

Contents

Special Reports

Strategy

Strategy: The curious case of the Indian aviation industry, Part 2

Theme Report

Banks: Smooth growth trajectory

Daily Alerts

Company alerts

Infosys: In conversation with the CEO

Coal India: The base catches up

Godrej Consumer Products: Divests 100% stake in the UK business

United Breweries: AR2018 analysis - a solid year on all counts

Balkrishna Industries: Investing in greenfield capacity in US

Sector alerts

Real Estate: Supreme Court bans all construction in three states

Telecom: Speed Tracker 3.0; interesting data points from Ookla's latest report

Economy alerts

Economy: Economic recovery underway but risks abound

Economy: GST: Revenues well below target

EQUITY MARKETS

India	Change %			
	31-Aug	1-day	1-mo	3-mo
Sensex	38,645	(0.1)	2.9	9.7
Nifty	11,681	0.0	2.8	9.2
Global/Regional indices				
Dow Jones	25,965	(0.1)	2.0	5.4
Nasdaq Composite	8,110	0.3	3.8	7.3
FTSE	7,432	(1.1)	(3.0)	(3.5)
Nikkei	22,751	(0.5)	1.0	2.6
Hang Seng	27,889	(1.0)	0.8	(8.5)
KOSPI	2,311	(0.5)	1.0	(5.3)
Value traded – India				
Cash (NSE+BSE)	461		368	338
Derivatives (NSE)	5,552		5,294	18,349
Deri. open interest	3,406		3,475	4,654

Forex/money market

	Change, basis points			
	31-Aug	1-day	1-mo	3-mo
Rs/US\$	71.0	16	245	390
10yr govt bond, %	8.2	-	8	3

Net investment (US\$ mn)

	30-Aug	MTD	CYTD
FIs	113	-	(283)
MFs	(21)	-	11,700

Top movers

Best performers	Change, %			
	31-Aug	1-day	1-mo	3-mo
SUNP IN Equity	653	2.0	11.4	34.8
RIL IN Equity	1,242	(2.6)	5.5	33.4
ARBP IN Equity	713	3.7	14.4	33.1
DRRD IN Equity	2,492	4.7	9.2	28.4
CIPLA IN Equity	662	2.0	3.3	26.2
Worst performers				
IDEA IN Equity	49	(1.0)	(10.6)	(20.1)
HPCL IN Equity	254	0.3	(13.3)	(18.7)
JPA IN Equity	12	1.7	(20.3)	(18.2)
TTMT/A IN Equity	142	2.8	(0.5)	(18.2)
AL IN Equity	129	(1.4)	9.2	(14.5)

SEPTEMBER 03, 2018

UPDATE

BSE-30: 38,645

The curious case of the Indian aviation industry, Part 2. We wonder about the role of financiers in exacerbating the current difficult financial condition of the Indian aviation industry given the continued strange inability or reluctance of the companies to raise prices despite large industry losses. The long history of airline bankruptcies should alert them to similar risks in the Indian aviation sector and hopefully induce them to nudge the industry participants towards a more rational pricing behavior.

Does the aircraft leasing model work against industry profitability?

We wonder if the easy availability of aircraft through leasing (direct or sale-and-leaseback) results in poor industry structure through easy entry and exit of operators (limited upfront capital commitment) and irrational pricing behavior (need to fill in the ASK (available seat kilometers) at any price). Airlines seem happy to place huge orders for new aircraft with the aircraft manufacturers in order to avail of large discounts from them, sell the acquired aircraft to aircraft leasing companies at market prices and lease them back, which result in upfront cash and staggered book profits for the airline companies.

Too much of a good thing

The easy availability of leased aircraft through direct leases or sale-and-leaseback deals may force airline companies to adopt aggressive pricing to fill in seats (additional ASK) to meet the future lease rental obligations. It seems to us that the industry is quite desperate to book any revenue and is offering large discounts to fill the available capacity and have some confidence about future revenues. However, an industry with all the major players operating at effectively negative spreads (RASK-CASK) is clearly unsustainable for debt and equity holders both.

JETIN's advance lease incentives and Air India's equity infusion are unlikely to solve the problem

JETIN has received an additional US\$300 mn of advance lease incentives and debt recently and Air India will reportedly receive ₹9.8 bn of equity from the Indian government. We doubt this will address the industry's dire financial condition (see Exhibit 1 for the quarterly results of the listed players from 1QFY19). In fact, JETIN's ₹20-21 bn of additional inflows are equal to about 1.5 quarters of losses (based on 1QFY19 reported net loss of ₹13.2 bn). As for the reported ₹9.8 bn of fresh equity infusion into Air India, we doubt it will achieve anything beyond AI servicing its immediate loan repayments to avoid defaulting on all or part of its ₹514 bn debt (as of March 31, 2017).

Still not sure why the industry cannot simply raise prices and solve its problems

We have been quite puzzled by the industry's inability to raise ticket prices (RASK) given (1) the steep increase in input (fuel prices) and (2) continued strong growth in passenger volumes (see Exhibit 2; 21% yoy monthly average growth rate for the past 43 months). Yields of the listed airline companies have come off over the past 12 months on a yoy basis (see Exhibits 3-5) despite reasonably high PLF of the major airline companies (see Exhibit 6). The industry will likely make even larger losses in 2QFY19 given a seasonally weak quarter and higher qoq input costs (weaker INR). We can only hope that some sanity dawns on the industry, forced or incentivized by the authorities, financiers, industry players and/or shareholders.

QUICK NUMBERS

- **Combined EBITDAR of the three listed aviation companies declined 64% between 4QFY17 and 1QFY19**
- **INDIGO's 1QFY19 spread (RASK – CASK) at -₹0.15; JETIN at -₹0.9**
- **19% CAGR in passenger volume growth over January 2015-July 2018**

Sanjeev Prasad
sanjeev.prasad@kotak.com
Mumbai: +91-22-4336-0830

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

Anindya Bhowmik
anindya.bhowmik@kotak.com
Mumbai: +91-22-4336-0897

Exhibit 1: Quarterly profits of airlines have declined sharply 4QFY18 onwards

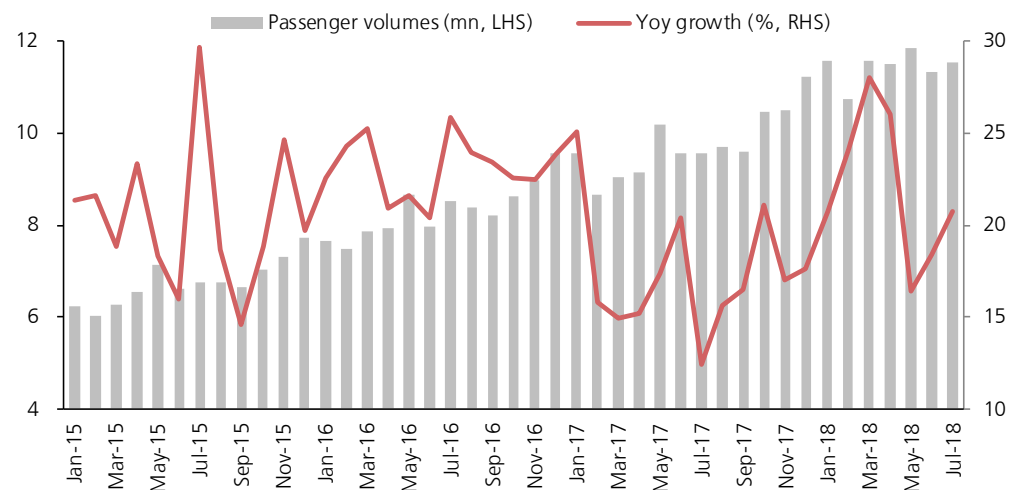
Key quarterly financials of aviation stocks, March fiscal year-ends, 2016-19 (Rs mn)

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Interglobe Aviation (Indigo)																	
Revenues		38,574	38,233	42,115	35,400	42,978	40,907	45,789	41,669	49,865	48,482	57,529	52,910	61,779	57,991	65,120	
EBITDAR		12,733	14,030	15,742	8,721	16,699	15,085	15,279	9,677	14,408	13,322	19,507	15,574	19,357	10,821	10,313	
EBITDA		7,808	8,554	10,045	2,702	10,136	8,296	8,152	1,956	6,245	5,080	10,970	7,381	9,915	890	(111)	
PBT		7,506	8,751	9,229	1,607	9,223	8,177	7,467	1,765	6,021	6,189	11,243	7,645	10,716	1,662	313	
PAT		5,296	5,747	6,389	1,132	6,503	5,838	5,918	1,398	4,873	4,403	8,111	5,515	7,620	1,176	278	
RASK-CASK (Rs)		0.75	0.79	0.80	0.06	0.75	0.56	0.46	0.01	0.30	0.23	0.61	0.36	0.49	(0.08)	(0.15)	
Jet Airways																	
Revenues	46,856	47,723	50,510	50,645	52,201	52,580	54,440	52,856	51,389	54,532	55,111	54,491	56,489	56,266	60,862	59,249	60,105
EBITDAR	5,298	3,967	7,202	1,962	8,697	8,815	12,274	14,009	8,378	12,041	8,402	7,076	7,155	8,367	8,648	(1,784)	(3,816)
EBITDA	688	(730)	2,289	(3,406)	3,508	3,547	6,929	8,562	2,893	6,448	2,605	1,170	1,446	2,615	2,811	(7,649)	(10,185)
PBT	(2,177)	698	631	(17,290)	2,217	876	4,671	3,972	259	1,031	3,052	6,024	535	496	1,653	(10,360)	(13,230)
PAT	(2,177)	698	631	(17,290)	2,217	876	4,671	3,972	259	1,031	3,052	6,024	535	496	1,653	(10,360)	(13,191)
RASK-CASK (Rs)	(0.30)	(0.53)	(0.21)	(0.87)	(0.07)	(0.06)	0.29	0.23	(0.10)	0.22	(0.12)	(0.20)	(0.17)	(0.07)	(0.08)	(0.92)	(0.90)
SpiceJet																	
Revenues	16,786	14,499	13,112	7,863	11,063	10,401	14,600	14,750	15,215	14,004	16,424	16,257	18,695	18,143	20,820	20,293	22,358
EBITDAR	2,022	(77)	88	428	2,608	1,888	5,267	3,398	4,519	3,180	4,177	3,152	4,593	3,975	5,685	3,676	3,634
EBITDA	(721)	(2,674)	(2,063)	(726)	1,000	180	2,973	906	1,924	1,116	1,748	634	2,284	1,558	3,022	695	838
PBT	(1,241)	(3,104)	(2,750)	225	718	290	240	1,079	1,490	589	1,811	416	1,752	1,053	2,400	462	(381)
PAT	(1,241)	(3,104)	(2,750)	225	718	290	240	1,079	1,490	589	1,811	416	1,752	1,053	2,400	462	(381)
RASK-CASK (Rs)	(0.36)	(0.78)	(0.81)	(0.53)	0.16	(0.18)	0.66	0.00	0.33	0.11	0.26	(0.01)	0.34	0.17	0.43	(0.03)	(0.02)

Source: Companies, Kotak Institutional Equities

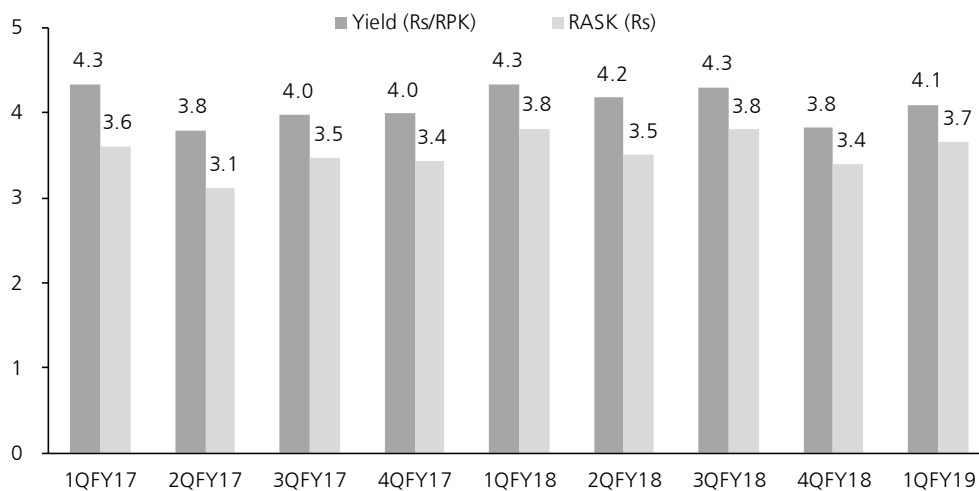
Exhibit 2: Average monthly passenger volume growth has been 21% yoy since January 2015

Domestic passenger volumes and growth, calendar year-ends, 2015-18 (mn, %)



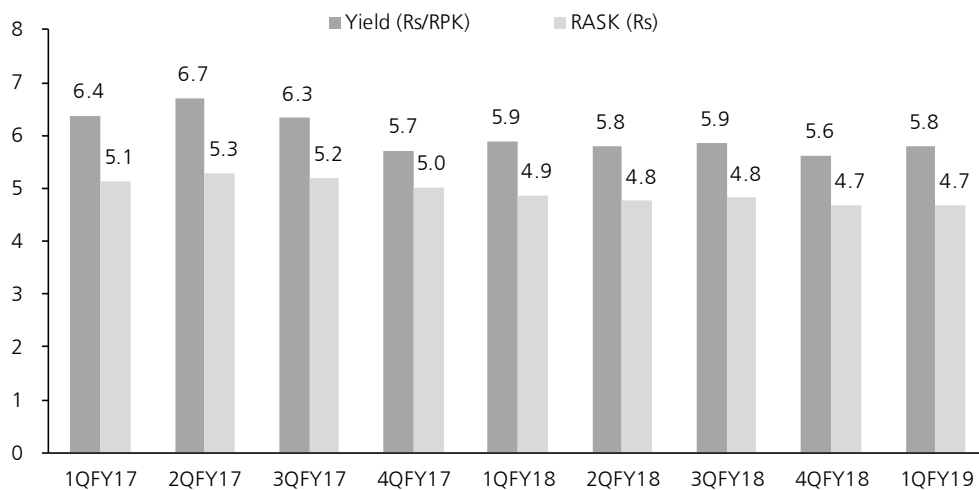
Source: DGCA, Kotak Institutional Equities

Exhibit 3: INDIGO's yields have remained stagnant for the past nine quarters
 Quarterly yields and RASK of Interglobe Aviation, March fiscal year-ends, 2017-19



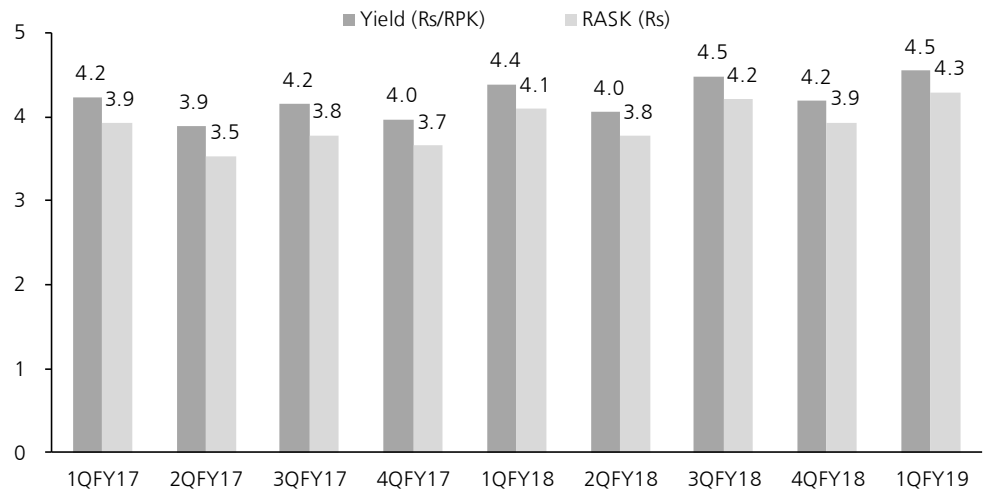
Source: Company, Kotak Institutional Equities

Exhibit 4: JETIN's yields have declined over the past nine quarters
 Quarterly yields and RASK of Jet Airways, March fiscal year-ends, 2017-19



Source: Company, Kotak Institutional Equities

Exhibit 5: SpiceJet's yields have remained stagnant over the past nine quarters
 Quarterly yields and RASK of SpiceJet, March fiscal year-ends, 2017-19



Source: Company, Kotak Institutional Equities

Exhibit 6: Major Indian airlines have had high passenger load factors (PLF)
 Passenger load factor (PLF) of major airlines, March fiscal year-ends, 2018-19 (%)

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
SpiceJet	93.4	94.3	94.5	94.4	94.5	94.2	93.7	95.5	95.6	95.0	96.3	95.0	95.5	94.8	93.3	93.8
IndiGo	86.9	91.1	87.8	83.7	83.6	85.2	87.3	90.7	90.8	89.7	91.8	89.0	91.9	91.0	88.3	88.7
Go Air	84.7	93.0	89.4	82.5	85.4	88.5	87.6	90.0	92.0	90.0	90.4	88.0	89.5	89.2	88.6	87.2
Vistara	83.6	86.8	86.4	84.6	83.4	84.1	80.2	86.9	87.7	87.0	91.2	88.2	88.8	85.7	84.8	84.1
Jet Airways + Jet Lite	82.9	85.2	81.2	80.3	81.0	80.6	80.7	87.6	88.6	88.8	90.4	86.3	85.5	80.4	79.5	83.6
Air India	78.7	80.9	77.0	75.5	76.1	78.6	76.6	83.8	81.8	84.6	86.7	83.6	84.0	81.3	80.9	82.3
Air Asia	90.1	89.4	89.6	88.4	85.8	81.6	83.0	84.5	86.8	83.7	88.0	82.0	87.5	89.7	86.7	79.7
Others	74.6	80.3	75.7	80.7	83.2	74.4	65.7	68.5	75.7	77.0	77.0	72.4	80.0	82.7	79.0	74.8
Overall industry	85.6	88.9	86.2	83.5	83.8	84.7	85.1	89.3	89.7	88.4	91.1	88.0	89.5	88.0	86.3	86.8

Source: DGCA, Kotak Institutional Equities

SEPTEMBER 03, 2018

THEME

BSE-30: 38,645

Smooth growth trajectory. Recent data on MFI business shows that growth maintained momentum (up 40% yoy for the industry) while asset quality continued to improve. PAR 30 (Portfolio-at-Risk) has reduced to 3.2% from a peak of 11%. We have seen solid growth in disbursements (~52% yoy) reflecting in acceleration in loan growth (53% yoy), additions to clients (31% yoy), employee (30% yoy) and branch (31% yoy) for NBFC-MFIs. Around 34% difference between average loans/borrower and disbursements/borrower remains a key concern.

Steady performance across the board

MFI business maintained a steady pace of recovery recording improved trends across most metrics. While the data that we have represented in this report is only for NBFC-MFI, our channel checks suggest that there should be similar trends for other players as well. While a few larger players have slowed moderately, smaller players have started to pick pace. The industry saw an overall growth of 40% yoy in 1QFY19 with strong growth from banks; up 51% yoy (see Exhibit 3). Banks dominate the business with a share of 39% (up 280 bps yoy); including SFBs this would increase by another 21% points to ~60%. NBFCs aligned to MFIN have a share of ~32% who along with other NBFCs have grown the fastest at 53% yoy. Disbursements grew ~52% yoy (down 6% qoq) while AUMs grew 53% yoy and 8% qoq for NBFC-MFIs (see Exhibit 6). Net addition of clients has been positive at 31% yoy. SFBs witnessed modest growth at 8% yoy. These entities have started to expand their footprint as well as increase employee headcount which is a positive outcome.

Asset quality shows steady signs of improvement

MFIN data shows that the PAR 30 loan portfolio has fallen by 750 bps yoy and 80 bps qoq to 3.2% of loans (see Exhibit 1). Asset quality has improved across all buckets. Incremental risk from a stress recognition standpoint is low as the PAR 30 and PAR 90 has converged. Higher write-offs, is probably one of the reasons which can explain a decline in PAR 180 portfolio which is quite low at 2.1% of loans. The cool-off period from peak NPL levels during demonetization is low at 4-5 quarters.

Average ticket size on the rise

The rise in the average ticket size over the last few quarters has been a sign of concern. The average ticket size on disbursements is approximately ₹23,500 as compared to the average ticket size on loans outstanding at approximately ₹17,500 (see Exhibit 5). Given the nature of these unsecured loans and as these customers are getting greater access to other formal channels of financing, especially asset-based financing, we do see a gradual increase in risk. The rise in ticket size (absolute basis) on yoy basis in Eastern India has been higher than other regions.

Share of Eastern India increased 440 bps yoy to 35%

MFI business continues to maintain robust pace in Eastern India. NBFC-MFIs saw a 75% yoy rise in MFI loans in Eastern India (Assam+Jharkhand+Bihar+Odisha+WB) driven by a 53% yoy rise in disbursements. The share of loans increased 440 bps yoy to 34.6%. The number of clients increased 51% yoy to 9.5 mn. 51% of incremental client addition in 1QFY19 from 1QFY18 was from these states. Incremental disbursements during the same period held a share of 46%. The rise in the average ticket size (of disbursements) in these regions was higher than others on an absolute basis. Average ticket size in Assam, Bihar, Jharkhand, Odisha and WB increased by ~₹2,900, ₹3,000, ₹3,500, ₹3,000 and ₹3,000 respectively compared to ₹2,200 on pan-India basis.

QUICK NUMBERS

- MFI loans up 40% yoy in 1QFY19 for the industry
- PAR>30 dropped 750 bps yoy and 80 bps qoq to 3.2%
- Average ticket size of disbursements increased 12% yoy to ~₹23,500

M B Mahesh CFA
mb.mahesh@kotak.com
Mumbai: +91-22-4336-0888

Nischint Chawathe
nischint.chawathe@kotak.com
Mumbai: +91-22-4336-0887

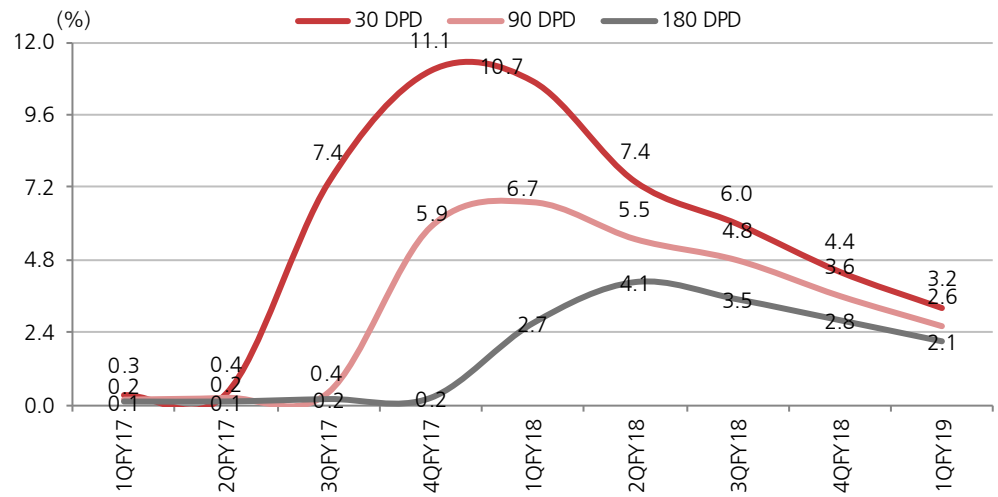
Dipanjan Ghosh
dipanjan.ghosh@kotak.com
Mumbai: +91-22-4336-0888

Shrey Singh
Shrey.singh@kotak.com
Mumbai: +91-22-4336-0895

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

Exhibit 1: Asset quality continues to show steady improvement

PAR performance across companies, March fiscal year-ends, 1QFY17-1QFY19 (%)



Source: MFIN, Kotak Institutional Equities

Exhibit 2: PAR shows significant improvement in stressed states like Maharashtra, Uttar Pradesh and Madhya Pradesh
 PAR performance across states, March fiscal year-ends, 4QFY16-1QFY19 (%)

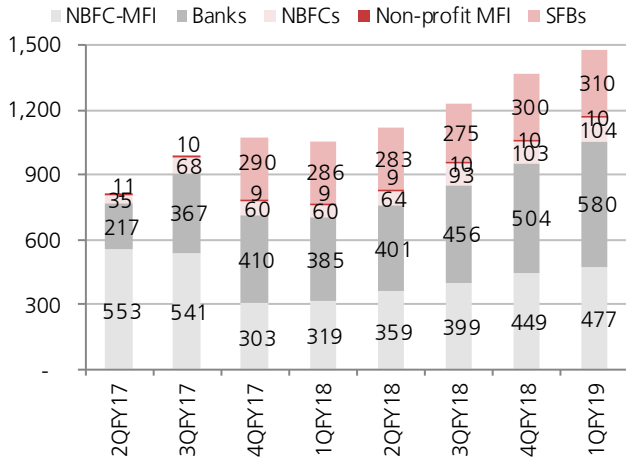
	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	4QFY19
PAR>30										
Karnataka	0.5	0.4	0.4	5.7	18.0	4.9	3.3	4.2	4.0	3.4
Tamilnadu	0.2	0.2	0.4	1.0	14.0	1.9	1.7	1.9	1.0	1.4
Maharashtra	0.3	0.3	0.4	9.1	28.0	15.5	11.7	14.1	10.0	8.4
UP	0.4	0.4	0.8	28.7	37.0	23.7	14.4	14.1	11.0	6.3
Bihar	0.2	0.2	0.2	0.7	3.0	0.5	0.6	1.2	1.0	0.6
MP	0.5	0.4	0.6	7.2	17.0	12.8	9.7	8.7	6.0	5.2
West Bengal	0.2	0.2	0.2	2.4	14.0	1.8	1.7	2.7	1.0	1.0
Odisha	0.1	0.1	0.1	0.4	1.0	0.3	0.3	0.7	1.0	0.5
Kerala	0.1	0.1	0.1	0.8	1.0	1.5	1.5	2.4	3.0	2.6
Gujarat	0.5	0.7	0.7	5.3	14.0	7.7	6.3	NA	NA	NA
Haryana	0.4	0.5	0.7	14.0	22.0	15.4	11.6	13.8	10.0	6.1
Punjab	0.2	0.2	0.2	8.1	16.0	18.8	7.7	7.2	6.0	3.0
Jharkhand	NA	0.2	0.3	2.8	10.0	4.3	3.8	5.4	3.0	2.4
Rajasthan	0.6	0.6	0.6	8.2	1.0	5.1	3.1	5.7	4.0	1.9
Assam	0.1	NA	0.2	0.6	1.0	NA	NA	1.4	1.0	0.7
Industry	0.3	0.3	0.4	7.4	11.1	10.7	7.4	6.0	4.4	3.2
PAR>90										
Karnataka	0.3	0.3	0.3	0.3	12.0	3.9	2.6	3.6	4.0	3.0
Tamilnadu	0.1	0.1	0.3	0.2	2.0	1.2	1.0	1.3	1.0	0.9
Maharashtra	0.2	0.2	0.3	0.4	20.0	13.2	9.9	12.6	10.0	7.7
UP	0.2	0.2	0.4	0.9	14.0	11.2	10.3	10.1	11.0	4.9
Bihar	0.1	0.1	0.1	0.1	1.0	0.3	0.4	0.8	1.0	0.4
MP	0.3	0.3	0.3	0.6	9.0	8.3	6.8	6.6	6.0	4.2
West Bengal	0.1	0.1	0.1	0.3	4.0	1.3	1.3	2.2	1.0	0.8
Odisha	0.1	0.1	0.1	0.2	0.3	0.2	0.2	0.5	1.0	0.4
Kerala	0.1	0.0	0.1	0.1	1.0	0.7	0.9	1.6	3.0	1.7
Gujarat	0.3	0.4	0.4	0.7	9.0	4.7	4.4	NA	NA	NA
Haryana	0.2	0.3	0.4	0.6	11.0	8.0	8.3	10.5	10.0	5.0
Punjab	0.1	0.1	0.1	0.1	5.0	9.0	5.5	5.3	6.0	2.4
Jharkhand	NA	0.1	0.2	0.4	5.0	2.7	2.8	4.5	3.0	2.1
Rajasthan	0.5	0.4	0.3	0.6	5.0	2.6	2.3	10.4	4.0	1.4
Assam	0.0	NA	0.1	0.1	0.3	NA	NA	1.1	1.0	0.5
Industry	0.2	0.2	0.2	0.4	5.9	6.7	5.5	4.8	3.6	2.6
PAR>180										
Karnataka	0.2	0.2	0.2	0.3	0.2	2.0	1.8	2.8	2.6	2.6
Tamilnadu	0.1	0.1	0.1	0.1	0.2	0.6	0.5	0.9	0.7	0.7
Maharashtra	0.1	0.1	0.1	0.2	0.2	7.9	8.7	10.3	8.6	7.0
UP	0.2	0.2	0.1	0.3	0.6	2.3	7.2	7.2	6.3	3.5
Bihar	0.1	0.1	0.1	0.0	0.1	0.1	0.2	0.5	0.3	0.3
MP	0.2	0.2	0.2	0.2	0.4	3.5	5.1	4.1	3.6	3.2
West Bengal	0.1	0.1	0.1	0.1	0.2	0.7	0.9	1.8	0.6	0.6
Odisha	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.3	0.3	0.3
Kerala	0.0	0.0	0.0	0.0	0.1	0.3	0.3	0.9	1.0	1.0
Gujarat	0.1	0.2	0.2	0.3	0.4	1.4	2.6	NA	NA	NA
Haryana	0.1	0.1	0.2	0.2	0.4	2.5	5.7	7.3	5.9	3.8
Punjab	0.1	0.1	0.1	0.1	0.0	0.5	3.9	4.0	3.3	1.8
Jharkhand	NA	0.1	0.1	0.2	0.4	1.1	1.6	3.2	2.3	1.7
Rajasthan	0.2	0.2	0.1	0.2	0.3	0.5	1.7	8.0	2.1	1.0
Assam	0.0	NA	0.1	0.1	0.1	NA	NA	0.7	0.5	0.4
Industry	0.1	0.1	0.1	0.2	0.2	2.7	4.1	3.5	2.8	2.1

Notes:

(a) The distribution of loan portfolio across states is only for members of MFIN. It is a not true representative of the entire industry as it does not include SFB and banks portfolio.

Source: MFIN, Kotak Institutional Equities

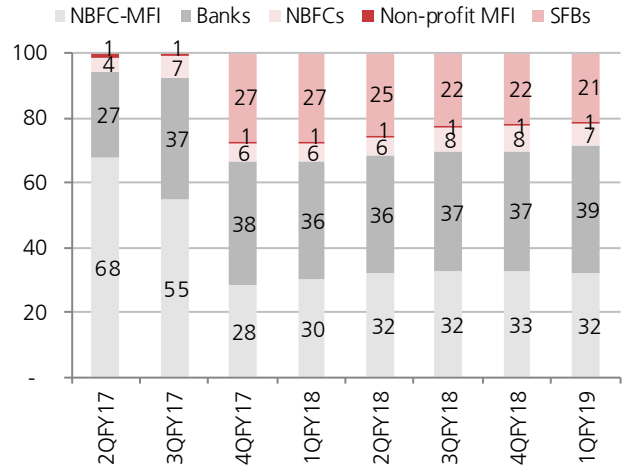
Exhibit 3: 40% yoy growth in MFI business in 1QFY19
Break-up of loans, March fiscal year-ends, 2QFY17-1QFY19 (%)



Note:
1) Prior to 4QFY17, SFBs were clubbed with NBFC-MFIs.

Source: MFIN, Company, Kotak Institutional Equities

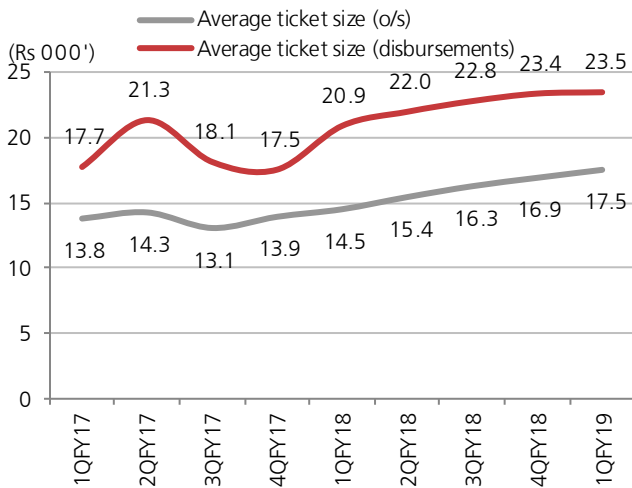
Exhibit 4: Banks continue to increase market share in MFI space
Break-up of loans, March fiscal year-ends, 2QFY17-1QFY19 (%)



Note:
1) Prior to 4QFY17, SFBs were clubbed with NBFC-MFIs.

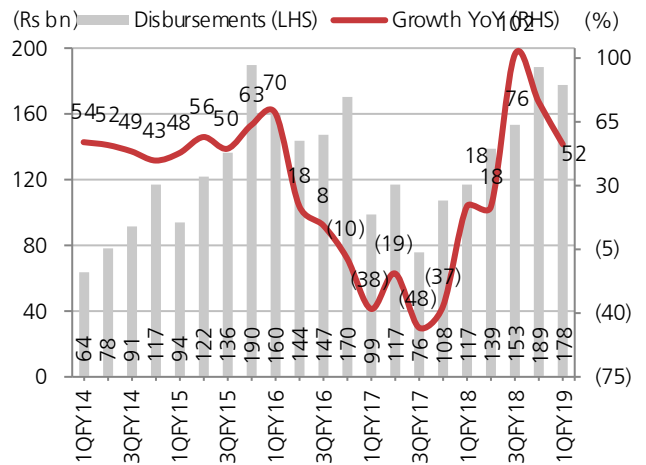
Source: MFIN, Company, Kotak Institutional Equities

Exhibit 5: Average ticket size on disbursements higher
Break-up of loans, March fiscal year-ends, 1QFY17-1QFY19 (%)



Source: MFIN, Company, Kotak Institutional Equities

Exhibit 6: Disbursement growth maintains healthy momentum
Disbursements trend, March fiscal year-ends, 1QFY14-1QFY19 (%)



Source: MFIN, Company, Kotak Institutional Equities

Exhibit 7: Smaller players begin to accelerate

Group lending portfolio across various institutions, March fiscal year-ends, 2013-1QFY19 (₹ bn)

	2013	2014	2015	2016	2017	2018	1QFY19	YoY (%)
Janalakshmi	10	21	37	110	126	-	—	NA
BHAFIN	20	28	42	77	92	126	138	44
Ujjivan	11	16	33	54	64	76	78	21
Satin credit	6	11	21	33	36	43	54	49
L&T Finance	2	4	9	22	36	75	91	133
Equitas	11	15	21	33	33	23	24	(18)
Muthoot	3	8	15	7	20	29	29	34
Asirvad	1	2	3	10	18	24	24	33
Spandana	12	9	12	12	13	32	32	80
Suryoday	2	3	6	10	8	-	—	NA
ESAF	4	6	10	19	—	—	—	NA
Utkarsh	2	3	7	14	—	—	—	NA
Annapurna	NA	NA	4	9	12	20	20	53
Arohan	NA	NA	4	7	10	22	22	93
Fusion	NA	NA	3	6	8	16	18	94
Sonata	NA	NA	6	10	10	14	13	28
Madura	NA	NA	4	5	8	12	14	66
Belstar	NA	NA	2	3	6	11	12	86
SVCL	NA	NA	4	10	8	9	8	(3)
Samasta	NA	NA	1	1	2	8	11	290
FINO	NA	NA	1	3	3	6	6	75

Notes:

- (a) 4QFY18 data has been used for Arohan, Muthoot Microfin, Navchetana, Spandana and 2QFY18 data has been used for CreditAccess for analysis as 1QFY19 data for them is not available.
- (b) Data for small finance banks is not available where they are not listed. Janalakshmi, Ujjivan, Equitas, Utkarsh, ESAF and Suryoday have been converted into SFBs.

Source: MFIN, Company, Kotak Institutional Equities

Exhibit 8: Odisha, Bihar and West Bengal continue to gain share; Karnataka maintains tepid growth
Share of loans across states, March fiscal year-ends, 2013-1QFY19 (%)

	2013	2014	2015	2016	2017	2018	1QFY19	YoY (%)
GLP (Rs bn)								
Karnataka	20.5	26.2	43.7	74.1	43.0	60.7	62.6	27.8
Odisha	7.8	11.0	19.3	30.3	31.3	52.8	58.5	69.4
Uttar Pradesh	12.9	20.0	33.9	60.0	35.2	48.0	50.0	43.7
Bihar	9.9	15.6	27.2	31.6	31.0	46.8	54.6	68.6
Tamilnadu	27.6	37.9	57.0	88.9	32.0	45.7	49.2	45.7
Maharashtra	17.2	23.7	38.7	64.6	31.0	45.2	47.4	40.4
Madhya Pradesh	9.8	14.9	24.9	41.7	24.9	39.0	38.9	44.7
West Bengal	30.1	38.9	60.2	32.6	21.2	35.4	39.4	69.6
Kerala	—	10.3	17.7	24.6	15.5	21.3	22.4	33.2
Rajasthan	—	—	—	—	7.3	14.5	17.7	128.6
Gujarat	—	—	—	21.5	—	—	—	NA
Jharkhand	—	—	—	—	9.0	—	—	NA
Assam	7.3	11.1	20.9	—	—	—	—	NA
Andhra Pradesh	39.9	—	—	—	—	—	—	NA
Total	182.9	209.5	343.5	469.9	281.4	409.4	440.6	45.9
% distribution of GLP within top 10 states								
Karnataka	11.2	12.5	12.7	15.8	15.3	14.8	14.2	-201 bps
Odisha	4.3	5.2	5.6	6.5	11.1	12.9	13.3	184 bps
Uttar Pradesh	7.0	9.5	9.9	12.8	12.5	11.7	11.4	-17 bps
Bihar	5.4	7.4	7.9	6.7	11.0	11.4	12.4	167 bps
Tamilnadu	15.1	18.1	16.6	18.9	11.4	11.2	11.2	-1 bps
Maharashtra	9.4	11.3	11.3	13.7	11.0	11.0	10.8	-42 bps
Madhya Pradesh	5.3	7.1	7.3	8.9	8.9	9.5	8.8	-7 bps
West Bengal	16.4	18.5	17.5	6.9	7.5	8.6	8.9	125 bps
Kerala	—	4.9	5.1	5.2	5.5	5.2	5.1	-48 bps
Rajasthan	—	—	—	—	2.6	3.5	4.0	145 bps
Gujarat	—	—	—	4.6	—	—	—	NA
Jharkhand	—	—	—	—	3.2	—	—	NA
Assam	4.0	5.3	6.1	—	—	—	—	NA
Andhra Pradesh	21.8	—	—	—	—	—	—	NA

Notes:

(a) The distribution of loan portfolio across states is only for members of MFIN. It is a not true representative of the entire industry as it does not include SFB and banks portfolio.

Source: MFIN, Company, Kotak Institutional Equities

Exhibit 9: Ticket size in Eastern parts have been higher than others

Average ticket size of loans disbursed across states, March fiscal year-ends, 1QFY17-1QFY19 (Rs)

Average ticket size (Rs)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Assam	22,712	23,127	23,074	21,026	23,500	23,413	24,142	26,602	26,400
Bihar	19,462	64,395	19,135	21,619	201,167	22,040	22,209	14,178	23,080
Chandigarh	20,796	21,025	20,008	20,605	21,050	21,448	22,974	23,403	23,400
Delhi	28,834	30,159	27,074	34,436	37,000	26,026	30,796	44,389	23,000
Gujarat	26,129	25,895	28,205	24,132	22,714	25,088	26,006	26,517	26,750
Haryana	23,986	22,884	23,583	23,433	23,667	25,017	26,090	23,903	24,769
Jharkhand	19,679	19,751	20,528	20,719	20,267	20,329	21,616	24,517	23,720
Karnataka	16,224	18,613	17,027	16,024	21,326	19,626	19,825	20,675	21,133
Kerala	21,225	16,628	22,853	24,132	21,120	21,043	20,864	23,719	24,029
Madhya Pradesh	20,924	21,907	20,174	20,574	22,000	23,556	23,979	24,639	23,609
Maharashtra	20,238	21,425	19,956	19,306	21,080	22,088	22,651	21,355	23,364
Orissa	18,632	20,368	19,209	22,485	21,349	21,149	21,907	23,629	24,295
Punjab	23,262	23,964	22,544	22,554	21,875	25,902	25,723	24,268	26,235
Rajasthan	21,101	21,587	22,222	22,790	20,846	22,093	21,269	21,881	23,219
Tamil nadu	23,519	25,536	26,653	21,752	21,837	21,459	23,048	24,064	25,034
Tripura	22,335	21,508	22,784	NA	NA	22,150	22,882	NA	NA
Uttar Pradesh	22,191	22,969	21,511	23,074	23,658	26,282	26,478	23,842	24,614
Uttarakhand	22,673	23,768	21,980	20,838	23,000	28,394	32,776	26,464	24,000
West Bengal	19,447	20,254	20,964	20,752	19,271	20,069	20,123	21,960	22,288
Total	20,239	25,084	20,857	20,778	23,729	21,987	22,388	21,598	23,525

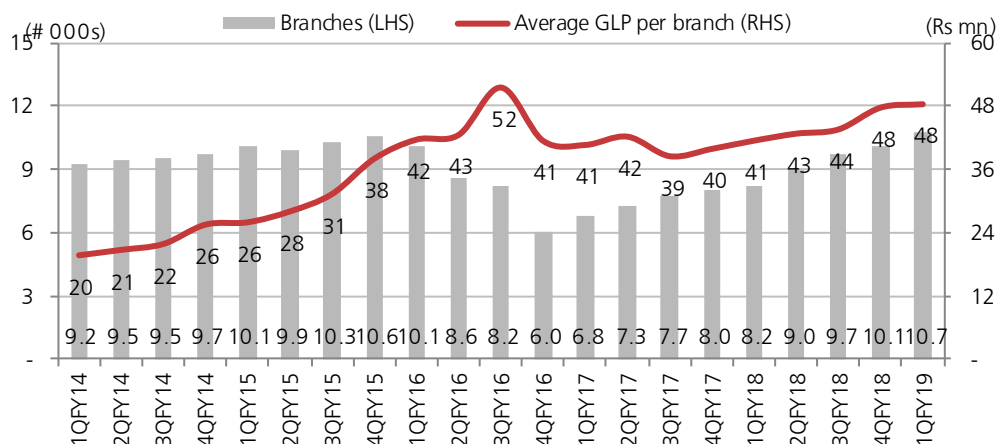
Notes:

(a) The distribution of loan portfolio across states is only for members of MFIN. It is a not true representative of the entire industry as it does not include SFB and banks portfolio.

Source: MFIN, Company, Kotak Institutional Equities

Exhibit 10: Productivity continues to improve

Branch productivity, March fiscal year-ends, 1QFY14-1QFY19 (%)

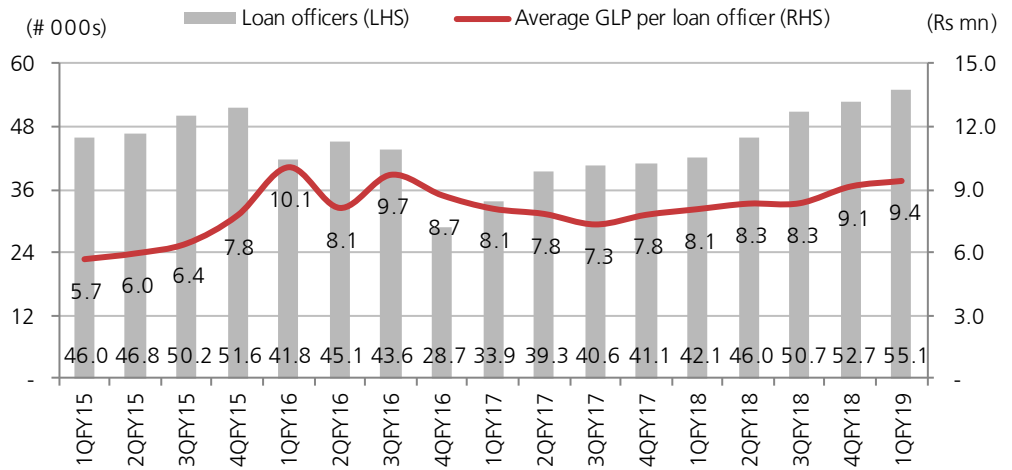


Notes:

(a) The distribution of loan portfolio across states is only for members of MFIN. It is a not true representative of the entire industry as it does not include SFB and banks portfolio.

Source: MFIN, Company, Kotak Institutional Equities

Exhibit 11: Steady increase in productivity of loan officers led by rise in average ticket size
 Loan officer, March fiscal year-ends, 1QFY15-1QFY19 (%)

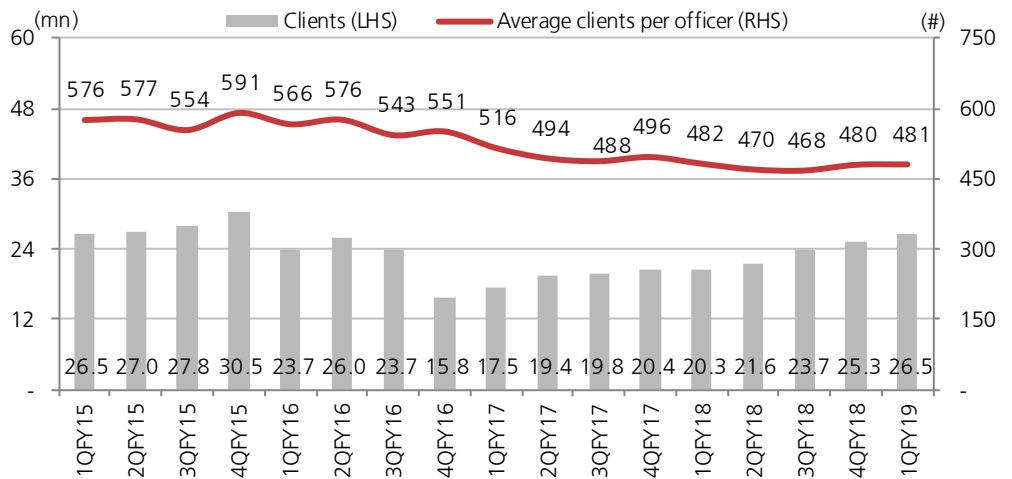


Notes:

(a) The distribution of loan portfolio across states is only for members of MFIN. It is a not true representative of the entire industry as it does not include SFB and banks portfolio.

Source: MFIN, Company, Kotak Institutional Equities

Exhibit 12: Modest rise in clientele
 Client base, March fiscal year-ends, 1QFY15-1QFY19 (%)

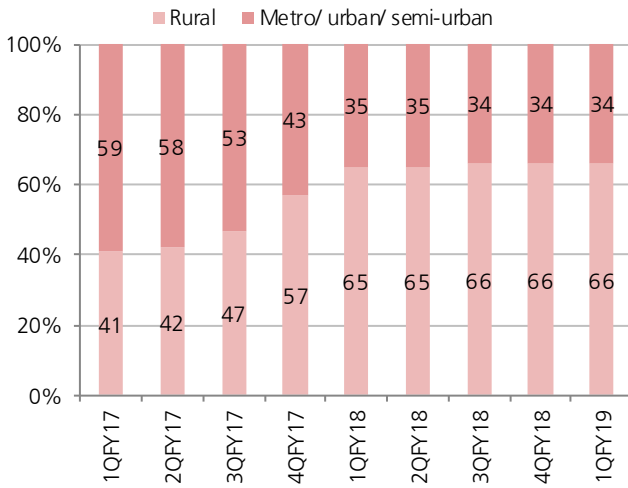


Notes:

(a) The distribution of loan portfolio across states is only for members of MFIN. It is a not true representative of the entire industry as it does not include SFB and banks portfolio.

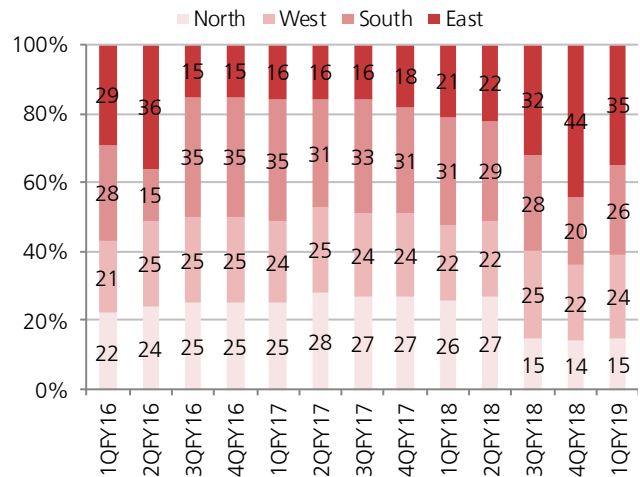
Source: MFIN, Company, Kotak Institutional Equities

Exhibit 13: MFI lending is dominant in rural areas
Break-up of loans, March fiscal year-ends, 1QFY17-1QFY19 (%)



Source: MFIN, Company, Kotak Institutional Equities

Exhibit 14: South continues to dominate business but growth has been faster in East as well
Break-up of loans, March fiscal year-ends, 1QFY16-1QFY19 (%)

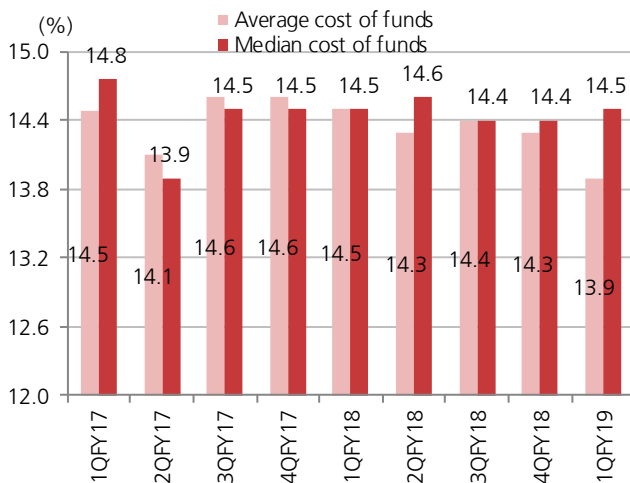


Notes:

- (a) From 3QFY18, regions have been regrouped as East and North east, South, North, West and Central. As a result, East and North east has been adjusted under East and Central has been clubbed with West.
- (b) There has been a reclassification of loans on states across geographies

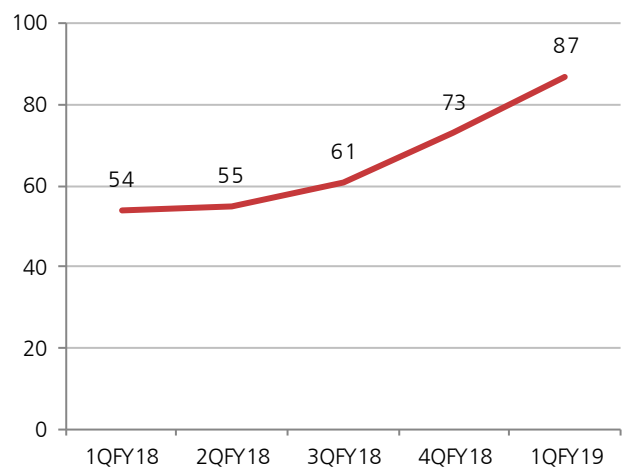
Source: MFIN, Company, Kotak Institutional Equities

Exhibit 15: Reduction in average cost of funds
Cost of funds, March fiscal year-ends, 1QFY17-1QFY19 (%)



Source: MFIN, Company, Kotak Institutional Equities

Exhibit 16: Rapid scale up in cashless disbursements
Cashless disbursements, March fiscal year-ends, 1QFY16-1QFY19 (%)



Source: MFIN, Company, Kotak Institutional Equities

SEPTEMBER 03, 2018
UPDATE

Coverage view: **Cautious**

Price (₹): **1,441**

Target price (₹): **1,400**

BSE-30: **38,645**

In conversation with the CEO. We met Salil Parekh, CEO of Infosys, to understand the reasons for high attrition in the company and its plans to augment the leadership bench. Infosys has a strong leadership bench and has promoted people to head verticals/ sub-verticals. Further, Mr Parekh is looking to augment leadership through external hires in account management, large deals team and select digital competencies while interventions are under way to contain attrition.

Company data and valuation summary

Infosys

Stock data

52-week range (Rs) (high,low)	1,454-867
Market Cap. (Rs bn)	3,147.6

Shareholding pattern (%)

Promoters	12.9
FIs	52.7
MFs	10.6

Price performance (%)

	1M	3M	12M
Absolute	5.6	17.9	58.8
Rel. to BSE-30	2.7	7.8	30.4

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	64.6	70.9	78.3
EPS growth (%)	3.0	9.7	10.4
P/E (X)	22.3	20.3	18.4
Sales (Rs bn)	705.2	804.8	885.2
Net profits (Rs bn)	146.0	154.1	170.2
EBITDA (Rs bn)	190.1	209.9	230.5
EV/EBITDA (X)	15.5	14.0	12.5
ROE (%)	21.8	23.0	23.5
Div. Yield (%)	1.9	3.0	2.7

Leadership strength is good, external recruits in go-to-market roles, says Mr Parekh

In a recent conversation to understand changes in management and measures taken to strengthen the leadership team, Mr Parekh, made several points:

- ▶ **Strong bench strength in verticals.** Infosys has seen some churn among segment heads with the recent departure of heads of manufacturing, healthcare and energy & utilities. The company has promoted vertical/ segment heads from within. Each of the leaders has been a part of the vertical for long and is geared to assume the expanded role. Mr Parekh believes there is enough leadership talent and depth within the organization.
- ▶ **Stable delivery leadership team.** Infosys has a stable leadership team with key practice heads running their respective service lines for long. The strong and stable delivery team has been instrumental in high customer satisfaction scores and the scaling-up of large relationships (number of US\$100 mn clients have increased by 6 on yoy comparison).
- ▶ **External hires in digital, sales capacity and large deals team.** Infosys has mapped the areas which require talent induction, which is largely in to go-to-market roles. These are in the areas of building sales capacity, select digital competencies and large deal teams. The company has started augmenting capacity in some of these areas, especially in account management. Do note that some of these areas are a part of the investment areas outlined by the company and critical to a three-year growth plan. The company is six months into this journey and has begun investing in some of these areas.
- ▶ **Attrition.** Mr Parekh believes Infosys' high attrition can be partly attributed to its strong training engine which makes employees an attractive target. Mr. Parekh expects attrition to decline in the coming quarters with multiple interventions kicking in, including: timely wage revisions, more promotions and better employee engagement. The company is also making differential-compensation-based interventions based on the outcome of initial training programs. Notably, there is no common thread in the senior level exits, of which there have four during Mr Parekh's tenure (see Exhibit 1).

Kawaljeet Saluja

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

Jaykumar Doshi

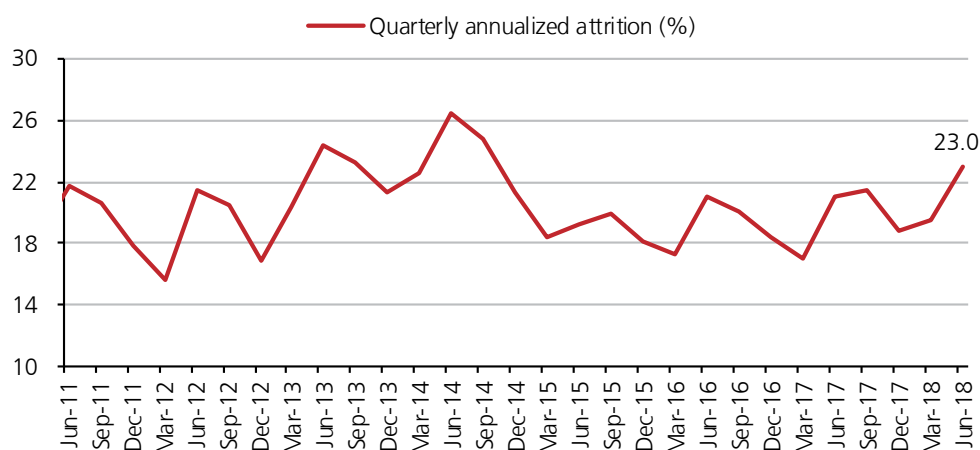
jaykumar.doshi@kotak.com
Mumbai: +91-22-4336-0882

Close look at leadership changes and augmentation plans is reassuring

Meeting with the CEO gave us a better perspective and comfort in the leadership bench strength and augmentation strategy. The company's confidence comes from its excellent and stable leadership in delivery, adequate depth in verticals and openness to external recruitments in go-to-market areas (account management, sales capacity, digital sales specialists). However, it is critical for the company to plug leadership attrition, notwithstanding backup plans. Broader attrition also needs to be brought under control, which the company is addressing with a number of interventions.

In sum, our takeaways from the meeting were reassuring given (1) stability and depth of delivery leadership in Infosys, which has enabled the company to grow large relationships and (2) the augmented strategy for maintaining leadership quality by tapping internal strengths and external recruitments where there are gaps.

Exhibit 1: High attrition is the single biggest concern



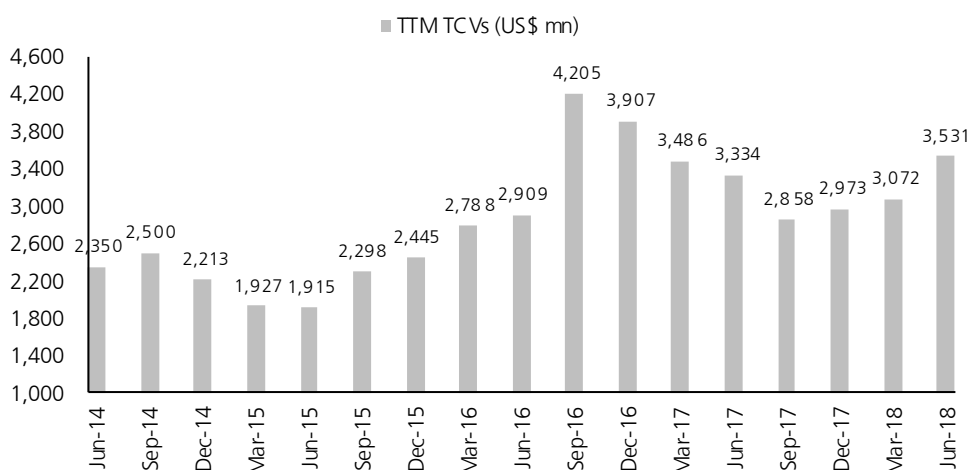
Source: Company, Kotak Institutional Equities

Exhibit 2: Key senior management exits at Infosys in the past 2-3 years

Date	Name	Designation
Aug-18	M.D. Ranganath	Chief Financial Officer
Jun-18	Sangita Singh	Executive VP ,Head of Healthcare & Lifesciences
Jun-18	Nitesh Banga	SVP -Global head of manufacturing and Edge products
Jan-18	Rajesh K Murthy	President, Head— Energy, Resources, Utilities, Communications & Services
Oct-17	Pervinder Johar	CEO- Edgeverve
Oct-17	Abdul Razack	Head- Platforms, Big Data and analytics
Sep-17	Navin Budhiraja	SVP - Head Architechture and Technology
Sep-17	Sanjay Rajagopalan	SVP - Design and research
Aug-17	Dr Vishal Sikka	CEO and MD
Jun-17	Sandeep Dadlani	President, Head of Manufacturing, Retail, CPG and logistics
Jun-17	Gordon Muehl	Industrial Internet business head
Jan-17	David Kennedy	Chief Compliance Officer
Sep-16	Sanjay Purohit	EVP and Global head of consulting
Jul-16	Sunil Gupta	Infosys Edgeverve and Finacle COO
Jul-16	Vasudeva Nayak	SVP - Global Head Mobility and assurance
Jul-16	Samson David	SVP, Global head- cloud, infrastructure and security
Jul-16	Anup Uppadhayay	Executive VP, Head of Strategic sales
Jul-16	Manish Tandon	Executive VP, Head of Healthcare, Lifesciences and Hi-Tech
Jan-16	Michael Reh	Head- Edgeverve and Finacle
Oct-15	Rajiv Bansal	CFO
Oct-15	Ronald Hafner	CEO/Partner, Lodestone
Jul-15	Sanjay Jalona	Executive VP, Head of Manufacturing and Hi-Tech

Source: Company, Kotak Institutional Equities

Exhibit 3: TCVs of deal wins (TTM) improve after a few quarters of disappointments



Source: Company

Exhibit 4: Infosys: Key client metrics are steady

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Client metrics												
Number of active clients	1,011	1,045	1,092	1,126	1,136	1,152	1,162	1,164	1,173	1,191	1,204	1,214
New clients added in the period	82	75	89	95	78	77	71	59	72	79	73	70
Repeat business %	97.6	96.8	95.8	98.8	97.5	96.7	96.2	99.4	98.7	98.3	97.6	99.5
Million \$ clients	542	555	558	574	577	591	598	606	620	630	634	627
5 Million \$ clients	258	261	268	268	277	275	282	279	286	290	295	NA
10 Million \$ clients								190	186	198	198	200
50 Million \$ clients	50	51	52	52	54	54	56	56	55	56	57	56
75 Million \$ clients	31	28	31	31	30	32	31	31	31	34	35	NA
100 Million \$ clients	14	13	14	17	18	18	19	18	19	20	20	24
200 Million \$ clients	6	6	6	6	6	6	6	NA	NA	NA	NA	NA
300 Million \$ clients	1	1	1	1	1	1	1	NA	NA	NA	NA	NA

Source: Company, Kotak Institutional Equities

Exhibit 5: Profit model, balance sheet, cash model of Infosys, March fiscal year-ends, 2014-21E (Rs mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model								
Revenues	501,330	533,190	624,410	684,850	705,220	804,826	885,245	968,295
EBITDA	136,340	149,010	170,780	186,050	190,100	209,914	230,484	252,046
Depreciation	(13,740)	(10,690)	(14,590)	(17,030)	(18,620)	(19,210)	(21,035)	(22,602)
Other income	26,690	34,270	31,250	30,790	31,930	22,006	25,304	28,364
Pretax profits	149,291	172,591	187,441	199,811	203,411	212,710	234,754	257,810
Tax	(40,620)	(49,290)	(52,520)	(55,980)	(56,740)	(58,574)	(64,557)	(72,186)
Profit after tax	108,671	123,301	134,921	143,831	146,671	154,136	170,197	185,623
Diluted earnings per share (Rs)	46.6	53.9	59.0	62.7	64.6	70.9	78.3	85.3
Balance sheet								
Total equity	445,300	507,360	578,260	689,820	649,230	689,835	758,245	834,253
Assets held for sale	—	—	—	—	3,240	3,240	3,240	3,240
Minority interest	—	—	—	-	10	10	10	10
Current liabilities	124,360	155,530	173,150	141,660	141,010	144,087	149,927	155,957
Total liabilities and equity	569,660	662,890	751,410	831,480	793,490	837,172	911,422	993,459
Cash	259,500	303,670	326,970	226,250	198,180	215,156	262,944	318,014
Other current assets	180,240	209,940	258,790	276,940	299,660	322,992	346,229	370,219
Deferred taxation	6,290	5,360	5,330	3,330	7,410	7,410	7,410	7,410
Goodwill	22,440	35,950	44,760	36,520	22,110	22,110	22,110	22,110
Tangible fixed assets	70,950	85,270	96,640	124,920	144,500	147,875	151,099	154,077
Investments	30,240	22,700	18,920	163,520	121,630	121,630	121,630	121,630
Total assets	569,660	662,890	751,410	831,480	793,490	837,172	911,422	993,459
Free cash flow								
Operating cash flow, excl. working capi	93,920	91,610	120,090	126,080	124,854	151,029	165,927	179,860
Working capital changes	(2,810)	(8,420)	(21,460)	(16,240)	(1,114)	(20,254)	(17,398)	(17,960)
Capital expenditure	(27,450)	(22,550)	(27,230)	(27,600)	(19,980)	(22,275)	(24,260)	(25,580)
Acquisitions	—	(13,760)	(7,470)	—	(600)	—	—	—
Other income	23,800	25,510	23,810	29,570	31,930	22,006	25,304	28,364
Free cash flow	87,460	72,390	87,740	111,810	135,090	130,506	149,573	164,685
Key ratios and assumptions								
Revenue growth (US\$ terms) (%)	11.5	5.6	9.1	7.4	7.2	6.8	9.1	9.4
Re/US\$ rate	60.8	61.2	65.7	67.1	64.5	68.9	69.5	69.5
EBITDA margin (%)	27.2	27.9	27.4	27.2	27.0	26.1	26.0	26.0
EBIT margin (%)	24.5	25.9	25.0	24.7	24.3	23.7	23.7	23.7
RoAE	26.3	25.9	24.9	22.7	21.9	23.0	23.5	23.3
RoIC	59.5	58.7	54.4	45.7	39.3	40.5	41.8	43.0

Source: Company, Kotak Institutional Equities

SEPTEMBER 03, 2018
UPDATE

Coverage view: **Attractive**

Price (₹): **286**

Target price (₹): **326**

BSE-30: **38,645**

The base catches up. Coal India reported 3.4% yoy growth in dispatches in August 2018, though YTD growth still remains strong at 9.5%. The moderated growth for the month should be seen in the context of 19% yoy growth seen in August 2017. E-auction premiums moderated to 76% in July 2018 though still fairly healthy. After two years of disappointing earnings performance, Coal India appears well on course to mend the earnings trajectory. Maintain ADD rating with a target price of Rs326/share.

Company data and valuation summary

Coal India

Stock data		Forecasts/Valuations			
		2018	2019E	2020E	
52-week range (Rs) (high,low)	317-236	EPS (Rs)	11.3	26.9	27.7
Market Cap. (Rs bn)	1,775.0	EPS growth (%)	(24.2)	138.2	3.0
Shareholding pattern (%)		P/E (X)	25.3	10.6	10.3
Promoters	78.5	Sales (Rs bn)	823.9	947.8	1,020.3
FIs	5.5	Net profits (Rs bn)	70.2	167.2	172.2
MFs	1.6	EBITDA (Rs bn)	77.7	216.9	234.5
Price performance (%)	1M	3M	12M		
Absolute	9.5	(3.5)	20.5	EV/EBITDA (X)	19.0
Rel. to BSE-30	6.6	(11.8)	(1.1)	ROE (%)	26.7
				Div. Yield (%)	5.8
					7.0
					8.7

Growth performance moderates in August, though YTD growth still at 9.5% yoy

Coal India reported 3.4% yoy growth in coal dispatches at 45.2 mn tons in August 2018 with all subsidiaries but two reporting positive volume growth. Production volumes stood at 38.8 mn tons registering a modest growth of 3.1% yoy in August 2018. Headline numbers should be seen in the context of a strong base in August 2017 wherein CIL reported its highest dispatch and production growth at 19% and 16% respectively.

ECL and WCL showed the highest dispatch growth of 13% yoy and 7.8% yoy respectively followed by NCL (+6% yoy). On the production front, only three of the seven subsidiaries reported positive volume growth with NCL reporting growth of 157% yoy with a dismal 3 mn tons of production in August 2017 while ECL and SECL reported growth in the range of 13-17% yoy in August 2018.

Auction premiums remain strong, inventory remains healthy across regions except West

E-auction premiums moderated to 76% in July 2018 from 80% seen in June 2018. Premiums are still well above those seen in FY2018, and should also be seen in the context of the price increase taken in January 2018. Coal inventory days have remained stable over the past five months with 10 days of inventories in August 2018—East has no plants with critical inventory while North and South have one plant each. Overall, plants with critical/supercritical levels of inventory declined to 11 in August 2018 from a high of 25 in May 2018, largely concentrated in the West region. YTD growth in coal generation stands at 5.1% (upto July 2018).

Improved pricing and volume profile augurs well for earnings

Coal India's earnings, which have been plagued by (1) increase in wage revisions and (2) grade slippages for coal, will likely see an improvement in realizations on the back of an increase in notified coal prices as well as an evacuation charge of ₹50/ton (in December 2017). Strong e-auction realizations coupled with improved power demand, will also aid topline performance. We maintain our ADD rating with a target price of Rs326/share. Our positive stance is backed by continued improvement in top-line performance, and limited cost-side shocks hereon.

Murtuza Arsiwalla

murtuza.arsiwalla@kotak.com
Mumbai: +91-22-4336-0870

Samrat Verma

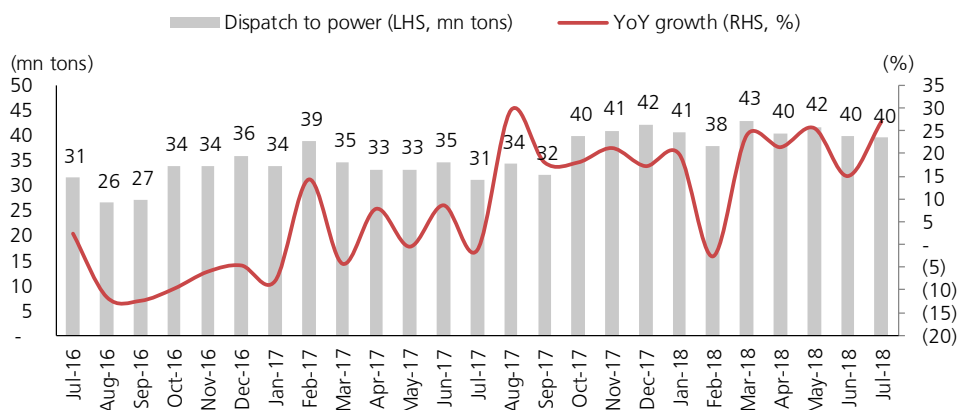
samrat.verma@kotak.com
Mumbai: +91-22-4336-0869

Exhibit 1: Coal India reported modest dispatch growth of 3.4% yoy in August 2018; production volume growth was 3.1% yoy
Subsidiary-wise monthly dispatch volumes, March fiscal year-ends (mn tons)

	Aug-18	Aug-17	Jul-18	Growth (%)		YTD			Quarterly		
				yoy	mom	2019	2018	(% chg.)	1QFY19	1QFY18	(% chg.)
Dispatches											
ECL	3.3	2.9	3.6	13.1	(8.7)	19.1	15.4	24.5	12.3	9.6	28.4
BCCL	2.5	2.6	3.0	(4.9)	(16.6)	14.6	12.9	12.9	9.1	7.8	16.4
CCL	4.6	5.3	4.9	(12.3)	(4.5)	27.2	26.1	4.2	17.7	16.0	10.8
NCL	8.3	7.8	8.4	5.9	(1.7)	41.0	36.8	11.3	24.4	21.8	11.9
WCL	3.7	3.4	3.9	7.8	(5.4)	21.2	18.5	15.1	13.6	11.1	22.2
SECL	12.1	11.5	13.1	5.7	(7.0)	65.8	61.0	7.9	40.6	37.6	8.0
MCL	10.7	10.2	11.4	4.7	(6.4)	57.8	54.6	5.7	35.7	33.4	7.0
NEC	0.0	0.0	0.0	50.0	—	0.2	0.3	(11.5)	0.2	0.2	(19.0)
CIL	45.2	43.8	48.3	3.4	(6.3)	246.9	225.5	9.5	153.5	137.4	11.7
Production											
ECL	3.0	2.6	3.1	17.2	(2.9)	17.1	13.8	23.7	11.0	8.9	24.0
BCCL	2.2	2.4	2.3	(9.1)	(5.2)	12.2	11.2	8.7	7.7	6.8	12.3
CCL	3.7	3.7	3.5	(0.8)	6.0	18.7	17.0	9.5	11.4	10.2	12.4
NCL	7.7	3.0	8.1	157.7	(4.2)	40.4	31.1	29.9	24.6	21.2	16.0
WCL	2.2	2.3	1.7	(5.6)	31.7	13.5	12.5	8.1	9.6	8.1	18.7
SECL	10.7	9.5	11.7	13.3	(8.6)	62.4	51.1	22.1	40.0	31.7	26.0
MCL	9.2	9.6	10.2	(3.9)	(9.5)	51.8	51.7	0.3	32.5	31.9	1.9
NEC	0.0	0.0	0.0	25.0	50.0	0.2	0.1	62.9	0.1	0.1	98.4
CIL	38.8	37.6	40.6	3.1	(4.4)	216.2	193.1	12.0	136.9	118.8	15.2

Source: Company, Kotak Institutional Equities

Exhibit 2: Monthly dispatches to power sector increased by 27% yoy in July 2018
Monthly trend of coal dispatches to power sector, March fiscal year-ends, Jul-2016 - Jul-2018



Source: Ministry of Power, Kotak Institutional Equities

Exhibit 3: Inventory days have improved in recent months; number of plants with critical inventory continues to remain high in West
Inventory position of coal across power plants in India, March fiscal year-ends, 2017-18

	Aug-2018			Jul-2018			Jun-2018		
	Days	Critical (#)	Super-Critical (#)	Days	Critical (#)	Super-Critical (#)	Days	Critical (#)	Super-Critical (#)
North	12	1	—	14	—	1	11	2	5
West	10	3	6	10	6	5	8	6	3
South	13	—	1	12	—	1	11	—	—
East	4	—	—	5	—	—	9	—	—
All India	10	4	7	11	6	7	10	8	8

	Aug-2017			Jul-2017			Jun-2017		
	Days	Critical (#)	Super-Critical (#)	Days	Critical (#)	Super-Critical (#)	Days	Critical (#)	Super-Critical (#)
North	9	1	2	13	11	—	17	1	—
West	8	4	3	12	1	1	9	2	1
South	10	—	—	16	—	—	12	—	—
East	6	—	—	9	—	—	10	—	—
All India	8	5	5	12	—	1	11	3	1

Source: CEA, Kotak Institutional Equities

Exhibit 4: Coal-based generation increased 5% yoy in July 2018

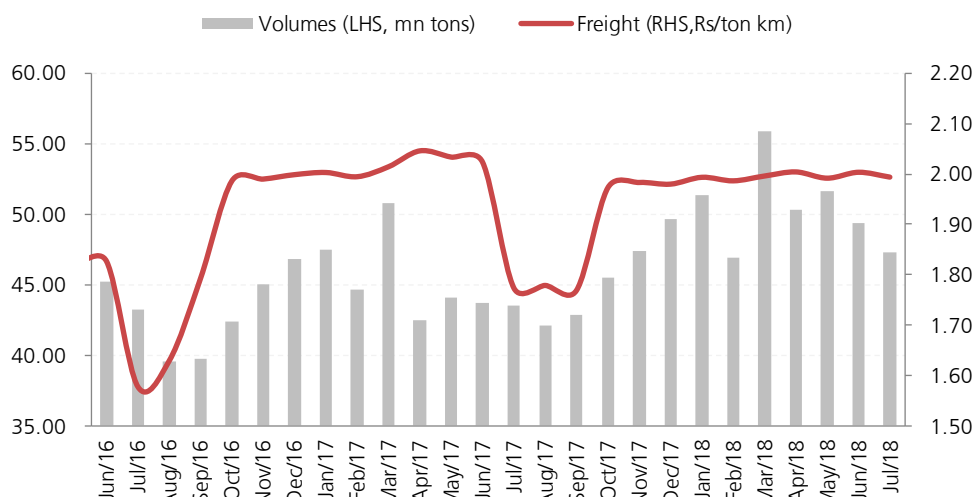
Key details of installed capacity, generation and PLF in India, March fiscal year-ends

	Monthly			YTD		
	Jul-18	Jul-17	yoy (%)	Jul-18	Jul-17	yoy (%)
Overall						
Installed capacity (MW)	345,494	330,154	4.6	345,494	330,154	4.6
Generation (MU)	101,439	97,041	4.5	416,721	404,034	3.1
PLF (%)	49.6	48.1	152 bps	51.8	51.0	80 bps
Coal						
Installed capacity (MW)	196,957	194,433	1.3	196,957	194,433	1.3
Generation (MU)	75,598	71,811	5.3	328,269	312,215	5.1
PLF (%)	53.3	51.5	180 bps	58.8	57.1	175 bps

Source: CEA, Kotak Institutional Equities

Exhibit 5: Railways freights not reflecting the seasonal drop this time around

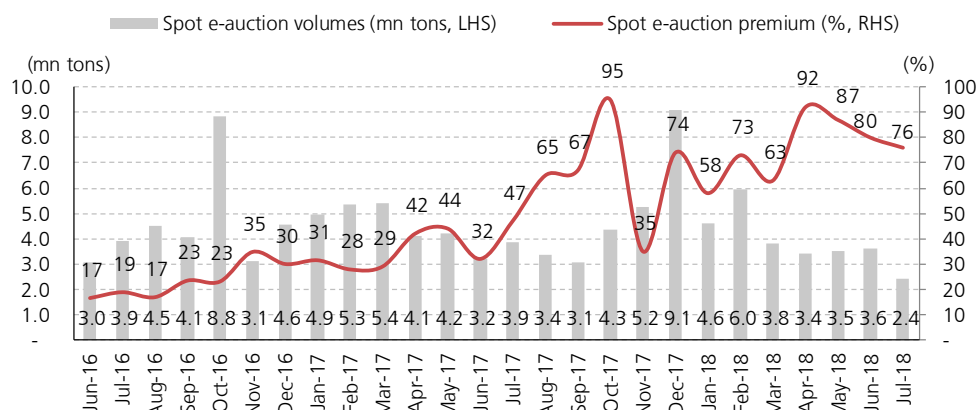
Volume and freight rates for coal movement by railway (mn tons, Rs/ton km)



Source: Indian Railways, Kotak Institutional Equities

Exhibit 6: Spot e-auction premiums moderated to 76% in July 2018

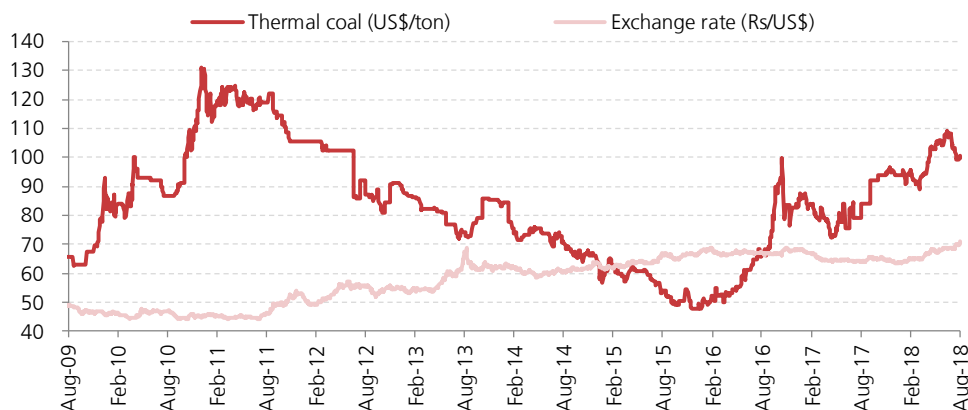
Monthly trend in spot coal volumes and premium for Coal India, March fiscal year-end, Jul-2016 – Jul-2018



Source: Ministry of Power, Kotak Institutional Equities

Exhibit 7: Imported coal prices averaged at US\$101/ton in August 2018

Trend in price of imported coal, March fiscal year-ends, Aug-2009 - Aug-2018



Source: Bloomberg, Kotak Institutional Equities

Exhibit 8: Our earnings assumptions factor 3% yoy growth in volumes for FY2019E

Key operational and financial assumptions, March fiscal year-ends, 2016-21E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E	Growth (%)					
							2016	2017	2018	2019E	2020E	2021E
Volumes (mn tons)	534	543	580	599	628	649	9	2	7	3	5	3
Realization (Rs/ton)	1,415	1,389	1,408	1,541	1,583	1,623	(4)	(2)	1	9	3	3
Revenue (Rs mn)	756,443	754,666	817,000	923,280	994,627	1,052,762	5	(0)	8	13	8	6
Employee costs	(296,598)	(335,143)	(426,336)	(363,651)	(382,157)	(402,440)	(1)	13	27	(15)	5	5
Overburden	(28,114)	(26,722)	(33,583)	(28,379)	(30,707)	(33,106)	(27)	(5)	26	(15)	8	8
EBITDA	181,791	122,242	77,738	216,873	234,472	240,389	5	(33)	(36)	179	8	3
PAT	142,329	92,678	70,198	167,239	172,220	173,344	4	(35)	(24)	138	3	1
EBITDA margins	24	16	10	23	24	23	0	(33)	(41)	147	0	(3)
EBITDA (Rs/ton)	340	225	134	362	373	371	(4)	(34)	(40)	170	3	(1)

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Profit model, balance sheet, cash model of Coal India, March fiscal year-ends, 2016-21E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Profit model						
Net sales	756,443	754,666	817,000	923,280	994,627	1,052,762
Transport and loading recovery	22,386	27,382	23,700	24,520	25,759	26,599
Total income	793,271	794,430	823,905	947,767	1,020,332	1,079,306
EBITDA	181,791	122,242	77,738	216,873	234,472	240,389
Interest income	48,042	37,306	31,633	18,278	14,245	14,870
Other Income (ex transport, interest)	10,515	18,008	32,875	43,407	43,407	43,407
Interest expense	(207)	(4,117)	(4,318)	(5,297)	(5,297)	(5,297)
Depreciation	(24,664)	(29,101)	(30,664)	(32,567)	(36,619)	(39,545)
Pretax profits	215,476	144,337	107,264	240,695	250,207	253,824
Tax	(73,148)	(51,660)	(37,067)	(73,456)	(77,987)	(80,480)
Net income	142,329	92,678	70,198	167,239	172,220	173,344
Extraordinary items	415	(18)	—	—	—	—
Reported profit	142,743	92,660	70,198	167,239	172,220	173,344
Earnings per share (Rs)	23	15	11	27	28	28
Balance sheet						
Paid-up common stock	63,164	62,074	62,074	62,074	62,074	62,074
Total shareholders' equity	338,976	245,268	198,466	220,464	211,133	202,926
Minority interest	1,048	3,459	3,625	3,625	3,625	3,625
Total borrowings	11,988	30,078	15,309	15,309	15,309	15,309
Shifting and rehab fund	31,777	38,197	43,666	43,666	43,666	43,666
Total liabilities and equity	383,788	317,002	261,065	283,064	273,733	265,525
Net fixed assets	183,608	220,900	275,774	292,861	325,640	316,939
Capital work-in progress	58,942	103,078	102,864	139,849	158,724	167,114
Investments	29,019	14,829	15,086	15,086	15,086	15,086
Cash	383,128	312,298	314,751	310,121	278,617	307,434
Current assets (excl. cash)	427,055	482,357	512,892	544,841	564,843	576,208
Current liabilities and provisions	718,408	843,787	1,013,852	1,075,170	1,126,483	1,177,245
Deferred tax asset	20,445	27,328	53,551	55,476	57,304	59,989
Misc. expenditure	—	—	—	—	—	—
Total assets	383,788	317,002	261,065	283,064	273,733	265,525
Free cash flow						
Operating cash flow, excl. working capital	165,021	121,761	100,862	197,880	207,011	210,204
Working capital changes	(62,730)	70,077	139,530	29,369	31,310	39,397
Capital expenditure	(43,450)	162,491	(85,324)	(86,638)	(88,274)	(39,233)
Investments	(885)	14,191	(258)	—	—	—
Free cash flow	57,957	368,519	154,810	140,612	150,047	210,368
Ratios						
Net debt/equity (%)	(109)	(115)	(151)	(134)	(125)	(144)
Return on equity (%)	38	32	32	80	80	84
Book value per share (Rs)	54	40	32	36	34	33
ROCE (%)	39	34	39	89	89	93

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 03, 2018

UPDATE

Coverage view: **Cautious**

Price (₹): **1,452**

Target price (₹): **1,100**

BSE-30: **38,645**

Divests 100% stake in the UK business. GCPL has sold a 100% stake in its UK operating subsidiary Godrej Consumer Products (UK) Limited for a consideration of GBP34 mn. We are surprised at the low implied transaction multiples – 5.1X trailing, FY2018, EV/EBITDA and 8.4X FY2018 P/E. Even as the UK business was an immaterial contributor to the overall business, deal multiples do raise a question mark on applying 'India' multiples to 'non-India' earnings; nearly 40% of GCPL's EBITDA is non-India. The transaction, per se, does not swing the needle much on numbers. Our SELL stays.

Company data and valuation summary

Godrej Consumer Products

Stock data		Forecasts/Valuations			
		2018	2019E	2020E	
52-week range (Rs) (high,low)	1,468-888	EPS (Rs)	21.4	25.4	28.8
Market Cap. (Rs bn)	989.6	EPS growth (%)	11.5	18.8	13.7
Shareholding pattern (%)		P/E (X)	68.0	57.3	50.4
Promoters	63.3	Sales (Rs bn)	98.4	110.3	123.0
FIs	28.0	Net profits (Rs bn)	14.5	17.3	19.6
MFs	0.7	EBITDA (Rs bn)	20.7	24.2	27.5
Price performance (%)	1M	3M	12M		
Absolute	10.3	27.5	56.3	EV/EBITDA (X)	48.2
Rel. to BSE-30	7.3	16.5	28.3	ROE (%)	25.2
				Div. Yield (%)	0.5
					0.6
					0.7

The event – GCPL exits the UK market; sells 100% stake in the UK business for GBP34 mn

GCPL has announced the divestment of its 100% stake in its UK operating entity Godrej Consumer Products (UK) Limited to JZ international, a pan-European investment bank based in London. Deal EV of GBP34 mn implies a trailing (FY2018) EV/EBITDA multiple of 5.1X and a forward (FY2020, based on KIE estimates) EV/EBITDA of 4X. On a PE basis, deal consideration implies a valuation of 8.4X trailing (FY2018) and around 6.5X forward (FY2020E) PE. GCP (UK) had revenues, EBITDA, and PAT of GBP53.9 mn (Rs4.61 bn), GBP7.1 mn (Rs607 mn) and GBP4.6 mn (Rs390 mn) in FY2018, respectively. Revenues and EBITDA had grown at a 15% and 23% CAGR in the past seven years (FY2011-18) in INR terms, we note.

The impact – EPS dilution of around 1.6-1.9% for FY2020E

Even as the UK business was not a material contributor to GCPL's consolidated financials (4.7% of revenues, 2.9% of EBITDA, and 2.7% of PAT in FY2018), low valuations do make the deal marginally earnings dilutive, per our math. The math – a 6% post-tax yield on the deal consideration value of Rs3.1 bn (at current GBP/INR rate) would generate Rs187 mn at the PAT level; PAT loss on account of the UK business divestment, per our model, would be close to Rs500-550 mn. PAT dilution of Rs310-360 mn, in other words, or 1.6-1.9% of our FY2020E PAT expectation. Impact on FY2019E earnings would be part-year and hence, lower.

The nub – sharpens strategic focus but also highlights an important valuation aspect

From a strategic standpoint, the divestment marks GCPL's exit from the only developed market (other than the US, where the target consumer group is strategic) it has been present in. This is in sync with the company's stated geographical focus – Asia, Africa, and Latin America.

More important, however, is the valuation aspect the transaction highlights. GCPL's earnings have the lowest 'India' component in the sector. UK business divestment has happened at multiples way lower than GCPL's consolidated multiples. Sector multiples in GCPL's international markets (Indonesia, Africa, LatAm) are generally lower than in India, we note. For argument's sake, if we ascribe a 30X FY2020E PE to GCPL's non-India earnings (35% of total), the implied valuation of the India business would work out to 62X, 15% premium to HUVR.

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

Note that we have not made any changes to our model to reflect the transaction yet.

Exhibit 1: GCP (UK) limited financials, March fiscal year-ends

	FY2018 financials	
	GBP mn	Rs mn
Revenues	53.9	4,610
COGS	(31.4)	(2,685)
Gross profit	22.5	1,925
Gross margin (%)	41.8	42
Staff costs	(5.2)	(448)
Other expenses	(10.2)	(871)
EBITDA	7.1	607
EBITDA margin (%)	13.2	13.2
D&A	(1.2)	(102)
EBIT	5.9	505
Net finance cost	(0.0)	(0)
PBT	5.9	505
Taxes	(1.3)	(114)
PAT	4.6	390
ETR (%)	22.6	22.6
<hr/>		
% of consolidated		
Revenues		4.7
EBITDA		2.9
PBT		2.7
PAT		2.7

Source: Company, Kotak Institutional Equities

Exhibit 2: GCPL: Consolidated Profit model, balance sheet, cash flow model 2015-2020E, March fiscal year-ends (Rs mn)

	2015	2016	2017	2018E	2019E	2020E	2021E
Profit model (Rs mn)							
Net revenues	82,422	84,132	92,428	97,680	109,428	122,045	135,765
EBITDA	13,684	16,358	18,977	20,671	24,216	27,533	31,018
Other income	839	946	1,004	1,828	2,126	2,594	3,103
Interest expense	(1,032)	(1,190)	(1,452)	(1,607)	(1,517)	(1,433)	(1,350)
Depreciation	(908)	(1,006)	(1,416)	(1,557)	(1,729)	(1,933)	(2,152)
Extraordinary items	260	(3,335)	1	1,796	1,075	—	—
Pretax profits	12,843	11,772	17,114	21,131	24,171	26,761	30,619
Tax	(2,737)	(3,361)	(3,792)	(4,047)	(4,969)	(6,154)	(7,386)
Minority Interest	(693)	(29)	(31)	11	11	11	11
Net Income	9,413	8,383	13,292	17,094	19,212	20,618	23,244
PAT after MI but before EO/Norm tax	8,811	11,611	13,040	14,546	17,280	19,647	22,147
Earnings per share (Rs)	12.9	17.1	19.1	21.4	25.4	28.8	32.5
Balance sheet (Rs mn)							
Total shareholder's equity	43,107	42,670	53,020	62,583	73,440	84,770	97,369
Total borrowings	27,172	28,911	40,009	25,208	23,508	21,808	20,108
Other financial liabilities	—	672	9,112	7,540	7,540	7,540	7,540
Deferred tax liability	(312)	1,362	1,898	2,047	2,047	2,047	2,047
Minority Interest	1,620	100	—	—	—	—	—
Total liabilities and equity	71,587	73,715	104,040	97,378	106,535	116,164	127,064
Net fixed assets incl CWIP	57,756	59,751	81,864	83,989	83,563	83,030	82,324
Investments	1,857	1,895	9,335	9,973	9,973	9,973	9,973
Cash	8,942	7,538	9,127	9,602	18,753	28,510	39,638
Net current assets	3,032	4,531	3,714	(6,186)	(5,754)	(5,348)	(4,872)
Total assets	71,587	73,715	104,040	97,378	106,535	116,164	127,064
Free cash flow (Rs mn)							
Operating cash flow (excl working capita	11,246	13,328	14,688	16,996	19,670	21,860	24,163
Working capital	(721)	(4,645)	3,563	76	(432)	(406)	(476)
Capital expenditure	(8,424)	(8,555)	(16,116)	(3,144)	(1,831)	(1,928)	(1,974)
Free cash flow	2,101	128	2,135	13,929	17,407	19,527	21,712
Key ratios (%)							
Sales growth	8.7	2.1	9.9	5.7	12.0	11.5	11.2
EPS growth	16.9	31.8	12.3	11.6	18.8	13.7	12.7
EBITDA margin	16.5	19.4	20.5	21.0	22.0	22.4	22.7
Gross margin	53.6	54.1	55.4	56.6	56.9	56.9	57.0
Ad spends (% of sales)	11.0	7.9	7.7	8.2	8.2	8.1	8.1
ROE (%)	21.8	27.1	27.3	25.2	25.4	24.8	24.3
ROCE (%)	18.8	21.0	19.7	18.9	21.9	22.9	23.6

Note:

(1) FY2016 P&L and forecasts based on IND-AS and hence not strictly comparable to pre-FY2016 P&L which were based on IGAAP.

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 3, 2018

UPDATE

Coverage view: **Cautious**

Price (₹): **1,404**

Target price (₹): **1,100**

BSE-30: **38,645**

AR2018 analysis – a solid year on all counts. Despite a subdued start to the fiscal on account of the highway ban, UBBL ended the year on a strong note with multi-year highs on volume growth, EBITDA margin, and return ratios. Cash flow generation ratios remained subdued on account of an adverse working capital swing, however. In-market execution was healthy resulting in 150 bps market share gains and strong premiumization. We like the long-term growth potential in beer as well as UBBL's execution prowess to leverage the same. Stock is too expensive, however. SELL.

Company data and valuation summary

United Breweries

Stock data				Forecasts/Valuations		
				2018	2019E	2020E
52-week range (Rs) (high,low)	1,462-775		EPS (Rs)	14.9	20.8	25.7
Market Cap. (Rs bn)	371.3		EPS growth (%)	71.6	39.2	23.6
Shareholding pattern (%)				P/E (X)	94.1	67.6
Promoters	73.3		Sales (Rs bn)	56.2	63.2	70.9
FIs	16.8		Net profits (Rs bn)	3.9	5.5	6.8
MFs	3.7		EBITDA (Rs bn)	9.0	11.1	12.7
Price performance (%)				EV/EBITDA (X)	41.4	33.4
Absolute	28.7	20.0	78.2	ROE (%)	15.7	18.7
Rel. to BSE-30	25.3	9.6	46.3	Div. Yield (%)	0.1	0.2

FY2018 – a 180-degree swing from year-beginning to year-end

UBBL ended the year on a completely different note than it started the year with. The highway ban was in effect at the beginning of the year and GST-related concerns on stranded taxes were looming large. The highway ban ended by end-1QFY18 and the industry negotiated the GST headwind well; very well in fact, as a potential negative turned into a net positive as the 'stranded taxes' argument was presented strongly enough to get material price hikes from a large number of states. Subsumption of local body taxes in important states like Maharashtra aided the net positive equation that GST implementation turned out to be, for the industry. To be sure, UBBL continued to execute well to make the most of the positive turn of events.

P&L – strong volume growth and adspend cuts drove 41% EBITDA growth

UBBL had a strong year, even adjusted for the soft FY2017 base. Volume growth of 10.3% (to 161 mn cases) was the first double-digit volume growth print since FY2011 (FY2011-17 volume CAGR: 2.7%). Net realization per case went up 7.7% yoy (highest yoy swing in six years) despite higher stranded taxes under GST; gross realization per case increased (a good indicator of price increases received from states) and was broadly in line with excise/case increase; the gap between the two (210 bps) was the lowest since FY2009. Strong premiumization also aided. EBITDA margins expanded 250 bps yoy, primarily on the back of (a) 207 bps decline in adspends as % of sales, and (b) 66 bps decline in rates and taxes. Adspends went down 13% in absolute terms after declining by a similar level in FY2017 as well. EPS grew a strong 72% yoy. Performance was healthy even adjusted for the soft FY2017 base; 2-year (FY16-18) CAGR on revenues, EBITDA and PAT stood at 8%, 14%, and 15%, respectively.

Return ratios improved but cash flow generation remains subdued

UBBL's RoE and pre-tax RoCE were at multi-year highs of 15.7% and 22.6%, respectively, for FY2018. Consistent margin improvement has been the primary driver of improvement in return ratios for many years now; asset turns have stayed in the 1.1-1.2X range. FCF growth at 17% yoy was materially lower than the 41% EBITDA growth print on account of the adverse working capital swing. FCF/EBITDA stood at 18%.

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

Other key takeaways

- ▶ Exports saw a sharp 47X jump to Rs2.23 bn from Rs48 mn in FY2017. Domestic gross revenue growth at 19.4% was lower than overall gross revenue growth of 21.6%. The annual report did not offer any further details on what led to the sharp jump in exports.
- ▶ Kingfisher strong, the company's flagship brand, crossed 100 mn cases in volumes for the first time ever.
- ▶ Premium mild beer brands saw strong growth – Heineken grew 39%, KF Ultra grew 59% while KF Ultra Max grew 80% yoy.
- ▶ KF Storm, a premium strong beer, crossed 1 mn case in volumes in the very first year of launch. We note that this brand has only been launched in select states thus far.
- ▶ MD&A suggests that industry volume growth in the past five years has been around 7% CAGR. UBBL's volumes have grown at a slower 3%, we note. In this backdrop, the 150 bps gain in volume market share in FY2018 is a mini-inflection of sorts. We note that Carlsberg has been the fastest-growing beer company in India for the past many years.
- ▶ Management called out the following states as drivers of growth in FY2018 – Telangana, A.P., Rajasthan, Orissa, Tamil Nadu, and Karnataka.
- ▶ The company has launched a new variable-pay plan to link managerial compensation better to performance.
- ▶ The company intends to launch – (a) craft beer variants to play the nascent, fast-growing craft beer culture, and (b) non-alcoholic beers; these are likely to be launched in 3QFY19.
- ▶ The company would use the currently unutilized brewery in Bihar for production of non-alcoholic beers. Annual report suggests that Bihar brewery net PP&E at end-FY2018 stood at Rs2.12 bn, nearly 12% of overall net PP&E.

Exhibit 1: Key changes to consolidated estimates, United Breweries, FY2019-21E

	Revised			Earlier			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues (Rs mn)	63,167	70,875	79,323	62,910	70,480	78,782	0.4	0.6	0.7
EBITDA (Rs mn)	11,083	12,728	14,570	11,113	12,684	14,516	(0.3)	0.3	0.4
EBITDA margin (%)	17.5	18.0	18.4	17.7	18.0	18.4			
Net income (Rs mn)	5,491	6,789	8,191	5,476	6,700	8,071	0.3	1.3	1.5
EPS (Rs/share)	20.8	25.7	31.0	20.7	25.4	30.5	0.3	1.3	1.5

Source: Kotak Institutional Equities estimates

Exhibit 2: Strong bounce back off FY2017 lows

United Breweries, condensed P&L, March fiscal year-ends, 2009-18, Rs mn

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gross revenues	26,790	32,390	44,302	56,836	62,079	68,160	77,204	93,894	100,055	121,634
Excise duty	(8,559)	(10,727)	(15,447)	(22,406)	(26,326)	(30,335)	(35,519)	(48,083)	(55,006)	(68,116)
Net sales	18,231	21,663	28,856	34,430	35,752	37,826	41,685	45,811	45,049	53,518
Other operating income	1,063	1,092	1,743	1,821	3,235	4,471	5,196	2,520	2,243	2,672
Net operating revenues	19,295	22,755	30,598	36,252	38,987	42,297	46,881	48,331	47,292	56,190
Gross profit	9,924	11,622	16,638	20,089	22,546	24,976	27,944	27,122	25,513	29,876
EBITDA	2,271	2,342	3,903	4,125	4,769	5,973	6,217	6,930	6,421	9,020
EBIT	1,374	1,302	2,595	2,636	3,065	3,995	4,142	4,493	3,551	6,423
PBT	856	1,468	2,266	2,377	2,660	3,351	3,790	4,547	3,481	6,078
Recurring PAT	456	896	1,475	1,464	1,721	2,260	2,598	2,983	2,296	3,942
Growth, yoy (%)										
Gross revenues	24.1	20.9	36.8	28.3	9.2	9.8	13.3	21.6	6.6	21.6
Excise duty	24.1	25.3	44.0	45.0	17.5	15.2	17.1	35.4	14.4	23.8
Net sales	24.2	18.8	33.2	19.3	3.8	5.8	10.2	9.9	(1.7)	18.8
Other operating income	14.9	2.7	59.6	4.5	77.6	38.2	16.2	(51.5)	(11.0)	19.1
Net operating revenues	23.6	17.9	34.5	18.5	7.5	8.5	10.8	3.1	(2.2)	18.8
Gross profit	20.1	17.1	43.2	20.7	12.2	10.8	11.9	(2.9)	(5.9)	17.1
EBITDA	22.3	3.2	66.6	5.7	15.6	25.2	4.1	11.5	(7.3)	40.5
EBIT	22.1	(5.3)	99.3	1.6	16.3	30.3	3.7	8.5	(21.0)	80.9
PBT	0.8	71.6	54.3	4.9	11.9	26.0	13.1	20.0	(23.4)	74.6
Recurring PAT	(15.9)	96.7	64.5	(0.8)	17.6	31.3	15.0	14.8	(23.0)	71.7
Margin (%)										
Gross margin	51.4	51.1	54.4	55.4	57.8	59.0	59.6	56.1	53.9	53.2
EBITDA margin	11.8	10.3	12.8	11.4	12.2	14.1	13.3	14.3	13.6	16.1
EBIT margin	7.1	5.7	8.5	7.3	7.9	9.4	8.8	9.3	7.5	11.4
PAT margin	2.4	3.9	4.8	4.0	4.4	5.3	5.5	6.2	4.9	7.0
Excise as % of Gross revenues	31.9	33.1	34.9	39.4	42.4	44.5	46.0	51.2	55.0	56.0

Source: Company, Kotak Institutional Equities

Exhibit 3: Per case economics improved substantially in FY2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Volumes (mn cases)	82	101	124	133	139	139	145	150	146	161
Gross realization/case (Rs)	325	321	357	427	447	491	531	627	687	757
Excise/case (Rs)	104	106	124	168	189	219	244	321	378	424
Net realization/case (Rs)	221	214	232	259	257	273	287	306	309	333
COGS/case (Rs)	114	110	112	122	118	125	130	142	150	164
Gross profit/case (Rs)	108	104	120	137	139	148	156	164	160	169
Other costs/case (Rs)	93	92	103	120	128	137	149	135	131	130
Of which, adspend/case (Rs)								27	25	19
Ex-adspends, other costs/case (Rs)								107	106	111
Other revenues/case (Rs)	13	11	14	14	23	32	36	17	15	17
EBITDA/case (Rs)	28	23	31	31	34	43	43	46	44	56
Growth, yoy (%)										
Volumes (mn cases)	9.3	22.6	23.0	7.1	4.5	(0.2)	4.8	3.0	(2.8)	10.3
Gross realization/case (Rs)	13.6	(1.4)	11.2	19.8	4.5	10.0	8.0	18.1	9.6	10.2
Excise/case (Rs)	13.6	2.3	17.1	35.5	12.4	15.5	11.7	31.4	17.7	12.3
Net realization/case (Rs)	13.6	(3.1)	8.3	11.5	(0.6)	6.0	5.1	6.7	1.2	7.7
COGS/case (Rs)	16.8	(3.1)	1.9	8.1	(2.7)	5.6	4.3	8.7	5.6	9.5
Gross profit/case (Rs)	10.5	(3.0)	15.0	14.6	1.1	6.4	5.8	5.0	(2.7)	6.0
Other costs/case (Rs)	9.3	(1.1)	11.6	17.1	6.6	7.1	9.1	(9.8)	(2.7)	(1.0)
Other revenues/case (Rs)	5.1	(16.2)	29.7	(2.4)	70.0	38.5	10.9	(52.9)	(8.4)	8.0
EBITDA/case (Rs)	11.9	(15.8)	35.5	(1.3)	10.6	25.5	(0.7)	8.2	(4.7)	27.3

Source: Company, Kotak Institutional Equities

Exhibit 4: Return ratios back on a consistent improvement path

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fixed Assets										
GFA	9,825	11,680	16,322	19,328	24,660	26,684	30,530	32,731	34,794	36,956
Goodwill/Intangibles	2,890	2,890	1,793	1,597	1,644	1,711	1,966	1,993	2,017	2,017
Total GFA incl goodwill/intangibles	12,715	14,571	18,115	20,925	26,304	28,395	32,496	34,724	36,810	38,972
CWIP	972	604	720	2,074	1,140	823	902	608	1,372	723
Capex	1,671	1,513	4,389	3,806	3,782	2,120	4,069	2,430	2,355	2,015
Asset Turn (Gross rev/ GFA)	2.7	2.8	2.7	2.9	2.5	2.6	2.5	2.9	2.9	3.3
Return ratios (%)										
RoE	5.0	7.6	11.7	11.0	12.0	14.1	14.6	14.9	10.3	15.7
RoCE	8.4	6.6	13.2	12.8	12.2	14.4	15.7	17.4	13.3	22.6
RoIC	4.7	4.4	9.2	8.5	8.6	10.5	11.1	11.5	8.8	14.8
DuPont Analysis										
Net Margin (%)	2.4	3.9	4.8	4.0	4.4	5.4	5.6	6.2	4.9	7.0
Asset turnover (X)	1.0	0.9	1.1	1.2	1.1	1.1	1.2	1.2	1.1	1.2
Equity Multiplier	2.2	2.0	2.1	2.3	2.4	2.4	2.2	2.1	2.0	1.8
RoE (%)	5.0	7.6	11.7	11.0	12.0	14.1	14.6	14.9	10.3	15.7
Dividend Payout (%)	18.5	11.2	12.5	17.0	12.6	12.3	12.2	12.3	15.9	16.1
Divided per share (Rs)	0.3	0.3	0.6	0.7	0.7	0.9	1.0	1.2	1.2	2.0

Source: Company, Kotak Institutional Equities

Exhibit 5: Cash flow metrics remain subdued

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Cash flow from operations	2,269	2,264	3,498	3,840	4,214	5,054	5,028	6,169	5,419	6,898
Change in net working capital	(3,233)	(531)	2,213	(311)	(2,692)	(2,159)	3,381	(777)	22	(1,265)
Capex (including acquisitions)	(1,671)	(1,513)	(4,389)	(3,806)	(3,782)	(2,120)	(4,069)	(2,430)	(2,355)	(2,015)
Free cash flow	(2,634)	220	1,323	(277)	(2,260)	776	4,339	2,962	3,085	3,618
Cash from from investing	(840)	647	503	356	(535)	544	774	(22)	19	45
Cash from from financing	3,873	(451)	(1,461)	405	3,352	(2,225)	(6,408)	(2,931)	(3,002)	(3,663)
Net change in cash and equivalents	399	415	364	483	557	(905)	(1,294)	9	103	(1)
Cash Balance	511	927	1,291	1,774	2,331	1,425	131	140	243	242
Marketable investments	—	—	—	—	—	—	—	—	—	—
Cash & Equivalents	511	927	1,291	1,774	2,331	1,425	131	140	243	242
Growth in FCF (%)	(359)	108	502	121	716	134	459	(32)	4	17
FCF as % of EBITDA	(127)	5	20	(3)	(23)	7	32	18	16	18
FCF as % of Core PAT	(152)	6	27	(5)	(33)	10	49	26	24	25

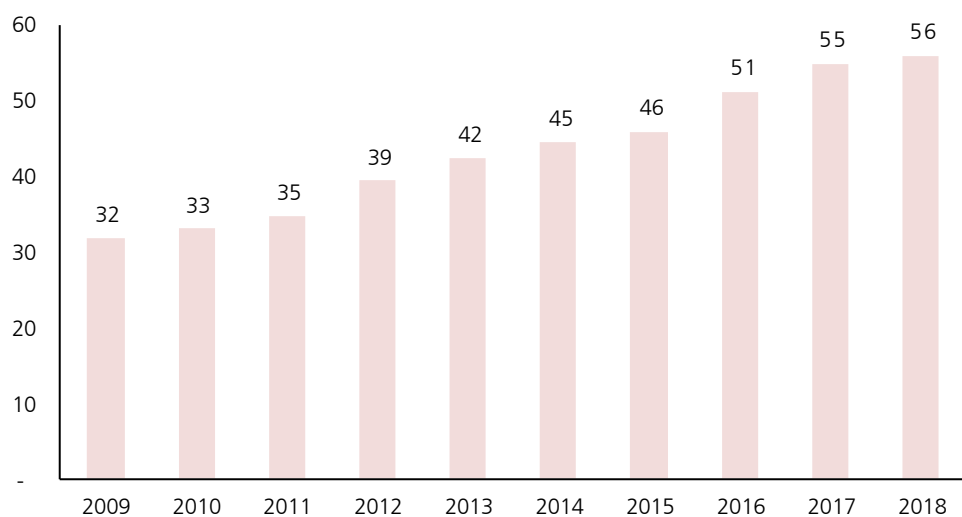
Source: Company, Kotak Institutional Equities

Exhibit 6: Adverse working capital swings the key FCF drag in FY2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Working Capital										
Inventory	1,788	2,204	2,898	4,007	5,136	5,441	5,591	6,881	7,508	8,080
Receivables	5,006	6,695	5,200	7,000	8,134	9,586	9,643	11,189	12,954	14,986
Loans and advances	2,740	2,772	4,117	4,371	4,346	5,310	4,171	1,628	988	635
Other current assets	1,002	1,261	2,480	1,276	122	68	49	4,990	4,217	5,269
Creditors	3,166	4,808	3,899	5,739	2,500	2,097	3,427	4,176	4,596	5,217
Other current liabilities	-	-	4,284	4,123	5,207	7,856	7,983	11,769	11,525	11,418
Provisions	185	257	195	269	577	671	907	507	868	907
Net Working Capital (ex-cash)	7,184	7,867	6,317	6,522	9,454	9,782	7,138	8,236	8,680	11,427
Working Capital (Days)										
Inventory	9	10	9	11	13	13	12	14	16	14
Receivables	26	29	17	19	21	23	21	23	27	27
Loans and advances	14	12	13	12	11	13	9	3	2	1
Other current assets	5	6	8	4	0	0	0	10	9	9
Creditors	16	21	13	16	6	5	7	9	10	9
Other current liabilities	-	-	14	11	13	19	17	24	24	20
Provisions	1	1	1	1	1	2	2	1	2	2
Cash conversion cycle	19	18	14	15	28	31	25	29	34	32
Cash conversion cycle (% of sales)	18.8	18.0	13.7	14.5	27.6	30.6	25.2	28.7	33.6	31.8
Net Working Capital (ex-cash)	37	35	21	18	24	23	15	17	18	20
Net Working Capital (% of sales)	37.2	34.6	20.6	18.0	24.2	23.1	15.2	17.0	18.4	20.3

Source: Company, Kotak Institutional Equities

Exhibit 7: Excise movement less adverse than usual despite GST-led stranded taxes; aided EBITDA per case math



Source: Company, Kotak Institutional Equities

Exhibit 8: Key assumptions driving UBBL's model

	2015	2016	2017	2018	2019E	2020E	2021E
Volumes (mn cases)	145	150	146	161	175	188	202
Gross realization/case (Rs)	531	627	687	757	773	822	873
Excise/case (Rs)	244	321	378	424	428	463	498
Net realization/case (Rs)	287	306	309	333	344	360	375
COGS/case (Rs)	130	142	150	164	167	173	180
Gross profit/case (Rs)	156	164	160	169	177	186	196
Other costs/case (Rs)	149	135	131	130	131	136	141
Other revenues/case (Rs)	36	17	15	17	17	17	17
EBITDA/case (Rs)	43	46	44	56	63	68	72
Growth, yoy (%)							
Volumes (mn cases)	4.8	3.0	(2.8)	10.3	9.0	7.5	7.3
Gross realization/case (Rs)	8.0	18.1	9.6	10.2	2.0	6.4	6.2
Excise/case (Rs)	11.7	31.4	17.7	12.3	1.0	8.0	7.6
Net realization/case (Rs)	5.1	6.7	1.2	7.7	3.3	4.5	4.4
COGS/case (Rs)	4.3	8.7	5.6	9.5	1.7	3.9	3.8
Gross profit/case (Rs)	5.8	5.0	(2.7)	6.0	4.7	5.0	4.9
Other costs/case (Rs)	9.1	(9.8)	(2.7)	(1.0)	0.7	3.8	3.7
Other revenues/case (Rs)	10.9	(52.9)	(8.4)	8.0	0.8	1.8	1.5
EBITDA/case (Rs)	(0.7)	8.2	(4.7)	27.3	12.7	6.8	6.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Summary of forecasts, March fiscal year-ends

	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)							
Net revenues	46,881	48,331	47,292	56,190	63,167	70,875	79,323
EBITDA	6,217	6,930	6,421	9,020	11,083	12,728	14,570
Other income	377	864	517	131	326	775	1,166
Interest	(728)	(811)	(587)	(477)	(357)	(339)	(322)
Depreciation	(2,075)	(2,436)	(2,871)	(2,597)	(2,533)	(2,631)	(2,708)
Profit before tax	3,790	4,547	3,481	6,078	8,520	10,533	12,705
Tax expense	(1,184)	264	264	264	264	264	264
Exceptional items/minority int.	4	4	4	4	4	4	4
Reported PAT	2,610	4,815	3,749	6,347	8,788	10,802	12,974
Adjusted PAT	2,598	2,983	2,296	3,942	5,491	6,789	8,191
EPS (Rs/share)	9.8	11.3	8.7	14.9	20.8	25.7	31.0
Balance sheet (Rs mn)							
Equity	18,506	21,471	23,342	26,903	31,757	37,528	44,350
Total borrowings	6,992	4,708	3,959	2,578	2,578	2,578	2,578
Deferred tax liability/minority interest	685	659	497	212	216	220	225
Current liabilities and provisions	12,663	16,820	16,988	17,542	19,769	22,239	24,955
Total liabilities	38,846	43,659	44,787	47,234	54,320	62,564	72,107
Net fixed assets	18,612	18,235	18,338	17,526	17,702	17,404	16,913
Investments and goodwill	648	596	537	495	628	776	939
Cash	131	140	243	242	3,970	9,032	15,289
Other current assets	19,455	24,688	25,669	28,971	32,019	35,352	38,966
Total assets	38,846	43,659	44,787	47,234	54,320	62,564	72,107
Free cash flow (Rs mn)							
Operating cash	5,028	6,169	5,419	6,898	8,059	8,989	10,059
Working capital changes	3,381	(777)	22	(1,265)	(821)	(864)	(898)
Capital expenditure	(13,777)	(12,401)	(10,974)	(10,870)	(9,643)	(9,693)	(9,718)
Free cash flow	(5,369)	(7,009)	(5,534)	(5,237)	(2,405)	(1,569)	(557)
Ratios							
Revenue growth (%)	10.8	3.1	(2.2)	18.8	12.4	12.2	11.9
EBITDA growth (%)	4.1	11.5	(7.3)	40.5	22.9	14.8	14.5
PAT growth (%)	14.9	14.8	(23.0)	71.6	39.2	23.6	20.6
Gross margin (%)	59.6	56.1	53.9	53.2	53.8	54.0	54.2
EBITDA margin (%)	13.3	14.3	13.6	16.1	17.5	18.0	18.4
RoE (%)	14.6	14.9	10.3	15.7	18.7	19.6	20.0
RoCE (%)	15.7	17.4	13.3	22.6	26.8	27.1	27.2

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 03, 2018

UPDATE

Coverage view: **Neutral**

Price (₹): **1,360**

Target price (₹): **1,300**

BSE-30: **38,645**

Investing in greenfield capacity in US. BKT has announced capex plans of ₹17 bn over FY2018-21E to (1) set-up a greenfield plant in the US (₹7 bn) and (2) expand/refurbish capacities in India (₹10 bn). We find the decision to set-up capacity in the US a little surprising as India's low labor cost lends BKT its main competitive edge over global peers leading to the company's higher profitability and return ratios. While the currently announced capacity in the US is relatively small, if BKT adopts the strategy of setting up more capacity overseas to gain market share, then its return ratios could come down significantly leading to a de-rating of the stock. REDUCE stays.

Company data and valuation summary

Balkrishna Industries

Stock data

52-week range (Rs) (high,low)	1,454-776
Market Cap. (Rs bn)	262.9

Shareholding pattern (%)

Promoters	58.3
FIs	17.6
MFs	10.9

Price performance (%)

	1M	3M	12M
Absolute	12.6	19.9	73.5
Rel. to BSE-30	9.6	9.6	42.4

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	37.4	50.3	62.5
EPS growth (%)	4.8	34.5	24.1
P/E (X)	36.4	27.0	21.8
Sales (Rs bn)	46.6	57.3	67.0
Net profits (Rs bn)	7.2	9.7	12.1
EBITDA (Rs bn)	13.5	17.1	20.9
EV/EBITDA (X)	19.3	14.8	12.2
ROE (%)	19.0	21.6	22.1
Div. Yield (%)	0.4	0.4	0.5

Board approves additional capex of ₹17 bn over FY2018-21E to expand/refurbish capacities

Balkrishna Industries has announced a capex plan of ₹17 bn, which will be incurred by FY2021E. This is in addition to already envisaged capex of (1) ₹4 bn on a carbon black project and (2) ₹2 bn of annual maintenance capex. Three key areas where the capex would be incurred are:

- ▶ **Greenfield plant in US:** BKT will spend ₹7 bn (USD100 mn) on setting up a greenfield plant in the US with annual capacity of 20,000 tons. As per the management, this is to improve the company's growth prospects in the region particularly with OEMs as currently lead time from India is high, which is impacting volume growth. We find this move a little surprising as lower labor cost in India is the main source of competitive advantage for BKT versus global peers leading to the company's higher profitability and return ratios (a key driver of higher valuation multiples). As per our calculations, post-tax RoCE of its US plant will be low due to higher capex intensity and lower profitability (refer to Exhibit 1). We note that the US capacity would account for only around 6% of BKT's overall capacity and we believe that the decision could also possibly be driven by recent developments around tariff wars globally.
- ▶ **Replace capacity of Waluj plant:** The company plans to incur capex of ₹5 bn to replace its existing production facilities in Waluj (around 30,000 tons). BKT will set up a greenfield facility near the existing plant and transfer PPE from the older plant (almost 30 years old) and will also set-up a co-generation power plant and warehousing facilities in the new plant.
- ▶ **Capacity expansion in Bhuj plant:** BKT will incur capex of ₹5 bn to set up annual capacity of 5,000 tons for higher-sized all steel radial OTR tires (51 and 57 inches diameter). Capex appears to be on the higher side; as per the management, asset turnover is lower in higher-sized tires, which is compensated by higher profitability.

Fine-tune our EPS estimates; maintain REDUCE with unchanged TP of ₹1,300

We have marginally cut our EPS estimates as we build in higher capex assumptions. Valuations are expensive at 22X FY2020E EPS, which drive our REDUCE rating on the stock.

Nishit Jalan

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

Hitesh Goel

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

Exhibit 1: RoCE in US plant will be much lower compared to investments in India
Comparison of incremental RoCE on new plants in US and China, (₹ mn)

	USA		India
	@ 15% EBITDA margin	@ 20% EBITDA margin	
Achievable annual capacity (MT)	20,000	20,000	20,000
Capex per ton per day (Rs mn)	122.5	122.5	85.0
Capex (Rs mn)	7,000	7,000	4,857
Working capital days	30	30	50
Working capital requirement (Rs mn)	440	440	685
Total capital employed (Rs mn)	7,440	7,440	5,542
ASP (Rs/ton)	267,500	267,500	250,000
Revenues at full utilization (Rs mn)	5,350	5,350	5,000
EBITDA margin (%)	15.0	20.0	30.0
EBITDA (Rs mn)	803	1,070	1,500
Depreciation (5% of gross block)	350	350	243
EBIT (Rs mn)	453	720	1,257
Tax rate (%)	30.0	30.0	30.0
Post-tax EBIT (Rs mn)	317	504	880
Post-tax RoCE (%)	4.3	6.8	15.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: We have fine-tuned our FY2019-21E consolidated EPS estimates

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

	New estimates			Old estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues (Rs mn)	57,252	66,997	75,290	57,252	66,563	74,802	-	0.7	0.7
EBITDA (Rs mn)	17,128	20,850	23,457	17,128	20,473	22,802	-	1.8	2.9
EBITDA margin (%)	29.9	31.1	31.2	29.9	30.8	30.5			
PAT (Rs mn)	9,725	12,073	13,621	9,725	12,131	13,779	-	(0.5)	(1.1)
EPS (Rs)	50.3	62.5	70.5	50.3	62.8	71.3	-	(0.5)	(1.1)

Source: Kotak Institutional Equities estimates

Exhibit 3: We expect BKT to deliver 14% volume CAGR over FY2018-21 period; mining segment will be key growth driver
Historical volume growth across segments and forecasts, March fiscal year-ends, 2010-20E (tons, %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	CAGR (%)		
													2010-18	2018-21E	
Segment-wise volumes (tons)															
Agricultural	55,731	72,290	82,968	85,859	90,564	98,058	92,958	107,567	124,247	139,157	153,072	165,318		10.5	10.0
OTR (Industrial, mining, construction)	23,986	32,506	45,229	47,394	47,683	50,492	49,752	58,230	67,289	82,093	101,795	119,100		13.8	21.0
Others	4,737	6,748	4,842	5,086	4,563	5,606	4,825	6,623	7,677	9,059	10,508	12,190		6.2	16.7
Total volumes	84,454	111,544	133,039	138,339	142,810	154,156	147,535	172,420	199,213	230,308	265,375	296,608		11.3	14.2
Channel-wise volumes (tons)															
OEM	11,320	15,241	19,310	20,268	28,337	33,534	34,629	40,516	51,055	61,777	73,514	86,011		20.7	19.0
Replacement	67,964	89,854	106,850	112,278	108,777	114,866	109,511	127,172	142,325	163,674	186,588	205,247		9.7	13.0
Off-take (contract manufacturing)	5,170	6,449	6,879	5,794	5,695	5,756	3,395	4,732	5,833	4,858	5,273	5,349		1.5	(2.8)
Total volumes	84,454	111,544	133,039	138,340	142,809	154,156	147,535	172,420	199,213	230,308	265,375	296,608		11.3	14.2
Region-wise volumes (tons)															
Europe	42,699	53,238	61,802	65,990	75,589	82,865	81,468	93,456	107,299	123,394	140,669	157,549		12.2	13.7
America	15,567	25,274	33,650	32,071	26,645	28,955	22,669	26,404	29,840	34,316	40,150	45,369		8.5	15.0
Rest of World	16,790	21,729	25,754	28,332	28,500	23,266	21,831	25,667	29,235	33,620	38,663	43,303		7.2	14.0
India	9,398	11,302	11,833	11,946	12,076	19,070	21,567	26,893	32,839	38,978	45,893	50,386		16.9	15.3
Total volumes	84,454	111,543	133,039	138,339	142,810	154,156	147,535	172,420	199,213	230,308	265,375	296,608		11.3	14.2
Segmental volume mix (%)															
Agricultural	66.0	64.8	62.4	62.1	63.4	63.6	63.0	62.4	62.4	60.4	57.7	55.7			
OTR (Industrial, mining, construction)	28.4	29.1	34.0	34.3	33.4	32.8	33.7	33.8	33.8	35.6	38.4	40.2			
Others	5.6	6.0	3.6	3.7	3.2	3.6	3.3	3.8	3.9	3.9	4.0	4.1			
Total volumes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			
Channel-wise volumes (tons)															
OEM	13.4	13.7	14.5	14.7	19.8	21.8	23.5	23.5	25.6	26.8	27.7	29.0			
Replacement	80.5	80.6	80.3	81.2	76.2	74.5	74.2	73.8	71.4	71.1	70.3	69.2			
Off-take (contract manufacturing)	6.1	5.8	5.2	4.2	4.0	3.7	2.3	2.7	2.9	2.1	2.0	1.8			
Total volumes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			
Region-wise volumes (tons)															
Europe	50.6	47.7	46.5	47.7	52.9	53.8	55.2	54.2	53.9	53.6	53.0	53.1			
America	18.4	22.7	25.3	23.2	18.7	18.8	15.4	15.3	15.0	14.9	15.1	15.3			
Rest of World	19.9	19.5	19.4	20.5	20.0	15.1	14.8	14.9	14.7	14.6	14.6	14.6			
India	11.1	10.1	8.9	8.6	8.5	12.4	14.6	15.6	16.5	16.9	17.3	17.0			
Total volumes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: We expect EBITDA margin to remain strong over the next two years
Our assumptions for BKT, consolidated, March fiscal year-ends, 2011-20E

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Volumes (MT)	111,544	133,039	138,339	142,810	154,156	147,535	172,420	199,213	230,308	265,375	296,608
Sales (Rs mn)	21,921	29,987	33,804	36,808	40,586	35,305	37,923	46,648	57,252	66,997	75,290
EBITDA (Rs mn)	3,675	4,940	6,689	8,896	9,689	11,133	12,150	13,466	17,128	20,850	23,457
RMs (Rs mn)	13,249	18,174	18,947	18,219	19,784	14,192	15,796	21,432	25,908	29,775	33,591
Net sales per kg	196.5	225.4	244.4	257.7	263.3	239.3	219.9	234.2	248.6	252.5	253.8
RM per kg (Rs)	118.8	136.6	137.0	127.6	128.3	96.2	91.6	107.6	112.5	112.2	113.3
EBITDA per kg (Rs)	32.9	37.1	48.3	62.3	62.9	75.5	70.5	67.6	74.4	78.6	79.1
EBITDA margin (%)	16.8	16.5	19.8	24.2	23.9	31.5	32.0	28.9	29.9	31.1	31.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: We expect BKT to deliver 24% EPS CAGR over FY2018-21E

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)											
Sales	21,921	29,987	33,804	36,808	40,586	35,305	37,923	46,648	57,252	66,997	75,290
EBITDA	3,675	4,940	6,689	8,896	9,689	11,133	12,150	13,466	17,128	20,850	23,457
Other income	204	220	45	141	382	(1,173)	1,696	948	1,202	1,272	1,592
Interest	(223)	(292)	(274)	(272)	(476)	(395)	(220)	(139)	(100)	(165)	(195)
Depreciation	(773)	(864)	(1,122)	(1,703)	(2,437)	(2,823)	(3,040)	(3,114)	(3,453)	(3,882)	(4,465)
Profit before tax	2,882	4,004	5,338	7,062	7,159	6,743	10,586	11,160	14,777	18,076	20,389
Tax expense	(936)	(1,315)	(1,839)	(2,316)	(2,408)	(2,285)	(3,418)	(3,803)	(4,913)	(6,003)	(6,768)
PAT	1,946	2,689	3,499	4,747	4,751	4,457	7,169	7,358	9,865	12,073	13,621
Adjusted PAT	1,946	2,689	3,499	4,747	4,751	6,040	6,897	7,229	9,725	12,073	13,621
Adjusted EPS	10.1	13.9	18.1	24.6	24.6	31.2	35.7	37.4	50.3	62.5	70.5
Balance sheet (Rs mn)											
Equity	8,614	11,101	14,430	18,951	22,760	27,749	35,429	40,834	49,355	59,950	71,945
Deferred tax liability	603	667	1,067	1,796	1,887	2,459	3,529	3,289	3,289	3,289	3,289
Total borrowings	6,215	17,092	21,640	24,385	23,578	18,983	13,909	8,675	6,330	9,330	9,330
Current liabilities and provisions	6,318	4,520	4,371	5,089	4,958	4,794	5,025	5,985	7,096	8,149	9,095
Total liabilities	21,749	33,379	41,507	50,220	53,184	53,984	57,891	58,782	66,069	80,718	93,659
Net fixed assets	7,812	13,498	23,479	29,546	30,494	30,984	29,584	29,678	31,225	40,344	45,879
Investments	138	25	33	3,702	4,441	8,273	13,492	11,027	11,027	11,027	11,027
Cash & cash equivalents	123	3,698	2,780	149	4,342	3,300	248	334	4,113	7,440	12,971
Other current assets	13,677	16,159	15,215	16,823	13,906	11,428	14,567	17,743	19,703	21,907	23,782
Total assets	21,749	33,380	41,507	50,220	53,184	53,984	57,891	58,782	66,069	80,717	93,658
Free cash flow (Rs mn)											
Operating cash flow excl. working capital	2,642	3,374	4,938	7,089	7,405	8,097	9,351	9,561	12,115	14,683	16,494
Working capital changes	(2,149)	(2,832)	273	(1,355)	1,959	2,267	(1,111)	(2,154)	(849)	(1,150)	(929)
Capital expenditure	(2,306)	(7,049)	(10,143)	(8,866)	(3,708)	(2,424)	(1,849)	(4,203)	(5,000)	(13,000)	(10,000)
Free cash flow	(1,813)	(6,507)	(4,932)	(3,131)	5,656	7,940	6,391	3,204	6,266	533	5,564
Ratios											
EBITDA margin (%)	16.8	16.5	19.8	24.2	23.9	31.5	32.0	28.9	29.9	31.1	31.2
PAT margin (%)	8.9	9.0	10.4	12.9	11.7	17.1	18.2	15.5	17.0	18.0	18.1
Net debt/equity (X)	0.69	1.20	1.30	1.08	0.65	0.27	0.00	(0.07)	(0.18)	(0.15)	(0.20)
Book value (Rs/share)	44.6	57.4	74.7	98.0	117.7	143.6	183.3	211.2	255.3	310.1	372.2
RoAE (%)	25.2	27.3	27.4	28.4	22.8	23.9	21.8	19.0	21.6	22.1	20.7
RoACE (%)	15.4	14.0	12.6	13.3	12.5	15.1	17.4	18.5	23.2	24.8	23.5

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 03, 2018

UPDATE

BSE-30: 38,645

Supreme Court bans all construction in three states. The absence of a state policy on disposal of solid waste management, has led the Supreme Court of India to put a ban on construction activity in the states of Maharashtra, Madhya Pradesh, Uttarakhand as well as the union territory of Chandigarh. Media reports indicate that Maharashtra, that is more pertinent from our coverage stand point, already has a policy in place, and will work towards vacating the ban at the earliest.

Supreme Court ban a result of non-compliance with rules framed for solid waste management

The Supreme Court has put a blanket ban on all construction activities in the state of Maharashtra, Madhya Pradesh, Uttarakhand and the union territory of Chandigarh due to non-compliance with the Solid Waste Management Rules put into effect by the Ministry of Environment and Forest in April 2016.

The rules required that each state frame a policy for disposal of solid waste, and the absence of such a policy led to the court putting a ban on any construction activity for non-compliance of the rules. We note that issuance of commencement certificate had already been impacted due to the lack of facilities for solid waste management. However, construction in case of sites where CC had been issued were not impacted so far. The ban on new projects to be sanctioned was lifted as late as March 2018. The current ban though covers all construction activity, whether construction activity has been commenced or otherwise.

Maharashtra likely to file solid waste management policy, vacate the ban at the earliest

Media reports suggest that Maharashtra government is already working in overdrive to put before the Supreme Court the solid waste management policy of the state that was already in preparation but had not been submitted to the concerned authorities. The Supreme Court is likely to next hear the case on October 9, 2018, and the state government of Maharashtra is likely to file its plan for solid waste management while apologizing for the delay to the apex court.

Ban on construction will likely impact real estate sector, besides ongoing infrastructure projects

Cash collections for real estate projects are linked to construction activity, and accordingly a prolonged blanket ban on construction activity will impact players such as Oberoi, Sunteck, and Godrej Properties among our coverage, even as the latter has a more pan-India portfolio. We note that our coverage universe already has commencement certificates for most projects, so if the ban were to be restricted to new projects only, the companies will likely be less impacted.

We do highlight though, that our interaction with various players in the industry as well as the response from the government suggests that the policy for solid waste management is already in place in Maharashtra, even though the same had not been submitted to the concerned authorities. In our view, the government, that has large infrastructure projects at stake will likely formalize the solid waste management policy and be able to vacate the ban on the construction activity at the earliest. An unwanted outcome would be a prolonged ban, the likelihood of which we see as low.

Murtuza Arsiwalla
murtuza.arsiwalla@kotak.com
Mumbai: +91-22-4336-0870

Samrat Verma
samrat.verma@kotak.com
Mumbai: +91-22-4336-0869

SEPTEMBER 03, 2018

UPDATE

BSE-30: 38,645

Speed Tracker 3.0; interesting data points from Ookla's latest report. Bharti has emerged the top-ranked Indian telco on overall network speeds for the fourth consecutive half (2QCY16-1QCY18) per Ookla's Speedtest report. More importantly, Jio's share of total tests on Ookla's app declined substantially in 1QCY18 (to 45% from 71% in 1QCY17). TRAI's mySpeed app continues to suggest substantially higher average speeds on Jio's network. Results per Ookla, OpenSignal as well as TRAI's own city-wise independent drive tests do not concur with the mySpeed app results.

We add Ookla's Speedtest results to our Speed Tracker database

Our Speed Tracker 1.0 and 2.0 notes had analyzed results from three sources – (a) OpenSignal reports, (b) TRAI's mySpeed app results, and (c) TRAI's city-wise independent drive tests. With Ookla now having released the fourth edition of its India Speedtest award report, we are adding this source to our database. We hope Ookla's reports on India will continue to be released at a six-monthly (or shorter) frequency.

Ookla 1QCY18 Speedtest award report; Bharti on top again, Jio's share of tests falls

Exhibit 1 depicts the summarized results of the last three editions (1QCY17, 2QCY17, and 1QCY18) of Ookla's Speedtest awards for India. Key takeaways -

- ▶ Bharti comes out on top again with overall speed score of 10.15 Mbps in the 1QCY18 report. Vodafone is a distant second with a score of 8.31 Mbps while Jio and Idea stood 3rd and 4th with scores of 6.95 Mbps and 6.66 Mbps, respectively.
- ▶ Ookla's methodology is interesting and tries to capture the real-world consumer experience aspect. Speed score is computed as a weighted average of download (90% weight) and upload (10% weight) tri-mean speeds. Tri-mean speeds (both download and upload) are computed as a weighted average of the respective 90th percentile (25% weight), 50th percentile (50%) and 10th percentile (25%) speeds. We quite like the methodology as it (a) places higher weight on download speeds but also captures upload experience, (b) places higher weight on average experience and (c) gives a good sense of what the worst experience on different networks looks like.
- ▶ Bharti and Vodafone have shown consistent improvement in speed scores (overall as well as download) through the three editions; Jio's saw improvement from 1QCY17 to 2QCY17 but dipped in 1QCY18 while Idea's has seen a decline in both iterations (sharper in the latest one). Idea's scores are pulled up by its highest upload speeds, perhaps a function of its LTE network still being primarily on FDD (1800) spectrum band. Note that FD-LTE has equal bandwidth allocated for DL and UL while TDD allocates higher bandwidth to DL.
- ▶ Bharti's best (90th percentile), average (50th) as well as worst (10th) speeds – (1) are all better than the respective speeds of peers, and (2) have all seen consistent improvement. Jio's average and worst speeds have improved but the best speeds have seen a dip in the latest report. Vodafone has been fairly consistent while Idea's best/average speeds have dropped.
- ▶ The most important takeaway for us from Ookla's report was the sharp decline in Jio's share of total tests on the app (these tests are what are used to arrive at aggregate results). Jio's share for 1QCY18 stood at 45% (9.6 mn tests in absolute terms), down from as high as 71% (15.2 mn tests) in 1QCY17 and 51% (10.9 mn tests) in 2QCY17. Bharti's share for 1QCY18 stood at 33%, materially higher than the combined 22% share for Voda-Idea.

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

There is no one truth as far as network speed/quality comparisons are concerned; there are only versions of it

Jio, for example, continues to swear by the results of TRAI's mySpeed app; Bharti, on the other hand, now has a dedicated webpage ([link](#)) highlighting its consistent top ranking in Ookla's tests. Vodafone and Idea have refrained from talking about this aspect thus far, for obvious reasons. We do not have the expertise to comment on which test is the most accurate and reliable. We do believe that relative network experience will play as important (or more important) a role as pricing in determining the long-term relative market shares. Vodafone and Idea, we believe, have some catch up to do on this front.

Exhibit 1: Pan-India speed test results, Ookla

	Observations (mn)	% of Overall speed total	Overall speed score	Mbps							
				Download tri-mean	90th percentile	50th percentile	10th percentile	Upload tri-mean	90th percentile	50th percentile	10th percentile
1QCY18											
Airtel	7.05	32.8	10.15	10.92	24.98	8.57	1.56	3.20	7.19	2.57	0.46
Vodafone	2.97	13.8	8.31	8.75	21.40	6.32	0.95	4.38	9.92	3.46	0.66
Jio	9.63	44.8	6.95	7.38	18.33	5.23	0.73	3.04	6.74	2.51	0.39
Idea	1.86	8.6	6.66	6.75	15.52	5.28	0.93	5.78	12.76	4.73	0.89
2QCY17											
Airtel	6.57	30.5	9.06	9.69	24.26	6.74	1.00	3.41	7.93	2.68	0.35
Vodafone	2.36	11.0	8.02	8.44	20.79	6.05	0.87	4.20	9.93	3.22	0.41
Jio	10.85	50.5	7.33	7.85	21.82	4.63	0.31	2.71	6.71	2.01	0.12
Idea	1.90	8.8	7.52	7.75	18.88	5.71	0.70	5.42	13.12	4.03	0.48
1QCY17											
Airtel	4.47	20.8	8.99	9.60	22.86	7.29	0.96	3.51	8.16	2.77	0.34
Vodafone	2.05	9.5	7.17	7.57	17.29	6.11	0.78	3.57	8.59	2.73	0.23
Jio	15.18	70.6	6.37	6.77	19.25	3.79	0.25	2.78	7.01	2.01	0.09
Idea	1.26	5.9	7.64	8.04	19.51	6.04	0.57	4.03	9.92	2.99	0.20

Source: Ookla, Kotak Institutional Equities

Exhibit 2: TRAI's mySpeed app results

Download speeds (Mbps)	Bharti	Idea	Jio	Vodafone
Andhra Pradesh	11.8	3.6	20.7	
Assam	12.2	17.6	10.5	6.7
Bihar	6.3	6.9	33.1	
Chennai	9.3	8.7	8.6	12.0
Delhi	11.5		9.9	7.3
Gujarat	6.5	10.0	21.0	8.8
Haryana	13.2	6.9	24.5	6.8
Himachal Pradesh	10.6	4.4	25.4	
Jammu & Kashmir	11.8	6.9	8.8	
Karnataka	8.2	4.7	18.0	5.0
Kerala	11.3	6.1	12.4	7.5
Kolkata	9.5		16.3	8.8
Madhya Pradesh	12.5	7.1	26.0	
Maharashtra	10.4	6.1	17.4	9.1
Mumbai	10.2	5.2	9.5	7.0
North East	6.8	4.0	5.0	4.7
Orissa	12.5	7.0	15.6	12.2
Punjab	11.6	6.9	21.6	5.2
Rajasthan	10.5	5.3	23.6	5.2
Tamil Nadu	9.1	8.9	11.0	9.3
UP East	4.9	4.0	16.9	3.9
UP West	5.0	6.3	21.2	3.5
West Bengal	6.6	10.4	19.3	7.2
Pan-India (past six months)	9.2	6.7	18.8	7.0
Pan-India - current month	9.7	6.2	19.9	6.4

Source: TRAI, Kotak Institutional Equities

Exhibit 3: Pan-India results, OpenSignal

Apr-18		4G		
8.4 bn measurements, 736,571 devices, Dec 2017-Feb 2018		Availability (%)	Average download speed (Mbps)	Latency (ms)
Bharti	66.81	9.31	70.31	
Vodafone	68.83	6.98	66.44	
Idea	68.15	7.27	72.58	
Reliance Jio	96.41	5.13	79.31	

Oct-17		4G		
7.4 bn measurements, 708,504 devices, Jun 2017-Aug 2017		Availability (%)	Average download speed (Mbps)	Latency (ms)
Bharti	57.16	9.15	62.98	
Vodafone	61.72	7.45	60.71	
Idea	63.60	7.40	73.30	
Reliance Jio	95.59	5.81	75.40	

Apr-17		4G		
1.3 bn measurements, 93,464 devices, Dec 2016-Feb 2017		Availability (%)	Average download speed (Mbps)	Latency (ms)
Bharti	54.72	11.53	63.86	
Vodafone	59.05	8.59	54.27	
Idea	59.49	8.34	61.34	
Reliance Jio	91.57	3.92	86.61	

Notes:

- (1) Availability: higher the better, speed: higher the better, latency: lower the better.
(2) NA: respective network not available.

Source: OpenSignal, Kotak Institutional Equities

Exhibit 4: City-wise independent drive test results

Download speeds (Mbps)	Bharti	Idea	Jio	Vodafone
Bhiwani	11.2	2.6	3.3	9.1
Raipur	8.9	11.5	3.8	—
Ranchi	4.5	15.3	6.4	—
Coimbatore	18.9	8.7	9.6	20.7
Aizwal	1.6	3.8	10.5	0.2
Kozhikode	6.6	7.9	9.4	8.9
Itanagar	10.9	9.9	0.8	0.7
Pondicherry	6.9	4.8	8.0	9.9
Kota	12.9	4.6	3.9	6.1
Guwahati	10.2	8.3	2.7	8.9
Vijayawada	11.1	3.2	6.1	0.0
Kanpur	3.2	9.1	11.0	8.5
Patna	10.4	6.4	4.2	—
Surat	3.3	6.5	4.5	—
Jodhpur	7.5	—	7.1	6.9
Dehradun	4.1	5.7	5.4	3.2
Warangal	8.9	9.4	6.8	—
Thrissur	13.2	5.0	15.0	8.6
Dhanbad	4.3	11.4	5.4	—
Allahabad	4.9	8.3	4.7	6.6
Jabalpur	12.5	15.7	3.3	—
Agartala	9.2	3.4	8.7	3.6
Asansol	6.9	6.8	5.9	10.5
Bangalore	5.0	4.8	5.1	5.0
Chennai	7.8	7.4	2.1	13.1
Goa	7.2	3.6	7.8	7.7
Pune	8.2	0.4	3.8	3.6
Vadodara	11.6	13.4	5.3	3.4
Indore	8.7	8.3	7.1	8.6
Bhubaneswar	9.1	6.7	4.7	6.9
Nagpur	9.6	6.1	2.2	6.8
Mysore	5.1	3.9	7.4	6.7
Aurangabad	6.0	4.2	1.1	8.6
Belgaum	6.9	3.0	3.7	3.7
Jamshedpur	6.1	11.2	6.3	6.2
Kolkata	6.7	—	7.8	6.5
Rajkot	6.1	8.4	7.2	6.0
Agra	2.0	5.0	7.1	2.1
Lucknow	4.5	6.3	8.9	5.7
Imphal	3.6	1.9	4.5	6.6
Trivandrum	11.9	4.4	7.1	8.4
Nashik	6.5	4.7	2.1	6.3
Ahmedabad	7.8	4.8	6.6	9.5
Delhi-NCR	8.9	—	7.3	4.9
Gwalior	9.9	1.0	5.5	—
Hisar	9.0	2.9	5.1	2.5
Kohima	0.0	0.2	3.4	1.7
Ludhiana	5.3	2.6	8.2	2.6
Meerut	2.2	4.0	7.9	1.7
Shillong	7.4	4.2	4.2	3.0
Cochin	15.0	4.9	5.1	3.6
Jaipur	4.4	4.3	7.3	4.9
Madurai	16.8	4.9	8.6	10.6
Mangalore	7.6	2.6	4.4	7.9
Trichy	13.0	6.3	5.6	9.5
Vizag	10.9	3.5	12.0	—
Weighted average	7.8	6.0	6.4	6.8

Notes:

(1) Population from census 2011 is considered to determine weighted average.

Source: TRAI, Kotak Institutional Equities

SEPTEMBER 3, 2018

UPDATE

BSE-30: 38,645

Economic recovery underway but risks abound. Acceleration in 1QFY19 growth was led not only by favorable base effect arising from a weak 1QFY18 ahead of the GST implementation but also sequential momentum suggesting some narrowing of supply-side constraints. We maintain our FY2019 GDP growth estimate at 7.3%, up from 6.7% in FY2018, on the back of robust government spending, rural demand and cyclical recovery in the industrial sector. However, we expect growth to moderate in 2HFY19 amid elevated crude oil prices, sharp INR weakness and tighter financial market conditions amid adverse global conditions. If the recent weakness in INR was to continue, we do not rule out an October rate hike even as the next few inflation readings will remain comfortably around 4%.

Base effect and pickup in momentum push up GDP growth from the trough

Real GDP growth accelerated to 8.2% (Kotak: 7.6%) in 1QFY19 compared to 7.7% in 4QFY18 led by a strong favorable base effect and also pickup in a sequential momentum. Nominal GDP growth improved sharply to 13.8% from 10.9% in 4QFY18. Real GVA growth picked up to 8% from 7.6% in 4QFY18 largely led by pickup in agriculture (5.3% from 4.5% in 4QFY18) and industrial growth (10.2% from 8.8% in 4QFY18). Within industry, manufacturing (13.5% from 9.1% in 4QFY18) and construction (8.7% from 11.5% in 4QFY18) were the key contributors. The sharp pickup in agriculture sector output was largely led by 8.1% growth in livestock products, forestry and fisheries (accounts for 44.9% of agriculture sector GVA). Meanwhile, the service sector growth moderated to 7.3% from 7.7% in 4QFY19 (Exhibit 1).

Private consumption, investments and exports drive up 1QFY19 GDP growth

On the demand side, private consumption surged to the highest growth in six quarters at 8.6%, mirroring the trends in the high frequency data like production of consumer durables, personal loans and robust consumer sector corporate earnings even as rural wages remained subdued. Tracking the strong growth in IIP capital goods (production growth of cement, CVs, etc.), the gross fixed capital formation (GFCF) continued to grow in double digit at 10% (Exhibit 2). Exports growth surged 12.7% (highest growth in four years) while imports growth remained firm at 12.5%. Meanwhile, government consumption growth moderated to 7.6% (Exhibit 3).

Gradual recovery underway; 2HFY19 growth may moderate

Robust 1QFY19 GDP affirms that the cyclical recovery of the economy is underway. While the momentum is likely to continue (although at a slower pace) in 2QFY19, the 2HFY19 GDP growth is expected to moderate amid (1) fading favorable base effect, (2) tighter financial conditions, (3) limited space for government spending growth, (4) deleveraging by corporates and banks, (5) adverse oil-related terms of trade and (6) worsening global growth prospects. On the positive side, the ongoing gradual improvement in private investment, capacity utilization along with firm rural demand amid assurance of adequate procurement and support prices are expected to provide support to growth. We expect 2HFY19 GDP growth to moderate to around 7% after 7.8% in 1HFY19 (7.1% GVA growth and 7.3% GDP growth in FY2019). While the growth-inflation dynamics may have given the comfort to the MPC to be on hold through rest of FY2019, the recent EM currency meltdown and a sustained INR depreciation have increased the probability of a rate hike. If the current pace of depreciation in INR continues through the next couple of weeks, we do not rule out a 25 bps rate hike by October.

QUICK NUMBERS

- 1QFY19 GDP growth at 8.2%; GVA growth at 8%
- Industry grows 10.2%; services grows 7.3%
- GFCF growth at 10%; private consumption growth at 8.6%
- We expect FY2019 GVA at 7.1%; GDP at 7.3%

Upasna Bhardwaj
upasna.bhardwaj@kotak.com
Mumbai: +91-22-6166-0531

Suvodeep Rakshit
suvodeep.rakshit@kotak.com
Mumbai: +91-22-4336-0898

Exhibit 1: Gradual recovery in growth over the quarters

Real GVA and components growth, March fiscal year-ends (%)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19E	3QFY19E	4QFY19E
Real GVA	8.3	7.2	6.9	6.0	5.6	6.1	6.6	7.6	8.0	7.1	6.7	6.8
Agriculture and allied	4.3	5.5	7.5	7.1	3.0	2.6	3.1	4.5	5.3	4.1	3.3	1.7
Industry	8.3	6.8	7.2	5.0	0.1	6.1	7.1	8.8	10.3	7.1	5.9	5.2
Mining	10.5	9.1	12.1	18.8	1.7	6.9	1.4	2.7	0.1	0.6	3.4	3.4
Manufacturing	9.9	7.7	8.1	6.1	(1.8)	7.1	8.5	9.1	13.5	7.5	6.1	5.4
Electricity	12.4	7.1	9.5	8.1	7.1	7.7	6.1	7.7	7.3	7.9	7.3	6.3
Construction	3.0	3.8	2.8	(3.9)	1.8	3.1	6.6	11.5	8.7	8.0	6.1	5.4
Services	9.4	7.9	6.5	6.3	9.5	6.8	7.7	7.7	7.3	7.7	8.5	9.2
Trade, hotel, transport, communication	8.9	7.2	7.5	5.5	8.4	8.5	8.5	6.8	6.7	7.9	7.1	7.2
Financial, real estate, professional services	10.5	8.3	2.8	1.0	8.4	6.1	6.9	5.0	6.5	6.8	8.7	10.1
Public admin, defence, and others	7.7	8.0	10.6	16.4	13.5	6.1	7.7	13.3	9.9	9.5	10.3	11.3
Real GDP	8.1	7.6	6.8	6.1	5.6	6.3	7.0	7.7	8.2	7.3	6.9	7.0

Source: CEIC, Kotak Economics Research estimates

Exhibit 2: Activity indicators were pointing to a robust 1QFY19 GDP growth

Key growth indicators (yoy, %)

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Industry														
Credit growth (industry)	(1.1)	(0.3)	(0.3)	(0.4)	(0.2)	1.0	2.1	1.1	1.0	0.7	1.0	1.4	0.9	0.3
Cement production	(3.3)	1.0	0.7	0.1	(1.3)	16.9	17.7	19.6	23.0	13.5	21.9	13.0	13.2	10.8
Commercial vehicle sale	1.4	13.8	23.2	25.3	6.4	50.4	52.6	39.7	31.1	24.6	76.0	43.1	41.7	29.7
- LCV sales	6.8	18.7	19.9	25.0	10.1	42.9	37.7	58.3	37.9	31.3	43.9	26.2	40.8	32.9
- MHCV sales	(6.5)	6.7	28.4	25.6	0.9	62.6	73.1	18.8	23.0	16.3	169.3	80.2	43.3	24.5
Petroleum products consumption (industrials)	(10.6)	(8.9)	(1.3)	8.0	13.3	9.3	14.7	8.8	3.4	5.7	(0.6)	(3.5)	7.2	9.9
Bitumen consumption	(11.6)	(9.1)	0.4	3.0	(13.3)	15.5	9.5	12.0	15.2	10.3	20.3	5.1	27.9	52.9
Core infrastructure	1.0	2.9	4.4	4.7	5.1	6.9	3.8	6.2	5.4	4.5	4.7	4.3	7.6	6.6
IIP mining	0.1	4.5	9.3	7.6	(0.2)	1.4	1.2	0.3	(0.4)	3.1	4.0	5.8	6.6	
IIP manufacturing	(0.7)	(0.1)	3.8	3.8	2.0	10.4	8.7	8.7	8.4	5.7	5.3	3.7	6.9	
IIP electricity	2.1	6.6	8.3	3.4	3.2	3.9	4.4	7.6	4.5	5.9	2.1	4.2	8.5	
IIP coal	(6.8)	0.6	15.4	10.4	3.9	0.8	0.4	3.7	1.3	9.1	15.2	12.2	11.8	9.7
Railways freight traffic	2.5	4.0	6.1	4.9	6.8	6.6	12.3	8.7	5.9	7.5	11.8	7.5	5.5	5.7
Steel production	3.4	16.5	3.0	(0.0)	4.8	12.7	0.9	3.2	(18.8)	5.8	5.7	3.1	7.3	
Services														
Credit growth (services)	4.7	4.9	5.0	7.0	9.4	14.0	14.7	13.2	14.2	13.8	20.7	21.9	23.3	23.0
Airport passenger traffic	20.2	12.5	15.7	16.5	20.6	16.9	17.8	19.9	24.4	28.2	26.1	16.6	18.4	21.2
Airport cargo	11.4	10.0	11.7	14.7	(0.4)	15.5	11.7	6.0	8.0	4.3	10.1	12.5	13.2	
Foreign tourist arrivals	21.3	6.2	11.0	18.8	18.1	14.4	15.2	8.4	10.1	13.4	4.4	5.1	2.7	3.5
Demand														
Credit growth (personal loans)	14.1	15.0	15.7	16.8	16.0	17.3	18.9	20.0	20.4	17.8	19.1	18.6	17.9	16.7
Center's expenditure (net of interest payments)	(20.3)	15.1	(4.1)	(9.6)	1.6	39.9	25.7	(4.1)	22.8	(56.5)	(6.7)	14.5	28.3	12.2
Fuel consumption (retail)	7.1	7.6	(2.1)	11.6	0.4	6.2	7.5	12.0	6.4	7.8	5.1	2.2	7.6	5.3
Passenger vehicle sales	(10.9)	15.1	13.8	11.3	(0.3)	14.3	5.2	7.6	7.8	6.4	7.5	19.7	37.5	(2.7)
Two wheeler sales	4.0	13.8	14.7	9.1	(2.8)	23.5	41.5	33.4	23.8	18.3	16.9	9.2	22.3	8.2
Non-oil imports	24.3	18.0	25.6	19.5	3.5	19.7	17.6	20.6	4.3	4.9	(7.2)	5.9	9.1	18.5

Source: Source: CEIC, Kotak Economics Research

Exhibit 3: Investment showing nascent signs of recovery

Real GDP and components growth, March fiscal-year ends (%)

	2014	2015	2016	2017	2018	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Real GDP	6.4	7.4	8.2	7.1	6.7	5.6	6.3	7.0	7.7	8.2
Private consumption	7.3	6.4	7.4	7.3	6.6	6.9	6.8	5.9	6.7	8.6
Government consumption	0.6	7.6	6.8	12.2	10.9	17.6	3.8	6.8	16.9	7.6
Gross fixed capital formation	1.6	2.6	5.2	10.1	7.6	0.8	6.1	9.1	14.4	10.0
Inventory	(35.6)	111.7	(15.4)	(61.2)	4.5	(2.9)	5.8	7.2	7.8	8.6
Valuables	(42.7)	26.2	(1.4)	(13.9)	58.8	122.2	54.2	37.2	29.1	(8.0)
Exports	7.8	1.8	(5.6)	5.0	5.6	5.9	6.8	6.2	3.6	12.7
Imports	(8.1)	0.9	(5.9)	4.0	12.4	18.5	10.0	10.5	10.9	12.5

Source: CEIC, Kotak Economics Research

Exhibit 4: We expect a cyclical recovery in FY2019

Real GVA and components growth, March fiscal-year ends, 2014-19E (%)

	2014	2015	2016	2017	2018	2019E
Real GVA	6.1	7.2	8.1	7.1	6.5	7.1
Agriculture and allied	5.6	(0.2)	0.6	6.3	3.4	3.5
Industry	3.8	7.0	9.8	6.8	5.5	7.1
Mining	0.2	9.7	13.8	13.0	2.9	2.0
Manufacturing	5.0	7.9	12.8	7.9	5.7	8.0
Electricity	4.2	7.2	4.7	9.2	7.2	7.2
Construction	2.7	4.3	3.7	1.3	5.7	7.0
Services	7.7	9.8	9.6	7.5	7.9	8.2
Trade, hotel, transport, communication	6.5	9.4	10.3	7.2	8.0	7.2
Financial, real estate, professional services	11.2	11.0	10.9	6.0	6.6	7.8
Public admin, defence, and others	3.8	8.3	6.1	10.7	10.0	10.3
Non-agriculture GVA	6.2	8.7	9.6	7.2	7.0	7.8
Real GDP	6.4	7.4	8.2	7.1	6.7	7.3

Source: CEIC, Kotak Economics Research estimates

SEPTEMBER 03, 2018

UPDATE

BSE-30: 38,645

GST: Revenues well below target. GST revenues have been meaningfully undershooting the budgeted run rate. Combining the CGA releases (cash-accounting based) and monthly PIB releases, the 5MFY19 run-rate is around ₹895 bn, implying a required run-rate of ₹1.15 tn for the rest of FY2019. We will keep a watch on the recently passed (in Lok Sabha) GST amendments, especially related to compensation cess, for their effect on the center and state finances. We maintain our FY2019 GFD/GDP estimate at 3.5% with risk of higher borrowings and higher yields in 2HFY19.

July 2018 GST revenues at Rs940 bn

Based on the monthly PIB release, total GST collections stood at ₹940 bn in July compared to ₹965 bn in June. CGST collection amounted to ₹153 bn (June: ₹159 bn), SGST stood at ₹212 bn (₹223 bn), IGST at ₹499 bn (₹500 bn), and compensation cess was at ₹76 bn (₹84 bn) (Exhibit 1). We had noted in our GST report (GST: Higher compliance, not-so-higher revenues, July 2) that CGST and SGST collections for the months of June/July would provide a better sense if intra-state e-way bill led to better compliance. However, the CGST/SGST revenues for June and July do not indicate much compliance improvement due to intra-state e-way bill though the number of returns filed was marginally higher at 6.7 mn. We had also noted that the positive effect of inter-state e-way bill was visible in the IGST collections increase.

Current run-rate strongly indicates revenue shortfall in FY2019

Combining the CGA accounts (collections for March-June) and PIB release for collections for July imply a run-rate of ₹894 bn for 5MFY19 (difference between PIB releases and CGA-derived numbers can be attributed to refunds from IGST and CGST). This is lower than the required run rate of ₹1.04 tn as per central and states' budget estimates (required rate of ₹1.15 tn for the rest of FY2019). As of now, run-rate of ₹656 bn for center's GST collection (CGST+IGST) is required for the rest of FY2019 to meet the union budget estimate of ₹6.5 tn. For 5MFY19, the current run-rate is at around ₹407 bn (Exhibit 2). The SGST run-rate is at around ₹430 bn (required run-rate of ₹420 bn for the rest of FY2019). We also note that there could be some further weakness in August revenues given the reduction in tax rates of a number of goods (with effect from July 27). We maintain our FY2019 GFD/GDP estimate at 3.5% with risk of higher borrowings and, consequently, likely higher bond yields in 2HFY19.

Recent amendments to GST Acts could provide some support to government revenues

Few amendments to the existing GST Acts were passed in the Lok Sabha in the recent monsoon session (links [here](#)). One of the amendments related to the compensation cess aims to empower the GST Council to allocate the unutilized compensation cess (and IGST) equally between the center and the states in every financial year. We note that earlier the unutilized compensation cess could have been distributed only after the transition period of five years. In FY2018, the center collected cess of around ₹626 bn and allocated ₹411 bn to the states. In FYTD19 the center has allocated ₹188 bn out of the total collection of ₹393 bn. At the current rate, the center (and the states too) could have a benefit of ₹250-300 bn in FY2019 if the amendment is enacted and the GST Council decides to distribute the unallocated cess.

QUICK NUMBERS

- July GST collections at ₹940 bn
- 5MFY19 run-rate at ₹894 bn; required rate at ₹1.15 tn for rest of FY2019
- Maintain our FY2019 GFD/GDP estimate at 3.5%

Suvodeep Rakshit
suvodeep.rakshit@kotak.com
Mumbai: +91-22-4336-0898

Upasna Bhardwaj
upasna.bhardwaj@kotak.com
Mumbai: +91-22-6166-0531

Exhibit 1: July GST revenues slip to ₹940 bn

Breakup of monthly GST collection (₹ bn)

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
CGST	151	148	145	157	136	145	145	157	187	159	160	159	153
SGST	230	216	219	230	193	205	204	214	257	217	220	223	212
IGST	481	486	505	448	428	453	447	445	505	491	495	500	499
IGST (imports)	213	238	247	223	218	231	229	232	212	244	245	249	265
Compensation cess	73	80	82	79	81	86	85	77	86	73	81	84	76
Total GST	936	930	951	913	837	889	880	893	1,035	940	956	965	940
Total filings (mn)	5.9	5.9	5.7	5.0	5.3	5.6	5.8	6.0	6.0	6.2	6.5	6.6	6.7

Source: PIB, Kotak Economics Research estimates

Exhibit 2: GST run rate significantly below budgeted run rate

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

	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Monthly collections (PIB press releases)					
Centre	325	288	316	579	370
Centre GST (CGST)	187	159	160	159	153
Centre's share of IGST (C-IGST)	138	129	157	420	217
States	403	340	367	638	411
States' GST (SGST)	257	217	220	223	212
States' share of IGST (S-IGST)	146	123	147	415	200
Unallocated IGST	222	239	192	(335)	82
Compensation cess	86	73	81	84	76
Total	1,035	940	956	965	940
FYTD collections (incl. CGA adjustments for CGST, SGST, IGST)					
Centre	521	971	1,383	1,563	1,944
- CGST	321	602	911	1,490	1,853
- Unallocated IGST	200	369	471	72	91
State	399	732	1,092	1,730	2,134
Compensation cess	85	157	237	317	393
Total	1,004	1,860	2,712	3,609	4,471
FY2019BE					
Centre					6,539
- Unallocated IGST					500
State					5,078
Compensation cess					900
Total					12,517
FY2019BE required run rate					
Centre					545
- Unallocated IGST					42
State					423
Compensation cess					75
Total					1,043
FYTD run rate					
Centre	521	486	461	391	389
- Unallocated IGST	200	185	157	18	18
State	399	366	364	432	427
Compensation cess	85	79	79	79	79
Total	1,004	930	904	902	894

Notes:

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

(b) FYTD collections for Jun-18 is based on our estimates of refunds and IGST settlements.

Source: PIB, CGA, Kotak Economics Research estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		31-Aug-18	(Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
NBFCs																													
Bajaj Finance	SELL	2,857	2,000	(30.0)	1,651	23.3	575	68	90	114	56.6	31.9	27.3	42.0	31.9	25.0	—	—	—	8.6	6.9	5.6	22.4	24.0	24.6	0.2	0.3	0.4	55.1
Bajaj Finserv	REDUCE	6,748	6,100	(9.6)	1,074	15.1	159	245	307	376	39.7	25.2	22.5	27.5	22.0	17.9	—	—	—	4.4	3.7	3.1	17.5	18.1	18.6	0.2	0.2	0.2	18.4
Bharat Financial Inclusion	NA	1,163	—	—	163	2.3	139	43	54	69	31.1	27.2	25.8	27.1	21.3	17.0	—	—	—	4.4	3.6	2.9	17.9	18.5	19.0	—	—	—	10.0
Cholamandalam	REDUCE	1,476	1,500	1.6	231	3.3	156	90	110	136	44.8	22.1	23.4	16.4	13.4	10.9	—	—	—	3.8	3.1	2.5	24.5	24.3	24.3	0.7	0.9	1.1	7.1
HDFC	ADD	1,936	2,075	7.2	3,274	46.2	1,676	56	67	81	(25.8)	19.0	21.2	34.6	29.1	24.0	—	—	—	4.4	4.0	3.6	13.8	14.5	16.0	1.1	1.3	1.6	69.1
HDFC Standard Life Insurance	SELL	462	405	(12.3)	930	13.1	2,007	6	7	8	14.8	10.9	14.7	72.7	65.6	57.2	—	—	—	19.3	17.2	15.3	28.0	27.7	28.4	0.3	0.4	0.4	9.3
ICICI Lombard	SELL	795	620	(22.0)	361	5.1	454	26	32	37	37.1	21.5	18.5	30.5	25.1	21.2	—	—	—	6.7	5.6	4.7	23.8	24.2	24.0	0.8	0.9	1.1	2.3
ICICI Prudential Life	BUY	375	500	33.2	539	7.6	1,436	12	13	15	10.1	7.0	10.0	30.2	28.3	25.7	—	—	—	6.7	5.7	4.8	24.5	21.8	20.2	0.6	0.6	0.7	8.9
IIFL Holdings	SELL	725	625	(13.7)	231	3.3	319	38	45	52	31.5	18.6	16.0	19.3	16.3	14.0	—	—	—	3.4	3.0	#DWO!	20.5	20.0	20.0	1.1	1.3	1.5	1.6
L&T Finance Holdings	ADD	181	190	4.7	362	5.1	1,996	13	14	16	70.9	12.3	12.8	14.5	12.9	11.4	—	—	—	2.6	2.3	1.9	18.9	18.8	18.3	1.1	1.4	1.3	13.5
LIC Housing Finance	ADD	521	610	17.1	263	3.7	505	50	58	66	14.1	16.2	14.6	10.5	9.0	7.9	—	—	—	1.7	1.5	1.3	17.4	16.9	16.8	1.5	1.7	2.0	15.1
Magma Fincorp	BUY	153	190	24.1	41	0.6	237	13	17	21	34.0	31.8	23.0	11.7	8.9	7.2	—	—	—	1.5	1.3	1.1	13.9	15.8	17.0	1.3	1.7	2.1	1.0
Mahindra & Mahindra Financial	REDUCE	489	500	2.2	302	4.3	614	23	28	34	58.4	23.2	18.6	21.3	17.3	14.6	—	—	—	3.1	2.8	2.5	14.3	15.8	16.7	1.3	1.6	1.9	10.3
Max Financial Services	ADD	448	650	45.1	120	1.7	268	6	6	6	36.9	1.8	1.8	71.4	70.1	68.9	—	—	—	—	—	—	8.3	8.0	7.8	—	0.5	0.5	4.5
Muthoot Finance	ADD	409	480	17.2	164	2.3	400	38	40	46	(10.8)	4.0	15.7	10.7	10.3	8.9	—	—	—	1.8	1.6	1.4	18.4	16.9	17.2	2.2	2.2	2.6	3.8
PNB Housing Finance	REDUCE	1,360	1,325	(2.5)	228	3.2	167	62	75	92	25.3	20.9	22.4	21.8	18.0	14.7	—	—	—	3.2	2.8	2.4	15.2	15.9	17.0	0.3	0.3	0.3	5.1
SBI Life Insurance	ADD	672	785	16.7	672	9.5	1,000	15	18	21	26.0	22.9	17.0	46.3	37.6	32.2	—	—	—	8.8	7.3	6.2	20.6	21.3	20.9	0.3	0.4	0.5	3.1
Shriram City Union Finance	ADD	1,961	2,250	14.7	129	1.8	66	141	174	209	40.4	22.7	20.5	13.9	11.3	9.4	—	—	—	2.2	1.9	1.7	15.8	16.9	17.6	0.9	1.1	1.3	1.5
Shriram Transport	ADD	1,336	1,550	16.0	303	4.3	227	114	130	146	64.4	14.3	12.8	11.8	10.3	9.1	—	—	—	2.1	1.8	1.6	18.3	17.5	17.1	1.2	1.4	1.6	31.3
NBFCs	Neutral				11,038	156					14.9	19.4	19.4	28.1	23.5	19.7				4.5	3.9	3.4	16.1	16.7	17.2	0.7	0.8	1.0	616.8
Cement																													
ACC	SELL	1,639	1,270	(22.5)	308	4.3	188	62	70	81	27.0	13.8	15.2	26.5	23.3	20.2	14.8	12.7	10.8	3.0	2.8	2.5	11.9	12.5	13.1	1.0	1.0	1.0	16.6
Ambuja Cements	REDUCE	241	210	(13.0)	479	6.8	1,986	9	11	12	14.5	23.2	15.8	28.0	22.8	19.7	9.6	7.9	6.6	2.2	2.1	2.0	8.1	9.5	10.4	1.5	1.5	1.5	11.8
Dalmia Bharat	ADD	2,631	2,830	7.6	235	3.3	89	94	122	139	55.8	29.3	14.8	28.0	21.7	18.9	10.6	8.7	7.5	3.4	2.9	2.6	12.9	14.6	14.5	0.1	0.1	0.1	4.8
Grasim Industries	BUY	1,068	1,170	9.6	702	9.9	657	46	55	70	(2.5)	18.8	28.0	23.1	19.4	15.2	7.6	7.2	6.7	1.2	1.1	1.0	5.2	5.9	7.1	0.5	0.5	0.5	15.7
India Cements	REDUCE	126	118	(6.6)	39	0.6	308	4	8	12	28.0	102.6	41.3	30.2	14.9	10.6	9.2	7.2	6.1	0.7	0.7	0.7	2.5	4.8	6.5	0.8	0.8	0.8	8.9
J K Cement	ADD	795	890	11.9	56	0.8	70	45	79	78	3.7	75.4	(0.8)	17.7	10.1	10.2	10.4	8.5	7.0	2.5	2.1	1.7	15.0	22.3	18.5	1.0	1.0	1.0	0.5
JK Lakshmi Cement	ADD	330	370	12.1	39	0.5	118	11	28	37	153.5	147.9	30.5	29.1	11.8	9.0	10.1	6.6	5.4	2.5	2.1	1.7	8.9	19.5	21.0	0.6	0.6	0.6	0.3
Orient Cement	ADD	116	145	25.4	24	0.3	205	7	11	15	212.9	58.7	41.3	17.1	10.8	7.6	8.0	6.1	4.6	2.1	1.8	1.5	12.9	18.2	21.8	1.3	1.7	1.7	0.2
Shree Cement	SELL	18,926	12,500	(34.0)	659	9.3	35	421	630	760	6.0	49.7	20.6	45.0	30.0	24.9	21.0	15.8	12.9	6.5	5.4	4.5	15.4	19.7	19.8	0.3	0.3	0.3	5.3
UltraTech Cement	SELL	4,470	2,950	(34.0)	1,228	17.3	275	126	162	201	42.7	28.9	24.0	35.5	27.6	22.2	18.4	15.3	12.8	4.2	3.7	3.2	12.6	14.3	15.4	0.2	0.2	0.2	18.7
Cement	Cautious				3,768	53					19.5	30.3	21.8	30.4	23.4	19.2	11.5	9.9	8.6	2.5	2.3	2.1	8.4	10.0	11.0	0.5	0.5	0.5	82.8

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		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)
		31-Aug-18	Target price (Rs)		2019E	2020E		2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	
Metals & Mining																													
Coal India	ADD	286	326	14.0	1,775	25.0	6,207	27	28	28	138.2	3.0	0.7	10.6	10.3	10.2	6.8	6.5	6.2	6.7	7.0	7.2	66.1	66.4	69.1	7.0	8.7	8.7	15.4
Hindalco Industries	BUY	238	305	28.2	534	7.5	2,229	27	31	34	25.1	13.6	10.2	8.7	7.7	7.0	5.6	4.9	4.3	0.9	0.8	0.7	10.6	10.8	10.8	0.5	0.5	0.5	34.3
Hindustan Zinc	ADD	299	290	(3.1)	1,264	17.8	4,225	22	26	27	3.7	14.7	5.4	13.4	11.7	11.1	7.9	6.5	5.7	3.1	2.6	2.3	24.4	24.2	22.1	2.7	2.7	2.7	7.5
Jindal Steel and Power	REDUCE	221	215	(2.6)	214	3.0	968	8	14	22	195.9	68.5	60.8	27.1	16.1	10.0	7.0	6.4	5.5	0.7	0.7	0.6	2.7	4.3	6.5	—	—	—	29.0
JSW Steel	ADD	397	350	(11.7)	958	13.5	2,417	30	27	30	10.2	(8.7)	11.7	13.4	14.7	13.2	7.9	8.6	7.3	2.7	2.4	2.0	22.4	17.3	16.7	0.8	0.8	0.8	26.4
National Aluminium Co.	ADD	75	80	6.9	145	2.0	1,933	9	7	8	125.8	(21.1)	2.4	8.0	10.2	9.9	3.7	4.8	4.7	1.3	1.3	1.3	16.8	13.0	13.3	8.0	8.0	8.0	11.0
NMDC	REDUCE	112	120	7.6	353	5.0	3,164	12	10	11	4.2	(14.3)	5.9	9.1	10.7	10.1	5.6	6.5	6.0	1.4	1.3	1.2	15.3	12.4	12.5	4.9	4.9	4.9	4.8
Tata Steel	ADD	601	660	9.9	689	9.7	1,205	76	85	94	12.8	12.1	10.9	7.9	7	6.4	6.0	6.3	5.9	1.0	1.0	0.9	14.3	14.3	14.4	1.7	1.7	1.7	71.1
Vedanta	BUY	228	370	62.5	846	11.9	3,717	32	39	38	49.1	19.7	(0.7)	7.1	5.9	6.0	4.7	3.8	3.5	1.2	1.1	1.0	18.0	19.4	17.2	4.2	5.1	5.0	48.6
Metals & Mining		Attractive			6,778	96					41.7	7.7	5.9	10.1	9.4	8.9	6.2	5.8	5.3	1.8	1.7	1.5	18.0	17.8	17.1	3.6	4.2	4.2	248.1
Pharmaceutical																													
Apollo Hospitals	ADD	1,183	1,090	(7.8)	165	2.3	139	20	27	33	133.5	36.7	21.6	60.0	43.9	36.1	20.7	17.5	15.4	4.8	4.4	4.1	8.2	10.5	11.8	0.4	0.6	0.7	14.2
Aster DM Healthcare	BUY	176	240	36.2	89	1.3	505	5	8	12	74.4	62.0	51.4	36.7	22.6	14.9	13.0	10.3	8.0	2.9	2.6	2.3	8.3	12.2	16.3	—	—	—	0.3
Aurobindo Pharma	ADD	713	640	(10.2)	418	5.9	584	40	48	54	(4.5)	20.1	13.1	17.9	14.9	13.1	11.9	9.9	8.5	3.0	2.6	2.2	18.4	17.3	16.8	0.7	0.9	1.0	24.4
Biocon	SELL	624	330	(47.1)	374	5.3	601	8	15	18	35.9	75.7	21.7	74.1	42.2	34.7	32.2	21.6	18.3	6.2	5.6	5.0	8.7	13.9	14.3	0.5	0.8	1.0	22.1
Cipla	BUY	662	680	2.7	533	7.5	805	24	31	40	34.5	31.0	29.4	28.1	21.5	16.6	15.8	12.6	9.8	3.3	3.0	2.6	12.4	14.6	15.7	0.7	1.0	1.3	26.8
Dr Lal Pathlabs	REDUCE	1,046	900	(14.0)	87	1.2	83	24	29	34	19.0	17.9	18.4	43.0	36.5	30.8	26.5	22.3	18.2	9.2	7.7	6.5	23.4	23.1	22.9	0.5	0.5	0.6	1.5
Dr Reddy's Laboratories	REDUCE	2,492	2,150	(13.7)	414	5.8	166	89	118	141	50.2	32.8	19.3	28.1	21.2	17.7	14.1	10.1	8.4	3.0	2.7	2.4	11.1	12.6	13.3	0.5	0.7	0.9	37.5
HCG	REDUCE	254	290	14.3	22	0.3	85	2	4	7	39.8	80.3	80.8	116.1	64.4	35.6	18.6	15.5	11.9	4.0	3.8	3.4	3.5	6.1	10.1	—	—	—	0.2
Laurus Labs	ADD	438	500	14.0	46	0.7	106	16	29	34	2.4	79.9	17.5	27.0	15.0	12.8	12.5	8.7	7.6	2.8	2.4	2.0	10.9	17.1	15.6	—	—	—	0.6
Lupin	REDUCE	931	800	(14.1)	421	5.9	450	27	39	50	(28.9)	44.0	27.4	34.4	23.9	18.7	16.0	11.6	9.4	2.9	2.6	2.3	8.6	11.4	12.4	0.4	0.6	0.8	44.0
Narayana Hrudayalaya	ADD	250	265	6.0	51	0.7	204	3	6	9	23.0	103.2	40.7	80.9	39.8	28.3	22.9	16.0	12.9	4.7	4.2	3.6	5.9	11.0	13.7	—	—	—	0.2
Sun Pharmaceuticals	REDUCE	653	520	(20.3)	1,566	22.1	2,406	17	24	29	11.1	42.5	20.5	38.7	27.2	22.6	21.3	15.6	13.1	3.8	3.4	3.0	10.2	13.1	13.3	0.5	0.7	0.9	60.5
Torrent Pharmaceuticals	NR	1,813	—	—	307	4.3	169	47	61	81	18.0	29.6	32.1	38.3	29.6	22.4	16.7	14.3	11.8	5.9	5.1	4.3	15.3	17.2	19.3	0.6	0.8	1.0	7.8
Pharmaceuticals		Neutral			4,494	63					11.3	37.2	22.7	33.9	24.7	20.1	17.5	13.4	11.1	3.7	3.3	2.9	10.9	13.2	14.3	0.5	0.7	0.9	240.1
Real Estate																													
Brigade Enterprises	BUY	210	290	38.0	29	0.4	136	9	15	17	(17.0)	59.2	15.8	22.9	14.4	12.4	13.6	10.6	8.5	1.2	1.1	1.1	5.4	8.1	8.8	1.2	1.2	1.2	0.3
DLF	RS	221	—	—	394	5.6	1,784	5.3	23.9	14.1	(87.2)	354.6	(41.0)	42.0	9.2	15.7	57.2	10.0	18.8	1.1	1.0	0.9	2.6	11.3	6.2	0.9	0.9	0.9	17.0
Godrej Properties	SELL	688	400	(41.8)	158	2.2	216	13.3	15.8	18.2	(38.9)	19.1	15.2	51.9	43.5	37.8	306.1	159.6	131.5	4.4	4.0	3.6	10.5	9.7	10.1	—	—	—	1.7
Oberoi Realty	BUY	441	560	27.0	160	2.3	340	62	44	66	385.4	(28.0)	49.3	7.1	9.9	6.6	9.9	12.4	5.4	1.6	1.4	1.2	27.4	15.2	19.2	0.5	0.5	0.5	2.1
Prestige Estates Projects	ADD	237	315	32.9	89	1.3	375	19	21	11	(24.2)	8.4	—	12.5	11.5	22.2	10.4	10.5	14.1	0.9	0.8	—	14.6	14.9	7.3	1.3	1.3	0.6	1.0
Sobha	REDUCE	460	510	11.0	44	0.6	95	23	36	24	(48.8)	51.7	(32.6)	19.6	12.9	19.1	11.8	9.2	11.5	2.0	1.8	1.7	9.0	14.8	9.1	1.5	1.5	1.5	1.5
Sunteck Realty	REDUCE	509	360	(29.2)	74	1.0	140	19	19	39	22.4	1.6	106.6	27.2	26.8	13.0	22.5	21.7	9.6	2.5	2.3	2.0	9.5	8.9	16.2	0.2	0.2	0.2	2.0
Real Estate		Neutral			948	13					(53.1)	65.1	(14.4)	20.3	12.3	14.3	20.8	12.3	13.7	1.4	1.3	1.3	7.1	10.6	9.0	0.7	0.7	0.6	25.7

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo	
		31-Aug-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	(US\$ mn)	
Technology																													
HCL Technologies	REDUCE	1,046	1,025	(2.0)	1,457	20.5	1,409	70	74	77	12.8	5.0	5.0	14.9	14.2	13.5	9.8	8.9	8.3	3.3	2.9	2.6	24.2	21.8	20.5	0.8	3.0	3.1	32.2
Hexaware Technologies	SELL	438	435	(0.7)	130	1.8	302	20	23	25	18.4	18.0	10.0	22.4	19.0	17.2	16.6	13.2	11.6	5.7	4.9	4.2	27.4	27.8	26.3	1.8	1.8	2.3	21.2
Infosys	ADD	1,441	1,400	(2.9)	3,148	44.4	2,175	71	78	85	9.7	10.4	9.1	20.3	18.4	16.9	14.0	12.5	11.2	4.5	4.1	3.8	23.0	23.5	23.3	3.0	2.7	2.9	83.8
L&T Infotech	ADD	1,798	2,000	11.3	311	4.4	175	83	94	109	30.5	13.0	16.5	21.7	19.2	16.5	16.6	14.0	11.8	6.6	5.3	4.4	33.5	30.7	29.2	1.3	1.4	1.7	4.7
Mindtree	ADD	1,113	1,115	0.2	183	2.6	165	43	53	62	24.9	23.6	15.9	25.8	20.9	18.0	16.3	13.1	11.2	5.7	4.9	4.2	23.9	25.2	24.9	1.2	1.4	1.7	22.9
Mphasis	SELL	1,260	825	(34.5)	244	3.4	193	53	57	59	20.5	7.1	4.6	23.8	22.3	21.3	17.7	15.7	14.6	4.7	4.2	3.9	18.7	19.9	19.2	1.6	2.0	2.4	6.5
TCS	REDUCE	2,078	1,790	(13.9)	7,957	112.2	3,829	82	89	96	21.2	8.8	7.4	25.4	23.3	21.7	18.7	17.2	15.9	8.0	7.8	7.7	33.4	33.8	35.9	2.0	3.4	3.7	92.7
Tech Mahindra	ADD	766	785	2.5	676	9.5	891	46	55	61	8.3	18.2	11.1	16.6	14.0	12.6	10.1	8.2	7.0	3.1	2.7	2.3	20.2	20.5	19.5	1.2	1.3	1.5	38.9
Wipro	REDUCE	302	295	(2.2)	1,365	19.2	4,507	19	22	23	11.8	14.6	7.7	15.9	13.9	12.9	10.1	8.9	8.1	2.4	2.3	2.1	16.4	16.8	16.8	0.5	3.3	3.6	12.9
Technology	Cautious				15,469	218					13.1	9.7	8.0	21.4	19.5	18.0	14.8	13.3	12.2	5.1	4.7	4.4	23.8	24.2	24.2	1.9	3.0	3.2	315.7
Telecom																													
Bharti Airtel	ADD	384	445	15.9	1,534	21.6	3,997	(6)	(4)	5	(221.5)	28.8	215.1	(66.7)	(93.8)	81.5	9.9	8.3	6.6	2.3	2.4	2.4	(3.4)	(2.5)	2.9	0.3	(0.2)	0.3	25.2
Bharti Infratel	REDUCE	287	285	(0.7)	531	7.5	1,850	13	12	13	(4.8)	(8.5)	7.7	21.9	24.0	22.2	8.1	8.6	8.1	3.3	3.3	3.2	14.6	13.7	14.6	3.7	3.4	3.6	11.6
IDEA	REDUCE	49	45	(8.8)	215	3.0	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(2.9)	(2.9)	(3.2)	34.1	28.9	18.0	1.0	1.5	2.7	(29.7)	(41.1)	(59.4)	—	—	—	15.3
Tata Communications	ADD	540	660	22.2	154	2.2	285	0	3	7	(77.5)	694.2	123.5	1,457	183.5	82.1	10.8	9.5	8.5	(67.1)	(91.1)	(1,764.5)	7.8	(42.1)	(211.0)	1.2	1.4	1.4	3.7
Telecom	Cautious				2,434	34					(2,384.5)	5.0	68.0	(33.9)	(35.7)	(111.5)	11.0	9.7	8.0	2.3	2.6	2.7	(6.9)	(7.2)	(2.4)	1.0	0.6	1.0	55.8
Utilities																													
CESC	BUY	996	1,180	18.5	132	1.9	133	115	128	141	31.7	11.6	10.1	8.7	7.8	7.1	6.0	5.3	4.7	0.8	0.8	0.7	10.0	10.4	10.5	1.3	1.3	1.3	6.6
JSW Energy	REDUCE	73	70	(4.0)	120	1.7	1,640	5.1	6.5	6.6	65.9	26.8	2.9	14.3	11.3	11.0	6.0	5.0	4.5	1.0	0.9	0.8	7.2	8.5	8.0	—	—	—	1.6
NHPC	ADD	25	30	18.3	260	3.7	10,260	3.1	3.2	3.4	26.9	1.8	8.0	8.2	8.0	7.4	7.4	7.2	7.7	0.8	0.8	0.8	10.4	10.2	10.6	6.9	6.9	5.8	1.8
NTPC	BUY	172	190	10.8	1,414	19.9	8,245	15	16	18	30.9	4.4	16.5	11.5	11.0	9.5	9.1	8.4	7.0	1.3	1.2	1.1	11.6	11.3	12.2	2.6	2.7	3.2	12.5
Power Grid	BUY	202	250	24.1	1,054	14.9	5,232	19	21	23	19.3	13.6	7.6	10.7	9.4	8.8	7.4	6.8	6.5	1.7	1.6	1.4	17.1	17.5	17.0	3.1	3.5	3.8	23.9
Tata Power	BUY	77	90	17.3	207	2.9	2,705	6.0	7.0	10.9	12.7	15.6	57.0	12.7	11.0	7.0	10.8	10.4	9.1	1.2	1.1	1.0	10.1	10.6	14.6	—	—	—	4.1
Utilities	Attractive				3,187	45					26.0	8.8	14.1	10.9	10.0	8.8	8.1	7.5	6.8	1.3	1.2	1.1	11.9	12.0	12.5	2.8	3.0	3.2	50.5

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		31-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Others																													
Aditya Birla Fashion and Retail	BUY	199	220	10.8	153	2.2	773	2	4	6	50.6	59.1	53.5	86.5	54.4	35.4	25.2	19.7	16.0	12.1	9.9	7.7	15.0	20.0	24.5	—	—	—	4.1
Astral Poly Technk	SELL	1,106	640	(42.2)	133	1.9	120	19	25	29	30.2	28.8	16.1	58.0	45.0	38.8	31.2	24.8	21.0	10.2	8.4	7.0	19.8	20.5	19.7	0.1	0.1	0.1	1.2
Avenue Supermarts	SELL	1,605	860	(46.4)	1,001	14.1	624	16	20	26	28.6	26.4	27.5	99.3	78.5	61.6	57.3	45.0	35.4	17.7	14.5	11.7	19.6	20.3	21.0	—	—	—	—
Bayer Cropscience	REDUCE	4,403	4,100	(6.9)	174	2.5	34	106	130	154	20.5	23.1	18.3	41.7	33.9	28.7	30.6	25.0	20.8	7.4	6.3	5.4	18.9	20.0	20.3	0.5	0.6	0.7	0.5
Dhanuka Agritech	ADD	552	650	17.8	27	0.4	49	27	31	34	3.9	15.4	10.8	20.7	17.9	16.2	15.1	12.4	10.8	3.7	3.2	2.8	19.2	19.2	18.5	1.0	1.2	1.3	0.2
Godrej Agrovet	ADD	583	640	9.7	112	1.6	189	15	19	23	28.9	28.8	21.1	39.3	30.5	25.2	21.3	16.7	13.9	5.8	4.9	4.2	15.7	17.4	17.9	0.4	0.5	0.6	1.0
Godrej Industries	RS	646	—	—	217	3.1	336	16	20	—	8.9	24.2	—	40.7	32.8	—	32.9	35.9	—	5.3	4.6	—	13.9	15.1	—	0.3	0.3	—	4.8
InterGlobe Aviation	BUY	929	1,220	31.3	357	5.0	383	50	83	99	(17.9)	65.3	19.5	18.6	11.3	9.4	10.1	5.8	4.6	4.1	3.1	2.4	24.1	31.1	28.6	0.5	0.9	1.0	21.4
Kaveri Seed	SELL	642	515	(19.8)	42	0.6	66	34	34	37	7.3	0.1	8.3	18.7	18.7	17.2	15.8	15.1	13.6	4.5	3.9	3.4	26.4	22.4	21.0	1.2	1.6	1.6	5.0
PI Industries	BUY	769	875	13.7	106	1.5	138	31	40	48	17.9	26.8	21.5	24.6	19.4	15.9	17.5	13.6	11.0	4.6	3.8	3.2	20.5	21.7	21.9	0.5	0.6	0.8	1.8
Rallis India	ADD	209	220	5.1	41	0.6	195	10	12	13	17.2	19.4	9.7	20.7	17.4	15.8	13.6	11.5	10.1	3.1	2.8	2.5	15.8	17.1	16.9	1.7	1.9	2.1	0.8
SIS	REDUCE	1,071	1,130	6—	78	1.1	73	33	40	48	48.5	21.1	17.8	32.1	26.5	22.5	20.1	16.8	14.1	6.4	5.3	4.3	21.8	21.7	21.1	0.3	0.3	0.4	0.7
SRF	BUY	2,022	2,200	8.8	116	1.6	57	100	132	150	23.8	32.2	14.1	20.3	15.4	13.5	11.7	9.3	7.9	2.9	2.5	2.1	15.0	17.3	17.0	0.7	0.7	0.8	11.4
Tata Chemicals	ADD	760	760	0.0	194	2.7	255	44	51	56	(15.3)	14.6	11.5	17.2	15.0	13.5	7.2	6.0	5.2	1.6	1.5	1.4	9.7	10.3	10.8	2.0	2.2	2.2	7.1
TeamLease Services	SELL	2,598	1,785	(31.3)	44	0.6	17	58	75	96	34.2	29.0	28.7	44.9	34.8	27.0	45.5	34.6	26.6	8.2	6.6	5.3	20.1	21.1	21.9	—	—	—	1.5
UPL	ADD	715	660	(7.7)	364	5.1	507	49	55	60	14.0	12.1	9.6	14.6	13.0	11.9	9.8	8.4	7.3	3.3	2.7	2.3	24.6	22.9	21.1	1.4	1.6	1.7	25.0
Vardhman Textiles	ADD	1,098	1,300	18.4	63	0.9	56	118	130	142	14.8	9.7	9.8	9.3	8.5	7.7	7.0	6.4	5.6	1.2	1.0	1.0	13.1	13.0	13.0	1.8	2.7	2.7	0.6
Whirlpool	SELL	1,774	1,350	(23.9)	225	3.2	127	37	46	56	33.9	24.7	20.2	47.9	38.4	32.0	29.5	23.4	19.2	10.4	8.6	7.4	23.7	24.5	24.8	0.4	0.5	0.9	1.2
Others																													
					3,448	49				7.1	27.4	11.5	30.9	24.2	21.7	18.5	14.7	11.7	5.1	4.4	4.0	16.7	18.1	18.2	0.5	0.6	0.7	88.3	
KIE universe					116,740	1,645				24.3	26.9	14.2	22.7	17.9	15.7	11.4	10.1	9.1	2.9	2.6	2.4	12.8	14.7	15.2	1.3	1.6	1.8		
KIE universe (ex-energy)					102,395	1,443				30.0	32.8	16.2	25.4	19.1	16.5	12.6	11.1	9.8	3.3	2.9	2.6	12.8	15.3	16.0	1.2	1.6	1.7		

Notes:

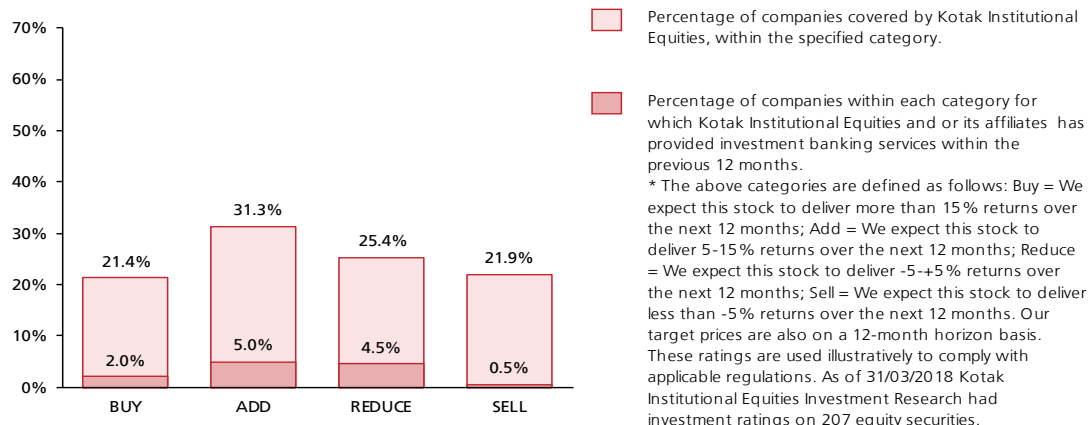
- (a) We have used adjusted book values for banking companies.
 (b) 2019 means calendar year 2018, similarly for 2020 and 2021 for these particular companies.
 (c) Exchange rate (Rs/US\$)= 70.93

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: Sanjeev Prasad, Kawaljeet Saluja, Rohit Chordia, Murtuza Arsiwalla, M.B. Mahesh, Suvodeep Rakshit, 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 to +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

Overseas Affiliates

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

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>