kotak® Institutional Equities

INDIA DAILY

March 18, 2020

EQUITY MARKETS

		Change %		
India	17-Mar	1-day	1-mo	3-mo
Sensex	30,579	(2.6)	(25.5)	(26.1)
Nifty	8,967	(2.5)	(25.6)	(26.3)
Global/Regional indices				
Dow Jones	20,189	(12.9)	(31.3)	(28.6)
Nasdaq Composite	6,905	(12.3)	(29.0)	(21.7)
FTSE	5,092	(1.1)	(31.5)	(32.3)
Nikkei	17,012	0.1	(27.7)	(29.3)
Hang Seng	23,264	0.9	(16.8)	(16.4)
KOSPI	1,672	(2.5)	(25.4)	(23.8)
Value traded – India				
Cash (NSE+BSE)	528		479	363
Derivatives (NSE)	6,466		12,531	8,691
Deri. open interest	2,917		3,703	3,534

Forex/money market				
	Change, basis points			
	17-Mar	1-day	1-mo	3-mo
Rs/US$	74.2	(3)	289	320
10yr govt bond, %	6.8	(1)	5	(49)
Net investment (US$ mn)				
	13-Mar		MTD	CYTD
FIIs	(910)		(3,820)	(2,033)
MFs	578		1,763	3,450
Top movers				
	Change, %			
Best performers	17-Mar	1-day	1-mo	3-mo
YES IN Equity	59	58.1	57.9	23.2
PIDI IN Equity	1,559	5.3	(1.2)	17.4
DMART IN Equity	2,022	1.3	(13.6)	7.3
APHS IN Equity	1,427	(3.1)	(16.8)	4.6
BHARTI IN Equity	455	(2.2)	(19.5)	3.4
Worst performers				
IIB IN Equity	604	(9.0)	(48.5)	(59.5)
MSS IN Equity	61	(9.0)	(50.6)	(57.2)
TTMT IN Equity	78	(6.0)	(53.9)	(56.7)
ONGC IN Equity	60	(0.2)	(40.0)	(52.1)
RBK IN Equity	165	1.0	(46.3)	(51.7)

Contents

Special Reports

Strategy

Strategy: March madness in markets

Daily Alerts

Change in Reco

United Spirits: Sharp correction an opportunity

Container Corp.: Competitive advantage remains protected; upgrade to BUY

Cummins India: Firmly in the value zone; upgrade to BUY

Tata Communications: Sell-off overdone; upgrade to BUY

PVR: Opportunity amidst uncertainty

Just Dial: JUST BUY

Company alerts

ONGC: Lower crude price drives sharp cut in estimates

Sector alerts

Health Care Services: Covid-19: assessing hospital and testing capacity

IT Services: IT services stocks in the face of uncertainty

kspcg.research@kotak.com
Contact: +91 22 6218 6427

INDIA

MARCH 17, 2020

NEW RELEASE

BSE-30: 31,390

March madness in markets.

March madness in markets. The sharp 10-50% decline in stock prices over the past one month on Covid-19-related concerns highlight that market participants are extrapolating (1) lower earnings (20-50%) and (2) high cost of equity in perpetuity. We doubt these two assumptions are valid in perpetuity and would recommend market participants take a more rational view of events. The fair values of businesses/companies are not going to change materially with even 1-2 years of reduced earnings/cash flows.

Sharp decline in share prices reflect consensus view on bleak outlook for a long time

The sharp correction in the stock prices of most large-cap. and mid-cap. stocks (see Exhibits 1-2) suggest that the market expects sharply lower earnings (to the extent of 20-50%) of companies in perpetuity because of the Covid-19 situation. This seems to be a rather aggressive (panicked) reaction from market participants who have been quick to extrapolate recent events into perpetuity. As several events in the past have shown, the world will eventually recover from the aftermath of the ongoing Covid-19 pandemic; the pain will be extreme for affected countries and households but hopefully short-lived for most companies and individuals.

Any basic DCF model will show limited impact of temporary disruption to earnings/cash flows

We note that the fair value of most stocks will not change materially based on lower earnings or cash flows of a few quarters. After all, the fair value of a stock is the sum of all future cash flows in perpetuity discounted to today. We do not expect the current downturn in business conditions due to the Covid-19 pandemic to have a material impact on earnings and cash flows of most large companies beyond a few quarters. Exhibits 3-4 show the P/E and EV/EBITDA of a hypothetical 'stock' based on two scenarios—'normal' scenario and 'downturn' scenario; in the latter case, we assume flat cash flows in FY2021-22E and normal growth post that.

Some parts of the economy may get impacted significantly—effect may last for 1-2 years

We expect the biggest impact of the slowdown in business on (1) MSME entities in retailing, tourism and transportation, (2) self-employed workers in the 'gig' economy and (3) contract workers in the informal economy. Small businesses and low-income households do not have the cash flows, balance sheets or savings to sustain the downturn in business or loss of income for a few months. As such, governments should look at a large fiscal stimulus.

Fiscal response from governments much more important than monetary stimulus

We believe a large fiscal response from governments will be much more effective in absorbing the shock to the 'middle' economy (the segments discussed above) than monetary stimulus (see Exhibit 5 for response of central banks so far). In the Indian context, this could be in the form of (1) a cut in corporate tax rate to half the normal rate for companies with turnover below Rs5 bn for FY2021, (2) removal of tax on dividends, (3) subsidy on interest payment, lease rentals and utility bills for MSMEs and (4) increase in direct payouts to farm households under the farm income scheme, if required. The government could easily pay for the above through (1) extra tax revenues on diesel and gasoline; it has raised excise duty on diesel and gasoline by Rs3/liter recently, which would result in Rs450 bn of additional revenues for FY2021 and (2) nil subsidies on cooking fuels (Rs409 bn in FY2021BE) at crude oil prices below US$40/bbl.

QUICK NUMBERS

- Nifty-50 Index is down 24% in the past one month
- Nfity-50 stocks down 8% to 51% in the past one month (excluding YES)
- Rs1/liter higher tax on diesel and gasoline = Rs150 bn of additional revenues for full year

Sanjeev Prasad

Sunita Baldawa

Anindya Bhowmik

kspcg.research@kotak.com
Contact: +91 22 6218 6427

Exhibit 1: Most large-cap. stocks have corrected by 10-50% in the past one month
Valuation summary and performance of Nifty-50 Index stocks, March fiscal year-ends, 2020E-22E

	P/E (X)			EV/EBITDA (X)			Price	Fair Value	Upside	Performance			
	2020E	2021E	2022E	2020E	2021E	2022E	(Rs)	(Rs)	(%)	1-mo	3-mo	1-Year	CYTD
Tata Motors	NM	10.7	4.6	3.4	2.6	2.2	83	215	159	(51)	(54)	(54)	(55)
Vedanta	7.2	4.2	3.7	4.8	4.1	3.8	75	175	134	(47)	(51)	(57)	(51)
IndusInd Bank	9.1	6.4	5.5	—	—	—	664	1,600	141	(43)	(56)	(61)	(56)
ONGC	3.3	3.4	3.1	2.2	2.1	1.9	60	140	133	(40)	(52)	(61)	(53)
Hindalco Industries	5.2	4.6	4.1	4.2	3.8	3.2	116	250	116	(39)	(46)	(42)	(46)
UPL	13.2	9.4	8.2	8	6.3	5.4	377	510	35	(37)	(33)	(39)	(36)
JSW Steel	21	11.2	6.5	8	6.4	4.7	186	270	45	(35)	(28)	(36)	(31)
GAIL (India)	6.4	5.6	5.2	4.8	4.4	4.0	78	175	124	(34)	(35)	(57)	(35)
Tata Steel	29	5.9	3.2	6.7	5.4	3.8	290	480	66	(34)	(34)	(44)	(39)
Reliance Industries	13.4	10.9	9.4	9.5	7.3	6.0	1,016	1,850	82	(31)	(35)	(23)	(33)
Axis Bank	29	10.3	8.2	—	—	—	509	740	45	(31)	(32)	(31)	(33)
Zee Entertainment Enterprises	9.7	9.0	7.9	6.0	5.3	4.5	166	340	104	(30)	(41)	(63)	(43)
State Bank of India	NM	5.0	4.1	—	—	—	223	420	88	(29)	(33)	(25)	(33)
ITC	12.4	11.7	10.6	8	8	6.7	147	300	104	(28)	(39)	(49)	(38)
Adani Ports and SEZ	10.6	10.5	9.3	10	8.4	7.3	261	475	82	(28)	(30)	(29)	(29)
Tech Mahindra	12.6	11.5	10.1	7.6	6.3	5.3	603	830	38	(28)	(22)	(25)	(21)
HCL Technologies	11.3	10.7	9.8	7.0	6.4	5.6	451	620	38	(27)	(19)	(12)	(21)
Wipro	10.5	9.8	9.1	5.9	5.0	4.4	180	230	28	(26)	(27)	(32)	(27)
Infosys	15.1	14.2	12.8	10	9	8	583	810	39	(26)	(20)	(19)	(20)
ICICI Bank	22	12.7	10.7	—	—	—	403	615	53	(26)	(26)	2	(25)
Mahindra & Mahindra	10.0	10.0	8.7	6.6	6.4	5.4	392	815	108	(25)	(23)	(44)	(26)
L&T	13.9	14.3	11.2	15	13	11	969	1,550	60	(24)	(26)	(31)	(25)
Bajaj Auto	13.6	13.8	11.7	10	9	7	2,340	3,100	33	(24)	(27)	(23)	(27)
Titan Company	56	43	34	35	27	22	1,011	1,475	46	(23)	(13)	(8)	(15)
Bajaj Finance	36	27	22	—	—	—	3,672	3,850	5	(23)	(11)	28	(13)
TCS	19.5	18.3	16.7	13.8	13	11	1,696	1,950	15	(23)	(22)	(15)	(22)
Hero Motocorp	10.7	12.6	10.8	6.4	7.4	5.9	1,784	2,150	21	(22)	(23)	(35)	(27)
Grasim Industries	7.8	7.4	6.4	4.8	3.9	3.2	577	865	50	(22)	(25)	(30)	(22)
HDFC	17.2	25	22	—	—	—	1,842	2,680	46	(22)	(24)	(7)	(24)
Bajaj Finserv	25	19.0	15.8	—	—	—	7,496	10,200	36	(21)	(20)	8	(20)
BPCL	15.6	10.8	10.3	9.6	7.9	7.4	365	490	34	(21)	(26)	(8)	(26)
Ultratech Cement	25	21	17.4	11	9.9	8.7	3,518	3,800	8	(21)	(15)	(10)	(13)
Maruti Suzuki	27	23	18.5	14	12	8.4	5,480	5,800	6	(21)	(24)	(23)	(26)
IOCL	9.4	5.9	5.8	5.1	4.4	4.2	90	130	45	(20)	(29)	(43)	(29)
Kotak Mahindra Bank	29	25	20	—	—	—	1,384	1,700	23	(18)	(19)	4	(18)
HDFC Bank	21	17.7	15.0	—	—	—	1,000	1,350	35	(18)	(21)	(11)	(21)
Bharti Airtel	NM	NM	NM	9.9	7.4	6.1	465	600	29	(18)	6	50	2
NTPC	7.4	6.3	5.9	8.7	7.5	6.0	91	160	76	(18)	(21)	(31)	(24)
Coal India	5.1	4.8	5.2	4.2	3.4	3.4	144	280	95	(14)	(27)	(41)	(32)
Dr Reddy's Laboratories	26	20	15.3	11	10.8	8.2	2,827	2,800	(1)	(14)	0	6	(2)
Power Grid	7.8	6.9	6.2	6.6	6.2	5.8	158	235	49	(14)	(16)	(18)	(17)
Hindustan Unilever	58	49	42	40	34	29	1,942	1,900	(2)	(14)	(1)	14	1
Nestle India	70	60	52	48.5	41.9	36.6	14,397	14,000	(3)	(13)	2	42	(3)
Britannia Industries	46	40	34	34	30	26	2,709	2,900	7	(12)	(12)	(12)	(11)
Eicher Motors	21	22	16.8	16	16	12	16,494	19,500	18	(11)	(24)	(27)	(27)
Bharti Infratel	13.7	13.3	11.8	6.7	6.2	5.6	209	230	10	(11)	(16)	(33)	(17)
Asian Paints	58	49	42	37	32	28	1,683	1,825	8	(11)	(4)	18	(6)
Sun Pharmaceuticals	19.3	15.9	14.7	11	8.3	7.0	369	480	30	(10)	(14)	(21)	(15)
Cipla	18.8	15.4	12.1	9.6	8.4	6.6	396	570	44	(8)	(15)	(26)	(17)
Yes Bank	NM	NM	1,085	—	—	—	37	—	—	(0)	(22)	(85)	(21)
Nifty-50 Index	**21**	**17.1**	**14.2**	**5.8**	**4.9**	**3.9**	**9,197**	**13,500**	**47**	**(24)**	**(24)**	**(20)**	**(24)**

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 2: Many mid-cap. stocks have corrected by 10-50% in the past one month
Valuation summary and performance of major mid-cap. stocks, March fiscal year-ends, 2020E-22E

	P/E (X)			EV/EBITDA (X)			Price	Fair Value	Upside	Performance			
	2020E	2021E	2022E	2020E	2021E	2022E	(Rs)	(Rs)	(%)	1-mo	3-mo	1-Year	CYTD
Oil India	3.2	3.0	2.8	1.6	1.6	1.3	70	180	156	(46)	(54)	(61)	(54)
Motherson Sumi Systems	15.7	11.4	9.6	5.7	4.0	3.3	67	105	57	(46)	(53)	(60)	(54)
Sobha	7.1	5.9	4.8	5	4	4	209	465	122	(45)	(47)	(51)	(48)
Jindal Steel and Power	40	4.2	4.9	6.0	4.0	3.9	109	205	88	(43)	(25)	(35)	(35)
L&T Finance Holdings	7.5	5.6	4.4	—	—	—	71	115	62	(43)	(40)	(52)	(40)
Shriram Transport	5.7	5.6	4.7	—	—	—	764	1,525	100	(40)	(30)	(40)	(35)
Lemon Tree Hotels	49	22	17.8	15	9.9	7.5	37	70	90	(38)	(38)	(54)	(42)
Container Corp.	21	18	14.6	11.2	9.9	7.8	355	400	13	(36)	(38)	(31)	(38)
Tata Communications	23	18.2	14.2	5	4.8	4.3	254	500	97	(34)	(35)	(32)	(36)
Bajaj Consumer Care	8.6	8.3	7.4	6.4	6.1	5.3	131	280	113	(34)	(41)	(59)	(44)
LIC Housing Finance	4.8	3.5	3.1	—	—	—	255	475	86	(33)	(42)	(50)	(41)
Dalmia Bharat	34	27	18.1	6.2	5.4	4.3	585	1,050	80	(32)	(29)	(47)	(27)
CESC	5.7	4.8	4.3	5.2	4.6	4.1	483	820	70	(31)	(35)	(33)	(34)
Cholamandalam	13.2	10.0	9.0	—	—	—	228	375	64	(31)	(27)	(18)	(25)
Balkrishna Industries	17.7	16.7	15.0	11.6	9.5	8.1	883	1,030	17	(31)	(7)	(5)	(11)
Mahindra & Mahindra Financial	10.7	8.0	6.4	—	—	—	262	405	55	(30)	(19)	(40)	(19)
Escorts	11.8	10.1	8.5	8.0	6.6	5.0	634	1,080	70	(28)	3	(21)	1
Shriram City Union Finance	6.3	5.7	5.1	—	—	—	1,085	1,975	82	(26)	(23)	(39)	(23)
National Aluminium Co.	46	13.1	13.5	5.6	4.0	5.9	30	35	17	(26)	(30)	(45)	(32)
Federal Bank	7.5	6.3	5.0	—	—	—	63	120	90	(25)	(27)	(31)	(28)
Hexaware Technologies	13.2	11.7	10.9	9.5	8.4	7.3	279	350	25	(25)	(17)	(18)	(17)
Mphasis	11.5	10.8	10.4	6.8	6.2	5.7	692	850	23	(25)	(20)	(30)	(25)
Castrol India	14.0	12.5	11.6	9.2	8.2	7.6	117	180	54	(24)	(11)	(29)	(9)
SRF	22	18.1	15.2	14	11	9	3,148	3,900	24	(24)	(3)	30	(8)
Tata Chemicals	7.6	6.8	6.2	3.0	2.7	2.3	252	345	37	(24)	(13)	(2)	(14)
Bharat Forge	29	23	16.7	15.0	13.1	10.3	370	365	(1)	(24)	(24)	(31)	(23)
Mahanagar Gas	11.3	10.4	9.7	7.1	6.2	5.5	870	1,300	49	(23)	(19)	(7)	(18)
Jubilant Foodworks	52	37	27	18.8	14.9	11.9	1,406	1,900	35	(23)	(11)	5	(15)
Aditya Birla Fashion and Retail	116	73	44	14	12	10	204	230	13	(23)	(13)	(10)	(12)
Bank of Baroda	78	2.7	2.4	—	—	—	64	105	65	(23)	(38)	(46)	(37)
Ashok Leyland	30	28	9.9	14.2	12.0	5.8	63	100	58	(22)	(21)	(33)	(22)
Polycab	22	18.8	16.9	12.4	10.6	9.3	822	700	(15)	(22)	(16)	—	(17)
Tata Power	11.1	7.5	5.6	7.1	7	6	40	72	78	(22)	(28)	(45)	(28)
Thermax	30	19.9	16.5	18.3	15.7	13.1	779	1,140	46	(21)	(25)	(24)	(28)
Tata Consumer Products	34	29	26	19.3	16.8	15.1	300	400	33	(21)	(8)	48	(7)
Brigade Enterprises	22	18.6	10.2	13	9	6	181	280	55	(21)	(13)	20	(17)
AU Small Finance Bank	38	32	25	—	—	—	920	625	(32)	(19)	15	51	15
Petronet LNG	11.6	10.0	9.0	6.5	5.6	4.9	208	325	56	(19)	(25)	(10)	(22)
Bharat Electronics	10.7	8.8	9.5	6.2	5.3	5.0	66	113	72	(19)	(34)	(31)	(34)
Cummins India	16.4	15.2	13.6	15.9	14.1	12.5	438	590	35	(18)	(22)	(41)	(21)
Max Financial Services	58	41	28	—	—	—	401	550	37	(18)	(21)	(9)	(25)
Aurobindo Pharma	8.7	7.6	7.3	6	5.1	4.7	405	540	33	(18)	(10)	(48)	(11)
J K Cement	14.0	11.7	9.0	9	8	6.4	1,178	1,500	27	(17)	2	41	1
Page Industries	52	42	35	34	28.8	24.5	18,972	22,000	16	(16)	(15)	(20)	(19)
Mindtree	22	15.5	13.5	11.8	8.9	7.6	832	810	(3)	(15)	8	(10)	4
Narayana Hrudayalaya	43	33	26	15.2	12.9	10.8	290	410	42	(15)	(5)	29	(6)
Apollo Hospitals	52	39	28	14.4	14.2	12.3	1,473	1,840	25	(14)	8	31	2
Laurus Labs	16.1	11.1	10.3	9.4	7.0	6.2	378	500	32	(14)	9	(2)	5
Oberoi Realty	21	13.2	11.8	18.9	11.3	9.6	444	575	30	(12)	(14)	(9)	(16)
Vodafone Idea	(0.3)	(1.4)	(0.9)	19.9	9.8	9.0	6	—	—	68	(17)	(72)	(7)

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 3: Hypothetical EV/EBITDA or P/E of a stock linked to growth assumptions, March fiscal year-ends, 2020-40 (Rs)

Assumptions	2020-30	2030-40	Terminal
Growth rate of volumes	6.0%	5.00%	4.0%
Growth rate of ASP	5.0%	4.00%	3.0%
Terminal growth			7.0%
Tax rate	25.0%	25.0%	25.0%
Post-tax discount rate	12.0%	11.0%	10.0%
Asset turns (X)	2.5		

	2020	2021	2022	2023	2024	2025	2030	2035	2036	2037	2038	2039	2040
Volumes ('000 units)	100	106	112	119	126	134	179	229	240	252	265	278	292
ASP (Rs/unit)	100	105	110	116	122	128	163	198	206	214	223	232	241
EBITDA margin (%)	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
EBITDA	1,800	2,003	2,230	2,482	2,762	3,074	5,251	8,153	8,903	9,723	10,617	11,594	12,660
Depreciation		(178)	(198)	(221)	(246)	(273)	(467)	(725)	(791)	(864)	(944)	(1,031)	(1,125)
EBIT		1,825	2,032	2,261	2,517	2,801	4,784	7,429	8,112	8,858	9,673	10,563	11,535
PAT (assuming no debt)		1,369	1,524	1,696	1,887	2,101	3,588	5,571	6,084	6,644	7,255	7,922	8,651
PAT + depreciation		1,547	1,722	1,916	2,133	2,374	4,055	6,296	6,875	7,508	8,199	8,953	9,777
Capex		(452)	(503)	(560)	(623)	(694)	(1,185)	(1,526)	(1,667)	(1,820)	(1,988)	(2,171)	(2,370)
FCF		1,095	1,219	1,357	1,510	1,680	2,870	4,770	5,209	5,688	6,211	6,782	7,406
FCF discounted @ 12%, 11%		978	972	966	960	954	924	997	981	965	949	934	919
NPV of cash flows		19,406											
Terminal value		264,162											
NPV of terminal value @ 10%		39,266											
EV		58,672											
EV/BITDA (X)		29											
P/E (X)		43											

Source: Kotak Institutional Equities estimates

Exhibit 4: Hypothetical EV/EBITDA or P/E of a stock linked to growth assumptions, March fiscal year-ends, 2020-40 (Rs)

Assumptions	2020-30	2030-40	Terminal
Growth rate of volumes	6.0%	5.00%	4.0%
Growth rate of ASP	5.0%	4.00%	3.0%
Terminal growth			7.0%
Tax rate	25.0%	25.0%	25.0%
Post-tax discount rate	12.0%	11.0%	10.0%
Asset turns (X)	2.5		

	2020	2021	2022	2023	2024	2025	2030	2035	2036	2037	2038	2039	2040
Volumes ('000 units)	100	100	100	106	112	119	159	203	214	224	235	247	260
ASP (Rs/unit)	100	100	100	105	110	116	148	180	187	194	202	210	219
EBITDA margin (%)	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
EBITDA	1,800	1,800	1,800	2,003	2,230	2,482	4,239	6,582	7,187	7,849	8,571	9,359	10,220
Depreciation		(160)	(160)	(178)	(198)	(221)	(377)	(585)	(639)	(698)	(762)	(832)	(908)
EBIT		1,640	1,640	1,825	2,032	2,261	3,862	5,997	6,548	7,151	7,809	8,527	9,312
PAT (assuming no debt)		1,230	1,230	1,369	1,524	1,696	2,896	4,498	4,911	5,363	5,857	6,395	6,984
PAT + depreciation		1,390	1,390	1,547	1,722	1,916	3,273	5,083	5,550	6,061	6,618	7,227	7,892
Capex		—	—	(452)	(503)	(560)	(956)	(1,232)	(1,346)	(1,469)	(1,605)	(1,752)	(1,913)
FCF		1,390	1,390	1,095	1,219	1,357	2,317	3,850	4,205	4,591	5,014	5,475	5,979
FCF discounted @ 12%, 11%		1,241	1,108	779	775	770	746	805	792	779	766	754	742
NPV of cash flows		16,441											
Terminal value		213,246											
NPV of terminal value @ 10%		31,698											
EV		48,138											
EV/BITDA (X)		27											
P/E (X)		39											

Source: Kotak Institutional Equities estimates

Exhibit 5: Central banks have cut rates and injected liquidity into the system
Various measures unveiled by global central banks to tackle the fall-out of COVID-19

Central Bank	Measure
US Federal Reserve	Cut policy rate by 150 bps in two cuts in two weeks bringing Fed Funds rate to 25 bps. Announced re-launch of QE program; to buy US$700 bn of bonds
ECB	No cut in rates; promised to buy more bonds and inject more liquidity
Bank of Japan	Doubled its net purchases of exchange-traded funds to Yn12 tn
PBOC	Reduced reserve-ratio to inject fresh liquidity of US$79 bn
Bank of England	Reduced policy rates by 50 bps
RBI	Plans to add US$3.4 bn through short-term repo auctions; US$2 bn swap window for forex markets

Source: Media articles, Kotak Institutional Equities

kotak Institutional Equities

United Spirits (UNSP)

Consumer Staples

BUY

MARCH 17, 2020

CHANGE IN RECO.

Sector view: Cautious

CMP (₹): 525

Fair Value (₹): 660

BSE-30: 30,579

Sharp correction an opportunity. We upgrade UNSP to BUY from REDUCE with fair value of Rs660. UNSP has executed well on premiumization and non-COGS cost optimization over the past few years notwithstanding a weak demand environment and RM headwinds. Even as demand environment remains challenging (especially ST impact of Covid-19), RM prices have stabilized and valuations have turned attractive. We revise estimates to factor in the ST impact of Covid-19 and fair value to Rs660 (from Rs670).

United Spirits

Stock data			
52-week range (Rs) (high,low)			743-506
Mcap (bn) (Rs/US$)			382/5.2
ADTV-3M (mn) (Rs/US$)			1,620/22
Shareholding pattern (%)			
Promoters			56.8
FIIs			22.4
MFs/BFIs			5.3/0.6
Price performance (%)	1M	3M	12M
Absolute	(25)	(10)	(10)
Rel. to BSE-30	1	22	12

Forecasts/valuations	2020E	2021E	2022E
EPS (Rs)	13.1	15.2	20.3
EPS growth (%)	38.9	15.7	34.1
P/E (X)	40.1	34.6	25.8
P/B (X)	9.9	6.6	4.8
EV/EBITDA (X)	25.0	22.2	17.6
RoE (%)	27.2	22.9	21.6
Div. yield (%)	0.4	0.5	0.6
Sales (Rs bn)	95	99	111
EBITDA (Rs bn)	16	17	21
Net profits (Rs bn)	10	11	15

Potential impact of Covid-19 on ST term sales and more

Covid-19 outbreak would negatively impact UNSP in the near term: (1) on-premise sales (25% of overall sales; lower in volume terms) could decline sharply due to restrictions on travel, cancellation of events/parties and likely shutdown of pubs and restaurants in a few markets, (2) partly offset by likely higher in-home consumption during this period. Net impact—revenues could decline sharply over the next few weeks. We note that restaging of Mcdowell's No. 1 whiskey (new packaging, brand emblem and product/liquid), UNSP's largest brand, is underway and renovation of Royal Challenge is planned for FY2021E. These renovations, if successful, could aid market share gains. Any further weakening of the economy and state finances, on account of derivative impact of Covid-19, could put pressure on alcobev industry.

Firmly on profitability improvement path

Even as external factors (demand, RM prices, taxation and state-mix) have trended unfavorably over the past 2-3 years, UNSP has made good progress on the cost-optimization front, materially reducing non-COGS operating costs. On a per case basis, staff costs, adspends and other expenses combined stood at Rs332/case in 9MFY20 (versus Rs372/case in FY2019). These expenses stood at 29.4% (down 440 bps yoy; like-for-like excluding Ind-AS 116 and one-time sale of bulk scotch) of revenues in 9MFY20 versus 27% of revenues for Pernod in FY2019. This is impressive considering UNSP's much wider range of products and a more diversified state mix. The company is confident of further reduction in non-COGS costs as % of revenues, albeit at a slower pace, over the next 2-3 years even with modest/negligible operating leverage benefit given a weak demand environment. On the GM front, ENA and glass bottle costs have stabilized at portfolio-level and it augurs well for margins going forward.

Upgrade to BUY from REDUCE

UNSP has executed well on three parameters, against the backdrop of a weak macro and other adverse externalities (RM inflation and taxation): (1) steady progress in non-COGS cost optimization, (2) improvement in product mix led by enhanced focus on P&A segment, and (3) improvement in w-cap cycle and debt reduction partly aided by asset monetization. Even as demand environment remains challenging, we upgrade the stock to BUY from REDUCE in view of attractive valuations and consistent execution on factors that are within management control. Prolonged (into FY2022E) impact of Covid-19 is the key risk to our call.

Rohit Chordia

Jaykumar Doshi j

Aniket Sethi

kspcg.research@kotak.com
Contact: +91 22 6218 6427

Other updates

- **Karnataka**. Inflation in ENA prices in Karnataka would impact popular segment sales. At current ENA prices, lower-end of the popular portfolio is economically unviable. Further, we note that the recent increase in AED (additional excise duty) by Karnataka government would result in about 3-4% increase in consumer-level price (MRP). UNSP is engaged with the government for expansion of slabs that allows the company to increase prices of products in key segments without moving into the upper slab.

- **Andhra Pradesh**. UNSP's sales volume in AP has been impacted by government initiatives (reduction in retail outlets and restriction on store hours – 11 am to 8 pm) and increased competition from local players. Collections continue to be a challenge in this market, per our checks. UNSP has been quite firm about maintaining working capital discipline and we believe the company may have willingly let go of some market share in the state to limit working capital drag on account of slower collections.

- **RCB's financials likely to be impacted**. We note that IPL has been tentatively postponed to April 15, 2020 as of now. Cancellation of this season could impact financials of RCB (Royal Challengers Bangalore), UNSP's IPL franchise.

- **Inventory-levels and supply chain**. UNSP has around two months of inventory of bulk scotch. At this juncture, it doesn't see any supply-side challenges or any material disruption in supply chain.

- **On-premise competitiveness**. UNSP has been working hard on improving its competitiveness, especially relative to Pernod, in the on-premise channel. The company has a key accounts team that works on developing a partnership-based business development construct with top restaurants and pubs in major cities. The company has also stepped up its investment in events, especially around music and food, to deepen its connect with the millennials who are entering the category.

- **States warming up to the benefits of mix improvement**. We have seen a few instances of states lowering the relative tax incidence on premium brands versus the popular ones. The industry has been able to convince these governments of the revenue benefits of such an approach. More states buying in would provide additional impetus to the already-strong premiumization trend in the market.

Exhibit 1: Key changes to earnings, March fiscal year-ends, 2020-22E (Rs mn)

	Revised			Earlier			Change (%)		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Revenues (Rs mn)	94,978	98,774	111,166	95,971	103,599	113,556	(1.0)	(4.7)	(2.1)
EBITDA (Rs mn)	16,184	17,333	20,866	16,643	18,798	21,133	(2.8)	(7.8)	(1.3)
EBITDA (%)	17.0	17.5	18.8	17.3	18.1	18.6			
Recurring PAT (Rs mn)	9,522	11,016	14,773	9,924	12,152	15,017	(4.0)	(9.3)	(1.6)
Adj. EPS (Rs/share)	13.1	15.2	20.3	13.7	16.7	20.7	(4.0)	(9.3)	(1.6)

Source: Company, Kotak Institutional Equities

Exhibit 2: UNSP: P&A segment is growing ahead of company average and within P&A, the premium-end (scotch) is growing faster
United Spirits – quarterly volume/revenue trends

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Volumes (mn cases)											
Prestige and above segments (P&A)	8.4	9.1	9.9	9.8	9.5	10.5	11.1	10.5	10.3	10.8	11.4
Regular and below segments (Popular)	9.6	9.4	11.2	11.1	8.7	9.9	10.8	10.6	9.0	9.8	10.1
Total	**18.0**	**18.5**	**21.1**	**20.9**	**18.2**	**20.4**	**21.9**	**21.1**	**19.3**	**20.6**	**21.5**
Growth, yoy (%)											
Prestige and above segments (P&A)	(9)	2	(3)	15	13	15	12	7	8	3	3
Regular and below segments (Popular)	(26)	(28)	(22)	(14)	(9)	5	(4)	(4)	3	(1)	(6)
Total	**(19)**	**(16)**	**(14)**	**(2)**	**1**	**10**	**4**	**1**	**6**	**1**	**(2)**
% of total volumes											
Prestige and above segments (P&A)	46.7	49.2	46.9	46.9	52.2	51.5	50.7	49.8	53.4	52.4	53.0
Regular and below segments (Popular)	53.3	50.8	53.1	53.1	47.8	48.5	49.3	50.2	46.6	47.6	47.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes: (1) Volume analysis above excludes royalty and franchise volumes.

Source: Company, Kotak Institutional Equities

Exhibit 3: UNSP: Impressive optimization of non-COGS operating costs over FY2018-20E
Per case metrics of UNSP, March fiscal year-ends, 2018-20E

	FY2018	FY2019	FY2020E	Change (bps)/ CAGR (%) FY2018-20E
Revenues (Rs mn)	81,701	89,806	93,268	7
Volumes (mn cases)	**78.5**	**81.6**	**82.7**	3
Revenues (Rs/case)	1,041	1,101	1,128	4
Gross profit (Rs mn)	38,810	43,857	42,411	5
Gross margin (%)	**47.5**	**48.8**	**45.5**	-204 bps
Per case gross profit (Rs/case)	494	537	513	2
Staff costs (Rs mn)	6,471	6,753	5,537	(7)
As % of revenues	7.9	7.5	5.9	-199 bps
Per case staff costs (Rs/case)	82	83	67	(10)
A&SP expense (Rs mn)	7,882	8,587	7,978	1
As % of revenues	9.6	9.6	8.6	-110 bps
Per case A&SP expense (Rs/case)	100	105	97	(2)
Other expenses (Rs mn)	14,348	15,643	14,133	(1)
As % of revenues	17.6	17.4	15.2	-241 bps
Per case other expenses (Rs/case)	183	192	171	(3)
Total overheads (Rs mn)	28,701	30,983	27,648	(2)
As % of revenues	35.1	34.5	29.6	-549 bps
Per case overhead costs (Rs/case)	366	380	334	(4)
EBITDA (Rs mn)	10,109	12,874	14,763	21
EBITDA margin (%)	**12.4**	**14.3**	**15.8**	345 bps
Per case EBITDA (Rs/case)	129	158	179	18

Notes: (1) FY2020E financial adjusted for Ind-AS 116 and sale of bulk scotch.

Source: Company, Kotak Institutional Equities

Exhibit 4: UNSP: Improvement in working capital over the past 2-3 years

	FY2017	FY2018	FY2019	Sep-19
Revenues (Rs mn)	85,476	81,701	89,806	92,615
Inventory (Rs mn)	18,538	18,694	18,767	19,874
Days of sales	79	84	76	78
Receivables (Rs mn)	29,605	26,998	25,181	25,816
Days of sales	126	121	102	102
Payables (Rs mn)	11,798	14,240	13,360	13,596
Days of sales	50	64	54	54
Cash conversion cycle (days)	**155**	**141**	**124**	**126**
Net debt (Rs mn)	**40,484**	**31,490**	**25,890**	**24,020**

Source: Company, Kotak Institutional Equities

Exhibit 5: UNSP: SoTP valuation

	Approach	Multiple (X)	Value (Rs bn)
Standalone business	DCF		451
RCB franchise	EV/ revenues	5.0	18
Total			**469**
# of shares (mn) (a)			709
Fair value (Rs/share)			662
Target price (Rs/share)			**660**

Note:
(a) Share count adjusted for shares held by USL benefit trust.

Source: Company, Kotak Institutional Equities

Exhibit 6: Standalone profit model, balance sheet, cash model of United Spirits, March fiscal year-ends, 2017-22E

	2017	2018	2019	2020E	2021E	2022E
Profit model						
Net revenues	85,476	81,701	89,806	94,978	98,774	111,166
EBITDA	**9,710**	**10,215**	**12,874**	**16,184**	**17,333**	**20,866**
Other income	1,111	2,060	952	612	1,247	2,349
Interest expense	(3,690)	(2,611)	(2,200)	(1,892)	(1,549)	(1,056)
Depreciation	(1,323)	(1,351)	(1,445)	(2,157)	(2,343)	(2,528)
Pretax profits	**5,808**	**8,313**	**10,181**	**12,747**	**14,688**	**19,631**
Extraordinaries	(2,273)	90	(267)	(451)	10,000	10,000
Tax	(1,836)	(2,786)	(3,328)	(3,225)	(3,672)	(4,859)
Reported PAT	**1,699**	**5,617**	**6,586**	**9,071**	**21,016**	**24,773**
Adj. PAT	**3,972**	**5,527**	**6,853**	**9,522**	**11,016**	**14,773**
Adj. earnings per share (Rs)	**5.5**	**7.6**	**9.4**	**13.1**	**15.2**	**20.3**
Balance sheet						
Total shareholder equity	19,378	25,038	31,315	38,636	57,465	79,613
Total borrowings	41,007	32,688	25,729	24,729	16,586	11,586
Deferred tax liability	(1,241)	(856)	(1,878)	(1,878)	(1,878)	(1,878)
Total liabilities and equity	**59,144**	**56,870**	**55,166**	**61,487**	**72,173**	**89,321**
Net fixed assets	12,723	11,001	12,453	12,546	12,544	12,649
Total investments	9,354	9,354	9,354	9,354	9,354	9,354
Cash	523	1,198	588	1,407	12,654	25,193
Net current assets	36,544	35,317	32,771	38,179	37,622	42,125
Total assets	**59,144**	**56,870**	**55,166**	**61,487**	**72,173**	**89,321**
Free cash flow						
Operating cash flow, excl. working capital	5,001	7,769	8,215	12,959	13,661	16,008
Working capital changes	1,732	1,694	2,546	(5,408)	558	(4,503)
Capital expenditure	(2,037)	(1,332)	(2,897)	(2,250)	(2,340)	(2,633)
Free cash flow	**4,696**	**8,131**	**7,864**	**5,301**	**11,879**	**8,871**
Ratios						
Gross revenue growth (%)	9.8	2.5	9.8	4.0	4.5	14.0
Net operating revenue growth (%)	**3.6**	**(4.4)**	**9.9**	**5.8**	**4.0**	**12.5**
EBITDA growth (%)	9.5	5.2	26.0	25.7	7.1	20.4
Recurring PAT growth (%)	59.0	39.1	24.0	38.9	15.7	34.1
Gross margin (%)	42.9	47.5	48.8	45.6	46.7	47.5
EBITDA margin(%)	**11.4**	**12.5**	**14.3**	**17.0**	**17.5**	**18.8**
RoAE (%)	21.8	24.9	24.3	27.2	22.9	21.6
RoACE (%)	14.4	15.3	20.4	24.0	22.4	22.7
Key assumptions						
Total core volumes (mn cases)	**90.1**	**78.5**	**81.6**	**82.7**	**82.5**	**89.3**
-Prestige and Above	36.8	37.2	41.6	43.5	45.2	50.2
-Popular	53.3	41.3	40.0	39.2	37.2	39.1
Blended Realisation (Rs/case)	**937**	**1,016**	**1,072**	**1,117**	**1,161**	**1,206**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Container Corp. (CCRI)

Transportation

BUY	
MARCH 17, 2020	
CHANGE IN RECO.	
Sector view:	Attractive
CMP (₹):	341
Fair Value (₹):	400
BSE-30:	30,579

Competitive advantage remains protected; upgrade to BUY. The potential buyout of ICD land by CCRI wouldn't take away (1) its competitive advantage of owning a network of terminals at key locations and (2) the play it provides on rail, winning share from road over time. The same may dilute the near-term benefits for CCRI from DFC commissioning and potentially deal valuations. We lower our fair value to Rs400 (from Rs510) and upgrade the stock to BUY (from SELL).

Container Corp.

Stock data			
52-week range (Rs) (high,low)			666-301
Mcap (bn) (Rs/US$)			209/2.9
ADTV-3M (mn) (Rs/US$)			587/8
Shareholding pattern (%)			
Promoters			54.8
FIIs			27.2
MFs/BFIs			8.1/5.2
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(38)	(41)	(34)
Rel. to BSE-30	(17)	(20)	(18)

Forecasts/valuations	2020E	2021E	2022E
EPS (Rs)	16.6	19.3	24.3
EPS growth (%)	1.5	16.5	26.0
P/E (X)	20.6	17.7	14.0
P/B (X)	2.0	1.9	1.8
EV/EBITDA (X)	10.7	9.4	7.4
RoE (%)	9.7	10.9	12.9
Div. yield (%)	0.7	2.4	3.1
Sales (Rs bn)	66	75	96
EBITDA (Rs bn)	16	18	22
Net profits (Rs bn)	10	12	15

Recent developments can cap initial benefits of DFC for CCRI and deal valuations…

The potential buyout of ICD land would impact CCRI's cash-flow generation over the next few years over which it services and repays the ~Rs50 bn of starting debt. This would limit scope of CCRI to use the pricing lever to drive share gains from commissioning of the DFC. A low oil-price regime would boost the ability of road transporters to compete with CCRI and its peers. The potential buyout of ICD land by CCRI can bring its business returns in line with that of its peers; would yield ~12% adjusted post-tax RoIC versus 18/10/11% FY2019 levels for CCRI/Gateway Rail Freight/Hind Terminals. IR and competition can more effectively cap CCRI's returns, over the medium to long term, if (1) it is not able to recreate lead in terms of business share over time and/or (2) its dependence on rail transportation does not reduce meaningfully over time.

…though wouldn't affect key drivers of its competitive advantage

CCRI's competitive advantage lies in its network of terminals that it has leveraged to gain from a pricing perspective so far (see Exhibit 7) and can use to fend market share. The key rail peer in Adani Logistics has ceded its ability to compete with CCRI. CCRI buying ICD land from railways at key locations would further cement such advantage. All rail operators still combine to form 20/33% share of overall/relevant rail container transportation market and CCRI provides a good leeway on the rail ecosystem, gaining share over time.

Lower fair value to Rs400 and upgrade to BUY; upside risks originate from deal valuations

We cut our FY2021/22 estimates by 7/9% to factor in risks of the weak business environment sustaining and of increased competition from roads in the near term. We cut our fair value by a higher 20% as we use higher 13% WACC to account for prospect of a Rs80 bn of payout for buying ICD land. Uncertainty on payout for ICD land may weigh on the stock; Rs10 bn of higher payout would lower fair value by 4% or ~Rs17 per share.

Upside risks originate from deal valuations. Extrapolating ICD buyout quantum (accounts for 40% of CCRI's volumes), it would take investment of Rs200 bn just in land for replicating CCRI's operations. In addition to other investments, there would be a long wait to getting clearances to connect such ICDs to IR network and longer wait for growing utilization levels. At CMP, a strategic investor can buy 30-56% stake for a potential EV of Rs260 bn (accounts for Rs50 bn net debt for ICD land buyout).

Aditya Mongia

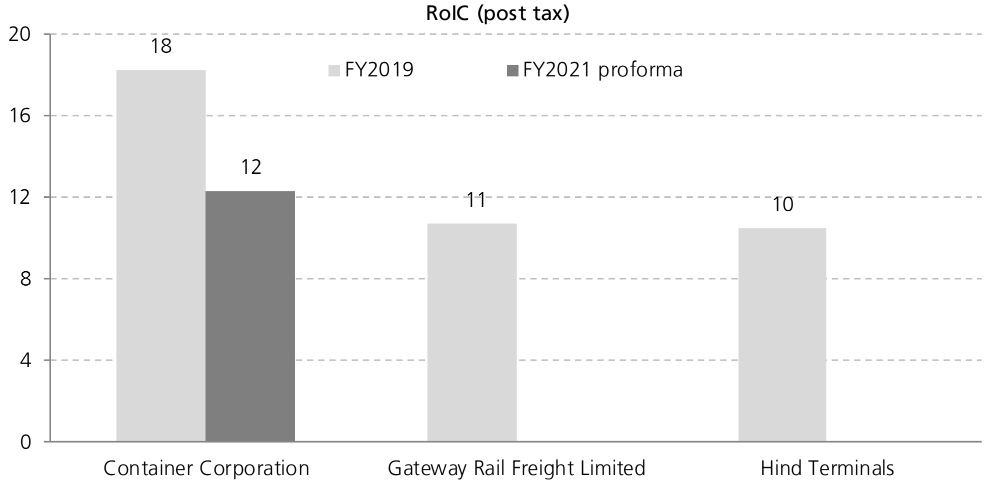
Teena Virmani

kspcg.research@kotak.com
Contact: +91 22 6218 6427

Recent developments can cap initial benefits of DFC for Concor and deal valuations

Potential buyout of land can meaningfully alter ability of Concor to report superior returns in the near term and over the medium to long term. This can impact Concor's ability to gain share from roads in the initial few years of the DFC.

Exhibit 1: Assuming a Rs80 bn payout in lieu of land license fee, Concor's returns would fall in line with peers
Comparison of return on invested capital for container rail operators, March fiscal year-ends, 2019-21E (%)

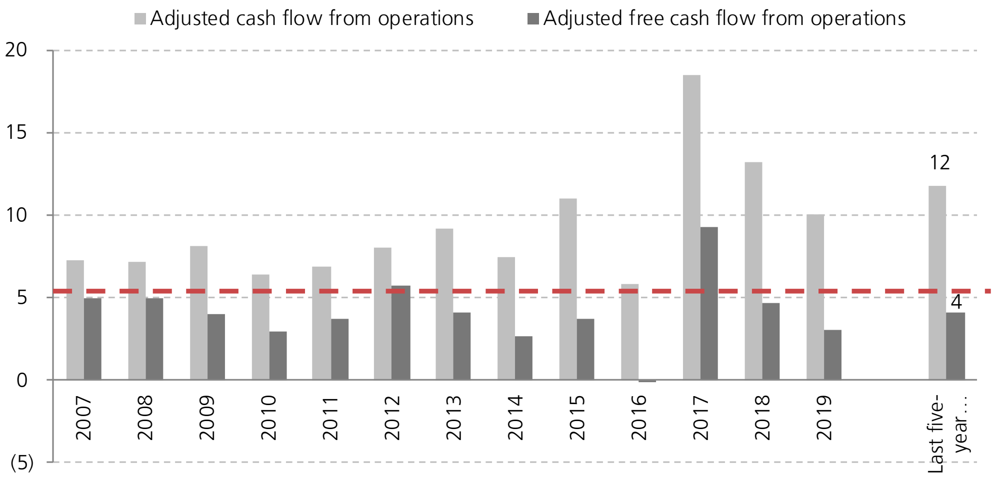


Notes:
(a) Pro forma analysis is based on Rs80 bn payout for acquiring ICD land from IR.

Source: Companies, Kotak Institutional Equities

Against a potential Rs80 bn payout, Concor would have a net cash position of Rs30 bn by end-FY2020. A Rs50 bn starting net debt, in the event of buyout of ICD land, can take out the average FCF generated over the past five years.

Exhibit 2: Past five-year average free cash flow is equivalent to the interest outgo on a potential Rs50 bn debt
Adjusted key cash flow metrics for Concor, March fiscal year-ends, 2007-19 (Rs bn)

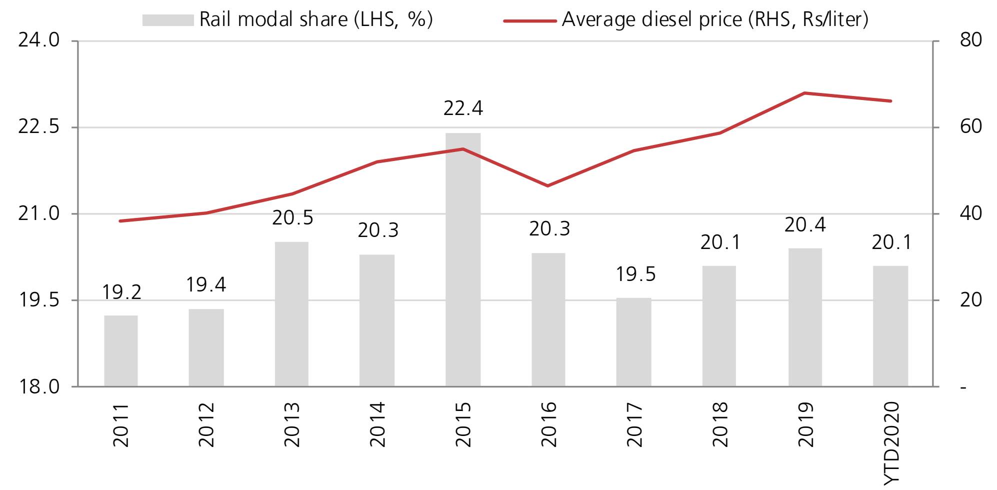


Source: Company, Kotak Institutional Equities

Impending decline in diesel price would enable road transporters to compete more effectively with rail operators. In the past, decline in diesel price has not resulted in IR reducing its haulage rates. This has led to light-weight price-sensitive cargo move from rail to road mode of transportation.

Exhibit 3: Recent fall in oil price would test the ability of rail operators to retain share from road operators in the near term

Market share of rail in transportation of exim containers, March fiscal year-ends, 2011-20E (%)



Notes:

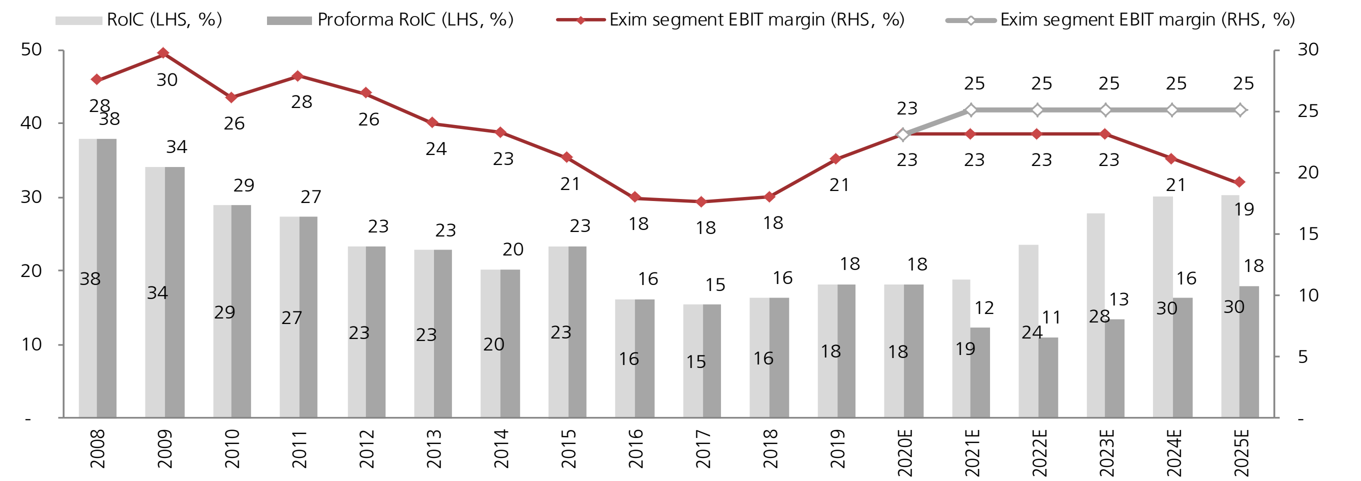
(a) Large haulage rate hike in Nov 2014 exacerbated decline in share in FY2016.

Source: Ministry of Shipping, Indian Ports Association, Indian Railways, Kotak Institutional Equities

Essentially a potential large payout for buying ICD land would meaningfully lower business returns for Concor. This would take 3-4 years to come back again to high-teen levels, competition and IR permitting.

Exhibit 4: RoIC would require 3-4 years of support from DFC to come back to FY2018/19 levels

Trends in post-tax RoIC and exim segment margin for Container Corporation for KIE estimates and pro forma basis, March fiscal year-ends, 2008-25E



Notes:

(a) We have adjusted RoIC series for change in depreciation rates in the past, the impact of SEIS income (and receivables) and capital work-in-progress.

(b) ROIC for FY2019 taken in an other income quantum reflective of cash position before the advance payment

(c) In our modeling, we cap RoIC and reduce margin on such count

(d) Pro forma analysis assumes payout of Rs80 bn for buying ICD land

Source: Company, Kotak Institutional Equities estimates

Equity and strategic investors may then start thinking of Concor as a business where competition and IR can more effectively cap business returns in the absence of meaningful diversification from the rail transportation business. The same accounts for 76% of revenues and majority share of EBITDA. We present below sensitivity to fair value of the terminal phase RoIC (the lever to price in effect of competition/haulage cost increase) and to WACC assumption (the lever to price in risks from ICD land buyout).

Exhibit 5: CMP is pricing 18%+ terminal phase RoIC
Sensitivity of fair value of Concor to terminal RoIC and WACC

One-year-forward fair value (Rs/share)		Terminal phase RoIC (%)				
		16.0	18.0	20.0	22.0	24.0
WACC(%)	13.0	229	260	321	352	398
	12.5	241	276	339	374	423
	12.0	255	293	361	399	451
	11.5	271	314	386	428	485
	11.0	291	338	415	462	523

Source: Kotak Institutional Equities estimates

Concor has otherwise performed well since FY2017

We note inherent strengths of Concor, most of which have been on display over the past few years.

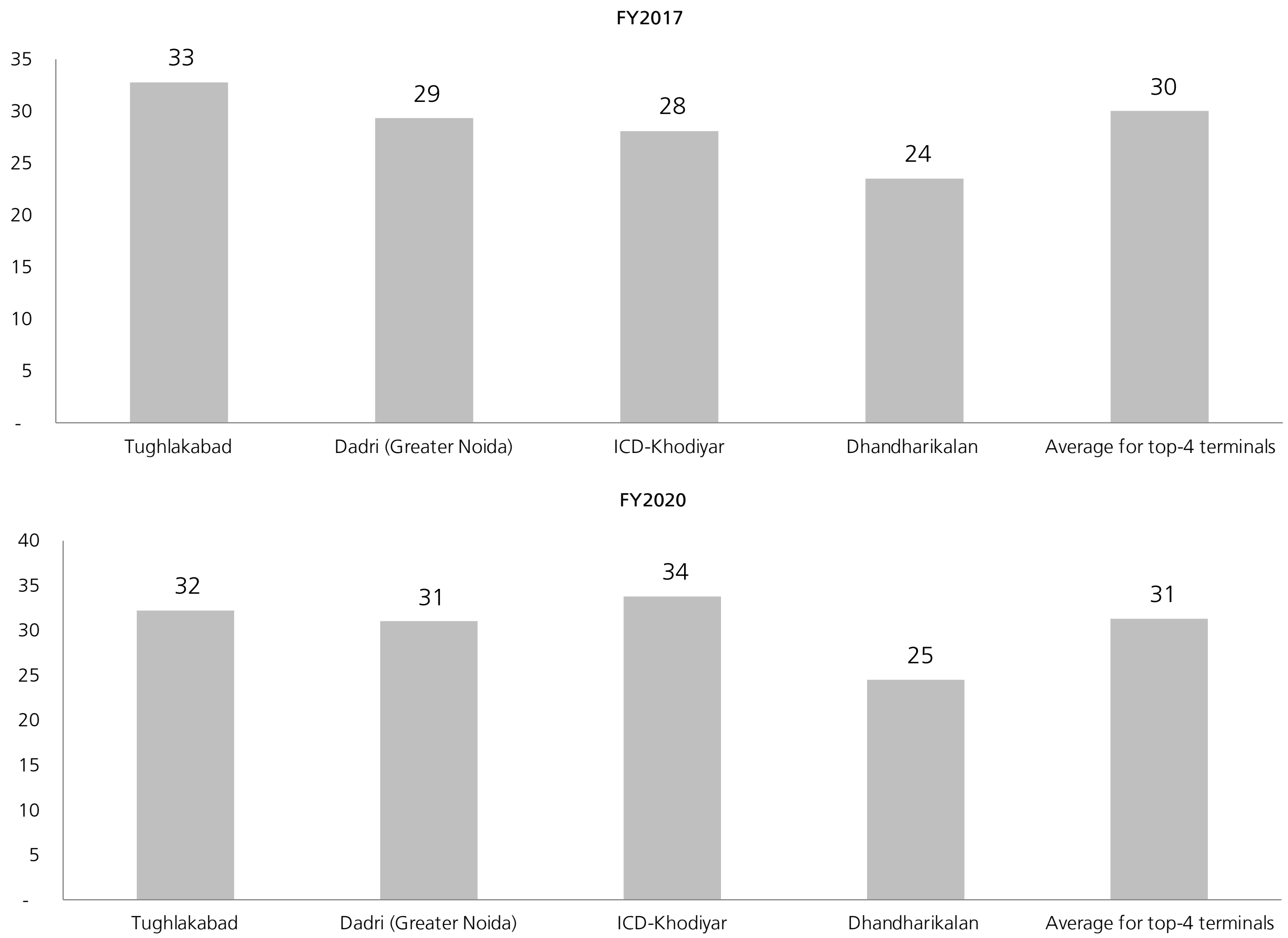
Concor has grown its EBITDA at a healthy 11% CAGR over the past four years, reflecting its pricing power in a period of modest volume growth. It has improved its service offering in the less competitive markets and thus brought gross margin of its key terminals at par with that of the key TKD terminal.

Exhibit 6: Concor has steadily grown EBITDA over the past four years
Trajectory of volumes and EBITDA for Concor, March fiscal year-ends, 2016-20E

	2016	2017	2018	2019	2020E	CAGR (%)
Handling volumes (mn TEUs)	2.5	2.6	3.0	3.2	3.2	6.5
Originating volumes (mn TEUs)	1.8	1.8	2.0	2.1	2.0	3.0
EBITDA (Rs bn)	10.9	10.4	12.0	14.4	16.2	10.5

Source: Company, Kotak Institutional Equities estimates

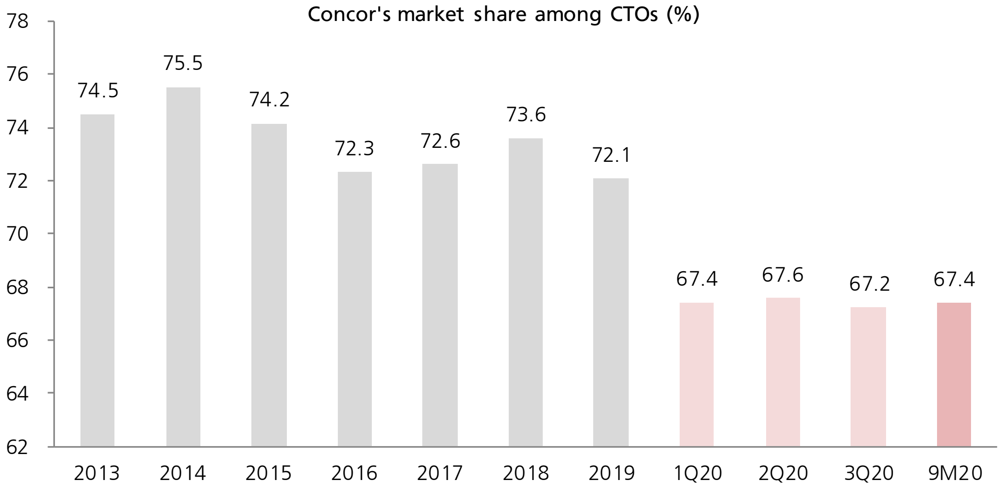
Exhibit 7: Recent increase in pricing of other key terminals beyond TKD limits scope of passing on further cost increases
Comparison of gross margin of Concor's key terminals (%)



Source: Company, Indian Railways, Kotak Institutional Equities

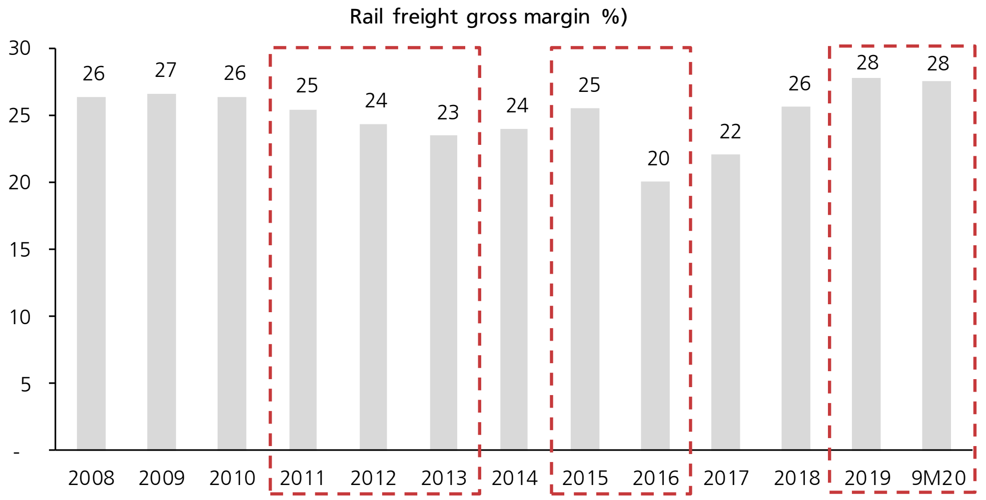
Concor has not lost incremental market share over the past three years. Over such period, it has maintained its gross margin for the rail business.

Exhibit 8: Concor has maintained market share over the past three quarters
Market share for Concor (exim + domestic) among rail container operators, March fiscal year-ends, 2013-3Q20 (%)



Source: Company, Indian Railways, Kotak Institutional Equities

Exhibit 9: Concor has maintained gross margin after the recent haulage hike, unlike in the past two instances
Gross margin on the rail transportation business for Concor, March fiscal year-ends, 2008-9M20 (%)



Source: Company, Kotak Institutional Equities

It has increased the share of business beyond rail transportation, which will help boost and de-risk its overall return ratios over time.

Last, but not the least, Concor remains an attractive play on volume benefits of DFC. Large part of the track access fee for DFCCIL is fixed in nature, providing the incentive for Indian Railways to test the price elasticity of freight demand. To offset additional Rs130 bn or so of DFC's track access fee for the two corridors, we envisage a requirement of 25/35/55% higher volumes in these corridors assuming static pricing/10% discount/20% discount. Such growth requirements would keep on coming down as the freed up capacities on the existing freight corridors gets utilized for running premium passenger train services.

Exhibit 10: In the absence of usage of freed up capacity on existing rail corridor, the railways needs to grow volumes by ~25%. The requirement increases to ~35/55% if a 10/20% discount is to be offered

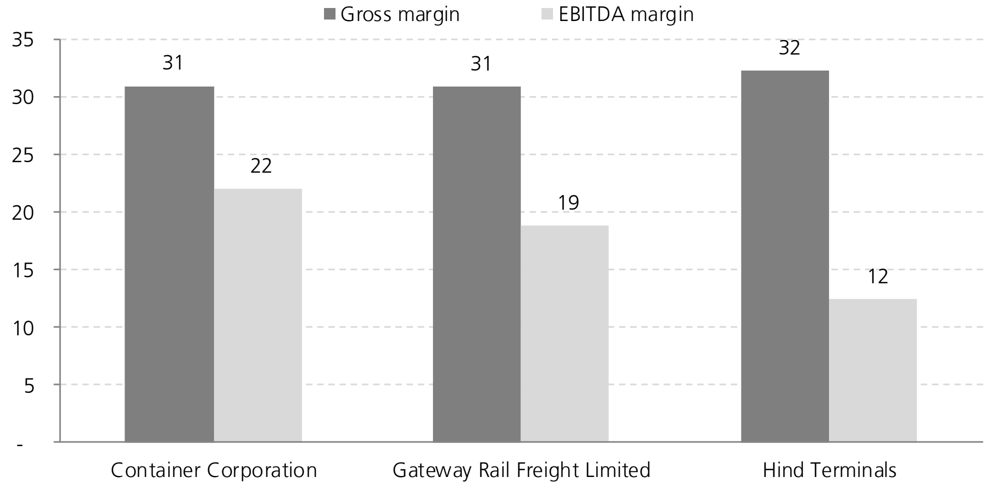
Growth in volumes on starting base of DFC to compensate for the cost of operating DFC (%)

		Discount to current price (%)			
		0	10	20	30
Growth in passenger revenues (%)	0	23	37	55	79
	4	17	31	48	71
	8	11	24	41	63
	13	6	18	34	54

Source: DFCCIL, Indian Railways, Kotak Institutional Equities estimates

Exhibit 11: All container operators have scope of benefitting from operating leverage gains

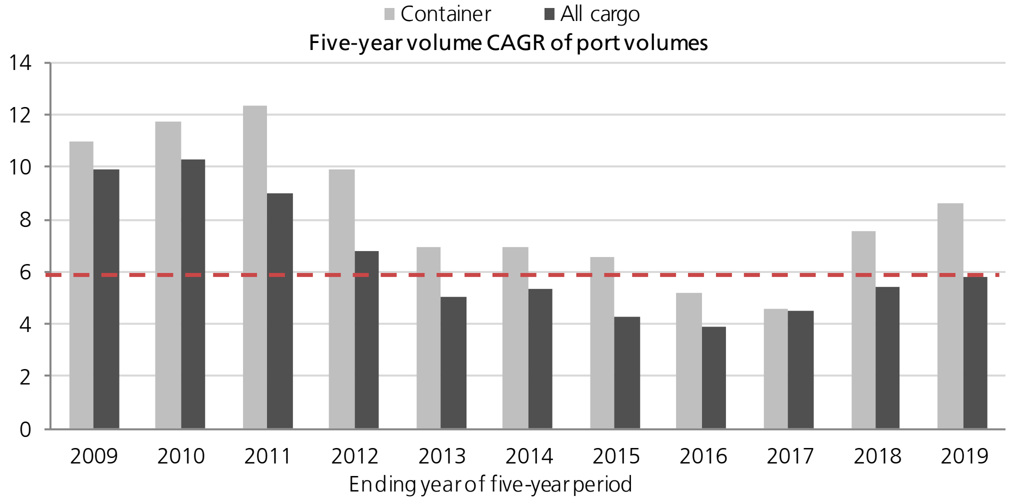
Comparison of gross margin and EBITDA margin for container rail operators for year ending March 2019 (%)



Source: Companies, Kotak Institutional Equities

Exhibit 12: Container volumes have grown at 5-year CAGR of >6% for eight out of past 10 instances

Five-year CAGR for container cargo at ports, March fiscal year-ends, 2009-19 (%)



Source: Ministry of Shipping, Kotak Institutional Equities estimates

We lower fair value to Rs400 from Rs510

We cut our FY2021/22 estimates by 7/9% to factor in risks of weak business environment sustaining and of increased competition from roads. We build the prospect of a Rs80 bn of payout for buying ICD land into our increased WACC assumption of 13%, yielding a sharper ~20% cut in fair value to Rs400 from Rs510. We continue to value Concor with a terminal RoIC of ~24% assuming the risk to capped returns from ICD buyout in our higher 13% WACC estimate. Uncertainty on payout for ICD land would weigh on the stock—every Rs10 bn of higher payout would take out an additional ~Rs15 per share of fair value.

Exhibit 13: Change in estimates for Concor, March fiscal year-ends, 2018-22E (Rs mn)

			Revised estimates			Old estimates			% revision		
	2018	2019	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Key operating numbers											
Volumes ('000 TEUs)	3,532	3,830	3,765	4,095	5,040	3,765	4,222	5,199	—	(3)	(3)
Exim	3,002	3,245	3,180	3,435	4,293	3,180	3,562	4,452	—	(4)	(4)
Domestic	530	585	585	661	746	585	661	746	—	—	—
Realization(Rs/TEU)	16,674	17,084	17,444	17,768	17,907	17,444	17,720	17,862	—	0	0
Exim	15,240	15,601	15,930	16,180	16,435	15,930	16,180	16,435	—	—	—
Domestic	24,801	25,321	25,678	26,024	26,377	25,678	26,024	26,377	—	—	—
Revenues (less export benefit)	58,892	65,427	65,877	74,962	95,843	65,877	77,020	98,456	—	(3)	(3)
Exim	45,749	50,626	50,662	55,572	70,559	50,662	57,630	73,172	—	(4)	(4)
Domestic	13,144	14,801	15,010	17,189	19,688	15,010	17,189	19,688	—	—	—
New business	—	—	206	2,201	5,596	206	2,201	5,596	—	—	—
EBITDA	12,049	14,408	16,236	17,589	22,007	16,191	18,593	23,819	0	(5)	(8)
EBITDA margin (%)	20.5	22.0	24.6	23.5	23.0	24.6	24.1	24.2	6 bps	-68 bps	-124 bps
Net PAT	8,776	9,946	10,097	11,765	14,823	10,132	12,522	16,247	(0)	(6)	(9)
Adjusted EPS (Rs)	14.4	16.3	16.6	19.3	24.3	16.6	20.6	26.7	(0)	(6)	(9)
Reported unadjusted EPS (Rs)	17.1	19.9	5.8	19.3	24.3	5.9	20.6	26.7			
Yoy growth (%)											
Volumes	13.9	8.4	(1.7)	8.8	23.1	(1.7)	12.2	23.1			
Exim	13.7	8.1	(2.0)	8.0	25.0	(2.0)	12.0	25.0			
Domestic	15.3	10.3	—	13.0	13.0	—	13.0	13.0			
Realization	(4.1)	2.5	2.4	4.6	3.9	2.4	4.2	3.8			
Exim	(6.5)	2.4	2.1	1.6	1.6	2.1	1.6	1.6			
Domestic	4.8	2.1	1.4	1.3	1.4	1.4	1.3	1.4			
Revenues	9.2	11.1	0.7	13.8	27.9	0.7	16.9	27.8			
Exim	6.2	10.7	0.1	9.7	27.0	0.1	13.8	27.0			
Domestic	20.8	12.6	1.4	14.5	14.5	1.4	14.5	14.5			
EPS	8.8	13.3	1.5	16.5	26.0	1.9	23.6	29.7			

Source: Company, Kotak Institutional Equities estimates

Exhibit 14: DCF analysis for Concor, March fiscal year-ends, 2016-23E (Rs mn)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue model															
Handling at Terminals (mn TEUs)															
Exim	2.5	2.6	3.0	3.2	3.2	3.4	4.3	5.4	6.7	8.0	9.3	10.4	11.5	12.4	13.1
Domestic	0.4	0.5	0.5	0.6	0.6	0.7	0.7	0.8	1.0	1.1	1.2	1.3	1.4	1.6	1.7
Total	**2.9**	**3.1**	**3.5**	**3.8**	**3.8**	**4.1**	**5.0**	**6.2**	**7.7**	**9.1**	**10.5**	**11.7**	**12.9**	**13.9**	**14.8**
TEU growth (%)															
Exim	(5.6)	6.7	13.7	8.1	(2.0)	8.0	25.0	25.0	25.0	20.0	15.0	12.5	10.0	8.0	6.0
Domestic	(8.4)	2.6	15.3	10.3	—	13.0	13.0	13.0	13.0	12.0	12.0	10.0	10.0	8.0	6.0
Total	**(6.0)**	**6.1**	**13.9**	**8.4**	**(1.7)**	**8.8**	**23.1**	**23.2**	**23.4**	**19.0**	**14.6**	**12.2**	**10.0**	**8.0**	**6.0**
EBIT margin (%)															
Exim	17.9	17.6	18.0	21.1	23.1	23.1	23.1	23.1	21.1	20.1	19.1	18.1	17.1	18.1	19.1
Domestic	2.2	2.6	7.3	6.4	3.5	5.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Unallocable as % of total EBIT	12.3	13.3	11.8	12.7	9.8	10.9	8.9	6.8	3.8	3.3	3.1	2.9	2.8	2.4	2.2
Total	**13.1**	**12.7**	**13.8**	**15.5**	**16.8**	**16.8**	**17.7**	**18.3**	**17.6**	**17.1**	**16.4**	**15.6**	**14.9**	**15.7**	**16.5**
Value drivers - Balance sheet															
Gross FATR (X)	1.5	1.2	1.1	1.0	0.9	1.0	1.1	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Net Working capital as % of sales	6.2	7.8	6.6	54.4	(0.9)	(1.2)	(0.8)	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RoAIC (%)	12.2%	10.9%	11.0%	9.6%	10.8%	15.9%	20.6%	24.8%	27.1%	28.8%	27.2%	25.0%	22.9%	23.5%	24.0%
FCFF calculation															
Operating Cash flow (before Wcap changes)	10,813	10,976	12,430	14,236	13,543	14,510	17,989	22,159	26,176	30,973	35,391	39,553	43,354	50,126	56,745
Cash flow from change in working capital	(3,006)	(681)	340	(31,697)	36,173	273	(133)	(317)	(474)	(8)	(7)	(7)	(7)	(7)	(6)
Operating Cash flow	7,807	10,296	12,770	(17,461)	49,716	14,783	17,856	21,841	25,702	30,965	35,383	39,545	43,346	50,120	56,739
Capex (change)	11,255	(10,264)	(8,431)	(7,459)	(4,848)	(2,625)	(9,867)	(10,832)	(15,085)	(19,542)	(22,586)	(25,617)	(28,573)	(31,349)	(33,820)
Free Cash flow to the firm	**19,062**	**32**	**4,338**	**(24,920)**	**44,868**	**12,158**	**7,989**	**11,010**	**10,617**	**11,423**	**12,797**	**13,928**	**14,773**	**18,771**	**22,918**
Terminal Valuation															
Terminal Growth rate		5%	5%	5%	5%	5%	5%								
Cash flow in terminal year		14,624	15,512	19,709	24,064	27,552	31,079								
Terminal Value		182,805	193,896	246,367	300,805	344,404	388,482								
Valuation		**2017**	**2018**	**2019**	**2020**	**2021**	**2022**								
NPV of FCF for explicit period		49,673	56,144	93,892	67,982	72,391	82,533								
PV of terminal value		53,852	57,120	72,577	88,614	101,457	114,442								
EV		103,525	113,263	166,469	156,595	173,848	196,975								
Net Debt		(20,913)	(21,563)	4,083	(33,827)	(42,301)	(45,355)								
Value to Equity holders		**124,438**	**134,827**	**162,387**	**190,422**	**216,149**	**242,330**								
Implied Price (Rs/share)		**204**	**221**	**267**	**313**	**355**	**398**								
Target Price (Sep-2020)	**398**														
WACC	**13.0%**														

Source: Company, Kotak Institutional Equities estimates

Exhibit 15: Income statement of Container Corporation, March fiscal year-ends, 2015-22E (Rs mn)

									Proforma for ICD land buyout		
	2015	2016	2017	2018	2019	2020E	2021E	2022E	2020E	2021E	2022E
Income statement											
Net revenues	55,737	56,717	53,946	58,892	65,427	65,877	74,962	95,843	65,877	74,962	95,843
Total operating cost	(42,772)	(45,834)	(43,593)	(46,843)	(51,019)	(49,641)	(57,374)	(73,836)	(49,648)	(55,198)	(70,699)
Terminal+service charges	(38,308)	(41,984)	(39,588)	(41,712)	(45,175)	(43,551)	(48,097)	(59,254)	(43,551)	(48,097)	(59,254)
Employee cost	(1,579)	(1,568)	(1,869)	(2,779)	(3,368)	(3,563)	(3,901)	(4,271)	(3,563)	(3,901)	(4,271)
Repairs & maintenance	(712)	(806)	(520)	(493)	(614)	(682)	(776)	(992)	(682)	(776)	(992)
Other S, G & A	(2,173)	(1,476)	(1,616)	(1,859)	(1,862)	(1,845)	(4,599)	(9,318)	(1,852)	(2,423)	(6,181)
EBIDTA	12,965	10,884	10,354	12,049	14,408	16,236	17,589	22,007	16,230	19,764	25,144
Other income	3,707	3,175	2,892	3,026	3,342	2,794	3,510	3,873	2,807	2,495	1,705
Depreciation	(3,727)	(3,478)	(3,518)	(3,927)	(4,246)	(5,186)	(5,370)	(6,063)	(5,186)	(5,370)	(6,063)
Pre tax profits	12,946	10,580	9,691	11,148	13,497	13,494	15,728	19,817	13,500	12,309	16,507
Tax	(2,469)	(2,746)	(1,622)	(2,372)	(3,551)	(3,396)	(3,963)	(4,994)	(3,398)	(3,102)	(4,160)
Adjusted PAT	10,477	7,833	8,069	8,776	9,946	10,097	11,765	14,823	10,102	9,207	12,347
Extraordinary items	(1)	1,675	512	1,615	2,208	(6,553)	—	—	(6,553)	—	—
Reported PAT	10,476	9,508	8,580	10,390	12,154	3,544	11,765	14,823	3,549	9,207	12,347
Volume handled ('000 TEUs)											
Exim	2,621	2,476	2,641	3,002	3,245	3,180	3,435	4,293	3,180	3,435	4,293
Domestic	489	448	460	530	585	585	661	746	585	661	746
Total volumes	3,111	2,924	3,101	3,532	3,830	3,765	4,095	5,040	3,765	4,095	5,040
Yoy growth (%)											
Volumes	8.4	(6.0)	6.1	13.9	8.4	(1.7)	8.8	23.1	(1.7)	8.8	23.1
Sales	11.8	1.8	(4.9)	9.2	11.1	0.7	13.8	27.9	0.7	13.8	27.9
EBITDA	17.7	(16.1)	(4.9)	16.4	19.6	12.7	8.3	25.1	12.6	21.8	27.2
Net PAT	6.4	(25.2)	3.0	8.8	13.3	1.5	16.5	26.0	1.6	(8.9)	34.1
Key ratios (%)											
EBITDA margin	23.3	19.2	19.2	20.5	22.0	24.6	23.5	23.0	24.6	26.4	26.2
Net PAT margin	18.8	13.8	15.0	14.9	15.2	15.3	15.7	15.5	15.3	12.3	12.9
Efffective tax rate	19.1	26.0	16.7	21.3	26.3	25.2	25.2	25.2	25.2	25.2	25.2
Adjusted EPS (Rs)	17.2	12.9	13.2	14.4	16.3	16.6	19.3	24.3	16.6	15.1	20.3
Reported EPS (Rs)	17.2	15.6	14.1	17.1	19.9	5.8	19.3	24.3	5.8	15.1	20.3

Source: Company, Kotak Institutional Equities estimates

Exhibit 16: Balance sheet and cash flow financials for Concor, March fiscal year-ends, 2015-22E (Rs mn)

		Ind-AS-changes in balance sheet							Proforma for ICD land buyout		
	2015	2016	2017	2018	2019	2020E	2021E	2022E	2020E	2021E	2022E
Balance sheet											
Networth	**76,357**	**83,457**	**88,462**	**94,011**	**103,679**	**105,400**	**111,113**	**118,312**	**105,402**	**109,874**	**115,870**
Share capital	1,950	1,950	1,950	2,437	3,047	3,047	3,047	3,047	3,047	3,047	3,047
Reserves & surplus	74,407	81,507	86,512	91,574	100,632	102,353	108,067	115,266	102,356	106,827	112,824
Total liabilities	**76,357**	**83,457**	**88,462**	**94,011**	**110,685**	**105,400**	**111,113**	**118,312**	**105,402**	**155,674**	**158,671**
Net fixed assets (including land)	40,479	45,250	52,009	56,570	59,786	59,447	56,702	60,507	59,447	136,702	140,507
Investments	11,548	13,576	13,737	13,890	14,029	14,029	14,029	14,029	14,029	14,029	14,029
Cash & Bank balance	25,879	24,371	20,913	21,563	2,924	33,827	42,301	45,355	34,200	8,104	7,303
Net current assets [a]	518	3,524	4,205	3,865	35,562	(611)	(884)	(751)	(981)	(2,127)	(2,341)
Net deferred tax asset	(2,067)	(3,264)	(2,402)	(1,877)	(1,616)	(1,292)	(1,034)	(827)	(1,292)	(1,034)	(827)
Total assets	**76,357**	**83,457**	**88,462**	**94,011**	**110,685**	**105,400**	**111,113**	**118,312**	**105,402**	**155,674**	**158,671**
Cash flows											
Operating cash flows	9,956	10,573	9,006	12,180	13,499	5,613	13,367	16,806	5,605	11,824	16,498
Working capital changes	1,108	(21,026)	(3,115)	1,099	(33,386)	36,173	273	(133)	36,543	1,146	213
Op. cash adj for WCap	**11,064**	**(10,453)**	**5,891**	**13,279**	**(19,887)**	**41,786**	**13,640**	**16,674**	**42,148**	**12,970**	**16,711**
Net capex	(8,022)	(5,899)	(9,143)	(8,595)	(7,040)	(4,848)	(2,625)	(9,867)	(4,848)	(2,625)	(9,867)
Free cash flow	**3,043**	**(16,352)**	**(3,252)**	**4,684**	**(26,927)**	**36,938**	**11,015**	**6,806**	**37,301**	**10,345**	**6,844**
Net finance cash flow	(3,081)	(3,146)	(3,580)	(4,999)	4,805	(8,829)	(6,051)	(7,624)	(8,832)	41,065	(9,351)
Net cash generated	368	(17,881)	(3,854)	2,983	(18,113)	30,903	8,474	3,055	31,276	(26,095)	(802)
Cash at start of year	25,553	25,879	7,999	16,835	21,563	2,924	33,827	42,301	2,924	34,200	8,104
Year-end cash (incl. bank deposits)	**25,879**	**24,371**	**20,913**	**21,563**	**2,924**	**33,827**	**42,301**	**45,355**	**34,200**	**8,104**	**7,303**
Key ratios											
Net debt to equity	(0.3)	(0.3)	(0.2)	(0.2)	(0.0)	(0.3)	(0.4)	(0.4)	(0.3)	(0.1)	(0.1)
RoE (%)	**14.3**	**9.8**	**9.4**	**9.6**	**10.1**	**9.7**	**10.9**	**12.9**	**9.3**	**10.9**	**13.1**
RoCE (%)	14.3	9.8	9.4	9.6	9.7	9.3	10.9	12.9	9.2	9.0	9.4

Source: Company, Kotak Institutional Equities estimates

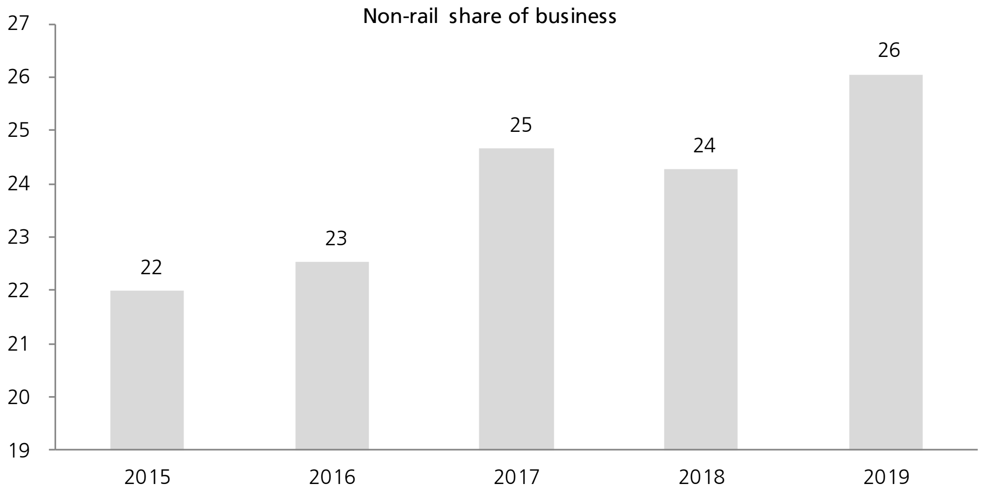
Key upside risks from deal valuations

Upside risks originate from deal valuations factoring in (1) ability of Concor to quickly replenish its lead in terms of business returns over peers, (2) ability of winning bidder to diversify meaningfully beyond rail transportation, (3) IR playing pricing lever on DFC to boost volume growth, (4) scope of increasing pricing on non-competitive rail routes (has largely played out already, in our view) and (5) aggressive pricing in a potential multi-player bid for Concor.

- **Ability of Concor to quickly replenish its lead in terms of business returns over peers.** We take the argument that the dilution of returns on back of ICD land buyout is exaggerated on account of the key TKD terminal (potentially accounts for 50% of the payout and 35% of related volumes). This asset is largely fully utilized and thus would see a natural reduction in share of contribution over time. Concor can thus replenish is advantage over peers in terms of business returns over time as incremental business would reflect the edge it has in terms of network effects and frequency of service. In our view, this is a difficult call to be taking for now, given (1) meaningfully higher gross margin at the TKD terminals among large terminals of Concor and (2) low utilization level of key peer in GDL, enhancing prospects of it growing business returns meaningfully from volume benefits of DFC.

- **Ability of winning bidder to diversify meaningfully beyond rail transportation beyond the next few years.** The winning bidder may be able to use cash flows beyond the next few years (that will potentially go into debt repayment) or potentially lever up Concor to enhance presence into multi-modal logistics parks and other ventures. Concor has applied for MMLP approvals for six of its ICDs/land parcels closer to the western DFC. We note that Concor has been able to increase its share of non-rail business streams in revenues to ~26% over time.

Exhibit 17: Non-rail business accounts for one-fourth of Concor's business
Non-rail share of Concor's revenues, March fiscal year-ends, 2015-19 (%)

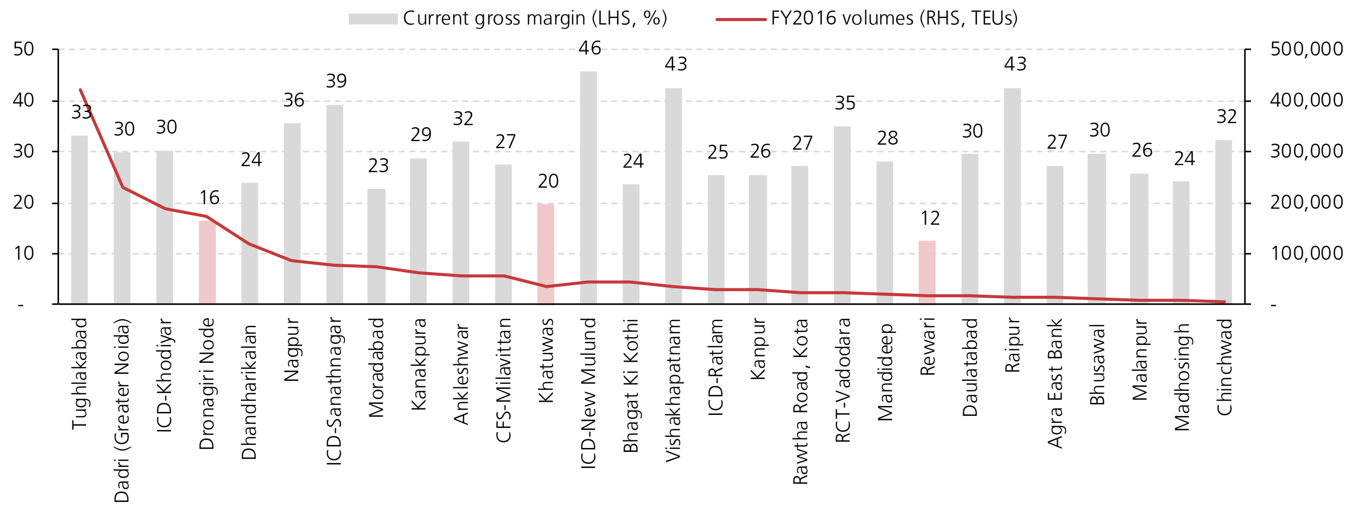


Source: Company, Kotak Institutional Equities

- **Aggressive pricing in a potential multi-player bid for Concor.** This is a possibility given the attractiveness of Concor's asset base. The company has a network of terminals, some of which have the option value of becoming significant over time as multi-modal becomes an accepted solution for domestic break-bulk cargo transportation.

- **Rationalization of pricing of Concor's rail offering.** Our assessment of Concor's terminals suggests healthy profitability of most of its exim terminals, limiting scope of improvement in financials to closure of select domestic terminals.

Exhibit 18: All key terminals of Concor generate healthy gross margin and EBITDA margin (overheads at 10% of sales)
Comparison of gross margin of Concor's key terminals (%)



Source: Company, Indian Railways, Kotak Institutional Equities

- **Haulage cost cuts taken to explore elasticity of demand.** Concor's profits, if boosted by stupendous volume growth, can lower the dependence on terminal RoIC requirement to justify investing at CMP. Our discussions with DFCIL suggest prospects of them being given power to determine prices for DFC journeys, enabling differential pricing versus existing freight rates.

Exhibit 19: Volume CAGR has not changed meaningfully in different periods of cost inflation/deflation

Key metrics related to exim container business, March fiscal year-ends, 2010-20E (%)

	2010-20E	2014-20E	2016-20E
Rail volume CAGR	7	7	8
Haulage cost inflation	6	4	(1)
Rail lead distance CAGR	(4)	(4)	(4)
Revenue CAGR for IR	8	6	1
Revenue CAGR for Concor	6	5	3
EBITDA CAGR for Concor	5	7	11

Notes:

(a) Haualge cost is a cost for rail container opertors and a revenue for Indian Railways

Source: Company, Indian Railways, Kotak Institutional Equities estimates

Institutional Equities

Cummins India (KKC)

Capital Goods

BUY

MARCH 17, 2020

CHANGE IN RECO.

Sector view: Neutral

CMP (₹): 447

Fair Value (₹): 520

BSE-30: 30,579

Firmly in the value zone; upgrade to BUY. We upgrade CIL to a BUY from REDUCE based on (1) our assessment of earnings downgrade cycle being largely behind us, (2) diversified mix of businesses helping chug through current uncertain times and (3) reasonable valuations at sub-17X trailing earnings. We lower fair value to Rs520 from Rs590 on 11% cut in estimates and lower 18X multiple. Prospects from shift of business to Cummins India from China and from revision in domestic emission norms provide defence against unforeseen negatives in base business.

Cummins India

Stock data			
52-week range (Rs) (high,low)			801-404
Mcap (bn) (Rs/US$)			124/1.7
ADTV-3M (mn) (Rs/US$)			522/7
Shareholding pattern (%)			
Promoters			51.0
FIIs			6.3
MFs/BFIs			22.7/8.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(17)	(21)	(40)
Rel. to BSE-30	12	7	(25)

Forecasts/valuations	2020E	2021E	2022E
EPS (Rs)	26.3	25.6	28.7
EPS growth (%)	(0.2)	(2.6)	12.2
P/E (X)	17.0	17.4	15.5
P/B (X)	2.8	2.7	2.5
EV/EBITDA (X)	16.5	16.6	14.7
RoE (%)	17.2	15.8	16.8
Div. yield (%)	2.9	2.9	3.2
Sales (Rs bn)	55	57	63
EBITDA (Rs bn)	7	7	7
Net profits (Rs bn)	7	7	8

Large part of the earnings decline downgrade cycle behind us

Cummins' financials over the past decade have been impacted more by declining profitability than by weakness in domestic demand, yielding a 7/2% CAGR in revenues/EBITDA. We see modest downside to current ~11% margin run-rate given (1) implied domestic margin of Cummins now down to the levels reported by key peer, KOEL and (2) key peer on exports in Perkins having limited ability to use pricing lever.

Cut fair value to Rs520 from Rs590 on lower estimates and 18X earnings multiple

The 11% cut in estimates builds in (1) near-term weakness in execution (primarily exports) and (2) us substituting our expectation of a margin recovery in FY2021 with that of a modest decline (RM movement, some more deterioration in mix). The lower 18X multiple (earlier 19X) builds in medium-term concerns on the >450 KVA domestic powergen segment, which accounts for ~18% of CIL's overall revenues and where CIL is defending a high 48-65% market share. After the recent correction, stock trades at sub-17X trailing earnings.

Diversified mix of businesses to support overall operations in current uncertain times

Key business drivers for CIL vary across (1) powergen (private-sector spending), (2) industrials (government sector spending), (3) distribution (usage of installed equipment base) and (4) exports verticals (oil/commodity prices). Such a diversification provides comfort in current uncertain times. Downside risks emanate more from the heavy duty + HHP exports (16% of CIL's revenues), which we have partly built into FY2021 estimates.

Option value from select positive scenarios best kept as a defence against unknowns for now

The oft-quoted large exposure of Cummins China to Hubei region would require revisiting the supply built by Cummins Inc over the past two decades. On the opportunity from emission norms in diesel gensets/off-highway vehicles, we note meaningful change in market share and profitability for Tata Cummins following the shift to BSIV in automobiles. Given unclear timelines and requirements for conforming to CPCB4+ norms, we defer building in benefits from the same in our fair value.

Aditya Mongia

Teena Virmani

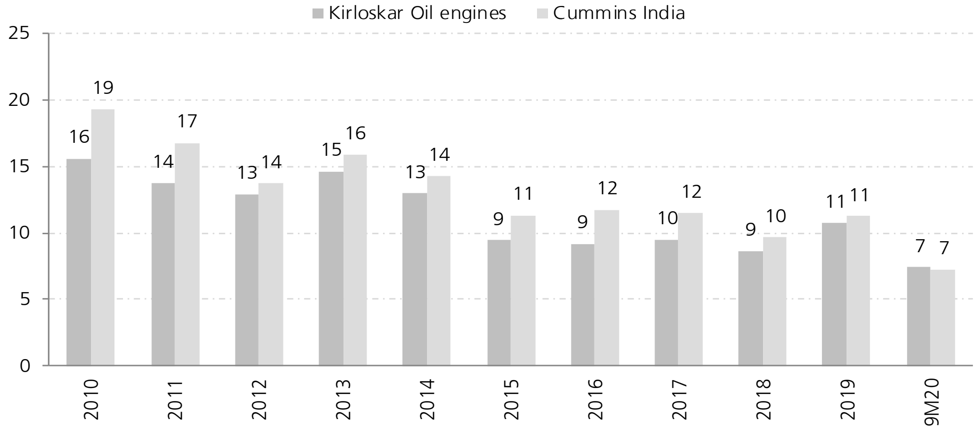
kspcg.research@kotak.com
Contact: +91 22 6218 6427

Prospects of further earnings downgrade dependent on exports trajectory

We note meaningful downgrades to Cummins' earnings estimates over the past few years largely on (1) reduction in domestic segment margin, (2) sharp decline in exports and (3) resultant impact on overall margin profile due to a sharp decline in exports. Recent stabilization in margin profile over the past few quarters is comforting.

Incrementally, we do not see much risk to Cummins' domestic margin, which is now down to the levels reported by a key peer, Kirloskar Oil Engines. We also do not see much downside risk to the otherwise steady export margin given depleted margin profile of another key peer, Perkins India.

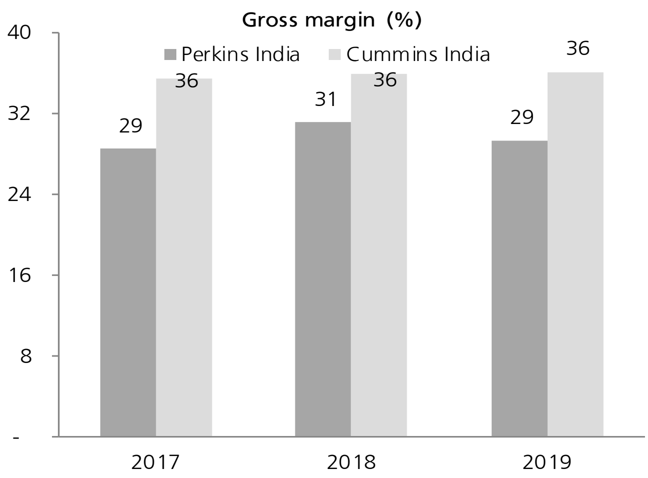
Exhibit 1: Margin of KOEL and Cummins India have converged meaningfully over the past decade
Proforma analysis of domestic EBITDA margin of KOEL and Cummins India, March fiscal year-ends, 2010-9M20 (%)

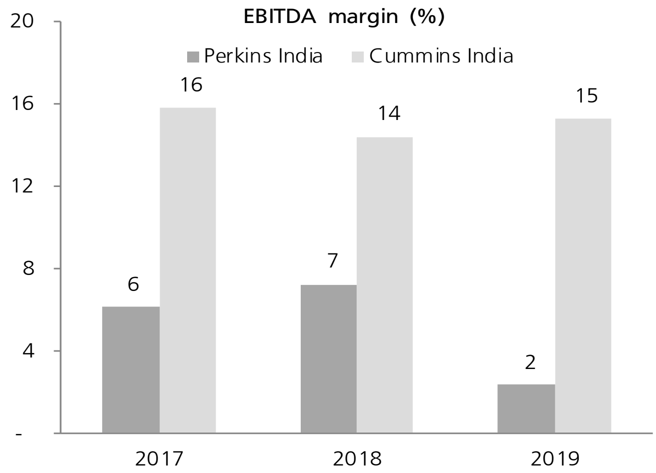


Notes:
(a) We assume 25% EBITDA margin for exports for Cummins and lower 15% EBITDA margin for KOEL Unlike Cummins, KOEL does not have a global platform to sell its exports
(b) We adjust 3QFY20 margin of Cummins India for one-offs business benefits

Source: Companies, Kotak Institutional Equities estimates

Exhibit 2: Perkins India operates at a lower gross margin and an even lower EBITDA margin to Cummins India
Financials of Perkins and Cummins India, March fiscal year-ends, 2017-19 (Rs mn)





Source: Companies, Kotak Institutional Equities

We cut our estimates by 11% to account for risks to exports and margin

Exhibit 3: We cut estimates largely on change in margin to a 20-30 bps decline from current 12% levels versus 70-80 bps recovery built earlier

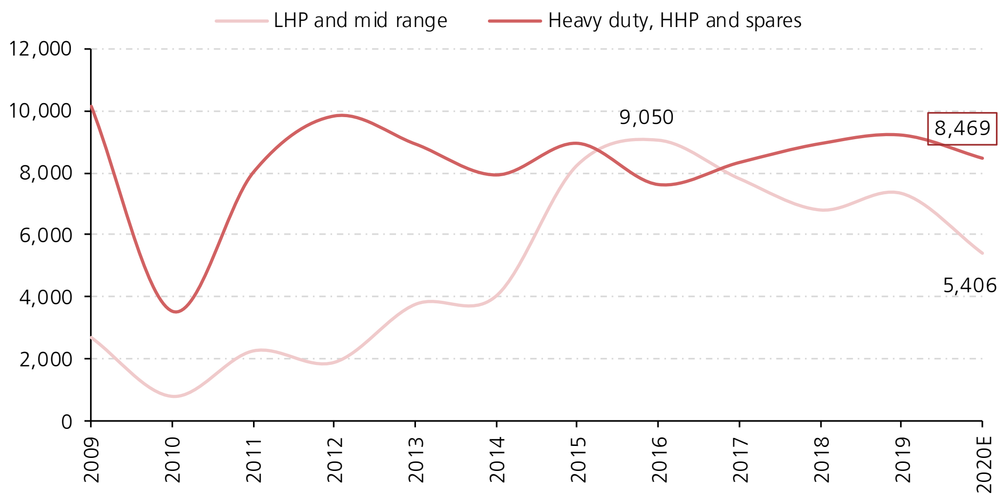
Change in estimates for Cummins India, March fiscal year-ends, 2018-22E (Rs mn)

			New estimates			Old estimates			% revision		
	2018	2019	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Revenues	**50,825**	**56,590**	**54,824**	**57,264**	**63,196**	**54,824**	**60,077**	**67,180**	**—**	**(5)**	**(6)**
Power generation	13,540	16,000	15,732	16,519	18,170	15,732	17,305	19,382	—	(5)	(6)
Industrials	7,733	9,500	10,219	11,417	12,901	10,219	11,928	13,717	—	(4)	(6)
Distribution	12,190	13,500	14,175	14,600	16,060	14,175	14,600	16,060	—	—	—
Exports	15,740	16,500	13,875	13,842	15,110	13,875	15,358	17,067	—	(10)	(11)
EBITDA	**7,325**	**8,641**	**6,881**	**6,693**	**7,491**	**6,990**	**7,795**	**8,759**	**(2)**	**(14)**	**(14)**
EBITDA margin (%)	14.4	15.3	12.6	11.7	11.9	12.8	13.0	13.0	-21 bps	-129 bps	-119 bps
Other income	2,285	2,928	3,482	3,854	4,141	3,481	3,818	4,069	0	1	2
Interest	(148)	(162)	(233)	(188)	(188)	(233)	(188)	(188)	—	—	—
Depreciation	(938)	(1,103)	(1,198)	(1,264)	(1,274)	(1,198)	(1,291)	(1,336)	—	(2)	(5)
PBT	8,523	10,303	8,931	9,096	10,170	9,040	10,134	11,303	(1)	(10)	(10)
Tax rate (%)	21.4	29.9	22.2	25.2	25.2	22.2	25.2	25.2	0 bps	0 bps	0 bps
PAT	7,085	7,226	6,790	6,804	7,607	6,875	7,580	8,455	(1)	(10)	(10)
Adjusted PAT	6,745	7,306	7,292	7,200	8,064	7,376	7,976	8,912	(1)	(10)	(10)
EPS (Rs)	**24.3**	**26.4**	**26.3**	**26.0**	**29.1**	**26.6**	**28.8**	**32.1**	**(1)**	**(10)**	**(10)**
Growth (%)											
Revenues	0	11	(3)	4	10	(3)	10	12			
Power generation	—	18	(2)	5	10	(2)	10	12			
Industrials	8	23	8	12	13	8	17	15			
Distribution	6	11	5	3	10	5	3	10			
Exports	(2)	5	(16)	(0)	9	(16)	11	11			
EBITDA	(9)	18	(20)	(3)	12	(19)	12	12			
PAT	(7)	8	(0)	(1)	12	1	8	12			

Source: Company, Kotak Institutional Equities estimates

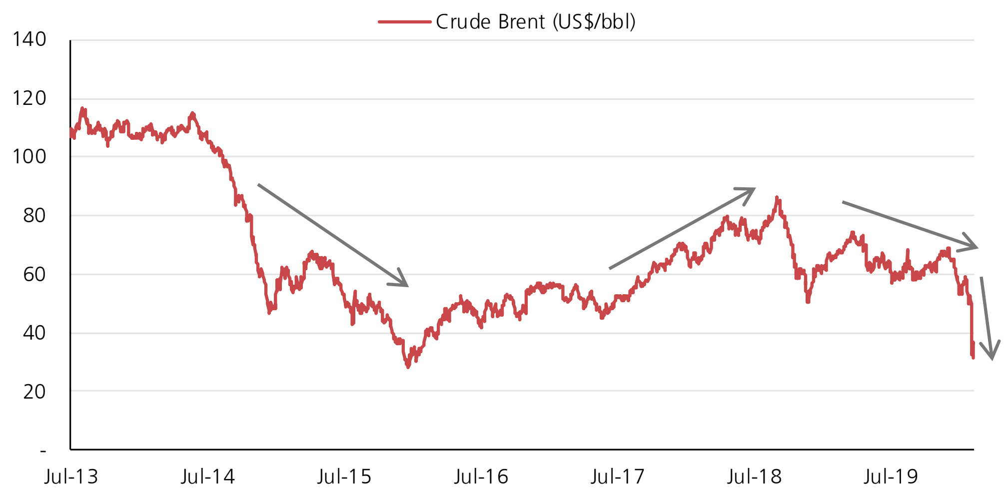
- **Revenues cut by 5-6%:** We cut our FY2021 base revenue estimates for powergen and industrial businesses by 5-6% to account for potential near-term weakness related to deferral in execution and new orders for domestic projects. Improvement in fiscal position of the government would support growth for industrial segment over this base in FY2021. Strength of shovel-ready private sector projects (as denoted by RBI's recent data private corporate capex) should also boost growth of these sub-segments in FY2021. We account for nil change in the distribution segment and higher 10% cut in export business estimates in FY2021. The latter factors in weakness in key end markets for Cummins India's export portfolio becoming more broad-based, as suggested in recent investor interaction events of Cummins Inc. This can impact the heavy duty and HHP exports portfolio (60% of CIL's exports and ~18% of its CIL's revenues), which has remained largely stagnant in terms of quantum of revenues over the past decade. Declining oil prices can impact the remaining part of CIL's exports.

Exhibit 4: Heavy-duty and HHP exports (16% of sales) has held well and would now get tested in the current macro environment; LHP and mid-range demand has already meaningfully corrected
Cummins Export revenues trend, March fiscal year ends (Rs mn)



Source: Company, Kotak Institutional Equities estimates

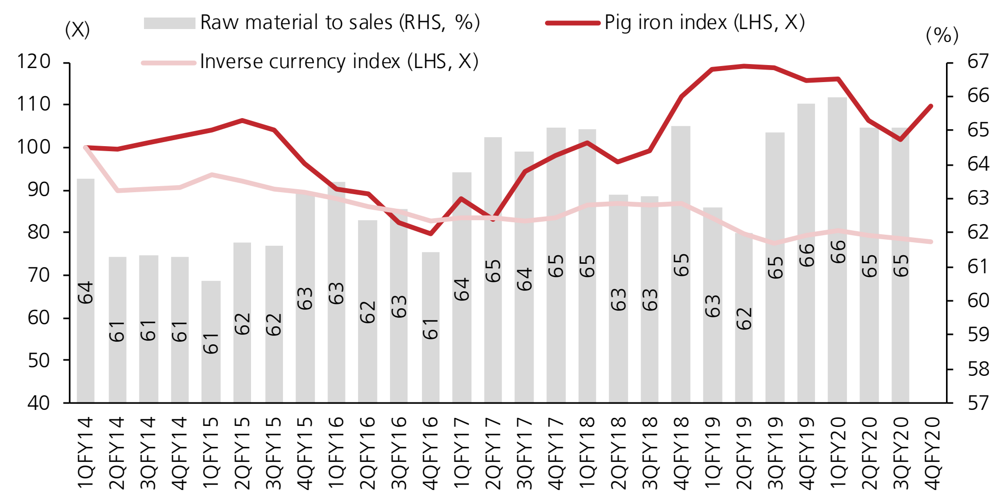
Exhibit 5: Cummins India's key export markets of Middle East and Africa are dependent on oil, which has come down sharply during March 2020
Trend in price of Brent crude, December calendar year-ends, May-2013 – Mar-2020 (US$/bbl)



Source: Company, Kotak Institutional Equities estimates

- **EBITDA margin cut by 110 bps.** Against our earlier expectation of a 60-70 bps improvement in margin from existing 12% levels, we now factor in a 20-40 bps decline. We see some scope of deterioration in overall margin profile in FY2021 against the current ~12% adjusted margin from (1) further increase in raw material prices (20-30 bps) beyond the recent uptick and (2) prospects of exports declining further in FY2021 (50-60 bps). We also note some support to margin against such deterioration in FY2021 coming from (1) impact of rationalization of employee expense done in 2HFY20 (10-15 bps) and (2) benefit of current currency rates sustaining (30-40 bps). Key upside risk to margin would also originate from exports profile improving over time for Cummins India.

Exhibit 6: Gross margin may get limited with a lag on account of recent commodity price movement
Impact of raw material cost and currency on margin, March fiscal year-ends, 1QFY13-4QFY20 till date



Source: Kotak Institutional Equities estimates

Exhibit 7: We assess large dependence on exports in PBT
Calculation of implied export and domestic PBT margin, March fiscal year-ends, 2016-19 (Rs mn)

	2016	2017	2018	2019
Tax benefit on SEZ income	1,111	878	683	421
Normal tax rate (%)	34.6	34.6	34.6	34.6
Extent of tax benefit (%)	100	100	NA	50
PBT of SEZ facility	3,210	2,536	NA	2,432
Total PBT	9,104	9,082	8,523	10,303
Share of SEZ facility in PBT of Cummins India	**35**	**28**	**NA**	**24**
Total exports of CIL versus SEX exports	1.6	1.8	2.0	1.9

Notes:
(a) We assume that SEZ facility for Cummins does not produce HHP engines at Phaltan
(b) We assume that HHP exports have PBT margin similar to other exports
(c) We do not do the analysis for FY2018 as the same was the year of trasition from 100% IT benefits to 50% IT benefits for the SEZ facility

Source: Company, Kotak Institutional Equities estimates

Revised 18X multiple aptly captures risks to margin and revenue profile

We also assess scope of 12% growth in revenues for Cummins India over the long term, with distribution business growing at a lower 10% CAGR and industrials business growing at a higher 13% CAGR. Against this, we envisage operating leverage benefits of ~300 bps assuming a lower 10% growth in fixed costs. We bake in half of such operating leverage benefits in margin. The other half may go away as high export segment margin (currently 25% in our assessment) falls to 20% over time. This yields an EPS CAGR of closer to 13% for Cummins India over the long term and an18X faire multiple for Cummins India, taking in account the strong cash conversion characteristics of its product-heavy business profile.

Exhibit 8: We arrive at a fair value multiple of 18X for Cummins India
Calculation of justified one-ear forward multiple for Cummins on FY2022E EPS base

Inputs for growth and terminal phase	
Growth phase EPS CAGR (%)	12.9
No. of years in initial growth phase (Growth_years)	10.0
Terminal growth rate (Tg, %)	5.0
Cost of equity (COE, %)	12.5
Steady state capital structure - debt mix (%)	—
WACC (%)	12.5
Nominal revenue in terminal year for calculation	1,000
Nominal PAT in terminal year for calculation	121

Inputs for cash conversion	
PAT margin (%)	12.1
Interest rate (%)	10.0
Marginal tax rate (%)	25.0
Gross FATR (X)	4.0
Average asset life (years)	10.0
Working capital as days of sales	76

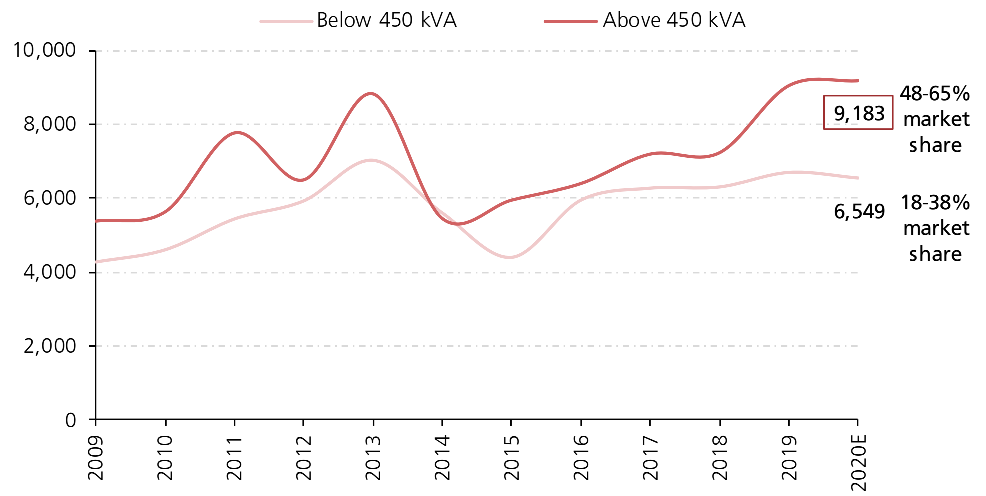
Component of justified multiple calculation	Formula	Calculation
One-year forward exit multiple on FCFE in terminal year	1 / (COE - Tg)	13.3
Terminal phase cash conversion ratio	FCFE / PAT	0.81
One-year forward P/E multiple in terminal year		10.8
Discount factor for terminal year multiple to target year	1 / ((1+COE)^ growth years)	0.31
Bump up the multiple by the PAT jump over the growth years	1 * ((1 + growth CAGR) ^ (growth years-1)) * (1+Tg)	3.1
Justified one-year forward P/E multiple for terminal value component		10.4
Value of growth period		
Value of growth period in terms of FCFE		9.0
Value of growth period in terms of P/E	FCFE multiple * cash conversion	7.3
Justified one-year forward P/E multiple		17.7

Source: Kotak Institutional Equities estimates

Multiple cut to 18X from 19X to account for share losses in domestic powergen

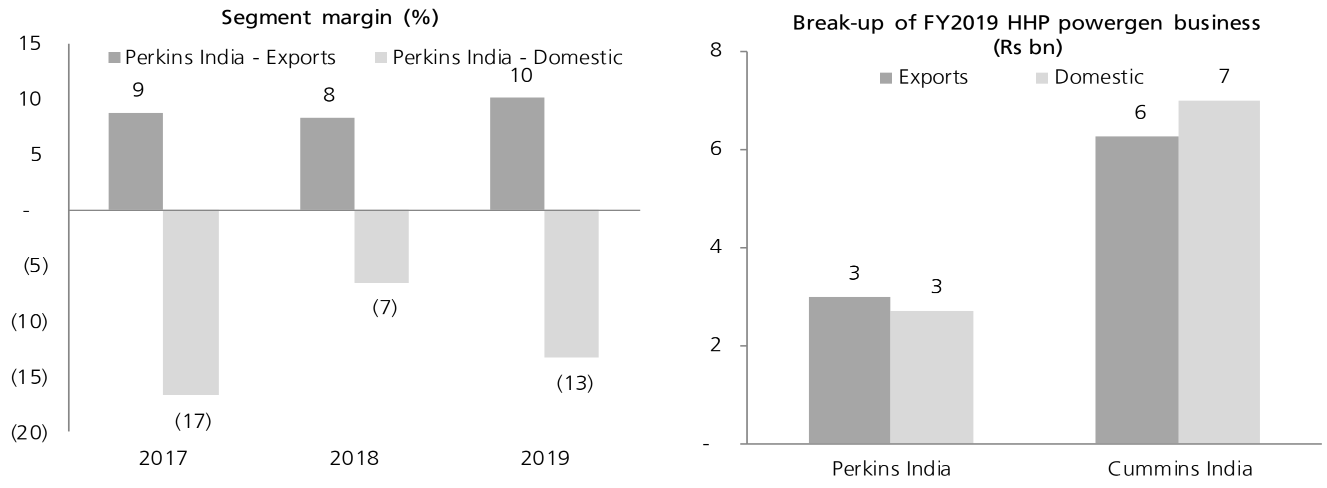
We note the prospects of share loss in the above 450 kVA domestic powergen business in India, where Cummins India is defending its high 48-65% market share (accounts for 18% of overall revenues). We lower our multiple to 18X from 19X on such count. We highlight (1) Perkins India leveraging high-margin exports to intrude into the >1,010 kVA domestic powergen market and (2) Force-MTU JV shifting select operations in India to participate in 450-1,000 kVA powergen market. Refer to our earlier report on Cummins India on this theme dated 27 November 2019 and titled 'Competition to intensify' for more details.

Exhibit 9: Medium and HHP domestic powergen sales (~18% of sales) operate at high market share and are susceptible to some share losses over time
Cummins India powergen revenues split by kVA, March fiscal year ends (Rs mn)



Source: Company, Kotak Institutional Equities estimates

Exhibit 10: Perkins India is likely leveraging the high-margin export business to intrude the domestic market
Comparison of key business metrics of Perkins India and Cummins India, March fiscal year-ends, 2017-19



Source: Companies, Kotak Institutional Equities

Diversified base of revenues does comfort in current uncertain times

Key drivers for Cummins vary across (1) power generation (private-sector spending), (2) industrials (government sector spending), (3) distribution (usage) and (4) exports (oil and commodity prices). Some of these are anti-correlated as a declining oil price takes away from export opportunity and boosts industrials segment revenues through higher government spending. Such a diversified support would help compensate downside risks from the exports portfolio.

Exhibit 11: Diversified base of Cummins India had led to steady growth on an overall basis
Cummins revenue trend across key segments, March fiscal year-ends, 2010,15,20E

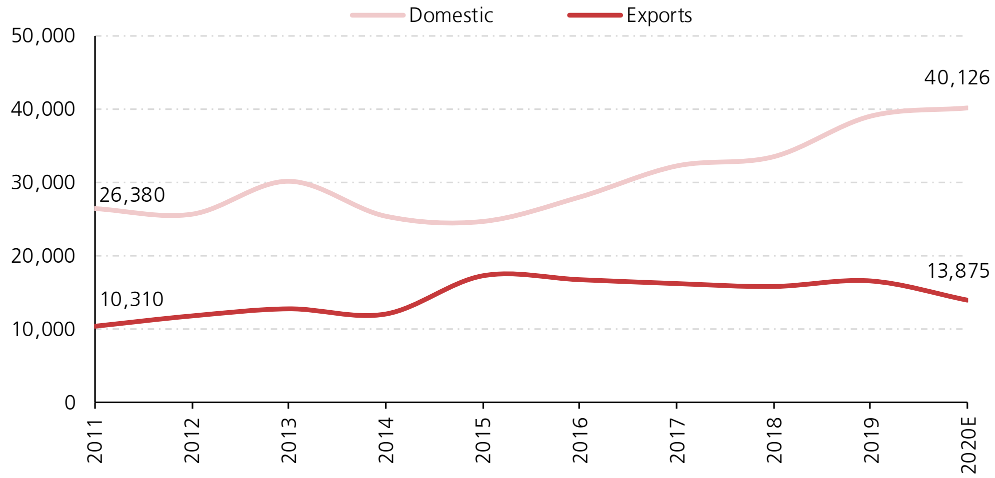
	2020E (Rs mn)	Share (%)	Five-year CAGR (%)	Ten-year CAGR (%)	Growth Drivers
Exports	13,875	26	(4)	5	Global capex demand, dependent on growth of Chinese economy and oil price
Industrial	10,219	19	15	9	Infrastructure spending by the government in construction, mining, andrailways
Power generation	15,732	29	8	4	Private sector spending in manufacturing, services, real estate and data centers
Distribution	14,175	26	10	8	Usage of domestic installed base in powergen and industrial; inversely related to power deficit
Total	**54,000**	100	5	7	

Source: Company, Kotak Institutional Equities estimates

CIL has grown its domestic business at a steady 10% CAGR over the past five years in spite of the challenging macro environment.

Exhibit 12: The domestic business has grown at a healthy 10% five-year CAGR; 7% 10% CAGR is impacted by declining power deficit

Movement of domestic and export businesses of Cummins India, March fiscal year-ends, 2011-20E (Rs mn)



Notes:
(a) We do not account for the auto segment in the above analysis given nil contribution at present

Source: Company, Kotak Institutional Equities estimates

Select medium-term business opportunities best kept option value to fair value

COVID-19 impact on Cummins China and the opportunity for Cummins India Limited

We note meaningful impact that the COVID-19 issue has had for Cummins in China. 10 of its key facilities are housed in the Hubei province that houses the epicenter (Wuhan) in it. Production at all these facilities has started though after a delay of 1-4 weeks. Several of these facilities are currently being operated at sub-optimal utilization levels given supply chain issues faced by its OEM partners.

Exhibit 13: We note several facilities of Cummins in China in the affected Hubei province
Key facilities of Cummins in China

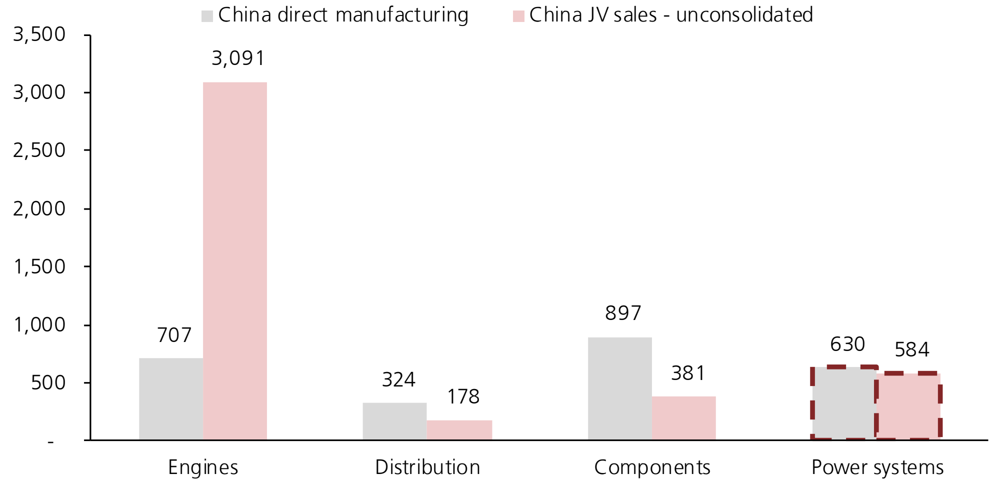
Source: Cummins Inc 2009 investor teleconference for Barclays

We however note limitations in terms of opportunities for Cummins India. Large parts of Cummins business in China may be out of bounds for Cummins India based on its current capabilities.

- Large exposure to on-highway business. Cummins Inc follows a model similar to India, with the on-highway business housed in JVs with OEMs. Such business would be out of bounds for India. So would the overall components and distribution business sales. The power systems business represents a US$0.6/1.2 bn substitution opportunity for Cummins India in consolidated/overall sales of Cummins in China. We do not see an overlap in the powergen portfolios of Cummins India and Cummins China.

Exhibit 14: JV engine sales and overall component and distribution sales may be out of bounds for Cummins India over the medium term. Power systems sales represent a limited to US$0.6/1.2 bn opportunity in consolidated/overall sales of Cummins China

Break-up of sales of Cummins from China, calendar year-end, 2019 (US$ mn)



Source: Company, Kotak Institutional Equities

Exhibit 15: There is some overlap in the powergen segment of Cummins India with Cummins China

Cummins India range of integrated power generator sets across 7.5-3750kVA

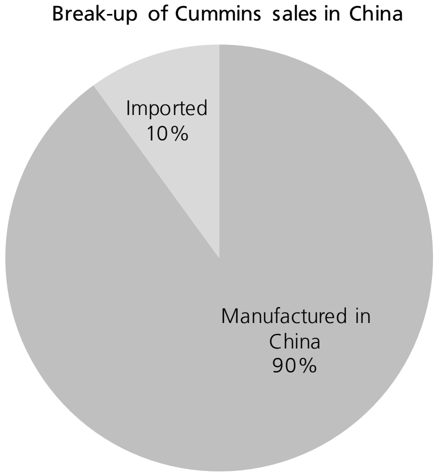
	Power systems business unit	Range available (kVA)
	Integrated power generator sets	7.5-3750
X series	7.5 -30kVA	7.5, 10, 15,18.5, 20, 25 25,27,30
S series	30-62.5kVA	35, 37.5, 40, 50, 62.5
B series	70-160kVA	70, 82.5, 100, 125, 140, 16
C series	180-250kVA	180, 200, 225, 250, 275
N series	300-380kVA	300, 320, 365
V series	600-625kVA	600, 625, 650,
K series	500 KVA, 750-1,500 KVA	500, 750, 810, 910, 1010, 1250, 1500, 1250, 1500
QSK series	1750-3750kVA	1750, 1825, 2000, 2250, 3350

Denotes series of diesel gensets Cummins China and its JVs manufacture

Source: Company, Kotak Institutional Equities

- **Limited reliance on imports and limited scale of exports.** As per recent investor concalls conducted by Cummins Inc, 90% of what Cummins sells in China is procured locally. Substitution of parts from out of China to increase share of imports would require a rethink of the supply chain built in China over the past several decades. The sustainability of the short-term business Cummins India is getting for Cummins China should be seen in such context. Without quantifying, Cummins Inc has suggested insignificant share of exports out of China at present.

Exhibit 16: Cummins serves the Chinese demand largely from its own manufacturing with limited dependence on imports
Break-up of Cummins sales in China

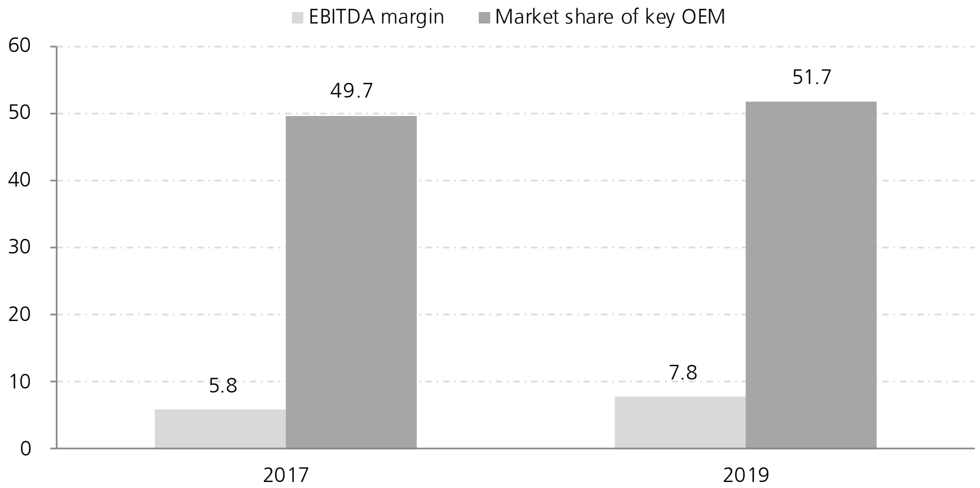


Source: Cummins Inc Feb 2020 investor concall, Kotak Institutional Equities

Opportunity from revision in emission norms for powergen and industrial business

On the opportunity from emission norms in diesel gensets, we do note meaningful change in market share and profitability for Tata Cummins following the shift to BSIV in automobiles. Given unclear timelines and requirements for conforming to CPCB 4+ norms, we defer building in benefits from the same in our fair value.

Exhibit 17: Tata Cummins benefitted meaningfully in the period beyond the emission norms change
Change in the EBITDA margin of Tata Cummins and of the market share of its key OEM before and after the recent change in emission norms, March fiscal year-ends, 2017,19 (%)



Source: Company, Kotak Institutional Equities

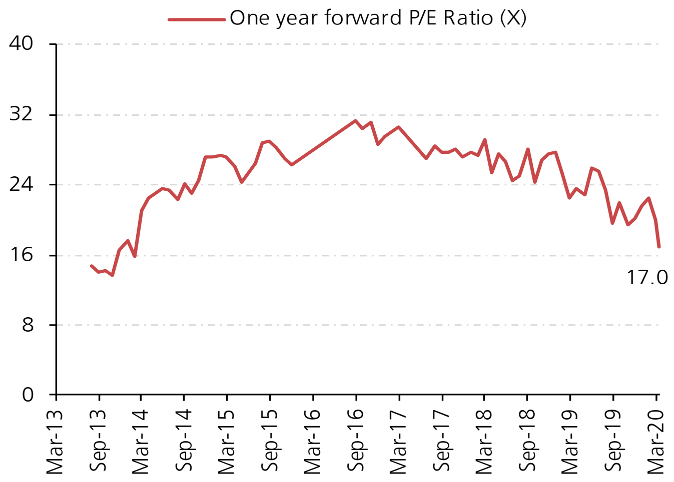
Exhibit 18: Standalone balance sheet, profit model and cash flow statement of Cummins, March fiscal year-ends, 2012-22E (Rs mn)

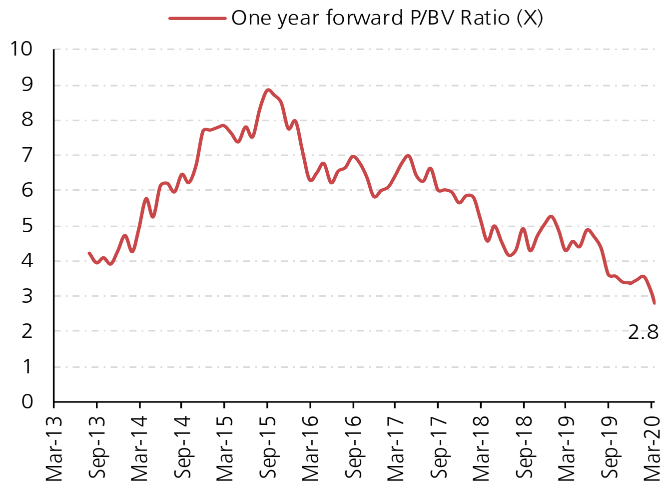
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Profit model													
Net revenue	**29,027**	**40,425**	**41,172**	**46,012**	**39,767**	**44,058**	**47,088**	**50,773**	**50,825**	**56,590**	**54,824**	**57,264**	**63,196**
Total operating costs	(23,175)	(32,791)	(34,200)	(37,545)	(32,799)	(36,708)	(39,337)	(42,755)	(43,501)	(47,949)	(47,944)	(50,571)	(55,705)
EBITDA	**5,852**	**7,634**	**6,972**	**8,467**	**6,967**	**7,351**	**7,751**	**8,018**	**7,325**	**8,641**	**6,881**	**6,693**	**7,491**
Other operational income	578	914	651	922	776	847	1,212	1,192	1,307	1,333	1,079	1,154	1,235
Other income	638	804	1,233	1,949	1,777	2,040	2,259	2,080	2,285	2,928	3,482	3,854	4,141
PBDIT	6,489	8,438	8,206	10,416	8,744	9,390	10,010	10,098	9,609	11,569	10,363	10,548	11,632
Financial charges	(21)	(48)	(54)	(46)	(42)	(45)	(96)	(168)	(148)	(162)	(233)	(188)	(188)
Depreciation	(361)	(366)	(420)	(473)	(528)	(797)	(810)	(848)	(938)	(1,103)	(1,198)	(1,264)	(1,274)
Pre-tax profit	6,108	8,024	7,732	9,897	8,175	8,548	9,104	9,082	8,523	10,303	8,931	9,096	10,170
Taxation	(1,670)	(2,114)	(2,282)	(2,872)	(2,175)	(1,515)	(1,561)	(1,736)	(1,826)	(3,078)	(1,983)	(2,292)	(2,563)
PAT	4,437	5,910	5,913	7,641	6,000	7,859	7,543	7,346	7,085	7,226	6,790	6,804	7,607
Adjusted PAT	**4,715**	**6,259**	**5,788**	**7,348**	**5,999**	**6,805**	**7,179**	**7,280**	**6,745**	**7,306**	**7,292**	**7,200**	**8,064**
Balance sheet													
Shareholders funds	15,610	18,063	20,432	23,867	25,652	28,865	34,813	37,422	39,861	41,305	43,707	46,177	48,931
Loan funds	86	—	—	—	—	—	—	2,508	2,515	3,092	2,092	2,092	2,092
Total source of funds	**15,696**	**18,063**	**20,432**	**23,867**	**25,652**	**28,865**	**34,813**	**39,930**	**42,376**	**44,396**	**45,798**	**48,269**	**51,023**
Net block	2,944	3,564	4,649	4,934	9,192	12,340	12,894	12,322	12,882	12,848	14,603	14,336	14,833
Net fixed assets	3,337	4,411	6,273	8,066	12,215	14,763	18,086	16,954	13,261	14,433	16,189	15,921	16,418
Investments and goodwill	7,329	7,255	5,975	6,276	4,954	4,650	3,336	9,753	12,798	10,133	10,133	10,133	10,133
Cash balances	559	1,037	2,235	3,547	865	799	897	1,291	4,709	7,379	9,922	12,150	13,165
Net current assets excluding cash	4,301	5,173	5,879	6,307	8,083	9,284	12,246	11,501	11,866	13,400	11,480	11,991	13,233
Total application of funds	**15,696**	**18,063**	**20,432**	**23,867**	**25,652**	**28,865**	**34,813**	**39,930**	**42,376**	**44,396**	**46,736**	**49,207**	**51,961**
Cash flow statement													
Operating profit before working capital changes	5,872	7,829	7,404	8,826	7,525	8,006	8,579	8,951	8,537	11,296	9,685	9,834	10,833
Change in working capital	1,436	(1,356)	(825)	(883)	(1,607)	(1,142)	33	371	(370)	(1,534)	1,920	(511)	(1,242)
Tax paid	(1,549)	(2,181)	(2,155)	(2,657)	(2,308)	(1,853)	(1,694)	(1,867)	(1,823)	(2,250)	(1,983)	(2,292)	(2,563)
Cashflow from operating activites	**5,759**	**4,293**	**4,425**	**5,286**	**3,611**	**5,012**	**6,918**	**7,456**	**6,344**	**7,512**	**9,622**	**7,031**	**7,028**
Fixed assets	(618)	(1,479)	(2,281)	(2,148)	(4,678)	(3,304)	(4,899)	(2,315)	(905)	(2,272)	(2,915)	(996)	(1,772)
Investments	(3,340)	75	1,547	302	1,489	1,296	1,339	(3,655)	(1,518)	2,665	—	—	—
Cash (used) / realised in investing activities	**(3,368)**	**(1,327)**	**77**	**(2,186)**	**552**	**(563)**	**(2,121)**	**(4,860)**	**(1,327)**	**665**	**(2,396)**	**(283)**	**(973)**
Borrowings	(126)	—	—	—	—	—	—	—	—	—	—	—	—
Dividend paid	(1,992)	(3,002)	(3,452)	(3,544)	(4,216)	(4,216)	(4,669)	(4,663)	(4,639)	(5,672)	(4,388)	(4,333)	(4,853)
Cash (used) /realised in financing activities	**(2,155)**	**(3,049)**	**(3,506)**	**(3,590)**	**(4,258)**	**(4,261)**	**(4,677)**	**(2,245)**	**(4,731)**	**(4,569)**	**(5,621)**	**(4,521)**	**(5,041)**
Cash generated /utilised	236	(83)	996	(490)	(95)	188	119	350	285	3,609	1,605	2,228	1,014
Cash at beginning of year	323	239	156	1,152	662	567	755	851	1,237	4,709	8,317	9,922	12,150
Cash at end of year	**559**	**156**	**1,152**	**662**	**567**	**755**	**851**	**1,237**	**1,523**	**8,317**	**9,922**	**12,150**	**13,165**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Growth (%)													
Revenue growth	(15.0)	39.3	1.8	11.8	(13.6)	10.8	6.9	7.8	0.1	11.3	(3.1)	4.5	10.4
EBITDA growth	(0.6)	30.5	(8.7)	21.4	(17.7)	5.5	5.4	3.4	(8.7)	18.0	(20.4)	(2.7)	11.9
Recurring PAT growth	NA	32.8	(7.5)	26.9	(18.4)	13.4	5.5	1.4	(7.3)	8.3	(0.2)	(1.3)	12.0
Key ratios (%)													
EBITDA margin	20.2	18.9	16.9	18.4	17.5	16.7	16.5	15.8	14.4	15.3	12.6	11.7	11.9
PAT margin	15.3	14.6	13.2	15.3	15.1	16.0	16.0	14.5	13.2	12.8	12.7	11.9	12.0
RoE	30.0	35.1	28.3	31.7	24.2	25.8	23.7	20.3	17.3	17.8	16.3	15.1	16.0
RoCE	26.1	27.9	22.7	28.7	19.9	26.1	18.8	11.5	9.9	5.9	4.1	4.8	6.1
Debt / equity (X)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Adj. EPS (Rs)	**17.0**	**22.6**	**20.9**	**26.5**	**21.6**	**24.5**	**25.9**	**26.3**	**24.3**	**26.4**	**26.3**	**26.0**	**29.1**

Source: Company, Kotak Institutional Equities estimates

Exhibit 19: One-year forward P/BV and P/E for Cummins India
Valuation range for Cummins India, March fiscal year ends (X)





Source: Bloomberg, Kotak Institutional Equities

kotak Institutional Equities

Tata Communications (TCOM)

Telecommunication Services

BUY

MARCH 17, 2020

CHANGE IN RECO.

Sector view: Cautious

CMP (₹): 247

Fair Value (₹): 425

BSE-30: 30,579

Sell-off overdone; upgrade to BUY. At just over 5X trailing (FY2020E) EV/EBITDA, we see a lot of value in TCOM even if there is some short-term business disruption on account of the Covid-19 impact on the global economy. TCOM's existing core business should not see much impact, anyway, barring some impact on the business from the media vertical in the short term. New business signing could get delayed on account of travel restrictions but should see quick recovery once things normalize. We cut ST forecasts, lower FV to Rs425 (from Rs500) and upgrade the stock to BUY (from ADD).

Tata Communications

Stock data			
52-week range (Rs) (high,low)			465-223
Mcap (bn) (Rs/US$)			71/1
ADTV-3M (mn) (Rs/US$)			48/1
Shareholding pattern (%)			
Promoters			75.0
FIIs			17.7
MFs/BFIs			0.1/1.5
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(36)	(36)	(34)
Rel. to BSE-30	(14)	(14)	(17)

Forecasts/valuations	2020E	2021E	2022E
EPS (Rs)	10.0	7.9	15.1
EPS growth (%)	197.2	(21.2)	90.1
P/E (X)	24.5	31.1	16.4
P/B (X)	291.7	29.4	10.8
EV/EBITDA (X)	5.3	5.4	4.6
RoE (%)	(363.1)	171.4	96.1
Div. yield (%)	3.0	3.0	3.0
Sales (Rs bn)	170	169	180
EBITDA (Rs bn)	30	29	34
Net profits (Rs bn)	3	2	4

Not completely insulated from Covid-19 concerns but the impact may not be material

To be sure, there could be some impact on TCOM's business on account of Covid-19. We see three potential areas where TCOM could get impacted in the short term.

- New deals – travel restrictions and pressure on client budgets could mean slow movement in the new deal funnel for a while. This could impact growth rates in the company's growth and innovation services segments even as traditional data services segment should be largely unaffected. Bulk of the growth in traditional services comes from volume growth and scope expansion within existing deals; new deal contribution to growth in this segment is low.

- Usage-based revenues – several of TCOM's contracts have a fixed + usage-based revenue construct. Usage-based revenues capture upside from peak demand for connectivity and other services. Slowdown in the global economy may mean fewer and lower peaks, thereby impacting TCOM's usage-based revenue stream.

- Media vertical – this vertical could be severely impacted in the short term. We do note that this line of business contributes just about 2% to the company's overall revenues (under 10% of the growth services pie; growth is 23-24% of data; data is just under 80% of total).

Some uplift in unified communications (UCC) service and netfoundry as remote work increases across organizations could mitigate the pressure from the above three to some extent, in our view.

We trim ST forecasts; upgrade stock to BUY

We have cut our FY2020E/21E/22E EBITDA forecasts by 2%/10%/4%, respectively. We are now baking in a 2.3% yoy decline in EBITDA in FY2021E (sharper in USD terms) against an expectation of a 7% yoy growth earlier. Even as the fluidity of the Covid-19 situation makes any and all ST forecasts risky, we are fairly comfortable with our FY2022E forecasts. At 4.7X FY2022E EBITDA, we believe the stock is now pricing in a pretty dismal long-term prognosis. We see this as an opportunity and upgrade the stock to BUY (from ADD) with FV of Rs425.

Rohit Chordia

Aniket Sethi

kspcg.research@kotak.com
Contact: +91 22 6218 6427

Exhibit 1: Key changes to TCOM earnings model, March fiscal year-ends, 2020-22E (Rs mn)

	Revised			Earlier			Change (%)		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Revenues (Rs mn)	170,141	169,176	179,548	168,095	172,648	182,678	1.2	(2.0)	(1.7)
EBITDA (Rs mn)	29,767	29,069	33,575	30,310	32,439	35,066	(1.8)	(10.4)	(4.3)
EBITDA margin (%)	17.5	17.2	18.7	18.0	18.8	19.2			
Recurring PAT (Rs mn)	2,864	2,257	4,290	3,148	3,982	5,095			
EPS (Rs/share)	10.0	7.9	15.1	11.0	14.0	17.9			

Source: Kotak Institutional Equities

Exhibit 2: Our sum-of-the-parts fair value for TCOM is Rs425/share

Voice business	
Mar-2022E EBITDA (Rs bn)	2.1
EV/EBITDA (x)	3.5
Enterprise value (Rs bn)	7
Data business	
Mar-2022E EBITDA (including rental income) (Rs bn)	31.5
EV/EBITDA (x)	6.5
Enterprise value (Rs bn)	205
Others	
Value of 26% stake in DC business sold to STT (Rs bn)	13
Total EV (Rs bn)	225
Consolidated net debt (Rs bn)	88
Less: Potential DOT liability (Rs bn)	16
Net equity value (Rs bn)	121
Equity value per share (Rs/share)	425

Source: Kotak Institutional Equities estimates

Exhibit 3: TCOM: key operating and financial metrics

Quarter-ending	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Change (%) qoq (%)	Change (%) yoy (%)
Gross Revenue by Segment (%)							
Global Voice Solutions	24.1	21.2	21.4	20.5	19.1		
Global Data Services	75.9	78.8	78.6	79.5	80.9		
Global Voice Solutions (Rs mn)							
Gross revenues	9,436	9,008	8,903	8,741	8,090	(7.4)	(14.3)
Net revenues	1,480	1,643	1,478	1,493	1,030	(31.0)	(30.4)
EBITDA	759	966	866	790	450	(43.0)	(40.7)
EBIT	667	867	797	715	380	(46.9)	(43.0)
EBITDA margin (%)	8.0	10.7	9.7	9.0	5.6		
EBIT margin (%)	7.1	9.6	9.0	8.2	4.7		
Volumes (bn mins)							
Total	**7.0**	**6.7**	**6.4**	**5.9**	**5.5**	**(6.8)**	**(21.4)**
ILD	6.4	6.3	6.1	5.8	5.4	(6.9)	(15.6)
NLD	0.6	0.4	0.3	0.1	0.1	-	(83.3)
Net realization per min (Rs/min)	0.211	0.245	0.231	0.253	0.187	(26.0)	(11.4)
EBITDA per min (Rs/min)	0.108	0.144	0.135	0.134	0.082	(38.9)	(24.5)
Operating costs per min (Rs/min)	0.103	0.101	0.096	0.119	0.105	(11.5)	2.4
Global Data Solutions (Rs mn)							
Gross revenues	29,779	33,427	32,784	33,986	34,200	0.6	14.8
Net revenues	18,670	22,645	21,808	22,186	21,980	(0.9)	17.7
EBITDA	5,567	5,887	6,690	6,867	7,078	3.1	27.1
EBIT	2,524	399	1,238	1,356	1,548		
EBITDA margin (%)	18.7	17.6	20.4	20.2	20.7		
EBIT margin (%)	8.5	1.2	3.8	4.0	4.5		
GR by segment (%)							
Service Provider / Carrier	42.0	40.0	38.0	39.0	38.0		
Enterprise	58.0	60.0	62.0	61.0	62.0		
GR by service line (%)							
Traditional services	64.8	62.4	63.1	63.6	63.1		
Growth services	22.5	24.6	24.0	23.4	23.7		
Subsidiaries	11.7	12.0	11.9	12.0	12.1		
GR by geography (%)							
India	52.0	53.0	52.0	54.0	53.0		
Rest of the world	48.0	47.0	48.0	46.0	47.0		
TCPSL							
Gross Revenue (Rs mn)	895	844	889	850	870	2.4	(2.8)
Total ATMs managed	13,062	12,772	12,399	12,362	12,278	(0.7)	(6.0)
Managed ATMs	5,003	4,562	4,076	4,011	3,993	(0.4)	(20.2)
White label ATMs	8,059	8,210	8,323	8,351	8,285	(0.8)	2.8
Total POS managed	12,790	9,183	8,365	5,823	5,791	(0.5)	(54.7)
Traditional services (US$ mn)							
Revenues	251.2	296.2	297.1	306.9	303.2	(1.2)	20.7
EBITDA	90.1	92.6	107.6	109.0	107.0	(1.8)	18.8
Growth services (US$ mn)							
Revenues	101.4	110.8	110.3	109.6	110.3	0.6	8.7
EBITDA	(4.5)	6.0	3.0	3.9	7.2		
Innovation services (US$ mn)							
Revenues	2.4	6.1	2.7	3.2	3.7		
EBITDA	(16.3)	(20.9)	(19.4)	(21.3)	(20.8)		
Debt profile							
Core business (US$ mn)							
Gross debt	**1,450**	**1,441**	**1,386**	**1,406**	**1,418**	**0.9**	**(2.2)**
Foreign Currency Loans	1,383	1,354	1,313	1,359	1,369	0.8	(1.0)
Rupee Loans	67	87	73	47	49	4.3	(26.8)
Cash and cash equivalent	163	209	138	144	159	10.6	(2.3)
Net debt	1,287	1,232	1,248	1,262	1,257	(0.4)	(2.3)
INR/USD (closing)	69.83	69.22	69.00	70.79	71.32	0.8	2.1
Net debt (Rs mn)	89,871	85,273	86,112	89,331	89,650	0.4	(0.2)

Source: Company, Kotak Institutional Equities

Exhibit 4: TCOM – forecasts and underlying assumptions, March fiscal year-ends, 2017-22E (Rs bn)

`	2017	2018	2019	2020E	2021E	2022E
Profit and loss statement						
Revenues	176,197	166,508	161,770	170,141	169,176	179,548
EBITDA	24,059	22,914	25,349	29,767	29,069	33,575
EBIT	5,401	3,851	4,673	9,361	7,997	11,860
PBT	5,332	4,211	1,310	5,606	4,305	8,286
Recurring PAT	2,993	469	(2,946)	2,864	2,257	4,290
Reported PAT	12,329	(3,286)	(824)	2,120	2,257	4,290
Recurring EPS (Rs/share)	**10.5**	**1.6**	**(10.3)**	**10.0**	**7.9**	**15.1**
Balance sheet						
Total Equity	16,103	5,038	(1,761)	298	2,451	6,594
Borrowings	92,460	89,530	106,677	106,677	103,677	100,677
Other liabilities	102,461	101,460	95,211	97,735	95,862	99,077
Total equity and liabilities	**211,023**	**196,028**	**200,128**	**204,710**	**201,990**	**206,348**
Net fixed assets	116,794	113,169	115,645	113,529	110,643	108,229
Net intangibles	—	—	863	863	863	863
Cash and equivalents	18,786	14,823	15,713	18,026	16,132	18,020
Other assets	75,443	68,037	67,908	72,293	74,352	79,237
Total assets	**211,023**	**196,028**	**200,128**	**204,710**	**201,990**	**206,348**

Note:
(1) Reported PAT for FY2017 includes discontinued operations.

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

PVR (PVRL)

Media

BUY

MARCH 18, 2020

CHANGE IN RECO.

Sector view: Attractive

CMP (₹): 1,308

Fair Value (₹): 1,800

BSE-30: 30,579

Opportunity amidst uncertainty. We upgrade PVR to BUY from REDUCE with FV of Rs1,800 (Rs1,850) valuing it at 11X FY2022E EV/EBITDA (unchanged). While Covid-19 would significantly impact the business in the short term (say two months), we expect it to bounce back thereafter led by pent-up demand and a packed line-up of movies. We cut FY2020-21E EBITDA estimates by 10-23% and retain FY2022E estimates. Sharp 40% correction from peak presents an opportunity to buy this stock at an attractive valuation.

PVR

Stock data			
52-week range (Rs) (high,low)			2,125-1,045
Mcap (bn) (Rs/US$)			68/1
ADTV-3M (mn) (Rs/US$)			1,110/15
Shareholding pattern (%)			
Promoters			18.4
FIIs			42.9
MFs/BFIs			15.6/0.1
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(37)	(27)	(20)
Rel. to BSE-30	(16)	(1)	(0)

Forecasts/valuations	2020E	2021E	2022E
EPS (Rs)	32.7	34.5	67.2
EPS growth (%)	(24.1)	5.4	95.1
P/E (X)	40.0	38.0	19.5
P/B (X)	3.6	3.3	2.9
EV/EBITDA (X)	12.2	12.4	8.2
RoE (%)	10.7	9.0	15.7
Div. yield (%)	0.2	0.3	0.5
Sales (Rs bn)	35	37	47
EBITDA (Rs bn)	6	6	9
Net profits (Rs bn)	2	2	3

Covid-19: Assessing potential short-term impact and PVR's preparedness to navigate the same

Almost all state governments have ordered complete shutdown of cinemas in order to contain Covid-19 outbreak. Subsequently, producers have pushed back movie releases and production studios have halted ongoing shoots. These restrictions could continue for a few weeks. We assess potential ST impact of Covid-19 on PVR's financials assuming a complete shutdown for two months (base case). Exhibit 1 shows break-up of PVR's cost structure. Film hire costs, F&B COGS, electricity are variable costs. Employee costs (permanent + contractual workforce) and other expenses (travel costs, repair & maintenance, advertising and other G&A expenses) are semi-variable in nature. Even as rental cost is largely fixed (fixed rent or MG + revenue share), several lease contracts have a provision for partial/complete waiver in situations such as this.

As per our estimate, PVR would incur cost of Rs750/month in the event of a complete shutdown. Cash inflow would be nil during this period and revenues would be booked at Rs150 mn/month (amortization of BookMyShow/Paytm convenience fee deal). We estimate EBITDA loss of Rs600 mn/month (Rs750 on cash basis) and cash loss (including interest expense) of Rs850 mn/month. PVR has utilized available W-cap facility of about Rs1.5 bn and increased cash-levels to about Rs2-2.5 bn. Net debt as of date is about Rs9.2 bn.

Underlying trends are encouraging; we expect the business to bounce back strongly

We expect a strong bounce back in demand post Covid-19 led by (1) pent-up demand, and (2) packed line-up of movies (4QFY20/1QFY21 releases deferred would be scheduled during 2Q-4QFY21). Further, we believe that PVR's performance is largely linked to content quality and weak macro has modest impact on the operating performance. Given this, we expect footfalls to largely recover post Covid-19 even in case of some incremental weakness in macro. That said, we note that advertising revenue growth could decelerate if economy slows down further.

Upgrade to BUY from REDUCE with fair value of Rs1,800 (Rs1,850)

We like PVR for its (1) thought leadership, (2) premium location presence and branding, (3) leadership in monetization and profitability, and (4) execution track record. We value the stock at 11X FY2022E EV/EBITDA (excluding Ind-AS 116). We have cut our FY2020-21E EBITDA estimates by 10-23% as we model complete shutdown of about two months (base case).

Jaykumar Doshi

kspcg.research@kotak.com
Contact: +91 22 6218 6427

Exhibit 1: Revised earnings estimates of PVR, FY2020E-22E (Rs mn)

	Revised			Previous			Change (%)		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Ticket sales (net)	17,975	18,698	24,303	19,131	21,747	24,342	(6.0)	(14.0)	(0.2)
F&B sales	**9,986**	**10,586**	**14,021**	**10,596**	**12,274**	**14,001**	**(5.8)**	**(13.8)**	**0.1**
Ad revenues	3,936	3,977	5,169	4,000	4,633	5,186	(1.6)	(14.2)	(0.3)
Convenience fees	1,644	1,799	1,900	1,561	1,663	1,773	5.3	8.1	7.1
Other operating income	1,904	2,000	2,029	1,704	1,850	2,008	11.7	8.1	1.0
Total revenues	**35,445**	**37,060**	**47,422**	**36,992**	**42,168**	**47,311**	**(4.2)**	**(12.1)**	**0.2**
Film hire charges	(7,576)	(7,919)	(10,353)	(8,140)	(9,275)	(10,382)	(6.9)	(14.6)	(0.3)
F&B consumption	(2,716)	(2,858)	(3,786)	(2,882)	(3,314)	(3,766)	(5.8)	(13.8)	0.5
Employee costs	(4,239)	(4,641)	(5,546)	(4,248)	(4,930)	(5,572)	(0.2)	(5.9)	(0.5)
Rent	(5,986)	(6,481)	(7,790)	(5,971)	(6,865)	(7,761)	0.2	(5.6)	0.4
Other operating costs	(8,675)	(8,898)	(10,652)	(8,785)	(9,681)	(10,554)	(1.3)	(8.1)	0.9
Total operating costs	**(29,192)**	**(30,796)**	**(38,128)**	**(30,026)**	**(34,065)**	**(38,035)**	**(2.8)**	**(9.6)**	**0.2**
EBITDA	6,253	6,264	9,295	6,966	8,103	9,276	(10.2)	(22.7)	0.2
PAT	1,673	1,764	3,442	2,200	3,063	3,536	(24.0)	(42.4)	(2.7)
EPS (Rs/share)	33.4	34.5	67.2	43.9	59.8	69.1	(24.0)	(42.4)	(2.7)
Key assumptions									
EBITDA margin (%)	17.6	16.9	19.6	18.8	19.2	19.6			
Screen additions (#)	82	80	80	80	80	80	2.5	-	-
Footfalls (mn)	104	103	127	110	119	127	(5.8)	(13.8)	0.1
ATP gross (Rs)	204	214	225	205	215	225	(0.3)	(0.3)	(0.3)
SPH gross (Rs)	101	108	116	101	108	116	-	-	-
Ad revenue growth (%)	11	1	30	13	16	12			
Occupancy (%)	33.9	31.0	36.0	36.0	36.0	36.0			
F&B revenue growth (%)	16.3	6.0	32.5	23.4	15.8	14.1			
F&B gross margin (%)	72.8	73.0	73.0	72.8	73.0	73.1			
F&B gross profit (Rs mn)	7,270	7,728	10,235	7,714	8,960	10,235	(5.8)	(13.8)	0.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Key Bollywood and Hollywood movies expected to be released in FY2021

Rel. Date	Movie	Cast
Bollywood- key titles		
Mar 2020	Sooryavanshi	Akshay Kumar, Katrina Kaif
Apr 2020	'83	Kapil Dev biopic starring Ranveer Singh and Deepika Padukone
Apr 2020	Gulabo Sitabo	Ayushmann Khurrana, Amitabh Bachchan
Apr 2020	Hungama 2	Shilpa Shetty, Paresh Rawal, Pranitha Subhash
Apr 2020	Gunjan Saxena- The Kargil Girl	Janhvi Kapoor
May 2020	Coolie No. 1	Sara Ali Khan, Varun Dhawan
May 2020	Jhund	Amitabh Bachchan
May 2020	Laxmmi Bomb	Akshay Kumar, Kiara Advani
May 2020	Radhe: The Most Wanted Bhai	Salman Khan, Disha Patani, Randeep Hooda
May 2020	Shakuntala Devi	Biopic starring Vidya Balan
Jun 2020	Bunty Aur Babli 2	Rani Mukherji, Saif Ali Khan
Jun 2020	Roohi Afzana	Rajkummar Rao, Janhvi Kapoor
Jun 2020	Khaali Peeli	Ishaan Khattar, Ananya Panday
Jun 2020	Thalaivi	Biopic starring Kangana Ranaut
Jul 2020	Sadak 2	Pooja Bhatt, Alia Bhatt, Aditya Roy Kapoor, Sanjay Dutt, Makarand Deshpande
Jul 2020	Shamshera	Ranbir Kapoor, Sanjay Dutt, Ronit Roy, Vaani Kapoor
Jul 2020	Bhool Bhulaiyaa 2	Kartik Aaryan, Kiara Advani
Aug 2020	Jersey	Shahid Kapoor, Mrunal Thakur, Pankaj Kapoor
Aug 2020	Bhuj: The Pride of India	Pranitha Subhash, Ajay Devgn, Sonakshi Sinha, Rana Daggubati, Sanjay Dutt, Ammy Virk, Nora Fatehi
Sep 2020	Haseen Dilruba	Taapsee Pannu, Vikrant Massey
Sep 2020	Gangubai Kathiawadi	Sanjay Leela Bhansali, Alia Bhatt
Oct 2020	Toofan	Farhan Akhtar, Mrunal Thakur, Isha Talwar, Paresh Rawal, Rajpal Yadav, Rishi Kapoor, Vijay Raaz
Oct 2020	Rambo	Tiger Shroff
Oct 2020	Satyameva Jayate 2	John Abraham, Divya Khosla Kumar
Oct 2020	Sardar Udham Singh	Vicky Kaushal, Banita Sandhu
Nov 2020	Dhaakad	Kangana Ranaut
Oct 2020	The Big Bull	Abhishek Bachchan
Dec 2020	Maidaan	Ajay Devgn, Keerthy Suresh
Dec 2020	Brahmastra	Ranbir Kapoor, Alia Bhat
Nov 2020	Prithviraj	Akshay Kumar, Manushi Chhillar, Sanjay Dutt, Tara Sutaria
Dec 2020	Laal Singh Chaddha	Aamir Khan, Kareena Kapoor
Jan 2021	Bachchan Pandey	Kriti Sanon, Akshay Kumar
Jan 2021	Mr.Lele	Varun Dhawan
Jan 2021	RRR	Rajamouli, N.T Rama Rao Junior, Ram Charan,Ajay Devgan, Alia Bhatt
Jan 2021	Atrangi Re	Akshay Kumar, Dhanush, Sara Ali Khan
Mar 2021	Luv Ranjan'S Next Starring Ranbir Kapoor	Ranbir Kapoor,Shraddha Kapoor
TBD 2020	Jayesh Bhai Zordar	Ranveer Singh
Hollywood (English)		
Mar 2020	Mulan	Liu Yifei, Donnie Yen, Jason Scott Lee, Yoson An, Gong Li, Jet Li
Apr 2020	The New Mutants	Anya Taylor-Joy, Charlie Heaton, Henry Zega, Blu Hunt, Alice Braga, Antonio Banderas, Happy Anderson
Apr 2020	Peter Rabbit II	Domhnall Gleeson, Daisy Ridley, Rose Byrne, James Corden, Margot Robbie, David Oyelowo,Elizabeth Debicki
May 2020	Black Widow	Scarlett Johansson, Florence Pugh, David Harbour, Robert Downey Jr
May 2020	Fast Furious 9	Vin Diesel, John Cena, Michelle Rodriguez, Tyrese Gibson, Charlize Theron, Jordana Brewster, Ludacris
Jun 2020	Wonder Woman 1984	Gal Gadot, Chris Pine, Kristen Wiig, Pedro Pascal, Robin Wright, Connie Nielson, Kristoffer Polaha
Jun 2020	Top Gun: Maverick	Tom Cruise, Val Kilmer, Miles Teller, Jennifer Connelly, Glen Powell
Jun 2020	In The Heights	Anthony Ramos, Lin-Manuel Miranda, Stephanie Beatriz, Dascha Polanco
Jul 2020	Minions: The Rise of Gru	Steve Carell, Pierre Coffin
Jul 2020	Ghostbusters: After Life	Bill Murray, Finn Wolfhard, Dan Aykoyd, Mckenna Grace, Sigourney Weaver
Jul 2020	The Purge 5	Ana de la Reguera, Cassidy Freeman, Will Patton, Tenoch Huerta
Jul 2020	Tenet	Robert Pattinson, John Washington, Elizabeth Debicki, Dimple Kapadia, Himesh Patel
Sep 2020	The Conjuring: The Devil Made Me Do It	Horror sequel
Oct 2020	Venom 2	
Nov 2020	The Eternals	Marvel movie: Angelina Jolie and Salma Hayek
Nov 2020	No Time to Die	Danial Craig, Rami Malek, Lea Seydoux, Lashana Lynch, Ana de Armas, Naomie Harris, Ben Whishaw
Nov 2020	Godzilla vs. Kong	
Nov 2020	Escape Room 2	
Dec 2020	Tom And Jerry	
Dec 2020	The Tomorrow War	

Notes: (1) Dates of several movies likely to change due to ongoing shutdown of cinemas (Covid-19)

Source: Kotak Institutional Equities

Exhibit 3: Key regional movies expected to be released in FY2021

Rel. Date	Movie	Language	Cast
Regional			
Apr-20	Love Story	Telugu	Naga Chaitanya, Sai Pallavi
Apr-20	Yuvarathna	Kannada	Puneeth Rajkumar, Dhananjay, Sayyesha Saigal, Vashista N Simha
Apr-20	Aakaasam Nee Haddhura	Telugu	Suriya Sivakumar, Aparna Balamurali
Apr-20	Robert	Kannada	Darshan, Jagapathi Babu, Vinod Prabhakar, Asha Bhat
Apr-20	Master	Tamil	Vijay,Vijay Sethupath
Apr-20	Penguin	Tamil	Keerthi Suresh
Apr-20	Vt10	Telugu	Varun Tej
Apr-20	Red	Telugu	Ram Pothineni, Malvika Sharma
Apr-20	Ee Kathalo Paathralu Kalpitam	Telugu	Pavan Tej Konidela
Apr-20	Wild Dog	Telugu	Nagarjuna Akkineni, Dia Mirza
Apr-20	Pspk 26	Telugu	Pawan Kalyan
Apr-20	Mosagallu	Telugu	Manchu Vishnu, Kajal Aggarwal
Apr-20	Tuck Jagadish	Telugu	Nani, Ritu Varma
Apr-20	Naarappa	Telugu	Venkatesh, Priyamani
Apr-20	Icon	Telugu	Allu Arjun
Apr-20	Viraata Parvam	Telugu	Rana Daggubati, Sai Pallavi
Apr-20	Hero	Telugu	Vijay Deverakonda, Malavika Mohanan
Apr-20	Soorarai Pottru	Tamil	Suriya, Aparna Balamurali, Jackie Shroff, Mohan Babu, Paresh Rawal
May-20	Belashuru	Bengali	
May-20	Solo Bratuke So Better	Telugu	Sai Dharam Tej, Nabha Natesh
May-20	Seetimaarr	Telugu	Gopichand, Tamannaah Bhatia
May-20	Nbk 106	Telugu	Balakrishna
May-20	Krack	Telugu	Ravi Teja, Shruti Haasan
May-20	Goodachari 2	Telugu	Adivi Sesh
May-20	Akhil 4	Telugu	Akhil Akkineni, Pooja Hegde
Jun-20	Cobra	Tamil	Vikram, Srinidhi Shetty, Irfan Pathan
Jun-20	Randamoozham	Malayalam	Mohanlal,Amitabh Bachchan
Jun-20	Jodi	Punjabi	Diljit Dosanjh
Jul-20	Gandugali Madakari Nayaka	Kannada	Darshan
Jul-20	Mookuthi Amman	Tamil	Nayanthara
Jul-20	Vd 12	Telugu	Vijay Deverakonda
Jul-20	Maanaadu	Tamil	Silambarasan, Kalyani Priyadarshan, Bharathiraja, S. A. Chandrasekhar, Premgi
Jul-20	Aranya	Telugu	Rana Daggubati, Zoya Hussain
Jul-20	Valimai	Tamil	Ajith Kumar
Jan-00	Angrej 2	Punjabi	Amrinder Gill,
Aug-20	Yaadhum Oore Yaavarum Kelir	Tamil	Vijay Sethupathi, Megha Akash
Aug-20	Chiru 152	Telugu	Chiranjeevi , Trisha Krishnan
Aug-20	Welcome Bhua Ji	Punjabi	Binnu Dhillon
Aug-20	Doctor	Tamil	Sivakarthikeyan, Priyanka Arul Mohan, Vinay
Aug-20	Daddy Cool Munde Fool 2	Punjabi	Jassi Gill,Ranjit Bawa,Jaswinder Bhala
Sep-20	Bilal	Malayalam	Amal Neeradmammoottydulquer Salmaancatherine Tresa
Oct-20	Kgf 2	Kannada	Yash, Srinidhi Shetty, Ananth Nag, Sanjay Dutt, Ahcyuth Kumar, Laxman,
Oct-20	Kaaliyan	Malayalam	Prithviraj Sukumaransathyaraj
Nov-20	Thalaivar 168	Tamil	Rajinikanth, Kushboo, Meena, Keerthy Suresh
Nov-20	Samraat	Telugu	Mahesh Babu
Nov-20	Bila Ranga Baasha	Kannada	Sudeep
Nov-20	Sukumara Kuruppu	Malayalam	Dulquer Salmaan
Dec-20	Ponniyin Selvan	Tamil	Vikram, Aishwarya Rai Bachchan, Karthi, Jayam Ravi, Parthiban
Dec-20	Karnan	Tamil	Dhanush, Rajisha Vijayan, Natty
Dec-20	Laabam	Tamil	Vijay Sethupathi, Shruti Haasan, Kalaiyarasan, Sai Dhanshika
Feb-21	Kokka	Punjabi	
Feb-21	Raunak Mela	Punjabi	Binnu Dhillon
Oct-20	Byomkesh Bakshi Next	Bengali	

Notes: (1) Dates of several movies likely to change due to ongoing shutdown of cinemas (Covid-19)

Source: Kotak Institutional Equities

Exhibit 4: Condensed consolidated financials for PVR, March fiscal year-ends (Rs mn), 2014-22E

	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Profit model									
Revenues	13,475	14,813	18,688	21,628	23,478	30,947	35,445	37,060	47,422
Ticket sales (net)	7,947	8,240	10,138	11,256	12,471	16,354	17,975	18,698	24,303
F&B sales	3,215	3,732	4,967	5,794	6,250	8,584	9,986	10,586	14,021
Ad revenues	1,511	1,771	2,145	2,518	2,969	3,535	3,936	3,977	5,169
Other operating income	803	1,071	1,437	2,060	1,788	2,474	3,549	3,798	3,928
EBITDA	**2,117**	**2,044**	**3,306**	**3,570**	**4,155**	**5,955**	**6,253**	**6,264**	**9,295**
Other income	113	46	283	189	177	240	300	275	225
Depreciation	944	1,168	1,252	1,384	1,537	1,913	2,462	2,707	3,132
Interest expense	795	783	839	806	837	1,280	1,518	1,118	1,092
Pretax profits	**523**	**118**	**1,432**	**1,528**	**1,952**	**3,002**	**2,573**	**2,714**	**5,295**
Tax	19	8	232	570	704	991	901	950	1,853
PAT before minority interest	504	110	1,200	958	1,247	2,011	1,673	1,764	3,442
Minority interest	(57)	(11)	5	1	0	-	-	-	-
PAT	**561**	**121**	**1,194**	**958**	**1,247**	**2,011**	**1,673**	**1,764**	**3,442**
Diluted earnings per share (Rs)	**13.7**	**2.9**	**25.6**	**20.5**	**26.7**	**43.1**	**33.4**	**34.5**	**67.2**
Balance sheet									
Total equity	3,993	4,092	8,695	9,650	10,754	12,395	18,841	20,393	23,421
Deferred taxation liability	4	11	93	9	6	955	955	955	955
Total borrowings	**6,134**	**7,470**	**6,623**	**8,196**	**8,305**	**12,824**	**10,524**	**10,774**	**10,024**
Minority interest	771	383	401	405	8	2,566	2,566	2,566	2,566
Current liabilities	2,600	2,309	3,276	3,925	4,316	7,896	7,186	7,699	9,540
Total liabilities and equity	**13,533**	**14,288**	**19,108**	**22,257**	**23,488**	**39,090**	**42,526**	**43,241**	**47,160**
Cash and cash equivalents	495	261	2,674	309	339	352	1,330	294	1,278
Other current assets	3,763	4,605	5,763	5,363	5,880	5,861	5,992	7,438	8,654
Tangible fixed assets	6,990	7,523	8,824	10,447	11,270	14,900	17,220	19,116	21,028
Goodwill and Intangibles	1,466	1,273	1,262	4,640	4,629	13,108	13,116	13,124	13,132
CWIP	806	611	570	1,056	1,017	2,208	2,208	2,208	2,208
Total assets	**13,533**	**14,288**	**19,108**	**22,257**	**23,488**	**39,090**	**42,526**	**43,241**	**47,160**
Free cash flow									
Operating cash flow, excl. working capital	2,003	2,170	3,169	3,442	3,880	5,312	6,102	6,164	8,141
Working capital changes	128	(617)	204	(246)	582	2,984	(1,590)	(1,784)	(75)
Interest expense (net)	(667)	(759)	837	(617)	(660)	(1,041)	(1,218)	(843)	(867)
Capital expenditure	(1,802)	(1,940)	(2,528)	(3,024)	(3,287)	(4,362)	(4,790)	(4,611)	(5,052)
Free cash flow	**(337)**	**(1,146)**	**1,683**	**(445)**	**516**	**2,894**	**(1,496)**	**(1,074)**	**2,148**
Key ratios and assumptions									
Footfalls (mn)	**59.9**	**59.1**	**69.6**	**75.2**	**76.1**	**99.3**	**103.8**	**102.8**	**127.3**
Average Ticket Price (ATP) (Rs)	168	177	188	196	210	207	204	214	225
F&B spends per head (SPH) (Rs)	54	66	72	81	89	91	101	108	116
Ad revenue growth (%)	**75.9**	**17.2**	**21.1**	**17.3**	**17.9**	**19.1**	**11.3**	**1.1**	**30.0**
Screens (#)	421	464	516	579	625	763	845	925	1,005
EBITDA margin (%)	**15.7**	**13.8**	**17.7**	**16.5**	**17.7**	**19.2**	**17.6**	**16.9**	**19.6**
Net debt/equity (X)	1.4	1.8	0.5	0.8	0.7	1.0	0.5	0.5	0.4
RoAE (%)	10.8	3.0	18.7	10.4	12.2	17.4	10.7	9.0	15.7
RoACE (%)	10.3	7.8	14.4	9.1	9.2	12.4	9.3	7.8	20.0

Notes: (1) FY2020-22E estimates above are underlying financials without adoption of Ind-AS 116.
(2) Adoption of Ind-AS 116 would result in about 60% increase our EBITDA estimate and about 25-30% decrease in net profit.

Source: Company, Kotak Institutional Equities estimates

Just Dial (JUST)

Internet Software & Services

BUY

MARCH 18, 2020

CHANGE IN RECO.

Sector view: Attractive

CMP (₹): 311

Fair Value (₹): 460

BSE-30: 30,579

JUST BUY. Post the sharp stock price decline, JUST stock is available at deep value. While challenges to the business remain and COVID-19 may result in some loss of business for JUST, we believe current risk reward is extremely favorable (EV/FCF of 1.6X FY2021; market cap. of Rs20.2 bn, cash on books was Rs15.4 bn as of December 2019). We thus upgrade the stock to BUY from REDUCE with a revised FV of Rs460 (Rs570 earlier).

Just Dial

Stock data			
52-week range (Rs) (high,low)			825-282
Mcap (bn) (Rs/US$)			21/0.3
ADTV-3M (mn) (Rs/US$)			1,217/16
Shareholding pattern (%)			
Promoters			32.9
FIIs			50.1
MFs/BFIs			9.7/0.2
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(37)	(47)	(49)
Rel. to BSE-30	(15)	(29)	(37)

Forecasts/valuations	2020E	2021E	2022E
EPS (Rs)	40.7	35.3	36.6
EPS growth (%)	27.6	(13.4)	3.8
P/E (X)	7.6	8.8	8.5
P/B (X)	1.6	1.4	1.2
EV/EBITDA (X)	1.9	1.3	0.2
RoE (%)	23.7	17.2	15.4
Div. yield (%)	1.3	1.1	1.2
Sales (Rs bn)	10	9	10
EBITDA (Rs bn)	3	2	2
Net profits (Rs bn)	3	2	2

COVID-19 to impact financial health of SMEs and JUST's revenues

JUST's top few clients include: movers and packers, real estate agents, repairs and services, doctor and medical services, spas & salons, wedding related vendors, and tutorial services. Arguably, a few of these categories will face reduced customer spending over the next few months, resulting in tighter advertising budgets and in some cases business mortalities as well. This can play out over the next 1-2 quarters, with the already tepid revenue growth trajectory to come under greater pressure.

JUST's listing platform still has utility with ~540k customers onboard

JUST has lost certain lucrative categories of customers such as restaurants, doctors etc. to specialized vertical platforms. However, the platform still has utility, with ~540k paid campaigns being hosted on the same as of December 2019. Further, the company has also done a commendable job of optimizing costs, and even though revenue growth trajectory has come under pressure FY2016 onwards, FY2020E EBITDA margins of 27.8% are only a little shy of the peak 30.8% margin seen in FY2014.

Cash on books provides adequate downside support; buybacks to continue

Just Dial had cash and cash equivalents of Rs15.4 bn as of December 2019, with these funds parked in three major instruments: (1) tax free government bonds, (2) debt funds of which almost all underlying paper is AAA rated, and (3) FMPs with 3-4 years of maturity with underlying paper that is also AAA rated. With cash now accounting for ~76% of market cap., we believe CMP provides adequate risk cover to investors who may be concerned on the health of the core business. JUST will continue to return cash to shareholders by way of buybacks.

Compelling valuations drive an upgrade to BUY; FV revised to Rs460

JUST will generate free cash (excluding treasury/other income) of Rs1.5 bn in FY2021E and Rs1.9 bn in FY2022E. The stock is thus available at EV/FCF of 1.6X for FY2021 and -0.1X for FY2022, thus warranting an upgrade in our rating to BUY from REDUCE. We cut FY2021/22 EPS estimates by 13.8/13.5% as we bake in a slowdown in revenues and also a compression in margins on account of COVID-19. We revise our fair value to Rs460, valuing JUST's core business at 8X FY2022E earnings.

Kawaljeet Saluja

Garima Mishra

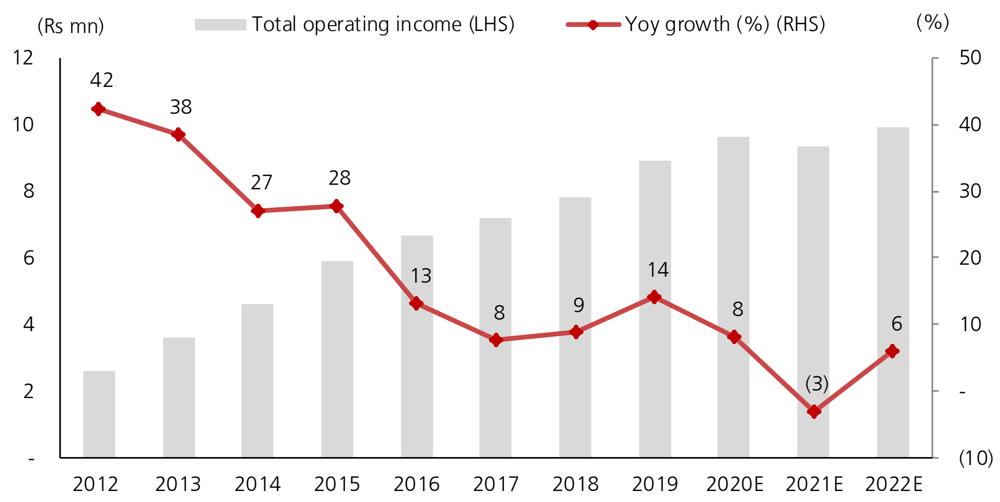
Shubhangi Nigam

kspcg.research@kotak.com
Contact: +91 22 6218 6427

Revenue trajectory under pressure

JUST's revenue growth trajectory has been under pressure in FY2020 on account of tepid client addition and pricing pressure. We believe the core challenges being faced by the company in the form of alternate modes of digital advertising as well as efficacy of JUST's platform continue. Some of these challenges may be further exacerbated by the current COVID-19 situation which may result in a slowdown in customer spends, directly impacting SMEs which form a bulk of JUST's client base.

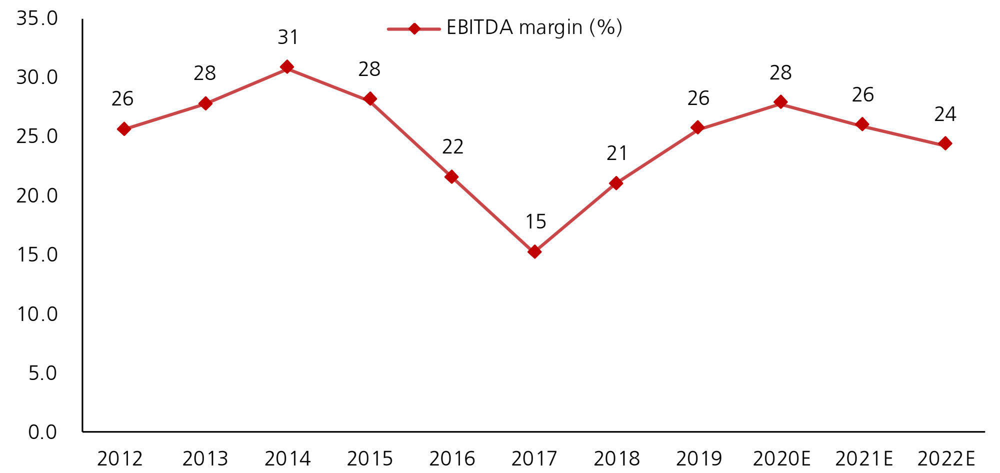
Exhibit 1: Weakness in revenue growth trajectory from FY16 onwards
JUST's revenue trajectory, March fiscal year-ends (Rs bn)



Source: Company, Kotak Institutional Equities Estimate

JUST has, however, done a good job in keeping costs under pressure, with FY2020E margins recovering to near levels last seen in FY2014-15.

Exhibit 2: Modest recovery in EBITDA margins from FY17 levels
JUST's EBITDA margins, March fiscal year-ends



Source: Company, Kotak Institutional Equities Estimates

JUST will still generate healthy amounts of cash

JUST's business model is inherently cash generating in nature, with decent operating margins, low levels of capex requirement and negative working capital. Even after pruning our estimates to account for an expected slowdown in business, we believe JUST will generate Rs1.5 bn of operating cash flow in FY2021 and Rs1.9 bn in FY2022. Note the company will also generate interest income from its cash and cash equivalents over the period, thus resulting in a forecast for March 2022 cash and cash equivalents of Rs20.4 bn. Note that this cash pile is actually less than today's market cap. of Rs20.2 bn, implying JUST's entire business post FY2022 is available today for free. We concede there are structural challenges to the business, however, the business is up and running, and should ideally be valued as a going concern. Current valuations thus offer extremely deep value.

Exhibit 3: Healthy operating cash flows for Just Dial
Operating cash flows and period-ending cash balances for Just Dial, March fiscal year-ends

	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
FCF excluding other income (Rs mn)	681	1,321	1,168	372	981	1,880	2,110	1,955	1,458	1,849
FCF (Rs mn)	789	1,641	1,559	1,012	1,677	2,407	2,854	3,009	2,402	2,921
Cash + investments (Rs mn)	5,097	6,626	8,143	8,414	10,294	12,124	13,442	15,835	17,875	20,419

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Key changes to estimates for Just Dial, March fiscal year-ends

	New estimates			Old estimates			% revision		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Total revenues	**9,643**	**9,353**	**9,915**	**9,664**	**10,341**	**10,858**	**(0.2)**	**(9.5)**	**(8.7)**
EBITDA	**2,684**	**2,429**	**2,412**	**2,677**	**2,787**	**2,741**	**0.3**	**(12.8)**	**(12.0)**
EBITDA margin (%)	27.8	26.0	24.3	27.7	26.9	25.2			
PAT	2,639	2,284	2,371	2,593	2,651	2,743	1.7	(13.8)	(13.5)
EPS (Rs)	**40.7**	**35.3**	**36.6**	**40.0**	**40.9**	**42.4**	**1.7**	**(13.8)**	**(13.5)**
Tax rate (%)	22.0	22.0	21.8	22.1	22.2	21.9			
Yoy growth metrics (%)									
Sales	8.2	(3.0)	6.0	8.4	7.0	5.0			
EBITDA	17.3	(9.5)	(0.7)	16.9	4.1	(1.6)			
PAT	27.6	(13.4)	3.8	25.4	2.2	3.5			

Source: Kotak Institutional Equities estimates

Exhibit 5: Details of key estimates for Just Dial, March fiscal year-ends, 2015-22E (Rs mn)

	2015	2016	2017	2018	2019	2020E	2021E	2022E
Search								
Campaigns (#)	331,200	367,000	429,840	445,110	500,838	540,905	524,678	556,159
Revenues from core business (Rs mn)	5,898	6,640	7,062	7,818	8,915	9,643	9,353	9,915
Yoy growth (%)	27.9	12.6	6.4	10.7	14.0	8.2	(3.0)	6.0
Other revenues	—	37	132	—	—	—	—	—
Total revenues	**5,898**	**6,677**	**7,186**	**7,818**	**8,915**	**9,643**	**9,353**	**9,915**
Yoy growth (%)	**27.9**	**13.2**	**7.6**	**8.8**	**14.0**	**8.2**	**-3.0**	**6.0**
Number of employees (#)	9,533	11,142	11,334	11,452	12,691	13,091	13,141	13,741
Employee cost/ sales (%)	52.4	56.9	61.4	56.5	55.8	56.3	61.8	61.5
Other expenses/sales (%)	19.5	21.5	23.4	22.5	18.6	15.9	12.2	14.2
EBITDA margin (%)	**28.1**	**21.6**	**15.3**	**21.0**	**25.7**	**27.8**	**26.0**	**24.3**
PAT	**1,389**	**1,427**	**1,214**	**1,432**	**2,068**	**2,639**	**2,284**	**2,371**
EPS (Rs)	**19.7**	**20.5**	**17.5**	**21.2**	**31.9**	**40.7**	**35.3**	**36.6**
Yoy growth (%)	15.2	2.8	(15.0)	18.0	44.4	27.6	(13.4)	3.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Financial snapshot of Just Dial, March fiscal year-ends, 2011-22E (Rs mn)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Profit model												
Total operating income	1,839	2,621	3,628	4,613	5,898	6,677	7,186	7,818	8,915	9,643	9,353	9,915
Operating expenses	(1,385)	(1,948)	(2,619)	(3,191)	(4,240)	(5,235)	(6,090)	(6,174)	(6,626)	(6,958)	(6,925)	(7,503)
Employee expenses	(947)	(1,308)	(1,779)	(2,286)	(3,088)	(3,799)	(4,409)	(4,416)	(4,971)	(5,425)	(5,783)	(6,095)
Operating and other expenses	(438)	(640)	(841)	(905)	(1,152)	(1,435)	(1,681)	(1,758)	(1,654)	(1,534)	(1,141)	(1,408)
EBITDA	454	672	1,008	1,422	1,658	1,442	1,096	1,644	2,289	2,684	2,429	2,412
Pre-tax profit	423	713	1,000	1,649	1,905	1,931	1,565	1,939	2,881	3,383	2,928	3,032
PAT	288	504	685	1,206	1,389	1,427	1,214	1,432	2,068	2,639	2,284	2,371
Weighted diluted number of shares (mn)	53	60	69	70	70	69	70	67	65	65	65	65
EPS (Rs)	5	8	10	17	20	21	17	21	32	41	35	37
Balance sheet												
Equity share capital	519	519	695	702	705	695	695	674	648	648	648	648
Reserves & surplus	433	542	3,556	4,643	6,029	6,699	8,356	9,118	9,339	11,660	13,669	15,755
Shareholders funds	954	1,033	4,259	5,345	6,734	7,394	9,052	9,792	9,986	12,307	14,317	16,403
Loan funds	1	—	—	—	—	—	—	—	42	723	759	797
Total source of funds	956	1,033	4,269	5,363	6,734	7,396	9,052	9,792	10,201	13,030	15,076	17,200
Net fixed assets	272	360	623	539	921	1,474	1,647	1,489	1,321	1,942	1,806	1,661
Investments	1,182	1,568	4,858	6,257	7,722	8,077	9,768	11,549	13,038	15,038	17,238	19,538
Cash balances	196	237	239	369	422	336	525	575	404	798	637	882
Net current assets excluding cash	(707)	(1,102)	(1,452)	(1,803)	(2,355)	(2,492)	(3,128)	(3,946)	(4,562)	(4,747)	(4,605)	(4,881)
Total application of funds	956	1,033	4,269	5,363	6,734	7,396	9,052	9,792	10,201	13,030	15,076	17,200
Cash flow statement												
Operating profit before working capital changes	357	595	846	1,379	1,630	1,738	1,615	1,796	2,406	3,257	2,965	3,091
Change in working capital/other adjustments	230	395	350	351	552	137	636	818	616	185	(142)	276
Cashflow from operating activites	586	990	1,196	1,730	2,182	1,875	2,251	2,614	3,022	3,443	2,823	3,367
Fixed assets	(152)	(179)	(407)	(89)	(623)	(864)	(574)	(207)	(168)	(434)	(421)	(446)
Free cash flow	435	811	789	1,641	1,559	1,012	1,677	2,407	2,854	3,009	2,402	2,921
Issue of share capital	8	(425)	2,541	43	170	(767)	444	(692)	(1,874)	—	—	—
Cash (used)/realised in financing activities	6	(427)	2,541	(121)	0	(767)	444	(692)	(1,833)	(443)	(362)	(377)
Cash generated/utilised	457	427	3,292	1,529	1,517	270	1,880	1,831	1,318	2,393	2,040	2,544
Cash+investments at beginning of year	922	1,378	1,805	5,097	6,626	8,143	8,414	10,294	12,124	13,442	15,835	17,875
Cash+investments at end of year	1,378	1,805	5,097	6,626	8,143	8,414	10,294	12,124	13,442	15,835	17,875	20,419

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

ONGC / Oil India (ONGC) / (OINL)

Oil, Gas & Consumable Fuels

BUY / BUY

MARCH 17, 2020

UPDATE

Sector view: Attractive

CMP (Rs): 60 / 72

Fair Value (Rs): 90 / 110

BSE-30: 30,579

Lower crude price drives sharp cut in estimates. We cut our FY2021-22 EPS estimates for ONGC and OIL sharply by 39-63% factoring in lower Dated Brent crude price at US$45-50/bbl. We reduce our SoTP-based fair values to Rs90 for ONGC and Rs110 for OIL from Rs140 and Rs180, respectively. Inexpensive valuations may provide some support; however, a quick rebound in global crude prices will be crucial for any improvement in earnings visibility and stock performance.

ONGC

Stock data				Forecasts/valuations	2020E	2021E	2022E
52-week range (Rs) (high,low)			179-50	EPS (Rs)	17.8	6.7	12.1
Mcap (bn) (Rs/US$)			755/10.2	EPS growth (%)	(24.3)	(62.5)	81.2
ADTV-3M (mn) (Rs/US$)			2,171/29	P/E (X)	3.4	9.0	5.0
Shareholding pattern (%)				P/B (X)	0.3	0.3	0.3
Promoters			62.8	EV/EBITDA (X)	2.2	3.4	2.6
FIIs			8.7	RoE (%)	9.2	3.3	5.8
MFs/BFIs			4.8/11.1	Div. yield (%)	11.7	4.6	7.9
Price performance (%)	1M	3M	12M	Sales (Rs bn)	1,866	1,611	1,793
Absolute	(40)	(52)	(62)	EBITDA (Rs bn)	657	430	534
Rel. to BSE-30	(19)	(35)	(52)	Net profits (Rs bn)	224	84	152

Oil India

Stock data				Forecasts/valuations	2020E	2021E	2022E
52-week range (Rs) (high,low)			190-64	EPS (Rs)	22.1	9.4	13.9
Mcap (bn) (Rs/US$)			78/1.1	EPS growth (%)	(27.5)	(57.3)	47.3
ADTV-3M (mn) (Rs/US$)			347/5	P/E (X)	3.2	7.6	5.2
Shareholding pattern (%)				P/B (X)	0.3	0.3	0.3
Promoters			59.6	EV/EBITDA (X)	1.6	2.9	2.3
FIIs			7.3	RoE (%)	8.4	3.5	5.0
MFs/BFIs			4.2/13.2	Div. yield (%)	12.6	5.3	7.8
Price performance (%)	1M	3M	12M	Sales (Rs bn)	124	92	106
Absolute	(45)	(53)	(60)	EBITDA (Rs bn)	51	27	34
Rel. to BSE-30	(26)	(36)	(50)	Net profits (Rs bn)	24	10	15

Near-term surplus may reduce gradually once the US supply moderates and demand rebounds

We expect global oil markets to remain in surplus in the near term given sharp increase in non-OPEC supplies driven by sustained strong growth in US shale oil production, slowdown in demand growth reflecting impact from Covid-19 outbreak and removal of OPEC+ quotas due to disagreement between Saudi Arabia and Russia. However, the market may start rebalancing gradually during 2HFY21 led by (1) reduction in supplies from the US, which will likely get impacted by curtailment of drilling activities amid lower crude prices; we understand that the US shale oil breaks even around WTI crude price of US$40-50/bbl, and (2) possible quick rebound in global oil demand as and when the impact from Covid-19 outbreak subsides.

Sharp cut in FY2021-22E EPS factoring in crude price of US$45-50/bbl for now

We reduce our consolidated EPS estimates for ONGC to Rs6.4 (-63%) in FY2021 and Rs12.1 (-39%) in FY2022 and standalone EPS estimates for OIL to Rs9.4 (-59%) in FY2021 and Rs13.9 (-45%) in FY2022, factoring in (1) lower Dated Brent crude price of US$45-50/bbl versus US$65/bbl earlier, (2) weaker rupee at Rs73.3-74/US$ and (3) other minor changes. We do see downside risks to FY2021 estimates from lower crude prices in the near term—a US$1/bbl decline in crude price will impact FY2021E EPS of ONGC by nearly Rs0.6 and OIL by Rs0.7.

Recovery in global oil and gas prices crucial for earnings visibility and stock performance

In our view, a rebound in global crude prices and/or review of domestic gas pricing formula will be crucial for any improvement in earnings visibility and stock performance in the near term. We expect ONGC and OIL to report modest losses at current level of crude prices around US$30/bbl and gas price of US$2.5/mn BTU; standalone earning from domestic businesses for these companies, including other income, breaks even around US$32-33/bbl of crude price.

Tarun Lakhotia

Hemang Khanna

kspcg.research@kotak.com
Contact: +91 22 6218 6427

Exhibit 1: We build in higher crude realization, gas prices and modest recovery in production volumes in FY2022E
Key assumptions, March fiscal year-ends, 2016-22E

	2016	2017	2018	2019	2020E	2021E	2022E
Macro assumptions							
Exchange rate (Rs/US$)	65.5	67.1	64.5	69.9	70.8	73.3	74.0
Subsidy loss (Rs bn)	11	—	—	—	—	—	—
Import tariff on crude oil (%)	—	—	—	—	—	—	—
Pricing and volumes assumptions							
Crude price							
Crude price, Dated Brent (US$/bbl)	47.5	49.0	57.6	70.2	63.7	45.0	50.0
Gross realized crude price, India (US$/bbl)	48.3	50.3	57.3	70.2	63.7	44.3	49.5
Net realized crude price, India (US$/bbl)	47.1	50.3	57.3	70.2	63.7	44.3	49.5
Natural gas price							
Natural gas price, India (Rs/cu m)	12.2	8.2	7.6	9.9	10.5	7.3	8.8
Natural gas price, India (US$/mn BTU)	4.7	3.1	3.0	3.6	3.8	2.5	3.0
Sales volumes—Domestic fields							
Crude oil - own fields (mn tons)	19.8	19.8	19.7	18.5	17.7	18.0	18.3
Crude oil - JV (mn tons)	4.3	4.0	3.9	4.0	3.9	4.5	4.9
Natural gas - own fields (bcm)	16.1	17.0	18.6	19.6	18.8	20.6	22.8
Natural gas - JV (bcm)	1.0	0.9	0.9	0.9	1.0	1.4	1.3
Sales volumes—Overseas fields							
Crude oil (mn tons)	5.5	8.4	9.4	10.1	10.0	9.7	9.4
Natural gas (bcm)	3.4	4.4	4.8	4.7	4.7	4.6	4.5
Total sales							
Crude oil (mn tons)	29.7	32.3	33.0	32.6	31.5	32.1	32.5
Natural gas (bcm)	20.5	22.3	24.3	25.2	24.5	26.5	28.6
Total sales (mn toe)	**48.1**	**52.4**	**54.9**	**55.3**	**53.6**	**56.0**	**58.3**
Total sales (mn boe)	**351**	**382**	**401**	**404**	**391**	**409**	**426**
Crude oil (%)	62	62	60	59	59	57	56
Natural gas (%)	38	38	40	41	41	43	44

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: ONGC's earnings are highly sensitive to oil and gas prices and exchange rate assumptions
EPS sensitivity of ONGC to crude, gas price and exchange rate, March fiscal year-ends, 2021-22E

	2021E			2022E		
	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate						
Exchange rate (Rs/US$)	72.3	73.3	74.3	73.0	74.0	75.0
Net profits (Rs mn)	74,452	80,877	87,303	144,139	151,627	159,115
Earnings per share (Rs)	5.9	6.4	6.9	11.5	12.1	12.6
% upside/(downside)	**(7.9)**		**7.9**	**(4.9)**		**4.9**
Average crude realization						
Net crude realization (US$/bbl)	43.3	44.3	45.3	48.5	49.5	50.5
Net profits (Rs mn)	72,524	80,877	89,231	143,172	151,627	160,082
Earnings per share (Rs)	5.8	6.4	7.1	11.4	12.1	12.7
% upside/(downside)	**(10.3)**		**10.3**	**(5.6)**		**5.6**
Natural gas prices						
Natural gas price (US$/mn BTU)	2.0	2.5	3.0	2.5	3.0	3.5
Net profits (Rs mn)	65,198	80,877	96,557	135,379	151,627	167,874
Earnings per share (Rs)	5.2	6.4	7.7	10.8	12.1	13.3
% upside/(downside)	**(19.4)**		**19.4**	**(10.7)**		**10.7**

Source: Kotak Institutional Equities estimates

Exhibit 3: ONGC's EPS sensitivity to gross and net crude realization, March fiscal year-end, 2021E (Rs)

ONGC		Exchange rate			
		73.0	74.0	75.0	76.0
Net crude realization (US$/bbl)	30.0	(4.0)	(3.6)	(3.2)	(2.9)
	35.0	(0.6)	(0.1)	0.3	0.7
	40.0	2.9	3.3	3.8	4.3
	45.0	6.3	6.8	7.3	7.8
	50.0	9.7	10.3	10.8	11.4

Source: Kotak Institutional Equities estimates

Exhibit 4: We compute fair value of ONGC at Rs90/share
Fair value of ONGC, March 2022E (Rs/share)

March 2022E consolidated EPS	12
Less: income from investments valued separately	1
March 2022E EPS (adjusted)	11
P/E (X)	9.0
Valuation of operating business	**101**
Write-off of acquisition cost for Mozambique block	**(24)**
Valuation of investments	**13**
IOCL	8
PLNG	3
GAIL	2
Fair value	**90**

Source: Kotak Institutional Equities estimates

Exhibit 5: Combined financials of ONGC, OVL and MRPL, March fiscal year-ends, 2016-22E (Rs mn)

	2016	2017	2018	2019	2020E	2021E	2022E
Profit model (Rs mn)							
Net sales	1,295,756	1,394,116	1,557,541	2,053,357	1,866,390	1,611,081	1,792,823
EBITDA	**472,852**	**539,958**	**573,182**	**760,518**	**657,408**	**429,886**	**533,702**
Other income	82,532	60,913	84,521	81,363	77,687	80,117	81,467
Finance cost	(31,505)	(28,659)	(41,559)	(46,951)	(55,061)	(52,485)	(49,679)
Depreciation, depletion and amortization	(230,932)	(236,807)	(285,510)	(321,142)	(343,762)	(347,042)	(359,149)
Pretax profits	**292,947**	**335,405**	**330,635**	**473,787**	**336,272**	**110,476**	**206,340**
Current tax	(68,608)	(69,177)	(69,194)	(148,499)	(99,009)	(18,497)	(41,707)
Deferred tax	(16,258)	(37,264)	(32,418)	(22,093)	(14,781)	(6,280)	(10,492)
Net profits	151,355	222,987	231,504	287,287	222,481	85,699	154,141
Adjusted net profits after minority interests	**174,218**	**216,692**	**223,468**	**296,326**	**224,262**	**84,060**	**152,290**
Adjusted EPS (Rs)	**13.6**	**16.9**	**17.4**	**23.6**	**17.8**	**6.7**	**12.1**
Balance sheet (Rs mn)							
Equity	2,019,567	2,261,254	2,290,529	2,402,550	2,523,536	2,569,511	2,726,129
Deferred tax liability	208,099	238,457	283,946	297,288	312,069	318,349	328,841
Liability for abandonment cost	235,593	235,206	259,746	276,394	276,394	276,394	276,394
Borrowings	392,148	568,924	818,939	808,261	733,914	716,037	678,914
Other liabilities	550,109	414,469	445,286	471,397	471,680	476,718	488,616
Total liabilities and equity	**3,405,517**	**3,718,311**	**4,098,446**	**4,255,890**	**4,317,592**	**4,357,010**	**4,498,894**
Cash and equivalent	250,199	130,554	32,430	16,974	21,155	29,928	40,233
Current assets	620,530	628,481	699,369	816,509	796,698	775,650	798,875
Fixed and intangible assets	2,062,589	2,331,733	2,490,533	2,552,212	2,622,501	2,676,835	2,720,610
Goodwill	167,378	167,378	98,753	100,946	105,440	102,797	167,378
Investments	301,401	444,588	760,477	753,514	756,064	756,064	756,064
Deferred expenditure	3,420	15,577	16,884	15,735	15,735	15,735	15,735
Total assets	**3,405,517**	**3,718,311**	**4,098,446**	**4,255,890**	**4,317,592**	**4,357,010**	**4,498,894**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	358,988	386,698	453,380	549,020	399,783	261,756	341,736
Working capital changes	145,704	(30,051)	(3,459)	(104,149)	20,093	26,086	(11,328)
Capital expenditure	(313,908)	(466,654)	(400,224)	(330,171)	(310,496)	(304,228)	(302,345)
Investments	(668)	(104,608)	(59)	(1,530)	(2,550)	—	—
Other income	39,917	45,828	62,980	49,828	77,687	80,117	81,467
Free cash flow	**230,033**	**(168,788)**	**112,617**	**162,998**	**184,517**	**63,731**	**109,530**
Ratios (%)							
Debt/equity	19.4	25.2	35.8	33.6	29.1	27.9	24.9
Net debt/equity	7.0	19.4	34.3	32.9	28.2	26.7	23.4
RoAE	**7.0**	**9.1**	**9.0**	**11.0**	**8.2**	**3.0**	**5.2**
RoACE	**8.7**	**9.5**	**9.3**	**11.2**	**8.5**	**4.0**	**5.9**
Key assumptions							
Exchange rate (Rs/US$)	65.5	67.1	64.5	69.9	70.8	73.3	74.0
Net realized crude price, India (US$/bbl)	47.1	50.3	57.3	70.2	63.7	44.3	49.5
Natural gas price, India (US$/mn BTU)	4.7	3.1	3.0	3.6	3.8	2.5	3.0
Subsidy loss (Rs bn)	11	—	—	—	—	—	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Consolidated financials of ONGC, March fiscal year-ends, 2016-22E (Rs mn)

	2016	2017	2018	2019	2020E	2021E	2022E
Profit model (Rs mn)							
Net sales	1,240,742	1,257,846	3,227,058	4,213,853	3,958,029	3,823,675	4,112,522
EBITDA	**459,811**	**473,917**	**659,369**	**854,946**	**711,025**	**493,342**	**603,238**
Other income	81,448	79,153	74,681	81,488	85,377	85,122	86,232
Finance cost	(37,656)	(29,534)	(49,990)	(58,367)	(65,219)	(64,588)	(64,380)
Depreciation, depletion and amortization	(232,305)	(229,747)	(321,597)	(348,767)	(377,600)	(385,177)	(400,468)
Pretax profits	**271,298**	**293,789**	**362,462**	**529,299**	**353,584**	**128,699**	**224,622**
Extraordinary items	(77,714)	11,372	6,466	(15,529)	—	—	—
Effective tax	(71,226)	(101,079)	(135,380)	(209,183)	(132,253)	(39,537)	(66,969)
Net profits	**122,358**	**204,082**	**233,548**	**304,587**	**221,331**	**89,162**	**157,653**
Share of associates/minority interest	6,394	897	(12,489)	363	(4,530)	(8,284)	(6,027)
Adjusted net profits after minority	**177,872**	**197,374**	**216,966**	**314,156**	**216,802**	**80,877**	**151,627**
Adjusted EPS (Rs)	**13.9**	**15.4**	**16.9**	**25.0**	**17.2**	**6.4**	**12.1**
Balance sheet (Rs mn)							
Equity	1,978,136	2,211,895	2,040,189	2,181,408	2,292,220	2,338,102	2,429,980
Minority interest	26,518	41,243	156,060	181,062	185,592	193,876	199,903
Deferred tax liability	281,028	311,020	415,059	473,668	491,199	500,505	514,324
Borrowings	445,477	556,819	1,012,461	1,021,064	1,041,716	1,126,339	1,163,216
Other liabilities	694,697	581,079	978,580	1,099,819	1,068,236	1,088,613	1,132,272
Total liabilities and equity	**3,425,856**	**3,702,056**	**4,602,349**	**4,957,021**	**5,078,963**	**5,247,435**	**5,439,696**
Cash and equivalent	246,890	130,136	50,628	51,034	35,447	41,100	47,994
Fixed and intangible assets	1,509,467	1,599,858	2,118,473	2,187,779	2,111,718	2,266,274	2,581,338
Capital WIP	576,685	571,693	615,119	690,564	925,793	912,038	690,986
Other assets	758,946	788,772	1,144,705	1,358,453	1,322,515	1,317,783	1,367,388
Investments	333,869	611,597	673,425	669,190	683,491	710,241	751,991
Total assets	**3,425,856**	**3,702,056**	**4,602,349**	**4,957,021**	**5,078,963**	**5,247,435**	**5,439,696**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	367,075	368,225	536,135	672,518	531,085	398,521	485,708
Working capital	71,864	(23,127)	2,543	(99,639)	4,355	25,109	(5,946)
Capital expenditure	(403,920)	(304,106)	(339,781)	(445,542)	(536,768)	(525,978)	(494,480)
Free cash flow	**35,019**	**40,992**	**198,897**	**127,337**	**(1,328)**	**(102,347)**	**(14,717)**
Other income	35,579	40,921	70,633	112,837	85,377	85,122	86,232
Ratios (%)							
Debt/equity	22.8	25.7	53.7	51.0	49.4	52.5	52.2
Net debt/equity	10.2	19.7	51.0	48.5	47.8	50.6	50.0
RoAE	**9.0**	**9.4**	**10.2**	**14.9**	**9.7**	**3.5**	**6.4**
RoACE	**7.2**	**7.4**	**7.7**	**9.3**	**6.7**	**3.3**	**4.8**
Key assumptions							
Exchange rate (Rs/US$)	65.5	67.1	64.5	69.9	70.8	73.3	74.0
Net realized crude price, India (US$/bbl)	47.1	50.3	57.3	70.2	63.7	44.3	49.5
Natural gas price, India (US$/mn BTU)	4.7	3.1	3.0	3.6	3.8	2.5	3.0
Subsidy loss (Rs bn)	11	—	—	—	—	—	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: We build in higher crude realization, gas prices and modest recovery in production volumes
Key assumptions, March fiscal year-ends, 2014-22E

	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Macro assumptions									
Exchange rate (Rs/US$)	60.5	61.2	65.5	67.1	64.5	69.9	70.8	73.3	74.0
Subsidy loss (Rs bn)	87.4	55.2	1.6	—	—	—	—	—	—
Import tariff on crude oil (%)	—	—	—	—	—	—	—	—	—
Crude/natural gas prices									
Crude price									
Crude price, Dated Brent (US$/bbl)	107.5	85.5	47.5	49.0	57.6	70.2	63.7	45.0	50.0
Gross realized crude price, India (US$/bbl)	106.4	84.3	46.4	47.4	55.7	68.5	61.9	43.2	48.3
Net realized crude price, India (US$/bbl)	47.1	46.9	45.3	47.4	55.7	68.5	61.9	43.2	48.3
Natural gas price									
Natural gas price, India (Rs/cu m)	10.1	11.6	12.2	8.2	7.6	9.9	10.5	7.3	8.8
Natural gas price, India (US$/mn BTU)	4.2	4.8	4.7	3.1	3.0	3.6	3.8	2.5	3.0
Sales volumes—Domestic fields									
Crude oil (mn tons)	3.5	3.4	3.2	3.2	3.3	3.2	3.1	3.1	3.2
Natural gas (bcm)	2.1	2.2	2.3	2.4	2.4	2.5	2.5	2.5	2.6
Total sales (mn toe)	**5.4**	**5.4**	**5.3**	**5.4**	**5.5**	**5.5**	**5.3**	**5.4**	**5.5**
Total sales (mn boe)	**39**	**39**	**39**	**39**	**40**	**40**	**39**	**40**	**40**
Crude oil (%)	65	63	61	60	60	59	58	58	58
Natural gas (%)	35	37	39	40	40	41	42	42	42

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: OIL's earnings are highly leveraged to assumptions on oil and gas prices
Earnings sensitivity of OIL to key variables

	2021E			2022E		
	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate						
Exchange rate (Rs/US$)	72.3	73.3	74.3	73.0	74.0	75.0
Net profits (Rs mn)	9,599	10,225	10,851	14,335	15,056	15,777
Earnings per share (Rs)	8.9	9.4	10.0	13.2	13.9	14.5
% upside/(downside)	**(6.1)**		**6.1**	**(4.8)**		**4.8**
Average crude realization						
Net crude realization (US$/bbl)	42.2	43.2	44.2	47.3	48.3	49.3
Net profits (Rs mn)	9,389	10,225	11,061	14,204	15,056	15,909
Earnings per share (Rs)	8.7	9.4	10.2	13.1	13.9	14.7
% upside/(downside)	**(8.2)**		**8.2**	**(5.7)**		**5.7**
Natural gas prices						
Natural gas price (US$/mn BTU)	2.0	2.5	3.0	2.5	3.0	3.5
Net profits (Rs mn)	8,157	10,225	12,293	12,917	15,056	17,196
Earnings per share (Rs)	7.5	9.4	11.3	11.9	13.9	15.9
% upside/(downside)	**(20.2)**		**20.2**	**(14.2)**		**14.2**

Source: Kotak Institutional Equities estimates

Exhibit 9: OIL's EPS sensitivity to gross and net crude realization, March fiscal year-end, 2021E (Rs)

OIL		Exchange rate			
		73.0	74.0	75.0	76.0
Net crude realization (US$/bbl)	30.0	(2.3)	(1.8)	(1.4)	(1.0)
	35.0	1.6	2.0	2.5	3.0
	40.0	5.4	5.9	6.5	7.0
	45.0	9.3	9.8	10.4	11.0
	50.0	13.1	13.7	14.4	15.0

Source: Kotak Institutional Equities estimates

Exhibit 10: We compute fair value of OIL at Rs110/share
Fair value of OIL, March 2022E (Rs/share)

March 2022E EPS	14
Less: income from investments valued separately	3
Add: interest on loans for Area 1, Mozambique	3
March 2022E EPS (adjusted)	14
P/E (X)	7.0
Valuation of domestic operations	**95**
Write-off from stake in Area 1, Mozambique	**(68)**
Value of investments	**83**
IOCL	35
Numaligarh Refinery Limited	28
Other equity investments	20
Fair value	110

Source: Kotak Institutional Equities estimates

Exhibit 11: Standalone profit model, balance sheet, cash model of OIL, March fiscal year-ends, 2014-22E (Rs mn)

	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Profit model (Rs mn)									
Net sales	96,127	97,482	97,649	95,104	106,565	137,350	124,083	92,446	106,301
EBITDA	**42,638**	**37,803**	**40,371**	**35,507**	**42,707**	**57,519**	**50,514**	**26,966**	**34,134**
Other income	13,924	12,716	13,938	16,807	14,842	14,350	11,034	12,198	12,785
Interest	(688)	(3,407)	(3,840)	(3,967)	(4,157)	(4,795)	(4,863)	(4,911)	(4,963)
DD&A	(11,770)	(10,271)	(13,912)	(13,616)	(14,600)	(17,383)	(20,165)	(20,696)	(21,912)
Pretax profits	**44,104**	**36,842**	**36,557**	**34,731**	**38,791**	**49,692**	**36,520**	**13,557**	**20,044**
Extraordinary	—	—	(2,151)	(13,267)	(1,900)	(10,268)	—	—	—
Current tax	(13,336)	(8,535)	(7,172)	(4,748)	(6,484)	(10,709)	(12,234)	(3,196)	(4,787)
Deferred tax	(956)	(3,650)	(4,217)	(1,229)	(3,935)	(2,552)	(365)	(136)	(200)
Net income	**29,813**	**24,657**	**23,017**	**15,487**	**26,473**	**26,163**	**23,921**	**10,225**	**15,056**
Adjusted net income	**29,813**	**24,657**	**24,456**	**25,060**	**27,836**	**32,977**	**23,921**	**10,225**	**15,056**
Adjusted EPS (Rs)	**24.8**	**20.5**	**20.3**	**20.8**	**24.5**	**30.4**	**22.1**	**9.4**	**13.9**
Balance sheet (Rs mn)									
Total equity	207,082	215,143	249,195	290,905	279,094	277,452	289,626	295,761	304,795
Deferred tax liability	13,142	16,743	21,806	30,795	34,390	34,127	34,492	34,627	34,828
Liability for abandonment cost	4,583	4,643	3,193	4,963	1,651	2,126	2,126	2,126	2,126
Total borrowings	97,827	83,411	91,328	89,475	75,294	74,146	74,146	74,146	74,146
Currrent liabilities	26,111	42,332	25,970	37,258	49,913	86,803	88,811	89,276	89,766
Total liabilities and equity	**348,745**	**362,271**	**391,492**	**453,396**	**440,342**	**474,653**	**489,200**	**495,935**	**505,660**
Cash	115,437	87,073	99,082	65,423	30,926	61,358	69,164	74,162	71,732
Current assets	43,183	68,812	48,629	48,741	52,081	59,312	60,082	53,755	56,526
Total fixed assets	75,559	91,272	99,251	119,728	129,480	133,954	136,385	140,785	146,469
Investments	114,566	115,115	144,530	219,504	227,856	220,029	223,569	227,234	230,934
Total assets	**348,745**	**362,271**	**391,492**	**453,396**	**440,342**	**474,653**	**489,200**	**495,935**	**505,660**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	29,412	22,143	27,818	22,780	39,145	42,877	29,966	15,858	21,134
Working capital changes	(876)	(15,856)	3,435	7,678	(11,975)	3,893	1,238	6,792	(2,281)
Capital expenditure	(19,279)	(23,644)	(25,360)	(28,501)	(26,611)	(24,941)	(19,146)	(22,096)	(24,346)
Investments	(95,790)	(2,503)	(9,720)	(2,873)	(16,373)	(14)	(3,540)	(3,665)	(3,700)
Other income	14,285	14,513	13,333	15,719	13,700	12,475	11,034	12,198	12,785
Free cash flow	**(72,248)**	**(5,347)**	**9,506**	**14,804**	**(2,115)**	**34,290**	**19,553**	**9,087**	**3,592**
Ratios (%)									
Debt/equity	44.4	36.0	33.7	27.8	24.0	23.8	22.9	22.4	21.8
Net debt/equity	(8.0)	(1.6)	(2.9)	7.5	14.2	4.1	1.5	(0.0)	0.7
RoAE	14.0	10.9	9.7	8.5	8.8	10.6	7.5	3.1	4.5
RoACE	**11.0**	**7.1**	**6.5**	**5.8**	**6.3**	**7.7**	**5.3**	**1.7**	**2.9**
Key assumptions									
Exchange rate (Rs/US$)	60.5	61.2	65.5	67.1	64.5	69.9	70.8	73.3	74.0
Net realized crude price, India (US$/bbl)	47.1	46.9	45.3	47.4	55.7	68.5	61.9	43.2	48.3
Natural gas price, India (US$/mn BTU)	4.2	4.8	4.7	3.1	3.0	3.6	3.8	2.5	3.0
Subsidy loss (Rs bn)	87.4	55.2	1.6	—	—	—	—	—	—

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Health Care Services

India

ATTRACTIVE

MARCH 17, 2020

UPDATE

BSE-30: 30,579

Covid-19: assessing hospital and testing capacity. Based on available data, and our interactions with the industry, we believe hospital capacity in India currently stands at ~1.4 mn beds, ~138k ICU/CCU beds, and ~120k ventilators, with the number of beds heavily skewed towards urban areas. Current testing capacity is still ~6k samples/day, though we expect a multifold increase in the capacity, once private labs are allowed to test for Covid-19. While Covid-19 testing could result in one-time gains for DLPL/METROHL, we do not expect any material benefit, as any benefit is likely to be offset by decline in revenues from wellness testing.

Assessing the total available bed capacity

As per latest government data, there have been 137 confirmed Covid-19 cases, with 13 recoveries and three deaths. While the situation in India seems to be under control currently, and while cases are restricted to a few clusters, we present a round-up of the existing hospital bed capacity, particularly in the highly dense urban cities. We estimate ~1.4 mn hospital beds in the country, split between ~0.8 mn beds at government hospitals, and ~0.6 mn with private operators. Of the ~1.4 mn total bed capacity, we estimate >1 mn beds are in urban areas, with bed penetration in urban cities at ~2.7 beds per 1,000 (see Exhibit 1). Of this, we estimate the number of ICU/CCU beds at 10-15% of total beds in private hospitals (see Exhibit 2 for details), and 8-10% in government hospitals, for a total ICU/CCU capacity of ~140k beds, and assuming, 40-50% existing capacity utilization, the available capacity could be lower. We estimate ~120k beds with ventilators based on one ventilator per ICU/CCU bed in private hospitals, and a slightly lower for government beds.

Testing capacity key, and likely to be augmented once private labs allowed to test for Covid-19

Currently, the government is conducting testing for Covid-19 at 72 ICMR labs across India which are capable of handling ~6,000 samples per day (60-70 samples processed daily at present) with additional 49 labs including two rapid testing labs likely to be made operational by end of this week. The tests are currently conducted solely based on symptoms and private players are not allowed to conduct this test. With possible increase in cases, private players who secure test kits will be included in order to enhance the government's capacity and allow for testing based on prescriptions (along with approval from local/state bodies), similar to previous instance of H1N1. There are ~1,000 NABL accredited labs in India (including hospital-based labs) and we expect ~50-60 NABL accredited labs (in microbiology) including Dr Lal, SRL and Metropolis to be included in the Covid-19 testing regime, though sample collection might require isolated setup.

Covid-19 testing unlikely to contribute meaningfully to diagnostics revenues

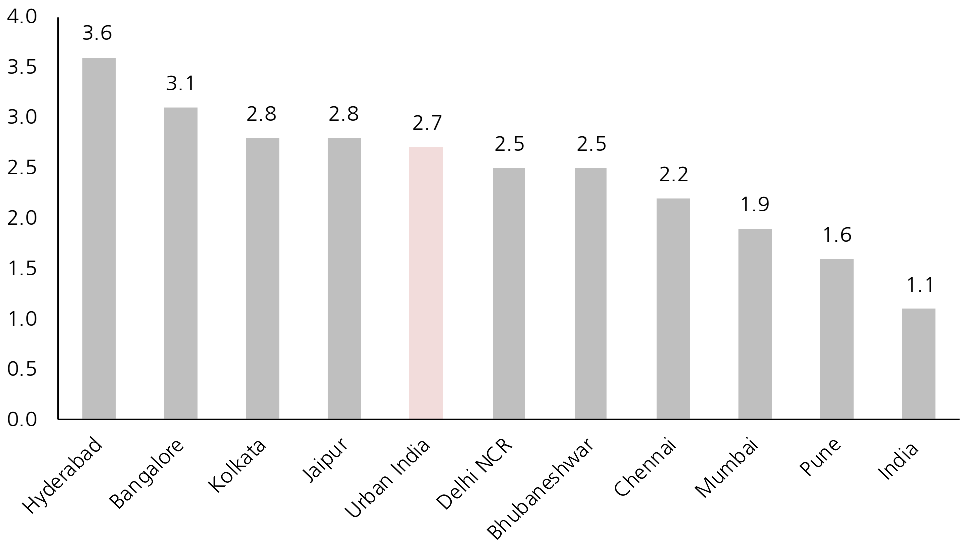
According to current available data from other countries, testing of samples across countries has ranged from ~5,000 per mn people in South Korea (one of the highest), ~1,400 per mn in Italy, where outbreaks are very high, to ~100-700 per mn in countries such as US, UK and Russia. Assuming a range of ~200-250 tests per mn people in India, depending on availability of test kits, we expect India to conduct ~0.26-0.33 mn tests split between government, private diagnostics labs and private hospital-based labs and believe pricing is likely to be in the range of Rs6,000-10,000 per test (curiously enough, the Head of ICMR has requested private pathlabs to offer testing for free). Thus, assuming 10-15% share of total Covid-19 testing, we expect limited one-time revenue uplift of ~Rs150-250 mn each for DLPL, METROHL and SRL. However, the benefit from Covid-19 testing is likely to be offset by potential declines in day-to-day walk-in business, particularly in the wellness segment (15%/8% of revenues for DLPL/METROHL), as well as potential loss of B2B volumes due to lower elective procedures.

Chirag Talati, CFA

Kumar Gaurav

kspcg.research@kotak.com
Contact: +91 22 6218 6427

Exhibit 1: Bed penetration in key Indian cities
Calendar year-end, 2018 (beds/1,000 people)



Source: Industry, FICCI, WHO

Exhibit 2: Bed statistics in India

ICU beds and ventilators		Comments
Number of government beds (mn)	0.80	
Number of private beds (mn)	0.60	
ICU/CCU beds in government hospitals (%)	8-10	
ICU/CCU beds in private hospitals (%)	10-15	
ICU/CCU beds in government hospitals ('000)	72	
ICU/CCU beds in private hospitals ('000)	66	
Total number of ICU/CCU beds ('000)	**138**	
Number of ventilators in government hospitals ('000)	54	In most cases, government hospitals have 1 ventilator for 2 to 3 ICU beds
Number of ventilators in private hospitals ('000)	66	Usually 1 per ICU bed
Total number of ventilators ('000)	**120**	**Around 70-75k in urban India**
Urban versus rural		
Bed penetration per '000 in urban India	2.70	
Urban India beds (mn)	**1.08**	
Bed penetration per '000 in rural India	0.36	
Rural India beds (mn)	**0.32**	

Source: Industry, FICCI, WHO, Kotak Institutional Equities estimates

Exhibit 3: Testing across countries have wide range

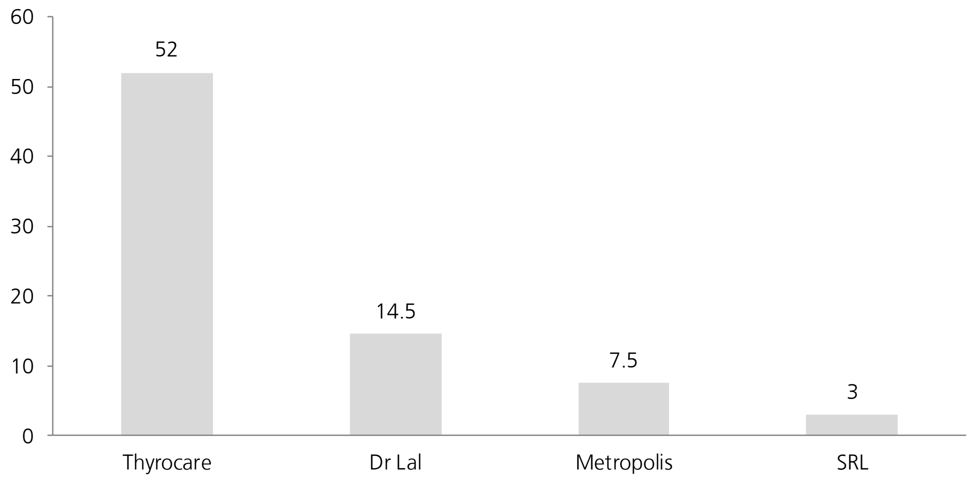
Covid tests conducted across key countries

Country	Tests conducted	Tests/mn population	Comments
Mainland China	320,000	2,820	As of 20 February
South Korea	286,716	5,545	As of 16 March
Italy	109,170	3,810	As of 14 March
Russia	109,130	750	As of 16 March
USA	47,446	120	As of 16 March
UK	29,764	650	As of 16 March
Malaysia	6,400	190	As of 16 March
India	5,900	5	As of 15 March

Source: Governments of various countries, Kotak Institutional Equities estimates

Exhibit 4: Wellness/bundled segment revenues likely to be impacted as consumers reduce non-essential activities

Contribution of wellness/bundled segment, March fiscal year-end, 9MFY20 (%)



Source: Company, Kotak Institutional Equities estimates

CAUTIOUS

MARCH 17, 2020

UPDATE

BSE-30: 30,579

IT services stocks in the face of uncertainty. IT services stocks offer value and reasonable returns on normalized multiples. These stocks trade as cyclical stocks, with the cyclical element on stock returns contingent on change in rate of growth. The trough multiple for sector leaders, i.e. TCS and Infosys, is 13-15X, mid-cycle multiple is 16-18X and peak cycle is 19-22X. In a range of scenarios, Infosys offers strong returns and should be bought at the current levels.

IT services leaders can offer strong returns over the medium term

Industry leaders, viz. TCS followed by Infosys, can sustain 12-month forward normalized multiple of 16-19X over the medium term. The underlying math for the same is 8% sustainable revenue growth for a period of 8-10 years followed by 4% growth to perpetuity, after discounting the cash flows at 11% and assuming flushing out excess cash through dividends/buyback. We recognize the near-term challenges that may ensue following a Covid-19-led recession (magnitude unknown). After accounting for recession as well, select stocks such as Infosys are turning attractive. Even after assuming flat EPS in FY2021E, Infosys is down to attractive 14X ex of 5% dividend yield. Our confidence on sustenance of long-term 8% growth for industry leaders is based on confidence in a broad swathe of competencies—have ability to address large portion of client's IT spending budget and will stay relevant across business cycles. TCS is the leader of the pack along with Accenture. Infosys lags in a few areas but is catching up fast.

IT services stocks trade like cyclical (yet) growth stocks; decoding its valuation framework

Revenue growth is a function of two factors—(1) growth in IT services spending. The long-term IT services spending growth has been over 4%. During GFC, IT spending declined by ~5% in USD terms (lower in c/c) and (2) market share gains. Select companies such as TCS and Infosys (to a lower degree) have grown at anywhere from 5-7% higher than global IT services spending in the past five years. The gains have been on account of transformational capabilities and breadth of service offerings that addresses dominant spending buckets of clients.

Effectively the variable that changes is growth in global IT spending (which in turn is a function of economic cycle), which in turn also influences the pace of market share gains. We believe these changes can be encapsulated into three broad multiple bands underpinned by dividend discount model framework. It is important to note that the multiples discussed are applicable to industry leaders such as TCS and Infosys.

- **Trough cycle, to-buy or no market share gain multiple**—IT stocks can trade down to trough multiple during a recessionary environment when business activity contracts, uncertainty is heightened on projects/programs and clients expect aggressive productivity improvement. Revenue growth in such an environment is negligible (after all global IT spending could contract) or can even decline. The stock multiple can decline to 13-15X as the Street starts believing that sustainable growth is down to low single digit. This multiple is underpinned by dividend discount model (DDM) construct. Essentially using 11% COE and assuming that growth rate of the leaders (TCS and Infosys) stagnates at 4%, i.e. long-term IT spending growth and using maximum theoretical payout ratio yields a multiple range of 13-15X. Clearly such an assumption embedded in stock price presents a buying opportunity given that growth potential is far higher than implied 3-4% growth to perpetuity. Infosys and TCS bottomed out at 11X and 8X 12-month forward earnings during GFC. However, the stocks traded at these multiples only for a period of six months before moving up again. Rather than time the bottom, it is prudent to buy the stock at the lower-end of the trough multiple even in a deep recessionary environment.

Kawaljeet Saluja

Sathishkumar S

kspcg.research@kotak.com
Contact: +91 22 6218 6427

- **Mid-cycle multiple or normalized multiple of 16-18X.** Mid-cycle multiple is characterized by pockets of challenges in a few verticals or geographical markets. However, most of the geographical markets are still in growth mode. The implied math to get to 16-18X multiple comprises 8% revenue growth followed by 4% growth to perpetuity and solid payout ratios with RoE of ~40%. FY2015-18 was characterized by such an environment where external factors such as Brexit and visa restrictions among others impacted growth in select markets though the overall geos were still in growth mode. We value Infosys and TCS on the basis of mid-cycle multiple or normalized multiple, which in turn also forms the basis of our implied DCF assumption.

- **Peak cycle multiple of 19-22X.** Stocks trade up to peak cycle multiple in an environment underpinned by strong growth across the western geographies and healthy growth across verticals. Such an environment is best reflected in double-digit revenue growth, which is extrapolated by the markets to an extended period of time (say 7-8 years). The underlying math to justify such a multiple is approx. 10-12% growth for a period of 7-8 years followed by 4% growth to perpetuity. Payout ratios and ROE are similar to mid-cycle multiple. FY2019 to early part of FY2020 was characterized by such an environment, especially in the US where tax cuts spurred strong corporate earnings and propensity to invest.

A critical element of the above assumption is that revenue growth indicated translates into earnings growth. We argue that stable margins are possible for companies that have kept pace with the change in the technology and business environment. This creates a virtuous cycle of growth, allowing necessary pool of money to invest in business, which in turn drives higher wallet share. For example, TCS' EBIT margin has been ~25% for the past 15 years since it invested in the business and participated in growth cycles. On the other hand, Infosys' margins declined since it (1) missed a growth wave, i.e. IMS and (2) was underinvested in digital and forced to play catch up resulting in margin correction. Infosys' capabilities are now broad-based implying a steadier growth and margin profile

Exhibits 1 details stock prices of TCS and Infosys based on trough and mid-cycle. We recommend buying into these names as the multiple approaches trough cycle.

Exhibits 3-6 detail the multiples of Tier-1 IT names at the time of global financial crisis. Consensus EPS growth forecast embedded in these multiples was a modest 5% capturing the full benefit of rupee depreciation.

Large companies tend to be more resilient to external crises compared to companies smaller in size. Benefits from economies of scale, diversified client and supplier base, less concentrated risk profiles and better access to funding help large companies minimize impact of adverse conditions on business. Since IT firms rely heavily on repeat business, health of the client is crucial. It is not uncommon for even large clients to pull back IT spending during tough times. However, cuts in IT spending during a lean phase can be compensated through vendor consolidation gains and higher spending by clients during better times. We expect IT companies that have invested to develop and grow relationships with industry leaders to fare better during a crisis. Companies with higher dependence on small/mid-size clients can find themselves in a tight spot. Large companies such as TCS and Infosys have an excellent client profile and work with industry leaders across all geos

Trough, mid and peak cycle multiples for other Tier-1 IT names will be lower due to—(1) relatively weaker client base, (2) weaker full service model resulting in greater volatility in financial performance and (3) lower sustainable revenue growth rates.

The case for mid-tier companies is a bit intriguing. While over a cycle mid-tier companies grow faster than larger companies, the contraction in revenues during a recessionary environment is far higher. We attribute this to—(1) higher dependence on discretionary spending for growth, (2) mid-tier companies, while delivering value to customers, are not a part of the core vendor set and vulnerable to consolidation and (3) a weaker client base. Further mid-tier companies are leveraged to growth. Loss of revenues leads to far bigger hit on margins than larger IT companies and consequently higher hit on earnings and multiples.

Our estimates will change as the current sequence of events unfolds

Our current revenue growth estimate for Tier-1 IT stand at 3-8%, which in the current environment appears optimistic and will be pruned. It is plausible that companies may end up with flat revenues and EPS decline. EPS decline will be on account of pricing pressure that will be absorbed partly through rupee depreciation and partly through variable compensation adjustments.

The best way to have confidence on revenue growth assumption is to have an assessment of revenues of S&P 500, assume that IT spending intensity will increase among these set of companies and further assume share gains for companies with the right capabilities and full service model. The challenge for such an assessment is that the world has changed in just a week. The current forecasts across industries prior to two weeks have lost relevance. Noting the fluid environment, our estimates could change further.

An interesting point to note that is that Covid-19 will particularly hit the SME markets hard globally. Indian IT companies work with F-500/G-500 clients, a segment that will gain share from smaller players once the dust settles.

The best approach to investing in an uncertain environment

We believe that safety-in-multiples is the best approach to investing in IT services stocks. The underlying approach is to invest in robust business models that are trading at trough cycle (or no market share gain multiples) and can move to mid-cycle multiples once the business stabilizes. The return potential in such a scenario can be 30-40% from re-rating in multiples alone, in addition to dividends. Infosys is getting into trough multiple zone while a bit more correction in TCS can make it attractive (Exhibit1).

Exhibit 1: TCS and Infosys: EPS sensitivity to revenue growth assumptions and valuations at trough and mid-cycle multiples, March fiscal year-ends

	US$ revenue growth (%)		EBIT margin (%)		EPS (Rs)/ share			P/E (X)	
	2021E	2022E	2021E	2022E	2020E	2021E	2022E	2021E	2022E
Infosys									
Current estimate	6.0	8.3	22.0	22.2	38.6	41.2	45.6	13.6	12.3
Slowdown in growth	2.0	6.0	21.0	21.2		38.2	41.6	14.7	13.5
Trough-- assuming recession	(2.5)	5.0	20.5	20.7		35.8	38.6	15.6	14.5
TCS									
Current estimate	5.8	7.9	24.8	24.9	87.1	92.9	101.6	17.6	16.1
Slowdown in growth	2.5	7.0	23.9	24.0		85.0	92.2	19.2	17.7
Trough-- assuming recession	(2.0)	6.0	23.2	23.3		80.6	87.5	20.2	18.7

Fair value assessment based on trough (assuming recession) earnings

	Multiple assigned (X)	Fair value (Rs/ share)	
		2021E	2022E
Stock price based on trough multiple on trough earnings			
Infosys	13	496	532
TCS	14	1,189	1,285
Fair value (normalized multiple on trough earnings)			
Infosys	17	639	687
TCS	18	1,512	1,635

Source: Companies, Kotak Institutional Equities estimates

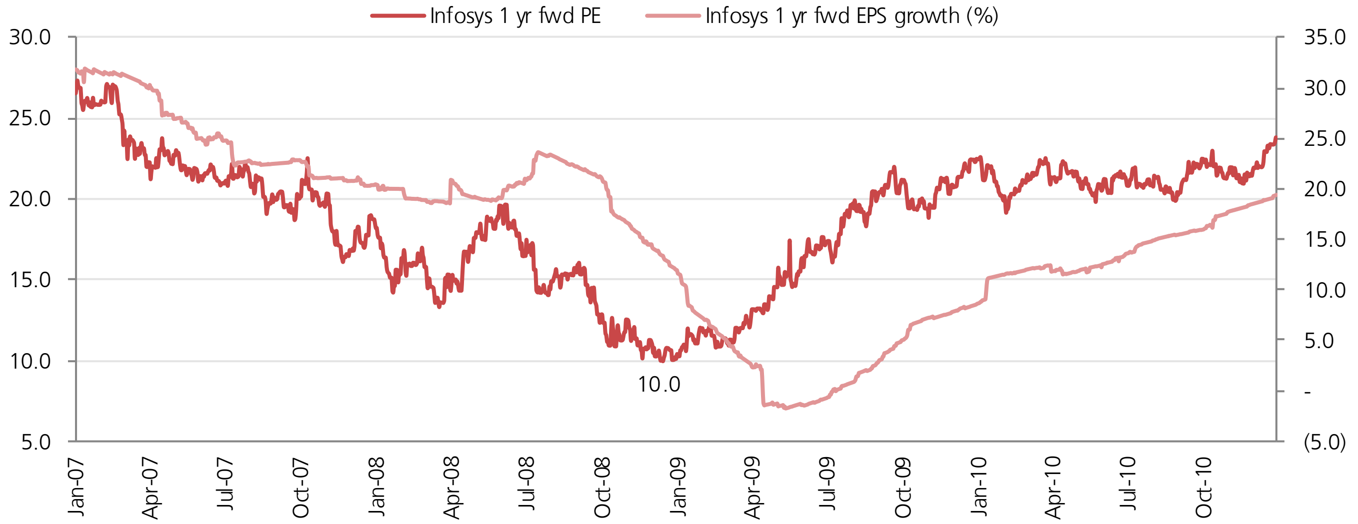
Exhibit 2: Implied 1-year forward PE multiple under various assumption sets using two-stage DDM

	High-growth phase				Steady-state phase			Implied PE
	Length (years)	Growth rate (%)	Payout ratio (%)	Implied RoE (%)	Growth rate (%)	Payout ratio (%)	Implied RoE (%)	(X)
Scenario 1	4	4	80	20	4	80	20	12.7
Scenario 2	4	4	90	40	4	90	40	14.3
Scenario 3	4	4	95	80	4	95	80	15.1
Scenario 4	4	7	82	39	4	92	50	15.6
Scenario 5	6	7	82	39	4	92	50	16.1
Scenario 6	8	7	82	39	4	92	50	16.6
Scenario 7	10	7	82	39	4	92	50	17.0
Scenario 4	4	8	80	40	4	92	50	16.0
Scenario 5	6	8	80	40	4	92	50	16.8
Scenario 6	8	8	80	40	4	92	50	17.4
Scenario 7	10	8	80	40	4	92	50	18.1
Scenario 8	4	10	75	40	4	92	50	16.9
Scenario 9	6	10	75	40	4	92	50	18.1
Scenario 10	8	10	75	40	4	92	50	19.2
Scenario 11	10	10	75	40	4	92	50	20.4
Scenario 12	4	12	70	40	4	92	50	17.7
Scenario 13	6	12	70	40	4	92	50	19.5
Scenario 14	8	12	70	40	4	92	50	21.2
Scenario 15	10	12	70	40	4	92	50	23.0

Note:
(a) Payout ratio refers to dividend payout ratio.
(b) Implied RoE = growth rate/retention ratio; retention ratio = 1 minus payout ratio.
(c) Cost of equity is taken as 11%.

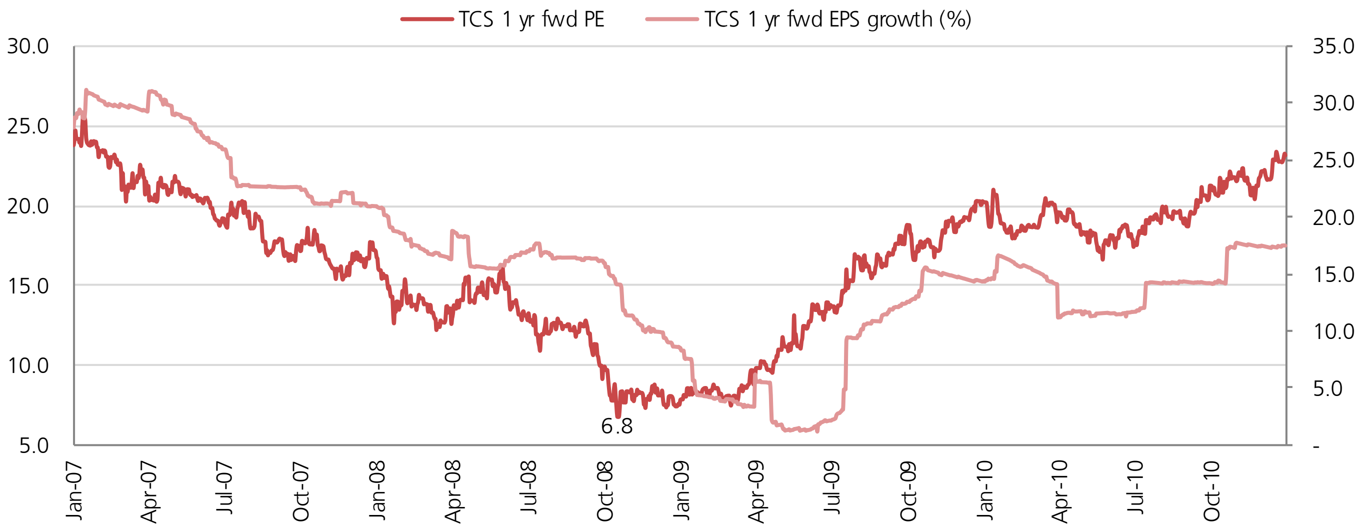
Source: Kotak Institutional Equities estimates

Exhibit 3: Infosys: Trends in 12-month forward P/E multiple and 12-month forward EPS growth, 2007-10



Source: Bloomberg consensus estimates, Kotak Institutional Equities

Exhibit 4: TCS: Trends in 12-month forward P/E multiple and 12-month forward EPS growth, 2007-10

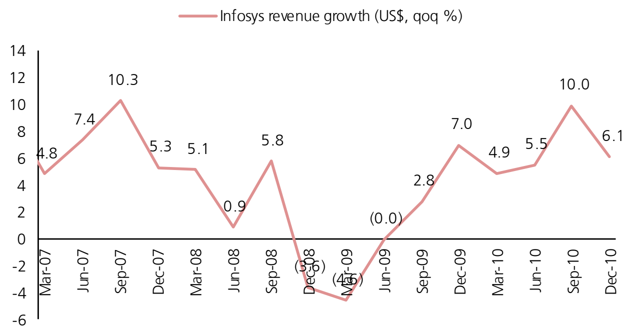


Source: Bloomberg consensus estimates, Kotak Institutional Equities

Exhibit 5: Wipro: Trends in 12-month forward P/E multiple and 12-month forward EPS growth, 2007-10

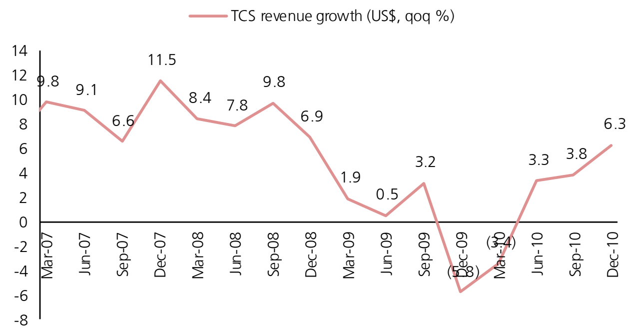
Source: Bloomberg consensus estimates, Kotak Institutional Equities

Exhibit 6: Qoq revenue growth trajectory of Infosys during GFC, 2007-10



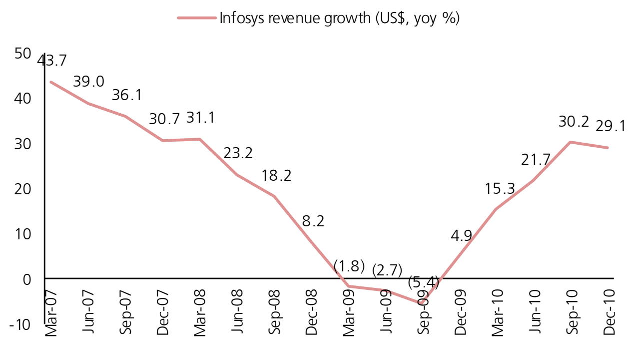
Source: Company, Kotak Institutional Equities

Exhibit 6: Qoq revenue growth trajectory of TCS during GFC, 2007-10 (contd)



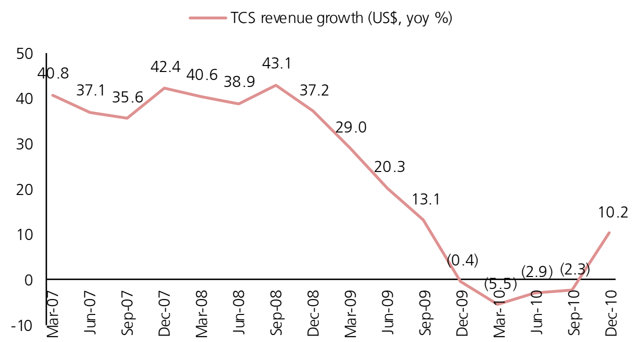
Source: Company, Kotak Institutional Equities

Exhibit 7: Yoy revenue growth trajectory of Infosys during GFC, 2007-10



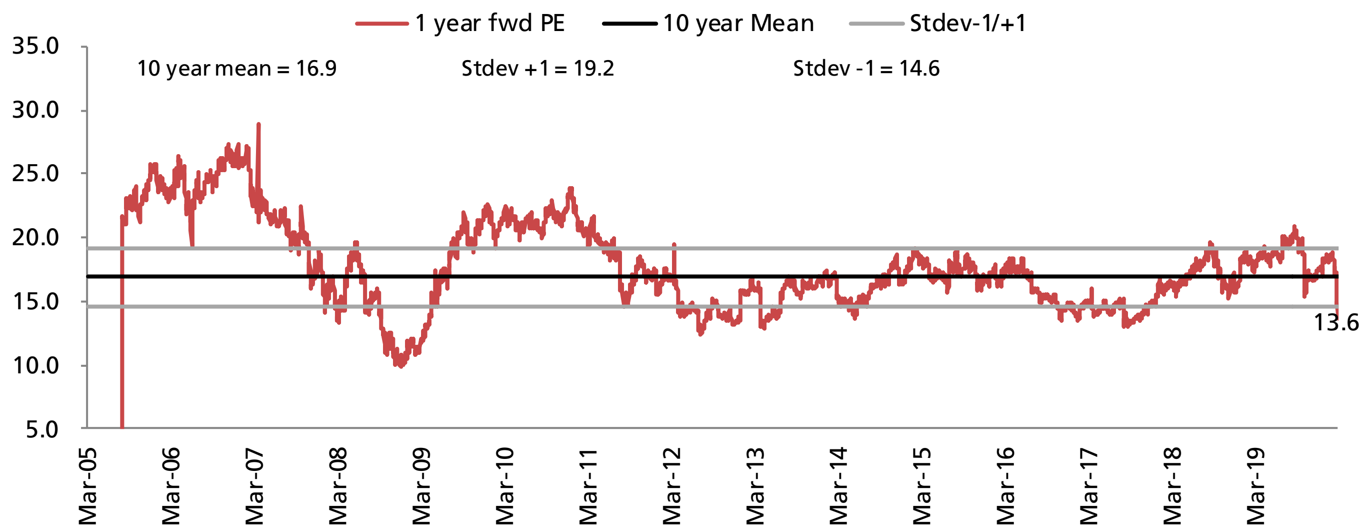
Source: Company, Kotak Institutional Equities

Exhibit 7: Yoy revenue growth trajectory of TCS during GFC, 2007-10 (contd)



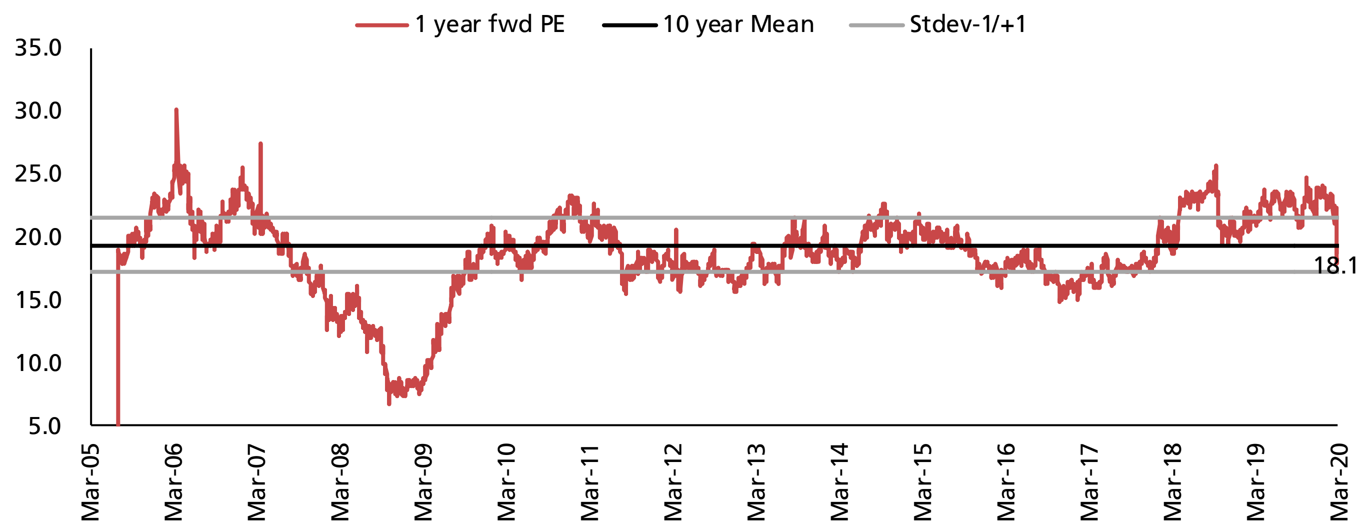
Source: Company, Kotak Institutional Equities

Exhibit 8: Infosys: Long-term 12-month forward PE multiples



Source: Bloomberg consensus estimates, Kotak Institutional Equities

Exhibit 9: TCS: Long-term 12-month forward PE multiples



Source: Bloomberg consensus estimates, Kotak Institutional Equities estimates

Exhibit 10: Kotak Institutional Equities: Valuation summary of key IT services companies

	17-Mar-20		Mkt cap.		EPS (Rs)			P/E (X)			EV/EBITDA (X)			RoE (%)		
Company	Price (Rs)	Rating	(Rs m)	(US$ m)	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
HCL Technologies	451	ADD	1,222,913	16,476	39.9	42.2	46.2	11.3	10.7	9.8	7.0	6.4	5.6	23.7	21.8	20.8
Hexaware Technologies	276	REDUCE	82,220	1,108	21.2	23.8	25.5	13.0	11.6	10.8	9.4	8.3	7.2	24.9	24.4	23.2
Infosys	555	ADD	2,363,468	31,842	38.6	41.2	45.6	14.4	13.5	12.2	9.8	8.8	7.9	25.8	27.1	28.2
L&T Infotech	1,489	ADD	259,207	3,492	84.5	98.5	116.2	17.6	15.1	12.8	11.8	9.9	8.2	27.9	27.7	27.6
Mindtree	853	REDUCE	140,382	1,891	38.5	53.8	61.7	22.2	15.8	13.8	12.1	9.2	7.8	19.1	24.5	24.0
Mphasis	701	REDUCE	130,727	1,761	60.2	64.1	66.8	11.6	10.9	10.5	6.9	6.3	5.8	20.5	20.1	19.6
TCS	1,658	REDUCE	6,221,454	83,819	87.1	92.9	101.6	19.0	17.8	16.3	13.4	12.2	11.0	34.7	34.7	35.2
Tech Mahindra	595	ADD	518,683	6,988	47.7	52.5	59.9	12.5	11.3	9.9	7.5	6.2	5.2	19.5	19.1	19.5
Wipro	173	REDUCE	988,964	13,324	17.2	18.3	19.7	10.1	9.5	8.8	5.6	4.7	4.2	17.9	17.4	16.7
KIE universe			*91,762,695*	*1,236,306*				*19.7*	*14.1*	*11.8*	*9.4*	*8.0*	*6.9*	*10.5*	*13.1*	*14.2*

	Target	O/S shares	EPS CAGR (%)	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)		
Company	Price (Rs)	(mn)	2020-22E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
HCL Technologies	620	2,702	7.6	9.0	5.6	9.6	107,809	114,468	125,521	164,385	178,379	190,972	706,369	769,326	838,878
Hexaware Technologies	350	302	9.7	9.9	12.2	7.2	6,410	7,194	7,710	8,609	9,907	11,081	55,825	64,828	73,034
Infosys	810	4,256	8.7	9.2	6.6	10.7	164,729	175,510	194,354	225,856	248,347	273,713	910,556	988,641	1,092,917
L&T Infotech	1,900	175	17.3	(2.2)	16.5	18.0	14,830	17,332	20,457	19,891	22,688	26,155	107,760	123,621	142,406
Mindtree	810	165	26.6	(16.0)	39.9	14.6	6,334	8,863	10,160	10,650	13,409	15,084	77,198	84,433	92,969
Mphasis	850	186	5.4	7.3	6.4	4.3	11,213	11,934	12,447	16,331	17,337	17,999	87,700	96,467	103,364
TCS	1,950	3,752	8.0	4.9	6.6	9.4	326,991	348,586	381,387	423,122	459,406	505,722	1,575,710	1,706,140	1,878,550
Tech Mahindra	830	880	12.1	0.0	10.0	14.2	41,984	46,165	52,729	60,180	70,382	79,507	373,628	412,978	456,735
Wipro	230	5,827	7.0	14.8	6.3	7.7	100,051	104,096	112,130	128,615	133,385	139,539	612,772	637,001	675,266
KIE universe				*2.1*	*39.2*	*19.7*	*4,669,278*	*6,500,114*	*7,780,244*	*8,690,373*	*10,050,854*	*11,326,583*	*60,599,622*	*66,567,601*	*72,683,929*

Source: Companies, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo
		17-Mar-20	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	(US$ mn)
Automobiles & Components																													
Amara Raja Batteries	ADD	527	780	48	90	1.2	171	40	44	50	39.9	11.8	13.3	13	11.9	10.5	7.6	6.4	5.5	2.4	2.1	1.8	18.9	18.5	18.2	1.9	2.1	2.4	7.5
Apollo Tyres	ADD	94	180	92	54	0.7	572	10.2	10.3	14.9	(29.0)	1.3	44.4	9.2	9.1	6.3	5.6	5.2	4.0	0.5	0.5	0.5	5.7	5.6	7.7	3.2	3.2	3.2	6.7
Ashok Leyland	BUY	64	100	56	188	2.5	2,936	2.1	2.3	6.4	(69.8)	9.4	178.5	30.5	27.9	10.0	14.4	12.2	5.9	2.2	2.1	1.8	7.3	7.6	19.2	1.0	1.1	3.0	22
Bajaj Auto	BUY	2,270	3,100	37	657	9	289	172	170	200	12.3	(1.2)	17.5	13.2	13.4	11.4	9.2	8.8	6.8	2.9	2.6	2.3	22	20	21	5.2	3.0	3.5	21
Balkrishna Industries	SELL	883	1,030	17	171	2.3	193	50	53	59	25.6	6.0	11.4	17.7	16.7	15.0	11.6	9.5	8.1	3.3	3.0	2.7	19.6	18.7	18.7	2.3	2.5	2.7	13.1
Bharat Forge	SELL	358	365	2	167	2.2	466	13	16	22	(41.6)	21.6	40.4	27.6	22.7	16.2	14.6	12.7	10.0	2.9	2.7	2.4	10.9	12.4	15.8	1.5	1.7	1.7	10.4
CEAT	REDUCE	804	960	19	33	0.4	40	59	63	81	(4.9)	8.1	28.8	13.7	12.7	9.9	8.0	7.5	6.4	1.1	1.0	0.9	8.3	8.4	10.0	1.5	1.5	1.5	1.5
Eicher Motors	ADD	17,061	19,500	14	466	6.3	27	770	747	979	(5.6)	(2.9)	31.0	22.2	22.8	17.4	17.1	16.3	12.9	5.3	4.5	3.7	26	21	23	0.2	—	—	47
Endurance Technologies	SELL	723	960	33	102	1.4	141	44	52	62	20.8	18.5	19.6	17	13.9	11.7	8.2	6.7	5.4	3.3	2.8	2.3	20.0	19.8	20.0	1.0	1.3	1.8	0.5
Escorts	BUY	649	1,080	66	58	1.1	89	54	63	75	(1.6)	16.9	19.7	12.1	10.4	8.7	8.2	6.8	5.2	1.7	1.5	1.3	13.9	14.3	15.0	1.2	1.4	1.7	33
Exide Industries	SELL	140	180	28	119	1.6	850	10.3	10.2	10.9	14.1	(0.7)	6.7	13.6	13.7	12.9	7.9	7.2	6.5	1.8	1.7	1.6	14.1	12.9	12.7	2.5	2.8	2.8	6.5
Hero Motocorp	ADD	1,839	2,150	17	367	4.9	200	167	141	166	(1.2)	(15.7)	17.4	11.0	13.0	11.1	6.6	7.7	6.2	2.5	2.4	2.2	25	18.9	21	5.0	5.0	5.4	30
Mahindra CIE Automotive	ADD	84	150	79	32	0.4	378	9.4	11.0	12.7	(34.9)	16.1	15.7	8.9	7.6	6.6	4.5	4.2	3.3	0.7	0.6	0.6	8.0	8.6	9.1	—	—	—	0.4
Mahindra & Mahindra	BUY	373	815	118	464	6.3	1,138	39	39	45	(18.0)	0.7	15.2	9.6	9.5	8.2	6.2	6.1	5.2	1.1	1.0	0.9	12.0	10.9	11.5	2.1	2.1	2.4	27
Maruti Suzuki	SELL	5,604	5,800	3	1,693	22.8	302	203	234	296	(18.2)	14.9	27.0	28	24	19	14.9	11.9	8.7	3.4	3.0	2.7	12.7	13.3	15.2	0.9	1.0	1.3	81
Motherson Sumi Systems	SELL	61	105	73	192	2.6	3,158	4.2	5.9	7.0	(16.9)	38.3	18.9	14.3	10.3	8.7	5.3	3.8	3.0	1.6	1.4	1.2	11.7	14.2	14.4	2.1	2.4	2.9	19.0
MRF	SELL	61,850	62,000	0	262	3.5	4	2,523	2,915	3,674	(5.4)	15.5	26.0	25	21.2	16.8	10.0	9.2	7.2	2.2	2.0	1.8	9.4	9.9	11.2	0.1	0.1	0.1	7.8
Schaeffler India	SELL	4,145	3,900	(6)	130	1.7	31	118	134	171	(18.3)	14.0	27.3	35	31	24	19.1	17.3	13.7	4.4	3.9	3.4	13.0	13.3	14.8	—	—	—	0.5
SKF	REDUCE	1,700	1,950	15	84	1.1	49	66	79	95	0.5	20.4	19.4	26	21	18	18.3	15.0	12.0	4.3	3.7	3.2	16.7	17.2	17.6	0.7	0.7	0.8	0.5
Tata Motors	BUY	78	215	176	280	3.5	3,598	(3.4)	7.7	18.1	36.3	325.1	134.5	NM	10.1	4.3	3.3	2.5	2.2	0.5	0.4	0.4	NM	4.5	9.7	—	—	—	114
Timken	SELL	875	825	(6)	66	0.9	75	31	32	39	57.4	3.8	20.9	28	27	22	17.7	15.4	12.5	4.2	3.7	3.2	16.1	14.4	15.1	0.1	0.1	0.1	0.7
TVS Motor	SELL	385	350	(9)	183	2.5	475	14.4	13.8	21.8	1.8	(3.8)	58.0	27	28	18	13.7	13.3	9.6	4.8	4.3	3.7	19.1	16.4	23	1.1	0.9	1.4	10.7
Varroc Engineering	BUY	213	540	153	29	0.4	135	15	29	46	(54.0)	88.2	58.7	13.9	7.4	4.7	5.0	3.6	2.5	0.9	0.8	0.7	6.4	10.9	15.0	—	—	—	0.5
Automobiles & Components	**Neutral**				**5,885**	**79.3**					**(10.8)**	**20.2**	**34.7**	**19.6**	**16.3**	**12.1**	**7.6**	**6.4**	**5.0**	**2.0**	**1.8**	**1.6**	**10.4**	**11.3**	**13.6**	**1.7**	**1.5**	**1.9**	**461**
Banks																													
AU Small Finance Bank	SELL	843	625	(26)	256	3.5	302	24.4	28.5	36.2	86.7	17.0	27.0	35	30	23	—	—	—	5.8	4.8	4.0	19.0	17.1	18.2	0.0	—	—	11.8
Axis Bank	REDUCE	489	740	51	1,380	18.6	2,806	17.5	49	62	(3.9)	183.2	25.1	28	9.9	7.9	—	—	—	1.8	1.5	1.3	6.4	15.1	16.6	0.4	1.5	1.9	92
Bandhan Bank	REDUCE	258	540	110	415	5.6	1,610	20.3	25.4	31.2	24.0	25.2	23.0	12.7	10.1	8.3	—	—	—	2.6	2.1	1.7	23.9	23	22	0.0	0.0	0.0	22
Bank of Baroda	ADD	66	105	59	306	4.1	4,582	0.8	23.4	27	(50.0)	2,763.0	13.9	81	2.8	2.5	—	—	—	0.7	0.6	0.5	0.7	15.5	15.6	0.2	7.1	8.1	28
City Union Bank	ADD	175	240	37	129	1.7	735	10.0	11.8	13.5	8.1	17.3	14.3	17	14.9	13.0	—	—	—	2.6	2.3	2.0	14.4	15.0	15.2	1.0	1.2	1.4	2.7
DCB Bank	BUY	131	230	76	41	0.5	310	12.8	16.9	22.2	22.1	32.0	30.8	10.2	7.7	5.9	—	—	—	1.3	1.1	1.0	13.0	15.2	17.2	0.9	1.2	1.6	1.9
Equitas Holdings	BUY	62	160	159	21	0.3	342	8.0	10.5	14.5	26.0	32.1	37.5	7.7	5.9	4.3	—	—	—	0.7	0.7	0.6	9.9	11.2	13.6	—	—	—	6.8
Federal Bank	BUY	58	120	106	116	1.6	1,985	8.4	9.9	12.6	33.6	18.8	26.3	7.0	5.9	4.6	—	—	—	0.9	0.8	0.7	12.0	12.9	14.7	3.2	3.8	4.8	12.8
HDFC Bank	ADD	975	1,350	38	5,345	72.0	5,447	48	56	67	24.9	16.6	18.5	20	17	15	—	—	—	3.2	2.8	2.4	16.5	16.9	17.5	1.0	1.1	1.3	136
ICICI Bank	BUY	367	615	67	2,377	32.0	6,447	18.4	32	38	287.4	73.1	18.8	20	11.5	9.7	—	—	—	2.2	1.9	1.7	10.5	16.4	17.1	1.0	1.7	2.1	133
IndusInd Bank	ADD	604	1,600	165	419	5.6	712	73	104	121	34.0	42.3	15.4	8	5.8	5.0	—	—	—	1.2	1.0	0.9	16.6	18.1	17.9	1.7	2.4	2.7	113
Karur Vysya Bank	BUY	29	80	174	23	0.3	799	3.4	7	13	27.2	104.1	95.1	9	4.3	2.2	—	—	—	0.5	0.4	0.3	4.1	8.0	14.5	2.9	6.1	11.9	0.6
Punjab National Bank	NR	35	—	—	238	3.2	4,604	2	6	10	110.2	149.0	80.1	16	6.4	3.6	—	—	—	0.7	0.5	0.4	2.4	7.0	10.2	0.0	0.0	0.0	15.0
RBL Bank	BUY	165	375	128	84	1.1	509	9.5	32	41	(53.3)	233.4	30.0	17	5.2	4.0	—	—	—	0.8	0.8	0.7	5.3	14.0	16.0	0.8	2.6	3.3	47
State Bank of India	BUY	215	420	95	1,920	25.9	8,925	24	45	55	2,356.7	87.9	23.3	9	4.8	3.9	—	—	—	1.1	0.9	0.7	9.2	15.2	16.0	0.1	0.1	0.1	196
Ujjivan Financial Services	BUY	210	490	133	26	0.3	121	26.9	34	44	117.0	24.9	31.6	8	6.2	4.7	—	—	—	1.2	1.0	0.9	15.7	17.0	19.3	1.5	2.0	2.8	8.9
Ujjivan Small Finance Bank	SELL	37	45	22	64	0.9	1,714	2	3	3	48.2	33.3	26.9	18	13.5	10.7	—	—	—	2.2	2.0	1.8	15.1	14.9	16.7	1.1	1.5	1.9	0.0
Union Bank	RS	30	—	—	102	1.4	3,423	0	11	15	101.2	5,126.7	36.8	145	2.8	2.0	—	—	—	0.4	0.3	0.3	0.2	13.2	13.2	0.0	5.4	7.4	4.0
YES Bank	RS	59	—	(100)	150	2.0	12,546	(18.7)	(3)	0	(352.2)	85.3	101.2	NM	NM	######	—	—	—	9.7	31.3	15.4	NM	NM	0.4	0.0	0.0	0.0	107
Banks	**Attractive**				**13,513**	**182.1**					**101.2**	**154.1**	**27.3**	**23**	**9.1**	**7.1**				**1.4**	**1.2**	**1.0**	**6.2**	**12.9**	**14.4**	**0.7**	**1.3**	**1.6**	**961**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs) 17-Mar-20	Fair Value (Rs)	Upside (%)	Mkt cap. (Rs bn)	Mkt cap. (US$ bn)	O/S shares (mn)	EPS (Rs) 2020E	EPS (Rs) 2021E	EPS (Rs) 2022E	EPS growth (%) 2020E	EPS growth (%) 2021E	EPS growth (%) 2022E	P/E (X) 2020E	P/E (X) 2021E	P/E (X) 2022E	EV/EBITDA (X) 2020E	EV/EBITDA (X) 2021E	EV/EBITDA (X) 2022E	P/B (X) 2020E	P/B (X) 2021E	P/B (X) 2022E	RoE (%) 2020E	RoE (%) 2021E	RoE (%) 2022E	Dividend yield (%) 2020E	Dividend yield (%) 2021E	Dividend yield (%) 2022E	ADVT 3mo (US$ mn)
Building Products																													
Astral Poly Technik	SELL	998	765	(23)	150	2.0	151	19.4	22	27	48.5	14.7	19.4	51	45	37	30.2	25.7	21.2	9.7	8.0	6.7	21	19.6	19.4	0.1	0.1	0.1	2.1
Building Products	**Cautious**				**150**	**2.0**					**49.5**	**14.7**	**19.4**	**51**	**45**	**37**	**30.2**	**25.7**	**21.2**	**9.7**	**8.0**	**6.7**	**18.8**	**17.9**	**17.8**	**0.1**	**0.1**	**0.1**	**2.1**
Capital goods																													
ABB	SELL	948	900	(5)	201	2.7	212	18	20	25	46.3	12.6	27.3	54	48	38	34.9	30.2	24.0	5.7	5.3	4.9	9.9	11.5	13.5	0.6	0.7	0.8	1.1
Ashoka Buildcon	BUY	59	155	161	17	0.2	281	12.9	11.9	13.2	8.6	(7.9)	11.2	4.6	5.0	4.5	4.4	4.1	3.5	0.7	0.6	0.5	15.3	12.6	12.7	3.4	3.1	3.5	1.1
Bharat Electronics	BUY	70	113	63	170	2.3	2,437	6.2	7.5	7.0	(20.2)	20.9	(6.9)	11.3	9.3	10.0	6.6	5.7	5.3	1.7	1.6	1.5	15.7	17.6	15.2	3.9	4.7	4.4	14.7
BHEL	REDUCE	23	41	74	81	1.1	3,482	2.6	2.5	3.7	(25.0)	(6.2)	51.0	8.9	9.5	6.3	2.5	2.1	1.8	0.3	0.3	0.2	2.9	2.7	4.0	5.5	4.7	6.4	10.2
Carborundum Universal	ADD	246	345	40	47	0.6	189	13.7	16.3	19.0	4.7	19.2	16.1	17.9	15.1	13.0	11.0	8.8	7.4	2.5	2.2	2.0	14.4	15.6	16.3	1.7	2.0	2.3	0.4
Cochin Shipyard	BUY	234	615	163	31	0.4	132	48	56	50	30.6	17.6	(10.8)	4.9	4.2	4.7	(1.1)	(0.2)	1.2	0.8	0.7	0.6	17.7	18.3	14.6	5.1	6.0	5.8	1.6
Cummins India	BUY	447	520	16	124	1.7	277	26	26	29	(0.2)	(2.6)	12.2	17.0	17.4	15.5	16.5	16.6	14.7	2.8	2.7	2.5	17.2	15.8	16.8	2.9	2.9	3.2	7.0
Dilip Buildcon	BUY	273	580	113	37	0.5	137	36	41	51	(35.6)	14.8	24.9	7.6	6.6	5.3	4.4	4.0	2.9	1.0	0.9	0.7	14.2	14.2	15.2	0.2	0.3	0.4	1.6
IRB Infrastructure	BUY	64	154	141	23	0.3	351	22	16	16	(7.1)	(29.8)	3.8	2.9	4.1	3.9	5.5	6.4	6.4	0.3	0.3	0.3	11.9	7.7	7.5	4.3	3.9	2.3	3.4
Kalpataru Power Transmission	BUY	252	591	135	39	0.5	153	34	38	46	12.8	10.5	22.5	7.3	6.7	5.4	4.0	3.3	2.6	1.1	0.9	0.8	15.7	15.2	16.2	1.5	1.6	2.0	0.7
KEC International	BUY	260	400	54	67	0.9	257	24.6	28	33	30.2	14.4	17.9	10.6	9.2	7.8	6.4	5.3	4.6	2.2	1.8	1.5	23	22	21	1.0	1.2	1.4	1.7
L&T	BUY	957	1,550	62	1,343	18.1	1,403	70	68	86	13.8	(3.0)	27.6	13.7	14.1	11.1	15.2	13.0	11.2	2.2	1.9	1.7	16.9	14.3	16.0	1.1	4.1	2.8	63
Sadbhav Engineering	BUY	44	137	212	8	0.1	172	7.2	11.7	13.6	(33.4)	61.1	16.3	6.1	3.8	3.2	4.8	2.7	2.2	0.4	0.3	0.3	5.9	9.0	9.6	—	—	—	0.7
Siemens	SELL	1,136	1,200	6	405	5.5	356	35	40	46	14.1	15.2	13.9	33	28	25	22.1	19.4	16.7	4.1	3.7	3.4	13.1	13.8	14.3	0.9	1.0	1.1	10.3
Thermax	BUY	775	1,140	47	92	1.2	113	26	39	47	(28.5)	48.4	20.8	29	19.8	16.4	18.2	15.6	13.0	18.2	15.6	13.0	9.5	13.1	14.3	1.0	1.2	1.4	1.0
Capital goods	**Neutral**				**2,683**	**36.1**					**3.6**	**2.7**	**20.3**	**14.4**	**14.0**	**11.6**				**1.8**	**1.6**	**1.5**	**12.4**	**11.4**	**12.6**	**1.5**	**3.1**	**2.5**	**961**
Commercial & Professional Services																													
SIS	REDUCE	438	870	99	64	0.9	75	37	41	48	27.5	11.9	16.0	11.9	10.6	9.2	12.9	11.0	9.3	2.2	1.8	1.6	19.9	18.8	18.5	0.8	0.8	1.0	0.5
TeamLease Services	SELL	2,111	2,300	9	36	0.5	17	68	89	112	18.6	29.8	26.9	31	24	18.8	26.8	20.1	15.1	5.5	4.5	3.6	19.5	21	21	—	—	—	1.0
Commercial & Professional Services	**Cautious**				**100**	**1.4**					**24.7**	**17.3**	**19.6**	**26**	**22**	**18.3**	**15.7**	**13.0**	**10.7**	**4.7**	**3.9**	**3.3**	**18.2**	**17.8**	**17.8**	**0.2**	**0.3**	**0.3**	**1.5**
Commodity Chemicals																													
Asian Paints	REDUCE	1,732	1,825	5	1,661	22.4	959	28.9	34.2	40.5	28.5	18.2	18.3	60	51	43	38.0	33.1	28.5	15.6	13.9	12.4	27	29	31	0.8	1.0	1.2	40
Berger Paints	SELL	448	430	(4)	435	5.9	971	7.5	8.6	10.2	46.6	14.6	19.1	60	52	44	38.5	32.9	27.8	15.1	13.0	11.2	27	27	28	0.6	0.7	0.8	10.3
Kansai Nerolac	REDUCE	414	530	28	223	3.0	539	10.6	11.8	14.0	22.1	11.8	18.6	39	35	29	26.4	22.7	19.1	5.9	5.4	4.9	15.9	16.2	17.4	0.9	1.0	1.2	2.0
Tata Chemicals	ADD	238	345	45	61	0.8	255	33.0	37.1	40.5	(23.1)	12.4	9.3	7.2	6.4	5.9	2.8	2.5	2.2	0.5	0.4	0.4	6.7	7.1	7.4	3.8	4.3	4.7	11.0
Commodity Chemicals	**Neutral**				**2,380**	**32.1**					**16.6**	**15.9**	**17.0**	**48**	**42**	**36**	**28.4**	**24.8**	**21.5**	**7.9**	**7.2**	**6.6**	**16.3**	**17.3**	**18.4**	**0.9**	**1.0**	**1.2**	**63**
Construction Materials																													
ACC	REDUCE	1,125	1,550	38	211	2.8	188	67.0	73.9	77.7	25.9	10.3	5.1	16.8	15.2	14.5	6.9	6.5	6.1	1.8	1.7	1.6	11.4	11.7	11.6	1.2	3.3	3.5	15.0
Ambuja Cements	REDUCE	171	205	20	340	4.6	1,986	9.2	11.0	11.9	29.3	19.4	8.3	18.7	15.7	14.5	5.4	4.7	3.8	1.4	1.3	1.2	7.8	8.7	8.7	0.9	0.9	0.9	10.2
Dalmia Bharat	BUY	548	1,050	92	106	1.4	192	17.2	21.4	32.3	8.6	24.0	50.9	32	26	17.0	5.9	5.2	4.1	1.0	0.9	0.9	3.1	3.7	5.3	—	—	—	1.7
Grasim Industries	ADD	556	865	56	366	4.9	657	74.4	77.5	90.0	18.9	4.2	16.2	7.5	7.2	6.2	4.8	3.9	3.2	0.6	0.6	0.5	8.4	8.1	8.8	1.3	1.3	1.3	21
J K Cement	ADD	1,150	1,500	30	89	1.2	77	84.2	100.8	131.2	146.7	19.8	30.1	13.7	11.4	8.8	9.2	7.4	6.3	2.7	2.2	1.8	22	22	23	0.9	0.9	0.9	1.7
JK Lakshmi Cement	REDUCE	234	325	39	28	0.4	118	19.2	23.9	28.4	374.8	24.2	19.2	12.2	9.8	8.2	5.3	4.6	4.2	1.6	1.4	1.2	14.3	15.6	16.1	0.9	0.9	0.9	1.0
Orient Cement	ADD	57	90	59	12	0.2	205	4.7	6.2	6.8	102.0	32.0	9.8	12.0	9.1	8.3	5.9	4.9	4.2	1.1	1.0	0.9	8.9	11.1	11.4	3.5	3.5	3.5	0.3
Shree Cement	SELL	20,006	16,200	(19)	722	9.7	36	450.4	613.5	755.4	39.3	36.2	23.1	44	33	26	18.8	15.3	12.9	5.5	4.8	4.2	14.3	15.8	17.0	0.5	0.5	0.5	11.8
UltraTech Cement	SELL	3,470	3,800	9	1,002	13.5	289	140.9	169.5	201.7	54.1	20.3	18.9	25	20	17.2	11.2	9.8	8.6	2.7	2.4	2.1	11.4	12.3	13.0	0.3	0.3	0.3	34
Construction Materials	**Cautious**				**2,874**	**38.7**					**38.3**	**16.0**	**17.4**	**19.2**	**16.6**	**14.1**	**7.7**	**6.6**	**5.6**	**1.8**	**1.6**	**1.5**	**9.2**	**9.7**	**10.4**	**0.7**	**0.8**	**0.8**	**97**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo
Company	Rating	17-Mar-20	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	(US$ mn)
Consumer Durables & Apparel																													
Crompton Greaves Consumer	SELL	222	210	(5)	139	1.9	627	7.1	8.4	9.5	19.1	18.3	13.6	31	26	23	19	17	15	9.8	7.8	6.3	35	33	30	1.1	1.1	0.0	4.2
Havells India	SELL	570	520	(9)	357	4.8	625	13.2	17.1	20.4	4.8	29.4	19.8	43	33	28	27	21	17	7.6	6.7	5.9	18.5	21	22	0.8	1.0	1.3	15.8
Page Industries	REDUCE	18,907	22,000	16	211	2.8	11	363	449	539	2.9	23.6	20.0	52	42	35	34	29	24	23.5	18.7	15.2	48	50	48	0.9	1.1	1.4	11.6
Polycab	BUY	834	700	(16)	124	1.7	149	37	44	49	9.0	19.1	11.3	23	19.1	17.2	13	11	9	3.3	2.9	2.5	16.6	16.3	15.7	0.4	0.5	0.6	5.0
TCNS Clothing Co.	ADD	471	770	63	29	0.4	65	9	12	16	(54.3)	31.7	26.0	50	38	30	12	10	8.0	4.3	3.8	3.3	9.2	10.7	11.9	1.8	2.6	2.6	0.1
Vardhman Textiles	ADD	884	1,000	13	51	0.7	56	92	120	130	(28.9)	30.0	8.5	9.6	7.4	6.8	6.9	5.4	4.7	0.8	0.8	0.7	9.0	11.0	11.0	3.4	3.4	3.4	0.2
Voltas	SELL	595	500	(16)	197	2.7	331	16.9	20.7	24.2	7.8	22.3	16.7	35	29	25	26	22	19	4.3	3.9	3.5	13.0	14.3	14.9	0.6	0.7	0.8	12.9
Whirlpool	SELL	2,055	1,260	(39)	261	3.5	127	38	44	52	17.9	16.8	18.6	54	47	39	33	29	25	10.4	9.1	8.1	21	21	22	0.4	0.6	1.0	3.0
Consumer Durables & Apparel	**Cautious**				**1,368**	**18.4**					**0.6**	**23.6**		**36**	**29**	**25**	**21**	**18**	**15**	**5.6**	**5.0**		**15.8**	**17.2**	**17.6**	**0.8**	**1.0**		**53**
Consumer Staples																													
Bajaj Consumer Care	BUY	134	280	109	20	0.3	148	15.3	15.8	17.7	1.6	3.3	12.1	8.8	8.5	7.6	6.6	6.3	5.5	3.8	3.4	3.0	46	42	42	7.5	8.2	9.0	0.7
Britannia Industries	REDUCE	2,686	2,900	8	646	8.7	240	59	68	79	22.7	14.3	16.2	45	40	34	34	30	26	14.3	11.6	9.5	32	32	30	0.7	1.0	1.2	17.9
Colgate-Palmolive (India)	ADD	1,150	1,600	39	313	4.2	272	30	36	41	12.5	18.5	14.6	38	32	28	24.0	20.6	18.1	21.2	21.0	20.5	56	65	74	2.3	2.6	3.0	10.7
Dabur India	REDUCE	430	440	2	761	10.2	1,766	9.5	11.0	12.0	16.8	15.5	9.7	45	39	36	37	33	28	11.8	10.6	9.6	28	28	28	1.0	1.3	1.5	14.4
GlaxoSmithKline Consumer	RS	8,719	—	—	367	4.9	42	299	335	378	28	12.0	12.9	29	26	23	24	21	18	7.7	6.6	5.8	28	27	27	1.3	1.5	1.7	2.9
Godrej Consumer Products	REDUCE	524	720	37	535	7.2	1,022	15.4	17.7	20.6	6.2	15.3	16.2	34	30	25	23	20	17	6.3	5.7	5.1	20.0	20	21	1.2	1.4	1.6	13.1
Hindustan Unilever	REDUCE	2,009	1,900	(5)	4,349	58.6	2,160	34	40	47	19.8	18.4	16.5	60	50	43	41	35	31	47.8	38.8	31.1	87	85	80	1.2	1.3	1.5	51
ITC	BUY	149	300	101	1,834	24.7	12,300	11.9	12.6	13.9	17.0	5.9	10.1	12.5	11.8	10.8	8.2	7.7	6.9	2.9	2.7	2.5	21	22	23	4.3	6.0	6.7	51
Jyothy Laboratories	ADD	101	170	68	37	0.5	367	5.8	6.5	7.4	4.7	11.9	13.0	17.3	15.4	13.6	12.0	10.8	9.5	2.7	2.5	2.4	15.8	16.7	17.8	3.5	4.0	4.5	0.8
Marico	ADD	249	365	46	322	4.3	1,290	8.2	8.8	10.0	13.5	7.1	13.7	30	28	25	21	19	17	10.0	9.5	9.0	34	34	37	2.2	2.5	2.8	11.7
Nestle India	SELL	14,541	14,000	(4)	1,402	18.9	96	204	238	278	22.6	16.6	16.6	71	61	52	49	42	37	72.6	59.0	48.6	70	107	102	2.4	1.3	1.5	21
Tata Consumer Products	ADD	284	400	41	179	2.4	631	8.8	10.3	11.5	25.1	18.2	11.1	32	27	25	18	16	14	2.3	2.2	2.1	7.4	8.3	8.8	1.1	1.2	1.5	30
United Breweries	ADD	955	1,430	50	253	3.4	264	17.9	25.5	32.6	(15.8)	42.2	27.8	53	37	29	27	20	17	7.1	6.0	5.1	14.0	17.4	18.9	0.2	0.3	0.5	7.9
United Spirits	BUY	525	660	26	382	5.1	727	13.1	15.2	20.3	38.9	15.7	34.1	40	35	26	25	22	18	9.9	6.6	4.8	27	23	22	0.4	0.5	0.6	22
Varun Beverages	ADD	709	900	27	205	2.8	289	16.2	24.8	33.5	51.9	52.4	35.3	44	29	21	16	13	11	6.1	5.0	4.1	17.6	19.3	21	0.1	0.2	0.3	2.9
Consumer Staples	**Cautious**				**11,603**	**156.3**					**18.0**	**12.6**	**14.3**	**34**	**30**	**26**	**23**	**21**	**18**	**9.4**	**8.4**	**7.5**	**28**	**28**	**29**	**1.8**	**2.1**	**2.3**	**257**
Diversified Financials																													
Bajaj Finance	REDUCE	3,445	3,850	12	2,073	27.9	599	101	135	163	46	33	21	34	25	21	—	—	—	6.1	5.1	4.2	23	22	22	0.3	0.4	0.5	100
Bajaj Finserv	ADD	7,018	10,200	45	1,117	15.0	159	304	394	475	50	30	21	23	17.8	14.8	—	—	—	3.3	2.8	2.4	16.8	17.1	17.5	0.2	0.2	0.2	34
Cholamandalam	ADD	216	375	74	175	2.4	820	17.3	22.9	25.5	14	32.3	11.5	12.5	9.4	8.5	—	—	—	2.1	1.8	1.5	19.2	19.9	18.7	0.9	1.2	1.3	9.1
HDFC	BUY	1,755	2,680	53	3,039	40.9	1,721	107	72	85	88.2	(33)	17.4	16.4	24	21	—	—	—	3.4	3.2	2.9	22	13.7	14.8	2.3	1.5	1.8	118
IIFL Wealth	REDUCE	1,111	1,200	8	97	1.3	85	34.7	45.6	66.8	(23)	31.4	46.5	32	24	16.6	—	—	—	3.2	3.1	3.0	10.1	13.0	18.4	2.3	2.7	3.9	0.9
L&T Finance Holdings	REDUCE	67	115	73	133	1.8	1,999	9	13	16	(15.7)	35	27.8	7.1	5.2	4.1	—	—	—	0.9	0.8	0.7	13.2	15.7	17.4	1.9	2.2	2.4	15.0
LIC Housing Finance	ADD	251	475	89	127	1.7	505	53.2	72.1	83.1	16	35.6	15.2	4.7	3.5	3.0	—	—	—	0.8	0.7	0.6	15.4	18.2	18.1	3.5	4.7	5.5	29
Mahindra & Mahindra Financial	ADD	249	405	63	154	2.1	615	24.5	32.5	40.6	(3)	32.5	24.8	10.1	7.7	6.1	—	—	—	1.4	1.3	1.1	13.2	15.8	17.5	2.5	3.4	4.2	11.5
Muthoot Finance	ADD	640	860	34	257	3.5	401	72	74	84	46.4	3	13.0	8.9	8.6	7.6	—	—	—	2.2	1.8	1.6	27	23	22	2.7	2.8	3.1	24
PNB Housing Finance	NR	231	—	—	39	0.5	169	66.9	77.6	88.6	(6)	16.0	14.2	3.5	3.0	2.6	—	—	—	0.5	0.4	0.4	14.1	14.6	14.8	3.2	3.7	4.2	6.2
Shriram City Union Finance	BUY	1,062	1,975	86	70	0.9	66	171	191	214	14.0	12	12.0	6.2	5.6	5.0	—	—	—	1.0	0.9	0.8	16.4	15.9	15.6	2.0	2.3	2.6	0.2
Shriram Transport	BUY	777	1,525	96	176	2.4	227	134.4	136.2	162.2	19	1.3	19.1	5.8	5.7	4.8	—	—	—	1.0	0.9	0.8	17.8	15.7	16.4	2.4	2.6	3.1	30
Diversified Financials	**Neutral**				**7,455**	**100.4**					**45.5**	**1.2**	**18.8**	**16.6**	**16.4**	**13.8**				**2.2**	**1.9**	**1.7**	**13.0**	**11.7**	**12.3**	**1.4**	**1.2**	**1.4**	**378**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

72

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs) 17-Mar-20	Fair Value (Rs)	Upside (%)	Mkt cap. (Rs bn)	Mkt cap. (US$ bn)	O/S shares (mn)	EPS (Rs) 2020E	EPS (Rs) 2021E	EPS (Rs) 2022E	EPS growth (%) 2020E	EPS growth (%) 2021E	EPS growth (%) 2022E	P/E (X) 2020E	P/E (X) 2021E	P/E (X) 2022E	EV/EBITDA (X) 2020E	EV/EBITDA (X) 2021E	EV/EBITDA (X) 2022E	P/B (X) 2020E	P/B (X) 2021E	P/B (X) 2022E	RoE (%) 2020E	RoE (%) 2021E	RoE (%) 2022E	Dividend yield (%) 2020E	Dividend yield (%) 2021E	Dividend yield (%) 2022E	ADVT 3mo (US$ mn)
Electric Utilities																													
CESC	BUY	482	820	70	64	0.9	133	84	101	114	(7)	19.9	12.3	5.7	4.8	4.2	5.2	4.6	4.1	0.5	0.5	0.4	8.9	9.9	10.3	2.5	2.6	2.6	3.4
JSW Energy	ADD	43	75	76	70	0.9	1,640	6.4	5.7	5.2	53	(10)	(8.5)	6.7	7.4	8.1	4.1	3.4	2.6	0.5	0.5	0.5	8.5	7.0	6.0	—	—	—	0.7
NHPC	ADD	18	27	48	183	2.5	10,045	3.4	3.4	3.7	34.3	2	6.8	5.4	5.3	4.9	5.2	5.6	5.1	0.6	0.5	0.5	10.8	10.5	10.6	9.3	8.4	9.1	3.9
NTPC	BUY	88	160	82	872	11.7	9,895	12.3	14.3	15.5	9.4	16.8	7.9	7.2	6.1	5.7	8.6	7.4	5.9	0.8	0.7	0.6	10.9	11.8	11.7	4.2	4.9	5.3	24
Power Grid	BUY	162	235	45	848	11.4	5,232	20.2	23	25	6	13.5	11.1	8.0	7.1	6.4	6.7	6.3	5.9	1.3	1.2	1.1	17.0	17.4	17.5	4.4	5.0	5.5	35
Tata Power	BUY	39	72	85	105	1.4	2,705	3.6	5.4	7.2	72	48	33.4	10.7	7.2	5.4	7.1	6.8	6.2	0.6	0.5	0.5	5.7	7.9	9.7	—	—	—	6.7
Electric Utilities	**Attractive**				**2,141**	**28.8**					**12.2**	**14.0**	**9.8**	**7.3**	**6.4**	**5.8**				**0.8**	**0.8**	**0.7**	**11.4**	**12.0**	**12.1**	**4.3**	**4.7**	**5.2**	**74**
Fertilizers & Agricultural Chemicals																													
Bayer Cropscience	SELL	3,878	3,000	(23)	174	2.3	45	103.8	119.4	138.3	32.3	15.1	15.8	37	32	28	27	23	20	6.9	6.0	5.1	19.6	19.7	19.7	0.5	0.6	0.7	1.4
Dhanuka Agritech	SELL	325	470	45	15	0.2	48	28.0	30.3	33.4	18.1	8.5	10.1	11.6	10.7	9.7	9.1	7.9	6.7	2.1	1.8	1.6	19.1	17.9	17.1	1.7	1.9	2.1	0.4
Godrej Agrovet	SELL	349	470	35	67	0.9	192	11.8	16.4	19.9	2.9	39.2	21	30	21	18	16	12	10	3.0	2.7	2.4	10.5	13.3	14.3	1.0	1.2	1.4	1.4
Rallis India	ADD	195	230	18	38	0.5	195	10.9	12.5	14.4	29.4	14.8	14.8	17.9	15.6	13.5	12.4	10.6	9.1	2.6	2.4	2.1	15.6	16.0	16.4	1.4	1.6	1.7	2.0
UPL	SELL	351	510	45	268	3.6	765	28.6	40.1	45.8	51.3	40.2	14.1	12	8.7	7.7	7.3	6.0	5.2	1.7	1.5	1.3	14.2	17.8	17.9	2.3	3.2	3.7	27
Fertilizers & Agricultural Chemicals	**Attractive**				**739**	**10.0**					**39.0**	**32.2**	**15.6**	**20**	**15**	**12.9**	**10.5**	**8.7**	**7.5**	**2.9**	**2.5**	**2.2**	**14.5**	**16.8**	**17.0**	**1.3**	**1.7**	**2.0**	**35**
Gas Utilities																													
GAIL (India)	BUY	75	175	134	337	4.5	4,510	12.2	13.9	14.9	(12.4)	13.5	7.3	6.1	5.4	5.0	4.6	4.2	3.8	0.7	0.7	0.7	12.3	13.3	13.5	9.9	10.0	10.7	22
GSPL	SELL	193	225	17	109	1.5	564	17.0	14.2	13.1	20.4	(16.1)	(7.9)	11.4	13.5	14.7	4.9	5.4	5.5	1.6	1.5	1.4	15.4	11.5	9.7	1.3	1.1	1.4	2.2
Indraprastha Gas	SELL	377	365	(3)	264	3.6	700	17.3	19.7	22.1	43.7	13.8	12.2	21.8	19.2	17.1	16.2	13.8	12.0	5.3	4.5	3.8	27	25	24	1.1	1.3	1.5	18.6
Mahanagar Gas	ADD	878	1,300	48	87	1.2	99	76.8	84.0	89.4	36.7	9.4	6.5	11.4	10.5	9.8	7.2	6.3	5.6	3.1	2.6	2.3	29	27	25	3.8	4.3	5.1	14.7
Petronet LNG	BUY	202	325	61	303	4.1	1,500	17.9	20.8	23.1	19.4	16.0	11.1	11.3	9.7	8.7	6.4	5.4	4.8	2.7	2.4	2.2	25	26	26	4.9	6.2	7.4	9.1
Gas Utilities	**Attractive**				**1,099**	**14.8**					**3.7**	**11.3**	**7.8**	**9.9**	**8.9**	**8.2**	**6.3**	**5.7**	**5.2**	**1.5**	**1.4**	**1.3**	**15.6**	**16.0**	**15.9**	**5.1**	**5.5**	**6.2**	**67**
Health Care Services																													
Apollo Hospitals	ADD	1,427	1,840	29	198	2.7	139	28.5	38	52	68	33	38	50.1	37.8	27.3	14.0	13.8	12.0	5.6	5.1	4.6	11.5	14.1	17.7	0.7	1.1	1.5	18.0
Aster DM Healthcare	NR	113	—	—	57	0.8	505	6.9	8.8	10.6	4	27.5	21	16.4	12.9	10.6	6.6	5.6	4.9	2.1	1.8	1.6	13.3	15.0	15.8	—	—	—	0.8
Dr Lal Pathlabs	SELL	1,503	1,080	(28)	125	1.7	83	31.5	36.6	42.1	31.9	16.2	15.2	47.7	41.1	35.7	31.3	26.7	22.9	11.1	9.3	7.9	25	25	24	0.6	0.7	0.8	3.0
HCG	BUY	94	190	102	8	0.1	85	(8.0)	(5.4)	(5.2)	(130)	33	3	NM	NM	NM	8.3	7.0	6.2	1.6	1.8	2.0	NM	NM	NM	—	—	—	0.1
Metropolis Healthcare	SELL	1,647	1,130	(31)	83	1.1	50	32.2	37.2	42.9	34.6	15.4	15	51.1	44.3	38.4	32.5	27.6	24.2	16.0	12.9	10.6	35	32	30	0.6	0.7	0.8	1.5
Narayana Hrudayalaya	BUY	277	410	48	57	0.8	204	6.7	8.8	11.2	131.2	31	27	41.3	31.4	24.8	14.6	12.4	10.4	4.6	4.0	3.5	11.9	13.7	15.1	—	—	—	3.0
Health Care Services	**Attractive**				**529**	**7.1**					**35**	**29**	**26**	**42.8**	**33.2**	**26.3**	**14.2**	**12.8**	**11.1**	**5.5**	**4.9**	**4.3**	**12.8**	**14.7**	**16.3**	**0.5**	**0.7**	**0.9**	**26**
Hotels & Restaurants																													
Jubilant Foodworks	ADD	1,329	1,900	43	175	2.4	132	27	38	52	12	42.1	36	49.4	34.8	25.6	17.7	14.1	11.2	14.1	10.7	8.1	28	35	36	0.5	0.8	1.2	25
Lemon Tree Hotels	BUY	36	70	93	29	0.4	789	0.8	1.7	2.1	13	121	24	48.0	21.7	17.4	14.4	9.8	7.3	3.1	2.8	2.6	6.6	13.5	15.4	—	1.5	2.1	0.7
Hotels & Restaurants	**Attractive**				**204**	**2.7**					**12**	**54**	**34**	**49.0**	**31.9**	**23.8**	**16.9**	**12.9**	**10.1**	**9.4**	**7.6**	**6.2**	**19.1**	**24**	**26**	**0.4**	**0.9**	**1.3**	**26**
Insurance																													
HDFC Life Insurance	ADD	465	590	27	939	12.6	2,009	7.2	8.4	9.8	12.6	17.9	16.1	64.9	55.1	47	—	—	—	15.0	13.5	12.1	24	26	27	0.4	0.5	0.5	22
ICICI Lombard	SELL	1,075	825	(23)	489	6.6	454	26.8	33.4	38.9	16	25	16	40.1	32.2	28	—	—	—	7.8	6.6	5.6	21	22	22	0.5	0.7	0.8	8.0
ICICI Prudential Life	BUY	336	580	73	482	6.5	1,436	8.2	9.0	10.3	4	9.0	15.3	40.8	37.4	32	—	—	—	6.2	5.4	4.8	16.1	15.5	15.7	0.4	0.4	0.5	15.4
Max Financial Services	ADD	376	550	46	101	1.4	417	6.9	9.9	14.4	275	44	45	54.7	38.0	26	—	—	—	—	—	—	13.7	17.9	23	0.6	0.9	1.4	25
SBI Life Insurance	ADD	687	1,010	47	687	9.3	1,000	13.7	16.1	17.7	3.5	17.5	9.4	50.0	42.6	39	—	—	—	8.0	6.9	6.0	17.1	17.4	16.5	0.3	0.4	0.4	13.8
Insurance	**Attractive**				**2,697**	**36.3**					**13.5**	**18.8**	**16.2**	**49.1**	**41.3**	**36**				**8.7**	**7.6**	**6.6**	**17.7**	**18.4**	**18.7**	**0.3**	**0.3**	**0.4**	**85**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

KOTAK INSTITUTIONAL EQUITIES RESEARCH

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value (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)
		17-Mar-20			(Rs bn)	(US$ bn)		2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	
Internet Software & Services																													
Info Edge	SELL	2,102	2,470	18	258	3.5	122.0	31.0	39.7	48.7	20.0	28.0	22.7	67.8	53.0	43.2	56.9	42.8	34.3	9.7	8.6	7.6	15.3	17.3	18.7	0.4	0.5	0.6	12.0
Just Dial	BUY	311	460	48	20	0.3	64.8	40.7	35.3	36.6	27.6	(13.4)	3.8	7.6	8.8	8.5	1.9	1.3	0.2	1.6	1.4	1.2	24	17.2	15.4	1.3	1.1	1.2	16.4
Internet Software & Services	**Attractive**				**278**	**3.7**					**23.0**	**11.0**	**16.6**	**43.3**	**39.0**	**33.4**	**35.6**	**30.2**	**25.4**	**7.2**	**6.3**	**5.5**	**16.6**	**16.2**	**16.5**	**0.5**	**0.5**	**0.6**	**28**
IT Services																													
HCL Technologies	ADD	451	620	38	1,223	16.5	2,702	39.9	42.2	46.2	9.0	5.6	9.6	11.3	10.7	9.8	7.0	6.4	5.6	2.5	2.2	1.9	24	22	21	3.4	3.7	3.7	31
Hexaware Technologies	REDUCE	276	350	27	82	1.1	302	21.2	23.8	25.5	9.9	12.2	7.2	13.0	11.6	10.8	9.4	8.3	7.2	3.0	2.7	2.4	25	24	23	3.1	4.4	4.4	2.3
Infosys	ADD	555	810	46	2,363	31.8	4,256	38.6	41.2	45.6	9.2	6.6	10.7	14.4	13.5	12.2	9.8	8.8	7.9	3.8	3.5	3.3	26	27	28	4.0	4.7	5.4	81
L&T Infotech	ADD	1,489	1,900	28	259	3.5	175	84.5	98.5	116.2	(2)	16.5	18.0	17.6	15.1	12.8	11.8	9.9	8.2	4.6	3.9	3.3	28	28	28	2.0	2.2	2.5	4.0
Mindtree	REDUCE	853	810	(5)	140	1.9	165	38.5	53.8	61.7	(16)	40	15	22.2	15.8	13.8	12.1	9.2	7.8	4.2	3.6	3.1	19.1	24	24	3.5	1.9	2.2	13.7
Mphasis	REDUCE	701	850	21	131	1.8	186	60.2	64.1	66.8	7	6.4	4.3	11.6	10.9	10.5	6.9	6.3	5.8	2.3	2.1	2.0	20	20	19.6	4.3	5.7	6.4	3.1
TCS	REDUCE	1,658	1,950	18	6,221	83.8	3,752	87.1	92.9	101.6	5	6.6	9.4	19.0	17.8	16.3	13.4	12.2	11.0	6.4	6.0	5.5	35	35	35	3.7	3.6	4.0	97
Tech Mahindra	ADD	595	830	39	519	7.0	880	47.7	52.5	59.9	0.0	10.0	14.2	12.5	11.3	9.9	7.5	6.2	5.2	2.3	2.1	1.8	19.5	19.1	19.5	2.8	3.1	3.4	24
Wipro	REDUCE	173	230	33	989	13.3	5,827	17.2	18.3	19.7	14.8	6.3	7.7	10.1	9.5	8.8	5.6	4.7	4.2	1.8	1.5	1.4	17.9	17.4	16.7	0.9	1.2	4.9	11.8
IT Services	**Cautious**				**11,928**	**160.7**					**4.7**	**6.9**	**9.9**	**15.3**	**14.3**	**13.0**	**10.2**	**9.2**	**8.2**	**3.9**	**3.5**	**3.2**	**26**	**25**	**25**	**3.4**	**3.6**	**4.3**	**268**
Media																													
DB Corp.	REDUCE	86	135	57	15	0.2	175	18.0	18.7	18.6	14.6	4.1	(0.5)	4.8	4.6	4.6	2.3	2.1	2.1	0.8	0.8	0.8	16.9	17.4	17.4	14.5	17.4	19.8	0.2
Jagran Prakashan	REDUCE	43	60	39	12	0.2	296	8.7	9.9	10.7	(0.9)	14	NA	4.9	4.4	NA	1.7	1.6	NA	0.7	0.7	NA	13.7	15.4	16.7	20.9	20.9	20.9	0.4
PVR	BUY	1,308	1,800	38	67	0.9	51	32.7	34.5	67.2	(24)	5	95	40.0	38.0	19.5	12.2	12.4	8.2	3.6	3.3	2.9	10.7	9.0	15.7	0.2	0.3	0.5	14.9
Sun TV Network	REDUCE	364	525	44	143	1.9	394	37.8	41.4	43.8	4	9.5	5.7	9.6	8.8	8.3	6.5	5.8	5.3	2.4	2.2	2.0	26	26	25	5.5	6.2	6.7	16.2
Zee Entertainment Enterprises	ADD	133	340	155	128	1.7	960	17.2	18.4	21.0	4.4	6.9	13.7	7.7	7.2	6.4	4.7	4.1	3.4	1.3	1.2	1.1	17.8	17.3	17.6	3.4	4.1	4.1	55
Media	**Attractive**				**366**	**4.9**					**3.5**	**8.1**	**12.6**	**9.4**	**8.7**	**7.7**	**5.6**	**5.1**	**4.3**	**1.7**	**1.6**	**1.4**	**18.2**	**18.1**	**18.6**	**4.7**	**5.4**	**5.7**	**86**
Metals & Mining																													
Hindalco Industries	BUY	115	250	117	259	3.5	2,224	22.1	24.9	28.1	(10.5)	12.6	13	5.2	4.6	4.1	4.2	3.8	3.2	0.4	0.4	0.4	8.2	8.6	8.9	1.0	1.0	1.0	24
Hindustan Zinc	REDUCE	134	210	57	567	7.6	4,225	16.4	16.9	18.4	(13.1)	3.3	9.0	8.2	7.9	7.3	4.6	4.6	4.4	1.8	2.1	2.2	22	24	29	14.9	14.9	14.9	1.7
Jindal Steel and Power	BUY	107	205	91	109	1.5	1,016	2.7	26.2	22.0	259	855	(16)	39.1	4.1	4.9	5.9	4.0	3.9	0.3	0.3	0.3	0.9	7.8	6.1	—	—	—	50
JSW Steel	ADD	176	270	53	427	5.7	2,402	8.7	16.7	28.8	(72.8)	93	72.4	20.4	10.6	6.1	7.9	6.2	4.6	1.1	1.1	0.9	5.8	10.4	16.1	2.4	2.4	2.4	29
National Aluminium Co.	SELL	30	35	16	56	0.8	1,866	0.6	2.3	2.2	(92)	254	(3.0)	46.9	13.3	13.7	5.7	4.1	5.9	0.5	0.5	0.5	1.2	4.1	4.0	4.0	7.5	7.3	5.9
NMDC	ADD	73	135	84	225	3.0	3,062	16.9	17.3	15.7	14.6	2.4	(9)	4.4	4.2	4.7	2.9	2.8	3.2	0.8	0.8	0.7	19.2	18.3	15.5	11.5	11.8	10.7	14.6
Tata Steel	BUY	283	480	70	321	4.3	1,146	9.8	49.4	91.4	(89)	403	85	28.8	5.7	3.1	6.6	5.3	3.7	0.5	0.5	0.4	1.7	8.6	14.1	3.5	3.5	3.5	95
Vedanta	BUY	75	175	133	279	3.8	3,717	10.4	17.7	20.1	(32)	71	13.5	7.2	4.2	3.7	4.8	4.1	3.8	0.4	0.5	0.5	6.2	10.7	12.3	24.0	24.0	24.0	34
Metals & Mining	**Attractive**				**2,243**	**30.2**					**(43.2)**	**54.1**	**24.8**	**9.2**	**6.0**	**4.8**	**5.4**	**4.6**	**3.9**	**0.7**	**0.6**	**0.6**	**7.4**	**10.9**	**12.8**	**9.1**	**9.2**	**9.1**	**41**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

74

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs) 17-Mar-20	Fair Value (Rs)	Upside (%)	Mkt cap. (Rs bn)	Mkt cap. (US$ bn)	O/S shares (mn)	EPS (Rs) 2020E	EPS (Rs) 2021E	EPS (Rs) 2022E	EPS growth (%) 2020E	EPS growth (%) 2021E	EPS growth (%) 2022E	P/E (X) 2020E	P/E (X) 2021E	P/E (X) 2022E	EV/EBITDA (X) 2020E	EV/EBITDA (X) 2021E	EV/EBITDA (X) 2022E	P/B (X) 2020E	P/B (X) 2021E	P/B (X) 2022E	RoE (%) 2020E	RoE (%) 2021E	RoE (%) 2022E	Dividend yield (%) 2020E	Dividend yield (%) 2021E	Dividend yield (%) 2022E	ADVT 3mo (US$ mn)
Oil, Gas & Consumable Fuels																													
BPCL	BUY	357	490	37	775	10.4	1,967	23	34	36	(35.6)	45.0	4.9	15.3	10.5	10.1	9.5	7.7	7.3	1.8	1.7	1.6	12.2	16.5	16.0	4.0	4.9	5.2	47.9
Coal India	BUY	146	280	92	899	12.1	6,163	28	30	28	0	6.6	(8.4)	5.1	4.8	5.3	4.2	3.5	3.5	2.7	2.3	2.0	58.7	51.4	40.8	10.3	13.7	13.7	31.2
HPCL	BUY	217	250	15	331	4.5	1,524	23	26	26	(43.2)	16.9	0.2	9.6	8.2	8.2	8.9	8.9	8.9	1.1	1.0	1.0	11.8	12.9	12.0	4.2	4.9	4.9	15.6
IOCL	BUY	89	130	45	842	11.3	9,181	9.5	15.2	15.5	(46.9)	59.7	2.0	9.4	5.9	5.8	5.0	4.4	4.2	0.7	0.7	0.7	7.9	12.1	11.8	5.7	8.5	8.7	29.2
Oil India	BUY	72	110	54	78	1.0	1,084	22	9	14	(27)	(57.3)	47.3	3.2	7.6	5.2	1.6	2.9	2.3	0.3	0.3	0.3	8.4	3.5	5.0	12.6	5.3	7.8	4.7
ONGC	BUY	60	90	50	755	10.2	12,580	18	7	12	(24)	(62.5)	81.2	3.4	9.0	5.0	2.2	3.4	2.6	0.3	0.3	0.3	9.2	3.3	5.8	11.7	4.6	7.9	29.2
Reliance Industries	BUY	1,008	1,850	84	5,974	80.5	5,927	76	93	107	14.9	22.8	15.4	13.3	10.8	9.4	9.5	7.3	6.0	1.4	1.3	1.1	11.0	12.2	12.6	0.7	0.7	0.8	215.3
Oil, Gas & Consumable Fuels	**Attractive**				**9,653**	**130.1**					**(13.0)**	**3.8**	**13.8**	**9.3**	**8.9**	**7.9**	**6.2**	**5.9**	**5.0**	**1.0**	**1.0**	**0.9**	**11.3**	**10.9**	**11.3**	**3.3**	**3.4**	**3.7**	**373.0**
Pharmaceuticals																													
Aurobindo Pharma	ADD	413	540	31	242	3.3	584	47	53	56	15.3	14	4.6	8.8	7.8	7.4	5.7	5.1	4.8	1.5	1.3	1.1	16.8	16.4	15.0	1.5	1.8	2.2	33.4
Biocon	SELL	263	200	(24)	316	4.3	1,202	7.5	9.0	10.1	24	20	12.1	35	29	26	17.2	13.0	11.5	4.0	3.6	3.3	12.3	12.3	12.5	1.0	1.2	1.3	17.4
Cipla	BUY	402	570	42	324	4.4	806	21.1	26	33	11.0	22	27	19	15.6	12.3	9.7	8.6	6.7	1.9	1.8	1.6	10.6	11.4	13.0	1.1	1.3	1.7	19.1
Dr Reddy's Laboratories	REDUCE	2,781	2,800	1	462	6.2	166	110	139	185	11	26	32.6	25	20.0	15.1	11.2	10.6	8.1	3.0	2.7	2.3	12.0	13.4	15.5	0.7	0.9	1.2	32.5
Laurus Labs	BUY	375	500	33	40	0.5	107	23.5	34.0	37	114.8	44	8	16	11.0	10.2	9.3	7.0	6.2	2.2	1.8	1.6	14.9	16.7	15.3	—	—	—	1.0
Lupin	BUY	616	840	36	279	3.8	450	19	34	48	(9.6)	79	42	32	18	12.8	10.8	8.0	5.9	2.0	1.8	1.6	6.2	10.2	12.9	0.8	0.8	1.2	16.2
Sun Pharmaceuticals	ADD	370	480	30	888	12.0	2,406	19.1	23.2	25	18.3	22	8	19	16	14.7	10.6	8.3	7.0	2.0	1.8	1.6	10.6	11.1	11.4	1.0	1.3	1.4	37.0
Torrent Pharmaceuticals	ADD	1,986	2,250	13	336	4.5	169	55	69	86	113.0	25	26	36	29	23	16.4	13.7	11.8	6.4	5.6	4.8	17.7	19.4	20.9	1.2	1.3	1.4	10.1
Pharmaceuticals	**Neutral**				**2,887**	**38.9**					**18.3**	**25**	**18**	**21**	**17**	**14.3**	**10.6**	**8.7**	**7.3**	**2.4**	**2.1**	**1.9**	**11.3**	**12.6**	**13.2**	**1.0**	**1.2**	**1.4**	**166.8**
Real Estate																													
Brigade Enterprises	BUY	175	280	60	36	0.5	204	8.3	10	18	(29)	17	82	20.9	17.9	9.9	12.8	8.7	5.4	1.6	1.5	1.3	7.7	8.5	14.1	1.4	1.4	1.4	0.6
DLF	ADD	145	260	80	358	4.8	2,475	4.5	8.2	11.8	(24)	81	43	32	17.6	12.3	30.4	24.7	17.3	1.0	0.9	0.9	3.2	5.5	7.5	1.4	1.4	1.4	27.5
Embassy Office Parks REIT	ADD	385	450	17	297	4.0	772	11.9	15.5	18.2	151	30	18	32	25	21	18.1	15.0	13.4	1.4	1.4	1.5	4.1	5.6	6.9	6.1	7.7	8.9	1.8
Godrej Properties	SELL	757	735	(3)	191	2.6	252	11.3	10.6	19.3	2.4	(7)	82.6	67	72	39	65.4	95.6	43.6	3.9	3.7	3.4	7.8	5.3	9.1	—	—	—	4.1
Oberoi Realty	ADD	435	575	32	158	2.1	364	22	34	38	(4.0)	55.5	12	20.2	13.0	11.5	18.5	11.1	9.4	1.8	1.6	1.4	9.4	13.1	13.1	0.5	0.5	0.5	2.2
Prestige Estates Projects	ADD	210	410	95	84	1.1	378	15.4	15.7	16	76.8	2	3	14	13	13.0	6.9	6.6	6.2	1.5	1.4	1.3	12.4	11.2	10.5	0.7	0.7	0.7	2.6
Sobha	BUY	198	465	135	19	0.3	95	30	35	44	(5)	19.4	22.9	6.7	5.6	4.5	4.8	3.7	3.4	0.8	0.7	0.6	12.1	13.1	14.4	3.5	3.5	3.5	1.4
Sunteck Realty	REDUCE	285	400	40	42	0.6	140	12.5	35.6	34	(22.7)	184	(6)	23	8.0	8.5	16.7	5.4	5.6	1.3	1.1	1.0	6.0	15.4	12.7	0.4	0.4	0.4	1.0
Real Estate	**Neutral**				**1,184**	**16.0**					**12.6**	**47.2**	**26.6**	**27**	**19**	**14.7**	**16.3**	**12.7**	**10.7**	**1.4**	**1.3**	**1.3**	**5.1**	**7.2**	**8.7**	**2.2**	**2.6**	**2.9**	**41.2**
Retailing																													
Aditya Birla Fashion and Retail	BUY	209	230	10	162	2.2	773	1.8	2.8	4.6	(57.5)	58.0	65.7	119	75	45	14.0	12.1	10.5	10.3	9.1	7.6	9.1	12.9	18.2	—	—	—	2.8
Avenue Supermarts	SELL	2,022	1,400	(31)	1,310	17.6	626	22.0	28	36	52.1	25.9	29.8	92	73	56	60	46	35	17.9	14.4	11.5	21.7	21.9	22.7	—	—	—	35.4
Titan Company	ADD	1,001	1,475	47	889	12.0	888	18.1	24	30	7.4	30.7	26.8	55	42	33	34	27	22	12.6	10.5	8.7	24.5	27.1	28.6	0.6	0.8	1.0	39.4
Retailing	**Cautious**				**2,360**	**31.8**					**14.7**	**30.0**	**30.2**	**76**	**58**	**45**	**39**	**31**	**25**	**15.0**	**12.4**	**10.1**	**19.9**	**21.3**	**22.6**	**0.2**	**0.3**	**0.4**	**77.6**
Speciality Chemicals																													
Castrol India	BUY	114	180	57	113	1.5	989	8.4	9.4	10.1	16.8	12.0	8.2	13.7	12.2	11.3	9.0	8.0	7.4	8.3	7.3	6.5	65.3	63.5	60.9	4.8	6.6	7.2	4.2
Pidilite Industries	REDUCE	1,559	1,425	(9)	792	10.7	508	24.8	28	33	40.1	14.0	17.2	63	55	47	46	40	35	16.1	13.7	11.7	27.9	26.9	26.9	0.5	0.6	0.7	16.3
S H Kelkar and Company	BUY	83	140	70	12	0.2	141	5.1	7.1	8.1	(16.0)	37.8	15.0	16.1	11.7	10.1	9.3	7.5	6.6	1.4	1.3	1.3	8.7	11.9	12.9	2.4	3.3	4.2	0.1
SRF	ADD	3,244	3,900	20	186	2.5	57	144	174	207	28.6	21.2	18.8	22.6	18.6	15.7	14.1	11.5	9.6	3.7	3.2	2.7	18.1	18.4	18.6	0.4	0.5	0.6	14.4
Speciality Chemicals	**Neutral**				**1,103**	**14.9**					**27.7**	**16.0**	**15.1**	**37**	**32**	**27.7**	**24.5**	**21.0**	**18.2**	**9.1**	**7.8**	**6.8**	**24.8**	**24.7**	**24.4**	**1.0**	**1.2**	**1.4**	**35.0**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo
Company	Rating	17-Mar-20	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	(US$ mn)
Telecommunication Services																													
Bharti Airtel	BUY	455	600	32	2,481	33.4	5,455	(5.5)	6.0	13.5	NM	NM	NM	NM	75.5	33.8	9.8	7.2	6.0	3.1	3.1	3.0	NM	4.1	9.0	0.9	1.3	1.3	113.9
Bharti Infratel	REDUCE	194	230	18	360	4.8	1,850	15.3	15.7	17.8	16.9	2.4	13.1	12.7	12.4	10.9	6.2	5.7	5.1	2.4	2.3	2.3	19.0	18.8	20.9	5.0	6.2	7.0	25.8
Vodafone Idea	RS	5	—	—	139	1.9	28,736	(22.3)	(4.0)	(6.2)	NM	NM	NM	NM	NM	NM	19.6	9.6	8.8	0.6	1.2	(2.2)	NM	NM	NM	—	—	—	26
Tata Communications	BUY	247	425	72	70	0.9	285	10.0	7.9	15.1	24.5	(21.2)	90.1	24.5	31.1	16.4	5.3	5.4	4.6	291.7	29.4	10.8	NM	171	96.1	3.0	3.0	3.0	0.6
Telecommunication Services	**Cautious**				**3,050**	**41.1**					**NM**	**64.9**	**47.3**	**NM**	**NM**	**NM**	**10.4**	**7.5**	**6.5**	**2.6**	**2.8**	**3.3**	**NM**	**NM**	**NM**	**1.3**	**1.8**	**1.9**	**166.3**
Transportation																													
Adani Ports and SEZ	BUY	267	475	78	543	7.3	2,032	24.6	24.8	28.2	23.1	0.8	13.8	10.9	10.8	9.5	9.7	8.5	7.4	2.1	1.8	1.6	19.9	18.2	17.9	5.9	1.7	1.8	18.5
Container Corp.	BUY	341	400	17	208	2.8	609	16.6	19.3	24.3	1.5	16.5	26.0	21	18	14	10.7	9.4	7.4	2.0	1.9	1.8	9.7	10.9	12.9	0.7	2.4	3.1	7.9
Gateway Distriparks	BUY	97	162	66	11	0.1	109	3.9	6.0	9.2	(42.8)	55.9	51.7	25.2	16.1	10.6	6.3	5.2	4.2	0.7	0.6	0.6	2.9	4.1	6.0	3.1	3.1	3.1	0.4
GMR Infrastructure	BUY	17	30	81	100	1.3	6,036	(2.8)	(0.9)	(0.4)	(13.2)	66.4	55.1	NM	NM	NM	13.7	11.0	12.9	(4.0)	(10.0)	(8.0)	NM	NM	NM	—	—	—	7.6
Gujarat Pipavav Port	BUY	63	118	88	30	0.4	483	6.2	5.7	7.2	44.9	(8.2)	26.7	10.2	11.1	8.8	5.5	4.9	4.2	1.5	1.5	1.5	14.7	13.4	16.9	8.5	7.9	10.0	0.4
InterGlobe Aviation	SELL	977	900	(8)	376	5.1	383	8.9	(16.4)	66.4	117.0	(285.5)	504.3	110	NM	14.7	4.5	5.4	-	4.9	5.4	#DIV/0!	4.7	NM	NM	—	0.0	0.7	31
Mahindra Logistics	ADD	285	415	46	20	0.3	71	10.5	15.4	18.6	(16.4)	47.0	20.7	27	18	15	12.3	9.0	7.4	3.7	3.2	2.7	14.3	18.5	19.2	—	—	—	0.3
Transportation	**Attractive**				**1,288**	**17.4**					**24.1**	**5.7**	**87.1**	**25**	**24**	**12.8**	**8.8**	**8.2**	**5.5**	**2.8**	**2.5**	**2.6**	**11.1**	**10.6**	**20.4**	**2.8**	**1.3**	**1.7**	**66**
KIE universe					**91,763**	**1236.3**					**2.0**	**35.9**	**21.0**	**20**	**14.5**	**12.0**	**9.4**	**8.2**	**7.1**	**2.1**	**1.8**	**1.7**	**10.5**	**12.8**	**14.0**	**2.0**	**2.3**	**2.5**	

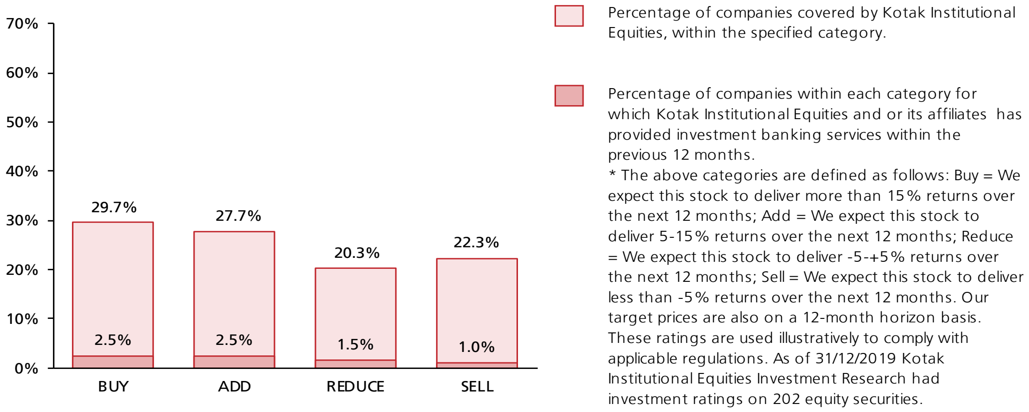
Notes:
(a) We have used adjusted book values for banking companies.
(b) 2020 means calendar year 2019, similarly for 2021 and 2022 for these particular companies.
(c) Exchange rate (Rs/US$)= 74.23

Source: Company, Bloomberg, Kotak Institutional Equities estimates

76

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* The above categories are defined as follows: Buy = We expect this stock to deliver more than 15% returns over the next 12 months; Add = We expect this stock to deliver 5-15% returns over the next 12 months; Reduce = We expect this stock to deliver -5-+5% returns over the next 12 months; Sell = We expect this stock to deliver less than -5% returns over the next 12 months. Our target prices are also on a 12-month horizon basis. These ratings are used illustratively to comply with applicable regulations. As of 31/12/2019 Kotak Institutional Equities Investment Research had investment ratings on 202 equity securities.

Source: Kotak Institutional Equities

As of December 31, 2019

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

NR = Not Rated. The investment rating and fair value, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and fair value, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or fair value. The previous investment rating and fair value, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Corporate Office
Kotak Securities Ltd.
27 BKC, Plot No. C-27, "G Block"
Bandra Kurla Complex, Bandra (E)
Mumbai 400 051, India
Tel: +91-22-43360000

Overseas Affiliates

Kotak Mahindra (UK) Ltd
8th Floor, Portsoken House
155-157 Minories
London EC3N 1LS
Tel: +44-20-7977-6900

Kotak Mahindra Inc
369 Lexington Avenue
28th Floor, New York
NY 10017, USA
Tel:+1 212 600 8856

1. Note that the research analysts contributing to this report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.
3. Any U.S. recipients of the research who wish to effect transactions in any security covered by the report should do so with or through Kotak Mahindra Inc and (ii) any transactions in the securities covered by the research by U.S. recipients must be effected only through Kotak Mahindra Inc at vinay.goenka@kotak.com.

This report is distributed in Singapore by Kotak Mahindra (UK) Limited (Singapore Branch) to institutional investors, accredited investors or expert investors only as defined under the Securities and Futures Act. Recipients of this analysis / report are to contact Kotak Mahindra (UK) Limited (Singapore Branch) (16 Raffles Quay, #35-02/03, Hong Leong Building, Singapore 048581) in respect of any matters arising from, or in connection with, this analysis / report. Kotak Mahindra (UK) Limited (Singapore Branch) is regulated by the Monetary Authority of Singapore.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advise to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment. Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house.

Kotak Securities Limited is a corporate trading and clearing member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSE), National Commodity and Derivatives Exchange (NCDEX) and Multi Commodity Exchange(MCX). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). Kotak Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise letters or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us

Details of Associates are available on website i.e. www.kotak.com

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months. YES. Visit our website for more details

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: ONGC, OIL India - YES

Nature of Financial interest: Holding equity shares or derivatives of the subject company.

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

A graph of daily closing prices of securities is available at https://www.moneycontrol.com/india/stockpricequote/ and http://economictimes.indiatimes.com/markets/stocks/stock-quotes. (Choose a company from the list on the browser and select the"three years" icon in the price chart).

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com / www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No. INZ000200137(Member of NSE, BSE, MSE, MCX & NCDEX). Member Id: NSE-08081; BSE-673; MSE-1024; MCX-56285; NCDEX-1262. AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com. Investments in securities market are subject to market risks, read all the related documents carefully before investing.

In case you require any clarification or have any concern, kindly write to us at below email ids:

Level 1: For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: Toll free numbers 18002099191 / 1860 266 9191

Level 2: If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on 022-42858208.

Level 3: If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Name: Mr. Manoj Agarwal) at ks.compliance@kotak.com or call on 91- (022) 4285 8484.

Level 4 : If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach Managing Director / CEO (Mr. Jaideep Hansraj) at ceo.ks@kotak.com or call on 91-(022) 4285 8301.

First Cut notes published on this site are for information purposes only. They represent early notations and responses by analysts to recent events. Data in the notes may not have been verified by us and investors should not act upon any data or views in these notes. Most First Cut notes, but not necessarily all, will be followed by final research reports on the subject. There could be variance between the First cut note and the final research note on any subject, in which case the contents of the final research note would prevail. We accept no liability for the contents of the First Cut Notes.