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EQUITY MARKETS

India	Change %			
	12-Oct	1-day	1-mo	3-mo
Sensex	34,734	2.2	(8.8)	(4.9)
Nifty	10,473	2.3	(9.1)	(5.0)
Global/Regional indices				
Dow Jones	25,340	1.1	(3.1)	1.3
Nasdaq Composite	7,497	2.3	(6.4)	(4.2)
FTSE	6,996	(0.2)	(4.2)	(8.7)
Nikkei	22,300	(1.7)	(3.4)	(1.3)
Hang Seng	25,801	2.1	(5.4)	(9.5)
KOSPI	2,150	(0.5)	(7.2)	(7.0)
Value traded – India				
Cash (NSE+BSE)	370		422	386
Derivatives (NSE)	6,350		22,618	17,062
Deri. open interest	3,531		4,516	4,082

Forex/money market

	Change, basis points			
	12-Oct	1-day	1-mo	3-mo
Rs/US\$	73.6	(6)	108	514
10yr govt bond, %	8.1	-	(24)	6

Net investment (US\$ mn)

	11-Oct	MTD	CYTD
FIs	(370)	(2,203)	(4,209)
MFs	184	1,352	15,116

Top movers

Best performers	Change, %			
	12-Oct	1-day	1-mo	3-mo
ARBP IN Equity	736	(2.7)	(8.0)	22.1
JSTL IN Equity	380	5.0	(7.0)	20.1
ICICIBC IN Equity	319	2.5	(2.7)	19.3
DIVI IN Equity	1,282	2.5	(3.6)	15.7
WPRO IN Equity	316	1.0	(4.2)	12.6
Worst performers				
JPA IN Equity	7	3.1	(33.2)	(57.1)
UT IN Equity	3	2.0	(20.6)	(39.8)
YES IN Equity	246	2.6	(23.7)	(34.5)
TTMT/A IN Equity	101	(0.9)	(29.8)	(32.8)
IDEA IN Equity	36	4.1	(22.4)	(32.6)

OCTOBER 15, 2018

RESULT

Coverage view: **Cautious**

Price (₹): **1,570**

Target price (₹): **1,430**

BSE-30: **34,734**

An in-between quarter; neither great nor bad. HUVR's 2QFY19 earnings print missed our expectations marginally while beating consensus. Even as earnings growth was in line with the recent quarters, the quality of earnings growth was slightly inferior with (a) lower price-led growth reflecting increased competitive intensity at the margin, and (b) the need to play the adspend line of the P&L. That said, healthy earnings growth is healthy earnings growth and to that extent, we would be wrong to term the earnings print anything but good. The earnings print did fall short of supporting stiff forward expectations, however. REDUCE with an unchanged TP (Rs1,430).

Company data and valuation summary

Hindustan Unilever

Stock data

52-week range (Rs) (high,low)	1,809-1,216
Market Cap. (Rs bn)	3,397.6

Shareholding pattern (%)

Promoters	67.2
FIs	12.2
MFs	1.9

Price performance (%)

	1M	3M	12M
Absolute	(3.5)	(9.9)	26.5
Rel. to BSE-30	4.8	(5.2)	17.2

Forecasts/Valuations

	2019E	2020E	2021E
EPS (Rs)	29.2	33.8	38.2
EPS growth (%)	18.9	16.0	13.0
P/E (X)	53.8	46.4	41.0
Sales (Rs bn)	389.4	432.9	480.6
Net profits (Rs bn)	63.0	73.1	82.6
EBITDA (Rs bn)	87.5	101.3	113.9
EV/EBITDA (X)	38.0	32.6	28.8
ROE (%)	83.2	82.6	78.6
Div. Yield (%)	1.3	1.5	1.7

Headline financials – marginally below expectations

Net sales grew 11% yoy to Rs91.4 bn with domestic consumer business growing at 12%. Adjusted for an accounting change on fiscal benefit refunds (included in other income in 2QFY19 versus reported as part of net sales in the base quarter), domestic consumer business grew 13% - a combination of 10% UVG and around 3% price-led growth. We note that the pricing component of growth was lower than the 4-6% like-on-like print for the past seven quarters. We believe lower price-led growth was a result of the step-up in pricing action by P&G in detergents and shampoos even as management commentary on the earnings concall did not lend any credence to our hypothesis.

EBITDA, adjusted for the fiscal refund accounting change, grew around 25% yoy to roughly Rs21 bn (KIE: Rs21.6 bn; consensus much lower) and adjusted EBITDA margins expanded 233 bps yoy to 22.6% (KIE: 22.6%). EBITDA margin expansion was despite adjusted GM contraction of 30 bps yoy as staff costs, adspends and other expenses declined 54 bps, 45 bps, and 167 bps, respectively. Adspends grew a modest 8% yoy in absolute terms; we note that (a) this was materially lower than the high-20s like-on-like growth in adspends seen in the past four quarters and (b) was not exactly consistent with the management's 1QFY19 earnings call commentary. Other expenses, at 13.4% of sales, were at the lowest-ever level and were flat yoy in absolute terms. The company continues to surprise as far as execution on its savings program is concerned. Staff costs were only about 6% higher than September 2014 quarter levels.

Lack of the phrase 'demand acceleration' in the commentary should moderate expectations

2QFY19 earnings print was fine in absolute terms but did little to provide support to consensus' stiff expectations for FY2020E, in our view. Quality of the print was weaker than the past few quarters and we did not hear anything in the management commentary that would suggest demand is accelerating. To be sure, the management commentary sounded fairly sanguine on margins, crude and INR pressure notwithstanding. There are enough levers in enough lines of the P&L to sustain the margin expansion trajectory, we believe; extent of expansion should moderate to more modest levels, in our view. Overall, we see no reason for a change in view, up or down, from where one was (positive or negative) pre results. Our REDUCE rating stays.

Rohit Chordia

Jaykumar Doshi

Aniket Sethi

Earnings model changes

Exhibit 1 depicts the key changes to our earnings model for HUVR. We have broadly maintained our revenue forecasts for FY19-21E while raising our implicit margin assumptions a tad to bake in the continued surprise on savings program delivery. On a reported basis, however, this implicit increase in margin assumptions does not show up on account of the fiscal refund accounting change. Our EPS estimate for FY2019E is broadly unchanged at Rs29.2/share while we raise our FY2020E and FY2021E EPS forecast by around 2% each to Rs33.8/share and Rs38.2/share, respectively.

Our fair value target for the stock remains unchanged at Rs1,430/share. Our fair value is DCF-based and bakes in (a) WACC of 10.75% and (b) terminal growth of 6.5%.

Segmental performance highlights

- ▶ **Home care (includes fabric wash, household care, and water; 33.2% of 1Q revenues, 26% of EBIT).** Revenues and EBIT grew 12% yoy and 28% yoy to Rs30.8 bn and Rs4.9 bn. The management indicated that fabric wash and household care delivered double digit growth. The performance of the water purifier segment was weak due to weakness in Gravity purifiers; there is a fundamental shift towards RO and electronic devices. The management indicated that it is reviewing its purifier portfolio strategy and remains committed to the category. We note that Home care portfolio EBIT margin dropped 310 bps qoq to 16%. Management termed the 16% margin level as a fairly healthy level.
- ▶ **Beauty and Personal care (includes personal wash, skin, hair, oral, deos, and color cosmetics; 47% of 1Q revenues, 59% of EBIT).** Revenues and EBIT grew 10.4% yoy and 18% yoy to Rs43.2 bn and Rs11.2 bn. Personal wash witnessed strong growth led by premium brands Dove and Pears. The company is doing a lot of work to accelerate growth of Lux and Lifebuoy brands. HUVR launched Rs5 pack of Lifebuoy in hand wash segment. In skin care, HUVR re-launched Men's F&L. Hair care reported strong and broad-based double digit growth across key brands. TRESemme was relaunched with superior fragrance and packaging. Color cosmetics delivered another double digit growth quarter. HUVR launched an exclusive makeup range 'Kareena Kapoor Khan by Lakmé Absolute'. Oral care performance was below expectations and remains an area of improvement. In Deodorants, 'Axe Ticket' continued to gain traction.
- ▶ **Food and Refreshments (tea, coffee, ice cream, and frozen dessert; 19% of 1Q revenues, 15% of EBIT).** Revenues and EBIT grew 13% yoy and 25% yoy to Rs17 bn and Rs2.9 bn. Beverages segment reported broad-based double-digit growth. Food registered double-digit growth led by Kissan ketchup and jam. The management highlighted that WIMI strategy is helping the company in F&R business.

Key takeaways from earnings call; segmental comments discussed above

- ▶ **Comments on volume growth/ near-term outlook** – Management indicated (1) market demand remains stable, (2) rural is growing ahead of Urban, about 1.2-1.25X Urban. Monsoon started well but ended with below-normal season in parts of the country.
- ▶ **Comments on margins.** HUVR management indicated its margin performance was driven by cost saving initiatives and the impact of crude price inflation and currency depreciation and was partly offset by benign vegetable oil and food prices. The management indicated that while reported gross margin has declined, it internally tracks gross margin + supply chain costs together; at a combined level, gross margin looks better. It reiterated guidance of 'continuous modest margin expansion driven by cost-savings'

- ▶ **Price increase.** HUVR increased prices in select products and categories towards the end of the quarter. Full quarter impact will be visible starting next quarter. Even after this increase, prices of several products are still below the pre-GST level and it does not see any issues in acceptance of price increase in the market.
- ▶ **Easing in competitive intensity.** HUVR management indicated that competitive intensity has eased a bit over the past 3-4 months. We note that the company had indicated a step up in competition in the previous couple of quarters.
- ▶ **Accounting changes.** Select fiscal refunds that were earlier included in sales and later in other operating income are now classified as other income. This change suppressed sales growth and EBITDA growth in the September 2018 quarter. Adjusted sales growth (and pricing growth) was 80-100 bps higher (i.e. adjusted sales growth of 13% for domestic consumer business and underlying pricing growth of 3%) and adjusted EBITDA growth was around 500 bps higher. To be precise, these fiscal refunds were included in (1) sales in the base quarter (September 2017), (2) other operating income in December-17, March-17 and June-18 quarters, and (3) other income starting September-18 quarters.
- ▶ **Adityaa milk acquisition.** HUVR acquired 100% of the ice cream business of Adityaa milk and it also entered into a sourcing arrangement with them. The management indicated that Adityaa milk has an interesting business model and it will help HUVR strengthen its distribution footprint in the ice cream business in Karnataka, Kerala, Maharashtra and Goa. HUVR has not disclosed transaction details.
- ▶ **Other details.** (1) HUVR has taken out excess inventory from the system and it is helping the company manage RM costs, (2) Ayush portfolio is doing well in the South but there is some need to tweak the mix outside of the South, and (3) supply chain restructuring has begun and will continue for 4-6 quarters and could require exceptional costs.

Exhibit 1: Key changes to earnings model (standalone) - HUVR, March fiscal-year ends, 2019-21E

	Revised			Earlier			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Net revenues (Rs mn)	389,419	432,857	480,599	390,684	434,376	482,206	(0.3)	(0.3)	(0.3)
EBITDA (Rs mn)	87,454	101,292	113,874	89,739	101,594	114,195	(2.5)	(0.3)	(0.3)
EBIT (Rs mn)	82,213	95,394	107,464	84,515	95,711	107,803	(2.7)	(0.3)	(0.3)
EBITDA margin (%)	22.5	23.4	23.7	23.0	23.4	23.7			
Net profit (pre-exceptionals, Rs mn)	62,991	73,079	82,609	63,313	71,669	80,709	(0.5)	2.0	2.4
EPS (Rs/share)	29.2	33.8	38.2	29.3	33.2	37.4	(0.5)	2.0	2.4
Effective tax rate (%)	30.5	30.7	31.0	30.5	30.7	31.0			

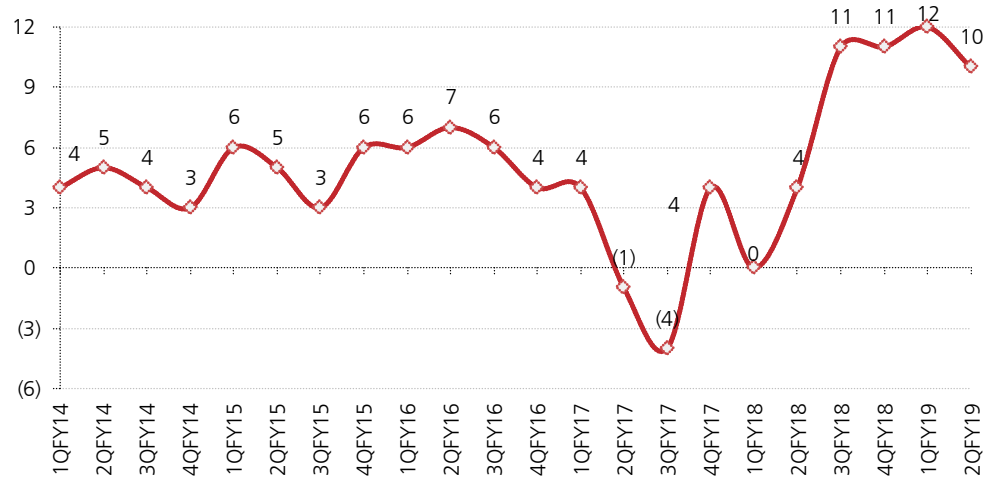
Source: Company, Kotak Institutional Equities estimates

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

	2QFY19	2QFY19E	2QFY18	1QFY19	(% chg.)			1HFY19	1HFY18	(% chg.)
					KIE	yoy	qoq			
Volume growth (%)	10.0	10.0	4.0	12.0	0 bps	600 bps	-200 bps	11.0	2.0	900 bps
Net sales	91,380	93,650	81,990	93,560	(2)	11	(2)	184,940	166,000	11
Other operating income	960	1,925	1,100	1,310	(50)	(13)	(27)	2,270	2,380	(5)
Net operating income	92,340	95,575	83,090	94,870	(3)	11	(3)	187,210	168,380	11
Material cost	(44,350)	(44,204)	(39,290)	(43,640)	0	13	2	(87,990)	(80,130)	10
Gross Profit	47,990	51,372	43,800	51,230	(7)	10	(6)	99,220	88,250	12
Gross margin (%)	52	54	53	54	-178 bps	-75 bps	-203 bps	53	52	58 bps
Employee cost	(4,380)	(4,568)	(4,350)	(4,420)	(4)	1	(1)	(8,800)	(8,540)	3
Advertising and promotion	(11,060)	(12,276)	(10,230)	(11,530)	(10)	8	(4)	(22,590)	(19,280)	17
Other expenditure	(12,360)	(12,965)	(12,400)	(12,770)	(5)	(0)	(3)	(25,130)	(24,950)	1
Total expenditure	(27,800)	(29,808)	(26,980)	(28,720)	(7)	3	(3)	(56,520)	(52,770)	7
EBITDA	20,190	21,563	16,820	22,510	(6)	20	(10)	42,700	35,480	20
EBITDA margin (%)	22	23	20	24	-70 bps	162 bps	-187 bps	23	21	173 bps
Other income	3,050	2,346	2,040	1,350	30	50	126	4,400	3,170	39
Interest	(70)	(30)	(60)	(70)	133	17	0	(140)	(120)	17
Depreciation	(1,300)	(1,290)	(1,150)	(1,270)	1	13	2	(2,570)	(2,290)	12
Pretax profits	21,870	22,589	17,650	22,520	(3)	24	(3)	44,390	36,240	22
Tax	(6,650)	(6,867)	(5,290)	(6,850)	(3)	26	(3)	(13,500)	(10,960)	23
PAT (recurring)	15,220	15,722	12,360	15,670	(3)	23	(3)	30,890	25,280	22
Extraordinary items	30	-	400	(380)				(350)	310	
Net profit (reported)	15,250	15,722	12,760	15,290	(3)	20	(0)	30,540	25,590	19
Income tax rate (%)	30	30	30	30	0 bps	43 bps	-2 bps	30	30	16 bps
Core EPS (recurring)	7.0	7.3	5.7	7.2	(3)	23	(3)	14.3	11.7	22
Costs as a % of sales										
Material cost	48.0	46.3	47.3	46.0	177 bps	74 bps	202 bps	47.0	47.6	-59 bps
Employee cost	4.7	4.8	5.2	4.7	-4 bps	-50 bps	8 bps	4.7	5.1	-38 bps
Advertising and promotion	12.0	12.8	12.3	12.2	-87 bps	-34 bps	-18 bps	12.1	11.5	61 bps
Other expenditure	13.4	13.6	14.9	13.5	-18 bps	-154 bps	-8 bps	13.4	14.8	-140 bps
Segment results										
Revenues										
Home care	30,800	32,046	27,390	31,460	(4)	12	(2)	62,260	57,860	8
Personal care	43,160	44,574	39,100	44,070	(3)	10	(2)	87,230	82,780	5
Food & Refreshments	17,040	17,155	15,040	17,850	(1)	13	(5)	34,890	31,340	11
Others (incl exports)	1,340	1,800	1,500	1,490	(26)	(11)	(10)	2,830	3,180	(11)
Total segment revenue	92,340	95,575	83,030	94,870	(3)	11	(3)	187,210	175,160	7
Segment EBIT										
Home care	4,920	5,736	3,830	6,020	(14)	28	(18)	10,940	8,310	32
Personal care	11,150	11,456	9,480	11,620	(3)	18	(4)	22,770	20,270	12
Food & Refreshments	2,880	2,809	2,310	3,340	3	25	(14)	6,220	5,270	18
Others (incl exports)	20	(72)	(60)	(20)	(128)	NM	NM	-	(120)	(100)
Total segment EBIT	18,970	19,929	15,560	20,960	(5)	22	(9)	39,930	33,730	18
Segment EBIT margins, %										
Home care	16.0	17.9	14.0	19.1	-193 bps	199 bps	-317 bps	17.57	14.4	320 bps
Personal care	25.8	25.7	24.2	26.4	13 bps	158 bps	-54 bps	26.10	24.5	161 bps
Food & Refreshments	16.9	16.4	15.4	18.7	52 bps	154 bps	-182 bps	17.83	16.8	101 bps
Others (incl exports)	1.5	(4.0)	(4.0)	(1.3)	NM	NM	NM	-	(3.8)	NL

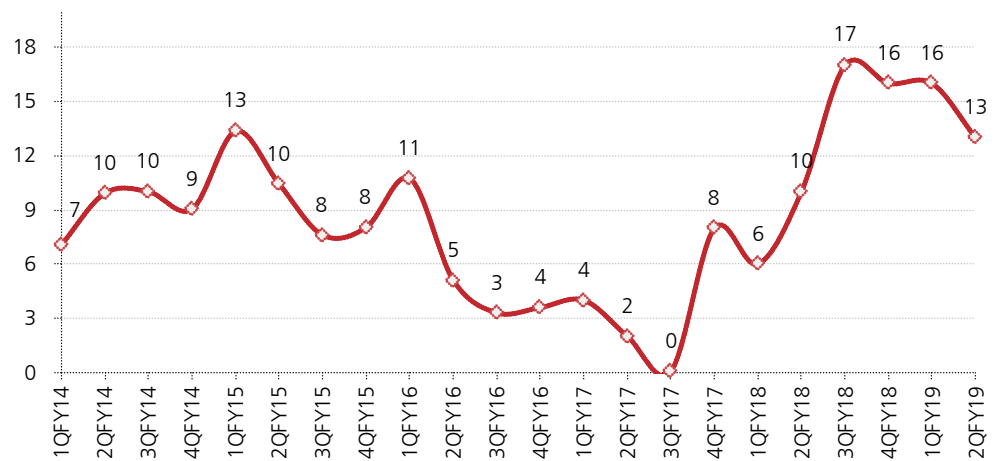
Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Volume growth (UVG) stood at 10% yoy – in line with our estimate
 HUVR domestic volume growth trends (%)



Source: Company, Kotak Institutional Equities

Exhibit 4: HUVR underlying domestic FMCG revenues grew 13% yoy
 HUVR domestic business revenue growth trends (%)



Source: Company, Kotak Institutional Equities

Exhibit 5: HUVR: Standalone condensed financials (as per Ind-AS), March fiscal year-ends (Rs mn)

	IGAAP	Ind-AS					
	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)							
Net operating revenues	307,341	310,610	318,900	345,250	389,419	432,857	480,599
EBITDA	51,043	56,970	60,450	72,760	87,454	101,292	113,874
Financial income	6,184	5,640	5,260	5,690	8,571	10,312	12,486
Interest	(168)	(150)	(220)	(200)	(280)	(252)	(227)
Depreciation	(2,867)	(3,210)	(3,960)	(4,780)	(5,241)	(5,898)	(6,410)
Pretax profits	54,192	59,250	61,530	73,470	90,505	105,453	119,724
Tax	(16,560)	(18,090)	(19,060)	(20,480)	(27,513)	(32,374)	(37,114)
Recurring Net profit	37,632	41,160	42,470	52,990	62,991	73,079	82,609
EO items	5,520	210	2,430	(620)	(350)	—	—
Reported Net Profit	43,153	41,370	44,900	52,370	62,641	73,079	82,609
Recurring EPS (Rs)	17.4	19.0	19.6	24.5	29.2	33.8	38.2
Balance sheet (Rs mn)							
Total equity	37,248	62,790	64,900	70,750	80,631	96,365	113,880
Deferred tax liability (Net)	(1,960)	(1,680)	(1,600)	(2,550)	(2,550)	(2,550)	(2,550)
Total liabilities and equity	35,288	61,110	63,300	68,200	78,081	93,815	111,330
Net fixed assets (incl CWIP)	29,145	32,880	38,570	42,060	45,581	48,989	52,432
Intangible assets	220	120	3,700	3,660	3,660	3,660	3,660
Cash	25,376	27,590	16,710	33,730	46,309	64,943	86,057
Investments	32,779	27,800	37,790	31,110	31,110	31,110	31,110
Net current assets	(52,232)	(27,280)	(33,470)	(42,360)	(48,579)	(54,888)	(61,929)
Total assets	35,288	61,110	63,300	68,200	78,081	93,815	111,330
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	34,875	40,870	42,870	50,970	59,591	68,918	76,760
Working capital	(2,156)	(1,130)	6,660	8,190	6,219	6,308	7,041
Capital expenditure	(4,948)	(7,360)	(13,670)	(8,370)	(8,762)	(9,306)	(9,852)
Free cash flow	27,772	32,380	35,860	50,790	57,048	65,920	73,949
Key ratios							
Net operating revenue growth (%)	9.7	NM	2.7	8.3	12.8	11.2	11.0
Core EPS growth (%)	5.8	NM	3.2	24.8	18.9	16.0	13.0
Gross margins (%)	49.2	50.7	50.8	53.0	52.9	53.2	53.3
EBITDA margin (%)	16.6	18.3	19.0	21.1	22.5	23.4	23.7
A&SP (% of sales)	12.6	11.6	10.9	11.9	12.3	12.7	12.7
ETR (% of PBT)	30.6	30.5	31.0	27.9	30.4	30.7	31.0
RoE (%)	107.5	82.3	66.5	78.1	83.2	82.6	78.6
RoCE (%)	68.0	60.3	52.6	61.1	62.9	62.6	59.7

Source: Company, Kotak Institutional Equities estimates

OCTOBER 15, 2018

RESULT

Coverage view:

Price (₹): 1,412

Target price (₹): 890

BSE-30: 34,734

Strong revenue growth but margins surprise negatively. Dmart's 2QFY19 results were disappointing while revenue growth of 39% yoy surprised positively, gross margins were sharply below estimates resulting in a 13% miss in EBITDA. The company's cost control remains strong and is a key driver of operating leverage. We raise our revenue growth estimates, though a lower gross margin assumption leads to broadly unchanged earnings estimates. The 50 bps increase in WACC estimate gets offset by a higher revenue growth estimate for the future and roll forward to September, driving a modest increase in our DCF-based TP to Rs890 (Rs860 earlier).

Company data and valuation summary

Avenue Supermarts

Stock data

52-week range (Rs) (high,low)	1,680-1,060
Market Cap. (Rs bn)	881.0

Shareholding pattern (%)

Promoters	81.2
FIs	5.5
MFs	2.8

Price performance (%)

	1M	3M	12M
Absolute	(7.3)	(11.1)	11.3
Rel. to BSE-30	0.7	(6.4)	3.1

Forecasts/Valuations

	2019E	2020E	2021E
EPS (Rs)	16.1	20.5	26.2
EPS growth (%)	29.8	27.3	27.9
P/E (X)	87.8	68.9	53.9
Sales (Rs bn)	198.4	254.4	321.2
Net profits (Rs bn)	10.0	12.8	16.3
EBITDA (Rs bn)	17.3	22.3	28.4
EV/EBITDA (X)	50.8	39.5	31.0
ROE (%)	19.4	20.2	21.0
Div. Yield (%)	0.0	0.0	0.0

Strong revenue growth trajectory maintained

Dmart's 2QFY19 revenue growth trajectory remained strong at 39% yoy growth, higher than our expectation of 33% growth. We believe this was on account of aggressive discounts provided to customers to drive volumes as well as faster than expected ramp-up of new stores opened in 4QFY18. Dmart's revenue growth performance is commendable particularly as the festive season is late in FY2019, and would not have contributed much to 2QFY19 revenues (this was not the case in 2QFY18). Dmart commissioned three new stores in 2QFY19 and we believe it remains on course to open 27 new stores in FY2019. Further, Dmart continues to focus on driving SSSG from old stores, and our channel checks suggest that Dmart has increased store timings by an hour till 11 pm across all stores starting October 1, 2018 and has also carried out layout changes to some of the older stores.

Aggressive price discounts lead to sharply lower gross margins and earnings miss

The strong revenue growth seems in part to be driven by heavy price discounts provided by Dmart across categories. This seems to be in line with the company's earlier stated strategy of capping gross margins at an average of 15% annually and passing on any additional benefits received from suppliers to customers. In fact, Dmart's gross margins were among the lowest ever in the past 10 quarters, and led to a 13% miss in EBITDA and 15% miss in net profits.

Balance sheet – capex as expected, steady working capital

Dmart incurred capex of Rs5.6 bn in FY2019, in line with our full year capex estimate of Rs11 bn. Working capital held steady, with annualized inventory days calculated on 2QFY19 revenues at 28 days, in line with past performance. From being a net cash positive company as of March 2018, we reckon Dmart now has nil net cash, and may thus need to eventually raise fresh debt to fund its expansion.

Retain SELL with target price of Rs890

Dmart's execution engine remains healthy, though its model does not allow it to keep increasing margins perpetually, as is expected by most of the street. Our TP increases to Rs890 from Rs860 as we bake in higher revenue growth estimates in the future and roll forward our target price to September which offset the 50 bps increase in WACC and moderation in gross margin assumptions.

Garima Mishra

Exhibit 1: Standalone quarterly financials of Avenue Supermarts, March fiscal year-ends, (Rs mn)

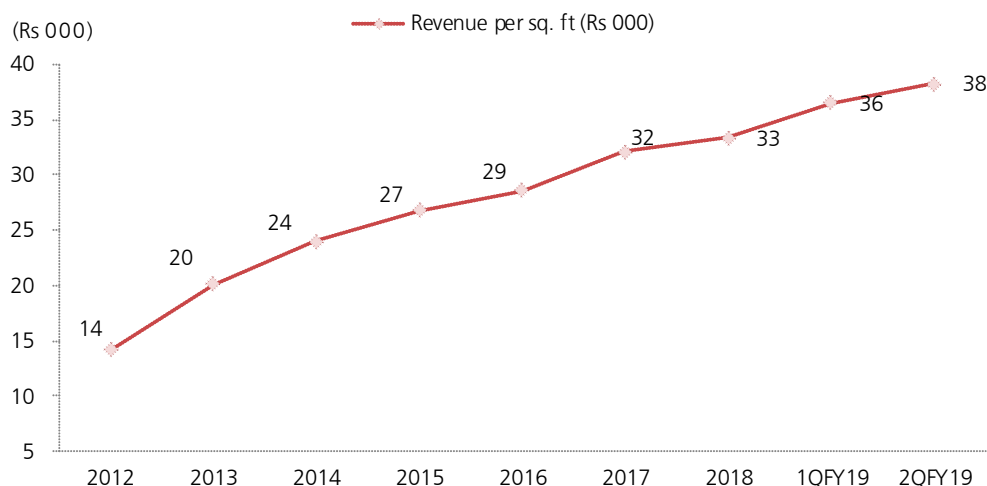
Standalone quarterly financials of Avenue Supermarts, March fiscal year-ends, (Rs mn)

	2QFY19	2QFY19E	2QFY18	1QFY19	Change (%)			Yoy growth			FY2019E
					KIE	yoy	qoq	1HFY19	1HFY18	(%)	
Net revenues	48,725	46,509	35,083	45,594	4.8	38.9	6.9	94,319	71,064	32.7	198,402
Purchase of stock-in-trade	(43,946)	(39,021)	(32,676)	(39,265)	12.6	34.5	11.9	(83,211)	(63,089)	31.9	(168,185)
Changes in inventory of stock in trade	2,204	—	3,253	791		(32.3)	179	2,995	3,247	(7.8)	-
Employee expenses	(842)	(823)	(697)	(770)	2.3	20.8	9.4	(1,612)	(1,337)	20.5	(3,586)
Other operational costs	(2,245)	(2,186)	(1,784)	(2,124)	2.7	25.8	5.7	(4,369)	(3,673)	18.9	(9,308)
Total expenses	(44,829)	(42,030)	(31,904)	(41,367)	6.7	40.5	8.4	(86,196)	(64,853)	32.9	(181,079)
EBITDA	3,896	4,479	3,179	4,227	(13.0)	22.6	(7.8)	8,123	6,211	30.8	17,323
Finance costs	(101)	(113)	(109)	(100)	(10.4)	(7.8)	0.6	(201)	(353)	(43.0)	(355)
Depreciation and amortization expense	(444)	(444)	(351)	(403)	0.0	26.3	10.0	(847)	(688)	23.0	(2,033)
Other income	139	169	212	143	(17.9)	(34.7)	(2.7)	281	440	(36.2)	510
PBT	3,491	4,091	2,930	3,866	(14.7)	19.1	(9.7)	7,356	5,611	31.1	15,445
Tax expense	(1,233)	(1,432)	(1,020)	(1,360)	(13.9)	20.9	(9.3)	(2,593)	(1,953)	32.8	(5,406)
Net profit	2,257	2,659	1,910	2,506	(15.1)	18.2	(9.9)	4,764	3,658	30.2	10,039
Operational metrics											
Period-ending retail trading area (mn sq. ft)	5.1	5.1	4.2	5.0	0.8	20.1	2.0	5.1	4.2	20.1	6.0
Revenue per sq. ft annualized (Rs)	38,216	36,766	33,050	36,475	3.9	15.6	4.8	36,988	33,473	10.5	36,282
Store count (#)	160	159	136	157	0.6	17.6	1.9	160	136	17.6	182
Costs as proportion of revenue (%)											
COGS	85.7	83.9	83.9	84.4				85.0	84.2		84.8
Employee expense	1.7	1.8	2.0	1.7				1.7	1.9		1.8
Other operational cost	4.6	4.7	5.1	4.7				4.6	5.2		4.7
Other ratios (%)											
Gross margin	14.3	16.1	16.1	15.6	-177 bps	-180 bps	-129 bps	15.0	15.8	-84 bps	15.2
EBITDA margin	8.0	9.6	9.1	9.3	-163 bps	-106 bps	-127 bps	8.6	8.7	-13 bps	8.7
PAT margin	4.6	5.7	5.4	5.5	-109 bps	-81 bps	-86 bps	5.1	5.1	-10 bps	5.1
Tax rate	35.3	35.0	34.8	35.2	33 bps	52 bps	15 bps	35.2	34.8	45 bps	35.0

Source: Company, Kotak Institutional Equities

Exhibit 2: Revenue throughput continued to improve

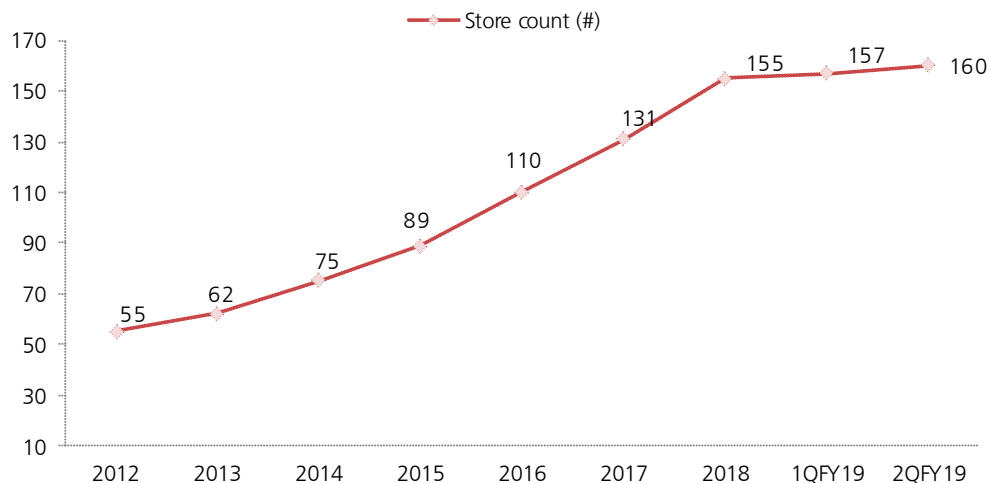
Revenue per sq. ft trend, March fiscal year-ends (Rs 000/sq. ft)



Source: Company, Kotak Institutional Equities

Exhibit 3: Dmart added 3 new stores in 2QFY19

Period-ending store count of Dmart, March fiscal year-ends

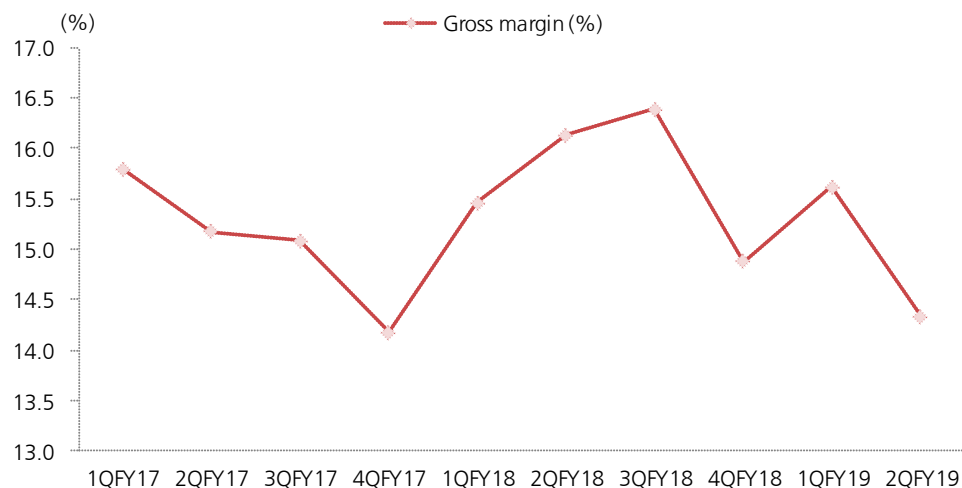


Source: Company, Kotak Institutional Equities

High price discounts led to gross margin disappointment. We note that Dmart's quarterly gross margins tend to be volatile on account of sales mix changes. However, the 180 bps yoy decline in gross margins is a negative surprise.

Exhibit 4: 2QFY19 gross margins surprise on the downside

Gross margin trends for Dmart, March fiscal year-ends, 1QFY17-2QFY19 (%)



Source: Company, Kotak Institutional Equities

After accounting for debt accounted under other financial liabilities, we reckon Dmart's total debt as of September 2018 is around Rs4.9 bn, implying it is now nil net cash, and will seek to raise debt to fund further expansion.

Investments in subsidiaries and associates continue to rise, primarily on account of higher investments in Avenue E-commerce.

Exhibit 5: Balance sheet snapshot, March fiscal year-ends (Rs mn)

	Mar-18	Sep-18
Shareholder' equity	6,241	6,241
Reserves and surplus	40,186	45,050
Total shareholders' funds	46,427	51,290
Borrowings	2,533	2,993
Deferred tax liability	463	606
Total sources of funds	49,423	54,889
Fixed assets	34,032	38,743
Investments in subsidiaries and associates	1,295	1,546
Current investments	517	—
Cash and cash equivalents	5,565	4,305
Current assets		
Inventories	11,470	14,465
Trade receivables	334	723
Other current assets	2,912	3,926
Total current assets	14,716	19,115
Current liabilities		
Trade payables	3,159	4,525
Other financial liabilities	3,312	4,077
Short term provisions	118	150
Other current liabilities	113	69
Total current liabilities	6,702	8,820
Net current assets	8,014	10,295
Total application of funds	49,423	54,889

Source: Company, Kotak Institutional Equities

Modest changes to earnings estimates

We make the following changes to our estimates:

- ▶ We revise our revenue growth trajectory upwards by 1-3% for FY2019-21E as we bake in Dmart's healthy 1HFY19 performance. Further, its attempts to improve SSSG of its older stores will also drive overall revenue growth. Note the revenue increase is on account of higher SSSG assumption in FY2019; we have not changed our store addition forecasts.
- ▶ We revise down our gross margin assumptions, and assume Dmart will make 15% gross margins in line with its stated target.
- ▶ The company's strong cost controls, particularly on fixed costs will drive operating leverage and hence the cut to EBITDA margins is lower. Absolute EBITDA does not change much on account of higher revenue growth assumptions.

Exhibit 6: Key changes to assumptions for Dmart, March fiscal year-ends

	New estimates			Old estimates			% revision		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Total									
Revenue (Rs mn)	198,402	254,424	321,232	196,240	249,765	312,856	1.1	1.9	2.7
Revenue growth (%)	32	28	26	31	27	25			
Gross profit (Rs mn)	30,217	38,418	48,185	30,950	39,392	49,343	(2.4)	(2.5)	(2.3)
Gross margin (Rs mn)	15.2	15.1	15.0	15.8	15.8	15.8			
EBITDA (Rs mn)	17,323	22,297	28,360	17,492	22,286	28,257	(1.0)	0.0	0.4
EBITDA margin (%)	8.7	8.8	8.8	8.9	8.9	9.0			
Net Profit (Rs mn)	10,039	12,778	16,343	10,087	12,753	16,260	(0.5)	0.2	0.5
EPS (Rs)	16.1	20.5	26.2	16.2	20.4	26.1	(0.5)	0.2	0.5
SSSG (%)	18.5	17.5	17.0	18.0	17.5	17.0			

Source: Company, Kotak Institutional Equities

Exhibit 7: DCF valuation of Dmart, March fiscal year-ends, 2018-40E (Rs mn)

	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2035E	2040E
Net Sales	150,332	198,402	254,424	321,232	401,153	493,853	595,746	706,724	824,804	950,310	1,080,881	1,219,808	1,360,391	2,144,382	2,922,779
Yoy growth (%)	26	32	28	26	25	23	21	19	17	15	14	13	12	8	5
EBIT	11,938	15,290	19,721	25,169	31,888	39,735	48,304	57,568	67,186	77,409	88,045	99,362	110,813	174,675	238,081
EBIT margin (%)	7.9	7.7	7.8	7.8	7.9	8.0	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1
EBIT*(1-tax rate)	7,814	9,939	12,819	16,360	20,727	25,827	31,398	37,419	43,671	50,316	57,229	64,585	72,029	113,539	154,752
Depreciation/Amortisation	1,590	2,033	2,575	3,191	3,897	4,682	5,522	6,421	7,382	8,395	9,463	10,598	11,804	13,676	15,427
(Inc./Dec. in working capital)	(2,295)	(3,159)	(3,655)	(4,359)	(5,215)	(6,048)	(6,648)	(7,241)	(7,704)	(8,189)	(8,519)	(9,064)	(9,172)	(10,653)	(9,444)
Capital expenditure	(9,865)	(10,611)	(12,000)	(13,644)	(15,785)	(16,906)	(18,102)	(19,379)	(20,659)	(21,553)	(22,919)	(24,367)	(25,902)	(6,439)	(8,218)
Free cash flows	(2,755)	(1,799)	(261)	1,548	3,625	7,555	12,169	17,220	22,690	28,969	35,254	41,752	48,758	110,123	152,517
Years discounted			1	2	3	4	5	6	7	8	9	10	11	16	21
Discount factor			0.95	0.85	0.76	0.68	0.61	0.55	0.49	0.44	0.40	0.36	0.32	0.19	0.11
Discounted cash flow			(247)	1,314	2,761	5,162	7,456	9,463	11,183	12,805	13,976	14,844	15,548	20,376	16,375

Risk free rate (%)	6.0
Risk premium (%)	5.5
Beta (X)	1.0
Cost of equity (%)	11.5
WACC (%)	11.5
Terminal growth rate (%)	5.0
Sum of free cash flow (Rs mn)	291,507
Terminal value (Rs mn)	264,521
Enterprise value (Rs mn)	556,028
Investments (Rs mn)	—
Net debt (Rs mn)	875
Equity value (Rs mn)	555,153
No. of shares (mn)	624
Equity value per share (Rs)	890

	WACC (%)				
	10.5	11.0	11.5	12.0	12.5
Terminal growth rate (%)	4.0	1,029	921	830	750
4.5	1,074	957	857	773	700
5.0	1,127	998	890	798	721
5.5	1,190	1,046	927	828	744
6.0	1,268	1,104	971	862	771

Source: Kotak Institutional Equities

Exhibit 8: Key assumptions for Dmart, March fiscal year-ends, 2012-21E

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Revenue										
Net revenues (Rs mn)	22,086	33,409	46,865	64,394	85,838	118,977	150,332	198,402	254,424	321,232
Yoy growth (%)		51	40	37	33	39	26	32	28	26
SSSG (%)	20	32	26	22	21	21	14	19	18	17
Revenue per sq. ft (Rs)	14,185	20,132	23,983	26,784	28,595	32,116	33,329	36,282	39,272	43,041
Margins										
Gross margin (%)	14.7	14.5	15.0	14.8	14.9	15.3	15.9	15.2	15.1	15.0
EBITDA margin (%)	6.2	6.4	7.3	7.1	7.7	8.2	9.0	8.7	8.8	8.8
Capital expenditure										
Period-ending store count (#)	55	62	75	89	110	131	155	182	212	242
New store additions (#)	10	7	13	14	21	21	24	27	30	30
Retail trading area (mn sq. ft)	1.6	1.8	2.1	2.7	3.3	4.1	4.9	6.0	7.0	7.9
Capital expenditure (Rs mn)	2,086	1,863	2,999	4,333	3,654	5,804	8,949	10,611	12,000	13,644
Working capital										
Inventory days (#)	32	30	29	31	29	29	28	28	28	28
Debtor + loans and advances days (#)	10	10	8	8	8	7	8	7	7	7
Creditor days (#)	19	16	14	11	14	13	12	12	12	12

Source: Company, Kotak Institutional Equities

Exhibit 9: Consolidated income statement, balance sheet and cash flow, March fiscal year-ends, 2012-2021E (Rs mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Income statement										
Net revenues	22,086	33,409	46,865	64,394	85,838	118,977	150,332	198,402	254,424	321,232
Gross profit	3,246	4,834	7,021	9,522	12,802	18,167	23,976	30,217	38,418	48,185
EBITDA	1,380	2,150	3,418	4,590	6,636	9,812	13,528	17,323	22,297	28,360
Depreciation	(375)	(458)	(570)	(815)	(984)	(1,278)	(1,590)	(2,033)	(2,575)	(3,191)
EBIT	1,006	1,692	2,848	3,775	5,652	8,534	11,938	15,290	19,721	25,169
Other income	139	143	158	183	179	286	693	510	253	244
Financial charges	(260)	(426)	(557)	(724)	(913)	(1,220)	(596)	(355)	(315)	(270)
Pre-tax profit	884	1,409	2,449	3,233	4,918	7,600	12,036	15,445	19,659	25,143
Taxation	(282)	(472)	(835)	(1,109)	(1,715)	(2,683)	(4,158)	(5,406)	(6,881)	(8,800)
Net income	602	937	1,614	2,124	3,203	4,917	7,878	10,039	12,778	16,343
Prior period items	(7)	2	(0)	(5)	—	—	—	—	—	—
Minority interest & associate profits	—	—	—	(0)	(1)	(129)	(200)	—	—	—
Reported net income	594	939	1,614	2,119	3,202	4,788	7,677	10,039	12,778	16,343
Year-ending number of shares - diluted (mn)	506	538	546	547	562	563	624	624	624	624
EPS (Rs)	1.2	1.7	3.0	3.9	5.7	8.5	12.3	16.1	20.5	26.2
Balance sheet										
Shareholders' funds	6,811	7,890	9,550	11,989	15,204	38,418	46,691	56,730	69,508	85,852
Minority interest	3	3	0	1	1	1	6	6	6	6
Total debt	3,807	5,261	6,408	9,043	11,923	14,973	4,393	3,500	3,500	2,500
Deferred tax liability	131	203	267	305	399	506	452	452	452	452
Total shareholders' funds + liabilities	10,752	13,356	16,226	21,337	27,527	53,898	51,542	60,688	73,467	88,810
Net fixed assets	8,640	10,428	12,605	16,262	21,752	27,033	35,307	43,886	53,310	63,764
Investments	227	160	155	152	293	531	845	1,245	1,545	1,845
Cash balances	479	616	554	380	351	18,843	5,602	2,611	2,010	2,241
Net current assets excluding cash	1,406	2,153	2,911	4,542	5,220	7,491	9,786	12,945	16,600	20,959
Total assets	10,752	13,356	16,226	21,337	27,527	53,898	51,542	60,688	73,467	88,810
Key ratios (%)										
Revenue growth	NA	51.3	40.3	37.4	33.3	38.6	26.4	32.0	28.2	26.3
EBITDA growth	NA	55.8	59.0	34.3	44.6	47.9	37.9	28.0	28.7	27.2
EPS growth	NA	48.5	69.4	31.1	47.2	49.1	44.7	30.8	27.3	27.9
Gross margin	14.7	14.5	15.0	14.8	14.9	15.3	15.9	15.2	15.1	15.0
EBITDA margin	6.2	6.4	7.3	7.1	7.7	8.2	9.0	8.7	8.8	8.8
Tax rate	31.9	33.5	34.1	34.3	34.9	35.3	34.5	35.0	35.0	35.0
Debt/equity (X)	0.6	0.7	0.7	0.8	0.8	0.4	0.1	0.1	0.1	0.0
RoE		13	19	20	24	18	18	19	20	21
RoCE		10	13	14	16	14	16	18	19	20
Cash flow										
Operating profit before working capital changes	1,236	1,821	2,741	3,663	5,101	7,286	9,863	12,427	15,669	19,804
Change in working capital/ other adjustments	(510)	(746)	(759)	(1,631)	(678)	(2,271)	(2,295)	(3,159)	(3,655)	(4,359)
Capital expenditure	(1,833)	(2,246)	(2,747)	(4,473)	(6,474)	(6,559)	(9,865)	(10,611)	(12,000)	(13,644)
Free cash flow	(1,106)	(1,171)	(765)	(2,440)	(2,052)	(1,544)	(2,296)	(1,343)	14	1,801

Source: Company, Kotak Institutional Equities estimates

OCTOBER 15, 2018

UPDATE

Coverage view: **Attractive**

Price (₹): **69**

Target price (₹): **90**

BSE-30: **34,734**

Looking beyond Mundra. We hosted the management of Tata Power represented by their MD Mr Praveer Sinha for a non-deal roadshow, where the key focus of the management was (1) sale of non-core assets to allow de-leveraging of the balance, (2) minimizing losses at Mundra through a combination of fuel sourcing strategies and potential revision in tariffs as recommended by the high power committee, and (3) leveraging expertise across the power value chain and pursuing growth in renewable and distribution opportunities. Maintain BUY rating and target price of Rs90/share.

Company data and valuation summary

Tata Power				Forecasts/Valuations			
Stock data				2019E	2020E	2021E	
52-week range (Rs) (high,low)	102-60			EPS (Rs)	6.0	7.0	10.9
Market Cap. (Rs bn)	186.2			EPS growth (%)	12.7	15.6	57.0
Shareholding pattern (%)				P/E (X)	11.4	9.9	6.3
Promoters	33.0			Sales (Rs bn)	309.3	318.7	330.8
FII	27.5			Net profits (Rs bn)	16.3	18.8	29.6
MFs	6.8			EBITDA (Rs bn)	56.2	54.7	56.7
Price performance (%)				EV/EBITDA (X)	10.5	10.0	8.7
Absolute	1M	3M	12M	ROE (%)	10.1	10.6	14.6
	(7.0)	(0.9)	(15.7)	Div. Yield (%)	0.0	0.0	0.0
Rel. to BSE-30	1.0	4.2	(21.9)				

Deleveraging balance sheet via monetization of non-core assets

Tata power has improved its net-debt to equity to 2.6X in FY2018 from 2.7 in FY2017 that will likely reduce to 2.3X upon completion of asset sales of Rs50 bn announced so far. The assets sales announced so far include Rs2 bn from Indian Energy Exchange, Rs21.5 bn from Tata Communications and another Rs22.3 bn from the sale of its strategic engineering division. Of the proposed divestments, Rs25 bn has been realized till date. Management highlighted such monetization of low dividend yielding assets would help the company to improve its RoE and EPS and provide a stronger balance sheet to pursue inorganic growth opportunities.

Management further highlighted another set of non-core assets such as Tata Projects, Nelco and Tata Ceramics that have been held for sale, besides the balance funds (US\$250 mn) to be received from the sale of coal mines in Indonesia. Overall the company is targeting debt reduction of US\$1.5 bn through the sale of non-core assets that will likely be concluded by March 2020E.

Pursuing cost-control opportunities at Mundra

CGPL is pursuing new measures in its efforts to reduce losses at Mundra due to higher coal cost including (1) a shift to lower GCV coal, (2) potential procurement of coal from Russia, and (3) benefit from the revision in tariff arrangement as proposed by the high power committee. Management highlighted that the earnings from coal mines in Indonesia more than off-set the losses at Mundra as has been seen over the years.

Renewables and distribution likely to be the growth path going forward

Tata Power targets to become one of the largest renewable players in the country and to have 50% of its total generation coming from renewable capacities going ahead. TPWR currently has a thermal portfolio of 7.6 GW and an operational renewable portfolio of 3.1 GW. Apart from renewables, the company also seeks growth opportunities in inter-state transmission infrastructure as well as through privatization of distribution circles.

Rising coal prices augur well for Tata Power's consolidated earnings. This coupled with divestment of non-core investments will further aid deleveraging of the balance sheet. Maintain ADD rating with a target price of Rs90/share.

Murtuza Arsiwalla

Samrat Verma

High power committee recommends a middle path for Mundra

The High Power Committee constituted by the state of Gujarat has recommended an equitable distribution of the burden, on account of the change in Indonesian laws that has led to Mundra UMPP making cumulative losses of Rs82 bn and with Tata Power having contributed Rs116 bn towards the project. HPC recommends (1) pass through of fuel cost with a cap at US\$110/ton on a prospective basis, (2) reduction in capacity charge by Rs0.2/kwh by waiver on debt by the lenders (Rs42 bn on debt of Rs112 bn). In lieu of the increased fuel charge (partly compensated by capacity charge reduction) the consumers get (1) the option to extend the PPA by another ten years on current terms, (2) increase in the normative plant availability to 90% (from 80%) and (3) sharing of profits on incremental coal supplied from Indonesian mines to the power plant.

HPC is of the view that CGPL's tariff even after the increased fuel cost is much lower than current market price of power as well as tariffs offered under long-term arrangements. Further, if the plant were to turn insolvent, the consumers would lose the benefit of low cost power owing to the risk of termination of PPA. The regulatory route involves amending of the terms of the PPA by all parties concerned and subsequent adoption of the same by the concerned regulatory commission, that would still be within the framework of the order of the Supreme Court that essentially ruled that the extant PPA does not allow for compensation under 'Change in Law' or 'Force Majeure'. HPC also draws on examples from the aviation and telecom sector where terms of competitive bids were subsequently amended owing to commercial unviability of the bids under original terms of agreement. We note that CGPL has losses of Rs11 bn as of FY2018, and any resolution that leads to reduction in losses is substantially favorable for TPWR.

Exhibit 1: Losses at Mundra continue to be a drag on the earnings profile of Tata Power

Subsidiary-wise break up of key business of Tata Power, March fiscal year ends, 2015-2021E

	2015	2016	2017	2018	2019E	2020E	2021E
Standalone							
Revenue	86,777	83,155	72,821	73,006	71,526	72,973	75,148
EBIDTA	21,137	25,796	21,736	23,581	20,893	20,747	20,716
PAT	9,949	13,550	15,864	58,678	7,610	5,583	5,703
Mundra							
Revenue	59,822	59,783	60,549	64,190	68,049	68,415	68,867
EBIDTA	8,640	12,964	5,403	(130)	2,330	2,635	2,974
PAT	(8,981)	(9,984)	(8,497)	(10,760)	(8,575)	(7,873)	(6,975)
Net generation (MU)	24,502	23,679	24,502	24,582	25,176	25,176	25,176
Maithon							
Revenue	23,177	23,115	24,046	22,690	23,849	24,480	25,839
EBIDTA	8,396	7,871	8,023	6,430	7,309	7,167	7,715
PAT	2,105	1,898	2,558	1,820	2,573	2,827	3,654
Net generation (MU)	6,283	6,745	6,939	6,985	6,985	6,985	6,985
Coal							
Volumes (mn tons)	82	57	59	57	58	59	60
Realization (US\$/ton)	51	45	47	60	65	70	70
Revenue	81,475	78,500	78,620	86,410	96,465	103,194	104,858
EBIDTA	13,619	10,170	19,580	28,890	34,255	35,834	36,551
Tala Transmission							
Revenue	2,419	2,218	1,490	1,608	1,536	1,469	1,631
EBIDTA	2,232	2,031	1,330	1,319	1,349	1,283	1,444
PAT	1,121	895	1,824	1,373	974	1,048	1,055

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Mumbai operations of the company generate the maximum operating cash flow among all the regulated assets
Regulated assets of Tata Power, March fiscal year-ends, 2012-18 (Rs mn)

	2012	2013	2014	2015	2016	2017	2018
Regulated equity							
Standalone	25,123	27,280	29,900	32,365	34,647	36,329	37,647
Powerlinks	4,680	4,680	4,680	4,680	4,680	4,680	4,660
Maithon	8,087	13,130	15,089	15,089	14,030	14,440	15,179
IEL	3,330	3,330	3,330	6,288	6,288	6,288	6,288
Tata Power Delhi Distribution Limited	8,882	8,513	10,690	11,420	12,110	11,630	12,530
Attributable regulated equity	40,489	46,188	51,369	56,395	58,246	59,986	62,299
Attributable regulated equity per share (Rs)	17.1	19.5	21.6	20.9	21.5	22.2	23.0
Recurring PAT							
Standalone	11,697	10,256	9,574	10,103	13,550	9,349	13,586
Powerlinks	1,128	1,191	1,129	1,121	895	1,824	1,373
Maithon	(1,741)	(863)	1,030	2,105	1,898	2,558	1,820
IEL	780	808	886	119	990	968	608
Tata Power Delhi Distribution Limited	3,387	3,097	3,339	3,360	1,750	2,621	3,070
Attributable recurring PAT	13,288	12,402	13,271	14,034	17,036	14,225	17,649
Attributable recurring PAT per share (Rs)	5.6	5.2	5.6	5.2	6.3	5.3	6.5

Source: Company, Kotak Institutional Equities

Exhibit 3: The uncertainty around the award of compensatory tariff is the key variable to monitor for Mundra

Profile of Mundra plant, March fiscal year-ends, 2013-18

	2013	2014	2015	2016	2017	2018
Net generation (MU)	12,440	23,429	24,502	23,679	24,502	24,582
Tariff (Rs/kwh)	2.5	2.4	2.5	2.4	2.5	2.5
Fuel cost (Rs/kwh)	1.7	1.9	1.8	1.7	2.0	2.4
Profit / (loss) (Rs/kwh)	(0.6)	(0.6)	(0.4)	(0.4)	(0.3)	(0.4)
Under-recovery (Rs/kwh)	0.3	0.5	0.4	0.4	0.6	0.9
Profit / (loss) without CT (Rs/kwh)	(0.3)	(0.1)	0.0	(0.1)	0.2	0.4
Revenue	27,955	57,121	59,822	59,783	60,549	64,190
EBITDA	3,188	5,294	8,640	12,964	5,403	(130)
PAT	(7,520)	(14,919)	(8,981)	(9,984)	(8,497)	(10,760)

Source: Company, Kotak Institutional Equities

Exhibit 4: Prices of imported coal have recovered from their lows in YTD FY2017 but crude oil prices have stayed at historic low levels

Movement of imported coal prices (US\$/ton), crude oil (US\$/bbl) and domestic currency (Rs/\$), March fiscal year-ends, 2013-18

	2013	2014	2015	2016	2017	2018
Volumes (mn tons)	72	83	82	57	59	57
Realization (US\$/ton)	78	65	51	45	47	60
Cash cost (US\$/ton)	44	42	33	33	31	35
Margin (US\$/ton)	34	23	18	11	16	25
Revenue	90,049	96,939	81,475	78,500	78,620	86,410
EBITDA	15,990	16,114	13,619	10,170	19,580	28,890

Source: Company, Kotak Institutional Equities

Exhibit 5: Tata Power Sum-of-the-parts valuation

		Base		Methodology	Multiple (X)	Ownership (%)	Value	
		(Rs mn)					(Rs mn)	(Rs/share)
Mumbai	Distribution	Equity	39,401	P/B	1.5	100	59,102	22
Delhi	Distribution	Equity	14,330	P/B	1.5	51	10,962	4
Tala	Transmission			DCF		51	2,078	1
Mundra	Generation			DCF		100	(58,153)	(21)
Maithon	Generation			DCF		74	15,728	6
IEL	Generation			DCF		74	4,901	2
Renewable	Generation	Adj. PAT	1,358	P/E	20	100	27,168	10
Coal	Coal	EBITDA	35,834	EV/EBITDA	5	30	87,871	32
Solar	Equipment	EBITDA	2,876	EV/EBITDA	6	100	11,958	4
	Investments						101,198	37
Total							262,812	97

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Tata Power: Profit model, balance sheet (consolidated), March fiscal year-ends, 2012-21E (Rs mn)

	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Profit model (Rs mn)									
Net sales	332,315	358,812	343,682	285,257	272,883	289,214	308,256	317,614	329,702
EBITDA	55,865	69,158	69,393	61,718	52,372	59,471	55,144	53,609	55,624
Other income	3,835	2,288	4,179	913	2,022	4,327	4,344	9,798	17,893
Interest	(26,417)	(34,399)	(36,993)	(32,358)	(31,140)	(37,230)	(33,868)	(33,318)	(32,136)
Depreciation	(20,517)	(27,296)	(21,742)	(16,487)	(19,886)	(23,981)	(24,712)	(25,438)	(25,866)
Pretax profits	12,767	9,751	14,837	13,786	3,369	2,587	908	4,651	15,514
Tax	(11,780)	(10,084)	(10,749)	(6,803)	458	(1,643)	(5,438)	(6,289)	(7,297)
Minority interest & profit from associates	(1,842)	(2,267)	(2,410)	1,860	12,173	13,514	20,094	19,926	20,588
Net profits	(854)	(2,600)	1,678	8,842	16,000	14,458	15,564	18,288	28,805
Extraordinary items	(28)	(6)	(190)	(978)	(6,515)	(10,308)	—	—	—
Earnings per share (Rs)	(0.4)	(1.1)	0.6	3.3	5.9	5.3	5.8	6.8	10.6
Balance sheet (Rs mn)									
Total equity	123,358	124,011	143,189	116,334	117,795	152,602	168,166	186,454	215,260
Deferred taxation liability	39,259	44,067	51,534	27,772	24,158	5,166	5,166	5,166	5,166
Total borrowings	378,823	401,725	408,419	403,486	503,154	426,836	458,871	449,923	439,629
Current liabilities	139,733	154,135	163,881	135,507	157,567	232,616	222,741	228,098	235,390
Capital contribution from Consumers									
Minority interest	20,646	22,733	24,926	17,498	18,690	20,153	20,153	20,153	20,153
Total liabilities and equity	701,819	746,671	791,948	700,597	821,364	837,373	875,096	889,794	915,597
Cash	19,899	15,550	15,009	6,632	9,543	11,858	62,757	92,687	134,386
Current assets	184,357	200,268	222,084	107,264	114,888	102,131	127,331	130,007	134,074
Total fixed assets	437,109	467,823	483,896	395,499	511,634	535,217	496,842	478,933	458,970
Investments	31,201	30,193	33,381	117,828	119,570	124,289	124,289	124,289	124,289
Deferred expenditure	29,254	32,838	37,578	73,375	65,729	63,878	63,878	63,878	63,878
Total assets	701,819	746,671	791,948	700,597	821,364	837,373	875,096	889,794	915,597
Key ratios									
Net debt / equity (X)	2.5	2.6	2.3	3.0	3.6	2.4	2.1	1.7	1.3
ROE (%)	(0.7)	(2.1)	1.3	6.8	13.7	10.7	9.7	10.3	14.3

Source: Company, Kotak Institutional Equities estimates

OCTOBER 15, 2018
UPDATE

Coverage view: **Attractive**

Price (₹): **901**

Target price (₹): **1,180**

BSE-30: **34,734**

Re-structuring going through, despite the odds. CESC has announced October 31, 2018 as the record date for the proposed re-structuring of its various businesses into individually listed units. Pending approval from WBERC for separation of transmission and generation entities, the transaction will for now split the company into three entities (instead of four) with generation and distribution remaining combined. Maintain BUY rating with target price of Rs1,180/share.

Company data and valuation summary

CESC				Forecasts/Valuations				
Stock data				2019E	2020E	2021E		
52-week range (Rs) (high,low)		1,190-801		EPS (Rs)	114.8	128.1	141.0	
Market Cap. (Rs bn)		119.4		EPS growth (%)	31.7	11.6	10.1	
Shareholding pattern (%)				P/E (X)	7.9	7.0	6.4	
Promoters		49.9		Sales (Rs bn)	168.6	180.1	188.6	
FIIs		11.9		Net profits (Rs bn)	15.2	17.0	18.7	
MFs		21.3		EBITDA (Rs bn)	38.4	39.8	41.0	
Price performance (%)				EV/EBITDA (X)	5.6	5.0	4.4	
Absolute		1M	3M	12M	ROE (%)	10.0	10.4	10.5
Rel. to BSE-30		(7.4)	0.3	(13.8)	Div. Yield (%)	1.4	1.4	1.5
		0.5	5.5	(20.1)				

Generation and distribution to remain one entity, listing of retail and ventures to go ahead now

CESC has announced October 31, 2018 as the record date for the vertical split of the retail business and other ventures (First Source and mall in Kolkata) with subsequent listing of the same. Pending approval of separation of generation and distribution business into separately listed entities (as was originally proposed), the two entities will remain under the present listed company till such time that the approval from West Bengal Electricity Regulatory Commission (WBERC) comes through.

Street was of the view that separate listing of the generation and distribution business would have yielded a quantum of value unlocking as (1) the distribution business may have a more steady growth profile as well as opportunities to win new circles under the franchise model, and (2) the generation business has a more modest growth outlook and the earnings for the same are dragged by continued under-utilization at Dhariwal. We would contend that separation of the generation and distribution business would lead to further sub-division of the power assets and result in multiple smaller entities. The key objective of the re-structuring was a reduction in the dependence of the retail business on capital infusion from the power business.

Three catalysts for value creation; improvement already under way

CESC will likely benefit from (1) re-rating of trading multiples as concerns on capital allocation across business verticals cease to exist post restructuring, (2) improved capacity utilization at Chandrapur helps the company earn normalized returns, and (3) better operating metrics for the retail business. We note that CESC currently trades at 7X P/E on FY2020E earnings and 0.8X P/B compared to industry average of 9.5X P/E and 1.1X P/B, and the current re-structuring will help CESC re-rate to comparable multiples. Losses at Spencer have already reduced from Rs1.5 bn in FY2015 to Rs300 mn in FY2018 with operating metrics pointing towards further improvement. Losses at Dhariwal reduced to Rs1.9 bn in FY2018 from Rs5.9 bn in FY2016.

Maintain BUY rating with target price of Rs1,180/share

CESC continues to report stable performance from extant operations in Kolkata as well as Haldia, even as improving PLFs at Dhariwal will improve consolidated earnings in FY2019E. Maintain TP of Rs1,180/share and BUY rating.

Murtuza Arsiwalla

Samrat Verma

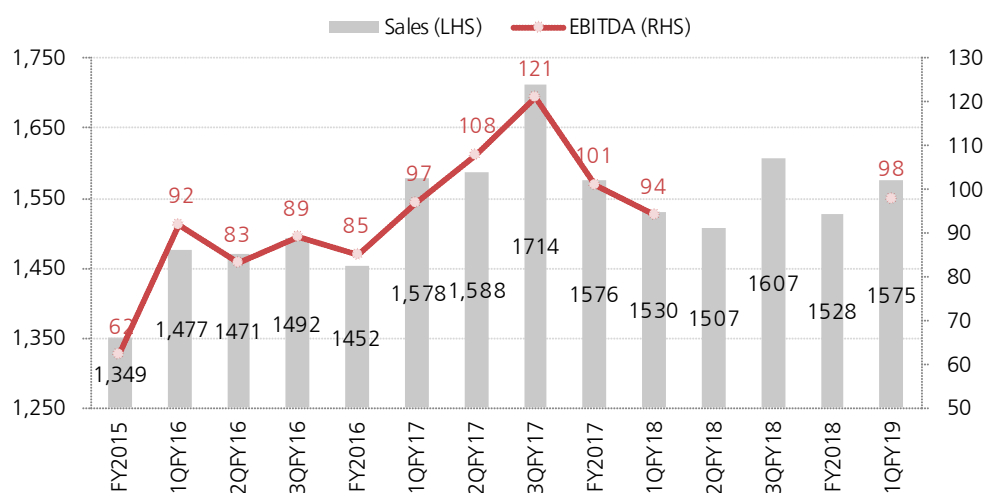
Exhibit 1: Continued improvement in performance of Spencer Retail and Dhariwal will aid earnings
Financial performance of key subsidiaries of CESC, March fiscal year-ends, 2015-21E (Rs mn)

	2015	2016	2017	2018	2019	2020	2021
Revenue							
Standalone	61,322	64,344	74,100	79,820	80,726	83,919	87,623
Firstsource Solutions Ltd	30,034	31,747	34,569	34,315	36,031	37,832	39,724
Haldia Energy Ltd	1,716	17,040	18,879	22,610	20,007	19,998	20,516
Dhariwal Infrastructure Ltd	1,264	1,050	4,451	8,960	14,227	18,547	18,593
Spencer's Retail Ltd	16,657	18,588	20,124	20,910	22,883	25,002	27,275
Crescent Power Ltd	1,391	1,560	1,671	1,750	1,704	1,704	1,704
Quest Properties India Ltd	796	894	1,130	1,270	1,034	1,086	1,140
Others	(3,455)	(17,482)	(15,893)	(8,025)	(8,025)	(8,025)	(8,025)
Consolidated	1,09,726	1,17,740	1,39,030	1,61,610	1,68,588	1,80,063	1,88,551
EBITDA							
Standalone	14,923	15,396	18,110	18,620	18,859	18,981	19,478
Firstsource Solutions Ltd	3,495	3,492	3,393	3,552	3,730	3,916	4,112
Haldia Energy Ltd	810	8,850	9,173	10,940	8,732	8,468	8,726
Dhariwal Infrastructure Ltd	(688)	(690)	109	2,290	6,312	7,520	7,514
Spencer's Retail Ltd	(733)	(596)	(260)	170	418	628	860
Crescent Power Ltd	700	806	872	840	853	816	777
Quest Properties India Ltd	383	434	430	560	621	652	684
Others	(886)	(466)	(257)	(3,162)	(1,140)	(1,140)	(1,140)
Consolidated	18,004	27,228	31,570	33,810	38,385	39,841	41,011
PAT							
Standalone	6,977	7,070	8,630	8,710	9,099	9,037	9,391
Firstsource Solutions Ltd	2,345	2,654	2,792	3,266	2,842	3,038	3,242
Haldia Energy Ltd	(308)	2,326	2,965	3,130	2,769	2,939	3,513
Dhariwal Infrastructure Ltd	(4,575)	(5,894)	(4,840)	(1,990)	1,322	2,483	2,739
Spencer's Retail Ltd	(1,516)	(1,423)	(1,076)	(300)	399	700	1,025
Crescent Power Ltd	405	474	476	470	541	569	597
Quest Properties India Ltd	44	95	81	250	296	359	428
Others	(1,387)	(1,598)	(2,119)	(1,986)	(2,054)	(2,148)	(2,245)
Consolidated	1,985	3,704	6,910	11,550	15,214	16,976	18,690

Source: Company, Kotak Institutional Equities

Exhibit 2: Retail operating metrics have shown sequential improvement in 1QFY19

Store-level sales and EBITDA for Spencer Retail (Rs/sq. ft per month)



Source: Company, Kotak Institutional Equities

Exhibit 3: Our fair value estimate for CESC is Rs1,180/share
Sum-of-the-parts valuation for CESC

	Methodology		Value (Rs/share)
Standalone	DCF-to-equity	Business enjoys very high predictability of cash flows and profitability (>20% RoE)	578
Cash	Book value	Marketable securities & cash on books (Rs bn)	16
Chandrapur	DCF-to-equity	287 MW tied-up so far with Tamil Nadu and Noida Power	101
Haldia	DCF-to-equity	600 MW sold to Kolkatta distribution business	125
Crescent Power	DCF-to-equity	40 MW capacity based on coal rejects available for merchant sale	13
Retail	EV/Sales	Valued the retail business at 0.7X sales, at a steep discount to listed peers	189
Firstsource Solutions	Market Price	30% discount to CMP of Firstsource	145
CESC Properties	DCF-to-equity	425,000 sq.ft of mall area leased out at a rental of Rs130/sq/ft	12
Total			1,180

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Profit model, balance sheet and cash model of CESC, March fiscal year-ends, 2016-21E
(Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)						
Net sales	117,740	139,030	161,610	168,588	180,063	188,551
EBITDA	27,228	31,570	33,810	38,385	39,841	41,011
Other income	3,446	2,990	2,800	3,110	3,365	3,632
Interest	(14,856)	(14,970)	(13,740)	(12,145)	(11,384)	(10,544)
Depreciation	(7,725)	(8,160)	(8,740)	(8,909)	(9,057)	(9,182)
Pretax profits	8,092	11,430	14,130	20,441	22,765	24,917
Minority interest	(1,301)	(710)	1,160	(1,399)	(1,493)	(1,589)
Tax	(3,087)	(3,810)	(3,740)	(3,828)	(4,296)	(4,638)
Net profits	3,704	6,910	11,550	15,214	16,976	18,690
Extraordinary items	(40)	—	—	—	—	—
Earnings per share (Rs)	27.9	52.1	87.1	114.8	128.1	141.0
Balance sheet (Rs mn)						
Total equity	62,677	106,230	111,880	125,098	140,092	156,722
Total borrowings	149,053	139,940	137,500	126,865	120,740	114,405
Consumer security deposits	15,746	16,780	15,070	15,231	15,833	16,532
Advance against depreciation	10,097	(12,930)	(14,460)	(18,511)	(20,251)	(21,992)
Deferred tax liability	795	34,620	35,150	34,870	34,590	34,310
Minority interest	11,497	12,100	14,460	15,859	17,352	18,941
Total liabilities and equity	249,865	296,740	299,600	299,413	308,355	318,919
Cash	11,977	16,070	15,300	46,173	58,802	73,680
Net current assets	11,943	(600)	(1,860)	(25,714)	(25,380)	(25,513)
Total fixed assets	218,939	250,070	251,390	244,184	240,163	235,982
Investments	7,007	11,090	13,060	13,060	13,060	13,060
Deferred Expenditure	—	20,110	21,710	21,710	21,710	21,710
Total assets	249,865	296,740	299,600	299,413	308,355	318,919
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	28,304	15,820	18,850	25,242	27,246	29,181
Working capital	(4,025)	12,543	1,260	23,854	(334)	133
Capital expenditure	(12,249)	(39,291)	(10,060)	(1,703)	(5,036)	(5,001)
Investments	(134)	(4,083)	(1,970)	—	—	—
Free cash flow	11,896	(15,012)	8,080	47,393	21,876	24,314

Source: Company, Kotak Institutional Equities estimates

OCTOBER 15, 2018

UPDATE

BSE-30: 34,734

Niti Aayog recommendations—few potential winners and losers. As per unauthenticated media reports, Niti Aayog has recommended that the PMO (1) increase import duty on iron-ore, aluminum and copper, (2) reduce export duty on iron-ore, and (3) that government contest the ban on iron-ore exports from Karnataka. We see merit in these recommendations given low exports despite large iron-ore, bauxite deposits. The impact on companies will be divergent—(1) it will be positive for earnings of NMDC, Hindalco, Nalco and Vedanta (2) negative for JSW Steel, Jindal Steel & Power.

Niti Aayog recommends higher import duty and lower export duty on iron-ore, other changes

As per media reports, Niti Aayog has recommended to the PMO that (1) export duty on iron-ore be reduced to 15% from 30% while import duty be increased to 15% from 2.5%, (2) increase in import duty on aluminum to 10% from 7.5%, on copper to 7.5% from 5%, and on copper scrap to 10% from 5%, while (4) reducing import duty on copper concentrate to 0 from 2.5%.

Niti Aayog has also recommended (1) introduction of quantitative restrictions on the import of aluminum and copper, and (2) that the Ministry of Mines should contest the export ban on iron-ore imposed in Karnataka. The news reports indicate that the Ministry of Commerce may finalize plans based on these recommendations. Beyond improving the trade balance, we see merit in these recommendations:

- ▶ **Iron-ore—minimal exports from India despite large reserves.** Despite large reserves of iron-ore, the 30% duty on exports from India besides close to 20% royalty payment to the government has made exports from the country unviable in the last few years. We highlight that increasing scrap generation globally will weaken the global requirement for iron-ore over the longer term (this is already seen in developed markets and now in China)—there seems to be little merit in not monetizing the large reserves now. India's iron-ore exports are now much lower at 22 mn tons in FY2018 compared to 50-100 mn tons in FY2011-2012 due to high export duty and export restrictions. Exhibit 1-2 highlights India's iron-ore deposits and demand –supply while Exhibits 3-4 compare export/import versus domestic prices.
- ▶ **Aluminum, copper—low return on investment has constrained new investments.** There has been no new large investment in India's aluminum, copper industry for the last 3-4 years and neither is any investment being planned. We estimate an RoIC of merely 3-4% for a new aluminum smelting complex. There is large import of aluminum scrap in India which has depressed domestic premiums. We believe while these duties/import restrictions can moderately aid the profitability of the sector, a large investment in the sector will require (1) more supportive global aluminum prices, and (2) government support in terms of quicker allocation of captive bauxite and coal mines.

Few winners and few losers if these recommendations are implemented

If these recommendations are implemented, we expect (1) a sharp increase in iron-ore exports and an increase in domestic iron-ore prices. The improved export profitability will aid domestic iron-ore prices as well—this will be positive for merchant iron-ore miners but negative for non-integrated steel companies, (2) lower aluminum, copper scrap imports and higher domestic aluminum prices—positive for aluminum, copper producers. We assess the following impact on companies (Exhibit 5):

- ▶ **NMDC—earnings will improve.** We believe higher import duty and reduced export duty on iron-ore will aid domestic prices as well as export realizations of NMDC. Besides, if export ban from Karnataka is lifted, NMDC can tap into export markets for its iron-ore rather than being heavily reliant on Karnataka steel producers for its sales. On assuming 11% increase in domestic iron-ore price assumptions, NMDC's earnings improve by 18% (Exhibit 5).

Abhishek Poddar

Prayati Mahajan

- ▶ **JSW Steel—iron-ore costs can rise.** The change in duty structure can in turn impact JSW Steel's iron-ore sourcing costs. The company relies on a mix of local sourcing (from Karnataka, Odisha and Chhattisgarh) and imports to meet its iron-ore requirement at different locations—we understand that the company's iron-ore sourcing patterns are different for its various locations such as (1) Karnataka plant, which is away from the coast will have mostly local sourcing, while (2) Dolvi & Salem plants are port based and would have a mix of domestic sourcing and imports.

We also highlight that JSW Steel will be able to meet part of its iron-ore requirement from captive mines in Karnataka (~15-20% on ramp-up). We estimate that if domestic iron-ore prices increase by 10-12%, it can impact JSW Steel's earnings by 12% (Exhibit 5).

- ▶ **Hindalco—positive for aluminum, copper earnings.** Hindalco's India aluminum and copper earnings can benefit if duties on copper and aluminum imports are increased while import duty on copper concentrate are scrapped. We estimate if duties on aluminum and copper imports increase by 2.5% each, Hindalco's consolidated earnings can increase by 7% (Exhibit 5).
- ▶ **Vedanta—positive for aluminum earnings.** The aluminum operations contribute only 18% to Vedanta's consolidation EBITDA while copper operations are shut due to a Tamil Nadu Pollution Control Board order. We estimate Vedanta's earning can improve by 3% led by higher import duties on aluminum (Exhibit 5).
- ▶ **Jindal Steel & Power—iron-ore costs can rise.** JSP's captive mines only cater to 25-30% of its iron-ore requirement while a large part of its external sourcing is dependent on Odisha miners. The increase in domestic iron-ore prices can impact earnings of JSP.

Exhibit 1: India has close to 33 bn tons of iron-ore reserves and resources
Iron-ore reserves & resources in India as on 1st April 2015

	Haematite ore (mn tons)	Magnetite ore (mn tons)	Total (mn tons)
Iron-ore reserves—India			
Proved reserves	4,053	30	4,083
Probable reserves	1,369	22	1,391
Total reserves	5,422	53	5,474
Iron-ore resources—India			
Feasibility	3,444	223	3,667
Pre-feasibility	3,070	80	3,150
Measured	1,763	1,513	3,276
Indicated	1,799	1,985	3,783
Inferred	4,498	6,351	10,849
Reconnaissance	2,491	584	3,076
Total resources	17,065	10,736	27,802
Total (mn tons)	22,487	10,789	33,276
Mine life based on production (# years)	107	51	158

Source: Ministry of Mines, Kotak Institutional Equities estimates

Exhibit 2: Iron-ore exports from India has remained low due to high export duty, export restrictions
State-wise iron ore production, March year ends, 2010-18E (mn tons)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
(mn tons)									
Odisha	81	76	67	64	76	52	80	100	105
Chattisgarh	26	29	30	28	29	29	27	31	33
Goa	38	37	34	11	—	—	2	9	9
Jharkhand	23	23	20	18	23	19	19	21	22
Karnataka	43	38	13	11	19	20	25	26	29
Others	8	5	4	4	5	8	6	5	5
Iron ore production	219	207	167	136	152	129	158	192	202
Exports	117	98	47	18	16	7	5	32	22
Imports	1	2	1	3	0	12	7	6	8
Domestic Iron ore consumption	97	105	111	113	108	115	127	143	152
YoY growth in consumption (%)	12	9	5	2	(4)	—	11	12	7

Source: Ministry of Mines, Kotak Institutional Equities estimates

Exhibit 3: The export realizations of Odisha miners will increase if export duty is reduced to 15% from 30%
Estimate of Odisha miner's net export realizations versus domestic iron-ore prices (Rs/ton)

	Export duty (ED) = 30%												ED = 15%
	Nov 17	Dec 17	Jan 18	Feb 18	Mar 18	Apr 18	May18	June18	Jul-18	Aug-18	Sep-18	Oct-18	Oct-18
Export parity price computation													
Fines 63.5% Fe, CFR China (US\$/ton)	64	71	76	77	70	65	67	65	65	67	69	70	70
Less: Port charges (US\$/ton)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Less: Ocean freight (US\$/ton)	(11)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Net export realizations (US\$/ton)	51	59	64	65	58	53	54	53	52	54	57	57	57
Less; Export duty @ 30% for Odisha miners	(15)	(18)	(19)	(19)	(17)	(16)	(16)	(16)	(16)	(16)	(17)	(17)	(9)
Net export realization - (DMT basis) (US\$/ton)	36	41	45	45	41	37	38	37	37	38	40	40	49
Net export realization - (WMT basis) (US\$/ton)	34	39	42	43	38	35	36	35	34	36	37	38	46
Net export realization - (WMT basis) (Rs/ton)	2,178	2,494	2,676	2,741	2,476	2,294	2,421	2,350	2,357	2,494	2,691	2,783	3,379
Less: Inland freight cost for Odisha miners	(750)	(750)	(750)	(750)	(750)	(750)	(750)	(750)	(750)	(750)	(750)	(750)	(750)
Ex-mine realizations	1,428	1,744	1,926	1,991	1,726	1,544	1,671	1,600	1,607	1,744	1,941	2,033	2,629
Less: Royalty, DMF payments	(282)	(290)	(358)	(460)	(460)	(458)	(431)	(448)	(581)	(611)	(576)	(698)	(698)
Net realizations—ex-mines (Rs/ton)	1,146	1,454	1,568	1,531	1,266	1,085	1,241	1,152	1,027	1,133	1,365	1,335	1,931
Odisha fines prices—ex-mines (Rs/ton)	1,425	1,465	1,808	2,325	2,325	2,316	2,175	2,265	2,932	3,085	2,910	3,525	3,525
Premium/(discount) of export realizations (Rs/ton)	(279)	(11)	(240)	(794)	(1,059)	(1,230)	(934)	(1,113)	(1,905)	(1,952)	(1,545)	(2,190)	(1,594)
INR:USD rate	64.9	64.2	63.7	64.5	65.0	65.7	67.5	67.8	68.7	69.6	72.2	73.8	73.8

Source: Bloomberg, CRU, Kotak Institutional Equities estimates

Exhibit 4: Imported cost of iron-ore will increase by 12% if import duty increases to 15% from 2.5%
Comparison of iron ore cost from imports and NMDC's mines for west coast based steel mill, (Rs/ton)

	Import duty (ID) = 2.5%												ID = 15%
	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18	Mar 18	Apr 18	May 18	June 18	July 18	Aug 18	Sep 18	Sep 18
NMDC's iron-ore prices (Rs/ton)													
Fines	2,060	2,060	2,260	2,760	2,760	2,660	2,560	2,660	2,660	2,810	2,960	3,310	3,310
Lumps (6-40 mm, 65% Fe)	2,300	2,300	2,600	3,100	3,100	3,000	2,900	3,050	3,050	3,200	3,350	3,850	3,850
Lumps (10-150 mm, 65% Fe)	2,110	2,110	2,390	2,850	2,850	2,760	2,660	2,810	2,810	2,950	3,090	3,560	3,560
DRCLO prices (10-40 mm, 67 Fe)	2,690	2,690	3,050	3,630	3,600	3,480	3,370	3,540	3,540	3,720	3,890	4,620	4,620
Imported ore cost for port based steel mill (West India)													
Fines 63.5% Fe, CFR India (US\$/ton)	62	64	72	76	78	70	66	67	65	65	67	69	69
Add: Port & other charges	2	2	2	2	2	2	2	2	2	2	2	2	2
Add: Import duty	2	2	2	2	2	2	2	2	2	2	2	2	10
Net import costs (US\$/ton) - (DMT basis)	66	68	76	80	82	74	69	71	69	68	71	73	81
Net import costs (Rs/ton) - (DMT basis)	4,267	4,387	4,866	5,090	5,260	4,820	4,547	4,765	4,658	4,683	4,909	5,254	5,878
Net import costs (Rs/ton) - (VMT basis)	4,011	4,124	4,574	4,784	4,944	4,531	4,274	4,479	4,379	4,402	4,614	4,939	5,525
NMDC's iron ore cost for port based steel mill (West India)													
NMDC's ex royalty iron ore fines prices (Rs/ton)	2,060	2,060	2,260	2,760	2,760	2,660	2,560	2,660	2,660	2,810	2,960	3,310	3,310
Add: royalty @ 19.5%, DMF Costs	402	402	441	538	538	519	499	519	519	548	577	645	645
NMDC's ex mine prices (Rs/ton)	2,462	2,462	2,701	3,298	3,298	3,179	3,059	3,179	3,179	3,358	3,537	3,955	3,955
Add: Inland freight cost	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Add: Ocean freight from east to west coast	450	450	450	450	450	450	450	450	450	450	450	450	450
NMDC iron ore cost at west coast based steel mill (Rs/ton)	4,212	4,212	4,451	5,048	5,048	4,929	4,809	4,929	4,929	5,108	5,287	5,705	5,705
Premium/(Discount) of NMDC prices (Rs/ton)	200	88	(124)	264	104	398	535	449	550	706	673	766	180
INR:USD rate	65.1	64.9	64.2	63.7	64.5	65.0	65.7	67.5	67.8	68.7	69.6	72.2	72.2

Source: Steelmint, CRU, Kotak Institutional Equities estimates

Exhibit 5: We expect NMDC, HNDL, VEDL and NACL earnings to improve on higher import duties while JSTL's earnings to decline
Estimate of earnings change for changes in import duty, export duty on iron-ore, aluminum and copper, FY2020-2021E (Rs mn)

	2020E		2021E		Change (%)	
	2020E	2021E	2020E	2021E	2020E	2021E
NMDC						
Iron-ore import duty (%)	15	15	2.5	2.5	13	13
Iron-ore export duty (%)	15	15	30	30	(15)	(15)
Blended iron-ore price (Rs/ton)	3,024	3,053	2,735	2,760	11	11
Revenues (Rs mn)	122,825	130,180	111,271	117,858	10	10
EBITDA (Rs mn)	58,291	61,860	49,279	52,229	18	18
PAT (Rs mn)	39,068	41,420	33,119	35,062	18	18
EPS (Rs)	12.3	13.1	10.5	11.1	18	18
JSW Steel						
Iron-ore cost estimate/ton of steel (Rs/ton)	9,183	8,668	8,503	8,026	8	8
Revenues (Rs mn)	865,033	1,007,211	865,033	1,007,211	—	—
EBITDA (Rs mn)	158,146	186,271	169,747	199,208	(7)	(6)
EBITDA/ton (Rs)	8,736	8,782	9,436	9,443	(7)	(7)
PAT (Rs mn)	55,278	65,205	63,050	73,873	(12)	(12)
EPS (Rs)	23.0	27.1	26.2	30.7	(12)	(12)
Hindalco						
Aluminum import duty (%)	10	10	7.5	7.5	3	3
Copper import duty (%)	7.5	7.5	5	5	3	3
Revenues (Rs mn)	1,362,050	1,403,334	1,353,844	1,394,959	1	1
EBITDA (Rs mn)	183,083	186,345	174,877	177,970	5	5
PAT (Rs mn)	78,965	83,820	73,549	78,292	7	7
EPS (Rs)	35.4	37.6	33.0	35.1	7	7
Nalco						
Aluminum import duty (%)	10	10	7.5	7.5	3	3
Revenues (Rs mn)	112,977	116,128	111,358	114,340	1	2
EBITDA (Rs mn)	27,470	28,212	25,916	26,532	6	6
PAT (Rs mn)	16,978	17,640	15,952	16,531	6	7
EPS (Rs)	8.8	9.1	8.3	8.6	6	7
Vedanta						
Aluminum import duty (%)	10	10	7.5	7.5	3	3
Revenues (Rs mn)	1,045,109	1,092,593	1,037,006	1,084,307	1	1
EBITDA (Rs mn)	358,676	366,121	350,574	357,835	2	2
PAT (Rs mn)	146,179	149,349	141,300	144,359	3	3
EPS (Rs)	39.3	40.2	38.0	38.8	3	3

Source: Kotak Institutional Equities estimates

OCTOBER 15, 2018

UPDATE

BSE-30: 34,734

Subdued inflation pushes away rate hike possibility. We expect CPI inflation to remain benign in 2HFY19. The upside risks from MSP hikes, 7CPC states' HRA implementation, and imported inflation arising from INR depreciation should be somewhat mitigated by low food inflation. Core inflation, however, is expected to remain elevated. Given RBI MPC's rigid focus on inflation and the expected benign trajectory in the near term, the scope for further rate hikes in FY2019 has diminished.

CPI inflation remains subdued

CPI inflation remained broadly flat at 3.77% in September after recording a 10-month low of 3.69% in August (Kotak: 4.3%, Consensus: 4.0%). Food inflation remained low at 0.5% led by a sequential fall in food prices of 1.1% mom (0.3% mom in August) (Exhibit 1). The fall in food prices was largely led by a sharp decline of 4.2% mom in vegetable prices. Prices of fruits, pulses, sugar, eggs, and meat and fish continued to fall on a monthly basis. High-frequency data for October indicates further benign food prices. Fuel and light inflation remained elevated at 8.5% due to pass-through of higher crude oil prices. We expect CPI inflation to remain broadly below 4.5% in 2HFY19 (Exhibit 2).

Core inflation moderates but remains elevated

Core inflation (including petrol and diesel), though elevated, moderated to 5.9% in September from 6.1% in August due to decline in housing inflation to 7.1% (7.6% in August). The monthly momentum in core CPI moderated marginally to 0.5% mom (0.6% in August). Transport and communication inflation, however, registered an increase of 6.4% (6% in August) on account of higher diesel and petrol prices. We expect core CPI inflation to average 5.8% in 2HFY19 (4.5% in FY2018).

IIP slides to a three-month low

IIP growth moderated to a three-month low of 4.3% (Kotak: 3.2%) in August after a downward revision of the July print to 6.5% (Exhibit 3). Manufacturing sector moderated to 4.6% led by muted growth in capital and consumer goods segment (Exhibit 4). Positives emerged from the expansion in electricity production by 7.6% (6.7% in July) and in the infrastructure and construction segment by 7.8% (9.2% in July). We expect the average IIP growth to moderate to around 4.1% in 2HFY19 as against 5.1% in 1HFY19.

RBI likely to keep rates on hold in rest of FY2019

After the recently concluded MPC meeting, we believe the focus of the committee remains purely on inflation prints, which is expected to remain benign in 2HFY19 (expected in 3.0-4.4% range). We thus see limited scope for rate hikes in the rest of FY2019. However, we remain watchful of the upside risks to inflation emanating from pass-through of (1) MSPs, (2) elevated crude oil prices, (3) volatility in global financial markets, (4) hardening of input prices amid INR weakness, (5) adverse implications from fiscal slippage, and (6) staggered impact of HRA increases by states and its second-round impact. However, the seemingly structurally benign food inflation along with softening growth should help in capping the upside pressures, thereby providing RBI the comfort of staying on pause mode in the foreseeable future.

QUICK NUMBERS

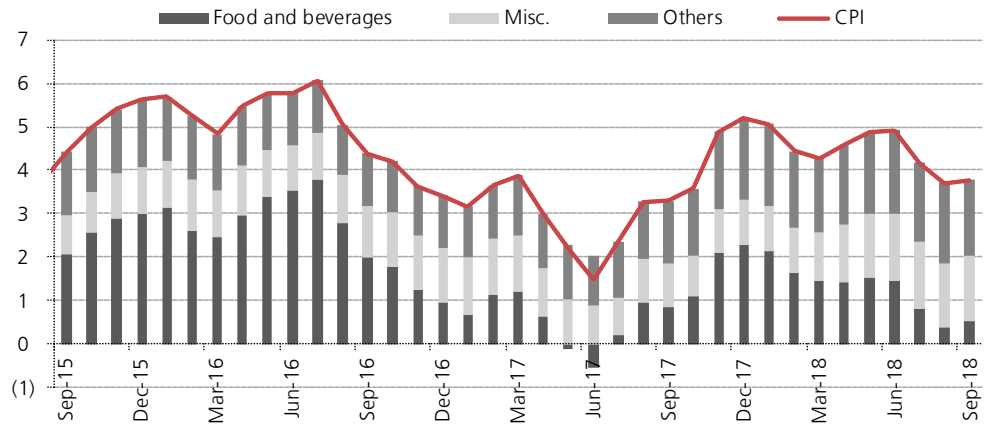
- **September CPI inflation at 3.77%; Core CPI inflation at 5.9%**
- **August IIP growth at 4.3%**
- **RBI likely to keep policy rate unchanged in FY2019**

Upasna Bhardwaj

Suvodeep Rakshit

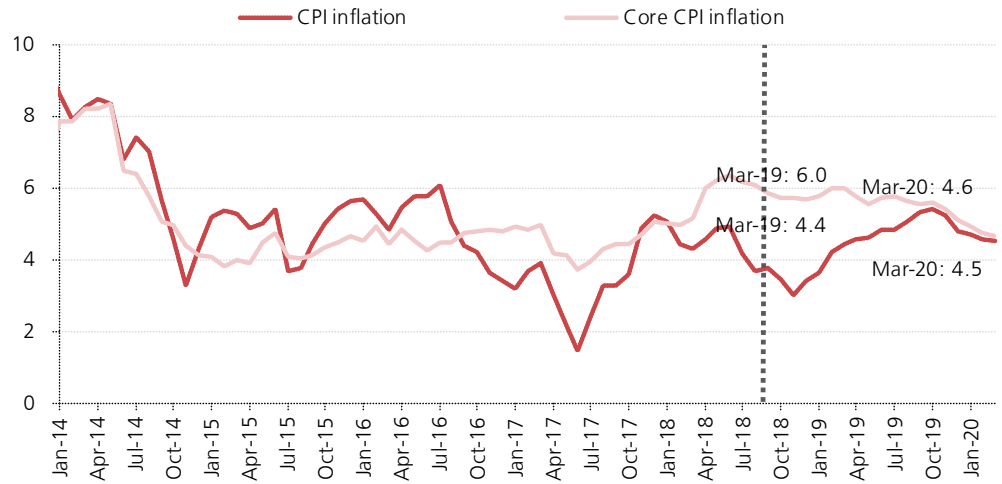
Avijit Puri

Exhibit 1: Food inflation leading to softening of headline inflation
Contribution to CPI inflation by major segments (%)



Source: CEIC, Kotak Economics Research

Exhibit 2: Inflation likely to remain benign over the near term
Headline and core CPI inflation (%)



Source: CEIC, Kotak Economics Research estimates

Exhibit 3: IIP growth at 4.3% in August 2018

Sectoral classification of IIP growth, March fiscal year-ends, 2017-19 (%)

	Mining (%)			Manufacturing (%)			Electricity (%)			General (%)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
April	6.7	3.0	3.8	4.9	2.9	4.9	14.4	5.4	2.1	6.0	3.2	4.5
May	5.7	0.3	5.8	7.7	2.6	3.6	6.1	8.3	4.2	7.3	2.9	3.8
June	10.2	0.1	6.6	7.5	(0.7)	6.7	9.8	2.1	8.5	8.0	(0.3)	6.9
July	0.9	4.5	3.4	5.3	(0.1)	7.0	2.1	6.6	6.7	4.5	1.0	6.5
August	(4.3)	9.3	(0.4)	5.5	3.8	4.6	2.1	8.3	7.6	4.0	4.8	4.3
September	(1.2)	7.6		5.8	3.8		5.1	3.4		5.0	4.1	
October	1.0	(0.2)		4.8	2.0		3.0	3.2		4.2	1.8	
November	8.1	1.4		4.0	10.4		9.5	3.9		5.1	8.5	
December	10.8	1.2		0.6	8.7		6.4	4.4		2.4	7.3	
January	8.6	0.3		2.5	8.7		5.1	7.6		3.5	7.5	
February	4.6	(0.4)		0.7	8.4		1.2	4.5		1.2	6.9	
March	10.1	3.1		3.3	5.7		6.2	5.9		4.4	5.3	
Average	5.1	2.5		4.4	4.7		5.9	5.3		4.6	4.4	

Source: CEIC, Kotak Economics Research

Exhibit 4: Some moderation in consumer durables production growth

Use-based classification of IIP growth, March fiscal year-ends, 2017-19 (%)

	Primary goods			Capital goods			Intermediate goods			Infrastructure and construction goods			Consumer durables			Consumer non-durables		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
April	12.6	3.0	2.7	9.2	(4.8)	9.8	(0.3)	3.6	0.4	0.8	4.7	8.5	9.3	(0.7)	3.9	0.2	8.8	7.5
May	4.6	3.7	5.7	14.7	(1.6)	6.4	4.3	0.7	0.1	7.4	(0.1)	7.6	9.9	0.6	6.7	11.3	9.7	(1.6)
June	8.2	(0.3)	9.3	14.8	(6.1)	9.8	6.0	(1.2)	1.5	6.6	1.0	8.2	4.5	(3.5)	13.4	11.4	4.8	0.2
July	4.2	2.2	6.7	8.8	(1.1)	2.8	2.5	(2.8)	1.0	(0.9)	4.3	9.2	0.2	(2.4)	14.3	14.5	4.1	5.5
August	(1.0)	7.1	2.6	0.5	7.3	5.0	4.6	(0.5)	2.4	6.5	2.7	7.8	7.3	4.3	5.2	11.3	7.2	6.3
September	2.2	6.6		(7.5)	8.7		1.8	2.1		8.7	0.5		10.3	(4.1)		12.7	10.5	
October	5.2	2.4		(4.7)	3.5		4.7	0.2		7.4	5.8		1.5	(9.0)		5.6	8.2	
November	5.5	3.3		5.3	5.7		5.7	6.5		3.9	13.7		6.8	3.1		3.3	23.7	
December	7.4	3.8		(6.2)	13.2		2.1	7.5		5.5	6.5		(5.0)	2.1		(0.2)	16.8	
January	3.8	5.9		(0.6)	12.4		3.3	5.4		2.6	7.5		(2.0)	7.6		9.6	10.7	
February	0.8	3.7		(2.4)	16.6		2.3	3.4		(1.9)	13.0		(4.6)	7.5		10.4	7.4	
March	5.8	3.0		9.4	(3.1)		3.1	2.5		1.1	9.1		(0.6)	6.2		7.5	14.1	
Average	5.0	3.7		3.5	4.2		3.3	2.3		4.0	5.7		3.1	1.0		8.1	10.5	

Source: CEIC, Kotak Economics Research

September 2018: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
15-Oct	16-Oct	17-Oct	18-Oct	19-Oct	20-Oct	21-Oct
Indiabulls Housing	Crisil	ACC		SBI Life Insurance	HDFC Bank	
IndusInd Bank	Federal Bank	DCB Bank		UltraTech Cement	ICICI Lombard	
	Hero Motocorp	Havells india				
	Infosys	Mindtree				
	J&K Bank	Mphasis				
	Mahindra CIE Automotive	Reliance Industries				
22-Oct	23-Oct	24-Oct	25-Oct	26-Oct	27-Oct	28-Oct
Asian Paints	Adani Port and SEZ	Bajaj Auto	Bharti Airtel	Bharat Electronics		
GlaxoSmithkline Pharmaceuticals	Ambuja Cements	Bajaj Holding & Investment	Biocon	Coromandel International		
Hindustan Zinc	Bajaj Finance	Bharat Financial Inclusion	Crompton Greaves Consumer	Dr Reddy's Laboratories		
Kansai Nerolac	Bajaj Finserv	Bharti Infratel	JSW Steel	ICICI Bank		
Schaeffler India	HCL Technologies	Hexaware Technologies	Maruti Suzuki	ITC		
	HDFC Standard Life	IDFC Bank	Shriram City Union Finance	PI Industries		
	ICICI Prudential Life	Jubilant Foodworks	Yes Bank			
	Rallis India	Karur Vysya Bank				
	RBL Bank	Kotak Mahindra Bank				
	TVS Motor	L&T Finance Holdings				
		L&T Infotech				
		Mahindra & Mahindra Financial				
		SIS				
		SKF				
		Wipro				
29-Oct	30-Oct	31-Oct	1-Nov	2-Nov	3-Nov	4-Nov
Carborundum Universal	ABB	Canara Bank	Berger Paints	Aditya Birla Fashion	Endurance Technologies	
Colgate-Palmolive (India)	Bank of Baroda	Dabur India	Godrej Properties	Axis Bank		
GRUH Finance	Cholamandalam	Tata Motors	HDFC	Gillette India		
Tata Power	Container Corporation	United Spirits	Marico	Godrej Consumer Products		
	Info Edge			Magma Fincorp		
	Pdillite Industries			P&G Hygiene		
	Prestige Estates Projects					
	Tech Mahindra					
	The Ramco Cement					
	Torrent Power					
5-Nov	6-Nov	7-Nov	8-Nov	9-Nov	10-Nov	11-Nov
Cipla				Amara Raja Batteries		
Exide Industries				Titan Company		
PNB Housing Finance						
Timken						
WABCO India						
12-Nov	13-Nov	14-Nov	15-Nov	16-Nov	17-Nov	18-Nov
Shree Cement		Mahindra & Mahindra				

Source: NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)			Target price		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		12-Oct-18	12-Oct-18	12-Oct-18	(Rs)	(US\$ bn)		2019E	2020E		2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	
Automobiles																																
Amara Raja Batteries	REDUCE	736	780	6.0	126	1.7	171	32	37	43	17.1	15.9	14.5	22.8	19.6	17.2	12.1	10.3	8.9	3.7	3.2	2.8	17.4	17.5	17.4	0.7	0.8	0.9	6.4			
Apollo Tyres	BUY	216	340	57.2	124	1.7	541	19	23	28	38.9	26.1	18.1	11.6	9.2	7.8	7.3	6.2	5.0	1.2	1.1	0.9	10.4	12.0	12.7	1.4	1.4	1.4	12.7			
Ashok Leyland	BUY	116	160	38.2	340	4.6	2,926	6.2	8.9	9.4	15.3	43.2	6.1	18.7	13.0	12.3	9.4	6.8	6.4	4.1	3.4	2.9	23.4	28.4	25.4	1.6	2.3	2.4	46.2			
Bajaj Auto	SELL	2,623	2,600	(0.9)	759	10.3	289	155	168	180	10.8	8.1	7.4	16.9	15.6	14.5	11.4	10.2	9.1	3.5	3.2	2.8	22.2	21.4	20.6	2.4	2.6	2.7	30.0			
Balkrishna Industries	BUY	1,055	1,180	11.9	204	2.8	193	50	61	69	32.7	23.3	12.3	21.3	17.2	15.3	11.6	9.6	8.5	4.1	3.4	2.8	21.3	21.7	20.2	0.5	0.5	0.6	15.9			
Bharat Forge	SELL	574	600	4.6	267	3.6	466	23	27	29	44.4	14.6	7.1	24.5	21.4	20.0	14.0	12.2	11.3	4.9	4.2	3.6	21.5	21.0	19.4	0.9	1.0	1.0	12.4			
CEAT	ADD	1,097	1,500	36.7	44	0.6	40	99	108	116	53.7	8.3	7.9	11.0	10.2	9.4	7.4	6.4	5.8	1.5	1.3	1.2	14.4	13.8	13.2	0.9	0.9	1.0	12.5			
Eicher Motors	SELL	23,904	21,500	(10.1)	652	8.8	27	981	1,124	1,251	23.7	14.6	11.3	24.4	21.3	19.1	17.4	15.2	13.0	8.8	6.7	5.3	41.8	35.8	30.8	0.1	0.1	—	28.3			
Escorts	BUY	601	1,200	99.7	51	1.0	89	59	71	78	52.3	19.9	10.2	10.2	8.5	7.7	5.9	4.7	3.8	1.8	1.5	1.3	17.6	18.0	17.1	1.5	1.8	1.9	15.6			
Exide Industries	SELL	256	235	(8.2)	218	3.0	850	10	11	13	25.3	11.0	11.6	24.9	22.4	20.1	14.2	12.6	11.3	3.7	3.3	3.0	15.4	15.5	15.7	1.2	1.4	1.6	8.6			
Hero Motocorp	SELL	2,893	2,600	(10.1)	578	7.8	200	174	182	196	(6.1)	4.7	7.6	16.6	15.9	14.8	9.7	9.1	8.3	4.4	4.0	3.6	27.9	26.2	25.4	3.0	3.1	3.4	23.1			
Mahindra CIE Automotive	ADD	265	290	9.4	100	1.4	378	14	16	17	45.0	12.7	10.4	19.0	16.9	15.3	9.5	8.4	7.5	2.4	2.1	1.8	13.2	13.1	12.7	—	—	—	2.4			
Mahindra & Mahindra	BUY	769	1,125	46.3	956	13.0	1,138	45	54	56	18.8	19.0	4.2	17.0	14.3	13.7	11.0	9.1	8.6	2.5	2.2	2.0	15.8	16.6	15.4	1.2	1.4	1.5	34.8			
Maruti Suzuki	ADD	7,283	9,200	26.3	2,200	29.9	302	298	362	408	16.7	21.2	12.9	24.4	20.1	17.8	13.3	10.5	8.9	4.6	4.0	3.4	20.1	21.1	20.5	1.0	1.2	1.4	87.0			
Motherson Sumi Systems	SELL	239	280	17.3	502	6.8	2,105	11	14	16	40.2	21.5	13.8	20.8	17.1	15.1	8.5	7.0	6.1	4.3	3.7	3.1	22.5	23.2	22.3	1.2	1.4	1.5	16.4			
MRF	REDUCE	63,978	69,000	7.8	271	3.7	4	3,425	3,932	4,411	28.3	14.8	12.2	18.7	16.3	14.5	8.7	7.5	6.4	2.4	2.1	1.9	13.9	13.9	13.7	0.1	0.1	0.1	8.2			
Schaeffler India	BUY	5,225	6,000	14.8	87	1.2	17	156	199	233	9.0	27.3	17.6	33.5	26.3	22.4	20.3	15.4	12.8	4.6	4.1	3.6	14.5	16.4	17.0	0.6	0.8	0.9	0.7			
SKF	ADD	1,650	1,800	9.1	85	1.2	51	69	82	97	19.7	18.5	18.2	23.9	20.2	17.1	15.2	12.5	10.3	4.0	3.5	3.0	16.7	17.1	17.4	0.7	0.9	1.0	0.4			
Tata Motors	BUY	184	425	131.3	624	7.9	3,396	22	36	39	10.7	62.7	8.0	8.3	5.1	4.7	2.9	2.4	2.2	0.6	0.5	0.5	7.6	11.2	10.8	—	—	—	54.6			
Timken	SELL	557	570	2.4	42	0.6	68	19	24	28	41.7	25.1	18.0	29.0	23.2	19.7	17.6	14.2	11.9	4.5	3.7	3.1	16.9	17.5	17.2	0.2	0.2	0.2	0.2			
TVS Motor	SELL	534	350	(34.5)	254	3.4	475	15	17	20	8.4	15.1	15.6	35.3	30.7	26.6	19.3	16.9	14.8	7.6	6.6	5.7	23.1	22.9	22.9	0.8	1.0	1.1	15.7			
Varrco Engineering	BUY	806	1,250	55.0	109	1.5	135	39	47	51	52.3	19.9	10.2	20.7	17.3	15.7	16.3	13.8	11.9	3.2	2.6	2.1	15.3	15.3	13.5	—	—	—	—			
WABCO India	SELL	6,491	6,350	(2.2)	123	1.7	19	169	222	225	17.8	31.3	1.0	38.3	29.2	28.9	24.9	18.8	18.5	6.7	5.6	4.7	19.2	20.9	17.7	0.2	0.2	0.2	0.4			
Automobiles	Neutral				8,715	118					17.4	25.0	9.7	18.8	15.1	13.7	8.4	6.9	6.2	2.8	2.4	2.1	14.8	16.2	15.6	1.1	1.2	1.3	432.6			
Banks																																
Axis Bank	REDUCE	585	600	2.6	1,503	20.4	2,567	19	41	46	1,635.7	118.8	12.3	31.4	14.3	12.8	—	—	—	2.5	2.1	1.8	7.3	14.3	14.3	0.5	1.0	1.2	100.0			
Bank of Baroda	ADD	97	130	—	255	3.5	2,652	21	26	29	323.7	26.4	12.1	4.7	3.7	3.3	—	—	—	0.8	0.6	0.5	12.7	14.0	13.7	—	—	—	44.0			
Canara Bank	ADD	231	280	21.3	169	2.3	733	(5)	51	68	91.6	1,147.0	33.3	(47.6)	4.5	3.4	—	—	—	1.4	0.8	0.5	(1.0)	10.1	12.0	—	—	—	27.0			
City Union Bank	ADD	171	185	8.4	125	1.7	665	9	11	12	5.8	13.3	16.7	18.1	16.0	13.7	—	—	—	2.8	2.5	2.1	15.5	15.6	16.0	1.0	1.1	1.3	2.1			
DCB Bank	BUY	162	180	10.9	50	0.7	308	10	12	16	28.2	21.0	33.1	15.9	13.1	9.9	—	—	—	1.9	1.7	1.5	11.7	12.7	14.9	0.6	0.7	1.0	4.3			
Equitas Holdings	BUY	129	160	24.1	44	0.6	340	4.4	8.4	11.4	378.4	89.9	35.6	29.0	15.3	11.3	—	—	—	1.9	1.7	1.5	6.4	11.2	13.4	—	—	—	5.3			
Federal Bank	BUY	74	105	42.4	146	2.0	1,972	5.7	8.0	9.8	27.8	39.5	22.9	12.9	9.3	7.5	—	—	—	1.2	1.1	1.0	8.9	11.5	12.9	1.7	2.4	3.0	18.3			
HDFC Bank	ADD	1,982	2,100	6.0	5,385	73.1	2,595	78	94	112	15.7	20.0	19.1	25.4	21.2	17.8	—	—	—	3.7	3.3	2.9	16.7	16.2	17.0	0.8	0.9	1.1	81.7			
ICICI Bank	BUY	319	400	25.2	2,055	27.9	7,072	8	26	31	(17.6)	227.0	18.6	40.4	12.4	10.4	—	—	—	2.2	1.8	1.6	4.7	14.4	15.2	0.5	1.6	1.9	98.2			
IDFC Bank	NR	37	—	—	124	1.7	3,404	1.2	2.9	4.3	(52.7)	146.7	44.8	30.6	12.4	8.6	—	—	—	0.8	0.8	0.7	2.6	6.3	8.6	0.7	1.6	2.3	6.8			
IndusInd Bank	BUY	1,651	1,900	15.1	993	13.5	600	70	86	101	15.8	24.3	17.0	23.7	19.1	16.3	—	—	—	3.5	3.1	2.6	17.4	16.7	16.9	—	0.6	0.7	39.2			
J&K Bank	BUY	41	100	146.9	23	0.3	557	7	11	15	82.4	63.8	33.5	6.1	3.7	2.8	—	—	—	0.5	0.5	0.4	5.9	9.1	11.2	3.3	5.4	7.2	0.3			
Karur Vysya Bank	ADD	75	110	46.6	60	0.8	727	3	13	14	(32.3)	306.7	9.1	23.3	5.7	5.3	—	—	—	1.0	0.9	0.8	3.7	14.1	13.9	1.1	4.4	5.0	2.0			
Punjab National Bank	ADD	67	80	20.3	184	2.5	2,761	(27)	12	18	40.4	145.3	46.9	(2.5)	5.5	3.8	—	—	—	3.3	1.1	0.6	(23.4)	10.7	13.8	—	—	—	42.0			
RBL Bank	REDUCE	526	500	(4.9)	223	3.0	420	22	29	36	48.1	31.5	21.0	23.5	17.8	14.7	—	—	—	3.1	2.7	2.4	13.3	15.5	16.5	0.6	0.8	1.0	15.5			
State Bank of India	BUY	263	370	40.5	2,350	31.9	8,925	8	37	53	204.8	380.5	42.7	34.3	7.1	5.0	—	—	—	1.7	1.3	1.0	3.1	13.6	16.7	—	0.2	0.2	107.2			
Ujivan Financial Services	BUY	254	360	42.0	31	0.4	121	19	28	32	3,033.9	47.3	15.1	13.6	9.2	8.0	—	—	—	1.6	1.4	1.2	12.1	15.8	15.8	0.7	1.1	1.4	5.5			
Union Bank	ADD	69	90	30.2	81	1.1	1,169	8	33	40	117.1																					

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)
		12-Oct-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
NBFCs																													
Bajaj Finance	SELL	2,287	2,000	(12.6)	1,322	17.9	575	68	90	114	56.6	31.9	27.3	33.7	25.5	20.1	—	—	—	6.8	5.5	4.5	22.4	24.0	24.6	0.3	0.4	0.5	87.9
Bajaj Finserv	REDUCE	5,814	6,100	4.9	925	12.6	159	245	307	376	39.7	25.2	22.5	23.7	18.9	15.5	—	—	—	3.8	3.2	2.6	17.5	18.1	18.6	0.2	0.2	0.2	22.9
Bharat Financial Inclusion	NA	1,021	—	—	143	1.9	139	43	54	69	31.1	27.2	25.8	23.8	18.7	14.9	—	—	—	3.9	3.1	2.6	17.9	18.5	19.0	—	—	—	11.6
Cholamandalam	ADD	1,189	1,425	19.8	186	2.5	156	74	92	113	19.4	23.8	23.1	16.0	12.9	10.5	—	—	—	3.2	2.7	2.2	20.6	21.3	21.7	0.8	0.9	1.1	7.9
HDFC	ADD	1,730	2,020	16.7	2,942	39.9	1,676	55	65	79	(27.3)	18.7	21.2	31.6	26.6	21.9	—	—	—	4.0	3.6	3.3	13.6	14.2	15.7	1.2	1.4	1.7	83.3
HDFC Standard Life Insurance	SELL	373	405	8.5	752	10.2	2,007	6	7	8	14.8	10.9	14.7	58.8	53.0	46.2	—	—	—	15.6	13.9	12.4	28.0	27.7	28.4	0.4	0.5	0.5	8.0
ICICI Lombard	SELL	776	620	(20.1)	352	4.8	454	26	32	37	37.1	21.5	18.5	29.8	24.5	20.7	—	—	—	6.5	5.5	4.6	23.8	24.2	24.0	0.8	0.9	1.1	6.0
ICICI Prudential Life	BUY	318	500	57.0	457	6.2	1,436	12	13	15	10.1	7.0	10.0	25.6	24.0	21.8	—	—	—	5.7	4.8	4.1	24.5	21.8	20.2	0.7	0.7	0.8	8.6
IIFL Holdings	SELL	439	625	42.4	140	1.9	319	38	45	52	31.5	18.6	16.0	11.7	9.8	8.5	—	—	—	2.1	1.8	1.6	20.5	20.0	20.0	1.8	2.2	2.5	2.1
L&T Finance Holdings	ADD	133	165	24.2	265	3.6	1,996	13	14	16	70.9	24.3	12.8	10.6	9.4	8.4	—	—	—	1.9	1.7	1.4	18.9	18.8	18.3	1.5	1.9	1.8	22.0
LIC Housing Finance	BUY	431	580	34.5	218	3.0	505	48	55	66	10.9	13.9	19.8	8.9	7.8	6.5	—	—	—	1.4	1.2	1.1	17.0	16.2	16.9	1.7	2.0	2.4	17.8
Magma Fincorp	BUY	109	165	51.0	29	0.4	237	13	17	21	34.0	31.8	23.0	8.4	6.4	5.2	—	—	—	1.1	0.9	0.8	13.9	15.8	17.0	1.8	2.4	2.9	1.0
Mahindra & Mahindra Financial	ADD	387	450	16.3	239	3.2	614	23	28	34	58.4	23.2	18.6	16.8	13.7	11.5	—	—	—	2.4	2.2	2.0	14.3	15.8	16.7	1.6	2.0	2.4	12.7
Max Financial Services	ADD	372	650	74.6	100	1.4	268	6	6	6	36.9	1.8	1.8	59.3	58.3	57.3	—	—	—	—	—	—	8.3	8.0	7.8	0.6	0.6	0.6	5.8
Muthoot Finance	ADD	403	480	19.2	161	2.2	400	40	42	48	(7.8)	6.0	14.8	10.2	9.6	8.4	—	—	—	1.8	1.6	1.4	19.0	17.6	17.8	2.3	2.4	2.8	7.8
PNB Housing Finance	REDUCE	898	1,200	33.7	150	2.0	167	62	75	92	25.3	20.9	22.4	14.4	11.9	9.7	—	—	—	2.1	1.8	1.6	15.2	15.9	17.0	0.4	0.4	0.4	4.5
SBI Life Insurance	ADD	553	785	42.1	553	7.5	1,000	15	18	21	26.0	22.9	17.0	38.0	30.9	26.4	—	—	—	7.2	6.0	5.1	20.6	21.3	20.9	0.4	0.5	0.6	3.2
Shriram City Union Finance	ADD	1,636	2,120	29.6	108	1.5	66	139	171	206	38.1	22.6	20.5	11.8	9.6	8.0	—	—	—	1.9	1.6	1.4	15.5	16.7	17.4	1.1	1.3	1.6	1.4
Shriram Transport	BUY	1,040	1,450	39.4	236	3.2	227	109	127	143	57.8	16.2	12.5	9.5	8.2	7.3	—	—	—	1.6	1.4	1.2	17.6	17.2	16.8	1.5	1.7	2.1	29.0
NBFCs	Neutral				9,279	126					13.2	19.5	19.6	23.9	20.0	16.8				3.8	3.3	2.9	15.9	16.5	17.1	0.8	1.0	1.1	757.0
Cement																													
ACC	SELL	1,503	1,270	(15.5)	282	3.8	188	62	70	81	27.0	13.8	15.2	24.3	21.3	18.5	13.4	11.5	9.7	2.8	2.5	2.3	11.9	12.5	13.1	1.1	1.1	1.1	17.0
Ambuja Cements	REDUCE	220	210	(4.4)	436	5.9	1,986	9	11	12	14.5	23.2	15.8	25.5	20.7	17.9	8.5	7.0	5.9	2.0	1.9	1.8	8.1	9.5	10.4	1.6	1.6	1.6	10.8
Dalmia Bharat	ADD	2,102	2,830	34.7	187	2.5	89	94	122	139	55.8	29.3	14.8	22.4	17.3	15.1	8.7	7.1	5.9	2.7	2.4	2.0	12.9	14.6	14.5	0.1	0.1	0.1	4.2
Grasim Industries	BUY	897	1,170	30.4	590	8.0	657	46	55	70	(2.5)	18.8	28.0	19.4	16.3	12.8	7.0	6.7	6.2	1.0	0.9	0.9	5.2	5.9	7.1	0.6	0.6	0.6	17.0
India Cements	REDUCE	96	118	23.2	30	0.4	308	4	8	12	28.0	102.6	41.3	22.9	11.3	8.0	8.0	6.2	5.2	0.6	0.5	0.5	2.5	4.8	6.5	1.0	1.0	1.0	10.0
J K Cement	ADD	695	890	28.0	49	0.7	70	45	79	78	3.7	75.4	(0.8)	15.5	8.8	8.9	9.5	7.9	6.4	2.2	1.8	1.5	15.0	22.3	18.5	1.2	1.2	1.2	0.4
JK Lakshmi Cement	ADD	270	370	36.9	32	0.4	118	11	28	37	153.5	147.9	30.5	23.9	9.6	7.4	8.9	5.7	4.6	2.1	1.7	1.4	8.9	19.5	21.0	0.7	0.7	0.7	0.4
Orient Cement	ADD	89	145	63.4	18	0.2	205	7	11	15	212.9	58.7	41.3	13.1	8.3	5.9	6.7	5.0	3.7	1.6	1.4	1.2	12.9	18.2	21.8	1.7	2.3	2.3	0.3
Shree Cement	SELL	15,348	12,500	(18.6)	535	7.3	35	421	630	760	6.0	49.7	20.6	36.5	24.3	20.2	16.8	12.6	10.2	5.3	4.4	3.7	15.4	19.7	19.8	0.3	0.3	0.3	5.8
UltraTech Cement	SELL	3,795	2,950	(22.3)	1,042	14.1	275	126	162	201	42.7	28.9	24.0	30.2	23.4	18.9	15.8	13.1	10.8	3.6	3.1	2.7	12.6	14.3	15.4	0.3	0.3	0.3	19.4
Cement	Cautious				3,201	43					19.5	30.3	21.8	25.9	19.8	16.3	10.1	8.6	7.4	2.2	2.0	1.8	8.4	10.0	11.0	0.6	0.6	0.6	85.3

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Target			Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		Price (Rs) 12-Oct-18	price (Rs)	Upside (%)	(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Consumer products																													
Asian Paints	REDUCE	1,261	1,200	(4.9)	1,210	16.4	959	27	33	39	32.1	20.3	18.3	46.5	38.7	32.7	29.1	24.1	20.3	12.6	11.0	9.6	28.8	30.3	31.3	0.9	1.2	1.5	23.8
Bajaj Corp.	ADD	399	405	1.6	59	0.8	148	15	17	19	7.8	10.3	9.5	25.8	23.4	21.4	20.6	17.6	15.3	12.0	12.0	11.8	46.3	51.2	55.4	3.3	3.5	3.8	0.6
Britannia Industries	ADD	5,758	5,875	2.0	692	9.4	120	104	127	152	24.5	22.2	19.2	55.3	45.2	37.9	36.2	29.6	24.7	16.1	13.0	10.7	32.5	31.8	30.9	0.6	0.8	1.0	15.9
Coffee Day Enterprises	REDUCE	249	265	6.5	53	0.7	211	8	10	12	129.9	30.0	21.2	32.4	24.9	20.5	11.2	9.8	9.1	2.1	1.9	1.7	6.6	8.0	8.9	—	—	—	1.1
Colgate-Palmolive (India)	ADD	1,100	1,120	1.8	299	4.1	272	27	32	36	14.7	15.6	15.5	40.3	34.9	30.2	23.0	20.0	17.4	17.6	15.3	13.4	46.0	46.9	47.3	1.5	1.7	2.1	7.5
Dabur India	REDUCE	408	345	(15.4)	720	9.8	1,762	9	10	12	17.3	12.9	13.6	44.7	39.6	34.9	37.4	32.3	28.0	12.6	10.9	9.6	28.1	29.6	29.4	0.9	1.1	1.3	22.0
GlaxoSmithKline Consumer	REDUCE	6,982	6,325	(9.4)	294	4.0	42	199	223	246	19.5	12.1	10.1	35.1	31.3	28.4	24.5	21.1	18.5	7.6	6.9	6.3	22.8	23.0	23.1	1.3	1.5	1.8	2.2
Godrej Consumer Products	REDUCE	716	645	(10.0)	732	9.9	1,022	17	19	22	18.8	13.7	12.7	42.4	37.3	33.1	30.0	26.0	22.7	9.9	8.6	7.5	25.3	24.7	24.2	0.8	0.9	1.0	14.7
Hindustan Unilever	REDUCE	1,570	1,430	(8.9)	3,398	46.1	2,160	29	34	38	18.9	16.0	13.0	53.8	46.4	41.0	38.0	32.6	28.8	42.0	35.2	29.8	83.2	82.6	78.6	1.3	1.5	1.7	38.4
ITC	ADD	275	310	12.6	3,369	45.7	12,275	10	11	12	8.2	12.3	11.7	28.5	25.4	22.7	18.3	16.2	14.4	6.2	5.8	5.5	20.4	22.2	24.2	2.1	2.4	2.8	59.0
Jubilant Foodworks	BUY	1,187	1,430	20.4	157	2.1	132	25	35	46	74.7	37.6	32.4	46.7	33.9	25.6	23.2	17.4	13.1	11.6	8.8	6.7	29.0	29.7	29.9	0.2	0.3	0.3	28.4
Jyothy Laboratories	ADD	205	210	2.5	74	1.0	364	6	7	8	27.6	16.7	15.4	36.4	31.2	27.0	24.3	20.7	17.6	5.6	4.9	4.3	16.6	16.8	16.9	0.5	0.7	1.0	0.9
Marico	ADD	315	310	(1.6)	407	5.5	1,291	7	8	9	8.9	20.0	14.5	46.2	38.5	33.6	32.0	26.4	22.8	15.1	14.1	13.0	33.7	37.9	40.2	1.5	1.7	2.0	10.7
Nestle India	ADD	9,700	9,950	2.6	935	12.7	96	171	197	223	34.2	15.7	13.2	56.9	49.1	43.4	32.5	28.0	24.6	25.1	23.1	21.1	46.1	49.0	50.8	1.2	1.4	1.6	10.5
Page Industries	SELL	29,032	22,300	(23.2)	324	4.4	11	418	508	607	34.3	21.6	19.5	69.5	57.1	47.8	44.8	37.0	30.8	29.4	23.3	18.7	47.8	45.5	43.4	0.6	0.7	0.9	18.7
Pidlite Industries	REDUCE	993	960	(3.4)	505	6.8	508	21	26	31	16.8	21.8	20.2	47.2	38.7	32.2	31.3	25.8	21.4	12.0	10.0	8.4	27.4	28.2	28.4	0.7	0.8	1.0	8.5
S H Kelkar and Company	BUY	199	240	20.6	29	0.4	145	7	10	12	(6.2)	41.9	23.2	28.7	20.2	16.4	18.6	13.3	11.5	3.1	2.8	2.5	11.3	14.5	16.0	0.9	1.0	1.4	0.6
Tata Global Beverages	ADD	229	230	0.4	145	2.0	631	8	9	10	7.7	17.0	12.9	28.9	24.7	21.9	15.8	13.9	12.3	2.0	1.9	1.8	7.0	7.9	8.5	1.3	1.5	1.7	10.3
Titan Company	REDUCE	805	760	(5.6)	715	9.7	888	16	20	23	25.6	21.8	19.3	50.1	41.2	34.5	33.2	26.5	21.7	11.9	10.0	8.4	25.6	26.3	26.4	0.6	0.7	0.9	40.5
United Breweries	REDUCE	1,175	1,040	(11.5)	311	4.2	264	21	26	31	39.2	23.6	20.6	56.5	45.7	37.9	27.9	23.9	20.4	9.8	8.3	7.0	18.7	19.6	20.0	0.3	0.4	0.5	15.0
United Spirits	REDUCE	522	470	(9.9)	379	5.1	727	10	13	17	34.7	30.9	24.5	50.9	38.9	31.2	29.8	24.0	20.2	10.4	7.7	5.9	24.2	22.7	21.3	—	—	0.5	12.0
Varun Beverages	REDUCE	767	700	(8.7)	140	1.9	183	15	20	26	29.8	34.5	30.7	51.3	38.1	29.2	17.0	14.5	12.2	7.1	6.1	5.1	14.6	17.1	19.0	—	—	0.3	1.3
Consumer products	Cautious				14,944	203					17.6	16.5	14.7	42.1	36.1	31.5	27.3	23.3	20.2	11.0	9.8	8.8	26.1	27.2	27.8	1.2	1.5	1.7	342.6
Energy																													
BPCL	REDUCE	289	275	(4.7)	626	8.5	1,967	33	33	36	(19.2)	2.6	7.5	8.9	8.6	8.0	6.7	6.3	5.8	1.5	1.4	1.3	17.9	16.8	16.5	4.5	4.6	5.0	30.4
Castrol India	SELL	144	155	7.4	143	1.9	989	7	8	9	2.9	10.1	9.7	20.4	18.5	16.9	12.7	11.4	10.4	13.4	13.1	12.6	67.1	71.5	76.0	3.8	4.3	4.7	3.7
GAIL (India)	BUY	359	455	26.6	810	11.0	2,255	29	31	33	41.7	6.4	8.0	12.4	11.7	10.8	7.8	7.3	6.7	1.8	1.7	1.5	15.4	14.9	14.7	2.6	2.8	2.9	27.2
GSPL	SELL	171	185	8.2	96	1.3	564	16	12	13	31.3	(25.1)	12.1	11.0	14.7	13.1	4.3	5.2	4.5	1.7	1.5	1.4	16.2	10.9	11.1	1.4	1.0	1.1	1.6
HPCL	REDUCE	218	185	(15.2)	333	4.5	1,524	28	29	31	(32.3)	1.7	6.6	7.7	7.6	7.1	7.5	7.6	7.6	1.3	1.2	1.1	17.2	16.1	15.8	5.3	5.4	5.7	28.0
Indraprastha Gas	SELL	242	240	(0.7)	169	2.3	700	12	13	15	16.4	12.3	10.7	20.1	17.9	16.2	12.6	11.1	9.8	4.2	3.6	3.2	22.1	21.5	20.9	1.0	1.3	1.7	9.8
IOCL	REDUCE	134	120	(10.4)	1,300	17.7	9,479	16	15	17	(24.1)	(1.8)	12.3	8.6	8.8	7.8	5.0	4.9	4.3	1.1	1.0	0.9	12.9	11.9	12.6	4.7	4.6	5.1	20.4
Mahanagar Gas	ADD	825	965	16.9	82	1.1	99	56	60	64	16.0	7.6	5.4	14.7	13.7	13.0	8.5	7.7	7.1	3.4	3.0	2.7	24.8	23.5	22.0	2.7	2.9	3.1	12.8
ONGC	ADD	157	200	27.2	2,017	27.4	12,833	20	20	19	16.8	0.3	(5.9)	7.7	7.7	8.2	3.8	3.6	3.5	0.8	0.8	0.8	11.2	10.6	9.5	4.3	4.5	4.5	17.8
Oil India	SELL	203	200	(1.3)	230	3.1	1,135	23	24	23	(6.7)	3.4	(2.5)	8.8	8.5	8.7	5.8	5.5	5.5	0.8	0.7	0.7	9.2	9.0	8.4	4.6	4.7	4.6	2.5
Petronet LNG	BUY	218	280	28.5	327	4.4	1,500	16	18	20	16.7	13.1	9.4	13.4	11.9	10.9	9.0	7.6	6.7	2.9	2.6	2.3	23.3	23.2	22.7	2.6	3.4	4.1	10.5
Reliance Industries	SELL	1,127	985	(12.6)	6,667	90.5	5,922	69	78	87	17.6	12.4	11.9	16.2	14.4	12.9	11.2	9.6	8.1	2.0	1.8	1.6	12.2	12.1	12.1	0.6	0.6	0.6	160.6
Energy	Attractive				12,800	174					4.0	5.6	6.7	11.9	11.3	10.6	7.3	6.8	6.2	1.5	1.4	1.3	12.6	12.2	12.0	2.2	2.3	2.4	325.4

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)
		12-Oct-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Industrials																													
ABB	SELL	1,308	1,020	(22.0)	277	3.8	212	26	29	36	30.1	14.2	23.5	50.7	44.4	36.0	29.7	26.7	22.1	7.1	6.4	5.7	14.5	15.1	16.7	0.7	0.7	0.7	2.4
BHEL	REDUCE	75	89	18.4	276	3.7	3,671	3.3	5.5	7.6	47.9	69.3	38.0	23.1	13.7	9.9	7.4	4.5	3.3	0.8	0.8	0.8	3.6	6.1	8.2	2.7	4.5	6.2	9.8
Carborundum Universal	SELL	370	322	(13.0)	70	0.9	189	14	17	20	25.0	21.4	13.8	25.9	21.4	18.8	14.2	11.6	10.0	4.0	3.6	3.2	16.3	17.8	18.1	1.2	1.4	1.6	0.5
CG Power and Industrial	BUY	41	62	52.2	25	0.3	627	1.4	3.6	5.7	71.6	157.3	57.0	29.0	11.3	7.2	7.4	5.4	4.2	1.0	0.9	0.9	3.3	8.4	12.5	—	—	—	4.3
Cummins India	REDUCE	680	710	4.4	189	2.6	277	28	33	37	15.2	17.5	13.7	24.5	20.8	18.3	20.4	17.5	15.1	4.4	4.1	3.8	18.7	20.6	21.8	2.2	2.6	3.0	5.2
Kalpitaru Power Transmission	BUY	305	560	83.6	47	0.6	153	23.9	32.7	41.3	23.4	36.6	26.4	12.7	9.3	7.4	6.2	4.9	4.1	1.6	1.4	1.2	13.0	15.5	16.9	0.5	0.5	0.5	0.6
KEC International	BUY	271	410	51.4	70	0.9	257	21	27	33	16.9	29.7	23.0	12.9	10.0	8.1	7.5	6.1	5.1	2.8	2.3	1.8	24.1	25.2	24.9	0.8	1.1	1.3	2.8
L&T	BUY	1,235	1,600	29.5	1,732	23.5	1,401	62.8	67.1	83.3	21.5	6.8	24.1	19.7	18.4	14.8	15.8	15.1	13.1	3.1	2.8	2.5	16.7	16.1	18.0	1.7	1.8	2.2	51.1
Siemens	SELL	911	1,000	9.8	324	4.4	356	29	35	—	21.4	21.7	—	31.3	25.7	—	17.4	13.9	—	3.7	3.5	—	12.3	14.0	—	1.3	1.6	—	4.1
Thermax	REDUCE	948	1,065	12.3	113	1.5	113	27.8	38.7	43.8	34.7	39.2	13.2	34.1	24.5	21.7	21.6	16.0	13.6	3.7	3.4	3.0	11.1	14.3	14.7	1.0	1.2	1.3	1.1
Industrials	Neutral				3,123	42					23.8	17.8	15.7	22.4	19.0	16.5	15.0	13.2	11.0	2.6	2.5	2.4	11.8	12.9	14.7	1.6	1.9	2.2	81.8
Infrastructure																													
Adani Ports and SEZ	BUY	323	460	42.3	669	9.1	2,071	19	23	29	1.2	21.1	29.8	17.3	14.3	11.0	12.1	10.0	8.7	2.7	2.3	2.0	17.0	17.7	19.4	0.6	0.6	0.6	16.3
Ashoka Buildcon	BUY	115	220	91.9	32	0.4	282	9	10	10	4.1	17.8	(1.3)	13.1	11.1	11.3	8.6	7.3	6.8	1.4	1.3	1.2	11.8	12.3	11.0	1.5	1.1	1.1	0.6
Container Corp.	SELL	607	635	4.6	296	4.0	487	21	25	29	17.4	20.9	15.0	29.3	24.2	21.1	18.0	14.2	11.7	2.9	2.7	2.5	10.3	11.6	12.3	1.4	1.7	1.6	5.3
Dilip Buildcon	BUY	524	1,240	136.5	72	1.0	137	56	71	85	19.8	27.5	20.1	9.4	7.4	6.1	5.4	4.3	3.7	2.2	1.7	1.3	26.7	26.2	24.4	—	—	—	3.5
Gateway Distriparks	BUY	161	250	54.9	18	0.2	109	7	8	11	(5.8)	15.2	37.5	22.5	19.5	14.2	10.4	8.6	7.1	3.0	2.6	2.2	9.8	14.5	17.1	—	1.9	1.9	0.2
Gujarat Pipavav Port	BUY	102	150	46.9	49	0.7	483	5.3	6.5	7.8	29.7	22.9	19.3	19.1	15.6	13.0	10.1	8.2	6.8	2.4	2.3	2.3	12.7	15.3	17.8	4.3	5.3	6.2	0.6
IRB Infrastructure	BUY	133	320	140.1	47	0.6	351	31	33	23	36.8	7.1	(31.3)	4.3	4.0	5.9	5.9	6.4	7.6	0.7	0.6	0.6	17.6	16.3	10.0	2.3	3.0	3.2	5.8
Mahindra Logistics	REDUCE	543	565	4.1	39	0.5	71	15	21	25	50.7	39.3	23.7	36.7	26.4	21.3	20.4	14.8	11.7	7.6	6.2	5.0	22.7	25.8	25.8	—	—	—	0.5
Sadbhav Engineering	BUY	238	370	55.6	41	0.6	172	17	22	22	31.7	27.9	2.9	14.0	11.0	10.7	10.4	8.2	6.9	1.9	1.7	1.4	14.5	16.2	14.5	—	—	—	1.3
Infrastructure	Attractive				1,262	17					11.3	20.2	16.7	16.4	13.6	11.7	10.4	8.9	8.0	2.4	2.1	1.8	14.8	15.5	15.7	0.9	1.1	1.1	34.0
Internet																													
Info Edge	ADD	1,485	1,425	(4.0)	181	2.5	122	26	33	40	14.9	27.5	20.6	57.4	45.0	37.3	43.6	33.0	26.7	6.8	6.2	5.5	13.2	14.3	15.6	0.6	0.6	0.7	3.1
Just Dial	ADD	485	610	25.9	33	0.4	67	26	30	33	23.0	15.0	9.4	18.6	16.1	14.7	9.4	7.4	6.1	2.9	2.5	2.2	16.7	16.6	15.7	0.5	0.6	0.7	19.9
Internet	Cautious				214	3					17.6	23.0	16.8	43.6	35.4	30.3	31.8	25.0	20.9	5.6	5.0	4.5	12.9	14.2	14.7	0.6	0.6	0.7	23.0
Media																													
DB Corp.	REDUCE	189	270	42.8	35	0.5	184	20	23	26	14.9	12.3	14.8	9.3	8.3	7.2	4.9	4.3	—	1.9	1.8	—	20.7	22.3	25.2	8.9	11.1	13.4	0.5
DishTV	ADD	55	90	62.5	102	1.4	1,925	1.8	3.4	4.9	514.6	88.2	42.6	NM	16.1	11.3	4.9	3.8	3.0	1.5	1.4	1.2	5.1	8.9	11.5	—	—	—	4.1
Jagran Prakashan	REDUCE	109	168	53.6	32	0.4	311	11	12	14	10.0	12.2	14.6	10.3	9.2	8.0	4.4	3.9	3.3	1.7	1.7	1.6	15.9	18.3	20.2	4.6	8.2	8.2	0.4
PVR	BUY	1,324	1,430	8.0	62	0.8	47	38	50	61	41.2	32.3	22.4	34.9	26.4	21.6	13.4	11.4	9.7	5.0	4.3	3.7	15.3	17.6	18.3	0.3	0.4	0.5	11.8
Sun TV Network	REDUCE	654	660	0.9	258	3.5	394	35	37	41	20.6	6.6	10.3	18.8	17.7	16.0	12.6	11.7	10.2	5.1	4.8	4.4	28.4	27.9	28.6	3.1	3.4	3.8	18.0
Zee Entertainment Enterprises	REDUCE	466	430	(7.8)	448	6.1	960	17	20	22	11.4	17.1	12.6	27.9	23.8	21.1	16.3	14.4	12.7	5.2	4.6	4.1	19.9	20.6	20.5	1.0	1.2	1.5	20.6
Media	Attractive				937	13					28.7	19.5	16.7	22.4	18.8	16.1	10.5	9.2	7.7	3.7	3.3	3.2	16.3	17.7	19.9	1.8	2.2	2.6	55.4

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.		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT	
		12-Oct-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E
Metals & Mining																													
Coal India	ADD	279	320	14.9	1,729	23.5	6,207	25	25	27	120.4	2.2	6.6	11.2	10.9	10.3	8.5	7.2	6.7	6.9	7.6	8.0	62.7	65.9	76.0	7.2	9.0	9.0	14.9
Hindalco Industries	BUY	227	330	45.6	509	6.9	2,229	28	33	35	28.1	17.8	6.4	8.1	6.9	6.5	5.4	4.6	4.1	0.8	0.7	0.7	10.8	11.4	10.9	0.5	0.5	0.5	39.2
Hindustan Zinc	REDUCE	278	280	0.9	1,173	15.9	4,225	21	24	27	(3.8)	15.7	12.3	13.4	11.6	10.3	7.8	6.4	5.3	2.9	2.5	2.2	22.9	23.2	22.6	2.9	2.9	2.9	5.9
Jindal Steel and Power	REDUCE	178	215	20.5	173	2.3	968	8	14	22	195.9	68.5	60.8	21.9	13.0	8.1	6.5	5.9	5.0	0.6	0.5	0.5	2.7	4.3	6.5	—	—	—	36.4
JSW Steel	SELL	380	350	(7.8)	918	12.5	2,406	31	26	31	16.1	(16.2)	17.2	12.1	14.5	12.4	7.2	8.3	7.3	2.6	2.2	1.9	23.5	16.6	16.8	0.9	0.9	0.9	37.9
National Aluminium Co.	BUY	67	87	29.9	129	1.8	1,933	10	8	9	238.9	(16.0)	3.6	6.8	8.1	7.8	3.1	3.7	3.6	1.2	1.2	1.1	17.6	14.4	14.6	9.0	9.0	9.0	11.9
NMDC	REDUCE	111	120	7.9	352	4.8	3,164	12	10	11	4.2	(14.3)	5.9	9.1	10.6	10.0	5.6	6.5	6.0	1.3	1.3	1.2	15.3	12.4	12.5	4.9	4.9	4.9	6.6
Tata Steel	ADD	575	660	14.8	657	8.9	1,205	76	85	94	12.8	12.1	10.9	7.6	7	6.1	5.9	6.2	5.8	1.0	0.9	0.8	14.3	14.3	14.4	1.7	1.7	1.7	73.5
Vedanta	BUY	214	360	68.1	796	10.8	3,717	27	38	39	26.7	39.0	2.2	7.8	5.6	5.5	5.1	3.8	3.4	1.2	1.0	0.9	15.4	19.4	17.7	3.8	5.3	5.4	50.8
Metals & Mining	Attractive				6,436	87					35.8	10.0	9.1	10.1	9.2	8.4	6.3	5.8	5.2	1.7	1.6	1.5	17.3	17.5	17.3	3.7	4.4	4.4	277.2
Pharmaceutical																													
Apollo Hospitals	ADD	1,133	1,090	(3.8)	158	2.1	139	20	27	33	133.5	36.7	21.6	57.5	42.0	34.6	20.0	16.9	14.8	4.6	4.2	3.9	8.2	10.5	11.8	0.4	0.6	0.7	15.6
Aster DM Healthcare	BUY	159	240	51.2	80	1.1	505	5	8	12	74.4	62.0	51.4	33.0	20.4	13.5	12.0	9.4	7.3	2.6	2.4	2.0	8.3	12.2	16.3	—	—	—	0.2
Aurobindo Pharma	ADD	736	760	3.3	431	5.9	584	42	57	64	1.0	35.8	12.3	17.4	12.8	11.4	11.7	8.7	7.7	3.1	2.6	2.1	19.3	19.9	18.6	0.7	0.8	1.0	41.0
Biocon	SELL	608	330	(45.7)	365	5.0	601	8	15	18	35.9	75.7	21.7	72.2	41.1	33.8	31.4	21.0	17.9	6.0	5.4	4.8	8.7	13.9	14.3	0.5	0.9	1.0	23.9
Cipla	BUY	623	680	9.2	502	6.8	805	24	31	40	34.5	31.0	29.4	26.5	20.2	15.6	14.9	11.8	9.2	3.1	2.8	2.4	12.4	14.6	15.7	0.8	1.0	1.4	23.0
Dr Lal Pathlabs	REDUCE	961	900	(6.3)	80	1.1	83	24	29	34	19.0	17.9	18.4	39.5	33.5	28.3	24.2	20.3	16.6	8.5	7.1	6.0	23.4	23.1	22.9	0.5	0.6	0.7	1.2
Dr Reddy's Laboratories	REDUCE	2,451	2,150	(12.3)	407	5.5	166	89	118	141	50.2	32.8	19.3	27.6	20.8	17.4	13.9	9.9	8.3	2.9	2.6	2.3	11.1	12.6	13.3	0.6	0.7	0.9	34.5
HCG	BUY	218	270	23.8	19	0.3	85	2	4	7	28.8	87.5	73.4	108.3	57.8	33.3	16.7	13.8	10.9	3.5	3.3	3.0	3.3	5.9	9.4	—	—	—	0.2
Laurus Labs	ADD	411	500	21.7	44	0.6	106	16	29	34	2.4	79.9	17.5	25.3	14.1	12.0	11.9	8.2	7.2	2.6	2.2	1.9	10.9	17.1	15.6	—	—	—	0.6
Lupin	REDUCE	846	800	(5.5)	383	5.2	450	27	39	50	(28.9)	44.0	27.4	31.2	21.7	17.0	14.6	10.6	8.5	2.6	2.4	2.1	8.6	11.4	12.4	0.5	0.7	0.9	45.1
Narayana Hrudayalaya	ADD	221	265	19.9	45	0.6	204	3	6	9	23.0	103.2	40.7	71.5	35.2	25.0	20.6	14.4	11.5	4.1	3.7	3.2	5.9	11.0	13.7	—	—	—	0.2
Sun Pharmaceuticals	SELL	591	540	(8.6)	1,417	19.2	2,406	16	24	29	7.5	45.5	21.6	36.2	24.9	20.5	19.4	14.0	11.5	3.4	3.1	2.7	9.8	12.9	13.2	0.6	0.8	1.0	60.9
Torrent Pharmaceuticals	NR	1,580	—	—	267	3.6	169	47	61	81	18.0	29.6	32.1	33.4	25.8	19.5	14.7	12.5	10.3	5.1	4.4	3.8	15.3	17.2	19.3	0.7	0.9	1.2	7.9
Pharmaceuticals	Neutral				4,197	57					11.3	40.7	22.6	31.7	22.5	18.4	16.3	12.1	10.1	3.4	3.0	2.7	10.9	13.5	14.6	0.6	0.8	1.0	254.3
Real Estate																													
Brigade Enterprises	BUY	190	290	52.6	26	0.4	136	9	15	17	(17.0)	59.2	15.8	20.7	13.0	11.2	13.1	10.2	8.2	1.1	1.0	1.0	5.4	8.1	8.8	1.3	1.3	1.3	0.3
DLF	RS	158	—	—	281	3.8	1,784	5.3	23.9	14.1	(74.4)	354.6	(41.0)	30.0	6.6	11.2	45.6	8.0	14.9	0.8	0.7	0.7	2.6	11.3	6.2	1.3	1.3	1.3	21.9
Godrej Properties	SELL	505	400	(20.7)	116	1.6	216	12.9	15.1	18.2	(32.9)	16.3	20.8	39.0	33.5	27.7	652.2	186.6	99.7	4.0	3.6	2.7	10.9	11.4	10.1	—	—	—	1.9
Lemon Tree Hotels	ADD	70	76	9.0	55	0.8	786	—	1	2	147.2	174.0	66.8	156.3	57.1	34.2	35.0	21.3	15.9	6.5	5.8	5.4	4.2	10.7	16.3	—	—	1.3	—
Oberoi Realty	BUY	385	560	45.3	140	1.9	340	62	44	66	385.4	(28.0)	49.3	6.2	8.7	5.8	8.8	10.9	4.6	1.4	1.2	1.0	27.4	15.2	19.2	0.5	0.5	0.5	2.7
Prestige Estates Projects	ADD	177	315	78.2	66	0.9	375	10	10	11	(24.2)	8.4	—	18.6	17.1	16.6	12.3	12.3	12.2	1.3	1.2	—	7.3	7.5	7.3	0.8	0.8	0.8	0.7
Sobha	REDUCE	419	510	21.8	40	0.5	95	20	23	24	(7.5)	14.8	3.5	20.7	18.1	17.4	12.2	11.5	10.8	1.4	1.3	1.5	6.8	7.4	9.1	1.7	1.7	1.7	1.5
Sunteck Realty	REDUCE	355	360	1.4	52	0.7	140	19	19	39	22.4	1.6	106.6	19.0	18.7	9.0	16.5	16.1	6.8	1.7	1.6	1.4	9.5	8.9	16.2	0.3	0.3	0.3	1.9
Real Estate	Neutral				776	11					(22.8)	69.2	(6.9)	18.1	10.7	11.5	20.6	11.3	11.4	1.3	1.1	1.0	7.0	10.6	9.1	0.8	0.8	0.9	30.9

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	
		12-Oct-18	(Rs)	(%)	(Rs bn) (US\$ bn)	(mn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	(US\$ mn)	
Technology																													
HCL Technologies	REDUCE	985	1,100	11.7	1,372	18.6	1,409	71	78	82	14.6	8.9	5.0	13.8	12.7	12.1	8.9	7.9	7.2	3.1	2.6	2.4	24.4	22.3	20.6	0.8	3.1	3.3	33.9
Hexaware Technologies	SELL	389	455	16.8	116	1.6	302	20	24	27	19.5	21.6	12.7	19.7	16.2	14.4	14.5	11.0	9.5	5.1	4.3	3.7	27.6	28.7	27.5	2.1	2.1	2.6	21.2
Infosys	ADD	679	770	13.4	2,965	40.3	4,350	36	41	45	12.8	13.3	8.9	18.6	16.4	15.1	12.7	11.0	9.9	4.2	3.8	3.4	23.4	24.2	23.7	3.2	2.9	3.1	90.1
L&T Infotech	ADD	1,764	2,100	19.0	305	4.1	175	83	96	113	30.5	15.6	18.1	21.3	18.4	15.6	16.1	12.9	10.9	6.4	5.2	4.2	33.5	31.3	30.0	1.4	1.5	1.7	10.2
Mindtree	ADD	953	1,225	28.5	157	2.1	165	45	57	65	29.5	27.0	14.5	21.3	16.8	14.7	13.4	10.5	9.0	4.9	4.1	3.5	24.7	26.6	25.8	1.4	1.8	2.0	26.1
Mphasis	SELL	1,008	900	(10.7)	195	2.6	193	53	60	63	21.9	12.1	4.7	18.9	16.8	16.1	13.8	11.7	10.8	3.7	3.4	3.1	18.9	21.0	20.0	2.0	2.5	3.0	7.4
TCS	REDUCE	1,918	1,950	1.6	7,199	97.7	3,752	85	95	103	25.6	11.6	8.9	22.7	20.3	18.6	16.1	14.3	13.3	7.1	6.7	6.3	33.8	33.7	34.8	1.8	3.4	3.8	83.3
Tech Mahindra	ADD	694	865	24.7	612	8.3	891	46	57	64	8.4	22.4	13.0	15.0	12.3	10.8	8.9	6.9	5.9	2.8	2.4	2.0	20.2	21.2	20.3	1.3	1.5	1.6	39.1
Wipro	REDUCE	316	325	2.8	1,431	19.4	4,507	19	23	25	12.8	19.5	7.5	16.6	13.9	12.9	10.6	8.9	8.2	2.5	2.3	2.2	16.5	17.6	17.4	0.5	3.2	3.5	21.1
Technology	Cautious				14,351	195					15.9	13.0	8.7	19.3	17.1	15.7	13.2	11.5	10.5	4.6	4.2	3.8	23.9	24.5	24.3	1.8	3.1	3.4	332.4
Telecom																													
Bharti Airtel	ADD	290	445	53.4	1,159	15.7	3,997	(6)	(4)	5	(221.5)	28.8	215.1	(50.4)	(70.9)	61.6	8.5	7.1	5.7	1.8	1.8	1.8	(3.4)	(2.5)	2.9	0.3	(0.3)	0.4	27.1
Bharti Infratel	REDUCE	266	285	7.3	491	6.7	1,850	13	12	13	(4.8)	(8.5)	7.7	20.3	22.2	20.6	7.5	7.9	7.5	3.0	3.0	3.0	14.6	13.7	14.6	4.0	3.6	3.9	10.3
IDEA	REDUCE	36	45	25.2	314	4.3	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(2.1)	(2.1)	(2.4)	38.7	32.5	20.0	0.7	1.1	2.0	(29.7)	(41.1)	(59.4)	—	—	—	16.4
Tata Communications	ADD	485	660	36.2	138	1.9	285	0	3	7	(77.5)	694.2	123.5	1,308	164.7	73.7	10.1	8.9	8.0	(60.2)	(81.7)	(1,583.6)	7.8	(42.1)	(211.0)	1.3	1.5	1.5	2.9
Telecom	Cautious				2,103	29					(2,384.5)	5.0	68.0	(29.3)	(30.8)	(96.4)	10.2	9.0	7.3	2.0	2.2	2.4	(6.9)	(7.2)	(2.4)	1.2	0.7	1.2	56.8
Utilities																													
CESC	BUY	901	1,180	30.9	119	1.6	133	115	128	141	31.7	11.6	10.1	7.9	7.0	6.4	5.6	5.0	4.4	0.8	0.7	0.6	10.0	10.4	10.5	1.4	1.4	1.5	8.2
JSW Energy	REDUCE	63	70	10.4	104	1.4	1,640	5.1	6.5	6.6	65.9	26.8	2.9	12.5	9.8	9.5	5.5	4.5	4.1	0.9	0.8	0.7	7.2	8.5	8.0	—	—	—	1.3
NHPC	ADD	24	30	26.1	244	3.3	10,260	3.1	3.2	3.4	26.9	1.8	8.0	7.7	7.5	7.0	7.2	6.9	7.4	0.8	0.8	0.7	10.4	10.2	10.6	7.3	7.4	6.2	1.4
NTPC	BUY	164	190	15.7	1,354	18.4	8,245	15	16	18	18.8	4.4	16.5	11.0	10.6	9.1	8.8	8.2	6.9	1.2	1.1	1.1	11.6	11.3	12.2	2.7	2.8	3.3	10.8
Power Grid	BUY	188	250	32.7	986	13.4	5,232	19	21	23	19.3	13.6	7.6	10.0	8.8	8.2	7.2	6.6	6.3	1.6	1.5	1.3	17.1	17.5	17.0	3.3	3.8	4.1	13.4
Tata Power	BUY	69	90	30.7	186	2.5	2,705	6.0	7.0	10.9	12.7	15.6	57.0	11.4	9.9	6.3	10.5	10.0	8.7	1.1	1.0	0.9	10.1	10.6	14.6	—	—	—	4.6
Utilities	Attractive				2,994	41					21.1	8.8	14.1	10.2	9.4	8.2	7.9	7.3	6.6	1.2	1.1	1.0	11.9	12.0	12.5	3.0	3.2	3.4	39.7

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (Rs bn) (US\$ bn)		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		12-Oct-18	Target price (Rs)		2019E	2020E		2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	
Others																													
Aditya Birla Fashion and Retail	BUY	186	220	18.5	143	1.9	773	2	4	6	50.6	59.1	53.5	80.9	50.8	33.1	23.8	18.5	15.0	11.3	9.2	7.2	15.0	20.0	24.5	—	—	—	5.1
Astral Poly Technk	SELL	888	640	(27.9)	106	1.4	120	19	25	29	30.2	28.8	16.1	46.5	36.1	31.1	25.1	19.9	16.8	8.2	6.7	5.6	19.8	20.5	19.7	0.1	0.1	0.1	1.0
Avenue Supermarts	SELL	1,412	890	(37.0)	881	12.0	624	16	20	26	29.8	27.3	27.9	87.8	68.9	53.9	50.8	39.5	31.0	15.5	12.7	10.3	19.4	20.2	21.0	—	—	—	—
Bayer Cropscience	REDUCE	4,364	4,100	(6.0)	150	2.0	34	106	130	154	20.5	23.1	18.3	41.4	33.6	28.4	26.2	21.3	17.7	7.3	6.3	5.4	18.9	20.0	20.3	0.5	0.6	0.7	0.5
Crompton Greaves Consumer	SELL	206	215	4.4	129	1.8	627	6	7	9	19.5	20.7	17.4	33.3	27.6	23.5	20.7	17.4	14.7	11.4	8.7	6.7	40.4	35.8	32.3	1.0	1.2	—	2.9
Dhanuka Agritech	ADD	410	650	58.5	20	0.3	49	27	31	34	3.9	15.4	10.8	15.4	13.3	12.0	11.0	8.9	7.7	2.8	2.4	2.1	19.2	19.2	18.5	1.4	1.6	1.8	0.2
Godrej Agrovet	ADD	516	640	23.9	99	1.3	189	15	19	23	28.9	28.8	21.1	34.8	27.0	22.3	18.9	14.8	12.3	5.1	4.4	3.7	15.7	17.4	17.9	—	0.6	0.7	0.9
Godrej Industries	RS	478	—	—	161	2.2	336	16	20	—	8.9	24.2	—	30.1	24.2	—	26.2	28.4	—	3.9	3.4	—	13.9	15.1	—	0.4	0.4	—	4.0
Havells India	SELL	596	485	(18.6)	373	5.1	625	14	17	20	26.6	20.5	17.6	42.5	35.3	30.0	27.1	22.0	18.5	8.8	7.7	6.7	22.0	23.2	23.9	0.8	1.0	1.2	15.2
InterGlobe Aviation	BUY	809	980	21.2	311	4.2	383	(11)	42	75	(118.1)	496.4	79.4	(76.2)	19.2	10.7	(44.0)	9.0	4.9	4.6	3.7	2.8	(5.9)	21.5	29.9	(0.1)	-	0.5	20.2
Kaveri Seed	SELL	516	515	(0.1)	34	0.5	66	34	34	37	7.3	0.1	8.3	15.0	15.0	13.9	12.2	11.5	10.2	3.6	3.1	2.7	26.4	22.4	21.0	1.6	1.9	1.9	5.3
PI Industries	BUY	780	875	12.2	108	1.5	138	31	40	48	17.9	26.8	21.5	24.9	19.6	16.2	17.7	13.8	11.2	4.7	3.9	3.2	20.5	21.7	21.9	0.5	0.6	0.7	2.2
Rallis India	ADD	186	220	18.2	36	0.5	195	10	12	13	17.2	19.4	9.7	18.4	15.4	14.1	12.1	10.2	9.0	2.8	2.5	2.3	15.8	17.1	16.9	1.9	2.1	2.4	0.7
SIS	REDUCE	960	1,130	17.7	70	1.0	73	33	40	48	48.5	21.1	17.8	28.8	23.8	20.2	18.0	15.1	12.6	5.7	4.7	3.9	21.8	21.7	21.1	0.3	0.4	0.4	0.4
SRF	BUY	1,773	2,200	24.1	102	1.4	57	100	132	150	23.8	32.2	14.1	17.8	13.5	11.8	10.6	8.4	7.1	2.5	2.2	1.9	15.0	17.3	17.0	0.8	0.8	0.9	11.3
Tata Chemicals	ADD	656	760	15.9	167	2.3	255	44	51	56	(15.3)	14.6	11.5	14.9	13.0	11.6	6.1	5.1	4.3	1.4	1.3	1.2	9.7	10.3	10.8	2.3	2.6	2.6	6.8
TCNS Clothing Co.	BUY	560	760	35.7	34	0.5	64	18	23	27	15.3	27.5	20.8	31.7	24.9	20.6	16.9	12.7	10.0	6.3	4.9	3.8	22.7	22.2	20.9	—	—	—	—
TeamLease Services	SELL	2,471	1,785	(27.7)	42	0.6	17	60	77	100	38.9	29.2	28.7	41.2	31.9	24.8	41.6	31.5	24.2	7.8	6.2	5.0	20.8	21.7	22.4	—	—	—	1.1
UPL	ADD	627	660	5.2	319	4.3	507	49	55	60	14.6	11.9	9.5	12.7	11.4	10.4	8.7	7.4	6.3	2.9	2.4	2.0	24.7	22.9	21.1	1.6	1.8	2.0	30.1
Vardhman Textiles	ADD	1,001	1,300	29.9	57	0.8	56	118	130	142	14.8	9.7	9.8	8.5	7.7	7.0	6.5	5.9	5.2	1.1	1.0	0.9	13.1	13.0	13.0	2.0	3.0	3.0	0.5
Volta	SELL	510	530	3.8	169	2.3	331	17	21	25	0.4	18.8	18.9	29.4	24.7	20.8	21.9	17.8	14.8	3.9	3.5	3.1	13.9	14.8	15.7	0.7	0.8	1.0	12.0
Whirlpool	SELL	1,499	1,350	(9.9)	190	2.6	127	37	46	56	33.9	24.7	20.2	40.5	32.5	27.0	24.5	19.4	15.8	8.8	7.3	6.2	23.7	24.5	24.8	0.4	0.6	1.1	1.7
Others					3,703		50				(10.0)	39.2	18.2	34.2	24.6	20.8	20.1	14.7	11.4	4.9	4.2	3.8	14.4	17.2	18.3	0.6	0.7	0.7	122.1
KIE universe					103,404	1,404					23.1	28.5	15.2	20.5	16.0	13.9	10.4	9.1	8.1	2.6	2.3	2.1	12.6	14.6	15.2	1.4	1.8	2.0	
KIE universe (ex-energy)					90,603	1,230					29.5	34.6	17.0	22.8	17.0	14.5	11.5	9.9	8.8	2.9	2.6	2.3	12.6	15.3	16.0	1.3	1.7	1.9	

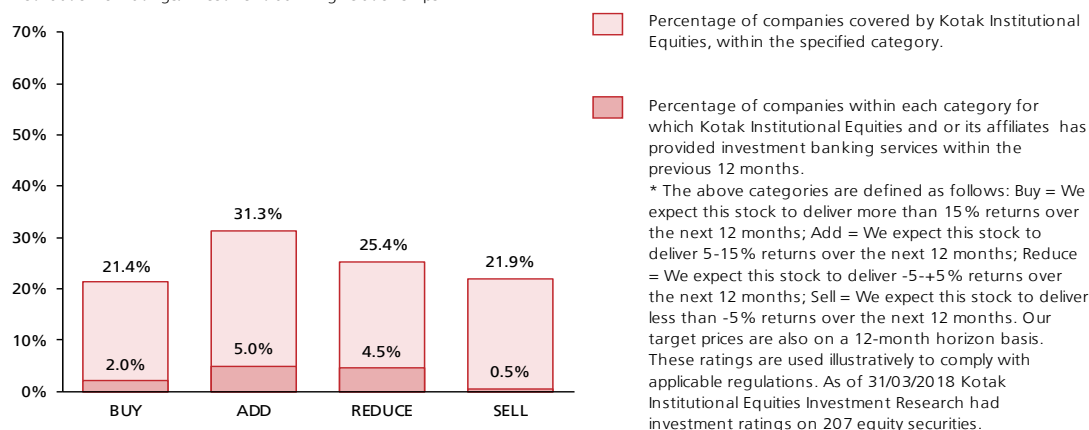
Notes:

- (a) We have used adjusted book values for banking companies.
 (b) 2019 means calendar year 2018, similarly for 2020 and 2021 for these particular companies.
 (c) Exchange rate (Rs/US\$)= 73.66

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 June 30, 2018

Ratings and other definitions/identifiers

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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.

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