



SEPTEMBER 12, 2018

INITIATING COVERAGE

Coverage view: **Neutral**

Price (₹): **1,037**

Target price (₹): **1,250**

BSE-30: **37,413**

**Varroc – play on adoption of LED technology.** Varroc Engineering is a leading Tier-1 manufacturer of (1) automotive exterior lighting and (2) supplier of polymers, electrical and metallic products to two-wheeler and three-wheeler OEMs in India. Varroc is likely to benefit from the shift towards LEDs in automotive lighting globally and deeper penetration with Indian OEMs. Low-cost manufacturing, impressive R&D footprint, strong product portfolio and strengthening relationship with European OEMs will drive market share gains for the company over the next few years. Initiate with a BUY rating and target price of ₹1,250.

#### Company data and valuation summary

Varroc Engineering

##### Stock data

52-week range (Rs) (high,low) 1,179-931

Market Cap. (Rs bn) 139.8

##### Shareholding pattern (%)

Promoters 85.0

FIs 3.3

MFs 3.2

##### Price performance (%)

Absolute 1M 3M 12M

6.7 0.0 0.0

Rel. to BSE-30 8.0 0.0 0.0

##### Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	25.6	38.9	46.7
EPS growth (%)	71.3	52.3	19.9
P/E (X)	40.6	26.6	22.2
Sales (Rs bn)	50.0	61.5	68.7
Net profits (Rs bn)	3.5	5.2	6.3
EBITDA (Rs bn)	5.6	7.6	8.9
EV/EBITDA (X)	26.9	20.3	17.3
ROE (%)	12.1	15.3	15.3
Div. Yield (%)	0.0	0.0	0.0

#### Initiate with BUY rating and target price of ₹1,250

We initiate coverage on Varroc with a BUY rating and target price of ₹1,250 based on 20X September 2020E consolidated EPS. We ascribe a valuation premium to Varroc over its peers due to superior growth prospects driven by increase in market share in the automotive exterior lighting industry and Indian two-wheeler auto component industry.

#### Varroc is well-positioned to benefit from shift to LEDs in automotive lighting industry

We expect the automotive exterior lighting industry to outpace automotive vehicle volume growth over the next five years led by the increase in adoption of LEDs. Automotive OEMs are shifting to LEDs due to (1) sharp decline in LED costs over the past five years, (2) better aesthetic appeal compared to halogens, (3) reduction in Co2 emissions and (4) enhancement in safety of drivers. Varroc Lighting Systems is well-placed to benefit from the shift towards LEDs due to (1) low-cost manufacturing and R&D footprint, (2) a strong product portfolio and (3) deepening relationships with next-generation automotive OEMs.

#### Varroc will benefit from vendor diversification strategy by Hero and HMSI

Varroc is one of the largest suppliers of polymer, electrical and metallic components to two-wheeler and three-wheeler OEMs in India. Bajaj Auto is the largest customer of Varroc in India but the company is likely to increase wallet share with Honda, Royal Enfield and Hero MotoCorp as these OEMs diversify from its existing supplier base. We expect Varroc's India revenues to grow at double-digit CAGR over the next few years.

#### Financials: 31% CAGR in earnings over FY2018-21E

We expect Varroc Engineering to deliver 31% earnings growth over FY2018-21E led by (1) 18% CAGR in revenues driven by mid-teens growth in both global lighting and India businesses and (2) 250 bps expansion in EBITDA margin led by increase in LED mix and operating leverage benefits. Key risks: Slowdown in volumes of its key customers; company bears raw material risk for its lighting business and expiry of tax benefits in lighting business.

Hitesh Goel

Nishit Jalan

**Exhibit 1: We expect Varroc's earnings to grow at 31% CAGR over FY2018-21E**

Summary financials of Varroc, March fiscal year-ends, 2015-21E (₹ mn)

	Net sales (Rs mn)	EBITDA (Rs mn)	PAT (Rs mn)	EPS (Rs)	EV/EBITDA (X)	P/E (X)	RoACE (%)	RoAE (%)
2015	67,700	6,169	168	1.0	24.4	1,079.0	16.4	1.2
2016	79,092	5,690	3,698	27.4	26.9	37.8	10.5	25.6
2017	92,988	5,812	3,034	22.5	26.3	46.1	8.3	15.2
2018	102,788	8,776	4,508	33.4	17.1	31.0	11.4	17.8
2019E	129,975	11,657	5,730	42.5	13.3	24.4	13.3	18.3
2020E	147,975	14,263	6,916	51.3	10.8	20.2	13.5	18.4
2021E	169,552	18,726	10,084	74.8	7.9	13.9	17.2	21.8

Source: Company, Kotak Institutional Equities estimates

**Exhibit 2: We expect Varroc's earnings to grow at 31% CAGR over FY2018-21E led by 18% revenue CAGR and margin expansion**

Summary financials of Varroc, March fiscal year-ends, 2013-21E (₹ mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model (Rs mn)</b>									
Net sales	42,102	61,163	67,700	79,092	92,988	102,788	129,975	147,975	169,552
<b>EBITDA</b>	<b>2,521</b>	<b>3,995</b>	<b>6,169</b>	<b>5,690</b>	<b>5,812</b>	<b>8,776</b>	<b>11,657</b>	<b>14,263</b>	<b>18,726</b>
Other income	151	230	877	226	942	386	388	438	517
Depreciation	(1,790)	(2,380)	(2,540)	(2,922)	(3,371)	(3,865)	(4,403)	(5,558)	(6,603)
Interest	(837)	(1,003)	(974)	(841)	(862)	(862)	(939)	(978)	(648)
Liability related to CCPS	—	—	(3,780)	1,267	(42)	—	—	—	—
Exceptional profit/(loss)	—	—	518	—	—	—	—	—	—
<b>Profit before tax</b>	<b>44</b>	<b>842</b>	<b>269</b>	<b>3,420</b>	<b>2,480</b>	<b>4,435</b>	<b>6,703</b>	<b>8,164</b>	<b>11,991</b>
Share of net profits from JV	7	(9)	365	498	792	690	569	711	971
Income tax	(305)	(413)	(465)	(220)	(238)	(618)	(1,542)	(1,959)	(2,878)
<b>Profit after tax</b>	<b>(254)</b>	<b>420</b>	<b>168</b>	<b>3,698</b>	<b>3,034</b>	<b>4,508</b>	<b>5,730</b>	<b>6,916</b>	<b>10,084</b>
<b>EPS (Rs)</b>	<b>(1.9)</b>	<b>3.1</b>	<b>1.0</b>	<b>27.4</b>	<b>22.5</b>	<b>33.4</b>	<b>42.5</b>	<b>51.3</b>	<b>74.8</b>
<b>Balance sheet (Rs mn)</b>									
Equity	7,106	10,949	10,825	17,629	21,854	28,280	34,010	40,926	51,010
Minority interest	232	305	214	203	202	208	208	208	208
Deferred tax liability	539	500	622	473	130	509	509	509	509
Other long-term liabilities	191	188	7,624	4,079	1,997	2,488	2,488	2,488	2,488
Total borrowings	12,384	10,855	11,414	15,124	16,414	13,399	16,399	15,399	9,399
Current liabilities	13,512	16,860	13,585	14,951	18,008	23,640	25,322	28,395	32,063
<b>Total liabilities</b>	<b>33,965</b>	<b>39,658</b>	<b>44,285</b>	<b>52,459</b>	<b>58,604</b>	<b>68,524</b>	<b>78,935</b>	<b>87,925</b>	<b>95,676</b>
Net fixed assets	15,288	16,515	18,696	22,385	24,977	28,304	34,900	39,342	41,738
Intangibles	1,243	1,766	1,506	1,878	1,758	3,036	3,036	3,036	3,036
Investments	29	1,037	2,340	2,915	3,074	3,706	3,706	3,706	3,706
Cash	1,863	2,560	690	1,771	3,541	3,320	1,086	1,449	1,822
Other current assets	15,541	17,779	21,052	23,511	25,255	30,159	36,207	40,393	45,374
<b>Total assets</b>	<b>33,965</b>	<b>39,658</b>	<b>44,285</b>	<b>52,459</b>	<b>58,604</b>	<b>68,524</b>	<b>78,935</b>	<b>87,925</b>	<b>95,676</b>
<b>Free cash flow (Rs mn)</b>									
Operating cash flow excl. working capital	2,361	3,640	6,347	5,420	6,070	7,789	10,685	13,014	16,819
Working capital changes	1,121	961	(5,064)	(2,516)	695	2,960	(4,367)	(1,112)	(1,314)
Capital expenditure	(2,611)	(2,419)	(2,894)	(5,966)	(6,244)	(5,774)	(11,000)	(10,000)	(9,000)
<b>Free cash flow</b>	<b>(4,435)</b>	<b>158</b>	<b>(2,149)</b>	<b>(3,730)</b>	<b>255</b>	<b>3,876</b>	<b>(5,233)</b>	<b>1,362</b>	<b>6,373</b>
<b>Ratios</b>									
<b>EBITDA margin (%)</b>	<b>6.0</b>	<b>6.5</b>	<b>9.1</b>	<b>7.2</b>	<b>6.3</b>	<b>8.5</b>	<b>9.0</b>	<b>9.6</b>	<b>11.0</b>
<b>PAT margin (%)</b>	<b>(0.6)</b>	<b>0.7</b>	<b>0.2</b>	<b>4.7</b>	<b>3.3</b>	<b>4.4</b>	<b>4.4</b>	<b>4.7</b>	<b>5.9</b>
<b>Net debt/equity (X)</b>	<b>1.4</b>	<b>0.7</b>	<b>1.0</b>	<b>0.7</b>	<b>0.6</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>	<b>0.1</b>
<b>Book value (Rs/share)</b>	<b>53</b>	<b>81</b>	<b>80</b>	<b>131</b>	<b>162</b>	<b>210</b>	<b>252</b>	<b>304</b>	<b>378</b>
<b>RoAE (%)</b>		<b>4.5</b>	<b>1.2</b>	<b>25.6</b>	<b>15.2</b>	<b>17.8</b>	<b>18.3</b>	<b>18.4</b>	<b>21.8</b>
<b>RoACE (%)</b>		<b>7.3</b>	<b>16.4</b>	<b>10.5</b>	<b>8.3</b>	<b>11.4</b>	<b>13.3</b>	<b>13.5</b>	<b>17.2</b>

Source: Company, Kotak Institutional Equities estimates

## VALUATIONS: MARKET SHARE GAINS ESSENTIAL FOR RE-RATING

Varroc Engineering is well-poised to increase its market share in the global automotive lighting business and in Indian two-wheeler auto component space led by (1) addition of new customers by leveraging low-cost but strong R&D capabilities, (2) increase in share of business with existing customers and (3) geographical expansion into lower-cost locations. We initiate on Varroc Engineering with a BUY rating and target price of ₹1,250. We expect revenues/EBITDA/net profit to grow at 18/29/31% CAGR over FY2018-21, which could lead to re-rating of the stock.

We initiate coverage on Varroc Engineering with a BUY rating and target price of ₹1,250. Our target price is based on 20X September 2020E consolidated EPS. Varroc Engineering is one of the largest auto component suppliers for two-wheeler OEMs in India and sixth largest automotive lighting manufacturer globally. The company is poised to grow at a strong pace over the next five years led by (1) adoption of LED lighting by automotive OEMs and potential to increase market share with the addition of new customers and (2) strong growth in India led by market share gains in Hero and Honda Motorcycles.

We forecast Varroc revenues to grow at 18% CAGR over FY2018-21E led by 20% CAGR in revenues for global lighting business and 16% CAGR in India business. We estimate EBITDA margin to increase by 250 bps over the next three years led by operating leverage benefit and a richer product mix in lighting business. We expect the company to deliver 18/29/31% CAGR in revenues/EBITDA/net profit over FY2018-21E and expect average RoEs to increase from 18% in FY2018 to 22% by FY2021E.

**Exhibit 3: We expect Varroc to deliver 18% revenue CAGR over FY2018-21E driven by strong growth in both VLS and India businesses**  
Net revenue breakdown by business segments, March fiscal year-ends, 2015-21E (₹ mn, %)

	2015	2016	2017	2018	2019E	2020E	2021E	CAGR (%)	
								FY2015-18	FY2018-21E
<b>Gross revenues (Rs mn)</b>									
Global lighting	41,248	48,198	61,242	63,118	81,191	93,279	107,816	15	20
India	27,631	30,806	31,681	36,406	44,523	50,435	57,475	10	16
Others	629	3,185	3,163	4,261	4,261	4,261	4,261	89	0
<b>Total</b>	<b>69,508</b>	<b>82,189</b>	<b>96,085</b>	<b>103,785</b>	<b>129,975</b>	<b>147,975</b>	<b>169,552</b>	<b>14</b>	<b>18</b>
<b>Yoy growth (%)</b>									
Global lighting		16.8	27.1	3.1	28.6	14.9	15.6		
India		11.5	2.8	14.9	22.3	13.3	14.0		
Others		406.6	(0.7)	34.7	—	—	—		
<b>Total</b>		<b>18.2</b>	<b>16.9</b>	<b>8.0</b>	<b>25.2</b>	<b>13.8</b>	<b>14.6</b>		
<b>Revenue mix (%)</b>									
Global lighting	59.3	58.6	63.7	60.8	62.5	63.0	63.6		
India	39.8	37.5	33.0	35.1	34.3	34.1	33.9		
Others	0.9	3.9	3.3	4.1	3.3	2.9	2.5		
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		
<b>EBITDA including other income (Rs mn)</b>									
Global lighting	4,272	3,154	3,807	4,893	6,495	8,115	11,321	5	32
India	2,325	2,715	2,775	3,868	4,996	6,032	7,368	18	24
Others	449	47	174	401	554	554	554	(4)	11
<b>Total</b>	<b>7,046</b>	<b>5,916</b>	<b>6,755</b>	<b>9,162</b>	<b>12,045</b>	<b>14,701</b>	<b>19,243</b>	<b>9</b>	<b>28</b>
<b>EBITDA margin including other income (%)</b>									
Global lighting	10.4	6.5	6.2	7.8	8.0	8.7	10.5		
India	8.4	8.8	8.8	10.6	11.2	12.0	12.8		
Others	71.4	1.5	5.5	9.4	13.0	13.0	13.0		
<b>Total</b>	<b>10.1</b>	<b>7.2</b>	<b>7.0</b>	<b>8.8</b>	<b>9.3</b>	<b>9.9</b>	<b>11.3</b>		

#### Notes:

- (a) Overall revenues exclude China JV revenues, which is accounted via equity method.  
(b) Others include (1) 100% owned IMES and (2) 80% stake in Triom.

Source: Company, Kotak Institutional Equities estimates

### Superior growth deserves premium valuations to peers

Varroc Engineering's valuations should be compared to Tier-1 auto component suppliers in India and global automotive lighting manufacturers. Global automotive lighting suppliers and Tier-1 auto component suppliers in India are trading at an average P/E multiple of 12X-24X on FY2020E EPS estimates (refer to Exhibit 4). 34% of Varroc's revenues come from India and 66% of revenues from global lighting business. Varroc Engineering is likely to trade at a premium valuation to its global lighting peers as it is growing at the fastest rate among automotive lighting suppliers while it is likely to trade at a slight discount to Indian Tier-1 auto component suppliers due to inferior RoE in Indian business versus its Indian auto component peers despite similar growth prospects.

Our target multiple of 20X on September 2020E consolidated EPS is based on the following assumptions – (1) 12.4% CAGR in revenues over FY2018-30 led by 13.0% CAGR in India revenues and 12.1% CAGR in global lighting business, (2) 17% CAGR in EBIT led by increase in operating margins due to scale benefits in both India and Varroc Lighting Systems (VLS) businesses and (3) terminal growth of 5% post FY2030E.

We believe that the company can achieve double-digit revenue growth for the next 12-15 years led by (1) likely gain in market share by electric vehicles in passenger cars globally, which will lead to increase in share of LEDs in the lighting industry. This implies that automotive lighting suppliers will grow at a faster rate than global automotive vehicle growth over the next 15 years and (2) likely gain in market share as it has made breakthroughs with new customers such as Volkswagen and Renault. Varroc has 5.9% market share currently. Varroc Engineering's EBIT margin is also lower than its global peers due to lower scale and we expect operating margin to increase as the company builds scale.

**Exhibit 4: DCF-based value of Varroc Engineering is ₹1,250/share**  
DCF valuation table of Varroc, March fiscal year-ends, 2018-30E (₹ mn)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>Revenues</b>	<b>108,932</b>	<b>135,811</b>	<b>154,687</b>	<b>177,270</b>	<b>196,232</b>	<b>217,238</b>	<b>240,511</b>	<b>266,296</b>	<b>294,869</b>	<b>326,532</b>	<b>361,622</b>	<b>400,514</b>	<b>443,623</b>
India	39,671	48,784	54,696	61,736	69,145	77,442	86,735	97,143	108,801	121,857	136,479	152,857	171,200
VLS	69,261	87,027	99,990	115,534	127,087	139,796	153,776	169,153	186,068	204,675	225,143	247,657	272,423
<b>EBITDA</b>	<b>10,126</b>	<b>12,950</b>	<b>15,775</b>	<b>20,477</b>	<b>22,968</b>	<b>25,445</b>	<b>28,960</b>	<b>32,081</b>	<b>36,472</b>	<b>40,402</b>	<b>45,885</b>	<b>52,067</b>	<b>57,671</b>
India	4,269	5,550	6,586	7,922	8,989	10,067	11,276	12,629	14,144	15,841	17,742	19,871	22,256
VLS	5,857	7,400	9,189	12,556	13,980	15,378	17,684	19,453	22,328	24,561	28,143	32,195	35,415
<b>EBITDA margin (%)</b>	<b>9.3</b>	<b>9.5</b>	<b>10.2</b>	<b>11.6</b>	<b>11.7</b>	<b>11.7</b>	<b>12.0</b>	<b>12.0</b>	<b>12.4</b>	<b>12.4</b>	<b>12.7</b>	<b>13.0</b>	<b>13.0</b>
India	10.8	11.4	12.0	12.8	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
VLS	8.5	8.5	9.2	10.9	11.0	11.0	11.5	11.5	12.0	12.0	12.5	13.0	13.0
Depreciation	3,865	4,403	5,558	6,603	7,261	8,038	8,899	9,853	10,910	12,082	13,380	14,819	16,414
EBIT	6,261	8,547	10,216	13,874	15,708	17,407	20,061	22,228	25,562	28,321	32,505	37,248	41,257
<b>EBIT margin (%)</b>	<b>5.7</b>	<b>6.3</b>	<b>6.6</b>	<b>7.8</b>	<b>8.0</b>	<b>8.0</b>	<b>8.3</b>	<b>8.3</b>	<b>8.7</b>	<b>8.7</b>	<b>9.0</b>	<b>9.3</b>	<b>9.3</b>
<b>EBIT (1-tax)</b>	<b>5,643</b>	<b>7,005</b>	<b>8,257</b>	<b>10,996</b>	<b>11,781</b>	<b>13,055</b>	<b>15,046</b>	<b>16,671</b>	<b>19,172</b>	<b>21,241</b>	<b>24,379</b>	<b>27,936</b>	<b>30,943</b>
FCF	9,508	11,408	13,815	17,600	19,041	21,093	23,945	26,524	30,082	33,322	37,759	42,755	47,357
Capex	(5,958)	(11,000)	(10,000)	(9,000)	(9,812)	(10,862)	(12,026)	(11,983)	(13,269)	(13,061)	(14,465)	(16,021)	(17,745)
Change in WC	2,960	(4,367)	(1,112)	(1,314)	(1,962)	(2,172)	(2,405)	(2,663)	(2,949)	(3,265)	(3,616)	(4,005)	(4,436)
Operating cash	6,509	(3,959)	2,704	7,286	7,268	8,059	9,514	11,878	13,864	16,996	19,678	22,729	25,176
<b>Discounted cash flow</b>		<b>(3,959)</b>	<b>2,555</b>	<b>6,147</b>	<b>5,474</b>	<b>5,420</b>	<b>5,713</b>	<b>6,369</b>	<b>6,637</b>	<b>7,264</b>	<b>7,510</b>	<b>7,745</b>	<b>7,659</b>
WACC (%)	12.0												
Terminal growth (%)	5.0												
Discounted free cashflow (Rs mn)	64,534												
Terminal value (Rs mn)	114,890												
EV (Rs mn)	179,424												
Net debt (Rs mn)	10,080												
<b>Equity value per share (Rs)</b>	<b>1,256</b>												
Implied FY2019E EV/EBITDA (X)	13.9												

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Major global lighting companies are trading at 12-13X FY2020E EPS  
Comp sheet, March fiscal year-ends, 2019-21E (₹ mn)

	Price	Market cap.	EPS CAGR (%)	P/E (X)			EV/EBITDA (X)			P/BV (X)			RoE (%)		
	(LC)	(US\$ mn)	2018-21E	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E
Varroc Engineering	1,037	1,997	30.8	24.4	20.2	13.9	13.3	10.8	7.9	4.1	3.4	2.7	18.3	18.4	21.8
<b>Global lighting peers</b>															
Valeo Sa	36	10,030	9.4	9.1	7.9	6.9	5.3	4.7	4.1	1.7	1.5	1.3	19.3	19.5	19.3
Koito Manufacturing Co Ltd	6,520	9,411	2.4	13.9	12.5	11.5	4.4	3.6	3.1	2.2	2.0	1.7	17.4	17.1	16.3
Stanley Electric Co Ltd	3,625	5,714	8.4	14.4	13.1	12.1	4.4	3.7	3.1	1.6	1.5	1.3	11.7	11.7	11.6
Hella Gmbh & Co Kgaa	48	6,145	10.3	11.5	11.4	10.5	5.0	4.8	4.5	1.8	1.7	1.5	16.2	15.4	14.5
<b>Median</b>			<b>8.9</b>	<b>12.7</b>	<b>12.0</b>	<b>11.0</b>	<b>4.7</b>	<b>4.2</b>	<b>3.6</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>	<b>16.8</b>	<b>16.2</b>	<b>15.4</b>
<b>Mean</b>			<b>7.6</b>	<b>12.2</b>	<b>11.2</b>	<b>10.2</b>	<b>4.8</b>	<b>4.2</b>	<b>3.7</b>	<b>1.9</b>	<b>1.6</b>	<b>1.5</b>	<b>16.2</b>	<b>15.9</b>	<b>15.4</b>
<b>Domestic auto component players</b>															
Motherson Sumi Systems	296	8,596	24.7	25.8	21.3	18.7	10.3	8.5	7.4	5.4	4.5	3.9	22.5	23.2	22.3
Bosch	20,503	8,610	19.7	37.5	31.1	30.0	22.2	18.2	17.3	5.8	5.1	4.7	15.9	17.0	16.7
Bharat Forge	667	4,280	21.0	28.5	24.9	23.2	16.1	14.1	13.1	5.7	4.9	4.2	21.5	21.0	19.4
Exide Industries	270	3,168	15.8	26.3	23.7	21.2	15.0	13.3	11.9	3.9	3.5	3.2	15.4	15.5	15.7
Endurance Technologies	1,465	2,835	n/a	43.9	31.9	n/a	18.7	15.2	n/a	8.4	7.5	n/a	21.8	23.4	n/a
Amara Raja Batteries	807	1,901	15.8	25.0	21.6	18.8	13.3	11.4	9.8	4.1	3.5	3.1	17.4	17.5	17.4
WABCO India	6,948	1,816	16.0	41.0	31.2	30.9	26.8	20.3	20.0	7.2	5.9	5.0	19.2	20.9	17.7
Mahindra CIE Automotive	299	1,561	21.7	21.5	19.1	17.3	10.7	9.5	8.5	2.7	2.3	2.1	13.2	13.1	12.7
SKF	1,749	1,238	18.8	25.3	21.4	18.1	16.2	13.4	11.0	4.2	3.7	3.2	16.7	17.1	17.4
Schaeffler India	5,499	1,260	17.7	35.2	27.7	23.6	21.5	16.4	13.6	4.8	4.3	3.8	14.5	16.4	17.0
Timken	655	614	30.3	34.0	26.7	21.9	18.8	14.9	12.3	5.4	4.5	3.8	17.1	18.5	18.8
<b>Median</b>			<b>19.3</b>	<b>28.5</b>	<b>24.9</b>	<b>21.6</b>	<b>16.2</b>	<b>14.1</b>	<b>12.1</b>	<b>5.4</b>	<b>4.5</b>	<b>3.8</b>	<b>17.1</b>	<b>17.5</b>	<b>17.4</b>
<b>Mean</b>			<b>20.2</b>	<b>31.3</b>	<b>25.5</b>	<b>22.4</b>	<b>17.2</b>	<b>14.1</b>	<b>12.5</b>	<b>5.2</b>	<b>4.5</b>	<b>3.7</b>	<b>17.8</b>	<b>18.5</b>	<b>17.5</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

### Varroc is well-placed to gain market share in global lighting business

We believe that Varroc is well-placed to gain market share in the global lighting business due to the following strengths.

- ▶ **Gaining market share with European OEMs as it benefits from its strong presence in premium LED industry.** Varroc is a Tier-1 automotive exterior lighting manufacturer globally with ~5.9% revenue market share in FY2018. The company has an even stronger presence in the premium car market (6% share) and electric vehicles segment (20% share). Exterior passenger vehicle lighting market has grown at 4.5% CAGR over FY2011-16 compared to 3.4% CAGR in overall PV industry volumes.

The outperformance will likely continue over the medium term due to increase in LED penetration in the passenger vehicle segment globally. Varroc has significantly outperformed the global exterior lighting industry and major peers with 13% revenue CAGR in US\$ terms over FY2015-18 (including 50% revenue share of China JV), which has been driven by (1) increase in the share of business from existing customers (JLR), (2) winning new customer contracts with European OEMs like Volkswagen and Renault, (3) geographical expansion into Brazil and Morocco, (4) development of more technologically sophisticated products at lower costs and (5) Ford's strategy of shifting all its automotive lighting to LEDs from halogen specifically in Ford Focus and Fusion, where Varroc has significant market share.

Even in the India business, Varroc is the second-largest supplier of components to two-wheeler OEMs and is well-positioned to capture the growth opportunities due to the vendor diversification strategy pursued by Hero MotoCorp and Honda Motorcycles.

**Exhibit 6: We expect Varroc to gain 170 bps market share over FY2018-21E**

Revenue breakdown and forecasts of global lighting industry and Varroc's market share, March fiscal year-ends, 2014-25E (US\$ mn, %)

	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<b>Global lighting industry (USD mn)</b>												
LED	4,728	5,223	5,653	6,813	8,104	9,556	11,303	13,076	14,543	15,928	17,202	18,578
Halogen/Xenon	10,840	10,852	10,717	10,664	10,238	9,720	9,013	8,141	7,493	7,035	6,909	6,738
<b>Total Revenues</b>	<b>15,568</b>	<b>16,075</b>	<b>16,370</b>	<b>17,477</b>	<b>18,342</b>	<b>19,276</b>	<b>20,316</b>	<b>21,217</b>	<b>22,036</b>	<b>22,963</b>	<b>24,111</b>	<b>25,317</b>
Yoy growth (%)		3.3	1.8	6.8	4.9	5.1	5.4	4.4	3.9	4.2	5.0	5.0
Share of LED in overall industry (%)	30.4	32.5	34.5	39.0	44.2	49.6	55.6	61.6	66.0	69.4	71.3	73.4
<b>Varroc's lighting revenues (USD mn)</b>												
LED	187	215	223	414	467	593	688	827	1,027	1,229	1,462	1,729
Halogen/Xenon	506	554	603	622	608	654	701	778	789	768	735	688
<b>Total Revenues</b>	<b>693</b>	<b>770</b>	<b>826</b>	<b>1,036</b>	<b>1,075</b>	<b>1,246</b>	<b>1,389</b>	<b>1,605</b>	<b>1,816</b>	<b>1,997</b>	<b>2,197</b>	<b>2,416</b>
Yoy growth (%)		11.1	7.3	25.4	3.7	16.0	11.4	15.5	13.1	10.0	10.0	10.0
Share of LED revenue for Varroc (%)	27.0	28.0	27.0	40.0	43.5	47.6	49.5	51.5	56.5	61.5	66.5	71.5
<b>Varroc's market share (%)</b>												
LED	4.0	4.1	3.9	6.1	5.8	6.2	6.1	6.3	7.1	7.7	8.5	9.3
Halogen/Xenon	4.7	5.1	5.6	5.8	5.9	6.7	7.8	9.6	10.5	10.9	10.6	10.2
<b>Total</b>	<b>4.5</b>	<b>4.8</b>	<b>5.0</b>	<b>5.9</b>	<b>5.9</b>	<b>6.5</b>	<b>6.8</b>	<b>7.6</b>	<b>8.2</b>	<b>8.7</b>	<b>9.1</b>	<b>9.5</b>

Source: Company, Yole Developpement, Kotak Institutional Equities estimates

- ▶ **Cutting-edge product portfolio in the lighting business.** Varroc has a diverse portfolio of products in the markets in which it operates, which allows it to be a one-stop-shop for customers and also allows it to cross-sell products. In lighting business, Varroc has a broad portfolio of lighting technologies, including Halogen, Xenon/high-intensity discharge, LED, Matrix LED, high definition MEMS and DMD, surface LED and OLED module, Flex LED and LED Pixel headlamps. The company has 100% share of business in Tesla Model S and >50% in JLR, which are next-generation automotive OEMs with cutting edge technology. Varroc has already won orders and is gaining share with German and French OEMs such as VW, Daimler, Renault, etc.
- ▶ **Deepening relationship with existing customers while penetrating into new OEMs.** The company has strong, longstanding relationships with several OEMs – (1) in lighting segment, Varroc has strong relationships with Ford, Jaguar Land Rover, FCA, Groupe PSA and Tesla and (2) in India business, Varroc has a strong relationship with Bajaj since 1990; Varroc supplies 16 product categories manufactured by it in India to Bajaj. The company's relationships with seven of its top 10 customers have lasted longer than 10 years.

Further, in the lighting segment, Varroc has added new customers, such as Renault-Nissan-Mitsubishi, Volvo and VW Group. In India, the company has increased its share of business with Honda, Royal Enfield, Suzuki and Yamaha and is growing its business relationship with Hero MotoCorp. Newly added customers for FY2018 and FY2019 include Dell'Orto S.p.A and Tata Cummins.

**Exhibit 7: Increased penetration within the existing key customers and addition of new customers will drive revenue growth for VLS**

Customer-wise revenue breakdown of global lighting business, March fiscal year-ends, 2016-21E (EUR mn)

VLS business (including China)	2016	2017	2018	2019E	2020E	2021E
<b>Revenues (EUR mn)</b>						
American multinational OEM	144	201	183	222	244	268
British car OEM	114	145	149	172	189	208
American electric car OEM	85	134	120	120	120	120
International OEM	111	110	85	98	103	108
Large European OEM	37	58	73	87	100	131
German OEM	40	44	64	77	97	127
European international OEM	—	—	—	—	25	70
Others	220	251	244	299	330	364
<b>Total</b>	<b>751</b>	<b>942</b>	<b>919</b>	<b>1,074</b>	<b>1,208</b>	<b>1,395</b>
<b>Revenue mix (%)</b>						
American multinational OEM	19.1	21.3	20.0	20.6	20.2	19.2
British car OEM	15.2	15.3	16.3	16.0	15.7	14.9
American electric car OEM	11.3	14.2	13.0	11.1	9.9	8.6
International OEM	14.7	11.7	9.3	9.1	8.5	7.8
Large European OEM	5.0	6.2	7.9	8.1	8.3	9.4
German OEM	5.3	4.6	7.0	7.1	8.0	9.1
European international OEM	—	—	—	—	2.1	5.0
Others	29.3	26.6	26.6	27.8	27.3	26.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Yoy growth (%)</b>						
American multinational OEM	40.8	39.5	(8.6)	20.9	10.0	10.0
British car OEM	9.0	26.6	3.4	15.0	10.0	10.0
American electric car OEM	80.8	57.8	(10.8)	—	—	—
International OEM	21.8	(0.1)	(22.6)	15.0	5.0	5.0
Large European OEM	10.0	55.8	25.3	20.0	15.0	30.0
German OEM	43.9	9.4	46.2	20.0	26.1	31.0
European international OEM	—	—	—	—	—	180.0
Others	10.3	13.8	(2.6)	22.5	10.3	10.4
<b>Total</b>	<b>23.9</b>	<b>25.4</b>	<b>(2.5)</b>	<b>17.0</b>	<b>12.4</b>	<b>15.5</b>

Source: Company, Kotak Institutional Equities estimates



**Exhibit 8: Bajaj Auto to remain the largest customer in India; greater penetration into Hero and Honda will be key growth driver**

Customer-wise revenue breakdown of India business, March fiscal year-ends, 2016-21E (₹ mn)

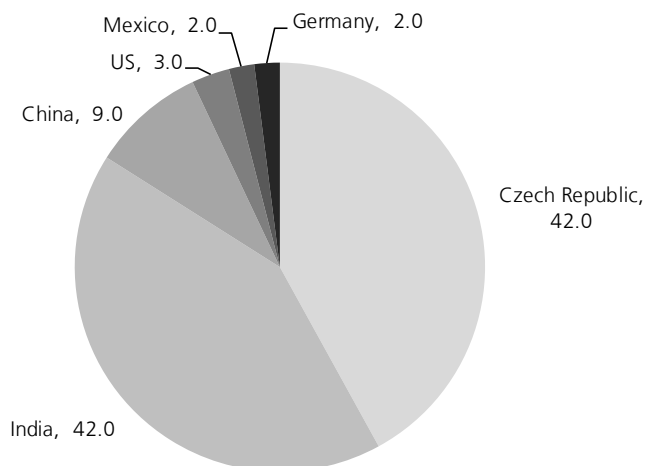
	2016	2017	2018	2019E	2020E	2021E
<b>Revenues (Rs mn)</b>						
Bajaj Auto	16,482	15,819	18,340	22,301	24,085	26,529
Honda group	2,820	3,104	3,932	5,200	5,824	6,115
Yamaha	1,853	2,074	2,046	2,513	2,814	2,955
Royal Enfield	1,497	1,952	2,413	3,051	3,470	4,186
M&M	1,311	1,039	1,025	1,147	1,285	1,349
Suzuki	177	104	193	202	212	223
Hero	139	115	102	300	1,200	2,500
Others	6,527	7,472	8,356	9,809	11,544	13,618
<b>Total</b>	<b>30,806</b>	<b>31,681</b>	<b>36,406</b>	<b>44,523</b>	<b>50,435</b>	<b>57,475</b>
<b>Revenue mix (%)</b>						
Bajaj Auto	53.5	49.9	50.4	50.1	47.8	46.2
Honda group	9.2	9.8	10.8	11.7	11.5	10.6
Yamaha	6.0	6.5	5.6	5.6	5.6	5.1
Royal Enfield	4.9	6.2	6.6	6.9	6.9	7.3
M&M	4.3	3.3	2.8	2.6	2.5	2.3
Suzuki	0.6	0.3	0.5	0.5	0.4	0.4
Hero	0.5	0.4	0.3	0.7	2.4	4.3
Others	21.2	23.6	23.0	22.0	22.9	23.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Yoy growth (%)</b>						
Bajaj Auto	1.1	(4.0)	15.9	21.6	8.0	10.1
Honda group	27.6	10.1	26.7	32.2	12.0	5.0
Yamaha	11.8	11.9	(1.3)	22.8	12.0	5.0
Royal Enfield	80.6	30.4	23.6	26.4	13.8	20.6
M&M	58.2	(20.7)	(1.4)	12.0	12.0	5.0
Suzuki	(35.9)	(41.2)	84.8	5.0	5.0	5.0
Hero	216.4	(17.4)	(10.9)	193.8	300.0	108.3
Others	19.1	14.5	11.8	17.4	17.7	18.0
<b>Total</b>	<b>11.5</b>	<b>2.8</b>	<b>14.9</b>	<b>22.3</b>	<b>13.3</b>	<b>14.0</b>

Source: Company, Kotak Institutional Equities estimates

- ▶ **Low-cost strategically located manufacturing and R&D footprint.** Varroc has a global footprint with 36 manufacturing facilities spread across seven countries, with six facilities for lighting business, 25 for India business and five for other businesses. For the lighting business, the company's plants are mostly in low-cost countries near major automotive markets – two in China, two in Czech Republic, one in India and one in Mexico. The company has made further investments to expand into new countries such as Brazil and Morocco, which will allow it to keep costs low while meeting its customers' supply needs across geographies. In line with this strategy, the company has acquired a lighting company in Turkey. The presence in low-cost counties helps the company to be more cost-competitive compared to its peers. According to Yole, the average hourly labor cost in the Czech Republic in 2016 was around US\$12, which was well below the EU average of US\$30. We note that more than 90% of R&D engineers of the company are employed in low-cost nations – Czech Republic, India, Poland and Mexico.

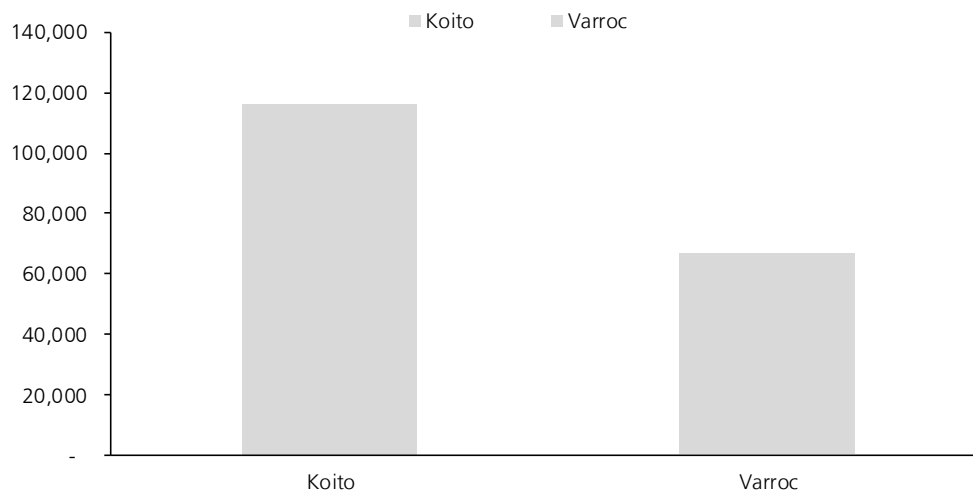
Overall R&D spend of Varroc is ₹4.6 bn or 4.5% of overall revenues. Assuming R&D spend equivalent to 2% of sales in India business, R&D spend in the company's lighting business is around ₹3.9 bn or 5.6% of lighting revenues. Varroc has 900 R&D engineers in the lighting business; thus, annual R&D spend per employee is around US\$67,000 (45% lower than that of Koito). For Koito, the leader in global lighting industry, R&D spend is US\$326 mn (JPY36.1 bn; 50% of R&D spend is in Japan) while it has 2,796 engineers in R&D department. Thus, R&D spend per employee of Koito is around US\$117,000. Hence, Varroc's R&D spend per employee is almost half of Koito's despite Varroc's lower scale of operations.

**Exhibit 9: More than >90% of R&D engineers are employed in low-cost nations**  
Breakdown of number of employees in R&D centers across locations as of December 2017



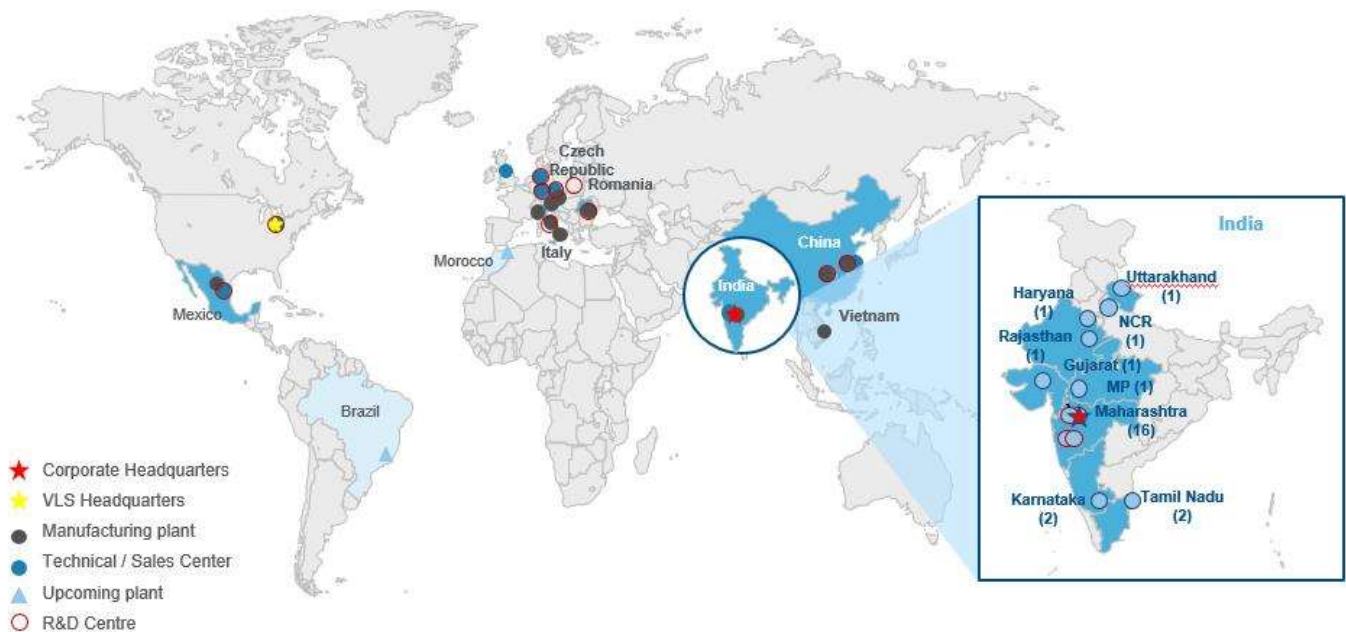
Source: Company, Kotak Institutional Equities

**Exhibit 10: R&D spend per employee of Varroc lighting business is 45% lower than that of Koito**  
R&D spend per employee engaged in the R&D division, March fiscal year-end, 2018 (US\$/employee)



Source: Companies, Kotak Institutional Equities

Exhibit 11: Varroc has 36 global manufacturing plants across six countries as of March 2018  
Plant locations of Varroc both in India and overseas markets



Source: Company, Kotak Institutional Equities

- ▶ **Pursues strategic joint ventures and inorganic growth opportunities.** Varroc intends to actively pursue acquisitive opportunities and strategic alliances with targets that are complementary to its business. The company is mainly focused on growing existing product lines, such as automotive lighting and electronics for the global exterior automotive lighting market. In India, while the focus remains on existing product segments, the company is open to evaluating complementary businesses to increase its focus on other segments if necessary.

In particular, Varroc will seek acquisitions that provide it with access to new technologies or new customers, or globally access to new geographies. For example, the company has recently acquired TCPL, a manufacturer of auto accessories in Bangalore, and has also finalized terms to acquire a lighting company in Turkey in FY2019. Recently, Varroc has entered into a 50:50 joint venture with Dell'Orto S.p.A. in Italy for the production, marketing and sale of electronic fuel injection control systems. In January 2018, the company signed a letter of intent for the development of catalytic converter technology for use in India that would meet the BS-VI emission standards and future legislation.

- ▶ **Robust in-house technology, innovation and R&D capabilities.** Varroc has 16 R&D centers worldwide that support its manufacturing capabilities. As of December 31, 2017, it had 1,365 engineers across its businesses spread across its R&D centers worldwide. The company has approximately 900 engineers in its global lighting business located in nine R&D centers, which are located in China (through China JV), Czech Republic, India, Germany, Mexico, and the US. It has a new R&D facility in Poland, which started operations in 2018.

In the lighting business, the company's R&D centers focus on development, design, production and testing, maintenance and repair of production molds and tools for internal and external customers as well as provide consultancy services during product development, such as mold flow analyses of 3D models. The company has developed in-house R&D and engineering capabilities to capitalize on industry trends, including, in particular, moves towards emission reduction, autonomous driving, electrification, shared mobility and connectivity. The company has developed a Matrix LED and Laser Headlamp for two new models of JLR, following receipt of specifications from the manufacturer. The company had 139 patents in its lighting business as of December 31, 2017.

In India business, its R&D efforts seek to capitalize on emerging trends such as increased use of electronics, stricter environmental regulations, emission reduction and light-weighting of vehicles, as well as the emergence of new technologies such as multi point fuel injection. For example, the company has invested in the development of Mucell Technology and is also developing products focusing on craftsmanship, noise vibration and harshness, comfort and safety compliances. Moreover, the Ministry of Road Transport and Highways, India has mandated the adoption of the Bharat Stage VI ('BS-VI') emission standards by April 1, 2020, as part of which two and three-wheelers in India are expected to introduce electronic fuel injection systems. The company has already begun engaging with its customers to provide electronic fuel injection systems starting from 2020, and on February 13, 2018, it had signed a joint venture agreement with Dell'Orto, S.p.A. for such development. Varroc develops its own electronics, control and software, and has currently filed applications for 16 patents across different product segments.

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**Exhibit 12: R&D spend has ranged 3.1-4.5% of revenues over the past few years**

Consolidated R&D spends of the company, March fiscal year-ends, 2015-18 (₹ mn, %)

	2015	2016	2017	2018
Revenue expenditure	2,514	2,445	3,637	4,615
<b>R&amp;D as % of gross revenues</b>	<b>3.7</b>	<b>3.1</b>	<b>3.9</b>	<b>4.5</b>

Source: Company, Kotak Institutional Equities

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SEPTEMBER 12, 2018

UPDATE

BSE-30: 37,413

**The not-so-curious case of the Indian rupee; the curious cases are elsewhere.** We are surprised by the hullabaloo around the recent sharp depreciation of the INR against the USD. The INR was overvalued for some time. The past 15 years of the INR has been a mix of (1) long periods of overvaluation and (2) short periods of sharp corrections. Investors may want to include possible currency depreciation in their investment matrix and not treat the INR as a tailwind during good times and a refuge during bad times.

#### INR depreciation not that much of a surprise (on hindsight)

In our view, the recent sharp depreciation should not be that much of a surprise since the INR appears to be correcting to its fundamental value after a period of overvaluation. The 15-year history of the INR has been the same—(1) long periods of overvaluation related to ‘flows’ and bullish macro sentiment around EMs and India and (2) short periods of sharp corrections on global and EM crises when the INR settles to its fundamental value (see Exhibit 1).

#### Assuming a steady depreciation in the INR may be useful as an investment input

We believe foreign investors (both bonds and equity) may be better able to negotiate the Indian macro and the pitfalls from the currency if they were to simply build a steady depreciation of the INR in their investment matrix. This could be in the form of lower expected returns from the Indian market to factor in the INR depreciation. In other words, investors may want to assume a higher cost of equity or lower valuations to factor in the currency risk.

#### Curious case 1: Stable INR and re-rating in multiples of consumer staple and discretionary stocks

We wonder if the sharp re-rating of consumer stocks may have been partly due to the market’s (wrong in hindsight) view of a stable currency. Exhibit 2 shows that the earnings yields of the consumer staple companies moved in line with falling global bond yields. We suspect investors were comfortable ascribing a low global cost of equity (lower than warranted given higher risks to cash flows in India) to the ‘certain’ earnings of the consumer staple companies. A ‘helpful’ combination of low global cost of equity (‘dollar’ cost of equity) and high nominal growth (‘rupee’ earnings) due to domestic inflation perhaps misled investors into the re-rating (see Exhibits 3-4). The market perhaps ignored the link between inflation, currency and cost of equity assuming a stable currency. EBITDA and EPS of many consumer staple and discretionary stocks are not that impressive in USD terms over the past few years (see Exhibits 5-6) despite meaningful uplift from gross margin expansion (see Exhibit 7) due to lower RM costs.

#### Curious case 2: Weak INR and recent re-rating of IT stocks

The recent steep re-rating of IT stocks (see Exhibit 8) on the back of sharp decline in the INR may hold only if (1) the market believes in a steady 2-3% per annum depreciation of the INR for a long time as was the case in the 1990s when 3-5% per annum depreciation in the INR was the norm and duly factored in analysts’ models and (2) the IT companies are in a position to hold on the USD value of their contracts and not forced by market forces and demanding clients to reduce their USD rates. We note that the market value of the IT sector has increased 53% in INR terms over the past 12 months on the back of 13%-17% upward revision in PAT for FY2019-20E (largely INR-led). Another 11-12% can be attributed to rollover.

#### QUICK NUMBERS

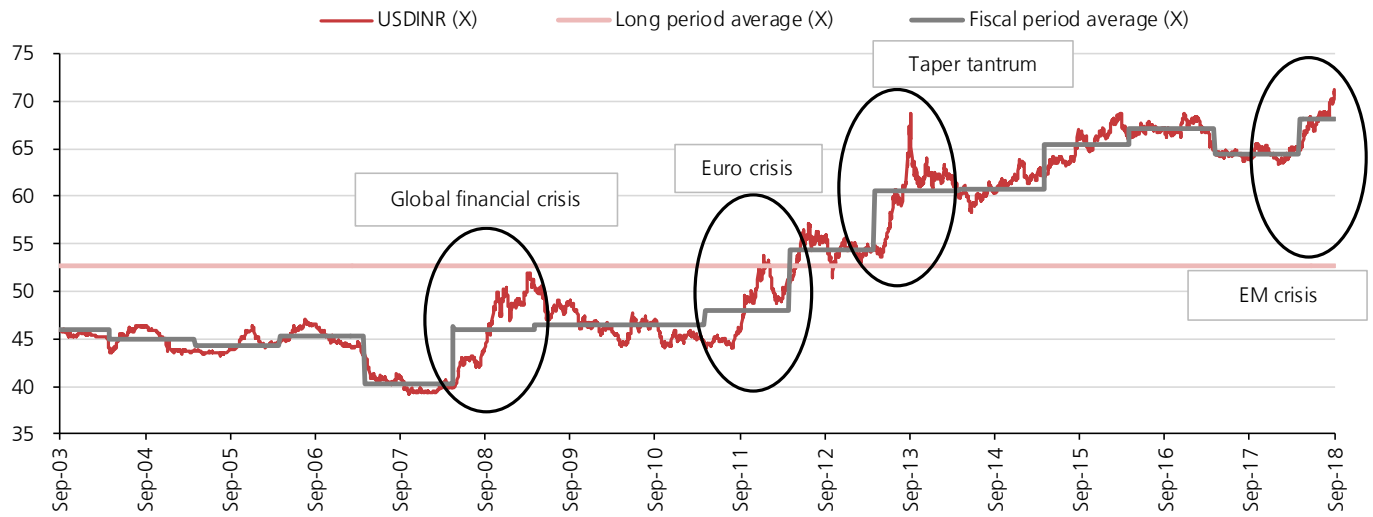
- INR has fallen 13% over the past 12 months, 19% over past 48 months
- HUVR market capitalization up 147% over past five years; PAT (FY2019E over FY2014) up 78% in INR and 54% in USD terms
- Market capitalization of IT sector up 53% in the past 12 months

Sanjeev Prasad

Sunita Baldawa

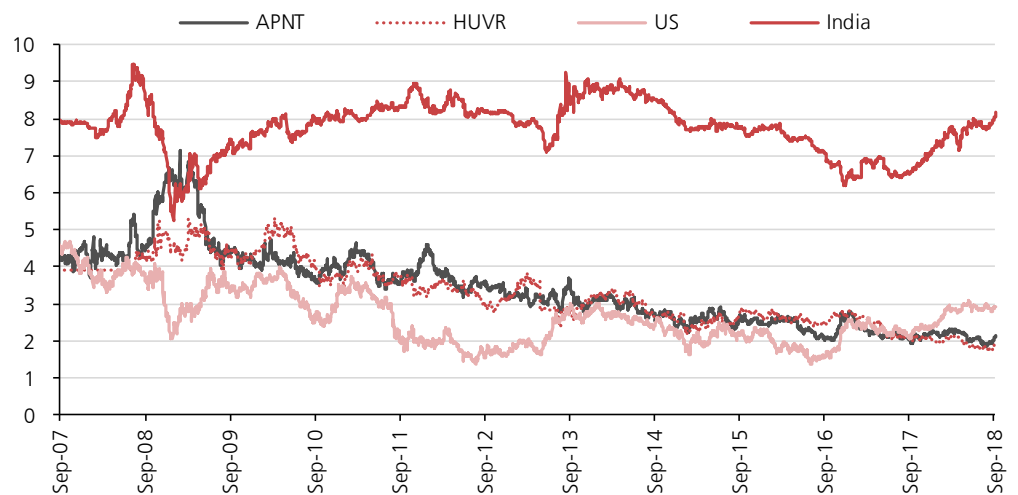
Anindya Bhowmik

**Exhibit 1: INR witnesses rapid depreciation in periods of crises**  
USD-INR trend (X)



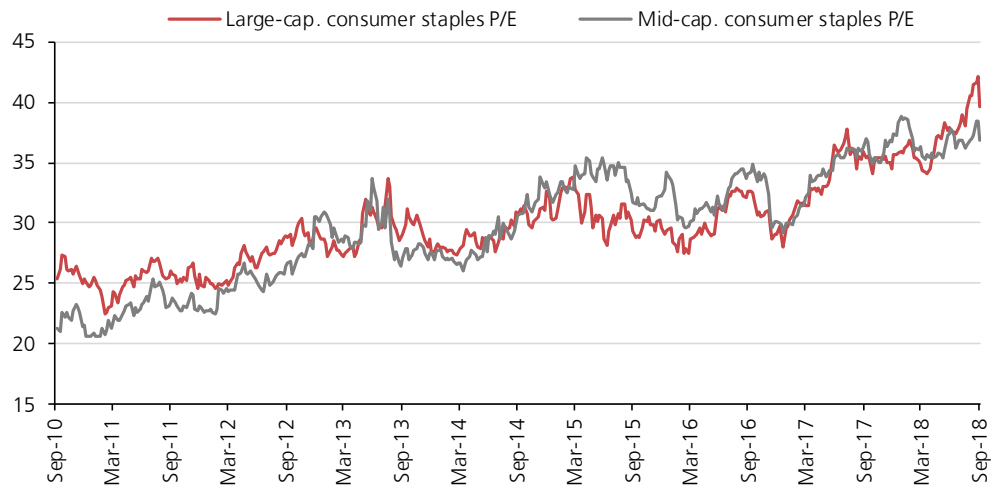
Source: Bloomberg, Kotak Institutional Equities

**Exhibit 2: Earnings yields of growth stocks have fallen consistently despite recent increase in domestic and global bond yields**  
Trend in 10-year benchmark yields of US, India and earnings yields of HUVR and APNT (%)



Source: Bloomberg, Kotak Institutional Equities

**Exhibit 3: Consumer staple stocks have seen consistent re-rating over the past few years**  
 12-m rolling forward PE charts for consumer staple stocks (X)

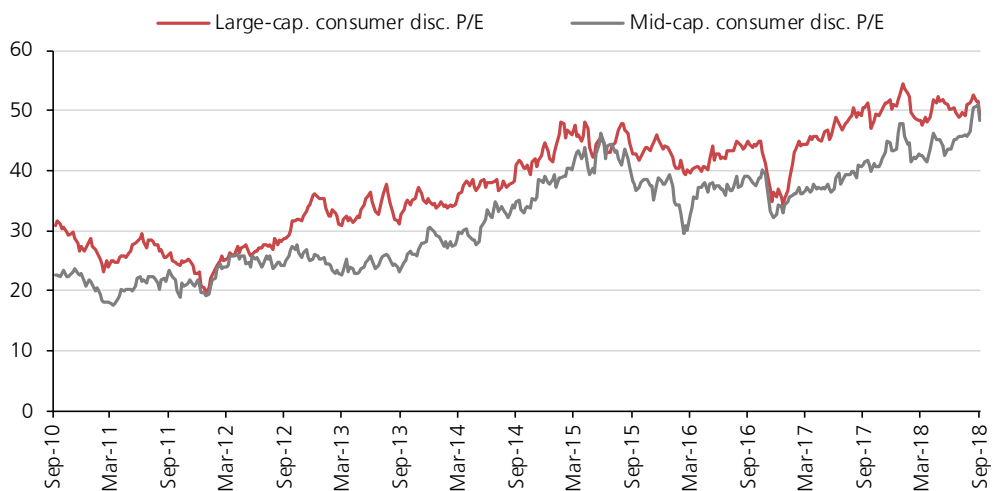


Notes:

(a) We have included BRIT, Dabur, GCPL, HUVR, ITC and NEST for large-cap. P/E calculation and CLGT, GSKCONS, MRCO and TGBL for mid-cap. P/E calculation.

Source: Factset, Kotak Institutional Equities

**Exhibit 4: Valuations of discretionary stocks have expanded sharply since March 2017**  
 12-m rolling forward PE charts for consumer discretionary stocks (X)



Notes:

(a) We have included APNT, HAVL, TTAN, UBL and UNSP for large-cap. P/E calculation and JUBI, PAG, VBL and VOLT for mid-cap. P/E calculation.

Source: Factset, Kotak Institutional Equities

**Exhibit 5: EBITDA growth is muted in US\$ terms for some of the consumer companies**  
EBITDA of consumer companies, March fiscal year-ends, 2014-19E

	EBITDA (US\$ mn)						Yoy growth in US\$ EBITDA (%)					CAGR in INR terms			CAGR in US\$ terms		
	2014	2015	2016	2017	2018	2019E	2015	2016	2017	2018	2019	5-year (%)	4-year (%)	3-year (%)	5-year (%)	4-year (%)	3-year (%)
<b>Staples</b>																	
Bajaj Corp.	31	39	42	39	39	39	28	6	(6)	0	(2)	8	3	(0)	5	(0)	(2)
Britannia Industries	104	142	186	191	233	268	37	31	3	22	15	24	21	15	21	17	13
Colgate-Palmolive (India)	110	135	143	141	173	182	23	6	(2)	23	5	14	11	11	11	8	8
Dabur India	191	216	232	225	251	276	13	7	(3)	11	10	11	10	8	8	6	6
GlaxoSmithKline Consumer	144	120	128	124	137	149	(17)	7	(3)	10	8	4	9	7	1	5	5
Godrej Consumer Products	190	225	250	283	321	347	18	11	13	13	8	16	15	14	13	11	12
Hindustan Unilever	739	839	870	901	1,129	1,285	13	4	4	25	14	15	15	16	12	11	14
Marico	124	143	161	173	176	179	16	12	8	2	2	11	10	6	8	6	4
Nestle India	327	337	244	293	336	397	3	(28)	20	15	18	7	8	20	4	4	18
<b>Discretionary</b>																	
Asian Paints	330	368	423	445	496	590	11	15	5	11	19	16	17	14	12	13	12
ITC	2,032	2,215	2,096	2,174	2,411	2,435	9	(5)	4	11	1	7	6	7	4	2	5
Jubilant Foodworks	41	42	40	36	68	91	2	(4)	(11)	90	33	21	26	34	17	21	31
Pidilite Industries	111	127	179	188	208	224	14	42	5	11	8	18	19	10	15	15	8
Titan Company	173	189	143	172	255	303	9	(24)	21	48	19	15	17	31	12	13	29

Source: Companies, Kotak Institutional Equities estimates

**Exhibit 6: EPS growth is unimpressive in US\$ terms for some of the consumer companies**  
EPS of consumer companies, March fiscal year-ends, 2014-19E

	EPS (US\$)						Yoy growth in US\$ EPS (%)					CAGR in INR terms			CAGR in US\$ terms		
	2014	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019	5-year (%)	4-year (%)	3-year (%)	5-year (%)	4-year (%)	3-year (%)
<b>Staples</b>																	
Bajaj Corp.	0.19	0.23	0.24	0.24	0.22	0.22	22	3	(3)	(6)	(1)	6	2	(1)	3	(1)	(3)
Britannia Industries	0.54	0.74	1.05	1.10	1.30	1.49	36	41	5	18	15	26	23	15	22	19	12
Colgate-Palmolive (India)	0.30	0.34	0.34	0.31	0.37	0.39	13	2	(11)	20	6	9	7	7	6	4	4
Dabur India	0.09	0.10	0.11	0.11	0.12	0.13	14	9	1	12	8	12	11	9	9	7	7
GlaxoSmithKline Consumer	2.65	2.28	2.36	2.33	2.58	2.85	(14)	4	(1)	11	10	4	9	9	1	6	6
Godrej Consumer Products	0.18	0.22	0.26	0.29	0.33	0.36	17	22	9	16	10	18	18	14	14	14	11
Hindustan Unilever	0.27	0.29	0.29	0.29	0.38	0.42	5	2	1	30	10	12	14	16	9	10	13
Marico	0.06	0.07	0.08	0.09	0.10	0.10	21	6	12	12	0	13	11	10	10	7	8
Nestle India	1.89	2.01	1.42	1.57	1.97	2.44	6	(29)	11	26	24	8	9	23	5	5	20
<b>Discretionary</b>																	
Asian Paints	0.21	0.24	0.29	0.30	0.32	0.39	15	17	4	7	22	16	16	13	13	12	11
ITC	0.12	0.13	0.12	0.12	0.14	0.14	10	(10)	5	12	(0)	6	5	8	3	1	6
Jubilant Foodworks	0.15	0.14	0.11	0.07	0.23	0.36	(7)	(19)	(34)	203	60	23	32	51	19	27	48
Pidilite Industries	0.15	0.17	0.24	0.25	0.28	0.30	13	44	5	12	8	19	20	10	15	16	8
Titan Company	0.14	0.15	0.11	0.13	0.20	0.23	10	(26)	18	49	16	14	15	30	11	11	27

Source: Companies, Kotak Institutional Equities estimates

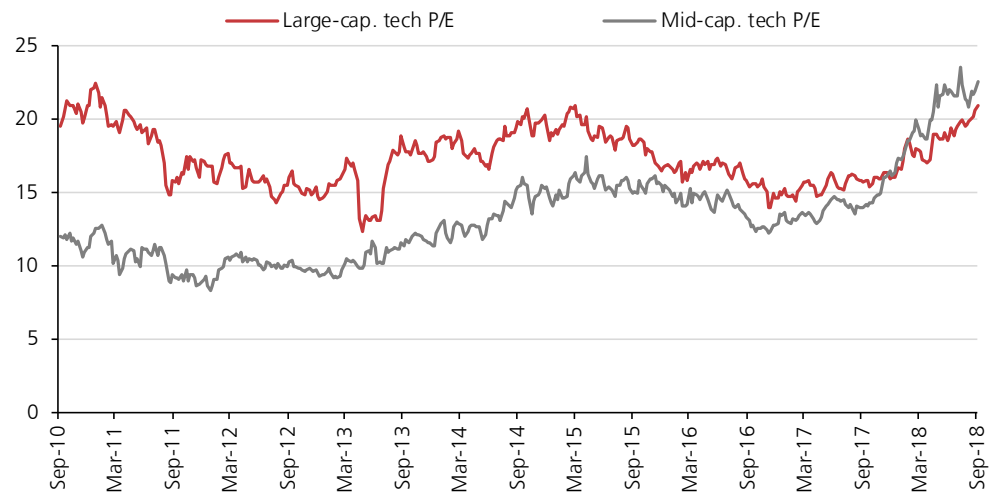


**Exhibit 7: Significant expansion in gross and EBITDA margin for consumer staple and discretionary companies in the past few years**  
Gross margin and EBITDA margin of consumer companies, March fiscal year-ends, 2014-21E (%)

	Gross margin (%)								EBITDA margin (%)							
	2014	2015	2016	2017	2018	2019E	2020E	2021E	2014	2015	2016	2017	2018	2019E	2020E	2021E
Asian Paints	42.3	43.8	43.6	44.7	42.4	42.9	43.1	43.4	15.7	15.8	19.4	19.8	19.0	20.8	21.1	21.5
Bajaj Corp.	60.0	61.7	62.7	66.2	67.5	66.4	66.5	66.6	27.7	29.0	34.2	33.1	30.6	29.2	30.2	31.0
Britannia Industries	39.7	40.3	40.3	38.3	38.4	39.2	40.0	40.4	9.1	11.0	14.5	14.1	15.1	16.5	17.4	17.9
Colgate-Palmolive (India)	60.8	63.1	61.8	62.9	64.4	65.5	65.1	65.3	18.6	20.6	24.3	23.7	26.6	28.0	28.3	28.8
Dabur India	52.1	52.5	51.1	50.1	50.4	50.8	50.8	50.9	16.3	16.8	19.3	19.6	20.9	21.7	22.0	22.3
GlaxoSmithKline Consumer	64.3	65.2	67.5	67.5	66.8	68.3	68.5	68.6	17.9	16.9	20.3	20.9	20.5	21.9	22.3	22.5
Godrej Consumer Products	53.2	53.6	54.1	55.4	56.6	56.9	56.9	57.0	15.1	16.5	19.4	20.5	21.0	22.0	22.4	22.7
Hindustan Unilever	48.8	49.2	50.7	50.8	53.0	54.2	54.3	54.4	16.0	16.6	18.3	19.0	21.1	23.0	23.4	23.7
ITC	60.4	59.8	63.2	60.1	61.1	61.3	61.4	61.5	37.0	36.9	37.5	36.4	38.3	39.6	40.4	41.2
Jubilant Foodworks	73.9	74.8	76.2	75.6	74.6	74.1	74.0	73.9	14.4	12.2	10.8	9.3	14.6	17.9	19.6	21.0
Jyothy Laboratories	47.5	48.5	47.5	46.9	49.9	47.9	48.1	48.3	11.9	12.4	15.0	15.3	15.5	15.6	15.9	16.2
Marico	48.8	45.6	49.0	52.2	47.0	45.6	47.5	48.2	16.0	15.2	17.5	19.6	18.0	17.2	18.3	18.8
Nestle India	54.5	53.9	57.3	57.2	56.5	58.6	58.9	59.0	21.9	20.9	19.6	21.7	21.7	24.8	25.5	25.8
Page Industries	53.1	53.7	61.8	59.5	57.4	57.7	57.9	58.1	21.5	20.7	20.9	19.4	21.2	23.3	23.6	23.8
Pidilite Industries	44.9	44.9	51.8	53.0	52.5	51.4	51.9	52.4	15.7	15.9	21.9	22.4	22.1	21.9	22.8	23.6
Tata Global Beverages	52.5	52.0	45.4	47.5	45.7	45.5	45.8	46.1	9.7	9.7	9.9	11.7	12.3	12.0	12.6	13.2
Titan Company	26.3	26.5	27.5	28.3	27.5	26.8	27.3	27.4	9.6	9.6	8.3	8.7	10.2	10.8	11.4	11.6
United Breweries	59.0	59.6	56.1	53.9	53.2	53.8	54.0	54.2	14.1	13.3	14.3	13.6	16.1	17.5	18.0	18.4
United Spirits	40.8	40.8	41.3	42.9	47.5	49.1	49.6	49.7	10.0	7.4	10.7	11.4	12.5	14.7	16.1	16.9

Source: Companies, Kotak Institutional Equities

**Exhibit 8: Valuations of IT stocks have expanded sharply since September 2017**  
12-m rolling forward PE charts for IT stocks (X)



Notes:

(a) We have included HCLT, INFO, TCS and WPRO for large-cap. sector P/E calculation and HEXW, LTI, MTCL and MPHL for mid-cap. P/E calculation.

Source: Factset, Kotak Institutional Equities

SEPTEMBER 12, 2018

UPDATE

BSE-30: 37,413

**Cement prices—weakness persists.** Cement prices for September 2018 declined by ₹3/bag (all-India), per our channel checks. The prices declined by ₹9/bag in the East but were either steady or declined marginally in other regions. Cost pressures are rising due to sharp fall in INR/US\$ rate – we note that close to 35% of costs of cement companies are impacted by Fx rates on the back of rise in pet-coke, coal and diesel costs. The current price trends indicate weak 2QFY19 earnings for pan-India names though companies with higher regional sales mix in North and Central may report improvement. We maintain our cautious stance on the sector on expensive valuations.

### Cement prices decline by ₹3/bag for September 2018

All-India cement prices declined in September 2018 by ₹3/bag mom to ₹328/bag as weakness continued during monsoons, especially given heavy rainfall in a few states and floods in Kerala. The prices declined in East region by ₹9/bag to ₹336/bag but were more or less steady in other regions. The cement prices increased in North by ₹2/bag to ₹304/bag, declined in West by ₹4/bag to ₹311/bag and were steady in South & Central regions. We highlight that prices in North and Central are still higher by 3-4% qoq in 2QFY19E led by price increases taken in July 2018 (Exhibits 1 and 2).

### Cost pressures increase due to weakening INR/US\$ rate

The spot INR/US\$ rate is down 8% compared to 1QFY19 average of ₹67/US\$—this will hurt costs of cement companies (though with a lag) given close to 35% of the costs are at parity to US\$, per our estimates. In addition, imported pet-coke prices have increased by 9% in 2QFY19 to US\$122/ton. We estimate close to 40% of the pet-coke usage by domestic cement companies is through imports from Saudi Arabia and the US while balance 60% is based on local sourcing (Exhibits 7 and 8). We note that Indian refineries too set their ex-works prices on import parity. Besides higher energy costs, rising diesel prices (+3% qoq) will add to cost pressures.

### 2QFY19 spreads—weak so far for pan-India names; North, Central regions to do better

Exhibit 3 highlights the monthly spread movement between cement prices (net of taxes) and energy costs (estimated assuming 70% pet-coke usage for the industry). The spreads continue to remain weak for pan-India names in 2QFY19 (we estimate 1% qoq decline). We expect the spreads to improve for regional names in North and Central aided by higher cement prices while the spreads are to weaken in West and South.

### Industry volumes increase by 11% yoy in July; expect Aug-Sep to be good due to low base

As per DIPP data, industry volumes increased by 11% yoy in July 2018 to 25.9 mn tons, but on a low base—we note that demand growth last year in July 2017 was a mere 1%. The two-year volume CAGR works out to 5.4% for July 2018. We believe the low base will continue to aid demand growth for August-September 2018 as well—cumulative demand for these three months was flat yoy last year (i.e. in August-September 2017). We note that as per company narratives, the improvement in demand in the past few months is mostly led by pickup in infrastructure activity from increased government spending.

### Maintain cautious stance on the sector on expensive valuations

We maintain our cautious stance on the cement sector on expensive valuations and on expectation of moderate improvement in earnings over the next 2 years. The cost headwinds necessitate sharp improvement in industry utilizations for meaningful earnings improvement. However, we believe large capacity addition will keep industry utilizations low (<70%). The valuation of large cap. cement names is expensive at 12-19X FY2019E EV/EBITDA.

Abhishek Poddar

Murtuza Arsiwalla

Samrat Verma

**Exhibit 1: All-India prices declined by Rs3/bag in September 2018; prices declined sharply in the East region**  
Monthly cement prices across regions in India, September 2017 – 2018 (Rs per 50 kg bag)

	Sep-17	Oct-17	Nov-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
North	308	305	304	309	309	303	300	296	296	309	302	304
Central	315	313	314	320	327	318	323	320	325	344	331	330
East	342	324	331	332	337	337	336	337	336	343	346	336
West	309	310	302	307	307	303	311	325	321	322	315	311
South	363	348	332	352	353	337	346	357	347	347	347	347
<b>All India average</b>	<b>332</b>	<b>324</b>	<b>319</b>	<b>328</b>	<b>331</b>	<b>322</b>	<b>326</b>	<b>331</b>	<b>328</b>	<b>335</b>	<b>331</b>	<b>328</b>
<b>Change per bag (Rs, mom)</b>												
North	(6)	(3)	(1)	(12)	—	(6)	(3)	(3)	(1)	14	(8)	2
Central	(2)	(2)	1	—	7	(9)	5	(3)	5	19	(13)	(1)
East	(8)	(18)	6	(—)	5	—	(1)	—	(—)	6	3	(10)
West	(12)	2	(8)	7	1	(5)	8	14	(4)	2	(7)	(4)
South	(6)	(16)	(16)	19	1	(17)	9	11	(10)	(0)	—	(1)
<b>All India average</b>	<b>(7)</b>	<b>(8)</b>	<b>(6)</b>	<b>5</b>	<b>3</b>	<b>(9)</b>	<b>5</b>	<b>5</b>	<b>(3)</b>	<b>7</b>	<b>(4)</b>	<b>(2)</b>
<b>Change per bag (Rs, yoy)</b>												
North	(1)	—	(—)	15	4	(11)	(35)	(30)	(23)	(10)	(12)	(4)
Central	1	(3)	8	22	19	4	(16)	(10)	4	28	14	15
East	8	(6)	3	16	17	11	(4)	(12)	(15)	2	(4)	(6)
West	24	2	(1)	30	23	13	3	(8)	(14)	(9)	(6)	2
South	(4)	(17)	(25)	6	(2)	(6)	(35)	(23)	(21)	(28)	(23)	(17)
<b>All India average</b>	<b>4</b>	<b>(6)</b>	<b>(7)</b>	<b>16</b>	<b>10</b>	<b>1</b>	<b>(21)</b>	<b>(18)</b>	<b>(15)</b>	<b>(7)</b>	<b>(9)</b>	<b>(4)</b>

Source: Industry, Kotak Institutional Equities estimates

### Region-wise cement price trend for September 2018 (first week)

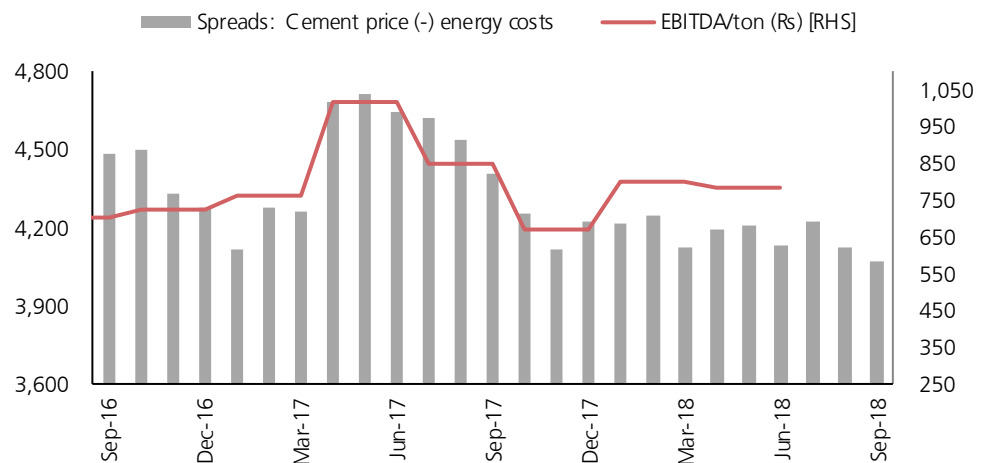
- ▶ **North and Central—prices steady for the month.** The cement prices in the North and Central regions were mostly steady during the month—prices in North region increased by ₹2/bag to ₹304/bag for September 2018 while it declined by ₹1/bag to ₹330/bag in Central region. We note that prices in North and Central regions are still higher by 3-4% qoq in 2QFY19 led by price increases seen in July 2018. Among states, there were mix trends with prices increasing by ₹5-10/bag in Delhi and parts of Uttar Pradesh and were either steady or declined in other cities.
- ▶ **West—prices declined by ₹4/bag.** The cement prices in West declined by ₹4/bag mom to ₹311/bag. As per our channel checks, prices increased by close to ₹5-10/bag in Gujarat in cities such as Baroda and Surat though a few cities such as Ahmedabad saw a steep decline in prices of ₹10/bag. In Maharashtra, the prices corrected by ₹10-20/bag in Pune, Nagpur and Mumbai—price decline was highest in Mumbai region.
- ▶ **South—marginal decline and weak overall.** The cement prices in South markets were steady at ₹347/bag in September 2018. The prices were flat in states of Tamil Nadu, while prices increased in Karnataka by ₹5-10/bag. Prices in Andhra Pradesh declined by ₹10/bag.
- ▶ **East—prices decline by ₹9/bag.** The cement prices in East declined by ₹9/bag to ₹336/bag in September 2018. Our checks indicate that prices declined by ₹15/bag mom in West Bengal and by ₹5-10/bag in other states such as Odisha and Bihar.

**Exhibit 2: Per our channel checks, 2QFY19E prices improved marginally led by North, Central and East regions**  
Quarterly trend in cement prices in India across geographies, 2QFY17 - 2QFY19E (Rs per 50 kg bag)

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19E	FY2018	FY2019E	CY2017	CY2018
North	315	303	304	327	314	310	307	297	305	314	301	314	303
Central	321	309	307	330	316	316	322	322	335	321	329	317	326
East	333	326	321	347	344	329	335	336	341	339	339	335	338
West	284	304	283	325	320	304	306	319	316	314	317	308	313
South	354	359	348	376	369	338	347	350	347	358	348	358	348
<b>All India average</b>	<b>326</b>	<b>326</b>	<b>318</b>	<b>346</b>	<b>338</b>	<b>322</b>	<b>327</b>	<b>328</b>	<b>331</b>	<b>333</b>	<b>330</b>	<b>331</b>	<b>329</b>
<b>Change per bag (Rs, qoq)</b>													
North	10	(12)	1	23	(14)	(4)	(3)	(10)	8				
Central	16	(12)	(2)	23	(14)	(—)	6	1	12				
East	2	(6)	(6)	26	(3)	(15)	6	1	5				
West	(2)	20	(21)	42	(5)	(16)	1	13	(2)				
South	12	5	(11)	28	(7)	(32)	10	3	(3)				
<b>All India average</b>	<b>9</b>	<b>(0)</b>	<b>(8)</b>	<b>28</b>	<b>(8)</b>	<b>(16)</b>	<b>5</b>	<b>2</b>	<b>3</b>				
<b>Change per bag (Rs, yoy)</b>													
North	35	32	38	22	(2)	7	3	(30)	(9)	7	(13)	16	(11)
Central	25	32	28	25	(5)	7	15	(7)	19	10	8	14	9
East	(18)	(14)	(10)	16	12	3	15	(10)	(3)	11	0	5	3
West	(4)	32	14	39	36	—	22	(6)	(4)	24	4	22	5
South	(11)	3	1	34	15	(21)	(1)	(26)	(23)	7	(9)	7	(10)
<b>All India average</b>	<b>4</b>	<b>16</b>	<b>13</b>	<b>29</b>	<b>12</b>	<b>(4)</b>	<b>9</b>	<b>(18)</b>	<b>(6)</b>	<b>11</b>	<b>(3)</b>	<b>12</b>	<b>(2)</b>

Source: Industry, Kotak Institutional Equities estimates

**Exhibit 3: Spreads between cement prices & energy costs are weak due to muted prices, higher costs**  
Spreads (cement prices less energy costs) and EBITDA/ton for Indian cement companies, 2016-2018 (Rs/ton)

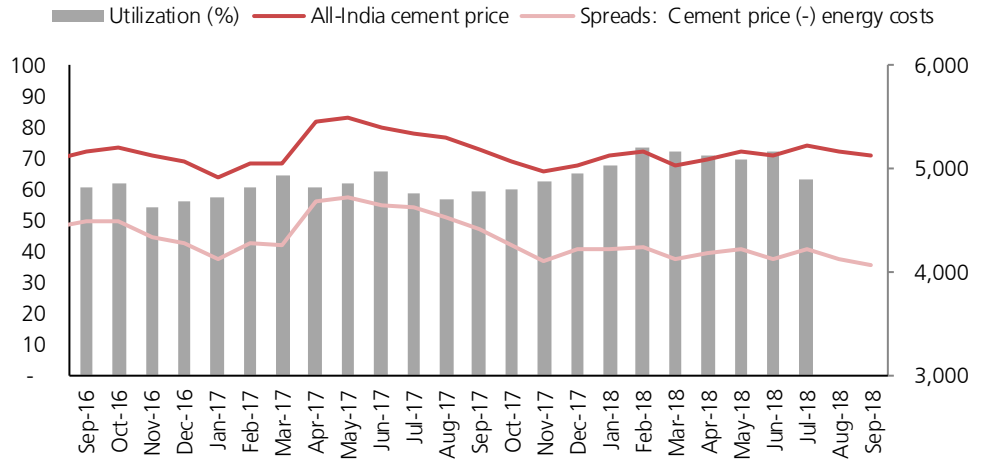


Notes:

(1) EBITDA/ton computation is based on average reported by companies under our coverage till 1QFY19.

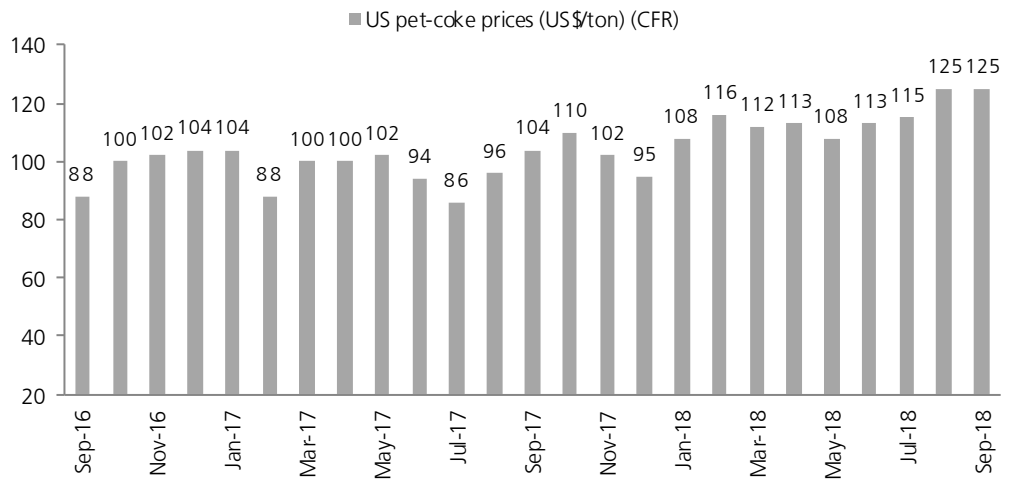
Source: Bloomberg, Company, Kotak Institutional Equities estimates

**Exhibit 4: Cement prices have been weak as industry utilization remains close to 70%**  
 Estimated cement industry utilization and monthly price trends (% , Rs/ton)



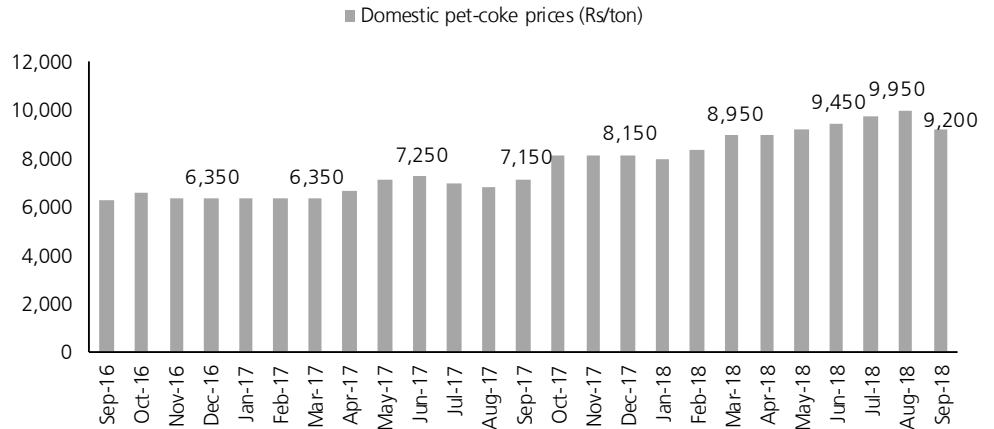
Source: Industry, DIPP, Companies, Kotak Institutional Equities estimates

**Exhibit 5: Higher pet-coke prices together with depreciating Re/US\$ rate to add to cost pressures**  
 US pet coke prices (CFR basis), 2016 - 2018 (US\$/ton)



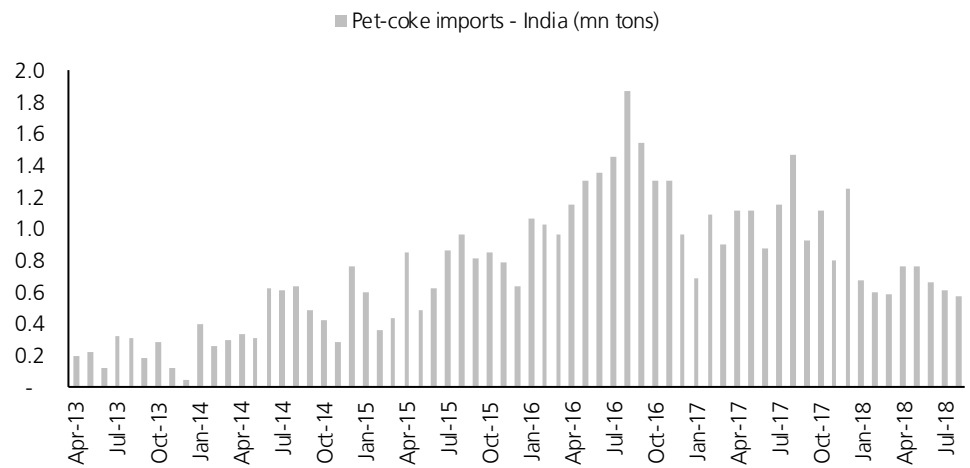
Source: Industry, Kotak Institutional Equities estimates

**Exhibit 6: Domestic pet-coke prices increased by 29% over the past year**  
Domestic pet coke prices, 2016 - 2018 (Rs/ton)



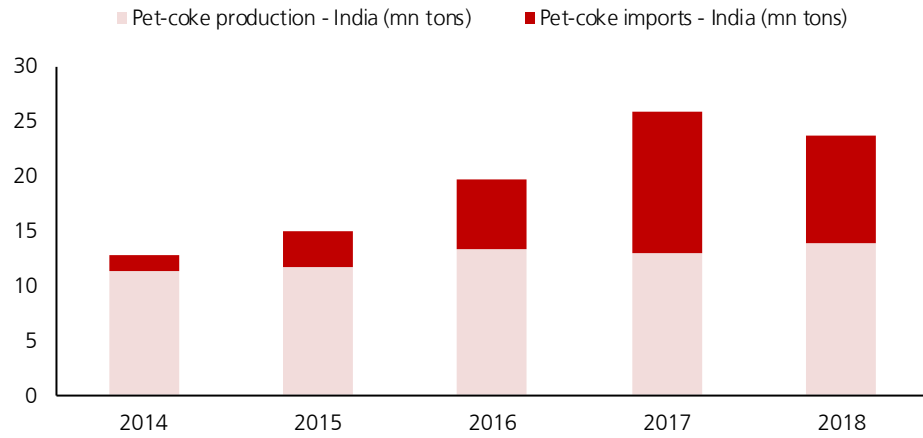
Source: Industry, Kotak Institutional Equities estimates

**Exhibit 7: Indian cement companies continue to have high dependence on pet-coke imports**  
Pet-coke imports by India, April 2013 - August 2018



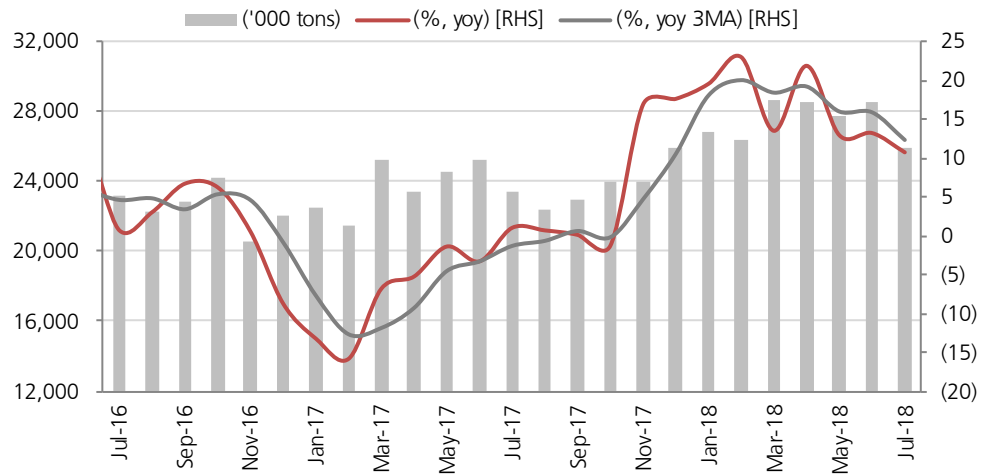
Source: Industry, Kotak Institutional Equities estimates

**Exhibit 8: Indian companies source ~60% of their pet-coke requirement from domestic sources**  
 India's pet-coke usage from domestic sources and imports, 2014 - 2018 (mn tons)



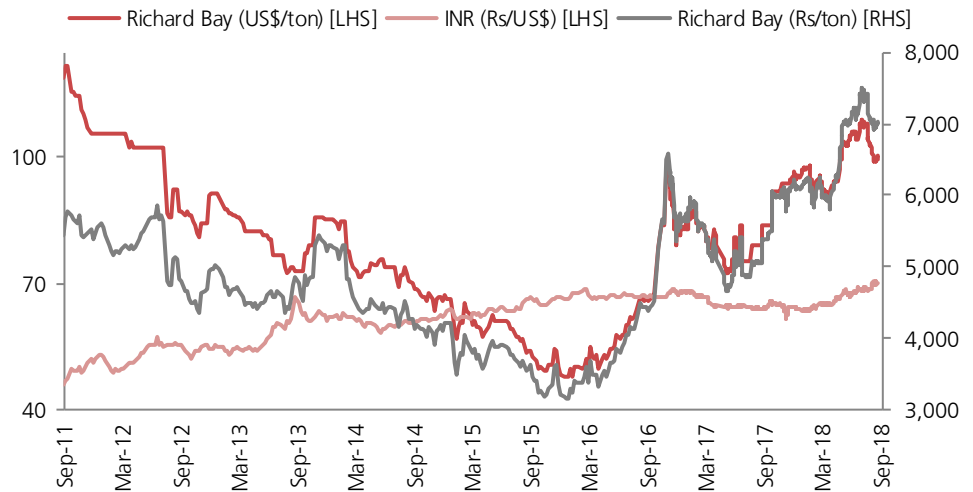
Source: Industry, Kotak Institutional Equities estimates

**Exhibit 9: As per DIPP, cement volumes increased 11% yoy in July 2018; 2 year volume CAGR at 5.8%**  
 Monthly cement production volumes in India, 2016 - 2018 ('000 tons, %)



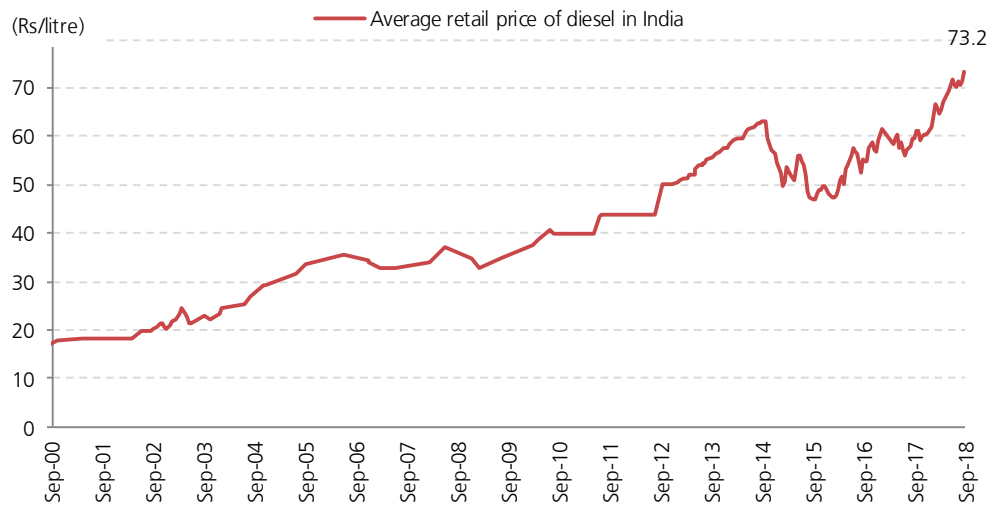
Source: DIPP, Kotak Institutional Equities estimates

**Exhibit 10: Imported coal costs remain elevated due to weakening INR/US\$ rate**  
 Coal prices at Richard Bay (US\$/ton, Rs/ton), 2011-18



Source: Bloomberg, Kotak Institutional Equities estimates

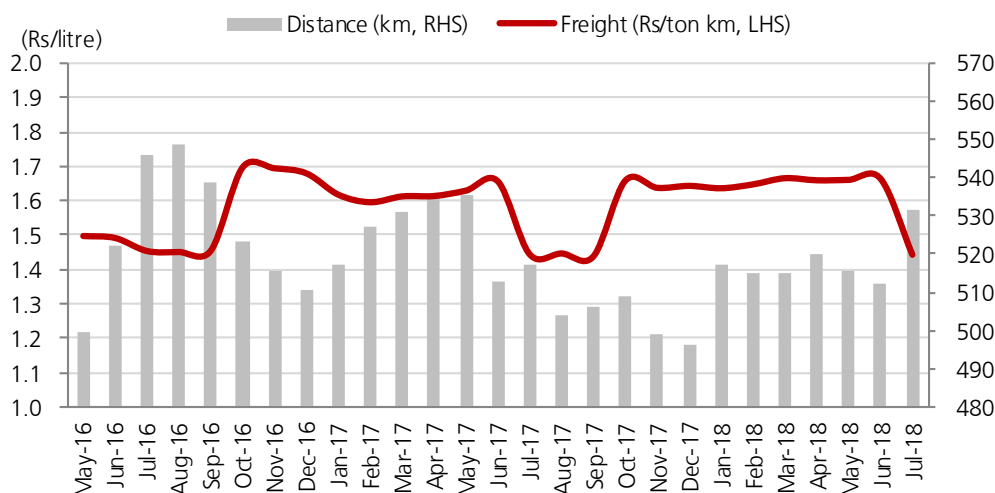
**Exhibit 11: The retail diesel prices in India are 3% qoq higher in 2QFY19**  
 Average retail price of diesel in major cities in India (Rs/litre)



Source: Company, Kotak Institutional Equities estimates



Exhibit 12: Railway freights from July are lower due to non-levy of busy season surcharge  
Lead distance of cement transportation by railways and average freight rates (km, Rs/ton km)



Source: Indian Railways, Kotak Institutional Equities estimates

Exhibit 13: Cement comparative valuation

Company	Market cap (US\$ mn)	CMP (Rs) 8-Sep	Target price (Rs)	Rating	EPS (Rs)				P/E (X)			
					2017	2018	2019E	2020E	2017	2018	2019E	2020E
<b>Large-cap. stocks</b>												
ACC	4,103	1,533	1,270	SELL	34	49	62	70	45	31	25	22
Ambuja Cements	6,228	221	210	REDUCE	6	8	9	11	38	29	26	21
Grasim Industries	6,622	1,015	1,170	BUY	68	47	46	55	15	21	22	18
Shree Cement	8,545	17,242	12,500	SELL	384	397	421	630	45	43	41	27
UltraTech Cement	16,073	4,123	2,950	SELL	96	88	126	162	43	47	33	25
<b>Mid-cap. stocks</b>												
Dalmia Bharat	2,974	2,575	2,830	ADD	39	60	94	122	66	43	27	21
India Cements	518	119	118	REDUCE	6	3	4	8	21	36	28	14
JK Cement	797	801	890	ADD	27	43	45	79	30	19	18	10
JK Lakshmi Cement	545	326	370	ADD	7	4	11	28	47	73	29	12
Orient Cement	328	112	145	ADD	(2)	2	7	11	(72)	52	17	10
Company	EV/EBITDA (X)				EV/ton of capacity (US\$)				P/B (X)			
	2017	2018	2019E	2020E	2017	2018	2019E	2020E	2017	2018	2019E	2020E
<b>Large-cap. stocks</b>												
ACC	21.5	16.8	13.7	11.8	115	111	109	105	3.3	3.1	2.8	2.6
Ambuja Cements	17.6	14.3	11.7	9.7	119	119	116	111	2.2	2.1	2.0	1.9
Grasim Industries	6.1	12.0	7.4	7.0	NA	NA	NA	NA	1.5	1.2	1.1	1.1
Shree Cement	22.7	23.3	19.0	14.3	277	235	214	201	7.8	6.8	5.9	4.9
UltraTech Cement	23.7	23.1	17.1	14.1	237	209	196	181	4.7	4.4	3.9	3.4
<b>Mid-cap. stocks</b>												
Dalmia Bharat	16.4	14.6	11.4	9.5	183	174	168	159	4.6	3.8	3.3	2.9
India Cements	7.6	9.8	8.9	7.0	60	63	62	60	0.7	0.7	0.7	0.7
JK Cement	11.7	10.1	10.4	8.6	108	102	107	117	3.2	2.8	2.5	2.1
JK Lakshmi Cement	15.7	13.5	10.0	6.5	82	75	73	68	2.7	2.7	2.5	2.1
Orient Cement	19.7	11.6	7.8	6.0	62	63	59	54	2.3	2.3	2.0	1.8

Source: Company, Kotak Institutional Equities estimates

**Crossing mid-teens.** Inching up gradually over the past four months, private sector individual APE growth improved to 16.7% in August 2018. Trends in growth and market share of large private players remained similar to that of previous months—ICICI Life and HDFC Life remained muted with 6-7% individual APE growth, SBI Life was better at 10.4% and Max Life high at 22%. Birla SL and Tata AIA reported stellar 80%+ growth likely due to their inroads in HDFC Bank. LIC picked up to 12.4% from almost flat performance in the past two months.

#### Tata AIA and Birla Sun Life deliver strong growth

Birla SL reported 86% growth in individual APE during August 2018, gaining market share to 2.2% from 1.4% in August 2017. This is likely driven by making strong inroads in HDFC Bank—the company has deployed about 1,500 employees across 3,000 branches of the bank. Share of bancassurance increased to 31% in 1QFY19 from 12% in 1QFY18. 42% increase in ticket size in the individual non-single segment during August 2018 suggests that a large part of the growth may be from higher-ticket ULIPs.

Tata AIA reported 81% growth in individual APE during August 2018, leading to 51% growth YTD. Its market share increased to 3% from 1.9% in August 2018. 2% decline in average ticket size of individual non-single segment suggests that most growth is driven by increase in volume.

#### HDFC Life and ICICI Prudential Life weak

HDFC Life reported 6.6% growth in individual APE and 8% growth in overall APE in August 2018. Reducing share of ULIPs (45% of APE in 1QFY19 from 50% in 1QFY18) has likely led to lower growth in APE. The company is focusing on protection and deferred annuity products to deliver steady growth in VNB even as APE growth will likely remain weak.

ICICI Prudential Life reported 6% growth in individual APE despite a low base catching up (14% growth in August 2017). The company is reducing focus on ULIPs, which are down to 82% of APE in 1QFY19 from 87% in 1QFY18.

#### SBI Life inches up; Max Life stable

Max Life delivered 22% growth in individual APE likely on the back of higher growth in ULIPs (43% of APE in 1QFY19 from 29% in 1QFY18). The company has been rebalancing its portfolio to increase the share of ULIPs.

SBI Life reported 10.4% growth in individual APE, better than 6-9% during the past two months. The company has focused on streamlining its processes and increase share of protection business; we expect near-term growth to remain muted even as the long-term SBI penetration story stays.

#### Companies change strategy as equity inflows are muted

Mutual fund inflows to equities have been stable at about ₹100 bn (₹102 bn in August 2018) for past three months; market sources suggest that the non-SIP segment has slowed down sharply. Moderate APE growth for life insurance companies indicates weak demand for ULIPs as well as insurance companies shifting strategy to protection and higher-margin traditional savings products. As such, growth in VNB will likely remain strong; in that sense, APE growth is less relevant.

SEPTEMBER 12, 2018

UPDATE

BSE-30: 37,413

#### QUICK NUMBERS

- Private sector APE up 19% yoy in August 2018
- Private sector individual APE up 17% yoy
- MF inflows in August 2018 was low at ₹102 bn versus ₹265 bn in August 2017

Nischint Chawathe

M B Mahesh CFA

Dipanjan Ghosh

**Exhibit 1: Private sector life insurance APE was up at 19% in August 2018**  
APE in individual and group business, March fiscal year-end, August 2018 (Rs mn)

	Aug-18				YTD FY2019							
	Individual	yoy growth (%)	Group	yoy growth (%)	Total	yoy growth (%)	Individual	yoy growth (%)	Group	yoy growth (%)	Total	yoy growth (%)
Aegon Religare	83	(12)	2	124	85	(11)	332	(13)	2	38	334	(13)
Aviva	88	(18)	1	66	89	(17)	516	7	3	(57)	520	6
Bajaj Allianz	1,193	33	273	197	1,466	49	5,015	11	802	47	5,818	15
Bharti Axa	460	64	23	25	483	62	1,961	68	111	28	2,072	65
Birla Sunlife	1,176	86	149	124	1,325	90	4,428	57	610	38	5,038	55
Canara HSBC	804	18	23	(11)	827	17	2,746	10	175	48	2,921	11
DHFL Pramerica	327	43	77	25	404	39	1,446	44	335	(8)	1,781	30
Edelweiss	235	73	6	99	241	74	916	87	21	(10)	937	83
Future Generali	240	24	6	45	246	25	867	28	24	(42)	890	24
HDFC Life	3,532	7	442	22	3,974	8	14,961	12	2,410	41	17,371	15
ICICI Prudential	6,371	6	92	641	6,463	7	25,260	(10)	309	60	25,570	(10)
IDBI Federal	358	8	9	55	367	9	1,413	(9)	34	26	1,447	(8)
India First	525	19	58	113	583	24	1,974	5	396	117	2,371	14
Exide Life	449	17	3	21	453	17	2,163	18	32	(10)	2,195	17
Kotak	973	(3)	74	46	1,047	(1)	4,016	6	377	5	4,393	6
Max Life	2,623	22	27	25	2,650	22	10,220	22	114	(1)	10,334	22
Reliance Life	804	54	3	(72)	807	52	3,065	27	30	(40)	3,096	26
SBI Life	7,339	10	335	245	7,674	14	26,178	8	1,560	93	27,738	11
Shriram Life	316	(2)	24	(4)	340	(2)	1,568	11	104	(2)	1,672	10
Star Union Daichi	374	(4)	4	93	378	(3)	1,420	(8)	21	57	1,441	(7)
Tata AIA	1,606	81	11	190	1,617	81	5,605	51	36	106	5,641	51
<b>Private players</b>	<b>30,843</b>	<b>17</b>	<b>1,654</b>	<b>83</b>	<b>32,497</b>	<b>19</b>	<b>1,20,251</b>	<b>9</b>	<b>7,559</b>	<b>43</b>	<b>1,27,810</b>	<b>11</b>
<b>Pvt. ex-ICICI and SBI</b>	<b>17,133</b>	<b>24</b>	<b>1,227</b>	<b>55</b>	<b>18,360</b>	<b>26</b>	<b>68,813</b>	<b>20</b>	<b>5,690</b>	<b>32</b>	<b>74,503</b>	<b>20</b>
LIC	22,571	12	8,673	(2)	31,244	8	96,215	7	36,133	(1)	1,32,347	5
<b>Total Premium</b>	<b>53,414</b>	<b>15</b>	<b>10,327</b>	<b>6</b>	<b>63,741</b>	<b>13</b>	<b>2,16,466</b>	<b>8</b>	<b>43,692</b>	<b>5</b>	<b>2,60,158</b>	<b>8</b>

Source: IRDA, Life council

**Exhibit 2: Private sector individual APE was up 17% yoy**  
Yoy growth in adjusted individual business premium, March fiscal year-ends, August 2017-August 2018 (%)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Bajaj Allianz	30.5	31.4	15.7	49.7	20.9	70.5	27.6	5.0	(20.3)	17.2	18.6	19.6	33.4
Birla Sunlife	24.8	18.1	23.1	23.5	(0.1)	(11.7)	13.4	20.2	37.3	40.6	40.6	74.1	86.4
Canara HSBC	109.2	101.9	38.6	53.4	28.3	16.2	7.9	(11.4)	64.9	(16.7)	2.7	0.8	17.7
HDFC Standard Life	24.5	70.8	30.4	65.2	84.1	28.8	22.2	(2.4)	69.6	11.3	3.7	3.1	6.6
ICICI Prudential Life	14.0	17.9	25.8	10.7	(2.4)	(10.7)	(15.6)	16.6	(31.1)	(30.0)	(5.1)	3.8	6.0
India First	76.5	69.1	32.6	51.6	51.0	48.2	17.7	(20.1)	1.4	0.9	(1.4)	0.8	18.5
Kotak	40.7	16.3	62.6	63.9	36.2	27.3	47.7	12.9	34.2	5.8	3.6	4.4	(3.2)
Max Life	23.2	18.6	30.6	9.8	15.5	65.1	33.1	16.0	(1.4)	19.7	19.7	41.4	22.2
Reliance Life	11.8	(2.7)	(7.2)	(17.2)	5.4	3.4	8.6	5.8	37.1	18.6	16.3	8.6	54.1
SBI Life	50.7	45.7	46.1	37.6	34.3	11.7	17.9	4.6	(11.0)	27.2	8.1	5.9	10.4
Star Union Daichi	26.3	(10.8)	42.3	17.0	(4.7)	31.1	(34.8)	(39.2)	29.8	(9.3)	(33.5)	11.4	(3.9)
Tata AIA	38.9	14.5	75.9	47.8	7.3	42.6	34.5	21.8	5.2	32.4	55.2	52.1	80.6
<b>Private sector</b>	<b>29.0</b>	<b>30.4</b>	<b>33.2</b>	<b>30.3</b>	<b>22.3</b>	<b>16.3</b>	<b>11.4</b>	<b>7.9</b>	<b>(1.9)</b>	<b>4.2</b>	<b>8.9</b>	<b>13.2</b>	<b>16.7</b>
<b>Pvt. ex-ICICI and SBI</b>	<b>27.5</b>	<b>30.3</b>	<b>31.3</b>	<b>37.5</b>	<b>27.7</b>	<b>32.1</b>	<b>22.4</b>	<b>7.1</b>	<b>21.0</b>	<b>16.4</b>	<b>15.0</b>	<b>21.1</b>	<b>24.4</b>
LIC	9.3	9.9	25.9	23.5	12.9	17.4	9.3	5.1	3.3	20.6	(1.3)	1.5	12.4
<b>Total</b>	<b>19.7</b>	<b>21.1</b>	<b>29.6</b>	<b>27.0</b>	<b>18.8</b>	<b>16.7</b>	<b>10.5</b>	<b>6.6</b>	<b>0.4</b>	<b>11.6</b>	<b>4.1</b>	<b>7.8</b>	<b>14.8</b>

Source: IRDA, Life council

**Exhibit 3: APE growth has slowed down in 1QFY19 to 6% yoy**

Adjusted premium equivalent of life insurance players, March fiscal year-ends, 2011-1QFY19 (Rs bn)

	APE (Rs bn)										YoY (%)						Market share (%)								
	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19	2012	2013	2014	2015	2016	2017	2018	1QFY19	2012	2013	2014	2015	2016	2017	2018	1QFY19
Bajaj Allianz Life	20	14	14	11	9	9	12	17	3	(29)	(2)	(17)	(18)	(2)	34	34	1	3	3	2	2	2	2	2	2
Birla Sunlife	16	12	11	9	9	8	11	12	3	(24)	(11)	(17)	(7)	(3)	30	11	41	2	2	2	2	2	2	2	2
DHFL Pramerica	1	1	1	1	2	2	2	4	1	35	43	(17)	63	11	21	62	27	0	0	0	0	0	0	1	1
Exide	6	6	5	5	4	5	6	6	1	(5)	(15)	(3)	(12)	10	27	2	21	1	1	1	1	1	1	1	1
HDFC Life	30	28	32	25	32	36	41	53	10	(7)	16	(22)	26	14	13	29	23	5	6	5	7	7	6	7	7
ICICI Prudential Life	39	30	34	33	46	51	65	75	13	(23)	14	(5)	41	10	27	15	(22)	6	7	6	10	10	10	10	10
Max Life	17	15	15	18	20	21	27	32	5	(12)	0	17	10	8	26	21	14	3	3	3	4	4	4	4	4
Reliance Life	20	11	10	12	13	10	7	7	2	(44)	(12)	19	8	(26)	(24)	2	22	2	2	2	3	2	1	1	1
SBI Life	33	24	26	30	33	45	63	80	13	(27)	8	14	10	36	40	27	10	5	5	6	7	9	10	11	10
Private players	239	186	189	182	211	242	306	373	65	(22)	2	(3)	16	15	26	22	6	35	37	36	45	47	49	51	49
Private (ex. SBI, ICICI)	167	131	128	119	132	146	178	218	39	(21)	(3)	(7)	10	11	21	23	18	25	25	23	28	28	28	30	30
LIC	308	343	326	331	253	279	324	360	68	12	(5)	1	(23)	10	16	11	7	65	63	64	55	53	51	49	51
Total industry	547	529	515	513	464	521	630	733	133	(3)	(3)	(0)	(9)	12	21	16	6								

Source: IRDA, Life council

**Exhibit 4: Private sector growth was strong in August 2018**

Yoy growth in individual APE, March fiscal year-ends, 2014-August 2018 (%)

	2014	2015	2016	2017	2018	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Bajaj Allianz	(18.5)	(22.6)	(7.5)	40.9	38.3	(20.3)	17.2	18.6	19.6	33.4
Birla Sunlife	(18.9)	(11.8)	(7.7)	35.3	14.9	37.3	40.6	40.6	74.1	86.4
Canara HSBC	(22.8)	17.9	35.2	38.5	33.5	64.9	(16.7)	2.7	0.8	17.7
HDFC Standard Life	(24.2)	25.0	12.3	9.1	30.8	69.6	11.3	3.7	3.1	6.6
ICICI Prudential Life	(1.7)	41.3	8.1	29.0	16.4	(31.1)	(30.0)	(5.1)	3.8	6.0
India First	(37.2)	5.5	38.1	82.3	42.9	1.4	0.9	(1.4)	0.8	18.5
Kotak	1.2	32.8	52.2	28.1	31.0	34.2	5.8	3.6	4.4	(3.2)
Max Life	16.9	10.2	8.0	25.5	21.8	(1.4)	19.7	19.7	41.4	22.2
Reliance Life	14.6	7.3	(25.6)	(22.8)	5.4	37.1	18.6	16.3	8.6	54.1
SBI Life	17.7	11.0	37.0	38.9	31.1	(11.0)	27.2	8.1	5.9	10.4
Star Union Daichi	23.3	18.6	(9.0)	64.4	(4.5)	29.8	(9.3)	(33.5)	11.4	(3.9)
Private sector	(3.6)	15.8	14.0	26.6	24.3	(1.9)	4.2	8.9	13.2	16.7
Pvt. ex-ICICI and SBI	(7.8)	9.8	9.5	21.8	24.9	21.0	16.4	15.0	21.1	24.4
LIC	(3.4)	(26.3)	2.9	14.7	13.4	3.3	20.6	(1.3)	1.5	12.4
Total	(3.4)	(10.4)	8.3	20.7	19.3	0.4	11.6	4.1	7.8	14.8

Source: IRDA, Life council

**Exhibit 5: Private players gained 80 bps market share in August 2018**

Trend in adjusted individual business market share, March fiscal year-ends, August 2017- August 2018 (%)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Bajaj Allianz	1.9	2.1	2.1	2.2	2.4	2.1	2.1	2.2	3.4	2.2	2.2	2.0	2.2
Birla Sunlife	1.4	1.5	1.2	1.3	2.1	1.5	1.7	2.4	1.7	1.8	2.4	2.0	2.2
Canara HSBC	1.5	1.8	0.9	1.2	1.6	1.1	1.4	1.2	1.5	0.8	1.4	1.1	1.5
HDFC Standard Life	7.1	8.6	7.0	7.3	7.9	8.5	8.1	7.6	7.5	7.6	6.6	6.6	6.6
ICICI Prudential	12.9	12.1	12.4	12.5	11.8	10.2	11.7	7.5	12.4	10.4	11.5	12.2	11.9
Max Life	4.6	5.3	3.8	4.4	5.8	4.5	6.0	6.8	3.8	4.2	5.5	4.7	4.9
Reliance Life	1.1	1.2	0.9	0.9	1.2	1.1	1.2	1.2	2.2	1.3	1.3	1.1	1.5
SBI Life	14.3	12.5	12.6	12.5	17.1	17.2	9.2	8.4	9.5	10.6	11.3	13.6	13.7
Tata AIA	1.9	2.1	1.9	1.8	2.0	2.4	2.5	3.1	1.6	2.3	2.8	2.7	3.0
Private sector	56.8	58.6	52.2	54.0	64.3	59.1	56.8	53.7	54.6	51.1	55.9	56.9	57.7
LIC	43.2	41.4	47.8	46.0	35.7	40.9	43.2	46.3	45.4	48.9	44.1	43.1	42.3

Source: IRDA, Life council

**Exhibit 6: Mixed trends in ticket size**

Average policy size in individual non-single segment, August 2017-August 2018 (Rs)

	Aug-17	Jul-18	Aug-18	YoY (%)	MoM (%)
Aegon Religare	26,421	20,853	20,000	(24)	(4)
Aviva	58,025	50,738	47,611	(18)	(6)
Bajaj Allianz	38,573	51,107	54,881	42	7
Bharti Axa	37,713	38,530	20,957	(44)	(46)
Birla Sun Life	31,623	51,198	53,916	70	5
Canara HSBC Oriental	76,565	70,853	71,023	(7)	0
DHFL Pramerica	36,584	43,688	40,674	11	(7)
HDFC Life	45,211	42,626	45,064	(0)	6
ICICI Prudential	91,857	83,819	88,654	(3)	6
IDBI Federal	42,591	42,389	42,372	(1)	(0)
IndiaFirst	38,870	37,508	38,499	(1)	3
Exide Life	27,782	30,734	30,531	10	(1)
Kotak	48,861	50,110	47,915	(2)	(4)
Edelweiss Tokio	34,260	45,591	42,109	23	(8)
Max Life	52,844	52,881	53,725	2	2
Reliance	31,416	37,954	40,786	30	7
SBI	56,801	52,792	58,071	2	10
Shriram	18,456	16,057	13,201	(28)	(18)
Star Union	44,443	50,332	52,121	17	4
Tata AIA	67,790	61,568	66,205	(2)	8
LIC	9,718	15,604	11,685	20	(25)

Source: IRDA, Life council

**Exhibit 7: Ticket size has dropped in 5MFY18 for private players**

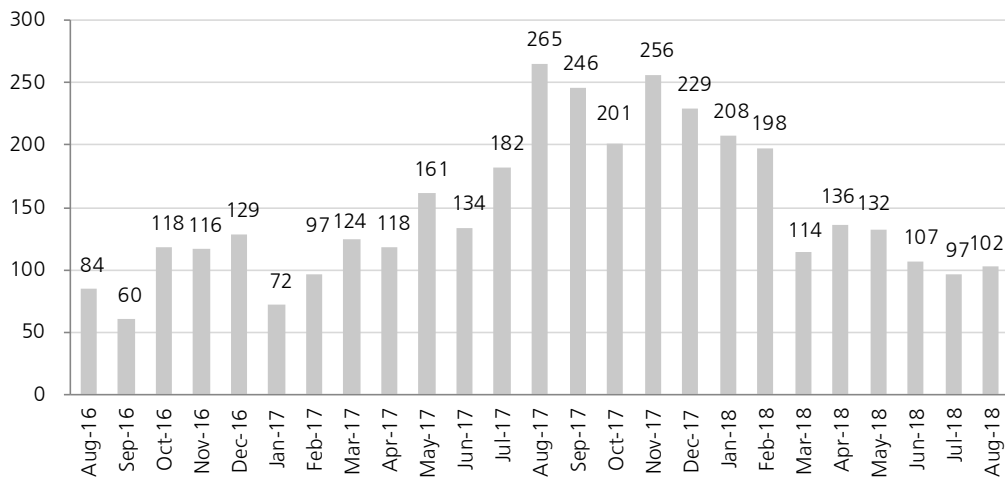
Average policy-size in individual non-single segment, 2009-2018, 5MFY18 (Rs)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	5MFY18
Bajaj Allianz	15,024	14,598	12,566	13,428	17,151	22,216	26,857	28,170	37,066	45,448	50,116
Exide	17,861	21,622	23,311	26,221	24,704	25,014	26,214	24,594	31,413	31,855	32,732
Reliance Life	13,796	13,713	10,704	10,330	12,951	19,145	25,145	24,544	25,380	33,636	37,332
SBI Life	33,625	30,880	37,099	25,266	27,315	27,499	28,103	34,098	47,109	54,929	54,305
Tata AIA	13,839	16,255	17,537	22,368	20,144	20,810	32,577	44,411	57,204	62,780	62,004
HDFC Standard	24,941	37,201	46,297	43,584	39,559	34,811	43,839	38,211	42,345	45,244	41,373
ICICI Prudential	19,686	29,081	28,462	27,533	34,570	41,948	72,582	88,373	94,759	93,116	85,193
Birla Sunlife	19,941	13,722	16,348	13,849	18,468	20,062	25,480	23,700	30,445	42,518	49,150
Aviva	18,057	29,427	30,961	28,200	30,032	29,012	39,995	42,580	57,923	70,440	51,744
Kotak Mahindra Old Mutual	23,878	29,827	29,069	24,762	29,832	32,753	38,221	42,657	47,157	55,909	51,426
Max Life	13,198	16,546	20,869	25,973	29,564	32,999	38,909	44,569	51,057	55,836	51,214
Sahara Life	8,230	9,008	7,952	6,540	5,969	7,397	6,534	8,780	11,782	14,072	NA
Shriram Life	16,928	21,982	18,767	12,897	12,700	13,627	13,727	13,815	18,820	17,382	14,164
Bharti Axa Life	14,229	24,840	20,868	19,952	22,030	29,960	40,491	40,464	39,017	40,695	31,761
Future Generali Life	12,903	13,308	10,859	15,566	13,673	16,842	34,786	42,945	44,659	19,704	41,864
IDBI Federal	29,239	35,271	28,082	25,994	21,763	24,845	29,066	30,856	36,158	40,836	41,357
Canara HSBC	82,635	62,624	62,372	66,162	49,016	54,072	53,981	57,487	67,193	78,115	75,126
Aegon Religare	12,910	32,576	28,402	25,374	22,015	26,883	36,630	28,475	22,807	24,278	18,613
DHFL Pramerica	12,102	18,645	19,021	13,525	13,134	16,897	25,838	27,324	28,332	37,979	42,897
Star Union Dai-ichi	29,220	29,529	30,483	19,333	18,608	27,033	39,855	41,301	50,424	50,941	47,377
<b>Private total</b>	<b>18,686</b>	<b>21,005</b>	<b>21,851</b>	<b>21,956</b>	<b>25,296</b>	<b>28,345</b>	<b>36,669</b>	<b>39,193</b>	<b>48,008</b>	<b>52,943</b>	<b>51,351</b>
LIC	5,885	7,169	7,595	8,649	7,983	8,180	10,516	10,399	11,718	12,510	13,483
<b>Grand total</b>	<b>9,942</b>	<b>11,208</b>	<b>11,000</b>	<b>11,142</b>	<b>10,865</b>	<b>11,312</b>	<b>16,403</b>	<b>16,969</b>	<b>20,341</b>	<b>22,549</b>	<b>23,243</b>

Source: IRDA, Life council

**Exhibit 8: MF inflows continue to be low on a yoy basis**

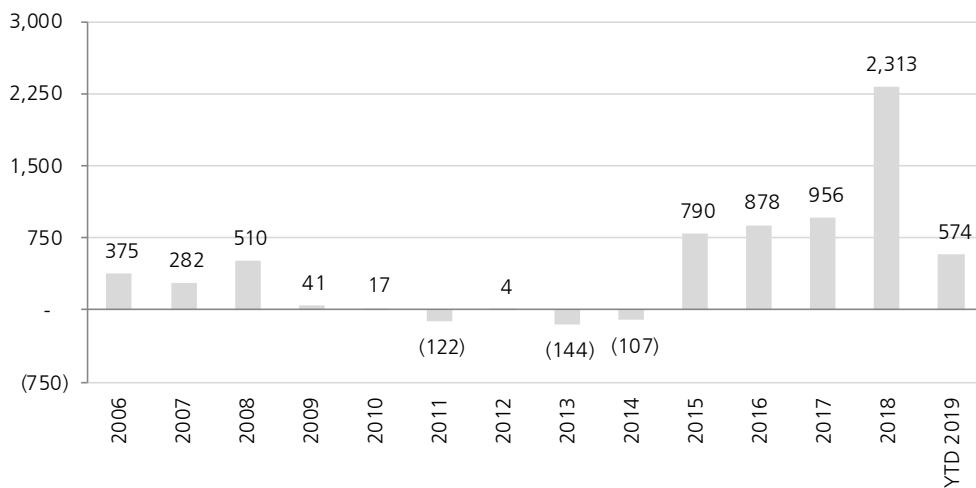
Net MF flows (Equity + ELSS+70%balanced), March fiscal year-ends, August 2016 -August 2018 (Rs bn)



Source: AMFI, Kotak Institutional Equities

**Exhibit 9: MF inflows peaked in FY2018**

Net MF flows (Equity + ELSS+70%balanced), March fiscal year-ends, 2006 – YTD FY2019 (Rs bn)



Source: AMFI, Kotak Institutional Equities

**Exhibit 10: Share of ULIPs dropped for most players in 1QFY19**

Contribution of various products to APE, March fiscal year-ends, 2012-2018, 1QFY18-1QFY19 (% of total)

	2012	2013	2014	2015	2016	2017	2018	1QFY18	1QFY19
<b>Bajaj Life</b>									
Unit linked policies	12	12	10	24	29	62	64	72	54
Participating policies	60	49	51	21	19	20	20	17	30
Non participating policies	28	39	38	54	52	18	17	12	16
<b>Birla SL</b>									
Unit linked policies	59	43	45	35	48	33	36	NA	NA
Participating policies	0	2	14	16	13	22	18	NA	NA
Non participating policies	41	55	41	49	38	45	46	NA	NA
<b>ICICI Prudential Life</b>									
Unit linked policies	56	60	66	85	84	86	84	87	82
Participating policies	18	7	18	13	13	10	11	8	10
Non participating policies	26	33	15	2	3	5	5	5	8
<b>HDFC Life</b>									
Unit linked policies	57	62	49	60	55	49	53	50	45
Participating policies	40	34	34	20	27	31	25	26	22
Non participating policies	3	5	17	21	18	20	23	24	33
<b>Max Life</b>									
Unit linked policies	12	10	21	26	27	32	41	29	43
Participating policies	76	74	67	58	59	55	45	55	40
Non participating policies	12	16	12	15	14	14	14	16	17
<b>SBI Life</b>									
Unit linked policies	44	35	32	40	54	71	67	66	66
Participating policies	21	22	31	40	30	16	24	22	25
Non participating policies	35	43	37	19	16	12	9	12	9

Source: Company, Kotak Institutional Equities

**Exhibit 11: Share of bancassurance dropped in 1QFY19 for most major players**

Contribution of various products to APE, March fiscal year-ends, 2012-2018, 1QFY19 (% of total)

	2012	2013	2014	2015	2016	2017	2018	1QFY19
<b>Bajaj Life</b>								
Agency	66	76	84	92	90	90	79	75
Bancassurance	10	7	8	1	2	2	5	3
Corporate agents	19	13	5	1	1	1	1	2
Others	5	4	3	7	7	7	14	20
<b>Birla SL</b>								
Agency	70	66	65	67	81	75	69	60
Bancassurance	14	17	20	19	9	9	19	31
Corporate agents	15	17	4	2	5	6	1	0
Others	—	—	12	12	5	10	11	9
<b>HDFC Life</b>								
Agency	20	16	16	16	13	15	13	15
Bancassurance	64	72	70	67	68	61	59	46
Corporate agents	11	7	7	2	3	4	5	5
Others	4	5	7	14	16	19	23	34
<b>ICICI Prudential Life</b>								
Agency	44	34	28	25	23	23	26	22
Bancassurance	38	45	54	58	57	57	53	55
Corporate agents	10	13	10	5	4	4	3	3
Others	7.5	7	8	13	16	16	19	20
<b>Max Life</b>								
Agency	37	35	31	29	28	25	24	31
Bancassurance	40	48	51	57	59	62	64	54
Corporate agents	13	10	9	6	4	3	3	2
Others	9	7	8	8	9	10	10	13
<b>SBI Life</b>								
Agency	52	53	50	46	38	34	31	33
Bancassurance	44	44	47	52	61	65	67	65
Corporate agents	1	1	1	1	0	0	1	1
Others	2	3	2	1	1	1	1	1

Source: Company, Kotak Institutional Equities



**Exhibit 12: Agent productivity dropped for most players in 1QFY19**  
Agency data, March fiscal year-ends, 2014-1QFY19

	2014	2015	2016	2017	2018	1QFY19	CAGR (%) (2014-1QFY19)
<b>Policies per agent (#)</b>							
Bajaj Life	2.3	1.9	2.2	2.1	2.4	2.1	(2.3)
Birla Sunlife	2.7	2.1	1.8	1.9	2.0	1.5	(12.4)
Exide Life	3.9	3.4	3.1	2.0	1.9	1.5	(19.6)
HDFC Standard Life	5.2	5.2	5.6	5.2	2.1	1.3	(28.0)
ICICI Prudential Life	1.3	1.0	1.2	1.3	1.4	0.9	(8.0)
Kotak Life	7.1	2.5	1.6	1.5	1.5	1.0	(36.7)
Max Life	5.0	3.8	3.6	2.7	2.3	1.9	(19.8)
Reliance Nippon Life	3.4	2.9	2.1	1.3	1.2	1.9	(13.1)
SBI Life	5.5	4.8	5.2	4.7	5.2	3.0	(13.2)
TATA AIA	2.1	1.5	2.3	2.8	3.8	2.1	(0.0)
<b>Total of the above</b>	<b>3.2</b>	<b>2.6</b>	<b>2.7</b>	<b>2.3</b>	<b>2.2</b>	<b>1.6</b>	<b>(14.2)</b>
LIC	26.7	16.3	17.7	17.7	18.0	12.0	(17.2)
<b>Average size of policy (Rs)</b>							
Bajaj Life	26,904	35,054	34,525	50,760	63,830	63,185	22
Birla Sunlife	22,434	28,402	31,066	38,536	45,823	43,279	17
Exide Life	29,008	41,668	29,409	54,928	39,841	45,924	11
HDFC Standard Life	12,106	17,368	11,954	18,320	56,394	70,570	51
ICICI Prudential Life	52,947	81,958	88,554	1,01,274	1,06,448	93,990	14
Kotak Life	30,089	33,420	34,577	38,354	43,373	44,878	10
Max Life	33,567	40,716	45,274	60,950	72,316	75,556	21
Reliance Nippon Life	20,102	24,672	23,619	24,679	34,919	38,104	16
SBI Life	28,366	36,987	40,690	49,492	49,919	53,071	16
TATA AIA	29,120	29,838	34,667	47,441	45,702	42,150	9
<b>Total of the above</b>	<b>26,677</b>	<b>34,618</b>	<b>34,224</b>	<b>45,093</b>	<b>56,914</b>	<b>58,127</b>	<b>20</b>
LIC	12,636	16,318	16,075	22,622	24,181	24,196	17
<b>Premium per agent (Rs)</b>							
Bajaj Life	62,336	66,686	76,129	1,08,097	1,55,958	1,32,734	19
Birla Sunlife	60,345	59,637	56,452	73,546	91,097	66,162	2
Exide Life	1,13,294	1,40,918	90,267	1,12,422	75,856	70,908	(10)
HDFC Standard Life	62,969	91,110	66,701	95,073	1,19,221	91,010	9
ICICI Prudential Life	67,095	80,494	1,04,411	1,27,531	1,49,334	83,542	5
Kotak Life	2,13,797	84,549	54,367	57,169	66,481	45,650	(30)
Max Life	1,66,402	1,55,588	1,63,550	1,65,933	1,68,807	1,46,943	(3)
Reliance Nippon Life	68,342	71,279	49,900	32,686	43,452	71,245	1
SBI Life	1,56,478	1,77,082	2,13,417	2,34,501	2,57,937	1,60,087	1
TATA AIA	60,341	45,645	78,330	1,32,211	1,75,066	87,285	9
<b>Total of the above</b>	<b>84,167</b>	<b>91,438</b>	<b>91,953</b>	<b>1,05,868</b>	<b>1,27,749</b>	<b>95,609</b>	<b>3</b>
LIC	3,37,096	2,66,440	2,84,819	3,99,628	4,34,128	2,90,043	(3)

## Notes:

(a) We have considered individual premium for the above calculation.

Source: Company, IRDAI, Life Insurance Council, Kotak Institutional Equities

**Exhibit 13: Individual agent addition was strong in 4MFY19**

Gross individual agent addition, March fiscal year-ends, 2014-4MFY19

	Gross individual agents added (#)						YoY (%)				
	2014	2015	2016	2017	2018	4MFY18	2015	2016	2017	2018	4MFY18
Aviva	6,851	5,465	6,881	4,766	5,490	1,396	(20)	26	(31)	4	(20)
Bajaj	22,356	20,552	30,075	17,734	22,277	6,881	(8)	46	(41)	7	13
Bharti Axa	10,704	10,564	11,791	9,677	16,586	7,943	(1)	12	(18)	43	106
Birla Sunlife	31,918	22,911	20,992	20,753	24,999	8,434	(28)	(8)	(1)	10	6
Canara HSBC	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
DHFL	2,328	1,255	2,467	3,213	5,052	1,302	(46)	97	30	40	(14)
Edelweiss Tokio	3,930	3,939	5,102	5,423	10,498	3,056	0	30	6	71	59
Exide	24,642	20,698	32,278	24,411	28,478	7,342	(16)	56	(24)	3	(11)
Future Generali	8,316	3,930	4,852	3,822	3,421	803	(53)	23	(21)	(17)	(29)
HDFC Life	22,469	21,476	17,911	14,479	24,037	9,290	(4)	(17)	(19)	39	58
ICICI Pru	35,799	11,910	18,286	14,264	18,057	7,720	(67)	54	(22)	13	30
IDBI Federal	4,432	4,945	4,477	3,777	4,439	2,304	12	(9)	(16)	5	56
IndiaFirst	862	566	449	457	362	109	(34)	(21)	2	(26)	106
Kotak	24,184	29,903	43,494	42,813	53,151	16,206	24	45	(2)	10	1
Max	22,826	21,524	26,171	22,966	25,497	8,792	(6)	22	(12)	(2)	16
Reliance Nippon	76,578	63,252	47,692	29,036	25,153	10,127	(17)	(25)	(39)	(24)	42
SBI Life	40,639	35,571	43,498	38,336	52,258	20,315	(12)	22	(12)	17	30
Tata AIA	18,507	14,622	15,615	13,490	17,598	5,791	(21)	7	(14)	13	10
Private	3,74,152	3,05,205	3,45,715	2,73,003	3,38,682	1,18,034	(18)	13	(21)	9	20
LIC	2,53,416	3,42,048	3,19,428	2,96,441	2,65,806	67,894	35	(7)	(7)	(22)	(1)
<b>Total</b>	<b>6,26,802</b>	<b>6,47,253</b>	<b>6,65,143</b>	<b>5,69,444</b>	<b>6,04,488</b>	<b>1,85,928</b>	<b>3</b>	<b>3</b>	<b>(14)</b>	<b>(7)</b>	<b>11</b>

Source: Company, IRDAI, Life Insurance Council, Kotak Institutional Equities

**Private sector reported 16% market share in group business; private players reduce focus on single business**

LIC remained focused on single premium with 71% share in total premium in August 2018. The share of single premium for private players decreased to 42% from 45% in July 2018 but significantly higher than 31% in August 2017. Almost all large players expect Birla SL and ICICI Prudential Life reported a decline.

The market share of private players in group business increased to 16% from 14% in July 2018. The swing was largely led by Bajaj Allianz, Birla SL and SBI Life.

**Exhibit 14: Share of single premium in overall business dropped mom in August 2018**

Share of single premium to total premium, March fiscal year-ends, August 2017-August 2018 (%)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Bajaj Allianz	52	87	72	54	43	36	68	70	46	54	65	64	70
Birla Sunlife	50	77	67	60	37	30	24	58	34	64	67	50	57
HDFC Life	56	61	62	54	51	53	64	61	74	65	73	72	67
ICICI Prudential	13	12	14	13	14	16	19	21	25	24	20	21	24
Max Life	29	27	30	30	29	24	25	20	36	31	29	28	27
Reliance Life	8	6	3	8	5	3	4	3	6	6	5	6	4
SBI Life	17	16	19	20	17	19	26	46	37	36	48	45	35
<b>Private sector</b>	<b>31</b>	<b>43</b>	<b>39</b>	<b>34</b>	<b>29</b>	<b>29</b>	<b>38</b>	<b>42</b>	<b>46</b>	<b>43</b>	<b>49</b>	<b>45</b>	<b>42</b>
LIC	83	87	78	84	76	69	73	73	71	81	82	86	83
<b>Total</b>	<b>71</b>	<b>75</b>	<b>66</b>	<b>71</b>	<b>59</b>	<b>53</b>	<b>60</b>	<b>62</b>	<b>62</b>	<b>70</b>	<b>72</b>	<b>75</b>	<b>71</b>

Source: IRDA, Life council, Kotak Institutional Equities

**Exhibit 15: Share of LIC at 80%**

Market share in group business, March fiscal year-ends, August 2017-August 2018 (%)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Bajaj Allianz	0.9	5.5	4.0	2.4	1.5	1.4	3.8	3.7	2.4	1.3	1.9	1.3	2.6
Birla Sunlife	0.7	2.1	1.4	2.0	1.1	0.9	1.2	2.3	1.0	1.6	2.2	0.7	1.4
HDFC Life	3.7	4.7	6.9	7.0	5.3	8.7	9.0	5.8	13.4	4.7	6.4	4.4	4.3
ICICI Prudential	0.1	0.1	0.2	0.3	0.3	0.5	0.4	0.3	0.7	0.6	0.7	0.6	0.9
Max Life	0.2	0.2	0.4	0.5	0.4	0.5	0.5	0.3	0.4	0.3	0.3	0.2	0.3
Reliance Life	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.0	0.0	0.0
SBI Life	1.0	0.7	1.8	2.4	2.1	4.1	2.6	5.2	3.8	2.6	4.3	3.7	3.2
<b>Private sector</b>	<b>9</b>	<b>16</b>	<b>19</b>	<b>22</b>	<b>16</b>	<b>21</b>	<b>23</b>	<b>22</b>	<b>29</b>	<b>15</b>	<b>21</b>	<b>14</b>	<b>16</b>
LIC	91	84	81	78	84	79	77	78	71	85	79	86	84

Source: IRDA, Life council, Kotak Institutional Equities

**Economic growth at any cost?** Even as the ongoing INR weakness has been attributed to various global factors (EM contagion, crude prices, DM monetary policy, etc.), the structural domestic growth profile should not be overlooked. India needs to improve its savings profile in order to manage its external sector risks. If macroeconomic risks are to be mitigated, the aggregate demand needs to slow down. A relook at the retail credit disbursement pace, fiscal expenditure and consumption-savings behavior is essential.

### Revisiting the savings-investment identity

India's widening CAD, on a fundamental basis, is symptomatic of lower savings compared to the investment level. We had noted in our June 25 report that between FY2013 and FY2017 India's savings-investment gap had closed on the back of improvement in corporate savings even as household financial savings remained stagnant (Exhibit 1). Household financial liabilities in FY2018 had increased significantly with overall financial savings (as a proportion of GDP) remaining around the levels of the past few years (Exhibit 2). Reining in CAD on a sustainable basis would require increasing overall savings (or lowering aggregate demand) through (1) general fiscal consolidation, especially states (Exhibit 3), and (2) household financial savings.

### Keeping CAD in check will be challenging

Post the Fed taper tantrum phase (August 2013), the CAD correction was on two fronts: (1) Policy-led curb on gold imports (Exhibit 4) and (2) lower crude prices and mopping up of related gains through higher excise duties (Exhibit 5). This led to relatively lower consumption expenditure, which closed the savings-investment gap. In the present scenario, comfort on trade deficit easing is limited given (1) crude prices are unlikely to reduce meaningfully in the near to medium term (Iran sanctions, Venezuela situation), (2) non-oil trade deficit is led by electronic items and coal (Exhibit 6) and (3) exports expansion will be difficult as adverse risks from trade wars and protectionism loom. If imports were to be controlled, there needs to be a generalized slowdown in the economy rather than for selected items.

### Policy options: Fiscal consolidation/higher interest rates/global tailwinds?

Policymakers should persist with macro prudential policies rather than knee-jerk reactions. Even though a faster fiscal consolidation is required, in the near term, the fiscal response may not be adequate given the election cycle. The burden would be on monetary policy to adjust for overall consumption/aggregate demand growth. Core inflation has consistently been on the higher side signaling price pressures building up (Exhibit 7). But headroom to raise policy rates may be limited without factoring in significant upside to the current inflation trajectory as headline inflation remains the target. The RBI would likely keep liquidity in deficit whereby market rates adjust higher and financial conditions tighten. We note that retail credit growth has increased significantly over the past few years contributing to the steady consumption growth (Exhibit 8).

### Risks of further INR weakness persist in the near to medium term

The recent INR depreciation has more or less accounted for the overvaluation seen over the past 2-3 years. From August 2013 (Fed taper tantrum period), the INR has depreciated around 15% against the USD—significantly lower than other major EMs (Exhibit 9). On REER basis, the INR remains overvalued (against long-term average) though it has come down from its highs (Exhibit 10). The question to ask for the medium term: Given that most of the affected EMs will go through a period of macro adjustment, will the markets penalize India later through deeper INR depreciation if it does not undergo macro adjustments?

Suvodeep Rakshit

Upasna Bhardwaj

**Exhibit 1: Most of the improvement in CAD has been on the back of higher corporate savings**  
Breakup of saving-investment gap as a proportion of GDP, March fiscal year-ends (%)

	2012	2013	2014	2015	2016	2017	2017-2013
CAD/GDP	(4.3)	(4.8)	(1.7)	(1.3)	(1.1)	(0.7)	4.1
(S-I)/GDP	(4.3)	(4.8)	(1.7)	(1.3)	(1.0)	(0.6)	4.2
- Corporates	(6.0)	(6.5)	(3.9)	(3.5)	(4.2)	(2.7)	3.7
- Nonfinancial	(7.8)	(8.1)	(5.8)	(5.3)	(5.2)	(4.3)	3.8
- Financial	1.9	1.6	1.9	1.9	0.9	1.6	(0.1)
- General government	(5.7)	(5.6)	(5.3)	(5.1)	(5.0)	(4.8)	0.8
- Households	7.4	7.2	7.5	7.3	8.2	6.8	(0.4)

Notes:

(a) Valuables and FOF adjustment factors have been equally distributed across sectors in GCF rate calculations.

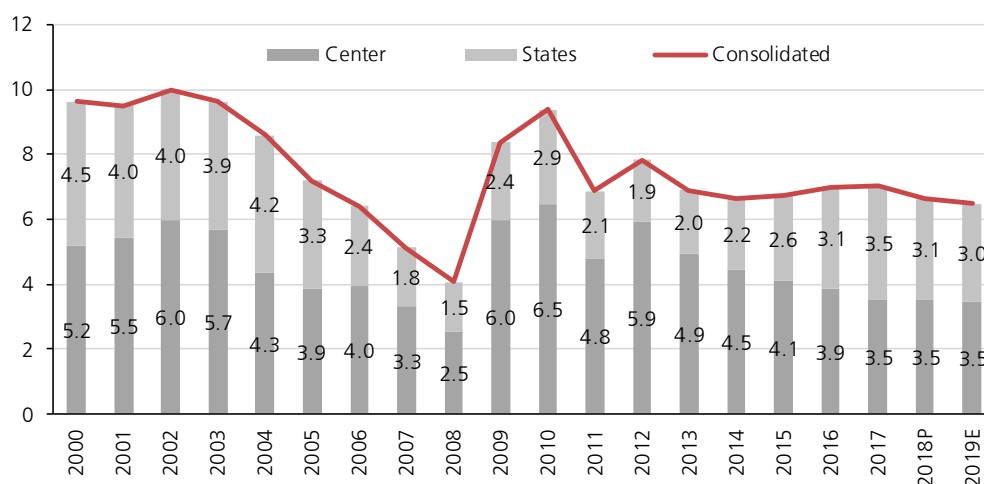
Source: CEIC, CSO, Kotak Economics Research estimates

**Exhibit 2: Household financial liabilities increased significantly in FY2018**  
Details of household financial savings as a proportion of GDP, March fiscal year-ends (%)

	2012	2013	2014	2015	2016	2017	2018
Gross financial savings	10.7	10.7	10.6	10.1	11.0	9.2	11.2
- Currency	1.2	1.1	0.9	1.0	1.4	(2.0)	2.8
- Deposits	6.2	6.1	5.9	4.9	4.7	6.4	2.9
- Shares and debentures	0.2	0.2	0.2	0.2	0.3	0.2	0.9
- Claims on government	(0.2)	(0.1)	0.2	0.0	0.5	0.4	0.0
- Insurance funds	2.3	1.8	1.8	2.4	1.9	2.3	1.9
- Provident and pension funds	1.1	1.5	1.5	1.5	2.1	2.0	2.1
Financial liabilities	3.3	3.3	3.2	3.1	2.9	2.4	4.1
Net financial savings	7.4	7.4	7.4	7.0	8.2	6.8	7.2

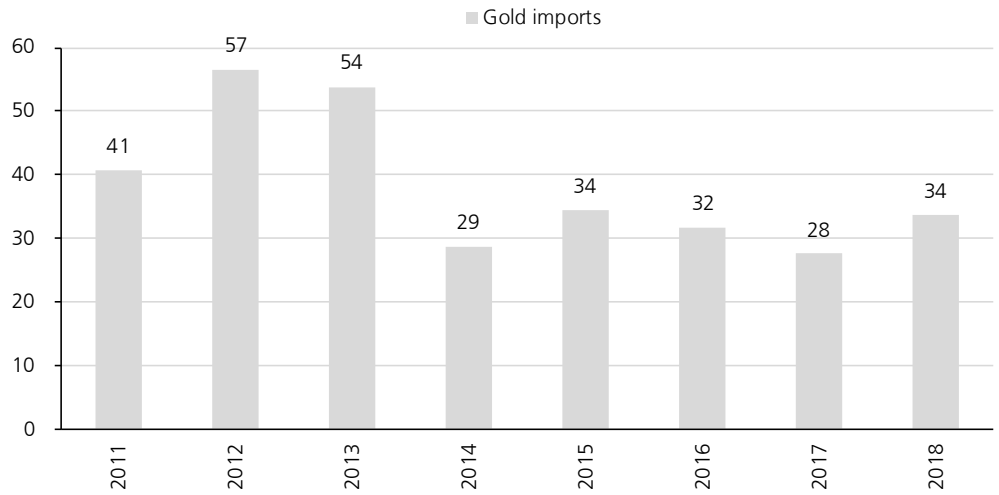
Source: RBI Annual Report, Kotak Economics Research

**Exhibit 3: Consolidated fiscal deficit stagnant since FY2013**  
Consolidated fiscal deficit (center + states), March fiscal year-ends, 2000-19E



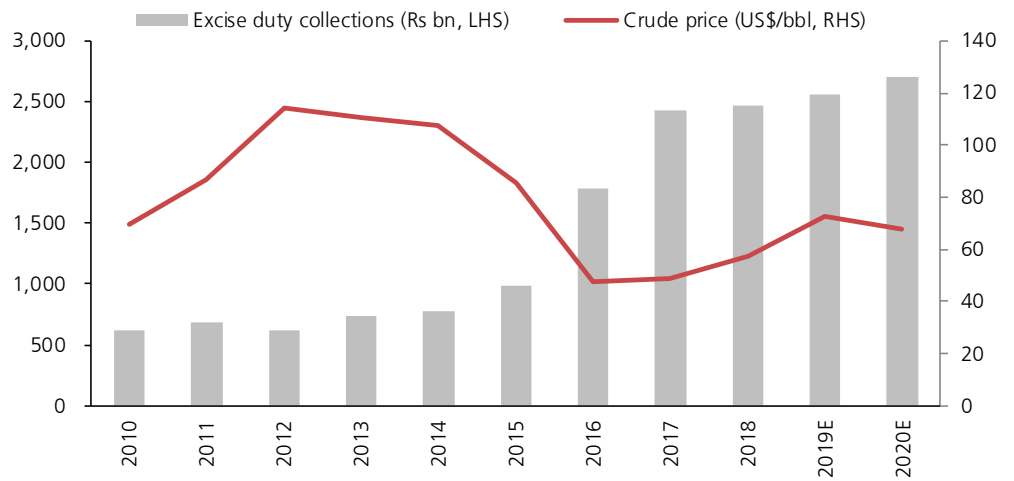
Source: Ministry of Finance, Kotak Economics Research estimates

**Exhibit 4: Gold imports reduced on the back of government's and RBI's policies**  
Trend in gold imports, March fiscal year-ends (US\$ bn)



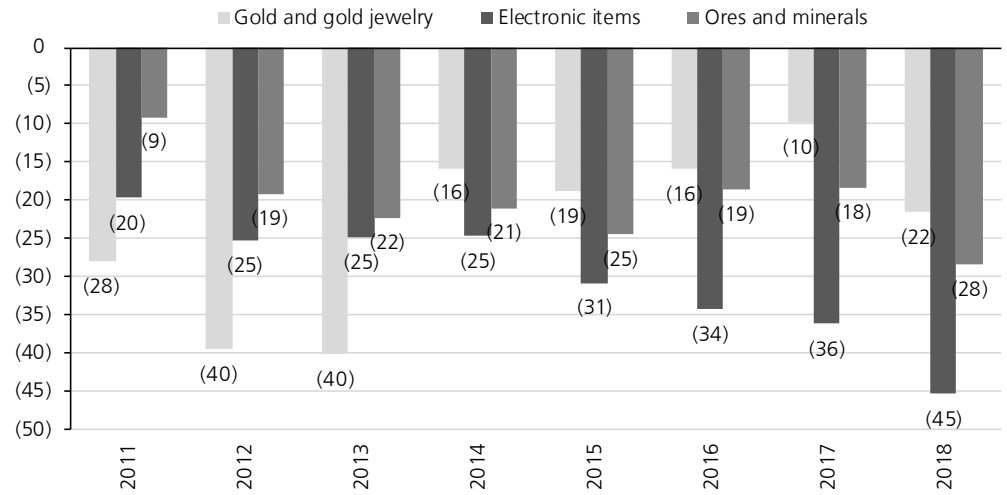
Source: CEIC, Kotak Economics Research

**Exhibit 5: Central government mopped up most of the gains from lower crude prices**  
Trend in excise duty collections (Rs bn, LHS) and average Brent price (US\$/bbl, RHS), March fiscal year-ends



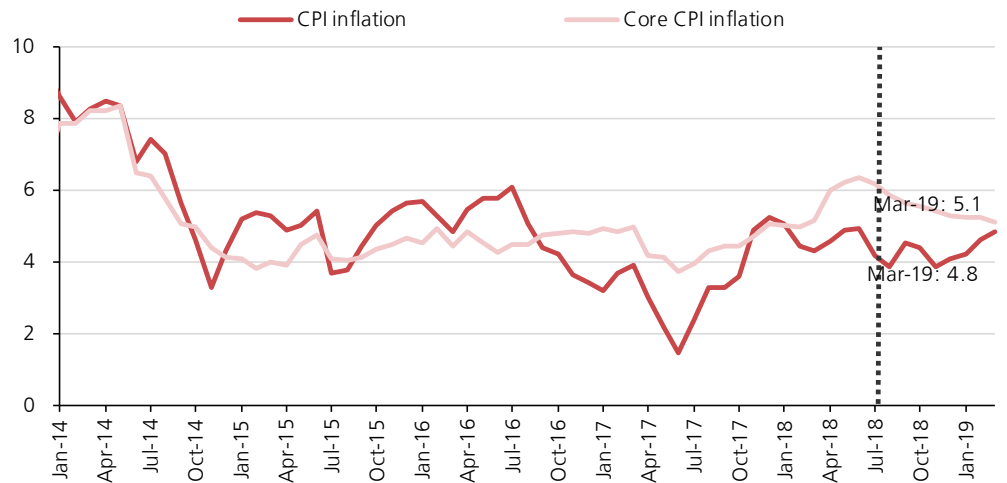
Source: Government of India, Bloomberg, Kotak Institutional Equities estimates

**Exhibit 6: Electronics trade deficit has offset the gains on gold trade deficit**  
 Net exports of gold and gold products and electronic items, March fiscal year-ends (US\$ bn)



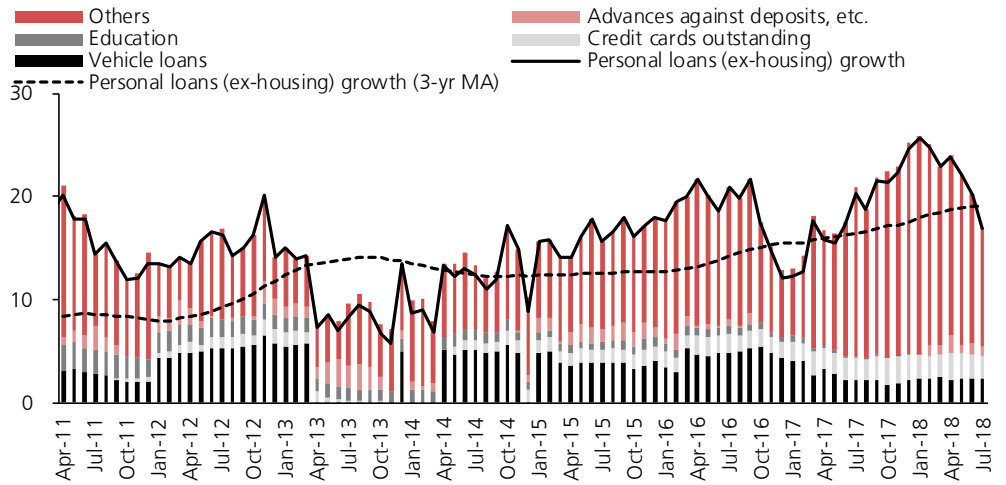
Source: CEIC, Kotak Economics Research

**Exhibit 7: Core inflation remains significantly higher than headline inflation**  
 Headline and core CPI inflation (%)



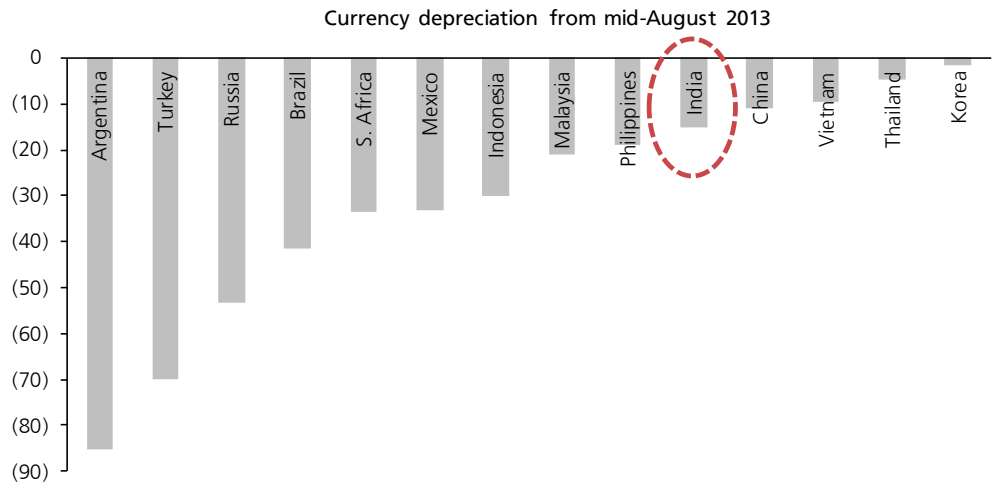
Source: CEIC, Kotak Economics Research estimates

**Exhibit 8: Retail loan growth has been expanding steadily over the past few years**  
Retail loan (ex-housing) growth and contribution of various components (%)



Source: RBI, Kotak Economics Research

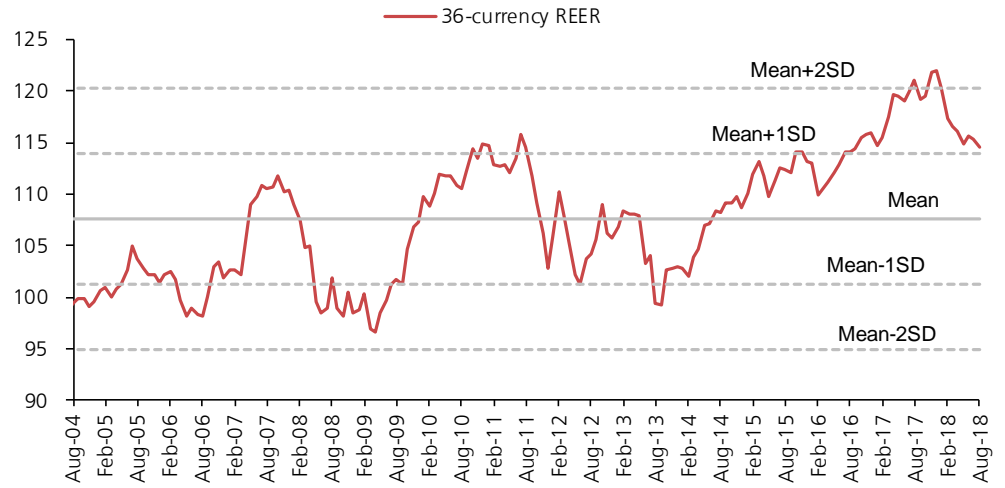
**Exhibit 9: INR has been relatively resilient among EMs**  
Depreciation in various EM currencies against USD from mid-August 2013 (%)



Source: Bloomberg, Kotak Economics Research



**Exhibit 10: REER has been correcting over the past few months**  
 Trend in 36- currency trade weighted REER (2004-05=100)



Source: RBI, CEIC, Kotak Economics Research











## 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)	
		11-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	1,085	1,100	1.4	1,511	20.8	1,409	71	78	82	14.6	8.9	5.0	15.2	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	454	455	0.2	135	1.9	302	20	24	27	19.5	21.6	12.7	23.0	18.9	16.8	17.0	12.9	11.3	5.9	5.0	4.3	27.6	28.7	27.5	1.8	1.8	2.2	22.0
Infosys	ADD	734	770	4.9	3,208	44.1	4,350	36	41	45	12.8	13.3	8.9	20.1	17.8	16.3	13.8	12.0	10.8	4.5	4.1	3.7	23.4	24.2	23.7	3.0	2.7	2.9	86.3
L&T Infotech	ADD	1,889	2,100	11.2	327	4.5	175	83	96	113	30.5	15.6	18.1	22.8	19.7	16.7	17.3	13.9	11.8	6.9	5.6	4.5	33.5	31.3	30.0	1.3	1.4	1.6	8.4
Mindtree	ADD	1,161	1,225	5.5	191	2.6	165	45	57	65	29.5	27.0	14.5	26.0	20.4	17.9	16.5	13.0	11.2	5.9	5.0	4.3	24.7	26.6	25.8	1.2	1.5	1.7	25.6
Mphasis	SELL	1,259	900	(28.5)	243	3.3	193	53	60	63	21.9	12.1	4.7	23.6	21.0	20.1	17.4	14.8	13.8	4.6	4.2	3.8	18.9	21.0	20.0	1.6	2.0	2.4	6.6
TCS	REDUCE	2,046	1,950	(4.7)	7,834	107.7	3,829	84	94	101	24.9	11.7	7.4	24.3	21.7	20.2	17.8	16.0	14.8	7.9	7.7	7.6	34.3	35.6	37.7	2.1	3.7	4.0	90.3
Tech Mahindra	ADD	747	865	15.8	659	9.1	891	46	57	64	8.4	22.4	13.0	16.2	13.2	11.7	9.6	7.6	6.5	3.0	2.6	2.2	20.2	21.2	20.3	1.2	1.4	1.5	38.6
Wipro	REDUCE	324	325	0.3	1,466	20.2	4,507	19	23	25	12.8	19.5	7.5	17.0	14.2	13.2	10.9	9.2	8.4	2.6	2.4	2.2	16.5	17.6	17.4	0.5	3.1	3.4	17.2
<b>Technology</b>	<b>Cautious</b>				<b>15,573</b>	<b>214</b>					<b>15.6</b>	<b>13.0</b>	<b>8.1</b>	<b>21.0</b>	<b>18.6</b>	<b>17.2</b>	<b>14.5</b>	<b>12.7</b>	<b>11.6</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>3.1</b>	<b>3.3</b>	<b>328.3</b>
<b>Telecom</b>																													
Bharti Airtel	ADD	379	445	17.5	1,514	20.8	3,997	(6)	(4)	5	(221.5)	28.8	215.1	(65.8)	(92.5)	80.4	9.8	8.2	6.6	2.3	2.4	2.3	(3.4)	(2.5)	2.9	0.3	(0.2)	0.3	24.5
Bharti Infratel	REDUCE	270	285	5.5	500	6.9	1,850	13	12	13	(4.8)	(8.5)	7.7	20.6	22.6	21.0	7.6	8.1	7.6	3.1	3.1	3.0	14.6	13.7	14.6	3.9	3.6	3.9	10.7
IDEA	REDUCE	46	45	(2.6)	404	5.6	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(2.8)	(2.7)	(3.0)	42.8	35.7	21.8	0.9	1.4	2.6	(29.7)	(41.1)	(59.4)	—	—	—	15.9
Tata Communications	ADD	523	660	26.3	149	2.0	285	0	3	7	(77.5)	694.2	123.5	1,411	177.6	79.5	10.6	9.3	8.4	(64.9)	(88.2)	(1,708.1)	7.8	(42.1)	(211.0)	1.2	1.4	1.4	3.5
<b>Telecom</b>	<b>Cautious</b>				<b>2,566</b>	<b>35</b>					<b>(2,384.5)</b>	<b>5.0</b>	<b>68.0</b>	<b>(35.7)</b>	<b>(37.6)</b>	<b>(117.6)</b>	<b>11.4</b>	<b>10.0</b>	<b>8.2</b>	<b>2.5</b>	<b>2.7</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>54.6</b>
<b>Utilities</b>																													
CESC	BUY	982	1,180	20.1	130	1.8	133	115	128	141	31.7	11.6	10.1	8.6	7.7	7.0	5.9	5.3	4.6	0.8	0.8	0.7	10.0	10.4	10.5	1.3	1.3	1.4	7.2
JSW Energy	REDUCE	66	70	5.7	109	1.5	1,640	5.1	6.5	6.6	65.9	26.8	2.9	13.0	10.3	10.0	5.6	4.7	4.2	0.9	0.8	0.8	7.2	8.5	8.0	—	—	—	1.2
NHPC	ADD	25	30	20.5	255	3.5	10,260	3.1	3.2	3.4	26.9	1.8	8.0	8.0	7.9	7.3	7.4	7.2	7.6	0.8	0.8	0.8	10.4	10.2	10.6	7.0	7.1	6.0	1.7
NTPC	BUY	170	190	12.1	1,398	19.2	8,245	15	16	18	30.9	4.4	16.5	11.4	10.9	9.4	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	187	250	33.8	978	13.4	5,232	19	21	23	19.3	13.6	7.6	9.9	8.8	8.1	7.2	6.6	6.3	1.6	1.5	1.3	17.1	17.5	17.0	3.4	3.8	4.1	15.0
Tata Power	BUY	74	90	20.9	201	2.8	2,705	6.0	7.0	10.9	12.7	15.6	57.0	12.4	10.7	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>3,071</b>	<b>42</b>					<b>26.0</b>	<b>8.8</b>	<b>14.1</b>	<b>10.5</b>	<b>9.6</b>	<b>8.4</b>	<b>8.0</b>	<b>7.4</b>	<b>6.6</b>	<b>1.2</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>41.0</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

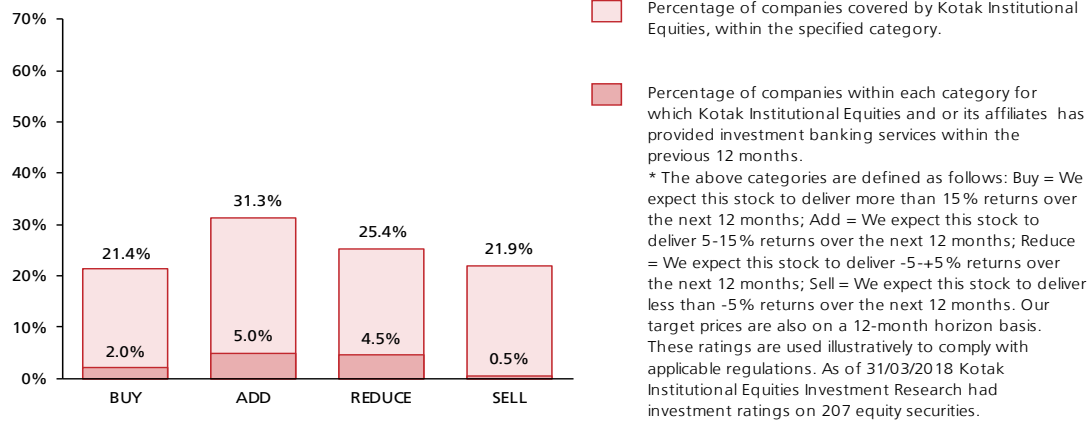
Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (Rs bn) (US\$ bn)		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		11-Sep-18	Target price (Rs)		2019E	2020E		2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	
<b>Others</b>																													
Aditya Birla Fashion and Retail	BUY	189	220	16.6	146	2.0	773	2	4	6	50.6	59.1	53.5	82.2	51.7	33.7	24.1	18.8	15.2	11.5	9.4	7.3	15.0	20.0	24.5	—	—	—	4.4
Astral Poly Technk	SELL	1,065	640	(39.9)	128	1.8	120	19	25	29	30.2	28.8	16.1	55.8	43.3	37.3	30.0	23.8	20.2	9.8	8.1	6.7	19.8	20.5	19.7	0.1	0.1	0.1	0.9
Avenue Supermarts	SELL	1,507	860	(42.9)	940	12.9	624	16	20	26	28.6	26.4	27.5	93.2	73.7	57.8	53.8	42.2	33.2	16.6	13.6	11.0	19.6	20.3	21.0	—	—	—	—
Bayer Cropscience	REDUCE	4,427	4,100	(7.4)	175	2.4	34	106	130	154	20.5	23.1	18.3	42.0	34.1	28.8	30.8	25.1	20.9	7.4	6.3	5.4	18.9	20.0	20.3	0.5	0.6	0.7	0.5
Crompton Greaves Consumer	SELL	218	215	(1.4)	137	1.9	627	6	7	9	19.5	20.7	17.4	35.3	29.3	24.9	22.0	18.5	15.6	12.0	9.3	7.1	40.4	35.8	32.3	0.9	1.1	—	2.4
Dhanuka Agritech	ADD	540	650	20.4	27	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	578	640	10.8	111	1.5	189	15	19	23	28.9	28.8	21.1	38.9	30.2	25.0	21.1	16.5	13.8	5.7	4.9	4.1	15.7	17.4	17.9	—	—	0.6	0.9
Godrej Industries	RS	584	—	—	196	2.7	336	16	20	—	8.9	24.2	—	36.8	29.6	—	30.4	33.1	—	4.8	4.2	—	13.9	15.1	—	0.3	0.3	—	4.5
Havells India	SELL	633	485	(23.3)	396	5.4	625	14	17	20	26.6	20.5	17.6	45.1	37.4	31.8	28.8	23.5	19.7	9.3	8.2	7.1	22.0	23.2	23.9	0.8	0.9	1.1	13.6
InterGlobe Aviation	BUY	892	1,220	36.7	343	4.7	383	50	83	99	(17.9)	65.3	19.5	17.9	10.8	9.0	9.6	5.4	4.4	3.9	3.0	2.3	24.1	31.1	28.6	0.6	0.9	1.1	19.8
Kaveri Seed	SELL	621	515	(17.1)	41	0.6	66	34	34	37	7.3	0.1	8.3	18.1	18.1	16.7	15.2	14.5	13.0	4.4	3.8	3.3	26.4	22.4	21.0	1.3	1.6	1.6	5.2
PI Industries	BUY	770	875	13.6	106	1.5	138	31	40	48	17.9	26.8	21.5	24.6	19.4	16.0	17.5	13.7	11.0	4.6	3.9	3.2	20.5	21.7	21.9	0.5	0.6	0.8	1.9
Rallis India	ADD	199	220	10.4	39	0.5	195	10	12	13	17.2	19.4	9.7	19.7	16.5	15.1	13.0	10.9	9.6	3.0	2.7	2.4	15.8	17.1	16.9	1.8	2.0	2.2	0.8
SIS	REDUCE	1,063	1,130	6.3	78	1.1	73	33	40	48	48.5	21.1	17.8	31.9	26.3	22.3	20.0	16.7	14.0	6.3	5.2	4.3	21.8	21.7	21.1	0.3	0.3	0.4	0.6
SRF	BUY	1,942	2,200	13.3	111	1.5	57	100	132	150	23.8	32.2	14.1	19.5	14.8	12.9	11.3	9.0	7.6	2.8	2.4	2.0	15.0	17.3	17.0	0.7	0.8	0.8	11.6
Tata Chemicals	ADD	738	760	3.0	188	2.6	255	44	51	56	(15.3)	14.6	11.5	16.7	14.6	13.1	7.0	5.8	5.0	1.6	1.5	1.4	9.7	10.3	10.8	2.0	2.3	2.3	6.8
TeamLease Services	SELL	2,500	1,785	(28.6)	43	0.6	17	58	75	96	34.2	29.0	28.7	43.2	33.5	26.0	43.7	33.2	25.5	7.9	6.4	5.1	20.1	21.1	21.9	—	—	—	1.3
UPL	ADD	688	660	(4.0)	350	4.8	507	49	55	60	14.0	12.1	9.6	14.0	12.5	11.4	9.4	8.1	7.0	3.1	2.6	2.2	24.6	22.9	21.1	1.4	1.6	1.8	27.0
Vardhman Textiles	ADD	1,054	1,300	23.3	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
Volta	SELL	576	530	(7.9)	190	2.6	331	17	21	25	0.4	18.8	18.9	33.2	27.9	23.5	24.8	20.2	16.9	4.4	3.9	3.5	13.9	14.8	15.7	0.6	0.7	0.9	12.1
Whirlpool	SELL	1,625	1,350	(16.9)	206	2.8	127	37	46	56	33.9	24.7	20.2	43.9	35.2	29.3	26.8	21.2	17.4	9.5	7.9	6.7	23.7	24.5	24.8	—	0.6	1.0	1.2
<b>Others</b>					<b>4,051</b>		<b>56</b>				<b>8.3</b>	<b>26.4</b>	<b>12.5</b>	<b>30.9</b>	<b>24.4</b>	<b>21.7</b>	<b>18.7</b>	<b>14.9</b>	<b>12.0</b>	<b>5.2</b>	<b>4.5</b>	<b>4.0</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>116.3</b>
<b>KIE universe</b>					<b>112,595</b>		<b>1,548</b>				<b>24.8</b>	<b>27.2</b>	<b>14.1</b>	<b>21.8</b>	<b>17.2</b>	<b>15.0</b>	<b>11.0</b>	<b>9.8</b>	<b>8.7</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>	<b>12.9</b>	<b>14.8</b>	<b>15.2</b>	<b>1.4</b>	<b>1.7</b>	<b>1.8</b>	
<b>KIE universe (ex-energy)</b>					<b>98,599</b>		<b>1,356</b>				<b>30.6</b>	<b>33.2</b>	<b>16.1</b>	<b>24.3</b>	<b>18.3</b>	<b>15.7</b>	<b>12.2</b>	<b>10.7</b>	<b>9.5</b>	<b>3.1</b>	<b>2.8</b>	<b>2.5</b>	<b>12.8</b>	<b>15.4</b>	<b>16.1</b>	<b>1.3</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\$)= 72.71

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

**Ratings and other definitions/identifiers**

**Definitions of ratings**

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

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

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

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

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

**Other definitions**

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

**Other ratings/identifiers**

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

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