

Contents

Daily Alerts

Results

- ONGC: Uncertainty prevails, although adequately priced in
- Pidilite Industries: Fully priced; await better entry point
- Torrent Pharmaceuticals: Solid quarter; Unichem synergies playing out
- Apollo Tyres: Continues to deliver
- Tata Global Beverages: Slow progress
- Gateway Distriparks: Strong on CFS, weak on rail

Company alerts

- Tata Motors: 2018 JLR annual report analysis

Sector alerts

- Internet: Draft e-commerce policy: more questions than answers
- Technology: CTSH disappoints
- Telecom: 1QFY19 review - Jio surprises, Idea struggles

EQUITY MARKETS

India	Change %			
	2-Aug	1-day	1-mo	3-mo
Sensex	37,165	(1.0)	5.0	5.9
Nifty	11,245	(0.9)	5.1	5.3
Global/Regional indices				
Dow Jones	25,326	(0.0)	4.8	5.8
Nasdaq Composite	7,803	1.2	4.0	10.1
FTSE	7,576	(1.0)	(0.2)	1.0
Nikkei	22,559	0.2	3.6	0.4
Hang Seng	27,715	(2.2)	(2.9)	(8.6)
KOSPI	2,276	0.3	0.2	(8.5)
Value traded – India				
Cash (NSE+BSE)	337		340	331
Derivatives (NSE)	14,440		5,630	6,804
Deri. open interest	3,920		3,154	3,679

Forex/money market

	Change, basis points			
	2-Aug	1-day	1-mo	3-mo
Rs/US\$	68.6	1	5	188
10yr govt bond, %	8.0	(5)	(13)	10

Net investment (US\$ mn)

	1-Aug	MTD	CYTD
FIs	(40)	(40)	(454)
MFs	(29)		- 11,353

Top movers

Best performers	Change, %			
	2-Aug	1-day	1-mo	3-mo
RIL IN Equity	1,168	(2.0)	20.3	21.5
SBIN IN Equity	294	(0.4)	14.1	21.5
HUVR IN Equity	1,749	0.8	6.4	20.4
GCPL IN Equity	1,327	0.5	6.1	19.1
NEST IN Equity	10,760	(0.7)	10.0	18.3

Worst performers

AL IN Equity	120	1.1	(7.1)	(26.6)
UT IN Equity	4	(2.4)	(1.2)	(26.1)
VEDL IN Equity	214	(1.9)	(7.3)	(25.2)
TTMT/A IN Equity	144	(0.0)	(8.9)	(23.3)
JPA IN Equity	15	0.0	(5.1)	(23.1)

AUGUST 03, 2018
RESULT

Coverage view: **Attractive**

Price (₹): **166**

Target price (₹): **200**

BSE-30: **37,165**

Uncertainty prevails, although adequately priced in. ONGC's 1QFY19 results were below our estimates, adjusted for nil subsidy, driven by (1) 1-2% miss on oil and gas volumes, (2) ₹9 bn of forex loss and (3) lower other income. The uncertainty on FY2019 subsidy sharing mechanism continues, even as the management remained optimistic on upstream PSUs being exempted from sharing subsidies at current levels of crude prices. We retain ADD with a TP of ₹200, as the stock is discounting a bear-case scenario of ~US\$45/bbl of net realizations at current level of crude prices.

Company data and valuation summary

Oil & Natural Gas Corporation

Stock data		Forecasts/Valuations			
		2018	2019E	2020E	
52-week range (Rs) (high,low)	213-152	EPS (Rs)	17.4	20.3	20.4
Market Cap. (Rs bn)	2,135.5	EPS growth (%)	3.1	16.8	0.3
Shareholding pattern (%)		P/E (X)	9.6	8.2	8.2
Promoters	67.7	Sales (Rs bn)	1,560.6	1,909.1	1,918.1
FIs	5.5	Net profits (Rs bn)	223.5	261.1	261.8
MFs	2.7	EBITDA (Rs bn)	575.2	730.5	743.8
Price performance (%)	1M	3M	12M		
Absolute	7.0	(7.6)	0.6	EV/EBITDA (X)	5.1
Rel. to BSE-30	1.5	(12.5)	(12.1)	ROE (%)	9.9
				Div. Yield (%)	4.0
					4.1
					4.2

Modestly lower volumes, forex-related loss and lower other income mars 1QFY19 results

Higher oil and gas realizations drove 14% qoq increase in ONGC's revenues to ₹272.1 bn; it was 2% below our subsidy-adjusted estimate though reflecting 1-2% miss on oil and gas sales volumes. EBITDA jumped 29% qoq to ₹147.3 bn, 5% below our estimate being impacted by higher-than-expected other expenses, which included ₹9 bn of forex-related loss on liabilities. ONGC's reported net income was 12% below our expectation at ₹61.4 bn (EPS of ₹4.8), due to a sharp decline in other income and a higher tax rate at 36%; the company indicated that interest cost on loan raised to acquire majority stake in HPCL is not a tax deductible expense. DD&A cost increased 11% yoy to ₹50 bn, primarily due to higher depletion rate. Overall crude sales declined 3.5% yoy to 5.8 mn tons led by 4.4% decline in production from own fields. Overall gas sales grew 2.9% yoy to 4.9 bcm, reflecting 3% growth in own-production.

Management optimistic on no subsidy at current levels of crude; retained production guidance

- ▶ **No subsidy burden for now.** ONGC management remained optimistic on the government exempting upstream PSUs from sharing subsidies if crude prices sustain around current levels. We remain cautious and will watch out for the government's stance in the near term as YTD subsidy burden, including 4QFY18 rollover, exceeds FY2019 Budget provision of ₹208 bn.
- ▶ **Retained production targets.** ONGC maintained its FY2019 production guidance of 2% growth in overall oil to 25.9 mn tons and 4% growth in overall gas to 25.51 bcm for FY2019. The recent weakness is attributed to one-off production issues and lower refinery off-take.
- ▶ **Other takeaways.** ONGC intends to reduce debt related to the acquisition of HPCL through internal accruals and working capital loans; it has already reduced debt to ~₹170 bn as on date from ~₹250 bn at end-FY2018. The company has deposited ₹27 bn of service tax, GST and interest under protest related to dispute on applicability of service tax on royalty payments to the government. Standalone capex may increase to ₹320 bn in FY2019.

Retain ADD, as stock discounting ~US\$45/bbl of net crude realizations

We cut FY2019-20 consolidated EPS estimates for ONGC (excluding HPCL) to ₹20.3 (-2%) and ₹20.4 (-1%), factoring in (1) weaker Rupee, (2) lower other income and (3) other minor changes. We retain ADD with a TP of ₹200, based on 10X FY2020E EPS plus value of investments. Our reverse valuation suggests that the stock is discounting ~US\$45/bbl of net realization at current level of crude prices; we have assumed net crude realization at US\$55/bbl, which will keep the subsidy burden at manageable levels for the government.

Tarun Lakhotia
tarun.lakhotia@kotak.com
Mumbai: +91-22-4336-0875

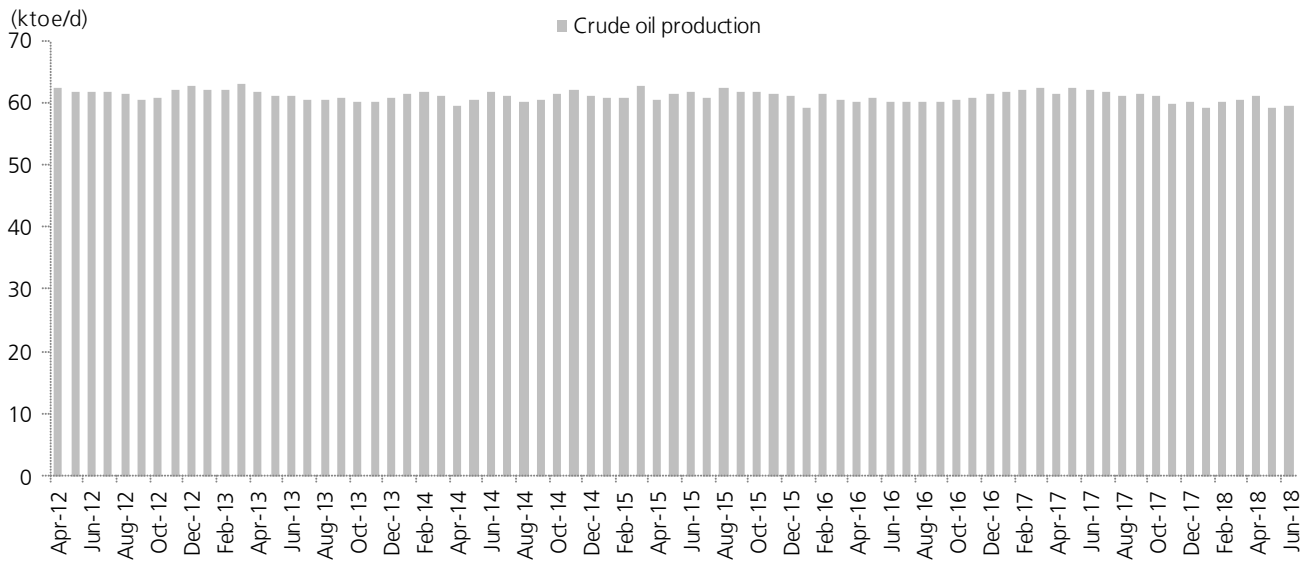
Akshay Bhor
akshay.bhor@kotak.com
Mumbai: +91-22-4336-0876

Exhibit 1: ONGC standalone interim results, March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			yoy		
					1QFY19E	1QFY18	4QFY18	FY2019E	FY2018	(% chg.)
Net sales	272,128	278,144	190,735	239,698	(2.2)	42.7	13.5	1,008,894	850,041	18.7
Total expenditure	(124,808)	(122,457)	(91,929)	(125,876)	1.9	35.8	(0.8)	(461,397)	(407,473)	13.2
Increase/(decrease) in stock in trade	632	—	(592)	124				—	630	
Raw materials (a)	(4,135)	(3,080)	(2,249)	(4,174)	34.3	83.9	(0.9)	(15,450)	(12,092)	27.8
Trading purchase	—	—	—	—				—	—	
Staff expenditure	(6,362)	(6,533)	(5,955)	(7,479)	(2.6)	6.8	(14.9)	(27,408)	(25,030)	9.5
Statutory levies	(67,328)	(68,702)	(44,908)	(57,640)	(2.0)	49.9	16.8	(227,518)	(200,983)	13.2
Other expenditure	(47,615)	(44,143)	(38,225)	(56,708)	7.9	24.6	(16.0)	(191,022)	(169,997)	12.4
EBITDA	147,320	155,687	98,807	113,822	(5.4)	49.1	29.4	547,497	442,568	23.7
Other income	6,499	9,435	8,544	37,337	(31.1)	(23.9)	(82.6)	54,189	76,461	(29.1)
Interest	(7,486)	(8,037)	(2,769)	(5,942)				(30,349)	(15,085)	
DD&A	(50,266)	(50,043)	(45,204)	(62,813)	0.4	11.2	(20.0)	(241,105)	(215,020)	12.1
Depletion	(35,372)	(35,039)	(31,301)	(33,655)	0.9	13.0	5.1	(151,592)	(134,372)	12.8
Depreciation	(3,430)	(3,799)	(3,060)	(4,140)	(9.7)	12.1	(17.1)	(15,195)	(14,140)	7.5
Dry wells written off	(7,548)	(7,129)	(6,420)	(24,702)	5.9	17.6	(69.4)	(58,017)	(55,517)	4.5
Survey expenses	(3,845)	(4,075)	(4,154)	(5,657)	(5.6)	(7.4)	(32.0)	(16,301)	(14,801)	10.1
Impairment loss and others	(70)	—	(270)	5,340				—	3,810	
Pretax profits	96,067	107,042	59,378	82,405	(10.3)	61.8	16.6	330,231	288,925	14.3
Extraordinary/prior-period adjustment	—	—	—	—				—	—	
Current tax	(29,500)	(32,957)	(19,242)	(13,130)				(95,535)	(61,331)	
Deferred tax	(5,129)	(4,080)	(1,289)	(10,123)				(22,861)	(28,141)	
Net income	61,439	70,005	38,847	59,151	(12.2)	58.2	3.9	211,835	199,453	6.2
Adjusted net income	61,439	70,005	38,847	59,151	(12.2)	58.2	3.9	211,835	199,453	6.2
Adjusted EPS (Rs)	4.8	5.5	3.0	4.6	(12.2)	58.2	3.9	16.5	15.5	6.2
Other comprehensive income	(24,446)	—	(3,199)	(42,216)				—	(31,827)	
Total comprehensive income	36,993	—	35,648	16,935				—	167,626	
Tax rate (%)	36.0	34.6	34.6	28.2				35.9	31.0	
Volume data										
Subsidy loss	—	—	—	—				169,478	—	
Crude production ex JVs ('000 tons)	5,392	—	5,642	5,401	(4.4)	(0.2)		—	22,249	
Crude production - JVs ('000 tons)	824	—	802	801	2.7	2.9		—	3,186	
Gas production ex JVs (mcm)	5,906	—	5,729	5,779	3.1	2.2		—	23,429	
Gas production - JVs (mcm)	287	—	270	298	6.3	(3.7)		—	1,180	
Crude production ('000 tons)	6,216	—	6,444	6,202	(3.5)	0.2		—	25,435	
Gas production (mcm)	6,193	—	5,999	6,077	3.2	1.9		—	24,609	
Crude sales ex JVs ('000 tons)	4,761	4,863	4,995	4,900	(2.1)	(4.7)	(2.8)	19,944	19,747	1.0
Crude sales - JVs ('000 tons)	1,041	1,058	1,015	1,001	(1.6)	2.6	4.0	4,565	3,924	16.3
Gas sales ex JVs (mcm)	4,671	4,719	4,542	4,555	(1.0)	2.8	2.5	19,466	18,553	4.9
Gas sales - JVs (mcm)	224	229	216	235	(2.3)	3.7	(4.7)	963	939	2.5
Crude sales ('000 tons)	5,802	5,921	6,010	5,901	(2.0)	(3.5)	(1.7)	24,510	23,671	3.5
Gas sales (mcm)	4,895	4,948	4,758	4,790	(1.1)	2.9	2.2	20,428	19,492	4.8
LPG (000 tons)	288	303	310	275				1,211	1,186	
Naphtha/NGL (000 tons)	294	259	287	259				1,192	1,180	
C2/C3 (000 tons)	258	235	158	278				1,039	914	
SKO (000 tons)	16	9	8	8				55	34	
Total VAP sales ('000 tons)	856	815	763	820	5.0	12.2	4.4	3,537	3,314	6.7
Pricing data										
Gross crude price realization (US\$/bbl)	74.3	74.0	51.0	66.7	0.4	45.5	11.3	71.9	57.3	25.5
Subsidy discount (US\$/bbl)	—	—	—	—				16.9	—	
Net crude price realization (US\$/bbl)	74.3	74.0	51.0	66.7	0.4	45.5	11.3	55.0	57.3	(4.1)
Domestic gas price (US\$/mn BTU)	3.4	3.4	2.8	3.2	0.0	23.2	5.9	3.6	4.2	(14.3)

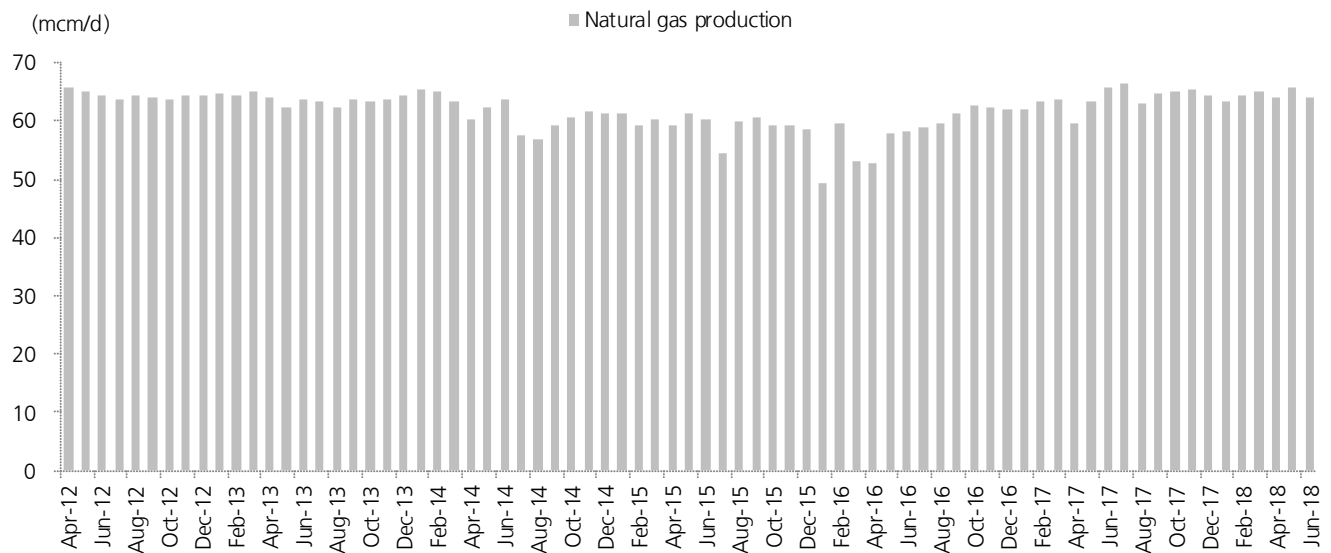
Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Crude production has remained steady at best over the past several years
 Daily crude production volumes from ONGC's fields, April 2012 onwards (ktoe/d)



Source: Company, Kotak Institutional Equities

Exhibit 3: Gas production has remained steady over the past few years; recent growth from a low base
 Daily gas production volumes from ONGC's fields, April 2012 onwards (mcm/d)



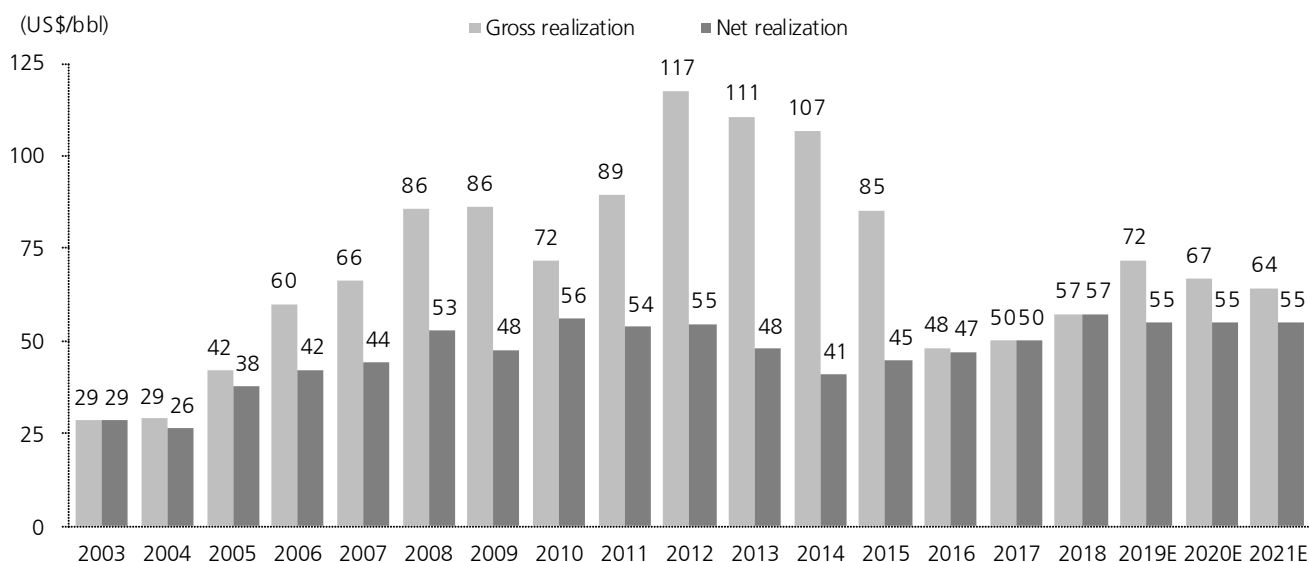
Source: Company, Kotak Institutional Equities

Exhibit 4: OVL's production volumes have increased led by contribution from acquired assets
Production volumes of OVL, March fiscal year-ends, 2014-19YTD

	FY2014	FY2015	FY2016	FY2017	1QFY18	2QFY18	3QFY18	4QFY18	FY2018	1QFY19
Crude oil (mn tons)										
Vietnam, Block 06.1	0.032	0.030	0.029	0.024	0.006	0.004	0.005	0.007	0.022	0.005
Sudan, GNOP	0.741	0.705	0.627	0.481	0.073	0.069	0.073	0.067	0.282	0.066
Russia, Sakhalin-1	1.488	1.536	1.742	1.809	0.540	0.409	0.398	0.509	1.856	0.528
Columbia, MECL	0.597	0.618	0.614	0.543	0.122	0.120	0.129	0.143	0.514	0.139
Venezuela, Sancristobal	0.767	0.645	0.585	0.427	0.100	0.093	0.083	0.072	0.348	0.070
Venezuela, Carabobo	0.021	0.063	0.112	0.140	0.039	0.042	0.039	0.034	0.154	0.031
ACG fields	0.883	0.859	0.847	0.818	0.196	0.198	0.201	0.167	0.762	0.168
Imperial Energy	0.387	0.265	0.305	0.271	0.071	0.067	0.062	0.057	0.257	0.055
Russia, Vankor	—	—	—	3.317	1.180	1.153	1.075	1.036	4.444	1.055
Brazil, BC-10	0.318	0.812	0.649	0.604	0.174	0.159	0.172	0.158	0.663	0.133
Lower Zakum,UAE									0.051	0.176
Total crude oil	5.486	5.533	5.510	8.434	2.501	2.314	2.237	2.250	9.302	2.426
Natural gas (bcm)										
Vietnam, Block 06.1	1.851	1.774	1.659	1.478	0.370	0.286	0.333	0.414	1.403	0.368
Russia, Sakhalin-1	0.576	0.618	0.588	0.555	0.123	0.092	0.183	0.196	0.594	0.129
Brazil, BC-10	0.013	0.042	0.040	0.039	0.011	0.01	0.01	0.010	0.04	0.008
A1 & A3 Myanmar	0.201	0.662	0.891	0.843	0.172	0.132	0.265	0.259	0.828	0.206
Russia, Vankor	—	—	—	1.228	0.455	0.440	0.446	0.406	1.747	0.425
ACG, MECL, IEC & PIVSA	0.230	0.245	0.228	0.226	0.055	0.05	0.05	0.043	0.198	0.043
Total natural gas	2.871	3.341	3.406	4.369	1.186	1.012	1.285	1.328	4.811	1.179

Source: Company, Kotak Institutional Equities

Exhibit 5: We have modeled ONGC's net realization to remain flat at US\$55/bbl, assuming 100% windfall tax above that
ONGC's crude price realizations, March fiscal year-ends, 2003-21E (US\$/bbl)



Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Our base-case assumption of capping net crude realizations at US\$55/bbl for upstream PSUs implies manageable subsidy burden on the government for FY2019-20

Share of under-recoveries for various participants, March fiscal year-ends, 2010-20E (Rs bn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E
Macro-assumptions											
Dated Brent crude oil price (US\$/bbl)	67.1	84.0	113.5	111.8	107.8	85.7	48.0	49.0	57.5	72.5	67.5
Exchange rate (Rs/US\$)	47.4	45.6	47.9	54.4	60.5	61.1	65.5	67.1	64.5	67.5	68.0
Subsidy burden											
Petrol	52	22	49	11	—	—	—	—	—	—	—
Diesel	93	344	812	921	628	109	—	—	—	—	—
LPG	143	220	300	396	503	406	161	121	210	401	373
Kerosene	174	196	274	294	306	248	115	76	47	59	31
Subsidy burden	461	782	1,434	1,621	1,437	763	276	197	256	459	404
Gross under-recoveries	491	814	1,465	1,651	1,468	793	276	197	256	459	404
Subsidy sharing											
Payment by government (direct budgetary supp	30	32	31	31	31	31	—	—	—	—	—
Payment by government (oil bonds/cash)	260	410	835	1,000	746	313	263	197	256	264	264
Receipt from upstream companies	144	303	550	600	670	428	13	—	—	196	139
Share of ONGC	116	249	445	494	564	363	11	—	—	169	121
Share of Oil India	15	33	74	79	87	55	2	—	—	26	18
Share of GAIL	13	21	32	27	19	10	—	—	—	—	—
Net under-recovery of OMCs	56	69	49	21	21	22	0	—	—	—	—

Source: Companies, PPAC, Kotak Institutional Equities estimates

Exhibit 7: We expect domestic gas price to improve further in the upcoming revisions

Domestic gas pricing calculation, 1HFY16 onwards

	CY2014	Jul'14-Jun'15	CY2015	Jul'15-Jun'16	CY2016	Jul'16-Jun'17	CY2017	Jul'17-Jun'18	CY2018
Gas prices (US\$/mn BTU)									
Henry Hub (US)	4.4	3.3	2.6	2.2	2.5	3.0	3.0	2.9	3.0
Alberta Hub (Canada)	4.0	2.8	2.0	1.5	1.5	1.9	1.7	1.3	1.0
National Balancing Point (UK)	8.2	7.4	6.5	5.2	4.7	5.1	5.8	7.1	8.0
Domestic gas price in Russia	2.6	2.4	1.7	1.6	1.7	1.8	1.5	1.6	1.7
Weighted change									
Henry Hub (US)	0.1	(0.5)	(0.3)	(0.2)	0.1	0.2	(0.0)	(0.0)	0.0
Alberta Hub (Canada)	0.0	(0.1)	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.0)	(0.0)
National Balancing Point (UK)	(0.5)	(0.3)	(0.3)	(0.3)	(0.2)	0.2	0.2	0.4	0.3
Domestic gas price in Russia	0.1	(0.0)	(0.2)	(0.0)	0.0	0.0	(0.1)	0.0	0.0
Revision on GCV basis	(0.4)	(0.8)	(0.8)	(0.6)	(0.0)	0.4	0.2	0.4	0.3
Revision on NCV basis	(0.4)	(0.9)	(0.8)	(0.6)	(0.0)	0.5	0.2	0.5	0.3
	1HFY16	2HFY16	1HFY17	2HFY17	1HFY18	2HFY18	1HFY19	2HFY19	1HFY20
Domestic gas price									
GCV basis	4.66	3.82	3.06	2.50	2.48	2.89	3.06	3.47	3.78
NCV basis	5.18	4.24	3.40	2.78	2.76	3.21	3.40	3.85	4.20

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 8: We assume stable crude realization, higher gas price and modest increase in production volumes

Key assumptions, March fiscal year-ends, 2014-21E

	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Macro assumptions									
Exchange rate (Rs/US\$)	60.5	61.1	65.5	67.1	64.5	68.7	69.5	70.0	71.0
Subsidy loss (Rs bn)	564	363	11	—	—	169	121	97	99
Import tariff on crude oil (%)	—	—	—	—	—	—	—	—	—
Pricing and volumes assumptions									
Crude price									
Crude price, Dated Brent (US\$/bbl)	107.5	85.5	47.5	49.0	57.6	72.5	67.5	65.0	65.0
Gross realized crude price, India (US\$/bbl)	106.7	85.3	48.3	50.3	57.3	71.9	66.9	64.3	64.3
Net realized crude price, India (US\$/bbl)	41.0	44.9	47.1	50.3	57.3	55.0	55.0	55.0	55.0
Natural gas price									
Natural gas price, India (Rs/cu m)	10.1	11.6	12.2	8.2	7.6	9.8	11.7	12.5	12.7
Natural gas price, India (US\$/mn BTU)	4.2	4.8	4.7	3.1	3.0	3.6	4.3	4.5	4.5
Sales volumes—Domestic fields									
Crude oil - own fields (mn tons)	18.9	19.5	19.8	19.8	19.7	19.9	20.1	20.3	20.5
Crude oil - JV (mn tons)	4.7	4.6	4.3	4.0	3.9	4.6	5.0	5.2	5.0
Natural gas - own fields (bcm)	18.3	16.8	16.1	17.0	18.6	19.5	20.9	23.1	25.3
Natural gas - JV (bcm)	1.3	1.2	1.0	0.9	0.9	1.0	1.0	1.0	0.9
Sales volumes—Overseas fields									
Crude oil (mn tons)	5.5	5.5	5.5	8.4	9.4	9.6	9.2	9.0	8.7
Natural gas (bcm)	2.9	3.3	3.4	4.4	4.8	4.7	4.5	4.4	4.3
Total sales									
Crude oil (mn tons)	29.1	29.6	29.7	32.3	33.0	34.1	34.4	34.5	34.3
Natural gas (bcm)	22.5	21.3	20.5	22.3	24.3	25.1	26.5	28.5	30.5
Total sales (mn toe)	49.3	48.8	48.1	52.4	54.9	56.7	58.3	60.2	61.8
Total sales (mn boe)	360	356	351	382	401	414	425	440	451
Crude oil (%)	59	61	62	62	60	60	59	57	56
Natural gas (%)	41	39	38	38	40	40	41	43	44

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: ONGC stock is discounting US\$45/bbl of net realization at current levels of crude price
Sensitivity of ONGC's EPS to gross and net crude realization, March fiscal year-end, 2019E (Rs)

FY2019E EPS	Dated Brent crude price (US\$/bbl)					
	55.0	60.0	65.0	70.0	75.0	
	45.0	12.4	13.6	14.9	16.1	17.4
	50.0	14.2	15.4	16.7	17.9	19.2
Net crude realization	55.0	16.0	17.2	18.5	19.7	21.0
	60.0		19.0	20.3	21.5	22.8
(US\$/bbl)	65.0			22.1	23.3	24.6
	70.0				25.1	26.4
	75.0					28.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: ONGC's earnings are highly sensitive to oil and gas prices and exchange rate assumptions
 EPS sensitivity of ONGC to crude, gas price and exchange rate, March fiscal year-ends, 2019-21E

	2019E			2020E			2021E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Exchange rate (Rs/US\$)	67.7	68.7	69.7	68.5	69.5	70.5	69.0	70.0	71.0
Net profits (Rs mn)	252,443	261,062	269,681	252,933	261,766	270,599	237,205	246,364	255,523
Earnings per share (Rs)	19.7	20.3	21.0	19.7	20.4	21.1	18.5	19.2	19.9
% upside/(downside)	(3.3)		3.3	(3.4)		3.4	(3.7)		3.7
Average crude realization									
Net crude realization (US\$/bbl)	50.0	55.0	60.0	50.0	55.0	60.0	50.0	55.0	60.0
Net profits (Rs mn)	238,007	261,062	284,116	238,316	261,766	285,216	222,594	246,364	270,133
Earnings per share (Rs)	18.5	20.3	22.1	18.6	20.4	22.2	17.3	19.2	21.0
% upside/(downside)	(8.8)		8.8	(9.0)		9.0	(9.6)		9.6
Natural gas prices									
Natural gas price (US\$/mn BTU)	3.1	3.6	4.1	3.8	4.3	4.8	4.0	4.5	5.0
Net profits (Rs mn)	248,408	261,062	273,715	247,886	261,766	275,647	232,029	246,364	260,699
Earnings per share (Rs)	19.4	20.3	21.3	19.3	20.4	21.5	18.1	19.2	20.3
% upside/(downside)	(4.8)		4.8	(5.3)		5.3	(5.8)		5.8

Source: Kotak Institutional Equities estimates

Exhibit 11: We compute fair value of ONGC at ₹200/share

Fair value of ONGC, March 2020E (Rs/share)

March 2020E EPS	20
Less: income from investments valued separately	2
March 2020E EPS (adjusted)	19
P/E (X)	10
Valuation of operating business	187
Write-off of acquisition cost for Mozambique block	(22)
Cross-holdings @20% discount to KIE TP	35
HPCL	16
IOCL	13
PLNG	3
GAIL	3
Fair value	200

Source: Kotak Institutional Equities estimates

Exhibit 12: Consolidated profit model, balance sheet, cash model of ONGC (excluding HPCL), March fiscal year-ends, 2014-21E (Rs mn)

	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Profit model (Rs mn)								
Net sales	1,774,822	1,592,152	1,295,756	1,394,116	1,560,615	1,909,140	1,918,093	1,942,683
EBITDA	572,162	525,958	472,852	539,958	575,205	730,495	743,757	731,039
Other income	74,804	64,387	82,532	60,913	82,147	59,579	61,206	64,028
Interest	(4,164)	(21,388)	(31,505)	(28,659)	(41,559)	(55,476)	(50,984)	(45,741)
Depreciation and depletion	(249,854)	(284,376)	(230,932)	(236,807)	(285,158)	(314,932)	(337,410)	(359,700)
Pretax profits	392,948	284,581	292,947	335,405	330,635	419,666	416,569	389,626
Current tax	(89,743)	(94,368)	(68,608)	(69,177)	(69,194)	(125,980)	(126,060)	(107,158)
Deferred tax	(37,282)	(2,228)	(16,258)	(37,264)	(32,418)	(27,225)	(23,244)	(30,612)
Net profits	270,248	178,064	151,355	222,987	231,504	266,461	267,264	251,856
Adjusted net profits after minority interests	265,600	189,355	174,218	216,692	223,468	261,062	261,766	246,364
Adjusted EPS (Rs)	20.7	14.8	13.6	16.9	17.4	20.3	20.4	19.2
Balance sheet (Rs mn)								
Total equity	1,751,885	1,829,742	2,019,567	2,261,254	2,290,529	2,437,155	2,580,437	2,708,327
Deferred tax liability	177,995	180,702	208,099	238,457	283,946	311,171	334,415	365,027
Liability for abandonment cost	274,690	299,005	235,593	235,206	235,206	235,206	235,206	235,206
Total borrowings	410,375	420,557	392,148	568,924	824,920	756,670	678,420	600,670
Current liabilities	564,485	510,360	550,109	414,469	463,845	479,595	483,773	493,689
Total liabilities and equity	3,179,431	3,240,367	3,405,517	3,718,311	4,098,446	4,219,797	4,312,251	4,402,919
Cash	350,167	279,561	250,199	130,554	31,412	14,582	25,402	38,751
Current assets	605,886	633,661	620,530	628,481	716,856	750,764	741,790	739,204
Total fixed assets	1,966,413	2,036,447	2,062,589	2,331,733	2,490,948	2,603,928	2,703,401	2,792,165
Goodwill	180,614	192,344	167,378	167,378	98,753	90,047	81,180	72,323
Investments	65,392	88,572	301,401	444,588	760,477	760,477	760,477	760,477
Deferred expenditure	10,960	9,781	3,420	15,577	—	—	—	—
Total assets	3,179,431	3,240,367	3,405,517	3,718,311	4,098,446	4,219,797	4,312,250	4,402,919
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	477,961	433,366	358,988	386,698	384,529	455,454	467,773	474,415
Working capital changes	128,224	(110,309)	145,704	(30,051)	(57,761)	(18,157)	13,152	12,502
Capital expenditure	(606,491)	(348,961)	(313,908)	(466,654)	(339,893)	(334,326)	(337,944)	(344,739)
Investments	—	—	(668)	(104,608)	(78)	—	—	—
Other income	39,794	40,048	39,917	45,828	82,147	59,579	61,206	64,028
Free cash flow	39,488	14,144	230,033	(168,788)	68,944	162,549	204,187	206,207
Ratios (%)								
Debt/equity	23.4	23.0	19.4	25.2	36.0	31.0	26.3	22.2
Net debt/equity	3.4	7.7	7.0	19.4	34.6	30.4	25.3	20.7
RoAE	15.0	9.4	7.0	9.1	9.0	9.9	9.4	8.3
RoACE	13.2	8.8	8.7	9.5	9.3	10.4	9.8	8.7
Key assumptions								
Exchange rate (Rs/US\$)	60.5	61.1	65.5	67.1	64.5	68.7	69.5	70.0
Net realized crude price, India (US\$/bbl)	41.0	44.9	47.1	50.3	57.3	55.0	55.0	55.0
Natural gas price, India (US\$/mn BTU)	4.2	4.8	4.7	3.1	3.0	3.6	4.3	4.5
Subsidy loss (Rs bn)	564	363	11	—	—	169	121	97

Source: Company, Kotak Institutional Equities estimates

AUGUST 03, 2018

RESULT

Coverage view: **Cautious**

Price (₹): **1,101**

Target price (₹): **1,080**

BSE-30: **37,165**

Fully priced; await better entry point. PIDI's operating numbers were broadly in line with our expectations. While volume growth momentum is healthy and demand environment slightly better (per management), RM inflation is a tad higher than anticipated. We trim our FY2019-21E EPS by 0-3%. We like PIDI for its dominant positioning in a high-growth segment, and execution track record of expanding product portfolio and developing end-markets. However, the stock is fully priced. Roll over to June 2020E and revise DCF based fair value target to ₹1,080 (from ₹1,050). REDUCE stays.

Company data and valuation summary

PIDILITE Industries

Stock data

52-week range (Rs) (high,low)	1,195-749
Market Cap. (Rs bn)	559.0

Shareholding pattern (%)

Promoters	69.8
FIs	10.4
MFs	4.4

Price performance (%)

	1M	3M	12M
Absolute	3.9	(0.2)	37.6
Rel. to BSE-30	(1.4)	(5.5)	20.2

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	18.0	21.1	25.7
EPS growth (%)	7.5	16.8	21.8
P/E (X)	61.0	52.3	42.9
Sales (Rs bn)	60.8	71.6	82.6
Net profits (Rs bn)	9.2	10.7	13.0
EBITDA (Rs bn)	13.4	15.7	18.8
EV/EBITDA (X)	40.8	34.7	28.7
ROE (%)	26.0	27.4	28.2
Div. Yield (%)	0.5	0.6	0.7

1QFY19—healthy volume traction, margins tad weaker due to higher RM costs and A&SP

PIDI's operational performance was in line with our expectations. Standalone revenues grew 21% yoy (comparable) driven by underlying volume growth of 20% in the core CBP segment (KIE: 21%; 2-year CAGR at 10%) and 7% in industrial products segment. Consolidated topline grew 23% yoy (adjusted for GST-led accounting and excluding sale of Cyclo; partly aided by CIPY acquisition); EBITDA grew 19% yoy to ₹3.82 bn in line with our estimates. EBITDA margin declined 30 bps yoy to 20.8% due to 90 bps drop in GM offset by 60 bps savings in employee costs as % of revenues. A&SP spends were higher at 4.7% of revenues (full year guidance at 4%). Net profit grew 5% yoy to ₹2.4 bn; 8% below our estimate due to higher taxes (ETR at 36.1% versus usual 31-32%). Inter-company transfer of certain intangible assets led to higher tax rate. EPS was ₹4.7/share.

Subsidiary performance—subsidiaries (computed as consolidated minus standalone) posted a good quarter with revenue growth of 26% yoy to ₹2.26 bn (impact of Cyclo divestment largely offset by CIPY acquisition). EBITDA grew 63% yoy to ₹241 mn led by 240 bps margin expansion to 10.7% despite 520 bps drop in GM to 51%.

Demand environment healthy; RM inflation + weak rupee to weigh on near-term margins

PIDI management indicated improvement in the demand environment, on the margin. However, RM inflation and weak rupee will likely keep EBITDA margin closer to the lower end of guided band of 21-25% (sustainable medium-term target margin band). VAM (a key RM; 15% of RM costs) spot price at US\$1,325/MT is up 40-45% on yoy basis. Weak rupee and crude-linked inflation are additional headwinds. PIDI has taken a cumulative price increase of 3-5% (1Q and July 2018) to mitigate the impact of RM headwind.

Trim estimates by 0-3%. Stock is full priced, we seek better entry point

We trim our FY2019-21E earnings estimates 0-3% as we factor slightly higher RM headwinds than anticipated earlier. We roll over to June 2020E and revise our DCF-based fair value target price to ₹1,080 (₹1,050 earlier). We like PIDI for its (1) dominant and nearly-unchallenged positioning in adhesives, (2) impressive track record of product portfolio expansion and end market development and (3) solid long-term opportunity in view of nascent market for several of its products. The stock is fully priced though and we prefer a better entry point.

Rohit Chordia

rohit.chordia@kotak.com
Mumbai: +91-22-4336-0885

Jaykumar Doshi

jaykumar.doshi@kotak.com
Mumbai: +91-22-4336-0882

Aniket Sethi

aniket.sethi@kotak.com
Mumbai: +91-22-4336-0881

Conference call highlights

- ▶ **Demand environment.** The management indicated that (1) demand environment is gradually improving, (2) PIDI has gained some market share and (3) growth from smaller towns is higher than large towns where construction activity remains slow.
- ▶ **RM pressure and price increases**—average price of VAM (a key RM) was US\$1,200 in 1QFY19 and it has inched up further to US\$1,325/MT (spot price; up 40-45% yoy). This, coupled with weak rupee and inflation in other crude-linked raw materials are headwinds to margin. PIDI has taken cumulative price increase of 3-5% across CBP and industrial products (one in 1QFY19 and other in July 2018). The management indicated that it may increase price further if needed.
- ▶ **EBITDA margin outlook**—PIDI management indicated that it would like to operate in 21-26% EBITDA margin band (FY2018 EBITDA margin was 22.1%). Primary focus of the company is to deliver solid volume growth (14-15% aspirational target). It would not be too worried about RM-led short-term volatility in the margins as long as it is in the 21-26% band. It would not cut A&SP spends or other investments necessary to grow business for the sake of margin improvement.
- ▶ **ICA-Pidilite.** ICA reported 42% yoy growth in revenues. The management indicated that Wudfin is a part of ICA-Pidilite now and contributed to strong growth. Adjusted for the same, growth was robust at 20%+. Growth was weak in the past couple of quarters due to DRI matter (classification dispute with authorities around appropriate chapter under GST regime and the applicable GST rate).
- ▶ **Waterproofing business—good traction continues.** Nina and Percept (waterproofing subsidiaries) posted robust 30% and 36% yoy growth in revenues and 50 bps and 150 bps expansion in EBITDA margin, respectively, in 1QFY19. The management indicated that while construction activity is muted, its initiatives are driving better growth. PIDI is focusing on large commercial projects that offer a lot of opportunity. There is limited focus on small individual buildings at this point. The market is still nascent and offers tremendous growth potential
- ▶ **Update on international businesses.** International business posted 6% yoy growth in revenues for the quarter. EBITDA was down 73% to ₹36 mn.
 - **North America** revenues declined 18% yoy due to drop in demand in adult coloring segment. PIDI expects growth to pick up in a few quarters. The company continues to work with large retailers such as Walmart, Amazon, etc.
 - **South America**—Brazil business posted 12% yoy growth in revenues and EBITDA loss of ₹5 mn. The management focus is to run business in an efficient manner while constantly evaluating strategic options.
 - **Bangladesh** sales grew 18% yoy but EBITDA declined 6% due to higher RM costs and SG&A spends.
 - **Middle East & Africa**—Egypt posted 6% yoy in revenues. EBITDA was impacted by higher RM costs and pricing pressure.
- ▶ **A&SP spends**—EBITDA margin in 1QFY19 was slightly impacted by higher A&SP spends (4.7% of revenues; full year guidance remains unchanged at about 4%).
- ▶ **Tax rate**—ETR was higher at 36.2% as transfer of certain intangible assets from subsidiaries to the parent resulted in a gain of ₹330 mn at subsidiary level. While this other income was eliminated in inter-segment elimination the associated tax led to increase in consolidated tax rate. For the full year FY2019, effective tax rate will be marginally higher on yoy basis as one of the facilities is out of tax exemption.

Exhibit 1: Interim consolidated results of Pidilite Industries, March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	% chg.			FY2019E	FY2018	% chg.	1QFY17	2-year CAGR (%)
					KIE Est	yoy	qoq					
Net operating revenue	18,341	18,178	15,203	14,853	1	21	23	71,572	60,784	18	15,694	8
Material cost	(9,074)	(8,816)	(7,381)	(7,119)	3	23	27	(34,816)	(28,877)	21	(7,479)	
Gross profit	9,267	9,361	7,822	7,734	(1)	18	20	36,756	31,908	15	8,215	6
Gross margin (%)	50.5	51.5	51.5	52.1	-98 bps	-93 bps	-155 bps	51.4	52.5	-114 bps	52.3	
Employee cost	(2,071)	(2,066)	(1,809)	(1,735)	0	14	19	(8,032)	(7,124)	13	(1,625)	
Other expenditure	(3,379)	(3,453)	(2,803)	(3,260)	(2)	21	4	(13,042)	(11,371)	15	(2,650)	
Total expenditure	(14,524)	(14,335)	(11,994)	(12,114)	1	21	20	(55,889)	(47,372)	18	(11,754)	
EBITDA	3,817	3,843	3,210	2,739	(1)	19	39	15,683	13,412	17	3,939	(2)
EBITDA margin (%)	20.8	21.1	21.1	18.4	-33 bps	-31 bps	236 bps	21.9	22.1	-16 bps	25.1	
Other income	321	330	432	521	(3)	(26)	(38)	1,742	1,484	17	241	
Interest	(73)	(22)	(37)	(38)	230	95	90	(74)	(155)	(53)	(35)	
Depreciation	(301)	(315)	(313)	(298)	(4)	(4)	1	(1,372)	(1,199)	14	(258)	
Pretax profits	3,764	3,836	3,292	2,924	(2)	14	29	15,979	13,542	18	3,887	(2)
Tax	(1,361)	(1,242)	(1,033)	(922)	10	32	48	(5,293)	(4,392)	21	(1,174)	
Share of Profit/ (Loss) of associates	4	12	6	8	(65)	(24)	(49)	(41)	46	(190)	9	
Minority Interest	(21)	(10)	(0)	(34)	111	10450	(38)	50	(37)	(235)	(22)	
Recurring PAT	2,387	2,596	2,265	1,976	(8)	5	21	10,695	9,159	17	2,700	(6)
Extraordinary items	—	—	—	465	—	—	—	—	465	—	—	
Net profit (reported)	2,387	2,596	2,265	2,441	(8)	5	(2)	10,695	9,624	11	2,700	
Recurring EPS	4.7	5.1	4.4	3.9	(8)	6	21	20.9	17.9	17	5.3	(6)
Income tax rate (%)	36.1	32.4	31.4	31.5	376 bps	478 bps	462 bps	33.1	32.4	69 bps	30.2	
Costs as a % of net operating revenues												
Material cost	49.5	48.5	48.5	47.9	97 bps	92 bps	154 bps	48.6	47.5	113 bps	47.7	
Employee cost	11.3	11.4	11.9	11.7	-8 bps	-61 bps	-39 bps	11.2	11.7	-50 bps	10.4	
Other expenditure	18.4	19.0	18.4	21.9	-57 bps	-2 bps	-353 bps	18.2	18.7	-49 bps	16.9	
Segment results												
Revenues (NOT STRICTLY COMPARABLE YOY DUE TO GST)												
Consumer & Bazaar products	15,941		14,232	12,276		12	30				14,547	
Industrial products	2,576		2,485	2,727		4	(6)				2,482	
Others	162		161	126		1	29				97	
Less: intersegment	(338)		(271)	(275)		25	23				(213)	
Total segment revenue	18,341		16,607	14,853		10	23				16,913	
Segment PBIT												
Consumer & Bazaar products	4,030		3,300	2,821		22	43				3,915	
Industrial products	379		365	469		4	(19)				452	
Others	(33)		(3)	(14)		997	128				1	
Total segment EBIT	4,376		3,662	3,276		20	34				4,368	
Segment PBIT margins (%) - NOT STRICTLY COMPARABLE YOY DUE TO GST												
Consumer & Bazaar products	25.3		23.2	23.0		209 bps	230 bps				26.9	
Industrial products	14.7		14.7	17.2		4 bps	-250 bps				18.2	
Others	(20.3)		(1.9)	(11.4)		NM	-883 bps				0.5	
Capital employed												
Consumer & Bazaar products	20,124		15,119	19,244		33	5				14,124	
Industrial products	3,267		2,750	3,453		19	(5)				2,389	
Others	357		337	406		6	(12)				337	
Unallocated corporate	16,464		18,734	14,388		(12)	14				13,210	
Total capital employed	40,213		36,939	37,491		9	7				30,060	

Source: Company, Kotak Institutional Equities

Exhibit 2: Interim standalone results of Pidilite Industries, March fiscal year-ends (Rs mn)

	Revised			Earlier			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues (Rs mn)	71,572	82,634	94,759	71,430	82,387	94,437	0.2	0.3	0.3
EBITDA (Rs mn)	15,683	18,825	22,333	16,029	19,238	22,388	(2.2)	(2.1)	(0.2)
EBITDA (%)	21.9	22.8	23.6	22.4	23.4	23.7			
PAT (Rs mn)	10,695	13,029	15,665	11,028	13,276	15,663	(3.0)	(1.9)	0.0
EPS (Rs/share)	21.1	25.7	30.8	21.7	26.1	30.8	(3.0)	(1.9)	0.0

Source: Company, Kotak Institutional Equities

Exhibit 3: Performance of international business (Rs mn)

	1QFY19	1QFY18	% chg.
Revenues			
North America	270	331	(18)
South America	207	184	13
Bangladesh	264	224	18
Sri Lanka	73	54	35
Thailand	126	117	8
Egypt	76	72	6
UAE	219	186	18
Others	22	20	10
Total	1,257	1,188	6
EBITDA			
North America	15	30	(50)
South America	(5)	(4)	25
Bangladesh	50	53	(6)
Sri Lanka	(4)	—	NM
Thailand	8	5	60
Egypt	(3)	1	(400)
UAE	(22)	(26)	(15)
Others	(3)	74	(104)
Total	36	133	(73)
EBITDA margin (%)			
North America	5.6	9.1	-351 bps
South America	(2.4)	(2.2)	-25 bps
Bangladesh	18.9	23.7	-473 bps
Sri Lanka	(5.5)	—	-548 bps
Thailand	6.3	4.3	207 bps
Egypt	(3.9)	1.4	-534 bps
UAE	(10.0)	(14.0)	393 bps
Total	2.9	11.2	-834 bps

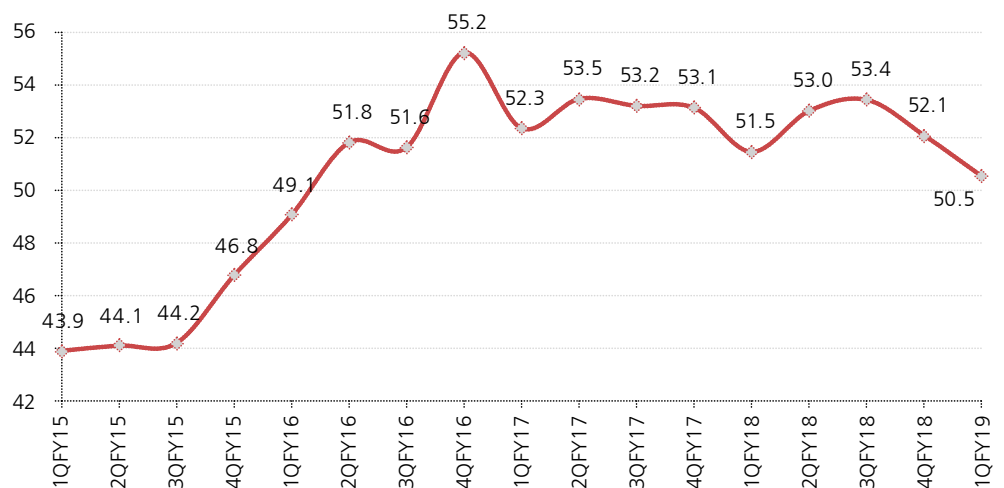
Source: Company, Kotak Institutional Equities

Exhibit 4: Performance of domestic subsidiaries (Rs mn)

	1QFY19	1QFY18	% chg.
Revenues			
Nina	601	463	30
Percept	164	121	36
ICA - Pidilite	371	262	42
Besi & Hybrid	45	57	(21)
CIPY	374	—	
Others	116	83	40
Total	1,671	986	69
EBITDA			
Nina	75	50	50
Percept	25	10	150
ICA - Pidilite	17	3	467
Besi & Hybrid	7	7	
CIPY	39	—	
Others	8	9	(11)
Total	171	79	116
EBITDA margin (%)			
Nina	12.5	10.8	168 bps
Percept	15.2	8.3	697 bps
ICA - Pidilite	4.6	1.1	343 bps
Besi & Hybrid	15.6	12.3	327 bps
CIPY	10.4		
Others	6.9	10.8	-395 bps
Total	10.2	8.0	222 bps

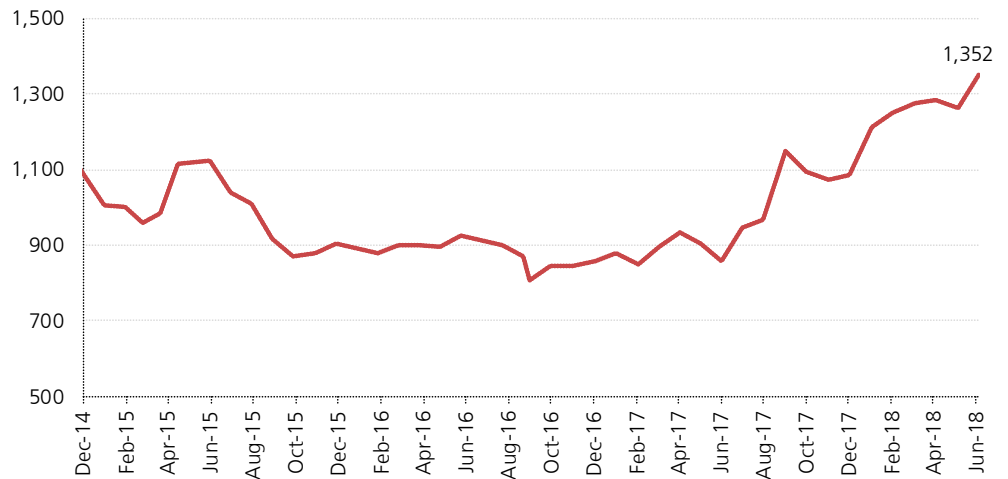
Source: Company, Kotak Institutional Equities

Exhibit 5: Consolidated gross margins declined 100 bps yoy (%)



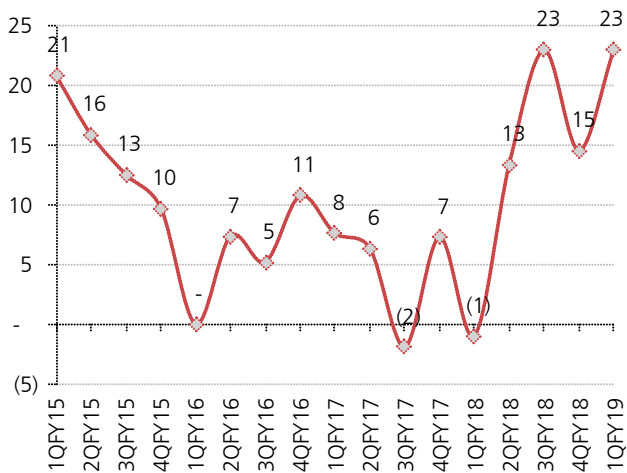
Source: Company, Kotak Institutional Equities

Exhibit 6: VAM prices inched were up about 40% qoq in 1QFY18
 VAM prices trend (FOB China), US\$/MT



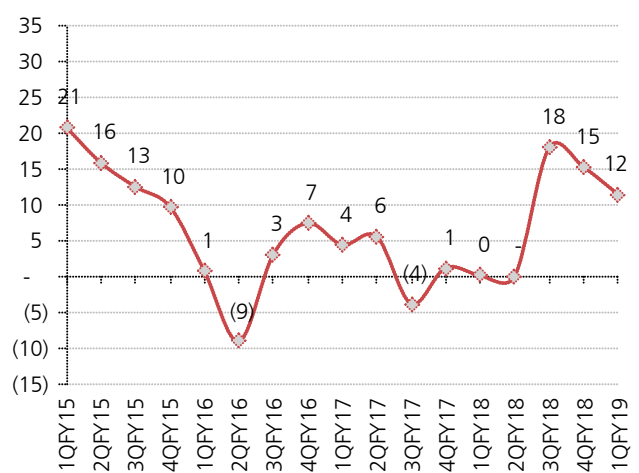
Source: Bloomberg, Kotak Institutional Equities

Exhibit 7: CBP underlying revenues grew 23% yoy (%)



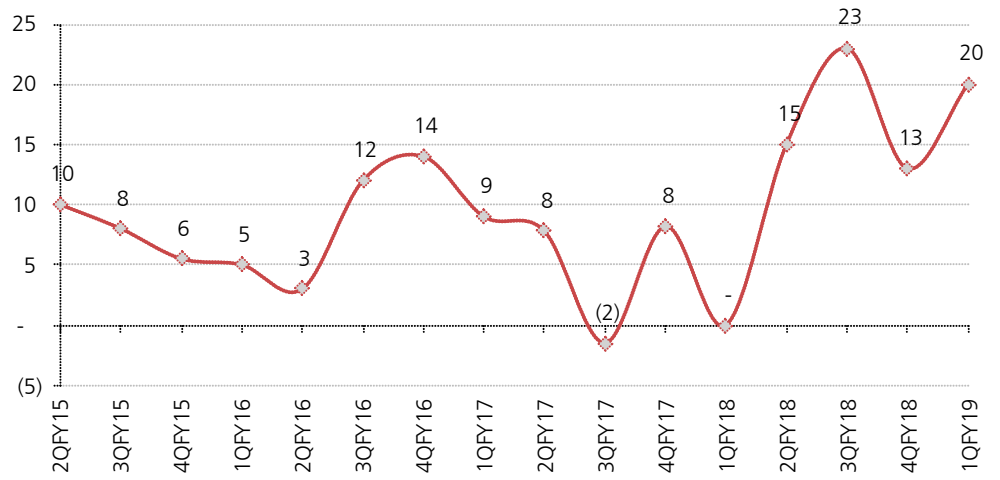
Source: Company, Kotak Institutional Equities

Exhibit 8: Industrial products underlying revenues up 11 (%)



Source: Company, Kotak Institutional Equities

Exhibit 9: CBP volumes sustained strong momentum at 20% yoy
 Consumer Bazaar Products volume + mix growth trends, yoy (%)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 10: Pidilite Industries: consolidated profit & loss, balance sheet and cash flow statement, March fiscal year-ends, 2014-21E (Rs mn)

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

Source: Company, Kotak Institutional Equities estimates

AUGUST 03, 2018
RESULT

 Coverage view: **Neutral**

 Price (₹): **1,523**

Target price (₹): -

 BSE-30: **37,165**

Solid quarter; Unichem synergies playing out. TRP's domestic revenues exceeded estimates by 5%, largely driven by continued growth in TRP core portfolio and also helped by Unichem revenue synergies, with Losar and Unienzyme moving to market-leading growth. TRP also demonstrated its ability to drive margin synergies with Unichem EBITDA margins up an estimated 500 bps within two quarters of the acquisition. We upgrade FY2019-21E EBITDA by 4-7%, though EPS stays largely flat. Torrent is trading at 15X FY2019E and 13.5X FY2020E EV/EBITDA.

Company data and valuation summary

Torrent Pharmaceuticals

Stock data				Forecasts/Valuations			
52-week range (Rs) (high,low)	1,550-1,147			EPS (Rs)	2018	2019E	2020E
Market Cap. (Rs bn)	257.7			EPS growth (%)	(27.4)	18.0	29.6
Shareholding pattern (%)				P/E (X)	38.0	32.2	24.8
Promoters	71.2			Sales (Rs bn)	60.0	77.1	87.0
FIs	8.4			Net profits (Rs bn)	6.8	8.0	10.4
MFs	9.8			EBITDA (Rs bn)	13.5	19.8	22.7
Price performance (%)				EV/EBITDA (X)	21.1	14.2	12.1
Absolute	1M	3M	12M	ROE (%)	15.1	15.3	17.2
	7.4	10.4	19.4	Div. Yield (%)	1.0	0.7	0.9
Rel. to BSE-30	1.9	4.5	4.4				

Solid quarter, as revenues and margins outperform

TRP's 1QFY18 revenues exceeded our estimates by ~5% driven by stronger domestic revenues, which grew 20% yoy, exceeding our estimates by 6%. The growth was driven by Torrent core portfolio, which grew at 33% yoy with GST adjusted growth at 15% and Unichem contributing ~₹2.2 bn for the quarter, on track to achieve our FY2019 revenue estimate of ₹9 bn for Unichem. US and Brazil were largely in line with our estimates, though RoW and Germany exceeded our estimates by 24% and 11%, respectively. Gross margins at ~70% were down 300 bps qoq, impacted by (1) inventory provision in Brazil (-110 bps), (2) BRL translation (-40 bps), (3) margin mix in the EU (-50 bps) and (4) price erosion (-50 bps) in the US. EBITDA margins further expanded to 25.5%, benefitting from Unichem cost synergies with EBITDA exceeding our estimates by 5.4%, though lower other income resulted in PAT missing by ~5%.

Productivity improvements playing out—Losar and Unienzyme back to market-leading growth

TRP's 25.5% EBITDA margins were largely driven by declines in SG&A cost, reflecting cost synergies from the Unichem acquisition. We see this margin performance as noteworthy as it implies that Unichem EBITDA margins have already crossed 25%, up 500 bps within two quarters of the close of the transaction with further cost synergies expected over the course of the year. The company is on track for cash breakeven of the acquisition by end of FY2019. However, revenue synergies are critical for significant value accretion, and 1QFY18 saw significant progress, with its top-5 brands growing at 11% yoy (AIOCD estimates) versus 10% growth for the underlying market. Importantly, Losar growth moved up to 12%, up from 2% in 4QFY18, benefitting from better penetration in select specialties such as nephrology, where 90% of specialists recommend losartan. TRP has increased its market share in this segment by 10-12 pps. Similar improvement in growth rates was seen in other key products, including Unienzyme, which grew at 25% qoq. The management also highlighted improvements in field force productivity, with the combined entity productivity now at ₹6 mn per annum, close to TRP's pre-acquisition levels ₹7.3 mn. We see a material scope for improvement here.

EBITDA upgrade driven by synergy gains

We upgrade our FY2019-21E EBITDA numbers by 4-7%, though PAT remains largely flat for FY2019-20E due to lower other income. TRP shares are trading at ~25X FY2020E EPS and 13.5X FY2020E EV/EBITDA, though given the acquisition, we believe EV/EBITDA is a better metric.

 Chirag Talati, CFA
 chirag.talati@kotak.com
 Mumbai: +91-22-4336-0871

 Kumar Gaurav
 kumar.g@kotak.com
 Mumbai: +91-22-4336-0872

Exhibit 1: Torrent Pharma interim results
March fiscal year-ends (Rs mn)

	1QFY19E	1QFY19E	1QFY18	4QFY18	(% chg.)			yoy		(% chg.)
					1QFY19E	1QFY18	4QFY18	FY2019E	FY2018	
Sales	18,720	17,891	13,740	17,220	4.6	36.2	8.7	77,079	58,570	31.6
Raw material	(5,580)	(4,830)	(4,010)	(4,630)	15.5	39.2	20.5	(22,741)	(17,920)	26.9
Employee expenses	(3,460)	(3,233)	(2,630)	(3,170)	7.0	31.6	9.1	(14,067)	(9,930)	41.7
R&D expenses	(1,280)	(1,300)	(1,010)	(1,390)	(1.5)	26.7	(7.9)	(5,396)	(4,330)	24.6
Other expenses	(3,630)	(4,000)	(3,120)	(4,390)	(9.3)	16.3	(17.3)	(15,030)	(12,610)	19.2
EBITDA	4,770	4,527	2,970	3,640	5.4	60.6	31.0	19,845	13,780	44.0
EBITDA - adjusted	4,770	4,527	2,970	3,640	5.4	60.6	31.0	19,845	13,780	44.0
Other income / exceptionals	270	600	1,050	420				2,300	2,230	
Interest	(1,220)	(1,250)	(560)	(1,210)				(4,590)	(2,060)	
Depreciation	(1,500)	(1,550)	(800)	(1,510)				(6,442)	(3,070)	
Pretax profits	2,320	2,327	2,660	1,340	(0.3)	(12.8)	73.1	11,113	10,880	2.1
Tax	(690)	(605)	(780)	940				(3,112)	(1,540)	
Minority interest	—	—	—	—				—	—	
Net income - reported	1,630	1,722	1,880	2,280	(5.3)	(13.3)	(28.5)	8,002	9,340	(14.3)
Net income - adjusted	1,630	1,722	1,880	2,280	(5.3)	(13.3)	(28.5)	8,002	9,340	(14.3)
Adjusted EPS (Rs)	9.6	10.2	11.1	13.5	(5.3)	(13.3)	(28.5)	47.3	55.3	(14.3)
Tax rate (%)	29.7	26.0	29.3	(70.1)				28.0	14.2	
Segment wise sales										
Domestic Formulation	8,300	7,820	4,640	6,930	6.1	78.9	19.8	34,200	19,700	73.6
US	3,340	3,216	2,720	3,070	3.9	22.8	8.8	13,475	13,470	0.0
Brazil	1,690	1,629	1,810	2,150	3.7	(6.6)	(21.4)	7,799	6,990	11.6
Other branded	1,680	1,353	1,230	1,320	24.2	36.6	27.3	5,705	4,780	19.4
Other generics	2,510	2,262	2,020	2,480	10.9	24.3	1.2	10,488	8,110	29.3
CRAMS and others	1,200	1,610	1,320	1,270	(25.5)	(9.1)	(5.5)	5,412	5,450	(0.7)
Total	18,720	17,891	13,740	17,220	4.6	36.2	8.7	77,079	58,500	31.8
% margin										
Raw material	(29.8)	(27.0)	(29.2)	(26.9)	(2.81)			(29.5)	(30.6)	
Staff cost	(18.5)	(18.1)	(19.1)	(18.4)	(0.41)			(18.3)	(17.0)	
R&D expenses	(6.8)	(7.3)	(7.4)	(8.1)	0.43			(7.0)	(7.4)	
Other expenditure	(19.4)	(22.4)	(22.7)	(25.5)	2.97			(19.5)	(21.5)	
EBITDA	25.5	25.3	21.6	21.1				25.7	23.5	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Torrent Pharma – change in earnings estimates
March fiscal year-ends (Rs mn)

	New estimates			Old estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Sales	77,079	87,023	97,417	76,579	85,990	95,780	0.7	1.2	1.7
Gross profits	54,338	61,645	69,332	54,515	61,248	68,278	(0.3)	0.6	1.5
EBITDA	19,845	22,745	26,816	18,523	21,797	25,028	7.1	4.4	7.1
PBT	11,113	14,204	18,515	10,677	14,141	17,362	4.1	0.4	6.6
PAT	8,002	10,369	13,701	7,901	10,464	13,021	1.3	(0.9)	5.2
EPS (Rs)	47.3	61.3	81.0	46.7	61.8	77.0	1.3	(0.8)	5.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Torrent Pharma – US sales build-up

March fiscal year-ends, 2013-21E (US\$ mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Limited competition/P-IV's/FTF's	32	47	19	272	71	38	43	47	46
TRP base business	32	74	120	140	130	132	151	175	195
Total sales	64	121	139	412	201	170	194	221	240
growth %	42.2	89.2	14.5	196.8	(51.1)	(15.3)	13.9	14.2	8.5
Limited competition/P-IV's as % of sales	50.6	39.1	13.6	66.1	35.4	22.5	22.1	21.2	19.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Torrent Pharma – revenue build-up

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

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Domestic formulations	10,240	11,610	16,138	18,340	19,770	23,510	34,200	38,369	43,022
Export formulations	17,931	26,409	27,008	42,285	29,383	30,327	33,953	38,554	42,907
US	3,456	7,320	8,320	26,710	13,460	11,000	13,475	15,848	17,716
Brazil	5,020	5,330	6,060	4,654	3,723	4,170	3,722	4,168	4,669
Mexico	325	445	530	406	426	533	666	833	1,041
Russia/CIS	800	912	581	232	209	220	246	275	309
Germany (Heumann)	3,840	6,308	6,128	6,245	6,994	9,442	10,386	11,424	12,567
Europe/CEE	2,320	3,540	2,210	1,486	1,634	1,879	2,067	2,274	2,501
RoW	2,170	2,554	3,179	2,552	2,937	3,084	3,392	3,731	4,104
CRAMS	3,000	3,230	5,120	6,000	5,450	4,080	4,162	4,245	4,330
Others	457	700	—	—	—	—	—	—	—
Total	31,628	41,949	48,266	66,870	58,570	60,020	75,829	85,773	96,167
% yoy growth									
Domestic formulations	13	13	39	14	8	19	45	12	12
Export formulations	22	47	2	57	(31)	3	12	14	11
US	60	112	14	221	(50)	(18)	22	18	12
Brazil	5	6	14	(23)	(20)	12	(11)	12	12
Mexico	106	37	19	(23)	5	25	25	25	25
Russia/CIS	14	14	(36)	(60)	(10)	5	12	12	12
Germany (Heumann)	10	64	(3)	2	12	35	10	10	10
Europe/CEE	29	53	(38)	(33)	10	15	10	10	10
RoW	40	18	24	(20)	15	5	10	10	10
CRAMS	0	8	59	17	(9)	(25)	2	2	2
Others	408	53	(100)	—	—	—	—	—	—
Total	18	33	15	39	(12)	2	26	13	12
% of total sales									
Domestic formulations	32	28	33	27	34	39	45	45	45
Export formulations	57	63	56	63	50	51	45	45	45
US	11	17	17	40	23	18	18	18	18
Brazil	16	13	13	7	6	7	5	5	5
Mexico	1	1	1	1	1	1	1	1	1
Russia/CIS	3	2	1	0	0	0	0	0	0
Germany (Heumann)	12	15	13	9	12	16	14	13	13
Europe/CEE	7	8	5	2	3	3	3	3	3
RoW	7	6	7	4	5	5	4	4	4
CRAMS	9	8	11	9	9	7	5	5	5
Others	1	2	—	—	—	—	—	—	—
Total	100	100	100	100	100	100	100	100	100

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Torrent Pharma – profit and loss, balance sheet, cash model
March fiscal year-ends, 2013-21E (Rs mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit and loss statement									
Net sales	31,696	41,847	46,534	66,870	58,570	60,020	77,079	87,023	97,417
COGS	(10,505)	(13,886)	(14,148)	(15,770)	(17,910)	(16,740)	(22,741)	(25,378)	(28,085)
Gross profit	21,191	27,961	32,386	51,100	40,660	43,280	54,338	61,645	69,332
Staff cost	(6,549)	(7,834)	(8,418)	(8,420)	(9,930)	(11,350)	(14,067)	(15,403)	(16,944)
SG&A	(6,975)	(8,071)	(11,856)	(12,890)	(12,630)	(13,810)	(15,030)	(16,970)	(18,266)
R&D	(1,111)	(1,700)	(1,910)	(2,450)	(4,320)	(4,630)	(5,396)	(6,527)	(7,306)
EBITDA	6,556	10,356	10,201	27,340	13,780	13,490	19,845	22,745	26,816
Pretax profits	5,817	8,438	9,398	23,430	10,880	9,310	11,113	14,204	18,515
Tax	(1,476)	(1,833)	(1,888)	(6,100)	(1,540)	(2,530)	(3,112)	(3,835)	(4,814)
Net profit	4,350	6,637	7,510	17,330	9,340	6,780	8,002	10,369	13,701
Shares outstanding (mn)	169	169	169	169	169	169	169	169	169
EPS (Rs)	25.7	39.2	44.4	102.4	55.2	40.1	47.3	61.3	81.0
Balance sheet									
Current assets	25,598	34,046	40,587	46,882	53,842	52,623	58,628	65,073	74,154
Net block	10,825	13,808	15,999	20,177	23,909	28,400	32,746	36,851	40,716
Goodwill and intangibles	226	286	17,804	17,591	16,575	52,631	47,844	43,056	38,269
Fixed assets	11,919	15,995	38,524	43,697	47,408	89,809	89,367	88,685	87,763
Total assets	37,517	50,041	79,111	90,579	101,250	142,432	147,995	153,758	161,918
Current liabilities	12,287	16,239	18,277	22,602	22,979	36,738	39,584	40,653	41,337
Debt	9,355	12,951	31,885	28,753	31,041	56,398	52,398	48,398	44,398
Other long-term liabilities	1,656	1,827	4,038	4,278	3,724	3,069	3,624	4,335	5,260
Total liabilities	23,298	31,017	54,201	55,633	57,744	96,205	95,607	93,386	90,996
Shareholders' equity	14,219	19,024	24,910	34,946	43,506	46,227	52,388	60,372	70,922
Total liabilities and equity	37,517	50,041	79,111	90,579	101,250	142,432	147,995	153,758	161,918
Cash flow									
Profit before taxes	5,817	8,438	9,398	23,434	10,881	9,310	11,113	14,204	18,515
Depreciation and amortisation	827	870	1,907	2,376	3,069	4,086	6,442	6,682	6,922
Change in working capital	(4,218)	(1,197)	(4,094)	4,236	(1,435)	(3,601)	(1,360)	(1,597)	(2,145)
Other adjustments	(891)	(2,119)	890	(2,625)	(2,388)	(853)	(2,556)	(3,125)	(3,888)
Total operational cash flow	1,536	5,993	8,102	27,421	10,127	8,942	13,639	16,164	19,404
Investment cash flow									
Investment in fixed assets	(2,929)	(4,001)	(2,426)	(5,991)	(4,868)	(7,913)	(6,000)	(6,000)	(6,000)
Acquisitions	85	19	(19,539)	(2,310)	(1,298)	(39,619)	—	—	—
Total investment cash flow	(2,417)	(3,653)	(21,623)	(8,379)	(7,869)	(47,070)	(6,000)	(6,000)	(6,000)
Total financing cash flow	197	864	12,123	(14,352)	(1,918)	34,174	(7,840)	(8,385)	(9,151)
Net cash flow	(733)	3,197	(1,393)	4,295	211	(3,954)	(201)	1,779	4,253
Free cash flow	(1,309)	2,011	(13,862)	19,120	3,961	(38,590)	7,639	10,164	13,404
Margins and ratios									
Gross profit margin (%)	66.9	66.8	69.6	76.4	69.4	72.1	70.5	70.8	71.2
EBITDA margin (%)	20.7	24.7	21.9	40.9	23.5	22.5	25.7	26.1	27.5
Tax rate (%)	25.4	21.7	20.1	26.0	15.0	27.2	28.0	27.0	26.0
RoAE (%)	34.1	36.6	37.1	46.0	40.9	19.5	15.7	17.3	19.6
RoACE (%)	28.4	30.8	26.6	30.3	28.9	13.7	13.1	15.7	18.2

Source: Company, Kotak Institutional Equities estimates

AUGUST 03, 2018

RESULT

Coverage view: **Neutral**

Price (₹): **286**

Target price (₹): **340**

BSE-30: **37,165**

Continues to deliver. Apollo reported strong 1QFY19 results with 92% yoy EBITDA growth, which was in line with our estimates. Consolidated revenue growth of 31% yoy reflects (1) improving domestic franchise of the company in the domestic market leading to market share gain and (2) ramp-up of Hungary plant and premiumization of product portfolio in Europe. Going ahead, while India business remains on a strong footing, we expect performance of Europe business to improve significantly over FY2019-20E. Reiterate BUY with unchanged TP of ₹340.

Company data and valuation summary

Apollo Tyres

Stock data

52-week range (Rs) (high,low)	307-228
Market Cap. (Rs bn)	163.7

Shareholding pattern (%)

Promoters	40.3
FIs	24.3
MFs	18.8

Price performance (%)

	1M	3M	12M
Absolute	13.4	(1.4)	3.1
Rel. to BSE-30	7.6	(6.6)	(9.9)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	13.4	19.7	24.7
EPS growth (%)	(38.0)	46.9	25.7
P/E (X)	21.4	14.5	11.6
Sales (Rs bn)	148.4	180.3	208.9
Net profits (Rs bn)	7.2	11.3	14.1
EBITDA (Rs bn)	16.5	23.7	29.1
EV/EBITDA (X)	11.9	8.7	7.3
ROE (%)	8.5	11.0	12.5
Div. Yield (%)	1.0	1.0	1.0

Strong 1QFY19 results led by 33% yoy revenue growth in standalone business

Apollo Tyres reported 1QFY19 consolidated net profit of ₹2.5 bn (+185% yoy), which was 4% above our estimates on stronger revenue growth and lower tax rate. Consolidated revenues increased by 31% yoy (7% above estimates) led by (1) 33% yoy revenue growth in the standalone business (KIE: 20% yoy) driven by 32% yoy volume growth with strong double-digit volume growth across segments and market share gains in the truck-bus radial segment, and (2) 22% yoy revenue growth in Europe business (in line). Consolidated EBITDA margin came in at 12.3% (+390 bps yoy), which was below our estimate of 13.3%. Standalone EBITDA margin was 13.5% (+520 bps yoy), which was 70 bps below our estimate of 14.2%. Gross margin declined by 180 bps qoq (KIE: flat qoq), which was partly offset by operating leverage benefits. In Europe, EBIT margin was 1.8% (down 60 bps yoy and flat qoq), which was largely in line with our estimates. Given the fact that the Hungary plant is in ramp-up mode, we would not be too much worried on the miss in profitability at this stage; we expect EBIT margin of Europe business to improve to around 7% in FY2020.

Domestic business on strong footing, Europe business performance to improve in FY2019-20E

We expect Apollo's outperformance in the India business (compared to peers) to sustain over the next few years and expect the company to deliver (1) 13% volume CAGR over FY2018-21E led by market share gains in truck-bus radial and PV segments and (2) 14-15% EBITDA margin. Higher replacement segment mix and greater share of ultra-high performance tires are key drivers for margin improvement over the medium term. We expect Vredestein's revenues to grow at 19% CAGR over FY2018-21E led by ramp-up of the Hungary plant (front-ended growth); EBITDA margin will likely improve to 13%/15% levels in FY2020/21E (9.1% in 1QFY19).

Fine-tune earnings estimates; reiterate BUY with unchanged TP of ₹340

We have fine-tuned our FY2019-21E earnings estimates with marginal increase in EBITDA estimates but largely unchanged EPS estimates on higher capex assumptions in India business. Apollo Tyres remains our top pick in the tire sector; valuations are attractive at 11.5X FY2020E EPS. We expect valuations to re-rate with (1) continued strong performance in India and (2) recovery in the Europe business both in terms of revenue growth and profitability.

Nishit Jalan

nishit.jalan@kotak.com
Mumbai: +91-22-4336-0877

Hitesh Goel

hitesh.goel@kotak.com
Mumbai: +91-22-4336-0878

Three key factors that should drive margin improvement over the medium term

- ▶ **Higher replacement mix in truck-bus radial segment in India.** In truck-bus radial segment, volume mix for the company from OEMs is more than 50% currently. As radialization increases further, replacement volume mix will likely increase to 75% over the medium term, which augurs well for company's profitability. Further, post new loading norms in domestic trucks, there could be a shift towards higher-sized tires in radial segment (possibly to 295 from 10R20 currently). This should give Apollo technological advantage over the domestic peers and is positive for both market share and profitability.
- ▶ **Better product mix in the domestic passenger vehicle segment.** We note two key medium-term EBITDA margin drivers for the company in the passenger vehicle segment: (1) Apollo's OEM volume mix has increased over the past two years (Apollo has become market leader in OEM segment) due to entry into premium hatchback/SUV models (Brezza, new Swift/Dzire, Hyundai Creta, Skoda Superb, Innova Crysta, etc.) across OEMs. Going ahead, as these models come up for replacement, Apollo should gain market share in the replacement market and (2) improvement in mix led by shift towards higher rim-size tires (15-17 inches).
- ▶ **Increased share of ultra high performance (UHP) tires in Europe.** The company is consistently working towards increasing the share of UHP tires (defined as >17 inch tires) in overall volume mix in Europe. Mix of UHP tires increased by 6-7% to around high 20s in FY2018 leading to mid-single digit increase in ASPs in Europe. Consequently, despite pricing pressures and RM cost pressures, company's gross margin in Europe was flattish yoy in FY2018. We note that even in 1QFY19, 9% revenue growth in Europe manufacturing operations was driven by 7% yoy increase in ASPs. Further, rationalizing of SKUs between Netherland and Hungary plants (higher-sized tires to be manufactured in Netherlands plant) should also lead to improved production efficiencies, which bodes well for the margins.

Key takeaways from the analyst day and conference call

- ▶ **Volume-led revenue growth in the standalone business.** Domestic revenues increased by 32.5% yoy in 1QFY19 led largely by volume growth. Truck-bus radial tire volumes grew by almost 65% yoy and the company gained 2-3% market share and further consolidated its leadership position in the segment. Average truck-bus radial tire production was around 10,000 tires in 1QFY19. Passenger vehicle volumes improved by around 20% yoy in 1QFY19. OEM mix has increased to 30% in FY2018 and 1QFY19 from around 25% few years back.
- ▶ **Price increases and operating leverage to help sustain profitability in India.** RM cost increased by 5% qoq in 1QFY19 and will inch up further in 2QFY19. The company has taken 2% price hike in truck-bus radial segment in mid-May 2018 and plans to take further price increases in 2QFY19. As per our checks, in truck-bus bias segment, Apollo took 2% price increase in July 2018 and is also contemplating price hike in passenger vehicle segment. This coupled with operating leverage benefits should help sustain EBITDA margin at around 14% levels in FY2019E, in our view.

- ▶ **Improvement in performance of Europe business.** Europe business revenues increased by 22% yoy (in rupee terms) aided by (1) 9% yoy revenue growth (2% volume growth and 7% increase in ASPs) and (2) 13% yoy due to benefit of euro appreciation versus Indian rupee. Vredestein business revenues increased by 9% yoy to EUR119 mn in 1QFY19; EBITDA margin in Vredestein was around 9.1% in 1QFY19 (8.1% in 1QFY18 and 10% in 4QFY18). The company highlighted that production capacity of Hungary plant was around 5,500 tires per day by end-1QFY19, has improved to 7,000 tires per day in 2QFY19 and will increase to 12,000 tires per day by 4QFY19. The company has commenced supplies to VW and Ford in Europe and is under discussion with BMW as well. Medium-term target volume mix in passenger vehicle segment from Europe plants: (1) 20% supplies to OEMs, (2) 10:20% from exports particularly to US market and (3) remaining 60-70% from replacement market in Europe. Revenues in Reifencom was EUR40 mn in 1QFY19 (+10% yoy) while EBITDA margin was around 3%.
- ▶ **Anti-dumping duty on truck tires in Europe is positive for Apollo.** Europe has imposed anti-dumping duty of EUR50-80 per truck tire (15-20%) on Chinese imports, which used to account for around 20% of overall replacement industry. We believe that this is positive for Apollo's Europe business from both volume growth and profitability perspective. The company will commission its truck bus radial tire capacity in Hungary by end-2QFY19.
- ▶ **Capacity expansion plans in the India business.** The company plans to incur capex of ₹65 over the next three years – (1) ₹55 bn in India, which will be towards greenfield plant in Andhra (₹38 bn), de-bottlenecking of passenger vehicle capacity (10% capacity addition), conversion of truck bias tire capacity to OHT tires, setting up of small two-wheeler radial tire capacity and maintenance capex and (2) ₹10 bn in Europe towards completion of capex in Hungary plant and maintenance capex in Netherlands plant. Apollo is working towards de-bottlenecking capacity in passenger vehicle segment; this can help the company grow PV segment volumes by double-digits in FY2019E. The company has started construction of new passenger vehicle tire plant in Andhra Pradesh; this plant will get commissioned in 2HFY20E.
- ▶ **Other key points.** (1) Apollo now has around 5% market share in two-wheeler replacement tires for commuter bikes and has launched all-steel radial tires, which has received positive initial response from customers, (2) global RM sourcing through Singapore entity gives Apollo cost advantage – as per the company, this benefitted profits by around ₹0.9 bn in FY2018 and (3) the company has added 100 dealers in India and will continue to strengthen dealer network in the domestic market.

Exhibit 1: 1QFY19 consolidated PAT was 4% ahead of our estimates
Interim results of Apollo Tyres, consolidated, March fiscal year-ends (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	(% chg.)
					1QFY19E	1QFY18	4QFY18			
Total Income	42,880	39,889	32,825	40,313	7.5	30.6	6.4	180,267	148,405	21.5
Total Expenditure	(37,599)		(30,072)	(35,161)		25.0	6.9	(156,591)	(131,893)	18.7
Raw materials	(24,087)		(19,473)	(22,053)		23.7	9.2	(102,555)	(83,955)	22.2
Employee expense	(6,067)		(4,517)	(6,036)		34.3	0.5	(24,370)	(21,566)	13.0
Other expenditure	(7,445)		(6,082)	(7,073)		22.4	5.3	(29,667)	(26,371)	12.5
EBITDA	5,281	5,287	2,753	5,152	(0.1)	91.8	2.5	23,676	16,513	43.4
Depreciation	(1,841)	(1,820)	(1,258)	(1,768)	1.1	46.3	4.1	(7,862)	(5,926)	
Interest	(430)	(485)	(340)	(476)	(11.3)	26.4	(9.6)	(2,017)	(1,629)	
Other income	406	400	67	437	1.5	503.9	(7.1)	1,621	1,165	
PBT	3,416	3,382	1,221	3,345	1.0	179.8	2.1	15,417	10,123	52.3
Share of profit from associates	0	0	0	0						
Tax expenses	(898)	(964)	(338)	(844)	(6.8)	165.5	6.4	(4,163)	(2,885)	
PAT	2,518	2,418	883	2,501		185.2	0.7	11,254	7,239	
Adjusted PAT	2,518	2,418	883	2,501	4.2	185.2	0.7	11,254	7,239	55.5
Adjusted EPS (Rs)	4.4	4.2	1.7	4.4	4.2	153.8	0.7	19.7	13.4	46.9
Ratios (%)										
Gross margin	43.8		40.7	45.3				43.1	43.4	
Employee cost as % of sales	14.1		13.8	15.0				13.5	14.5	
Other expenditure as % of sales	17.4		18.5	17.5				16.5	17.8	
EBITDA (%)	12.3	13.3	8.4	12.8				13.1	11.1	
Effective tax rate	26.3	28.5	27.7	25.2				27.0	28.5	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Strong performance of standalone business was driven by robust revenue growth
Interim results of Apollo Tyres, standalone, March fiscal year-ends (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	(% chg.)
					1QFY19E	1QFY18	4QFY18			
Total Income	30,598	27,645	23,085	28,413	10.7	32.5	7.7	123,209	102,997	19.6
Total Expenditure	(26,464)	(23,725)	(21,159)	(24,382)	11.5	25.1	8.5	(105,840)	(90,523)	16.9
Raw materials	(19,364)	(17,049)	(15,562)	(17,471)	13.6	24.4	10.8	(77,487)	(65,455)	18.4
Employee expense	(1,860)	(1,920)	(1,520)	(1,916)	(3.1)	22.4	(2.9)	(7,736)	(7,097)	9.0
Other expenditure	(5,240)	(4,756)	(4,076)	(4,995)	10.2	28.6	4.9	(20,617)	(17,972)	14.7
EBITDA	4,134	3,920	1,926	4,031	5.5	114.6	2.6	17,369	12,474	39.2
Depreciation	(1,012)	(1,060)	(840)	(1,045)	(4.5)	20.5	(3.2)	(4,274)	(3,644)	
Interest	(370)	(390)	(298)	(380)	(5.2)	24.0	(2.7)	(1,555)	(1,375)	
Other income	285	400	165	447	(28.8)	72.6	(36.3)	1,371	1,218	
PBT	3,037	2,870	953	3,053	5.8	218.7	(0.5)	12,911	8,673	48.9
Exceptional items	—	—	—	—				—	—	
Tax expense	(868)	(804)	(282)	(816)	8.0	208.3	6.4	(3,615)	(2,449)	
PAT	2,169	2,066	671	2,237	5.0	223.1	(3.0)	9,296	6,224	49.4
EPS	3.8	3.6	1.3	3.9	5.0	187.5	(3.0)	16.3	11.5	41.1
Ratios (%)										
RM as % of sales	63.3	61.7	67.4	61.5				62.9	63.5	
Employee cost as % of sales	6.1	6.9	6.6	6.7				6.3	6.9	
Other expenditure as % of sales	17.1	17.2	17.7	17.6				16.7	17.4	
EBITDA (%)	13.5	14.2	8.3	14.2				14.1	12.1	
Effective tax rate	28.6	28.0	29.5	26.7				28.0	28.2	

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Europe business reported double-digit volume growth in 1QFY19

Interim segmental results of Apollo Tyres, consolidated, March fiscal year-ends, 2016-19 (₹ mn)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	% change	
														Yoy	Qoq
Segment revenues															
Asia Pacific	24,311	23,112	22,004	22,109	23,082	21,390	22,476	24,274	23,296	25,189	27,024	28,827	31,034	33	8
Europe	7,369	7,630	8,177	8,562	10,548	9,918	12,619	9,881	10,164	10,061	13,991	12,076	12,420	22	3
Others	301	2,327	2,132	1,756	3,031	3,781	3,151	4,980	7,012	6,486	6,624	7,959	9,027	29	13
Less: intersegment	(995)	(2,934)	(2,736)	(2,277)	(3,545)	(4,240)	(3,667)	(5,878)	(7,647)	(6,970)	(7,139)	(8,549)	(9,601)	26	12
Total revenues	30,985	30,136	29,577	30,149	33,116	30,849	34,579	33,256	32,825	34,767	40,501	40,313	42,880	31	6
Segment EBIT															
Asia Pacific	3,546	3,386	3,081	3,549	3,608	3,073	2,793	2,300	1,146	2,108	3,169	3,441	3,390	196	(1)
Europe	803	431	936	253	914	463	1,299	376	243	183	572	200	228	(6)	14
Others	(22)	73	59	124	66	106	113	167	222	256	229	247	267	21	8
Less:															
Interest expense	(260)	(256)	(210)	(241)	(269)	(228)	(283)	(248)	(340)	(402)	(410)	(476)	(430)		
Other unallocable expenses	(12)	64	51	33	10	73	27	(9)	(49)	(91)	(56)	(67)	(39)		
PBT (after exceptional expenses)	4,055	3,698	3,917	3,718	4,328	3,488	3,949	2,585	1,221	2,054	3,503	3,345	3,416	180	2
EBIT (%)															
Asia Pacific	14.6	14.7	14.0	16.1	15.6	14.4	12.4	9.5	4.9	8.4	11.7	11.9	10.9		
Europe	10.9	5.6	11.4	3.0	8.7	4.7	10.3	3.8	2.4	1.8	4.1	1.7	1.8		
Others	(7.3)	3.1	2.8	7.1	2.2	2.8	3.6	3.3	3.2	3.9	3.5	3.1	3.0		

Source: Company, Kotak Institutional Equities

Exhibit 4: Standalone volumes increased by 32% yoy; increase in RM cost per kg was steep at 4.4% qoq

Quarterly standalone per ton ratios of Apollo Tyres, consolidated, March fiscal year-ends, 2016-19 (₹)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	Yoy (%)	Qoq (%)
Tonnage (tons)	105,261	107,835	108,149	115,617	118,945	108,000	115,000	121,398	114,188	120,960	133,400	142,035	150,728	32.0	6.1
Net sales per kg (Rs)	203.7	210.0	199.5	188.6	191.1	192.2	191.4	196.4	202.2	205.1	200.1	200.0	203.0	0.4	1.5
RM per kg (Rs)	116.0	124.0	114.7	103.2	104.9	109.1	111.3	124.4	136.3	132.1	123.3	123.0	128.5	(5.7)	4.4
GM per kg (Rs)	87.7	86.0	84.8	85.4	86.2	83.1	80.1	72.0	65.9	73.0	76.8	77.0	74.5	13.1	(3.3)
EBITDA per kg (Rs)	38.3	37.0	34.0	34.4	33.4	30.6	28.0	22.8	16.9	23.6	27.5	28.4	27.4	62.6	(3.4)

Source: Company, Kotak Institutional Equities

Exhibit 5: Apollo has reported stronger revenue growth in past few quarters compared to other domestic tire companies

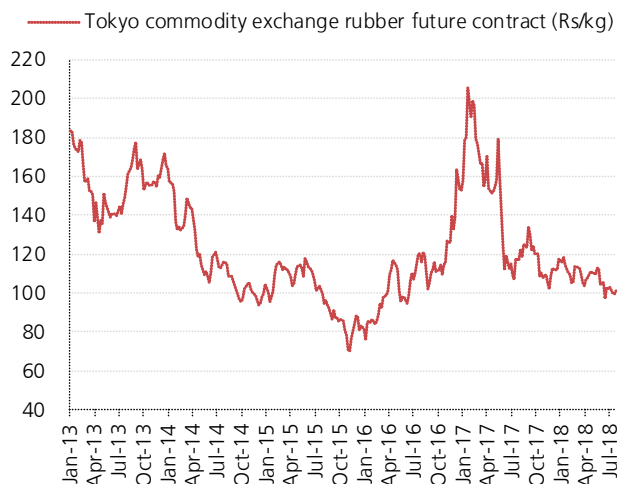
Comparison of key ratios of Apollo standalone, CEAT and MRF, March fiscal year-ends, 1QFY15-1QFY19 (%)

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Apollo standalone - key ratios (%)																	
Revenue growth (yoy)	6.6	6.8	(1.5)	2.1	(7.1)	0.7	1.7	(3.5)	6.0	(8.4)	2.0	9.3	1.5	19.5	21.3	19.2	19.8
Raw material cost/sales	66.8	63.0	63.4	60.4	57.0	59.1	57.5	54.7	54.9	56.8	58.2	63.3	67.4	64.4	61.6	61.5	61.7
Staff cost/sales	6.4	5.8	5.9	6.6	6.3	6.2	6.8	6.6	6.9	7.2	6.6	5.9	6.6	6.9	6.4	6.7	6.9
Other expenses/sales	14.3	16.7	15.4	16.3	17.9	17.1	18.6	20.4	20.8	20.1	20.6	19.1	17.7	17.2	18.3	17.6	17.2
EBITDA margin (%)	12.5	14.5	15.3	16.6	18.8	17.6	17.0	18.3	17.5	15.9	14.6	11.6	8.3	11.5	13.7	14.2	14.2
CEAT - key ratios (%)																	
Revenue growth (yoy)	10.2	7.9	(1.5)	1.2	(0.1)	(2.5)	(3.5)	(2.4)	3.3	4.9	4.9	4.3	(0.3)	7.0	12.1	13.6	15.4
Raw material cost/sales	65.6	61.7	59.7	59.1	57.6	56.3	55.7	56.4	57.3	57.8	58.8	62.9	66.5	60.8	58.7	61.2	61.4
Staff cost/sales	5.7	6.0	6.6	6.8	6.5	7.2	7.0	6.5	6.2	6.7	7.2	6.8	6.6	7.0	6.8	6.4	6.6
Other expenses/sales	19.6	20.5	21.3	21.6	20.2	22.7	22.4	23.7	23.8	22.4	23.0	20.8	23.1	20.2	22.1	20.3	21.6
EBITDA margin (%)	9.1	11.7	12.5	12.5	15.6	13.8	14.9	13.4	12.7	13.1	10.9	9.6	3.7	12.0	12.4	12.1	10.4
MRF - key ratios (%)																	
Revenue growth (yoy)	13.5	9.4	6.8	1.9	5.4	6.1	(4.8)	3.9	0.1	(8.2)	(0.8)	(1.4)	2.4	10.5	19.6	15.8	NA
Raw material cost/sales	65.7	63.7	59.5	53.6	55.8	54.9	54.6	55.3	54.4	55.2	57.0	59.8	67.5	60.0	58.4	59.2	NA
Staff cost/sales	5.6	5.7	5.4	7.0	6.1	6.1	7.0	6.6	6.5	7.8	7.9	7.6	7.2	7.5	7.3	7.0	NA
Other expenses/sales	16.2	15.9	17.1	16.8	14.3	16.1	15.1	16.7	15.0	16.7	17.2	16.9	17.6	15.6	15.8	16.0	NA
EBITDA margin (%)	12.5	14.7	18.1	22.6	23.7	22.9	23.3	21.4	24.1	20.2	17.8	15.7	7.7	16.9	18.5	17.7	NA

Source: Company, Kotak Institutional Equities

Exhibit 6: International rubber prices have inched lower over the last one month

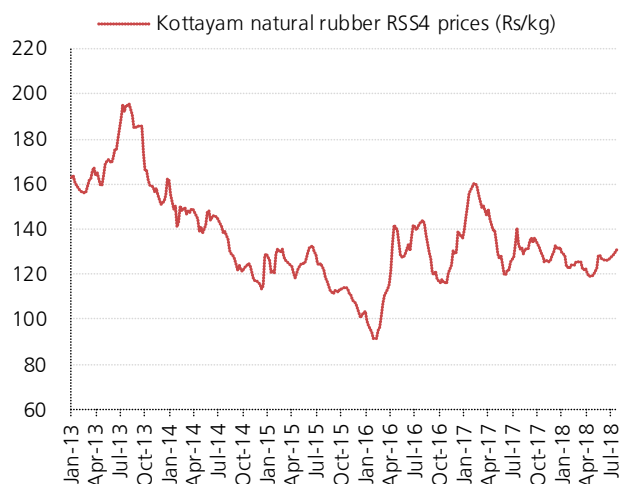
Tokyo commodity exchange rubber future contract, 2013-18 (₹ per kg)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 7: Domestic natural rubber prices have marginally moved up over the last one month

Kottayam natural rubber RSS4 prices, 2013-18 (₹ per kg)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 8: Synthetic rubber prices have increased over the past couple of months

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



Source: Bloomberg, Kotak Institutional Equities

Exhibit 9: Natural rubber prices declined marginally in 1QFY19 while synthetic rubber prices were higher on qoq basis

Natural rubber and synthetic rubber prices, March fiscal year-ends, 1QFY16-1QFY19 (₹ 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	123.6
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	107.3
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	135.0
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: Company, Kotak Institutional Equities

Exhibit 10: We have fine-tuned our earnings estimates

Earnings revision table, Apollo Tyres, March fiscal year-ends, 2019-21E (₹ mn, %)

	New estimates			Old estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Standalone									
Net sales	123,209	141,609	156,084	119,309	135,859	147,785	3.3	4.2	5.6
EBITDA	17,369	20,582	22,996	17,329	20,158	22,243	0.2	2.1	3.4
EBITDA margin (%)	14.1	14.5	14.7	14.5	14.8	15.1			
Net profit	9,296	11,039	11,950	9,341	10,968	11,982	(0.5)	0.7	(0.3)
EPS (Rs)	16.3	19.3	20.9	16.3	19.2	20.9	(0.5)	0.7	(0.3)
Consolidated									
Net sales	180,267	208,924	230,107	176,367	203,174	221,808	2.2	2.8	3.7
EBITDA	23,676	29,106	33,503	23,865	28,796	32,750	(0.8)	1.1	2.3
EBITDA margin (%)	13.1	13.9	14.6	13.5	14.2	14.8			
Net profit	11,254	14,147	16,552	11,360	14,197	16,620	(0.9)	(0.4)	(0.4)
EPS (Rs)	19.7	24.7	28.9	19.9	24.8	29.1	(0.9)	(0.4)	(0.4)

Source: Company, Kotak Institutional Equities estimates

Exhibit 11: We value Apollo Tyres at ₹340/share based on SoTP methodology
SoTP valuation of Apollo Tyres

	March 2020 EPS (Rs)	Multiple (X)	Value (Rs/share)
Standalone business	19.3	14.0	270
Subsidiaries (primarily Vredestein Europe)	5.4	12.0	65
Equity value per share (Rs)			335
Target price			340
Implied target P/E on FY2020E consolidated EPS			13.7

Source: Kotak Institutional Equities

Exhibit 12: We expect EBITDA per kg of standalone business to improve over FY2019-20E

Volumes and ratios on per kg basis of standalone business, March fiscal year-ends, 2009-21E (₹/kg)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales volumes (tons)	273,575	326,739	303,116	390,382	397,844	403,234	421,331	436,862	465,546	513,976	593,089	671,987	731,600
Yoy growth (%)	(5.7)	19.4	(7.2)	28.8	1.9	1.4	4.5	3.7	6.6	10.4	15.4	13.3	8.9
Key ratios (Rs per kg)													
Net realizations	148.8	154.1	181.1	209.0	213.8	216.0	212.1	200.5	191.9	200.4	207.7	210.7	213.3
RM cost	107.4	97.1	127.2	159.8	154.6	148.7	135.3	114.3	112.0	127.3	130.6	133.1	134.5
Gross profit	41.4	57.0	54.0	49.2	59.3	67.3	76.9	86.2	79.9	73.0	77.1	77.6	78.8
Employee cost	7.6	8.9	10.1	9.4	10.7	11.2	12.9	13.0	13.3	13.8	13.0	12.7	12.8
Other expenses	22.0	24.2	26.3	22.7	26.0	28.8	32.7	37.4	38.0	35.0	34.8	34.3	34.6
EBITDA	11.9	24.0	17.6	17.1	22.6	27.3	31.2	35.8	28.5	24.3	29.3	30.6	31.4

Source: Company, Kotak Institutional Equities

Exhibit 13: We expect profitability in Europe business to recover in FY2019-20E once Hungary plant ramps up
Key assumptions of standalone and European businesses, March fiscal year-ends, 2012-21E

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Standalone business										
Volumes (MT)	390,382	397,844	403,234	421,331	436,862	465,546	513,976	574,070	643,720	691,221
Yoy growth (%)	29	2	1	4	4	7	10	12	12	7
Sales (Rs mn)	81,579	85,075	87,117	89,378	87,572	89,338	102,997	119,309	135,859	147,785
Yoy growth (%)	49	4	2	3	(2)	2	15	16	14	9
EBITDA (Rs mn)	6,663	8,982	10,989	13,155	15,660	13,273	12,474	17,329	20,158	22,243
Yoy growth (%)	25	35	22	20	19	(15)	(6)	39	16	10
EBITDA margin (%)	8.2	10.6	12.6	14.7	17.9	14.9	12.1	14.5	14.8	15.1
EBITDA (Rs per kg)	17.1	22.6	27.3	31.2	35.8	28.5	24.3	30.2	31.3	32.2
Europe										
Sales (Euro mn)	427	426	459	462	424	456	472	582	687	755
Yoy growth (%)	16	(0)	8	1	(8)	8	3	23	18	10
Netherland plant							446	424	403	387
Hungary plant							26	158	284	368
EBITDA (Euro mn)	72	81	82	78	55	59	40	66	91	113
Yoy growth (%)	14	13	2	(5)	(30)	8	(32)	65	37	24
EBITDA (%)	16.8	19.0	17.9	17.0	13.0	13.0	8.6	11.4	13.2	15.0

Source: Company, Kotak Institutional Equities

Exhibit 14: We expect standalone EPS to grow at 22% CAGR over FY2018-21E
Apollo Tyres standalone financials, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)										
Net sales	81,579	85,075	87,117	89,378	87,572	89,338	102,997	123,209	141,609	156,084
EBITDA	6,663	8,982	10,989	13,155	15,660	13,273	12,474	17,369	20,582	22,996
Other income	182	574	792	375	2,038	1,353	1,218	1,371	1,121	1,051
Interest	(2,413)	(2,610)	(2,446)	(1,721)	(901)	(888)	(1,375)	(1,555)	(1,632)	(1,774)
Depreciation	(1,857)	(2,201)	(2,480)	(2,468)	(2,651)	(2,882)	(3,644)	(4,274)	(4,739)	(5,675)
Profit before tax	2,575	4,745	6,855	9,341	14,145	10,856	8,673	12,911	15,332	16,598
Tax expense	(762)	(1,620)	(1,718)	(2,891)	(4,124)	(2,829)	(2,449)	(3,615)	(4,293)	(4,647)
Exceptional items	—	—	(710)	—	—	—	—	—	—	—
PAT	1,813	3,125	4,426	6,451	10,021	8,028	6,224	9,296	11,039	11,950
Adjusted PAT	1,813	3,125	5,137	6,451	8,935	8,028	6,224	9,296	11,039	11,950
Adjusted EPS (Rs)	3.6	6.1	10.1	12.7	17.6	15.8	11.5	16.3	19.3	20.9
Balance sheet (Rs mn)										
Equity	20,476	23,414	27,398	32,707	46,578	53,312	72,606	79,837	88,810	98,695
Total borrowings	21,482	18,778	15,137	0	8,345	19,736	26,474	22,974	30,974	25,974
Deferred tax liability	2,959	3,518	3,909	4,122	4,445	5,153	5,443	5,443	5,443	5,443
Current liabilities	12,778	12,662	14,675	11,582	15,827	20,559	26,902	32,930	36,132	38,771
Total liabilities	57,695	58,372	61,120	48,411	75,196	98,760	131,426	141,184	161,359	168,883
Net fixed assets	31,613	33,203	32,886	32,367	37,162	54,166	63,857	80,583	98,844	103,169
Investments	5,627	6,127	6,515	6,519	10,043	10,049	16,394	16,394	16,394	16,394
Cash	1,156	1,542	2,211	3,078	7,927	5,338	15,996	4,123	1,912	1,866
Other current assets	19,300	17,500	19,509	19,250	20,063	29,207	35,180	40,084	44,209	47,454
Total assets	57,695	58,372	61,120	61,214	75,195	98,760	131,426	141,184	161,359	168,883
Cash flow (Rs mn)										
Operating cash flow	6,631	8,496	9,954	11,692	13,309	11,400	10,457	13,754	16,289	18,348
Working capital changes	(1,946)	1,683	1,301	(2,087)	4,833	(8,019)	(897)	1,123	(923)	(606)
Capital expenditure	(4,606)	(3,791)	(1,919)	(2,762)	(6,935)	(15,505)	(12,120)	(21,000)	(23,000)	(10,000)
Free cash flow	(2,333)	3,778	6,846	5,037	10,227	(12,686)	(3,649)	(7,677)	(9,266)	5,968
Ratios										
EBITDA margin (%)	8.2	10.6	12.6	14.7	17.9	14.9	12.1	14.1	14.5	14.7
Net debt/equity (X)	0.99	0.74	0.47	(0.09)	0.01	0.27	0.14	0.24	0.33	0.24
Book value (Rs/share)	40.2	46.0	53.8	64.3	91.5	104.7	134.3	139.6	155.2	172.5
RoAE (%)	9.2	14.2	20.2	21.5	22.5	16.1	9.9	12.2	13.1	12.7
RoACE (%)	10.2	12.8	18.7	21.2	25.3	16.2	10.2	12.7	12.4	12.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 15: We expect Apollo Tyres to deliver consolidated EPS CAGR of 29% over FY2018-21E
 Apollo Tyres consolidated financial, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)										
Net sales	121,533	127,946	134,120	127,852	118,486	131,800	148,405	180,267	208,924	230,107
EBITDA	11,661	14,567	18,755	19,306	19,975	18,487	16,513	23,676	29,106	33,503
Other income	326	944	978	538	648	1,516	1,165	1,621	1,271	1,201
Interest	(2,873)	(3,128)	(2,838)	(1,828)	(926)	(1,029)	(1,629)	(2,017)	(2,091)	(2,113)
Depreciation	(3,256)	(3,966)	(4,109)	(3,883)	(4,268)	(4,618)	(5,926)	(7,862)	(8,907)	(9,917)
Profit before tax	5,858	8,418	12,787	14,133	15,429	14,356	10,123	15,417	19,379	22,674
Tax expense	(1,444)	(2,448)	(2,269)	(3,532)	(4,677)	(3,365)	(2,885)	(4,163)	(5,232)	(6,122)
Exceptional items	294	169	468	825	478	—	—	—	—	—
PAT	4,709	6,138	10,986	11,426	11,230	10,990	7,239	11,254	14,147	16,552
Adjusted PAT	4,503	6,020	10,659	10,848	10,895	10,990	7,239	11,254	14,147	16,552
Reported EPS (Rs)	9.3	12.1	21.6	22.4	22.1	21.6	13.4	19.7	24.7	28.9
Adjusted EPS (Rs)	8.8	11.8	20.9	21.3	21.4	21.6	13.4	19.7	24.7	28.9
Balance sheet (Rs mn)										
Equity	28,335	34,009	45,746	50,423	61,822	72,900	97,767	106,956	119,037	133,523
Total borrowings	28,676	26,459	16,082	11,062	13,497	40,026	51,407	49,407	50,407	40,407
Deferred tax liability	4,025	4,928	5,241	4,912	5,556	7,661	8,389	8,389	8,389	8,389
Current liabilities	22,883	19,860	23,262	19,457	29,765	32,374	43,971	49,686	54,885	58,867
Total liabilities	83,920	85,255	90,332	85,854	110,640	152,962	201,533	214,437	232,718	241,186
Net fixed assets	43,544	44,892	45,015	44,867	60,090	94,292	125,011	143,149	159,241	161,325
Goodwill	1,338	1,436	1,376	1,165	4,711	1,774	2,061	2,061	2,061	2,061
Investments	158	546	637	470	42	17	35	35	35	35
Cash	1,730	3,348	6,541	6,946	7,158	7,314	19,382	7,576	1,756	2,221
Other current assets	37,150	35,033	36,770	32,406	45,720	49,565	55,045	61,617	69,626	75,545
Total assets	83,920	85,254	90,339	85,854	117,721	152,962	201,533	214,437	232,718	241,186
Cash flow (Rs mn)										
Operating cash flow	10,787	14,460	15,153	16,302	18,018	16,253	14,043	19,513	23,874	27,381
Working capital changes	(3,100)	(1,480)	1,302	(2,286)	3,207	(7,230)	3,154	(858)	(2,809)	(1,938)
Capital expenditure	(7,895)	(5,999)	(4,909)	(6,201)	(16,158)	(32,636)	(30,672)	(26,000)	(25,000)	(12,000)
Free cash flow	(2,977)	3,896	8,664	5,902	4,120	(24,272)	(14,798)	(9,362)	(6,025)	11,330
Ratios										
EBITDA margin (%)	9.6	11.4	14.0	15.1	16.9	14.0	11.1	13.1	13.9	14.6
Net debt/equity (X)	0.95	0.68	0.21	0.08	0.10	0.45	0.33	0.39	0.41	0.29
Book value (Rs/share)	55.7	66.8	89.9	99.1	121.5	143.2	180.9	187.0	208.1	233.4
RoAE (%)	15.6	19.7	26.4	20.3	18.7	15.8	8.5	11.0	12.5	13.1
RoACE (%)	12.4	13.4	21.4	21.1	17.2	11.9	6.4	8.3	9.3	10.1

Source: Company, Kotak Institutional Equities estimates

AUGUST 03, 2018

RESULT

Coverage view: **Cautious**

Price (₹): 235

Target price (₹): 250

BSE-30: 37,165

Slow progress. TGBL's international business turnaround, India profit growth acceleration and the two JVs (Starbucks and Nourishco) all remain promising stories. Delivery on the promise, however, has become patchy again while Tata Coffee's performance has also been a drag for the past couple of quarters. Commodity-price-linkage of parts of the business continues to reflect in volatile performance. Weak 1QFY19 consolidated earnings print drives a 17-18% cut in FY2019-21E EPS forecasts and a 12% cut in fair value SoTP target to ₹250 (from ₹285). REDUCE.

Company data and valuation summary

Tata Global Beverages

Stock data			Forecasts/Valuations				
			2018	2019E	2020E		
52-week range (Rs) (high,low)	329-152		EPS (Rs)	7.3	7.9	9.3	
Market Cap. (Rs bn)	148.6		EPS growth (%)	20.7	7.7	17.0	
Shareholding pattern (%)			P/E (X)	32.0	29.7	25.4	
Promoters	34.5		Sales (Rs bn)	68.2	71.4	75.9	
FIs	23.5		Net profits (Rs bn)	4.6	5.0	5.8	
MFs	10.2		EBITDA (Rs bn)	8.4	8.5	9.6	
Price performance (%)			EV/EBITDA (X)	16.8	16.3	14.3	
Absolute	1M	3M	12M	ROE (%)	7.0	7.0	7.9
	(11.0)	(19.6)	42.6	Div. Yield (%)	1.1	1.3	1.5
Rel. to BSE-30	(15.5)	(23.9)	24.6				

1QFY19 – weak yoy comps for Tata Coffee and subdued comps for standalone business

Consolidated performance. Revenues grew 6% yoy to ₹18 bn; branded business was up 7% in reported and 8% in constant currency terms while non-branded business was a drag. Gross margins declined 103 bps yoy to 45.6% while EBITDA margins declined 53 bps yoy. EBITDA grew a modest 2% yoy to ₹2.49 bn. While adspends and staff costs were flat yoy, other expenses saw a 10% yoy growth. Recurring PAT grew 13% yoy to ₹1.34 bn (EPS: ₹2.13/share), aided by a strong 99% yoy jump in other income and flattish D&A charge. ETR stood at 35.5%.

Standalone performance. Revenues grew 6% yoy to ₹9.1 bn, 2% below our estimate. Gross margins were steady yoy at 40.4%. The company indicated volume growth and value growth of 8% and 6%, respectively for the India tea business with the negative realization growth reflecting both price cuts and mix effect. EBITDA of ₹1.67 bn (+4% yoy) was in line with our expectations. Adspends declined 38% yoy; however, the flow-through benefit of the same was completely negated by the sharp 48% yoy jump in other expenses. Recurring PAT was 10% ahead of expectation at ₹1.48 bn, aided by higher-than-expected other income. ETR stood at 31.6%, flat yoy.

The modest ₹46 mn yoy increase in absolute consolidated EBITDA was a combination of (a) +₹68 mn in TGBL standalone, (b) a drag of ₹127 mn in Tata Coffee standalone, (c) modest ₹9 mn drag in EOC, and (d) +₹113 mn in other subsidiaries. On balance, performance outside Tata Coffee was fine even as we are slightly disappointed with the standalone topline growth. Overall subsidiary performance (outside Tata Coffee) is improving slowly but surely.

Slow but sure not good enough

TGBL is a sum of many moving parts and consistent earnings delivery still needs neutral-to-favorable commodity price environment in addition to solid execution. We like the turnaround the management is delivering in the overseas subsidiaries; however, we believe the company can step up the pace a tad. Starbucks holds a lot of promise and we continue to be bullish on this part of the SoTP. Other parts need to fire as well, however. Our REDUCE rating stays.

Rohit Chordia

rohit.chordia@kotak.com
Mumbai: +91-22-4336-0885

Jaykumar Doshi

jaykumar.doshi@kotak.com
Mumbai: +91-22-4336-0882

Aniket Sethi

aniket.sethi@kotak.com
Mumbai: +91-22-4336-0881

Exhibit 1: Key changes to consolidated estimates (Ind-AS), TGBL, March fiscal year-ends, 2019-21E

	Revised			Earlier			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues (Rs mn)	71,401	75,908	80,189	71,761	77,450	82,736	(0.5)	(2.0)	(3.1)
EBITDA (Rs mn)	8,538	9,564	10,602	9,768	11,122	12,298	(12.6)	(14.0)	(13.8)
EBITDA margin (%)	12.0	12.6	13.2	13.6	14.4	14.9			
Net income (Rs mn)	4,995	5,847	6,599	6,001	7,148	8,074	(16.8)	(18.2)	(18.3)
EPS (Rs/share)	7.9	9.3	10.5	9.5	11.3	12.8	(16.8)	(18.2)	(18.3)

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: TGBL: Sum-of-the-parts (SoTP) valuation model, March fiscal year-ends (Rs mn)

Segment	Metric	Multiple (X)	Per share value (Rs)	% of total value	Comment
Standalone (domestic tea)	P/E	23	156	63	At ~40% discount to sector multiple (ex-ITC)
Tata Coffee Business			15	6	Based on Tata Coffee Mcap (25% holding discount)
EOC (TGBL's 50% stake)	EV/EBITDA	6	10		Value for TGBL's stake in EOC
Tetley/other businesses	P/Sales	1.0	32	13	Tetley plus other subsidiaries/acquisitions
Starbucks JV	DCF		31	12	Based on DCF model; attributable value (50% stake)
NourishCo JV	P/Sales	4	6	3	Attributable value (50% stake)
Total Equity Value			250		
Implied consol P/E (X)			26		Jun-20E target PE

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Geography/business-wise key highlights and takeaways from analyst meet

Geography	Comments
India brands	
- India	Good sales growth with tea portfolio growing 8% yoy in volume and 6% yoy in value terms. TGBL is seeing good traction in its recent launches including Tata Tea- Chakra Gold Activ+, Kanan Devan Duet and Tata Tea Elaichi. Company has also managed to enhance its value market share in green tea segment post ad campaign with Deepika Padukone as new brand ambassador. They have also opened three Cha by Tata Tea stores in Bangalore.
CAA	
- USA	Good offtake in US coffee on the back of direct Keurig K-cups sales and higher sales of private labels. Good Earth - brand relaunched with new identity and positioning - also saw good growth in sales. They have also launched Himalayan in the US and are receiving good feedback initially.
- Canada	TGBL managed to report sales growth of 3% yoy despite aggressive competitive environment.
- Australia	Good start in sales of Kombucha (RTD tea) - launched recently. However, coffee sales were weak during the quarter.
EMEA	
- UK	UK saw sales growth of 6% yoy on the back of 4% yoy volume growth. TGBL has managed to gain market share in the black tea category. They have also launched Tetley Super Squash and Tata Cold Infusions - a fruity flavoured drink to be brewed in cold water.
Non branded business	
- Instant Coffee/Plantations	Weak performance due to lower sales in coffee extraction and also some tea crop losses.
Other businesses	
- Nourischo (50:50 JV with PepsiCo)	Continued growth in both volume and value terms. TGBL has also launched a new product, TGP Juice + in March 2018. Furthermore, they are also expanding their distribution reach for Tata Water Plus.
- Tata Starbucks (JV with Starbucks)	Store count up to 119 stores at end-1QFY19 (opened 3 new stores in 1QFY19). Management sounded quite positive on the underlying growth trends in Starbucks - indicated SSSG of more than 25%. Food share in the segment continues to be healthy at more than 20%.
- Bangladesh	Impact of good top line growth was impacted by lower margins due to higher tea costs.
Other highlights/takeaways	
Future Strategy	<p>Key areas of focus</p> <p>(1) Enhanced focus on India businesses- (a) continued investments in incubatory businesses and (b) expansion in adjacent categories, (c) step up focus on NPDs</p> <p>(2) In the recent past, TGBL has entered into branded coffee, launched RTD Fruski and also piloted Tata Cha. The company is also open to enter into new categories through organic and inorganic routes. Recent hiring of M&A head does indicate intent to actively scout for acquisition opportunities</p> <p>(3) continued focus on cost optimization</p>

Source: Company, Kotak Institutional Equities

Exhibit 4: Interim consolidated results of TGBL (as per Ind-AS), March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	% chg.		
					KIE Est	yoy	qoq
Net revenue from operations	18,026	18,067	17,044	16,884	(0)	6	7
Material cost	(9,804)	(9,214)	(9,095)	(9,398)	6	8	4
Gross profit	8,222	8,853	7,949	7,486	(7)	3	10
Gross margin (%)	45.6	49.0	46.6	44.3	-339 bps	-103 bps	127 bps
Employee cost	(2,032)	(2,053)	(2,032)	(2,107)	(1)	(0)	(4)
A&SP	(1,181)	(1,250)	(1,182)	(1,353)	(6)	(0)	(13)
Other expenditure	(2,522)	(2,293)	(2,293)	(2,569)	10	10	(2)
Total expenditure	(15,538)	(14,810)	(14,603)	(15,427)	5	6	1
EBITDA	2,488	3,257	2,442	1,457	(24)	2	71
EBITDA margin (%)	13.8	18.0	14.3	8.6	-423 bps	-53 bps	517 bps
Other income	285	250	143	257	14	99	11
Interest	(126)	(130)	(111)	(136)	(3)	14	(7)
Depreciation	(295)	(287)	(291)	(285)	3	2	4
Pretax profits	2,352	3,090	2,184	1,294	(24)	8	82
Tax	(835)	(942)	(805)	(130)	(11)	4	541
PAT	1,518	2,148	1,379	1,164	(29)	10	30
Minority interest	(119)	(150)	(174)	(121)	(21)	(31)	(2)
Share of associate earnings	(55)	(20)	(12)	(431)	173	371	(87)
PAT after MI/Associates	1,344	1,978	1,193	611	(32)	13	120
Extraordinary items	(182)	—	51	(17)			
Net profit (reported)	1,162	1,978	1,244	595	(41)	(7)	96
Recurring EPS (Rs)	2.13	3.13	1.89	0.97	(32)	13	120
Income tax rate (%)	35.5	30.5	36.9	10.1	497 bps	-141 bps	2541 bps
Costs as a % of sales							
Material cost	54.4	51.0	53.4	55.7		102 bps	-128 bps
Employee cost	11.3	11.4	11.9	12.5		-66 bps	-121 bps
A&SP	6.5	6.9	6.9	8.0		-39 bps	-147 bps
Other expenditure	14.0	12.7	13.5	15.2		53 bps	-123 bps
Segment results							
Revenues							
Tea	13,143		12,457	11,772		6	12
Coffee and other produce	2,917		2,499	2,864		17	2
Others	102		89	97		15	5
Total branded business	16,161		15,044	14,734		7	10
Non branded business	1,929		2,094	2,195		(8)	(12)
Less: intersegmental revenues	(64)		(93)	(44)		(31)	45
Total segment revenue	18,026		17,044	16,884		6	7
Segment EBIT							
Tea	2,100		1,831	1,471		15	43
Coffee and other produce	435		401	433		8	0
Others	(38)		(32)	(69)		18	NM
Total branded business	2,498		2,201	1,835		14	36
Non branded business	177		307	(103)		(42)	(272)
Total segment EBIT	2,675		2,508	1,732		7	54
Segment EBIT margins, %							
Tea	16.0		14.7	12.5		127 bps	348 bps
Coffee and other produce	14.9		16.0	15.1		-114 bps	-22 bps
Others	(36.9)		(35.7)	(71.0)		NM	NM
Total branded business	15.5		14.6	12.5		82 bps	299 bps
Non branded business	9.2		14.7	(5)		-550 bps	1387 bps

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Interim standalone results of TGBL (as per Ind-AS), March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	% chg.		
					KIE Est	yoy	qoq
Net revenue from operations	9,086	9,282	8,594	7,147	(2)	6	27
Material cost	(5,412)	(5,523)	(5,115)	(4,162)	(2)	6	30
Gross profit	3,674	3,759	3,480	2,985	(2)	6	23
Gross margin (%)	40.4	40.5	40.5	41.8	-7 bps	-6 bps	-134 bps
Employee cost	(551)	(550)	(510)	(501)	0	8	10
A&SP	(414)	(600)	(664)	(614)	(31)	(38)	(33)
Other expenditure	(1,040)	(939)	(704)	(1,168)	11	48	(11)
Total expenditure	(7,417)	(7,612)	(6,992)	(6,445)	(3)	6	15
EBITDA	1,670	1,670	1,602	702	(0)	4	138
EBITDA margin (%)	18.4	18.0	18.6	9.8	37 bps	-27 bps	855 bps
Other income	599	350	450	241	71	33	149
Interest	(37)	(30)	(31)	(35)	23	18	5
Depreciation	(73)	(73)	(63)	(73)	0	17	0
Pretax profits	2,158	1,917	1,958	835	13	10	159
Tax	(681)	(575)	(621)	(248)	18	10	175
PAT	1,477	1,342	1,337	587	10	10	152
Extraordinary items	—	—	188	(55)			
Net profit (reported)	1,477	1,342	1,525	532	10	(3)	178
Recurring EPS (Rs)	2.35	2.13	2.12	0.93	10	11	153
Income tax rate (%)	31.6	30.0	31.7	29.7	156 bps	-16 bps	184 bps
Costs as a % of sales							
Material cost	59.6	59.5	59.5	58.2	6 bps	5 bps	133 bps
Employee cost	6.1	5.9	5.9	7.0	13 bps	12 bps	-96 bps
A&SP	4.6	6.5	7.7	8.6	-192 bps	-318 bps	-404 bps
Other expenditure	11.4	10.1	8.2	16.3	133 bps	326 bps	-490 bps

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Interim consolidated results of Tata Coffee (as per Ind-AS), March fiscal year-ends (Rs mn)

	1QFY19	1QFY18	4QFY18	% chg.		EOC (Cons-standalone)		
				yoy	qoq	1QFY19	1QFY18	yoy (%)
Net revenue from operations	4,222	3,676	4,404	15	(4)	2,631	1,863	41
Material cost	(1,990)	(1,473)	(2,458)	35	(19)	(1,492)	(883)	69
Gross profit	2,232	2,203	1,947	1	15	1,138	980	16
Gross margin (%)	52.9	59.9	44.2	-708 bps	866 bps	43.3	52.6	-935 bps
Employee cost	(770)	(719)	(827)	7	(7)	(324)	(313)	4
Other expenditure	(800)	(688)	(746)	16	7	(358)	(203)	77
Total expenditure	(3,559)	(2,879)	(4,030)	24	(12)	(2,175)	(1,398)	56
EBITDA	662	797	374	(17)	77	456	465	(2)
EBITDA margin (%)	15.7	21.7	8.5	-600 bps	719 bps	17.3	24.9	-761 bps
Other income	41	45	81	(10)	(50)	0	(0)	NM
Interest	(104)	(75)	(107)	38	(3)	(85)	(64)	34
Depreciation	(135)	(141)	(135)	(4)	(0)	(80)	(85)	(5)
Pretax profits	465	626	214	(26)	118	291	316	(8)
Tax	(102)	(177)	17	(42)	(698)	(59)	(111)	(47)
PAT	362	449	231	(19)	57	232	206	13
Minority interest	(96)	(104)	(159)	(8)	(40)	(96)	(104)	(8)
Share of associate earnings	—	—	—	—	—	—	—	—
PAT after MI/associate earnings	266	345	71	(23)	274	136	101	34
Extraordinary items	(50)	—	(7)	—	—	—	—	—
Net profit (reported)	216	345	65	(37)	235	136	101	34
Recurring EPS (Rs)	1.2	1.8	0.3	(37)	235	0.7	0.5	34
Income tax rate (%)	22.0	28.3	(8.0)	-629 bps	3002 bps	20.2	35.0	
Costs as a % of sales								
Material cost	47.1	40.1	55.8	707 bps	-867 bps	56.7	47.4	934 bps
Employee cost	18.2	19.5	18.8	-132 bps	-54 bps	12.3	16.8	-447 bps
Other expenditure	18.9	18.7	16.9	23 bps	201 bps	13.6	10.9	272 bps
Eight O' Clock, EOC (US\$ mn)								
Total Income	39.6	28.9	39.6	37	0			

Source: Company, Kotak Institutional Equities

Exhibit 7: Interim standalone results of Tata Coffee (as per Ind-AS), March fiscal year-ends (Rs mn)

	1QFY19	1QFY18	4QFY18	% chg.	
				yoy	qoq
Net revenue from operations	1,591	1,813	1,863	(12)	(15)
Material cost	(498)	(590)	(1,033)	(16)	(52)
Gross profit	1,093	1,223	830	(11)	32
Gross margin (%)	68.7	67.5	44.6	126 bps	2417 bps
Employee cost	(446)	(406)	(513)	10	(13)
Other expenditure	(442)	(485)	(398)	(9)	11
Total expenditure	(1,385)	(1,481)	(1,944)	(6)	(29)
EBITDA	206	333	(81)	(38)	(356)
EBITDA margin (%)	13.0	18.3	(4)	-537 bps	1730 bps
Other income	41	45	206	(10)	(80)
Interest	(18)	(12)	(36)	59	(49)
Depreciation	(55)	(56)	(57)	(3)	(5)
Pretax profits	174	310	32	(44)	441
Tax	(44)	(67)	7	(35)	(730)
PAT	131	244	39	(46)	234
Extraordinary items	—	—	—		
Net profit (reported)	131	244	39	(46)	234
Recurring EPS (Rs)	0.7	1.3	0.2	(46)	234
Income tax rate (%)	25.0	21.5	(21.4)	348 bps	4641 bps
Costs as a % of sales					
Material cost	31.3	32.5	55.4	-127 bps	-2418 bps
Employee cost	28.0	22.4	27.5	562 bps	48 bps
Other expenditure	27.8	26.7	21.4	100 bps	638 bps

Source: Company, Kotak Institutional Equities

Exhibit 8: TGBL: Consolidated profit model, balance sheet, cash model, 2016-2021E, March fiscal year-ends (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)						
Net operating revenues	66,365	67,796	68,154	71,401	75,908	80,189
EBITDA	6,543	7,911	8,389	8,538	9,564	10,602
Other income	820	831	942	1,222	1,138	1,384
Interest	(1,169)	(915)	(428)	(475)	—	—
Depreciation	(1,168)	(1,260)	(1,160)	(1,181)	(1,239)	(1,295)
Pretax profits	5,026	6,567	7,743	8,104	9,463	10,692
Tax	(2,000)	(1,983)	(2,389)	(2,553)	(3,028)	(3,475)
PAT	3,026	4,584	5,354	5,551	6,435	7,217
Minority interest	316	(654)	(609)	(606)	(643)	(679)
Share of associate earnings	(68)	(89)	(108)	50	55	61
PAT after MI/Associates	3,274	3,841	4,637	4,995	5,847	6,599
Extraordinary items	(3,329)	53	319	(182)	—	—
Net profit (reported)	(55)	3,894	4,956	4,813	5,847	6,599
Recurring Net profit	3,274	3,841	4,637	4,995	5,847	6,599
Earnings per share (Rs)	5.2	6.1	7.3	7.9	9.3	10.5
Balance sheet (Rs mn)						
Total equity	62,472	62,655	70,316	72,857	76,053	79,622
Minority interest	8,618	9,195	10,090	10,696	11,339	12,018
Total borrowings	13,541	7,866	10,562	—	—	—
Deferred tax liabilities (net)	786	1,454	167	167	167	167
Total liabilities and equity	85,416	81,169	91,135	83,720	87,559	91,807
Net fixed assets (Incl CWIP)	47,713	46,358	49,333	49,938	50,582	51,259
Investments	12,959	14,510	11,613	11,663	11,718	11,779
Cash	5,010	5,748	12,381	3,743	6,062	8,812
Net current assets (excl cash)	19,734	14,553	17,807	18,376	19,197	19,957
Total assets	85,416	81,169	91,135	83,720	87,559	91,807
Free cash flow (Rs mn)						
Operating cash flow (excl working capital)	3,879	5,927	4,945	5,803	6,536	7,127
Working capital	(2,719)	1,485	(1,389)	(569)	(821)	(760)
Capital expenditure	(1,463)	(1,324)	(3,500)	(1,785)	(1,883)	(1,973)
Free cash flow	(303)	6,088	55	3,449	3,832	4,395
Key assumptions, growth %						
Net revenue growth	—	2.3	0.4	4.6	6.2	5.5
EBITDA growth	(15.6)	20.9	6.0	1.8	12.0	10.9
EPS growth	(4.6)	17.3	20.7	7.7	17.0	12.9
EBITDA margin (%)	9.9	11.7	12.3	12.0	12.6	13.2
Gross margin (%)	45.4	47.5	45.7	45.5	45.8	46.1
Tax rate (% of PBT)	39.8	30.2	30.9	31.5	32.0	32.5
Ratios (%)						
ROE (%)	5.6	6.1	7.0	7.0	7.9	8.5
ROCE (%)	6.3	7.7	8.2	8.3	9.5	10.2

Source: Company, Kotak Institutional Equities estimates

AUGUST 03, 2018

RESULT

Coverage view: **Attractive**

Price (₹): **181**

Target price (₹): **250**

BSE-30: **37,165**

Strong on CFS, weak on rail. GRFL reported a strong print for its CFS EBITDA (up 15% yoy on adjusted basis) and steady performance on rail volumes (7.5% two-year CAGR). EBITDA margin for the rail business was impacted by issues that should alleviate over time. This coupled with the recent increase in its pricing for import containers should yield a good recovery for the rail business over the next one year. We moderate our recovery expectations for rail margin; retain ₹250 SoTP on roll-forward.

Company data and valuation summary

Gateway Distriparks

Stock data				Forecasts/Valuations				
				2018	2019E	2020E		
52-week range (Rs) (high,low)		275-160		EPS (Rs)	7.6	7.2	8.3	
Market Cap. (Rs bn)		19.6		EPS growth (%)	11.2	(5.8)	15.2	
Shareholding pattern (%)				P/E (X)	23.7	25.2	21.9	
Promoters		28.8		Sales (Rs bn)	4.0	13.0	14.6	
FIs		35.1		Net profits (Rs bn)	0.8	0.8	0.9	
MFs		18.1		EBITDA (Rs bn)	0.8	2.5	2.9	
Price performance (%)				EV/EBITDA (X)	22.6	11.3	9.3	
Absolute		1M	3M	12M	ROE (%)	8.2	9.8	14.5
Rel. to BSE-30		(3.3)	1.9	(42.1)	Div. Yield (%)	3.9	0.0	1.7

CFS business benefitting from good growth in overall volumes and stabilizing effect of DPD

The CFS business reported a strong 12%/15% growth in reported/adjusted EBITDA, reflecting a similar growth in volumes. The same suggests stabilizing impact of DPD at ports adjoining its CFSs. The growth profile across CFSs was also comforting with those in JNPT and Chennai likely growing in high single-digit and Krishnapatnam CFS scaling up meaningfully. The latter is important as Krishnapatnam CFS has now turned cash breakeven (still making PAT loss).

Rail business remains steady, still impacted by exim imbalance and infrastructure constraints

Not comparable yoy due to low base, rail business revenues grew a steady 4% qoq, partly on volume and partly on price hike of ₹1,000 per imported TEU effected in May 2018. The full impact of the latter would be visible over the next year given staggered nature of increase for two key accounts. EBITDA per TEU showed some weakness attributable to a (1) stiffening exim imbalance, (2) high discounts and (3) operating expenses against recently leased rakes. These overhangs may reduce given (1) recent weakness in currency (positive for export competitiveness which may reduce imbalance), (2) steady volume growth in the sector (improving bargaining power with customers as capacity utilization inches up) and (3) completion of track repair works by Indian Railways. As per GDL, real benefits of DFC will start flowing only after December 2020, when the 750 km Rewari-Palanpur stretch gets commissioned. Among its terminals, GDL shared concerns over its Ludhiana ICD getting timely benefits of DFC given hindrance of road over bridges built on connecting rail routes over the last few years. As expected, GDL would finance the Blackstone stake purchase by debt. It aims to close the transaction by September 2018.

We revise down our estimates by 5-7%; retain ₹250 SoTP on roll-forward

The CFS business reported a strong 15%/12%/11% growth in volumes/EBITDA/PAT. The rail business reported a steady 7.5% two-year CAGR in 1QFY19. The consolidated PAT adjusted for SEIS income grew a strong 50% yoy largely on account of low yoy base for the rail business. We reduce our estimates by 5-7% as we moderate our expectations of improvement in rail business EBITDA. Roll forward to June 2020E yields unchanged ₹250 per share SoTP.

Aditya Mongia
aditya.mongia@kotak.com
Mumbai: +91-22-4336-0884

Ajinkya Bhat
ajinkya.bhat@kotak.com
Mumbai: +91-22-4336-0883

Exhibit 1: CFS business benefitting from good growth in overall volumes and stabilizing effect of DPD; rail volumes grew in double digits on a low base

GDPL (consolidated) - 1QFY19 - key numbers (Rs mn)

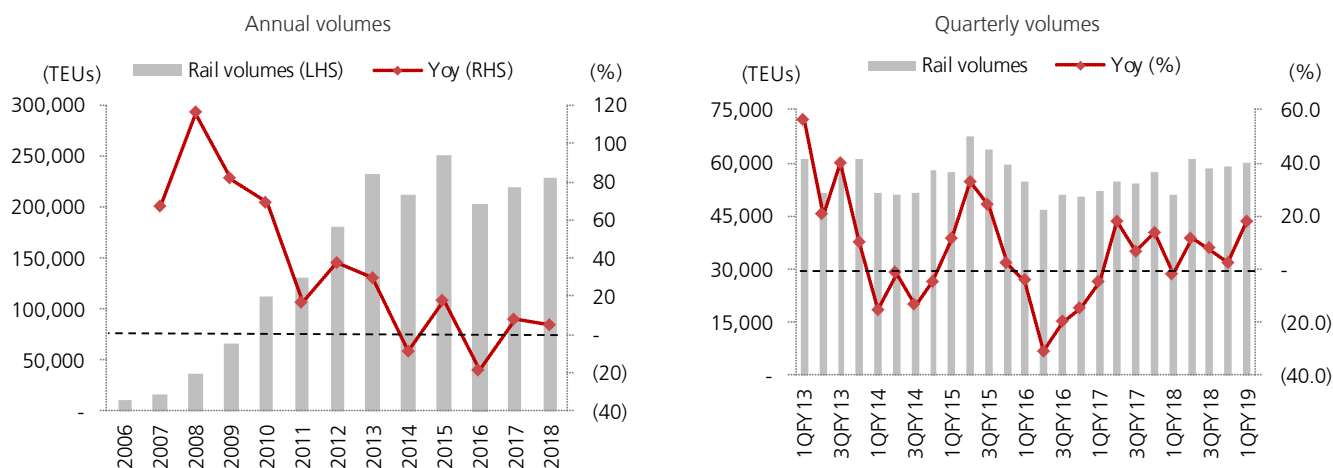
	1QFY19	1QFY19E	1QFY18	4QFY18	% growth			FY2018	FY2017	% change	Pro-forma FY2019E
					vs est.	yoy	qoq				
Sales	1,031	1,047	988	1,022	(1.5)	4.4	0.9	3,955	3,934	0.5	13,019
Expenses	(811)	(837)	(791)	(806)	(3.1)	2.5	0.6	(3,111)	(3,023)	2.9	(10,526)
EBITDA	220	209	196	215	4.9	12.1	2.0	844	911	(7.4)	2,493
Other income	42	39	31	45				138	123		210
Interest	(31)	(36)	(24)	(30)				(108)	(53)		(836)
Depreciation	(85)	(80)	(71)	(84)				(304)	(265)		(889)
PBT	146	132	132	146	10.8	10.8	(0.3)	569	716	(20.4)	978
Tax	(33)	(39)	(29)	(26)				(139)	(150)	(7.3)	(235)
Net profit	113	92	102	120	22.2	9.9	(6.1)	430	565	(23.9)	743
Share of profit of associates	65	44	30	109	48.3			306	176	73.3	37
Net profit for equity holders	176	136	133	225	30.0	33.0	(21.5)	731	742	(1.4)	779

Key ratios (%)											
EBITDA margin	21.3	20.0	19.9	21.1				21.3	23.2		19.1
PBT Margin	14.1	12.6	13.3	14.3				14.4	18.2		7.5
PAT Margin	10.9	8.8	10.4	11.7				10.9	14.4		5.7
Tax rate	22.8	30.0	22.1	18.0				24.5	21.0		24.0
EPS	1.6	1.2	1.2	2.1	30.0	33.0	(21.5)	6.7	6.8	(1.4)	7.2

Source: Company, Kotak Institutional Equities estimates

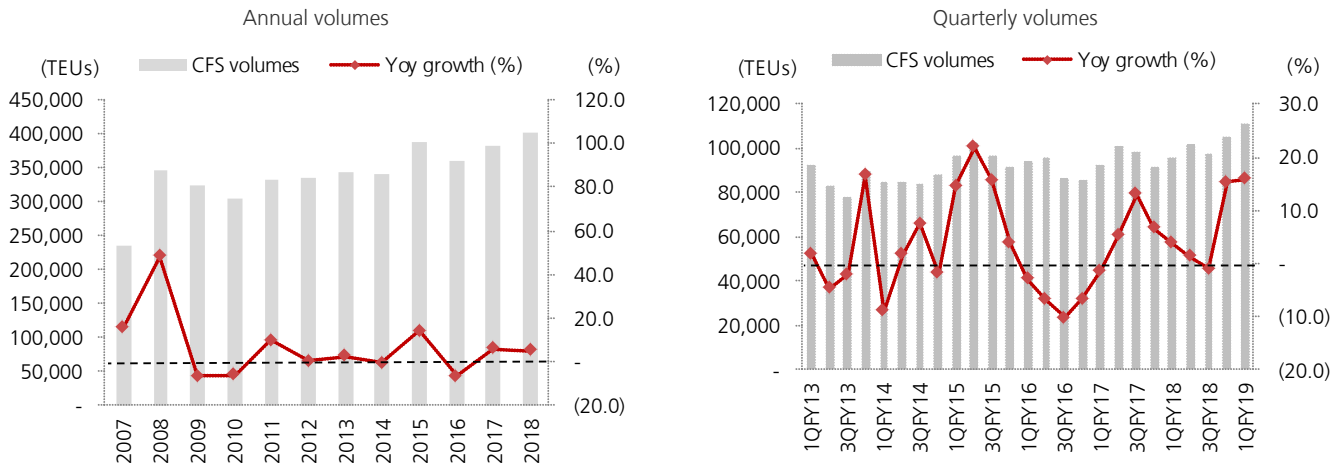
Exhibit 2: While 1QFY19 rail volume growth was strong 18%, two-year CAGR is a modest 7.5%

Annual and quarterly trends in rail volumes for GDPL, March fiscal year-ends (TEUs)



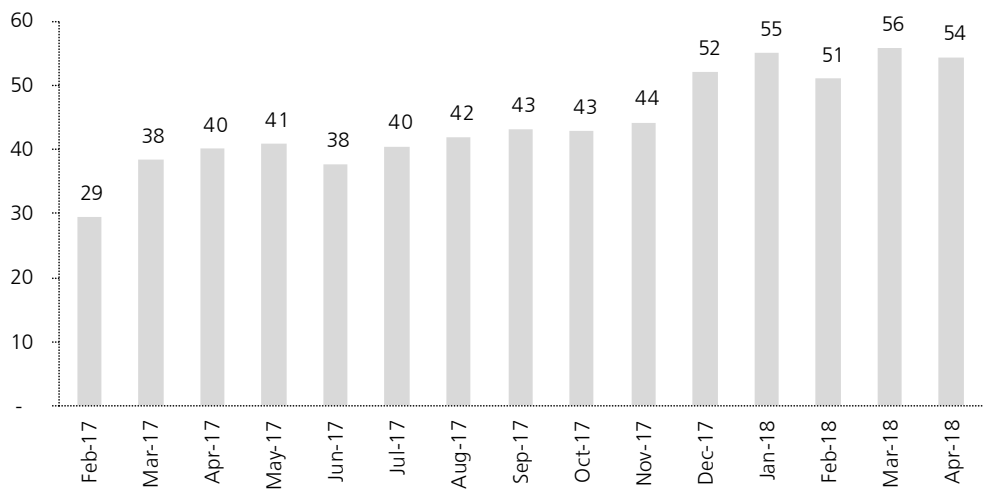
Source: Company, Kotak Institutional Equities

Exhibit 3: CFS volumes grew a strong 16% but increasing DPD volumes will impact realization per TEU
Annual and quarterly trend in CFS volumes for GDPL, March fiscal year-ends (TEUs)



Source: Company, Kotak Institutional Equities

Exhibit 4: DPD volumes have picked up in recent months; govt targets 80% volumes by DPD
DPD volumes at JNPT's terminals, March fiscal year-ends ('000 TEUs)



Source: JNPT, Kotak Institutional Equities

Exhibit 5: Key segmental assumptions for GDL (consolidated), March fiscal year-ends, 2017-21E (Rs mn)

	2017	2018	New estimates			Old estimates (pro-forma) (post Blackstone deal)			Change (%)		
			2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
CFS											
Revenues	3,934	3,955	4,307	4,805	5,348	4,408	4,917	5,472	(2)	(2)	(2)
Volumes (000 TEUs)	382	401	445	482	521	434	470	507	3	3	3
Yoy growth (%)	6	5	11	8	8	8	8	8			
Realization (Rs)	10,293	9,868	9,671	9,961	10,260	10,164	10,469	10,783	(5)	(5)	(5)
Yoy growth (%)	16	(4)	(2)	3	3	3	3	3			
EBITDA	911	844	962	1,121	1,301	985	1,147	1,331	(2)	(2)	(2)
EBITDA margin (%)	16.2	14.9	15.6	16.3	17.0	15.6	16.3	17.0	0 bps	0 bps	0 bps
Rail logistics											
Revenues	7,655	7,593	8,711	9,751	10,847	8,745	9,789	10,889	(0)	(0)	(0)
Volumes (000 TEUs)	219	230	256	278	300	252	274	296	2	2	2
Yoy growth (%)	8	5	11	9	8	10	9	8			
Realization (Rs)	34,942	33,037	34,028	35,049	36,100	34,689	35,730	36,801	(2)	(2)	(2)
Yoy growth (%)	(5)	(5)	3	3	3	5	3	3			
EBITDA	1,335	1,334	1,531	1,811	2,123	1,624	1,916	2,240	(6)	(5)	(5)
EBITDA margin (%)	12.2	12.3	12.3	13.0	13.7	13.0	13.7	14.4	(70) bps	(70) bps	(70) bps
Consolidated											
Sales	3,934	3,955	13,019	14,556	16,194	13,153	14,706	16,360	(1)	(1)	(1)
EBITDA	911	844	2,493	2,932	3,424	2,609	3,063	3,572	(4)	(4)	(4)
PAT (post associates and minority)	744	827	(3,723)	1,250	1,587	(4,320)	966	1,320			
Recurring PAT	744	827	779	898	1,235	822	966	1,320	(5)	(7)	(6)
EPS (Rs)	6.8	7.6	7.2	8.3	11.4	7.6	8.9	12.1	(5)	(7)	(6)

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: March 2020E based SoTP for GDL (Rs per share)

	EBITDA	Multiple	Net debt	Stake	Equity valuation		Comments
	(Rs mn)	(X)	(Rs mn)	(%)	(Rs mn)	(Rs/share)	
Rail business	1,889	13.0	7,965	100	16,560	152	13X March-2020E EV/EBITDA
CFS business	1,166	6.5	(248)	100	7,828	72	6.5X March-2020E EV/EBITDA
Cold-chain business	810	10.0	363	40	2,475	23	10X March-2020E EV/EBITDA less 20% holding company discount
SOTP						247	

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Key financials of GDL (consolidated), March fiscal year-ends, 2011-21E (Rs mn)

	2011	2012	2013	2014	2015	2016	De-consolidation of GRFL under Ind-AS	Reconsolidation after acquisition of Blackstone stake	2019E	2020E	2021E
Income statement											
Income from operations	5,991	8,214	9,540	10,128	11,113	10,508	3,934	3,955	13,019	14,556	16,194
Total operating costs	(4,394)	(5,730)	(7,100)	(7,556)	(7,845)	(8,022)	(3,023)	(3,111)	(10,526)	(11,623)	(12,770)
EBITDA	1,597	2,484	2,441	2,572	3,268	2,487	911	844	2,493	2,932	3,424
Other income	129	144	155	171	128	197	123	138	210	217	225
Financial charges	(182)	(135)	(164)	(279)	(240)	(184)	(53)	(108)	(836)	(1,067)	(1,047)
Depreciation	(502)	(628)	(699)	(801)	(889)	(805)	(265)	(304)	(889)	(934)	(978)
Pre-tax profit	1,041	1,864	1,733	1,663	2,266	1,694	715	569	978	1,149	1,625
Taxation	(44)	(508)	(373)	(190)	(441)	(671)	(150)	(139)	(235)	(308)	(439)
Net PAT	997	1,356	1,360	1,473	1,826	1,024	565	430	743	841	1,186
Minority interest	(30)	(36)	(93)	(114)	(37)	(10)	2	(4)	(0)	(1)	(1)
Associate profit	—	—	—	—	89	83	176	402	37	57	50
Recurring PAT	967	1,320	1,267	1,359	1,878	1,097	744	827	779	898	1,235
Extraordinary/exceptional items	—	—	—	—	—	—	—	—	(4,502)	352	352
Reported PAT	967	1,320	1,267	1,359	1,878	1,097	744	827	(3,723)	1,250	1,587
Recurring EPS (Rs per share)	8.9	12.1	11.7	12.5	17.3	10.1	6.8	7.6	7.2	8.3	11.4
Balance sheet											
Shareholders funds	6,879	7,478	7,887	8,366	9,233	9,413	10,179	10,092	5,778	6,635	7,829
Minority Interest	610	663	806	1,257	259	276	84	89	89	90	91
Preference capital	2,958	2,958	2,958	2,958	2,958	2,958	—	—	—	—	—
Loan funds	1,154	1,037	2,093	2,761	1,529	2,222	1,091	1,135	10,771	10,571	10,371
Total liabilities	11,601	12,135	13,744	15,343	13,980	14,868	11,354	11,316	16,638	17,295	18,291
Net fixed assets	9,832	10,171	11,759	12,788	9,946	10,308	2,921	2,992	11,372	11,395	11,387
Goodwill on consolidation	—	—	511	553	317	317	241	241	241	241	241
Investments	130	—	1	—	1,443	1,492	5,287	5,660	1,492	1,492	1,492
Current investments	—	—	—	340	810	1,531	1,788	1,636	—	—	—
Cash balances	1,506	1,662	927	1,149	744	303	84	93	2,362	2,872	3,741
Net current assets excluding cash	270	442	634	553	870	1,046	849	507	1,067	1,192	1,326
Total assets	11,601	12,135	13,744	15,343	13,979	14,868	11,354	11,316	16,638	17,295	18,291
Cash flow statement											
Cashflow from operating activities	335	2,073	1,933	2,098	2,375	2,050	613	847	(2,510)	3,069	3,429
Cashflow from investing activities	(1,602)	(860)	(1,932)	(2,005)	(1,957)	(1,562)	(559)	7	(3,429)	(900)	(920)
Cashflow from financing activities	1,219	(940)	(146)	(92)	(700)	(729)	(121)	(892)	8,208	(1,660)	(1,640)
Net Cash Inflow / Outflow	(49)	273	(145)	1	(282)	(241)	(67)	(38)	2,269	510	869
Closing Cash & Cash Equivalent	746	1,779	1,517	929	867	503	30	(8)	2,362	2,872	3,741
Growth (%)											
Revenue growth		37.1	16.1	6.2	9.7	(5.4)	(62.6)	0.5	NM	11.8	11.3
EBITDA growth		55.6	(1.8)	5.4	27.1	(23.9)	(63.4)	(7.4)	NM	17.6	16.8
PAT growth		36.5	(4.1)	7.3	38.2	(41.6)	(32.2)	11.2	NM	15.2	37.5
Key ratios											
EBITDA margin (%)	26.7	30.2	25.6	25.4	29.4	23.7	23.2	21.3	19.1	20.1	21.1
PAT margin (%)	16.6	16.5	14.3	14.5	16.4	9.7	14.4	10.9	5.7	5.8	7.3
Effective tax rate (%)	4.3	27.3	21.5	11.4	19.4	39.6	21.0	24.5	24.0	26.8	27.0
Net debt to equity	(0.1)	(0.1)	0.1	0.2	0.1	0.2	0.1	0.1	1.5	1.2	0.8
RoE (%)	11.3	12.6	12.0	12.2	15.3	8.8	6.5	8.1	(46.4)	19.9	21.7
RoCE (%)	11.2	12.6	11.8	12.0	14.7	9.0	6.1	8.3	11.6	11.6	12.8

Notes:

(a) GRFL was consolidated under Ind-AS for FY2017 and FY2018. After the consummation of the deal with Blackstone to acquire their stake in GRFL, it will be fully consolidated from FY2019 onwards. The exceptional loss in FY2019 represents the difference between acquisition price of Blackstone's stake in GRFL and corresponding book value of CCPS.

Source: Company, Kotak Institutional Equities estimates

AUGUST 03, 2018

UPDATE

Coverage view: **Neutral**

Price (₹): 261

Target price (₹): 425

BSE-30: 37,165

2018 JLR annual report analysis. Key takeaways from the annual report are – (1) 192 bps yoy deterioration in EBITDA margin led by increase in discounts and increase in employee costs, (2) significant decline in JLR's underfunded pension liability obligation, (3) increase in hedge book losses due to sharp depreciation of pound versus dollar and renminbi and (4) significant improvement in profitability in the China JV. Maintain BUY and retain target price of ₹425.

Company data and valuation summary

Tata Motors

Stock data		Forecasts/Valuations		2018	2019E	2020E
52-week range (Rs) (high,low)	468-247	EPS (Rs)		20.0	22.1	35.9
Market Cap. (Rs bn)	885.8	EPS growth (%)		(28.0)	10.7	62.7
Shareholding pattern (%)		P/E (X)		13.1	11.8	7.3
Promoters	36.4	Sales (Rs bn)		2,946.2	3,238.2	3,487.3
FIs	35.4	Net profits (Rs bn)		67.8	75.0	122.1
MFs	7.4	EBITDA (Rs bn)		333.4	389.3	471.1
Price performance (%)		EV/EBITDA (X)		3.8	3.6	3.0
Absolute	(2.2) (22.4) (40.8)	ROE (%)		8.8	7.6	11.2
Rel. to BSE-30	(7.2) (26.5) (48.2)	Div. Yield (%)		0.0	0.0	0.0

EBITDA margin impacted in FY2018 led by increase in discounts

Gross margin of JLR declined by 140 bps yoy due to increase in variable incentives and rise in commodity costs. Employee costs increased by 9.3% yoy led by 5% yoy increase in number of employees, 8% yoy increase in salary and 13.7% yoy increase in social security/pension cost in FY2018. Warranty expenses declined by 15% yoy while publicity and freight costs increased by 7/12% yoy in FY2018. EBITDA margin declined by 192 bps yoy in FY2018 due to increase in discounts/incentives/additional features and increase in employee costs. Realized FX hedges increased to GBP1,389 mn in FY2018 versus GBP1,320 mn in FY2017. EBITDA margin (excluding realized FX hedge loss) was 14.3% in FY2018 (-185 bps yoy).

Profitability in China JV improves significantly in FY2018

The China JV reported GBP2.77 bn revenue (+28.2% yoy) in FY2018. EBITDA increased by 45.2% yoy as EBITDA margin expanded by 320 bps yoy. In the China JV, JLR reported EBITDA margin of 27.4% EBITDA in FY2018, which is significantly higher than JLR margins in UK and US markets. The China JV reported a net profit of GBP504 mn in FY2018 versus GBP312 mn in FY2017. Depreciation expenses increased sharply yoy in FY2018 due to commencement of engine shop in China.

Other details in the annual report

- ▶ Net derivative financial liability (derivative financial liability minus derivative financial asset) decreased to GBP501 mn in FY2018 versus GBP2.73 bn in FY2017. This indicates that loss in the hedge book has decreased significantly.
- ▶ Total reserves increased to GBP8.3 bn in FY2018 versus GBP4.9 bn in FY2017 led by – (1) GBP546 mn gain related to re-measurement of defined benefit obligation on pension liabilities, (2) GBP2.4 bn gain related to hedges and (3) GBP1.1 bn profit in FY2018.
- ▶ Net retirement benefit obligation outstanding at the end of FY2018 was GBP438 mn, which declined from GBP1.46 bn in FY2017.

Hitesh Goel

hitesh.goel@kotak.com
Mumbai: +91-22-4336-0878

Nishit Jalan

nishit.jalan@kotak.com
Mumbai: +91-22-4336-0877

Profitability under pressure led by increase in variable incentives

Jaguar and Land Rover's average selling prices (ASPs) increased by 4%, 7% and 9% yoy in US, China and Europe while ASPs declined by 8% yoy in UK in FY2018. We believe the increase in ASPs in US, China and Europe was driven by improvement in product mix while in UK due to Brexit incentives increased, which impacted the ASPs. Company highlighted that UK revenues were higher as company had booked the revenues pertaining to raw materials sold to China JV in UK revenues. **Company sold components worth GBP703 mn to China JV in FY2018 (versus GBP568 mn in FY2017). If we exclude this impact, UK region ASPs declined by 11% yoy.** We don't have a clear answer to why European region ASPs improved by 9% yoy in FY2018. Overall ASPs improved by 4% yoy, which was partly related to improvement in product mix and partly related to revenues booked related to raw materials sold to China JV. The company has started classifying realized hedge loss/gains in the revenues and FX changes related to raw materials in the raw material expenses. JLR sources 50% of raw materials from Eastern Europe and company takes hedges to cover the FX fluctuation in raw materials.

Gross margin of JLR declined by 140 bps yoy due to increase in variable incentives and rise in commodity costs. Employee costs increased by 9.3% yoy led by 5% yoy increase in number of employees, 8% yoy increase in salary and 13.7% yoy increase in social security/pension cost in FY2018. Warranty expenses declined by 15% yoy while publicity and freight costs increased by 7/12% yoy in FY2018. EBITDA margin declined by 192 bps yoy in FY2018 due to increase in discounts/incentives/additional features and increase in employee costs. Realized FX hedges increased to GBP1,389 mn in FY2018 versus GBP1,320 mn in FY2017. EBITDA margin (excluding realized FX hedge loss) was 14.3% in FY2018 (-185 bps yoy).

Exhibit 1: ASPs increased by 7-9% yoy in China and Europe; ASPs in UK declined by 8% in FY2018
JLR's revenue breakdown, March fiscal year-ends, 2010-2018 (GBP mn, %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues (GBP mn)									
North America	1,267	2,005	1,996	2,137	2,683	3,262	4,300	4,638	4,974
UK	1,537	1,924	2,259	2,606	2,989	3,564	4,529	5,557	5,096
China	635	1,643	3,889	5,161	6,687	7,573	4,839	4,684	5,554
Europe	1,666	2,043	2,420	2,514	2,978	3,200	4,109	5,273	5,318
Rest of world	1,423	2,256	2,948	3,367	4,049	4,507	4,509	4,187	4,844
Total revenue	6,527	9,871	13,512	15,784	19,386	22,106	22,286	24,339	25,786
Revenue breakup (%)									
North America	19.4	20.3	14.8	13.5	13.8	14.8	19.3	19.1	19.3
UK	23.5	19.5	16.7	16.5	15.4	16.1	20.3	22.8	19.8
China	9.7	16.6	28.8	32.7	34.5	34.3	21.7	19.2	21.5
Europe	25.5	20.7	17.9	15.9	15.4	14.5	18.4	21.7	20.6
Rest of world	21.8	22.9	21.8	21.3	20.9	20.4	20.2	17.2	18.8
ASP-regionwise (GBP/vehicle)									
North America	30,376	38,111	34,219	32,932	37,789	41,291	39,486	35,136	36,466
UK	26,912	32,906	36,557	38,287	39,329	40,454	40,765	48,322	44,663
China	37,365	61,304	71,321	64,963	64,298	65,681	75,728	79,390	84,665
Europe	28,047	30,830	27,881	26,324	35,880	31,968	31,559	36,874	40,197
Rest of world	76,149	57,170	55,624	52,456	42,177	53,655	47,370	48,800	50,041
Average ASP	33,666	40,520	42,972	42,422	45,083	47,387	43,759	45,510	47,296
Yoy change in ASP (%)									
North America		25.5	(10.2)	(3.8)	14.7	9.3	(4.4)	(11.0)	3.8
UK		22.3	11.1	4.7	2.7	2.9	0.8	18.5	(7.6)
China		64.1	16.3	(8.9)	(1.0)	2.2	15.3	4.8	6.6
Europe		9.9	(9.6)	(5.6)	36.3	(10.9)	(1.3)	16.8	9.0
Rest of world		(24.9)	(2.7)	(5.7)	(19.6)	27.2	(11.7)	3.0	2.5
Average ASP		20.4	6.1	(1.3)	6.3	5.1	(7.7)	4.0	3.9

Source: Company, Kotak Institutional Equities

Exhibit 2: Realized forex losses were high in FY2018

JLR's hedge losses breakdown, March fiscal year-ends, 2015-2018 (GBP mn)

	2015	2016	2017	2018
Realised FX hedges on revenues	240	78	(1,320)	(1,389)
Realized purchase hedges in raw material	162	259	(91)	(182)
Forex impact of revaluation of current assets and liabilities	(120)	(155)	(87)	(19)
Total forex impact	282	182	(1,498)	(1,590)

Source: Company, Kotak Institutional Equities

Exhibit 3: Lower gross margin impacted EBITDA margin in FY2018; warranty expenses were down yoy
Breakdown of JLR's expenses, March fiscal year-ends, 2011-2018 (GBP mn, %)

	2011	2012	2013	2014	2015	2016	2017	2018
Overall revenues	9,871	13,512	15,784	19,386	21,866	22,208	25,659	27,175
Realized hedge losses					240	78	(1,320)	(1,389)
Net sales (ex-realized hedge loss)	9,871	13,512	15,784	19,386	22,106	22,286	24,339	25,786
Raw materials	6,178	8,733	9,904	11,904	13,347	13,562	15,071	16,328
Employee cost	789	1,011	1,333	1,654	1,977	2,321	2,490	2,722
Product development expensed	119	149	198	236	253	318	368	406
Freight cost	217	343	437	610	673	858	925	1,037
Power and fuel	42	49	57	62	57	61	71	81
Publicity	465	577	675	775	791	811	885	951
Warranty	332	372	462	541	543	583	823	698
Others	263	289	387	364	741	625	878	1,063
EBITDA	1,465	1,989	2,331	3,240	3,724	3,147	2,828	2,500
Depreciation	396	466	622	875	1,051	1,418	1,656	2,075
EBIT	1,069	1,524	1,710	2,365	2,673	1,729	1,172	425
Cost as % of net sales								
Raw materials	62.6	64.6	62.8	61.4	60.4	60.9	61.9	63.3
Employee cost	8.0	7.5	8.4	8.5	8.9	10.4	10.2	10.6
Product development expensed	1.2	1.1	1.3	1.2	1.1	1.4	1.5	1.6
Freight cost	2.2	2.5	2.8	3.1	3.0	3.8	3.8	4.0
Power and fuel	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Publicity	4.7	4.3	4.3	4.0	3.6	3.6	3.6	3.7
Warranty	3.4	2.7	2.9	2.8	2.5	2.6	3.4	2.7
Others	2.7	2.1	2.5	1.9	3.4	2.8	3.6	4.1
Gross margin (%)	37.4	35.4	37.2	38.6	39.6	39.1	38.1	36.7
EBITDA	14.8	14.7	14.8	16.7	16.8	14.1	11.6	9.7
EBITDA (excluding hedge loss)	14.8	14.7	14.8	16.7	15.9	13.8	16.2	14.3
Depreciation	4.0	3.4	3.9	4.5	4.8	6.4	6.8	8.0
EBIT	10.8	11.3	10.8	12.2	12.1	7.8	4.8	1.6

Source: Company, Kotak Institutional Equities

China JV EBITDA margins are higher than JLR overall margin

China JV reported GBP2.77 bn revenue (+28.2% yoy) in FY2018. EBITDA increased by 45.2% yoy as EBITDA margin expanded by 320 bps yoy. In the China JV, JLR reported EBITDA margin of 27.4% EBITDA in FY2018, which is significantly higher than JLR margins in UK and US market. China JV reported a net profit of GBP504 mn in FY2018 versus GBP312 mn in FY2017. Depreciation expenses increased sharply yoy in FY2018 due to commencement of engine shop in China. We are building in EBITDA margin of 21% in China JV in FY2018/19.

Exhibit 4: EBITDA margin of China JV increased to 27.4% in FY2018
 JLR China JV summary financials, March fiscal year-ends, 2015-2018 (GBP mn)

	2015	2016	2017	2018
Income statement (GBP mn)				
Revenues	120	1,106	2,163	2,773
EBITDA	(34)	228	523	760
EBITDA margin (%)	(28.3)	20.6	24.2	27.4
Depreciation	16	58	105	139
Net interest expense	(5)	2	3	(19)
PBT	(45)	168	415	640
Tax	(32)	44	103	136
Net profit	(13)	124	312	504
Key balance sheet items (GBP mn)				
Cash and cash equivalents	298	450	621	439
Other current assets	222	248	319	453
Non-current assets	585	814	1094	1324
Total assets	1,105	1,512	2,034	2,216
Shareholder's equity	565	682	924	986
Current liabilities	347	614	934	1076
Non-current liabilities	193	216	176	154
Total liabilities	1,105	1,512	2,034	2,216

Source: Company, Kotak Institutional Equities

73% of JLR's R&D expense is expensed in the P&L

Investors are concerned with JLR's accounting practice related to R&D expense. Company prima facie expenses only ~30% of its R&D expense through P&L while peers like BMW expense 65-70% of R&D through the P&L. We highlight that large part of R&D expense is amortized in depreciation expenses, which we have shown in Exhibit 5. If we include the amortization of R&D in depreciation expenses and R&D expenses in the P&L, JLR expensed 73% of total R&D expenses in FY2018, which is higher than 60% in FY2015. So we reckon, JLR EPS computation is comparable to BMW now.

Exhibit 5: 73% of JLR's total R&D spend passed through income statement in FY2018
 JLR: Breakdown of depreciation & amortization and R&D spend, March fiscal year-ends, 2015-2018 (GBP mn)

	2015	2016	2017	2018
Depreciation on fixed assets	461	634	787	1,011
Amortization on intangibles (a)	590	784	869	1,064
Total depreciation and amortization	1,051	1,418	1,656	2,075
Breakdown of R&D spend				
Expensed (b)	253	318	368	406
Capitalized	1,158	1,242	1,426	1,610
Total R&D spend (c)	1,411	1,560	1,794	2,016
Amortization plus R&D expensed (d) [(a) + (b)]	843	1,102	1,237	1,470
As % of total R&D spend (e) [(d)/(c)]	59.7	70.6	69.0	72.9

Source: Company, Kotak Institutional Equities

Derivative financial liability has decreased in FY2018

Net derivative financial liability (derivative financial liability minus derivative financial asset) decreased to GBP501 mn in FY2018 versus GBP2.73 bn in FY2017. This indicates that loss in the hedge book has decreased significantly. The current portion of net derivative financial liability was GBP668 mn, which implies that if spot rate does not change then FY2019 hedge book loss should be GBP668 mn. Contractual cash flow of derivative financial liability over a 5-year period is GBP1.2 bn, which is the absolute loss on the hedge book over five years. The carrying amount of derivative financial liability on the balance sheet is GBP925 mn, which is net present value of the hedge book losses. Of the GBP1.2 bn hedge loss, GBP748 bn is pertaining to FY2019, GBP322 mn is related to FY2020 and GBP137 mn hedge loss is related to FY2021-23.

Exhibit 6: Current derivative financial liability (future hedge book loss) is GBP0.67 bn

JLR: Breakdown of derivative financial liabilities and assets, March fiscal year-ends, 2015-2018 (GBP mn)

	2015	2016	2017	2018
Derivative financial liabilities				
Carrying amount in the balance sheet	1,529	1,475	3,151	925
Current	697	666	1,760	668
Non-current	832	809	1,391	257
Contractual cash flows	1,903	1,882	3,991	1,207
< 1 year	753	725	1,950	748
1-2 years	616	698	1,294	322
2-5 years	534	459	747	124
> 5 years				13
Derivative financial assets				
Current	176	73	169	169
Non-current	22	154	255	255

Source: Company, Kotak Institutional Equities

Underfunded pension liability declined yoy to GBP438 mn in FY2018

Defined benefit obligation related to pension payments of employees declined to GBP8.3 bn in FY2018 versus GBP9.97 bn in FY2017, which was largely driven by – (1) change in assumptions related to discount rate and interest rate and (2) GBP437 mn past credit on pension cost. Net retirement benefit obligation outstanding at the end of FY2018 was GBP438 mn, which declined from GBP1.46 bn in FY2017. Actuarial gains were GBP662 mn in FY2018 while the loss on scheme assets was GBP116 mn, which resulted in a GBP546 mn gain in the reserves for FY2018.

Total reserves increased to GBP8.3 bn in FY2018 versus GBP4.9 bn in FY2017 led by – (1) GBP546 mn gain related to re-measurement of defined benefit obligation on pension liabilities, (2) GBP2.4 bn gain related to hedges and (3) GBP1.1 bn profit in FY2018.

Exhibit 7: Pension liability declined to GBP0.4 bn in FY2018

JLR: Pension cost obligation and assets, March fiscal year-ends, 2015-18 (GBP mn)

	2015	2016	2017	2018
Change in PV of Defined benefit obligation				
Defined benefit obligation at beginning of year	6,053	7,883	7,668	9,969
Current service cost	168	224	198	217
Interest expense	274	263	275	241
Actuarial (gains)/losses arising from:				
Changes in demographic assumptions	(20)	(36)	(76)	(210)
Changes in financial assumptions	1,454	(569)	2,335	(353)
Experience adjustments	101	63	(213)	(99)
Past service cost/(credit)	1	—	—	(437)
Exchange differences on foreign schemes	—	3	5	(3)
Member contributions	2	2	2	4
Benefits paid	(149)	(165)	(225)	(988)
Other adjustments	(1)	—	—	(21)
Defined benefit obligation at end of year	7,883	7,668	9,969	8,320
Change in fair value of scheme assets				
Fair value of schemes' assets at beginning of year	5,382	6,997	7,103	8,508
Interest income	246	233	258	218
Remeasurement gain/(loss) on the return of schemes' assets, excluding amounts included in interest income	1,178	(52)	1,149	(116)
Administrative expenses	(8)	(8)	(9)	(9)
Exchange differences on foreign schemes	1	1	3	(1)
Employer contributions	346	95	227	287
Member contributions	2	2	2	4
Benefits paid	(149)	(165)	(225)	(988)
Other adjustments	(1)	—	—	(21)
Fair value of scheme assets at end of year	6,997	7,103	8,508	7,882
Net retirement benefit obligation (recognized as liability)	(886)	(565)	(1,461)	(438)

Source: Company, Kotak Institutional Equities

Exhibit 8: JLR's net worth increased in FY2018 due to MTM benefit on unrealized cash flow hedges

JLR: Changes in reserves, March fiscal year-ends, 2015-18 (GBP mn)

	Translation reserve	Hedging reserves	Retained earnings	Total other reserves
Balance at April 1, 2014	(383)	539	4,040	4,196
Profit for the year			2,038	2,038
Remeasurement of defined benefit obligation			(355)	(355)
Loss on effective cash flow hedges		(1,734)		(1,734)
Currency translation differences	21			21
Income tax related to items recognised in other comprehensive income		347	71	418
Cash flow hedges reclassified to profit or loss		(78)		(78)
Income tax related to items reclassified to profit or loss		16		16
Dividend paid			(150)	(150)
Balance at March 31, 2015	(362)	(910)	5,644	4,372
Balance at April 1, 2015	(362)	(910)	5,644	4,372
Profit for the year			1,312	1,312
Remeasurement of defined benefit obligation			489	489
Loss on effective cash flow hedges		(126)		(126)
Currency translation differences	(1)			(1)
Income tax related to items recognised in other comprehensive income		18	(113)	(95)
Cash flow hedges reclassified to profit or loss		181		181
Income tax related to items reclassified to profit or loss		(36)		(36)
Dividend paid			(150)	(150)
Balance at March 31, 2016	(363)	(873)	7,182	5,946
Balance at April 1, 2016	(363)	(873)	7,182	5,946
Profit for the year			1,272	1,272
Remeasurement of defined benefit obligation			(895)	(895)
Loss on effective cash flow hedges		(3,037)		(3,037)
Currency translation differences	34			34
Income tax related to items recognised in other comprehensive income		583	143	726
Cash flow hedges reclassified to profit or loss		1,271		1,271
Income tax related to items reclassified to profit or loss		(254)		(254)
Dividend paid			(150)	(150)
Balance at March 31, 2017	(329)	(2,310)	7,552	4,913
Balance at April 1, 2017	(329)	(2,310)	7,552	4,913
Profit for the year			1,131	1,131
Remeasurement of defined benefit obligation			546	546
Gain/(Loss) on effective cash flow hedges		1,223		1,223
Currency translation differences	(4)			(4)
Income tax related to items recognised in other comprehensive income		(230)	(89)	(319)
Cash flow hedges reclassified to profit or loss		1,200		1,200
Income tax related to items reclassified to profit or loss		(228)		(228)
Dividend paid			(150)	(150)
Balance at March 31, 2017	(333)	(345)	8,990	8,312

Source: Company, Kotak Institutional Equities

Exhibit 9: We expect China volume mix to improve over the next two years

Geography-wise wholesale volume mix (includes China JV), March fiscal year-ends, 2012-21E (units, %)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Geography								
N.A	71,000	79,000	108,900	132,000	136,400	143,220	147,517	147,517
UK	76,000	88,100	111,100	115,000	114,100	91,280	94,018	96,839
Europe (excl Russia and UK)	70,000	89,700	124,200	137,000	126,300	113,670	117,080	120,593
Russia	13,000	10,400	6,000	6,000	6,000	6,000	6,000	6,000
China	104,000	119,300	98,651	125,000	153,800	190,670	207,364	217,292
Asia Pac (excl China)	23,000	27,100	29,810	32,791	34,431	41,317	43,796	46,423
Rest of World	73,000	56,900	65,376	53,009	62,369	73,338	76,324	79,069
Total Volumes	430,000	470,500	544,037	600,800	633,400	659,495	692,099	713,732
Yoy growth (%)	15.6	9.4	15.6	10.4	5.4	4.1	4.9	3.1
Geographical mix (%)								
N.A	16.5	16.8	20.0	22.0	21.5	21.7	21.3	20.7
UK	17.7	18.7	20.4	19.1	18.0	13.8	13.6	13.6
Europe (excl Russia and UK)	16.3	19.1	22.8	22.8	19.9	17.2	16.9	16.9
Russia	3.0	2.2	1.1	1.0	0.9	0.9	0.9	0.8
China	24.2	25.4	18.1	20.8	24.3	28.9	30.0	30.4
Asia Pac (excl China)	5.3	5.8	5.5	5.5	5.4	6.3	6.3	6.5
Rest of World	17.0	12.1	12.0	8.8	9.8	11.1	11.0	11.1
Total Volumes	100	100	100	100	100	100	100	100

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: New models will drive volume growth for JLR in FY2019-20E

JLR wholesale model-wise volume mix assumptions (includes China JV), March fiscal year-ends, 2014-21E (units, %)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Model								
XF	47,000	45,900	36,200	35,100	41,700	41,910	43,115	44,379
XJ	19,000	16,300	12,200	10,100	9,000	8,100	8,100	8,100
XK	3,000	2,100	100	—	—	—	—	—
F type	10,000	12,200	12,600	10,900	9,200	8,280	8,280	8,280
Small Jaguar	—	—	39,200	46,700	32,100	30,000	30,600	31,230
F Pace	—	—	1,806	76,000	69,500	62,550	62,550	62,550
I-Pace/E-Pace	—	—	—	—	14,800	60,000	72,600	73,230
Jaguar	79,000	76,500	102,106	178,800	176,300	210,840	225,245	227,769
Defender	17,000	20,000	20,200	600	—	—	—	—
Discovery	44,000	50,600	53,700	37,600	52,000	46,800	49,140	51,597
Freelander	57,000	38,700	—	—	—	—	—	—
Discovery Sport	—	13,600	97,800	124,800	118,100	109,105	114,560	120,288
Range Rover	46,000	61,400	60,100	56,300	54,900	57,645	60,527	63,554
RRSport	66,000	85,800	90,300	87,500	76,600	80,430	84,452	88,674
Evoque	121,000	123,900	119,831	115,200	96,300	84,675	84,675	84,675
Range Rover Velar	—	—	—	—	59,200	70,000	73,500	77,175
Land Rover	351,000	394,000	441,931	422,000	457,100	448,655	466,854	485,963
Total volumes	430,000	470,500	544,037	600,800	633,400	659,495	692,099	713,732
Model mix (%)								
XF	10.9	9.8	6.7	5.8	6.6	6.4	6.2	6.2
XJ	4.4	3.5	2.2	1.7	1.4	1.2	1.2	1.1
XK	0.7	0.4	0.0	—	—	—	—	—
F type	2.3	2.6	2.3	1.8	1.5	1.3	1.2	1.2
Small Jaguar	—	—	7.2	7.8	5.1	4.5	4.4	4.4
F Pace	—	—	0.3	12.6	11.0	9.5	9.0	8.8
I-Pace/E-Pace	—	—	—	—	2.3	9.1	10.5	10.3
Defender	4.0	4.3	3.7	—	—	—	—	—
Discovery	10.2	10.8	9.9	6.3	8.2	7.1	7.1	7.2
Freelander	13.3	8.2	—	—	—	—	—	—
Discovery Sport	—	2.9	18.0	20.8	18.6	16.5	16.6	16.9
Range Rover	10.7	13.0	11.0	9.4	8.7	8.7	8.7	8.9
RRSport	15.3	18.2	16.6	14.6	12.1	12.2	12.2	12.4
Evoque	28.1	26.3	22.0	19.2	15.2	12.8	12.2	11.9
Velar	—	—	—	—	9.3	10.6	10.6	10.8
Total volumes	100	100	100	100	100	100	100	100

Source: Company, Kotak Institutional Equities estimates

Exhibit 11: We expect standalone volumes to grow at 10% CAGR over FY2018-21E

Tata Motors standalone volume assumptions, March fiscal year-ends, 2011-21E (units)

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
M&HCVs	209,522	221,298	152,505	122,498	142,737	176,493	175,262	190,367	209,851	244,274	236,266
M&HCVs-domestic	192,127	207,014	143,381	110,225	127,011	156,961	148,901	168,013	184,814	216,233	205,421
M&HCVs-exports	17,395	14,284	9,124	12,273	15,726	19,532	26,361	22,354	25,036	28,041	30,845
LCVs	287,463	363,756	428,643	298,799	221,818	205,231	209,767	259,066	293,256	332,015	348,615
LCVs-domestic	77,558	95,791	113,520	85,140	59,598	59,078	54,488	103,410	118,921	136,760	143,598
Ace	177,096	227,179	280,242	183,059	131,533	111,981	121,821	127,912	143,261	160,453	168,476
LCVs-exports	32,809	40,786	34,881	30,600	30,687	34,172	33,458	27,744	31,073	34,802	36,542
UVs	43,063	56,464	48,617	32,400	25,617	19,364	20,197	53,397	76,868	84,523	88,749
UVs-domestic	42,297	55,744	47,454	31,268	24,609	18,621	18,757	51,891	75,242	82,766	86,904
UVs-exports	766	720	1,163	1,132	1,008	743	1,440	1,506	1,626	1,757	1,844
Passenger vehicles	263,274	265,254	180,355	112,894	111,982	111,072	137,096	136,548	149,980	167,690	176,013
Passenger vehicles-domestic	185,767	183,439	120,845	85,648	92,569	86,796	126,908	133,430	146,773	164,386	172,605
Passenger vehicles-exports	7,075	7,288	5,663	5,707	2,512	3,264	2,597	1,118	1,207	1,304	1,408
Small car	70,432	74,527	53,847	21,539	16,901	21,012	7,591	2,000	2,000	2,000	2,000
Total domestic sales	745,277	843,694	759,289	516,879	452,221	454,449	478,466	586,656	671,012	762,597	779,004
Total export sales	58,045	63,078	50,831	49,712	49,933	57,711	63,856	52,722	58,944	65,904	70,640
Total vehicle sales	803,322	906,772	810,120	566,591	502,154	512,160	542,322	639,378	729,956	828,501	849,644
Volume growth (yoy %)											
M&HCVs	24.8	5.6	(31.1)	(19.7)	16.5	23.6	(0.7)	8.6	10.2	16.4	(3.3)
M&HCVs-domestic	23.8	7.7	(30.7)	(23.1)	15.2	23.6	(5.1)	12.8	10.0	17.0	(5.0)
M&HCVs-exports	37.1	(17.9)	(36.1)	34.5	28.1	24.2	35.0	(15.2)	12.0	12.0	10.0
LCVs	23.0	26.5	17.8	(30.3)	(25.8)	(7.5)	2.2	23.5	13.2	13.2	5.0
LCVs-domestic	(10.1)	23.5	18.5	(25.0)	(30.0)	(0.9)	(7.8)	89.8	15.0	15.0	5.0
Ace	34.0	28.3	23.4	(34.7)	(28.1)	(14.9)	8.8	5.0	12.0	12.0	5.0
LCVs-exports	115.6	24.3	(14.5)	(12.3)	0.3	11.4	(2.1)	(17.1)	12.0	12.0	5.0
UVs	26.2	31.1	(13.9)	(33.4)	(20.9)	(24.4)	4.3	164.4	44.0	10.0	5.0
UVs-domestic	26.1	31.8	(14.9)	(34.1)	(21.3)	(24.3)	0.7	176.6	45.0	10.0	5.0
UVs-exports	29.2	(6.0)	61.5	(2.7)	(11.0)	(26.3)	93.8	4.6	8.0	8.0	5.0
Passenger vehicles	27.2	0.8	(32.0)	(37.4)	(0.8)	(0.8)	23.4	(0.4)	9.8	11.8	5.0
Passenger vehicles-domestic	8.6	(1.3)	(34.1)	(29.1)	8.1	(6.2)	46.2	5.1	10.0	12.0	5.0
Passenger vehicles-exports	25.5	3.0	(22.3)	0.8	(56.0)	29.9	(20.4)	(57.0)	8.0	8.0	8.0
Small car	132.1	5.8	(27.7)	(60.0)	(21.5)	24.3	(63.9)	(73.7)	—	—	—
Total domestic sales	22.5	13.2	(10.0)	(31.9)	(12.5)	0.5	5.3	22.6	14.4	13.6	2.2
Total export sales	70.0	8.7	(19.4)	(2.2)	0.4	15.6	10.6	(17.4)	11.8	11.8	7.2
Total vehicle sales	25.0	12.9	(10.7)	(30.1)	(11.4)	2.0	5.9	17.9	14.2	13.5	2.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: We expect JLR's EBITDA margin to improve in FY2019-20E as forex losses come off

Jaguar Land Rover income statement (excluding China JV), March fiscal year-ends, 2011-21E (GBP mn)

	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Volumes (000s)	244	314	372	430	467	509	535	545	547	575	591
Sales	9,871	13,512	15,784	19,386	22,106	22,286	24,339	25,786	26,813	28,704	29,776
Of which realized forex losses	—	—	—	—	240	78	(1,320)	(1,389)	(630)	(140)	—
Realizations per vehicle	40,520	42,972	42,422	45,083	47,387	43,759	45,510	47,296	49,033	49,942	50,344
Cost of sales	8,286	11,373	13,254	15,910	18,129	18,821	21,143	22,880	22,941	24,059	24,952
Materials	6,178	8,733	9,904	11,904	13,347	13,562	15,071	16,328	16,658	17,450	18,014
Labor	789	1,011	1,333	1,654	1,977	2,321	2,490	2,722	2,885	3,089	3,298
Manufacturing costs and SG&A	1,319	1,629	2,017	2,352	2,805	2,938	3,582	3,830	3,398	3,520	3,640
D&A	396	466	622	875	1,051	1,418	1,656	2,075	2,450	2,600	2,750
Product dev	119	149	198	236	253	318	368	406	625	750	750
EBIT	1,069	1,524	1,710	2,365	2,673	1,729	1,172	425	796	1,294	1,323
EBITDA	1,465	1,989	2,331	3,240	3,724	3,147	2,828	2,500	3,246	3,894	4,073
Other income	36	38	71	153	143	128	379	421	100	100	100
Interest	23	69	(3)	147	87	52	35	47	50	50	50
PBT	1,082	1,492	1,784	2,371	2,729	1,805	1,516	799	846	1,344	1,373
Tax	79	26	460	622	576	293	338	403	212	336	343
Forex gains/(losses)	(33)	(14)	(108)	137	(216)	(136)	(65)	485	—	—	—
PAT	1,036	1,481	1,216	1,886	1,937	1,376	1,113	881	635	1,008	1,030
EBITDA margin (%)	14.8	14.7	14.8	16.7	16.8	14.1	11.6	9.7	12.1	13.6	13.7
EBIT margin - including China JV profit (%)	10.8	11.3	10.8	12.2	12.1	8.0	5.5	2.6	3.7	5.2	5.1

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: We value Tata Motors at ₹425/share based on SoTP methodology
Tata Motors SoTP valuation

		Multiple (X)	Value (Rs mn)	Value per share (Rs)	Comments
Standalone business (Rs mn)					
Standalone EBITDA in FY2020	82,307				
Standalone EV in FY2020		8.0	658,457		
Standalone net debt			(151,124)		
Standalone equity value			507,333	149	
JLR					
JLR UK net profit	90,753	8.0	726,023	214	based on 8X March 2020 EPS
JLR China JV valuation				50	based on 5X March 2020 EV/EBITDA
Total standalone + JLR				413	
Value of Tata Motors Finance				10	
SOTP-based value				424	
Target price				425	

Source: Kotak Institutional Equities estimates

Exhibit 14: We expect strong improvement in performance of standalone business over the next three years
Tata Motors standalone profit and loss, balance sheet and cash flow statement, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)										
Net sales	543,066	447,657	342,881	362,947	428,455	443,163	588,314	682,422	798,312	850,408
EBITDA	41,776	17,180	(9,112)	(12,375)	29,466	13,577	33,256	63,311	82,307	89,274
Other income	2,104	17,046	18,669	18,814	14,023	9,811	15,576	23,250	25,688	26,176
Interest	(8,550)	(10,041)	(13,375)	(16,117)	(15,920)	(15,690)	(17,444)	(18,584)	(15,338)	(10,605)
Depreciation	(16,067)	(18,176)	(20,703)	(26,032)	(23,292)	(30,371)	(31,019)	(31,700)	(34,040)	(36,380)
Profit before tax	19,263	6,008	(24,521)	(35,710)	4,276	(22,674)	369	36,277	58,617	68,465
Extra ordinary income/(expenses)	5,852	(8,642)	14,263	(4,038)	(4,948)	(859)	(9,838)	—	—	—
Tax expense	—	6	13,603	(7,642)	73	(571)	(926)	(7,255)	(14,654)	(17,116)
Net profit	12,422	(1,354)	3,346	(47,390)	(623)	(24,296)	(10,349)	29,021	43,963	51,349
Adjusted net profit	16,519	(3,031)	(27,276)	(52,240)	3,088	(23,652)	(2,970)	29,021	43,963	51,349
Adjusted Diluted EPS (Rs)	4.9	(0.9)	(8.0)	(15.4)	0.9	(7.0)	(0.9)	8.5	12.9	15.1
Balance sheet (Rs mn)										
Equity	6,348	6,381	6,438	6,438	6,792	6,792	6,792	6,792	6,792	6,792
Reserves and Surplus	189,913	187,118	185,328	142,188	225,829	204,834	194,918	223,939	267,902	319,251
Deferred tax liability	21,054	19,639	431	—	714	1,476	1,546	1,546	1,546	1,546
Total borrowings	158,806	167,990	150,528	211,344	164,733	193,570	184,638	164,638	114,638	64,638
Current liabilities	169,073	142,871	154,619	139,462	168,692	182,111	204,229	216,923	242,323	253,450
Total liabilities	545,193	523,998	497,344	499,432	566,760	588,783	592,123	613,839	633,202	645,677
Net fixed assets	190,562	202,085	215,956	218,240	267,623	280,439	268,003	266,303	262,263	255,883
Investments	204,936	199,344	184,584	169,670	152,175	148,584	149,427	149,427	149,427	149,427
Cash	18,410	4,629	2,262	9,650	25,343	27,640	26,163	19,083	16,595	23,877
Other current assets	128,702	115,790	94,542	101,872	121,619	132,120	148,530	179,026	204,916	216,490
Miscellaneous expenditure	2,584	2,150	—	—	—	—	—	—	—	—
Total assets	545,193	523,998	497,344	499,432	566,760	588,783	592,123	613,839	633,202	645,677
Free cash flow (Rs mn)										
Operating cash flow excl. working capital	39,671	17,557	(9,949)	(6,972)	34,789	15,465	40,824	79,306	93,341	98,334
Working capital changes	(3,135)	5,028	34,583	(15,171)	(7,759)	(931)	515	(17,802)	(490)	(447)
Capital expenditure	(28,355)	(25,884)	(30,941)	(30,548)	(32,492)	(34,965)	(27,948)	(30,000)	(30,000)	(30,000)
Free cash flow	(6,642)	(21,394)	(23,805)	(71,140)	(26,321)	(39,795)	(7,593)	12,920	47,512	57,282
Ratios										
Gross margin (%)	26.9	26.4	24.4	25.5	32.1	29.3	27.4	28.4	28.2	28.2
EBITDA margin (%)	7.7	3.8	(2.7)	(3.4)	6.9	3.1	5.7	9.3	10.3	10.5
EBIT margin (%)	4.7	(0.2)	(8.7)	(10.6)	1.4	(3.8)	0.4	4.6	6.0	6.2
Debt/equity (X)	0.8	0.9	0.8	1.4	0.7	0.9	0.9	0.7	0.4	0.2
Net debt/equity (X)	0.7	0.8	0.8	1.4	0.6	0.8	0.8	0.6	0.4	0.1
RoAE (%)	8.3	(1.6)	(14.2)	(30.7)	1.6	(10.6)	(1.4)	13.4	17.4	17.1
Book value/share (X)	57.8	57.0	56.5	43.8	68.5	62.3	59.4	67.9	80.9	96.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 15: We expect consolidated earnings to grow at 25% CAGR over FY2018-21E

Tata Motors consolidated profit and loss, balance sheet and cash flow statement, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)										
Net sales	1,656,545	1,888,176	2,328,337	2,627,963	2,730,456	2,696,925	2,946,192	3,238,210	3,487,347	3,631,138
EBITDA	223,112	245,473	348,377	392,387	383,075	334,988	333,411	389,308	471,108	499,268
Other income	6,618	8,115	8,286	8,987	8,854	7,545	8,889	7,700	7,700	7,700
Interest	(29,822)	(35,533)	(47,338)	(48,615)	(48,891)	(42,380)	(46,818)	(49,822)	(50,326)	(49,906)
Depreciation	(56,254)	(75,693)	(110,782)	(133,886)	(167,108)	(179,050)	(215,536)	(257,600)	(273,440)	(289,280)
Profit before tax	143,654	142,362	198,544	218,873	175,930	121,103	79,946	89,586	155,042	167,782
Extra ordinary income/(expenses)	(8,315)	(6,027)	(9,854)	(1,847)	(24,271)	(19,569)	22,123	—	—	—
Tax	400	(37,710)	(47,648)	(76,429)	(40,652)	(40,899)	(33,938)	(31,295)	(50,165)	(53,562)
Minority Interest + Associate income	(574)	301	(1,132)	(734)	4,786	13,908	21,758	16,730	17,180	17,650
Net profit	135,165	98,926	139,910	139,863	115,793	74,544	89,889	75,021	122,056	131,871
Adjusted net profit	143,480	104,953	149,764	141,710	140,064	94,112	67,766	75,021	122,056	131,871
Adjusted EPS (Rs)	42.3	30.9	44.1	41.7	41.2	27.7	20.0	22.1	35.9	38.8
Balance sheet (Rs mn)										
Equity	6,348	6,381	6,438	6,438	6,792	6,792	6,792	6,792	6,792	6,792
Reserves and Surplus	325,152	381,331	649,597	556,181	782,732	573,827	947,487	1,022,508	1,144,564	1,276,435
Deferred tax liability	21,651	20,195	15,723	13,432	44,748	11,740	61,258	61,258	61,258	61,258
Minority Interest	3,071	3,705	4,207	4,333	4,328	4,532	5,251	6,275	7,300	8,324
Total borrowings	471,490	535,914	606,423	736,104	733,413	786,040	889,505	915,367	897,441	882,723
Current liabilities	626,116	764,078	917,596	1,070,091	1,099,398	1,354,613	1,403,213	1,508,207	1,557,363	1,601,680
Total liabilities	1,453,826	1,711,603	2,199,983	2,386,580	2,671,412	2,737,543	3,313,505	3,520,408	3,674,718	3,837,212
Net fixed assets	562,125	694,836	973,754	1,124,226	1,323,909	1,289,696	1,613,309	1,734,459	1,828,519	1,906,739
Goodwill	40,937	41,024	49,788	46,970	7,598	6,733	1,165	1,165	1,165	1,165
Investments	89,177	90,577	106,867	12,405	45,340	52,968	61,490	61,490	61,490	61,490
Cash	182,381	211,127	297,118	462,120	496,934	511,190	492,777	403,801	371,174	388,928
Other current assets	574,691	662,701	748,986	717,389	797,630	876,956	1,144,765	1,319,493	1,412,371	1,478,891
Miscellaneous expenditure	4,514	11,339	23,471	23,471	—	—	—	—	—	—
Total assets	1,453,826	1,711,603	2,199,983	2,386,580	2,671,412	2,737,543	3,313,505	3,520,408	3,674,718	3,837,212
Free cash flow (Rs mn)										
Operating cash flow excl. working capital	206,644	221,302	303,768	388,547	365,864	269,450	317,730	383,467	446,847	472,082
Working capital changes	(22,801)	(680)	57,744	(36,718)	13,132	32,542	(64,337)	(69,734)	(43,722)	(22,204)
Capital expenditure	(138,756)	(187,570)	(269,252)	(315,396)	(314,442)	(304,135)	(350,486)	(378,750)	(367,500)	(367,500)
Free cash flow (including finance business debt)	11,351	(13,508)	30,554	(26,637)	7,397	(55,506)	(151,200)	(114,838)	(14,701)	32,472
Ratios										
EBITDA margin (%)	13.5	13.0	15.0	14.9	14.0	12.4	11.3	12.0	13.5	13.7
Debt/equity (X)	1.4	1.4	0.9	1.3	0.9	1.4	0.9	0.9	0.8	0.7
Net debt/equity (X)	0.9	0.8	0.5	0.5	0.3	0.5	0.4	0.5	0.5	0.4
Book value (Rs per share)	84.2	98.8	171.6	144.9	230.3	169.0	280.7	302.8	338.7	377.5
ROAE (%)	54.8	29.2	28.7	23.3	20.7	13.7	8.8	7.6	11.2	10.8

Source: Company, Kotak Institutional Equities estimates

AUGUST 03, 2018

UPDATE

BSE-30: 37,165

Draft e-commerce policy: more questions than answers. The draft e-commerce policy seeks to address several significant aspects of e-commerce in India such as foreign investment and ownership, product pricing and data collection. It also suggests a greater regulatory scrutiny of M&A that may distort competition, as well as the creation of a regulator, which would address FDI-related issues in the sector. Certain issues on foreign ownership, regulation of pricing strategies remain, and clarity may evolve once the final policy is in place. We highlight that our understanding is based on media reports, and may change as the final policy emerges.

Draft policy: attempt to regulate FDI investment

The government has circulated a draft e-commerce policy to stakeholders with the objective of creating a level-playing field for foreign and domestic players operating in the Indian market. The draft defines an Indian e-commerce firm as one where foreign investment doesn't exceed 49%, where the founder/promoter is a resident Indian, and the platform company is controlled by Indian management. It further seeks to create a single regulator to sort out issues pertaining to FDI in the sector. Unlike foreign-owned marketplaces, Indian companies will be allowed to operate inventory-led e-commerce models, provided they sell products made in India.

Control of pricing strategies: several changes suggested

India has historically not allowed foreign investment in inventory-based model of e-commerce. However, 100% FDI under the automatic route is allowed in the marketplace model with the caveat that a single seller (including group companies) will not account for more than 25% of the sales value generated on the marketplace. The draft policy, in order to curb price distortions brought about by such sellers, seeks to: (1) curb bulk purchases of branded products such as mobile phones and apparel by group companies of foreign owned e-commerce companies, and (2) suggests a maximum duration to be set for differential pricing strategies (implying some restriction on sale periods). If implemented, the policy may bring about greater pricing discipline among e-commerce players.

Several grey areas still to be addressed

The definition of foreign investment is not clear. There are many e-tailers run by Indian management but VC-funded through convertible structure. In several cases, group companies of e-commerce companies are not majority owned by the foreign parent, and it is hence not clear whether these companies could still be banned from bulk purchase of products and sale on the e-commerce platform owned by the parent. Further, several of these sellers own and retail private brands; it is not clear whether private brand retail would be permitted.

Possible boost to Indian e-tailers' online marketplaces

The draft policy suggests that Indian-owned and Indian-controlled online marketplaces be allowed to hold inventory provided products are 100% domestically produced. We believe this can potentially provide impetus to Indian retailers, as even though some of them have started their own portals, online is still a small proportion of their overall revenues. Some key beneficiaries could be: Dmart Ready (Avenue Supermarts), Easyday (Future Retail), Reliance Smart (RIL), Madura Garments and Pantaloons (ABFRL), Reliance Trends (RIL). These companies, would, however, need to fine-tune their e-commerce strategies, provide a smooth online retail experience and invest in online infrastructure. Overall, we believe this sector has further legs to grow, and will require significant investments. The final policy, thus, would need to address interests of multiple stakeholders of the value chain.

Kawaljeet Saluja
kawaljeet.saluja@kotak.com
Mumbai: +91-22-4336-0860

Garima Mishra
garima.mishra@kotak.com
Mumbai: +91-22-4336-0862

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-4336-0000

Extant laws do not prohibit group companies from selling on e-commerce marketplace co-owned by the parent (their contribution is restricted to 25% of overall sales of the platform). The draft e-commerce policy thus seeks to modify or supersede this rule.

Exhibit 1: Government restricts foreign investments in inventory-led e-commerce and multi-brand retail

Details of permitted foreign investment in Indian retail

	Foreign investment cap (%)	Government approval	Comments
Sale of products (other than food) manufactured in India by the manufacturer	100	Automatic	
Sale of food products manufactured in India	100	Government approval	
Cash and carry/wholesale trading including B2B e-commerce	100	Automatic	Wholesale/cash and carry trader can also undertake single brand retail trading. Such traders will be mandated to maintain separate books of accounts for these two arms of the business and duly audited by the statutory auditors. Government regulations have to be separately complied with by the respective business arms.
B2B e-commerce	100	Automatic	Such companies would engage only in B2B e-commerce and not in retail trading, thus implying that existing restrictions on FDI in domestic trading would be applicable to e-commerce as well.
Market place model of e-commerce	100	Automatic	Marketplace model of e-commerce means providing of an IT platform by an e-commerce entity on a digital & electronic network to act as a facilitator between buyer and seller.
Inventory model of e-commerce	Not allowed		An e-commerce entity will not permit more than 25% of the sales value generated on its marketplace from one vendor or their group companies Foreign investment is not permitted in inventory based model of e-commerce
Single brand product retail trading	100	Automatic upto 49%; government approval beyond this	For foreign investment beyond 51%, sourcing of 30% of the value of goods purchased will be done from India preferably from MSMEs, in all sectors. The quantum of domestic sourcing will be self-certified by the company, to be subsequently checked by statutory auditors. The procurement requirement is to be met in the first instance as an average of five years total value of goods purchased beginning 1st April of the year of the commencement of the business. Thereafter it shall be met on an annual basis.
Multi brand retail trading	51	Government approval	Minimum amount to be brought in as foreign investment is US\$100 mn At least 50% of the total foreign investment brought in the first tranche of US\$100 mn shall be invested in 'back-end infrastructure' within three years

Source: RBI, Kotak Institutional Equities

Other features of the draft policy

Customer data collection. The draft policy suggests personal data of customers or community data collected by devices in public areas will be stored in India. There is no restriction on where other data may be stored. However, the final recommendations will take into account the Srikrishna Panel report on data protection. This, we believe, can be contested by foreign firms which extensively use data analytics to target customers.

Greater M&A scrutiny by CCI. Greater regulatory scrutiny has been recommended for M&A, with the CCI expected to take a relook into what constitutes entry barriers and anti-competitive practices.

There are currently no timelines on finalization of the policy. Per media reports, the draft policy has been circulated to stakeholders and will be finalized post consultation.

AUGUST 03, 2018

UPDATE

BSE-30: 37,165

CTSH disappoints. CTSH's revenue growth was at the lower end of the guidance band. Non-GAAP EBIT margin came in at 22% and was higher-than-expected partly aided by ASC606 adoption. Elevated attrition continues to disappoint. Read-through for the sector is limited to bottoming out and potential improvement in growth from money center banks and muted retail with strength in the rest of the business. Infosys and Tech Mahindra remain our top picks.

Revenues miss consensus expectations; CMT and products & resources lead growth

CTSH reported 2.4% sequential revenue growth to US\$4,006 mn for June 2018 quarter. Revenues were impacted by 60 bps due to cross-currency headwinds. Bolder acquisition contributed just under US\$40 mn or 1% to quarterly revenues. On organic c/c basis, revenues grew 2% sequentially. Growth was led by media and technology segments of CMT vertical that grew 6.3% qoq and 15.8% yoy. Products and resources grew 2.3% qoq and 12.4% yoy. However, two key verticals underperformed—(1) financial services grew 0.5% qoq led by insurance and regional banks. Management indicated growth challenge from large banks has reduced and now localized to a couple of banks in Europe. The company believes that some of the large accounts in North America could return to growth led by strong participation in digital revenues and (2) healthcare grew 3.1% qoq; however, after stripping off revenues from Bolder acquisition, healthcare revenues declined on a sequential basis.

Revenue growth guidance stands at 8.4-10% for CY2018

Revenue growth guidance has the following components—(1) 70 bps contribution from the Bolder acquisition detailed in the last quarter's earnings call and (2) cross-currency tailwind of 60 bps. Incremental revenue contribution from ASC606 adoption was US\$52 mn in 1HCY18. Management indicated that revenue contribution from ASC606 adoption will not be material in CY2018. Company retained CY2018 non-GAAP EBIT margin guidance of ~21%. Once again ASC606 adoption aided EBIT to the extent of US\$67 mn (84 bps) in 1HCY18. CTSH had communicated that they will reinvest any margin in excess of 21% in CY2018; effectively we presume that part of the tailwind from adoption of accounting standard would be reinvested.

High attrition worrying and requires remedial measures

CTSH's attrition rate was once again above 20% and stood at 22.6% for the quarter. The elevated attrition can be partly attributed to a change in the performance management system instituted early last year and voluntary separation of employees that could not be reskilled in digital competencies. The impact is lasting longer than expected. Expect remedial measures soon, failing which growth can get impacted. Management cited three reasons for high attrition—(1) global demand for talent that CTSH specializes in is increasing at a time of talent shortage, (2) CTSH's ongoing transition as it is strengthening and simplifying operations and (3) establishment of robust performance management systems.

Read-through for other offshore pure-plays—some hope for turnaround in banking

Even as CTSH's growth from the banking vertical was weak, management indicated that it is beginning to see growth return from large accounts in North America. CTSH optimism is predicated on share gains in increasing spending towards digital/new technologies by clients. Growth from the banking vertical is critical to get to reasonable overall sector growth. The retail sector continues to be muted. Other verticals are in robust health.

Kawaljeet Saluja
kawaljeet.saluja@kotak.com
Mumbai: +91-22-4336-0860

Jaykumar Doshi
jaykumar.doshi@kotak.com
Mumbai: +91-22-4336-0882

Stock selection—turnaround stories in Tier-1, consistency in mid-tier

We prefer investment approach weighed towards solid companies that are not growing at optimal levels due to portfolio or execution challenges. Infosys falls in this category. With a certain stretch of definition one can consider Tech Mahindra as well. Both these companies have experienced challenges in recent times. These challenges reflect in relatively inexpensive multiples (16X for Infosys and 12X for Tech Mahindra on Jun 2020E earnings). However, focus on execution (Infosys) or upcoming opportunities in the marketplace (5G for Tech Mahindra) can drive turnaround in growth rates and accordingly valuations. Infosys and Tech Mahindra are our top picks. We would have loved to recommend TCS noting its global leadership on multiples attributes but finding the valuations really punchy for our comfort.

A quick work on ASC606 and its implications

Prior to adoption of ASC606, CTSH recognized revenues from fixed-price projects on percentage of completion method, with the percentage based on the effort or numbers of hours expended on the project. In large deals, upfront transition expenses are typically higher than the revenue recognized based on effort expended. This creates a situation of lower upfront profitability in a deal, something which corrects over the contract duration.

After ASC606 adoption revenues are still recognized under percentage of completion method; however, the basis of determining the progress is dependent on cost approach. Large deals have higher upfront cost; hence this approach leads to higher upfront revenue recognition as well. This approach aligns revenues with the costs and ensures consistent margin over the deal life cycle.

Key highlights from earnings call

- ▶ **Guidance.** Cognizant has guided for 1.35-2.35% revenue growth for the third quarter, which translates into US\$4.06-4.10 bn in revenues. For the full year the company has guided for 8.4-10% growth in revenues to US\$16.05-16.30 bn. The company expects to deliver non-GAAP operating margins of 21% and non-GAAP EPS of at least \$4.50 for the full year.
- ▶ **Commentary on verticals.** (1) Healthcare – growth was aided by revenues from Bolder acquisition. Management reported that growth in healthcare vertical could be affected in the last quarter of the calendar year due to lack of large deals in the pipeline. (2) BFSI – strong growth in mid-tier banks and insurance. The company expects spending from large banks towards digital initiatives to improve amid continuing pressure on spends in traditional business. (3) Communication, media and technology – growth is powered by demand in technology and media verticals offsetting weakness from consolidation in communication vertical. (4) Products and resources – management expects good growth from its high potential energy and utility clients. (5) Manufacturing and logistics – company expects strength in smart product development, industrial automation and investments focused on improving the customer experience and supply-chain visibility. In the retail vertical, CTSH expects demand to pick up for automation solutions, IOT and supply-chain optimization despite softness in the vertical due to consolidation and profitability pressures.
- ▶ **Share buyback plan.** Cognizant in February 2017 had announced plans to return US\$3.4 bn to shareholders by the end of 2018 through a combination of US\$2.7 bn in stock repurchases and US\$700 mn in dividends. Cognizant expects to complete the US\$600 mn accelerated share repurchase announced in June within the current quarter. The company declared a cash dividend of US\$0.2/share for the last quarter.
- ▶ **Digital.** Digital revenues grew yoy at a low 20% range and constituted nearly 30% of total revenues this quarter. The company is shifting focus towards high-margin digital business and shunning low-margin work from clients.

- ▶ **Attrition.** Attrition increased 230 bps sequentially to 22.6 %. The company attributed the rise in attrition to three factors – (1) supply-demand mismatch for tech talent, (2) transition of the company to strengthen and simplify its operations and (3) implementation of a more robust performance management system in the past 18 months. The company expects increased localization and the regular annual pay increase planned in the third and fourth quarters will keep attrition in check.
- ▶ **Outsourcing services.** Outsourcing services revenue grew 13.6% yoy, above the company average of 9.2%. Outsourcing growth benefited from (1) a large transformational project moving from consulting phase to operations, (2) large client wins such as TMG Health and (3) revenues from Bolder Healthcare acquisition.
- ▶ **Wage hike.** Cognizant has planned a wage hike for employees during the third and fourth quarters of the calendar year. The wage increase will be rolled out to a higher proportion of junior staff in the third quarter with senior staff set to benefit in the fourth quarter.
- ▶ **BPO.** The company reported strong sequential and yoy growth in its BPO practice. Management reported that success in BPO is a result of (1) deep focus on domain and verticals, (2) a strong platform strategy and (3) usage of automation and AI to increase productivity.

Exhibit 1: Cognizant interim results, December fiscal year-ends (US\$ mn)

	2QCY17	1QCY18	2QCY18	Change (%)	
				qoq	yoy
Revenues	3,670	3,912	4,006	2.4	9.2
Cost of revenues	(2,261)	(2,401)	(2,417)	0.7	6.9
SG&A expenses	(709)	(711)	(805)	13.2	13.5
EBITDA	700	800	784	(2.0)	12.0
Depreciation and amortization	(94)	(107)	(114)	6.5	21.3
EBIT	606	693	670	(3.3)	10.6
Other income	29	4	(47)	(1,275)	(262)
PBT	635	697	623	(10.6)	(1.9)
Provision for taxes	(165)	(177)	(167)	(5.6)	1.2
PAT	470	521	457	(12.3)	(2.8)
Margins (%)					
EBITDA	19.1	20.4	19.6		
EBIT	16.5	17.7	16.7		
Non-GAAP EBIT	20.0	20.7	20.7		
Net income	12.8	13.3	11.4		
Tax rate (%)	26.0	25.4	26.8		

Source: Company, Kotak Institutional Equities

Exhibit 2: Cognizant: Revenues by industry verticals and geographies

	Jun-18		Growth (%)	
	Revenue	% of revenues	qoq	yoy
Verticals				
Financial Services	1,469	36.7	0.5	4.5
Healthcare	1,156	28.9	3.1	10.1
Products and resources	840	21.0	2.3	12.4
Comm, Media and Tech (TMT)	541	13.5	6.3	15.8
Total	4,006	100.0	2.4	9.2
Geographies				
North America	3,067	76.6	3.1	7.6
Europe	690	17.2	0.9	19.2
Rest of the world	249	6.2	(1.6)	3.8
Total	4,006	100.0	2.4	9.2

Source: Company, Kotak Institutional Equities

Exhibit 3: Immediate quarter revenue guidance versus actuals

Quarter	Guidance		Actual		Beat/(Miss)
	Revenues (US\$ mn)	Growth (%)	Revenues (US\$ mn)	Growth (%)	
1QCY06	275	7.0	286	11.1	4.1
2QCY06	317	11.0	337	18.0	6.9
3QCY06	363	7.8	378	12.1	4.3
4QCY06	405	7.3	424	12.4	5.1
1QCY07	448	5.6	460	8.5	2.9
2QCY07	500	8.6	517	12.2	3.6
3QCY07	550	6.5	559	8.2	1.7
4QCY07	590	5.6	600	7.4	1.8
1QCY08	640	6.7	643	7.2	0.5
2QCY08	680	5.7	685	6.6	0.8
3QCY08	723	5.5	735	7.2	1.7
4QCY08	747	1.6	753	2.5	0.9
1QCY09	735	(2.4)	746	(0.9)	1.4
2QCY09	760	1.9	777	4.1	2.2
3QCY09	800	3.0	854	9.9	6.9
4QCY09	880	3.1	903	5.8	2.7
1QCY10	935	3.6	960	6.3	2.7
2QCY10	1,015	5.8	1,105	15.2	9.4
3QCY10	1,175	6.3	1,217	10.1	3.8
4QCY10	1,270	4.4	1,311	7.7	3.3
1QCY11	1,360	3.8	1,371	4.6	0.9
2QCY11	1,450	5.7	1,485	8.3	2.6
3QCY11	1,570	5.7	1,601	7.8	2.1
4QCY11	1,660	3.7	1,664	3.9	0.2
1QCY12	1,700	2.2	1,711	2.9	0.7
2QCY12	1,790	4.6	1,795	4.9	0.3
3QCY12	1,875	4.4	1,892	5.4	0.9
4QCY12	1,940	2.6	1,948	3.0	0.4
1QCY13	2,000	2.7	2,021	3.7	1.1
2QCY13	2,130	5.4	2,161	7.0	1.5
3QCY13	2,250	4.1	2,306	6.7	2.6
4QCY13	2,352	2.0	2,355	2.2	0.1
1QCY14	2,420	2.7	2,422	2.8	0.1
2QCY14	2,500-2,530	3.2-4.4	2,517	3.9	0.1
3QCY14	2,550-2,580	1.3-2.5	2,581	2.5	0.6
4QCY14	2,610-2,640	1.1-2.2	2,742	6.2	1.5
1QCY15	2,880	5.0	2,911	6.2	1.1
2QCY15	3,010	3.4	3,085	6.0	2.6
3QCY15	3,140	1.8	3,187	3.3	1.5
4QCY15	3,230	1.3	3,233	1.4	0.1
1QCY16	3,180-3,240	(1.6)-0.2	3,202	(0.9)	(0.2)
2QCY16	3,340-3,400	4.3-6.2	3,370	5.2	—
3QCY16	3,430-3,470	1.8-3	3,453	2.5	0.1
4QCY16	3,450-3,510	0-1.7	3,462	0.3	(0.6)
1QCY17	3,510-3,550	1.4-2.5	3,546	2.4	0.6
2QCY17	3,630-3,680	2.4-3.8	3,670	3.5	0.4
3QCY17	3,730-3,780	1.6-3.0	3,766	2.6	0.3
4QCY17	3,790-3,850	0.6-2.2	3,828	1.6	1.4
1QCY18	3880-3920	1.3-2.4	3,912	2.2	0.4
2QCY18	4000-4040	2.3-3.3	4,006	2.4	(0.3)
3QCY18	4060-4100	1.35-2.35			

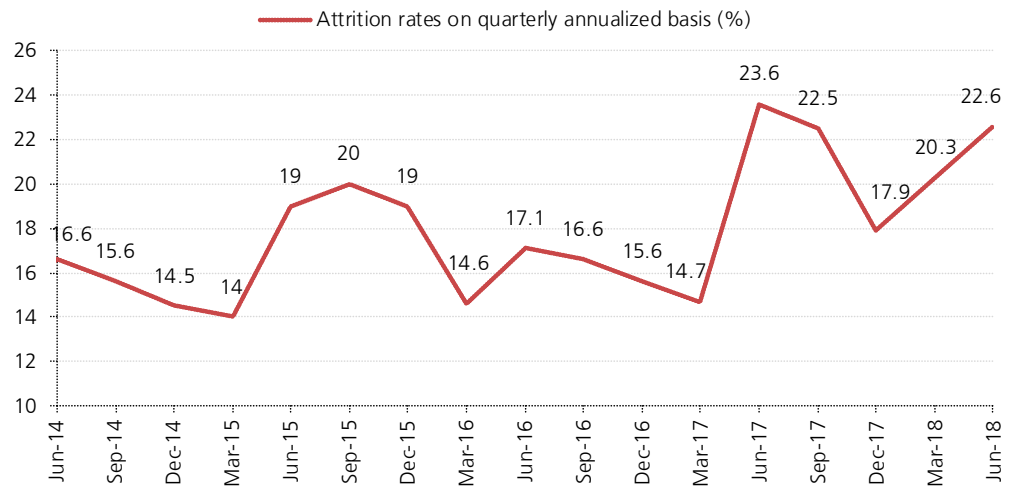
Source: Company, Kotak Institutional Equities

Exhibit 4: CTSH: Actuals versus beginning of the year revenue guidance

Year	Guidance		Actual		
	Revenues (US\$ mn)	Growth (%)	Revenues (US\$ mn)	Growth (%)	Beat/(Miss)
2005			886		
2006	1,260	42.2	1,424	60.8	18.5
2007	2,040	43.0	2,136	49.9	6.9
2008	2,950	38.0	2,816	31.9	(6.1)
2009	3,100	10.0	3,279	16.4	6.4
2010	3,935	20.0	4,592	40.1	20.1
2011	5,790	26.0	6,121	33.3	7.3
2012	7,530	23.0	7,346	20.0	(3.0)
2013	8,600	17.0	8,843	20.4	3.4
2014	10,300	16.5	10,263	16.1	(0.4)
2015	12,210	19.0	12,416	21.0	2.0
2016	13.65-14.2	11-14	13,487	8.6	(3.9)
2017	14.56-14.84	8-10	14,810	9.8	1.8
2018	16.05-16.3	8-10			

Source: Company, Kotak Institutional Equities

Exhibit 5: Attrition rates have increased sharply in the recent quarters



Source: Company, Kotak Institutional Equities

Exhibit 6: Kotak Institutional Equities: valuation summary of key Indian technology companies

Company	2-Aug-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	961	REDUCE	1,337,407	19,471	62.3	70.3	73.8	15.4	13.7	13.0	10.8	8.9	8.1	24.8	24.2	21.8
Hexaware Technologies	475	SELL	140,853	2,051	16.5	19.6	23.1	28.7	24.2	20.5	20.7	18.1	14.3	26.6	27.4	27.8
Infosys	1,354	ADD	2,956,544	43,043	64.6	70.9	78.3	20.9	19.1	17.3	14.5	13.1	11.7	21.8	23.0	23.5
L&T Infotech	1,750	ADD	302,678	4,407	63.5	82.9	93.7	27.5	21.1	18.7	24.2	16.1	13.6	31.8	33.5	30.7
Mindtree	953	ADD	156,237	2,275	34.5	43.1	53.3	27.6	22.1	17.9	20.0	13.8	11.0	21.4	23.9	25.2
Mphasis	1,179	SELL	227,890	3,318	43.9	51.9	56.2	26.9	22.7	21.0	19.5	15.8	14.1	14.6	17.4	17.1
TCS	1,948	REDUCE	7,459,596	108,602	67.5	81.8	89.0	28.9	23.8	21.9	21.5	17.4	16.0	29.4	33.4	33.8
Tech Mahindra	669	ADD	590,459	8,596	42.6	46.2	54.6	15.7	14.5	12.3	11.5	8.6	7.0	21.5	20.2	20.5
Wipro	279	REDUCE	1,262,653	18,383	16.9	18.9	21.7	16.5	14.7	12.9	10.4	9.2	8.1	16.0	16.4	16.8
Technology			14,434,317	210,145				22.5	19.9	18.2	16.4	13.7	12.3	23.7	23.8	24.1
KIE universe			111,855,820	1,628,096				27.3	21.5	17.2	12.8	10.9	9.6	11.2	12.9	14.6

Company	Target	O/S shares (mn)	EPS CAGR (%) 2017-20E	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)		
	Price (Rs)			2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
HCL Technologies	1,025	1,409	7.7	5.3	12.8	5.0	87,783	96,614	100,229	114,392	135,929	143,647	505,700	592,117	648,011
Hexaware Technologies	435	302	18.9	20.2	18.4	18.0	4,994	5,914	6,978	6,554	7,400	9,170	39,420	46,640	54,894
Infosys	1,400	2,175	7.6	3.0	9.7	10.4	145,960	154,135	170,196	190,100	209,914	230,484	705,220	804,826	885,245
L&T Infotech	2,000	175	18.9	13.9	30.5	13.0	11,120	14,530	16,422	11,876	17,572	20,324	73,065	92,890	106,897
Mindtree	1,115	165	28.6	37.8	24.9	23.6	5,701	7,083	8,757	7,405	10,562	12,849	54,628	68,525	78,031
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	1,790	3,829	10.1	1.1	21.2	8.8	258,260	309,420	333,970	325,160	397,227	432,018	1,231,040	1,447,885	1,590,149
Tech Mahindra	785	891	19.4	33.1	8.3	18.2	38,000	41,180	49,101	47,170	60,420	70,144	307,730	348,702	380,933
Wipro	295	4,507	7.4	(3.1)	11.8	14.6	80,081	85,332	97,779	105,277	112,513	124,723	546,359	584,322	623,734
Technology				1.6	13.1	9.7	640,376	724,235	794,282	818,530	964,437	1,057,529	3,528,621	4,062,060	4,452,685
KIE universe				(5.1)	26.8	26.8									

Notes:

(a) Hexaware Technologies is December year-ending.

Source: Company, Kotak Institutional Equities

AUGUST 03, 2018

UPDATE

BSE-30: 37,165

1QFY19 review – Jio surprises, Idea struggles. Jio closed the market share gap versus Bharti and Idea-Voda mergeco (pro-forma) substantially in 1QFY19 delivering 14% qoq topline growth versus 1% growth for Bharti and 2.8% decline for the mergeco. Relative capex differential has started showing up in relative subscriber and usage metrics. Some of Jio's recent disruptions (new postpaid plan, monsoon hungama) are yet to reflect in numbers. Near-term prognosis for the incumbents is challenging and medium term remains uncertain. We prefer Bharti over Idea and stay cautious on BHIN.

Key highlights – subtle change in Bharti's stance, Idea's strategy backfires, Jio's ARPU surprise

The most interesting highlight of the quarter for us was the subtle change in Bharti's stance on industry structure prognosis. Bharti suggested a move towards a three-large-player-with-roughly-similar-market-shares structure as far as the industry construct is concerned. This was a subtle but important-to-appreciate deviation from the company's earlier stance that suggested (a) confidence in retaining its top position and (b) potential for easy and meaningful market share gains from the Idea-Voda mergeco as they struggle with consolidating two large, complex networks.

We also believe Idea's relative underperformance on financials as well as operational metrics marked the first time the downside of network underinvestment was visible in relative performance between incumbents. Idea management did suggest that the underperformance had little to do with network underinvestment. Per Idea management, the company's relatively weak performance was on account of their pricing strategy (wherein the company stepped up focus on selling unbundled plans as opposed to bundled packs) backfiring. This could have played a part, we agree. However, we think the Idea-Voda mergeco needs to step up and accelerate its network coverage and capacity expansion plans to stay competitive.

We were also surprised by Jio's reported ARPU as well as the underlying reasons (for ARPU stability) suggested by the management. Implication of Jio's strong 14% qoq revenue growth and stable ARPU despite increased pricing aggression is materially negative for industry pricing outlook. Jio does not need to increase pricing if it can add an incremental ₹10 bn revenues qoq while being aggressive on pricing.

Key metrics – volume surge and operating profit decline (for the incumbents) both continue

Even as the operating and financial trends for the incumbents varied, with Bharti outperforming Idea and Vodafone, the incumbents as a pack underperformed Jio on sequential comps quite meaningfully. The incumbent pack saw its combined revenues go down by around 23% yoy and EBITDA by 46% yoy. On a qoq basis, there was some stability in revenues of the incumbent pack as a composite. This was led by modest qoq growth for Bharti even as Idea (-4% qoq) and Vodafone (-1.7% qoq) saw a decline in revenues. Bharti's wireless EBITDA is now down almost 55% from its pre-Jio peak levels while Idea's is down nearly 80%. EBIT losses expanded for all the incumbents.

Relative broadband sub additions slowed down materially for Idea and Vodafone while being stable for Bharti as well as Jio. Data usage levels continued to surge with Jio's data usage per sub crossing the 10 GB/month mark and Bharti's coming in just below the 8 GB mark. Overall data volumes (for the four players) stood at nearly 10.6 bn GB, 30X versus the pre-Jio Jun 2016 quarter levels. Voice traffic surge also continued with the three incumbents reporting between 39-62% yoy growth. Jio's voice traffic crossed Idea's and Vodafone's (individually).

Rohit Chordia
rohit.chordia@kotak.com
Mumbai: +91-22-4336-0885

Aniket Sethi
aniket.sethi@kotak.com
Mumbai: +91-22-4336-0881

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-4336-0000

Exhibit 1: India wireless KPIs - Bharti, Vodafone, Idea, and R-Jio, 1QFY17-1QFY19, March fiscal year-ends

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Jun-18	
										qoq (%)	yoy (%)
Wireless subs, EOP (mn)											
Bharti	256	260	266	274	281	282	290	304	345	13.3	22.8
Idea	176	179	185	190	189	182	189	195	188	(3.4)	(0.6)
Vodafone	199	201	205	209	212	207	213	223	220	(1.3)	3.7
R-Jio		16	72	109	123	139	160	187	215	15.4	74.5
Postpaid subs (mn)											
Bharti	15.7	16.4	16.7	17.2	17.5	17.7	18.2	18.4	18.5	0.3	5.4
Idea	8.1	8.2	8.3	8.3	8.3	8.2	8.3	8.2	7.9	(3.4)	(5.1)
Vodafone	14.8	15.5	15.7	15.7	15.7	15.4	15.5	14.9	14.2	(5.2)	(9.8)
Wireless revenues (Rs bn)											
Bharti	151	147	138	130	129	122	108	104	105	1.2	(18.8)
Idea	95	93	87	81	82	75	65	61	59	(4.0)	(27.9)
Vodafone	105	103	96	88	89	83	72	69	68	(1.7)	(23.9)
R-Jio						61	69	71	81	13.8	
Wireless ARPU (Rs/sub/month)											
Bharti	196	188	172	158	154	146	123	116	105	(8.8)	(31.8)
Idea	178	173	157	142	141	132	114	105	100	(4.8)	(29.1)
Vodafone	176	171	158	142	141	132	114	105	102	(3.3)	(27.6)
R-Jio						156	154	137	135	(1.9)	
Wireless EBITDA (Rs bn) (a)											
Bharti	64	62	53	48	44	42	35	29	28	(6.2)	(37.7)
Idea	31	28	22	21	19	15	12	14	7	(54.4)	(64.8)
Vodafone			26	20	19	18	14	18	10	(43.2)	(45.4)
R-Jio						14	26	27	31	16.8	
Wireless costs (Rs bn) (a)											
Bharti	87	85	86	82	85	80	72	74	77	4.2	(9.0)
Idea	64	65	65	60	63	60	53	47	52	11.5	(16.9)
Vodafone			70	69	70	65	58	51	58	12.8	(18.2)
R-Jio						47	43	44	50	11.9	
Wireless EBITDA margin (%) (a)											
Bharti	42.4	42.4	38.0	36.9	34.3	34.4	32.6	28.4	26.3		
Idea	32.6	30.5	25.0	26.1	23.0	20.1	18.8	23.6	11.2		
Vodafone			27.4	22.2	20.9	21.9	20.1	26.0	15.0		
R-Jio						23.5	38.2	37.8	38.8		
Wireless EBIT (Rs bn)											
Bharti	34.4	33.1	22.6	14.4	12.6	11.4	1.7	(4.8)	(8.8)	NM	NM
Idea	11.6	8.9	2.0	2.1	(1.9)	(6.1)	(9.2)	(6.4)	(14.3)	NM	NM
R-Jio						2.6	14.3	14.9	17.1	14.2	

Note:

(a) Vodafone does not disclose all the metrics above. Some of Vodafone's metrics are our estimates.

Source: Companies, Kotak Institutional Equities estimates

Exhibit 2: India wireless KPIs - Bharti, Vodafone, Idea, and R-Jio, 1QFY17-1QFY19, March fiscal year-ends

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Jun-18	
										qoq (%)	yoy (%)
Voice traffic (bn min) (a)											
Bharti	315	313	330	381	422	437	495	593	684	15.4	62.2
Idea	199	196	210	231	251	255	283	330	350	5.8	39.4
Vodafone	234	229	236	263	295	303	341	399	435	9.2	47.6
R-Jio						246	311	372	449	20.6	
Data traffic (bn MB)											
Bharti	158	178	172	225	472	784	1,106	1,540	2,151	39.7	355.3
Idea	93	107	109	127	253	439	571	818	1,018	24.5	302.8
Vodafone	91	105	102	129	239	384	567	773	1,059	36.9	343.4
R-Jio						3,780	4,310	5,060	6,420	26.9	
Data traffic share (of top-4 composite, %)											
Bharti						14.6	16.9	18.8	20.2		
Idea						8.1	8.7	10.0	9.6		
Vodafone						7.1	8.7	9.4	9.9		
R-Jio						70.2	65.8	61.8	60.3		
Data subs (mn)											
Bharti	59	63	55	57	63	66	71	86	95	10.1	51.5
Idea	49	54	49	42	38	38	43	47	47	(0.6)	22.1
Vodafone	70	70	65	67	69	68	70	76	77	1.3	11.3
R-Jio						139	160	187	215	15.4	
Mobile broadband subs (mn) (a)											
Bharti	37	41	38	43	49	55	62	77	86	11.9	75.2
Idea	27	31	27	25	26	30	35	40	41	2.9	55.5
Vodafone	32	36	35	38	41	46	53	60	63	5.4	53.3
R-Jio						139	160	187	215	15.4	
Data usage per data sub (MB/month)											
Bharti	900	977	974	1,337	2,626	4,072	5,397	6,542	7,927	21.2	201.9
Idea	667	695	707	932	2,098	3,832	4,714	6,100	7,273	19.2	246.7
Vodafone	444	504	504	654	1,170	1,869	2,749	3,534	4,615	30.6	294.5
R-Jio						9,618	9,619	9,730	10,600	8.9	
Blended churn (% per month)											
Bharti	3.6	3.7	4.1	3.6	3.8	3.9	3.3	2.8	2.0		
Idea	5.2	5.4	6.0	6.1	6.7	6.3	4.8	4.3	5.2		
Vodafone	4.6	4.6	5.0	4.6	5.1	5.3	4.4	3.7	4.1		
R-Jio							1.4	0.3	0.3		
Wireless capex (Rs bn)											
Bharti (quarterly)	32	37	44	21	51	61	49	34	69		
Idea (quarterly)	11	20	20	28	12	20	18	21	10		
Vodafone (half-yearly)	33.6		49.8		28.9		43.4				

Note:

(a) Vodafone does not disclose all the metrics above. Some of Vodafone's metrics are our estimates.

Source: Companies, Kotak Institutional Equities estimates

June 2018: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
30-Jul	31-Jul	1-Aug	2-Aug	3-Aug	4-Aug	5-Aug
				Berger Paints	Divi's Laboratories	PI Industries
				Carborundum Universal		
				CG Power and Industrial		
				KEC International		
				Laurus Labs		
				SAIL		
				Titan Company		
6-Aug	7-Aug	8-Aug	9-Aug	10-Aug	11-Aug	12-Aug
Adani Port and SEZ	Adani Transmission	BPCL	3M India	Alkem Laboratories	Amara Raja Batteries	
Adani Power	AU Small Finance	Cipla	AIA Engineering	Apollo Hospitals	Balkrishna Industries	
Arvind	Edelweiss Financial Services	City Union Bank	Aurobindo Pharma	Bosch	Coal India	
Britannia Industries	GlaxoSmithkline Consumer	HPCL	Bharat Forge	Dhanuka Agritech	Dalmia Bharat	
Gateway Distriparks	Kalpataru Power Transmission	Indian Bank	Coffee Day Enterprises	Dr Lal Pathlabs	India Cements	
Max Financial Services	Mahindra & Mahindra	Lupin	Cummins India	Endurance Technologies	IOCL	
Punjab National Bank	Motherson Sumi Systems	Natco Pharma	Eicher Motors	GAIL (India)	MRPL	
Ujivan Financial Services	Mphasis	National Aluminium Co.	Engineers India	Glenmark Pharmaceuticals	NBCC	
	Sobha	NMDC	Godrej Agrovet	Hindalco Industries		
	SRF	PNB Housing Finance	Gujarat Pipavav Port	Indraprastha Gas		
	TVS Motor	Siemens	HCG	NHPC		
		Thermax	Jindal Steel and Power	PC Jeweller		
			Kaveri Seed	State Bank of India		
			MRF	Sun TV Network		
			Page Industries	Timken		
			S H Kelkar and Company	Union Bank		
			Tata Communications	United Breweries		
			Varun Beverages	Voltas		
			Whirlpool			
13-Aug	14-Aug	15-Aug	16-Aug	17-Aug	18-Aug	19-Aug
Cadila Healthcare	Grasim Industries					
Dewan Housing Finance	Rajesh Exports					
Godrej Industries	Sun Pharmaceuticals					
Oil India						
Tata Chemicals						
Tata Steel						
20-Aug	21-Aug	22-Aug	23-Aug	24-Aug	25-Aug	26-Aug
		P&G Hygiene	Gillette India			

Source: NSE, Kotak Institutional Equities

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		
		2-Aug-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)
Automobiles																													
Amara Raja Batteries	REDUCE	810	780	(3.7)	138	2.0	171	28	33	39	(1.6)	21.2	15.5	29.4	24.2	21.0	15.6	12.9	11.0	4.7	4.1	3.5	17.0	18.0	18.0	0.5	0.6	0.7	6.1
Apollo Tyres	BUY	286	340	18.8	164	2.4	541	13	20	25	(38.0)	46.9	25.7	21.4	14.5	11.6	11.9	8.7	7.3	1.6	1.5	1.4	8.5	11.0	12.5	1.0	1.0	1.0	11.0
Ashok Leyland	BUY	120	160	33.1	353	5.1	2,926	5.4	6.2	8.9	8.0	15.3	43.2	22.3	19.4	13.5	12.9	9.9	7.1	4.9	4.2	3.5	23.7	23.4	28.4	2.0	1.5	2.2	46.3
Bajaj Auto	SELL	2,679	2,500	(6.7)	775	11.3	289	140	148	161	6.0	5.4	9.0	19.1	18.1	16.6	12.9	12.4	11.0	4.1	3.6	3.3	22.9	21.2	20.7	2.2	2.2	2.4	31.9
Balkrishna Industries	REDUCE	1,236	1,260	1.9	239	3.5	193	37	50	63	4.8	34.8	25.0	33.1	24.5	19.6	17.5	13.5	10.8	5.9	4.8	4.0	19.0	21.6	22.2	0.4	0.5	0.5	8.1
Bharat Forge	SELL	634	600	(5.4)	295	4.3	466	16	23	27	10.1	43.0	16.8	39.2	27.4	23.5	18.8	15.5	13.4	6.4	5.5	4.6	17.3	21.5	21.4	0.7	0.8	0.9	10.8
CEAT	ADD	1,397	1,500	7.4	57	0.8	40	65	99	108	(29.5)	53.7	8.3	21.6	14.0	13.0	10.5	8.9	7.7	2.2	1.9	1.7	10.4	14.4	13.8	0.8	0.7	0.7	14.4
Eicher Motors	SELL	26,961	26,000	(3.6)	735	10.7	27	792	995	1,200	29.3	25.5	20.6	34.0	27.1	22.5	24.5	19.7	16.0	13.7	9.9	7.4	46.4	42.3	37.5	0.1	0.1	0.1	19.0
Escorts	BUY	904	1,200	32.7	77	1.6	89	39	59	71	71.3	52.3	19.9	23.3	15.3	12.8	13.3	9.3	7.6	3.2	2.7	2.3	13.5	17.6	18.0	0.4	1.0	1.2	16.9
Exide Industries	SELL	271	235	(13.3)	230	3.4	850	8	10	11	0.6	25.3	11.0	33.0	26.4	23.7	18.5	15.0	13.4	4.3	3.9	3.5	13.5	15.4	15.5	0.9	1.1	1.3	9.3
Hero Motocorp	SELL	3,267	3,000	(8.2)	652	9.5	200	185	183	204	9.5	(0.9)	11.4	17.6	17.8	16.0	10.9	10.6	9.3	5.5	4.9	4.4	33.8	29.3	29.1	2.6	2.8	3.1	22.7
Mahindra CIE Automotive	ADD	254	290	14.3	96	1.4	378	10	14	16	107.0	45.0	12.7	26.4	18.2	16.2	13.0	9.2	8.1	2.6	2.3	2.0	10.4	13.2	13.1	—	—	—	3.1
Mahindra & Mahindra	BUY	911	1,015	11.4	1,133	16.5	1,138	38	44	50	22.0	15.6	14.8	24.0	20.8	18.1	15.8	13.4	11.6	3.4	3.0	2.7	15.1	15.4	15.7	0.8	1.0	1.1	31.9
Maruti Suzuki	ADD	9,142	10,000	9.4	2,762	40.2	302	256	323	393	5.1	26.4	21.8	35.8	28.3	23.2	20.0	16.3	12.9	6.6	5.7	4.9	19.8	21.6	22.5	0.9	0.9	1.1	64.1
Motherson Sumi Systems	SELL	304	265	(12.9)	640	9.3	2,105	8	11	14	6.1	37.7	21.7	37.2	27.0	22.2	14.0	10.8	8.9	6.5	5.5	4.7	19.0	22.1	22.9	0.7	0.9	1.1	13.8
MRF	REDUCE	78,240	76,000	(2.9)	332	4.8	4	2,669	3,896	4,447	(23.9)	46.0	14.1	29.3	20.1	17.6	13.3	9.8	8.5	3.4	2.9	2.5	12.3	15.7	15.4	0.1	0.1	0.1	7.1
Schaeffler India	BUY	5,250	6,000	14.3	87	1.3	17	143	156	199	22.0	9.0	27.3	36.7	33.6	26.4	21.5	20.4	15.5	5.1	4.6	4.1	15.0	14.5	16.4	0.3	0.6	0.8	0.6
SKF	ADD	1,700	1,800	5.9	87	1.3	51	58	69	82	24.6	19.7	18.5	29.5	24.6	20.8	18.2	15.7	13.0	4.7	4.1	3.6	16.1	16.7	17.1	0.6	0.7	0.8	0.4
Tata Motors	BUY	261	425	62.9	886	12.0	3,396	20	22	36	(28.0)	10.7	62.7	13.1	11.8	7.3	3.8	3.6	3.0	0.9	0.9	0.8	8.8	7.6	11.2	—	—	—	59.8
Timken	SELL	748	660	(11.7)	51	0.7	68	14	19	25	(5.3)	42.3	27.5	55.2	38.8	30.4	30.8	21.5	17.1	7.2	6.2	5.2	13.9	17.1	18.5	0.1	0.1	0.1	0.3
TVS Motor	SELL	512	410	(20.0)	243	3.5	475	14	18	22	18.7	26.8	21.8	36.7	29.0	23.8	22.5	16.9	14.1	8.5	7.1	6.0	25.1	26.7	27.3	0.6	1.0	1.3	12.2
WABCO India	SELL	6,599	6,350	(3.8)	125	1.8	19	144	169	222	27.8	17.8	31.3	45.9	39.0	29.7	29.7	25.3	19.1	8.2	6.9	5.6	19.5	19.2	20.9	0.1	0.2	0.2	0.5
Automobiles	Neutral				10,159	148					(0.9)	19.6	25.7	26.0	21.7	17.3	11.5	9.7	8.0	3.7	3.3	2.9	14.2	15.1	16.6	0.9	0.9	1.1	390.3
Banks																													
Axis Bank	ADD	547	600	9.6	1,405	20.5	2,567	1	18	40	(92.6)	1,577.6	122.3	509.5	30.4	13.7	—	—	—	2.7	2.3	2.0	0.5	7.1	14.1	0.9	0.5	1.1	54.3
Bank of Baroda	NR	147	—	—	390	5.7	2,652	(9)	21	26	(253.2)	323.7	26.4	(16.1)	7.2	5.7	—	—	—	1.6	1.3	1.0	(5.8)	12.7	14.0	—	—	—	33.7
Canara Bank	ADD	280	300	7.2	205	3.0	733	(58)	(5)	51	(406.6)	91.6	1,147.0	(4.9)	(57.7)	5.5	—	—	—	1.8	1.7	1.0	(12.2)	(1.0)	10.1	—	—	—	28.8
City Union Bank	ADD	171	190	11.3	125	1.8	665	9	10	12	6.4	16.2	13.0	19.2	16.5	14.6	—	—	—	2.9	2.6	2.2	15.3	15.5	15.5	0.2	1.1	1.2	1.9
DCB Bank	ADD	162	205	26.8	50	0.7	308	8	10	12	13.8	28.2	21.0	20.3	15.8	13.1	—	—	—	2.0	1.9	1.7	10.9	11.7	12.7	—	0.6	0.7	4.5
Equitas Holdings	BUY	146	190	30.0	50	0.7	340	0.9	4.4	8.4	(80.3)	378.4	89.9	157.6	32.9	17.3	—	—	—	2.3	2.1	1.9	1.4	6.4	11.2	—	—	—	5.0
Federal Bank	BUY	87	130	49.0	173	2.5	1,972	4.4	5.7	7.9	(9.3)	29.5	39.5	20.0	15.4	11.1	—	—	—	1.5	1.4	1.3	8.2	8.8	11.4	1.1	1.5	2.1	20.6
HDFC Bank	REDUCE	2,129	2,000	(6.1)	5,545	80.7	2,595	67	77	93	18.7	14.1	21.1	31.6	27.7	22.9	—	—	—	5.3	4.0	3.6	17.9	16.5	16.2	0.6	0.7	0.8	85.0
ICICI Bank	BUY	299	400	34.0	1,920	28.0	6,429	11	8	26	(31.1)	(19.6)	209.1	28.3	35.2	11.4	—	—	—	2.3	2.0	1.7	6.6	5.1	14.5	0.5	0.6	1.8	92.2
IDFC Bank	NR	40	—	—	137	2.0	3,404	2.5	1.2	2.9	(16.0)	(52.7)	146.7	15.9	33.6	13.6	—	—	—	0.9	0.9	0.8	5.7	2.6	6.3	1.3	0.6	1.5	9.3
IndusInd Bank	REDUCE	2,022	1,900	(6.0)	1,214	17.7	600	60	71	87	25.3	17.5	23.6	33.6	28.6	23.2	—	—	—	5.3	4.3	3.7	17.1	17.6	16.8	—	0.4	0.5	31.5
J&K Bank	BUY	58	100	73.8	32	0.5	557	4	7	11	111.6	82.4	63.8	15.8	8.7	5.3	—	—	—	0.7	0.7	0.6	3.4	5.9	9.1	—	2.3	3.8	0.4
Karur Vysya Bank	ADD	105	110	4.5	77	1.1	727	5	3	13	(52.2)	(32.3)	306.7	22.1	32.7	8.0	—	—	—	1.5	1.5	1.3	6.1	3.7	14.1	0.6	0.8	3.1	2.0
Punjab National Bank	ADD	85	90	5.7	235	3.4	2,761	(44)	(39)	9	(814.7)	13.4	124.1	(1.9)	(2.2)	9.2	—	—	—	5.0	(3.8)	(14.5)	(32.4)	(31.3)	8.2	—	(9.8)	2.4	33.3
RBL Bank	SELL	569	475	(16.5)	240	3.5	420	15	22	29	27.3	48.1	31.5	37.6	25.4	19.3	—	—	—	3.7	3.3	3.0	11.5	13.3	15.5	0.4	0.6	0.8	12.5
State Bank of India	BUY	294	370	25.9	2,623	38.2	8,925	(7)	18	37	(155.8)	NM	106.1	NM	16.3	7.9	—	—	—	2.3	1.8	1.3	(3.2)	7.1	13.2	—	0.1	0.1	81.1
Ujivan Financial Services	REDUCE	383	420	9.8	46	0.7	121	1	22	29	(96.5)	3,564.0	30.0	633.8	17.3	13.3	—	—	—	2.8	2.4	2.0	0.4	14.2	16.1	0.0	0.6	0.8	6.8
Union Bank	ADD	87	130	49.9	101	1.5	1,169	(45)	1	24	(655.5)	101.4	3,896.2	(1.9)	141.6	3.5	—	—	—	1.4	1.3	0.8	(23.6)	0.3	11.8	—	0.1	4.2	9.7
YES Bank	SELL	362	335	(7.4)	834	12.1	2,303	18	20	22	25.7	8.1	9.5	19.7	18.2	16.7													

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)	
		2-Aug-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
NBFCs																													
Bajaj Finance	SELL	2,684	2,000	(25.5)	1,551	22.6	575	43	68	90	29.2	56.6	31.9	61.8	39.5	29.9	—	—	—	9.8	8.0	6.5	19.7	22.4	24.0	0.1	0.3	0.3	56.3
Bajaj Finserv	REDUCE	6,908	6,100	(11.7)	1,099	16.0	159	176	245	307	10.3	39.7	25.2	39.4	28.2	22.5	—	—	—	5.5	4.5	3.7	15.6	17.5	18.1	0.2	0.2	0.2	18.7
Bharat Financial Inclusion	NA	1,228	—	—	171	2.5	139	33	43	54	55.5	31.1	27.2	37.6	28.7	22.5	—	—	—	5.7	4.6	3.8	16.7	17.9	18.5	—	—	—	10.0
Cholamandalam	REDUCE	1,420	1,500	5.7	222	3.2	156	62	90	110	35.5	44.8	22.1	22.8	15.7	12.9	—	—	—	4.5	3.7	3.0	20.6	24.5	24.3	0.5	0.8	0.9	7.8
HDFC	ADD	1,932	2,075	7.4	3,265	47.5	1,676	75	56	67	52.1	(25.8)	19.0	25.6	34.5	29.0	—	—	—	5.1	4.4	4.0	23.9	13.8	14.5	1.0	1.1	1.3	72.4
HDFC Standard Life Insurance	SELL	493	405	(17.9)	992	14.4	2,007	6	6	7	24.4	14.8	10.9	89.1	77.7	70.0	—	—	—	23.0	20.6	18.4	27.3	28.0	27.7	0.3	0.3	0.4	11.7
ICICI Lombard	SELL	787	620	(21.2)	357	5.2	454	19	26	32	22.0	37.1	21.5	41.4	30.2	24.9	—	—	—	7.9	6.6	5.5	20.8	23.8	24.2	0.5	0.8	0.9	2.3
ICICI Prudential Life	BUY	414	500	20.9	594	8.6	1,436	11	12	13	(3.7)	10.1	7.0	36.7	33.3	31.1	—	—	—	9.0	7.4	6.2	25.0	24.5	21.8	1.4	0.5	0.5	10.9
IIFL Holdings	SELL	678	625	(7.9)	216	3.2	319	29	38	45	32.4	31.5	18.6	23.8	18.1	15.2	—	—	—	4.3	3.2	2.8	19.0	20.5	20.0	0.9	1.2	1.4	1.5
L&T Finance Holdings	ADD	175	190	8.6	349	5.1	1,996	7	13	14	23.7	70.9	12.3	23.8	13.9	12.4	—	—	—	2.8	2.5	2.2	14.2	18.9	18.8	1.0	1.1	1.4	12.6
LIC Housing Finance	BUY	529	610	15.3	267	3.9	505	44	50	58	3.2	13.8	17.5	12.1	10.7	9.1	—	—	—	2.0	1.7	1.4	14.5	14.3	14.4	1.3	1.5	1.7	12.2
Magma Fincorp	BUY	148	200	34.9	40	0.6	237	10	12	15	1,014.5	24.6	25.8	15.3	12.2	9.7	—	—	—	1.5	1.5	1.3	10.2	12.9	14.1	0.5	1.2	1.5	1.6
Mahindra & Mahindra Financial	REDUCE	503	500	(0.7)	311	4.5	614	15	23	28	105.0	58.4	23.2	34.7	21.9	17.8	—	—	—	3.6	3.2	2.9	11.3	14.3	15.8	0.8	1.3	1.6	10.7
Max Financial Services	BUY	518	650	25.5	139	2.0	268	5	6	6	(20.4)	36.9	1.8	112.9	82.5	81.1	—	—	—	—	—	—	6.5	8.3	8.0	—	0.4	0.4	4.7
Muthoot Finance	ADD	404	480	18.9	162	2.4	400	43	38	40	45.6	(10.8)	4.0	9.4	10.5	10.1	—	—	—	2.1	1.8	1.6	24.1	18.4	16.9	2.5	2.2	2.3	4.8
PNB Housing Finance	REDUCE	1,275	1,375	7.8	214	3.1	167	50	61	77	57.8	23.0	25.3	25.6	20.8	16.6	—	—	—	3.4	3.1	2.7	14.0	15.2	16.8	0.7	0.3	0.3	10.1
SBI Life Insurance	ADD	695	785	12.9	695	10.1	1,000	12	15	18	20.8	26.0	22.9	60.3	47.8	38.9	—	—	—	10.8	9.1	7.6	19.4	20.6	21.3	0.3	0.3	0.4	4.0
Shriram City Union Finance	ADD	1,923	2,250	17.0	127	1.8	66	101	141	174	19.6	40.4	22.7	19.1	13.6	11.1	—	—	—	2.4	2.2	1.9	12.5	15.8	16.9	0.9	0.9	1.1	0.6
Shriram Transport	ADD	1,390	1,550	11.5	315	4.6	227	69	114	130	24.7	64.4	14.3	20.1	12.2	10.7	—	—	—	2.7	2.2	1.9	13.1	18.3	17.5	0.8	1.1	1.3	30.6
NBFCs	Neutral				11,088	161					36.9	14.8	19.6	32.4	28.2	23.6				5.5	4.6	4.0	16.8	16.1	16.8	0.7	0.7	0.8	570.3
Cement																													
ACC	SELL	1,541	1,270	(17.6)	289	4.2	188	49	62	70	32.7	27.0	13.8	31.6	24.9	21.9	16.9	13.8	11.8	3.1	2.9	2.6	10.1	11.9	12.5	1.1	1.1	1.1	15.3
Ambuja Cements	REDUCE	229	210	(8.2)	454	6.6	1,986	8	9	11	29.7	14.5	23.2	30.4	26.6	21.6	10.2	9.0	7.4	2.2	2.1	2.0	7.4	8.1	9.5	1.6	1.6	1.6	11.8
Dalmia Bharat	ADD	2,665	2,900	8.8	238	3.5	89	60	98	128	55.4	62.6	30.3	44.2	27.2	20.8	13.6	10.4	8.5	3.9	3.4	2.9	9.7	13.4	15.2	0.1	0.1	0.1	5.1
Grasim Industries	BUY	1,014	1,275	25.7	667	9.7	657	47	52	69	(30.1)	9.1	32.8	21.4	19.6	14.8	12.1	7.4	6.8	1.2	1.1	1.0	7.0	5.8	7.2	0.5	0.5	0.5	14.5
India Cements	REDUCE	117	135	15.3	36	0.5	308	3	5	9	(42.5)	56.2	84.4	35.8	22.9	12.4	9.8	8.4	6.6	0.7	0.7	0.6	2.0	3.0	5.3	0.9	0.9	0.9	7.7
J K Cement	ADD	763	890	16.6	53	0.8	70	43	45	79	59.3	3.7	75.4	17.6	17.0	9.7	9.7	10.1	8.3	2.7	2.4	2.0	16.2	15.0	22.3	1.0	1.0	1.0	0.6
JK Lakshmi Cement	ADD	333	425	27.7	39	0.6	118	4	18	33	(35.7)	311.2	79.6	74.4	18.1	10.1	13.7	8.2	5.9	2.7	2.4	2.0	3.7	14.1	21.5	0.6	0.6	0.6	0.4
Orient Cement	ADD	115	145	25.7	24	0.3	205	2	7	11	237.8	212.9	58.7	53.4	17.1	10.8	11.8	7.9	6.1	2.3	2.1	1.8	4.4	12.9	18.2	0.7	1.3	1.7	0.2
Shree Cement	SELL	17,402	12,500	(28.2)	606	8.8	35	397	421	630	3.4	6.0	49.7	43.8	41.3	27.6	23.6	19.2	14.4	6.8	6.0	5.0	16.7	15.4	19.7	0.3	0.3	0.3	5.4
UltraTech Cement	SELL	4,184	2,950	(29.5)	1,149	16.7	275	88	126	162	(7.8)	42.7	28.9	47.5	33.3	25.8	23.4	17.3	14.3	4.4	4.0	3.5	9.7	12.6	14.3	0.2	0.2	0.2	19.2
Cement	Cautious				3,556	52					6.5	24.4	33.3	34.3	27.6	20.7	15.4	10.9	9.2	2.6	2.4	2.2	7.5	8.7	10.5	0.6	0.6	0.6	80.3

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price (Rs)	Upside (%)	Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)		
		2-Aug-18			(US\$ bn)	(mn)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E		
Consumer products																													
Asian Paints	REDUCE	1,418	1,325	(6.6)	1,361	19.8	959	21	27	33	2.9	32.1	20.3	69.1	52.3	43.5	42.3	32.8	27.1	16.2	14.1	12.3	24.6	28.8	30.3	0.6	0.8	1.1	21.9
Bajaj Corp.	ADD	413	470	13.9	61	0.9	148	14	15	17	(9.4)	7.8	10.3	28.8	26.8	24.3	22.8	21.4	18.3	12.4	12.4	42.8	46.3	51.2	2.9	3.1	3.4	0.4	
Britannia Industries	ADD	6,457	6,000	(7.1)	775	11.3	120	84	104	126	13.5	24.4	21.5	77.2	62.0	51.1	51.1	40.1	33.0	22.8	18.1	14.6	32.9	32.4	31.6	0.4	0.5	0.7	10.0
Coffee Day Enterprises	REDUCE	264	340	28.6	56	0.8	211	3	8	13	49.1	149.7	59.4	79.1	31.7	19.9	13.4	—	—	2.4	2.2	2.0	3.1	7.2	10.4	—	—	—	0.9
Colgate-Palmolive (India)	ADD	1,115	1,250	12.1	303	4.4	272	24	27	32	15.2	14.7	15.6	46.9	40.9	35.4	26.9	23.5	20.4	19.9	20.0	17.1	46.2	48.8	52.2	2.2	1.4	1.7	8.3
Dabur India	REDUCE	429	390	(9.0)	757	11.0	1,762	8	9	10	7.2	17.3	12.9	55.2	47.0	41.6	46.8	39.3	34.0	13.2	13.2	11.5	25.9	28.1	29.6	1.7	0.9	1.0	13.2
GlaxoSmithKline Consumer	ADD	6,611	6,750	2.1	278	4.0	42	166	189	211	6.6	13.3	11.9	39.7	35.1	31.3	27.4	23.5	20.3	8.0	7.3	6.6	21.2	21.7	22.2	1.1	1.4	1.6	2.1
Godrej Consumer Products	SELL	1,327	1,100	(17.1)	904	13.2	681	21	25	29	11.5	18.8	13.7	62.1	52.3	46.0	44.0	37.1	32.2	14.4	12.3	10.7	25.2	25.4	24.8	0.5	0.6	0.7	9.8
Hindustan Unilever	REDUCE	1,749	1,570	(10.2)	3,785	55.1	2,160	25	29	33	25.0	19.5	13.2	71.3	59.7	52.7	51.2	41.3	36.3	53.4	46.7	39.7	78.1	83.5	81.4	1.1	1.2	1.4	35.3
ITC	ADD	299	330	10.3	3,654	53.2	12,275	9	10	11	7.8	8.2	12.3	33.5	31.0	27.6	22.0	20.0	17.7	7.1	6.7	6.3	19.4	20.4	22.2	1.7	1.9	2.2	49.0
Jubilant Foodworks	BUY	1,418	1,650	16.4	187	2.7	132	15	25	35	191.7	73.6	37.5	97.4	56.1	40.8	41.6	28.1	21.2	19.3	13.9	10.6	21.7	28.9	29.5	0.1	0.1	0.2	40.3
Jyothy Laboratories	ADD	220	240	9.0	80	1.2	364	4	6	7	(26.4)	27.6	16.7	50.0	39.1	33.5	30.6	26.1	22.2	7.0	6.0	5.3	14.4	16.6	16.8	0.2	0.5	0.7	1.6
Marico	ADD	351	345	(1.8)	454	6.6	1,291	6	7	8	7.4	16.7	13.7	56.1	48.0	42.2	39.5	33.2	28.9	17.8	16.5	15.3	33.2	35.7	37.5	1.2	1.4	1.6	9.9
Nestle India	ADD	10,755	9,500	(11.7)	1,037	15.1	96	127	168	191	21.1	32.5	13.4	84.6	63.9	56.4	46.6	36.3	31.9	30.3	27.9	25.6	36.6	45.5	47.3	0.8	1.1	1.2	8.3
Page Industries	SELL	29,928	21,000	(29.8)	334	4.9	11	311	392	482	32.5	26.1	22.9	96.2	76.3	62.1	61.3	48.5	39.9	39.4	30.8	24.6	45.9	45.3	44.0	0.4	0.6	0.7	8.0
Pidilite Industries	REDUCE	1,101	1,080	(1.9)	559	8.1	508	18	21	26	7.5	16.8	21.8	61.0	52.3	42.9	40.8	34.7	28.7	15.6	13.2	11.1	26.0	27.4	28.2	0.5	0.6	0.7	13.7
S H Kelkar and Company	BUY	195	315	61.4	28	0.4	145	7	8	11	2.1	11.8	28.4	26.4	23.6	18.4	18.4	15.4	12.0	3.3	3.0	2.6	12.8	13.3	15.3	0.9	0.9	1.0	0.3
Tata Global Beverages	REDUCE	235	250	6.2	149	2.2	631	7	8	9	20.7	7.7	17.0	32.0	29.7	25.4	16.8	16.3	14.3	2.1	2.0	2.0	7.0	7.0	7.9	1.1	1.3	1.5	13.6
Titan Company	SELL	922	800	(13.2)	818	11.9	888	13	16	20	43.3	26.7	20.6	72.1	56.9	47.2	49.4	37.7	30.2	16.1	13.5	11.4	24.3	25.8	26.2	0.4	0.5	0.6	35.9
United Breweries	SELL	1,101	1,000	(9.1)	291	4.2	264	15	19	24	71.6	29.7	23.4	73.7	56.9	46.1	32.5	27.0	23.4	10.8	9.3	7.9	15.7	17.6	18.6	0.2	0.3	0.4	10.5
United Spirits	REDUCE	598	590	(1.4)	435	6.3	727	8	10	13	39.1	34.7	30.9	78.6	58.4	44.6	45.3	33.9	27.5	17.4	11.9	8.8	24.9	24.2	22.7	—	—	0.3	18.6
Varun Beverages	ADD	731	750	2.6	134	1.9	183	12	17	22	377.8	45.4	29.8	63.5	43.6	33.6	19.4	15.6	13.4	7.5	6.5	5.5	12.1	16.0	17.7	—	—	0.1	1.7
Consumer products	Cautious				16,438	239					14.5	17.8	15.7	54.5	46.3	40.0	35.5	29.8	25.6	13.4	12.1	10.8	24.6	26.2	27.1	1.0	1.1	1.3	313.4
Energy																													
BPCL	REDUCE	402	390	(2.9)	872	12.7	1,967	40	39	41	(1.5)	(3.6)	5.3	10.0	10.4	9.8	8.1	7.6	7.0	2.3	2.1	1.9	24.8	21.1	20.0	5.2	3.9	4.1	31.8
Castrol India	SELL	166	155	(6.6)	164	2.4	989	7	7	8	3.3	2.9	10.1	24.2	23.5	21.3	15.1	14.7	13.3	16.1	15.4	15.1	67.9	67.1	71.5	2.9	3.3	3.8	4.4
GAIL (India)	BUY	378	410	8.6	852	12.4	2,255	20	25	27	21.8	23.2	8.3	18.5	15.0	13.9	11.6	9.6	8.9	2.1	1.9	1.8	11.7	13.5	13.5	1.9	2.3	2.4	22.4
GSPL	SELL	199	175	(11.9)	112	1.6	564	12	11	11	34.5	(6.5)	(0.5)	16.8	17.9	18.0	8.6	6.8	6.8	2.2	2.0	1.8	14.0	11.7	10.7	0.9	0.8	0.8	1.5
HPCL	REDUCE	293	320	9.4	446	6.5	1,524	42	32	33	(3.2)	(23.4)	3.4	7.0	9.2	8.9	6.0	7.8	7.9	1.9	1.7	1.5	28.7	19.3	18.2	5.8	4.5	4.6	29.6
Indraprastha Gas	SELL	316	240	(24.0)	221	3.2	700	10	12	13	19.0	16.5	12.0	30.6	26.3	23.5	19.4	16.9	14.9	6.3	5.4	4.7	22.4	22.2	21.5	0.6	0.8	1.0	11.7
IOCL	REDUCE	169	160	(5.2)	1,639	23.9	9,479	21	17	18	(24.8)	(17.9)	7.4	8.2	10.0	9.3	4.8	5.6	5.1	1.5	1.4	1.3	18.5	14.0	14.0	6.8	4.0	4.3	25.7
Mahanagar Gas	ADD	965	965	-	95	1.4	99	48	56	60	21.5	16.0	7.6	19.9	17.2	16.0	12.1	10.0	9.2	4.5	4.0	3.5	24.3	24.8	23.5	2.0	2.3	2.5	4.8
ONGC	ADD	166	200	20.2	2,135	31.1	12,833	17	20	20	3.1	16.8	0.3	9.6	8.2	8.2	5.1	3.9	3.7	0.9	0.9	0.8	9.9	11.2	10.6	4.0	4.1	4.2	18.3
Oil India	SELL	212	220	3.7	241	3.5	1,135	25	24	24	22.6	(1.3)	(0.7)	8.6	8.7	8.8	6.6	6.0	6.0	0.9	0.8	0.8	9.8	9.7	9.2	4.9	5.2	5.1	3.1
Petronet LNG	BUY	234	280	19.7	351	5.1	1,500	14	16	18	22.1	16.7	13.1	16.8	14.4	12.8	11.2	9.7	8.2	3.6	3.2	2.8	23.3	23.3	23.2	1.9	2.4	3.1	12.7
Reliance Industries	SELL	1,168	985	(15.7)	6,914	100.7	5,922	59	69	78	16.9	17.6	12.4	19.8	16.8	15.0	14.4	11.5	9.8	2.4	2.1	1.9	11.6	12.2	12.1	0.5	0.5	0.6	120.1
Energy	Attractive				14,042	204					1.0	6.0	7.2	13.6	12.8	12.0	8.8	7.8	7.1	1.8	1.7	1.5	13.3	12.9	12.6	2.4	2.1	2.2	286.1

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (Rs bn) (US\$ bn)		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		2-Aug-18	Target price (Rs)		2018	2019E		2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	
Industrials																													
ABB	SELL	1,204	1,020	(15.3)	255	3.7	212	20	26	29	12.1	30.1	14.2	60.8	46.7	40.9	33.5	27.3	24.5	7.1	6.5	5.9	12.2	14.5	15.1	0.3	0.7	0.7	1.3
BHEL	REDUCE	74	78	6.0	270	3.9	3,671	2.2	2.6	5.0	62.7	16.5	95.3	33.5	28.8	14.7	8.2	7.7	4.1	0.8	0.8	0.8	2.5	2.9	5.6	2.5	2.9	5.6	10.3
Carborundum Universal	SELL	370	310	(16.2)	70	1.0	189	11	14	17	22.8	25.4	20.2	32.4	25.9	21.5	17.5	13.0	11.2	4.5	4.0	3.6	14.6	16.4	17.6	0.6	1.2	1.4	0.3
CG Power and Industrial	BUY	61	65	5.9	38	0.6	627	0.8	3.1	4.3	(72.2)	275.7	40.5	75.1	20.0	14.2	11.1	8.3	6.8	1.4	1.5	1.4	1.5	7.3	10.4	—	—	—	7.4
Crompton Greaves Consumer	SELL	243	215	(11.4)	152	2.2	627	5.2	6.2	7.5	13.3	19.5	20.7	47.0	39.3	32.6	28.9	24.5	20.7	19.3	13.4	10.3	49.5	40.4	35.8	0.6	0.8	1.0	2.8
Cummins India	REDUCE	662	680	2.7	184	2.7	277	24	28	32	(7.8)	16.1	13.9	27.3	23.5	20.7	24.1	20.6	17.1	4.6	4.3	4.0	17.4	18.9	20.1	2.3	2.2	2.6	3.7
Havells India	SELL	637	485	(23.9)	398	5.8	625	11	14	17	16.6	26.6	20.5	57.5	45.4	37.7	36.8	29.1	23.7	10.7	9.4	8.2	19.8	22.0	23.2	0.5	0.8	0.9	13.1
Kalpataru Power Transmission	BUY	382	530	38.6	59	0.9	153	19	24	34	36.5	24.3	39.8	19.7	15.9	11.3	8.4	7.0	5.5	2.2	2.0	1.7	11.7	13.1	16.1	0.7	0.7	0.7	0.6
KEC International	BUY	338	430	27.1	87	1.3	257	18	22	29	51.1	22.0	34.4	18.9	15.5	11.5	10.2	8.5	6.7	4.4	3.5	2.8	25.7	25.2	27.1	0.7	0.9	1.2	2.9
L&T	BUY	1,282	1,600	24.8	1,797	26.2	1,401	52	63	70	22.4	21.7	10.9	24.8	20.4	18.4	20.6	16.3	15.7	3.6	3.3	2.9	15.0	16.8	16.8	1.2	1.8	2.0	44.5
Siemens	SELL	997	975	(2.2)	355	5.2	356	24	30	37	22.5	23.0	23.2	41.2	33.5	27.2	23.4	18.7	14.9	4.4	4.1	3.8	10.9	12.6	14.5	1.0	1.2	1.5	3.6
Thermax	REDUCE	1,164	1,065	(8.5)	139	2.0	113	21	30	42	(3.6)	44.2	42.8	56.4	39.1	27.4	34.4	24.5	17.5	4.8	4.5	4.0	8.8	11.8	15.3	0.5	0.7	0.8	0.7
Volta	SELL	573	525	(8.4)	190	2.8	331	17	19	22	12.6	8.3	15.6	33.1	30.6	26.5	27.6	23.4	19.5	4.9	4.3	3.9	15.9	15.0	15.5	0.7	0.8	0.9	13.9
Industrials	Neutral				3,994	58					19.8	22.7	20.7	31.1	25.3	21.0	20.4	16.5	14.4	3.4	3.1	2.9	10.8	12.4	13.8	1.1	1.5	1.8	104.9
Infrastructure																													
Adani Ports and SEZ	BUY	399	470	17.8	827	12.0	2,071	20	20	23	6.1	(0.2)	14.7	19.9	19.9	17.4	14.0	13.6	12.0	3.9	3.4	2.9	21.5	18.1	17.9	0.5	0.6	0.8	24.3
Ashoka Buildcon	BUY	146	210	44.0	41	0.6	282	8	8	9	34.6	0.5	5.2	17.3	17.2	16.4	14.0	11.9	10.5	2.1	1.8	1.7	13.0	11.4	10.7	0.7	1.1	0.8	0.7
Container Corp.	SELL	648	635	(2.0)	316	4.6	487	18	21	25	7.1	17.4	20.9	36.7	31.3	25.9	24.3	19.2	15.3	3.4	3.1	2.9	9.4	10.3	11.6	2.6	1.3	1.6	8.4
Dilip Buildcon	BUY	849	1,220	43.6	116	1.7	137	46	54	69	76.5	16.1	28.0	18.3	15.8	12.3	10.1	7.4	6.1	4.7	3.6	2.8	29.5	25.9	25.4	—	—	—	8.4
Gateway Distriparks	BUY	181	250	38.4	20	0.3	109	8	7	8	11.2	(5.8)	15.2	23.7	25.2	21.9	22.6	11.3	9.3	1.9	3.4	3.0	8.2	9.8	14.5	3.9	—	1.7	0.8
Gujarat Pipavav Port	BUY	113	170	50.1	55	0.8	483	4.1	5.9	7.2	(20.6)	43.7	22.5	27.6	19.2	15.7	13.5	11.2	8.8	2.7	2.7	2.6	9.8	14.0	16.8	3.0	4.3	5.2	0.8
IRB Infrastructure	BUY	195	320	64.1	69	1.0	351	23	31	33	10.8	36.8	7.1	8.6	6.3	5.9	6.9	6.6	7.1	1.2	1.0	0.9	14.5	17.6	16.3	1.2	1.6	2.0	7.3
Mahindra Logistics	BUY	585	540	(7.7)	42	0.6	71	10	14	18	16.2	42.8	31.2	59.7	41.8	31.8	34.4	23.1	17.5	9.9	8.3	6.8	18.2	21.6	23.5	—	—	—	0.8
Sadbhav Engineering	BUY	282	440	56.2	48	0.7	172	13	18	18	17.4	38.4	2.2	21.9	15.8	15.5	15.2	12.1	9.4	2.6	2.3	2.0	12.5	15.2	13.7	—	—	—	0.9
Infrastructure	Attractive				1,532	22					10.8	10.1	15.4	21.1	19.2	16.6	13.4	11.9	10.4	3.3	2.9	2.6	15.8	15.3	15.4	1.1	0.9	1.1	52.3
Internet																													
Info Edge	ADD	1,374	1,425	3.7	168	2.4	122	23	26	33	33.3	14.9	27.5	61.0	53.1	41.7	51.1	39.9	30.2	7.9	6.3	5.7	13.4	13.2	14.3	0.4	0.6	0.6	2.5
Just Dial	ADD	550	610	11.0	37	0.5	67	21	26	30	21.7	23.0	15.0	25.9	21.0	18.3	15.2	11.6	9.4	3.8	3.3	2.8	15.2	16.7	16.6	—	0.5	0.5	50.9
Internet	Cautious				205	3					28.0	17.6	23.0	49.1	41.7	33.9	38.3	30.2	23.7	6.6	5.4	4.8	13.5	12.9	14.2	0.3	0.6	0.6	53.4
Media																													
DB Corp.	REDUCE	235	270	14.9	43	0.6	184	18	20	23	(14.1)	14.9	12.3	13.3	11.6	10.3	7.0	6.3	5.5	2.6	2.3	2.3	19.9	20.7	22.3	5.5	7.2	9.0	0.6
DishTV	ADD	67	90	34.7	123	1.8	1,925	(0.4)	1.8	3.4	(143.0)	514.6	88.2	NM	36.5	19.4	11.0	5.7	4.6	1.9	1.8	1.7	(2.3)	5.1	8.9	—	—	—	7.8
Jagran Prakashan	REDUCE	121	168	39.3	38	0.5	311	10	12	14	(6.0)	21.7	15.3	12.1	9.9	8.6	5.4	4.8	4.1	1.8	1.8	1.8	14.8	18.1	20.9	2.5	4.1	7.5	0.5
PVR	ADD	1,102	1,210	9.8	51	0.7	47	27	33	42	25.5	21.5	27.7	41.0	33.8	26.5	14.1	12.6	10.7	4.8	4.3	3.7	12.3	13.3	15.0	0.2	0.3	0.4	9.3
Sun TV Network	REDUCE	799	925	15.7	315	4.6	394	29	35	39	10.2	20.7	10.9	27.7	23.0	20.7	18.6	15.6	13.6	6.8	6.1	5.5	26.3	28.1	27.9	1.3	2.2	2.5	21.9
Zee Entertainment Enterprises	ADD	518	600	15.7	498	7.2	960	15	17	20	7.8	11.3	17.0	34.5	31.0	26.5	22.4	19.3	16.3	6.6	5.8	5.1	20.3	19.9	20.6	0.5	0.9	1.1	18.3
Media	Attractive				1,068	16					(1.5)	28.9	20.8	32.8	25.5	21.1	15.8	12.2	10.4	4.5	4.2	3.8	13.7	16.3	17.8	0.9	1.5	1.8	58.3

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.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo		
		2-Aug-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)
Metals & Mining																													
Coal India	ADD	274	326	19.2	1,698	24.7	6,207	11	27	28	(24.2)	138.2	3.0	24.2	10.2	9.9	18.0	6.5	6.1	7.0	6.4	6.7	26.7	66.1	66.4	6.0	7.3	9.1	14.1
Hindalco Industries	BUY	208	305	46.7	467	6.8	2,229	22	27	31	155.4	23.9	13.6	9.5	7.7	6.8	6.2	5.2	4.5	0.8	0.8	0.7	9.7	10.5	10.7	0.6	0.6	0.6	34.6
Hindustan Zinc	ADD	281	290	3.3	1,186	17.3	4,225	22	22	26	9.3	3.7	14.7	13.1	12.6	11.0	8.0	7.3	6.0	3.3	2.9	2.5	27.2	24.4	24.2	2.8	2.8	2.8	8.4
Jindal Steel and Power	REDUCE	201	255	26.6	195	2.8	968	(8)	8	18	59.3	194.2	129.1	(23.7)	25.2	11.0	9.5	6.8	5.8	0.6	0.6	0.6	(2.7)	2.6	5.7	—	—	—	30.2
JSW Steel	ADD	332	350	5.4	803	11.7	2,417	27	30	27	83.9	10.2	(8.7)	12.4	11.2	12.3	8.0	7.0	7.7	2.8	2.3	2.0	24.8	22.4	17.3	1.0	1.0	1.0	20.3
National Aluminium Co.	ADD	64	85	32.1	124	1.8	1,933	4	7	7	12.7	63.0	11.1	15.6	9.6	8.6	6.4	4.3	3.9	1.2	1.2	1.2	7.7	12.4	13.6	8.9	8.5	8.5	9.4
NMDC	REDUCE	107	125	17.0	338	4.9	3,164	12	10	10	43.3	(16.5)	3.6	9.1	10.9	10.5	5.0	6.7	6.4	1.4	1.3	1.3	15.8	12.5	12.4	5.1	5.1	5.1	4.0
Tata Steel	ADD	555	700	26.2	634	9.2	1,205	67	69	82	62.6	3.1	18.4	8.2	8	6.7	6.2	6.1	6.2	1.1	1.0	0.9	17.2	13.1	13.9	1.7	1.8	1.8	70.1
Vedanta	BUY	214	370	72.8	796	11.6	3,717	22	32	39	9.6	49.1	19.7	9.9	6.7	5.6	5.5	4.5	3.7	1.3	1.1	1.0	12.9	18.0	19.4	3.7	4.5	5.4	52.5
Metals & Mining	Attractive				6,241	91					32.3	37.2	11.2	13.2	9.6	8.7	7.4	6.0	5.5	1.9	1.7	1.5	14.3	17.6	17.9	3.5	3.9	4.5	243.7
Pharmaceutical																													
Apollo Hospitals	ADD	961	1,090	13.5	134	1.9	139	8	19	26	(46.9)	124.3	38.0	113.8	50.7	36.8	20.8	17.7	14.9	4.1	3.9	3.6	3.4	7.9	10.2	0.2	0.5	0.7	7.5
Aster DM Healthcare	BUY	167	240	44.1	84	1.2	505	3	5	7	163.1	64.2	59.2	60.4	36.8	23.1	16.8	12.5	10.0	3.0	2.8	2.5	5.9	7.8	11.4	-	-	-	0.4
Aurobindo Pharma	ADD	615	640	4.1	360	5.2	584	42	45	51	6.0	7.0	13.5	14.7	13.7	12.1	10.3	9.6	8.2	3.1	2.6	2.2	23.2	20.3	17.9	0.7	0.8	1.0	20.3
Biocon	SELL	584	330	(43.5)	351	5.1	601	6	8	15	(39.2)	35.9	75.7	94.3	69.4	39.5	42.3	30.2	20.2	6.2	5.8	5.2	6.9	8.7	13.9	0.2	0.5	0.9	23.0
Cipla	BUY	639	650	1.8	514	7.5	805	18	24	32	40.2	36.3	35.1	36.5	26.8	19.8	18.9	14.8	11.6	3.5	3.2	2.8	10.2	12.5	15.2	0.6	0.8	1.1	23.9
Dr Lal Pathlabs	REDUCE	926	865	(6.6)	77	1.1	83	20	25	29	7.0	20.8	18.5	45.2	37.5	31.6	27.5	23.1	19.3	9.8	8.1	6.8	23.5	23.7	23.4	0.5	0.5	0.6	1.5
Dr Reddy's Laboratories	REDUCE	2,228	2,150	(3.5)	370	5.4	166	59	89	118	(18.5)	50.2	32.8	37.7	25.1	18.9	17.4	12.7	9.0	2.9	2.7	2.4	7.8	11.1	12.6	1.1	0.6	0.8	35.5
HCG	REDUCE	274	305	11.3	24	0.4	85	2	3	5	(40.0)	120.9	57.3	175.2	79.3	50.4	23.2	18.0	15.4	4.5	4.3	3.9	2.8	5.5	8.1	—	—	—	0.2
Laurus Labs	ADD	467	540	15.6	50	0.7	106	16	22	34	(11.9)	37.3	54.4	29.5	21.5	13.9	14.3	11.7	8.6	3.3	2.9	2.4	11.9	14.4	18.8	—	—	—	0.4
Lupin	REDUCE	865	800	(7.5)	391	5.7	450	38	36	48	(32.9)	(5.1)	33.7	22.7	23.9	17.9	13.9	12.1	9.5	2.9	2.6	2.3	12.6	11.4	13.7	1.0	0.6	0.8	35.3
Narayana Hrudayalaya	ADD	262	275	5.2	53	0.8	204	3	4	7	(38.1)	52.2	76.9	104.0	68.3	38.6	28.5	21.5	15.8	5.2	4.8	4.3	5.1	7.3	11.7	—	—	—	0.4
Sun Pharmaceuticals	REDUCE	580	500	(13.9)	1,393	20.3	2,406	15	17	24	(47.5)	12.0	42.0	38.3	34.1	24.0	22.7	18.6	13.7	3.7	3.3	3.0	9.8	10.2	13.1	0.3	0.6	0.8	53.1
Torrent Pharmaceuticals	NR	1,523	—	—	258	3.8	169	40	47	61	(27.4)	18.0	29.6	38.0	32.2	24.8	21.1	14.2	12.1	5.6	4.9	4.3	15.1	15.3	17.2	1.0	0.7	0.9	5.2
Pharmaceuticals	Neutral				4,058	59					(25.8)	18.1	34.6	34.1	28.8	21.4	18.7	15.1	11.7	3.7	3.3	2.9	10.7	11.5	13.7	0.6	0.6	0.8	206.7
Real Estate																													
Brigade Enterprises	BUY	193	340	76.6	26	0.4	136	11	9	9	(17.7)	(15.1)	(1.6)	17.4	20.5	20.8	10.8	11.0	10.9	1.1	1.1	1.1	7.6	5.5	5.2	1.3	1.3	1.3	0.2
DLF	RS	188	—	—	335	4.9	1,784	19.6	6.5	3.9	403.9	(66.9)	(39.6)	9.6	28.9	47.9	28.6	12.4	12.3	0.9	0.9	0.9	11.7	3.2	1.9	1.1	1.1	1.1	16.4
Godrej Properties	SELL	726	400	(44.9)	166	2.4	216	11.6	16.8	19.2	21.9	43.9	14.9	62.3	43.3	37.7	155.4	110.6	78.5	7.0	6.0	5.2	11.8	14.9	14.7	—	—	—	2.7
Oberoi Realty	BUY	482	560	16.3	175	2.5	340	13	62	44	14.0	385.4	(28.0)	37.9	7.8	10.8	28.3	10.7	13.5	2.7	1.8	1.5	7.3	27.4	15.2	0.4	0.4	0.4	2.7
Prestige Estates Projects	ADD	257	315	22.5	96	1.4	375	13	10	10	24.3	(24.2)	8.4	20.5	27.0	24.9	14.4	15.0	15.1	2.0	1.9	1.8	10.3	7.3	7.5	0.6	0.6	0.6	1.1
Sobha	REDUCE	471	510	8.3	45	0.6	95	22	20	23	30.9	(7.5)	14.8	21.6	23.3	20.3	13.0	13.3	12.5	1.6	1.5	1.5	7.6	6.8	7.4	1.5	1.5	1.5	1.5
Sunteck Realty	REDUCE	406	330	(18.8)	59	0.9	140	15	18	20	4.8	20.2	6.9	26.6	22.1	20.7	17.1	18.7	17.4	2.2	2.0	1.8	9.7	9.4	9.2	0.3	0.2	0.2	1.6
Real Estate	Neutral				903	13					140.1	(12.6)	(20.2)	17.3	19.8	24.8	24.1	14.6	15.0	1.6	1.5	1.4	9.3	7.5	5.7	0.7	0.7	0.7	26.2

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target	Upside	Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		2-Aug-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	
Technology																													
HCL Technologies	REDUCE	961	1,025	6.7	1,337	19.5	1,409	62	70	74	5.3	12.8	5.0	15.4	13.7	13.0	10.8	8.9	8.1	3.7	3.1	2.7	24.8	24.2	21.8	0.9	0.9	3.2	35.0
Hexaware Technologies	SELL	475	435	(8.3)	141	2.1	302	17	20	23	20.2	18.4	18.0	28.7	24.2	20.5	20.7	18.1	14.3	7.1	6.2	5.3	26.6	27.4	27.8	0.8	1.7	1.7	15.2
Infosys	ADD	1,354	1,400	3.4	2,957	43.0	2,175	65	71	78	3.0	9.7	10.4	20.9	19.1	17.3	14.5	13.1	11.7	4.5	4.3	3.9	21.8	23.0	23.5	2.1	3.2	2.9	79.9
L&T Infotech	ADD	1,750	2,000	14.3	303	4.4	175	64	83	94	13.9	30.5	13.0	27.5	21.1	18.7	24.2	16.1	13.6	7.9	6.4	5.2	31.8	33.5	30.7	1.0	1.4	1.5	4.3
Mindtree	ADD	953	1,115	17.1	156	2.3	165	35	43	53	37.8	24.9	23.6	27.6	22.1	17.9	20.0	13.8	11.0	5.7	4.9	4.2	21.4	23.9	25.2	1.2	1.4	1.7	25.8
Mphasis	SELL	1,179	760	(35.5)	228	3.3	193	44	52	56	14.4	18.3	8.2	26.9	22.7	21.0	19.5	15.8	14.1	4.2	3.8	3.4	14.6	17.4	17.1	1.7	1.7	1.7	11.5
TCS	REDUCE	1,948	1,790	(8.1)	7,460	108.6	3,829	67	82	89	1.1	21.2	8.8	28.9	23.8	21.9	21.5	17.4	16.0	8.6	7.5	7.4	29.4	33.4	33.8	1.3	2.1	3.7	99.6
Tech Mahindra	ADD	669	785	17.3	590	8.6	891	43	46	55	33.1	8.3	18.2	15.7	14.5	12.3	11.5	8.6	7.0	3.2	2.7	2.3	21.5	20.2	20.5	2.1	1.4	1.5	35.9
Wipro	REDUCE	279	295	5.7	1,263	18.4	4,507	17	19	22	(3.1)	11.8	14.6	16.5	14.7	12.9	10.4	9.2	8.1	2.6	2.2	2.1	16.0	16.4	16.8	0.4	0.5	3.6	12.7
Technology	Cautious				14,434	210					1.6	13.1	9.7	22.5	19.9	18.2	16.4	13.7	12.3	5.3	4.7	4.4	23.7	23.8	24.1	1.3	2.0	3.2	319.9
Telecom																													
Bharti Airtel	ADD	373	445	19.3	1,491	21.7	3,997	5	(6)	(4)	(42.9)	(221.5)	28.8	78.8	(64.9)	(91.1)	8.3	9.7	8.1	2.1	2.3	2.3	2.8	(3.4)	(2.5)	1.4	0.3	(0.2)	32.0
Bharti Infratel	REDUCE	291	285	(2.1)	539	7.8	1,850	14	13	12	(7.4)	(4.8)	(8.5)	21.2	22.2	24.3	7.7	8.3	8.8	3.2	3.3	3.3	15.7	14.6	13.7	5.0	3.6	3.3	12.7
IDEA	REDUCE	54	45	(17.3)	237	3.5	4,359	(10)	(17)	(17)	(656.8)	(75.6)	(2.4)	(5.7)	(3.2)	(3.2)	12.3	35.1	29.7	0.9	1.1	1.6	(16.0)	(29.7)	(41.1)	—	—	—	17.4
Tata Communications	ADD	587	725	23.5	167	2.4	285	2	4	8	(84.3)	121.9	117.7	357	160.8	73.8	10.7	9.6	8.4	33.5	27.1	19.5	4.5	18.6	30.7	1.1	1.1	1.3	4.3
Telecom	Cautious				2,434	35					(94.7)	(2,354.7)	5.7	773.9	(34.3)	(36.4)	8.9	10.9	9.6	2.1	2.3	2.5	0.3	(6.8)	(7.0)	2.0	1.0	0.6	66.5
Utilities																													
CESC	BUY	926	1,180	27.4	123	1.8	133	87	115	128	67.1	31.7	11.6	10.6	8.1	7.2	7.7	5.7	5.1	0.8	0.8	0.7	7.9	10.0	10.4	1.3	1.4	1.4	6.0
JSW Energy	REDUCE	65	70	7.0	107	1.6	1,640	3.1	5.1	6.5	(19.2)	65.9	26.8	21.3	12.9	10.1	6.8	5.6	4.6	1.0	0.9	0.8	4.7	7.2	8.5	-	-	-	1.8
NHPC	ADD	24	30	25.5	245	3.6	10,260	2.4	3.1	3.2	(17.3)	26.9	1.8	9.8	7.7	7.6	9.1	7.2	7.0	0.8	0.8	0.8	8.5	10.4	10.2	5.9	7.3	7.4	2.0
NTPC	BUY	155	190	22.3	1,281	18.7	8,245	11	15	16	(7.6)	30.9	4.4	13.6	10.4	10.0	11.0	8.6	7.9	1.3	1.2	1.1	9.5	11.6	11.3	3.6	2.9	3.0	14.2
Power Grid	BUY	189	250	32.5	987	14.4	5,232	16	19	21	9.6	19.3	13.6	12.0	10.0	8.8	8.5	7.2	6.6	1.8	1.6	1.5	15.8	17.1	17.5	2.8	3.3	3.8	31.1
Reliance Power	SELL	33	43	29.5	93	1.4	2,805	3.5	5.1	5.2	(16.4)	45.6	2.7	9.5	6.6	6.4	7.9	6.8	6.6	0.4	0.4	0.4	4.5	6.1	5.9	—	—	—	4.2
Tata Power	BUY	72	90	25.1	195	2.8	2,705	5.3	6.0	7.0	(9.6)	12.7	15.6	13.5	11.9	10.3	10.3	10.6	10.2	1.3	1.2	1.0	10.7	10.1	10.6	—	—	—	5.3
Utilities	Attractive				3,031	44					(2.4)	26.8	8.6	12.5	9.9	9.1	9.3	7.7	7.2	1.2	1.1	1.0	9.7	11.4	11.4	3.0	2.9	3.1	64.5

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Target			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)	
		Price (Rs) 2-Aug-18	price (Rs)	Upside (%)	(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	1,089	640	(41.2)	130	1.9	120	15	19	25	20.8	30.2	28.8	74.3	57.1	44.3	41.7	30.7	24.4	12.8	10.0	8.3	18.8	19.8	20.5	0.1	0.1	0.1	1.1	
Avenue Supermarts	SELL	1,653	860	(48.0)	1,032	15.0	624	13	16	20	47.9	28.6	26.4	131.5	102.3	80.9	77.1	59.0	46.3	22.2	18.3	14.9	18.5	19.6	20.3	—	—	—	—	
Bayer Cropscience	REDUCE	4,382	4,100	(6.4)	173	2.5	34	88	106	130	6.4	20.5	23.1	50.1	41.5	33.7	41.3	30.5	24.8	8.4	7.3	6.3	15.7	18.9	20.0	0.4	0.5	0.6	0.5	
Dhanuka Agritech	ADD	545	690	26.6	27	0.4	49	26	28	32	7.7	8.9	15.4	21.2	19.5	16.9	15.5	13.4	11.2	4.2	3.6	3.1	21.9	20.1	20.0	1.0	1.1	1.3	0.2	
Godrej Agrovet	ADD	638	650	1.9	123	1.8	189	12	16	20	6.9	39.8	24.6	55.4	39.6	31.8	28.5	22.0	17.8	7.2	6.2	5.3	14.7	16.9	17.9	0.3	0.4	0.5	1.4	
Godrej Industries	RS	632	—	—	212	3.1	336	15	16	20	6.8	8.9	24.2	43.3	39.8	32.0	38.2	32.4	35.3	5.9	5.2	4.5	14.4	13.9	15.1	0.3	0.3	0.3	4.8	
InterGlobe Aviation	BUY	965	1,220	26.4	371	5.4	383	61	50	83	32.1	(17.9)	65.3	15.9	19.3	11.7	8.8	10.7	6.1	5.2	4.2	3.2	42.9	24.1	31.1	0.6	0.5	0.8	25.3	
Kaveri Seed	SELL	595	470	(21.0)	39	0.6	66	32	31	33	18.4	(3.7)	6.1	18.6	19.3	18.2	15.8	16.4	14.8	5.1	4.3	3.7	23.6	24.0	21.9	1.0	1.3	1.7	5.1	
PI Industries	BUY	823	900	9.4	113	1.7	138	27	33	41	(20.0)	25.0	23.2	31.0	24.8	20.1	22.8	18.0	14.3	5.9	4.9	4.1	20.7	21.7	22.1	0.4	0.5	0.6	1.4	
Rallis India	ADD	200	220	9.9	39	0.6	195	9	10	12	(1.5)	17.2	19.4	23.2	19.8	16.6	14.4	13.0	11.0	3.3	3.0	2.7	14.6	15.8	17.1	1.6	1.8	2.0	0.8	
SIS	REDUCE	1,050	1,130	7.6	77	1.1	73	22	33	40	43.3	48.5	21.1	46.8	31.5	26.0	25.2	19.7	16.5	7.4	6.3	5.2	20.1	21.8	21.7	0.2	0.3	0.3	0.8	
SRF	BUY	1,694	2,110	24.6	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	11.3	
Tata Chemicals	ADD	690	760	10.1	176	2.6	255	51	46	52	6.5	(11.2)	13.6	13.4	15.1	13.3	7.4	6.3	5.3	1.6	1.4	1.4	13.8	10.0	10.5	3.2	2.2	2.5	7.9	
TeamLease Services	SELL	2,685	1,785	(33.5)	46	0.7	17	43	58	75	28.0	34.2	29.0	62.3	46.4	36.0	64.8	47.0	35.8	10.4	8.5	6.9	18.2	20.1	21.1	—	—	—	1.6	
UPL	ADD	637	660	3.7	324	4.7	507	43	49	55	20.9	14.0	12.1	14.8	13.0	11.6	10.3	8.8	7.5	3.5	2.9	2.4	26.4	24.6	22.9	1.3	1.6	1.7	22.5	
Vardhman Textiles	ADD	1,205	1,400	16.2	69	1.0	56	103	130	140	(8.0)	26.4	7.4	11.7	9.3	8.6	9.8	7.3	6.6	1.4	1.2	1.1	12.7	14.3	13.8	1.2	1.7	2.5	1.0	
Whirlpool	SELL	1,740	1,240	(28.7)	221	3.2	127	28	37	45	13.0	33.9	22.5	62.9	47.0	38.3	37.5	28.9	23.4	12.3	10.2	8.5	21.4	23.7	24.1	0.2	0.4	0.5	1.1	
Others					3,270	48						16.1	7.7	26.4	31.8	29.5	23.3	20.6	18.0	14.3	5.8	5.0	4.2	18.3	16.9	18.1	0.5	0.5	0.7	86.9
KIE universe					111,856	1,628						(5.1)	26.7	25.4	27.3	21.6	17.2	12.8	10.8	9.6	3.1	2.8	2.5	11.2	12.9	14.6	1.3	1.3	1.7	
KIE universe (ex-energy)					97,814	1,424						(7.0)	33.6	30.2	31.9	23.9	18.4	14.3	11.9	10.5	3.4	3.1	2.8	10.7	12.9	15.2	1.1	1.2	1.6	

Notes:

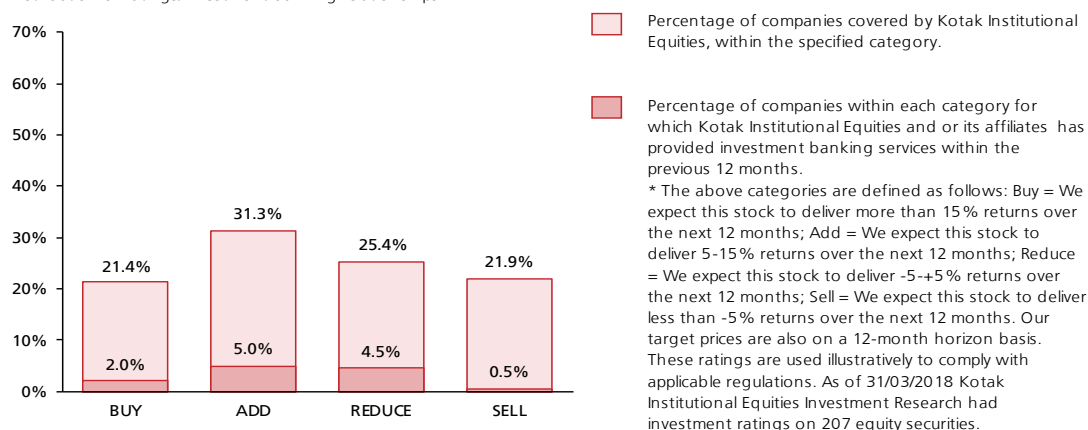
- (a) We have used adjusted book values for banking companies.
(b) 2018 means calendar year 2017, similarly for 2019 and 2020 for these particular companies.
(c) Exchange rate (Rs/US\$)= 68.69

Source: Company, Bloomberg, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Kawaljeet Saluja, Rohit Chordia, Chirag Talati, Hitesh Goel, Tarun Lakhota, Aditya Mongia, Nishit Jalan."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 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.

Other definitions

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

Other ratings/identifiers

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

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

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

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

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

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

Corporate Office

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

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

Overseas Affiliates

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

Copyright 2018 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

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

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

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Institutional Equities Research Group of Kotak Securities Limited. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Private Client Group.

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

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

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house. Kotak Securities Limited is a corporate trading and clearing member of BSE Limited (BSE), National Stock Exchange of India Limited (NSE), MSEI a. Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management. Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). Kotak Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com / www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230, MSE INE 260808130/INB 260808135/INF 260808135, AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com. Investments in securities market are subject to market risks, read all the related documents carefully before investing.

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

Level 1: For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: Toll free numbers 18002099191 / 1800222299 and 18002099292

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

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

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

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

For further disclosure please view <https://kie.kotak.com/kinsite/index.php>