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### Daily Alerts

#### Company alerts

**Reliance Industries:** FY2018 AR analysis - concerns remain

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- ▶ Key highlights—FCF of -US\$3 bn, 7.9% borrowing cost, 12% adjusted RoACE
- ▶ Fine tune estimates on account of AR details and revised crude/Rupee assumptions

**Dr Reddy's Laboratories:** An approval, an "at-risk" launch, and a TRO

- ▶ An "at-risk" launch, and a TRO
- ▶ Mylan's early launch potentially triggered, while Teva and Alvogen launches likely in CY2018
- ▶ Recent rally captures the launch trajectory - REDUCE

### EQUITY MARKETS

India	Change %			
	15-Jun	1-day	1-mo	3-mo
Sensex	35,622	0.1	0.2	5.2
Nifty	10,818	0.1	2.1	6.1
<b>Global/Regional indices</b>				
Dow Jones	25,090	(0.3)	1.5	0.6
Nasdaq Composite	7,746	(0.2)	5.3	3.5
FTSE	7,634	(1.7)	(1.2)	6.9
Nikkei	22,697	(0.7)	(1.0)	4.7
Hang Seng	30,309	(0.4)	(2.4)	(3.8)
KOSPI	2,399	(0.2)	(2.5)	(3.8)
<b>Value traded – India</b>				
Cash (NSE+BSE)	406		344	344
Derivatives (NSE)	5,988		11,315	13,352
Deri. open interest	3,887		4,029	4,296

#### Forex/money market

	Change, basis points			
	15-Jun	1-day	1-mo	3-mo
Rs/US\$	68.2	2	16	290
10yr govt bond, %	8.2	-	9	23

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

	14-Jun	MTD	CYTD
FIs	(110)	(44)	(289)
MFs	14	287	9,350

#### Top movers

Best performers	Change, %			
	15-Jun	1-day	1-mo	3-mo
TCS IN Equity	1,840	2.9	5.1	30.2
NEST IN Equity	9,743	(0.1)	0.6	26.6
UBBL IN Equity	1,271	(1.5)	12.1	26.4
KMB IN Equity	1,340	0.6	3.5	26.3
HUVR IN Equity	1,621	0.7	1.0	24.8
<b>Worst performers</b>				
HDIL IN Equity	23	(1.3)	(18.9)	(46.7)
RCOM IN Equity	15	(2.8)	1.0	(34.1)
JPA IN Equity	14	(4.0)	(17.2)	(30.7)
UT IN Equity	5	(3.1)	2.2	(26.0)
IDEA IN Equity	61	(3.4)	16.4	(25.2)

JUNE 18, 2018

UPDATE

Coverage view: **Attractive**

Price (₹): **1,014**

Target price (₹): **930**

BSE-30: **35,622**

**FY2018 AR analysis—concerns remain.** Our concerns on standalone capital-WIP and Jio's capitalization of operating costs remain unaddressed given limited disclosures in RIL's FY2018 annual report. Our FY2014-18 capex reconciliation suggests material overruns in downstream projects besides higher and rising capex on Jio. Key takeaways from AR include—negative FCF, increase in borrowing cost, lower RoACE, yet-to-be capitalized intangible assets in Jio and retail, write-offs in shale and higher related-party payments. We reiterate REDUCE with an unchanged SoTP-based TP of ₹930.

#### Company data and valuation summary

Reliance Industries

Stock data				Forecasts/Valuations				
				2018	2019E	2020E		
52-week range (Rs) (high,low)		1,024-686		EPS (Rs)	59.1	67.9	77.4	
Market Cap. (Rs bn)		6,002.0		EPS growth (%)	16.9	14.9	13.9	
Shareholding pattern (%)				P/E (X)	17.2	14.9	13.1	
Promoters		46.2		Sales (Rs bn)	3,916.8	4869.6	5,285.4	
Fls		26.5		Net profits (Rs bn)	349.9	402.2	458.1	
MFs		2.7		EBITDA (Rs bn)	641.8	812.9	953.8	
Price performance (%)				EV/EBITDA (X)	13.0	10.5	8.8	
Absolute		1M	3M	12M	ROE (%)	11.6	11.9	12.1
Rel. to BSE-30		8.6	12.7	46.1	Div. Yield (%)	0.6	0.6	0.7
		8.3	7.1	27.5				

#### Uncertainty remains on standalone capital WIP and Jio's operating cost capitalization

RIL's AR has not provided incremental inputs on substantial standalone capital WIP of ₹926 bn (US\$14 bn). Petcoke gasification, which we believe will be less than half of CWIP, is the only significant project remaining to be capitalized. The company has separately indicated that CWIP includes common infrastructure with other capitalized projects (ROGC, PX) in Jamnagar, forex/ interest costs, real estate and several other small projects. We remain uncertain on the potential gains from the remaining CWIP, which will be required to cover higher interest/depreciation cost on capitalization. Further, Jio has stopped providing build-up of project development expenditure; FY2017 AR included details on capitalization of operating cost. We remain uncertain on the extent of Jio's operating cost advantage over other telecom players.

#### FY2014-18 capex reconciliation indicates significant overruns in downstream projects besides Jio

Our reconciliation of FY2014-18 capex suggests that RIL has incurred US\$27 bn on capex on standalone business, nearly twice its initial guidance of ~US\$14 bn, presumably indicating significant capex overruns and/or high recurring capex. On a consolidated basis, RIL's gross capital assets increased to US\$75 bn in the ongoing capex cycle during FY2014-18, including US\$27 bn in downstream, US\$8 bn in E&P and US\$33 bn in its telecom business. Net capex, excluding forex capitalization of US\$5 bn, has been substantial at US\$69 bn including cash outlay of US\$51 bn, deferred liabilities of US\$13 bn and interest capitalization of US\$5 bn.

#### Key highlights—FCF of -US\$3 bn, 7.9% borrowing cost, 12% adjusted RoACE

Effective consolidated net debt increased to US\$36 bn (₹2.35 tn) led by negative FCF of US\$3 bn, as a sharp increase in operating profits and the release of working capital was offset by cash outlay in Jio. Implied borrowing cost increased further to 7.9% from 4.5-5% in FY2012-15, reflecting a sharp jump in standalone borrowing cost to 7.1%, high interest rate on Jio's loans and interest component on suppliers' credit. Consolidated business RoACE, adjusted for CWIP and investments, fell to 12% from 13.1% in FY2017 despite further improvement in standalone RoACE to 21% reflecting weaker contribution from subsidiaries.

#### Fine tune estimates on account of AR details and revised crude/Rupee assumptions

We revise our FY2019-21 consolidated EPS estimates to ₹68 (+1%), ₹77 (+2%) and ₹86 (+3%) to reflect (1) details from the company's FY2018 annual report, (2) higher interest cost, (3) higher crude price assumptions, (4) weaker Rupee-Dollar exchange rate and (5) other minor changes.

Tarun Lakhota

Rohit Chordia

Akshay Bhor

**Other takeaways from FY2018 AR**

- ▶ **High intangible assets under development (IAUD) in Jio and retail.** We are surprised by reported IAUD of ₹89.6 bn in Jio and ₹21.4 bn in Reliance Retail. We doubt if such a substantial amount may pertain to apps, content etc. The company has separately indicated that Jio's IAUD included (1) excess spectrum over blocks of 5, 8 and 10 MHz, which are not being utilized and (2) certain costs related to deployment of fiber.
- ▶ **Substantial write-offs by Reliance Holding USA in past four years.** Reliance Holding USA has accounted US\$2.2 bn of provisions through impairment, fair value reduction and write-offs in CY2017; cumulative provisions and write-offs stood at US\$4.3 bn during CY2014-17 amid a sharp fall in global crude prices. The entity holds RIL's shale assets in the US and reported net loss of US\$2.1 bn in CY2017 and US\$4.1 bn in CY2014-17.
- ▶ **Increase in payments to related parties.** RIL's payments to related parties increased to ₹89.4 bn in FY2018 from ₹67.8 bn in FY2017 led by ₹46.6 bn of power, fuel and water charges paid to Reliance Utilities and Power Private Limited as compared to ₹24.9 bn in the previous year. Hire charges paid to EWPL increased to ₹4.8 bn from ₹2 bn despite lower KG D-6 volumes, reflecting the supply of ethane to RIL's petchem plants.
- ▶ **Commissions paid by Reliance Retail seems higher than receipts from Jio.** Brokerage and commission expenses for Reliance Retail jumped to ₹10.2 bn in FY2018 from ₹2.8 bn in FY2017 and negligible amounts in the earlier years, presumably reflecting distribution channel commissions paid on Jio-related services. On the other hand, Reliance Retail received only ₹5.3 bn of commission on customer acquisition and recharges from Jio in FY2018 as compared to ₹3 bn in FY2017. We note that consolidated earnings remain unaffected by the accounting of costs between fellow subsidiaries.
- ▶ **Sharp increase in power costs.** RIL's standalone power, fuel and water charges were higher at ₹135.7 bn as compared to ₹101.5 bn in FY2017 reflecting an increase in power consumption post commissioning of key petchem projects (ROGC, PX).
- ▶ **Higher expenses on R&D, CSR and HSE.** RIL incurred higher expenses of (1) ₹18.2 bn on R&D in FY2018 as compared to ₹14.5 bn in the previous year, (2) ₹7.7 bn on CSR in FY2018 versus ₹6.7 bn in the previous year and (3) ₹3.8 bn on HSE in FY2018 versus ₹3.7 bn in the previous year.
- ▶ **Lower forex capitalization; modest reduction in capitalized interest.** Forex-related capitalization declined to ₹12 bn in FY2018 as compared to ₹46 bn in the previous year. Capitalized interest reduced modestly to ₹100 bn from ₹109 bn in FY2017 despite substantial asset capitalization of ₹2.2 tn during FY2018.
- ▶ **Payable by Jio to fellow subsidiaries.** Jio reported trade and other payable of ₹98.9 bn to fellow subsidiaries, primarily to Reliance Corporate IT Park Limited (RCIPL), as on March 31, 2018 as compared to ₹105.1 bn a year ago. However, RCIPL's FY2017-18 ARs do not recognize a corresponding receivable amount in the related-party section or any other line item in the balance sheet—the company has separately indicated that the receivable has been bill-discounted by RCIPL.

Consolidated gross capex of US\$75 bn over the past five years—US\$27 bn in downstream, US\$8 bn in E&P and US\$33 bn in telecom

### Substantial capex of US\$75 bn in the ongoing capex cycle

Exhibit 1: Segment-wise capex break-up, March fiscal year-ends, 2013-18 (Rs bn, US\$ bn)

	Ongoing capex cycle						5-years
	2013	2014	2015	2016	2017	2018	
<b>Segment-wise capex (Rs bn)</b>							
Petrochemicals	81	87	81	45	216	90	518
Refining and marketing	38	176	313	396	136	153	1,174
E&P	137	180	158	97	62	(13)	484
Organized retail	NA	(11)	4	3	8	48	51
Telecom	25	175	269	459	721	502	2,126
Others	33	73	125	49	(9)	61	298
Unallocable	8	12	54	81	15	(49)	112
<b>Total capex</b>	<b>323</b>	<b>691</b>	<b>1,002</b>	<b>1,130</b>	<b>1,147</b>	<b>793</b>	<b>4,763</b>
<b>Segment-wise capex (US\$ bn)</b>							
Petrochemicals	1.5	1.4	1.3	0.7	3.2	1.4	8.0
Refining and marketing	0.7	2.9	5.1	6.1	2.0	2.4	18.5
E&P	2.5	3.0	2.6	1.5	0.9	(0.2)	7.8
Organized retail	NA	(0.2)	0.1	0.0	0.1	0.7	0.8
Telecom	0.5	2.9	4.4	7.0	10.7	7.8	32.8
Others	0.6	1.2	2.0	0.7	(0.1)	0.9	4.8
Unallocable	0.1	0.2	0.9	1.2	0.2	(0.8)	1.8
<b>Total capex</b>	<b>5.9</b>	<b>11.4</b>	<b>16.4</b>	<b>17.3</b>	<b>17.1</b>	<b>12.3</b>	<b>74.5</b>

Notes:

(a) Capex on ROGC is included in refining and marketing segment.

(b) Others include organized retail till FY2013.

Source: Company, Kotak Institutional Equities

### Net capex of US\$69 bn including deferred liabilities of US\$13 bn

Exhibit 2: Consolidated capex reconciliation, March fiscal year-ends, 2013-18 (Rs bn, US\$ bn)

	Ongoing capex cycle						5-years
	2013	2014	2015	2016	2017	2018	
<b>Capex reconciliation (Rs bn)</b>							
Gross capex	323	691	1,002	1,130	1,147	793	4,763
Less: forex-related capitalization	59	107	69	99	46	12	333
<b>Net capex</b>	<b>263</b>	<b>584</b>	<b>934</b>	<b>1,031</b>	<b>1,101</b>	<b>780</b>	<b>4,430</b>
Cash capex	307	601	634	469	781	740	3,224
Interest capitalization	13	18	44	81	109	100	352
<b>Capex creditors/deferred liabilities</b>	<b>(57)</b>	<b>(34)</b>	<b>256</b>	<b>481</b>	<b>210</b>	<b>(60)</b>	<b>853</b>
<b>Capex reconciliation (US\$ bn)</b>							
Gross capex	5.9	11.4	16.4	17.3	17.1	12.3	74.5
Less: forex-related capitalization	1.1	1.8	1.1	1.5	0.7	0.2	5.3
<b>Net capex</b>	<b>4.8</b>	<b>9.7</b>	<b>15.3</b>	<b>15.7</b>	<b>16.4</b>	<b>12.1</b>	<b>69.2</b>
Cash capex	5.6	9.9	10.4	7.2	11.6	11.5	50.6
Interest capitalization	0.2	0.3	0.7	1.2	1.6	1.6	5.4
<b>Capex creditors/deferred liabilities</b>	<b>(1.0)</b>	<b>(0.6)</b>	<b>4.2</b>	<b>7.3</b>	<b>3.1</b>	<b>(0.9)</b>	<b>13.2</b>

Source: Company, Kotak Institutional Equities

Net capex of US\$69 bn including cash outlay of US\$51 bn and capitalized interest of US\$5 bn in the ongoing capex cycle over FY2014-18

Consolidated CWIP and IAUD at ₹1.87 tn, even after ₹2.19 tn of asset capitalization during FY2018

### Consolidated CWIP and IAUD remained high at US\$29 bn (₹1.87 tn)

Exhibit 3: Consolidated capital assets and capex reconciliation, March fiscal year-ends, 2013-18 (₹ bn)

	Ongoing capex cycle						5-years
	2013	2014	2015	2016	2017	2018	
<b>Consolidated balance sheet details</b>							
Gross fixed assets	1,791	1,854	1,952	2,613	2,828	4,397	
Intangible assets	619	757	893	700	736	1,358	
Capital WIP	172	486	1,063	1,704	2,504	1,662	
Intangible assets under development	328	428	602	583	745	208	
Capital advances	25	100	118	105	40	20	
<b>Total capital assets</b>	<b>2,934</b>	<b>3,625</b>	<b>4,627</b>	<b>5,705</b>	<b>6,852</b>	<b>7,645</b>	
<b>Other payables (a)</b>	<b>49</b>	<b>113</b>	<b>325</b>	<b>711</b>	<b>882</b>	<b>843</b>	
<b>Consolidated capex reconciliation</b>							
<b>Increase in capital assets</b>	<b>323</b>	<b>691</b>	<b>1,002</b>	<b>1,078</b>	<b>1,147</b>	<b>793</b>	<b>4,711</b>
Less: adjustment pertaining to Ind-AS	—	—	—	(52)	—	—	(52)
Less: forex-related capitalization	59	107	69	99	46	12	333
<b>Net capex</b>	<b>263</b>	<b>584</b>	<b>934</b>	<b>1,031</b>	<b>1,101</b>	<b>780</b>	<b>4,430</b>
Interest capitalization	13	18	44	81	109	100	352
Cash capex	307	601	634	469	781	740	3,224
Non-cash capex	(57)	(34)	256	481	210	(60)	853
<b>Increase in other payables</b>	<b>(8)</b>	<b>64</b>	<b>212</b>	<b>386</b>	<b>171</b>	<b>(39)</b>	<b>793</b>

Notes:

(a) Other payables includes creditors for capex, security deposit and other financial liabilities.

Source: Company, Kotak Institutional Equities

### FY2014-18 standalone net capex of US\$27 bn (₹1.76 tn) indicate significant overruns

Standalone CWIP and IAUD remained surprisingly elevated at ₹1 tn, post ₹557 bn of asset capitalization during

Exhibit 4: Standalone capital assets and capex reconciliation, March fiscal year-ends, 2013-18 (₹ bn)

	Ongoing capex cycle						5-years
	2013	2014	2015	2016	2017	2018	
<b>Standalone balance sheet details</b>							
Gross fixed assets	1,608	1,655	1,709	2,306	2,506	3,046	
Intangible assets	523	571	651	516	467	484	
Capital WIP	135	327	653	970	1,283	926	
Intangible assets under development	56	90	104	139	45	69	
Capital advances	12	44	67	31	9	4	
<b>Total capital assets</b>	<b>2,335</b>	<b>2,687</b>	<b>3,185</b>	<b>3,962</b>	<b>4,310</b>	<b>4,528</b>	
<b>Other payables (a)</b>	<b>14</b>	<b>59</b>	<b>101</b>	<b>312</b>	<b>372</b>	<b>268</b>	
<b>Standalone capex reconciliation</b>							
<b>Increase in capital assets</b>	<b>190</b>	<b>352</b>	<b>498</b>	<b>776</b>	<b>348</b>	<b>219</b>	<b>2,194</b>
Less: adjustment pertaining to Ind-AS	—	—	—	251	—	—	251
Less: forex-related capitalization	51	87	47	23	22	8	187
<b>Net capex</b>	<b>140</b>	<b>265</b>	<b>451</b>	<b>502</b>	<b>326</b>	<b>211</b>	<b>1,756</b>
Interest capitalization	4	7	11	86	29	33	165
Cash capex	159	325	427	202	303	247	1,504
Non-cash capex	(24)	(66)	14	214	(5)	(69)	87
<b>Increase in other payables</b>	<b>2</b>	<b>45</b>	<b>42</b>	<b>211</b>	<b>60</b>	<b>(104)</b>	<b>254</b>

Notes:

(a) Other payables includes creditors for capex, security deposit and other financial liabilities.

Source: Company, Kotak Institutional Equities

Consolidated effective net debt at ₹2.35 tn including ₹1.17 tn of deferred liabilities

Sharp increase in average borrowing cost to 7.9% in FY2018 versus 5% in FY2015, implies that a portion of capex creditors include interest component

### Consolidated effective net debt remained high at US\$36 bn

Exhibit 5: Consolidated net debt reconciliation, March fiscal year-ends, 2014-18 (₹ bn)

	2014	2015	2016	2017	2018
<b>Consolidated net debt reconciliation</b>					
Gross borrowings	1,388	1,609	1,807	1,966	2,188
Deferred payment liability	0	74	140	209	211
Other financial liabilities	119	335	756	999	957
<b>Gross debt and financial liabilities</b>	<b>1,507</b>	<b>2,017</b>	<b>2,703</b>	<b>3,174</b>	<b>3,355</b>
Cash and bank balances	380	125	110	30	43
Investments	613	765	840	784	829
Other financial assets	280	307	90	122	134
<b>Effective net debt</b>	<b>234</b>	<b>820</b>	<b>1,663</b>	<b>2,237</b>	<b>2,349</b>
<b>Effective net debt (US\$ bn)</b>	<b>3.9</b>	<b>13.2</b>	<b>25.1</b>	<b>34.5</b>	<b>36.1</b>

Source: Company, Kotak Institutional Equities estimates

### Average borrowing rate increased further to 7.9% as standalone cost jumps to 7.1%

Exhibit 6: Calculation of borrowing costs on reported debt, March fiscal year ends, 2014-18 (₹ bn)

	2014	2015	2016	2017	2018
<b>Consolidated</b>					
Reported finance costs	38.4	33.2	36.9	38.5	80.5
Add: capitalized interest	17.6	44.1	81.0	109.4	100.4
Less: forex-related loss	13.3	8.1	10.8	6.9	7.6
Actual interest expense	42.7	69.1	107.1	141.0	173.3
Total borrowings	1,388	1,683	1,947	2,175	2,398
<b>Average interest rate (%)</b>	<b>3.5</b>	<b>4.5</b>	<b>5.9</b>	<b>6.8</b>	<b>7.6</b>
<b>Average borrowing cost (%)</b>	<b>4.5</b>	<b>5.0</b>	<b>6.5</b>	<b>7.2</b>	<b>7.9</b>
<b>Standalone</b>					
Reported finance costs	32.1	23.7	25.6	27.2	46.6
Add: capitalized interest	7.0	10.6	23.0	28.5	33.0
Less: forex-related loss	13.3	8.2	10.8	6.9	7.6
Actual interest expense	25.8	26.1	37.9	48.8	72.0
Total borrowings	900	976	1,071	1,074	1,169
<b>Average interest rate (%)</b>	<b>3.2</b>	<b>2.8</b>	<b>3.7</b>	<b>4.6</b>	<b>6.4</b>
<b>Average borrowing cost (%)</b>	<b>4.8</b>	<b>3.7</b>	<b>4.8</b>	<b>5.2</b>	<b>7.1</b>
<b>Subsidiaries (implied)</b>					
Reported finance costs	6.3	9.5	11.3	11.3	34.0
Add: capitalized interest	10.6	33.5	57.9	80.9	67.3
Less: forex-related loss	0.0	(0.0)	0.0	0.0	0.0
Actual interest expense	16.9	43.0	69.2	92.2	101.3
Total borrowings	488	706	876	1,100	1,230
<b>Average interest rate (%)</b>	<b>4.0</b>	<b>7.2</b>	<b>8.7</b>	<b>9.3</b>	<b>8.7</b>
<b>Average borrowing cost (%)</b>	<b>4.0</b>	<b>7.2</b>	<b>8.7</b>	<b>9.3</b>	<b>8.7</b>

Notes:

- We calculate average borrowing cost, including forex-related loss.
- We have included deferred payment liabilities in borrowings.

Source: Company, Kotak Institutional Equities

Free cash flow remains negative at ₹178 bn despite the significant increase in operating profits and release of

Consolidated adjusted RoACE moderated to 12% in FY2018 from

### Free cash flow remained negative at US\$3 bn led by cash outlay in Jio

Exhibit 7: Cash flow statement, March fiscal year-ends, 2016-18 (Rs bn)

	Standalone			Subsidiaries			Consolidated		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
<b>Operating</b>									
Profit before tax	360	408	457	27	(7)	37	387	400	494
DD&A	86	85	96	30	32	71	116	116	167
Taxes	(81)	(96)	(86)	(5)	(5)	(12)	(86)	(101)	(98)
Interest expenses	26	27	47	11	11	34	37	38	81
Interest paid	(44)	(54)	(73)	(48)	(76)	(104)	(92)	(129)	(177)
Other income	(105)	(105)	(99)	0	(9)	(5)	(105)	(114)	(103)
Extraordinaries	—	—	—	(46)	—	(11)	(46)	—	(11)
Working capital	149	195	205	(71)	(41)	(20)	78	155	185
<b>Total operating [A]</b>	<b>391</b>	<b>461</b>	<b>547</b>	<b>(102)</b>	<b>(95)</b>	<b>(9)</b>	<b>289</b>	<b>366</b>	<b>538</b>
<b>Investing</b>									
Capital expenditure [B]	(202)	(303)	(247)	(267)	(478)	(493)	(469)	(781)	(740)
Investment in group companies	(248)	(400)	(350)	248	400	373	—	—	23
Other investments (net)	(10)	115	(26)	77	(26)	26	67	89	—
Asset sales	3	15	1	1	0	9	3	15	10
Interest/dividends received [C]	45	24	31	(9)	(10)	(8)	37	15	23
<b>Total investing</b>	<b>(412)</b>	<b>(549)</b>	<b>(591)</b>	<b>50</b>	<b>(113)</b>	<b>(92)</b>	<b>(362)</b>	<b>(663)</b>	<b>(683)</b>
<b>Financing</b>									
Share issuance	3	7	1	0	1	3	3	8	5
Loans (net)	44	30	91	85	178	100	130	208	191
Dividends	(73)	—	(39)	—	(1)	—	(73)	(1)	(39)
Others	—	—	—	(0)	—	—	(0)	—	—
<b>Total financing</b>	<b>(25)</b>	<b>37</b>	<b>54</b>	<b>85</b>	<b>178</b>	<b>103</b>	<b>60</b>	<b>215</b>	<b>157</b>
<b>Net change in cash</b>	<b>(47)</b>	<b>(51)</b>	<b>10</b>	<b>34</b>	<b>(30)</b>	<b>2</b>	<b>(13)</b>	<b>(81)</b>	<b>12</b>
Opening cash	116	69	18	7	42	13	123	111	31
<b>Closing cash</b>	<b>69</b>	<b>18</b>	<b>27</b>	<b>41</b>	<b>12</b>	<b>15</b>	<b>110</b>	<b>30</b>	<b>43</b>
<b>Free cash flow [A] - [B] + [C]</b>	<b>234</b>	<b>183</b>	<b>331</b>	<b>(377)</b>	<b>(583)</b>	<b>(510)</b>	<b>(143)</b>	<b>(400)</b>	<b>(178)</b>

Source: Company, Kotak Institutional Equities

### Adjusted RoACE falls to 12% despite an increase in standalone RoACE to 21%

Exhibit 8: Return ratios based on reported numbers, March fiscal year-ends, 2011-18 (%)

	2011	2012	2013	2014	2015	2016	2017	2018
<b>Standalone</b>								
RoAE	13.4	11.9	11.3	10.8	10.3	10.7	10.5	10.2
RoACE	10.3	9.3	9.1	8.6	7.8	8.2	8.3	8.4
Adjusted RoACE (a)	12.5	11.5	11.7	12.2	12.8	16.8	19.7	21.4
<b>Consolidated</b>								
RoAE	12.8	11.7	11.3	11.2	10.7	10.5	11.2	11.6
RoACE	9.4	8.6	8.3	7.9	7.0	7.0	7.2	8.1
Adjusted RoACE (a)	11.3	10.2	10.6	11.3	11.3	12.3	13.1	12.0

Notes:

(a) RoACE adjusted for investments, CWIP and IAUD.

Source: Company, Kotak Institutional Equities estimates

Continued decline in standalone net working capital led by a substantial increase in accounts

Effective tax rate increases to 27% led by higher deferred tax provisions due to capitalization

### Sustained decline in standalone net working capital to negative ₹435 bn

Exhibit 9: Standalone working capital, March fiscal year-ends, 2010-18 (₹ bn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Account receivables	117	174	184	119	107	47	35	55	56
Days of sales	22	26	20	12	10	5	5	8	7
Inventory	270	298	360	427	429	366	280	340	396
Days of CoGS	64	54	46	49	45	48	58	69	66
Accounts payable	361	398	403	458	579	545	545	682	887
Days of CoGS	84	72	51	52	60	69	110	134	143
Net working capital	26	74	141	88	(43)	(133)	(230)	(287)	(435)
Days of sales	5	11	16	9	(4)	(15)	(36)	(43)	(55)

Source: Company, Kotak Institutional Equities estimates

### Effective tax rate increases further to 27%

Exhibit 10: Income tax schedule, March fiscal year-ends, 2016-18 (₹ bn)

	2016	2017	2018
<b>Standalone</b>			
Profit before tax	360	408	457
Applicable tax rate (%)	35	35	35
<b>Computed tax expense</b>	<b>125</b>	<b>141</b>	<b>158</b>
Exempted income	(53)	(27)	(26)
Additional allowances net of MAT credit	(27)	(61)	(78)
Expenses disallowed	34	30	35
<b>Current tax provision (a)</b>	<b>78</b>	<b>83</b>	<b>90</b>
Incremental DTL on account of tangible and intangible assets	8	12	28
Incremental DTA on account of financial assets and other items	0	(2)	4
<b>Deferred tax provision (b)</b>	<b>8</b>	<b>10</b>	<b>32</b>
<b>Reported tax expenses (a+b)</b>	<b>86</b>	<b>94</b>	<b>121</b>
<b>Effective tax rate (%)</b>	<b>24</b>	<b>23</b>	<b>26</b>
<b>Consolidated</b>			
Profit before tax	387	400	494
Applicable tax rate (%)	35	35	35
<b>Computed tax expense</b>	<b>134</b>	<b>139</b>	<b>171</b>
Exempted income	(52)	(31)	(26)
Additional allowances net of MAT credit	(28)	(61)	(76)
Expenses disallowed	35	33	41
Non taxable subsidiaries and effect of differential tax rate	(7)	12	2
Carried forward losses utilised	(1)	(2)	(11)
Others	(0)	(0)	0
<b>Current tax provision (a)</b>	<b>80</b>	<b>89</b>	<b>101</b>
Incremental DTL on account of tangible and intangible assets	8	13	131
Incremental DTA on account of financial assets and other items	0	0	(99)
<b>Deferred tax provision (b)</b>	<b>8</b>	<b>13</b>	<b>32</b>
<b>Reported tax expenses (a+b)</b>	<b>89</b>	<b>102</b>	<b>133</b>
<b>Effective tax rate (%)</b>	<b>23</b>	<b>25</b>	<b>27</b>

Source: Company, Kotak Institutional Equities



RIL has significant transactions with associate companies

### Payments to related parties increased to ₹89 bn

Exhibit 11: RIL's related-party transactions, March fiscal year-ends, 2015-18 (₹ mn)

	2015	2016	2017	2018
<b>Payments made</b>				
East West Pipeline Limited	1,970	2,140	2,030	4,750
Reliance Industrial Infrastructure Limited	810	870	980	980
Sikka Ports and Terminals Limited	32,960	34,190	35,840	34,340
Reliance Utilities and Power Limited	15,790	17,190	24,880	46,570
RP Chemicals (Malaysia) Sdn.Bhd.	10,520	7,450	—	—
Reliance Commercial Dealers Limited (a)	2,820	4,180	1,390	—
Gujarat Chemical Port Terminal Company Limited	1,090	1,500	1,440	1,950
Others	440	660	1,270	820
<b>Total payments</b>	<b>66,400</b>	<b>68,180</b>	<b>67,830</b>	<b>89,410</b>
<b>Loans and advances balances</b>				
Reliance Ports and Terminals Limited	3,530	3,530	3,530	3,530
Reliance Commercial Dealers Limited	1,550	3,250	—	—
Reliance Utilities and Power Limited	1,180	1,180	1,180	1,180
Gujarat Chemical Port Terminal Company Limited	1,100	1,380	1,470	1,370
Others	5,900	5,820	5,760	6,100
<b>Total loans and advances</b>	<b>13,260</b>	<b>15,160</b>	<b>11,940</b>	<b>12,180</b>

Notes

(a) Reliance Commercial Dealers Limited became subsidiary from 10.01.2017.

Source: Company, Kotak Institutional Equities

### US\$4.3 bn of write-offs pertaining to the US shale assets over the past four years

Exhibit 12: Write-offs and loss reported by Reliance Holding USA, CY2014-17 (US\$ mn)

	CY2014	CY2015	CY2016	CY2017	CY2014-17
Provision for impairment in value of investments	445	766	914	2,000	4,125
Loss on sale of PPE/closure of subsidiary	1	0	0	—	1
Other write-offs	—	—	0	176	176
<b>Total write-offs</b>	<b>446</b>	<b>766</b>	<b>914</b>	<b>2,177</b>	<b>4,303</b>
<b>Net profit/(loss) attributable to the owners</b>	<b>(401)</b>	<b>(716)</b>	<b>(894)</b>	<b>(2,092)</b>	<b>(4,104)</b>

Source: Company, Kotak Institutional Equities

Reliance Holding USA has written off US\$4.3 bn of investments over the past four years

## Implied financials of subsidiaries

## Exhibit 13: Capital employed continued to increase in RIL's subsidiaries

Implied balance sheet of RIL's subsidiaries, March fiscal year-ends, 2012-18 (₹ mn)

	Subsidiaries						
	2012	2013	2014	2015	2016	2017	2018
<b>Liabilities</b>							
Equity	33,490	20,350	15,960	23,230	(224,420)	(246,040)	(211,410)
Investments from RIL	192,480	148,070	298,160	386,540	769,000	1,186,230	1,544,070
Loans and advances from RIL	139,800	213,250	253,260	261,620	143,700	126,050	185,140
Borrowings	239,900	347,810	487,800	632,430	735,610	891,550	1,018,820
Minority interest	7,990	9,490	9,590	30,380	33,560	29,170	35,390
Other liabilities	44,680	66,860	102,150	378,000	661,010	961,560	1,128,510
<b>Total liabilities</b>	<b>658,340</b>	<b>805,830</b>	<b>1,166,920</b>	<b>1,712,200</b>	<b>2,118,460</b>	<b>2,948,520</b>	<b>3,700,520</b>
<b>Assets</b>							
Cash	11,330	9,090	13,600	9,740	41,360	12,690	15,240
Current assets	176,100	193,480	281,740	398,040	498,870	543,000	684,510
Net fixed assets	98,750	104,970	116,780	145,280	205,730	286,680	1,272,270
Net intangible assets	152,160	132,420	203,330	229,700	125,400	103,880	698,810
Capital work-in-progress	176,090	308,360	497,780	907,090	1,177,920	1,920,960	875,390
<b>Total fixed assets</b>	<b>427,000</b>	<b>545,750</b>	<b>817,890</b>	<b>1,282,070</b>	<b>1,509,050</b>	<b>2,311,520</b>	<b>2,846,470</b>
Other investments	38,360	51,460	50,790	25,320	36,650	45,630	120,470
Deferred tax asset (net)	5,550	6,050	2,900	(2,970)	32,530	35,680	33,830
<b>Total assets</b>	<b>658,340</b>	<b>805,830</b>	<b>1,166,920</b>	<b>1,712,200</b>	<b>2,118,460</b>	<b>2,948,520</b>	<b>3,700,520</b>

Source: Company, Kotak Institutional Equities

## Exhibit 14: RIL's subsidiaries turned profitable in FY2018 led by positive contribution from Jio and higher profits from retail business

Implied profit model of RIL's subsidiaries, March fiscal year-ends, 2012-18 (₹ mn)

	Subsidiaries						
	2012	2013	2014	2015	2016	2017	2018
Net sales	285,970	367,650	443,430	463,590	408,410	633,570	1,016,350
Inc/(dec) in stock	19,720	16,370	9,720	4,600	16,110	3,790	53,780
Raw materials	(168,530)	(206,890)	(172,910)	(104,910)	(54,300)	(108,370)	(94,190)
Purchase for resale	(77,940)	(99,230)	(165,670)	(185,670)	(238,140)	(372,700)	(613,600)
Employee costs	(10,930)	(18,250)	(22,020)	(25,760)	(31,450)	(39,540)	(47,830)
Other costs	(39,400)	(37,070)	(53,330)	(94,230)	(77,060)	(87,370)	(190,160)
<b>EBITDA</b>	<b>8,890</b>	<b>22,580</b>	<b>39,220</b>	<b>57,620</b>	<b>23,570</b>	<b>29,380</b>	<b>124,350</b>
Other income	20	(1,310)	650	(1,080)	(3,420)	7,340	6,420
Finance cost	(2,260)	(4,270)	(6,300)	(9,490)	(11,290)	(11,260)	(33,960)
DD&A	(10,070)	(17,670)	(24,120)	(30,590)	(29,750)	(31,810)	(71,260)
<b>Pretax profits</b>	<b>(3,420)</b>	<b>(670)</b>	<b>9,450</b>	<b>16,460</b>	<b>(20,890)</b>	<b>(6,350)</b>	<b>25,550</b>
Minority interest	70	(70)	(550)	(740)	2,360	(400)	540
Extraordinaries	—	—	—	—	45,740	—	10,870
Current tax	(760)	(830)	(1,170)	(1,720)	(2,410)	(5,470)	(11,450)
Deferred tax	950	330	(2,640)	(5,530)	(30)	(3,020)	(880)
<b>Reported net income</b>	<b>(3,160)</b>	<b>(1,240)</b>	<b>5,090</b>	<b>8,470</b>	<b>24,770</b>	<b>(15,240)</b>	<b>24,630</b>
<b>Adjusted net income</b>	<b>(3,160)</b>	<b>(1,240)</b>	<b>5,090</b>	<b>8,470</b>	<b>(20,970)</b>	<b>(15,240)</b>	<b>13,760</b>

Source: Company, Kotak Institutional Equities

## Other details from the annual report

**Exhibit 15: Standalone investments in subsidiaries increased further to ₹1.56 tn**

Details of RIL's investments in subsidiaries, March fiscal year-end, 2012-18 (₹ mn)

	2012	2013	2014	2015	2016	2017	2018
Independent Media Trust	—	—	—	10,890	33,660	33,660	33,660
Reliance Ambit Trade Private Limited	—	—	—	200	270	310	310
Reliance Eminent Trading & Commercial Private Limited	—	—	—	—	—	210	210
Reliance Energy Generation and Distribution Limited	—	—	10	10	32,640	105,000	105,000
Reliance Ethane Holding	—	—	—	7,520	11,510	10,100	10,100
Reliance Exploration & Production DMCC	2,110	—	—	—	—	—	—
Reliance Exploration & Production DMCC	31,210	—	—	—	—	—	—
Reliance Exploration & Production Mauritius Limited	—	—	—	—	—	—	—
Reliance Gas Pipeline Limited	—	—	—	2,150	5,180	7,410	7,410
Reliance Global Business B.V.	4,260	3,820	5,720	4,220	—	—	—
Reliance Global Energy Services Singapore	—	—	—	—	—	650	650
Reliance Global Energy Services UK	—	—	—	—	—	320	320
Reliance Global Management Services Limited	—	—	—	—	—	—	—
Reliance Industrial Investments and Holdings	8,700	8,700	8,700	19,700	159,730	171,990	178,430
Reliance Industries (Middle East) DMCC	5,200	1,310	1,310	1,310	23,480	11,490	11,490
Reliance Jamnagar Infrastructure Limited	10,250	—	—	—	—	—	—
Reliance Jio Infocomm Limited (including subsidiaries/JVs)	47,980	74,450	226,950	297,480	448,220	785,960	1,099,360
Reliance LNG Ltd	—	—	—	—	—	—	—
Reliance Netherlands B.V.	10	—	—	—	—	—	—
Reliance Oil & Gas Mauritius Limited	—	—	—	—	—	—	—
Reliance Progressive Traders Private Limited	—	—	—	—	600	—	—
Reliance Prolific Traders Private Limited	—	—	—	12,660	13,930	380	13,340
Reliance Retail Limited	78,000	—	—	—	—	—	—
Reliance Retail Ventures Limited	—	56,670	56,670	56,670	56,670	56,670	56,670
Reliance Sibur Elastomers Private Limited	—	—	—	—	3,310	4,640	11,570
Reliance Strategic Investments Limited	1,150	1,150	1,150	1,150	1,150	1,150	1,150
Reliance Universal Traders	—	—	—	110	350	1,030	1,030
Reliance Ventures Limited	23,510	23,510	23,510	23,510	23,510	23,510	33,510
RIL (Australia) Pty Limited	220	250	—	—	—	—	—
<b>Total investments</b>	<b>212,600</b>	<b>169,860</b>	<b>324,020</b>	<b>437,580</b>	<b>814,210</b>	<b>1,214,480</b>	<b>1,564,210</b>

Source: Company, Kotak Institutional Equities

**Exhibit 16: Downward revision of proved reserves in India**

Movement of RIL's proved reserves, March fiscal year-ends, 2013-18

Proved oil reserves (mn tons)	Reserves in India						Reserves outside India (North America)					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Beginning of the year	3.1	2.5	2.5	2.0	4.3	3.7	7.9	14.6	20.5	23.5	21.3	10.9
Revision of estimates	—	0.5	(0.1)	2.8	(0.3)	(0.0)	7.6	7.0	4.5	(0.9)	(9.3)	0.3
Production	(0.6)	(0.5)	(0.5)	(0.4)	(0.4)	(0.3)	(0.8)	(1.1)	(1.5)	(1.4)	(1.1)	(0.7)
<b>Closing balance for the year</b>	<b>2.5</b>	<b>2.5</b>	<b>2.0</b>	<b>4.3</b>	<b>3.7</b>	<b>3.4</b>	<b>14.6</b>	<b>20.5</b>	<b>23.5</b>	<b>21.3</b>	<b>10.9</b>	<b>10.5</b>

Proved gas reserves (bcm)	Reserves in India						Reserves outside India (North America)					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Beginning of the year	104	97	86	66	72	61	12	34	49	54	47	41
Revision of estimates	0	(7)	(17)	9	(9)	(3)	23	17	7	(4)	(3)	0
Production	(7)	(4)	(3)	(3)	(2)	(2)	(1)	(2)	(3)	(3)	(3)	(3)
<b>Closing balance for the year</b>	<b>97</b>	<b>86</b>	<b>66</b>	<b>72</b>	<b>61</b>	<b>56</b>	<b>34</b>	<b>49</b>	<b>54</b>	<b>47</b>	<b>41</b>	<b>38</b>

Notes:

(a) The reserves are net quantities of RIL's interest within India.

Source: Company, Kotak Institutional Equities

**Exhibit 17: Contingent liabilities has reduced in FY2018**

Contingent liabilities, March fiscal year-ends, 2013-18 (₹ bn)

	Standalone						Consolidated					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Outstanding guarantees furnished to Banks/FIs including Letters of credit	53	55	177	302	108	37	55	80	182	358	152	51
Guarantees to Banks/FIs against credit facilities extended to third parties	311	323	354	377	432	506	32	14	96	71	84	49
Liability in respect of bills discounted with banks	40	50	11	7	4	—	40	50	11	7	4	—
Claims against the company/disputed liabilities not acknowledged as debts	17	18	26	35	36	20	17	19	31	40	47	35
Performance guarantees	3	3	3	3	13	17	2	2	1	2	12	13
Sales tax deferral liability assigned	23	16	8	—	—	—	23	16	8	—	—	—
<b>Total</b>	<b>446</b>	<b>465</b>	<b>579</b>	<b>725</b>	<b>594</b>	<b>580</b>	<b>169</b>	<b>181</b>	<b>330</b>	<b>478</b>	<b>298</b>	<b>149</b>

Source: Company, Kotak Institutional Equities

**Key assumptions behind earnings model**

- ▶ **Refining margins.** We model FY2019-21 refining margins at US\$12/bbl, US\$12.5/bbl and US\$12.5/bbl, reflecting robust underlying fundamentals due to improving global refining operating rates from a favorable demand-supply balance. Our refining assumption includes incremental contribution of US\$0.3-0.5/bbl from fuel marketing business, as being accounted by the company.

**Exhibit 18: Major assumptions for RIL's refining segment, March fiscal year-ends, 2014-21E (US\$/bbl)**

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Exchange rate (Rs/US\$)	60.5	61.1	65.5	67.1	64.5	67.6	68.0	69.0
<b>Crude throughput (mn tons)</b>								
SEZ refinery	37.7	37.2	37.1	37.3	36.9	37.3	37.3	37.3
DTA refinery	30.3	30.9	32.4	32.8	32.8	32.8	32.8	32.8
<b>Total crude throughput</b>	<b>68.0</b>	<b>68.0</b>	<b>69.5</b>	<b>70.1</b>	<b>69.8</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>
<b>Blended refining margins (US\$/bbl)</b>	<b>8.1</b>	<b>8.6</b>	<b>10.8</b>	<b>11.0</b>	<b>11.7</b>	<b>12.0</b>	<b>12.5</b>	<b>12.5</b>

Source: Company, Kotak Institutional Equities estimates

- ▶ **Chemical margins.** We expect petchem sales volumes to increase to 18.9 mn tons by FY2021 from 16.4 mn tons in FY2018, led by full ramp-up of expansion projects. We estimate blended petchem EBITDA to increase to around US\$236/ton in FY2019-20 from US\$221/ton in FY2018 led by (1) expected strength in polyesters cycle and (2) further integration benefits from RIL's new projects; we assume margins to moderate subsequently to US\$228/ton in FY2021.

**Exhibit 19: Major assumptions for RIL's petchem segment, March fiscal year-ends, 2014-21E (US\$/ton)**

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Exchange rate (Rs/US\$)	60.5	61.1	65.5	67.1	64.5	67.6	68.0	69.0
<b>Production volumes (mn tons)</b>								
Polymers	4.5	4.3	4.6	4.5	4.9	5.5	5.8	5.8
PE	1.0	1.0	1.0	1.1	1.4	1.9	2.1	2.1
PP	2.8	2.7	2.8	2.7	2.8	2.9	2.9	2.9
PVC	0.7	0.6	0.8	0.7	0.7	0.7	0.7	0.7
Polyesters	1.6	1.8	2.2	2.3	2.4	2.6	2.7	2.8
PFY	0.7	0.9	0.8	0.7	0.8	0.9	1.0	1.1
PSF	0.6	0.6	0.6	0.7	0.6	0.7	0.7	0.7
PET	0.3	0.4	0.8	0.8	1.0	1.0	1.0	1.0
Fiber intermediates	4.7	4.9	6.4	6.9	9.0	9.8	10.1	10.3
PX	2.0	2.2	2.3	2.3	3.7	4.1	4.3	4.5
PTA	2.0	2.1	3.4	3.9	4.1	4.3	4.4	4.4
MEG	0.7	0.6	0.7	0.7	1.2	1.4	1.4	1.4
<b>Total volumes</b>	<b>10.8</b>	<b>11.0</b>	<b>13.2</b>	<b>13.6</b>	<b>16.4</b>	<b>17.9</b>	<b>18.6</b>	<b>18.9</b>
<b>Petchem EBITDA per ton (US\$/ton)</b>	<b>148</b>	<b>141</b>	<b>129</b>	<b>153</b>	<b>221</b>	<b>236</b>	<b>236</b>	<b>228</b>

Source: Company, Kotak Institutional Equities estimates

- **Jio.** We have modeled generous assumptions for Jio, assuming paid subscriber base to increase to a substantial 380 mn by FY2021E with an ARPU of ₹130/month. Our assumptions result in ₹632 bn of revenues and ₹361 bn of EBITDA with 57% margins.

**Exhibit 20: Reasonable assumptions for Jio**

Financial model of R-Jio, March fiscal year-ends, 2018-26E (₹ bn)

	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
<b>Assumptions</b>									
Subscriber base at end-period (mn)	187	286	346	380	403	424	451	478	508
Subscriber market share (%)	17	26	30	32	33	34	36	37	39
ARPU (Rs/month)	150	120	124	130	140	150	153	158	162
EBITDA margins (%)	33	41	49	57	59	60	60	61	62
<b>Profit model</b>									
Revenues	202	348	500	632	759	870	952	1,047	1,149
Interconnect	(43)	(39)	(36)	—	—	—	—	—	—
LF/SUC	(18)	(33)	(50)	(69)	(82)	(94)	(102)	(113)	(123)
Network operating costs	(49)	(95)	(110)	(124)	(131)	(138)	(145)	(152)	(160)
Employee costs	(10)	(18)	(26)	(34)	(42)	(50)	(55)	(59)	(64)
SG&A and other costs	(15)	(21)	(33)	(45)	(56)	(70)	(79)	(86)	(93)
EBITDA	67	142	245	361	448	518	570	638	710
Other income	0	1	1	1	1	1	1	1	1
Finance cost	(20)	(44)	(63)	(92)	(119)	(118)	(103)	(85)	(63)
Depreciation and amortization	(36)	(56)	(72)	(84)	(94)	(101)	(110)	(119)	(129)
Profit before taxes	11	44	111	185	237	301	359	435	520
Current tax	(2)	(13)	(37)	(62)	(80)	(101)	(121)	(147)	(176)
Deferred tax	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(4)
Net income/(loss)	7	29	73	121	155	197	235	284	340
Contribution to RIL's EPS (Rs)	1	5	12	20	26	33	40	48	57
<b>Balance sheet</b>									
Net-worth	1,029	1,058	1,131	1,252	1,407	1,604	1,838	2,123	2,462
Effective net debt	1,400	1,768	1,801	1,949	1,835	1,671	1,467	1,212	902
Invested capital	2,278	2,746	2,941	3,312	3,464	3,601	3,744	3,896	4,059
<b>Cash flow</b>									
Operating cash flow	(20)	41	100	177	240	299	346	405	471
Working capital	(29)	12	12	11	10	9	7	8	8
Capital expenditure	(358)	(511)	(286)	(326)	(292)	(185)	(189)	(199)	(210)
Free cash flow	(407)	(458)	(173)	(138)	(41)	124	163	214	269
<b>Returns (%)</b>									
RoAE	0.8	2.7	6.7	10.2	11.7	13.1	13.6	14.4	14.8
RoACE	0.9	2.2	3.9	5.9	7.2	8.4	9.2	10.2	11.3
CRoCI	2.5	4.1	6.3	8.0	9.4	10.4	11.0	11.8	12.6
Adjusted CRoCI	2.5	4.1	6.3	8.0	9.4	10.4	11.0	11.8	12.6

Source: Kotak Institutional Equities estimates

**Exhibit 21: Segment break-up of consolidated EBITDA, March fiscal year-ends, 2014-21E (₹ bn)**

	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>EBITDA</b>								
Petrochemicals	107	111	137	165	259	285	299	297
Refining and marketing	178	191	268	286	290	306	321	324
Oil and gas	67	76	69	13	17	28	24	38
Organized retail	4	8	9	12	25	40	52	63
Digital services	—	—	—	(1)	67	142	245	361
Others	(7)	(12)	(65)	(12)	(16)	13	13	14
Total	348	374	417	462	642	813	954	1,097

Source: Company, Kotak Institutional Equities estimates

**Exhibit 22: RIL's earnings have high leverage to refining margins**

Sensitivity of RIL's consolidated EPS to key variables, March fiscal year-ends, 2019-21E

	Fiscal 2019E			Fiscal 2020E			Fiscal 2021E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
<b>Exchange rate</b>									
Exchange rate (Rs/US\$)	66.6	67.6	68.6	67.0	68.0	69.0	68.0	69.0	70.0
Net profits (Rs bn)	392.5	402.2	411.8	449.9	458.1	466.4	502.5	510.9	519.2
EPS (Rs)	66.3	67.9	69.5	76.0	77.4	78.8	84.8	86.3	87.7
% upside/(downside)	(2.4)		2.4	(1.8)		1.8	(1.6)		1.6
<b>Blended refining margins</b>									
Margins (US\$/bbl)	11.0	12.0	13.0	11.5	12.5	13.5	11.5	12.5	13.5
Net profits (Rs bn)	374.7	402.2	429.6	435.3	458.1	481.0	487.7	510.9	534.0
EPS (Rs)	63.3	67.9	72.5	73.5	77.4	81.2	82.4	86.3	90.2
% upside/(downside)	(6.8)		6.8	(5.0)		5.0	(4.5)		4.5

Source: Kotak Institutional Equities estimates

**Exhibit 23: Our SOTP valuation of Reliance is ₹930 per share**

Sum-of-the-parts valuation of Reliance Industries, FY2020E basis (₹)

	EBITDA (Rs bn)	EV/EBITDA (X)	EV (Rs bn)	Valuation (Rs/share)
Petrochemicals	299	6.5	1,942	328
Refining and marketing	321	6.5	2,083	352
Domestic E&P (a)	37	7.0	258	44
US shale	12	7.0	84	14
Retailing	52	20.0	1,039	175
Digital services (b)			2,638	445
<b>Total enterprise value</b>			<b>8,045</b>	<b>1,358</b>
Consolidated net debt			2,538	429
<b>Implied equity value</b>			<b>5,507</b>	<b>930</b>

Source: Kotak Institutional Equities estimates

Exhibit 24: Standalone profit model, balance sheet, cash model, March fiscal year-ends, 2014-21E (₹ mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model (Rs mn)</b>								
Net sales	3,901,170	3,290,760	2,331,580	2,420,250	2,900,420	3,644,009	3,693,004	3,767,640
<b>EBITDA</b>	<b>308,770</b>	<b>316,020</b>	<b>393,470</b>	<b>432,560</b>	<b>517,410</b>	<b>604,708</b>	<b>631,622</b>	<b>647,587</b>
Other income	89,360	87,210	78,210	87,090	82,200	80,455	83,771	84,457
Finance cost	(32,060)	(23,670)	(25,620)	(27,230)	(46,560)	(58,351)	(60,584)	(45,882)
Depreciation, depletion and amortization	(87,890)	(84,880)	(85,900)	(84,650)	(95,800)	(125,234)	(127,118)	(145,758)
<b>Pretax profits</b>	<b>278,180</b>	<b>294,680</b>	<b>360,160</b>	<b>407,770</b>	<b>457,250</b>	<b>501,578</b>	<b>527,690</b>	<b>540,403</b>
Extraordinary items	—	—	—	—	—	—	—	—
Current tax	(58,120)	(61,240)	(78,010)	(83,330)	(89,530)	(105,133)	(141,358)	(155,301)
Deferred tax	(220)	(6,250)	(8,310)	(10,190)	(31,600)	(38,175)	(20,265)	(17,722)
Net profits	219,840	227,190	273,840	314,250	336,120	358,270	366,067	367,381
<b>Adjusted net profits</b>	<b>219,840</b>	<b>227,190</b>	<b>273,840</b>	<b>314,250</b>	<b>336,120</b>	<b>358,270</b>	<b>366,067</b>	<b>367,381</b>
<b>Adjusted EPS (Rs)</b>	<b>34.0</b>	<b>35.1</b>	<b>42.3</b>	<b>48.3</b>	<b>53.1</b>	<b>56.6</b>	<b>57.8</b>	<b>58.0</b>
<b>Balance sheet (Rs mn)</b>								
Total equity	1,970,910	2,161,760	2,539,980	2,883,130	3,146,470	3,459,748	3,777,363	4,092,830
Deferred taxation liability	122,150	126,770	237,470	247,660	279,260	317,435	337,700	355,422
Total borrowings	899,680	976,170	1,071,040	1,074,460	1,168,810	986,583	872,830	578,186
Other liabilities	683,090	713,150	968,250	1,262,210	1,580,710	1,557,658	1,408,533	1,376,983
<b>Total liabilities and equity</b>	<b>3,675,830</b>	<b>3,977,850</b>	<b>4,816,740</b>	<b>5,467,460</b>	<b>6,175,250</b>	<b>6,321,425</b>	<b>6,396,427</b>	<b>6,403,421</b>
Cash	366,240	115,710	68,920	17,540	27,310	79,032	122,042	98,635
Other assets	937,750	833,250	590,840	652,230	891,250	956,458	962,700	972,245
Total fixed assets	1,511,220	1,903,160	2,584,480	2,873,190	3,004,470	3,033,714	3,059,464	3,080,321
Investments	860,620	1,125,730	1,572,500	1,924,500	2,252,220	2,252,220	2,252,220	2,252,220
<b>Total assets</b>	<b>3,675,830</b>	<b>3,977,850</b>	<b>4,816,740</b>	<b>5,467,460</b>	<b>6,175,250</b>	<b>6,321,425</b>	<b>6,396,427</b>	<b>6,403,421</b>
<b>Free cash flow (Rs mn)</b>								
Operating cash flow, excl. working capital	235,920	236,020	241,240	265,620	342,010	425,734	426,694	442,925
Working capital	145,150	83,150	149,470	195,330	205,320	11,740	(55,367)	(41,095)
Capital expenditure	(324,560)	(427,200)	(202,160)	(302,660)	(247,000)	(221,184)	(247,409)	(159,009)
Investments	(351,430)	(235,360)	(258,410)	(285,590)	(375,800)	0	0	0
Other income	69,290	67,720	45,410	24,240	30,960	80,455	83,771	84,457
<b>Free cash flow</b>	<b>(225,630)</b>	<b>(275,670)</b>	<b>(24,450)</b>	<b>(103,060)</b>	<b>(44,510)</b>	<b>296,744</b>	<b>207,690</b>	<b>327,278</b>
<b>Ratios (%)</b>								
Debt/equity	43.0	42.7	38.6	34.3	34.1	26.1	21.2	13.0
Net debt/equity	0.8	7.5	8.8	11.1	13.2	5.8	1.5	(4.7)
RoAE	10.8	10.3	10.7	10.5	10.2	9.9	9.2	8.5
RoACE	8.6	7.8	8.2	8.3	8.4	8.5	8.3	7.9
<b>Adjusted RoACE</b>	<b>12.2</b>	<b>12.8</b>	<b>16.8</b>	<b>19.7</b>	<b>21.4</b>	<b>16.7</b>	<b>13.7</b>	<b>13.1</b>
CRoCI	9.9	8.3	8.0	8.0	8.2	8.8	8.6	8.4
<b>Adjusted CRoCI</b>	<b>15.1</b>	<b>13.3</b>	<b>16.0</b>	<b>18.0</b>	<b>16.7</b>	<b>13.2</b>	<b>12.6</b>	<b>12.2</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 25: Consolidated profit model, balance sheet, cash model, March fiscal year-ends, 2014-21E (₹ bn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model (Rs bn)</b>								
Net sales	4,345	3,754	2,740	3,054	3,917	4,870	5,285	5,698
<b>EBITDA</b>	<b>348</b>	<b>374</b>	<b>417</b>	<b>462</b>	<b>642</b>	<b>813</b>	<b>954</b>	<b>1,097</b>
Other income	89	85	75	94	89	88	91	92
Finance cost	(38)	(33)	(37)	(38)	(81)	(118)	(140)	(156)
Depreciation, depletion and amortization	(112)	(115)	(116)	(116)	(167)	(215)	(235)	(268)
<b>Pretax profits</b>	<b>287</b>	<b>310</b>	<b>339</b>	<b>401</b>	<b>483</b>	<b>568</b>	<b>670</b>	<b>765</b>
Minority interest/share of associates	0	0	2	(0)	1	1	1	1
Extraordinary items	—	—	46	—	11	—	—	—
Effective tax	(62)	(75)	(89)	(102)	(133)	(166)	(213)	(258)
Net profits	225	236	299	299	361	402	458	511
<b>Adjusted net profits</b>	<b>225</b>	<b>236</b>	<b>253</b>	<b>299</b>	<b>350</b>	<b>402</b>	<b>458</b>	<b>511</b>
<b>Adjusted EPS (Rs)</b>	<b>38</b>	<b>40</b>	<b>43</b>	<b>51</b>	<b>59</b>	<b>68</b>	<b>77</b>	<b>86</b>
<b>Balance sheet (Rs bn)</b>								
Total equity	1,987	2,185	2,316	2,637	2,935	3,292	3,702	4,161
Deferred tax liability	119	130	205	212	245	281	301	320
Minority interest	10	30	34	29	35	35	34	33
Total borrowings	1,388	1,609	1,807	1,966	2,188	2,485	2,575	2,447
Other liabilities	785	1,091	1,629	2,224	2,709	2,765	2,581	2,597
<b>Total liabilities and equity</b>	<b>4,288</b>	<b>5,045</b>	<b>5,990</b>	<b>7,068</b>	<b>8,113</b>	<b>8,858</b>	<b>9,192</b>	<b>9,558</b>
Cash	380	125	110	30	43	90	146	129
Loans and advances	280	307	29	37	50	50	50	50
Other assets	687	663	917	1,032	1,341	1,452	1,497	1,543
Total fixed assets	2,329	3,185	4,094	5,185	5,851	6,438	6,670	7,007
Investments	613	765	840	784	829	829	829	829
<b>Total assets</b>	<b>4,288</b>	<b>5,045</b>	<b>5,990</b>	<b>7,068</b>	<b>8,113</b>	<b>8,858</b>	<b>9,192</b>	<b>9,558</b>
<b>Free cash flow (Rs bn)</b>								
Operating cash flow, excl. working capital	266	264	211	212	353	498	567	669
Working capital	110	18	78	155	185	6	(58)	(44)
Capital expenditure	(601)	(634)	(469)	(781)	(740)	(796)	(586)	(555)
Other income	67	66	37	15	23	88	91	92
<b>Free cash flow</b>	<b>(157)</b>	<b>(285)</b>	<b>(143)</b>	<b>(400)</b>	<b>(178)</b>	<b>(205)</b>	<b>15</b>	<b>162</b>
<b>Ratios (%)</b>								
Debt/equity	69.8	73.6	78.0	74.6	74.5	75.5	69.5	58.8
Net debt/equity	25.9	51.6	71.8	84.8	80.0	77.1	64.8	55.4
<b>RoAE</b>	<b>11.2</b>	<b>10.7</b>	<b>10.5</b>	<b>11.2</b>	<b>11.6</b>	<b>11.9</b>	<b>12.1</b>	<b>12.0</b>
RoACE	7.9	7.0	7.0	7.2	8.1	8.5	8.7	9.1
<b>Adjusted RoACE</b>	<b>11.3</b>	<b>11.3</b>	<b>12.3</b>	<b>13.1</b>	<b>12.0</b>	<b>8.8</b>	<b>8.1</b>	<b>8.6</b>
CRoCI	9.7	7.7	6.6	6.2	7.4	8.2	8.7	9.0
<b>Adjusted CRoCI</b>	<b>15.9</b>	<b>13.5</b>	<b>11.8</b>	<b>12.2</b>	<b>10.2</b>	<b>8.8</b>	<b>9.3</b>	<b>9.7</b>

Source: Company, Kotak Institutional Equities estimates



JUNE 18, 2018

UPDATE

Coverage view: **Neutral**

Price (₹): **2,350**

Target price (₹): **2,250**

BSE-30: **35,622**

**An approval, an "at-risk" launch, and a TRO.** On Friday, DRRD announced final approval and an "at-risk" launch of its Suboxone ANDA, setting in motion an appeal by Indivior for a preliminary injunction that resulted in a temporary restraining order (TRO). DRRD's approval came as a surprise to us given our view on Teva's exclusivity, though, we expect Teva to launch in 2HCY18, along with potential launches by Mylan (near-term), as well as Alvogen and Par. We upgrade our FY2019E EPS by 17%, and largely retain FY2020/21E EPS. REDUCE with a target price of ₹2,250 (versus ₹2,100 earlier).

#### Company data and valuation summary

Dr Reddy's Laboratories

Stock data				Forecasts/Valuations			
				2018	2019E	2020E	
52-week range (Rs) (high,low)	2,787-1,887			EPS (Rs)	59.1	101.0	133.9
Market Cap. (Rs bn)	389.8			EPS growth (%)	(18.5)	71.0	32.6
<b>Shareholding pattern (%)</b>				P/E (X)	39.8	23.3	17.5
Promoters	26.8			Sales (Rs bn)	142.0	164.3	185.7
FIs	43.6			Net profits (Rs bn)	9.8	16.8	22.2
MFs	8.9			EBITDA (Rs bn)	22.9	34.9	44.4
<b>Price performance (%)</b>				EV/EBITDA (X)	18.3	11.6	8.7
Absolute	1M	3M	12M	ROE (%)	7.8	12.6	13.9
	17.0	7.7	(13.0)	Div. Yield (%)	0.9	0.7	0.9
Rel. to BSE-30	16.7	2.3	(24.0)				

#### An "at-risk" launch, and a TRO

On Friday, DRRD (all strengths) and Mylan (two strengths) announced the final approvals for Suboxone ANDA, with DRRD also announcing an "at-risk" launch. The final approvals came as a surprise to us, given our view that Teva held 180-day exclusivity, though, the final approvals mean that Teva has now forfeited its exclusivity. In order to curtail DRRD's launch, Indivior obtained a TRO (temporary restraining order) from the District Court, which precludes DRRD from continuing its commercial launch until a hearing on the PI (preliminary injunction) on June 28, 2018. The TRO was issued on the newly issued '305 patent, as a TRO was unlikely to be issued on the patents where DRRD already has a favorable District Court verdict. While Indivior has obtained a TRO, it has also furnished a US\$18 mn bond which it will be liable to pay to DRRD in case it loses the motion for the PI.

#### Mylan's early launch potentially triggered, while Teva and Alvogen launches likely in CY2018

Our view about Teva's exclusivity being intact was predicated on a change of review requirements pertaining to the REMS program in CY2014/15, and we now believe that the exclusivity forfeiture was triggered by a prior approval supplement filing by Teva, that changed its drying process to a top-drying method to make it non-infringing as per the markman ruling in DRRD's '514 litigation. While the District Court refused to re-open the Teva litigation (and Par's, though, it is now settled), given the process change, we believe there is a high probability now of Teva obtaining a favorable verdict in the Appeals Court, and thus, we expect Teva to also enter the market post the verdict in 2HCY18, given that the dynamics of legal damages are more favorable for subsequent entrants. Depending on its approval, we expect Alvogen to also likely launch in CY2018, though; the key near-term launch could be Mylan, as we believe its early launch will likely be triggered given DRRD's launch. Similarly, we believe Par's early launch will now potentially also be triggered, though, its approval status is unclear.

#### Recent rally captures the launch trajectory - REDUCE

Given the launch, we upgrade FY2019E EPS by 17%, with our estimates assuming that Indivior's motion for PI is denied, resulting in US\$110 mn sales for DRRD for FY2019. Our FY2020/21 estimates are upgraded by ~3%. Post the recent rally, DRRD shares now trade at ~18X FY2020E, thus, fully capturing Suboxone as well as Copaxone and Nuvaring launches (21X ex-Suboxone). REDUCE with revised target price of ₹2,250 (versus ₹2,100 earlier).

Chirag Talati, CFA

Kumar Gaurav

## Exhibit 1: Suboxone Para-IV filings and litigation status

	ANDA number	Strengths filed	'514	'454	'221	'305	30-month stay	FTF status	Comments
Actavis / Teva	204383	2mg/0.5mg, 4mg/1mg, 8mg/2mg	Infringing		In litigation		Expired	Forfeited	Teva has Appealed the infringement verdict in '514 litigation. Given the claim construction in DRRD and a change in its drying process to top drying method, we expect it to prevail in Appeals.
Actavis / Teva	207087	12mg/3mg	Infringing		In litigation		Expired	Forfeited	
Teva (now DRRD)	205806	2mg/0.5mg, 8mg/2mg	Non-infringing		In litigation		Expired	No	Indivior has appealed against '150, '497 and '514 patents, and obtained a TRO on '305 patent, which is in early stage of litigation.
Teva (now DRRD)	205299	4mg/1mg; 12mg/3mg			In litigation		Expired	No	
Endo / Par	205854	2mg/0.5mg, 4mg/1mg, 8mg/2mg, 12mg/3mg			Settled		Expired	No	Case settled with a launch date in CY2023 or earlier.
Alvogen	205954	2mg/0.5mg, 4mg/1mg, 8mg/2mg, 12mg/3mg	Non-infringing		In litigation		Expired	No	Indivior has appealed against '150, '497 and '514 patents, and initiated litigation on '305 patent.
Mylan	207607	8mg/2mg; 12mg/3mg			Settled		Expired	No	Case settled with a launch date in CY2023 or earlier.
Sandoz	205477	8mg/2mg			Settled		Expired	No	Settled for CY2024 launch and no longer pursuing P-IV strategy.

(1) '497 patent is not listed in the Orange Book, and all P-IV filers have obtained favorable decisions in '497 and '150 litigations

(2) '832 patent expiring in 2030 was invalidated in PTAB, and the decision was upheld by an Appeals Court

Source: Company, Kotak Institutional Equities

## Exhibit 2: Suboxone generic challenges – timelines of key events

Timeline	Event
Oct'12	Actavis files P-IV (ANDA# 204383) on 2mg/0.5 mg and 8mg/2mg strengths
Oct'12	Actavis amends ANDA#204383 to include P-IV on 4mg/1mg strength
Mar'14	Par sends P-IV notice (ANDA# 205854) for all strengths
Mar'14	Teva files P-IV (ANDA#205806) on 2mg/0.5 mg and 8mg/2mg strengths
Mar'14	Teva files P-IV (ANDA#205299) on 4mg/1mg and 12mg/3mg strengths
2HCY14	Actavis files P-IV (ANDA# 207087) Suboxone film 12mg/3mg strength
Apr'15	Alvogen sends P-IV notice (ANDA#205954) for all strengths
June'15	PTAB finds '832 patent invalid
Sept'15	Mylan files P-IV (ANDA#207607) on 8mg/2mg and 12mg/3mg strengths
Sept'15	Sandoz files P-IV (ANDA#207607) on 8mg/2mg strength
Mar'16	Delaware District Court holds Markman proceedings in Teva (DRRD) case
June'16	Delaware District Court finds '150 patent valid, but not infringed by Par and Teva
June'16	Delaware District Court finds '514 patent valid and infringed by Par and Teva
July'16	FDA issues an update informing that exclusivity on 4mg/1mg strength stands forfeited
Aug'16	Teva completes Actavis acquisition (ANDA's 204383 and 205854 transferred)
Aug'16	DRRD acquires Teva ANDA's (205806 and 205299)
Aug'16	Appeals Court upholds PTAB verdict on invalidation of '832 patent
Aug'16	Sandoz withdraws P-IV certifications, and settles with Indivior
Nov'16	Delaware District Court conducts a trial for '150 and '514 patents against DRRD, and '497 patent against DRRD, Teva and Par
Aug'17	Delaware District Court refuses to re-consider decision on '514 patent in Par and Teva litigations
Aug'17	Delaware District Court finds '150 and '514 patents valid, but not infringed by DRRD
Aug'17	Delaware District Court finds '497 patent valid, but not infringed by DRRD, Teva and Par
Sept'17	Indivior settles Suboxone litigation with Mylan
Nov'17	Sublocade, Indivior's monthly buprenorphine depot approved in the US
Mar'18	Delaware District Court finds '150 and '514 patents valid, but not infringed by Alvogen
May'18	Indivior settles Suboxone litigation with Par
June'18	Opening briefs filed in Teva's appeal in the Federal's Court
June'18	FDA issues final approval for DRRD and MYL ANDA's, resulting in forfeiture of Teva's exclusivity
June'18	DRRD announces an "at-risk" launch of its ANDA
June'18	Indivior obtains a TRO on DRRD's Suboxone launch pending hearing of a PI on 28th June
3QCY18	Appeals Court verdict in Teva litigation

Source: Company, Kotak Institutional Equities estimates

**Exhibit 3: Dr. Reddy's – changes to estimates**

March fiscal year-ends, 2019-21E, (Rs mn)

	Old estimates			New estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Sales	160,826	183,611	198,497	164,333	185,688	200,694	2.2	1.1	1.1
Gross profit	90,796	108,069	117,784	93,816	108,571	118,420	3.3	0.5	0.5
EBITDA	31,736	43,493	46,715	34,910	44,383	47,716	10.0	2.0	2.1
<b>Adjusted net income</b>	<b>14,360</b>	<b>21,557</b>	<b>23,845</b>	<b>16,772</b>	<b>22,242</b>	<b>24,619</b>	<b>16.8</b>	<b>3.2</b>	<b>3.2</b>
<b>Adjusted EPS (Rs)</b>	<b>86</b>	<b>130</b>	<b>144</b>	<b>101</b>	<b>134</b>	<b>148</b>	<b>16.8</b>	<b>3.2</b>	<b>3.2</b>

Source: Company, Kotak Institutional Equities

**Exhibit 3: Dr. Reddy's – revenues by segemts**

March fiscal year-ends, 2013-21E, (Rs mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Global generics</b>	<b>82,563</b>	<b>105,164</b>	<b>120,827</b>	<b>127,970</b>	<b>115,550</b>	<b>114,014</b>	<b>135,718</b>	<b>156,716</b>	<b>171,295</b>
North America	37,846	55,303	64,723	75,445	63,601	59,824	74,243	87,258	92,713
Europe	7,716	6,970	7,193	7,732	7,606	8,216	9,448	10,582	11,852
India	14,560	15,713	17,756	21,293	23,131	23,321	25,653	28,218	31,040
Russia & CIS	16,908	19,819	18,879	14,100	15,200	16,500	19,605	23,212	27,500
Others	5,533	7,359	12,275	9,400	6,012	6,153	6,768	7,445	8,190
<b>PSAI</b>	<b>30,702</b>	<b>23,974</b>	<b>25,795</b>	<b>22,379</b>	<b>21,277</b>	<b>21,057</b>	<b>21,862</b>	<b>21,346</b>	<b>20,880</b>
North America	5,744	4,354	4,789	3,052	3,569	3,391	3,221	3,060	2,907
Europe	12,007	8,770	9,209	9,313	8,410	7,149	7,506	7,131	6,774
India	4,638	3,787	4,734	2,618	1,750	1,838	2,021	2,223	2,446
ROW	8,313	7,063	7,063	7,396	7,548	8,680	9,114	8,932	8,753
<b>Proprietary products</b>	<b>2,459</b>	<b>2,459</b>	<b>2,172</b>	<b>2,659</b>	<b>2,130</b>	<b>4,200</b>	<b>4,868</b>	<b>5,553</b>	<b>6,238</b>
<b>Total</b>	<b>115,724</b>	<b>131,597</b>	<b>148,793</b>	<b>153,008</b>	<b>138,957</b>	<b>139,271</b>	<b>162,447</b>	<b>183,614</b>	<b>198,413</b>
<b>% yoy growth</b>									
<b>Global generics</b>	<b>17.5</b>	<b>27.4</b>	<b>14.9</b>	<b>5.9</b>	<b>(9.7)</b>	<b>(1.3)</b>	<b>19.0</b>	<b>15.5</b>	<b>9.3</b>
North America	18.7	46.1	17.0	16.6	(15.7)	(5.9)	24.1	17.5	6.3
Europe	(6.6)	(9.7)	3.2	7.5	(1.6)	8.0	15.0	12.0	12.0
India	12.6	7.9	13.0	19.9	8.6	0.8	10.0	10.0	10.0
Russia & CIS	27.5	17.2	(4.7)	(25.3)	7.8	8.6	18.8	18.4	18.5
Others	41.7	33.0	66.8	(23.4)	(36.0)	2.3	10.0	10.0	10.0
<b>PSAI</b>	<b>28.9</b>	<b>(21.9)</b>	<b>7.6</b>	<b>(13.2)</b>	<b>(4.9)</b>	<b>(1.0)</b>	<b>3.8</b>	<b>(2.4)</b>	<b>(2.2)</b>
North America	34.5	(24.2)	10.0	(36.3)	16.9	(5.0)	(5.0)	(5.0)	(5.0)
Europe	42.5	(27.0)	5.0	1.1	(9.7)	(15.0)	5.0	(5.0)	(5.0)
India	29.3	(18.3)	25.0	(44.7)	(33.2)	5.0	10.0	10.0	10.0
ROW	10.4	(15.0)	0.0	4.7	2.1	15.0	5.0	(2.0)	(2.0)
<b>Proprietary products</b>	<b>128.1</b>	<b>0.0</b>	<b>(11.7)</b>	<b>22.4</b>	<b>(19.9)</b>	<b>97.2</b>	<b>15.9</b>	<b>14.1</b>	<b>12.3</b>
<b>Total</b>	<b>21.6</b>	<b>13.7</b>	<b>13.1</b>	<b>2.8</b>	<b>(9.2)</b>	<b>0.2</b>	<b>16.6</b>	<b>13.0</b>	<b>8.1</b>
<b>% of sales</b>									
<b>Global generics</b>	<b>71.3</b>	<b>79.9</b>	<b>81.2</b>	<b>83.6</b>	<b>83.2</b>	<b>81.9</b>	<b>83.5</b>	<b>85.4</b>	<b>86.3</b>
North America	32.7	42.0	43.5	49.3	45.8	43.0	45.7	47.5	46.7
Europe	6.7	5.3	4.8	5.1	5.5	5.9	5.8	5.8	6.0
India	12.6	11.9	11.9	13.9	16.6	16.7	15.8	15.4	15.6
Russia & CIS	14.6	15.1	12.7	9.2	10.9	11.8	12.1	12.6	13.9
Others	4.8	5.6	8.2	6.1	4.3	4.4	4.2	4.1	4.1
<b>PSAI</b>	<b>26.5</b>	<b>18.2</b>	<b>17.3</b>	<b>14.6</b>	<b>15.3</b>	<b>15.1</b>	<b>13.5</b>	<b>11.6</b>	<b>10.5</b>
North America	5.0	3.3	3.2	2.0	2.6	2.4	2.0	1.7	1.5
Europe	10.4	6.7	6.2	6.1	6.1	5.1	4.6	3.9	3.4
India	4.0	2.9	3.2	1.7	1.3	1.3	1.2	1.2	1.2
ROW	7.2	5.4	4.7	4.8	5.4	6.2	5.6	4.9	4.4
<b>Proprietary products</b>	<b>2.1</b>	<b>1.9</b>	<b>1.5</b>	<b>1.7</b>	<b>1.5</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.1</b>

Source: Company, Kotak Institutional Equities

## Exhibit 3: Dr. Reddy's - profit and loss, balance sheet, cash model (IFRS)

March fiscal year-ends, 2013-21E, (Rs mn)

	2013	2014	2015	2016	2017	2020	2019E	2020E	2021E
<b>Net revenues</b>	<b>119,736</b>	<b>134,267</b>	<b>149,106</b>	<b>155,582</b>	<b>141,874</b>	<b>142,816</b>	<b>164,933</b>	<b>186,288</b>	<b>201,294</b>
<b>Gross profit</b>	<b>64,049</b>	<b>77,898</b>	<b>86,320</b>	<b>93,155</b>	<b>79,421</b>	<b>77,092</b>	<b>94,416</b>	<b>109,171</b>	<b>119,020</b>
Staff costs	(20,413)	(24,936)	(28,967)	(30,364)	(31,068)	(32,149)	(34,721)	(37,151)	(41,981)
R&D expenses	(7,673)	(12,402)	(17,449)	(17,834)	(19,551)	(18,265)	(21,346)	(23,988)	(25,252)
Other expenses	(13,171)	(13,847)	(13,618)	(15,666)	(15,304)	(14,761)	(16,180)	(18,865)	(19,808)
<b>EBITDA</b>	<b>25,862</b>	<b>31,895</b>	<b>34,101</b>	<b>39,088</b>	<b>24,155</b>	<b>22,891</b>	<b>34,910</b>	<b>44,383</b>	<b>47,716</b>
Depreciation & amortisation	(5,549)	(6,598)	(8,103)	(10,343)	(11,722)	(11,762)	(13,341)	(15,817)	(16,337)
<b>EBIT</b>	<b>22,792</b>	<b>26,713</b>	<b>26,915</b>	<b>29,619</b>	<b>13,498</b>	<b>11,917</b>	<b>22,169</b>	<b>29,167</b>	<b>31,979</b>
Net interest	460	400	1,682	(2,708)	806	2,080	(445)	(245)	71
Other income	104	—	195	229	349	344	344	344	344
Exceptional items	(688)	497	(629)	—	—	—	—	—	—
<b>Profit before tax</b>	<b>22,668</b>	<b>27,610</b>	<b>28,163</b>	<b>27,140</b>	<b>14,653</b>	<b>14,341</b>	<b>22,069</b>	<b>29,266</b>	<b>32,394</b>
Tax & deferred Tax	(4,900)	(5,094)	(5,984)	(7,127)	(2,614)	(4,535)	(5,296)	(7,024)	(7,775)
Less: minority interest	—	—	—	—	—	—	—	—	—
<b>Net income (adjusted)</b>	<b>18,455</b>	<b>22,019</b>	<b>23,004</b>	<b>23,827</b>	<b>12,039</b>	<b>9,806</b>	<b>16,772</b>	<b>22,242</b>	<b>24,619</b>
<b>EPS adjusted (Rs)</b>	<b>109</b>	<b>130</b>	<b>136</b>	<b>139</b>	<b>72.5</b>	<b>59.1</b>	<b>101</b>	<b>134</b>	<b>148</b>
<b>Balance sheet</b>									
Equity	73,105	90,800	111,302	128,336	124,044	126,460	140,662	159,497	180,344
Total borrowings	36,760	44,742	43,126	33,403	49,098	50,618	48,618	46,618	44,618
Other liabilities	32,504	34,681	40,335	45,911	46,679	48,526	48,027	49,590	51,354
<b>Total liabilities</b>	<b>142,369</b>	<b>170,223</b>	<b>194,762</b>	<b>207,650</b>	<b>219,821</b>	<b>225,604</b>	<b>237,307</b>	<b>255,705</b>	<b>276,316</b>
Net fixed assets	56,655	66,476	74,924	87,962	119,446	115,959	110,118	101,802	91,965
Cash	22,099	33,534	39,654	39,955	18,136	20,968	32,309	51,330	76,611
Other current assets	63,615	70,213	80,184	79,733	82,239	88,677	94,880	102,573	107,739
<b>Total assets</b>	<b>142,369</b>	<b>170,223</b>	<b>194,762</b>	<b>207,650</b>	<b>219,821</b>	<b>225,604</b>	<b>237,307</b>	<b>255,705</b>	<b>276,316</b>
<b>Cashflow statement</b>									
<b>Operating profit before working capital</b>	<b>28,092</b>	<b>31,497</b>	<b>39,485</b>	<b>41,322</b>	<b>30,019</b>	<b>21,067</b>	<b>30,113</b>	<b>38,059</b>	<b>40,956</b>
Change in working capital	(13,146)	(10,389)	(15,040)	(188)	(5,350)	(3,626)	(6,702)	(6,130)	(3,403)
Capital expenditure	(7,082)	(10,598)	(15,327)	(22,727)	(41,043)	(12,610)	(7,500)	(7,500)	(6,500)
<b>Free cash flow</b>	<b>7,864</b>	<b>10,510</b>	<b>9,118</b>	<b>18,407</b>	<b>(16,374)</b>	<b>4,831</b>	<b>15,911</b>	<b>24,428</b>	<b>31,054</b>
<b>Margins and ratios</b>									
Gross profit margin (%)	52.5	57.6	57.6	59.6	55.6	53.7	57.1	58.5	59.0
EBITDA margin (%)	22.1	24.0	23.0	25.3	17.2	16.1	21.2	23.9	23.8
Tax rate (%)	21.6	18.4	21.2	26.3	17.8	31.6	24.0	24.0	24.0
RoAE (%)	25.2	24.2	20.7	18.6	9.7	7.8	11.9	13.9	13.7
RoACE (%)	26.0	26.2	23.5	24.3	8.7	7.6	14.1	18.8	21.6

Source: Company, Kotak Institutional Equities



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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		15-Jun-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
<b>NBFCs</b>																													
Bajaj Finance	REDUCE	2,284	1,850	(19.0)	1,320	19.4	575	46	63	82	38.5	34.9	30.0	49.1	36.4	28.0	—	—	—	7.9	6.7	5.5	20.5	19.9	21.5	0.2	0.3	0.4	39.4
Bajaj Finserv	ADD	5,979	5,900	(1.3)	951	14.0	159	174	206	266	13.5	18.7	28.8	34.4	29.0	22.5	—	—	—	4.7	3.8	3.3	15.3	14.5	15.6	0.2	0.2	0.2	14.5
Bharat Financial Inclusion	NA	1,189	—	—	166	2.4	139	33	43	54	55.5	31.1	27.2	36.4	27.8	21.8	—	—	—	5.5	4.5	3.7	16.7	17.9	18.5	—	—	—	11.0
Cholamandalam	REDUCE	1,611	1,510	(6.3)	252	3.7	156	62	76	92	35.5	22.3	20.8	25.9	21.2	17.5	—	—	—	5.1	4.3	3.6	20.6	21.0	21.2	0.4	0.6	0.7	6.8
HDFC	BUY	1,832	2,100	14.6	3,078	45.2	1,676	75	58	67	52.1	(23.1)	15.2	24.3	31.6	27.4	—	—	—	4.8	4.2	3.8	23.9	14.3	14.5	1.1	1.1	1.3	73.1
HDFC Standard Life Insurance	SELL	470	405	(13.8)	945	13.9	2,007	6	6	7	24.4	14.8	10.9	84.9	74.0	66.7	—	—	—	21.9	19.6	17.5	27.3	28.0	27.7	0.3	0.3	0.4	15.2
ICICI Lombard	SELL	722	600	(16.9)	328	4.8	454	19	26	30	22.0	36.4	17.0	38.0	27.9	23.8	—	—	—	7.2	6.1	5.2	20.8	23.7	23.5	0.6	0.9	1.0	2.7
ICICI Prudential Life	BUY	401	500	24.6	576	8.4	1,436	11	12	13	(3.7)	3.8	7.6	35.6	34.3	31.8	—	—	—	8.8	7.3	6.1	25.0	23.2	20.9	1.4	0.5	0.5	11.9
IIFL Holdings	SELL	723	625	(13.5)	231	3.4	319	29	34	41	32.4	17.3	21.4	25.3	21.6	17.8	—	—	—	4.6	3.9	3.4	19.0	19.3	20.0	0.8	1.0	1.2	2.3
L&T Finance Holdings	REDUCE	165	185	12.1	329	4.8	1,996	7	10	12	23.7	34.6	24.1	22.5	16.7	13.5	—	—	—	2.6	2.3	2.0	14.2	14.7	16.1	1.1	1.2	1.2	9.9
LIC Housing Finance	BUY	496	610	23.0	250	3.7	505	44	50	58	3.2	13.8	17.5	11.4	10.0	8.5	—	—	—	1.9	1.6	1.4	14.5	14.3	14.4	1.4	1.6	1.8	13.3
Magma Fincorp	BUY	170	200	17.9	46	0.7	237	10	12	15	1,014.5	24.6	25.8	17.5	14.0	11.1	—	—	—	1.7	1.7	1.5	10.2	12.9	14.1	0.5	1.1	1.3	3.1
Mahindra & Mahindra Financial	REDUCE	475	475	0.0	293	4.3	614	15	22	26	105.0	53.5	16.6	32.7	21.3	18.3	—	—	—	3.4	3.0	2.7	11.3	14.0	14.8	0.8	1.3	1.5	12.3
Max Financial Services	BUY	470	650	38.4	126	1.8	268	5	6	6	(20.4)	36.9	1.8	102.4	74.8	73.5	—	—	—	—	—	—	6.5	8.3	8.0	—	0.5	0.5	5.1
Muthoot Finance	ADD	387	480	24.0	155	2.3	400	43	38	40	45.6	(10.8)	4.0	9.0	10.1	9.7	—	—	—	2.0	1.7	1.5	24.1	18.4	16.9	2.6	2.3	2.4	4.7
PNB Housing Finance	REDUCE	1,098	1,375	25.2	184	2.7	167	50	61	77	57.8	23.0	25.3	22.1	17.9	14.3	—	—	—	2.9	2.7	2.3	14.0	15.2	16.8	0.8	0.3	0.3	8.6
SBI Life Insurance	ADD	672	815	21.3	672	9.9	1,000	12	15	18	20.8	26.0	22.9	58.3	46.2	37.6	—	—	—	10.4	8.8	7.3	19.4	20.6	21.3	0.3	0.3	0.4	6.0
Shriram City Union Finance	ADD	2,296	2,550	11.1	151	2.2	66	101	140	174	19.6	39.4	23.8	22.8	16.4	13.2	—	—	—	2.9	2.5	2.2	12.5	15.5	16.7	0.8	0.8	1.0	0.8
Shriram Transport	REDUCE	1,465	1,600	9.2	332	4.9	227	69	105	125	24.7	52.1	18.7	21.2	13.9	11.7	—	—	—	2.8	2.4	2.1	13.1	17.6	18.0	0.8	1.0	1.2	18.9
<b>NBFCs</b>	<b>Neutral</b>				<b>10,386</b>	<b>152</b>					<b>38.0</b>	<b>7.0</b>	<b>19.3</b>	<b>30.2</b>	<b>28.2</b>	<b>23.7</b>				<b>5.1</b>	<b>4.3</b>	<b>3.8</b>	<b>16.8</b>	<b>15.4</b>	<b>16.1</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>	<b>607.8</b>
<b>Cement</b>																													
ACC	SELL	1,302	1,300	(0.2)	245	3.6	188	49	54	71	41.9	10.4	31.8	26.7	24.2	18.4	14.0	13.5	10.4	2.6	2.4	2.2	10.2	10.4	12.7	1.3	1.3	1.3	9.4
Ambuja Cements	REDUCE	205	215	4.9	407	6.0	1,986	8	7	9	29.7	(1.3)	27.0	27.3	27.6	21.8	8.9	8.8	7.1	2.0	1.9	1.8	7.4	7.0	8.6	1.8	1.8	1.8	9.2
Dalmia Bharat	ADD	2,548	2,900	13.8	227	3.3	89	60	98	128	55.4	62.6	30.3	42.2	26.0	19.9	13.1	10.0	8.1	3.7	3.3	2.8	9.7	13.4	15.2	0.1	0.1	0.1	6.2
Grasim Industries	BUY	1,032	1,275	23.6	678	9.9	657	47	43	60	(30.1)	(10.2)	41.3	21.8	24.3	17.2	12.3	7.9	7.2	1.2	1.1	1.1	7.0	4.8	6.4	0.5	0.5	0.5	15.9
India Cements	REDUCE	115	135	17.0	36	0.5	308	3	5	9	(42.5)	56.2	84.4	35.3	22.6	12.3	9.7	8.3	6.6	0.7	0.7	0.6	2.0	3.0	5.3	0.9	0.9	0.9	6.4
J K Cement	REDUCE	923	1,000	8.4	65	0.9	70	43	51	83	25.1	17.0	65.0	21.3	18.2	11.1	10.9	11.5	9.2	3.3	2.9	2.3	16.2	16.7	23.2	0.9	0.9	0.9	0.8
JK Lakshmi Cement	ADD	333	425	27.6	39	0.6	118	4	18	33	(35.7)	311.2	79.6	74.5	18.1	10.1	13.7	8.3	5.9	2.7	2.4	2.0	3.7	14.1	21.5	0.6	0.6	0.6	0.6
Orient Cement	ADD	119	165	38.8	24	0.4	205	2	8	12	237.8	250.7	64.8	55.0	15.7	9.5	12.0	7.7	5.6	2.4	2.1	1.8	4.4	14.3	20.6	0.6	1.3	1.7	0.2
Shree Cement	SELL	16,213	12,700	(21.7)	565	8.3	35	397	486	662	3.4	22.3	36.2	40.8	33.4	24.5	21.9	16.5	12.9	6.3	5.4	4.5	16.7	17.6	20.2	0.3	0.3	0.3	4.8
UltraTech Cement	SELL	3,692	3,000	(18.7)	1,014	14.9	275	89	119	153	(7.0)	33.1	28.9	41.3	31.0	24.1	19.3	15.1	12.6	3.9	3.5	3.1	9.9	12.0	13.7	0.3	0.3	0.3	16.1
<b>Cement</b>	<b>Cautious</b>				<b>3,299</b>	<b>48</b>					<b>6.6</b>	<b>15.4</b>	<b>36.1</b>	<b>31.7</b>	<b>27.5</b>	<b>20.2</b>	<b>14.2</b>	<b>10.6</b>	<b>8.9</b>	<b>2.4</b>	<b>2.2</b>	<b>2.0</b>	<b>7.5</b>	<b>8.1</b>	<b>10.1</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>69.6</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates







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

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)		EVEBITDA (X)			P/B (X)		RoE (%)		Dividend yield (%)			ADVT 3mo				
		15-Jun-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	(US\$ mn)			
<b>Metals &amp; Mining</b>																													
Coal India	ADD	279	326	16.8	1,732	25.4	6,207	11	27	28	(24.2)	138.2	3.0	24.7	10.4	10.1	18.5	6.6	6.3	7.2	6.6	6.8	26.7	66.1	66.4	5.9	7.2	9.0	13.5
Hindalco Industries	BUY	237	315	32.7	533	7.8	2,229	22	27	31	155.4	23.5	14.3	10.9	8.8	7.7	6.7	5.7	4.9	1.0	0.9	0.8	9.7	10.4	10.8	0.5	0.5	0.5	43.8
Hindustan Zinc	REDUCE	304	325	6.8	1,286	18.9	4,225	22	24	28	9.3	13.6	13.8	14.1	12.5	11.0	8.8	7.3	6.0	3.6	3.0	2.6	27.2	26.4	25.6	2.6	2.6	2.7	10.6
Jindal Steel and Power	REDUCE	234	255	9.0	226	3.3	968	(8)	8	18	59.3	194.2	129.1	(27.6)	29.3	12.8	10.0	7.2	6.1	0.7	0.7	0.7	(2.7)	2.6	5.7	—	—	—	31.2
JSW Steel	ADD	333	345	3.7	804	11.8	2,417	27	27	25	83.9	(0.7)	(5.7)	12.4	12.5	13.3	8.0	7.4	7.9	2.8	2.3	2.0	24.8	20.4	16.5	1.0	1.0	1.0	20.2
National Aluminium Co.	ADD	69	85	22.9	134	2.0	1,933	4	7	7	12.7	63.0	11.1	16.7	10.3	9.2	7.1	4.7	4.3	1.3	1.3	1.3	7.7	12.4	13.6	8.2	8.0	8.0	12.9
NMDC	REDUCE	113	125	10.7	357	5.2	3,164	12	10	10	43.3	(16.5)	3.6	9.6	11.5	11.1	5.3	7.1	6.8	1.5	1.4	1.4	15.8	12.5	12.4	4.9	4.9	4.9	5.2
Tata Steel	ADD	566	710	25.4	648	9.5	1,205	67	69	73	62.6	3.1	5.3	8.4	8	7.7	6.2	6.2	5.7	1.2	1.0	0.9	17.2	13.1	12.1	1.7	1.8	1.8	76.2
Vedanta	BUY	239	415	73.9	887	13.0	3,717	22	37	43	9.6	71.9	16.9	11.1	6.4	5.5	5.9	4.3	3.6	1.4	1.3	1.1	12.9	20.6	21.4	3.4	4.7	5.5	57.7
<b>Metals &amp; Mining</b>	<b>Attractive</b>				<b>6,608</b>		<b>97</b>				<b>32.3</b>	<b>41.4</b>	<b>9.7</b>	<b>14.0</b>	<b>9.9</b>	<b>9.0</b>	<b>7.8</b>	<b>6.1</b>	<b>5.5</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>	<b>14.3</b>	<b>18.0</b>	<b>17.9</b>	<b>3.3</b>	<b>3.8</b>	<b>4.4</b>	<b>271.4</b>
<b>Pharmaceutical</b>																													
Apollo Hospitals	ADD	1,033	1,090	5.5	144	2.1	139	8	19	26	(46.9)	124.3	38.0	122.4	54.6	39.5	22.1	18.8	15.9	4.4	4.2	3.9	3.4	7.9	10.2	0.2	0.5	0.6	5.8
Aurobindo Pharma	ADD	614	640	4.3	360	5.3	584	42	43	46	6.0	2.3	7.9	14.7	14.4	13.3	10.3	9.9	8.9	3.1	2.6	2.2	23.2	19.5	16.6	0.7	0.8	1.0	20.4
Biocon	SELL	624	300	(51.9)	374	5.5	601	6	8	15	(39.2)	26.8	86.5	100.6	79.4	42.6	45.1	33.3	21.7	6.6	6.2	5.6	6.9	8.1	13.8	0.3	0.4	0.8	24.5
Cipla	BUY	612	650	6.3	492	7.2	805	18	26	34	40.2	46.7	32.4	34.9	23.8	18.0	18.1	13.5	10.6	3.4	3.0	2.7	10.2	13.4	15.9	0.6	0.9	1.2	21.9
Dr Lal Pathlabs	REDUCE	867	865	(0.3)	72	1.1	83	20	25	29	7.0	20.8	18.5	42.4	35.1	29.6	25.6	21.5	18.0	9.2	7.6	6.4	23.5	23.7	23.4	0.5	0.6	0.7	1.1
Dr Reddy's Laboratories	REDUCE	2,350	2,250	(4.2)	390	5.7	166	59	101	134	(18.5)	71.0	32.6	39.8	23.3	17.5	18.3	11.6	8.7	3.1	2.8	2.4	7.8	12.6	13.9	0.9	0.7	0.9	23.2
HCG	REDUCE	285	305	7.2	25	0.4	85	2	3	5	(40.0)	120.9	57.3	182.0	82.4	52.4	23.7	18.5	15.7	4.7	4.4	4.1	2.8	5.5	8.1	—	—	—	0.3
Laurus Labs	ADD	499	540	8.2	53	0.8	106	16	22	34	(11.9)	37.3	54.4	31.5	22.9	14.8	15.2	12.4	9.1	3.6	3.1	2.6	11.9	14.4	18.8	—	—	—	0.9
Lupin	REDUCE	913	800	(12.4)	413	6.1	450	38	34	45	(32.9)	(9.7)	30.2	24.0	26.5	20.4	14.6	13.2	10.8	3.0	2.8	2.5	12.6	10.9	12.8	0.5	0.6	0.7	25.6
Narayana Hrudayalaya	ADD	231	275	19.2	47	0.7	204	3	4	7	(38.1)	52.2	76.9	91.7	60.3	34.1	25.5	19.3	14.1	4.6	4.2	3.8	5.1	7.3	11.7	—	—	—	0.5
Sun Pharmaceuticals	REDUCE	571	500	(12.5)	1,371	20.1	2,406	15	17	24	(47.5)	12.0	42.0	37.7	33.6	23.7	22.3	18.3	13.5	3.6	3.3	2.9	9.8	10.2	13.1	0.4	0.6	0.8	47.5
Torrent Pharmaceuticals	NR	1,482	—	—	251	3.7	169	40	47	62	(27.4)	16.5	32.4	37.0	31.7	24.0	20.6	14.8	12.3	5.4	4.8	4.2	15.1	15.1	17.3	0.6	0.7	1.0	4.9
<b>Pharmaceuticals</b>	<b>Neutral</b>				<b>3,991</b>		<b>59</b>				<b>(27.6)</b>	<b>18.6</b>	<b>33.0</b>	<b>33.9</b>	<b>28.6</b>	<b>21.5</b>	<b>18.8</b>	<b>15.2</b>	<b>11.9</b>	<b>3.7</b>	<b>3.3</b>	<b>2.9</b>	<b>10.9</b>	<b>11.6</b>	<b>13.7</b>	<b>0.5</b>	<b>0.6</b>	<b>0.9</b>	<b>176.5</b>
<b>Real Estate</b>																													
Brigade Enterprises	BUY	245	340	38.8	33	0.5	136	10	9	9	(24.0)	(9.0)	(2.1)	23.9	26.3	26.9	12.1	12.3	12.0	1.5	1.4	1.4	7.0	5.4	5.1	1.0	1.0	1.0	0.4
DLF	RS	200	—	—	357	5.2	1,784	19.6	6.5	3.9	403.9	(66.9)	(39.6)	10.2	30.8	51.0	29.9	13.0	12.8	1.0	1.0	1.0	11.7	3.2	1.9	1.0	1.0	1.0	20.2
Godrej Properties	SELL	765	400	(47.7)	166	2.4	216	8.0	8.7	15.5	(15.8)	8.2	77.9	95.0	87.8	49.3	103.5	373.7	71.0	7.6	7.0	6.1	8.3	8.3	13.2	—	—	—	3.0
Oberoi Realty	REDUCE	505	535	5.9	172	2.5	340	14	57	50	21.4	318.9	(12.7)	37.3	8.9	10.2	27.8	9.6	14.2	2.8	2.2	1.8	7.8	27.5	19.2	0.4	0.4	0.4	3.6
Prestige Estates Projects	ADD	276	315	14.3	103	1.5	375	9	12	13	(6.7)	30.0	5.9	29.3	22.5	21.3	16.0	14.0	13.9	2.2	2.0	1.9	7.7	9.3	9.1	0.5	0.5	0.5	0.9
Sobha	REDUCE	492	510	3.6	47	0.7	96	21	23	26	25.6	9.1	13.4	23.5	21.5	19.0	13.4	12.8	12.0	1.7	1.6	1.5	7.5	7.8	8.3	1.4	1.4	1.4	2.5
Sunteck Realty	REDUCE	392	330	(15.8)	57	0.8	140	17	16	17	19.3	(6.4)	2.6	22.5	24.1	23.5	16.5	20.1	20.1	2.1	1.9	1.8	10.9	8.2	7.8	0.3	0.3	0.3	1.7
<b>Real Estate</b>	<b>Neutral</b>				<b>934</b>		<b>14</b>				<b>133.0</b>	<b>(15.1)</b>	<b>(11.5)</b>	<b>18.4</b>	<b>21.7</b>	<b>24.5</b>	<b>24.7</b>	<b>14.7</b>	<b>15.4</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>	<b>9.0</b>	<b>7.2</b>	<b>6.1</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>32.3</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo
		15-Jun-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	(US\$ mn)
<b>Technology</b>																													
HCL Technologies	REDUCE	948	1,010	6.5	1,320	19.4	1,409	62	68	71	5.3	9.0	5.0	15.2	14.0	13.3	10.7	9.0	8.2	3.7	3.1	2.8	24.8	23.8	21.9	0.9	3.0	3.3	31.5
Hexaware Technologies	SELL	444	420	(5.5)	132	1.9	304	16	20	22	19.8	20.5	12.5	27.1	22.5	20.0	19.3	16.2	13.8	6.7	5.8	5.0	26.6	27.8	27.0	0.9	1.8	1.8	12.1
Infosys	ADD	1,281	1,350	5.4	2,798	41.0	2,175	65	70	76	3.0	8.1	9.5	19.8	18.3	16.8	13.7	12.5	11.2	4.3	4.1	3.7	21.8	22.7	23.1	2.2	3.4	3.0	79.0
L&T Infotech	ADD	1,706	1,650	(3.3)	293	4.3	175	64	73	86	13.9	14.6	17.4	26.8	23.4	19.9	23.3	17.4	14.6	7.7	6.5	5.4	31.8	30.0	29.4	1.0	1.4	1.6	5.0
Mindtree	ADD	1,003	1,015	1.2	164	2.4	165	35	43	52	37.8	23.2	23.2	29.0	23.6	19.1	21.1	14.8	12.0	6.0	5.2	4.4	21.4	23.6	24.9	1.1	1.3	1.6	32.9
Mphasis	SELL	1,072	760	(29.1)	207	3.0	193	44	52	56	14.4	18.3	8.2	24.4	20.7	19.1	17.6	14.2	12.7	3.8	3.4	3.1	14.6	17.4	17.1	1.9	1.9	1.9	11.1
TCS	REDUCE	1,840	1,650	(10.3)	7,045	103.3	3,829	67	78	84	1.1	15.0	8.8	27.3	23.7	21.8	20.2	17.2	15.6	8.1	7.5	7.0	29.4	32.7	33.1	1.4	2.7	3.0	104.6
Tech Mahindra	ADD	707	775	9.6	624	9.2	891	43	45	53	33.1	6.6	15.8	16.6	15.6	13.4	12.2	9.5	7.8	3.3	2.9	2.5	21.5	19.9	19.7	2.0	1.3	1.5	33.5
Wipro	REDUCE	267	295	10.5	1,207	17.7	4,507	17	19	21	(3.1)	11.1	13.7	15.8	14.2	12.5	9.9	8.4	7.3	2.5	2.1	2.0	16.0	16.3	16.6	0.4	0.6	3.7	12.1
<b>Technology</b>	<b>Cautious</b>				<b>13,792</b>	<b>202</b>					<b>1.6</b>	<b>9.9</b>	<b>9.8</b>	<b>21.5</b>	<b>19.6</b>	<b>17.8</b>	<b>15.6</b>	<b>13.4</b>	<b>12.0</b>	<b>5.1</b>	<b>4.6</b>	<b>4.2</b>	<b>23.7</b>	<b>23.5</b>	<b>23.5</b>	<b>1.4</b>	<b>2.6</b>	<b>2.9</b>	<b>321.8</b>
<b>Telecom</b>																													
Bharti Airtel	ADD	378	470	24.3	1,512	22.2	3,997	5	(4)	0	(42.9)	(187.4)	104.6	79.9	(91.4)	2,001.9	8.3	9.4	7.6	2.2	2.3	2.3	2.8	(2.4)	0.1	1.4	0.3	0.0	40.5
Bharti Infratel	SELL	294	285	(2.9)	543	8.0	1,850	14	13	11	(7.4)	(8.7)	(9.0)	21.3	23.4	25.7	7.7	8.5	8.9	3.2	3.4	3.4	15.7	14.0	13.1	4.9	3.4	3.1	15.6
IDEA	REDUCE	61	75	23.7	264	3.9	4,359	(10)	(15)	(14)	(656.8)	(54.9)	6.4	(6.3)	(4.1)	(4.4)	12.8	23.3	17.3	1.0	1.3	1.8	(16.0)	(26.9)	(34.0)	—	—	—	17.2
Tata Communications	ADD	611	725	18.7	174	2.6	285	2	4	8	(84.3)	121.9	117.7	371	167.2	76.8	11.0	9.9	8.6	34.9	28.1	20.3	4.5	18.6	30.7	1.1	1.1	1.2	4.6
<b>Telecom</b>	<b>Cautious</b>				<b>2,494</b>	<b>37</b>					<b>(94.7)</b>	<b>(1,906.6)</b>	<b>36.2</b>	<b>792.8</b>	<b>(43.9)</b>	<b>(68.7)</b>	<b>8.9</b>	<b>10.5</b>	<b>8.8</b>	<b>2.2</b>	<b>2.4</b>	<b>2.6</b>	<b>0.3</b>	<b>(5.5)</b>	<b>(3.7)</b>	<b>1.9</b>	<b>0.9</b>	<b>0.7</b>	<b>77.9</b>
<b>Utilities</b>																													
CESC	ADD	993	1,180	18.7	132	1.9	133	87	102	118	67.1	16.8	15.5	11.4	9.8	8.4	7.9	5.9	5.2	0.9	0.8	0.8	7.9	8.8	9.4	1.2	1.0	1.1	7.3
JSW Energy	REDUCE	72	80	11.0	118	1.7	1,640	3.1	5.9	8.2	(19.2)	92.2	38.7	23.5	12.2	8.8	7.2	5.7	4.7	1.1	1.0	0.9	4.7	8.5	11.0	2.8	2.8	2.8	2.3
NHPC	ADD	26	30	16.5	264	3.9	10,260	2.4	3.1	3.2	(17.3)	26.9	1.8	10.6	8.3	8.2	9.5	7.5	7.3	0.9	0.8	0.8	8.5	10.4	10.2	5.4	6.8	6.8	2.4
NTPC	BUY	156	190	21.8	1,287	18.9	8,245	11	15	16	(7.6)	30.9	4.4	13.7	10.5	10.0	11.1	8.6	8.0	1.3	1.2	1.1	9.5	11.6	11.3	3.6	2.9	3.0	12.9
Power Grid	BUY	198	250	26.4	1,035	15.2	5,232	16	19	21	9.6	19.3	13.6	12.6	10.5	9.3	8.7	7.4	6.8	1.9	1.7	1.5	15.8	17.1	17.5	2.7	3.2	3.6	30.7
Reliance Power	SELL	35	43	24.3	97	1.4	2,805	3.5	5.1	5.2	(16.4)	45.6	2.7	9.9	6.8	6.6	8.0	6.9	6.7	0.4	0.4	0.4	4.5	6.1	5.9	—	—	—	5.0
Tata Power	ADD	76	97	27.5	206	3.0	2,705	5.3	7.8	8.7	(9.6)	46.1	11.2	14.2	9.7	8.8	10.4	9.6	8.8	1.3	1.2	1.0	10.7	12.9	12.7	—	—	—	6.5
<b>Utilities</b>	<b>Attractive</b>				<b>3,139</b>	<b>46</b>					<b>(2.4)</b>	<b>28.6</b>	<b>9.0</b>	<b>13.0</b>	<b>10.1</b>	<b>9.2</b>	<b>9.5</b>	<b>7.8</b>	<b>7.2</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>9.7</b>	<b>11.5</b>	<b>11.6</b>	<b>3.0</b>	<b>2.9</b>	<b>3.1</b>	<b>67.2</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		15-Jun-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E		
<b>Others</b>																														
Astral Poly Technik	SELL	1,003	625	(37.7)	120	1.8	120	15	19	23	20.8	28.0	23.0	68.4	53.4	43.4	38.5	29.8	24.2	11.8	9.8	8.0	18.8	20.0	20.3	0.1	0.1	0.1	1.2	
Avenue Supermarts	SELL	1,535	860	(44.0)	958	14.1	624	13	16	20	47.9	28.6	26.4	122.1	95.0	75.1	71.6	54.8	43.0	20.6	17.0	13.8	18.5	19.6	20.3	—	—	—	—	
Bayer Cropsience	REDUCE	4,657	4,000	(14.1)	184	2.7	34	86	105	124	4.4	22.7	17.5	54.2	44.2	37.6	43.9	34.3	27.5	9.0	7.8	6.7	15.4	18.8	19.2	0.4	0.5	0.5	0.6	
Dhanuka Agritech	ADD	601	680	13.1	30	0.4	49	26	28	32	7.7	8.9	15.4	23.4	21.5	18.6	17.2	14.8	12.4	4.7	4.0	3.5	21.9	20.1	20.0	0.9	1.0	1.2	0.2	
Godrej Agrovet	ADD	656	650	(1.0)	126	1.8	189	12	16	20	6.9	39.8	24.6	57.0	40.8	32.7	29.3	22.6	18.3	7.4	6.4	5.4	14.7	16.9	17.9	0.3	0.4	0.5	2.8	
Godrej Industries	RS	616	—	—	207	3.0	336	15	16	20	6.8	8.9	24.2	42.3	38.8	31.3	37.5	31.7	34.6	5.7	5.1	4.4	14.4	13.9	15.1	0.3	0.3	0.3	4.8	
InterGlobe Aviation	BUY	1,220	1,500	22.9	469	6.9	383	59	79	107	27.2	35.0	34.9	20.8	15.4	11.4	12.3	8.9	6.2	6.6	4.8	3.5	41.3	36.0	35.4	0.5	0.7	0.9	26.0	
Kaveri Seed	SELL	560	470	(16.1)	37	0.5	66	32	34	36	19.8	5.9	5.0	17.3	16.3	15.6	14.8	13.5	12.2	4.7	3.9	3.4	23.8	26.3	23.3	1.1	1.4	1.8	4.7	
PI Industries	BUY	797	900	13.0	110	1.6	138	27	33	41	(20.0)	25.0	23.2	30.0	24.0	19.5	22.1	17.4	13.8	5.7	4.8	3.9	20.7	21.7	22.1	0.4	0.5	0.6	1.8	
Rallis India	ADD	203	235	15.8	39	0.6	195	9	11	13	(1.5)	26.4	19.7	23.5	18.6	15.6	15.0	12.3	10.4	3.3	3.0	2.7	14.6	16.9	18.1	1.6	1.8	2.0	0.9	
SIS	REDUCE	1,160	1,250	7.8	85	1.2	73	23	36	43	44.0	58.5	20.6	51.4	32.4	26.9	27.6	20.9	17.3	8.2	6.9	5.7	20.2	23.4	23.3	0.3	0.5	0.6	0.5	
SRF	BUY	1,903	2,110	10.9	109	1.6	57	80	92	123	(10.4)	14.4	33.6	23.7	20.7	15.5	14.1	11.2	9.1	3.1	2.7	2.4	13.7	14.0	16.4	0.6	0.7	0.8	8.1	
Tata Chemicals	ADD	740	760	2.7	188	2.8	255	51	46	52	6.5	(11.2)	13.6	14.4	16.2	14.3	8.0	6.8	5.8	1.7	1.5	1.5	13.8	10.0	10.5	3.0	2.0	2.3	9.6	
TeamLease Services	SELL	3,036	1,750	(42.4)	52	0.8	17	43	59	76	28.0	37.7	27.2	70.4	51.1	40.2	73.5	52.0	40.2	11.8	9.6	7.7	18.2	20.6	21.3	—	—	—	2.5	
UPL	ADD	701	850	21.3	357	5.2	507	43	47	53	20.9	9.0	13.5	16.3	15.0	13.2	11.2	9.8	8.3	3.9	3.2	2.7	26.4	23.6	22.4	1.1	1.4	1.5	13.9	
Vardhman Textiles	ADD	1,213	1,400	15.4	70	1.0	56	103	130	140	(8.0)	26.4	7.4	11.8	9.3	8.7	9.9	7.4	6.6	1.4	1.3	1.1	12.7	14.3	13.8	1.2	1.6	2.5	0.8	
Whirlpool	SELL	1,538	1,240	(19.4)	195	2.9	127	28	37	45	13.0	33.9	22.5	55.6	41.5	33.9	32.9	25.3	20.4	10.9	9.0	7.5	21.4	23.7	24.1	0.3	0.4	0.6	1.1	
<b>Others</b>					<b>3,337</b>	<b>49</b>						<b>15.1</b>	<b>19.0</b>	<b>22.4</b>	<b>32.7</b>	<b>27.5</b>	<b>22.4</b>	<b>21.0</b>	<b>17.0</b>	<b>13.9</b>	<b>5.9</b>	<b>5.0</b>	<b>4.2</b>	<b>18.1</b>	<b>18.2</b>	<b>18.9</b>	<b>0.5</b>	<b>0.6</b>	<b>0.7</b>	<b>79.7</b>
<b>KIE universe</b>					<b>108,593</b>	<b>1,592</b>			<b>(6.2)</b>	<b>29.0</b>	<b>25.6</b>	<b>26.9</b>	<b>20.9</b>	<b>16.6</b>	<b>12.6</b>	<b>10.6</b>	<b>9.4</b>	<b>3.0</b>	<b>2.7</b>	<b>2.4</b>	<b>11.0</b>	<b>12.9</b>	<b>14.6</b>	<b>1.3</b>	<b>1.5</b>	<b>1.8</b>				
<b>KIE universe (ex-energy)</b>					<b>95,611</b>	<b>1,402</b>			<b>(8.4)</b>	<b>37.0</b>	<b>30.4</b>	<b>31.8</b>	<b>23.2</b>	<b>17.8</b>	<b>14.1</b>	<b>11.8</b>	<b>10.3</b>	<b>3.3</b>	<b>3.0</b>	<b>2.7</b>	<b>10.3</b>	<b>12.9</b>	<b>15.1</b>	<b>1.1</b>	<b>1.4</b>	<b>1.7</b>				

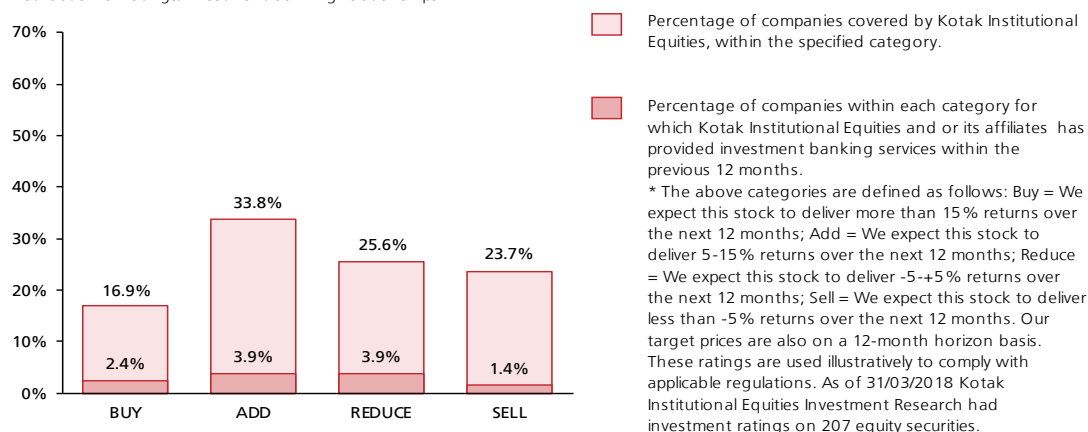
Notes:

- (a) We have used adjusted book values for banking companies.  
 (b) 2018 means calendar year 2017, similarly for 2019 and 2020 for these particular companies.  
 (c) Exchange rate (Rs/US\$)= 68.18

Source: Companies, Kotak Institutional Equities estimates

**Kotak Institutional Equities Research coverage universe**

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2018

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**Definitions of ratings**

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

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

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

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

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

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