kotak Institutional Equities

India Daily

December 14, 2023

NIFTY-50 [Dec 13]: 20,926

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kotak Institutional Equities

Eureka Forbes (EUREKAFO)

Consumer Durables & Apparel

BUY

CMP(₹): **562** Fair Value(₹): **670** Sector View: **Cautious** NIFTY-50: **20,926**

December 13, 2023

Pure opportunity

Eureka Forbes (EFL) is poised to benefit from growth in India's water purifier market, driven by a strong unmet need among consumers, low penetration rates and fresh focus from management after the ownership change. We see potential for high margins and strong ROCE and FCF, given EFL's asset-light business model, high-margin service revenue pool, and a likely shift toward a rental offering. We estimate a 34% CAGR in pre-ESOP EBITDA over FY2023-26E. Valuations are not cheap, but draw support from strong FCF and growth potential. Initiate with BUY and a DCF-based FV of Rs670 (55X 1YF P/FCF).

Initiate with BUY: Pure opportunity in the water purifier market

We initiate coverage on EFL with a BUY rating and a DCF-based December 2024E FV of Rs670. This assumes: (1) a revenue CAGR of 12% over FY2023-50E, underpinned by a rise in penetration rates in water purifiers to 30%; (2) high FCF margins in the low double digits through FY2050E; (3) CoE of 12.5%; and (4) a terminal growth rate of 4%. We see a long runway for growth and margin expansion for EFL, thanks to: (1) low penetration rates in water purifiers; (2) EFL's strong brand and focused, high-quality new management team; and (3) its asset-light business model and high-margin service revenue pool.

Growth drivers: Improved value proposition, share gains from counterfeits

India's water purifier market has traditionally struggled for growth amid a lack of serious focus from suppliers and an unattractive value proposition. We expect EFL, under new management, to make a reinvigorated thrust into the market via an improved value proposition—particularly a rental offering that we think can tip the scales in the price-sensitive Indian market—and a push to regain share from counterfeit rivals. Margins should benefit from enhanced efficiencies, growing scale and a rise in high-margin service revenues.

Financials: 34% CAGR in pre-ESOP EBITDA over FY2023-26E

We estimate a 34% CAGR in pre-ESOP EBITDA over FY2023-26E, with margins expanding 610 bps over that timeframe on the back of cost-reduction initiatives and scale benefits. We expect the company's negative working capital and minimal capex needs to help drive FCF consistently higher than PAT. In the longer term, we see potential for EFL to eventually emerge as a leader in the durables industry on margins, ROCE and FCF as it exploits the latent opportunity in its asset-light, high-touch business model.

Key risk: Inability to crack the code in the water purifier market

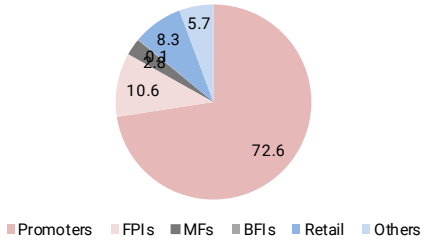
The two main pain points for water purifier consumers in India have been (1) high upfront and servicing costs and (2) dissatisfaction with service quality. While EFL is already stressing the former, tackling the latter may be a relatively long-drawn affair, although the rental offering holds promise. If EFL is unable to crack the success code, the growth opportunity may remain untapped for longer than we expect. A separate risk is increasing competition, though here EFL should benefit from its strong brand and focus on water purifiers.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	562/670/BUY
52-week range (Rs) (high-low)	599-355
Mcap (bn) (Rs/US$)	109/1.3
ADTV-3M (mn) (Rs/US$)	46/0.6

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	8	11	21
Rel. to Nifty	0	7	8
Rel. to MSCI India	0	5	9

Forecasts/Valuations	2024E	2025E	2026E
EPS (Rs)	4.3	6.4	9.8
EPS growth (%)	213.8	48.1	53.6
P/E (X)	130.5	88.1	57.3
P/B (X)	2.8	2.7	2.6
EV/EBITDA (X)	62.2	46.5	32.1
RoE (%)	2.1	3.1	4.5
Div. yield (%)	0.0	0.0	0.0
Sales (Rs bn)	22	24	27
EBITDA (Rs bn)	2	2	3
Net profits (Rs bn)	1	1	2

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of December 13, 2023

Full sector coverage on KINSITE

Abhijit Akella, CFA | Eesha Mohanty | Sumit Kumar

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Financial snapshot

Exhibit 1: Key financials of EFL, March fiscal year-ends, 2023-26E

	Revenues (Rs mn)	EBITDA (Rs mn)	Pre-ESOP EBITDA (Rs mn)	PAT (Rs mn)	Diluted EPS (Rs)	EBITDA margin (%)	Pre-ESOP EBITDA margin (%)	P/E (X)	EV/EBITDA (X)
2023	20,845	1,450	1,450	264	1.4	7.0%	7.0%	410.6	94.6
2024E	21,723	1,743	2,083	898	4.3	8.0%	9.6%	130.0	78.7
2025E	23,901	2,285	2,685	1,330	6.4	9.6%	11.2%	87.8	60.1
2026E	26,872	3,210	3,510	2,043	9.8	11.9%	13.1%	57.1	42.8

Source: Company, Kotak Institutional Equities

We forecast a 34% pre-ESOP EBITDA CAGR over FY2023-26E

Exhibit 2: Condensed consolidated financials for EFL, March fiscal year-ends, 2023-26E (Rs mn)

	2023	2024E	2025E	2026E
Profit model				
Revenue	20,845	21,723	23,901	26,872
Gross profit	**12,513**	**12,676**	**13,764**	**15,363**
EBITDA	**1,450**	**1,743**	**2,285**	**3,210**
EBITDA ex-ESOPs	**1,450**	**2,083**	**2,685**	**3,510**
Other income	102	116	132	276
Finance cost	(203)	(120)	(25)	(25)
Depreciation and amortization	(565)	(533)	(606)	(718)
Extraordinary items	(400)	—	—	—
Profit before tax	**385**	**1,206**	**1,785**	**2,743**
Tax expense	(120)	(307)	(455)	(699)
Minority interest	(1)	—	—	—
Income from associates	—	—	—	—
PAT	**264**	**898**	**1,330**	**2,043**
PAT ex-ESOPs	**265**	**1,151**	**1,628**	**2,267**
Basic EPS (Rs)	**1.4**	**4.6**	**6.9**	**10.6**
Diluted EPS (Rs)	**1.4**	**4.3**	**6.4**	**9.8**
Balance sheet				
Equity	40,988	41,886	43,217	45,260
Minority interest	12	12	12	12
Total borrowings	1,210	—	—	—
Current liabilities and provisions	9,575	9,264	10,516	12,222
Total liabilities	**19,317**	**18,796**	**20,166**	**22,078**
Total equity and liabilities	**60,306**	**60,683**	**63,383**	**67,338**
Net fixed assets	2,942	2,921	3,021	3,203
Goodwill/Intangible assets	51,891	51,891	51,891	51,891
Investments	875	875	875	875
Cash and equivalents	185	411	2,575	5,742
Current assets and miscellaneous	4,969	5,367	7,967	11,740
Total assets	**60,306**	**60,683**	**63,383**	**67,338**
Free cash flow				
Operating cash flow	1,806	1,951	2,765	3,815
Capital expenditure	(213)	(549)	(680)	(863)
Free cash flow	**1,594**	**1,403**	**2,084**	**2,952**
FCF per share	8.2	6.7	10.0	14.2
Ratios				
Gross margin(%)	60.0	58.4	57.6	57.2
EBITDA margin (%)	7.0	8.0	9.6	11.9
EBITDA margin ex-ESOP(%)	7.0	9.6	11.2	13.1
PAT margin (%)	1.3	4.1	5.6	7.6
PAT margin ex. ESOP (%)	1.3	5.3	6.8	8.4
Net debt/equity (X)	0.0	(0.0)	(0.1)	(0.1)
Book value (Rs/share)	212	216	223	234
RoAE (%)	0.6	2.2	3.1	4.6
RoACE (%)	2.0	2.8	3.7	5.2

Source: Company, Kotak Institutional Equities

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Valuation: Initiate with BUY and DCF-based FV of Rs670

We initiate coverage on Eureka Forbes (EFL), with a BUY rating and a December 2024E Fair Value of Rs670. We believe that the water purifier category in India is poised for rapid growth, and EFL is well-positioned to capitalize by virtue of its strong brand (Aquaguard), distribution reach and pedigreed and well-incentivized new management team focused on presenting innovative value propositions while plugging servicing gaps and extracting cost efficiencies. Water purifier rentals could potentially serve as a key catalyst for market growth. We project a 34% pre-ESOP EBITDA CAGR over FY2023-26E, and our DCF-based FV of Rs670 implies a 55X December 2025E P/FCF, in line with peer valuations.

DCF implies a December 2024 Fair Value of Rs670

Our DCF-based December 2024 Fair Value of Rs670 builds in (1) a revenue CAGR of 12.1% over FY2023-50E; (2) EBITDA CAGR of 16.4% over FY2023-50E; (3) average EBITDA-to-FCF conversion of 67.0% over FY2024E-50E (FCF-to-NOPAT of 112.0%); (3) cost of equity of 12.5%; and (4) terminal growth rate of 4.0%. Our Fair Value of Rs670 implies 55X FY2025E P/FCF.

Exhibit 3: EFL DCF model, March fiscal year-ends, 2023-2050E (Rs mn)

	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2035E	2040E	2045E	2050E
Total net revenues (Rs mn)	**20,845**	**21,723**	**23,901**	**26,872**	**31,063**	**36,782**	**45,054**	**58,054**	**136,474**	**228,756**	**351,854**	**511,844**
EBITDA	**1,450**	**1,743**	**2,285**	**3,210**	**3,728**	**4,966**	**6,983**	**9,869**	**26,885**	**45,980**	**70,723**	**102,881**
EBITDA margin(%)	*7.0*	*8.0*	*9.6*	*11.9*	*12.0*	*13.5*	*15.5*	*17.0*	*19.7*	*20.1*	*20.1*	*20.1*
Depreciation & amortisation (Rs mn)	(565)	(533)	(606)	(718)	(767)	(1,071)	(1,507)	(1,998)	(4,970)	(9,046)	(12,792)	(15,519)
EBIT (Rs mn)	886	1,210	1,679	2,492	2,961	3,895	5,477	7,871	21,916	36,934	57,931	87,362
EBIT margin (%)	4.2	5.6	7.0	9.3	9.5	10.6	12.2	13.6	16.1	16.1	16.5	17.1
NOPAT (Rs mn)	**750**	**901**	**1,251**	**1,856**	**2,206**	**2,902**	**4,080**	**5,864**	**16,327**	**27,516**	**43,158**	**65,085**
Tax rate (%)	*15.3*	*25.5*	*25.5*	*25.5*	*25.5*	*25.5*	*25.5*	*25.5*	*25.5*	*25.5*	*25.5*	*25.5*
Capex (Rs mn)	(213)	(549)	(680)	(863)	(1,220)	(4,803)	(2,810)	(4,286)	(6,617)	(11,476)	(14,425)	(17,164)
Change in working capital (Rs mn)	762	516	935	1,305	2,596	2,692	3,881	7,087	6,687	6,893	10,146	12,533
Free cash flow to firm (Rs mn)	**1,864**	**1,395**	**2,079**	**2,931**	**4,175**	**1,532**	**6,048**	**9,639**	**17,400**	**24,050**	**40,346**	**62,357**
Discount factor			0.3	1.3	2.3	3.3	4.3	5.3	10.4	15.5	20.5	25.6
Discounted free cash flow to firm			2,019	2,526	3,193	1,039	3,641	5,150	5,115	3,889	3,590	3,053

Asset valuation	
WACC (%)	12.5
Sum of discounted free cash flows	99,872
Terminal growth rate (%)	4.0
Terminal value	**37,350**
Enterprise value	137,222
Net debt	(1,493)
Equity value	138,715
Minority interest	11.9
Equity value attributable to parent	**138,703**
Number of shares (mn)	208
Fair value per share (Rs)	665
Current price per share (Rs)	560
Upside (%)	**18.8**

Source: Company, Kotak Institutional Equities

EFL trades at a discount versus consumer durables peers on P/FCF

Exhibit 4: EFL's valuation comparison with consumer durables peers, March fiscal year-ends, 2024E-26E

	Mcap			CMP	P/E (X)			EV/EBITDA			RoE(%)			Price/FCF			FCF/PAT			CAGR 24-26E		
	(Rs mn)	Rating	FV (Rs)	(Rs)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	Revenue	EBITDA	EPS
Eureka Forbes	108,150	BUY	665	560	130.0	87.8	57.1	66.8	50.0	34.6	2.2	3.1	4.6	83.2	56.0	39.6	156%	157%	144%	9%	30%	168%
Havells	831,796	SELL	1,140	1,327	65.2	53.3	44.5	43.5	35.5	29.7	18.4	20.3	21.8	132.6	81.9	63.4	49%	65%	70%	13%	18%	20%
Polycab	852,609	SELL	4,120	5,678	49.0	44.5	38.2	33.9	30.3	25.8	23.9	22.3	22.2	91.0	49.8	48.7	54%	89%	78%	18%	20%	20%
Voltas	282,046	SELL	770	852	80.4	39.3	31.6	56.9	29.4	25.5	6.3	12.1	13.8	(94.8)	203.2	75.9	-85%	19%	42%	18%	24%	33%
Whirlpool	168,930	SELL	1,020	1,332	66.0	47.9	34.0	34.8	25.9	18.9	6.8	8.8	11.4	109.4	72.0	42.7	59%	65%	78%	9%	28%	31%

Source: Bloomberg, Company, Kotak Institutional Equities

Valuation assumptions

We expect penetration of water purifiers in India to ramp up from 5% in FY2022 to 30% by FY2050. Within this, we expect the share of rentals within water purifier installations to increase to 50% by FY2050 at the industry level. We see EFL's market share peaking at ~30% in the rental model by FY2034E and moderating to 35% in the ownership model (versus current levels of 45% in the organized segment) by

FY2050E. We expect the market share of the organized sector to increase over time, eventually displacing the unorganized market. We model for ASP growth of only 3% per annum till FY2050, as the industry recognizes the importance of pricing its products more attractively to induce purchases by price-conscious Indian consumers. Finally, the rising share of rentals should lead to substantial benefits on working capital, as consumers pay up to a year in advance for the service. The water purifier business should, therefore, generate strong cash flows in the coming decades as rental revenues and servicing revenues ramp up. The rental model will require the upfront cost of producing the water purifiers to be capitalized as a fixed asset; we estimate gross fixed asset turns at 1.4X on this upfront investment.

We expect water purifier rentals to be the primary revenue growth driver for EFL in years to come

Exhibit 5: Revenue model assumptions, March fiscal year-ends, 2023-50E

		2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2035E	2040E	2045E	2050E
Water purifiers													
No. of households (mn)		335	344	352	361	371	380	390	401	434	468	503	539
Water purifier penetration rate (%)		*5.8%*	*6.7%*	*7.5%*	*8.3%*	*9.1%*	*9.9%*	*10.8%*	*11.7%*	*16.7%*	*21.1%*	*25.6%*	*29.8%*
Installed base of water purifiers (mn)		19.6	22.9	26.4	30.0	33.7	37.6	42.3	46.9	72.5	98.9	128.9	160.6
No. of units added per year (mn)		5.6	6.1	6.7	7.4	8.0	8.7	9.4	10.2	14.0	17.9	22.6	26.7
Growth in units added (%)		*17.4%*	*10.0%*	*10.0%*	*9.0%*	*9.0%*	*9.0%*	*8.0%*	*8.0%*	*6.0%*	*5.0%*	*4.0%*	*3.0%*
Ownership plans	CAGR FY2023-50E	5.9%											
% share of units sold within overall units added		96.8	92.8	89.8	86.8	83.8	80.8	77.8	74.8	63.8	56.8	52.8	49.8
Units sold per year (mn)		5.4	5.7	6.1	6.4	6.7	7.1	7.3	7.6	8.9	10.2	11.9	13.3
ASP at industry level (Rs)		7,500	7,725	7,957	8,195	8,441	8,695	8,955	9,224	10,693	12,396	14,371	16,660
Market size (value of units sold annually) (Rs mn)		40,457	43,943	48,177	52,280	56,666	61,340	65,700	70,265	95,616	125,938	171,553	221,686
% share of organized segment		*72.5%*	*75.0%*	*75.0%*	*75.0%*	*76.8%*	*76.8%*	*76.8%*	*76.2%*	*73.1%*	*76.9%*	*81.2%*	*85.9%*
EFL's market share (%) in the organized market		*45.0%*	*43.5%*	*43.5%*	*43.5%*	*42.5%*	*42.5%*	*42.5%*	*41.5%*	*40.5%*	*38.5%*	*36.5%*	*34.5%*
EFL's gross revenues from products sold (Rs mn)		13,199	14,336	15,718	17,056	18,487	20,012	21,435	22,221	28,326	37,309	50,823	65,675
EFL's ASP (Rs)		11,000	10,670	10,350	10,039	9,839	9,740	9,740	9,935	11,406	13,222	15,328	17,770
EFL units sold (mn)		1.2	1.3	1.5	1.7	1.9	2.1	2.2	2.2	2.5	2.8	3.3	3.7
GST and trade margins (%)		*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*
EFL's net revenues from products sold (Rs mn)		9,239	10,035	11,002	11,940	12,941	14,009	15,004	15,555	19,828	26,116	35,576	45,972
Service revenues	CAGR FY2023-50E	11.0%											
Installed base of sold units at industry level (mn units)		19.3	22.2	25.1	27.9	30.6	33.3	36.0	38.2	48.5	56.9	67.4	79.6
EFL's installed base (mn units)		8.0	8.2	8.5	9.0	9.6	10.3	12.5	13.5	17.1	18.9	21.7	25.1
EFL's share in overall installed base (%)		*41.4%*	*36.9%*	*34.0%*	*32.3%*	*31.4%*	*30.9%*	*34.7%*	*35.4%*	*35.3%*	*33.2%*	*32.2%*	*31.5%*
% of EFL purifiers serviced by EFL		*27.4%*	*28.4%*	*30.4%*	*34.4%*	*38.4%*	*43.4%*	*48.4%*	*53.4%*	*70.4%*	*74.4%*	*74.4%*	*74.4%*
No. of EFL purifiers serviced by EFL (mn)		2.2	2.3	2.6	3.1	3.7	4.5	6.0	7.2	12.1	14.0	16.2	18.7
Net AMC value (ex-GST)		2,870	2,956	3,045	3,136	3,230	3,327	3,427	3,530	4,092	4,744	5,499	6,375
Net service revenues (Rs mn)		6,284	6,472	7,083	8,141	10,020	12,274	15,302	21,335	46,774	65,221	86,135	116,202
Rental plans	CAGR FY2023-50E	NM											
Installed base of rental units (mn)		0.3	0.7	1.3	2.1	3.1	4.3	6.3	8.7	23.9	42.0	61.5	81.0
% share of rentals within overall units added		*3.2%*	*7.2%*	*10.2%*	*13.2%*	*16.2%*	*19.2%*	*22.2%*	*25.2%*	*36.2%*	*43.2%*	*47.2%*	*50.2%*
New rental units added (mn)		0.2	0.4	0.7	1.0	1.3	1.7	2.1	2.6	5.1	7.7	10.7	13.4
Average gross rental price per year (Rs)		7,200	7,416	7,638	7,868	8,104	8,347	8,597	8,855	10,265	11,901	13,796	15,993
Average net rental price per year (Rs)		5,904	6,081	6,264	6,451	6,645	6,844	7,050	7,261	8,418	9,758	11,313	13,114
Rental revenues at industry level (Rs mn)		1,300	4,044	7,896	13,251	20,347	29,466	44,505	63,202	201,332	410,264	695,190	1,062,139
EFL's market share %		*0.0%*	*2.0%*	*5.0%*	*8.0%*	*11.0%*	*15.0%*	*19.0%*	*23.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*
EFL's rental revenues (Rs mn)		0	81	395	1,060	2,238	4,420	8,456	14,536	60,400	123,079	208,557	318,642
EFL revenues from water purifiers & servicing (Rs mn)		**15,523**	**16,588**	**18,480**	**21,140**	**25,199**	**30,703**	**38,762**	**51,427**	**127,002**	**214,416**	**330,267**	**480,816**
Vacuum cleaners	CAGR FY2023-50E	8.5%											
Market size (Rs mn)		4,238	4,577	4,943	5,338	5,609	5,892	6,312	6,891	12,632	22,947	39,084	61,200
Number of units sold ('000)		534	566	600	636	649	662	689	730	1,154	1,809	2,657	3,589
Average selling price (Rs)		7,931	8,081	8,233	8,389	8,640	8,899	9,166	9,441	10,945	12,688	14,709	17,052
EFL's Market share (%)		*73.0%*	*73.0%*	*73.0%*	*73.0%*	*72.0%*	*71.0%*	*70.0%*	*69.0%*	*64.0%*	*59.0%*	*54.0%*	*49.0%*
EFL's vacuum cleaners' net revenues (Rs mn)		2,166	2,339	2,526	2,728	2,827	2,928	3,093	3,328	5,659	9,477	14,774	20,992
Air purifiers	CAGR FY2023-50E	13.8%											
Market size (Rs mn)		5,142	6,171	7,405	8,886	9,775	10,753	11,829	13,012	21,959	37,059	62,543	105,550
Number of units sold ('000)		271	326	358	382	408	436	466	498	724	1,054	1,535	2,235
Average selling price (Rs.)		18,956	18,956	20,679	23,235	23,932	24,650	25,389	26,151	30,316	35,145	40,742	47,231
EFL's Market share (%)		*5.5%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*	*6.5%*	*6.5%*	*7.0%*	*7.5%*	*8.5%*	*9.5%*	*10.0%*
EFL's air purifier' net revenues (Rs mn)		197	237	284	341	375	488	537	636	1,150	2,200	4,150	7,373
Other business	CAGR FY2023-50E	-0.4%											
Revenues of EFL (Rs mn)		2,959	2,559	2,611	2,663	2,663	2,663	2,663	2,663	2,663	2,663	2,663	2,663
Total net revenues (Rs mn)		**20,845**	**21,723**	**23,901**	**26,872**	**31,063**	**36,782**	**45,054**	**58,054**	**136,474**	**228,756**	**351,854**	**511,844**
Revenue growth (%)			*4.2%*	*10.0%*	*12.4%*	*15.6%*	*18.4%*	*22.5%*	*28.9%*	*12.9%*	*9.6%*	*8.6%*	*7.1%*

Source: Company, Kotak Institutional Equities estimates

We expect margins to improve on cost efficiencies, shift in revenue mix in favor of higher-margin lines such as services and rentals, and operating leverage. We expect EBITDA margins to expand from 7% in FY2023 to 20% by FY2037.

A comparison of asset intensity across ownership and rental models

Exhibit 6: Capex, D&A and working capital calculations, March fiscal year-ends, 2023-50E

	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2035E	2040E	2045E	2050E
Ownership model												
Capex (Rs mn)	(213)	(500)	(500)	(500)	(603)	(3,707)	(847)	(1,384)	(1,098)	(1,168)	(1,737)	(2,021)
Gross block (Rs mn)	3,130	3,593	4,119	4,656	5,258	8,966	9,813	11,197	17,708	23,629	31,153	41,134
D&A (Rs mn)	(565)	(526)	(573)	(633)	(594)	(741)	(897)	(974)	(1,003)	(1,116)	(1,467)	(1,904)
D&A rate as % of gross block	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	5.8%	4.8%	4.8%	4.7%
Working capital												
Trade receivables days	22	22	22	22	22	22	22	22	22	22	22	22
Trade receivables (Rs mn)	1,237	1,289	1,418	1,594	1,843	2,182	2,673	3,444	8,097	13,572	20,875	30,367
Inventory days	39	39	39	39	39	39	39	39	39	39	39	39
Inventories (Rs mn)	2,200	2,293	2,523	2,836	3,279	3,883	4,756	6,128	14,406	24,146	37,140	54,028
Contractual liabilities as days of service revenues	(298)	(298)	(298)	(298)	(298)	(298)	(298)	(298)	(298)	(298)	(298)	(298)
Contractual liabilities (ownership) (Rs mn)	(5,130)	(5,284)	(5,783)	(6,646)	(8,180)	(10,020)	(12,492)	(17,418)	(38,185)	(53,244)	(70,318)	(94,865)
All other working capital items as days of total sales	(67)	(73)	(80)	(86)	(86)	(86)	(86)	(86)	(86)	(86)	(86)	(86)
Other current liabilities and assets	(3,822)	(4,334)	(5,146)	(6,114)	(6,828)	(7,665)	(8,669)	(10,308)	(18,019)	(25,031)	(33,942)	(45,763)
Net working capital (Rs mn)	(5,515)	(6,031)	(6,966)	(8,271)	(9,886)	(11,621)	(13,732)	(18,153)	(33,702)	(40,557)	(46,245)	(56,233)
Rental model												
Capex (Rs mn)		(49)	(180)	(363)	(618)	(1,095)	(1,963)	(2,902)	(5,519)	(10,307)	(12,689)	(15,143)
Gross block (Rs mn)		49	229	592	1,210	2,305	4,268	7,170	27,768	55,506	79,274	95,307
D&A (Rs mn)		(7)	(33)	(85)	(173)	(329)	(610)	(1,024)	(3,967)	(7,929)	(11,325)	(13,615)
D&A rate as % of gross block		14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3
Working capital calculations												
Trade receivables days	5	5	5	5	5	5	5	5	5	5	5	5
Trade receivables (Rs mn)		1	5	15	31	61	116	199	827	1,686	2,857	4,365
Inventories days	15	15	15	15	15	15	15	15	15	15	15	15
Inventories (Rs mn)		3	16	44	92	182	348	597	2,482	5,058	8,571	13,095
Current liability days calc.												
Security deposit (Rs)	1,500	1,500	1,545	1,591	1,639	1,688	1,739	1,791	2,076	2,407	2,790	3,235
Price growth (%)		*3.0*	*3.0*	*3.0*	*3.0*	*3.0*	*3.0*	*3.0*	*3.0*	*3.0*	*3.0*	*3.0*
Deposit received (Rs mn)		20	97	261	552	1,090	2,086	3,586	14,898	30,359	51,444	78,598
Deposits + unearned revenue days		180	180	180	180	180	180	180	180	180	180	180
Contractual liabilities (rentals) (Rs mn)		(40)	(195)	(523)	(1,104)	(2,180)	(4,171)	(7,170)	(29,791)	(60,708)	(102,869)	(157,167)
Net working capital days for rentals		(160)	(160)	(160)	(160)	(160)	(160)	(160)	(160)	(160)	(160)	(160)
Net working capital (Rs mn)		(35)	(173)	(465)	(981)	(1,938)	(3,707)	(6,373)	(26,482)	(53,964)	(91,441)	(139,707)
Total net working capital		**(6,066)**	**(7,139)**	**(8,736)**	**(10,867)**	**(13,559)**	**(17,440)**	**(24,527)**	**(60,184)**	**(94,521)**	**(137,686)**	**(195,940)**
Total net working capital days		(102)	(109)	(119)	(128)	(135)	(141)	(154)	(161)	(151)	(143)	(140)

Source: Company, Kotak Institutional Equities estimates

Potentially a double-digit revenue growth story with margin expansion potential

We expect water purifier penetration rates in India to rise from ~5% in FY2022 to 8% by FY2026E, underpinned by rising demand and more attractive value propositions being offered by brands (e.g., affordable rental plans and lower-priced products) amid greater focus on growing the market. While EFL's market share may moderate somewhat from the current high levels amid increasing competition, we expect the company to clock double-digit growth and, besides, gradually recapture ground in the high-margin servicing business from the unorganized segment while also launching a rental offering that we think could be a key growth driver while also generating substantial upfront cash flows. Margin expansion will be another area of focus and will be enabled by improved internal efficiencies, a shift in revenue mix toward the servicing business, and operating leverage driven by growing scale. Therefore, we expect a pre-ESOP EBITDA CAGR of 34% over FY2023-26E. The company's asset-light operating model—involving limited capex and negative working capital—should lead to strong cash generation: we estimate FCF at Rs2.0-3.0 bn in FY2025-26E, helping the cash balance build up to Rs6 bn by FY2026E. The key risks are adverse macro-economic factors, execution slippages and significant attrition in management ranks.

Water purifiers will remain the key growth driver for EFL

Exhibit 7: Revenue breakdown by product category, March fiscal year-ends, 2023-26E (Rs mn)

	2023	2024E	2025E	2026E	3-year CAGR
Segment revenues					
Products	**14,562**	**15,251**	**16,818**	**18,731**	8.8%
Water purifiers	9,239	10,116	11,397	13,000	12.1%
Vacuum cleaners	2,166	2,339	2,526	2,728	8.0%
Air purifiers	197	237	284	341	20.0%
Other businesses	2,959	2,559	2,611	2,663	-3.5%
Services	**6,284**	**6,472**	**7,083**	**8,141**	**9.0%**
Water purifiers + service revenues	**15,523**	**16,588**	**18,480**	**21,140**	**10.8%**
Total segment revenues	**20,845**	**21,723**	**23,901**	**26,872**	**8.8%**

Source: Company, Kotak Institutional Equities estimates

Water purifier sales and service revenues contribute the lion's share of EFL's revenues

Exhibit 8: Indicative segment-wise salience of EFL, March fiscal year-ends, 2023-26E (%)

	2023	2024E	2025E	2026E
Revenue salience				
Products	69.9%	70.2%	70.4%	69.7%
Water purifiers	44.3%	46.6%	47.7%	48.4%
Vacuum cleaners	10.4%	10.8%	10.6%	10.2%
Air purifiers	0.9%	1.1%	1.2%	1.3%
Other businesses	14.2%	11.8%	10.9%	9.9%
Services	30.1%	29.8%	29.6%	30.3%
Water purifiers + service revenues	74.5%	76.4%	77.3%	78.7%
Total segment revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**

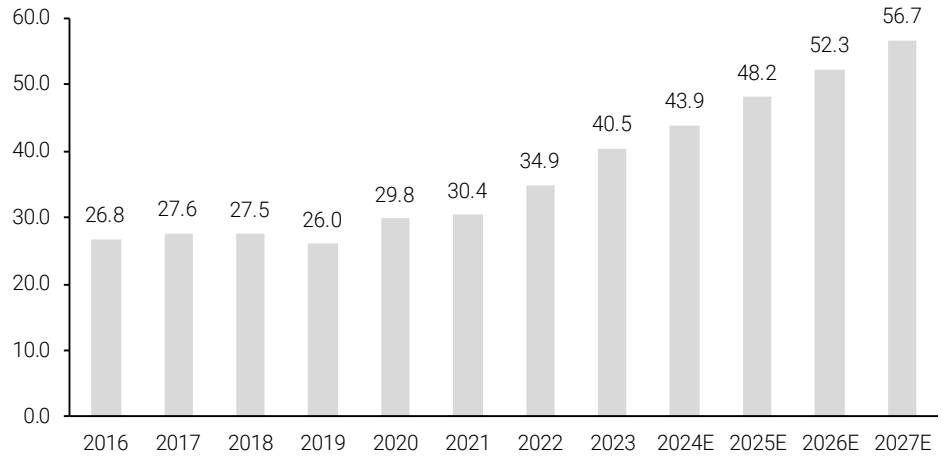
Source: Company, Kotak Institutional Equities

Water purifier market offers vast untapped opportunity

The Indian water purifier market offers a long runway for growth due to two major factors: (1) the strong need for clean drinking water, given the high incidence of water-borne diseases affecting nearly 40 mn people annually, as well as pollutants such as fluoride and arsenic in over 200 districts where more than 400 mn people live; and (2) low penetration rates, with only ~5% of Indian households currently using water purifiers, as opposed to more than 60% in South Korea and more than 20% in China and the Philippines. The reason for this under-penetration is the relative lack of focus the water purifier market has received in India and the absence of a satisfactory price-value proposition for consumers. We would expect this scenario to undergo a marked change in the decades to come, given the rising income levels, growing awareness around hygiene, and more attractive value propositions presented by the water purifier industry. Besides, macro-level growth enablers have fallen into place in recent years, with 96.7% of Indian households now connected to the grid and receiving 20.6 hours of power supply on average per day and the Jal Jeevan mission covering 40 mn households with tap water. Consequently, we expect the penetration of water purifiers to ramp up from ~5% at present to 30% by FY2050.

India's water purifier market is worth ~Rs40 bn at present and is poised for rapid growth

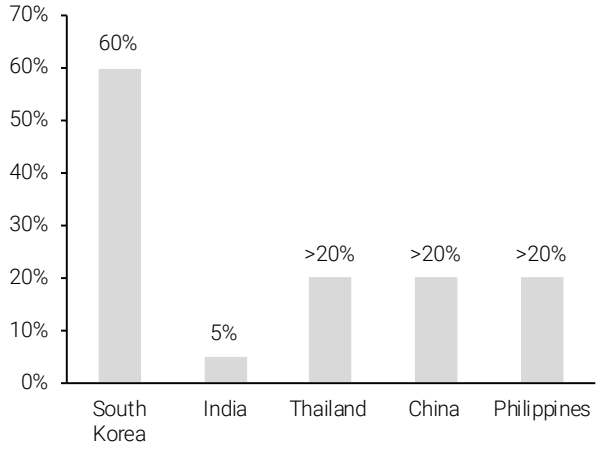
Exhibit 9: Estimated annual sales of water purifiers in India, March fiscal year-ends, 2016-27E (Rs bn)



Source: Industry data, Kotak Institutional Equities

Water purifier penetration rates are low in India

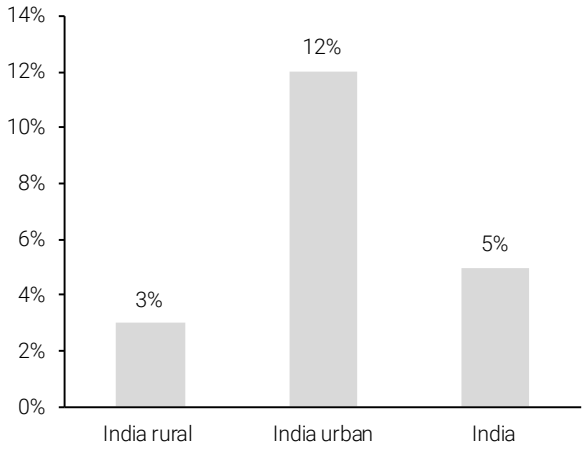
Exhibit 10: Penetration rates of water purifiers in Asia



Source: Company, Kotak Institutional Equities, industry data

Penetration rates are especially low in rural India

Exhibit 11: Penetration rates across rural and urban India



Source: Company, Kotak Institutional Equities

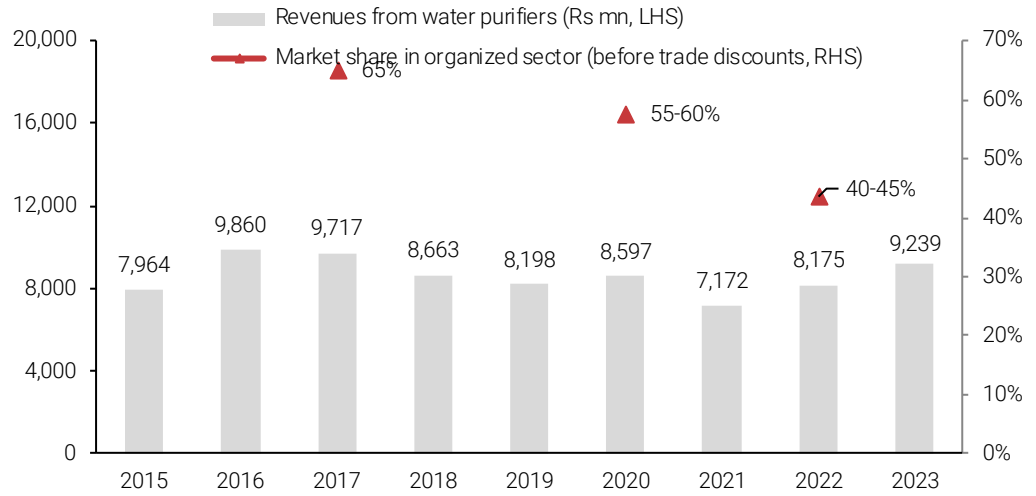
EFL, through its Aquaguard brand, enjoys a strong competitive position

Aquaguard, India's first water purifier, was launched in 1984 by EFL, which was founded as a joint venture between Electrolux of Sweden and the Tata Group's Forbes and Campbell. The brand quickly gained a good market position. With a brand image as "Paani ka Doctor" or water doctor, Aquaguard enjoys a top-of-mind recall rate of more than 65% and has an installed base of 8 mn customers in India—by far the largest of any brand in the country. EFL is the market leader in both water purifiers and vacuum cleaners, with market shares of ~45% in water purifiers (within the organized segment) and 71% in vacuum cleaners (source: Euromonitor) as of CY2022. The company has managed to maintain its leadership position despite years of under-investment under the previous management. This reflects the strength of its brand, which should help the company retain a large share of the growing water purifier market—especially given the more serious effort we expect new management to make toward chasing growth. Other important differentiators in favor of the company are: (1) its strong presence across all distribution channels and a wide reach across 10,000+ pin codes in India; (2) a monopoly on the direct sales channel, which enables it to interact closely with customers—potentially a valuable touch point; (3) a large existing customer base of 8+ mn; and (4) a high-margin service revenue stream—again unique only to EFL—that could grow substantially as the company regains share from the unorganized sector. EFL's new management, over the past year, has taken various steps to improve the customer's service experience

as well as drive increased cost efficiencies. The results are already visible on profitability, with EBITDA margins having moved beyond 10% for the first time. Given that EFL's closest rival, Kent RO Systems, has for several years generated EBITDA margins of around 20%, we believe EFL's margins have ample scope for improvement in years to come.

EFL's market share in water purifiers has slipped over the years, but still remains formidable

Exhibit 12: EFL's revenues and market share in water purifiers category, March fiscal year-ends, 2015-23



Source: CARE report, Company, Kotak Institutional Equities

High-quality new management team with skin in the game

EFL's senior management has undergone a major overhaul after private equity major Advent International acquired a 72.56% stake in July 2022. Advent recruited Mr Pratik Pota, the former CEO of Jubilant Foodworks and the man credited with turning that company around, as the new MD & CEO of EFL in August 2022. Mr Pota has added a high-quality team of senior management, who have been incentivized with a generous and inclusive ESOP plan comprising 14.9 mn stock options (8% of EFL's current share count, and covering employees down to the manager level) awarded in 1QFY24 (generally with a strike price around the current market price). With enough skin in the game, management is driving toward a complete makeover of the company's business, although the process will understandably take a few years, considering the comprehensive change required in organizational culture and strategy. Results thus far have been in the right direction, with EBITDA margins expanding to just under 11% in 1HFY24 (from 7% in FY2023), sales volumes reportedly growing double-digits and the balance sheet turning net debt-free by 2QFY24.

EFL has inducted a highly pedigreed management team post the change in ownership

Exhibit 13: Management team profile



Source: Company, Kotak Institutional Equities

Exhibit 14: Management Executive Committee

Leadership Team	Appointment Date	Designation	Details
Pratik Rashmikant Pota	Aug-2022	MD & CEO	Pratik Pota is a seasoned leader with over three decades of experience in various industries such as Jubliant Foodworks, Pepsico, Airtel, and HUL. He is an alumnus of IIM Calcutta and BITS Pilani. He joined EFL as the CEO in 2022, after successfully leading Jubliant Foodworks as the CEO since 2017. Under his leadership, Domino's Pizza underwent a strategic repositioning to offer value products and low prices, a digital transformation to enhance customer experience, and an expansion to new markets beyond India.
Gaurav Pradip Khandelwal	Aug-2022	CFO	Gaurav Pradip Khandelwal is a CA with more than two decades of experience in leading companies such as HUL, Airtel, and Oyo Hotels & Homes. He joined EFL as the CFO after serving as the CFO of Oyo rooms for Southeast Asia, where he oversaw the financial operations and strategy of the region.
Ajit Dheer	2023	COO	Ajit Dheer, a seasoned leader with over 26 years of experience in various industries, joined EFL as the COO in 2023.He is an alumnus of MDI Gurgaon and IIT BHU, Varanasi. Before joining EFL, he served as the CEO of HT Media Ltd, where he led the digital transformation of the media giant. He also has a rich background in FMCG, retail, and food sectors, having worked with reputed companies like Pepsico, Spencers Retail, Reckitt Benckiser, Cargill, and Dabur.
Mahnaz Shaikh S	Apr-2023	CHRO	Mahnaz Shaikh is a seasoned HR professional with a B.A. degree from Jesus and Mary College, Delhi University and a master's degree in HRM from Tata Institute of Social Sciences, Mumbai. She has worked in diverse industries such as Udaan, Godrej Consumer Products Limited, and P&G, accumulating more than 19 years of experience in various HR functions and domains.
Nithyanand Shankar	Feb-2023	Chief Digital Business Officer	Nithyanand Shankar is an accomplished professional with extensive experience in the e-commerce and consumer goods sectors. He holds a bachelor's degree in Electronics and Communication from Sri Venkateswara College and an MBA from SP Jain Institute of Management and Research. He has worked for 10+ years in P&G and 5+ years in Amazon before joining Eureka Forbes in Feb 2023.
Shubham Srivastava	Sep-2022	Chief Product & Technology Officer	Shubham Srivastava has a rich and diverse background in the digital domain, spanning over 17 years. He graduated from IIT(ISM) Dhanbad and worked for leading companies such as Makemytrip, iTrust, and Aricent. He also founded Tekch, a SAAS platform for managing commercial real estate. Before joining Eureka Forbes as the head of digital transformation, he served as the CEO of HT Digital Streams, where he led the digital strategy and innovation for the media group.
Satish Satyarthi	Mar-2023	Chief Innovation & R&D Officer	Satish Satyarthi is a Mechanical Engineering graduate from IIT Kharagpur. He brings with him a wealth of experience from leading R&D teams in various companies such as Bajaj Electricals, Philips, Buhler, Applied Materials, Blue Star and Cummins. He was the President and Head of R&D in Bajaj Electricals before taking up this role.
Anurag Kumar	May-2023	Chief Growth Officer	Anurag Kumar is a seasoned business leader with a B.A. Hons degree from Hindu College, University of Delhi and an MBA from FMS Delhi. He has over 25 years of experience in various companies such as Unilever, Tata Play and ICI Paints. His role at EFL is to drive revenue growth across all categories through effective marketing, trade, services and CRM strategies.
Anirudha Karnataki	Jun-2023	Head, Supply Chain & Procurement	Mr. Anirudha Karnataki has a B.Tech. degree in Mechanical Engineering from Walchand College of Engineering, Mumbai. He completed his MBA from IIM (NITIE) Mumbai. With 26+ years of rich experience in CEAT, Asian Paints, Thermax, he is responsible for optimizing the supply chain management in Eureka Forbes.
Suresh Redhu	Apr-2011	Chief Technical Officer	Mr. Suresh Redhu completed his B.Tech. in Mechanical Engineering from NIT Kurukshetra and MBA from NMIMS, Mumbai. He was associated with EFL since April 2018, taking care of manufacturing and R&D as Senor Vice President. Prior to EFL, he worked in Aquamall, a subsidiary of Forbes & Company, for 7 years. With 33+ years of experience in Blue Star, Aquamall and Eureka Forbes, he is responsible for portfolio strategy, risk management and innovation and technology development.

Source: Company, LinkedIn, Kotak Institutional Equities

3

Untapped growth potential in India's water purifier industry

The Indian water purifier market has thus far disappointed on growth, probably due to overpricing and poor consumer experience with annual maintenance servicing. Market leaders—EFL and Kent—have focused more on price increases than on driving mass adoption, while newer entrants have struggled with the servicing aspect. However, EFL's new management has recently introduced products in the economy segment, and besides, the introduction of rental plans could further help significantly expand the universe of users. EFL, with its strong brand, focused new management team, should be well placed to capture a significant share of the growing market.

India's water purifier market has disappointed in the past, but the future holds promise

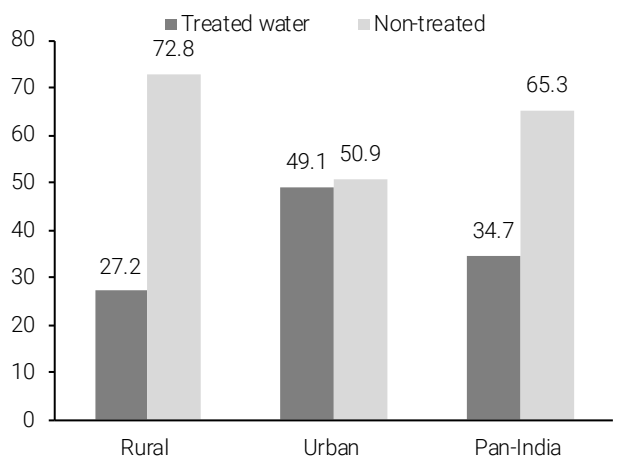
While the Indian water purifier market has long been acknowledged to hold substantial growth potential, its performance over the decades has disappointed versus expectations. The probable reasons include the absence of a compelling value proposition for consumers and the poor quality of annual maintenance servicing, a particularly important aspect peculiar to the water purifier market. While numerous companies have entered the market (Unilever, Phillips, Havells, LG, V-Guard), all have struggled with the service element and failed to make any meaningful headway. Meanwhile, market leaders—EFL and Kent—seem to have focused more on price increases than on driving mass adoption of water purifiers, perhaps because there have thus far been few signs that the market is capable of expanding beyond the niche premium segment. However, EFL's new management has recently introduced products in the economy segment that it believes are meeting with good traction, and besides, the introduction of rental plans seems to hold promising potential to expand the universe of users—as visible in Southeast Asian markets such as Malaysia and Korea as well as the encouraging early progress made in India by Livpure, whose water-as-a-subscription service has grown rapidly in recent years. We see the rental model as probably the right fit for a price-sensitive market such as India, potentially helping penetration rates in India ramp-up closer to the levels of 20-30% that are typical of Southeast Asian countries. EFL, with its strong brand, focused new management team, should be well-placed to capture a significant share of the growing market.

Undeniable potential in the Indian water purifier market

The incidence of water-borne diseases in India impacts nearly 40 mn people every year, while annual fatalities are ~200,000 people. As many as 400 mn people are believed to be vulnerable to high levels of fluoride and arsenic in groundwater. Consequently, the quality of water reaching households is generally considered unsafe for direct consumption. Although access to tap water has grown with government initiatives such as to Jal Jeevan Mission, there is there for a clear need for water purification. Yet, the adoption of water purifiers has lagged behind alternative measures such as purchase of bottled water and even usage of cloth for filtering. This is probably because of consumer dissatisfaction with water purifiers, which require frequent servicing including filter replacement, and the lack of a compelling value proposition, owing to high upfront costs as well as annual maintenance charges.

Only around one-third of India treats its drinking water

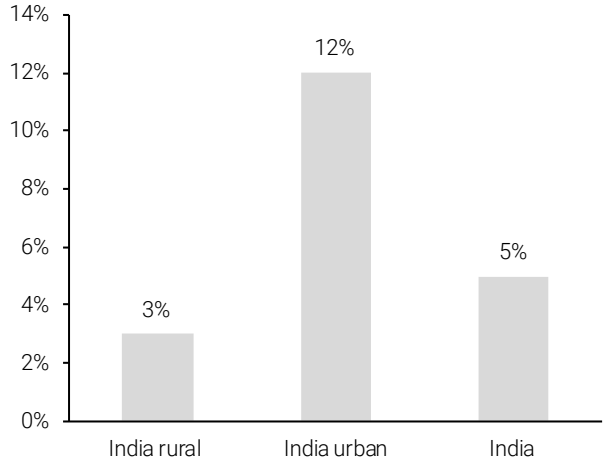
Exhibit 15: Treated water split in India for FY2022 (%)



Source: NSS, Kotak Institutional Equities

Water purifier penetration rates pan-India are 5%

Exhibit 16: Penetration rate in India for FY2022 (%)



Source: Company, Kotak Institutional Equities

In urban India, usage of bottled water (including 20/25-liter cans) has been growing rapidly, again suggesting that the value proposition presented by water purifiers leaves something to be desired (likely the cost, the hassle of servicing and the unreliability of service quality). This is despite the fact that bottled water is more expensive than using a purchased water purifier: a 20-liter water can cost around Rs90, implying a price per liter of Rs4.5, whereas the comparable price per liter of a purchased water purifier works out to Rs1.4 for a family of four (see calculation below) and even lower for larger family sizes. Besides, ordering water cans every couple of days is not the most convenient proposition. Yet, the bottled water market is reported to be worth Rs207 bn as of CY2022 and is projected to grow at a scorching CAGR of 24% over CY2022-27E, reflecting the growing demand for clean water as well as the purchasing power already present in India. Clearly, what the water purifier industry needs is the right value proposition.

Average cost per liter of water from a water purifier is Rs1.4, well below Rs 4.5 using bottled water

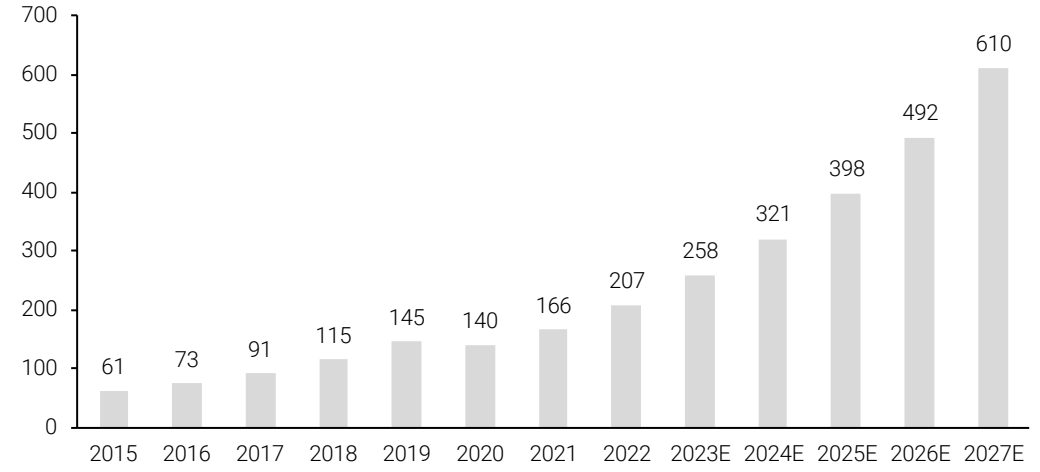
Exhibit 17: Price per liter of water from a purchased water purifier

Cost per liter using a water purifier	
Assuming a family of four with each person consuming 2 liters per day	
Water consumption per year (liters) (A)	2,920
Average purchase cost of water purifier (Rs)--(B)	7,500
Assuming useful life of 7 years for water purifier	
AMC cost (@ Rs3,500 per year; year-1 is free)--(C)	21,000
Total cost of the water purifier over the useful life (D = B+C)	28,500
Cost per year (Rs) (E = D/7)	4,071
Average cost per liter (Rs) (E divided by A)	1.39

Source: Company, Kotak Institutional Equities

The bottled water market in India is projected to clock a CAGR of 24% over CY2022-27E

Exhibit 18: Bottled water market size in India, December calendar year-ends, 2015-27E (Rs bn)

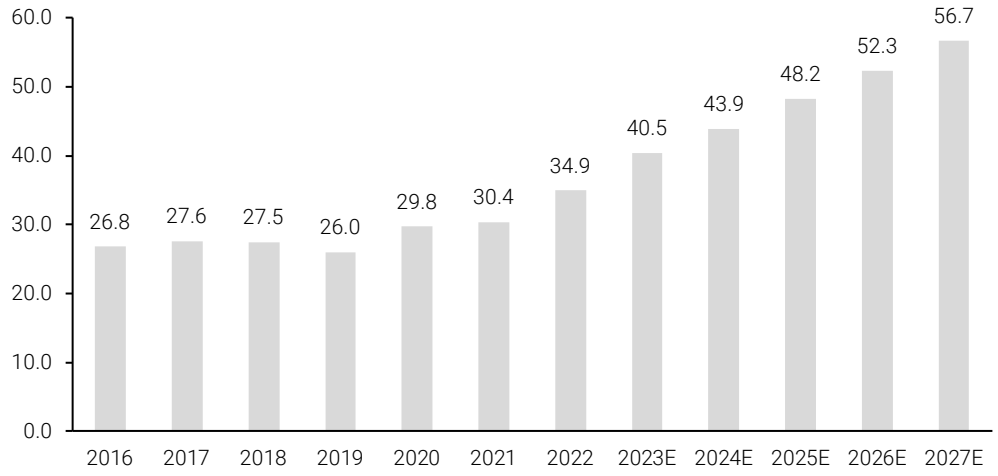


Source: Euromonitor, Kotak Institutional Equities

From the perspective of enabling infrastructure, positive developments for the water purifier industry in the past few years are: (1) 96.7% of Indian households are now connected to the grid and receive 20.6 hours of power supply on average and (2) the government's Jal Jeevan mission has covered 40 mn households for tap water availability. Meanwhile, annual sales of water purifiers in India are still relatively low at ~Rs40 bn, with penetration rates in the single-digits, particularly in rural India. According to industry sources, there is still a large unorganized segment within the market that continues to represent around a quarter of the overall market. EFL is the market leader with a 40-45% market share within the organized segment, followed by Kent, which holds ~30%. In the past decade, the market has seen the influx of several new entrants, including HUL (Pureit), the Tata Group (Swach), Havells, LG Electronics, AO Smith, V-Guard and Livpure. The most recent entrant is Urban Company, which has launched a purifier that needs filter replacement once in two years (versus the conventional practice of annual replacement). However, despite the entry of so many new vendors, the overall market does not seem to have grown strongly, again probably pointing at an inability of vendors to offer the right price-value proposition. The one new entrant that has, however, made a splash is Livpure, which has scaled up rapidly, especially with its rental (water-as-a-subscription) service. We believe this is probably the model that holds the most potential in a price-sensitive market such as India.

Annual sales of water purifiers in India have registered lackluster growth thus far

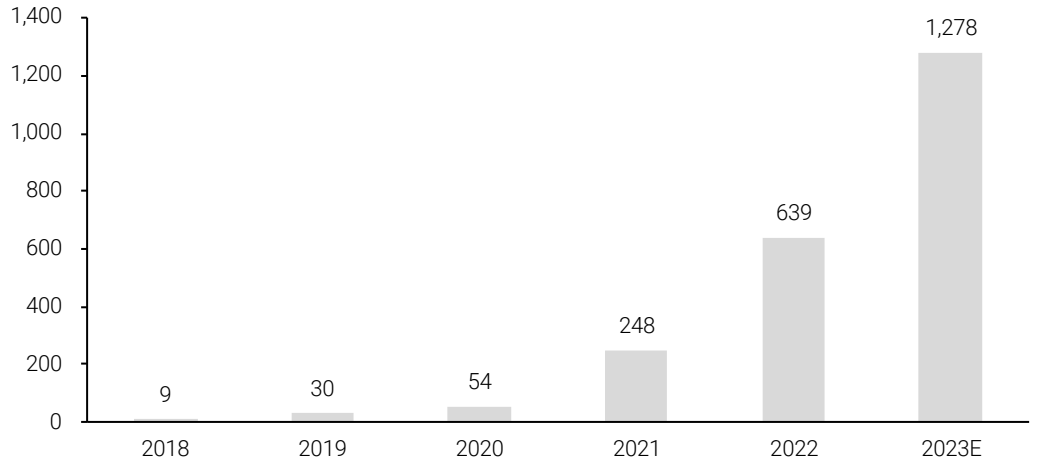
Exhibit 19: Annual sales of water purifiers in India, March fiscal year ends, 2016-27E (Rs bn)



Source: Company, Kotak Institutional Equities estimates

Livpure Smart, which runs a rental model, has been growing rapidly since launch

Exhibit 20: Livpure Smart total revenues, March fiscal year ends, 2018-23E (Rs mn)

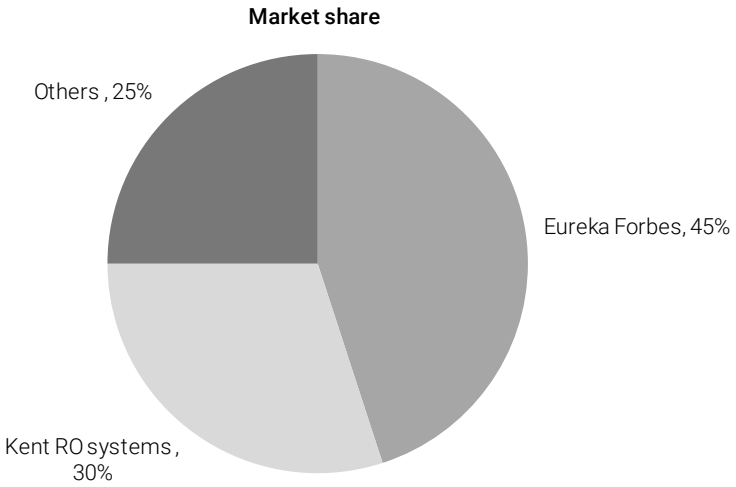


Source: Private circle, Company, Kotak Institutional Equities

In terms of technology, the Indian water purifier market is dominated by reverse osmosis (RO) models, likely following the significant marketing push over the past decade-and-a-half by Kent, which specializes in this segment. However, there is a perception that use of RO purifiers, which remove several solids from drinking water—some of which are desirable minerals such as iron, calcium and potassium—is not really desirable across several parts of India, unless the water quality there is heavily contaminated. Besides, RO purifiers lead to heavy wastage of "rejected" water. For such reasons, India's National Green Tribunal (NGT) in May 2019 had ordered the government to ban RO purifiers in places where Total Dissolved Solvents (TDS) are below 500 mg/liter. The other main technology used in India is UV (ultra-violet), which unlike RO acts on bacteria and viruses. A combination of UV and RO is therefore what is typically sold by the leading purifier companies in India.

EFL remains the leader in India's water purifier market, followed by Kent

Exhibit 21: Market share within organized segment (%)



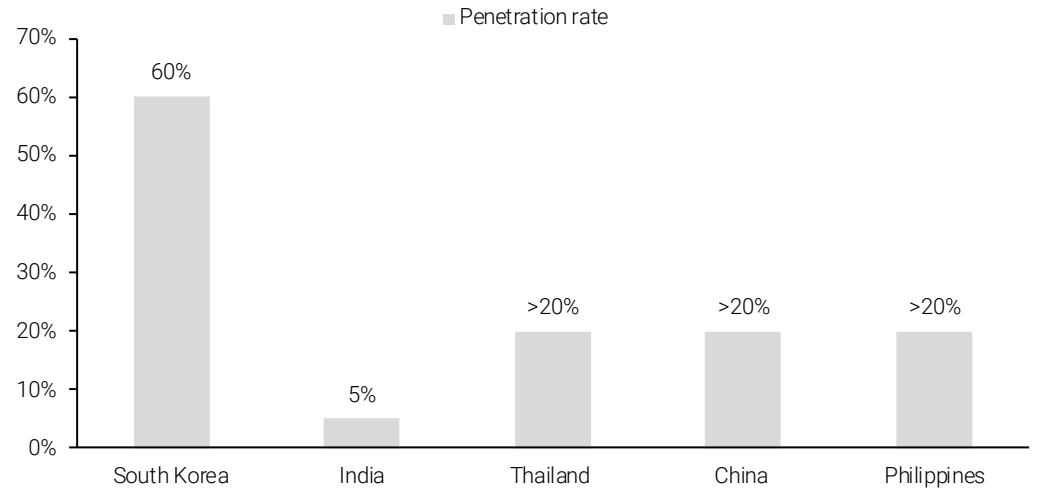
Source: Company, Kotak Institutional Equities

Water purifier market trends in international markets: Takeaways for India

While much of the Western world—with its good quality of water supplied by local governments—has not needed to invest in water purifiers, the usage of the devices is significant in Asia, where the trust in quality of tap water is low. For example, water purifier penetration rates in South Korea are reported to be above 60%, while other leading economies in the region are also believed to be in the range of 20-30%.

Water purifier penetration rates are much higher in other Asian countries than in India

Exhibit 22: Penetration rates in select Asian countries (%)



Source: Company, Kotak Institutional Equities estimates

While data on the water purifier markets in these countries is scarce, one market for which data is available and offers interesting insights from an Indian perspective is Malaysia. While Malaysia has long suffered from frequent water cuts and poor quality of tap water, the water purifier market in the country really took off starting 2010, when Coway, a South Korean company that is currently the market leader in Malaysia, obtained Halal certification. Subsequently, Coway introduced a rental offering for water purifiers—which it had introduced in its home market of South Korea way back in 1998—in Malaysia, and the company states that this offering has been a key driver behind its rapid growth in Malaysia, where it now commands a 35% market share. Rental revenues have constituted around 77% of Coway's total sales during the period FY2018-22. Other attributes that have aided Coway's growth in Malaysia are: (1) the company's army of 17,000 "Coway Ladies," or salespersons who provide customer support, check the filters on the devices, and engage in sales and marketing activities; and (2) the introduction of a "hot water" feature in the devices, which is very popular in Malaysia. However, it is the rental feature that management believes has been the key growth driver. Today, the Malaysian and South Korean markets for water purifiers are each in the vicinity of $2 bn per year, even though the populations in these countries are less than 5% of India.

Water purifier sales in Malaysia and South Korea are much higher than those in India

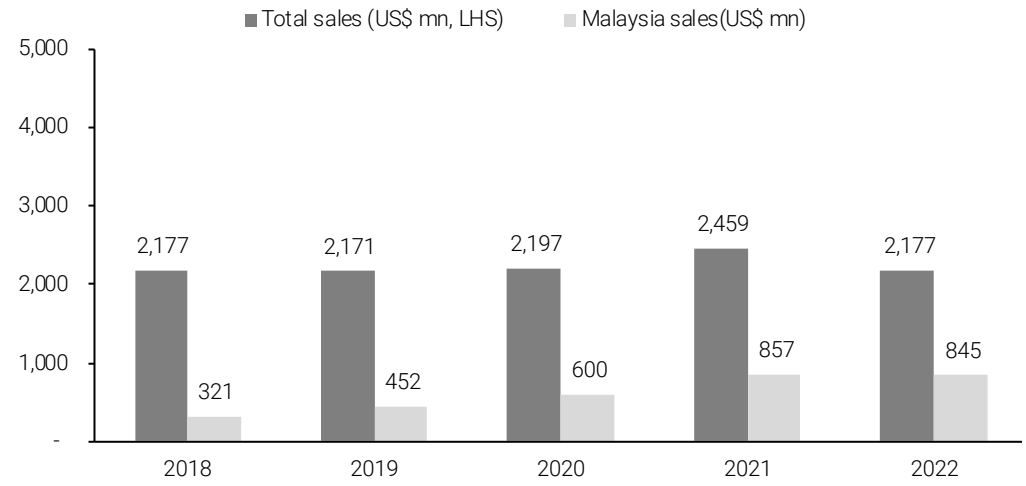
Exhibit 23: Comparison between India, Malaysia and South Korea, CY2021

Parameters	Malaysia	South Korea	India
Population (mn)	34	52	1,408
GDP per capita (US$)	11,109	34,998	2,257
Water purifier market size (US$ mn)	1,619	2,000	473

Source: Company, Kotak Institutional Equities

Coway's water purifier sales in Malaysia have grown rapidly

Exhibit 24: Coway sales trend, overall and in Malaysia, December fiscal year-ends, 2018-2022 (US$ mn)

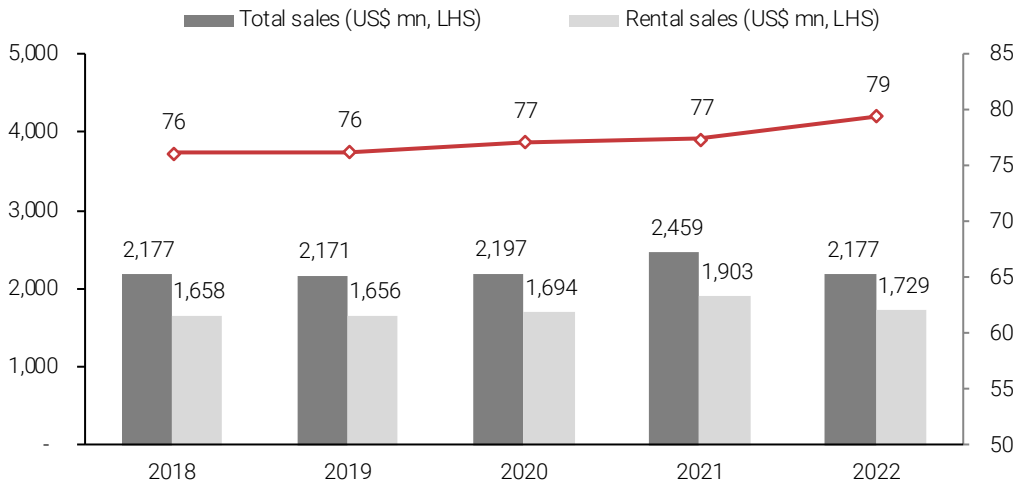


Notes: 1 USD: 1,347 KRW as on October 5, 2023

Source: Media reports, Company, Kotak Institutional Equities estimates

Rental revenues have comprised 77% of Coway's overall revenues during CY2018-2022

Exhibit 25: Revenues and rental revenues of Coway, December fiscal year-ends, 2018-2022 (US$ mn)



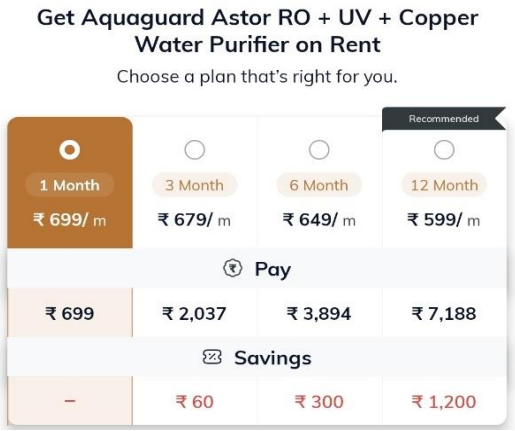
Source: Company, Kotak Institutional Equities

We believe that the case studies of Malaysia (and South Korea) hold an important lesson for India, and suggest that a rental model could hold the key to driving mass acceptance of water purifiers in the country. In addition to making the product more affordable, a rental model could also take away the hassle (and risk) associated with servicing the device, which would entirely be the vendor's responsibility. As mentioned previously, Livpure's rental offering is growing rapidly in India, albeit off a small base. Other startups that have launched rental offerings in recent years are Drink Prime (owned by Waterwala) and Zunpure (by Zunpulse)—indicating that the rental space is starting to buzz in India. EFL, too, has launched a pilot project in Chennai on its product Aquaguard Astor (UV+RO+copper), with monthly subscription charges ranging from Rs599 (for a 12-month subscription) to Rs699 (for a 1-month subscription). The rental cost is inclusive of maintenance costs and transfer costs if the consumer moves his residence within one year. The transfer cost in this service is Rs299 post one year.

EFL has introduced a rental plan on a pilot basis in Chennai at ~Rs7,200 per year

Exhibit 26: EFL's pilot program for water purifier rentals



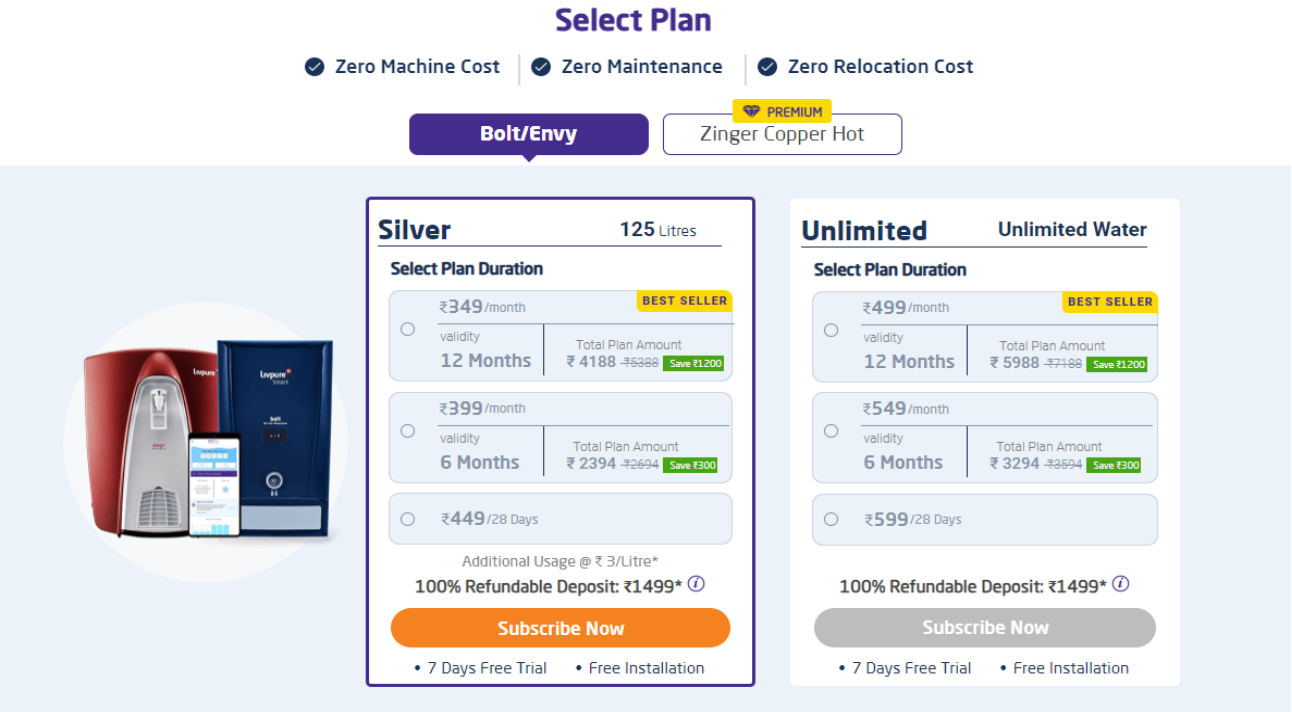


Note: Present only in Chennai

Source: Company, Kotak Institutional Equities

Livpure Smart offers a 12-month unlimited water rental plan for ~Rs6,000

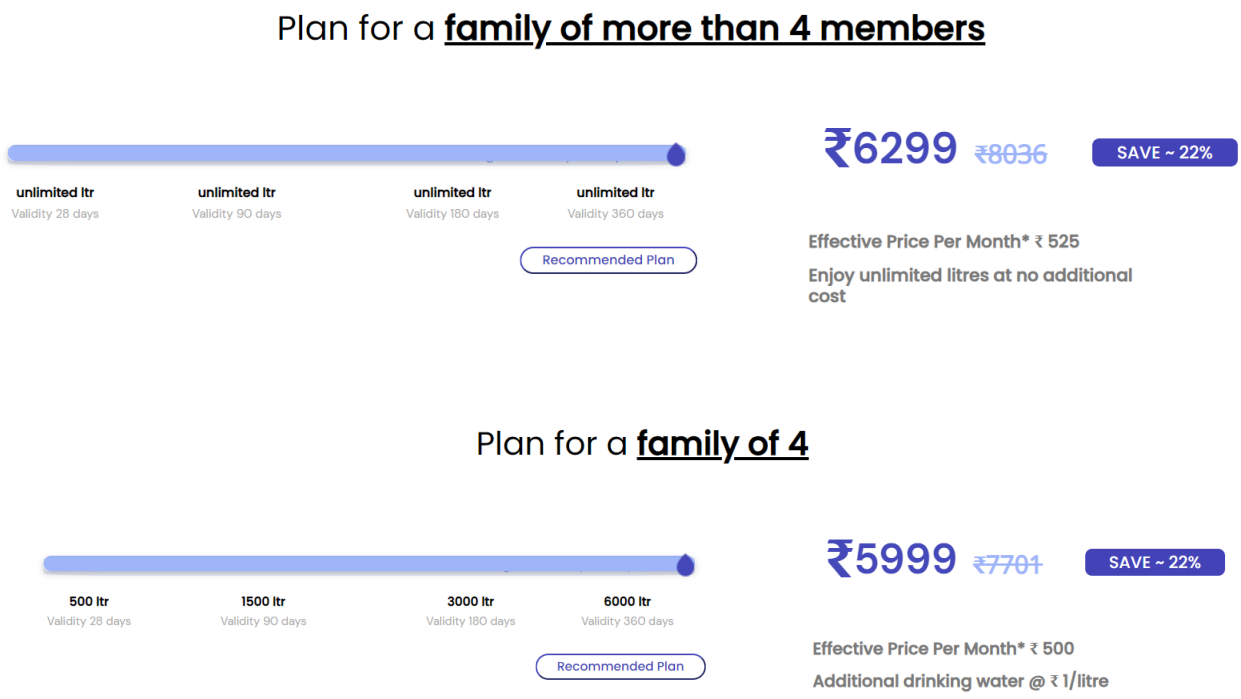
Exhibit 27: Rental plans of Livpure Smart



Source: Company, Kotak Institutional Equities

DrinkPrime offers a 12-month unlimited water rental plan for ~Rs6,300

Exhibit 28: Rental plans of DrinkPrime (a six-year-old Indian startup)



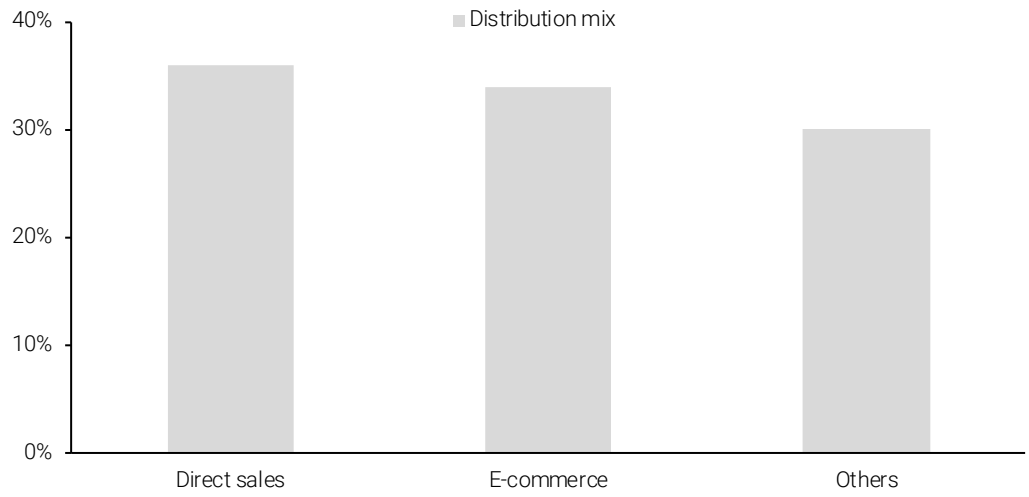
Source: Company, Kotak Institutional Equities

EFL's brand strength and distribution reach are key strengths in both the ownership and rental segments

While the power of the Aquaguard brand is a key differentiator for EFL, another meaningful advantage the company has is its strong presence across all distribution channels, including direct sales, general trade, modern retail, e-commerce, B2B and canteen stores, and reach across 10,000+ pin codes in the country. Besides, it has a monopoly on the direct sales channel, which enables it to interact closely with customers—potentially a very valuable touch point. However, following the Covid-19 pandemic, the company has scaled back its dependence on this channel by reducing its salesforce headcount from 3,000+ to ~800. Consequently, the revenue share of direct sales in the company's overall topline has moderated, in turn exerting a drag on overall revenue growth. In contrast, the company has witnessed significant growth from e-commerce, which has clocked a 30+% CAGR in the past few years. Other channels have also been growing double-digits, and thus the split of channel-wise sales is now fairly even. The company has a network of ~20,000 general trade outlets. EFL's strong presence across multiple modes of distribution helps it gain visibility and be present wherever customers may be searching, while its direct sales channel is potentially a valuable differentiator that could be harnessed productively. This advantage could stand the company in good stead when it comes to (1) marketing the rental offering to consumers and (2) smoothing out the logistical wrinkles that can compromise customer experience in the rental model.

The channel-wise split of EFL's revenues from water purifiers is now fairly even

Exhibit 29: EFL's revenue breakdown by distribution channel



Source: Company, Kotak Institutional Equities

Opportunity to expand the share of high-margin service revenues

EFL's Annual Maintenance Contract (AMC) for water purifiers is one of its kind in the industry (competitors outsource the servicing function to channel partners or franchisees). The company services its installed base of 8 mn water purifiers through 8,500+ certified service technicians with service centers located every 5 km across 800+ cities and servicing 10,000+ pin codes. The AMC covers preventive services, replacement of filters, and repairs and replacement of worn-out parts. AMC costs vary by model, with economy segment plans costing Rs699-Rs3,499 and premium segment plans costing Rs699-Rs6,299. The AMC is transferable for the customer if they relocate their residence. The company has a large and growing customer base of 8 mn, offering a large opportunity for growth in service revenues. Furthermore, we believe margins on service revenues are substantially higher than those on product sales.

Top-end AMC plans in the economy segment cost more than Rs3,000 per year

Exhibit 30: Details of 1-year annual maintenance contract for various models in economy segment

Type	UV		RO+UV	
Product	Aquaguard crystal NXT+UV		Aquaguard Sure Delight NXT RO+UV Water Purifier	
	Cost (INR)	Features	Cost (INR)	Features
Base			699	Unlimited service visits for breakdown + 1 visit for maintenance + free filter replacement + 25% discount on filter parts + spare parts at MRP
Silver	1,799	Unlimited service visits for breakdown + 2 visits for maintenance + free filter replacement + 10% discount on spare units	2,399	Unlimited service visits for breakdown + 2 visits for maintenance + free filter replacement + 50% discount on RO membrane + 10% discount on spare parts
Gold	2,599	Unlimited service visits for breakdown + 3 visits for maintenance + free filter replacement and spare units	3,199	Unlimited service visits for breakdown + 3 visits for maintenance + free filter replacement, RO membrane and spare parts
Platinum	3,199	Unlimited service visits for breakdown + 4 visits for maintenance + free filter replacement and spare units	3,499	Unlimited service visits for breakdown + 4 visits for maintenance + free filter replacement, RO membrane and spare parts

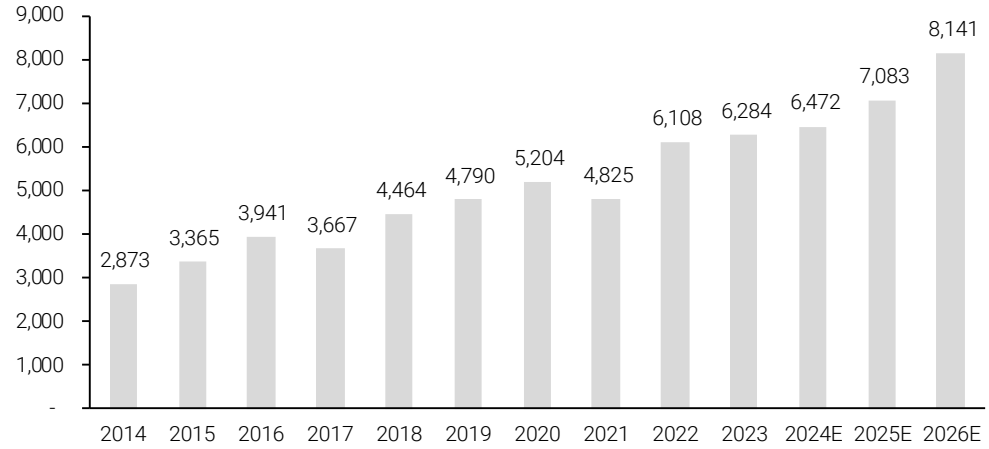
Source: Company, Kotak Institutional Equities

However, the quality of maintenance service in the water purifier market in general has been unsatisfactory due to factors including heavy demand, a limited workforce of technicians, high AMC charges, and low incentives paid to service staff. Consequently, there is a large unorganized segment that has sprung up to service the existing base of installed water purifiers. This has led to a significant

opportunity loss for EFL, which generated only Rs6.3 bn in service revenues in FY2023 versus a theoretical potential of Rs28 bn based on its existing base of 8 mn installed devices. Some of these service providers are counterfeits as well. The company, under new management, is considering interventions to recapture lost revenues from servicing—possible options could be technology interventions that prevent usage of counterfeit components, e.g., chip-connected filters that prevent product duplication. EFL is also aggressively cracking down on counterfeit service providers by using legal assistance with the aim of shutting down these infringing businesses. Meaningful success in these interventions could help drive a significant increase in high-margin service revenues.

EFL's service revenue stream has grown steadily over the years, aside from Covid

Exhibit 31: Trend in EFL's service revenues, March fiscal year-ends, 2014-2026E (Rs mn)



Source: Private Circle, Company, Kotak Institutional Equities

Growing salience of water purifier rentals and service revenues should be positive for EFL

While gross margins on EFL's water purifier sales are typically in the range of 50%, servicing gross margins are much higher—we believe in the range of 70-75%, as the only expenses incurred on servicing by the company are component costs (filters, membranes, etc.) apart from service charges (paid to franchisee partners). Additionally, working capital days are negative under the servicing model because EFL gets a year's worth of advance payments from the customer under the AMC. A growing share of service revenues should be highly beneficial for EFL's balance sheet, return ratios and cash flows.

The rental model shares some of the positive features of the services business: it involves upfront payment by the customer (a security deposit worth Rs1,500 plus a subscription plan ranging from 1-12 months) as well as high gross margins. Under the rental model, the cost of the water purifier is capitalized on the balance sheet as a fixed asset that is depreciated over 5-8 years—this is the model followed by startups such as Livpure Smart and Drink Prime. EFL will have to incur component replacement costs, just as it does under the servicing model. Overall, the rental model entails higher gross margins than the ownership model while also generating negative working capital and strong cash flows. While there is no peer of scale in the water purifier rental business in India, we note that Coway—with the bulk of its operations in South Korea and Malaysia—generates high-teens EBITDA margins via a predominantly rental model.

Water purifier rentals involve higher gross margins along with a negative working capital cycle

Exhibit 32: Water purifier unit economics: sale vs. service versus rental (Rs per unit, except as specified)

	Product sale	Servicing	Rental
Revenues	10,000	3,500	7,200
GST & trade margins	30%	18%	18%
Net revenues	7,000	2,870	5,904
Gross margin %	50%	70%	85%
Gross profit	3,500	2,009	5,043
Gross fixed asset turns (X)	4-5	NA	1.4
Depreciation rate (years)	15-20	NA	5-8
Net working capital	0	(300)	(145)

Source: Company, Kotak Institutional Equities

4

Vacuum cleaners and air purifiers: Still a nascent market

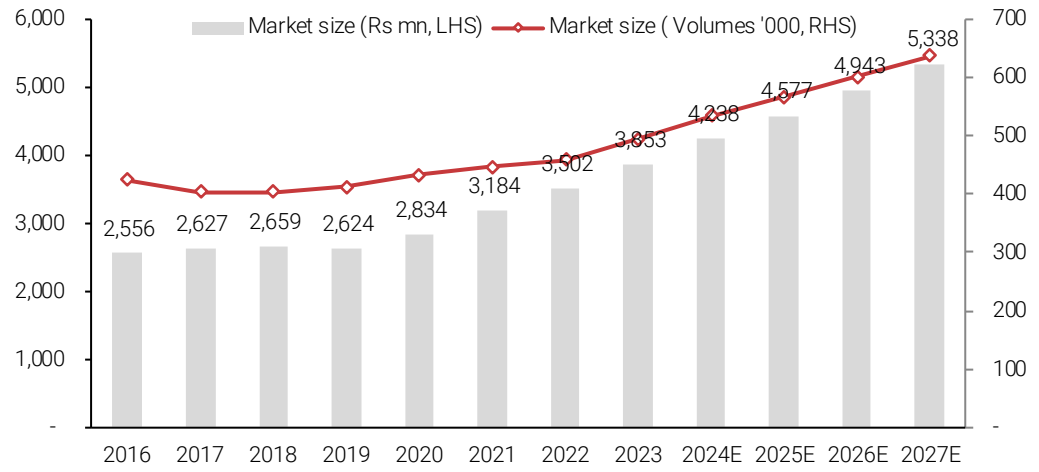
The vacuum cleaner and air purifier markets in India remain very small, both in absolute terms and versus levels in China or the US. The key challenge is the consumer perception that these products are not (yet) compelling needs. The easy and cheap availability of house help in India means that vacuum cleaners are not really required for cleaning. With regard to air purifiers, their need is usually felt only during winter months when pollution levels spike. We do believe these assumptions could undergo a change in the coming years as income levels rise, cost of house help increases, commercial space expands and air quality deteriorates. However, this story may take longer to play out than the growth story in water purifiers.

Vacuum cleaners: Not yet considered an essential item

Annual sales of vacuum cleaners in India were Rs3.5 bn as of CY2022 (source: Euromonitor); we project that they will clock an 9% CAGR over CY2022-27E. The market showed a promising uptick when people felt the absence of domestic help during the pandemic, and this inclination to reduce dependence on manual help may continue to support the category's growth in the coming years. Long-term demand for cleaning equipment is fueled by the increasing percentage of working women, rising cost and increasing unreliability of domestic help, and perhaps some preference for convenience and hygiene. Yet, cheap availability of labor in India is a key deterrent for now, leading to a penetration rate of only ~1%. EFL is believed to be the market leader by far in this category with a 71% market share as of CY2022, though this has been slipping.

India's vacuum cleaner market is believed to be worth Rs3.5 bn

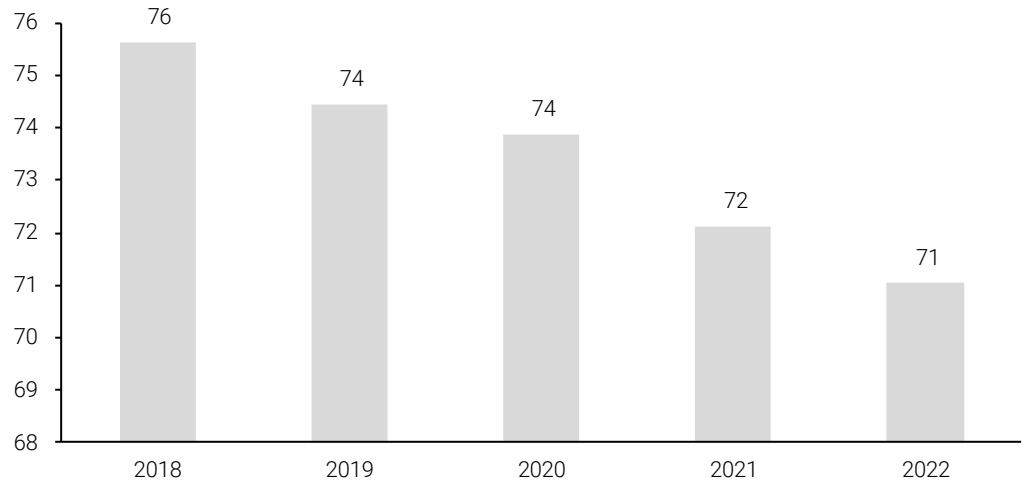
Exhibit 33: Market size of vacuum cleaners in India, December year-ends, 2016-2027E



Source: Euromonitor, Kotak Institutional Equities

EFL is believed to hold a dominant market share in vacuum cleaners in India

Exhibit 34: Market share of EFL in vacuum cleaners, December year-ends, 2018-2022

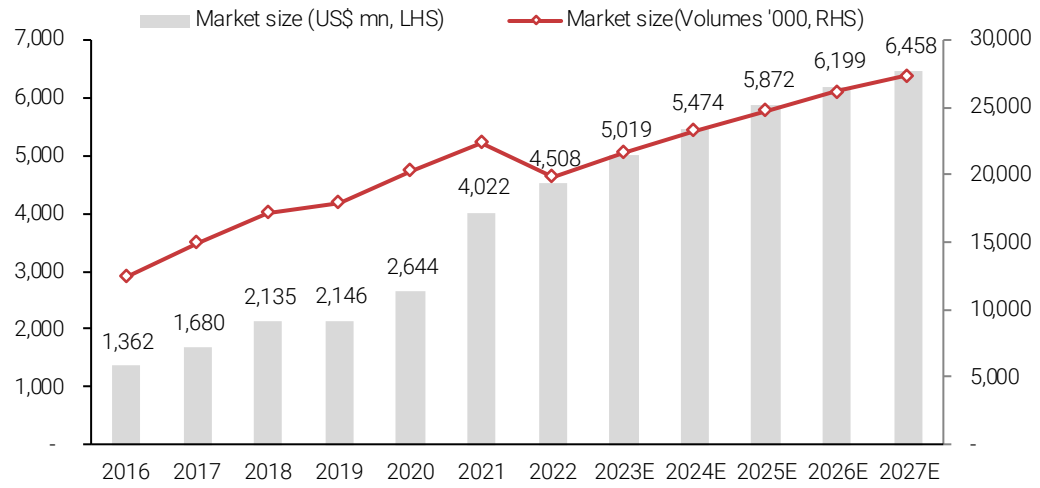


Source: Euromonitor, Kotak Institutional Equities

The Indian market is growing at a relatively slow rate versus China, where sales of vacuum cleaners nearly doubled post-pandemic and are projected to continue growing in coming years. The size of the vacuum cleaner market in China and the US (US$4-6 bn each) holds promise for India for the longer term.

China's vacuum cleaner market size is US$4.5 bn

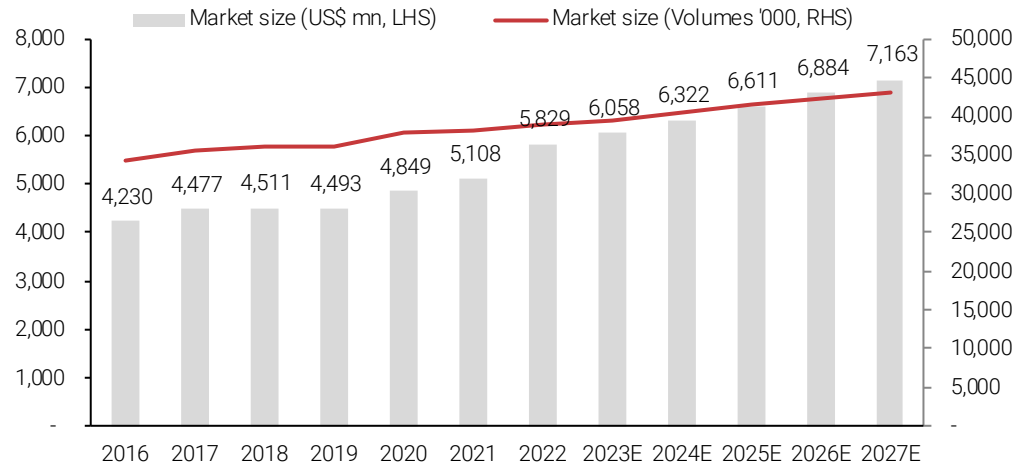
Exhibit 35: Market size of vacuum cleaners in China, December year-ends, 2016-2027E



Source: Euromonitor, Kotak Institutional Equities

In the US, vacuum cleaners are a US$5.8 bn market

Exhibit 36: Market size of vacuum cleaners in the US, December year-ends, 2016-2027E



Source: Euromonitor, Kotak Institutional Equities

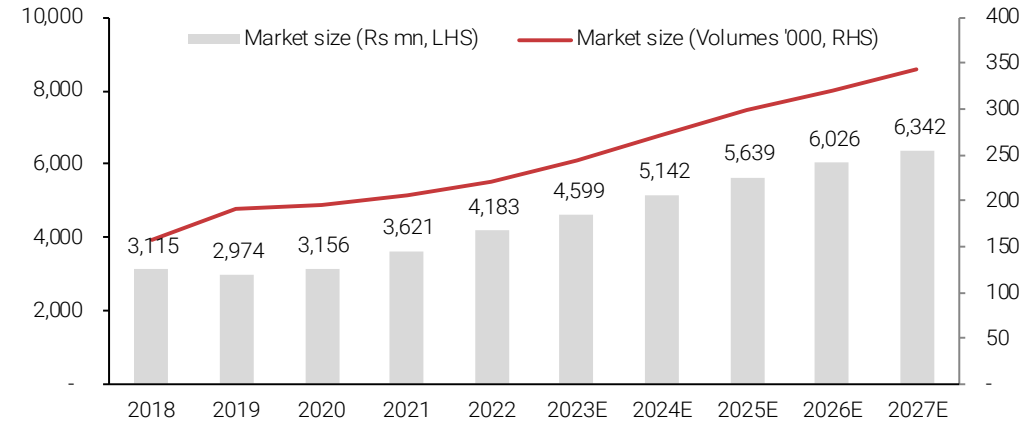
Air purifiers: Currently just a seasonal product

Amid deteriorating air quality in India's northern regions, particularly Delhi, Punjab, and Haryana due to factors such as stubble burning and winter smog, usage of air purifiers in India has been growing, though demand tends to drop back post-winter. However, the air pollution problem is only getting worse across India: according to the World Air Quality Report by the Swiss firm IQAir, 39 of the 50 most polluted cities in the world are in India. Recent news reports state that demand for air purifiers has zoomed in Mumbai in late-2023 as the city's Air Quality Index (AQI) spiked to 191, leaving even Delhi's AQI of 84 far behind. Demand may also have received some boost from the Covid pandemic, as air purifiers are claimed to find some use in cleaning indoor air and eliminating viruses and pollutants. These factors are likely to drive long-term demand growth for air purifiers in India, albeit off a low base.

Annual sales of air purifiers in India were Rs4.2 bn in CY2022 and are expected to clock at a 9% CAGR over FY2022-27E (source: Euromonitor). While this is faster than growth rates in China and the US, those markets are much larger in size when compared with India.

India's air purifier is projected to clock a fairly healthy CAGR, albeit off a low base

Exhibit 37: Market size of air purifiers in India, December year-ends, 2018-2027E



Source: Euromonitor, Kotak Institutional Equities

EFL's market share in air purifiers is low and has been declining

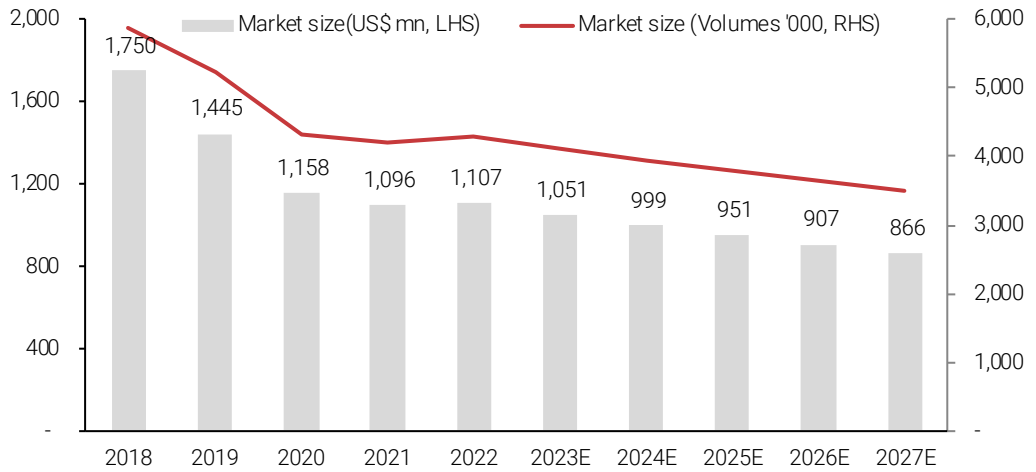
Exhibit 38: Market share of EFL in air purifiers, December year-ends, 2018-2022

Market share in India (%)	2018	2019	2020	2021	2022
Philips India Ltd	38.2	39.4	38.7	37.8	36.9
Honeywell Electrical Devices & Systems India L	16.5	16.0	15.7	15.3	15.0
Sharp India Ltd	15.3	14.3	13.9	13.2	12.7
Eureka Forbes Ltd	7.3	6.5	6.2	5.7	5.5
Daikin Airconditioning India Pvt Ltd	3.8	3.3	3.3	3.2	3.1
Hindustan Unilever Ltd	2.3	2.7	2.8	2.6	2.5
Panasonic Home Appliances India Co Ltd	2.4	2.3	2.1	2.1	2.0

Source: Company, Kotak Institutional Equities

China's air purifiers market is believed to be decreasing in size

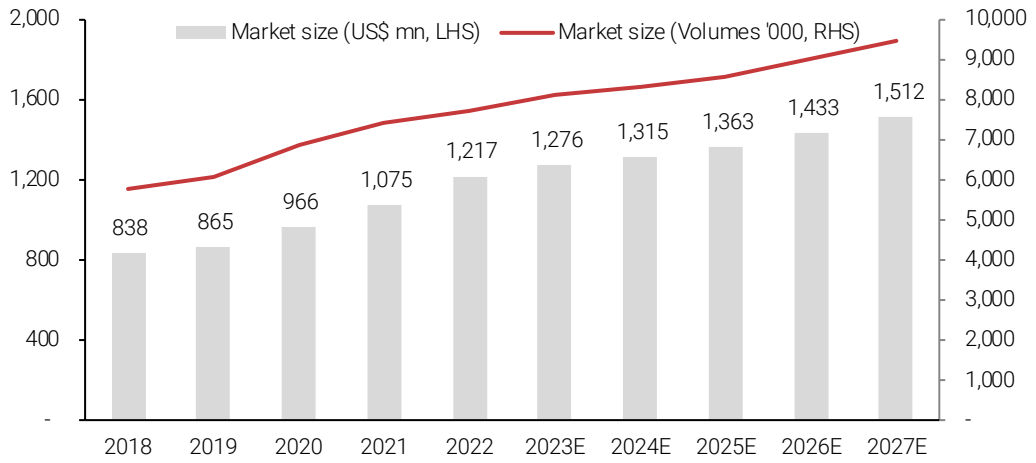
Exhibit 39: Market size of air purifiers in China, December year-ends, 2018-2027E



Source: Company, Kotak Institutional Equities

Air purifiers are a growing market in the US

Exhibit 40: Market size of air purifiers in the US, December year-ends, 2018-27E



Source: Euromonitor, Kotak Institutional Equities

India's air purifier market size is a fraction of China's even though India's air quality may be poorer

Exhibit 41: Air quality comparison across China and India

Parameters	China	India
AQI index (CY2022)	116	147
GDP (in trillion)	17.9	3.4
Population (mn)	1,412	1,408
GDP per capita (US$)	12,556	2,257
Air purifier market size (US$ mn)	1,107	55
Air purifier CAGR CY2022-27E	-5%	9%

Source: Industry report, Companies, Kotak Institutional Equities

5

Key risks

The key risks to EFL's growth story in water purifiers, in our view, are: (1) the risk of falling behind competitors that launch innovative and disruptive new offerings; (2) risk of intensifying competition that may put pressure on prices and margins; (3) inability to effectively manage the operational challenges involved in running an efficient services business and rental offering; (4) risk of attrition of key management personnel; and (5) a prolonged slowdown in consumer spending amid economic weakness that may crimp purchasing power.

Innovation risk

An inability to understand and react to evolving preferences of consumers by introducing new technologies or features could impact EFL's market share. In the past, there have been instances where the company has fallen behind the curve in reacting to innovative offerings by competitors, e.g., the launch of RO water purifiers by Kent in 2001 and the introduction of stainless-steel water purifiers by LG in 2016. In each of these episodes, EFL ended up losing market share for the following few years before it introduced its own products in these respective segments and managed to salvage its leadership position. However, we note that EFL's new management has articulated a heightened focus on R&D to drive innovation more proactively. EFL's R&D expenditure in FY2023 was Rs98 mn (0.5% of revenues). The company has earlier this year strengthened its dedicated research and innovation team, which constantly analyses consumer trends and technologies and works on introducing products that meet requirements.

Competitive risk

Increasing competition in the water purifier market could put pressure on EFL's market share and impact the profitability of the business. Given the low entry barriers, many new brands have entered the Indian water purifier market during the past decade. EFL's key competitors include Kent RO Systems, Livpure from Luminous Technologies and Pureit from HUL. Most recently, Urban Company has entered the market with its product Native that requires filter replacement once in two years (versus the conventional requirement of once every year). Livpure is the first mover in the rental segment for water purifiers and is clocking rapid growth there. In addition to these large competitors, the unorganized segment continues to hold a substantial share of the market. While competition is overall a key risk, EFL's strong brand remains a competitive advantage, as are its direct salesforce, 8 mn+ base of existing customers, and ability to offer in-house services. If the company plays its cards right, we believe it will be able to retain a substantial market share.

Operational risk

The water purifier business demands strong execution, especially on the servicing front, which has historically been a key pain point for consumers. Customer satisfaction with EFL's servicing has not been high thus far, and this raises the risk of customer attrition to competitors or substitute products such as bottled water. EFL will need to crack the code on the servicing front. While management is focused on digitizing various aspects of the service function to drive greater efficiencies and improved customer experience, another option worth considering could be to outsource the servicing function to a large managed services provider such as Quess Corp, who could potentially offer economies of scale compared to EFL's current model of relying on a wide network of local franchisees. Looking further out, we think the emergence of the rental model as perhaps the next big trend in the water purifier market could make operational efficiency even more important, and EFL will need to get its act right on this front if it is to maintain a large share of the market.

Key man risk

A key reason to believe in EFL's ability to crack the code in the Indian water purifier market is its high-quality new management team, so if the company were to suffer from high attrition, particularly the loss of its MD & CEO Pratik Pota, then confidence in the company's growth story might crumble. It is important, therefore, for the company to retain key senior management personnel—and it has taken the right steps to do so by offering a generous ESOP plan. Separately, if EFL's promoter entity (Advent International) were to sell out its stake and exit the company, then the company might be left without a strong parent, resulting in an overhang on the stock (especially given large free float) and potentially turning it into an acquisition target.

Economic headwinds

A prolonged downturn in consumer demand owing to economic headwinds that crimp household incomes could prevent the water purifier market from attaining its full potential. While companies are likely to introduce superior value propositions such as a rental offering (which, we note, worked well in South Korea post-1998 in the immediate aftermath of the Southeast Asian crisis, when income levels were depressed), sustained pressure on job creation and income levels could create heavy headwinds to market growth.

6 Financials: Asset-light business with high potential for margin expansion

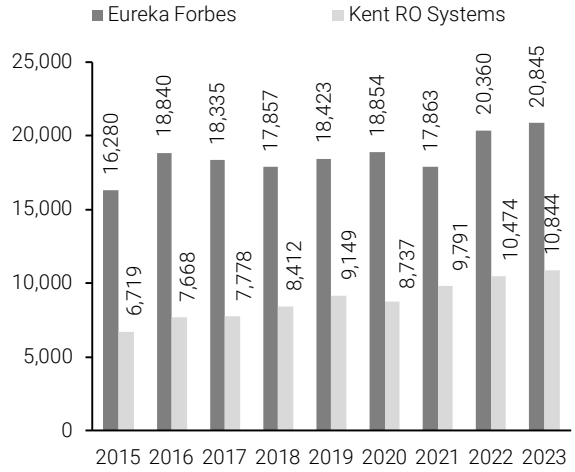
We estimate a revenue/pre-ESOP EBITDA/PAT CAGR of 9%/34%/98% for EFL over FY2023-26E. Revenue growth is likely to be weighed down by the discontinuation of certain legacy businesses; however, we expect water purifier revenues to clock a double-digit CAGR. We see margins expanding on cost efficiencies, favorable shift in revenue mix (toward service revenues and rentals), and operating leverage. Besides, the business model is very asset-light, with negative working capital and limited need for capex. Capital employed on the balance sheet is negative excluding goodwill and acquired intangibles. We expect the business to generate strong cash flows in coming years, creating reinvestment opportunities.

EFL's historical revenue growth has been lackluster

EFL's revenue growth has been sluggish over the past decade amid market share losses in water purifiers and headwinds in the (acquired) international businesses. The company reported large net losses over FY2018-20 due to losses at Forbes Lux International (a step-down subsidiary of Euro Forbes, Dubai). Lux International was demerged in July 2019, leading to an improvement in PAT in FY2021. EFL has reported further improvement in PAT after its acquisition by Advent International. However, revenue growth is likely to be weighed down in the future by the discontinuation of certain legacy businesses, e.g., the international business and Coronaguard (a device to deactivate viruses).

EFL's revenue growth has lagged behind that of Kent RO

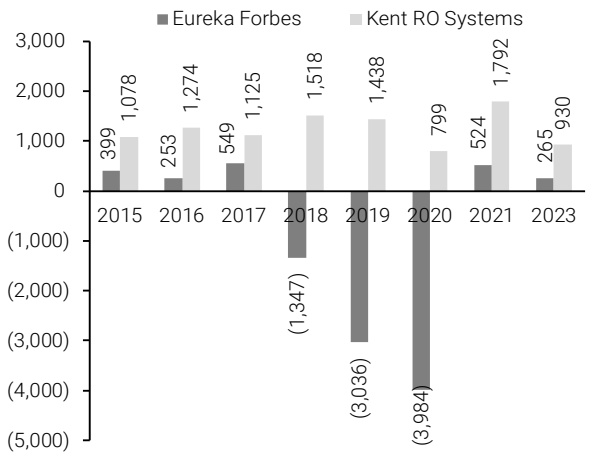
Exhibit 42: Revenues of EFL and Kent RO, March fiscal year-ends, 2015-23



Source: Private Circle, company, Kotak Institutional Equities

EFL reported net losses in the past due to overseas operations

Exhibit 43: PAT of EFL and Kent RO, March fiscal year-ends, 2015-23



Source: Private Circle, company, Kotak Institutional Equities

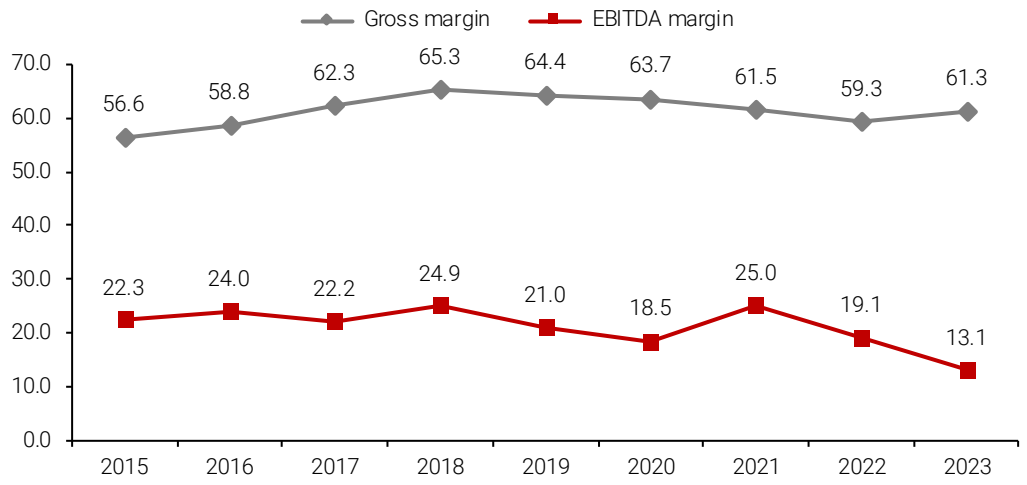
Gross margins are high, but inefficiencies have impacted EBITDA margins

EFL reports gross margins in the range of 58-60%—much higher than consumer durables peers, who register only around 38-40%. However, we note that Kent RO's gross margins have been in a similar range even though Kent has a different servicing model than EFL. EFL's EBITDA margins are sharply lower than those of Kent on account of high service charges. Unlike Eureka Forbes, Kent RO Systems sells its spare parts to its distribution partners, who in turn are responsible for servicing activities; hence, Kent incurs no service charges. Under new management, EFL has focused on reducing cost inefficiencies within the company—employee headcount was down 31% in FY2023, while there are numerous other low-hanging fruits in terms of opportunities for cost reduction, e.g., legal & professional fees were Rs482 mn in FY2023 (2.3% of revenues), conference expenses were Rs193 mn (0.9% of revenues), IT expenses were Rs531 mn (2.5% of revenues), and advertising, selling and sales promotion expenses are sharply above peers at 9.1% of revenues. The results of this efficiency improvement drive are already visible, with pre-ESOP EBITDA margins have risen sharply over the past year to 10.6% in 2QFY24 from 4.8% in FY2022 and 7.0% in FY2023. EFL is also working on improvements to its services business, which in turn could drive further efficiencies while also enhancing consumer experience—which, in turn, would lead to a higher share of high-margin service revenues. The company is taking steps to digitize its servicing process and connect more closely with the customer via digital tools, which could help increase the

efficiency of its technicians and drive more traffic through its app (and away from its call center, thereby saving on costs), while also improving customer satisfaction and user experience. Over the longer term, we believe EFL's EBITDA margins could potentially trend toward 18-20%, closer to the levels that its leading competitor Kent RO has maintained until FY2022.

Kent RO has consistently reported ~60% gross margins and ~20% EBITDA margins until FY2023

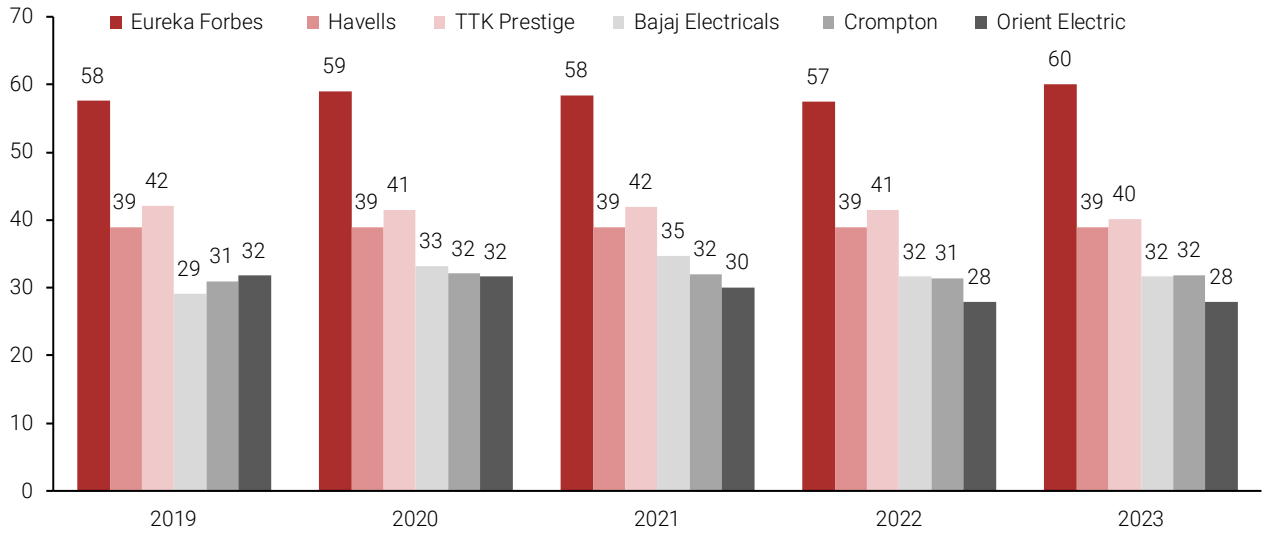
Exhibit 44: Gross margins and EBITDA margins of Kent RO Systems, March fiscal year-ends, 2015-23 (%)



Source: Companies, Kotak Institutional Equities

EFL's gross margins are sharply higher than those of consumer durables peers

Exhibit 45: Gross margins, March fiscal year-ends, 2019-23 (%)



Source: Companies, Kotak Institutional Equities

EFL reports similar gross margins as Kent RO (despite higher service revenues), but incurs much higher service charges

Exhibit 46: Common-size income statement of Eureka Forbes and Kent RO Systems, FY2023

Profit model	Eureka Forbes	Kent RO Systems
Revenue from operations	100%	100.0%
Cost of material consumed	30.4%	33.7%
Purchases of stock-in-trade	7.2%	8.7%
Changes in inventories of finished goods, work-in-progress and stock-in-trade	2.4%	-3.7%
Total COGS	40.0%	38.7%
Gross profit	**60.0%**	**61.3%**
Service charges	14.2%	0.0%
Employee benefits / salaries & other staff cost	14.5%	16.6%
Other expenses	24.3%	31.6%
Total operating expenses	93.0%	86.9%
EBITDA	**7.0%**	**13.1%**
Depreciation and amortization	2.7%	3.8%
EBIT	**4.2%**	**9.3%**
Finance cost	1.0%	0.2%
Other income	0.5%	2.3%
Profit before tax	**3.8%**	**11.3%**
Exceptional items	1.9%	0.0%
Profit after exceptional items and before tax	**1.8%**	**11.3%**
Tax expenses	0.6%	2.7%
Profit after tax	**1.3%**	**8.6%**

Source: Private Circle, Company, Kotak Institutional Equities

EFL's employee headcount decreased by 31% in FY2023

Exhibit 47: Number of employees in FY2022 and FY2023

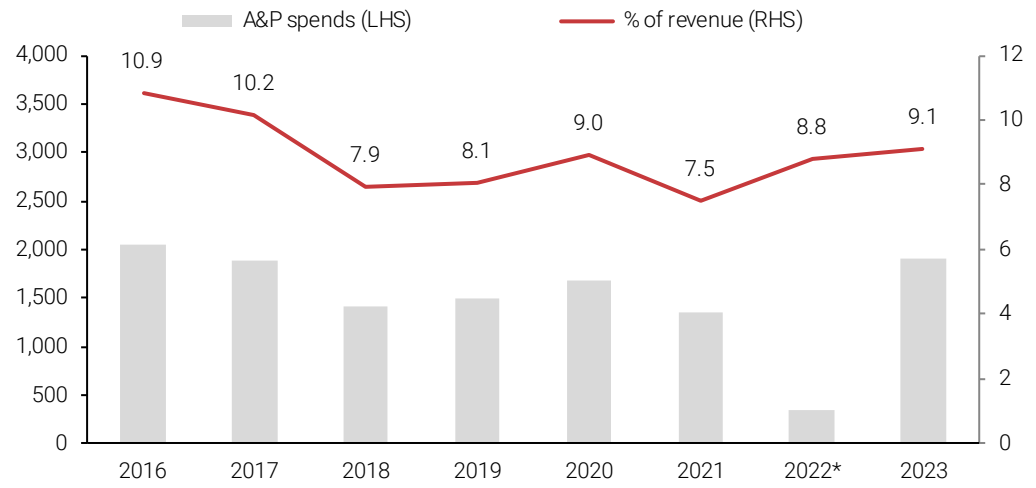
	FY2022	FY2023	% Change
Male	3,969	2,750	-31%
Female	185	134	-28%
Total	**4,154**	**2,884**	**-31%**

Source: Company, Kotak Institutional Equities

EFL's A&P expenditure is much higher than levels reported by peers: EFL has been spending 7-10% of sales on A&P in the past few years as compared to peers who spend in the range of 2-6%.

EFL's A&P spends as % of sales have been in the range of 7-11%

Exhibit 48: A&P expenditure of EFL, March fiscal year-ends, 2016-23

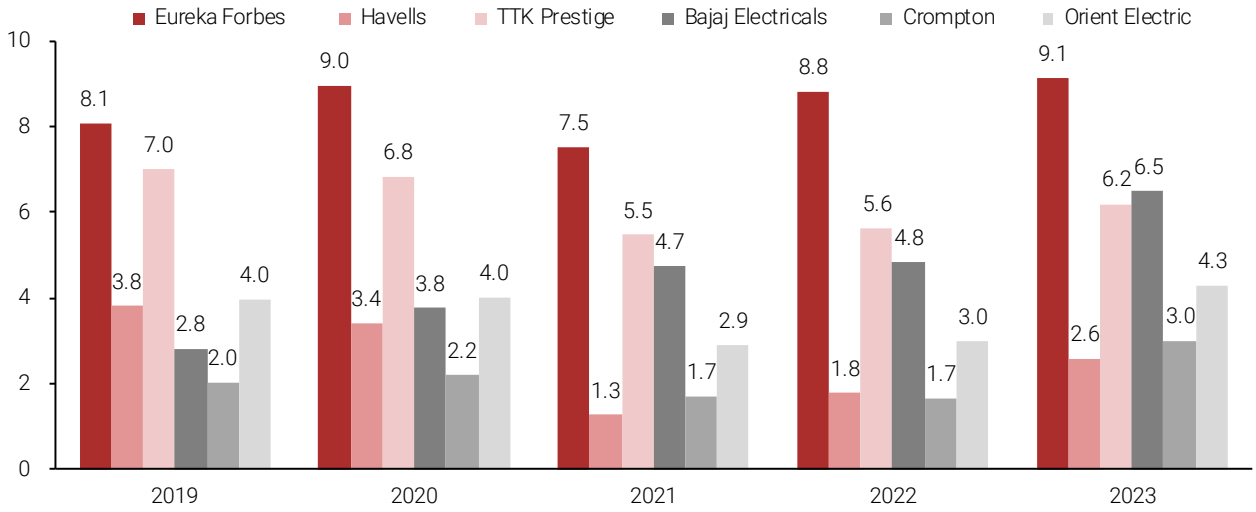


Notes: *Values for 2022 pertain to the period February 10, 2022 to March 31, 2022.

Source: Company, Kotak Institutional Equities

EFL's A&P spends are high relative to those of consumer durables peers

Exhibit 49: A&P expenditure of ECD companies, March fiscal year-ends, 2019-23 (% of revenues)



Notes: *Values for 2022 for EFL pertain to the period February 10, 2022 to March 31, 2022.

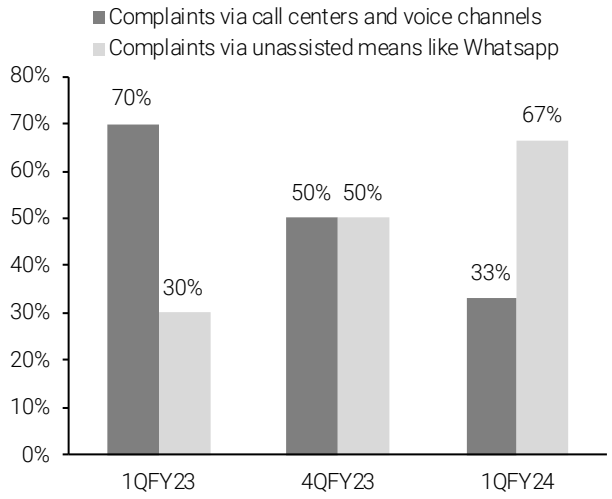
Source: Company, Kotak Institutional Equities

Margins likely to expand on the back of multiple drivers

Key drivers of margin expansion for EFL will be improved cost efficiencies as discussed previously, favorable shift in revenue mix toward high-margin streams such as service revenues and rentals, and operating leverage. While cutting unproductive spending across various heads, EFL is also trying to reduce the cost associated with servicing by channeling customer complaints from its call center to unassisted means such as apps or WhatsApp over the last few months. The company is increasing spending on IT infrastructure to reduce dependency on its call center. IT expenses as % of revenues have increased to 2.5% in FY2023 from 0.8% in FY2017; the benefits should flow through in the coming quarters. The number of direct salespeople has also reduced from over 3,000 a few years ago to 800 at present.

Consumer complaints have shifted toward unassisted means

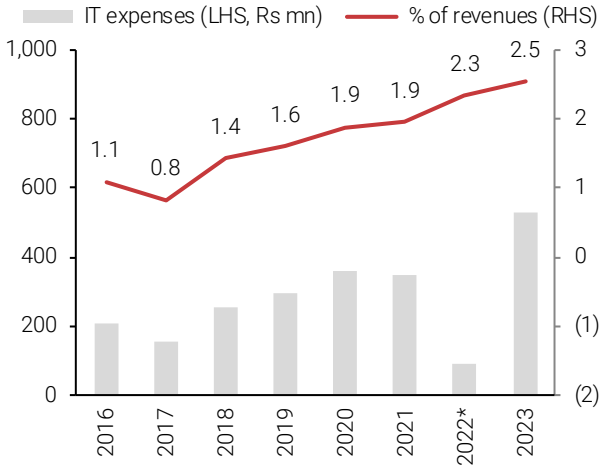
Exhibit 50: Complaints via assisted and unassisted channels



Source: Company, Kotak Institutional Equities

IT expenses have been rising as % of revenues

Exhibit 51: IT expenses, March fiscal year-ends, 2016-23



Notes: *Values for 2022 pertain to the period February 10, 2022 to March 31, 2022.

Source: Private circle, Company, Kotak Institutional Equities

EFL's Project Udaan has six key strategic priorities to drive the company's turnaround

Exhibit 52: Strategic priorities under Project Udaan



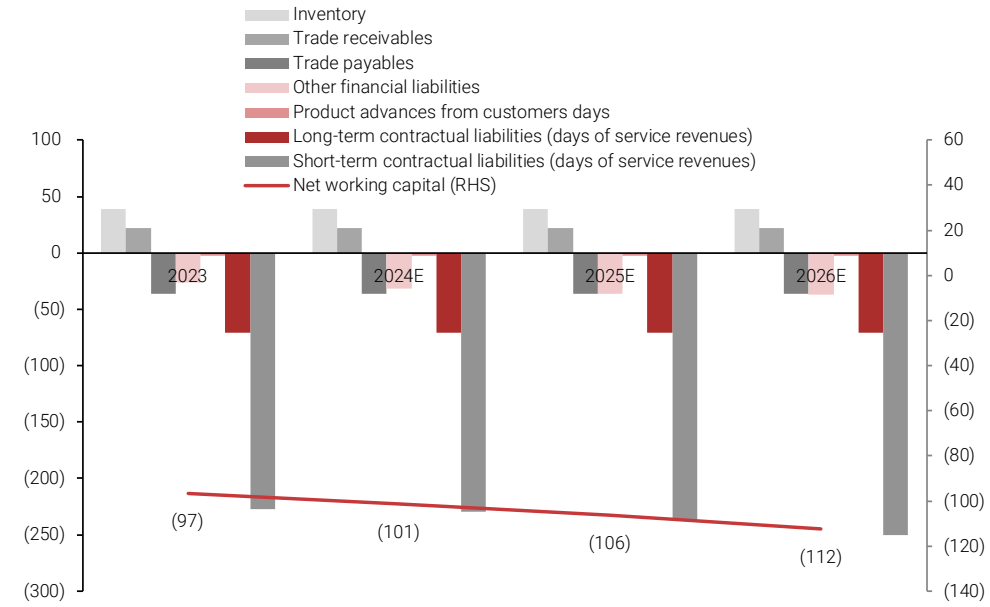
Source: Company, Kotak Institutional Equities

Negative working capital profile and strong cash generation

EFL has a net negative working capital profile, primarily due to advances received from customers for AMC contracts. Besides, inventory and receivables days are low; in fact, the company gets a small amount of advance payments from dealers for product purchases. Going forward, a growing share of rental revenues (which include certain plans where the consumer pays for 12 months in advance) as well as service revenues could lead to further improvement in cash generation profile.

Negative working capital leads to strong cash generation

Exhibit 53: Working capital items as days of sales, March fiscal year-ends, 2023-26E



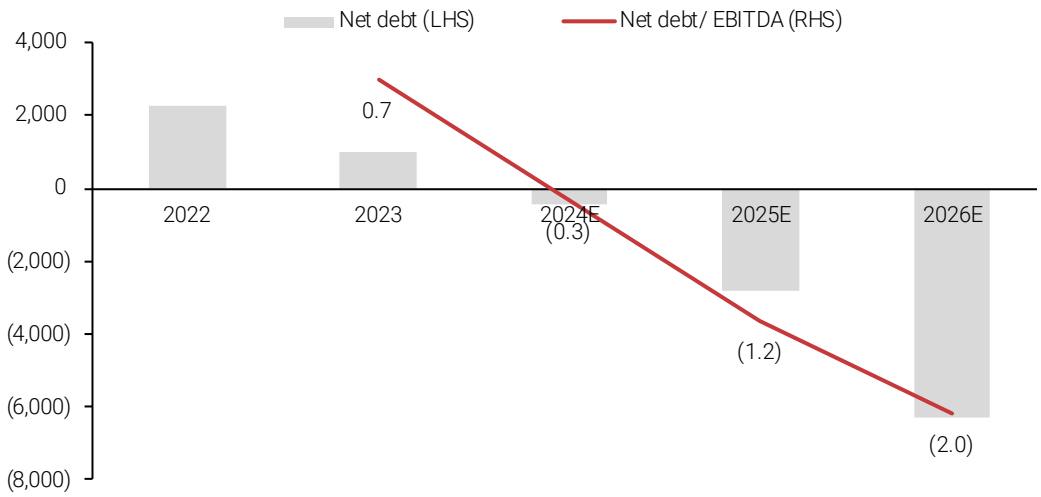
Note: (1) Financial liabilities include Interest free trade deposits, employees' dues, contract liabilities

Source: Company, Kotak Institutional Equities

The free cash generated could be used to pay off the debt and as investment in other growth opportunities. We expect the company to move into a net cash position in the near future.

Strong cash generation is enabling debt reduction

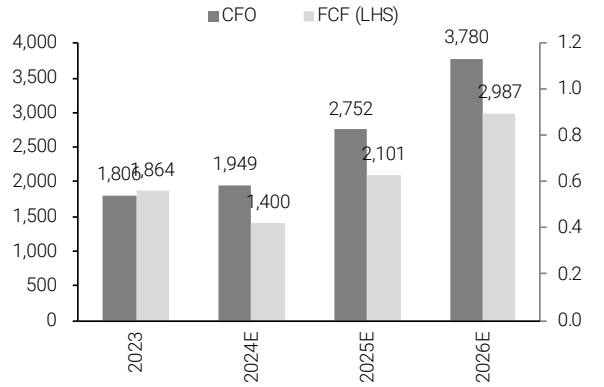
Exhibit 54: Net debt and leverage ratios, March fiscal year-ends, 2023-26E



Source: Company, Kotak Institutional Equities

Strong operating cash flow drives high FCF

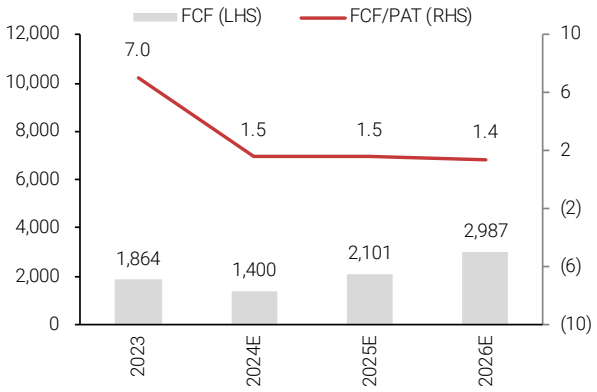
Exhibit 55: Cash flow items, March fiscal year-ends, 2023-26E



Source: Company, Kotak Institutional Equities

EFL's FCF is consistently higher than its PAT

Exhibit 56: FCF/PAT, March fiscal year-ends, 2023-26E



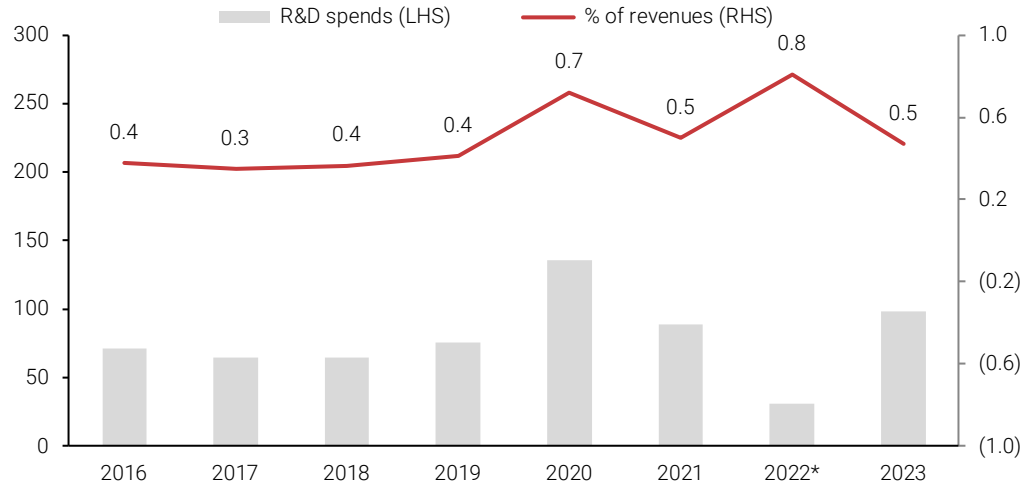
Source: Company, Kotak Institutional Equities

Increasing investment in R&D

The company intends to increase its investment in R&D for product innovation. In the past, EFL has fallen behind the technology curve versus competition. For example, Kent launched its RO water purifiers in 2001, and it took EFL around six years to respond. Similarly, LG introduced stainless steel water purifiers in 2016, following which EFL again took several years to respond. New management sees R&D as a key focus area. EFL's R&D expenditure in FY2023 was Rs98 mn, or 0.5% of sales.

EFL's R&D spending is around 0.5% of sales

Exhibit 57: R&D expenditure for EFL, March fiscal year-ends, 2016-23



Notes: *Values for 2022 pertain to the period February 10, 2022 to March 31, 2022.

Source: Company, Kotak Institutional Equities

Earnings are expected to climb sharply over FY2023-26E

Exhibit 58: Consolidated Income Statement of EFL, March fiscal year-ends, 2023-26E (Rs mn)

	2023	2024E	2025E	2026E
Revenue from operations	20,845	21,723	23,901	26,872
Total COGS	8,332	9,047	10,137	11,508
Gross profit	12,513	12,676	13,764	15,363
Service charges	2,960	2,933	3,107	3,359
Employee benefits /salaries & other staff cost	3,031	3,258	3,513	3,735
ESOP	0	340	400	300
Other expenses	5,071	4,742	4,859	5,060
EBITDA	1,450	1,743	2,285	3,210
EBITDA ex-ESOPs	1,450	2,083	2,685	3,510
Depreciation and amortization	565	533	606	718
EBIT	886	1,210	1,679	2,492
Finance cost	203	120	25	25
Profit before tax	785	1,206	1,785	2,743
Exceptional items	(400)			
Tax expenses	120	307	455	699
Profit after tax	265	898	1,330	2,043
PAT ex-ESOPs	265	1,151	1,628	2,267
Weighted average number of shares in issue - Diluted	193	208	208	208
Diluted EPS	1.4	4.3	6.4	9.8
Key Metrics				
Gross margin	**60.0**	**58.4**	**57.6**	**57.2**
Service charges	14.2	13.5	13.0	12.5
Employees	14.5	15.0	14.7	13.9
Other expenses	24.3	21.8	20.3	18.8
EBITDA margin	**7.0**	**8.0**	**9.6**	**11.9**
PAT margin	1.3	4.1	5.6	7.6
PAT margin ex-ESOPs	1.3	5.3	6.8	8.4
Growth rate (% yoy)				
Revenue		4.2	10.0	12.4
Gross profit		1.3	8.6	11.6
EBITDA		20.2	31.1	40.5
EBITDA ex-ESOPs		43.6	28.9	30.7
PAT		239.3	48.1	53.6
PAT ex-ESOPs		335.0	41.4	39.2

Source: Company, Kotak Institutional Equities

Exhibit 59: Consolidated Balance Sheet of EFL, March fiscal year-ends, 2023-26E (Rs mn)

	2023	2024E	2025E	2026E
Equity and liabilities				
Share capital	1,935	1,935	1,935	1,935
Other equity/reserves and surplus	39,042	39,940	41,270	43,313
Shareholder's funds	**40,976**	**41,875**	**43,205**	**45,248**
Non-controlling interest	12	12	12	12
Total equity	**40,988**	**41,886**	**43,217**	**45,260**
Total borrowings	1,210	0	0	0
Long-term provisions	269	269	269	269
Other non-current liabilities	9,495	9,532	9,650	9,856
Trade payables	2,087	2,174	2,392	2,690
Interest free trade deposits	460	460	460	460
Dues to employees	458	798	1,198	1,498
Contract liabilities and rebate schemes	536	586	636	686
Current tax liabilities - short-term	189	189	189	189
Advances from customers	130	130	135	149
Contract liabilities - income received in advance	3,910	4,067	4,602	5,588
Other current liabilities	574	592	635	694
Total liabilities	**19,317**	**18,796**	**20,166**	**22,078**
Total equity and liabilities	**60,306**	**60,683**	**63,383**	**67,338**
Net fixed asset	2,942	2,921	3,021	3,203
Goodwill	20,588	20,588	20,588	20,588
Intangible assets	31,303	31,303	31,303	31,303
Other non-current assets	503	503	503	503
Inventories	2,200	2,296	2,539	2,880
Trade receivables	1,237	1,290	1,423	1,609
Cash and cash equivalents	211	436	2,601	5,768
Other current assets	1,321	1,345	1,404	1,484
Total assets	**60,306**	**60,683**	**63,383**	**67,338**
Key ratios				
Net debt/EBITDA (X)	0.7	(0.2)	(1.1)	(1.8)
Net debt/equity (X)	0.0	(0.0)	(0.1)	(0.1)
Total debt / EBITDA (X)	0.8	0.0	0.0	0.0
Net debt / EBITDA (X)	0.7	(0.2)	(1.1)	(1.8)
Gross fixed assets turnover ratio	7.1	6.3	5.8	5.4
Working capital days				
Asset items				
Inventory days	39	39	39	39
Receivable days	22	22	22	22
Other current assets as days of sales	10	10	10	10
Liability items				
Trade payable days	37	37	37	37
Other financial liabilities as days of sales	26	32	36	37
Product advances from customers as days of sales	2	2	2	2
Other current liabilities other than advances days of sales	7	7	7	7
Long-term contractual liabilities (as days of service revenues)	71	71	71	71
Short-term contractual liabilities (as days of service revenues)	227	229	237	251
Core working capital days	(97)	(101)	(106)	(112)

Source: Company, Kotak Institutional Equities

Exhibit 60: Consolidated Cash Flow Statement of EFL, March fiscal year-ends, 2023-26E (Rs mn)

	2023	2024E	2025E	2026E
Operating cash flow				
Net profit before tax & extraordinary items	385	1,206	1,785	2,743
Depreciation & amortization	565	533	606	718
Interest (net)	198	4	(107)	(251)
Others	398	0	0	0
Operating profit before taxes and working capital	**1,546**	**1,743**	**2,285**	**3,210**
Change in working capital	322	516	935	1,305
Direct taxes (paid)	(62)	(307)	(455)	(699)
Cash flow from operations	**1,806**	**1,951**	**2,765**	**3,815**
Investing cash flow				
Interest received	4	116	132	276
Purchase of fixed assets	(213)	(549)	(680)	(863)
Others	(55)	37	(26)	(36)
Cash flow from investing	**(263)**	**(396)**	**(575)**	**(623)**
Financing cash flow				
Proceed from borrowings	0	(1,210)	0	0
Repayment of borrowings	(250)	0	0	0
Interest paid	(184)	(120)	(25)	(25)
Others	(1,101)	0	0	0
Cash used in financing activities	**(1,535)**	**(1,330)**	**(25)**	**(25)**
Net cash in cash	**8**	**225**	**2,165**	**3,167**
Free cash flow	**1,594**	**1,403**	**2,084**	**2,952**

Source: Company, Kotak Institutional Equities

Capital employed excluding goodwill and intangibles is negative

While EFL's RoCE on an as-reported basis is in the single-digits, we note that capital employed is entirely attributable to goodwill and acquired intangibles. Adjusted for these, capital employed is negative due to the working capital profile cited previously. Essentially, the business is very asset-light and holds potential to generate high returns on invested capital and strong FCF.

EFL's capital employed is negative after excluding goodwill and intangibles

Exhibit 61: Capital employed, March fiscal year-ends, 2023-26E (Rs mn)

	2023	2024E	2025E	2026E
Capital employed	43,189	42,187	41,875	43,205
Goodwill and intangible assets	51,891	51,891	51,891	51,891
Capital employed ex. goodwill and intangibles	(8,703)	(9,705)	(10,017)	(8,687)

Source: Company, Kotak Institutional Equities estimates

ESOP plan acts as a strong incentive for management

EFL has a total of 17.5 mn options approved under its stock option plan, of which 14.9 mn stock options (8% of EFL's current share count) were awarded in 1QFY24 (generally with a strike price around the current market price) to managers. The options have a minimum vesting period of one year and a maximum of seven years. This has led to an increase in employee cost by ~Rs100 mn per quarter. In our model, we assume ESOP charges of Rs400 mn each for FY2024 and FY2025 and Rs300 mn for subsequent years until FY2028.We also assume that the ESOP grant dilutes the total number of shares to 208 mn.

7

Company profile

EFL was founded in 1982 as a joint venture between the Tata Group and Electrolux, and pioneered India's water purifier and vacuum cleaner markets in the 1980s. The company was challenged in subsequent years by new competition, including Kent RO, Unilever, Tata Chemicals and various others, yet—despite lagging in the innovation game, EFL managed to remain the market leader. The company's previous owners, the Shapoorji Group, divested its stake in favor of Advent International in 2022, following which Advent has inducted a highly-pedigreed senior management team led by former Jubilant Foodworks CEO Pratik Pota.

Timeline and corporate history

EFL's origins date back to 1982, with the founding of a joint venture between India's Tata Group and Swedish home appliances company Electrolux. EFL was the pioneer in India's water purifier and vacuum cleaner markets in the 1980s, quickly emerging as a household name thanks to its army of direct sales personnel who visited prospective customers door-to-door. The company was challenged in the early-2000s by Kent RO, which launched a marketing blitz around the newly-introduced category of RO water purifiers. Over the years, numerous new competitors entered the water purifier market, including heavyweights such as Unilever (Pureit) and Tata Chemicals (Swach), yet market penetration lagged due to high cost of ownership and the absence of satisfactory servicing. Despite lagging behind in the innovation game, EFL managed to hold on to its leadership position, albeit while suffering market share declines. The company's previous owners, the Shapoorji Group, made an unsuccessful foray into international markets that ultimately culminated in large losses during the period FY2018-2020. The Shapoorji Group divested its majority stake in favor of the private equity firm Advent International in 2022, following which Advent is now the company's promoter. Advent has inducted a highly-pedigreed senior management team led by former Jubilant Foodworks CEO Pratik Pota with the intent to drive accelerated growth and improved profitability at EFL.

Founded in 1982, EFL became part of a listed company in 2001-02 and became a listed company itself in 2022

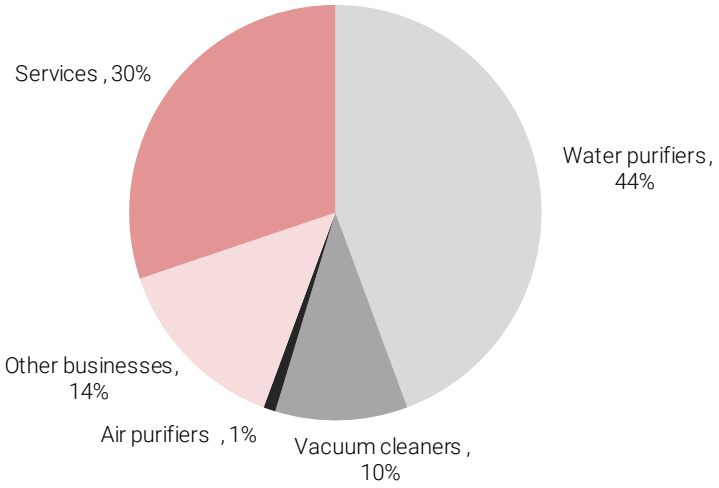
Exhibit 62: Timeline of Eureka Forbes

Date	Description
1982	The company was founded as a 60:40 joint venture was founded between the Tata Group's Forbes Campbell and Swedish manufacturer Electrolux
1984	Launched India's first water purifier, Aquaguard
2001	The Tata Group sold its 14.83% stake in Forbes & Company to the Shapoorji Pallonji Group
2004-05	Electrolux sold its 40% stake in Eureka Forbes to Forbes & Company; EFL becomes a wholly-owned subsidiary of Forbes & Company
2007	Eureka Forbes and Lux International entered into a 50:50 joint venture to form Forbes Lux for international operations
2010	Eureka Forbes acquired a 25% stake in Lux International through its WoS EFL Mauritius Limited
2013	EFL further increases stake in Lux International, thus becoming a majority owner, for an undisclosed amount
19-Sep-21	Lunolux Limited, an Advent International entity, enters into a Share Purchase Agreement with Shapoorji, Forbes & Co., and certain other entities
1-Feb-22	Eureka Forbes Limited and a few subsidiaries (excluding the Lux entities) were consolidated and merged, and then the Health, Hygiene, Safety Products and Services undertaking was demerged for listing vide a Composite Scheme of Arrangement
16-Mar-22	Eureka Forbes was listed on the BSE
25-Apr-22	Lunolux acquires 63.86% of EFL from Shapoorji Pallonji and becomes the promoter of EFL
12-Jul-22	Lunolux acquires the remaining 8.70% stake held by Shapoorji Pallonji in EFL
16-Aug-22	Former Jubilant Foodworks CEO Pratik Pota takes over as the new MD & CEO of EFL

Source: Company, Kotak Institutional Equities

Water purifier sales and servicing account for three-quarters of EFL's total revenues

Exhibit 63: Indicative revenue breakdown for FY2023



Source: Company, Kotak Institutional Equities estimates

Strong product portfolio across all price points

The company has developed a product portfolio of across price points targeting consumers across income levels. In the water purifier category, the products are subdivided into three brands: (1) Select, which is the premium segment with product value above Rs15,000; (2) Sure from Aquaguard, which is the economy segment with a price range between Rs1,500-Rs21,000; and (3) Aquaguard. A total of 198 products are available in all technologies, i.e., non-electric, UV, RO and UV+RO.

Exhibit 64: Some of EFL's products under the water purifier category

Brand	Products	Description	MRP	Technology
Aquaguard Select (Premium)	Aquaguard Select Classic+	Infuses water with cooper and zinc along with UV and Biotron technology	14,990	UV
	Dr. Aquaguard Classic	Filter water with TDS of up to 200mg per liter with UV E-boiling and Biotron technology	15,490	UV
	Dr. Aquaguard Magna UV	5-stage purification process with Carbon mineral guard, UV E-boiling and Biotron technology	18,490	UV
	Aquaguard Select Classic + Hot	Dispenses warm and ambient purified water with the additional features Active cooper zinc Booster Maxx, UV e-boiling technology, Biotron and Carbon Cartridge	19,490	UV
	Aquaguard Select Nrich Green RO	Purifieswater with RO membrane, Carbon mineral guard, UV E-boiling and Biotron technology	18,990	RO
	Aquaguard Select Designo UTC RO+UV+MTDS	Purifies water with RO membrane, Carbon mineral guard, UV E-boiling and Biotron technology suitable for water with TDS > 2,000 mg/L+. Its size make it easier to install it under sink.	23,000	RO+UV
	Aquaguard Select Edge with Alkaline Technology	Alkaline Boost technology that enhances the ph level in water and purifies water with RO membrane, Carbon mineral guard, UV E-boiling and Biotron technology	25,990	RO+UV
	Aquaguard Select ZEST RO+UV+MTDS+HOT and Ambient	Dispenses warm purified water with the additional features Active Cooper Zinc Booster Maxx, UV e-boiling technology, and Carbon Cartridge and suitable for all kinds of water such as Municipal water, Borewell water, Water from tankers	35,990	RO+UV
	Dr. Aquaguard Fusion Hot N Ambient N Cold	Dispenses warm and cold purified water with the additional features Active cooper zinc Booster Maxx, UV e-boiling technology, Biotron and Carbon Cartridge suitable for TDS level upto 2,000 mg/L	38,690	RO+UV
Aquaguard Sure (economy)	Aquasure Maxima 1500	Removes particulate with Particulate Filter, Sediment Filter and Carbon Block	1,499	Non-electric
	Sure from Aquaguard Captain	Removes 99.99% viruses and bacteria from your water.	2,899	Non-electric
	Sure from Aquaguard Champion	Removes 99.99% viruses and bacteria from your water.	3,299	Non-electric
	AquaSure Maxima Aquaflow EX	Purifies water with Chemi block and UV chamber suitable for water with TDS upto 200mg/L	5,999	UV
	Sure From Aquaguard Champ UV	Purifies water with I-Filter, Chemi-Block and UV e-boiling technology	6,499	UV
	Sure From Aquaguard Crown	Best suited for municipal water and uses UV technology to deliver pure drinking water.	6,950	UV
	Sure From Aquaguard Champ RO+UV	Purifies water with RO+UV technology along with I-Filter, Chemi-block	7,999	RO+UV
	Aquasure Splash RO+UF	Purifies water with i-Filter, Chemi-Block, RO Cartridge and Ultra Filtration	10,999	RO
	Aquasure Maxima RO+UF	Compact water purifier with dual RO+UF technology suitable for high TDS & salty water.	12,000	RO
	Sure from Aquaguard Desire NXT RO+UV+TA	Purifies water with i-Filter, Chemi block, RO Membrane, UV e-boiling and Post Carbon cartridge suitable for TDS levels above 2,000mg/L+	14,000	RO+UV
	Aquasure Wave RO+UV+MTDS	Purifies water with RO and UV E-Boiling technology with taste adjuster technology.	18,500	RO+UV
	Aquasure Xpert	Equipped with Chemical Mineral guard, RO Cartridge, Uv e-Boiling technology, UF and Taste Adjuster. This is suited for homes with intermittent water supply or water sources that change.	20,999	RO+UV
Aquaguard	Aquaguard On The Go - Black Mystery	Portable water purifier with space Nano technology upto 600 fills	500	Non-electric
	Nourish from Aquaguard, Anti-Oxidant Water	Portable water purifier which can be charged easily wfrom USB cable	4,990	Non-electric
	Aquaguard Pride	UV storage water purifier equipped with unique e-boiling+ technology.	6,490	UV
	Aquaguard Mist UV+	Purfies water with UV techonolgy and suitable for Municipal water.	10,000	UV
	Aquaguard Crest UV	Purfies water with UV techonolgy and Active cooper with zinc Booster	15,990	UV
	Aquaguard Nova RO Water Purifier	Purifies water with i-Filter, Chemi block, RO Membrane, UV e-boiling and Post Carbon cartridge suitable for TDS levels upto 2,000mg/L+	16,990	RO
	Aquaguard UTC UV Booster Water Purifier	Purifies water with i-Filter, Chemi block, RO Membrane, UV e-boiling and Post Carbon cartridge suitable for TDS levels upto 200mg/L+	18,490	UV
	Aquaguard Infinia RO+UV+UF+TA	Purfies water with UV techonolgy and RO membrane and infuses water with cooper and zinc minerals	24,500	RO+UV
	Aquaguard Superio RO+UV+MTDS+Alkaline+SS	Purifies water with i-Filter, Chemi block, RO Membrane, UV e-boiling and Post Carbon cartridge suitable for TDS levels upto 2,000mg/L+	27,000	RO+UV+MTDS
	Aquaguard Essence RO+Auto UV Ayur	Purfies water with UV techonolgy and RO membrane and infuses water with cooper, zinc minerals and Ayurvedic herbs and spices.	34,000	RO+UV
	Aquaguard Blaze Slim RO+UV+MTDS Hot & Ambient	Dispenses hot ambient and cold water via sensotron and works with multiple sources of water with TDS levels up to 2,000 mg/liters. It also infuses water with cooper and zinc minerals	38,000	RO+UV
	Aquaguard Hot & Cold	Dispenses hot ambient and cold water via sensotron and works with multiple sources of water with TDS levels up to 2,000 mg/liters. It also infuses water with cooper and zinc minerals	47,000	RO+UV

Source: Company, Kotak Institutional Equities

In vacuum cleaners, Eureka Forbes provides a total of 57 products for non-commercial purpose across three brands: (1) Forbes Select, the premium brand; (2) Sure from Forbes, which is the economy brand; and (3) Forbes. The vacuum cleaners are available in different types such as robotic, cannister, handheld and upright. EFL also produces products for industrial purposes, e.g., scrubbers, high pressure washers and heavy-duty vacuum cleaners.

Exhibit 65: EFL's product portfolio in vacuum cleaners

Vacuum cleaners



Robotic vacuum cleaner

Price range: Rs18,000 - 40,000



Cannister vacuum cleaner

Price range: Rs3,000 - 17,000



Upright vacuum cleaner

Price range: Rs10,000 - 33,000



Handheld vacuum cleaner

Price range: RS1,500 - 4,000

Source: Company, Kotak Institutional Equities

Under the air purifier category, EFL provides eight products equipped with UV-C technology with TiO2 filters available in two brands, Aeroguard and Forbes. In addition to this, the company also has water softener solutions, which treat hard water up to 2050 ppm.

Manufacturing facilities and subsidiaries

EFL has two manufacturing plants at Bengaluru and Dehradun, with an installed capacity of 1.15 mn units per annum for manufacturing electric water purifiers, water filters, coolers, vacuum cleaners and air purifiers. The capacity utilization of the manufacturing units was 77% in FY2022.

Exhibit 66: Manufacturing facilities

Location	Products	Capacity (mn)
Bengaluru	Water purifiers (domestic & institutional), vacuum cleaners, air purifiers, Coronaguard	1.15
Dehradun		

Note: Company is planning to discontinue the production of Coronaguard

Source: Company, Kotak Institutional Equities

The company has three direct subsidiaries: (1) Forbes Aquatech, India; (2) Infinite Water Solutions, India; and (3) Euro Forbes, UAE. Forbes Lux FZCO, UAE, is a step-down subsidiary of Euro Forbes. Management has indicated an intention to close down the international subsidiaries by the end of FY2024.

Exhibit 67: Subsidiaries of Eureka Forbes

Holding company: Lunolux Limited (Advent international), 72.56% stake										
Parent Company: Eureka Forbes					% of shares held by the EFL		Revenue (Rs mn)		PAT(Rs mn)	
		Country	Incorporated	Functions	FY2022	FY2023	FY2022	FY2023	FY2022	FY2023
Forbes Aquatech Ltd	Subsidiary	India	03-Sep-03	Primarily involved in manufacture of non-electric water purifiers	88.49%	88.49%	118.93	48.23	0.65	(7.41)
Infinite Water Solutions	Subsidiary	India	27-Apr-08	Manufactures RO and NF membranes of various variants	100%	100%	457.94	533.85	55.32	70.15
Euro Forbes Ltd.*	Subsidiary	UAE	12-Apr-11	Investment arm of Eureka Forbes Limited, which has a wholly-owned subsidiary 'Forbes Lux FZE'. EFL plans to shut down this subsidiary.	100%	100%	2.70	0.00	(0.24)	(0.74)
Forbes Lux FZE, Dubai *	Step-down subsidiary, with parent company being Euro Forbes	UAE	26-Jun-11	Involved in distribution and trading of cookers & cook stoves, refrigerators, washing machines & electrical appliances, water heaters, filters & purification devices, electrical & electronic appliance spare parts	100%	100%	94.05	52.22	(0.06)	(61.78)
Total							**673.63**	**634.30**	**55.66**	**0.22**

Source: Company, Kotak Institutional Equities

Acquisition of Health, Hygiene, Safety Products and Services undertaking

Advent acquired Forbes & Company's Health, Hygiene, Safety Products and Services business in 2021-22, and this became the current Eureka Forbes.

The Aquaguard brand represents the major share of the purchase consideration paid for EFL

Exhibit 68: Details of assets acquired by Advent International (Rs bn)

Acquisition of Health, Hygiene and Safety Products	Amount (Rs bn)
Specified tangible asset	
Property, plant and equipment	2.7
Brand - Aquaguard	28.6
Brand - Forbes	0.5
Distribution network - services	2.1
Distribution network - products	0.4
Cash and cash equivalents	0.1
Inventories	3.0
Other assets	3.5
Total identifiable assets	**40.8**
Long term debt	2.6
Other current liabilities	7.4
Other liabilities	2.4
Total identifiable liabilities	**12.4**
Net asset acquired	**28.4**
Goodwill (before deferred tax adjustments)	12.2
Total fair value consideration	**40.7**

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

ESG
India

NIFTY-50: **20,926**

December 14, 2023

COP28: Initial headway, some hiccups, still a long way to go

COP28 kept the hope of achieving climate goal under the Paris agreement alive. While initial headway was seen in the form of adoption of Loss and Damage Fund (LDF) plan, conclusion of first Global Stocktake (GST) and commitment to transitioning away from fossil fuels, a lot more is yet to be done as we progress toward the 1.5°C goal.

LDF plan approved; climate finance needs more commitments

The adoption of LDF plan by the members was the silver lining of COP28. However, the announced contributions of US$792 mn for LDF (see Exhibit 1) significantly lagged the recommended initial floor funding of US$150 bn per annum (see Exhibit 2; refer our detailed note on LDF). The climate funding provided by developed nations continued to increase to US$89.6 bn in 2021 (see Exhibit 3) and is likely to have reached the US$100 bn/year (by 2020) goal in 2022. COP28 urged the developed nations to up their mitigation as well as adaptation finance commitments in line with the growing requirements. IEA estimates that US$4.5 tn of climate finance and clean investments will be required annually by early 2030s to achieve net zero by 2050. The Global Goal on Adaptation (GGA) agreement called upon COP members to establish and implement national adaptation plans by 2030 (see Exhibits 4-5).

GST: Step in the right direction for making NDCs more ambitious

The first GST concluded at COP28 called for more ambitious actions on mitigation, adaptation and climate finance (see Exhibit 6). It pushed for more ambitious 1.5°C aligned NDCs while recognizing that the full implementation of the latest available 168 NDCs will lower emissions only by ~2% before 2030 from 2019's levels versus the ~43% reduction required to achieve the 1.5°C goal. The GST outlined eight key recommendations (see Exhibit 7) and signed various declarations (see Exhibit 8), focusing on reducing emissions primarily by scaling up renewable energy and energy efficiency, among others. While it has 'called on parties to contribute' to phasing down of unabated coal and transitioning away from fossil fuels in energy systems, a tougher absolute stance on 'phasing out/down' fossil fuels was left out of the agreement.

India: Makes no big bang announcements; on track to meet its current NDCs

India made no big announcements at COP28 after it set forth its net zero target and Long-Term Low Emission Development Strategy (LT-LEDS) in the last two COPs. While India is progressing well on its current NDCs (see Exhibits 9-10), it refrained from signing the Global Renewables & Energy Efficiency Pledge for tripling renewable energy generation capacity and doubling the rate of energy efficiency alongside phasing down of unabated coal-based generation by 2030. We believe India currently is striving to fulfill its growing energy needs by adding more thermal capacities, while also continuing to add renewable energy capacities in line with its NDC targets. We expect India to announce more ambitious NDC targets in 2025 by (1) increasing the non-fossil fuel electricity generation capacity target to 65% by 2030 (versus 50% as per current NDC), in line with the Ministry of Power's goals, and (2) increasing the ambitiousness of emission intensity reduction target.

Quick Numbers

LDF contributions of US$792 mn announced during COP28

Climate funding provided by developed nations increased to US$89.6 bn in 2021

Full implementation of latest available NDCs will reduce emission levels by ~2% before 2030 versus 43% required from 2019's levels

Related Research

→ ESG: COP28: Oriented toward climate finance

→ ESG: COP27: Some progress

→ ESG: COP26: Pledges bring climate goal close

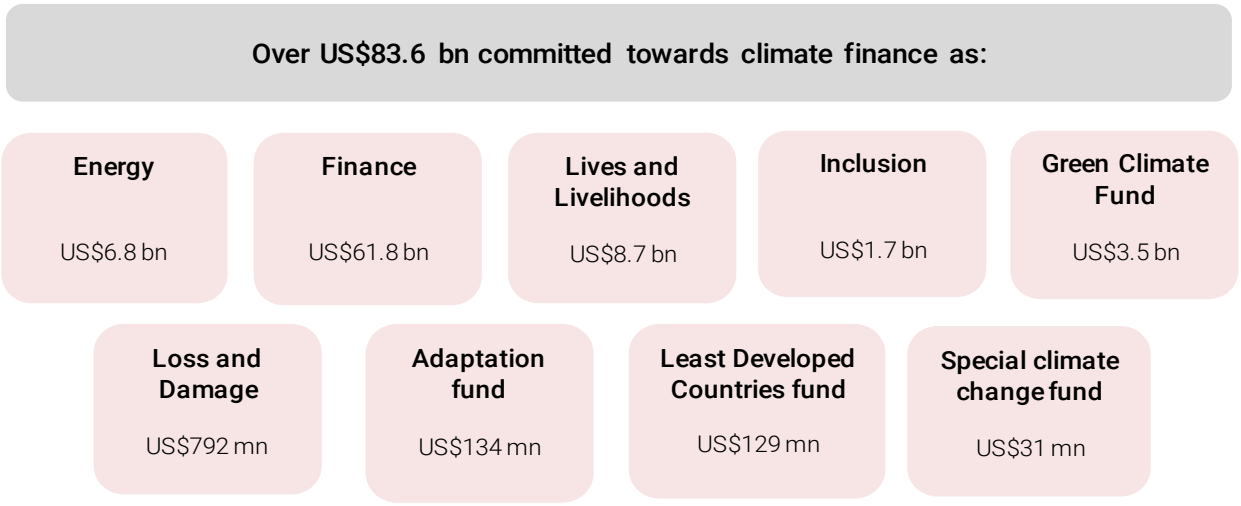
Full sector coverage on KINSITE

Sandeep Gupta

Prateeksha Malpani

COP28 witnessed announcement of ~US$83.6 bn worth of climate funding commitments, out of which ~US$792 mn pertains to LDF

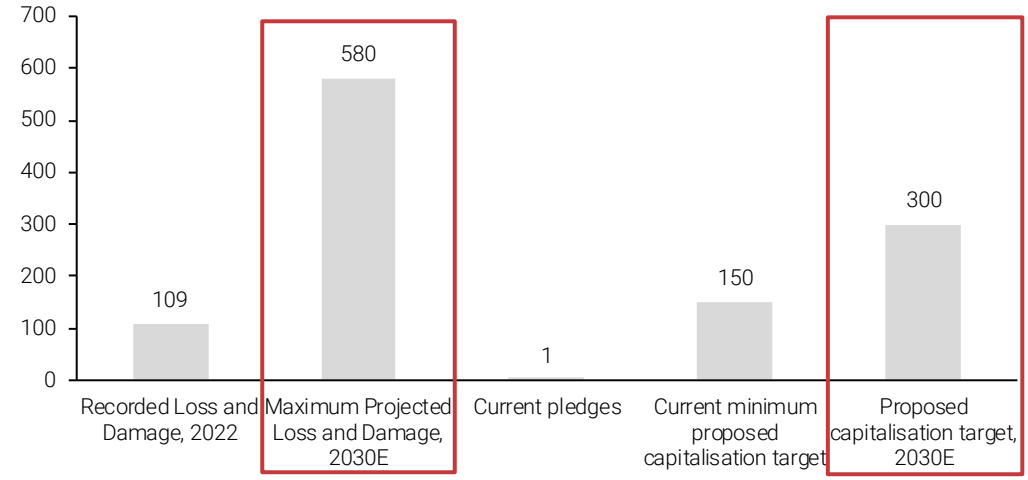
Exhibit 1: Climate finance commitments announced during COP28



Source: UNFCCC, Kotak Institutional Equities

Proposed LDF capitalization for 2030E is ~48% lower than the maximum projected loss and damage

Exhibit 2: Comparison of loss and damage financing needs and pledges, calendar year-ends (US$ bn)



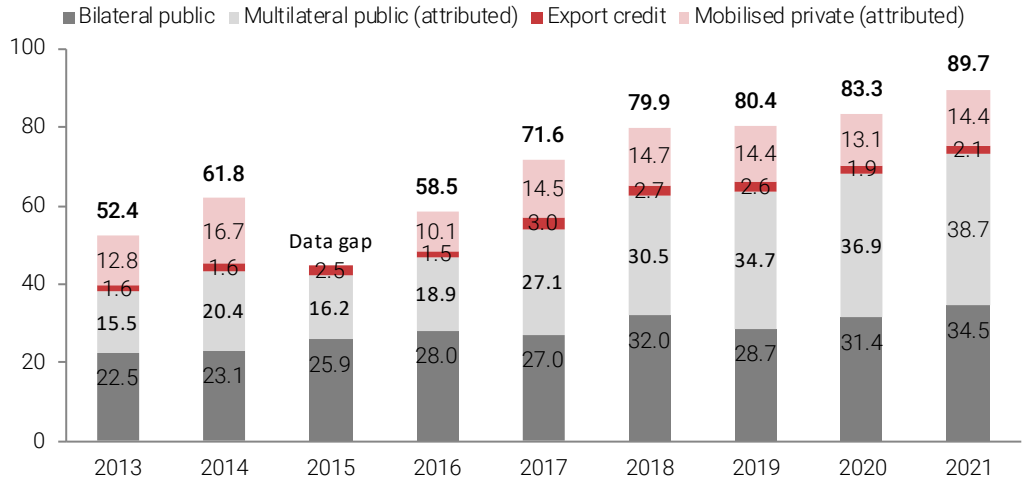
Notes:

(a) Current pledges of around US$1 bn comprise US$0.3 bn worth of pre-COP28 pledges and US$0.7 bn of pledges announced in the COP28 summit.

Source: UNCTAD, Kotak Institutional Equities

Climate finance provided by developed parties has increased over the years, but lags US$100 bn goal

Exhibit 3: Climate finance provided and mobilized, calendar year-ends, 2013-2021 (US$ bn)



Notes:

(a) The sum of components may not add up in the total due to rounding.

(b) Due to the gap in time series in 2015 and the implementation of enhanced measurement methods, the data for the years after 2015 is not comparable with previous years.

Source: OECD (2023), Kotak Institutional Equities

GGA has urged COP members for achieving goals for enhancing climate adaptation action and support

Exhibit 4: 2030 targets set by the Global Goal on Adaptation

Key themes	Description
Water	Significantly reducing climate-induced water scarcity and enhancing climate resilience to water-related hazards towards a climate-resilient water supply, climate-resilient sanitation and access to safe and affordable potable water for all
Food and agricutural production	Attaining climate-resilient food and agricultural production and supply and distribution of food, as well as increasing sustainable and regenerative production and equitable access to adequate food and nutrition for all
Health	Attaining resilience against climate change related health impacts, promoting climate-resilient health services, and significantly reducing climate-related morbidity and mortality, particularly in the most vulnerable communities
Ecosystem	Reducing climate impacts on ecosystems and biodiversity and accelerating the use of ecosystem-based adaptation and nature-based solutions, including through their management, enhancement, restoration and conservation and the protection of terrestrial, inland water, mountain, marine and coastal ecosystems
Infrastructure	Increasing the resilience of infrastructure and human settlements to climate change impacts to ensure basic and continuous essential services for all, and minimizing climate-related impacts on infrastructure and human settlements
Poverty	Substantially reducing the adverse effects of climate change on poverty eradication and livelihoods, in particular by promoting the use of adaptive social protection measures for all
Cultural heritage	Protecting cultural heritage from the impacts of climate-related risks by developing adaptive strategies for preserving cultural practices and heritage sites and by designing climate-resilient infrastructure, guided by traditional knowledge, Indigenous Peoples' knowledge and local knowledge systems

Source: UNFCCC, Kotak Institutional Equities

GGA aims for all COP members to come up with and implement national adaptation plans by 2030

Exhibit 5: Key action areas highlighted in the Global Goal on Adaptation framework

Key action points	Description
Impact, vulnerability and risk assessment	● By 2030, all parties have conducted up-to-date assessments of climate hazards, climate change impacts and exposure to risks and vulnerabilities and have used the outcomes of these assessments to inform their formulation of national adaptation plans, policy instruments, and planning processes and/or strategies ● By 2027, all parties have established multi-hazard early warning systems, climate information services for risk reduction and systematic observation to support improved climate-related data, information and services
Planning	By 2030, all parties have in place country-driven, gender-responsive, participatory and fully transparent national adaptation plans, policy instruments, and planning processes and/or strategies, covering, as appropriate, ecosystems, sectors, people and vulnerable communities, and have mainstreamed adaptation in all relevant strategies and plans
Implementation	By 2030, all parties have progressed in implementing their national adaptation plans, policies and strategies and, as a result, have reduced the social and economic impacts of the key climate hazards identified in the assessments
Monitoring, evaluation and learning	By 2030 all parties have designed, established and operationalized a system for monitoring, evaluation and learning for their national adaptation efforts and have built the required institutional capacity to fully implement the system

Source: UNFCCC, Kotak Institutional Equities

GST called upon COP members to act more ambitiously on mitigation, adaptation and climate finance

Exhibit 6: Key points highlighted by GST on three pillars of Paris Agreement

Themes	Key highlights
Mitigation	● Calls on parties to contribute to list of eight action points (see Exhibit xx), in a nationally determined manner, taking into account the Paris Agreement and their different national circumstances, pathways and approaches ● Recognizes that transitional fuels can play a role in facilitating the energy transition while ensuring energy security ● Welcomes that over the past decade mitigation technologies have become increasingly available, and that the unit costs of several low-emission technologies have fallen continuously, notably wind power and solar power and storage
Adaptation	● Calls for urgent, incremental, transformational and country-driven adaptation action based on different national circumstances ● Calls on parties that have not yet done so to have in place their national adaptation plans, policies and planning processes and to have progressed in implementing them by 2030 (see Exhibits xx and xx) ● Urges developed country Parties to prepare a report on the doubling of the collective provision of climate finance for adaptation to developing country Parties from 2019 levels by 2025
Climate finance	● Highlights the growing gap between the needs of developing country Parties highlighting that such needs are currently estimated at US$5.8–5.9 tn for the pre-2030 period ● Highlights that the adaptation finance needs of developing countries are estimated at US$215-387 bn annually up until 2030, and that about US$4.3 tn per year needs to be invested in clean energy up until 2030, increasing thereafter to US$5 tn per year up until 2050, to be able to reach net zero emissions by 2050 ● Notes with concern that the adaptation finance gap is widening, and that current levels of climate finance, technology development and transfer, and capacity-building for adaptation remain insufficient to respond to worsening climate change impacts in developing country Parties ● Urges developed country Parties to fully deliver, with urgency, on the US$100 bn per year goal through to 2025

Source: UNFCCC, Kotak Institutional Equities

GST has proposed to triple renewable energy capacity by 2030, accelerate phase down of unabated coal power and transition away from fossil fuels in align with 1.5°C pathway

Exhibit 7: Key actions recommended by GST to achieve sustained reductions in GHG emissions

Tripling renewable energy capacity globally and doubling the global average annual rate of energy efficiency improvements by 2030
Accelerating efforts towards the phase-down of unabated coal power
Accelerating efforts globally towards net zero emission energy systems, utilizing zero- and low-carbon fuels well before or by around mid-century
Transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science
Accelerating zero- and low-emission technologies, including, inter alia, renewables, nuclear, abatement and removal technologies such as carbon capture and utilization and storage, particularly in hard-to-abate sectors, and low-carbon hydrogen production
Accelerating and substantially reducing non-carbon-dioxide emissions globally, including in particular methane emissions by 2030
Accelerating the reduction of emissions from road transport on a range of pathways, including through development of infrastructure and rapid deployment of zeroand low-emission vehicles
Phasing out inefficient fossil fuel subsidies that do not address energy poverty or just transitions, as soon as possible

Source: UNFCCC, Kotak Institutional Equities

Renewables and energy efficiency pledge and climate finance pledge were among the major declarations signed at COP28

Exhibit 8: Major declarations signed at the COP28 summit

Name of pledge	Description	Number of country endorsers
Global Renewables & Energy Efficiency Pledge	● Commit to work together to triple the world's installed renewable energy generation capacity to at least 11,000 GW by 2030, taking into consideration different starting points and national circumstances ● Commit to work together in order to collectively double the global average annual rate of energy efficiency improvements from around 2% to over 4% every year until 2030 ● Commit to put the principle of energy efficiency as the "first fuel" at the core of policymaking, planning, and major investment decisions	123
Declaration on Agriculture, Food & Climate	Adapt and transform agriculture and food systems in order to respond to the imperatives of climate change by integrating agriculture and food systems into National Adaptation Plans, Nationally Determined Contributions, Long-term Strategies, National Biodiversity Strategies and Action Plans, and other related strategies before the convening of COP30	158
Declaration on Climate & Health	Accelerate the development of climate-resilient, sustainable and equitable health systems	143
Declaration on Climate Finance	To support developing countries in achieving their climate objectives by making US$100 bn p.a. by developed countries and establishing mechanisms for its accessibility and mobilization	13 (incl India)
Declaration on Cooling	Commit to reducing cooling-related emissions across all sectors by at least 68% by 2050 vs. 2022 levels, to ratify the Kigali Amendment by 2024, supporting HFC phase-down and HCFC phase-out and expanding access to sustainable cooling by 2030, among others	61
Declaration on Climate Relief, Recovery & Peace	Scale-up financial resources for climate adaptation and resilience building and improving access to all relevant financial resources	80
Coalition for High Ambition Multilevel Partnerships (Champ) Pledge	Partner with subnational governments on the next round of NDCs and other climate plans and strategies with a view towards collectively pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, and increase adaptation and resilience	63
Declaration on Gender-Responsive Just Transitions	Drive gender-responsive just transitions, which strengthen all women's and girls' leadership and meaningful participation, decision making, capacities, and livelihoods in climate action to achieve gender equality and support the sustainable and transformational impacts of their adaptation, mitigation, and finance efforts	68
Oil & Gas Decarbonization Charter	Commitment to net-zero operations by 2050 at the latest, and ending routine flaring by 2030, and near-zero upstream methane emissions	NA
Declaration on Hydrogen	Intent to pursue the mutual recognition of certification schemes for hydrogen and its derivatives, accelerating over 80% of future low-carbon and renewable hydrogen cross-border trade.	37 (incl. India)
Joint statement on Climate, Nature and People	Commitment to planning and implementation of national climate, biodiversity and land restoration plans and strategies, scaling of finance and investments for climate and nature, promoting a whole-of-society approach in the synergetic planning and implementation of national climate, biodiversity and land restoration plans and strategies	18

Notes:

(a) India as a country has not signed the COP28 UAE Declaration on Climate Relief, Recovery & Peace. However, All India Disaster Mitigation Institute is a signatory to the same.

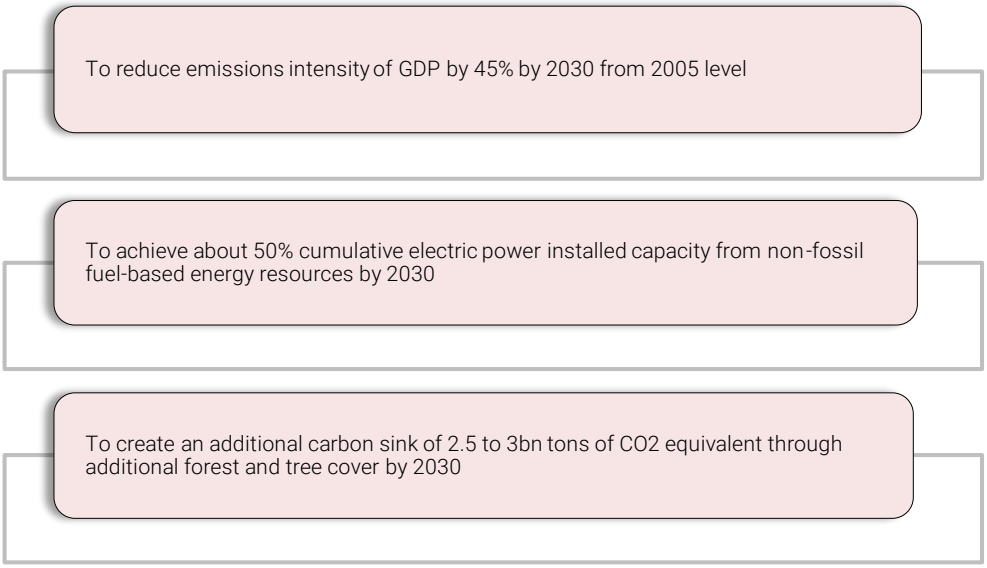
(b) Montserrat and Virgin Islands have also endorsed COP28 UAE Declaration on Agriculture, Food & Climate.

(c) The Oil and Gas Decarbonization Charter has been endorsed by 52 companies, representing 40 percent of global oil production. Information about number of country endorsers isn't available.

Source: UNFCCC, Kotak Institutional Equities

India commits to lower carbon emission intensity and higher non-fossil energy generation mix by 2030

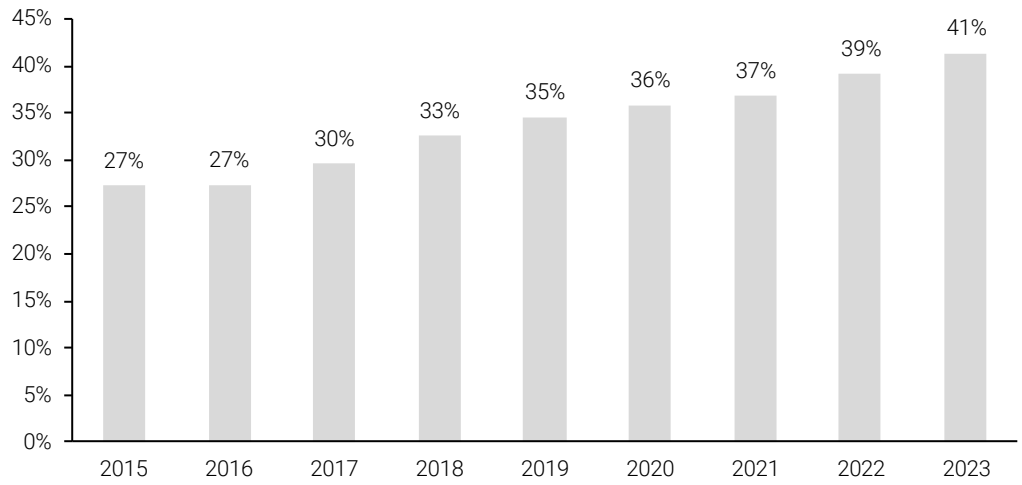
Exhibit 9: India's climate commitment according to latest NDC filed in 2022



Source: UNFCCC, PIB, Kotak Institutional Equities

India has witnessed steady increase in deployment of non-fossil energy generation capacity over the years

Exhibit 10: Proportion of non-fossil energy capacity in total generation capacity, March fiscal year-ends, 2015-23 (%)



Source: CEA, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US$ mn)	
Company	Rating	13-Dec-23	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	Traded	Delivered
Automobiles & Components																											
Apollo Tyres	SELL	446	345	(23)	283	3.4	638	27	27	28	16	17	16	2.0	1.8	1.7	7	7	7	13	11	11	1.1	1.3	1.6	13	5
Ashok Leyland	REDUCE	174	170	(2)	512	6.1	2,936	9	9	9	18	18	19	4.9	4.2	3.7	11	11	11	29	25	21	2.2	2.2	2.2	22	11
Bajaj Auto	SELL	6,316	4,900	(22)	1,828	22	283	258	270	295	25	23	21	6.6	6.3	5.9	19	18	16	28	28	29	3.3	3.4	3.7	34	19
Balkrishna Industries	SELL	2,594	1,900	(27)	501	6.0	193	68	78	89	38	33	29	5.9	5.2	4.6	22	19	17	16	17	17	0.7	0.7	0.8	9	4
Bharat Forge	SELL	1,194	760	(36)	556	6.7	466	24	34	40	49	35	30	7.4	6.3	5.4	23	19	17	16	19	19	0.5	0.6	0.6	15	7
CEAT	SELL	2,376	1,400	(41)	96	1.2	40	149	118	117	16	20	20	2.5	2.3	2.1	7	8	8	16	12	11	1.5	1.2	1.2	8	4
CIE Automotive	SELL	479	470	(2)	182	2.2	378	22	26	29	22	19	16	3.0	2.7	2.4	12	11	10	15	15	16	1.1	1.3	1.5	3	2
Eicher Motors	SELL	4,033	2,900	(28)	1,104	13.2	272	145	147	160	28	27	25	7.2	6.3	5.6	24	22	20	28	25	24	1.1	1.2	1.5	27	13
Endurance Technologies	SELL	1,699	1,280	(25)	239	2.9	141	46	57	65	37	30	26	4.9	4.3	3.8	18	15	13	13	14	15	0.6	0.7	0.8	3	2
Escorts Kubota	SELL	3,126	2,100	(33)	345	4.1	111	98	107	111	32	29	28	3.7	3.3	3.0	27	24	23	12	11	11	0.5	0.5	0.5	14	5
Exide Industries	REDUCE	287	250	(13)	244	2.9	850	12	15	16	23	20	18	2.0	1.9	1.7	13	11	10	9	10	10	0.9	0.9	0.9	8	3
Hero Motocorp	REDUCE	3,863	3,475	(10)	772	9.3	200	205	227	240	19	17	16	4.3	4.0	3.7	12	11	10	24	25	24	3.7	4.1	4.4	27	12
Mahindra & Mahindra	BUY	1,666	1,680	1	2,072	24.9	1,159	89	84	93	19	20	18	3.7	3.2	2.8	16	14	12	22	17	17	0.8	0.8	0.8	50	29
Maruti Suzuki	SELL	10,380	8,450	(19)	3,136	37.6	314	377	385	420	28	27	25	4.8	4.4	3.9	17	17	15	19	17	17	1.5	1.5	1.6	62	36
MRF	SELL	119,950	77,500	(35)	509	6.1	4	4,961	4,567	4,935	24	26	24	3.1	2.8	2.5	11	12	10	13	11	11	0.3	0.3	0.3	9	3
Samvardhana Motherson	ADD	96	100	5	648	7.8	6,776	4	5	6	27	18	16	2.7	2.4	2.1	9	8	7	10	14	14	0.7	0.8	0.9	11	6
Schaeffler India	SELL	3,043	2,720	(11)	476	5.7	156	61	69	78	50	44	39	9.9	8.7	7.8	33	29	26	21	21	21	0.1	0.1	0.0	4	2
SKF	SELL	4,450	3,925	(12)	220	2.6	49	107	138	158	42	32	28	8.2	7.0	6.1	30	23	20	20	22	21	0.7	0.9	1.0	1	1
Sona BLW Precision	REDUCE	556	520	(6)	326	3.9	583	9	12	14	62	47	39	12.0	10.1	8.4	36	28	24	21	23	23	0.4	0.5	0.6	8	5
Tata Motors	REDUCE	720	630	(13)	2,759	33.1	3,829	53	60	62	14	12	12	4.3	3.1	2.5	5	5	4	37	30	24	0.3	0.3	0.4	85	35
Timken	SELL	3,187	2,450	(23)	240	2.9	75	55	69	88	58	46	36	9.9	8.2	6.8	39	31	24	19	19	20	0.1	0.1	0.0	4	3
TVS Motor	SELL	2,022	1,150	(43)	961	11.5	475	42	47	53	48	43	38	12.9	10.7	8.9	28	25	22	30	27	25	0.5	0.6	0.6	20	10
Uno Minda	ADD	661	600	(9)	379	4.5	571	15	17	19	45	40	35	7.7	6.5	5.6	25	22	19	17	17	16	0.3	0.4	0.4	4	2
Varroc Engineering	SELL	529	420	(21)	81	1.0	153	16	25	30	34	21	18	6.5	5.0	3.9	12	9	8	19	24	22	–	–	–	5	2
Automobiles & Components	**Cautious**				**18,599**	**223.1**					**23.3**	**21.8**	**20.2**	**4.7**	**4.1**	**3.6**	**11.9**	**11.0**	**9.9**	**20**	**18.7**	**17.7**	**1.2**	**1.2**	**1.3**	**452**	**220**
Banks																											
AU Small Finance Bank	SELL	736	615	(16)	492	5.9	667	24	33	44	31	23	17	4.0	3.3	2.8	–	–	–	14	16	18	–	–	–	16	7
Axis Bank	BUY	1,115	1,100	(1)	3,437	41.2	3,077	79	84	94	14	13	12	2.4	2.1	1.8	–	–	–	18	17	16	1.1	1.1	1.3	106	56
Bandhan Bank	BUY	240	270	13	387	4.6	1,611	23	26	30	10	9	8	1.8	1.5	1.3	–	–	–	17	17	17	1.4	1.6	1.8	27	12
Bank of Baroda	ADD	221	215	(3)	1,143	13.7	5,178	30	29	32	7	8	7	1.1	1.0	0.9	–	–	–	15	13	13	2.8	2.6	3.0	49	20
Canara Bank	BUY	449	425	(5)	815	9.8	1,814	79	91	100	6	5	5	1.2	1.0	0.8	–	–	–	18	18	17	3.6	4.2	4.6	40	14
City Union Bank	ADD	158	140	(12)	117	1.4	740	12	14	17	13	11	10	1.6	1.4	1.2	–	–	–	12	12	13	1.6	1.8	2.1	9	4
DCB Bank	BUY	130	150	15	41	0.5	312	19	21	26	7	6	5	0.9	0.8	0.7	–	–	–	12	12	14	1.5	2.0	2.9	3	2
Equitas Small Finance Bank	ADD	104	110	6	117	1.4	1,122	7	10	12	14	11	9	2.1	1.8	1.5	–	–	–	15	17	19	–	–	–	7	4
Federal Bank	BUY	152	170	12	370	4.4	2,419	13	16	18	11	10	8	1.4	1.2	1.1	–	–	–	13	13	13	1.8	2.1	2.4	24	11
HDFC Bank	BUY	1,631	1,800	10	12,378	148.5	7,580	87	99	113	19	16	14	2.9	2.6	2.3	–	–	–	19	16	16	1.2	1.3	1.5	350	211
ICICI Bank	BUY	1,014	1,150	13	7,110	85.3	6,984	53	56	61	19	18	17	3.2	2.8	2.5	–	–	–	17	16	15	1.1	1.1	1.2	158	83
IndusInd Bank	BUY	1,507	1,600	6	1,172	14.1	776	110	123	141	14	12	11	1.9	1.7	1.5	–	–	–	15	14	15	1.1	1.2	1.4	69	34
Karur Vysya Bank	BUY	166	155	(6)	132	1.6	802	17	20	23	10	8	7	1.4	1.3	1.1	–	–	–	15	16	16	2.7	3.1	3.6	6	4
Punjab National Bank	BUY	89	82	(8)	977	11.7	11,011	8	13	14	11	7	6	1.1	0.9	0.8	–	–	–	8	13	13	2.5	4.1	4.6	64	18
SBI Cards and Payment Services	BUY	750	925	23	713	8.6	946	25	31	46	30	24	16	5.9	4.9	3.8	–	–	–	22	22	26	0.4	0.5	0.6	16	9
State Bank of India	BUY	620	725	17	5,532	66.4	8,925	61	63	71	10	10	9	1.6	1.4	1.3	–	–	–	16	14	14	1.9	1.9	1.9	105	48
Ujjivan Small Finance Bank	ADD	60	58	(3)	117	1.4	1,928	6	6	7	10	10	9	2.1	1.8	1.5	–	–	–	24	20	18	0.0	0.0	0.0	16	6
Union Bank	BUY	122	115	(6)	903	10.8	7,412	18	22	23	7	6	5	1.1	0.9	0.8	–	–	–	16	16	15	3.6	4.4	4.5	41	17
YES Bank	REDUCE	21	17	(20)	610	7.3	31,315	0	1	1	75	25	15	1.6	1.5	1.3	–	–	–	2	6	9	0.0	0.0	0.0	55	17
Banks	**Attractive**				**36,563**	**438.6**					**14.1**	**12.6**	**11.2**	**2.0**	**1.8**	**1.6**				**14.5**	**14.3**	**14.3**	**1.4**	**1.6**	**1.7**	**1,163**	**575**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US$ mn)	
Company	Rating	13-Dec-23	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	Traded	Delivered
Building Products																											
Astral	SELL	1,921	1,600	(17)	516	6.2	269	23	29	35	83	66	55	15.9	13.2	10.9	49	41	35	21	22	22	0.2	0.2	0.3	11	5
Building Products	**Cautious**				**516**	**6.2**					**82.4**	**66.2**	**54.8**	**15.8**	**13.1**	**10.9**	**49.2**	**40.9**	**34.6**	**19.2**	**19.9**	**19.9**	**0.2**	**0.2**	**0.3**	**11**	**5**
Capital goods																											
ABB	REDUCE	4,767	4,200	(12)	1,010	12.1	212	58	66	80	83	72	60	16.7	13.8	11.4	65	57	46	22	21	21	0.1	0.1	0.1	13	6
Bharat Electronics	SELL	163	118	(28)	1,190	14.3	7,310	5	5	6	34	32	29	7.7	7.0	6.3	25	23	20	24	23	23	1.4	1.4	1.6	28	16
BHEL	SELL	180	65	(64)	626	7.5	3,482	(1)	(0)	2	NM	NM	88	2.3	2.3	2.3	(9,160)	93	35	NM	NM	3	0.0	0.0	(0.1)	55	17
Carborundum Universal	REDUCE	1,183	1,120	(5)	225	2.7	190	24	32	41	50	37	29	7.1	6.1	5.2	30	23	18	15	18	20	0.4	0.5	0.7	3	2
Cochin Shipyard	REDUCE	1,275	1,060	(17)	168	2.0	132	46	48	64	28	27	20	3.5	3.2	2.9	19	15	11	13	13	15	1.1	1.2	1.3	41	9
Cummins India	ADD	1,964	2,040	4	545	6.5	277	51	59	68	39	33	29	9.2	8.3	7.5	37	31	27	25	26	27	1.4	1.7	1.9	11	6
Dixon Technologies	SELL	6,291	4,200	(33)	376	4.5	59	76	99	129	83	63	49	21.5	16.0	12.1	47	37	29	30	29	28	0.0	0.0	0.0	34	10
G R Infraprojects	SELL	1,181	1,010	(14)	114	1.4	97	77	81	99	15	15	12	1.9	1.7	1.5	10	9	8	13	12	13	0.0	0.0	0.0	1	1
IRB Infrastructure	BUY	40	38	(5)	242	2.9	6,039	1	2	2	33	21	18	1.8	1.8	1.8	11	10	9	6	9	10	3.8	4.6	5.2	17	7
Kalpataru Projects	BUY	678	745	10	110	1.3	160	37	55	68	18	12	10	2.1	1.8	1.5	8	6	5	12	16	17	0.5	0.6	0.7	3	1
KEC International	REDUCE	627	610	(3)	161	1.9	257	19	34	47	34	18	13	3.9	3.3	2.7	13	10	8	12	19	22	0.3	0.6	0.8	4	2
L&T	REDUCE	3,400	2,700	(21)	4,779	57.3	1,373	93	111	131	36	31	26	6.7	5.9	5.2	24	21	18	18	21	21	0.8	1.0	1.1	74	44
Siemens	SELL	3,934	3,300	(16)	1,401	16.8	356	61	73	84	64	54	47	9.6	8.5	7.5	46	39	34	16	17	17	0.4	0.5	0.6	14	8
Thermax	REDUCE	2,714	2,730	1	323	3.9	113	52	62	74	52	44	37	41.8	33.3	26.2	42	33	26	15	15	16	0.4	0.5	0.6	4	2
Capital goods	**Cautious**				**11,271**	**135.2**					**44.5**	**36.7**	**30.3**	**6.2**	**5.6**	**5.1**	**27.4**	**23.0**	**19.5**	**14.0**	**15.3**	**16.7**	**0.7**	**0.9**	**1.0**	**302**	**131**
Commercial & Professional Services																											
SIS	BUY	453	500	10	66	0.8	147	23	28	35	20	16	13	2.5	2.2	1.9	12	10	9	13	14	15	0.0	0.0	0.0	1	0
TeamLease Services	REDUCE	2,477	2,430	(2)	42	0.5	17	70	96	125	35	26	20	5.0	4.2	3.5	30	22	17	14.4	17.8	19.2	—	—	—	1	1
Commercial & Professional Services	**Neutral**				**108**	**1.3**					**23.9**	**18.7**	**14.9**	**3.1**	**2.6**	**2.2**	**15.3**	**12.4**	**10.2**	**12.9**	**14.1**	**15.1**	**0.0**	**0.0**	**0.0**	**2**	**1**
Commodity Chemicals																											
Asian Paints	REDUCE	3,244	3,050	(6)	3,111	37.3	959	59	60	62	55	54	52	16.6	14.5	13.0	38	37	35	32	29	26	0.9	1.0	1.1	36	20
Berger Paints	SELL	571	500	(12)	666	8.0	1166	11	11	12	52	51	48	12.8	11.2	9.8	33	32	30	26	23	22	0.8	0.9	0.8	10	4
Indigo Paints	REDUCE	1,465	1,375	(6)	70	0.8	48	33	37	40	45	39	37	7.8	6.7	6.0	28	24	22	19	18	17	0.5	0.6	0.9	2	1
Kansai Nerolac	REDUCE	327	295	(10)	265	3.2	808	9	9	10	36	36	34	5.2	4.9	4.5	23	23	22	15	14	14	1.0	1.4	1.5	1	1
Tata Chemicals	SELL	1,007	790	(22)	256	3.1	255	53	39	42	19	26	24	1.2	1.2	1.2	7	9	8	7	5	5	1.9	1.3	1.4	9	4
Commodity Chemicals	**Cautious**				**4,368**	**52.4**					**47.8**	**48.6**	**46.6**	**8.6**	**7.9**	**7.3**	**29.3**	**29.4**	**28.0**	**18.0**	**16.3**	**15.7**	**1.0**	**1.0**	**1.1**	**57**	**29**
Construction Materials																											
ACC	REDUCE	2,184	1,970	(10)	410	4.9	188	92	111	130	24	20	17	2.6	2.4	2.1	13	11	9	12	13	13	0.8	1.0	1.2	12	5
Ambuja Cements	SELL	509	350	(31)	1,011	12.1	2,463	14	19	20	36	27	25	2.5	2.3	2.2	11	10	8	9	9	9	0.4	0.6	0.6	18	9
Dalmia Bharat	ADD	2,374	2,350	(1)	445	5.3	185	55	102	126	43	23	19	2.7	2.4	2.2	15	10	9	6	11	12	0.3	0.6	0.8	11	6
Grasim Industries	NR	2,084	-	(100)	1,372	16.5	658	124	133	145	17	16	14	1.6	1.5	1.3	9	8	6	10	10	10	0.5	0.7	0.8	17	8
J K Cement	SELL	3,872	2,600	(33)	299	3.6	77	103	127	152	37	31	25	5.6	4.8	4.1	16	14	12	16	17	17	0.4	0.4	0.4	5	2
Nuvoco Vistas Corp	ADD	371	365	(2)	133	1.6	357	5	11	15	72	34	25	1.5	1.4	1.3	10	9	8	2	4	5	0.0	0.0	0.0	1	1
Orient Cement	REDUCE	241	200	(17)	49	0.6	205	11	14	16	21	17	15	2.7	2.4	2.1	10	8	7	14	15	15	0.8	0.8	0.8	4	2
Shree Cement	SELL	28,537	17,900	(37)	1,030	12.4	36	643	753	867	44	38	33	5.1	4.6	4.1	22	19	17	12	13	13	0.4	0.5	0.5	8	4
The Ramco Cements	SELL	1,049	690	(34)	248	3.0	236	27	36	48	38	29	22	3.3	3.0	2.7	16	13	11	9	11	13	0.3	0.3	0.5	6	2
UltraTech Cement	SELL	9,739	7,200	(26)	2,812	33.7	289	277	357	405	35	27	24	4.6	4.1	3.6	20	16	14	14	16	16	0.4	0.6	0.3	37	22
Construction Materials	**Cautious**				**7,808**	**93.7**					**29.4**	**23.8**	**21.0**	**2.9**	**2.6**	**2.4**	**13.4**	**11.4**	**9.8**	**9.8**	**10.9**	**11.2**	**0.5**	**0.6**	**0.5**	**120**	**61**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US$ mn)	
Company	Rating	13-Dec-23	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	Traded	Delivered
Consumer Durables & Apparel																											
Aditya Birla Fashion and Retail	REDUCE	228	210	(8)	216	2.6	998	(8)	(6)	(4)	NM	NM	NM	5.7	4.9	5.3	17	12	10	NM	NM	NM	–	–	–	7	3
Eureka Forbes	BUY	562	670	19	109	1.3	208	4	6	10	131	88	57	2.8	2.7	2.6	62	46	32	2	3	5	–	–	–	1	0
Havells India	SELL	1,327	1,140	(14)	832	10.0	628	20	25	30	65	53	45	11.4	10.3	9.2	44	36	30	18	20	22	0.6	0.8	0.9	12	6
Page Industries	SELL	37,608	34,500	(8)	419	5.0	11	539	663	778	70	57	48	25.3	20.8	17.4	43	36	30	40	40	39	0.8	1.0	1.2	12	6
Polycab	SELL	5,678	4,120	(27)	853	10.2	150	116	128	149	49	44	38	10.8	9.2	7.8	34	30	26	24	22	22	0.5	0.5	0.6	41	17
TCNS Clothing Co.	REDUCE	376	420	12	24	0.3	69	(3)	1	4	NM	444	107	4.1	3.9	3.5	18	14	11.8	NM	1	3	–	–	–	1	0
Vedant Fashions	REDUCE	1,376	1,200	(13)	334	4.0	248	18	23	27	75	61	50	20.3	16.5	13.3	47	38	32	29	30	29	–	–	–	3	2
Voltas	SELL	852	770	(10)	282	3.4	331	11	22	27	80	39	32	5.0	4.6	4.1	57	29	26	6	12	14	0.5	0.8	1.0	12	6
Whirlpool	SELL	1,332	1,020	(23)	169	2.0	127	20	28	39	66	48	34	4.5	4.2	3.8	35	26	19	7	9	11	0.3	0.3	0.4	3	2
Consumer Durables & Apparel	**Cautious**				**3,427**	**41.1**					**76.0**	**56.3**	**49.8**	**8.6**	**7.6**	**7.5**	**35.7**	**28.1**	**24.1**	**11.3**	**13.5**	**14.99**	**0.5**	**0.6**	**0.6**	**99**	**47**
Consumer Staples																											
Britannia Industries	ADD	4,919	4,800	(2)	1,185	14.2	241	88	98	110	56	50	45	30.2	27.3	24.5	39	35	31	57	57	58	1.6	1.8	2.0	18	11
Colgate-Palmolive (India)	ADD	2,391	2,075	(13)	650	7.8	272	46	51	55	52	47	43	35.9	34.0	32.3	35	32	30	71	74	77	1.8	2.0	2.2	12	7
Dabur India	ADD	548	590	8	970	11.6	1,772	11	13	14	49	44	38	9.7	8.7	7.8	39	34	30	21	21	21	1.0	1.1	1.3	11	7
Godrej Consumer Products	ADD	1,046	1,150	10	1,070	12.8	1,023	19	23	26	55	45	40	7.1	6.5	6.0	37	31	27	13	15	16	0.7	1.0	1.2	11	7
Hindustan Unilever	ADD	2,512	2,775	10	5,902	70.8	2,350	45	50	57	56	50	44	11.5	11.0	10.6	40	35	31	21	23	24	1.6	1.8	2.0	51	35
ITC	ADD	456	470	3	5,683	68.2	12,428	16	18	20	28	25	23	8.0	7.7	7.4	21	19	17	27	30	32	3.0	3.4	3.7	52	32
Jyothy Labs	REDUCE	461	370	(20)	169	2.0	367	10	11	13	44	40	36	9.6	8.5	7.6	34	31	27	23	22	22	1.0	1.2	1.3	6	3
Marico	REDUCE	540	550	2	698	8.4	1,290	12	13	14	47	43	39	15.4	13.2	11.3	33	30	27	36	33	32	1.1	1.2	1.3	10	6
Nestle India	ADD	25,025	24,500	(2)	2,413	28.9	96	312	367	415	80	68	60	83.5	78.9	76.7	53	46	40	112	119	129	1.1	1.4	1.6	21	11
Sula Vineyards	ADD	470	530	13	40	0.5	84	11	13	15	42	37	32	6.6	5.8	5.1	23	21	18	16	17	17	0.6	0.7	1.0	2	1
Tata Consumer Products	ADD	957	915	(4)	889	10.7	929	15	18	20	65	54	47	5.3	5.1	4.9	39	33	29	8	10	11	1.0	1.1	1.2	16	8
United Breweries	ADD	1,710	1,675	(2)	452	5.4	264	19	31	38	90	55	45	10.6	9.6	8.9	53	35	29	12	18	21	0.8	1.4	1.7	5	2
United Spirits	ADD	1,073	1,075	0	780	9.4	727	16	19	22	69	56	50	11.0	10.1	9.2	45	37	33	17	19	19	0.2	0.9	1.1	12	6
Varun Beverages	ADD	1,093	1,025	(6)	1,420	17.0	1,299	16	19	23	70	58	47	20.6	15.7	12.1	41	33	27	34	31	29	0.2	0.2	0.3	23	14
Consumer Staples	**Attractive**				**22,322**	**267.7**					**46.7**	**41.1**	**36.7**	**11.3**	**10.6**	**9.9**	**33.3**	**29.1**	**25.9**	**24**	**26**	**27**	**1.6**	**1.9**	**2.1**	**250**	**150**
Diversified Financials																											
360 One	BUY	680	600	(12)	244	2.9	355	20	24	29	33	29	23	7.1	6.7	6.2	–	–	–	23	24	27	2.3	2.6	3.2	5	3
Aavas Financiers	BUY	1,569	2,025	29	124	1.5	79	64	78	95	25	20	17	3.3	2.8	2.4	–	–	–	14	15	16	0.0	0.0	0.0	4	3
ABSL AMC	ADD	462	450	(3)	133	1.6	288	22	24	27	21	19	17	4.8	4.4	4.0	–	–	–	NM	NM	NM	2.9	3.2	3.5	1	0
Aptus Value Housing Finance	ADD	331	330	(0)	165	2.0	498	12	14	17	28	24	20	4.4	3.7	3.1	–	–	–	17	17	17	1.2	0.0	0.0	3	2
Bajaj Finance	REDUCE	7,258	7,400	2	4,486	53.8	615	238	301	372	31	24	20	5.9	4.9	4.0	–	–	–	23	22	22	0.4	0.5	0.6	94	43
Bajaj Finserv	ADD	1,685	1,725	2	2,688	32.2	1,593	67	84	98	25	20	17	4.9	4.2	3.9	–	–	–	21	22	23	0.1	0.1	0.1	29	13
Cholamandalam	ADD	1,181	1,250		991	11.9	839	40	50	61	30	24	19	5.4	4.5	3.5	–	–	–	20	20	20	0.2	0.3	0.3	28	16
Computer Age Management Services	ADD	2,705	2,500	(8)	133	1.6	49	68	80	94	40	34	29	14.6	12.6	10.8	–	–	–	40	40	40	1.6	1.9	2.3	15	8
CRISIL	SELL	4,121	3,300	(20)	301	3.6	73	85	92	104	49	45	40				–	–	–	33	32	32	1.3	1.5	1.6	3	1
Five Star Business Finance	ADD	702	840	20	205	2.5	291	26	32	39	27	22	18	4.0	3.4	2.9	–	–	–	16	17	17	–	–	–	7	4
HDFC AMC	ADD	3,011	3,000	(0)	643	7.7	214	82	95	105	37	32	29	9.7	9.0	8.3	–	–	–	27	29	30	2.0	2.4	2.6	19	9
Home First Finance	BUY	986	1,175	19	87	1.0	88	33	40	49	30	25	20	4.2	3.6	3.1	–	–	–	15	16	17	–	–	0.5	4	2
ICRA	REDUCE	5,731	5,100	(11)	55	0.7	10	162	180	201	35	32	29				–	–	–	15	16	17	–	–	0	0	0
Kfin Technologies	ADD	504	465	(8)	86	1.0	169	13	15	17	40	35	29	8.0	6.7	5.9	–	–	–	16	16	18	–	0.9	1	2	1
L&T Finance Holdings	SELL	155	100	(36)	386	4.6	2,480	8	10	12	19	16	13	1.7	1.6	1.4	–	–	–	9	10	12	1.6	2.0	2.3	19	8
LIC Housing Finance	BUY	531	650	22	292	3.5	550	88	82	85	6	6	6	1.1	1.0	0.9	–	–	–	17	14	13	2.7	2.5	2.6	15	6
Mahindra & Mahindra Financial	ADD	272	310	14	336	4.0	1,234	14	20	26	19	13	10	1.9	1.8	1.6	–	–	–	10	13	15	1.0	1.5	1.9	14	6
Muthoot Finance	ADD	1,467	1,500	2	589	7.1	401	100	122	144	15	12	10	2.4	2.1	1.8	–	–	–	18	19	19	1.4	1.7	2.0	9	3
Nippon AMC	ADD	460	400	(13)	288	3.5	623	14	15	17	33	30	27	8.0	7.7	7.9	–	–	–	24	26	29	2.7	3.0	3.4	4	2
SBFC	REDUCE	93	75	(19)	99	1.2	1,091	2	3	3	44	33	27	4.1	3.6	3.2	–	–	–	10	10	12	0.0	0.0	0.0	3	1
Shriram Finance	BUY	1,995	2,300	15	749	9.0	376	187	224	263	11	9	8	1.6	1.4	1.2	–	–	–	15	16	17	1.4	1.7	2.0	28	16
UTI AMC	ADD	822	840	2	104	1.3	127	45	42	46	18	20	18	2.6	2.6	2.5	–	–	–	15	13	14	4.4	4.0	4.5	2	1
Diversified Financials	**Attractive**				**13,185**	**158.1**					**23.3**	**19.3**	**16.2**	**3.9**	**3.4**	**2.9**				**16.7**	**17.4**	**18.1**	**0.7**	**0.9**	**1.0**	**307**	**149**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US$ mn)	
Company	Rating	13-Dec-23	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	Traded	Delivered
Electric Utilities																											
CESC	BUY	125	105	(16)	166	2.0	1,326	11	14	14	12	9	9	1.2	1.2	1.1	6	6	6	11	13	13	4.1	4.2	4.5	11	5
JSW Energy	SELL	456	225	(51)	749	9.0	1,640	10	15	18	47	31	25	3.8	3.4	3.0	18	13	12	8	12	13	0.4	0.4	0.4	27	10
NHPC	ADD	64	55	(14)	645	7.7	10,045	4	5	6	15	14	11	1.7	1.6	1.5	16	9	7	12	12	14	3.6	3.9	4.7	19	9
NTPC	ADD	294	260	(12)	2,851	34.2	9,895	19	22	24	15.1	13.3	12	1.8	1.7	1.5	10	9	8	12	13	13	2.5	2.7	2.9	40	22
Power Grid	ADD	237	220	(7)	2,204	26.4	9,301	18	19	20	12.9	12.4	12	2.4	2.3	2.1	8	7	7	20	19	18	4.6	4.8	5.0	43	28
Tata Power	SELL	338	230	(32)	1,081	13.0	3,196	9	8	10	38	42	33	3.4	3.2	2.9	14	14	12	9	8	9	—	—	—	53	20
Electric Utilities	**Attractive**				**7,696**	**92.3**					**16.5**	**15.0**	**13.7**	**2.2**	**2.0**	**1.8**	**10.2**	**9.0**	**8.1**	**13.0**	**13.3**	**13.4**	**2.7**	**2.9**	**3.1**	**192**	**94**
Fertilizers & Agricultural Chemicals																											
Bayer Cropscience	REDUCE	5,392	5,080	(6)	242	2.9	45	188	210	232	29	26	23	8.5	8.1	7.7	20	18	16	30	32	34	3.0	3.3	3.7	1	1
Godrej Agrovet	ADD	540	530	(2)	104	1.2	192	17	23	30	32	24	18	3.5	3.2	2.9	19	14	11	11	14	17	1.3	1.8	2.4	1.2	0.6
Rallis India	REDUCE	252	210	(17)	49	0.6	195	9	11	13	28	23	20	2.7	2.5	2.3	15	13	11	10	11	12	1.4	1.6	1.8	4	2
UPL	REDUCE	599	550	(8)	450	5.4	751	27	40	52	22	15	11	1.6	1.4	1.3	7	6	5	7	10	12	1.0	1.5	1.9	17	9
Fertilizers & Agricultural Chemicals	**Cautious**				**845**	**10.1**					**24.9**	**18.4**	**14.6**	**2.3**	**2.2**	**2.0**	**9.3**	**8.0**	**6.8**	**9.4**	**11.7**	**13.4**	**1.6**	**2.0**	**2.5**	**24**	**12**
Gas Utilities																											
GAIL (India)	REDUCE	141	120	(15)	927	11.1	6,575	12	13	13	12	11	11	1.6	1.5	1.4	10	9	8	14	14	14	5.3	5.7	6.0	27	14
GSPL	BUY	297	375	26	167	2.0	564	22	17	19	13	17	16	1.7	1.6	1.5	7	8	7	13	9	10	2.8	3.0	3.1	3	2
Indraprastha Gas	REDUCE	396	375	(5)	277	3.3	700	30	28	30	13	14	13	3.4	3.0	2.7	9	10	9	27	23	21	2.5	2.7	2.8	12	6
Mahanagar Gas	REDUCE	1,174	975	(17)	116	1.4	99	111	88	85	11	13	14	2.4	2.1	1.9	7	8	8	24	17	15	3.1	2.6	2.5	8	3
Petronet LNG	SELL	210	175	(17)	315	3.8	1,500	23	23	24	9	9	9	1.9	1.6	1.4	5	6	6	21	19	17	4.8	2.4	1.2	13	8
Gas Utilities	**Cautious**				**1,802**	**21.6**					**11.5**	**11.6**	**11.2**	**1.8**	**1.7**	**1.6**	**8.3**	**8.0**	**7.7**	**15.9**	**14.6**	**14.1**	**4.4**	**4.2**	**4.2**	**64**	**33**
Health Care Services																											
Apollo Hospitals	BUY	5,427	5,900	9	780	9.4	144	64	103	135	85	53	40	11.2	9.5	7.9	33	25	20	14	19	21	0.2	0.3	0.4	28	14
Aster DM Healthcare	ADD	394	415	5	197	2.4	498	9	13	16	43	29	25	4.1	3.7	3.2	11	9	8	10	13	14	—	—	—	5	3
Dr Lal Pathlabs	SELL	2,546	1,850	(27)	213	2.5	83	42	49	56	61	52	45	11.6	10.5	9.5	34	29	25	20	21	22	0.9	1.0	1.2	9	3
Global Health	REDUCE	929	885	(5)	249	3.0	268	18	20	25	53	46	37	8.8	7.6	6.5	29	25	21	18	18	19	0.3	0.3	0.4	4	2
KIMS	ADD	1,909	2,075	9	153	1.8	80	45	55	68	42	35	28	7.5	6.2	5.1	22	18	15	20	20	20	0.0	0.0	0.0	3	2
Max Healthcare	REDUCE	723	630	(13)	703	8.4	971	13	16	20	55	47	36	7.5	6.5	5.6	38	31	24	15	15	17	0.2	0.2	0.2	12	7
Metropolis Healthcare	REDUCE	1,650	1,425	(14)	85	1.0	51	30	43	52	55	38	32	7.8	6.9	6.0	27	22	19	15	19	20	0.5	0.8	0.9	7	3
Narayana Hrudayalaya	REDUCE	1,168	1,170	0	239	2.9	204	39	42	49	30	28	24	8.2	6.3	5.0	20	17	15	31	26	24	—	—	—	6	3
Rainbow Children's Medicare	REDUCE	1,101	1,100	(0)	112	1.3	102	22	28	31	49	39	35	9.0	7.5	6.4	26	21	18	20	21	20	0.4	0.5	0.5	3	2
Health Care Services	**Cautious**				**2,730**	**32.7**					**54.5**	**42.6**	**34.4**	**8.2**	**7.1**	**6.0**	**26.9**	**21.8**	**18.0**	**15.1**	**16.6**	**17.4**	**0.2**	**0.3**	**0.3**	**77**	**39**
Hotels & Restaurants																											
Chalet Hotels	ADD	643	660	3	132	1.6	205	12	19	29	52	34	22	7.3	6.0	4.8	25	19	14	15	19	24	0.0	0.0	0.0	2	1
Devyani International	ADD	182	195	7	220	2.6	1,204	1	2	3	128	86	68	20.1	18.0	15.9	31	24	20	17	22	25	0.0	0.0	0.0	5	3
Indian Hotels	ADD	435	460	6	617	7.4	1,420	9	14	17	48	32	26	6.7	5.6	4.6	27	19	16	15	19	19	0.1	0.1	0.2	14	7
Jubilant Foodworks	REDUCE	556	500	(10)	367	4.4	660	5	8	10	103	71	58	15.9	13.4	11.2	30	24	21	16	20	21	0.2	0.3	0.4	16	8
Lemon Tree Hotels	REDUCE	120	105	(12)	95	1.1	792	3	5	6	37	25	21	9.8	8.0	6.5	17	12	10	28	36	34	1.2	1.5	1.7	9	4
Restaurant Brands Asia	REDUCE	115	110	(4)	57	0.7	495	(1)	(1)	0	NM	NM	1,457	3.1	3.1	3.1	22	16	13	NM	NM	0	0.0	0.0	0.0	5	3
Samhi Hotels	BUY	177	230	30	39	0.5	218	(8)	6	9	NM	29	19	3.6	3.2	2.8	21	12	11	NM	11	15	0.0	0.0	0.0	-	
Sapphire Foods	BUY	1,415	1,700	20	90	1.1	64	15	20	26	97	70	54	6.7	6.1	5.5	18	15	13	7	9	11	0.0	0.0	0.0	3	2
Westlife Foodworld	REDUCE	852	845	(1)	133	1.6	156	7	9	12	122	92	68	20.3	17.4	14.6	32	26	22	18	20	23	0.0	0.0	0.0	2	1
Hotels & Restaurants	**Attractive**				**1,750**	**21.0**					**76.6**	**45.5**	**35.6**	**8.6**	**7.4**	**6.3**	**26.0**	**19.3**	**16.0**	**11.3**	**16.3**	**17.6**	**0.2**	**0.2**	**0.2**	**55**	**28**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US$ mn)	
Company	Rating	13-Dec-23	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	Traded	Delivered
Insurance																											
HDFC Life Insurance	BUY	698	830	19	1,501	18.0	2,020	8	9	10	91	77	67	10.9	10.3	9.6	–	–	–	12	14	15	0.3	0.3	0.4	23	12
ICICI Lombard	REDUCE	1,453	1,300	(11)	715	8.6	491	41	49	57	35	30	26	6.0	5.2	4.5	–	–	–	18	19	19	0.7	0.8	1.0	9	5
ICICI Prudential Life	BUY	542	650	20	781	9.4	1,439	6	7	8	91	80	67	7.2	6.8	6.2	–	–	–	8	9	10	0.6	0.6	0.6	14	7
LIC	BUY	805	1,040	29	5,092	61.1	6,325	47	47	51	17	17	16	7.4	5.6	4.4	–	–	–	51	37	31	–	–	–	19	10
Max Financial Services	BUY	1,057	1,100	4	365	4.4	345	2	2	2	637	567	494	–	–	–	–	–	–	1	1	1	–	–	–	9	5
PB Fintech	ADD	795	850	7	358	4.3	450	0	6	12	7,644	138	66				–	–	–	0	5	9	–	–	–	12	7
SBI Life Insurance	BUY	1,467	1,625	11	1,469	17.6	1,004	19	20	21	78	75	69	11.3	10.1	9.0	–	–	–	15	14	14	0.2	0.2	0.2	17	9
Star Health and Allied Insurance	ADD	549	620	13	321	3.8	582	14	19	23	40	29	24	5.1	4.4	3.7	–	–	–	14	16	17	–	–	–	4	3
Insurance	**Attractive**				**10,601**	**127.2**					**28.8**	**27.5**	**24.9**	**7.8**	**6.4**	**5.4**				**27**	**23**	**22**	**0.1**	**0.1**	**0.1**	**108**	**59**
Internet Software & Services																											
Cartrade Tech	SELL	779	470	(40)	36	0.4	51.5	8	11	13	92	70	61	1.9	1.9	1.8	57	37	29	2.1	2.7	3.0	0.0	0.0	0.0	3	1
FSN E-commerce Ventures	ADD	169	170	0	484	5.8	2,875.0	0	1	2	466	180	104	33.2	28.1	22.2	126	75	51	7.3	16.9	24	–	–	–	14	7
Indiamart	SELL	2,793	2,700	(3)	171	2.1	60.7	57	70	83	49	40	33	8.9	7.3	6.0	41	32	26	17.6	20.0	19.6	0.1	0.1	0.1	8	4
Info Edge	ADD	4,814	5,360	11	623	7.5	129.0	62	69	81	78	70	59	5.4	5.1	4.8	63	55	46	7.1	7.5	8.4	0.3	0.4	0.4	16	8
Just Dial	BUY	765	920	20	65	0.8	85.0	39	47	54	20	16	14	1.6	1.5	1.3	12	7	4	8.7	9.4	10.0	–	–	–	2	1
Zomato	BUY	120	130	8	1,045	12.5	9,131	0	1	3	722	89	43	5.5	5.1	4.5	(18,289)	81	37	0.8	5.9	10.9	0.0	0.0	0.0	104	46
Internet Software & Services	**Attractive**				**2,424**	**29.1**					**136**	**74**	**48**	**5.9**	**5.5**	**4.9**	**115**	**60**	**38**	**4.3**	**7.4**	**10.3**	**0.1**	**0.1**	**0.1**	**145**	**66**
IT Services																											
Cyient	BUY	1,983	2,200	11	220	2.6	111	70	87	98	28	23	20	4.8	4.3	3.9	16	14	12	19	20	20	1.8	2.4	2.7	11	5
HCL Technologies	BUY	1,369	1,410	3	3,716	44.6	2,714	57	65	72	24	21	19	5.5	5.2	4.9	15	13	12	23	25	27	3.7	4.0	4.2	36	21
Infosys	BUY	1,449	1,700	17	6,014	72.1	4,146	60	69	78	24	21	19	7.4	6.8	6.2	16	14	12	31	34	35	3.1	3.6	4.0	95	59
KPIT Technologies	SELL	1,475	940	(36)	404	4.9	273	21	28	36	70	53	41	18.3	14.6	11.5	40	31	25	30	31	31	0.4	0.5	0.7	22	9
L&T Technology Services	SELL	4,924	3,850	(22)	521	6.2	106	123	142	161	40	35	31	9.1	7.9	6.9	26	23	20	24	24	24	0.8	1.1	1.2	10	4
LTIMindtree	REDUCE	5,728	5,350	(7)	1,695	20.3	296	166	197	233	35	29	25	8.7	7.4	6.2	23	20	17	27	28	28	1.2	1.4	1.6	22	9
Mphasis	REDUCE	2,426	2,260	(7)	458	5.5	188	83	97	114	29	25	21	5.5	5.1	4.7	18	16	14	19	21	23	2.5	2.7	2.9	12	6
Persistent Systems	ADD	6,522	6,000	(8)	502	6.0	77	145	183	227	45	36	29	10.8	9.0	7.5	28	22	18	26	28	28	0.8	1.0	1.2	38	15
RateGain	ADD	664	650	(2)	78	0.9	109	12	15	17	55	44	38	8.5	7.1	5.9	39	32	26	17	18	17	0.0	0.0	0.0	4	2
Tata Elxsi	SELL	8,859	5,450	(38)	552	6.6	62	132	157	185	67	56	48	22.4	19.1	16.3	49	41	35	36	37	37	0.8	1.0	1.2	14	7
TCS	ADD	3,594	3,760	5	13,149	157.7	3,649	127	142	157	28	25	23	13.7	12.3	11.1	20	18	16	49	51	51	1.6	3.2	3.5	85	51
Tech Mahindra	REDUCE	1,216	1,150	(5)	1,070	12.8	890	35	59	72	35	21	17	3.9	3.8	3.6	19	12	10	11	19	22	2.5	3.7	3.8	31	16
Wipro	REDUCE	420	390	(7)	2,192	26.3	5,287	21	23	25	20	18	17	3.0	2.6	2.3	12	10	9	15	15	15	0.2	0.2	2.1	25	12
IT Services	**Neutral**				**30,569**	**366.7**					**27.3**	**23.8**	**21.2**	**7.7**	**7.0**	**6.4**	**17.8**	**15.6**	**13.9**	**28.4**	**29.5**	**30.1**	**1.9**	**2.8**	**3.2**	**404**	**215**
Media																											
PVR INOX	ADD	1,753	1,850	6	172	2.1	98	34	62	75	52	28	23	2.0	1.9	1.8	19	13	11	4	7	8	0.2	0.4	0.4	10	4
Sun TV Network	BUY	684	725	6	270	3.2	394	49	52	55	14	13	12	2.6	2.4	2.2	9	9	8	20	19	19	3.7	4.0	4.4	9	3
Zee Entertainment Enterprises	REDUCE	285	275	(3)	273	3.3	960	7	8	9	40	34	32	2.5	2.4	2.3	23	20	19	6	7	7	1.1	1.4	1.4	39	14
Media	**Attractive**				**715**	**8.6**					**24.2**	**20.6**	**19.0**	**2.4**	**2.3**	**2.1**	**15.0**	**12.7**	**11.5**	**9.9**	**11.0**	**11.2**	**1.8**	**2.1**	**2.3**	**57**	**21**
Metals & Mining																											
Hindalco Industries	ADD	533	535	0	1,197	14.4	2,220	38	41	45	14	13	12	1.2	1.1	1.0	6.8	6.3	5.6	9	9	9	0.7	0.8	0.8	35	16
Hindustan Zinc	SELL	326	265	(19)	1,375	16.5	4,225	20	20	20	16	17	16	10.6	10.6	10.6	9.6	9.3	9.0	65	64	66	6.1	6.1	6.2	2	1
Jindal Steel and Power	BUY	747	800	7	762	9.1	1,020	48	60	83	16	12	9	1.8	1.6	1.4	8.2	7.2	5.4	12	13	16	0.3	0.8	1.7	18	7
JSW Steel	REDUCE	851	820	(4)	2,082	25.0	2,417	53	69	89	16	12	10	2.7	2.3	1.9	8.7	7.1	5.8	18	20	22	0.9	1.2	1.6	19	8
National Aluminium Co.	SELL	99	75	(24)	182	2.2	1,837	7	7	7	15	15	15	1.3	1.2	1.2	7.4	7.2	6.9	9	9	8	2.7	2.7	2.7	11	5
NMDC	ADD	192	200	4	562	6.7	2,931	20	20	20	10	10	10	2.2	2.0	1.8	6.1	6.1	5.8	24	21	20	5.2	5.1	5.2	30	13
SAIL	SELL	103	60	(42)	426	5.1	4,130	4	6	7	23	18	15	0.7	0.7	0.7	8.1	7.6	7.3	3	4	5	1.5	2.0	2.3	21	8
Tata Steel	BUY	131	140	7	1,616	19.4	12,224	5	11	16	26	12	8	1.6	1.4	1.3	9.8	6.6	5.4	6	13	17	1.0	2.2	3.0	49	22
Vedanta	SELL	253	220	(13)	942	11.3	3,717	17	20	21	15	12	12	2.2	2.2	2.1	5.3	4.8	4.6	15	18	18	5.8	6.9	7.1	28	13
Metals & Mining	**Cautious**				**9,144**	**109.7**					**16.4**	**12.8**	**10.7**	**1.9**	**1.8**	**1.6**	**7.7**	**6.6**	**5.8**	**11.8**	**13.7**	**14.9**	**2.5**	**2.9**	**3.3**	**214**	**95**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US$ mn)	
Company	Rating	13-Dec-23	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	Traded	Delivered
Oil, Gas & Consumable Fuels																											
BPCL	SELL	448	400	(11)	971	11.6	2,093	121	47	49	4	9	9	1.4	1.3	1.2	2.9	6.0	5.5	43	14	14	12.1	4.7	4.9	31	14
Coal India	REDUCE	345	275	(20)	2,127	25.5	6,163	33	28	31	10	12	11	3.2	3.0	2.7	9.7	13.4	11.5	34	26	26	5.8	5.8	5.8	48	20
HPCL	SELL	375	310	(17)	532	6.4	1,419	100	59	57	4	6	7	1.5	1.3	1.2	4.6	7.3	7.3	44	21	19	10.7	6.2	6.1	28	11
IOCL	SELL	120	100	(16)	1,690	20.3	14,121	24	15	14	5	8	9	1.1	1.0	1.0	3.9	5.2	5.2	23	14	12	9.9	6.4	5.8	32	16
Oil India	ADD	310	335	8	336	4.0	1,084	53	55	56	6	6	6	0.9	0.8	0.8	5.0	4.7	4.5	16	15	14	4.3	6.5	6.8	11	5
ONGC	ADD	193	210	9	2,430	29.1	12,580	41	41	39	5	5	5	0.8	0.7	0.6	3.0	3.0	2.9	17	15	13	6.4	6.7	6.3	25	14
Reliance Industries	BUY	2,434	2,725	12	16,468	197.5	6,766	109	130	138	22	19	18	2.1	1.9	1.7	11.7	10.0	8.9	10	11	10	—	0.4	0.4	189	118
Oil, Gas & Consumable Fuels	**Neutral**				**24,554**	**294.5**					**11.0**	**12.1**	**12.0**	**1.7**	**1.5**	**1.4**	**6.9**	**7.2**	**6.7**	**15.4**	**12.6**	**11.7**	**2.8**	**2.3**	**2.2**	**364**	**199**
Pharmaceuticals																											
Aurobindo Pharma	SELL	1,036	840	(19)	607	7.3	586	52	60	69	20	17	15	2.1	1.9	1.8	11	9	8	11	12	12	1.5	1.8	2.1	25	11
Biocon	REDUCE	249	235	(6)	299	3.6	1,202	4	9	16	57	27	16	1.3	1.3	1.2	14	11	8	2	5	8	0.6	1.3	2.2	9	4
Cipla	ADD	1,217	1,320	9	982	11.8	806	49	55	59	25	22	21	3.7	3.3	2.9	15	13	12	16	16	15	0.9	1.0	1.1	25	13
Concord Biotech	REDUCE	1,323	1,300	(2)	138	1.7	105	29	38	49	45	35	27	9.1	7.6	6.3	31	25	19	22	24	25	0.6	0.7	0.9	3	2
Divis Laboratories	SELL	3,656	2,775	(24)	971	11.6	265	64	83	102	57	44	36	7.2	6.7	6.0	40	31	25	13	16	18	1.0	1.1	1.3	17	8
Dr Reddy's Laboratories	REDUCE	5,599	5,375	(4)	934	11.2	166	323	339	322	17	17	17	3.3	2.8	2.5	11	10	10	21	18	15	0.7	0.8	0.8	29	15
Gland Pharma	SELL	1,804	1,365	(24)	297	3.6	164	54	65	72	33	28	25	3.3	3.0	2.7	20	17	14	11	11	11	-	-	-	7	4
Laurus Labs	SELL	381	270	(29)	205	2.5	536	7	12	16	54	31	24	4.6	4.0	3.4	21	15	12	9	14	16	-	-	-	9	4
Lupin	SELL	1,252	1,005	(20)	570	6.8	455	39	45	56	32	28	22	4.1	3.6	3.2	16	14	11	13	14	15	0.5	0.6	0.8	17	8
Mankind Pharma	ADD	1,858	2,000	8	744	8.9	401	45	56	69	41	33	27	8.5	7.1	5.9	29	24	19	22	23	24	0.6	0.8	0.9	20	11
Sun Pharmaceuticals	ADD	1,233	1,280	4	2,959	35.5	2,399	38	46	53	32	27	23	4.7	4.1	3.6	21	17	15	15	16	16	0.6	0.7	0.9	26	15
Torrent Pharmaceuticals	REDUCE	2,079	1,950	(6)	704	8.4	338	49	60	76	43	34	27	9.3	7.6	6.2	21	18	15	24	24	25	0.4	0.5	0.6	8	4
Pharmaceuticals	**Neutral**				**9,488**	**113.8**					**30.5**	**25.6**	**22.3**	**4.1**	**3.7**	**3.2**	**17.9**	**15.2**	**13.1**	**13.5**	**14.2**	**14.5**	**0.5**	**0.6**	**0.7**	**199**	**101**
Real Estate																											
Brigade Enterprises	BUY	813	780	(4)	188	2.3	231	14	21	28	60	38	29	5.4	4.8	4.2	18	12	9	9	13	16	0.3	0.3	0.3	3	2
Brookfield India Real Estate Trust	ADD	253	280	11	111	1.3	439	6	12	17	45	21	15	1.1	1.1	1.2	17	12	11	2	4	6	7.4	9.0	9.9	1	1
DLF	ADD	674	590	(12)	1,668	20.0	2,475	13	16	20	53	42	35	4.1	3.8	3.5	60	47	37	8	10	10	0.3	0.3	0.3	29	13
Embassy Office Parks REIT	ADD	333	345	3	316	3.8	948	10	14	17	34	24	19	1.4	1.4	1.5	15	12	11	4	6	8	6.6	7.7	8.8	2	2
Godrej Properties	SELL	1,934	1,370	(29)	538	6.5	278	21	43	50	92	45	38	5.5	4.9	4.3	(236)	150	167	6	11	12	—	—	—	15	6
Macrotech Developers	ADD	901	910	1	869	10.4	964	17	50	59	52	18	15	6.1	4.5	3.5	34	13	10	12	29	26	—	—	—	21	9
Mindspace REIT	ADD	319	350	10	189	2.3	593	10	13	15	31	25	22	1.3	1.3	1.4	14	12	12	4	5	6	6.5	6.9	7.4	1	1
Nexus Select Trust	ADD	135	135	0	205	2.5	1,515	5	5	6	28	25	22	6.9	8.5	11.1	16	14	13	28	30	44	6.8	6.8	7.3	1	1
Oberoi Realty	REDUCE	1,432	1,080	(25)	521	6.2	364	47	57	103	31	25	14	3.7	3.3	2.6	21	16	9	13	14	21	0.1	0.1	0.1	12	5
Phoenix Mills	ADD	2,282	2,190	(4)	408	4.9	179	49	74	85	46	31	27	4.4	3.9	3.4	19	15	13	10	13	14	0.2	0.2	0.2	8	5
Prestige Estates Projects	ADD	1,166	910	(22)	467	5.6	401	41	14	22	28	85	53	4.0	3.9	3.6	21	20	17	15	5	7	0.1	0.1	0.1	14	6
Sobha	BUY	974	835	(14)	92	1.1	95	29	66	50	33	15	19	3.4	2.8	2.5	18	9	8	11	21	14	0.4	0.4	0.5	9	3
Sunteck Realty	BUY	477	520	9	70	0.8	140	20	23	58	24	21	8	2.2	2.0	1.6	19	16	6	10	10	22	0.2	0.2	0.2	3	2
Real Estate	**Attractive**				**5,641**	**67.7**					**43.5**	**30.2**	**23.5**	**3.5**	**3.3**	**3.0**	**27.8**	**18.8**	**14.8**	**8.1**	**10.8**	**12.8**	**1.1**	**1.2**	**1.3**	**120**	**53**
Retailing																											
Avenue Supermarts	SELL	4,033	3,720	(8)	2,624	31.5	648	41	54	68	98	74	59	13.9	11.7	9.8	62	48	38	15	17	18	—	—	—	17	10
Titan Company	ADD	3,602	3,350	(7)	3,198	38.4	888	41	50	61	88	73	59	22.2	18.4	15.1	59	47	39	28	28	28	0.4	0.4	0.5	36	19
Trent	ADD	2,963	2,700	(9)	1,053	12.6	356	25	36	51	117	81	58	30.1	22.0	15.9	60	44	34	30	31	32	—	—	—	21	11
Retailing	**Neutral**				**5,823**	**82.5**					**95.6**	**74.7**	**59.2**	**18.8**	**15.5**	**12.6**	**60.0**	**46.7**	**37.9**	**19.6**	**21**	**21**	**0.2**	**0.2**	**0.2**	**74**	**40**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

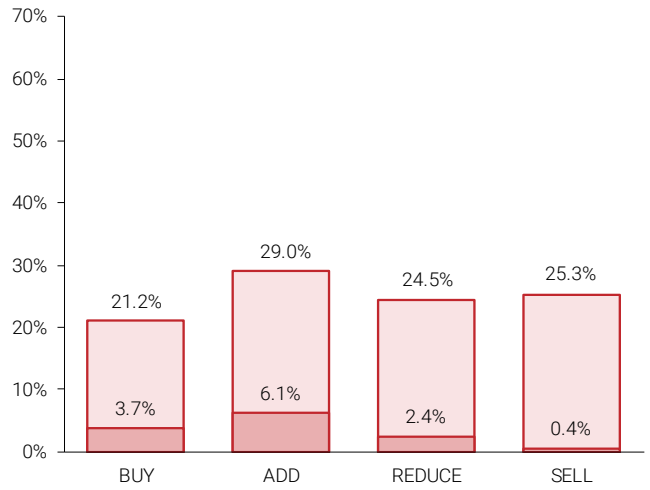
Company	Rating	Price (Rs) 13-Dec-23	Fair Value (Rs)	Upside (%)	Mkt cap. (Rs bn)	Mkt cap. (US$ bn)	O/S shares (mn)	EPS (Rs) 2024E	EPS (Rs) 2025E	EPS (Rs) 2026E	P/E (X) 2024E	P/E (X) 2025E	P/E (X) 2026E	P/B (X) 2024E	P/B (X) 2025E	P/B (X) 2026E	EV/EBITDA (X) 2024E	EV/EBITDA (X) 2025E	EV/EBITDA (X) 2026E	RoE (%) 2024E	RoE (%) 2025E	RoE (%) 2026E	Dividend yield (%) 2024E	Dividend yield (%) 2025E	Dividend yield (%) 2026E	ADV-3M (US$ mn) Traded	ADV-3M (US$ mn) Delivered
Specialty Chemicals																												
Aarti Industries	REDUCE	570	490	(14)	207	2.5	363	11	16	25	54	36	23	3.9	3.6	3.2	24	19	14	8	11	15	0.3	0.4	0.9	10	4
Atul	SELL	6,844	4,070	(41)	202	2.4	30	134	167	203	51	41	34	4.0	3.7	3.4	29	23	20	8	9	11	0.3	0.4	0.6	4	2
Castrol India	ADD	139	150	8	137	1.6	989	9	10	10	16	14	13	6.7	6.2	5.7	11	9	9	43	45	45	5.1	5.8	6.1	3	2
Clean Science & Technology	ADD	1,505	1,480	(2)	160	1.9	106	18	32	53	83	47	28	13.7	11.1	8.4	59	34	21	18	26	34	0.2	0.4	0.6	2	1
Deepak Nitrite	REDUCE	2,246	2,120	(6)	306	3.7	136	60	69	79	38	33	28	6.4	5.4	4.6	25	23	21	18	18	18	0.3	0.3	0.4	8	3
Navin Fluorine	ADD	3,790	3,620	(4)	188	2.3	50	69	99	143	55	38	27	7.5	6.4	5.2	34	24	17	15	18	22	0.2	0.2	0.3	13	6
Pidilite Industries	ADD	2,623	2,750	5	1,334	16.0	508	38	45	52	69	59	51	16.2	14.4	12.9	46	40	35	25	26	27	0.7	0.9	1.2	11	7
PI Industries	ADD	3,427	4,110	20	520	6.2	152	111	126	148	31	27	23	6.0	5.0	4.2	24	20	17	21	20	20	0.4	0.4	0.6	13	7
SRF	BUY	2,412	2,630	9	715	8.6	296	50	73	102	48	33	24	6.2	5.4	4.5	26	19	14	14	17	21	0.5	0.6	–	11	6
Vinati Organics	SELL	1,705	1,510	(11)	175	2.1	104	36	49	62	47	35	28	6.6	5.7	4.9	34	25	19	15	18	19	0.3	0.4	0.5	1	1
Specialty Chemicals	**Neutral**				**3,944**	**47.3**					**46.5**	**37.1**	**29.4**	**7.6**	**6.6**	**5.7**	**29.9**	**24.0**	**19.5**	**16.3**	**17.9**	**19.4**	**0.6**	**0.8**	**0.9**	**76**	**38**
Telecommunication Services																												
Bharti Airtel	ADD	1,000	975	(2)	5,862	70.3	5,967	26	38	47	39	26	21	6.8	5.2	4.3	9	7	6	19	22	22	0.5	0.6	0.6	61	41
Indus Towers	ADD	188	185	(2)	506	6.1	2,695	19	21	13	10	9	14	1.9	1.6	1.6	4	3	4	22	20	11	0.8	6.9	4.0	18	7
Vodafone Idea	RS	13	–	–	643	7.7	48,680	(7)	(6)	(7)	NM	NM	NM	(0.6)	(0.5)	(0.4)	19	18	21	NM	NM	NM	–	–	–	49	14
Tata Communications	SELL	1,720	1,400	(19)	490	5.9	285	37	44	64	46	39	27	24.9	17.4	11.8	14	11	9	61	52	53	0.8	0.9	1.4	23	12
Telecommunication Services	**Attractive**				**7,502**	**90.0**					**NM**	**NM**	**629.6**	**80**	**60**	**164**	**10.1**	**8.5**	**7.8**	**NM**	**NM**	**26**	**0.5**	**1.0**	**0.8**	**152**	**74**
Transportation																												
Adani Ports and SEZ	BUY	1,064	1,060	(0)	2,297	27.6	2,160	42	51	59	25	21	18	4.3	3.6	3.1	17	14	12	18	19	18	0.3	0.3	0.4	63	25
Container Corp.	SELL	863	660	(24)	526	6.3	609	21	24	28	42	36	31	4.5	4.2	4.0	26	22	19	11	12	13	1.1	1.3	1.5	11	6
Delhivery	REDUCE	375	390	4	276	3.3	729	(4)	(0)	2	NM	NM	212	3.0	2.9	2.8	1,686	64	36	NM	NM	1	–	–	–	7	4
Gateway Distriparks	BUY	104	97	(6)	52	0.6	500	5	6	7	19	17	15	2.6	2.4	2.1	13	11	9	14	15	15	1.6	1.8	2.0	2	1
GMR Airports	REDUCE	77	55	(29)	466	5.6	6,036	(1)	(0)	0	NM	NM	371	(47.5)	(152.5)	(259.1)	26	15	12	83	16	NM	–	–	–	26	11
Gujarat Pipavav Port	ADD	152	140	(7)	73	0.9	483	8	9	10	20	17	15	3.0	2.9	2.7	12	10	9	16	17	19	3.5	3.9	4.5	5	2
InterGlobe Aviation	BUY	2,981	3,300	11	1,151	13.8	383	179	175	199	17	17	15	192.2	15.6	3.3	6	4	3	NM	170	68	–	–	–	24	14
Mahindra Logistics	REDUCE	387	340	(12)	28	0.3	71	3	10	20	120	37	20	4.8	4.4	3.8	13	9	7	4	12	21	–	–	–	1	1
Transportation	**Attractive**				**4,868**	**58.4**					**28.8**	**24.6**	**20.9**	**6.2**	**5.0**	**4.1**	**14.0**	**11.1**	**9.2**	**21**	**20**	**19.6**	**0.3**	**0.4**	**0.5**	**139**	**63**
KIE universe					**249,316**	**2,990**					**23.0**	**20.8**	**18.5**	**3.6**	**3.2**	**2.9**	**13.5**	**12.2**	**10.9**	**15.6**	**15.5**	**15.6**	**1.4**	**1.5**	**1.7**		

Notes:
(a) We have used adjusted book values for banking companies.
(b) 2022 means calendar year 2021, similarly for 2023 and 2024 for these particular companies.
(c) Exchange rate (Rs/US$)= 83.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Distribution of ratings/investment banking relationships

Kotak Institutional Equities Research coverage universe



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

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Source: Kotak Institutional Equities

As of September 30, 2023

Ratings and other definitions/identifiers

Definitions of ratings

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

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