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EQUITY MARKETS

India	Change %			
	28-Aug	1-day	1-mo	3-mo
Sensex	38,897	0.5	4.2	11.3
Nifty	11,739	0.4	4.1	10.4
Global/Regional indices				
Dow Jones	26,064	0.1	2.4	7.0
Nasdaq Composite	8,030	0.2	3.8	8.6
FTSE	7,617	0.5	(1.1)	(0.2)
Nikkei	22,875	0.3	0.7	2.3
Hang Seng	28,363	0.0	(1.5)	(7.0)
KOSPI	2,303	0.0	0.4	(6.3)
Value traded – India				
Cash (NSE+BSE)	353		361	333
Derivatives (NSE)	9,939		4,152	7,642
Deri. open interest	4,450		3,094	4,203

Forex/money market

	Change, basis points			
	28-Aug	1-day	1-mo	3-mo
Rs/US\$	70.3	2	159	243
10yr govt bond, %	8.1	3	6	13

Net investment (US\$ mn)

	27-Aug	MTD	CYTD
FIs	62	224	(190)
MFs	105	570	11,735

Top movers

	Change, %			
	28-Aug	1-day	1-mo	3-mo
Best performers				
RIL IN Equity	1,319	2.1	16.7	43.8
DABUR IN Equity	486	0.8	25.8	27.7
GCPL IN Equity	1,442	2.7	10.2	27.1
SUNP IN Equity	621	(0.1)	11.5	24.4
ACC IN Equity	1,624	(1.7)	5.8	23.9
Worst performers				
JPA IN Equity	11	2.8	(26.0)	(29.7)
HPCL IN Equity	257	(2.0)	(9.4)	(18.5)
TTMT/A IN Equity	139	(0.8)	(6.7)	(18.3)
IDEA IN Equity	51	(0.6)	(9.3)	(18.0)
UT IN Equity	4	(2.5)	(6.0)	(17.0)

AUGUST 29, 2018

UPDATE

Coverage view: **Cautious**

Price (₹): **1,155**

Target price (₹): **1,080**

BSE-30: **38,897**

Management meeting takeaways. PIDI management reiterated its confidence in the core adhesives/sealants business, highlighted opportunity size and progress in the growth categories (waterproofing, WD-40, etc) and emphasized on an innovation pipeline that can potentially spring positive surprises. Management commentary on near-term demand and sustainable margin band remains unchanged. We continue to like the story but the stock is fully priced; await better entry point.

Company data and valuation summary

PIDILITE Industries

Stock data

52-week range (Rs) (high,low)	1,195-749
Market Cap. (Rs bn)	586.6

Shareholding pattern (%)

Promoters	69.8
FIs	10.4
MFs	4.4

Price performance (%)

	1M	3M	12M
Absolute	2.4	0.1	38.1
Rel. to BSE-30	(1.7)	(9.5)	12.8

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	18.0	21.1	25.7
EPS growth (%)	7.5	16.8	21.8
P/E (X)	64.0	54.8	45.0
Sales (Rs bn)	60.8	71.6	82.6
Net profits (Rs bn)	9.2	10.7	13.0
EBITDA (Rs bn)	13.4	15.7	18.8
EV/EBITDA (X)	42.9	36.5	30.1
ROE (%)	26.0	27.4	28.2
Div. Yield (%)	0.5	0.6	0.7

Three-pronged growth strategy; well-placed on all fronts

PIDI management classifies its business into three categories

- ▶ **Core** comprising of Fevicol, Fevikwik, m-seal, etc that accounts for 2/3rd of the sales. PIDI expects this portfolio to grow at 1-2X GDP growth. Market share gains continue partly aided by unorganized to organized shift but largely on account of PIDI's strategy and execution.
- ▶ **Growth category** comprising of waterproofing, WD-40, etc growing at 2-4X GDP growth. PIDI is a leader in the under-penetrated waterproofing segment and it is well-positioned to benefit as this category evolves. In a tie up with WD-40, PIDI's has delivered on a 3-year promise within nine months, making it WD-40's most successful partnership, worldwide (show market). Overall, PIDI's growth categories are likely to grow at a rapid pace, thanks to opportunity size, PIDI's positioning and investments.
- ▶ **Pioneers** (future growth businesses) such as tiling adhesives. PIDI expects each of its pioneer category products to scale up to ₹1 bn (tiny today) over the next three years. Further, the management hinted at confidential pioneers/innovations driving growth and surprises.

Overall, we believe the company is well-placed on all the three fronts and it should deliver healthy growth subject to overall demand holding well.

Status-quo on near-term commentary

PIDI management's commentary on the near-term outlook was in line with that indicated on 1QFY19 earnings call—(1) Demand environment is encouraging. That said, it categorically stated that it will have better visibility on the underlying demand starting September/October 2018 as the base effect wanes. On profitability, PIDI expects a judicious price hike and efficiencies to partly offset RM headwinds. Sustainable medium-term target margin band is 20-24%.

We like the story; stock is fully priced, we seek a better entry point

We like PIDI for its (1) dominant and nearly-unchallenged positioning in adhesives, (2) impressive track record of product portfolio expansion and end market development and (3) solid long-term opportunity in view of nascent market for several of its products. The stock is fully priced though and we prefer a better entry point. REDUCE with our DCF-based fair value target price of ₹1,080 (unchanged).

Rohit Chordia

Jaykumar Doshi

Aniket Sethi

Additional takeaways from the annual sell-side meet

- ▶ **Market share gains and unorganized to organized shift.** PIDI management downplayed the unorganized to organized shift theme and indicated that market share gains due to unorganized to organized shift are not substantial. Bulk of the market share gain is due to PIDI's strategy and execution. The management believes that unorganized to organized shift will be gradual as GST compliance improves.
- ▶ **Pricing power intact but focus is on volumes.** PIDI management reiterated that it has pricing power but will judiciously push price increases. As a policy, it prefers to keep a check on premium pricing of its products as more than 15-20% premium attracts competition. It targets to be in 20-24% EBITDA margin band. Excess margins would be invested in the business. PIDI has taken two price increases of 1.5-2% each (blended) over the past two quarters in view of RM pressure. The company's overall objective is to address 75% of RM pressure through pricing and 25% through efficiencies.
- ▶ **RM pressure.** We note that average price of VAM (a key RM) was US\$1,200 in 1QFY19 and it has inched up further to about US\$1,325/MT (spot price; up 40-45% yoy). This, coupled with a weak rupee and inflation in other crude-linked raw materials are headwinds to margins. PIDI management indicated that this RM inflation is partly due to China's focus on environmental protection that has led to some capacity closures.
- ▶ **Transformation from a professional family to a family of professionals.** Over the past three years, PIDI has hired a number of professionals and augmented its senior management team. The management indicated that two recent additions to its senior management team were (1) Shantanu Bhanja who joined as CEO of consumer products division. Prior to this, he was the Chief Digital Officer at HT media, (2) Giridhar Seetharam joined as President S&M for Fevicol division. Prior to this, he was CMO of Mahindra holidays. PIDI CEO believes that its top leadership team can match the best in the consumer industry. While PIDI's transformation from a 'professional family' to a 'family of professionals' continues, the promoter family remains the strength of the organization and its contribution to innovation is invaluable.
- ▶ **Waterproofing business offers immense growth opportunities.** While accurate assessment of the market size and opportunity in the construction chemicals and waterproofing segment is not possible, PIDI management shared indicative numbers. Per management, (1) at present, the size of the waterproofing market (formal + informal) is about ₹20-30 bn. Penetration of proper waterproofing products is significantly low at about 25-30% in the new households that are constructed, (2) waterproofing: paints ratio in developed markets is about 1:5 whereas waterproofing is ₹20-30 bn market and paints is ₹300-350 bn market in India. Prevailing under-penetration and PIDI's positioning and initiatives offer a meaningful growth opportunity. The company is already witnessing strong growth momentum which is a function of initiatives taken thus far. A key differentiator and strength of PIDI in this segment versus MNC players is its ability to give end-to-end warranty.
- ▶ **Augmented Innovation capabilities**—PIDI management indicated that it has strengthened its innovation capabilities substantially over the past three years. While innovation has always been PIDI's secret sauce, the company has taken several initiatives and worked with some of the best set of people worldwide to build capabilities and processes. It has a dedicated innovation chief in each division. The company categorically stated that PIDI will positively surprise on innovation, going forward. PIDI targets 1/3rd of the growth to come from innovation.
- ▶ **PIDI-WD-40 partnership is a big success story and one it showcases worldwide.** PIDI management indicated that what it has achieved for WD-40 in India within nine months was expected in three years. Given this phenomenal execution and success, WD-40 is showcasing this partnership worldwide and is a lot more committed on investing and strengthening its partnership with PIDI further.

- ▶ **ICA-PIDI and Jowat JVs.** PIDI management indicated that in case of most of its JVs, it runs the JV. It extensively engages with its JV partner to ensure working-comfort before entering into a JV. For instance, it engaged with ICA for about 18 months before forming a JV. PIDI management believes that the JV model works well provided the two partners have a healthy working relationship and trust. Italy is the leader in furniture products and ICA is a leading player in Italy in wood coatings. ICA-PIDI is ICA's first JV, globally. PIDI is equally optimistic about success of JV with Jowat (a leading supplier of industrial adhesives in Europe; it has handed India to PIDI).
- ▶ **CIPY Polyurethanes acquisition.** In FY2018, Pidilite acquired 70% stake in CIPY Polyurethanes to participate in resin flooring and floor coatings market. The management indicated that CIPY promoters chose to go ahead with PIDI even as there were several MNC bidders. CIPY's products are largely used in industrial units, healthcare facilities and builders/construction segment. This market is nascent largely due to a lack of awareness and not due to affordability issues. Most hospitals, chemical and pharma companies, bakeries and Mithai shops are not using the right flooring due to the lack of awareness. CIPY's business is only B2B as of now. The opportunity is large and PIDI is working towards tapping it.
- ▶ **International business strategy.** PIDI management indicated that it expands in overseas markets where it sees an opportunity to replicate its India business success. It doesn't have any specific targets for international business; SAARC, Middle East and Africa are focus markets. The company is doing fairly well in Bangladesh, Sri Lanka and Nepal. It is a dominant leader in Bangladesh market and the presence of Fevicol in Bangladesh market is about 80% of that in India. PIDI is also focusing on reducing losses in US and Latin America; it wants to minimize losses and investments and explore exit opportunities in US and Brazil.
- ▶ **Sales transformation.** Every sales person has a handheld and demand at distributor-level is captured purely based on replenishment. There is no need to dump goods in the channel anymore.
- ▶ **Other points** (1) GST has resulted in reduction in warehouses; driving efficiencies, (2) Fevikwik is the most widely distributed product of PIDI and at last count its reach was four mn outlets as per Nielsen data, (3) PIDI reaches 40,000 of the 60,000 paint dealers, (4) PIDI has distribution across 100,000+ wholesalers (12,000 added after GST).

Exhibit 1: Pidilite Industries: Profit model, balance sheet, cash flow 2014-2021E, March fiscal year-ends (Rs mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model								
Net operating revenues	42,832	48,441	53,612	56,168	60,784	71,572	82,634	94,759
EBITDA	6,715	7,708	11,735	12,598	13,412	15,683	18,825	22,333
Other income	449	455	778	1,123	1,484	1,742	2,032	2,565
Interest	(163)	(156)	(133)	(139)	(155)	(74)	0	0
Depreciation	(812)	(1,178)	(1,005)	(1,151)	(1,199)	(1,372)	(1,485)	(1,603)
Pretax profits	6,188	6,828	11,376	12,430	13,542	15,979	19,372	23,295
Tax	(1,653)	(1,694)	(3,335)	(3,851)	(4,392)	(5,293)	(6,353)	(7,642)
Less: Minority interest	(3)	(10)	(44)	(32)	(37)	(41)	(45)	(50)
Add: Share of profit in associate	30	50	32	53	46	50	56	61
Recurring PAT	4,563	5,175	8,028	8,600	9,159	10,695	13,029	15,665
Extraordinary items	(65)	(49)	—	—	465	—	—	—
Reported net profit	4,498	5,126	8,028	8,600	9,624	10,695	13,029	15,665
Recurring earnings per share (Rs)	8.9	10.1	15.7	16.8	18.0	21.1	25.7	30.8
Balance sheet								
Total equity	19,526	22,706	26,380	34,709	35,740	42,189	50,211	60,108
Total borrowings	459	584	800	975	1,226	—	—	—
Deferred tax liabilities (net)	537	566	753	877	1,048	1,048	1,048	1,048
Minority interest	42	51	434	1,273	1,751	1,709	1,664	1,614
Total liabilities and equity	20,565	23,907	28,367	37,835	39,765	44,946	52,923	62,770
Net fixed assets (Incl CWIP)	11,872	14,403	12,955	14,230	15,699	17,053	18,036	19,007
Investments	2,603	3,699	7,055	14,431	12,459	12,459	12,459	12,459
Cash	1,772	760	1,318	999	1,636	3,102	8,473	15,561
Net current assets (excl cash)	4,318	5,045	7,039	8,175	9,970	12,332	13,955	15,743
Total assets	20,565	23,907	28,367	37,835	39,765	44,946	52,923	62,770
Free cash flow								
Operating cash flow (excl working capital)	5,452	6,113	9,015	8,747	9,485	10,389	12,472	14,692
Working capital	(1,514)	(593)	(375)	(1,136)	(1,796)	(2,362)	(1,623)	(1,788)
Capital expenditure	(1,894)	(4,091)	(1,997)	(2,422)	(3,469)	(2,726)	(2,468)	(2,574)
Free cash flow	2,045	1,429	6,643	5,190	4,221	5,302	8,381	10,329
Key assumptions, growth (%)								
Net operating revenue growth	16.5	13.1	10.7	4.8	8.2	17.7	15.5	14.7
EBITDA growth	13.2	14.8	52.3	7.4	6.5	16.9	20.0	18.6
EPS growth	8.1	13.4	55.1	7.1	7.5	16.8	21.8	20.2
EBITDA margin (%)	15.7	15.9	21.9	22.4	22.1	21.9	22.8	23.6
Gross margin (%)	44.9	44.9	51.8	53.0	52.5	51.4	51.9	52.4
Tax rate (% of PBT)	26.7	24.8	29.3	31.0	32.4	33.1	32.8	32.8
Ratios (%)								
ROE (%)	25.2	24.3	32.8	28.1	26.0	27.4	28.2	28.4
ROCE (%)	30.1	29.0	40.6	34.1	30.7	32.7	34.3	34.7

Source: Company, Kotak Institutional Equities

1QFY19 review: Setting the stage for NPL decline. On a consolidated basis, banks reported a loss despite recovery in loan growth as provisions for investments and credit costs remained high. Recovery of bad loans accelerated as a few NCLT cases were completed this quarter, setting the stage for further decline in gross NPLs in the coming few quarters. We continue to see near-term triggers on the back of resolution of these large corporate impaired loans. NBFCs had a strong quarter with continued buoyancy in rural, auto, consumer finance and affordable housing segments.

Earnings still under pressure led by high provisions for bad loans and investments

Banks reported an earnings decline of ~70% yoy on the back of high NPL and investment provisions. Revenue growth saw a recovery to ~12% yoy as NII grew by ~20% yoy. Loan growth trends continue to improve, especially for PSU banks, with clear trends of shifting the loan mix towards retail and MSME. NIM showed an improvement for corporate banks on a qoq basis primarily on account of (1) lower slippages qoq, (2) part recognition of recovery of bad loans and (3) marginal improvement in pricing power. Operating expense growth remains under control at 13% yoy; PSU banks have started to provide for wage revision.

Getting to a point from where the trend of NPL decline could begin

After many years, we saw a decline in gross NPLs in the current quarter. Gross NPLs declined 30 bps qoq to 9.1% of loans. Slippages declined to ~4% of loans primarily coming from watch-list or below investment grade portfolios and slightly higher from small-ticket loans. Recovery and upgrades for the quarter were the highest in the past few years primarily led by resolution in a few large steel accounts that was completed in 1QFY19. We remain positive on the outlook on slippages, which we expect to decline with the stock of bad loans pending to be recognized falling sharply as we have seen from the early warning indicators; the completion of 270 days across most large NPLs under the IBC process should see banks resolving most of these cases, making the requisite provision.

Topline growth under strain for leading private banks

As expected, we are starting to see the pressure on the topline for the leading private banks. While the overall NII growth under coverage saw a recovery to ~10% yoy, we need to note that the trends have been quite diverse. Corporate banks have done well, partly on account of the nature of recognition of recovery, while retail banks have started to see a fair amount of pressure despite a solid loan growth. Cost of funds remains a bit of challenge for a few private banks that is growing at well above industry average levels. The shift in deposits between public banks under PCA has been much slower than loans, creating this temporary turbulence on cost of funds and opportunity to gain market share for private banks.

NBFCs: Operating trends on track; early days for Ind-AS

1QFY19 was a strong quarter with continued buoyancy in rural, auto, consumer finance and affordable housing segments. Marginal NIM pressure was visible due to asset-side re-pricing even as bond yield rise is not yet reflected in borrowing cost. Asset quality parameters (stage 3 loans, ECL ratios) reported improvements, indicating improving asset quality. With just one quarter into Ind-AS, lack of clarity and standardization on several line items limit our analysis of financial trends in the results.

QUICK NUMBERS

- **GNPL down 30 bps qoq for banks under coverage**
- **NIM (adjusted) compression for select retail banks**
- **Asset quality improvement across most banks and NBFCs**

M B Mahesh CFA

Nischint Chawathe

Dipanjan Ghosh

Shrey Singh

Exhibit 1: Consolidated PAT down yoy on the back of drop in treasury gains and elevated credit cost

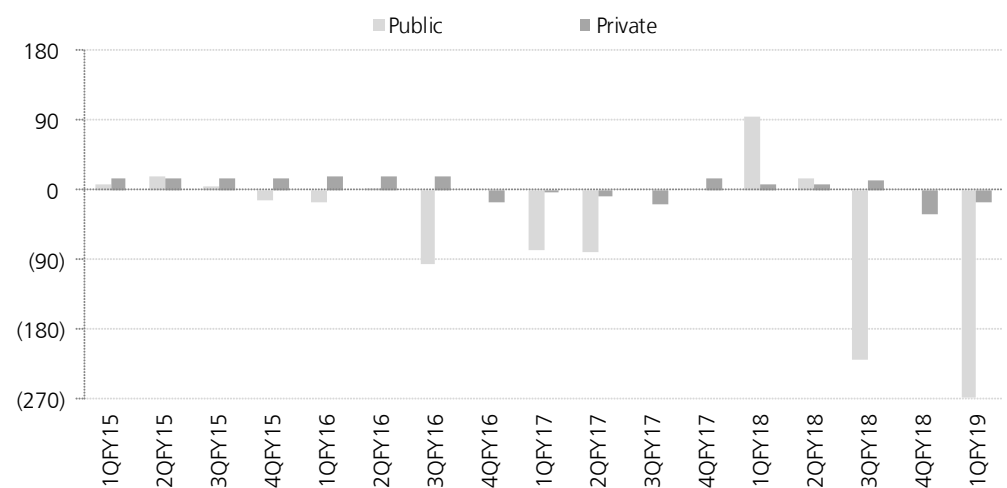
Consolidated earnings for banks under coverage, March fiscal year-ends, 1QFY18-1QFY19 (₹ bn)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)
NII	567	592	621	621	683	10.1	20.4
Non interest income	305	395	296	366	286	(21.9)	(6.4)
Total income	863	972	910	974	963	(1.2)	11.6
Provisions	263	404	423	875	451	(48.5)	71.1
Loan loss provisions	287	372	378	771	355	(53.9)	23.9
PAT	131	108	67	(252)	36	NM	(72.1)
PAT (ex-SBI)	111	92	91	(174)	85	NM	(23.1)

Source: Company, Kotak Institutional Equities

Exhibit 2: High losses across PSU banks dampen earnings

Growth in PAT, March fiscal year-ends, 1QFY15-1QFY19 (%)



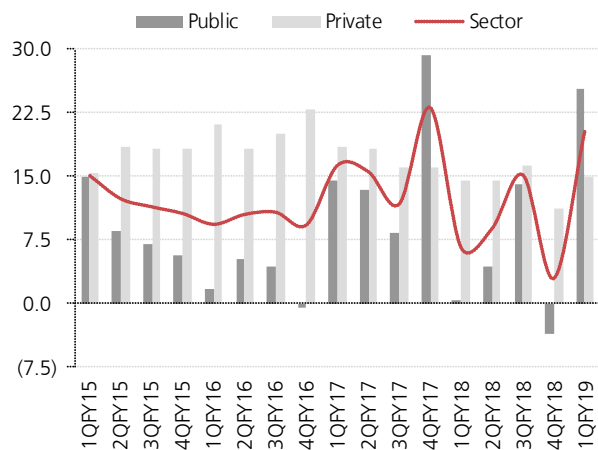
Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 3: NII growth for PSU banks on the back of interest recognition from resolved account under NCLT

Growth in NII, March fiscal year-ends, 1QFY15-1QFY19 (%)

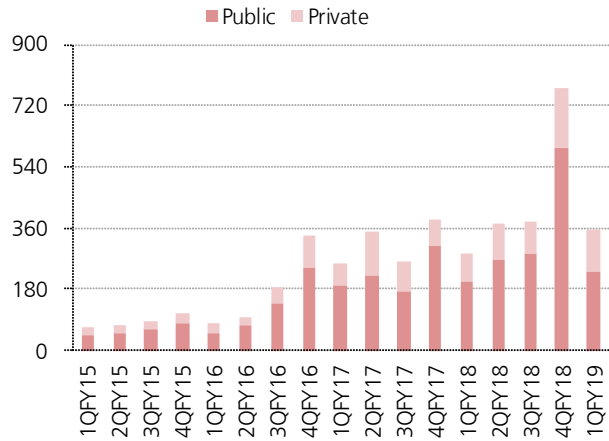


Notes:
(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 4: Credit cost remains high; down qoq

Loan-loss provisions, March fiscal year-ends, 1QFY15-1QFY19 (₹ bn)

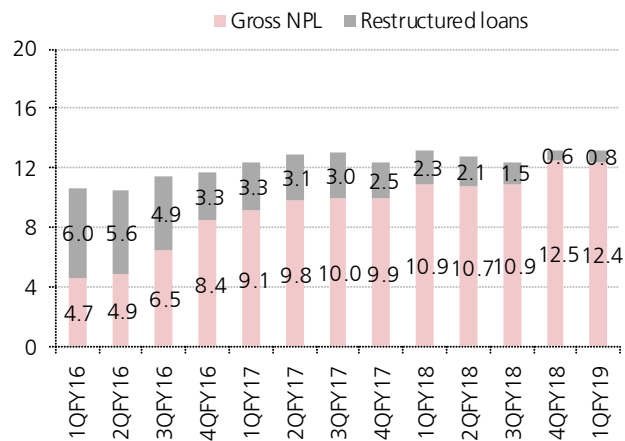


Notes:
(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 5: Gross NPLs declined 10bps qoq

Public banks (under coverage), March fiscal year-ends, 1QFY16-1QFY19 (%)

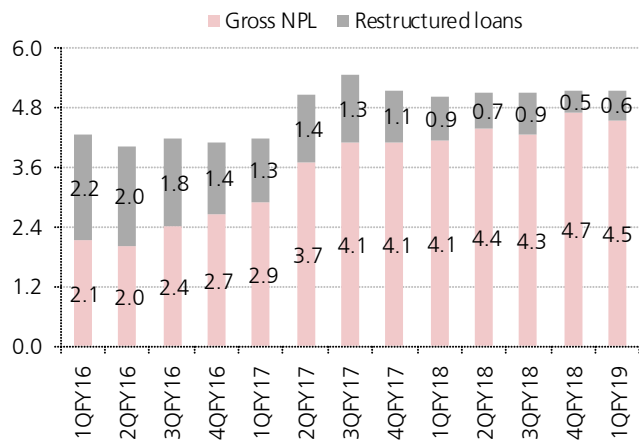


Notes:
(a) Numbers for 1QFY19 do not include SBI and BOB.
(b) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 6: Gross NPLs declined 20bps qoq

Private banks (under coverage), March fiscal year-ends, 1QFY16-1QFY19 (%)



Notes:
(a) Numbers for 1QFY19 do not include DCB and HDFC Bank and for 4QFY18 do not include DCB.
(b) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

30 bps qoq drop in GNPL; slippages at ~4% in 1QFY19

GNPL ratio dropped 30 bps qoq (up 80 bps yoy) to 9.1% for banks under coverage in 1QFY19. The improvement was sharper for private banks compared to PSUs. On an absolute basis, GNPL dropped 3.5% qoq for PSUs and was flat qoq for private banks. Slippages at ~4% were the lowest since 1QFY18. While corporate slippages remained elevated, there was additional stress from the agriculture sector. Most banks saw rise in GNPL in the agriculture portfolio. Majority of the slippages for BOB, SBI and ICICI Bank were from the watch-list. Recoveries and upgrades were higher for the quarter. There was significant increase in coverage ratio for most banks.

We note that ~25-30% of GNPL of most banks (excluding new private banks and SFBs) is under NCLT lists 1 and 2. As resolutions pick pace, GNPL is expected to show significant reduction going ahead.

Exhibit 7: Gross NPLs drop 30 bps qoq

Gross NPLs and net NPLs, March fiscal year-ends, 1QFY18-1QFY19

	Gross NPL (Rs bn)					Gross NPLs (%)					Net NPLs (Rs bn)					Net NPLs (%)					
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	
Public banks																					
BoB	462	463	485	565	559	11.4	11.2	11.3	12.3	12.5	195	196	199	235	224	5.2	5.1	5.0	5.5	5.4	
Canara	377	392	403	475	447	10.6	10.5	10.4	11.8	11.1	243	252	253	285	267	7.1	7.0	6.8	7.5	6.9	
PNB	577	576	575	866	829	13.7	13.3	12.1	18.4	18.3	346	346	341	487	439	8.7	8.4	7.6	11.2	10.6	
SBI	1,881	1,861	1,991	2,234	2,128	10.0	9.8	10.4	10.9	10.7	1,078	979	1,024	1,109	992	6.0	5.4	5.6	5.7	5.3	
Union	373	383	410	494	510	12.6	12.4	13.0	15.7	16.0	208	195	204	243	255	7.5	6.7	7.0	8.4	8.7	
Old private																					
CUBK	7	8	9	9	9	3.1	3.1	3.3	3.0	3.0	4	4	4	5	5	1.8	1.8	1.7	1.7	1.7	
DCB	3	3	4	4	4	1.7	1.8	1.9	1.8	1.9	1	2	2	1	2	0.9	0.9	0.9	0.7	0.7	
Federal	19	19	22	28	29	2.4	2.4	2.5	3.0	3.0	11	11	12	16	16	1.4	1.3	1.4	1.7	1.7	
KVB	18	21	27	30	36	4.3	4.8	5.9	6.6	7.4	12	14	17	19	21	2.9	3.2	3.9	4.2	4.5	
J&K	56	60	62	60	62	10.8	10.9	10.1	10.0	9.8	23	24	25	28	28	4.7	4.8	4.3	4.9	4.7	
New private																					
Axis	220	274	250	342	327	5.0	5.9	5.3	6.8	6.5	98	141	118	166	149	2.3	3.1	2.6	3.4	3.1	
HDFC Bank	72	77	82	86	95	1.2	1.3	1.3	1.3	1.3	25	26	28	26	29	0.4	0.4	0.4	0.4	0.4	
ICICI	431	445	460	541	536	8.0	7.9	7.8	8.8	8.8	253	241	238	279	242	5.5	5.0	4.7	5.4	4.7	
IDFC bank	20	20	28	18	18	4.1	3.9	5.6	3.3	3.2	8	8	12	9	9	1.7	1.6	2.5	1.7	1.6	
IndusInd	13	13	15	17	17	1.1	1.1	1.2	1.2	1.2	5	5	6	7	8	0.4	0.4	0.5	0.5	0.5	
RBL	5	5	6	6	6	1.5	1.4	1.6	1.4	1.4	3	3	4	3	3	0.8	0.8	1.0	0.8	0.8	
Yes	14	27	30	26	28	1.0	1.8	1.7	1.3	1.3	5	15	16	13	13	0.4	1.0	0.9	0.6	0.6	
Small finance banks																					
Equitas	3	4	4	2	2	4.9	5.8	5.0	2.7	2.8	2	2	1	1	1	2.4	2.8	1.6	1.4	1.5	
Ujivan	4	3	3	3	2	6.2	5.0	4.2	3.6	2.7	1	1	1	1	0	2.3	1.4	1.0	0.7	0.3	
Total	4,554	4,655	4,865	5,805	5,644	8.3	8.2	8.3	9.4	9.1	2,520	2,464	2,503	2,932	2,702	4.6	4.4	4.3	4.7	4.4	
Change qoq (%)	6.1	2.2	4.5	19.3	(2.8)						(7.0)	(2.2)	1.6	17.2	(7.9)						
Public banks	3,669	3,675	3,864	4,634	4,472	10.9	10.7	10.9	12.5	12.4	2,069	1,967	2,020	2,359	2,177	6.1	5.7	5.7	6.4	6.0	
Private banks	885	980	1,000	1,171	1,172	4.1	4.4	4.3	4.7	4.5	451	497	482	573	525	2.1	2.2	2.1	2.3	2.0	

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 8: Steep drop in slippages qoq

Slippages, March fiscal year-ends, 1QFY18-1QFY19

	Slippages (Rs mn)					Slippages (%)				
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Bank of Baroda	52,000	34,510	56,300	125,690	47,330	5.5	3.6	5.6	11.8	4.6
Canara Bank	55,110	33,670	26,410	132,760	42,050	6.4	3.8	2.8	13.9	4.4
Punjab National Bank	66,490	34,600	31,650	310,000	73,630	6.7	3.4	2.8	28.6	7.1
State Bank of India	300,590	106,270	267,800	328,210	148,560	6.7	2.4	5.9	6.8	3.2
Union Bank	44,530	26,860	41,870	100,430	46,520	6.0	3.5	5.3	12.8	5.8
Axis Bank	35,190	89,360	44,280	165,360	43,370	3.7	8.7	4.2	15.0	3.9
ICICI Bank	49,750	46,740	43,800	157,370	40,360	4.3	3.9	3.5	12.3	3.1
IndusInd Bank	6,080	4,980	4,080	8,600	4,750	2.1	1.6	1.3	2.4	1.3
Yes Bank	NA	19,890	4,949	3,802	5,600	NA	5.4	1.2	0.7	1.0
City Union Bank	1,475	1,468	1,324	1,482	1,259	2.5	2.3	2.0	2.1	1.8
DCB	856	775	1,031	814	859	2.1	1.8	2.2	1.6	1.6
RBL	1,520	920	2,100	1,150	1,480	2.0	1.1	2.3	1.1	1.4
Federal Bank	4,250	2,840	4,110	8,720	4,610	2.2	1.4	1.9	3.7	1.9
Karur Vysya Bank	3,892	4,268	7,133	6,250	7,850	3.7	3.9	6.4	5.4	6.6
J&K Bank	5,055	4,804	3,711	17,477	7,699	4.1	3.7	2.6	12.3	5.1
Total	655,982	442,776	573,588	1,399,375	504,237	5.5	3.7	4.6	10.7	3.9
Toat (ex SBI)	355,392	336,506	305,788	1,071,165	355,677	4.9	4.4	3.8	13.0	4.3

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 9: Write-offs at 1.8% of loans in 1QFY19

Write-off of loans, March fiscal year-ends, 1QFY18-1QFY19

	Write-offs (Rs mn)					Write-offs (% of advances)					
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Bank of Baroda	350	17,680	11,290	20,050	22,140	1.3	0.0	1.8	1.1	1.9	2.1
Bank of India	23,240	27,870	20,440	19,380	39,220	4.0	2.4	2.9	2.2	2.1	4.3
Canara Bank	13,780	12,220	9,130	47,970	28,050	2.9	1.6	1.4	1.0	5.0	2.9
Punjab National Bank	18,560	9,630	9,010	7,230	55,190	2.7	1.9	0.9	0.8	0.7	5.3
State Bank of India	131,760	92,580	93,120	-	-	0.9	2.9	2.1	2.0	-	-
Union Bank	3,400	11,100	7,940	12,330	14,260	0.9	0.5	1.4	1.0	1.6	1.8
Axis Bank	24,620	25,170	28,210	38,870	30,070	1.3	2.6	2.5	2.7	3.5	2.7
ICICI Bank	16,050	23,040	17,218	34,792	24,156	4.7	1.4	1.9	1.4	2.7	1.9
City Union Bank	511	569	22	845	695	0.8	0.8	0.9	0.0	1.2	1.0
RBL	350	250	770	220	610	0.7	0.5	0.3	0.8	0.2	0.6
DCB	245	1	75	2	78	0.2	0.6	0.0	0.2	0.0	0.1
J&K Bank	6,698	11	61	18,415	10	0.5	5.5	0.0	0.0	12.9	0.0
Total	240,430	224,570	210,185	220,259	226,449	1.9	2.0	1.8	1.6	1.7	1.8

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity. 4QFY18 and 1QFY19 data have not been reported by the company.

Source: Company, Kotak Institutional Equities

Exhibit 10: Recovery and upgrades continue to rise

Recoveries and upgradation of loans, March fiscal year-ends, 1QFY18-1QFY19

	Recovery and upgradation (Rs mn)					Recovery/upgradation (% of advances)				
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Bank of Baroda	17,067	15,534	23,274	25,641	31,246	1.8	1.6	2.3	2.4	3.0
Bank of India	27,384	10,662	13,433	129,551	44,730	2.8	1.1	1.4	13.8	4.9
Canara Bank	6,773	6,387	5,801	13,225	42,089	0.8	0.7	0.6	1.4	4.4
Punjab National Bank	24,428	25,876	23,747	11,764	55,753	2.4	2.5	2.1	1.1	5.4
State Bank of India	66,800	33,230	44,420	22,050	22,050	1.5	0.7	1.0	0.5	0.5
Union Bank	5,390	5,765	6,905	4,284	16,233	0.7	0.7	0.9	0.5	2.0
Axis Bank	3,066	10,476	40,088	34,009	29,162	0.3	1.0	3.8	3.1	2.6
ICICI Bank	27,739	10,291	11,080	42,340	20,360	2.4	0.9	0.9	3.3	1.6
City Union Bank	434	445	508	669	618	0.7	0.7	0.8	1.0	0.9
DCB	331	473	576	666	465	0.8	1.1	1.2	1.3	0.9
Federal Bank	2,841	2,030	1,988	2,376	3,878	1.5	1.0	0.9	1.0	1.6
RBL	160	376	404	1,062	578	0.2	0.4	0.4	1.1	0.5
J&K Bank	1,950	1,371	1,157	1,315	5,339	1.6	1.1	0.8	0.9	3.6
Total	157,390	113,695	164,205	138,125	211,096	0.7	0.5	1.5	2.1	3.2
Ex SBI	90,590	80,465	119,785	138,125	211,096	0.5	0.4	1.8	2.1	3.2

Notes:

(a) For SBI, 4QFY18 and 1QFY19 data include write-offs also and hence the same has been considered while calculating total.

(b) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 11: Credit cost remains elevated across most companies

Loan-loss provision ratio, March fiscal year-ends, 1QFY18-1QFY19 (%)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Public banks					
Bank of Baroda	2.3	1.9	3.2	6.6	1.7
Canara Bank	2.5	2.2	1.9	8.8	2.4
Punjab National Bank	2.3	2.4	2.8	13.3	4.8
State Bank of India	2.7	3.5	3.9	5.0	2.6
Union Bank	2.5	4.5	3.2	7.0	2.2
Old private banks					
City Union Bank	1.8	1.4	1.1	0.8	1.0
DCB	0.8	0.6	0.7	0.7	0.6
Federal Bank	1.2	0.8	0.7	1.1	0.7
Karur Vysya Bank	2.2	2.6	2.7	3.3	3.2
J&K Bank	3.9	1.5	1.5	2.4	1.6
New private banks					
Axis Bank	2.3	3.3	2.6	7.0	2.8
HDFC Bank	1.1	1.0	0.9	0.8	0.9
ICICI Bank	2.2	3.7	2.8	5.2	4.6
IDFC bank	(0.1)	(0.8)	0.9	2.0	0.3
Yes Bank	0.8	1.1	1.0	0.6	0.7
RBL	1.2	0.8	0.7	0.7	1.0
IndusInd Bank	0.7	0.7	0.6	0.8	0.6
Small finance banks					
Equitas	2.5	1.5	4.5	0.7	0.9
Ujjivan	9.9	1.7	5.0	1.8	0.8

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 12: Robust improvement in provision coverage ratio for most banks

Provision coverage ratio, March fiscal year-ends, 1QFY18-1QFY19 (%)

	Exc write-off					Inc write-off				
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Public banks										
BoB	57.7	57.7	59.1	58.4	59.9	66.3	67.2	68.0	67.2	69.1
Canara	35.5	35.7	37.3	39.9	40.2	54.5	54.8	55.8	58.1	60.7
PNB	40.1	40.0	40.8	43.8	47.1	58.2	59.2	60.8	58.4	61.8
SBI	42.7	47.4	48.6	50.4	53.4	60.8	65.1	65.9	66.2	69.3
Union	44.3	49.1	50.2	50.7	50.0	51.1	56.1	57.1	57.2	56.5
Old private banks										
City Union Bank	42.0	43.5	47.9	44.6	44.4	62.0	63.0	65.0	64.0	65.0
DCB	47.7	50.3	54.4	60.2	61.6	71.8	72.0	73.4	75.7	76.1
Federal Bank	43.2	45.3	46.5	44.5	43.5	70.3	70.0	70.0	65.0	64.7
Karur Vysya Bank	34.2	34.1	36.2	38.2	41.4	57.0	54.1	54.1	56.5	56.5
J&K Bank	59.8	59.2	60.1	53.5	55.4	70.3	69.2	69.5	65.8	66.8
New private banks										
Axis Bank	55.7	48.7	52.9	51.6	54.4					
HDFC Bank	65.1	66.3	66.3	69.8	69.5					
ICICI Bank	41.3	45.8	48.3	48.4	54.9					
IDFC bank	59.9	59.8	56.6	49.9	50.3					
Yes	60.0	43.3	46.4	50.0	55.3					
RBL	44.5	45.8	38.3	44.3	46.4					
IndusInd Bank	60.0	60.1	60.5	56.3	56.2					

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 13: ~25-30% of GNPLs lie in NCLT-1 and 2 accounts for most banks

March fiscal year-ends, 4QFY18-1QFY19

	1QFY19				4QFY18			
	Total exposure (Rs bn)	PCR (%)	Gross NPL (Rs bn)	Share of GNPL (%)	Total exposure (Rs bn)	PCR (%)	Gross NPL (Rs bn)	Share of GNPL (%)
PSU Banks								
Bank of Baroda	97	64	559	17	110	55	565	19
Bank of India	NA	NA	606	NA	120	48	623	19
Bank of Maharashtra	52	72	178	29	62	61	184	34
Canara Bank	130	NA	447	29	149	62	475	31
Central bank	NA	NA	388	NA	110	40	381	29
Corporation bank	92	71	218	42	101	68	222	45
IDBI Bank	NA	NA	578	NA	265	60	556	48
Indian Bank	28	74	118	NA	35	70	120	29
Oriental Bank of Commerce	65	72	261	25	78	62	261	30
State Bank of India	630	63	2,128	30	776	63	2,234	35
Syndicate Bank	NA	NA	264	NA	69	59	258	27
Union Bank	108	66	510	21	121	60	494	25
Vijaya bank	NA	NA	76	NA	21	61	75	28
Private Banks								
Axis Bank	NA	NA	327	NA	61	68	342	18
ICICI Bank	143	69	536	27	186	57	541	34
J&K bank	NA	NA	62	NA	25	76	60	41
IndusInd Bank	NA	NA	17	NA	4	65	17	23
Yes Bank	7	NA	28	24	10	48	26	37

Source: Company, Kotak Institutional Equities

Exhibit 14: Restructured loans flat qoq

Restructured loans and net NPLs, March fiscal year-ends, 1QFY18-1QFY19 (%)

	Restructured loans (%)					Net NPLs (%)					Net NPL and restructured loans (%)				
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Public banks															
BoB	3.1	3.0	2.3	1.3	NA	5.2	5.1	5.0	5.5	5.4	8.3	8.1	7.2	6.8	NA
Canara	2.5	2.1	1.9	1.0	1.1	7.1	7.0	6.8	7.5	6.9	9.6	9.2	8.7	8.5	8.0
OBC	3.5	2.0	1.0	0.5	0.4	9.6	9.4	9.5	10.5	10.6	13.1	11.5	10.5	11.0	11.0
PNB	2.8	2.5	2.1	1.2	0.9	8.7	8.4	7.6	11.2	10.6	11.4	11.0	9.7	12.4	11.5
SBI	2.2	1.9	1.1	0.3	NA	6.0	5.4	5.6	5.7	5.3	8.2	7.3	6.8	6.0	NA
Union	1.3	1.7	1.2	0.4	0.3	7.5	6.7	7.0	8.4	8.7	10.6	9.6	6.4	18.3	11.9
Old private banks															
City Union	0.6	0.1	0.0	0.0	0.0	1.8	1.8	1.7	1.7	1.7	2.3	1.8	1.8	1.7	1.7
DCB	0.2	0.2	0.1	NA	NA	0.9	0.9	0.9	0.7	0.7	1.1	1.1	1.0	NA	NA
Federal	1.7	1.7	1.7	0.9	0.6	1.4	1.3	1.4	1.7	1.7	3.1	3.0	3.0	2.6	2.3
Karur Vysya	1.9	1.6	1.6	0.6	0.1	2.9	3.2	3.9	4.2	4.5	4.8	4.8	5.5	4.7	4.6
J&K	11.4	11.2	9.8	8.2	6.9	4.7	4.8	4.3	4.9	4.7	16.0	16.0	14.1	13.1	11.6
Private															
Axis	1.3	0.8	1.5	0.2	0.2	2.3	3.1	2.6	3.4	3.1	3.6	3.9	4.1	3.6	3.3
HDFC Bank	0.0	0.0	0.0	0.0	NA	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.4	NA
ICICI	0.5	0.4	0.4	0.3	0.3	5.5	5.0	4.7	5.4	4.7	6.0	5.4	5.1	5.7	5.0
IDFC bank	1.0	1.0	1.0	1.0	1.3	1.7	1.6	2.5	1.7	1.6	2.7	2.6	3.5	2.7	2.9
IndusInd	0.2	0.2	0.1	0.1	0.0	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6
RBL	0.2	0.4	0.2	0.1	0.1	0.8	0.8	1.0	0.8	0.8	1.1	1.2	1.2	0.9	0.9
Yes	0.2	0.1	0.1	0.0	0.0	0.4	1.0	0.9	0.6	0.6	0.6	1.1	1.0	0.7	0.6
Total	2.0	1.8	1.4	0.7	0.7	4.6	4.4	4.3	4.7	4.4	6.6	6.2	5.7	5.4	5.1
Public banks	2.3	2.1	1.5	0.6	0.8	6.1	5.7	5.7	6.4	6.0	8.5	7.9	7.2	7.0	6.8
Private banks	0.9	0.7	0.9	0.5	0.6	2.1	2.2	2.1	2.3	2.0	3.0	3.0	2.9	2.8	2.6

Note:

- 1) DCB has been excluded from computation of restructured loans in 1QFY19 and 4QFY18 whereas BOB, SBI, HDFC and Axis bank have been excluded in 1QFY19.
- 2) Numbers post 4QFY17 for SBI are for the merged entity.

Source: Company, Kotak Institutional Equities

NBFCs: OPERATING TRENDS ON TRACK; EARLY DAYS FOR IND-AS

1QFY19 was a strong quarter with continued buoyancy in rural, auto, consumer finance and affordable housing segments. Marginal NIM pressure was visible due to asset-side re-pricing even as bond yield rise is not yet reflected in the borrowing cost. Asset quality parameters (stage 3 loans, ECL ratios) reported improvements, indicating improving asset quality. With just one quarter into Ind-AS, lack of clarity and standardization on several line items limit our analysis of financial trends in the results.

1QFY19 was a strong quarter

NBFCs reported 15-35% yoy growth in core earnings on the back of 20-35% loan growth; disbursement growth was strong at over 20%. NIM for most NBFCs was under pressure more from decline in asset yields even as rise in interest rates is not meaningfully reflected in the borrowing costs. Asset quality performance continues to improve with decline in stage 3 loans and ECL, which may more accurately reflect the health of the loan book.

High loan growth in NBFCs; HFCs a bit muted

Loan growth remained strong for most NBFCs due to high disbursements in CV over the past few quarters, buoyancy in rural auto finance and continuing growth in consumer finance. While housing finance in the lower-end remains strong, overall growth for housing finance companies was a bit muted. Despite increasing share of affordable loans, HDFC maintained 18% loan growth. LICHF was moderated at 15% and PNBHF managed 47% loan growth but individual home loan growth was down to 38% from 40% in 4QFY18. The overall management commentary on growth was positive except CV finance wherein recent changes in axel norms will likely put pressure on volumes in the near term.

Pressure on NIM

Most NBFCs reported marginal pressure on NIM. Interestingly, pressure was on asset side. Housing loans and CV finance were two most competitive segments in which yield pressure was clear. Rise in bond yields has led to higher marginal borrowing cost but this has not affected the overall borrowing cost of HDFC, LICHF and larger HFCs as yet. Banks increased their benchmark rates during the quarter, which will likely be fully reflected from 2QFY19 or 3QFY19. With a large share of bank borrowings for most NBFCs, the impact may be meaningful. On the positive side, most NBFCs including large housing finance companies have raised lending rates. Home loan rates have gone up by about 50 bps in past three quarters. NIM pressure for large private banks will likely reduce yield pressure in retail lending, which will be positive for NBFCs as well.

Transition to Ind-AS was the key area of focus

NBFC migrated to Ind-AS during 1QFY19. As such, financial performance of 1QFY19 and 1QFY18 (restated) is not comparable with other periods. Some takeaways:

- ▶ Most NBFCs reported negligible impact of transition to Ind-AS on net worth likely due to (1) large extra provisions/higher NPL coverage on balance sheet and (2) improving credit cycle leading to decline in provisioning requirements.
- ▶ Unlike the previous methodology wherein standard asset and NPL provisions rates are prescribed by the regulator, the ECL methodology derives the same through the historic experience of the company. Loan book is classified under three buckets, viz. stage 1, 2 and 3 where stage 1-2 reflect loans up to 90 dpd and stage 3 is akin to NPLs. While the overall quantum of provisions has remained similar between Ind-AS and IGAAP, the composition of provisions, i.e. standard/stage 1-2 provisions and NPL/stage 3 has changed significantly in favor of the former. Broadly, provisions for stage 1-2 loans is higher for asset finance NBFCs as compared to housing finance companies catering to the mass affluent segment.

- ▶ It would be challenging to directly compare financial performance across NBFCs due to different accounting treatment of several line items, which we believe may standardize over the next few quarters.

Exhibit 15: Core earnings growth remained robust for most NBFCs

Core PBT growth for NBFCs, 1QFY18-1QFY19 (%)

	Ind-AS 1QFY18	IGAAP 2QFY18	IGAAP 3QFY18	IGAAP 4QFY18	Ind-AS 1QFY19
Bajaj Finance	42	37	38	59	69
Bharat Financial Inclusion	(127)	(18)	12	NM	NM
Cholamandalam	28	32	51	30	35
HDFC	16	11	14	13	25
IIFL	60	39	31	23	37
LICHF	5	(2)	(1)	4	20
L&T Finance (lending)	25	26	30	40	75
Magma Finance	(82)	4	64	NM	637
Mahindra Finance	123	(19)	NM	84	38
PNBHF	67	54	61	42	53
Shriram Transport	24	23	44	(16)	25
Shriram City Union Finance	11	(3)	41	267	15

Source: Company, Kotak Institutional Equities

Exhibit 16: Earnings growth has been strong for most companies

PAT growth for NBFCs, 1QFY18-1QFY19 (%)

	Ind-AS 1QFY18	IGAAP 2QFY18	IGAAP 3QFY18	IGAAP 4QFY18	Ind-AS 1QFY19
Bajaj Finance	42	37	38	61	69
Bharat Financial Inclusion	(116)	(18)	12	NM	NM
Cholamandalam	27	33	53	33	36
HDFC	(15)	14	220	37	62
IIFL	44	25	32	33	35
LICHF	(3)	(1)	(2)	3	26
L&T Finance (lending)	59	43	37	38	71
Magma Finance	(19)	(3)	79	NM	56
Mahindra Finance	131	(18)	NM	81	34
PNBHF	77	51	58	44	50
Shriram Transport	23	24	43	(3)	24
Shriram City Union Finance	10	(3)	43	291	15

Source: Company, Kotak Institutional Equities

Exhibit 17: NII growth maintained momentum

Yoy growth in NII, 1QFY18-1QFY19 (%)

	Ind-AS 1QFY18	IGAAP 2QFY18	IGAAP 3QFY18	IGAAP 4QFY18	Ind-AS 1QFY19
Bajaj Finance	50	61	57	42	35
Bharat Financial Inclusion	9	18	38	88	52
Cholamandalam	18	25	30	34	20
HDFC	9	18	14	11	17
LIC Housing Finance	8	2	0	(0)	8
L&T Finance Holdings	0	15	22	38	47
Mahindra Finance	10	16	44	17	45
PNB Housing Finance	61	69	55	36	28
Shriram Transport Finance	14	21	21	28	20
Shriram City Union Finance	20	19	20	14	14

Source: Company, Kotak Institutional Equities

Exhibit 18: Loan growth remained strong in 1QFY19

Yoy loan growth, 1QFY18-1QFY19 (%)

	Ind-AS 1QFY18	IGAAP 2QFY18	IGAAP 3QFY18	IGAAP 4QFY18	Ind-AS 1QFY19
Bajaj Finance	39	38	35	40	35
Bharat Financial Inclusion	14	17	34	38	44
Cholamandalam	13	14	20	25	30
HDFC	18	18	19	21	19
LIC Housing Finance	15	16	15	15	15
L&T Finance Holdings	25	23	26	28	27
Magma Finance	(13)	(13)	(12)	(3)	2
Mahindra Finance	30	14	13	18	21
PNB Housing Finance	51	47	53	50	47
Shriram City Union Finance	18	16	16	19	20
Shriram Transport Finance	10	13	18	21	22

Source: Kotak Institutional Equities, Company

Exhibit 19: Disbursements momentum continued for NBFCs

Disbursements, 1QFY18-1QFY19 (%)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Bajaj Finance	NA	NA	(5)	49	27	25	NA	NA	NA
Cholamandalam	30	21	3	6	6	24	55	54	45
DHFL	26	32	10	11	33	51	54	81	65
L&T Finance	(10)	28	(4)	80	90	82	88	24	7
LICHF -retail	19	10	6	11	17	18	32	8	5
Mahindra Finance	8	29	15	23	16	0	17	42	35
PNB Housing Finance	NA	NA	28	43	54	45	110	45	25
Shriram City Union	27	23	10	20	7	10	23	6	11
Shriram Transport	15	12	(22)	(12)	1	16	65	43	24

Source: Company, Kotak Institutional Equities

Exhibit 20: NIM was under pressure for most companies

NIM (KS- calculations), 1QFY18-1QFY19 (%)

	Ind-AS 1QFY18	IGAAP 2QFY18	IGAAP 3QFY18	IGAAP 4QFY18	Ind-AS 1QFY19
Bajaj Finance	12.6	10.8	12.4	11.4	12.4
Bharat Financial Inclusion	10.2	11.9	12.1	12.1	10.7
Cholamandalam	7.7	8.3	8.4	9.7	7.2
HDFC	2.8	3.0	3.2	3.3	2.9
L&T Finance Holdings	4.4	5.1	5.3	5.5	5.0
LIC Housing Finance	2.5	2.4	2.3	2.5	2.3
Magma Finance	8.9	10.0	11.8	11.7	9.5
Mahindra Finance	6.8	8.1	9.1	10.6	8.1
PNB Housing Finance	3.1	3.2	3.0	3.0	2.6
Shriram City Union Finance	13.9	14.3	14.4	12.1	13.2
Shriram Transport Finance	7.6	7.8	7.8	7.8	7.5

Source: Company, Kotak Institutional Equities

Exhibit 21: Most NBFCs have large share of bank borrowings

Composition of borrowings, 1QFY17- 1QFY19 (% of total)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
HDFC									
Term loans	14	12	12	13	12	13	13	15	16
Bonds/ debenture/ CPs	53	55	56	56	59	57	56	57	54
Deposits	33	33	32	31	30	30	31	29	30
LICHF									
Bank	11	9	9	9	9	9	10	10	12
NCDs	80	81	81	79	79	79	78	79	74
Tier-II	2	2	2	2	2	2	2	2	2
Deposit	4	4	4	5	5	5	5	5	5
NHB	3	3	2	3	3	3	2	1	1
CP and others	1	1	1	2	2	3	3	3	7
PNBHF									
NCDs	NA	43	44	41	41	46	43	41	37
Cp and others	NA	14	8	12	16	15	17	19	17
Banks	NA	3	5	7	7	7	11	8	18
Public deposit	NA	25	28	28	25	23	21	21	19
ECB	NA	5	5	4	4	3	3	3	3
NHB	NA	10	9	8	7	6	5	7	6
L&TFH									
Term loan	20	14	14	16	14	15	15	16	17
NCDs and Others	42	46	45	43	49	46	46	43	45
LOC/CC/WCL/STL	23	27	27	22	24	22	22	23	18
CP	15	13	14	19	13	17	17	18	20
Shriram transport									
Banks/ institutional	81	81	81	82	83	83	84	85	90
Others	19	19	19	19	17	17	16	15	10
SCUF									
Retail	27	26	24	23	22	21	19	17	17
Bank borrowings	56	56	55	56	56	56	60	60	59
Market borrowings	14	16	18	18	20	21	20	22	24
Public issue NCD	3	3	2	2	2	2	1	1	-
Chola									
Bank	52	43	35	35	34	34	33	45	40
CP	10	14	16	11	11	12	13	7	11
Debenture	27	32	37	42	42	42	43	37	26
Subordinated debt	11	11	12	12	13	12	11	11	23
Mahindra Finance									
NCDs	39	43	45	46	49	52	53	48	44
Bank loans	33	30	26	27	24	24	25	30	30
FDs	15	14	13	12	11	9	9	8	8
CP/ICD	4	4	13	12	13	12	11	12	16
Securitisation/ assignmen	8	9	3	2	2	2	2	2	1
Magma									
Banks	74	76	67	65	68	70	68	68	66
DCM	16	12	21	23	19	18	20	20	23
Others	10	11	12	12	13	12	12	12	10
Dewan Housing									
Banks and FIs	52	44	42	42	44	43	41	42	36
Multilateral agencies	5	4	4	4	4	4	0	3	3
NHB	2	2	4	4	4	4	4	3	3
NCDs	32	43	42	42	39	40	41	40	48
Others/ FDs	9	7	8	8	9	9	14	12	10

Source: Company, Kotak Institutional Equities

Exhibit 22: Reported stage 3/NPL ratio improved

Gross NPLs of NBFCs, 1QFY17-1QFY19 (%)

	IGAAP 1QFY17	IGAAP 2QFY17	IGAAP 3QFY17	IGAAP 4QFY17	Ind-AS 1QFY18	IGAAP 2QFY18	IGAAP 3QFY18	IGAAP 4QFY18	Ind-AS 1QFY19
Bajaj Finance	1.5	1.6	1.5	1.7	1.7	1.7	1.7	1.5	1.4
Bharat Financial Inclusion	0.1	0.1	0.1	6.0	5.9	5.2	4.6	2.4	0.3
Cholamandalam	3.6	3.5	3.8	4.7	4.7	4.5	3.7	2.9	3.0
HDFC	0.8	0.8	0.8	0.8	1.1	1.1	1.2	1.1	1.2
LIC Housing Finance	0.6	0.6	0.6	0.4	0.7	0.8	0.9	0.8	1.2
LTF Holdings	3.6	3.6	4.1	3.9	11.7	4.7	4.5	4.0	7.9
Shriram Transport Finance	6.4	6.6	6.6	8.2	10.9	8.1	8.0	9.2	9.1
Shriram City Union Finance	5.1	5.0	4.5	6.7	6.8	6.9	6.8	9.0	8.9

Source: Company, Kotak Institutional Equities

Exhibit 23: Effective interest rates (EIR) and ECL are key items in IGAAP and Ind-AS PAT reconciliation

IGAAP-Ind-AS reconciliation, March fiscal year-ends, 1QFY18-1QFY19 (%)

	1QFY18					1QFY19				
	DHFL	Gruh	HDFC	LICHF	PNBHF	DHFL	Gruh	HDFC	LICHF	PNBHF
HFCs										
PAT as per IGAAP	2,605	722	15,524	4,701	1,848	NA	NA	NA	NA	NA
Adjustments:	619	237	(1,280)	96	(147)	NA	NA	NA	NA	NA
Net EIR impact	(120)	57	(1,063)	231	36	NA	NA	NA	NA	NA
EIR- financial assets	NA	63	NA	NA	NA	NA	NA	NA	NA	NA
EIR-financial liabilities	NA	(5)	NA	NA	NA	NA	NA	NA	NA	NA
De-recognition of financial assets	529	NA	NA	NA	(105)	NA	NA	NA	NA	NA
Fair valuation	(27)	(11)	(777)	NA	(98)	NA	NA	NA	NA	NA
Impact of ECL	104	167	(506)	(651)	(214)	NA	NA	NA	NA	NA
Tax adjustments	128	22	1,052	514	230	NA	NA	NA	NA	NA
Others	5	2	14	1	3	NA	NA	NA	NA	NA
PAT as per Ind-AS	3,224	959	14,245	4,797	1,701	NA	NA	NA	NA	NA
% change	(19)	(25)	9	(2)	9					
ECL/PAT under IGAAP	4	23	(3)	(14)	(12)					
Vehicle finance NBFCs										
	Chola Capital First	Magma	MMFS	STFC		Chola Capital First	Magma	MMFS	STFC	
PAT as per IGAAP	3,181	672	450	474	4,487	4,025	1,064	NA	1,936	5,405
Adjustments:	61	(18)	(60)	1,540	113	363	(49)	NA	755	313
Net EIR impact	(13)	15	10	156	(100)	(187)	6	NA	243	(346)
EIR- financial assets	(13)	NA	NA	193	16	(186)	NA	NA	152	(72)
EIR-financial liabilities	(0)	NA	NA	(37)	(115)	(1)	NA	NA	91	(274)
De-recognition of financial assets	(80)	274	(60)	98	NA	361	56	NA	149	NA
Fair valuation	(25)	(57)	-	(882)	NA	(16)	(144)	NA	68	NA
Impact of ECL	172	(263)	(510)	2,957	468	201	36	NA	562	499
Tax adjustments	NA	16	490	(815)	NA	NA	(24)	NA	(406)	NA
Others	7	13	10	26	(255)	5	21	NA	139	159
PAT as per Ind-AS	3,242	654	390	2,014	4,600	4,388	1,015	NA	2,691	5,717
% change	(2)	3	15	(76)	(2)	(8)	5		(28)	(5)
ECL/PAT under IGAAP	5	(39)	(113)	624	10	5	3		29	9
Others NBFCs										
	Bajaj	BHAFIN	IIFL	L&TFH	SCUF	Bajaj	BHAFIN	IIFL	L&TFH	SCUF
PAT as per IGAAP	9,250	(370)	2,519	3,092	1,939	15,620	1,900	2,971	NA	NA
Adjustments:	(4,640)	850	8	293	66	(7,260)	(480)	474	NA	NA
Net EIR impact	(1,810)	(12)	29	(468)	(47)	(2,130)	60	(25)	NA	NA
EIR- financial assets	(1,860)	(2)	51	(97)	(26)	(2,210)	100	(23)	NA	NA
EIR-financial liabilities	50	(10)	(22)	(372)	(22)	80	(40)	(2)	NA	NA
De-recognition of financial assets	NA	(110)	14	354	(47)	NA	(490)	358	NA	NA
Fair valuation	(180)	NA	264	389	(8)	(150)	NA	28	NA	NA
Impact of ECL	(130)	1,400	(336)	(251)	202	(370)	(220)	441	NA	NA
Tax adjustments	(2,520)	(450)	20	NA	(33)	(4,610)	140	(263)	NA	NA
Others	-	22	17	270	(1)	-	30	(65)	NA	NA
PAT as per Ind-AS	4,610	480	2,527	3,385	2,005	8,360	1,420	3,445	NA	NA
% change	101	(177)	(0)	(9)	(3)	87	34	(14)		
ECL/PAT under IGAAP	(1)	(378)	(13)	(8)	10	(2)	(12)	15		

Source: Company, Kotak Institutional Equities

Key highlights of 1QFY19 results (under Ind-AS)

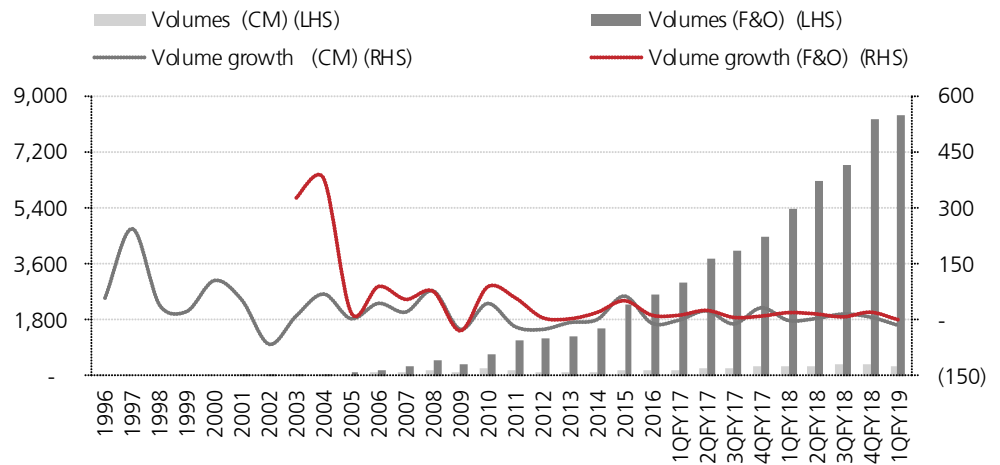
- ▶ Bajaj Finance reported 69% growth in earnings as per IGAAP. Loan growth was strong at 35% driven by momentum across various segments of consumer finance and business loans. Calculated NIM was down at 12.4% as compared to 12.6% in 1QFY18 likely due to higher interest rates and marginal shift of business loans. Efficient expense management and one-offs (discussed later in the note) curtailed expense growth to 7% yoy.

- ▶ Bharat Financial Inclusion (Bhafin) reported PAT of ₹1.89 bn under IGAAP in 1QFY19, down 10% qoq (seasonal trends) and 21% above estimates. NII (including fees) was up 53% on the back of 44% growth in loan book and higher NIM. Fees (mostly distribution and BC) almost doubled. Cost to income ratio improved to 47% from 52% yoy. With write-off of loans, GNPLs decline to 0.3% from 2.4% qoq. The company has utilized its tax credits and migrated to MAT during the quarter.
- ▶ Cholamandalam reported 36% yoy growth in PAT. Loans under management were up 30% yoy, driven by sharp spike in vehicle loans at 38% yoy. NII growth at 20% yoy lagged due to pressure on NIM. In line with its strategy, operating expense growth was controlled at 12% yoy leading to 240 bps yoy drop in cost-income ratio to 33%. Improvement in asset quality led to lower provisions (down 9% yoy).
- ▶ HDFC reported 54% PAT growth. Core earnings (PBT excluding capital gains, dividend income and provisions) rose 18% yoy. AUMs were up 18% yoy. NIM (calculated) was 2.92% versus 2.82% in 1QFY18; expansion in NIM was likely due to surplus funds on balance sheet post recent capital issuance. The company recognized dividend income from HDFC Bank in 1QFY19; this was recognized in 2Q last year – the key reason for high yoy growth in earnings.
- ▶ IIFL Holdings reported 36% growth in PAT before minority interest (Ind-AS). Capital market-related income (broking) business was subdued at 2% yoy growth. IIFL Finance reported 30% growth in IGAAP PAT on the back of 44% loan growth. 25% growth in wealth assets has driven 25% earnings growth for the wealth management business.
- ▶ LICHF reported 11% yoy growth in PBT before provisions on the back of 15% loan growth (13% in retail loans), 17 bps NIM compression to 2.37% leading to 8% growth in NII. A decline in provisions, despite a significant rise in stage 3 loans, led to 18% PAT growth.
- ▶ L&T Finance Holdings delivered 48% growth in the lending business PAT. The company reported 27% growth in loan book – rural loan book growth was strong at 76% yoy (16% qoq), housing loan book was up 48% yoy and wholesale was muted at 7% yoy. Calculated NIM expanded to 5% from 4.4%, largely in housing (non-retail) loans. Consolidated fees were up 25% with 35% growth in lending business fees. Stage 3 loans declined to 7.9% from 11.7% yoy, with sharp decline in the rural segment – 4.9% from 11.3% yoy. Operating expenses were up 57% yoy in rural and retail housing business as the management invested in growth.
- ▶ Mahindra Finance reported PAT under IGAAP (back calculated) of ₹1.93 bn as compared to our estimate of ₹1.87 bn. As per IGAAP, NII increased 20% yoy on the back of 21% loan growth. Stage 3 loans under Ind-AS (akin to GNPLs) declined impressively to 9.3% from 14.5% yoy.
- ▶ PNBHF reported 50% growth in PAT. NII was up 28% yoy reflecting clear pressure on NIM as loan growth was strong at 47% yoy. Operating leverage continued to play out as cost/AUM ratio improved to 0.8% from 0.9% in 1QFY18. The above translated into PPOP growth of 34% yoy. Provisioning expenses declined 35% yoy on a high base (significant restatement of provisions under Ind-AS for 1QFY18) and led to higher (50%) earnings growth.
- ▶ Magma Fincorp reported 56% growth in earnings (before share of JV profits). While calculated NIM expanded by 30 bps yoy (adjusting the benefit of capital issuance) due to falling interest rates, subdued loan growth (3% yoy) led to 9% NII growth. Provisions declined yoy due to decline in stage 1 and 2 provisions on the back of improved experience. Operating expenses growth was steady at 15% yoy. The company reported 17% reduction in its April 2017 net worth as a one-time impact of migration to Ind-AS- this was driven by higher provisions on stage 1 and 2 loans and 100% provisions on 2 year+ GNPLs.

- ▶ Shriram City Union Finance’s PAT was up 10% yoy. NII was up 16% yoy on the back of 20% loan growth and compression in NIM to 13.4% (down 40 bps yoy) on the back of compression in asset yields. Credit costs were high (up 25% yoy) due to yoy increase in GNPLs (8.9% in 1QFY19 versus 6.7% in 1QFY18) on account of the transition to 90 dpd from 120 dpd during the period and SCUF’s policy of keeping provisions high at 62% (though lower than 74% in 1QFY18). Cost to income ratio was 39%, marginally higher than 38% in 1QFY18.
- ▶ Shriram Transport Finance reported 24% yoy PAT growth. AUM was up 22% yoy due to marginal decline in NIM (12 bps yoy to 7.52%) and led to 20% NII growth. While cost-to-income ratio increased 200 bps to 22%, provision growth was low at 4% yoy likely due to better recoveries. GNPL (IGAAP) declined 3% qoq even as seasonally NPLs tend to go up in 1Q; GNPL ratio inched down to 8.98% from 9.15% in 4QFY18.

Exhibit 24: Equity market volumes were broadly flat qoq in 1QFY19

Volumes on BSE and NSE, March fiscal year-ends, 1996-1QFY19 (₹ bn)



Source: BSE, NSE, Kotak Institutional Equities

BANKS: RETAIL LOANS MAINTAIN MOMENTUM

Loan growth was modest at 10% yoy for banks under coverage. While loan growth improved yoy, there was slight dip on a qoq basis. Loan growth for the private sector was strong at 21% yoy, a trend similar to previous quarters, whereas those of PSU banks were muted at 6% yoy. Loan growth of the industry at ~12% yoy in 1QFY19 showed revival for the fifth quarter in a row. Loan growth has been in the range of ~12-13% in the past two months.

There has been a gradual shift in loans mix for most banks towards higher share of retail loans. The shift has picked pace for most PSU banks. Within retail, home loans and auto loans have gained maximum momentum. For private banks like HDFC, Axis, ICICI and others, a majority of retail loans growth has been driven by unsecured loans like personal loans and credit cards. SME/ MSME loans gained traction in 1QFY19 recording robust growth across most banks. PSUs continued to ramp up business in this space. Agriculture loan book was broadly muted, similar to education loans.

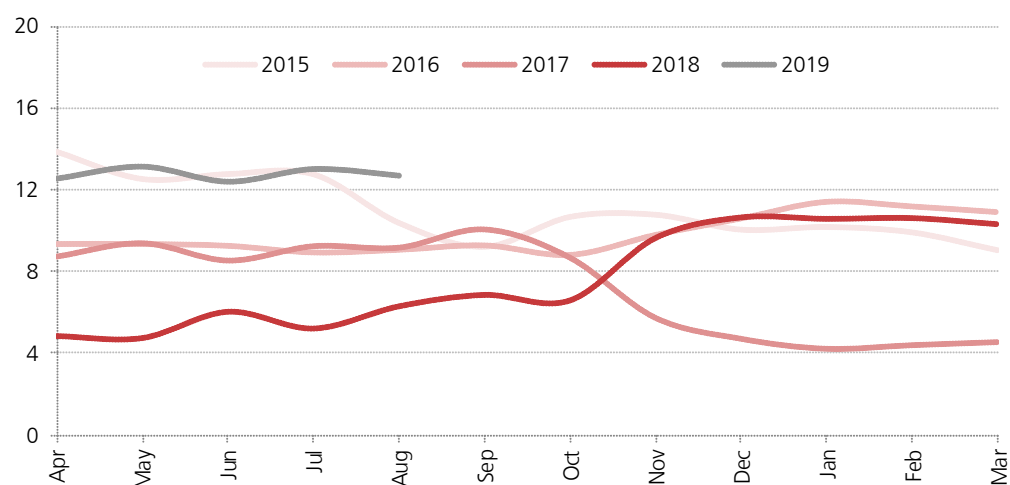
Corporate loan growth remained tepid for the fourth quarter in a row. There is negligible improvement in capex across most companies. There are, however, select sectors where signs of recovery and increase in investment are visible (renewable, infrastructure, etc.). The quantum, though, remains considerably low.

Among new private banks, barring ICICI Bank other banks reported fairly strong growth with Yes Bank, IndusInd Bank and RBL at around ~53%, 28% and 36% yoy respectively and Axis Bank relatively lower at 14% yoy. HDFC Bank maintained steady growth at 22% yoy. IDFC Bank has been realigning its loan book by cutting down its infrastructure book and increasing share of emerging corporate and retail business, both of which showed significant growth on a low base (loans up 15% yoy in 1QFY19).

We note that old private banks continued to record robust growth in the range of 13-31% yoy. Most of these banks like CUBK, DCB and KVB continue to focus on SME and retail loans for incremental growth. Federal Bank is focused on the rapidly expanding corporate loan book and extending credit to better rated companies. J&K Bank is primarily focused on expanding its home state corporate book. Additionally, it is rapidly expanding its retail book.

Exhibit 25: Loan growth remained strong at 12-13% yoy during 1QFY19

Yoy growth in loans, March fiscal year-ends, 2014-August 2018 (%)



Source: Company, Kotak Institutional Equities

Exhibit 26: Loan growth improved in 1QFY19

Yoy growth in loans, March fiscal year-ends, 1QFY15-1QFY19 (%)

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	
Public banks																		
Bank of Baroda	18.8	13.5	11.7	7.8	7.0	7.6	(2.4)	(10.3)	(11.2)	(14.6)	(8.9)	(0.1)	4.1	9.4	14.1	11.5	9.8	
Canara Bank	21.2	10.6	8.5	9.6	7.0	3.9	6.3	(1.6)	(0.9)	1.3	(0.1)	5.3	6.7	9.5	12.5	11.6	12.7	
PNB	13.9	13.8	11.1	9.0	9.6	6.7	8.4	8.4	2.8	3.4	(1.8)	1.7	2.1	4.2	17.2	3.4	3.9	
SBI	13.0	9.6	7.4	7.5	6.8	10.5	12.9	12.6	10.7	7.2	29.9	33.4	0.5	(0.1)	1.1	3.5	4.0	
Union Bank	18.1	10.3	8.9	12.1	6.7	3.9	5.8	5.7	5.1	9.6	5.5	8.6	9.9	11.3	13.5	4.0	7.9	
Old private banks																		
CUBK	5.0	7.7	7.2	11.5	10.8	12.0	14.2	17.5	18.5	16.0	12.5	12.1	13.4	15.6	19.7	16.9	17.3	
DCB	28.1	31.7	28.9	28.6	25.7	27.2	23.7	23.5	27.9	29.1	24.3	22.4	22.0	20.5	27.5	28.6	30.6	
Federal Bank	9.1	14.8	15.3	18.1	10.1	5.0	9.8	13.3	20.8	27.2	32.6	27.5	28.8	26.0	22.8	25.8	23.9	
KVB	11.9	11.3	8.0	5.5	7.4	5.6	5.9	9.3	5.8	5.4	1.5	5.0	7.7	11.9	16.6	11.0	12.9	
J&K Bank	16.3	9.6	2.4	(5.9)	(5.3)	1.4	5.3	12.6	12.9	4.0	(3.5)	(0.8)	(0.2)	8.0	28.5	14.2	22.8	
New private banks																		
Axis Bank	16.3	20.3	23.2	22.2	23.5	23.1	21.0	20.5	21.2	18.5	10.1	10.1	11.8	16.1	21.2	17.8	14.4	
HDFC Bank	20.7	21.8	17.0	20.6	22.4	27.9	25.7	27.1	23.2	18.1	13.4	19.4	23.4	22.3	27.5	18.7	22.0	
ICICI Bank	15.2	13.8	12.8	14.4	15.2	13.3	15.8	12.3	12.4	10.9	5.2	6.7	3.3	6.3	10.5	10.4	11.3	
IDFC bank	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	9.3	8.1	0.6	(2.7)	0.3	5.6	15.2	
Yes Bank	23.2	30.0	32.4	35.8	35.1	29.0	26.7	30.0	33.0	37.7	38.7	34.7	32.1	34.9	46.5	53.9	53.4	
RBL	NA	NA	NA	NA	NA	NA	NA	NA	NA	44.0	46.3	38.7	39.7	35.0	37.8	36.7	35.6	
IndusInd Bank	23.7	22.4	21.7	24.8	23.1	30.6	28.7	28.5	29.7	26.4	25.1	27.9	24.3	24.5	25.1	28.2	28.4	
Small finance banks																		
Equitas	NA	NA	NA	NA	NA	NA	NA	52.8	48.4	44.7	30.4	17.1	7.3	3.5	7.5	14.8	26.9	
Ujivan	NA	NA	NA	NA	NA	NA	NA	NA	66.5	58.7	43.6	18.4	10.4	2.8	7.7	18.5	20.6	
Public sector	14.4	10.0	8.3	8.0	7.0	7.6	8.0	5.7	4.1	2.7	0.4	2.0	2.5	3.5	6.8	5.3	5.9	
Public sector (ex SBI)	17.9	12.2	10.3	9.3	7.6	5.8	4.2	(0.2)	(1.8)	(1.4)	(2.0)	3.4	5.3	8.3	14.5	7.6	8.4	
Private sector	17.3	18.2	16.9	18.3	19.7	22.1	25.6	25.9	24.8	21.2	12.8	14.8	15.0	16.7	21.9	19.5	20.6	
Total	15.6	12.7	11.0	10.6	9.7	10.6	11.8	10.0	9.6	7.6	3.8	6.2	6.6	7.7	11.2	8.9	9.6	

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 27: Share of personal loans saw steep increase in 1QFY19

Break-up of loans and growth across segments, March fiscal year-ends, 2010- 1QFY19 (%)

	Proportion of loans							Growth yoy						Incremental contribution YoY								
	2013	2014	2015	2016	2017	2018	Jun-18	2013	2014	2015	2016	2017	2018	Jun-18	2013	2014	2015	2016	2017	2018	Jun-18	
Agriculture & Allied	12.1	12.0	12.8	13.5	14.0	13.4	13.6	7.7	13.5	14.4	15.3	12.4	3.8	7.2	7.4	11.4	22.1	21.5	20.0	6.4	8.3	
Priority Sector	31.6	33.7	33.5	34.0	34.3	33.2	32.7	8.2	22.0	7.0	10.7	9.4	4.8	6.8	20.5	48.6	30.3	39.6	38.3	19.8	19.4	
Agriculture & Allied	12.1	12.0	12.8	13.5	14.0	13.3	13.5	7.7	13.5	14.4	15.2	12.3	3.1	6.8	7.4	11.4	22.1	21.5	19.8	5.2	7.8	
SME	11.5	13.5	13.3	12.9	12.7	13.0	12.5	12.5	33.6	6.6	5.9	6.4	10.5	9.7	11.0	27.1	11.3	8.7	9.9	15.9	11.0	
Manufacturing	5.8	6.9	6.3	5.7	5.2	4.9	4.8	20.0	35.5	(1.3)	(2.3)	(0.5)	0.9	1.0	8.3	14.5	(1.2)	(1.6)	(0.3)	0.6	0.3	
Services	5.7	6.6	7.0	7.3	7.5	8.1	7.8	5.8	31.6	14.9	13.3	11.8	17.1	15.8	2.7	12.6	12.5	10.3	10.2	15.3	10.7	
Housing	5.5	5.5	5.4	5.2	5.2	4.9	4.9	0.3	13.5	6.3	6.2	7.6	2.0	6.1	0.1	5.2	4.3	3.7	4.8	1.2	2.2	
Weaker Sections	5.6	6.9	6.7	7.3	7.8	7.4	7.6	17.1	41.3	4.8	17.9	16.2	2.6	11.9	7.0	16.2	4.3	13.3	14.1	2.4	6.7	
Industry	45.8	45.3	44.3	41.7	37.8	35.1	34.6	14.9	13.1	5.3	2.7	(1.9)	0.7	1.3	50.6	42.0	30.8	13.4	(9.2)	3.2	3.0	
Mining & Quarrying	0.7	0.6	0.6	0.6	0.5	0.5	0.5	6.6	2.0	1.8	8.5	(11.6)	19.8	24.0	0.4	0.1	0.1	0.6	(0.8)	1.1	1.0	
Food processing	2.4	2.7	2.9	2.3	2.1	2.0	2.0	24.5	26.1	15.9	(12.5)	(3.0)	6.7	5.1	4.0	4.4	5.4	(3.9)	(0.8)	1.7	0.6	
Textiles	3.8	3.7	3.4	3.1	2.8	2.7	2.7	14.9	11.1	(1.0)	1.9	(4.6)	6.9	5.3	4.2	2.9	(0.5)	0.7	(1.7)	2.3	1.4	
Rubber, Plastic others	0.6	0.7	0.6	0.6	0.6	0.6	0.5	4.1	18.0	2.6	(1.1)	4.8	8.2	9.7	0.2	0.8	0.2	(0.1)	0.3	0.5	0.4	
Glass & Glassware	0.2	0.2	0.1	0.1	0.1	0.1	0.1	18.5	17.0	1.5	0.6	(10.8)	6.5	16.8	0.2	0.2	0.0	0.0	(0.2)	0.1	0.2	
Cement	0.9	1.0	0.9	0.8	0.8	0.7	0.7	24.0	18.0	3.6	(3.1)	(0.1)	(3.1)	3.7	1.6	1.2	0.4	(0.3)	(0.0)	(0.3)	0.2	
Basic metals	6.5	6.5	6.4	6.4	5.9	5.4	5.1	19.7	15.2	6.5	7.9	1.2	(1.2)	(5.0)	9.0	6.9	5.4	5.6	0.9	(0.8)	(3.0)	
Construction	1.1	1.1	1.2	1.1	1.2	1.2	1.2	7.3	17.7	21.0	0.3	10.3	9.5	9.4	0.6	1.3	3.0	0.0	1.4	1.3	0.8	
Infrastructure	15.0	15.1	15.4	14.7	12.8	11.6	11.7	15.7	15.1	10.1	4.4	(6.1)	(1.7)	0.2	17.3	15.8	19.4	7.4	(10.7)	(2.6)	(0.0)	
Power	8.5	8.8	9.3	8.9	7.4	6.8	6.7	25.5	17.4	14.2	4.0	(9.4)	(1.1)	(1.0)	14.8	10.4	15.8	4.1	(9.9)	(1.0)	(0.8)	
Telecom	1.8	1.6	1.5	1.4	1.2	1.1	1.2	(6.8)	3.0	1.7	(0.7)	(6.8)	(0.6)	7.7	(1.1)	0.4	0.3	(0.1)	(1.1)	(0.1)	0.7	
Roads	2.7	2.8	2.8	2.7	2.5	2.2	2.1	18.2	19.9	7.2	5.2	1.4	(7.5)	(5.8)	3.5	3.7	2.6	1.6	0.4	(2.3)	(1.3)	
Other Infrastructure	1.9	1.9	1.8	1.8	1.6	1.6	1.7	0.5	9.3	2.6	9.2	(0.1)	3.7	9.0	0.1	1.3	0.6	1.8	(0.0)	0.7	1.3	
Services	23.7	24.0	23.5	23.5	25.4	26.7	26.5	13.1	16.1	5.7	9.1	16.9	13.8	23.7	23.3	26.6	17.4	23.5	47.7	41.8	50.1	
Transport	1.6	1.6	1.5	1.5	1.6	1.6	1.6	4.2	12.4	2.3	8.9	10.7	9.8	11.8	0.6	1.4	0.5	1.5	2.0	1.8	1.6	
Professional Services	1.2	1.3	1.4	1.6	1.9	2.0	2.0	18.8	25.3	19.4	23.9	31.6	12.9	18.5	1.6	2.1	3.1	3.7	6.0	3.0	3.4	
Trade	5.7	5.8	6.1	5.8	6.0	6.1	6.2	22.4	17.0	13.3	4.2	12.3	9.1	14.8	8.8	6.7	9.8	2.8	8.5	6.6	8.1	
Real Estate	2.6	2.8	2.8	2.7	2.6	2.4	2.4	4.1	11.9	22.4	7.8	6.7	4.5	0.1	4.6	2.3	4.1	2.8	2.1	1.5	0.0	1.2
NBFCs	5.3	5.3	5.2	5.4	5.5	6.5	6.0	14.1	13.2	5.8	13.2	10.9	26.9	35.2	5.6	4.9	3.9	7.5	7.0	17.7	15.8	
Personal Loans	18.4	18.6	19.4	21.3	22.8	24.8	25.3	13.6	15.5	12.5	19.4	16.4	17.8	19.6	18.8	20.0	29.7	41.5	41.6	48.6	38.5	
Housing	9.4	9.7	10.5	11.4	12.1	12.7	13.1	13.2	18.4	16.2	18.8	15.2	13.3	16.2	9.3	12.1	20.1	21.7	20.7	19.3	17.9	
Vehicle	2.3	2.3	2.1	2.3	2.4	2.5	2.5	24.5	17.4	(4.5)	22.7	11.5	11.3	10.2	3.8	2.8	(1.3)	5.2	3.2	3.2	2.5	
Other Personal Loans	3.6	3.6	3.9	4.5	5.3	6.6	6.7	11.1	12.6	18.2	25.2	27.0	35.3	33.5	3.1	3.2	8.3	11.0	14.6	22.3	14.4	

Source: RBI, Kotak Institutional Equities

NIM under pressure for retail banks even as public banks report improvement

NIM compressed for most retail private banks on a qoq basis. While PSU banks reported qoq margin expansion in 1QFY19, this was owing to interest recognition from account resolved under NCLT, lower income de-recognition in the current quarter and marginally better pricing power on corporate loans. Adjusting the impact of the same, NIM dropped qoq for most of these banks. The pressure on margins is mostly driven by declining yields. While interest reversals dropped in 1QFY19, the change in loans mix towards higher share of low-yielding retail products and increasing competition in this space are the primary drivers for drop in yields. Among SFBs, Equitas continued to see a sharp decline in NIMs compared to Ujjivan given the change in loan mix (decline of loan book and increase in share of other retail products like housing and vehicle loans). Transition to MCLR from base rate is also leading to a drag on yields. Most banks have, however, increased their MCLR rates in the past few months (~20-30 bps). There was mixed trends in cost of funds owing to interplay of marginal decline in CASA for some banks on the back of drag in CA and rate cuts for SA in the past two quarters.

NIM is expected to improve in the medium term driven by lower interest reversals and increased interest recognition from resolution of NCLT accounts. There, however, will be drag on yields owing to change in loan mix towards higher share of low-yielding retail products as corporate loan growth remains muted. Banks with higher skew towards retail loans will face slightly lower pressure than their counterparts. Increase in MCLR rates and home loan rates will provide marginal relief. SBI, HDFC and ICICI Bank (high share of home loans among banks) have all increased their home loan rates in the past few months.

Exhibit 28: Mixed trends in margins; NIM down for most banks post adjusting one-off impact of interest recognition from account resolved under NCLT

NIM and yoy growth in NII for banks, March fiscal year-ends, 1QFY18-1QFY19 (%)

	NIM (%)					NII yoy growth (%)				
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Public banks										
Bank of Baroda	2.1	2.3	2.7	2.5	2.7	1.0	8.6	40.2	11.7	28.7
Canara Bank	2.3	2.3	2.4	2.4	2.5	17.6	14.0	52.4	10.3	43.1
Punjab National Bank	2.6	2.6	2.5	1.9	3.0	4.2	3.5	6.9	(16.8)	21.7
State Bank of India	2.4	2.4	2.5	2.5	2.5	(3.5)	2.6	5.2	(5.2)	23.8
Union Bank	2.1	2.1	2.2	1.9	2.3	6.7	1.9	19.3	(8.1)	17.1
Old private banks										
City Union Bank	4.5	4.5	4.4	4.4	4.2	22.3	17.8	18.9	18.5	9.5
DCB	4.2	4.2	4.1	4.2	3.9	31.7	30.4	19.6	19.7	17.1
Federal Bank	3.1	3.3	3.3	3.1	3.1	15.6	23.8	20.1	10.8	22.4
Karur Vysya Bank	3.8	3.8	3.7	4.1	3.7	11.9	12.1	8.5	10.8	8.4
J&K Bank	3.7	3.8	4.0	3.2	3.7	12.6	12.7	33.8	0.1	9.4
New private banks										
Axis Bank	3.6	3.5	3.4	3.3	3.5	2.2	0.6	9.2	0.0	11.9
HDFC Bank	4.4	4.3	4.3	4.3	4.2	20.4	22.0	24.1	17.7	15.4
ICICI Bank	3.3	3.3	3.1	3.2	3.2	8.4	8.7	6.4	1.0	9.2
IDFC bank	1.8	1.8	1.9	1.7	2.0	(22.2)	(6.8)	(5.0)	(9.7)	26.2
IndusInd Bank	4.0	4.0	4.0	4.0	3.9	30.8	24.7	20.0	20.4	19.6
RBL	3.5	3.7	3.9	4.0	4.0	54.7	38.7	45.3	42.1	46.1
Yes Bank	3.7	3.7	3.5	3.4	3.3	37.4	30.4	25.3	31.4	22.7
Small finance banks										
Equitas	9.1	9.2	8.6	8.0	7.2	5.6	0.3	2.0	12.5	17.9
Ujjivan	9.2	10.6	11.8	11.6	11.6	(23.7)	(17.7)	(7.1)	53.9	60.9

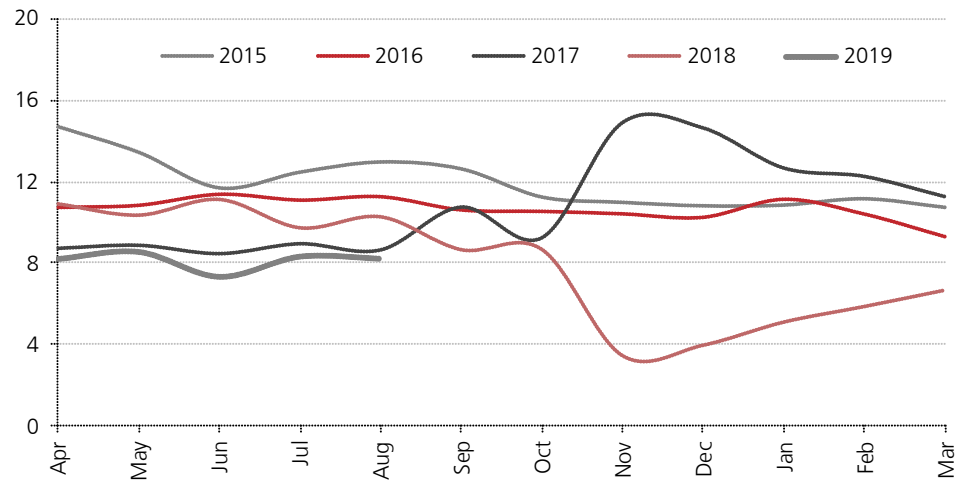
Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 29: Deposit growth sees revival

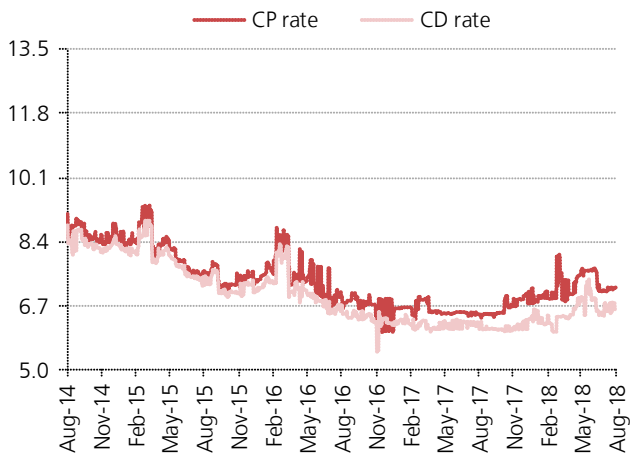
Yoy growth in deposits, March fiscal year-ends, 2014- August 2018 (%)



Source: RBI

Exhibit 30: CP rates have inched up in 4QFY18

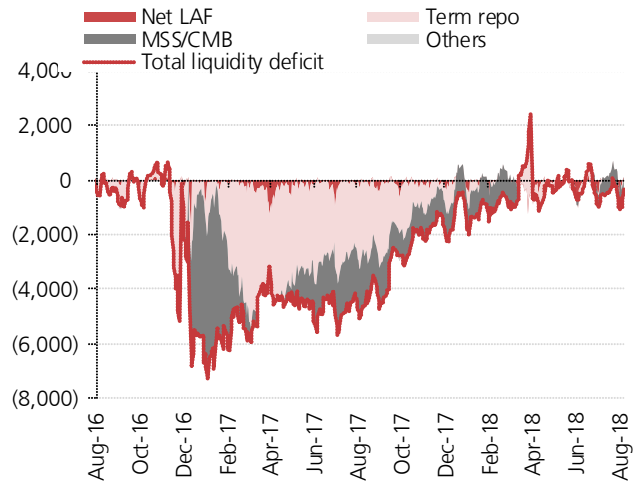
CP and CD rates, August 2014 – August 2018 (%)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 31: Liquidity has tightened significantly

Net Reverse Repo, August 2016 – August 2018 (₹ bn)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 32: Drop in CASA ratio for most banks driven by drag in CA

Yoy growth in deposits and CASA ratio, March fiscal year-ends, 1QFY18-1QFY19 (%)

	Deposit growth (%)					CASA ratio (%)				
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Public banks										
Bank of Baroda	1.5	2.8	(2.8)	(1.7)	1.9	38.8	39.2	40.5	41.2	40.8
Canara Bank	4.4	2.5	(1.3)	6.0	9.7	33.1	33.8	33.8	34.3	32.4
Punjab National Bank	12.9	10.7	5.9	3.3	0.8	44.0	44.4	45.5	43.9	42.6
State Bank of India	13.3	10.3	1.9	8.5	7.9	44.4	44.9	45.1	43.9	43.9
Union Bank	10.9	6.8	4.9	8.0	8.0	35.5	33.6	34.0	34.1	34.0
Old private banks										
City Union Bank	9.1	8.8	4.5	9.1	10.3	23.3	23.0	22.3	24.2	23.9
DCB	22.2	16.3	13.0	24.5	30.7	26.9	25.9	25.7	24.3	24.6
Federal Bank	18.1	12.6	9.0	14.7	16.1	33.4	32.9	33.0	33.3	33.5
Karur Vysya Bank	7.8	8.5	3.7	5.9	5.3	29.2	27.6	28.1	29.1	30.0
J&K Bank	4.0	0.7	(1.4)	10.4	7.9	50.9	50.4	49.9	50.9	50.8
New private banks										
Axis Bank	10.0	9.5	10.3	9.5	13.5	49.2	50.4	49.3	53.8	46.9
HDFC Bank	17.0	16.5	10.1	22.5	20.0	44.0	42.9	43.9	43.5	41.7
ICICI Bank	14.7	11.0	11.2	14.5	12.5	49.0	49.5	50.4	51.7	49.5
IDFC bank	222.0	69.7	56.5	19.9	28.8	6.8	8.2	10.1	11.8	11.3
IndusInd Bank	31.4	25.9	22.5	19.8	18.8	37.8	42.3	42.9	44.0	43.4
RBL	37.3	30.8	28.7	26.9	26.9	22.1	23.7	24.0	24.4	24.5
Yes Bank	22.6	23.4	29.7	40.5	42.0	36.8	37.2	38.0	36.5	35.1
Small finance banks										
Equitas	NA	2,697.3	406.0	150.2	153.7	25.9	28.3	32.6	34.6	32.1
Ujjivan	NA	NA	NA	3,468.1	1,144.1	5.3	4.6	3.7	3.7	6.3

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 33: Adjusting for one-off interest recognition from account resolved under NCLT, yields dropped qoq for most banks

Yield on advances, March fiscal year-ends, 1QFY18-1QFY19 (%)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Public banks					
Bank of Baroda	6.9	6.9	7.2	7.1	7.5
Canara Bank	8.5	8.3	8.2	8.1	8.5
Punjab National Bank	7.9	7.9	7.8	6.5	8.0
State Bank of India	8.5	8.5	8.4	8.3	8.3
Union Bank	8.1	7.9	7.5	7.3	7.9
Old private banks					
City Union Bank	11.8	11.5	11.4	11.2	10.9
DCB	11.7	11.4	11.3	11.4	11.2
Federal Bank	9.5	9.4	9.3	8.7	8.8
Karur Vysya Bank	10.6	10.5	10.2	9.9	9.9
J&K Bank	9.5	9.3	9.0	7.8	8.5
New private banks					
Axis Bank	8.7	8.5	8.4	8.1	8.7
HDFC Bank	10.2	10.4	10.5	10.3	10.2
ICICI Bank	8.5	8.5	8.3	8.4	8.5
IDFC bank	9.6	10.2	10.2	9.2	9.5
IndusInd Bank	11.5	11.3	11.0	11.1	11.2
RBL	10.6	10.6	10.4	10.5	10.8
Yes Bank	10.4	10.2	9.8	9.9	10.0
Small finance banks					
Equitas	20.2	20.9	19.9	19.3	19.2
Ujjivan	19.0	20.3	19.5	19.4	19.3

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities estimates

Exhibit 34: Mixed trends in cost of funds

Cost of funds/deposits, March fiscal year-ends, 1QFY18-1QFY19 (%)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Public banks					
Bank of Baroda	4.6	4.5	4.4	4.5	4.5
Canara Bank	5.8	5.7	5.6	5.6	5.5
Punjab National Bank	5.1	5.0	5.0	4.8	5.0
State Bank of India	5.5	5.4	5.3	5.3	5.3
Union Bank	5.8	5.7	5.6	5.5	5.5
Old private banks					
City Union Bank	6.4	6.3	6.2	6.2	6.2
DCB	6.6	6.5	6.4	6.5	6.6
Federal Bank	6.3	6.1	6.3	6.1	6.0
Karur Vysya Bank	6.2	6.1	5.9	5.8	5.8
J&K Bank	5.3	5.2	4.9	4.8	4.8
New private banks					
Axis Bank	5.2	5.2	5.1	5.1	5.2
HDFC Bank	5.0	5.1	5.2	5.0	5.1
ICICI Bank	5.0	4.9	4.8	4.6	4.7
IDFC bank	7.5	7.1	7.3	7.2	7.1
IndusInd Bank	5.3	5.1	5.0	5.1	5.4
RBL	6.7	6.6	6.3	6.5	6.6
Yes Bank	6.2	6.1	6.0	6.0	6.3
Small finance banks					
Equitas	9.2	8.7	8.1	8.0	8.0
Ujjivan	9.8	9.7	9.3	9.0	8.6

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 35: Broadly stable fixed deposit rates qoq

Retail term deposit rates for various maturities, August 2018 (%)

	7-14 days	15-30 days	31-45 days	46-90 days	91-179 days	180-269 days	270-364 days	1 Year- less than 2 years	2 Year- less than 3 years	3 years and above
Allahabad Bank	4.00	4.00	4.50	5.5-6	6.00	6.25	6.50	6.60	6.50	6.50
Andhra Bank	4.00	4.50	4.50	5.25	6.00	6.25	6.25	6.60	6.50	6.50
AU SFB	5.50	5.50	5.50	6.75	6.90	7.00	7.00	7.55	7.75	7.3-8
Bandhan bank	3.50	4.00	4.00	4.00	4.50	6.80	6.80	7-7.3	7.40	6.4-7.4
Bank of Baroda	4.25	4.75	4.75	5.00	5.50	6.25	6.50	6.65-6.75	6.60	6.6-6.7
Bank of India	5.25	5.25	5.25	5.75	6.00	6.25	6.25	6.65	6.70	6.35-6.4
Canara Bank	5.75	5.75	5.75	6.25	6.25	6.35	6.40	6.7-7	6.70	6.5-7.1
Corporation Bank	4.50	4.50	4.50	5.50	6.00	6.35	6.35	6.5-6.8	6.50	6.50
OBC	5.75	5.75	5.75	6.25	6.25	6.35	6.50	6.75	6.75	6.7-6.75
Punjab National Bank	5.70	5.70	5.70	6.35	6.35	6.35	6.35	6.75	6.75	6.25
State Bank of India	5.75	5.75	5.75	6.25	6.25	6.35-6.4	6.40	6.70	6.75	6.8-6.85
Union Bank of India	5.00	5.00	5.00	5.50	6.25	6.50	6.7-6.75	6.70	6.70	6.85
IDFC bank	4.00	5.00	6.25	6.50	6.75	7.00	7.00	7.50	7.5-8	8-8.25
ICICI Bank	4.00	4.25	5.50	5.75-6	6.00	6-6.5	6.5-6.75	6.75-7	7.25	7-7.25
Axis Bank	3.50	3.50	5.50	6.25	6.25	6.75	7.00	7-7.45	7.00	7.00
HDFC Bank	3.50	4.25	5.75	6.25	6.25	6.75	7.00	7.25	7.10	6-7.1
Federal Bank	3.50	4.50	5.00	5-5.7	6-6.5	6.50	6.50	6.85-7.3	7.00	6-7.1
RBL	5.00	6.00	6.00	7.00	7.15	7.15-7.25	7.25	7.75	7.50	7.50
Yes Bank	5.00	5.00	5.00	7.00	6.90	6.70	6.70	7.10	7.10	7.10
IndusInd Bank	3.50	4.00	5.50	5.75-6	6.25-6.5	6.75	7.00	7.4-7.65	7.25	6.75-7
Kotak	3.50	4.00	5.00	5.50	6-6.25	6.5-6.75	6.75-7	7.25-7.3	7.10	6.5-7.1
Equitas	5.00	5.50	6.00	6.25	6.50	6.75	6.75-7.5	7.75-8	7.75	7.00
Ujjivan	5.50	5.50	6.25	6.25	6.75	7.50	7.50	8.00	7.5-8.25	6.5-7.0

Source: Company, Kotak Institutional Equities

Exhibit 36: Rise in base rates in August 2018

Base rates, March fiscal year-ends, April 2014 onwards

	Apr-14	Oct-14	Jan-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Dec-15	Apr-16	Jul-16	Sep-16	Oct-16	Jan-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Nov-17	Jan-18	Feb-18	Apr-18	Aug-18	
Public banks																												
Andhra Bank						10.00			9.75						9.70							9.55						
Bank of Baroda						10.00	9.90		9.65				9.60								9.50	9.15						9.25
Bank of India						9.95			9.70					9.65				9.55						9.45				
Canara Bank						10.00			9.90	9.65							9.40											
Indian Bank	10.25					9.95			9.65																			
IOB						10.05	9.90								9.70							9.45						
OBC						10.00		9.90	9.70				9.65				9.50					9.45						9.50
PNB						10.00			9.60							9.35							9.15					
SBI						9.85	9.70		9.30							9.25	9.10					9.00	8.95		8.65		8.70	8.95
Union Bank			10.00						9.65				9.60									9.20		8.95				9.00
Private banks																												
Axis Bank		10.15		9.95		9.85			9.50			9.45	9.35			9.25	9.15				9.05		9.00		8.95		9.20	
ICICI Bank				9.75		9.70			9.35										9.10			9.00		8.85				
HDFC Bank				9.85		9.70			9.35	9.30	9.30				9.25		9.00				8.90		8.85				8.95	
Yes Bank						10.50			10.25																			
IndusInd Bank						10.85				10.60						10.55												

Source: Company, Kotak Institutional Equities

Exhibit 37: SBI - MCLR rate increased 30 bps since December 2017

March fiscal year-ends, April 2016 - August 2018

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Oct-16	Nov-16	Jan-17	Jun-17	Aug-17	Sep-17	Nov-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Overnight	8.95	8.90	8.90	8.90	8.85	8.80	8.65	7.75	7.75	7.75	7.75	7.70	7.70	7.70	7.80	7.80	7.80	7.90	7.90	7.90
One month	9.05	9.00	9.00	9.00	8.95	8.90	8.75	7.85	7.85	7.85	7.85	7.80	7.80	7.80	7.80	7.80	7.80	7.90	7.90	7.90
Three month	9.10	9.05	9.05	9.05	9.00	8.95	8.80	7.90	7.90	7.90	7.90	7.85	7.85	7.85	7.85	7.85	7.85	7.95	7.95	7.95
Six month	9.15	9.10	9.10	9.10	9.05	9.00	8.85	7.95	7.95	7.95	7.95	7.90	7.90	7.90	7.90	8.00	8.00	8.10	8.10	8.10
One year	9.20	9.15	9.15	9.15	9.10	9.05	8.90	8.00	8.00	8.00	8.00	7.95	7.95	7.95	8.15	8.15	8.15	8.25	8.25	8.25
Two years	9.30	9.25	9.25	9.25	9.20	9.15	9.00	8.10	8.10	8.10	8.10	8.05	8.05	8.05	8.25	8.25	8.25	8.35	8.35	8.35
Three years	9.35	9.30	9.30	9.30	9.25	9.20	9.05	8.15	8.15	8.15	8.15	8.10	8.10	8.10	8.35	8.35	8.35	8.45	8.45	8.45

Source: Company, Kotak Institutional Equities

Exhibit 38: 20-30 bps rise in MCLR rates across most banks since March 2018
MCLR rates, March fiscal year-ends, August 2018 (%)

	Aug-18							
	Overnight	1 month	3 month	6 month	1 year	2 years	3 years	5 years
Banks under coverage								
Public sector banks								
BoB	8.0	8.1	8.2	8.4	8.5	NA	NA	NA
Bol	7.9	8.1	8.2	8.4	8.6	NA	NA	NA
Canara	8.2	8.2	8.3	8.4	8.6	NA	NA	NA
PNB	7.9	8.1	8.2	8.4	8.5	NA	8.6	NA
SBI	7.9	7.9	8.0	8.1	8.3	8.4	8.5	NA
Union	8.1	8.3	8.3	8.4	8.6	8.6	8.7	NA
Old private banks								
CUBK	8.8	8.9	8.9	9.0	9.1	9.3	9.4	9.7
DCB	8.8	8.9	8.9	9.7	10.4	NA	NA	NA
FB	8.8	8.9	9.0	9.1	9.2	NA	NA	NA
J&K	7.9	8.2	8.3	8.7	8.8	9.3	9.3	NA
KVB	8.6	8.6	8.9	9.4	9.6	NA	NA	NA
New private sector banks								
Axis	8.1	8.1	8.4	8.5	8.6	8.7	8.8	NA
HDFC	8.1	8.1	8.1	8.3	8.4	8.6	8.7	NA
ICICI	8.1	8.1	8.1	8.4	8.4	NA	NA	NA
IDFC bank	8.2	8.2	8.5	8.7	8.9	9.1	9.2	NA
Indusind	9.0	9.0	9.3	9.6	9.6	9.7	9.7	NA
RBL	9.1	9.2	9.3	9.7	9.8	10.1	10.2	NA
Yes	8.4	8.8	9.3	9.4	9.6	NA	NA	NA
Small finance banks								
Equitas	13.45	13.7	14.15	14.55	15.2	NA	NA	NA
Ujjivan	14.85	14.85	15.05	15.35	15.7	15.7	15.7	NA
Banks not under coverage								
Allahabad	8.0	8.1	8.3	8.3	8.5	8.7	8.8	NA
Andhra	8.2	8.2	8.4	8.6	8.7	NA	NA	NA
AU	11.6	11.0	12.1	12.3	12.5	13.0	13.0	NA
BoMH	8.6	8.7	8.7	8.8	8.8	NA	NA	NA
Central bank	8.0	8.1	8.4	8.8	8.9	NA	NA	NA
Corporation	7.9	8.1	8.3	8.4	8.5	NA	NA	NA
Dena	7.7	7.9	8.1	8.3	8.5	NA	NA	NA
IDBI	8.0	8.3	8.5	8.6	8.9	8.9	8.9	NA
IOB	8.1	8.2	8.4	8.5	8.7	8.8	8.9	NA
Kotak	8.0	8.2	8.6	8.7	9.0	9.0	9.0	NA
Karnataka	9.0	8.6	8.5	8.5	8.4	NA	NA	NA
Laxmi Vilas	9.0	9.1	9.2	9.4	9.7	NA	NA	NA
OBC	8.2	8.4	8.4	8.6	8.7	NA	NA	NA
PSB	7.9	8.1	8.3	8.4	8.7	8.9	NA	NA
South Indian	8.3	8.4	8.5	8.8	9.3	NA	NA	NA
Syndicate	8.1	8.2	8.2	8.4	8.7	NA	NA	NA
UCO	8.0	8.1	8.3	8.5	8.6	NA	NA	NA
United	8.1	8.4	8.5	8.6	8.8	NA	NA	NA
Vijaya	9.2	9.3	9.4	9.4	9.5	9.5	9.6	NA
Bandhan	9.5	9.6	9.7	9.9	10.4	11.7	11.9	NA
Indian	8.1	8.2	8.4	8.5	8.6	NA	8.8	9.05

Source: Company, Kotak Institutional Equities

Fee income maintain momentum albeit marginal drop qoq; drop in treasury gains drags non-interest income

Income from treasury gains dropped 92% yoy and 80% qoq (adjusting for one-off gains for ICICI Bank from stake sale in ICICI Securities and ICICI Lombard) for stocks under coverage. With rising interest rate environment presenting limited trading opportunities of trading in the G-Sec market, the contribution of treasury income has dropped significantly. The impact was, however, stronger for PSU banks. Treasury gains for private banks dropped 62% yoy and 15% qoq (adjusting for one-off gains for ICICI Bank from stake sale in ICICI Securities and ICICI Lombard).

Fee income was up 13% yoy for banks under coverage (excluding SFBs). The fee income trend was stronger for private banks as compared to PSUs. On a yoy basis, private banks reported 18% yoy rise in fee income. Fee income trends were, however, muted on qoq basis (down 32% qoq for private banks and 3% qoq for PSUs). Traction in retail fees has driven fee income while fees from the corporate side remain muted. Additionally, fee income has been driven by increase in cross-sell fee income of third party products like insurance, MFs, etc. Most banks have been increasing their tie-ups for distribution of third party products. Given the rise in financial savings (expected to continue in medium term), fee income contribution to total income will be robust going ahead.

Exhibit 39: Share of non-interest income to total income dropped in 1QFY19

Non-interest income, March fiscal year-ends, 1QFY18-1QFY19 (₹ mn)

	Other income					Total income					Non interest income to total income (%)				
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Public banks															
Bank of Baroda	15,512	17,371	16,730	16,959	11,478	49,561	54,576	60,671	56,982	55,289	31	32	28	30	21
Canara Bank	21,085	19,362	15,665	13,317	18,329	48,218	47,196	52,456	43,193	57,158	44	41	30	31	32
PNB	23,318	19,060	30,820	15,611	19,592	61,869	59,212	70,707	46,244	66,511	38	32	44	34	29
State Bank of India	80,060	160,160	80,842	124,948	66,795	256,120	346,020	267,717	324,691	284,779	31	46	30	38	23
Union Bank	14,147	12,173	8,731	14,848	12,080	36,573	35,381	34,214	36,778	38,341	39	34	26	40	32
Old private banks															
City Union	1,353	1,552	1,217	1,198	1,291	4,777	5,101	4,867	4,878	5,039	28	30	25	25	26
DCB	858	653	749	849	828	3,189	3,134	3,254	3,486	3,558	27	21	23	24	23
Federal Bank	3,291	2,872	2,286	3,142	2,709	11,298	11,861	11,790	12,474	12,509	29	24	19	25	22
KVB	2,363	2,301	2,249	2,087	2,549	7,749	7,851	7,865	8,515	8,385	30	29	29	25	30
J&K Bank	1,102	1,050	1,078	1,723	1,344	8,223	8,276	8,880	8,280	9,136	13	13	12	21	15
New private banks															
Axis Bank	29,998	25,855	25,931	27,887	29,250	76,160	71,252	73,246	75,191	80,918	39	36	35	37	36
HDFC Bank	35,167	36,059	38,692	42,286	38,181	128,874	133,580	141,835	148,863	146,316	27	27	27	28	26
ICICI Bank	33,879	51,862	31,669	56,786	38,518	89,778	108,953	88,721	117,003	99,537	38	48	36	49	39
IDFC bank	6,488	1,452	2,308	930	1,987	10,369	6,071	7,258	5,463	6,886	63	24	32	17	29
IndusInd Bank	11,673	11,876	11,868	12,085	13,016	29,413	30,086	30,816	32,161	34,240	40	39	39	38	38
RBL	2,569	2,411	2,582	3,120	3,260	6,353	6,612	7,255	8,124	8,787	40	36	36	38	37
Yes Bank	11,322	12,484	14,223	14,210	16,941	29,411	31,335	33,111	35,752	39,133	38	40	43	40	43
Small finance banks															
Equitas	823	341	326	433	612	2,981	2,637	2,663	2,918	3,156	28	13	12	15	19
Ujivan	631	782	292	967	775	2,013	2,428	2,251	3,076	2,999	31	32	13	31	26
Public banks	154,121	228,126	152,788	185,682	128,274	452,340	542,384	485,764	507,888	502,077	34	42	31	37	26
Private banks	141,517	151,552	135,469	167,701	151,260	410,586	429,177	423,811	466,184	460,598	34	35	32	36	33
Total	295,637	379,678	288,257	353,383	279,535	862,926	971,561	909,575	974,072	962,676	34	39	32	36	29

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 40: Sharp yoy drop in treasury gains

Treasury income (₹ mn) and treasury-to-PBT (%) of banks, March fiscal year-ends, 1QFY18-1QFY19

	Income from treasury (Rs mn)					Income from treasury (% of PBT)				
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Public banks										
Bank of Baroda	5,530	6,450	5,090	1,700	1,050	197	91	228	(4)	13
Canara Bank	8,840	5,660	4,060	670	610	329	175	257	(1)	17
PNB	8,020	7,010	15,370	2,160	2,711	132	84	(694)	(1)	(17)
State Bank of India	17,700	85,660	10,260	9,410	(12,640)	60	994	(14)	(8)	17
Union Bank	6,520	4,770	60	1,320	1,940	185	(30)	(0)	(3)	(138)
Old private banks										
City Union Bank	390	646	344	301	193	22	34	16	14	9
DCB Bank	287	71	55	42	153	28	8	6	4	14
Federal Bank	1,120	750	290	220	490	35	18	7	10	12
Karur Vysya Bank	470	200	260	80	70	22	19	27	9	19
J&K Bank	263	26	(20)	226	92	(18)	2	(2)	147	10
New private banks										
Axis Bank	8,240	3,770	2,000	2,180	1,030	42	59	19	(6)	10
HDFC Bank	3,314	3,559	2,594	(220)	(2,832)	6	6	4	(0)	(4)
ICICI Bank	8,580	21,930	660	26,850	7,660	33	88	4	302	(470)
IDFC bank	5,710	1,464	780	2,400	1,830	86	42	38	(129)	88
IndusInd Bank	1,930	1,750	1,100	950	1,370	15	13	8	7	9
RBL Bank	739	381	282	420	370	34	17	11	16	13
Yes Bank	1,190	2,000	1,000	945	1,700	8	14	6	5	9
Total	78,843	146,096	44,185	49,654	5,796	41	98	81	(13)	12
Public banks	46,610	109,550	34,840	15,260	(6,329)	105	978	(41)	(3)	8
Private banks	32,233	36,546	9,345	34,394	12,125	22	27	7	40	10

Note:

- 1) Numbers for SBI IN 2QFY18 include one-off gains from stake sale in SBI Life worth Rs54,360 mn.
- 2) Number for ICICI bank in 4QFY18 include one-off gains from stake sale in ICICI Securities worth Rs20,125 mn and worth Rs20 bn from stake sale in ICICI Lombard in 2QFY18.
- 3) Treasury gains for PNB for 1QFY19 is an estimated value.
- 4) Numbers for SBI from 1QFY17 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 41: Fee income was weak qoq

Fee income, March fiscal year-ends, 1QFY18-1QFY19 (₹ mn)

	Fee income (Rs mn)					Fee income (% of other income)				
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
PSU banks										
BOB	5,350	8,140	7,710	9,850	7,940	34.5	46.9	46.1	58.1	69.2
Canara	3,670	3,130	2,770	2,430	3,460	17.4	16.2	17.7	18.2	18.9
PNB	10,720	8,510	8,620	9,060	10,570	46.0	44.6	28.0	58.0	53.9
SBI	48,700	53,570	49,790	84,300	49,760	60.8	33.4	61.6	67.5	74.5
Union	6,060	5,490	5,970	11,270	7,070	42.8	45.1	68.4	75.9	58.5
Old private banks										
CUBK	697	572	612	680	759	51.5	36.8	50.3	56.8	58.8
DCB	519	483	567	618	599	60.5	74.0	75.7	72.8	72.3
Federal	1,461	1,542	1,536	1,822	1,569	44.4	53.7	67.2	58.0	57.9
J&K	400	392	432	485	418	36.3	37.3	40.1	28.1	31.1
KVB	1,700	1,490	1,530	1,530	1,910	71.9	64.7	68.0	73.3	74.9
New private banks										
Axis	20,029	21,700	22,460	24,480	21,170	66.8	83.9	86.6	87.8	72.4
HDFC	25,781	26,140	28,721	33,297	31,710	73.3	72.5	74.2	78.7	83.1
ICICI	23,770	25,700	26,390	27,550	27,540	70.2	49.6	83.3	48.5	71.5
IDFC	990	1,065	1,380	1,070	1,230	15.3	73.3	59.8	115.0	61.9
IndusInd	9,743	10,126	10,768	11,135	11,646	83.5	85.3	90.7	92.1	89.5
RBL	567	568	667	648	694	22.1	23.6	25.8	20.8	21.3
Yes	6,697	7,486	10,131	9,913	10,156	59.2	60.0	71.2	69.8	59.9

Notes:

- (a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 42: Private banks maintain dominance in fee income generation from sale of third party products

Fee income from bancassurance channel, March fiscal year-ends, 2011- 2018 (₹ mn)

	2011	2012	2013	2014	2015	2016	2017	2018
PSU banks								
Allahabad	178	189	199	201	206	216	214	274
Andhra	263	100	119	128	196	235	379	558
BoB	400	330	338	287	358	354	531	1,099
BoI	340	582	461	501	598	804	919	1,064
BoMH	63	75	108	108	112	131	126	173
Canara	611	360	428	466	584	703	923	1,564
Central	157	198	242	261	249	191	168	214
Corporation	77	83	83	109	105	130	142	134
Dena	92	35	71	83	114	49	74	111
IDBI	379	344	492	522	431	545	668	676
Indian	126	193	163	89	62	92	128	168
IOB	190	207	181	198	191	210	156	213
OBC	NA	279	269	314	274	239	291	464
PNB	132	333	556	686	852	1,144	1,420	1,861
PSB	NA	NA	NA	NA	NA	NA	NA	NA
SBI	3,148	2,348	3,092	3,450	4,374	5,888	7,320	9,290
Syndicate	70	75	57	105	129	146	162	199
UCO	110	82	96	101	123	104	87	94
Union	295	250	269	367	377	494	688	892
United Bank	256	138	107	100	60	62	70	110
Vijaya	10	31	39	51	64	75	68	83
Old private banks								
CUBK	30	33	50	40	42	44	62	70
DCB	120	111	100	77	99	110	196	303
Federal	130	177	280	246	267	377	410	423
J&K	258	296	374	313	334	432	328	314
KVB	46	55	83	84	87	94	94	156
New private banks								
Axis	3,723	3,723	5,106	6,620	8,623	8,894	9,972	10,728
HDFCB	5,631	5,631	5,947	4,543	5,911	8,179	9,559	13,958
ICICI	3,004	3,004	5,257	6,697	9,431	10,197	13,214	14,954
IndusInd	1,878	799	1,073	1,120	1,657	1,479	2,119	3,450
KBL	267	300	279	294	266	310	269	326
Kotak	735	737	1,366	1,684	3,273	2,938	3,372	4,424
RBL	15	22	29	77	84	108	129	214
SIB	46	43	36	28	34	32	36	127
Yes	148	148	200	238	358	565	1,004	768
Total	22,930	21,309	27,549	30,187	39,924	45,568	55,297	69,453
Public	6,898	6,230	7,369	8,127	9,458	11,810	14,533	19,239
Private	16,032	15,080	20,180	22,060	30,466	33,758	40,765	50,214

Note:

1) Assume CAGR over 2011-2016 for subsidiaries as yoy growth for FY2017 for SBI.

2) Assume CAGR over 2011-2016 as yoy growth for FY2018 for ICICI bank.

Note:

1) Numbers for SBI are for the merged entity.

Source: Company, Kotak Institutional Equities

65 bps yoy rise in cost-to-income ratio; significant improvement on qoq basis

Growth in operating expenses was high in 1QFY19 driven by 13% yoy rise in PSU and public banks. On a qoq basis, operating expenses was flat for private banks but down 10% for PSU banks. Cost-to-income ratio increased 65 bps yoy (down 260 bps qoq) for banks under coverage. The trend was, however, different for PSU and private banks. Private banks saw tepid rise in cost-to-income ratio by 25 bps yoy and 40 bps qoq. For PSU banks, cost-to-income ratio was up 100 bps yoy and down 535 bps qoq. 4QFY18 had seen sharp spike in operating expenses for PSU banks. Out of the banks under coverage, SBI and PNB have 50% of additional gratuity liabilities deferred over 2QFY18 and 3QFY18. Adjusting for the impact of deferred gratuity liabilities, yoy rise in cost-to-income ratio would have been higher for PSU banks.

Cost ratios are expected to witness improvement going ahead. Most PSU banks have reduced hiring and branch expansion. While private banks continue to expand, the pace of expansion will slow down as the focus shifts towards improving productivity from rapid business expansion. Rise in digital investment will deliver cost efficiencies going ahead. Improvement in income on the back of lower slippages and resolution of NPLs will boost revenue profile and result in marginal cost-to-income improvement. One of the risks is high competitive intensity by smaller well-capitalized banks and new banks such as small finance banks and payment banks, which can push cost ratios higher.

Exhibit 43: Controlled growth in operating expenses in 1QFY19

Operating expenses, March fiscal year-ends, 1QFY17-1QFY19 (₹ mn)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Public banks									
Bank of Baroda	21,460	22,973	23,141	25,390	23,080	24,158	24,170	30,327	25,233
Canara Bank	20,732	20,834	22,242	21,316	23,494	22,397	24,142	25,546	27,830
PNB	27,794	29,557	30,897	5,545	29,696	26,421	28,255	50,718	24,564
State Bank of India	132,450	142,770	148,750	159,780	137,370	146,030	150,171	165,862	165,047
Union Bank	15,171	15,972	16,250	16,986	16,007	15,991	17,668	17,884	17,453
Old private banks									
City Union	1,554	1,686	1,762	1,888	1,807	1,900	1,904	1,935	2,045
DCB	1,444	1,511	1,643	1,685	1,825	1,890	2,029	2,070	2,144
Federal Bank	5,039	5,128	5,798	5,753	5,719	6,029	6,172	6,588	6,480
KVB	2,972	3,290	3,527	3,049	3,255	3,581	3,653	3,718	3,789
J&K Bank	4,000	3,967	4,106	5,032	4,539	4,635	5,053	5,616	5,638
New private banks									
Axis Bank	27,858	29,534	30,937	33,670	33,248	33,478	34,708	38,469	37,198
HDFC Bank	47,689	48,700	48,425	52,220	53,675	55,401	57,322	60,506	59,839
ICICI Bank	33,731	37,369	37,777	38,674	37,949	39,088	38,144	41,863	41,453
IDFC bank	2,768	3,234	3,789	2,981	4,230	3,623	4,110	4,980	4,960
IndusInd Bank	10,956	11,491	12,319	13,065	13,528	13,751	14,169	14,467	15,129
RBL	2,277	2,530	2,687	3,070	3,239	3,581	3,921	4,293	4,464
Yes Bank	9,103	9,481	10,520	12,061	12,369	12,269	13,093	14,398	14,586
Small finance banks									
Equitas	1,134	1,297	1,663	1,889	2,286	2,192	2,246	2,243	2,395
Ujivan	946	1,087	1,169	1,365	1,568	1,674	1,549	1,751	2,166
Public banks	217,607	232,106	241,280	229,017	229,646	234,997	244,406	290,337	260,128
Private banks	151,470	160,304	166,125	176,401	179,237	183,092	188,071	202,898	202,284
Total	369,077	392,410	407,405	405,418	408,883	418,089	432,477	493,235	462,412

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 44: Improvement in cost-income ratio in 1QFY19

Operating expense-to-income ratio of banks, March fiscal year-ends, 1QFY18-1QFY19 (%)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Public banks					
Bank of Baroda	46.6	44.3	39.8	53.2	45.6
Bank of India	42.6	51.6	61.8	70.2	55.3
Canara Bank	48.7	47.5	46.0	59.1	48.7
Punjab National Bank	48.0	44.6	40.0	109.7	36.9
State Bank of India	53.6	42.2	56.1	51.1	58.0
Union Bank	43.8	45.2	51.6	48.6	45.5
Old private banks					
City Union	37.8	37.3	39.1	39.7	40.6
DCB	57.2	60.3	62.3	59.4	60.3
Federal Bank	50.6	50.8	52.4	52.8	51.8
KVB	42.0	45.6	46.4	43.7	45.2
J&K Bank	55.2	56.0	56.9	67.8	61.7
New private banks					
Axis Bank	43.7	47.0	47.4	51.2	46.0
HDFC Bank	41.6	41.5	40.4	40.6	40.9
ICICI Bank	42.3	35.9	43.0	35.8	41.6
IDFC bank	40.8	59.7	56.6	91.2	72.0
IndusInd Bank	46.0	45.7	46.0	45.0	44.2
RBL Bank	51.0	54.2	54.0	52.8	50.8
Yes Bank	42.1	39.2	39.5	40.3	37.3
Small finance banks					
Equitas	76.7	83.1	84.3	76.9	75.9
Ujjivan	77.9	69.0	68.8	56.9	72.2
Public banks	50.8	43.3	50.3	57.2	51.8
Private banks	43.7	42.7	44.4	43.5	43.9
Total	47.4	43.0	47.5	50.6	48.0

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Companies, Kotak Institutional Equities

Exhibit 45: Most PSU banks have deferred incremental provisions for gratuity liabilities
Incremental provisions for gratuity liabilities, March fiscal year-ends, 4QFY18-1QFY19 (₹ mn)

	4QFY18				1QFY19			
	Incurred	Deferred	Total	% deferred	Incurred	Deferred	Total	% deferred
PSU banks								
Allahabad	108	323	431	75	108	215	323	66.6
Andhra	623	1,868	2,490	75	623	1,245	1,868	66.7
BoB	970	2,910	3,880	75	2,910	-	2,910	-
BoI	1,088	3,263	4,351	75	1,088	2,176	3,263	66.7
BoMH	370	1,479	1,848	80	370	1,109	1,479	75.0
Canara	NA	NA	NA	-	NA	NA	NA	-
Corporation	195	585	780	75	195	390	585	66.7
IDBI	116	347	463	75	116	231	347	66.7
Indian	309	243	553	44	81	162	243	66.7
OBC	94	600	694	86	200	400	600	66.7
PNB	635	1,900	2,535	75	634	1,266	1,900	66.7
PSB	180	540	720	75	180	360	540	66.7
SBI	9,025	27,075	36,100	75	9,025	18,050	27,075	66.7
Syndicate	418	1,254	1,672	75	418	836	1,254	66.7
UCO	554	1,661	2,215	75	554	1,108	1,661	66.7
Union	NA	NA	NA	-	NA	NA	NA	-
United Bank	351	1,053	1,403	75	351	702	1,053	66.7
Vijaya	NA	NA	NA	-	NA	NA	NA	-
Old private banks								
Federal	179	536	714	75	536	-	536	-
J&K	125	374	499	75	125	250	374	66.7
KVB	NA	NA	NA	-	NA	NA	NA	-

Note:

- 1) Blank indicates that the bank incurred 100% in 4QFY18/ 1QFY19
- 2) Total fro 1QFY19 is excluding the liability incurred in 4QFY18.

Source: Company, Kotak Institutional Equities

Exhibit 46: Employee expenses form a major chunk of operating expenses
Employee expenses to total expenses, March fiscal year-ends, 1QFY18-1QFY19 (₹ mn)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
PSU banks					
BOB	44	50	46	42	44
Canara	58	61	58	51	55
PNB	65	60	62	77	58
SBI	50	45	47	41	43
Union	51	50	46	46	44
Old private banks					
CUBK	42	44	42	40	43
DCB	50	49	48	49	51
Federal	52	52	49	50	53
J&K	67	66	65	62	67
KVB	47	43	42	48	47
New private banks					
Axis	33	32	31	28	33
HDFC	31	31	30	29	30
ICICI	40	39	36	36	37
IDFC	42	44	42	37	45
IndusInd	31	32	32	31	31
RBL	31	32	32	31	31
Yes	44	46	41	38	40
Small finance banks					
Equitas	59	59	59	54	58
Ujjivan	56	56	58	55	53

Notes:

(a) Numbers for SBI from 1QFY18 are for the merged entity.

Source: Company, Kotak Institutional Equities

Exhibit 47: Tax rates are non-comparable as most PSU banks have reported losses

Tax rate for banks, March fiscal year-ends, 1QFY18-1QFY19 (%)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Public sector banks					
Bank of Baroda	27	50	50	NM	37
Canara	6	19	20	NM	20
PNB	44	33	NM	NM	NM
SBI	32	(84)	NM	NM	NM
Union	67	NM	NM	NM	NM
Old private banks					
CUBK	22	24	27	27	27
DCB	35	37	35	38	36
Federal bank	35	35	35	33	35
J&K	NM	41	45	(85)	44
KVB	31	28	26	41	(24)
New private banks					
Axis	33	32	30	NM	32
HDFC	35	35	35	34	34
ICICI	20	17	(11)	(15)	NM
IDFC bank	34	32	29	NM	13
IndusInd	35	34	34	34	34
RBL bank	35	34	34	34	35
Yes	32	31	32	32	31
Small Finance banks					
Equitas	38	37	NM	35	36
Ujjivan	NM	37	NM	34	34

Notes:

- 1) "NM" indicates negative PBT.
- 2) Negative tax rate includes a tax refund/ benefit.

Source: Company, Kotak Institutional Equities

Exhibit 48: BFSI sector valuations

Key valuation parameters, March fiscal year-ends, 2017-2020E

	Reco.	Target	Price	Market	EPS (Rs)		PER (X)		ABVPS (Rs)		APBR (X)		RoE (%)	
		price (Rs)	28-Aug-18	cap. US \$bn	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
Public banks														
Bank of Baroda	NR	-	113	4.4	8	21	13.8	5.4	102	139	1.1	0.8	5.3	12.6
Canara Bank	ADD	300	275	2.9	(5)	51	(56.7)	5.4	167	284	1.6	1.0	(1.0)	10.1
PNB	ADD	90	83	3.3	(27)	12	(3.1)	6.9	20	61	4.1	1.4	(23.4)	10.7
SBI	BUY	370	305	38.9	8	37	39.7	8.3	153	210	2.0	1.5	3.1	13.6
Union Bank	ADD	120	86	1.4	8	33	11.2	2.6	69	116	1.2	0.7	3.9	15.2
Old private banks														
City Union Bank	ADD	190	193	2.0	9	11	20.5	18.1	61	70	3.2	2.8	15.5	15.6
DCB Bank	ADD	205	174	0.8	10	12	17.0	14.1	87	97	2.0	1.8	11.7	12.7
Federal Bank	BUY	130	80	2.2	6	8	14.0	10.0	61	68	1.3	1.2	8.9	11.5
Karur Vysya Bank	ADD	110	93	1.1	3	13	29.0	7.1	72	83	1.3	1.1	3.7	14.1
J&K Bank	BUY	100	54	0.4	7	11	8.1	4.9	84	89	0.6	0.6	5.9	9.1
New private banks														
Axis Bank	REDUCE	600	660	24.2	18	40	36.6	16.5	233	277	2.8	2.4	7.1	14.1
IndusInd Bank	REDUCE	1,900	1,934	16.6	70	86	27.8	22.4	471	541	4.1	3.6	17.4	16.7
HDFC Bank	REDUCE	2,000	2,095	81.1	78	94	26.9	22.4	531	601	3.9	3.5	16.7	16.2
ICICI Bank	BUY	400	339	31.1	8	26	42.9	13.1	147	175	2.3	1.9	4.7	14.4
ICICI standalone		229	231	21.2	5	23	43.9	10.2	134	161	1.7	1.4	3.7	13.8
RBL Bank	SELL	475	634	3.8	22	29	28.3	21.5	171	193	3.7	3.3	13.3	15.5
Yes Bank	SELL	335	371	12.2	20	22	18.7	17.1	123	140	3.0	2.6	16.6	15.9
Small finance banks														
Equitas	BUY	190	154	0.7	4	8	34.7	18.3	69	77	2.2	2.0	6.4	11.2
Ujivan	ADD	420	360	0.6	19	28	19.2	13.0	161	186	2.2	1.9	12.1	15.8
NBFCs														
Bajaj Finance	SELL	2,000	2,933	24.2	63	82	46.8	36.0	343	415	8.5	7.1	19.9	21.5
Bajaj Finserv	REDUCE	6,100	6,971	15.8	96	114	72.5	61.1	875	987	8.0	7.1	11.6	12.3
Cholamandalam	REDUCE	1,500	1,451	3.2	76	92	19.1	15.8	375	450	3.9	3.2	21.0	21.2
Bharat Financial Inclusion	NA	-	1,179	2.4	21	33	56.1	36.1	264	325	4.5	3.6	17.9	18.5
HDFC	ADD	2,075	1,955	47.1	58	67	33.7	29.3	439	482	4.5	4.1	13.8	14.1
HDFC core			938	22.6	46	56	20.2	16.8	311	352	3.0	2.7	16.9	14.3
IIFL Holdings	SELL	625	711	3.2	34	41	21.2	17.5	184	214	3.9	3.3	19.3	20.0
LIC Hsg Fin	BUY	610	520	3.7	45	53	11.6	9.9	313	367	1.7	1.4	14.3	14.4
L&T Finance Holdings	ADD	190	184	5.2	10	12	18.6	15.0	71	81	2.6	2.3	14.7	16.1
Mahindra Finance	REDUCE	500	476	4.2	22	26	21.4	18.3	158	174	3.0	2.7	14.0	14.8
Muthoot Finance	ADD	480	409	2.3	38	40	10.7	10.3	222	251	1.8	1.6	18.4	16.9
PNB Housing Finance	REDUCE	1,325	1,411	3.4	61	77	23.1	18.4	406	466	3.5	3.0	15.2	16.8
Shriram City Union Finance	ADD	2,550	2,030	1.9	140	174	14.5	11.7	903	1,040	2.2	2.0	15.5	16.7
Shriram Transport	ADD	1,550	1,336	4.3	105	125	12.7	10.7	603	698	2.2	1.9	17.6	18.0

Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Exhibit 49: Mixed performance of banks/NBFCs in recent months

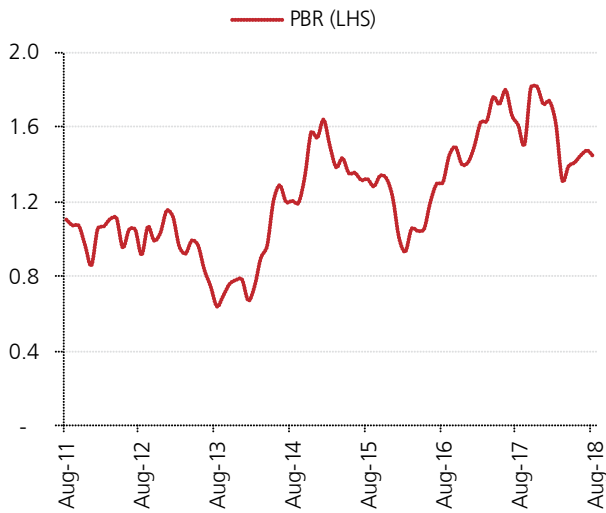
Absolute and relative performance of stocks (%)

	Change in price (%)					Relative performance to BSE-30 Index (%)					52 week high (Rs)	52 week low (Rs)
	1 month	3 month	6 month	12 month	Ytd	1 month	3 month	6 month	12 month	Ytd		
Public banks												
Bank of Baroda	4.4	(1.0)	1.4	(0.2)	(10.4)	0.2	(10.5)	(10.9)	(18.6)	(21.6)	207	110
Canara Bank	(1.7)	3.8	(8.2)	(19.0)	(23.8)	(5.6)	(6.1)	(19.4)	(33.9)	(33.3)	464	217
Indian Bank	(7.9)	(3.0)	(1.7)	10.8	(13.6)	(11.6)	(12.3)	(13.6)	(9.6)	(24.3)	428	253
PNB	1.1	(6.5)	(18.2)	(42.8)	(51.6)	(3.0)	(15.5)	(28.1)	(53.3)	(57.7)	232	72
SBI	6.5	12.2	13.9	9.3	(1.5)	2.2	1.5	0.1	(10.8)	(13.7)	352	232
Union Bank	0.6	(8.8)	(18.9)	(37.4)	(40.7)	(3.4)	(17.6)	(28.7)	(48.9)	(48.1)	196	74
Old private banks												
City Union Bank	14.2	16.0	21.4	33.5	18.0	9.6	4.8	6.7	8.9	3.3	194	134
DCB	4.2	(7.1)	5.9	(9.7)	(11.4)	0.0	(16.0)	(6.9)	(26.3)	(22.4)	207	155
Federal Bank	(12.3)	(8.1)	(15.5)	(27.4)	(26.6)	(15.8)	(16.9)	(25.7)	(40.7)	(35.7)	128	74
Karur Vysya Bank	4.9	3.4	(4.7)	(22.3)	(18.0)	0.7	(6.5)	(16.3)	(36.6)	(28.2)	137	85
J&K Bank	(1.4)	(5.3)	(19.4)	(34.3)	(31.7)	(5.3)	(14.4)	(29.2)	(46.3)	(40.2)	92	44
New private banks												
Axis Bank	19.3	20.9	24.8	29.3	17.0	14.5	9.3	9.7	5.5	2.5	663	448
IndusInd Bank	(2.4)	1.0	15.0	16.4	17.3	(6.3)	(8.7)	1.1	(4.9)	2.7	2,038	1,572
HDFC Bank	(4.9)	2.6	11.2	18.9	11.9	(8.7)	(7.3)	(2.3)	(3.0)	(2.0)	2,220	1,685
ICICI Bank	15.6	13.2	8.2	12.6	7.9	10.9	2.4	(4.9)	(8.1)	(5.5)	366	255
Yes Bank	0.2	7.4	15.0	5.7	17.6	(3.9)	(2.9)	1.1	(13.7)	3.0	404	285
Small finance banks												
Equitas	11.0	(5.8)	3.5	(3.7)	4.1	6.6	(14.9)	(9.1)	(21.4)	(8.8)	184	129
Ujjivan	(7.8)	(9.5)	(4.4)	10.7	(7.6)	(11.5)	(18.2)	(16.0)	(9.7)	(19.1)	435	311
Non-banks												
Bajaj Finserv	0.6	16.0	38.0	25.0	33.3	(3.4)	4.9	21.3	2.0	16.7	7,200	4,444
Cholamandlam	(0.8)	(6.2)	(1.3)	25.1	11.7	(4.8)	(15.2)	(13.2)	2.1	(2.2)	1,761	1,052
Dewan housing	8.1	5.7	21.9	35.6	14.2	3.8	(4.5)	7.1	10.7	0.0	685	460
HDFC	(4.5)	6.9	8.1	10.7	14.3	(8.3)	(3.4)	(5.0)	(9.7)	0.1	2,053	1,638
IDFC	7.2	(2.2)	(3.2)	(6.8)	(18.5)	2.9	(11.6)	(14.9)	(23.9)	(28.7)	68	43
IIFL Holdings	6.8	6.9	(6.0)	18.5	6.4	2.5	(3.4)	(17.4)	(3.2)	(6.8)	874	532
LIC Housing Finance	(3.1)	3.6	2.4	(20.8)	(7.7)	(7.0)	(6.3)	(10.0)	(35.3)	(19.2)	691	455
L&T Finance Holdings	3.9	6.1	13.3	(2.2)	5.7	(1.9)	(5.3)	(19.6)	(46.7)	(34.6)	214	141
Magma Fincorp	(9.4)	(22.3)	(9.8)	(17.7)	(9.9)	(13.0)	(29.8)	(20.7)	(32.8)	(21.1)	194	134
MMFS	(7.8)	(4.8)	10.1	13.9	0.7	(11.5)	(13.9)	(3.2)	(7.1)	(11.8)	538	386
Muthoot Finance	(0.7)	2.4	4.5	(9.7)	(13.8)	(4.7)	(7.4)	(8.2)	(26.3)	(24.5)	526	360
PFC	(3.0)	1.4	(22.3)	(33.4)	(32.9)	(3.0)	1.4	(22.3)	(33.4)	(32.9)	150	68
REC	3.6	(3.9)	(20.5)	(30.5)	(26.4)	(0.5)	(13.1)	(30.1)	(43.3)	(35.5)	184	89
Shriram City Union Finance	5.6	(6.5)	0.5	(5.7)	(3.6)	1.4	(15.5)	(11.7)	(23.0)	(15.6)	2,454	1,801
Shriram Transport	(5.6)	(13.3)	0.2	36.1	(9.8)	(9.4)	(21.6)	(12.0)	11.1	(21.0)	1,671	966

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 50: Public banks multiples have dropped

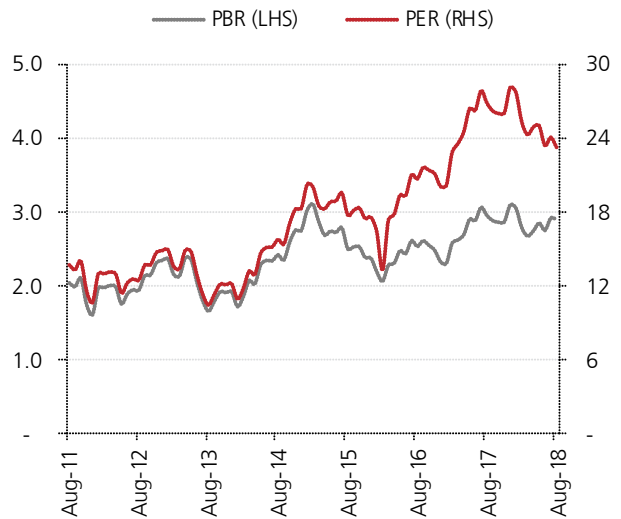
PBR and PER – public banks, August 2011- August 2018 (X)



Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Exhibit 51: Private banks trading above long-term trading averages

PBR and PER – private banks, August 2011- August 2018 (X)



Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Exhibit 52: Divergence in valuation between private and public banks increased in 1QFY19

Adjusted PBR and PER of private and public banks, March fiscal year-ends, August 2012- August 2018 (X)



Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)			Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		28-Aug-18	Target price (Rs)	Upside (%)	(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Automobiles																													
Amara Raja Batteries	REDUCE	853	780	(8.6)	146	2.1	171	32	37	43	17.1	15.9	14.5	26.4	22.8	19.9	14.1	12.0	10.4	4.3	3.7	3.2	17.4	17.5	17.4	0.6	0.7	0.8	5.7
Apollo Tyres	BUY	254	340	33.9	145	2.1	541	20	25	29	46.9	25.7	17.0	12.9	10.3	8.8	7.9	6.7	5.5	1.4	1.2	1.1	11.0	12.5	13.1	1.2	1.2	1.2	11.7
Ashok Leyland	BUY	132	160	20.8	389	5.5	2,926	6.2	8.9	9.4	15.3	43.2	6.1	21.4	14.9	14.0	11.0	8.0	7.5	4.7	3.9	3.3	23.4	28.4	25.4	1.4	2.0	2.1	46.1
Bajaj Auto	SELL	2,684	2,500	(6.9)	777	11.1	289	148	161	176	5.4	9.0	9.3	18.2	16.7	15.2	12.5	11.1	9.8	3.6	3.3	2.9	21.2	20.7	20.3	2.2	2.4	2.6	32.1
Balkrishna Industries	REDUCE	1,409	1,300	(7.7)	272	3.9	193	50	63	71	34.5	24.7	13.6	28.0	22.4	19.8	15.3	12.4	11.0	5.5	4.5	3.8	21.6	22.2	20.9	0.4	0.5	0.5	10.1
Bharat Forge	SELL	654	600	(8.3)	305	4.3	466	23	27	29	44.4	14.6	7.1	28.0	24.4	22.8	15.8	13.9	12.8	5.6	4.8	4.1	21.5	21.0	19.4	0.8	0.8	0.9	10.9
CEAT	ADD	1,415	1,500	6.0	57	0.8	40	99	108	116	53.7	8.3	7.9	14.2	13.1	12.2	9.0	7.7	7.0	1.9	1.7	1.5	14.4	13.8	13.2	0.7	0.7	0.7	13.6
Eicher Motors	SELL	28,678	24,000	(16.3)	782	11.2	27	997	1,180	1,306	25.8	18.4	10.7	28.8	24.3	22.0	20.8	17.5	15.2	10.5	7.9	6.1	42.4	37.1	31.4	0.1	0.1	—	20.1
Escorts	BUY	895	1,200	34.0	76	1.6	89	59	71	78	52.3	19.9	10.2	15.2	12.6	11.5	9.2	7.5	6.3	2.7	2.3	2.0	17.6	18.0	17.1	1.0	1.2	1.3	14.8
Exide Industries	SELL	290	235	(19.0)	247	3.5	850	10	11	13	25.3	11.0	11.6	28.2	25.4	22.8	16.1	14.3	12.8	4.1	3.8	3.4	15.4	15.5	15.7	1.0	1.2	1.4	8.5
Hero Motocorp	SELL	3,233	3,000	(7.2)	646	9.2	200	183	204	225	(0.9)	11.4	10.2	17.6	15.8	14.4	10.5	9.2	8.2	4.9	4.3	3.9	29.3	29.1	28.6	2.8	3.2	3.5	21.4
Mahindra CIE Automotive	ADD	263	290	10.1	100	1.4	378	14	16	17	45.0	12.7	10.4	18.9	16.8	15.2	9.5	8.4	7.5	2.3	2.1	1.8	13.2	13.1	12.7	—	—	—	3.2
Mahindra & Mahindra	BUY	981	1,085	10.7	1,219	17.4	1,138	45	51	53	18.5	14.4	3.1	21.8	19.1	18.5	14.2	12.3	11.7	3.2	2.9	2.6	15.8	16.0	14.7	0.9	1.0	1.1	34.5
Maruti Suzuki	ADD	9,428	10,000	6.1	2,848	40.6	302	323	393	461	26.4	21.8	17.2	29.2	24.0	20.4	16.9	13.4	11.0	5.9	5.0	4.3	21.6	22.5	22.6	0.9	1.0	1.2	65.2
Motherson Sumi Systems	SELL	309	280	(9.4)	651	9.3	2,105	11	14	16	40.2	21.5	13.8	27.0	22.2	19.5	10.7	8.9	7.7	5.6	4.7	4.0	22.5	23.2	22.3	0.9	1.0	1.1	14.4
MRF	REDUCE	73,317	69,000	(5.9)	311	4.4	4	3,425	3,932	4,411	28.3	14.8	12.2	21.4	18.6	16.6	10.1	8.7	7.5	2.8	2.4	2.1	13.9	13.9	13.7	0.1	0.1	0.1	7.1
Schaeffler India	BUY	5,328	6,000	12.6	89	1.3	17	156	199	233	9.0	27.3	17.6	34.1	26.8	22.8	20.8	15.8	13.1	4.7	4.1	3.6	14.5	16.4	17.0	0.6	0.7	0.9	0.5
SKF	ADD	1,788	1,800	0.7	92	1.3	51	69	82	97	19.7	18.5	18.2	25.9	21.9	18.5	16.6	13.7	11.3	4.3	3.7	3.2	16.7	17.1	17.4	0.7	0.8	0.9	0.4
Tata Motors	BUY	260	425	63.5	883	11.7	3,396	22	36	39	10.7	62.7	8.0	11.8	7.2	6.7	3.6	3.0	2.8	0.9	0.8	0.7	7.6	11.2	10.8	—	—	—	55.4
Timken	SELL	700	660	(5.7)	48	0.7	68	19	25	30	42.3	27.5	21.8	36.3	28.5	23.4	20.1	16.0	13.3	5.8	4.8	4.0	17.1	18.5	18.8	0.1	0.1	0.2	0.3
TVS Motor	SELL	570	405	(28.9)	271	3.9	475	16	20	25	13.9	23.0	26.0	35.8	29.1	23.1	19.7	16.3	13.3	8.0	6.8	5.7	24.2	25.4	27.0	0.8	1.0	1.3	13.7
WABCO India	SELL	7,168	6,350	(11.4)	136	1.9	19	169	222	225	17.8	31.3	1.0	42.3	32.2	31.9	27.7	21.0	20.7	7.5	6.1	5.2	19.2	20.9	17.7	0.1	0.2	0.2	0.5
Automobiles		Neutral			10,487	149					19.3	25.6	11.0	22.5	17.9	16.1	10.1	8.3	7.4	3.4	3.0	2.6	15.1	16.5	16.1	0.9	1.1	1.2	390.2
Banks																													
Axis Bank	REDUCE	660	600	(9.1)	1,695	24.2	2,567	18	40	45	1,577.6	122.3	12.3	36.6	16.5	14.7	—	—	—	2.8	2.4	2.0	7.1	14.1	14.1	0.4	0.9	1.0	67.0
Bank of Baroda	NR	144	—	—	381	5.4	2,652	21	26	29	323.7	26.4	12.1	7.0	5.6	5.0	—	—	—	1.2	0.9	0.7	12.7	14.0	13.7	—	—	—	34.5
Canara Bank	ADD	275	300	9.2	201	2.9	733	(5)	51	68	91.6	1,147.0	33.3	(56.7)	5.4	4.1	—	—	—	1.6	1.0	0.7	(1.0)	10.1	12.0	—	—	—	27.0
City Union Bank	ADD	193	190	(1.5)	141	2.0	665	9	11	12	5.8	13.3	16.7	20.5	18.1	15.5	—	—	—	3.2	2.8	2.4	15.5	15.6	16.0	0.9	1.0	1.1	1.7
DCB Bank	ADD	174	205	18.0	54	0.8	308	10	12	16	28.2	21.0	33.1	17.0	14.1	10.6	—	—	—	2.0	1.8	1.6	11.7	12.7	14.9	0.6	0.7	0.9	4.2
Equitas Holdings	BUY	154	190	23.3	53	0.7	340	4.4	8.4	11.4	378.4	89.9	35.6	34.7	18.3	13.5	—	—	—	2.2	2.0	1.8	6.4	11.2	13.4	—	—	—	4.2
Federal Bank	BUY	80	130	63.2	158	2.2	1,972	5.7	7.9	9.7	29.5	39.5	22.9	14.1	10.1	8.2	—	—	—	1.3	1.2	1.0	8.8	11.4	12.8	1.6	2.3	2.8	17.4
HDFC Bank	REDUCE	2,095	2,000	(4.5)	5,687	81.1	2,595	78	94	112	15.7	20.0	19.1	26.9	22.4	18.8	—	—	—	3.9	3.5	3.1	16.7	16.2	17.0	0.7	0.9	1.0	90.6
ICICI Bank	BUY	339	400	18.0	2,180	31.1	6,429	8	26	31	(19.6)	209.1	19.2	40.0	12.9	10.9	—	—	—	2.3	1.9	1.7	5.1	14.5	15.5	0.5	1.5	1.8	98.9
IDFC Bank	NR	47	—	—	162	2.3	3,404	1.2	2.9	4.3	(52.7)	146.7	44.8	39.7	16.1	11.1	—	—	—	1.0	1.0	0.9	2.6	6.3	8.6	0.5	1.2	1.8	9.8
Indusind Bank	REDUCE	1,934	1,900	(1.7)	1,162	16.6	600	71	87	102	17.5	23.6	16.9	27.4	22.2	19.0	—	—	—	4.1	3.6	3.1	17.6	16.8	17.0	—	0.5	0.6	29.6
J&K Bank	BUY	54	100	86.4	30	0.4	557	7	11	15	82.4	63.8	33.5	8.1	4.9	3.7	—	—	—	0.6	0.6	0.5	5.9	9.1	11.2	2.5	4.1	5.4	0.4
Karur Vysya Bank	ADD	93	110	17.8	75	1.1	727	3	13	14	(32.3)	306.7	9.1	29.0	7.1	6.5	—	—	—	1.3	1.1	1.0	3.7	14.1	13.9	0.9	3.5	4.0	1.7
Punjab National Bank	ADD	83	90	8.6	229	3.3	2,761	(27)	12	18	40.4	145.3	46.9	(3.1)	6.9	4.7	—	—	—	4.1	1.4	0.8	(23.4)	10.7	13.8	—	—	—	39.1
RBL Bank	SELL	634	475	(25.1)	268	3.8	420	22	29	36	48.1	31.5	21.0	28.3	21.5	17.8	—	—	—	3.7	3.3	2.9	13.3	15.5	16.5	0.5	0.7	0.8	15.1
State Bank of India	BUY	305	370	21.2	2,725	38.9	8,925	8	37	53	204.8	380.5	42.7	39.7	8.3	5.8	—	—	—	2.0	1.5	1.1	3.1	13.6	16.7	—	0.1	0.2	93.6
Ujivan Financial Services	ADD	360	420	16.8	44	0.6	121	19	28	32	3,033.9	47.3	15.1	19.2	13.0	11.3	—	—	—	2.2	1.9	1.7	12.1	15.8	15.8	0.5	0.8	1.0	5.4
Union Bank	ADD	86	120	40.2	100	1.4	1,169	8	33	40	117.1	330.8	22.5	11.2	2.6	2.1	—	—	—	1.2	0.7	0.5	3.9	15.2	16.3	1.3	5.8	7.1	9.6
YES Bank	SELL	371	335	(9.6)	855	12.2	2,303	20	22	27	8.1																		

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.	O/S	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT	
		28-Aug-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	(US\$ mn)
NBFCs																													
Bajaj Finance	SELL	2,933	2,000	(31.8)	1,695	24.2	575	68	90	114	56.6	31.9	27.3	43.2	32.7	25.7	—	—	—	8.8	7.1	5.7	22.4	24.0	24.6	0.2	0.3	0.4	54.5
Bajaj Finserv	REDUCE	6,971	6,100	(12.5)	1,109	15.8	159	245	307	376	39.7	25.2	22.5	28.4	22.7	18.5	—	—	—	4.5	3.8	3.2	17.5	18.1	18.6	0.2	0.2	0.2	18.5
Bharat Financial Inclusion	NA	1,179	—	—	165	2.4	139	43	54	69	31.1	27.2	25.8	27.5	21.6	17.2	—	—	—	4.5	3.6	3.0	17.9	18.5	19.0	—	—	—	9.9
Cholamandalam	REDUCE	1,451	1,500	3.4	227	3.2	156	90	110	136	44.8	22.1	23.4	16.1	13.2	10.7	—	—	—	3.7	3.0	2.5	24.5	24.3	24.3	0.7	0.9	1.1	7.2
HDFC	ADD	1,955	2,075	6.1	3,306	47.1	1,676	56	67	81	(25.8)	19.0	21.2	34.9	29.4	24.2	—	—	—	4.5	4.1	3.7	13.8	14.5	16.0	1.1	1.3	1.6	69.1
HDFC Standard Life Insurance	SELL	461	405	(12.2)	929	13.2	2,007	6	7	8	14.8	10.9	14.7	72.7	65.5	57.1	—	—	—	19.2	17.2	15.3	28.0	27.7	28.4	0.3	0.4	0.4	9.6
ICICI Lombard	SELL	760	620	(18.4)	345	4.9	454	26	32	37	37.1	21.5	18.5	29.2	24.0	20.3	—	—	—	6.4	5.3	4.5	23.8	24.2	24.0	0.8	1.0	1.1	2.4
ICICI Prudential Life	BUY	380	500	31.6	546	7.8	1,436	12	13	15	10.1	7.0	10.0	30.6	28.6	26.0	—	—	—	6.8	5.7	4.9	24.5	21.8	20.2	0.5	0.6	0.6	9.0
IIFL Holdings	SELL	711	625	(12.0)	227	3.2	319	38	45	52	31.5	18.6	16.0	18.9	15.9	13.7	—	—	—	3.4	2.9	#DVM!	20.5	20.0	20.0	1.1	1.3	1.6	1.7
L&T Finance Holdings	ADD	184	190	3.3	367	5.2	1,996	13	14	16	70.9	12.3	12.8	14.7	13.0	11.6	—	—	—	2.7	2.3	2.0	18.9	18.8	18.3	1.1	1.4	1.3	13.3
LIC Housing Finance	ADD	520	610	17.3	263	3.7	505	50	58	66	14.1	16.2	14.6	10.4	9.0	7.8	—	—	—	1.7	1.5	1.3	17.4	16.9	16.8	1.5	1.7	2.0	14.5
Magma Fincorp	BUY	145	190	31.4	39	0.6	237	13	17	21	34.0	31.8	23.0	11.1	8.4	6.9	—	—	—	1.4	1.2	1.1	13.9	15.8	17.0	1.4	1.8	2.2	1.0
Mahindra & Mahindra Financial	REDUCE	476	500	5.0	294	4.2	614	23	28	34	58.4	23.2	18.6	20.7	16.8	14.2	—	—	—	3.0	2.7	2.4	14.3	15.8	16.7	1.3	1.6	1.9	10.5
Max Financial Services	ADD	482	650	34.9	129	1.8	268	6	6	6	36.9	1.8	1.8	76.8	75.5	74.2	—	—	—	—	—	—	8.3	8.0	7.8	—	0.5	0.5	4.7
Muthoot Finance	ADD	409	480	17.3	164	2.3	400	38	40	46	(10.8)	4.0	15.7	10.7	10.3	8.9	—	—	—	1.8	1.6	1.4	18.4	16.9	17.2	2.2	2.2	2.6	4.0
PNB Housing Finance	REDUCE	1,411	1,325	(6.1)	236	3.4	167	62	75	92	25.3	20.9	22.4	22.6	18.7	15.3	—	—	—	3.3	2.9	2.5	15.2	15.9	17.0	0.2	0.2	0.2	5.1
SBI Life Insurance	ADD	658	785	19.3	658	9.4	1,000	15	18	21	26.0	22.9	17.0	45.3	36.8	31.5	—	—	—	8.6	7.2	6.0	20.6	21.3	20.9	0.4	0.4	0.5	3.4
Shriram City Union Finance	ADD	2,030	2,250	10.8	134	1.9	66	141	174	209	40.4	22.7	20.5	14.4	11.7	9.7	—	—	—	2.3	2.0	1.7	15.8	16.9	17.6	0.9	1.1	1.3	1.5
Shriram Transport	ADD	1,336	1,550	16.0	303	4.3	227	114	130	146	64.4	14.3	12.8	11.8	10.3	9.1	—	—	—	2.1	1.8	1.6	18.3	17.5	17.1	1.2	1.4	1.6	31.6
NBFCs	Neutral				11,136	159					14.9	19.4	19.4	28.3	23.7	19.9				4.5	4.0	3.4	16.1	16.7	17.2	0.7	0.8	1.0	610.1
Cement																													
ACC	SELL	1,624	1,270	(21.8)	305	4.3	188	62	70	81	27.0	13.8	15.2	26.3	23.1	20.0	14.6	12.6	10.7	3.0	2.8	2.5	11.9	12.5	13.1	1.0	1.0	1.0	16.7
Ambuja Cements	REDUCE	236	210	(11.2)	469	6.7	1,986	9	11	12	14.5	23.2	15.8	27.5	22.3	19.2	9.3	7.7	6.5	2.2	2.1	1.9	8.1	9.5	10.4	1.5	1.5	1.5	11.7
Dalmia Bharat	ADD	2,710	2,830	4.4	242	3.4	89	94	122	139	55.8	29.3	14.8	28.8	22.3	19.4	10.9	9.0	7.7	3.5	3.0	2.6	12.9	14.6	14.5	0.1	0.1	0.1	4.8
Grasim Industries	BUY	1,072	1,170	9.1	705	10.1	657	46	55	70	(2.5)	18.8	28.0	23.2	19.5	15.3	7.7	7.2	6.7	1.2	1.1	1.0	5.2	5.9	7.1	0.5	0.5	0.5	15.6
India Cements	REDUCE	119	118	(1.1)	37	0.5	308	4	8	12	28.0	102.6	41.3	28.6	14.1	10.0	8.9	7.0	5.9	0.7	0.7	0.6	2.5	4.8	6.5	0.8	0.8	0.8	8.7
J K Cement	ADD	800	890	11.3	56	0.8	70	45	79	78	3.7	75.4	(0.8)	17.8	10.2	10.2	10.4	8.6	7.0	2.5	2.1	1.8	15.0	22.3	18.5	1.0	1.0	1.0	0.5
JK Lakshmi Cement	ADD	329	370	12.5	39	0.6	118	11	28	37	153.5	147.9	30.5	29.0	11.7	9.0	10.1	6.6	5.4	2.5	2.1	1.7	8.9	19.5	21.0	0.6	0.6	0.6	0.3
Orient Cement	ADD	117	145	24.3	24	0.3	205	7	11	15	212.9	58.7	41.3	17.3	10.9	7.7	8.0	6.2	4.7	2.1	1.8	1.5	12.9	18.2	21.8	1.3	1.7	1.7	0.3
Shree Cement	SELL	18,730	12,500	(33.3)	653	9.3	35	421	630	760	6.0	49.7	20.6	44.5	29.7	24.6	20.8	15.6	12.8	6.4	5.4	4.5	15.4	19.7	19.8	0.3	0.3	0.3	5.3
UltraTech Cement	SELL	4,429	2,950	(33.4)	1,216	17.3	275	126	162	201	42.7	28.9	24.0	35.2	27.3	22.0	18.3	15.2	12.7	4.2	3.7	3.2	12.6	14.3	15.4	0.2	0.2	0.2	18.9
Cement	Cautious				3,745	53					19.5	30.3	21.8	30.3	23.2	19.1	11.5	9.8	8.5	2.5	2.3	2.1	8.4	10.0	11.0	0.5	0.5	0.5	82.8

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)			Target price		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		28-Aug-18	(Rs)	(Rs)	(%)	(Rs bn)		(US\$ bn)	2019E		2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	
Consumer products																																
Asian Paints	REDUCE	1,408	1,325	(5.9)	1,350	19.3	959	27	33	39	32.1	20.3	18.3	51.9	43.2	36.5	32.5	26.9	22.7	14.0	12.2	10.7	28.8	30.3	31.3	0.8	1.1	1.3	21.0			
Bajaj Corp.	ADD	430	470	9.2	63	0.9	148	15	17	19	7.8	10.3	9.5	27.9	25.3	23.1	22.4	19.1	16.6	13.0	12.9	12.7	46.3	51.2	55.4	3.0	3.3	3.5	0.6			
Britannia Industries	ADD	6,846	6,700	(2.1)	823	11.7	120	104	127	152	24.5	22.2	19.2	65.7	53.8	45.1	43.2	35.3	29.6	19.1	15.5	12.7	32.5	31.8	30.9	0.5	0.7	0.8	12.4			
Coffee Day Enterprises	REDUCE	255	290	13.6	54	0.8	211	8	10	12	129.9	30.0	21.2	33.2	25.5	21.1	11.4	10.0	9.3	2.1	2.0	1.8	6.6	8.0	8.9	—	—	—	0.8			
Colgate-Palmolive (India)	ADD	1,152	1,250	8.5	313	4.5	272	27	32	36	14.7	15.6	15.5	42.3	36.6	31.7	24.2	21.0	18.3	18.4	16.0	14.1	46.0	46.9	47.3	1.4	1.6	2.0	6.7			
Dabur India	REDUCE	486	390	(19.7)	858	12.2	1,762	9	10	12	17.3	12.9	13.6	53.3	47.2	41.5	44.6	38.5	33.4	15.0	13.0	11.5	28.1	29.6	29.4	0.8	0.9	1.1	17.0			
GlaxoSmithKline Consumer	ADD	7,435	7,300	(1.8)	313	4.5	42	199	223	246	19.5	12.1	10.1	37.4	33.3	30.3	26.3	22.7	19.9	8.1	7.3	6.7	22.8	23.0	23.1	1.2	1.4	1.7	2.1			
Godrej Consumer Products	SELL	1,442	1,100	(23.7)	982	14.0	681	25	29	33	18.8	13.7	12.7	56.8	50.0	44.3	40.4	35.1	30.7	13.4	11.6	10.1	25.4	24.8	24.3	0.6	0.7	0.8	10.6			
Hindustan Unilever	REDUCE	1,771	1,570	(11.4)	3,834	54.7	2,160	29	33	37	19.5	13.2	12.6	60.4	53.4	47.4	41.9	36.8	32.6	47.3	40.2	34.5	83.5	81.4	78.3	1.2	1.4	1.5	33.8			
ITC	ADD	312	330	5.9	3,809	54.3	12,275	10	11	12	8.2	12.3	11.7	32.3	28.8	25.7	20.9	18.5	16.4	7.0	6.6	6.2	20.4	22.2	24.2	1.8	2.1	2.5	52.8			
Jubilant Foodworks	BUY	1,559	1,650	5.8	206	2.9	132	25	35	46	73.6	37.5	32.3	61.7	44.9	33.9	31.0	23.4	17.9	15.3	11.6	8.9	28.9	29.5	29.7	0.1	0.2	0.3	35.2			
Jyothy Laboratories	ADD	206	240	16.6	75	1.1	364	6	7	8	27.6	16.7	15.4	36.6	31.4	27.2	24.5	20.8	17.7	5.6	4.9	4.3	16.6	16.8	16.9	0.5	0.7	1.0	1.1			
Marico	ADD	371	375	1.0	479	6.8	1,291	7	8	9	8.9	20.0	14.5	54.4	45.3	39.6	37.8	31.2	26.9	17.8	16.6	15.3	33.7	37.9	40.2	1.3	1.5	1.7	9.4			
Nestle India	ADD	11,326	11,000	(2.9)	1,092	15.6	96	171	197	223	34.2	15.7	13.2	66.4	57.4	50.7	38.1	32.9	29.0	29.4	26.9	24.7	46.1	49.0	50.8	1.0	1.2	1.4	9.0			
Page Industries	SELL	36,006	25,000	(30.6)	402	5.7	11	418	508	607	34.3	21.6	19.5	86.2	70.9	59.3	55.8	46.0	38.4	36.4	28.9	23.2	47.8	45.5	43.4	0.5	0.6	0.7	11.7			
Pidilite Industries	REDUCE	1,155	1,080	(6.5)	587	8.4	508	21	26	31	16.8	21.8	20.2	54.8	45.0	37.4	36.5	30.1	25.1	13.9	11.7	9.8	27.4	28.2	28.4	0.6	0.7	0.8	12.8			
S H Kelkar and Company	BUY	222	290	30.7	32	0.5	145	7	10	12	(6.2)	41.9	23.2	32.0	22.5	18.3	20.6	14.8	12.8	3.5	3.1	2.8	11.3	14.5	16.0	0.8	0.9	1.2	0.4			
Tata Global Beverages	REDUCE	233	250	7.1	147	2.1	631	8	9	10	7.7	17.0	12.9	29.5	25.2	22.3	16.1	14.2	12.5	2.0	1.9	1.8	7.0	7.9	8.5	1.3	1.5	1.7	11.3			
Titan Company	SELL	888	840	(5.4)	789	11.2	888	16	20	23	25.6	21.8	19.3	55.3	45.4	38.1	36.7	29.3	24.0	13.1	11.0	9.3	25.6	26.3	26.4	0.5	0.6	0.8	36.2			
United Breweries	SELL	1,374	1,100	(19.9)	363	5.2	264	21	25	31	38.9	22.3	20.5	66.3	54.2	45.0	32.5	28.1	24.1	11.5	9.7	8.2	18.7	19.4	19.8	0.2	0.3	0.4	13.5			
United Spirits	REDUCE	632	590	(6.7)	459	6.6	727	10	13	17	34.7	30.9	24.5	61.7	47.1	37.9	35.8	29.0	24.5	12.6	9.3	7.1	24.2	22.7	21.3	—	—	0.4	15.1			
Varun Beverages	ADD	813	800	(1.6)	149	2.1	183	15	20	26	29.8	34.5	30.7	54.4	40.4	30.9	17.9	15.2	12.9	7.5	6.4	5.4	14.6	17.1	19.0	—	—	0.2	1.6			
Consumer products	Cautious				17,179	245					17.7	15.9	14.7	48.4	41.7	36.4	31.4	26.9	23.4	12.6	11.3	10.1	26.1	27.1	27.8	1.1	1.3	1.5	314.9			
Energy																																
BPCL	REDUCE	359	375	4.6	778	11.1	1,967	38	39	39	(6.7)	3.1	1.1	9.5	9.3	9.2	7.0	6.6	6.4	1.9	1.7	1.5	20.5	19.1	17.5	4.2	4.3	4.4	28.6			
Castrol India	SELL	157	155	(1.5)	155	2.2	989	7	8	9	2.9	10.1	9.7	22.3	20.2	18.4	13.9	12.6	11.4	14.6	14.3	13.7	67.1	71.5	76.0	3.5	4.0	4.3	4.2			
GAIL (India)	BUY	364	440	20.8	821	11.7	2,255	26	29	31	27.8	10.0	9.5	14.0	12.7	11.6	8.7	8.0	7.3	1.9	1.7	1.6	14.0	14.1	14.2	2.3	2.6	2.9	23.3			
GSPL	SELL	184	175	(4.6)	103	1.5	564	11	11	12	(6.5)	(0.5)	11.9	16.6	16.6	14.9	6.2	6.2	5.5	1.9	1.7	1.6	11.7	10.7	10.9	0.9	0.9	1.0	1.4			
HPCL	REDUCE	257	285	10.9	391	5.6	1,524	32	32	32	(22.3)	(2.2)	0.5	7.9	8.1	8.1	7.1	7.5	7.8	1.5	1.4	1.2	19.6	17.4	16.1	5.1	5.0	5.0	25.1			
Indraprastha Gas	SELL	282	240	(14.9)	197	2.8	700	12	13	15	16.4	12.3	10.7	23.5	20.9	18.9	14.9	13.1	11.6	4.8	4.2	3.7	22.1	21.5	20.9	0.9	1.1	1.5	10.9			
IOCL	REDUCE	156	150	(3.6)	1,511	21.5	9,479	18	17	18	(11.2)	(4.1)	2.8	8.5	8.9	8.7	4.9	4.9	4.7	1.2	1.2	1.1	15.1	13.4	12.9	4.7	4.5	4.6	22.0			
Mahanagar Gas	ADD	833	965	15.8	82	1.2	99	56	60	64	16.0	7.6	5.4	14.9	13.8	13.1	8.6	7.8	7.2	3.5	3.1	2.7	24.8	23.5	22.0	2.7	2.9	3.1	11.6			
ONGC	ADD	175	200	14.5	2,241	32.0	12,833	20	20	19	16.8	0.3	(5.9)	8.6	8.6	9.1	4.1	3.9	3.8	0.9	0.9	0.8	11.2	10.6	9.5	3.9	4.0	4.0	17.2			
Oil India	SELL	208	200	(4.0)	236	3.4	1,135	23	24	23	(6.7)	3.4	(2.5)	9.0	8.7	9.0	5.9	5.7	5.7	0.8	0.8	0.7	9.2	9.0	8.4	4.4	4.6	4.5	2.6			
Petronet LNG	BUY	232	280	20.9	347	5.0	1,500	16	18	20	16.7	13.1	9.4	14.3	12.6	11.5	9.6	8.1	7.2	3.1	2.8	2.5	23.3	23.2	22.7	2.4	3.2	3.9	10.5			
Reliance Industries	SELL	1,319	985	(25.3)	7,806	111.3	5,922	69	78	87	17.6	12.4	11.9	19.0	16.9	15.1	12.5	10.7	9.1	2.4	2.1	1.9	12.2	12.1	12.1	0.5	0.5	0.6	127.5			
Energy	Attractive				14,670	209					7.2	5.2	4.8	13.3	12.6	12.0	7.9	7.3	6.8	1.7	1.6	1.4	13.0	12.5	12.0	2.0	2.1	2.1	284.8			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		28-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Industrials																													
ABB	SELL	1,307	1,020	(22.0)	277	4.0	212	26	29	36	30.1	14.2	23.5	50.7	44.4	36.0	29.7	26.7	22.1	7.0	6.4	5.7	14.5	15.1	16.7	0.7	0.7	0.7	1.4
BHEL	REDUCE	78	78	0.4	285	4.1	3,671	2.6	5.0	7.4	16.5	95.3	48.5	30.4	15.5	10.5	8.5	4.5	3.4	0.9	0.9	0.9	2.9	5.6	8.3	2.7	5.3	7.9	10.7
Carborundum Universal	SELL	372	322	(13.5)	70	1.0	189	14	17	20	25.0	21.4	13.8	26.1	21.5	18.9	14.3	11.7	10.1	4.1	3.6	3.2	16.3	17.8	18.1	1.1	1.4	1.6	0.4
CG Power and Industrial	BUY	59	72	21.4	37	0.5	627	2.9	4.3	6.2	25.2	48.7	44.9	20.4	13.7	9.5	8.1	6.4	5.0	1.4	1.3	1.2	6.7	9.8	13.3	—	—	—	8.5
Crompton Greaves Consumer	SELL	247	215	(12.8)	155	2.2	627	6.2	7.5	8.8	19.5	20.7	17.4	39.9	33.1	28.2	24.9	21.1	17.8	13.6	10.5	8.0	40.4	35.8	32.3	0.8	1.0	—	2.4
Cummins India	REDUCE	780	710	(9.0)	216	3.1	277	28	33	37	15.2	17.5	13.7	28.0	23.9	21.0	23.6	20.2	17.4	5.1	4.7	4.4	18.7	20.6	21.8	1.9	2.3	2.6	4.5
Havells India	SELL	716	485	(32.3)	448	6.4	625	14	17	20	26.6	20.5	17.6	51.1	42.4	36.0	32.8	26.8	22.5	10.6	9.2	8.0	22.0	23.2	23.9	0.7	0.8	1.0	13.6
Kalpataru Power Transmission	BUY	366	560	53.0	56	0.8	153	23	32	41	26.0	39.1	27.7	15.9	11.4	8.9	7.0	5.5	4.7	1.9	1.6	1.4	12.5	15.2	16.7	0.4	0.4	0.4	0.6
KEC International	BUY	305	410	34.3	78	1.1	257	21	27	33	16.9	29.7	23.0	14.6	11.2	9.1	8.2	6.7	5.7	3.2	2.5	2.0	24.1	25.2	24.9	0.7	1.0	1.2	2.9
L&T	BUY	1,356	1,600	18.0	1,900	27.1	1,401	66	68	79	28.2	1.9	17.6	20.4	20.1	17.1	18.2	17.6	14.7	3.4	3.1	2.8	17.6	16.2	17.1	1.6	1.7	2.0	49.9
Siemens	SELL	1,028	1,000	(2.7)	366	5.2	356	29	35	—	21.4	21.7	—	35.3	29.0	—	20.1	16.2	—	4.2	3.9	—	12.3	14.0	—	1.2	1.4	—	3.3
Thermax	REDUCE	1,013	1,010	(0.3)	121	1.7	113	28	39	44	34.7	39.2	13.2	36.5	26.2	23.1	23.1	17.1	14.7	3.9	3.6	3.2	11.1	14.3	14.7	0.9	1.1	1.2	0.9
Volta	SELL	630	530	(15.8)	208	3.0	331	17	21	25	0.4	18.8	18.9	36.3	30.5	25.7	27.2	22.2	18.6	4.8	4.3	3.8	13.9	14.8	15.7	0.6	0.7	0.8	12.5
Industrials	Neutral				4,219	60					25.4	15.2	13.4	26.2	22.8	20.1	18.1	15.9	13.1	3.3	3.1	3.0	12.6	13.4	14.9	1.4	1.6	1.8	111.6
Infrastructure																													
Adani Ports and SEZ	BUY	387	460	18.9	801	11.4	2,071	19	23	29	1.2	21.1	29.8	20.7	17.1	13.2	14.0	11.6	10.2	3.3	2.8	2.3	17.0	17.7	19.4	0.5	0.5	0.5	23.7
Ashoka Buildcon	BUY	138	235	70.5	39	0.6	282	9	10	10	4.1	17.8	(1.3)	15.7	13.4	13.5	10.3	8.6	7.9	1.7	1.6	1.4	11.8	12.3	11.0	1.2	0.9	0.9	0.6
Container Corp.	SELL	631	635	0.6	308	4.4	487	21	25	29	17.4	20.9	15.0	30.5	25.2	21.9	18.7	14.8	12.2	3.0	2.8	2.6	10.3	11.6	12.3	1.4	1.7	1.6	6.5
Dilip Buildcon	BUY	812	1,230	51.5	111	1.6	137	54	71	85	17.2	31.0	19.7	14.9	11.4	9.5	7.5	6.0	5.1	3.4	2.6	2.0	26.1	26.1	24.2	—	—	—	8.5
Gateway Distriparks	BUY	187	250	33.7	20	0.3	109	7	8	11	(5.8)	15.2	37.5	26.1	22.6	16.5	11.5	9.6	7.9	3.5	3.1	2.6	9.8	14.5	17.1	—	1.6	1.6	0.7
Gujarat Pipavav Port	BUY	108	150	38.4	52	0.7	483	5.3	6.5	7.8	29.7	22.9	19.3	20.3	16.5	13.8	10.8	8.8	7.3	2.5	2.5	2.4	12.7	15.3	17.8	4.1	5.0	5.9	0.9
IRB Infrastructure	BUY	194	320	65.1	68	1.0	351	31	33	23	36.8	7.1	(31.3)	6.3	5.9	8.5	6.6	7.0	8.3	1.0	0.9	0.8	17.6	16.3	10.0	1.6	2.1	2.2	5.7
Mahindra Logistics	REDUCE	565	565	(0.0)	40	0.6	71	15	21	25	50.7	39.3	23.7	38.2	27.5	22.2	21.3	15.4	12.2	7.9	6.4	5.2	22.7	25.8	25.8	—	—	—	0.6
Sadbhav Engineering	BUY	279	435	55.7	48	0.7	172	17	22	23	31.7	31.0	2.6	16.5	12.6	12.3	11.8	9.3	7.8	2.2	1.9	1.7	14.5	16.5	14.7	—	—	—	0.8
Infrastructure	Attractive				1,488	21					11.1	20.6	16.7	19.3	16.0	13.7	11.9	10.1	9.2	2.9	2.5	2.2	14.8	15.5	15.7	0.8	0.9	0.9	47.8
Internet																													
Info Edge	ADD	1,546	1,425	(7.9)	189	2.7	122	26	33	40	14.9	27.5	20.6	59.8	46.9	38.9	45.6	34.5	28.0	7.1	6.4	5.7	13.2	14.3	15.6	0.5	0.5	0.6	2.7
Just Dial	ADD	552	610	10.6	37	0.5	67	26	30	33	23.0	15.0	9.4	21.1	18.4	16.8	11.7	9.5	8.0	3.3	2.8	2.5	16.7	16.6	15.7	—	0.5	0.6	44.7
Internet	Cautious				226	3					17.6	23.0	16.8	46.0	37.4	32.0	33.9	26.7	22.3	6.0	5.3	4.7	12.9	14.2	14.7	0.5	0.5	0.6	47.4
Media																													
DB Corp.	REDUCE	235	270	14.9	43	0.6	184	20	23	26	14.9	12.3	14.8	11.6	10.3	9.0	6.3	5.5	—	2.3	2.3	—	20.7	22.3	25.2	7.2	9.0	10.7	0.6
DishTV	ADD	72	90	25.6	132	1.9	1,925	1.8	3.4	4.9	514.6	88.2	42.6	NM	20.8	14.6	6.1	4.9	4.0	1.9	1.8	1.6	5.1	8.9	11.5	—	—	—	7.7
Jagran Prakashan	REDUCE	123	131	6.5	36	0.5	311	11	12	14	10.0	13.6	14.5	11.6	10.2	8.9	5.1	4.4	3.7	1.9	1.8	1.7	15.9	18.2	19.7	4.1	6.1	6.9	0.6
PVR	BUY	1,334	1,430	7.2	62	0.9	47	38	50	61	41.2	32.3	22.4	35.2	26.6	21.7	13.5	11.5	9.7	5.1	4.3	3.7	15.3	17.6	18.3	0.3	0.4	0.5	11.3
Sun TV Network	REDUCE	772	925	19.8	304	4.3	394	35	39	43	20.7	10.9	10.7	22.2	20.0	18.1	15.0	13.1	11.2	5.9	5.3	4.8	28.1	27.9	27.9	2.3	2.6	2.9	20.1
Zee Entertainment Enterprises	ADD	511	600	17.5	491	7.0	960	17	20	22	11.3	17.0	13.9	30.5	26.1	22.9	18.9	16.0	13.9	5.7	5.0	4.5	19.9	20.6	20.7	0.9	1.1	1.4	17.3
Media	Attractive				1,069	15					28.7	21.0	17.2	25.6	21.2	18.1	12.2	10.4	8.6	4.2	3.8	3.6	16.3	17.7	19.8	1.5	1.8	2.1	57.7

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		28-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Metals & Mining																													
Coal India	ADD	295	326	10.6	1,829	26.1	6,207	27	28	28	138.2	3.0	0.7	10.9	10.6	10.6	7.1	6.7	6.4	6.9	7.2	7.4	66.1	66.4	69.1	6.8	8.5	8.5	15.6
Hindalco Industries	BUY	239	305	27.6	537	7.7	2,229	27	31	34	25.1	13.6	10.2	8.7	7.7	7.0	5.6	4.9	4.3	0.9	0.8	0.7	10.6	10.8	10.8	0.5	0.5	0.5	33.7
Hindustan Zinc	ADD	298	290	(2.7)	1,259	17.9	4,225	22	26	27	3.7	14.7	5.4	13.4	11.6	11.0	7.8	6.4	5.7	3.0	2.6	2.3	24.4	24.2	22.1	2.7	2.7	2.7	7.7
Jindal Steel and Power	REDUCE	209	215	2.9	202	2.9	968	8	14	22	195.9	68.5	60.8	25.6	15.2	9.5	6.9	6.3	5.3	0.7	0.6	0.6	2.7	4.3	6.5	—	—	—	28.3
JSW Steel	ADD	366	350	(4.4)	885	12.6	2,417	30	27	30	10.2	(8.7)	11.7	12.4	13.6	12.2	7.5	8.2	6.9	2.5	2.2	1.9	22.4	17.3	16.7	0.9	0.9	0.9	20.3
National Aluminium Co.	ADD	75	80	6.7	145	2.1	1,933	9	7	8	125.8	(21.1)	2.4	8.0	10.2	10.0	3.7	4.8	4.7	1.3	1.3	1.3	16.8	13.0	13.3	8.0	8.0	8.0	10.7
NMDC	REDUCE	109	120	10.5	344	4.9	3,164	12	10	11	4.2	(14.3)	5.9	8.9	10.4	9.8	5.4	6.3	5.8	1.3	1.3	1.2	15.3	12.4	12.5	5.1	5.1	5.1	4.8
Tata Steel	ADD	590	660	11.8	676	9.6	1,205	76	85	94	12.8	12.1	10.9	7.8	7	6.3	6.0	6.3	5.9	1.0	1.0	0.8	14.3	14.3	14.4	1.7	1.7	1.7	70.4
Vedanta	BUY	230	370	60.6	856	12.2	3,717	32	39	38	49.1	19.7	(0.7)	7.2	6.0	6.0	4.7	3.9	3.5	1.2	1.1	1.0	18.0	19.4	17.2	4.2	5.0	5.0	48.6
Metals & Mining		Attractive			6,733	96					41.7	7.7	5.9	10.1	9.3	8.8	6.2	5.8	5.3	1.8	1.7	1.5	18.0	17.8	17.1	3.6	4.2	4.2	240.1
Pharmaceutical																													
Apollo Hospitals	ADD	1,173	1,090	(7.1)	163	2.3	139	20	27	33	133.5	36.7	21.6	59.5	43.5	35.8	20.6	17.4	15.3	4.7	4.4	4.0	8.2	10.5	11.8	0.4	0.6	0.7	13.4
Aster DM Healthcare	BUY	179	240	34.4	90	1.3	505	5	8	12	74.4	62.0	51.4	37.2	22.9	15.1	13.2	10.4	8.1	3.0	2.7	2.3	8.3	12.2	16.3	—	—	—	0.3
Aurobindo Pharma	ADD	686	640	(6.7)	402	5.7	584	40	48	54	(4.5)	20.1	13.1	17.2	14.3	12.6	11.5	9.6	8.2	2.9	2.5	2.1	18.4	17.3	16.8	0.8	0.9	1.1	24.7
Biocon	SELL	615	330	(46.4)	369	5.3	601	8	15	18	35.9	75.7	21.7	73.1	41.6	34.2	31.8	21.3	18.1	6.1	5.5	4.9	8.7	13.9	14.3	0.5	0.8	1.0	22.6
Cipla	BUY	648	680	4.9	522	7.4	805	24	31	40	34.5	31.0	29.4	27.5	21.0	16.2	15.5	12.3	9.6	3.3	2.9	2.5	12.4	14.6	15.7	0.7	1.0	1.3	26.6
Dr Lal Pathlabs	REDUCE	1,061	900	(15.2)	88	1.3	83	24	29	34	19.0	17.9	18.4	43.6	37.0	31.2	26.9	22.6	18.5	9.4	7.8	6.6	23.4	23.1	22.9	0.5	0.5	0.6	1.4
Dr Reddy's Laboratories	REDUCE	2,418	2,150	(11.1)	401	5.7	166	89	118	141	50.2	32.8	19.3	27.3	20.5	17.2	13.7	9.8	8.1	2.9	2.6	2.3	11.1	12.6	13.3	0.6	0.7	0.9	37.6
HCG	REDUCE	272	290	6.7	24	0.3	85	2	4	7	39.8	80.3	80.8	124.3	69.0	38.1	19.7	16.4	12.6	4.3	4.1	3.7	3.5	6.1	10.1	—	—	—	0.2
Laurus Labs	ADD	439	500	13.9	47	0.7	106	16	29	34	2.4	79.9	17.5	27.0	15.0	12.8	12.5	8.7	7.6	2.8	2.4	2.0	10.9	17.1	15.6	—	—	—	0.6
Lupin	REDUCE	902	800	(11.3)	408	5.8	450	27	39	50	(28.9)	44.0	27.4	33.3	23.1	18.1	15.5	11.3	9.1	2.8	2.5	2.2	8.6	11.4	12.4	0.5	0.6	0.8	44.7
Narayana Hrudayalaya	ADD	251	265	5.7	51	0.7	204	3	6	9	23.0	103.2	40.7	81.0	39.9	28.3	23.0	16.1	12.9	4.7	4.2	3.6	5.9	11.0	13.7	—	—	—	0.2
Sun Pharmaceuticals	REDUCE	621	520	(16.3)	1,490	21.3	2,406	17	24	29	11.1	42.5	20.5	36.9	25.9	21.5	20.1	14.8	12.4	3.6	3.2	2.8	10.2	13.1	13.3	0.5	0.8	0.9	62.5
Torrent Pharmaceuticals	NR	1,771	—	—	300	4.3	169	47	61	81	18.0	29.6	32.1	37.5	28.9	21.9	16.3	14.0	11.5	5.7	5.0	4.2	15.3	17.2	19.3	0.6	0.8	1.1	7.9
Pharmaceuticals		Neutral			4,356	62					11.3	37.2	22.7	32.9	24.0	19.5	17.0	13.0	10.8	3.6	3.2	2.8	10.9	13.2	14.3	0.5	0.8	0.9	242.6
Real Estate																													
Brigade Enterprises	BUY	204	290	42.1	28	0.4	136	9	15	17	(17.0)	59.2	15.8	22.2	13.9	12.0	13.5	10.5	8.4	1.2	1.1	1.0	5.4	8.1	8.8	1.2	1.2	1.2	0.3
DLF	RS	213	—	—	381	5.4	1,784	5.3	23.9	14.1	(87.2)	354.6	(41.0)	40.6	8.9	15.1	55.8	9.8	18.3	1.1	1.0	0.9	2.6	11.3	6.2	0.9	0.9	0.9	16.7
Godrej Properties	SELL	695	400	(42.4)	159	2.3	216	13.3	15.8	18.2	(38.9)	19.1	15.2	52.4	44.0	38.2	309.1	161.0	132.7	4.5	4.1	3.7	10.5	9.7	10.1	—	—	—	1.8
Oberoi Realty	BUY	460	560	21.6	167	2.4	340	62	44	66	385.4	(28.0)	49.3	7.5	10.4	6.9	10.3	12.9	5.6	1.7	1.5	1.2	27.4	15.2	19.2	0.4	0.4	0.4	2.1
Prestige Estates Projects	ADD	240	315	31.1	90	1.3	375	19	21	11	(24.2)	8.4	—	12.6	11.7	22.5	10.4	10.6	14.2	0.9	0.8	—	14.6	14.9	7.3	1.2	1.2	0.6	1.0
Sobha	REDUCE	465	510	9.6	44	0.6	95	23	36	24	(48.8)	51.7	(32.6)	19.8	13.1	19.4	11.9	9.3	11.6	2.0	1.8	1.7	9.0	14.8	9.1	1.5	1.5	1.5	1.6
Sunteck Realty	REDUCE	514	360	(29.9)	75	1.1	140	19	19	39	22.4	1.6	106.6	27.5	27.0	13.1	22.6	21.9	9.7	2.5	2.3	2.0	9.5	8.9	16.2	0.2	0.2	0.2	2.0
Real Estate		Neutral			945	13					(53.1)	65.1	(14.4)	20.2	12.2	14.3	20.8	12.3	13.7	1.4	1.3	1.3	7.1	10.6	9.0	0.7	0.7	0.6	25.5

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		28-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Technology																													
HCL Technologies	REDUCE	1,041	1,025	(1.5)	1,449	20.7	1,409	70	74	77	12.8	5.0	5.0	14.8	14.1	13.4	9.7	8.9	8.2	3.3	2.9	2.6	24.2	21.8	20.5	0.8	3.0	3.2	32.2
Hexaware Technologies	SELL	419	435	3.7	125	1.8	302	20	23	25	18.4	18.0	10.0	21.4	18.1	16.5	15.9	12.6	11.0	5.5	4.7	4.1	27.4	27.8	26.3	1.9	1.9	2.4	20.6
Infosys	ADD	1,425	1,400	(1.7)	3,112	44.4	2,175	71	78	85	9.7	10.4	9.1	20.1	18.2	16.7	13.8	12.4	11.1	4.5	4.1	3.7	23.0	23.5	23.3	3.1	2.7	2.9	83.5
L&T Infotech	ADD	1,856	2,000	7.8	321	4.6	175	83	94	109	30.5	13.0	16.5	22.4	19.8	17.0	17.2	14.5	12.3	6.8	5.5	4.5	33.5	30.7	29.2	1.3	1.4	1.6	4.6
Mindtree	ADD	1,039	1,115	7.4	171	2.4	165	43	53	62	24.9	23.6	15.9	24.1	19.5	16.8	15.1	12.2	10.4	5.3	4.5	3.9	23.9	25.2	24.9	1.2	1.5	1.8	23.1
Mphasis	SELL	1,248	825	(33.9)	241	3.4	193	53	57	59	20.5	7.1	4.6	23.6	22.1	21.1	17.5	15.5	14.5	4.6	4.2	3.9	18.7	19.9	19.2	1.6	2.0	2.4	6.6
TCS	REDUCE	2,069	1,790	(13.5)	7,922	113.0	3,829	82	89	96	21.2	8.8	7.4	25.3	23.2	21.6	18.6	17.1	15.9	8.0	7.8	7.7	33.4	33.8	35.9	2.0	3.4	3.7	95.3
Tech Mahindra	ADD	736	785	6.6	650	9.3	891	46	55	61	8.3	18.2	11.1	15.9	13.5	12.1	9.6	7.8	6.7	3.0	2.6	2.2	20.2	20.5	19.5	1.3	1.4	1.5	39.9
Wipro	REDUCE	296	295	(0.2)	1,337	19.1	4,507	19	22	23	11.8	14.6	7.7	15.6	13.6	12.7	9.9	8.7	7.9	2.4	2.2	2.1	16.4	16.8	16.8	0.5	3.4	3.7	12.9
Technology	Cautious				15,328	219					13.1	9.7	8.0	21.2	19.3	17.9	14.6	13.2	12.1	5.0	4.7	4.3	23.8	24.2	24.2	1.9	3.0	3.3	318.8
Telecom																													
Bharti Airtel	ADD	377	445	18.1	1,506	21.5	3,997	(6)	(4)	5	(221.5)	28.8	215.1	(65.5)	(92.1)	80.0	9.7	8.2	6.6	2.3	2.3	2.3	(3.4)	(2.5)	2.9	0.3	(0.2)	0.3	25.4
Bharti Infratel	REDUCE	287	285	(0.6)	530	7.6	1,850	13	12	13	(4.8)	(8.5)	7.7	21.9	23.9	22.2	8.1	8.6	8.1	3.3	3.3	3.2	14.6	13.7	14.6	3.7	3.4	3.6	11.0
IDEA	REDUCE	51	45	(11.9)	223	3.2	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(3.0)	(3.0)	(3.4)	34.5	29.2	18.2	1.0	1.5	2.8	(29.7)	(41.1)	(59.4)	—	—	—	15.0
Tata Communications	ADD	548	660	20.5	156	2.2	285	0	3	7	(77.5)	694.2	123.5	1,478	186.1	83.3	10.9	9.5	8.6	(68.0)	(92.4)	(1,789.3)	7.8	(42.1)	(211.0)	1.2	1.4	1.4	3.8
Telecom	Cautious				2,415	34					(2,384.5)	5.0	68.0	(33.6)	(35.4)	(110.7)	11.0	9.7	7.9	2.3	2.5	2.7	(6.9)	(7.2)	(2.4)	1.0	0.6	1.0	55.3
Utilities																													
CESC	BUY	989	1,180	19.3	131	1.9	133	115	128	141	31.7	11.6	10.1	8.6	7.7	7.0	5.9	5.3	4.7	0.8	0.8	0.7	10.0	10.4	10.5	1.3	1.3	1.3	6.4
JSW Energy	REDUCE	68	70	2.3	112	1.6	1,640	5.1	6.5	6.6	65.9	26.8	2.9	13.4	10.6	10.3	5.7	4.8	4.3	0.9	0.9	0.8	7.2	8.5	8.0	—	—	—	1.6
NHPC	ADD	25	30	19.3	258	3.7	10,260	3.1	3.2	3.4	26.9	1.8	8.0	8.1	8.0	7.4	7.4	7.2	7.7	0.8	0.8	0.8	10.4	10.2	10.6	6.9	7.0	5.9	1.9
NTPC	BUY	168	190	12.9	1,388	19.8	8,245	15	16	18	30.9	4.4	16.5	11.3	10.8	9.3	9.0	8.3	7.0	1.3	1.2	1.1	11.6	11.3	12.2	2.7	2.8	3.2	12.6
Power Grid	BUY	197	250	26.8	1,031	14.7	5,232	19	21	23	19.3	13.6	7.6	10.5	9.2	8.6	7.3	6.7	6.4	1.7	1.5	1.4	17.1	17.5	17.0	3.2	3.6	3.9	24.7
Tata Power	BUY	75	90	20.5	202	2.9	2,705	6.0	7.0	10.9	(43.7)	15.6	57.0	12.4	10.7	6.8	10.7	10.3	9.0	1.2	1.1	0.9	10.1	10.6	14.6	—	—	—	4.2
Utilities	Attractive				3,122	45					18.6	8.8	14.1	10.7	9.8	8.6	8.0	7.4	6.7	1.3	1.2	1.1	11.9	12.0	12.5	2.9	3.1	3.3	51.2

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

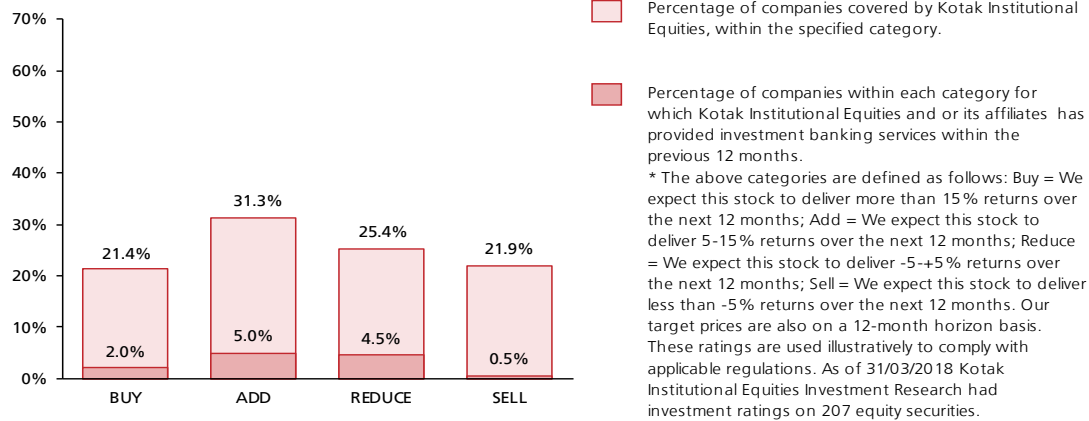
Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		28-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Others																													
Aditya Birla Fashion and Retail	BUY	207	220	6.5	159	2.3	773	2	4	6	50.6	59.1	53.5	90.0	56.6	36.9	26.1	20.4	16.6	12.6	10.3	8.0	15.0	20.0	24.5	—	—	—	3.9
Astral Poly Technk	SELL	1,126	640	(43.2)	135	1.9	120	19	25	29	30.2	28.8	16.1	59.0	45.8	39.5	31.7	25.2	21.4	10.4	8.5	7.1	19.8	20.5	19.7	0.1	0.1	0.1	1.2
Avenue Supermarts	SELL	1,592	860	(46.0)	994	14.2	624	16	20	26	28.6	26.4	27.5	98.5	77.9	61.1	56.8	44.6	35.1	17.6	14.3	11.6	19.6	20.3	21.0	—	—	—	—
Bayer Cropscience	REDUCE	4,271	4,100	(4.0)	169	2.4	34	106	130	154	20.5	23.1	18.3	40.5	32.9	27.8	29.7	24.2	20.1	7.1	6.1	5.2	18.9	20.0	20.3	0.5	0.6	0.7	0.5
Dhanuka Agritech	ADD	540	650	20.4	26	0.4	49	27	31	34	3.9	15.4	10.8	20.2	17.5	15.8	14.7	12.1	10.5	3.6	3.1	2.7	19.2	19.2	18.5	1.1	1.2	1.4	0.2
Godrej Agrovet	ADD	590	640	8.4	113	1.6	189	15	19	23	28.9	28.8	21.1	39.8	30.9	25.5	21.6	16.9	14.1	5.8	5.0	4.2	15.7	17.4	17.9	0.4	0.5	0.6	1.0
Godrej Industries	RS	630	—	—	212	3.0	336	16	20	—	8.9	24.2	—	39.7	32.0	—	32.3	35.2	—	5.2	4.5	—	13.9	15.1	—	0.3	0.3	—	4.9
InterGlobe Aviation	BUY	1,024	1,220	19.2	394	5.6	383	50	83	99	(17.9)	65.3	19.5	20.5	12.4	10.4	11.5	6.6	5.3	4.5	3.4	2.6	24.1	31.1	28.6	0.5	0.8	1.0	21.2
Kaveri Seed	SELL	639	515	(19.4)	42	0.6	66	34	34	37	7.3	0.1	8.3	18.6	18.6	17.2	15.7	15.0	13.5	4.5	3.9	3.4	26.4	22.4	21.0	1.3	1.6	1.6	5.3
PI Industries	BUY	776	875	12.8	107	1.5	138	31	40	48	17.9	26.8	21.5	24.8	19.5	16.1	17.6	13.8	11.1	4.7	3.9	3.2	20.5	21.7	21.9	0.5	0.6	0.7	1.5
Rallis India	ADD	209	220	5.5	41	0.6	195	10	12	13	17.2	19.4	9.7	20.6	17.3	15.8	13.6	11.5	10.1	3.1	2.8	2.5	15.8	17.1	16.9	1.7	1.9	2.1	0.8
SIS	REDUCE	1,130	1,130	—	83	1.2	73	33	40	48	48.5	21.1	17.8	33.9	28.0	23.8	21.2	17.8	15.0	6.7	5.5	4.6	21.8	21.7	21.1	0.3	0.3	0.4	0.7
SRF	BUY	1,949	2,200	12.9	112	1.6	57	100	132	150	23.8	32.2	14.1	19.6	14.8	13.0	11.4	9.1	7.7	2.8	2.4	2.1	15.0	17.3	17.0	0.7	0.8	0.8	11.6
Tata Chemicals	ADD	749	760	1.4	191	2.7	255	44	51	56	(15.3)	14.6	11.5	17.0	14.8	13.3	7.1	6.0	5.1	1.6	1.5	1.4	9.7	10.3	10.8	2.0	2.3	2.3	6.9
TeamLease Services	SELL	2,637	1,785	(32.3)	45	0.6	17	58	75	96	34.2	29.0	28.7	45.6	35.3	27.4	46.2	35.1	27.0	8.3	6.7	5.4	20.1	21.1	21.9	—	—	—	1.5
UPL	ADD	654	660	0.9	333	4.7	507	49	55	60	14.0	12.1	9.6	13.4	11.9	10.9	9.0	7.7	6.6	3.0	2.5	2.1	24.6	22.9	21.1	1.5	1.7	1.9	24.1
Vardhman Textiles	ADD	1,113	1,300	16.8	64	0.9	56	118	130	142	14.8	9.7	9.8	9.4	8.6	7.8	7.1	6.4	5.7	1.2	1.1	1.0	13.1	13.0	13.0	1.8	2.7	2.7	0.9
Whirlpool	SELL	1,786	1,350	(24.4)	227	3.2	127	37	46	56	33.9	24.7	20.2	48.2	38.7	32.2	29.7	23.6	19.3	10.5	8.7	7.4	23.7	24.5	24.8	0.4	0.5	0.9	1.2
Others																													
					3,446	49				7.1	27.4	11.5	30.8	24.2	21.7	18.5	14.6	11.7	5.1	4.4	4.0	16.7	18.1	18.2	0.5	0.6	0.7	87.2	
KIE universe					116,761	1,665				23.9	26.9	14.2	22.7	17.9	15.7	11.3	10.1	9.0	2.9	2.6	2.4	12.8	14.7	15.2	1.3	1.6	1.8		
KIE universe (ex-energy)					102,091	1,455				29.4	32.8	16.2	25.3	19.1	16.4	12.6	11.0	9.8	3.2	2.9	2.6	12.8	15.3	16.0	1.2	1.6	1.7		

Notes:

- (a) We have used adjusted book values for banking companies.
 (b) 2019 means calendar year 2018, similarly for 2020 and 2021 for these particular companies.
 (c) Exchange rate (Rs/US\$)= 70.13

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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



Source: Kotak Institutional Equities

As of June 30, 2018

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

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

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

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