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### EQUITY MARKETS

India	Change %			
	25-Aug	1-day	1-mo	3-mo
Sensex	26,032	1.1	(7.4)	(5.4)
Nifty	7,881	0.9	(7.5)	(5.5)
<b>Global/Regional indices</b>				
Dow Jones	15,666	(1.3)	(10.8)	(13.2)
Nasdaq Composite	4,506	(0.4)	(11.4)	(10.5)
FTSE	6,081	3.1	(7.6)	(12.5)
Nikkei	17,939	0.7	(12.7)	(12.2)
Hang Seng	21,405	0.7	(14.8)	(24.2)
KOSPI	1,861	0.8	(9.0)	(13.2)
<b>Value traded – India</b>				
Cash (NSE+BSE)	324		226	198
Derivatives (NSE)	5,511		2,620	2,822
Deri. open interest	2,610		2,606	2,351

#### Forex/money market

	Change, basis points			
	25-Aug	1-day	1-mo	3-mo
Rs/US\$	66.3	2	214	237
10yr govt bond, %	8.1	1	(3)	12

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

	24-Aug	MTD	CYTD
FIs	(773)	(1,383)	5,684
MFs	301	659	6,254

#### Top movers

Best performers	Change, %			
	25-Aug	1-day	1-mo	3-mo
GNP IN Equity	1187.5	5.6	13.0	37.1
HPCL IN Equity	821.3	6.4	(10.1)	33.4
KKC IN Equity	1115.1	7.1	12.2	32.8
AL IN Equity	86.5	2.4	7.5	24.8
DIV I IN Equity	2161.7	(2.8)	10.5	17.4

#### Worst performers

UT IN Equity	6.0	(0.8)	(13.1)	(58.0)
VEDL IN Equity	86.4	6.5	(34.8)	(55.7)
JPA IN Equity	8.5	(2.9)	(19.0)	(52.1)
JSP IN Equity	68.9	1.6	(9.0)	(48.8)
HDIL IN Equity	62.8	7.1	(28.1)	(42.9)

AUGUST 26, 2015

NEW RELEASE

BSE-30: 26,032

**e-merge and conquer.** Over August 24 and 25, 22 new-age companies told us how they are emerging to conquer the world of commerce at the 2015 edition of our e-Merge Series of conferences that showcase businesses enabled by digital technologies. Data, connectivity, mobile, instant gratification, consumption, youth, disintermediation, access and ease of use are changing the dynamics of business and creating new opportunities. Customers are being studied deeply, tracked widely and incentivized handsomely – they should make the best of it!

### Upbeat mood on the vast expanse of opportunity in the digital space

The 22 companies from India's red-hot e-commerce sector (Exhibit 1 has the list) that presented at our forum are engaged variously in analytics, e-commerce, payments, P2P lending and (hyper-local) delivery among others. The promoters/senior managers who presented their business shared their excitement and their caution. All eyes are now focused on the large opportunity that mobile presents.

### Interesting ideas

The business models presented derive economic value from several sources: (1) dis-intermediating the traditional intermediaries (NoBroker, P2P lenders), (2) better customer and market analytics (Loylty, Emart, Propstack), (3) increasing ease for consumers (payment companies), (5) helping consumers make better choices through 'curated content' or 'managed marketplaces', (4) creating enabling infrastructure for online and offline commerce (Delhivery, Bombay Gas, hyper-local delivery companies), and of course (5) by selling online even as they highlighted O2O (the various e-com companies).

### Interesting numbers

(1) The number of Indian women shopping online will grow 12X to 100 mn by FY2020E from 8 mn currently. (2) Participants in e-commerce spend between 6-15% of revenue on core operations. (3) 10% of e-commerce users shop monthly, 24% every 2 months, 32% every 3 months, 52% once every 6 months. (4) Return rates in the e-commerce industry hover around 15%. (5) Citrus and MobiKwik have ~17 mn wallets each. (6) Groceries have gross margins of ~20%; cosmetics ~30%. (7) Blue collar attrition is in the range of 12-30% m-o-m. (8) The top two P2P lenders in India have together facilitated loans of <US\$1 mn. (9) During 'sales', sales go up 2-3X. (10) Hyper-local companies can break even if their feet-on-street manage 22-25 deliveries a day at Rs40-50 per delivery. (11) Trucking assets could be among the biggest asset plays a few years hence as e-com delivery matures.

### Interesting new words!

The new world is evolving its own language and we are grappling with new meanings for old words – platform, fill-rates, SKU, ghost orders, warm body, broker-busting, hyper-local, bloating your equity, long-tail, evergreen and flash sales, masstige, milk-run, riders, sector-agnosticism, fulfillment, geo-fencing, search versus discovery. Go get the lingo, go start-up.

### Tempering the enthusiasm

As we note in our new report *.com 2.0 – Value versus Valuations, Aug 24, 2015*, there are projections that the industry participants broadly agree upon. We heard about possibility of e-commerce annual GMVs being between US\$100 bn and US\$200 bn depending on how far you want to look and how you want to define e-commerce; numbers like ~US\$400 bn addressable markets were highlighted by the hyper-local delivery companies. Payment companies seem conservative in comparison, talking of only US\$70-160 bn in annual opportunities. We reiterate the need for caution where assumptions and projections are unidirectional.

### FORUM HIGHLIGHTS

- Absorb new ideas
- Know some interesting numbers to throw around
- Learn the language to be the next-gen entrepreneur or investor!

### Detailing some of the interesting ideas

- ▶ **Dis-intermediating the traditional intermediaries:** Companies like NoBroker spoke of connecting home owners directly with tenants and are now closing 70+ rental transactions daily – at no cost to either party. Peer-to-peer lending companies like Faircent and i-lend spoke not just of dis-intermediating but also of widening the access: in this case of credit to demographics that typically get left out of the formal channel. The online world provides transparency of information there by removing arbitrage and inefficiency. The online platforms will also become repositories of large data-sets of actions which will hopefully help predict the behavior of participants on the platform, whether they are tenants or borrowers.
- ▶ **Get more out of analytics:** Companies like Loyalty Rewards and Emart spoke about getting rich data on the consumer (demographics, behavior, buying patterns, predictive analysis, etc.) which is now enabled by digitally tagging the customer in various different contexts and situations. For example, Loyalty spoke of managing loyalty reward points on more than 400 mn debit cards, which provide them with a holistic view of the customer – this compares with the view of a consumer that a single retailer would get based on the loyalty program that they would run. Similarly, Emart spoke of their First Hive initiative which seeks to build out a 360-degree view of the customer as s/he transacts across multiple contexts. Companies like PropStack are digitizing the database of commercial properties in key cities in India, which will help corporates and investors take a call on their property decisions backed by data.
- ▶ **Increasing ease for consumers:** Payment companies highlighted their quick and hassle-free onboarding process, their ability to save payment preferences and their ability now to enable transactions across many tens of thousands of online and offline merchants. Many currently non-digital payments are expected to move online – whether it is in transport, bill payments, personal finance or social (remittances). They highlighted that consumers typically load via net-banking and debit cards and cash-loading of wallets could soon go mainstream. The current average transaction sizes is sub-Rs100 given that wallet use is still currently driven by telecom recharges (still a majority of GBV). However, as use cases increase, the transaction sizes will increase in tandem. Bank-promoted payment wallets are emerging to challenge payment companies on their turf – however, the companies maintain that these big entrants validate the size of the opportunity. Companies like Eko point out the possibility of commerce for the bottom of the pyramid and also for enabling secured transactions over unsecured networks like social media.
- ▶ **Helping consumers make better choices through ‘curated content’ or ‘managed marketplaces’:** Complex tasks like doing up your home or indeed dressing yourself up requires that the portal that services you provides you curated choices so that you as a customer can make better decisions. Curation or managed marketplaces could come from the platform choosing with whom to partner or depending on user reviews about what is working and what is not.
- ▶ **Creating enabling infrastructure for online and offline commerce:** A significant amount of capital and entrepreneurship is going in the creation of the enabling infrastructure, whether it is the fulfillment centers being created by logistics companies, or the optical fiber pipes being laid down for high-speed internet connectivity. Hyper-local delivery companies are building the last-mile reach to the consumer: over the next few quarters and years, the hyper-local companies expect to create significant ‘liquidity’ in the market such that they begin driving meaningful sales for the local merchants and also enough deliveries for their feet-on-street. The hyper-local companies expect to see many new segments open up apart from groceries and food. Companies like Sellerworkx are helping bring many offline sellers online so that they can sell their inventories across multiple online marketplaces.

- ▶ **E-commerce is here to stay:** The pure-play e-commerce companies like Cleartrip, Craftsvilla, Hopscotch, Nykaa and Wearyourshine spoke about the large opportunity of getting a variety of customers online. These 'vertical' players spoke about curating their marketplaces, adding multiple user experiences, ensuring brand-building for themselves and for products/services listed on their platform and handholding the customer through the journey of purchase. The last two spoke about the online-to-offline initiatives as customer engagement requires some physical presence. (1) Digital, targeted, focused and analytics-driven marketing, (2) using pricing as an inducement to bring customers online, (3) variety and depth of catalogue, (4) showcasing of fresh and new brands and products and (5) a soft foray into private brands were themes that we heard across many of these players. Wallets are yet to be a key driver of sales for any of the e-commerce companies.

An interesting comment was that inventory risks should ideally be taken based on bank financing and not via equity funding, though few e-commerce companies have had the luxury of getting bank limits.

## e-merge 2015 – Speaker line-up

	ABOUT THE COMPANY	ABOUT THE SPEAKER
<b>Big Basket</b> Vipul Parekh, <i>Co-Founder</i>	BigBasket.com (Innovative Retail Concepts Private Limited) is India's largest online food and grocery store. It has over 14,000 products and over a 1000 brands in its catalogue.	Vipul is a co-founder at Bigbasket. He has considerable angel and PE investing experience across sectors and experience in working with and building up investee companies. He is a successful entrepreneur having been involved in setting up two successful businesses out of which one was sold for USD 100 Mn+. He has an expertise in building strong teams, strategic planning, management and design of distribution channels, marketing and product management, merchandising and brand promotion programs. HE has a postgraduate degree in management from the Indian Institute of Management Bangalore.
<b>Bombay Gas Telecom</b> Kunal Bajaj, <i>CEO</i>	Bombay Gas Telecom is deploying the most dense fiber network in South Mumbai and leveraging that to build India's first full stack carrier's carrier. This includes offering advanced services to telecom operators like managed backhaul, shared microcellular architecture with distributed antennas and BTS hotels, WiFi offload and Fiber to the Home.	Kunal Bajaj has been a leader in the Indian Telecom, Internet & Technology space for the past 11+ years. Prior to Bombay Gas, he was leading the mobile products team at Reliance Jio to define the services and feature set for launch. He was previously Partner and Director India at Analysys Mason, heading their India operations from New Delhi. He joined AM following the acquisition of BDA Connect India, which he had founded. He had started his career in New York with McKinsey & Co. Kunal has also worked as Consultant (Projects) for the Telecom Regulatory Authority of India (TRAI). He is additionally an active angel investor and start-up mentor working with a variety of young companies. He was also a Director on the Board of One97/Paytm for the past five years. He has three degrees from the University of Pennsylvania, graduating with Magna Cum Laude Honors.
<b>Citrus Pay</b> Satyen V Kothari, <i>Founder and MD</i>	As India's fastest growing fintech company, Citrus provides consumer payments and mobile banking services. Since its founding 4 years ago, its consumer payments business has reached an annual GMV run rate of USD 1.6 billion and is currently clocking 10 million transactions a month. Citrus Cash, is accepted at over 2000 quality mobile and web merchants. Its award winning app, Citrus Cube, has been downloaded over a million times within 6 months of launch.	Satyen V Kothari is the Founder and Managing Director at Citrus Pay. He and his team have the vision to change how consumers interact with money on an everyday basis. They build digital products that focus on technology innovation and user experience to serve both merchants and consumers across India.
<b>Cleartrip</b> Aditya Agarwal, <i>Head – Corporate Strategy</i>	Cleartrip is an online travel portal, among India's largest online travel companies used to make reservations for flights, hotels and trains. It fulfills a promise of offering the single most comprehensive travel experience to users, through award winning Mobile and Desktop solutions.	Aditya heads Corporate Strategy at Cleartrip. Prior to this, he had worked as a private equity investor for 10 years in London and India with Goldman Sachs, StanChart and TPG Capital. He is an alumnus of Indian Institute of Ahmedabad.
<b>craftsvilla</b> Manoj Gupta, <i>CEO and Co-Founder</i>	Craftsvilla.com is India's Largest Online Marketplace for Ethnic Products. It connects local artisans & designers directly to global customers and thereby increase their livelihood, remove middlemen, help them promote their brand and thereby preserve the Indian culture, traditions and values. Craftsvilla has more than 3 million products online and is currently the fastest growing ecommerce companies in India.	Manoj Gupta is CEO and Founder of Craftsvilla.com. Before starting Craftsvilla, he was at Nexus Venture Partners. He has also founded his own fund – the Dreamers Early Stage Fund. He graduated from IIT Bombay in 1998 and has also attended University of Illinois, University of California – San Diego and IIM Ahmedabad.
<b>Delhivery</b> Sahil Barua, <i>Co-Founder and CEO</i>	Delhivery is India's largest and fastest growing e-commerce enablement business. It simplifies e-commerce through best-in class industry technology and supply chain solutions for e-tailers, small businesses and brands.	Sahil is co-founder and CEO of Delhivery. He began his career in management consulting at Bain and Company where he worked on growth strategy, M&A and performance improvement across the private equity, telecom, healthcare and consumer products spaces. He quit Bain in 2011 to start Delhivery. At Delhivery, Sahil focuses on driving the company's long term vision and guiding its engineering and product functions. He is a Gold Medalist from IIM Bangalore and has a B.Tech degree in Mechanical Engineering from NIT, Surathkal.

Source: Kotak Institutional Equities

## e-merge 2015 – Speaker line-up

	ABOUT THE COMPANY	ABOUT THE SPEAKER
<b>Eko</b> Abhishek Sinha, <i>Co-Founder and CEO</i>	Eko has been in the mobile money space in India since 2007. Through its Business Correspondent (BC) and currently launched Prepaid Payment Instrument (PPI) wallet, Eko provides its customers with basic banking, savings and payment services, along with merchant transactions, bill payment, and cash collection services. In this journey of some great disruption so far, Eko has served over 5 million customers by securely processing ₹ 140 bn of transaction value across 35 million transactions. Eko's technology makes it the only company in the world to enable absolutely any mobile phone to do secure financial transactions without installing any app on the phone or SIM card. This opens up an annual market of doing 30 billion transactions and processing over US\$ 300 billion in a year for Eko.	Abhishek Sinha is the co-founder & CEO of Eko. An engineer by qualification, the disruption in technology which leads to change in life of ordinary people has always been his area of interest.
<b>eMart Solutions</b> Vishal Sukheja, <i>Head – Product Management and Marketing</i>	eMart Solutions is a leading technology product company offering innovative loyalty and consumer engagement solutions to several Fortune 500 and large multi-national companies.	Vishal Sukheja heads the Marketing & Product Management functions for eMart Solutions. He has been spearheading the planning and execution of several successful projects, leading to recognition of eMart across Indian and International forums. In a career spanning over a decade with some of the biggest brands in the country, he has worked across the entire spectrum of marketing and product management – from developing and implementing complex stakeholder strategies and successful products targeted at millions of consumers globally.
<b>Faircent</b> Rajat Gandhi, <i>Founder and CEO</i>	Faircent.com is India's largest peer to peer lending website. It caters to retail and business loan applicants. Peer to peer lending is heralded as one of the most innovative financial products of recent times. It enables creditworthy borrowers to lower their cost of loans and facilitates individual lenders/investors to lend directly to their peers and community thereby earning higher returns. Faircent's unique platform allows for auction and reverse-auction, indexation, aggregation, transparency of rates, reduced costs and increased returns.	Rajat Gandhi is the founder and CEO at Faircent. He has over 17 years of experience out of which 13 have been in Internet businesses. One of the earliest professionals of Internet in India, he has extensive hands on experience in launching and building Portals, online Classifieds, Communities, E-Commerce and Digital Advertising businesses.
<b>Grab</b> Pratish Sanghvi, <i>Co-Founder and Director</i>	Grab is India's leading provider of B2B hyper-local logistics service that enables merchants to deliver their products to its consumer within minutes. Grab has a fleet of riders connected via a tech platform that allows a merchant to tap into the closest rider for its product pickup & delivery to the neighborhood consumer. Grab's platform is used by clients encompassing food services, groceries, laundry services, pharmacies, & e-commerce deliveries. Over the past 2 years, Grab has delivered more than 800,000 orders with presence in 7 cities comprising a rider strength of 1000+ across 440+ merchants.	Pratish Sanghvi, Co-founder of Grab, is an MBA in Investment Management from Drexel University, Philadelphia. Post graduation, Pratish worked at BlackRock in US, UK & India across various roles from valuation of Fixed Income Securities to setting up BlackRock's first offshore captive in India. Post his 7 year stint with BlackRock & on his return back to India, he ventured into creating Grab.
<b>Grofers</b> Ashneer Grover, <i>Head of Finance</i>	Grofers, founded in 2014, is a hyper-local (< 4 Kms) / on-demand (< 90 Mins) / mobile app (iOS & Android) based delivery service. It connects consumers with their local neighborhood merchants such as grocery shops, fruit & vegetable vendors, bakeries, pharmacies, baby product shops and electronics delivering products within 90 minutes.	Ashneer Grover heads the finance function and handles fund raising and investor relations at Grofers. He joined Grofers in March 2015. Prior to Grofers, he was the Director of Corporate Development at American Express where he was responsible for strategic investments, acquisitions and partnerships for American Express in India. He also worked with Kotak Investment Bank for about 7 years. He is an alumnus of IM Ahmedabad and IIT Delhi.
<b>Homelane</b> Srikanth Iyer, <i>Founder and CEO</i>	HomeLane is a technology-led home solutions startup backed by storied entrepreneur duo K Ganesh and Meena Ganesh. Founded in 2014, it provides interior design and installation services. It is a disruptive startup serving the home setup industry in India.	Srikanth Iyer, the founder and CEO of Homelane, has been a technology entrepreneur for most of 22 years. He has spent more than 14 years in Indian education sector where he co-founded a Tech-Ed company and grew it to USD 100 mn value. It was then acquired by Pearson in the largest deal hitherto in the Indian education space. He was also the CEO of Pearson India in 2013-2014. He is also a Venture Partner and member of the Investment Committee at Unitus Seed Fund. As far as back in the year 2000, he founded Diksha Technologies, a Telecom Services company.
<b>Hopscotch</b> Rahul Anand, <i>Co-Founder and CEO</i>	Hopscotch.in is a leading discovery-based e-Commerce destination for Indian moms. Launched in 2012, Hopscotch is transforming the Indian shopping experience and offers a wide range of curated children's merchandise at affordable prices. The online destination has featured over 2,000 local and international brands across multiple product categories including apparel, shoes, toys, home and accessories.	Rahul Anand is the CEO and Founder of Hopscotch.in. Prior to Hopscotch, he was a director at Diapers.com, and earned his MBA from Harvard Business School.
<b>i-lend</b> VSSB Shankar, <i>Founder and Director</i>	i-lend.in is India's first online peer-to-peer lending marketplace connecting individuals in need of money with individuals willing to lend enabling a mutually beneficial transaction without the intermediation of any traditional financial institute such as banks. Through the platform, the Company aims to democratise the borrowing process in India while creating a new asset class for lenders.	Shankar Vaddadi is a seasoned entrepreneur and a professional with about 25 years of experience. He has held leadership positions across engineering, technology and social enterprises. He has to this credit the launching of Tech brands in the retail automation space and was instrumental in creating a market for indigenous POS ( Point of Sale ) machines in the Indian market. Prior to founding i-lend, Mr Shankar's roles were as full time advisor to Pochampally Handloom Park Limited ( A path breaking initiative for corporatizing the handloom sector ) , CEO of VTX Industries Ltd, Sr. V.P and Co CEO TVS Electronics and Sr VP in Bartronics India Limited.
<b>Loyly Rewardz</b> Bijaei Jayaraj, Founder, <i>MD and CEO</i>	Loyly Rewardz is a consumer data, analytics and behavior-insights focused organization that manages loyalty programs for over 400 million debit or credit cards in India. They currently process over 33 million transactions worth Rs 60 bn per month. Loyly Rewardz has so far processed over 900 million transactions, awarding over 17 billion loyalty points to consumers in India, and generates a tremendous amount of consumer behavior insights and related marketing campaigns every month.	Bijaei Jayaraj is the Founder & CEO of Loyly Rewardz. Prior to founding Loyly Rewardz, Bijaei worked with Jet Airways as the head of its frequent flyer program - Jet Privilege, and then with MasterCard Worldwide, managing MasterCard's relationship with the largest bank in India. Bijaei received his business management education as a part of the Founding Class of the Indian School of Business (ISB) in Hyderabad.

Source: Kotak Institutional Equities

## e-merge 2015 – Speaker line-up

	ABOUT THE COMPANY	ABOUT THE SPEAKER
<b>Mobikwik</b> Mrinal Sinha, <i>Chief Strategy Officer</i>	MobiKwik is India's largest independent mobile payments network connecting 17 million users with 50,000 retailers. It enables users to discover retailers (brick-and-mortar stores, e-com websites, m-com apps, billers, telcos) and then start paying them with 1-tap.	Mrinal joined MobiKwik as its Chief Strategy Officer in Dec, 2014 and was recently promoted to the position of Chief Operating Officer. Working directly with the Founders, Mrinal has the mandate to drive multiple CXO-level functions at the company. Prior to MobiKwik, Mrinal was the Founder and Executive Director at Brattle Foods, a food supply chain solutions and logistics business.  Mrinal has a Dual Degree (Master's and Bachelor's in Technology) from the prestigious IIT-Madras. He also has a Master's in Business Administration from Harvard Business School, USA. He has diverse and prolific experience of working in globally-renowned organisations such as McKinsey & Company, Michael & Susan Dell Foundation and EMC Corporation
<b>Nobroker</b> Amit Kumar Agarwal, <i>Co-Founder and CEO</i>	As the name suggests, NoBroker.com is a disruptive online real estate platform that connects owners and tenants directly by eliminating the broker. It is the world's largest P2P online rental platform that is leading this paradigm shift in real estate transactions. With the help of technology, it ensures that the customer is enabled to do the end to end transaction - from discovery to closure.	Amit Kumar Agarwal is an IIT-Kanpur and IIM-Ahmedabad graduate who worked in PwC management consulting for almost a decade. Before the current venture of NoBroker.com, he was heading strategy function in ANZ Bank.
<b>Nykaa</b> Falguni Nayar, <i>Founder and CEO</i>	Nykaa.com is a premier online beauty destination. With over 350 brands and 20,000 products, Nykaa offers a comprehensive selection of makeup, skincare, hair care, fragrances, bath and body and luxury products for women and men at the best prices. Nykaa was the Winner of the "Most Innovative e-Commerce Company" - The eTail Awards – 2014.	Ms Falguni Nayar, Founder & CEO at Nykaa quit a successful career in finance to chase her dream of building India's premier online retailer for beauty and wellness. She has spent 19 years as an Investment Banker and Broker with the Kotak Mahindra Group. After an eight year stint with the group's international operations in the US and UK, she headed the Kotak Institutional Equities business. In 2005, she took over as Managing Director of the investment banking business where she successfully spearheaded the firm to be India's leading IPO banker and was instrumental in closing a number of successful M&A deals. She serves as India Advisor at Temasek and is an Independent Member on the Tata Motors Board. She holds a Masters degree in Management from the Indian Institute of Management, Ahmedabad. She has received many accolades through her career including the FICCI Ladies Organization (FLO) award for the top woman achiever in the field of banking and Business Today award recognizing her as top 25 women in business. She was a Founding Member of the Asia Society in India.
<b>Propstack</b> Sandeep Reddy, <i>Co-Founder</i>	Propstack.com is the leading player in data, analytics and marketing of commercial real estate.	Sandeep Reddy is the co-founder at Propstack.com. He has been an entrepreneur in the digital space for the last 5 years. He has keen interest in tracking the developments in digital space. He was an equity research analyst at Kotak Institutional Equities covering real estate stocks from 2007-2010. He has an MBA from IIM Kozhikode and BE in Civil Engineering from Delhi College of Engineering.
<b>Scripbox</b> Sanjiv Singhal, <i>Co-Founder and CEO</i>	Scripbox is a saving and investing solution for retail investors that combines portfolio theory and behavioral finance for better financial outcomes.	Sanjiv is the CEO of Scripbox. He has worked at the intersection of finance and technology for over 20 years. He has held leadership positions at financial institutions such as Kotak Mahindra Bank, ABN AMRO and Citigroup and at technology pioneers such as CyberCash. In his career, Sanjiv has helped build wealth management, retail banking, CRM and Internet payment systems for financial institutions in India, UK, Europe, South-East Asia and Japan.
<b>Sellerworx</b> Ganesa Murthy, <i>Co-Founder and COO</i>	Sellerworx provides cloud based software for retailers that orchestrates product, customer, order, inventory and payments across multiple retail channels both online and offline. It also provides product as a service support for retailers, where experienced Sellerworx resource uses Sellerworx technology to manage and grow multichannel business.	Mr Ganesa Murthy cofounded Sellerworx in April 2014 to help small and medium enterprises ride the ecommerce boom. Passionate about helping people, processes and businesses grow, he is a Master Black Belt in Six Sigma. He is an expert in scaling operations for ecommerce and successfully scaled operations for two of the well known ecommerce companies in India redBus and Flipkart. He is an alumnus of IIT Madras and IIM Ahmedabad.
<b>WearYourShine</b> Nitini Jain, <i>CEO</i>	WearYourShine.com is a fast growing fine jewellery eCommerce platform from PC Jeweller. The vision is to provide their customers a delightful jewellery shopping experience – (1) Offer Unique, Fresh and Beautiful jewellery designs from across India at best price points (2) Leverage technology and analytics to make the online shopping experience more comforting, enjoyable and relevant (3) Provide the best in class hassle-free pre and post-sales support. In addition to their own designs, they also offer curated fine jewellery from some of the top jewellery designers in the country. This is a key USP and addresses a key industry-wide marketing challenge for some of the best designers/jewellers in the country.	Nitini Jain is the CEO and the founding member of WearYourShine. He has over 10 years experience in financial markets working with companies across Consumer, Internet, Healthcare, Real Estate in capital raising and M&As. At Kotak Investment Bank, he was part of Consumer and Internet Sector Coverage and Equity Capital Markets. He has an MBA from IIM Ahmedabad.

Source: Kotak Institutional Equities

**AUGUST 26, 2015**
**CHANGE IN RECO.**

Coverage view: **Attractive**

Price (₹): **503**

Target price (₹): **620**

BSE-30: **26,032**

**Buy into this weakness.** We upgrade Axis Bank to BUY from ADD while retaining our TP at ₹620, which implies ~25% upside from current levels. We believe the recent correction, which appears to be driven by non-company specific issues, offers a very good opportunity to increase exposure to this bank which has one of the best liability franchises, steadily expanding presence in mid markets and retail and is a direct play on an improving macro economy.

**Company data and valuation summary**

Axis Bank

Stock data			Forecasts/Valuations				
			2015	2016E	2017E		
52-week range (Rs) (high,low)	655-370		EPS (Rs)	31.0	36.7	42.2	
Market Cap. (Rs bn)	1,195.3		EPS growth (%)	17.3	18.1	15.2	
<b>Shareholding pattern (%)</b>			P/E (X)	16.2	13.7	11.9	
Promoters	29.2		NII (Rs bn)	142.2	167.9	191.4	
FIs	44.5		Net profits (Rs bn)	73.6	86.9	100.1	
MFs	7.7		BVPS	184.9	214.0	248.0	
<b>Price performance (%)</b>			P/B (X)	2.7	2.4	2.0	
Absolute	1M	3M	12M	ROE (%)	17.8	18.0	17.9
	(13.4)	(10.5)	26.1	Div. Yield (%)	0.9	1.1	1.3
Rel. to BSE-30	(6.4)	(5.0)	28.1				

**QUICK NUMBERS**

- Upgrade to **BUY** from **ADD**. TP unchanged at **₹620**

**Using the correction for an upgrade to BUY from ADD**

We are upgrading Axis Bank to BUY from ADD. We maintain our TP at ₹620 (unchanged) which implies an upside of ~25% from current levels. At our TP we value the bank at 2.4X book and 15X FY2017 EPS for RoEs in the range of 17-18% and earnings growth at 15% CAGR for FY2015-17E. The stock has corrected by 17% in the past month and it does appear to be less driven by macro factors rather than company specific issues. We would use the underlying weakness to increase our exposure to this bank.

**There is a good focus on building granular business across both sides of the balance sheet**

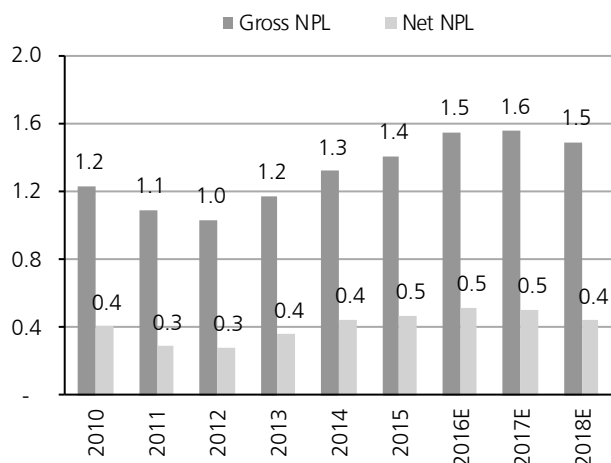
One of the most comforting factors for our positive view, despite headwinds on the bank's corporate portfolio, is driven by its focus to build a challenging retail business on both assets and liabilities. In the past few years, the share of average CASA ratio (40%) has been steadily improving and term deposits have a higher proportion of retail deposits (62% in 1QFY16 from 37% in FY2012). On the assets side, the bank has seen the share of retail assets increasing to 41% in 1QFY16 from 20% in FY2011. Also, the share of retail fees to overall fees has increased to 38% today from 24% in FY2011.

**Concerns on the corporate portfolio to persist but improving economy provides good tailwind**

We continue to be fairly cautious on impairment ratios and expect improvement only from FY2017. Hence, we still consider credit costs high in FY2016. Management has retained its guidance of doing better than in FY2015 (₹57 bn) in terms of fresh stress formation. Credit cost guidance is 80-90 bps. We see two positives that could cushion any serious negative shock on impairment: (1) the bank has built a portfolio 0.4% of loans of additional contingent reserve that is not part of the provision coverage and can be used against a sharp rise in slippages, which could occur considering that the stress is in the large corporate book and (2) there are early signs that the economy is on the mend. We see corporates slowing down fresh capital expenditure and aiming more on strengthening their balance sheets through sale of assets, raising equity or improving cash flows through high asset utilization. The other stakeholders like the government and RBI are taking concerted efforts to address the various bottlenecks and urge banks to take aggressive stance with borrowers, if required. These steps should address medium term concerns on loan impairment though it could come at the cost of growth.

**Exhibit 1: We expect gross NPLs to rise in the medium term**

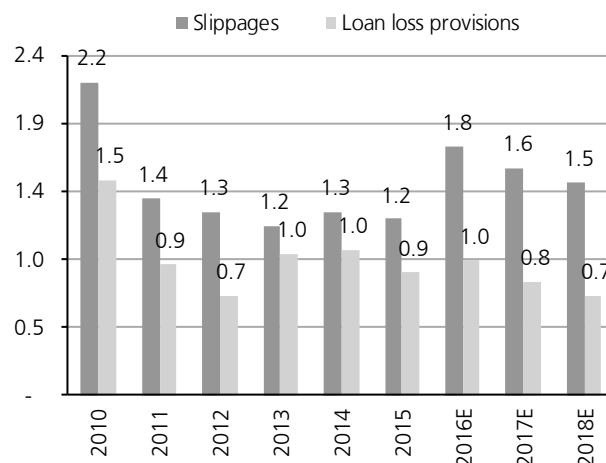
Gross and net NPL ratios, March fiscal year-ends, 2010-18E (%)



Source: Company, Kotak Institutional Equities

**Exhibit 2: Loan loss provisions could ease by FY2017-18**

Slippages and LLP, March fiscal year-ends, 2010-18E (%)



Source: Company, Kotak Institutional Equities

### Growth is strong and retail piece has done exceeding well

We remain broadly comfortable with the loan growth strategy of the bank but would have been a bit more comfortable if the management were a bit slow in growing the corporate loan portfolio in the current environment. Over the past few years, the bank has significantly diversified its loan portfolio with greater emphasis on retail and SME segments. Within retail, the bank has been looking to build primarily a secured portfolio but is not too averse in lending in the unsecured space either. As of FY2015, its subsidiary originated ~60% of the overall disbursements in the retail portfolio. Data shows that overall disbursements in various secured retail products slowed in FY2015. However, the performance of unsecured loan portfolio was fairly strong resulting in overall disbursements of ~20% for the bank in the retail portfolio.

As of 1QFY16, growth was driven by retail and the corporate segment which grew by 26% and 27% yoy respectively. The share of retail continues to grow, now at 40.5%, around 70bps improvement qoq. Retail growth was driven by unsecured loans (+40% yoy), agriculture (+30% yoy), whereas housing loans (including LAP) grew by moderate 16% yoy. The share of unsecured loans is low at 10% of the retail book. SME loan growth was a little subdued at 11% yoy, reflecting seasonal weakness. Corporate loan growth was high at 27% which appears to be driven by refinancing rather than fresh investment demand. The exposure to top 10 sectors (funded) has come off to 37% from 52% in FY2009.

We maintain our key argument that the portfolios of the large three private banks are likely to remain broadly similar over the next few years with the exception that HDFC Bank which would not have a large exposure in the housing portfolio, replacing it with marginally higher share of unsecured and auto loan portfolio.

Strong share of low cost funds is giving Axis Bank a good opportunity to shift the loan book towards low risk segments without materially impacting NIMs or RoEs. We expect loan growth to remain above industry average, ~17-18% CAGR in FY2016-18E.

**Exhibit 3: Share of lending to retail has been rising in recent years which is likely to be NIM dilutive**  
 Break-up of loans, March fiscal year-ends, 2010-1QFY16 (%)

	2010	2011	2012	2013	2014	2015	1QFY16
<b>Retail loans</b>	<b>20.0</b>	<b>19.5</b>	<b>22.1</b>	<b>27.4</b>	<b>32.7</b>	<b>39.8</b>	<b>40.5</b>
Housing	14.1	13.3	16.6	19.7	22.1	21.9	22.7
Auto	2.6	2.1	2.9	3.8	3.3	3.2	3.2
Personal	1.9	2.7	1.3	1.9	2.4	3.6	4.0
Others	1.3	1.4	1.3	1.9	4.8	11.2	10.5
<b>Non retail loans</b>	<b>80.0</b>	<b>80.5</b>	<b>77.9</b>	<b>72.6</b>	<b>67.3</b>	<b>60.2</b>	<b>59.5</b>
SME	17.5	15.0	14.0	15.2	14.9	15.3	13.4
Corporate	50.3	53.3	53.6	49.9	46.1	44.9	45.5
Agriculture	12.2	12.2	10.2	7.5	6.3	—	—

## Notes:

(1) There has been a change in the definition of retail and SME loans in FY2015. Exposure in agriculture has been divided into SME and retail. Under retail, this has been included under others

Source: Company, Kotak Institutional Equities

**Exhibit 4: Axis Bank exposure to power sector has increased sharply in the current quarter**

Break-up of top exposure (funded), March fiscal year-ends, 2010-1QFY16 (%)

	2010	2011	2012	2013	2014	2015	1QFY16
Chemicals	—	3.3	1.8	1.6	—	—	—
Financial companies	11.0	14.3	12.7	7.0	4.4	4.7	4.4
Real Estate	5.4	—	3.2	2.6	2.8	3.2	3.3
Retail trade	6.5	4.5	3.2	2.9	3.8	3.4	3.1
Food processing	6.4	4.4	4.1	4.1	3.9	3.1	3.1
Metals and metal products	6.0	7.4	4.3	4.2	4.7	5.9	5.9
Power generation and distribution	5.1	5.7	4.7	4.9	5.5	6.0	6.7
Infrastructure	8.2	8.2	6.8	7.6	7.3	7.2	6.8
Telecom	—	5.0	—	—	—	0.5	—
Shipping and logistics	—	2.9	2.5	2.3	2.4	—	—
Engineering and electronics	2.9	3.7	3.4	3.5	3.6	3.2	3.3
Petrochemicals and petroleum products	2.7	—	—	—	—	0.5	0.6
<b>Total of 10 top sectors</b>	<b>58.7</b>	<b>59.3</b>	<b>46.6</b>	<b>40.7</b>	<b>39.2</b>	<b>37.6</b>	<b>37.1</b>

Source: Company, Kotak Institutional Equities

**Exhibit 5: Axis Securities originates ~60% of the retail loans for Axis Bank**

Disbursements across loan products, March fiscal year-ends, 2013-15

	Disbursements (Rs mn)				Growth (%)			Contribution to total disbursements (%)			Total disbursements (Rs mn)		
	2012	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Home loans	53,840	77,340	88,720	100,140	43.6	14.7	12.9	54.0	55.0	55.0	143,222	161,309	182,073
LAP	6,440	13,750	21,360	27,310	113.5	55.3	27.9	57.0	58.0	62.0	24,123	36,828	44,048
Personal loans	10,320	18,600	26,440	38,850	80.2	42.2	46.9	62.0	69.0	73.0	30,000	38,319	53,219
Auto loans		23,820	26,380	33,950				93.0	93.0	88.0	25,613	28,366	38,580
Schematic loan for SME	5,040	15,230	26,980	28,140	202.2	77.2	4.3						
Credit cards (#)	160,000	302,660	449,148	534,000	89.2	48.4	18.9						

## Notes:

(a) The business has been in multiple subsidiaries in the past: Axis Securities and Sales, Axis Capital and Axis Securities.

Source: Company, Kotak Institutional Equities

Share of unsecured lending and foreign currency loans continues to increase

The key risk we see today is the rising share of unsecured loans in the portfolio and it does appear that a large share of this growth has come from the corporate segment as we have explained in the table below. The share of unsecured loans increased sharply in FY2015 by 28% yoy. However, it is quite unlikely that the sharp growth in full is explained by the change in the retail portfolio as the quantum of increase in unsecured loans is not that high. We believe some part of this growth could be due to rapid growth in corporate loan portfolio where complete documentation is still being completed.

Also, the bank has seen a large share of this growth happening through foreign currency loans and non-syndicated loan route (37% yoy). Foreign currency loans grew 28% yoy (some part of it was led by currency depreciation) and contribute ~16% to the total loan portfolio.

**Exhibit 6: The share of unsecured loans has increased sharply in FY2015**

Break-up of loans across segments, March fiscal year-ends, 2010-15 (₹ mn)

	2010	2011	2012	2013	2014	2015
<b>Break-up of foreign currency loans (%)</b>						
Due from banks	0.0	0.3	0.1	0.5	0.3	0.1
Due from others	11.8	13.5	14.8	14.8	15.3	16.2
Bills purchased and discounted	0.4	0.4	0.4	0.1	0.1	0.2
Syndicated loans	6.1	4.9	6.4	5.6	4.5	4.2
Others	5.3	8.1	8.1	9.1	10.6	11.9
Foreign currency loans	11.8	13.7	14.9	15.3	15.5	16.3
<b>Break-up by nature of loans (%)</b>						
Secured loans	83.0	79.4	83.5	81.9	82.1	78.1
Covered by bank/Govt guarantees	1.6	2.3	3.0	0.9	1.3	1.2
Unsecured loans	15.5	18.3	13.6	17.2	16.6	20.7
Personal loans	1.9	2.7	1.3	1.9	2.5	3.6
Credit cards	0.4	0.4	0.4	0.5	0.6	
Other unsecured loans	13.1	15.2	11.8	14.7	13.5	17.1

Notes:

(a) Axis Bank has clubbed the personal and credit card exposure from FY2015

Source: Company, Kotak Institutional Equities

**Liability side is the strength of the business; average CASA ratio healthy at ~40%**

Our positive view on the bank is primarily on the liabilities side of the business. In the past few years, the bank has been able to build a lot more of granular retail deposits, which is a tremendous opportunity to deliver better margins at relatively low risk in the loan mix. In 1QFY16, CASA ratio declined 200 bps qoq to 43%, though on a daily average basis it was flat qoq at 40%. Axis Bank's deposit profile continued to grow steadily with total deposits growing by 15%.

We see increased reliance on borrowings as compared to deposits in recent quarters with the share of borrowings in total liabilities increasing to 18% from 14% in 1QFY15. However, a large share of these borrowings is driven by the shift towards long term financing that gives regulatory forbearance on PSL and SLR.

The total share of savings and retail term deposits is currently at 63% as compared to 61% in 1QFY15. CASA and retail term deposits contribute to 79% to overall deposits of the bank.

**Exhibit 7: Axis Banks' savings account balances have been in line with peers**

Growth (absolute) in savings account balances, March fiscal year-ends, 2010-2015 (₹ bn)

	2010	2011	2012	2013	2014	2015	1QFY16
Axis Bank	80	70	108	121	140	105	102
HDFC Bank	150	136	106	142	149	218	193
ICICI Bank	122	137	92	96	135	157	179

Source: Company, Kotak Institutional Equities

**Exhibit 8: CASA ratio and cost of deposits across banks**

March fiscal year-ends, 1QFY14-1QFY16 (%)

	CASA									Cost of deposits								
	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16
Axis	42.4	42.9	42.6	45.0	42.4	44.5	43.1	44.8	42.8	6.3	6.3	6.3	6.2	6.2	6.2	6.2	6.3	6.1
HDFCB	44.7	45.0	41.7	44.8	43.0	43.2	40.9	44.0	39.6	6.2	6.5	6.4	5.8	5.9	6.0	6.1	5.9	6.0
ICICI	43.2	43.3	43.3	42.9	43.0	43.7	44.0	45.5	44.1	6.0	6.0	6.2	6.0	6.0	6.1	6.0	5.9	5.8
IndusInd	30.0	31.8	32.2	32.5	33.3	33.9	34.1	34.1	34.7	8.2	8.2	8.4	8.1	8.2	8.0	7.8	7.7	7.6
Yes	20.2	20.4	20.9	22.2	22.3	22.5	22.6	23.1	23.4	8.3	8.5	8.6	8.4	8.5	8.3	8.1	7.8	7.6

Source: Company, Kotak Institutional Equities

**Exhibit 9: Average ticket size of savings deposits increased 8% yoy to ₹58,000**

Saving deposits and number of accounts, March fiscal year-ends, 1QFY14-1QFY16

	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16
Saving Deposits (Rs bn)	633	665	696	778	746	799	800	883	848
No of accounts (# mn)	13	13	13	13	14	14	15	14	14
Avg. ticket size of saving deposits (Rs)	47,954	50,374	51,960	58,478	54,440	55,469	53,660	61,743	58,872

Source: Company, Kotak Institutional Equities

**Share of retail fee income as a share of the overall income has been on the rise**

Overall non-interest income increased 36% yoy on the back of strong growth in treasury income (2.5X yoy) in 1QFY16. However, the bank has seen strong improvement in the contribution of overall fee income from the retail business, which to us, is extremely comforting. Within the overall fee income, growth in retail business remained strong at 17% yoy in 1QFY16 and has grown 25% CAGR since FY2010, which is impressive in a market challenged for growth in the non-interest income business. We take a more cautious stance and forecast ~15% CAGR for FY2016-18E.

**Exhibit 10: Contribution on retail banking to fee income increased in recent quarters**

Break-up of fee income, March fiscal year-ends, 2010-1QFY16 (%)

	2010	2011	2012	2013	2014	2015	1QFY16
Corporate banking/credit	28.0	31.8	33.7	30.7	26.8	26.7	23.9
Business/transaction Banking	12.0	9.4	8.5	7.7	7.3	8.3	19.3
Capital markets	1.6	1.7	1.1	1.0	—	—	—
<b>Retail banking</b>	<b>27.3</b>	<b>24.5</b>	<b>25.1</b>	<b>29.4</b>	<b>29.3</b>	<b>38.4</b>	<b>39.2</b>
Agri & SME banking	7.3	5.9	5.8	6.1	5.8	5.6	3.7
Treasury and debt capital mkts	17.5	18.6	19.1	20.2	20.0	20.8	13.8
Others	6.3	8.1	6.6	5.0	10.9	0.1	0.1
Total (Rs bn)	31	41	51	58	67	68	16
% of average assets	1.9	2.0	1.9	1.9	1.8	1.6	1.5

Notes:

(a) Part of FX fees were reclassified in 1QFY16, from treasury fees to transaction banking

Source: Company, Kotak Institutional Equities

**Exhibit 11: Axis Bank's share of fee income to assets has been declining in recent years**

Fee income to assets, March fiscal year-ends, 2010-18E (%)

	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
<b>Axis Bank</b>	<b>1.6</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>	<b>1.3</b>
HDFC Bank	1.5	1.5	1.5	1.5	1.4	1.3	1.3	1.3	1.3
ICICI Bank	1.4	1.5	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Indusind Bank	0.7	0.7	1.4	1.5	1.5	1.4	1.4	1.4	1.4
Yes Bank	1.3	1.3	1.2	1.3	1.3	1.7	1.4	1.4	1.4

Source: Company, Kotak Institutional Equities

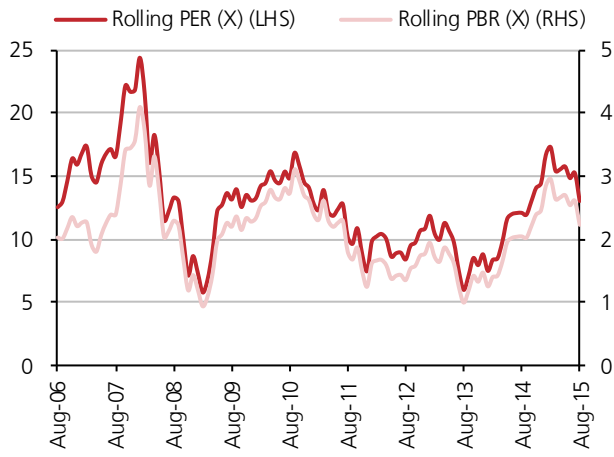
**Exhibit 12: Axis Bank: estimate changes**

March fiscal year-ends, 2016-2018E (₹ mn)

	New estimates			Old estimates			% change		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Net interest income	167,928	191,417	212,324	167,928	191,417	212,324	-	-	-
NIM (%)	3.5	3.4	3.2	3.5	3.4	3.2	-	-	-
Customer assets	3,580	4,176	4,855	3,580	4,176	4,855	-	-	-
Loan loss provisions	29,163	29,016	29,854	29,163	29,016	29,854	-	-	-
Other income	96,192	106,721	122,463	96,192	106,721	122,463	-	-	-
Fee income	67,332	76,085	86,737	67,332	76,085	86,737	-	-	-
Treasury income	15,000	15,000	18,000	15,000	15,000	18,000	-	-	-
Operating expenses	105,203	120,772	140,279	105,203	120,772	140,279	-	-	-
Employee expenses	35,206	39,408	43,921	35,206	39,408	43,921	-	-	-
PBT	129,653	148,250	164,554	129,653	148,250	164,554	-	-	-
Tax	42,734	48,122	53,415	42,734	48,122	53,415	-	-	-
<b>Net profit</b>	<b>86,920</b>	<b>100,128</b>	<b>111,140</b>	<b>86,920</b>	<b>100,128</b>	<b>111,140</b>	-	-	-

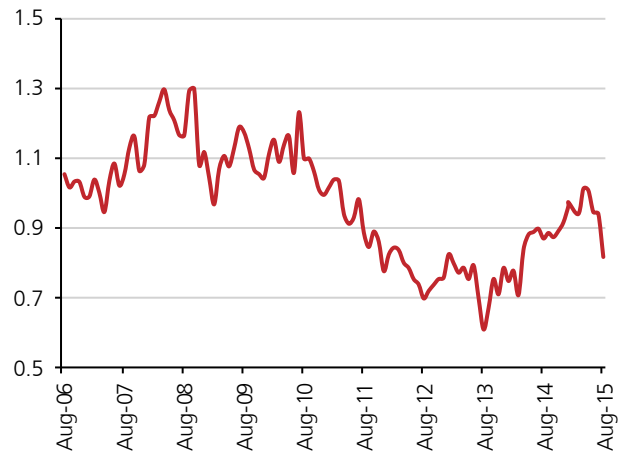
Source: Company, Kotak Institutional Equities estimates

**Exhibit 13: Axis bank trading at 2.5X one-year forward book**  
 One-year forward trading PER and PBR, March fiscal year-ends, 2007-2015 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

**Exhibit 14: Axis bank trading premium to peers has increased**  
 Axis bank trading premium to peers, 2007-2015 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

**Exhibit 15: Axis Bank – key financial ratios and growth rates**

March fiscal year-ends, 2013-2018E (%)

	2013	2014	2015	2016E	2017E	2018E
<b>Growth rates (%)</b>						
Net loan	16.0	16.8	22.2	18.4	17.9	17.3
Total Asset	19.2	12.5	20.5	15.3	16.9	17.9
Deposits	14.8	11.2	14.8	15.1	17.4	19.0
Current	21.6	0.8	15.2	15.8	19.0	20.6
Savings	23.4	21.9	13.5	14.2	17.3	18.4
Fixed	9.2	9.9	15.3	15.4	16.8	18.7
Net interest income	20.6	23.6	19.0	18.1	14.0	10.9
Loan loss provisions	66.8	19.1	1.5	31.5	(0.5)	2.9
Total other income	20.9	13.0	13.0	15.0	10.9	14.8
Net fee income	15.7	7.3	13.5	10.0	13.0	14.0
Net capital gains	705.0	(44.1)	203.7	50.8	-	20.0
Net exchange gains	(1.5)	128.5	(35.2)	15.0	13.0	13.0
Operating expenses	15.1	14.3	16.5	14.3	14.8	16.2
Employee expenses	14.3	9.4	19.7	13.0	11.9	11.5
<b>Key ratios (%)</b>						
Yield on average earning assets	9.0	8.7	8.7	8.6	8.4	8.1
Yield on average loans	10.5	10.3	10.1	9.8	9.5	9.3
Yield on average investments	7.5	7.4	7.5	7.2	7.0	6.8
Average cost of funds	6.3	5.9	5.7	5.6	5.5	5.4
Interest on deposits	6.4	5.8	5.7	5.6	5.5	5.4
<b>Difference</b>	<b>2.7</b>	<b>2.8</b>	<b>2.9</b>	<b>3.0</b>	<b>2.9</b>	<b>2.7</b>
Net interest income/earning assets	3.2	3.4	3.5	3.5	3.4	3.2
New provisions/average net loans	1.0	1.0	0.9	1.0	0.8	0.7
Interest income/total income	59.6	61.7	63.0	63.6	64.2	63.4
Fee income/total income	31.0	27.9	27.1	25.5	25.5	25.9
Operating expenses/total income	42.6	40.8	40.7	39.8	40.5	41.9
Tax rate	31.4	33.5	33.5	33.0	32.5	32.5
Dividend payout ratio	16.3	15.1	15.2	15.2	15.2	15.2
Share of deposits						
Current	19.1	17.3	17.4	17.5	17.8	18.0
Fixed	55.6	55.0	55.2	55.3	55.1	55.0
Savings	25.2	27.7	27.4	27.2	27.2	27.0
Loans-to-deposit ratio	78.0	81.9	87.2	89.7	90.1	88.8
Equity/assets (EoY)	9.7	10.0	9.7	9.7	9.6	9.4
<b>Dupont analysis (%)</b>						
Net interest income	3.1	3.3	3.4	3.4	3.3	3.1
Loan loss provisions	0.6	0.6	0.5	0.6	0.5	0.4
Net other income	2.1	2.0	2.0	1.9	1.8	1.8
Operating expenses	2.2	2.2	2.2	2.1	2.1	2.1
Inv't. depreciation	(—)	(—)	(—)	—	—	—
(1- tax rate)	68.6	66.5	66.5	67.0	67.5	67.5
ROA	1.7	1.7	1.7	1.7	1.7	1.6
Average assets/average equity	11.2	10.1	10.2	10.3	10.3	10.5
ROE	18.5	17.4	17.8	18.0	17.9	17.2

Source: Company, Kotak Institutional Equities estimates

**Exhibit 16: Axis Bank - income statement and balance sheet**  
March fiscal year-ends 2013-2018E (₹ mn)

	2013	2014	2015	2016E	2017E	2018E
<b>Income statement (Rs mn)</b>						
Total interest income	271,826	306,412	354,786	412,987	468,348	534,438
Loans	191,662	219,504	258,678	299,772	346,076	395,045
Investments	77,470	83,431	91,171	98,310	105,687	120,782
Total interest expense	175,163	186,895	212,545	245,059	276,932	322,113
Deposits from customers	150,155	154,589	171,368	193,325	220,024	256,669
Net interest income	96,663	119,516	142,241	167,928	191,417	212,324
Loan loss provisions	18,340	21,850	22,170	29,163	29,016	29,854
Net interest income (after prov.)	78,323	97,666	120,072	138,765	162,401	182,471
Other income	65,511	74,052	83,650	96,192	106,721	122,463
Net fee income	50,251	53,938	61,211	67,332	76,085	86,737
Net capital gains	5,863	3,276	9,949	15,000	15,000	18,000
Net exchange gains	6,641	15,177	9,841	11,317	12,789	14,451
Operating expenses	69,142	79,008	92,037	105,203	120,772	140,279
Employee expenses	23,770	26,013	31,150	35,206	39,408	43,921
Depreciation on investments	(1,039)	(1,003)	(510)	-	-	-
Other provisions	200	223	1,617	100	100	100
Pretax income	75,531	93,490	110,578	129,653	148,250	164,554
Tax provisions	23,736	31,314	36,999	42,734	48,122	53,415
<b>Net Profit</b>	<b>51,794</b>	<b>62,177</b>	<b>73,578</b>	<b>86,920</b>	<b>100,128</b>	<b>111,140</b>
% growth	22.1	20.0	18.3	18.1	15.2	11.0
PBT+provisions-treasury	87,168	111,285	123,905	143,917	162,366	176,508
% growth	12.1	29.5	11.5	13.9	16.2	10.0
<b>Balance sheet (Rs mn)</b>						
Cash and bank balance	204,350	282,387	360,990	419,554	489,922	574,786
Cash	40,539	41,646	42,154	50,585	60,702	72,843
Balance with RBI	107,382	128,767	156,034	173,607	194,785	220,622
Balance with banks	3,354	2,218	1,941	2,329	2,795	3,354
Net value of investments	1,137,375	1,135,484	1,323,428	1,403,641	1,611,697	1,935,495
Govt. and other securities	722,499	690,967	812,460	895,094	1,102,431	1,425,330
Shares	7,549	6,118	7,390	7,390	7,390	7,390
Debentures and bonds	260,744	236,366	250,682	250,682	250,682	250,682
Net loans and advances	1,969,660	2,300,668	2,810,830	3,328,831	3,925,124	4,604,496
Fixed assets	23,556	24,102	25,143	26,283	27,351	28,957
Net owned assets	23,556	24,102	25,143	26,283	27,351	28,957
Other assets	70,666	89,808	98,932	148,398	170,658	196,256
<b>Total assets</b>	<b>3,405,607</b>	<b>3,832,449</b>	<b>4,619,324</b>	<b>5,326,707</b>	<b>6,224,752</b>	<b>7,339,990</b>
Deposits	2,526,136	2,809,446	3,224,419	3,712,566	4,357,237	5,183,055
Borrowings and bills payable	474,799	538,691	836,955	962,499	1,106,874	1,272,905
Other liabilities	73,593	102,107	111,184	133,421	160,105	192,126
<b>Total liabilities</b>	<b>3,074,528</b>	<b>3,450,244</b>	<b>4,172,559</b>	<b>4,808,485</b>	<b>5,624,215</b>	<b>6,648,085</b>
Paid-up capital	4,680	4,698	4,741	4,741	4,741	4,741
Reserves & surplus	326,399	377,506	442,024	513,481	595,796	687,164
<b>Total shareholders' equity</b>	<b>331,079</b>	<b>382,205</b>	<b>446,765</b>	<b>518,222</b>	<b>600,537</b>	<b>691,905</b>

Source: Company, Kotak Institutional Equities estimates

AUGUST 26, 2015

CHANGE IN RECO.

Coverage view: **Attractive**

Price (₹): **2,198**

Target price (₹): **2,750**

BSE-30: **26,032**

**Upgrade to BUY.** We upgrade Bajaj Auto to BUY (from ADD earlier) as we believe it will be a key beneficiary of the decline in commodity costs and depreciation of INR versus USD, given its strong pricing power in export markets. We expect Bajaj Auto's EBITDA margins to expand at least by 100 bps from 1QFY16, reflecting 3-5% depreciation of INR versus its key exporting nations' currencies and decline in commodity prices. We have cut our TP marginally to ₹2,750 (from ₹2,820 earlier).

#### Company data and valuation summary

Bajaj Auto

##### Stock data

52-week range (Rs) (high,low)	2,695-1,913
Market Cap. (Rs bn)	634.2

##### Shareholding pattern (%)

Promoters	49.2
FIs	14.9
MFs	1.1

##### Price performance (%)

	1M	3M	12M
Absolute	(12.2)	(4.7)	(2.7)
Rel. to BSE-30	(4.2)	2.4	(0.0)

##### Forecasts/Valuations

	2015	2016E	2017E
EPS (Rs)	109.0	134.1	152.0
EPS growth (%)	(2.8)	23.0	13.4
P/E (X)	20.1	16.3	14.4
Sales (Rs bn)	216.1	227.9	253.8
Net profits (Rs bn)	31.5	38.8	44.0
EBITDA (Rs bn)	41.2	47.8	54.2
EV/EBITDA (X)	15.3	13.2	11.7
ROE (%)	31.1	33.1	31.6
Div. Yield (%)	2.3	2.4	2.8

#### Declining commodity prices and currency benefits likely to result in margin expansion

We expect Bajaj Auto's EBITDA margins to improve by 100-200 bps from 1QFY16 levels driven by decline in commodity costs and 3-5% depreciation of INR versus its key exporting nations' currencies. Bajaj Auto is yet to realize full benefit of commodity cost decline in 1QFY16 as it works with vendors with a lag, which itself could be 50-70 bps benefit on the margin.

Even if Bajaj Auto passes on half the benefit of lower input costs and currency benefit to consumers, we still expect the company to report a 100 bps expansion in margins. Nigerian naira, Sri Lankan peso and Egyptian pound has appreciated by 3-5% versus INR over the past two months. These countries form 55-60% of Bajaj Auto's export revenues, in our view. The Colombian currency has depreciated by 20% versus INR during the same time, which will offset the currency benefit a tad. Our analysis suggests Bajaj Auto's margins can improve by 70 bps if it retains all the currency benefits at current levels. Steel and aluminum prices have also declined by 5-10% since 1QFY16 average levels, which can potentially lead to further 140 bps expansion in margins. We have built in 70-100 bps expansion in EBITDA margins from 1QFY16 levels led by the above two factors.

#### Market share gains in home market in 1QFY16 to help company maintain domestic profitability

The company has gained 280 bps market share in the domestic motorcycle market in 1QFY16 led by launch of CT100, which will keep dealers happy for a while, in our view. Discover volumes have already become inconsequential to get impacted further. Bajaj Auto is not focused to grow volumes in the premium motorcycle segment at the expense of margins. We do not expect a risk to 10% yoy growth in export volumes in FY2016, which is lower than management guidance as the company has diversified its base in markets where its market share was low. Hence, we believe Bajaj Auto is well-placed to retain the lower input costs and currency benefits, which could lead to expansion in EBITDA margins.

#### Upgrade to BUY (from ADD earlier)

We believe the recent decline in the stock price is a good opportunity to add exposure to Bajaj Auto, as we find valuations attractive at 13X FY2017E EPS (excluding ₹150/share stake of Bajaj Auto in KTM). We expect the company to deliver 15% CAGR over the next three years.

## Exhibit 1: We expect subdued growth in motorcycles in FY2016E

Segment-wise domestic motorcycle industry forecast, March fiscal year-ends, 2012-18E (mn units)

	2012	2013	2014	2015	2016E	2017E	2018E
Economy	1.9	1.9	1.9	2.1	2.2	2.3	2.4
Executive	6.5	6.5	6.8	6.7	6.5	7.0	7.6
Premium	1.7	1.6	1.7	2.0	2.2	2.5	2.8
<b>Total volumes</b>	<b>10.1</b>	<b>10.1</b>	<b>10.5</b>	<b>10.7</b>	<b>10.9</b>	<b>11.8</b>	<b>12.7</b>
<b>yoy change (%)</b>							
Economy	20.1	4.3	(1.0)	8.9	5.0	5.0	5.0
Executive	12.3	(0.5)	6.0	(2.5)	(2.5)	8.0	8.0
Premium	4.0	(3.4)	5.5	15.3	10.0	12.0	12.0
<b>Total</b>	<b>11.8</b>	<b>0.2</b>	<b>3.9</b>	<b>2.5</b>	<b>1.3</b>	<b>8.2</b>	<b>8.2</b>
<b>Player-wise volumes (mn units)</b>							
<b>Economy</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>
Hero Motocorp	0.8	1.0	1.1	1.1	1.2	1.2	1.3
Bajaj Auto	0.5	0.5	0.5	0.5	0.9	0.9	0.9
TVS	0.5	0.4	0.3	0.4	0.4	0.4	0.4
<b>Executive</b>	<b>6.5</b>	<b>6.5</b>	<b>6.8</b>	<b>6.7</b>	<b>6.5</b>	<b>7.0</b>	<b>7.6</b>
Hero Motocorp	4.5	4.1	4.2	4.4	4.4	4.9	5.2
Bajaj Auto	1.3	1.3	1.0	0.6	0.3	0.3	0.3
Honda	0.6	1.0	1.3	1.5	1.5	1.6	1.8
Mahindra & Mahindra	—	0.0	0.2	0.1	0.1	0.1	0.1
Others	0.1	0.2	0.2	0.1	0.2	0.2	0.2
<b>Premium</b>	<b>1.7</b>	<b>1.6</b>	<b>1.7</b>	<b>2.0</b>	<b>2.2</b>	<b>2.5</b>	<b>2.8</b>
Hero Motocorp	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Bajaj Auto	0.7	0.7	0.6	0.7	0.8	0.8	0.9
Honda	0.2	0.2	0.3	0.3	0.4	0.4	0.5
Yamaha	0.3	0.2	0.2	0.3	0.3	0.4	0.4
Royal Enfield	0.1	0.1	0.2	0.3	0.4	0.5	0.6
Others	0.1	0.1	0.1	0.2	0.1	0.2	0.2
<b>Total volumes</b>	<b>10.1</b>	<b>10.1</b>	<b>10.5</b>	<b>10.7</b>	<b>10.9</b>	<b>11.8</b>	<b>12.7</b>
Hero Motocorp	5.7	5.4	5.4	5.7	5.7	6.3	6.6
Bajaj Auto	2.6	2.5	2.1	1.8	2.0	2.0	2.2
Honda	0.8	1.2	1.7	1.8	1.8	2.0	2.3
<b>Segmental market share (%)</b>							
<b>Economy</b>							
Hero Motocorp	44.7	53.2	56.4	53.5	52.5	52.5	52.5
Bajaj Auto	28.7	24.9	24.2	24.7	41.0	39.0	39.0
TVS	25.0	20.2	17.9	20.7	15.9	15.2	14.5
<b>Executive</b>							
Hero Motocorp	68.7	62.6	61.0	66.3	67.8	69.2	68.1
Bajaj Auto	20.1	20.2	14.5	8.4	4.6	4.3	4.0
Honda	9.3	14.7	19.7	22.5	22.7	22.1	23.8
<b>Premium</b>							
Bajaj Auto	42.1	40.7	37.1	34.9	35.0	34.1	34.2
Hero Motocorp	19.4	16.0	11.0	8.0	8.6	8.1	7.3
Yamaha	15.3	13.9	14.3	15.8	15.2	14.4	13.6
Honda	9.4	14.3	17.6	13.1	16.4	17.1	17.0
Royal Enfield	8.5	7.4	11.5	16.4	18.6	19.6	20.6
<b>Domestic motorcycle market share (%)</b>							
Hero Motocorp	56.2	53.2	51.9	52.9	52.8	53.2	52.0
Bajaj Auto	25.5	24.4	20.0	16.5	18.1	17.3	17.2
Honda	7.6	11.8	15.8	16.3	16.8	16.7	17.8

Source: Kotak Institutional Equities estimates

**Exhibit 2: Bajaj market share improved sharply in economy segment led by CT100 volumes**

Domestic motorcycle segment market share of major 2-W players, 2QFY12-1QFY16 (%)

	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
<b>Economy</b>																
Bajaj Auto	27.2	29.7	31.3	28.9	25.4	23.6	21.2	26.4	22.0	23.8	24.4	28.6	21.2	22.5	26.2	40.3
Hero motocorp	43.0	45.6	45.4	48.7	53.1	53.0	59.0	54.7	56.6	55.2	59.2	51.0	54.6	55.0	54.0	43.8
<b>Executive</b>																
Bajaj Auto	22.5	19.0	17.6	17.6	21.8	22.9	18.7	17.8	13.5	14.1	12.6	9.3	9.5	9.0	5.4	4.0
Hero motocorp	68.0	69.6	69.8	68.8	59.3	60.5	61.7	63.7	58.1	62.0	60.1	66.8	63.6	65.5	69.9	73.4
HMSI	7.8	9.7	11.2	12.1	16.4	14.7	15.9	15.5	22.7	18.5	22.3	20.1	23.7	22.8	23.2	20.5
<b>Premium</b>																
Bajaj Auto	42.3	43.6	41.6	41.5	41.5	41.5	38.3	37.6	41.6	33.4	35.8	35.1	36.1	35.3	34.0	32.9
Hero motocorp	20.6	16.8	19.0	15.9	8.9	18.8	19.5	13.8	10.2	12.7	7.4	12.4	9.1	4.9	5.5	5.8
HMSI	8.8	10.3	9.6	13.9	16.6	13.0	14.1	16.1	16.5	18.3	19.3	15.6	12.7	10.0	13.3	11.5
Yamaha	14.8	16.6	14.7	13.2	16.9	12.8	13.1	14.3	14.5	15.3	13.1	13.2	17.7	17.8	14.7	14.1
<b>Total</b>																
Bajaj Auto	26.8	25.1	24.5	23.5	25.7	26.0	22.5	22.6	20.1	18.9	18.5	17.7	16.7	16.6	15.1	17.9
Hero motocorp	55.0	56.2	56.2	56.5	50.0	51.9	54.0	54.1	49.3	52.8	51.4	53.8	51.3	52.3	54.1	53.5
HMSI	6.5	8.1	8.7	10.0	13.1	11.5	12.7	12.5	17.3	15.4	17.8	15.4	16.4	15.9	16.7	14.1

Source: SIAM, Kotak Institutional Equities

**Exhibit 3: Colombian peso has depreciated sharply versus INR**

Movement in key currencies, 1QFY14-YTD FY2016 (%)

Currencies	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	Current
Nigerian Naira	0.35	0.38	0.39	0.38	0.37	0.37	0.36	0.36	0.32	0.34
Colombian Peso	0.30	0.33	0.32	0.31	0.31	0.32	0.29	0.26	0.25	0.20
Egypt pound	8.04	8.90	8.99	8.86	8.44	8.47	8.67	8.67	8.32	8.57
Sri lankan rupee	0.44	0.47	0.47	0.47	0.46	0.47	0.47	0.47	0.47	0.50
Philippines Peso	1.34	1.42	1.42	1.38	1.36	1.38	1.38	1.40	1.42	1.42
<b>QoQ change (%)</b>										
Nigerian Naira		9.3	1.1	(2.6)	(2.8)	1.4	(3.5)	-	(11.0)	4.5
Colombian Peso		8.5	(0.5)	(4.9)	1.3	1.7	(9.9)	(9.1)	(2.2)	(19.6)
Egypt pound		10.7	1.0	(1.4)	(4.7)	0.4	2.3	0.1	(4.0)	3.0
Sri lankan rupee		7.0	0.4	(0.2)	(3.0)	1.6	1.8	(0.7)	0.9	4.8
Philippines Peso		6.4	(0.1)	(3.2)	(1.5)	2.0	-	1.0	1.7	0.1

Source: Bloomberg, Kotak Institutional Equities

**Exhibit 4: At current rates, currency benefits would be 70 bps at EBITDA level**

Impact of currency movement on Bajaj EBITDA margins (%)

Country	Revenue share (%)	Currency vs INR, 1QFY16	Currency vs INR, current	% change	% change in revenue weighted
Nigeria	33.7	0.32	0.34	(4)	1.46
Sri Lanka	10.1	0.47	0.50	(5)	0.46
Egypt	13.4	8.32	8.57	(3)	0.39
Colombia	6.8	0.25	0.20	24	(1.64)
Philippines	5.5	1.42	1.42	(0)	0.01
Rest of Africa	6.5				-
Combdia	3.8	0.02	0.02	4	(0.15)
Peru	2.4	20.17	20.17	0	(0.00)
Bangladesh	2.2	0.82	0.85	(4)	0.09
Uganda	1.8				-
Kenya	2.0	0.66	0.64	4	(0.08)
Congo	1.5	0.07	0.07	(5)	0.07
Ethopia	1.5	3.08	3.20	(4)	0.06
Nepal	1.7	0.62	0.62	0	(0.00)
Tanzania	1.1	3.12	3.13	(0)	0.00
Indonesia	0.6	0.48	0.47	3	(0.02)
Iran	1.1	0.23	0.23	(1)	0.01
Others	4.4				-
<b>Total</b>	<b>100.0</b>				<b>0.7</b>

Source: Bloomberg, Kotak Institutional Equities estimates

**Exhibit 5: We lower our earnings estimate led by lower volume assumptions and lower other income**  
Earnings estimates revision, March fiscal year-ends (₹ mn)

	New estimates			Old estimates			% change		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Domestic 2 wh	1,841,724	1,931,966	2,055,891	1,967,230	2,059,143	2,189,928	(6.4)	(6.2)	(6.1)
Domestic 3 wh	234,345	246,062	265,747	246,062	258,365	279,035	(4.8)	(4.8)	(4.8)
Export 2 wh	1,673,437	1,874,249	2,155,386	1,703,863	1,959,442	2,253,358	(1.8)	(4.3)	(4.3)
Export 3 wh	314,095	345,505	380,055	308,384	345,390	397,199	1.9	0.0	(4.3)
<b>Volumes (units)</b>	<b>4,063,601</b>	<b>4,397,782</b>	<b>4,857,080</b>	<b>4,225,539</b>	<b>4,622,340</b>	<b>5,119,520</b>	<b>(3.8)</b>	<b>(4.9)</b>	<b>(5.1)</b>
Average net realization	56,082	57,719	58,143	54,981	56,511	57,485	2.0	2.1	1.1
Net sales (incl. operating income)	227,894	253,834	282,405	232,326	261,215	294,294	(1.9)	(2.8)	(4.0)
EBITDA	47,752	54,187	60,028	46,451	53,807	60,575	2.8	0.7	(0.9)
EBITDA margin (%)	21.0	21.3	21.3	20.0	20.6	20.6			
<b>Profit after tax</b>	<b>38,796</b>	<b>43,988</b>	<b>49,402</b>	<b>38,613</b>	<b>45,419</b>	<b>52,237</b>	<b>0.5</b>	<b>(3.2)</b>	<b>(5.4)</b>
<b>EPS (Rs/share)</b>	<b>134.1</b>	<b>152.0</b>	<b>170.7</b>	<b>133.4</b>	<b>156.9</b>	<b>180.5</b>	<b>0.5</b>	<b>(3.2)</b>	<b>(5.4)</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 6: Bajaj Auto volumes are expected to grow by 7.5% CAGR over FY2015-18E**  
Bajaj Auto volume projections, March fiscal year-ends, 2011-18E (units, %)

	2011	2012	2013	2014	2015	2016E	2017E	2018E
<b>Sales volume (units)</b>								
<b>Motorcycles</b>	<b>3,387,043</b>	<b>3,834,405</b>	<b>3,757,105</b>	<b>3,422,403</b>	<b>3,291,315</b>	<b>3,515,161</b>	<b>3,806,215</b>	<b>4,211,278</b>
Domestic	2,414,606	2,566,757	2,463,874	2,099,230	1,770,009	1,841,724	1,931,966	2,055,891
Platina	383,735	535,648	484,600	465,111	486,568	264,000	264,000	277,200
CT100	—	—	—	—	29,189	530,000	530,000	556,500
Discover	1,234,788	1,315,400	1,311,843	992,176	557,942	295,709	295,709	295,709
Pulsar/Avenger/KTM	796,083	715,709	667,431	641,943	696,310	752,015	842,257	926,482
Exports	972,437	1,267,648	1,293,231	1,323,173	1,521,306	1,673,437	1,874,249	2,155,386
<b>Total two-wheelers</b>	<b>3,387,043</b>	<b>3,834,405</b>	<b>3,757,105</b>	<b>3,422,403</b>	<b>3,291,315</b>	<b>3,515,161</b>	<b>3,806,215</b>	<b>4,211,278</b>
RE 60	—	—	—	—	—	—	22,000	23,100
<b>Domestic three-wheelers</b>	<b>205,627</b>	<b>202,979</b>	<b>226,131</b>	<b>186,912</b>	<b>234,345</b>	<b>234,345</b>	<b>246,062</b>	<b>265,747</b>
Passenger three-wheelers	201,270	195,141	223,287	186,856	234,345	234,345	246,062	265,747
Goods three-wheelers	4,357	7,838	2,844	56	—	—	—	—
Exports	231,281	312,176	253,926	260,762	285,541	314,095	345,505	380,055
<b>Total three-wheelers</b>	<b>436,908</b>	<b>515,155</b>	<b>480,057</b>	<b>447,674</b>	<b>519,886</b>	<b>548,440</b>	<b>591,567</b>	<b>645,802</b>
<b>Total vehicles</b>	<b>3,823,951</b>	<b>4,349,560</b>	<b>4,237,162</b>	<b>3,870,077</b>	<b>3,811,201</b>	<b>4,063,601</b>	<b>4,397,782</b>	<b>4,857,080</b>
<b>Growth (yoy %)</b>								
<b>Motorcycles</b>	<b>35.1</b>	<b>13.2</b>	<b>(2.0)</b>	<b>(8.9)</b>	<b>(3.8)</b>	<b>6.8</b>	<b>8.3</b>	<b>10.6</b>
Domestic	35.5	6.3	(4.0)	(14.8)	(15.7)	4.1	4.9	6.4
Platina	(10.1)	39.6	(9.5)	(4.0)	4.6	(45.7)	—	5.0
CT100	—	—	—	—	—	—	—	5.0
Discover	55.3	6.5	(0.3)	(24.4)	(43.8)	(47.0)	—	—
Pulsar/Avenger/KTM	42.2	(10.1)	(6.7)	(3.8)	8.5	8.0	12.0	10.0
Exports	34.1	30.4	2.0	2.3	15.0	10.0	12.0	15.0
<b>Total two-wheelers</b>	<b>34.9</b>	<b>13.2</b>	<b>(2.0)</b>	<b>(8.9)</b>	<b>(3.8)</b>	<b>6.8</b>	<b>8.3</b>	<b>10.6</b>
RE 60	—	—	—	—	—	—	—	—
<b>Domestic three-wheelers</b>	<b>16.8</b>	<b>(1.3)</b>	<b>11.4</b>	<b>(17.3)</b>	<b>25.4</b>	<b>-</b>	<b>5.0</b>	<b>8.0</b>
Passenger three-wheelers	22.4	(3.0)	14.4	(16.3)	25.4	—	5.0	8.0
Goods three-wheelers	(62.2)	79.9	(63.7)	(98.0)	—	—	—	—
Exports	40.2	35.0	(18.7)	2.7	9.5	10.0	10.0	10.0
<b>Total three-wheelers</b>	<b>28.1</b>	<b>17.9</b>	<b>(6.8)</b>	<b>(6.7)</b>	<b>16.1</b>	<b>5.5</b>	<b>7.9</b>	<b>9.2</b>
<b>Total vehicles</b>	<b>34.0</b>	<b>13.7</b>	<b>(2.6)</b>	<b>(8.7)</b>	<b>(1.5)</b>	<b>6.6</b>	<b>8.2</b>	<b>10.4</b>

Source: Company, Kotak Institutional Equities estimates

## Exhibit 7: We expect Bajaj Auto's earnings to grow by 16% CAGR over FY2015-18E

Bajaj Auto - financial summary, March fiscal year-ends, 2011-18E (₹ mn)

	2011	2012	2013	2014	2015	2016E	2017E	2018E
<b>Profit model (Rs mn)</b>								
Net sales	158,968	188,803	194,890	197,176	211,039	223,545	248,926	276,844
<b>EBITDA</b>	<b>34,138</b>	<b>40,284</b>	<b>41,064</b>	<b>44,710</b>	<b>41,166</b>	<b>47,752</b>	<b>54,187</b>	<b>60,028</b>
Other income	3,339	2,997	3,244	3,412	5,824	10,030	11,031	12,929
Interest	(17)	(222)	(5)	(5)	(65)	—	—	—
Depreciation	(1,228)	(1,456)	(1,640)	(1,796)	(2,674)	(3,139)	(3,263)	(3,376)
<b>Profit before tax</b>	<b>36,232</b>	<b>41,602</b>	<b>42,662</b>	<b>46,321</b>	<b>44,251</b>	<b>54,643</b>	<b>61,955</b>	<b>69,581</b>
Extra-ordinary items	7,246	(1,340)	—	—	(3,403)	—	—	—
Taxes	(10,080)	(10,221)	(12,227)	(13,887)	(12,711)	(15,846)	(17,967)	(20,178)
<b>Net profit</b>	<b>33,397</b>	<b>30,041</b>	<b>30,436</b>	<b>32,433</b>	<b>28,137</b>	<b>38,796</b>	<b>43,988</b>	<b>49,402</b>
<b>Adjusted net profit</b>	<b>26,152</b>	<b>30,041</b>	<b>30,436</b>	<b>32,433</b>	<b>31,540</b>	<b>38,796</b>	<b>43,988</b>	<b>49,402</b>
<b>Adjusted earnings per share (Rs)</b>	<b>90.4</b>	<b>103.8</b>	<b>105.2</b>	<b>112.1</b>	<b>109.0</b>	<b>134.1</b>	<b>152.0</b>	<b>170.7</b>
<b>Balance sheet (Rs mn)</b>								
Equity	49,102	60,411	79,020	96,080	106,922	127,562	150,965	177,248
Deferred tax liability	297	484	1,151	1,432	1,416	1,416	1,416	1,416
Total borrowings	4,855	2,546	2,105	1,466	1,699	1,699	1,699	1,699
Current liabilities	38,222	47,370	42,511	48,498	45,587	42,415	46,301	50,473
<b>Total liabilities</b>	<b>92,476</b>	<b>110,811</b>	<b>124,786</b>	<b>147,476</b>	<b>155,623</b>	<b>173,093</b>	<b>200,380</b>	<b>230,836</b>
Net fixed assets	15,483	14,914	20,277	20,386	20,190	21,050	20,787	21,412
Investments	47,219	48,828	64,305	85,496	91,533	109,778	133,778	157,778
Cash	2,288	16,538	5,589	4,955	5,862	3,368	3,933	6,485
Other current assets	27,443	30,211	33,913	35,524	36,507	37,364	40,351	43,629
Miscellaneous expenditure	43	320	703	1,115	1,532	1,532	1,532	1,532
<b>Total assets</b>	<b>92,476</b>	<b>110,811</b>	<b>124,786</b>	<b>147,476</b>	<b>155,623</b>	<b>173,093</b>	<b>200,380</b>	<b>230,836</b>
<b>Free cash flow (Rs mn)</b>								
Operating cash flow excl. working capital	24,352	28,802	26,557	31,419	27,611	37,587	42,343	47,217
Working capital changes	(8,215)	797	(5,213)	4,039	(6,138)	(4,028)	899	894
Capital expenditure	(2,006)	(1,090)	(5,082)	(2,201)	(2,697)	(4,000)	(3,000)	(4,000)
<b>Free cash flow</b>	<b>14,131</b>	<b>28,509</b>	<b>16,262</b>	<b>33,257</b>	<b>18,777</b>	<b>29,559</b>	<b>40,242</b>	<b>44,111</b>
<b>Ratios</b>								
EBITDA margin (%)	20.5	20.3	20.1	21.8	19.0	21.0	21.3	21.3
PAT margin (%)	16.5	15.9	15.6	16.4	14.9	17.4	17.7	17.8
Book Value (Rs/share)	169.7	208.7	273.0	332.0	369.5	440.8	521.6	612.5
RoAE (%)	84.9	54.5	43.2	36.5	27.3	32.7	31.3	29.8
<b>RoACE (%)</b>	<b>63.6</b>	<b>47.5</b>	<b>38.6</b>	<b>33.2</b>	<b>23.1</b>	<b>26.3</b>	<b>25.4</b>	<b>24.1</b>

Source: Company, Kotak Institutional Equities estimates

AUGUST 25, 2015

UPDATE

BSE-30: 26,032

**The wonder of weakness.** KIE economists have revised their FY2016/17E INR/USD rate to 64.9/66.5 from 63.5/64.5. They have also fine-tuned USD/EUR and GBP/USD forecasts to 1.07/1.02 and 1.55/1.53. The rupee depreciation will help IT companies absorb pricing pressure and partly fund digital initiatives. We expect the rupee depreciation to aid margins by 0-40 bps even after assuming that Indian IT would reinvest a part of the benefit. We incorporate the new currency forecast and raise EPS estimates by 1-5% and target prices by (-) 2-6%. Use the weakness to buy into IT names. Infosys and Tech Mahindra are our top picks.

#### KIE economists maintain call of rupee depreciation and revise currency forecasts

KIE economists have revised FY2016/17E INR/USD forecasts to 64.9/66.5 from 63.5/64.5 earlier. They have also fine-tuned FY2016/17E EUR/USD and GBP/USD forecasts to 1.07/1.02 and 1.55/1.53. Rupee depreciation along with marginal cross-currency tailwind is a godsend for Indian IT. This shall help IT companies at two levels—(1) absorb high pricing pressure in the core business and (2) create surplus for investments in the digital business.

As a rule of thumb, a 1% depreciation of rupee against USD benefits EBIT margins by ~30 bps. The benefit at the EPS level will vary across companies and will hinge on (1) the mix of business; higher proportion of long-tenured contracts helps in retaining rupee depreciation for a longer period. Companies such as HCLT will benefit more than peers, (2) reinvestment strategy and (3) absolute base of existing margins. Lower the margin, higher the currency benefit. For example, a 30 bps improvement in EBIT margin from rupee depreciation will mean higher benefit for a company with lower margin at let's say 12% (2.5% EBIT impact) compared to a company with higher EBIT margin at 25% (1.2% EBIT impact).

#### We raise our FY2016-17 EPS estimates as we model new currency forecasts

Rupee has depreciated 4% against USD, 8% against EUR and 5% against GBP this month. We incorporate KIE economists' new currency forecast—key changes are 2-3% depreciation of rupee against USD, 0-10% depreciation against EUR and 5-6% depreciation against GBP as compared with previous estimates (Exhibit 3). However, typically, a part of this benefit is either passed on to customers or reinvested in the business. We expect this trend to continue. We are building 0-40 bps improvement in margins. Among Tier-1 IT names, HCL Tech and Tech Mahindra have higher sensitivity to rupee depreciation and stand to gain the most. Indian IT could report some losses on the hedges in the coming quarters.

#### Valuations are attractive, weaker rupee is a tailwind; buy Tier-1 IT

The recent string of mixed economic indicators in the US requires closer study. The core demand drivers of Indian IT, i.e. share shift in Europe and robust spending in the US, are holding on for now. The recent weakness in the rupee augurs well for Indian IT and this would benefit margins and enable investments in new technology areas. We maintain our positive view on the sector. Infosys and Tech M are our top picks. We maintain our stance that Infosys will exceed industry growth in FY2017E. We believe the Street is underestimating Tech M's ability to expand margins from here. We forecast EBIT margin of 13.4%/15% in FY2016E/17E for Tech M. TCS will deliver steady returns from the current levels. Wipro, after the recent correction in stock price, appears attractive for a 10-12% trade even as our broader structural concerns on the company's ability to catch up on growth with the industry remain. We like Mindtree's business model and ability to deliver consistently but wait for a better price-point before turning constructive.

### KIE economists revise currency forecasts

"The gyrations across the global financial markets have deepened lately amid (1) global growth concerns, particularly in China, (2) plunge in global commodity prices, (3) resurfacing of deflationary concerns, (4) the timing of Fed's lift-off and (5) fresh uncertainty in Asian currencies on China's FX policy. Global risk-off has triggered demand for safe-haven assets such as US treasuries, German Bunds and gold, coupled with unwinding of the carry trades of EUR, JPY and CHF. The global currency volatility is here to stay unless there is a confirmation of a gradual rate hike path by the Fed, clarity on China's policy intervention path to support growth and some stability in commodity prices. Global markets, particularly EMs, may have to align to the current changing dynamics, with the spill-overs seen through easy monetary policies and weaker currencies. Even as India is adequately buffered on the external front, INR is unlikely to weather the changing global currency dynamics. We have now revised our USD/INR view and now expect INR to depreciate ~6% in FY2016 as against our earlier estimate of 3.8% depreciation."

Exhibit 1: Changes to estimates and target prices for Tier-1 IT companies under coverage

	Revenues (US\$ mn)		Revenue growth (%)		EBIT margin (%)		EPS (Rs/share)		TP (b)	Target P/E (b)
	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017	(Rs/share)	(X)
<b>TCS</b>										
New	17,002	19,309	10.0	13.6	26.8	26.9	122.5	142.9	2,800	19.6
Old	17,002	19,309	10.0	13.6	26.6	26.6	119.6	137.5	2,700	19.6
Change (a)	—	—	—	(—)	16	29	2.4	4.0	3.7	
<b>Infosys</b>										
New	9,457	10,786	8.6	14.0	24.8	25.7	56.5	68.0	1,260	18.5
Old	9,457	10,786	8.6	14.0	24.7	25.5	55.2	65.6	1,215	18.5
Change (a)	—	—	—	(—)	14	26	2.2	3.5	3.7	
<b>Wipro</b>										
New	7,452	8,242	5.2	10.6	21.5	21.1	37.4	41.3	600	14.5
Old	7,452	8,242	5.2	10.6	21.3	20.9	36.9	40.2	610	15.2
Change (a)	—	—	—	—	16	21	1.2	2.7	(1.6)	
<b>HCL Tech</b>										
New	6,669	7,431	12.0	11.4	20.7	20.3	56.0	62.4	900	14.4
Old	6,669	7,431	12.0	11.4	20.6	19.9	54.6	59.5	850	14.3
Change (a)	—	—	—	—	18	40	2.5	5.0	5.9	

Notes:

- (a) Changes to revenues, EPS estimates and target price are in %, while changes to revenue growth and EBIT margin estimates are in bps.  
 (b) New target multiples are based on FY2017 earnings.

Source: Kotak Institutional Equities estimates

Exhibit 2: Changes to estimates and target prices for IT companies under coverage

	Revenues (US\$ mn)		Revenue growth (%)		EBIT margin (%)		EPS (Rs/share)		TP (b)	Target P/E (b)
	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017	(Rs/share)	(X)
<b>Tech M</b>										
New	4,093	4,651	11.7	13.6	13.4	15.0	33.3	42.0	630	15.0
Old	4,093	4,651	11.7	13.6	13.3	14.8	32.3	40.1	600	15.0
Change (a)	—	—	—	—	14	27	3.0	4.7	5.0	
<b>Mindtree</b>										
New	687	789	17.7	14.8	15.7	16.5	71.1	84.5	1,350	16.0
Old	687	789	17.7	14.8	15.5	16.3	68.8	80.4	1,300	16.2
Change (a)	—	—	—	—	15	23	3.3	5.1	3.8	
<b>Hexaware (c)</b>										
New	493	561	16.6	14.0	16.1	16.6	13.5	16.4	230	14.0
Old	493	561	16.6	14.0	16.0	16.3	13.2	15.6	220	14.1
Change (a)	—	—	—	—	13	29	2.2	4.9	4.5	
<b>Mphasis</b>										
New	945	990	0.2	0.2	13.6	14.6	35.7	38.8	390	10.0
Old	945	990	0.2	0.2	13.6	14.5	35.0	37.5	375	10.0
Change (a)	—	—	—	—	3	15	1.9	3.5	4.0	

Notes:

(a) Changes to revenues, EPS estimates and target price are in %, while changes to revenue growth and EBIT margin estimates are in bps.

(b) New target multiples are based on FY2017 earnings.

(c) Hexaware estimates are for CY2015-16E.

Source: Kotak Institutional Equities estimates

Exhibit 3: Trend and estimates of INR and major currencies against USD, March fiscal year-ends (X)

	New		Old	
	2016E	2017E	2016E	2017E
<b>Average Rate</b>				
USD/INR	64.9	66.5	63.5	64.5
EUR/USD	1.07	1.02	0.99	1.05
GBP/USD	1.55	1.53	1.51	1.50
USD/JPY	124.7	133.0	125.8	130.0
<b>Depreciation (-)/appreciation (+) (%)</b>				
USD/INR	(6.2)	(2.5)	(3.8)	(1.6)
EUR/USD	(15.6)	(4.4)	(21.6)	5.8
GBP/USD	(3.6)	(1.6)	(6.6)	(0.5)
USD/JPY	(13.4)	(6.6)	(14.4)	(3.4)

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 4: Outstanding hedges as of June 2015-end

Outstanding hedges	US\$ bn
Infosys	1.0
TCS	1.7
Wipro	2.3
Tech Mahindra	1.7
HCL Tech	1.4

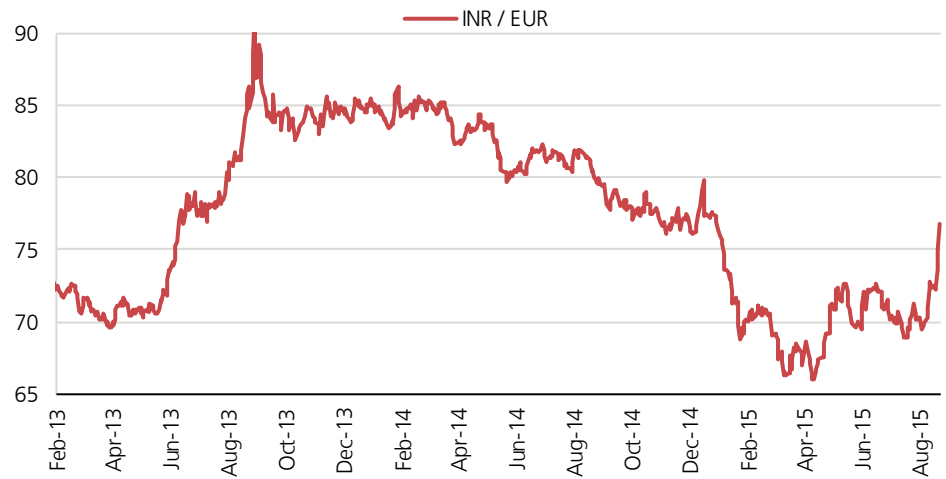
Source: Company, Kotak Institutional Equities

Exhibit 5: Rupee has depreciated 4% against USD this month



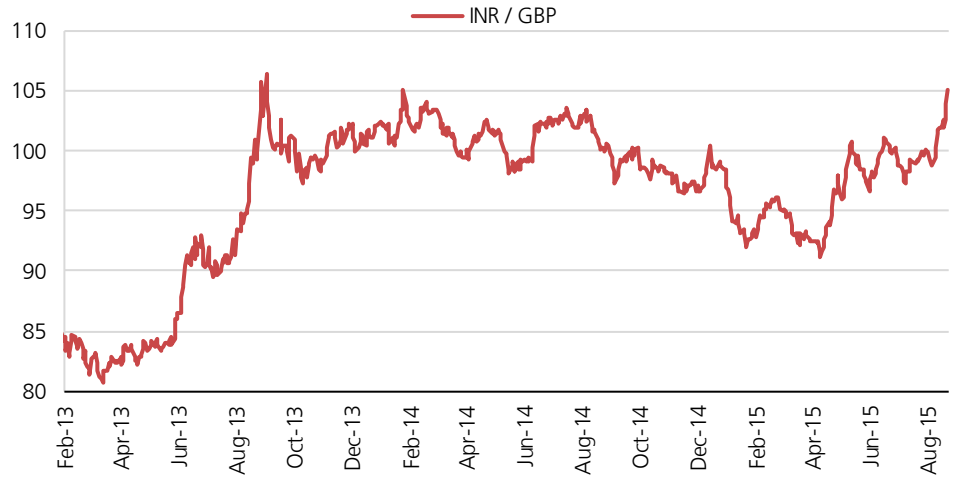
Source: Bloomberg, Kotak Institutional Equities

Exhibit 6: Rupee has depreciated 8% against EUR this month



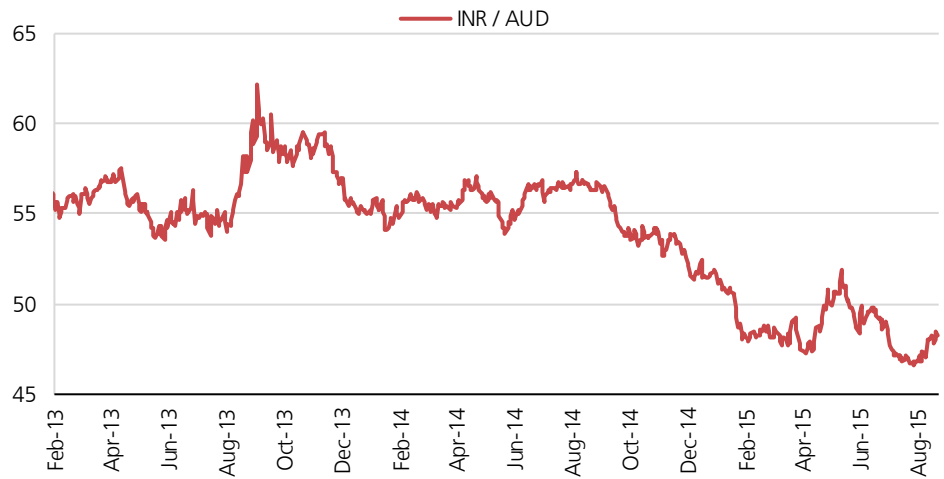
Source: Bloomberg, Kotak Institutional Equities

Exhibit 7: Rupee has depreciated 5% against GBP this month



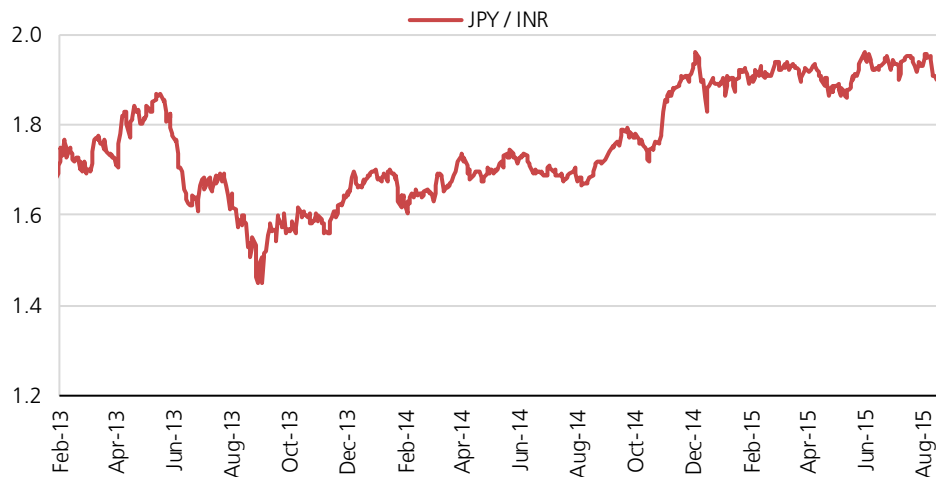
Source: Bloomberg, Kotak Institutional Equities

Exhibit 8: Rupee has depreciated 3% against AUD this month



Source: Bloomberg, Kotak Institutional Equities

Exhibit 9: Rupee has depreciated 7% against JPY this month



Source: Bloomberg, Kotak Institutional Equities

Exhibit 10: Kotak Institutional Equities: valuation summary of key Indian technology companies

Company	25-Aug-15		Mkt cap.		EPS (Rs)			P/E (X)			EVEBITDA (X)			RoE (%)		
	Price (Rs)	Rating	(Rs m)	(US\$ m)	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E
HCL Technologies	914	REDUCE	1,285,323	19,441	51.3	56.0	62.4	17.8	16.3	14.6	13.5	11.7	9.9	32.4	28.9	26.1
Hexaware Technologies	236	SELL	71,065	1,075	10.8	13.5	16.4	21.8	17.4	14.4	13.8	11.8	9.7	26.2	30.3	33.6
Infosys	1,086	ADD	2,493,678	37,717	53.9	56.5	68.0	20.1	19.2	16.0	14.7	13.0	10.6	25.9	23.9	25.2
Mindtree	1,278	REDUCE	107,105	1,620	63.7	71.1	84.5	20.1	18.0	15.1	13.8	12.1	9.7	29.4	27.0	26.8
Mphasis	416	REDUCE	87,440	1,323	32.3	35.7	38.8	12.9	11.7	10.7	7.5	6.9	5.8	12.8	13.3	13.7
TCS	2,567	ADD	5,028,348	76,055	100.3	122.5	142.9	25.6	21.0	18.0	19.5	15.0	12.6	34.8	37.6	36.3
Tech Mahindra	528	ADD	507,880	7,682	30.1	33.3	42.0	17.6	15.9	12.6	11.7	11.1	8.4	24.3	21.5	22.7
Wipro	541	REDUCE	1,336,789	20,219	35.1	37.4	41.3	15.4	14.5	13.1	10.5	9.4	8.1	23.0	21.1	20.6
<b>Technology</b>		<b>Attractive</b>	<b>10,917,628</b>	<b>165,131</b>				<b>21.0</b>	<b>18.6</b>	<b>16.0</b>	<b>15.4</b>	<b>12.9</b>	<b>10.8</b>	<b>26.8</b>	<b>25.7</b>	<b>25.5</b>
<b>KIE universe</b>			<b>70,904,252</b>	<b>1,072,438</b>				<b>19.0</b>	<b>16.5</b>	<b>13.8</b>	<b>11.4</b>	<b>10.0</b>	<b>8.3</b>	<b>13.6</b>	<b>14.1</b>	<b>15.2</b>

Company	Target Price (Rs)	O/S shares (mn)	EPS CAGR (%) 2014-17E	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)			
				2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	
HCL Technologies	900	1,414	11.4	13.6	9.2	11.5	72,483	79,187	88,397	86,947	95,850	108,245	370,620	433,259	494,438	
Hexaware Technologies	230	302	9.0	(14.4)	25.0	21.3	3,265	4,080	4,948	4,776	5,591	6,749	25,817	31,618	37,124	
Infosys	1,260	2,286	12.7	13.5	4.7	20.4	123,290	129,045	155,362	149,010	166,288	200,085	533,190	614,643	717,668	
Mindtree	1,350	84	16.3	18.7	11.6	18.8	5,363	5,985	7,111	7,092	8,322	10,127	35,619	44,634	52,504	
Mphasis	390	210	38.2	119.3	10.6	8.8	6,779	7,499	8,156	8,702	9,216	10,523	57,949	61,358	65,879	
TCS	2,800	1,959	13.6	2.8	22.1	16.7	196,484	239,846	279,952	246,662	316,663	367,773	946,484	1,104,916	1,284,818	
Tech Mahindra	630	865	9.5	(6.1)	10.7	26.2	25,992	28,786	36,321	41,144	42,986	54,962	224,779	266,033	309,452	
Wipro	600	2,467	9.2	10.8	6.5	10.4	86,528	92,188	101,795	110,294	119,503	132,397	473,185	520,011	583,616	
<b>Technology</b>				<b>8.4</b>	<b>12.8</b>	<b>16.3</b>	<b>520,184</b>	<b>586,616</b>	<b>682,042</b>	<b>654,626</b>	<b>764,418</b>	<b>890,862</b>	<b>2,667,643</b>	<b>3,076,473</b>	<b>3,545,499</b>	
<b>KIE universe</b>				<b>0.1</b>	<b>15.0</b>	<b>19.9</b>										

Notes:

(a) HCL Technologies is June fiscal year-ending.

(b) Hexaware Technologies is December year-ending.

Source: Company, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EVEBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			ADVT-3mo (US\$ mn)	
		25-Aug-15	Target price (Rs)		(US\$ mn)	2015		2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E			
<b>Automobiles</b>																														
Amara Raja Batteries	SELL	1,081	620	(42.7)	184,725	2,794	171	24.1	27.1	30.0	12.2	12.2	10.8	44.8	39.9	36.1	25.8	22.3	19.7	10.9	9.0	7.6	0.3	0.5	0.6	26.9	24.7	22.8	4.2	
Apollo Tyres	BUY	173	250	44.4	88,112	1,333	509	21.6	24.3	25.5	1.6	12.7	4.7	8.0	7.1	6.8	4.8	4.7	4.7	1.7	1.4	1.2	1.2	1.3	1.4	22.9	22.1	19.3	8.9	
Ashok Leyland	ADD	87	95	9.8	246,168	3,723	2,846	0.9	3.5	5.6	150.7	281.2	62.0	95.3	25.0	15.4	26.5	13.8	9.7	4.8	4.3	3.6	0.5	1.2	1.9	5.4	18.1	25.5	16.9	
Bajaj Auto	BUY	2,198	2,750	25.1	6,36,087	9,621	289	109.0	134.1	152.0	(2.8)	23.0	13.4	20.2	16.4	14.5	15.4	13.3	11.7	5.9	5.0	4.2	2.3	2.4	2.8	31.1	33.1	31.6	14.7	
Balkrishna Industries	BUY	639	840	31.5	61,750	934	97	48.9	55.1	62.5	(0.4)	12.6	13.5	13.1	11.6	10.2	7.8	6.9	5.9	2.7	2.2	1.8	0.4	0.4	0.4	22.7	21.1	19.7	0.8	
Bharat Forge	ADD	1,164	1,260	8.2	271,066	4,100	237	32.1	41.1	52.4	(5.0)	28.0	27.5	36.2	28.3	22.2	20.1	16.2	13.1	8.0	6.6	5.4	0.3	0.7	0.9	24.9	25.5	26.6	21.5	
Eicher Motors	SELL	18,699	10,100	(46.0)	507,534	7,677	27	227.1	396.3	500.8	55.9	74.5	26.4	82.4	47.2	37.3	45.1	27.2	21.1	20.1	14.5	10.7	0.3	0.2	0.2	26.9	35.7	32.9	40.9	
Exide Industries	REDUCE	153	150	(2.2)	130,305	1,971	850	6.4	7.4	7.9	12.1	15.1	6.9	23.9	20.7	19.4	14.3	12.4	11.4	3.2	2.9	2.7	2.1	1.6	1.6	14.0	14.8	14.5	4.3	
Hero Motocorp	BUY	2,465	3,000	21.7	492,130	7,444	200	127.2	154.2	183.3	20.5	21.2	18.9	19.4	16.0	13.4	14.6	12.0	10.1	7.5	6.3	5.3	2.4	3.1	3.7	41.7	42.8	42.9	17.8	
Mahindra CIE Automotive	BUY	255	310	21.4	82,507	1,248	323	7.4	8.4	13.0	-	12.2	55.4	34.3	30.6	19.7	22.0	13.9	10.1	4.3	3.8	3.2	-	-	-	12.6	13.2	17.6	1.2	
Mahindra & Mahindra	ADD	1,251	1,500	19.9	776,956	11,752	562	54.9	64.6	80.6	(19.9)	17.6	24.7	22.8	19.4	15.5	17.1	14.0	11.4	3.5	3.1	2.7	1.2	1.3	1.6	16.8	17.2	18.9	17.4	
Maruti Suzuki	BUY	4,199	5,000	19.1	1,268,434	19,185	302	122.9	191.6	251.4	33.4	56.0	31.2	34.2	21.9	16.7	18.9	12.9	10.4	5.4	4.5	3.7	0.6	0.9	1.2	16.6	22.3	24.5	20.7	
Mothersumi Systems	SELL	297	265	(10.8)	392,783	5,941	1,323	7.3	9.1	12.5	8.2	24.5	36.8	40.5	32.5	23.8	13.3	11.3	8.5	11.8	9.5	7.6	0.7	0.9	1.3	30.9	32.4	35.5	12.9	
Tata Motors	BUY	329	525	59.6	1,062,568	16,072	3,395	41.7	44.7	53.3	(5.4)	7.1	19.3	7.9	7.4	6.2	3.8	3.6	3.2	2.0	1.4	1.2	0.6	0.6	0.6	23.3	22.6	20.8	55.8	
WABCO India	ADD	6,713	6,500	(3.2)	127,325	1,926	19	63.6	117.5	173.5	2.7	84.7	47.7	105.5	57.1	38.7	61.5	35.9	24.5	14.8	12.0	9.4	0.1	0.2	0.3	14.9	23.2	27.3	1.0	
<b>Automobiles</b>	<b>Attractive</b>				<b>6,328,450</b>	<b>95,719</b>						<b>4.4</b>	<b>21.7</b>	<b>22.5</b>	<b>19.7</b>	<b>16.2</b>	<b>13.2</b>	<b>9.8</b>	<b>8.6</b>	<b>7.2</b>	<b>4.3</b>	<b>3.4</b>	<b>2.8</b>	<b>0.9</b>	<b>1.1</b>	<b>1.4</b>	<b>21.8</b>	<b>21.1</b>	<b>21.5</b>	<b>239.2</b>
<b>Banks/Financial Institutions</b>																														
Axis Bank	BUY	503	620	23.3	1,195,277	18,079	2,371	31.0	36.7	42.2	17.3	18.1	15.2	16.2	13.7	11.9	-	-	-	2.7	2.3	2.0	0.9	1.1	1.3	17.8	18.0	17.9	57.9	
Bajaj Finserv	ADD	1,708	1,720	0.7	271,826	4,111	159	106.3	121.5	139.5	10.3	14.3	14.8	16.1	14.1	12.2	-	-	-	2.5	2.0	1.7	0.8	0.8	0.8	16.7	15.7	15.0	2.3	
Bank of Baroda	ADD	183	190	4.0	403,930	6,110	2,218	15.3	19.8	27.4	(27.3)	29.3	38.1	11.9	9.2	6.7	-	-	-	1.0	0.9	0.9	1.8	2.2	3.1	9.2	10.8	13.6	21.0	
Bank of India	ADD	141	190	34.8	93,686	1,417	666	25.7	36.3	50.9	(39.5)	41.4	40.2	5.5	3.9	2.8	-	-	-	0.3	0.3	0.3	3.5	5.0	7.0	6.3	8.4	10.9	9.6	
Canara Bank	REDUCE	288	320	11.2	148,222	2,242	515	56.9	47.6	66.6	7.6	(16.4)	40.0	5.1	6.0	4.3	-	-	-	0.5	0.4	0.4	3.6	3.1	4.3	8.8	7.3	9.4	14.9	
Cholamandlam	ADD	608	730	20.0	87,437	1,323	155	30.9	33.7	41.9	18.7	9.2	24.1	19.7	18.0	14.5	-	-	-	3.5	2.6	2.3	0.8	0.9	1.1	17.9	16.7	16.8	0.4	
City Union Bank	ADD	93	110	18.1	55,570	841	597	6.6	7.0	8.2	3.5	6.3	16.4	14.1	13.2	11.4	-	-	-	2.1	1.8	1.6	1.2	1.3	1.5	16.7	14.7	15.1	1.0	
DCB Bank	BUY	123	150	22.3	34,755	526	282	6.8	7.2	8.3	12.1	6.4	15.0	18.1	17.0	14.8	-	-	-	2.2	1.9	1.7	-	-	-	14.4	12.4	12.6	3.2	
Dewan Housing Finance	BUY	441	570	29.2	64,310	973	146	47.6	55.3	66.8	14.8	16.2	20.8	9.3	8.0	6.6	-	-	-	1.4	1.2	1.1	1.3	1.4	1.6	16.7	15.9	16.6	7.3	
Federal Bank	BUY	63	83	32.0	107,179	1,621	1,713	5.9	6.5	7.9	19.7	10.8	21.2	10.6	9.6	7.9	-	-	-	1.4	1.2	1.1	1.9	2.1	2.6	13.7	13.6	14.8	5.8	
HDFC	ADD	1,146	1,410	23.1	1,805,823	27,313	1,575	40.4	46.8	55.4	15.6	15.9	18.5	28.4	24.5	20.7	-	-	-	5.8	5.3	4.9	1.3	1.7	2.0	21.2	21.8	23.0	48.1	
HDFC Bank	ADD	1,018	1,150	12.9	2,560,250	38,724	2,507	40.8	50.6	59.6	15.3	24.2	17.7	25.0	20.1	17.1	-	-	-	3.7	3.6	3.1	0.8	1.0	1.1	18.2	18.0	19.3	24.2	
ICICI Bank	BUY	284	390	37.6	1,645,820	24,893	5,798	20.5	20.8	23.3	20.5	1.5	12.3	13.8	13.6	12.2	-	-	-	2.0	1.9	1.7	1.8	2.2	2.5	15.5	14.3	14.6	64.0	
IDFC	BUY	132	205	55.6	209,997	3,176	1,593	13.9	6.5	8.4	15.5	(53.5)	29.9	9.5	20.4	15.7	-	-	-	1.2	1.1	1.0	2.1	0.9	0.6	13.9	6.3	7.2	13.0	
IIFL Holdings	BUY	186	225	21.2	57,748	873	310	14.4	16.8	19.2	54.0	16.1	14.7	12.9	11.1	9.7	-	-	-	2.2	1.9	1.6	1.7	0.0	0.0	20.1	19.3	18.5	0.8	
IndusInd Bank	ADD	878	1,020	16.2	519,491	7,857	581	33.9	37.8	45.7	26.5	11.5	20.9	25.9	23.2	19.2	-	-	-	4.8	3.0	2.7	0.5	0.5	0.6	19.0	16.4	15.1	13.7	
J&K Bank	ADD	96	125	30.5	46,442	702	485	10.5	17.5	18.4	(57.0)	67.3	5.0	9.1	5.5	5.2	-	-	-	0.8	0.7	0.6	2.2	3.7	3.9	8.7	13.2	12.6	1.0	
Karur Vysya Bank	BUY	469	600	28.1	56,630	857	122	38.2	56.3	64.6	(4.8)	47.4	14.9	12.3	8.3	7.2	-	-	-	1.3	1.2	1.1	2.8	3.0	3.4	12.3	15.2	15.7	0.9	
L&T Finance Holdings	ADD	62	80	29.6	106,276	1,607	1,718	5.0	5.0	6.0	43.0	0.9	20.3	12.5	12.4	10.3	-	-	-	1.7	1.5	1.3	1.2	0.8	0.8	13.9	12.6	13.5	4.7	
LIC Housing Finance	ADD	434	525	20.9	219,125	3,314	505	30.0	35.9	43.3	15.2	19.7	20.6	14.5	12.1	10.0	-	-	-	2.8	2.4	2.1	1.2	1.4	1.7	18.8	19.4	20.0	16.5	
Magma Fincorp	ADD	83	120	44.5	19,665	297	236	8.8	8.6	11.4	22.3	(2.1)	33.0	9.5	9.7	7.3	-	-	-	1.2	0.8	0.8	1.0	1.0	2.1	10.7	10.1	11.3	0.4	
Mahindra & Mahindra Financial	BUY	257	320	24.6	146,116	2,210	564	14.8	14.6	18.7	(6.2)	(0.8)	27.8	17.4	17.5	13.7	-	-	-	2.6	2.3	2.1	1.6	1.5	1.9	15.5	13.9	16.0	5.3	
Max India	ADD	514	570	10.8	137,104	2,074	266	10.5	10.5	13.9	100.4	0.4	31.9	49.0	48.7	37.0	-	-	-	4.1	3.3	2.8	1.4	1.4	1.9	8.8	7.5	8.1	2.3	
Muthoot Finance	BUY	165	250	51.3	65,750	994	397	16.9	18.8	23.9	(19.5)	11.3	27.3	9.8	8.8	6.9	-	-	-	1.3	1.2	1.1	3.6	3.4	4.3	14.3	14.0	16.2	0.7	
Oriental Bank of Commerce	ADD	134	200	49.4	40,150	607	300	16.6	44.6	58.2	(56.4)	169.0	30.5	8.1																

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)		EVEBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			ADVT-3mo (US\$ mn)	
		25-Aug-15	Target price (Rs)		(Rs mn)	(US\$ mn)		2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E		2017E
<b>Cement</b>																													
ACC	SELL	1,362	1,450	6.5	255,728	3,868	188	45.7	49.9	82.7	(2.3)	9.2	65.7	29.8	27.3	16.5	19.2	16.1	8.6	3.1	3.0	2.6	1.7	1.7	1.7	10.7	11.2	17.0	7.0
Ambuja Cements	SELL	208	210	1.2	322,174	4,873	1,550	8.5	6.6	9.9	28.0	(22.4)	49.9	24.4	31.4	20.9	16.0	18.3	12.1	3.0	3.0	2.8	1.5	2.1	2.1	12.7	9.6	14.0	6.2
Dalmia Bharat	BUY	630	782	24.2	51,125	773	81	1.1	30.3	69.9	208.9	2,580.8	130.8	557.5	20.8	9.0	24.0	7.7	5.1	1.7	1.6	1.3	0.3	0.3	0.3	0.3	7.7	15.9	0.7
Grasim Industries	ADD	3,458	4,350	25.8	317,667	4,805	92	190.8	235.7	331.4	(10.0)	23.5	40.6	18.1	14.7	10.4	8.3	5.8	3.8	1.4	1.3	1.1	1.1	1.1	1.1	7.8	9.0	11.6	3.6
India Cements	REDUCE	69	90	29.9	21,287	322	307	(0.1)	4.8	8.8	97.2	4,539.1	83.5	NM	14.5	7.9	7.2	6.8	5.4	0.6	0.6	0.6	-	3.1	3.1	(0.1)	4.2	7.2	4.8
J K Cement	BUY	604	730	20.9	42,218	639	70	18.1	12.1	49.9	63.9	(33.3)	313.8	33.4	50.1	12.1	16.3	11.6	7.1	2.6	2.5	2.1	0.7	0.8	0.8	7.5	5.1	19.2	0.2
JK Lakshmi Cement	BUY	329	400	21.7	38,666	585	118	14.8	14.4	27.6	54.6	(2.5)	91.7	22.3	22.8	11.9	15.1	10.4	7.0	2.9	2.6	2.2	0.6	0.6	0.6	13.1	12.0	19.9	0.6
Orient Cement	BUY	162	200	23.1	33,281	503	205	9.5	10.6	18.2	92.8	11.4	71.6	17.1	15.3	8.9	14.9	11.1	6.2	3.4	2.9	2.3	1.1	1.2	1.2	21.6	20.5	28.5	0.3
Shree Cement	SELL	10,541	7,768	(26.3)	367,214	5,554	35	132.5	247.1	402.7	(40.2)	86.4	63.0	79.5	42.7	26.2	27.7	18.6	12.3	7.0	6.1	5.0	0.2	0.2	0.2	9.2	15.2	20.9	4.8
UltraTech Cement	SELL	2,892	2,500	(13.6)	793,640	12,004	274	73.4	89.8	140.1	(1.7)	22.3	56.0	39.4	32.2	20.6	21.0	16.9	11.6	4.2	3.8	3.2	0.4	0.4	0.4	11.2	12.3	16.8	12.4
<b>Cement</b>	<b>Cautious</b>				<b>2,243,002</b>	<b>33,926</b>					<b>1.0</b>	<b>20.3</b>	<b>59.5</b>	<b>32.5</b>	<b>27.0</b>	<b>16.9</b>	<b>15.9</b>	<b>12.2</b>	<b>8.1</b>	<b>2.9</b>	<b>2.7</b>	<b>2.4</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>9.0</b>	<b>10.1</b>	<b>14.2</b>	<b>40.5</b>
<b>Consumer products</b>																													
Asian Paints	REDUCE	852	800	(6.1)	817,380	12,363	959	14.8	19.8	22.9	15.8	33.7	15.5	57.5	43.0	37.2	36.1	27.4	23.6	17.2	14.3	12.0	0.7	1.0	1.1	32.4	36.4	35.1	17.5
Bajaj Corp.	BUY	475	510	7.3	70,092	1,060	148	14.9	18.4	21.0	23.7	23.8	14.0	31.9	25.8	22.6	28.2	22.2	18.3	14.3	12.6	11.1	2.4	1.9	2.5	43.6	52.1	52.2	1.0
Britannia Industries	ADD	2,977	3,500	17.6	357,156	5,402	120	45.2	72.5	93.4	37.1	60.3	28.8	65.8	41.1	31.9	40.7	27.1	20.7	28.6	20.3	14.6	0.5	0.8	1.0	53.0	57.9	53.3	11.4
Colgate-Palmolive (India)	REDUCE	1,901	2,000	5.2	258,468	3,909	136	41.1	46.1	55.9	13.9	12.1	21.3	46.2	41.2	34.0	31.1	26.7	21.5	33.6	28.5	23.6	1.3	1.6	1.8	81.6	74.7	75.9	6.2
Dabur India	ADD	273	315	15.2	480,315	7,265	1,757	6.0	7.7	8.9	15.0	29.5	15.0	45.7	35.3	30.7	36.7	28.8	25.0	14.3	11.5	9.4	0.7	1.0	1.1	34.9	36.1	33.7	5.3
GlaxoSmithKline Consumer	REDUCE	6,189	6,300	1.8	260,265	3,937	42	138.8	164.0	186.1	(13.5)	18.2	13.5	44.6	37.7	33.2	32.5	26.6	22.6	12.3	10.5	9.0	0.9	1.1	1.2	29.7	30.1	29.2	1.2
Godrej Consumer Products	ADD	1,258	1,400	11.3	428,510	6,481	340	26.3	34.5	42.2	17.7	31.2	22.4	47.9	36.5	29.8	32.6	25.4	20.9	9.9	8.3	6.9	0.4	0.6	0.7	22.1	24.8	25.4	3.3
Hindustan Unilever	REDUCE	866	825	(4.7)	1,873,753	28,341	2,164	17.4	20.3	23.1	5.8	16.9	13.7	49.8	42.6	37.4	35.7	29.7	25.6	50.3	44.3	38.9	1.7	1.7	2.0	107.5	110.6	110.6	18.9
ITC	ADD	320	360	12.5	2,566,691	38,822	8,132	11.5	12.8	14.5	7.4	11.4	13.6	27.9	25.0	22.0	18.0	16.5	14.2	8.5	7.6	6.8	1.9	2.2	2.5	28.4	28.6	29.4	32.4
Jubilant Foodworks	SELL	1,611	1,400	(13.1)	105,749	1,599	66	16.9	24.5	35.3	10.0	45.0	44.4	95.5	65.9	45.6	41.0	29.5	21.6	16.5	13.6	10.9	0.2	0.2	0.3	18.6	22.7	26.7	6.9
Jyothy Laboratories	REDUCE	298	260	(12.8)	53,990	817	181	5.8	8.3	10.4	47.0	45.1	24.9	51.8	35.7	28.6	30.2	22.5	18.7	6.9	6.2	6.3	1.3	1.3	1.3	19.6	23.7	27.1	0.8
Marico	REDUCE	399	440	10.3	257,421	3,894	645	8.9	11.5	13.3	21.2	29.6	15.1	44.8	34.6	30.0	29.6	22.8	20.0	14.1	11.4	9.3	0.6	1.0	1.1	36.1	36.5	34.1	6.4
Nestle India	REDUCE	6,163	5,800	(5.9)	594,249	8,988	96	122.1	121.3	157.1	6.7	(0.7)	29.5	50.5	50.8	39.2	28.5	28.9	22.5	20.9	19.7	17.0	1.0	1.0	1.5	47.9	42.6	49.1	13.8
Page Industries	SELL	13,800	10,000	(27.5)	153,925	2,328	11	175.7	232.2	294.9	27.5	32.1	27.0	78.5	59.4	46.8	48.7	37.6	29.6	39.8	28.7	20.4	0.5	0.6	0.6	58.0	56.2	51.0	4.4
Pidlite Industries	REDUCE	541	530	(2.0)	277,274	4,194	513	10.1	13.7	16.0	13.4	35.6	16.7	53.6	39.5	33.9	35.6	25.5	22.1	12.2	10.2	8.5	0.5	0.7	0.9	24.5	28.1	27.4	3.3
Speciality Restaurants	REDUCE	142	155	9.0	6,675	101	47	2.0	3.0	4.8	(50.0)	47.8	60.2	70.6	47.8	29.8	20.0	14.1	10.0	2.2	2.1	1.9	0.7	0.7	0.9	3.1	4.4	6.7	0.1
Tata Global Beverages	REDUCE	118	150	27.6	74,130	1,121	631	5.4	6.2	7.3	(1.0)	14.8	16.8	21.6	18.8	16.1	10.6	10.4	8.9	1.4	1.3	1.3	1.9	2.1	2.6	6.0	7.0	7.9	4.0
Titan Company	REDUCE	327	320	(2.1)	290,306	4,391	888	9.3	9.6	11.4	10.1	3.2	19.1	35.2	34.1	28.6	25.2	23.3	19.7	9.4	8.0	6.7	0.7	0.8	1.0	29.4	25.3	25.4	6.0
United Breweries	SELL	854	700	(18.0)	225,776	3,415	264	8.4	12.3	15.9	(1.6)	45.8	29.5	101.4	69.5	53.7	41.3	32.0	26.6	12.4	10.8	9.3	0.1	0.2	0.3	12.6	16.6	18.6	3.0
United Spirits	BUY	3,211	4,000	24.6	466,626	7,058	145	(11.7)	40.4	84.8	(30.6)	445.0	110.0	NM	79.5	37.9	83.9	36.4	21.9	51.7	23.0	12.3	0.1	0.3	0.5	(8.6)	40.0	42.3	13.5
<b>Consumer products</b>	<b>Cautious</b>				<b>9,618,750</b>	<b>145,485</b>					<b>9.3</b>	<b>21.8</b>	<b>19.0</b>	<b>43.1</b>	<b>35.4</b>	<b>29.8</b>	<b>28.0</b>	<b>23.6</b>	<b>19.7</b>	<b>13.4</b>	<b>11.5</b>	<b>9.9</b>	<b>1.2</b>	<b>1.4</b>	<b>1.6</b>	<b>31.0</b>	<b>32.6</b>	<b>33.2</b>	<b>159.3</b>
<b>Energy</b>																													
Aban Offshore	RS	234	—	—	13,681	207	58	89.5	87.2	80.4	6.7	(2.5)	(7.8)	2.6	2.7	2.9	6.4	6.0	6.1	0.2	0.2	0.2	3.6	2.5	2.6	11.0	8.9	7.8	8.8
BPCL	ADD	863	950	10.1	623,841	9,436	723	70.3	82.4	80.5	25.2	17.1	(2.3)	12.3	10.5	10.7	7.9	6.7	6.6	2.8	2.4	2.1	2.6	2.7	2.6	24.3	24.4	20.5	24.2
Cairn India	RS	126	—	—	235,950	3,569	1,875	34.9	20.5	20.8	(46.5)	(41.1)	1.1	3.6	6.1	6.1	2.3	3.2	2.5	0.4	0.4	0.4	7.3	5.6	5.6	11.2	6.4	6.3	7.6
Castrol India	SELL	456	430	(5.6)	225,297	3,408	495	9.6	12.8	13.9	(3.8)	33.5	8.5	47.5	35.6	32.8	30.8	23.4	21.5	45.4	42.7	40.1	1.6	2.3	2.4	76.0	123.7	126.2	2.3
GAIL (India)	ADD	281	400	42.6	355,808	5,382	1,268	26.0	20.4	26.7	(20.2)	(21.6)	30.8	10.8	13.7	10.5	8.7	9.0	7.0	1.2	1.2	1.1	2.1	2.1	2.9	11.8	8.6	10.6	7.6
GSPCL	ADD	123	145	17.7	69,340	1,049	563	6.5	8.1	9.5	(13.4)	26.0	17.1	19.1	15.1	12.9	8.5	7.5	6.4	1.9	1.8	1.6	1.0	1.6	2.4	10.5	12.1	13.0	1.4
HPCL	REDUCE	821	870	5.9	278,115	4,207	339	80.6	90.5	88.6	57.7	12.3	(2.1)	10.2	9.1	9.3	8.1	6.4	6.3	1.7	1.5	1.4	3.0	3.3	3.3	17.6	18.1	15.9	

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

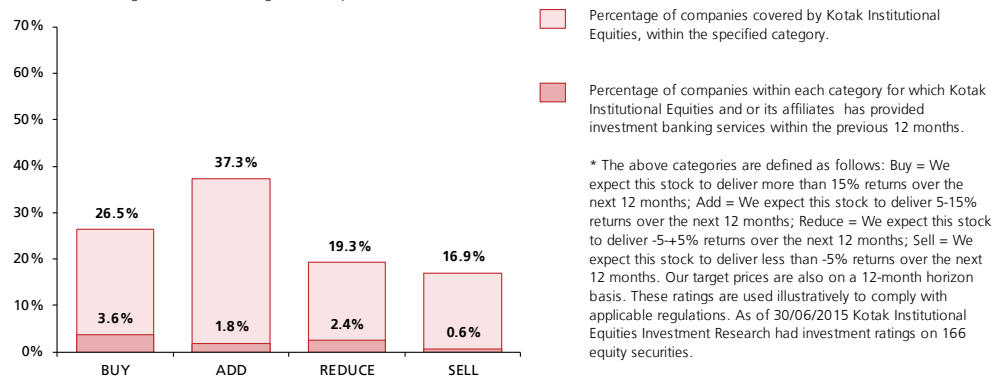
Company	Rating	Target		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)		EVEBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			ADVT-3mo (US\$ mn)	
		Price (Rs) 25-Aug-15	price (Rs)		(Rs mn)	(US\$ mn)		2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E		2017E
<b>Industrials</b>																													
ABB	SELL	1,195	750	(37.2)	253,178	3,829	212	10.8	15.7	24.0	29.2	45.6	52.9	110.8	76.1	49.8	45.8	34.7	26.5	9.0	8.3	7.3	0.3	0.3	0.3	8.3	11.3	15.6	1.0
Bharat Heavy Electricals	SELL	231	220	(4.8)	565,396	8,552	2,448	5.8	8.3	14.4	(59.0)	42.9	74.4	39.8	27.9	16.0	18.8	14.2	7.3	1.7	1.6	1.5	0.5	0.8	1.3	4.2	5.8	9.6	16.0
Crompton Greaves	ADD	165	200	21.3	103,350	1,563	627	2.9	2.4	8.1	(24.7)	(17.6)	234.1	56.1	68.1	20.4	19.3	19.6	12.2	2.7	2.6	2.4	0.5	0.5	0.6	4.9	3.9	12.3	8.1
Cummins India	REDUCE	1,115	875	(21.5)	309,106	4,675	277	27.1	27.7	35.0	25.1	2.4	26.2	41.2	40.2	31.9	41.4	35.8	27.4	10.7	9.6	8.6	1.3	1.2	1.6	27.5	25.2	28.4	4.1
Kalpataru Power Transmission	ADD	243	290	19.4	37,268	564	153	7.9	9.2	13.7	(1.0)	17.2	48.8	30.8	26.3	17.7	10.0	8.2	7.1	1.7	1.6	1.5	0.6	0.6	0.6	5.6	6.2	8.7	0.7
KEC International	ADD	120	160	33.2	30,889	467	257	6.3	7.7	13.1	89.4	22.8	70.9	19.2	15.6	9.1	9.9	7.2	5.4	2.3	2.1	1.7	0.7	0.9	1.6	12.8	14.0	20.6	3.8
Larsen & Toubro	ADD	1,625	1,820	12.0	1,511,805	22,866	930	35.1	48.8	70.2	(28.2)	39.1	43.8	46.3	33.3	23.1	23.6	19.6	15.6	4.2	3.9	3.5	1.0	1.1	1.1	9.3	12.2	16.0	47.3
Siemens	SELL	1,242	750	(39.6)	442,373	6,691	356	17.5	19.4	24.2	182.1	11.0	25.0	71.1	64.1	51.2	41.8	37.7	30.6	9.1	8.3	7.5	0.8	0.5	0.6	13.5	13.6	15.5	7.0
Thermax	REDUCE	929	850	(8.5)	110,666	1,674	119	21.8	29.0	31.5	5.4	33.1	8.6	42.7	32.1	29.5	24.4	20.1	18.4	5.2	4.6	4.2	0.8	0.8	0.8	12.4	15.2	14.9	0.9
Voltas	ADD	272	315	15.6	90,150	1,364	331	10.2	10.7	13.5	51.1	4.7	26.2	26.6	25.4	20.2	21.7	21.4	16.2	4.3	3.9	3.4	0.8	1.0	1.2	17.2	15.9	17.9	13.0
<b>Industrials</b>		<b>Cautious</b>			<b>3,454,180</b>	<b>52,245</b>					<b>(26.0)</b>	<b>30.0</b>	<b>49.6</b>	<b>47.0</b>	<b>36.2</b>	<b>24.2</b>	<b>24.3</b>	<b>20.2</b>	<b>15.1</b>	<b>3.7</b>	<b>3.5</b>	<b>3.2</b>	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>	<b>8.0</b>	<b>9.7</b>	<b>13.2</b>	<b>101.8</b>
<b>Infrastructure</b>																													
Adani Port and SEZ	ADD	345	340	(1.4)	714,064	10,800	2,084	11.1	14.4	18.8	33.0	30.0	30.1	31.0	23.9	18.4	22.6	16.6	13.2	6.7	5.3	4.2	0.4	0.5	0.6	23.7	24.9	25.8	20.1
Container Corporation	REDUCE	1,451	1,510	4.1	282,917	4,279	195	53.7	51.0	64.0	6.5	(5.1)	25.6	27.0	28.5	22.7	19.8	19.5	15.0	3.7	3.4	3.1	0.9	0.9	1.1	14.3	12.4	14.2	7.2
Gujarat Pipavav Port	REDUCE	196	205	4.7	94,633	1,431	483	7.5	8.5	11.3	150.4	13.4	33.3	26.2	23.1	17.3	22.6	18.6	14.2	5.3	4.3	3.6	—	—	1.2	22.6	20.4	22.4	2.2
IRB Infrastructure	ADD	212	265	24.9	74,595	1,128	351	15.4	18.6	22.7	18.2	20.7	21.6	13.7	11.4	9.4	8.3	8.1	7.1	1.7	1.5	1.4	1.8	1.8	1.8	13.7	14.2	15.4	5.9
Sadbhav Engineering	BUY	308	360	17.0	52,779	798	172	6.6	8.4	13.5	(0.3)	27.0	59.7	46.4	36.5	22.9	20.6	17.3	12.4	3.9	3.6	3.1	—	—	—	10.0	10.2	14.5	1.1
<b>Infrastructure</b>		<b>Attractive</b>			<b>1,250,418</b>	<b>18,913</b>					<b>26.6</b>	<b>18.0</b>	<b>29.8</b>	<b>28.0</b>	<b>23.7</b>	<b>18.3</b>	<b>17.9</b>	<b>14.4</b>	<b>11.5</b>	<b>4.6</b>	<b>3.9</b>	<b>3.3</b>	<b>0.6</b>	<b>0.6</b>	<b>0.8</b>	<b>16.4</b>	<b>16.3</b>	<b>18.0</b>	<b>37.1</b>
<b>Internet</b>																													
Info Edge	BUY	749	970	29.5	90,198	1,364	120	2.0	7.3	10.8	(75.6)	262.3	48.2	373.7	103.1	69.6	359.8	463.2	79.8	6.4	6.5	6.5	0.1	0.3	0.5	2.3	6.2	9.4	1.3
Just Dial	BUY	785	1,400	78.3	55,351	837	71	19.7	21.1	39.6	14.6	7.2	87.2	39.8	37.2	19.8	27.9	24.5	11.7	8.3	7.3	6.0	0.9	0.9	1.8	23.0	20.8	33.3	8.8
<b>Internet</b>		<b>Attractive</b>			<b>145,549</b>	<b>2,201</b>					<b>(22.5)</b>	<b>45.3</b>	<b>73.3</b>	<b>89.3</b>	<b>61.4</b>	<b>35.4</b>	<b>65.6</b>	<b>61.2</b>	<b>26.0</b>	<b>7.0</b>	<b>6.8</b>	<b>6.3</b>	<b>0.4</b>	<b>0.6</b>	<b>1.0</b>	<b>7.8</b>	<b>11.0</b>	<b>17.8</b>	<b>10.1</b>
<b>Media</b>																													
DB Corp.	ADD	305	375	23.0	56,007	847	184	17.2	20.5	24.6	3.2	18.7	19.9	17.7	14.9	12.4	9.7	8.3	6.9	4.3	3.8	3.4	2.5	3.2	4.2	26.0	27.4	29.2	0.3
DishTV	BUY	103	125	21.1	109,984	1,664	1,066	0.0	2.1	3.7	102.0	7,043.7	76.4	NM	49.0	27.8	16.2	11.0	9.1	6.6	6.6	6.6	—	—	—	0.2	13.5	23.8	19.3
Jagran Prakashan	ADD	133	145	9.2	43,398	656	317	8.0	9.4	10.9	6.6	17.5	16.2	16.6	14.1	12.2	9.3	7.7	6.7	3.7	3.4	3.1	3.0	3.8	4.5	24.2	25.2	26.8	0.5
PVR	BUY	783	900	15.0	36,424	551	47	3.6	25.8	34.1	(72.0)	618.2	32.1	217.7	30.3	22.9	21.3	13.1	10.8	8.9	4.2	3.6	0.1	0.3	0.4	3.7	18.9	17.0	5.0
Sun TV Network	ADD	322	365	13.2	127,013	1,921	394	19.9	22.8	26.2	4.9	14.5	14.8	16.2	14.1	12.3	10.2	8.9	7.5	3.8	3.5	3.2	3.5	4.1	4.7	24.4	25.7	27.1	16.1
Zee Entertainment Enterprises	BUY	365	420	14.9	350,996	5,309	961	8.7	9.3	12.7	(5.7)	8.0	36.3	42.2	39.1	28.7	26.7	24.0	17.8	6.3	5.7	5.1	1.0	1.2	1.5	16.2	15.4	18.9	12.3
<b>Media</b>		<b>Neutral</b>			<b>723,823</b>	<b>10,948</b>					<b>6.8</b>	<b>27.7</b>	<b>28.2</b>	<b>32.8</b>	<b>25.7</b>	<b>20.1</b>	<b>16.3</b>	<b>13.3</b>	<b>10.8</b>	<b>5.4</b>	<b>4.8</b>	<b>4.4</b>	<b>1.3</b>	<b>1.6</b>	<b>2.0</b>	<b>16.5</b>	<b>18.8</b>	<b>21.9</b>	<b>53.4</b>
<b>Metals &amp; Mining</b>																													
Coal India	ADD	354	410	16.0	2,233,466	33,782	6,316	21.7	25.6	28.1	(9.1)	17.9	9.5	16.3	13.8	12.6	10.1	8.4	7.8	5.5	4.8	4.1	5.9	3.6	4.0	32.2	37.1	34.9	31.1
Hindalco Industries	REDUCE	80	80	(0.6)	166,128	2,513	2,065	12.5	0.0	9.1	0.2	(99.9)	85,381.2	6.4	7,527.3	8.8	8.0	9.4	6.6	0.4	0.4	0.4	1.7	1.7	1.7	6.5	0.0	4.8	9.8
Hindustan Zinc	BUY	127	205	61.9	535,137	8,094	4,225	19.4	18.1	19.4	17.6	(6.4)	7.3	6.5	7.0	6.5	3.1	2.7	1.8	1.2	1.1	1.0	3.5	3.5	3.5	20.3	16.6	15.9	2.1
Jindal Steel and Power	RS	69	-	-	63,037	953	915	6.9	2.4	4.8	(66.8)	(64.6)	97.6	10.0	28.1	14.2	9.2	7.8	6.8	0.3	0.3	0.3	-	2.7	2.7	2.9	1.1	2.1	12.4
JSW Steel	BUY	888	1,025	15.4	214,698	3,247	242	75.6	24.0	95.3	14.3	(68.2)	296.4	11.7	36.9	9.3	6.1	7.5	5.5	0.9	0.9	0.9	1.4	1.4	1.4	8.1	2.5	9.5	10.9
National Aluminium Co.	SELL	29	30	2.4	75,513	1,142	2,577	4.7	2.0	2.7	81.3	(58.3)	36.9	6.2	14.8	10.8	1.2	4.0	2.5	0.6	0.6	0.6	6.0	6.0	3.4	9.8	4.0	5.4	0.8
NMDC	SELL	93	105	13.0	368,520	5,574	3,965	16.5	10.3	10.0	3.3	(37.6)	(3.0)	5.6	9.0	9.3	2.4	4.8	5.4	1.1	1.1	1.1	9.2	9.2	9.2	21.0	12.6	12.2	3.4
Tata Steel	REDUCE	213	225	5.4	207,306	3,136	971	0.0	(4.1)	19.2	(99.9)	(12,615.7)	572.5	NM	(52.6)	11.1	7.5	7.9	6.2	0.7	0.7	0.7	3.7	3.7	3.7	0.0	(1.3)	5.9	25.5
Vedanta	BUY	86	185	114.1	256,150	3,874	3,717	17.1	18.7	20.8	0.8	9.6	11.2	5.1	4.6	4.2	4.4	4.9	4.0	0.6	0.5	0.4	4.7	3.8	3.8	8.0	11.6	11.2	15.8
<b>Metals &amp; Mining</b>		<b>Cautious</b>			<b>4,119,955</b>	<b>62,315</b>					<b>(9.2)</b>	<b>(10.0)</b>	<b>25.2</b>	<b>10.4</b>	<b>11.5</b>	<b>9.2</b>	<b>6.3</b>	<b>6.8</b>	<b>5.6</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>	<b>5.2</b>	<b>4.0</b>	<b>4.1</b>	<b>13.4</b>	<b>11.2</b>	<b>13.0</b>	<b>111.7</b>
<b>Pharmaceutical</b>																													
Biocon	SELL	427	375	(12.2)	85,420	1,292	200	24.8	22.1	24.5	40.5	(10.8)	10.6	17.2	19.3	17.4	12.8	11.6	9.8	2.5	2.3	2.1	1.6	1.8	2.0	15.2	12.3	12.4	5.2
Cipla	BUY	645	790	22.4	518,324	7,840	805	14.7	24.3	29.4	(15.2)	65.8	21.2	44.0	26.6	21.9	24.3	16.3	13.9	4.7	4.2	3.6	0.4	0.8					

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

Company	Rating	Target price		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EVEBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			ADVT-3mo (US\$ mn)
		Price (Rs) 25-Aug-15	(Rs)		(Rs mn)	(US\$ mn)		2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	
<b>Real Estate</b>																													
DLF	BUY	112	170	51.7	199,840	3,023	1,799	2.8	3.1	3.5	(22.8)	11.7	11.0	40.0	35.8	32.3	12.5	13.4	11.2	0.7	0.7	0.7	2.6	1.8	1.8	1.7	1.9	2.1	16.4
Godrej Properties	REDUCE	289	245	(15.1)	57,580	871	199	9.6	10.1	13.2	19.1	5.1	30.9	30.1	28.7	21.9	32.5	21.0	14.3	3.1	2.9	2.6	0.7	0.9	0.9	10.5	10.5	12.6	0.9
Oberoi Realty	BUY	217	345	59.1	73,572	1,113	339	8.8	20.8	21.8	(6.2)	135.9	4.7	24.5	10.4	9.9	16.4	6.3	5.3	1.6	1.3	1.2	0.9	0.9	0.9	6.4	13.8	12.5	1.1
Prestige Estates Projects	ADD	194	265	36.3	72,900	1,103	375	8.9	11.5	14.0	(14.4)	29.3	22.3	21.9	17.0	13.9	10.5	9.5	7.3	1.9	1.7	1.6	0.8	0.8	1.0	9.8	10.7	11.9	1.4
Sobha	BUY	288	545	89.2	28,242	427	98	24.3	26.6	35.1	(2.7)	9.8	31.8	11.9	10.8	8.2	7.6	6.6	5.6	1.2	1.1	1.0	2.4	2.4	2.4	10.1	10.4	12.5	0.8
Sunteck Realty	ADD	225	410	82.2	14,171	214	60	11.4	33.1	95.9	(54.9)	191.0	19.1	19.8	6.8	2.3	17.8	5.6	1.2	0.9	0.8	0.6	4.9	4.9	—	6.5	12.7	29.7	0.3
<b>Real Estate</b>	<b>Attractive</b>				<b>446,305</b>	<b>6,750</b>					<b>(13.6)</b>	<b>45.8</b>	<b>30.2</b>	<b>27.6</b>	<b>18.9</b>	<b>14.5</b>	<b>13.0</b>	<b>10.9</b>	<b>8.3</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>3.7</b>	<b>5.2</b>	<b>6.4</b>	<b>21.0</b>
<b>Technology</b>																													
HCL Technologies	REDUCE	914	900	(1.5)	1,285,323	19,441	1,414	51.3	56.0	62.4	13.6	9.2	11.5	17.8	16.3	14.6	13.5	11.7	9.9	5.3	4.2	3.5	1.4	1.8	2.0	32.4	28.9	26.1	22.3
Hexaware Technologies	SELL	236	230	(2.5)	71,065	1,075	302	10.8	13.5	16.4	(14.4)	25.0	21.3	21.8	17.4	14.4	13.8	11.8	9.7	5.5	5.1	4.6	4.0	3.4	4.2	26.2	30.3	33.6	5.6
Infosys	ADD	1,086	1,260	16.1	2,493,678	37,717	2,286	53.9	56.5	68.0	13.5	4.7	20.4	20.1	19.2	16.0	14.7	13.0	10.6	4.9	4.3	3.8	2.0	2.1	2.5	25.9	23.9	25.2	61.3
Mindtree	REDUCE	1,278	1,350	5.6	107,105	1,620	84	63.7	71.1	84.5	18.7	11.6	18.8	20.1	18.0	15.1	13.8	12.1	9.7	5.3	4.5	3.7	1.3	1.5	1.8	29.4	27.0	26.8	4.0
Mphasis	REDUCE	416	390	(6.3)	87,440	1,323	210	32.3	35.7	38.8	119.3	10.6	8.8	12.9	11.7	10.7	7.5	6.9	5.8	1.6	1.5	1.4	3.8	4.3	4.7	12.8	13.3	13.7	1.2
TCS	ADD	2,567	2,800	9.1	5,028,348	76,055	1,959	100.3	122.5	142.9	2.8	22.1	16.7	25.6	21.0	18.0	19.5	15.0	12.6	8.7	7.2	6.0	3.1	1.9	2.2	34.8	37.6	36.3	42.4
Tech Mahindra	ADD	528	630	19.3	507,880	7,682	865	30.1	33.3	42.0	(6.1)	10.7	26.2	17.6	15.9	12.6	11.7	11.1	8.4	3.7	3.1	2.6	1.2	1.2	1.2	24.3	21.5	22.7	29.4
Wipro	REDUCE	541	600	10.8	1,336,789	20,219	2,467	35.1	37.4	41.3	10.8	6.5	10.4	15.4	14.5	13.1	10.5	9.4	8.1	3.3	2.9	2.5	2.2	2.6	3.0	23.0	21.1	20.6	12.7
<b>Technology</b>	<b>Attractive</b>				<b>10,917,628</b>	<b>165,131</b>					<b>8.4</b>	<b>12.8</b>	<b>16.3</b>	<b>21.0</b>	<b>18.6</b>	<b>16.0</b>	<b>15.4</b>	<b>12.9</b>	<b>10.8</b>	<b>5.6</b>	<b>4.8</b>	<b>4.1</b>	<b>2.4</b>	<b>2.0</b>	<b>2.3</b>	<b>26.8</b>	<b>25.7</b>	<b>25.5</b>	<b>179.0</b>
<b>Telecom</b>																													
Bharti Airtel	ADD	348	460	32.1	1,392,494	21,062	3,997	15.1	13.7	17.5	122.0	(9.5)	27.9	23.1	25.5	19.9	6.9	6.2	5.3	2.2	2.2	2.1	1.1	0.9	1.3	9.9	8.7	10.6	30.6
Bharti Infratel	SELL	403	375	(6.9)	763,657	11,550	1,903	10.5	13.5	16.4	31.0	28.6	20.8	38.3	29.8	24.6	14.8	13.0	11.4	4.5	4.4	4.3	2.7	2.3	2.9	11.4	14.9	17.6	19.5
IDEA	BUY	151	220	45.7	543,406	8,219	3,598	8.8	9.1	6.3	48.6	3.6	(31.0)	17.1	16.5	24.0	8.9	7.3	6.3	2.4	2.1	2.0	0.5	0.7	1.0	16.0	13.4	8.5	11.3
Reliance Communications	SELL	51	50	(1.2)	125,942	1,905	2,488	2.9	3.7	4.9	(11.7)	30.5	32.2	17.7	13.5	10.2	6.5	6.6	6.0	0.4	0.4	0.4	—	—	—	2.4	2.8	3.6	10.8
Tata Communications	ADD	386	475	22.9	110,110	1,665	285	3.7	2.9	7.7	202.6	(23.4)	168.8	103.4	135.0	50.2	7.5	6.8	6.2	33.6	26.2	16.6	1.2	1.4	1.7	18.8	21.8	40.5	4.3
<b>Telecom</b>	<b>Cautious</b>				<b>2,935,609</b>	<b>44,402</b>					<b>74.1</b>	<b>2.6</b>	<b>12.1</b>	<b>24.4</b>	<b>23.8</b>	<b>21.2</b>	<b>7.9</b>	<b>7.1</b>	<b>6.1</b>	<b>2.2</b>	<b>2.1</b>	<b>2.0</b>	<b>1.3</b>	<b>1.1</b>	<b>1.5</b>	<b>8.9</b>	<b>8.7</b>	<b>9.3</b>	<b>76.6</b>
<b>Utilities</b>																													
Adani Power	SELL	21	31	44.9	62,827	950	2,872	(4.5)	(5.5)	0.0	(340.8)	(23.9)	100.9	(4.8)	(3.9)	433.8	9.8	9.7	7.8	1.1	1.5	1.5	—	—	—	(20.9)	(32.2)	0.3	5.2
CESC	REDUCE	522	600	15.0	69,175	1,046	133	15.0	41.8	54.3	(62.0)	179.2	30.0	34.9	12.5	9.6	10.5	6.4	5.9	0.9	0.8	0.8	1.5	1.1	1.2	2.5	6.7	8.3	3.2
JSW Energy	SELL	66	81	23.2	107,834	1,631	1,640	8.4	10.9	11.1	22.2	29.5	1.6	7.8	6.0	5.9	5.2	4.0	3.6	1.4	1.2	1.0	—	—	—	19.6	21.3	17.8	2.8
NHPC	REDUCE	16	22	34.6	181,005	2,738	11,071	2.3	2.2	2.2	45.6	(5.2)	(0.2)	7.1	7.4	7.5	5.8	5.7	5.7	0.6	0.6	0.5	4.9	3.6	3.6	8.7	7.7	7.3	1.0
NTPC	ADD	119	150	25.9	982,447	14,860	8,245	12.5	10.8	13.4	(2.5)	(13.7)	24.4	9.5	11.1	8.9	10.6	10.8	7.7	1.2	1.1	1.0	3.1	2.7	3.4	12.3	10.5	12.1	9.8
Power Grid	BUY	129	175	36.1	672,782	10,176	5,232	9.6	12.3	15.6	11.3	28.3	26.7	13.4	10.4	8.2	10.6	8.7	7.4	1.8	1.6	1.4	2.3	2.9	3.7	13.8	16.0	18.2	4.1
Reliance Power	SELL	36	43	19.6	100,844	1,525	2,805	3.7	4.9	5.7	(0.1)	33.9	17.0	9.8	7.3	6.3	15.7	9.4	7.4	0.5	0.5	0.4	—	—	—	5.1	6.5	7.1	4.1
Tata Power	ADD	59	80	36.8	158,221	2,393	2,800	0.5	3.3	4.6	(75.9)	544.8	38.9	113.4	17.6	12.7	8.2	6.6	6.0	1.1	1.1	1.0	2.1	2.1	2.1	1.1	6.4	8.4	3.7
<b>Utilities</b>	<b>Attractive</b>				<b>2,335,135</b>	<b>35,319</b>					<b>(1.8)</b>	<b>7.6</b>	<b>30.1</b>	<b>12.1</b>	<b>11.2</b>	<b>8.6</b>	<b>9.7</b>	<b>8.5</b>	<b>7.0</b>	<b>1.1</b>	<b>1.1</b>	<b>1.0</b>	<b>2.5</b>	<b>2.4</b>	<b>2.9</b>	<b>9.4</b>	<b>9.4</b>	<b>11.3</b>	<b>33.8</b>
<b>Others</b>																													
Astral Poly Technik	BUY	417	455	9.2	49,305	746	118	6.4	9.8	14.1	(8.7)	53.0	44.0	65.0	42.5	29.5	30.5	20.8	15.3	8.0	6.8	5.7	0.1	0.2	0.4	16.2	17.3	21.0	1.1
Carborundum Universal	ADD	170	200	17.8	31,963	483	188	5.2	8.6	11.7	6.5	64.9	37.0	32.7	19.8	14.5	12.9	9.8	7.6	2.7	2.4	2.1	1.1	1.0	1.4	8.4	12.7	15.6	0.1
Dhanuka Agritech	BUY	463	690	48.9	23,182	351	50	21.7	23.0	29.9	16.4	6.1	30.2	21.4	20.2	15.5	16.8	15.0	11.2	5.6	4.7	3.8	1.0	1.1	1.4	29.1	25.2	27.0	0.2
Godrej Industries	ADD	353	425	20.4	118,601	1,794	336	12.0	16.8	21.0	21.6	39.8	25.1	29.5	21.1	16.8	34.0	17.9	13.0	3.7	3.2	2.7	0.5	0.5	0.5	13.5	16.2	17.4	2.9
Havells India	REDUCE	257	270	5.2	160,238	2,424	624	7.7	8.4	10.4	(6.9)	8.8	24.0	33.4	30.7	24.8	18.2	17.5	14.3	8.8	7.7	6.6	1.2	1.2	1.6	27.5	26.7	28.7	3.9
Jaiprakash Associates	RS	9	—	—	20,676	313	2,432	(9.3)	0.2	0.8	(66.6)	102.4	247.0	(0.9)	38.1	11.0	10.3	9.1	8.8	0.2	0.2	0.2	0.0	0.0	0.0	(22.0)	0.5	1.9	6.0
PI Industries	ADD	664	750	13.0	90,618	1,371	136	16.6	21.8	28.6	20.0	31.7	31.2	40.1	30.4	23.2	24.6	19.4	15.3	10.0	7.9	6.1	0.4	0.5	0.6	28.3	29.0	29.8	3.0
Rallis India	ADD	212	245	15.5	41,257	624	194	8.1	9.3	12.3	3.5	15.0	32.7	26.2	22.8	17.2	15.3	13.2	10.2	5.1	4.5	3.8	1.2	1.4	1.5	20.5	20.8	23.8	1

**Kotak Institutional Equities Research coverage universe**

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2015

**Ratings and other definitions/identifiers**

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

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

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

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

**Other definitions**

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