3.6	81	1.2	99	48	52	54	21.5	6.5	5.3	17.0	15.9	15.1	10.3	9.2	8.6	3.9	3.4	3.1	24.3	22.8	21.4	2.3	2.5	2.6	8.6
ONGC	ADD	158	200	26.6	2,027	29.5	12,833	17	21	21	3.1	19.6	(1.3)	9.1	7.6	7.7	4.9	3.9	3.7	0.9	0.8	0.8	9.9	11.5	10.7	4.2	4.4	4.4	17.4
Oil India	SELL	207	220	6.3	235	3.4	1,135	25	24	24	22.6	(1.3)	(0.7)	8.4	8.5	8.6	6.5	5.9	5.9	0.8	0.8	0.8	9.8	9.7	9.2	5.0	5.3	5.3	3.6
Petronet LNG	BUY	223	280	25.7	334	4.9	1,500	14	16	18	22.1	17.3	13.2	16.0	13.7	12.1	10.7	9.2	7.7	3.4	3.0	2.7	23.3	23.4	23.3	2.0	2.6	3.3	11.6
Reliance Industries	REDUCE	1,026	930	(9.3)	6,070	88.2	5,922	59	68	77	16.9	14.9	13.9	17.4	15.1	13.3	13.1	10.6	8.9	2.1	1.8	1.6	11.6	11.9	12.1	0.6	0.6	0.7	104.4
<b>Energy</b>	<b>Attractive</b>				<b>12,744</b>	<b>185</b>					<b>1.0</b>	<b>5.8</b>	<b>7.3</b>	<b>12.4</b>	<b>11.7</b>	<b>10.9</b>	<b>8.2</b>	<b>7.2</b>	<b>6.6</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>13.3</b>	<b>12.8</b>	<b>12.6</b>	<b>2.7</b>	<b>2.3</b>	<b>2.4</b>	<b>280.4</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates



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

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		10-Jul-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
<b>Industrials</b>																													
ABB	SELL	1,228	1,100	(10.5)	260	3.8	212	20	26	34	12.1	31.2	31.7	62.0	47.2	35.9	34.2	29.1	22.1	7.2	6.6	5.9	12.2	14.6	17.3	0.3	0.7	0.7	1.5
BHEL	SELL	72	81	13.2	263	3.8	3,671	2.2	2.6	5.4	62.7	19.4	106.9	32.6	27.3	13.2	7.8	7.2	3.6	0.8	0.8	0.8	2.5	3.0	6.1	2.5	3.0	6.3	8.8
Carborundum Universal	SELL	342	310	(9.3)	65	0.9	189	11	14	17	22.8	25.4	20.2	30.0	23.9	19.9	16.2	12.0	10.3	4.1	3.7	3.3	14.6	16.4	17.6	0.7	1.3	1.5	0.3
CG Power and Industrial	BUY	60	65	7.5	38	0.6	627	0.8	3.1	4.3	(72.2)	275.7	40.5	74.0	19.7	14.0	10.9	8.2	6.7	1.4	1.5	1.4	1.5	7.3	10.4	—	—	—	6.2
Crompton Greaves Consumer	SELL	229	210	(8.4)	144	2.1	627	5.2	6.2	7.5	13.3	20.0	20.9	44.4	37.0	30.6	27.3	23.0	19.4	18.2	12.6	9.7	49.5	40.5	35.9	0.7	0.9	1.1	2.7
Cummins India	REDUCE	671	680	1.3	186	2.7	277	24	28	32	(7.8)	16.1	13.9	27.7	23.9	21.0	24.4	20.9	17.4	4.7	4.4	4.1	17.4	18.9	20.1	2.2	2.2	2.5	4.4
Havells India	SELL	574	460	(19.9)	359	5.2	625	11	14	17	16.6	26.2	19.6	51.8	41.0	34.3	33.0	26.2	21.4	9.6	8.5	7.4	19.8	21.9	23.0	0.6	0.9	1.0	9.9
Kalpataru Power Transmission	BUY	413	530	28.3	63	0.9	153	19	24	34	36.5	24.3	39.8	21.3	17.1	12.3	8.9	7.3	5.9	2.4	2.1	1.8	11.7	13.1	16.1	0.6	0.6	0.6	0.6
KEC International	BUY	337	430	27.6	87	1.3	257	18	22	29	51.1	22.0	34.4	18.8	15.4	11.5	10.1	8.4	6.7	4.3	3.5	2.8	25.7	25.2	27.1	0.7	0.9	1.2	3.3
L&T	BUY	1,285	1,560	21.4	1,800	26.2	1,401	52	62	76	22.4	19.4	23.0	24.8	20.8	16.9	20.6	17.0	15.0	3.6	3.3	2.9	15.0	16.5	18.2	1.2	1.7	2.1	41.4
Siemens	SELL	1,016	975	(4.0)	362	5.3	356	24	30	37	22.5	23.0	23.2	42.0	34.1	27.7	23.9	19.1	15.3	4.4	4.2	3.9	10.9	12.6	14.5	1.0	1.2	1.5	3.5
Thermax	REDUCE	1,023	1,065	4.1	122	1.8	113	21	30	42	(3.6)	44.2	42.8	49.6	34.4	24.1	30.2	21.3	15.2	4.2	3.9	3.5	8.8	11.8	15.3	0.6	0.8	0.9	0.9
Voltas	SELL	534	525	(1.7)	177	2.6	331	17	19	22	12.6	8.3	15.6	30.9	28.5	24.7	25.7	21.8	18.1	4.5	4.1	3.6	15.9	15.0	15.5	0.7	0.8	0.9	14.3
<b>Industrials</b>	<b>Neutral</b>				<b>3,925</b>	<b>57</b>					<b>19.8</b>	<b>21.6</b>	<b>28.9</b>	<b>30.5</b>	<b>25.1</b>	<b>19.5</b>	<b>20.1</b>	<b>16.6</b>	<b>13.7</b>	<b>3.3</b>	<b>3.1</b>	<b>2.8</b>	<b>10.8</b>	<b>12.3</b>	<b>14.6</b>	<b>1.1</b>	<b>1.5</b>	<b>2.0</b>	<b>97.9</b>
<b>Infrastructure</b>																													
Adani Ports and SEZ	BUY	370	470	26.9	767	11.2	2,071	20	20	23	6.1	(0.2)	14.7	18.5	18.5	16.1	13.2	12.8	11.2	3.6	3.1	2.7	21.5	18.1	17.9	0.6	0.7	0.8	25.9
Ashoka Buildcon	BUY	241	310	28.7	45	0.7	188	13	13	13	34.6	0.5	5.2	19.1	19.0	18.0	15.4	12.9	11.4	2.3	2.0	1.8	13.0	11.4	10.7	0.7	1.0	0.7	1.0
Container Corp.	SELL	674	635	(5.8)	329	4.8	487	18	21	26	7.3	20.0	21.4	38.1	31.8	26.2	25.3	19.7	15.5	3.5	3.2	3.0	9.4	10.6	11.9	2.5	1.3	1.6	8.8
Dilip Buildcon	BUY	758	1,220	60.9	104	1.5	137	46	54	69	76.5	16.1	28.0	16.3	14.1	11.0	9.3	6.7	5.5	4.2	3.2	2.5	29.5	25.9	25.4	—	—	—	8.2
Gateway Distriparks	BUY	167	250	49.8	18	0.3	109	8	8	9	12.1	(1.2)	17.5	21.8	22.1	18.8	20.8	10.4	8.7	1.8	3.5	3.1	8.2	10.8	17.6	4.2	—	1.8	0.8
Gujarat Pipavav Port	BUY	121	170	40.4	59	0.9	483	4.1	5.9	7.2	(20.6)	43.7	22.5	29.5	20.5	16.8	14.5	12.0	9.5	2.9	2.8	2.8	9.8	14.0	16.8	2.8	4.0	4.9	0.8
IRB Infrastructure	BUY	213	330	55.0	75	1.1	351	23	31	33	10.8	36.8	7.1	9.4	6.9	6.4	7.2	6.8	7.2	1.3	1.1	1.0	14.5	17.6	16.3	1.1	1.4	1.9	11.3
Mahindra Logistics	BUY	610	540	(11.4)	43	0.6	71	10	14	18	16.2	42.8	31.2	62.2	43.5	33.2	35.9	24.1	18.3	10.3	8.6	7.1	18.2	21.6	23.5	—	—	—	0.8
Sadbhav Engineering	BUY	297	440	48.4	51	0.7	172	13	18	18	17.4	38.4	2.2	23.0	16.7	16.3	15.8	12.6	9.8	2.7	2.4	2.1	12.5	15.2	13.7	—	—	—	0.8
<b>Infrastructure</b>	<b>Attractive</b>				<b>1,490</b>	<b>22</b>					<b>10.9</b>	<b>10.5</b>	<b>15.5</b>	<b>20.6</b>	<b>18.6</b>	<b>16.1</b>	<b>13.1</b>	<b>11.6</b>	<b>10.2</b>	<b>3.2</b>	<b>2.9</b>	<b>2.5</b>	<b>15.8</b>	<b>15.4</b>	<b>15.5</b>	<b>1.1</b>	<b>0.9</b>	<b>1.1</b>	<b>58.5</b>
<b>Internet</b>																													
Info Edge	BUY	1,303	1,390	6.7	159	2.3	122	23	26	32	33.3	13.9	25.9	57.9	50.8	40.4	48.2	38.0	29.0	7.5	6.1	5.5	13.4	13.2	14.3	0.4	0.6	0.6	1.6
Just Dial	BUY	589	550	(6.6)	40	0.6	67	21	25	28	21.7	16.7	12.9	27.7	23.8	21.0	16.8	14.0	11.8	4.1	3.5	3.1	15.2	15.9	15.6	—	0.4	0.5	46.7
<b>Internet</b>	<b>Cautious</b>				<b>199</b>	<b>3</b>					<b>28.0</b>	<b>14.8</b>	<b>21.4</b>	<b>47.6</b>	<b>41.5</b>	<b>34.2</b>	<b>37.0</b>	<b>30.0</b>	<b>23.9</b>	<b>6.4</b>	<b>5.3</b>	<b>4.8</b>	<b>13.5</b>	<b>12.8</b>	<b>13.9</b>	<b>0.3</b>	<b>0.5</b>	<b>0.6</b>	<b>48.3</b>
<b>Media</b>																													
DB Corp.	REDUCE	278	295	6.2	51	0.7	184	18	20	24	(14.1)	13.2	18.8	15.8	13.9	11.7	8.4	7.4	6.2	3.1	2.9	2.8	19.9	21.5	24.5	4.7	5.8	7.2	0.5
DishTV	ADD	74	90	22.2	136	2.0	1,925	(0.4)	1.8	3.4	(143.0)	514.6	88.2	NM	40.3	21.4	12.0	6.3	5.0	2.1	2.0	1.8	(2.3)	5.1	8.9	—	—	—	10.5
Jagran Prakashan	REDUCE	131	168	28.2	41	0.6	311	10	12	14	(6.0)	21.7	15.3	13.1	10.8	9.3	5.9	5.3	4.6	2.0	2.0	1.9	14.8	18.1	20.9	2.3	3.8	6.9	0.7
PVR	REDUCE	1,412	1,425	0.9	66	1.0	47	27	38	50	25.5	39.8	33.2	52.6	37.6	28.2	17.6	14.5	12.0	6.1	5.4	4.6	12.3	15.2	17.5	0.1	0.3	0.4	5.9
Sun TV Network	REDUCE	809	925	14.3	319	4.6	394	29	35	39	10.2	20.7	10.9	28.1	23.3	21.0	18.8	15.8	13.8	6.9	6.2	5.6	26.3	28.1	27.9	1.2	2.2	2.5	22.3
Zee Entertainment Enterprises	ADD	538	625	16.1	517	7.5	960	15	17	20	7.8	13.8	16.8	35.8	31.5	27.0	23.3	20.1	16.9	6.8	6.0	5.3	20.3	20.3	20.9	0.5	0.8	1.0	14.9
<b>Media</b>	<b>Attractive</b>				<b>1,130</b>	<b>16</b>					<b>(1.5)</b>	<b>31.1</b>	<b>21.5</b>	<b>34.7</b>	<b>26.5</b>	<b>21.8</b>	<b>16.8</b>	<b>12.8</b>	<b>10.9</b>	<b>4.8</b>	<b>4.4</b>	<b>4.0</b>	<b>13.7</b>	<b>16.6</b>	<b>18.2</b>	<b>0.9</b>	<b>1.4</b>	<b>1.7</b>	<b>54.9</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

ADVT 3mo (US\$ mn)

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		10-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
<b>Metals &amp; Mining</b>																													
Coal India	ADD	278	326	17.1	1,728	25.1	6,207	11	27	28	(24.2)	138.2	3.0	24.6	10.3	10.0	18.4	6.6	6.3	7.1	6.5	6.8	26.7	66.1	66.4	5.9	7.2	9.0	13.4
Hindalco Industries	BUY	229	315	37.5	514	7.5	2,229	22	27	31	155.4	23.5	14.3	10.5	8.5	7.4	6.5	5.5	4.8	0.9	0.8	0.8	9.7	10.4	10.8	0.5	0.5	0.5	39.6
Hindustan Zinc	REDUCE	282	325	15.1	1,193	17.3	4,225	22	24	28	9.3	13.6	13.8	13.1	11.6	10.2	8.1	6.6	5.4	3.3	2.8	2.4	27.2	26.4	25.6	2.8	2.8	3.0	8.8
Jindal Steel and Power	REDUCE	227	255	12.4	220	3.2	968	(8)	8	18	59.3	194.2	129.1	(26.7)	28.4	12.4	9.9	7.1	6.1	0.7	0.7	0.7	(2.7)	2.6	5.7	—	—	—	27.3
JSW Steel	ADD	317	345	8.7	767	11.2	2,417	27	27	25	83.9	(0.7)	(5.7)	11.8	11.9	12.7	7.8	7.2	7.7	2.7	2.2	2.0	24.8	20.4	16.5	1.0	1.0	1.0	19.3
National Aluminium Co.	ADD	63	85	34.6	122	1.8	1,933	4	7	7	12.7	63.0	11.1	15.3	9.4	8.4	6.3	4.2	3.8	1.2	1.2	1.1	7.7	12.4	13.6	9.0	8.7	8.7	13.3
NMDC	REDUCE	104	125	19.7	330	4.8	3,164	12	10	10	43.3	(16.5)	3.6	8.9	10.7	10.3	4.8	6.5	6.2	1.4	1.3	1.2	15.8	12.5	12.4	5.3	5.3	5.3	3.9
Tata Steel	ADD	569	700	23.1	651	9.5	1,205	67	69	82	62.6	3.1	18.4	8.5	8	6.9	6.2	6.2	6.3	1.2	1.0	0.9	17.2	13.1	13.9	1.7	1.8	1.8	67.4
Vedanta	BUY	226	415	83.6	840	12.2	3,717	22	37	43	9.6	71.9	16.9	10.5	6.1	5.2	5.7	4.2	3.5	1.3	1.2	1.0	12.9	20.6	21.4	3.5	4.9	5.8	57.8
<b>Metals &amp; Mining</b>	<b>Attractive</b>				<b>6,366</b>	<b>93</b>					<b>32.3</b>	<b>41.4</b>	<b>11.3</b>	<b>13.5</b>	<b>9.5</b>	<b>8.6</b>	<b>7.6</b>	<b>5.9</b>	<b>5.4</b>	<b>1.9</b>	<b>1.7</b>	<b>1.6</b>	<b>14.3</b>	<b>18.0</b>	<b>18.4</b>	<b>3.4</b>	<b>3.9</b>	<b>4.5</b>	<b>251.0</b>
<b>Pharmaceutical</b>																													
Apollo Hospitals	ADD	1,009	1,090	8.1	140	2.0	139	8	19	26	(46.9)	124.3	38.0	119.5	53.3	38.6	21.6	18.5	15.6	4.3	4.1	3.8	3.4	7.9	10.2	0.2	0.5	0.6	6.7
Aurobindo Pharma	ADD	617	640	3.7	362	5.3	584	42	43	46	6.0	2.3	7.9	14.8	14.4	13.4	10.3	9.9	8.9	3.1	2.6	2.2	23.2	19.5	16.6	0.7	0.8	1.0	20.6
Biocon	SELL	633	300	(52.6)	380	5.5	601	6	8	15	(39.2)	27.1	84.9	102.2	80.4	43.5	45.9	33.7	22.2	6.7	6.3	5.7	6.9	8.1	13.7	0.3	0.4	0.8	23.4
Cipla	BUY	632	650	2.8	509	7.4	805	18	26	34	40.2	48.7	30.8	36.1	24.3	18.6	18.7	13.7	10.9	3.5	3.1	2.8	10.2	13.6	15.9	0.6	0.9	1.1	24.0
Dr Lal Pathlabs	REDUCE	902	865	(4.1)	75	1.1	83	20	25	29	7.0	20.8	18.5	44.1	36.5	30.8	26.7	22.4	18.8	9.5	7.9	6.6	23.5	23.7	23.4	0.5	0.5	0.6	1.3
Dr Reddy's Laboratories	REDUCE	2,322	2,250	(3.1)	385	5.6	166	59	100	134	(18.5)	69.8	33.3	39.3	23.2	17.4	18.1	11.5	8.6	3.0	2.7	2.4	7.8	12.5	13.9	1.0	0.7	0.9	30.1
HCG	REDUCE	285	305	7.0	25	0.4	85	2	3	5	(40.0)	120.9	57.3	182.2	82.5	52.4	24.0	18.7	15.9	4.7	4.5	4.1	2.8	5.5	8.1	—	—	—	0.2
Laurus Labs	ADD	474	540	13.9	50	0.7	106	16	22	34	(11.9)	37.3	54.4	29.9	21.8	14.1	14.5	11.9	8.7	3.4	2.9	2.4	11.9	14.4	18.8	—	—	—	0.7
Lupin	REDUCE	903	800	(11.4)	408	5.9	450	38	35	45	(32.9)	(7.7)	28.6	23.7	25.7	20.0	14.5	12.9	10.6	3.0	2.7	2.4	12.6	11.1	12.9	0.6	0.6	0.8	31.2
Narayana Hrudayalaya	ADD	246	275	11.6	50	0.7	204	3	4	7	(38.1)	52.2	76.9	98.0	64.4	36.4	27.0	20.4	14.9	4.9	4.5	4.0	5.1	7.3	11.7	—	—	—	0.4
Sun Pharmaceuticals	REDUCE	564	500	(11.3)	1,353	19.7	2,406	15	17	24	(47.5)	12.0	42.0	37.2	33.2	23.4	22.0	18.0	13.3	3.6	3.2	2.9	9.8	10.2	13.1	0.4	0.6	0.9	52.2
Torrent Pharmaceuticals	NR	1,457	—	—	247	3.6	169	40	46	61	(27.4)	15.1	32.9	36.4	31.6	23.8	20.3	14.5	12.1	5.3	4.7	4.1	15.1	14.9	17.2	1.1	0.7	1.0	5.1
<b>Pharmaceuticals</b>	<b>Neutral</b>				<b>3,985</b>	<b>58</b>					<b>(27.6)</b>	<b>18.9</b>	<b>32.6</b>	<b>33.9</b>	<b>28.5</b>	<b>21.5</b>	<b>18.8</b>	<b>15.1</b>	<b>11.9</b>	<b>3.7</b>	<b>3.3</b>	<b>2.9</b>	<b>10.9</b>	<b>11.7</b>	<b>13.7</b>	<b>0.5</b>	<b>0.6</b>	<b>0.9</b>	<b>195.9</b>
<b>Real Estate</b>																													
Brigade Enterprises	BUY	206	340	65.0	28	0.4	136	11	9	9	(17.7)	(15.1)	(1.6)	18.6	21.9	22.3	11.2	11.4	11.2	1.2	1.2	1.1	7.6	5.5	5.2	1.2	1.2	1.2	0.4
DLF	RS	194	—	—	347	5.0	1,784	19.6	6.5	3.9	403.9	(66.9)	(39.6)	9.9	30.0	49.6	29.3	12.7	12.6	1.0	1.0	1.0	11.7	3.2	1.9	1.0	1.0	1.0	17.7
Godrej Properties	SELL	712	400	(43.8)	163	2.4	216	11.6	16.8	19.2	21.9	43.9	14.9	61.1	42.5	37.0	152.9	108.8	77.2	6.8	5.9	5.1	11.8	14.9	14.7	—	—	—	2.7
Oberoi Realty	BUY	490	560	14.4	178	2.6	340	13	62	44	14.0	385.4	(28.1)	38.5	7.9	11.0	28.7	11.0	13.7	2.7	1.8	1.6	7.3	27.4	15.2	0.4	0.4	0.4	3.5
Prestige Estates Projects	ADD	275	315	14.4	103	1.5	375	13	10	10	24.3	(24.2)	8.4	21.9	28.9	26.7	15.1	15.6	15.7	2.2	2.1	1.9	10.3	7.3	7.5	0.5	0.5	0.5	0.9
Sobha	REDUCE	484	510	5.3	46	0.7	95	22	20	23	30.9	(7.5)	14.8	22.2	24.0	20.9	13.3	13.5	12.7	1.7	1.6	1.5	7.6	6.8	7.4	1.4	1.4	1.4	1.6
Sunteck Realty	REDUCE	391	330	(15.6)	57	0.8	140	15	18	20	4.8	20.2	6.9	25.6	21.3	19.9	16.5	18.1	16.8	2.1	1.9	1.8	9.7	9.4	9.2	0.3	0.3	0.3	1.8
<b>Real Estate</b>	<b>Neutral</b>				<b>922</b>	<b>13</b>					<b>140.1</b>	<b>(12.6)</b>	<b>(20.2)</b>	<b>17.7</b>	<b>20.2</b>	<b>25.3</b>	<b>24.5</b>	<b>14.9</b>	<b>15.3</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>9.3</b>	<b>7.5</b>	<b>5.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>28.7</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		10-Jul-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
<b>Technology</b>																													
HCL Technologies	REDUCE	980	1,010	3.1	1,364	19.8	1,409	62	68	71	5.3	9.0	5.0	15.7	14.4	13.7	11.1	9.3	8.5	3.8	3.2	2.8	24.8	23.8	21.9	0.8	2.9	3.2	34.1
Hexaware Technologies	SELL	488	420	(14.0)	145	2.1	304	16	20	22	19.8	20.5	12.5	29.8	24.7	21.9	21.3	17.9	15.3	7.4	6.4	5.5	26.6	27.8	27.0	0.8	1.6	1.6	13.6
Infosys	ADD	1,301	1,350	3.7	2,842	41.3	2,175	65	70	76	3.0	8.1	9.5	20.1	18.6	17.0	13.9	12.7	11.4	4.4	4.1	3.8	21.8	22.7	23.1	2.1	3.3	3.0	78.9
L&T Infotech	ADD	1,720	1,650	(4.1)	296	4.3	175	64	73	84	13.9	14.5	15.7	27.1	23.6	20.4	23.6	17.7	14.8	7.8	6.5	5.4	31.8	30.0	29.0	1.0	1.4	1.5	4.4
Mindtree	ADD	1,036	1,015	(2.1)	170	2.5	165	35	43	52	37.8	23.2	23.2	30.0	24.3	19.8	21.8	15.3	12.4	6.2	5.3	4.6	21.4	23.6	24.9	1.1	1.2	1.5	29.9
Mphasis	SELL	1,132	760	(32.8)	219	3.2	193	44	52	56	14.4	18.3	8.2	25.8	21.8	20.2	18.7	15.1	13.5	4.0	3.6	3.3	14.6	17.4	17.1	1.8	1.8	1.8	11.4
TCS	REDUCE	1,875	1,790	(4.5)	7,179	104.3	3,829	67	82	89	1.1	21.2	8.8	27.8	22.9	21.1	20.6	16.7	15.4	8.2	7.2	7.1	29.4	33.4	33.8	1.3	2.2	3.8	113.6
Tech Mahindra	ADD	651	775	19.1	574	8.3	891	43	45	53	33.1	6.6	15.8	15.3	14.3	12.4	11.2	8.6	7.1	3.1	2.6	2.3	21.5	19.9	19.7	2.2	1.4	1.6	35.8
Wipro	REDUCE	271	295	9.0	1,224	17.8	4,507	17	19	21	(3.1)	11.1	13.7	16.0	14.4	12.6	10.1	8.5	7.4	2.5	2.2	2.0	16.0	16.3	16.6	0.4	0.6	3.7	12.0
<b>Technology</b>	<b>Cautious</b>				<b>14,013</b>		<b>204</b>				<b>1.6</b>	<b>12.0</b>	<b>9.4</b>	<b>21.9</b>	<b>19.5</b>	<b>17.9</b>	<b>15.9</b>	<b>13.3</b>	<b>12.0</b>	<b>5.2</b>	<b>4.6</b>	<b>4.3</b>	<b>23.7</b>	<b>23.6</b>	<b>24.0</b>	<b>1.4</b>	<b>2.3</b>	<b>3.3</b>	<b>333.8</b>
<b>Telecom</b>																													
Bharti Airtel	ADD	368	470	27.8	1,470	21.4	3,997	5	(4)	0	(42.9)	(187.4)	104.6	77.7	(88.9)	1,946.6	8.1	9.3	7.4	2.1	2.2	2.2	2.8	(2.4)	0.1	1.5	0.3	0.0	35.2
Bharti Infratel	REDUCE	305	285	(6.6)	565	8.2	1,850	14	13	11	(7.4)	(8.7)	(9.0)	22.2	24.3	26.7	8.1	8.8	9.3	3.3	3.5	3.5	15.7	14.0	13.1	4.7	3.3	3.0	14.1
IDEA	REDUCE	56	75	34.4	243	3.5	4,359	(10)	(15)	(14)	(656.8)	(54.9)	6.4	(5.8)	(3.8)	(4.0)	12.4	22.7	16.8	0.9	1.2	1.6	(16.0)	(26.9)	(34.0)	—	—	—	16.8
Tata Communications	ADD	614	725	18.0	175	2.5	285	2	4	8	(84.3)	121.9	117.7	373	168.2	77.3	11.1	9.9	8.7	35.1	28.3	20.5	4.5	18.6	30.7	1.1	1.1	1.2	4.6
<b>Telecom</b>	<b>Cautious</b>				<b>2,453</b>		<b>36</b>				<b>(94.7)</b>	<b>(1,906.6)</b>	<b>36.2</b>	<b>780.0</b>	<b>(43.2)</b>	<b>(67.6)</b>	<b>8.9</b>	<b>10.4</b>	<b>8.7</b>	<b>2.1</b>	<b>2.4</b>	<b>2.5</b>	<b>0.3</b>	<b>(5.5)</b>	<b>(3.7)</b>	<b>2.0</b>	<b>0.9</b>	<b>0.7</b>	<b>70.8</b>
<b>Utilities</b>																													
CESC	ADD	927	1,180	27.3	123	1.8	133	87	102	118	67.1	16.8	15.5	10.6	9.1	7.9	7.7	5.6	4.9	0.8	0.8	0.7	7.9	8.8	9.4	1.3	1.1	1.1	6.0
JSW Energy	REDUCE	68	80	17.8	111	1.6	1,640	3.1	5.9	8.2	(19.2)	92.2	38.7	22.1	11.5	8.3	7.0	5.5	4.5	1.0	1.0	0.9	4.7	8.5	11.0	2.9	2.9	2.9	1.9
NHPC	ADD	24	30	23.5	249	3.6	10,260	2.4	3.1	3.2	(17.3)	26.9	1.8	10.0	7.8	7.7	9.2	7.2	7.0	0.8	0.8	0.8	8.5	10.4	10.2	5.8	7.2	7.2	2.1
NTPC	BUY	154	190	23.5	1,269	18.4	8,245	11	15	16	(7.6)	30.9	4.4	13.5	10.3	9.9	11.0	8.5	7.9	1.2	1.2	1.1	9.5	11.6	11.3	3.7	2.9	3.0	13.7
Power Grid	BUY	184	250	35.8	963	14.0	5,232	16	19	21	9.6	19.3	13.6	11.7	9.8	8.6	8.4	7.1	6.5	1.8	1.6	1.4	15.8	17.1	17.5	2.9	3.4	3.9	30.4
Reliance Power	SELL	32	43	32.5	91	1.3	2,805	3.5	5.1	5.2	(16.4)	45.6	2.7	9.3	6.4	6.2	7.8	6.7	6.5	0.4	0.4	0.4	4.5	6.1	5.9	—	—	—	4.1
Tata Power	ADD	73	97	32.8	198	2.9	2,705	5.3	7.8	8.7	(9.6)	46.1	11.2	13.7	9.4	8.4	10.3	9.5	8.6	1.3	1.1	1.0	10.7	12.9	12.7	—	—	—	5.8
<b>Utilities</b>	<b>Attractive</b>				<b>3,004</b>		<b>44</b>				<b>(2.4)</b>	<b>28.6</b>	<b>9.0</b>	<b>12.4</b>	<b>9.6</b>	<b>8.9</b>	<b>9.3</b>	<b>7.6</b>	<b>7.0</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>	<b>9.7</b>	<b>11.5</b>	<b>11.6</b>	<b>3.1</b>	<b>3.1</b>	<b>3.3</b>	<b>64.1</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

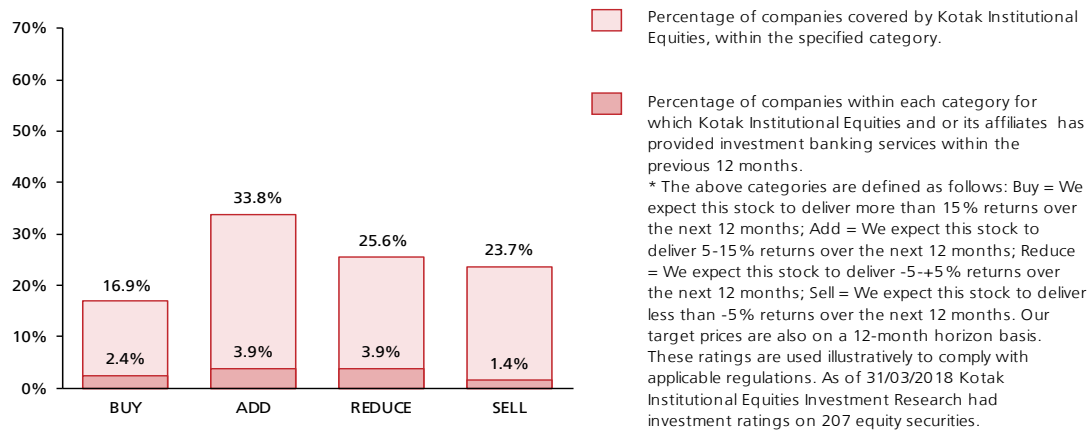
Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)		
		10-Jul-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018		2019E	2020E
<b>Others</b>																													
Astral Poly Technik	SELL	1,036	625	(39.6)	124	1.8	120	15	19	23	20.8	28.0	23.0	70.6	55.2	44.8	39.7	30.8	25.0	12.2	10.1	8.3	18.8	20.0	20.3	0.1	0.1	0.1	1.1
Avenue Supermarts	SELL	1,598	860	(46.2)	997	14.5	624	13	16	20	47.9	28.6	26.4	127.1	98.9	78.2	74.5	57.0	44.8	21.5	17.6	14.4	18.5	19.6	20.3	—	—	—	2.1
Bayer Cropscience	REDUCE	4,582	4,000	(12.7)	181	2.6	34	86	105	124	4.4	22.7	17.5	53.3	43.5	37.0	43.2	33.7	27.1	8.8	7.6	6.6	15.4	18.8	19.2	0.4	0.5	0.5	0.5
Dhanuka Agritech	ADD	556	690	24.2	27	0.4	49	26	28	32	7.7	8.9	15.4	21.6	19.8	17.2	15.8	13.6	11.4	4.3	3.7	3.2	21.9	20.1	20.0	1.0	1.1	1.2	0.1
Godrej Agrovet	ADD	617	650	5.4	118	1.7	189	12	16	20	6.9	39.8	24.6	53.5	38.3	30.7	27.6	21.2	17.2	6.9	6.0	5.1	14.7	16.9	17.9	0.3	0.4	0.5	2.1
Godrej Industries	RS	609	—	—	205	3.0	336	15	16	20	6.8	8.9	24.2	41.8	38.4	30.9	37.2	31.5	34.3	5.7	5.0	4.4	14.4	13.9	15.1	0.3	0.3	0.3	4.8
InterGlobe Aviation	BUY	1,091	1,430	31.1	419	6.1	383	59	71	98	27.2	21.8	37.5	18.6	15.3	11.1	10.6	8.6	5.9	5.9	4.4	3.3	41.3	33.0	33.8	0.6	0.7	0.9	25.8
Kaveri Seed	SELL	558	470	(15.8)	37	0.5	66	32	31	33	18.4	(3.7)	6.1	17.4	18.1	17.1	14.7	15.2	13.7	4.7	4.0	3.5	23.6	24.0	21.9	1.1	1.4	1.8	4.9
PI Industries	BUY	800	900	12.5	110	1.6	138	27	33	41	(20.0)	25.0	23.2	30.1	24.1	19.5	22.2	17.5	13.9	5.7	4.8	3.9	20.7	21.7	22.1	0.4	0.5	0.6	1.7
Rallis India	ADD	187	235	25.9	36	0.5	195	9	11	13	(1.5)	26.4	19.7	21.7	17.1	14.3	13.8	11.3	9.6	3.0	2.8	2.5	14.6	16.9	18.1	1.8	1.9	2.1	0.8
SIS	REDUCE	1,154	1,250	8.3	84	1.2	73	23	36	43	44.0	58.5	20.6	51.2	32.3	26.8	27.4	20.8	17.2	8.2	6.9	5.7	20.2	23.4	23.3	0.3	0.5	0.6	0.7
SRF	BUY	1,743	2,110	21.0	100	1.5	57	80	92	123	(10.4)	14.4	33.6	21.7	19.0	14.2	13.2	10.4	8.5	2.8	2.5	2.2	13.7	14.0	16.4	0.7	0.8	0.8	10.3
Tata Chemicals	ADD	710	760	7.0	181	2.6	255	51	46	52	6.5	(11.2)	13.6	13.8	15.5	13.7	7.6	6.5	5.5	1.6	1.5	1.4	13.8	10.0	10.5	3.1	2.1	2.4	8.9
TeamLease Services	SELL	2,945	1,750	(40.6)	50	0.7	17	43	59	75	28.0	37.4	27.2	68.3	49.7	39.1	71.2	50.5	39.1	11.4	9.3	7.5	18.2	20.6	21.2	—	—	—	2.4
UPL	ADD	637	850	33.4	324	4.7	507	43	73	82	20.9	71.2	11.9	14.8	8.7	7.7	10.3	8.9	7.6	3.5	2.9	2.5	26.4	23.6	22.4	1.3	1.5	1.7	13.8
Vardhman Textiles	ADD	1,223	1,400	14.5	70	1.0	56	103	130	140	(8.0)	26.4	7.4	11.9	9.4	8.7	9.9	7.4	6.6	1.4	1.3	1.1	12.7	14.3	13.8	1.2	1.6	2.5	1.0
Whirlpool	SELL	1,518	1,240	(18.3)	193	2.8	127	28	37	45	13.0	33.9	22.5	54.9	41.0	33.5	32.4	24.9	20.1	10.7	8.9	7.4	21.4	23.7	24.1	0.3	0.4	0.6	1.0
<b>Others</b>							3,259		47		15.0	15.9	22.8	31.9	27.5	22.4	20.6	17.0	13.8	5.8	4.9	4.2	18.1	17.8	18.6	0.5	0.6	0.7	79.9
<b>KIE universe</b>					108,765	1,580					(6.2)	30.0	25.0	27.0	20.7	16.6	12.5	10.6	9.3	3.0	2.7	2.4	11.0	12.9	14.7	1.3	1.4	1.8	
<b>KIE universe (ex-energy)</b>					96,021	1,395					(8.4)	38.4	29.6	32.0	23.1	17.8	14.1	11.7	10.3	3.3	3.0	2.7	10.4	13.0	15.2	1.1	1.3	1.7	

### Notes:

- (a) We have used adjusted book values for banking companies.  
 (b) 2018 means calendar year 2017, similarly for 2019 and 2020 for these particular companies.  
 (c) Exchange rate (Rs/US\$)= 68.81

Source: Company, Bloomberg, Kotak Institutional Equities estimates

**Kotak Institutional Equities Research coverage universe**  
Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2018

**Ratings and other definitions/identifiers**

**Definitions of ratings**

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

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

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

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

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

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