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EQUITY MARKETS

India	Change %			
	6-Jul	1-day	1-mo	3-mo
Sensex	35,658	0.2	0.6	5.5
Nifty	10,773	0.2	0.0	3.8
Global/Regional indices				
Dow Jones	24,456	0.4	(3.4)	2.0
Nasdaq Composite	7,688	1.3	0.6	10.6
FTSE	7,618	0.2	(0.8)	5.9
Nikkei	22,023	1.1	(3.0)	1.6
Hang Seng	28,818	1.8	(6.9)	(4.7)
KOSPI	2,286	0.6	(6.7)	(6.4)
Value traded – India				
Cash (NSE+BSE)	310		305	333
Derivatives (NSE)	4,566		8,298	4,687
Deri. open interest	3,319		3,701	3,482

Forex/money market

	Change, basis points			
	6-Jul	1-day	1-mo	3-mo
Rs/US\$	68.9	(6)	195	390
10yr govt bond, %	8.2	-	3	68

Net investment (US\$ mn)

	5-Jul	MTD	CYTD
FIs	36	73	(549)
MFs	5	116	10,607

Top movers

Best performers	Change, %			
	6-Jul	1-day	1-mo	3-mo
TCS IN Equity	1,913	1.7	9.5	30.8
KMB IN Equity	1,371	0.5	4.0	22.6
HUVR IN Equity	1,678	(0.6)	5.2	20.6
NEST IN Equity	9,943	(0.1)	0.5	18.6
MM IN Equity	925	1.4	1.5	17.6

Worst performers

HDIL IN Equity	20	1.0	(12.3)	(52.3)
RCOM IN Equity	14	0.4	(14.5)	(43.1)
UT IN Equity	4	(2.4)	(21.2)	(38.3)
IDBI IN Equity	48	0.3	(22.1)	(34.5)
SHTF IN Equity	1,112	(3.5)	(23.1)	(28.7)

JULY 09, 2018

CHANGE IN RECO.

 Coverage view: **Neutral**

 Price (₹): **460**

 Target price (₹): **560**

 BSE-30: **35,658**

Beyond FY2018—time to accelerate. We upgrade Oberoi Realty to BUY (from REDUCE) and revise target price to Rs560/share (from Rs535/share). Cash flow generation in FY2018 was impacted by lower cash collection in 1HFY18 on RERA implementation, as well as advances paid for land acquisition in Thane. However, we expect a more promising FY2019E on account of launch at Thane (possibly 2HFY19) as well as cash generation from Three Sixty West. Improving pace of execution and sales at Mulund will further bolster investor sentiment.

Company data and valuation summary

Oberoi Realty

Stock data

52-week range (Rs) (high,low) 610-348

Market Cap. (Rs bn) 167.3

Shareholding pattern (%)

Promoters 72.5

FIs 22.0

MFs 2.8

Price performance (%)

	1M	3M	12M
Absolute	(9.7)	(9.0)	26.2
Rel. to BSE-30	(10.9)	(14.2)	11.1

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	12.7	61.7	44.4
EPS growth (%)	14.0	385.4	(28.1)
P/E (X)	36.2	7.4	10.4
Sales (Rs bn)	12.7	37.1	25.4
Net profits (Rs bn)	4.3	21.1	15.2
EBITDA (Rs bn)	6.8	17.8	13.3
EV/EBITDA (X)	27.1	10.3	12.9
ROE (%)	7.3	27.4	15.2
Div. Yield (%)	0.4	0.4	0.4

Low collections in 1HFY18 on the back of RERA implementation, large outflow for Thane

Oberoi Realty had weak cash flow generation in FY2018 with negative cash flows from operations of Rs2 bn on account of (1) low cash collection in 1HFY18 owing to implementation of RERA registration of properties, (2) advance of Rs5.5 bn paid primarily towards acquisition of land from GSK for the land parcel in Thane, and (3) improved pace of execution leading to cash outflow of Rs16 bn (Rs10 bn in FY2017) on an ex-TSW basis. Cash generation was further impacted by incremental investment of Rs7 bn made in Oasis Realty for the Three Sixty West project. Consequently, Oberoi had to borrow net funds of Rs8.3 bn to make good the shortfall on cash generation.

Leverage had increased in FY2018, fresh equity infusion completed in 1QFY19

Increased traction on execution at TSW as well as advances for land at Thane led to an increase in net debt by Rs9.5 bn to Rs16 bn as of March 2018. However, Oberoi has traditionally maintained a low leverage and accordingly raised fresh equity to the tune of Rs12 bn in June 2019 through a qualified institutional placement bringing leverage down to 0.06X. We expect the under-leveraged balance to allow the company to secure new development prospects, even as cash flow generation accelerates from ongoing residential projects.

Launch activity, improving occupancies and project execution to drive performance in FY2019

Improved execution at the larger under construction projects, new launch activity at extant land parcels and conclusion of the acquisition at Thane are likely triggers for Oberoi Realty going into FY2019. Improving room rates for the hotel property as well as higher occupancy at Commerz II will further supplement the contribution from the investment portfolio, while conclusion of construction at TSW coupled with re-imburement of construction cost (with interest) will curtail incremental cash drain for the project. We upgrade the stock to a BUY rating (from REDUCE) with a price target of Rs560/share (from Rs535/share). Upside risk to our price target comes from accelerated launch activity on an expanded saleable area and improvement in prices that have remained subdued for the last few years.

Murtuza Arsiwalla

Samrat Verma

Exhibit 1: Low cash collection coupled with advances for land and incremental investment for TSW led to poor cash generation
Cash flow analysis for Oberoi Realty, March fiscal year-ends, 2017-18 (Rs mn)

	2017	2018	Remarks
Cash flow from operating activities			
Profit before share of profit of joint ventures (net) and tax a	5,623	6,459	
Depreciation and amortization	495	491	
Interest income	(374)	(198)	
Interest expenses	56	69	
Others	(56)	1	
Operating cash profit before working capital changes	5,744	6,821	
Movement for working capital			
Increase / (decrease) in trade payables	110	947	Advances of Rs5.5 bn given for land
(Increase) / decrease in loans and advances	(463)	(7,523)	acquisition in Thane
(Increase) / decrease in trade receivables	65	(755)	
(Increase) / decrease in inventories	(3,614)	(3,773)	
Others	1,723	4,333	
Cash generated from operations	3,563	50	
Direct taxes (paid) / refund (net)	(1,825)	(2,108)	
Net cash inflow / (outflow) from operating activities (A)	1,738	(2,058)	
Cash flow from investing activities			
Capex	(763)	(773)	Incremental investment of Rs7 bn
Interest received	229	63	made in Oasis Realty (TSW)
Dividend received	16	14	
Investments	(3,014)	(7,256)	
Others	(2,060)	2,069	
Net cash inflow / (outflow) from investing activities (B)	(5,028)	(5,742)	
Cash flow from financing activities			
Increase in equity share capital (including share premium)	60	17	Debt taken to fund the incremental
Borrowings	3,820	8,306	cash flows, that will be off-set by
Interest paid (gross)	(527)	(996)	equity issuance in 1QFY19
Dividend paid (including dividend distribution tax)	—	(817)	
Net cash inflow / (outflow) from financing activities (C)	3,353	6,510	
Net increase / (decrease) in cash and cash equivalents (A+B)	63	(1,290)	
Add: cash and cash equivalents at the beginning of the year	2,858	2,921	
Cash and cash equivalents at the end of the year	2,921	1,631	

Source: Company, Kotak Institutional Equities

GST dents sales activity for TSW boosts sales of completed units at Esquire

Three Sixty West (TSW) the largest development for Oberoi (on gross basis) saw modest sales during the year owing to its large size as well as the tax differential in the GST regime that encourages buyers to procure apartments on a post-completion basis. Esquire saw a sharp increase in sales due to the tax arbitrage on completed units as well as attractive payment schemes introduced by Oberoi. After a strong launch, followed by a subdued 2017, Sky City clocked in healthy sales numbers in FY2018. We note that Oberoi has a large quantum of unsold stock, and will likely need to accelerate the pace of sale over the next few years.

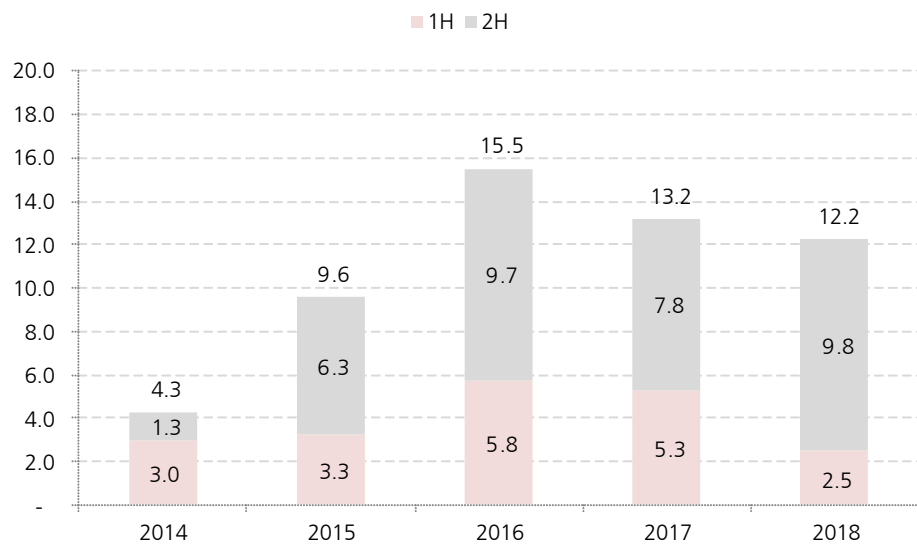
Exhibit 2: Oberoi needs increased sales momentum at Enigma and TSW, even as easy payment options allowed improved sales at Esquire
Composition of sales across projects, March fiscal year-ends, 2017-18 (mn sq. ft)

	Sales (mn sq. ft)			Growth		Unsold	
	Upto 2018	2017	2018 Balance	2018	Years	(%)	
Exquisite	1.40	0.04	0.04	0.15	(7.8)	3.6	9.4
Esquire	1.33	0.08	0.13	0.79	56.9	6.1	37.1
Prisma	0.21	0.05	0.03	0.06	(36.6)	2.0	22.2
Three Sixty West	0.44	0.20	0.10	1.93	(48.9)	19.1	81.3
Eternia	0.51	0.04	0.04	0.27	(4.5)	7.2	34.9
Enigma	0.35	0.04	0.02	0.43	(35.0)	17.7	54.9
Sky City	1.34	0.12	0.19	0.69	61.0	3.6	34.1
Total	5.59	0.57	0.55	4.32	(2.4)	7.8	43.6

Source: Company, Kotak Institutional Equities estimates

As highlighted previously, Oberoi saw a drop in collection activity especially in 1HFY18 due to RERA registration of projects. Collection has even otherwise been subdued relative to sales across several projects, with collections-to-date ranging from 45% to 75% of pre-sales for under-construction projects (See exhibit below). In our view expedited construction across projects will help improve collections (and cash flows) relative to sales. Further, part of the lag in collections can also be attributed to the eased payment schemes offered in Goregaon that have helped gain new sales momentum.

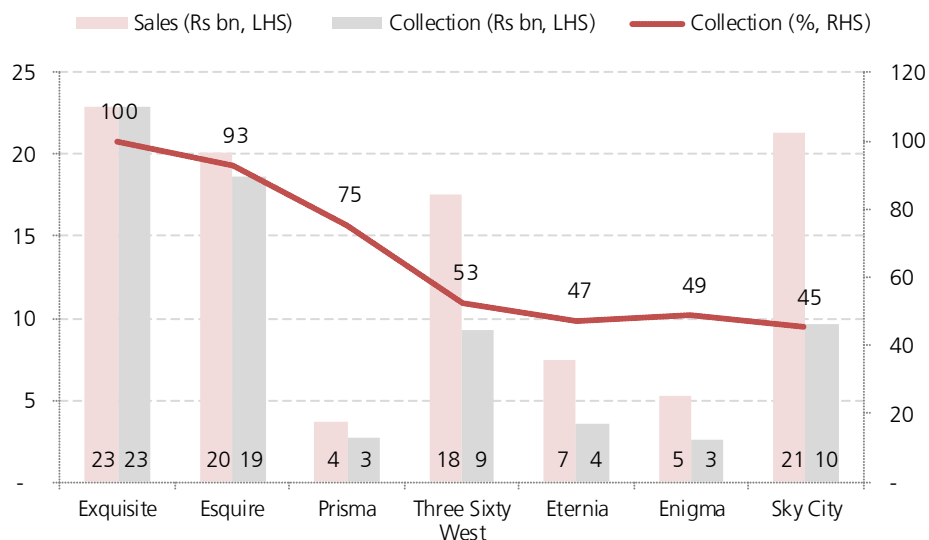
Exhibit 3: Cash collections for FY2018 were subdued due to transition into RERA in 1HFY18
Cash collections for Oberoi, March fiscal year-ends, 2014-18 (Rs bn)



Source: Company, Kotak Institutional Equities

Exhibit 4: Low collections at Mulund and Worli projects for Oberoi

Project-wise cumulative sales and collections, March fiscal year-ends, 2018 (Rs bn, %)



Source: Company, Kotak Institutional Equities

We note the modest pace of execution across projects, with overall execution of Rs16 bn (ex TSW) for Oberoi Realty. Project cost incurred to date at Mulund (Rs10 bn out of Rs26 bn estimated cost) and Sky City (Rs20 bn out of cost of Rs40 bn) will likely see a pick-up in the coming few years. In our view, the increased pace of execution will also improve construction linked collections that have been lagging so far.

Stable earnings from rental assets, occupancy set to improve at Commerz II

Exit rentals for Oberoi Mall have increased 11% compared to the average rentals in FY2017 and 4% compared to the average rentals in FY2018. Commercial assets (Commerz and Commerz II) have not yet seen a similar re-pricing of rentals. However, Commerz II has seen its occupancy increase to 45%, from 20% in FY2017. We note that Commerz II will likely see a further uptick in occupancy as 'WeWork' takes over more office space on rental for the purpose of their co-working establishment. Overall the annuity rental business earned rentals of Rs2 bn and EBITDA of Rs1.9 bn in FY2018.

Exhibit 5: Improving metrics at Commerz II, stable earnings from remaining rental assets

Quarterly occupancy and rentals from investment properties, March fiscal year-ends, 2017-18 (% , Rs/ sq/ ft)

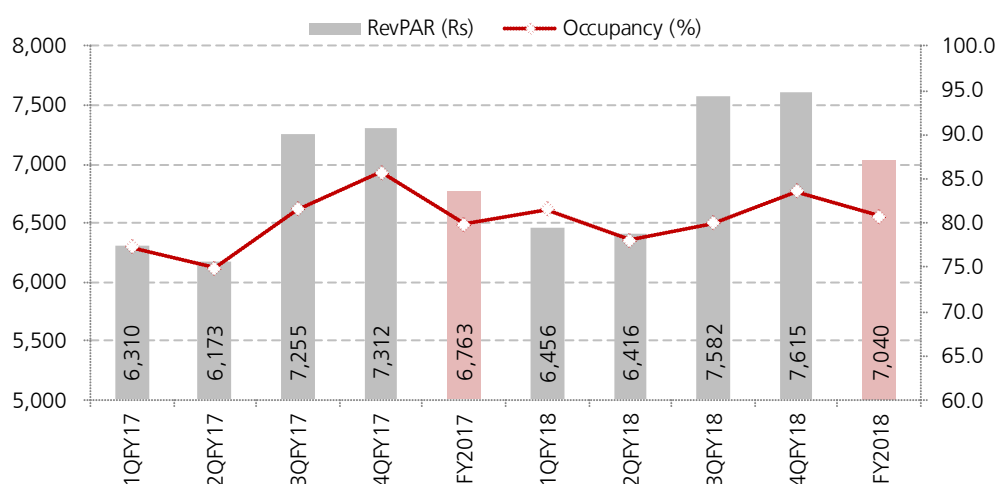
	1QFY17	2QFY17	3QFY17	4QFY17	FY2017	1QFY18	2QFY18	3QFY18	4QFY18	FY2018
Oberoi Mall										
Occupancy (%)	90.8	90.9	99.9	99.7	95.3	99.1	98.7	99.4	99.4	99.1
Rental (Rs/ sq. ft)	162	164	152	155	158	162	164	170	176	168
Commerz										
Occupancy (%)	88.5	88.5	88.5	88.5	88.5	88.5	82.1	82.1	82.1	83.7
Rental (Rs/ sq. ft)	141	140	142	142	142	142	142	141	142	142
Commerz II										
Occupancy (%)	13.0	27.1	29.9	29.9	20.3	44.7	44.7	44.7	47.5	44.9
Rental (Rs/ sq. ft)	122	125	114	126	123	119	116	117	123	127

Source: Company, Kotak Institutional Equities

Westin operates at high utilizations, cycle improvement yet to be seen

Westin—the hotel property at Oberoi Garden City continues to operate at high occupancies, partly aided by institutional sales to various airlines. At 80% Westin's occupancy levels are well above current industry levels, and improvement in revenues would only be a function of increasing room rates. Average room rates in the exit quarter stood at Rs9,113/day, 8% above the average room rates seen in FY2017. We note that overall utilizations for the hotel industry have been improving, and accordingly Westin could surprise with improvement in room rates which will translate into accelerated improvement in EBITDA due to the high operating leverage in the hotel business.

Exhibit 6: Westin has been operating at high occupancy but is yet to post improvement in room rates
Quarterly details of occupancy and room rates, March fiscal year-ends, 2017-18 (%.Rs/day)



Source: Company, Kotak Institutional Equities

Introduction of schemes to help accelerate sales in Goregaon

Oberoi introduced marketing schemes for select unsold units at its completed projects, Oberoi Exquisite and Oberoi Esquire. Oberoi has tied-up with certain housing finance companies to offer financing on the ready units, a rare event in Mumbai real estate. Buyers can buy ready apartments and pay only pre-EMI interest for three years before commencing EMI installments in year-4. As both projects have been completed (with Occupation Certificate received), there is no GST on transactions (savings of 12%). Before any price increase taken, the gross cost of Oberoi is estimated to be Rs7 mn/unit which works to a gross discount of 11% on the sales.

Three Sixty West—large investments, slow sales though fortunes may change

Oberoi Realty has infused Rs19 bn (Rs12 bn in FY2017) in Oasis Realty (SPV undertaking the project development). Oasis Realty in turn has sold 1.3 mn sq. ft of the total 4 mn. sq ft of saleable area. We note that the slow sales are attributable to the large ticket size of the units (5,500-11,000 sq. ft costing Rs275-550 mn). The project is scheduled to be completed by March 2019 and will likely see pick-up in sales upon completion, as discerning consumers within that ticket size would like to buy completed projects, besides the incremental tax arbitrage available under GST on purchase of completed units.

TSW is a premium property situated at Worli in South Central Mumbai being jointly developed by Oberoi Realty. The development includes two towers with residential area aggregating 2.3 mn sq. ft and a premium 221 keys hotel in association with Ritz Carlton. While Oberoi has not paid any consideration for land or approval cost (brought in by JV partner), the company will incur the construction cost and will accrue 30-40% of the sales consideration. The cost for the hotel will be borne by the 50:50 JV.

Sky City continues to sell well, pick-up in execution needed from hereon

After a strong launch in FY2016, and a subdued FY2017, Oberoi Sky City gained fresh momentum in FY2018 with sales of Rs3 bn (189K sq. ft). Sky City has so far incurred cumulative cost of Rs21 bn (inventory at subsidiary) with incremental spends of Rs2 bn in FY2018. We note that besides pick-up in execution, Oberoi Realty needs to further build up on the momentum in sales at Oberoi Sky City.

Ind-AS 115 likely to have limited impact on earnings of Oberoi

Oberoi Realty will be less impacted by the change in accounting standard, as management is of the opinion that their sale agreements allow limited room for cancellations and accordingly bulk of the risks associated with sale are concluded upon registration of the agreement. Accordingly, there would be limited change in accounting of revenues due to adoption of Ind-AS 115.

Exhibit 7: SOTP of Oberoi Realty based on March 2020

	NAV			Remarks
	(Rs mn)	(Rs /share)	(%)	
Ongoing	90,107	248	43	
Forthcoming	53,348	147	26	New phases of ongoing projects + Thane
Planned	13,341	37	6	Mainly, Commerz-2 Phase 2
New business development	18,750	52	9	Assigning value to possible new investments from OCF made
Advances and deposits	33,532	92	16	Assigning value to advances given and expense recoverable
Net debt	(4,583)	(13)		
Total	204,496	563		

Source: Kotak Institutional Equities estimates

Exhibit 8: Oberoi: Profit model, balance sheet, cash model, March fiscal year-ends, 2016-21E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Profit model						
Net sales	14,161	11,137	12,654	37,128	25,450	52,099
EBITDA	6,763	5,701	6,753	17,822	13,291	25,774
Other income	428	473	266	106	(78)	25
Interest	(68)	(56)	(81)	(113)	(83)	(55)
Depreciation	(490)	(495)	(491)	(525)	(524)	(532)
Pre-tax profits	6,632	5,623	6,447	17,291	12,606	25,211
Tax	(2,165)	(1,868)	(2,128)	(5,706)	(4,160)	(8,320)
Deferred taxation	(123)	(1)	—	—	—	—
Net income	4,344	3,754	4,320	11,585	8,446	16,892
Adjusted net income	4,353	3,788	4,320	21,117	15,184	22,670
Earnings per share (Rs)	12.8	11.1	12.7	47.8	34.5	57.8
Balance sheet						
Total equity	53,411	57,260	60,924	93,002	107,362	129,209
Total borrowings	4,734	8,686	16,941	14,209	8,241	5,494
Non-current liabilities	547	799	1,130	945	964	955
Current liabilities	16,144	17,796	22,844	4,388	11,676	4,651
Total liabilities and equity	74,838	84,541	101,839	112,544	128,242	140,309
Net fixed assets	10,258	10,545	10,890	11,799	15,105	18,612
Other non-current assets and advances	16,197	18,446	26,614	31,677	19,613	8,749
Current assets	47,638	53,325	64,199	69,067	93,524	112,948
Investments	745	2,225	135	—	—	—
Total assets	74,838	84,541	101,839	112,544	128,242	140,309
Free cash flow						
Operating cash flow excl. working capital	4,836	4,315	4,720	21,642	15,708	23,202
Working capital changes	68	(3,793)	(6,850)	(27,272)	(10,531)	(2,845)
Capital expenditure	(2,873)	(4,514)	(6,793)	(6,378)	8,241	6,826
Free cash flow	2,031	(3,991)	(8,923)	(12,009)	13,418	27,183
Ratios (%)						
Debt/equity	8.9	15.2	27.8	15.3	7.7	4.3
Net debt/equity	4.9	11.4	26.5	18.5	4.3	(16.9)
RoE (%)	8.6	6.8	7.3	21.2	11.8	16.7
RoCE (%)	4.2	3.2	3.6	7.4	4.3	8.3
Book value per share (Rs)	157	169	179	272	314	378

Source: Company, Kotak Institutional Equities estimates

JULY 09, 2018

UPDATE

Coverage view: **Cautious**

Price (₹): **635**

Target price (₹): **775**

BSE-30: **35,658**

AR analysis—acquisitions perform better in FY2018. The annual report indicates two key positives—(1) tighter control over operations of acquisitions though there is still further scope for improvement and (2) greater discipline exercised in quality of revenues as reflected in the decline in pass-through revenues. The disappointment was deterioration in the receivables collection cycle. The Street's focus will be on the high compensation of the CEO that captures exercise of ESOPs granted in earlier years. Potential recovery in telecom and inexpensive valuations underpin our positive view on the stock

Company data and valuation summary

Tech Mahindra

Stock data

52-week range (Rs) (high,low)	730-373
Market Cap. (Rs bn)	560.2

Shareholding pattern (%)

Promoters	36.0
FIs	39.0
MFs	6.8

Price performance (%)	1M	3M	12M
Absolute	(8.2)	2.7	68.7
Rel. to BSE-30	(9.5)	(3.2)	48.4

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	42.6	45.5	52.6
EPS growth (%)	33.1	6.6	15.8
P/E (X)	14.9	14.0	12.1
Sales (Rs bn)	307.7	347.5	378.8
Net profits (Rs bn)	38.0	40.5	46.9
EBITDA (Rs bn)	47.2	58.7	67.4
EV/EBITDA (X)	10.9	8.4	6.9
ROE (%)	21.5	19.9	19.7
Div. Yield (%)	2.3	1.5	1.6

Acquisitions contribute 11% to earnings growth in FY2018

Acquisitions done prior to FY2016 reported loss of Rs2.7 bn in FY2017. These acquisitions as a block reported profit of Rs231 mn and contributed ~11% to positive earnings swing in FY2018. Key acquisitions that reported improved performance were—(1) LCC reported reduced loss of Rs35 mn in FY2018 as compared to Rs2.76 bn in FY2017. Improvement was consequent to portfolio rationalization and exit from unprofitable contracts. This did take a toll on revenues that declined ~22% in FY2018 and (2) Comviva reported a profit of Rs706 mn as compared to a loss of Rs149 mn in FY2017. Improvement was due to rationalization of portfolio and better geographical distribution of revenues. While acquisitions done prior to FY2016 are now profitable, the absolute net profit number is still lower than FY2016 level of Rs1.8 bn.

Improvement in quality of revenues; pass-through revenues declines

Hardware, software and project specific expenses declined to 4.9% of revenues from 6.3% in FY2017 indicating a reduction in pass-through revenues. Additionally, finance lease payables have declined after a sharp spike in FY2017. Reduction in pass-through revenues is consistent with the profitability focus of the company in the last few quarters. This approach has led to—(1) shift away from tactical opportunities and (2) better discipline on pricing and focus on overall yield management. TM has historically followed revenue growth at-any-cost approach. This has shifted away to a balanced approach after EBIT margin collapsed towards the end of FY2015

Focus to be on CEO's compensation again

Emphasis will shift again to TM CEO's compensation. TM CEO's compensation is higher than the peer pack on absolute dollar compensation as well as relative basis (% of net profit) over a longer period of time. However the compensation level is not as high at Rs1.45 bn as it seems from the FY2018 annual report. Except the first set of options granted in 2004 at fair value, others granted by TM to the CEO prior to FY2018 are RSUs. These RSUs vest over a period of three years but can be exercised for five years after that. The exercise of RSUs by the management is never linear and gets bunched up at times. SEBI stock compensation disclosures are based on a simple formula of # of shares exercised X (stock price on date of exercise – exercise price). Hence this calculation may not be representative of annual compensation.

Kawaljeet Saluja

Jaykumar Doshi

A good way of deriving annual compensation is to pair it with annual charge that a company takes in its P&L. The charge for RSUs is straightforward and is based on the difference in market price on the date of grant minus exercise price. For the ease of computation, assuming an equitable amortization of RSU cost across the vesting period leads to annual stock compensation charge of Rs540 mn for the CEO till FY2017. We arrived at this charge on the basis of 3.6 mn RSUs granted in early 2014 at a price of Rs5 which vested equally over a period of three years. The charge of these RSUs would have whittled down to negligible levels in FY2018 even as compensation disclosed under SEBI rules would vary depending on the exercise timeframe of the remaining of unexercised RSUs.

Computing the compensation on above lines for FY2018 is difficult due to lack of details of date of allocation of fresh stock to the CEO. TM has granted 1.85 mn RSUs to the CEO (38% of ESOPs granted in FY2018) at a price of Rs5 that will vest over a period four years.

Acquisitions, capital allocation and RoE dilution

TM has spent close to Rs40 bn or 27% of operating cash flows over the last five years on acquisitions. The amount spent does not include deferred consideration (US\$61.25 mn paid for IP deal at end-FY2018) and earn-outs of US\$79 mn. Against this consideration the company has generated negligible net profit from acquired entities

TM's acquisitions had two distinct flavors—acquisitions prior to FY2016 that were in the 'value' and legacy category and digital acquisitions that have been the focus since. While the performance of legacy value plays has improved in FY2018, the returns are yet to reach the desirable levels.

Even digital plays have some scope for improvement. TM has acquired a couple of design firms, platform companies (Target Group) and healthcare provider (HCI Group) in the last two years. Exhibit 4 details revenue and PAT of these firms. Of the acquired entities, Pininfarina and BIO Agency are performing as per plan though there is still scope to improve Pininfarina's EBITDA margin of ~6%. Target Group is in investment mode and reported negligible PBT, while execution issues have led to HCI reporting losses. While exact data is not available, we suspect acquisitions post FY2016 have led to EPS dilution. Exhibit 1 details the acquisitions in FY2018.

TM bought out residual stake in Comviva (US\$51 mn for 32.1%). Strategic rationale of the IP partnership, for which TM will eventually pay US\$140 mn, is also not clear. Many acquisitions of TM do have a strong underlying strategic rationale. However, extracting the meaningful synergies from them has eluded the company so far.

Acquisitions do have a dilutive impact on RoE and shows in modest number of 21.5% for FY2018.

Thankfully the company has demonstrated some improvement in capital allocation. TM has declared final dividend of Rs14/share at the time of annual results, taking the dividend payout ratio to 43%, up from 37% in FY2017. Increase in the dividend payout ratio is a positive though there is scope for further improvement

The valuation multiple assigned by us to TM does take into consideration the inefficient capital allocation of the company.

Receivable days increase to 107 from 93 at end-FY2017

FY2017 low receivables days were helped to the extent of 6 days due to Rs5.1 bn of bill discounting. However even after adjusting for this, receivables increased by 7 days in FY2018. We believe the increase is a mix of higher credit days demanded by clients, slippage in efficiency of collection and Rupee depreciation towards the end of the year leading to restatement to a higher number. Increase can be split equally across all three factors. We are disappointed with the increase and do not expect any structural improvement in the collections cycle

TM's EBITDA/ OCF conversion is comparable to peers at 70%. However PAT to FCF conversion is weaker due to allocation to inorganic initiatives.

Stock trades at attractive valuations

Weak 1QFY19 notwithstanding, we maintain a constructive view on TM. We expect continued EBIT margin expansion courtesy Rupee depreciation, better discipline on pricing on sales (yield optimization), improvement in operations of acquired entities and using up a few efficiency levers. We expect a steady acceleration in revenue growth over the next 2-3 years as drags from the telecom portfolio and dependence on the top client reduces. All considered, TM trades at an inexpensive 12X FY2020E earnings

Exhibit 1: Performance of acquisitions, March fiscal year-ends, Rs mn

	2016	2017	2018	% change
Revenues				
LCC	26,989	20,681	16,061	(22)
Comviva Technologies	8,032	8,644	8,733	1
Fix Stream Networks Inc	1	50	200	304
Sofgen Holdings	2,764	3,050	2,995	(2)
Tech Mahindra Business Services	7,032	7,076	7,036	(1)
Total	44,817	39,500	35,026	(11)
Profit after tax				
LCC	685	(2,760)	(35)	
Comviva Technologies	729	(149)	706	
Fix Stream Networks Inc	(246)	(278)	(952)	
Sofgen Holdings	(237)	(327)	(295)	
Tech Mahindra Business Services	885	807	808	
Total	1,816	(2,708)	231	
Consolidated profit	29,929	28,128	38,000	

Notes:

- (1) We have added financial numbers of Comviva subsidiaries to arrive at consolidated Comviva performance. There is possibility of inter-company transactions between Comviva entities
- (2) Comviva acquired ATS Advanced Solutions in FY2017. Revenues would have declined on organic basis
- (3) A few core banking product implementation programs are handled directly by TM instead of SofgenHoldings

Source: Company, Kotak Institutional Equities

Exhibit 2: TM paid about Rs14.8 bn in cash on acquisitions in FY2018

TM's list of acquisitions, March fiscal year-end, 2018

Company acquired	Country	Business description	Stake acquired (%)	Consideration (EV in mn)	Cash outgo (mn)	Comments
Comviva Technologies	India	VAS	32.75	Rs3,688	Rs3,688	Acquired balance stake from Bharati Group and Westbridge. TM now owns 99.85% of Comviva
AltioStar	US	Network engineering services	22.5	USD15	USD15	Portfolio investment in virtualized Radio Access Network space
HCI Group	US	EMR software implementation for US Health providers	84.7	USD130.5	USD89.5	USD18.9 mn outstanding liability at end-FY2018. Maximum of US\$22.1 mn payable depending on performance
Imagine Holdings	Australia	VAS	100	AUD9.52	AUD9.52	Imagine is specialist provider of real-time, contextual marketing solutions and managed business intelligence services
IP deal	US	10-year IP licensing agreement		USD140	USD61.25	Entered into IP licensing deal. Arrangement of payment was US\$35 mn upfront and balance over 12 quarterly installments of US\$8.75 mn each
Total					~Rs14,850	

Source:

Exhibit 3: Tech Mahindra's acquisitions in the last few years

Target	Acquired in	Deal size (US\$ mn)	Revenue run rate (US\$ mn)	Deal structure (US\$ mn)			Earn-outs	Comments
				Upfront	Earn-outs	Earn-outs		
vCustomer	Mar-12	27.0	10.0	21.0	6.0	After 9 months	100% acquisition	
Hutchison Global Services	Sep-12	87.1	160.0	87.1	—	NA	100% acquisition	
Comviva	Sep-12	48.1	70.0	23.1	25.0	Over 5 years	51% stake acquired	
Complex IT	Feb-13	23.0	45.0	6.5	16.5	After 18 months	51% stake acquired	
Mahindra Engg Services	Nov-13	115.1	45.0	115.1	—	NA	100% acquisition	
LCC	Nov-14	240.0	430.0	240.0	—	NA	100% acquisition	
SOFGEN	Jan-15	-30.0	45.0	20.0	10.0	Over 2 years	100% acquisition	
Pininfarina	Dec-15	EUR81 mn	EUR80 mn	EUR25.3 mn	—	NA	76% through 60:40 JV (TM:M&M)	
Target Group	May-16	GBP112 mn	GBP51 mn	GBP89 mn	GBP23 mn	Over 4 years	100% acquisition	
The Bio Agency	Jun-16	GBP40 mn	GBP12.5 mn	GBP22 mn	GBP18 mn	Over 3 years	100% acquisition	
HCI Group	Mar-17	110.0	130.0	89.5	20.5	Over 3 years	84.7% acquisition	
IP deal	Sep-17	140.0	NA	35.0	105.0	Over 12 quarters	100% acquisition	
Comviva IT	Dec-17	51.4	100.0	NA	NA	NA	Additional 32.1% acquired	
AltioStar Networks	Jan-18	15.0	NA	15.0	—	NA	17.5% stake acquired	

Source: Company, Kotak Institutional Equities

Exhibit 4: Performance of recent acquisitions, March fiscal year-ends, Rs mn

	2018
Revenues	
Target	6,037
Pininfarina	6,401
The BIO Agency	1,253
HCI Group	6,337
Total	20,028
Contribution to group revenues (%)	6.5
Profit after tax	
Target	179
Pininfarina	157
The BIO Agency	137
HCI Group	(340)
Total	132
Contribution to group net profit (%)	0.35

Source: Company, Kotak Institutional Equities

Exhibit 5: TM: CEO Compensation as reported in the annual report, March fiscal year-ends (Rs mn)

	2014	2015	2016	2017	2018
Salary	18	16	16	24	27
Perquisites	-	-	0	1	1
Company contribution to PF	1	1	1	1	1
Commissions	5	7	6	10	11
Total cash compensation	23	24	24	37	39
Stock options exercised		1,631	430	1,472	1,423
Total compensation	23	1,656	454	1,508	1,462
Net profit	30,288	26,277	29,929	28,129	38,000
% of net profit	0.1	6.3	1.5	5.4	3.8

Source: Company, Kotak Institutional Equities

Exhibit 6: EBITDA margin improved partly due to decrease in software, hardware and project specific expenses

	2014	2015	2016	2017	2018
Break-up of costs					
Revenues	188,313	226,213	264,942	291,408	307,729
Personnel Expenses	(97,355)	(119,137)	(139,475)	(154,539)	(166,240)
Subcontracting Expenses	(17,114)	(28,343)	(35,727)	(36,112)	(38,880)
Software, hardware and project specific expenses	(5,613)	(6,618)	(11,272)	(18,464)	(15,142)
Operating and other expenses	(26,394)	(30,586)	(35,762)	(40,449)	(40,371)
EBITDA	41,837	41,529	42,707	41,844	47,096
Depreciation and amortisation	(5,222)	(6,114)	(7,589)	(9,781)	(10,850)
EBIT	36,615	35,415	35,118	32,063	36,246
As % of revenues					
Personnel Expenses	51.7	52.7	52.6	53.0	54.0
Subcontracting Expenses	9.1	12.5	13.5	12.4	12.6
Software, hardware and project specific expenses	3.0	2.9	4.3	6.3	4.9
Operating and other expenses	14.0	13.5	13.5	13.9	13.1
EBITDA	22.2	18.4	16.1	14.4	15.3
Depreciation and amortisation	2.8	2.7	2.9	3.4	3.5
EBIT	19.4	15.7	13.3	11.0	11.8

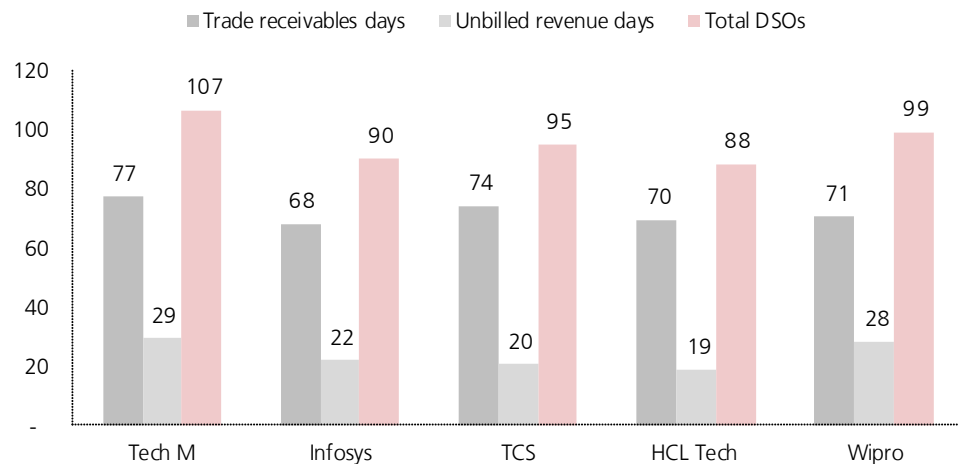
Source: Company, Kotak Institutional Equities

Exhibit 7: TM: break-up of revenue growth, March fiscal year-ends

	2014	2015	2016	2017	2018
Tech Mahindra consolidated					
Revenue (US\$ mn)	3,098	3,663	4,038	4,351	4,771
Incremental revenue (US\$ mn)	465	565	374	314	419
- Organic	325	444	34	182	225
- Inorganic	140	121	340	132	194
US\$ revenue growth (%)	17.7	18.2	10.2	7.8	9.6
- Organic	12.4	14.3	0.9	4.5	5.2
- Inorganic	5.3	3.9	9.3	3.3	4.5
C/C revenue growth (%)	18.8	20.3	13.8	9.4	7.8
- Organic	13.5	16.4	4.5	6.1	3.4
- Inorganic	6.4	5.9	12.9	4.9	2.7
Telecom segment					
Telecom revenue (US\$ mn)	1,511	1,910	2,100	2,080	2,065
Incremental revenue (US\$ mn)	305	399	190	(20)	(15)
- Organic	165	301	(90)	(20)	(15)
- Inorganic	140	98	280	-	-
US\$ revenue growth (%)	25.3	26.4	9.9	(1.0)	(0.7)
- Organic	13.7	19.9	(4.7)	(1.0)	(0.7)
- Inorganic	11.6	6.5	14.7	-	-
C/C revenue growth (%)	26.6	28.9	13.9	0.6	(2.5)
- Organic	15.0	22.4	(0.7)	0.6	(2.5)
- Inorganic	12.9	9.0	18.7	-	-
Enterprise segment					
Enterprise revenue (US\$ mn)	1,587	1,753	1,938	2,271	2,706
Incremental revenue (US\$ mn)	161	166	184	334	435
- Organic	161	143	124	199	241
- Inorganic	-	23	60	135	194
US\$ revenue growth (%)	11.3	10.5	10.5	17.2	19.1
- Organic	11.3	9.0	7.1	10.2	10.6
- Inorganic	-	1.4	3.4	7.0	8.5
C/C revenue growth (%)	12.1	12.0	13.5	18.8	17.3
- Organic	12.1	10.5	10.1	11.8	8.8
- Inorganic	-	2.9	6.4	8.6	6.7

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Receivables days of TM is higher than competition, March fiscal year-end, 2018 (days #)



Source: Company, Kotak Institutional Equities

Exhibit 9: Consolidated cash flow statement, March fiscal year-ends (Rs mn)

	2014	2015	2016	2017	2018
Net income	30,288	26,277	30,266	28,509	37,862
D&A	5,222	6,114	7,620	9,781	10,850
Adjustment for non-operating activities	18	1,324	2,948	(2,240)	(1,009)
Income tax expense	7,523	9,595	8,301	10,021	10,928
Working capital changes (a)	(16,148)	(8,498)	(4,613)	5,438	(7,832)
- Trade receivables and other assets	(20,435)	(8,524)	(8,796)	(841)	(10,442)
- Trade payables, other liabilities and provisions	4,287	26	4,183	6,279	2,610
Cash generated from operations	26,903	34,812	44,522	51,509	50,799
Taxes paid	(10,941)	(10,725)	(13,152)	(10,795)	(15,264)
Net cash provided by operating activities (OCF)	15,962	24,087	31,370	40,714	35,535
Capex	(9,138)	(11,397)	(8,714)	(7,603)	(10,166)
Acquisitions/ Investments in subsidiaries	(894)	(13,760)	(250)	(13,795)	(11,321)
FCF	5,930	(1,070)	22,406	19,316	14,048
EBITDA	41,836	41,144	43,337	41,843	47,170
PAT	30,287	26,278	31,181	28,128	38,000
EBITDA to OCF conversion (%)	38.2	58.5	72.4	97.3	75.3
PAT to adjusted FCF conversion (%)	19.6	(4.1)	71.9	68.7	37.0

Notes:

(a) Sharp rise in working capital in FY2014 was due to merger of Satyam.

Thus, OCF of FY2015 is not comparable to FY2014.

(b) Adjusted FCF: FCF including net other income.

Source: Company, Kotak Institutional Equities

Exhibit 10: Consolidated balance sheet, March fiscal year-ends (Rs mn)

	2014	2015	2016	2017	2018
Equity and liabilities					
Share capital	2,335	4,804	4,355	4,388	4,417
Reserves and Surplus	89,470	117,682	141,554	159,984	184,011
Total equity	91,805	122,486	145,909	164,372	188,428
Minority interest	1,438	1,601	1,927	4,641	5,091
Share Application Money Pending Allotment	15	3			
Borrowings	3,524	6,746	10,021	12,195	17,260
Deferred tax liabilities				95	58
Current tax liabilities			6,916	8,246	9,379
Other Long-Term Liabilities	3,757	440	1,473	5,270	6,062
Long-Term Provisions	4,138	4,101	5,311	6,201	5,551
Amount Pending Investigation Suspense Account (Net)	12,304	12,304	12,304	12,304	12,304
Total equity and liabilities	116,981	147,681	183,861	213,324	244,133
Assets					
Fixed assets					
- Tangible Assets	19,459	22,040	24,341	31,728	31,716
- Intangible Assets	845	1,006	973	6,594	16,781
- CWP	2,662	5,677	6,294	3,729	2,399
Goodwill on Consolidation	5,640	17,283	18,325	26,279	27,727
Non-Current Investments	12,194	12,987	1,177	2,308	12,458
Deferred Tax Asset	3,830	3,901	5,322	2,674	5,766
Long-Term Loans and Advances	9,137	12,755	2,910	4,339	2,520
Advance income tax			10,679	13,135	17,775
Other Non-Current Assets	210	306	5,365	6,459	6,022
Asset held for sale				264	-
Current assets					
Cash and cash equivalents	35,674	32,090	51,428	53,833	64,891
Inventory	98	245	403	611	659
Trade receivables	43,486	52,059	57,705	53,533	65,117
Unbilled Revenues	10,709	19,150	22,337	21,083	24,722
Short-Term Loans and Advances	14,544	18,728	2,118	12,525	6,195
Other Current Assets	908	254	15,870	21,571	19,623
Current liabilities					
Trade payables	14,722	20,587	22,758	23,117	20,368
Provisions	12,669	17,987	3,547	3,870	4,030
Other current liabilities	15,024	12,226	15,081	20,354	35,841
Net current assets	63,004	71,726	108,475	115,815	120,968
Total assets	116,981	147,681	183,861	213,324	244,133
Revenues (Rs mn)	188,313	226,213	264,942	291,408	307,730
Adjusted days of sales (a)					
Adjusted trade receivables	84.3	76.8	79.5	67.1	77.2
Adjusted unbilled revenue	20.8	28.3	30.8	26.4	29.3
Adjusted DSO	105.0	105.1	110.3	93.5	106.6

Notes:

(a) LCC and Sofgen acquisitions were merged in 4QFY15. Our DSO calculation is on adjusted basis for FY2015.

(b) 2016 and 2017 balance sheet is as per Ind-AS

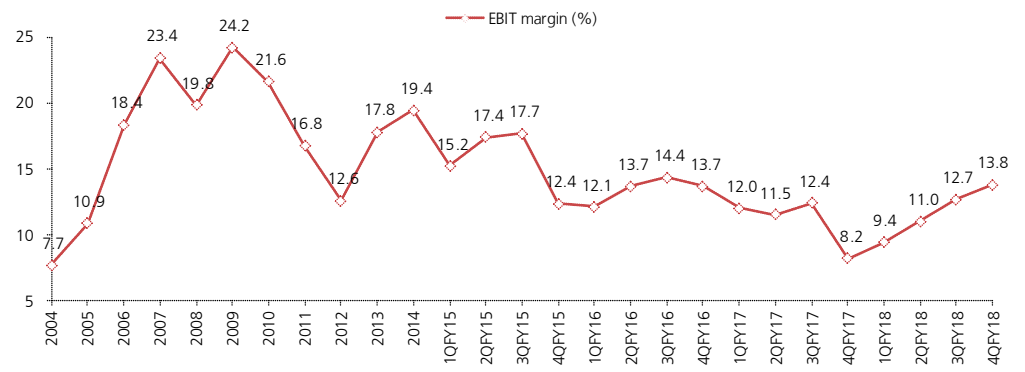
Source: Company, Kotak Institutional Equities

Exhibit 11: Subsidiaries' profitability performance on quarterly basis (Rs mn)

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Consolidated										
Revenues	67,011	68,837	69,209	71,674	75,575	74,950	73,361	76,064	77,760	80,545
EBITDA	11,358	11,510	10,290	10,701	11,865	8,987	9,347	11,047	12,646	14,119
EBITDA margin (%)	16.9	16.7	14.9	14.9	15.7	12.0	12.7	14.5	16.3	17.5
Standalone										
Revenues	51,527	54,669	56,468	56,822	59,129	59,236	58,535	59,194	59,677	60,206
EBITDA	8,391	9,201	9,317	9,165	10,215	8,021	7,763	10,533	9,855	10,951
EBITDA margin (%)	16.3	16.8	16.5	16.1	17.3	13.5	13.3	17.8	16.5	18.2
Subsidiaries										
Revenues	15,485	14,169	12,741	14,852	16,446	15,714	14,826	16,870	18,083	20,339
EBITDA	2,967	2,309	973	1,537	1,650	966	1,584	514	2,791	3,168
EBITDA margin (%)	19.2	16.3	7.6	10.3	10.0	6.1	10.7	3.0	15.4	15.6

Source: Company, Kotak Institutional Equities

Exhibit 12: Tech M's EBIT margin trend (%)



Source: Company, Kotak Institutional Equities

Exhibit 13: Consolidated financials for Tech Mahindra, March fiscal year-ends (Rs mn), 2014-2021E

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model								
Revenues	188,313	224,779	264,942	291,408	307,730	347,477	378,801	415,882
EBITDA	41,836	41,144	43,337	41,843	47,170	58,697	67,374	75,953
Interest (expense)/income	(797)	(297)	(871)	(1,286)	(1,624)	(1,510)	(1,036)	(1,036)
Depreciation	(5,221)	(6,079)	(7,620)	(9,781)	(10,849)	(11,877)	(12,931)	(13,887)
Other income	1,129	1,006	5,322	7,775	14,092	8,272	9,048	11,301
Pretax profits	36,947	35,774	40,168	38,551	48,789	53,581	62,456	72,331
Tax	(9,791)	(9,472)	(8,600)	(10,021)	(10,925)	(13,127)	(15,614)	(18,444)
Minority Interest	(336)	(310)	(387)	(402)	136	62	56	56
Profit after tax (recurring)	26,821	25,992	31,181	28,128	38,000	40,516	46,897	53,943
Exceptional items	3,466	286	—	—	—	—	—	—
Net profit	30,287	26,278	31,181	28,128	38,000	40,516	46,897	53,943
Recurring EPS (Rs) ex-treasury shares	32.0	30.1	35.8	32.1	42.6	45.5	52.6	60.5
Balance sheet								
Total equity	91,819	122,489	143,677	164,372	188,428	219,357	255,597	297,773
Total borrowings	3,525	7,000	10,022	13,662	17,260	17,260	17,260	17,260
Minority interest	1,438	1,601	2,020	4,641	5,091	5,029	4,973	4,917
Current liabilities	42,415	50,546	61,505	54,120	69,618	74,487	75,842	77,396
Other liabilities (incl suspense account)	20,564	22,528	29,635	15,436	15,701	15,701	15,701	15,701
Total liabilities and equity	159,396	198,481	235,070	260,665	304,372	340,108	377,648	421,322
Cash	10,000	19,425	22,337	21,083	25,117	28,560	31,134	33,328
Other current assets	(9,843)	(19,119)	(22,043)	(14,624)	(19,095)	(21,760)	(23,722)	(25,189)
Fixed assets	53,924	75,955	85,619	97,244	123,164	125,015	123,733	123,414
Investments (incl treasury shares)	2,785	6,593	7,467	6,037	14,857	14,857	14,857	14,857
Other assets	25,038	28,727	34,412	20,147	26,061	28,682	30,748	33,194
Total assets	159,396	198,481	235,070	260,665	304,372	340,108	377,648	421,322
Cash flows								
Operating CF, excl. working capital	33,279	32,585	36,924	31,048	32,746	45,569	51,760	57,508
Working capital changes	(12,213)	(8,498)	(4,792)	5,438	(7,832)	(12,177)	(9,407)	(11,729)
Capital expenditure	(9,397)	(11,397)	(8,789)	(7,682)	(7,902)	(10,329)	(8,970)	(10,397)
Acquisitions	—	(13,760)	(249)	(13,795)	(10,621)	—	—	—
Other income	1,129	2,168	951	1,172	14,092	8,272	9,048	11,301
Free cash flow	12,798	1,098	24,045	16,181	20,483	31,336	42,430	46,683
Ratios (%)								
EBITDA margin	22.2	18.3	16.4	14.4	15.3	16.9	17.8	18.3
EBIT margin	19.4	15.6	13.5	11.0	11.8	13.5	14.4	14.9
Debt/equity	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
RoAE	33.5	24.3	23.4	18.3	21.5	19.9	19.7	19.5
Key assumptions								
Revenues (US\$ mn)	3,098	3,663	4,038	4,351	4,771	5,138	5,571	6,027
Revenue growth (US\$ terms) (%)	17.7	18.2	10.2	7.8	9.6	7.7	8.4	8.2
INR/USD rate	60.8	61.4	65.6	67.0	64.5	67.6	68.0	69.0

Source: Company

JULY 09, 2018

UPDATE

 Coverage view: **Neutral**

 Price (₹): **492**

 Target price (₹): **510**

 BSE-30: **35,658**

Strong sales momentum, diversified contribution. Sobha continues to deliver robust operational performance with 18% yoy growth in sales volumes in 1QFY19, although sales value grew by 9% yoy due to higher sales contribution from low value markets like Mysore. Sobha is expected to launch multiple projects, including two mid-income projects in FY2019. We continue to remain positive on Sobha's operations and growth in the residential business. But at CMP, we believe Sobha is fairly valued. Maintain REDUCE with unchanged target price of Rs510/share.

Company data and valuation summary

Sobha Developers

Stock data				Forecasts/Valuations				
				2018	2019E	2020E		
52-week range (Rs) (high,low)		695-345		EPS (Rs)	21.8	20.2	23.2	
Market Cap. (Rs bn)		46.7		EPS growth (%)	30.9	(7.5)	14.8	
Shareholding pattern (%)				P/E (X)	22.5	24.4	21.2	
Promoters		55.9		Sales (Rs bn)	27.9	29.3	31.8	
Fls		28.5		Net profits (Rs bn)	2.1	1.9	2.2	
MFs		10.0		EBITDA (Rs bn)	5.1	4.8	5.2	
Price performance (%)				EV/EBITDA (X)	13.5	13.7	12.9	
		1M	3M	12M	ROE (%)	7.6	6.8	7.4
Absolute		0.9	(10.2)	24.4	Div. Yield (%)	1.4	1.4	1.4
Rel. to BSE-30		(0.4)	(15.3)	9.4				

Sales momentum maintained, though incremental sales from lower value projects

Sobha sold 0.96 mn sq. ft of area in 1QFY19 for a value of Rs7.6 bn (value of Sobha's share of sales was Rs6.1 bn). Blended average realization was flat at Rs7,940 /sq. ft (Rs8,000/sq. ft in 4QFY18) reflective of more sales contribution from premium projects. However, Sobha's share of realization was lower by 8% yoy at Rs6,372/ sq. ft in 1QFY19.

Bangalore continues the dominance on sales, though with a lower contribution of 64% in 1QFY19 compared to 74% in 4QFY18 and 73% in 1QFY18. The change in sales mix likely reflects in the lower blended realizations, even as group housing projects in Gurgaon and Kochi did well. Sales grew 18% yoy on volumes and nearly 9% in value terms, highlighting more sales from tier-2 cities in 1QFY19.

Sobha launched one new project during the quarter—'Sobha Meadows' in Mysore with total saleable area of 0.13 mn sq. ft. The company also received RERA approval for its Bangalore project name 'Sobha Lake Gardens' situated at Old Madras Road with total saleable area of 0.89 mn sq. ft. This project is scheduled for sale in July 2018. Sobha also announced an investment of Rs5 bn in Gujarat International Finance Tech-City (GIFT City) along with a few other launches slated in later quarters.

Stock appears fully valued, though heightened pace of launch activity could change prospects

With strong sales from near-completion projects, we expect collections to improve further during the quarter, leading to marginal reduction in debt (unless for high land payments). Sobha is expected to launch multiple projects, including two mid-income projects in FY2019. We continue to remain positive on Sobha's operations and growth in the residential business. But at CMP, we believe Sobha is fairly valued. We retain our Rs510 /share NAV at an implied 1.7X BV, a 15% discount to Prestige.

Murtuza Arsiwalla

Samrat Verma

Exhibit 1: Increased contribution from projects outside Bangalore led to lower blended realizations

Sobha: Sales (mn sq.ft), sales value (Rs mn) and realizations (Rs/sq. ft), March fiscal year-ends, 1QFY16-1QFY19

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Area sold (mn sq. ft)	0.84	0.85	0.81	0.89	0.81	0.86	0.61	0.72	0.82	0.86	0.93	1.02	0.96
Bangalore	0.70	0.61	0.62	0.67	0.61	0.64	0.50	0.51	0.59	0.61	0.64	0.75	0.61
Thrissur	0.00	0.02	0.04	0.04	0.05	0.01	0.01	0.00	0.01	0.02	0.02	0.01	0.03
Coimbatore	0.00	0.01	0.00	0.00	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.03	0.03
Pune	0.02	0.02	0.01	0.00	0.01	0.02	0.01	0.01	(0.01)	0.01	—	0.01	0.00
Mysore	0.01	0.01	0.00	0.10	0.03	0.02	0.01	0.02	0.01	0.02	0.02	0.01	0.05
Gurgaon	0.01	0.01	0.01	0.04	0.06	0.05	0.02	0.10	0.12	0.08	0.08	0.08	0.10
Chennai	0.07	0.12	0.09	0.03	0.03	0.06	0.03	0.06	0.03	0.03	0.03	0.02	0.05
Kozhikode	0.03	0.04	0.02	0.00	0.01	0.00	0.00	0.02	0.01	0.02	0.01	0.00	0.01
Kochi	0.01	0.03	0.01	0.01	0.00	0.05	0.01	0.01	0.03	0.06	0.11	0.12	0.08
Realisation (Rs/sq. ft)	5,988	5,821	5,932	6,037	5,805	6,056	6,082	6,979	6,902	6,883	6,541	6,457	6,372
Sales value (Rs mn)	5,038	4,950	4,783	5,347	4,698	5,182	3,732	5,048	5,627	5,927	6,105	6,558	6,118
Collections (Rs mn)	3,472	4,134	4,021	3,964	3,731	4,129	3,880	4,856	5,740	4,330	4,870	5,980	—

Source: Companies, Company, Kotak Institutional Equities

Exhibit 2: We estimate projects outside Bangalore to contribute more meaningfully over the next two years

Sobha: Sales estimates from ongoing projects/available land banks, March fiscal year-ends, 2012-20E (mn sq. ft)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E
Bangalore	2.26	2.38	2.41	2.44	2.59	2.26	2.60	2.60	2.72
Thrissur	0.30	0.34	0.36	0.12	0.10	0.08	0.06	0.17	0.19
Coimbatore	0.09	0.06	0.07	0.05	0.02	0.03	0.07	0.05	0.05
Pune	0.13	0.14	0.08	0.11	0.05	0.05	0.00	0.15	0.36
Mysore	0.09	0.03	0.08	0.09	0.12	0.08	0.07	0.09	0.10
Gurgaon	0.32	0.51	0.13	0.08	0.07	0.23	0.36	0.31	0.29
Chennai	0.09	0.29	0.30	0.20	0.30	0.18	0.10	0.04	0.03
Kozhikode	—	—	0.13	0.09	0.09	0.03	0.05	0.08	0.11
Kochi	—	—	0.02	0.10	0.04	0.07	0.32	0.23	0.42
Total	3.28	3.76	3.59	3.28	3.38	3.00	3.63	3.72	4.27

Source: Company, Kotak Institutional Equities

Exhibit 3: Improving sales to drive revenue recognition

Sobha: Profit model, balance sheet, cash model, March fiscal year-ends, FY16-21E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Profit model						
Net sales	19,566	22,462	27,870	29,307	31,831	34,956
EBITDA	4,429	4,198	5,099	4,815	5,183	5,989
Other income	343	386	495	407	410	445
Interest	(1,637)	(1,497)	(1,978)	(1,668)	(1,600)	(1,641)
Depreciation	(597)	(638)	(544)	(657)	(668)	(732)
Pre-tax profits	2,538	2,449	3,072	2,898	3,325	4,060
Tax	(1,188)	(970)	(764)	(982)	(1,127)	(1,376)
Net income	1,350	1,479	2,070	1,915	2,198	2,684
Adjusted net income	1,383	1,607	2,070	1,915	2,198	2,684
Earnings per share (Rs)	22.5	16.8	21.8	20.2	23.2	28.3
Balance sheet						
Total equity	25,648	26,445	27,699	28,837	30,258	32,165
Gross debt	21,803	22,219	23,338	22,899	23,478	24,102
Non-current liabilities	2,523	2,446	2,706	2,618	2,708	2,788
Current liabilities	30,713	37,820	36,504	35,501	33,759	28,575
Total liabilities and equity	80,687	88,930	90,248	89,856	90,203	87,630
Fixed assets	6,181	5,952	6,103	6,067	6,386	6,542
Non-current financial assets	1,167	681	1,650	463	464	462
Other non-current assets /taxes	4,078	4,179	4,348	4,253	4,250	4,256
Current assets	69,262	78,118	78,147	79,072	79,103	76,369
Total assets	80,687	88,930	90,248	89,856	90,203	87,630
Free cash flow						
Operating cash flow, excl. working capital	2,936	2,318	2,852	2,506	2,956	3,496
Working capital changes	(1,037)	(1,703)	(1,382)	179	(1,841)	(1,783)
Capital expenditure	(3,058)	(410)	(695)	(621)	(986)	(888)
Investments	170	294	(1,125)	1,125	—	—
Free cash flow	(988)	499	(350)	3,189	128	825
Ratios (%)						
Debt/Equity	85	84	85	79	78	75
Net debt/Equity	81	79	80	68	67	63
RoE (%)	8.1	5.7	7.0	6.2	6.9	7.9
RoCE (%)	3.9	2.5	3.7	3.1	3.5	4.2
Book value per share (Rs)	262	275	292	304	319	339

Source: Company, Kotak Institutional Equities estimates

JULY 06, 2018

UPDATE

BSE-30: 35,658

Logistics—steady march ahead for organized players. Our Dubai visit and discussions with the management of Transworld Group yielded positive read-through for the organized logistics ecosystem operating in India: (1) companies will seriously consider outsourcing logistics to a single service provider and sharing inventory information, (2) logistics offering would eventually evolve onto a digital interface and (3) Sagarmala benefits would likely take time to materialize but will eventually accrue to logistics companies with experience in India.

Companies to open up to outsourcing and information sharing, slowly but surely

Transworld Group, an end-to-end global supply-chain solutions provider with regional leadership in Middle East, has leveraged its single point-of-contact offering to expand its business. The company highlighted the corporate need to outsource global supply-chain functions. Companies are likely to prefer integrated service providers having control over end-to-end operations. The group also informed about willingness of companies in the Middle East to share inventory information in order to apprise logistics providers of related requirements. Select Indian customers also have taken up Transworld's unique offering after initially showing resistance. GST and simplification of exim trade processes will slowly reduce such resistance further.

Digitization of logistics offering to eventually become a client requirement

The Transworld Group informed about willingness of companies with Middle East operations to work with its in-house warehousing management system. It is a strong believer of logistics offering eventually moving to a digital interface. Transworld is creating an app enabling its customers (companies, shipping lines) to make and track bookings and is targeting its launch by July 2018. It is cognizant of the disruption happening in the logistics space globally and understands the need for providing flexible logistics solutions, especially in India.

Sagarmala benefits seven years away; likely to come to participants with domestic experience

The Transworld Group believes that the Sagarmala program will require another government term of five years before yielding a material reduction in logistics cost and thus a marked improvement in India's export competitiveness/prosperity of coastal states. Eventual beneficiaries of an uptick in related logistics requirements would be those having an India presence as the Sagarmala theme plays out. The company does not envisage global majors entering India without a material improvement in ease of doing business.

Shreyas Shipping: beneficiary of Transworld's India endeavors through Avana Logistek

Transworld Group owns 73.25% of Shreyas Shipping and Logistics or SSL (Mcap: ₹11 bn). The listed company has also been able to double its volumes and revenues over the past four years and stands to benefit from scale-up in coastal shipping (53% market share). SSL would also benefit from the 30% shareholding in Avana Logistek, the company that Transworld Group would use for the first and last mile transportation in its growing supply-chain business in India and for other domestic endeavors (cold chain and 3PL). Beyond business support from the global parent, SSL has also benefitted in the past by owning vessels at low prices, using the fallback option to charter such vessels to the parent in times of weak domestic demand.

Aditya Mongia

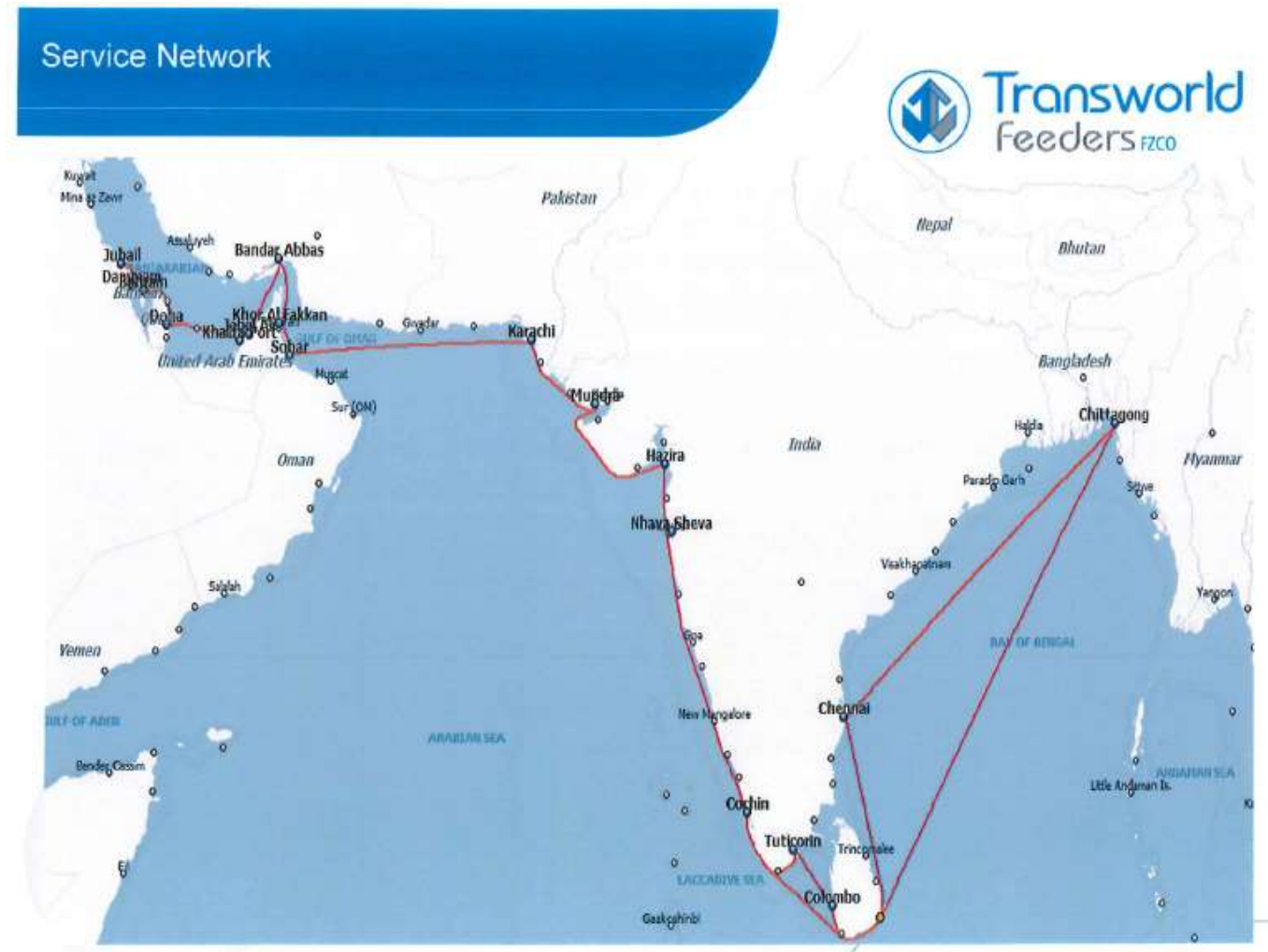
Ajinkya Bhat

Transworld Group—
brief profile

Transworld Group—shipping and logistics conglomerate

Established in 1977, the Transworld Group commenced operations as a shipping company in Mumbai. It has now transformed into a shipping and logistics conglomerate with activities including ship owning, feeding, NVOCC, logistics, freight forwarding and supply-chain management, ship management and shipping agencies. It's headquartered in Jebel Ali Free Zone, Dubai with offices in the US, Saudi Arabia, Oman, Qatar, Kuwait, Sri Lanka, Pakistan, Singapore and India. In India, the group has 28 offices. The key feeding business covers 4,500 routes.

Exhibit 1: Transworld Feeder's own services connect the Middle East to India, Sri Lanka and Bangladesh
Service network of Transworld Feeder's business



Source: Company, Kotak Institutional Equities

Exhibit 2: Transworld Feeder business extends into South East Asia through space-sharing arrangements with other liners
 Extended service network of Transworld Feeder business, including space-sharing arrangements

Extended Network – Space Arrangements



Source: Company, Kotak Institutional Equities

- ▶ **A decade into the strategy of diversifying.** Transworld took a call to diversify beyond the shipping business in 2006 into other facets of the logistics business. This was in contrast to other shipping lines that stuck to their business and are now considering adding logistics offerings in order to retain customers. Transworld Group carried out this diversification by setting up independent businesses. It is only recently that Transworld group has started aligning business offerings into one interface for the customer. The group has also consolidated its businesses in order to realize synergies that were missing in the independent-company structure followed earlier.
- ▶ **Unique value proposition of oneness.** Learning from experience, the group is leveraging its oneness campaign to create connect with the customers and differentiate itself versus competition. It takes pride in offering a single point of contact to customers independent of their location. While shipping is the core offering, the group has been able to build businesses in other ancillary services, all of which are capable and service large accounts on a standalone basis.

Exhibit 3: Services offered by Transworld Logistics besides the feeding service of Transworld Group

Supply Chain	Supply chain management, warehousing and distribution, supply chain design, contract logistics and optimization
Forwarding	Ocean and air freight, special cargo, landside services
Visibility	Systems providing visibility from single shipment to item level supply chain management
Process	Process and KPI management through operational excellence and unique IT infrastructure

Source: Company, Kotak Institutional Equities

- ▶ **Customer-facing arm adds resilience.** The group has invested in developing a brand and the same has helped Transworld get stable source of business. For each of its key geographies (India and the Middle East), it has invested in/acquired customer-facing business in Avana Logistek/Balaji Shipping. This reduces the dependence on main liners for regional or feeding business. Over the medium term, the Transworld Group aims to transform itself into a global logistics company following a similar business model.

Exhibit 4: Balaji Shipping Lines accounts for 25%/40% of volumes/revenues for Transworld, followed by shipping liners Key customers of the Transworld Feeder business



Source: Company, Kotak Institutional Equities

Exhibit 5: Through Balaji and Avana Logistek, Transworld is able to directly connect with customers Key customers of the Transworld Feeder business



Source: Company, Kotak Institutional Equities

- ▶ **Good positioning within the Middle-East region.** Testament to the respect Transworld Group commands in the Middle East region is Etihad Railways selecting it among a few logistics companies for their project. The group has been taking care of the entire custom documentation process for Shell in the region for the past six years. Also from a strategic perspective, Transworld’s headquarters and facilities in the Dubai Freezone lie in close vicinity of Jebel Ali port and Dubai World Central Logistics city South (location of the upcoming Dubai Expo 2020).

Exhibit 6: Transworld Group is strategically situated close to current and upcoming logistics centers in Dubai

Location of the Transworld Group headquarters and warehousing facility



Source: Company, Kotak Institutional Equities

- ▶ **Reasonable scale, approaching 1 mn TEUs.** The Transworld Group owns 23 vessels and 44,000 containers. Most of the vessels are deployed along the Indian coast, the Middle East feeder business operating primarily on charter mode. Both businesses combined are doing annual throughput of ~1 mn TEUs, of which the Middle East feeder service contributes three-fourths share. Beyond such vessel and container capacity, the group owns and leases warehousing capacity capable of storing 1,700 TEU of cargo content at a point of month or ~20,000 TEUs per annum. Its freight forwarding business is also doing a small 30,000-40,000 TEU business.

Exhibit 7: Transworld Feeder business has grown well over the past two years

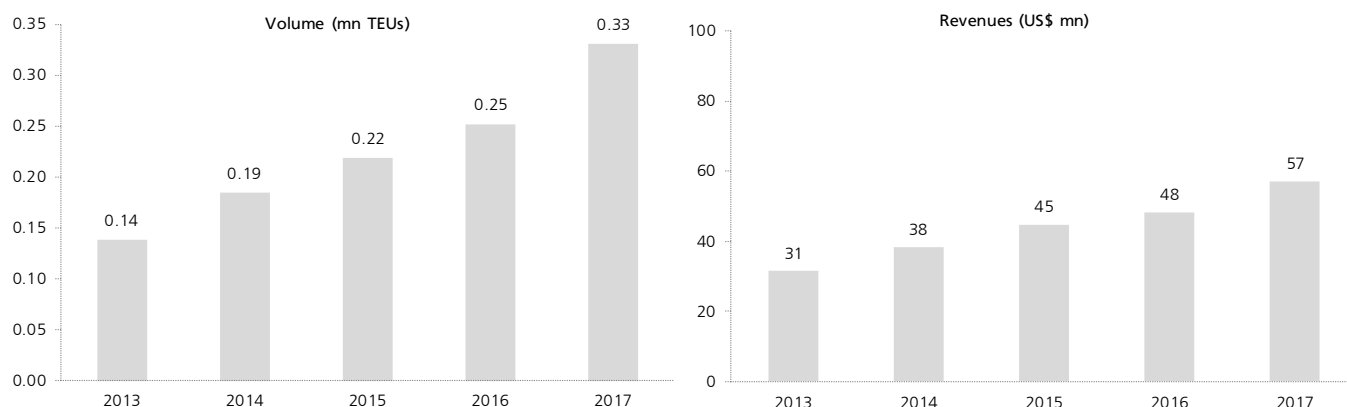
Key performance metrics of Transworld Feeder business, March fiscal year-ends, 2016-18E



Source: Company estimates, Kotak Institutional Equities

Exhibit 8: Volumes/revenues of Shreyas Shipping have become 2X over past four years

Key performance metrics of Shreyas Shipping and Logistics, March fiscal year-ends, 2013-17 target



Source: Company, Kotak Institutional Equities

Meeting takeaways**#1: Meeting with the Chairman, Transworld Group**

We had a meeting with the Chairman, Mr Ramesh S Ramakrishnan, and top management of the Transworld Group. The aim was to better understand the group's ambitions in India, their assessment of the ecosystem and whether the opportunity is best captured by domestic or overseas logistics companies. Mr Ramakrishnan and his team were candid in remarks and open to accept the risk of disruption in logistics against the good opportunity in logistics available in India and globally.

- ▶ **GST to alter the meaning of logistics; sky is the limit for India.** For Transworld Group, logistics means a complete solution from containerization to eventual distribution. It is much more than ownership of a few assets, as is prevalent in India. The Transworld Group expects GST to correct such notion of logistics and thus is a strong believer in the large opportunity opening up in India. In India, it has limited itself to providing end-to-end solutions for coastal shipping and has started making inroads into the contract logistics business. The group is also confident of the coastal shipping business scaling up over time.
- ▶ **Early success in getting customers for exim offering.** Initial customers for its end-to-end logistics offering for exim cargo have been happy with such experience. These customers are from the petrochemicals business, a segment where Transworld Group is a regional leader in the Middle East. The initial customers took some convincing (3-4 months) and the Transworld Group expects additional customers to take less time. The issue for converting customers for its exim offering lies in the lack of infrastructure in India (multi-modal parks). As per Transworld Group, customers will prefer such offering going forward. The Transworld Group plans to leverage its past experience and expertise of operating an integrated offering in Dubai free zone to build up scale in India.
- ▶ **India-UAE business to increase; good opportunity for Avana Logistek.** The Transworld Group shared multiple levers that would drive an uptick in India-UAE trade, including (1) improving relations between the two governments and (2) increasing impetus by the Dubai government to make Dubai a bigger logistics hub. We note recent transaction by DP World to acquire the operations of Continental Warehousing, a private freight terminal owner in India.

- ▶ **Sagarmala is an opportunity best addressed by domestic companies.** The Transworld Group is of the belief that one more term of the government with focus on logistics is required to make Sagarmala program of port-led industrialization a reality. It expects the resulting logistics opportunity to come to domestic companies or companies with domestic experience such as Mahindra Logistics, Allcargo Logistics and Transworld Group. It does not envisage global companies to enter India in the near future as that would require a material improvement in ease of doing business in India. As per the company, India would need to break into the top-50 ranks before global logistics companies consider entering India in a big manner.
- ▶ **Benefits from recent reforms would accrue over time.** The Transworld Group would phase out its investments in India. This is in line with its past experience of business environment changing slowly after announcement of reforms. The group had stayed away from the opportunity to buy the rail container license at ₹0.5 bn in 2006. The Transworld Group would follow a similar strategy while investing into warehouses. Most of the initial warehouses would be leased and focus would be on providing flexible solutions to its Indian clients. This is different from what it offers in Dubai where the ecosystem is very well developed.
- ▶ **Digital offering to become core to the logistics offering.** The focus of the Transworld Group is on delivering a digital offering and not just a logistics offering. It shared that an app would be launched in the month of July helping customers track and make bookings.
- ▶ **Good future for regional shipping.** The Transworld Group sees levers that would boost regional shipping such as (1) production centers eventually moving closer to consumption centers and (2) main liners moving up in terms of vessel sizes and creating more room for regional services of operate in. From a risk perspective, it shared that regional shipping lines are relatively immune to supply shocks as the ports that they operate in cannot service the largest of the ships getting delivered. As per the company, demand-side shocks would lead to some volatility, which would eventually correct over time. Geopolitical risks can change the cost of fuel but has to be borne by all.

#2: Meeting with master shipper of OEL Transworld

Mr Umesh Kumar, a seaman for the past 38 years and with Transworld Feeder Vessels for the past 27 years, heads a team of 26 people on board vessel OEL Transworld. The vessel has a capacity of 4,000 TEU with route covering Jebel Ali – Bandar Abbas – Mundra-JNPT-Jebel Ali over a period of 14 days. As the head of the ship, Mr Kumar is assigned a load by the operations and marketing team. To him, it is a task of delivering the cargo on ship by a certain ETA (expected time of arrival). We put below key takeaways from the meeting:

- ▶ **Loss from missing berthing window is more than the benefit of optimizing cost through lower speed.** As per the master shipper, missing the berthing window can have dire consequences from a cost perspective and can also lead to loss of traffic. A ship may decide to miss a less important port for making up for a delay in order to reach the important port during its berthing window. Only if it has the luxury of time, does the ship consider reducing speed to save on fuel. The benefits of lower speed largely get negated by the higher charter cost. To illustrate this point, the ship can either move at maximum speed of 19 knots and do the 1,200 nautical miles journey in 2.5 days and incur 270 tons of fuel or use 225 tons of fuel to move at 11 knots and reach in 4 days. The longer journey would incur an additional charter for the extra 1.5 days (US\$9,000 per day) equivalent to the differential 45 tons of fuel saved.

- ▶ **Major ports improving on infrastructure but not on service.** The master shipper shared his perspective of why major ports continue to offer a less impressive service versus the non-major ports. The issue, as per Mr Kumar, has more to do with the attitude of the personnel not in danger of losing jobs and not getting incentivized to change the level of service. He shared the mandatory practice of the pilot (from the port personnel) to enter the vessel that is closing in on to the port, in order to get the vessel safely to the port. The master shared instances of unorganized operations by port authorities (asking the ship to drop anchor without properly managing the pilot schedule). The port authorities end up playing on shippers' requirement of getting the priority berth window. Such disorganized operations lead to increased costs.
- ▶ **Performance tests are well-planned to limit idle time/business impact.** The master shipper shared practice of examination of the vessel by the port happening every six months and by the manufacturer (to renew certificate of class) happening every year. In addition, the dry dock exercise also happens once in 2.5-3 years. Inspections beyond dry docking happen alongside the loading/unloading process and do not impact utilization of the vessel. The dry dock leads to 2-3 days of idle time though shipping lines generally ensure that other substitute vessels (possibly of another service) are available.

#3: Meeting with the logistics team

Mr Mannan Balakrishnan spearheads the logistics operations of the Transworld Group and introduced us to the warehousing and documentation operations. The aim of the meeting was to better understand the scope of operations and comparison in the offering versus India.

- ▶ **Large and integrated facility.** The warehousing facility in in Jebel Ali spans over 0.4 mn sq. ft out of the 2 mn sq. ft of managed warehouses. The Jebel Ali facility has 22,400 pallet positions for general cargo and 800 pallet positions for temperature controlled cargo. The facility is capable of storing up to 35,000 cubic meters or 600 FEUs of cargo, including the storage for bulk and temperature-controlled cargo. Average dwell time is a month. Within the facility, there is a separate section for doing value-added services such as labeling.
- ▶ **Facility certified to the highest standards in cargo security.** The facility is compliant with CTPAT, the highest level of cargo security for warehouses. CTPAT essentially means Customer-Trade Partnership against terrorism. It is a voluntary certification taken for conforming to requirements of certain US-based customers. The facility scored a high 72% compliance in another non-mandatory certification of Safety Quality Assurance Standard.
- ▶ **Unlike India, customers are open to sharing inventory information.** The warehousing business of the Transworld Group is housed out of the Jebel Ali Free zone. For select customers including an electronics global major, the inventory system is linked to Transworld's warehouse management system. The warehousing business uses an able WMS from Oracle flexible enough to easily connect to customer's IT systems. Testament of this flexibility is an American client who only uses Transworld's WMS for inventory management.
- ▶ **Customs clearance an enigma across ports.** In Dubai, companies feel more comfortable outsourcing the customs clearance process. Shell, a key corporate account for the Transworld Group, has appointed it as the sole custom-clearing agent for all of its chemicals business in Dubai.

JULY 09, 2018

UPDATE

BSE-30: 35,658

Logistics: swiftly moving towards integrated offerings. Growth opportunities in India and increasing competition in their core logistics operations are driving MNCs to enter/ explore other logistics avenues in India. Domestic counterparts, especially those having high market share, need to protect their network advantage and consider expanding business coverage through investments/collaborations. There is otherwise a risk of global MNCs leveraging technology and competing to offer one-stop logistics solutions. We have a negative stance on Concor and a positive stance on GPPV.

Concor: Danish and Middle East invasion on the cards

MNC port operators are swiftly moving towards providing an integrated logistics offering. These include Maersk (which has added its ninth ICD in Pune and intends to add 4-5 more in the northern hinterland) and DP World (which is expanding its hinterland reach). For the domestic business, Concor would see competition from coastal shipping on both the east coast (fertilizers) and the west coast (Continental Warehousing acquired by JV of National Investment and Infrastructure Fund and DP World). Concor has till now enjoyed a large market share in both EXIM and domestic rail container transportation largely on the back of its network of ICDs. The same has not yielded commensurate business returns for Concor which are lower versus peers.

Gujarat Pipavav: support from Maersk to boost competitive positioning

Of the MNC logistics companies, Maersk is the most active in expanding scope in India and GPPV is leveraging its position to its advantage. Maersk's key new offerings include (1) dedicated block trains, (2) increased hinterland access and focus on inland delivery, (3) trade finance offering to the logistics ecosystem and (4) the recent launch of its online freight forwarding platform (Twill). In addition, GPPV is also improving ease of port operations and has recently been approved as an authorized economic operator for logistics and terminal operations.

Mahindra Logistics: needs to move beyond leveraging network of business partners

MLL will face tough competition from MNCs' supply chain offerings. DHL, a late entrant in the B2B trucking space, aims to add 10,000 IoT-enabled trucks within ten years, with a claim to cut transit times by 50% compared to traditional trucking. Avana Logistek, a Transworld group entity, is coming out with a Rs3 bn fresh issue IPO, with most of the proceeds to be deployed into industrial warehousing and cold-chain logistics solutions. MLL has leveraged its network of operators to develop its asset-light model. The same enables it to earn high business returns in spite of being at the high-end of receivables among transporters (100 days of sales for non-captive business of MLL). Its focus in terms of technology is on enhancing engagement with business partners and on optimizing last mile routes and load operations.

Avana Logistek: invested in network, leveraging technology and brand to grow business

A respected name in the Middle East for integrated logistics solutions, Transworld group is coming up with an IPO of its asset-light logistics platform in India, Avana Logistek. This includes the coastal shipping and shipping liner business and will house 3PL operations. Beyond an integrated coverage in India (coastal) and Middle East (supply chain), Avana Logistek differentiates itself in terms of its focus on technology. This goes beyond providing end-to-end visibility to customers into (1) integration with customer's systems and processes, (2) cloud-based ERP platform, (3) predictive analysis, (4) mapping customer journey and (5) investing in smart containers (foldable, those with car racks). The company also aims to leverage the Transworld brand to enter newer geographies (SE Asia) for its shipping business.

Aditya Mongia

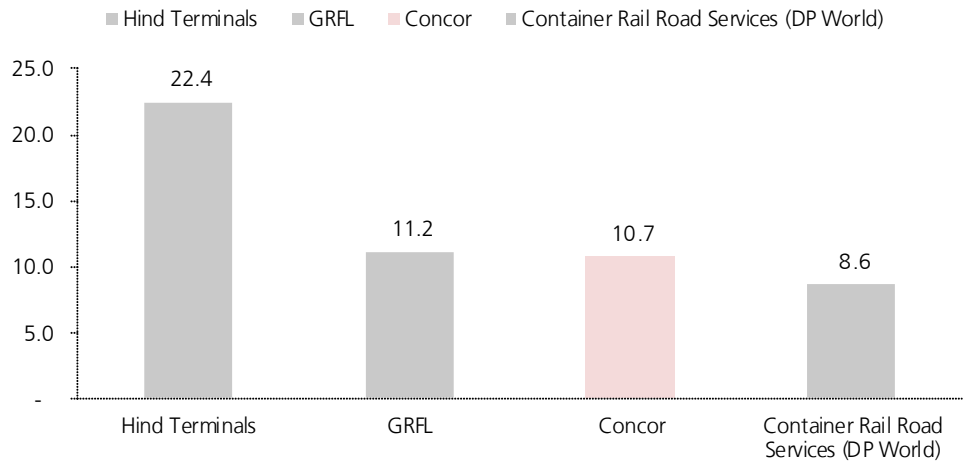
Ajinkya Bhat

New entrants will change the dynamics of India's logistics industry

Concor's low business returns mandate its entry into integrated logistics, threat of competition highlights the urgency. Able competitors such as Hind Terminals and Container Rail Road Services operate high-frequency trains from key ports such as Mundra. Other players are increasingly launching new initiatives to capture the logistics opportunity.

Exhibit 1: Despite its high market share and largest ICD network, Concor's business returns have been below those of some of the smaller peers

Comparison of average ROCE of Concor with peers, March fiscal year-ends (%)



Source: Companies, Kotak Institutional Equities

Exhibit 2: Several able competitors have well established logistics facilities and run high-frequency trains from key ports such as Mundra
Key competitors of Concor on JNPT-NCR route

Hind Terminals

- Nhava Sheva CFS
- Mundra CFS
- Hazira CFS
- Delhi Logistics Park
- Container rail services to 8 ICDs from JNPT, Mundra and Pipavav ports, high frequency on Mundra-NCR route at 5/6 trains per week
- BCN rake handling
- Road transport of FTL/LTL cargo

Container Rail Road Services (DP World)

- Container rail services on both EXIM and domestic routes, license granted by Indian Railways for initial period of 20 years

Source: Companies, Kotak Institutional Equities

Incumbents will also face a threat with increasing attractiveness of coastal shipping.

Exhibit 3: Coastal movement can affect up to ~30% of domestic containerized cargo volumes currently being transported through rail

Potential impact of coastal shipping on container rail logistics volumes

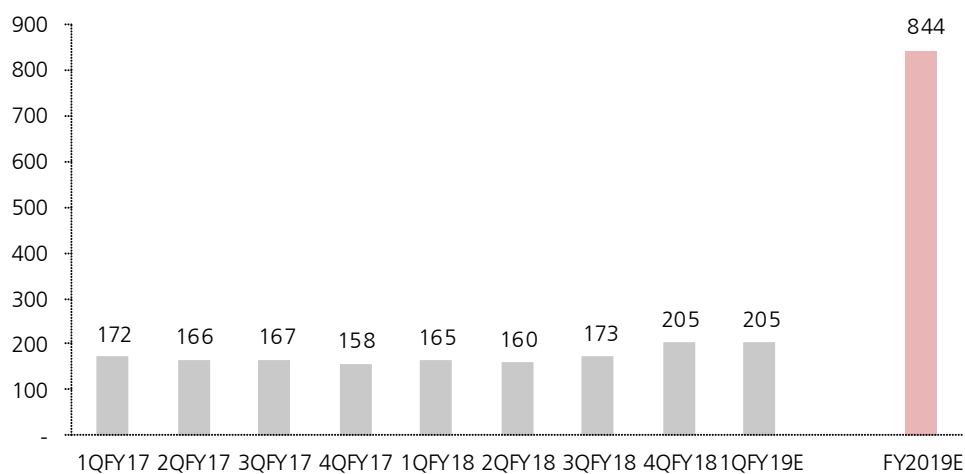
Containerised non-bulk commodity	Volume (mn tons)
Steel	0.6-0.9
Miscellaneous items	0.5-0.8
Chemicals (paints and varnishes)	0.4-0.7
Sugars and confectioneries	1.1-1.4
Wood articles	0.1-0.3
Inorganic chemicals	0.1-0.3
Fertilizers	0.4-0.7
Total	3.1-3.7
Domestic rail container market size (FY2018)	11
Potential threat from coastal movement	31%

Source: Avana Logistek DRHP, Kotak Institutional Equities estimates

Gujarat Pipavav has scripted its turnaround with increasing container volumes. The port is further trying to leverage the scale and ambitions of parent Maersk.

Exhibit 4: New line additions and ramp up of existing lines have scripted a turnaround for GPPV

Quarterly container volumes handled at Gujarat Pipavav, March fiscal year-ends, 1QFY17-1QFY19E ('000 TEUs)



Source: Company, Kotak Institutional Equities estimates

Exhibit 5: EV/EBITDA valuation for GPPV, March fiscal year-ends, 2017-21E

	Pipavav Port				
	2017	2018	2019E	2020E	2021E
Volumes					
Total (mn tons)	12	13	15	17	19
Financial summary (Rs mn)					
Revenues	6,831	6,489	7,898	9,320	10,586
EBIDTA	4,186	3,741	4,755	5,869	6,849
PAT	2,499	1,985	2,852	3,494	4,203
Net debt	(3,522)	(4,315)	(1,622)	(3,059)	(4,539)
Book value	20,195	20,141	20,546	21,038	21,623
Key ratios (%)					
Revenue growth	3.5	(5.0)	21.7	18.0	13.6
PAT growth	50.4	(20.6)	43.7	22.5	20.3
EBIDTA margin	61.3	57.6	60.2	63.0	64.7
RoE	12.7	9.8	14.0	16.8	19.7
RoCE	12.7	9.9	14.0	16.8	19.7
Per share (Rs)					
EPS	5.2	4.1	5.9	7.2	8.7
BVPS	41.8	41.7	42.5	43.5	44.7
Key valuation ratios at MP (X)					
P/E	17.1	21.5	15.0	12.2	10.2
P/B	2.1	2.1	2.1	2.0	2.0
P/Sales	12.0	12.7	10.4	8.8	7.8
EV/EBITDA	9.4	10.3	8.6	6.8	5.6
Valuation at TP (X)					
P/E	29.0	36.5	25.4	20.7	17.2
P/B	3.6	3.6	3.5	3.4	3.3
P/Sales	10.6	11.2	9.2	7.8	6.8
EV/EBITDA	16.5	18.2	14.9	11.8	9.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Other domestic and international players have also launched several initiatives to capture the logistics opportunity
Key players and new initiatives in the logistics space in India

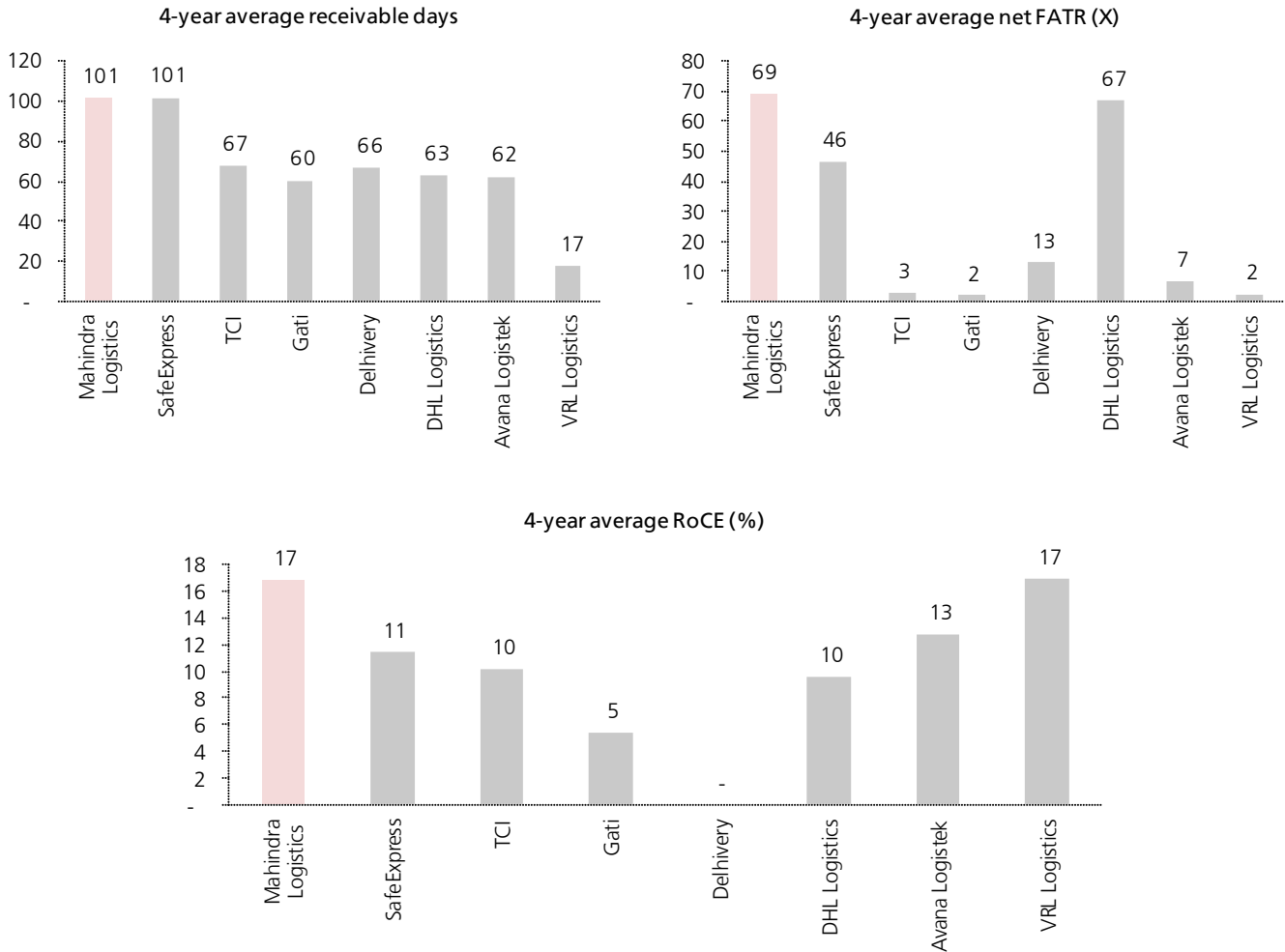
DP World	GPPV	J M Baxi	Maersk
<ul style="list-style-type: none"> Interested in setting up a logistics hub in India Planning to bid for upcoming free trade zone at JNPT Expanding hinterland reach through local rail arm Container Rail Road Services Signed an agreement with J&K government to develop multimodal logistics hub in the state 	<ul style="list-style-type: none"> Improved hinterland access to more ICDs Increase in the frequency of Maersk block trains Dedicated express gates for reefer freight Paperless permit system for trucks Recent approval as authorized economic operator for logistics and terminal operations (AEO-LO) to allow speedier customs formalities 	<ul style="list-style-type: none"> Teaming up with IBM to improve internal processes Jointly developing technology-led solutions with IBM leveraging IBM Blockchain 	<ul style="list-style-type: none"> Roll out of Damco's freight forwarding platform Twill in India 9 ICDs operational, 5 more to be added Start of cold chain facility in Chennai for perishables and medicines Maersk Line container service from Vishakhapatnam to Nepal Block trains to improve control and reduce inventory

Source: Companies, Kotak Institutional Equities

3PL companies such as Mahindra Logistics have leveraged their vast network of business partners to work on an asset-light model and have been able to earn decent business

returns despite higher working capital. Facing increasing competition will require asset-light 3PL companies to invest in technology and move towards being integrated end-to-end logistics players.

Exhibit 7: MLL operates at a higher business return on back of high net FATR despite high non-M&M receivables at 100 days of sales
Comparison of MLL with other logistics peers, march fiscal year-ends



Notes:
(a) Mahindra Logistics receivables days are for external non-M&M clients only.

Source: Companies, Kotak Institutional Equities

An able player such as Avana Logistek can disrupt the market, especially now that the overall logistics market in India is ripe for disruption with the advent of GST and increasing focus of corporates on optimizing logistics costs.

Exhibit 8: Consolidated income statement of Avana Logistek, March fiscal year-ends, 2014-18 (Rs mn)

	Pro-forma Ind-AS				
	2014	2015	2016	2017	2018
Net revenue from operations	7,894	8,874	9,285	10,243	13,991
Expenses	(7,294)	(8,344)	(8,919)	(9,834)	(13,272)
EBITDA	599	530	366	409	718
Other income	56	57	49	82	74
Depreciation	(156)	(160)	(195)	(199)	(86)
EBIT (incl. other income)	500	426	221	293	706
Interest expense	(106)	(100)	(104)	(108)	(82)
PBT	394	326	116	184	624
Tax expense	(20)	(47)	(18)	(42)	(117)
Current tax	(13)	(51)	(13)	(25)	(104)
Deferred tax	(6)	4	(4)	(17)	(13)
Recurring PAT	374	279	99	142	507
Associate profit					
Minority interest	(4)	(7)	(10)	(6)	(15)
Recurring PAT for shareholders	370	272	89	136	493
Exceptional items					
Reported PAT for equity shareholders	370	272	89	136	493
Recurring EPS (pre IPO)	10.3	7.6	2.5	3.8	13.7
Reported EPS (pre IPO)	10.3	7.6	2.5	3.8	13.7
Key ratios					
Cost of materials consumed/sales (%)	67.2	68.2	70.6	71.6	64.4
Civil construction costs/sales (%)	17.5	18.8	17.6	17.2	23.7
Employee benefit expenses/sales (%)	4.2	3.7	3.8	3.5	3.3
Other expenses/sales (%)	3.5	3.3	4.0	3.7	3.5
EBITDA margin (%)	7.6	6.0	3.9	4.0	5.1
Effective tax rate (%)	5.0	14.4	15.1	23.0	18.7
Recurring PAT margin (%)	4.7	3.1	1.0	1.3	3.5
Yoy growth (%)					
Revenues		12.4	4.6	10.3	NM
EBITDA		(11.6)	(30.9)	11.8	NM
Recurring PAT for shareholders		(26.4)	(67.5)	52.9	NM
Recurring EPS (pre IPO)		(26.4)	(67.5)	52.9	NM

Notes:

(a) Growth numbers in FY2018 are not meaningful or comparable due to acquisition of Balaji Shipping Lines FZCO by Avana Logistek.

Source: Avana Logistek DRHP, Kotak Institutional Equities

Exhibit 9: Consolidated balance sheet and cash flows of Avana Logistek, March fiscal year-ends, 2014-18 (Rs mn)

	Pro-forma Ind-AS			2017	2018
	2014	2015	2016		
Shareholders' funds	1,201	1,510	1,664	1,032	1,516
Share capital	35	35	35	120	120
Reserves & surplus	1,166	1,475	1,629	912	1,396
Minority interest	27	22	41	28	40
Debt	707	876	1,250	889	586
Deferred tax liabilities	9	6	10	27	39
Total sources of funds	1,944	2,413	2,965	1,976	2,181
Gross block	1,770	2,312	1,865	1,875	1,823
Accumulated depreciation	(575)	(758)	(5)	(189)	(262)
Net block	1,195	1,554	1,859	1,686	1,561
CWIP	-	-	-	-	1
Total fixed assets	1,195	1,554	1,859	1,686	1,562
Investments and goodwill	-	-	42	38	35
Cash and bank balances	226	180	146	192	270
Net working capital (ex-cash)	524	679	918	59	315
Deferred tax assets	-	-	-	-	-
Total application of funds	1,944	2,413	2,965	1,976	2,181
Free cash flow					
Cash flow from operations before wcap. changes	606	537	344	444	670
Change in working capital / other adjustments	33	29	(49)	80	(90)
Net cashflow from operating activities	639	566	294	524	579
Fixed assets	13	(455)	(11)	(2)	69
Cash (used) / realised in investing activities	(292)	(629)	(109)	7	30
Free cash flow (CFO + net capex)	652	112	283	521	648
Ratios					
Debt/equity	0.6	0.6	0.8	0.9	0.4
Net debt/equity	0.4	0.5	0.7	0.7	0.2
Book value per share (Rs)	33.4	42.0	46.3	28.7	42.2
Net FATR (X)		6.5	5.4	5.8	8.6
Net working capital (ex-cash) as days of sales	24	28	36	NM	NM
RoAE (%)		20.1	5.6	10.1	38.7
RoACE (%)		14.5	5.4	6.6	24.7

Notes:

(a) Some ratios in FY2018 are not comparable yoy due to acquisition of Balaji Shipping Lines FZCO by Avana Logistek.

Source: Avana Logistek DRHP, Kotak Institutional Equities

June 2018: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
9-Jul	10-Jul	11-Jul	12-Jul	13-Jul	14-Jul	15-Jul
Dish TV India	IndusInd Bank Tata Consultancy Services		Karnataka Bank	Bajaj Corp. Infosys	DCB Bank	
16-Jul	17-Jul	18-Jul	19-Jul	20-Jul	21-Jul	22-Jul
Hindustan Unilever	Ashok Leyland Federal Bank ICICI Lombard Rallis India Zee Entertainment Enterprises	Bandhan Bank Mahindra CIE Automotive Mindtree UltraTech Cement	Bajaj Finance Bajaj Finserv Kotak Mahindra Bank RBL Bank	Bajaj Auto Bajaj Holdings & Investment Bata India HDFC Standard Life Kansai Nerolac Paints Wipro	HDFC Bank	
23-Jul	24-Jul	25-Jul	26-Jul	27-Jul	28-Jul	29-Jul
L&T Infotech	GlaxoSmithkline Pharma Hexaware Technologies ICICI Pru Life Info Edge (India) Crompton Greaves Consumer	GRUH Finance Hero MotoCorp JSW Steel Tata Elxsi	Bharat Financial Inclusion Biocon Cholamandalam Investment Colgate-Palmolive (India) Dr Reddys Laboratories WABCO India	Coromandel International ICICI Bank MMFSL Prestige Estates Projects	J K Cements	
30-Jul	31-Jul	1-Aug	2-Aug	3-Aug	4-Aug	5-Aug
Godrej Consumer Products HDFC IDFC IDFC Bank Shree Cement Tech Mahindra	Bharat Electronics Dabur India	Aditya Birla Fashion Exide Industries Torrent Power	Marico The Ramco Cements			P I Industries
6-Aug	7-Aug	8-Aug	9-Aug	10-Aug	11-Aug	12-Aug
	MphasiS	PNB Housing		Dr Lal Pathlabs Timken India		
13-Aug	14-Aug	15-Aug	16-Aug	17-Aug	18-Aug	19-Aug

Source: NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside (%)	Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		6-Jul-18	(Rs)				2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E		
Automobiles																													
Amara Raja Batteries	REDUCE	777	780	0.4	133	1.9	171	28	33	39	(1.6)	21.2	15.5	28.1	23.2	20.1	15.0	12.4	10.6	4.5	3.9	3.4	17.0	18.0	18.0	0.5	0.6	0.7	5.9
Apollo Tyres	BUY	262	340	30.0	150	2.2	541	13	20	25	(38.0)	48.6	24.7	19.5	13.1	10.5	10.7	7.7	6.4	1.4	1.4	1.3	8.5	11.1	12.5	1.2	1.1	1.1	10.7
Ashok Leyland	BUY	132	160	20.9	388	5.6	2,926	5.4	6.2	8.9	8.0	15.3	43.2	24.6	21.3	14.9	14.2	11.0	8.0	5.4	4.7	3.9	23.7	23.4	28.4	1.8	1.4	2.0	35.3
Bajaj Auto	SELL	3,020	2,800	(7.3)	874	12.7	289	140	160	176	6.0	14.0	10.0	21.5	18.9	17.2	15.0	13.5	11.9	4.6	4.1	3.6	22.9	22.8	22.3	2.0	2.1	2.3	18.8
Balkrishna Industries	BUY	1,202	1,260	4.9	232	3.4	193	37	51	63	4.8	35.4	24.6	32.1	23.7	19.0	17.1	13.0	10.4	5.7	4.7	3.8	19.0	21.6	22.1	0.3	0.4	0.4	8.7
Bharat Forge	SELL	632	650	2.8	294	4.3	466	16	22	27	10.1	38.0	19.4	39.0	28.3	23.7	18.8	15.9	13.4	6.3	5.4	4.6	17.2	20.7	21.1	0.7	0.8	0.9	10.5
CEAT	ADD	1,301	1,600	23.0	53	0.8	40	65	101	113	(29.5)	55.4	12.6	20.1	12.9	11.5	9.8	8.3	7.0	2.0	1.8	1.6	10.4	14.6	14.4	0.9	0.8	0.8	13.9
Eicher Motors	SELL	27,626	26,000	(5.9)	753	10.9	27	792	995	1,200	29.3	25.5	20.6	34.9	27.8	23.0	25.1	20.2	16.4	14.0	10.1	7.5	46.4	42.3	37.5	0.1	0.1	0.1	17.1
Escorts	BUY	880	1,170	33.0	75	1.6	89	39	56	69	71.3	43.6	23.6	22.7	15.8	12.8	12.9	9.6	7.5	3.1	2.6	2.3	13.5	16.8	17.7	0.5	0.9	1.2	17.2
Exide Industries	SELL	263	225	(14.4)	223	3.2	850	8	10	11	0.6	23.7	11.1	32.0	25.9	23.3	17.9	15.0	13.3	4.1	3.8	3.4	13.5	15.2	15.3	0.9	1.1	1.3	8.0
Hero Motocorp	SELL	3,637	3,500	(3.8)	726	10.5	200	185	206	227	9.5	11.1	10.1	19.6	17.7	16.0	12.3	11.0	9.8	6.2	5.4	4.8	33.8	32.6	31.6	2.3	2.8	3.1	17.2
Mahindra CIE Automotive	ADD	257	275	6.9	97	1.4	378	10	13	15	107.0	35.8	12.9	26.8	19.7	17.5	13.1	9.9	8.7	2.6	2.3	2.0	10.4	12.5	12.4	—	—	—	2.9
Mahindra & Mahindra	BUY	925	1,015	9.7	1,150	16.7	1,138	38	44	50	22.0	15.6	14.8	24.4	21.1	18.4	16.0	13.6	11.8	3.5	3.1	2.7	15.1	15.4	15.7	0.8	0.9	1.1	32.2
Maruti Suzuki	ADD	9,318	9,700	4.1	2,815	40.8	302	256	330	395	5.1	29.2	19.6	36.5	28.2	23.6	20.4	16.0	12.8	6.7	5.8	4.9	19.8	22.0	22.6	0.7	0.9	1.1	60.9
Motherson Sumi Systems	SELL	299	265	(11.3)	629	9.1	2,105	8	11	14	6.1	37.7	21.7	36.5	26.5	21.8	13.8	10.6	8.8	6.4	5.4	4.6	19.0	22.1	22.9	0.8	0.9	1.1	13.3
MRF	REDUCE	75,097	76,000	1.2	318	4.6	4	2,669	3,896	4,447	(23.9)	46.0	14.1	28.1	19.3	16.9	12.8	9.4	8.1	3.3	2.8	2.4	12.3	15.7	15.4	0.1	0.1	0.1	7.6
Schaeffler India	BUY	5,500	6,000	9.1	91	1.3	17	143	171	207	22.0	19.4	21.1	38.4	32.2	26.6	22.7	19.5	15.8	5.4	4.8	4.2	15.0	15.8	16.9	0.3	0.6	0.8	0.7
SKF	REDUCE	1,750	1,700	(2.9)	90	1.3	51	58	70	81	24.6	20.8	16.4	30.3	25.1	21.6	18.8	16.2	13.5	4.9	4.3	3.7	16.1	17.0	17.2	0.7	0.8	1.0	0.4
Tata Motors	BUY	271	445	64.3	920	12.5	3,396	20	24	38	(28.0)	18.0	63.0	13.6	11.5	7.1	3.9	3.6	2.9	1.0	0.9	0.8	8.8	8.0	11.9	—	—	—	62.7
Timken	SELL	752	660	(12.2)	51	0.7	68	14	19	25	(5.3)	42.3	27.5	55.6	39.0	30.6	31.0	21.6	17.2	7.3	6.2	5.2	13.9	17.1	18.5	0.1	0.1	0.1	0.4
TVS Motor	SELL	577	410	(29.0)	274	4.0	475	14	17	21	18.7	23.0	22.0	41.4	33.7	27.6	25.2	19.7	16.4	9.5	8.1	6.8	25.1	26.0	26.7	0.6	0.9	1.1	11.6
WABCO India	SELL	6,880	6,350	(7.7)	131	1.9	19	144	169	223	27.8	17.4	32.2	47.8	40.8	30.8	31.1	26.5	20.0	8.6	7.2	5.9	19.5	19.1	21.0	0.1	0.1	0.2	0.5
Automobiles	Neutral				10,468	151					(0.9)	23.2	25.5	26.8	21.7	17.3	11.9	9.9	8.1	3.8	3.4	2.9	14.2	15.5	16.9	0.8	1.0	1.1	356.4
Banks																													
Axis Bank	ADD	514	600	16.8	1,319	19.1	2,567	1	20	39	(92.6)	1,735.5	100.1	478.2	26.1	13.0	—	—	—	2.5	2.2	1.9	0.5	7.7	13.8	1.0	0.6	1.2	64.6
Bank of Baroda	NR	116	—	—	306	4.4	2,652	(9)	20	23	(253.2)	323.2	10.5	(12.6)	5.6	5.1	—	—	—	1.4	1.0	0.7	(5.8)	12.6	12.3	—	—	—	29.5
Bank of India	ADD	87	120	38.5	151	2.2	1,744	(35)	(6)	16	(134.7)	82.2	366.7	(2.5)	(14.1)	5.3	—	—	—	1.3	1.7	1.0	(21.3)	(3.6)	9.5	—	(1.4)	3.8	12.4
Canara Bank	ADD	248	300	21.1	182	2.6	733	(58)	(2)	60	(406.6)	97.3	4,031.4	(4.3)	(161.2)	4.1	—	—	—	1.5	1.5	0.9	(11.9)	(0.3)	11.8	—	—	—	30.6
City Union Bank	ADD	188	190	1.2	125	1.8	665	9	10	12	6.4	16.2	13.0	21.1	18.1	16.1	—	—	—	3.2	2.8	2.5	15.3	15.5	15.5	0.2	1.0	1.1	1.9
DCB Bank	ADD	169	210	24.4	52	0.8	308	8	11	13	13.8	32.2	20.5	21.2	16.0	13.3	—	—	—	2.1	1.9	1.7	10.9	12.0	12.9	—	0.6	0.7	5.8
Equitas Holdings	BUY	140	190	35.7	48	0.7	340	0.9	4.4	8.3	(80.4)	374.7	88.2	151.4	31.9	17.0	—	—	—	2.2	2.0	1.8	1.4	6.4	11.0	—	—	—	4.4
Federal Bank	BUY	82	130	59.5	161	2.3	1,972	4.5	5.8	7.8	(7.5)	29.5	34.9	18.3	14.1	10.5	—	—	—	1.4	1.3	1.2	8.0	9.0	11.2	1.2	1.4	1.9	17.7
HDFC Bank	REDUCE	2,114	1,900	(10.1)	5,505	79.8	2,595	67	77	93	18.7	14.7	20.0	31.4	27.3	22.8	—	—	—	5.2	4.0	3.5	17.9	16.6	16.2	0.6	0.7	0.8	74.4
ICICI Bank	BUY	270	400	48.1	1,737	25.2	6,429	11	15	25	(31.1)	46.5	64.1	25.6	17.5	10.7	—	—	—	2.1	1.8	1.5	6.6	9.1	13.7	0.6	1.1	1.9	91.5
IDFC Bank	NR	39	—	—	132	1.9	3,404	2.5	1.6	3.3	(16.0)	(38.5)	109.8	15.4	25.1	11.9	—	—	—	0.9	0.8	0.8	5.7	3.4	6.9	1.3	0.8	1.7	9.0
IndusInd Bank	REDUCE	1,959	1,800	(8.1)	1,176	17.1	600	60	73	88	25.3	20.7	21.6	32.6	27.0	22.2	—	—	—	5.1	4.2	3.6	17.1	18.1	17.1	—	0.4	0.5	29.1
J&K Bank	BUY	51	105	107.9	28	0.4	557	4	8	11	111.6	116.7	44.4	13.9	6.4	4.4	—	—	—	0.6	0.5	0.5	3.4	6.9	9.4	—	3.1	4.5	0.4
Karur Vysya Bank	ADD	100	120	19.9	73	1.1	727	5	4	14	(52.2)	(22.8)	274.8	21.0	27.3	7.3	—	—	—	1.4	1.4	1.2	6.1	4.2	14.7	0.6	0.9	3.4	1.8
Punjab National Bank	ADD	77	90	17.0	212	3.1	2,761	(44)	(39)	9	(814.7)	13.4	124.1	(1.7)	(2.0)	8.3	—	—	—	4.6	(3.5)	(13.1)	(32.4)	(31.3)	8.2	—	(10.9)	2.6	32.0
RBL Bank	SELL	563	450	(20.1)	237	3.4	420	15	20	25	27.3	32.9	21.8	37.2	28.0	23.0	—	—	—	3.6	3.3	3.0	11.5	12.0	13.2	0.4	0.5	0.7	9.7
State Bank of India	BUY	257	370	43.9	2,295	33.3	8,925	(7)	18	37	(155.8)	NM	106.1	NM	14.3	6.9	—	—	—	2.0	1.6	1.2	(3.2)	7.1	13.2	—	0.1	0.2	77.7
Ujivan Financial Services	REDUCE	378	420	11.0	46	0.7	121	1	22	29	(96.5)	3,564.0	30.0	627.0	17.1	13.2	—	—	—	2.7	2.3	2.0	0.4	14.2	16.1	0.0	0.6	0.8	7.5
Union Bank	ADD	81	130	59.9	95	1.4	1,169	(45)	1																				

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Target price		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		6-Jul-18 (Rs)	(Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
NBFCs																													
Bajaj Finance	REDUCE	2,346	1,850	(21.1)	1,356	19.7	575	46	63	82	38.5	34.9	30.0	50.5	37.4	28.8	—	—	—	8.2	6.8	5.7	20.5	19.9	21.5	0.2	0.3	0.3	41.8
Bajaj Finserv	ADD	6,056	5,900	(2.6)	964	14.0	159	174	206	266	13.5	18.7	28.8	34.8	29.3	22.8	—	—	—	4.7	3.9	3.3	15.3	14.5	15.6	0.2	0.2	0.2	14.0
Bharat Financial Inclusion	NA	1,181	—	—	165	2.4	139	33	43	54	55.5	31.1	27.2	36.1	27.6	21.7	—	—	—	5.5	4.5	3.6	16.7	17.9	18.5	—	—	—	10.6
Cholamandalam	REDUCE	1,485	1,510	1.7	232	3.4	156	62	76	92	35.5	22.3	20.8	23.8	19.5	16.1	—	—	—	4.7	4.0	3.3	20.6	21.0	21.2	0.4	0.6	0.7	7.0
HDFC	BUY	1,917	2,075	8.3	3,227	46.8	1,676	75	58	67	52.1	(23.1)	15.2	25.4	33.1	28.7	—	—	—	5.0	4.4	4.0	23.9	14.3	14.5	1.0	1.1	1.2	70.3
HDFC Standard Life Insurance	SELL	469	405	(13.6)	943	13.7	2,007	6	6	7	24.4	14.8	10.9	84.7	73.8	66.6	—	—	—	21.9	19.5	17.5	27.3	28.0	27.7	0.3	0.3	0.4	14.1
ICICI Lombard	SELL	715	600	(16.1)	325	4.7	454	19	26	30	22.0	36.4	17.0	37.7	27.6	23.6	—	—	—	7.1	6.0	5.1	20.8	23.7	23.5	0.6	0.9	1.1	1.9
ICICI Prudential Life	BUY	369	500	35.3	530	7.7	1,436	11	12	13	(3.7)	3.8	7.6	32.7	31.5	29.3	—	—	—	8.1	6.7	5.7	25.0	23.2	20.9	1.5	0.5	0.6	11.9
IFL Holdings	SELL	666	625	(6.1)	212	3.1	319	29	34	41	32.4	17.3	21.4	23.3	19.9	16.4	—	—	—	4.2	3.6	3.1	19.0	19.3	20.0	0.9	1.1	1.3	1.6
L&T Finance Holdings	REDUCE	150	185	23.3	299	4.3	1,996	7	10	12	23.7	34.6	24.1	20.4	15.2	12.2	—	—	—	2.4	2.1	1.9	14.2	14.7	16.1	1.2	1.3	1.3	10.0
LIC Housing Finance	BUY	484	610	26.0	244	3.5	505	44	50	58	3.2	13.8	17.5	11.1	9.7	8.3	—	—	—	1.8	1.5	1.3	14.5	14.3	14.4	1.4	1.6	1.9	12.3
Magma Fincorp	BUY	162	200	23.3	44	0.6	237	10	12	15	1,014.5	24.6	25.8	16.7	13.4	10.6	—	—	—	1.7	1.6	1.4	10.2	12.9	14.1	0.5	1.1	1.4	3.1
Mahindra & Mahindra Financial	REDUCE	455	475	4.5	281	4.1	614	15	22	26	105.0	53.5	16.6	31.3	20.4	17.5	—	—	—	3.2	2.9	2.6	11.3	14.0	14.8	0.9	1.3	1.6	11.7
Max Financial Services	BUY	417	650	56.1	112	1.6	268	5	6	6	(20.4)	36.9	1.8	90.9	66.4	65.2	—	—	—	—	—	—	6.5	8.3	8.0	—	0.5	0.5	4.8
Muthoot Finance	ADD	406	480	18.4	162	2.4	400	43	38	40	45.6	(10.8)	4.0	9.4	10.6	10.2	—	—	—	2.1	1.8	1.6	24.1	18.4	16.9	2.5	2.2	2.3	4.5
PNB Housing Finance	REDUCE	1,176	1,375	17.0	197	2.9	167	50	61	77	57.8	23.0	25.3	23.6	19.2	15.3	—	—	—	3.1	2.8	2.5	14.0	15.2	16.8	0.8	0.3	0.3	9.8
SBI Life Insurance	ADD	668	815	22.0	668	9.7	1,000	12	15	18	20.8	26.0	22.9	57.9	46.0	37.4	—	—	—	10.4	8.7	7.3	19.4	20.6	21.3	0.3	0.3	0.4	5.6
Shriram City Union Finance	ADD	1,911	2,325	21.7	126	1.8	66	101	140	174	19.6	39.4	23.8	19.0	13.6	11.0	—	—	—	2.4	2.1	1.8	12.5	15.5	16.7	0.9	0.9	1.1	1.0
Shriram Transport	ADD	1,112	1,400	25.9	252	3.7	227	69	105	125	24.7	52.1	18.7	16.1	10.6	8.9	—	—	—	2.1	1.8	1.6	13.1	17.6	18.0	1.0	1.3	1.6	24.0
NBFCs	Neutral				10,340	150					38.0	7.0	19.3	30.1	28.1	23.6				5.1	4.3	3.8	16.8	15.4	16.1	0.7	0.7	0.8	572.1
Cement																													
ACC	SELL	1,374	1,205	(12.3)	258	3.7	188	49	54	66	32.7	10.6	23.0	28.2	25.5	20.7	14.9	13.8	11.1	2.8	2.6	2.4	10.1	10.5	11.9	1.2	1.2	1.2	10.5
Ambuja Cements	REDUCE	207	215	3.7	412	6.0	1,986	8	7	9	29.7	(1.3)	27.0	27.6	27.9	22.0	9.1	9.0	7.2	2.0	1.9	1.8	7.4	7.0	8.6	1.7	1.7	1.7	9.0
Dalmia Bharat	ADD	2,314	2,900	25.3	206	3.0	89	60	98	128	55.4	62.6	30.3	38.3	23.6	18.1	12.1	9.2	7.4	3.4	3.0	2.6	9.7	13.4	15.2	0.1	0.1	0.1	5.2
Grasim Industries	BUY	988	1,275	29.1	650	9.4	657	47	52	69	(30.1)	9.1	32.8	20.8	19.1	14.4	12.0	7.3	6.7	1.1	1.1	1.0	7.0	5.8	7.2	0.6	0.6	0.6	13.6
India Cements	REDUCE	109	135	24.1	34	0.5	308	3	5	9	(42.5)	56.2	84.4	33.3	21.3	11.6	9.4	8.1	6.4	0.6	0.6	0.6	2.0	3.0	5.3	0.9	0.9	0.9	6.5
J K Cement	REDUCE	855	1,000	17.0	60	0.9	70	43	51	83	25.1	17.0	65.0	19.8	16.9	10.2	10.3	10.9	8.8	3.0	2.6	2.2	16.2	16.7	23.2	0.9	0.9	0.9	0.6
JK Lakshmi Cement	ADD	333	425	27.8	39	0.6	118	4	18	33	(35.7)	311.2	79.6	74.4	18.1	10.1	13.7	8.2	5.9	2.7	2.4	2.0	3.7	14.1	21.5	0.6	0.6	0.6	0.5
Orient Cement	ADD	116	165	42.9	24	0.3	205	2	8	12	237.8	250.7	64.8	53.5	15.3	9.3	11.8	7.5	5.5	2.3	2.1	1.8	4.4	14.3	20.6	0.6	1.3	1.7	0.1
Shree Cement	SELL	16,300	12,700	(22.1)	568	8.2	35	397	486	662	3.4	22.3	36.2	41.0	33.5	24.6	22.0	16.6	13.0	6.4	5.5	4.5	16.7	17.6	20.2	0.3	0.3	0.3	4.5
UltraTech Cement	SELL	3,954	3,000	(24.1)	1,086	15.7	275	89	119	153	(7.0)	33.1	28.9	44.2	33.2	25.8	20.5	16.1	13.4	4.2	3.8	3.3	9.9	12.0	13.7	0.3	0.3	0.3	17.0
Cement	Cautious				3,336	48					6.1	21.2	33.4	32.1	26.5	19.9	14.3	10.4	8.8	2.4	2.3	2.1	7.5	8.5	10.3	0.6	0.6	0.6	67.6

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Target price		Upside (%)	Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		6-Jul-18	(Rs)				2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E		
Consumer products																													
Asian Paints	REDUCE	1,323	1,100	(16.9)	1,269	18.4	959	21	24	28	2.9	18.7	14.7	64.5	54.3	47.4	39.4	33.9	29.5	15.1	13.3	11.9	24.6	26.1	26.6	0.7	0.8	1.0	16.6
Bajaj Corp.	ADD	420	520	23.8	62	0.9	148	14	17	19	(10.5)	18.7	10.5	29.7	25.0	22.6	23.5	20.1	17.2	12.6	12.2	11.6	42.3	49.4	52.4	2.9	3.1	3.3	0.4
Britannia Industries	ADD	6,310	6,000	(4.9)	758	11.0	120	84	104	126	13.5	24.4	21.5	75.4	60.6	49.9	49.9	39.2	32.2	22.2	17.6	14.3	32.9	32.4	31.6	0.4	0.6	0.7	9.0
Coffee Day Enterprises	REDUCE	260	340	30.7	55	0.8	211	3	8	13	49.1	149.7	59.4	77.8	31.1	19.5	13.3	—	—	2.3	2.2	1.9	3.1	7.2	10.4	—	—	—	1.2
Colgate-Palmolive (India)	ADD	1,145	1,300	13.6	311	4.5	272	24	27	32	15.2	14.6	16.9	48.1	42.0	35.9	27.6	24.2	20.7	20.4	20.6	17.5	46.2	48.8	52.6	2.1	1.4	1.7	7.7
Dabur India	REDUCE	370	350	(5.4)	654	9.5	1,762	8	9	10	7.2	16.1	11.7	47.6	41.0	36.7	40.3	34.9	30.5	11.4	11.5	10.0	25.9	27.9	29.1	2.0	1.0	1.2	8.3
GlaxoSmithKline Consumer	ADD	6,392	6,750	5.6	269	3.9	42	166	189	211	6.6	13.3	11.9	38.4	33.9	30.3	26.4	22.6	19.5	7.7	7.0	6.4	21.2	21.7	22.2	1.2	1.4	1.6	2.2
Godrej Consumer Products	REDUCE	1,250	1,020	(18.4)	852	12.3	681	21	25	28	11.5	17.6	13.3	58.5	49.8	43.9	41.5	35.3	30.8	13.6	11.8	10.2	25.2	25.4	24.9	0.6	0.7	0.8	8.8
Hindustan Unilever	REDUCE	1,678	1,430	(14.8)	3,633	52.7	2,160	25	28	32	25.0	14.9	13.0	68.4	59.6	52.7	49.1	41.5	36.4	51.2	46.0	40.2	78.1	81.4	81.3	1.2	1.3	1.4	27.5
ITC	ADD	273	315	15.5	3,327	48.2	12,275	9	10	11	7.8	7.8	12.4	30.6	28.4	25.2	19.9	18.3	16.1	6.5	6.1	5.8	19.4	20.3	22.2	1.9	2.1	2.5	40.2
Jubilant Foodworks	BUY	1,368	1,500	9.7	180	2.6	132	15	24	33	191.7	64.1	39.2	94.0	57.3	41.1	40.1	27.7	20.8	18.7	13.6	10.4	21.7	27.5	28.8	0.1	0.1	0.2	38.1
Jyothy Laboratories	ADD	229	220	(4.0)	83	1.2	364	4	6	6	35.1	25.4	17.2	52.0	41.5	35.4	31.9	26.3	22.8	7.3	6.3	5.5	14.3	16.3	16.6	0.2	0.4	0.7	1.5
Manpasand Beverages	SELL	155	132	(15.0)	18	0.3	114	9	11	13	37.6	21.3	26.5	17.8	14.7	11.6	9.1	6.1	4.9	1.4	1.3	1.2	8.3	9.3	10.7	0.3	0.3	0.3	3.3
Marico	ADD	347	345	(0.6)	448	6.5	1,291	6	7	8	7.4	16.7	13.7	55.4	47.5	41.7	39.1	32.8	28.6	17.6	16.3	15.1	33.2	35.7	37.5	1.2	1.4	1.6	8.1
Nestle India	ADD	9,943	9,500	(4.5)	959	13.9	96	127	168	191	21.1	32.5	13.4	78.2	59.1	52.1	43.0	33.4	29.4	28.0	25.8	23.7	36.6	45.5	47.3	0.9	1.1	1.3	8.9
Page Industries	SELL	28,391	21,000	(26.0)	317	4.6	11	311	392	482	32.5	26.1	22.9	91.3	72.4	58.9	58.1	46.0	37.8	37.4	29.2	23.3	45.9	45.3	44.0	0.5	0.6	0.7	7.6
Pidlite Industries	REDUCE	1,057	1,050	(0.6)	537	7.8	508	18	22	26	7.5	20.4	20.4	58.6	48.7	40.4	39.1	32.6	26.8	15.0	12.6	10.6	26.0	28.2	28.5	0.6	0.7	0.8	14.0
S H Kelkar and Company	BUY	219	315	44.2	32	0.5	145	7	8	11	2.1	11.8	28.4	29.5	26.4	20.6	20.5	17.1	13.4	3.7	3.3	3.0	12.8	13.3	15.3	0.8	0.8	0.9	0.3
Tata Global Beverages	REDUCE	266	285	7.0	168	2.4	631	7	10	11	20.7	29.4	19.1	36.2	28.0	23.5	19.1	16.1	13.9	2.4	2.3	2.1	7.0	8.3	9.4	0.9	1.1	1.3	13.8
Titan Company	SELL	831	800	(3.7)	738	10.7	888	13	16	20	43.3	26.7	20.6	65.0	51.3	42.5	44.5	34.0	27.2	14.5	12.2	10.3	24.3	25.8	26.2	0.5	0.5	0.7	36.2
United Breweries	SELL	1,170	1,000	(14.6)	309	4.5	264	15	19	24	71.6	29.7	23.4	78.4	60.5	49.0	34.5	28.7	24.9	11.5	9.9	8.4	15.7	17.6	18.6	0.2	0.2	0.3	9.6
United Spirits	SELL	637	560	(12.0)	463	6.7	727	8	11	14	39.1	40.5	27.4	83.7	59.5	46.7	48.0	35.4	29.3	18.5	12.6	9.3	24.9	25.1	22.8	—	—	0.3	19.1
Varun Beverages	ADD	751	750	(0.1)	137	2.0	183	12	17	22	377.8	45.4	29.8	65.2	44.8	34.5	19.8	16.0	13.7	7.7	6.7	5.7	12.1	16.0	17.7	—	—	0.1	1.2
Consumer products	Cautious				15,577	226					15.0	16.4	15.2	51.4	44.2	38.4	33.5	28.5	24.6	12.6	11.4	10.2	24.5	25.8	26.6	1.1	1.2	1.4	283.4
Energy																													
BPCL	REDUCE	375	390	4.0	814	11.8	1,967	40	39	41	(1.5)	(3.6)	5.3	9.3	9.7	9.2	7.6	7.1	6.6	2.2	1.9	1.7	24.8	21.1	20.0	5.6	4.1	4.4	38.1
Castrol India	ADD	162	215	32.3	161	2.3	989	7	8	9	3.3	13.6	10.9	23.6	20.8	18.8	14.8	13.0	11.7	15.8	14.9	14.6	67.9	73.6	78.6	2.9	3.7	4.3	4.1
GAIL (India)	BUY	344	410	19.1	776	11.3	2,255	20	25	27	21.8	23.2	8.3	16.9	13.7	12.6	10.6	8.8	8.1	1.9	1.8	1.6	11.7	13.5	13.5	2.1	2.5	2.6	20.3
GSPL	SELL	180	170	(5.4)	101	1.5	564	12	11	11	34.5	(7.0)	(4.6)	15.2	16.3	17.1	7.7	6.4	6.3	2.0	1.8	1.7	14.0	11.7	10.2	1.0	0.9	0.9	1.5
HPCL	REDUCE	268	320	19.4	408	5.9	1,524	42	32	33	(3.2)	(23.4)	3.4	6.4	8.4	8.1	5.7	7.4	7.6	1.7	1.5	1.4	28.7	19.3	18.2	6.3	4.9	5.0	31.7
Indraprastha Gas	SELL	256	240	(6.4)	179	2.6	700	10	12	13	19.0	16.5	12.0	24.9	21.3	19.1	15.6	13.5	11.9	5.1	4.4	3.8	22.4	22.2	21.5	0.8	1.0	1.2	10.2
IOCL	REDUCE	157	160	2.1	1,522	22.1	9,479	21	17	18	(24.8)	(17.9)	7.4	7.6	9.3	8.7	4.5	5.2	4.7	1.3	1.3	1.2	18.5	14.0	14.0	7.3	4.3	4.6	27.9
Mahanagar Gas	ADD	809	850	5.1	80	1.2	99	48	52	54	21.5	6.5	5.3	16.7	15.7	14.9	10.1	9.1	8.4	3.8	3.4	3.0	24.3	22.8	21.4	2.3	2.5	2.7	8.5
ONGC	ADD	155	200	28.7	1,995	28.9	12,833	17	21	21	3.1	19.6	(1.3)	8.9	7.5	7.6	4.8	3.8	3.7	0.9	0.8	0.8	9.9	11.5	10.7	4.2	4.5	4.5	17.4
Oil India	SELL	206	220	7.0	233	3.4	1,135	25	24	24	22.6	(1.3)	(0.7)	8.3	8.4	8.5	6.5	5.9	5.9	0.8	0.8	0.8	9.8	9.7	9.2	5.0	5.3	5.3	3.6
Petronet LNG	BUY	217	280	29.0	326	4.7	1,500	14	16	18	22.1	17.3	13.2	15.6	13.3	11.8	10.4	8.9	7.5	3.3	2.9	2.6	23.3	23.4	23.3	2.1	2.6	3.4	11.5
Reliance Industries	REDUCE	978	930	(4.9)	5,785	83.9	5,922	59	68	77	16.9	14.9	13.9	16.5	14.4	12.6	12.7	10.2	8.6	2.0	1.8	1.6	11.6	11.9	12.1	0.6	0.6	0.7	101.0
Energy	Attractive				12,380	179					1.0	5.8	7.3	12.0	11.4	10.6	8.0	7.1	6.4	1.6	1.5	1.3	13.3	12.8	12.6	2.7	2.4	2.5	275.9

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)
		6-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
Industrials																													
ABB	SELL	1,174	1,100	(6.3)	249	3.6	212	20	26	34	12.1	31.2	31.7	59.3	45.2	34.3	32.6	27.8	21.0	6.9	6.3	5.6	12.2	14.6	17.3	0.3	0.8	0.8	1.6
BHEL	SELL	70	81	15.1	258	3.7	3,671	2.2	2.6	5.4	62.7	19.4	106.9	32.0	26.8	13.0	7.6	6.9	3.5	0.8	0.8	0.8	2.5	3.0	6.1	2.6	3.1	6.4	8.8
Carborundum Universal	SELL	324	310	(4.2)	61	0.9	189	11	14	17	22.8	25.4	20.2	28.4	22.6	18.8	15.3	11.4	9.8	3.9	3.5	3.1	14.6	16.4	17.6	0.7	1.3	1.6	0.3
CG Power and Industrial	BUY	60	65	8.3	38	0.5	627	0.8	3.1	4.3	(72.2)	275.7	40.5	73.5	19.6	13.9	10.9	8.2	6.7	1.4	1.5	1.4	1.5	7.3	10.4	—	—	—	5.9
Crompton Greaves Consumer	SELL	228	210	(7.9)	143	2.1	627	5.2	6.2	7.5	13.3	20.0	20.9	44.1	36.8	30.4	27.1	22.9	19.3	18.1	12.6	9.7	49.5	40.5	35.9	0.7	0.9	1.1	2.9
Cummins India	REDUCE	660	680	3.0	183	2.7	277	24	28	32	(7.8)	16.1	13.9	27.3	23.5	20.6	24.0	20.6	17.1	4.6	4.3	4.0	17.4	18.9	20.1	2.3	2.2	2.6	4.6
Havells India	SELL	551	460	(16.5)	345	5.0	625	11	14	17	16.6	26.2	19.6	49.7	39.4	32.9	31.6	25.1	20.5	9.2	8.1	7.1	19.8	21.9	23.0	0.6	0.9	1.1	10.1
Kalpataru Power Transmission	BUY	405	530	30.9	62	0.9	153	19	24	34	36.5	24.3	39.8	20.9	16.8	12.0	8.7	7.2	5.8	2.3	2.1	1.8	11.7	13.1	16.1	0.6	0.6	0.6	0.6
KEC International	BUY	336	430	28.1	86	1.3	257	18	22	29	51.1	22.0	34.4	18.7	15.4	11.4	10.1	8.4	6.7	4.3	3.5	2.8	25.7	25.2	27.1	0.7	0.9	1.2	3.4
L&T	BUY	1,266	1,560	23.2	1,775	25.7	1,401	52	62	76	22.4	19.4	23.0	24.5	20.5	16.7	20.4	16.8	14.9	3.5	3.2	2.9	15.0	16.5	18.2	1.3	1.8	2.2	40.9
Siemens	SELL	976	975	(0.1)	348	5.0	356	24	30	37	22.5	23.0	23.2	40.3	32.8	26.6	22.8	18.2	14.6	4.3	4.0	3.7	10.9	12.6	14.5	1.0	1.2	1.5	3.5
Thermax	REDUCE	1,021	1,065	4.3	122	1.8	113	21	30	42	(3.6)	44.2	42.8	49.5	34.3	24.0	30.2	21.3	15.1	4.2	3.9	3.5	8.8	11.8	15.3	0.6	0.8	0.9	0.9
Voltas	SELL	521	525	0.8	172	2.5	331	17	19	22	12.6	8.3	15.6	30.1	27.8	24.0	25.0	21.2	17.6	4.4	4.0	3.5	15.9	15.0	15.5	0.8	0.8	1.0	14.5
Industrials	Neutral				3,841	56					19.8	21.6	28.9	29.9	24.6	19.1	19.7	16.4	13.5	3.2	3.0	2.8	10.8	12.3	14.6	1.2	1.5	2.0	98.1
Infrastructure																													
Adani Ports and SEZ	BUY	366	470	28.5	757	11.0	2,071	20	20	23	6.1	(0.2)	14.7	18.3	18.3	15.9	13.1	12.6	11.1	3.6	3.1	2.7	21.5	18.1	17.9	0.6	0.7	0.8	26.1
Ashoka Buildcon	BUY	228	310	35.9	43	0.6	188	13	13	13	34.6	0.5	5.2	18.1	18.0	17.1	14.6	12.3	10.9	2.2	1.9	1.7	13.0	11.4	10.7	0.7	1.1	0.7	1.0
Container Corp.	SELL	649	635	(2.2)	316	4.6	487	18	21	26	7.3	20.0	21.4	36.7	30.6	25.2	24.3	18.9	14.9	3.4	3.1	2.9	9.4	10.6	11.9	2.6	1.4	1.6	8.7
Dilip Buildcon	BUY	688	1,220	77.4	94	1.4	137	46	54	69	76.5	16.1	28.0	14.8	12.8	10.0	8.6	6.2	5.1	3.8	2.9	2.3	29.5	25.9	25.4	—	—	—	8.4
Gateway Distriparks	BUY	165	250	51.6	18	0.3	109	8	8	9	12.1	(1.2)	17.5	21.6	21.8	18.6	20.5	10.3	8.6	1.8	3.5	3.1	8.2	10.8	17.6	4.2	—	1.8	0.8
Gujarat Pipavav Port	BUY	112	170	52.0	54	0.8	483	4.1	5.9	7.2	(20.6)	43.7	22.5	27.2	19.0	15.5	13.3	11.0	8.7	2.7	2.6	2.6	9.8	14.0	16.8	3.0	4.3	5.3	0.8
IRB Infrastructure	BUY	208	330	58.9	73	1.1	351	23	31	33	10.8	36.8	7.1	9.2	6.7	6.3	7.1	6.7	7.2	1.3	1.1	1.0	14.5	17.6	16.3	1.1	1.5	1.9	11.5
Mahindra Logistics	BUY	610	540	(11.5)	43	0.6	71	10	14	18	16.2	42.8	31.2	62.2	43.6	33.2	35.9	24.1	18.3	10.3	8.6	7.1	18.2	21.6	23.5	—	—	—	0.8
Sadbhav Engineering	BUY	277	440	58.8	48	0.7	172	13	18	18	17.4	38.4	2.2	21.5	15.6	15.2	15.0	12.0	9.3	2.5	2.2	2.0	12.5	15.2	13.7	—	—	—	0.8
Infrastructure	Attractive				1,447	21					10.9	10.5	15.5	20.0	18.1	15.6	12.8	11.3	9.9	3.2	2.8	2.4	15.8	15.4	15.5	1.1	0.9	1.1	58.8
Internet																													
Info Edge	BUY	1,200	1,390	15.8	146	2.1	122	23	26	32	33.3	13.9	25.9	53.3	46.8	37.2	44.0	34.6	26.4	6.9	5.6	5.1	13.4	13.2	14.3	0.5	0.6	0.7	1.5
Just Dial	BUY	570	550	(3.6)	38	0.6	67	21	25	28	21.7	16.7	12.9	26.8	23.0	20.4	16.0	13.3	11.1	3.9	3.4	3.0	15.2	15.9	15.6	—	0.4	0.5	44.9
Internet	Cautious				185	3					28.0	14.8	21.4	44.3	38.6	31.8	34.0	27.6	21.8	6.0	4.9	4.4	13.5	12.8	13.9	0.4	0.6	0.6	46.4
Media																													
DB Corp.	REDUCE	261	295	13.0	48	0.7	184	18	20	24	(14.1)	13.2	18.8	14.8	13.1	11.0	7.9	6.9	5.8	2.9	2.7	2.6	19.9	21.5	24.5	5.0	6.1	7.7	0.5
DishTV	ADD	73	84	15.3	134	1.9	1,925	(0.4)	1.7	3.0	(143.0)	482.0	76.2	NM	43.3	24.6	11.9	6.4	5.2	2.1	2.0	1.8	(2.3)	4.7	7.8	—	—	—	10.0
Jagran Prakashan	REDUCE	134	168	25.5	42	0.6	311	10	12	14	(6.0)	21.7	15.3	13.4	11.0	9.5	6.1	5.4	4.7	2.0	2.0	1.9	14.8	18.1	20.9	2.2	3.7	6.7	0.8
PVR	REDUCE	1,371	1,425	3.9	64	0.9	47	27	38	50	25.5	39.8	33.2	51.1	36.5	27.4	17.1	14.1	11.7	6.0	5.2	4.5	12.3	15.2	17.5	0.1	0.3	0.4	6.1
Sun TV Network	REDUCE	794	925	16.5	313	4.5	394	29	35	39	10.2	20.7	10.9	27.6	22.8	20.6	18.5	15.5	13.5	6.8	6.1	5.5	26.3	28.1	27.9	1.3	2.2	2.5	22.3
Zee Entertainment Enterprises	ADD	545	625	14.7	523	7.6	960	15	17	20	7.8	13.8	16.8	36.3	31.9	27.3	23.6	20.3	17.1	6.9	6.1	5.3	20.3	20.3	20.9	0.5	0.8	1.0	14.5
Media	Attractive				1,124	16					(1.5)	30.3	20.1	34.5	26.5	22.1	16.7	12.9	11.0	4.7	4.4	4.0	13.7	16.5	17.9	0.9	1.4	1.8	54.1

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)	
		6-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E		2020E
Metals & Mining																													
Coal India	ADD	271	326	20.2	1,683	24.4	6,207	11	27	28	(24.2)	138.2	3.0	24.0	10.1	9.8	17.9	6.4	6.1	7.0	6.4	6.6	26.7	66.1	66.4	6.1	7.4	9.2	13.1
Hindalco Industries	BUY	220	315	42.9	495	7.2	2,229	22	27	31	155.4	23.5	14.3	10.1	8.2	7.1	6.4	5.4	4.7	0.9	0.8	0.7	9.7	10.4	10.8	0.5	0.5	0.5	41.1
Hindustan Zinc	REDUCE	272	325	19.5	1,149	16.7	4,225	22	24	28	9.3	13.6	13.8	12.6	11.1	9.8	7.7	6.3	5.2	3.2	2.7	2.3	27.2	26.4	25.6	2.9	2.9	3.1	9.1
Jindal Steel and Power	REDUCE	216	255	18.2	209	3.0	968	(8)	8	18	59.3	194.2	129.1	(25.4)	27.0	11.8	9.7	7.0	6.0	0.7	0.7	0.7	(2.7)	2.6	5.7	—	—	—	28.3
JSW Steel	ADD	309	345	11.8	746	10.8	2,417	27	27	25	83.9	(0.7)	(5.7)	11.5	11.6	12.3	7.6	7.0	7.5	2.6	2.2	1.9	24.8	20.4	16.5	1.1	1.1	1.1	19.2
National Aluminium Co.	ADD	61	85	39.8	118	1.7	1,933	4	7	7	12.7	63.0	11.1	14.7	9.0	8.1	6.0	4.0	3.6	1.1	1.1	1.1	7.7	12.4	13.6	9.4	9.0	9.0	13.2
NMDC	REDUCE	103	125	21.1	327	4.7	3,164	12	10	10	43.3	(16.5)	3.6	8.8	10.5	10.2	4.8	6.4	6.1	1.3	1.3	1.2	15.8	12.5	12.4	5.3	5.3	5.3	4.0
Tata Steel	ADD	554	700	26.5	634	9.2	1,205	67	69	82	62.6	3.1	18.4	8.2	8	6.7	6.2	6.1	6.2	1.1	1.0	0.9	17.2	13.1	13.9	1.7	1.8	1.8	68.3
Vedanta	BUY	219	415	89.4	814	11.8	3,717	22	37	43	9.6	71.9	16.9	10.1	5.9	5.1	5.6	4.1	3.4	1.3	1.2	1.0	12.9	20.6	21.4	3.7	5.1	5.9	58.3
Metals & Mining	Attractive				6,174	90					32.3	41.4	11.3	13.1	9.2	8.3	7.4	5.8	5.3	1.9	1.7	1.5	14.3	18.0	18.4	3.5	4.0	4.7	254.8
Pharmaceutical																													
Apollo Hospitals	ADD	1,017	1,090	7.2	141	2.1	139	8	19	26	(46.9)	124.3	38.0	120.5	53.7	38.9	21.8	18.6	15.7	4.4	4.1	3.8	3.4	7.9	10.2	0.2	0.5	0.6	6.5
Aurobindo Pharma	ADD	618	640	3.6	362	5.2	584	42	43	46	6.0	2.3	7.9	14.8	14.4	13.4	10.3	9.9	8.9	3.1	2.6	2.2	23.2	19.5	16.6	0.7	0.8	1.0	20.8
Biocon	SELL	631	300	(52.5)	379	5.5	601	6	8	15	(39.2)	27.1	84.9	101.8	80.1	43.3	45.7	33.6	22.1	6.7	6.3	5.7	6.9	8.1	13.7	0.3	0.4	0.8	23.6
Cipla	BUY	613	650	6.1	493	7.1	805	18	26	34	40.2	48.7	30.8	35.0	23.5	18.0	18.2	13.3	10.6	3.4	3.0	2.7	10.2	13.6	15.9	0.6	0.9	1.2	23.9
Dr Lal Pathlabs	REDUCE	912	865	(5.2)	76	1.1	83	20	25	29	7.0	20.8	18.5	44.6	36.9	31.2	27.1	22.7	19.0	9.6	8.0	6.7	23.5	23.7	23.4	0.5	0.5	0.6	1.3
Dr Reddy's Laboratories	REDUCE	2,269	2,250	(0.8)	376	5.5	166	59	100	134	(18.5)	69.8	33.3	38.4	22.6	17.0	17.7	11.3	8.4	3.0	2.7	2.4	7.8	12.5	13.9	1.1	0.7	0.9	29.7
HCG	REDUCE	282	305	8.2	25	0.4	85	2	3	5	(40.0)	120.9	57.3	180.3	81.6	51.9	23.8	18.5	15.7	4.7	4.4	4.1	2.8	5.5	8.1	—	—	—	0.2
Laurus Labs	ADD	473	540	14.2	50	0.7	106	16	22	34	(11.9)	37.3	54.4	29.8	21.7	14.1	14.5	11.8	8.7	3.4	2.9	2.4	11.9	14.4	18.8	—	—	—	0.9
Lupin	REDUCE	916	800	(12.6)	414	6.0	450	38	35	45	(32.9)	(7.7)	28.6	24.0	26.0	20.2	14.7	13.1	10.7	3.0	2.8	2.5	12.6	11.1	12.9	0.5	0.6	0.7	31.3
Narayana Hrudayalaya	ADD	242	275	13.8	49	0.7	204	3	4	7	(38.1)	52.2	76.9	96.1	63.1	35.7	26.6	20.1	14.7	4.8	4.4	3.9	5.1	7.3	11.7	—	—	—	0.4
Sun Pharmaceuticals	REDUCE	558	500	(10.4)	1,339	19.4	2,406	15	17	24	(47.5)	12.0	42.0	36.8	32.8	23.1	21.7	17.8	13.1	3.5	3.2	2.9	9.8	10.2	13.1	0.4	0.6	0.9	51.0
Torrent Pharmaceuticals	NR	1,419	—	—	240	3.5	169	40	46	61	(27.4)	15.1	32.9	35.4	30.8	23.2	19.8	14.2	11.8	5.2	4.6	4.0	15.1	14.9	17.2	1.1	0.7	1.0	5.2
Pharmaceuticals	Neutral				3,945	57					(27.6)	18.9	32.6	33.5	28.2	21.3	18.6	15.0	11.8	3.7	3.3	2.9	10.9	11.7	13.7	0.5	0.6	0.9	194.8
Real Estate																													
Brigade Enterprises	BUY	204	340	66.5	28	0.4	136	11	9	9	(17.7)	(15.1)	(1.6)	18.4	21.7	22.1	11.1	11.3	11.1	1.2	1.2	1.1	7.6	5.5	5.2	1.2	1.2	1.2	0.4
DLF	RS	187	—	—	333	4.8	1,784	19.6	6.5	3.9	403.9	(66.9)	(39.6)	9.5	28.8	47.7	28.5	12.4	12.2	0.9	0.9	0.9	11.7	3.2	1.9	1.1	1.1	1.1	17.9
Godrej Properties	SELL	706	400	(43.3)	162	2.3	216	11.6	16.8	19.2	21.9	43.9	14.9	60.6	42.1	36.7	151.7	107.9	76.7	6.8	5.8	5.0	11.8	14.9	14.7	—	—	—	2.7
Oberoi Realty	BUY	460	560	21.7	167	2.4	340	13	62	44	14.0	385.4	(28.1)	36.2	7.4	10.4	27.1	10.3	12.9	2.6	1.7	1.5	7.3	27.4	15.2	0.4	0.4	0.4	3.4
Prestige Estates Projects	ADD	275	315	14.4	103	1.5	375	13	10	10	24.3	(24.2)	8.4	22.0	29.0	26.7	15.1	15.6	15.7	2.2	2.1	1.9	10.3	7.3	7.5	0.5	0.5	0.5	1.0
Sobha	REDUCE	492	510	3.6	47	0.7	95	22	20	23	30.9	(7.5)	14.8	22.5	24.4	21.2	13.5	13.7	12.9	1.7	1.6	1.5	7.6	6.8	7.4	1.4	1.4	1.4	1.9
Suntech Realty	REDUCE	375	330	(12.1)	55	0.8	140	15	18	20	4.8	20.2	6.9	24.6	20.4	19.1	15.9	17.5	16.3	2.0	1.8	1.7	9.7	9.4	9.2	0.3	0.3	0.3	1.8
Real Estate	Neutral				895	13					140.1	(12.6)	(20.2)	17.1	19.6	24.6	23.9	14.6	14.9	1.6	1.5	1.4	9.3	7.5	5.7	0.7	0.7	0.7	29.2

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		6-Jul-18	(Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
Technology																													
HCL Technologies	REDUCE	944	1,010	7.0	1,314	19.1	1,409	62	68	71	5.3	9.0	5.0	15.2	13.9	13.2	10.6	8.9	8.2	3.6	3.1	2.7	24.8	23.8	21.9	0.9	3.1	3.3	32.3
Hexaware Technologies	SELL	450	420	(6.7)	134	1.9	304	16	20	22	19.8	20.5	12.5	27.4	22.8	20.2	19.6	16.5	14.0	6.8	5.9	5.1	26.6	27.8	27.0	0.9	1.8	1.8	11.8
Infosys	ADD	1,284	1,350	5.1	2,805	40.7	2,175	65	70	76	3.0	8.1	9.5	19.9	18.4	16.8	13.7	12.5	11.3	4.3	4.1	3.7	21.8	22.7	23.1	2.2	3.4	3.0	77.9
L&T Infotech	ADD	1,668	1,650	(1.1)	287	4.2	175	64	73	84	13.9	14.5	15.7	26.2	22.9	19.8	22.9	17.1	14.3	7.6	6.3	5.3	31.8	30.0	29.0	1.0	1.4	1.6	4.4
Mindtree	ADD	993	1,015	2.2	163	2.4	165	35	43	52	37.8	23.2	23.2	28.8	23.3	18.9	20.9	14.6	11.9	6.0	5.1	4.4	21.4	23.6	24.9	1.1	1.3	1.6	30.4
Mphasis	SELL	1,109	760	(31.5)	214	3.1	193	44	52	56	14.4	18.3	8.2	25.3	21.4	19.8	18.3	14.8	13.2	3.9	3.6	3.2	14.6	17.4	17.1	1.8	1.8	1.8	11.4
TCS	REDUCE	1,913	1,650	(13.7)	7,324	106.2	3,829	67	78	84	1.1	15.0	8.8	28.4	24.7	22.7	21.1	17.9	16.3	8.4	7.8	7.2	29.4	32.7	33.1	1.3	2.6	2.9	107.9
Tech Mahindra	ADD	635	775	22.1	560	8.1	891	43	45	53	33.1	6.6	15.8	14.9	14.0	12.1	10.9	8.4	6.9	3.0	2.6	2.2	21.5	19.9	19.7	2.3	1.5	1.6	34.9
Wipro	REDUCE	263	295	12.3	1,189	17.2	4,507	17	19	21	(3.1)	11.1	13.7	15.5	14.0	12.3	9.7	8.2	7.2	2.5	2.1	2.0	16.0	16.3	16.6	0.4	0.6	3.8	11.5
Technology	Cautious				13,990		203				1.6	9.9	9.8	21.8	19.9	18.1	15.8	13.6	12.2	5.2	4.7	4.3	23.7	23.5	23.5	1.4	2.5	2.9	322.7
Telecom																													
Bharti Airtel	ADD	362	470	29.7	1,448	21.0	3,997	5	(4)	0	(42.9)	(187.4)	104.6	76.5	(87.5)	1,917.2	8.1	9.2	7.4	2.1	2.2	2.2	2.8	(2.4)	0.1	1.5	0.3	0.0	36.6
Bharti Infratel	REDUCE	299	285	(4.7)	553	8.0	1,850	14	13	11	(7.4)	(8.7)	(9.0)	21.7	23.8	26.2	7.9	8.6	9.1	3.3	3.4	3.4	15.7	14.0	13.1	4.8	3.4	3.1	15.0
IDEA	REDUCE	55	75	37.1	238	3.5	4,359	(10)	(15)	(14)	(656.8)	(54.9)	6.4	(5.7)	(3.7)	(3.9)	12.3	22.5	16.7	0.9	1.1	1.6	(16.0)	(26.9)	(34.0)	—	—	—	16.9
Tata Communications	ADD	589	725	23.0	168	2.4	285	2	4	8	(84.3)	121.9	117.7	358	161.3	74.1	10.8	9.6	8.4	33.6	27.2	19.6	4.5	18.6	30.7	1.1	1.1	1.3	4.6
Telecom	Cautious				2,408		35				(94.7)	(1,906.6)	36.2	765.5	(42.4)	(66.4)	8.8	10.3	8.6	2.1	2.3	2.5	0.3	(5.5)	(3.7)	2.0	0.9	0.7	73.1
Utilities																													
CESC	ADD	912	1,180	29.3	121	1.8	133	87	102	118	67.1	16.8	15.5	10.5	9.0	7.8	7.6	5.6	4.9	0.8	0.8	0.7	7.9	8.8	9.4	1.4	1.1	1.2	6.0
JSW Energy	REDUCE	67	80	20.1	109	1.6	1,640	3.1	5.9	8.2	(19.2)	92.2	38.7	21.7	11.3	8.1	6.9	5.5	4.5	1.0	0.9	0.9	4.7	8.5	11.0	3.0	3.0	3.0	2.0
NHPC	ADD	23	30	28.5	240	3.5	10,260	2.4	3.1	3.2	(17.3)	26.9	1.8	9.6	7.5	7.4	9.0	7.1	6.8	0.8	0.8	0.7	8.5	10.4	10.2	6.0	7.5	7.5	2.1
NTPC	BUY	150	190	26.5	1,239	18.0	8,245	11	15	16	(7.6)	30.9	4.4	13.2	10.1	9.7	10.9	8.4	7.8	1.2	1.1	1.0	9.5	11.6	11.3	3.8	3.0	3.1	13.3
Power Grid	BUY	182	250	37.5	951	13.8	5,232	16	19	21	9.6	19.3	13.6	11.5	9.7	8.5	8.3	7.1	6.5	1.7	1.6	1.4	15.8	17.1	17.5	2.9	3.4	3.9	30.3
Reliance Power	SELL	31	43	38.7	87	1.3	2,805	3.5	5.1	5.2	(16.4)	45.6	2.7	8.9	6.1	6.0	7.8	6.6	6.4	0.4	0.4	0.3	4.5	6.1	5.9	—	—	—	4.4
Tata Power	ADD	72	97	35.2	194	2.8	2,705	5.3	7.8	8.7	(9.6)	46.1	11.2	13.4	9.2	8.3	10.2	9.4	8.6	1.3	1.1	1.0	10.7	12.9	12.7	—	—	—	5.8
Utilities	Attractive				2,941		43				(2.4)	28.6	9.0	12.1	9.4	8.7	9.2	7.6	7.0	1.2	1.1	1.0	9.7	11.5	11.6	3.2	3.1	3.3	64.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	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)																																							
		6-Jul-18 (Rs)	(Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E																																								
Others																																																																				
Astral Poly Technik	SELL	992	625	(37.0)	119	1.7	120	15	19	23	20.8	28.0	23.0	67.6	52.9	43.0	38.0	29.5	24.0	11.7	9.6	8.0	18.8	20.0	20.3	0.1	0.1	0.1	1.2																																							
Avenue Supermarts	SELL	1,568	860	(45.2)	979	14.2	624	13	16	20	47.9	28.6	26.4	124.7	97.0	76.7	73.1	56.0	43.9	21.1	17.3	14.1	18.5	19.6	20.3	—	—	—	—																																							
Bayer Cropscience	REDUCE	4,535	4,000	(11.8)	179	2.6	34	86	105	124	4.4	22.7	17.5	52.8	43.0	36.6	42.7	33.4	26.8	8.7	7.6	6.5	15.4	18.8	19.2	0.4	0.5	0.5	0.5																																							
Dhanuka Agritech	ADD	547	690	26.1	27	0.4	49	26	28	32	7.7	8.9	15.4	21.3	19.6	16.9	15.6	13.4	11.2	4.2	3.7	3.1	21.9	20.1	20.0	1.0	1.1	1.3	0.1																																							
Godrej Agrovet	ADD	611	650	6.4	117	1.7	189	12	16	20	6.9	39.8	24.6	53.1	37.9	30.5	27.3	21.0	17.0	6.9	6.0	5.0	14.7	16.9	17.9	0.3	0.4	0.5	2.4																																							
Godrej Industries	RS	592	—	—	199	2.9	336	15	16	20	6.8	8.9	24.2	40.6	37.3	30.0	36.3	30.8	33.5	5.5	4.9	4.3	14.4	13.9	15.1	0.3	0.3	0.3	5.0																																							
InterGlobe Aviation	BUY	1,075	1,430	33.0	413	6.0	383	59	71	98	27.2	21.8	37.5	18.4	15.1	11.0	10.4	8.5	5.8	5.8	4.3	3.2	41.3	33.0	33.8	0.6	0.7	0.9	26.6																																							
Kaveri Seed	SELL	556	470	(15.4)	37	0.5	66	32	31	33	18.4	(3.7)	6.1	17.4	18.0	17.0	14.7	15.1	13.6	4.7	4.0	3.5	23.6	24.0	21.9	1.1	1.4	1.8	5.0																																							
PI Industries	BUY	795	900	13.2	110	1.6	138	27	33	41	(20.0)	25.0	23.2	29.9	23.9	19.4	22.1	17.4	13.8	5.7	4.7	3.9	20.7	21.7	22.1	0.4	0.5	0.6	1.7																																							
Rallis India	ADD	184	235	27.9	36	0.5	195	9	11	13	(1.5)	26.4	19.7	21.3	16.9	14.1	13.6	11.1	9.4	3.0	2.7	2.4	14.6	16.9	18.1	1.8	2.0	2.2	0.8																																							
SIS	REDUCE	1,170	1,250	6.8	86	1.2	73	23	36	43	44.0	58.5	20.6	51.9	32.7	27.1	27.8	21.1	17.4	8.3	7.0	5.8	20.2	23.4	23.3	0.3	0.5	0.6	0.6																																							
SRF	BUY	1,643	2,110	28.4	94	1.4	57	80	92	123	(10.4)	14.4	33.6	20.4	17.9	13.4	12.6	10.0	8.1	2.6	2.4	2.0	13.7	14.0	16.4	0.7	0.8	0.9	9.9																																							
Tata Chemicals	ADD	702	760	8.2	179	2.6	255	51	46	52	6.5	(11.2)	13.6	13.7	15.4	13.5	7.5	6.4	5.4	1.6	1.5	1.4	13.8	10.0	10.5	3.1	2.1	2.4	9.0																																							
TeamLease Services	SELL	2,915	1,750	(40.0)	50	0.7	17	43	59	75	28.0	37.4	27.2	67.6	49.2	38.7	70.5	50.0	38.7	11.3	9.2	7.4	18.2	20.6	21.2	—	—	—	2.4																																							
UPL	ADD	621	850	36.8	316	4.6	507	43	73	82	20.9	71.2	11.9	14.5	8.5	7.6	10.0	8.7	7.4	3.4	2.9	2.4	26.4	23.6	22.4	1.3	1.5	1.7	13.8																																							
Vardhman Textiles	ADD	1,210	1,400	15.7	70	1.0	56	103	130	140	(8.0)	26.4	7.4	11.8	9.3	8.7	9.9	7.3	6.6	1.4	1.3	1.1	12.7	14.3	13.8	1.2	1.7	2.5	1.0																																							
Whirlpool	SELL	1,514	1,240	(18.1)	192	2.8	127	28	37	45	13.0	33.9	22.5	54.8	40.9	33.4	32.3	24.9	20.0	10.7	8.9	7.4	21.4	23.7	24.1	0.3	0.4	0.6	1.0																																							
Others					3,202		46					15.0			15.9			22.8			31.4			27.1			22.0			20.2			16.7			13.6			5.7			4.8			4.1			18.1			17.8			18.6			0.6			0.6			0.7			81.0		
KIE universe					106,946		1,550					(6.2)			29.7			25.1			26.5			20.4			16.3			12.4			10.4			9.2			2.9			2.6			2.4			11.0			12.9			14.6			1.3			1.5			1.8					
KIE universe (ex-energy)					94,566		1,371					(8.4)			37.9			29.7			31.5			22.8			17.6			13.9			11.6			10.2			3.3			3.0			2.7			10.4			12.9			15.1			1.1			1.4			1.7					

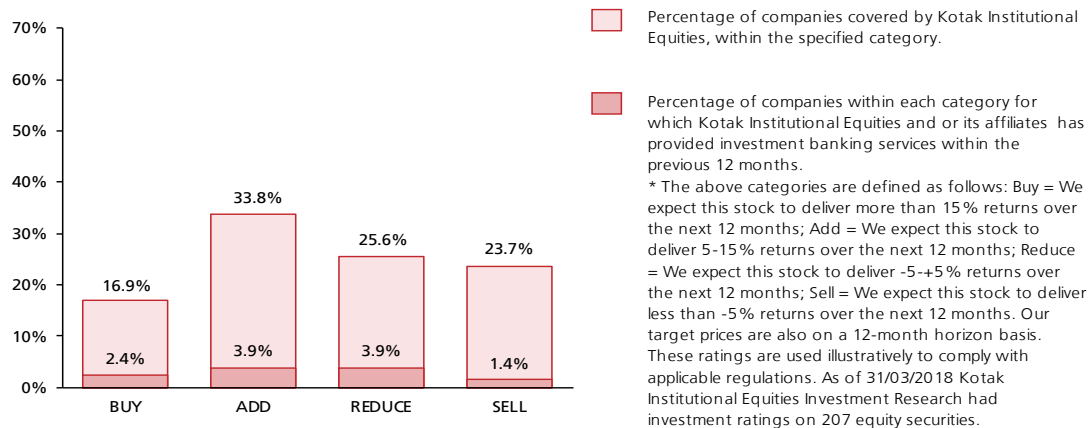
Notes:

- (a) We have used adjusted book values for banking companies.
 (b) 2018 means calendar year 2017, similarly for 2019 and 2020 for these particular companies.
 (c) Exchange rate (Rs/US\$)= 68.98

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2018

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

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