

### Contents

### Special Reports

#### Strategy

**Strategy:** Focus on GFD more important than currency/CAD in the short term

- ▶ REER shows INR to be modestly over-valued; however, REER may not be entirely accurate
- ▶ Government and RBI may want to keep the 'Big Bazooka' for later, if required (hopefully not)
- ▶ More important to focus on fiscal management
- ▶ Options available to shore up revenues—accelerated divestment, higher tax on specific items

### Daily Alerts

#### Company alerts

**Bajaj Auto:** Rupee depreciation to aid margins but medium-term concerns stay

- ▶ Rupee depreciation to improve EBITDA margin slightly
- ▶ Bajaj Auto is increasing three-wheeler capacity to meet demand

#### Sector alerts

**Banks:** Setting the stage for another merger

- ▶ Proposal mooted to merge BoB, Vijaya Bank and Dena Bank
- ▶ 1 large bank to merge with 1 small strong bank which can help merge with 1 weak bank
- ▶ Impact on BoB financials negligible but provisions and capital infusion likely to decide pricing
- ▶ Further consolidation among public banks may not happen immediately

**Infrastructure:** Dawn of a new era for railways

- ▶ Dedicated freight corridors set to improve financials of Indian Railways
- ▶ Market leader Concor to be key beneficiary of DFCCIL's policies
- ▶ Organizational learning to improve implementation pace of additional proposed DFCs

### EQUITY MARKETS

India	Change %			
	17-Sep	1-day	1-mo	3-mo
Sensex	37,586	(1.3)	(1.0)	5.7
Nifty	11,378	(1.2)	(0.8)	5.4
<b>Global/Regional indices</b>				
Dow Jones	26,062	(0.4)	1.5	4.3
Nasdaq Composite	7,896	(1.4)	1.0	1.9
FTSE	7,302	(0.0)	(3.4)	(4.3)
Nikkei	23,214	0.5	4.2	1.6
Hang Seng	26,933	(1.3)	(1.0)	(11.1)
KOSPI	2,299	(0.2)	2.3	(3.2)
<b>Value traded – India</b>				
Cash (NSE+BSE)	321		379	349
Derivatives (NSE)	7,946		5,529	5,988
Deri. open interest	4,206		4,079	3,887

#### Forex/money market

	Change, basis points			
	17-Sep	1-day	1-mo	3-mo
Rs/US\$	72.4	(11)	269	437
10yr govt bond, %	8.4	4	23	19

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

	14-Sep	MTD	CYTD
FIs	95	(93)	(784)
MFs	19	577	12,387

#### Top movers

Best performers	Change, %			
	17-Sep	1-day	1-mo	3-mo
HDIL IN Equity	30	1.2	(11.1)	33.8
ARBP IN Equity	789	(1.3)	20.4	28.6
JSTL IN Equity	412	0.9	23.3	25.9
WPRO IN Equity	330	(0.1)	17.8	24.1
DIVI IN Equity	1,365	2.6	16.2	24.0

#### Worst performers

JPA IN Equity	10	2.5	(22.1)	(33.8)
UT IN Equity	3	0.0	(26.7)	(30.8)
TTMT/A IN Equity	141	(2.2)	3.5	(23.5)
IDEA IN Equity	48	2.9	(6.3)	(23.4)
HPCL IN Equity	258	2.3	(3.4)	(19.8)

SEPTEMBER 18, 2018

UPDATE

BSE-30: 37,586

**Focus on GFD more important than currency/CAD in the short term.** In our view, the government's short-term economic focus should be on shoring up its revenues in order to manage upside risks to GFD. The government/RBI should keep the interest rate and NRI bond options for later in case global and domestic macroeconomic conditions were to deteriorate further led by (1) escalation of China-US trade tensions and (2) higher oil prices from larger-than-expected cut in Iran oil exports from US sanctions.

#### REER shows INR to be modestly over-valued; however, REER may not be entirely accurate

We are not sure if the government should take any extraordinary measures to support the INR at the current juncture. As discussed in our previous notes, the INR may be simply correcting to its fundamental level (see Exhibits 1-2) after a period of overvaluation (see Exhibit 3). In fact, the INR seems to be more or less at its fundamental level. It can overshoot its fundamental level on heightened concerns but that may be the appropriate reason and time for the RBI and government to intervene. As of now, India's external position (see Exhibits 4-7) appears fine.

#### Government and RBI may want to keep the 'Big Bazooka' for later, if required (hopefully not)

The government and RBI may want to keep the 'hard' options of (1) interest rate increase and (2) NRI bonds for later in case India's macro-economic fundamentals were to weaken further. India's macro-economic position faces potential risks from (1) further weakness in sentiment for EMs from possible escalation in China-US trade issues with both imposing tariffs on mutual additional imports; the US announced 10% import tariff on additional US\$200 bn of imports from China and (2) potential increase in crude oil prices from higher-than-expected cut in Iran oil exports following US sanctions on Iran oil exports. Iran oil exports have already started to decline (see Exhibit 8) and a large cut in oil exports (>1 mn b/d) from Iran may push up oil prices.

#### More important to focus on fiscal management

We believe the government's efforts should be on containing any fiscal slippage as it may result in higher bond yields/interest rates in the economy, thereby affecting economic growth. Bond yields (see Exhibit 9) have already jumped anticipating additional government borrowing, along with concerns on liquidity and rate hikes. We note that 4MFY19 GST revenues (see Exhibit 10) are short of the required monthly run-rate of ₹1.05 tn for FY2019 and FYTD19 divestment revenues at ₹129 bn well short of the ₹800 bn target. Also, the government's taxation revenues may be at risk at higher levels of crude oil prices, in case it is forced to cut excise duty on diesel and gasoline to mitigate the impact of higher fuel prices on households and domestic inflation.

#### Options available to shore up revenues—accelerated divestment, higher tax on specific items

The government may want to explore options to shore up its revenues in order to prepare for any exigency. It may be difficult to manage CAD in the short term without drastic measures such as raising import tariffs significantly on certain products. It may be more feasible to raise revenues through (1) accelerated divestment; there are a few options available (see Exhibits 11-13), (2) higher GST rate on certain products such as gold, which will also help contain CAD and (3) higher import tariffs on certain products and components (for consumer items), which may also force companies to explore domestic production in the medium term.

#### QUICK NUMBERS

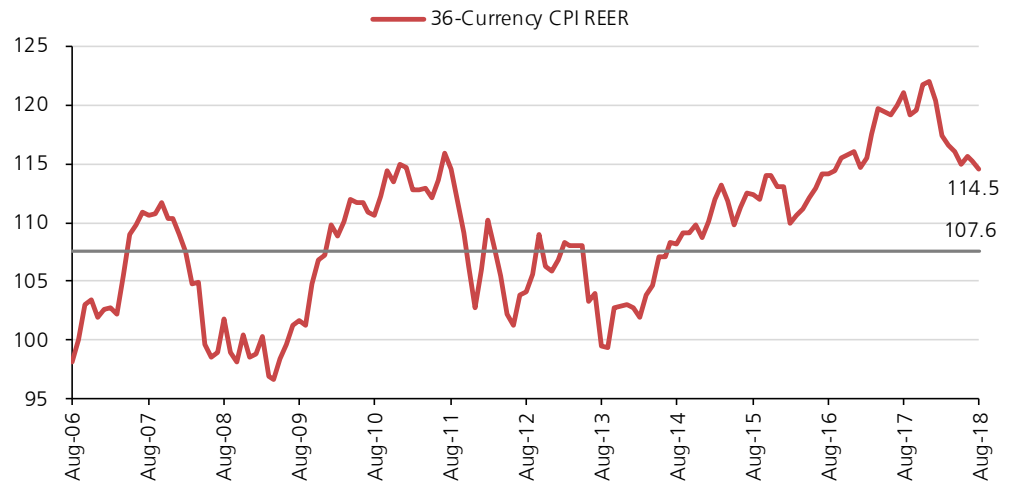
- **RBI and BIS REER calculations show INR about 3-5% over-valued**
- **India's external debt-to-GDP ratio at around 20%**
- **Government stake sale in four private companies alone can raise ₹850 bn**

Sanjeev Prasad

Suvodeep Rakshit

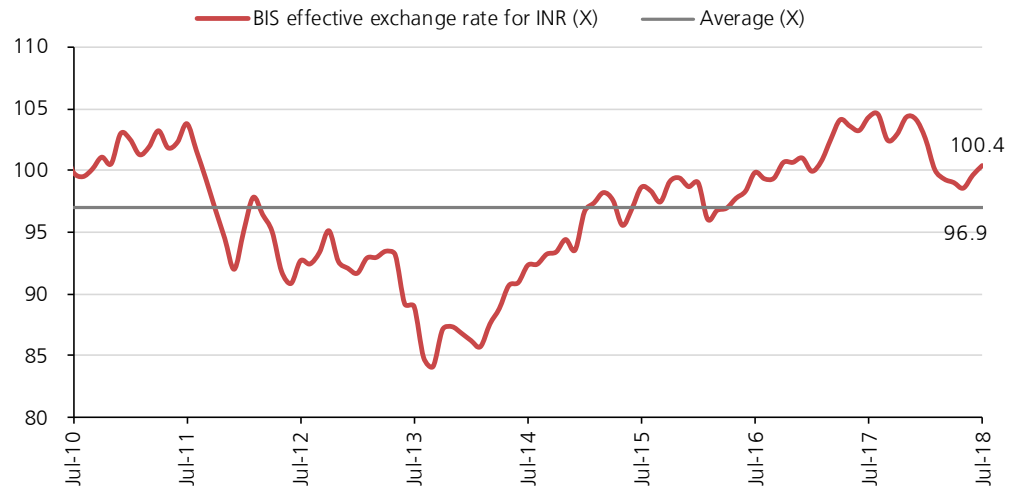
Anindya Bhowmik

**Exhibit 1: INR is correcting towards its fundamental level**  
 Real effective exchange rate of Indian currency (X, 2004=100)



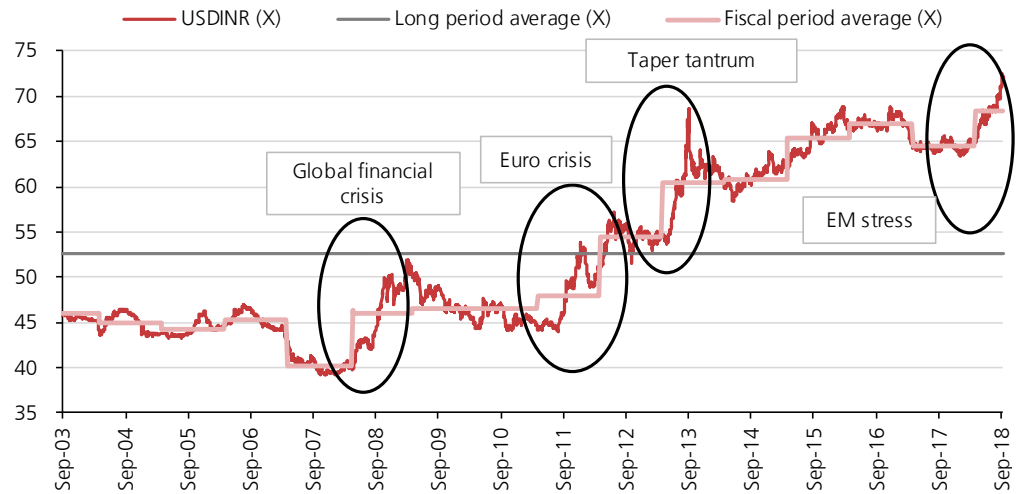
Source: CEIC, RBI, Kotak Institutional Equities

**Exhibit 2: INR is somewhere near its fundamental level**  
 Real effective exchange rate of Indian currency, based on BIS effective exchange rate of 61 countries (X, 2010=100)



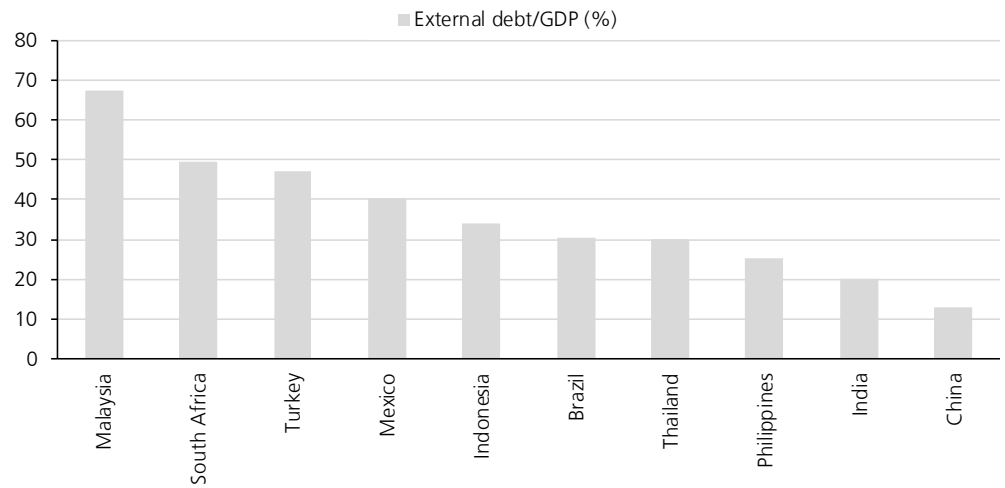
Source: BIS, Kotak Institutional Equities

**Exhibit 3: INR witnesses rapid depreciation in periods of crises**  
USD-INR trend (X)



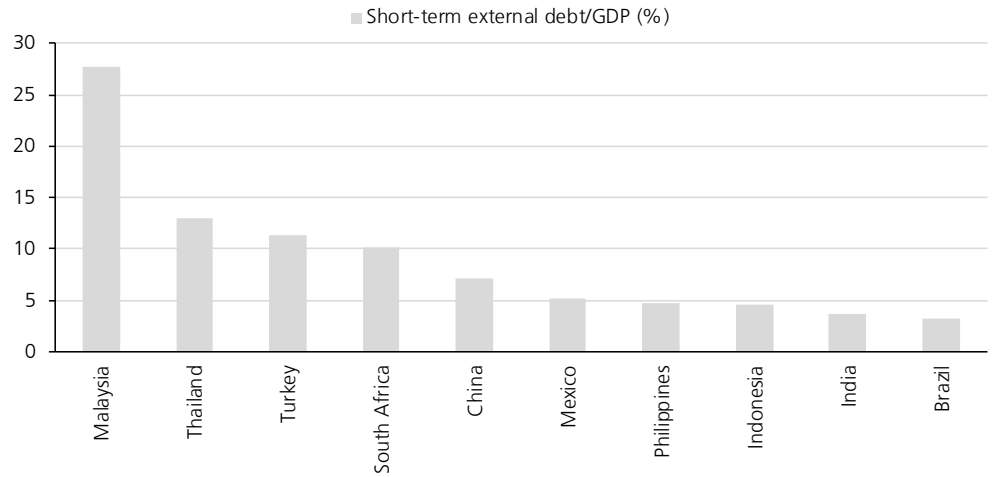
Source: Bloomberg, Kotak Institutional Equities

**Exhibit 4: India's external debt position better than other EM countries**  
External debt/GDP of various countries, calendar year-end, 2017 (%)



Source: World Bank, RBI, Kotak Institutional Equities

**Exhibit 5: India's short-term external debt is low compared to peers**  
Short-term external debt/GDP of various countries, calendar year-end, 2017 (%)

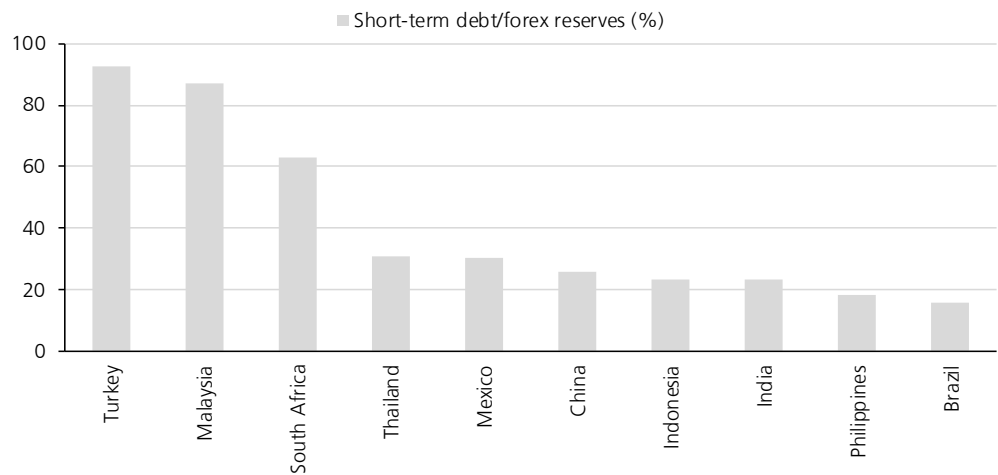


Notes:

(a) Short-term debt is on the basis of original maturity. In most cases, actual short-term debt repayment (within one year) based on residual maturity of debt will be higher.

Source: World Bank, Kotak Institutional Equities

**Exhibit 6: India's short-term debt-to-forex reserves is comfortable compared to peers**  
Short-term external debt/forex reserves of various countries, calendar year-end, 2017 (%)



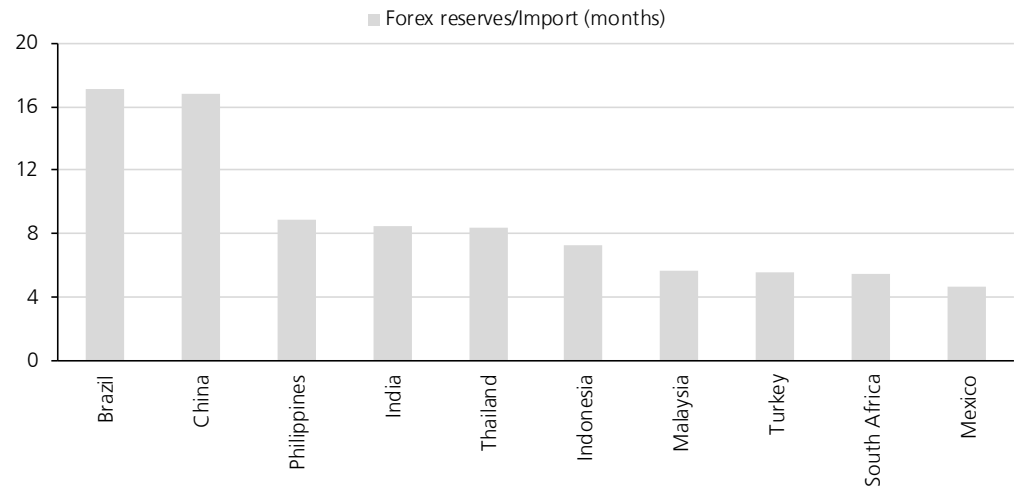
Notes:

(a) Short-term debt is on the basis of original maturity. In most cases, actual short-term debt repayment (within one year) based on residual maturity of debt will be higher.

Source: World Bank, Kotak Institutional Equities

**Exhibit 7: India's import cover is around eight months**

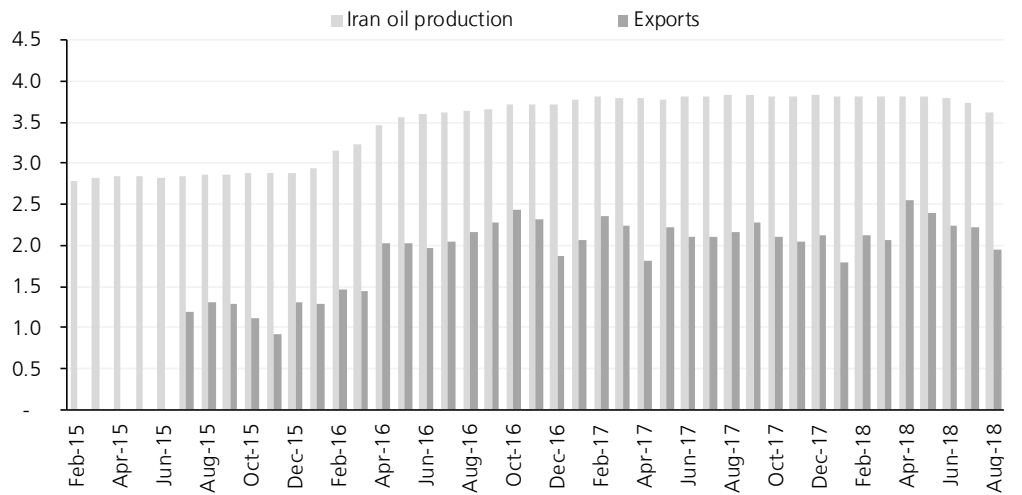
Forex reserves/import of various countries, calendar year-end, 2017 (months)



Source: World Bank, Kotak Institutional Equities

**Exhibit 8: Iran's oil exports have started to decline in recent months**

Monthly production and exports from Iran, calendar year-ends, 2015-18 (mn b/d)



Source: OPEC, IEA, Kotak Institutional Equities

**Exhibit 9: Bond yields have increased of late in anticipation of additional government borrowing**  
10-year benchmark government security yield in India (%)



Source: Bloomberg, Kotak Institutional Equities

**Exhibit 10: GST revenues are short of the required monthly run-rate of Rs1.05 tn for FY2019**  
Breakup of July 2017-July 2018 GST collection (Rs bn)

	CGST	SGST	IGST	IGST (imports)	Compensation cess	Total GST	Total filings (mn)
Jul-17	151	230	481	213	73	936	5.9
Aug-17	148	216	486	238	80	930	5.9
Sep-17	145	219	505	247	82	951	5.7
Oct-17	157	230	448	223	79	913	5.0
Nov-17	136	193	428	218	81	837	5.3
Dec-17	145	205	453	231	86	889	5.6
Jan-18	145	204	447	229	85	880	5.8
Feb-18	157	214	445	232	77	893	6.0
Mar-18	187	257	505	212	86	1,035	6.0
Apr-18	159	217	491	244	73	940	6.2
May-18	160	220	495	245	81	956	6.5
Jun-18	159	223	500	249	84	965	6.6
Jul-18	153	212	499	265	76	940	6.7

Notes:

(a) Breakdown of GST for July-February is estimated using the same proportion as monthly PIB releases and final total monthly GST collection.

Source: CGA, PIB, Kotak Institutional Equities

**Exhibit 11: Government can raise ~Rs850 bn by selling minority stakes in private companies**  
Key minority holdings of government in certain private companies

Company	Mcap.	Govt holding	
	(Rs bn)	(%)	(Rs bn)
Axis Bank	1,608	9.6	155
Hindustan Zinc	1,260	29.5	372
ITC	3,693	8.0	294
L&T	1,885	1.7	32
<b>Total</b>			<b>853</b>

Source: Capitaline, Kotak Institutional Equities

**Exhibit 12: Government can raise additional revenues through dividends from cash-rich PSUs**  
 Government companies with significant net cash, March fiscal year-end, 2018 (Rs bn)

Company	Govt holding (%)	Gross cash (Rs bn)	Debt (Rs bn)	Net cash (Rs bn)
Coal India	78.6	315	15	299
BHEL	63.1	113	1	112
NMDC	72.4	54	—	54
Bharat Electronics	66.8	8	1	8
Engineers India	52.0	25	—	25
National Aluminium Co.	60.2	28	1	27
MOIL	65.7	21	—	21
SJVN	90.8	36	22	14
Cochin Shipyard	75.0	35	1	34
NBCC	74.3	25	—	25
Container Corp.	54.8	22	1	21
ITDC	87.0	3	—	3

Source: Capitaline, Kotak Institutional Equities



**Exhibit 13: Government can raise around Rs3 tn if it was to sell its holding above 51% in listed PSUs**  
List of PSUs with more than 51% government holding (sorted on mcap.)

Company	Market Cap.		Govt holding (%)	Stake sale	
	(Rs bn)	(US\$ bn)		Entire	up to 51%
ONGC	2,204	30	67.7	1,493	369
Coal India	1,707	24	78.6	1,341	470
Indian Oil Corp.	1,520	21	57.0	866	91
NTPC	1,420	20	62.3	884	160
Power Grid Corp.	1,056	15	56.9	601	62
BPCL	790	11	54.3	429	26
GAIL (India)	840	12	53.6	450	22
NMDC	381	5	72.4	276	82
SAIL	323	4	75.0	242	77
NHPC	252	3	74.0	187	58
Bharat Electronics	212	3	66.8	142	34
Container Corp.	309	4	54.8	169	12
BHEL	280	4	63.1	176	34
Oil India	234	3	66.1	155	35
KIOCL	148	2	99.0	147	71
NBCC	123	2	74.3	92	29
SJVN	111	2	90.8	101	44
Neyveli Lignite Corp.	111	2	84.0	93	37
National Aluminium Co.	135	2	60.2	81	12
Cochin Shipyard	57	1	75.0	43	14
Hindustan Copper	56	1	76.1	43	14
MMTC	47	1	89.9	42	18
RITES	41	1	87.0	36	15
Engineers India	86	1	52.0	45	1
ITI	55	1	93.8	52	24
MOIL	51	1	65.7	33	7
CPCL	45	1	67.3	30	7
Rashtriya Chemicals & Fertilizers	40	1	75.0	30	10
ITDC	33	0	87.0	29	12
GMDC	36	0	74.0	27	8
BEML	32	0	54.0	17	1
Shipping Corp.	23	0	63.8	15	3
National Fertilizer	22	0	74.7	17	5
Fertilizers & Chemicals Travancore	16	0	90.0	14	6
HMT	10	0	93.7	10	4
Dredging Corp.	13	0	73.5	10	3
Andrew Yule & Co.	12	0	89.3	11	5
State Trading Corp.	8	0	90.0	7	3
Madras Fertilizers	4	0	85.3	4	1
MTNL	4	0	56.3	2	0
Scooters India	2	0	93.7	2	1
Hindustan Organic Chemicals	2	0	58.8	1	0
Haryana Financial Corp.	0	0	100.0	0	0
Bharat Immunolog	1	0	59.3	0	0
Punjab Communications	0	0	71.3	0	0
Gujarat State Financial Corp.	0	0	84.0	0	0
<b>Banks/Finance</b>					
State Bank of India	2,546	35	58.0	1,478	179
GIC	610	8	85.8	523	212
New India Assurance	412	6	85.4	352	142
Bank of Baroda	358	5	64.0	229	47
Central Bank of India	177	2	86.4	153	63
IDBI Bank	243	3	81.0	197	73
Punjab National Bank	229	3	62.3	143	26
Power Finance Corp.	224	3	65.9	148	33
Bank of India	163	2	83.1	135	52
Canara Bank	196	3	72.6	142	42
Indian Bank	153	2	81.9	125	47
Rural Electrification Corp.	226	3	58.3	132	17
HUDCO	113	2	89.8	101	44
Union Bank of India	96	1	67.4	65	16
Indian Overseas Bank	71	1	89.7	64	28
Vijaya Bank	78	1	68.8	54	14
Syndicate Bank	56	1	73.1	41	12
Oriental Bank of Commerce	48	1	77.2	37	13
Corporation Bank	44	1	79.9	35	13
Andhra Bank	39	1	78.0	30	11
Dena Bank	36	0	80.7	29	11
UCO Bank	36	1	84.2	31	12
Allahabad Bank	43	1	64.8	28	6
J&K Bank	30	0	59.2	18	2
IFCI	27	0	56.4	15	1
United Bank of India	18	0	93.1	17	8
Bank of Maharashtra	33	0	87.0	28	12
Punjab & Sind Bank	17	0	85.6	14	6
Balmer Lawrie Investment	9	0	59.7	5	1
<b>Total</b>	<b>19,186</b>	<b>265</b>		<b>12,813</b>	<b>3,028</b>

Source: Capitaline, Kotak Institutional Equities

SEPTEMBER 18, 2018

UPDATE

Coverage view: **Neutral**

Price (₹): **2,861**

Target price (₹): **2,700**

BSE-30: **37,586**

**Rupee depreciation to aid margins but medium-term concerns stay.** Recent depreciation of INR versus USD will likely improve Bajaj Auto's EBITDA margin as well as its competitiveness in export markets. We have increased our earnings estimates by 5-8% after factoring in the change in our currency assumptions. However, we maintain our SELL rating due to deteriorating profitability in the domestic motorcycle segment. Increase target price to ₹2,700 (from ₹2,500 earlier).

#### Company data and valuation summary

Bajaj Auto

##### Stock data

52-week range (Rs) (high,low)	3,468-2,604
Market Cap. (Rs bn)	827.8

##### Shareholding pattern (%)

Promoters	49.3
FIs	16.7
MFs	2.9

##### Price performance (%)

	1M	3M	12M
Absolute	7.5	(0.6)	(5.5)
Rel. to BSE-30	8.5	(5.8)	(18.8)

##### Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	140.2	155.9	173.8
EPS growth (%)	6.0	11.2	11.5
P/E (X)	20.4	18.4	16.5
Sales (Rs bn)	251.6	297.9	322.0
Net profits (Rs bn)	40.6	45.1	50.3
EBITDA (Rs bn)	47.8	52.1	58.3
EV/EBITDA (X)	14.0	12.6	10.9
ROE (%)	22.9	22.2	22.1
Div. Yield (%)	2.1	2.2	2.4

#### Rupee depreciation to improve EBITDA margin slightly

Rupee has depreciated by 7% versus USD, 7.5% versus Nigerian Naira and 7.5% versus Egyptian pound since 1QFY19 average levels. Our economist has also revised his INR-USD exchange rate to 72 in FY2020 and FY2021 versus 69.5 earlier. Export revenues form 43% of Bajaj Auto's revenues. Hence a 3.5% revision in INR-USD estimate could lead to 150 bps expansion in Bajaj Auto's EBITDA margin if the company retains the entire benefit. The company has been passing on the currency benefits in export and domestic market to gain market share. We bake in 60-90 bps increase in our EBITDA margin estimate for FY2020-21 as we believe the company will pass on these currency benefits partly to consumers. We have increased our volume estimates by 3-5% over FY2019-21 primarily reflecting Bajaj Auto's aggressive pricing strategy in the domestic economy motorcycle segment and strong growth in three-wheeler exports. We have thus increased our earnings estimates by 5-8% over FY2019-21 period. We have also increased our target price to ₹2,700 (from ₹2,500 earlier) factoring in the increase in our earnings estimates and roll over to September 2020 (versus March 2020 earlier). Our TP is based on 14X September 2020E core EPS + ₹200/share for KTM stake + ₹634/share value of cash and cash equivalents. We retain our SELL rating due to deterioration in profitability in the domestic motorcycle segment and absence of scooters in the company's portfolio, which will likely cap re-rating of the stock.

#### Bajaj Auto is increasing three-wheeler capacity to meet demand

The company has announced that it will increase its capacity for three-wheelers and quadricycles to 1 mn units from 0.6 mn units currently as the government has decided to end permits for purchasing three-wheelers. The company is likely to hit production volume of 0.86 mn units in FY2019 itself (operating higher than its rated capacity). Currently only four states – Karnataka, Delhi, Tamil Nadu and West Bengal have permits while most of the other major states have already discontinued permits. Removal of permits could lead to an increase in demand for three-wheelers as the cost of purchase of three-wheelers will come down but removal of permits is a state subject and the four states which still allow permits are not in BJP control, so they may take their own time to discontinue permits.

Hitesh Goel

Nishit Jalan

**Exhibit 1: Bajaj Auto gained significant market share in economy segment (on both yoy and qoq basis) due to aggressive pricing strategy**  
Domestic market share of major two-wheeler players, 1QFY14-1QFY19 (%)

	Jun-14	Sep-14	Dec-14	Mar-15	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
<b>Economy</b>																	
Bajaj Auto	28.6	21.2	22.5	26.2	40.3	37.3	34.2	30.8	35.1	35.1	33.2	25.5	25.3	32.0	31.8	24.1	31.8
Hero Motocorp	51.0	54.6	55.0	54.0	43.8	46.2	47.6	55.1	51.4	50.9	54.1	65.3	59.8	56.0	56.5	65.8	58.1
<b>Executive</b>																	
Bajaj Auto	9.3	9.5	9.0	5.4	4.0	4.3	3.9	3.7	6.6	5.1	5.4	5.0	3.8	3.0	2.8	5.2	3.0
Hero Motocorp	66.8	63.6	65.5	69.9	72.6	70.6	70.8	72.3	66.9	68.2	71.0	72.9	69.3	69.0	69.6	69.6	71.0
HMSI	20.1	23.7	22.8	23.2	20.5	22.7	22.2	20.9	21.5	22.1	19.8	19.5	24.2	24.1	23.8	22.4	23.7
<b>Premium</b>																	
Bajaj Auto	35.1	36.1	35.3	34.0	33.9	34.3	37.0	36.7	34.1	34.9	31.0	31.5	26.1	31.3	28.3	28.3	28.3
Hero Motocorp	12.4	9.1	4.9	5.5	6.0	6.1	7.1	4.4	4.3	4.1	3.9	5.0	3.8	3.0	1.9	1.2	1.2
HMSI	15.6	12.7	10.0	13.3	11.9	8.2	5.4	10.5	12.9	9.1	11.1	12.8	15.9	14.5	11.8	13.9	16.0
Royal Enfield	14.4	15.3	17.2	18.5	20.5	22.6	22.8	22.9	23.8	23.6	28.3	27.8	26.3	25.0	31.3	28.7	25.5
<b>Total</b>																	
Bajaj Auto	17.7	16.7	16.6	15.1	17.9	17.7	17.9	17.5	18.6	18.8	18.5	16.1	14.0	16.9	16.4	15.3	16.3
Hero Motocorp	53.8	51.3	52.3	54.1	53.5	51.3	52.2	52.5	50.6	49.8	50.5	54.7	52.4	50.5	50.8	52.4	51.3
HMSI	15.4	16.4	15.9	16.7	14.1	14.5	13.2	13.8	14.9	14.1	12.8	13.4	16.5	15.7	14.7	15.0	15.8

Source: SIAM, Kotak Institutional Equities

**Exhibit 2: We expect Bajaj Auto to gain 120 bps market share in domestic motorcycle industry over FY2018-21 period**  
Domestic motorcycle industry growth estimates by segment, March fiscal year-ends, 2012-21E (mn units, %)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Economy	1.9	1.9	1.9	2.1	2.4	2.6	3.2	3.8	4.0	4.2
Executive	6.5	6.5	6.8	6.7	6.0	6.0	6.5	7.2	7.5	7.9
Premium	1.7	1.6	1.7	2.0	2.2	2.5	2.9	3.2	3.5	3.7
<b>Total volumes</b>	<b>10.1</b>	<b>10.1</b>	<b>10.5</b>	<b>10.7</b>	<b>10.7</b>	<b>11.1</b>	<b>12.6</b>	<b>14.2</b>	<b>14.9</b>	<b>15.8</b>
<b>yoy change (%)</b>										
Economy	20.1	4.3	(1.0)	8.9	16.0	6.2	23.0	20.0	4.0	5.0
Executive	12.3	(0.5)	6.0	(2.5)	(9.3)	(0.6)	9.3	9.3	4.1	5.8
Premium	4.0	(3.4)	5.5	15.3	12.1	12.6	14.7	12.0	7.0	8.0
<b>Total</b>	<b>11.8</b>	<b>0.2</b>	<b>3.9</b>	<b>2.5</b>	<b>(0.4)</b>	<b>3.7</b>	<b>13.7</b>	<b>12.6</b>	<b>4.7</b>	<b>6.1</b>
<b>Player-wise volumes (mn units)</b>										
<b>Economy</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>2.1</b>	<b>2.4</b>	<b>2.6</b>	<b>3.2</b>	<b>3.8</b>	<b>4.0</b>	<b>4.2</b>
Hero Motocorp	0.8	1.0	1.1	1.1	1.2	1.4	1.9	2.1	2.2	2.3
Bajaj Auto	0.5	0.5	0.5	0.5	0.9	0.8	0.9	1.3	1.4	1.5
TVS	0.5	0.4	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.4
<b>Executive</b>	<b>6.5</b>	<b>6.5</b>	<b>6.8</b>	<b>6.7</b>	<b>6.0</b>	<b>6.0</b>	<b>6.5</b>	<b>7.2</b>	<b>7.5</b>	<b>7.9</b>
Hero Motocorp	4.5	4.1	4.2	4.4	4.3	4.2	4.5	5.0	5.3	5.5
Bajaj Auto	1.3	1.3	1.0	0.6	0.2	0.3	0.2	0.2	0.2	0.2
Honda	0.6	1.0	1.3	1.5	1.3	1.2	1.5	1.6	1.6	1.7
Mahindra & Mahindra	0.0	0.0	0.1	0.0	0.1	0.2	0.1	0.2	0.2	0.2
Others	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.3
<b>Premium</b>	<b>1.7</b>	<b>1.6</b>	<b>1.7</b>	<b>2.0</b>	<b>2.2</b>	<b>2.5</b>	<b>2.9</b>	<b>3.2</b>	<b>3.5</b>	<b>3.7</b>
Hero Motocorp	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2
Bajaj Auto	0.7	0.7	0.6	0.7	0.8	0.8	0.8	0.9	1.0	1.0
Honda	0.2	0.2	0.3	0.3	0.2	0.3	0.4	0.5	0.5	0.5
Yamaha	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Royal Enfield	0.1	0.1	0.2	0.3	0.5	0.7	0.8	0.9	1.0	1.1
TVS	0.1	0.1	0.1	0.2	0.3	0.3	0.4	0.5	0.5	0.6
Others	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	(0.0)
<b>Total volumes</b>	<b>10.1</b>	<b>10.1</b>	<b>10.5</b>	<b>10.7</b>	<b>10.7</b>	<b>11.1</b>	<b>12.6</b>	<b>14.2</b>	<b>14.9</b>	<b>15.8</b>
Hero Motocorp	5.7	5.4	5.4	5.7	5.6	5.7	6.5	7.2	7.6	8.0
Bajaj Auto	2.6	2.5	2.1	1.8	1.9	2.0	2.0	2.4	2.5	2.7
Honda	0.8	1.2	1.7	1.8	1.5	1.5	2.0	2.1	2.1	2.2
TVS	0.6	0.6	0.6	0.7	0.7	0.8	0.9	1.0	1.1	1.1
<b>Domestic motorcycle market share (%)</b>										
Hero Motocorp	56.2	53.2	51.9	52.9	52.3	51.3	51.5	50.8	50.9	50.4
Bajaj Auto	25.5	24.4	20.0	16.5	17.7	17.7	15.7	16.7	17.1	16.9
Honda	7.6	11.8	15.8	16.3	14.0	13.8	15.5	14.7	13.9	14.0
TVS	6.2	5.5	5.5	6.3	6.6	7.0	7.3	7.0	7.1	7.1

Source: Company, Kotak Institutional Equities estimates

**Exhibit 3: We increase our FY2019-21 EPS estimates by 5-8%**  
Earnings revision table, March fiscal year-ends, 2019-21

	New estimates			Old estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Domestic two-wheelers	2,375,707	2,548,182	2,665,818	2,208,617	2,368,042	2,540,697	7.6	7.6	4.9
Domestic three-wheelers	436,215	459,026	480,877	425,810	448,100	469,405	2.4	2.4	2.4
Export two-wheelers	1,673,708	1,841,079	2,025,187	1,645,813	1,810,395	2,027,642	1.7	1.7	(0.1)
Export three-wheelers	428,512	449,938	472,434	388,339	407,756	428,144	10.3	10.3	10.3
<b>Total volumes (units)</b>	<b>4,914,142</b>	<b>5,298,225</b>	<b>5,644,317</b>	<b>4,668,579</b>	<b>5,034,293</b>	<b>5,465,888</b>	<b>5.3</b>	<b>5.2</b>	<b>3.3</b>
Average net realization	60,618	60,779	61,634	61,183	61,363	62,298	(0.9)	(1.0)	(1.1)
Net sales (incl. operating income)	297,886	322,018	347,880	285,636	308,920	340,516	4.3	4.2	2.2
EBITDA	52,073	58,278	61,310	48,714	53,004	57,762	6.9	10.0	6.1
EBITDA margin (%)	17.5	18.1	17.6	17.1	17.2	17.0			
<b>Profit after tax</b>	<b>45,113</b>	<b>50,287</b>	<b>53,436</b>	<b>42,795</b>	<b>46,648</b>	<b>50,988</b>	<b>5.4</b>	<b>7.8</b>	<b>4.8</b>
<b>EPS (Rs/share)</b>	<b>155.9</b>	<b>173.8</b>	<b>184.6</b>	<b>147.9</b>	<b>161.2</b>	<b>176.2</b>	<b>5.4</b>	<b>7.8</b>	<b>4.8</b>

Source: Kotak Institutional Equities estimates

## Exhibit 4: Bajaj Auto's volumes are expected to grow at 12% CAGR over FY2018-21E

Bajaj Auto volume projections, March fiscal year-ends, 2013-21E (units, %)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Sales volume (units)</b>									
<b>Motorcycles</b>	<b>3,757,105</b>	<b>3,422,403</b>	<b>3,291,315</b>	<b>3,358,252</b>	<b>3,179,521</b>	<b>3,369,334</b>	<b>4,049,415</b>	<b>4,389,261</b>	<b>4,691,006</b>
Domestic	2,463,874	2,099,230	1,770,009	1,898,957	1,960,980	1,974,577	2,375,707	2,548,182	2,665,818
Platina	484,600	465,111	486,568	275,276	383,542	435,180	522,216	574,438	603,159
CT100	—	—	29,189	590,067	452,712	466,897	747,035	821,739	862,826
Discover	1,311,843	992,176	557,942	238,098	303,032	244,315	195,452	195,452	195,452
Pulsar/Avenger/KTM	667,431	641,943	696,310	795,516	821,694	828,185	911,004	956,554	1,004,381
Export two-wheelers	1,293,231	1,323,173	1,521,306	1,459,295	1,218,541	1,394,757	1,673,708	1,841,079	2,025,187
<b>Total two-wheelers</b>	<b>3,757,105</b>	<b>3,422,403</b>	<b>3,291,315</b>	<b>3,358,252</b>	<b>3,179,521</b>	<b>3,369,334</b>	<b>4,049,415</b>	<b>4,389,261</b>	<b>4,691,006</b>
RE 60	—	—	—	334	2,000	—	—	—	—
<b>Domestic three-wheelers</b>	<b>226,131</b>	<b>186,912</b>	<b>234,345</b>	<b>256,320</b>	<b>253,147</b>	<b>369,637</b>	<b>436,215</b>	<b>459,026</b>	<b>480,877</b>
Passenger three-wheelers	223,287	186,856	234,345	254,995	239,985	346,846	416,215	437,026	458,877
Goods three-wheelers	2,844	56	—	1,325	13,162	22,791	20,000	22,000	22,000
Export three-wheelers	253,926	260,762	285,541	280,000	191,236	267,820	428,512	449,938	472,434
<b>Total three-wheelers</b>	<b>480,057</b>	<b>447,674</b>	<b>519,886</b>	<b>536,320</b>	<b>444,383</b>	<b>637,457</b>	<b>864,727</b>	<b>908,964</b>	<b>953,312</b>
<b>Total vehicles</b>	<b>4,237,162</b>	<b>3,870,077</b>	<b>3,811,201</b>	<b>3,894,906</b>	<b>3,625,904</b>	<b>4,006,791</b>	<b>4,914,142</b>	<b>5,298,225</b>	<b>5,644,317</b>
<b>Growth (yoy %)</b>									
<b>Motorcycles</b>	<b>(2.0)</b>	<b>(8.9)</b>	<b>(3.8)</b>	<b>2.0</b>	<b>(5.3)</b>	<b>6.0</b>	<b>20.2</b>	<b>8.4</b>	<b>6.9</b>
Domestic	(4.0)	(14.8)	(15.7)	7.3	3.3	0.7	20.3	7.3	4.6
Platina	(9.5)	(4.0)	4.6	(43.4)	39.3	13.5	20.0	10.0	5.0
CT100	—	—	—	—	(23.3)	3.1	60.0	10.0	5.0
Discover	(0.3)	(24.4)	(43.8)	(57.3)	27.3	(19.4)	(20.0)	—	—
Pulsar/Avenger/KTM	(6.7)	(3.8)	8.5	14.2	3.3	0.8	10.0	5.0	5.0
Export two-wheelers	2.0	2.3	15.0	(4.1)	(16.5)	14.5	20.0	10.0	10.0
<b>Total two-wheelers</b>	<b>(2.0)</b>	<b>(8.9)</b>	<b>(3.8)</b>	<b>2.0</b>	<b>(5.3)</b>	<b>6.0</b>	<b>20.2</b>	<b>8.4</b>	<b>6.9</b>
<b>Domestic three-wheelers</b>	<b>11.4</b>	<b>(17.3)</b>	<b>25.4</b>	<b>9.4</b>	<b>(1.2)</b>	<b>46.0</b>	<b>18.0</b>	<b>5.2</b>	<b>4.8</b>
Export three-wheelers	(18.7)	2.7	9.5	(1.9)	(31.7)	40.0	60.0	5.0	5.0
<b>Total three-wheelers</b>	<b>(6.8)</b>	<b>(6.7)</b>	<b>16.1</b>	<b>3.2</b>	<b>(17.1)</b>	<b>43.4</b>	<b>35.7</b>	<b>5.1</b>	<b>4.9</b>
<b>Total vehicles</b>	<b>(2.6)</b>	<b>(8.7)</b>	<b>(1.5)</b>	<b>2.2</b>	<b>(6.9)</b>	<b>10.5</b>	<b>22.6</b>	<b>7.8</b>	<b>6.5</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: We expect Bajaj Auto's earnings to grow at 9% CAGR over FY2018-21E  
 Bajaj Auto - financial summary, March fiscal year-ends, 2013-21E (₹ mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model (Rs mn)</b>									
Net sales	204,684	205,147	216,120	225,865	217,636	251,649	297,886	322,018	347,880
<b>EBITDA</b>	<b>41,064</b>	<b>44,710</b>	<b>41,166</b>	<b>47,820</b>	<b>44,223</b>	<b>47,834</b>	<b>52,073</b>	<b>58,278</b>	<b>61,310</b>
Other income	3,244	3,412	10,736	10,736	12,220	13,473	16,538	17,956	19,644
Interest	(5)	(5)	(65)	(11)	(14)	(13)	—	—	—
Depreciation	(1,640)	(1,796)	(2,674)	(3,072)	(3,073)	(3,148)	(3,230)	(3,355)	(3,510)
<b>Profit before tax</b>	<b>42,662</b>	<b>46,321</b>	<b>49,162</b>	<b>55,474</b>	<b>53,355</b>	<b>58,146</b>	<b>65,381</b>	<b>72,880</b>	<b>77,444</b>
Extra-ordinary items	—	—	(3,403)	—	—	(320)	—	—	—
Taxes	(12,227)	(13,887)	(12,711)	(16,177)	(15,080)	(17,145)	(20,268)	(22,593)	(24,008)
<b>Net profit</b>	<b>30,436</b>	<b>32,433</b>	<b>33,049</b>	<b>39,298</b>	<b>38,276</b>	<b>40,681</b>	<b>45,113</b>	<b>50,287</b>	<b>53,436</b>
<b>Adjusted net profit</b>	<b>30,436</b>	<b>32,433</b>	<b>36,452</b>	<b>39,298</b>	<b>38,276</b>	<b>40,905</b>	<b>45,113</b>	<b>50,287</b>	<b>53,436</b>
<b>Adjusted earnings per share (Rs)</b>	<b>105.2</b>	<b>112.1</b>	<b>126.0</b>	<b>135.8</b>	<b>132.3</b>	<b>141.3</b>	<b>155.9</b>	<b>173.8</b>	<b>184.6</b>
<b>Balance sheet (Rs mn)</b>									
Equity	79,020	96,080	106,922	132,666	170,341	191,039	214,497	240,647	268,433
Deferred tax liability	1,151	1,432	1,416	2,028	3,136	3,234	3,234	3,234	3,234
Total borrowings	2,105	1,466	1,699	—	—	—	—	—	—
Current liabilities	42,511	48,498	45,587	30,172	34,672	43,922	33,231	34,744	36,834
<b>Total liabilities</b>	<b>124,786</b>	<b>147,476</b>	<b>155,623</b>	<b>164,865</b>	<b>208,149</b>	<b>238,195</b>	<b>250,962</b>	<b>278,624</b>	<b>308,501</b>
Net fixed assets	20,277	20,386	20,190	21,383	20,440	19,349	19,118	20,763	22,253
Investments	64,305	85,496	91,533	90,379	135,088	163,656	179,477	201,477	224,477
Cash	5,589	4,955	5,862	8,595	2,937	7,780	4,665	5,444	7,222
Other current assets	33,913	35,524	36,507	43,615	49,239	47,411	47,702	50,941	54,549
Miscellaneous expenditure	703	1,115	1,532	893	447	—	—	—	—
<b>Total assets</b>	<b>124,786</b>	<b>147,476</b>	<b>155,623</b>	<b>164,865</b>	<b>208,149</b>	<b>238,195</b>	<b>250,962</b>	<b>278,624</b>	<b>308,501</b>
<b>Free cash flow (Rs mn)</b>									
Operating cash flow excl. working capital	26,557	31,419	27,611	30,816	30,859	32,157	42,575	47,283	50,038
Working capital changes	(5,213)	4,039	(6,138)	5,753	2,533	10,451	(10,983)	(1,726)	(1,518)
Capital expenditure	(5,082)	(2,201)	(2,697)	(2,651)	(1,994)	(1,826)	(3,000)	(5,000)	(5,000)
<b>Free cash flow</b>	<b>16,262</b>	<b>33,257</b>	<b>18,777</b>	<b>33,917</b>	<b>31,398</b>	<b>40,782</b>	<b>28,593</b>	<b>40,557</b>	<b>43,520</b>
<b>Ratios</b>									
Gross margin (%)	29.6	32.4	31.3	33.3	32.8	30.8	28.7	29.3	28.9
EBITDA margin (%)	20.1	21.8	19.0	21.2	20.3	19.0	17.5	18.1	17.6
PAT margin (%)	14.9	15.8	16.9	17.4	17.6	16.3	15.1	15.6	15.4
Book Value (Rs/share)	273.0	332.0	369.5	458.4	588.6	660.1	741.2	831.5	927.6
RoAE (%)	43.2	36.5	32.1	32.3	24.8	22.1	21.9	21.8	20.7

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 18, 2018

UPDATE

BSE-30: 37,586

**Setting the stage for another merger.** As per unauthenticated media reports, there is a proposal to merge Bank of Baroda (BoB), Vijaya Bank (VB) and Dena Bank (DB). The timing is less worrisome considering that this merger is likely to take another year by which time most public banks should see a decline in NPLs. Merger integration risk is high from a HR standpoint but further mergers would be contingent on the success of this one and the strength of the larger PSU banks to absorb smaller ones.

#### Proposal mooted to merge BoB, Vijaya Bank and Dena Bank

In a surprise move, we understand from unauthenticated media reports that the government has put forward a proposal to merge Bank of Baroda with Vijaya Bank and Dena Bank. The boards of these banks would probably take this suggestion forward. This is still in its early stages and we wait to see the developments from various stakeholders before we incorporate this change in our estimates. BoB and Vijaya Bank are in a relatively stronger position while Dena Bank would need support in the medium term.

#### 1 large bank to merge with 1 small strong bank which can help merge with 1 weak bank

On the face of it, this merger rationale seems to follow a combination of one large bank (5% share for BoB) merging with 1 small but relatively stronger bank (1% share for Vijaya Bank) which in turn can manage a weaker smaller bank (1% share for Dena Bank). The combined entity seems to share a common back-end base core banking solution but other software integration issues will be known as the merger starts to unfold. We still need to see the response from the union as it could likely be the source of bottlenecks with respect to any M&A transaction among public banks.

#### Impact on BoB financials negligible but provisions and capital infusion likely to decide pricing

We have drawn pro-forma financial statements of the combined entity and we don't see a material impact on the earnings of BoB based on this development. We do expect this transaction would take more than a year to consummate which implies that the probability of negative surprises on asset quality (post-merger) should be largely contained. The key risk is the net worth of Dena Bank at the time of merger and the capital support that the bank would get in the interim. Dena Bank is currently trading at 0.4X while Vijaya Bank is at 0.7X book as compared to BoB which is at 0.8X FY2018 book.

We would need to see if the current MD who is yet to be formally reappointed for another term would like to revisit his stance with this development as the top management would need to spend another few years to reorganise its business. Note that there is overlap in branches with Dena Bank in western India while the overlap with Vijaya Bank is a lot lower.

#### Further consolidation among public banks may not happen immediately

At this point, we feel it is a bit premature to look at the other possible candidates for merger for a few factors. (1) Government has waited for a year to see the impact of SBI, which was a relatively easier exercise given the nature of ownership, control and operations. (2) Merging nationalised banks, on the other hand, would be lot more challenging given the integration related issues especially regarding human resources and operations (systems). The government would probably wait for another 12-24 months post integration to see the preparations needed for other mergers to begin. (3) The large banks like PNB, BoI need more time to absorb these banks and only Canara Bank seems to be in a relatively better position.

#### QUICK NUMBERS

- 16% stressed assets as of 1QFY19 for the combined entity
- 2.4% NIM in FY2018 for the combined entity
- 34% CASA ratio as of FY2018 for the combined entity

M B Mahesh CFA

Nischint Chawathe

Dipanjan Ghosh

Shrey Singh

Exhibit 1: Key snapshot of business of the three banks

	Bank of Baroda				Vijaya Bank				Dena Bank				Combined			
	2017	2018	2019E	2020E	2017	2018	2019E	2020E	2017	2018	2019E	2020E	2017	2018	2019E	2020E
<b>Business metrics</b>																
Branches (#)	5,422	5,467	5,617	5,767	2,031	2,155	2,105	2,055	1,874	1,874	1,874	1,874	9,327	9,496	9,596	9,696
Employees (#)	52,420	55,662	61,228	67,351	15,679	16,079	16,329	16,579	13,985	13,613	13,863	14,113	82,084	85,354	91,420	98,043
Loans (Rs bn)	3,833	4,274	4,787	5,308	945	1,162	1,203	1,245	726	656	664	672	5,504	6,092	6,653	7,224
Deposits (Rs bn)	6,017	5,913	6,258	6,746	1,330	1,573	1,567	1,576	1,139	1,061	1,072	1,083	8,486	8,547	8,897	9,404
CASA (Rs bn)	1,935	2,118	2,235	2,403	374	399	288	290	436	426	430	434	2,745	2,942	2,953	3,127
Current account	425	461	494	539	86	92	74	75	73	61	62	62	584	614	630	676
Savings account	1,510	1,657	1,741	1,864	288	307	214	215	362	365	368	372	2,160	2,329	2,324	2,451
CASA ratio (%)	32.2	35.8	35.7	35.6	28.1	25.4	18.4	18.4	38.2	40.1	40.1	40.1	32.3	34.4	33.2	33.2
Current account	7.1	7.8	7.9	8.0	6.4	5.9	4.7	4.7	6.4	5.8	5.8	5.8	6.9	7.2	7.1	7.2
Savings account	25.1	28.0	27.8	27.6	21.7	19.5	13.7	13.7	31.8	34.4	34.4	34.4	25.5	27.2	26.1	26.1
PAT (Rs bn)	14	-24	54	69	8	7	8	15	-9	-19	-17	7	13	-36	46	90
<b>Asset quality</b>																
Gross NPL	427	565	556	468	64	75	76	73	126	164	162	147	617	804	795	689
Gross NPL (%)	10.5	12.3	10.8	8.2	6.4	6.1	5.9	5.5	15.6	20.9	19.5	17.4	15.1	17.4	15.4	12.0
Net NPL	181	235	229	183	41	50	44	36	77	78	79	61	299	363	352	279
Gross NPL (%)	4.7	5.5	4.8	3.4	4.4	4.3	3.6	2.9	10.7	12.0	11.9	9.1	7.8	8.5	7.4	5.3
Provision coverage (%)	58	58	59	61	35	33	43	51	39	52	51	59	52	55	56	59
Net worth (Rs bn)	434	485	551	626	82	106	114	129	77	92	75	82	592	683	740	836
Net NPL to net worth (%)	41.7	48.4	41.5	29.2	50.5	47.2	38.3	28.0	100.7	85.2	105.4	74.7	50.5	53.2	47.5	33.4
<b>Valuation metrics</b>																
Book value (Rs)	159	152	172	198	73	75	81	93	84	36	29	31				
Book value adjusted (Rs)	108	94	116	153	46	50	60	75	20	13	6	14				
Earnings per share (Rs)	6	-9	21	26	8	6	6	11	-11	-9	-7	3				
PBR	0.8	0.9	0.8	0.7	0.8	0.8	0.7	0.6	0.2	0.4	0.6	0.5				
PBR (A)	1.2	1.4	1.2	0.9	1.3	1.2	1.0	0.8	0.8	1.2	2.8	1.1				
PER	22.6	-14.7	6.6	5.2	8.0	10.7	9.9	5.3	-1.5	-1.9	-2.2	5.5				
<b>Capital adequacy ratios (%)</b>																
Tier-1 (%)	9.9	9.9	11.0	11.6	10.0	10.0	8.3	8.9	8.6	8.6	NA	NA				
Tier-2 (%)	2.3	2.3	2.2	1.8	2.8	2.7	1.1	1.1	2.4	2.4	NA	NA				
Total CAR (%)	12.2	12.2	13.3	13.4	12.7	12.7	9.3	10.0	11.0	11.0	NA	NA				
<b>RoE decomposition</b>																
Net interest income	2.0	2.2	2.5	2.5	2.3	2.6	2.7	2.7	1.8	2.0	2.4	2.4	2.0	2.2	2.5	2.5
Other income	1.0	0.9	0.8	1.0	1.1	1.0	0.8	0.9	1.0	0.9	0.8	0.9	1.0	0.9	0.8	0.9
Treasury	0.4	0.3	0.1	0.2	0.5	0.3	0.1	0.1	0.5	0.3	0.2	0.2	0.4	0.3	0.1	0.2
Others	0.6	0.7	0.7	0.8	0.6	0.6	0.7	0.8	0.5	0.6	0.7	0.7	0.6	0.7	0.7	0.8
Total income	3.0	3.1	3.3	3.5	3.4	3.5	3.4	3.7	2.8	2.9	3.2	3.2	3.0	3.2	3.3	3.5
Operating expenses	1.4	1.5	1.5	1.6	1.9	1.6	1.7	1.8	1.6	1.9	1.8	1.8	1.5	1.5	1.6	1.6
Employees	0.7	0.7	0.7	0.7	1.2	1.0	1.0	1.0	1.1	1.3	1.1	1.1	0.8	0.8	0.8	0.8
Others	0.7	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.5	0.6	0.7	0.7	0.7	0.8	0.8	0.8
Pre provision income	1.6	1.7	1.8	1.9	1.5	1.9	1.8	1.9	1.2	1.0	1.5	1.4	1.5	1.6	1.8	1.8
Loan loss provisions	1.2	2.0	0.7	0.6	0.9	1.0	1.0	0.7	1.9	3.4	3.3	0.6	1.3	2.0	1.0	0.6
Investment Depreciation	0.0	0.1	0.1	-	0.0	0.3	0.1	0.0	0.3	0.2	0.2	0.1	0.0	0.1	0.1	0.0
Pre -tax pre extraordin	0.4	-0.4	1.1	1.3	0.6	0.6	0.6	1.2	-1.0	-2.5	-2.0	0.8	0.2	-0.5	0.6	1.2
ROA	0.2	-0.3	0.7	0.9	0.5	0.4	0.4	0.8	-0.7	-1.5	-1.4	0.5	0.1	-0.4	0.4	0.8
Avg assets/avg equity	17.0	16.9	17.2	15.9	21.7	19.4	17.4	15.8	20.6	17.1	16.6	17.9	17.4	16.7	15.9	15.1
ROE	3.4	-5.8	12.7	14.0	10.8	8.5	7.7	13.0	-13.5	-26.2	-22.9	9.7	2.3	-6.1	7.0	12.6

Source: Company, Kotak Institutional Equities



**Exhibit 2: The combined entity would be the third largest bank on loans**

Market share in branches, loans and deposits of the largest banks, March fiscal year-ends, 2018

	Branches	Absolute (Rs bn)		Market Share (%)	
		Advances	Deposits	Advances	Deposits
SBI	22,414	19,349	27,063	23.9	24.7
HDFC	4,787	6,583	7,888	8.1	7.2
ICICI	4,867	5,124	5,610	6.3	5.1
Axis	3,703	4,397	4,536	5.4	4.1
PNB	6,983	4,337	6,422	5.4	5.9
BoB	5,467	4,274	5,913	5.3	5.4
Canara	6,204	3,817	5,248	4.7	4.8
Bol	5,186	3,414	5,209	4.2	4.8
Union	4,301	2,888	4,085	3.6	3.7
Syndicate	3,933	2,107	2,728	2.6	2.5
Yes	1,100	2,035	2,007	2.5	1.8
IDBI	1,896	1,717	2,479	2.1	2.3
Central bank	4,685	1,575	2,954	1.9	2.7
Indian	2,823	1,566	2,083	1.9	1.9
Allahabad	3,245	1,521	2,136	1.9	1.9
Andhra	2,911	1,491	2,081	1.8	1.9
Indusind	1,400	1,450	1,516	1.8	1.4
OBC	2,389	1,364	2,073	1.7	1.9
IoB	3,332	1,325	2,168	1.6	2.0
Corporation	2,440	1,199	1,833	1.5	1.7
Vijaya	2,155	1,162	1,573	1.4	1.4
Dena	1,874	656	1,061	0.8	1.0
Merged Entity	9,496	6,092	8,547	7.5	7.8

Source: Company, Kotak Institutional Equities

**Exhibit 3: The combined market share would be 7% on branches, deposits and loans**

Market share movement across banks, March fiscal year-ends, 2010-1QFY19 (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
<b>Branches (%)</b>										
BOB	3.6	3.7	3.9	3.9	4.0	4.0	4.0	3.9	3.9	3.9
Dena	1.4	1.4	1.3	1.3	1.3	1.3	1.4	1.3	1.3	1.3
Vijaya	1.3	1.3	1.3	1.2	1.2	1.2	1.4	1.5	1.5	1.5
Combined entity	6.4	6.4	6.5	6.5	6.6	6.6	6.7	6.7	6.8	6.7
<b>Deposit (%)</b>										
BOB	5.3	5.7	6.3	6.8	7.2	6.9	6.0	5.6	5.2	5.1
Dena	1.1	1.2	1.3	1.4	1.4	1.3	1.2	1.1	0.9	0.9
Vijaya	1.4	1.4	1.4	1.4	1.6	1.4	1.3	1.2	1.4	1.4
Combined entity	7.8	8.2	9.0	9.5	10.1	9.6	8.5	7.9	7.4	7.3
<b>Credit (%)</b>										
BOB	5.2	5.6	6.0	5.9	6.3	6.2	5.1	4.8	4.9	4.8
Dena	1.1	1.1	1.2	1.2	1.2	1.1	1.1	0.9	0.8	0.7
Vijaya	1.2	1.2	1.2	1.3	1.3	1.3	1.2	1.2	1.3	1.4
Combined entity	7.5	7.9	8.4	8.4	8.9	8.6	7.4	7.0	7.0	6.8

Source: Company, Kotak Institutional Equities

**Exhibit 4: The combined entity would have overlap in West but get coverage in South**  
Geographical distribution and share of branches across regions, March fiscal year-ends, 2016-17 (#)

	BOB	Dena	Vijaya	Combined	Industry	Share (%)
East	189	41	42	272	5,774	4.7
North-East	10	1	8	19	737	2.5
West	1,433	487	284	2,205	26,894	8.2
North	446	101	166	713	16,545	4.3
South	347	71	429	846	21,669	3.9
Central	384	48	39	470	6,635	7.1
<b>Total</b>	<b>2,809</b>	<b>748</b>	<b>968</b>	<b>4,525</b>	<b>78,254</b>	<b>5.8</b>

Notes:

(a) Data for BOB is as of FY2016 while that of Vijaya bank is as of FY2017.

Source: Company, Kotak Institutional Equities

**Exhibit 5: Share in western India would be impressive at 14% of the overall loans**  
Geographical distribution of loans across regions, March fiscal year-ends, 2016-17 (#)

	BOB	Dena	Vijaya	Combined	Industry	Share (%)
East	661	151	143	955	22,377	4.3
North-East	56	15	50	121	3,741	3.2
West	1,534	1,027	279	2,840	20,803	13.7
North	961	201	251	1,413	25,515	5.5
South	593	181	1,043	1,817	39,151	4.6
Central	1,525	299	264	2,088	27,653	7.6
<b>Total</b>	<b>5,330</b>	<b>1,874</b>	<b>2,030</b>	<b>9,234</b>	<b>1,39,240</b>	<b>6.6</b>

Notes:

(a) Data for BOB is as of FY2016 while that of Vijaya bank is as of FY2017.

Source: Company, Kotak Institutional Equities

**Exhibit 6: CAR would decline for BoB by 50bps of which CET-1 would decline by 70bps to**  
Impact on capital adequacy ratios due to merger, March fiscal year-ends, 2018

	Bank of Baroda	Vijaya Bank	Dena Bank	Combined
<b>Capital adequacy ratios (Rs mn)</b>				
RWA	42,01,810	8,67,989	8,31,744	59,01,544
Tier-1 capital	4,73,521	86,474	75,232	6,35,226
CET-1 capital	4,23,478	73,275	60,217	5,56,969
AT-1 capital	50,043	13,199	15,015	78,257
Tier-II capital	67,151	24,041	19,490	1,10,682
Total capital	5,40,672	1,10,515	94,722	7,45,909
<b>Capital adequacy ratios (%)</b>				
Tier-1 capital	11.3	10.0	9.0	10.8
CET-1 capital	10.1	8.4	7.2	9.4
AT-1 capital	1.2	1.5	1.8	1.3
Tier-II capital	1.6	2.8	2.3	1.9
Total capital	12.9	12.7	11.4	12.6

Source: Company, Kotak Institutional Equities

Exhibit 7: Key estimates that can change for Bank of Baroda

	Current estimates			Merged estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
<b>Balance sheet and P&amp;L</b>									
PAT (Rs bn)	34	37	40	34	52	53	-	40.9	33.8
Net worth (Rs bn)	485	551	626	485	783	883	-	42.0	41.1
RoA (%)	0.7	0.9	0.9	0.7	1.0	0.9	-	0.1	-0.0
ROE (%)	12.7	14.0	13.7	12.7	15.2	13.2	-	1.3	-0.4
<b>Impairment related</b>									
Gross NPLs (Rs bn)	556	468	381	556	687	567	-	46.7	49.1
Gross NPLs (%)	10.8	8.2	6.0	10.8	8.9	6.8	-	-	-
Net NPLs (Rs bn)	229	183	143	229	279	222	-	53.0	55.3
Net NPLs (%)	4.8	3.4	2.4	4.8	3.9	2.8	-	-	-
Provision coverage (%)	58.8	61.0	62.4	58.8	59.3	60.9	-	-	-
<b>Valuation metrics</b>									
Book value (Rs)	172	198	227	172	211	241	-	6.6	6.2
Adjusted book value (Rs)	116	153	192	116	159	200	-	3.9	4.0
EPS (Rs)	21	26	29	21	26	30	-	0.6	2.9
Number of shares (Rs mn)	2,652	2,652	2,652	2,652	3,496	3,496	-	31.8	31.8
PBR (X)	0.8	0.7	0.6	0.8	0.6	0.6	-	-	-
PBR (Adj, X)	1.2	0.9	0.7	1.2	0.8	0.7	-	-	-
PER (X)	6.6	5.2	4.6	6.6	5.2	4.5	-	-	-

## Notes:

- (a) We have assumed the combine financials for FY2020. RoA and RoE for FY2020 would be elevated as we are looking at the average of standalone and consolidated business
- (b) We have assumed that this would be a share swap transaction at current market price

Source: Company, Kotak Institutional Equities

**Exhibit 8: Stressed assets are high at 16% for the combined entity**

Stressed assets for the combined entity, March fiscal year-ends, 1QFY18-1QFY19 (Rs mn)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
<b>PSU banks</b>					
<b>Bank of Baroda</b>					
GNPL	4,61,773	4,63,068	4,84,804	5,64,804	5,58,748
Standard restructured	1,18,190	1,17,220	90,206	54,972	-
Others (including overlaps)	1,53,970	1,10,700	2,33,910	1,00,390	86,000
SDR	34,850	39,330	21,670		
S4A	26,120	34,320	34,490		
05:25		37,050	37,750		
SMA-2	93,000		1,40,000		
Watchlist				1,00,390	86,000
<b>Total stressed assets</b>	<b>7,33,933</b>	<b>6,90,988</b>	<b>8,08,920</b>	<b>7,20,166</b>	<b>6,44,748</b>
(% of net advances)	19.4	17.8	20.3	16.8	15.6
<b>Vijaya Bank</b>					
GNPL	68,122	66,486	68,291	75,261	75,791
Standard restructured	14,600	13,990	13,990	13,990	3,260
Others (including overlaps)	-	-	15,957	9,735	11,100
SDR	-	-	4,675	173	1,700
S4A	-	-	1,234	347	360
05:25	-	-	10,049	9,216	9,040
SMA-2					
<b>Total stressed assets</b>	<b>82,722</b>	<b>80,476</b>	<b>98,239</b>	<b>98,986</b>	<b>90,151</b>
(% of net advances)	9.06	8.7	9.1	8.5	7.5
<b>Dena bank</b>					
GNPL	1,29,942	1,32,013	1,41,688	1,63,616	1,58,661
Standard restructured	64,555	63,985	61,736	64,285	60,309
<b>Total stressed assets</b>	<b>1,94,496</b>	<b>1,95,998</b>	<b>2,03,424</b>	<b>2,27,902</b>	<b>2,18,970</b>
(% of net advances)	28.0	27.7	31.0	34.7	36.1
<b>BOB+Vijaya bank+Dena bank</b>					
GNPL	6,59,836	6,61,567	6,94,784	8,03,681	7,93,200
Standard restructured	1,97,345	1,95,195	1,65,932	1,33,247	63,569
Others (including overlaps)	1,53,970	1,10,700	2,49,867	1,10,125	97,100
SDR	34,850	39,330	26,345	173	1,700
S4A	26,120	34,320	35,724	347	360
05:25	-	37,050	47,799	9,216	9,040
SMA-2	93,000	-	1,40,000	-	-
Watchlist	-	-	-	1,00,390	86,000
<b>Total stressed assets</b>	<b>10,11,151</b>	<b>9,67,462</b>	<b>11,10,582</b>	<b>10,47,054</b>	<b>9,53,869</b>
(% of net advances)	18.8	17.6	19.4	17.2	16.0

Note:

1) Standard restructured advances for Vijaya Bank for 2QFY18 and 3QFY18 are assumed values.

Source: Company, Kotak Institutional Equities

**Exhibit 9: Corporate sector has been a source of concern for all these banks**

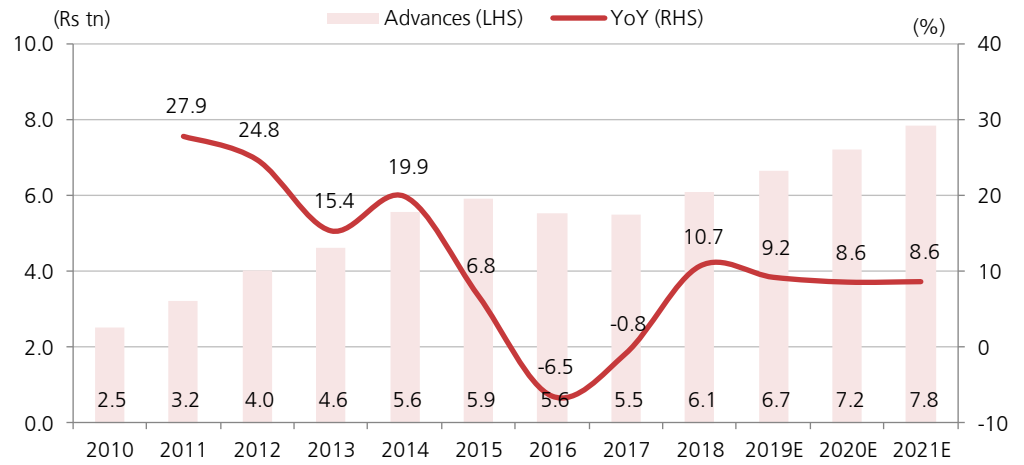
Break-up of NPLs across sectors, March fiscal year-ends, 2014-18 (%)

	Agri and allied					Industry					Services					Personal loans					Total				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
BoB	5.1	5.3	10.7	11.3	12.7	5.0	7.2	19.1	19.8	23.9	2.0	2.9	8.1	6.7	12.1	2.0	2.9	8.1	6.7	12.1	3.6	4.6	11.9	11.7	13.7
Dena	4.3	7.1	8.7	12.9	16.2	4.5	8.1	19.7	32.9	44.0	4.4	6.6	14.1	12.6	19.1	2.0	4.6	4.9	8.7	9.3	NA	6.3	11.3	18.2	23.7
Vijaya	3.1	2.8	4.1	4.3	3.6	2.1	4.0	13.9	14.4	7.1	1.6	2.0	5.6	0.9	2.6	2.9	0.6	0.4	2.9	0.8	2.4	2.8	6.6	6.6	5.5
Total	5.7	5.9	6.5	7.3	9.5	4.9	6.8	14.9	18.5	25.5	3.6	4.1	6.1	7.8	10.3	2.2	2.3	3.3	3.3	3.6	4.3	5.2	9.7	11.7	15.4
Combined	NA	5.1	9.0	10.3	11.4	NA	6.5	18.1	21.0	20.5	NA	3.0	8.2	6.5	11.4	NA	3.0	6.3	6.3	10.9	NA	4.6	10.8	11.8	13.4

Source: Company, Kotak Institutional Equities

**Exhibit 10: Growth in advances to remain modest**

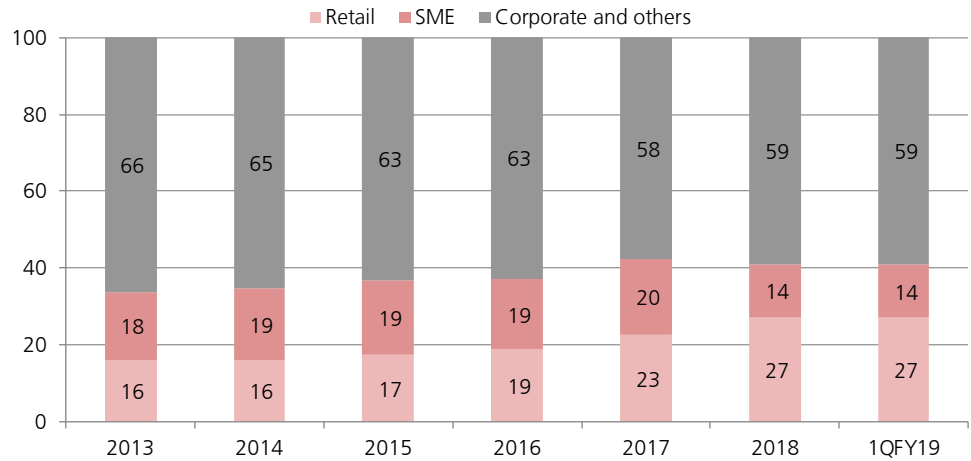
Advances for the combined entity, March fiscal year-ends, 2010-2021E



Source: Company, Kotak Institutional Equities estimate

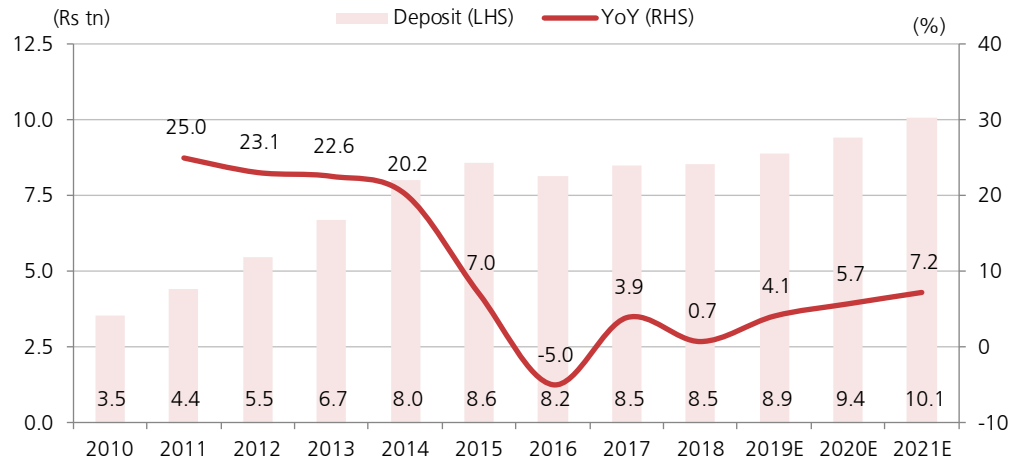
**Exhibit 11: Share of retail products on the rise**

Advances mix for the combined entity, March fiscal year-ends, 2010-1QFY19 (%)



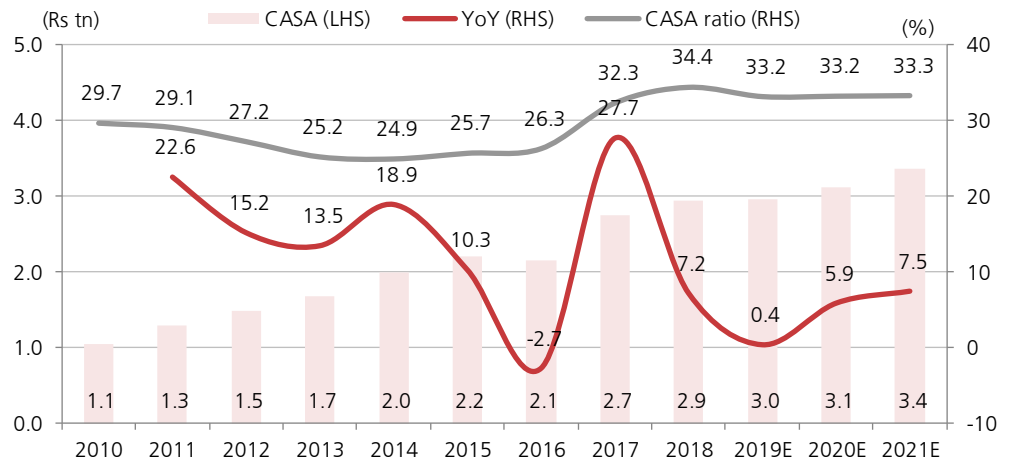
Source: Company, Kotak Institutional Equities estimate

**Exhibit 12: Deposit growth to improve over FY2018-21E**  
 Deposits for the combined entity, March fiscal year-ends, 2010-2021E



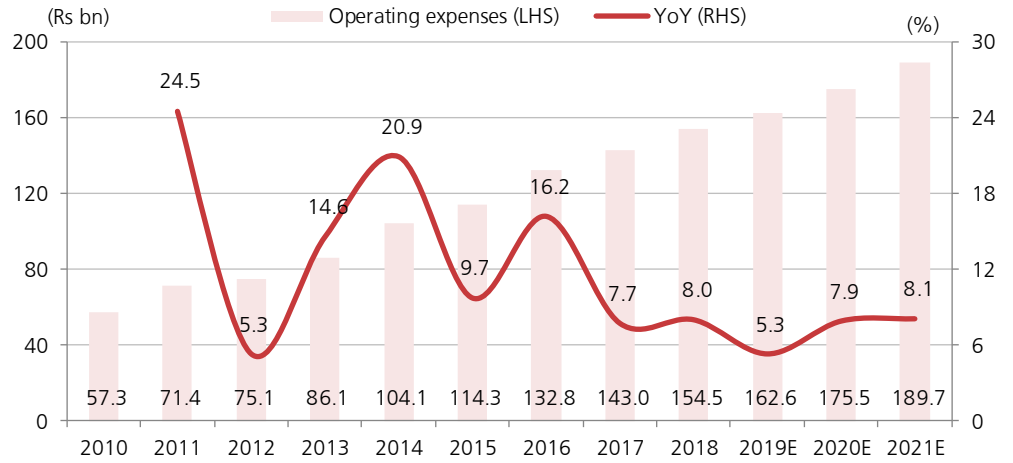
Source: Company, Kotak Institutional Equities estimate

**Exhibit 13: Stable CASA ratio at 33-34%**  
 CASA for the combined business, March fiscal year-ends, 2010-2021E



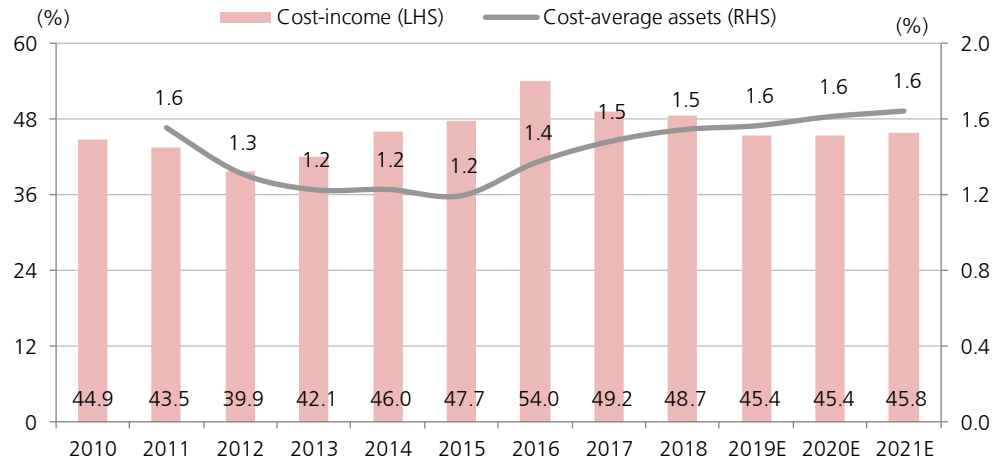
Source: Company, Kotak Institutional Equities estimate

**Exhibit 14: Cost pressure to reduce but merger benefits to take time on cost rationalization**  
 Operating expenses, March fiscal year-ends, 2010-2021E



Source: Company, Kotak Institutional Equities estimate

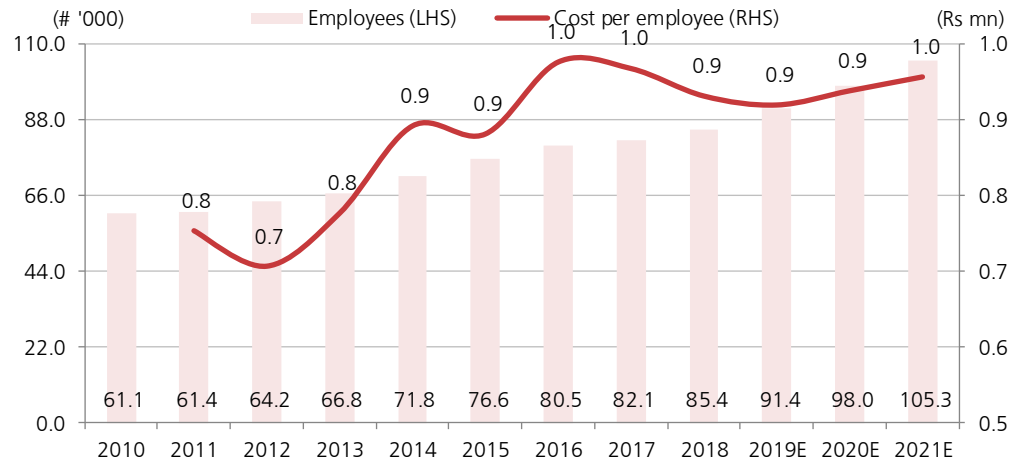
**Exhibit 15: Cost-income to drop to ~46% by FY2021E**  
 Cost-income and cost-average assets, March fiscal year-ends, 2010-2021E



Source: Company, Kotak Institutional Equities estimate

**Exhibit 16: Stable cost per employee**

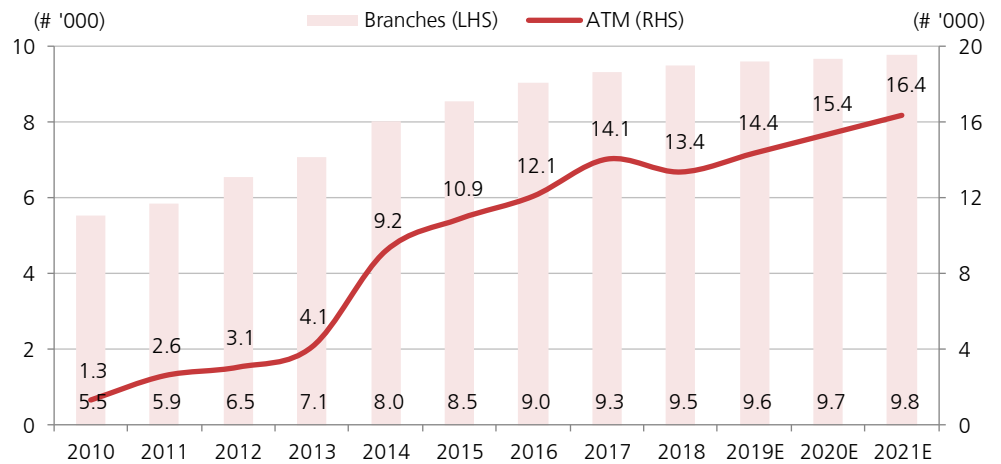
Employees and cost per employee, March fiscal year-ends, 2010-2021E



Source: Company, Kotak Institutional Equities estimate

**Exhibit 17: Network expansion to slow down**

Geographic footprint, March fiscal year-ends, 2010-2021E



Source: Company, Kotak Institutional Equities estimate



SEPTEMBER 18, 2018

UPDATE

BSE-30: 37,586

**Dawn of a new era for railways.** With phased operationalization of western and eastern DFCs over FY2019-21, Indian Railways is set to witness an improvement in its operating ratios over the next few years. Market leader Concor will be in an advantageous position compared to peers due to DFCCIL's construction of feeder routes. DFCCIL's standardization efforts will also ensure faster implementation of four new DFCs currently under consideration. Together, the DFC system has the potential to improve financials for Indian Railways and logistics efficiency for the country.

#### Dedicated freight corridors set to improve financials of Indian Railways

The concession agreement between DFCCIL and Indian Railways (IR) envisages a cost-plus pricing mechanism. In order to use the DFC infrastructure, Indian Railways will pay DFCCIL a 'Track Access Charge (TAC)' that will include a fixed charge, a volume-dependent variable charge and return on equity for DFCCIL. Under this mechanism, Indian Railways' operating ratio on two freight corridors will be ~38%, significantly lower than the overall 96% operating ratio of Indian Railways marred by loss-making passenger train operations. DFCCIL's business plan projects ~390 mn tons of traffic on the two corridors by FY2022, ~25-30% of total freight volumes of railways. Further, the corresponding capacity freed up on the conventional network can be utilized to run more profitable passenger trains such as Rajdhani and Shatabdi. DFCs can thus meaningfully improve operating ratio and profitability for Indian Railways.

#### Market leader Concor to be key beneficiary of DFCCIL's policies

Feeder routes will be of paramount importance to DFCCIL in order to widen the catchment area of the corridors and garner more cargo volumes. DFCCIL is setting up such feeder routes to locations (ports and ICDs) that provide high volume potential for DFC. Out of 6,000 km of feeder routes identified by DFCCIL, 85% have already been completed and the rest are expected to be completed within a year. For other locations, private operators can submit a proposal to establish connectivity to DFC at their own expense. DFCCIL has well-documented policies in place to approve such private connections while ensuring minimum disruption to the corridor traffic.

Market leader Concor, with 73% market share in container rail logistics, will thus be the key beneficiary of this policy as Concor will get connectivity to DFC corridors at several locations without incurring feeder route capex on its own account. Smaller players with lower volume potential for DFCs will be at a disadvantage as they will have to establish such connectivity at their own expense.

#### Organizational learning to improve implementation pace of additional proposed DFCs

In our interaction, the Director (Infrastructure) of DFCCIL highlighted the reasons for time overruns in the implementation of WDFC and EDFC. Many of the products and systems used in DFCs are global first in their own right. Simulation, testing and validation of those products from various vendors took nearly two years before they could be approved for use. With this learning experience, DFCCIL has decided to standardize these products and systems for faster clearances in the future. Also, the entity is putting in place processes to allow parallel work progress on various aspects of a freight corridor. This will help improve the execution pace for four new DFC corridors worth over 6,000 km length currently under consideration to ~5-6 years. Successful implementation of the existing DFCs and construction of new ones can thus materially improve the financials of Indian Railways and can improve the logistics sector in India.

Aditya Mongia

Ajinkya Bhat

## A WINDOW INTO DFCCIL'S BUSINESS PLAN

Our interaction with DS Rana, Director (Infrastructure) of DFCCIL, provided insights into the business development plan of DFCCIL. Key takeaways from this interaction are fourfold: (1) an elaborate concession agreement signed with Indian Railways ensures DFC's financial viability, (2) bottlenecks in realizing DFC's full potential are progressively being removed, (3) further business development efforts are being undertaken beyond the concession agreement and (4) standardization of designs, products and processes will ensure faster execution of the additional freight corridors being planned across the country.

Both corridors are scheduled to be commissioned before December 2020

### Introduction

On August 15, 2018, a 190-km section of western DFC between Ateli (Haryana) and Phulera (Rajasthan) was opened for a trial-run. Following this inauguration, both the western and eastern corridors of DFC are scheduled to be commissioned in various phases over August 2018 to December 2020. We met the Director (Infrastructure) of DFCCIL to understand the status of the projects and DFCCIL's business development plan. The interaction provided comfort on the viability of the project, well-focused efforts to increase the business potential and organizational learning gained in the process that will ensure faster execution of more such corridors being planned across the country. The concept of DFCs and the scale of its implementation are set to shake up the rail freight industry and the logistics sector at large.

**Exhibit 1: All DFC sections are scheduled to be commissioned in phases over Aug 2018 to Dec 2020**  
Status of various sections of western and eastern DFC

	Civil works awarded (km)	Work completed (Jan 2018)	Awarded to	Awarded in	Target commissioning
<b>Western DFC</b>					
Dadri-Rewari	127	12%	L&T-Solitz	Oct-2016	Dec-2020
Rewari-Iqbalgarh	639	66%	L&T-Solitz	Jun-2013	Feb-2019
Iqbalgarh-Vadodara	308	16%	L&T-Solitz-Gayatri Projects	May-2016	Jun-2020
Vadodara-Sachin	133	9%	Mitsui-Tata Projects	Aug-2015	Nov-2019
Sachin-Vaitarna	186	10%	Mitsui-Tata Projects	Aug-2015	Nov-2019
Vaitarna-JNPT	102	7%	Mitsui-Tata Projects	Jul-2016	Dec-2020
<b>Overall implied progress (Western DFC)</b>	<b>1,368</b>	<b>37%</b>			
<b>Eastern DFC</b>					
Ludhiana-Pilkhani	179	14%	GMR-SIL	Jun-2016	Jun-2020
Pilkhani-Khurja	222	0%	L&T	Feb-2018	Jun-2020
Dadri-Khurja	46	14%	GMR-SIL	Jun-2016	Dec-2018
Khurja-Bhaupur	343	75%	Tata-Aldesa	Jan-2013	Aug-2018
Bhaupur-Mughalsarai	402	27%	GMR-SIL	Nov-2014	Dec-2018
Durgawati-Sasaram	56	100%	Indian Railways	Jan-2017	Work completed
Mughalsarai-Son nagar (balance portion)	70	46%	Indian Railways	Jan-2017	Dec-2018
<b>Overall implied progress (Eastern DFC)</b>	<b>871</b>	<b>52%</b>			

Source: DFCCIL, press reports, Kotak Institutional Equities

Cost-plus model with Track Access Charge and mandatory 70% traffic transfer

### DFCCIL's business model

#### Concession agreement with Indian Railways

The relationship between DFCCIL and Indian Railways is that of a concessionaire and concessioner authority, respectively. DFCCIL's corporate plan states the salient points of this concession agreement as follows:

- ▶ Indian Railways has provided land and associated railway infrastructure to DFCCIL for implementation of the project.
- ▶ DFCCIL has to operate and maintain the DFC infrastructure for a period of 30 years from the date of commissioning.

- ▶ DFCCIL will accept freight trains on its system, will operate them on DFC, and will hand them back to Indian Railways or other qualified operators at the other end. DFCCIL will not own any rolling stock.
- ▶ **Track Access Charge (TAC).** DFCCIL will receive a user charge from Indian Railways called 'Track Access Charge' in return for its services. Since Indian Railways is currently the single buyer of DFC services and the sole owner, the track access charge has been designed to recoup all the fixed costs and variable costs from Indian Railways. TAC consists of three parts – (1) cost of capital, (2) operating costs and (3) depreciation.
  - Cost of capital includes interest on debt, interest on working capital and return on equity.
  - Operating costs include operating and maintenance expenses including electricity cost.
  - Depreciation being a non-cash expense, a related access charge will be used to pay down principal of loan and maintain value of equity by part-funding renewals.

**The fixed components of the total access charge (cost of capital and depreciation) will be allocated on a per train-path basis.** Both WDFC and EDFC are designed to be able to run up to 120-130 trains per day in each direction, providing 240-260 daily train-paths on each corridor. Indian Railways will bear the fixed charges under TAC for all the unused train-paths. For the train-paths used by Indian Railways, it will bear fixed charges as well as variable charge on a per gross ton-km (GTKM) basis.

Under non-discriminatory access, if a private operator uses DFC network on its own account, that operator will pay the TAC (both fixed and variable components) for the train-paths used by the operator.

*The mechanism is similar to the standard 'cost-plus' model seen in regulated-tariff power projects and other infrastructure assets.*

- ▶ As far as end-customers are concerned, Indian Railways will continue to interface with the customers and will thus determine tariffs charged for transportation of bulk commodities and haulage charges for container train operators.
- ▶ **Mandatory traffic diversion.** As per the concession agreement, Indian Railways will have to transfer at least 70% of the traffic along the corresponding conventional routes to WDFC and EDFC in each of the years of the concession agreement.

### Traffic and financial projections

DFCCIL's corporate plan projects total traffic of ~390 mn tons on the two freight corridors by FY2022. Traffic on western DFC will be dominated by containers constituting ~40% of total traffic on the corridor, followed by imported coal constituting ~15% share. On eastern DFC, domestic coal transport will constitute ~55% of the traffic by FY2022. The business plan also envisages road-to-rail shift of cargo to contribute ~10% of volumes on WDFC and ~6% of volumes on EDFC. These numbers are reflective of the cargo composition. As the JNPT-NCR route is dominated by container freight, the shift of cargo from road to rail would be easier on WDFC than EDFC where bulk commodities dominate the trade and are already being transported largely on rail. Over FY2018-22E, the traffic projections by DFCCIL expect a volume CAGR of 7.5% on WDFC and 4.4% on EDFC.

Containers will dominate WDFC, coal will dominate EDFC

Modal shift from road to rail will constitute limited <10% of projected volumes

**Exhibit 2: Containers will be the key cargo contributor on WDFC and coal will be the key commodity transported on EDFC**  
Traffic projections by DFCCIL on WDFC and EDFC, March fiscal year-ends, 2018-22E (MMTPA)

Western DFC						Eastern DFC					
Commodity	2018E	2019E	2020E	2021E	2022E	Commodity	2018E	2019E	2020E	2021E	2022E
Container	45.6	49.8	54.3	59.2	64.6	Container	6.2	6.7	7.2	7.8	8.5
Coal	21.5	22.4	23.3	24.2	25.2	Coal	102.2	106.2	110.5	114.9	119.5
Food grains	8.1	8.4	8.6	8.8	9.1	Food grains	13.8	14.2	14.6	15.0	15.4
Fertilizer	11.5	11.9	12.4	12.9	13.4	Fertilizer	5.2	5.4	5.6	5.9	6.1
Cement	6.3	6.8	7.3	7.9	8.5	Cement	9.3	10.0	10.8	11.7	12.6
Steel	1.6	1.7	1.9	2.0	2.2	Steel	11.8	12.7	13.7	14.8	15.9
POL	6.7	6.9	7.0	7.2	7.3	POL	4.1	4.1	4.2	4.3	4.4
Miscellaneous	6.6	6.8	7.0	7.2	7.4	Miscellaneous	21.3	21.9	22.6	23.3	24.0
<b>Total</b>	<b>107.9</b>	<b>114.7</b>	<b>121.8</b>	<b>129.4</b>	<b>137.7</b>	<b>Total</b>	<b>173.8</b>	<b>181.3</b>	<b>189.3</b>	<b>197.6</b>	<b>206.3</b>
Modal shift from road	12.7	13.3	14.0	14.7	15.4	Modal shift from road	10.9	11.4	12.0	12.6	13.2
DMIC traffic	4.6	6.1	8.0	10.6	14.0	AKIC traffic	—	—	—	—	—
<b>Grand total</b>	<b>125.2</b>	<b>134.1</b>	<b>143.8</b>	<b>154.7</b>	<b>167.1</b>	<b>Grand total</b>	<b>184.6</b>	<b>192.8</b>	<b>201.3</b>	<b>210.2</b>	<b>219.6</b>

Notes:

(a) DMIC: Delhi-Mumbai Industrial Corridor.

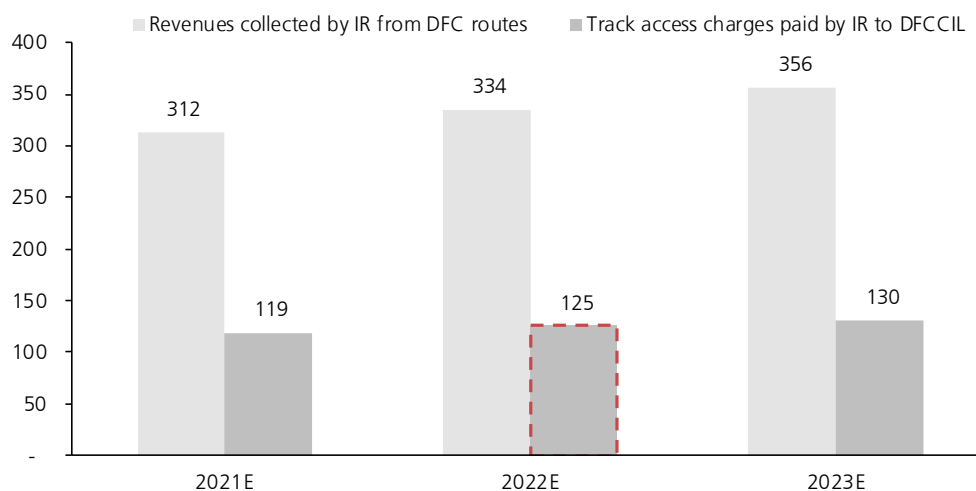
(b) AKIC: Amritsar-Kolkata Industrial Corridor.

(c) Figures before the commissioning of respective DFCs are pro-forma estimates by DFCCIL.

Source: DFCCIL, Kotak Institutional Equities

DFCCIL expects that Indian Railways will earn revenue of ~₹334 bn from the two corridors by FY2022 and will pay Track Access Charges of ~₹125 bn to DFCCIL.

**Exhibit 3: DFCCIL's business plan projects Track Access Charges of Rs125 bn by FY2022**  
Freight revenue for Indian Railways on DFC routes and corresponding Track Access Charges expected by DFCCIL, March fiscal year-ends, 2021E-23E (Rs bn)



Source: DFCCIL, Kotak Institutional Equities

DFCs will make railway more competitive on tariff and will improve its operating ratio

A comparison with DFCCIL pro-forma FY2018 volume projections on the two corridor routes indicates that the tariff on per NTKM basis would be lower on DFCs than the current rail network, making railway more competitive for freight transport, a direct result of O&M efficiencies brought in by DFCs and a key goal of the project.

Indian Railways thus may be earning the same nominal freight revenue on the two concerned routes in FY2022, but will earn it at a much better operating ratio of just 38% on DFC routes compared to the conventional rail currently operating at overall 96% operating ratio. This is largely because DFC operations will not suffer from bloated staff costs and pension fund expenses that together take away 52% of revenues of Indian Railways.

Moreover, the conventional network today has been marred by lossmaking passenger train operations. The conventional rail capacity freed up by DFCs can be subsequently used to run more profitable passenger trains such as Rajdhani and Shatabdi.

**Exhibit 4: Good growth in NTKM by FY2022 may not reflect in revenues but will improve operating ratio for Indian Railways**

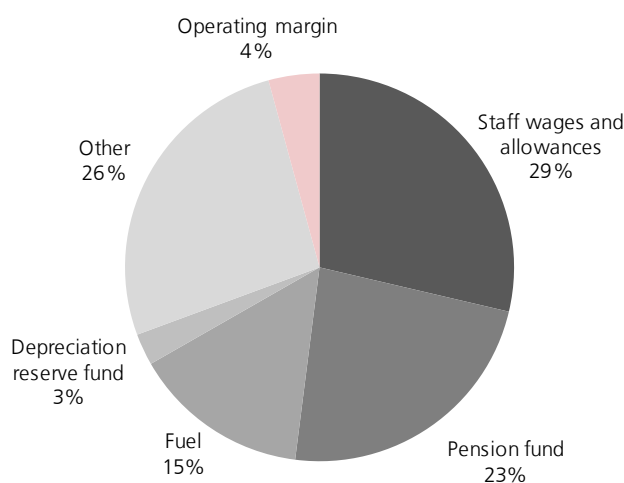
Analysis of traffic projections by DFCCIL, March fiscal year-ends, FY2018 pro-forma and FY2022E

	2018 pro-forma	2022E
<b>Tonnage</b>		
Total traffic (mn tonnes)	310	387
<b>NTKM</b>		
WDFC (mn NTKM)	93,178	128,064
EDFC (mn NTKM)	101,192	178,054
<b>Total traffic (mn NTKM)</b>	<b>194,370</b>	<b>306,118</b>
<b>Earnings (Rs/NTKM)</b>	<b>1.72</b>	<b>1.09</b>
<b>Implied / projected revenues for IR from DFC (Rs bn)</b>	<b>334</b>	<b>334</b>
Track Access Charges (Rs bn)	NA	125
<b>Operating ratio for IR on DFC routes (%)</b>	<b>95.8</b>	<b>37.5</b>

Source: DFCCIL, Indian Railways freight statistics for FY2018, Kotak Institutional Equities analysis

**Exhibit 5: DFCs will not suffer from the bloated staff and pension costs of Indian Railways**

Breakup of expenses of Indian Railways, March fiscal year-end, 2018 RE (%)



Source: Budget documents, Kotak Institutional Equities

DFCs are expected to be cash breakeven right from the first year of operations

In our discussions, Director (Infrastructure) of DFCCIL indicated that average cost of debt for the project would be ~6% (forex debt + hedging cost) while the EBITDA margin for DFC operations is expected to be slightly under 40%. With these inputs, DFCCIL will need revenues of ₹97 bn to be able to service debt and be cash breakeven. If DFCCIL's projections materialize, the entity could be cash breakeven right from the first year of operations.

**Exhibit 6: DFC operations are expected to be cash breakeven right from the first year of operations**

Analysis of cash breakeven revenue requirement for DFCs

Parameter	Value	Comment
Project cost (Rs bn)	810	Total project cost
Debt (Rs bn)	567	Assuming 70% debt mix
Average interest cost (%)	6.0%	Forex debt+ hedging cost, with input from DFCCIL official
Annual interest expense (Rs bn)	34	
EBITDA margin (%)	35.0%	DFCCIL official indicated EBITDA margin slightly less than 40%
<b>Cash breakeven revenue (Rs bn)</b>	<b>97</b>	<b>Revenue required to cover interest cost</b>
<b>Track Access Charges expected in base year FY2021E (Rs bn)</b>	<b>119</b>	<b>DFCCIL business plan projection in base year FY2021E</b>

Source: DFCCIL, Kotak Institutional Equities estimates

### Removing bottlenecks to realize full potential of DFCs

The Director (Infrastructure) of DFCCIL, Mr DS Rana, listed the steps being taken to remove various bottlenecks in realizing full potential of the capacity being created by DFCs. These efforts are detailed below:

- ▶ **Feeder routes.** Feeder routes are essential to connect the cargo originating and consumption areas to the trunk infrastructure created by DFCs and thus expand the serviceable catchment area for the two corridors. DFCCIL has incurred expenditure on constructing feeder routes to those areas, which provide large volume potential for DFC. Such policy thus inherently favors connectivity to ICDs of the market leader while smaller players may have to establish feeder connectivity to DFCs at their own expense.
  - ▶ Out of 6,000 km of feeder routes identified by DFCCIL, work on ~85% of the routes has been already completed while the balance is expected to be completed in the next one year. For other areas, private port and ICD operators have submitted proposals to establish a connection to DFC at their own expense. DFCCIL's well-formulated policy ensures minimal disruption to the corridor traffic due to such private track connectivity.
- ▶ **High axle-load wagons.** The Divisional Safety Officer (DSO) has not yet approved the design of new 25-ton axle load wagons to be used on DFC. Mr Rana, however, asserted that the design has been submitted to the DSO and is currently under simulation, testing and validation. The recently commissioned Ateli-Phulera section is being used as a test-track for testing as well as data gathering for simulation input. DFCCIL expects the new wagon design to get approved in the near term.
- ▶ **ICD capacity.** DFCCIL has constructed specially designed stations at every 40 km on the freight corridors to handle the high capacity trains. Further, DFCCIL is also creating multi-modal logistics parks (MMLPs) in collaboration with DMIC at various places such as Sanand, Dadri and Kanpur. These terminals will act as logistics hubs providing not only traditional ICD services but also warehousing and other value-added services.

### Additional business development efforts

Apart from MMLPs being established in collaboration with DMIC, DFCCIL is also exploring which industrial clusters and new cities planned along DMIC can be connected with feeder routes to DFC. DFCs will thus emerge as the freight transport backbones for the industrial corridor projects.

Further, DFCCIL has also proposed modifications to the concession agreement with Indian Railways to allow an alternate reverse revenue collection mechanism. In the proposed modifications, DFCCIL would collect revenues for traffic originating as well as terminating on DFC track and will pay a reverse usage charge to Indian Railways for using the railway rolling stock. Such mechanism will incentivize efficient operations and market pricing by DFCCIL.

### Standardizations will ensure faster execution of additional freight corridors

The Director (Infrastructure) explained that the DFC corridors required many global first in terms of design specifications of various products. Multiple contractors submitting different product or system designs and changing them across different work packages of the projects led to delays. Simulation, testing and validation of such varied designs and products took nearly two years according to the official. DFCCIL has, however, gone through the institutional learning process during the execution of the two DFCs. As a result, several products, processes and designs are being standardized which will thus be pre-approved. Also, the entity has instituted processes to allow parallel work of several aspects of a project. By streamlining processes, execution period of new proposed corridors can be cut down significantly. There are currently four new DFC corridors at the proposal stage and are being studied by consultants to prepare DPRs. Mr DS Rana asserted that DFCCIL will be able to implement a new corridor in 5-6 years from the date of sanctioning.

Exhibit 7: Four new dedicated freight corridors worth over 6,000 km are under consideration  
List of proposed DFCs under consideration

Corridor	Section	Length (kms)
North-South corridor	Delhi-Chennai	2,327
East-West corridor	Kolkata-Mumbai	2,328
East Coast corridor	Kharagpur-Vijayawada	1,114
Southern corridor	Chennai-Goa	892
<b>Total</b>		<b>6,661</b>

Source: DFCCIL, 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)
		17-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>NBFCs</b>																													
Bajaj Finance	SELL	2,605	2,000	(23.2)	1,505	20.8	575	68	90	114	56.6	31.9	27.3	38.3	29.1	22.8	—	—	—	7.8	6.3	5.1	22.4	24.0	24.6	0.3	0.3	0.4	60.9
Bajaj Finserv	REDUCE	6,550	6,100	(6.9)	1,042	14.4	159	245	307	376	39.7	25.2	22.5	26.7	21.3	17.4	—	—	—	4.2	3.6	3.0	17.5	18.1	18.6	0.2	0.2	0.2	19.6
Bharat Financial Inclusion	NA	1,160	—	—	163	2.2	139	43	54	69	31.1	27.2	25.8	27.1	21.3	16.9	—	—	—	4.4	3.6	2.9	17.9	18.5	19.0	—	—	—	9.8
Cholamandalam	REDUCE	1,317	1,500	13.9	206	2.8	156	90	110	136	44.8	22.1	23.4	14.6	12.0	9.7	—	—	—	3.4	2.8	2.2	24.5	24.3	24.3	0.8	1.0	1.2	7.2
HDFC	ADD	1,879	2,075	10.4	3,179	43.9	1,676	56	67	81	(25.8)	19.0	21.2	33.6	28.2	23.3	—	—	—	4.3	3.9	3.5	13.8	14.5	16.0	1.1	1.3	1.6	73.5
HDFC Standard Life Insurance	SELL	413	405	(1.9)	832	11.5	2,007	6	7	8	14.8	10.9	14.7	65.0	58.6	51.1	—	—	—	17.2	15.4	13.7	28.0	27.7	28.4	0.4	0.4	0.5	7.1
ICICI Lombard	SELL	888	620	(30.1)	403	5.6	454	26	32	37	37.1	21.5	18.5	34.1	28.1	23.7	—	—	—	7.5	6.2	5.2	23.8	24.2	24.0	0.7	0.8	1.0	3.2
ICICI Prudential Life	BUY	362	500	38.0	520	7.2	1,436	12	13	15	10.1	7.0	10.0	29.2	27.3	24.8	—	—	—	6.5	5.5	4.6	24.5	21.8	20.2	0.6	0.6	0.7	8.2
IIFL Holdings	SELL	634	625	(1.4)	202	2.8	319	38	45	52	31.5	18.6	16.0	16.9	14.2	12.3	—	—	—	3.0	2.6	2.2	20.5	20.0	20.0	1.3	1.5	1.7	1.7
L&T Finance Holdings	ADD	156	190	22.0	311	4.3	1,996	13	14	16	70.9	22.3	12.8	12.4	11.1	9.8	—	—	—	2.2	1.9	1.7	18.9	18.8	18.3	1.3	1.6	1.5	15.3
LIC Housing Finance	ADD	476	610	28.0	240	3.3	505	50	58	66	14.1	16.2	14.6	9.6	8.2	7.2	—	—	—	1.5	1.3	1.2	17.4	16.9	16.8	1.6	1.9	2.2	15.5
Magma Fincorp	BUY	134	190	41.3	36	0.5	237	13	17	21	34.0	31.8	23.0	10.3	7.8	6.4	—	—	—	1.3	1.2	1.0	13.9	15.8	17.0	1.5	1.9	2.4	1.0
Mahindra & Mahindra Financial	REDUCE	441	500	13.5	272	3.8	614	23	28	34	58.4	23.2	18.6	19.2	15.6	13.1	—	—	—	2.8	2.5	2.2	14.3	15.8	16.7	1.4	1.8	2.1	11.0
Max Financial Services	ADD	474	650	37.0	127	1.8	268	6	6	6	36.9	1.8	1.8	75.6	74.3	73.0	—	—	—	—	—	—	8.3	8.0	7.8	—	0.5	0.5	5.1
Muthoot Finance	ADD	450	480	6.8	180	2.5	400	40	42	48	(7.8)	6.0	14.8	11.3	10.7	9.3	—	—	—	2.0	1.8	1.6	19.0	17.6	17.8	2.0	2.2	2.5	6.1
PNB Housing Finance	REDUCE	1,280	1,325	3.5	214	3.0	167	62	75	92	25.3	20.9	22.4	20.5	17.0	13.9	—	—	—	3.0	2.6	2.2	15.2	15.9	17.0	0.3	0.3	0.3	4.8
SBI Life Insurance	ADD	643	785	22.2	643	8.9	1,000	15	18	21	26.0	22.9	17.0	44.2	36.0	30.7	—	—	—	8.4	7.0	5.9	20.6	21.3	20.9	0.4	0.4	0.5	2.5
Shriram City Union Finance	ADD	1,900	2,250	18.5	125	1.7	66	141	174	209	40.4	22.7	20.5	13.4	10.9	9.1	—	—	—	2.2	1.9	1.6	15.8	16.9	17.6	0.9	1.1	1.4	1.5
Shriram Transport	ADD	1,197	1,550	29.5	272	3.7	227	114	130	146	64.4	14.3	12.8	10.5	9.2	8.2	—	—	—	1.9	1.6	1.4	18.3	17.5	17.1	1.3	1.5	1.8	33.0
<b>NBFCs</b>	<b>Neutral</b>				<b>10,473</b>	<b>145</b>					<b>15.1</b>	<b>19.5</b>	<b>19.4</b>	<b>26.6</b>	<b>22.3</b>	<b>18.6</b>				<b>4.3</b>	<b>3.7</b>	<b>3.2</b>	<b>16.1</b>	<b>16.7</b>	<b>17.3</b>	<b>0.7</b>	<b>0.9</b>	<b>1.0</b>	<b>623.6</b>
<b>Cement</b>																													
ACC	SELL	1,587	1,270	(20.0)	298	4.1	188	62	70	81	27.0	13.8	15.2	25.7	22.5	19.6	14.2	12.3	10.4	2.9	2.7	2.4	11.9	12.5	13.1	1.1	1.1	1.1	16.2
Ambuja Cements	REDUCE	226	210	(7.0)	449	6.2	1,986	9	11	12	14.5	23.2	15.8	26.2	21.3	18.4	8.8	7.3	6.1	2.1	2.0	1.8	8.1	9.5	10.4	1.6	1.6	1.6	11.1
Dalmia Bharat	ADD	2,644	2,830	7.0	236	3.3	89	94	122	139	55.8	29.3	14.8	28.1	21.8	19.0	10.7	8.8	7.5	3.4	3.0	2.6	12.9	14.6	14.5	0.1	0.1	0.1	4.5
Grasim Industries	BUY	1,065	1,170	9.8	700	9.7	657	46	55	70	(2.5)	18.8	28.0	23.1	19.4	15.2	7.6	7.2	6.7	1.2	1.1	1.0	5.2	5.9	7.1	0.5	0.5	0.5	15.8
India Cements	REDUCE	120	118	(1.6)	37	0.5	308	4	8	12	28.0	102.6	41.3	28.7	14.2	10.0	8.9	7.0	5.9	0.7	0.7	0.6	2.5	4.8	6.5	0.8	0.8	0.8	9.4
J K Cement	ADD	794	890	12.2	55	0.8	70	45	79	78	3.7	75.4	(0.8)	17.7	10.1	10.2	10.4	8.5	7.0	2.5	2.1	1.7	15.0	22.3	18.5	1.0	1.0	1.0	0.5
JK Lakshmi Cement	ADD	313	370	18.2	37	0.5	118	11	28	37	153.5	147.9	30.5	27.6	11.1	8.5	9.7	6.3	5.1	2.4	2.0	1.6	8.9	19.5	21.0	0.6	0.6	0.6	0.3
Orient Cement	ADD	108	145	34.9	22	0.3	205	7	11	15	212.9	58.7	41.3	15.9	10.0	7.1	7.6	5.8	4.4	2.0	1.7	1.4	12.9	18.2	21.8	1.4	1.9	1.9	0.2
Shree Cement	SELL	17,534	12,500	(28.7)	611	8.4	35	421	630	760	6.0	49.7	20.6	41.6	27.8	23.1	19.4	14.5	11.8	6.0	5.0	4.2	15.4	19.7	19.8	0.3	0.3	0.3	5.5
UltraTech Cement	SELL	4,104	2,950	(28.1)	1,127	15.5	275	126	162	201	42.7	28.9	24.0	32.6	25.3	20.4	17.0	14.1	11.7	3.9	3.4	2.9	12.6	14.3	15.4	0.2	0.2	0.2	18.9
<b>Cement</b>	<b>Cautious</b>				<b>3,572</b>	<b>49</b>					<b>19.5</b>	<b>30.3</b>	<b>21.8</b>	<b>28.9</b>	<b>22.2</b>	<b>18.2</b>	<b>11.0</b>	<b>9.4</b>	<b>8.2</b>	<b>2.4</b>	<b>2.2</b>	<b>2.0</b>	<b>8.4</b>	<b>10.0</b>	<b>11.0</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>82.3</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Target price			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)
		17-Sep-18	(Rs)	(%)	(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>Consumer products</b>																													
Asian Paints	REDUCE	1,309	1,325	1.2	1,255	17.3	959	27	33	39	32.1	20.3	18.3	48.3	40.1	33.9	30.2	25.0	21.1	13.0	11.4	9.9	28.8	30.3	31.3	0.9	1.1	1.4	22.5
Bajaj Corp.	ADD	429	470	9.6	63	0.9	148	15	17	19	7.8	10.3	9.5	27.8	25.2	23.0	22.3	19.0	16.5	12.9	12.9	12.6	46.3	51.2	55.4	3.0	3.3	3.5	0.6
Britannia Industries	ADD	6,022	6,700	11.3	724	10.0	120	104	127	152	24.5	22.2	19.2	57.8	47.3	39.7	37.9	31.0	25.9	16.8	13.6	11.1	32.5	31.8	30.9	0.6	0.7	0.9	13.3
Coffee Day Enterprises	REDUCE	309	290	(6.2)	65	0.9	211	8	10	12	129.9	30.0	21.2	40.2	30.9	25.5	13.0	11.3	10.5	2.6	2.4	2.2	6.6	8.0	8.9	—	—	—	1.0
Colgate-Palmolive (India)	ADD	1,114	1,250	12.2	303	4.2	272	27	32	36	14.7	15.6	15.5	40.9	35.4	30.6	23.3	20.3	17.6	17.8	15.5	13.6	46.0	46.9	47.3	1.4	1.7	2.1	6.9
Dabur India	REDUCE	462	390	(15.6)	816	11.3	1,762	9	10	12	17.3	12.9	13.6	50.7	44.9	39.5	42.4	36.6	31.8	14.3	12.4	10.9	28.1	29.6	29.4	0.8	1.0	1.2	19.5
GlaxoSmithKline Consumer	ADD	7,588	7,300	(3.8)	319	4.4	42	199	223	246	19.5	12.1	10.1	38.1	34.0	30.9	26.9	23.2	20.4	8.3	7.5	6.8	22.8	23.0	23.1	1.2	1.4	1.6	2.2
Godrej Consumer Products	SELL	854	733	(14.1)	873	12.0	1,022	17	19	22	18.8	13.7	12.7	50.5	44.4	39.4	35.8	31.1	27.2	11.8	10.3	8.9	25.3	24.7	24.2	0.7	0.7	0.9	13.4
Hindustan Unilever	REDUCE	1,605	1,570	(2.2)	3,475	48.0	2,160	29	33	37	19.5	13.2	12.6	54.8	48.4	43.0	37.9	33.3	29.5	42.9	36.4	31.3	83.5	81.4	78.3	1.3	1.5	1.7	35.6
ITC	ADD	302	330	9.3	3,693	51.0	12,275	10	11	12	8.2	12.3	11.7	31.3	27.9	25.0	20.2	17.9	15.9	6.8	6.4	6.0	20.4	22.2	24.2	1.9	2.2	2.5	56.9
Jubilant Foodworks	BUY	1,359	1,650	21.4	179	2.5	132	25	35	46	73.6	37.5	32.3	53.8	39.1	29.6	26.8	20.2	15.3	13.3	10.2	7.7	28.9	29.5	29.7	0.1	0.2	0.3	28.4
Jyothy Laboratories	ADD	205	240	17.2	74	1.0	364	6	7	8	27.6	16.7	15.4	36.4	31.2	27.0	24.3	20.6	17.6	5.6	4.9	4.3	16.6	16.8	16.9	0.5	0.7	1.0	0.9
Marico	ADD	343	375	9.4	443	6.1	1,291	7	8	9	8.9	20.0	14.5	50.3	41.9	36.6	34.9	28.8	24.8	16.5	15.3	14.1	33.7	37.9	40.2	1.4	1.6	1.8	9.6
Nestle India	ADD	10,175	11,000	8.1	981	13.5	96	171	197	223	34.2	15.7	13.2	59.7	51.6	45.5	34.1	29.5	25.9	26.4	24.2	22.2	46.1	49.0	50.8	1.1	1.3	1.5	9.7
Page Industries	SELL	32,983	25,000	(24.2)	368	5.1	11	418	508	607	34.3	21.6	19.5	79.0	64.9	54.3	51.0	42.1	35.1	33.4	26.4	21.2	47.8	45.5	43.4	0.5	0.7	0.8	17.7
Pidlite Industries	REDUCE	1,110	1,080	(2.7)	563	7.8	508	21	26	31	16.8	21.8	20.2	52.7	43.2	36.0	35.0	28.9	24.0	13.4	11.2	9.4	27.4	28.2	28.4	0.6	0.7	0.9	8.1
S H Kelkar and Company	BUY	219	290	32.4	32	0.4	145	7	10	12	(6.2)	41.9	23.2	31.6	22.2	18.1	20.4	14.6	12.6	3.4	3.1	2.7	11.3	14.5	16.0	0.8	0.9	1.3	0.4
Tata Global Beverages	REDUCE	237	250	5.7	149	2.1	631	8	9	10	7.7	17.0	12.9	29.9	25.5	22.6	16.4	14.4	12.7	2.0	2.0	1.9	7.0	7.9	8.5	1.3	1.5	1.7	11.3
Titan Company	SELL	823	840	2.0	731	10.1	888	16	20	23	25.6	21.8	19.3	51.3	42.1	35.3	34.0	27.1	22.3	12.1	10.2	8.6	25.6	26.3	26.4	0.5	0.7	0.9	37.5
United Breweries	SELL	1,322	1,100	(16.8)	350	4.8	264	21	26	31	39.2	23.6	20.6	63.6	51.5	42.7	31.4	27.0	23.1	11.0	9.3	7.9	18.7	19.6	20.0	0.2	0.3	0.4	13.6
United Spirits	REDUCE	570	590	3.4	414	5.7	727	10	13	17	34.7	30.9	24.5	55.7	42.5	34.2	32.4	26.2	22.1	11.4	8.4	6.4	24.2	22.7	21.3	—	—	0.4	13.4
Varun Beverages	ADD	809	800	(1.1)	148	2.0	183	15	20	26	29.8	34.5	30.7	54.1	40.2	30.8	17.8	15.1	12.8	7.5	6.4	5.4	14.6	17.1	19.0	—	—	0.2	1.5
<b>Consumer products</b>	<b>Cautious</b>				<b>16,019</b>	<b>221</b>					<b>17.7</b>	<b>16.0</b>	<b>14.7</b>	<b>45.1</b>	<b>38.9</b>	<b>33.9</b>	<b>29.2</b>	<b>25.1</b>	<b>21.8</b>	<b>11.8</b>	<b>10.5</b>	<b>9.4</b>	<b>26.1</b>	<b>27.1</b>	<b>27.8</b>	<b>1.2</b>	<b>1.4</b>	<b>1.6</b>	<b>324.1</b>
<b>Energy</b>																													
BPCL	REDUCE	364	375	3.0	790	10.9	1,967	38	39	39	(6.7)	3.1	1.1	9.7	9.4	9.3	7.1	6.7	6.5	1.9	1.7	1.6	20.5	19.1	17.5	4.1	4.3	4.3	25.9
Castrol India	SELL	156	155	(0.9)	154	2.1	989	7	8	9	2.9	10.1	9.7	22.1	20.1	18.3	13.8	12.5	11.3	14.5	14.2	13.7	67.1	71.5	76.0	3.5	4.0	4.3	3.7
GAIL (India)	BUY	373	440	18.1	840	11.6	2,255	26	29	31	27.8	10.0	9.5	14.3	13.0	11.8	8.9	8.2	7.4	1.9	1.8	1.6	14.0	14.1	14.2	2.3	2.5	2.8	24.5
GSPL	SELL	180	175	(2.6)	101	1.4	564	11	11	12	(6.5)	(0.5)	11.9	16.2	16.3	14.6	6.0	6.0	5.3	1.8	1.7	1.5	11.7	10.7	10.9	0.9	0.9	1.0	1.3
HPCL	REDUCE	258	285	10.3	394	5.4	1,524	32	32	32	(22.3)	(2.2)	0.5	8.0	8.2	8.1	7.1	7.5	7.8	1.5	1.4	1.3	19.6	17.4	16.1	5.1	5.0	5.0	23.2
Indraprastha Gas	SELL	271	240	(11.4)	190	2.6	700	12	13	15	16.4	12.3	10.7	22.6	20.1	18.2	14.3	12.5	11.1	4.7	4.0	3.6	22.1	21.5	20.9	0.9	1.1	1.5	9.4
IOCL	REDUCE	157	150	(4.2)	1,520	21.0	9,479	18	17	18	(11.2)	(4.1)	2.8	8.6	9.0	8.7	4.9	4.9	4.7	1.2	1.2	1.1	15.1	13.4	12.9	4.7	4.5	4.6	18.7
Mahanagar Gas	ADD	846	965	14.1	84	1.2	99	56	60	64	16.0	7.6	5.4	15.1	14.0	13.3	8.7	7.9	7.3	3.5	3.1	2.8	24.8	23.5	22.0	2.6	2.9	3.0	12.4
ONGC	ADD	172	200	16.5	2,203	30.4	12,833	20	20	19	16.8	0.3	(5.9)	8.4	8.4	8.9	4.0	3.8	3.8	0.9	0.9	0.8	11.2	10.6	9.5	3.9	4.1	4.1	15.6
Oil India	SELL	206	200	(3.0)	234	3.2	1,135	23	24	23	(6.7)	3.4	(2.5)	8.9	8.7	8.9	5.9	5.6	5.6	0.8	0.8	0.7	9.2	9.0	8.4	4.5	4.6	4.5	2.1
Petronet LNG	BUY	237	280	17.9	356	4.9	1,500	16	18	20	16.7	13.1	9.4	14.7	12.9	11.8	9.8	8.3	7.4	3.2	2.8	2.6	23.3	23.2	22.7	2.4	3.1	3.8	10.3
Reliance Industries	SELL	1,226	985	(19.7)	7,255	100.1	5,922	69	78	87	17.6	12.4	11.9	17.6	15.7	14.0	11.9	10.2	8.6	2.2	2.0	1.7	12.2	12.1	12.1	0.5	0.6	0.6	140.2
<b>Energy</b>	<b>Attractive</b>				<b>14,121</b>	<b>195</b>					<b>7.2</b>	<b>5.2</b>	<b>4.8</b>	<b>12.8</b>	<b>12.1</b>	<b>11.6</b>	<b>7.7</b>	<b>7.1</b>	<b>6.6</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>13.0</b>	<b>12.5</b>	<b>12.0</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>	

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		17-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>Industrials</b>																													
ABB	SELL	1,442	1,020	(29.2)	305	4.2	212	26	29	36	30.1	14.2	23.5	55.9	49.0	39.6	32.9	29.6	24.5	7.8	7.1	6.3	14.5	15.1	16.7	0.6	0.6	0.6	2.0
BHEL	REDUCE	76	89	16.9	280	3.9	3,671	3.3	5.5	7.6	47.9	69.3	38.0	23.4	13.8	10.0	7.5	4.6	3.4	0.8	0.8	0.8	3.6	6.1	8.2	2.6	4.5	6.2	9.3
Carborundum Universal	SELL	380	322	(15.2)	72	1.0	189	14	17	20	25.0	21.4	13.8	26.6	21.9	19.3	14.6	11.9	10.3	4.1	3.7	3.3	16.3	17.8	18.1	1.1	1.4	1.6	0.4
CG Power and Industrial	BUY	55	72	32.0	34	0.5	627	2.9	4.3	6.2	25.2	48.7	44.9	18.8	12.6	8.7	7.6	6.0	4.7	1.3	1.2	1.1	6.7	9.8	13.3	—	—	—	6.4
Cummins India	REDUCE	738	710	(3.8)	204	2.8	277	28	33	37	15.2	17.5	13.7	26.5	22.6	19.8	22.2	19.1	16.4	4.8	4.5	4.2	18.7	20.6	21.8	2.0	2.4	2.7	4.7
Kalpitaru Power Transmission	BUY	326	560	72.0	50	0.7	153	23.0	32.1	41.0	26.0	39.1	27.7	14.1	10.2	7.9	6.5	5.1	4.3	1.7	1.4	1.2	12.5	15.2	16.7	0.5	0.5	0.5	0.6
KEC International	BUY	304	410	34.8	78	1.1	257	21	27	33	16.9	29.7	23.0	14.5	11.2	9.1	8.2	6.6	5.7	3.2	2.5	2.0	24.1	25.2	24.9	0.7	1.0	1.2	2.7
L&T	BUY	1,345	1,600	19.0	1,885	26.0	1,401	66.3	67.6	79.5	28.2	1.9	17.6	20.3	19.9	16.9	18.1	17.5	14.6	3.4	3.1	2.8	17.6	16.2	17.1	1.6	1.7	2.0	45.9
Siemens	SELL	982	1,000	1.8	350	4.8	356	29	35	—	21.4	21.7	—	33.8	27.8	—	19.0	15.3	—	4.0	3.8	—	12.3	14.0	—	1.2	1.5	—	3.5
Thermax	REDUCE	980	1,010	3.1	117	1.6	113	27.8	38.7	43.8	34.7	39.2	13.2	35.3	25.3	22.4	22.3	16.5	14.1	3.8	3.5	3.1	11.1	14.3	14.7	1.0	1.1	1.2	1.0
<b>Industrials</b>	<b>Neutral</b>				<b>3,375</b>	<b>47</b>					<b>29.0</b>	<b>13.9</b>	<b>11.9</b>	<b>23.3</b>	<b>20.4</b>	<b>18.3</b>	<b>16.7</b>	<b>14.9</b>	<b>12.2</b>	<b>2.9</b>	<b>2.6</b>	<b>2.6</b>	<b>12.3</b>	<b>12.9</b>	<b>14.3</b>	<b>1.5</b>	<b>1.8</b>	<b>2.0</b>	<b>76.5</b>
<b>Infrastructure</b>																													
Adani Ports and SEZ	BUY	381	460	20.8	789	10.9	2,071	19	23	29	1.2	21.1	29.8	20.4	16.8	12.9	13.8	11.5	10.1	3.2	2.8	2.3	17.0	17.7	19.4	0.5	0.5	0.5	21.7
Ashoka Buildcon	BUY	116	235	103.2	32	0.4	282	9	10	10	4.1	17.8	(1.3)	13.2	11.2	11.4	8.7	7.3	6.8	1.5	1.3	1.2	11.8	12.3	11.0	1.5	1.1	1.1	0.5
Container Corp.	SELL	634	635	0.2	309	4.3	487	21	25	29	17.4	20.9	15.0	30.6	25.3	22.0	18.8	14.9	12.3	3.1	2.8	2.6	10.3	11.6	12.3	1.4	1.7	1.6	5.5
Dilip Buildcon	BUY	755	1,240	64.2	103	1.4	137	56	71	85	19.8	27.5	20.1	13.6	10.6	8.9	7.1	5.7	4.8	3.2	2.5	1.9	26.7	26.2	24.4	—	—	—	3.9
Gateway Distriparks	BUY	167	250	50.1	18	0.2	109	7	8	11	(5.8)	15.2	37.5	23.2	20.2	14.7	10.6	8.8	7.2	3.1	2.7	2.3	9.8	14.5	17.1	—	1.8	1.8	0.3
Gujarat Pipavav Port	BUY	107	150	39.2	52	0.7	483	5.3	6.5	7.8	29.7	22.9	19.3	20.2	16.4	13.8	10.7	8.8	7.3	2.5	2.5	2.4	12.7	15.3	17.8	4.1	5.0	5.9	1.0
IRB Infrastructure	BUY	175	320	83.2	61	0.8	351	31	33	23	36.8	7.1	(31.3)	5.7	5.3	7.7	6.4	6.8	8.1	0.9	0.8	0.7	17.6	16.3	10.0	1.8	2.3	2.4	5.5
Mahindra Logistics	REDUCE	555	565	1.8	39	0.5	71	15	21	25	50.7	39.3	23.7	37.5	27.0	21.8	20.9	15.1	12.0	7.8	6.3	5.1	22.7	25.8	25.8	—	—	—	0.6
Sadbhav Engineering	BUY	269	435	61.5	46	0.6	172	17	22	23	31.7	31.0	2.6	15.9	12.1	11.8	11.5	9.0	7.6	2.2	1.9	1.6	14.5	16.5	14.7	—	—	—	1.4
<b>Infrastructure</b>	<b>Attractive</b>				<b>1,450</b>	<b>20</b>					<b>11.3</b>	<b>20.3</b>	<b>16.7</b>	<b>18.8</b>	<b>15.6</b>	<b>13.4</b>	<b>11.7</b>	<b>9.9</b>	<b>9.0</b>	<b>2.8</b>	<b>2.4</b>	<b>2.1</b>	<b>14.8</b>	<b>15.5</b>	<b>15.7</b>	<b>0.8</b>	<b>1.0</b>	<b>1.0</b>	<b>40.5</b>
<b>Internet</b>																													
Info Edge	ADD	1,571	1,425	(9.3)	192	2.6	122	26	33	40	14.9	27.5	20.6	60.8	47.7	39.5	46.4	35.1	28.5	7.2	6.5	5.8	13.2	14.3	15.6	0.5	0.5	0.6	3.1
Just Dial	ADD	527	610	15.8	35	0.5	67	26	30	33	23.0	15.0	9.4	20.2	17.5	16.0	10.8	8.7	7.3	3.1	2.7	2.4	16.7	16.6	15.7	0.5	0.6	0.6	24.5
<b>Internet</b>	<b>Cautious</b>				<b>227</b>	<b>3</b>					<b>17.6</b>	<b>23.0</b>	<b>16.8</b>	<b>46.3</b>	<b>37.6</b>	<b>32.2</b>	<b>34.1</b>	<b>26.9</b>	<b>22.5</b>	<b>6.0</b>	<b>5.3</b>	<b>4.7</b>	<b>12.9</b>	<b>14.2</b>	<b>14.7</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>27.6</b>
<b>Media</b>																													
DB Corp.	REDUCE	218	270	23.9	40	0.6	184	20	23	26	14.9	12.3	14.8	10.8	9.6	8.3	5.8	5.1	—	2.2	2.1	—	20.7	22.3	25.2	7.7	9.7	11.6	0.6
DishTV	ADD	67	90	35.1	123	1.7	1,925	1.8	3.4	4.9	514.6	88.2	42.6	NM	19.4	13.6	5.7	4.6	3.6	1.8	1.7	1.5	5.1	8.9	11.5	—	—	—	5.4
Jagran Prakashan	REDUCE	121	131	8.7	36	0.5	311	11	12	14	10.0	13.6	14.5	11.4	10.0	8.7	5.0	4.3	3.6	1.9	1.8	1.7	15.9	18.2	19.7	4.1	6.2	7.1	0.4
PVR	BUY	1,396	1,430	2.4	65	0.9	47	38	50	61	41.2	32.3	22.4	36.8	27.8	22.7	14.1	12.0	10.1	5.3	4.5	3.9	15.3	17.6	18.3	0.3	0.4	0.4	11.4
Sun TV Network	REDUCE	675	925	37.1	266	3.7	394	35	39	43	20.7	10.9	10.7	19.4	17.5	15.8	13.1	11.4	9.7	5.2	4.6	4.2	28.1	27.9	27.9	2.6	3.0	3.3	20.4
Zee Entertainment Enterprises	ADD	475	600	26.2	456	6.3	960	17	20	22	11.3	17.0	13.9	28.4	24.3	21.3	17.5	14.8	12.8	5.3	4.7	4.1	19.9	20.6	20.7	0.9	1.2	1.5	18.1
<b>Media</b>	<b>Attractive</b>				<b>986</b>	<b>14</b>					<b>28.7</b>	<b>21.0</b>	<b>17.2</b>	<b>23.6</b>	<b>19.5</b>	<b>16.7</b>	<b>11.2</b>	<b>9.5</b>	<b>7.9</b>	<b>3.8</b>	<b>3.5</b>	<b>3.3</b>	<b>16.3</b>	<b>17.7</b>	<b>19.8</b>	<b>1.6</b>	<b>2.0</b>	<b>2.3</b>	<b>56.2</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		17-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>Metals &amp; Mining</b>																													
Coal India	ADD	275	326	18.6	1,707	23.6	6,207	27	28	28	138.2	3.0	0.7	10.2	9.9	9.8	6.5	6.2	5.9	6.5	6.7	6.9	66.1	66.4	69.1	7.3	9.1	9.1	14.3
Hindalco Industries	BUY	241	305	26.4	542	7.5	2,229	27	31	34	25.1	13.6	10.2	8.8	7.8	7.0	5.7	4.9	4.4	0.9	0.8	0.7	10.6	10.8	10.8	0.5	0.5	0.5	35.1
Hindustan Zinc	ADD	298	290	(2.7)	1,260	17.4	4,225	22	26	27	3.7	14.7	5.4	13.4	11.7	11.0	7.8	6.4	5.7	3.1	2.6	2.3	24.4	24.2	22.1	2.7	2.7	2.7	6.3
Jindal Steel and Power	REDUCE	238	215	(9.6)	230	3.2	968	8	14	22	195.9	68.5	60.8	29.2	17.3	10.8	7.2	6.6	5.6	0.8	0.7	0.7	2.7	4.3	6.5	—	—	—	32.3
JSW Steel	SELL	412	350	(15.0)	996	13.7	2,406	31	26	31	16.1	(16.2)	17.2	13.2	15.7	13.4	7.6	8.8	7.7	2.8	2.4	2.1	23.5	16.6	16.8	0.8	0.8	0.8	30.2
National Aluminium Co.	ADD	70	80	14.4	135	1.9	1,933	9	7	8	125.8	(21.1)	2.4	7.5	9.5	9.3	3.4	4.4	4.3	1.2	1.2	1.2	16.8	13.0	13.3	8.6	8.6	8.6	11.7
NMDC	REDUCE	120	120	(0.2)	381	5.3	3,164	12	10	11	4.2	(14.3)	5.9	9.8	11.5	10.9	6.1	7.0	6.6	1.5	1.4	1.3	15.3	12.4	12.5	4.6	4.6	4.6	5.8
Tata Steel	ADD	616	660	7.1	707	9.8	1,205	76	85	94	12.8	12.1	10.9	8.1	7	6.5	6.1	6.4	6.0	1.1	1.0	0.9	14.3	14.3	14.4	1.6	1.6	1.6	70.5
Vedanta	BUY	235	370	57.5	873	12.0	3,717	32	39	38	49.1	19.7	(0.7)	7.3	6.1	6.1	4.8	3.9	3.6	1.3	1.1	1.0	18.0	19.4	17.2	4.1	4.9	4.9	44.6
<b>Metals &amp; Mining</b>		<b>Attractive</b>			<b>6,830</b>	<b>94</b>					<b>42.5</b>	<b>6.8</b>	<b>6.4</b>	<b>10.1</b>	<b>9.5</b>	<b>8.9</b>	<b>6.2</b>	<b>5.9</b>	<b>5.4</b>	<b>1.8</b>	<b>1.7</b>	<b>1.5</b>	<b>18.1</b>	<b>17.8</b>	<b>17.1</b>	<b>3.6</b>	<b>4.1</b>	<b>4.2</b>	<b>250.7</b>
<b>Pharmaceutical</b>																													
Apollo Hospitals	ADD	1,119	1,090	(2.6)	156	2.1	139	20	27	33	133.5	36.7	21.6	56.8	41.5	34.2	19.8	16.7	14.7	4.5	4.2	3.9	8.2	10.5	11.8	0.4	0.6	0.7	15.0
Aster DM Healthcare	BUY	162	240	48.3	82	1.1	505	5	8	12	74.4	62.0	51.4	33.7	20.8	13.7	12.1	9.6	7.5	2.7	2.4	2.1	8.3	12.2	16.3	—	—	—	0.2
Aurobindo Pharma	ADD	789	760	(3.7)	463	6.4	584	42	57	64	1.0	35.8	12.3	18.7	13.8	12.3	12.5	9.2	8.2	3.3	2.7	2.3	19.3	19.9	18.6	0.7	0.8	0.9	36.8
Biocon	SELL	657	330	(49.7)	394	5.4	601	8	15	18	35.9	75.7	21.7	78.0	44.4	36.5	33.9	22.7	19.3	6.5	5.9	5.2	8.7	13.9	14.3	0.4	0.8	1.0	19.7
Cipla	BUY	665	680	2.3	535	7.4	805	24	31	40	34.5	31.0	29.4	28.2	21.5	16.6	15.9	12.6	9.9	3.3	3.0	2.6	12.4	14.6	15.7	0.7	1.0	1.3	25.6
Dr Lal Pathlabs	REDUCE	970	900	(7.2)	81	1.1	83	24	29	34	19.0	17.9	18.4	39.8	33.8	28.5	24.4	20.5	16.7	8.6	7.2	6.0	23.4	23.1	22.9	0.5	0.6	0.7	1.3
Dr Reddy's Laboratories	REDUCE	2,569	2,150	(16.3)	426	5.9	166	89	118	141	50.2	32.8	19.3	29.0	21.8	18.3	14.6	10.4	8.7	3.1	2.7	2.4	11.1	12.6	13.3	0.5	0.7	0.8	36.7
HCG	REDUCE	248	290	16.9	22	0.3	85	2	4	7	39.8	80.3	80.8	113.5	62.9	34.8	18.3	15.2	11.7	4.0	3.7	3.4	3.5	6.1	10.1	—	—	—	0.2
Laurus Labs	ADD	438	500	14.2	46	0.6	106	16	29	34	2.4	79.9	17.5	27.0	15.0	12.8	12.5	8.7	7.6	2.8	2.4	2.0	10.9	17.1	15.6	—	—	—	0.7
Lupin	REDUCE	950	800	(15.8)	430	5.9	450	27	39	50	(28.9)	44.0	27.4	35.0	24.3	19.1	16.3	11.9	9.6	2.9	2.6	2.4	8.6	11.4	12.4	0.4	0.6	0.8	46.3
Narayana Hrudayalaya	ADD	253	265	4.6	52	0.7	204	3	6	9	23.0	103.2	40.7	82.0	40.3	28.7	23.2	16.2	13.1	4.7	4.2	3.7	5.9	11.0	13.7	—	—	—	0.1
Sun Pharmaceuticals	REDUCE	646	520	(19.5)	1,550	21.4	2,406	17	24	29	11.1	42.5	20.5	38.4	26.9	22.3	21.0	15.5	12.9	3.7	3.3	3.0	10.2	13.1	13.3	0.5	0.7	0.9	61.5
Torrent Pharmaceuticals	NR	1,782	—	—	301	4.2	169	47	61	81	18.0	29.6	32.1	37.7	29.1	22.0	16.4	14.0	11.6	5.8	5.0	4.3	15.3	17.2	19.3	0.6	0.8	1.0	7.8
<b>Pharmaceuticals</b>		<b>Neutral</b>			<b>4,538</b>	<b>63</b>					<b>12.4</b>	<b>39.9</b>	<b>22.3</b>	<b>33.9</b>	<b>24.2</b>	<b>19.8</b>	<b>17.6</b>	<b>13.1</b>	<b>11.0</b>	<b>3.7</b>	<b>3.3</b>	<b>2.9</b>	<b>11.0</b>	<b>13.6</b>	<b>14.6</b>	<b>0.5</b>	<b>0.7</b>	<b>0.9</b>	<b>252.1</b>
<b>Real Estate</b>																													
Brigade Enterprises	BUY	200	290	44.9	27	0.4	136	9	15	17	(17.0)	59.2	15.8	21.8	13.7	11.8	13.4	10.4	8.3	1.1	1.1	1.0	5.4	8.1	8.8	1.2	1.2	1.2	0.3
DLF	RS	213	—	—	380	5.2	1,784	5.3	23.9	14.1	(87.2)	35.4	(41.0)	40.6	8.9	15.1	55.8	9.8	18.3	1.1	1.0	0.9	2.6	11.3	6.2	0.9	0.9	0.9	17.4
Godrej Properties	SELL	656	400	(39.0)	150	2.1	216	13.3	15.8	18.2	(38.9)	19.1	15.2	49.5	41.5	36.0	293.0	152.9	125.9	4.2	3.8	3.5	10.5	9.7	10.1	—	—	—	1.4
Oberoi Realty	BUY	470	560	19.1	171	2.4	340	62	44	66	385.4	(28.0)	49.3	7.6	10.6	7.1	10.5	13.2	5.8	1.7	1.5	1.2	27.4	15.2	19.2	0.4	0.4	0.4	2.3
Prestige Estates Projects	ADD	239	315	31.6	90	1.2	375	19	21	11	(24.2)	8.4	—	12.6	11.6	22.5	10.4	10.5	14.2	0.9	0.8	—	14.6	14.9	7.3	1.3	1.3	0.6	0.8
Sobha	REDUCE	440	510	15.9	42	0.6	95	23	36	24	(48.8)	51.7	(32.6)	18.7	12.3	18.3	11.4	8.9	11.2	1.9	1.7	1.6	9.0	14.8	9.1	1.6	1.6	1.6	1.6
Sunteck Realty	REDUCE	477	360	(24.5)	70	1.0	140	19	19	39	22.4	1.6	106.6	25.5	25.1	12.2	21.2	20.5	9.1	2.3	2.1	1.8	9.5	8.9	16.2	0.2	0.2	0.2	2.0
<b>Real Estate</b>		<b>Neutral</b>			<b>930</b>	<b>13</b>					<b>(53.1)</b>	<b>65.1</b>	<b>(14.4)</b>	<b>19.9</b>	<b>12.1</b>	<b>14.1</b>	<b>20.5</b>	<b>12.1</b>	<b>13.5</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>7.1</b>	<b>10.6</b>	<b>9.0</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>25.8</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)		Target price	Upside	Mkt cap.		O/S shares			EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo
		17-Sep-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	(US\$ mn)
<b>Technology</b>																																
HCL Technologies	REDUCE	1,078	1,100	2.0	1,502	20.7	1,409	71	78	82	14.6	8.9	5.0	15.1	13.9	13.2	9.8	8.7	8.0	3.4	2.9	2.6	24.4	22.3	20.6	0.8	2.9	3.1	34.8			
Hexaware Technologies	SELL	465	455	(2.2)	138	1.9	302	20	24	27	19.5	21.6	12.7	23.5	19.4	17.2	17.5	13.3	11.6	6.1	5.1	4.4	27.6	28.7	27.5	1.7	1.7	2.1	23.1			
Infosys	ADD	726	770	6.1	3,171	43.8	4,350	36	41	45	12.8	13.3	8.9	19.9	17.6	16.1	13.6	11.9	10.6	4.5	4.0	3.6	23.4	24.2	23.7	3.0	2.7	2.9	85.6			
L&T Infotech	ADD	1,865	2,100	12.6	323	4.5	175	83	96	113	30.5	15.6	18.1	22.5	19.5	16.5	17.0	13.7	11.6	6.8	5.5	4.5	33.5	31.3	30.0	1.3	1.4	1.6	8.7			
Mindtree	ADD	1,152	1,225	6.3	189	2.6	165	45	57	65	29.5	27.0	14.5	25.8	20.3	17.7	16.4	12.9	11.1	5.9	5.0	4.2	24.7	26.6	25.8	1.2	1.5	1.7	26.4			
Mphasis	SELL	1,225	900	(26.5)	237	3.3	193	53	60	63	21.9	12.1	4.7	22.9	20.4	19.5	16.9	14.4	13.4	4.5	4.1	3.7	18.9	21.0	20.0	1.6	2.0	2.4	6.8			
TCS	REDUCE	2,074	1,950	(6.0)	7,941	109.6	3,829	84	94	101	24.9	11.7	7.4	24.6	22.0	20.5	18.1	16.2	15.0	8.0	7.8	7.7	34.3	35.6	37.7	2.0	3.6	3.9	86.4			
Tech Mahindra	ADD	768	865	12.7	677	9.3	891	46	57	64	8.4	22.4	13.0	16.6	13.6	12.0	9.9	7.8	6.7	3.1	2.7	2.3	20.2	21.2	20.3	1.2	1.3	1.5	39.4			
Wipro	REDUCE	330	325	(1.5)	1,492	20.6	4,507	19	23	25	12.8	19.5	7.5	17.3	14.4	13.4	11.2	9.4	8.6	2.7	2.4	2.2	16.5	17.6	17.4	0.5	3.0	3.3	18.3			
<b>Technology</b>	<b>Cautious</b>				<b>15,671</b>	<b>216</b>					<b>15.6</b>	<b>13.0</b>	<b>8.1</b>	<b>21.2</b>	<b>18.7</b>	<b>17.3</b>	<b>14.6</b>	<b>12.8</b>	<b>11.7</b>	<b>5.1</b>	<b>4.7</b>	<b>4.3</b>	<b>24.2</b>	<b>25.1</b>	<b>24.9</b>	<b>1.9</b>	<b>3.1</b>	<b>3.3</b>	<b>329.4</b>			
<b>Telecom</b>																																
Bharti Airtel	ADD	382	445	16.5	1,527	21.1	3,997	(6)	(4)	5	(221.5)	28.8	215.1	(66.4)	(93.4)	81.1	9.8	8.3	6.6	2.3	2.4	2.3	(3.4)	(2.5)	2.9	0.3	(0.2)	0.3	23.8			
Bharti Infratel	REDUCE	267	285	6.8	494	6.8	1,850	13	12	13	(4.8)	(8.5)	7.7	20.4	22.3	20.7	7.5	8.0	7.5	3.0	3.0	3.0	14.6	13.7	14.6	4.0	3.6	3.9	10.4			
IDEA	REDUCE	48	45	(5.7)	417	5.7	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(2.8)	(2.8)	(3.1)	43.4	36.2	22.1	0.9	1.4	2.6	(29.7)	(41.1)	(59.4)	—	—	—	15.9			
Tata Communications	ADD	523	660	26.3	149	2.1	285	0	3	7	(77.5)	694.2	123.5	1,411	177.6	79.5	10.6	9.3	8.4	(64.9)	(88.2)	(1,708.1)	7.8	(42.1)	(211.0)	1.2	1.4	1.4	3.3			
<b>Telecom</b>	<b>Cautious</b>				<b>2,586</b>	<b>36</b>					<b>(2,384.5)</b>	<b>5.0</b>	<b>68.0</b>	<b>(36.0)</b>	<b>(37.9)</b>	<b>(118.5)</b>	<b>11.5</b>	<b>10.1</b>	<b>8.2</b>	<b>2.5</b>	<b>2.7</b>	<b>2.9</b>	<b>(6.9)</b>	<b>(7.2)</b>	<b>(2.4)</b>	<b>1.0</b>	<b>0.6</b>	<b>0.9</b>	<b>53.4</b>			
<b>Utilities</b>																																
CESC	BUY	1,001	1,180	17.9	133	1.8	133	115	128	141	31.7	11.6	10.1	8.7	7.8	7.1	6.0	5.3	4.7	0.8	0.8	0.7	10.0	10.4	10.5	1.3	1.3	1.3	7.5			
JSW Energy	REDUCE	70	70	0.6	114	1.6	1,640	5.1	6.5	6.6	65.9	26.8	2.9	13.7	10.8	10.5	5.8	4.8	4.4	1.0	0.9	0.8	7.2	8.5	8.0	—	—	—	1.2			
NHPC	ADD	25	30	22.0	252	3.5	10,260	3.1	3.2	3.4	26.9	1.8	8.0	7.9	7.8	7.2	7.3	7.1	7.6	0.8	0.8	0.7	10.4	10.2	10.6	7.1	7.1	6.0	1.6			
NTPC	BUY	172	190	10.3	1,420	19.6	8,245	15	16	18	30.9	4.4	16.5	11.6	11.1	9.5	9.1	8.4	7.1	1.3	1.2	1.1	11.6	11.3	12.2	2.6	2.7	3.2	11.9			
Power Grid	BUY	202	250	23.8	1,056	14.6	5,232	19	21	23	19.3	13.6	7.6	10.7	9.5	8.8	7.4	6.8	6.5	1.7	1.6	1.4	17.1	17.5	17.0	3.1	3.5	3.8	15.1			
Tata Power	BUY	78	90	15.5	211	2.9	2,705	6.0	7.0	10.9	12.7	15.6	57.0	12.9	11.2	7.1	10.9	10.5	9.2	1.2	1.1	1.0	10.1	10.6	14.6	—	—	—	4.2			
<b>Utilities</b>	<b>Attractive</b>				<b>3,186</b>	<b>44</b>					<b>26.0</b>	<b>8.8</b>	<b>14.1</b>	<b>10.9</b>	<b>10.0</b>	<b>8.8</b>	<b>8.1</b>	<b>7.5</b>	<b>6.8</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>11.9</b>	<b>12.0</b>	<b>12.5</b>	<b>2.8</b>	<b>3.0</b>	<b>3.2</b>	<b>41.5</b>			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

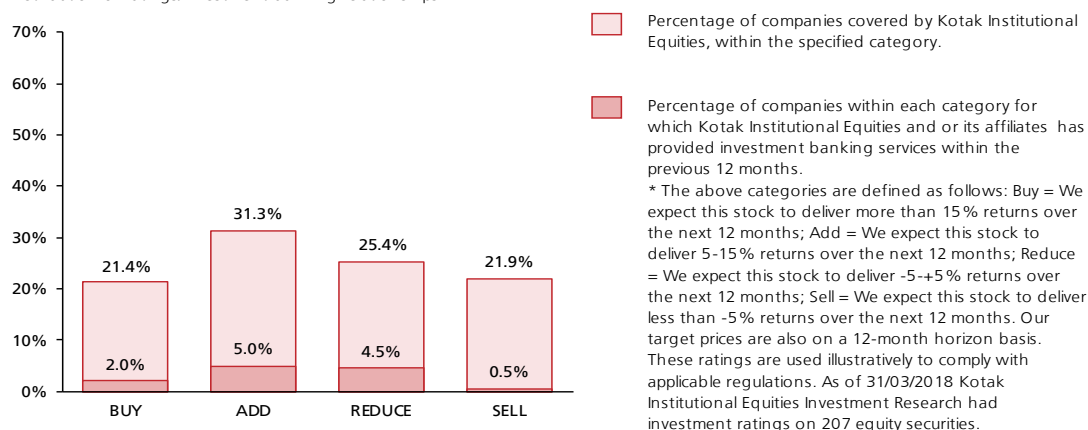
Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		17-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>Others</b>																													
Aditya Birla Fashion and Retail	BUY	190	220	15.8	147	2.0	773	2	4	6	50.6	59.1	53.5	82.8	52.0	33.9	24.3	18.9	15.3	11.6	9.5	7.4	15.0	20.0	24.5	—	—	—	4.7
Astral Poly Technk	SELL	1,102	640	(41.9)	132	1.8	120	19	25	29	30.2	28.8	16.1	57.8	44.8	38.6	31.0	24.7	20.9	10.2	8.4	6.9	19.8	20.5	19.7	0.1	0.1	0.1	0.9
Avenue Supermarts	SELL	1,525	860	(43.6)	952	13.1	624	16	20	26	28.6	26.4	27.5	94.3	74.6	58.5	54.4	42.7	33.6	16.8	13.7	11.1	19.6	20.3	21.0	—	—	—	—
Bayer Cropscience	REDUCE	4,392	4,100	(6.6)	173	2.4	34	106	130	154	20.5	23.1	18.3	41.6	33.8	28.6	30.6	24.9	20.8	7.3	6.3	5.4	18.9	20.0	20.3	0.5	0.6	0.7	0.5
Crompton Greaves Consumer	SELL	222	215	(3.0)	139	1.9	627	6	7	9	19.5	20.7	17.4	35.9	29.7	25.3	22.3	18.8	15.9	12.2	9.4	7.2	40.4	35.8	32.3	0.9	1.1	—	2.5
Dhanuka Agritech	ADD	531	650	22.5	26	0.4	49	27	31	34	3.9	15.4	10.8	19.9	17.2	15.5	14.5	11.9	10.3	3.6	3.1	2.7	19.2	19.2	18.5	1.1	1.2	1.4	0.2
Godrej Agrovet	ADD	577	640	11.0	111	1.5	189	15	19	23	28.9	28.8	21.1	38.8	30.1	24.9	21.1	16.5	13.8	5.7	4.9	4.1	15.7	17.4	17.9	—	—	0.6	0.9
Godrej Industries	RS	575	—	—	194	2.7	336	16	20	—	8.9	24.2	—	36.2	29.2	—	30.1	32.8	—	4.7	4.1	—	13.9	15.1	—	0.3	0.3	—	4.4
Havells India	SELL	667	485	(27.3)	417	5.8	625	14	17	20	26.6	20.5	17.6	47.6	39.5	33.6	30.5	24.8	20.9	9.8	8.6	7.5	22.0	23.2	23.9	0.7	0.9	1.0	13.8
InterGlobe Aviation	BUY	889	1,220	37.2	342	4.7	383	50	83	99	(17.9)	65.3	19.5	17.8	10.8	9.0	9.6	5.4	4.3	3.9	2.9	2.3	24.1	31.1	28.6	0.6	0.9	1.1	20.6
Kaveri Seed	SELL	644	515	(20.1)	43	0.6	66	34	34	37	7.3	0.1	8.3	18.8	18.7	17.3	15.9	15.1	13.6	4.5	3.9	3.4	26.4	22.4	21.0	1.2	1.6	1.6	5.0
PI Industries	BUY	777	875	12.6	107	1.5	138	31	40	48	17.9	26.8	21.5	24.8	19.6	16.1	17.6	13.8	11.1	4.7	3.9	3.2	20.5	21.7	21.9	0.5	0.6	0.7	2.1
Rallis India	ADD	203	220	8.6	39	0.5	195	10	12	13	17.2	19.4	9.7	20.1	16.8	15.3	13.2	11.1	9.8	3.0	2.7	2.5	15.8	17.1	16.9	1.8	2.0	2.2	0.8
SIS	REDUCE	1,045	1,130	8.2	76	1.1	73	33	40	48	48.5	21.1	17.8	31.4	25.9	22.0	19.6	16.4	13.8	6.2	5.1	4.2	21.8	21.7	21.1	0.3	0.3	0.4	0.6
SRF	BUY	2,025	2,200	8.6	116	1.6	57	100	132	150	23.8	32.2	14.1	20.3	15.4	13.5	11.7	9.3	7.9	2.9	2.5	2.1	15.0	17.3	17.0	0.7	0.7	0.8	12.3
Tata Chemicals	ADD	751	760	1.2	191	2.6	255	44	51	56	(15.3)	14.6	11.5	17.0	14.9	13.3	7.1	6.0	5.1	1.6	1.5	1.4	9.7	10.3	10.8	2.0	2.3	2.3	6.7
TCNS Clothing Co.	BUY	689	760	10.4	42	0.6	64	18	23	27	15.6	28.2	20.8	38.8	30.3	25.1	20.9	15.8	12.5	7.7	6.0	4.7	22.7	22.2	20.9	—	—	—	—
TeamLease Services	SELL	2,520	1,785	(29.2)	43	0.6	17	58	75	96	34.2	29.0	28.7	43.5	33.8	26.2	44.1	33.5	25.7	8.0	6.4	5.2	20.1	21.1	21.9	—	—	—	1.3
UPL	ADD	724	660	(8.8)	368	5.1	507	49	55	60	14.0	12.1	9.6	14.8	13.2	12.0	9.9	8.5	7.3	3.3	2.8	2.3	24.6	22.9	21.1	1.4	1.5	1.7	28.0
Vardhman Textiles	ADD	1,035	1,300	25.7	59	0.8	56	118	130	142	14.8	9.7	9.8	8.7	8.0	7.3	6.7	6.1	5.4	1.1	1.0	0.9	13.1	13.0	13.0	1.9	2.9	2.9	0.6
Volta	SELL	599	530	(11.5)	198	2.7	331	17	21	25	0.4	18.8	18.9	34.5	29.0	24.4	25.8	21.1	17.6	4.6	4.1	3.6	13.9	14.8	15.7	0.6	0.7	0.8	12.3
Whirlpool	SELL	1,599	1,350	(15.6)	203	2.8	127	37	46	56	33.9	24.7	20.2	43.2	34.6	28.8	26.3	20.9	17.1	9.4	7.8	6.6	23.7	24.5	24.8	—	0.6	1.0	1.3
<b>Others</b>																													
					4,119	57				8.3	26.4	12.5	31.4	24.8	22.1	19.0	15.1	12.3	5.3	4.5	4.1	17.0	18.3	18.5	0.6	0.7	0.7	119.5	
<b>KIE universe</b>					113,636	1,568				24.8	27.2	14.0	22.0	17.3	15.2	11.1	9.9	8.8	2.8	2.6	2.3	12.9	14.8	15.2	1.4	1.7	1.8		
<b>KIE universe (ex-energy)</b>					99,515	1,373				30.7	33.2	16.0	24.5	18.4	15.9	12.3	10.8	9.6	3.2	2.8	2.6	12.8	15.4	16.1	1.3	1.6	1.8		

Notes:  
(a) We have used adjusted book values for banking companies.  
(b) 2019 means calendar year 2018, similarly for 2020 and 2021 for these particular companies.  
(c) Exchange rate (Rs/US\$)= 72.47

Source: Company, Bloomberg, Kotak Institutional Equities estimates

**Kotak Institutional Equities Research coverage universe**

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2018

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

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

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

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

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

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## Corporate Office

Kotak Securities Ltd.  
27 BKC, Plot No. C-27, "G Block"  
Bandra Kurla Complex, Bandra (E)  
Mumbai 400 051, India  
Tel: +91-22-43360000

## Overseas Affiliates

Kotak Mahindra (UK) Ltd  
8th Floor, Portsocken House  
155-157 Minorities  
London EC3N 1LS  
Tel: +44-20-7977-6900

Kotak Mahindra Inc  
369 Lexington Avenue  
28th Floor, New York  
NY 10017, USA  
Tel: +1 212 600 8856

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