

### Contents

#### Daily Alerts

##### Company alerts

###### Marico: NDR takeaways

- ▶ Market growth momentum picking up; likely to remain healthy
- ▶ Growth construct - low DD value growth for core; new engines to provide kicker
- ▶ Margin construct - India operating margins likely to be flat; expansion likely in international
- ▶ Acquisitions - open to small, bolt-on opportunities, primarily in India

##### Sector alerts

###### NBFCs: Ind-AS: A few readings but it's still early days

- ▶ Key readings from first quarter of Ind-AS results

### EQUITY MARKETS

India	Change %			
	10-Sep	1-day	1-mo	3-mo
Sensex	37,922	(1.2)	0.1	6.9
Nifty	11,438	(1.3)	0.1	6.0
<b>Global/Regional indices</b>				
Dow Jones	25,857	(0.2)	2.1	2.1
Nasdaq Composite	7,924	0.3	1.1	3.4
FTSE	7,279	0.0	(5.1)	(5.9)
Nikkei	22,553	0.8	1.1	(1.1)
Hang Seng	26,613	(1.3)	(6.2)	(14.3)
KOSPI	2,292	0.1	0.4	(7.3)
<b>Value traded – India</b>				
Cash (NSE+BSE)	373		379	346
Derivatives (NSE)	8,015		5,540	4,894
Deri. open interest	4,131		3,883	3,570

#### Forex/money market

	Change, basis points			
	10-Sep	1-day	1-mo	3-mo
Rs/US\$	72.5	(5)	257	503
10yr govt bond, %	8.4	8	31	15

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

	7-Sep	MTD	CYTD
FIs	19	286	(406)
MFs	73	280	12,057

#### Top movers

Best performers	Change, %			
	10-Sep	1-day	1-mo	3-mo
ARB IN Equity	796	(0.6)	30.3	38.1
HDIL IN Equity	32	(2.8)	36.3	36.0
RIL IN Equity	1,256	(1.8)	4.3	27.8
DIVI IN Equity	1,279	(2.6)	13.7	24.8
DRRD IN Equity	2,564	(2.6)	15.8	23.1

#### Worst performers

UT IN Equity	4	(1.4)	(14.6)	(32.7)
JPA IN Equity	11	(4.1)	(19.3)	(28.5)
IDEA IN Equity	48	1.8	(12.2)	(25.1)
HPCL IN Equity	247	(2.5)	(13.8)	(21.6)
TTMT/A IN Equity	147	(0.7)	4.8	(20.9)

**NDR takeaways.** We hosted the Marico management for an NDR in Europe. The company intends to reinvest the likely GM gains to accelerate growth in its new growth engines (health foods and male grooming). Saffola's performance remains the only major area of concern. Underlying market growth momentum, driven by rural demand acceleration, is healthy. Management expressed confidence in its ability to deliver 13-15% topline growth CAGR in the medium term. We remain constructive. ADD.

**Company data and valuation summary**

Marico

Stock data		Forecasts/Valuations			
		2018	2019E	2020E	
52-week range (Rs) (high,low)	388-284	EPS (Rs)	6.3	6.8	8.2
Market Cap. (Rs bn)	457.6	EPS growth (%)	7.4	8.9	20.0
<b>Shareholding pattern (%)</b>		P/E (X)	56.6	52.0	43.3
Promoters	59.7	Sales (Rs bn)	63.2	72.9	82.4
FIs	27.4	Net profits (Rs bn)	8.1	8.8	10.6
MFs	2.3	EBITDA (Rs bn)	11.4	12.5	15.1
<b>Price performance (%)</b>	<b>1M</b> <b>3M</b> <b>12M</b>	EV/EBITDA (X)	39.9	36.1	29.8
Absolute	0.6 9.9 12.7	ROE (%)	33.2	33.7	37.9
Rel. to BSE-30	(1.0) 0.8 (6.4)	Div. Yield (%)	1.2	1.3	1.6

**Market growth momentum picking up; likely to remain healthy**

Resurgence in rural growth, led by a combination of recent stimulus as well as benefits of structural measures like direct benefit transfer and indirect tax rate cuts, is likely to sustain and drive overall market volume growth momentum, per MRCO management. Return to a 10%+ volume growth for the sector as a whole may be difficult; however, 6-8% volume growth for the sector and slightly better (8-10%) for players who execute well, looks likely. Share gains from the unorganized/ unbranded players will be gradual as GST compliance picks up.

**Growth construct – low DD value growth for core; new engines to provide kicker**

The management reiterated its target of 13-15% topline growth in the medium term, broken into (a) 8-10% volume growth, (b) 3-4% pricing growth and (c) 1-2% premiumization uplift. From a portfolio perspective, the company expects (a) India CNO (parachute) to deliver 9-11% value growth (5-7% volumes), (b) India VAHO to grow in the mid-to-high-teens, (c) Saffola to grow in high single digits, (d) health foods, serums and male grooming to grow 20%+ and (e) international business to grow in low double digits (in constant currency terms). With this growth construct, the company expects the contribution of the CNO portfolio to reduce to mid-20s (as % of India business) from the current mid-30s; this would reduce GM volatility.

**Margin construct – India operating margins likely to be flat; expansion likely in international**

Even as the management continues to expect gross margin improvement in the India business (starting 3QFY19) on the back of Copra price correction and mix improvement, it intends to plough back a good portion of GM expansion back into A&P. The idea is to invest heavily in the new engines of growth during times of favorable GM cycle in the core portfolio. On the international business front, however, the management is confident of further margin improvement led by scale efficiencies. Fixed overheads in the international business form nearly 15% of revenues versus 6.2% in India; this is a massive potential source of margin accretion.

**Acquisitions – open to small, bolt-on opportunities, primarily in India**

After a few years of deliberate restraint, the company is open to look at small-sized acquisition opportunities – bolt-on or market consolidation or adjacency entry.

Rohit Chordia

Jaykumar Doshi

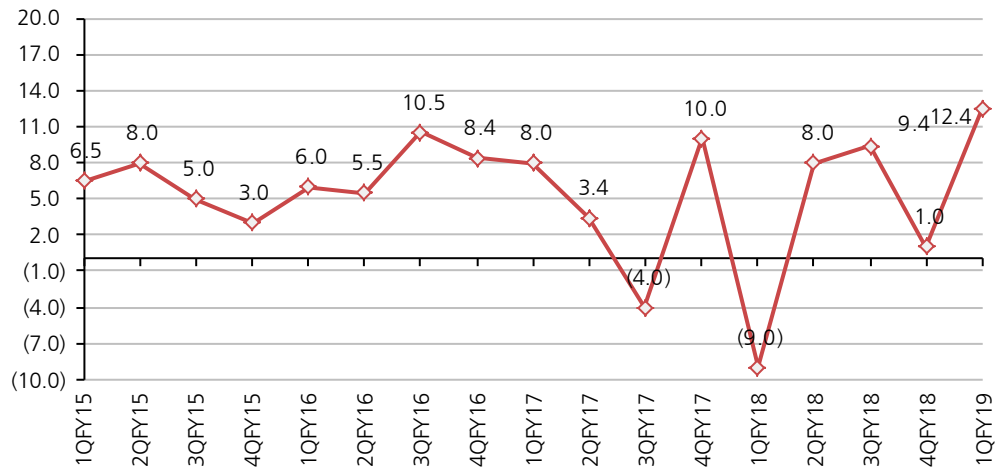
Aniket Sethi

### Other key takeaways

- ▶ Even as GST implementation is yet to deliver on its unorganized-to-organized-shift promise, it has (a) helped the sector absorb the crude rise impact partly and (b) started yielding supply chain savings; Marico, for instance, has reduced the number of depots to 26 from 33 with potential to take it down further to 20. The company intends to reinvest these savings back into the business to drive growth.
- ▶ **India CNO** – (a) 35% of the market is still unbranded; conversion pace (from unbranded to branded) has been around 100 bps per annum for the past many years and this trend can continue for the next 10-15 years, (b) MRCO has been gaining around 50 bps share per annum within the organized space and expects this trend to continue as well for the next 10-15 years, and (c) there is a long tail in the branded space as well with a combined share of around 20%.
- ▶ **India VAHO** – (a) MRCO has done extremely well in this category taking its volume share to mid-30s from sub-10 levels in the past decade or so, (b) MRCO's value share, however, trails its volume share by around 900-1000 bps, (c) one of the KPIs for the management is to grow value share in the VAHO segment ahead of volume share; this would be driven by premiumization even as the company would remain focused on the mass-market opportunities, and (d) the company put the massive success they have had in the Amla category in perspective – it has grown its volume share in the category to 42% (with the erstwhile leader now at the #2 spot with 37% volume share) from 9% (erstwhile leader was at 75% at this point) in the past few years.
- ▶ **Saffola** – growth challenge persists. While the company has fixed the tactical MT promotion approach challenge (running promotion now versus once-in-a-quarter earlier), the variant-positioning and competitive challenges remain. Variant strategy has diluted the core 'super healthy' brand positioning a tad and the company is working on ways to revive the same. Return to target growth rates (8-10% volume growth) is still some time away. The company does not intend to expand distribution beyond urban markets, at this point.
- ▶ **Health foods** – even as Saffola oats portfolio continues to do well, the company sees the need for another brand in its foods portfolio as Saffola's super-healthy brand positioning does limit the scale potential of the portfolio a tad. The company is open to inorganic means to achieve this objective. Target is to grow the foods portfolio to US\$70-80 mn from the current US\$20 mn in the next 3-4 years.
- ▶ **Serums and male grooming** – both the businesses are witnessing healthy growth at this point; the company intends to keep the momentum going through consistent innovation. On the male grooming front, management indicated that it would restrict its focus to hair and skin.
- ▶ **India gross margins/ copra cycle** – management reiterated its expectations of continued slow correction in copra pricing with the same reflecting in gross margin expansion starting 3QFY19. The company has stepped up its efforts to drive copra yield improvement by working with farmers.
- ▶ **Kerala floods** – marginal impact, if any. Coconut, being a perennial (and not seasonal) crop, has not seen much impact. On the revenues front, Kerala's contribution is in low single digits and hence the impact of floods is likely to be immaterial.
- ▶ **India distribution** – 4.9 mn total reach (90% weighted distribution, 50% numeric), 1 mn direct; satisfied with the reach. Focusing on expanding presence in the currently under-indexed channels: chemists, cosmetics and specialty food stores.

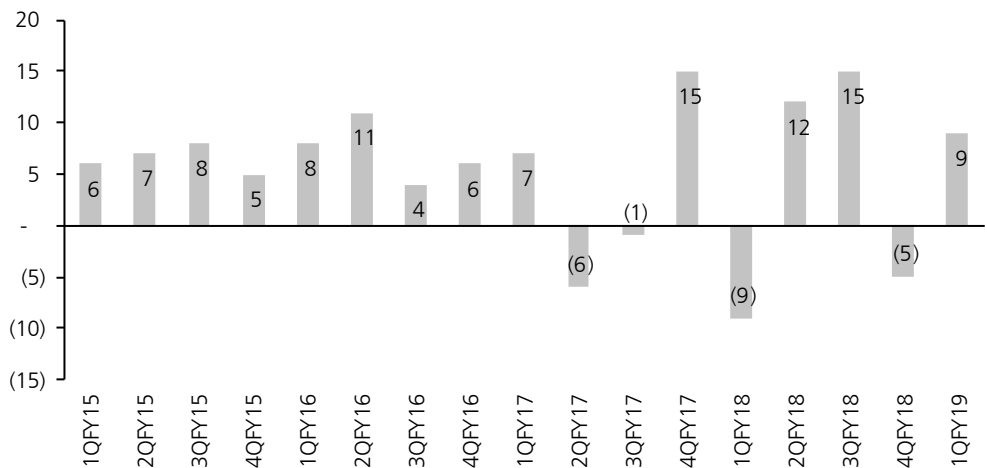
- ▶ **International business** – (a) Bangladesh – doing well; integration of operating structure with India business has helped drive cost efficiencies; non-CNO portfolio continues to grow at 30%+, (b) Vietnam – issues largely sorted; expect a return to double-digit growth trajectory, (c) MENA – macro recovery should aid improved growth prints, and (d) other geographies - Myanmar is doing well while business in South Africa is challenged on account of a weak macro.

**Exhibit 1: MRCO expects 8-10% domestic volume growth in the medium term**  
Domestic volume growth trends (yoy %)



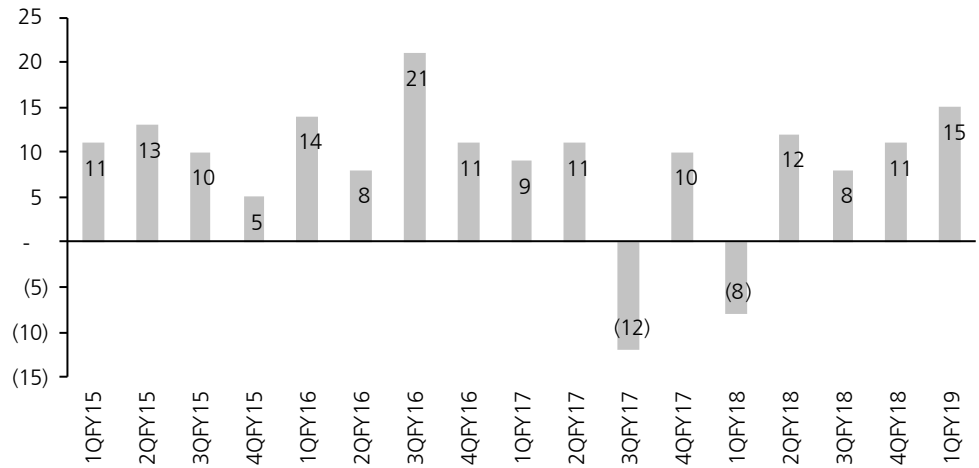
Source: Company, Kotak Institutional Equities

**Exhibit 2: MRCO expects Parachute CNO volumes to grow 5-7% in the medium term**  
Parachute (rigids) volume growth (%)



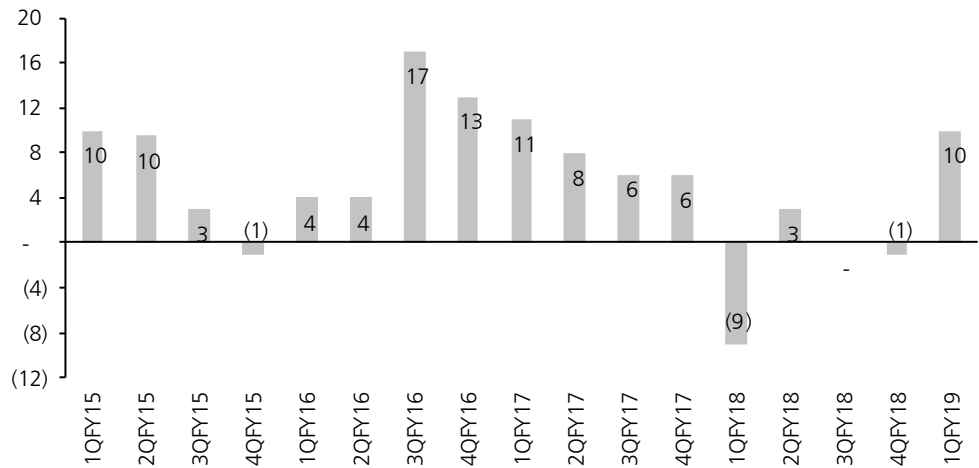
Source: Company, Kotak Institutional Equities estimates, Kotak Institutional Equities

**Exhibit 3: VAHO growth driven by volume share gains especially in the Amla category**  
Value added hair oils volume (VAHO) growth trends (in %)



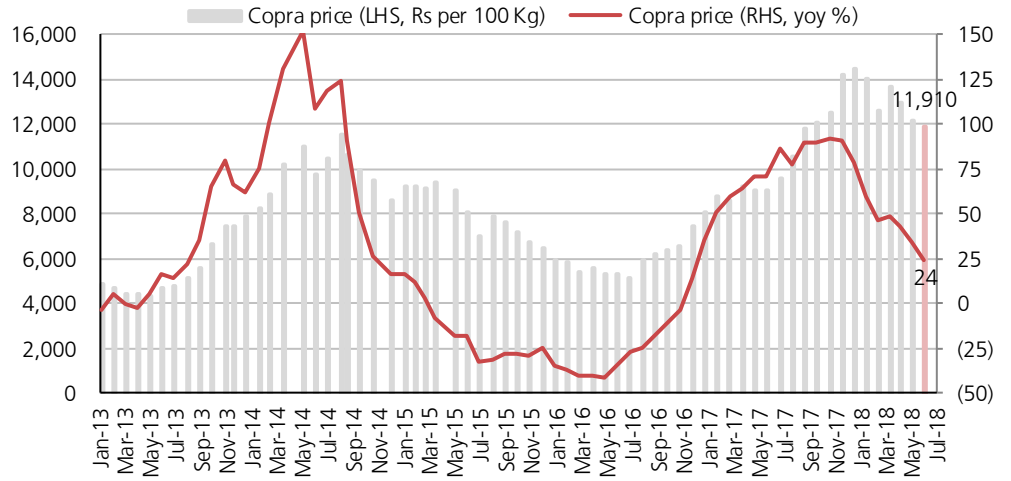
Source: Company, Kotak Institutional Equities

**Exhibit 4: MRCO targets return to 8-10% volume growth for Saffola, though it is still sometime away**  
Saffola volume growth trends (in %)



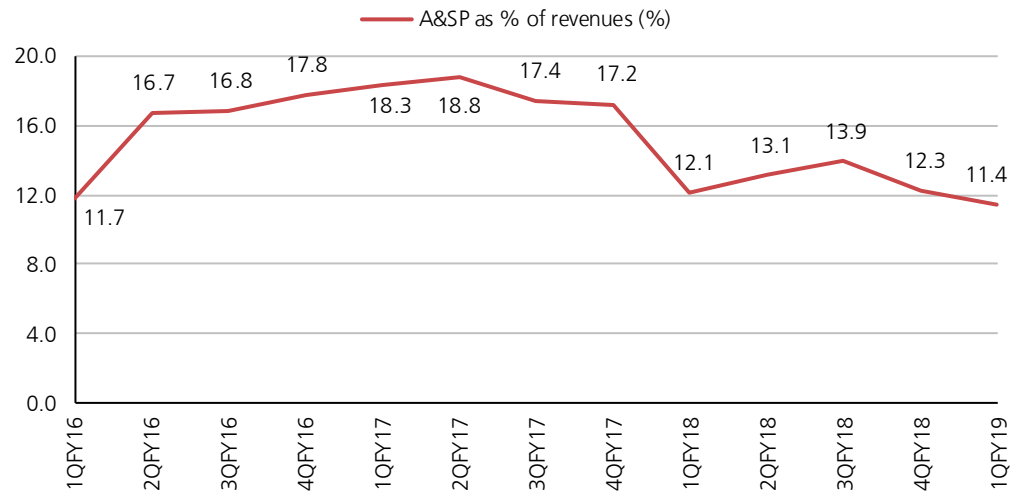
Source: Company, Kotak Institutional Equities

**Exhibit 5: Copra price has corrected 18% from peak over Jan-Jul 2018**  
Trends in copra prices (yoy %)



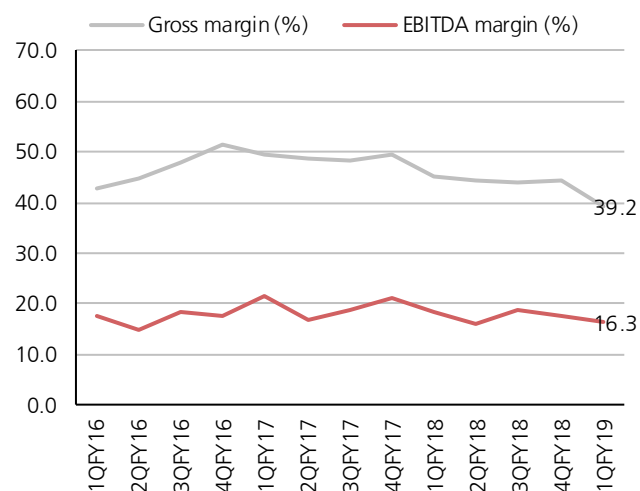
Source: Company, Kotak Institutional Equities

**Exhibit 6: MRCO to reinvest GM expansion into A&SP to drive new growth engines**



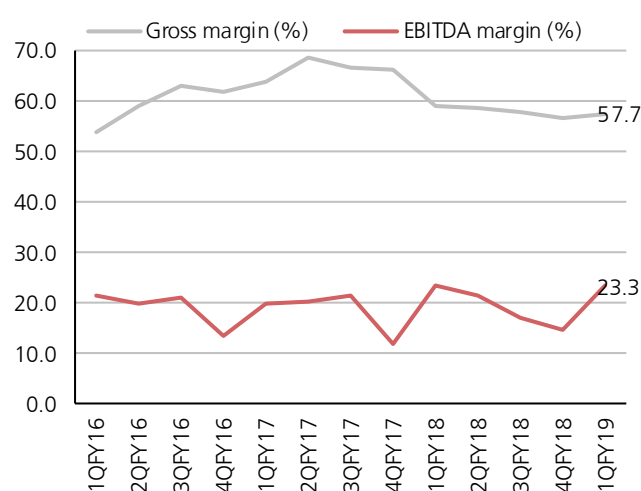
Source: Company, Kotak Institutional Equities

**Exhibit 7: GM recovery ahead aided by lower Copra prices**  
Domestic business (standalone) margins (%)



Source: Company, Kotak Institutional Equities

**Exhibit 8: Fixed costs high; operating leverage to aid margins**  
International business (subsidiaries) margins (%)



Source: Company, Kotak Institutional Equities

**Exhibit 09: Marico: Key assumptions, March fiscal year-ends, 2015-2021E**

	2015	2016	2017	2018	2019E	2020E	2021E
Consolidated revenues (Rs mn)	57,203	60,173	59,178	63,222	72,947	82,402	92,587
- India revenues (Rs mn)	44,245	46,599	45,609	49,582	57,124	64,435	72,233
- International revenues (Rs mn)	12,958	13,574	13,569	13,640	15,822	17,967	20,354
Revenue growth (%)	22.3	5.2	(1.7)	6.8	15.4	13.0	12.4
- India growth (%)		5.3	(2.1)	8.7	15.2	12.8	12.1
- International growth (%)		4.8	(0.0)	0.5	16.0	13.6	13.3
CNO growth (%)	35.6	3.0	(9.5)	24.0	18.9	11.9	10.9
VAHO growth (%)	25.2	16.0	4.1	3.6	14.8	14.2	13.7
Saffola growth (%)	11.0	10.0	8.0	(4.5)	6.0	12.0	11.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: Consolidated Profit model, balance sheet of Marico, March fiscal year-ends, 2015-2021E

	IGAAP			Ind-AS			
	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model</b>							
Net sales	57,203	60,173	59,178	63,222	72,947	82,402	92,587
EBITDA	8,574	10,514	11,593	11,378	13,463	15,347	17,446
Other income	716	933	973	846	810	1,042	1,227
Interest expense	(230)	(206)	(166)	(162)	(162)	(131)	(101)
Depreciation	(843)	(949)	(903)	(891)	(967)	(1,104)	(1,262)
<b>Pretax profits</b>	<b>8,217</b>	<b>10,292</b>	<b>11,497</b>	<b>11,171</b>	<b>13,144</b>	<b>15,154</b>	<b>17,310</b>
Tax	(2,368)	(3,054)	(3,377)	(2,896)	(3,549)	(4,243)	(5,020)
Minority Interest	(114)	(124)	(134)	(131)	(151)	(170)	(192)
<b>Net income</b>	<b>5,735</b>	<b>7,115</b>	<b>7,986</b>	<b>8,145</b>	<b>9,444</b>	<b>10,741</b>	<b>12,099</b>
Extraordinary items	—	—	—	—	—	—	—
<b>Reported Net income</b>	<b>5,735</b>	<b>7,115</b>	<b>7,986</b>	<b>8,145</b>	<b>9,444</b>	<b>10,741</b>	<b>12,099</b>
<b>Earnings per share (Rs)</b>	<b>4.4</b>	<b>5.5</b>	<b>6.2</b>	<b>6.3</b>	<b>7.3</b>	<b>8.3</b>	<b>9.4</b>
<b>Balance sheet</b>							
Total shareholder's equity	18,248	20,174	23,257	25,429	27,514	29,735	32,152
Total borrowings	4,280	3,306	2,388	3,093	2,593	2,093	1,593
Minority interest	137	143	133	125	276	447	638
<b>Total liabilities and equity</b>	<b>22,664</b>	<b>23,623</b>	<b>25,778</b>	<b>28,647</b>	<b>30,383</b>	<b>32,274</b>	<b>34,383</b>
Net fixed assets	5,597	5,917	5,883	5,613	5,959	6,309	6,647
Goodwill	5,193	5,261	5,075	5,463	5,463	5,463	5,463
Investments	2,838	5,132	6,082	5,724	5,724	5,724	5,724
Cash	2,049	3,171	2,273	2,001	3,936	6,785	7,922
Net current assets	7,066	3,720	6,590	10,048	9,504	8,197	8,829
Deferred tax asset (Net)	(79)	421	(125)	(202)	(202)	(202)	(202)
<b>Total assets</b>	<b>22,664</b>	<b>23,623</b>	<b>25,778</b>	<b>28,647</b>	<b>30,383</b>	<b>32,274</b>	<b>34,383</b>
<b>Free cash flow</b>							
Operating cash flow (excl. working capital)	6,817	8,373	8,901	8,482	9,914	11,104	12,426
Working capital changes	(169)	(197)	(2,785)	(3,458)	544	1,308	(633)
Capital expenditure	(581)	(878)	(981)	(464)	(1,313)	(1,454)	(1,601)
<b>Free cash flow</b>	<b>6,068</b>	<b>7,299</b>	<b>5,135</b>	<b>4,560</b>	<b>9,145</b>	<b>10,958</b>	<b>10,193</b>
<b>Ratios</b>							
Sales growth (%)	22.3	5.2	-1.7	6.8	15.4	13.0	12.4
EPS growth (%)	18.1	24.1	12.2	2.0	15.9	13.7	12.6
EBITDA margin (%)	15.0	17.5	19.6	18.0	18.5	18.6	18.8
Gross margin (%)	45.5	49.0	52.2	47.0	49.6	49.9	50.1
A&SP % of sales	11.4	11.5	11.1	9.3	10.7	10.9	10.9
ROE (%)	31.4	35.3	34.3	32.0	34.3	36.1	37.6
ROCE (%)	33.9	41.0	41.0	36.1	40.6	43.5	46.4

Source: Company, Kotak Institutional Equities estimates



SEPTEMBER 11, 2018

UPDATE

BSE-30: 37,922

**Ind-AS: A few readings but it's still early days.** Ind-AS had limited impact on networth and earnings of most NBFCs. Unlike general concerns of increased cyclicality under Ind-AS, we don't expect the next downcycle to be more severe than the last one despite higher stage 1-2 ECL as (1) NBFCs have been highly procyclical under IGAAP as well and (2) requirement of lower stage 3 ECL than the NPL coverage ratio maintained by NBFCs in the past. In the absence of regulatory directions, we find some disparity in the treatment of a few accounting items, which, we believe, may be sorted over the next few quarters. Focus on reducing stage 1-2 ECL, supported by greater investments in data systems, can reduce collection volatility over the long term.

#### Key readings from first quarter of Ind-AS results

- ▶ **Low impact on net worth.** Most NBFCs reported low impact of transition to Ind-AS on their net worth likely due to (1) higher NPL coverage or large extra provisions on balance sheet and (2) improving credit cycle leading to a decline in provisioning requirements. The key exceptions were Shriram Transport Finance (up 7%), Magma (down 17%) and L&T Finance (down 12%).
- ▶ **Higher stage 1-2 (standard asset) provisions under Ind-AS; stage 3 (NPL) provisions lower.** While the overall quantum of provisions has remained similar between IGAAP and Ind-AS, the composition of provisions i.e. standard/stage 1-2 provisions and NPL/stage 3 has changed significantly in favor of the former. Stage 1-2 provisions are about 21-40% of total ECL provisions on balance sheet under Ind-AS; standard asset provisions under IGAAP (akin to stage 1-2 provisions) were much lower at 5-16% of total provisions. This is because stage 1-2 provisions were 0.5-3% of loans in Ind-AS for vehicle finance NBFCs as compared to 0.4% of standard provisions maintained in the past. On the other hand, provisions/LGD on stage 3 loans are 33-43% for these companies as compared to 21-70% NPL coverage under IGAAP.
- ▶ **Ind-AS may not increase procyclicality for NBFCs.** While typically earnings under Ind-AS tend to be more procyclical than older accounting norms, we don't expect a significant difference for NBFCs. This is because NBFCs have already reported high procyclicality over the last few years, making high NPL provisions under IGAAP during the transition to 90 dpd NPLs. We expect stage 1-2 ECL/ standard asset provisions to remain higher under Ind-AS as compared to IGAAP for NBFCs (excluding mass affluent HFCs) though stage 3/NPL coverage may be much lower. Additionally, Ind-AS allows income recognition on delinquent loans as the same is factored/ provided for under the ECL calculations; thus interest reversals will not temper quarter earnings as was the case with IGAAP. Income and expenses for loan origination and upfront fees for mobilizing borrowings are deferred throughout the tenure of the loan/borrowing.
- ▶ **Upfront recognition of loan assignment poses risk.** According to Ind-AS, the present value income on loan assignments is recognized upfront in the quarter of the transaction. Under IGAAP, income on such transactions was recognized as and when realized, i.e. throughout the tenure of the loan. This will lead to volatility in quarterly income for NBFCs, making it challenging to forecast. More importantly, such income will need to be reversed (to the extent not realized); this will be significant in case of housing loans, which have a high tenure and higher instances of loan prepayments.
- ▶ **Disparity in accounting treatment makes it challenging to compare.** It would be challenging to directly compare financial performance across NBFCs due to disparity in the accounting treatment of several line items and other imponderables (discussed later), which we believe, may standardize over the next few quarters.

#### QUICK NUMBERS

- **-17% to +7% impact on net worth**
- **Stage 1-2 provisions at 0.5-3% of loans for NBFCs**
- **Stage 1-2 loans at 21-40% of total ECL**

Nischint Chawathe

M B Mahesh CFA

Dipanjan Ghosh

Shrey Singh

### Still early days to gauge impact on the business

Its early days for Ind-AS to affect business strategy and performance but broadly (1) focus on arresting early bucket (stage 1 and 2 delinquencies) further extending from the tightening 90 dpd NPL norm can reduce long-term volatility in collections, (2) a data-driven approach in estimating provisions can strengthen credit decision support and (3) ESOP issuance may be more calibrated.

### Difference between IGAAP and Ind-AS net worth is not significant

Exhibit 1 shows that most NBFCs reported negligible difference in networth under IGAAP and restated networth under Ind-AS. Three key exceptions (1) Shriram Transport Finance reported 7% rise in restated networth due to reversals of higher provision coverage made earlier, (2) Magma Fincorp reported a 17% decline in networth due to large provisions required for stage 1-2 loans and higher provisions on stage 3 loans over two years and (3) L&T Finance Holdings reported a 12% decline in net worth largely on account of higher provisions on infrastructure loans. Housing finance companies have report 5-11% rise in Ind-AS net worth due to (1) inclusion of DTL created under section 36 (1) (VIII) of Income Tax Act and (2) some relief on stage 1-2 provisions; this was partially offset by (1) expenses for ESOPs and (2) passing provision for redemption of zero coupon bonds (ZCBs) through the P&L.

**Exhibit 1: Limited impact on net worth due to transition between IGAAP and Ind-AS for most NBFCs**  
 Reconciliation of net worth under IGAAP and Ind-AS, March fiscal year ends, 2017 (Rs mn)

	Chola	Magma	MMFS	Sundaram	Shriram Transport
<b>Vehicle finance NBFCs</b>					
Net worth as per IGAAP (FY2017)	42,847	21,250	63,642	37,456	125,723
Adjustments:	(2)	(3,710)	1,352	(835)	8,780
Net EIR impact	(1,565)	(310)	14,514	972	—
EIR- financial assets	(1,615)			857	
EIR-financial liabilities	50			114	
Fair valuation and gains on upfront de-recognition	974	980	892	(1)	
Impact of ECL	(2,168)	(6,230)	(13,575)	1,061	
Tax adjustments	1	1,750	(632)	(593)	
Others	2,755	100	153	(2,274)	8,780
Networth as per Ind-AS (FY2017)	42,845	17,540	64,994	36,622	134,503
<b>% change</b>	<b>(0)</b>	<b>(17)</b>	<b>2</b>	<b>(2)</b>	<b>7</b>

	Bajaj	Bhafin	Capital First	L&TFH	Muthoot	SCUF
<b>Others NBFCs</b>						
Net worth as per IGAAP (FY2017)	94,910	24,470	22,273	78,940	65,164	50,280
Adjustments:	(6,120)	10	1,170	(9,130)	(145)	(1,150)
Net EIR impact	(7,180)	240	441	230	133	—
EIR- financial assets	(7,970)	130		NA	(101)	
EIR-financial liabilities	790	110		230	234	
Fair valuation and gains on upfront de-recognition	460	360	3,185	2,260	86	
Impact of ECL	(2,700)	(1,370)	(2,275)	(18,000)	(382)	
Tax adjustments	3,310	(5)	(152)	6,230	77	610
Others	(10)	785	(29)	150	(59)	(1,760)
Networth as per Ind-AS (FY2017)	88,790	24,480	23,443	69,810	65,019	49,130
<b>% change</b>	<b>(6)</b>	<b>0</b>	<b>5</b>	<b>(12)</b>	<b>(0)</b>	<b>(2)</b>

	HDFC	LICHF	PNBHF
<b>HFCs</b>			
Net worth as per IGAAP (FY2017)	396,454	110,770	55,780
Adjustments:	26,000	12,000	3,000
Net EIR impact	—	—	—
EIR- financial assets			
EIR-financial liabilities			
Fair valuation and gains on upfront de-recognition			
Impact of ECL			
Tax adjustments	23,000	12,000	
Others	3,000		3,000
Networth as per Ind-AS (FY2017)	422,454	122,770	58,780
<b>% change</b>	<b>7</b>	<b>11</b>	<b>5</b>

Note:

(1) Net worth as on 4QFY18 in case of Shriram Transport Finance.

Source: Company

### Mixed trends in earnings

Exhibit 2 shows that the impact on earnings of transition to Ind-AS from IGAAP was mixed across NBFCs. The key line item was the difference in provisions/ECL between the two norms and income recognition due to the impact of interest reversals. Broadly, provisions under Ind-AS were lower as compared to IGAAP in most cases during 1QFY18.

- ▶ HDFC was affected by the provision for redemption of zero coupon bonds which now needs to be passed through P&L. HDFC, LICHF and PNBHF also made higher provisions under Ind-AS on stage 3 loans due to large slippages in 1QFY18. Broadly, provision for stage 1-2 loans are lower for housing finance companies under Ind-AS than IGAAP; this is discussed in detail later in the note.
- ▶ Chola reported higher earnings under Ind-AS due to lower provisions on stage 3 loans. Large provisions on stage 1-3 loans led to 13% lower earnings for Magma in 1QFY18.
- ▶ Mahindra Finance reported significantly higher earnings under Ind-AS (Rs2 bn) for 1QFY18 as compared to IGAAP (Rs474 mn). This was primarily due to lower provisions required under Ind-AS as a large part of this was already passed from the network; interest income recognition on delinquent also provided a boost. During 1QFY19, earnings under Ind-AS were higher by 39% than IGAAP earnings due to similar reasons.
- ▶ Shriram Transport Finance reported 3-6% higher earnings under Ind-AS; while the benefit on ECL was high, it was partially offset by higher effective interest rates on liabilities i.e. amortization of fees paid for bank loans and NCDs.
- ▶ Bajaj Finance reported 17-23% lower PBT under Ind-AS as compared to IGAAP. The company needs to defer subvention income under Ind-AS; since the consumer business is typically higher under Ind-AS, the impact on income was high. We expect the hit to reverse in 2Q.
- ▶ LTHF reported 9% higher earnings under Ind-AS as compared to IGAAP due to recognition of income for loans sold/assigned to banks.
- ▶ Lower provisions/ECL under Ind-AS led to 3% higher earnings for SCUF in 1QFY18.

**Exhibit 2: Mixed trends in earnings due to transition between IGAAP and Ind-AS**  
March fiscal year ends, 1QFY18-1QFY19

	1QFY18					1QFY19					
	DHFL	Gruh	HDFC	LICHF	PNBHF	DHFL	Gruh	HDFC	LICHF	PNBHF	
<b>HFCs</b>											
PAT as per IGAAP	2,605	722	15,524	4,701	1,848	NA	NA	NA	NA	NA	
Adjustments:	619	237	(1,280)	96	(147)	NA	NA	NA	NA	NA	
Net EIR impact	(120)	57	(1,063)	231	36	NA	NA	NA	NA	NA	
EIR- financial assets	NA	63	NA	NA	NA	NA	NA	NA	NA	NA	
EIR-financial liabilities	NA	(5)	NA	NA	NA	NA	NA	NA	NA	NA	
De-recognition of financial assets	529	NA	NA	NA	(105)	NA	NA	NA	NA	NA	
Fair valuation	(27)	(11)	(777)	NA	(98)	NA	NA	NA	NA	NA	
Impact of ECL	104	167	(506)	(651)	(214)	NA	NA	NA	NA	NA	
Tax adjustments	128	22	1,052	514	230	NA	NA	NA	NA	NA	
Others	5	2	14	1	3	NA	NA	NA	NA	NA	
<b>PAT as per Ind-AS</b>	<b>3,224</b>	<b>959</b>	<b>14,245</b>	<b>4,797</b>	<b>1,701</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	
<b>% change</b>	<b>24</b>	<b>33</b>	<b>(8)</b>	<b>2</b>	<b>(8)</b>						
<b>ECL/PAT under IGAAP</b>	<b>4</b>	<b>23</b>	<b>(3)</b>	<b>(14)</b>	<b>(12)</b>						
<b>Vehicle finance NBFCs</b>											
	Chola	Capital First	Magma	MMFS	STFC	Chola	Capital First	Magma	MMFS	STFC	
PAT as per IGAAP	3,181	672	450	474	4,487	4,025	1,064	NA	1,936	5,405	
Adjustments:	61	(18)	(60)	1,540	113	363	(49)	NA	755	325	
Net EIR impact	(13)	15	10	156	(100)	(187)	6	NA	243	(346)	
EIR- financial assets	(13)	NA	NA	193	16	(186)	NA	NA	152	(72)	
EIR-financial liabilities	(0)	NA	NA	(37)	(115)	(1)	NA	NA	91	(274)	
De-recognition of financial assets	(80)	274	(60)	98	NA	361	56	NA	149	NA	
Fair valuation	(25)	(57)	—	(882)	NA	(16)	(144)	NA	68	NA	
Impact of ECL	172	(263)	(510)	2,957	468	201	36	NA	562	499	
Tax adjustments	NA	16	490	(815)	NA	NA	(24)	NA	(406)	NA	
Others	7	13	10	26	(255)	5	21	NA	139	171	
<b>PAT as per Ind-AS</b>	<b>3,242</b>	<b>654</b>	<b>390</b>	<b>2,014</b>	<b>4,600</b>	<b>4,388</b>	<b>1,015</b>	<b>NA</b>	<b>2,691</b>	<b>5,729</b>	
<b>% change</b>	<b>2</b>	<b>(3)</b>	<b>(13)</b>	<b>325</b>	<b>3</b>	<b>9</b>	<b>(5)</b>		<b>39</b>	<b>6</b>	
<b>ECL/PAT under IGAAP</b>	<b>5</b>	<b>(39)</b>	<b>(113)</b>	<b>624</b>	<b>10</b>	<b>5</b>	<b>3</b>		<b>29</b>	<b>9</b>	
<b>Others NBFCs</b>											
	Bajaj	BHAFIN	IIFL	L&TFH	Muthoot	SCUF	Bajaj	BHAFIN	IIFL	L&TFH	SCUF
PAT as per IGAAP	9,250	(370)	2,519	3,092	3,511	1,939	15,620	1,900	2,971	NA	NA
Adjustments:	(2,120)	850	8	293	(62)	62	(2,650)	(480)	474	NA	NA
Net EIR impact	(1,810)	(12)	29	(468)	185	(47)	(2,130)	60	(25)	NA	NA
EIR- financial assets	(1,860)	(2)	51	(97)	(20)	(26)	(2,210)	100	(23)	NA	NA
EIR-financial liabilities	50	(10)	(22)	(372)	205	(22)	80	(40)	(2)	NA	NA
De-recognition of financial assets	NA	(110)	14	354		(47)	NA	(490)	358	NA	NA
Fair valuation	(180)	NA	264	389		(8)	(150)	NA	28	NA	NA
Impact of ECL	(130)	1,400	(336)	(251)	(311)	202	(370)	(220)	441	NA	NA
Tax adjustments		(450)	20	NA	33	(33)		140	(263)	NA	NA
Others	—	22	17	270	31	(5)		30	(65)	NA	NA
<b>PAT as per Ind-AS</b>	<b>7,130</b>	<b>480</b>	<b>2,527</b>	<b>3,385</b>	<b>3,449</b>	<b>2,001</b>	<b>12,970</b>	<b>1,420</b>	<b>3,445</b>	<b>NA</b>	<b>NA</b>
<b>% change</b>	<b>(23)</b>	<b>(230)</b>	<b>0</b>	<b>9</b>	<b>(2)</b>	<b>3</b>	<b>(17)</b>	<b>(25)</b>	<b>16</b>		
<b>ECL/PAT under IGAAP</b>	<b>(1)</b>	<b>(378)</b>	<b>(13)</b>	<b>(8)</b>	<b>(9)</b>	<b>10</b>	<b>(2)</b>	<b>(12)</b>	<b>15</b>		

Notes:

(1) Reconciliation for Bajaj Finance and Chola is at PBT level.

Source: Company, Kotak Institutional Equities

### ECL methodology factors credit losses more accurately; overall losses not very different

Standard asset and NPL provision rates are prescribed by the regulator under IGAAP while the ECL methodology derives the same through the historic experience of the company, which better reflects the actual probable loss. It would be important to mention that NBFCs have typically provided much higher than the regulatory provisions on NPLs under IGAAP.

Under Ind-AS, the loan book is classified under three buckets viz. stage 1, 2 and 3. Broadly, stage 1 loans are loans delinquent up to 30 days (including loans repaid on/before due date), stage 2 are loans delinquent between 30-60 days and stage 3 are loans delinquent beyond 90 days (reckoned as GNPLs under IGAAP); the only exception was Shriram City Union Finance (SCUF) that considered loans up to 120 dpd under stage 2 in 1QFY18.

Exhibit 3 and 4 shows that reported probability of default (PD) and loss given default (LGD) on various asset classes of select NBFCs. LGD on gold loans is lower than other products (40-50%). Interestingly, LGD on gold loans was reported at 0.63% for Manappuram, 13% for Muthoot, 3-8% for SCUF and 26.7% for IIFL Finance's gold loan business.

**Exhibit 3: PD and LGDs reported by Shriram City Union finance**  
March fiscal year ends, 1QFY18-1QFY19 (%)

Product	Probability of Default (%)			Loss given default (%)		
	1QFY18	4QFY18	1QFY19	1QFY18	4QFY18	1QFY19
Small enterprise finance	2.84	4.03	4.03	57.15	51.34	49.29
Two wheelers	4.69	5.92	5.92	46.49	50.55	46.28
Auto loans	4.95	5.92	5.92	49.91	52.37	51.84
Personal loans	5.66	6.48	6.48	57.06	51.58	46.13
Loan against gold	2.43	2.45	2.45	3.51	8.12	3.61
<b>Total</b>	<b>3.42</b>	<b>4.46</b>	<b>4.46</b>	<b>46.66</b>	<b>46.02</b>	<b>43.39</b>

Source: Company

**Exhibit 4: Product wise split of expected credit loss for IIFL Finance**  
March fiscal year ends, 1QFY19 (%)

Product	Stage 1			Stage 2			Stage 3		
	PD	LGD	ECL	PD	LGD	ECL	PD	LGD	ECL
Home loan	0.70	27.40	0.20	11.50	27.40	3.10	100.00	27.40	27.40
LAP	1.50	36.80	0.50	2.50	36.80	0.90	100.00	36.80	36.80
Construction & Real Estate	0.80	50.00	0.40	3.90	50.00	1.90	100.00	50.00	50.00
Commercial Vehicle	8.70	33.00	2.90	16.50	33.00	5.40	100.00	33.00	33.00
MSME	3.00	48.10	1.50	6.50	48.10	3.10	100.00	48.10	48.10
Capital Markets	0.00	50.00	0.00	0.00	50.00	0.00	100.00	50.00	50.00
Gold Loans	0.70	26.70	0.20	0.70	26.70	0.20	100.00	26.70	26.70

Source: Company

### LGD/actual losses on stage3/GNPL are lower

Most NBFCs maintained NPL coverage of 50-60% with the exception of Magma and Chola under IGAAP (Exhibit 5). LGDs that reflect historic credit losses on defaulted loans are however lower at 30-40%.

NBFCs have been aware that LGD is lower but maintained a cautious stand especially in a downcycle when NPLs kept on increasing. This probably reflected the risk of slippages from standard loans.

**Exhibit 5: Lower stage 3/GNPL coverage under Ind-AS versus IGAAP for most**  
Provision/ECL coverage, March fiscal year ends, 1QFY18 (Rs mn)

	IGAAP					Ind-AS				
	Chola	Magma	MMFS	Sundaram	Shriram Transport	Chola	Magma	MMFS	Sundaram	Shriram Transport
<b>Provision/ECL coverage (%)</b>										
Stage 1 and 2	0.40	0.40	0.40	0.40	0.40	0.47	3.14	1.50	NA	2.92
Stage 3	32	20	60	54	71	33	43	40	41	38
<b>Total portfolio</b>	<b>2.23</b>	<b>2.30</b>	<b>7.28</b>	<b>1.82</b>	<b>6.12</b>	<b>2.03</b>	<b>7.78</b>	<b>7.27</b>	<b>NA</b>	<b>6.71</b>

Source: Company, Kotak Institutional Equities

### Higher stage 1-2 provisions for vehicle finance NBFCs

Historic experience suggests that expected losses on stage 1-2 (standard loans) are much higher at 2-3% than 0.4% in case of most vehicle finance NBFCs that operate in the interiors or in unorganized markets. Cash flows of such borrowers tend to be more volatile than mass-affluent customers of private banks and large HFCs. Thus, 0,30 and 60 dpd delinquencies of such borrowers is much higher leading to higher PD and stage 1-2 provisions (Exhibit 6).

Housing finance companies that cater to the mass affluent have low PD and hence their stage 1-2 provisions are lower at 0.16-0.41 bps for various HFCs than 25-125 bps on various class of assets prescribed under IGAAP. Hence, as discussed above, there has been a net release of provisions on migration to Ind-AS from IGAAP. HFCs operating in the lower-end/affordable segment have higher stage 1-2 provisions; for example: stage 1-2 provisions for Aspire was 1.3% as compared to 16 bps for HDFC and LICHF.

**Exhibit 6 : Higher ECL for vehicle finance NBFCs due to higher coverage on stage 1-2 loans**  
ECL provisions and coverage, March fiscal year ends, 1QFY19 (Rs mn)

	HFCs				
	HDFC	LICHF	PNBHF	DHFL	Indiabulls
<b>ECL coverage (%)</b>					
Stage 1 and 2	0.16	0.16	0.41	0.76	0.26
Stage 3	27.86	31.97	24.55	27.15	24.49
<b>Total portfolio</b>	<b>1.18</b>	<b>0.54</b>	<b>0.52</b>	<b>1.00</b>	<b>0.44</b>
<b>ECL provisions (Rs mn)</b>					
Stage 1 and 2	5,650	2,639	2,616	7,564	3,200
Stage 3	38,630	6,524	679	2,563	2,400
<b>Net ECL provisions</b>	<b>44,280</b>	<b>9,163</b>	<b>3,295</b>	<b>10,127</b>	<b>5,600</b>
<b>Stage 1-2/ECL (%)</b>	<b>12.76</b>	<b>28.80</b>	<b>79.39</b>	<b>74.69</b>	<b>57.14</b>

	Vehicle finance NBFCs				
	MMFS	Sundaram	STFC	Magma	Chola
<b>ECL coverage (%)</b>					
Stage 1 and 2	2.20	NA	2.55	2.65	0.47
Stage 3	35.08	33.72	36.24	55.98	42.81
<b>Total portfolio</b>	<b>5.51</b>	<b>NA</b>	<b>5.60</b>	<b>7.72</b>	<b>1.75</b>
<b>ECL provisions (Rs mn)</b>					
Stage 1 and 2	12,916	NA	23,404	3,590	2,120
Stage 3	19,415	1,493	33,183	7,960	5,772
<b>Total portfolio</b>	<b>32,331</b>	<b>NA</b>	<b>56,587</b>	<b>11,550</b>	<b>7,892</b>
<b>Stage 1-2/ECL (%)</b>	<b>39.95</b>	<b>NA</b>	<b>41.36</b>	<b>31.08</b>	<b>26.86</b>

	Other NBFCs				
	Bajaj	BHAFIN	L&TFH	Muthoot	SCUF
<b>ECL coverage (%)</b>					
Stage 1 and 2	0.89	0.71	NA	1.57	0.89
Stage 3	68.75	70.00	61.99	13.30	62.00
<b>Total portfolio</b>	<b>1.82</b>	<b>0.93</b>	<b>NA</b>	<b>1.90</b>	<b>6.84</b>
<b>ECL provisions (Rs mn)</b>					
Stage 1 and 2	8,191	750	NA	4,725	5,598
Stage 3	8,800	230	40,170	1,175	15,962
<b>Total portfolio</b>	<b>16,991</b>	<b>980</b>	<b>NA</b>	<b>5,900</b>	<b>21,561</b>
<b>Stage 1-2/ECL (%)</b>	<b>48.21</b>	<b>76.53</b>	<b>NA</b>	<b>80.08</b>	<b>25.96</b>

Source: Company, Kotak Institutional Equities

While the overall provisions between IGAAP and Ind-AS are similar, the composition of provisions is more balanced between stage 1-2 (standard assets) provisions and stage 3 (GNPL) provisions (Exhibit 7). Stage 1-2 provisions are 21-39% of total provisions/ECL under Ind-AS; this compared with 5-17% of standard asset provisions/total balance sheet provisions under IGAAP.

**Exhibit 7: Higher share of stage 1-2 provisions under Ind-AS versus IGAAP**

Provision/ECL coverage, March fiscal year ends, 1QFY18 (Rs mn)

	IGAAP					Ind-AS				
	Chola	Magma	MMFS	Sundaram	Shriram Transport	Chola	Magma	MMFS	Sundaram	Shriram Transport
<b>ECL provisions (Rs mn)</b>										
Stage 1 and 2	1,069	414	1,552	623	2,510	1,635	4,000	7,270	NA	21,475
Stage 3	5,249	2,210	30,332	2,281	39,293	5,427	7,200	27,978	1,773	33,893
<b>ECL provisions</b>	<b>6,318</b>	<b>2,624</b>	<b>31,884</b>	<b>2,904</b>	<b>41,803</b>	<b>7,061</b>	<b>11,200</b>	<b>35,248</b>	<b>NA</b>	<b>55,368</b>
<b>Stage 1-2/ECL (%)</b>	<b>17</b>	<b>16</b>	<b>5</b>	<b>NA</b>	<b>6</b>	<b>23</b>	<b>36</b>	<b>21</b>	<b>NA</b>	<b>39</b>

Source: Company, Kotak Institutional Equities

**Stage 1-2 provisions will remain high for vehicle finance NBFCs**

We believe that improving credit experience will start reflecting in lower PD and LGDs for NBFCs over time. However, stage 1-2 PD and ECL ratio will likely remain high for vehicle finance companies (more than 40bps of standard provisions in the previous regime) due to inherent volatility in cash flows. Thus, the incremental provisions during an improving business cycle will be higher under Ind-AS as compared to IGAAP. We expect NBFCs to invest in reducing stage 1-2 provisions over the long-term.

**NBFCs have been highly volatile under IGAAP; Ind-AS may not change much**

NBFCs (excluding mass affluent HFCs) have been highly volatile due to their focus on the unbanked/less banked and more vulnerable segments that have more volatile cash flows. Exhibit 8 shows that Mahindra Finance and Shriram Transport Finance reported credit costs of 1-3.5% and 1.4-3.6% respectively over the last 12 years. NPL coverage ratios have been high at 55-85% even as standard asset provisions were prescribed at 10-40 bps during the period. One of the reasons for this may be the transition to 90 dpd from 180 dpd over the last three years- NBFCs did not drop down coverage significantly even as the NPL norm tightened.

As discussed above, LGD/ stage 3 coverage under Ind-AS is significantly lower than the NPL coverage historically maintained by NBFCs under IGAAP- the latter being much higher than regulatory requirements; even while the LGD ratio may inch overtime but will likely remain lower than buffers built by NBFCs over the last downcycle. This may be offset by higher provisions on stage 1-2 loans, which indicates higher volatility in business.



**Exhibit 8: High volatility in earnings and profitability of Mahindra Finance and Shriram Transport Finance**

Key parameters of Mahindra Finance and Shriram Transport Finance, March fiscal year-ends, 2007-21E

	IGAAP 2007	IGAAP 2008	IGAAP 2009	IGAAP 2010	IGAAP 2011	IGAAP 2012	IGAAP 2013	IGAAP 2014	IGAAP 2015	IGAAP 2016	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
<b>Mahindra Finance</b>															
Disbursements (% yoy)	22	8	7	42	62	35	22	7	(5)	10	19	19	26	22	21
Loan growth (% yoy)	32	13	3	22	49	40	37	23	11	11	16	20	30	20	21
NIM (%)	8.1	9.9	10.6	10.9	10.6	8.2	8.1	7.8	7.4	7.1	6.6	7.2	7.4	7.4	7.5
Credit cost/ assets (%)	2.2	3.7	3.9	2.7	1.4	1.0	1.3	1.8	2.5	2.8	3.1	2.4	1.6	1.8	2.0
Opex/ assets (%)	3.5	3.8	3.7	3.9	4.3	3.7	3.4	3.2	3.0	3.2	3.4	3.3	2.8	2.6	2.6
Gross NPLs (%)	5.5	7.6	9.6	7.0	4.2	3.1	3.1	4.4	5.9	8.0	9.0	8.5	7.3	7.0	7.0
Net NPLs (%)	2.5	2.9	2.9	1.0	0.6	0.7	1.1	1.9	2.5	3.4	3.8	3.8	3.1	3.1	3.1
Coverage (%)	55	62	70	85	86	77	65	56	58	58	58	55	57	56	56
RoA (%)	2.4	2.7	3.0	4.2	4.1	3.8	4.1	3.1	2.5	1.8	0.9	1.8	2.3	2.3	2.2
RoE (%)	18.1	16.9	15.4	21.5	22.0	22.8	24.5	18.6	15.5	11.4	6.4	11.3	14.3	15.8	16.7
<b>Shriram Transport Finance</b>															
Disbursements (% yoy)	61	76	(0)	27	35	(2)	35	9	18	22	(3)	29	(15)	23	20
Loan growth (% yoy)	0	62	17	28	24	11	24	7	11	23	8	21	18	17	18
NIM (%)	7.7	7.4	8.1	8.6	9.8	9.4	8.2	7.3	7.3	7.7	7.3	7.7	7.7	7.3	7.2
Credit cost/ assets (%)	1.9	1.5	1.4	1.6	1.6	2.0	1.9	2.2	2.3	3.1	3.2	3.6	2.1	1.9	1.9
Opex/ assets (%)	2.7	2.2	2.5	2.1	2.8	2.5	1.8	1.8	1.9	2.0	1.6	1.7	1.9	1.8	1.7
Gross NPLs (%)	1.9	1.5	2.1	2.8	2.7	3.0	3.3	4.0	3.8	6.3	8.3	9.2	9.0	8.0	8.0
Net NPLs (%)	1.5	0.7	0.7	0.8	0.4	0.4	0.8	0.9	0.8	1.9	2.7	2.8	4.2	3.5	3.7
Coverage (%)	19	54	67	71	86	86	76	78	79	69	67	69	54	57	54
RoA (%)	2.2	2.5	2.9	3.4	3.8	3.3	3.0	2.5	2.2	1.8	1.7	1.8	2.5	2.4	2.3
RoE (%)	19.8	26.9	29.6	28.4	28.1	23.1	20.6	16.3	14.1	12.2	11.7	13.1	18.3	17.5	17.1
EPS (yoy,%)		85.7	56.7	30.1	38.9	2.2	7.9	(7.1)	(2.1)	(4.8)	6.7	24.7	64.4	14.3	12.8

Source: Company, Kotak Institutional Equities

**NIMs may be less volatile**

- ▶ **Recognition on income on stage 3 loans.** NBFCs did not recognize income on GNPLs; slippages to NPLs led to interest reversals and hence lower NII as well. The Ind-AS framework allows NBFCs to recognize income on delinquent loans; this is anyway provided for in the ECL estimates. Thus, NIMs under Ind-AS will not be affected by asset quality trends.
- ▶ **Fees and expenses deferred.** Ind-AS requires NBFCs to defer income and expenses on origination throughout the tenure of the loan. Thus, upfront fees, subvention fees will be deferred throughout the tenure of the loan; so will the DSA fees and other origination expenses. In the past, most NBFCs recognized origination expenses upfront; as these expenses are typically higher than origination income, this created a negative carry- this is now evened out.
- ▶ **Expenses related to borrowings are deferred as well.** Expenses for origination of borrowings (fees paid for placement of NCDs, bank loans and rating agency fees, etc) will be deferred and added to the interest expense. Provisions on redemption of zero coupon bonds are also passed through P&L – this had significant impact for HDFC and select other HFCs.

**Upfront income on loan assignment possesses serious risk, in our view**

According to Ind-AS, present value income on loan assignments (i.e. transactions reckoned as 'true-sale') is recognized upfront in the quarter of the assignment transaction. Under IGAAP, income on such transactions was deferred throughout the tenure of the loan, as and when realized. This will lead to volatility in quarterly income for NBFCs under Ind-AS, making it challenging to forecast. Moreover, NBFCs may need to consistently increase loan assignment to deliver yoy earnings growth. However, prepayment of loans, mostly in case of housing/high tenure loans is the key risk under Ind-AS. HFCs will need to reverse the income that was recognized if a loan is prepaid, to the extent this income is not realized.

Among large NBFCs, PNBHF, LTFH, Chola and DHFL are engaged in loan assignment and upfronted income on transition to Ind-AS. HDFC was the only exception and decided to defer the income on loan sell down to HDFC Bank. HDFC's management believes that the fees collected are more akin to servicing fees and hence may not need to be recognized upfront.

### DTL boosts net worth; no impact on the fair value

HFCs can add back deferred tax liabilities created under section 36 (1) (viii) of the Income Tax Act (on income on long-term lending) to its net worth. It was never clear how DTL created under the aforesaid clause, under the directions of NHB, would have been utilized. We have always added back such DTL to our net worth estimates to calculate the fair value of HFCs under coverage. As such, addition to DTL will not change fair value estimates of stocks under coverage.

### Capital requirements and other prudential norms

Ind-AS does not prescribe any methodology for capital requirements which are prescribed by the regulator. As such, most large NBFCs (except Shriram Transport Finance) have calculated capital adequacy as per IGAAP norms. The key items in this case are (1) DTL (as discussed above) is reckoned as tier II capital by NHB and (2) loan securitization – will need to be added back to books under Ind-AS removing benefits of capital relief under IGAAP.

### ESOP expenses through P&L

Expenses for issuance of ESOP need to be passed through P&L under Ind-AS.

### Some imponderables – regulatory stance and need for standardization

**More leeway for NBFCs?** RBI has not prescribed any specific guidelines on methodology for estimation of ECL or implementation of Ind-AS in general. Last few actions (like Usha Thorat Committee Report) have been directed towards tightening the regulatory framework like migration to 90 dpd from 180 dpd over a three year period. However, Ind-AS has provided significant leeway in revenue recognition and provisioning to NBFCs.

Interpretation of Ind-AS regulations has not been standardized across NBFCs, in the absence of any regulatory guidelines. It is still early days and we expect the framework to standardize over the next few quarters.

### A few examples of different treatments of various line items

- ▶ Most NBFCs now adjust both (deferred fees and expenses) with interest income while some NBFCs (example: LICHF) include deferred origination expenses in other expenses. One major exception in this case is Dewan Housing Finance (DHFL) that recognizes loan processing fees upfront; its management argued that fees are recognized on logging of the case i.e. in loan approval stage; processing fees are payable even if the loan is approved/disbursed or otherwise.
- ▶ Canfin Homes, L&T Finance Holdings and Muthoot chose to keep (and not reverse) extra provisions (than required under expected credit loss (ECL) methodology); this will help their credit costs over the next few quarters.
- ▶ HDFC Ltd. recognized select performing (0 dpd) loans under stage 3A and made provisions under the same. According to HDFC's management, these loans are current but carry a higher risk than other stage 1-2 loans and hence need to be reckoned differently.
- ▶ All loans that crossed 90 dpd are classified under stage 3. SCUF defined stage 3 as loans beyond 4 month for 1QFY18, in line with then prevailing NPL recognition norms. Chola (stage 1-2 provisions at 47bps, much lower than other vehicles finance NPLs at 2.2-2.7%) considered all loans that moved to 90 dpd even once in the preceding 12 months in stage 3.
- ▶ Unlike its peers, HDFC has not upfronted income on loan assignment to HDFC Bank.

**How fast would PD and LGDs change?** Most NBFCs have considered a timeframe of 5-15 years for calculation of ECL. We expect PD and LGD ratio to evolve yoy as the recent experience feeds into the database. We are however not able to understand the pace of change. Exhibit 9 shows that there is a considerable change in ECL ratios yoy during 1QFY18 and 1QFY19. One possible reason may be a shift in loans/composition of loans between stage 1 and stage 2. It is not clear if exceptional events like demonetization can be excluded for calculations of ECL?

**With what periodicity is the data factored by NBFCs?** For example: Magma Fincorp factors data up to the previous financial year. Mahindra Finance factors experience up to the latest quarter; upgraded loans carry higher risk than other stage 1-2 loans and hence its PD will be higher in quarters that see large upgrades. Chola considers any loan that crosses 90 dpd even for one day in the preceding four quarters under stage 3- this is tighter than the NPL recognition norm that typically considered delinquent loans at the end of the month. HDFC has classified current loans that carry a higher risk under 3A.

**Exhibit 9: Considerable yoy change in ECL ratios**  
 March fiscal year-ends, 1QFY18-1QFY19 (% of loans)

	1QFY18	1QFY19	(% chg.)
<b>Housing finance companies</b>			
<b>Dewan Housing (DHFL)</b>			
Stage 3	31.14	27.15	-399 bps
Stage 1 and 2	0.64	0.76	11 bps
Total portfolio	0.94	1.00	6 bps
<b>HDFC</b>			
Stage 3	29.14	27.86	-128 bps
Stage 1 and 2	0.19	0.16	-3 bps
Total portfolio	0.94	1.18	24 bps
<b>Indiabulls Housing Finance</b>			
Stage 3	23.68	24.49	81 bps
Stage 1 and 2	0.29	0.26	-3 bps
Total portfolio	0.47	0.44	-3 bps
<b>LICHF</b>			
Stage 3	46.63	31.97	-1466 bps
Stage 1 and 2	0.15	0.16	1 bps
Total portfolio	0.49	0.54	6 bps
<b>PNBHF</b>			
Stage 3	24.53	24.55	2 bps
Stage 1 and 2	0.26	0.41	15 bps
Total portfolio	0.36	0.52	15 bps
<b>Vehicle finance NBFCs</b>			
<b>Cholamandalam</b>			
Stage 3	32.98	42.81	43
<b>Magma Fincorp</b>			
Stage 3	42.81	55.98	1317 bps
Stage 1 and 2	3.14	2.65	-49 bps
Total portfolio	7.78	7.72	-6 bps
<b>Mahindra Finance</b>			
Stage 3	39.69	35.08	-461 bps
Stage 1 and 2	1.50	2.20	70 bps
Total portfolio	7.27	5.51	-177 bps
<b>Shriram Transport Finance</b>			
Stage 3	37.77	36.24	-154 bps
Stage 1 and 2	2.92	2.55	-38 bps
Total portfolio	6.71	5.60	-111 bps
<b>Sundaram</b>			
Stage 3	41.09	33.72	-737 bps
<b>Others</b>			
<b>IIFL Holdings</b>			
Stage 3	100.00	100.00	0 bps
<b>L&amp;TFH</b>			
Stage 3	50.75	61.99	1125 bps
<b>SCUF</b>			
Stage 3	73.80	62.00	-1180 bps
Stage 1 and 2	0.89	0.89	0 bps
Total portfolio	6.41	6.84	43 bps

Source: Company, Kotak Institutional Equities

### Impact on business

It's too early to gauge if Ind-AS will have any impact on NBFCs' long-term business. A few points:

- ▶ Management will focus on early (stage 1-2) delinquencies which may over time reduce the volatility of collections in this segment.
- ▶ A data-driven approach in estimating provisions will prompt NBFCs to focus on investing in better systems which in turn can feed into credit decision support systems as well. Overtime, this may help NBFCs to standardize business processes and make more data driven decisions.
- ▶ Upfront/loan processing fees may not provide an immediate boost to earnings and may reduce. Similarly, NBFCs may engage in higher loan assignments to boost earnings.
- ▶ ESOP grants may be more calibrated as ESOP expenses will now need to be expensed through P&L.

**Exhibit 10: Key assumptions in our ECL forecasts for select NBFCs**  
March fiscal year-ends, 2019-20E (Rs mn)

	HDFC			HFCs			PNBHF		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
<b>Gross stage 3 loans</b>									
Gross stage 3/GNPL (%)	3.50	3.25	2.90	0.88	0.90	0.91	0.25	0.25	0.25
<b>ECL coverage (%)</b>									
Stage 1 and 2	0.15	0.15	0.15	0.17	0.20	0.20	0.50	0.60	0.70
Stage 3	30.0	30.0	31.0	27.0	32.0	39.0	25.0	25.0	25.0
<b>Total portfolio</b>	<b>1.19</b>	<b>1.12</b>	<b>1.04</b>	<b>0.41</b>	<b>0.49</b>	<b>0.55</b>	<b>0.56</b>	<b>0.66</b>	<b>0.76</b>
Stage 1-2 provisions/ECL (%)	12.12	12.96	13.94	41.52	40.82	35.83	88.86	90.54	91.78

	Chola			Magma			Mahindra Finance			Shriram transport		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
<b>Gross stage 3 loans</b>												
Gross stage 3/GNPL (%)	3.52	3.53	3.61	8.92	8.70	8.47	8.33	8.02	8.02	9.00	8.00	8.00
<b>ECL coverage (%)</b>												
Stage 1 and 2	0.49	0.49	0.49	2.60	2.40	2.10	2.40	2.25	2.25	33.71	33.75	32.93
Stage 3	45.00	45.00	45.00	59.00	56.00	54.00	32.00	31.00	30.00	2.60	2.50	2.30
<b>Total portfolio</b>	<b>2.05</b>	<b>2.06</b>	<b>2.09</b>	<b>7.63</b>	<b>7.06</b>	<b>6.50</b>	<b>4.87</b>	<b>4.56</b>	<b>4.48</b>	<b>5.40</b>	<b>5.00</b>	<b>4.75</b>
Stage 1-2 provisions/ECL (%)	22.89	22.82	22.45	31.04	31.04	29.59	45.21	45.41	46.23	43.81	46.00	44.55

	Muthoot Finance			SCUF		
	2019E	2020E	2021E	2019E	2020E	2021E
<b>Gross stage 3 loans</b>						
Gross stage 3/GNPL (%)	4.00	5.00	7.00	8.60	8.20	8.00
<b>ECL coverage (%)</b>						
Stage 1 and 2	1.80	2.00	2.00	2.52	2.18	2.17
Stage 3	20	20	20	53.64	49.25	45.20
<b>Total portfolio</b>	<b>2.53</b>	<b>2.90</b>	<b>3.26</b>	<b>6.91</b>	<b>6.04</b>	<b>5.62</b>
Stage 1-2 provisions/ECL (%)	68.35	65.52	57.06	33.27	33.12	35.61

Source: 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)
		10-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>NBFCs</b>																													
Bajaj Finance	SELL	2,616	2,000	(23.5)	1,512	20.8	575	68	90	114	56.6	31.9	27.3	38.5	29.2	22.9	—	—	—	7.8	6.3	5.1	22.4	24.0	24.6	0.3	0.3	0.4	58.3
Bajaj Finserv	REDUCE	6,347	6,100	(3.9)	1,010	13.9	159	245	307	376	39.7	25.2	22.5	25.9	20.7	16.9	—	—	—	4.1	3.4	2.9	17.5	18.1	18.6	0.2	0.2	0.2	18.7
Bharat Financial Inclusion	NA	1,123	—	—	157	2.2	139	43	54	69	31.1	27.2	25.8	26.2	20.6	16.4	—	—	—	4.2	3.5	2.8	17.9	18.5	19.0	—	—	—	9.7
Cholamandalam	REDUCE	1,390	1,500	8.0	217	3.0	156	90	110	136	44.8	22.1	23.4	15.4	12.6	10.2	—	—	—	3.6	2.9	2.4	24.5	24.3	24.3	0.8	1.0	1.2	7.2
HDFC	ADD	1,884	2,075	10.2	3,186	43.9	1,676	56	67	81	(25.8)	19.0	21.2	33.7	28.3	23.3	—	—	—	4.3	3.9	3.5	13.8	14.5	16.0	1.1	1.3	1.6	71.3
HDFC Standard Life Insurance	SELL	450	405	(10.0)	906	12.5	2,007	6	7	8	14.8	10.9	14.7	70.9	63.9	55.7	—	—	—	18.8	16.8	15.0	28.0	27.7	28.4	0.4	0.4	0.4	8.5
ICICI Lombard	SELL	914	620	(32.2)	415	5.7	454	26	32	37	37.1	21.5	18.5	35.1	28.9	24.4	—	—	—	7.7	6.4	5.4	23.8	24.2	24.0	0.7	0.8	0.9	3.2
ICICI Prudential Life	BUY	374	500	33.7	537	7.4	1,436	12	13	15	10.1	7.0	10.0	30.1	28.1	25.6	—	—	—	6.7	5.6	4.8	24.5	21.8	20.2	0.6	0.6	0.7	8.8
IIFL Holdings	SELL	651	625	(4.0)	208	2.9	319	38	45	52	31.5	18.6	16.0	17.3	14.6	12.6	—	—	—	3.1	2.7	2.3	20.5	20.0	20.0	1.2	1.5	1.7	1.7
L&T Finance Holdings	ADD	161	190	17.9	322	4.4	1,996	13	14	16	70.9	12.3	12.8	12.8	11.4	10.1	—	—	—	2.3	2.0	1.7	18.9	18.8	18.3	1.2	1.6	1.5	14.4
LIC Housing Finance	ADD	484	610	25.9	244	3.4	505	50	58	66	14.1	16.2	14.6	9.7	8.4	7.3	—	—	—	1.6	1.4	1.2	17.4	16.9	16.8	1.6	1.9	2.1	14.9
Magma Fincorp	BUY	138	190	37.5	37	0.5	237	13	17	21	34.0	31.8	23.0	10.6	8.0	6.5	—	—	—	1.4	1.2	1.0	13.9	15.8	17.0	1.4	1.9	2.3	0.9
Mahindra & Mahindra Financial	REDUCE	447	500	11.8	276	3.8	614	23	28	34	58.4	23.2	18.6	19.4	15.8	13.3	—	—	—	2.8	2.5	2.3	14.3	15.8	16.7	1.4	1.7	2.1	10.4
Max Financial Services	ADD	505	650	28.8	135	1.9	268	6	6	6	36.9	1.8	1.8	80.4	79.0	77.6	—	—	—	—	—	—	8.3	8.0	7.8	—	0.4	0.5	4.8
Muthoot Finance	ADD	453	480	5.9	181	2.5	400	40	42	48	(7.8)	6.0	14.8	11.4	10.8	9.4	—	—	—	2.0	1.8	1.6	19.0	17.6	17.8	2.0	2.1	2.4	5.6
PNB Housing Finance	REDUCE	1,302	1,325	1.7	218	3.0	167	62	75	92	25.3	20.9	22.4	20.9	17.3	14.1	—	—	—	3.0	2.7	2.3	15.2	15.9	17.0	0.3	0.3	0.3	5.1
SBI Life Insurance	ADD	676	785	16.1	676	9.3	1,000	15	18	21	26.0	22.9	17.0	46.5	37.8	32.3	—	—	—	8.8	7.4	6.2	20.6	21.3	20.9	0.3	0.4	0.5	3.1
Shriram City Union Finance	ADD	1,954	2,250	15.1	129	1.8	66	141	174	209	40.4	22.7	20.5	13.8	11.3	9.3	—	—	—	2.2	1.9	1.7	15.8	16.9	17.6	0.9	1.1	1.3	1.5
Shriram Transport	ADD	1,192	1,550	30.0	271	3.7	227	114	130	146	64.4	14.3	12.8	10.5	9.2	8.1	—	—	—	1.9	1.6	1.4	18.3	17.5	17.1	1.3	1.5	1.8	32.3
<b>NBFCs</b>	<b>Neutral</b>				<b>10,638</b>	<b>147</b>					<b>15.1</b>	<b>19.5</b>	<b>19.4</b>	<b>27.0</b>	<b>22.6</b>	<b>18.9</b>				<b>4.3</b>	<b>3.8</b>	<b>3.3</b>	<b>16.1</b>	<b>16.7</b>	<b>17.3</b>	<b>0.7</b>	<b>0.9</b>	<b>1.0</b>	<b>611.6</b>
<b>Cement</b>																													
ACC	SELL	1,529	1,270	(16.9)	287	4.0	188	62	70	81	27.0	13.8	15.2	24.7	21.7	18.8	13.6	11.7	9.9	2.8	2.6	2.4	11.9	12.5	13.1	1.1	1.1	1.1	15.6
Ambuja Cements	REDUCE	220	210	(4.4)	436	6.0	1,986	9	11	12	14.5	23.2	15.8	25.5	20.7	17.9	8.5	7.0	5.9	2.0	1.9	1.8	8.1	9.5	10.4	1.6	1.6	1.6	11.5
Dalmia Bharat	ADD	2,582	2,830	9.6	230	3.2	89	94	122	139	55.8	29.3	14.8	27.5	21.2	18.5	10.4	8.6	7.4	3.3	2.9	2.5	12.9	14.6	14.5	0.1	0.1	0.1	4.6
Grasim Industries	BUY	1,016	1,170	15.2	668	9.2	657	46	55	70	(2.5)	18.8	28.0	22.0	18.5	14.5	7.4	7.1	6.6	1.1	1.1	1.0	5.2	5.9	7.1	0.5	0.5	0.5	15.3
India Cements	REDUCE	120	118	(1.5)	37	0.5	308	4	8	12	28.0	102.6	41.3	28.7	14.2	10.0	8.9	7.0	5.9	0.7	0.7	0.6	2.5	4.8	6.5	0.8	0.8	0.8	9.1
J K Cement	ADD	802	890	11.0	56	0.8	70	45	79	78	3.7	75.4	(0.8)	17.9	10.2	10.3	10.4	8.6	7.0	2.5	2.1	1.8	15.0	22.3	18.5	1.0	1.0	1.0	0.5
JK Lakshmi Cement	ADD	325	370	13.7	38	0.5	118	11	28	37	153.5	147.9	30.5	28.7	11.6	8.9	10.0	6.5	5.3	2.5	2.1	1.7	8.9	19.5	21.0	0.6	0.6	0.6	0.3
Orient Cement	ADD	112	145	29.7	23	0.3	205	7	11	15	212.9	58.7	41.3	16.5	10.4	7.4	7.8	6.0	4.5	2.0	1.8	1.5	12.9	18.2	21.8	1.3	1.8	1.8	0.2
Shree Cement	SELL	17,265	12,500	(27.6)	601	8.3	35	421	630	760	6.0	49.7	20.6	41.0	27.4	22.7	19.1	14.3	11.6	5.9	5.0	4.1	15.4	19.7	19.8	0.3	0.3	0.3	5.3
UltraTech Cement	SELL	4,155	2,950	(29.0)	1,141	15.7	275	126	162	201	42.7	28.9	24.0	33.0	25.6	20.7	17.2	14.2	11.9	3.9	3.4	3.0	12.6	14.3	15.4	0.2	0.2	0.2	18.7
<b>Cement</b>	<b>Cautious</b>				<b>3,518</b>	<b>48</b>					<b>19.5</b>	<b>30.3</b>	<b>21.8</b>	<b>28.4</b>	<b>21.8</b>	<b>17.9</b>	<b>10.9</b>	<b>9.3</b>	<b>8.1</b>	<b>2.4</b>	<b>2.2</b>	<b>2.0</b>	<b>8.4</b>	<b>10.0</b>	<b>11.0</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>81.2</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)			Target price		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		10-Sep-18	(Rs)	(%)	(Rs bn)	(US\$ bn)		2019E	2020E		2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	
<b>Consumer products</b>																																
Asian Paints	REDUCE	1,293	1,325	2.5	1,240	17.1	959	27	33	39	32.1	20.3	18.3	47.7	39.7	33.5	29.9	24.7	20.9	12.9	11.2	9.8	28.8	30.3	31.3	0.9	1.2	1.4	21.4			
Bajaj Corp.	ADD	421	470	11.7	62	0.9	148	15	17	19	7.8	10.3	9.5	27.3	24.7	22.6	21.8	18.6	16.2	12.7	12.6	12.4	46.3	51.2	55.4	3.1	3.3	3.6	0.5			
Britannia Industries	ADD	6,094	6,700	9.9	732	10.1	120	104	127	152	24.5	22.2	19.2	58.5	47.9	40.2	38.4	31.3	26.2	17.0	13.8	11.3	32.5	31.8	30.9	0.6	0.7	0.9	12.6			
Coffee Day Enterprises	REDUCE	313	290	(7.4)	66	0.9	211	8	10	12	129.9	30.0	21.2	40.7	31.3	25.8	13.1	11.4	10.6	2.6	2.4	2.2	6.6	8.0	8.9	—	—	—	1.1			
Colgate-Palmolive (India)	ADD	1,127	1,250	10.9	307	4.2	272	27	32	36	14.7	15.6	15.5	41.3	35.8	31.0	23.6	20.5	17.8	18.0	15.6	13.7	46.0	46.9	47.3	1.4	1.7	2.0	6.8			
Dabur India	REDUCE	450	390	(13.3)	795	11.0	1,762	9	10	12	17.3	12.9	13.6	49.4	43.7	38.5	41.3	35.7	30.9	13.9	12.1	10.6	28.1	29.6	29.4	0.8	1.0	1.2	18.1			
GlaxoSmithKline Consumer	ADD	7,205	7,300	1.3	303	4.2	42	199	223	246	19.5	12.1	10.1	36.2	32.3	29.3	25.4	21.8	19.2	7.8	7.1	6.5	22.8	23.0	23.1	1.2	1.5	1.7	2.1			
Godrej Consumer Products	SELL	1,298	1,100	(15.3)	885	12.2	681	25	29	33	18.8	13.7	12.7	51.2	45.0	39.9	36.3	31.5	27.6	12.0	10.4	9.1	25.4	24.8	24.3	0.7	0.7	0.8	12.3			
Hindustan Unilever	REDUCE	1,610	1,570	(2.5)	3,486	48.0	2,160	29	33	37	19.5	13.2	12.6	54.9	48.5	43.1	38.0	33.4	29.5	43.0	36.5	31.4	83.5	81.4	78.3	1.3	1.5	1.7	35.0			
ITC	ADD	307	330	7.6	3,749	51.7	12,275	10	11	12	8.2	12.3	11.7	31.8	28.3	25.3	20.6	18.2	16.2	6.9	6.5	6.1	20.4	22.2	24.2	1.9	2.2	2.5	54.2			
Jubilant Foodworks	BUY	1,391	1,650	18.7	184	2.5	132	25	35	46	73.6	37.5	32.3	55.0	40.0	30.3	27.5	20.7	15.7	13.7	10.4	7.9	28.9	29.5	29.7	0.1	0.2	0.3	29.5			
Jyothy Laboratories	ADD	205	240	17.1	75	1.0	364	6	7	8	27.6	16.7	15.4	36.4	31.2	27.1	24.4	20.7	17.6	5.6	4.9	4.3	16.6	16.8	16.9	0.5	0.7	1.0	1.0			
Marico	ADD	344	375	8.9	445	6.1	1,291	7	8	9	8.9	20.0	14.5	50.5	42.1	36.7	35.0	28.9	24.9	16.5	15.4	14.2	33.7	37.9	40.2	1.4	1.6	1.8	9.4			
Nestle India	ADD	10,330	11,000	6.5	996	13.7	96	171	197	223	34.2	15.7	13.2	60.6	52.3	46.2	34.7	29.9	26.3	26.8	24.6	22.5	46.1	49.0	50.8	1.1	1.3	1.5	9.3			
Page Industries	SELL	32,517	25,000	(23.1)	363	5.0	11	418	508	607	34.3	21.6	19.5	77.8	64.0	53.5	50.3	41.5	34.6	32.9	26.1	20.9	47.8	45.5	43.4	0.5	0.7	0.8	17.2			
Pidlite Industries	REDUCE	1,143	1,080	(5.5)	581	8.0	508	21	26	31	16.8	21.8	20.2	54.3	44.6	37.1	36.1	29.8	24.8	13.8	11.6	9.7	27.4	28.2	28.4	0.6	0.7	0.8	8.4			
S H Kelkar and Company	BUY	223	290	30.0	32	0.4	145	7	10	12	(6.2)	41.9	23.2	32.1	22.6	18.4	20.7	14.9	12.8	3.5	3.1	2.8	11.3	14.5	16.0	0.8	0.9	1.2	0.4			
Tata Global Beverages	REDUCE	222	250	12.6	140	1.9	631	8	9	10	7.7	17.0	12.9	28.0	24.0	21.2	15.3	13.4	11.8	1.9	1.8	1.8	7.0	7.9	8.5	1.4	1.6	1.8	11.0			
Titan Company	SELL	858	840	(2.0)	761	10.5	888	16	20	23	25.6	21.8	19.3	53.4	43.9	36.8	35.4	28.3	23.2	12.6	10.6	9.0	25.6	26.3	26.4	0.5	0.6	0.8	35.8			
United Breweries	SELL	1,295	1,100	(15.1)	342	4.7	264	21	26	31	39.2	23.6	20.6	62.3	50.4	41.8	30.8	26.4	22.6	10.8	9.1	7.7	18.7	19.6	20.0	0.2	0.3	0.5	13.7			
United Spirits	REDUCE	595	590	(0.9)	432	6.0	727	10	13	17	34.7	30.9	24.5	58.1	44.4	35.6	33.8	27.4	23.1	11.9	8.7	6.7	24.2	22.7	21.3	—	—	0.4	13.5			
Varun Beverages	ADD	776	800	3.1	142	2.0	183	15	20	26	29.8	34.5	30.7	51.9	38.6	29.5	17.2	14.6	12.3	7.2	6.1	5.2	14.6	17.1	19.0	—	—	0.3	1.5			
<b>Consumer products</b>	<b>Cautious</b>				<b>16,117</b>	<b>222</b>					<b>17.7</b>	<b>16.0</b>	<b>14.7</b>	<b>45.4</b>	<b>39.1</b>	<b>34.1</b>	<b>29.4</b>	<b>25.2</b>	<b>21.9</b>	<b>11.9</b>	<b>10.6</b>	<b>9.5</b>	<b>26.1</b>	<b>27.1</b>	<b>27.8</b>	<b>1.1</b>	<b>1.4</b>	<b>1.6</b>	<b>314.6</b>			
<b>Energy</b>																																
BPCL	REDUCE	344	375	9.0	746	10.3	1,967	38	39	39	(6.7)	3.1	1.1	9.2	8.9	8.8	6.7	6.3	6.2	1.8	1.6	1.5	20.5	19.1	17.5	4.4	4.5	4.6	25.9			
Castrol India	SELL	153	155	1.2	151	2.1	989	7	8	9	2.9	10.1	9.7	21.7	19.7	17.9	13.5	12.2	11.0	14.2	13.9	13.4	67.1	71.5	76.0	3.6	4.1	4.4	3.8			
GAIL (India)	BUY	378	440	16.5	852	11.7	2,255	26	29	31	27.8	10.0	9.5	14.5	13.2	12.0	9.0	8.3	7.5	1.9	1.8	1.6	14.0	14.1	14.2	2.3	2.5	2.8	23.8			
GSPL	SELL	186	175	(5.9)	105	1.4	564	11	11	12	(6.5)	(0.5)	11.9	16.8	16.9	15.1	6.3	6.3	5.6	1.9	1.7	1.6	11.7	10.7	10.9	0.9	0.9	1.0	1.3			
HPCL	REDUCE	247	285	15.5	376	5.2	1,524	32	32	32	(22.3)	(2.2)	0.5	7.6	7.8	7.7	6.9	7.3	7.6	1.4	1.3	1.2	19.6	17.4	16.1	5.4	5.2	5.3	22.5			
Indraprastha Gas	SELL	271	240	(11.4)	190	2.6	700	12	13	15	16.4	12.3	10.7	22.6	20.1	18.2	14.3	12.5	11.1	4.7	4.0	3.6	22.1	21.5	20.9	0.9	1.1	1.5	9.6			
IOCL	REDUCE	151	150	(0.7)	1,467	20.2	9,479	18	17	18	(11.2)	(4.1)	2.8	8.3	8.6	8.4	4.8	4.7	4.6	1.2	1.1	1.0	15.1	13.4	12.9	4.8	4.6	4.8	18.6			
Mahanagar Gas	ADD	845	965	14.2	83	1.2	99	56	60	64	16.0	7.6	5.4	15.1	14.0	13.3	8.7	7.9	7.3	3.5	3.1	2.8	24.8	23.5	22.0	2.6	2.9	3.0	12.3			
ONGC	ADD	169	200	18.6	2,164	29.8	12,833	20	20	19	16.8	0.3	(5.9)	8.3	8.3	8.8	4.0	3.8	3.7	0.9	0.9	0.8	11.2	10.6	9.5	4.0	4.2	4.2	15.5			
Oil India	SELL	204	200	(2.2)	232	3.2	1,135	23	24	23	(6.7)	3.4	(2.5)	8.9	8.6	8.8	5.8	5.6	5.6	0.8	0.8	0.7	9.2	9.0	8.4	4.5	4.7	4.5	2.1			
Petronet LNG	BUY	244	280	14.8	366	5.0	1,500	16	18	20	16.7	13.1	9.4	15.1	13.3	12.2	10.1	8.5	7.6	3.3	2.9	2.6	23.3	23.2	22.7	2.3	3.0	3.7	10.3			
Reliance Industries	SELL	1,256	985	(21.6)	7,432	102.4	5,922	69	78	87	17.6	12.4	11.9	18.1	16.1	14.4	12.1	10.3	8.8	2.3	2.0	1.8	12.2	12.1	12.1	0.5	0.5	0.6	136.9			
<b>Energy</b>	<b>Attractive</b>				<b>14,165</b>	<b>195</b>					<b>7.2</b>	<b>5.2</b>	<b>4.8</b>	<b>12.8</b>	<b>12.2</b>	<b>11.6</b>	<b>7.7</b>	<b>7.1</b>	<b>6.6</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>13.0</b>	<b>12.5</b>	<b>12.0</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>	<b>282.7</b>			

Source: Company, Bloomberg, Kotak Institutional Equities estimates



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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		10-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>Industrials</b>																													
ABB	SELL	1,374	1,020	(25.7)	291	4.0	212	26	29	36	30.1	14.2	23.5	53.3	46.7	37.8	31.3	28.1	23.3	7.4	6.7	6.0	14.5	15.1	16.7	0.7	0.7	0.7	1.5
BHEL	REDUCE	78	89	14.5	285	3.9	3,671	3.3	5.5	7.6	47.9	69.3	38.0	23.9	14.1	10.2	7.8	4.8	3.5	0.9	0.9	0.8	3.6	6.1	8.2	2.6	4.4	6.0	9.1
Carborundum Universal	SELL	372	322	(13.4)	70	1.0	189	14	17	20	25.0	21.4	13.8	26.1	21.5	18.9	14.3	11.7	10.1	4.1	3.6	3.2	16.3	17.8	18.1	1.2	1.4	1.6	0.3
CG Power and Industrial	BUY	55	72	30.1	35	0.5	627	2.9	4.3	6.2	255.2	48.7	44.9	19.1	12.8	8.8	7.7	6.1	4.8	1.3	1.2	1.1	6.7	9.8	13.3	—	—	—	6.6
Cummins India	REDUCE	744	710	(4.6)	206	2.8	277	28	33	37	15.2	17.5	13.7	26.8	22.8	20.0	22.4	19.3	16.6	4.9	4.5	4.2	18.7	20.6	21.8	2.0	2.4	2.7	4.5
Kalpitaru Power Transmission	BUY	339	560	65.0	52	0.7	153	23.0	32.1	41.0	26.0	39.1	27.7	14.7	10.6	8.3	6.7	5.2	4.4	1.7	1.5	1.3	12.5	15.2	16.7	0.5	0.5	0.5	0.6
KEC International	BUY	291	410	40.9	75	1.0	257	21	27	33	16.9	29.7	23.0	13.9	10.7	8.7	7.9	6.4	5.5	3.0	2.4	2.0	24.1	25.2	24.9	0.8	1.0	1.2	2.8
L&T	BUY	1,337	1,600	19.7	1,874	25.8	1,401	66.3	67.6	79.5	28.2	1.9	17.6	20.2	19.8	16.8	18.0	17.4	14.6	3.4	3.0	2.7	17.6	16.2	17.1	1.6	1.7	2.0	46.1
Siemens	SELL	977	1,000	2.3	348	4.8	356	29	35	—	21.4	21.7	—	33.6	27.6	—	18.9	15.2	—	4.0	3.7	—	12.3	14.0	—	1.2	1.5	—	3.1
Thermax	REDUCE	980	1,010	3.1	117	1.6	113	27.8	38.7	43.8	34.7	39.2	13.2	35.3	25.3	22.4	22.3	16.5	14.1	3.8	3.5	3.1	11.1	14.3	14.7	1.0	1.1	1.2	1.0
<b>Industrials</b>	<b>Neutral</b>				<b>3,353</b>	<b>46</b>					<b>29.0</b>	<b>13.9</b>	<b>11.9</b>	<b>23.1</b>	<b>20.3</b>	<b>18.2</b>	<b>16.6</b>	<b>14.8</b>	<b>12.2</b>	<b>2.8</b>	<b>2.6</b>	<b>2.6</b>	<b>12.3</b>	<b>12.9</b>	<b>14.3</b>	<b>1.5</b>	<b>1.8</b>	<b>2.0</b>	<b>75.4</b>
<b>Infrastructure</b>																													
Adani Ports and SEZ	BUY	372	460	23.7	770	10.6	2,071	19	23	29	1.2	21.1	29.8	19.9	16.4	12.6	13.6	11.2	9.9	3.1	2.7	2.2	17.0	17.7	19.4	0.5	0.6	0.5	22.0
Ashoka Buildcon	BUY	136	235	72.7	38	0.5	282	9	10	10	4.1	17.8	(1.3)	15.5	13.2	13.4	10.2	8.5	7.9	1.7	1.5	1.4	11.8	12.3	11.0	1.2	1.0	0.9	0.5
Container Corp.	SELL	659	635	(3.7)	321	4.4	487	21	25	29	17.4	20.9	15.0	31.8	26.3	22.9	19.6	15.6	12.8	3.2	2.9	2.7	10.3	11.6	12.3	1.3	1.6	1.5	5.5
Dilip Buildcon	BUY	787	1,240	57.6	108	1.5	137	56	71	85	19.8	27.5	20.1	14.1	11.1	9.2	7.3	5.9	5.0	3.3	2.6	2.0	26.7	26.2	24.4	—	—	—	4.0
Gateway Distriparks	BUY	180	250	39.0	20	0.3	109	7	8	11	(5.8)	15.2	37.5	25.1	21.8	15.8	11.2	9.3	7.6	3.4	2.9	2.5	9.8	14.5	17.1	—	1.7	1.7	0.3
Gujarat Pipavav Port	BUY	106	150	40.7	51	0.7	483	5.3	6.5	7.8	29.7	22.9	19.3	20.0	16.2	13.6	10.6	8.7	7.2	2.5	2.4	2.4	12.7	15.3	17.8	4.2	5.0	5.9	0.9
IRB Infrastructure	BUY	172	320	85.9	61	0.8	351	31	33	23	36.8	7.1	(31.3)	5.6	5.2	7.6	6.3	6.8	8.1	0.9	0.8	0.7	17.6	16.3	10.0	1.8	2.3	2.5	5.6
Mahindra Logistics	REDUCE	578	565	(2.2)	41	0.6	71	15	21	25	50.7	39.3	23.7	39.1	28.1	22.7	21.8	15.8	12.5	8.1	6.6	5.3	22.7	25.8	25.8	—	—	—	0.6
Sadbhav Engineering	BUY	270	435	61.3	46	0.6	172	17	22	23	31.7	31.0	2.6	15.9	12.1	11.8	11.5	9.0	7.6	2.2	1.9	1.6	14.5	16.5	14.7	—	—	—	1.4
<b>Infrastructure</b>	<b>Attractive</b>				<b>1,456</b>	<b>20</b>					<b>11.3</b>	<b>20.3</b>	<b>16.7</b>	<b>18.9</b>	<b>15.7</b>	<b>13.5</b>	<b>11.7</b>	<b>9.9</b>	<b>9.0</b>	<b>2.8</b>	<b>2.4</b>	<b>2.1</b>	<b>14.8</b>	<b>15.5</b>	<b>15.7</b>	<b>0.8</b>	<b>1.0</b>	<b>1.0</b>	<b>40.9</b>
<b>Internet</b>																													
Info Edge	ADD	1,609	1,425	(11.4)	196	2.7	122	26	33	40	14.9	27.5	20.6	62.2	48.8	40.5	47.6	36.1	29.3	7.4	6.7	6.0	13.2	14.3	15.6	0.5	0.5	0.6	3.0
Just Dial	ADD	519	610	17.5	35	0.5	67	26	30	33	23.0	15.0	9.4	19.9	17.3	15.8	10.6	8.5	7.0	3.1	2.7	2.3	16.7	16.6	15.7	0.5	0.6	0.6	26.7
<b>Internet</b>	<b>Cautious</b>				<b>231</b>	<b>3</b>					<b>17.6</b>	<b>23.0</b>	<b>16.8</b>	<b>47.1</b>	<b>38.3</b>	<b>32.8</b>	<b>34.8</b>	<b>27.5</b>	<b>23.0</b>	<b>6.1</b>	<b>5.4</b>	<b>4.8</b>	<b>12.9</b>	<b>14.2</b>	<b>14.7</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>29.7</b>
<b>Media</b>																													
DB Corp.	REDUCE	228	270	18.5	42	0.6	184	20	23	26	14.9	12.3	14.8	11.3	10.0	8.7	6.1	5.3	—	2.3	2.2	—	20.7	22.3	25.2	7.4	9.2	11.1	0.6
DishTV	ADD	68	90	32.7	125	1.7	1,925	1.8	3.4	4.9	514.6	88.2	42.6	NM	19.7	13.8	5.8	4.6	3.7	1.8	1.7	1.5	5.1	8.9	11.5	—	—	—	7.3
Jagran Prakashan	REDUCE	121	131	8.1	36	0.5	311	11	12	14	10.0	13.6	14.5	11.4	10.1	8.8	5.0	4.3	3.7	1.9	1.8	1.7	15.9	18.2	19.7	4.1	6.2	7.0	0.5
PVR	BUY	1,344	1,430	6.4	63	0.9	47	38	50	61	41.2	32.3	22.4	35.5	26.8	21.9	13.6	11.5	9.8	5.1	4.4	3.7	15.3	17.6	18.3	0.3	0.4	0.5	11.3
Sun TV Network	REDUCE	691	925	33.8	272	3.8	394	35	39	43	20.7	10.9	10.7	19.9	17.9	16.2	13.4	11.7	10.0	5.3	4.8	4.3	28.1	27.9	27.9	2.5	2.9	3.3	19.8
Zee Entertainment Enterprises	ADD	473	600	26.9	454	6.3	960	17	20	22	11.3	17.0	13.9	28.3	24.2	21.2	17.4	14.7	12.8	5.3	4.7	4.1	19.9	20.6	20.7	1.0	1.2	1.5	17.9
<b>Media</b>	<b>Attractive</b>				<b>992</b>	<b>14</b>					<b>28.7</b>	<b>21.0</b>	<b>17.2</b>	<b>23.8</b>	<b>19.6</b>	<b>16.8</b>	<b>11.3</b>	<b>9.6</b>	<b>7.9</b>	<b>3.9</b>	<b>3.5</b>	<b>3.3</b>	<b>16.3</b>	<b>17.7</b>	<b>19.8</b>	<b>1.6</b>	<b>1.9</b>	<b>2.3</b>	<b>57.4</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		10-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>Metals &amp; Mining</b>																													
Coal India	ADD	280	326	16.6	1,736	23.9	6,207	27	28	28	138.2	3.0	0.7	10.4	10.1	10.0	6.7	6.3	6.0	6.6	6.8	7.0	66.1	66.4	69.1	7.2	8.9	8.9	14.0
Hindalco Industries	BUY	236	305	29.4	529	7.3	2,229	27	31	34	25.1	13.6	10.2	8.6	7.6	6.9	5.6	4.9	4.3	0.9	0.8	0.7	10.6	10.8	10.8	0.5	0.5	0.5	33.6
Hindustan Zinc	ADD	295	290	(1.8)	1,248	17.2	4,225	22	26	27	3.7	14.7	5.4	13.3	11.5	11.0	7.7	6.4	5.6	3.0	2.6	2.3	24.4	24.2	22.1	2.7	2.7	2.7	6.8
Jindal Steel and Power	REDUCE	219	215	(1.8)	212	2.9	968	8	14	22	195.9	68.5	60.8	26.9	16.0	9.9	7.0	6.4	5.4	0.7	0.7	0.6	2.7	4.3	6.5	—	—	—	29.5
JSW Steel	SELL	401	350	(12.8)	970	13.4	2,406	31	26	31	16.1	(16.2)	17.2	12.8	15.3	13.1	7.4	8.6	7.6	2.7	2.4	2.0	23.5	16.6	16.8	0.8	0.8	0.8	28.5
National Aluminium Co.	ADD	71	80	12.0	138	1.9	1,933	9	7	8	125.8	(21.1)	2.4	7.7	9.7	9.5	3.5	4.5	4.4	1.3	1.3	1.3	16.8	13.0	13.3	8.4	8.4	8.4	11.6
NMDC	REDUCE	120	120	(0.1)	380	5.2	3,164	12	10	11	4.2	(14.3)	5.9	9.8	11.5	10.8	6.1	7.0	6.5	1.5	1.4	1.3	15.3	12.4	12.5	4.6	4.6	4.6	5.5
Tata Steel	ADD	614	660	7.6	704	9.7	1,205	76	85	94	12.8	12.1	10.9	8.1	7	6.5	6.1	6.4	6.0	1.1	1.0	0.9	14.3	14.3	14.4	1.6	1.6	1.6	69.7
Vedanta	BUY	224	370	65.5	831	11.5	3,717	32	39	38	49.1	19.7	(0.7)	6.9	5.8	5.8	4.6	3.8	3.5	1.2	1.1	1.0	18.0	19.4	17.2	4.3	5.2	5.1	45.3
<b>Metals &amp; Mining</b>		<b>Attractive</b>			<b>6,748</b>	<b>93</b>					<b>42.5</b>	<b>6.8</b>	<b>6.4</b>	<b>10.0</b>	<b>9.4</b>	<b>8.8</b>	<b>6.1</b>	<b>5.8</b>	<b>5.4</b>	<b>1.8</b>	<b>1.7</b>	<b>1.5</b>	<b>18.1</b>	<b>17.8</b>	<b>17.1</b>	<b>3.6</b>	<b>4.2</b>	<b>4.2</b>	<b>244.5</b>
<b>Pharmaceutical</b>																													
Apollo Hospitals	ADD	1,131	1,090	(3.6)	157	2.2	139	20	27	33	133.5	36.7	21.6	57.4	42.0	34.5	20.0	16.9	14.8	4.6	4.2	3.9	8.2	10.5	11.8	0.4	0.6	0.7	14.6
Aster DM Healthcare	BUY	171	240	40.1	87	1.2	505	5	8	12	74.4	62.0	51.4	35.6	22.0	14.5	12.7	10.0	7.8	2.8	2.5	2.2	8.3	12.2	16.3	—	—	—	0.2
Aurobindo Pharma	ADD	796	760	(4.5)	466	6.4	584	42	57	64	1.0	35.8	12.3	18.9	13.9	12.4	12.6	9.3	8.2	3.4	2.8	2.3	19.3	19.9	18.6	0.7	0.8	0.9	34.1
Biocon	SELL	638	330	(48.3)	383	5.3	601	8	15	18	35.9	75.7	21.7	75.8	43.1	35.5	33.0	22.1	18.7	6.3	5.7	5.1	8.7	13.9	14.3	0.5	0.8	1.0	19.4
Cipla	BUY	668	680	1.8	538	7.4	805	24	31	40	34.5	31.0	29.4	28.4	21.7	16.7	16.0	12.7	9.9	3.4	3.0	2.6	12.4	14.6	15.7	0.7	1.0	1.3	26.5
Dr Lal Pathlabs	REDUCE	995	900	(9.6)	83	1.1	83	24	29	34	19.0	17.9	18.4	40.9	34.7	29.3	25.1	21.1	17.2	8.8	7.4	6.2	23.4	23.1	22.9	0.5	0.6	0.7	1.3
Dr Reddy's Laboratories	REDUCE	2,564	2,150	(16.1)	426	5.9	166	89	118	141	50.2	32.8	19.3	28.9	21.8	18.2	14.5	10.4	8.7	3.1	2.7	2.4	11.1	12.6	13.3	0.5	0.7	0.8	40.6
HCG	REDUCE	252	290	15.2	22	0.3	85	2	4	7	39.8	80.3	80.8	115.1	63.8	35.3	18.5	15.4	11.8	4.0	3.8	3.4	3.5	6.1	10.1	—	—	—	0.2
Laurus Labs	ADD	435	500	14.8	46	0.6	106	16	29	34	2.4	79.9	17.5	26.8	14.9	12.7	12.4	8.6	7.6	2.8	2.3	2.0	10.9	17.1	15.6	—	—	—	0.6
Lupin	REDUCE	944	800	(15.3)	427	5.9	450	27	39	50	(28.9)	44.0	27.4	34.8	24.2	19.0	16.2	11.8	9.5	2.9	2.6	2.4	8.6	11.4	12.4	0.4	0.6	0.8	49.2
Narayana Hrudayalaya	ADD	254	265	4.4	52	0.7	204	3	6	9	23.0	103.2	40.7	82.1	40.4	28.7	23.2	16.3	13.1	4.7	4.2	3.7	5.9	11.0	13.7	—	—	—	0.2
Sun Pharmaceuticals	REDUCE	638	520	(18.5)	1,531	21.1	2,406	17	24	29	11.1	42.5	20.5	37.9	26.6	22.0	20.7	15.2	12.8	3.7	3.3	2.9	10.2	13.1	13.3	0.5	0.8	0.9	64.6
Torrent Pharmaceuticals	NR	1,788	—	—	303	4.2	169	47	61	81	18.0	29.6	32.1	37.8	29.2	22.1	16.4	14.1	11.6	5.8	5.0	4.3	15.3	17.2	19.3	0.6	0.8	1.0	8.2
<b>Pharmaceuticals</b>		<b>Neutral</b>			<b>4,520</b>	<b>62</b>					<b>12.4</b>	<b>39.9</b>	<b>22.3</b>	<b>33.8</b>	<b>24.1</b>	<b>19.7</b>	<b>17.5</b>	<b>13.0</b>	<b>10.9</b>	<b>3.7</b>	<b>3.3</b>	<b>2.9</b>	<b>11.0</b>	<b>13.6</b>	<b>14.6</b>	<b>0.5</b>	<b>0.7</b>	<b>0.9</b>	<b>259.7</b>
<b>Real Estate</b>																													
Brigade Enterprises	BUY	209	290	38.8	28	0.4	136	9	15	17	(17.0)	59.2	15.8	22.7	14.3	12.3	13.6	10.6	8.5	1.2	1.1	1.0	5.4	8.1	8.8	1.2	1.2	1.2	0.3
DLF	RS	205	—	—	365	5.0	1,784	5.3	23.9	14.1	(87.2)	354.6	(41.0)	38.9	8.6	14.5	54.2	9.5	17.8	1.0	0.9	0.9	2.6	11.3	6.2	1.0	1.0	1.0	17.1
Godrej Properties	SELL	671	400	(40.4)	154	2.1	216	13.3	15.8	18.2	(38.9)	19.1	15.2	50.6	42.5	36.9	299.1	156.0	128.5	4.3	3.9	3.6	10.5	9.7	10.1	—	—	—	1.5
Oberoi Realty	BUY	452	560	23.8	164	2.3	340	62	44	66	385.4	(28.0)	49.3	7.3	10.2	6.8	10.1	12.7	5.5	1.7	1.4	1.2	27.4	15.2	19.2	0.4	0.4	0.4	2.2
Prestige Estates Projects	ADD	225	315	40.3	84	1.2	375	19	21	11	(24.2)	8.4	—	11.8	10.9	21.1	10.2	10.3	13.7	0.8	0.8	—	14.6	14.9	7.3	1.3	1.3	0.7	0.9
Sobha	REDUCE	425	510	19.9	40	0.6	95	23	36	24	(48.8)	51.7	(32.6)	18.1	11.9	17.7	11.1	8.8	10.9	1.9	1.7	1.6	9.0	14.8	9.1	1.6	1.6	1.6	1.5
Sunteck Realty	REDUCE	477	360	(24.5)	70	1.0	140	19	19	39	22.4	1.6	106.6	25.5	25.1	12.1	21.2	20.5	9.1	2.3	2.1	1.8	9.5	8.9	16.2	0.2	0.2	0.2	1.9
<b>Real Estate</b>		<b>Neutral</b>			<b>906</b>	<b>12</b>					<b>(53.1)</b>	<b>65.1</b>	<b>(14.4)</b>	<b>19.4</b>	<b>11.7</b>	<b>13.7</b>	<b>20.2</b>	<b>11.9</b>	<b>13.3</b>	<b>1.4</b>	<b>1.2</b>	<b>1.2</b>	<b>7.1</b>	<b>10.6</b>	<b>9.0</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>25.5</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		10-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E		
<b>Technology</b>																													
HCL Technologies	REDUCE	1,089	1,100	1.0	1,516	20.9	1,409	71	78	82	14.6	8.9	5.0	15.3	14.0	13.3	9.9	8.8	8.1	3.4	2.9	2.6	24.4	22.3	20.6	0.8	2.8	3.0	33.3
Hexaware Technologies	SELL	456	455	(0.2)	135	1.9	302	20	24	27	19.5	21.6	12.7	23.0	19.0	16.8	17.1	13.0	11.3	5.9	5.0	4.3	27.6	28.7	27.5	1.8	1.8	2.2	22.0
Infosys	ADD	731	770	5.4	3,193	44.0	4,350	36	41	45	12.8	13.3	8.9	20.0	17.7	16.2	13.7	12.0	10.7	4.5	4.1	3.7	23.4	24.2	23.7	3.0	2.7	2.9	86.5
L&T Infotech	ADD	1,919	2,100	9.4	332	4.6	175	83	96	113	30.5	15.6	18.1	23.1	20.0	16.9	17.6	14.1	12.0	7.0	5.7	4.6	33.5	31.3	30.0	1.3	1.4	1.6	8.5
Mindtree	ADD	1,147	1,225	6.8	188	2.6	165	45	57	65	29.5	27.0	14.5	25.6	20.2	17.6	16.3	12.8	11.0	5.9	5.0	4.2	24.7	26.6	25.8	1.2	1.5	1.7	25.6
Mphasis	SELL	1,239	900	(27.3)	239	3.3	193	53	60	63	21.9	12.1	4.7	23.2	20.7	19.7	17.1	14.6	13.5	4.6	4.1	3.8	18.9	21.0	20.0	1.6	2.0	2.4	6.6
TCS	REDUCE	2,081	1,950	(6.3)	7,966	109.8	3,829	84	94	101	24.9	11.7	7.4	24.7	22.1	20.6	18.1	16.3	15.1	8.0	7.8	7.7	34.3	35.6	37.7	2.0	3.6	3.9	90.5
Tech Mahindra	ADD	766	865	12.9	676	9.3	891	46	57	64	8.4	22.4	13.0	16.6	13.5	12.0	9.9	7.8	6.7	3.1	2.6	2.3	20.2	21.2	20.3	1.2	1.3	1.5	38.7
Wipro	REDUCE	325	325	-	1,470	20.3	4,507	19	23	25	12.8	19.5	7.5	17.0	14.2	13.2	11.0	9.2	8.4	2.6	2.4	2.2	16.5	17.6	17.4	0.5	3.1	3.4	17.3
<b>Technology</b>	<b>Cautious</b>				<b>15,717</b>	<b>217</b>					<b>15.6</b>	<b>13.0</b>	<b>8.1</b>	<b>21.2</b>	<b>18.8</b>	<b>17.4</b>	<b>14.6</b>	<b>12.8</b>	<b>11.7</b>	<b>5.1</b>	<b>4.7</b>	<b>4.3</b>	<b>24.2</b>	<b>25.1</b>	<b>24.9</b>	<b>1.9</b>	<b>3.0</b>	<b>3.3</b>	<b>329.0</b>
<b>Telecom</b>																													
Bharti Airtel	ADD	388	445	14.6	1,553	21.4	3,997	(6)	(4)	5	(221.5)	28.8	215.1	(67.5)	(94.9)	82.5	9.9	8.3	6.7	2.3	2.4	2.4	(3.4)	(2.5)	2.9	0.3	(0.2)	0.3	24.6
Bharti Infratel	REDUCE	276	285	3.4	510	7.0	1,850	13	12	13	(4.8)	(8.5)	7.7	21.1	23.0	21.4	7.8	8.3	7.8	3.1	3.1	3.1	14.6	13.7	14.6	3.8	3.5	3.8	10.7
IDEA	REDUCE	48	45	(5.8)	417	5.7	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(2.8)	(2.8)	(3.1)	43.4	36.2	22.1	0.9	1.4	2.6	(29.7)	(41.1)	(59.4)	—	—	—	15.9
Tata Communications	ADD	526	660	25.6	150	2.1	285	0	3	7	(77.5)	694.2	123.5	1,419	178.6	79.9	10.6	9.3	8.4	(65.3)	(88.7)	(1,717.6)	7.8	(42.1)	(211.0)	1.2	1.4	1.4	3.5
<b>Telecom</b>	<b>Cautious</b>				<b>2,629</b>	<b>36</b>					<b>(2,384.5)</b>	<b>5.0</b>	<b>68.0</b>	<b>(36.6)</b>	<b>(38.5)</b>	<b>(120.5)</b>	<b>11.6</b>	<b>10.2</b>	<b>8.3</b>	<b>2.5</b>	<b>2.8</b>	<b>2.9</b>	<b>(6.9)</b>	<b>(7.2)</b>	<b>(2.4)</b>	<b>1.0</b>	<b>0.6</b>	<b>0.9</b>	<b>54.8</b>
<b>Utilities</b>																													
CESC	BUY	996	1,180	18.4	132	1.8	133	115	128	141	31.7	11.6	10.1	8.7	7.8	7.1	6.0	5.3	4.7	0.8	0.8	0.7	10.0	10.4	10.5	1.3	1.3	1.3	7.2
JSW Energy	REDUCE	68	70	2.7	112	1.5	1,640	5.1	6.5	6.6	65.9	26.8	2.9	13.4	10.6	10.3	5.7	4.8	4.3	0.9	0.9	0.8	7.2	8.5	8.0	—	—	—	1.2
NHPC	ADD	25	30	19.3	258	3.6	10,260	3.1	3.2	3.4	26.9	1.8	8.0	8.1	8.0	7.4	7.4	7.2	7.7	0.8	0.8	0.8	10.4	10.2	10.6	6.9	7.0	5.9	1.7
NTPC	BUY	169	190	12.3	1,395	19.2	8,245	15	16	18	30.9	4.4	16.5	11.4	10.9	9.3	9.0	8.3	7.0	1.3	1.2	1.1	11.6	11.3	12.2	2.6	2.8	3.2	11.8
Power Grid	BUY	193	250	29.6	1,009	13.9	5,232	19	21	23	19.3	13.6	7.6	10.3	9.0	8.4	7.3	6.7	6.4	1.7	1.5	1.4	17.1	17.5	17.0	3.2	3.7	4.0	15.0
Tata Power	BUY	74	90	22.0	200	2.8	2,705	6.0	7.0	10.9	12.7	15.6	57.0	12.3	10.6	6.8	10.7	10.3	9.0	1.2	1.1	0.9	10.1	10.6	14.6	—	—	—	4.1
<b>Utilities</b>	<b>Attractive</b>				<b>3,106</b>	<b>43</b>					<b>26.0</b>	<b>8.8</b>	<b>14.1</b>	<b>10.6</b>	<b>9.7</b>	<b>8.5</b>	<b>8.0</b>	<b>7.4</b>	<b>6.7</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>11.9</b>	<b>12.0</b>	<b>12.5</b>	<b>2.9</b>	<b>3.1</b>	<b>3.3</b>	<b>41.1</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

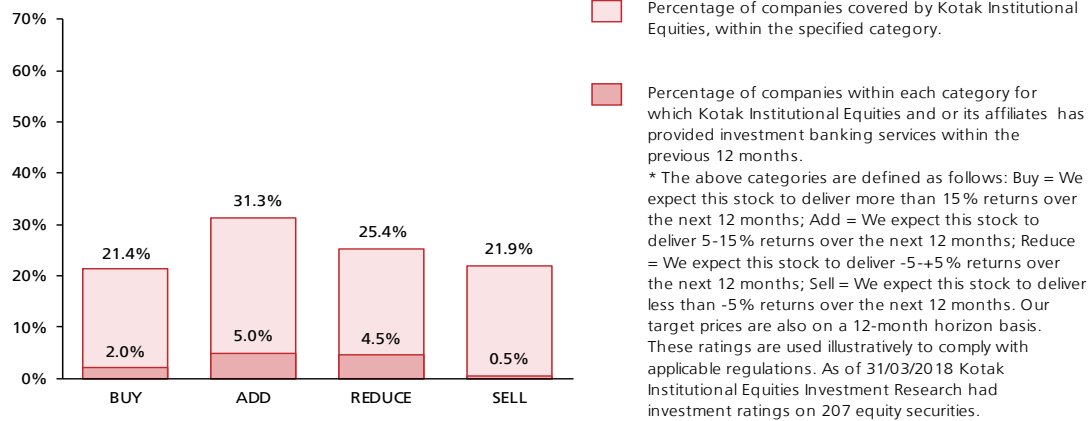
**Kotak Institutional Equities: Valuation summary of KIE Universe stocks**

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		10-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>Others</b>																													
Aditya Birla Fashion and Retail	BUY	192	220	14.6	148	2.0	773	2	4	6	50.6	59.1	53.5	83.7	52.6	34.3	24.5	19.1	15.5	11.7	9.6	7.5	15.0	20.0	24.5	—	—	—	4.4
Astral Poly Technk	SELL	1,100	640	(41.8)	132	1.8	120	19	25	29	30.2	28.8	16.1	57.6	44.7	38.5	31.0	24.6	20.9	10.1	8.3	6.9	19.8	20.5	19.7	0.1	0.1	0.1	0.9
Avenue Supermarts	SELL	1,526	860	(43.7)	953	13.1	624	16	20	26	28.6	26.4	27.5	94.4	74.7	58.6	54.5	42.8	33.7	16.9	13.8	11.1	19.6	20.3	21.0	—	—	—	—
Bayer Cropscience	REDUCE	4,369	4,100	(6.2)	173	2.4	34	106	130	154	20.5	23.1	18.3	41.4	33.6	28.4	30.4	24.8	20.6	7.3	6.3	5.4	18.9	20.0	20.3	0.5	0.6	0.7	0.5
Crompton Greaves Consumer	SELL	221	215	(2.7)	138	1.9	627	6	7	9	19.5	20.7	17.4	35.8	29.6	25.2	22.2	18.8	15.9	12.2	9.4	7.2	40.4	35.8	32.3	0.9	1.1	—	2.4
Dhanuka Agritech	ADD	540	650	20.4	26	0.4	49	27	31	34	3.9	15.4	10.8	20.2	17.5	15.8	14.7	12.1	10.5	3.6	3.1	2.7	19.2	19.2	18.5	1.1	1.2	1.4	0.2
Godrej Agrovet	ADD	574	640	11.4	110	1.5	189	15	19	23	28.9	28.8	21.1	38.7	30.0	24.8	21.0	16.5	13.7	5.7	4.8	4.1	15.7	17.4	17.9	—	—	0.6	0.9
Godrej Industries	RS	596	—	—	200	2.8	336	16	20	—	8.9	24.2	—	37.5	30.2	—	30.9	33.7	—	4.9	4.3	—	13.9	15.1	—	0.3	0.3	—	4.5
Havells India	SELL	641	485	(24.4)	401	5.5	625	14	17	20	26.6	20.5	17.6	45.7	38.0	32.3	29.3	23.8	20.0	9.5	8.3	7.2	22.0	23.2	23.9	0.8	0.9	1.1	13.6
InterGlobe Aviation	BUY	890	1,220	37.1	342	4.7	383	50	83	99	(17.9)	65.3	19.5	17.8	10.8	9.0	9.6	5.4	4.3	3.9	3.0	2.3	24.1	31.1	28.6	0.6	0.9	1.1	19.9
Kaveri Seed	SELL	638	515	(19.3)	42	0.6	66	34	34	37	7.3	0.1	8.3	18.6	18.6	17.1	15.7	15.0	13.5	4.5	3.9	3.4	26.4	22.4	21.0	1.3	1.6	1.6	5.2
PI Industries	BUY	779	875	12.4	107	1.5	138	31	40	48	17.9	26.8	21.5	24.9	19.6	16.1	17.7	13.8	11.1	4.7	3.9	3.2	20.5	21.7	21.9	0.5	0.6	0.7	1.9
Rallis India	ADD	205	220	7.5	40	0.5	195	10	12	13	17.2	19.4	9.7	20.3	17.0	15.5	13.3	11.2	9.9	3.1	2.8	2.5	15.8	17.1	16.9	1.8	2.0	2.1	0.8
SIS	REDUCE	1,080	1,130	4.7	79	1.1	73	33	40	48	48.5	21.1	17.8	32.4	26.8	22.7	20.3	17.0	14.2	6.4	5.3	4.4	21.8	21.7	21.1	0.3	0.3	0.4	0.6
SRF	BUY	1,953	2,200	12.6	112	1.5	57	100	132	150	23.8	32.2	14.1	19.6	14.8	13.0	11.4	9.1	7.7	2.8	2.4	2.1	15.0	17.3	17.0	0.7	0.8	0.8	11.6
Tata Chemicals	ADD	747	760	1.7	190	2.6	255	44	51	56	(15.3)	14.6	11.5	16.9	14.8	13.3	7.1	5.9	5.1	1.6	1.5	1.4	9.7	10.3	10.8	2.0	2.3	2.3	6.8
TeamLease Services	SELL	2,492	1,785	(28.4)	43	0.6	17	58	75	96	34.2	29.0	28.7	43.0	33.4	25.9	43.5	33.1	25.4	7.9	6.4	5.1	20.1	21.1	21.9	—	—	—	1.3
UPL	ADD	703	660	(6.2)	358	4.9	507	49	55	60	14.0	12.1	9.6	14.4	12.8	11.7	9.6	8.2	7.1	3.2	2.7	2.3	24.6	22.9	21.1	1.4	1.6	1.7	27.0
Vardhman Textiles	ADD	1,055	1,300	23.2	61	0.8	56	118	130	142	14.8	9.7	9.8	8.9	8.1	7.4	6.8	6.2	5.5	1.1	1.0	0.9	13.1	13.0	13.0	1.9	2.8	2.8	0.6
Voltas	SELL	583	530	(9.1)	193	2.7	331	17	21	25	0.4	18.8	18.9	33.6	28.3	23.8	25.1	20.5	17.1	4.4	4.0	3.5	13.9	14.8	15.7	0.6	0.7	0.9	12.1
Whirlpool	SELL	1,673	1,350	(19.3)	212	2.9	127	37	46	56	33.9	24.7	20.2	45.2	36.2	30.1	27.6	21.9	18.0	9.8	8.1	6.9	23.7	24.5	24.8	—	0.6	1.0	1.2
<b>Others</b>					<b>4,061</b>		<b>56</b>				<b>8.2</b>	<b>26.4</b>	<b>12.4</b>	<b>31.2</b>	<b>24.7</b>	<b>22.0</b>	<b>19.0</b>	<b>15.1</b>	<b>12.2</b>	<b>5.3</b>	<b>4.5</b>	<b>4.1</b>	<b>17.0</b>	<b>18.3</b>	<b>18.5</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>116.5</b>
<b>KIE universe</b>					<b>113,945</b>		<b>1,570</b>				<b>24.7</b>	<b>27.2</b>	<b>14.1</b>	<b>22.1</b>	<b>17.4</b>	<b>15.2</b>	<b>11.1</b>	<b>9.9</b>	<b>8.8</b>	<b>2.8</b>	<b>2.6</b>	<b>2.3</b>	<b>12.9</b>	<b>14.8</b>	<b>15.2</b>	<b>1.3</b>	<b>1.7</b>	<b>1.8</b>	
<b>KIE universe (ex-energy)</b>					<b>99,780</b>		<b>1,375</b>				<b>30.6</b>	<b>33.2</b>	<b>16.1</b>	<b>24.7</b>	<b>18.5</b>	<b>15.9</b>	<b>12.3</b>	<b>10.8</b>	<b>9.6</b>	<b>3.2</b>	<b>2.9</b>	<b>2.6</b>	<b>12.8</b>	<b>15.4</b>	<b>16.1</b>	<b>1.2</b>	<b>1.6</b>	<b>1.8</b>	

Notes:  
 (a) We have used adjusted book values for banking companies.  
 (b) 2019 means calendar year 2018, similarly for 2020 and 2021 for these particular companies.  
 (c) Exchange rate (Rs/US\$)= 72.55

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 June 30, 2018

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**Definitions of ratings**

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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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