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EQUITY MARKETS

India	Change %			
	13-Jul	1-day	1-mo	3-mo
Sensex	36,542	(0.0)	2.6	6.5
Nifty	11,019	(0.0)	1.9	4.7
Global/Regional indices				
Dow Jones	25,019	0.4	(0.3)	1.8
Nasdaq Composite	7,826	0.0	1.0	9.4
FTSE	7,662	0.1	0.4	6.4
Nikkei	22,597	1.8	(1.1)	3.5
Hang Seng	28,525	0.2	(5.9)	(5.9)
KOSPI	2,314	0.1	(3.8)	(5.9)
Value traded – India				
Cash (NSE+BSE)	326		307	332
Derivatives (NSE)	5,581		6,930	5,785
Deri. open interest	3,743		4,031	3,857

Forex/money market

	Change, basis points			
	13-Jul	1-day	1-mo	3-mo
Rs/US\$	68.5	2	43	304
10yr govt bond, %	8.1	(1)	(9)	36

Net investment (US\$ mn)

	12-Jul	MTD	CYTD
FIs	(137)	(172)	(794)
MFs	2	204	10,708

Top movers

	Change, %			
	13-Jul	1-day	1-mo	3-mo
Best performers				
TCS IN Equity	1,981	0.5	7.7	24.3
HUVR IN Equity	1,743	0.0	7.5	22.8
GCPL IN Equity	1,310	(0.6)	12.6	21.5
YES IN Equity	376	0.3	13.7	21.2
KMB IN Equity	1,404	1.0	4.8	19.8

Worst performers

HDIL IN Equity	19	(2.5)	(15.3)	(53.4)
RCOM IN Equity	13	(3.7)	(15.9)	(38.2)
UT IN Equity	4	(1.2)	(11.7)	(33.6)
VEDL IN Equity	210	(0.4)	(11.8)	(27.5)
UPLL IN Equity	563	(3.3)	(19.7)	(26.3)

JULY 16, 2018
RESULT

Coverage view: **Cautious**

Price (₹): **1,317**

Target price (₹): **1,400**

BSE-30: **36,542**

Broadly on expected lines. Infosys' 1QFY19 results were broadly in line with our estimates. The company has retained FY2019 revenue growth guidance of 6-8%. Infosys has its fair share of strengths (delivery excellence, better handling of discretionary spending and high-quality client base) and areas to work on (large deals and select digital competencies). The steps taken by management are in the right direction, though closer scrutiny is a must on high attrition. We raise FY2019-21E EPS on the back of changes to INR/USD forecast. The stock is relatively inexpensive. **ADD.**

Company data and valuation summary

Infosys

Stock data

52-week range (Rs) (high,low) 1,358-853

Market Cap. (Rs bn) 2,877.4

Shareholding pattern (%)

Promoters 12.9

FIs 52.7

MFs 10.6

Price performance (%)

Absolute 1M 3M 12M 4.2 13.4 35.9

Rel. to BSE-30 1.9 6.1 19.2

Forecasts/Valuations

2018 2019E 2020E

EPS (Rs) 64.6 70.9 78.3

EPS growth (%) 3.0 9.7 10.4

P/E (X) 20.4 18.6 16.8

Sales (Rs bn) 705.2 804.8 885.2

Net profits (Rs bn) 146.0 154.1 170.2

EBITDA (Rs bn) 190.1 209.9 230.5

EV/EBITDA (X) 14.1 12.7 11.3

ROE (%) 21.8 23.0 23.5

Div. Yield (%) 2.1 3.3 3.0

Steady and in-line quarter; financial services revenue decline a surprise

Infosys reported 2.3% revenue growth in c/c and 0.9% in reported currency to US\$2,831 mn. Revenue growth was a tad lower than our estimate with the miss contributed primarily by weak financial services (down 0.2% in c/c). EBIT margin of 23.7% was consistent with our estimate and declined 100 bps sequentially and 40 bps yoy. The margin decline was due to wage revision impact (-100 bps), normalization of G&A expenses (-70 bps impact) and investments in business and higher subcontracting expenses, offset to some extent by rupee depreciation (+100 bps). The company took another write-down in the disposal fair value of Panaya of ₹2.7 bn resulting in net profit miss of 2.6%. EPS of ₹16.6 grew 9% yoy.

A noisy quarter; stabilizing on balance

Financial services (FSI) accounting for 31.8% of revenues declined 0.2% in qoq terms. Growth in FSI is crucial to meet growth objectives. Infosys attributed the weakness to insourcing by a client and delay of ramp-up and cancellation of projects by another. The company maintained a positive stance on the back of large order signings (40% of US\$1.1 bn TCV in the quarter from FSI) and expects a recovery starting 2QFY19. The positives for the quarter were—(1) TCV of large deals was at eight-quarter high of US\$1.12 bn with split 45:55 between new and renewals, comparable to the past 6-7 quarters and (2) addition of four clients to US\$100 mn bucket takes the tally up to 24, impressive and indicates sticky and growing relationships. Offsetting these two positives is a spike in attrition to 23% on a quarterly annualized basis that is worrying. Performance could have been viewed as stabilizing if attrition had subsided.

Stock price is relatively inexpensive; maintain ADD

Current quarter results are mixed but broadly trending in right direction. Attrition rate increase requires close monitoring. We incorporate KIE economists' revised INR/USD rate resulting in 0.7-2.3% increase in FY2019-21E EPS. We value the stock at 17X FY2020E earnings resulting in a target price of ₹1,400 (up from ₹1,350 earlier). We maintain our constructive view on the stock; relatively inexpensive valuations combined with broad progress on turnaround keep us positive.

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Do the current quarter results do enough to give comfort on the company hitting potentially double-digit growth in FY2020E? In our view it is too early to call that out, especially in light of spike in attrition rates. Leadership changes cause attendant challenges on momentum and people retention. Quick wins are a must to give comfort to employees on the health of business and create a virtuous cycle of growth feeding into employee confidence, which in turn propels growth. Infosys has done a reasonable job up to now of defending its share of business in large accounts and accelerating deal wins (TCV in June 2018 quarter was at an eight-quarter high). However, this has not been enough to bring down attrition rates. If not controlled, this can turn into a vicious cycle. Attrition is our single biggest concern; in fact, rest of the metrics are trending in the right direction. We will keep a close watch on the success of interventions made by the management team.

A few thoughts on the noisy quarter and guidance

Current quarter results had a lot of moving parts. We detail our thoughts on a few of them.

- ▶ **Normalization of G&A expenses contributed 70 bps EBIT margin decline.** Out of the 100 bps EBIT margin decline in 1QFY19, 70 bps can be attributed to G&A increase. 4QFY18 G&A expense was abnormally low due to (1) negligible bad and doubtful debt provision that increased to 37 bps of revenues in 1QFY19 and (2) low provision of 12 bps for CSR expenses in the previous quarter that increased to 39 bps this quarter and led to 27 bps swing on a sequential basis. Together these two expense heads contributed 64 bps headwind this quarter when compared to 4QFY18.
- ▶ **TCV had a lot of renewals in the quarter but so was the case in recent quarters.** TCV of deals wins the quarter stood at US\$1.12 bn of which close to 55% were renewals. While renewals may seem high, so was the case in recent quarters. The fact is that TCV is at eight-quarter high and comes on the back of a strong 4QFY18 of deal signings, a positive. Management has indicated that the deal pipeline is strong.
- ▶ **Revenue growth likely to be at the midpoint of 6-8% band.** C/c revenue growth in 1QFY19 was 6%. The company requires some acceleration in case it has to hit mid-point or higher-end of the band. Financial services growth is critical to achieve an acceleration, a possibility noting strong TCV signings and concentration of it from the FSI vertical. Achieving the higher end of the band is a challenge, though getting to the midpoint is a possibility.
- ▶ **Why was the margin band not reset?** Infosys had announced a cut in the margin band by 100 bps to 22-24% in April 2018 to create more sustainable growth opportunities. This cut was to fund sales force repurposing and investments in digital competencies. Rupee has depreciated since this announcement. It seems that the company will not reinvest rupee depreciation gains leading to margin upside. We believe that the company will end up achieving the upper end of the guidance band on margins; we forecast 23.8% for FY2019E.

The industry gold standard in financial disclosures

Infosys provided geo-vertical revenue and vertical-service offering cut of revenues for the quarter. This was augmented with disclosures on fixed price order backlog. One can draw better understanding of the nuances of the business as longer series of data becomes available. A few interesting tidbits from the disclosures were—

- ▶ Hitech revenues (7.5% of overall revenues) are completely skewed towards North America accounting for 96% of the vertical revenues. This is a not completely a surprise noting that the biggest tech innovators are based out of the US.
- ▶ Over 56% of India revenues are from the FSI vertical, most of which will possibly center around Finacle offerings.

- ▶ Hitech and retail verticals had the highest percentage of revenues accruing from digital services at 32.2% and 31.4%, respectively. Life sciences and energy, utilities, resources & services had the least percentage of revenues from digital offerings for Infosys.
- ▶ 63% of retail vertical revenues for Infosys accrued from fixed price projects, highest across verticals. The FSI vertical at 42.6% had the lowest concentration to fixed price projects.

Fixed priced order backlog stood at ~US\$6 bn of which US\$3 bn is executable over the next 12 months. This represents 51% of annual FP revenues of Infosys. This standalone number may not provide much insight but when disclosed consistently over a period of time, such data can provide useful information on revenue visibility of an organization.

Infosys has reclassified vertical reporting to seven key verticals, viz. financial services, retail (retail, CPG and logistics), communications (telecom and media), energy, utilities & natural resources, manufacturing, hi-tech and life sciences (including healthcare).

The company has collapsed service-line reporting to two major groups—(1) digital services—this comprises service and solution offerings that enable clients to transform their businesses. These include offerings that enhance customer experience, leverage AI-based analytics and big data, engineer digital products and IoT, modernize legacy technology systems, migrate to cloud applications and implement advanced cyber security systems and (2) core services—this comprises traditional offerings that have scaled and industrialized over a number of years. These primarily include application management services, proprietary application development services, independent validation solutions, product engineering and management, infrastructure management services, traditional enterprise application implementation, support and integration services.

Strengthens board of directors

Infosys has added a ninth member to the board. The newest member is Mr Michael Gibbs, former Group CIO of BP having responsibility for setting and implementing BP's IT strategy and providing computing and telecommunications technology services worldwide. This addition is part of Infosys' objective to strengthen the board that can guide and provide strategic insights on business and technology.

The gaps that need to be plugged

While we are confident of achievement of near-term financial objectives of Infosys, the company has plenty of gaps to fill, viz.

- ▶ **Large multi-service deal emphasis.** Emphasis on risk-averse growth and lack of collaboration and focus has meant that Infosys has stayed off the large multi-service deal course. While the company could have been picky and lived without it in the past, such deals are important to grow off a large base. Despite relative weakness in IMS, Infosys does have a broad suite of capabilities to enter into multi-service outcome-based deals. However, such deals are never available on a platter. Instead these deals have to be shaped using cross-functional team from the vendors side working closely to ensure the conversion. Infosys is rebuilding the team; this will not ensure overnight success but lay the foundation for creation of a more sustainable engine in the medium term.
- ▶ **Investments in select digital competencies.** Infosys identified the shift to digital early. However, Infosys has lost some mindshare and relative positioning in digital over the past 15-18 months owing to distractions and talent attrition associated with leadership changes. We believe the industry is on the verge of a gradual transition from pilot projects to large-scale digital programs. Infosys needs to accelerate its digital transformation journey—it needs to engage with industry analysts more extensively, step up hiring of next-gen talent and look at tuck-in acquisitions that help it bridge gaps in digital. That said, the gap is not material and Infosys can catch up quickly. Success in

digital will decide the sustainability of growth; Infosys has identified the gaps and is working towards bridging it.

- ▶ **People management.** Infosys' attrition has been higher than competition barring a brief period under the earlier CEO. High attrition can be attributed to multiple factors in the past such as change in strategy and performance management systems, perceived underperformance of a few leaders leading to counseling them out and CEO changes in itself. The net result is that the leadership strength has thinned out. Exhibit 11 details the key exits from Infosys over the past three years.
 - ▶ The new CEO has inherited a thinned-out leadership that requires augmentation. In the interim the company requires stability in leadership ranks. Recent exits of Sangita Singh (head of healthcare vertical) and Nitesh Banga (head of manufacturing) are not a good sign. We will keep a close eye on attrition numbers and exits at the leadership rank; controlling this will be critical to achieving much-desired industry-leading revenue growth rates.

Key highlights of earnings call

- ▶ **Margin guidance.** EBIT margin declined sequentially by 100 bps to 23.7% due to (1) headwinds of 100 bps arising from wage hikes in the quarter, (2) headwinds of 140 bps from increased investments in G&A and increased subcontractor expenses, offset by, (3) 100 bps tailwind from rupee depreciation net of cross-currency headwinds and (4) 40 bps gain from operational efficiencies. Infosys retained EBIT margin guidance for the full year in the 22%-24% range.
- ▶ **Revenue guidance.** Infosys retained revenue guidance in the 6%-8% range for the full year.
- ▶ **Commentary on verticals.** (1) BFSI—the banking vertical was soft due to cost-reduction pressures among large banks and weak spends in a couple of clients. Growth momentum continued for small and medium-sized banks and wealth management clients. Infosys expects rebound in financial services on the back of large deal wins in the segment. In the insurance vertical, digital spending is increasing across the board, (2) retail—the momentum continues with ramp-up of deals and new wins. M&A activity could spur demand in retail. CPG and logistics to perform better than core retail vertical although logistics spends can be affected by capex reduction and oil price volatility, (3) communication—facing headwinds from increased competition, changing industry dynamics, cost-cutting measures, importing and competition for legacy services, (4) energy, utilities, resources & services—robust momentum from growth in top accounts and ramp-up of deals won earlier. Digital spends in utilities driven by change in regulations, especially around solar and other distributed energy sources and (5) manufacturing—areas such as ERP, cloud and digital transformation provide new opportunities for growth.
- ▶ **Commentary on geographies.** (1) America—revenue decline was due to softness in spending of two banking clients in North America. Infosys expects the region to lead growth in the next quarter. (2) Europe—despite weakness in the current quarter, the company expects growth to improve in the next quarter.
- ▶ **Attrition.** Attrition rose 350 bps qoq to 23%. Management reported that the hike in attrition was due to seasonality. Despite increase in attrition among high performers, the management claimed that its senior-level bench strength is quite strong. Infosys added 17,709 employees on a gross basis during the quarter.
- ▶ **Wage hike.** The company rolled out compensation increase for 85% of its employees in the quarter. The remaining 15% of the employees would be given a wage hike in the

next quarter. The company has announced 6-8% wage increase offshore and 1-2% increase onsite.

- ▶ **Subcontracting expense.** Subcontracting expense as a percentage of revenue increased to 6.8% from 6.1% in the previous quarter. The management indicated that the increase in subcontracting was to ensure uninterrupted supply chain for onsite projects affected by short-term visa challenges.
- ▶ **Onsite pyramid.** Infosys has launched a new 75-acre campus in Indiana in the US and is planning four other locations in the US, six in Europe and three in Australia as part of its localization program. The company is deploying fresh local hires in fixed price and T&M projects onsite. Local hiring does not significantly change the cost structure as the higher employee cost is offset by higher margins from digital projects. Infosys reported that its ability to build an onsite pyramid is slowly increasing.
- ▶ **Bonus issue.** Infosys has approved a 1:1 bonus issue to shareholders to celebrate 25th year of the company's public listing in India.

Exhibit 1: Infosys quarterly results (IFRS), March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	% chg.			FY2019E	FY2018	% chg.
					KIE	yoy	qoq			
Revenues (US\$ mn)	2,831	2,853	2,651	2,805	(0.8)	6.8	0.9	11,680	10,939	6.8
Revenues	191,280	191,588	170,780	180,830	(0.2)	12.0	5.8	804,826	705,220	14.1
Cost of revenues	(118,520)	(118,628)	(104,500)	(110,960)	(0.1)	13.4	6.8	(497,584)	(432,690)	15.0
Gross profit	72,760	72,960	66,280	69,870	(0.3)	9.8	4.1	307,241	272,530	12.7
S&M expenses	(10,050)	(10,461)	(8,880)	(9,470)	(3.9)	13.2	6.1	(43,348)	(35,580)	21.8
G&A expenses	(12,980)	(12,561)	(11,790)	(11,100)	3.3	10.1	16.9	(53,980)	(46,850)	15.2
Total SG&A expenses	(23,030)	(23,022)	(20,670)	(20,570)	0.0	11.4	12.0	(97,328)	(82,430)	18.1
EBITDA	49,730	49,939	45,610	49,300	(0.4)	9.0	0.9	209,914	190,100	10.4
Depreciation	(4,360)	(4,610)	(4,500)	(4,580)	(5.4)	(3.1)	(4.8)	(19,210)	(18,620)	3.2
EBIT	45,370	45,329	41,110	44,720	0.1	10.4	1.5	190,703	171,480	11.2
Other income	4,560	5,800	8,140	5,340	(21.4)	(44.0)	(14.6)	22,006	31,930	(31.1)
Profit before tax	49,930	51,129	49,250	50,060	(2.3)	1.4	(0.3)	212,709	203,410	4.6
Provision for tax	(13,810)	(14,060)	(13,710)	(13,160)	(1.8)	0.7	4.9	(58,574)	(56,740)	3.2
Net profit	36,120	37,069	35,540	36,900	(2.6)	1.6	(2.1)	154,135	146,670	5.1
Share in profit of associates	—	—	(710)	—	—	—	—	—	(710)	—
Extraordinaries	—	—	—	—	—	—	—	—	14,320	—
Net profit - reported	36,120	37,069	34,830	36,900	(2.6)	3.7	(2.1)	154,135	160,280	(3.8)
Tax rate (%)	27.7	27.5	27.8	26.3	—	—	—	27.5	27.9	—
EPS (Rs/ share)	16.6	16.2	15.2	16.2	2.8	9.0	2.8	70.9	63.9	11.0
No of shares outstanding (mn)	2,175.0	2,175.0	2,285.6	2,175.0	—	—	—	2,175	2,286	—
As % of revenues										
Gross profit margin	38.0	38.1	38.8	38.6	—	—	—	38.2	38.6	—
EBITDA margin	26.0	26.1	26.7	27.3	—	—	—	26.1	27.0	—
EBIT margin	23.7	23.7	24.1	24.7	—	—	—	23.7	24.3	—
S&M expenses	5.3	5.5	5.2	5.2	—	—	—	5.4	5.0	—
G&A expenses	6.8	6.6	6.9	6.1	—	—	—	6.7	6.6	—
SG&A expenses	12.0	12.0	12.1	11.4	—	—	—	12.1	11.7	—
Billing rates (US\$/annum)										
Onsite	148,154	—	144,691	148,451	—	2.4	(0.2)	—	—	—
Offshore	48,665	—	47,830	49,861	—	1.7	(2.4)	—	—	—
Volume growth (%)	2.6	—	1.7	1.6	—	—	—	—	—	—
Total employees	209,905	—	198,553	204,107	—	5.7	2.8	—	—	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Key changes to estimates, March fiscal year-ends, 2019-21E (Rs mn)

	New			Old			% Change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues	804,826	885,245	968,295	798,574	875,218	971,420	0.1	1.1	(0.3)
EBITDA	209,914	230,484	252,046	206,470	225,919	251,230	0.3	2.0	0.3
Depreciation	(19,210)	(21,035)	(22,602)	(19,216)	(21,047)	(22,614)	(2.8)	(0.1)	(0.1)
EBIT	190,703	209,449	229,444	187,255	204,872	228,616	0.6	2.2	0.4
Net Profit	154,135	170,196	185,622	151,896	166,295	184,350	0.7	2.3	0.7
EPS (Rs/ share)	70.9	78.3	85.3	69.8	76.5	84.8	1.3	2.3	0.7
Revenues (US\$ mn)	11,680	12,737	13,932	11,808	12,871	14,079	0.2	(1.0)	(1.0)
Revenue growth (%)	6.8	9.1	9.4	7.9	9.0	9.4			
Margins (%)									
EBITDA	26.1	26.0	26.0	25.9	25.8	25.9			
EBIT	23.7	23.7	23.7	23.4	23.4	23.5			
Rs/ US\$ rate	68.9	69.5	69.5	67.6	68.0	69.0	(0.1)	2.2	0.7

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Revenue growth by segments (June 2018)

	Revenues (US\$ mn)	Growth (%)		% of total	C/C Growth (%) (qoq)
		(qoq)	(yoy)		
Total revenues	2,831	0.9	6.8	100.0	2.3
by geography					
North America	1,699	1.9	4.9	60.0	2.0
Europe	688	(1.1)	15.8	24.3	2.1
India	74	(6.3)	(22.9)	2.6	(4.1)
ROW	371	1.7	8.4	13.1	5.3
by verticals					
Financial Services	899	(1.5)	2.9	31.8	(0.2)
Retail	469	5.0	8.9	16.6	6.4
Communications	360	(0.6)	7.7	12.7	1.3
Energy, Utilities, Resources and Services	351	4.3	17.2	12.4	5.3
Manufacturing	272	1.0	10.2	9.6	2.5
Hi Tech	211	1.6	8.5	7.4	1.7
Life Sciences	186	(0.9)	6.7	6.6	0.5
Others	83	1.3	(14.4)	2.9	4.0
by service line					
Services	2,695	1.0	7.5	95.2	
<i>Digital</i>	756	6.5	27.3	26.7	
<i>Core</i>	1,939	(1.0)	1.3	68.5	
Products & platforms	136	(1.1)	(5.1)	4.8	
<i>Digital</i>	48	14.4	21.0	1.7	
<i>Core</i>	88	(8.0)	(15.1)	3.1	
Total	2,831	0.9	6.8	100.0	
<i>Digital</i>	804	7.0	26.9	28.4	
<i>Core</i>	2,027	(1.3)	0.5	71.6	
Revenues from clients					
Top client	105	3.7	19.7	3.7	
Top 10 clients	544	0.9	2.5	19.2	
Top 25 clients	988	(0.5)	3.5	34.9	
TCV (US mn)	1,116	16.2	12.3		

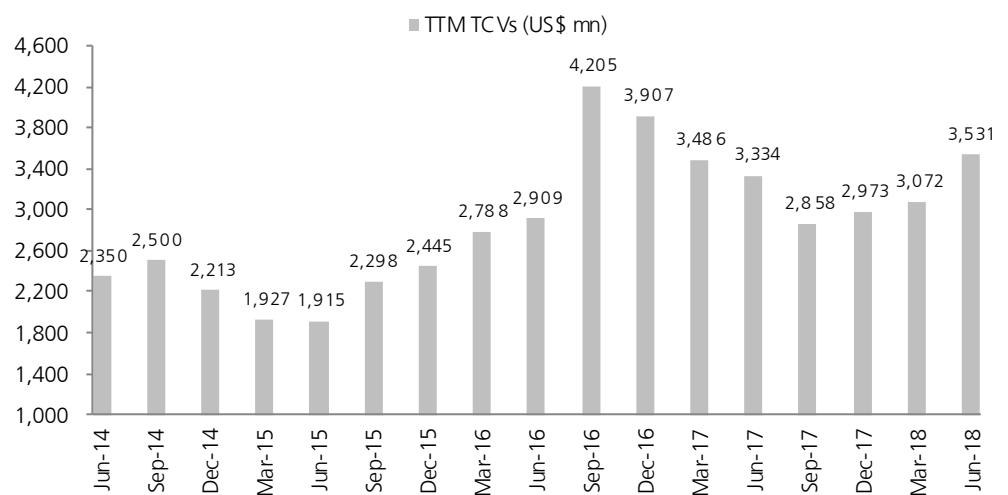
Source: Company, Kotak Institutional Equities

Exhibit 4: Segmental revenue across geographies (June 2018)

	Financial Services	Retail&CPG	Communication	Energy&Utilities	Manufacturing	Hi-Tech	Life Sciences	Others	Total
Total revenues	899	469	360	351	272	211	186	83	2,831
Revenues by geography (US\$ mn)									
North America	542	307	177	203	145	203	110	12	1,699
Europe	172	132	71	117	118	2	72	5	689
India	41	1	2	—	3	5	—	21	73
ROW	144	29	110	31	6	1	4	45	370
Revenues by geography (% of revenues)									
North America	19.1	10.8	6.3	7.2	5.1	7.2	3.9	0.4	60.0
Europe	6.1	4.7	2.5	4.1	4.2	0.1	2.5	0.2	24.3
India	1.4	0.0	0.1	—	0.1	0.2	—	0.7	2.6
ROW	5.1	1.0	3.9	1.1	0.2	0.0	0.1	1.6	13.1
Revenues by service line (US\$ mn)									
Services									
Digital	236	137	106	93	67	67	39	9	754
Core	574	320	248	251	196	143	137	72	1,941
Products & platforms									
Digital	17	10	6	2	6	1	6	1	49
Core	72	2	—	5	3	—	4	1	87
Total									
Digital	253	147	112	95	73	68	45	10	803
Core	646	322	248	256	199	143	141	73	2,028
Revenues by service line (% of revenues)									
Services									
Digital	8.3	4.8	3.7	3.3	2.4	2.4	1.4	0.3	26.6
Core	20.3	11.3	8.8	8.9	6.9	5.1	4.8	2.5	68.6
Products & platforms									
Digital	0.6	0.4	0.2	0.1	0.2	0.0	0.2	0.0	1.7
Core	2.5	0.1	—	0.2	0.1	—	0.1	0.0	3.1
Total									
Digital	8.9	5.2	4.0	3.4	2.6	2.4	1.6	0.4	28.4
Core	22.8	11.4	8.8	9.0	7.0	5.1	5.0	2.6	71.6

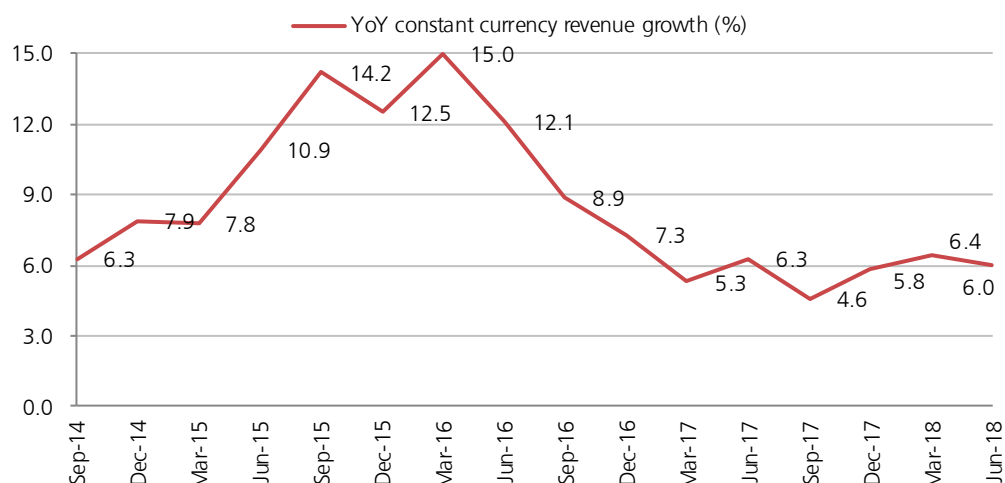
Source: Company, Kotak Institutional Equities

Exhibit 5: TCMs of deal wins (TTM) improve after a few quarters of disappointments



Source: Company

Exhibit 6: Infosys: Yoy constant-currency growth (%)



Source: Company

Exhibit 7: Infosys: Key client metrics are steady

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

Source: Company, Kotak Institutional Equities

Exhibit 8: Infosys: Top client continues to grow

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	4 qtr CQGR %
Revenue (US\$ mn)													
Top client	89	84	88	90	91	79	85	87	93	94	101	105	4.6
Top 10 clients	545	544	533	555	564	513	519	530	532	529	539	544	0.6
Top 25 clients				950	957	926	938	954	982	973	993	988	0.9
Ex- Top 10 clients	1,847	1,863	1,913	1,946	2,023	2,038	2,050	2,121	2,196	2,226	2,266	2,287	1.9
Total	2,392	2,407	2,446	2,501	2,587	2,551	2,569	2,651	2,728	2,755	2,805	2,831	1.7
Growth (qoq %)													
Top client	6.0	(4.8)	4.5	2.2	0.6	(12.7)	7.2	3.2	6.0	1.0	7.8	3.7	
Top 10 clients	5.1	(0.3)	(2.0)	4.1	1.6	(9.1)	1.2	2.2	0.3	(0.6)	1.8	0.9	
Top 25 clients					0.7	(3.3)	1.3	1.8	2.9	(1.0)	2.1	(0.5)	
Ex- Top 10 clients	6.3	0.9	2.7	1.7	4.0	0.8	0.6	3.5	3.5	1.4	1.8	0.9	
Total	6.0	0.6	1.6	2.2	3.4	(1.4)	0.7	3.2	2.9	1.0	1.8	0.9	

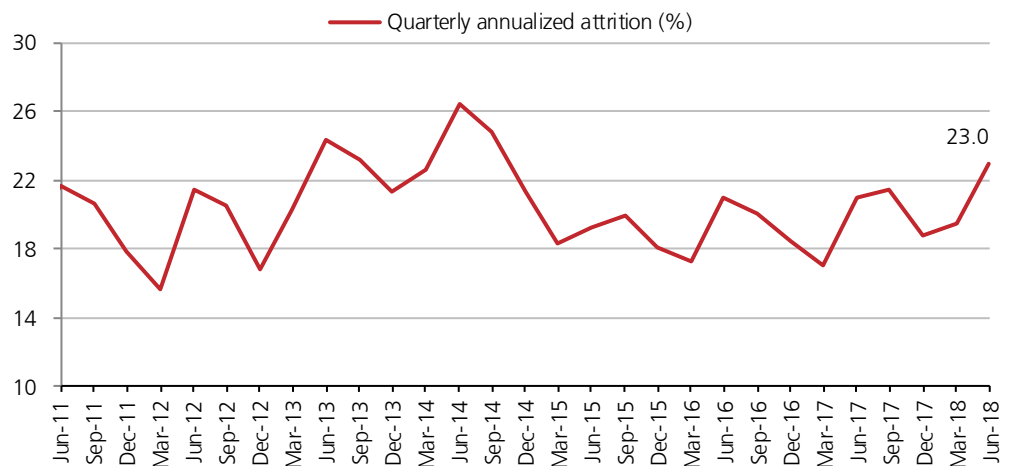
Source: Company, Kotak Institutional Equities

Exhibit 9: Infosys' onsite and offshore realizations have steadied out

	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Price realization (US\$/manyenar)													
Onsite	150,109	154,463	149,829	147,731	147,140	148,906	143,694	142,976	144,691	147,440	146,113	148,451	148,154
Offshore	48,605	49,771	48,378	47,894	47,463	47,321	46,942	46,754	47,830	49,073	49,368	49,861	48,665
Blended	78,315	80,352	78,343	77,481	77,249	77,403	75,700	75,549	76,909	77,909	77,441	78,216	77,199
Change, qoq (%)													
Onsite	(0.3)	2.9	(3.0)	(1.4)	(0.4)	1.2	(3.5)	(0.5)	1.2	1.9	(0.9)	1.6	(0.2)
Offshore	(2.2)	2.4	(2.8)	(1.0)	(0.9)	(0.3)	(0.8)	(0.4)	2.3	2.6	0.6	1.0	(2.4)
Blended	(0.7)	2.6	(2.5)	(1.1)	(0.3)	0.2	(2.2)	(0.2)	1.8	1.3	(0.6)	1.0	(1.3)
Change, qoq (%) - constant currency													
Onsite	(0.4)	3.8	(2.6)	(1.1)	(1.1)	1.6	(2.4)	(1.1)	0.6	1.0	(1.1)	0.4	
Offshore	(2.3)	3.2	(2.4)	(0.8)	(0.8)	0.2	0.3	(1.3)	1.9	2.4	0.4	(0.2)	
Blended	(0.8)	3.4	(2.0)	(0.9)	(0.9)	0.7	(1.1)	(0.9)	1.3	0.7	(0.9)	(0.2)	

Source: Company, Kotak Institutional Equities

Exhibit 10: Attrition rate rises sharply by 350 bps, partly driven by seasonality



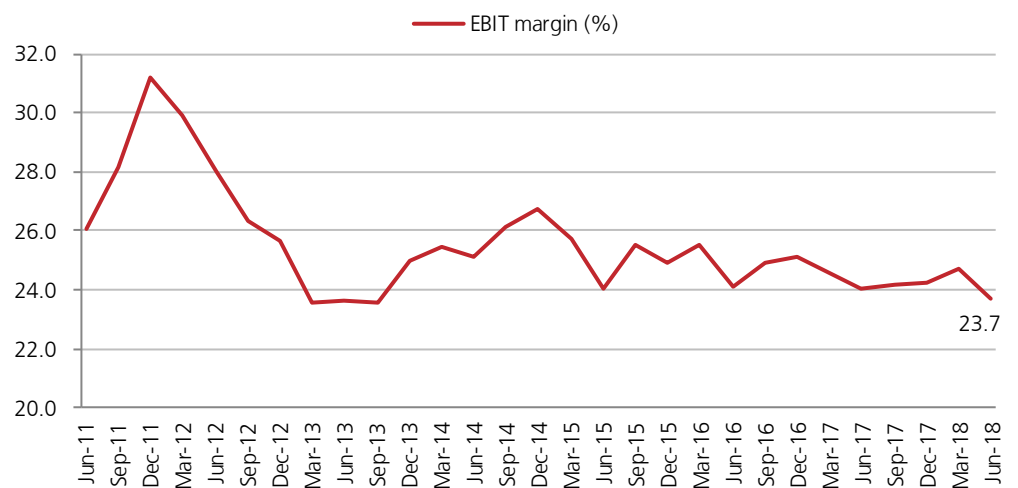
Source: Company, Kotak Institutional Equities

Exhibit 11: Key senior management exits at Infosys in the past 2-3 years

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

Source: Company, Kotak Institutional Equities

Exhibit 12: Decline in EBIT margin due to wage hike and investments in business



Source: Company, Kotak Institutional Equities

Exhibit 13: Profit model, balance sheet, cash model of Infosys, March fiscal year-ends, 2014-21E (Rs mn)

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

Source: Company, Kotak Institutional Equities

JULY 16, 2018
RESULT

Coverage view: **Attractive**

Price (₹): **1,214**

Target price (₹): **1,425**

BSE-30: **36,542**

F&B profitability at risk. Maharashtra government intends to allow outside food in multiplexes; theoretically, it can significantly impact PVR's earnings. The matter is sub-judice; we do not expect an extremely adverse outcome for PVR given several considerations. Regardless, we expect PVR to make the price-value proposition of its F&B offerings more favorable to consumers in view of these events. There is some risk to our estimates. We will track the developments closely and revise our earnings and TP, if needed, as clarity emerges. Maintain our cautious stance.

Company data and valuation summary

PVR

Stock data				Forecasts/Valuations				
				2018	2019E	2020E		
52-week range (Rs) (high,low)		1,568-1,142		EPS (Rs)	26.8	37.5	50.0	
Market Cap. (Rs bn)		56.7		EPS growth (%)	25.5	39.8	33.2	
Shareholding pattern (%)				P/E (X)	45.2	32.4	24.3	
Promoters		19.9		Sales (Rs bn)	23.5	27.9	33.1	
FIs		48.0		Net profits (Rs bn)	1.3	1.8	2.3	
MFs		9.9		EBITDA (Rs bn)	4.2	5.1	6.3	
Price performance (%)				EV/EBITDA (X)	15.4	12.7	10.5	
Absolute		1M	3M	12M	ROE (%)	12.3	15.2	17.5
Rel. to BSE-30		(14.4)	(7.7)	(14.4)	Div. Yield (%)	0.2	0.3	0.4
		(16.2)	(13.6)	(24.9)				

Event—Maharashtra government intends to allow outside food and beverages at multiplexes

A quick recap—In December 2017, a PIL was filed in the Bombay High Court (HC) seeking allowance of outside F&B in movie theatres in Maharashtra. Subsequently, the HC asked the state government to form a policy on this subject. On Friday, Maharashtra's minister of state for food and civil supplies announced that the extant law does not restrict outside F&B in cinemas. Hence, multiplexes cannot prohibit moviegoers from bringing and consuming outside food articles. The government may place a policy document in the HC (next date on July 25) following which court hearings would commence. Separately, a few media articles suggest that the government may enact a law prohibiting the sale of F&B above MRP at multiplexes. It looks unlikely as (1) F&B menus of multiplexes largely comprise of in-house food items (MRP may not be applicable), (2) in the past, the Supreme Court has ruled in favor of restaurants in a similar matter in view of ambience provided.

Potential implications and the way forward

F&B segment contributes 28%/32% to PVR's revenue/gross profit (GP). Maharashtra accounts for 25% of PVR's screens. Maharashtra F&B segment would be 9%/11% of PVR's revenue/GP (KIE). Theoretically, allowance of outside food can impact volumes, pricing and profitability of PVR's F&B business significantly (presently, GM is 75%). This matter pertains to Maharashtra but other states may follow the suit. In our view, probability of an extremely adverse outcome for multiplexes is low as: (1) court will consider ramifications on several other F&B/entertainment businesses, (2) outside food can compromise security, and affect ambience/movie experience. We believe, if at all outside food is permitted, its consumption may be restricted to the lobby area. In that case, PVR may not see much impact as most people prefer munching while watching a movie in the auditorium. We expect PVR to make the price-value proposition of its F&B offerings (especially of Popcorn and beverages) favorable to consumers, regardless of the court verdict, in view of these events and social media chatter. We will trim estimates as we have more clarity.

Regulatory risks refuse to die down; valuation multiple at risk

Regulatory risks remain a key concern for Indian multiplexes as state governments have the power to cap ticket prices and impose a local body tax over 28% GST. Even as PVR has stepped up its game and is likely to race ahead of its competition, we consider the developments on F&B front a dampener for stock price and valuation multiples. Stay cautious.

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Arguments and counter-arguments

- ▶ **Key argument of PIL petitioner.** The PIL petitioner's key demand is that moviegoers should be allowed to carry outside food. The key argument is that article 21 ('Right to Life and personal liberty') of the Constitution grants an individual freedom to consume food of his choice in order to protect his life and this fundamental right cannot be waived off by a private contract of multiplexes.
- ▶ **Maharashtra government's viewpoint.** Maharashtra Cinemas (Regulation) Rules, 1966, is applicable to all cinema operators. As per the government, there is no provision in the extant law prohibiting individuals from carrying and consuming outside food at movie theatres. Thus, multiplex operators cannot stop people from bringing outside food. We note that the state government's view is also influenced by some amount of public grievance around exorbitant pricing of F&B at multiplexes.
- ▶ **Key argument of Multiplex association.** FICCI-Multiplex association of India is representing PVR and other multiplexes in this matter. While the affidavit filed by the multiplex association is not available in public domain and hearings are yet to commence, we gather from our industry interactions that the key arguments are (1) on purchase of a movie ticket, a consumer agrees to abide by the terms and conditions laid down by the multiplex operator and thus cannot carry outside F&B, (2) Allowance of outside F&B would impact profitability of multiplexes and it would be in violation of its 'Right to do business'. Further, we note that GST on multiplex tickets is 28% (same bracket as luxury products and services); a luxury establishment ought to be given freedom to price its offerings. We also note that multiplexes do not have monopoly and consumers have affordable options such as single-screen cinemas.

KIE view— In our view, an order allowing outside food in multiplexes could have ramifications on many other businesses such as hotels, restaurants, amusement parks, discotheques, sports events (cricket matches, IPL) and entertainment events, etc. The HC would have to take into consideration these aspects and previous verdicts of courts on related subjects. Further, multiplexes would argue that allowance of outside food may compromise security/safety and affect ambience and the movie viewing experience.

Given these aspects, we see low probability of an extremely adverse outcome for multiplexes. In our view, there is a possibility that outside food may be allowed with a few conditions such as (1) moviegoers may be allowed to carry select food items and keeping in mind security considerations (for instance dry food and water as is the case at airports), (2) outside food to be kept and consumed in the lobby areas and not in the auditorium. This condition can discourage most people from bringing outside food as it dilutes one's movie experience (most people prefer to munch in the auditorium while watching a movie), (3) multiplexes may be required to provide water at a nominal price.

Our thoughts on PVR's F&B pricing and profitability

PVR's F&B business garners gross margin of 75% which is broadly in line with well-operated QSRs such as Jubilant. However, PVR's F&B menu can be split into two segments—

- ▶ Popcorn and Pepsi that contribute about 60% to F&B revenues and garner gross margin of about 80-85% (KIE estimates). Absolute price of the regular pack (smallest size) of Popcorn and Pepsi (400 ml) is Rs260 each and Rs360 for a combo (current price at a PVR, Juhu, Mumbai). In our view, PVR's pricing for Popcorn and aerated beverages have irked a large section of consumers (as visible from social media chatter). We believe there is ample room for improving the price-value proposition in favor of consumers and we hope PVR takes corrective measures to win back the goodwill of consumers.

Multiplexes' F&B business has limitation in terms of the number of consumers it can cater to during intervals. Given this, the focus of the business has always been on pricing due to practical limitations to drive volumes. We believe multiplex players can figure out a way to cater to higher volume at slightly lower pricing (particularly for Popcorn and aerated beverages)

- ▶ All other food items contribute about 40% to F&B revenues and garner about 65% gross margin. We believe the pricing and price-value proposition for this basket is better than or similar to comparable restaurants. If at all, there is room for improvement in pricing.

Potential impact in event of bear case scenario and levers to mitigate the same

If outside food is allowed to be consumed in auditoriums (bear case scenario; extremely unlikely), PVR will have to reduce prices of some of its F&B offerings to make the price-value proposition competitive and compelling. We note that most multiplexes are in malls that have food courts; PVR will have to benchmark its F&B offerings against food court prices. For instance, the price of a 400 ml glass of Pepsi is about Rs260 at PVR whereas similar quantity of Coca Cola is priced at Rs75-80 at McDonalds.

If PVR reduces the price of Popcorn and Pepsi by 25%, it can result in loss of revenues and EBITDA to the tune of Rs1.2 mn (about 22%/45% impact at EBITDA/PAT level). It is difficult to estimate volume trends as it is difficult to predict consumer behavior at this juncture.

A possible mitigation—In event of material impact of F&B volumes and profitability, PVR can potentially increase ticket prices (by say Rs75-100) and offer a complimentary F&B combo to all moviegoers (as in case of airlines catering to premium flyers). This will result in sharp increase in F&B volumes and allow PVR to garner healthy profit in F&B even after providing a better price-value proposition to consumers. Besides this, the company may take several initiatives to mitigate the impact if the bear case scenario plays out.

Exhibit 1: Per-footfall economics of PVR's exhibition business, March fiscal year-end, FY2019E

	Rs/footfall
Ticketing revenues	
Average ticket price (ATP) (gross)	224
Less: GST (@28%)	48
Average ticket realisation (net) (a)	176
Less: Distributor's share (~@43.5% of net ticket sales)	77
PVR's gross profit (contribution) from ticket sales (b)	100
F&B revenues	
F&B spends (SPH) (gross)	97
Less: GST (@5%)	5
F&B revenues (net) (c)	92
Less: COGS (~25% of net F&B revenue)	23
Gross profit (contribution) on F&B spends (d)	69
Advertising revenues, convenience fees and other operating income	
Ad revenues	42
Convenience fees on online booking	9
Other operating income	7
Total ad revenues + convenience fee + other op. income (e)	58
Less: COGS pertaining to ad sales	7
Gross profit from ad revenues + convenience fee + other op. income (e)	51
Total revenues (a + c + e)	327
Gross profit per head (b + d + e)	220
Other operating costs (largely fixed costs)	
- Rent	59
- Employee costs	30
- Electricity and common area maintenance	35
- Repairs and maintenance	13
- Other expenses	14
Total other operating costs	160
EBITDA	61
EBITDA margin (%)	18.5

Source: Company, Kotak Institutional Equities estimates

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Condensed consolidated financials for PVR, March fiscal year-ends, 2012-21E (Rs mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model										
Revenues	5,177	8,064	13,475	14,813	18,688	21,628	23,535	27,865	33,059	38,841
EBITDA	761	1,169	2,117	2,044	3,306	3,570	4,212	5,149	6,259	7,516
Other income	123	91	113	46	283	189	119	150	205	250
Depreciation	(365)	(560)	(944)	(1,168)	(1,252)	(1,384)	(1,537)	(1,799)	(2,113)	(2,430)
Interest expense	(185)	(368)	(795)	(783)	(839)	(806)	(837)	(846)	(815)	(792)
Pretax profits	310	319	523	118	1,432	1,528	1,952	2,654	3,536	4,543
Tax	(57)	124	(19)	(8)	(232)	(570)	(704)	(903)	(1,202)	(1,545)
PAT before minority interest	253	443	504	110	1,200	958	1,247	1,752	2,334	2,999
Minority interest	1	2	57	11	(5)	(1)	(—)	—	—	—
PAT	254	445	561	121	1,194	958	1,247	1,752	2,334	2,999
Diluted EPS (Rs)	9.5	14.9	13.7	2.9	25.6	20.5	26.7	37.5	50.0	64.2
Balance sheet										
Total equity	2,791	6,427	3,993	4,092	8,695	9,650	10,754	12,294	14,348	16,986
Deferred taxation liability	106	(10)	4	11	93	9	6	6	6	6
Total borrowings	2,035	6,566	6,134	7,470	6,623	8,196	8,305	9,055	9,055	8,555
Minority interest	139	854	771	383	401	405	8	8	8	8
Current liabilities	986	1,939	2,600	2,309	3,276	3,926	4,316	5,073	5,986	6,996
Total liabilities and equity	6,126	15,852	13,533	14,288	19,108	22,257	23,488	26,537	29,503	32,651
Cash and cash equivalents	211	732	495	261	2,674	309	339	432	209	357
Other current assets	2,038	3,229	3,763	4,605	5,763	5,363	5,880	6,592	7,587	8,685
Tangible fixed assets	2,621	5,710	6,990	7,523	8,824	10,447	11,270	13,536	15,750	17,674
Goodwill and Intangibles	374	4,712	1,466	1,273	1,262	4,640	4,629	4,606	4,585	4,564
CWIP	876	1,453	806	611	570	1,056	1,017	1,017	1,017	1,017
Total assets	6,126	15,852	13,533	14,288	19,108	22,257	23,488	26,537	29,503	32,651
Cash flow										
Operating cash flow, excl. w-capital	679	1,429	2,003	2,170	3,169	3,442	3,502	4,246	5,056	5,971
Working capital changes	(193)	(239)	128	(617)	204	(246)	(127)	45	(82)	(88)
Capital expenditure	(1,160)	(7,704)	(1,273)	(2,064)	(2,334)	(6,324)	(2,810)	(4,041)	(4,306)	(4,332)
Other income	(90)	47	76	22	43	29	119	150	205	250
Interest expense (net)	(207)	(430)	(812)	(827)	(797)	(730)	(837)	(846)	(815)	(792)
Free cash flow	(971)	(6,896)	123	(1,317)	284	(3,830)	(152)	(446)	58	1,008
Key ratios and assumptions										
Footfalls (mn)	24.7	37.2	59.9	59.1	69.6	75.2	76.1	83.5	92.9	102.0
Average ticket price (ATP) (Rs)	156	163	168	177	188	196	210	224	237	251
Screens (#)	166	360	421	464	516	579	625	710	795	880
EBITDA margin (%)	14.7	14.5	15.7	13.8	17.7	16.5	17.9	18.5	18.9	19.3
Net debt	1,824	5,835	5,638	7,209	3,949	7,887	7,967	8,623	8,846	8,198
RoAE (%)	8.2	9.7	10.8	3.0	18.7	10.4	12.2	15.2	17.5	19.1
RoACE (%)	7.0	10.0	10.3	7.8	14.4	9.1	9.4	11.2	12.4	13.9

Source: Company, Kotak Institutional Equities estimates

JULY 16, 2018
RESULT

Coverage view: **Attractive**

Price (₹): **179**

Target price (₹): **205**

BSE-30: **36,542**

NIM comes under pressure. DCB's reported 7% yoy earnings growth led by 17% yoy NII growth and 6% decline in provisions. NIM declined 15 bps qoq (KS-calc). Loan growth accelerated further to 31% yoy. Asset quality was stable qoq. Slowdown in expansion and focus on improving productivity has picked pace. NIM pressure can act as a key headwind for the management to achieve its RoE target of 14% for 4QFY19E but overall progress has been relatively stable and comfortable for us to maintain an ADD rating with TP at ₹205 (from ₹210 earlier).

Company data and valuation summary

DCB Bank

Stock data

52-week range (Rs) (high,low) 207-155

Market Cap. (Rs bn) 55.4

Shareholding pattern (%)

Promoters 15.0

Fls 21.3

MFs 18.2

Price performance (%)

Absolute 1M 3M 12M (0.4) 0.1 (9.6)

Rel. to BSE-30 (2.6) (6.3) (20.8)

Forecasts/Valuations

2018 2019E 2020E

EPS (Rs) 8.0 10.2 12.4

EPS growth (%) 13.8 28.2 21.0

P/E (X) 22.5 17.6 14.5

NII (Rs bn) 10.0 12.0 13.9

Net profits (Rs bn) 2.5 3.1 3.8

BVPS 79.9 86.8 96.9

P/B (X) 2.2 2.1 1.9

ROE (%) 10.9 11.7 12.7

Div. Yield (%) 0.4 0.5 0.6

Drop in treasury gains drag earnings; NIM under a bit of pressure

DCB reported 7% yoy rise in earnings in 1QFY19 driven by 17% yoy NII growth and a 6% yoy drop in credit cost. NII growth was strong on the back of solid loan growth of 31% yoy while margins (calculated) compressed 14 bps qoq to 3.7%. Drop in slippages to 1.7% led to lower credit cost. Operating expense growth was high but has slowed to 18% yoy. Non-interest income dropped 3% yoy driven by a drop in treasury gains at 47% yoy. Growth in CASA at 20% yoy was lower than deposit growth at 31% yoy in 1QFY19. CASA ratio stable at 25%.

Asset quality trend stable which is comforting

Given the high exposure in the much discussed LAP portfolio, there is a fear of a spike in the bank's NPL ratio. While the management has been consistently communicating about the lower ticket size of this book where the NPL risk is lower, the fear always results in keeping a close watch on this portfolio. LAP NPL ratios stable at 1.8% of loans. Trends in each product segment provide comfort that there are unlikely to be any major negative surprises in the near term.

Two major headwinds in the short term: NIM and treasury income

The management has indicated that it would like to exit FY2019 with an exit RoE of 14%. The key headwind appears to be NIM which has started to show pressure given the rise in the cost of funds. Growth has accelerated but that has resulted in faster capital consumption as well. Treasury income has dropped substantially which puts further pressure on delivering near term performance. The bank needs to pull back costs if it has to reach to its targets for FY2019.

Maintain ADD with ₹205 TP (from ₹210 earlier)

We value DCB at 2.2X book and 17.5X March FY2020E EPS (TP at ₹205 from ₹210 earlier) for RoEs at 12-13% in the short term but ~25% CAGR in earnings over FY2018-20E. While asset quality has showed signs of improvement, continuous margin pressure remains one of the key concerns. Volatility in non-interest income will act as a key variable to our earnings estimate. However, productivity improvement will be the key driver of earnings growth.

QUICK NUMBERS

- NII up 17% yoy; net profit increased 7% yoy in 1QFY19
- GNPL ratio up 7 bps qoq to 19%; NNPL ratio flat qoq at 0.7%
- Maintain ADD rating with TP at ₹205 (from ₹210 earlier)

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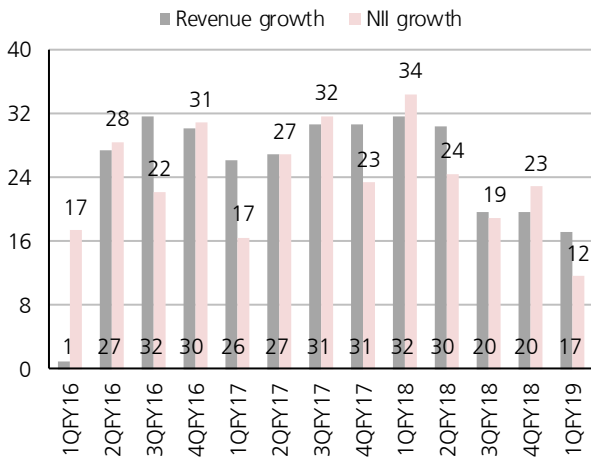
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Exhibit 1: DCB bank – quarterly performance
March fiscal year-ends, 1QFY18-1QFY19 (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	(% chg.)	FY2020E
					1QFY19E	1QFY18	4QFY18				
Interest Earned	7,014	6,918	5,660	6,492	1.4	23.9	8.0	30,830	24,130	27.8	37,400
Interest on Advances	5,665	5,615	4,506	5,249	0.9	25.7	7.9	24,660	19,403	27.1	30,411
Interest on Investment	1,188	1,172	1,053	1,069	1.3	12.8	11.1	5,357	4,208	27.3	6,075
Others	162	131	101	174	23.8	59.8	(7.1)	813	519	56.7	914
Interest expense	4,285	4,229	3,329	3,855	1.3	28.7	11.1	18,828	14,176	32.8	23,494
Net interest income	2,730	2,689	2,332	2,637	1.5	17.1	3.5	12,003	9,954	20.6	13,906
Other Income	828	716	858	849	15.7	(3.4)	(2.4)	3,496	3,103	12.7	4,403
Commission & exchange	599	597	519	618	0.4	15.4	(3.1)	2,630	2,192	20.0	3,156
Total Income	3,558	3,405	3,189	3,486	4.5	11.6	2.1	15,499	13,057	18.7	18,309
Operating Expenses	2,144	2,163	1,825	2,070	(0.9)	17.5	3.6	8,963	7,807	14.8	10,338
Staff costs	1,087	1,086	905	1,017	0.1	20.1	6.9	4,628	3,812	21.4	5,569
Other operating expenses	1,057	1,077	920	1,053	(1.8)	14.9	0.4	4,335	3,995	8.5	4,769
Pre-provisioning profit	1,414	1,243	1,364	1,416	13.8	3.7	(0.1)	6,536	5,250	24.5	7,971
Provisions	332	399	355	388	(16.8)	(6.4)	(14.4)	1,769	1,388	27.5	2,205
Profit before tax	1,082	843	1,009	1,028	28.3	7.2	5.3	4,766	3,862	23.4	5,766
Provision for Taxes	387	287	357	386	34.9	8.4	0.3	1,621	1,408	15.1	1,961
Net Profit	695	557	652	642	24.9	6.6	8.2	3,146	2,453	28.2	3,806
Tax rate (%)	36	34	35	38	5.2	1.1	(4.7)	34.0	36.5	(6.8)	34
PBT - net treasury income	483	247	490	410	95.8	(1.5)	17.8	4,472	3,469	28.9	5,222
EPS (Rs)	2.2		2.1	2.0		3.1	8.3	10.2	8.0	28.2	12.4
CAR (%)	15.6		15.3	16.5		30 bps	-92 bps				
Tier-I (%)	12.0		13.4	12.7		-142 bps	-70 bps				
Key balance sheet items (Rs bn)											
Total deposits	250	250	192	240	0.3	30.7	4.3	303	240	26	377
CASA ratio (%)	24.6		26.9	24.3		-222 bps	30 bps	24.3	24.3	0 bps	24.8
Loans	212	207	163	203	2.4	30.6	4.5	256	203	26	319
Corporate banking	36		24	35		48.0	4.5				
SME+MSME	25		18	24		42.5	4.5				
Mortgages	85		72	81		18.7	4.5				
CV/CE/STVL	19		8	12		135.1	56.7				
Agriculture	38		28	37		38.3	4.5				
Others	8		13	14		(34.7)	(40.3)				
Investment	71	66	56	62	7.0	26.3	13.4	70	62	13	83
Asset quality											
GNPL (Rs mn)	4,006		2,853	3,690		40.4	8.6	4,993	3,690	35	6,167
GNPL (%)	1.9		1.7	1.8		12 bps	7 bps	1.9	1.8	13 bps	1.9
NNPL (Rs mn)	1,539		1,491	1,467		3.2	4.9	2,502	1,467	71	2,950
NNPL (%)	0.7		0.9	0.7		-20 bps	0 bps	1.0	0.7	25 bps	0.9
PCR- KS (%)	62		48	60		1385 bps	134 bps	50	60	-1035 bps	52
Slippages (Rs mn)	859		856	814		0.4	5.5	4,112	3,489	18	4,685
Slippages (%)	1.7		2.2	1.8		-48 bps	-6 bps	2.0	2.2		1.8
Key calculated ratios (%)											
Yield on advances	10.9		11.2	10.8		-34 bps	11 bps	10.7	10.7	-1 bps	10.6
Yield on investment	7.2		7.4	7.2		-23 bps	-1 bps	8.1	7.0	109 bps	7.9
Cost of deposit	7.0		6.9	6.8		6 bps	18 bps	6.4	6.0	45 bps	6.5
NIM	3.7		4.1	3.8		-35 bps	-14 bps	3.7	3.8	-13 bps	3.5
CD ratio	84.9		84.9	84.7		-5 bps	15 bps	84.7	84.7	0 bps	84.7
Cost to income	60.3		57.2	59.4		303 bps	87 bps	57.8	59.8	-196 bps	56.5
RoA	0.9		1.1	0.9		-17 bps	1 bps	0.9	0.9	3 bps	0.9
RoE	9.8		10.8	9.3		-98 bps	57 bps	11.7	10.9	77 bps	12.7
Other key business parameters (#)											
Branches	323		290	318		11.4	1.6	358	318	13	398
ATM	536		504	533		6.3	0.6	583	533	9	633

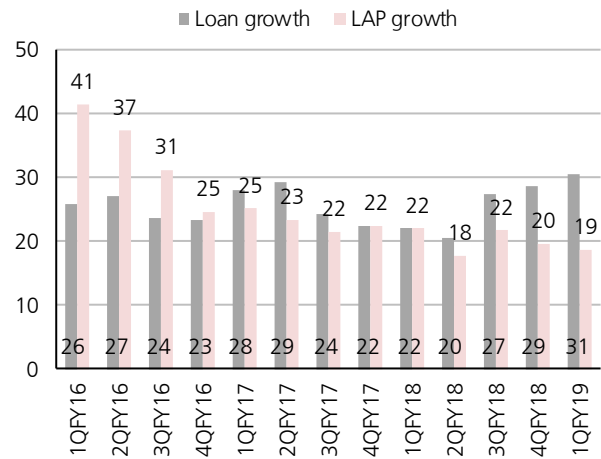
Source: Company, Kotak Institutional Equities estimates

Exhibit 2: NII growth drops to 17% yoy
Growth in revenues and NII, March fiscal year-ends, 1QFY16-1QFY19 (%)



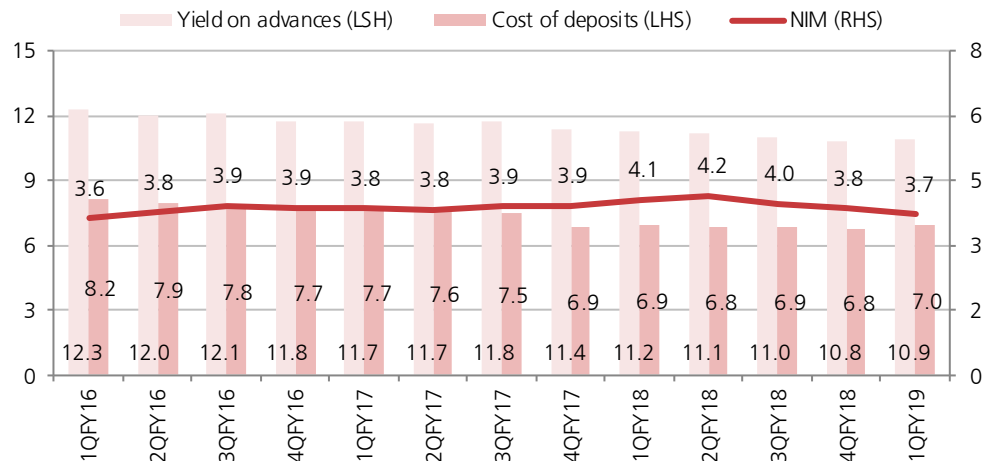
Source: Companies, Kotak Institutional Equities

Exhibit 3: LAP growth drops to <20%
Growth in loans and LAP portfolios, March fiscal year-ends, 1QFY16-1QFY19 (%)



Source: Companies, Kotak Institutional Equities

Exhibit 4: Drop in yields led to margin compression in 1QFY19
Calculated YoA, CoF and NIM, March fiscal year-ends, 1QFY16-1QFY19 (₹ mn)



Source: Company, Kotak Institutional Equities estimates

Margin pressure continues as cost of funds starts to inch up faster

Calculated NIM dropped 14 bps qoq (down 35 bps yoy) led by an increase in the cost of deposits while yields saw marginal improvement. Calculated cost of deposits increased 18 bps qoq to 7%. Calculated yield on advances increased 11bps qoq (down 34 bps yoy). MCLR rates hiked 10 bps in 1QFY19. Increase in competition from other players in the retail space and gradual shift in product mix to include more of low yielding mortgage and CV loans have led to yield compression yoy.

We continue to maintain a negative outlook on NIM in the absence of any change in the product mix. We expect NIM to drop by ~50 bps from FY2018-21E. NIM continues to drop from peak levels of 4%. Pressure on NIM would result from – (1) a shift in the loan mix to include more retail assets like vehicle and mortgage loans where competition from other banks and NBFCs is relatively high, (2) stable CASA in medium term and (3) focus on

building a retail deposit franchise (presently at 75% of deposits; up 100 bps qoq) in the medium-term may result in deposit costs being relatively inelastic in comparison to loan yields.

Asset quality stable qoq; NPLs in the LAP portfolio stable qoq

Headline gross NPL ratio increased 7bps qoq to 1.9% of loans in 1QFY19 whereas net NPL was flat qoq at 0.7%. On an absolute basis, GNPL increased ~8.6% qoq. Reported provision coverage ratio (including technical write-off) inched upwards to 76%. The bank maintains relatively high coverage ratio compared to peers. Slippages saw sharp improvement in the quarter; down 6 bps qoq and 48 bps yoy. One interesting point to note is the increasing recoveries and upgrades observed by the bank. Recoveries and upgrades stood at 1.3% in 1QFY19 (1.4% in 4QFY18 and 1.3% in 2QFY18). This hints at a directional shift in the asset fix, focusing on consumers whose tendency of default is high but chances of recovering bad loans is also high as compared to corporate NPLs.

NPLs in the core mortgage portfolio continued to remain high but stable qoq at 1.8% (up 4 bps qoq and 35 bps yoy). A major chunk of the mortgage portfolio consists of LAP where spreads continue to shrink and delinquencies have been higher post demonetization.

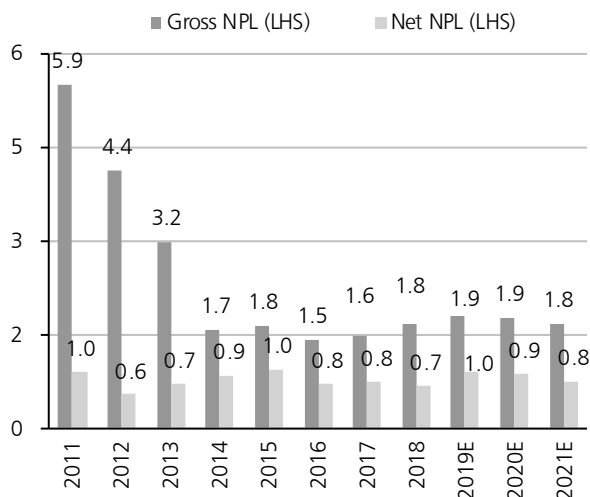
Corporate GNPL dropped 5 bps qoq to 2.6%; a trend similar to previous quarters. CV/CE loan GNPL saw significant improvement in 1QFY19 (down 60 bps qoq and 80 bps yoy). This segment continued to see a drop in GNPL over the last few quarters. SME GNPL was flat qoq at 1.4%. We build in 1.6%-2% slippages and 60-70 bps credit cost over FY2019-21E.

Exhibit 5: Strong improvement in asset quality for the vehicle segment; stable across all others
Segment-wise NPLs, March fiscal year-ends, 2010-1QFY19 (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Vehicle loans				24.1	2.4	3.8	2.6	3.4	3.2	2.6
Corporate loans	5.9	5.7	6.0	3.3	0.9	4.1	4.3	3.7	2.7	2.6
SME loans	2.2	1.3	1.0	3.8	6.2	2.0	1.7	2.0	1.4	1.4
Mortgage		1.3	0.6	0.9	0.8	0.9	0.9	1.1	1.8	1.8
Gross NPLs	8.7	5.9	4.4	3.2	1.7	1.8	1.5	1.6	1.8	1.9
Net NPLs	3.1	1.0	0.6	0.7	0.9	1.0	0.8	0.8	0.7	0.7
Provision coverage ratio (PCR)	66.3	84.4	87.5	77.6	46.5	43.2	50.6	51.1	60.2	61.6
PCR (incl. technical write-offs)		-	91.2	85.7	80.5	74.7	77.6	73.8	75.7	76.1

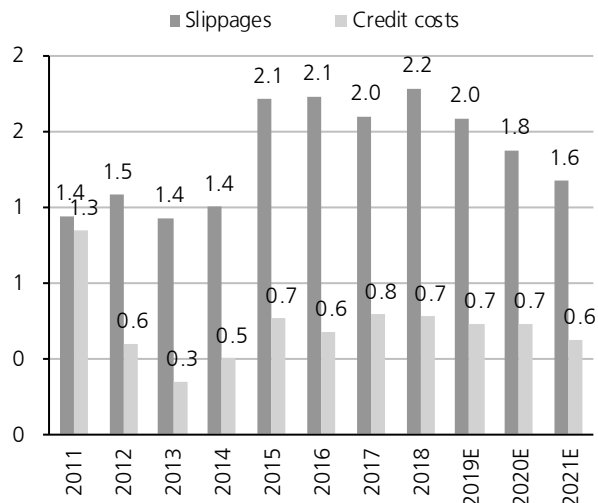
Source: Company, Kotak Institutional Equities

Exhibit 6 : Expect gross NPL of ~1.8-1.9% in the medium-term
Gross and net NPLs, March fiscal year-ends, 2011-2021E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Drop in slippages going ahead
Slippages and credit costs, March fiscal year-ends, 2011-2021E (%)



Source: Company, Kotak Institutional Equities estimates

Loan growth accelerates to ~30% yoy

Loan growth was strong at 31% yoy (up 5% qoq) in 1QFY19. Loan growth has maintained a robust pace over the last four quarters recording >20% yoy growth. The sharp spike in loans was led by CV and SME segments. Corporate loan growth continued to maintain an upward trajectory. CV/CE loans jumped 1.4X yoy (up 57% qoq) in 1QFY19. This has been driven by positive sentiment in the sector and a gradual increase in the bank's retail asset mix. Mortgage loan growth was modest at 19% yoy; broadly similar to that observed over the last few quarters. SME/MSME growth saw a sharp spike at 42% yoy. This segment remains a major area for growth going ahead. Corporate loans increased 48% yoy in 1QFY19. The bank continues to see an upward push in corporate loan growth; a trend observed over the past four quarters.

We expect overall loan growth to remain above the industry average, closer to ~24.4% CAGR from FY2018-21E. However, there might be a shift in product mix with increasing share of CV and SMSE loans while mortgage loans may see a slight dip.

Exhibit 8: DCB maintains strong retail share of loans at 53%
Break-up of loans, March fiscal year-ends, 2010-1QFY19 (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Corporate banking	32.0	26.0	22.6	23.8	25.7	23.0	15.0	16.0	17.0	17.0
SME and MSME	17.0	24.0	27.2	22.6	16.6	12.6	12.0	12.0	12.0	12.0
Retail	26.0	30.0	35.1	42.0	43.5	49.0	56.0	54.0	53.0	53.0
Mortgage loans	12.0	25.0	29.4	36.4	38.4	42.6	43.0	43.0	40.0	40.0
Vehicle loans	8.0	2.0	2.1	1.7	2.1	2.5	4.0	4.0	6.0	9.0
Others	3.0	2.8	3.7	3.9	3.0	3.9	9.0	7.0	7.0	4.0
Agriculture	25.0	20.0	15.2	11.6	14.2	15.4	17.0	18.0	18.0	18.0

Source: Company, Kotak Institutional Equities

Marginal improvement in CASA ratio qoq

CASA ratio was up 30 bps qoq to ~25% in 1QFY19 (down 230 bps yoy). While growth in total deposits was strong at 31% yoy, it was relatively modest at 20% yoy for CASA reflecting the increased focus on term deposits to improve overall branch productivity. Retail deposits comprise about 75% of total deposits (up 100 bps qoq).

We expect marginal improvement in the CASA ratio going ahead. We forecast 24% CAGR growth in total deposits and 27% CAGR growth in CASA from FY2018-21E.

Exhibit 9: CASA ratio has been broadly stable at ~25% levels in recent years

Break-up of retail deposits, March fiscal year-ends, 2010-1QFY19 (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Current	16.2	15.8	13.2	10.8	9.3	8.3	7.9	8.0	7.6	-
Savings	19.2	19.4	18.9	16.4	15.7	15.1	15.5	16.4	16.7	-
CASA	35.4	35.2	32.1	27.2	25.0	23.4	23.4	24.3	26.9	24.6
Term deposits	64.6	64.8	67.9	72.8	75.0	76.6	76.6	75.7	73.1	75.4
NRI deposits			4.9	6.2	8.0	9.0	8.0	7.0	7.0	6.2
Retail deposits	81.5	81.2	84.4	77.4	77.0	80.0	80.7	77.0	79.6	75.0
Wholesale deposits	18.5	18.8	15.6	22.6	23.0	20.0	19.3	23.0	20.4	25.0

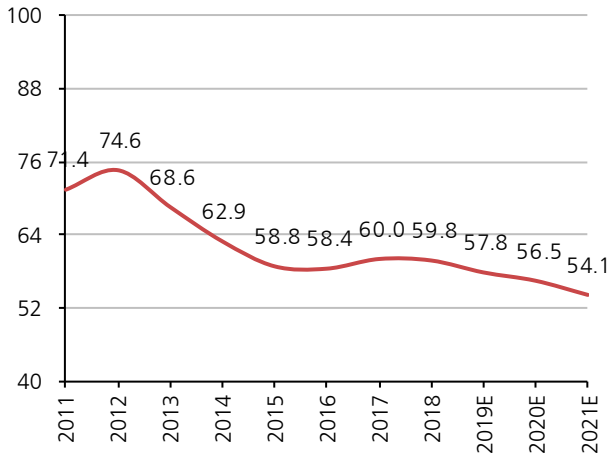
Source: Company, Kotak Institutional Equities

Focus on cost efficiencies continues; deterioration this quarter on account of lower contribution of treasury income

Cost-to-income ratio increased ~90 bps qoq to 60% (up 310 bps yoy) in 1QFY19. Cost-income ratio has remained high in the range of 55-60% over the last two years as the bank had aggressively opened branches. Operating expenses growth at 18% yoy was higher than revenue growth at 12% yoy in 1QFY19 but this has slowed from ~20% growth when the bank was expanding its network. Employee expenses grew 20% yoy as the bank is probably increasing its capacity within each branch to reflect an increase in business opportunity. The bank has slowed down branch expansion and is focusing on improving productivity of existing branches in order to gain cost efficiencies.

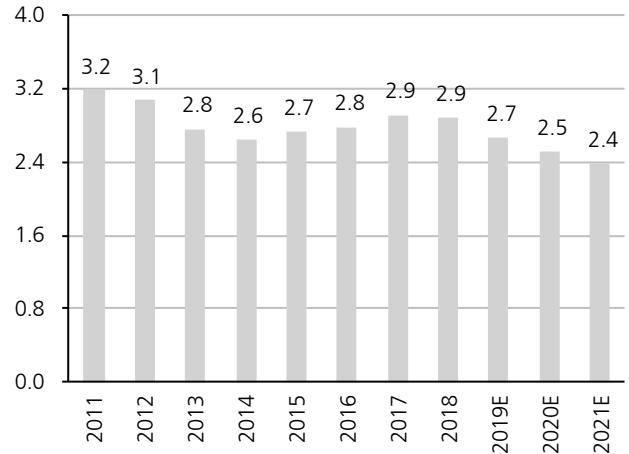
We expect cost-income ratio of ~54-58% in FY2019-21E. We forecast around ~15% CAGR in operating cost in FY2018-21E as we build in about 120 additional branches in FY2018-21E compared to 120 new additions between FY2016-18. Higher pressure on NIM is slowly emerging as key headwind for improvement in cost-income ratio. The bank would need to cut back operating expenses growth in FY2019 to achieve its medium term RoEs of 14% for 4QFY19E.

Exhibit 10: Improvement in cost-income ratio going ahead
Cost-income ratio, March fiscal year-ends, 2011-2021E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 11: We expect operating leverage benefit in FY2019-20E
Operating expenses to assets, March fiscal year-ends, 2011-2021E (%)

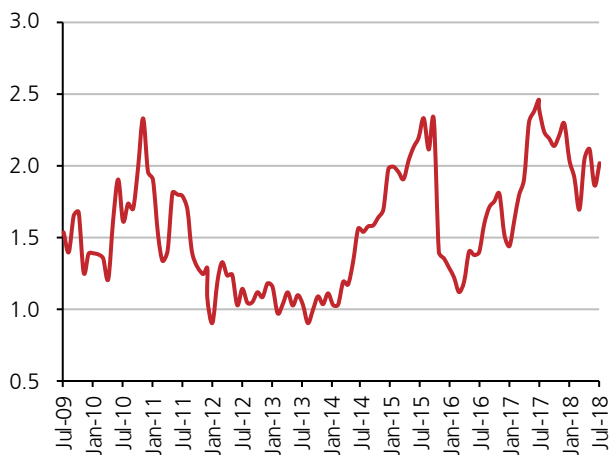


Source: Company, Kotak Institutional Equities estimates

Other highlights for the quarter:

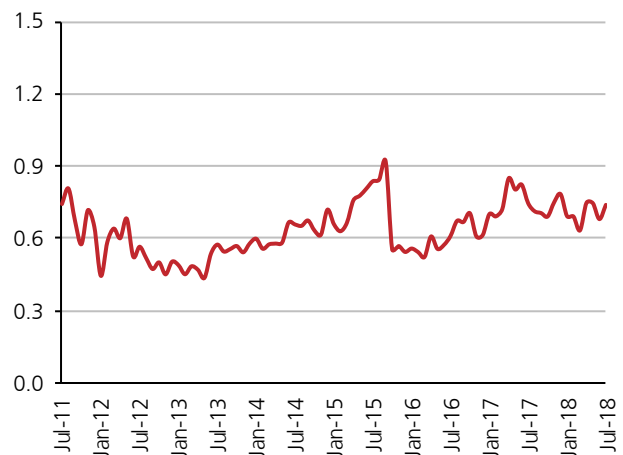
- ▶ Non-interest income dropped 3% yoy led by a sharp drop in treasury gains at 47% yoy in 1QFY19 driven by an increase in mark to market losses. Fee income retained momentum, up 15% yoy. We forecast ~22% CAGR growth in non-interest income in FY2018-21E led by sharp growth in the fee income.
- ▶ Capital adequacy ratio stood at 14.6% with tier-1 at 12%. Growth in RWA at 23% yoy was slightly lower than advances growth at 31% yoy in 1QFY19.

Exhibit 12: DCB trades at 2X forward book (adjusted)
One-year forward PBR, July 2009- July 2018 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 13: DCB bank trading at discount to peers has decreased
DCB trading premium to private banks, July 2011- July 2018 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 14: DCB bank - change in estimates

March fiscal year-ends, 2019-2021E (₹ mn)

	New estimates			Old estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Net loan growth (%)	26.1	24.5	22.7	26.1	24.5	22.7	0 bps	0 bps	0 bps
Loans (Rs bn)	256	319	392	256	319	392	-	-	-
Total income	15,499	18,309	21,884	15,763	18,464	21,979	(1.7)	(0.8)	(0.4)
Net interest income	12,003	13,906	16,280	11,867	13,661	15,975	1.1	1.8	1.9
NIM (%)	3.7	3.5	3.4	3.7	3.4	3.3	4 bps	6 bps	6 bps
Other income	3,496	4,403	5,604	3,896	4,803	6,004	(10.3)	(8.3)	(6.7)
Fee income	2,630	3,156	3,945	2,630	3,156	3,945	-	-	-
Treasury income	304	554	804	704	954	1,204	(56.8)	(41.9)	(33.2)
Operating expenses	8,963	10,338	11,847	8,963	10,338	11,847	-	-	-
Employee expenses	4,628	5,569	6,594	4,628	5,569	6,594	-	-	-
Other cost	4,335	4,769	5,253	4,335	4,769	5,253	-	-	-
Loan loss provisions	1,609	2,015	2,133	1,724	2,015	2,133	(6.7)	-	-
PBT	4,766	5,766	7,677	4,916	5,921	7,773	(3.0)	(2.6)	(1.2)
Tax	1,621	1,961	2,610	1,671	2,013	2,643	(3.0)	(2.6)	(1.2)
Net profit	3,146	3,806	5,067	3,244	3,908	5,130	(3.0)	(2.6)	(1.2)
% growth yoy	28	21	33	32	20	31	bps	52 bps	bps
PBT-treasury+provisions	6,232	7,417	9,233	6,096	7,172	8,928	2.2	3.4	3.4

Source: Company, Kotak Institutional Equities estimates

Exhibit 15: DCB bank - key financial ratios and growth rates
March fiscal year-ends, 2016-2021E (%)

	2016	2017	2018	2019E	2020E	2021E
Growth rates (%)						
Net loan	23.5	22.4	28.6	26.1	24.5	22.7
Total Asset	18.5	25.8	25.7	22.7	22.0	20.5
Deposits	18.4	29.2	24.5	26.1	24.5	22.2
Net interest income	21.9	28.7	24.9	20.6	15.9	17.1
Loan loss provisions	11.1	42.8	15.3	20.1	25.2	5.9
Total other income	33.0	13.2	24.6	12.7	25.9	27.3
Net fee income	17.8	17.9	32.0	20.0	20.0	25.0
Net capital gains	52.7	7.4	0.2	(33.0)	82.3	45.1
Net exchange gains	90.7	(28.5)	35.1	30.0	30.0	30.0
Operating expenses	23.8	28.0	24.3	14.8	15.3	14.6
Employee expenses	25.0	25.7	23.8	21.4	20.3	18.4
Key ratios (%)						
Yield on average earning assets	10.2	10.1	9.3	9.5	9.4	9.4
Yield on average loans	11.6	11.5	10.7	10.7	10.6	10.5
Yield on average investments	7.4	7.8	7.0	8.1	7.9	7.7
Average cost of funds	7.1	6.8	6.0	6.3	6.4	6.5
Interest on deposits	7.3	6.9	6.5	6.4	6.5	6.6
Spread	3.1	3.3	3.3	3.2	3.0	2.9
Net interest income/earning assets	3.7	3.9	3.8	3.7	3.5	3.4
Spreads on lending business	4.5	4.7	4.7	4.4	4.2	4.1
New provisions/average net loans	0.6	0.8	0.7	0.7	0.7	0.6
NII/total income	73.8	76.2	76.2	77.4	76.0	74.4
Other income / total income	26.2	23.8	23.8	22.6	24.0	25.6
Fee income to total income	16.7	15.8	16.7	17.0	17.2	18.0
Fee income to advances	1.2	1.2	1.2	1.1	1.1	1.1
Fees income to PBT	53.8	54.0	56.6	55.2	54.7	51.4
Exchange income to PBT	5.5	3.4	3.6	3.8	4.1	4.0
Operating expenses/total income	58.4	60.0	59.8	57.8	56.5	54.1
Operating expenses/assets	2.8	2.9	2.9	2.7	2.5	2.4
Tax rate	25.5	34.9	36.5	34.0	34.0	34.0
CASA ratio	23.4	24.3	24.3	24.3	24.8	25.9
Loans-to-deposit ratio	86.6	82.0	84.7	84.7	84.7	85.1
Equity/assets (EoY)	9.4	9.2	9.2	8.3	7.6	7.1
Loan impairment ratios (%)						
Gross NPL	1.5	1.6	1.8	1.9	1.9	1.8
Net NPL	0.8	0.8	0.7	1.0	0.9	0.8
Slippages	2.1	2.0	2.2	2.0	1.8	1.6
PCR	50.6	51.1	60.2	49.9	52.2	55.8
Dupont analysis (%)						
Net interest income	3.5	3.7	3.7	3.6	3.4	3.3
Loan loss provisions	0.4	0.5	0.5	0.5	0.5	0.4
Net other income	1.3	1.2	1.1	1.0	1.1	1.1
Operating expenses	2.8	2.9	2.9	2.7	2.6	2.4
(1- tax rate)	74.5	65.1	63.5	66.0	66.0	66.0
ROA	1.1	0.9	0.9	0.9	0.9	1.0
Average assets/average equity	10.8	11.7	12.0	12.5	13.7	14.7
ROE	11.9	10.8	10.9	11.7	12.7	14.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 16: DCB bank – income statement and balance sheet
March fiscal year-ends, 2016-2021E (₹ mn)

	2016	2017	2018	2019E	2020E	2021E
Income statement						
Total interest income	16,984	20,761	24,130	30,830	37,400	45,407
Loans	13,541	16,479	19,403	24,660	30,411	37,437
Investments	3,078	3,935	4,208	5,357	6,075	6,983
Cash and deposits	366	347	519	813	914	987
Total interest expense	10,790	12,791	14,176	18,828	23,494	29,127
Net interest income	6,195	7,971	9,954	12,003	13,906	16,280
Loan loss provisions	759	1,084	1,250	1,609	2,015	2,133
Net interest income (after prov.)	5,436	6,887	8,705	10,393	11,891	14,146
Other income	2,205	2,495	3,108	3,496	4,403	5,604
Net fee income	1,405	1,657	2,187	2,630	3,156	3,945
Net capital gains	423	454	455	304	554	804
Net exchange gains	145	104	140	181	235	305
Operating expenses	4,909	6,283	7,813	8,963	10,338	11,847
Employee expenses	2,451	3,080	3,812	4,628	5,569	6,594
Other provisions	84	33	138	150	180	216
Pretax income	2,611	3,067	3,862	4,766	5,766	7,677
Tax provisions	666	1,070	1,408	1,621	1,961	2,610
Net profit	1,945	1,997	2,453	3,146	3,806	5,067
% growth	2	3	23	28	21	33
PBT - Treasury + Provisions	3,067	3,728	4,795	6,232	7,417	9,233
% growth	23	22	29	30	19	24
Balance sheet						
Cash and bank balance	8,916	11,925	23,720	30,608	35,253	40,644
Net value of investments	43,333	58,179	62,190	70,451	83,495	97,299
Net loans and advances	129,214	158,176	203,367	256,421	319,280	391,776
Fixed assets	2,480	4,886	4,940	5,058	5,554	6,004
Other assets	7,242	7,298	8,004	8,405	8,825	9,266
Total assets	191,185	240,464	302,221	370,942	452,408	544,989
Deposits	149,260	192,892	240,069	302,698	376,901	460,406
Borrowings and bills payable	15,413	17,624	19,267	27,927	30,903	34,475
Other liabilities	8,591	7,899	14,807	9,490	10,439	11,483
Total liabilities	173,264	218,415	274,143	340,115	418,243	506,364
Paid-up capital	2,844	2,854	3,081	3,081	3,081	3,081
Reserves & surplus	15,077	19,195	24,998	27,747	31,084	35,545
Total shareholders' equity	17,922	22,049	28,078	30,827	34,165	38,625

Note:

1) FY2018 values are calculated using quarterly numbers.

Source: Company, Kotak Institutional Equities estimates

JULY 16, 2018

UPDATE

Coverage view: **Neutral**

Price (₹): **2,317**

Target price (₹): **2,150**

BSE-30: **36,542**

Suboxone setback. The District Court of New Jersey granted Indivior a preliminary injunction against DRRD in the Suboxone litigation, barring DRRD from re-launching the product, pending a trial for the '305 patent. DRRD will likely appeal the decision, though, we believe that a decision is unlikely in CY2018, unless the Court adopts an expedited schedule. We believe there is a high probability of Indivior succeeding in the trial (compared to '514), which potentially blocks DRRD's launch until CY2022. The ruling reinforces the risks to DRRD's earnings growth profile. REDUCE.

Company data and valuation summary

Dr Reddy's Laboratories

Stock data				Forecasts/Valuations			
52-week range (Rs) (high,low)	2,787-1,887			EPS (Rs)	2018	2019E	2020E
Market Cap. (Rs bn)	384.5			EPS growth (%)	(18.5)	51.4	32.9
Shareholding pattern (%)				P/E (X)	39.2	25.9	19.5
Promoters	26.8			Sales (Rs bn)	142.0	161.1	182.9
FIs	43.6			Net profits (Rs bn)	9.8	14.8	19.7
MFs	8.9			EBITDA (Rs bn)	22.9	32.5	41.2
Price performance (%)				EV/EBITDA (X)	18.1	12.3	9.3
Absolute	1M	3M	12M	ROE (%)	7.8	11.2	12.7
Rel. to BSE-30	2.7	10.9	(14.0)	Div. Yield (%)	0.9	0.6	0.8
	0.5	3.8	(24.6)				

District Court of New Jersey grants PI to Indivior against DRRD on Suboxone launch

On Friday evening, Judge McNulty of the District Court of New Jersey granted Indivior a preliminary injunction against DRRD for the '305 patent, thereby barring DRRD from re-launching its generic Suboxone film, unless (1) it obtains a favorable Appeals Court verdict overturning the PI, with a decision only likely in 1HCY19 unless the Appeals Court adopts an expedited schedule, or (2) it is able to overcome the patent in the yet to be scheduled District Court trial (decision likely in 2HCY19 at the earliest), failing which, its launch will be blocked until the expiry of the '305 patent in CY2022. The Court's verdict on the PI was based on the four factor framework governing preliminary injunctions (1) first, the Court ruled that Indivior will likely prevail in the '305 patent litigation on grounds of infringement as well as validity of the patent, (2) Indivior will suffer irreparable harm in the absence of the PI (reasons redacted), (3) balance of equities is neutral (reasons redacted), and (4) while public interest is in favor of generics, there are existing sub-lingual tablets that protect public interest, while public interest in favor of the patent owner is likely to be harmed. The Court has also directed Indivior to submit an additional bond, the details of which will be known on July 16.

Claim 26 of '305 patent could block DRRD's Suboxone launch till CY2022

We have held a view that generics, including DRRD would prevail in the '514 litigation, based on the interpretation of the claim construction pertaining to the drying process adopted in the manufacturing process. However, the '305 patent, which was granted in April 2018, and which follows from a continuation application to '514 patent (see Exhibit 2), broadens the '514 patent by excluding the terms "dried" and "drying". In the PI hearing, DRRD's core argument was that '305 and '514 patents are essentially the same, save for claim 26, and that persons skilled in the art would view both the patents as the same. However, the PI ruling suggests that the Judge McNulty believes that the removal of the "dry" and "drying" does not render the patent invalid, while the modified terms of claim 26 would likely make DRRD's ANDA infringing.

Market focusing on potential growth, though, not the increasing risk profile

We cut our FY2019-21 estimates by 9-13%, and now shift Suboxone launch to FY2023, though, the earnings cut is partially cushioned by revised USD/INR assumptions. DRRD shares now trades at ~20X FY2020, ignoring the increasing risk profile associated with the future growth. REDUCE with a revised target price of ₹2,150 (versus ₹2,250).

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Exhibit 1: Suboxone Para-IV filings and litigation status

	ANDA number	Strengths filed	'514	'454 '221 '305	month stay	FTF status	Comments
Actavis / Teva	204383	2mg/0.5mg, 4mg/1mg, 8mg/2mg	Infringing	In litigation	Expired	Forfeited	Teva has Appealed the infringement verdict in '514 litigation. Given the claim construction in DRRD and a change in its drying process to top drying method, we expect it to prevail in Appeals.
Actavis / Teva	207087	12mg/3mg	Infringing	In litigation	Expired	Forfeited	
Teva (now DRRD)	205806	2mg/0.5mg, 8mg/2mg	Non-infringing	In litigation	Expired	No	Indivior has appealed against '150, '497 and '514 patents, and obtained a TRO on '305 patent, which is in early stage of litigation.
Teva (now DRRD)	205299	4mg/1mg; 12mg/3mg		In litigation	Expired	No	
Endo / Par	205854	2mg/0.5mg, 4mg/1mg, 8mg/2mg, 12mg/3mg	Settled		Expired	No	Case settled with a launch date in CY2023 or earlier.
Alvogen	205954	2mg/0.5mg, 4mg/1mg, 8mg/2mg, 12mg/3mg	Non-infringing	In litigation	Expired	No	Indivior has appealed against '150, '497 and '514 patents, and initiated litigation on '305 patent.
Mylan	207607	8mg/2mg; 12mg/3mg	Settled		Expired	No	Case settled with a launch date in CY2023 or earlier.
Sandoz	205477	8mg/2mg	Settled		Expired	No	Settled for CY2024 launch and no longer pursuing P-IV strategy.

(1) '497 patent is not listed in the Orange Book, and all P-IV filers have obtained favorable decisions in '497 and '150 litigations

(2) '832 patent expiring in 2030 was invalidated in PTAB, and the decision was upheld by an Appeals Court

Source: US Court filings, US FDA, Kotak Institutional Equities

Exhibit 2: Key differences in '305 and '514 patent claims

Patent	Claim #	Description	Comments
'514	62	...wherein the particulate active has a particle size of 200 microns or less and said flowable water-soluble or water swellable film-forming matrix is capable of being dried without loss of substantial uniformity in the stationing of said particulate active therein; and wherein the uniformity subsequent to casting and drying of the matrix is measured by substantially equally sized individual unit doses which do not vary by more than 10% of said desired amount of said at least one active. (emphasis added)	DRRD obtained a favorable District Court ruling in the '514 patent, which was based upon the claim construction of the terms "dried" and "drying" with Court ruling that DRRD's drying process was non-infringing.
'305	26	...wherein the particulate active has a particle size of 200 microns or less and said flowable water-soluble or water swellable film-forming matrix is capable of being continuously cast on the manufacturing line without loss of substantial uniformity in the stationing of said particulate active therein; and wherein said uniformity of the-continuously cast film is measured by substantially equally sized individual unit doses cut from the continuously cast film which do not vary by more than 10% of a desired amount of said at least one active.	As a part of its '514 patent application, Indivior filed multiple continuation applications, which claim priority to the same application, implying that the follow-on patents share the same specification. In order to circumvent the claim construction of the 62 claim of the '514 patent, Indivior amended the claim 26 of the '305 patent, which was issued in Apr'18. Resultantly, claim 26 of the '305 patent does not include the words "dried" or "drying", which are included in claim 62 of the '514 patent.

Source: US PTO, Kotak Institutional Equities

Exhibit 3: Suboxone generic challenges – timelines of key events

Timeline	Event
Oct'12	Actavis files P-IV (ANDA# 204383) on 2mg/0.5 mg and 8mg/2mg strengths
Oct'12	Actavis amends ANDA#204383 to include P-IV on 4mg/1mg strength
Mar'14	Par sends P-IV notice (ANDA# 205854) for all strengths
Mar'14	Teva files P-IV (ANDA#205806) on 2mg/0.5 mg and 8mg/2mg strengths
Mar'14	Teva files P-IV (ANDA#205299) on 4mg/1mg and 12mg/3mg strengths
2HCY14	Actavis files P-IV (ANDA# 207087) Suboxone film 12mg/3mg strength
Apr'15	Alvogen sends P-IV notice (ANDA#205954) for all strengths
June'15	PTAB finds '832 patent invalid
Sept'15	Mylan files P-IV (ANDA#207607) on 8mg/2mg and 12mg/3mg strengths
Sept'15	Sandoz files P-IV (ANDA#207607) on 8mg/2mg strength
Mar'16	Delaware District Court holds Markman proceedings in Teva (DRRD) case
June'16	Delaware District Court finds '150 patent valid, but not infringed by Par and Teva
June'16	Delaware District Court finds '514 patent valid and infringed by Par and Teva
July'16	FDA issues an update informing that exclusivity on 4mg/1mg strength stands forfeited
Aug'16	Teva completes Actavis acquisition (ANDA's 204383 and 205854 transferred)
Aug'16	DRRD acquires Teva ANDA's (205806 and 205299)
Aug'16	Appeals Court upholds PTAB verdict on invalidation of '832 patent
Aug'16	Sandoz withdraws P-IV certifications, and settles with Indivior
Nov'16	Delaware District Court conducts a trial for '150 and '514 patents against DRRD, and '497 patent against DRRD, Teva and Par
Aug'17	Delaware District Court refuses to re-consider decision on '514 patent in Par and Teva litigations
Aug'17	Delaware District Court finds '150 and '514 patents valid, but not infringed by DRRD
Aug'17	Delaware District Court finds '497 patent valid, but not infringed by DRRD, Teva and Par
Sept'17	Indivior settles Suboxone litigation with Mylan
Nov'17	Sublocade, Indivior's monthly buprenorphine depot approved in the US
Mar'18	Delaware District Court finds '150 and '514 patents valid, but not infringed by Alvogen
May'18	Indivior settles Suboxone litigation with Par
June'18	Opening briefs filed in Teva's appeal in the Federal's Court
June'18	FDA issues final approval for DRRD and MYL ANDA's, resulting in forfeiture of Teva's exclusivity
June'18	DRRD announces an "at-risk" launch of its ANDA
June'18	Indivior obtains a TRO on DRRD's Suboxone launch pending hearing of a PI on 28th June
3QCY18	Appeals Court verdict in Teva litigation

Source: Court filings, US FDA, company, Kotak Institutional Equities estimates

Exhibit 4: Changes to estimates

March fiscal year-ends, 2019-21E, (%)

	Old estimates			New estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Sales	164,933	186,288	201,294	161,082	182,919	198,653	(2.3)	(1.8)	(1.3)
Gross profit	94,416	109,171	119,020	91,360	105,487	115,742	(3.2)	(3.4)	(2.8)
EBITDA	34,910	44,383	47,716	32,526	41,164	44,766	(6.8)	(7.3)	(6.2)
Adjusted net income	16,772	22,242	24,619	14,848	19,728	22,348	(11.5)	(11.3)	(9.2)
Adjusted EPS (Rs)	101	134	148	89	119	135	(11.5)	(11.3)	(9.2)

Source: Kotak Institutional Equities

Exhibit 5: Dr. Reddy's – revenues by segments
March fiscal year-ends, 2013-21E, (Rs mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Global generics	82,563	105,164	120,827	127,970	115,550	114,014	132,439	153,888	169,165
North America	37,846	55,303	64,723	75,445	63,601	59,824	71,356	84,888	91,120
Europe	7,716	6,970	7,193	7,732	7,606	8,216	9,448	10,582	11,852
India	14,560	15,713	17,756	21,293	23,131	23,321	25,653	28,218	31,040
Russia & CIS	16,908	19,819	18,879	14,100	15,200	16,500	19,275	22,822	27,037
Others	5,533	7,359	12,275	9,400	6,012	6,153	6,707	7,377	8,115
PSAI	30,702	23,974	25,795	22,379	21,277	21,057	21,862	21,346	20,880
North America	5,744	4,354	4,789	3,052	3,569	3,391	3,221	3,060	2,907
Europe	12,007	8,770	9,209	9,313	8,410	7,149	7,506	7,131	6,774
India	4,638	3,787	4,734	2,618	1,750	1,838	2,021	2,223	2,446
ROW	8,313	7,063	7,063	7,396	7,548	8,680	9,114	8,932	8,753
Proprietary products	2,459	2,459	2,172	2,659	2,130	4,200	4,895	5,611	6,327
Total	115,724	131,597	148,793	153,008	138,957	139,271	159,196	180,845	196,372
% yoy growth									
Global generics	17.5	27.4	14.9	5.9	(9.7)	(1.3)	16.2	16.2	9.9
North America	18.7	46.1	17.0	16.6	(15.7)	(5.9)	19.3	19.0	7.3
Europe	(6.6)	(9.7)	3.2	7.5	(1.6)	8.0	15.0	12.0	12.0
India	12.6	7.9	13.0	19.9	8.6	0.8	10.0	10.0	10.0
Russia & CIS	27.5	17.2	(4.7)	(25.3)	7.8	8.6	16.8	18.4	18.5
Others	41.7	33.0	66.8	(23.4)	(36.0)	2.3	9.0	10.0	10.0
PSAI	28.9	(21.9)	7.6	(13.2)	(4.9)	(1.0)	3.8	(2.4)	(2.2)
North America	34.5	(24.2)	10.0	(36.3)	16.9	(5.0)	(5.0)	(5.0)	(5.0)
Europe	42.5	(27.0)	5.0	1.1	(9.7)	(15.0)	5.0	(5.0)	(5.0)
India	29.3	(18.3)	25.0	(44.7)	(33.2)	5.0	10.0	10.0	10.0
ROW	10.4	(15.0)	0.0	4.7	2.1	15.0	5.0	(2.0)	(2.0)
Proprietary products	128.1	0.0	(11.7)	22.4	(19.9)	97.2	16.5	14.6	12.8
Total	21.6	13.7	13.1	2.8	(9.2)	0.2	14.3	13.6	8.6
% of sales									
Global generics	71.3	79.9	81.2	83.6	83.2	81.9	83.2	85.1	86.1
North America	32.7	42.0	43.5	49.3	45.8	43.0	44.8	46.9	46.4
Europe	6.7	5.3	4.8	5.1	5.5	5.9	5.9	5.9	6.0
India	12.6	11.9	11.9	13.9	16.6	16.7	16.1	15.6	15.8
Russia & CIS	14.6	15.1	12.7	9.2	10.9	11.8	12.1	12.6	13.8
Others	4.8	5.6	8.2	6.1	4.3	4.4	4.2	4.1	4.1
PSAI	26.5	18.2	17.3	14.6	15.3	15.1	13.7	11.8	10.6
North America	5.0	3.3	3.2	2.0	2.6	2.4	2.0	1.7	1.5
Europe	10.4	6.7	6.2	6.1	6.1	5.1	4.7	3.9	3.4
India	4.0	2.9	3.2	1.7	1.3	1.3	1.3	1.2	1.2
ROW	7.2	5.4	4.7	4.8	5.4	6.2	5.7	4.9	4.5
Proprietary products	2.1	1.9	1.5	1.7	1.5	3.0	3.1	3.1	3.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Dr. Reddy's - profit and loss, balance sheet, cash model (IFRS)
March fiscal year-ends, 2013-21E, (Rs mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net revenues	119,736	134,267	149,106	155,582	141,874	142,816	161,682	183,519	199,253
Gross profit	64,049	77,898	86,320	93,155	79,421	77,092	91,960	106,087	116,342
Staff costs	(20,413)	(24,936)	(28,967)	(30,364)	(31,068)	(32,149)	(34,721)	(37,151)	(41,981)
R&D expenses	(7,673)	(12,402)	(17,449)	(17,834)	(19,551)	(18,265)	(21,274)	(24,123)	(25,524)
Other expenses	(13,171)	(13,847)	(13,618)	(15,666)	(15,304)	(14,761)	(16,180)	(18,865)	(19,808)
EBITDA	25,862	31,895	34,101	39,088	24,155	22,891	32,526	41,164	44,766
Depreciation & amortisation	(5,549)	(6,598)	(8,103)	(10,343)	(11,722)	(11,762)	(13,341)	(15,817)	(16,337)
EBIT	22,792	26,713	26,915	29,619	13,498	11,917	19,785	25,947	29,029
Net interest	460	400	1,682	(2,708)	806	2,080	(593)	(334)	32
Other income	104	—	195	229	349	344	344	344	344
Exceptional items	(688)	497	(629)	—	—	—	—	—	—
Profit before tax	22,668	27,610	28,163	27,140	14,653	14,341	19,536	25,957	29,405
Tax & deferred Tax	(4,900)	(5,094)	(5,984)	(7,127)	(2,614)	(4,535)	(4,689)	(6,230)	(7,057)
Less: minority interest	—	—	—	—	—	—	—	—	—
Net income (adjusted)	18,455	22,019	23,004	23,827	12,039	9,806	14,848	19,728	22,348
EPS adjusted (Rs)	109	130	136	139	72.5	59.1	89	119	135
Balance sheet									
Equity	73,105	90,800	111,302	128,336	124,044	126,460	139,033	155,738	174,662
Total borrowings	36,760	44,742	43,126	33,403	49,098	50,618	48,618	46,618	44,618
Other liabilities	32,504	34,681	40,335	45,911	46,679	48,526	48,027	49,590	51,354
Total liabilities	142,369	170,223	194,762	207,650	219,821	225,604	235,678	251,946	270,634
Net fixed assets	56,655	66,476	74,924	87,962	119,446	115,959	110,118	101,802	91,965
Cash	22,099	33,534	39,654	39,955	18,136	20,968	31,924	48,210	71,240
Other current assets	63,615	70,213	80,184	79,733	82,239	88,677	93,635	101,934	107,428
Total assets	142,369	170,223	194,762	207,650	219,821	225,604	235,678	251,946	270,634
Cashflow statement									
Operating profit before working capital	28,092	31,497	39,485	41,322	30,019	21,067	28,188	35,544	38,685
Change in working capital	(13,146)	(10,389)	(15,040)	(188)	(5,350)	(3,626)	(5,457)	(6,736)	(3,730)
Capital expenditure	(7,082)	(10,598)	(15,327)	(22,727)	(41,043)	(12,610)	(7,500)	(7,500)	(6,500)
Free cash flow	7,864	10,510	9,118	18,407	(16,374)	4,831	15,231	21,308	28,454
Margins and ratios									
Gross profit margin (%)	52.5	57.6	57.6	59.6	55.6	53.7	56.7	57.7	58.3
EBITDA margin (%)	22.1	24.0	23.0	25.3	17.2	16.1	20.2	22.5	22.5
Tax rate (%)	21.6	18.4	21.2	26.3	17.8	31.6	24.0	24.0	24.0
RoAE (%)	25.2	24.2	20.7	18.6	9.7	7.8	10.7	12.7	12.8
RoACE (%)	26.0	26.2	23.5	24.3	8.7	7.6	12.7	16.8	19.6

Source: Company, Kotak Institutional Equities estimates

JULY 16, 2018

UPDATE

Coverage view: **Neutral**

Price (₹): **603**

Target price (₹): **640**

BSE-30: **36,542**

Adding to EU scale. ARBP announced the acquisition of Apotex's EU business for EUR 74 mn, valuing it at ~0.56X FY2018 revenues. The acquisition adds scale to ARBP's EU business, providing it with market entry in Poland and Czech Republic and almost doubling its Dutch business to ~US\$100 mn. The EU is becoming increasingly important for ARBP, with revenues likely to cross US\$1 bn by FY2021 per our estimates, with the EU business' EBITDA margins now in double digits. ADD.

Company data and valuation summary

Aurobindo Pharma

Stock data			Forecasts/Valuations				
52-week range (Rs) (high,low)	809-527		EPS (Rs)	2018	2019E	2020E	
Market Cap. (Rs bn)	353.2		EPS growth (%)	6.0	8.0	9.4	
Shareholding pattern (%)			P/E (X)	14.4	13.4	12.2	
Promoters	51.9		Sales (Rs bn)	165.0	189.9	211.6	
FIs	18.0		Net profits (Rs bn)	24.4	26.4	28.8	
MFs	15.1		EBITDA (Rs bn)	37.9	41.5	45.6	
Price performance (%)			EV/EBITDA (X)	10.1	9.3	8.3	
Absolute	1M	3M	12M	ROE (%)	23.2	20.5	17.4
Rel. to BSE-30	3.1	(3.0)	(14.5)	Div. Yield (%)	0.7	0.9	1.0
	0.8	(9.3)	(25.0)				

Acquisition of Apotex EU business

ARBP announced the acquisition of Apotex's commercial operations in the Netherlands, Poland, Spain, Czech Republic and Belgium for a consideration of EUR74 mn, valuing the business at ~0.56X FY2018 sales, though, the business was stagnating for the past two years, with the revenues only growing to EUR132 mn in FY2018 from EUR128 mn in FY2016. While the company has not disclosed profitability of the consolidated business, given the high dependence of in-licensed products (52% of FY2018 revenues), we would not be surprised if the underlying EBITDA margins of the business were in single-digits, with some of the country operations yet to break-even. ARBP generated revenues of ~US\$675 mn in FY2018, and the acquisition will enable it to accelerate growth by providing market access in Eastern Europe, predominantly, Poland (FY2018 revenues: EUR43.3 mn) and Czech Republic (FY2018 revenues: EUR 16.6 mn), and almost double its revenues in Netherlands to ~US\$100 mn, while also making it the #1 player by volumes in the OTC segment. The acquisition will also provide ARBP with a manufacturing facility in the Netherlands with ~1.8 bn tablets capacity annually. While the acquisition will add to ARBP's net debt, taking it to ₹37 bn in FY2019, the balance sheet remains strong with net debt/EBITDA comfortably below 1X.

EU acquisition strategy has been a success

Following the Actavis and Generis acquisitions in FY2014 and FY2017 respectively, the Apotex acquisition marks the third acquisition for ARBP in the EU, with a cumulative spend of ~EUR240 mn, with the EU business growing from ~EUR120 mn in FY2013 to ~EUR570 mn in FY2018, predominantly led by the two acquisitions, with the EU business also turning around from EBITDA loss in FY2013/14 to double digit EBITDA margin in 4QFY18. In the immediate term, given ARBP's large portfolio of dossier registrations across EU, we believe there is a scope to accelerate the Apotex business growth, particularly, in Poland, where ARBP has limited presence, and Apotex has a strong presence with a large sales force (268 FTE's) and physician coverage.

Valuations comforting - ADD

Post the Apotex acquisition, Europe's contribution to grow to ~29% of revenues in FY2019 from 26% in FY2018, with ARBP's EU business likely to cross US\$1 bn revenues by FY2021. We incorporate the acquisition in our FY2019-21E, and raise our FY2019-21E EPS by 6-8%, primarily due to revised USD/INR estimates. ADD.

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Exhibit 1: Aurobindo Pharma - changes to estimates

March fiscal year-ends, 2019-21E, (₹ mn)

	New estimates			Old estimates			Changes (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Sales	189,863	211,647	225,734	181,274	197,283	209,025	4.7	7.3	8.0
Gross profits	110,467	123,479	133,461	103,924	112,904	119,478	6.3	9.4	11.7
EBITDA	41,452	45,593	49,569	39,115	42,424	45,816	6.0	7.5	8.2
PBT	34,940	38,150	41,377	32,854	35,434	38,164	6.3	7.7	8.4
PAT	26,359	28,830	31,362	24,972	26,933	29,008	5.6	7.0	8.1
EPS (Rs)	45.1	49.4	53.7	42.8	46.1	49.7	5.5	7.1	8.1

Source: Kotak Institutional Equities estimates

Exhibit 2: Aurobindo Pharma - US sales summary

March fiscal year ends, 2014-21E, (₹ mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
US consolidated sales (US\$ mn)	564	774	946	1,002	1,133	1,245	1,300	1,341
Base + other launches	374	454	477	458	458	462	465	468
Key oral products	80	83	111	132	224	237	239	255
Injectables	43	67	96	154	166	235	291	314
OTC/Natrol	0	30	95	105	130	160	168	176
Controlled substances	7	55	77	69	66	71	65	62
Third party	60	85	90	86	90	81	73	65
YoY growth (%)								
US	74	37	22	6	13	10	4	3
Base + other launches	94.9	21.5	5.1	(4.2)	0.0	0.9	0.7	0.6
Key oral products		3.4	34.0	19.2	69.3	5.8	0.9	6.8
Injectables	126.3	55.8	42.6	60.6	8.0	41.6	24.0	8.0
OTC/Natrol			216.7	10.0	24.4	23.1	5.0	5.0
Controlled substances		NM	39.6	(10.2)	(4.3)	7.2	(8.6)	(4.8)
Third party		41.7	5.9	(5.0)	5.0	(10.0)	(10.0)	(10.0)
% of US sales								
Base + other launches	66	59	50	46	40	37	36	35
Key oral products	14	11	12	13	20	19	18	19
Injectables	8	9	10	15	15	19	22	23
OTC/Natrol	0	4	10	10	11	13	13	13
Controlled substances	1	7	8	7	6	6	5	5
Third party	11	11	10	9	8	6	6	5

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Aurobindo Pharma – revenues by segments
 March fiscal year-ends, 2013-21E (₹ mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Formulations	36,259	55,822	93,744	112,789	120,453	135,332	159,322	179,238	191,318
US	17,526	34,028	46,474	61,450	68,272	74,421	86,499	93,082	95,967
EU	8,843	8,759	31,947	32,708	32,771	43,544	54,169	66,070	73,998
RoW	2,387	4,633	5,684	6,856	7,556	8,971	10,092	11,354	13,057
ARV's	7,503	8,402	9,639	11,775	11,854	8,396	8,561	8,733	8,296
API's	25,365	28,642	27,062	27,795	30,420	29,622	28,141	30,009	32,016
Dossier income	760	140	77	120	24	80	80	80	80
Total sales	58,553	80,998	121,205	138,961	150,899	164,998	189,863	211,647	225,734
YoY growth (%)									
Formulations	39.3	54.0	67.9	20.3	6.8	12.4	17.7	12.5	6.7
US	48.1	94.2	36.6	32.2	11.1	9.0	16.2	7.6	3.1
EU	54.1	(0.9)	264.7	2.4	0.2	32.9	24.4	22.0	12.0
RoW	308.0	94.1	22.7	20.6	10.2	18.7	12.5	12.5	15.0
ARV's	(4.6)	12.0	14.7	22.2	0.7	(29.2)	2.0	2.0	(5.0)
API's	23.0	12.9	(5.5)	2.7	9.4	(2.6)	(5.0)	6.6	6.7
Dossier income	26.9	(81.6)	(45.0)	55.8	(80.0)	233.3	0.0	0.0	0.0
Total sales	26.5	38.3	49.6	14.6	8.6	9.3	15.1	11.5	6.7
% of sales									
Formulations	61.9	68.9	77.3	81.2	79.8	82.0	83.9	84.7	84.8
US	29.9	42.0	38.3	44.2	45.2	45.1	45.6	44.0	42.5
EU	15.1	10.8	26.4	23.5	21.7	26.4	28.5	31.2	32.8
RoW	4.1	5.7	4.7	4.9	5.0	5.4	5.3	5.4	5.8
ARV's	12.8	10.4	8.0	8.5	7.9	5.1	4.5	4.1	3.7
API's	43.3	35.4	22.3	20.0	20.2	18.0	14.8	14.2	14.2
Total	100	100	100	100	100	100	100	100	100

Source: Company, Kotak Institutional Equities

Exhibit 4: Aurobindo Pharma – profit and loss, balance sheet, cash flow model
March fiscal year-ends, 2013-21E (₹ mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net revenues	58,553	80,998	121,205	138,961	150,899	164,998	189,863	211,647	225,734
Gross profit	28,646	44,938	66,149	77,386	86,556	97,471	110,467	123,479	133,461
Staff costs	(6,633)	(8,024)	(13,023)	(15,508)	(17,678)	(21,308)	(24,207)	(27,514)	(29,715)
R&D expenses	(2,335)	(2,717)	(3,601)	(4,770)	(5,430)	(6,662)	(8,734)	(10,159)	(11,287)
Other expenses	(13,121)	(12,860)	(23,889)	(25,051)	(29,106)	(31,615)	(36,074)	(40,213)	(42,889)
EBITDA	6,557	21,337	25,636	32,056	34,343	37,885	41,452	45,593	49,569
Depreciation & amortisation	(2,487)	(3,125)	(3,326)	(3,926)	(4,276)	(5,580)	(6,512)	(7,442)	(8,192)
EBIT	4,069	18,211	22,310	28,130	30,067	32,306	34,940	38,150	41,377
Net Interest	(1,313)	(1,071)	(843)	(927)	(667)	(777)	(1,311)	(1,270)	(1,164)
Other income	285	216	808	682	538	1,020	1,000	1,000	1,000
Exceptional items (includes FX gains/losses)	(1,636)	(2,031)	(596)	(660)	621	0	—	—	—
Profit before tax	1,406	15,325	21,679	27,225	30,608	32,579	34,679	37,931	41,263
Tax & deferred Tax	(827)	(3,635)	(5,966)	(7,444)	(7,596)	(8,183)	(8,323)	(9,103)	(9,903)
Less: minority interest	(4)	38	45	39	5	3	3	3	3
Net income	575	11,729	15,758	19,820	23,017	24,399	26,359	28,830	31,362
EPS (Rs)	1.0	20.1	27.0	33.9	39.4	41.8	45.1	49.4	53.7
Balance sheet									
Equity	26,168	37,758	51,817	71,163	93,740	116,822	140,154	165,350	192,353
Total borrowings	33,844	36,339	38,636	47,020	33,641	44,825	42,325	38,813	37,313
Other liabilities	12,767	20,801	38,692	38,811	35,113	49,404	56,808	60,574	62,552
Total liabilities	72,778	94,898	129,145	156,993	162,494	211,052	239,287	264,738	292,219
Net fixed assets	28,574	30,314	41,253	52,635	62,919	81,037	92,654	95,212	97,019
Investments	222	198	1	1	2,459	3,115	3,115	3,115	3,115
Cash	2,085	1,786	4,888	8,344	5,135	12,616	5,146	10,888	25,097
Other current assets	41,897	62,601	83,003	96,013	91,982	114,283	138,372	155,523	166,988
Total assets	72,778	94,898	129,145	156,993	162,494	211,052	239,288	264,738	292,219
Cashflow statement									
Operating profit before working capital	8,157	20,476	25,741	32,337	34,413	37,505	41,193	45,375	49,458
Tax paid	(1,192)	(3,440)	(4,956)	(7,358)	(7,737)	(8,183)	(8,323)	(9,103)	(9,903)
Change in working capital	(4,216)	(10,574)	(8,417)	(7,383)	6,110	(11,621)	(16,685)	(13,385)	(9,487)
Capital expenditure	(2,733)	(3,905)	(7,683)	(15,682)	(16,942)	(12,115)	(12,060)	(10,000)	(10,000)
Free cash flow	16	2,558	4,685	1,914	15,844	5,587	4,126	12,887	20,068
Margins and ratios									
Gross profit margin (%)	48.9	55.5	54.6	55.7	57.4	59.1	58.2	58.3	59.1
EBITDA margin (%)	11.2	26.3	21.2	23.1	22.8	23.0	21.8	21.5	22.0
Tax rate (%)	58.8	23.7	27.5	27.3	26.0	26.0	24.0	24.0	24.0
RoAE (%)	2.3	36.7	35.2	32.2	27.9	23.2	20.5	18.9	17.5
RoACE (%)	7.6	28.0	28.3	28.8	25.9	23.6	21.2	20.6	20.8

Source: Company, Kotak Institutional Equities

JULY 16, 2018

UPDATE

Coverage view: **Neutral**

Price (₹): 268

Target price (₹): 340

BSE-30: 36,542

Annual report analysis. FY2018 was a difficult year for Apollo due to profitability pressures led by higher RM cost and start-up costs associated with its Hungary plant. That said, the company has partly managed headwinds through market share gains in India and better working capital management. We maintain our BUY rating on the stock (unchanged TP) and expect Apollo to deliver 29% EPS CAGR over FY2018-21E led by (1) upswing in domestic CV cycle and potential market share gains and (2) recovery in its European business. TP unchanged at ₹340.

Company data and valuation summary

Apollo Tyres

Stock data

52-week range (Rs) (high,low)	307-228
Market Cap. (Rs bn)	153.5

Shareholding pattern (%)

Promoters	40.3
FII's	24.3
MFs	18.8

Price performance (%)

	1M	3M	12M
Absolute	(2.5)	(9.4)	6.7
Rel. to BSE-30	(4.6)	(15.3)	(6.5)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	13.4	19.9	24.8
EPS growth (%)	(38.0)	48.3	25.0
P/E (X)	20.0	13.5	10.8
Sales (Rs bn)	148.4	176.4	203.2
Net profits (Rs bn)	7.2	11.4	14.2
EBITDA (Rs bn)	16.5	23.9	28.8
EV/EBITDA (X)	11.2	8.0	6.7
ROE (%)	8.5	11.1	12.5
Div. Yield (%)	1.1	1.1	1.1

Key takeaways from the annual report

- ▶ **Market share gain in domestic MHCV segment:** The company's standalone revenues grew 15.3% yoy in FY2018 as compared to our industry growth estimate of 10-11%. This implies 70-90 bps market share gain in India, led by (1) 300 bps market share gain in the truck and bus radial tire segment, (2) 100 bps market share in the truck and bus bias segment and (3) market share gains in the passenger vehicle OEM segment as Apollo is now a supplier for 10 of the top 15 PV models in India including the new Swift D'zire and Toyota Innova Crysta.
- ▶ **Understanding the financial performance of Europe business:** Revenues of its European business increased by 3% yoy due to price increases and a better mix but EBITDA declined by 31% yoy due to 300 bps decline in EBITDA margin in FY2018. Decline in profitability was due to 9-14% yoy increase in employee cost and other expenses partly driven by the costs associated with the start of the Hungary plant, while gross margin was flat yoy. EBITDA/PAT loss of the Hungary plant was EUR 6/EUR 12 mn in FY2018. Reduction in profits and higher investments has impacted RoCE of the Europe business over the last three years.
- ▶ **Debt plus equity investment of ₹10 bn in Europe business from India business in FY2018:** In FY2018, investments in the European business from the standalone entity were: (1) equity infusion of ₹6.3 bn; cumulative equity infusion since announcement of the Hungary plant has been ₹9.7 bn and (2) short-term loan of ₹4 bn. Overall, of total planned capex in Hungary of ₹40 bn (EUR500 mn), ₹15 bn has been funded from standalone entity as debt and equity.
- ▶ **R&D spend for the consolidated entity increased 14% yoy (2.2% of sales) in FY2018:** R&D spend of Apollo Tyres (as % of revenues) continues to be higher than that of domestic peers due to higher investment towards developing new technologies to (1) lower rolling resistance, (2) increase durability of tires and (3) ensuring lower tire noise (particularly important in EVs).
- ▶ **RM cost per kg for the standalone business increased by 13.7% in FY2018:** This was driven by (1) 33% yoy increase in carbon black cost due to tightening demand-supply situation in India and (2) 26% yoy and 19% yoy increase in cost of chemicals and rubber respectively.
- ▶ **Reduction in working capital requirements in FY2018:** Working capital (excluding cash) for the consolidated entity declined to ₹11 bn in FY2018 from ₹17 bn in FY2018. Working capital days declined to 27 days of sales in FY2018 compared to 48 days of sales in FY2017.

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Profitability of Europe business was under pressure in FY2018

- Revenues of the overall manufacturing business in Europe increased by 3.3% yoy in FY2018 led largely by price increases and a better mix (higher mix of premium tires) even though volumes declined marginally on yoy basis largely due to capacity constraints. EBITDA declined by 31% yoy to EUR40 mn as EBITDA margin declined by almost 300 bps to 8.6% in FY2018. While gross margin was largely flat on yoy basis, decline in profitability was due to 9-14% yoy increase in employee cost and other expenses partly driven by the costs associated with the start of the Hungary plant.

Exhibit 1: Profitability in Europe declined in FY2018 due to start-up costs in Hungary plant
Summary financials of Apollo's Europe business, March fiscal year-ends, 2013-18 (EUR mn)

	2013	2014	2015	2016	2017	2018
Overall Europe business (EUR mn)						
Revenues	426	459	462	424	456	472
Yoy growth (%)		7.9	0.6	(8.2)	7.7	3.3
Raw material consumed	(174)	(188)	(178)	(155)	(179)	(186)
Employee expenses	(101)	(106)	(117)	(122)	(126)	(144)
Other expenses	(70)	(82)	(88)	(92)	(93)	(102)
EBITDA	81	82	78	55	58	40
Yoy growth (%)		1.9	(4.8)	(29.6)	5.5	(30.6)
Other income	0	0	0	0	3	2
Depreciation	(16)	(17)	(18)	(19)	(20)	(26)
Interest expenses	(2)	(2)	(1)	(0)	(1)	(3)
Profit before tax	63	64	60	36	40	14
Tax expenses	(14)	(9)	(12)	(7)	(7)	(4)
Profit after tax	49	56	48	29	33	9
RM/sales (%)	40.9	41.0	38.5	36.5	39.2	39.4
Employee cost to sales (%)	23.7	23.2	25.3	28.8	27.6	30.5
Other expenses to sales (%)	16.4	17.9	19.2	21.7	20.4	21.5
EBITDA margin (%)	19.0	17.9	17.0	13.0	12.7	8.6
Vredestein Europe - Netherlands plant (EUR mn)						
Revenue	426	459	462	424	456	446
EBITDA	81	82	78	55	59	47
EBITDA margin (%)	19.0	17.9	17.0	13.0	13.0	10.5
PBT	63	64	60	36	40	27
PAT	49	56	48	29	33	21
Hungary plant (EUR mn)						
Revenue					0	26
EBITDA					(1)	(6)
EBITDA margin (%)						(25.0)
PBT					(0)	(13)
PAT					(0)	(12)

Notes:

- Financials of the Europe business does include the financials of Reifencom (distribution company)
- Revenues of the Hungary plant are taken from the annual report of financials of Apollo Tyres (Hungary) Kft
- Revenues of Vredestein Europe are calculated as revenues of Apollo Tyres BV (holding company of manufacturing business in Europe) minus revenues of Hungary plant
- Other financials of Hungary plant are calculated as financials of Apollo Tyres BV minus Apollo Tyres Vredestein BV

Source: Company, Kotak Institutional Equities estimates

- As per our calculations, revenues of Vredestein Europe (Netherlands plant), declined by ~2% yoy to EUR446 mn due to a weakness in the agriculture tire market and capacity constraints (part of plant capacity was dedicated to R&D for development of products for OEMs). We note that tires manufactured in the Hungary plant are sold to Vredestein Europe, which are then eventually sold in the market. We deduct Hungary plant revenues from overall Europe revenues to calculate the revenues of Netherlands plant. EBITDA of the Netherlands plant declined by 21% yoy to EUR47 mn led by 250 bps yoy decline in the EBITDA margin to 10.5% in FY2018.
- There was an EBITDA loss of EUR6 mn in the Hungary plant while net profit loss was around EUR12 mn due to start-up costs and depreciation expense of the plant. Revenues

in FY2018 were negligible at EUR26 mn as commercial production from the plant started only towards the end of FY2018. We calculate the EBITDA/PAT of Hungary plant as EBITDA/PAT of Apollo Tyres BV (holding company of Europe manufacturing business) minus EBITDA/PAT of Apollo Tyres Vredestein BV. As per the reported financials of Hungarian subsidiary (Apollo Tyres (Hungary) Kft), EBITDA loss is much higher at around EUR26 mn. The reason for this is that financials of Hungary entity is prepared under local accounting norms whereby pre-operative expenses can't be capitalized while these expenses can be capitalized under IFRS.

- ▶ The company has incurred cumulative capex of around EUR440-450 mn in Hungary till FY2018 as against the overall planned capex of EUR500 mn. The remaining capex will be incurred in FY2019 as the capacity of passenger vehicle tires is ramped up and the company starts its truck and bus radial tire plant in Hungary.

Investments in Europe from India and other related party transactions

- ▶ Apollo Tyres has infused equity of ₹6.3 bn in the European business through its fully-owned subsidiary Apollo Tyres Co-operatief U.A. With this, over the last four years (since announcement of the Hungary plant), cumulative equity infusion in Europe has been around ₹9.7 bn. Additionally, the company has given loans of ₹4 bn to the Europe business in FY2018; cumulative loans to Europe subsidiary was around ₹5.7 bn as of March 31, 2018 (refer to Exhibit 2 and 3 below for details). Thus broadly, of the total planned capex in Hungary of around ₹40 bn (EUR500 mn), around ₹15 bn has been funded from the standalone entity as a combination debt and equity while the remaining has been funded through internal accruals in Europe and additional debt in European subsidiaries.
- ▶ The company has parked surplus cash (part of ₹15 bn equity raised through a QIP in October 2017) in inter-corporate deposits (liquid investments and not related party transaction) and an interest rate of 8-8.5%, as per the company.

Exhibit 2: The company infused ₹6.3 bn equity in Europe subsidiary to fund the capex in Hungary plant
Investment breakdown of Apollo Tyres, March fiscal year-ends, 2013-18 (₹ mn)

	2013	2014	2015	2016	2017	2018	Comments
Subsidiaries							
Apollo Tyres Co-operatief U.A.	6,124	6,508	7,099	9,854	9,854	16,182	Holding company of Europe business; additional investment in FY2018 is for greenfield plant in Hungary
Apollo Tyres (Cyprus) Private Limited	—	—	174	174	174	174	
KT Telematic Solutions Private Limited	—	—	—	—	—	23	
Apollo Tyres (Green Field) B. V.	—	—	4	3	3	3	
Apollo South Africa (Holdings)	—	—	1,151	—	—	—	Investments transferred to Apollo Tyres Co-operatief U.A. in FY2016
Others	3	7	11	12	17	12	
Total investment in subsidiaries	6,127	6,515	8,439	10,043	10,049	16,394	
Liquid investments							
Investment in mutual funds	—	—	1,083	1,218	3,444	3,640	
Investment in inter-corporate deposits	—	—	—	3,800	500	9,750	Additional investment in inter-corporate deposits in FY2018 at 8-8.5% interest rate
Total liquid investments	—	—	1,083	5,018	3,944	13,390	
Total investments	6,127	6,515	9,522	15,061	13,993	29,784	

Source: Company, Kotak Institutional Equities

- ▶ Exports to Europe from standalone business were largely flattish yoy at around ₹2 bn in FY2018; as per our discussions with the company, exports have come down significantly over the last few months with an increase in production at its Hungary plant. Exports to Europe will decline in FY2019-20E, which will free up passenger vehicle capacity for the Indian market.

- ▶ Purchase of raw material from the company's wholly-owned subsidiary, Apollo Tyres Holdings (Singapore) Pte. Ltd. almost doubled (yoy) to ₹26 bn in FY2018 (RM cost for the standalone and consolidated entity was ₹65/84 bn in FY2018). This is due to strategic steps taken by the company to increase centralized sourcing from its Singapore entity to increase its bargaining power and lower the overall raw material cost.
- ▶ Receivables and payables from related parties increased in FY2018 due to (1) higher receivables from Europe business and (2) higher payables to Singapore subsidiary due to an increase in RM sourcing from the subsidiary.

Exhibit 3: Exports to Europe were largely flattish yoy in FY2018; loan of Rs4 bn given to Europe subsidiary from standalone entity
Key related party transactions of Apollo Tyres, March fiscal year-ends, 2013-18 (₹ mn)

	2013	2014	2015	2016	2017	2018	Comments
Key income statement items							
Sales of finished goods (tyres)							
Apollo Vredestein B.V.	1,034	1,359	1,402	2,029	1,976	2,019	Exports to Europe would come down with ramp-up of Hungary plant
Apollo Tyres (Thailand) Limited	—	1,701	2,463	2,282	1,871	1,886	
Apollo Tyres (Middle East) FZE	1,376	981	785	1,329	1,489	1,469	Exports to wholly-owned subsidiaries
Apollo Tyres Africa (Pty) Ltd.	1,353	1,053	1,337	389	589	710	
Apollo International Ltd.	27	—	447	1,016	1,236	721	Entities owned by the promoters
Apollo Intl. Trading LLC, Dubai	1,138	1,311	1,034	—	—	—	
Others	—	254	—	25	234	368	
Total sales	4,927	6,659	7,468	7,070	7,394	7,173	
Purchase of raw material							
Apollo Tyres Holdings (Singapore) Pte. Ltd.	—	—	—	6,363	13,556	25,940	Increase in centralized RM sourcing from wholly-owned Singapore subsidiary
Apollo Vredestein B.V.	8	57	122	140	86	81	
Total purchase of RM	8	57	122	6,503	13,642	26,022	
Other key transactions							
Conversion & mixing charges paid	1,318	1,336	1,216	1,240	1,324	1,348	Paid to Classic Auto Tubes - entity owned by promoters
Rent paid to related parties	468	472	472	532	580	644	Paid largely to promoter-owned PTL Enterprises Ltd.
Travelling & conference charges paid	335	422	538	341	78	—	Paid to Bespoke Tours & Travels Ltd
Key balance sheet items							
Purchase of assets							
Classic Auto Tubes Ltd.	375	308	549	509	824	873	Entities owned by the promoters
Others	—	—	—	—	2	23	
Total purchase of assets	375	308	549	509	826	896	
Loans to related parties	—	—	—	—	1,732	5,745	Loan to European subsidiaries for investments in Hungary plant
Long-term loans and advances	580	542	498	593	624	692	To promoter-owned entities
Receivables & other current assets	1,441	1,051	1,243	891	2,994	7,340	Receivables largely from wholly-owned subsidiaries
Trade payables & other current liabilities	257	671	885	1,645	2,864	5,065	Payable largely to wholly-owned subsidiaries

Source: Company, Kotak Institutional Equities

R&D spend for the consolidated entity increased by 14% yoy in FY2018

- ▶ R&D spend for the consolidated entity increased by 14% yoy to ₹3.2 bn in FY2018; R&D spend was flat yoy at 2.2% of net sales in FY2018 (refer to Exhibit 4). Of the overall R&D spend, revenue expenditure was largely flattish yoy at ₹1.9 bn (60% expensing) while capital spend on R&D was up significantly to ₹1.3 bn possibly due to the purchase of additional equipment. R&D expensing was 60% of the total R&D expenditure in FY2018 as compared to 70-75% expensing done over the last five years. R&D expensing of 70% on overall R&D spend of ₹3.2 bn in FY2018 would have negatively impacted EBITDA by 2% in FY2018. Overall R&D spend of the company continues to be higher than other domestic peers, which through improved product quality would help the company gain share in both MHCV and PV segments over the medium term.
- ▶ We note that R&D expenditure in the standalone business declined by 11% yoy in FY2018; R&D spend was 1.5% of revenues in FY2018 compared to 2% of revenues in FY2017. As per the management, the company has scaled up R&D capabilities in India leading to lower costs as earlier these R&D activities were done in the company's R&D center in Europe.
- ▶ R&D spend in Europe increased significantly in FY2018 due to increased investments in (1) LRR (Low Rolling Resistance) to support market needs evolution and to guarantee product competitiveness for supplies to OEMs, (2) RFT (Run Flat Technology) and self-sealing tires to expand product offers through extended mobility solutions and (3) foam tires to

support automotive trend to reduce the vehicle interior tyre noise (e.g. for EV). Additionally R&D efforts on innovation in raw materials remain an integral part of the company's R&D efforts. The company's R&D efforts are focused on new generation functionalized polymers, liquid polymers, special resins and special fillers to support premium performance in summer, winter and all-season tires. With high focus on sustainability, development activities are running on alternative sources for Natural Rubber (e.g. Dandelion) and carbon black from recycled tires.

Exhibit 4: R&D spend of Apollo Tyres was steady at 2.2% of consolidated revenues in FY2018

R&D spend of domestic tyre companies, March fiscal year-ends, 2010-18 (₹ mn, %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Apollo standalone									
Capital expenditure	—	30	43	22	186	168	370	129	307
Revenue expenditure	229	291	332	385	758	875	1,343	1,620	1,252
Total R&D expenditure	229	321	374	407	944	1,043	1,713	1,749	1,560
As % of net sales	0.5	0.6	0.5	0.5	1.1	1.2	2.0	2.0	1.5
Apollo consolidated									
Capital expenditure	—	172	216	253	409	720	955	869	1,294
Revenue expenditure	229	653	867	935	1,381	1,746	2,240	1,969	1,933
Total R&D expenditure	229	825	1,083	1,188	1,790	2,467	3,194	2,838	3,227
As % of net sales	0.3	0.9	0.9	0.9	1.3	1.9	2.7	2.2	2.2
CEAT									
Capital expenditure	4	16	315	—	—	7	12	758	296
Revenue expenditure	28	42	111	171	183	209	511	559	607
Total R&D expenditure	32	57	426	171	183	215	522	1,318	903
As % of net sales	0.1	0.2	1.0	0.4	0.3	0.4	1.0	2.3	1.5
JK Tyre									
Capital expenditure		35	12	36	15	34	15	26	n/a
Revenue expenditure		204	203	287	284	347	463	544	n/a
Total R&D expenditure	164	239	215	323	299	381	478	570	
As % of net sales	0.4	0.5	0.4	0.6	0.5	0.6	0.8	1.0	
MRF									
Capital expenditure	15	3	14	75	42	54	63	1,589	n/a
Revenue expenditure	140	173	205	243	274	286	486	408	n/a
Total R&D expenditure	155	176	219	318	316	341	549	1,997	
As % of net sales	0.3	0.2	0.2	0.3	0.3	0.3	0.3	1.5	

Source: Companies, Kotak Institutional Equities

RM cost increased due to higher prices of carbon black, chemical and rubber

- ▶ RM cost per kg for the standalone business increased by 13.7% in FY2018 leading to significant profitability pressure particularly in 1HFY18. Consequently, RM cost to sales for the standalone business increased to 63.5% in FY2018 as compared to 58.4% in FY2017.
- ▶ In terms of major raw materials, the company's carbon black cost increased 33% yoy in FY2018 due to the tightening demand-supply situation in India. Cost of carbon black was 13% of RM cost in FY2018 as compared to 11% of overall RM cost in FY2017. Cost of chemicals and rubber increased by 26% yoy and 19% yoy respectively in FY2018.

Exhibit 5: RM cost per kg of the standalone business increased by 14% in FY2018; cost of carbon black and chemicals increase sharply
Standalone RM cost breakdown of Apollo Tyres, March fiscal year-ends, 2010-18 (₹ mn, %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Overall RM cost per kg (Rs)	97.1	127.2	159.8	154.6	148.7	135.3	114.3	112.0	127.3
Yoy increase (%)		30.9	25.7	(3.3)	(3.8)	(9.0)	(15.5)	(2.0)	13.7
RM cost breakdown (Rs mn)									
Rubber	17,125	26,111	38,747	35,354	32,602	27,926	24,336	27,996	33,284
Carbon black	3,698	4,289	6,337	7,385	7,819	8,038	5,546	5,915	7,858
Fabric	5,316	5,187	6,991	7,015	7,121	6,743	5,788	6,967	7,065
Chemicals	2,349	2,558	3,478	4,032	4,349	5,053	4,626	5,470	6,911
Others	2,091	2,797	4,449	5,171	5,574	6,542	6,115	6,784	7,693
Sub-total	30,579	40,941	60,003	58,957	57,466	54,302	46,411	53,132	62,812
Increase/(decrease) in inventory and purchase of traded goods	1,161	(2,397)	2,384	2,539	2,503	2,689	3,510	(972)	2,643
Overall RM cost	31,740	38,544	62,386	61,496	59,969	56,992	49,922	52,160	65,455
Yoy increase (%)									
Rubber		52.5	48.4	(8.8)	(7.8)	(14.3)	(12.9)	15.0	18.9
Carbon black		16.0	47.7	16.5	5.9	2.8	(31.0)	6.6	32.9
Fabric		(2.4)	34.8	0.3	1.5	(5.3)	(14.2)	20.4	1.4
Chemicals		8.9	36.0	15.9	7.9	16.2	(8.4)	18.2	26.3
Others		33.7	59.1	16.2	7.8	17.4	(6.5)	10.9	13.4
Sub-total		34	47	(2)	(3)	(6)	(15)	14	18
Change in inventory and purchase of traded goods		(306.5)	(199.5)	6.5	(1.4)	7.5	30.5	(127.7)	(371.9)
Overall RM cost		21.4	61.9	(1.4)	(2.5)	(5.0)	(12.4)	4.5	25.5
% of RM cost									
Rubber	56	64	65	60	57	51	52	53	53
Carbon black	12	10	11	13	14	15	12	11	13
Fabric	17	13	12	12	12	12	12	13	11
Chemicals	8	6	6	7	8	9	10	10	11
Others	7	7	7	9	10	12	13	13	12
Total	100	100	100	100	100	100	100	100	100

Source: Company, Kotak Institutional Equities

Working capital days declined in FY2018 due to lower inventory and higher creditor days

- ▶ For the standalone entity, net working capital days declined to 29 days of sales in FY2018 from 35 days of sales in FY2017. This was driven by (1) reduction in inventory days – down to 61 days of sales in FY2018 from 71 days of sales in FY2017 and (2) increase in payable days – up to 54 days of sales in FY2018 from 43 days of sales in FY2017. We note that inventory days are still higher in FY2018 compared to historical averages. There was an increase in other current assets due to an additional short-term loan of ₹4 bn given to a European subsidiary in FY2018.
- ▶ For the consolidated business, there was a steeper decline in working capital requirements in FY2018 – net current assets (excluding cash) declined to around ₹11 bn in FY2018 from ₹17 bn in FY2017. Working capital days declined to 27 days of sales in FY2018 compared to 48 days of sales in FY2017, which was driven by higher creditor days and other current liabilities. Inventory days continued to remain at elevated levels at 72 days of sales in FY2018 (last five-year average of 60 days).

Exhibit 6: Working capital days declined in FY2018 due to lower inventory and higher creditor days

Working capital and working capital days of both standalone and consolidated entity, March fiscal year-ends, 2010-18 (₹ mn, %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Standalone business									
Working capital (Rs mn)									
Inventories	5,527	11,363	11,114	11,208	12,837	11,852	10,197	17,294	17,215
Sundry debtors	1,375	2,043	3,639	2,731	2,405	3,200	2,928	3,865	5,501
Other current assets	2,674	3,389	4,546	3,560	4,266	4,198	6,938	8,048	12,463
Sundry creditors	5,811	8,037	8,161	6,001	8,983	6,622	8,566	10,408	15,126
Other current liabilities & provisions	2,840	4,183	4,617	6,661	5,692	4,960	7,261	10,152	11,777
Net working capital (ex-cash)	925	4,576	6,522	4,838	4,834	7,668	4,236	8,648	8,277
Working capital (days of sales)									
Inventories	40	76	50	48	54	48	43	71	61
Sundry debtors	10	14	16	12	10	13	12	16	19
Other current assets	19	23	20	15	18	17	29	33	44
Sundry creditors	42	53	37	26	38	27	36	43	54
Other current liabilities & provisions	21	28	21	29	24	20	30	41	42
Net working capital (ex-cash)	7	30	29	21	20	31	18	35	29
Consolidated									
Working capital (Rs mn)									
Inventories	9,929	17,538	19,991	20,311	20,664	17,782	19,391	26,455	29,454
Sundry debtors	7,869	9,502	11,458	9,908	10,427	9,589	10,843	11,275	14,350
Other current assets	2,416	3,948	5,701	4,816	5,672	5,034	13,230	11,834	11,240
Sundry creditors	11,976	14,811	17,401	13,702	16,145	12,208	15,432	17,318	24,471
Other current liabilities & provisions	3,483	6,320	5,483	6,158	7,117	7,248	10,446	15,057	19,500
Net working capital (ex-cash)	4,755	9,856	14,267	15,174	13,501	12,949	17,586	17,190	11,074
Working capital (days of sales)									
Inventories	45	72	60	58	56	51	60	73	72
Sundry debtors	35	39	34	28	28	27	33	31	35
Other current/non-current assets	11	16	17	14	15	14	41	33	28
Sundry creditors	54	61	52	39	44	35	48	48	60
Other current liabilities & provisions	16	26	16	18	19	21	32	42	48
Net working capital (ex-cash)	21	41	43	43	37	37	54	48	27

Source: Company, Kotak Institutional Equities

Higher growth capex leading to higher debt and negative FCF

- ▶ The company's overall tire production capacity increased to 1,875 tons per day in FY2018; up 9% yoy due to (1) ramp-up of truck bus radial tire production capacity in Chennai, India and (2) start of the commercial production of passenger vehicle tires in the Hungary plant. We expect the capacity to increase by 40% to 2,630 tons per day by FY2021E, which will be driven by (1) completion of ramp-up of truck bus radial tire production capacity in Chennai plant to 12,500 tires per day, (2) full ramp-up of Hungary plant including truck and bus radial tire capacity, (3) de-bottlenecking of current passenger vehicle tire capacity in India by 10% to 35,000 tires per day and (4) commissioning of the first phase of a plant in Andhra Pradesh with initial capacity of 16,000 passenger vehicle tires per day and 3,000 truck and bus radial tires per day (capacity will start coming up from 2HFY2020) (refer to Exhibit 7).
- ▶ Due to capacity expansions in both India and Europe business, intensity of capital expenditure has been higher particularly over the last two years leading to negative FCF despite strong operating cashflows (refer to Exhibit 8). The company has incurred consolidated capex of ₹63 bn over FY2016-18; of this ₹36 bn capex has been incurred in Europe (on the Hungary plant, modernization of its Netherlands plant and R&D spend) and ₹27 bn in the India business (on truck bus radial tire plant in Chennai). Consequently, equity issuance of ₹15 bn in October 2017, net debt has increased to ₹32 in FY2018 from ₹6.6 bn in FY2016. We note that net debt to equity is still under control at 0.3X for the consolidated entity and 0.1X for the standalone business.
- ▶ We expect capex to remain high over the next two years due to greenfield capacity expansion in Andhra Pradesh, as highlighted above. Net debt will peak at ₹39.3 bn in FY2020E and then will likely decline to ₹27 bn in FY2021E, as per our estimates.

- ▶ Exhibit 9 shows how the profitability and return on capital employed of both India and Europe business has come down over the last two years. We expect RoCE of both the businesses to improve gradually over the next three years.

Exhibit 7: Installed capacity in FY2018 increased by 9% yoy in FY2018; expect capacity to increase by 40% over FY2018-21E

Installed capacity of Apollo Tyres across segments in both India and Europe, March fiscal year-ends, 2015-21E (mn units, tons per day)

	2015	2016	2017	2018	2019E	2020E	2021E
India capacity (mn units)							
Truck bus radial tires (TBR)	2.2	2.3	2.7	3.5	4.5	4.5	5.6
Truck bus bias tires (TBB)	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Passenger vehicle radial tires (PCR)	11.5	11.5	11.5	11.5	12.6	15.5	18.4
Other segments (LCV, Farm, OTR)							
Total capacity	17.0	17.2	17.5	18.4	20.4	23.3	27.3
Europe capacity (mn units)							
Truck bus radial tires (TBR)						0.3	0.6
Passenger vehicle radial tires (PCR)	6.5	6.5	6.5	7.0	10.0	12.5	12.5
Total capacity	6.5	6.5	6.5	7.0	10.0	12.8	13.1
	2015	2016	2017	2018	2019E	2020E	2021E
India capacity (tons per day)							
Truck bus radial tires (TBR)	403.0	403	465	608	775	775	961
Truck bus bias tires (TBB)	524.4	524	524	524	524	524	524
Passenger vehicle radial tires (PCR)	256.0	256	256	256	280	352	424
Other segments (LCV, Farm, OTR)	311.6	312	312	312	312	312	312
Total India capacity	1,495	1,495	1,557	1,700	1,891	1,963	2,221
Yoy increase (%)		-	4	9	11	4	13
Europe capacity (tons per day)							
Truck bus radial tires (TBR)						48	96
Passenger vehicle radial tires (PCR)	163	163	163	175	250	313	313
Total Europe capacity	163	163	163	175	250	361	409
Overall capacity	1,658	1,658	1,720	1,875	2,141	2,324	2,630
Yoy increase (%)		-	4	9	14	9	13

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Capex has increased significantly due to investment in capacity additions leading to increase in debt levels and negative FCF
Capex and debt breakdown in India and overseas business, March fiscal year-ends, 2013-21E (₹ mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net fixed assets									
India	30,714	32,536	31,070	32,998	47,952	57,139	57,865	71,126	82,548
Subsidiaries	10,979	12,014	11,614	17,155	17,190	44,831	62,512	63,611	61,685
Consolidated	41,693	44,550	42,685	50,154	65,141	101,970	120,377	134,738	144,233
CWIP (Rs mn)									
India	2,490	350	1,296	4,164	6,215	6,718	17,718	17,718	8,718
Subsidiaries	709	115	886	5,773	22,936	16,323	1,323	(1,677)	(1,677)
Consolidated	3,199	465	2,182	9,936	29,151	23,041	19,041	16,041	7,041
Total fixed assets (Rs mn)									
India	33,203	32,886	32,367	37,162	54,166	63,857	75,583	88,844	91,265
Subsidiaries	11,688	12,129	12,500	22,928	40,126	61,154	63,835	61,934	60,008
Consolidated	44,892	45,015	44,867	60,090	94,292	125,011	139,418	150,778	151,274
Capex (Rs mn)									
India	3,791	1,919	2,762	6,935	15,505	12,120	16,000	18,000	8,000
Subsidiaries	2,208	2,990	3,439	9,223	17,131	18,552	6,000	2,000	2,000
Consolidated	5,999	4,909	6,201	16,158	32,636	30,672	22,000	20,000	10,000
Gross debt (Rs mn)									
India	18,778	15,137	12,803	8,345	19,736	26,474	22,974	18,974	13,974
Subsidiaries	7,681	944	(1,741)	9,257	20,290	24,933	26,433	22,433	17,433
Consolidated	26,459	16,082	11,062	17,602	40,026	51,407	49,407	41,407	31,407
Net debt (Rs mn)									
India	17,236	12,926	9,725	417	14,398	10,478	13,513	18,657	11,577
Subsidiaries	5,876	(3,385)	(5,608)	6,225	18,315	21,546	24,035	20,717	15,384
Consolidated	23,112	9,541	4,116	6,642	32,713	32,024	37,548	39,374	26,961
Net debt to equity (X)									
Standalone	0.7	0.5	0.3	0.0	0.3	0.1	0.2	0.2	0.1
Consolidated	0.7	0.2	0.1	0.1	0.4	0.3	0.4	0.3	0.2
Operating cashflow (Rs mn)									
India	10,179	11,255	9,605	18,141	3,381	9,560	15,112	15,108	17,168
Subsidiaries	2,801	5,200	4,411	3,084	5,641	7,637	3,925	5,706	7,632
Consolidated	12,980	16,455	14,016	21,225	9,022	17,197	19,036	20,814	24,800
Free cashflow (Rs mn)									
India	3,778	6,846	5,037	10,227	(12,686)	(3,649)	(2,443)	(4,254)	8,124
Subsidiaries	118	1,818	865	(6,107)	(11,587)	(11,149)	(2,589)	3,218	5,233
Consolidated	3,896	8,664	5,902	4,120	(24,272)	(14,798)	(5,032)	(1,036)	13,357

Source: Company, Kotak Institutional Equities

Exhibit 9: Profitability and ROCE of overseas business has come down sharply over the last three years; expect some improvement ahead
Profitability, capital employed and RoCE of India and business and subsidiaries, March fiscal year-ends, 2010-21E (₹ mn, %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Revenues												
India	50,366	54,905	81,579	85,075	87,117	89,378	87,572	89,338	102,997	119,309	135,859	147,785
Subsidiaries	30,842	33,772	39,954	42,871	47,002	38,474	30,914	42,462	45,408	57,058	67,315	74,023
Consolidated	11,739	9,772	11,654	14,559	18,747	19,297	19,964	18,477	16,504	23,857	28,788	32,742
EBIT												
India	6,610	3,861	4,806	6,781	8,509	10,687	13,009	10,391	8,830	13,055	15,419	16,664
Subsidiaries	2,597	3,199	3,599	3,820	6,138	4,736	2,698	3,478	1,757	3,217	4,737	6,581
Consolidated	9,206	7,061	8,405	10,601	14,647	15,423	15,707	13,869	10,587	16,272	20,156	23,245
Capital employed												
India	20,414	31,029	35,176	34,523	33,810	35,912	36,953	57,661	66,691	77,001	91,047	93,884
Subsidiaries	12,846	15,989	20,098	22,597	21,478	18,627	35,736	47,951	63,101	67,608	67,519	66,824
Consolidated	33,260	47,019	55,274	57,120	55,288	54,539	72,689	105,612	129,791	144,609	158,566	160,708
Pre-tax RoCE (%)												
India	15.0	14.5	19.5	24.9	30.7	35.7	22.0	14.2	18.2	18.4	18.0	18.0
Subsidiaries	22.2	19.9	17.9	27.9	23.6	9.9	8.3	3.2	4.9	7.0	9.8	9.8
Consolidated	17.6	16.4	18.9	26.1	28.1	24.7	15.6	9.0	11.9	13.3	14.6	14.6
Post-tax RoCE (%)												
India	11.3	10.2	12.8	18.7	21.2	24.4	16.2	10.2	13.1	13.2	13.0	13.0
Subsidiaries	19.0	15.8	13.9	25.3	20.5	5.6	7.0	2.2	3.5	5.2	7.2	7.2
Consolidated	14.2	12.4	13.4	21.4	21.1	17.2	11.9	6.4	8.5	9.6	10.6	10.6

Source: Company, Kotak Institutional Equities estimates

Promoter's salary increased by 23% yoy in FY2018

- ▶ Despite weakness in profitability, salary paid to the promoters (combined salary of Mr Onkar Kanwar Mr and Neeraj Kanwar) increased by 23% yoy to ₹942 mn in FY2018; promoter's salary had declined by 14% yoy in FY2017. Due to the steep decline in overall profitability in FY2018, promoter's salary was 9.3% of consolidated PBT in FY2018; up from 5.3% of PBT in FY2017. As per the company's annual report, increase in remuneration of Mr Neeraj Kanwar "was approved considering the key initiatives taken by him in enhancing the competitiveness of the Company's operations".
- ▶ For other domestic tire companies, promoter's salary accounted for 2-7% of consolidated PBT in FY2017-18.

Exhibit 10: Promoter's salary in Apollo Tyres increased by 23% yoy in FY2018; salary was 9.3% of consolidated PBT in FY2018
Overall promoter salary and as % of PBT in domestic tyre companies, March fiscal year-ends, 2014-18 (₹ mn, %)

	FY2014	FY2015	FY2016	FY2017	FY2018
Apollo Tyres					
Promoter's salary (Rs mn)	446	689	885	766	942
Yoy increase (%)		54.5	28.4	(13.5)	23.0
As % of consolidated PBT	3.5	4.9	5.7	5.3	9.3
Consolidated PBT (Rs mn)	12,787	14,133	15,429	14,356	10,123
Balkrishna Industries					
Promoter's salary (Rs mn)	347	602	618	653	635
Yoy increase (%)		73.3	2.6	5.7	(2.8)
As % of PBT	4.9	8.4	9.2	6.2	5.7
PBT (Rs mn)	7,062	7,159	6,743	10,586	11,160
CEAT					
Promoter's salary (Rs mn)	59	75	90	81	79
Yoy increase (%)		26.9	19.5	(10.7)	(1.5)
As % of consolidated PBT	1.5	1.6	1.5	1.8	2.3
Consolidated PBT (Rs mn)	4,032	4,716	5,869	4,373	3,443
JK Tyre					
Promoter's salary (Rs mn)	169	288	529	369	n/a
Yoy increase (%)		70.5	83.7	(30.2)	
As % of consolidated PBT	3.9	5.4	8.0	6.9	
Consolidated PBT (Rs mn)	4,340	5,325	6,595	5,352	
MRF					
Promoter's salary (Rs mn)	128	273	641	524	n/a
Yoy increase (%)		113.2	135.0	(18.4)	
As % of net profit	1.0	2.0	1.8	2.5	
PBT (Rs mn)	12,354	13,531	36,559	21,094	

Source: Companies, Kotak Institutional Equities

Exhibit 11: We expect EBITDA per kg of standalone business to improve over FY2019-20E

Volumes and ratios on per kg basis of standalone business, March fiscal year-ends, 2009-21E (₹/kg)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales volumes (tons)	273,575	326,739	303,116	390,382	397,844	403,234	421,331	436,862	465,546	513,976	574,070	643,720	691,221
Yoy growth (%)	(5.7)	19.4	(7.2)	28.8	1.9	1.4	4.5	3.7	6.6	10.4	11.7	12.1	7.4
Key ratios (Rs per kg)													
Net realizations	148.8	154.1	181.1	209.0	213.8	216.0	212.1	200.5	191.9	200.4	207.8	211.1	213.8
RM cost	107.4	97.1	127.2	159.8	154.6	148.7	135.3	114.3	112.0	127.3	128.8	131.3	132.7
Gross profit	41.4	57.0	54.0	49.2	59.3	67.3	76.9	86.2	79.9	73.0	79.0	79.7	81.1
Employee cost	7.6	8.9	10.1	9.4	10.7	11.2	12.9	13.0	13.3	13.8	14.0	13.7	14.0
Other expenses	22.0	24.2	26.3	22.7	26.0	28.8	32.7	37.4	38.0	35.0	34.8	34.7	34.9
EBITDA	11.9	24.0	17.6	17.1	22.6	27.3	31.2	35.8	28.5	24.3	30.2	31.3	32.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: We expect profitability in Europe business to recover in FY2019-20E once Hungary plant ramps up

Key assumptions of standalone and European businesses, March fiscal year-ends, 2012-19E

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Standalone business										
Volumes (MT)	390,382	397,844	403,234	421,331	436,862	465,546	513,976	574,070	643,720	691,221
Yoy growth (%)	29	2	1	4	4	7	10	12	12	7
Sales (Rs mn)	81,579	85,075	87,117	89,378	87,572	89,338	102,997	119,309	135,859	147,785
Yoy growth (%)	49	4	2	3	(2)	2	15	16	14	9
EBITDA (Rs mn)	6,663	8,982	10,989	13,155	15,660	13,273	12,474	17,329	20,158	22,243
Yoy growth (%)	25	35	22	20	19	(15)	(6)	39	16	10
EBITDA margin (%)	8.2	10.6	12.6	14.7	17.9	14.9	12.1	14.5	14.8	15.1
EBITDA (Rs per kg)	17.1	22.6	27.3	31.2	35.8	28.5	24.3	30.2	31.3	32.2
Europe										
Sales (Euro mn)	427	426	459	462	424	456	472	582	687	755
Yoy growth (%)	16	(0)	8	1	(8)	8	3	23	18	10
Netherlands plant							446	424	403	387
Hungary plant							26	158	284	368
EBITDA (Euro mn)	72	81	82	78	55	59	40	66	91	113
Yoy growth (%)	14	13	2	(5)	(30)	8	(32)	65	37	24
EBITDA (%)	16.8	19.0	17.9	17.0	13.0	13.0	8.6	11.4	13.2	15.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: We expect revenue mix of truck bus radial tires in standalone entity to increase over the next three years

Standalone revenue mix of Apollo Tyres, March fiscal year-ends, 2017-21E (₹ mn, %)

	2017	2018	2019E	2020E	2021E	2018-21 CAGR (%)
Standalone revenues (Rs mn)						
Truck bus bias segment (TBB)	25,015	26,856	27,994	28,631	28,635	2.2
Truck bus radial segment (TBR)	28,588	36,422	45,690	54,970	60,998	18.8
PCR	16,974	18,103	20,015	22,791	25,299	11.8
LCV	5,360	6,030	7,033	7,869	8,696	13.0
Two-wheeler	893	1,458	2,479	3,718	4,833	49.1
Others (Farm, Off-highway, etc)	12,507	14,128	16,098	17,879	19,325	11.0
Total	89,338	102,997	119,309	135,859	147,785	12.8
Yoy growth (%)	2.0	15.3	15.8	13.9	8.8	
Revenue mix (%)						
Truck bus bias segment (TBB)	28	26	23	21	19	
Truck bus radial segment (TBR)	32	35	38	40	41	
PCR	19	18	17	17	17	
LCV	6	6	6	6	6	
Two-wheeler	1	1	2	3	3	
Others (Farm, Off-highway, etc)	14	14	13	13	13	
Total	100	100	100	100	100	

Source: Company, Kotak Institutional Equities estimates

Exhibit 14: Our FY2019-21E consolidated earnings estimates are largely unchanged
Earnings revision table, Apollo Tyres, March fiscal year-ends, 2019-21E (₹ mn, %)

	New estimates			Old estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Standalone									
Net sales	119,309	135,859	147,785	119,241	135,807	147,748	0.1	0.0	0.0
EBITDA	17,329	20,158	22,243	17,339	20,170	22,257	(0.1)	(0.1)	(0.1)
EBITDA margin (%)	14.5	14.8	15.1	14.5	14.9	15.1			
Net profit	9,341	10,968	11,982	9,356	10,995	12,104	(0.2)	(0.2)	(1.0)
EPS (Rs)	16.3	19.2	20.9	16.4	19.2	21.2	(0.2)	(0.2)	(1.0)
Consolidated									
Net sales	176,367	203,174	221,808	176,216	202,477	220,993	0.1	0.3	0.4
EBITDA	23,865	28,796	32,750	23,866	28,918	32,781	(0.0)	(0.4)	(0.1)
EBITDA margin (%)	13.5	14.2	14.8	13.5	14.3	14.8			
Net profit	11,360	14,197	16,620	11,384	14,201	16,490	(0.2)	(0.0)	0.8
EPS (Rs)	19.9	24.8	29.1	19.9	24.8	28.8	(0.2)	(0.0)	0.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 15: We value Apollo Tyres at ₹340/share based on SoTP methodology
SoTP valuation of Apollo Tyres

	March 2020 EPS (Rs)	Multiple (X)	Value (Rs/share)
Standalone business	19.2	14.0	268
Subsidiaries (primarily Vredestein Europe)	5.6	12.0	68
Equity value per share (Rs)			336
Target price			340
Implied target P/E on FY2020E consolidated EPS			13.7

Source: Kotak Institutional Equities estimates

Exhibit 16: We expect standalone EPS to grow at 23% CAGR over FY2018-21E
Apollo Tyres standalone financials, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)										
Net sales	81,579	85,075	87,117	89,378	87,572	89,338	102,997	119,309	135,859	147,785
EBITDA	6,663	8,982	10,989	13,155	15,660	13,273	12,474	17,329	20,158	22,243
Other income	182	574	792	375	2,038	1,353	1,218	1,474	1,176	1,022
Interest	(2,413)	(2,610)	(2,446)	(1,721)	(901)	(888)	(1,375)	(1,555)	(1,362)	(1,044)
Depreciation	(1,857)	(2,201)	(2,480)	(2,468)	(2,651)	(2,882)	(3,644)	(4,274)	(4,739)	(5,579)
Profit before tax	2,575	4,745	6,855	9,341	14,145	10,856	8,673	12,974	15,233	16,642
Tax expense	(762)	(1,620)	(1,718)	(2,891)	(4,124)	(2,829)	(2,449)	(3,633)	(4,265)	(4,660)
Exceptional items	—	—	(710)	—	—	—	—	—	—	—
PAT	1,813	3,125	4,426	6,451	10,021	8,028	6,224	9,341	10,968	11,982
Adjusted PAT	1,813	3,125	5,137	6,451	8,935	8,028	6,224	9,341	10,968	11,982
Adjusted EPS (Rs)	3.6	6.1	10.1	12.7	17.6	15.8	11.5	16.3	19.2	20.9
Balance sheet (Rs mn)										
Equity	20,476	23,414	27,398	32,707	46,578	53,312	72,606	79,882	88,784	98,701
Total borrowings	21,482	18,778	15,137	0	8,345	19,736	26,474	22,974	18,974	13,974
Deferred tax liability	2,959	3,518	3,909	4,122	4,445	5,153	5,443	5,443	5,443	5,443
Current liabilities	12,778	12,662	14,675	11,582	15,827	20,559	26,902	32,348	35,273	37,532
Total liabilities	57,695	58,372	61,120	48,411	75,196	98,760	131,426	140,647	148,475	155,650
Net fixed assets	31,613	33,203	32,886	32,367	37,162	54,166	63,857	75,583	88,844	91,265
Investments	5,627	6,127	6,515	6,519	10,043	10,049	16,394	16,394	16,394	16,394
Cash	1,156	1,542	2,211	3,078	7,927	5,338	15,996	9,461	317	2,397
Other current assets	19,300	17,500	19,509	19,250	20,063	29,207	35,180	39,210	42,920	45,593
Total assets	57,695	58,372	61,120	61,214	75,195	98,760	131,426	140,647	148,475	155,650
Cash flow (Rs mn)										
Operating cash flow	6,631	8,496	9,954	11,692	13,309	11,400	10,457	13,696	15,892	17,583
Working capital changes	(1,946)	1,683	1,301	(2,087)	4,833	(8,019)	(897)	1,415	(784)	(415)
Capital expenditure	(4,606)	(3,791)	(1,919)	(2,762)	(6,935)	(15,505)	(12,120)	(16,000)	(18,000)	(8,000)
Free cash flow	(2,333)	3,778	6,846	5,037	10,227	(12,686)	(3,649)	(2,443)	(4,254)	8,124
Ratios										
EBITDA margin (%)	8.2	10.6	12.6	14.7	17.9	14.9	12.1	14.5	14.8	15.1
Net debt/equity (X)	0.99	0.74	0.47	(0.09)	0.01	0.27	0.14	0.17	0.21	0.12
Book value (Rs/share)	40.2	46.0	53.8	64.3	91.5	104.7	134.3	139.6	155.2	172.5
RoAE (%)	9.2	14.2	20.2	21.5	22.5	16.1	9.9	12.3	13.0	12.8
RoACE (%)	10.2	12.8	18.7	21.2	25.3	16.2	10.2	13.1	13.2	13.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 17: We expect Apollo Tyres to deliver consolidated EPS CAGR of 29% over FY2018-21E
 Apollo Tyres consolidated financial, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)										
Net sales	121,533	127,946	134,120	127,852	118,486	131,800	148,405	176,367	203,174	221,808
EBITDA	11,661	14,567	18,755	19,306	19,975	18,487	16,513	23,865	28,796	32,750
Other income	326	944	978	538	648	1,516	1,165	1,574	1,276	1,122
Interest	(2,873)	(3,128)	(2,838)	(1,828)	(926)	(1,029)	(1,629)	(2,069)	(1,851)	(1,443)
Depreciation	(3,256)	(3,966)	(4,109)	(3,883)	(4,268)	(4,618)	(5,926)	(7,593)	(8,639)	(9,505)
Profit before tax	5,858	8,418	12,787	14,133	15,429	14,356	10,123	15,778	19,581	22,924
Tax expense	(1,444)	(2,448)	(2,269)	(3,532)	(4,677)	(3,365)	(2,885)	(4,418)	(5,385)	(6,304)
Exceptional items	294	169	468	825	478	—	—	—	—	—
PAT	4,709	6,138	10,986	11,426	11,230	10,990	7,239	11,360	14,197	16,620
Adjusted PAT	4,503	6,020	10,659	10,848	10,895	10,990	7,239	11,360	14,197	16,620
Reported EPS (Rs)	9.3	12.1	21.6	22.4	22.1	21.6	13.4	19.9	24.8	29.1
Adjusted EPS (Rs)	8.8	11.8	20.9	21.3	21.4	21.6	13.4	19.9	24.8	29.1
Balance sheet (Rs mn)										
Equity	28,335	34,009	45,746	50,423	61,822	72,900	97,767	107,061	119,192	133,747
Total borrowings	28,676	26,459	16,082	11,062	13,497	40,026	51,407	49,407	41,407	31,407
Deferred tax liability	4,025	4,928	5,241	4,912	5,556	7,661	8,389	8,389	8,389	8,389
Current liabilities	22,883	19,860	23,262	19,457	29,765	32,374	43,971	49,043	53,937	57,499
Total liabilities	83,920	85,255	90,332	85,854	110,640	152,962	201,533	213,899	222,925	231,040
Net fixed assets	43,544	44,892	45,015	44,867	60,090	94,292	125,011	139,418	150,778	151,274
Goodwill	1,338	1,436	1,376	1,165	4,711	1,774	2,061	2,061	2,061	2,061
Investments	158	546	637	470	42	17	35	35	35	35
Cash	1,730	3,348	6,541	6,946	7,158	7,314	19,382	11,859	2,033	4,446
Other current assets	37,150	35,033	36,770	32,406	45,720	49,565	55,045	60,528	68,019	73,226
Total assets	83,920	85,254	90,339	85,854	117,721	152,962	201,533	213,899	222,925	231,040
Cash flow (Rs mn)										
Operating cash flow	10,787	14,460	15,153	16,302	18,018	16,253	14,043	19,448	23,411	26,446
Working capital changes	(3,100)	(1,480)	1,302	(2,286)	3,207	(7,230)	3,154	(411)	(2,596)	(1,646)
Capital expenditure	(7,895)	(5,999)	(4,909)	(6,201)	(16,158)	(32,636)	(30,672)	(22,000)	(20,000)	(10,000)
Free cash flow	(2,977)	3,896	8,664	5,902	4,120	(24,272)	(14,798)	(5,032)	(1,036)	13,357
Ratios										
EBITDA margin (%)	9.6	11.4	14.0	15.1	16.9	14.0	11.1	13.5	14.2	14.8
Net debt/equity (X)	0.95	0.68	0.21	0.08	0.10	0.45	0.33	0.35	0.33	0.20
Book value (Rs/share)	55.7	66.8	89.9	99.1	121.5	143.2	180.9	187.2	208.4	233.8
RoAE (%)	15.6	19.7	26.4	20.3	18.7	15.8	8.5	11.1	12.5	13.1
RoACE (%)	12.4	13.4	21.4	21.1	17.2	11.9	6.4	8.5	9.6	10.6

Source: Company, Kotak Institutional Equities estimates

June 2018: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
16-Jul	17-Jul	18-Jul	19-Jul	20-Jul	21-Jul	22-Jul
Hindustan Unilever	Ashok Leyland	Mahindra CIE Automotive	ABB	Bajaj Auto	HDFC Bank	
	Crisil	Mindtree	Bajaj Finance	Bajaj Holding & Investment	Reliance Power	
	Federal Bank	UltraTech Cement	Bajaj Finserv	CEAT		
	ICICI Lombard		DB Corp.	Havells India		
	Rallis India		Kotak Mahindra Bank	HDFC Standard Life		
	Zee Entertainment Enterprises		RBL Bank	Just Dial		
				Kansai Nerolac		
				L&T Finance Holdings		
				Wipro		
23-Jul	24-Jul	25-Jul	26-Jul	27-Jul	28-Jul	29-Jul
ACC	Asian Paints	Ambuja Cements	Bharat Financial Inclusion	Coromandel International	J K Cements	
Indiabulls Ventures	GlaxoSmithkline Pharmaceuticals	Bharti Infratel	Bharti Airtel	HCL Technologies		
L&T Infotech	Hexaware Technologies	BHEL	Biocon	ICICI Bank		
United Spirits	ICICI Prudential Life	Crompton Greaves Consumer	CESC	JSW Energy		
	Info Edge	GRUH Finance	Cholamandalam	Mahindra & Mahindra Financial		
		Hero Motocorp	Colgate-Palmolive (India)	Prestige Estates Projects		
		JSW Steel	Container Corporation			
		Jubilant Foodworks	Dr Reddy's Laboratories			
		Karur Vysya Bank	ITC			
		L&T	Maruti Suzuki			
		Shriram City Union Finance	SBI Life Insurance			
		SIS	WABCO India			
		SKF	Yes Bank			
30-Jul	31-Jul	1-Aug	2-Aug	3-Aug	4-Aug	5-Aug
Axis Bank	Bharat Electronics	Aditya Birla Fashion	Indiabulls Housing	Berger Paints		PI Industries
Century Textile	Castrol India	Emami	Marico	Carborundum Universal		
Godrej Consumer Products	Dabur India	Exide Industries	The Ramco Cement	Titan Company		
GSPL		Pdillite Industries				
HDFC		Torrent Power				
IDFC Bank						
Shree Cement						
Tech Mahindra						
6-Aug	7-Aug	8-Aug	9-Aug	10-Aug	11-Aug	12-Aug
Britannia Industries	AU Small Finance	Cipla		Apollo Hospitals	Amara Raja Batteries	
Ujivan Financial Services	Mahindra & Mahindra	PNB Housing Finance		Dr Lal Pathlabs		
	Mphasis			Timken		
	TVS Motor					
13-Aug	14-Aug	15-Aug	16-Aug	17-Aug	18-Aug	19-Aug
Godrej Industries						

Source: NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)		P/B (X)		RoE (%)		Dividend yield (%)			ADVT 3mo (US\$ mn)				
		13-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E		2020E			
Automobiles																													
Amara Raja Batteries	REDUCE	805	780	(3.1)	138	2.0	171	28	33	39	(1.6)	21.2	15.5	29.2	24.1	20.8	15.5	12.8	11.0	4.7	4.0	3.5	17.0	18.0	18.0	0.5	0.6	0.7	6.3
Apollo Tyres	BUY	268	340	26.7	153	2.2	541	13	20	25	(38.0)	48.3	25.0	20.0	13.5	10.8	11.2	8.0	6.7	1.5	1.4	1.3	8.5	11.1	12.5	1.1	1.1	1.1	10.6
Ashok Leyland	BUY	133	160	20.8	389	5.7	2,926	5.4	6.2	8.9	8.0	15.3	43.2	24.6	21.4	14.9	14.2	11.0	8.0	5.4	4.7	3.9	23.7	23.4	28.4	1.8	1.4	2.0	36.9
Bajaj Auto	SELL	3,139	2,800	(10.8)	908	13.3	289	140	160	176	6.0	14.0	10.0	22.4	19.6	17.8	15.7	14.1	12.5	4.8	4.2	3.8	22.9	22.8	22.3	1.9	2.0	2.2	21.9
Balkrishna Industries	REDUCE	1,179	1,260	6.9	228	3.3	193	37	50	63	4.8	34.8	25.0	31.5	23.4	18.7	16.7	12.8	10.2	5.6	4.6	3.8	19.0	21.6	22.2	0.4	0.5	0.5	8.4
Bharat Forge	SELL	606	600	(1.0)	282	4.1	466	16	23	27	10.1	43.0	16.8	37.4	26.2	22.4	18.0	14.8	12.8	6.1	5.2	4.4	17.3	21.5	21.4	0.7	0.8	0.9	10.3
CEAT	ADD	1,269	1,600	26.0	51	0.7	40	65	101	113	(29.5)	55.4	12.6	19.6	12.6	11.2	9.6	8.1	6.9	2.0	1.7	1.5	10.4	14.6	14.4	0.9	0.8	0.8	13.7
Eicher Motors	SELL	27,529	26,000	(5.6)	751	11.0	27	792	995	1,200	29.3	25.5	20.6	34.7	27.7	22.9	25.0	20.1	16.3	13.9	10.1	7.5	46.4	42.3	37.5	0.1	0.1	0.1	17.2
Escorts	BUY	909	1,170	28.8	77	1.6	89	39	56	69	71.3	43.6	23.6	23.4	16.3	13.2	13.4	10.0	7.8	3.2	2.7	2.3	13.5	16.8	17.7	0.4	0.9	1.1	17.3
Exide Industries	SELL	265	225	(15.1)	225	3.3	850	8	10	11	0.6	23.7	10.9	32.3	26.1	23.5	18.1	15.2	13.5	4.2	3.8	3.4	13.5	15.2	15.3	0.9	1.1	1.3	8.2
Hero Motocorp	SELL	3,456	3,500	1.3	690	10.1	200	185	206	227	9.5	11.1	10.1	18.7	16.8	15.2	11.6	10.4	9.3	5.9	5.1	4.5	33.8	32.6	31.6	2.5	3.0	3.3	18.2
Mahindra CIE Automotive	ADD	258	275	6.7	98	1.4	378	10	13	15	107.0	35.8	12.9	26.8	19.8	17.5	13.2	10.0	8.7	2.6	2.3	2.0	10.4	12.5	12.4	—	—	—	3.1
Mahindra & Mahindra	BUY	907	1,015	11.9	1,127	16.5	1,138	38	44	50	22.0	15.6	14.8	23.9	20.7	18.0	15.7	13.4	11.6	3.4	3.0	2.7	15.1	15.4	15.7	0.8	1.0	1.1	33.2
Maruti Suzuki	ADD	9,431	9,700	2.9	2,849	41.6	302	256	330	395	5.1	29.2	19.6	36.9	28.6	23.9	20.7	16.2	13.0	6.8	5.8	5.0	19.8	22.0	22.6	0.7	0.9	1.0	62.0
Motherson Sumi Systems	SELL	288	265	(8.0)	607	8.9	2,105	8	11	14	6.1	37.7	21.7	35.2	25.6	21.0	13.3	10.3	8.5	6.1	5.2	4.5	19.0	22.1	22.9	0.8	1.0	1.1	13.5
MRF	REDUCE	77,060	76,000	(1.4)	327	4.8	4	2,669	3,896	4,447	(23.9)	46.0	14.1	28.9	19.8	17.3	13.1	9.7	8.3	3.4	2.9	2.5	12.3	15.7	15.4	0.1	0.1	0.1	7.5
Schaeffler India	BUY	5,389	6,000	11.3	90	1.3	17	143	171	207	22.0	19.4	21.1	37.6	31.5	26.0	22.2	19.0	15.4	5.3	4.7	4.1	15.0	15.8	16.9	0.3	0.6	0.8	0.7
SKF	REDUCE	1,775	1,700	(4.2)	91	1.3	51	58	70	81	24.6	20.8	16.4	30.8	25.5	21.9	19.1	16.4	13.8	5.0	4.3	3.8	16.1	17.0	17.2	0.7	0.8	1.0	0.2
Tata Motors	BUY	264	445	68.8	895	12.2	3,396	20	24	38	(28.0)	18.0	63.0	13.2	11.2	6.9	3.9	3.5	2.9	0.9	0.9	0.8	8.8	8.0	11.9	—	—	—	60.8
Timken	SELL	737	660	(10.5)	50	0.7	68	14	19	25	(5.3)	42.3	27.5	54.5	38.3	30.0	30.4	21.2	16.9	7.1	6.1	5.1	13.9	17.1	18.5	0.1	0.1	0.1	0.4
TVS Motor	SELL	584	410	(29.8)	278	4.1	475	14	17	21	18.7	23.0	22.0	41.9	34.1	27.9	25.5	19.9	16.6	9.6	8.2	6.9	25.1	26.0	26.7	0.6	0.9	1.1	11.8
WABCO India	SELL	7,099	6,350	(10.5)	135	2.0	19	144	169	222	27.8	17.8	31.3	49.4	41.9	31.9	32.1	27.4	20.7	8.8	7.4	6.1	19.5	19.2	20.9	0.1	0.1	0.2	0.5
Automobiles	Neutral				10,438		152				(0.9)	23.3	25.4	26.7	21.7	17.3	11.9	9.9	8.1	3.8	3.4	2.9	14.2	15.5	16.9	0.8	1.0	1.1	362.7
Banks																													
Axis Bank	ADD	523	600	14.7	1,343	19.6	2,567	1	20	39	(92.6)	1,735.5	100.1	486.9	26.5	13.3	—	—	—	2.5	2.3	1.9	0.5	7.7	13.8	1.0	0.6	1.1	61.9
Bank of Baroda	NR	117	—	—	310	4.5	2,652	(9)	20	23	(253.2)	323.2	10.5	(12.8)	5.7	5.2	—	—	—	1.4	1.0	0.8	(5.8)	12.6	12.3	—	—	—	28.6
Bank of India	ADD	81	120	47.3	142	2.1	1,744	(35)	(6)	16	(134.7)	82.2	366.7	(2.4)	(13.2)	5.0	—	—	—	1.2	1.6	1.0	(21.3)	(3.6)	9.5	—	(1.5)	4.0	11.4
Canara Bank	ADD	232	300	29.4	170	2.5	733	(58)	(2)	60	(406.6)	97.3	4,031.4	(4.0)	(150.8)	3.8	—	—	—	1.4	1.4	0.8	(11.9)	(0.3)	11.8	—	—	—	28.7
City Union Bank	ADD	176	190	8.0	129	1.9	665	9	10	12	6.4	16.2	13.0	19.8	17.0	15.1	—	—	—	3.0	2.6	2.3	15.3	15.5	15.5	0.2	1.0	1.2	2.0
DCB Bank	ADD	179	205	14.3	55	0.8	308	8	10	12	13.8	28.2	21.0	22.5	17.6	14.5	—	—	—	2.2	2.1	1.9	10.9	11.7	12.7	—	0.5	0.6	6.0
Equitas Holdings	BUY	138	190	37.9	47	0.7	340	0.9	4.4	8.3	(80.4)	374.7	88.2	148.9	31.4	16.7	—	—	—	2.1	2.0	1.8	1.4	6.4	11.0	—	—	—	4.5
Federal Bank	BUY	78	130	66.9	154	2.2	1,972	4.5	5.8	7.8	(7.5)	29.5	34.9	17.5	13.5	10.0	—	—	—	1.4	1.3	1.1	8.0	9.0	11.2	1.3	1.5	2.0	17.2
HDFC Bank	REDUCE	2,181	1,900	(12.9)	5,679	82.9	2,595	67	77	93	18.7	14.7	20.0	32.4	28.2	23.5	—	—	—	5.4	4.1	3.6	17.9	16.6	16.2	0.6	0.7	0.8	77.4
ICICI Bank	BUY	268	400	49.4	1,722	25.1	6,429	11	15	25	(31.1)	46.5	64.1	25.4	17.3	10.6	—	—	—	2.1	1.8	1.5	6.6	9.1	13.7	0.6	1.2	1.9	86.1
IDFC Bank	NR	38	—	—	130	1.9	3,404	2.5	1.6	3.3	(16.0)	(38.5)	109.8	15.1	24.5	11.7	—	—	—	0.8	0.8	0.8	5.7	3.4	6.9	1.3	0.8	1.7	9.1
IndusInd Bank	REDUCE	1,924	1,900	(1.2)	1,155	16.9	600	60	71	87	25.3	17.5	23.6	32.0	27.2	22.0	—	—	—	5.0	4.1	3.5	17.1	17.6	16.8	—	0.4	0.5	31.2
J&K Bank	BUY	48	105	118.5	27	0.4	557	4	8	11	111.6	116.7	44.4	13.2	6.1	4.2	—	—	—	0.6	0.5	0.4	3.4	6.9	9.4	—	3.3	4.7	0.4
Karur Vysya Bank	ADD	100	120	19.5	73	1.1	727	5	4	14	(52.2)	(22.8)	274.8	21.1	27.4	7.3	—	—	—	1.4	1.4	1.2	6.1	4.2	14.7	0.6	0.9	3.4	1.7
Punjab National Bank	ADD	74	90	21.9	204	3.0	2,761	(44)	(39)	9	(814.7)	13.4	124.1	(1.7)	(1.9)	8.0	—	—	—	4.4	(3.3)	(12.6)	(32.4)	(31.3)	8.2	—	(11.3)	2.7	29.4
RBL Bank	SELL	571	450	(21.1)	240	3.5	420	15	20	25	27.3	32.9	21.8	37.7	28.4	23.3	—	—	—	3.7	3.4	3.1	11.5	12.0	13.2	0.4	0.5	0.6	10.2
State Bank of India	BUY	258	370	43.5	2,300	33.6	8,925	(7)	18	37	(155.8)	NM	106.1	NM	14.3	6.9	—	—	—	2.0	1.6	1.2	(3.2)	7.1	13.2	—	0.1	0.2	75.5
Ujjivan Financial Services	REDUCE	379	420	10.9	46	0.7	121	1	22	29	(96.5)	3,564.0	30.0	627.6	17.1	13.2	—	—	—	2.7	2.3	2.0	0.4	14.2	16.1	0.0	0.6	0.8	7.3
Union Bank	ADD	77	130	69.7	90	1.3	1,169	(45)	1	24	(655.5)	101.4	3,896.2	(1.															

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside (%)	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo	
		13-Jul-18	(Rs)		(Rs bn)	(US\$ bn)	(mn)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	(US\$ mn)
NBFCs																													
Bajaj Finance	REDUCE	2,469	1,850	(25.1)	1,427	20.8	575	46	63	82	38.5	34.9	30.0	53.1	39.4	30.3	—	—	—	8.6	7.2	5.9	20.5	19.9	21.5	0.2	0.3	0.3	41.6
Bajaj Finserv	ADD	6,340	5,900	(6.9)	1,009	14.7	159	174	206	266	13.5	18.7	28.8	36.5	30.7	23.8	—	—	—	5.0	4.0	3.5	15.3	14.5	15.6	0.2	0.2	0.2	14.1
Bharat Financial Inclusion	NA	1,173	—	—	163	2.4	139	33	43	54	55.5	31.1	27.2	35.9	27.4	21.5	—	—	—	5.4	4.4	3.6	16.7	17.9	18.5	—	—	—	10.5
Cholamandalam	REDUCE	1,574	1,510	(4.0)	246	3.6	156	62	76	92	35.5	22.3	20.8	25.3	20.7	17.1	—	—	—	5.0	4.2	3.5	20.6	21.0	21.2	0.4	0.6	0.7	7.3
HDFC	BUY	1,973	2,075	5.2	3,324	48.5	1,676	75	58	67	52.1	(23.1)	15.2	26.2	34.0	29.5	—	—	—	5.2	4.5	4.1	23.9	14.3	14.5	1.0	1.0	1.2	71.1
HDFC Standard Life Insurance	SELL	472	405	(14.1)	949	13.9	2,007	6	6	7	24.4	14.8	10.9	85.2	74.3	67.0	—	—	—	22.0	19.7	17.6	27.3	28.0	27.7	0.3	0.3	0.4	13.4
ICICI Lombard	SELL	718	600	(16.5)	326	4.8	454	19	26	30	22.0	36.4	17.0	37.8	27.7	23.7	—	—	—	7.2	6.1	5.1	20.8	23.7	23.5	0.6	0.9	1.1	1.8
ICICI Prudential Life	BUY	362	500	38.2	519	7.6	1,436	11	12	13	(3.7)	3.8	7.6	32.1	30.9	28.7	—	—	—	7.9	6.6	5.5	25.0	23.2	20.9	1.6	0.5	0.6	12.1
IFL Holdings	SELL	636	625	(1.7)	203	3.0	319	29	34	41	32.4	17.3	21.4	22.3	19.0	15.6	—	—	—	4.0	3.5	3.0	19.0	19.3	20.0	1.0	1.1	1.4	1.4
L&T Finance Holdings	REDUCE	148	185	25.3	295	4.3	1,996	7	10	12	23.7	34.6	24.1	20.1	14.9	12.0	—	—	—	2.3	2.1	1.8	14.2	14.7	16.1	1.2	1.4	1.4	9.8
LIC Housing Finance	BUY	501	610	21.8	253	3.7	505	44	50	58	3.2	13.8	17.5	11.5	10.1	8.6	—	—	—	1.9	1.6	1.4	14.5	14.3	14.4	1.4	1.5	1.8	12.8
Magma Fincorp	BUY	154	200	29.9	41	0.6	237	10	12	15	1,014.5	24.6	25.8	15.8	12.7	10.1	—	—	—	1.6	1.5	1.3	10.2	12.9	14.1	0.5	1.2	1.5	1.6
Mahindra & Mahindra Financial	REDUCE	475	475	0.1	293	4.3	614	15	22	26	105.0	53.5	16.6	32.7	21.3	18.3	—	—	—	3.4	3.0	2.7	11.3	14.0	14.8	0.8	1.3	1.5	11.4
Max Financial Services	BUY	445	650	46.2	119	1.7	268	5	6	6	(20.4)	36.9	1.8	97.0	70.9	69.6	—	—	—	—	—	—	6.5	8.3	8.0	—	0.5	0.5	5.1
Muthoot Finance	ADD	394	480	21.9	158	2.3	400	43	38	40	45.6	(10.8)	4.0	9.2	10.3	9.9	—	—	—	2.0	1.8	1.6	24.1	18.4	16.9	2.5	2.2	2.3	4.5
PNB Housing Finance	REDUCE	1,232	1,375	11.6	206	3.0	167	50	61	77	57.8	23.0	25.3	24.8	20.1	16.1	—	—	—	3.3	3.0	2.6	14.0	15.2	16.8	0.7	0.3	0.3	10.2
SBI Life Insurance	ADD	661	815	23.3	661	9.7	1,000	12	15	18	20.8	26.0	22.9	57.3	45.5	37.0	—	—	—	10.3	8.6	7.2	19.4	20.6	21.3	0.3	0.4	0.4	5.2
Shriram City Union Finance	ADD	1,920	2,325	21.1	127	1.8	66	101	140	174	19.6	39.4	23.8	19.1	13.7	11.0	—	—	—	2.4	2.1	1.8	12.5	15.5	16.7	0.9	0.9	1.1	0.9
Shriram Transport	ADD	1,254	1,400	11.7	284	4.2	227	69	105	125	24.7	52.1	18.7	18.1	11.9	10.0	—	—	—	2.4	2.1	1.8	13.1	17.6	18.0	0.9	1.2	1.4	25.7
NBFCs	Neutral				10,603	155					38.0	7.0	19.3	30.8	28.8	24.2				5.2	4.4	3.9	16.8	15.4	16.1	0.7	0.7	0.8	563.3
Cement																													
ACC	SELL	1,338	1,205	(9.9)	251	3.7	188	49	54	66	32.7	10.6	23.0	27.5	24.8	20.2	14.5	13.4	10.8	2.7	2.5	2.3	10.1	10.5	11.9	1.3	1.3	1.3	11.1
Ambuja Cements	REDUCE	197	215	9.2	391	5.7	1,986	8	7	9	29.7	(1.3)	27.0	26.2	26.5	20.9	8.5	8.4	6.8	1.9	1.8	1.8	7.4	7.0	8.6	1.8	1.8	1.8	9.5
Dalmia Bharat	ADD	2,330	2,900	24.5	208	3.0	89	60	98	128	55.4	62.6	30.3	38.6	23.7	18.2	12.2	9.2	7.5	3.4	3.0	2.6	9.7	13.4	15.2	0.1	0.1	0.1	5.2
Grasim Industries	BUY	935	1,275	36.3	615	9.0	657	47	52	69	(30.1)	9.1	32.8	19.7	18.1	13.6	11.6	7.1	6.5	1.1	1.0	1.0	7.0	5.8	7.2	0.6	0.6	0.6	13.7
India Cements	REDUCE	107	135	26.2	33	0.5	308	3	5	9	(42.5)	56.2	84.4	32.8	21.0	11.4	9.3	8.0	6.3	0.6	0.6	0.6	2.0	3.0	5.3	0.9	0.9	0.9	6.6
J K Cement	REDUCE	801	1,000	24.8	56	0.8	70	43	51	83	25.1	17.0	65.0	18.5	15.8	9.6	9.8	10.4	8.4	2.8	2.5	2.0	16.2	16.7	23.2	1.0	1.0	1.0	0.6
JK Lakshmi Cement	ADD	348	425	22.2	41	0.6	118	4	18	33	(35.7)	311.2	79.6	77.8	18.9	10.5	14.1	8.5	6.1	2.8	2.5	2.1	3.7	14.1	21.5	0.6	0.6	0.6	0.5
Orient Cement	ADD	110	165	50.5	22	0.3	205	2	8	12	237.8	250.7	64.8	50.8	14.5	8.8	11.4	7.2	5.3	2.2	2.0	1.7	4.4	14.3	20.6	0.7	1.4	1.8	0.2
Shree Cement	SELL	17,067	12,700	(25.6)	595	8.7	35	397	486	662	3.4	22.3	36.2	43.0	35.1	25.8	23.1	17.5	13.6	6.7	5.7	4.8	16.7	17.6	20.2	0.3	0.3	0.3	4.7
UltraTech Cement	SELL	3,964	3,000	(24.3)	1,089	15.9	275	89	119	153	(7.0)	33.1	28.9	44.3	33.3	25.8	20.5	16.1	13.5	4.2	3.8	3.3	9.9	12.0	13.7	0.3	0.3	0.3	18.0
Cement	Cautious				3,301	48					6.1	21.2	33.4	31.7	26.2	19.6	14.2	10.3	8.7	2.4	2.2	2.0	7.5	8.5	10.3	0.6	0.6	0.6	70.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Target price		Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		13-Jul-18	(Rs)		(Rs)	(%)			2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
Consumer products																														
Asian Paints	REDUCE	1,368	1,100	(19.6)	1,312	19.2	959	21	24	28	2.9	18.7	14.7	66.6	56.1	49.0	40.7	35.0	30.5	15.6	13.8	12.3	24.6	26.1	26.6	0.6	0.8	1.0	17.7	
Bajaj Corp.	ADD	410	520	26.8	60	0.9	148	14	17	19	(10.5)	18.7	10.5	29.0	24.4	22.1	22.9	19.6	16.7	12.3	11.9	11.3	42.3	49.4	52.4	2.9	3.2	3.4	0.4	
Britannia Industries	ADD	6,475	6,000	(7.3)	777	11.4	120	84	104	126	13.5	24.4	21.5	77.4	62.2	51.2	51.2	40.2	33.1	22.8	18.1	14.6	32.9	32.4	31.6	0.4	0.5	0.7	9.4	
Coffee Day Enterprises	REDUCE	266	340	27.9	56	0.8	211	3	8	13	49.1	149.7	59.4	79.5	31.8	20.0	13.5	—	—	2.4	2.2	2.0	3.1	7.2	10.4	—	—	—	1.3	
Colgate-Palmolive (India)	ADD	1,160	1,300	12.1	316	4.6	272	24	27	32	15.2	14.6	16.9	48.8	42.6	36.4	28.0	24.5	21.0	20.7	20.9	17.7	46.2	48.8	52.6	2.1	1.4	1.6	7.9	
Dabur India	REDUCE	376	350	(6.9)	664	9.7	1,762	8	9	10	7.2	16.1	11.7	48.4	41.7	37.3	41.0	35.5	31.1	11.6	11.6	10.2	25.9	27.9	29.1	2.0	1.0	1.2	9.2	
GlaxoSmithKline Consumer	ADD	6,210	6,750	8.7	261	3.8	42	166	189	211	6.6	13.3	11.9	37.3	32.9	29.4	25.5	21.9	18.8	7.5	6.8	6.2	21.2	21.7	22.2	1.2	1.4	1.7	2.2	
Godrej Consumer Products	REDUCE	1,310	1,020	(22.1)	892	13.0	681	21	25	28	11.5	17.6	13.3	61.3	52.2	46.0	43.5	37.0	32.3	14.3	12.4	10.7	25.2	25.4	24.9	0.5	0.6	0.7	9.3	
Hindustan Unilever	REDUCE	1,743	1,430	(17.9)	3,772	55.1	2,160	25	28	32	25.0	14.9	13.0	71.0	61.8	54.8	51.0	43.1	37.8	53.2	47.7	41.7	78.1	81.4	81.3	1.2	1.2	1.4	28.6	
ITC	ADD	270	315	16.5	3,300	48.2	12,275	9	10	11	7.8	7.8	12.4	30.3	28.1	25.0	19.7	18.1	16.0	6.5	6.1	5.7	19.4	20.3	22.2	1.9	2.1	2.5	41.3	
Jubilant Foodworks	BUY	1,409	1,500	6.5	186	2.7	132	15	24	33	191.7	64.1	39.2	96.8	59.0	42.4	41.4	28.6	21.5	19.2	14.0	10.8	21.7	27.5	28.8	0.1	0.1	0.2	37.3	
Jyothy Laboratories	ADD	217	220	1.5	79	1.2	364	4	6	6	35.1	25.4	17.2	49.2	39.3	33.5	30.2	24.9	21.6	6.9	6.0	5.2	14.3	16.3	16.6	0.2	0.5	0.7	1.5	
Manpasand Beverages	SELL	130	132	1.9	15	0.2	114	9	11	13	37.6	21.3	26.5	14.8	12.2	9.7	7.5	5.0	4.0	1.2	1.1	1.0	8.3	9.3	10.7	0.4	0.4	0.4	3.6	
Marico	ADD	355	345	(2.8)	458	6.7	1,291	6	7	8	7.4	16.7	13.7	56.6	48.5	42.7	39.9	33.6	29.2	18.0	16.7	15.4	33.2	35.7	37.5	1.2	1.3	1.5	8.4	
Nestle India	ADD	10,142	9,500	(6.3)	978	14.3	96	127	168	191	21.1	32.5	13.4	79.8	60.3	53.2	43.9	34.1	30.0	28.6	26.3	24.1	36.6	45.5	47.3	0.8	1.1	1.3	8.9	
Page Industries	SELL	28,410	21,000	(26.1)	317	4.6	11	311	392	482	32.5	26.1	22.9	91.3	72.4	58.9	58.2	46.0	37.8	37.4	29.2	23.3	45.9	45.3	44.0	0.5	0.6	0.7	7.7	
Pidlite Industries	REDUCE	1,065	1,050	(1.4)	541	7.9	508	18	22	26	7.5	20.4	20.4	59.0	49.0	40.7	39.4	32.8	27.0	15.1	12.7	10.6	26.0	28.2	28.5	0.6	0.7	0.8	14.2	
S H Kelkar and Company	BUY	214	315	47.3	31	0.5	145	7	8	11	2.1	11.8	28.4	28.9	25.8	20.1	20.1	16.8	13.1	3.6	3.3	2.9	12.8	13.3	15.3	0.8	0.8	0.9	0.2	
Tata Global Beverages	REDUCE	259	285	10.1	163	2.4	631	7	10	11	20.7	29.4	19.1	35.2	27.2	22.9	18.6	15.6	13.4	2.3	2.2	2.1	7.0	8.3	9.4	1.0	1.2	1.4	13.6	
Titan Company	SELL	839	800	(4.6)	745	10.9	888	13	16	20	43.3	26.7	20.6	65.6	51.8	42.9	44.9	34.3	27.4	14.6	12.3	10.4	24.3	25.8	26.2	0.4	0.5	0.7	36.3	
United Breweries	SELL	1,194	1,000	(16.2)	316	4.6	264	15	19	24	71.6	29.7	23.4	80.0	61.7	50.0	35.2	29.3	25.4	11.8	10.1	8.6	15.7	17.6	18.6	0.2	0.2	0.3	9.8	
United Spirits	SELL	608	560	(7.9)	442	6.5	727	8	11	14	39.1	40.5	27.4	79.9	56.9	44.6	46.0	33.8	28.0	17.6	12.0	8.8	24.9	25.1	22.8	—	—	0.3	18.6	
Varun Beverages	ADD	752	750	(0.3)	137	2.0	183	12	17	22	377.8	45.4	29.8	65.3	44.9	34.6	19.9	16.0	13.7	7.8	6.7	5.7	12.1	16.0	17.7	—	—	0.1	1.3	
Consumer products	Cautious				15,819	231					15.0	16.4	15.2	52.2	44.9	39.0	34.0	28.9	25.0	12.8	11.6	10.4	24.5	25.8	26.6	1.1	1.2	1.4	288.8	
Energy																														
BPCL	REDUCE	387	390	0.9	839	12.2	1,967	40	39	41	(1.5)	(3.6)	5.3	9.6	10.0	9.5	7.8	7.3	6.8	2.2	2.0	1.8	24.8	21.1	20.0	5.4	4.0	4.2	36.7	
Castrol India	ADD	159	215	35.1	157	2.3	989	7	8	9	3.3	13.6	10.9	23.2	20.4	18.4	14.5	12.7	11.5	15.4	14.6	14.3	67.9	73.6	78.6	3.0	3.8	4.4	4.2	
GAIL (India)	BUY	357	410	14.9	805	11.8	2,255	20	25	27	21.8	23.2	8.3	17.5	14.2	13.1	11.0	9.1	8.4	2.0	1.8	1.7	11.7	13.5	13.5	2.0	2.4	2.5	21.4	
GSPL	SELL	180	170	(5.6)	102	1.5	564	12	11	11	34.5	(7.0)	(4.6)	15.2	16.3	17.1	7.7	6.4	6.4	2.0	1.8	1.7	14.0	11.7	10.2	1.0	0.9	0.9	1.5	
HPCL	REDUCE	270	320	18.4	412	6.0	1,524	42	32	33	(3.2)	(23.4)	3.4	6.5	8.5	8.2	5.7	7.5	7.6	1.7	1.6	1.4	28.7	19.3	18.2	6.3	4.8	5.0	32.2	
Indraprastha Gas	SELL	253	240	(5.1)	177	2.6	700	10	12	13	19.0	16.5	12.0	24.5	21.1	18.8	15.4	13.3	11.7	5.0	4.3	3.8	22.4	22.2	21.5	0.8	1.0	1.2	10.3	
IOCL	REDUCE	159	160	0.6	1,545	22.6	9,479	21	17	18	(24.8)	(17.9)	7.4	7.8	9.4	8.8	4.5	5.3	4.8	1.4	1.3	1.2	18.5	14.0	14.0	7.2	4.2	4.5	27.5	
Mahanagar Gas	ADD	807	850	5.4	80	1.2	99	48	52	54	21.5	6.5	5.3	16.7	15.7	14.9	10.1	9.0	8.4	3.8	3.4	3.0	24.3	22.8	21.4	2.4	2.6	2.7	4.8	
ONGC	ADD	154	200	29.8	1,978	28.9	12,833	17	21	21	3.1	19.6	(1.3)	8.8	7.4	7.5	4.8	3.8	3.6	0.9	0.8	0.8	9.9	11.5	10.7	4.3	4.5	4.5	17.4	
Oil India	SELL	205	220	7.3	233	3.4	1,135	25	24	24	22.6	(1.3)	(0.7)	8.3	8.4	8.5	6.5	5.9	5.8	0.8	0.8	0.8	9.8	9.7	9.2	5.0	5.4	5.3	3.5	
Petronet LNG	BUY	212	280	32.1	318	4.6	1,500	14	16	18	22.1	17.3	13.2	15.3	13.0	11.5	10.2	8.7	7.4	3.3	2.9	2.5	23.3	23.4	23.3	2.1	2.7	3.5	11.7	
Reliance Industries	REDUCE	1,100	930	(15.4)	6,509	95.0	5,922	59	68	77	16.9	14.9	13.9	18.6	16.2	14.2	13.8	11.1	9.3	2.2	2.0	1.8	11.6	11.9	12.1	0.5	0.6	0.6	110.9	
Energy	Attractive				13,153	192					1.0	5.8	7.3	12.8	12.1	11.2	8.4	7.4	6.7	1.7	1.5	1.4	13.3	12.8	12.6	2.6	2.2	2.3	282.1	

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		13-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E		2020E
Industrials																													
ABB	SELL	1,219	1,100	(9.7)	258	3.8	212	20	26	34	12.1	31.2	31.7	61.5	46.9	35.6	33.9	28.8	21.9	7.2	6.6	5.8	12.2	14.6	17.3	0.3	0.7	0.7	1.5
BHEL	SELL	67	81	20.6	247	3.6	3,671	2.2	2.6	5.4	62.7	19.4	106.9	30.5	25.6	12.4	6.9	6.3	3.1	0.8	0.8	0.8	2.5	3.0	6.1	2.7	3.2	6.7	8.8
Carborundum Universal	SELL	340	310	(8.7)	64	0.9	189	11	14	17	22.8	25.4	20.2	29.8	23.7	19.8	16.1	11.9	10.2	4.1	3.7	3.3	14.6	16.4	17.6	0.7	1.3	1.5	0.3
CG Power and Industrial	BUY	57	65	13.5	36	0.5	627	0.8	3.1	4.3	(72.2)	275.7	40.5	70.1	18.7	13.3	10.5	7.9	6.5	1.3	1.4	1.4	1.5	7.3	10.4	—	—	—	6.3
Crompton Greaves Consumer	SELL	232	210	(9.6)	146	2.1	627	5.2	6.2	7.5	13.3	20.0	20.9	45.0	37.5	31.0	27.6	23.3	19.7	18.4	12.8	9.8	49.5	40.5	35.9	0.6	0.9	1.1	2.8
Cummins India	REDUCE	647	680	5.0	179	2.6	277	24	28	32	(7.8)	16.1	13.9	26.7	23.0	20.2	23.5	20.2	16.7	4.5	4.2	3.9	17.4	18.9	20.1	2.3	2.3	2.6	4.4
Havells India	SELL	560	460	(17.8)	350	5.1	625	11	14	17	16.6	26.2	19.6	50.5	40.0	33.5	32.1	25.5	20.8	9.4	8.3	7.2	19.8	21.9	23.0	0.6	0.9	1.0	10.1
Kalpataru Power Transmission	BUY	377	530	40.5	58	0.8	153	19	24	34	36.5	24.3	39.8	19.5	15.7	11.2	8.3	6.9	5.5	2.2	1.9	1.7	11.7	13.1	16.1	0.7	0.7	0.7	0.7
KEC International	BUY	336	430	27.9	86	1.3	257	18	22	29	51.1	22.0	34.4	18.8	15.4	11.4	10.1	8.4	6.7	4.3	3.5	2.8	25.7	25.2	27.1	0.7	0.9	1.2	3.3
L&T	BUY	1,294	1,560	20.5	1,814	26.5	1,401	52	62	76	22.4	19.4	23.0	25.0	21.0	17.0	20.7	17.1	15.1	3.6	3.3	2.9	15.0	16.5	18.2	1.2	1.7	2.1	41.6
Siemens	SELL	972	975	0.3	346	5.1	356	24	30	37	22.5	23.0	23.2	40.2	32.7	26.5	22.7	18.1	14.5	4.3	4.0	3.7	10.9	12.6	14.5	1.0	1.3	1.5	3.5
Thermax	REDUCE	1,031	1,065	3.3	123	1.8	113	21	30	42	(3.6)	44.2	42.8	50.0	34.7	24.3	30.4	21.5	15.3	4.3	3.9	3.5	8.8	11.8	15.3	0.6	0.8	0.9	0.9
Voltas	SELL	535	525	(1.8)	177	2.6	331	17	19	22	12.6	8.3	15.6	30.9	28.5	24.7	25.7	21.8	18.1	4.5	4.1	3.6	15.9	15.0	15.5	0.7	0.8	0.9	14.5
Industrials	Neutral				3,884	57					19.8	21.6	28.9	30.2	24.9	19.3	19.9	16.5	13.6	3.3	3.1	2.8	10.8	12.3	14.6	1.1	1.5	2.0	98.7
Infrastructure																													
Adani Ports and SEZ	BUY	370	470	26.9	767	11.2	2,071	20	20	23	6.1	(0.2)	14.7	18.5	18.5	16.1	13.2	12.8	11.2	3.6	3.1	2.7	21.5	18.1	17.9	0.6	0.7	0.8	25.9
Ashoka Buildcon	BUY	160	210	31.3	45	0.7	282	8	8	9	34.6	0.5	5.2	19.0	18.9	18.0	15.3	12.9	11.4	2.3	2.0	1.8	13.0	11.4	10.7	0.7	1.0	0.7	1.0
Container Corp.	SELL	642	635	(1.1)	313	4.6	487	18	21	26	7.3	20.0	21.4	36.3	30.3	24.9	24.0	18.7	14.7	3.3	3.1	2.8	9.4	10.6	11.9	2.7	1.4	1.7	8.9
Dilip Buildcon	BUY	785	1,220	55.5	107	1.6	137	46	54	69	76.5	16.1	28.0	16.9	14.6	11.4	9.5	6.9	5.7	4.4	3.3	2.6	29.5	25.9	25.4	—	—	—	8.3
Gateway Distriparks	BUY	162	250	54.3	18	0.3	109	8	8	9	12.1	(1.2)	17.5	21.2	21.4	18.2	20.2	10.2	8.5	1.7	3.4	3.1	8.2	10.8	17.6	4.3	—	1.9	0.8
Gujarat Pipavav Port	BUY	120	170	41.5	58	0.8	483	4.1	5.9	7.2	(20.6)	43.7	22.5	29.3	20.4	16.6	14.4	11.9	9.4	2.9	2.8	2.8	9.8	14.0	16.8	2.8	4.0	4.9	0.9
IRB Infrastructure	BUY	204	330	61.8	72	1.0	351	23	31	33	10.8	36.8	7.1	9.0	6.6	6.2	7.1	6.7	7.1	1.3	1.1	0.9	14.5	17.6	16.3	1.1	1.5	2.0	10.3
Mahindra Logistics	BUY	575	540	(6.1)	41	0.6	71	10	14	18	16.2	42.8	31.2	58.7	41.1	31.3	33.8	22.7	17.2	9.8	8.2	6.7	18.2	21.6	23.5	—	—	—	0.8
Sadbhav Engineering	BUY	284	440	55.1	49	0.7	172	13	18	18	17.4	38.4	2.2	22.1	15.9	15.6	15.3	12.2	9.4	2.6	2.3	2.0	12.5	15.2	13.7	—	—	—	0.9
Infrastructure	Attractive				1,469	21					10.9	10.5	15.5	20.3	18.3	15.9	12.9	11.5	10.0	3.2	2.8	2.5	15.8	15.4	15.5	1.1	0.9	1.1	57.8
Internet																													
Info Edge	BUY	1,288	1,390	7.9	157	2.3	122	23	26	32	33.3	13.9	25.9	57.2	50.3	39.9	47.6	37.5	28.6	7.4	6.0	5.4	13.4	13.2	14.3	0.4	0.6	0.6	1.8
Just Dial	BUY	571	550	(3.7)	39	0.6	67	21	25	28	21.7	16.7	12.9	26.9	23.0	20.4	16.0	13.4	11.2	3.9	3.4	3.0	15.2	15.9	15.6	—	0.4	0.5	47.4
Internet	Cautious				196	3					28.0	14.8	21.4	46.9	40.8	33.7	36.3	29.5	23.4	6.3	5.2	4.7	13.5	12.8	13.9	0.3	0.6	0.6	49.1
Media																													
DB Corp.	REDUCE	284	295	3.9	52	0.8	184	18	20	24	(14.1)	13.2	18.8	16.1	14.2	12.0	8.6	7.6	6.4	3.1	3.0	2.9	19.9	21.5	24.5	4.6	5.6	7.0	0.5
DishTV	ADD	73	90	22.6	135	2.0	1,925	(0.4)	1.8	3.4	(143.0)	514.6	88.2	NM	40.2	21.3	11.9	6.3	5.0	2.1	2.0	1.8	(2.3)	5.1	8.9	—	—	—	10.6
Jagran Prakashan	REDUCE	128	168	31.1	40	0.6	311	10	12	14	(6.0)	21.7	15.3	12.8	10.5	9.1	5.8	5.1	4.5	1.9	2.0	1.9	14.8	18.1	20.9	2.3	3.9	7.0	0.7
PVR	REDUCE	1,214	1,425	17.4	57	0.8	47	27	38	50	25.5	39.8	33.2	45.2	32.4	24.3	15.4	12.7	10.5	5.3	4.6	4.0	12.3	15.2	17.5	0.2	0.3	0.4	5.9
Sun TV Network	REDUCE	786	925	17.7	310	4.5	394	29	35	39	10.2	20.7	10.9	27.3	22.6	20.4	18.3	15.3	13.4	6.7	6.0	5.4	26.3	28.1	27.9	1.3	2.2	2.5	22.5
Zee Entertainment Enterprises	ADD	509	625	22.9	489	7.1	960	15	17	20	7.8	13.8	16.8	33.9	29.8	25.5	21.9	18.9	15.9	6.5	5.7	5.0	20.3	20.3	20.9	0.5	0.9	1.1	14.8
Media	Attractive				1,082	16					(1.5)	31.1	21.5	33.3	25.4	20.9	16.0	12.2	10.4	4.6	4.2	3.8	13.7	16.6	18.2	0.9	1.5	1.8	55.2

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		13-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E		2020E
Metals & Mining																													
Coal India	ADD	268	326	21.8	1,662	24.3	6,207	11	27	28	(24.2)	138.2	3.0	23.7	9.9	17.6	6.3	6.0	6.9	6.3	6.5	26.7	66.1	66.4	6.2	7.5	9.3	13.6	
Hindalco Industries	BUY	219	315	44.0	491	7.2	2,229	22	27	31	155.4	23.5	14.3	10.0	8.1	7.1	6.4	5.4	4.6	0.9	0.8	0.7	9.7	10.4	10.8	0.5	0.5	0.5	38.2
Hindustan Zinc	REDUCE	275	325	18.2	1,162	17.0	4,225	22	24	28	9.3	13.6	13.8	12.8	11.3	9.9	7.8	6.4	5.2	3.2	2.8	2.3	27.2	26.4	25.6	2.9	2.9	3.0	8.9
Jindal Steel and Power	REDUCE	206	255	23.7	199	2.9	968	(8)	8	18	59.3	194.2	129.1	(24.3)	25.8	11.2	9.6	6.9	5.9	0.7	0.7	0.6	(2.7)	2.6	5.7	—	—	—	27.3
JSW Steel	ADD	316	345	9.1	764	11.2	2,417	27	27	25	83.9	(0.7)	(5.7)	11.8	11.9	12.6	7.7	7.2	7.7	2.7	2.2	1.9	24.8	20.4	16.5	1.0	1.0	1.0	19.2
National Aluminium Co.	ADD	59	85	43.9	114	1.7	1,933	4	7	7	12.7	63.0	11.1	14.3	8.8	7.9	5.7	3.8	3.5	1.1	1.1	1.1	7.7	12.4	13.6	9.7	9.3	9.3	13.2
NMDC	REDUCE	100	125	25.3	316	4.6	3,164	12	10	10	43.3	(16.5)	3.6	8.5	10.2	9.8	4.6	6.2	5.9	1.3	1.2	1.2	15.8	12.5	12.4	5.5	5.5	5.5	3.8
Tata Steel	ADD	559	700	25.3	639	9.3	1,205	67	69	82	62.6	3.1	18.4	8.3	8	6.8	6.2	6.1	6.2	1.1	1.0	0.9	17.2	13.1	13.9	1.7	1.8	1.8	66.9
Vedanta	BUY	210	415	97.2	782	11.4	3,717	22	37	43	9.6	71.9	16.9	9.7	5.7	4.9	5.5	4.0	3.4	1.2	1.1	1.0	12.9	20.6	21.4	3.8	5.3	6.2	57.3
Metals & Mining	Attractive				6,130	90					32.3	41.4	11.3	13.0	9.2	8.2	7.3	5.7	5.3	1.9	1.7	1.5	14.3	18.0	18.4	3.5	4.1	4.7	248.4
Pharmaceutical																													
Apollo Hospitals	ADD	975	1,090	11.8	136	2.0	139	8	19	26	(46.9)	124.3	38.0	115.5	51.5	37.3	21.0	18.0	15.1	4.2	3.9	3.7	3.4	7.9	10.2	0.2	0.5	0.7	6.8
Aurobindo Pharma	ADD	603	640	6.2	353	5.2	584	42	45	49	6.0	8.0	9.4	14.4	13.4	12.2	10.1	9.3	8.3	3.0	2.5	2.1	23.2	20.5	17.4	0.7	0.9	1.0	20.6
Biocon	SELL	599	300	(49.9)	360	5.3	601	6	8	15	(39.2)	27.1	84.9	96.7	76.1	41.2	43.4	31.9	21.0	6.4	6.0	5.4	6.9	8.1	13.7	0.4	0.5	0.9	23.5
Cipla	BUY	627	650	3.7	505	7.4	805	18	26	34	40.2	48.7	30.8	35.8	24.1	18.4	18.6	13.6	10.8	3.5	3.1	2.7	10.2	13.6	15.9	0.6	0.9	1.1	24.2
Dr Lal Pathlabs	REDUCE	919	865	(5.9)	77	1.1	83	20	25	29	7.0	20.8	18.5	44.9	37.2	31.4	27.3	22.9	19.1	9.7	8.1	6.8	23.5	23.7	23.4	0.5	0.5	0.6	1.3
Dr Reddy's Laboratories	REDUCE	2,317	2,150	(7.2)	385	5.6	166	59	89	119	(18.5)	51.4	32.9	39.2	25.9	19.5	18.1	12.3	9.3	3.0	2.8	2.5	7.8	11.2	12.7	0.9	0.6	0.8	31.0
HCG	REDUCE	285	305	7.0	25	0.4	85	2	3	5	(40.0)	120.9	57.3	182.2	82.5	52.4	24.0	18.7	15.9	4.7	4.5	4.1	2.8	5.5	8.1	—	—	—	0.2
Laurus Labs	ADD	469	540	15.2	50	0.7	106	16	22	34	(11.9)	37.3	54.4	29.6	21.5	14.0	14.4	11.8	8.6	3.3	2.9	2.4	11.9	14.4	18.8	—	—	—	0.7
Lupin	REDUCE	866	800	(7.6)	391	5.7	450	38	35	45	(32.9)	(7.7)	28.6	22.7	24.6	19.1	14.0	12.4	10.2	2.9	2.6	2.3	12.6	11.1	12.9	0.6	0.6	0.8	31.8
Narayana Hrudayalaya	ADD	245	275	12.2	50	0.7	204	3	4	7	(38.1)	52.2	76.9	97.4	64.0	36.2	26.9	20.3	14.9	4.8	4.5	4.0	5.1	7.3	11.7	—	—	—	0.4
Sun Pharmaceuticals	REDUCE	560	500	(10.7)	1,343	19.6	2,406	15	17	24	(47.5)	12.0	42.0	36.9	32.9	23.2	21.8	17.8	13.1	3.5	3.2	2.9	9.8	10.2	13.1	0.4	0.6	0.9	52.4
Torrent Pharmaceuticals	NR	1,442	—	—	244	3.6	169	40	46	61	(27.4)	15.1	32.9	36.0	31.3	23.5	20.1	14.4	12.0	5.3	4.7	4.1	15.1	14.9	17.2	1.1	0.7	1.0	5.1
Pharmaceuticals	Neutral				3,917	57					(27.6)	18.6	32.6	33.3	28.1	21.2	18.5	14.9	11.7	3.6	3.3	2.9	10.9	11.6	13.7	0.5	0.6	0.9	198.1
Real Estate																													
Brigade Enterprises	BUY	198	340	71.6	27	0.4	136	11	9	9	(17.7)	(15.1)	(1.6)	17.9	21.1	21.4	11.0	11.2	11.0	1.2	1.1	1.1	7.6	5.5	5.2	1.3	1.3	1.3	0.4
DLF	RS	188	—	—	335	4.9	1,784	19.6	6.5	3.9	403.9	(66.9)	(39.6)	9.6	28.9	47.9	28.6	12.4	12.3	0.9	0.9	0.9	11.7	3.2	1.9	1.1	1.1	1.1	17.2
Godrej Properties	SELL	701	400	(42.9)	161	2.3	216	11.6	16.8	19.2	21.9	43.9	14.9	60.2	41.8	36.4	150.8	107.3	76.2	6.7	5.8	5.0	11.8	14.9	14.7	—	—	—	2.7
Oberoi Realty	BUY	477	560	17.5	173	2.5	340	13	62	44	14.0	385.4	(28.1)	37.5	7.7	10.7	28.0	10.7	13.4	2.7	1.8	1.5	7.3	27.4	15.2	0.4	0.4	0.4	3.4
Prestige Estates Projects	ADD	262	315	20.4	98	1.4	375	13	10	10	24.3	(24.2)	8.4	20.9	27.5	25.4	14.6	15.1	15.2	2.1	2.0	1.8	10.3	7.3	7.5	0.6	0.6	0.6	0.9
Sobha	REDUCE	455	510	12.0	43	0.6	95	22	20	23	30.9	(7.5)	14.8	20.8	22.5	19.6	12.8	13.0	12.2	1.6	1.5	1.4	7.6	6.8	7.4	1.5	1.5	1.5	1.6
Sunteck Realty	REDUCE	391	330	(15.7)	57	0.8	140	15	18	20	4.8	20.2	6.9	25.6	21.3	19.9	16.5	18.1	16.8	2.1	1.9	1.8	9.7	9.4	9.2	0.3	0.3	0.3	1.8
Real Estate	Neutral				894	13					140.1	(12.6)	(20.2)	17.1	19.6	24.6	23.9	14.5	14.9	1.6	1.5	1.4	9.3	7.5	5.7	0.7	0.7	0.7	28.1

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		13-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
Technology																													
HCL Technologies	REDUCE	983	1,010	2.7	1,369	20.0	1,409	62	68	71	5.3	9.0	5.0	15.8	14.5	13.8	11.1	9.4	8.6	3.8	3.2	2.9	24.8	23.8	21.9	0.8	2.9	3.1	35.9
Hexaware Technologies	SELL	500	420	(15.9)	148	2.2	304	16	20	22	19.8	20.5	12.5	30.4	25.3	22.5	21.8	18.4	15.7	7.6	6.6	5.6	26.6	27.8	27.0	0.8	1.6	1.6	14.3
Infosys	ADD	1,317	1,400	6.3	2,877	42.0	2,175	65	71	78	3.0	9.7	10.4	20.4	18.6	16.8	14.1	12.7	11.3	4.4	4.2	3.8	21.8	23.0	23.5	2.1	3.3	3.0	80.8
L&T Infotech	ADD	1,846	1,650	(10.6)	318	4.6	175	64	73	84	13.9	14.5	15.7	29.0	25.4	21.9	25.5	19.0	16.0	8.4	7.0	5.8	31.8	30.0	29.0	0.9	1.3	1.4	4.7
Mindtree	ADD	1,066	1,015	(4.8)	175	2.6	165	35	43	52	37.8	23.2	23.2	30.9	25.0	20.3	22.5	15.8	12.8	6.4	5.5	4.7	21.4	23.6	24.9	1.0	1.2	1.5	30.7
Mphasis	SELL	1,216	760	(37.5)	235	3.4	193	44	52	56	14.4	18.3	8.2	27.7	23.4	21.7	20.2	16.4	14.6	4.3	3.9	3.5	14.6	17.4	17.1	1.6	1.6	1.6	11.4
TCS	REDUCE	1,981	1,790	(9.6)	7,585	110.8	3,829	67	82	89	1.1	21.2	8.8	29.4	24.2	22.3	21.9	17.7	16.3	8.7	7.6	7.5	29.4	33.4	33.8	1.3	2.1	3.6	126.5
Tech Mahindra	ADD	641	775	20.9	566	8.3	891	43	45	53	33.1	6.6	15.8	15.0	14.1	12.2	11.0	8.5	6.9	3.0	2.6	2.2	21.5	19.9	19.7	2.2	1.4	1.6	36.8
Wipro	REDUCE	281	295	5.0	1,271	18.6	4,507	17	19	21	(3.1)	11.1	13.7	16.6	14.9	13.1	10.5	8.9	7.8	2.6	2.3	2.1	16.0	16.3	16.6	0.4	0.5	3.6	12.2
Technology	Cautious				14,544	212					1.6	12.3	9.6	22.7	20.2	18.5	16.5	13.8	12.5	5.4	4.8	4.4	23.7	23.7	24.0	1.3	2.2	3.2	353.4
Telecom																													
Bharti Airtel	ADD	358	470	31.3	1,431	20.9	3,997	5	(4)	0	(42.9)	(187.4)	104.6	75.6	(86.5)	1,895.0	8.0	9.1	7.3	2.1	2.1	2.2	2.8	(2.4)	0.1	1.5	0.3	0.0	34.1
Bharti Infratel	REDUCE	303	285	(5.8)	560	8.2	1,850	14	13	11	(7.4)	(8.7)	(9.0)	22.0	24.1	26.5	8.0	8.7	9.2	3.3	3.5	3.5	15.7	14.0	13.1	4.8	3.3	3.1	14.2
IDEA	REDUCE	53	75	40.6	233	3.4	4,359	(10)	(15)	(14)	(656.8)	(54.9)	6.4	(5.6)	(3.6)	(3.8)	12.2	22.4	16.6	0.9	1.1	1.6	(16.0)	(26.9)	(34.0)	—	—	—	17.0
Tata Communications	ADD	603	725	20.3	172	2.5	285	2	4	8	(84.3)	121.9	117.7	366	165.0	75.8	10.9	9.8	8.6	34.4	27.8	20.1	4.5	18.6	30.7	1.1	1.1	1.2	4.6
Telecom	Cautious				2,396	35					(94.7)	(1,906.6)	36.2	761.7	(42.2)	(66.0)	8.7	10.3	8.6	2.1	2.3	2.5	0.3	(5.5)	(3.7)	2.0	0.9	0.7	69.9
Utilities																													
CESC	ADD	906	1,180	30.2	120	1.8	133	87	102	118	67.1	16.8	15.5	10.4	8.9	7.7	7.6	5.5	4.9	0.8	0.8	0.7	7.9	8.8	9.4	1.4	1.1	1.2	5.9
JSW Energy	REDUCE	66	80	20.5	109	1.6	1,640	3.1	5.9	8.2	(19.2)	92.2	38.7	21.7	11.3	8.1	6.9	5.4	4.4	1.0	0.9	0.9	4.7	8.5	11.0	3.0	3.0	3.0	1.9
NHPC	ADD	24	30	26.1	244	3.6	10,260	2.4	3.1	3.2	(17.3)	26.9	1.8	9.8	7.7	7.5	9.1	7.2	6.9	0.8	0.8	0.8	8.5	10.4	10.2	5.9	7.3	7.4	2.1
NTPC	BUY	153	190	24.2	1,261	18.4	8,245	11	15	16	(7.6)	30.9	4.4	13.4	10.3	9.8	11.0	8.5	7.9	1.2	1.1	1.1	9.5	11.6	11.3	3.7	2.9	3.1	13.7
Power Grid	BUY	182	250	37.6	951	13.9	5,232	16	19	21	9.6	19.3	13.6	11.5	9.7	8.5	8.3	7.1	6.5	1.7	1.6	1.4	15.8	17.1	17.5	2.9	3.4	3.9	30.6
Reliance Power	SELL	31	43	38.3	87	1.3	2,805	3.5	5.1	5.2	(16.4)	45.6	2.7	8.9	6.1	6.0	7.8	6.7	6.4	0.4	0.4	0.3	4.5	6.1	5.9	—	—	—	4.1
Tata Power	ADD	70	97	38.3	190	2.8	2,705	5.3	7.8	8.7	(9.6)	46.1	11.2	13.1	9.0	8.1	10.2	9.4	8.5	1.2	1.1	1.0	10.7	12.9	12.7	—	—	—	5.6
Utilities	Attractive				2,962	43					(2.4)	28.6	9.0	12.2	9.5	8.7	9.2	7.6	7.0	1.2	1.1	1.0	9.7	11.5	11.6	3.1	3.1	3.3	64.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)			
		13-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E				
Others																																
Astral Poly Technik	SELL	1,046	625	(40.2)	125	1.8	120	15	19	23	20.8	28.0	23.0	71.3	55.7	45.3	40.1	31.1	25.3	12.3	10.2	8.4	18.8	20.0	20.3	0.1	0.1	0.1	1.0			
Avenue Supermarts	SELL	1,576	860	(45.4)	984	14.4	624	13	16	20	47.9	28.6	26.4	125.3	97.5	77.1	73.5	56.3	44.2	21.2	17.4	14.2	18.5	19.6	20.3	—	—	—	—			
Bayer Cropscience	REDUCE	4,500	4,000	(11.1)	178	2.6	34	86	105	124	4.4	22.7	17.5	52.4	42.7	36.4	42.4	33.1	26.5	8.7	7.5	6.5	15.4	18.8	19.2	0.4	0.5	0.5	0.5			
Dhanuka Agritech	ADD	538	690	28.3	26	0.4	49	26	28	32	7.7	8.9	15.4	20.9	19.2	16.7	15.3	13.2	11.0	4.2	3.6	3.1	21.9	20.1	20.0	1.0	1.1	1.3	0.1			
Godrej Agrovet	ADD	610	650	6.6	117	1.7	189	12	16	20	6.9	39.8	24.6	53.0	37.9	30.4	27.3	21.0	17.0	6.8	5.9	5.0	14.7	16.9	17.9	0.3	0.4	0.5	1.9			
Godrej Industries	RS	585	—	—	197	2.9	336	15	16	20	6.8	8.9	24.2	40.1	36.8	29.7	36.0	30.5	33.2	5.4	4.8	4.2	14.4	13.9	15.1	0.3	0.3	0.3	4.8			
InterGlobe Aviation	BUY	1,107	1,430	29.2	425	6.2	383	59	71	98	27.2	21.8	37.5	18.9	15.5	11.3	10.8	8.8	6.0	6.0	4.5	3.3	41.3	33.0	33.8	0.5	0.7	0.9	25.8			
Kaveri Seed	SELL	553	470	(14.9)	37	0.5	66	32	31	33	18.4	(3.7)	6.1	17.3	17.9	16.9	14.6	15.0	13.5	4.7	4.0	3.5	23.6	24.0	21.9	1.1	1.4	1.8	4.7			
PI Industries	BUY	790	900	13.9	109	1.6	138	27	33	41	(20.0)	25.0	23.2	29.7	23.8	19.3	21.9	17.2	13.7	5.7	4.7	3.9	20.7	21.7	22.1	0.4	0.5	0.6	1.6			
Rallis India	ADD	193	235	22.0	37	0.5	195	9	11	13	(1.5)	26.4	19.7	22.4	17.7	14.8	14.2	11.7	9.9	3.1	2.8	2.5	14.6	16.9	18.1	1.7	1.9	2.1	0.8			
SIS	REDUCE	1,145	1,250	9.2	84	1.2	73	23	36	43	44.0	58.5	20.6	50.8	32.0	26.6	27.2	20.7	17.0	8.1	6.8	5.7	20.2	23.4	23.3	0.3	0.5	0.6	0.7			
SRF	BUY	1,650	2,110	27.8	95	1.4	57	80	92	123	(10.4)	14.4	33.6	20.5	17.9	13.4	12.6	10.0	8.1	2.7	2.4	2.1	13.7	14.0	16.4	0.7	0.8	0.9	10.5			
Tata Chemicals	ADD	706	760	7.6	180	2.6	255	51	46	52	6.5	(11.2)	13.6	13.7	15.5	13.6	7.6	6.5	5.4	1.6	1.5	1.4	13.8	10.0	10.5	3.1	2.1	2.4	9.0			
TeamLease Services	SELL	2,920	1,750	(40.1)	50	0.7	17	43	59	75	28.0	37.4	27.2	67.7	49.3	38.7	70.6	50.1	38.7	11.3	9.2	7.4	18.2	20.6	21.2	—	—	—	2.4			
UPL	ADD	564	850	50.8	287	4.2	507	43	73	82	20.9	71.2	11.9	13.1	7.7	6.9	9.2	8.0	6.7	3.1	2.6	2.2	26.4	23.6	22.4	1.4	1.7	1.9	14.6			
Vardhman Textiles	ADD	1,211	1,400	15.6	70	1.0	56	103	130	140	(8.0)	26.4	7.4	11.8	9.3	8.7	9.9	7.3	6.6	1.4	1.3	1.1	12.7	14.3	13.8	1.2	1.7	2.5	1.0			
Whirlpool	SELL	1,510	1,240	(17.9)	192	2.8	127	28	37	45	13.0	33.9	22.5	54.6	40.8	33.3	32.2	24.8	20.0	10.7	8.9	7.4	21.4	23.7	24.1	0.3	0.4	0.6	1.0			
Others					3,192	47								15.0	15.9	22.8	31.3	27.0	22.0	20.1	16.6	13.5	5.7	4.8	4.1	18.1	17.8	18.6	0.6	0.6	0.7	80.5
KIE universe					108,863	1,589						(6.2)	30.1	25.0	27.0	20.7	16.6	12.6	10.6	9.3	3.0	2.7	2.4	11.0	12.9	14.7	1.3	1.4	1.8			
KIE universe (ex-energy)					95,710	1,397						(8.4)	38.4	29.7	31.9	23.0	17.8	14.1	11.7	10.2	3.3	3.0	2.7	10.4	13.0	15.2	1.1	1.3	1.7			

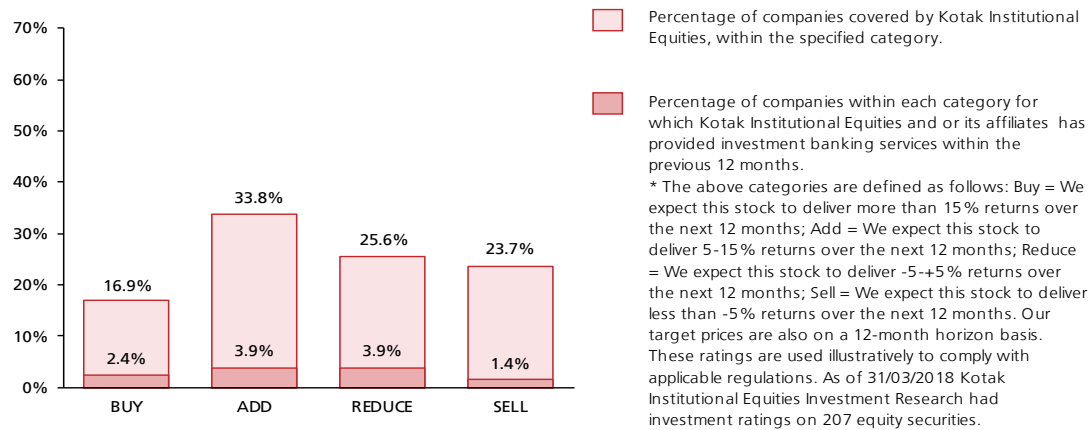
Notes:

- (a) We have used adjusted book values for banking companies.
(b) 2018 means calendar year 2017, similarly for 2019 and 2020 for these particular companies.
(c) Exchange rate (Rs/US\$)= 68.49

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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As of March 31, 2018

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