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EQUITY MARKETS

India	Change %			
	29-Jun	1-day	1-mo	3-mo
Sensex	35,423	1.1	0.6	6.5
Nifty	10,714	1.2	0.2	4.9
Global/Regional indices				
Dow Jones	24,271	0.2	(1.5)	2.7
Nasdaq Composite	7,510	0.1	(0.6)	9.3
FTSE	7,637	0.3	(0.8)	8.2
Nikkei	22,270	(0.2)	0.4	4.1
Hang Seng	28,955	1.6	(5.0)	(3.8)
KOSPI	2,316	(0.4)	(5.0)	(5.2)
Value traded – India				
Cash (NSE+BSE)	327		312	335
Derivatives (NSE)	4,366		10,002	14,450
Deri. open interest	3,022		4,279	4,520

Forex/money market

	Change, basis points			
	29-Jun	1-day	1-mo	3-mo
Rs/US\$	68.4	(3)	137	328
10yr govt bond, %	8.1	-	14	47

Net investment (US\$ mn)

	28-Jun	MTD	CYTD
FIs	(98)	-	(875)
MFs	(10)	-	10,070

Top movers

Best performers	Change, %			
	29-Jun	1-day	1-mo	3-mo
TCS IN Equity	1,848	0.3	6.7	27.0
KMB IN Equity	1,343	0.3	1.9	22.5
HUVR IN Equity	1,641	2.4	3.3	21.4
MM IN Equity	898	(1.1)	(0.4)	20.0
UBBL IN Equity	1,151	2.5	(1.2)	18.4
Worst performers				
HDIL IN Equity	21	3.8	(20.3)	(47.8)
RCOM IN Equity	14	3.4	(16.4)	(38.9)
UT IN Equity	4	1.2	(5.7)	(28.4)
HPCL IN Equity	259	(0.8)	(17.0)	(24.8)
IDEA IN Equity	59	4.7	(4.0)	(23.7)

JULY 2, 2018

UPDATE

BSE-30: 35,423

Grin and bear it. We continue to follow a 'barbell' approach (mix of expensive 'growth' and inexpensive 'value' stocks) to the Indian market noting extreme valuations across and within sectors. The 'value' portion of our recommended large-cap. Model Portfolio has suffered in the recent market conniptions but we do not see any reason to change our approach; if anything, the 'value' stocks look more attractive. We introduce a mid-cap. portfolio post the recent steep correction in valuations of mid-cap. stocks.

Global and domestic macro uncertainty versus valuations

As discussed in our June 28, 2018 report *Bubble somewhere, trouble elsewhere*, valuations have become quite extreme across and within sectors (see Exhibit 1 for the wide dispersion in valuations of the Nifty-50 stocks and increase in dispersion over time). Valuations of 'growth' stocks have become extremely rich led by short-term concerns about India's macro situation as also long-term conviction about their continued dominant positions in their respective sectors (see Exhibit 2). On the other hand, valuations of 'value' stocks have become extremely cheap led by concerns about their business models (see Exhibit 3).

We follow a 'barbell' approach

We see no reason to revisit the 'value' part of our recommended portfolio and make a switch to more expensive stocks at the current juncture. A few stocks with strong business models (regulated utilities for example; see Exhibit 4 for their valuations and of a few others) are available at ex-growth valuations. These sectors (along with most others) in India will grow for a fairly long time and we do not see meaningful threat to these businesses even from long-term disruption. Of course, unfavorable government action (capping of retail fuel prices, for example) can hurt the prospects of the government-owned companies but that would be a bigger cause of worry for the market about the direction of India's macroeconomic policies.

Broad market valuations mean little; attractive valuations beyond the visible stocks

The valuations of the broad Indian market are still expensive versus historical levels (see Exhibit 5) and versus bond yields (see Exhibit 6) despite our projected strong growth in net profits over FY2018-20 led by normalization of profits in a few sectors and economic recovery (see Exhibit 7). The market's valuations are largely supported by 'growth' stocks in the consumption sectors (including private financials) while the valuations of the rest of the sectors are fairly reasonable and even attractive in a few cases. There is deep value in several cases based on our fair valuations (see Exhibit 8) post the severe correction in those names in the past six months.

Global dangers still lurk; tread carefully when it comes to valuations, stocks

We note that global issues (trade, sanctions) still pose meaningful risks to India's macro in case trade tensions were to escalate. India is more affected by higher crude oil prices rather than by trade barriers (tariffs on exports) given the strong linkage of the Indian economy to crude oil prices through CAD/BoP/currency and inflation/interest rate and low linkage to global trade via merchandise trade and global supply chains. We note that DMs have outperformed EMs over the past few months (see Exhibit 9), India has outperformed EMs (see Exhibit 10) and large-caps outperformed mid-caps/small-caps over the same period (see Exhibit 11) in India.

QUICK NUMBERS

- BSE-30 Index up 4% CYTD, BSE mid-cap. index down 13% CYTD and BSE small-cap. index down 17% CYTD
- Nifty-50 Index trades at 19.6X FY2019E 'EPS' and 16.1X FY2020E 'EPS'
- Nifty-50 Index net profits to grow 23% in FY2019 and 19% in FY2020

Sanjeev Prasad

Sunita Baldawa

Anindya Bhowmik

Portfolio: Minor change in large-cap. portfolio and introducing a mid-cap. portfolio

Exhibit 12 is our recommended large-cap. portfolio. We remove Max Financial Services (last weight 181 bps) in order to include it in our mid-cap. portfolio and replace it with TECHM with a weight of 200 bps. We make minor adjustments elsewhere.

Exhibit 13 is our recommended mid-cap. portfolio. We still find the valuations of the mid-cap. consumer stocks to be quite expensive and are avoiding the same despite their relatively better longer-term growth prospects.

Exhibit 1: Significant increase in dispersion in valuation within and between sectors
1-year rolling forward P/E and P/B valuation for Nifty-50 stocks, March fiscal year-ends, 2013-18 (X)

Company	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Jun-18
Banking companies							
Axis Bank	1.7	1.6	2.6	1.8	2.0	1.9	2.0
Bajaj Finance	1.5	1.9	3.5	4.2	5.6	5.3	6.5
Bajaj Finserv	1.4	1.2	1.8	1.8	3.6	3.6	3.7
HDFC	4.8	4.4	5.9	4.5	5.7	4.7	4.8
HDFC Bank	3.5	3.5	3.6	3.2	3.8	3.8	4.0
ICICI Bank	1.7	1.8	2.1	1.5	1.8	1.7	1.7
Indiabulls Housing Finance	1.4	1.1	2.6	2.2	3.2	3.4	3.1
IndusInd Bank	2.5	2.6	3.8	2.9	3.7	4.0	4.1
Kotak Mahindra Bank	2.8	2.8	3.9	3.3	3.7	3.6	4.2
State Bank of India	1.4	1.3	1.6	1.2	1.6	1.2	1.2
Yes Bank	2.0	1.7	2.5	2.2	3.1	2.4	2.5
Non-banking companies							
Adani Ports and SEZ	15.2	17.8	22.8	18.0	19.5	17.6	17.8
Asian Paints	33.0	35.5	38.3	37.9	45.4	43.7	48.4
Bajaj Auto	13.8	15.5	15.4	16.5	18.1	16.7	16.6
Bharti Airtel	22.6	23.4	24.4	23.3	34.3	51.3	75.7
Bharti Infratel	26.3	22.7	30.5	26.3	20.1	22.3	21.0
BPCL	15.3	14.2	13.9	9.8	10.7	10.0	9.2
Cipla	18.5	18.8	30.5	19.9	24.0	20.4	24.5
Coal India	10.7	10.8	13.4	11.6	13.5	11.9	10.0
Dr Reddy's Laboratories	16.6	17.8	23.0	20.5	21.0	18.5	22.0
Eicher Motors	16.0	24.8	38.1	32.9	32.4	28.8	27.1
GAIL (India)	9.4	10.6	12.8	13.4	13.4	14.1	13.3
Grasim Industries	8.4	11.0	12.6	12.1	13.6	15.0	17.5
HCL Technologies	14.2	15.3	18.2	13.4	13.7	14.4	13.2
Hero Motocorp	13.5	16.5	16.1	17.2	16.9	17.5	17.0
Hindalco Industries	6.1	10.7	8.2	12.7	9.4	9.0	8.5
Hindustan Unilever	27.8	32.8	40.0	38.9	40.5	47.1	53.2
HPCL	9.1	10.4	10.3	7.8	10.5	8.2	6.7
Infosys	16.4	15.3	18.5	18.3	15.1	16.2	17.6
IOCL	8.8	10.3	10.6	7.6	10.6	8.4	7.5
ITC	27.7	27.4	23.6	23.3	28.4	24.7	25.0
L&T	15.2	22.0	28.0	21.5	22.9	22.9	20.0
Lupin	19.8	20.3	31.3	20.2	19.9	19.4	24.3
Mahindra & Mahindra	14.3	15.0	19.1	17.8	19.9	19.1	21.3
Maruti Suzuki	12.8	17.2	21.5	17.7	21.9	26.3	26.2
NTPC	10.5	9.8	12.5	10.2	12.3	11.4	10.2
ONGC	9.2	8.4	9.2	10.4	10.1	7.9	6.5
Power Grid	10.5	10.3	12.4	9.9	11.5	9.9	9.5
Reliance Industries	11.2	11.3	10.4	11.3	14.0	13.0	13.3
Sun Pharmaceuticals	22.6	20.4	29.0	24.2	21.1	24.8	29.8
Tata Motors	6.9	7.4	8.1	8.6	11.6	8.1	8.3
Tata Steel	8.3	9.0	9.0	29.1	10.8	8.1	7.4
TCS	19.7	18.7	20.4	18.5	16.8	19.1	23.6
Tech Mahindra	10.6	12.7	14.8	12.6	11.8	15.8	15.8
Titan Company	25.3	27.7	32.6	31.5	41.0	55.8	47.3
Ultratech Cement	15.8	24.0	23.5	27.7	34.7	31.2	29.1
UPL	6.3	7.5	13.6	13.3	16.6	15.4	12.8
Vedanta	5.1	7.0	9.4	12.8	9.1	7.6	6.6
Wipro	13.7	15.1	16.4	14.1	14.0	14.5	13.5
Zee Entertainment Enterprises	23.3	26.5	31.6	29.1	33.0	32.1	30.3

Source: Factset, Kotak Institutional Equities

Exhibit 2: Most 'growth' stocks in our universe trade at rich multiples

12-m forward PE multiple and earnings growth of growth stocks in KIE universe, March fiscal year-ends, 2011-20E

Company	Sector	12-m forward PB/PE multiple (X)								
		31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18	Current
Bharat Forge	Automobiles	18	16	15	19	31	24	29	35	26
Hero Motocorp	Automobiles	14	16	15	17	17	17	16	20	16
Eicher Motors	Automobiles	15	14	16	25	70	33	33	36	27
Maruti Suzuki	Automobiles	14	15	15	17	s	19	20	32	25
Bajaj Finance	Banks/NBFCs	1.6	1.4	1.5	1.9	3.5	4.2	5.6	6.1	6.4
Cholamandalam	Banks/NBFCs	1.6	1.6	1.8	1.6	2.6	2.8	3.2	4.8	3.8
HDFC Bank	Banks/NBFCs	3.8	3.5	3.5	3.5	3.6	3.2	3.8	4.0	3.8
Indusind Bank	Banks/NBFCs	2.8	2.8	2.5	2.6	3.8	2.9	3.7	4.6	4.0
Yes Bank	Banks/NBFCs	2.3	2.2	2.0	1.7	2.5	2.2	3.1	2.9	2.7
ACC	Cement	21	22	14	24	23	22	39	30	24
Ambuja Cements	Cement	19	20	13	21	27	26	33	31	26
Shree Cement	Cement	NA	29	14	21	52	39	32	37	29
UltraTech Cement	Cement	14	17	15	26	28	30	32	42	30
Asian Paints	Consumer Products	26	30	35	37	39	40	49	52	50
Colgate-Palmolive (India)	Consumer Products	23	29	28	33	40	34	38	43	42
Dabur India	Consumer Products	25	24	26	29	34	31	35	42	42
Glaxosmithkline Consumer	Consumer Products	30	31	35	29	37	31	30	38	34
Hindustan Unilever	Consumer Products	25	29	28	32	41	40	41	56	56
Jubilant Foodworks	Consumer Products	37	49	38	39	58	53	53	77	53
Marico	Consumer Products	25	26	28	24	33	35	42	49	44
Nestle India	Consumer Products	35	33	36	38	42	46	63	63	56
Page Industries	Consumer Products	24	26	26	35	61	45	47	75	67
United Breweries	Consumer Products	47	54	58	68	74	55	55	65	56
United Spirits	Consumer Products	22	14	29	56	58	68	46	79	58
ABB	Industrials	25	32	35	35	86	56	44	63	42
BHEL	Industrials	15	10	8	19	21	23	27	31	22
L&T	Industrials	20	18	17	22	31	23	20	23	19
Siemens	Industrials	35	30	22	41	69	53	47	41	32
Thermax	Industrials	17	14	17	23	33	31	31	41	32
Cipla	Pharmaceuticals	20	17	19	20	30	19	22	25	22
Dr Reddy's Laboratories	Pharmaceuticals	23	16	16	18	25	24	22	32	20
Lupin	Pharmaceuticals	19	19	21	21	32	22	20	24	24
Sun Pharmaceuticals	Pharmaceuticals	22	22	23	22	30	26	21	43	30

Source: Companies, Kotak Institutional Equities estimates

Exhibit 3: Most 'value' stocks in our universe trade at low multiples, some even on ex-growth basis
 12-m forward PE multiple and earnings growth of value stocks in KIE universe, March fiscal year-ends, 2011-20E

Company	Sector	12-m forward PB/PE multiple (X)								
		31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18	Current
Axis Bank	Banks/NBFCs	2.6	1.8	1.7	1.6	2.6	1.8	2.1	2.1	2.1
Bank of Baroda	Banks/NBFCs	1.7	1.1	0.8	0.9	0.9	1.0	1.3	1.2	1.0
Canara Bank	Banks/NBFCs	1.3	0.9	0.7	0.5	0.6	0.5	0.9	1.1	1.3
Federal Bank	Banks/NBFCs	1.3	1.2	1.2	1.1	1.3	0.9	1.8	1.4	1.3
ICICI Bank	Banks/NBFCs	2.2	1.6	1.7	1.8	2.1	1.5	1.8	2.1	1.8
LIC Housing Finance	Banks/NBFCs	2.2	2.1	1.5	1.4	2.3	2.3	2.2	1.9	1.4
Shriram Transport	Banks/NBFCs	3.0	1.9	1.8	1.8	2.4	2.0	2.1	2.7	2.1
State Bank of India	Banks/NBFCs	1.9	1.7	1.4	1.3	1.6	1.2	1.4	2.1	1.4
BPCL	Energy	13	15	15	14	14	10	13	12	9
GAIL (India)	Energy	14	11	9	11	13	13	14	15	13
HPCL	Energy	9	8	9	10	10	8	13	9	8
IOCL	Energy	9	8	9	10	11	8	10	9	9
ONGC	Energy	9	9	9	8	9	10	10	9	8
Reliance Industries	Energy	14	11	11	11	10	11	13	15	14
Coal India	Metals & Mining	16	13	11	11	13	11	11	15	10
Hindalco Industries	Metals & Mining	10	8	6	11	8	13	14	10	8
Hindustan Zinc	Metals & Mining	10	9	7	7	8	11	12	14	11
JSW Steel	Metals & Mining	9	8	8	11	9	18	10	15	12
National Aluminium Co.	Metals & Mining	17	15	11	14	9	15	23	12	9
NMDC	Metals & Mining	13	8	8	8	9	12	14	10	11
Tata Steel	Metals & Mining	8	9	8	9	9	26	9	9	8
Vedanta	Metals & Mining	6	5	5	7	9	13	9	12	6
CESC	Utilities	8	7	6	10	11	9	11	11	9
JSW Energy	Utilities	8	14	8	10	13	8	10	18	10
NHPC	Utilities	16	10	9	9	9	9	9	10	8
NTPC	Utilities	16	13	10	10	13	11	11	14	11
Power Grid	Utilities	16	14	11	10	12	10	13	12	10
Tata Power	Utilities	15	13	17	14	16	13	12	12	9

Notes:

(a) For banks/NBFCs, we have used P/B and BPS.

Source: Companies, Kotak Institutional Equities estimates

Exhibit 4: Low valuations of certain stocks despite reasonably strong business models and growth prospects

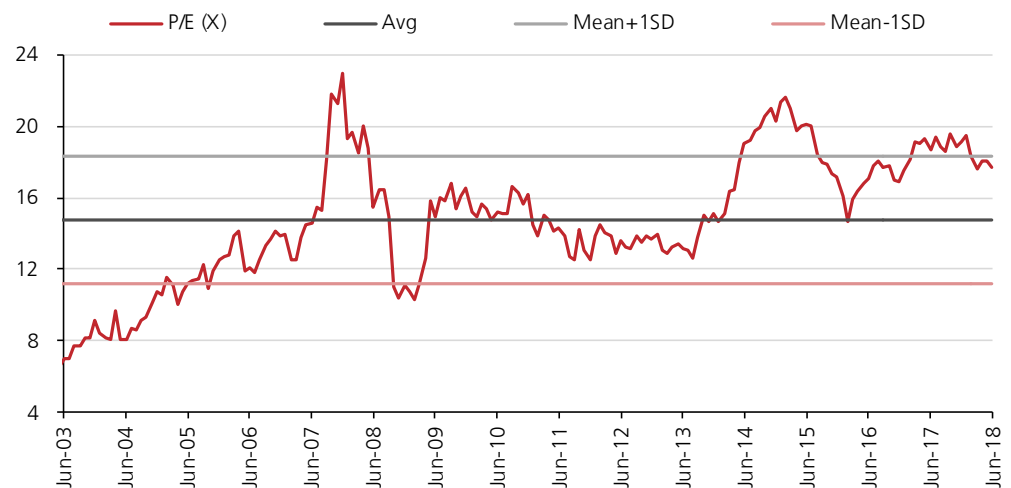
P/E and P/B of stocks in the 'disrupted' category, March fiscal year-ends, 2018-20E (X)

	2018	2019E	2020E
Automobiles			
Tata Motors	13.5	11.4	7.0
Banks			
Axis Bank	2.5	2.2	1.9
Bank of Baroda	1.3	1.1	0.8
Federal Bank	1.4	1.3	1.2
ICICI Bank	2.1	1.9	1.6
State Bank of India	1.9	1.5	1.2
Oil & Gas			
BPCL	9.3	9.6	9.1
GAIL (India)	16.7	13.5	12.5
HPCL	6.2	8.1	7.8
IOCL	7.6	9.3	8.6
Oil India	8.5	8.6	8.7
ONGC	9.1	7.6	7.7
Petronet LNG	15.8	13.5	11.9
Metals & mining			
Coal India	23.4	9.8	9.5
Hindalco Industries	10.5	8.5	7.5
Hindustan Zinc	12.8	11.3	9.9
JSW Steel	12.2	12.3	13.0
Tata Steel	8.4	8.2	7.8
Vedanta	10.9	6.4	5.4
Utilities			
CESC	10.5	9.0	7.8
NTPC	14.0	10.7	10.3
Power Grid	11.9	9.9	8.7
Tata Power	13.7	9.4	8.4

Source: Companies, Kotak Institutional Equities estimates

Exhibit 5: Valuation of the Indian market is still quite high

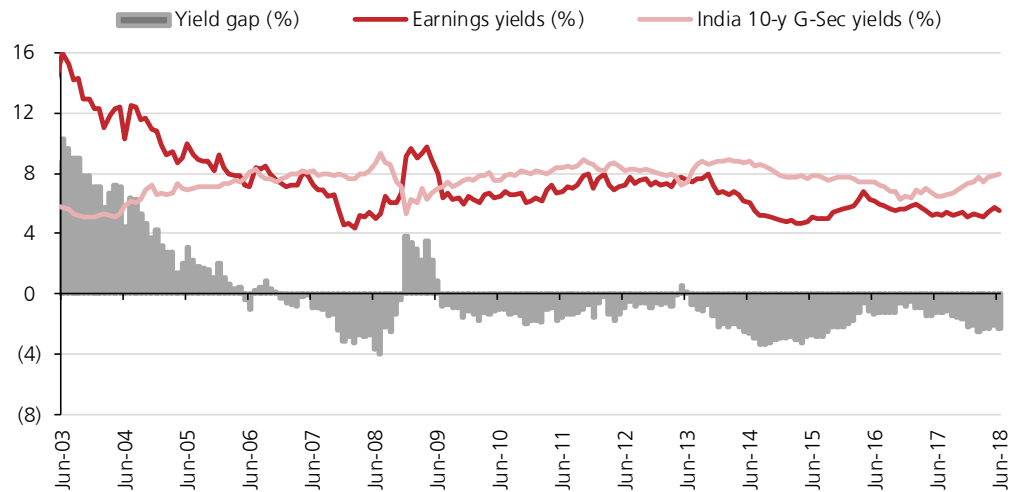
12-m rolling forward PE of Nifty-50 Index, March fiscal year-ends, 2004-19 (X)



Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 6: Earnings yields have been broadly stable over the past few months despite a sharp increase in bond yields

Nifty earnings yield and bond yield, March fiscal year-ends, 2004-19 (%)



Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 7: Banking, energy and metals & mining sectors to drive incremental profits of the Nifty-50 Index in FY2019-20E

Break-up of net profits of the Nifty-50 Index across sectors, March fiscal year-ends, 2015-20 (based on current constituents)

	Net profits (Rs bn)						Contribution (%)					Incremental profits			
	2015	2016	2017	2018	2019E	2020E	2016	2017	2018	2019E	2020E	2019E (Rs bn)	(%)	2020E (Rs bn)	(%)
Automobiles	278	311	292	287	344	436	11	8	9	8	9	57	7	92	11
Tata Motors	142	140	94	68	80	130	5	3	2	2	3	12	2	50	6
Banking	684	612	641	535	907	1,313	21	19	16	22	26	372	48	406	49
PSU banks	131	100	105	(65)	167	336	3	3	(2)	4	7	233	30	169	20
Private banks	553	512	536	600	740	977	18	16	18	18	20	140	18	237	29
Cement	35	49	58	56	61	82	2	2	2	1	2	5	1	21	3
Consumers	164	159	171	194	217	245	5	5	6	5	5	24	3	28	3
Energy	559	660	958	957	1,011	1,086	23	28	28	24	22	54	7	75	9
IOCL	42	103	259	194	160	172	4	8	6	4	3	(35)	(4)	12	1
ONGC	189	174	217	223	267	264	6	6	7	6	5	44	6	(3)	(0)
Reliance Industries	236	253	299	350	402	458	9	9	10	10	9	52	7	56	7
Industrials	33	41	59	72	88	105	1	2	2	2	2	15	2	17	2
Infrastructure	12	29	39	42	41	48	1	1	1	1	1	(0)	(0)	6	1
Media	10	10	13	14	16	19	0	0	0	0	0	2	0	3	0
Metals & Mining	209	155	225	280	449	490	5	7	8	11	10	169	22	41	5
Coal India	137	143	93	70	167	172	5	3	2	4	3	97	12	5	1
Tata Steel	0	(19)	40	81	84	88	(1)	1	2	2	2	3	0	4	1
Vedanta	51	28	73	80	138	161	1	2	2	3	3	58	7	23	3
Pharmaceuticals	107	113	117	78	94	128	4	3	2	2	3	16	2	34	4
Others	1	11	18	22	24	27	0	1	1	1	1	2	0	3	0
Technology	505	553	604	610	668	732	19	18	18	16	15	58	7	63	8
Telecom	80	63	61	44	7	22	2	2	1	0	0	(38)	(5)	15	2
Utilities	148	154	177	176	221	240	5	5	5	5	5	45	6	19	2
Nifty-50 Index	2,824	2,920	3,433	3,367	4,148	4,972	100	100	100	100	100	781	100	824	100
Nifty-50 change (%)	3.4	3.4	17.6	(1.9)	23.2	19.9									
Nifty-50 EPS (FF)	398	384	439	449	546	667									

Source: Kotak Institutional Equities estimates

Exhibit 8: Value has emerged in several large-cap. stocks after recent sharp correction
Valuation summary of Nifty-50 Index stocks, March fiscal year-ends, 2018E-20E

	P/E (X)			EV/EBITDA (X)			Price (Rs)	Target price (Rs)	Upside (%)	Performance			
	2018	2019E	2020E	2018	2019E	2020E				1-mo	3-mo	1-Year	YTD
Ultratech Cement	42.7	32.1	24.9	19.8	15.6	13.0	3,819	3,000	(21)	3	(3)	(3)	(12)
Bajaj Finance	49.4	36.6	28.2	—	—	—	2,296	1,850	(19)	11	30	67	31
Asian Paints	61.6	51.9	45.3	37.6	32.4	28.1	1,264	1,100	(13)	(3)	13	14	9
Hindustan Unilever	66.9	58.2	51.6	48.0	40.5	35.6	1,641	1,430	(13)	4	23	51	20
Lupin	23.7	26.2	20.2	14.5	13.1	10.7	904	800	(11)	16	23	(14)	2
Sun Pharmaceuticals	37.2	33.2	23.4	22.0	18.0	13.3	564	500	(11)	13	14	5	(1)
TCS	27.4	23.8	21.9	20.3	17.3	15.7	1,848	1,650	(11)	5	30	58	37
HDFC Bank	31.3	27.1	22.5	—	—	—	2,108	1,900	(10)	4	12	27	13
Eicher Motors	36.1	28.7	23.8	26.0	21.0	17.1	28,590	26,000	(9)	(6)	1	5	(6)
Titan Company	68.7	54.2	45.0	47.1	35.9	28.8	879	800	(9)	(4)	(7)	72	2
IndusInd Bank	32.3	27.1	22.2	—	—	—	1,939	1,800	(7)	3	8	31	18
Bharti Infratel	21.9	23.9	26.3	7.9	8.7	9.2	301	285	(5)	(1)	(11)	(21)	(21)
Reliance Industries	16.5	14.3	12.6	12.6	10.2	8.6	972	930	(4)	6	10	40	6
Yes Bank	18.5	17.7	16.0	—	—	—	340	325	(4)	0	11	18	8
Kotak Mahindra Bank	41.3	33.1	27.0	—	—	—	1,343	1,300	(3)	5	28	42	33
Bajaj Auto	20.0	17.6	16.0	13.7	12.3	10.8	2,810	2,800	(0)	1	2	0	(16)
Dr Reddy's Laboratories	37.8	22.1	16.7	17.5	11.1	8.2	2,235	2,250	1	13	7	(16)	(7)
Hero Motocorp	18.8	16.9	15.3	11.7	10.5	9.3	3,474	3,500	1	(4)	(2)	(7)	(8)
Bajaj Finserv	33.5	28.2	21.9	—	—	—	5,819	5,900	1	(1)	13	42	11
IOCL	7.6	9.3	8.6	4.4	5.2	4.7	156	160	3	(10)	(12)	(19)	(20)
Infosys	20.2	18.7	17.1	14.0	12.8	11.5	1,307	1,350	3	8	16	42	26
BPCL	9.3	9.6	9.1	7.5	7.1	6.5	373	390	4	(8)	(13)	(11)	(28)
Cipla	35.2	24.0	18.1	18.3	13.6	10.7	617	650	5	16	13	13	1
HCL Technologies	14.9	13.6	13.0	10.4	8.8	8.0	926	1,010	9	2	(4)	9	4
Maruti Suzuki	34.5	26.7	22.3	19.2	15.0	12.0	8,826	9,700	10	1	(0)	22	(9)
HDFC	25.3	32.9	28.6	—	—	—	1,908	2,100	10	5	5	17	12
Wipro	15.4	13.9	12.2	9.7	8.2	7.1	262	295	13	(1)	(7)	1	(17)
Mahindra & Mahindra	23.6	20.5	17.8	15.5	13.2	11.4	898	1,015	13	3	21	32	20
Zee Entertainment Enterprises	36.2	31.8	27.3	23.6	20.7	17.4	544	625	15	(2)	(5)	11	(7)
Axis Bank	475.5	25.9	13.0	—	—	—	511	600	17	(7)	0	(0)	(9)
Tech Mahindra	15.4	14.4	12.5	11.3	8.7	7.1	655	775	18	(3)	3	69	30
ITC	29.7	27.5	24.7	20.1	18.3	16.3	266	315	18	(3)	4	(15)	1
NTPC	14.0	10.7	10.3	11.2	8.7	8.1	159	190	19	(4)	(6)	1	(10)
GAIL (India)	16.7	13.5	12.5	10.5	8.7	8.0	340	410	21	(1)	4	25	(9)
L&T	24.7	20.4	17.0	20.5	17.5	15.5	1,275	1,560	22	(8)	(3)	12	1
Bharti Airtel	80.7	(92.3)	2,021.5	8.3	9.5	7.6	382	470	23	1	(4)	(0)	(28)
Coal India	23.4	9.8	9.5	17.3	6.2	5.9	264	326	23	(6)	(7)	8	1
HPCL	6.2	8.1	7.8	5.6	7.3	7.4	259	320	23	(18)	(25)	(23)	(38)
Tata Steel	8.4	8.2	7.8	6.2	6.2	5.7	568	710	25	(1)	(1)	13	(18)
Adani Ports and SEZ	18.6	18.7	16.3	13.3	12.8	11.3	373	470	26	(1)	5	2	(8)
ONGC	9.1	7.6	7.7	4.9	3.9	3.7	158	200	26	(10)	(11)	0	(19)
Grasim Industries	21.2	23.7	16.8	12.1	7.8	7.1	1,007	1,275	27	(5)	(4)	(1)	(14)
Power Grid	11.9	9.9	8.7	8.4	7.2	6.6	187	250	34	(10)	(3)	(10)	(7)
Indiabulls Housing Finance	12.7	10.9	8.9	—	—	—	1,143	1,550	36	(6)	(8)	4	(5)
Hindalco Industries	10.5	8.5	7.5	6.5	5.6	4.8	231	315	37	(5)	7	20	(16)
UPL	14.4	13.2	11.6	10.0	8.7	7.4	619	850	37	(12)	(15)	(25)	(19)
State Bank of India	NM	13.8	6.9	—	—	—	259	370	43	(2)	4	(5)	(16)
ICICI Bank	26.1	17.8	10.9	—	—	—	275	400	45	(5)	(1)	(6)	(12)
Tata Motors	13.5	11.4	7.0	3.9	3.6	2.9	269	445	65	(9)	(18)	(38)	(38)
Vedanta	10.9	6.4	5.4	5.8	4.3	3.6	236	415	76	(7)	(15)	(6)	(28)
Nifty-50 Index	23.9	19.6	16.1	11.3	9.6	8.5	10,714	11,600	8	0.8	5.9	12.7	1.7

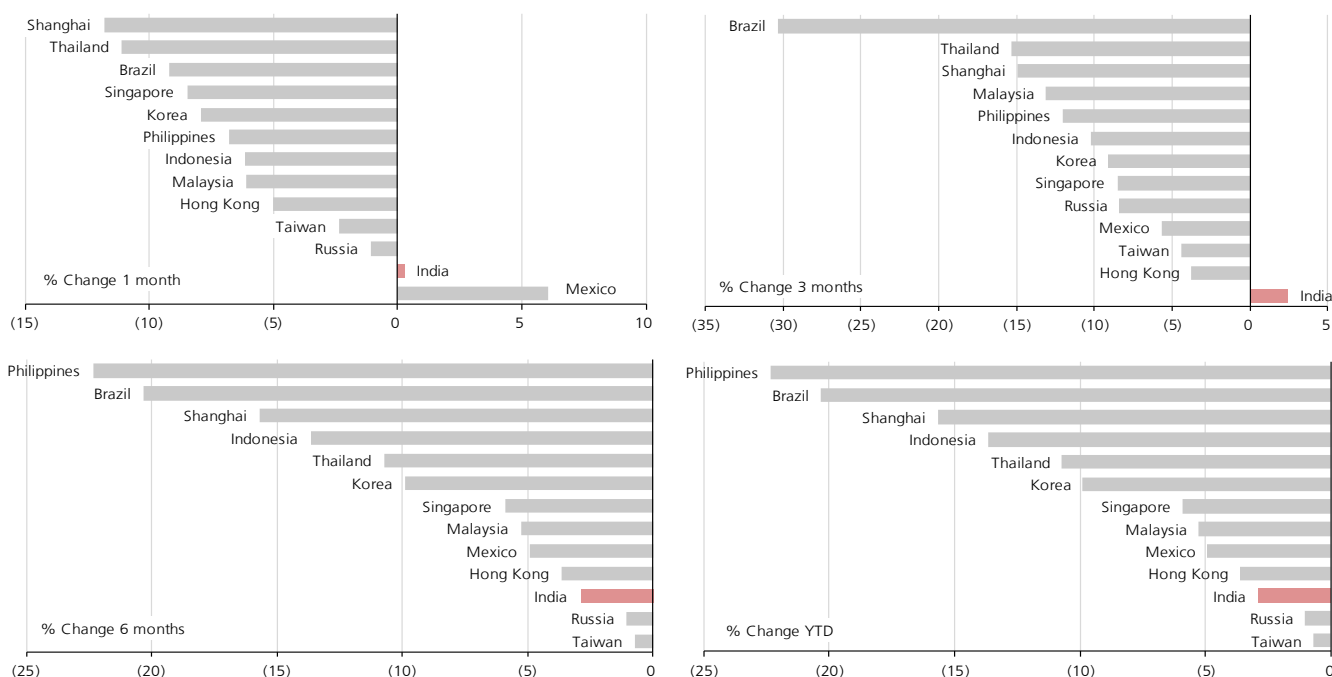
Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 9: DMs have outperformed EMs for the past few months and years
 Performance (not annualized) of emerging and developed markets over period of time (%)

	% change in local currency							% change in USD						
	1-mo	3-mo	6-mo	YTD	1-yr	3-yr	5-yr	1-mo	3-mo	6-mo	YTD	1-yr	3-yr	5-yr
Developed markets														
Australia	3	8	2	2	6	13	29	1	3	(4)	(4)	2	9	4
France	(2)	3	0	0	3	11	43	(1)	(2)	(3)	(3)	5	16	28
Germany	(3)	2	(5)	(5)	(1)	12	54	(2)	(4)	(8)	(8)	1	17	38
Hong Kong	(5)	(4)	(3)	(3)	12	10	39	(5)	(4)	(4)	(4)	11	9	38
Japan	(0)	4	(2)	(2)	10	10	63	(2)	(0)	(0)	(0)	12	22	46
Singapore	(7)	(5)	(4)	(4)	0	(1)	4	(9)	(8)	(6)	(6)	2	(3)	(3)
UK	1	9	(0)	(0)	4	18	23	(0)	2	(3)	(3)	6	(2)	7
US (Dow Jones)	(1)	0	(2)	(2)	14	37	62	(1)	0	(2)	(2)	14	37	62
US (S&P500)	1	3	2	2	12	32	69	1	3	2	2	12	32	69
MSCI World								(0)	1	(1)	(1)	8	20	45
Emerging markets														
Brazil	(6)	(16)	(6)	(6)	15	35	51	(9)	(28)	(19)	(19)	(1)	9	(13)
MSCI China	(7)	(6)	(4)	(4)	16	15	56	(7)	(6)	(5)	(5)	16	13	55
India	1	6	2	2	13	28	83	(0)	1	(5)	(5)	7	19	60
Indonesia	(4)	(6)	(9)	(9)	(1)	18	20	(6)	(10)	(13)	(13)	(7)	10	(16)
Korea	(5)	(5)	(6)	(6)	(3)	12	25	(8)	(9)	(9)	(9)	(0)	13	28
Malaysia	(5)	(9)	(6)	(6)	(5)	(1)	(5)	(6)	(13)	(5)	(5)	2	(8)	(25)
Mexico	5	2	(5)	(5)	(4)	4	16	5	(6)	(5)	(5)	(13)	(17)	(24)
Philippines	(5)	(10)	(16)	(16)	(8)	(5)	11	(7)	(12)	(21)	(21)	(12)	(20)	(10)
Russia	(1)	(9)	(1)	(1)	14	22	(10)	(1)	(9)	(1)	(1)	14	22	(10)
Taiwan	(1)	(1)	2	2	4	16	34	(2)	(5)	(1)	(1)	4	18	32
Thailand	(8)	(10)	(9)	(9)	1	6	10	(11)	(15)	(11)	(11)	4	8	3
MSCI EM								(7)	(11)	(10)	(10)	3	8	11

Source: Bloomberg, Kotak Institutional Equities

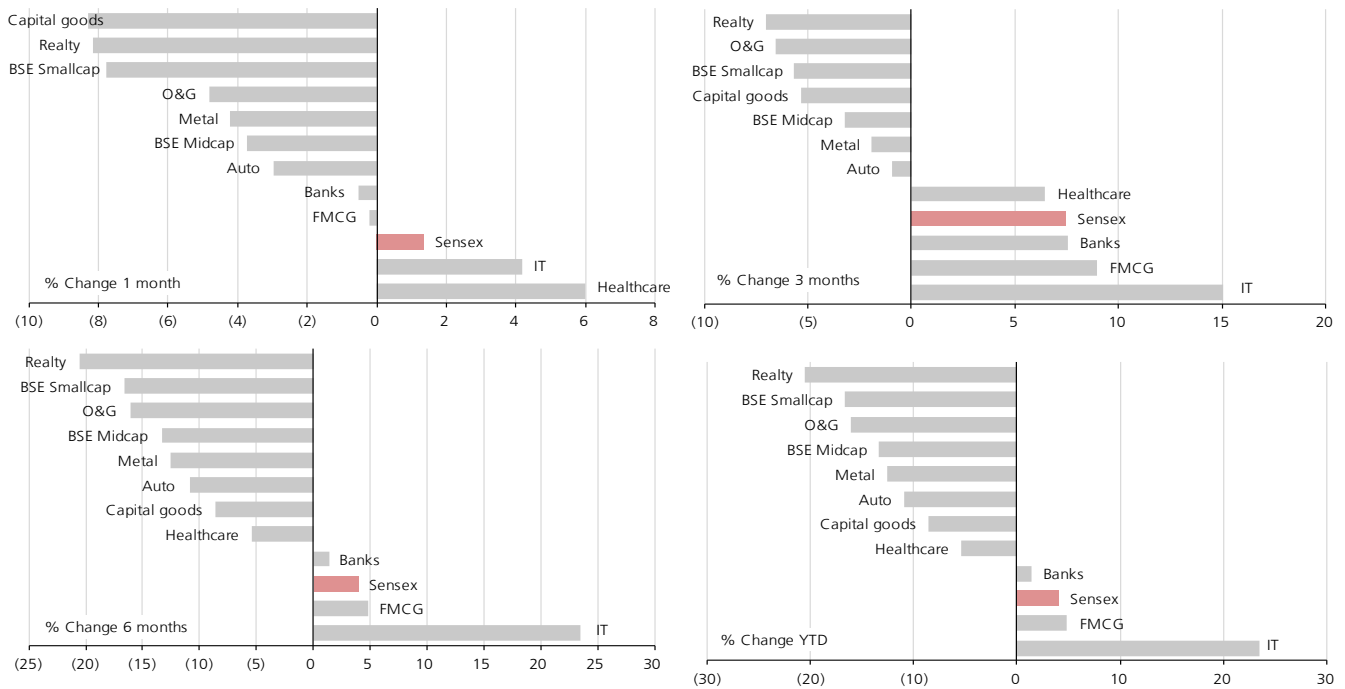
Exhibit 10: Indian market has outperformed regional markets in the past few months
 Performance of BSE-30 versus other regional indices (adjusted for currency changes)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 11: Large-caps have outperformed mid/small-caps in the past few months

Performance of various sectoral indices versus BSE-30



Source: Bloomberg, Kotak Institutional Equities

Exhibit 12: 'Barbell' portfolio of 'growth' and 'value' stocks

KIE large-cap. Model Portfolio

Company	Price (Rs) 29-Jun-18	KIE weight (%)	Company	Price (Rs) 29-Jun-18	KIE weight (%)
Automobiles			Petronet LNG		
Mahindra & Mahindra	898	5.0	Reliance Industries	972	6.1
Maruti Suzuki	8,826	4.1	Energy		10.9
Tata Motors	269	2.4	Industrials/Construction		
Automobiles		11.5	L&T	1,275	5.0
Private Banks and NBFCs			Industrials/Construction		
HDFC	1,908	8.4	Metals & Mining		5.0
HDFC Bank	2,108	11.4	Hindalco Industries	231	2.9
ICICI Bank	275	7.7	Vedanta	236	2.2
ICICI Prudential Life	377	1.8	Tata Steel	568	2.7
IndusInd Bank	1,939	2.4	Metals & Mining		7.7
LIC Housing finance	469	1.7	Others		
Private Banks and NBFCs		33.5	InterGlobe Aviation	1,089	1.7
PSU Banks			Others		
Bank of Baroda	113	1.6	Pharmaceuticals		1.7
State Bank of India	259	4.3	Cipla	617	3.4
PSU Banks		5.9	Pharmaceuticals		3.4
Consumers			Technology		
Colgate-Palmolive (India)	1,185	2.3	Infosys	1,307	9.0
Dabur India	391	2.4	Tech Mahindra	655	2.0
Marico	332	2.1	Technology		11.0
Consumers		6.8	Utilities		
Energy			Power Grid	187	2.6
GAIL (India)	340	2.9	Utilities		2.6
			BSE-30	35,423	100.0

Source: Kotak Institutional Equities estimates

Exhibit 13: We recommend mid-cap. stocks in automobile components, financials, industrials and power utilities
KIE mid-cap. Model Portfolio

Company	Sector	Rating	Price	Target	Upside	Mkt cap.		EPS (Rs)			PER (X)			PBR (X)			RoE (%)		
			(Rs)	price		(Rs mn)	(US\$ mn)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E
Balkrishna Industries	Automobiles	ADD	1,042	1,260	21	201,340	2,936	37.4	50.6	63.1	27.8	20.6	16.5	4.9	4.1	3.3	19.0	21.6	22.1
CESC	Utilities	ADD	914	1,180	29	121,210	1,768	87.1	101.8	117.6	10.5	9.0	7.8	0.8	0.8	0.7	7.9	8.8	9.4
Escorts	Automobiles	BUY	872	1,170	34	74,326	1,558	38.8	55.7	68.8	22.5	15.7	12.7	3.0	2.6	2.2	13.5	16.8	17.7
Federal Bank	Banks	BUY	82	130	59	161,586	2,356	4.5	5.8	7.8	18.4	14.2	10.5	1.4	1.3	1.2	8.0	9.0	11.2
Kalpataru Power Transmission	Industrials	BUY	400	530	32	61,438	896	19.4	19.3	24.4	20.6	20.7	16.4	2.3	2.1	1.9	11.7	10.6	12.2
Laurus Labs	Pharmaceuticals	ADD	459	540	18	48,699	710	15.9	21.8	33.6	29.0	21.1	13.7	3.3	2.8	2.3	11.9	14.4	18.8
Max Financial Services	NBFCs	BUY	436	650	49	117,150	1,708	4.6	6.3	6.4	95.2	69.6	68.3	—	—	—	6.5	8.3	8.0
Prestige Estates Projects	Real Estate	ADD	270	315	17	101,269	1,477	9.4	12.2	13.0	28.7	22.1	20.8	2.1	2.0	1.8	7.7	9.3	9.1
Sadbhav Engineering	Infrastructure	ADD	287	460	60	49,207	718	12.9	19.4	19.5	22.3	14.8	14.7	2.6	2.3	2.0	12.5	16.5	14.4
Shriram City Union Finance	NBFCs	ADD	2,024	2,550	26	133,530	1,947	100.7	140.4	173.9	20.1	14.4	11.6	2.6	2.2	1.9	12.5	15.5	16.7

Source: Companies, Kotak Institutional Equities estimates

JULY 02, 2018

CHANGE IN RECO.

Coverage view: **Neutral**

Price (₹): **1,042**

Target price (₹): **1,260**

BSE-30: **35,423**

Business fundamentals intact; upgrade to BUY. We upgrade Balkrishna to BUY (from ADD) as we believe that valuations are attractive after the recent correction in stock price (down 20% from recent highs). The company's growth prospects remain strong due to (1) sustained recovery in the global off-highway tyre industry, (2) scope of significant market share gains in the mining segment and (3) ability to sustain 30%+ EBITDA margin led by a richer product mix, benefits from backward integration, rupee depreciation, operating leverage benefits, etc. We expect the company to deliver 24% EPS CAGR over FY2018-21E. TP unchanged at ₹1,260 (based on 20X FY2020E EPS).

Company data and valuation summary

Balkrishna Industries

Stock data			Forecasts/Valuations				
52-week range (Rs) (high,low)	1,352-719		EPS (Rs)	2018	2019E	2020E	
Market Cap. (Rs bn)	201.3		EPS growth (%)	37.4	50.6	63.1	
Shareholding pattern (%)			P/E (X)	27.8	20.6	16.5	
Promoters	58.3		Sales (Rs bn)	46.6	56.1	65.3	
FIs	17.6		Net profits (Rs bn)	7.2	9.8	12.2	
MFs	10.9		EBITDA (Rs bn)	13.5	17.0	20.4	
Price performance (%)			EV/EBITDA (X)	14.8	11.2	8.9	
Absolute	1M	3M	12M	ROE (%)	19.0	21.6	22.1
Rel. to BSE-30	(8.8)	(2.5)	27.5	Div. Yield (%)	0.4	0.4	0.5
	(10.0)	(9.3)	11.1				

Strong medium-term growth prospects led by industry growth and market share gains

We believe that Balkrishna Industries has the potential to emerge as one of the top manufacturers of off-highway tires globally over the next 10-15 years due to (1) a significant cost advantage over global peers (employee cost to sales for BKT is 20-22% lower than Michelin/Trelleborg), (2) strong focus on product quality, (3) an extensive product portfolio with more than 2,400 SKUs (higher than Michelin) and (4) scope of significant market share gains in the mining segment.

We expect the company to deliver 14% volume CGAR over FY2018-21E (expect upside risks to management guidance of 10% volume growth in FY2019E) and gain 150 bps market share over the period led by (1) rising presence in the OTR segment (mining, construction equipment tires) and (2) stronger growth in the OEM segment as BKT is now an approved vendor for all leading global OEMs. BKT has strong brand equity and market share in agri tires globally but has only ~3% market share in the OTR segment due to limited product offerings and distribution network. We believe that BKT can leverage its strengths to gain market share in the mining segment over the next few years. Key steps taken by the company to achieve its goal are: (1) launch of >39 inch mining equipment tires (developed through in-house R&D), which have been well-accepted in both OEM and replacement markets and (2) network expansion through tie-ups with mining service providers.

Multiple drivers to sustain 30%+ EBITDA margin over the next few years

We believe that the Street's concerns on the company's ability to sustain 30%+ EBITDA margin over the next few years are not justified as there are multiple tailwinds, which augur well for the overall profitability. Key margin drivers are – (1) a richer product mix led by a higher share of mining tires. We believe that with increased acceptance of BKT's higher-sized mining tires over the next 3-5 years, pricing can improve resulting in higher profitability. As per our understanding, mining tires could be ~15% more profitable than agriculture tires due to lower competition and higher realization, (2) strong pricing power to pass on RM cost pressures, (3) backward integration benefits as the company is setting up a carbon black manufacturing plant (EBITDA margin benefit of 100-125 bps), (4) benefits from rupee depreciation and (5) operating leverage benefits.

Nishit Jalan

Hitesh Goel

Exhibit 1: Demand for both agri. and mining tyres improved in CY2017; Michelin expects 7-10% growth in mining segment in CY2018E
Global OHT industry demand across segments (Indexed to 100 for CY2009), December calendar year-ends, 2010-20E

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2020E
Indexed to 2009 base (mn tons)											
Agri tire demand (NA and Europe)	100	100	114	104	99	95	87	87	91		96
Yoy (%)	-	-	14.0	(8.8)	(4.8)	(4.0)	(8.0)	-	4.0		
Global mining tire demand	100	109	121	134	138	121	111	101	116	127	131
Yoy (%)	-	9.0	11.0	10.7	3.0	(12.3)	(8.3)	(9.0)	15.0	7-10	
Global infrastructure and OE tire demand (NA and Europe)	100	143	188	181	128	142	143	n/a	n/a	n/a	n/a
Yoy (%)	-	43.0	31.5	(3.7)	(29.3)	10.9	1.0	n/a	n/a	n/a	n/a

Source: Michelin, Kotak Institutional Equities estimates

Exhibit 1: Global OHT makers have also reported volume ramp-up over the last 4-5 quarters

Quarterly revenues in USD, and yoy growth trend for key OHT players, December calendar year-ends (US\$ mn, %)

	1QCY14	2QCY14	3QCY14	4QCY14	1QCY15	2QCY15	3QCY15	4QCY15	1QCY16	2QCY16	3QCY16	4QCY16	1QCY17	2QCY17	3QCY17	4QCY17	1QCY18
Michelin (a)	1,062	1,101	954	846	869	885	808	710	813	825	762	738	903	997	931	955	1,324
Trelleborg (b)	174	158	140	125	135	135	126	120	136	177	216	208	261	268	245	264	309
Titan International	539	524	450	383	402	376	309	308	322	330	306	307	358	364	371	376	425
BKT (c)	162	161	154	165	168	155	113	119	149	144	143	137	157	165	184	179	203
Yoy growth (%)																	
Michelin	(2)	(6)	(6)	(4)	(18)	(20)	(15)	(16)	(6)	(7)	(6)	4	11	21	22	29	22
Trelleborg	2	(5)	(11)	(16)	(23)	(15)	(10)	(4)	1	1	1	1	8	8	7	7	4
Titan International	(7)	(12)	(10)	(22)	(25)	(28)	(31)	(20)	(20)	(12)	(1)	(0)	11	10	21	22	19
BKT	11	8	18	20	4	(4)	(26)	(28)	(11)	(7)	26	15	5	15	29	31	29

Notes:

- (a) Data pertains to revenues from speciality tires division
(b) Data pertains to revenues from wheel systems division
(c) Data corresponds to March fiscal year-ends

Source: Companies, Kotak Institutional Equities

Exhibit 3: We expect BKT to continue to gain market share in the global off-highway tire (OHT) market

Global OHT industry demand and BKT's volume and market share, December calendar year-ends, 2010-20E (US\$ bn, %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Global OHT tire market (USD bn)											
OTR segment (Infrastructure, OE and mining)	9.3	11.5	11.6	9.5	8.8	8.1	7.5	8.4	9.3	9.7	10.1
Agriculture	4.2	4.8	4.4	4.1	3.9	3.5	3.4	3.6	3.8	3.9	4.0
Global Off-highway tire market	13.4	16.3	16.0	13.6	12.7	11.5	10.9	12.1	13.1	13.7	14.2
Yoy growth (%)											
OTR segment (Infrastructure, OE and mining)		24.3	0.8	(18.2)	(7.2)	(8.2)	(7.5)	12.8	10.0	5.0	4.0
Agriculture		14.0	(8.8)	(4.8)	(5.9)	(11.4)	(1.9)	7.0	5.0	3.0	3.0
Global Off-highway tire market		21.1	(2.0)	(14.6)	(6.8)	(9.2)	(5.8)	11.0	8.5	4.4	3.7
BKT volumes (tons)											
OTR segment (Infrastructure, OE and mining)	39,254	50,071	52,480	52,246	56,098	54,577	64,853	74,966	91,151	112,303	131,290
Agriculture	72,290	82,968	85,859	90,564	98,058	92,958	107,567	124,247	139,157	153,072	165,318
Total BKT volumes	111,544	133,039	138,339	142,810	154,156	147,535	172,420	199,213	230,308	265,375	296,608
Yoy growth (%)											
OTR segment (Infrastructure, OE and mining)		27.6	4.8	(0.4)	7.4	(2.7)	18.8	15.6	21.6	23.2	16.9
Agriculture		14.8	3.5	5.5	8.3	(5.2)	15.7	15.5	12.0	10.0	8.0
Total BKT volumes		19.3	4.0	3.2	7.9	(4.3)	16.9	15.5	15.6	15.2	11.8
BKT's market share (%)											
OTR segment (Infrastructure, OE and mining)	1.9	2.2	2.2	2.6	3.0	2.6	3.2	3.6	4.1	4.7	5.0
Agriculture	6.2	7.0	7.7	8.3	9.3	8.3	9.3	10.4	11.0	11.8	12.4
Global Off-highway tire market share	3.2	3.6	3.7	4.3	4.9	4.3	5.1	5.6	6.1	6.7	7.1

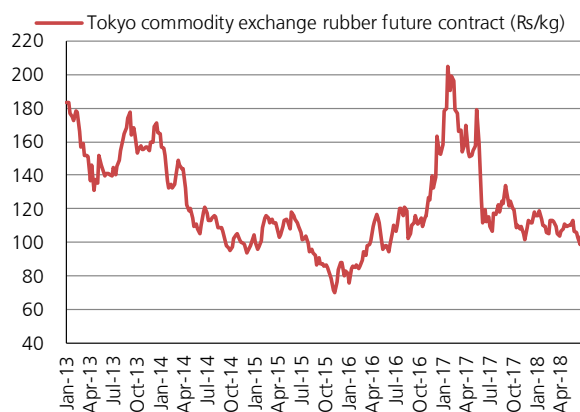
Notes:

- (1) For BKT, FY2011-21E data (year-ending March) represents CY2010-20E data

Source: Titan International, Michelin, Company, Kotak Institutional Equities estimates

Exhibit 4: International rubber prices remain steady at lower levels

Tokyo commodity exchange rubber future contract, 2013-18 (₹ per kg)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 5: Synthetic rubber prices have inched higher over the last 1-2 months

NNS Synthetic rubber prices, Korea, 2013-18 (₹ per kg)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 6: Both natural and synthetic rubber prices are largely steady at lower levels

Natural rubber and synthetic rubber prices, March fiscal year-ends, 1QFY16-1QFY18 (₹ per kg, %)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
RSS4-natural rubber (Rs/kg)	129	113	109	100	132	135	125	152	132	133	129	125	124
QoQ chg (%)	3.2	(12.5)	(3.6)	(8.5)	32.4	2.2	(7.1)	21.3	(13.3)	0.7	(2.8)	(2.9)	(1.5)
Tokyo generic first rubber price (Rs/kg)	111	95	81	88	104	113	131	179	145	120	112	111	107
QoQ chg (%)	3.0	(14.7)	(14.3)	8.9	18.0	8.1	15.9	37.1	(19.1)	(17.2)	(7.1)	(0.2)	(3.6)
Synthetic rubber prices (Rs/kg)	120	102	99	103	120	116	133	200	155	150	132	124	135
QoQ chg (%)	0.8	(15.1)	(2.9)	4.3	16.8	(3.3)	14.4	50.8	(22.8)	(2.9)	(12.1)	(6.0)	8.9

Source: Bloomberg, Kotak Institutional Equities

Exhibit 7: We expect BKT to deliver 14% volume CAGR over FY2018-21 period; mining segment will be key growth driver

Historical volume growth across segments and forecasts, March fiscal year-ends, 2010-20E (tons, %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	CAGR (%)		
													2010-18	2018-21E	
Segment-wise volumes (tons)															
Agricultural	55,731	72,290	82,968	85,859	90,564	98,058	92,958	107,567	124,247	139,157	153,072	165,318		10.5	10.0
OTR (Industrial, mining, construction)	23,986	32,506	45,229	47,394	47,683	50,492	49,752	58,230	67,289	82,093	101,795	119,100		13.8	21.0
Others	4,737	6,748	4,842	5,086	4,563	5,606	4,825	6,623	7,677	9,059	10,508	12,190		6.2	16.7
Total volumes	84,454	111,544	133,039	138,339	142,810	154,156	147,535	172,420	199,213	230,308	265,375	296,608		11.3	14.2
Channel-wise volumes (tons)															
OEM	11,320	15,241	19,310	20,268	28,337	33,534	34,629	40,516	51,055	61,777	73,514	86,011		20.7	19.0
Replacement	67,964	89,854	106,850	112,278	108,777	114,866	109,511	127,172	142,325	163,674	186,588	205,247		9.7	13.0
Off-take (contract manufacturing)	5,170	6,449	6,879	5,794	5,695	5,756	3,395	4,732	5,833	4,858	5,273	5,349		1.5	(2.8)
Total volumes	84,454	111,544	133,039	138,340	142,809	154,156	147,535	172,420	199,213	230,308	265,375	296,608		11.3	14.2
Region-wise volumes (tons)															
Europe	42,699	53,238	61,802	65,990	75,589	82,865	81,468	93,456	107,299	123,394	140,669	157,549		12.2	13.7
America	15,567	25,274	33,650	32,071	26,645	28,955	22,669	26,404	29,840	34,316	40,150	45,369		8.5	15.0
Rest of World	16,790	21,729	25,754	28,332	28,500	23,266	21,831	25,667	29,235	33,620	38,663	43,303		7.2	14.0
India	9,398	11,302	11,833	11,946	12,076	19,070	21,567	26,893	32,839	38,978	45,893	50,386		16.9	15.3
Total volumes	84,454	111,543	133,039	138,339	142,810	154,156	147,535	172,420	199,213	230,308	265,375	296,608		11.3	14.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: We expect EBITDA margin to remain strong over the next two years

Our assumptions for BKT, consolidated, March fiscal year-ends, 2011-20E

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Volumes (MT)	111,544	133,039	138,339	142,810	154,156	147,535	172,420	199,213	230,308	265,375	296,608
Sales (Rs mn)	21,921	29,987	33,804	36,808	40,586	35,305	37,923	46,648	56,145	65,276	73,356
EBITDA (Rs mn)	3,675	4,940	6,689	8,896	9,689	11,133	12,150	13,466	17,007	20,383	22,672
RMs (Rs mn)	13,249	18,174	18,947	18,219	19,784	14,192	15,796	21,432	25,125	28,915	32,625
Net sales per kg	196.5	225.4	244.4	257.7	263.3	239.3	219.9	234.2	243.8	246.0	247.3
RM per kg (Rs)	118.8	136.6	137.0	127.6	128.3	96.2	91.6	107.6	109.1	109.0	110.0
EBITDA per kg (Rs)	32.9	37.1	48.3	62.3	62.9	75.5	70.5	67.6	73.8	76.8	76.4
EBITDA margin (%)	16.8	16.5	19.8	24.2	23.9	31.5	32.0	28.9	30.3	31.2	30.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: We expect BKT to deliver 24% EPS CAGR over FY2018-21E

Profit and loss model, cash flow statement and balance sheet for BKT, consolidated, March fiscal year-ends, 2011-21E (₹ mn)

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)											
Sales	21,921	29,987	33,804	36,808	40,586	35,305	37,923	46,648	56,145	65,276	73,356
EBITDA	3,675	4,940	6,689	8,896	9,689	11,133	12,150	13,466	17,007	20,383	22,672
Other income	204	220	45	141	382	(1,173)	1,696	948	1,162	1,472	1,592
Interest	(223)	(292)	(274)	(272)	(476)	(395)	(220)	(139)	(100)	(74)	(49)
Depreciation	(773)	(864)	(1,122)	(1,703)	(2,437)	(2,823)	(3,040)	(3,114)	(3,378)	(3,562)	(3,703)
Profit before tax	2,882	4,004	5,338	7,062	7,159	6,743	10,586	11,160	14,690	18,219	20,511
Tax expense	(936)	(1,315)	(1,839)	(2,316)	(2,408)	(2,285)	(3,418)	(3,803)	(4,793)	(5,939)	(6,683)
PAT	1,946	2,689	3,499	4,747	4,751	4,457	7,169	7,358	9,897	12,280	13,828
Adjusted PAT	1,946	2,689	3,499	4,747	4,751	6,040	6,897	7,229	9,785	12,196	13,744
Adjusted EPS	10.1	13.9	18.1	24.6	24.6	31.2	35.7	37.4	50.6	63.1	71.1
Balance sheet (Rs mn)											
Equity	8,614	11,101	14,430	18,951	22,760	27,749	35,429	40,834	49,708	60,861	73,451
Deferred tax liability	603	667	1,067	1,796	1,887	2,459	3,529	3,289	3,289	3,289	3,289
Total borrowings	6,215	17,092	21,640	24,385	23,578	18,983	13,909	8,675	6,330	4,330	2,330
Current liabilities and provisions	6,318	4,520	4,371	5,089	4,958	4,794	5,025	5,985	6,998	7,998	8,925
Total liabilities	21,749	33,379	41,507	50,220	53,184	53,984	57,891	58,782	66,324	76,478	87,994
Net fixed assets	7,812	13,498	23,479	29,546	30,494	30,984	29,584	29,678	29,800	30,237	38,534
Investments	138	25	33	3,702	4,441	8,273	13,492	11,027	11,027	11,027	11,027
Cash & cash equivalents	123	3,698	2,780	149	4,342	3,300	248	334	6,045	13,696	15,089
Other current assets	13,677	16,159	15,215	16,823	13,906	11,428	14,567	17,743	19,453	21,517	23,344
Total assets	21,749	33,380	41,507	50,220	53,184	53,984	57,891	58,782	66,324	76,477	87,994
Free cash flow (Rs mn)											
Operating cash flow excl. working capital	2,642	3,374	4,938	7,089	7,405	8,097	9,351	9,561	12,114	14,370	15,939
Working capital changes	(2,149)	(2,832)	273	(1,355)	1,959	2,267	(1,111)	(2,154)	(696)	(1,065)	(900)
Capital expenditure	(2,306)	(7,049)	(10,143)	(8,866)	(3,708)	(2,424)	(1,849)	(4,203)	(3,500)	(4,000)	(12,000)
Free cash flow	(1,813)	(6,507)	(4,932)	(3,131)	5,656	7,940	6,391	3,204	7,918	9,305	3,040
Ratios											
EBITDA margin (%)	16.8	16.5	19.8	24.2	23.9	31.5	32.0	28.9	30.3	31.2	30.9
PAT margin (%)	8.9	9.0	10.4	12.9	11.7	17.1	18.2	15.5	17.4	18.7	18.7
Net debt/equity (X)	0.69	1.20	1.30	1.08	0.65	0.27	0.00	(0.07)	(0.22)	(0.34)	(0.32)
Book value (Rs/share)	44.6	57.4	74.7	98.0	117.7	143.6	183.3	211.2	257.2	314.9	380.0
RoAE (%)	25.2	27.3	27.4	28.4	22.8	23.9	21.8	19.0	21.6	22.1	20.5
RoACE (%)	15.4	14.0	12.6	13.3	12.5	15.1	17.4	18.5	23.8	28.5	28.4

Source: Company, Kotak Institutional Equities estimates

JULY 02, 2018

UPDATE

 Coverage view: **Attractive**

 Price (₹): **568**

 Target price (₹): **700**

 BSE-30: **35,423**

European JV—closing the deal. TATA signed a definitive agreement with ThyssenKrupp (TK) for its European operations with revised terms which entitles TK to receive higher IPO proceeds (55:45) during secondary sales. TATA's effective economic interest is reduced to 45% given TATA will only receive 50% of dividends for a few years until the IPO. Save for lower equity, we believe the JV will be positive given the company's increased leverage and synergy benefits. We revise TP to ₹700 (₹710 earlier). Maintain ADD.

Company data and valuation summary

Tata Steel

Stock data

52-week range (Rs) (high,low) 748-492

Market Cap. (Rs bn) 650.3

Shareholding pattern (%)

Promoters 33.2

FIs 19.6

MFs 13.7

Price performance (%)

	1M	3M	12M
Absolute	(1.3)	(0.6)	12.6
Rel. to BSE-30	(2.6)	(7.5)	(1.9)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	67.3	69.4	82.2
EPS growth (%)	62.6	3.1	18.4
P/E (X)	8.4	8.2	6.9
Sales (Rs bn)	1,317.0	1,542.4	1,017.6
Net profits (Rs bn)	81.1	83.6	99.0
EBITDA (Rs bn)	218.9	267.9	225.5
EV/EBITDA (X)	6.2	6.2	6.3
ROE (%)	17.2	13.1	13.9
Div. Yield (%)	1.7	1.8	1.8

TATA freezes 50:50 Europe steel JV; ThyssenKrupp to receive higher IPO proceeds at 55% share

Tata Steel and ThyssenKrupp (TK) signed a definitive agreement to create a 50:50 joint-venture combining their European steel operations. The terms of agreement are largely similar to those indicated in the MOU signed in September 2017, save for (1) ThyssenKrupp will receive a higher share of IPO proceeds, reflecting an economic ratio of 55:45 (in favor of TK), and (2) the companies now expect recurring synergies of €400-500 mn (€400-600 mn earlier).

The higher share of IPO proceeds to TK largely reflects the valuation gap from divergent earnings performance between the two companies since the MOU was signed in September 2017. We highlight the following on the mechanics of sharing of dividend, IPO proceeds:

- ▶ **50% dividend to each company till IPO.** Until the IPO, both the companies will own 50% stake in the JV and hence will be entitled to equal dividends. TK in its release stated that the JV would have an attractive "dividend commitment (ramp-up to low-to-mid 3-digit €/m)".
- ▶ **TK has exclusive rights** to decide the timing of the potential IPO.
- ▶ **TK will receive higher IPO proceeds.** To monetize higher proceeds from the IPO, TK will be issued warrants equivalent to 10% of equity capital of the JV. We understand these warrants will be issued without consideration save for any statutory requirements. In case of secondary sale at the time of the IPO, TK can claim the proceeds for the first 10% of the equity sale and the balance proceeds can be split equally so that both the entities retain similar equity in the JV.

TATA's economic interest reduced to ~45%; closing of JV a positive for company's leverage

Given that TK and TATA will receive dividends equally but TK will claim higher IPO proceeds, we believe it would make sense for TK to go for a secondary IPO sale as early as possible to maximize NPV of its cash flows. Perhaps the companies may wait to realize the full benefit of potential synergies of €400-500 mn which can then reflect in higher valuations—but this may take 2-3 years to be fully realized. As such, TATA's effective economic interest will be 50% of dividend for the next ~2-3 years (but until the IPO) and thereafter essentially 45% economic stake.

While TATA had to settle for lower economic stake in the JV, we believe it is overall positive for company's financials as it can now transfer €2.5 bn of debt to the JV, especially after an increase in the company's leverage post acquisition of Bhushan Steel. We incorporate changes due to the European JV in our estimates and cut TP to ₹700 (₹710 earlier). Maintain ADD rating.

Abhishek Poddar

Samrat Verma

Other key points, highlights from the conference call:

- ▶ **At least six years to hold more than 50% in JV.** The companies have also agreed to hold more than 50% in the JV for at least six years.
- ▶ **IPO timing and synergies.** As per management, there is no lock-in period for the IPO though it may be based on accrual of synergies that can be important for valuations. TK has the right to exclusively decide on the timing of the IPO.
- ▶ **Synergies likely to accrue in next 2-3 years.** The €400-500 mn of potential synergies will be led by savings in:
 - Selling and administration costs led by (1) merging of activities, (2) combining sales network, and (3) reduction of non-personnel costs.
 - Procurement and logistics costs led by (1) economies of scale, (2) inbound logistics optimization, and (3) supplier and product mix optimization.
 - Downstream network which includes (1) focus on higher value added products, (2) bundling of maintenance and network services and (3) network structure optimization.

The cost synergies will include rationalization of up to 4,000 jobs which is expected to be shared equally between the two parties. As per management, close to 1/3rd of the cost synergies are in procurement services which can be realized early (in 1-2 years). Also, network optimization benefits can start accruing in the first 12 months. Tata Steel's management expects a large part of the synergies to be realized within 12-24 months.

- ▶ **Liabilities to be transferred to the JV.** There is no change for the liabilities to be transferred to the JV by both the companies since the MOU. TATA will transfer debt of €2.5 bn while TK will transfer pension liabilities of close to €4 bn (largely pension liabilities). The management highlighted that cash outflows pertaining to pension liabilities will be close to €200 mn—we note this will be reflected in employee as well as interest costs. The management believes pension liability related payments can drop-off significantly after 10 years.
- ▶ **Capex for the JV.** The capex for the combined entity, on a sustainable basis will be close to €800-900 mn.
- ▶ **Timelines of closing of the deal.** The management has maintained its internal target to complete the transaction by the end of this year (December 2018).
- ▶ **Other details of JV.** The JV will be named Thyssenkrupp Tata Steel B.V. and will be headquartered in Amsterdam, Netherlands. The Board will have equal representation from TK and TATA. The merger will create an entity that will be the second largest European flat steel business after Arcelor Mittal.

Pro-forma financials—€1.7 bn of EBITDA and €6.5 bn of liabilities

Exhibit 1 highlights the combined pro-forma financials of TATA-TK based on trailing 12 months earnings. We estimate €1.7 bn of EBITDA, €630 mn of depreciation, and €980 mn of capital expenditure. We understand the capex expenditure is higher for these 1-2 years due to improvement plans at various sites. The EBITDA can improve to €2-2.1 bn with full synergy benefits.

Exhibit 2 highlights our estimates of ThyssenKrupp Tata Steel BV Joint venture. We incorporate JV financials from FY2020E onwards (assuming the approvals are received by March 2019). We build –in 50% synergies (of €400 mn at lower end) in FY2020E and 70% in FY2021E. The transaction is earnings accretive due to synergy benefits.

Changes in our estimate

Exhibit 4 highlights key changes in our estimates.

We assume FY2019E financials including Tata Steel Europe as wholly owned subsidiary (as is the present state). However, we assume JV to start operating as one entity from FY2020E and accordingly deconsolidated European operations from our estimates while we add share of profit from JV to the net-income only. Note that in our income statement, revenues, EBITDA, interest cost as well as depreciation now appears lower from FY2020E due to deconsolidation of Europe steel financials.

- **Changes in income statement.** Our FY2019E estimates remain unchanged. Thereafter, our consolidated EBITDA estimate is thus reduced by 19-20% due to exclusion of European steel EBITDA to ₹226 bn, ₹232 bn for FY2020E, FY2021E. Our EPS though increases by 12-14% due to inclusion of synergy benefits in the JV—we estimate EPS of ₹82.2, ₹91.2 for FY2020E, FY2021E.

Note that we incorporate synergy benefits of € 200 mn in FY2020E and €280 mn in FY2021E.

- **Changes in leverage.** We estimate consolidated net-debt to decline to ₹770 bn in FY2020E after increasing to ₹1,000 bn in FY2019E (due to acquisition of Bhushan Steel). Note that our estimate of decline in net-debt in FY2020E reflects (1) transfer of €2.5 bn to the JV, and (2) free-cash-flows earned during the year.

We estimate TATA's net-debt/EBITDA at 3.7X/3.4X on FY2019/2020E financials. The FY2020E leverage ratio should also be seen in the context of additional dividends to be received from the European JV. We believe if we assume a pay-out ratio of close to 60%, TATA can receive a dividend of close to €200 mn for its share—the final dividend will depend on the board's decision. We note that there is a 15% dividend tax rate in the Netherlands.

Exhibit 1: Thyssenkrupp & Tata Steel financials indicate pro-forma EBITDA of € 1.7 bn for FY2018E
Pro-forma and historical financials of European steel business of Tata Steel and ThyssenKrupp, (€ mn)

(€ mn)	June year ending				March	FY2018
	2014	2015	2016	2017	2018	
ThyssenKrupp Steel Europe						JV : Pro-forma
Revenues	8,857	8,697	7,633	8,915	9,204	16,732
EBITDA	620	899	715	957	1,199	1,701
Depreciation	413	409	401	410	413	631
EBIT	216	492	315	547	786	1,071
Capital expenditures	404	457	393	566	NA	980
Shipments (mn tons)	11.4	11.7	11.2	11.4	11.3	21.3
EBITDA/ton	54	77	64	84	106	80

(€ mn)	March year ending				
	2014	2015	2016	2017	2018
Tata Steel Europe					
Revenues	10,144	10,015	7,456	7,067	7,528
EBITDA	283	366	(212)	642	502
Depreciation	491	463	332	231	218
EBIT	(207)	(97)	(543)	411	285
Capital expenditures	398	392	421	441	413
Shipments (mn tons)	13.9	13.7	11.0	9.9	10.0
EBITDA/ton	20	27	(19)	65	50

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: We estimate JV's net-income at ~US\$700 mn in FY2020E assuming 50% accrual of synergies
Earnings forecast for ThyssenKrupp Tata Steel BV Joint venture, March fiscal year-ends (€ mn, US\$ mn)

	March year ending			
	2018	2019E	2020E	2021E
	(€ mn)			
JV-- ThyssenKrupp Tata Steel B V				
Revenues	16,732	17,104	17,123	17,162
EBITDA	1,701	1,667	1,685	1,684
Assumed synergy benefits	—	—	200	280
Adjusted EBITDA	1,701	1,667	1,885	1,964
Depreciation	628	634	636	638
EBIT	1,074	1,033	1,249	1,326
Interest cost	230	229	230	225
Profit before tax	844	804	1,019	1,101
Tax	236	225	285	308
Profit after tax	607	579	734	793
Shipments (mn tons)	21.3	21.7	21.7	21.7
EBITDA/ton	80	77	87	91
Debt, pension liabilities	6,500	6,487	6,505	6,416
	(US\$ mn)			
JV-- ThyssenKrupp Tata Steel B V				
Revenues	19,590	19,669	19,692	19,736
EBITDA	1,992	1,917	2,168	2,259
PAT	711	666	844	912
Share of profit: Tata Steel	—	—	422	456
EBITDA/ton	93	89	100	104
Debt, pension liabilities	7,610	7,460	7,481	7,378

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Tata Steel's leverage ratio will improve in FY2020E led by transfer of € 2.5 bn debt to JV
Tata Steel consolidated leverage details, March fiscal year ends (Rs mn), FY2016-21E (X)

	2016	2017	2018	2019E	2020E	2021E
Existing						
EBITDA (Rs mn)	79,683	170,078	218,905	267,893	225,501	232,394
Net debt (Rs mn)	731,855	744,767	714,900	1,003,919	769,875	736,428
Net debt/ EBITDA (X)	9.2	4.4	3.3	3.7	3.4	3.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Tata Steel, changes in estimates, March fiscal year ends, FY2017-19E

	Revised estimates			Old estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Earnings (consolidated)									
Net sales	1,542,394	1,017,648	1,053,717	1,542,394	1,623,628	1,670,005	—	(37)	(37)
EBITDA	267,893	225,501	232,394	267,893	280,686	288,051	—	(20)	(19)
Adj. PAT	83,564	98,960	109,807	83,564	88,031	96,513	—	12	14
EPS (Rs)	69.4	82.2	91.2	69.4	73.1	80.1	—	12	14
Volumes									
India (mn tons)	12.5	12.8	13.1	12.5	12.8	13.1	—	—	—
Pricing									
HRC prices - China (US\$/ton)	540	500	500	540	500	500	—	—	—
Re/US\$ rate	67.6	68.0	69.0	67.6	68.0	69.0	—	—	—
Tata Steel India									
Net sales	622,067	620,709	640,360	622,067	620,709	640,360	—	—	—
EBITDA	181,122	167,752	171,729	181,122	167,752	171,729	—	—	—
EBITDA/ton	14,490	13,106	13,109	14,490	13,106	13,109	—	—	—
Re/US\$ rate	67.6	68.0	69.0	67.6	68.0	69.0	—	—	—
Tata Steel Europe									
Net sales	601,999	—	—	601,999	605,980	616,288	—	(100)	(100)
EBITDA	53,353	—	—	53,353	55,185	55,657	—	(100)	(100)
EBITDA/ton	78	—	—	78	80	80	—	(100)	(100)
JV --- thyssenkrupp Tata Steel BV									
Volumes (mn tons)	—	21.7	21.7	—	—	—	—	—	—
Net sales (US\$ mn)	—	19,692	19,736	—	—	—	—	—	—
EBITDA (US\$ mn)	—	2,168	2,259	—	—	—	—	—	—
EBITDA/ton (US\$)	—	100	104	—	—	—	—	—	—
PAT (US\$ mn)	—	844	912	—	—	—	—	—	—
Share of profit (US\$ mn)	—	422	456	—	—	—	—	—	—

Source: Kotak Institutional Equities estimates

Exhibit 5: Tata Steel, Key assumptions, March fiscal-year ends, FY2016 - 2021E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Tata Steel (India)						
Average HRC Price (US\$/ton)	307	435	540	540	500	500
Crude Steel capacity (mn tons)	9.7	12.7	12.7	12.7	12.9	13.1
Volume (mn tons)	9.5	11.0	12.2	12.5	12.8	13.1
EBITDA margin (%)	19.9	24.7	26.7	29.1	27.0	26.8
EBITDA/ton (Rs/ton)	7,976	10,823	12,987	14,490	13,106	13,109
Europe						
Average HRC Price (US\$/ton)	751	781	882	880	—	—
Premium over HRC Price (US\$/ton)	352	267	263	261	—	—
Crude Steel capacity (mn tons)	12.1	12.1	12.1	12.1	—	—
Volume (mn tons)	11.0	9.9	10.0	10.1	—	—
EBITDA margin (%)	(2.8)	9.1	6.7	8.9	—	—
EBITDA/ton (US\$/ton)	(21)	71	59	78	—	—
Bhushan Steel						
Volume (mn tons)	2.9	3.3	3.6	4.0	5.0	5.2
EBITDA margin (%)	17.5	21.3	13.0	17.1	21.7	21.5
EBITDA/ton (Rs/ton)	7,181	8,855	6,200	7,985	10,104	10,180
JV : ThyssenKrupp Tata Steel						
Volumes (mn tons)	—	—	—	—	21.7	21.7
Net sales (US\$ mn)	—	—	—	—	19,692	19,736
EBITDA (US\$ mn)	—	—	—	—	2,168	2,259
EBITDA/ton (US\$)	—	—	—	—	100	104
PAT (US\$ mn)	—	—	—	—	844	912
Tata Steel: share of profit (US\$ mn)	—	—	—	—	422	456

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Tata Steel, valuation, March fiscal year-ends, March 2020E basis (Rs mn)

	<u>EBITDA</u> <u>(Rs mn)</u>	<u>Multiple</u> <u>(X)</u>	<u>Enterprise value</u> <u>(Rs mn)</u>	<u>EV</u> <u>(Rs/share)</u>
FY2020E EBITDA	223,661	6.5	1,442,613	1,198
Total Enterprise Value	223,661		1,442,613	1,198
Consolidated net-debt			769,875	
Total borrowings			769,875	639
Arrived market capitalization			672,738	559
Add: Value of investments			4,028	3
Add: Equity value in European JV			169,127	140
Arrived market capitalization			845,893	702
Target price (Rs)				700

Source: Kotak Institutional Equities estimates

Exhibit 7: Tata Steel (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2016-2021E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)						
Net sales	1,019,647	1,122,994	1,317,003	1,542,394	1,017,648	1,053,717
EBITDA	79,683	170,078	218,905	267,893	225,501	232,394
Other income	4,122	5,275	9,095	11,522	11,570	14,223
Interest	(42,214)	(50,722)	(55,018)	(78,638)	(70,530)	(66,905)
Depreciation	(53,064)	(56,729)	(59,617)	(75,681)	(62,465)	(63,751)
Profit before tax	(11,472)	67,902	113,365	125,096	104,076	115,961
Extraordinaries	39,904	(43,242)	95,991	—	—	—
Taxes	(6,900)	(27,780)	(34,054)	(42,533)	(33,304)	(37,108)
Profit after tax	21,532	(3,120)	175,303	82,564	70,772	78,854
Minority interest	1,143	(722)	(43,285)	(500)	(500)	(500)
Share in profit/(loss) of associates	(1,104)	77	1,741	1,500	28,688	31,453
Reported net income	21,571	(3,766)	133,759	83,564	98,960	109,807
Adjusted net income	(19,480)	40,200	81,052	83,564	98,960	109,807
Fully diluted EPS (Rs)	(20.1)	41.4	67.3	69.4	82.2	91.2
Balance sheet (Rs mn)						
Equity	414,576	355,443	585,956	691,464	730,433	825,744
Deferred tax liability	87,934	91,442	95,341	129,096	124,781	121,398
Total Borrowings	840,354	850,709	937,783	1,269,783	1,024,283	994,283
Current liabilities	418,167	410,863	458,776	608,609	438,724	449,166
Minority interest	7,809	16,017	9,365	9,865	10,365	10,865
Total liabilities	1,768,840	1,724,475	2,087,222	2,708,817	2,328,587	2,401,456
Net fixed assets	681,322	885,118	921,079	1,346,166	1,117,133	1,087,745
Capital work in progress	359,961	157,841	166,144	230,076	278,007	348,475
Goodwill	40,676	34,947	40,995	40,995	—	—
Investments	108,227	125,367	178,995	184,194	199,866	217,050
Cash	61,863	49,211	79,379	122,359	110,903	114,350
Other current assets	516,791	471,989	700,631	785,027	622,677	633,836
Total assets	1,768,840	1,724,475	2,087,222	2,708,817	2,328,586	2,401,455
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	473	112,319	52,124	156,261	141,937	153,491
Working capital changes	61,656	(48,907)	11,606	20,623	(7,534)	(718)
Capital expenditure	(99,328)	(74,269)	(74,000)	(106,432)	(81,362)	(104,831)
Free cash flow	(37,199)	(10,858)	(10,270)	70,452	53,040	47,943
Ratios						
EBITDA margin (%)	7.8	15.1	16.6	17.4	22.2	22.1
EBIT margin (%)	2.6	10.1	12.1	12.5	16.0	16.0
Debt/equity (X)	2.0	2.4	1.6	1.8	1.4	1.2
Net debt/equity (X)	1.8	2.1	1.2	1.5	1.1	0.9
Net debt/EBITDA (X)	9.2	4.4	3.3	3.7	3.4	3.2
P/B (X)	1.3	1.5	1.2	1.0	0.9	0.8
RoAE (%)	(5.4)	10.4	17.2	13.1	13.9	14.1
RoACE (%)	2.4	7.1	8.3	7.9	6.3	6.7
Net debt	731,855	744,767	714,900	1,003,919	769,875	736,428

Source: Company, Kotak Institutional Equities estimates

JULY 02, 2018

UPDATE

Coverage view:

Price (₹): 1,089

Target price (₹): 1,430

BSE-30: 35,423

Riding out the storm. Indigo's stock price has corrected materially over the past three months due to higher ATF prices and a weaker rupee. We believe yields may take time to fully adjust to these adverse macro trends; this leads to a 5-10% cut in our FY2019-21 EPS estimates and a revised TP of ₹1,430 (₹1,500 earlier). Our long-term view of structural growth in passenger volume and Indigo's strong positioning within the industry remains unchanged, driving our positive view on the stock.

Company data and valuation summary

InterGlobe Aviation

Stock data		Forecasts/Valuations			
		2018	2019E	2020E	
52-week range (Rs) (high,low)	1,520-1,022	EPS (Rs)	58.6	71.3	98.1
Market Cap. (Rs bn)	418.4	EPS growth (%)	27.2	21.8	37.5
Shareholding pattern (%)		P/E (X)	18.6	15.3	11.1
Promoters	74.9	Sales (Rs bn)	230.2	305.1	362.4
FIs	12.6	Net profits (Rs bn)	22.4	27.3	37.5
MFs	7.4	EBITDA (Rs bn)	29.6	36.8	52.6
Price performance (%)		EV/EBITDA (X)	10.5	8.6	5.9
Absolute	1M (10.6) 3M (15.6) 12M (12.0)	ROE (%)	41.3	33.0	33.8
Rel. to BSE-30	(11.8) (21.5) (23.3)	Div. Yield (%)	0.6	0.7	0.9

Crude price and currency headwinds impact Indigo's stock price

Indigo's stock price has corrected by 16% over the past three months on 14% increase in ATF prices, and a weaker rupee which impacts other costs such as lease rentals. Till these macro factors stabilize, stock momentum may remain subdued. We believe current uncertainty provides a good opportunity for long-term investors to accumulate the stock.

Recent yield trends are encouraging, though 1HFY19 may still be subdued

Our channel checks suggest that ticket prices during April-May 2018 remained weak due to higher discounting by Indigo's peers looking to boost near-term revenues. Recent trends have however been encouraging: (1) Indigo's ₹200-400 fuel surcharge per ticket was matched by competitors, (2) most airlines have increased baggage charges thereby boosting ancillary revenues. We believe these measures led to improved yields June 2018 onwards; a more significant increase in yields may however come through post the seasonally weak 2Q.

Management changes: distracting, but unlikely to impact operations

Indigo has seen several key executives leave the company over the past two months, including Aditya Ghosh (ex-CEO), Sanjay Kumar (ex-CCO) and Sanjiv Bhalla (Chief of pilot training and quality). We are, however, not worried about the attrition given several new hires over the past six months as well as founders' involvement. Greg Taylor has succeeded Aditya and is the CEO-designate, and William Boulter, the Chief Strategy Officer, will additionally assume the CCO's role. Further, even though Indigo is yet to place orders for larger aircraft, we believe hiring of expats for key roles is indicative of its strategy to expand its LCC offering to international routes.

Retain BUY: long-term view remains unchanged

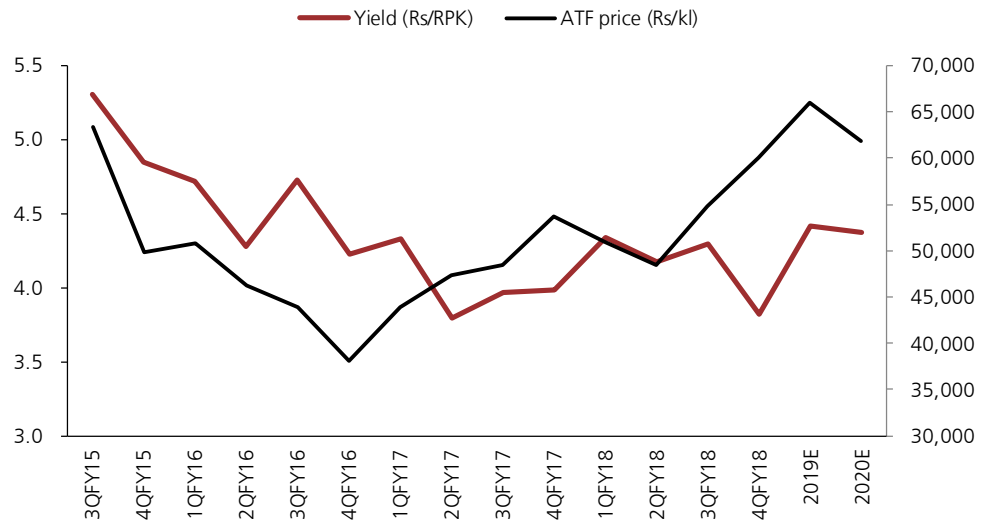
We trim our FY2019-21 EPS by 5-10% as we assume lower RASK-CASK on account of higher ATF prices and a weaker rupee. However, normalization of these over the medium term (our house view pegs crude price at US\$72.5 in FY2019 and US\$67.5 in FY2020), coupled with our view of structural long-term growth in passenger volumes leads us to retain a positive view on the name. Earnings revision lead to a revised TP of ₹1,430 based on 14X June 2020 P/E (₹1,500 based on 14X March 2020 P/E earlier).

Garima Mishra

Yields often increase with a lag in periods of rising crude prices

As seen below, yields often increase with a lag in periods of rising crude prices. This was true between 4QFY15-4QFY16, when ATF prices rose by 40%, while RASK-CASK took 5-6 quarters to catch-up.

Exhibit 1: There is some lag between crude price increase and yield increase
Trend of quarterly ATF price and Indigo's yields, March fiscal year-ends

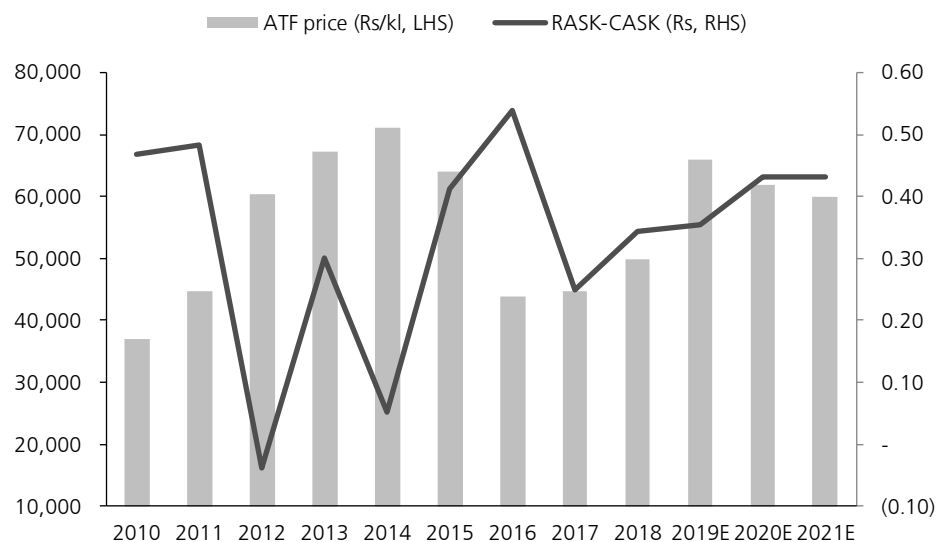


Source: Company, Kotak Institutional Equities estimates

Current scenario may put pressure on margins as: (1) yields may increase slower than ATF prices, and (2) weaker airlines, in order to boost short-term cash flows, may shy away from raising ticket prices.

This lag in price alignment drives a 5-10% cut in our FY2019-21 EPS. Our FY2020-21 RASK-CASK estimate is aligned to a more normalized crude price and currency scenario.

Exhibit 2: Our future spread assumptions reflect a normalized earnings scenario
ATF price and Indigo's RASK-CASK, March fiscal year-ends



Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Lower margin assumptions drive a 5-10% EPS cut

Details of earnings changes of Indigo, March fiscal year-ends

	New			Old			Change (%)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Financials									
Revenues (Rs mn)	305,086	362,442	426,601	293,681	356,646	421,448	4	2	1
EBITDAR (Rs mn)	81,971	106,791	126,320	85,466	109,823	127,042	(4)	(3)	(1)
EBITDA (Rs mn)	36,798	52,574	63,201	40,902	56,671	65,522	(10)	(7)	(4)
PAT (Rs mn)	27,301	37,530	43,654	30,274	40,832	45,953	(10)	(8)	(5)
EPS (Rs)	71.3	98.1	114.1	79.1	106.7	120.1	(10)	(8)	(5)
Operating metrics									
ASKs (mn)	79,395	96,549	114,279	79,395	96,549	114,279	—	—	—
Yield (Rs/ASK)	4.4	4.4	4.4	4.2	4.3	4.3	4	2	1
Load factor (%)	87	86	85	87	86	85	—	—	—
RASK-CASK	0.35	0.43	0.43	0.41	0.47	0.45	(13)	(9)	(5)

Source: Kotak Institutional Equities estimates

Exhibit 4: Key assumptions for Indigo, March fiscal year-ends

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
USD/INR rate	48	54	61	61	66	67	65	67	68	68
Crude price, Dated Brent (US\$/bbl)	114	111	108	86	47	49	57	73	68	65
Indigo's fleet size	55	66	77	94	107	131	159	204	244	286
Indigo's ASKs (mn units)	18,006	24,977	29,968	35,327	42,826	54,583	63,512	79,395	96,549	114,279
Yoy growth (%)	44	39	20	18	21	27	16	25	22	18
Indigo RPKs (mn units)	14,826	20,260	23,135	28,177	35,968	46,288	55,522	69,125	82,950	97,052
Yoy growth (%)	39	37	14	22	28	29	18	25	20	17
Load factor (%)	82	81	77	80	84	85	87	87	86	85
Average ticket price (Rs)	3,911	4,895	5,071	4,882	4,248	3,721	3,842	4,111	4,070	4,094
Yoy growth (%)	9	25	4	(4)	(13)	(12)	3	7	(1)	1
Yield (Rs per RPK)	3.8	4.5	4.8	4.9	4.5	4.0	4.1	4.4	4.4	4.4
Yoy growth (%)	4	21	6	3	(9)	(11)	3	6	(1)	1
Ancillary revenues (as % of ticket revenues)	11.6	11.3	12.0	13.3	14.8	14.7	15.4	14.8	14.8	14.8
RASK-CASK (Rs)	(0.0)	0.3	0.1	0.4	0.5	0.2	0.3	0.4	0.4	0.4
EBITDAR margins ex-fuel cost (%)	66.9	71.3	69.2	68.7	64.5	62.5	62.2	65.5	65.1	64.4

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Summary financials of Indigo, March fiscal year-ends (Rs mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)										
Sales	55,647	92,031	111,166	139,253	161,399	185,805	230,209	305,086	362,442	426,601
EBITDAR	8,496	22,498	21,769	38,219	56,247	52,687	65,667	81,971	106,791	126,320
EBITDA	489	8,936	5,066	18,697	30,125	21,432	29,564	36,798	52,574	63,201
Other income	1,440	2,371	3,155	3,838	5,151	7,891	9,469	10,070	10,944	11,734
Interest	(514)	(578)	(1,226)	(1,155)	(3,041)	(3,308)	(3,398)	(2,690)	(2,690)	(2,690)
Depreciation	(665)	(856)	(2,260)	(3,022)	(5,055)	(4,573)	(4,369)	(5,995)	(8,339)	(11,190)
Profit before tax	749	9,873	4,736	18,357	27,181	21,443	31,266	38,183	52,490	61,055
Tax expense	657	(2,040)	9	(5,402)	(8,373)	(4,852)	(8,843)	(10,882)	(14,960)	(17,401)
Extraordinary items	—	—	—	—	—	—	—	—	—	—
PAT	1,406	7,834	4,744	12,956	18,807	16,591	22,423	27,301	37,530	43,654
Year-end number of shares	307	307	307	307	360	360	383	383	383	383
Fully diluted number of shares	344	344	344	344	351	360	383	383	383	383
EPS-fully diluted (Rs)	4.1	22.8	13.8	37.7	53.6	46.0	58.6	71.3	98.1	114.1
Balance sheet (Rs mn)										
Equity	2,433	3,890	4,076	4,207	27,232	37,792	70,774	94,710	127,615	165,888
Total borrowings	10,156	18,004	33,462	39,262	30,071	23,957	22,414	22,414	22,414	22,414
Deferred incentives	11,804	15,304	17,533	17,516	15,832	21,838	26,017	33,712	40,959	47,790
Other long term liabilities	2,952	8,004	13,869	24,784	20,302	25,602	36,297	43,475	49,535	55,248
Current liabilities and provisions	9,126	13,322	22,075	21,914	32,750	42,908	55,791	71,395	74,750	76,132
Total liabilities	36,471	58,525	91,015	107,682	126,187	152,098	211,293	265,706	315,272	367,472
Net fixed assets	8,860	17,713	39,560	48,765	47,794	38,190	46,113	94,575	128,667	167,021
Investments	4,523	10,105	22,309	27,237	22,318	19,443	18,865	22,596	25,746	28,715
Cash & cash equivalent	18,322	24,789	23,730	25,161	47,048	83,459	129,245	124,676	132,513	138,372
Loans and advances/other current assets	4,765	5,917	5,417	6,519	9,027	11,005	17,070	23,860	28,346	33,363
Total assets	36,471	58,525	91,015	107,682	126,187	152,098	211,293	265,706	315,272	367,472
Free cash flow (Rs mn)										
Operating cash flow	422	7,717	4,604	15,966	19,730	16,582	20,722	25,916	37,615	45,800
Working capital changes	8,535	9,696	11,309	7,765	7,082	22,361	22,269	19,956	9,026	5,940
Capital expenditure	(331)	(9,153)	(23,237)	(10,170)	(4,084)	5,031	(12,291)	(54,456)	(42,432)	(49,544)
Free cash flow	8,626	8,260	(7,324)	13,561	22,728	43,974	30,700	(8,584)	4,208	2,196
Ratios (%)										
EBITDAR	15.3	24.4	19.6	27.4	34.8	28.4	28.5	26.9	29.5	29.6
EBITDA margin	0.9	9.7	4.6	13.4	18.7	11.5	12.8	12.1	14.5	14.8
Net debt/equity (X)	(0.0)	0.8	4.1	6.6	(0.1)	(1.5)	(0.7)	(0.4)	(0.3)	(0.3)
Book value (R/share)	7.1	11.3	11.9	12.2	77.7	104.9	184.9	247.5	333.4	433.4
ROAE	57.8	201.4	116.4	308.0	72.9	43.9	31.7	28.8	29.4	26.3
ROACE	20.7	85.6	13.4	32.3	71.9	NM	NM	NM	NM	NM

Source: Company, Kotak Institutional Equities estimates

JULY 2, 2018

UPDATE

BSE-30: 35,423

Mixed for Tier-1; strong for mid-tier companies. Seasonal strength will reflect in a strong June 2018 quarter for TCS and Infosys, even as revenue growth will be weak across other Tier-1 companies. Mid-tier companies will continue with the strong show led by ramp-up of large deals. The banking vertical will continue to be a challenge and dampen expectations of material acceleration in industry growth; we forecast modest 1-2% acceleration. IT stocks had a strong run with many stocks outside the value zone while some face execution challenges. The ones that are in a sweet spot of improving execution and modest expectations are our top picks, viz. Infosys and Tech Mahindra.

Tier-1—TCS will report strong growth; Infosys to show an improvement, others will falter

June is a seasonally strong quarter except for Tech Mahindra. Yet performance will be mixed across companies. TCS will report 3.7% c/c revenue growth powered by ramp-up of recently won large deals. Infosys will likely report 2.7% c/c revenue growth largely due to seasonal strength and ramp-up of deals won in 2HFY18. Customer-specific challenges and slipping execution will result in 1.2% c/c revenue decline for Wipro. HCLT will likely report 3.1% c/c growth led by consolidation of C3i acquisition; organic growth will likely be weak. Tech Mahindra's June quarter is seasonally weak due to decline in Comviva revenues; the challenge could be compounded due to high base in the enterprise segment in March 2018 quarter.

Rupee depreciation to provide tailwind to margin; cross-currency is a headwind though

USD has strengthened against most currencies. This will create cross-currency headwind of 100-180 bps for Tier-1 IT companies. However, rupee depreciation of 4% in the quarter more than offset this headwind. Net result is 50-100 bps kicker to EBIT margin. Historically EBIT margin dips by 200 bps sequentially for companies that announce wage increase in June quarter. The impact will be lower this time around; further helping quarterly margin is lower H-1B visa applications by IT companies. Net result—100 bps sequential EBIT margin decline for Infosys and TCS. EBIT margin for IT companies will increase/be stable on yoy comparison due to currency depreciation.

Mid-cap companies to maintain strong revenue growth

Mid-tier companies will report 3-5% c/c sequential revenue growth and 11-20% on yoy comparison. The growth will be buoyed with share gains in existing large clients, growth from the top client (high revenue concentration for them from the top client) and benefits of large deals signed in the past 9-12 months. We expect yoy increase in EBITDA margin for our coverage universe buoyed by rupee depreciation and low base of the previous year. We like Mindtree and L&T Infotech's positioning in digital services.

Banking vertical—no revival in sight

Demand trends in the banking vertical will be of particular focus. IT spending of banks continues to grow at a robust rate. However, insourcing and ramp-up of India captive centers by large US and Swiss banks have impacted revenues for Tier-1 IT companies with the possible exception of Wipro. With weak demand trend continuing towards mid of the calendar year, it is difficult to expect a recovery in banking growth for the rest of the fiscal. Weak banking demand is not a surprise for us but could be a source of negative surprise for the Street. Spending in the rest of the verticals except retail is robust. We maintain our stance of moderately higher (1-2%) industry revenue growth in FY2019.

Kawaljeet Saluja

Jaykumar Doshi

Rupee continues to power stock performance

Indian IT stocks had a strong run in the past six months on the back of—(1) expectations of a strong FY2019, (2) rupee depreciation and (3) portfolio allocation call by investors wherein they attempted to correct the underweight position. Of these, expectations of a strong FY2019 are unlikely to be met. In fact, at least three of the top five IT companies will end up with similar or lower growth in FY2019. In the normal course, pressure on revenue growth creates challenges on margin defense. However, that concern is off the table in the near term due to rupee depreciation. INR movement will continue to power IT stock performance in the near term. The Infosys stock is one that is still relatively inexpensive and is on track to achieve financial milestones laid out by them. Tech Mahindra will have its share of quarterly volatility (and in fact report poor growth in 1QFY19) but on track for better growth in the communications vertical and margin expansion in FY2019. Both these stocks are our key picks in the sector.

Comments on individual companies

- ▶ **Infosys.** We expect constant-currency revenue growth of 2.7% and cross-currency headwind of 100 bps. 1Q is a seasonally strong quarter due to higher billing days and allocation of budgets to programs. We expect sequential EBIT margin decline of 100 bps due to wage revision and higher visa costs. This will be offset to some extent by rupee depreciation. Expect Infosys to maintain a constant-currency revenue growth guidance of 6-8% and an EBIT margin guidance band of 22-24%. The company is unlikely to increase the guidance band on the back of rupee depreciation though the margins may end up being closer to the upper-end of the band for FY2019. Progress made to catch up with competition in digital will be keenly tracked. Organizational distractions have led to delay in competency development and mindshare in some aspects of digital for Infosys. We expect investor focus on (1) growth from financial services vertical, (2) TCV of deal wins that has been rather weak, (3) leadership attrition that seems to have reached worrying levels, (4) account mining metrics and (5) pricing outlook and progress on automation.
- ▶ **TCS.** We expect constant-currency revenue growth of 3.7% and cross-currency headwind of 120 bps. Growth will be led by seasonal strength and ramp-up of large deals won in 2HFY18. All verticals, barring banking, will report healthy growth. The impact of wage revision will be 200 bps, which will be partly offset by depreciation of rupee. EBIT margin will increase on yoy comparison aided by rupee depreciation. Net profit growth is an impressive 17% led by acceleration in growth and currency tailwind. We expect investor focus on (1) demand outlook, especially in the BFS vertical, (2) ramp-up timeframe of recently won large deals, (3) EBIT margin outlook in light of ramp-up of recently won large deals and (4) increase in digital deal sizes.
- ▶ **Wipro.** We expect constant-currency revenue decline of 1.2% and cross-currency headwind of 120 bps resulting in 2.5% revenue decline in USD terms. The reasons for a weak quarter are—(1) further ramp-down in HPS business, (2) full impact of insolvency of two large clients and (3) delay in ramp-up of large deals. 4QFY18 EBIT margin was impacted to the extent of 160 bps due to a client insolvency and one-off impairment charge taken due to weak HPS performance. Expect adjusted EBIT margin to increase on a sequential basis largely due to depreciation of rupee against non-USD currencies. Expect Wipro to guide for 0-2% revenue growth for September 2018 quarter in constant-currency basis. We expect investor focus on (1) way forward after a disappointing 1QFY19, (2) state of demand from weak utilities, healthcare and communications vertical, (3) measures taken to defend share in core areas of competence, i.e. IMS, ERD and BPO, and (4) drivers of margin.

- ▶ **HCLT.** Decomposition of revenue growth is as follows—(1) organic constant-currency revenue growth rate of 1.1%, (2) contribution from C3i acquisition of US\$40 mn or 2% and (3) cross-currency headwind of 180 bps. EBIT margin to be largely stable. Benefit of rupee depreciation against non-USD currencies will be offset by lower margin profile of acquisitions and weak growth. Expect the company to maintain 9.5-11.5% constant-currency revenue growth guidance. Composition of growth guidance is 4.25-6.25% from acquisitions with the balance from acquisitions and potential acquisitions in FY2019E. Expect investor focus on (1) progress on deal closures in IMS, an area that has witnessed slowdown, (2) capital allocation in light of aggressive M&A targets of the company, (3) synergy benefits and performance of inorganic initiatives and (4) investments and strategy to catch up with competition in digital.
- ▶ **Tech Mahindra.** Expect constant-currency revenue decline of 1% and cross-currency headwind of 100 bps. The telecom vertical will continue to be weak and decline due to seasonal weakness in Comviva portfolio. Enterprise segment will be largely flattish. EBIT margin will decline 150 qoq due to—(1) wage revision, (2) additional visa costs and (3) seasonal weakness in Comviva business that drags down margins. The impact of these three factors will be offset to some extent due to rupee depreciation. We forecast forex gain of US\$7 mn, down from US\$27 mn in 4QFY18. We expect investors to focus on (1) demand outlook, especially for the telecom vertical in light of continued weakness from the top account, (2) growth outlook in light of weak start to the year, (3) deal pipeline and wins in the telecom vertical, (4) 5G opportunity and (5) M&A strategy and capital allocation.

Exhibit 1: Currency movement in June 2018 quarter

	INR/USD	USD/GBP	USD/EUR	USD/AUD	JPY/USD
Depreciation of currencies against the US Dollar					
Mar-18 quarter avg. rate	64.5	1.41	1.23	0.79	108.4
Jun-18 quarter avg. rate	67.2	1.36	1.19	0.76	109.2
Appr/ (Depr) (%)	(3.9)	(3.6)	(3.2)	(4.3)	(0.7)
	INR/USD	INR/GBP	INR/EUR	INR/AUD	JPY/INR
Appreciation of the Rupee against other currencies					
Mar-18 quarter avg. rate	64.5	90.9	79.3	51.0	1.7
Jun-18 quarter avg. rate	67.2	91.3	80.0	50.8	1.6
Appr/ (Depr) (%)	(3.9)	(0.4)	(0.8)	0.3	(3.3)

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 2: Cross-currency headwinds in 1QFY19E

	Currency-wise revenue mix (a)					Impact in bps on US\$ revenue growth
	US	Europe		Rest of the world		
	USD	GBP	EUR	AUD	Others	
TCS	53	13	10	23		(119)
Infosys	66	5	12	8	8	(103)
Wipro	58	10	9	5	18	(117)
HCL Tech	62	9	22		8	(180)
Tech M	49	12	12	5	22	(100)
L&T Infotech	66		19		15	(129)
Mindtree	71		21		8	(62)
Hexaware	75		13		12	(42)
Mphasis	79		11		10	(61)

Notes:

(a) As per disclosures for Infosys, TCS, Wipro, HCLT and Tech M; assumed to be in line with geographic mix for other companies.

Source: Company, Bloomberg

Exhibit 3: Results preview for the quarter ending June 2018 (Rs mn)

Financials	Jun-17	Mar-18	Jun-18E	qoq (%)	yoy (%)	Comments/what to look for
TCS (July 10, 2018)						
Revenues (US\$ mn)	4,591	4,972	5,091	2.4	10.9	We expect constant currency (c/c) revenue growth of 3.7% and cross currency headwind of 120 bps. Growth will be led by seasonal strength and ramp up of large deals won in 2HFY18. All verticals, barring banking, will report healthy growth
Revenues	295,840	320,750	341,828	6.6	15.5	Impact of wage revision will be 200 bps which will be partly offset by depreciation of rupee. EBIT margin will increase on yoy comparison aided by rupee depreciation
EBITDA	74,120	86,520	89,076	3.0	20.2	
Adjusted net profit	59,450	69,040	69,525	0.7	16.9	Net profit growth is an impressive 17% led by acceleration in growth and currency tailwind.
EBITDA margin (%)	25.1	27.0	26.1	(92) bps	100 bps	We expect investor focus on (1) demand outlook especially in BFS vertical (2) ramp up timeframe of recently won large deals, (3) EBIT margin outlook in light of ramp up of recently won large deals and (4) increase in digital deal sizes
EBIT margin (%)	23.4	25.4	24.5	(90) bps	113 bps	
Wipro (July 20, 2018)						
Total revenues	136,614	138,243	141,097	2.1	3.3	Expect constant currency revenue decline of 1.2% and cross currency headwind of 120 bps resulting in 2.5% revenue decline in USD terms
Global IT revenues (US\$ mn)	1,735	1,814	1,770	(2.4)	2.0	Reasons for weak quarter are—(1) further ramp down in HPS business, (2) full impact of insolvency of two large clients and (3) delay in ramp up of large deals
Global IT revenues	130,256	134,119	134,628	0.4	3.4	4QFY18 EBIT margin was impacted to the extent of 160 bps due to a client insolvency and one-off impairment charge taken due to weak HPS performance. Expect adjusted EBIT margin to increase largely due to depreciation of rupee against non-USD currencies
EBIT	22,093	19,385	22,417	15.6	1.5	Expect Wipro to guide for 0-2% revenue growth for Sep 2018 quarter in c/c basis
Adj. net profit	20,765	18,028	19,966	10.8	(3.8)	We expect investor focus on (1) way forward after disappointing 1QFY19, (2) state of demand from weak utilities, healthcare and communications vertical, (3) measures taken to defend share in core areas of competence, i.e. IMS, ERD and BPO, and (4) drivers of margin
Total EBIT margin (%)	16.2	14.0	15.9	187 bps	(28) bps	
Global IT - EBITDA margin (%)	20.6	18.7	20.4	176 bps	(20) bps	
Global IT - EBIT margin (%)	16.8	14.4	16.7	224 bps	(17) bps	
Infosys (July 13, 2018)						
Revenues (US\$ mn)	2,651	2,805	2,853	1.7	7.6	We expect constant currency revenue growth of 2.7% and cross currency headwind of 100 bps. 1Q is a seasonally strong quarter due to higher billing days and allocation of budgets to programs
Revenues	170,780	180,830	191,588	5.9	12.2	Expect EBIT margin decline of 100 bps due to wage revision and higher visa costs. This will be offset to some extent by rupee depreciation
EBITDA	45,610	49,300	49,939	1.3	9.5	Expect Infosys to maintain c/c revenue growth guidance of 6-8% and EBIT margin guidance band of 22-24%. Company is unlikely to increase guidance band on the back of rupee depreciation though the margins may end up being closer to the upper-end of the band for FY2019
Adjusted net profit	35,540	36,900	37,069	0.5	4.3	Progress made to catch-up with competition in digital will be keenly tracked. Organizational distractions have led to delay in competency development and mindshare in some aspects of digital for Infosys
EBITDA margin (%)	26.7	27.3	26.1	(120) bps	(64) bps	
EBIT margin (%)	24.1	24.7	23.7	(107) bps	(41) bps	We expect investor focus on (1) growth from financial services vertical, (2) TCv of deal wins that has been rather weak, (3) leadership attrition that seems to have reached worrying levels, (4) account mining metrics and (5) pricing outlook and progress on automation
HCL Technologies (4th week of July)						
Revenues (US\$ mn)	1,884	2,038	2,064	1.3	9.6	Decomposition of revenue growth is as follows—(1) organic constant currency revenue growth rate of 1.1%, (2) contribution from C3i acquisition of US\$40 mn or 2% and (3) cross currency headwind of 180 bps
Revenues	121,490	131,790	138,835	5.3	14.3	EBIT margin to be largely stable. Benefit of rupee depreciation against non-USD currencies to be offset by lower margin profile of acquisitions and weak growth
EBITDA	26,801	30,363	31,122	2.5	16.1	Expect company to maintain 9.5-11.5% c/c revenue growth guidance. Composition of growth guidance is 4.25-6.25% from acquisitions with balance from acquisitions and potential acquisitions in FY2019E
Adjusted net profit	21,709	22,267	22,346	0.4	2.9	Expect investor focus on (1) progress on deal closures in IMS, areas which have witnessed slowdown, (2) capital allocation in light of aggressive M&A targets of the company, (3) synergy benefits and performance of inorganic initiatives and (4) investments and strategy to catch up with competition in digital
EBITDA margin (%)	22.1	23.0	22.4	(62) bps	36 bps	
EBIT margin (%)	20.1	19.6	19.6	(1) bps	(53) bps	

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Results preview for the quarter ending June 2018 (Rs mn) (contd)

Financials	Jun-17	Mar-18	Jun-18E	qoq (%)	yoy (%)	
Tech Mahindra (July 30, 2018)						
Revenues (US\$ mn)	1,138	1,244	1,220	(2.0)	7.2	Expect c/c revenue decline of 1% and cross currency headwind of 100 bps. Telecom vertical will continue to be weak and decline due to seasonal weakness in Comviva portfolio. Enterprise segment will be largely flattish
Revenues	73,361	80,545	81,917	1.7	11.7	EBIT margin to decline 150 qoq due to—(1) wage revision, (2) additional visa costs, (3) seasonal weakness in Comviva business that drags down margins. The impact of these three factors will be offset to some extent due to rupee depreciation
EBITDA	9,347	14,119	12,891	(8.7)	37.9	We forecast forex gain of US\$7 mn, down from US\$27 mn in 4QFY18
Adjusted net profit	7,985	12,221	8,660	(29.1)	8.5	We expect investors to focus on (1) demand outlook especially for telecom vertical especially in light of continued weakness from the top account, (2) growth outlook in light of weak start to the year, (3) deal pipeline and wins in telecom vertical, (4) 5G opportunity, and (5) M&A strategy and capital allocation
EBITDA margin (%)	12.7	17.5	15.7	(179) bps	300 bps	
EBIT margin (%)	9.4	13.8	12.3	(149) bps	296 bps	
L&T Infotech (July 23, 2018)						
Revenues (US\$ mn)	259	309	314	1.6	21.1	We expect c/c revenue growth of 2.9% and cross currency headwind of 130 bps. Depreciation of rupee, South African rand, AUD and other currencies against USD will lead to high cross-currency headwind. June quarter is seasonally weak for the company; hence the growth may not be as strong as March 2018 quarter
Revenues	16,707	20,012	21,076	5.3	26.1	March 2018 quarter had one-off cost of commercial settlement with a client of 250 bps. Expect EBITDA margin increase of 100 bps over adjusted EBITDA margin of March 2018 quarter. Increase will be led by—(1) rupee depreciation and (2) lower pass-through revenues
EBITDA (excl forex gains)	2,798	2,920	3,809	30.4	36.1	We expect Fx gain to decline sharply to Rs412 mn from Rs910 mn of the previous quarter. LTI hedges cash flows through forward contracts; gains on these contracts will reduce after the recent rupee depreciation
Adjusted net profit	2,672	2,895	3,048	5.3	14.1	Expect investor focus on (1) demand outlook especially in the top-10 accounts, (2) growth in digital services, (3) capital allocation, (4) M&A strategy and (5) hedging gains carried forward in OCI in light of rupee depreciation
EBITDA margin (%)	16.7	14.6	18.1	348 bps	133 bps	
EBIT margin (%)	14.4	12.8	16.1	333 bps	173 bps	
Mindtree (July 18, 2018)						
Revenues (US\$ mn)	200.1	226.2	232.8	2.9	16.3	We expect revenue growth of 3.5% in constant currency. Growth will likely be broad-based, a sharp contrast to the past where top client drove most of the incremental revenues. Expect cross currency headwind of 62 bps
Revenues	12,895	14,640	15,632	6.8	21.2	Expect 190 bps sequential decline in EBIT margin due to wage revision and visa costs. This will be offset by rupee depreciation
EBITDA	1,435	2,355	2,214	(6.0)	54.3	We expect healthy TCV signings led by conversion of deals in the pipeline. Mindtree's customer relationships, progress in digital and engagement with deal advisories continue to be strong
Adjusted net profit	1,217	1,822	1,466	(19.6)	20.4	We expect investor focus on (1) deal wins and pipeline, (2) composition of growth especially given the heavy reliance on top client for growth, and (3) performance of acquired entities, viz. Bluefin and Magnet 360
EBITDA margin (%)	11.1	16.1	14.2	(192) bps	303 bps	
EBIT margin (%)	7.6	13.5	11.6	(190) bps	400 bps	
Hexaware Technologies (July 24, 2018)						
Revenues (US\$ mn)	152.6	162.2	170.1	4.9	11.5	We expect c/c revenue growth of 5.4% led by seasonal strength and continued ramp up of large deals
Revenues	9,836	10,490	11,422	8.9	16.1	EBIT margin will increase due to higher utilization rate and rupee depreciation
EBITDA	1,598	1,626	1,875	15.3	17.4	Performance of large accounts will be closely monitored after hiccups in the last two quarters
Adjusted net profit	1,224	1,343	1,452	8.2	18.7	Expect investor focus on (1) momentum in professional services and enterprise solutions business, (2) momentum in TCVs of net new business, and (3) deal wins and progress in IMS and BPO practices
EBITDA margin (%)	16.2	15.5	16.4	92 bps	17 bps	
EBIT margin (%)	14.7	14.1	14.9	87 bps	28 bps	
Mphasis						
Revenues (US\$ mn)	231	264	274	3.6	18.5	Expect strong growth led by DxC and Blackstone portfolio of companies
Revenues	15,360	17,445	18,374	5.3	19.6	Aggressive hedging implies that the company may not gain much from rupee depreciation in the quarter
EBITDA	2,295	3,095	3,179	2.7	38.5	Investor focus will remain on (1) deal wins in direct channel and confidence on sustenance of growth in direct core and DXC channel, (2) outlook for Digital Risk, (3) deal progress from Blackstone portfolio companies, (4) sustainability of hedging gains and its impact on margins in FY2019 and (5) dividend policy and cash utilization strategy
Adjusted net profit	1,872	2,507	2,508	0.0	34.0	
EBITDA margin (%)	14.9	17.7	17.3	(44) bps	236 bps	
EBIT margin (%)	13.8	16.8	16.4	(40) bps	260 bps	

Notes:

(a) Result dates are yet to be announced for some companies.

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Kotak Institutional Equities: valuation summary of key Indian technology companies

Company	29-Jun-18		Mkt cap.		EPS (Rs)			P/E (X)			EV/EBITDA (X)			RoE (%)		
	Price (Rs)	Rating	(Rs m)	(US\$ m)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E
HCL Technologies	926	REDUCE	1,289,698	18,807	62.3	67.9	71.3	14.9	13.6	13.0	10.4	8.8	8.0	24.8	23.8	21.9
Hexaware Technologies	459	SELL	136,327	1,988	16.4	19.8	22.2	28.0	23.2	20.6	20.0	16.8	14.3	26.6	27.8	27.0
Infosys	1,307	ADD	2,854,108	41,620	64.6	69.8	76.5	20.2	18.7	17.1	14.0	12.8	11.5	21.8	22.7	23.1
L&T Infotech	1,671	ADD	287,497	4,192	63.5	72.8	84.2	26.3	23.0	19.8	22.9	17.1	14.3	31.8	30.0	29.0
Mindtree	986	ADD	161,781	2,359	34.5	42.6	52.4	28.6	23.2	18.8	20.7	14.5	11.8	21.4	23.6	24.9
Mphasis	1,084	SELL	209,586	3,056	43.9	51.9	56.2	24.7	20.9	19.3	17.8	14.4	12.8	14.6	17.4	17.1
TCS	1,848	REDUCE	7,074,250	103,161	67.5	77.6	84.4	27.4	23.8	21.9	20.3	17.3	15.7	29.4	32.7	33.1
Tech Mahindra	655	ADD	578,500	8,436	42.6	45.5	52.6	15.4	14.4	12.5	11.3	8.7	7.1	21.5	19.9	19.7
Wipro	262	REDUCE	1,183,022	17,251	16.9	18.8	21.4	15.4	13.9	12.2	9.7	8.2	7.1	16.0	16.3	16.6
Technology			13,774,768	200,872				21.5	19.6	17.8	15.6	13.4	12.0	23.7	23.5	23.5
KIE universe			106,364,664	1,550,724				26.4	20.4	16.3	12.3	10.4	9.2	11.0	12.9	14.6

Company	Target	O/S shares (mn)	EPS CAGR (%)	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)		
	Price (Rs)			2017-20E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E
HCL Technologies	1,010	1,409	6.4	5.3	9.0	5.0	87,783	94,699	99,605	114,392	132,698	139,512	505,700	586,623	639,186
Hexaware Technologies	420	304	17.5	19.8	20.5	12.5	4,994	6,020	6,770	6,554	7,692	8,853	39,420	46,408	53,547
Infosys	1,350	2,175	6.8	3.0	8.1	9.5	145,960	151,896	166,295	190,100	206,470	225,919	705,220	798,574	875,218
L&T Infotech	1,650	175	14.7	13.9	14.5	15.7	11,120	12,753	14,757	11,876	15,684	18,322	73,065	88,450	102,050
Mindtree	1,015	165	27.9	37.8	23.2	23.2	5,701	6,992	8,612	7,405	10,369	12,486	54,628	65,767	74,914
Mphasis	760	193	13.6	14.4	18.3	8.2	8,477	10,028	10,853	10,596	12,901	14,170	65,459	76,151	84,791
TCS	1,650	3,829	8.2	1.1	15.0	8.8	258,260	296,267	322,415	325,160	380,548	414,946	1,231,040	1,418,443	1,554,308
Tech Mahindra	775	891	18.0	33.1	6.6	15.8	38,000	40,516	46,897	47,170	58,697	67,374	307,730	347,477	378,801
Wipro	295	4,507	7.0	(3.1)	11.1	13.7	80,081	84,821	96,476	105,277	115,414	127,121	546,359	573,697	613,778
Technology				1.6	9.9	9.8	640,376	703,991	772,681	818,530	940,473	1,028,702	3,528,621	4,001,590	4,376,592

Source: Company, Kotak Institutional Equities estimates

JULY 02, 2018

UPDATE

BSE-30: 35,423

GST: Higher compliance, not-so-higher revenues. GST collections for the month of May increased marginally over April, though the number of GSTR 3B returns filed continued to increase steadily. We could attribute some of the buoyancy in the IGST revenues to better compliance due to the inter-state e-way bill. We await an upside to the CGST and SGST revenues on the back of intra-state e-way bill implementation. Given the current GST run rate of around ₹975 bn, we maintain our FY2019 GFD/GDP estimate at 3.5% against the budgeted 3.3%.

Inter-state e-way bill seems to be having a positive effect

Based on the monthly PIB release, total GST collections stood at ₹956 bn in May compared to ₹940 bn in April. CGST collection amounted to ₹160 bn (April: ₹159 bn), SGST stood at ₹220 bn (₹217 bn), IGST at ₹495 bn (₹491 bn), and compensation cess was at ₹81 bn (₹73 bn). Compared to February collections (March was an aberration given the year-end effect), IGST collections have increased in April and May even as the CGST and SGST collections remained stable (Exhibit 1). In our last GST comment (*GST: Decent April collections but a long way to go*) we had noted that this improvement could be due to the inter-state e-way bill led higher compliance. We await improvement in CGST and SGST on the back of the intra-state e-way bill implementation. June/July collections will likely provide a better sense on this.

Current run-rate fails to provide much comfort on achieving budget estimates

We have been highlighting that the FY2019 budgeted overall GST run rate is around ₹1,043 bn. This includes the budget estimates of center and state governments (Exhibit 2). The FYTD19 run-rate is around ₹976 bn (and falling)—significantly lower than the FY2019BE required run rate for both the center and the states (see Exhibit 3). This implies that the required run-rate for the remaining months will be around ₹1.06-1.07 tn with the asking rate creeping up in case there is significant upside in the near term.

Meeting FY2019 budget will be difficult: government expenditure indicates the stress

We maintain our FY2019 center's GFD/GDP estimate at 3.5% against the budgeted 3.3%. The current GST run rate does not inspire much confidence yet to change our stance on the fiscal. The April-May data of central government's monthly revenues and expenditure shows the stress points on sticking to the budget estimates. The government has barely increased its total expenditure over the same period last year. The good part is that capital expenditure has seen a sharp increase even as the overall expenditure growth has remained muted. Direct taxes (especially corporate taxes on the back of likely higher refunds) have been a drag on revenues while indirect taxes have provided good support (see Exhibit 4). But the government does face an uphill task with 2MFY19 GFD at 55% of budgeted estimate even with revenue expenditure growth at an anemic 0.7% (see Exhibit 5). The revenue crunch is also showing through the issuance of cash-management bills by the government to tide over temporary revenue-expenditure mismatches. In a pre-election year, it would be interesting to see how long this trend can continue. We believe the government will have to eventually open its purse strings, even if revenues fail to meet up to the budget leading to some slippages on the fiscal.

QUICK NUMBERS

- **May GST collection at ₹956 bn; FYTD19 run-rate at ₹976 bn**
- **Required run-rate for rest of FY2019 is around ₹1,065 bn**
- **Maintain our FY2019 GFD/GDP estimate at 3.5%**

Suvodeep Rakshit

Upasna Bhardwaj

Exhibit 1: CGST and SGST stable in May; IGST maintains buoyancy seen in April

Breakup of monthly GST collection (Rs bn)

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
CGST	151	148	145	157	136	145	145	157	187	159	160
SGST	230	216	219	230	193	205	204	214	257	217	220
IGST	481	486	505	448	428	453	447	445	505	491	495
IGST (imports)	213	238	247	223	218	231	229	232	212	244	245
Compensation cess	73	80	82	79	81	86	85	77	86	73	81
Total GST	936	930	951	913	837	889	880	893	1,035	940	956
Total filings (mn)	5.9	5.9	5.7	5.0	5.3	5.6	5.8	6.0	6.0	6.2	6.5

Notes:

(a) Breakdown of GST for July-February is estimated using the same proportion as monthly PIB releases and final total monthly GST collection.

Source: PIB, Kotak Economics Research estimates

Exhibit 2: Required GST run-rate of Rs1,043 bn in FY2019

Summary of GST collections, March fiscal year-ends (Rs bn)

	FY2019BE	Monthly run rate
Center	7,439	620
- CGST	6,039	503
- Unallocated IGST	500	42
Compensation cess	900	75
States	5,078	423
- Andhra Pradesh	75	6
- Assam	47	4
- Bihar	150	13
- Chattisgarh	71	6
- Delhi	234	20
- Gujarat	428	36
- Haryana	238	20
- Jammu and Kashmir	71	6
- Jharkhand	74	6
- Karnataka	417	35
- Kerala	270	23
- Madhya Pradesh	201	17
- Maharashtra	901	75
- Odisha	120	10
- Punjab	214	18
- Rajasthan	210	18
- Tamil Nadu	297	25
- Telengana	260	22
- Uttar Pradesh	494	41
- Uttarakhand	74	6
- West Bengal	131	11
- Others	100	8
Total GST collection	12,517	1,043

Source: PIB, CGA, Kotak Economics Research estimates

Exhibit 3: GST run rates significantly behind their budgeted run rates
Summary of GST collections, March fiscal year-ends (Rs bn)

	Mar-18	Apr-18	May-18
Monthly collections (PIB press releases)			
Center	325	288	316
Center GST (CGST)	187	159	160
Centre's share of IGST (C-IGST)	138	129	157
States	403	340	367
States' GST (SGST)	257	217	220
States' share of IGST (S-IGST)	146	123	147
Unallocated IGST	222	239	192
Compensation cess	86	73	81
Total	1,035	940	956
FYTD collections (incl. CGA adjustments for CGST, SGST, IGST)			
Centre	521	971	1,479
- CGST	321	602	919
- Unallocated IGST	200	369	561
State	428	844	1,211
Compensation cess	85	157	238
Total	1,034	1,973	2,929
FY2019BE			
Centre			6,539
- Unallocated IGST			500
State			5,078
Compensation cess			900
Total			12,517
FY2019E required run rate			
Centre			545
- Unallocated IGST			42
State			423
Compensation cess			75
Total			1,043
FYTD run rate			
Centre	521	486	493
- Unallocated IGST	200	185	187
State	428	422	404
Compensation cess	85	79	79
Total	1,034	986	976

Notes:

(a) Monthly collections are inclusive of monthly IGST transfers.

Source: PIB, CGA, Kotak Economics Research estimates

Exhibit 4: Direct taxes have been a drag on revenues

Monthly receipts of the central government, March fiscal year-ends (Rs bn)

Date	May-18	May-17	Apr-18	Chg. (%)		FYTD (Apr-May)		Chg. (%)
				yoy	mom	2019	2018	yoy
Gross tax revenues	1,008	934	1,133	8	(11)	2,141	1,648	29.9
Direct taxes	143	254	424	(44)	(66)	567	660	(14.1)
Corporation tax	(54)	72	78	(175)	(170)	23	135	(82.7)
Income tax	185	170	341	9	(46)	527	503	4.8
Other taxes	12	13	5	(4)	150	17	22.8	(25.7)
Indirect taxes	342	680	103	(50)	233	1,574	988	59.3
Customs duty	131	225	101	(42)	30	233	431	(46.0)
Excise duty	190	295	(6)	(36)	(3,541)	184	308	(40.2)
Service tax	21	161	7	(87)	201	27	250	(89.0)
GST	523	—	607			1,130	—	
CGST+UGST	282	—	322			604	—	
IGST	169	—	200			369	—	
Compensation cess	72	—	85			157	—	
Net tax revenues	449	446	575	1	(22)	1,024	677	51.3
Non-tax revenues	109	33	131	232	(17)	240	153	56.7
Non-debt capital receipts	2	12	8	(82)	(73)	10	27	(62)

Source: CEIC, CGA, Kotak Economics Research

Exhibit 5: Anemic expenditure growth in FYTD19

Monthly fiscal aggregates of the Indian government, March fiscal year-ends (Rs bn)

Date	May-18	May-17	Apr-18	Chg. (%)		FYTD (Apr-May)		Chg. (%)
				yoy	mom	2019	2018	yoy
Total receipts	560	491	715	14	(22)	1,275	857	48.8
Total expenditure	2,495	2,169	2,234	15	12	4,730	4,590	3.0
Revenue expenditure	2,324	1,930	1,767	20	32	4,092	4,065	0.7
Capital expenditure	171	238	467	(28)	(63)	638	525	21.4
Fiscal deficit	1,935	1,677	1,520	15	27	3,455	3,734	(7.5)
Revenue deficit	1,766	1,451	1,061	22	67	2,827	3,235	(12.6)
Primary deficit	1,355	1,181	1,363	15	(1)	2,719	3,043	(10.7)

Source: CEIC, CGA, Kotak Economics Research

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)		RoE (%)			Dividend yield (%)			ADVT 3mo		
		29-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)
NBFCs																													
Bajaj Finance	REDUCE	2,296	1,850	(19.4)	1,327	19.4	575	46	63	82	38.5	34.9	30.0	49.4	36.6	28.2	—	—	—	8.0	6.7	5.5	20.5	19.9	21.5	0.2	0.3	0.4	42.1
Bajaj Finserv	ADD	5,819	5,900	1.4	926	13.5	159	174	206	266	13.5	18.7	28.8	33.5	28.2	21.9	—	—	—	4.6	3.7	3.2	15.3	14.5	15.6	0.2	0.2	0.2	15.4
Bharat Financial Inclusion	NA	1,157	—	—	161	2.4	139	33	43	54	55.5	31.1	27.2	35.4	27.0	21.2	—	—	—	5.4	4.4	3.6	16.7	17.9	18.5	—	—	—	11.1
Cholamandalam	REDUCE	1,513	1,510	(0.2)	236	3.4	156	62	76	92	35.5	22.3	20.8	24.3	19.9	16.4	—	—	—	4.8	4.0	3.4	20.6	21.0	21.2	0.4	0.6	0.7	7.2
HDFC	BUY	1,908	2,100	10.1	3,209	46.8	1,676	75	58	67	52.1	(23.1)	15.2	25.3	32.9	28.6	—	—	—	5.0	4.3	4.0	23.9	14.3	14.5	1.0	1.1	1.2	70.9
HDFC Standard Life Insurance	SELL	456	405	(11.2)	918	13.4	2,007	6	6	7	24.4	14.8	10.9	82.5	71.8	64.8	—	—	—	21.3	19.0	17.0	27.3	28.0	27.7	0.3	0.3	0.4	15.0
ICICI Lombard	SELL	697	600	(13.9)	316	4.6	454	19	26	30	22.0	36.4	17.0	36.7	26.9	23.0	—	—	—	7.0	5.9	5.0	20.8	23.7	23.5	0.6	0.9	1.1	2.0
ICICI Prudential Life	BUY	377	500	32.5	542	7.9	1,436	11	12	13	(3.7)	3.8	7.6	33.4	32.2	29.9	—	—	—	8.2	6.8	5.8	25.0	23.2	20.9	1.5	0.5	0.6	12.3
IIFL Holdings	SELL	670	625	(6.8)	214	3.1	319	29	34	41	32.4	17.3	21.4	23.5	20.0	16.5	—	—	—	4.2	3.6	3.1	19.0	19.3	20.0	0.9	1.1	1.3	1.7
L&T Finance Holdings	REDUCE	151	185	22.2	302	4.4	1,996	7	10	12	23.7	34.6	24.1	20.6	15.3	12.4	—	—	—	2.4	2.1	1.9	14.2	14.7	16.1	1.2	1.3	1.3	9.8
LIC Housing Finance	BUY	469	610	30.2	237	3.4	505	44	50	58	3.2	13.8	17.5	10.7	9.4	8.0	—	—	—	1.8	1.5	1.3	14.5	14.3	14.4	1.5	1.7	1.9	12.5
Magma Fincorp	BUY	163	200	22.9	44	0.6	237	10	12	15	1,014.5	24.6	25.8	16.7	13.4	10.7	—	—	—	1.7	1.6	1.4	10.2	12.9	14.1	0.5	1.1	1.4	3.1
Mahindra & Mahindra Financial	REDUCE	470	475	1.1	290	4.2	614	15	22	26	105.0	53.5	16.6	32.4	21.1	18.1	—	—	—	3.3	3.0	2.7	11.3	14.0	14.8	0.8	1.3	1.5	12.1
Max Financial Services	BUY	436	650	48.9	117	1.7	268	5	6	6	(20.4)	36.9	1.8	95.2	69.6	68.3	—	—	—	—	—	—	6.5	8.3	8.0	—	0.5	0.5	4.8
Muthoot Finance	ADD	380	480	26.5	152	2.2	400	43	38	40	45.6	(10.8)	4.0	8.8	9.9	9.5	—	—	—	2.0	1.7	1.5	24.1	18.4	16.9	2.6	2.3	2.4	4.6
PNB Housing Finance	REDUCE	1,129	1,375	21.8	189	2.8	167	50	61	77	57.8	23.0	25.3	22.7	18.4	14.7	—	—	—	3.0	2.7	2.4	14.0	15.2	16.8	0.8	0.3	0.3	10.1
SBI Life Insurance	ADD	674	815	20.9	674	9.8	1,000	12	15	18	20.8	26.0	22.9	58.5	46.4	37.7	—	—	—	10.5	8.8	7.4	19.4	20.6	21.3	0.3	0.3	0.4	5.9
Shriram City Union Finance	ADD	2,024	2,550	26.0	134	1.9	66	101	140	174	19.6	39.4	23.8	20.1	14.4	11.6	—	—	—	2.6	2.2	1.9	12.5	15.5	16.7	0.9	0.9	1.1	0.9
Shriram Transport	REDUCE	1,299	1,600	23.1	295	4.3	227	69	105	125	24.7	52.1	18.7	18.8	12.4	10.4	—	—	—	2.5	2.2	1.9	13.1	17.6	18.0	0.8	1.1	1.3	17.8
NBFCs	Neutral				10,283	150					38.0	7.0	19.3	29.9	28.0	23.4				5.0	4.3	3.8	16.8	15.4	16.1	0.7	0.7	0.8	587.3
Cement																													
ACC	SELL	1,340	1,205	(10.1)	252	3.7	188	49	54	66	32.7	10.6	23.0	27.5	24.9	20.2	14.5	13.5	10.8	2.7	2.5	2.3	10.1	10.5	11.9	1.3	1.3	1.3	10.3
Ambuja Cements	REDUCE	207	215	3.6	412	6.0	1,986	8	7	9	29.7	(1.3)	27.0	27.6	28.0	22.0	9.1	9.0	7.3	2.0	1.9	1.8	7.4	7.0	8.6	1.7	1.7	1.7	9.5
Dalmia Bharat	ADD	2,285	2,900	26.9	204	3.0	89	60	98	128	55.4	62.6	30.3	37.9	23.3	17.9	12.0	9.1	7.3	3.3	2.9	2.5	9.7	13.4	15.2	0.1	0.1	0.1	5.3
Grasim Industries	BUY	1,007	1,275	26.6	662	9.7	657	47	43	60	(30.1)	(10.2)	41.3	21.2	23.7	16.8	12.1	7.8	7.1	1.2	1.1	1.0	7.0	4.8	6.4	0.5	0.5	0.5	15.4
India Cements	REDUCE	106	135	27.7	33	0.5	308	3	5	9	(42.5)	56.2	84.4	32.4	20.7	11.2	9.3	8.0	6.3	0.6	0.6	0.6	2.0	3.0	5.3	0.9	0.9	0.9	6.7
J K Cement	REDUCE	874	1,000	14.4	61	0.9	70	43	51	83	25.1	17.0	65.0	20.2	17.3	10.5	10.4	11.1	8.9	3.1	2.7	2.2	16.2	16.7	23.2	0.9	0.9	0.9	0.6
JK Lakshmi Cement	ADD	308	425	37.8	36	0.5	118	4	18	33	(35.7)	311.2	79.6	69.0	16.8	9.3	13.0	7.8	5.5	2.5	2.2	1.8	3.7	14.1	21.5	0.6	0.6	0.6	0.5
Orient Cement	ADD	110	165	50.0	23	0.3	205	2	8	12	237.8	250.7	64.8	50.9	14.5	8.8	11.4	7.3	5.3	2.2	2.0	1.7	4.4	14.3	20.6	0.7	1.4	1.8	0.2
Shree Cement	SELL	15,441	12,700	(17.7)	538	7.8	35	397	486	662	3.4	22.3	36.2	38.9	31.8	23.3	20.8	15.7	12.2	6.0	5.2	4.3	16.7	17.6	20.2	0.3	0.3	0.3	4.9
UltraTech Cement	SELL	3,819	3,000	(21.4)	1,049	15.3	275	89	119	153	(7.0)	33.1	28.9	42.7	32.1	24.9	19.8	15.6	13.0	4.0	3.6	3.2	9.9	12.0	13.7	0.3	0.3	0.3	17.2
Cement	Cautious				3,269	48					6.1	15.4	35.3	31.4	27.2	20.1	14.1	10.5	8.8	2.4	2.2	2.0	7.5	8.1	10.1	0.6	0.6	0.6	70.5

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo		
		29-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)
Consumer products																													
Asian Paints	REDUCE	1,264	1,100	(13.0)	1,213	17.7	959	21	24	28	2.9	18.7	14.7	61.6	51.9	45.3	37.6	32.4	28.1	14.4	12.7	11.4	24.6	26.1	26.6	0.7	0.8	1.0	15.8
Bajaj Corp.	ADD	405	520	28.3	60	0.9	148	14	17	19	(10.5)	18.7	10.5	28.7	24.1	21.8	22.6	19.4	16.5	12.1	11.7	11.2	42.3	49.4	52.4	3.0	3.2	3.5	0.3
Britannia Industries	ADD	6,214	6,000	(3.4)	746	10.9	120	84	104	126	13.5	24.4	21.5	74.3	59.7	49.2	49.1	38.5	31.7	21.9	17.4	14.1	32.9	32.4	31.6	0.4	0.6	0.7	9.3
Coffee Day Enterprises	REDUCE	270	340	25.7	57	0.8	211	3	8	13	49.1	149.7	59.4	80.9	32.4	20.3	13.6	11.9	10.1	2.4	2.2	2.0	3.1	7.2	10.4	—	—	—	1.2
Colgate-Palmolive (India)	ADD	1,185	1,300	9.7	322	4.7	272	24	27	32	15.2	14.6	16.9	49.8	43.5	37.2	28.6	25.0	21.5	21.1	21.3	18.1	46.2	48.8	52.6	2.0	1.4	1.6	7.9
Dabur India	REDUCE	391	350	(10.5)	690	10.1	1,762	8	9	10	7.2	16.1	11.7	50.3	43.3	38.8	42.6	36.9	32.3	12.1	12.1	10.6	25.9	27.9	29.1	1.9	1.0	1.2	8.3
GlaxoSmithKline Consumer	ADD	6,524	6,750	3.5	274	4.0	42	166	189	211	6.6	13.3	11.9	39.2	34.6	30.9	27.0	23.2	20.0	7.9	7.2	6.6	21.2	21.7	22.2	1.1	1.4	1.6	2.6
Godrej Consumer Products	REDUCE	1,226	1,020	(16.8)	835	12.2	681	21	25	28	11.5	17.6	13.3	57.4	48.8	43.1	40.7	34.6	30.2	13.3	11.6	10.0	25.2	25.4	24.9	0.6	0.7	0.8	8.9
Hindustan Unilever	REDUCE	1,641	1,430	(12.9)	3,552	51.8	2,160	25	28	32	25.0	14.9	13.0	66.9	58.2	51.6	48.0	40.5	35.6	50.1	45.0	39.3	78.1	81.4	81.3	1.2	1.3	1.5	26.6
ITC	ADD	266	315	18.3	3,248	47.4	12,235	9	10	11	8.2	8.0	11.6	29.7	27.5	24.7	20.1	18.3	16.3	6.3	6.0	5.7	19.7	20.8	22.6	1.9	2.3	2.7	39.0
Jubilant Foodworks	BUY	1,386	1,500	8.2	183	2.7	132	15	24	33	191.7	64.1	39.2	95.3	58.1	41.7	40.7	28.1	21.1	18.9	13.8	10.6	21.7	27.5	28.8	0.1	0.1	0.2	39.3
Jyothy Laboratories	ADD	237	220	(7.2)	86	1.3	364	4	6	6	35.1	25.4	17.2	53.8	42.9	36.6	32.9	27.2	23.6	7.5	6.5	5.7	14.3	16.3	16.6	0.2	0.4	0.6	1.5
Manpasand Beverages	RS	149	—	—	17	0.2	114	9	12	17	39.5	32.0	43.8	16.8	12.8	8.9	7.5	5.1	3.5	1.4	1.2	1.1	8.4	10.2	13.2	0.3	0.5	1.0	3.2
Marico	ADD	332	345	4.0	428	6.2	1,291	6	7	8	7.4	16.7	13.7	52.9	45.3	39.9	37.3	31.3	27.3	16.8	15.6	14.4	33.2	35.7	37.5	1.2	1.4	1.7	8.2
Nestle India	ADD	9,810	9,500	(3.2)	946	13.8	96	127	168	191	21.1	32.5	13.4	77.2	58.3	51.4	42.4	33.0	29.0	27.7	25.4	23.3	36.6	45.5	47.3	0.9	1.2	1.3	9.2
Page Industries	SELL	27,814	21,000	(24.5)	310	4.5	11	311	392	482	32.5	26.1	22.9	89.4	70.9	57.7	56.9	45.0	37.0	36.6	28.6	22.9	45.9	45.3	44.0	0.5	0.6	0.7	7.6
Pidlite Industries	REDUCE	1,064	1,050	(1.3)	540	7.9	508	18	22	26	7.5	20.4	20.4	59.0	49.0	40.7	39.4	32.8	27.0	15.1	12.7	10.6	26.0	28.2	28.5	0.6	0.7	0.8	14.5
S H Kelkar and Company	BUY	223	315	41.3	32	0.5	145	7	9	11	2.1	18.2	25.9	30.1	25.5	20.2	20.9	16.6	13.2	3.8	3.4	3.0	12.8	14.0	15.7	0.8	0.8	0.9	0.3
Tata Global Beverages	REDUCE	269	285	5.8	170	2.5	631	7	10	11	20.7	29.4	19.1	36.7	28.3	23.8	19.4	16.3	14.0	2.4	2.3	2.2	7.0	8.3	9.4	0.9	1.1	1.3	13.8
Titan Company	SELL	879	800	(9.0)	780	11.4	888	13	16	20	43.3	26.7	20.5	68.7	54.2	45.0	47.1	35.9	28.8	15.3	12.9	10.9	24.3	25.8	26.2	0.4	0.5	0.6	37.5
United Breweries	SELL	1,151	1,000	(13.1)	304	4.4	264	15	19	24	71.6	29.7	23.4	77.1	59.5	48.2	34.0	28.3	24.5	11.3	9.7	8.3	15.7	17.6	18.6	0.2	0.3	0.3	9.3
United Spirits	SELL	665	560	(15.8)	483	7.0	727	8	11	14	39.1	40.5	27.4	87.4	62.2	48.8	50.0	36.9	30.6	19.3	13.1	9.7	24.9	25.1	22.8	—	—	0.3	19.2
Varun Beverages	ADD	754	750	(0.5)	138	2.0	183	12	17	22	377.8	45.4	29.8	65.4	45.0	34.7	19.9	16.0	13.8	7.8	6.7	5.7	12.1	16.0	17.7	—	—	0.1	1.2
Consumer products	Cautious				15,417	225					15.0	16.5	15.0	50.9	43.7	38.0	33.4	28.4	24.6	12.5	11.3	10.2	24.5	25.9	26.8	1.1	1.2	1.4	284.5
Energy																													
BPCL	REDUCE	373	390	4.5	810	11.8	1,967	40	39	41	(1.5)	(3.6)	5.3	9.3	9.6	9.1	7.5	7.1	6.5	2.1	1.9	1.7	24.8	21.1	20.0	5.6	4.2	4.4	38.3
Castrol India	ADD	164	215	31.3	162	2.4	989	7	8	9	3.3	13.6	10.9	23.8	21.0	18.9	14.9	13.1	11.8	15.9	15.0	14.7	67.9	73.6	78.6	2.9	3.7	4.3	4.1
GAIL (India)	BUY	340	410	20.5	767	11.2	2,255	20	25	27	21.8	23.2	8.3	16.7	13.5	12.5	10.5	8.7	8.0	1.9	1.8	1.6	11.7	13.5	13.5	2.1	2.5	2.6	20.2
GSPL	SELL	180	170	(5.6)	101	1.5	564	12	11	11	34.5	(7.0)	(4.6)	15.2	16.3	17.1	7.7	6.4	6.4	2.0	1.8	1.7	14.0	11.7	10.2	1.0	0.9	0.9	1.7
HPCL	REDUCE	259	320	23.5	395	5.8	1,524	42	32	33	(3.2)	(23.4)	3.4	6.2	8.1	7.8	5.6	7.3	7.4	1.6	1.5	1.4	28.7	19.3	18.2	6.6	5.0	5.2	31.5
Indraprastha Gas	SELL	254	240	(5.6)	178	2.6	700	10	12	14	19.0	17.3	12.0	24.7	21.0	18.8	15.5	13.3	11.7	5.1	4.4	3.8	22.4	22.3	21.6	0.8	1.0	1.2	10.6
IOCL	REDUCE	156	160	2.6	1,515	22.1	9,479	21	17	18	(24.8)	(17.9)	7.4	7.6	9.3	8.6	4.4	5.2	4.7	1.3	1.2	1.2	18.5	14.0	14.0	7.4	4.3	4.6	29.0
Mahanagar Gas	ADD	830	850	2.5	82	1.2	99	48	52	54	21.5	6.5	5.3	17.1	16.1	15.3	10.4	9.3	8.7	3.9	3.5	3.1	24.3	22.8	21.4	2.3	2.5	2.6	8.6
ONGC	ADD	158	200	26.3	2,033	29.6	12,833	17	21	21	3.1	19.6	(1.3)	9.1	7.6	7.7	4.9	3.9	3.7	0.9	0.8	0.8	9.9	11.5	10.7	4.2	4.4	4.4	17.0
Oil India	SELL	210	220	4.8	238	3.5	1,135	25	24	24	22.6	(1.3)	(0.7)	8.5	8.6	8.7	6.6	6.0	6.0	0.9	0.8	0.8	9.8	9.7	9.2	4.9	5.2	5.2	3.8
Petronet LNG	BUY	219	280	27.7	329	4.8	1,500	14	16	18	22.1	17.3	13.2	15.8	13.5	11.9	10.5	9.0	7.6	3.4	3.0	2.6	23.3	23.4	23.3	2.1	2.6	3.4	11.7
Reliance Industries	REDUCE	972	930	(4.4)	5,755	83.9	5,922	59	68	77	16.9	14.9	13.9	16.5	14.3	12.6	12.6	10.2	8.6	2.0	1.7	1.6	11.6	11.9	12.1	0.6	0.6	0.7	98.7
Energy	Attractive				12,365	180					1.0	5.8	7.3	12.0	11.3	10.6	8.0	7.1	6.4	1.6	1.5	1.3	13.3	12.8	12.6	2.7	2.4	2.5	275.2

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)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		29-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	
Industrials																													
ABB	SELL	1,181	1,100	(6.8)	250	3.6	212	20	26	34	12.1	31.2	31.7	59.6	45.4	34.5	32.8	27.9	21.2	6.9	6.4	5.6	12.2	14.6	17.3	0.3	0.8	0.8	1.6
BHEL	SELL	72	81	12.9	263	3.8	3,671	2.2	2.6	5.4	62.7	19.5	106.9	32.7	27.3	13.2	7.8	7.5	3.8	0.8	0.8	0.8	2.5	3.0	6.1	2.5	3.0	6.3	9.1
Carborundum Universal	SELL	317	310	(2.2)	60	0.9	189	11	14	17	22.8	25.4	20.2	27.8	22.1	18.4	15.0	11.1	9.5	3.8	3.4	3.1	14.6	16.4	17.6	0.7	1.4	1.6	0.3
CG Power and Industrial	BUY	56	65	16.1	35	0.5	627	0.8	3.1	4.3	(72.2)	275.7	40.5	68.6	18.3	13.0	10.3	7.8	6.4	1.3	1.4	1.3	1.5	7.3	10.4	-	-	-	5.5
Crompton Greaves Consumer	SELL	226	210	(7.2)	142	2.1	627	5.2	6.2	7.5	13.3	20.0	20.9	43.8	36.5	30.2	26.9	22.7	19.2	18.0	12.5	9.6	49.5	40.5	35.9	0.7	0.9	1.1	3.0
Cummins India	REDUCE	648	680	5.0	180	2.6	277	24	28	32	(7.8)	16.1	13.9	26.7	23.0	20.2	23.5	20.2	16.7	4.5	4.2	3.9	17.4	18.9	20.1	2.3	2.3	2.6	5.3
Havells India	SELL	543	460	(15.3)	340	5.0	625	11	14	17	16.6	26.2	19.6	49.1	38.9	32.5	31.1	24.7	20.2	9.1	8.0	7.0	19.8	21.9	23.0	0.6	0.9	1.1	10.3
Kalpataru Power Transmission	BUY	400	530	32.4	61	0.9	153	19	19	24	36.5	(0.4)	26.7	20.6	20.7	16.4	8.7	7.2	5.7	2.3	2.1	1.9	11.7	10.6	12.2	0.6	0.6	0.6	0.7
KEC International	BUY	335	430	28.5	86	1.3	257	18	22	29	51.1	22.0	34.4	18.7	15.3	11.4	10.1	8.4	6.7	4.3	3.5	2.8	25.7	25.2	27.1	0.7	0.9	1.2	3.5
L&T	BUY	1,275	1,560	22.3	1,787	26.1	1,401	52	63	75	22.4	21.1	19.6	24.7	20.4	17.0	20.5	17.5	15.5	3.6	3.2	2.9	15.0	16.7	18.0	1.3	1.8	2.1	40.6
Siemens	SELL	980	975	(0.5)	349	5.1	356	24	29	36	20.0	23.4	23.5	41.4	33.5	27.1	23.4	18.7	14.9	4.3	4.0	3.7	10.7	12.4	14.3	1.0	1.2	1.5	3.7
Thermax	REDUCE	1,042	1,065	2.2	124	1.8	113	21	30	42	(3.6)	44.2	42.8	50.6	35.1	24.5	30.8	21.9	15.6	4.3	4.0	3.6	8.8	11.8	15.3	0.6	0.8	0.9	0.9
Volta	SELL	524	525	0.2	173	2.5	331	17	19	22	12.6	8.3	15.6	30.3	28.0	24.2	25.2	21.4	17.7	4.4	4.0	3.5	15.9	15.0	15.5	0.8	0.8	1.0	15.3
Industrials	Neutral				3,851	56					19.6	22.0	26.7	30.0	24.6	19.4	19.8	16.8	13.8	3.3	3.0	2.8	10.8	12.3	14.4	1.1	1.5	2.0	99.9
Infrastructure																													
Adani Ports and SEZ	BUY	373	470	26.0	773	11.3	2,071	20	20	23	6.1	(0.2)	14.7	18.6	18.7	16.3	13.3	12.8	11.3	3.7	3.1	2.7	21.5	18.1	17.9	0.6	0.7	0.8	25.0
Ashoka Buildcon	BUY	229	310	35.6	43	0.6	188	12	13	13	18.9	9.0	4.5	19.6	18.0	17.2	14.3	12.4	11.0	2.1	1.8	1.7	11.2	10.9	10.2	0.8	1.4	0.9	1.2
Container Corp.	SELL	652	635	(2.6)	318	4.6	487	18	21	26	7.3	20.0	21.4	36.9	30.7	25.3	24.4	19.0	15.0	3.4	3.1	2.9	9.4	10.6	11.9	2.6	1.4	1.6	8.6
Dilip Buildcon	BUY	664	1,220	83.8	91	1.3	137	46	54	69	76.5	16.1	28.0	14.3	12.3	9.6	8.3	6.0	5.0	3.7	2.8	2.2	29.5	25.9	25.4	—	—	—	8.9
Gateway Distriparks	BUY	178	250	40.6	19	0.3	109	8	8	9	12.1	(1.2)	17.5	23.2	23.5	20.0	22.2	10.9	9.1	1.9	3.7	3.4	8.2	10.8	17.6	3.9	—	1.7	0.8
Gujarat Pipavav Port	BUY	106	170	61.1	51	0.7	483	4.1	5.9	7.2	(20.6)	43.7	22.5	25.7	17.9	14.6	12.5	10.4	8.2	2.5	2.5	2.4	9.8	14.0	16.8	3.2	4.6	5.6	0.8
IRB Infrastructure	BUY	211	330	56.4	74	1.1	351	23	31	33	10.8	36.8	7.1	9.4	6.8	6.4	7.1	6.8	7.2	1.3	1.1	1.0	14.5	17.6	16.3	1.1	1.5	1.9	11.8
Mahindra Logistics	BUY	553	540	(2.4)	39	0.6	71	10	14	19	16.2	44.3	32.0	56.4	39.1	29.6	32.5	21.8	16.4	9.4	7.8	6.4	18.2	21.8	23.8	—	—	—	0.9
Sadbhav Engineering	ADD	287	460	60.4	49	0.7	172	13	19	20	17.4	50.5	0.8	22.3	14.8	14.7	15.4	12.9	9.7	2.6	2.3	2.0	12.5	16.5	14.4	—	—	—	0.8
Infrastructure	Attractive				1,457	21					10.5	11.2	15.4	20.2	18.1	15.7	12.9	11.4	10.0	3.2	2.8	2.4	15.7	15.4	15.5	1.1	0.9	1.1	58.6
Internet																													
Info Edge	REDUCE	1,185	1,290	8.9	144	2.1	122	23	26	33	33.3	14.6	27.8	52.6	45.9	35.9	43.3	33.3	25.3	6.8	5.5	5.0	13.4	13.3	14.6	0.5	0.6	0.7	1.5
Just Dial	BUY	555	550	(0.9)	37	0.5	67	21	25	28	21.7	16.7	12.9	26.1	22.4	19.8	15.4	12.8	10.6	3.8	3.3	2.9	15.2	15.9	15.6	—	0.4	0.5	43.4
Internet	Cautious				182	3					28.0	15.4	22.6	43.6	37.8	30.8	33.4	26.5	21.0	5.9	4.9	4.3	13.5	12.9	14.1	0.4	0.6	0.7	45.0
Media																													
DB Corp.	REDUCE	258	295	14.5	47	0.7	184	18	20	24	(14.1)	13.2	18.8	14.6	12.9	10.9	7.8	6.8	5.7	2.9	2.7	2.6	19.9	21.5	24.5	5.0	6.2	7.8	0.5
DishTV	ADD	72	84	17.0	132	1.9	1,925	(0.4)	1.7	3.0	(143.0)	482.0	76.2	NM	42.6	24.2	11.7	6.3	5.2	2.1	2.0	1.8	(2.3)	4.7	7.8	—	—	—	9.7
Jagran Prakashan	REDUCE	137	168	22.4	43	0.6	311	10	12	14	(6.0)	21.7	15.3	13.7	11.3	9.8	6.3	5.6	4.9	2.1	2.1	2.0	14.8	18.1	20.9	2.2	3.6	6.6	0.8
PVR	REDUCE	1,374	1,425	3.7	64	0.9	47	27	38	50	25.5	39.8	33.2	51.2	36.6	27.5	17.1	14.1	11.7	6.0	5.2	4.5	12.3	15.2	17.5	0.1	0.3	0.4	6.1
Sun TV Network	REDUCE	782	925	18.2	308	4.5	394	29	35	39	10.2	20.7	10.9	27.1	22.5	20.3	18.2	15.3	13.3	6.7	6.0	5.4	26.3	28.1	27.9	1.3	2.2	2.6	22.8
Zee Entertainment Enterprises	ADD	544	625	14.9	522	7.6	961	15	17	20	7.8	13.8	16.6	36.2	31.8	27.3	23.6	20.7	17.4	6.9	6.0	5.3	20.3	20.2	20.5	0.5	0.8	1.0	14.7
Media	Attractive				1,117	16					(1.5)	30.3	20.0	34.3	26.4	22.0	16.6	12.9	11.0	4.7	4.3	3.9	13.7	16.4	17.8	0.9	1.4	1.8	54.6

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)			
		29-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
Metals & Mining																													
Coal India	ADD	264	326	23.3	1,641	23.9	6,207	11	27	28	(24.2)	138.2	3.0	23.4	9.8	9.5	17.3	6.2	5.9	6.8	6.2	6.4	26.7	66.1	66.4	6.2	7.6	9.5	13.4
Hindalco Industries	BUY	231	315	36.7	517	7.5	2,229	22	27	31	155.4	23.5	14.3	10.5	8.5	7.5	6.5	5.6	4.8	0.9	0.8	0.8	9.7	10.4	10.8	0.5	0.5	0.5	42.8
Hindustan Zinc	REDUCE	276	325	17.9	1,165	17.0	4,225	22	24	28	9.3	13.6	13.8	12.8	11.3	9.9	7.8	6.4	5.3	3.2	2.8	2.3	27.2	26.4	25.6	2.9	2.9	3.0	9.5
Jindal Steel and Power	REDUCE	223	255	14.3	216	3.1	968	(8)	8	18	59.3	194.2	129.1	(26.3)	27.9	12.2	9.8	7.0	6.0	0.7	0.7	0.7	(2.7)	2.6	5.7	—	—	—	28.3
JSW Steel	ADD	327	345	5.6	790	11.5	2,417	27	27	25	83.9	(0.7)	(5.7)	12.2	12.3	13.0	7.9	7.3	7.8	2.7	2.3	2.0	24.8	20.4	16.5	1.0	1.0	1.0	19.5
National Aluminium Co.	ADD	65	85	31.5	125	1.8	1,933	4	7	7	12.7	63.0	11.1	15.6	9.6	8.6	6.5	4.3	3.9	1.2	1.2	1.2	7.7	12.4	13.6	8.8	8.5	8.5	13.1
NMDC	REDUCE	108	125	15.7	342	5.0	3,164	12	10	10	43.3	(16.5)	3.6	9.2	11.0	10.7	5.0	6.8	6.5	1.4	1.3	1.3	15.8	12.5	12.4	5.1	5.1	5.1	4.3
Tata Steel	ADD	568	700	23.3	650	9.5	1,205	67	69	82	62.6	3.1	18.4	8.4	8	6.9	6.2	6.2	6.3	1.2	1.0	0.9	17.2	13.1	13.9	1.7	1.8	1.8	69.9
Vedanta	BUY	236	415	75.7	878	12.8	3,717	22	37	43	9.6	71.9	16.9	10.9	6.4	5.4	5.8	4.3	3.6	1.4	1.2	1.1	12.9	20.6	21.4	3.4	4.7	5.5	58.7
Metals & Mining	Attractive				6,324	92					32.3	41.4	11.3	13.4	9.5	8.5	7.5	5.9	5.4	1.9	1.7	1.6	14.3	18.0	18.4	3.4	4.0	4.6	259.4
Pharmaceutical																													
Apollo Hospitals	ADD	1,054	1,090	3.4	147	2.1	139	8	19	26	(46.9)	124.3	38.0	124.9	55.7	40.3	22.4	19.1	16.1	4.5	4.3	4.0	3.4	7.9	10.2	0.2	0.4	0.6	6.3
Aurobindo Pharma	ADD	607	640	5.4	356	5.2	584	42	43	46	6.0	2.3	7.9	14.5	14.2	13.2	10.2	9.8	8.8	3.0	2.6	2.2	23.2	19.5	16.6	0.7	0.9	1.0	21.2
Biocon	SELL	620	300	(51.6)	372	5.4	601	6	8	15	(39.2)	26.8	86.5	100.0	78.9	42.3	44.9	33.0	21.6	6.6	6.2	5.6	6.9	8.1	13.8	0.4	0.4	0.8	24.4
Cipla	BUY	617	650	5.4	497	7.2	805	18	26	34	40.2	46.7	32.4	35.2	24.0	18.1	18.3	13.6	10.7	3.4	3.1	2.7	10.2	13.4	15.9	0.6	0.9	1.2	23.5
Dr Lal Pathlabs	REDUCE	958	865	(9.7)	80	1.2	83	20	25	29	7.0	20.8	18.5	46.8	38.8	32.7	28.5	23.9	20.0	10.1	8.4	7.0	23.5	23.7	23.4	0.5	0.5	0.6	1.3
Dr Reddy's Laboratories	REDUCE	2,235	2,250	0.7	371	5.4	166	59	101	134	(18.5)	71.0	32.6	37.8	22.1	16.7	17.5	11.1	8.2	2.9	2.6	2.3	7.8	12.6	13.9	0.9	0.7	0.9	28.6
HCG	REDUCE	288	305	5.9	25	0.4	85	2	3	5	(40.0)	120.9	57.3	184.2	83.4	53.0	24.2	18.8	16.0	4.8	4.5	4.1	2.8	5.5	8.1	—	—	—	0.2
Laurus Labs	ADD	459	540	17.6	49	0.7	106	16	22	34	(11.9)	37.3	54.4	29.0	21.1	13.7	14.1	11.6	8.5	3.3	2.8	2.3	11.9	14.4	18.8	—	—	—	0.9
Lupin	REDUCE	904	800	(11.5)	409	6.0	450	38	34	45	(32.9)	(9.7)	30.2	23.7	26.2	20.2	14.5	13.1	10.7	3.0	2.7	2.4	12.6	10.9	12.8	0.6	0.6	0.7	30.1
Narayana Hrudayalaya	ADD	236	275	16.7	48	0.7	204	3	4	7	(38.1)	52.2	76.9	93.7	61.5	34.8	26.0	19.6	14.3	4.6	4.3	3.8	5.1	7.3	11.7	—	—	—	0.4
Sun Pharmaceuticals	REDUCE	564	500	(11.3)	1,353	19.7	2,406	15	17	24	(47.5)	12.0	42.0	37.2	33.2	23.4	22.0	18.0	13.3	3.6	3.3	2.9	9.8	10.2	13.1	0.4	0.6	0.9	50.0
Torrent Pharmaceuticals	NR	1,403	—	—	237	3.5	169	40	47	62	(27.4)	16.5	32.4	35.0	30.0	22.7	19.6	14.0	11.7	5.1	4.5	3.9	15.1	15.1	17.3	0.7	0.8	1.0	5.2
Pharmaceuticals	Neutral				3,943	57					(27.6)	18.6	33.0	33.5	28.3	21.2	18.6	15.0	11.8	3.7	3.3	2.9	10.9	11.6	13.7	0.5	0.6	0.9	192.3
Real Estate																													
Brigade Enterprises	BUY	212	340	60.3	29	0.4	136	10	9	9	(24.0)	(9.0)	(2.1)	20.7	22.8	23.3	11.3	11.5	11.3	1.3	1.2	1.2	7.0	5.4	5.1	1.2	1.2	1.2	0.4
DLF	RS	189	—	—	337	4.9	1,784	19.6	6.5	3.9	403.9	(66.9)	(39.6)	9.6	29.1	48.1	28.7	12.5	12.3	1.0	0.9	0.9	11.7	3.2	1.9	1.1	1.1	1.1	18.8
Godrej Properties	SELL	719	400	(44.4)	156	2.3	216	8.0	8.7	15.5	(15.8)	8.2	77.9	89.3	82.5	46.4	98.0	354.4	67.4	7.1	6.6	5.8	8.3	8.3	13.2	—	—	—	2.8
Oberoi Realty	REDUCE	477	535	12.1	174	2.5	340	14	57	50	21.4	318.9	(12.7)	35.2	8.4	9.6	28.1	9.7	14.4	2.7	2.0	1.7	7.8	27.5	19.2	0.4	0.4	0.4	3.4
Prestige Estates Projects	ADD	270	315	16.6	101	1.5	375	9	12	13	(6.7)	30.0	5.9	28.7	22.1	20.8	15.8	13.9	13.7	2.1	2.0	1.8	7.7	9.3	9.1	0.6	0.6	0.6	1.0
Sobha	REDUCE	439	510	16.1	42	0.6	96	21	23	26	25.6	9.1	13.4	21.0	19.2	16.9	12.4	11.9	11.1	1.5	1.5	1.4	7.5	7.8	8.3	1.6	1.6	1.6	2.0
Sunteck Realty	REDUCE	372	330	(11.2)	54	0.8	140	17	16	17	19.3	(6.4)	2.6	21.4	22.8	22.3	15.8	19.2	19.2	2.0	1.8	1.7	10.9	8.2	7.8	0.3	0.3	0.3	1.8
Real Estate	Neutral				892	13					133.0	(15.1)	(11.5)	17.6	20.7	23.4	23.8	14.2	14.8	1.6	1.5	1.4	9.0	7.2	6.1	0.7	0.7	0.7	30.2

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)	
		29-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
Technology																													
HCL Technologies	REDUCE	926	1,010	9.0	1,290	18.8	1,409	62	68	71	5.3	9.0	5.0	14.9	13.6	13.0	10.4	8.8	8.0	3.6	3.0	2.7	24.8	23.8	21.9	0.9	3.1	3.3	32.5
Hexaware Technologies	SELL	459	420	(8.5)	136	2.0	304	16	20	22	19.8	20.5	12.5	28.0	23.2	20.6	20.0	16.8	14.3	7.0	6.0	5.2	26.6	27.8	27.0	0.9	1.7	1.7	12.6
Infosys	ADD	1,307	1,350	3.3	2,854	41.6	2,175	65	70	76	3.0	8.1	9.5	20.2	18.7	17.1	14.0	12.8	11.5	4.4	4.1	3.8	21.8	22.7	23.1	2.1	3.3	3.0	76.5
L&T Infotech	ADD	1,671	1,650	(1.2)	287	4.2	175	64	73	84	13.9	14.5	15.7	26.3	23.0	19.8	22.9	17.1	14.3	7.6	6.3	5.3	31.8	30.0	29.0	1.0	1.4	1.6	4.8
Mindtree	ADD	986	1,015	2.9	162	2.4	165	35	43	52	37.8	23.2	23.2	28.6	23.2	18.8	20.7	14.5	11.8	5.9	5.1	4.3	21.4	23.6	24.9	1.1	1.3	1.6	31.1
Mphasis	SELL	1,084	760	(29.9)	210	3.1	193	44	52	56	14.4	18.3	8.2	24.7	20.9	19.3	17.8	14.4	12.8	3.8	3.5	3.2	14.6	17.4	17.1	1.8	1.8	1.8	11.5
TCS	REDUCE	1,848	1,650	(10.7)	7,074	103.2	3,829	67	78	84	1.1	15.0	8.8	27.4	23.8	21.9	20.3	17.3	15.7	8.1	7.5	7.0	29.4	32.7	33.1	1.4	2.7	3.0	108.3
Tech Mahindra	ADD	655	775	18.2	579	8.4	891	43	45	53	33.1	6.6	15.8	15.4	14.4	12.5	11.3	8.7	7.1	3.1	2.7	2.3	21.5	19.9	19.7	2.2	1.4	1.6	34.1
Wipro	REDUCE	262	295	12.8	1,183	17.3	4,507	17	19	21	(3.1)	11.1	13.7	15.4	13.9	12.2	9.7	8.2	7.1	2.4	2.1	2.0	16.0	16.3	16.6	0.4	0.6	3.8	11.3
Technology	Cautious				13,775	201					1.6	9.9	9.8	21.5	19.6	17.8	15.6	13.4	12.0	5.1	4.6	4.2	23.7	23.5	23.5	1.4	2.6	2.9	322.5
Telecom																													
Bharti Airtel	ADD	382	470	23.1	1,527	22.3	3,997	5	(4)	0	(42.9)	(187.4)	104.6	80.7	(92.3)	2,021.5	8.3	9.5	7.6	2.2	2.3	2.3	2.8	(2.4)	0.1	1.4	0.3	0.0	37.8
Bharti Infratel	REDUCE	301	285	(5.2)	556	8.1	1,850	14	13	11	(7.4)	(8.7)	(9.0)	21.9	23.9	26.3	7.9	8.7	9.2	3.3	3.4	3.5	15.7	14.0	13.1	4.8	3.4	3.1	15.5
IDEA	REDUCE	59	75	26.4	259	3.8	4,359	(10)	(15)	(14)	(656.8)	(54.9)	6.4	(6.2)	(4.0)	(4.3)	12.7	23.1	17.1	0.9	1.2	1.8	(16.0)	(26.9)	(34.0)	—	—	—	17.2
Tata Communications	ADD	593	725	22.3	169	2.5	285	2	4	8	(84.3)	121.9	117.7	360	162.3	74.5	10.8	9.7	8.5	33.8	27.3	19.7	4.5	18.6	30.7	1.1	1.1	1.3	4.4
Telecom	Cautious				2,510	37					(94.7)	(1,906.6)	36.2	798.2	(44.2)	(69.2)	9.0	10.6	8.8	2.2	2.4	2.6	0.3	(5.5)	(3.7)	1.9	0.9	0.7	74.8
Utilities																													
CESC	ADD	914	1,180	29.0	121	1.8	133	87	102	118	67.1	16.8	15.5	10.5	9.0	7.8	7.6	5.6	4.9	0.8	0.8	0.7	7.9	8.8	9.4	1.3	1.1	1.2	6.5
JSW Energy	REDUCE	66	80	22.0	108	1.6	1,640	3.1	5.9	8.2	(19.2)	92.2	38.7	21.4	11.1	8.0	6.8	5.4	4.4	1.0	0.9	0.9	4.7	8.5	11.0	3.0	3.0	3.0	2.1
NHPC	ADD	23	30	27.9	241	3.5	10,260	2.4	3.1	3.2	(17.3)	26.9	1.8	9.6	7.6	7.4	9.0	7.1	6.9	0.8	0.8	0.7	8.5	10.4	10.2	6.0	7.4	7.5	2.3
NTPC	BUY	159	190	19.2	1,315	19.2	8,245	11	15	16	(7.6)	30.9	4.4	14.0	10.7	10.3	11.2	8.7	8.1	1.3	1.2	1.1	9.5	11.6	11.3	3.5	2.8	2.9	12.7
Power Grid	BUY	187	250	33.8	978	14.3	5,232	16	19	21	9.6	19.3	13.6	11.9	9.9	8.7	8.4	7.2	6.6	1.8	1.6	1.5	15.8	17.1	17.5	2.8	3.4	3.8	30.7
Reliance Power	SELL	32	43	34.4	90	1.3	2,805	3.5	5.1	5.2	(16.4)	45.6	2.7	9.2	6.3	6.1	7.8	6.7	6.5	0.4	0.4	0.4	4.5	6.1	5.9	—	—	—	4.9
Tata Power	ADD	73	97	32.4	198	2.9	2,705	5.3	7.8	8.7	(9.6)	46.1	11.2	13.7	9.4	8.4	10.3	9.5	8.6	1.3	1.1	1.0	10.7	12.9	12.7	—	—	—	6.2
Utilities	Attractive				3,050	44					(2.4)	28.6	9.0	12.6	9.8	9.0	9.4	7.7	7.1	1.2	1.1	1.0	9.7	11.5	11.6	3.1	3.0	3.2	65.3

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside (%)	Mkt cap.		EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)																																								
		29-Jun-18	(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																																									
Others																																																																				
Astral Poly Technik	SELL	1,008	625	(38.0)	121	1.8	120	15	19	23	20.8	28.0	23.0	68.7	53.7	43.6	38.6	30.0	24.4	11.9	9.8	8.1	18.8	20.0	20.3	0.1	0.1	0.1	1.3																																							
Avenue Supermarts	SELL	1,482	860	(42.0)	925	13.5	624	13	16	20	47.9	28.6	26.4	117.9	91.7	72.5	69.1	52.9	41.5	19.9	16.4	13.4	18.5	19.6	20.3	—	—	—	—																																							
Bayer Cropscience	REDUCE	4,577	4,000	(12.6)	181	2.6	34	86	105	124	4.4	22.7	17.5	53.3	43.4	37.0	43.1	33.7	27.0	8.8	7.6	6.6	15.4	18.8	19.2	0.4	0.5	0.5	0.5																																							
Dhanuka Agritech	ADD	553	680	22.9	27	0.4	49	26	28	32	7.7	8.9	15.4	21.5	19.8	17.1	15.7	13.6	11.4	4.3	3.7	3.2	21.9	20.1	20.0	1.0	1.1	1.2	0.1																																							
Godrej Agrovet	ADD	619	650	4.9	119	1.7	189	12	16	20	6.9	39.8	24.6	53.8	38.5	30.9	27.7	21.3	17.2	6.9	6.0	5.1	14.7	16.9	17.9	0.3	0.4	0.5	2.5																																							
Godrej Industries	RS	624	—	—	210	3.1	336	15	16	20	6.8	8.9	24.2	42.8	39.3	31.6	37.9	32.0	34.9	5.8	5.1	4.5	14.4	13.9	15.1	0.3	0.3	0.3	5.1																																							
InterGlobe Aviation	BUY	1,089	1,430	31.4	418	6.1	383	59	71	98	27.2	21.8	37.5	18.6	15.3	11.1	10.5	8.6	5.9	5.9	4.4	3.3	41.3	33.0	33.8	0.6	0.7	0.9	26.7																																							
Kaveri Seed	SELL	558	470	(15.7)	37	0.5	66	32	34	36	19.8	5.9	5.0	17.2	16.3	15.5	14.7	13.5	12.2	4.7	3.9	3.3	23.8	26.3	23.3	1.1	1.4	1.8	5.2																																							
PI Industries	BUY	751	900	19.8	104	1.5	138	27	33	41	(20.0)	25.0	23.2	28.3	22.6	18.3	20.8	16.4	13.0	5.4	4.5	3.7	20.7	21.7	22.1	0.4	0.5	0.7	1.7																																							
Rallis India	ADD	188	235	25.1	37	0.5	195	9	11	13	(1.5)	26.4	19.7	21.8	17.2	14.4	13.9	11.4	9.6	3.1	2.8	2.5	14.6	16.9	18.1	1.8	1.9	2.1	0.8																																							
SIS	REDUCE	1,138	1,250	9.9	83	1.2	73	23	36	43	44.0	58.5	20.6	50.5	31.8	26.4	27.1	20.5	16.9	8.0	6.8	5.6	20.2	23.4	23.3	0.3	0.5	0.6	0.5																																							
SRF	BUY	1,695	2,110	24.5	97	1.4	57	80	92	123	(10.4)	14.4	33.6	21.1	18.4	13.8	12.9	10.2	8.3	2.7	2.4	2.1	13.7	14.0	16.4	0.7	0.8	0.9	9.8																																							
Tata Chemicals	ADD	698	760	8.9	178	2.6	255	51	46	52	6.5	(11.2)	13.6	13.6	15.3	13.4	7.5	6.4	5.4	1.6	1.5	1.4	13.8	10.0	10.5	3.2	2.1	2.4	9.6																																							
TeamLease Services	SELL	2,965	1,750	(41.0)	51	0.7	17	43	59	76	28.0	37.7	27.2	68.8	49.9	39.2	71.7	50.8	39.3	11.5	9.3	7.5	18.2	20.6	21.3	—	—	—	2.4																																							
UPL	ADD	619	850	37.4	315	4.6	507	43	47	53	20.9	9.0	13.5	14.4	13.2	11.6	10.0	8.7	7.4	3.4	2.8	2.4	26.4	23.6	22.4	1.3	1.5	1.7	14.6																																							
Vardhman Textiles	ADD	1,220	1,400	14.8	70	1.0	56	103	130	140	(8.0)	26.4	7.4	11.8	9.4	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	1.1																																							
Whirlpool	SELL	1,524	1,240	(18.6)	193	2.8	127	28	37	45	13.0	33.9	22.5	55.1	41.2	33.6	32.5	25.0	20.2	10.8	8.9	7.4	21.4	23.7	24.1	0.3	0.4	0.6	1.0																																							
Others					3,165		46					15.1			16.1			22.7			31.0			26.7			21.8			20.0			16.5			13.4			5.6			4.8			4.0			18.1			17.9			18.6			0.6			0.6			0.7			83.2		
KIE universe					106,365		1,551					(6.2)			28.9			25.8			26.4			20.5			16.3			12.3			10.4			9.2			2.9			2.6			2.4			11.0			12.9			14.6			1.4			1.5			1.8					
KIE universe (ex-energy)					94,000		1,370					(8.4)			36.9			30.7			31.3			22.9			17.5			13.9			11.6			10.1			3.2			2.9			2.7			10.4			12.9			15.2			1.2			1.4			1.7					

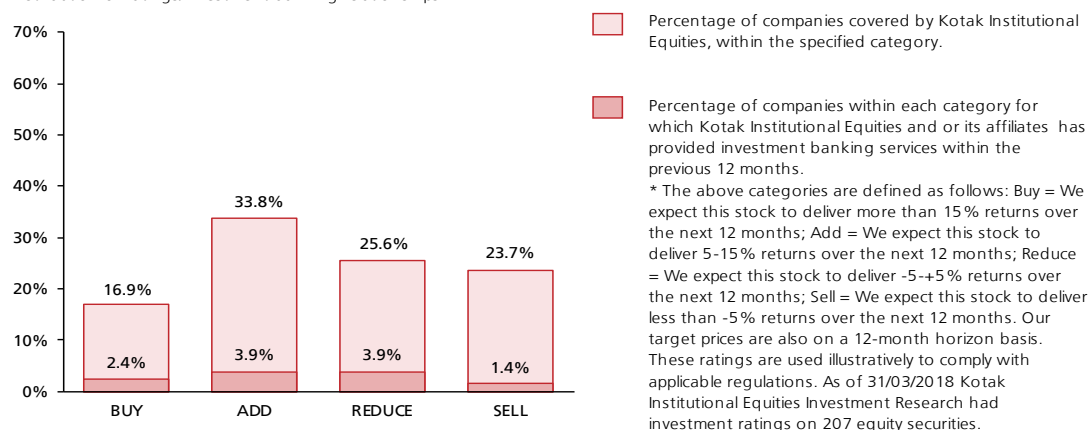
Notes:

- (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\$)= 68.58

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 March 31, 2018

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

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

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