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EQUITY MARKETS

India	Change %			
	20-Jul	1-day	1-mo	3-mo
Sensex	55,398	1.2	5.5	(4.3)
Nifty	16,521	1.1	5.6	(5.0)
Global/Regional indices				
Dow Jones	31,875	0.2	4.4	(8.4)
Nasdaq Composite	11,898	1.6	7.5	(9.7)
FTSE	7,264	(0.4)	1.6	(4.8)
Nikkei	27,644	(0.1)	5.3	0.3
Hang Seng	20,890	1.1	(3.1)	1.0
KOSPI	2,397	0.4	(0.5)	(12.2)
Value traded – India				
Cash (NSE+BSE)	544		464	279
Derivatives (NSE)	117,039		67,607	118,514
Deri. open interest	11,186		9,844	11,070

Forex/money market

	Change, basis points			
	20-Jul	1-day	1-mo	3-mo
Rs/US\$	80.0	3	188	375
10yr govt bond, %	7.4	1	2	34

Net investment (US\$ mn)

	19-Jul	MTD	CYTD
FIs	133	1,153	23,258
MFs	51	(1,163)	(6,498)

Top movers

Best performers	Change, %			
	20-Jul	1-day	1-mo	3-mo
TVSL in Equity	877	(0.3)	17.9	33.3
MM in Equity	1,166	(1.7)	16.8	28.0
SHTF in Equity	1,408	1.2	19.9	22.3
HMCL in Equity	2,827	0.9	13.1	22.0
HUVR in Equity	2,605	1.4	18.1	18.5

Worst performers

VEDL in Equity	253	6.1	7.3	(40.4)
NMDC in Equity	104	0.1	(4.2)	(38.8)
HNDL in Equity	369	0.4	8.9	(31.6)
TATA in Equity	928	1.0	4.9	(28.7)
RBK in Equity	91	0.1	9.8	(27.7)

JULY 21, 2022

THEME

BSE-30: 55,398

E2G—reluctantly back in office. We conducted a survey of over ~400 employees in the IT/ITes sector to get a sense on their return-to-work intent, wherein 90% of the employees highlighted that their employers expect them to be back in the office within six months, although only half of the employees were open to return to office more than 3 days a week, and a mere 0.7% open to a full 5-day week. In our view, low physical occupancy and a staggered return-to-office adoption will keep occupancies of office portfolios in a narrow range with improvements only visible from end-FY2023E.

90% of employees expected to return to offices in six months

According to our survey results, (1) 90% of employees in the IT/ITes sector are likely to be back in office within six months (see Exhibit 16), (2) over 71% feel less connected with their team mates due to WFH (see Exhibit 10), (3) and over 60% managers are having issues with availability of subordinates during WFH (see Exhibit 12). As much as 69% of the employees surveyed were open to return to office (see Exhibit 19), though almost all the employees wish to have a reduced number of working days in the office with hardly any employee looking for a full 5-day working week in office (see Exhibit 20). Interestingly, a staggering 65% of the respondent highlighted that they knew of people pursuing part-time opportunities/moon-lighting while working from home (see Exhibit 25).

Work from home will likely have a broader acceptance under the new office format

Reduced travel time and better work-life balance are among the key reasons (see Exhibit 5) that have prompted 74% of the survey respondents to continue to work from home, with 42% of the employers having offered the option for employees to continue to work from home permanently (see Exhibit 15), and an equivalent quantum suggesting that they would quit their current jobs if their employers do not offer a work-from-home option (see Exhibit 18). A staggering 94% of the survey respondents would like to work for employers who would offer remote work options.

In our view, strong growth in IT revenues over the past few quarters has led to record hiring as well as rise in attrition rates. This has shifted the balance of power in favor of employees, who are able to bargain the terms of working conditions and accordingly push back a return to office.

Operational improvement pushed back to end-FY2023E

Despite physical occupancy being a challenge for the IT companies and the commercial office players in the past 12 months, we note that commercial real estate across top cities in India saw gross leasing of 62 mn sq. ft and net absorption of 27 mn sq. ft against new supply of 38 mn sq. ft in FY2022, signaling robust demand for office spaces. We highlight that occupancy for these office portfolios appears to have stabilized (with some weakness) along with pipeline of lease expiries steadying as tenants are no longer opting for pre-termination of lease agreements. However, in the absence of strong physical occupancy and staggered return-to-office, we do not see a meaningful increase in occupancies till end-FY2023E.

In our view, earnings growth in FY2023E will likely be more hinged on contractual escalations as well as commissioning of new assets, even as portfolio occupancies continue to trend soft. Gradual waning of 'work from home' coupled with global technology companies looking to increase their headcounts is likely to spur leasing activity in the coming quarters.

Murtuza Arsiwalla

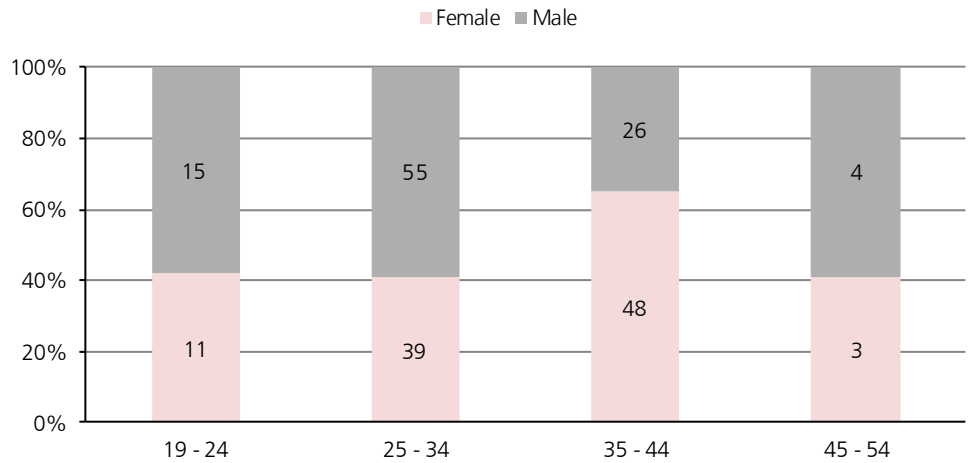
Prateek Barsagade

Iftekhhar Bidkar

IT employees: Work from home continues to be the norm

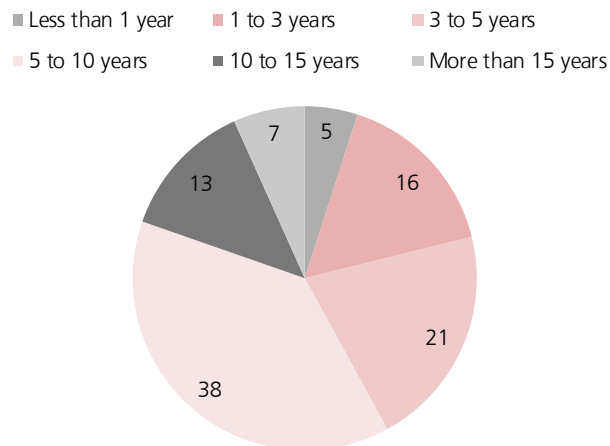
We conducted a survey to understand the current work from home scenario, employee preferences/challenges, and permeation of return to office programs by employers. We received data points from 402 participants working in IT/ITes companies, across multiple age-groups and cities.

Exhibit 1: Of 402 survey respondents, 53% were male and 84% were in the age group of 25-44 years
Demographic profile of survey respondents (%)



Source: Survey respondents, Kotak Institutional Equities

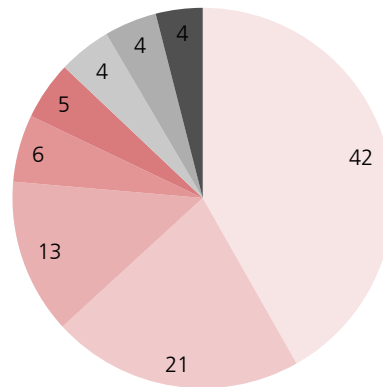
Exhibit 2: 75% of respondents had work experience in the range of 1-10 years
Demographic profile of survey respondents (%)



Source: Survey respondents, Kotak Institutional Equities

Exhibit 3: 42% of the respondents had their offices in Mumbai followed by 21% in Delhi-NCR
Demographic profile of survey respondents, (%)

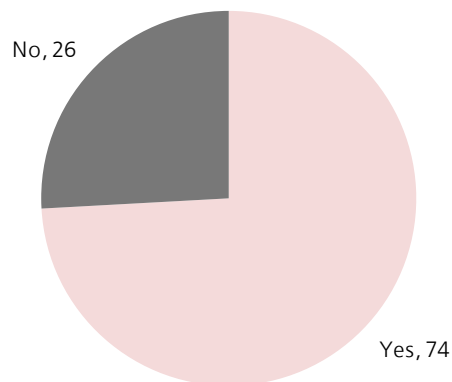
■ Mumbai ■ Delhi NCR ■ Bengaluru ■ Chennai ■ Kolkata ■ Hyderabad ■ Pune ■ Others*



Source: Survey respondents, Kotak Institutional Equities

Data on the current status of employees suggests that a large majority of the employees continue to work from home – 74%. Saving on travel time and better work-life balance occupy the top spots, as reasons to continue to work from home.

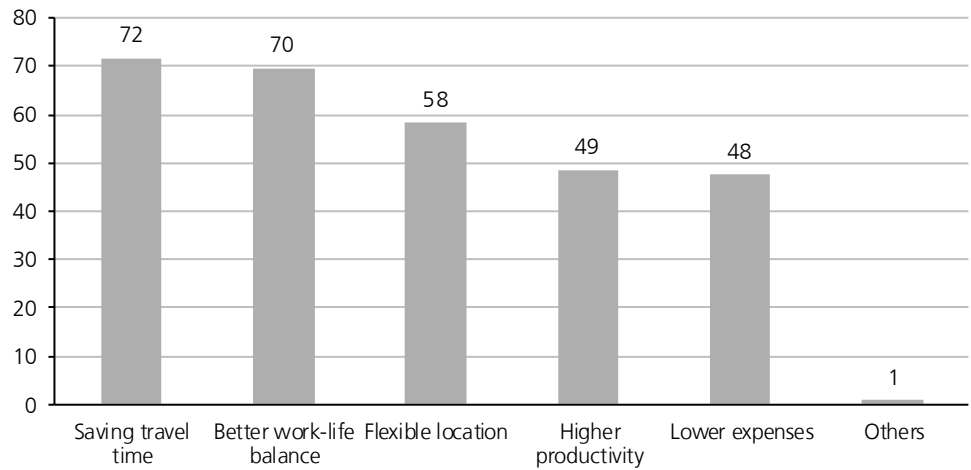
Exhibit 4: 74% of the respondents still continue to work from home
Q: Do you still continue to work from home (%)



Source: Survey respondents, Kotak Institutional Equities

Exhibit 5: More than 70% of the respondents indicated saving on travel time and better work life balance as key benefits of working from home

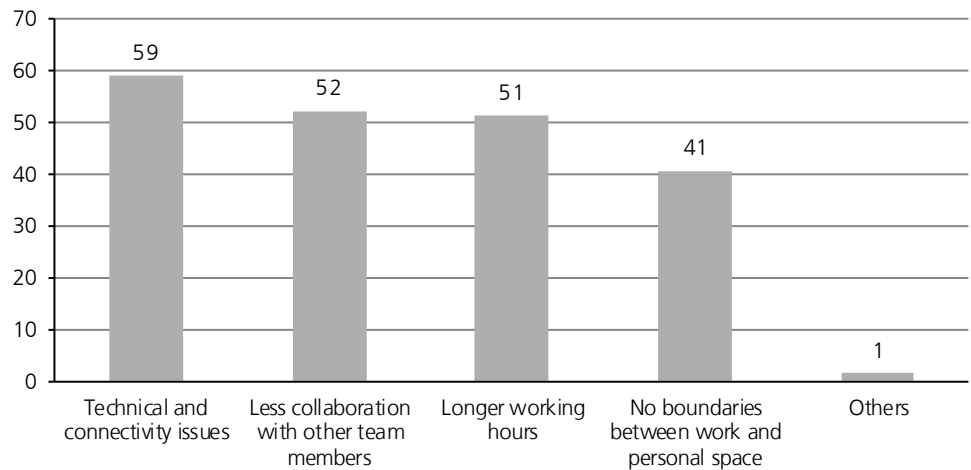
Q: What aspects do you enjoy the most about working from home (%)



Source: Survey respondents, Kotak Institutional Equities

Exhibit 6: Longer hours, technical issues and lesser collaboration remain the pain points during working from home

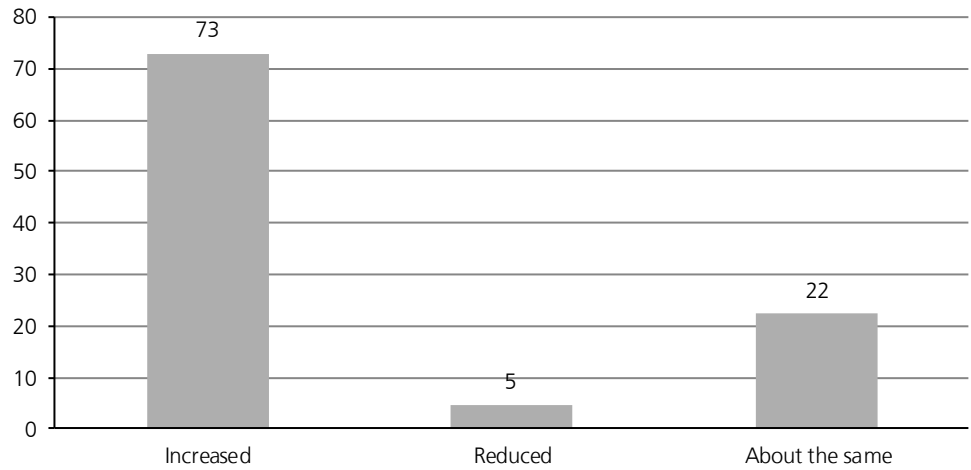
Q: What challenges do/did you face while working from home (%)



Source: Survey respondents, Kotak Institutional Equities

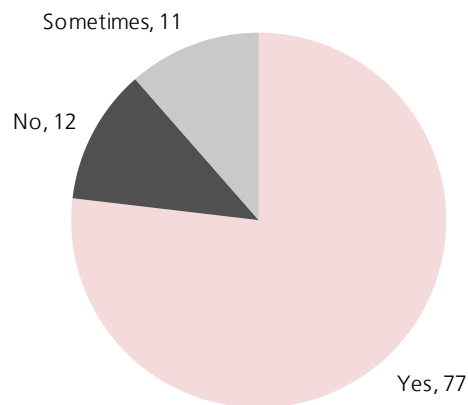
We highlight that for respondents with experience of 5-10 years, better work life balance occupied the top spot, while saving on travel time was the top reason for the rest of sample groups. Interestingly, in terms of challenges during work from home, lesser collaboration was the key point for the younger and older respondents – aged between 19-24 and 45-54 years, while the rest of the age groups highlighted technical issue as the key challenge while working from home.

Exhibit 7: Work hours increased for the majority of people working from home
 Q: How did working from home impact your work hours (%)



Source: Survey respondents, Kotak Institutional Equities

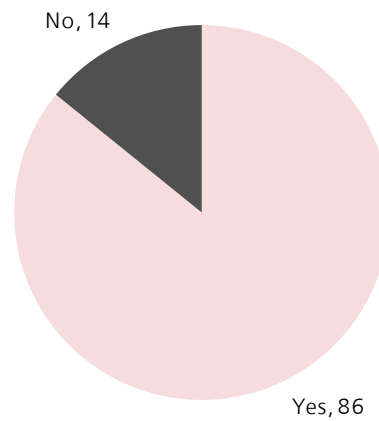
Exhibit 8: 77% of respondents felt satisfied with their work-life balance while working from home
 Q: Were/are you satisfied with your work-life balance during work from home (%)



Source: Survey respondents, Kotak Institutional Equities

Exhibit 9: Majority of the respondents received infrastructural support from employers while working from home

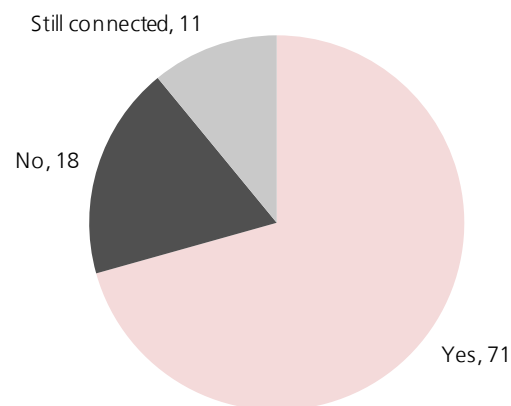
Q: Did your employer provide infrastructural support to facilitate a smooth work from home experience (%)



Source: Survey respondents, Kotak Institutional Equities

Exhibit 10: 71% of respondents felt less connected with their teammates while working from home

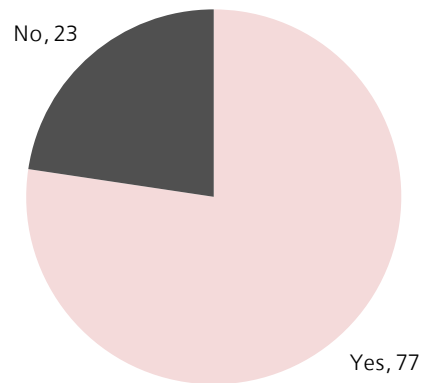
Q: Do/did you feel less connected with your colleagues during work from home (%)



Source: Survey respondents, Kotak Institutional Equities

We note that 75% of the respondents managed other employees while working from home and 60% of those, or ~45% of the sample set mentioned that employee availability was/is an issue during working from home.

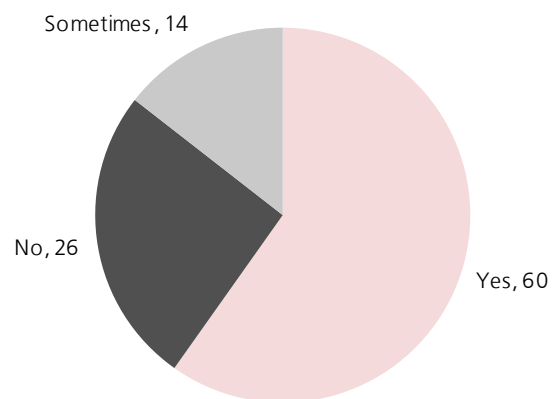
Exhibit 11: Over 300 of the 400 respondents managed employees who were working from home
Q: Did you manage/are you managing employees who are working from home (%)



Source: Survey respondents, Kotak Institutional Equities

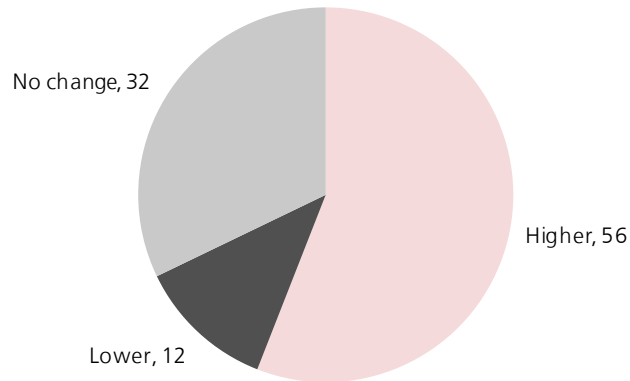
Exhibit 12: Of the 300 respondents, 60% indicated that team member availability is/was an issue during working from home

Q: Has employee/team member availability been an issue during work from home (%)



Source: Survey respondents, Kotak Institutional Equities

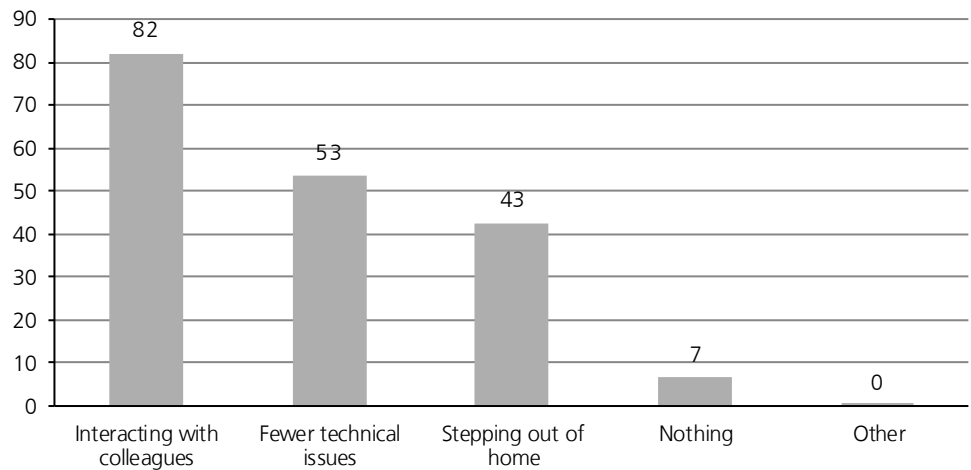
Exhibit 13: 56% of respondents said their team's productivity was higher while working from home
 Q: How has work from home impacted your team's productivity (%)



Source: Survey respondents, Kotak Institutional Equities

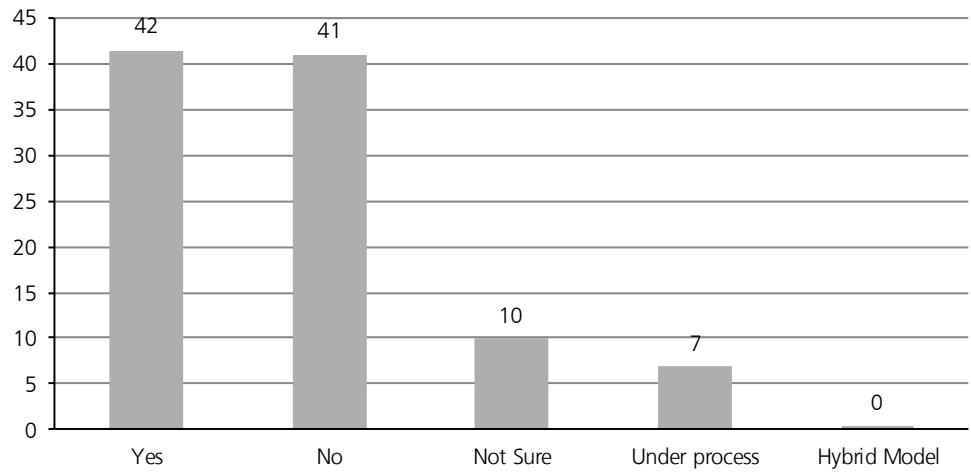
When asked about returning back to office, respondents listed interacting with colleagues as the key aspect of coming back to office. However, not all employers have asked their employees to come back, as ~50% of the respondents claimed their employer has offered them permanent work from home or that the same is under consideration. With some employers continuing to offer the work from home option, 42% of the respondents said they would consider switching/quitting their jobs if not permitted to work from home.

Exhibit 14: Interacting with team members was the most sought after aspect about going to office
 Q: What do/did you look forward to in going back to office (%)



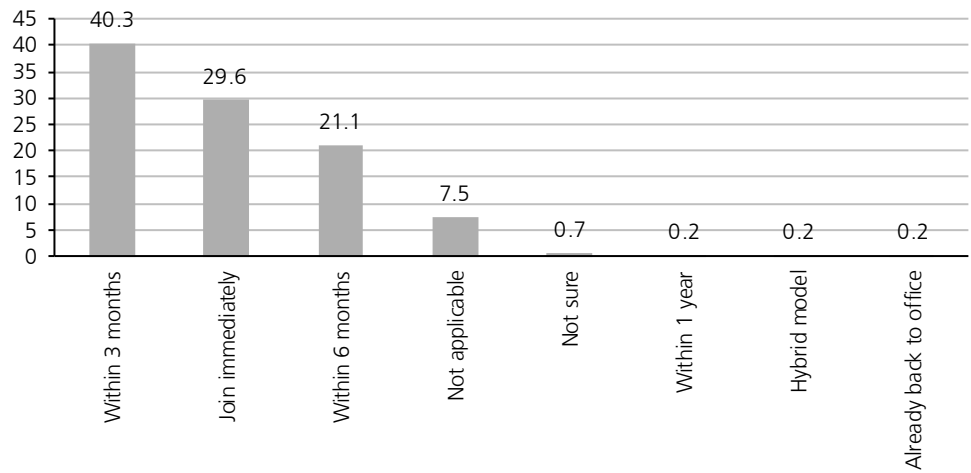
Source: Survey respondents, Kotak Institutional Equities

Exhibit 15: Employers continue to be divided over providing work from home to employees
 Q: Has your employer offered you a permanent 'Work from Home' option (%)



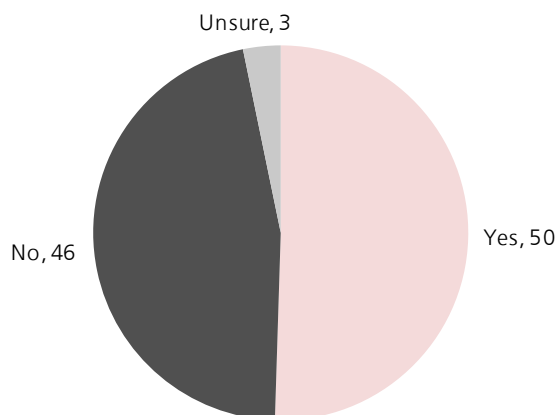
Source: Survey respondents, Kotak Institutional Equities

Exhibit 16: 90% of respondents indicated that they are expected return to office within 6 months
 Q: How soon does your employer expect you to go back to office (%)



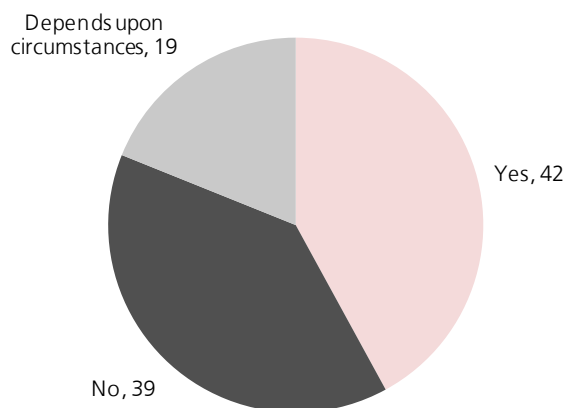
Source: Survey respondents, Kotak Institutional Equities

Exhibit 17: 50% of respondents said their employers are asking them to join back office
Q: Is your employer pressuring you to get back to office (%)



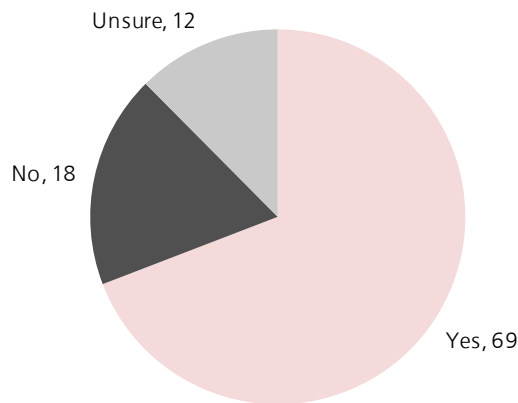
Source: Survey respondents, Kotak Institutional Equities

Exhibit 18: 42% of respondents might consider quitting if not permitted to work from home
Q: Do you intend to quit your current job if your company does not allow you to work from home (%)



Source: Survey respondents, Kotak Institutional Equities

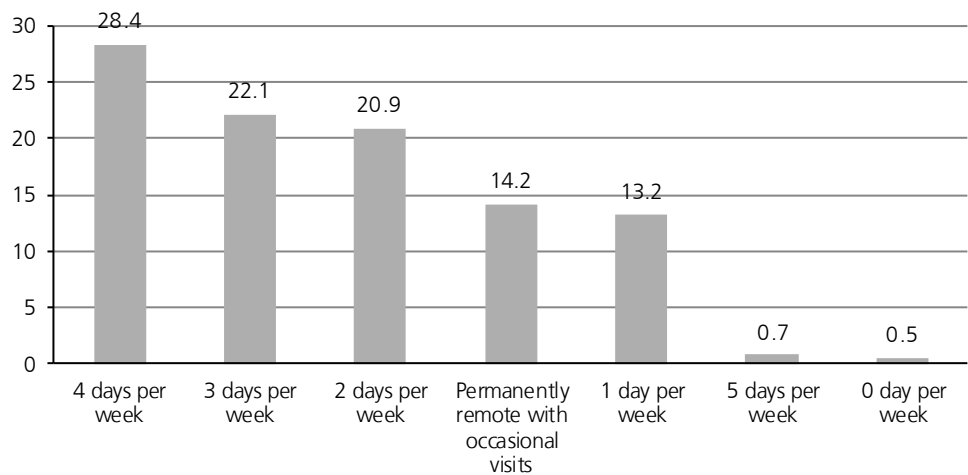
Exhibit 19: 69% of respondents mentioned they are open to returning to office
 Q: Are you open to going back to office permanently (%)



Source: Survey respondents, Kotak Institutional Equities

We see strong averseness from respondents for coming to office 5 days a week as well as coming 1 day a week, with 4 days a week being the most favored option followed by 3 days a week. While employees continue to remain in favor of working from home and are likely to consider it as an important factor while looking for employment, we note that 65% of the respondents have admitted themselves/know someone who has engaged in moonlighting while working from home.

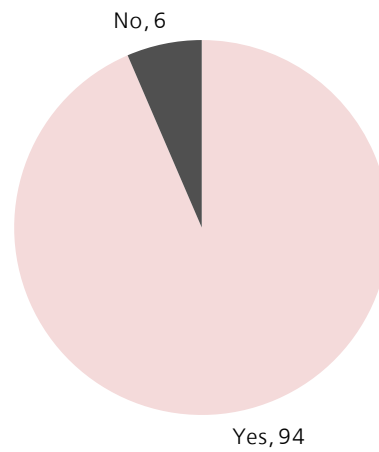
Exhibit 20: Less than 1% of respondents were open to going to office 5 days a week
 Q: What is your ideal number of work from home days in a week (%)



Source: Survey respondents, Kotak Institutional Equities

Exhibit 21: Majority of respondents indicated preference for employers who provided the option of working from home

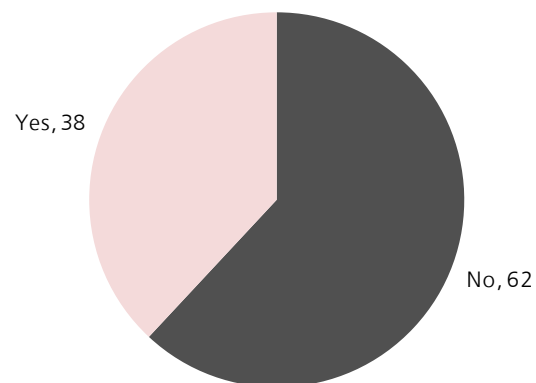
Q: Would you prefer to work with employers who offer/will continue to offer the option of remote work (%)



Source: Survey respondents, Kotak Institutional Equities

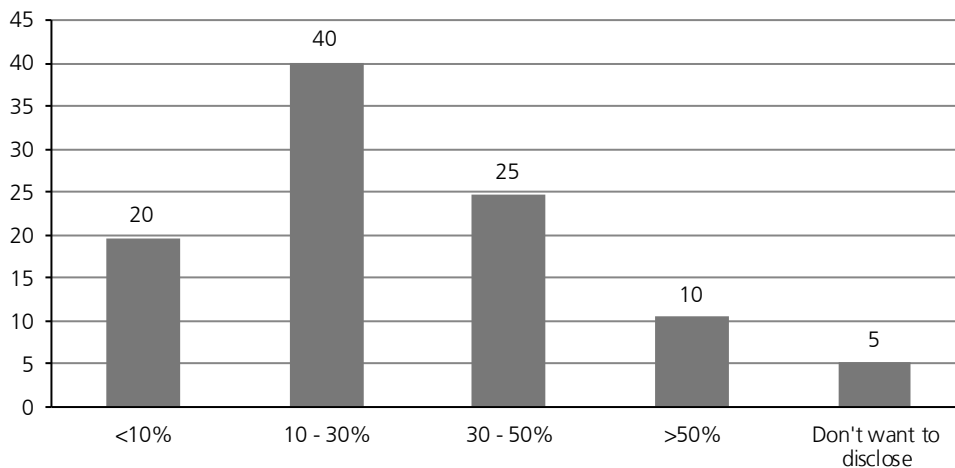
Exhibit 22: 62% of respondents responded negatively to switching jobs in the past 12 months

Q: Have you switched jobs in the past 12 months (%)



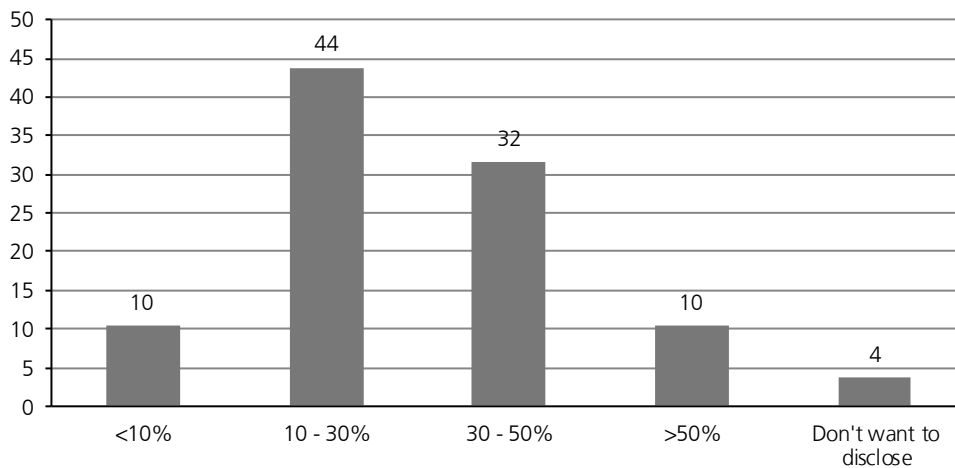
Source: Survey respondents, Kotak Institutional Equities

Exhibit 23: Survey data corroborates the strong wage growth observed in the IT sector
 Q: What increment has your company given you in the past 12 months (%)



Source: Survey respondents, Kotak Institutional Equities

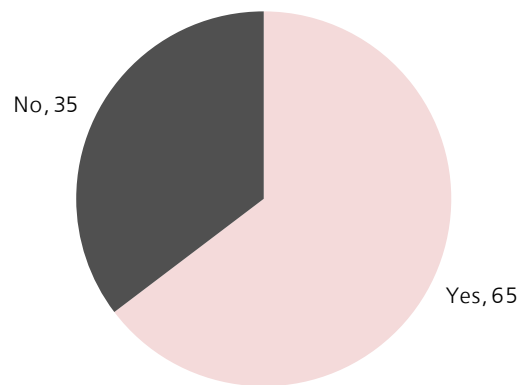
Exhibit 24: Wage growth expectations continue to remain intact for the employees
 Q: How much more do you expect to earn if you change jobs now (%)



Source: Survey respondents, Kotak Institutional Equities

Exhibit 25: 65% of respondents said they/someone they knew engaged in moonlighting

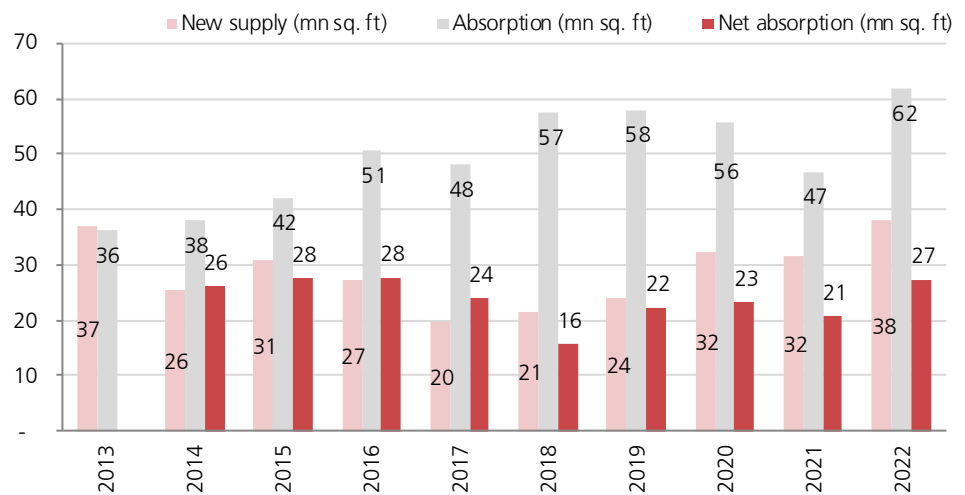
Q: Have you/any colleague you are aware of engaged in part-time opportunities during work from home (%)



Source: Survey respondents, Kotak Institutional Equities

Exhibit 26: Record-high absorption as new supply remained robust during the year

Total office stock, demand-supply dynamics across India, March fiscal year-ends, 2013-22 (mn sq. ft, %)



Source: Survey respondents, Kotak Institutional Equities

Exhibit 27: IT companies have registered strong growth in 2022 on account of surge in business from offshore clients
Revenues and revenue growth of Tier 1 offshore pure plays, March fiscal year-ends, 2012-22 (US\$ mn)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenues (US\$ mn)											
TCS	10,170	11,569	13,441	15,454	16,543	17,575	19,089	20,913	22,031	22,174	25,824
Infosys	6,995	7,398	8,249	8,711	9,501	10,208	10,939	11,799	12,781	13,562	16,310
Wipro IT	5,920	6,218	6,618	7,081	7,347	7,705	8,060	8,192	8,256	8,137	10,356
HCLT	4,152	4,686	5,360	5,953		6,975	7,838	8,632	9,936	10,175	11,481
TechM	2,465	2,633	3,098	3,663	4,038	4,351	4,771	4,971	5,182	5,111	5,999
Cognizant	6,121	7,346	8,843	10,263	12,416	13,487	14,810	16,125	16,783	16,652	18,507
c/c revenue growth (%)											
TCS	23.0	16.2	17.3	16.5	11.9	8.3	7.2	11.4	7.1	(0.8)	15.4
Infosys	15.2	6.5	12.4	7.7	13.3	8.3	5.8	9.0	9.8	5.0	20.1
Wipro IT	12.8	7.4	7.5	8.7	7.6	7.0	2.9	5.4	3.9	(2.3)	26.9
HCLT	16.0	15.3	15.4	15.1	11.6	13.7	10.5	11.8	16.7	1.1	12.7
TechM	117.6	9.3	18.8	20.3	13.8	9.4	7.8	5.8	5.6	(2.5)	17.0
Cognizant	33.0	20.5	21.0	17.5	24.0	9.5	9.2	8.5	5.2	(0.7)	10.0
US\$ revenue growth (%)											
TCS	24.2	13.8	16.2	15.0	7.0	6.2	8.6	9.6	5.3	0.6	16.5
Infosys	15.8	5.8	11.5	5.6	9.1	7.4	7.2	7.9	8.3	6.1	20.3
Wipro IT	13.4	5.0	6.4	7.0	3.7	4.9	4.6	1.6	0.8	(1.4)	27.3
HCLT	17.1	12.9	14.4	11.1	7.1	6.4	12.4	10.1	15.1	2.4	12.8
TechM	113.2	6.8	17.7	18.2	10.2	7.8	9.6	4.2	4.3	(1.4)	17.4
Cognizant	33.3	20.0	20.4	16.1	21.0	8.6	9.8	8.9	4.1	(0.8)	11.1

Notes

- (a) Cognizant has December year ends
(b) HCLT has June fiscal till 2015

Source: Companies, Kotak Institutional Equities

Exhibit 28: Attrition continues to be on the higher side for most IT companies

Attrition rates across IT companies, March fiscal year-ends, 1QFY20-4QFY22 (%)

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
TCS (a)	11.5	11.6	12.2	12.1	11.1	8.9	7.6	7.2	8.6	11.9	15.3	17.4
Infosys (a)	18.9	18.3	17.7	17.4	15.6	12.8	11.0	10.9	13.9	20.1	25.5	27.7
Wipro (a)	17.6	17.0	15.7	14.7	13.0	11.0	11.0	12.1	15.5	20.5	22.7	23.8
HCL Tech (a)	17.3	16.9	16.8	16.3	14.6	12.2	10.2	9.9	11.8	15.7	19.8	21.9
HCL Tech (b)	29.5	28.1	25.5	24.1	19.0	14.7	14.9	18.5	NA	NA	NA	NA
Tech Mahindra (c)	21.0	21.0	20.0	19.0	17.0	14.0	12.4	13.3	17.2	21.2	23.5	23.5
L&T Infotech (c)	18.3	18.4	17.7	16.5	15.2	13.5	12.4	12.3	15.2	19.6	22.5	24.0
Mindtree (a)	15.1	16.5	17.2	17.4	16.6	13.8	12.5	12.1	13.7	17.7	21.9	23.8
LTTS (c)	15.8	13.4	13.9	13.8	11.4	10.8	10.7	12.2	14.5	16.5	17.5	20.4

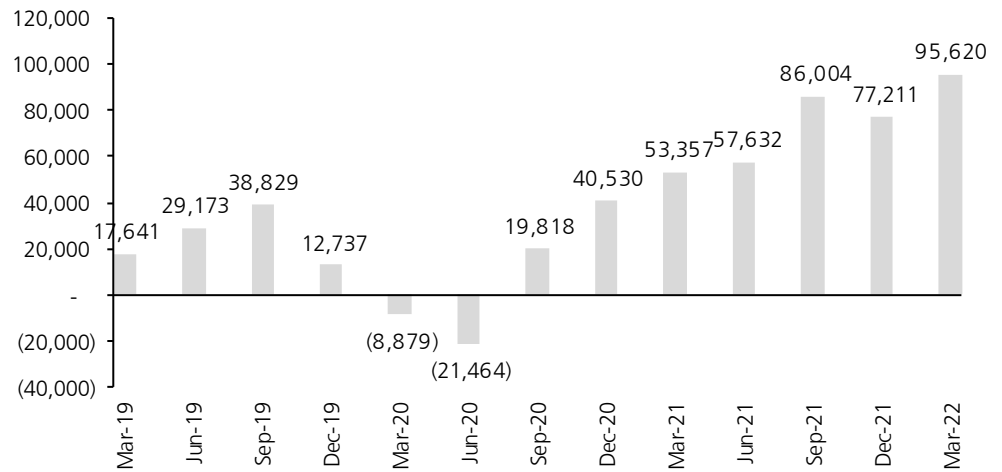
Notes:

- (a) LTM attrition for IT services.
(b) Quarterly annualized attrition computed (includes BPO).
(c) LTM voluntary attrition for IT services

Source: Companies, Kotak Institutional Equities

Exhibit 29: Net headcount addition continues to climb up over the recent quarters

Cumulative headcount of Tier-I offshore pure-play IT companies, March fiscal year-ends, 4QFY19-4QFY22 (%)



Source: Companies, Kotak Institutional Equities

Exhibit 30: Embassy expected to outperform other with higher NDCF compounding

Financial metrics of Embassy, Mindspace, Brookfield and DCCDL, March fiscal year-ends, 2022-25E (Rs mn)

	2022	2023E	2024E	2025E	CAGR (%)
Financial					
Revenue					
Embassy	29,626	36,510	44,271	51,366	20
Mindspace	17,501	21,992	26,920	29,609	19
Brookfield	8,768	12,622	14,790	16,269	23
DCCDL	43,730	54,028	63,284	71,665	18
NOI					
Embassy	24,911	30,342	36,634	42,692	20
Mindspace	14,780	18,063	21,331	23,371	17
Brookfield	6,730	9,269	10,803	11,836	21
DCCDL	33,280	39,899	47,569	54,483	18
NDCF					
Embassy	20,638	20,314	26,145	31,222	15
Mindspace	11,232	12,358	14,060	14,792	10
Brookfield	6,884	6,935	7,302	7,494	3

Note: EBITDA used as proxy for NOI in DCCDL

Source: Companies, Kotak Institutional Equities

Exhibit 31: Strong MTM potential available for Embassy and Mindspace

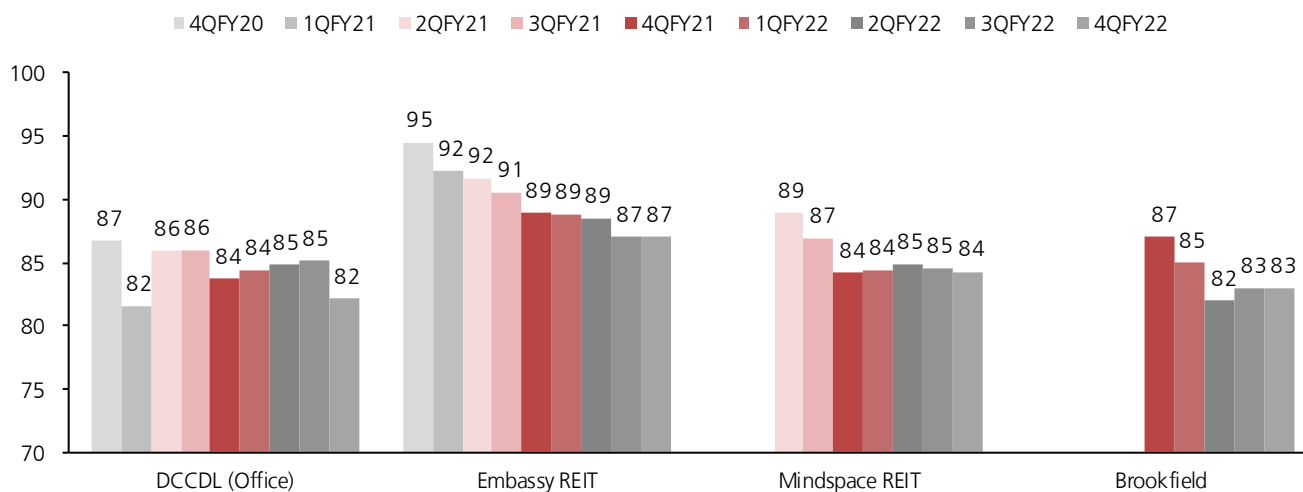
Portfolio details of Embassy, Mindspace, Brookfield, and DCCDL, March fiscal year-ends, 2022-25E (Rs mn)

	Embassy	Mindspace	Brookfield	DCCDL
Portfolio	42.8	31.8	18.6	42.8
Completed	33.8	24.2	14.1	37.8
Construction / Development	9.0	7.6	4.5	5.0
Leased	29.4	20.4	11.7	33.6
Vacant	4.4	3.8	2.4	4.2
Vacant (%)	12.9	15.7	17.0	12.6
Expiry				
2023E	3.1	1.1	1.0	
2024E	1.0	0.9	1.0	
2025E	1.9	1.1	0.7	
2023-25E	6.0	2.0	2.0	
2023-25E (%)	20.4	9.8	17.3	
Construction				
2023E	1.8	3.5	0.1	
2024E	2.8	0.8	0.9	
2025E	3.0	1.0	0.7	
2023-25E	7.6	5.3	1.7	
2023-25E (%)	25.8	25.9	14.4	
Beyond 2025E	1.39	2.32	2.81	
Rentals				
In-place	75	62	63	
Market	93	72	—	
MTM	24	16	—	

Source: Companies, Kotak Institutional Equities

Exhibit 32: Occupancy levels have stabilized post 4QFY21

Occupancy trend across key commercial players, March fiscal year-ends, 4QFY20-4QFY22 (%)



Source: Companies, Kotak Institutional Equities

Exhibit 33: Embassy and Mindspace trade at attractive valuations with reasonable yields

Comparable valuations of Embassy, Mindspace and Brookfield, March fiscal year-ends, 2021-24E (Rs mn)

	Embassy				Mindspace				Brookfield			
	2021	2022	2023E	2024E	2021	2022	2023E	2024E	2021	2022	2023E	2024E
Valuation												
Gross asset value	4,63,267	4,81,815	4,95,333	4,83,512	2,46,766	2,38,418	2,45,344	2,65,249	1,27,028	1,58,780	1,45,568	1,48,345
Net debt	1,14,082	1,32,630	1,46,148	1,34,327	32,402	24,054	30,979	50,885	17,860	49,612	36,400	39,177
Market cap.	3,49,185	3,49,185	3,49,185	3,49,185	2,14,364	2,14,364	2,14,364	2,14,364	1,09,168	1,09,168	1,09,168	1,09,168
Under-construction	46,275	46,275	46,275	46,275	21,840	21,912	21,912	21,912	11,200	11,200	11,200	11,200
Gross asset value (operating)	4,16,992	4,35,540	4,49,058	4,37,237	2,24,926	2,16,578	2,23,504	2,43,409	1,15,828	1,47,580	1,34,368	1,37,145
Cap. rate												
Overall (%)	4.8	5.6	6.6	8.1	4.1	6.2	7.4	8.0	5.2	4.2	6.4	7.3
Operational (%)	5.3	6.2	7.3	8.9	4.5	6.8	8.1	8.8	5.7	4.6	6.9	7.9
NOI (Rs mn)	20,323	24,911	30,342	36,634	10,100	14,780	18,063	21,331	6,548	6,730	9,269	10,803
Adjusted NOI (Rs mn)	22,171	26,859	32,578	39,115	10,100	14,780	18,063	21,331	6,548	6,730	9,269	10,803
NDCF	18,356	20,638	20,314	26,145	11,232	12,358	14,060	6,884	6,884	6,935	7,302	7,302
NDCF (%)	5.3	5.9	5.8	7.5	5.2	5.8	6.6	6.6	6.3	6.4	6.7	6.7

Source: Companies, Kotak Institutional Equities

APPENDIX: E2G, SURVEY, OBJECTIVES AND METHODOLOGY

About E2G and KIE's Primary Research Practice

- Ear to the Ground (E2G), our market research series, is supported by KIE's Primary Research Practice, a proprietary initiative that focuses on qualitative and quantitative primary market research. The practice is backed by extensive analyst experience in primary market research relating to B2B, B2C, Retail and agriculture.
- The objective of this practice is to help analysts understand on-ground realities in the context of their research and offer investors a context for our research and insights.
- KIE's primary research desk also conducts and analyses bespoke market research for clients.

SURVEY OBJECTIVE

We conducted a primary online survey among ~400 employees who are currently working in IT/ITes companies across India.

KEY OBJECTIVES

To understand various aspects around the work-from-home trend in India, including but not limited to the following:

- ▶ Employees' willingness to work from office on a regular/periodical basis
- ▶ Perceived advantages and disadvantages of working from home
- ▶ Changing work-life preferences and reasons
- ▶ Dynamics between the employer and employee

METHODOLOGY

- ▶ Structured questionnaire was developed for the study
- ▶ Online panel survey agency was finalized to undertake the survey
- ▶ ~400 respondents participated in the survey which was completely anonymous
- ▶ The survey was planned by KIE research team covering the real estate sector

SAMPLE SELECTION

- ▶ Purposive sampling methodology was used to recruit and interview target groups that fit the recruitment criteria.
- ▶ Respondents were screened basis recruitment criteria like currently working in IT/ITes industry and online survey link only allowed the participation when they met all the criteria.
- ▶ Post completion of online survey, quality checks were done.

JULY 20, 2022
RESULT

Sector view: **Attractive**
CMP (₹): 412
Fair Value (₹): 410
BSE-30: 55,398

A margin shocker. Wipro reported an all-round weak quarter with significant miss on revenues, margins and earnings. OCF generation was negligible. The only positives were robust deal wins and strong headcount addition. We cut FY2023-25E revenue growth assumption by ~1% and EPS by 7-10%. We cut Fair Value to Rs410, valuing the stock at 18X FY2024E EPS. Maintain REDUCE. Wipro is more vulnerable than peers in a slowdown courtesy of additional challenges of turning around a business and enhanced exposure to discretionary businesses due to recent acquisitions.

Wipro				Forecasts/valuations			
Stock data				2022	2023E	2024E	
CMP(Rs)/FV(Rs)/Rating	412/410/REDUCE			EPS (Rs)	22.3	21.1	23.3
52-week range (Rs) (high-low)	740-391			EPS growth (%)	16.8	(5.0)	10.3
Mcap (bn) (Rs/US\$)	2,260/28.3			P/E (X)	18.5	19.5	17.7
ADTV-3M (mn) (Rs/US\$)	3,673/46			P/B (X)	3.4	3.0	2.7
Shareholding pattern (%)				EV/EBITDA (X)	12.1	11.8	10.3
Promoters	73.0			RoE (%)	20.2	16.5	16.3
FPIs/MFs/BFIs	10.6/3.1/3.4			Div. yield (%)	1.5	1.2	2.2
Price performance (%)				Sales (Rs bn)	797	903	969
Absolute	1M	3M	12M	EBITDA (Rs bn)	171	173	190
	(0.6)	(23.2)	(27.5)	Net profits (Rs bn)	122	116	128
Rel. to BSE-30	(8.0)	(20.3)	(33.6)				

Source: Bloomberg, Kotak Institutional Equities estimates

Weak organic growth; margins fall 200 bps qoq to historic lows

Revenue of US\$2.4 bn grew 0.5% qoq and 13.3% yoy in reported terms. Sequential c/c growth of 2.1% was 70 bps below our estimate. We estimate inorganic contribution at 1% implying weak organic qoq growth of 1.1%. IT services EBIT margin fell 200 bps qoq (280 bps yoy) to historical lows of 15%, a shocker noting there was no wage revision. Management attributed the sharp decline to—(1) 130 bps from decline in utilization rates (310 bps qoq), higher subcon charges and internal IT investments, (2) 20 bps hit from Rizing acquisition and (3) 50 bps from increase in travel costs. Higher tax rate (23.6% compared to 16-17% in 1QFY22 and 4QFY22 due to tax reversals) and lower other income made for a worse comparison at net profit level. Net profit fell 17% qoq and 20.7% yoy to Rs25.6 bn and was 14.7% lower than our estimate.

Juicing up margins requires payoff from investments

Wipro's EBIT margin has declined to a new low even before wage revision. Besides the general industry-wide pressure, Wipro's headwinds also result from investments to turn around the operations. These include leadership refresh, induction of several new global account executives and competencies including acquisitions to name a few. Success in many of these initiatives is critical to improve margins. In the near term, the company has to contend with wage revision and other headwinds. Our revised EBIT margin estimates of 15.5-16% for FY2023-25E is 100-140 bps lower than our earlier estimates.

3-5% revenue growth guidance for September 2022 quarter includes 150 bps from acquisitions

Embedded in 3-5% qoq revenue growth guidance for September 2022 quarter is ~150 bps contribution from Rizing acquisition. Supporting good guidance is US\$1.1 bn of TCV of large deal wins (size above US\$30 mn), representing yoy growth of 53.8% and impressive. Our revenue estimates are largely unchanged with positive guidance offset by revenue miss in June 2022 quarter.

Cut FY2023-25E EPS by 7-10%; Fair Value to Rs410 (from Rs430 earlier)

We cut FY2023-25E revenue estimates by ~1%. We bake in sharp miss of margins through 100-140 bps cut in EBIT margin leading to 7-10% cut in EPS estimates. Heading into the slowdown, Wipro has a lot more to manage than peers including executing a difficult turnaround and managing large acquisitions that have increased the risk profile of the business. Retain REDUCE at revised FV of Rs410, valuing the company at unchanged 18X FY2024E EPS.

Kawaljeet Saluja

Sathishkumar S

Analysis of cost structure indicates across-the-board increase in costs

Wipro's margin decline is due to cost normalization across several expense lines. These include—

- ▶ 35 bps qoq increase as percentage of revenues in cost of hardware and software.
- ▶ Increase in bad and doubtful debt provisioning by 20 bps. This number was a write-back in March 2022 quarter.
- ▶ Higher travel expenses (+50 bps) and marketing expenses (+15 bps) on a qoq basis.
- ▶ Increase in facilities expenses (+30 bps).

It is interesting to note that employee costs increased by only 50 bps as percentage of revenues. We believe that this increase is largely due to lower employee utilization and can be a lever for margins. Of course, the entire analysis is based on consolidated financials that includes products and ISRE business.

A few margin levers highlighted

Wipro indicated that it has several margin levers to structurally improve margins over a period of time including (1) utilization which had dropped 310 bps qoq due to strong fresher intake, (2) pricing, (3) subcontracting, (4) lower attrition, (5) employee pyramid and (6) leverage from growth. Operational efficiencies in the next quarter will offset impact of wage hikes and further margin dilution from Rizing. Some of the tailwinds are quite back-ended. Pricing may not be a significant lever. Pricing discussions will be challenging given a deteriorating macro environment.. Moderation in attrition can be gradual given tight supply.

Bullish on demand even in vulnerable segments

Management was extremely optimistic on demand, despite an uncertain macro environment. Here are a few interesting comments made by them

- ▶ No impact of weak environment on IT spending outlook of clients. Pipeline is at an all-time high.
- ▶ Technology is not a cost driver but a driver of transformation.
- ▶ Capco revenues are currently not facing risk from slowdown/recessionary scenario given high demand for digital transformation.
- ▶ Clients are reprioritizing budgets with focus on cost efficiency.
- ▶ No signs of slowdown in Europe. Pipeline is healthy. Optimistic on growth in 2QFY22 and beyond.

Commentaries on Capco and Europe appear a tad optimistic given Capco's higher exposure to discretionary spending on a high base and a challenging economic environment for Europe. The company has guided for double-digit growth in FY2023E.

Management optimism will be tested, especially in the slowdown phase in the second half of the financial year.

Robust TCV of US\$1.1 bn and further addition to US\$100 mn bucket

After a couple of weak quarters, large deal TCV rebounded and grew 54% yoy to US\$1.1 bn. Renewal component in low. Overall TCV of deals was not disclosed but grew 32% yoy as per Wipro's quarterly release. ACV grew 18% yoy. Deals were across verticals and geographies. Investment in large deals' team aided increase in deal TCV. Pipeline is at an all-time high and has a mix of small, medium and large deals. Commoditized deals are under pricing pressure while transformation-led deals had better margins.

Wipro added 1 more client to US\$100 mn bucket taking the total to 20. Focus on mining top accounts has led to rapid increase in US\$100 mn accounts; however, US\$50-100 mn accounts have stagnated.

Rizing acquisition—not a desirable one

Wipro acquired Rizing, a SAP-focused consulting firm based out of the US, for a consideration of US\$540 mn. Rizing adds US\$200 mn+ revenue, expands capabilities in the SAP ecosystem, provides access to complementary clients and adds heft to the consumer vertical. Acquisition is margin dilutive to the extent of ~60 bps and perhaps not the best use of cash given lack of a multiplier effect. The acquisition strives to expand capabilities in a horizontal where Wipro already has a fairly mature practice. The company already has a good growth business in the consumer vertical, the key focus of Rizing. The company itself is an amalgamation of several niche SAP consulting firms put together by PE firms. Finally integrating consulting teams in a services organization is seldom a smooth affair due to factors such as differences in culture and disproportionate emphasis on downstream revenues.

Upside risks to attrition from wage hike quarters

Attrition rate declined by a modest 50 bps qoq to 23.3% on LTM basis. Wipro expects LTM attrition to moderate further in Sep 2022 quarter. Attrition faces upside risk from wage hike cycle in September. Attrition trend in the next couple of quarters will be keenly monitored.

Weak organic growth led by telecom, consumer and BFSI

Revenue growth was skewed and led by telecom, which grew 9% qoq. Wipro's areas of strength—BFSI and consumer (aided by Rizing acquisition) grew at a reasonable pace of 2.4% and 5%, respectively. The remaining verticals either declined or reported weak growth on a sequential basis. Top 10 fared better than the rest. America reported better growth than Europe both on qoq and yoy basis.

Key highlights from earnings call

- ▶ **Headcount addition.** Wipro added 15,446 employees on net basis taking total headcount to 258,574 including on boarding of 10k+ freshers.
- ▶ **Segmental bookings.** Engineering services bookings doubled yoy. Cloud services bookings grew 35% yoy.
- ▶ **Collaboration.** Rizing and SAP teams are working together in several deals, In past 12 months, Capco and Wipro have had 60 joint wins.
- ▶ **iCORE growth.** iCORE revenues were flattish qoq on c/c basis due to revenue decline in BPO. Infra and security business grew.
- ▶ **Offshore business.** Wipro will develop offshore businesses of Capco and Rizing to improve margins.
- ▶ **Other highlights.** Wipro will move to quarterly promotion cycle from July 2022.
- ▶ **Margin dilution.** Capco and other acquisitions cumulatively have led to margin dilution of 2.3%.

Exhibit 1: Wipro 1QFY23 results (IFRS) (Rs mn)

	1QFY23	1QFY23E	1QFY22	4QFY22	% chg.			FY2024E	FY2023E	% chg.
					KIE	yoy	qoq			
IT services revenues (US\$ mn)	2,736	2,767	2,415	2,722	(1.1)	13.3	0.5	12,244	11,526	6.2
- IT Services	212,848	214,445	180,481	206,608	(0.7)	17.9	3.0	955,017	888,945	7.4
- India State Run Enterprise	1,526	1,937	1,937	1,868	(21.2)	(21.2)	(18.3)	6,884	6,884	—
- IT Products	1,946	1,337	1,311	1,201	45.5	48.4	62.0	7,251	6,905	5.0
- reconciling items	—	—	2,105	5				—	—	
Total revenues	216,320	217,719	185,834	209,682	(0.6)	16.4	3.2	969,151	902,734	7.4
Operating Income	31,890	35,695	34,720	35,111	(10.7)	(8.2)	(9.2)	155,254	140,158	10.8
- IT Services	31,832	35,289	32,176	35,050	(9.8)	(1.1)	(9.2)	154,123	139,086	10.8
- India State Run Enterprise	173	407	475	171						
- IT Products	(55)	—	(53)	(22)		3.8	150.0	1,191	1,132	5.2
- reconciling items	(60)	—	2,122	(88)				(60)	(60)	
Other income/ (expense)	1,645	2,360	3,873	2,229	(30.3)	(57.5)	(26.2)	11,651	7,998	45.7
Extraordinaries	—	—	—	—				—	—	
PBT	33,535	38,056	38,593	37,340	(11.9)	(13.1)	(10.2)	166,905	148,156	12.7
Income taxes	(7,931)	(8,008)	(6,225)	(6,399)	(1.0)	27.4	23.9	(38,840)	(32,089)	21.0
PAT	25,604	30,048	32,368	30,941	(14.8)	(20.9)	(17.2)	128,065	116,067	10.3
Equity in earnings of affiliates	(15)	14	7	(16)				—	—	
Minority interest	47	—	(54)	(52)				52	47	
Net income	25,636	30,062	32,321	30,873	(14.7)	(20.7)	(17.0)	128,176	116,171	10.3
EPS (Rs/share)	4.7	5.5	5.9	5.6	(14.8)	(20.8)	(17.1)	23.3	21.1	10.3
Operating margin										
IT Services	15.0	16.5	17.8	17.0				16.1	15.6	
India State Run Enterprise	11.3	21.0	24.5	9.2						
IT Products	(2.8)	—	(4.0)	(1.8)						
Net Income Margin	11.9	13.8	17.4	14.7				13.2	12.9	
Tax rates (%)	23.6	21.0	16.1	17.1				23.3	21.7	

Notes:

(a) Wipro has guided for sequential IT services revenue growth of 3-5% in Jun 2022 translating to revenue guidance of US\$2,817 mn to US\$2,872 mn.

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Wipro: Key changes to FY2023-25E estimates

Rs mn	New			Old			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
IT Services revenues (US\$ mn)	11,526	12,244	13,286	11,617	12,337	13,390	(0.8)	(0.8)	(0.8)
Revenue growth (%)	11.3	6.2	8.5	12.2	6.2	8.5			
IT services c/c revenue growth (%)	13.3	6.2	8.5	13.7	6.2	8.5			
IT services organic c/c revenue growth	9.0	5.9	8.5	9.7	5.8	8.5			
Rupee/ US\$ rate	77.1	78.0	79.0	77.0	78.0	79.0	0.2	—	—
EBITDA margin (%)	19.3	19.8	19.4	20.8	20.5	20.3			
EBIT margin (%)	15.6	16.1	16.1	17.0	16.9	17.0			
EPS (Rs/share)	21.1	23.3	25.5	23.4	25.2	27.8	(9.8)	(7.4)	(8.3)

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Growth rates across verticals, geographies and service lines (June 2022)

c	Jun-22	Growth (%)		Contribution to revenues (%)	C/C growth (%)	
		QoQ	YoY		QoQ	YoY
Revenues (US\$ mn)	2,735	0.5	13.3	100.0	2.1	17.2
Global Business Lines Mix (%)						
iDEAS	1,693	1.7	16.8	61.9	3.5	21.2
iCORE	1,042	(1.4)	8.1	38.1	—	11.1
Vertical split of revenues						
Communications	137	5.1	11.5	5.0	9.2	19.8
Consumer	506	3.9	21.0	18.5	5.0	24.4
Energy, Natural Resources & Utilities	304	(3.4)	(4.1)	11.1	(1.0)	(0.8)
Finance Solutions	968	0.7	20.0	35.4	2.4	24.3
Healthcare, Life Sciences & Services	315	-	9.4	11.5	0.5	10.6
Manufacturing	183	(2.8)	9.5	6.7	(1.5)	13.2
Technology	323	(0.7)	9.4	11.8	0.8	12.5
Strategic market units mix (%)						
Americas 1	796	3.3	19.5	29.1	3.1	19.6
Americas 2	856	1.6	16.2	31.3	2.1	17.4
Europe	774	(3.2)	6.1	28.3	1.2	15.6
APMEA	309	0.2	9.5	11.3	2.2	15.1
Customer concentration						
Top customer	88	0.5	31.2	3.2		
Top 5 customers	356	1.3	35.4	13.0		
Top 10 customers	572	2.4	36.2	20.9		
Non top 10	2,163	(0.0)	24.9	79.1		

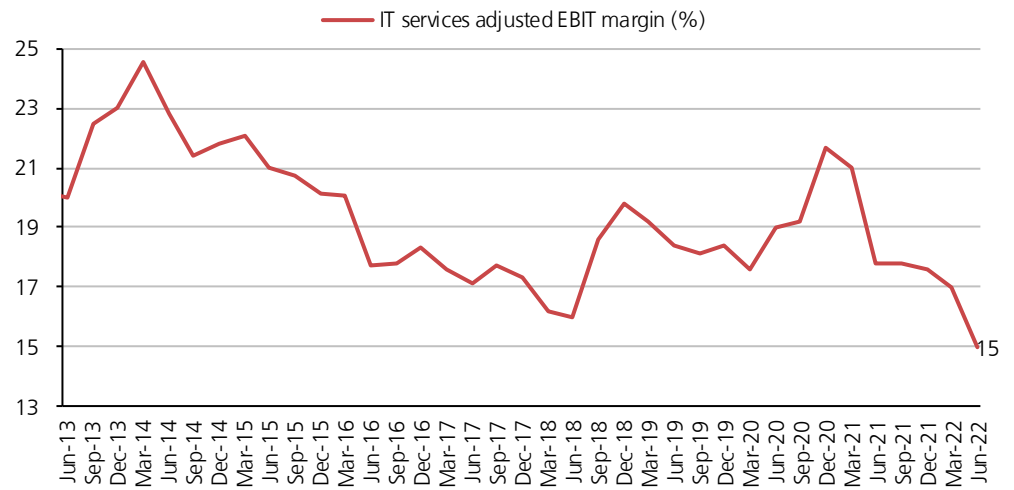
Source: Company, Kotak Institutional Equities

Exhibit 4: Growth in top 10 clients is higher than the rest

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	4 qtr CQGR (%)
Revenue(US\$ mn)										
Top client	61	64	64	67	75	80	84	87	88	4.0
Top 5 clients	236	239	246	263	292	323	335	351	356	5.0
Top 10 clients	390	391	391	420	478	519	533	558	572	4.6
ex- Top 10 clients	1,532	1,602	1,680	1,733	1,936	2,061	2,106	2,164	2,163	2.8
Growth (qoq %)										
Top client	(1.2)	3.7	0.7	3.9	12.2	6.9	5.6	3.1	0.5	
Top 5 clients	(6.6)	1.2	3.1	6.6	11.3	10.4	4.0	4.7	1.3	
Top 10 clients	(2.5)	0.1	0.2	7.2	13.9	8.5	2.8	4.6	2.4	
ex- Top 10 clients	(8.5)	4.6	4.8	3.2	11.8	6.5	2.2	2.7	(0.0)	
Client buckets										
US\$ 100 mn+	13	11	10	11	13	15	17	19	20	
US\$ 75 mn+	22	24	24	27	27	28	29	29	30	
US\$ 50 mn+	39	39	38	40	42	44	47	50	50	

Source: Company, Kotak Institutional Equities

Exhibit 5: Sharp EBIT margin degradation in 15%



Source: Company, Kotak Institutional Equities

Exhibit 6: Material sequential Increase in several expenses lines as a % of revenue

	Jun-21	Mar-22	Jun-22
Expenses (Rs mn)			
Employee compensation	102,711	121,302	126,134
Sub-contracting and technical fees	24,619	28,503	29,454
Cost of hardware and software	1,568	1,348	2,143
Travel	1,435	1,959	3,070
Facility expenses	5,650	7,047	7,876
Depreciation	8,390	7,345	7,738
Communication	1,516	1,389	1,543
Legal and professional fees	2,207	1,619	1,547
Rates, taxes and insurance	1,001	1,340	1,497
Marketing and brand building	425	576	900
Lifetime expected credit loss/ (write-back)	(253)	(389)	(22)
Miscellaneous expenses	1,845	2,532	2,550
Total	151,114	174,571	184,430
As a % of revenue			
Employee compensation	55.3	57.9	58.3
Sub-contracting and technical fees	13.2	13.6	13.6
Cost of hardware and software	0.8	0.6	1.0
Travel	0.8	0.9	1.4
Facility expenses	3.0	3.4	3.6
Depreciation	4.5	3.5	3.6
Communication	0.8	0.7	0.7
Legal and professional fees	1.2	0.8	0.7
Rates, taxes and insurance	0.5	0.6	0.7
Marketing and brand building	0.2	0.3	0.4
Lifetime expected credit loss/ (write-back)	(0.1)	(0.2)	(0.0)
Miscellaneous expenses	1.0	1.2	1.2
Total	81.3	83.3	85.3
Margin impact (bps)			
		QoQ	YoY
Employee compensation		46	304
Sub-contracting and technical fees		2	37
Cost of hardware and software		35	15
Travel		48	65
Facility expenses		28	60
Depreciation		7	(94)
Communication		5	(10)
Legal and professional fees		(6)	(47)
Rates, taxes and insurance		5	15
Marketing and brand building		14	19
Lifetime expected credit loss/ (write-back)		18	13
Miscellaneous expenses		(3)	19
Total		200	394

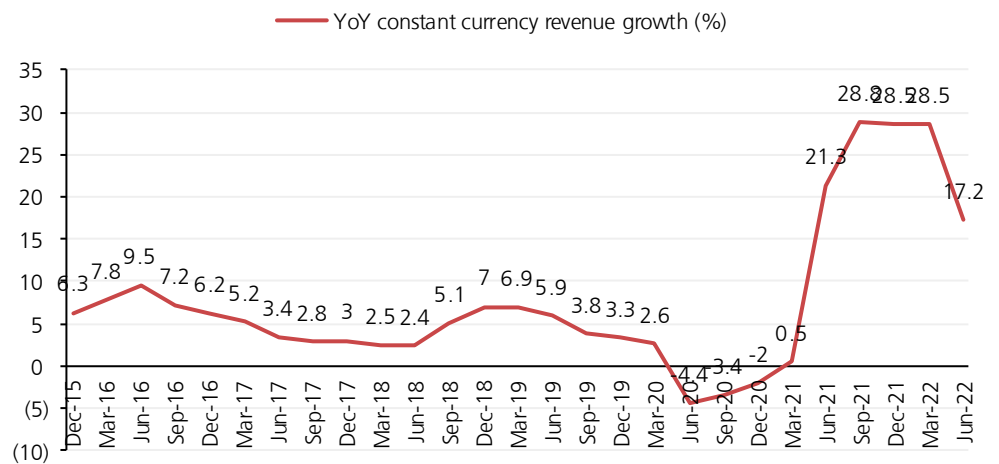
Source: Company, Kotak Institutional Equities

Exhibit 7: Business unit-wise margin performance (Jun 2022)

Strategic business units	Jun-22 EBIT margin (%)	Change (bps)		C/C growth		Contribution to revenues (%)
		QoQ	YoY	QoQ	YoY	
Americas 1	17.9	(189)	(100)	3.1	19.6	29.1
Americas 2	18.7	(30)	(190)	2.1	17.4	31.3
Europe	12.2	(267)	(305)	1.2	15.6	28.3
APMEA	6.6	(165)	(783)	2.2	15.1	11.3

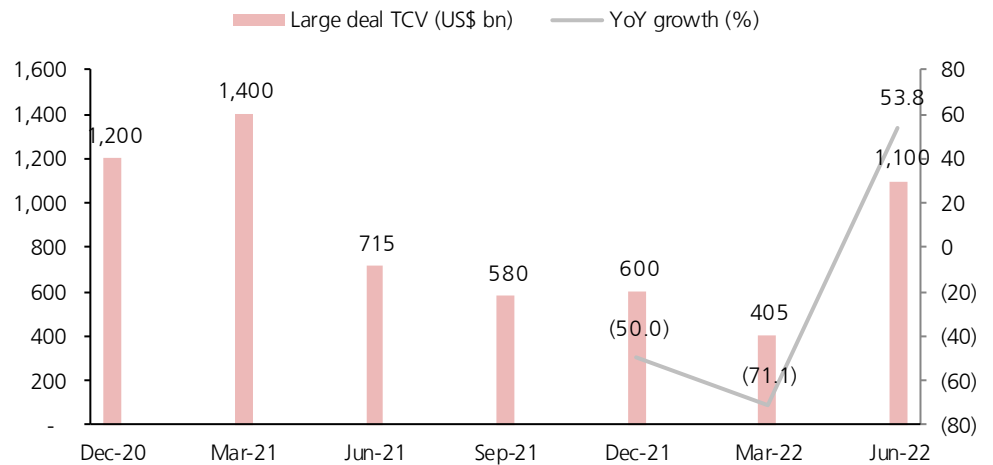
Source: Company, Kotak Institutional Equities

Exhibit 8: Deceleration in growth due to fading away of inorganic growth contribution from Capco



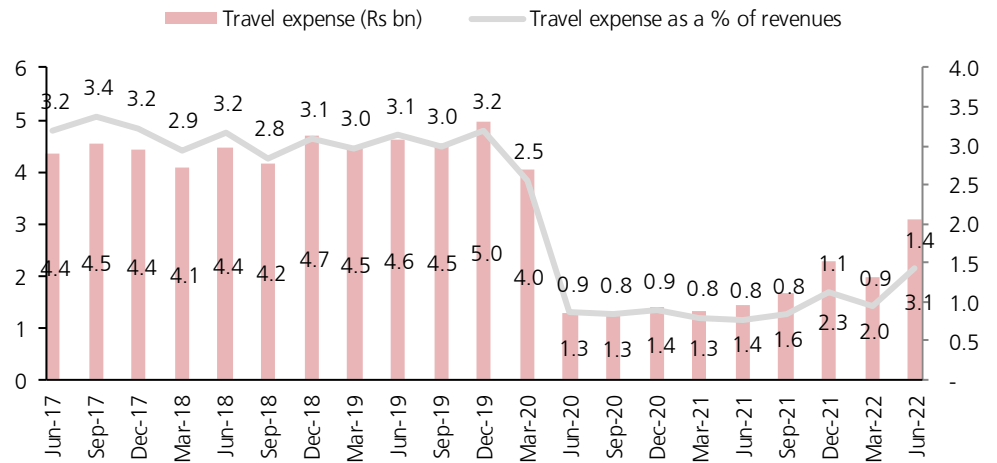
Source: Company, Kotak Institutional Equities

Exhibit 9: Robust large deal TCV of US\$1.1 bn powered by 18 deals



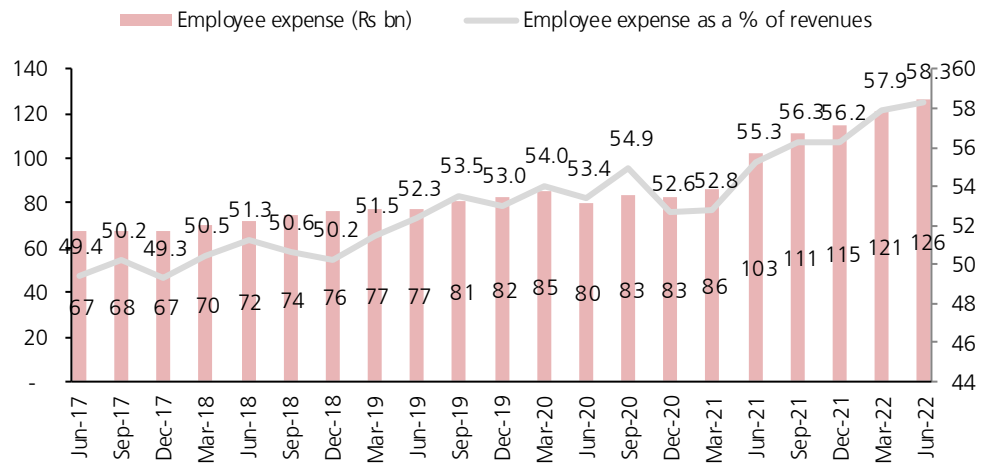
Source: Company, Kotak Institutional Equities

Exhibit 10: Travel expense as a % of revenue increased 50 bps to 1.4



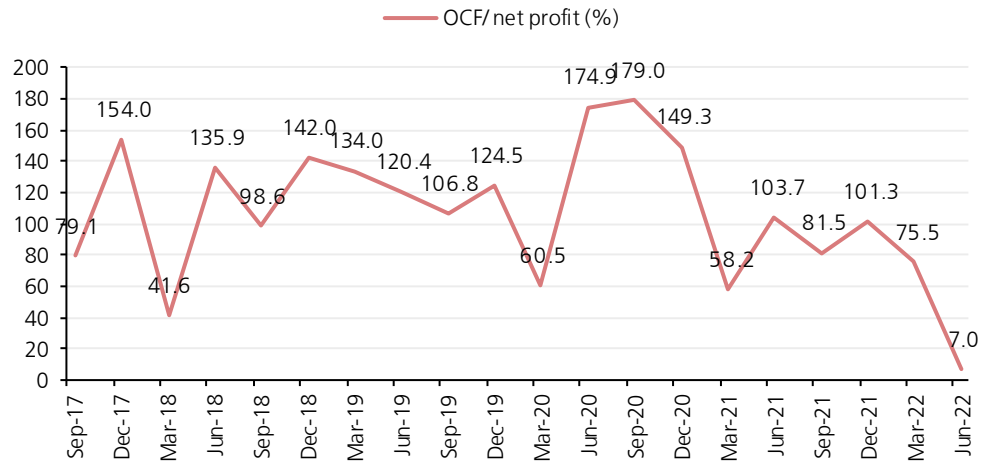
Source: Company, Kotak Institutional Equities

Exhibit 11: Employee expenses as a % of revenues increased 40 bps qoq



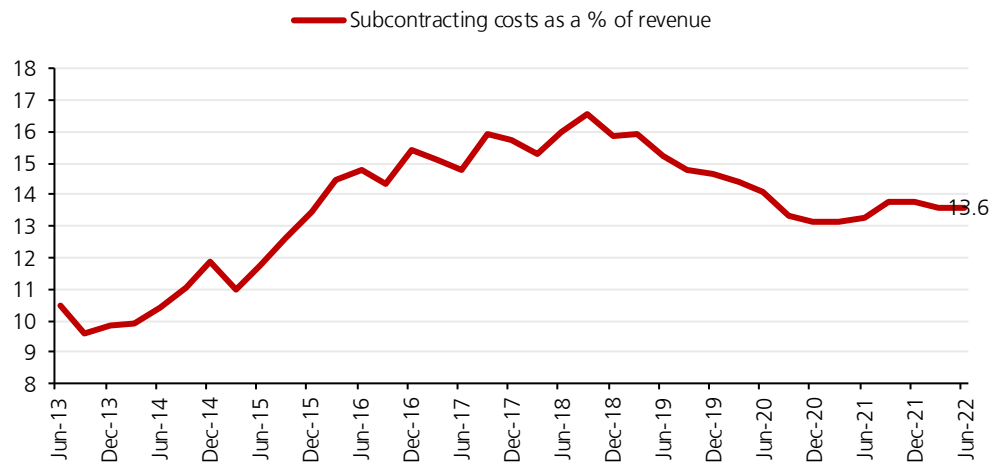
Source: Company, Kotak Institutional Equities

Exhibit 12: Weak cash generation in 1QFY23



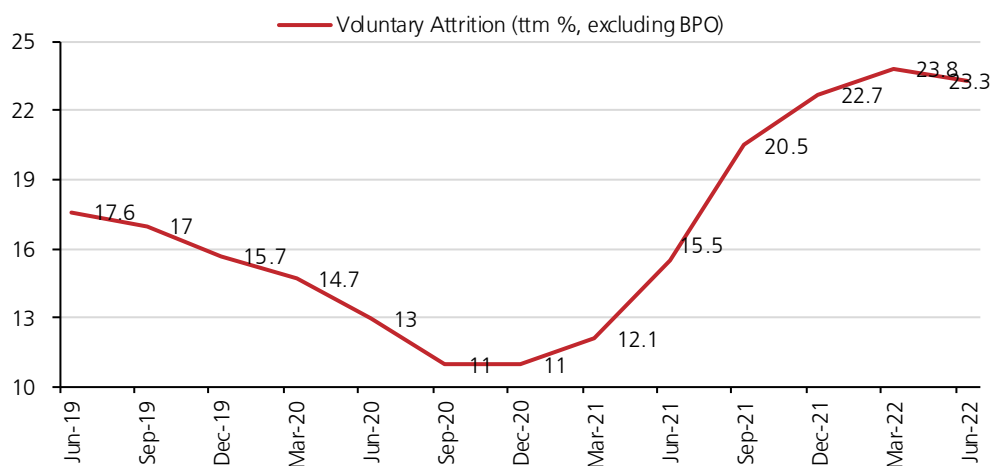
Source: Company, Kotak Institutional Equities

Exhibit 13: Subcontracting cost as a% of revenue was flattish on qoq basis



Source: Company, Kotak Institutional Equities

Exhibit 14: Attrition declined by a modest 50 bps to 23.3% on LTM basis



Source: Company, Kotak Institutional Equities

Exhibit 15: List of acquisitions by Wipro since 2008

Date	Target	Country	Business Description	Consideration (mn)	Sales (mn)	Price/Sales	
1	Apr-21	Rizing	US	SAP consulting firm	US\$540	US\$200	2.6
2	Apr-21	Convergence Acceleration Solutions	US	Telecom consulting and program management	\$80.0	\$28.1	2.8
3	Dec-21	Edgile	US	Cybersecurity consulting provider	US\$230	\$44.1	5.2
4	Dec-21	LeanSwift	US	Infor System Integrator	US\$21	\$18.0	1.2
5	Apr-21	Ampion	Australia	Cybersecurity, DevOps & quality eng services	US\$117	US\$85.5	1.4
6	Mar-21	Capco	UK	Global management and technology consultancy	US\$1450	US\$720	2.0
7	Oct-20	Encore Theme	India	Finastra trade finance solutions' implementation	INR 950	INR 545	1.7
8	Oct-20	Eximius Design	US	VLSI and systems design engineering services	US\$80	US\$35	2.3
9	Jul-20	4C	Belgium	Salesforce services	EUR 68	EUR 31.8	2.1
10	Jul-20	NIA	Brazil	IT services provider in Brazil	US\$22.4	US\$13.5	1.7
11	Feb-20	Rational Interaction	USA	CRM, digital marketing	US\$52	NA	NA
12	Jun-19	International TechneGroup	US	Engineering services firm	US\$45	US\$23.2	1.9
13	Dec-18	Syfte	Australia	Strategic design consultancy	NA	NA	NA
14	Oct-17	Cooper Software Inc	US	Design and User Experience firm	US\$8.5	US\$8	1.1
15	Jun-17	IBM IP deal	US	IP partnership	US\$90	US\$30	3.0
16	Jan-17	InfoSERVER	Brazil	A specialized IT services provider for BFSI in Brazil	US\$8.7	US\$11	0.8
17	Oct-16	Appirio	US	Cloud services provider	US\$500	US\$196	2.6
18	Feb-16	HealthPlan Services	US	BPaaS provider	US\$460	US\$223	2.1
19	Dec-15	cellent AG	Germany	IT services	\$73.5	\$87.0	0.8
20	Jul-15	Designit	Denmark	Strategic design firm	\$85.0	\$27.0	3.1
21	Mar-15	Drivestream Inc	US	Consulting in Oracle cloud services	US\$5	NA	NA
22	Jan-14	Opus Capital Markets Consultants	US	Risk management solutions for mortgage industry	US\$75	\$43.0	1.7
23	Apr-12	Promax Applications Group	Australia	Trade promotion planning and optimization	US\$36.75	US\$16.8	2.2
24	Apr-11	SAIC	US	IT Services - Oil & Gas	US\$150	\$188.0	0.8
25	Dec-08	Citos	US	Infrastructure Management Services, ADM for BFSI	US\$127	US\$80	1.6

Source: Company, Kotak Institutional Equities

Exhibit 16: Key model assumptions, March fiscal year-ends, 2018-25E

	2018	2019	2020	2021	2022	2023E	2024E	2025E
INR/USD rate	65.6	70.0	72.0	74.5	75.5	77.1	78.0	79.0
Revenues (US\$ mn)	8,334	8,439	8,541	8,358	10,563	11,705	12,425	13,469
IT services revenues (US\$ mn)	8,060	8,190	8,256	8,137	10,356	11,526	12,244	13,286
% growth	4.6	1.6	0.8	(1.4)	27.3	11.3	6.2	8.5
C/c revenue growth (%)	2.9	5.4	3.9	(2.3)	26.9	13.3	6.2	8.5
C/c revenue growth (organic %)	0.7	5.2	3.7	(3.2)	14.2	9.0	5.9	8.5
IT services EBITDA margin (%)	19.8	20.5	21.4	24.8	21.5	19.3	19.8	19.4
IT services EBIT margin (%)	15.8	17.1	17.9	20.3	17.5	15.6	16.1	16.1
Headcount	170,270	171,425	182,886	198,033	246,176	279,509	298,629	324,751
Employee addition		1,155	11,461	15,147	48,143	33,333	19,120	26,122
Effective tax rate (%)		21.9	20.2	21.9	19.1	21.7	23.3	24.6
Diluted earnings per share (Rs)		15.0	16.6	19.1	22.3	21.1	23.3	25.5
Free cash flow (post acquisitions) (Rs mn)		139,137	92,422	136,059	(28,780)	61,698	122,237	125,656
RoAE (%)		17.1	17.3	19.4	20.2	16.5	16.3	16.0
RoIC (%)		14.4	15.0	17.3	18.7	15.6	15.2	14.7

Source: Company, Kotak Institutional Equities estimates

Exhibit 17: Key operating metrics

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
IT services revenues (US\$ mn)	1,992	2,071	2,152	2,415	2,580	2,640	2,722	2,735
Global Business Lines Mix (%) - new								
iDEAS	57.6	57.3	56.8	60.1	61.3	61.0	61.2	61.9
iCORE	42.4	42.7	43.2	39.9	38.7	39.0	38.8	38.1
Service line split of revenues (%) - old								
Cloud and Infrastructure services	25.6	25.6						
Data analytics and AI	7.0	6.9						
Digital Operations and Platforms	15.5	15.9						
Industrial & Engineering Services	7.4	7.2						
Modern Application Services	44.5	44.4						
Vertical split of revenues (%)								
Communications	5.3	5.2	5.0	5.1	5.0	5.0	4.8	5.0
Consumer	16.2	16.4	17.0	17.3	17.3	17.7	17.9	18.5
Energy, Natural Resources & Utilities	12.9	13.1	13.2	13.1	12.3	11.7	11.5	11.1
Finance Solutions	31.2	30.5	30.5	33.4	34.8	35.2	35.4	35.4
Healthcare, Life Sciences & Services	13.7	13.9	13.0	11.9	11.7	11.8	11.5	11.5
Manufacturing	8.2	8.3	7.9	7.0	6.7	6.7	7.0	6.7
Technology	12.5	12.6	13.4	12.2	12.2	11.9	11.9	11.8
Strategic market units mix (%) - new								
Americas 1	29.7	29.4	29.2	27.6	27.5	28.2	28.3	29.1
Americas 2	30.1	29.1	29.3	30.5	30.6	30.4	31.0	31.3
Europe	26.1	28.0	28.4	30.2	30.2	29.7	29.3	28.3
APMEA	14.1	13.5	13.1	11.7	11.7	11.7	11.4	11.3
Geographical split of revenues (%) - old								
US	58.4	57.6						
Europe	23.8	25.2						
ROW	17.8	17.2						
Client metrics								
Customer size distribution (TTM)								
Million dollar clients of which	573	567	566	601	623	661	679	703
> US\$100 mn	11	10	11	13	15	17	19	20
>US\$75 mn	24	24	27	27	28	29	29	30
>US\$50 mn	39	38	40	42	44	47	50	50
>US\$20 mn	100	97	93	95	100	110	117	120
>US\$10 mn	166	168	167	176	182	189	194	195
>US\$5 mn	257	260	257	273	279	286	297	306
>US\$3 mn	342	341	349	361	390	399	410	417
>US\$1 mn	573	567	566	601	623	661	679	703
Revenue from new customers								
Repeat business (%)	98.6	97.4	96.4	97.2	95.1	94.9	93.7	98.7
New client additions	97	89	52	129	116	67	116	164
Total active customers	1,089	1,136	1,120	1,229	1,284	1,315	1,369	1,433
Customer concentration (%)								
Top customer	3.2	3.1	3.1	3.1	3.1	3.2	3.2	3.2
Top 5 customers	12.0	11.9	12.2	12.1	12.5	12.7	12.9	13.0
Top 10 customers	19.6	18.9	19.5	19.8	20.1	20.2	20.5	20.9
Employees (IT services)	185,243	190,308	197,712	209,980	221,365	231,671	243,128	258,574
Sales and support (IT services)	14,806	14,838	15,368	16,689	17,051	17,595	17,691	17,806
Localization rate in US (%)	71.9	NA	NA	NA	NA	NA	NA	NA
TCV (US\$ mn)		1,200	1,400	715	580	600	405	1,100
Utilization (%) (a)								
Global IT Services Gross (b)	76.4	74.8	76.7	77.7	78.1	75.6	75.8	72.7
Global IT Services excl IFOX-Net	86.9	86.3	86.0	86.8	89.2	85.8	85.2	83.8
Attrition (%)								
Global IT Services - Voluntary - Qtrly annualized	8.0	NA	NA	NA	NA	NA	NA	NA
IT services excluding DOP (ttm)	11.0	11.0	12.1	15.5	20.5	22.7	23.8	23.3
DOP (Post training quarterly)	6.1	7.0	7.4	8.0	8.7	10.0	9.0	11.4
Revenues by project type (%) - new (a)								
Fixed price	60.4	62.7	63.0	63.1	62.6	63.2	62.2	59.8
Time and material	39.6	37.3	37.0	36.9	37.4	36.8	37.8	40.2
Revenues by project type (%) - old (a)								
Fixed price	60.3	63.2	NA	NA	NA	NA	NA	NA
Time and material	39.7	36.8	NA	NA	NA	NA	NA	NA
Onsite-offshore revenue split (%) - new (a)								
Onsite	48.1	46.1	45.5	46.0	44.4	43.7	41.7	41.3
Offshore	51.9	53.9	54.5	54.0	55.6	56.3	58.3	58.7
Onsite-offshore revenue split (%) - old (a)								
Onsite	49.6	47.3	NA	NA	NA	NA	NA	NA
Offshore	50.4	52.7	NA	NA	NA	NA	NA	NA

Note:

(a) Excluding DOP, Designit, Cellent, Cooper, InfoServer, Topcoder, Rational, ITI, IMA, 4C, Eximius & Encore

Source: Company, Kotak Institutional Equities

Exhibit 18: Profit model, balance sheet, cash model of Wipro, March fiscal year-ends, 2018-25E (Rs mn)

	2018	2019	2020	2021	2022	2023E	2024E	2025E
Profit model								
Revenues	546,359	590,607	614,545	622,344	797,475	902,734	969,151	1,064,067
Cost of revenues (including depreciation)	(385,575)	(412,853)	(436,085)	(423,205)	(555,872)	(645,296)	(691,158)	(759,078)
Gross profit	160,784	177,754	178,460	199,139	241,603	257,438	277,993	304,989
SG&A expenses (including depreciation)	(76,490)	(80,641)	(72,730)	(76,085)	(101,316)	(117,280)	(122,739)	(135,055)
EBIT	84,294	97,113	105,730	123,054	140,287	140,158	155,254	169,935
Other income	18,169	18,346	16,753	15,824	10,932	7,998	11,651	15,064
Pre-tax profits	102,463	115,459	122,483	138,878	151,219	148,156	166,905	184,998
Provision for tax	(22,390)	(25,242)	(24,799)	(30,345)	(28,946)	(32,089)	(38,840)	(45,461)
PAT	80,073	90,217	97,684	108,533	122,273	116,067	128,065	139,537
Equity in earnings of affiliates, minority interest (net)	8	(185)	(466)	(586)	(81)	104	112	120
PAT from continuing operations	80,081	90,032	97,218	107,947	122,192	116,171	128,176	139,657
EPS (Rs)	12.7	15.0	16.6	19.1	22.3	21.1	23.3	25.5
Dividend per share (Rs)	0.8	0.8	1.0	1.0	6.0	5.0	9.0	9.0
Balance Sheet								
Shareholders funds	482,936	568,116	557,458	553,095	658,158	746,894	825,688	915,963
Borrowings	45,268	28,368	17,478	20,971	71,640	71,640	71,640	71,640
Minority interest	2,410	2,637	1,875	1,498	515	468	416	359
Other liabilities	22,731	19,700	23,858	25,830	40,540	40,540	40,540	40,540
Total liabilities	553,345	618,821	600,669	601,394	770,853	859,542	938,284	1,028,502
Net fixed assets	64,443	70,601	97,868	101,612	109,768	120,711	123,191	131,760
Goodwill & intangibles	135,697	130,742	147,374	152,212	290,544	323,925	315,863	308,472
Cash and bank balances	301,687	386,161	343,436	356,076	364,600	398,863	471,717	547,991
Net current assets excluding cash	(17,913)	(17,556)	(24,627)	(47,996)	(28,303)	(21,019)	(11,350)	(1,137)
Other assets	69,431	48,873	36,618	39,490	34,244	37,062	38,864	41,416
Total assets	553,345	618,821	600,669	601,394	770,853	859,542	938,284	1,028,502
Cashflow statement								
Operating profit before working capital changes	105,289	116,396	127,829	150,456	173,817	172,692	189,898	204,963
Tax paid	(28,105)	(25,149)	(6,384)	(24,915)	(25,686)	(32,089)	(38,840)	(45,461)
Change in working capital/other adjustments	(936)	27,165	(23,855)	22,922	(36,488)	(10,045)	(11,411)	(12,703)
Capital expenditure	(20,699)	(20,841)	(22,227)	(18,824)	(19,417)	(35,549)	(29,061)	(36,207)
Acquisitions	(6,816)	25,838	(2,544)	(9,873)	(129,846)	(41,310)	—	—
Other income	14,956	15,728	19,603	16,293	8,840	7,998	11,651	15,064
Free cash flow	63,689	139,137	92,422	136,059	(28,780)	61,698	122,237	125,656
Margins and ratios								
Consolidated gross profit margin (%)	29.4	30.1	29.0	32.0	30.3	28.5	28.7	28.7
Consolidated EBIT margin (%)	15.4	16.4	17.2	19.8	17.6	15.5	16.0	16.0
IT services EBIT margin (%)	15.8	17.1	17.9	20.3	17.5	15.6	16.1	16.1
RoAE (%)	16.0	17.1	17.3	19.4	20.2	16.5	16.3	16.0
RoACE (%)	13.1	14.4	15.0	17.3	18.7	15.6	15.2	14.7

Source: Company, Kotak Institutional Equities estimates

JULY 21, 2022

RESULT

Sector view: **Attractive**

CMP (₹): 879

Fair Value (₹): 1,000

BSE-30: 55,398

In the last phase of high slippages. IIB reported a strong 65% yoy earnings growth led by ~10% yoy operating profits and 30% yoy decline in provisions. Slippages were higher and driven by the restructured portfolio. The bank is still taking its time to get out of the post pandemic asset quality stress but it appears that we are closer to the end and focus would gradually shift to core business performance. This would be the key re-rating trigger. Maintain ADD, revise FV to Rs1,000 (from Rs1,050).

IndusInd Bank				Forecasts/valuations			
Stock data				2022	2023E	2024E	
CMP(Rs)/FV(Rs)/Rating	879/1,000/ADD			EPS (Rs)	59.5	85.9	106.2
52-week range (Rs) (high-low)	1,242-763			EPS growth (%)	62.3	44.4	23.6
Mcap (bn) (Rs/US\$)	682/8.6			P/E (X)	14.8	10.2	8.3
ADTV-3M (bn) (Rs/US\$)	2.7/0.1			P/B (X)	1.5	1.3	1.2
Shareholding pattern (%)				BVPS	601.1	670.4	756.9
Promoters	15.2			RoE (%)	10.3	13.3	14.5
FPIs/MFs/BFIs	50.7/11.2/7.5			Div. yield (%)	1.0	1.4	1.7
Price performance (%)				NII (Rs bn)	150	172	195
	1M	3M	12M	PPOP (Rs bn)	128	127	142
Absolute	12.1	(9.6)	(10.4)	Net profits (Rs bn)	46	67	82
Rel. to BSE-30	4.8	(6.7)	(16.5)				

Source: Bloomberg, Kotak Institutional Equities estimates

Lower provisions driving earnings growth; business momentum showing accelerating trends

IIB reported ~65% yoy earnings growth on the back of ~10% yoy operating profit growth and ~30% yoy decline in provisions. Revenues grew 15% yoy with NII growing at 16% yoy while non-interest income grew 12% yoy. NIM was flat qoq to 4.2%. Loans grew 18% yoy with retail loans up 14% yoy, corporate loans grew 40% yoy while MFI loans grew ~11% yoy. The bank has built a provision buffer of ~1.2% of loans. Gross NPL and net NPL ratios were unchanged qoq. The bank reported 1.7% RoA and 14% RoE for the quarter.

Still not closer to a business-as-usual performance

We look at the quarter and the way ahead in the following way: (1) The direction of improvement in asset quality was slower-than-expected this quarter. Slippages were higher (unchanged at ~4% levels qoq) but led by the restructured loan book. While this is unlikely to be repeated in the same scale in subsequent quarters, one is probably looking to wait for another few quarters before getting comfort on this portfolio. (2) Core business performance is quite solid with healthy NIM leading to a strong RoA of 1.7%.

We are basing our forecasts on the assumption that asset quality would recover and that credit costs will reduce. However, there are some near-term headwinds which are manageable as the interest rate cycle reverses which hurts the bank given its higher reliance on wholesale deposits. Further, the bank would step up investments in business leading to higher operating expenses growth. We see RoEs at ~15% in the medium term despite the bank having a higher yielding asset book that is likely to enter into a period of benign credit costs.

Maintain ADD: a slower re-rating that needs a few quarters of steady performance

We retain ADD and revise FV to Rs1,000 (from Rs1,050) valuing the bank at 1.3X book and 9X June 2024 for RoEs moving to 14%. IIB has gone through several challenging episodes in recent years but the bank has been able to navigate them even if it has had an impact on business performance. A re-rating of this bank would be driven by a few quarters of steady performance but the macro environment has not been favorable as yet. The asset driven RoE is less preferred as it brings in uncertainty that is harder to forecast and is a lot more vulnerable to high credit costs. Even if this is not a top idea, we do see that a re-rating is a higher probability from hereon.

QUICK NUMBERS

- NII grew 16% yoy; PAT grew 65% yoy
- GNPL ratio unchanged qoq to 2.4%; NNPL ratio unchanged qoq to 0.7%
- Retain ADD; FV at Rs1,000 (revised from Rs1,050)

M B Mahesh, CFA

Nischint Chawathe

Abhijeet Sakhare

Ashlesh Sonje

Varun Palacharla

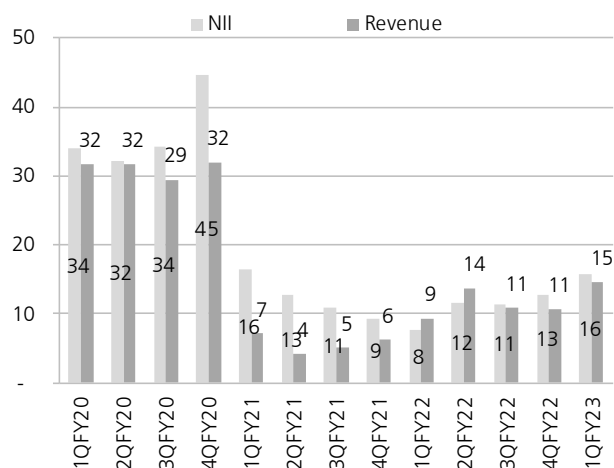
Exhibit 1: IndusInd Bank – Quarterly financial statements
March fiscal year-ends, 1QFY22 – 1QFY23 (Rs mn)

	1QFY23	1QFY23E	1QFY22	4QFY22	(% chg.)			2023E	Calculated FY2022	(% chg.)	2024E
					1QFY23E	1QFY22	4QFY22				
Income statement (Rs mn)											
Interest income	81,818	81,246	75,747	78,599	0.7	8.0	4.1	347,795	308,224	12.8	408,852
Interest on advances	67,201	66,627	61,812	63,884	0.9	8.7	5.2	283,408	251,434	12.7	334,399
Interest on investments	10,533	10,431	9,984	10,384	1.0	5.5	1.4	47,644	40,529	17.6	57,551
Other interest	4,083	4,189	3,951	4,331	(2.5)	3.3	(5.7)	16,742	16,261	3.0	16,903
Interest expense	40,565	39,934	40,110	38,747	1.6	1.1	4.7	175,735	158,216	11.1	213,631
Net interest income	41,253	41,312	35,637	39,852	(0.1)	15.8	3.5	172,060	150,008	14.7	195,221
Non-int.income	19,287	9,076	17,164	19,001	112.5	12.4	1.5	74,646	73,305	1.8	83,025
Fee income	17,860	14,076	12,140	16,440	26.9	47.1	8.6	69,646	58,830	18.4	78,025
Treasury income	1,460	(5,000)	5,740	2,590	NM	(74.6)	(43.6)	5,000	15,230	(67.2)	5,000
Total income	60,540	50,388	52,801	58,853	20.1	14.7	2.9	246,705	223,314	10.5	278,246
Op. expenses	26,603	26,098	22,142	25,587	1.9	20.1	4.0	119,733	95,593	25.3	136,370
Employee cost	6,604	6,980	6,082	6,585	(5.4)	8.6	0.3	29,842	24,883	19.9	34,100
Other cost	19,999	19,118	16,061	19,001	4.6	24.5	5.3	89,891	70,710	27.1	102,270
Operating profit	33,937	24,290	30,659	33,266	39.7	10.7	2.0	126,972	127,721	(0.6)	141,876
Provisions and cont.	12,510	10,976	17,793	14,616	14.0	(29.7)	(14.4)	37,503	65,984	(43.2)	31,317
NPLs	12,510	9,937	15,820	11,690	25.9	(20.9)	7.0	36,003	48,270	(25.4)	29,817
PBT	21,427	13,314	12,865	18,650	60.9	66.5	14.9	89,469	61,737	44.9	110,559
Tax	5,394	3,022	3,116	5,036	78.5	73.1	7.1	22,904	15,625	46.6	28,303
Net profit	16,033	10,291	9,750	13,614	55.8	64.4	17.8	66,565	46,112	44.4	82,256
Tax rate (%)	25.2	22.7	24.2	27.0	247 bps	95 bps	-183 bps	25.6	25.3	29 bps	25.6
Op.profit excl. treasury gains	32,477	29,290	24,919	30,676	10.9	30.3	5.9	121,972	112,491	8.4	136,876
Key balance sheet items (Rs bn)											
Total deposits	3,027	3,020	2,672	2,937	0.2	13.3	3.1	3,444	2,937	17.3	4,018
Savings deposits	952		799	888		19.2	7.2	1059	888	19.2	1255
Current deposits	353		324	365		8.8	(3.4)	442	365	21.1	532
Term deposits	1722		1549	1683		11.2	2.3	1943	1683	15.4	2231
CASA ratio (%)	43.1		42.0	42.7		107 bps	44 bps	43.6	42.7	90 bps	44.5
Loans	2,480	2,487	2,107	2,391	(0.3)	17.7	3.7	2,753	2,391	15.2	3,211
Retail credit	919		807	871		13.9	5.6				
Commercial vehicles + tractors	327		297	311		10.0	5.0				
Utility vehicles	68		50	62		37.0	10.1				
Cars	88		78	84		13.2	4.7				
2 wheelers	44		51	45		(14.8)	(2.5)				
3 wheelers	32		33	30		(2.7)	4.6				
Equipments	88		88	87		(0.5)	0.7				
Credit card	65		45	55		43.6	17.4				
Home loans/Personal loans	209		165	196		26.1	6.2				
Corporate Advances	623		446	602		39.7	3.5				
SME/Commercial banking	422		438	403		(3.5)	4.7				
Business banking	122		112	119		8.7	2.6				
MFI	294		264	306		11.4	(3.9)				
Others	99		40	89		144.7	11.0				
Asset quality (Rs mn)											
GNPL	59,329		61,858	55,172		(4)	8	61,579	55,172	12	67,569
GNPL (%)	2.4		2.9	2.3		-53 bps	8 bps	2.1	2.3	-14 bps	2.0
NNPL	16,612		17,596	15,298		(6)	9	19,784	15,298	29	24,576
NNPL (%)	0.7		0.8	0.6		-17 bps	3 bps	0.7	0.6	8 bps	0.8
PCR (%)	72.0		71.6	72.3		45 bps	-27 bps	67.9	72.3	-440 bps	63.6
Slippages (gross)	22,500	17,000	27,630	20,880	32	(19)	8	68,719	101,070	(32)	-
Slippage ratio (%)	3.8	2.7	5.2	3.7	109 bps	-143 bps	11 bps	2.8	4.7	-191 bps	2.3
Restructured loans	52,072		56,896	62,153		(8)	(16)				
Restructured loans (%)	2.1		2.7	2.6		-60 bps	-50 bps				
Key calculated ratios (%)											
Yield on advances	11.0		11.7	10.9		-64 bps	11 bps	11.0	11.1	-11 bps	11.2
Yield on investment	5.9		5.8	5.8		10 bps	9 bps	5.9	5.8	13 bps	6.0
Yield on assets	8.6		8.8	8.4		-20 bps	17 bps	8.6	8.6	2 bps	8.9
Cost of borrowings	4.7		5.1	4.6		-41 bps	12 bps	4.8	4.9	-5 bps	5.1
NIM	4.1		3.9	4.0		19 bps	4 bps	4.0	3.9	9 bps	4.0
Cost to income	43.9		41.9	43.5		201 bps	47 bps	48.5	42.8	573 bps	49.0
Credit cost	2.1	1.6	3.0	2.0	43 bps	-93 bps	6 bps	1.4	2.1	-74 bps	1.0
RoA	1.7		1.1	1.5		55 bps	22 bps	1.6	1.3	36 bps	1.8
RoE	14.0		9.5	12.3		458 bps	178 bps	14.0	10.8	321 bps	15.4
Key parameters (#)											
Branches	2,286		2,015	2,265		13	1	2,415	2,265	7	2,515
ATM	2,783		2,870	2,767		(3)	1	3,117	2,767	13	3,467

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: NII growth has recovered to low teens in the past few quarters

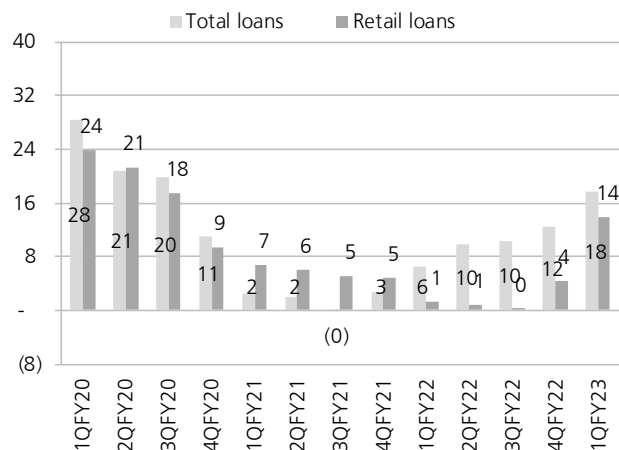
NII and total income growth, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Exhibit 3: Loan growth is on an upward trajectory

Total and retail loan growth, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Asset quality shows stable ratios; slippages still high

- ▶ **Headline NPL ratios stable qoq.** Gross NPL ratio was flat qoq to 2.4%, while net NPL ratio was flat qoq to 0.7%. The bank holds a healthy coverage ratio of 72% on gross NPLs. In addition, the bank also holds non-NPA provisions of ~1.4% of net advances. Management had guided earlier that credit cost for the business going ahead should be in the range of 120-150 bps which is lower than previously estimated at >150bps.
- ▶ **Slippages and recoveries/upgrades.** The bank reported slippages of ~Rs22 bn (~3.8% of loans) which is broadly similar to the previous quarter. ~75% of the slippages came from the retail book, with ~10% coming from microfinance. 45% of the overall slippage has come from the restructured loan portfolio (vehicle, MFI and corporate segment). Slippages in microfinance declined meaningfully qoq and drove a large part of the qoq decline in overall retail slippages. The largest slippage in the retail portfolio was from the vehicle finance book. Recoveries and upgrades were at ~Rs6 bn, lower than peers, possibly driven by the loan book composition which saw a high impact from Covid.
- ▶ **Restructured loans decline qoq.** Total restructured advances for the bank stood at ~2.1% of loans – lower than ~3.3% as on 3QFY22. 50% of the restructured loans are from the vehicle finance portfolio. The bank has reported high slippage from the restructured loan portfolio this quarter. As compared to frontline bank peers, the proportion of restructuring is relatively higher for IndusInd Bank given the higher share of microfinance and CV portfolio. The management has guided that they are likely to see most the restructured loan portfolio declining by 4QFY23 and the risk of slippages repeating at this quarter levels looks unlikely.
- ▶ **Overdues and collections.** In the overall book, SMA-1 and SMA-2 advances stood at 10 bps and 40bps resp. The vehicle finance portfolio is improving as overdues continue to decline. In the MFI portfolio, collections on the standard book have steadily returned back to pre-Covid level and now stand at >99%. In the corporate book, the bank's stressed telecom exposure stood at ~Rs18.5 bn as on April 2022 (from ~Rs30 bn as on 3QFY22). Out of this, the fund-based exposure stood at ~Rs10 bn (flat since 3QFY22).

Exhibit 4: The bank saw slippages of ~20% in MFI portfolio since 4QFY20, while an additional ~2.6% is under restructuring
Segment-wise breakup of slippages and restructured loans, March fiscal year-ends

	Gross slippages (Rs bn)					Restructured loans (Rs bn)				
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Microfinance	6.6	10.7	13.4	8.2	5.6	0.7	9.1	10.0	10.0	6.4
Vehicle finance	10.5	5.9	NA	5.5	6.9	30.9	39.7	37.7	33.0	31.3
Non-VF retail	6.1	7.4	NA	3.7	4.0	7.1	11.3	10.7	9.2	8.2
Corporate	4.4	2.5	0.6	3.5	6.0	18.0	19.8	17.0	9.6	5.6
Total	27.6	26.6	26.0	20.9	22.5	56.9	79.5	75.4	62.2	52.1

Source: Company, Kotak Institutional Equities

Exhibit 5: Retail drove slippages

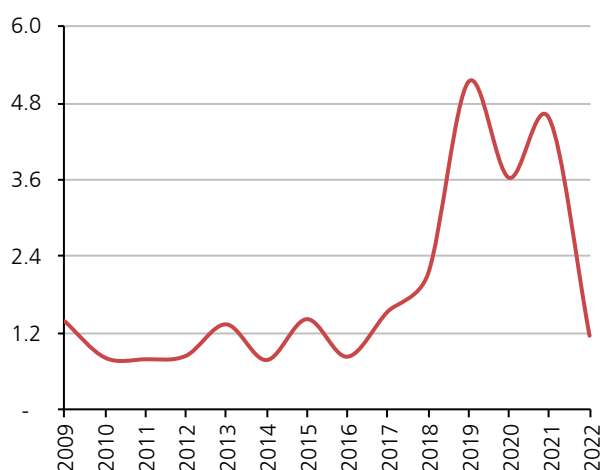
Gross and net NPL, March fiscal year-ends (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	1QFY23
Gross NPL (Rs mn)	2,550	2,555	2,659	3,471	4,578	6,208	5,629	7,768	10,549	17,049	39,474	51,467	57,950	55,172	59,329
Wholesale (Rs mn)	764	1,010	820	1,100	1,990	3,100	2,340	3,820	5,440	10,530	30,880	34,160	28,000	25,300	24,940
Retail (Rs mn)	1,789	1,540	1,840	2,370	2,600	3,110	3,280	3,950	5,110	6,520	8,590	17,300	29,950	29,870	34,390
Commercial vehicle (%)	2.2	1.5	1.2	1.0	1.0	1.4	1.3	1.0	0.9	1.0	1.2	1.6	2.6	1.7	1.9
Utility vehicle (%)	—	1.1	1.1	1.3	0.9	0.9	1.1	1.2	1.1	1.3	1.3	1.0	1.3	0.4	0.6
CE (%)	1.7	1.6	1.4	1.2	1.2	1.3	1.5	1.3	1.2	1.1	0.7	1.1	1.2	1.1	1.6
3 Wheeler (%)	—	0.4	0.6	0.9	0.8	0.9	0.9	1.0	0.9	1.3	1.4	1.8	2.9	2.1	2.2
2 Wheeler (%)	5.0	5.3	3.9	3.4	3.0	2.5	2.6	3.1	3.6	3.9	3.8	3.2	6.9	9.4	8.1
Cars (%)	4.9	3.7	1.6	1.0	0.7	0.5	0.6	0.5	0.7	0.7	0.8	0.7	1.3	0.7	0.8
Gross NPL ratio (%)	1.6	1.2	1.0	1.0	1.0	1.1	0.8	0.9	0.9	1.2	2.1	2.5	2.7	2.3	2.4
Net NPL (Rs mn)	1,791	1,018	728	947	1,368	1,841	2,105	3,218	4,389	7,457	22,483	18,866	14,766	15,298	16,612
Net NPL ratio (%)	1.1	0.5	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.5	1.2	0.9	0.7	0.6	0.7
Provision coverage (%)	29.8	60.1	72.6	72.7	70.1	70.4	62.6	58.6	58.4	56.3	43.0	63.3	74.5	72.3	72.0
Loan-loss provisions (%)	1.1	0.8	0.8	0.6	0.6	0.8	0.7	0.8	1.0	0.8	1.8	3.3	1.3	1.3	1.3
Slippages (%)	1.0	1.4	0.9	1.1	1.5	1.4	1.6	1.2	1.6	2.9	3.7	3.1	12.2	3.7	3.8
Wholesale (%)	—	0.7	0.7	0.7	1.1	0.6	1.2	1.0	1.8	2.5	5.7	3.7	4.6	1.3	2.4
Retail (%)	—	2.0	2.0	1.7	1.6	1.9	1.8	1.9	1.9	2.3	2.4	3.7	5.5	10.8	5.2

Source: Company, Kotak Institutional Equities

Exhibit 6: Slippages in the corporate loan portfolio have been elevated since FY2018

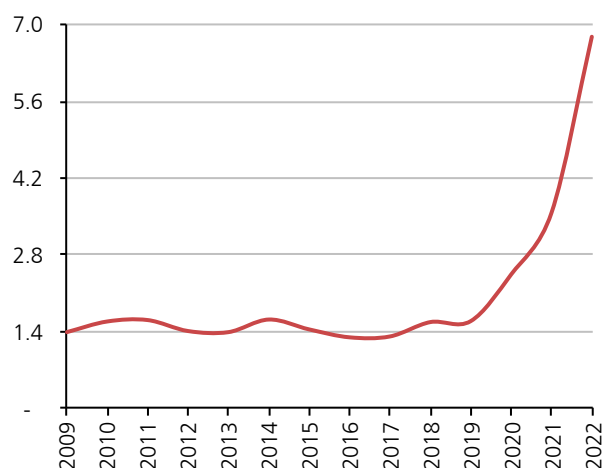
Slippage ratio in corporate loans, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

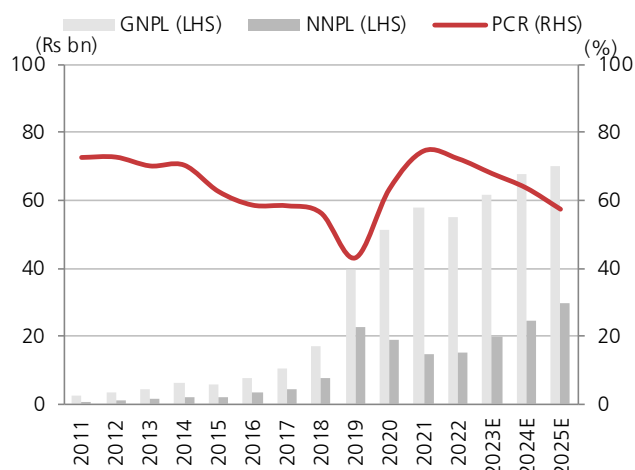
Exhibit 7: Retail slippages accelerated after Covid-19

Slippage ratio in retail loans, March fiscal year-ends (%)



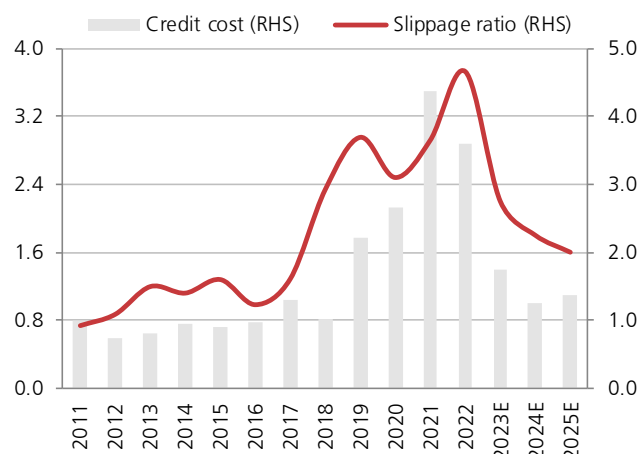
Source: Company, Kotak Institutional Equities

Exhibit 8: Coverage ratio expected to decline over time
Gross and net NPL, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Exhibit 9: Credit cost to stabilize in medium-term
Gross, net NPL and credit cost ratio, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Margins stable but early signs of increase in cost of funds

Reported NIM for the bank increased was stable qoq at ~4.2%. The bank saw its cost of funds increase by ~20 bps qoq, while yield on assets increased by ~10 bps qoq. The lower yield was primarily driven by lower yield on the corporate book though it has improved qoq. Management guided that target NIM for the bank is ~4.10-4.25% margins in a normalized scenario.

Exhibit 10: ~20 bps qoq increase in cost of funds
Drivers for margin expansion, March fiscal year-ends (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	1QFY23
Yield management measures (%)													
Yield on advances	12.4	13.8	13.8	13.6	13.1	12.3	11.8	11.2	11.3	12.0	11.8	11.5	11.4
- Corporate and commercial	9.6	11.5	11.7	11.6	11.1	10.1	9.7	9.2	9.5	8.9	8.4	8.0	7.8
- Consumer finance	16.1	16.4	16.0	15.6	15.8	15.3	14.6	14.2	14.0	14.6	14.4	14.3	14.3
Cost of deposits	6.3	8.1	8.5	8.2	7.9	7.3	6.5	6.0	6.6	6.5	5.4	4.8	4.8
Costs of funds		7.4	7.3	6.9	6.7	6.0	5.4	5.1	5.7	5.8	4.8	4.3	4.1
NIM	3.5	3.3	3.4	3.7	3.7	3.9	4.0	4.0	3.8	4.1	4.2	4.1	4.2
Composition of loans (%)													
Retail loans-ex MFI to overall loans	44.4	49.2	50.5	45.0	41.3	41.3	40.3	39.5	39.0	38.5	39.2	36.4	37.1
Vehicle loans to overall loans	43.5	46.9	46.4	39.2	33.8	32.1	30.2	29.3	28.6	27.6	28.8	25.9	26.0

Source: Company, Kotak Institutional Equities

Loan growth is showing a gradual recovery across segments

- ▶ Loans grew ~18% yoy and ~5% qoq. Retail advances (excluding MFI and business banking) increased ~14% yoy showing gradual acceleration as recovery is underway. MFI book grew ~11% yoy and flat qoq partly impacted by the recent change in regulation on looking at family income and indebtedness before disbursement. Business banking portfolio grew 9% yoy. All retail products including vehicle, microfinance and other retail saw one of the healthiest disbursements in 1Q given that it is usually a weak quarter from a seasonality perspective. Loans to large corporates increased sharply by 40% yoy.
- ▶ **Vehicle finance.** Vehicle disbursements were up at ~Rs100 bn (similar to the previous quarter). Within vehicle finance, the bank saw healthy disbursements across CV/ CE, UVs, tractors and cards. However, disbursements in 2W and 3W remained subdued.

- **MFI.** The MFI business has steadily returned to normalcy after the severe second wave of Covid though this quarter was a bit subdued with the change in regulation. Disbursements bounced back healthily resulting in 11% yoy growth in the portfolio. The broader macroeconomic recovery bodes well for growth prospects in this segment. The early warning indicators are suggesting that the bank should see a reasonably quick return to normalcy in this portfolio in the next few quarters.

Exhibit 11: Share of retail loans (including MFI) share at ~49%
Break-up of loans, March fiscal year-ends (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	1QFY23
Retail advances	44.4	49.2	50.5	45.0	41.3	41.3	40.3	39.5	39.0	50.2	51.6	49.2	48.9
Vehicle financing	43.5	46.9	46.4	39.2	33.8	32.1	30.2	29.3	28.6	27.6	28.8	25.9	26.0
Commercial vehicles	21.8	23.6	22.5	17.4	15.4	15.9	15.4	15.6	15.0	13.8	14.2	13.0	13.2
Utility vehicles	3.2	3.5	4.0	3.7	2.9	2.3	2.1	2.0	1.9	2.1	2.3	2.6	2.7
Cars	3.2	4.0	4.6	4.8	4.6	4.4	4.1	3.7	3.5	3.5	3.7	3.5	3.5
Two and three whee	9.7	9.7	9.1	8.1	6.8	5.8	5.0	4.2	4.1	4.2	4.3	3.1	3.0
Equipment	5.7	6.1	6.1	5.2	4.1	3.7	3.6	3.8	4.1	3.9	4.3	3.7	3.5
Home loans/LAP/PL	0.9	1.6	3.4	4.9	6.5	7.8	8.5	8.4	8.1	8.6	8.3	8.2	8.4
Credit cards	—	0.7	0.8	0.8	1.0	1.4	1.5	1.9	2.4	2.3	2.1	2.3	2.6
MFI loans	—	—	—	—	—	—	—	—	—	11.7	12.4	12.8	11.9
Corporate advances	55.6	50.8	49.5	55.0	58.7	58.7	59.7	60.5	61.0	49.8	48.4	50.8	51.1
Large corporates	26.1	27.1	26.7	27.4	29.0	28.6	27.8	30.6	28.0	23.1	19.9	25.2	25.1
Small corporates	19.3	15.2	14.6	17.6	16.7	18.8	19.6	17.7	17.9	19.1	20.0	16.9	17.0
Others	10.1	8.5	8.1	10.1	6.2	4.1	5.0	5.6	9.1	2.0	3.0	3.7	4.0
Business banking	—	—	—	—	6.8	7.2	7.3	6.6	6.1	5.6	5.5	5.0	4.9

Source: Company, Kotak Institutional Equities

Exhibit 12: Exposure to NBFCs increased qoq

Break-up of the corporate segment (as a percentage of overall loan book), March fiscal year-ends (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	1QFY23
Microfinance	—	—	—	—	—	—	2.5	2.8	7.3	11.7	12.0	12.8	11.9
NBFCs (other than HFCs/HFIs)	6.8	5.4	3.3	2.6	2.3	2.2	1.3	NA	3.3	2.8	3.1	4.5	4.6
Gems and Jewellery	—	1.4	1.9	1.6	2.4	6.0	6.1	5.2	3.9	3.6	2.8	4.3	4.2
Real Estate Developers	0.6	—	1.2	1.8	2.4	3.0	2.0	2.8	3.9	3.4	3.3	4.1	4.1
Power generation	1.2	1.9	2.3	1.9	1.9	1.2	NA	4.1	3.4	1.2	2.9	2.6	2.8
Steel	1.1	1.3	1.4	1.4	1.4	1.7	1.8	1.6	2.5	3.1	2.9	2.0	2.3
Lease Rental	1.2	2.4	3.0	4.3	3.9	4.6	5.1	3.0	2.5	4.3	3.3	2.1	2.2
Food beverages and processing	—	—	—	—	1.6	NA	NA	1.4	1.3	1.1	1.1	1.6	1.5
Roads/other infra	—	—	—	—	—	—	—	—	1.9	NA	NA	1.3	1.4
HFCs	—	—	—	—	—	—	—	—	—	1.1	1.0	1.0	1.1
Services	—	—	—	—	—	—	2.3	2.2	2.7	1.1	1.0	1.5	1.0
Telecom	—	—	—	—	2.0	3.1	3.5	NA	1.2	1.1	NA	NA	NA
Constn related to infra.- EPC	2.8	2.5	1.9	1.5	2.4	1.6	1.7	2.8	1.8	NA	NA	NA	NA
Other Industry	—	32.8	31.4	38.6	38.7	33.1	31.2	30.9	24.3	21.6	20.4	20.8	21.1

Source: Company, Kotak Institutional Equities

Exhibit 13: Real estate exposure has dropped to <6% from ~13% in FY2016

Break-up of exposure in the real estate sector, March fiscal year-ends (Rs mn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Real estate												
Developers	1,310	4,360	1,360	5,160	16,429	33,675	42,424	25,017	48,837	86,102	71,564	70,140
Lease rental discounting	2,110	3,100	8,280	13,400	23,409	26,935	41,045	57,486	43,618	46,739	88,311	69,121
Lease rental discounting - others				7,150	10,762	11,806	10,042	8,664	7,748	7,096	3,710	4,125
Housing finance companies	3,610	3,710	1,500	1,210	400	5,083	12,831	14,908	1,901	20,690	23,023	21,504
Loans against property		940			2,532	37,409	56,917	73,386	3,741	1,728	30,310	28,279
Total real estate	7,030	12,110	11,140	26,920	53,532	114,908	163,259	179,461	105,845	162,355	216,918	193,169
Trading												
Wholesale			11,500	16,140	19,916	27,525	40,854	55,332	60,974	60,839	44,285	37,205
Retail			14,130	19,650	18,233	23,478	26,912	33,080	42,622	44,659	35,323	31,426
Total exposure to trading	—	—	25,630	35,790	38,149	51,003	67,766	88,412	103,596	105,498	79,608	68,631
Total exposure	335,810	415,320	540,530	670,310	796,426	974,887	1,232,022	1,652,866	1,993,382	2,559,947	2,878,344	3,415,621
Consumer finance division	82,660	116,120	169,900	220,590	241,880	240,295	281,347	342,597	501,972	622,074	665,010	703,157
Others	253,150	299,200	370,630	449,720	554,546	734,592	950,675	1,310,269	1,491,410	1,937,873	2,213,334	2,712,464
<i>Real estate to total exposure (%)</i>	<i>2.1</i>	<i>2.9</i>	<i>2.1</i>	<i>4.0</i>	<i>6.7</i>	<i>11.8</i>	<i>13.3</i>	<i>10.9</i>	<i>5.3</i>	<i>6.3</i>	<i>7.5</i>	<i>5.7</i>
<i>Real estate to exposure ex consumer (%)</i>	<i>2.8</i>	<i>4.0</i>	<i>3.0</i>	<i>6.0</i>	<i>9.7</i>	<i>15.6</i>	<i>17.2</i>	<i>13.7</i>	<i>7.1</i>	<i>8.4</i>	<i>9.8</i>	<i>7.1</i>
<i>Trading to total exposure (%)</i>			<i>4.7</i>	<i>5.3</i>	<i>4.8</i>	<i>5.2</i>	<i>5.5</i>	<i>5.3</i>	<i>5.2</i>	<i>4.1</i>	<i>2.8</i>	<i>2.0</i>
<i>Real estate to exposure ex consumer (%)</i>			<i>6.9</i>	<i>8.0</i>	<i>6.9</i>	<i>6.9</i>	<i>7.1</i>	<i>6.7</i>	<i>6.9</i>	<i>5.4</i>	<i>3.6</i>	<i>2.5</i>
Loans and debentures -reported in balance sheet												
Loans	207,042	263,587	353,164	446,416	555,386	691,406	888,744	1,136,965	1,459,129	1,880,924	2,100,433	2,169,138
Consumer finance division	83,010	116,190	172,370	224,010	247,850	284,120	365,490	455,290	572,400	726,860	795,740	834,220
Debenture and bonds	18,266	33,880	23,773	47,335	47,394	33,181	69,333	25,655	49,424	52,020	38,844	31,388
Total	225,308	297,467	376,937	493,752	602,780	724,587	958,077	1,162,619	1,508,553	1,932,944	2,139,278	2,200,527
<i>Loans and debentures to total exposure (%)</i>	<i>67.1</i>	<i>71.6</i>	<i>69.7</i>	<i>73.7</i>	<i>75.7</i>	<i>74.3</i>	<i>77.8</i>	<i>70.3</i>	<i>75.7</i>	<i>75.5</i>	<i>74.3</i>	<i>64.4</i>
<i>Loans and debentures to exposure, ex consumer (%)</i>	<i>56.2</i>	<i>60.6</i>	<i>55.2</i>	<i>60.0</i>	<i>64.0</i>	<i>60.0</i>	<i>62.3</i>	<i>54.0</i>	<i>62.8</i>	<i>62.2</i>	<i>60.7</i>	<i>50.4</i>

Note: KIE estimate for 'debentures and bonds' on balance sheet as on FY2021.

Source: Company, Kotak Institutional Equities

Deposits up 13% yoy, led by retail deposits (up 17% yoy); CASA ratio stable

Deposits grew 13% yoy with strong traction across savings and retail term deposits, with retail deposits (per LCR) growing by ~17% yoy and comprising ~41% of deposits. CASA ratio was stable at ~43%. As the mix of liabilities has changed, the bank's CD ratio has dropped to ~81% compared to ~102% as of March 2020. The bank has shed its borrowings sharply and its dependence on certificate of deposits is ~3%.

Exhibit 14: SA deposits continue to see strong traction for IndusInd Bank

Break-up of CASA across private banks, March fiscal year-ends (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
IndusInd Bank												
Current	18.3	16.2	16.3	16.2	16.7	16.6	15.5	13.7	15.2	14.1	14.0	12.4
Savings	8.9	11.1	13.0	16.4	17.5	18.5	21.4	30.3	28.0	26.3	27.8	30.2
HDFC Bank												
Current	22.3	18.4	17.7	16.7	16.3	16.2	18.0	15.1	15.4	15.2	15.9	15.3
Savings	30.4	30.0	29.8	28.1	27.7	27.1	30.1	28.4	26.9	27.0	30.2	32.8
ICICI Bank												
Current	15.4	13.7	12.6	13.0	13.7	14.0	15.3	15.9	14.7	13.3	14.6	14.9
Savings	29.6	29.8	29.3	29.9	31.8	31.9	35.1	35.8	34.9	31.9	31.7	33.8
Axis Bank												
Current	19.5	18.1	19.1	17.3	17.4	17.8	21.0	21.1	16.3	14.1	16.2	15.5
Savings	21.6	23.5	25.2	27.7	27.4	29.6	30.4	32.7	28.1	27.1	29.3	29.5
Yes Bank												
Current	8.6	9.9	10.0	9.5	9.3	9.8	13.4	14.4	12.5	9.0	11.7	13.4
Savings	1.8	5.1	9.0	12.6	13.8	18.3	22.9	22.1	20.5	17.6	14.5	17.7

Source: Company, Kotak Institutional Equities

Exhibit 15: Share of non-interest income has dropped from peak levels of ~37%, partly driven by Covid
Comparison of non-interest income (ex-treasury) to income and proportion of assets, March fiscal year-ends (%)

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Non-interest income (ex-treasury) to income													
Axis Bank	31.3	30.9	32.0	34.5	20.5	25.7	28.8	31.7	25.7	28.4	27.8	30.6	NA
ICICI Bank	29.1	31.5	30.8	30.4	15.4	26.0	26.9	28.4	24.8	26.7	28.9	26.6	NA
HDFC Bank	26.1	26.7	28.8	25.7	15.1	23.2	26.7	28.1	24.4	26.8	26.8	29.0	29.8
IndusInd Bank	31.5	31.7	31.0	27.8	14.1	22.0	27.2	28.4	23.0	27.4	26.8	27.9	29.5
Yes Bank	23.2	18.0	37.6	23.2	8.4	17.6	17.5	40.2	26.7	32.7	28.5	33.6	NA
Non-interest income (ex-treasury) to assets													
Axis Bank	1.5	1.6	1.6	1.7	0.9	1.3	1.3	1.6	1.1	1.3	1.3	1.4	NA
ICICI Bank	1.3	1.6	1.6	1.5	0.9	1.2	1.3	1.4	1.2	1.4	1.5	1.3	NA
HDFC Bank	1.5	1.6	1.8	1.5	0.8	1.3	1.6	1.6	1.3	1.5	1.5	1.5	1.5
IndusInd Bank	2.1	2.1	2.1	2.0	0.9	1.4	1.7	1.8	1.4	1.7	1.7	1.7	1.9
Yes Bank	0.9	0.6	0.8	0.6	0.3	0.7	1.0	1.0	0.9	1.1	1.0	1.2	NA

Source: Company, Kotak Institutional Equities

Exhibit 16: Share of Bancassurance fees to overall fee income for IndusInd Bank is lower than frontline banks
Comparison of Bancassurance and total fees across players, March fiscal year-ends

	Bancassurance fee (Rs mn)										Bancassurance fee (% of fee income)									
	2013	2014	2015	2016	2017	2018	2019	2020	2021		2013	2014	2015	2016	2017	2018	2019	2020	2021	
IndusInd Bank	1,073	1,120	1,657	1,479	2,119	3,450	3,071	2,641	2,653		11.1	9.2	9.7	6.4	7.1	10.0	7.4	5.5	7.2	
HDFC Bank	5,947	4,543	5,911	8,179	9,559	13,958	16,961	24,550	31,832		10.5	7.1	8.0	9.5	9.8	11.1	11.1	13.1	17.3	
ICICI Bank	5,257	6,697	9,431	10,197	13,214	14,954	14,332	11,821	9,514		9.3	10.5	13.4	13.2	16.3	16.9	13.9	10.3	9.1	
Axis Bank	5,106	6,620	8,623	8,894	9,972	10,727	12,243	11,172	14,532		9.6	11.9	13.6	12.8	13.7	13.5	11.4	9.7	13.3	
Yes Bank	200	238	358	565	1,004	768	868	836	1,302		1.9	1.8	1.8	2.3	3.1	1.7	2.1	0.8	7.7	

Source: Company, Kotak Institutional Equities

Exhibit 17: Distribution fee income growing steadily
Granular break-up of distribution income, March fiscal year-ends (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Distribution fee income	1,149	1,611	1,367	2,704	2,814	3,846	4,906	7,147	9,760	11,280	13,380	12,660
Life insurance	553	714	284	432	418	472	402	706	936	1,213	1,296	1,530
Non life insurance	449	669	250	273	310	397	481	589	961	998	976	812
Mutual fund	140	227	265	368	393	788	597	825	1,553	860	369	312
Total bancassurance	1,141	1,611	799	1,073	1,120	1,657	1,479	2,119	3,450	3,071	2,641	2,653
Growth (%)		41.1	(50.4)	34.4	4.4	47.9	(10.7)	43.3	62.8	(11.0)	(14.0)	0.5
Cards and others	8	1	568	1,630	1,694	2,189	3,426	5,028	6,310	8,209	10,739	10,007
Growth (%)				186.9	3.9	29.2	56.5	46.7	25.5	30.1	30.8	(6.8)
Average credit cards outstanding (#)				213,908	254,597	307,069	388,466	506,627	690,435	920,631	1,229,474	1,437,919
Growth (%)				19.0	20.6	26.5	30.4	36.3	33.3	33.5	17.0	

Source: Company, Kotak Institutional Equities

Exhibit 18: Operating expenses grew meaningfully driven by employee expenses

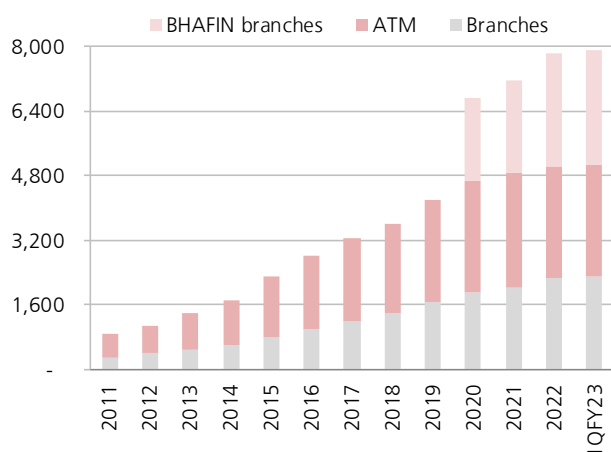
Break-up of operating expenses, March fiscal year-ends (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Operating expenses (Rs mn)	7,360	10,085	13,430	17,564	21,851	28,701	36,721	47,831	55,914	64,047	82,373	83,598
Growth (%)	34.5	37.0	33.2	30.8	24.4	31.3	27.9	30.3	16.9	14.5	28.6	1.5
Employee expenses (Rs mn)	2,906	3,826	4,855	6,615	8,093	9,805	12,361	15,210	17,807	18,535	22,085	22,135
Growth (%)	55.3	31.7	26.9	36.3	22.3	21.2	26.1	23.1	17.1	4.1	19.2	0.2
Total employees (#)	5,383	7,008	9,370	11,502	15,590	19,121	23,060	25,314	25,517	27,739	30,674	29,661
Growth (%)	26.6	30.2	33.7	22.8	35.5	22.6	20.6	9.8	0.8	8.7	10.6	-3.3
Cost per employee (Rs)	603,192	617,625	592,831	633,827	597,438	564,938	586,088	628,859	700,630	696,077	756,160	733,740
Growth (%)	22.6	1.2	-5.1	11.0	-9.7	-1.2	4.5	12.1	16.1	-4.2	7.8	3.7
Rent, rates and lighting (Rs mn)	688	893	1,096	1,664	1,878	2,346	2,713	3,266	3,730	4,086	4,687	4,210
Growth (%)	38.7	29.8	22.7	51.8	12.9	24.9	15.6	20.4	14.2	9.5	14.7	-10.2
Branches (#)	210	300	400	500	602	801	1,000	1,200	1,400	1,665	1,911	2,015
Growth (%)	16.7	42.9	33.3	25.0	20.4	33.1	24.8	20.0	16.7	18.9	14.8	5.4
Cost/branch (Rs mn)	3.5	3.5	3.1	3.7	3.4	3.3	3.0	3.0	2.9	2.7	2.6	2.1
Growth (%)	28.0	-0.8	-10.6	18.1	-7.8	-1.9	-9.9	-1.5	-3.3	-7.1	-1.7	-18.2
Other costs	3,766	5,365	7,479	9,285	11,880	16,549	21,647	29,355	34,377	41,426	55,602	57,253
Growth (%)	21.4	42.5	39.4	24.1	27.9	39.3	30.8	35.6	17.1	20.5	34.2	3.0
Service provider fees	613	804	1,147	1,589	1,832	2,242	3,344	3,813	4,182	4,600	4,600	4,600
Growth (%)	6.8	31.1	42.6	38.5	15.3	22.4	49.2	14.0	9.7	10.0	0.0	0.0
(% of other costs)	16.3	15.0	15.3	17.1	15.4	13.5	15.4	13.0	12.2	11.1	8.3	8.0

Source: Company, Kotak Institutional Equities

Other updates

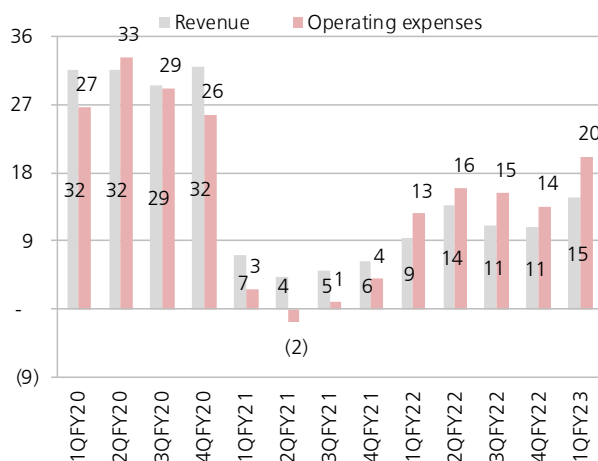
- ▶ Non-interest income grew 12% yoy. This was supported by ~45% yoy growth in fee income (high growth in processing fees) and ~75% yoy decline in treasury income.
- ▶ Operating expenses for the bank were up 20% yoy. The bank added a net of ~20 branches this quarter and ~270 in the past year. Management indicated that it will continue to invest on digital initiatives.
- ▶ CAR was comfortable at ~18% with CET-1 at ~16%.

Exhibit 19: Stable distribution franchise
Branches and ATM, March fiscal year-ends (#)

Source: Company, Kotak Institutional Equities

Exhibit 20: Opex growth has exceeded revenue growth in the past four quarters

Yoy growth in revenues and operating expenses, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Exhibit 21: IndusInd Bank – key parameters and balance sheet
March fiscal year-ends

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Yield management measures (%)					
Yield on advances	11.8	11.7	11.4	11.3	11.4
- Corporate and commercial banking	8.4	8.2	7.8	7.7	7.8
- Consumer finance division	14.4	14.3	14.2	14.2	14.3
Cost of deposits	5.0	4.9	4.7	4.6	4.8
NIM	4.1	4.1	4.1	4.2	4.2
Asset quality details					
Gross NPL(Rs mn)	61,858	62,450	57,793	55,172	59,329
Net NPLs (Rs mn)	17,596	17,714	16,332	15,298	16,612
Gross NPL (%)	2.9	2.8	2.5	2.3	2.4
Net NPL (%)	0.8	0.8	0.7	0.6	0.7
Provision coverage (%)	71.6	71.6	71.7	72.3	72.0
Capital adequacy ratios (%)					
CAR	17.6	17.4	18.1	18.4	18.1
Tier I	15.6	16.7	16.4	16.8	16.6
Tier II	0.7	0.7	1.7	1.6	1.6
Other key details					
Branches (#)	2,015	2,015	2,103	2,265	2,286
ATMs (#)	2,870	2,886	2,861	2,767	2,783
Balance sheet snapshot (Rs mn)					
Capital and liabilities					
Capital	7,740	7,831	7,750	7,907	7,750
Reserves and surplus	437,740	443,333	458,300	469,065	489,320
Deposits	2,672,330	2,754,727	2,844,840	2,936,814	3,027,190
Borrowings	492,940	462,954	456,690	473,232	418,120
Other liabilities and provisions	119,210	136,075	138,060	132,728	158,620
Total	3,729,960	3,804,921	3,905,640	4,019,745	4,101,000
Assets					
Cash and bank balance	118,760	130,968	131,470	156,412	561,530
Balance with bank and money at call	588,840	537,358	533,850	526,333	66,150
Investments	686,990	692,858	727,150	709,708	724,870
Advances	2,107,270	2,208,076	2,285,830	2,390,515	2,479,600
Fixed Assets	18,760	18,253	19,160	18,487	19,520
Other assets	209,340	217,407	208,180	218,290	249,330
Total	3,729,960	3,804,921	3,905,640	4,019,745	4,101,000

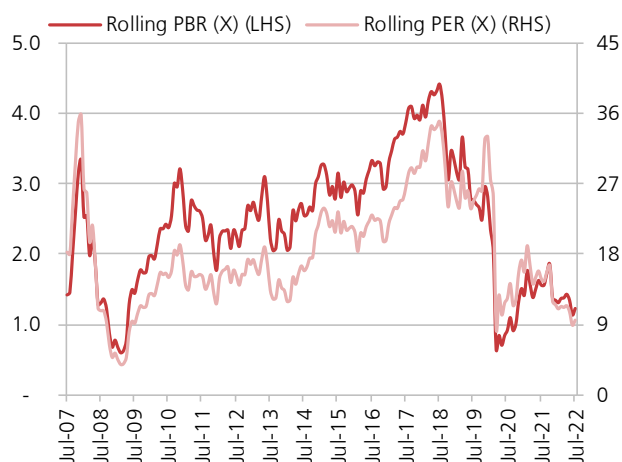
Source: Company, Kotak Institutional Equities

Exhibit 22: IndusInd Bank – change in estimates
March fiscal year-ends (Rs mn)

	New estimates			Old estimates			% change		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Net loan growth (%)	15.2	16.6	16.5	13.8	15.7	15.5	134 bps	94 bps	95 bps
Loans (Rs bn)	2,753	3,211	3,739	2,721	3,148	3,636	1.2	2.0	2.8
Loan growth (% yoy)	15.2	16.6	16.5	13.8	15.7	15.5	134 bps	94 bps	95 bps
Total income	246,705	278,246	322,550	244,039	279,422	316,139	1.1	(0.4)	2.0
Net interest income	172,060	195,221	229,042	172,212	199,490	226,059	(0.1)	(2.1)	1.3
NIM (%)	4.3	4.3	4.4	4.3	4.4	4.4	-4 bps	-16 bps	-1 bps
Other income	74,646	83,025	93,508	71,827	79,932	90,079	3.9	3.9	3.8
Expenses	119,733	136,370	155,449	117,291	133,657	152,475	2.1	2.0	2.0
Employee cost	29,842	34,100	39,259	28,867	33,407	38,509	3.4	2.1	1.9
Other cost	89,891	102,270	116,190	88,424	100,250	113,967	1.7	2.0	2.0
Cost-income ratio	48.5	49.0	48.2	48.1	47.8	48.2	47 bps	118 bps	-4 bps
Loan loss provisions	36,003	29,817	38,223	33,223	29,342	33,917	8.4	1.6	12.7
Credit cost (%)	1.4	1.0	1.1	1.3	1.0	1.0	10 bps	0 bps	10 bps
PBT	89,469	110,559	127,377	92,024	114,923	128,246	(2.8)	(3.8)	(0.7)
PAT	66,565	82,256	94,769	68,466	85,502	95,415	(2.8)	(3.8)	(0.7)
PBT-treasury+provisions	121,972	136,876	162,101	121,747	140,764	158,663	0.2	(2.8)	2.2
EPS (Rs)	85.9	106.2	122.3	88.4	110.4	123.2	(2.8)	(3.8)	(0.7)
RoA (%)	1.6	1.7	1.7	1.6	1.8	1.7	-6 bps	-9 bps	-4 bps
RoE (%)	13.3	14.5	14.8	13.6	15.0	14.8	-36 bps	-49 bps	1 bps
Adj. BVPS (Rs)	670	757	857	675	767	864	(0.7)	(1.3)	(0.9)
Gross NPA (%)	2.1	2.0	1.8	1.7	1.3	1.2	46 bps	67 bps	56 bps
Slippage ratio (%)	2.8	2.3	2.0	2.4	2.0	2.0	35 bps	25 bps	0 bps

Source: Company, Kotak Institutional Equities estimates

Exhibit 23: IIB is trading at 1.2X one-year forward book
Rolling P/BV (1-year forward book) (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 24: IndusInd bank is trading at a discount to peers
IndusInd Bank valuation comparison with peers (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 25: IndusInd Bank - key growth rates and financial ratios
March fiscal year-ends (%)

	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Growth rates (%)										
Net loan	28.5	27.9	28.2	28.6	10.9	2.8	12.4	15.2	16.6	16.5
Customer assets	28.1	28.1	29.3	28.3	9.3	1.7	12.4	15.1	16.6	16.4
Investments excl. CPs and debentures	41.1	24.9	28.6	20.0	9.5	23.8	2.0	29.2	11.8	12.1
Net fixed and leased assets	8.4	6.4	0.3	27.7	6.4	(0.6)	2.2	4.1	(8.4)	(10.1)
Cash and bank balance	(6.2)	84.2	(29.1)	11.9	8.3	252.0	21.2	(7.7)	10.3	10.5
Total assets	27.8	25.0	24.1	25.4	10.5	18.2	10.7	13.4	14.5	14.6
Deposits	25.4	36.1	19.8	28.5	3.7	26.8	14.6	17.3	16.6	16.5
Current	25.3	26.7	6.3	42.0	(3.9)	26.8	1.2	21.1	20.3	20.0
Savings	33.2	56.8	69.7	18.7	(2.5)	33.8	25.0	19.2	18.5	18.3
Fixed	23.4	32.6	6.2	30.5	8.7	23.7	12.9	15.4	14.8	14.6
Net interest income	32.1	34.2	23.7	18.0	36.3	12.2	10.9	14.7	13.5	17.3
Loan loss provisions	38.7	71.1	0.4	178.2	42.4	75.6	(11.1)	(44.8)	(17.2)	28.2
Total other income	29.4	26.5	13.9	18.9	23.1	(5.6)	11.8	1.8	11.2	12.6
Net fee income	31.8	29.7	17.8	19.4	13.3	(24.6)	13.0	10.0	14.0	14.0
Net exchange gains	16.2	9.9	0.2	47.6	17.6	(17.4)	25.0	18.0	18.0	18.0
Operating expenses	27.9	30.3	16.9	14.5	28.6	1.5	14.3	25.3	13.9	14.0
Employee expenses	26.1	23.1	17.1	4.1	19.2	0.2	12.4	19.9	14.3	15.1
Key ratios (%)										
Yield on average earning assets	9.9	9.6	9.2	9.5	10.6	9.4	8.6	8.6	8.9	9.1
Yield on average loans	11.8	11.4	10.6	11.0	12.2	11.5	11.1	11.0	11.2	11.4
Yield on average investments	6.3	7.0	7.1	6.8	7.2	6.0	5.8	6.0	6.1	6.2
Average cost of funds	6.6	6.2	5.8	6.2	6.6	5.4	4.9	4.8	5.1	5.2
Interest on deposits	6.8	6.3	5.8	6.1	6.5	5.0	4.6	4.6	4.9	5.0
Difference	3.3	3.4	3.4	3.3	4.0	3.9	3.7	3.8	3.8	3.9
Net interest income/earning assets	3.8	4.0	4.0	3.8	4.4	4.4	4.2	4.3	4.3	4.4
New provisions/average net loans	0.8	1.0	0.8	1.8	2.1	3.5	2.9	1.4	1.0	1.1
Total provisions/gross loans	0.5	0.5	0.7	0.9	1.6	2.0	4.3	5.0	5.1	5.4
Fee income to total income	28.6	28.3	27.9	28.1	24.3	17.3	17.6	17.5	17.7	17.4
Net trading income to PBT	3.3	5.6	4.4	(1.2)	1.3	23.2	24.7	5.6	4.5	3.9
Exchange income to PBT	24.1	21.1	16.8	27.3	26.1	34.9	26.8	21.8	20.8	21.3
Operating expenses/total income	47.0	46.7	45.7	44.2	43.3	41.6	42.8	48.5	49.0	48.2
Operating expenses/assets	2.9	3.0	2.8	2.6	2.8	2.5	2.5	2.8	2.8	2.8
Tax rate	34.1	34.2	34.2	33.7	27.8	25.0	25.3	25.6	25.6	25.6
Dividend payout ratio	12.8	12.5	11.7	13.7	—	—	14.3	14.3	14.3	14.3
Share of deposits (%)										
Current	16.6	15.5	13.7	15.2	14.1	14.1	12.4	12.8	13.2	13.6
Fixed	64.8	63.1	56.0	56.9	59.6	58.2	57.3	56.4	55.5	54.6
Savings	18.5	21.4	30.3	28.0	26.3	27.7	30.2	30.7	31.2	31.7
Loans-to-deposit ratio	95.1	89.3	95.6	95.7	102.3	83.0	81.4	79.9	79.9	79.9
Equity/assets (EoY)	12.4	11.6	10.8	9.6	11.3	11.9	11.9	11.7	11.6	11.5
Asset quality trends (%)										
Gross NPL	0.9	0.9	1.2	2.1	2.5	2.7	2.2	2.1	2.0	1.8
Net NPL	0.4	0.4	0.5	1.2	0.9	0.7	0.6	0.7	0.8	0.8
Slippages	1.2	1.6	2.9	3.7	3.1	3.6	4.7	2.8	2.3	2.0
Provision coverage	58.6	58.4	56.3	43.0	63.3	74.5	72.3	67.9	63.6	57.4
Dupont analysis (%)										
Net interest income	3.5	3.8	3.7	3.5	4.1	4.0	3.9	4.0	4.0	4.1
Loan loss provisions	0.5	0.7	0.5	1.2	1.4	2.2	1.7	0.8	0.6	0.7
Net other income	2.6	2.6	2.4	2.3	2.4	2.0	1.9	1.7	1.7	1.7
Operating expenses	2.9	3.0	2.8	2.6	2.8	2.5	2.5	2.8	2.8	2.8
Invt. depreciation	—	—	—	—	—	—	—	—	—	—
(1- tax rate)	65.9	65.8	65.8	66.3	72.2	75.0	74.7	74.4	74.4	74.4
RoA	1.8	1.8	1.8	1.3	1.5	0.8	1.2	1.6	1.7	1.7
Average assets/average equity	9.5	8.8	9.5	10.5	10.1	8.9	8.5	8.5	8.6	8.7
RoE	17.1	15.7	17.1	13.8	15.3	7.6	10.3	13.3	14.5	14.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 26: IndusInd Bank – income statement and balance sheet
March fiscal year-ends (Rs mn)

	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Income statement										
Total interest income	115,807	144,057	172,807	222,612	287,828	289,998	308,224	347,795	408,852	478,593
Loans	92,446	114,791	136,999	182,567	240,082	240,853	251,434	283,408	334,399	394,537
Investments	17,806	24,669	30,744	36,773	42,822	38,461	40,529	47,644	57,551	65,391
Cash and deposits	5,555	4,597	5,065	3,271	4,924	10,683	16,261	16,742	16,903	18,665
Total interest expense	70,641	83,431	97,833	134,150	167,241	154,719	158,216	175,735	213,631	249,551
Deposits from customers	57,088	69,313	80,460	106,090	129,079	114,591	127,538	145,378	184,429	219,194
Net interest income	45,166	60,626	74,974	88,462	120,587	135,279	150,008	172,060	195,221	229,042
Loan loss provisions	6,141	10,506	10,546	29,342	41,772	73,337	65,165	36,003	29,817	38,223
Net interest income (after prov.)	39,025	50,120	64,429	59,120	78,816	61,942	84,844	136,057	165,404	190,818
Other income	32,969	41,715	47,501	56,467	69,513	65,586	73,305	74,646	83,025	93,508
Net fee income	22,315	28,953	34,119	40,730	46,150	34,781	39,303	43,233	49,286	56,186
Net capital gains	1,453	2,769	3,638	1,151	5,526	14,862	15,230	5,000	5,000	5,000
Net exchange gains	8,370	9,195	9,210	13,593	15,987	13,212	16,515	19,488	22,996	27,135
Operating expenses	36,721	47,831	55,914	64,047	82,373	83,598	95,593	119,733	136,370	155,449
Employee expenses	12,361	15,210	17,807	18,535	22,085	22,135	24,883	29,842	34,100	39,259
Depreciation on investments	295	314	1,209	1,735	4,749	6,088	—	—	—	—
Other provisions	286	94	—	—	—	—	819	1,500	1,500	1,500
Pretax income	34,693	43,597	54,807	49,806	61,206	37,842	61,737	89,469	110,559	127,377
Tax provisions	11,828	14,918	18,747	16,795	17,027	9,478	15,625	22,904	28,303	32,609
Net profit	22,864	28,679	36,060	33,011	44,179	28,364	46,112	66,565	82,256	94,769
Growth (%)	27.5	25.4	25.7	(8.5)	33.8	(35.8)	62.6	44.4	23.6	15.2
PBT - Treasury + Provisions	39,962	51,741	62,923	79,731	102,201	102,405	112,491	121,972	136,876	162,101
Growth (%)	34.1	29.5	21.6	26.7	28.2	0.2	9.8	8.4	12.2	18.4
Balance sheet										
Cash and bank balance	101,119	186,283	132,159	147,834	160,037	563,272	682,745	630,378	695,326	768,570
Cash	7,395	11,355	10,692	9,645	14,010	13,483	14,157	14,865	15,608	16,389
Balance with RBI	37,815	66,132	98,932	89,967	122,742	165,224	176,209	206,666	241,051	280,711
Balance with banks	55,908	26,578	9,287	26,052	10,977	204,613	492,379	408,847	438,667	471,470
Net value of investments	340,555	367,036	500,767	592,662	599,799	696,947	709,708	906,028	1,008,351	1,126,001
Government and other securities	252,680	314,523	403,660	486,448	525,969	648,963	662,143	858,841	961,503	1,079,458
Shares	413	1,612	2,919	1,294	6,177	8,312	8,312	8,312	8,312	8,312
Debentures and bonds	18,129	25,246	44,764	52,900	26,859	4,191	3,772	3,395	3,055	2,750
Net loans and advances	884,193	1,130,805	1,449,537	1,863,935	2,067,832	2,125,954	2,390,515	2,752,734	3,210,725	3,738,994
Fixed assets	12,553	13,352	13,388	17,100	18,201	18,094	18,487	19,241	17,629	15,852
Net owned assets	12,553	13,352	13,388	17,100	18,201	18,094	19,729	19,241	17,629	15,852
Other assets	90,561	89,023	120,412	156,663	224,707	225,461	218,290	251,033	288,688	331,992
Total assets	1,428,982	1,786,499	2,216,262	2,778,194	3,070,576	3,629,727	4,019,745	4,559,414	5,220,719	5,981,408
Deposits	930,003	1,265,722	1,516,392	1,948,678	2,020,398	2,562,050	2,936,814	3,444,435	4,017,509	4,678,521
Borrowings and bills payable	255,159	230,540	389,567	478,948	612,304	519,846	473,232	448,219	465,939	484,379
Other liabilities	66,848	83,760	71,886	83,708	90,808	114,178	132,728	132,728	132,728	132,728
Total liabilities	1,252,010	1,580,023	1,977,845	2,511,333	2,723,511	3,196,073	3,542,774	4,025,382	4,616,176	5,295,627
Paid-up capital	5,950	5,981	6,002	6,027	6,935	7,734	7,746	7,746	7,746	7,746
Reserves and surplus	171,022	200,495	232,414	260,833	340,130	425,920	469,226	526,286	596,797	678,034
Total shareholders' equity	176,972	206,476	238,416	266,860	347,065	433,654	476,972	534,032	604,543	685,780

Source: Company, Kotak Institutional Equities estimates

JULY 21, 2022

RESULT

Sector view: **Neutral**

CMP (₹): **2,473**

Fair Value (₹): **2,325**

BSE-30: **55,398**

In a tight spot. Led by continued supply disruptions and elevated costs, Gland reported a dismal 1QFY23 with EBITDA at Rs2.7 bn missing KIE estimates by 25%. Gland, being a B2B generic player, caters to the relatively lower end of the global injectable market, thereby aggravating the supply challenges. While these pressures will largely ease out in 2HFY23, they have unveiled higher vulnerability in its CDMO model versus peers. Long-term concerns on margins stay. **REDUCE** with lower FV of Rs2,325.

Gland Pharma				Forecasts/valuations			
Stock data				2022	2023E	2024E	
CMP(Rs)/FV(Rs)/Rating	2,473/2,325/REDUCE			EPS (Rs)	73.8	72.8	88.4
52-week range (Rs) (high-low)	4,350-2,420			EPS growth (%)	21.1	(1.3)	21.3
Mcap (bn) (Rs/US\$)	408/5.1			P/E (X)	33.5	33.9	28.0
ADTV-3M (mn) (Rs/US\$)	1,022/13			P/B (X)	5.7	4.9	4.1
Shareholding pattern (%)				EV/EBITDA (X)	24.8	25.4	20.5
Promoters	58.0			RoE (%)	16.9	14.3	14.8
FPIs/MFs/BFIs	10.7/11.2/0.7			Div. yield (%)	0.0	0.0	0.0
Price performance (%)				Sales (Rs bn)	44	46	55
	1M	3M	12M	EBITDA (Rs bn)	15	15	18
Absolute	(3.9)	(24.7)	(34.8)	Net profits (Rs bn)	12	12	15
Rel. to BSE-30	(11.2)	(21.8)	(41.0)				

Source: Bloomberg, Kotak Institutional Equities estimates

Broad-based recovery still a few months away

Procurement challenges and higher costs (attrition, freight, energy) led to a dull 1QFY23 for Gland with sales at Rs8.6 bn falling 26% yoy and 22% qoq. Shut down of two of its manufacturing lines at the Dundigal facility for productivity improvement had a further impact. As highlighted in our recent report ([link](#)), hurdles in procuring syringes and other key components impacted 1QFY23 sales by Rs2.5 bn. Within these, syringe shortages had an Rs1.65 bn sales impact across ROW, India and US. While Gland is guiding for the syringe shortage issue to be largely resolved in 2QFY23, procurement challenges in other components like stoppers are likely to persist for the next 4-5 months.

We factor in 32/32.3% EBITDA margin over FY2024/25 lower than guidance of 33-35%

Gland's 1QFY23 gross margin was strong at 56.3% aided by significantly lower contribution of India and ROW. We reiterate that as India and ROW contribution increases there will be pressure on Gland's margins. Also, we expect pricing erosion in US generics to continue to have an impact on the profit share (10% of 1QFY23 sales) accruing to Gland. In the absence of big launches in FY2023, we believe profit share will be further suppressed. This, along with heightened costs will limit a significant margin recovery hereon. Gland is in discussions with four potential biologics CDMO clients and is hoping to start generating some revenues in 4QFY23.

Challenging times; retain REDUCE with lower FV of Rs2,325

While the near term outlook is sluggish, the product pipeline (61 pending ANDAs) and entry into new markets like China (first approval expected in 2HFY23) provide medium term growth visibility. Even as we like the entry into the biologics CDMO space, the market is ignoring the high gestation period. We cut FY2023-25E EPS by 11-13% to factor in lower sales (particularly in ROW), lower profit share in the US and higher costs. We also lower our target multiple from 28X Mar-24 EPS to 25X Jun-24 EPS to account for higher vulnerability of Gland's B2B generic model to supply disruptions compared to other CDMO peers, as evidenced over the past few months. We retain our REDUCE rating with revised FV of Rs2,325 (Rs2,800 earlier). Our FV implies a 10-year EBITDA CAGR of 15%.

QUICK NUMBERS

- Gland's 1QFY23 sales fell 25.7% yoy to Rs8.6 bn, falling short of KIE estimates by 26%
- 1QFY23 EBITDA margin at 31.5% was down 631 bps yoy (flattish qoq)
- Gland posted a PAT of Rs2.3 bn in 1QFY23, missing our estimate by 20%

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Exhibit 1: Gland 1QFY23 interim results

March fiscal year-ends, 2021-23E (Rs mn)

	1QFY23	1QFY23E	1QFY22	4QFY22	(% chg.)			yoy					
					%KIE	%yoy	%qoq	FY2022	FY2021	(% chg.)	FY2023E	FY2022	(% chg.)
Sales	8,569	11,553	11,539	11,030	(25.8)	(25.7)	(22.3)	44,007	34,629	27.1	46,264	44,007	5.1
Raw material	(3,741)	(5,800)	(5,365)	(5,453)	(35.5)	(30.3)	(31.4)	(21,092)	(14,919)	41.4	(22,341)	(21,092)	5.9
Employee expenses	(980)	(950)	(806)	(942)	3.2	21.6	4.0	(3,386)	(3,114)	8.7	(3,995)	(3,386)	18.0
R&D expenses	(410)	(575)	(438)	(559)	(28.7)	(6.4)	(26.7)	(2,274)	(1,220)	86.4	(2,221)	(2,273)	(2.3)
Other expenses	(739)	(630)	(568)	(592)	17.3	30.2	24.8	(2,154)	(2,354)	(8.5)	(3,124)	(2,155)	45.0
EBITDA	2,699	3,598	4,363	3,484	(25.0)	(38.1)	(22.5)	15,102	13,022	16.0	14,583	15,102	(3.4)
Other income/FX losses	744	600	618	652	24.0	20.3	14.0	2,239	1,348	66.2	2,939	2,239	31.2
Interest	(9)	(20)	(10)	(20)	(54.9)	(9.8)	(55.6)	(52)	(34)	53.7	(40)	(52)	(23.7)
Depreciation	(349)	(330)	(253)	(311)	5.8	38.1	12.3	(1,103)	(988)	11.7	(1,423)	(1,103)	29.0
Pretax profits	3,085	3,848	4,718	3,805	(19.8)	(34.6)	(18.9)	16,186	13,348	21.3	16,059	16,186	(0.8)
Tax	(793)	(970)	(1,212)	(946)	(18.2)			(4,069)	(3,378)		(4,095)	(4,069)	
Net income	2,292	2,879	3,507	2,859	(20.4)	(34.6)	(19.8)	12,117	9,970	21.5	11,964	12,117	(1.3)
Adjusted EPS (Rs)	14.0	17.6	21.4	17.4	(20.4)	(34.6)	(19.7)	73.8	62.8	17.6	72.8	73.8	(1.3)
Tax rate (%)	25.7	25.2	25.7	24.9				25.1	25.3		25.5	25.1	
Segment wise sales													
US	6,385	6,162	6,676	6,002	3.6	(4.4)	6.4	25,823	22,876	12.9	29,463	25,823	14.1
India	510	1,982	1,824	2,018	(74.3)	(72.0)	(74.7)	6,278	4,051	55.0	4,520	6,278	(28.0)
Other regulated markets	672	1,071	811	1,108	(37.3)	(17.2)	(39.3)	3,424	2,246	52.5	3,630	3,424	6.0
RoW	1,002	2,338	2,227	1,902	(57.1)	(55.0)	(47.3)	8,482	5,455	55.5	8,651	8,482	2.0
Total	8,569	11,553	11,539	11,030	(25.8)	(25.7)	(22.3)	44,007	34,629	27.1	46,264	44,007	5.1
% margin													
Gross margin	56.3	49.8	53.5	50.6	655 bps	284 bps	578 bps	52.1	56.9	-485 bps	51.7	52.1	-36 bps
Staff cost	11.4	8.2	7.0	8.5				7.7	9.0		8.6	7.7	
R&D expenses	4.8	5.0	3.8	5.1				5.2	3.5		4.8	5.2	
Other expenditure	8.6	5.5	4.9	5.4				4.9	6.8		6.8	4.9	
EBITDA	31.5	31.1	37.8	31.6	35 bps	-631 bps	-8 bps	34.3	37.6	-329 bps	31.5	34.3	-279 bps

Note :

(a) Company has reclassified US and domestic sales and included India exports to US under US business

(b) We have incorporated this change w.e.f. 1QFY21

Source: Company, Kotak Institutional Equities estimates

Lower non-US sales drive big 1QFY23 miss

Gland's 1QFY23 sales fell 25.7% yoy to Rs8.6 bn, falling short of KIE estimates by 26%. Higher staff costs (+22% yoy) and other expenses (+30% yoy, +17% versus KIE) led to EBITDA of Rs2.7 bn (31.5% EBITDA margin, -631 bps yoy). R&D expenses for the quarter amounted to 4.8% sales (-28 bps qoq). Gland posted a PAT of Rs2.3 bn, missing our estimate by 20%.

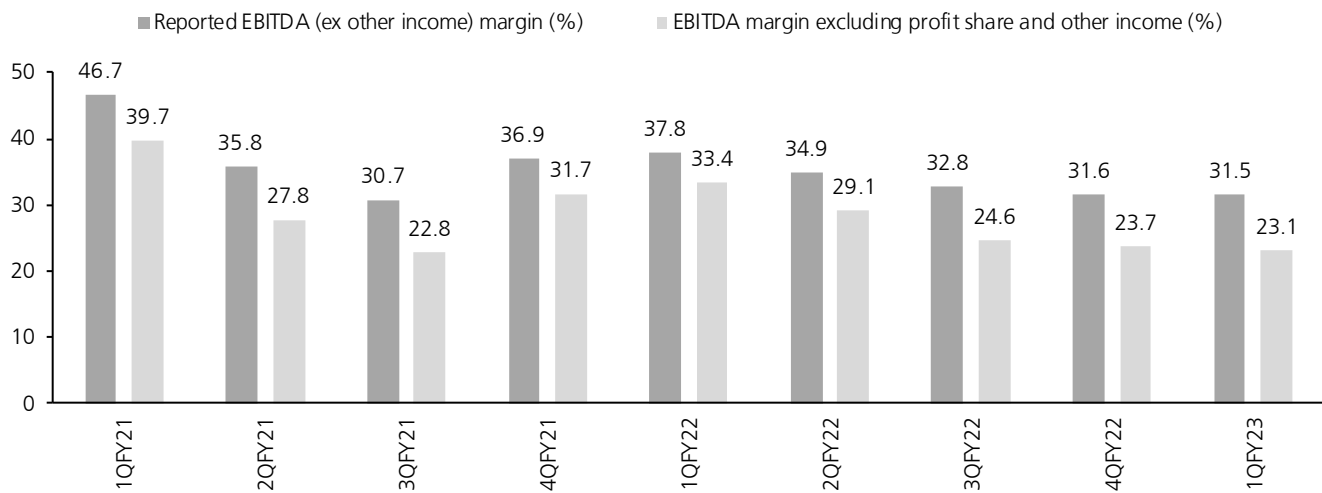
Segmental performance:

- ▶ **US and regulated markets (82% of sales):** Including exports from India, core market (US, Europe, Canada and Australia) sales fell 5.8% yoy in 1QFY23 despite new product launches and key commercialized products such as Bortezomib, Pemetrexed, Pantoprazole and Cyanocobalamin in the US market. Gland also received 180 days CGT exclusivity for Zinc Sulfate injection in the US market.

India and ROW markets saw a sharp decline of 72% yoy and 55% yoy respectively in 1QFY23.

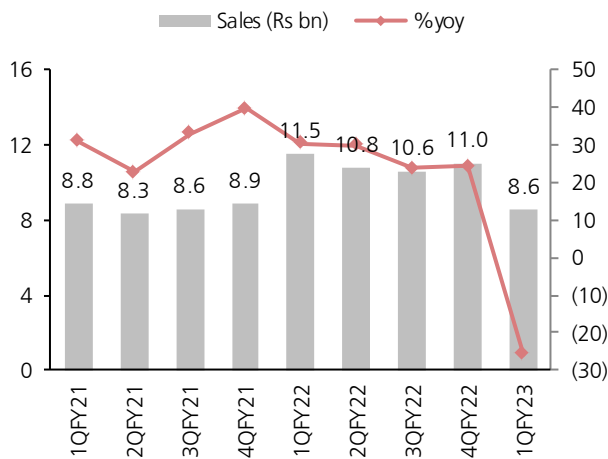
- ▶ **India (6% of sales):** India sales fell 72% yoy, mainly affected by shutdown of the dedicated insulin line for improving the line productivity and Rs700-800 mn Covid sales (Enoxaprin and Remdesivir) in the base quarter. Gland plans to offset the shortfall in insulin production in 1QFY23 by improving line productivity for the rest of FY2023. Higher input costs due to supply side challenges for the core portfolio also impacted sales conversion.
- ▶ **ROW markets (12% of sales):** ROW sales fell 55% yoy, impacted by delay in material supplies, as Gland struggled to take up orders with low delivery times. However, the company continues to bank on strong demand environment, and is working to build up inventory gradually.

Exhibit 2: Any slip in profit share can pose a threat to Gland's reported EBITDA margin
 EBITDA margin, March fiscal year-ends, 2021-22 (%)



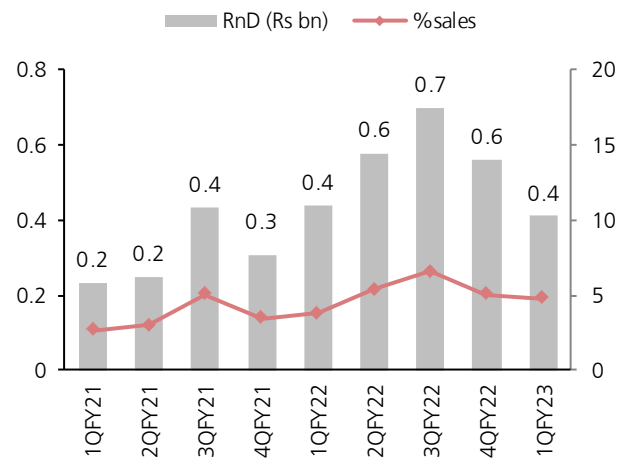
Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Gland's quarterly sales
 March fiscal year-ends, 2021-23 (Rs bn, %)



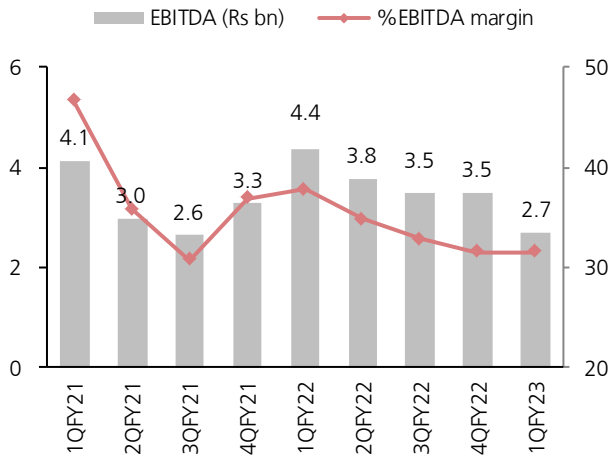
Source: Company, Kotak Institutional Equities

Exhibit 4: Gland's quarterly R&D expenses
 March fiscal year-ends, 2021-23 (Rs bn, %)



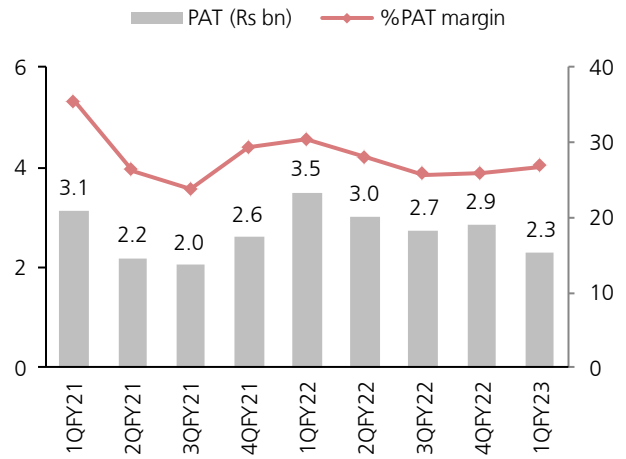
Source: Company, Kotak Institutional Equities

Exhibit 5: Gland's quarterly EBITDA
March fiscal year-ends, 2021-23 (Rs bn, %)



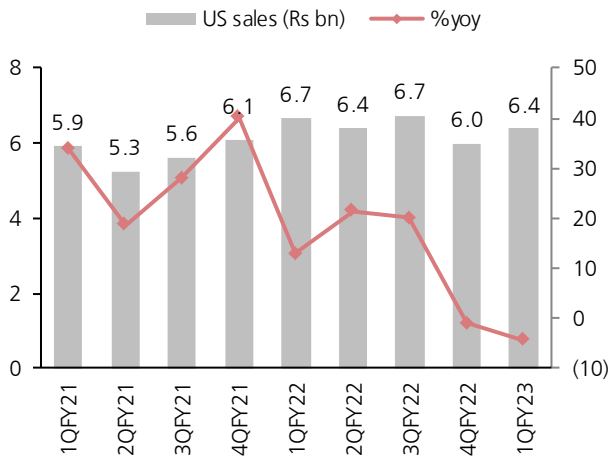
Source: Company, Kotak Institutional Equities

Exhibit 6: Gland's quarterly PAT
March fiscal year-ends, 2021-23 (Rs bn, %)



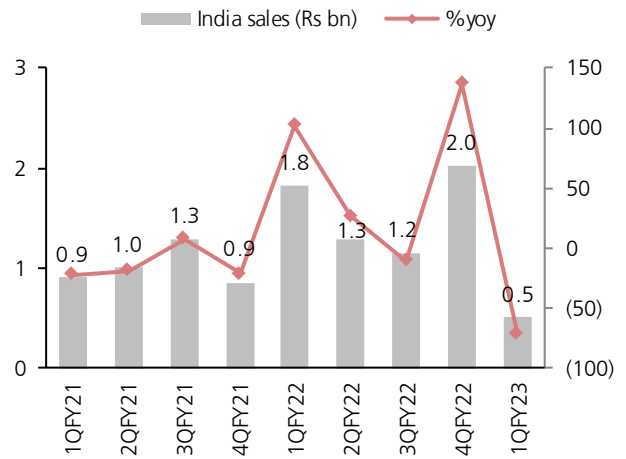
Source: Company, Kotak Institutional Equities

Exhibit 7: Gland's quarterly US sales
March fiscal year-ends, 2021-23 (Rs bn, %)



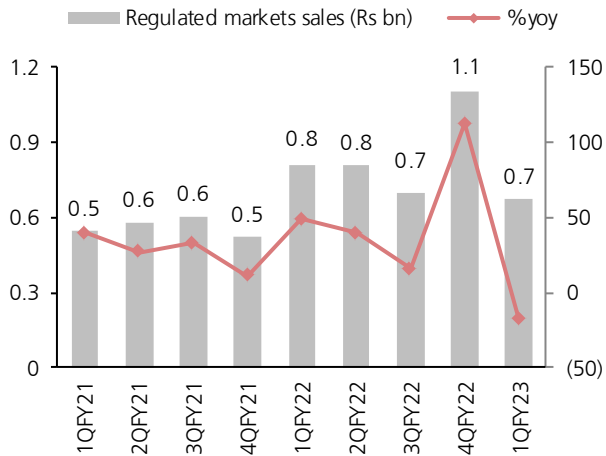
Source: Company, Kotak Institutional Equities

Exhibit 8: Gland's quarterly India sales
March fiscal year-ends, 2021-23 (Rs bn, %)



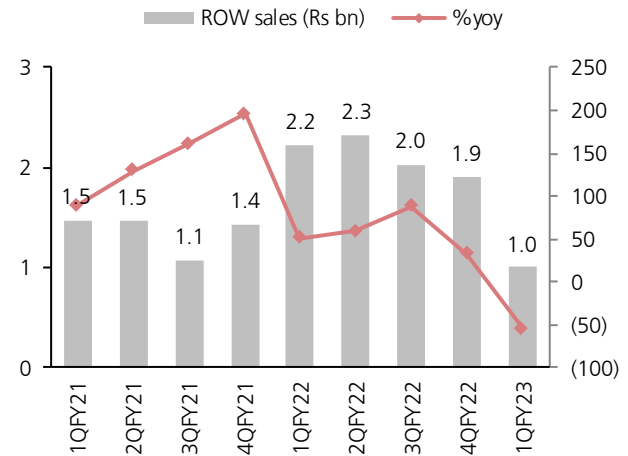
Source: Company, Kotak Institutional Equities

Exhibit 9: Gland's quarterly regulated markets sales
March fiscal year-ends, 2021-23 (Rs bn, %)



Source: Company, Kotak Institutional Equities

Exhibit 10: Gland's quarterly ROW sales
March fiscal year-ends, 2021-23 (Rs bn, %)



Source: Company, Kotak Institutional Equities

Exhibit 11: Gland's key known US launches starting FY2021
Potential launches, March fiscal year-ends, 2021-26E

Product	Fiscal year	Opportunity for Gland	
		Market size (US\$ mn)	(US\$ mn)
Micafungin	FY2021	120	15-20
Ertapenem	FY2022	200	5-10
Meropenem	FY2022	100	2-5
Ropivacaine	FY2023	130	5-10
Pantoprazole	FY2023	50	2-4
Imipenem, cilastatin	FY2023	50	2-4
Calcitrol	FY2023	50	3-5
Sugammadex	FY2023/26	550	5-10
Plerixafor	FY2024	150	2-5
Regadenoson	FY2023/24	700	5-10

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: We forecast a 15% sales CAGR over FY2022-25E

Gland - revenue mix across geographies, March fiscal year-ends, 2018-25E (Rs mn, %)

	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenues by geography								
USA	11,563	12,777	17,575	22,876	25,823	29,463	31,628	35,938
India	3,000	3,878	4,672	4,051	6,278	4,520	6,102	7,323
Regulated markets	837	1,419	1,769	2,246	3,424	3,630	5,081	6,352
RoW	829	2,369	2,316	5,455	8,482	8,651	12,544	16,935
Total revenues	16,229	20,442	26,332	34,629	44,007	46,264	55,356	66,547
As % of sales								
USA	71.3	62.5	66.7	66.1	58.7	63.7	57.1	54.0
India	18.5	19.0	17.7	11.7	14.3	9.8	11.0	11.0
Regulated markets	5.2	6.9	6.7	6.5	7.8	7.8	9.2	9.5
RoW	5.1	11.6	8.8	15.8	19.3	18.7	22.7	25.4
Total	100	100	100	100	100	100	100	100
Growth (%)								
USA		10.5	37.6	30.2	12.9	14.1	7.3	13.6
India		29.2	20.5	(13.3)	55.0	(28.0)	35.0	20.0
Regulated markets		69.6	24.7	27.0	52.5	6.0	40.0	25.0
RoW		185.8	(2.2)	135.6	55.5	2.0	45.0	35.0
Total		26.0	28.8	31.5	27.1	5.1	19.7	20.2

Note :

(a) Company has reclassified US and domestic sales and included India exports to US under US business

(b) We have incorporated this change w.e.f. 1QFY21

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: We cut FY2023-25E EPS estimates by 11-13% on lower sales, lesser profit share and elevated costs

Gland - changes in estimates, March fiscal year-ends, 2023-24E (Rs mn, %)

	New estimates			Old estimates			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Sales	46,264	55,356	66,547	52,568	62,397	75,176	(12.0)	(11.3)	(11.5)
Gross profits	23,923	28,281	33,651	26,505	31,487	37,630	(9.7)	(10.2)	(10.6)
Gross margin (%)	51.7	51.1	50.6	50.4	50.5	50.1	129 bps	63 bps	51 bps
EBITDA	14,583	17,726	21,475	17,135	20,755	25,035	(14.9)	(14.6)	(14.2)
EBITDA margin (%)	31.5	32.0	32.3	32.6	33.3	33.3	-108 bps	-124 bps	-103 bps
PAT	11,964	14,518	17,573	13,729	16,417	19,811	(12.9)	(11.6)	(11.3)
EPS (Rs)	72.8	88.4	107.0	83.6	100.0	120.6	(12.9)	(11.6)	(11.3)

Source: Company, Kotak Institutional Equities estimates

Exhibit 14: We forecast 13% EPS CAGR over FY2022-25E

Gland - financial summary, March fiscal year-ends, 2016-25E (Rs mn)

	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Net revenues	13,575	14,916	16,229	20,442	26,332	34,629	44,007	46,264	55,356	66,547
Gross profit	8,173	9,819	9,621	11,872	15,312	19,710	22,915	23,923	28,281	33,651
Adjusted EBITDA	5,030	6,250	5,353	7,065	9,554	13,022	15,102	14,583	17,726	21,475
Depreciation & amortisation	(635)	(741)	(784)	(821)	(946)	(988)	(1,103)	(1,423)	(1,573)	(1,790)
EBIT	4,396	5,508	4,569	6,244	8,608	12,034	13,999	13,160	16,153	19,685
Net interest income	203	272	445	819	1,320	1,314	2,187	2,899	3,256	3,808
Profit before tax	4,599	5,780	5,015	6,863	9,928	13,348	16,186	16,059	19,409	23,493
Tax & deferred Tax	(1,458)	(1,643)	(1,804)	(2,344)	(2,200)	(3,378)	(4,069)	(4,095)	(4,891)	(5,920)
Net income (reported)	3,141	4,137	3,210	4,519	7,728	9,970	12,117	11,964	14,518	17,573
EPS (reported) Rs.	20.3	26.7	20.7	29.2	49.9	60.9	73.8	72.8	88.4	107.0
Balance sheet										
Cash & equivalents	2,732	5,331	6,708	7,533	13,252	30,058	30,934	34,696	42,758	52,180
Debtors	3,507	4,179	4,752	5,061	6,018	6,710	11,988	11,695	13,993	16,822
Inventories	3,671	3,787	5,128	9,119	7,563	12,752	11,857	18,763	22,450	26,989
Other current assets	806	785	733	1,861	1,630	1,718	3,742	3,742	3,742	3,742
Current assets	10,716	14,081	17,322	23,575	28,463	51,236	58,521	68,895	82,942	99,732
Fixed assets (incl. goodwill)	9,900	10,327	10,415	10,519	11,556	12,913	16,798	18,625	20,053	22,012
Other non-current assets	247	329	1,558	1,142	841	811	3,017	3,017	3,017	3,017
Total assets	20,863	24,737	29,295	35,235	40,860	64,961	78,336	90,538	1,06,012	1,24,762
Short-term loans	399	—	—	—	—	—	—	—	—	—
Creditors and other liabilities	2,478	2,926	3,792	5,328	3,590	5,125	5,820	6,058	7,014	8,191
Current liabilities	2,877	2,926	3,792	5,328	3,590	5,125	5,820	6,058	7,014	8,191
Long-term loans	565	59	55	50	41	39	38	38	38	38
Other liabilities (incl. deferred)	3,527	3,780	5,136	6,566	4,357	5,889	6,722	6,959	7,915	9,093
Total liabilities	4,092	3,839	5,191	6,616	4,398	5,928	6,760	6,997	7,954	9,131
Equity (inc. minority interest)	16,771	20,898	24,104	28,620	36,462	59,032	71,576	83,540	98,058	1,15,631
Total equity and liabilities	20,863	24,737	29,295	35,236	40,860	64,961	78,336	90,538	1,06,012	1,24,762
Cash flow										
CF from operations pre WC	4,132	5,930	3,955	5,392	7,809	10,407	11,839	13,387	16,091	19,363
Working capital	(1,891)	(1,165)	(1,934)	(3,539)	(799)	(4,358)	(3,931)	(6,375)	(5,029)	(6,191)
Capex	(1,881)	(1,162)	(852)	(1,357)	(1,947)	(2,288)	(5,113)	(3,250)	(3,000)	(3,750)
FCF	360	3,603	1,169	495	5,063	3,762	2,794	3,761	8,062	9,422
Ratios										
Gross margin (%)	60.2	65.8	59.3	58.1	58.1	56.9	52.1	51.7	51.1	50.6
EBITDA margin (%)	37.1	41.9	33.0	34.6	36.3	37.6	34.3	31.5	32.0	32.3
RoAE (%)	20.5	22.0	14.3	17.1	23.7	20.9	18.6	15.4	16.0	16.4
RoACE (%)	22.1	25.7	17.7	21.3	30.2	34.4	30.1	21.9	23.2	24.8
Net debt (cash) to equity (X)	(0.1)	(0.3)	(0.3)	(0.3)	(0.4)	(0.5)	(0.4)	(0.4)	(0.4)	(0.5)

Note :

(a) Company has reclassified US and domestic sales and included India exports to US under US business

(b) We have incorporated this change w.e.f. 1QFY21

Source: Company, Kotak Institutional Equities estimates

JULY 21, 2022

RESULT

Sector view: **Attractive**

CMP (₹): **577**

Fair Value (₹): **550**

BSE-30: **55,398**

Healthy performance. AU reported ~30% yoy earnings growth led by ~80% yoy decline in provisions which more than offset the ~62% yoy growth in expenses and MTM losses in the treasury book. Growth was robust, but we expect it to become more broad-based over the next few quarters. Asset quality is stable with healthy provision buffers. The franchise continues to build on its strengths. We maintain SELL due to expensive valuations, revise Fair Value to Rs550 (from Rs575 earlier).

AU Small Finance Bank				Forecasts/valuations			
Stock data				2022	2023E	2024E	
CMP(Rs)/FV(Rs)/Rating	577/550/SELL			EPS (Rs)	17.9	18.8	24.5
52-week range (Rs) (high-low)	733-463			EPS growth (%)	(4.3)	5.1	30.1
Mcap (bn) (Rs/US\$)	364/4.6			P/E (X)	32.2	30.6	23.5
ADTV-3M (bn) (Rs/US\$)	1.8/0.1			P/B (X)	4.9	4.3	3.7
Shareholding pattern (%)				BVPS	116.7	133.6	156.5
Promoters	28.2			RoE (%)	16.4	14.6	16.3
FPIs/MFs/BFIs	37.5/11.2/3.7			Div. yield (%)	0.2	0.0	0.0
Price performance (%)				NII (Rs bn)	32	40	50
Absolute	1M	3M	12M	PPOP (Rs bn)	18	20	26
	(6.1)	(18.8)	(0.7)	Net profits (Rs bn)	11	12	15
Rel. to BSE-30	(13.4)	(15.9)	(6.8)				

Source; Bloomberg, Kotak Institutional Equities estimates

Strong core earnings growth despite elevated operating expenses

AU's core operating profit (ex-treasury) grew 28% yoy led by 35% yoy NII growth. Treasury losses led to ~25% yoy decline in non-interest income. Operating expense growth expectedly was elevated at ~60% yoy, led by capacity additions for business growth as well as investments towards new initiatives. AUM growth was 37% yoy and 5% qoq with stronger growth in wholesale segments. Deposit side progress remains strong with ~125% yoy CASA growth and share of retail TD + CASA at ~70% (59% year ago). NIM (calc) declined ~30 bps qoq to 5.7% driven by both lower yield and higher cost of funds. Tier-1 capital ratio was ~18%. Asset quality performance remained strong with credit costs at just 0.3%, with modestly higher slippages qoq (2.2%) and almost flat NPL ratios – GNPL at 2.0% and NNPL at 0.6%. AU is comfortably placed with ~72% provision coverage on NPLs and excess provision of ~65 bps of loans.

Covid stress seems largely behind; looking towards broad-based growth

AU continues to march ahead on the path of recovery from the Covid pandemic. Asset quality seems to have stabilized despite the self-employed/informal nature of its customer segment. Today, the bank carries significant NPL and non-NPL provisions in order to manage any incipient stress. The business performance continues to normalize and we look forward to healthy and more broad-based advances growth for the company. We expect the bank to continue to invest in strengthening its franchise as it has embarked on a journey to become a formidable player in the industry. This could keep cost ratios higher than historical levels as it expands into new products and geographies. In that backdrop, controlling higher expense ratios would be crucial to sustaining return ratios in the high teens. The medium to long term implications of this expense is yet to be determined.

Expensive valuations drive SELL; franchise will stay strong and grow

AU has demonstrated its ability to execute and deliver healthy financial performance. The franchise continues to invest in order to sustain growth and expand the scope of activities with the eventual goal of becoming a formidable player. However, we find valuations as a constraint. We maintain SELL rating with Fair Value of Rs550 (revised from Rs575) as we cut estimates factoring higher operating expenses and lower NIM. We are valuing the bank at 3.4X adj. book and 22X March 2024E earnings for ROEs of 16-19% over the medium-term.

QUICK NUMBERS

- NII up 35% yoy; PAT up ~30% yoy
- Gross and net NPL almost flat qoq at 2.0% and 0.6% resp.
- Retain SELL, revise FV to Rs550 (Rs575 earlier)

Ashlesh Sonje, CFA

M B Mahesh, CFA

Nischint Chawathe

Abhijeet Sakhare

Varun Palacharla

Exhibit 1: AU SFB- quarterly summary
March fiscal year-ends, 1QFY22 – 1QFY23 (Rs mn)

	1QFY23	1QFY22	1QFY22	4QFY22	(% chg.)			Calc.		2024E	
					1QFY23E	1QFY22	4QFY22	2023E	2022 (% chg.)		
Income statement (Rs mn)											
Interest income on:	18,202	17,934	13,535	16,670	1	34	9	76,983	59,217	30	97,024
Advances/Bills	14,981	15,127	11,354	13,799	(1)	32	9	63,455	48,816	30	80,214
Investments	2,546	2,209	1,725	2,273	15	48	12	10,734	7,805	38	13,584
Bal. with RBI & other banks	272	245	147	245	11	85	11				
Other interest	404	353	309	353	14	31	14				
Interest expense	8,442	8,122	6,295	7,305	4	34	16	36,667	26,876	36	47,015
Net interest income	9,760	9,813	7,240	9,366	(1)	35	4	40,317	32,341	25	50,009
Non interest income	1,592	2,351	2,148	3,114	(32)	(26)	(49)	9,889	9,927	(0)	13,749
Fee income	1,860	1,921	600	2,220	(3)	210	(16)	7,413	5,930	25	9,636
PSLC	130	300	180	800	(57)	(28)	(84)	2,576	2,240	15	2,962
Treasury gains	(550)	-	1,320	(40)	NM	(142)	1,275	(400)	1,420	(128)	800
Total income	11,352	12,164	9,388	12,479	(7)	21	(9)	50,205	42,268	19	63,758
Operating expenses	7,411	7,726	4,570	7,656	(4)	62	(3)	30,465	24,128	26	37,535
Employee expenses	3,940	4,137	2,826	4,137	(5)	39	(5)	17,374	13,789	26	21,527
Other expenses	3,471	3,590	1,743	3,519	(3)	99	(1)	13,091	10,339	27	16,008
Operating profit	3,941	4,437	4,818	4,823	(11)	(18)	(18)	19,740	18,140	9	26,223
Operating profit (ex treasury)	4,491	4,437	3,498	4,863	1	28	(8)	3,787			
Provisions	384	746	2,072	932	(49)	(81)	(59)	3,787	3,599	5	5,467
PBT	3,557	3,692	2,747	3,891	(4)	30	(9)	15,953	14,541	10	20,756
Tax	878	823	715	430	7	23	104	4,084	3,243	26	5,314
Net profit	2,679	2,868	2,032	3,461	(7)	32	(23)	11,869	11,298	5	15,443
Tax rate (%)	24.7	22.3	26.0	11.1				25.6	22.3		25.6
PBT (ex treasury)	3,945	3,692	504	3,818	7	683	3				
PBT (ex treasury/PSLC & provis)	3,558	4,137	2,396	3,951	(14)	49	(10)				
Key balance sheet items (Rs bn)											
Total deposits	546	546	370	526	-	48	4	689	526	31	887
Savings deposits	190		81	170		135	12	231	170	36	306
Current deposits	22		14	26		59	(14)	34	26	31	43
Term deposits	334		275	330		21	1	425	330	29	538
CASA ratio (%)	38.8		25.6	37.3							
Investments	172.3	138	111.5	153.1	25	54	13	193	153	26	238
AUM	502	494	366	478	2	37	5	604	478	26	763
Retail Assets	413		308	395		34	4	500	395	27	634
Wholesale Assets	89		47	83		91	7	103	83	24	129
Disbursements	84	84	19	103	-	345	(18)				
Asset quality (Rs mn)											
Gross NPL	9,696		14,959	9,244		(35)	5	11,985	9,244	30	15,248
Net NPL	2,748		7,660	2,308		(64)	19	4,133	2,308	79	5,551
Gross NPL (%)	2.0		4.3	2.0		-235 bps	-2 bps	2.0	2.0		2.0
Net NPL (%)	0.6		2.3	0.5		-170 bps	6 bps	0.7	0.5		0.7
PCR (%)	72		49	75		2286 bps	-337 bps	66	75		64
Slippage	2,530		2,500	1,950		1	30	11,958	9,040	32	15,090
Slippage (%)	2.2		2.9	1.9		-69 bps	25 bps	2.5	2.6		2.5
Credit costs (%)	0.3		2.2	0.8		-192 bps	-52 bps	0.7	0.9		0.8
Capital adequacy (%)											
CAR	19.4		23.1	21.0		-370 bps	-160 bps				
Tier- I	18.4		21.6	19.7		-320 bps	-130 bps				
Key calculated ratios (%)											
Yield on AUM	12.6	12.7	13.2	12.8		-60 bps	-15 bps	11.7	13.4	-163 bps	11.7
Yield on investment	6.3	6.1	6.3	6.2		-2 bps	8 bps	6.2	6.0	19 bps	6.3
Cost of funds	5.7	5.4	5.8	5.4		-19 bps	22 bps	5.5	5.7	-18 bps	5.5
NIM	5.7	6.0	5.8	6.0		-7 bps	-31 bps	5.1	5.8	-67 bps	5.0
Cost-income	65.3	63.5	48.7	61.3		1661 bps	394 bps	60.7	57.1	360 bps	58.9
CD ratio	89.1	89.4	91.7	87.7		-268 bps	140 bps	85.8	87.7	-186 bps	85.1

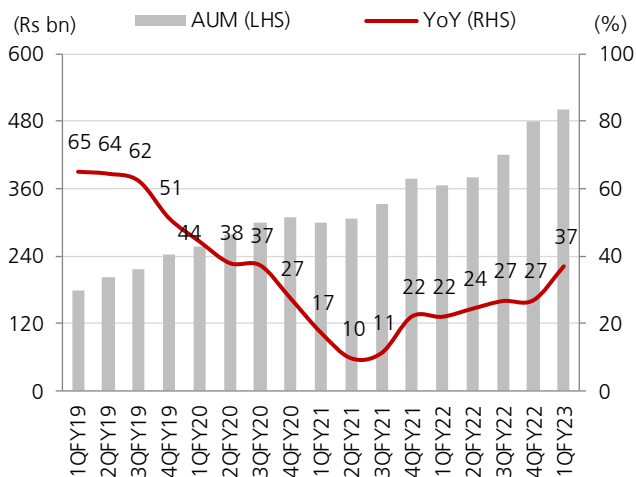
Source: Company, Kotak Institutional Equities estimates

Loan growth at 37% yoy and 5% qoq

- ▶ AU SFB reported 37% yoy AUM growth with sequentially modest growth at 14% qoq. Management has indicated that outlook for loan growth continues to be strong and it expects to clock ~30% yoy growth for FY2023.
- ▶ Growth in the wholesale segment was stronger at 91% yoy (7% qoq) on a low base. Almost all wholesale segments reported healthy growth. The retail segment reported 34% yoy and 4% qoq growth. Within retail, the wheels segment continued to report robust growth at 32% yoy and 8% qoq. Management indicated that supply side issues in the auto industry are easing gradually and they are seeing increasing traction. Growth in the SBL-MSME segment has not recovered fully yet. The share of SBL in incremental disbursements continues to be meaningfully lower than the share of SBL in the outstanding book.
- ▶ Disbursements grew yoy on account of the depressed base of 1QFY22. Understandably, disbursements were lower qoq. Disbursement growth was led by the wheels and business banking segments.

We believe that the bank is well-positioned to report strong loan growth over the next few years. The core segment of wheels will continue to drive growth, while growth in the SBL segment is likely to recover soon. Certain other segments like home loans will also see healthy growth on the back of a low base.

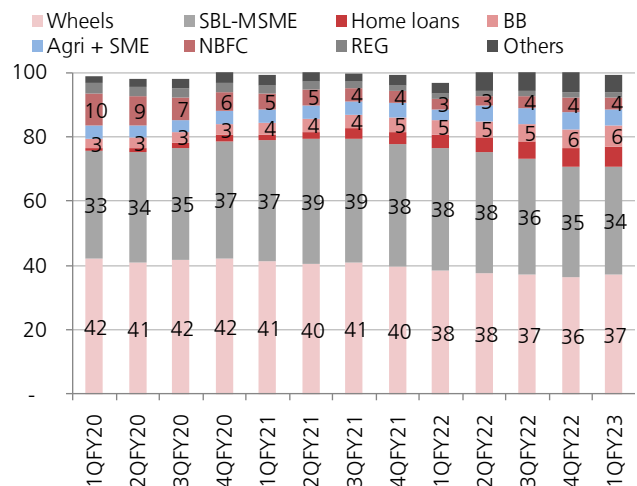
Exhibit 2: AUM growth at 37% yoy
AUM and AUM growth, March fiscal year ends (Rs bn)



Source: Company, Kotak Institutional Equities

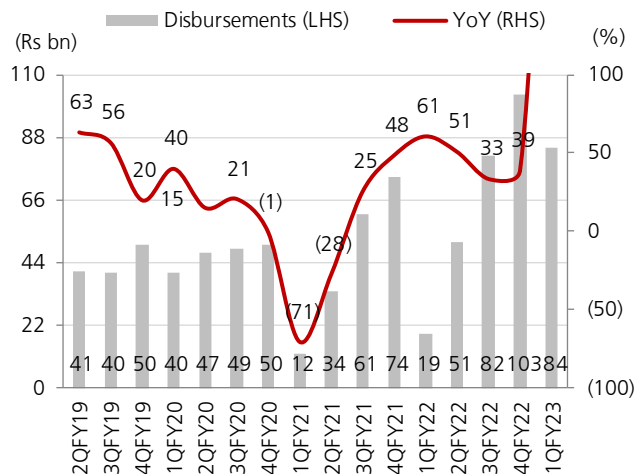
Exhibit 3: Share of wheels in AUM has declined in past few quarters

AUM mix, March fiscal year ends (%)



Source: Company, Kotak Institutional Equities

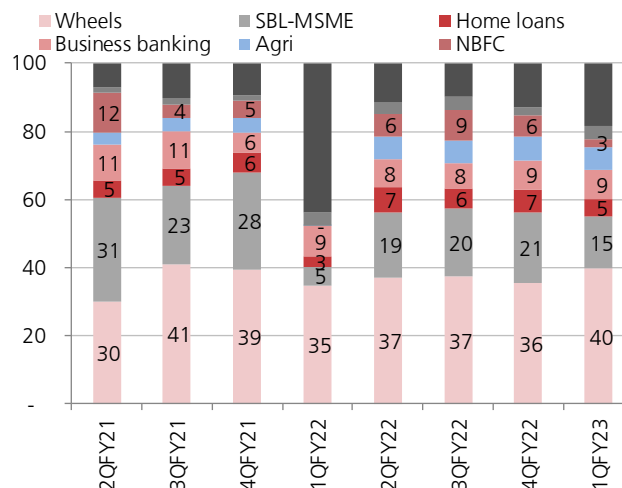
Exhibit 4: Disbursements are robust, though lower qoq
Disbursements, March fiscal year ends



Source: Company, Kotak Institutional Equities

Exhibit 5: Wheels segment makes up ~35-40% of disbursements for the bank

Disbursement break-up across segments, March fiscal year ends (%)



Source: Company, Kotak Institutional Equities

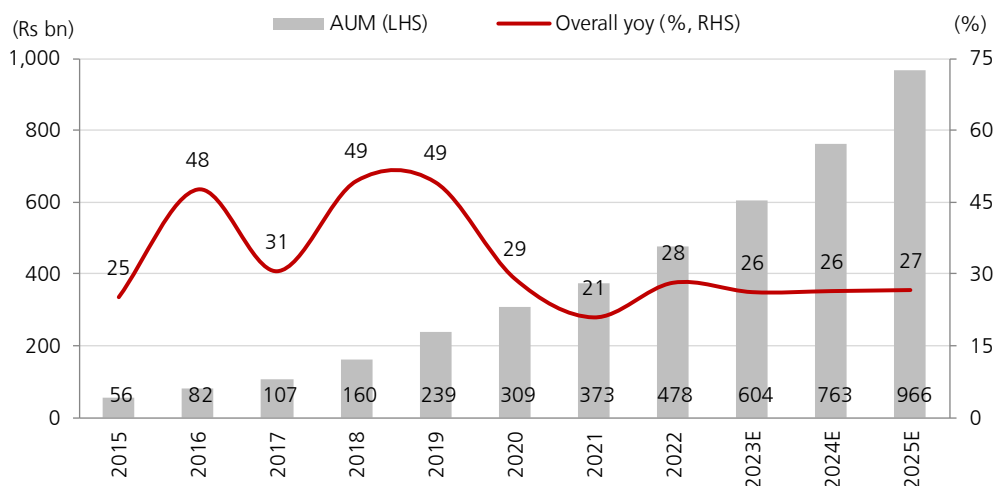
Exhibit 6: Share of retail assets has declined in the past few quarters

Segment-wise AUM growth and mix, March fiscal year-ends

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	YoY (%)	QoQ (%)
AUM (Rs bn)															
Wheels	108	114	124	130	124	123	135	149	141	143	155	173	186	32	8
SBL-MSME	85	95	105	113	113	119	129	144	140	144	153	165	169	21	2
Home loans	2	3	5	6	6	7	10	14	14	17	21	27	30	112	13
GL+CD+PL	1	1	2	3	2	2	2	3	3	-	-	-	-	(100)	NM
OD against FD	5	6	8	8	7	7	7	10	10	22	24	30	27	180	(9)
Total Retail Assets	201	220	243	259	252	258	283	319	308	325	353	395	413	34	4
REG	8	8	8	8	8	7	6	6	6	6	7	8	9	53	9
BB	8	9	10	11	11	12	14	18	17	19	23	29	32	89	13
Agri SME	10	11	11	12	12	13	14	16	12	18	21	26	30	160	15
NBFC	26	25	21	19	15	15	14	14	12	12	16	20	18	44	(13)
Total SMC assets	52	53	50	50	46	47	48	54	47	55	67	83	89	91	7
Total AUM	256	279	299	309	300	306	332	377	366	380	420	478	502	37	5
AUM mix (%)															
Wheels	42	41	42	42	41	40	41	40	38	38	37	36	37		
SBL-MSME	33	34	35	37	37	39	39	38	38	38	36	35	34		
Home loans	1	1	2	2	2	2	3	4	4	4	5	6	6		
GL+CD+PL	0	0	1	1	1	1	1	1	1	-	-	-	-		
OD against FD	2	2	3	3	2	2	2	3	3	6	6	6	5		
Total Retail Assets	79	79	81	84	84	84	85	85	84	86	84	83	82		
REG	3	3	3	3	3	2	2	2	2	2	2	2	2		
BB	3	3	3	3	4	4	4	5	5	5	5	6	6		
Agri SME	4	4	4	4	4	4	4	4	3	5	5	5	6		
NBFC	10	9	7	6	5	5	4	4	3	3	4	4	4		
Total SMC assets	20	19	17	16	15	16	14	14	13	14	16	17	18		
Total AUM	100	100	100	100	100	100	100	100	100	100	100	100	100		

Source: Company, Kotak Institutional Equities

Exhibit 7: AUM growth has resumed
AUM and AUM growth, March fiscal year ends



Source: Company, Kotak Institutional Equities

NPLs decline meaningfully qoq; PCR up to 75%

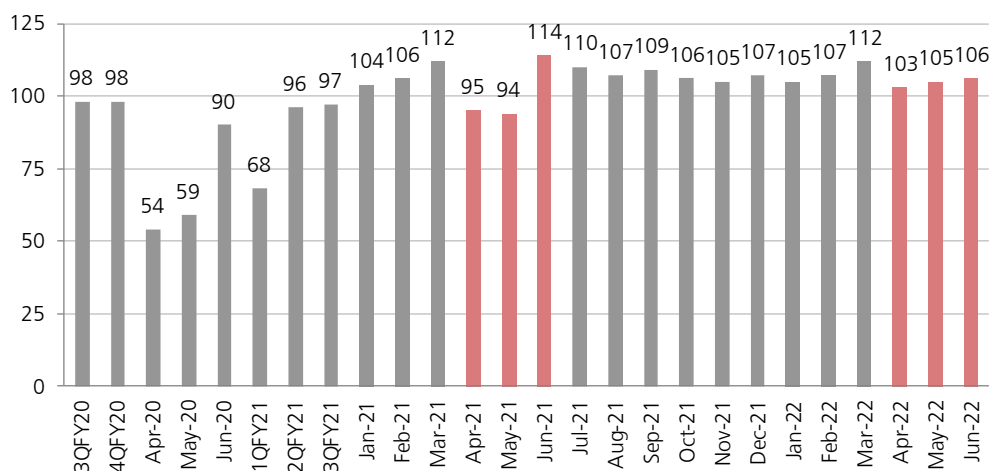
- ▶ AU reported flat GNPL of 2.0% and NNPL of 0.6% (marginally down qoq by <10 bps). The PCR declined ~300 bps qoq to stand at ~72%.
- ▶ The restructured book also declined ~40 bps qoq to 2.1%. The bank had reported an ECLGS pool of ~1.7% in the previous quarter. If we include the non-NPL provisions, the bank has nearly ~35% coverage on all these stress loans put together. Almost the entire restructured book has come under billing and ~15% has slipped into NPL.
- ▶ Slippages for the quarter stood at ~Rs2.5 bn (~2.2%), one-third of which (~Rs0.8 bn) came from the restructured book. Slippages were slightly higher qoq (~1.9% in previous quarter).
- ▶ Credit cost for the quarter was low at ~30 bps (annualized) as compared to ~80 bps in the previous quarter. The P&L provision of ~Rs380 mn was accompanied by a drawdown from ~Rs350 mn drawdown from the contingent buffer and provisions for restructured assets.
- ▶ ~63% of AUM is originated post pandemic where 92% of the book is current. GNPA on this part of the book is pretty healthy at just ~50 bps.

Exhibit 8: AU has ~35% coverage on stress loans
Stress loans calculation, March fiscal year-ends (Rs mn)

	(Rs mn)							(% of loans)						
	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Total stress book	16,160	27,128	36,319	33,404	31,929	29,704	28,890	5.3	7.8	10.7	9.3	7.9	6.4	5.9
GNPL	11,160	15,028	14,959	11,514	10,576	9,244	9,696	3.7	4.3	4.4	3.2	2.6	2.0	2.0
Restructured	-	6,410	12,650	13,020	12,623	11,800	10,534	-	1.9	3.7	3.6	3.1	2.6	2.2
ECLGS	5,000	5,690	8,710	8,870	8,730	8,660	8,660	1.7	1.6	2.6	2.5	2.2	1.9	1.8
Provisions	7,780	9,324	11,270	10,730	10,424	10,425	10,088	2.6	2.7	3.3	3.0	2.6	2.3	2.1
NPL	6,250	7,474	7,300	5,600	5,374	6,935	6,948							
Restructured	480	1,150	2,070	2,130	2,050	1,920	1,700							
Contingent	1,050	700	1,900	3,000	3,000	1,570	1,440							
Coverage on stress loans (%)	48	34	31	32	33	35	35							

Source: Company, Kotak Institutional Equities

Exhibit 9: Collection efficiency has sustained above 100% for each of the past 12 months
Collection efficiency figures (%)



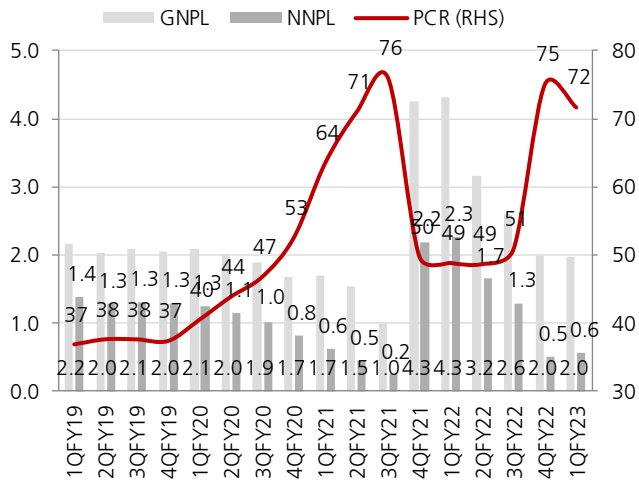
Source: Company, Kotak Institutional Equities

Exhibit 10: Higher NPLs in wheels and SBL segment
Segmental GNPA, March fiscal year-ends (%)

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
GNPA across segments (Rs mn)						
Wheels	7,140	7,400	5,570	4,880	4,080	4,220
SBL-MSME	5,970	5,740	4,430	4,430	4,210	4,480
Home loans	100	100	100	130	120	140
Business banking	200	120	60	70	60	70
Agri	190	180	140	220	170	170
NBFC	90	100	100	100	30	30
REG	300	300	280	190	180	180
SME	860	840	660	400	270	240
Others (ODFD, gold loans, PL, CC, etc.)	180	190	160	150	130	180
Total	15,030	14,970	11,500	10,570	9,250	9,710
GNPA across segments (%)						
Wheels	5.5	5.9	4.3	3.4	2.5	2.4
SBL-MSME	4.3	4.2	3.1	2.9	2.6	2.7
Home loans	0.7	0.7	0.6	0.6	0.5	0.5
Business banking	1.1	0.7	0.3	0.3	0.2	0.2
Agri	1.7	1.5	1.0	1.3	0.8	0.6
NBFC	0.6	0.8	0.9	0.6	0.1	0.2
REG	4.8	5.3	4.5	2.7	2.3	2.1
SME	19.7	18.0	15.1	10.1	7.4	7.2
Others (ODFD, gold loans, PL, CC, etc.)	1.1	0.9	0.7	0.6	0.4	0.7
Total	4.3	4.3	3.2	2.6	2.0	2.0

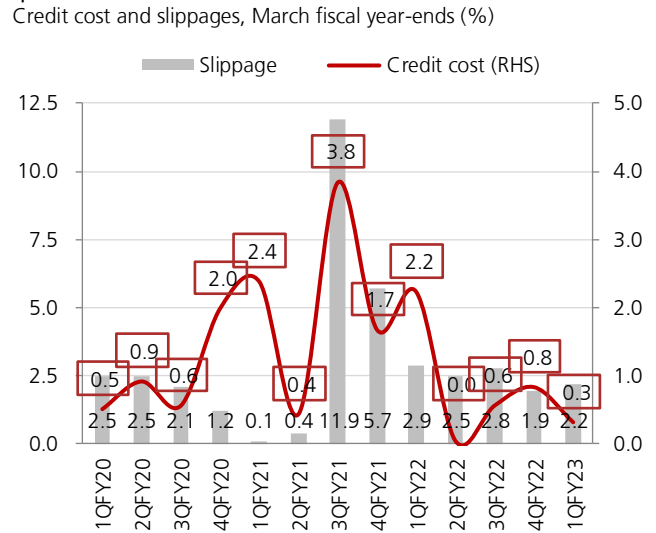
Source: Company, Kotak Institutional Equities

Exhibit 11: Gross NPL at 2.0%
Asset quality metrics, March fiscal year ends (%)



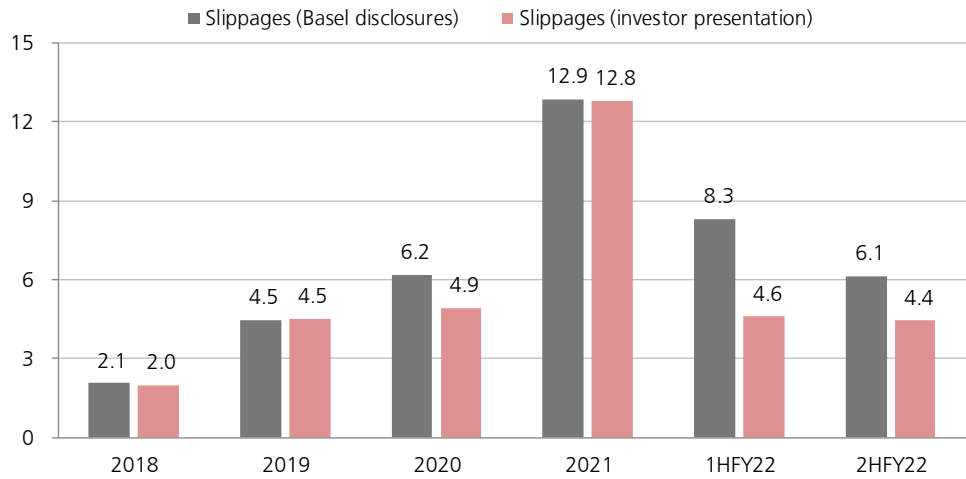
Source: Company, Kotak Institutional Equities

Exhibit 12: Credit costs has been under control in past few quarters
Credit cost and slippages, March fiscal year-ends (%)



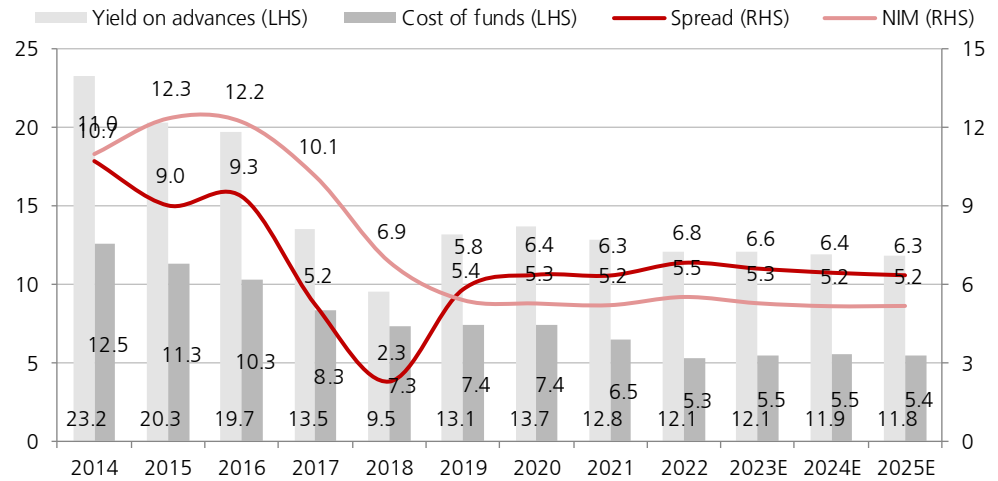
Source: Company, Kotak Institutional Equities

Exhibit 13: Difference between slippages reported in investor presentation and Basel disclosures
March fiscal year-ends, (Rs bn)



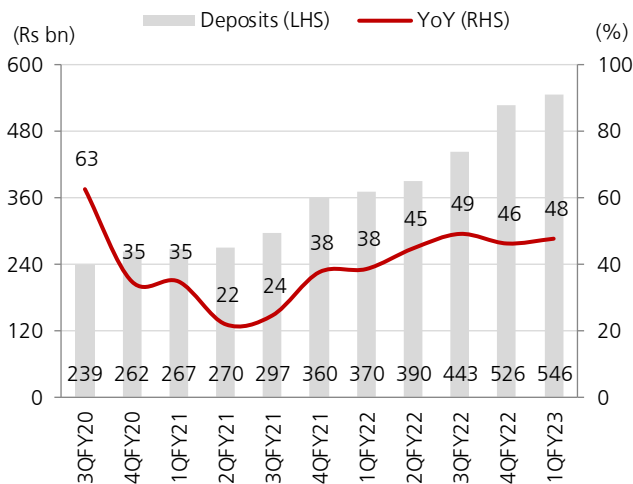
Source: Company, Kotak Institutional Equities

Exhibit 14: NIM decline marginally over FY2022-25E
Yield, cost of funds and NIM, March fiscal year-ends (%)



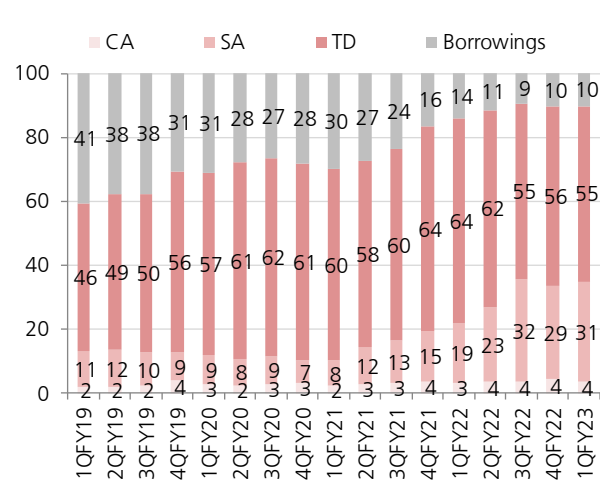
Source: Company, Kotak Institutional Equities estimates

Exhibit 15: Deposit growth strong at ~48% yoy
Deposits, March fiscal year ends



Source: Company, Kotak Institutional Equities

Exhibit 16: Improving SA share in liability mix
Funding mix, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Other key highlights of the quarter

- ▶ **Margins declined qoq.** NIM (calc) was down ~30 bps qoq to 5.7%. This was driven by a decline of ~15 bps in yield on AUM (calc.) and an increase of ~20 bps in cost of funds (calc.). The decline in loan yields was primarily on account of shift in mix of loans towards more of non-retail loan segments, while the increase in cost of funds is in line with the increase in term deposit rates for the bank. While the bank deals in a customer segment where it has the ability to pass on higher yields, the proportion of variable rate book for the bank stands at just ~26%.
- ▶ **Deposit growth momentum continues.** AU SFB reported 48% yoy growth in overall deposits driven by ~135% yoy growth in SA, 60% yoy growth in CA and ~35% yoy growth in retail term deposit. Bank's CASA ratio has improved meaningfully over the past few quarters and stands at ~39%.

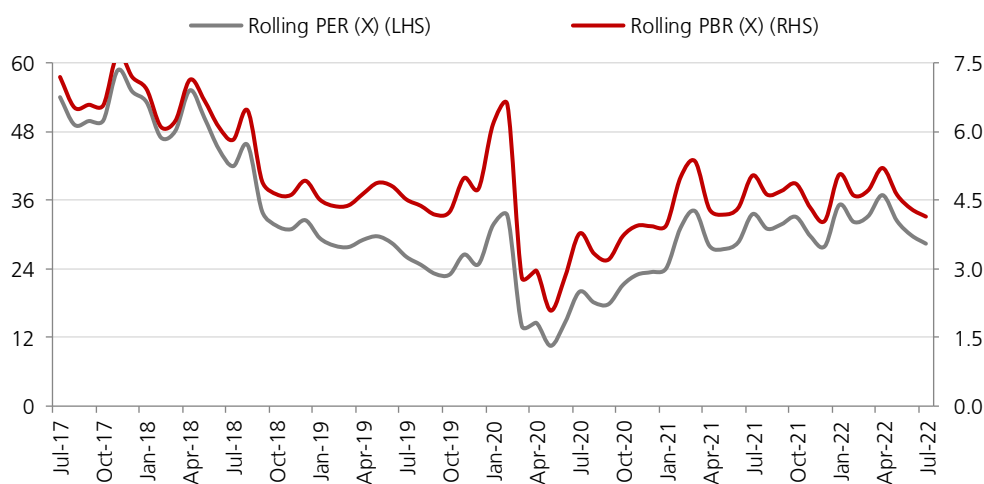
- ▶ **Costs grow ~50% yoy:** Operating expenses grew strongly by ~62% yoy on a low base. Expenses were, however, lower qoq by 3%. Incremental costs are driven by investments in building digital capabilities, expanding branches, hiring manpower and rolling out newer product like credit costs, QR code, etc.
- ▶ **Non-interest income impacted by MTM losses on investment book.** However, fee income was also lower qoq by ~15%.
- ▶ **Capital position comfortable.** Capital position is comfortable with CAR at ~19% and Tier-I ratio at ~18%.

Exhibit 17: Summary of estimate changes

Estimate changes for AU SFB, March fiscal year-ends

	New estimates (Rs mn)			Old estimates (Rs mn)			Old versus new (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
AUM growth (%)	26	26	27	26	26	27	0 bps	0 bps	0 bps
Net interest income	40,317	50,009	62,591	40,487	50,769	63,282	(0)	(1)	(1)
NIM (%)	5.3	5.2	5.2	5.3	5.2	5.2	-2 bps	-7 bps	-4 bps
Other income	9,889	13,749	17,084	10,689	13,749	17,084	(7)	-	-
Treasury	(400)	800	800	400	800	800	(200)	-	-
Others	10,289	12,949	16,284	10,289	12,949	16,284	-	-	-
Total income	50,205	63,758	79,675	51,176	64,518	80,366	(2)	(1)	(1)
Operating expenses	30,465	37,535	46,460	29,798	36,715	45,081	2	2	3
Employee expenses	17,374	21,527	26,672	17,374	21,527	26,672	-	-	-
Other expenses	13,091	16,008	19,789	12,424	15,188	18,409	5	5	7
Cost-income ratio (%)	61	59	58	58	57	56	245 bps	197 bps	222 bps
Loan loss provisions	3,787	5,467	6,917	3,787	5,467	6,917	-	-	-
PBT	15,953	20,756	26,297	17,591	22,337	28,369	(9)	(7)	(7)
PAT	11,869	15,443	19,565	13,088	16,619	21,106	(9)	(7)	(7)
PBT-treasury+provisions	16,353	19,956	25,497	17,191	21,537	27,569	(5)	(7)	(8)
EPS (Rs)	18.8	24.5	31.1	20.8	26.4	33.5	(9)	(7)	(7)
ABVPS (Rs)	134	157	186	135	160	192	(1)	(2)	(3)

Source: Kotak Institutional Equities estimates

Exhibit 18: AU is trading at ~4.1X one year-forward book
Rolling one year forward PER and PBR, March fiscal year-ends (X)

Source: Company, Kotak Institutional Equities

Exhibit 19: AU SFB - key growth rates and ratios
March fiscal year-ends (%)

	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Key growth rates (%)										
Interest income	44	26	38	67	45	15	20	30	26	25
Interest on loans	48	(10)	13	151	44	16	24	30	26	26
Interest on securitised loans	23	91	110	(51)	10	(39)	(31)	(39)	(30)	(30)
Interest expenses	40	26	67	94	48	9	4	36	28	24
NII	46	27	20	43	42	24	37	25	24	25
Other income	59		(52)	19	53	106	(32)	(0)	39	24
Fee income	(97)		71	89	35	(0)	38	25	30	30
Treasury income			(94)	(41)	680	413	(84)	(128)	NM	-
Operating expenses	63	39	113	44	31	17	45	26	23	24
Employee expenses	67	22	120	41	26	29	41	26	24	24
Loan loss provisions	(28)	122	33	10	99	136	(46)	5	44	27
PBT	55	254	(61)	31	57	60	(0)	10	30	27
Taxes	63	189	(53)	31	21	20	13	26	30	27
PAT	51	288	(64)	31	77	73	(3)	5	30	27
PBT-treasury	55	45	(13)	38	33	(23)	129	25	22	28
PBT-treasury+provisions	36	54	(5)	30	46	24	31	20	26	28
Key calculated ratios (%)										
Yield on loans	20	13.5	9.5	13.1	13.7	12.8	12.1	12.1	11.9	11.8
Yield on investment	1	0.8	4.9	6.5	6.9	7.2	6.0	6.2	6.3	6.4
Yield on average earning assets	20	16.5	12.9	11.8	11.8	10.9	10.1	10.0	10.0	10.0
Interest on deposits	-	—	3.9	6.6	7.0	6.0	5.1	5.3	5.4	5.4
Cost of funds	10	8.3	7.3	7.4	7.4	6.5	5.3	5.5	5.5	5.4
Spread	10	8.2	5.6	4.5	4.4	4.4	4.8	4.6	4.5	4.5
NIM	12	10.1	6.9	5.4	5.3	5.2	5.5	5.3	5.2	5.2
Credit cost	1	1.0	1.0	0.7	1.0	2.0	0.8	0.7	0.8	0.8
Interest income/ total income	99	49	71	74	73	62	77	80	78	79
Non-interest income/ total income	0.0	6.2	12.6	17.6	16.4	11.2	14.0	14.8	15.1	15.7
Cost-to-income	41	33	57	60	54	43	57	61	59	58
Cost-to-average assets	4.9	4.4	5.3	4.2	3.8	3.5	4.0	3.9	3.8	3.8
Asset quality ratios (%)										
GNPL (Rs mn)	371	1,245	2,697	4,701	4,578	15,028	9,244	11,985	15,248	19,234
GNPL ratio	0.7	1.8	2.0	2.0	1.7	4.4	2.0	2.0	2.0	2.0
NNPL (Rs mn)	222	805	1,693	2,945	2,173	7,555	2,308	4,133	5,551	7,198
NNPL	0.4	1.2	1.3	1.3	0.8	2.2	0.5	0.7	0.7	0.7
RoE tree (%)										
NII	12	9.8	6.6	5.2	5.1	5.0	5.4	5.2	5.1	5.0
Other income	0	10.1	2.7	1.8	1.9	3.1	1.6	1.5	1.4	1.4
Total income	12	19.8	9.3	7.0	7.0	8.1	7.0	6.6	6.5	6.4
Operating expenses	5	4.4	5.3	4.2	3.8	3.5	3.9	3.8	3.7	3.7
Employee expenses	3	2.4	3.0	2.3	2.0	2.1	2.3	2.2	2.2	2.2
PPOP	7	15.4	4.0	2.8	3.2	4.6	3.1	2.8	2.7	2.7
PBT	6	14.2	3.1	2.3	2.4	3.1	2.5	2.3	2.2	2.1
(1- tax rate)	1	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
RoA	4	10.2	2.0	1.5	1.8	2.5	1.9	1.7	1.6	1.6
Average assets/ equity	6	5.4	6.7	9.5	9.9	8.8	8.7	9.4	10.0	10.6
RoE	23	54.9	13.7	14.0	17.9	22.0	16.2	16.0	16.1	16.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 20: AU SFB - key financials
March fiscal year-ends (%)

	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Income statement (Rs mn)										
Interest income	10,119	12,800	17,670	29,491	42,859	49,501	59,217	76,983	97,024	121,005
Interest on loans	9,252	8,368	9,475	23,742	34,148	39,474	48,816	63,455	80,214	100,910
Interest on securitised loans	753	1,441	3,030	1,488	1,637	1,005	696	427	299	209
Interest on investment	14	90	1,285	3,339	6,135	7,730	7,805	10,734	13,584	16,315
Others	100	2,901	3,880	923	939	1,291	1,900	2,367	2,928	3,571
Interest expenses	3,953	4,963	8,267	16,066	23,769	25,846	26,876	36,667	47,015	58,414
Interest on deposits	-	—	1,557	8,991	16,055	18,572	22,414	31,961	42,224	53,555
Others	3,953	4,963	6,710	7,074	7,715	7,274	4,462	4,705	4,790	4,860
Nil	6,166	7,837	9,403	13,426	19,089	23,654	32,341	40,317	50,009	62,591
Other income	36	8,100	3,881	4,619	7,061	14,515	9,927	9,889	13,749	17,084
Fee income	0	981	1,679	3,181	4,291	4,283	5,930	7,413	9,636	12,527
Treasury income	-	6,759	376	221	1,726	8,848	1,420	(400)	800	800
Others	36	360	1,826	1,217	1,044	1,384	2,577	2,876	3,312	3,757
Total income	6,202	15,937	13,283	18,045	26,150	38,170	42,268	50,205	63,758	79,675
Operating expenses	2,538	3,528	7,526	10,824	14,179	16,584	24,128	30,465	37,535	46,460
Employee expenses	1,577	1,928	4,249	6,011	7,596	9,802	13,789	17,374	21,527	26,672
Others	960	1,601	3,277	4,813	6,582	6,783	10,339	13,091	16,008	19,789
PPOP	3,665	12,408	5,757	7,221	11,972	21,586	18,140	19,740	26,223	33,214
Provisions and contingencies	438	975	1,326	1,418	2,832	7,001	3,599	3,787	5,467	6,917
PBT	3,226	11,433	4,432	5,803	9,140	14,585	14,541	15,953	20,756	26,297
Taxes	1,110	3,214	1,513	1,983	2,392	2,878	3,243	4,084	5,314	6,732
PAT	2,116	8,220	2,919	3,820	6,748	11,707	11,298	11,869	15,443	19,565
Tax rate (%)	34	28	34	34	26	20	22	26	26	26
PBT-treasury	3,226	4,675	4,056	5,582	7,414	5,737	13,121	16,353	19,956	25,497
PBT-treasury+provisions	3,665	5,650	5,381	7,000	10,246	12,737	16,720	20,140	25,423	32,414
Balance sheet (Rs mn)										
Cash and bank balance	1,243	6,250	17,612	17,402	33,697	47,813	59,285	74,154	90,871	110,417
Investment	2,316	21,503	30,506	71,617	106,682	108,154	153,065	193,185	238,055	271,781
Net loans and advances	58,126	65,509	133,121	228,187	269,924	346,089	460,953	591,374	754,468	960,225
Fixed assets	246	2,758	3,861	4,470	4,480	4,824	6,226	6,352	6,684	6,691
Other assets	1,012	1,792	3,227	4,552	6,648	9,033	11,250	12,374	13,612	14,973
Net assets	62,942	97,812	188,328	326,228	421,431	515,913	690,778	877,439	1,103,690	1,364,088
Deposits			79,233	194,224	261,639	359,793	525,846	689,290	886,955	1,112,557
Current			3,920	10,820	11,140	16,322	25,690	33,675	43,332	54,354
Fixed			57,893	158,324	223,769	277,039	329,766	424,703	537,624	663,246
Savings			17,420	25,080	26,730	66,432	170,390	230,912	306,000	394,958
Borrowings and bills payable	47,826	71,214	76,935	86,515	103,645	71,265	59,908	65,280	71,250	77,874
Other liabilities	5,021	6,722	9,348	13,860	12,379	22,102	29,884	35,861	43,033	51,639
Total liabilities	52,847	77,936	165,516	294,599	377,663	453,161	615,638	790,430	1,001,238	1,242,071
Share capital	5,324	5,685	5,714	5,847	6,082	6,244	6,298	6,298	6,298	6,298
Reserves and surplus	6,992	14,191	17,098	25,782	37,686	56,508	68,842	80,711	96,154	115,719
Shareholder' equity	12,315	19,876	22,812	31,629	43,768	62,752	75,140	87,009	102,452	122,017

Source: Company, Kotak Institutional Equities estimates

JULY 20, 2022

RESULT

Sector view: **Cautious**

CMP (₹): **2,199**

Fair Value (₹): **2,105**

BSE-30: **55,398**

Commodity correction to weigh on revenues but aid margins. Polycab's 1QFY23 results missed our estimates amid a sharp correction in input prices and resultant de-stocking by channel. The same factors will weigh on 2QFY23 as well. We cut revenue estimates to factor in lower commodity prices but raise margins; EPS stands trimmed 5-7%. We also revise our DCF to build in higher discount rates, leading to a revised Fair Value of Rs2,105 (Rs2,450 earlier), implying 24X FY2024E EPS. Maintain REDUCE.

Polycab				Forecasts/valuations			
Stock data				2022	2023E	2024E	
CMP(Rs)/FV(Rs)/Rating	2,199/2,105/REDUCE			EPS (Rs)	56.6	75.7	85.9
52-week range (Rs) (high-low)	2,820-1,761			EPS growth (%)	0.2	33.6	13.6
Mcap (bn) (Rs/US\$)	329/4.2			P/E (X)	38.8	29.1	25.6
ADTV-3M (mn) (Rs/US\$)	1,017/13			P/B (X)	5.9	5.2	4.5
Shareholding pattern (%)				EV/EBITDA (X)	25.7	19.6	17.1
Promoters	68.1			RoE (%)	16.4	19.0	18.9
FPIs/MFs/BFIs	5.8/8.2/0.1			Div. yield (%)	0.6	0.9	1.0
Price performance (%)				Sales (Rs bn)	122	134	148
Absolute	1M	3M	12M	EBITDA (Rs bn)	13	16	19
	5.7	(16.0)	10.5	Net profits (Rs bn)	8	11	13
Rel. to BSE-30	(1.7)	(13.1)	4.3				

Source: Bloomberg, Kotak Institutional Equities estimates

1QFY23 results were softer than expected versus an easy base

Although consolidated revenues grew 48% yoy, this was off the easy base of last year's Covid-affected June quarter. A key headwind weighing on growth this time was the sharp correction in commodity prices (copper, aluminum, etc.), which not only led to lower realizations for Polycab (because input costs are passed through on a fortnightly basis), but also led to de-stocking by channel partners – natural in a deflationary scenario. On the earnings call, management disclosed that two-thirds of revenue growth was attributable to higher volumes and the rest to increased realizations. FMEG segment growth was impacted by the restructuring exercise underway in the fans business and supply constraints in switches. The bright spot was a notable expansion in gross margins, which management clarified includes no one-off factors – this bodes well for subsequent quarters, which are seasonally heavier than 1Q. Working capital has expanded in recent quarters amid supply disruptions from overseas vendors, but management sees this normalizing in 1-2 quarters once international supplies resume.

Commodity deflation to weigh on growth in 2QFY23 as well

The distribution channel's inclination to destock, which was visible in June, will likely continue into 2QFY23 amid falling commodity prices. Consequently, management guided to a stronger 2HFY23 relative to 1H, implying that growth may remain subdued in 2Q. Normalization in channel sentiment is contingent on stabilization in commodity prices, which management said they expect in a month or so. We cut revenue estimates to factor in the pass-through of lower commodity costs (partially offset by INR depreciation). However, management commentary with regard to the margin outlook is positive: (1) 1QFY23 gross margins are seen as sustainable, (2) management said they expect EBITDA margins to expand in a deflationary scenario, and (3) while they guided the Street to model for 11-13% EBITDA margins in wires & cables, they also hinted at possibly topping this guidance range. Therefore, in our estimates, we now model for slower revenue growth but higher margins.

Abhijit Akella, CFA

Prasenjit Bhuiya

FY2026 guidance retained, but deflationary environment is a headwind

Management expressed confidence in the company's ability to achieve its FY2026 guidance of Rs200 bn in revenues, driven by initiatives under Project LEAP. However, we note that a year of subdued revenue growth in FY2023 – as now seems likely, given the commodity price correction – may make the FY2026 target seem challenging. The recent slowdown in FMEG segment revenues is an added headwind. Polycab will need to execute well in driving growth in both segments if it is to deliver on its guidance. We trim FY2023-25E EPS by 5-7% and revise our DCF valuation to build in higher discount rates, yielding a June 2023E FV of Rs2,105.

Key takeaways from 1QFY23 earnings call

- ▶ **Guidance update.** Wires & cables segment EBITDA margins are seen remaining in the range of 11-13%, although management did suggest that this is a conservative estimate and there is potential for upside surprise. Management also said that in their experience, contribution and EBITDA margins typically improve when commodity prices are falling. If that does not happen, then the company expects to gain market share. Polycab works on EBITDA margin targets, not per ton targets; yet, a deflationary scenario does help market leaders expand margins.
 - **On the demand front,** management said they expect commodity prices to stabilize in a month or so, following which channel demand will normalize. 2HFY23 is expected to be better than 1H. Management expects some impact on 2QFY23 from commodity price softness. Management expressed confidence in achieving their FY2026 revenue target of Rs200 bn. They also do not expect the unorganized segment to regain market share in the future.
 - **The exports business** grew 62% yoy in 1QFY23 and stands at 6.7% of total revenues; management targets to grow this to double digits as a share of revenues.
 - **On capex,** the expectation is for Rs3-4 bn in FY23, of which Rs1 bn was incurred in 1Q. However, management qualified that capex may be higher if the company enters into new categories.
- ▶ **Working capital.** Management reiterated the comments of last quarter – (1) receivables have decreased due to increased channel financing, and (2) payables decreased due to a post-Covid decrease in imports from overseas vendors, who offer more generous credit terms. Management said imports will recover in coming quarters, leading to an increase in payables.
- ▶ **Negligible impact of commodity price fluctuations.** Management highlighted on the earnings call that purchases of metals involve embedded derivatives, which permit the purchaser to finalize the price 2-3 months after the origination of the contract. Hence, there is negligible risk that the company ends up with high-cost inventory in an environment of rapidly falling commodity prices. At the other end, 87% of the company's business is with the distribution channel, and here, prices are revised every fortnight based on commodity prices and exchange rates. ~25% of the company's dealers transact in both wires & cables and FMEG.
- ▶ **Comments on FMEG business.** Management said the recent slowdown in FMEG segment growth is attributable to both a growing base and a restructuring in the fans business. In terms of segmental revenue mix, fans is 30-35% of FMEG, while lighting is a similar proportion. The fans business has been impacted by a restructuring exercise, whose benefits are expected to show up in the next season, which starts November onwards: the impact will be particularly visible in 4QFY23 and 1QFY24.

- **Switches** is the only product on which Polycab is dependent on third-party suppliers, and this business has suffered in recent times due to supply constraints, but Polycab has now started work on its own factory for switches, which is expected to be operational in FY2023. Management sees no challenges in getting regulatory approvals for this plant. Asset turns in FMEG are typically high – in the range of 6-8X.
- **FMEG EBITDA margins** are seen ramping up to 12% by FY2026, driven by: (1) an increase in share of the premium segment (whose share of revenues has climbed from 4% in FY2021 to 8% in FY2022 to 12% in 1QFY23), (2) operating leverage, and (3) cost optimization.
- ▶ **Etira brand ramping up off low base.** Polycab's mass segment brand Etira, launched in 4QFY22, recorded ~100% growth qoq in 1QFY23. While the brand has so far been launched only in wires, it will be extended to the FMEG segment (e.g., in fans) in the future.
- ▶ **Aggressive hiring at senior management levels.** Management said the company has recruited 18-20 senior leaders in the recent past at the senior management level, and besides has also strengthened middle management. Some of the key hires include a new CHRO (recruited from Tata Motors), a Deputy Managing Director (who recently superannuated from Panasonic India), and a fans business head.

Exhibit 1: Polycab's 1QFY23 results were considerably below our estimates, impacted by sharp volatility in commodity prices
Consolidated quarterly results of Polycab, March fiscal year-ends (Rs mn)

	1QFY23	1QFY23E	1QFY22	4QFY22	Change (%)			1QFY20	3yr		2022	2021	YoY (%)	2023E
					KIE	yoy	qoq		CAGR (%)					
Net revenues	27,366	33,214	18,552	39,700	(17.6)	47.5	(31.1)	19,330	12.3	122,038	87,922	38.8	133,716	
Total expenditure	(24,255)	(28,979)	(17,210)	(34,936)	(16.3)	40.9	(30.6)	(17,277)	12.0	(109,386)	(76,811)		(117,308)	
Material consumed	(20,524)	(25,124)	(14,196)	(30,892)	(18.3)	44.6	(33.6)	(14,278)	12.9	(94,657)	(65,171)		(101,348)	
Employee expenses	(1,101)	(1,030)	(939)	(1,050)	6.9	17.3	4.8	(920)	6.2	(4,066)	(3,537)		(4,554)	
Other expenses	(2,630)	(2,825)	(2,075)	(2,994)	(6.9)	26.7	(12.2)	(2,079)	8.2	(10,663)	(8,102)		(11,406)	
EBITDA	3,111	4,234	1,342	4,763	(26.5)	131.8	(34.7)	2,053	14.9	12,652	11,111	13.9	16,408	
Margins (%)	11.4	12.7	7.2	12.0				10.6		10.4	12.6		12.3	
Depreciation	(510)	(510)	(493)	(503)	(0.0)	3.5	1.5	(385)	9.8	(2,015)	(1,762)		(2,127)	
EBIT	2,601	3,724	849	4,261	(30.2)	206.3	(39.0)	1,668	16.0	10,637	9,350	13.8	14,281	
Margins (%)	9.5	11.2	4.6	10.7				8.6		8.7	10.6		10.7	
Other income	443	210	240	168	111	85	164	519	(5.1)	899	1,193		1,000	
Share of profit of JV	(13)	(9)	(21)	(4)				2		(26)	6		(32)	
Interest expenses	(84)	(90)	(98)	(125)	(6.3)	(13.7)	(32.6)	(123)	(11.9)	(352)	(427)		(333)	
PBT	2,947	3,835	970	4,300	(23.2)	203.9	(31.5)	2,066	12.6	11,159	10,122		14,917	
Extraordinaries	—	—	—	—				—		—	—		—	
Reported PBT	2,947	3,835	970	4,300	(23.2)	203.9	(31.5)	2,066	12.6	11,159	10,122		14,917	
Tax	(722)	(959)	(233)	(1,047)				(713)		(2,706)	(1,703)		(3,618)	
Reported PAT	2,225	2,877	737	3,253	(22.6)	201.9	(31.6)	1,353	18.1	8,452	8,418		11,299	
Minority interest	28	10	13	32	178.9	118.4	(12.4)	-		87	38			
PAT to equityholders	2,198	2,867	724	3,222	(23.3)	203.4	(31.8)	1,353	17.6	8,365	8,380	(0.2)	11,299	
Number of shares (mn)	149	149	149	149				149		149	149		149	
EPS (Rs)	14.70	19.24	4.86	21.57	(23.6)	202.3	(31.8)	9.1	17.3	56.0	56.2	(0.4)	75.7	
Key ratios (%)														
Gross margin	25.0	24.4	23.5	22.2	(0.65)			26.1		22.4	25.9		24.2	
RM as % of sales	75.0	75.6	76.5	77.8				73.9		77.6	74.1		75.8	
Employee cost as % of sales	4.0	3.1	5.1	2.6				4.8		3.3	4.0		3.4	
Other expenditure as % of sales	9.6	8.5	11.2	7.5				10.8		8.7	9.2		8.5	
Net margin (%)	8.0	8.6	3.9	8.1				7.0		6.9	9.5		8.5	
Effective tax rate	24.5	25.0	24.0	24.3				34.5		24.3	16.8		24.3	
Segmental														
Revenue														
Wires and Cables	24,057	30,090	16,269	35,400	(20.1)	47.9	(32.0)	16,375	13.7	107,938	75,911	42.2	117,385	
FMEG	3,082	3,223	1,919	3,792	(4.4)	60.6	(18.7)	2,401	8.7	12,544	10,341	21.3	14,882	
Others	999	1,100	718	1,044	(9.2)	39.2	(4.4)	1,226	(6.6)	3,702	2,998	23.5	4,199	
Inter-segment revenue	(450)	(1,200)	(247)	(507)				(271)	18.4	(1,744)	(659)		(2,750)	
Total (including other income)	27,688	33,214	18,658	39,730	(16.6)	48.4	(30.3)	19,730	12.0	122,440	88,591	38.2	133,716	
Segment Results														
Wires and Cables	2,773	3,611	1,067	4,106	(23.2)	159.8	(32.5)	1,862	14.2	10,545	9,069	16.3	10,545	
FMEG	64	84	(143)	105	(23.1)	(145.0)	(38.5)	88	(9.8)	196	566	(65.3)	196	
Others	125	150	76	139	(16.6)	63.7	(10.2)	119	1.7	499	456	9.4	499	
Margin (%)														
Wires and Cables	11.5	12.0	6.6	11.6				11.4			11.9		9.0	
FMEG	2.1	2.6	(7.5)	2.8				3.7			5.5		1.3	
Others	12.5	13.6	10.6	13.3				9.7			15.2		11.9	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Wires and cables revenue and EBIT declined sharply sequentially

Consolidated quarterly segment performance of Polycab, March fiscal year-ends (Rs mn)

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	Yoy growth (%)
Segmental Revenues																		
Wires and Cables	21,216	15,930	18,310	21,216	16,375	19,222	21,696	18,605	8,252	18,268	24,073	25,442	16,269	26,281	29,988	35,400	24,057	47.9
FMEG	1,909	1,381	1,662	1,953	2,401	1,956	2,166	1,833	1,378	2,440	3,055	3,468	1,919	3,429	3,404	3,792	3,082	60.6
Others	2,184	1,044	892	2,184	1,226	1,638	1,510	1,592	684	2,013	3,122	2,509	718	3,212	989	1,044	999	39.2
Inter-segment revenue	(584)	(274)	(354)	(584)	(271)	(410)	(398)	(362)	(424)	(1,342)	(2,011)	(888)	(247)	(1,477)	(553)	(507)	(450)	
Total	24,724	18,081	20,511	24,769	19,730	22,406	24,975	21,668	9,889	21,379	28,238	30,532	18,658	31,445	33,827	39,730	27,688	48.4
Segment Results																		
Wires and Cables	2,095	1,753	3,040	2,079	1,862	2,020	2,583	2,827	244	2,541	3,074	3,328	1,067	2,305	3,089	4,106	2,773	159.8
FMEG	(46)	(28)	11	14	88	65	14	1	(56)	196	182	244	(143)	172	63	105	64	(145.0)
Others	131	38	29	131	119	262	338	165	69	223	350	374	76	225	126	139	125	63.7
Margin (%)																		
Wires and Cables	9.9	11.0	16.6	9.8	11.4	10.5	11.9	15.2	3.0	13.9	12.8	13.1	6.6	8.8	10.3	11.6	11.5	
FMEG	(2.4)	(2.0)	0.6	0.7	3.7	3.3	0.6	0.1	(4.0)	8.0	5.9	7.0	(7.5)	5.0	1.8	2.8	2.1	
Others	6.0	3.7	3.3	6.0	9.7	16.0	22.4	10.4	10.1	11.1	11.2	14.9	10.6	7.0	12.8	13.3	12.5	

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Net cash position improves despite lower cash due to lower trade acceptances

Debt position of Polycab, March fiscal year-ends (Rs mn)

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Gross debt	1,128	1,319	932	1,222	3,727	2,134	2,023	1,927	3,168	2,134	793	832	840
Cash	4,547	4,586	3,631	2,813	3,288	3,387	5,473	5,313	3,996	3,387	1,895	4,071	3,170
Net debt	(3,419)	(3,267)	(2,699)	(1,591)	439	(1,253)	(3,450)	(3,386)	(828)	(1,253)	(1,102)	(3,239)	(2,330)
Acceptances	9,233	8,752	6,367	8,160	6,970	7,094	11,314	6,538	9,145	7,094	6,936	6,965	2,920
Net debt plus acceptances	5,814	5,485	3,668	6,569	7,409	5,841	7,864	3,152	8,317	5,841	5,834	3,726	590

Source: Company, Kotak Institutional Equities

Exhibit 4: We cut our estimates to reflect correction in commodity prices and slight moderation in FMEG growth estimates

Earnings revision table, March fiscal year-ends, 2023-25E (Rs mn, %)

	New estimates			Old estimates			Change in estimates (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenues	133,716	147,666	164,217	139,989	156,570	173,858	(4.5)	(5.7)	(5.5)
Gross Profit	32,368	36,196	40,672	33,164	37,210	41,937	(2.4)	(2.7)	(3.0)
Gross margin (%)	24.2	24.5	24.8	23.7	23.8	24.1			
EBITDA	16,408	18,505	21,234	17,304	19,735	22,748	(5.2)	(6.2)	(6.7)
EBITDA (%)	12.3	12.5	12.9	12.4	12.6	13.1			
PAT	11,299	12,837	14,812	11,829	13,661	15,978	(4.5)	(6.0)	(7.3)
EPS (Rs)	76	86	99	79	91	107	(4.5)	(6.0)	(7.3)

Source: Kotak Institutional Equities estimates

Exhibit 5: We expect Polycab's earnings to grow at 21% CAGR over FY2022-25E

Consolidated revenue and contribution margin assumptions by segments, March fiscal year-ends, 2014-25E (Rs mn, %)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Profit model (Rs mn)												
Net sales	39,860	47,075	52,024	55,001	67,703	79,856	88,300	87,922	122,038	133,716	147,666	164,217
EBITDA	2,991	4,417	4,908	4,799	7,289	9,528	11,350	11,111	12,652	16,408	18,505	21,234
Depreciation	(709)	(975)	(1,111)	(1,279)	(1,330)	(1,414)	(1,609)	(1,762)	(2,015)	(2,127)	(2,336)	(2,577)
EBIT	2,283	3,442	3,797	3,521	5,959	8,113	9,741	9,350	10,637	14,281	16,169	18,657
Other income	80	50	331	752	644	638	928	1,193	899	1,000	1,101	1,218
Interest	(938)	(1,085)	(1,474)	(659)	(937)	(1,167)	(495)	(427)	(352)	(333)	(333)	(333)
Profit before tax	1,425	2,407	2,654	3,613	5,667	7,584	10,174	10,116	11,184	14,949	16,937	19,543
Share of net profits from JV	—	—	1	(6)	1	(23)	(74)	6	(26)	(32)	10	12
Income tax	(532)	(764)	(807)	(1,283)	(2,082)	(2,558)	(2,444)	(1,703)	(2,706)	(3,618)	(4,110)	(4,743)
Profit after tax	893	1,643	1,848	2,325	3,586	5,003	7,656	8,418	8,452	11,299	12,837	14,812
EPS (Rs)	6.3	11.6	13.1	16.5	25.4	35.4	51.5	56.5	56.6	75.7	85.9	99.2
Balance sheet (Rs mn)												
Equity	14,825	16,303	17,828	19,935	23,476	28,470	38,364	47,539	55,437	63,339	72,316	82,674
Minority interest	—	—	28	31	40	84	150	188	251	251	251	251
Deferred tax liability	283	220	211	657	553	231	175	418	431	431	431	431
Other long-term liabilities	39	63	174	285	277	419	729	819	716	773	835	902
Total borrowings	4,577	5,455	7,957	8,557	8,003	2,920	1,221	1,926	831	831	831	831
Current liabilities	7,905	11,099	12,263	16,062	12,131	24,159	18,976	19,256	16,452	20,914	22,650	24,709
Total liabilities	27,629	33,139	38,461	45,528	44,481	56,283	59,616	70,147	74,119	86,540	97,315	109,799
Net fixed assets	8,658	10,018	11,231	12,933	13,331	14,686	16,294	19,323	20,109	20,982	21,646	22,069
Investments	0	0	1	328	315	294	655	6,349	7,733	7,733	7,733	7,733
Cash	499	270	507	302	106	3,176	2,813	5,313	4,071	7,377	12,891	19,499
Other current assets	18,471	22,851	26,722	31,965	30,728	38,127	39,516	38,821	41,855	50,086	54,673	60,114
Total assets	27,629	33,139	38,461	45,528	44,481	56,283	59,616	70,147	74,119	86,540	97,315	109,799
Free cash flow (Rs mn)												
Operating cash flow excl. working capital	3,200	4,290	4,324	4,690	7,242	9,246	8,669	9,924	10,090	12,759	14,405	16,504
Working capital changes	(103)	(2,787)	(2,116)	(1,726)	(3,610)	3,053	(6,223)	2,458	(4,974)	(3,769)	(2,851)	(3,382)
Capital expenditure	(1,052)	(2,036)	(2,493)	(2,792)	(1,992)	(2,861)	(2,901)	(1,935)	(5,200)	(3,011)	(3,011)	(3,011)
Free cash flow	1,133	(1,565)	(1,772)	(498)	696	8,658	(888)	9,984	(393)	5,646	8,211	9,778
Ratios												
EBITDA margin (%)	7.5	9.4	9.4	8.7	10.8	11.9	12.9	12.6	10.4	12.3	12.5	12.9
PAT margin (%)	2.2	3.5	3.6	4.2	5.3	6.3	8.7	9.6	6.9	8.5	8.7	9.0
Net debt/equity (X)	0.3	0.3	0.4	0.4	0.3	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Book value (Rs/share)	105	115	126	141	166	202	258	319	371	424	484	554
RoAE (%)		10.6	10.8	12.3	16.5	19.3	22.9	19.6	16.4	19.0	18.9	19.1
RoACE (%)		11.6	11.3	8.5	12.7	18.0	22.7	19.2	16.7	19.9	20.9	22.7

Source: Company, Kotak Institutional Equities estimates

JULY 20, 2022

RESULT

Sector view: **Attractive**

CMP (₹): 71

Fair Value (₹): 95

BSE-30: 55,398

Some more pain before it gets better. LTFH continued to report high credit costs primarily to reflect write-offs. We expect FY2023E earnings to remain weak due to (1) continued higher provisions in OTR, (2) NIM pressure due to rise in rates and (3) flat loan book due to rapid rundown in wholesale. We expect loan book and profitability to improve from FY2024E. Retain ADD; FV Rs95 (down from Rs110).

L&T Finance Holdings				Forecasts/valuations			
Stock data				2022	2023E	2024E	
CMP(Rs)/FV(Rs)/Rating	71/95/ADD			4.3	4.9	8.5	
52-week range (Rs) (high-low)	96-59			12.6	13.5	72.3	
Mcap (bn) (Rs/US\$)	176/2.3			16.4	14.5	8.4	
ADTV-3M (bn) (Rs/US\$)	0.8/0.1			0.9	0.8	0.7	
Shareholding pattern (%)				BVPS	80.6	93.8	101.7
Promoters	66.3			RoE (%)	5.4	5.6	8.7
FPIs/MFs/BFIs	9.6/0.6/4.0			Div. yield (%)	0.7	0.7	0.7
Price performance (%)				NII (Rs bn)	60	61	69
	1M	3M	12M	PPOP (Rs bn)	35	20	51
Absolute	5.4	(12.2)	(18.9)	Net profits (Rs bn)	11	16	21
Rel. to BSE-30	(2.0)	(9.3)	(25.0)				

Source: Bloomberg, Kotak Institutional Equities estimates

PAT below estimates; retail loan book grows rapidly

LTFH reported PAT of Rs2.6 bn, up 47% yoy. PAT of the core lending business was up 40% yoy to Rs2.5 bn, 13% below estimates. Loan book growth was muted at 2% yoy and 1% qoq due to rundown in wholesale business even as retail loan book was up 19% yoy and 6% qoq due to growth in microfinance, home and consumer loans. Fall in yields led to 8 bps qoq compression in NIM even as funding cost continues to decline. Higher fees, reflecting increase in disbursements, supported. Continued investments in new businesses led to 18% growth in operating expenses. Credit losses were up 28% qoq, likely reflecting large write-offs in the OTR book.

Some challenges continue

LTFH made large write-offs in the one-time restructuring (OTR) book, mostly in the microfinance business. While OTR was down by Rs10.2 bn to ~Rs20 bn, about 50% of this reduction was due to slippage to gross stage-3 or write-offs. About 75% of the microfinance OTR loans were written off/fully provided. Management has guided for higher provisions in 2QFY23 as rest of the OTR book in microfinance (Rs7.5 bn) will face acid test.

LTFH reclassified its loan book in retail and wholesale from rural, housing (home loans, LAP and developer loans) and infrastructure loans from 4QFY22. With rapid rundown in wholesale loan book, we expect the overall loan book to remain stable in FY2023E, even as retail loans grow by 23% for the year. Share of retail loans was 55% as against guidance of 60% by March 2023E (KIE estimate of 63%) and 80% by March 2026E.

We cut estimates, retain ADD

We are revising down our estimates by 8-13% to reflect lower loan growth in next two years (as highlighted above), NIM pressure (similar to other NBFCs) due to rise in rates and higher provisions in the near term. We expect RoE to inch to 10-12% by FY2025E, with upside bias. The company can sell down wholesale book and acquire retail loans; capitalization levels remain high and will further improve after sell-down of AMC business later this year. Retain ADD; FV Rs95. Trends in fast-growing microfinance loan book and newly added consumer loans remain monitorable.

QUICK NUMBERS

- PAT up 48% yoy
- Retail loan book grew 19% yoy and 6% qoq
- NPLs flat qoq

Nischint Chawathe

M B Mahesh, CFA

Varun Palacharla

Abhijeet Sakhare

Ashlesh Sonje

Exhibit 1: L&T Finance Holdings - quarterly summary

March fiscal year-end, 1QFY23 (Rs mn)

	Ind-AS	Ind-AS	Ind-AS	Ind-AS	(% chg.)			Ind-AS	Ind-AS	(% chg.)	Ind-AS
	1QFY23	1QFY23E	1QFY22	4QFY22	1QFY23E	1QFY22	4QFY22	2023E	2022		2024E
Income statement (Rs mn)											
Total income	30,960	30,615	30,380	30,130	1	2	3	125,270	120,300	4.1	138,579
Interest income	28,070	27,763	28,680	27,660	1	(2)	1	114,467	111,420	2.7	126,475
Fee and other income	2,890	2,853	1,700	2,470	1	70	17	10,803	8,880	22	12,104
Interest expenses	13,950	13,711	14,490	13,710	2	(4)	2	56,924	55,750	2.1	58,295
NII	14,120	14,052	14,190	13,950	0	(0)	1	57,543	55,670	3.4	68,180
Credit losses/ provisions	7,570	6,685	7,950	5,930	13	(5)	28	27,891	27,460	1.6	23,091
NII post provision	6,550	10,219	7,940	10,490	(36)	(18)	(38)	40,455	37,090	9.1	57,193
Operating expenses	6,090	6,335	5,060	5,820	(4)	20	5	25,304	21,640	16.9	30,153
PBT	3,350	3,884	2,880	4,670	(14)	16	(28)	15,151	15,450	(1.9)	27,040
Taxes	850	1,024	770	1,220	(17)	10	(30)	3,852	4,110	(6.3)	6,906
PAT (lending business from continuing operations)	2,500	2,860	2,110	3,450	(13)	18	(28)	11,299	11,340	(0.4)	20,134
PAT (de-focused and other businesses)	120	(101)	(330)	(30)	NM	NM	NM	22,448	(640)	NM	791
PAT for overall business	2,620	2,760	1,780	3,420	(5)	47	(23)	33,747	10,700	215.4	20,925
Tax rate (%)	25.4	26.4	26.7	26.1	-99 bps	-136 bps	-75 bps	25.4	26.6	-117 bps	25.5
Core PBT (PBT+provisions)	10,920	10,570	10,830	10,600	3	1	3	43,042	42,910	0.3	50,131
Key balance sheet items (focused business) (Rs bn)											
Gross loans	876	883	858	868	(1)	2	1	878	868	1.2	953
Retail	477		401	451	19	6	6	555	451	23.2	693
Farm equipment	116		107	113	9	2	2	122	113	8.0	137
2W finance	75		69	75	9	0	0	79	75	6.0	93
Micro loans	144		113	133	27	8	8	179	133	35.0	224
Consumer loans	30		8	23			32	48	23	110.0	85
Home Loans	84		72	78	16	7	7	94	78	20.0	118
LAP	27		32	28	(16)	(4)	(4)	31	28	10.0	34
SME finance	1		-	1	NA	107	107	1	1	100.0	2
Wholesale	398		457	417	(13)	(5)	(5)	323	417	(22.7)	260
Real estate finance	98		124	112	(21)	(12)	(12)	78	112	(30.0)	69
Infrastructure finance	300		333	305	(10)	(2)	(2)	244	305	(20.0)	190
Net worth	177		166	174	7	2	2	185	174	6.6	205
Asset quality (Consolidated)											
GNPL (Rs mn)	35,590		57,960	35,430	(39)	0	0	35,430			
GNPL (%)	4.1		6.7	4.1	-259 bps	0 bps	0 bps	4.1			
NNPL (Rs mn)	15,910		18,790	16,780	(15)	(5)	(5)	16,780			
NNPL (%)	1.9		2.3	2.0	-39 bps	-11 bps	-11 bps	2.0			
PCR (%)	55		68	53	-1300 bps	200 bps	200 bps	53			
Key calculated ratios (focused business) (%)											
Yield on AUM	12.9		13.0	13.0	-8 bps	-13 bps	-13 bps	13.1	12.5	60 bps	13.8
NIM (NII/AUM)	6.5	6.4	6.4	6.6	6 bps	7 bps	-8 bps	6.6	6.3	34 bps	7.4
Cost to income	35.8	37.5	31.8	35.4	-167 bps	396 bps	36 bps	37.0	33.5	350 bps	37.6
Cost to average AUM	2.8		2.3	2.7		51 bps	6 bps	2.9	2.4	47 bps	3.3
Credit cost	3.5		3.6	2.8	-12 bps	69 bps	69 bps	3.2	3.1	11 bps	2.5
Disbursement mix (Rs bn)											
Net disbursements	105		52	147	100	(29)	(29)	372			
Retail	89		36	81	146	9	9	249			
Farm equipment	15		14	12	13	33	33	52			
2W finance	15		8	14	84	10	10	51			
Micro loans	38		8	39	378	(2)	(2)	100			
Consumer loans	10		3	8	209	27	27	23			
Home Loans	9		3	8	198	10	10	23			
LAP	1		0	1	339	22	22	1			
SME finance	1		-	0	NA	45	45	1			
Wholesale	15		16	66	(6)	(77)	(77)	123			
Real estate finance	1		1	5	(9)	(77)	(77)	16			
Infrastructure finance	14		15	61	(5)	(77)	(77)	107			

Notes:

(1) LTFH reported Gross stage-3 loans on exposure at default (EAD) basis in 1QFY23; hence, these figures are not comparable with other periods.

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Our FV implies 1.8X PBR for retail business and 0.4X for wholesale
Implied segmental valuation for our SoTP, March fiscal year-end, 2024E

	Net worth (Rs mn)	Multiple (X)	Valuation (Rs mn)	Value/share (Rs)
Retail	109,571	1.8	197,227	80
Wholesale	95,910	0.4	38,364	16
Total			235,591	95
After assuming 10% diversification benefit			259,150	105

Source: Kotak Institutional Equities estimates

Exhibit 3: Consolidated earnings up 48% yoy

PAT, net worth and RoE across business segments, March fiscal year-ends, 4QFY21-1QFY23

	PAT (Rs mn)						YoY (%)	Networth (Rs bn)						YoY (%)	ROE (%)						YoY (bps)
	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23		4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23		4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	
Retail	2,360	450	1,710	2,240	2,990	1,930	329	63	75	77	82	83	91	21	15.8	2.5	9.1	11.2	14.5	8.9	646 bps
Wholesale	2,230	1,640	290	1,470	420	570	(65)	100	91	91	89	91	86	(5)	8.9	7.1	1.3	6.7	1.9	2.7	-445 bps
Focussed lending business	4,590	2,090	2,000	3,710	3,410	2,500	20	163	166	167	171	174	177	7	11.4	5.1	4.9	8.9	8.0	5.7	57 bps
De-focussed business	(650)	(790)	(90)	(860)	(400)	NA	NM	6	5	5	5	4	NA	NM							
Lending businesses	3,940	1,300	1,910	2,850	3,010	2,500	92	169	171	173	176	178	177	3							
Investment management	560	470	500	510	510	NA	NM	13	13	13	14	12	NA	NM							
LTFH consolidated	4,500	1,770	2,410	3,360	3,520	2,500	41	182	184	186	189	190	177	(4)							
Others	(1,830)	-	(170)	(100)	(100)	120	NM	6	6	6	7	10	25	327							
LTFH consol. (to shareholders)	2,670	1,770	2,240	3,260	3,420	2,620	48	188	190	192	196	199	202	6	6.3	3.8	4.7	6.7	6.9	5.2	144 bps

Source: Company, Kotak Institutional Equities

Urban and rural retail businesses are drivers, tech as key enabler

LTFH proposes to capitalize on its strength in rural businesses and add competencies in the urban India after recent pilots in consumer and SME loans. The company will add new products for rural borrowers, upselling business loans and moving up the chain to LAP and warehouse financing. With continuous geo-expansion, its urban businesses will build on current small consumer finance business (4% of loan book) and pilot SME loans, both with an outcome of reducing wholesale to minimal levels. While partnership and digital companies will likely be a channel for acquiring urban customers, ecosystems established by existing rural operations will tap customers for upsell/cross-sell. Its tech backbone will help in digital boarding of the customers, eliminating origination from vulnerable segments and facilitating better recoveries through early warning indicators and recovery resource allocation. A smooth digital journey will reduce borrower friction – an experience which most lenders will likely provide in the near future.

Share of retail loans (home loan, LAP, rural loans and urban business including SME and consumers) was 55% in 1QFY23; the company had guided to increase this to 80% in FY2026E with 60% by March 2023E. This may be augmented by sell-down of wholesale book and acquiring retail loans from capital gains from sale of L&T AMC – this is not factored in our estimates.

1QFY23 performance highlights: Loan book shifting to retail

LTFH reported flattish loan growth of 2% yoy and 1% qoq growth in focused loan book to Rs876 bn. Retail business, driven by revival in microloans and ramp-up of consumer loans, was up 6% qoq and 19% yoy and remains the key driver of loan growth. Wholesale book, in line with its long-term guidance, was down 13% yoy and 5% qoq.

NPLs flat qoq; large write-offs during the quarter

LTFH reported flattish gross stage-3 loans of Rs36 bn (4% of loan book) compared to Rs35 bn (4% of the loan book) in 4QFY22, and Rs58 bn (6.7% of the loan book) in 1QFY22. The company also changed the reporting of gross stage loans from principal to exposure at default (EAD), i.e. principal + interest basis; these numbers are therefore not comparable with historical gross stage-3 ratios reported by the company.

Gross stage-3 loans in the retail business declined by 28 bps qoq to 3.5% from 3.8% in 4QFY22. Wholesale gross stage-3 loans increased by 24 bps qoq to 4.7%; the ratios are not directly comparable as highlighted above. Developer loan gross stage-3 loans (~Rs15 bn) comprise 80% of gross stage-3 loans in the wholesale book.

LTFH's calculated write-offs were Rs7.2 bn. Of this, about Rs2.5 bn were in OTR loans, mostly in the microfinance segment. Its de-focused loan book reduced qoq by Rs10.4 bn to ~Rs5 bn – this was mostly due to recoveries and sell-down to ARC.

Exhibit 4: Write-offs moderated to 4.4% in 1QFY23 from 7.9% in 4QFY22

Credit cost mix for L&TFH, March fiscal year-ends, 4QFY21-4QFY22 (Rs mn)

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Provisions on gross stage-3	39,170	31,360	30,580	18,650	19,680
Provisions on gross stage-1 and 2	9,500	4,440	4,840	6,190	6,240
Additional provisions	14,030	17,470	16,990	17,270	14,500
Total provisions	62,700	53,270	52,410	42,110	40,420
Change in provisions	37,060	(9,430)	(860)	(10,300)	(1,690)
Credit loss	9,000	7,780	7,020	6,510	7,950
Write-offs	(28,060)	17,210	7,880	16,810	9,640
Write-offs (% of AUM)	(11.9)	7.8	3.6	7.9	4.4

Notes:

(1) We have assumed Rs9.5 bn of ECL for stage-1 and 2 loans for 1QFY22.

(2) Credit cost numbers are annualized.

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Wholesale segment gross stage-3 loans increased 24 bps qoq

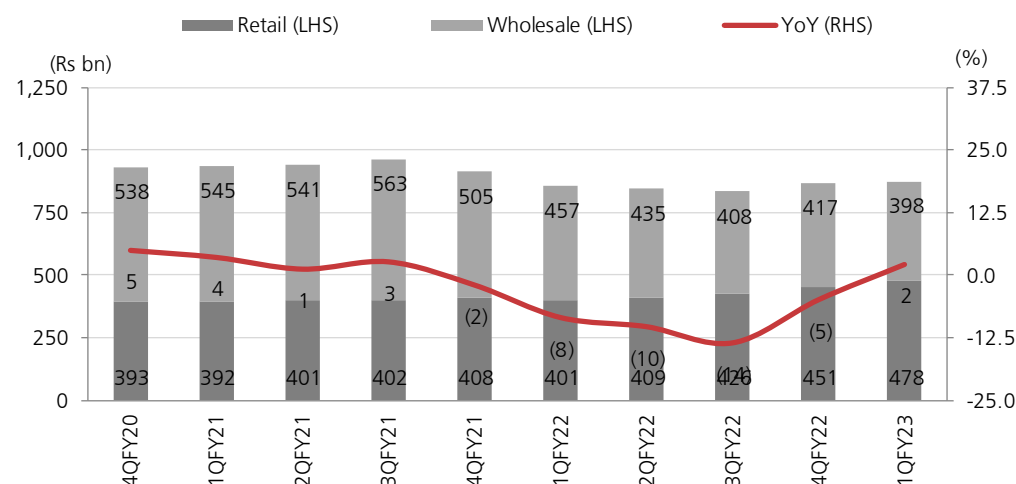
Gross stage-3 loans, March fiscal year-ends, 1QFY22-1QFY23 (%)

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Retail	4.1	NA	NA	3.8	3.5
Wholesale	7.1	NA	NA	4.5	4.7
Overall	6.7	NA	NA	4.1	4.1

Source: Company, Kotak Institutional Equities

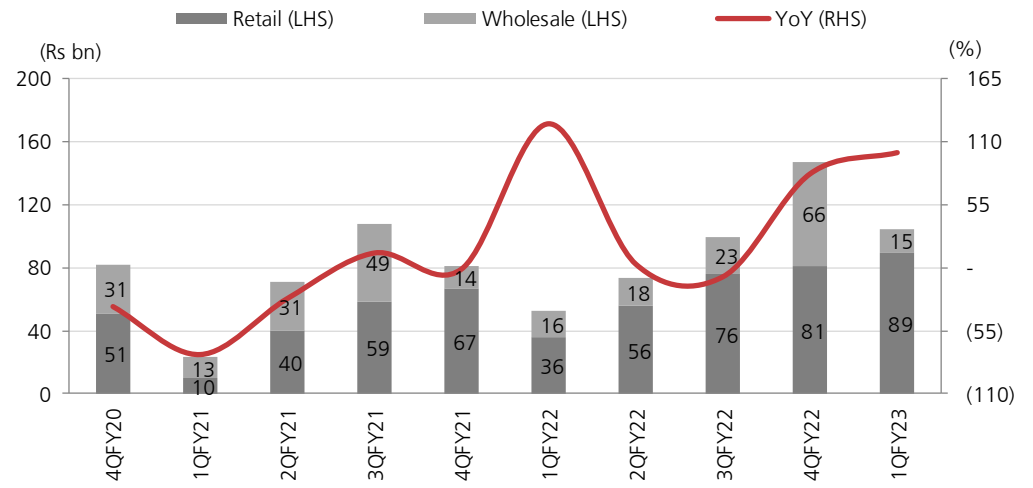
Exhibit 6: AUM up 2% yoy in the focused lending business

Loan book break-up (focused business), March fiscal year-ends, 4QFY20-1QFY23



Source: Company, Kotak Institutional Equities

Exhibit 7: Strong growth in retail disbursements (on a low base)
 Disbursements break-up (focused business), March fiscal year-ends, 4QFY20-1QFY23



Source: Company, Kotak Institutional Equities

Exhibit 8: AUM growth likely to pick up over the medium term
Loan book composition, March fiscal year-ends, 2021-25E (Rs mn)

	Ind-AS 2021	Ind-AS 2022E	Ind-AS 2023E	Ind-AS 2024E	Ind-AS 2025E
Loan book composition(focused)					
Retail	408,240	450,840	555,256	693,055	864,057
Farm equipment	102,610	113,170	122,224	136,890	153,317
2W finance	71,220	74,620	79,097	93,335	110,135
Micro loans	122,070	132,780	179,253	224,066	280,083
Consumer loans	4,900	23,010	48,321	84,562	131,071
Home Loans	73,330	78,370	94,044	117,555	146,944
LAP	34,110	28,270	31,097	34,207	37,627
SME finance	-	610	1,220	2,440	4,880
Wholesale	504,880	417,310	322,638	259,505	209,319
Real estate	129,450	112,100	78,470	69,054	60,767
Infrastructure	375,430	305,210	244,168	190,451	148,552
Total	913,120	868,150	877,894	952,559	1,073,376
% of total					
Retail	45	52	63	73	80
Farm equipment	11	13	14	14	14
2W finance	8	9	9	10	10
Micro loans	13	15	20	24	26
Consumer loans	1	3	6	9	12
Home Loans	8	9	11	12	14
LAP	4	3	4	4	4
SME finance	-	0	0	0	0
Wholesale	55	48	37	27	20
Real estate	14	13	9	7	6
Infrastructure	41	35	28	20	14
Total	100	100	100	100	100
yoy growth (%)					
Retail	NA	10	23	25	25
Farm equipment	NA	10	8	12	12
2W finance	NA	5	6	18	18
Micro loans	NA	9	35	25	25
Consumer loans	NA	370	110	75	55
Home Loans	NA	7	20	25	25
LAP	NA	(17)	10	10	10
SME finance	NA	NA	100	100	100
Wholesale	NA	(17)	(23)	(20)	(19)
Real estate	NA	(13)	(30)	(12)	(12)
Infrastructure	NA	(19)	(20)	(22)	(22)
Total	NA	(5)	1	9	13

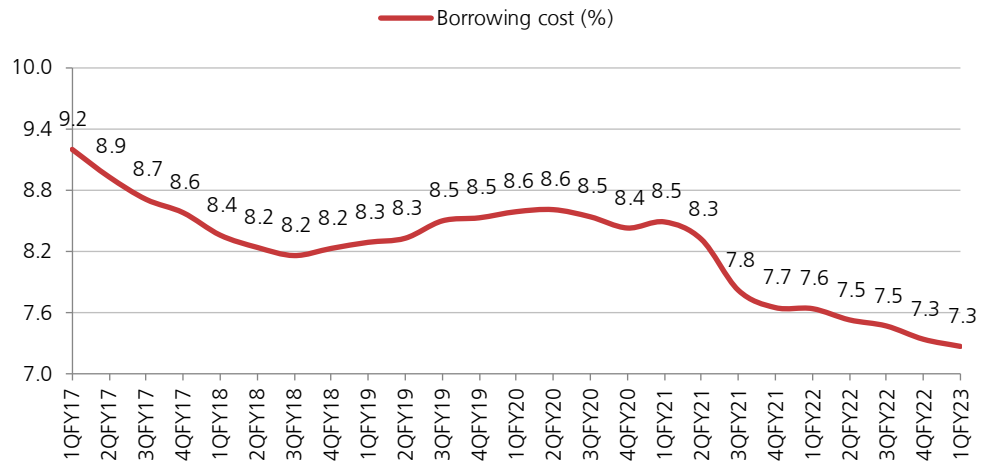
Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Comfortable liquidity position
ALM statement, March fiscal year-end, 1QFY23 (Rs bn)

Maturity	0-1 month	1-2 months	2-3 months	3-6 months	6-12 months
Cumulative outflows	38	61	95	186	367
Cumulative inflows	265	159	204	336	571
Cumulative mismatch	227	98	109	150	204
Gap (% of outflows)	594	161	115	80	56

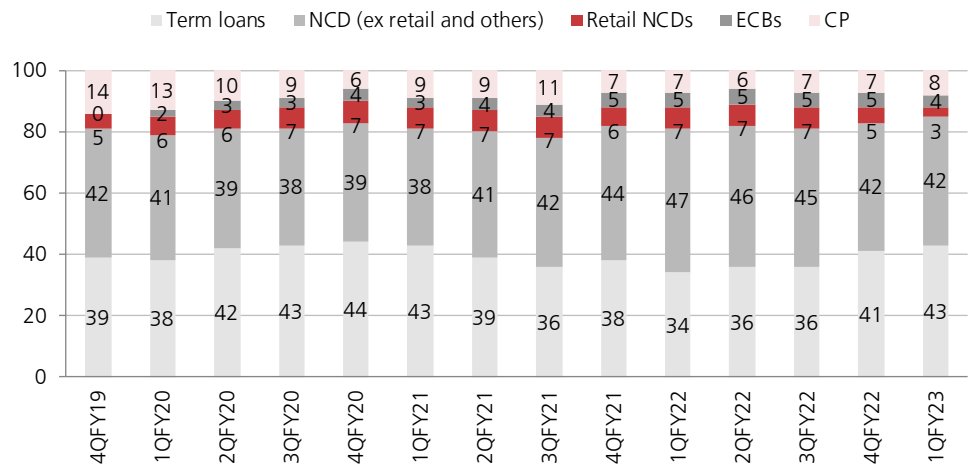
Source: Company, Kotak Institutional Equities

Exhibit 10: Borrowing cost down 37 bps yoy/7 bps qoq
 Weighted average borrowing cost, March fiscal year-ends, 1QFY17-1QFY23 (%)



Source: Company, Kotak Institutional Equities

Exhibit 11: Share of term loans has increased by 200 bps
 Borrowing mix, March fiscal year-ends, 4QFY19-1QFY23 (%)



Source: Company, Kotak Institutional Equities

Exhibit 12: RoEs to reach ~11% over the medium term

Du Pont analysis of lending business, March fiscal year-ends, 2021-25E (%)

	Ind-AS 2021	Ind-AS 2022	Ind-AS 2023E	Ind-AS 2024E	Ind-AS 2025E
Du Pont analysis					
(% of average assets)					
Net interest income	5.5	5.7	5.9	6.6	7.4
Other income	0.9	0.9	1.1	1.2	1.2
Total income	6.4	6.6	7.0	7.7	8.6
Credit costs	2.9	2.8	2.8	2.2	2.4
Operating expenses	1.7	2.2	2.6	2.9	3.2
PBT post extraordinaries	1.8	1.6	1.5	2.6	3.1
1-tax rate	69	73	75	74	75
RoA	1.3	1.2	1.2	1.9	2.3
Average assets / average equity (X)	6.4	5.8	5.5	5.3	5.2
RoE	8.2	6.7	6.3	10.3	11.8
RoE (including discontinued businesses)	6.3	6.4	6.4	10.3	11.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: Weak NII growth to put pressure on earnings in the near term

Key financial statements of LTFH (focused lending business), March fiscal year-ends, 2020-25E (Rs mn)

	Ind-AS 2020	Ind-AS 2021	Ind-AS 2022	Ind-AS 2023E	Ind-AS 2024E	Ind-AS 2025E
Income statement (Rs mn)						
Interest income	123,780	124,350	111,420	114,467	126,475	146,453
Interest costs	68,319	67,920	55,750	56,924	58,295	63,037
Net interest income	55,461	56,430	55,670	57,543	68,180	83,416
Other income	10,300	9,120	8,880	10,803	12,104	13,708
Net total income	65,761	65,550	64,550	68,346	80,284	97,124
Provisioning expenses	18,060	29,520	27,460	27,891	23,091	26,873
Net income (post provisions)	47,701	36,030	37,090	40,455	57,193	70,251
Operating expenses	16,390	17,240	21,640	25,304	30,153	35,685
PBT before extraordinaries	31,311	18,790	15,450	15,151	27,040	34,567
PBT post extraordinaries	31,311	18,790	15,450	15,151	27,040	34,567
Tax	5,651	5,840	4,110	3,852	6,906	8,807
PAT (continuing operations from lending busine	25,660	12,950	11,340	11,298	20,132	25,757
Balance sheet (Rs mn) - continuing ops						
Assets						
Gross loans	931,540	913,120	867,530	877,894	952,559	1,073,376
Net other assets	99,494	98,553	87,574	126,396	116,697	112,737
Total assets	1,031,034	1,011,673	955,104	1,004,289	1,069,256	1,186,112
Liabilities						
Borrowings	864,094	834,743	765,787	800,489	841,633	928,304
Other liabilities	12,610	13,720	15,377	18,452	22,143	26,571
Total liabilities	876,704	848,463	781,164	818,942	863,776	954,876
Shareholders funds	154,330	163,210	173,940	185,348	205,480	231,237

Notes:

(1) Overall loans include wholesale business for FY2019 and only infrastructure business from FY2019 onwards. As such, overall loans do not include loans for the de-focused businesses.

Source: Company, Kotak Institutional Equities estimates

Retail continues to drive profitability

- ▶ LTFH's retail business reported high PAT of Rs2 bn, up 329% yoy on a low base. Operating income grew 21% yoy on the back of 11% growth in interest income and 8% decline of credit costs.
- ▶ Loan growth was strong at 19% yoy and 6% qoq. This was supported by microfinance disbursements, up 378% yoy and consumer loans disbursements ramping up at 27% qoq and 2X yoy. Two-wheeler disbursements bounced back this quarter to Rs15 bn, up 10% qoq and 84% yoy.
- ▶ 50% in rural disbursements and 27% in farm loans were cross-sell. Most loans in consumer loans were cross-sell until the last quarter. In 1QFY23, about 60% loans were cross-sell and balance sourced through digital channels. LTFH has about 70 mn customers

in its ecosystem – customers, their family, guarantors, etc. About 50% of borrowers are salaried.

- ▶ Yield was down 59 bps yoy and 21 bps qoq causing NIM compression of 23 bps yoy and 24 bps qoq. LTFH reported lowest-ever cost of borrowing at 7.27% from 7.34% for 4QFY22.
- ▶ Credit cost was 5% of loans, down 126 bps yoy and up 161 bps qoq. Cost to income ratio remains elevated at 37.23% due to investments in new businesses.
- ▶ We expect this business to deliver 22% loan book CAGR during FY2022-25E with addition of new products.

Exhibit 14: PAT up 329% in retail business on a low base

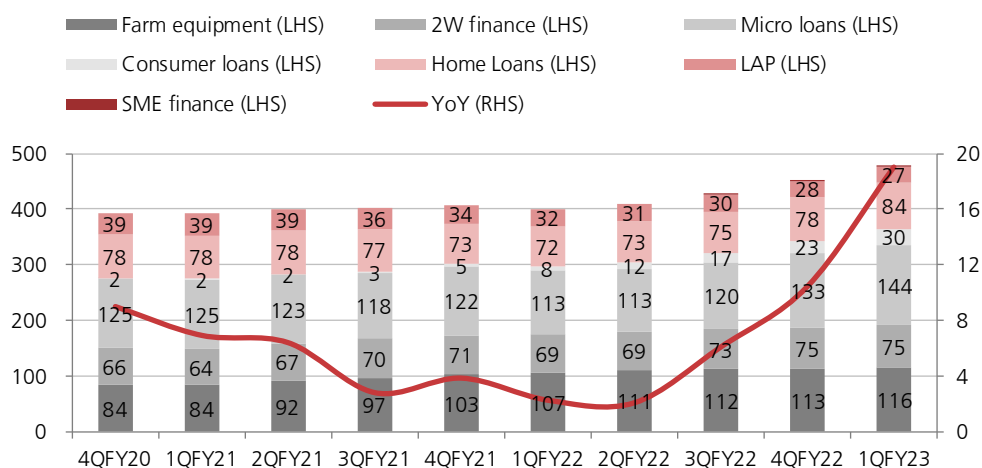
Quarterly summary for retail business, March fiscal year-ends, 2021-22, 4QF21-1QFY23 (Rs mn)

	Ind-AS 4QFY21	Ind-AS 1QFY22	Ind-AS 2QFY22	Ind-AS 3QFY22	Ind-AS 4QFY22	Ind-AS 1QFY23	YoY (%)	QoQ (%)	Ind-AS 2021	Ind-AS 2022	YoY (%)
Financials summary (Rs mn)											
Net interest income	10,040	10,190	9,830	10,230	11,050	11,430	12	3	36,970	41,300	12
Fee and othe income	1,770	880	1,200	1,600	1,570	2,000	127	27	5,240	5,260	0
Credit losses/provisions	3,500	6,360	4,290	4,430	3,750	5,840	(8)	56	21,700	18,820	(13)
Operating expenses	3,920	4,110	4,450	4,390	4,840	5,000	22	3	14,120	17,790	26
PBT	4,390	600	2,290	3,010	4,030	2,590	332	(36)	6,390	9,940	56
PAT	2,360	450	1,710	2,240	2,990	1,930	329	(35)	4,490	7,390	65
Gross loans	408,240	400,970	409,350	426,020	450,840	477,940	19	6	408,240	450,840	10
Networth	62,930	74,790	76,890	82,050	83,190	90,510	21	9	62,930	83,190	32
Reported ratios (%)											
Yield	16.2	16.1	15.5	15.3	16.1	15.6	-54 bps	-49 bps			15.3
Cost of Funds							0 bps	0 bps			6.6
Net Interest Margin	10.1	10.1	9.7	9.6	10.3	9.9	-20 bps	-41 bps			9.6
Fee Income	1.8	0.9	1.2	1.5	1.5	1.7	85 bps	26 bps			1.2
Operating Expenses	3.9	4.1	4.4	4.1	4.5	4.3	24 bps	-20 bps			3.9
Credit Cost	3.5	6.3	4.2	4.2	3.5	5.0	-124 bps	155 bps			4.4
Return on Assets	2.3	0.4	1.6	2.0	2.6	1.6	119 bps	-98 bps			1.6
Return on Equity	5.9	4.8	4.8	4.7	4.8	4.5	-32 bps	-25 bps			10.1
Gross stage 3 (%)	3.6	6.3	NA	3.7	3.7	3.5	-281 bps	-11 bps			3.7
Net stage 3 (%)	1.1	NA	NA	1.2	1.2	NA	NA	NA			1.2

Source: Company, Kotak Institutional Equities

Exhibit 15: 19% yoy AUM growth in retail business

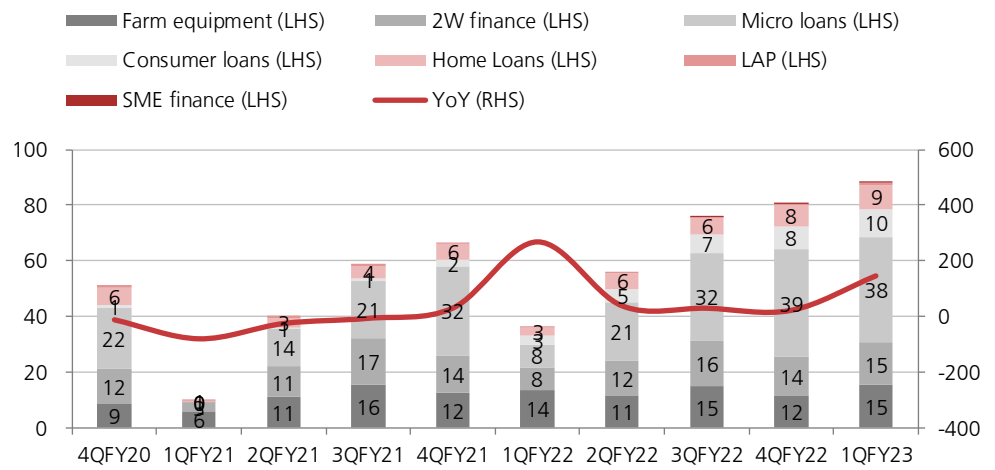
Loan book break-up (retail business), March fiscal year-ends, 4QFY19-1QFY23



Source: Company, Kotak Institutional Equities

Exhibit 16: Micro loan disbursements momentum remains high

Disbursements break-up (retail business), March fiscal year-ends, 4QFY19-4QFY22



Source: Company, Kotak Institutional Equities

Exhibit 17: RoEs to remain <20% in the retail business over medium term
LTFH's retail business, key ratios, March fiscal year-ends, 2022-25E

	Ind-AS 2022	Ind-AS 2023E	Ind-AS 2024E	Ind-AS 2025E
Growth in key parameters (%)				
Profit and loss statement - yoy (%)				
Interest income	2	18	26	26
Interest costs	(12)	23	28	26
Net interest income	12	15	24	27
Other income	0	40	20	20
Net total income	10	18	24	26
Provisioning expenses	(13)	7	(7)	25
Net income (post provisions)	35	25	41	26
Operating expenses	26	22	24	22
PAT	65	32	71	31
Balance sheet - yoy (%)				
Loans	10	23	25	25
Total assets	11	23	25	25
Borrowings	7	26	26	26
Total liabilities	7	26	26	26
Shareholders funds	32	12	18	20
Key ratios (%)				
Interest yield	15.3	15.4	15.6	15.8
Interest cost	6.6	7.0	7.1	7.1
Spreads	8.7	8.4	8.5	8.7
NIMs	9.6	9.4	9.4	9.6
Cost-income ratio	38.2	39.6	39.7	38.5
Cost to assets (%)	4.1	4.3	4.3	4.2
Tax rate	25.7	25.0	25.0	25.0
Debt/ equity (X)	4.8	5.3	5.7	6.0
Credit costs(%)	4.4	4.0	3.0	3.0
Du Pont analysis				
(% of average assets)				
Net interest income	9.1	8.9	8.9	9.0
Other income	1.2	1.4	1.3	1.3
Total income	10.2	10.3	10.2	10.3
Credit costs	4.1	3.8	2.8	2.8
Operating expenses	3.9	4.1	4.1	4.0
PBT post extraordinary	2.2	2.4	3.3	3.5
1-tax rate	74.3	75.0	75.0	75.0
RoA	1.6	1.8	2.5	2.6
Average assets / average equity (X)	6.2	6.1	6.5	6.9
RoE	10.1	11.1	16.4	18.1

Source: Company, Kotak Institutional Equities estimates

Exhibit 18: We expect AUM growth to gradually pick up from FY2023E
Loan book break-up, March fiscal year-ends, 2021-25E (Rs mn)

	Ind-AS 2021	Ind-AS 2022	Ind-AS 2023E	Ind-AS 2024E	Ind-AS 2025E
Loan book (Rs mn)					
Farm equipment	102,610	113,170	122,224	136,890	153,317
2W finance	71,220	74,620	79,097	93,335	110,135
Micro loans	122,070	132,780	179,253	224,066	280,083
Consumer loans	4,900	23,010	48,321	84,562	131,071
Home Loans	73,330	78,370	94,044	117,555	146,944
LAP	34,110	28,270	31,097	34,207	37,627
SME finance	-	610	1,220	2,440	4,880
Total	408,240	450,840	555,256	693,055	864,057
YoY growth (%)					
Farm equipment	22	10	8	12	12
2W finance	8	5	6	18	18
Micro loans	(2)	9	35	25	25
Consumer loans	218	370	110	75	55
Home Loans	(6)	7	20	25	25
LAP	(12)	(17)	10	10	10
SME finance	NA	NA	100	100	100
Total	4	10	23	25	25

Source: Company, Kotak Institutional Equities estimates

Exhibit 19: Credit cost will remain elevated in the retail business
Key financials of LTFH's retail finance business, March fiscal year-end, 2021-25E (Rs mn)

	Ind-AS 2021	Ind-AS 2022	Ind-AS 2023E	Ind-AS 2024E	Ind-AS 2025E
Income statement (Rs mn)					
Interest income	64,530	65,650	77,469	97,368	123,012
Interest costs	27,550	24,350	30,013	38,388	48,367
Net interest income	36,970	41,300	47,456	58,980	74,645
Other income	5,240	5,260	7,364	8,837	10,604
Net total income	42,210	46,550	54,820	67,817	85,249
Provisioning expenses	21,700	18,820	20,122	18,725	23,357
Net income (post provisions)	20,510	27,730	34,698	49,092	61,892
Operating expenses	14,120	17,790	21,704	26,913	32,834
PBT before extraordinaries	6,390	9,940	12,995	22,179	29,059
PBT post extraordinaries	6,390	9,940	12,995	22,179	29,059
Tax	1,900	2,550	3,249	5,545	7,265
PAT	4,490	7,390	9,746	16,635	21,794
Balance sheet (Rs mn)					
Assets					
Gross loans	408,240	450,840	555,256	693,055	864,057
Total assets	431,700	478,343	589,128	735,333	916,767
Liabilities					
Borrowings	355,050	379,775	477,740	603,620	758,831
Total liabilities	368,770	395,153	496,192	625,763	785,402
Shareholders' funds	62,930	83,190	92,936	109,571	131,365

Source: Company, Kotak Institutional Equities estimates

Wholesale business – NPLs cleaned up, running down

LTFH’s wholesale loan book (infrastructure, IDF and developer loans) was down 13% yoy and 5% qoq. Disbursements have come off from the peak levels of Rs66 bn in 4QFY22 to Rs15 bn in 1QFY23 as the company is going slow in infrastructure loans; incremental disbursements to developer are only for completion of existing projects. The company likely looks at select opportunities that may be lumpy, even as directionally this book is running down.

Gross NPLs were down on yoy basis to 4.7% in 1QFY23 from 7.1% in 1QFY22. We expect the share of wholesale business to run down to 20% by FY2025E. Portfolio sale can help accomplish this faster.

Exhibit 20: PAT down 63% yoy due to running down of book

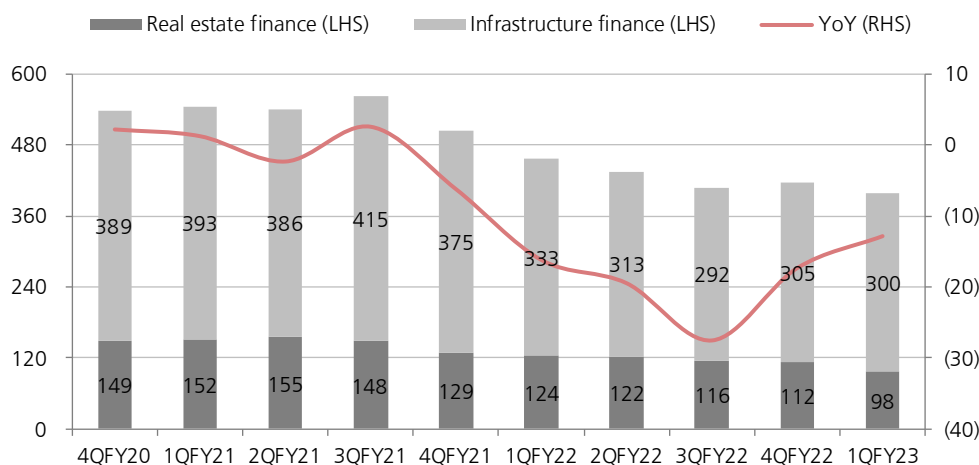
Quarterly summary of LTFH’s wholesale business, March fiscal year-ends, 2021-22, 4QFY21-1QFY23 (Rs mn)

	Ind-AS 4QFY21	Ind-AS 1QFY22	Ind-AS 2QFY22	Ind-AS 3QFY22	Ind-AS 4QFY22	Ind-AS 1QFY23	YoY (%)	QoQ (%)	Ind-AS 2021	Ind-AS 2022	YoY (%)
Financials summary (Rs mn)											
Net interest income	5,370	3,990	3,990	3,440	2,910	2,690	(33)	(8)	19,460	14,340	(26)
Fee and othe income	1,460	820	780	1,130	890	890	9	-	3,870	3,620	(6)
Credit losses/provisions	1,970	1,600	3,390	1,480	2,200	1,730	8	(21)	8,370	8,660	3
Operating expenses	660	980	950	1,050	1,020	1,090	11	7	3,220	4,000	24
PBT	4,200	2,230	430	2,040	580	760	(66)	31	11,740	5,300	(55)
PAT	2,230	1,640	290	1,470	420	570	(65)	36	8,380	3,830	(54)
Gross loans	504,880	456,620	435,320	407,880	417,310	397,950	(13)	(5)	504,880	417,310	(17)
Networth	100,180	90,890	90,510	88,650	90,860	86,140	(5)	(5)	100,180	90,860	(9)
Reported ratios (%)											
Yield	10.9	10.6	10.6	10.6	10.0	9.9	-68 bps	-7 bps			9.9
Cost of Funds							0 bps	0 bps			6.8
Net Interest Margin	4.0	3.4	3.5	3.3	2.8	2.7	-76 bps	-14 bps			3.1
Fee Income	1.1	0.7	0.7	1.1	0.9	0.9	17 bps	2 bps			0.6
Operating Expenses	0.5	0.8	0.8	1.0	1.0	1.1	24 bps	9 bps			0.7
Credit Cost	1.5	1.4	3.0	1.4	2.1	1.7	34 bps	-40 bps			1.9
Return on Assets	1.5	1.2	0.2	1.1	0.3	0.5	-75 bps	13 bps			0.7
Return on Equity	4.8	5.0	5.0	4.9	4.9	4.9	-6 bps	3 bps			4.0
Gross stage 3 (%)	4.7	7.1	NA	7.3	4.0	4.7	-243 bps	66 bps			4.0
Net stage 3 (%)	1.4	NA	NA	4.7	3.0	NA	NA	NA			3.0

Source: Company, Kotak Institutional Equities

Exhibit 21: AUM down 13% yoy

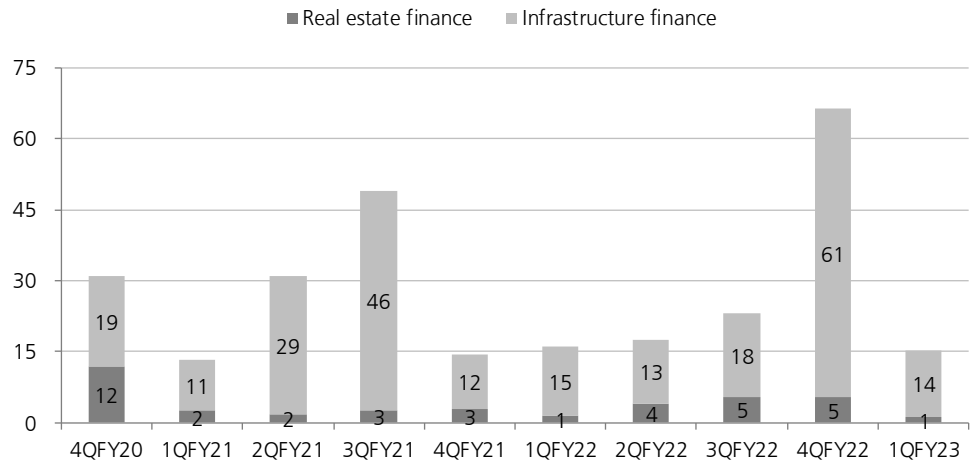
Loan book break-up (wholesale business), March fiscal year-ends, 4QFY20-1QFY23



Source: Company, Kotak Institutional Equities

Exhibit 22: Disbursements remain muted

Disbursements break-up (wholesale business), March fiscal year-ends, 4QFY20-1QFY23



Source: Company, Kotak Institutional Equities

Exhibit 23: Wholesale finance – key ratios and growth rates

Key ratios in LTFH's wholesale business, March fiscal year-ends, 2022-25E (%)

	Ind-AS 2022	Ind-AS 2023E	Ind-AS 2024E	Ind-AS 2025E
Growth in key parameters (%)				
Profit and loss statement - yoy (%)				
Interest income	(24)	(19)	(21)	(19)
Interest costs	(22)	(14)	(26)	(26)
Net interest income	(26)	(30)	(9)	(5)
Other income	(6)	(5)	(5)	(5)
Net total income	(23)	(25)	(8)	(5)
Provisioning expenses	3	(10)	(44)	(19)
Net income (post provisions)	(38)	(38)	41	3
Operating expenses	24	(10)	(10)	(12)
PAT	(54)	(59)	125	13
Balance sheet - yoy (%)				
Loans	(17)	(23)	(20)	(19)
Total assets	(8)	(23)	(20)	(19)
Borrowings	(8)	(28)	(26)	(29)
Total liabilities	(8)	(28)	(26)	(29)
Shareholders funds	(9)	2	4	4
Key ratios (%)				
Interest yield	9.9	10.0	10.0	10.0
Interest cost	6.8	7.0	7.1	7.2
Spreads	3.2	3.0	2.9	2.8
NIMs	3.1	2.7	3.2	3.7
Cost-income ratio	22.3	26.6	26.0	24.0
Cost to assets (%)	0.7	0.8	0.9	0.9
Tax rate	27.7	28.0	28.0	28.0
Debt/ equity (X)	4.9	3.5	2.5	1.7
Credit costs(%)	1.9	2.1	1.5	1.5
Du Pont analysis				
(% of average assets)				
Net interest income	2.6	2.1	2.5	2.9
Other income	0.6	0.7	0.9	1.0
Total income	3.2	2.8	3.3	3.9
Credit costs	1.5	1.6	1.2	1.2
Operating expenses	0.7	0.8	0.9	0.9
PBT post extraordinary	0.9	0.5	1.3	1.8
1-tax rate	72.3	72.0	72.0	72.0
RoA	0.7	0.3	0.9	1.3
Average assets / average equity (X)	5.9	5.2	4.0	3.1
RoE	4.0	1.7	3.7	4.1

Source: Company, Kotak Institutional Equities estimates

Exhibit 24: AUM to decline as book gets run down

Loan book break-up of LTFH's wholesale business, March fiscal year-ends, 2021-25E (Rs mn)

	Ind-AS 2021	Ind-AS 2022	Ind-AS 2023E	Ind-AS 2024E	Ind-AS 2025E
Loan book (Rs mn)					
Real estate finance	129,450	112,100	100,890	90,801	81,721
Infrastructure finance	375,430	305,210	305,210	244,168	195,334
Total	504,880	417,310	406,100	334,969	277,055
YoY growth (%)					
Real estate finance	(13)	(13)	(10)	(10)	(10)
Infrastructure finance	(4)	(19)	-	(20)	(20)
Total	(6)	(17)	(3)	(18)	(17)

Source: Company, Kotak Institutional Equities estimates

Exhibit 25: Profitability to rise as the poor performing loan book gets run down

Key financials of LTFH's wholesale business, March fiscal year-ends, 2021-25E (Rs mn)

	Ind-AS 2021	Ind-AS 2022	Ind-AS 2023E	Ind-AS 2024E	Ind-AS 2025E
Income statement (Rs mn)					
Interest income	59,840	45,770	36,997	29,107	23,441
Interest costs	40,380	31,430	26,911	19,907	14,670
Net interest income	19,460	14,340	10,087	9,200	8,772
Other income	3,870	3,620	3,439	3,267	3,104
Net total income	23,330	17,960	13,526	12,467	11,875
Provisioning expenses	8,370	8,660	7,769	4,366	3,516
Net income (post provisions)	14,960	9,300	5,756	8,101	8,359
Operating expenses	3,220	4,000	3,600	3,240	2,851
PBT before extraordinaries	11,740	5,300	2,156	4,861	5,508
PBT post extraordinaries	11,740	5,300	2,156	4,861	5,508
Tax	3,360	1,470	604	1,361	1,542
PAT	8,380	3,830	1,552	3,498	3,963
Balance sheet (Rs mn)					
Assets					
Gross loans	504,880	417,310	322,638	259,505	209,319
Total assets	583,048	536,983	415,161	333,923	269,346
Liabilities					
Borrowings	482,868	446,123	322,750	238,014	169,473
Total liabilities	482,868	446,123	322,750	238,014	169,473
Shareholders' funds	100,180	90,860	92,412	95,910	99,872

Source: Company, Kotak Institutional Equities estimates

Exhibit 26: AAUM down 5% yoy

Asset management business, March fiscal year-ends, 4QFY19-1QFY23 (Rs bn)

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	YoY (%)
Asset management															
PAT	0.64	0.66	0.61	0.61	0.61	0.50	0.54	0.51	0.56	0.47	0.50	0.51	0.51	NA	NA
AAUM	709	735	692	716	711	584	631	690	727	755	783	796	756	716	(5)
Equity (other than ELSS)	366	380	364	372	347	283	321	343	370						
ELSS	32	33	32	33	32	26	30	33	35						
Income	142	165	167	183	203	172	180	214	221						
Liquid	169	155	128	126	127	100	96	97	99						
Gilt	1	1	1	1	1	2	3	3	3						
AAUM (new classification)	709	735	692	716	711	584	631	690	727	755	783	796	756	716	(5)
Pure equity						238	274	287	302	310	334	345	337	320	3
Hybrid						71	77	89	102	115	132	127	116	102	(12)
Fixed income						184	194	227	231	249	249	254	235	213	(14)
Liquid						90	85	86	91	80	67	68	67	79	(1)
Others						0	1	1	1	1	1	1	1	1	53

Source: Company, Kotak Institutional Equities

Exhibit 27: Change in estimates of LTFH's lending business
March fiscal year-ends, 2022-25E (Rs mn)

	New estimates			Old estimates			% Change		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Net interest income	57,543	68,180	83,416	63,737	74,095	86,232	(10)	(8)	(3)
Loan book	877,894	952,559	1,073,376	943,951	991,701	1,085,022	(7)	(4)	(1)
Other income	10,803	12,104	13,708	9,814	11,035	12,429	10	10	10
NPL provisions	27,891	23,091	26,873	29,168	24,826	28,986	(4)	(7)	(7)
Operating expenses	25,304	30,153	35,685	25,334	29,063	32,949	(0)	4	8
PBT	15,151	27,040	34,567	19,049	31,241	36,726	(20)	(13)	(6)
Tax	3,852	6,906	8,807	4,949	7,860	9,250	(22)	(12)	(5)
PAT (focused business)	11,299	20,134	25,760	14,100	23,381	27,476	(20)	(14)	(6)
PAT of defocused business	97	-	-	97	(250)	-	-	NM	NM
PAT (focused+defocused)	11,396	20,134	25,760	14,197	23,131	27,476	(20)	(13)	(6)
Consolidated PAT	33,747	20,925	26,534	36,548	23,922	28,250	(8)	(13)	(6)
Core PBT (lending-focused)	43,042	50,131	61,440	48,217	56,067	65,712	(11)	(11)	(7)
NIM (% , focused)	7	7	8	7	8	8	-44 bps	-21 bps	-7 bps
Core PBT (lending overall)	46,172	50,131	61,440	51,347	57,733	65,712	(10)	(13)	(7)
NIM (% , overall lending)	6.8	7.4	8.2	7.2	7.8	8.3	-43 bps	-35 bps	-7 bps
EPS (Rs)	14	8	11	15	10	11	(8)	(13)	(6)
BVPS (Rs)	94	102	112	95	104	115	(1)	(2)	(3)
Cost-to-income (lending, %)	35.8	37.6	36.7	33.4	33.6	33.4	238 bps	392 bps	335 bps
Cost-to-average AUM (lending, %)	2.9	3.3	3.5	2.8	3.0	3.2	10 bps	27 bps	35 bps
ROA (%)	3.2	1.9	2.3	3.4	2.2	2.4	-24 bps	-26 bps	-17 bps
ROE (%)	15.6	8.7	10.0	16.8	9.7	10.4	-119 bps	-107 bps	-39 bps

Source: Company, Kotak Institutional Equities estimates

Exhibit 28: L&T Finance Holdings (consolidated) - key ratios and growth rates

March fiscal year-ends, 2020-25E (%)

	Ind-AS 2020	Ind-AS 2021	Ind-AS 2022	Ind-AS 2023E	Ind-AS 2024E	Ind-AS 2025E
Growth in key parameters (%)						
Profit and loss statement - yoy (%)						
Interest income	13.8	(1.1)	(10.7)	(0.9)	9.8	15.7
Interest costs	9.5	(4.2)	(20.1)	(4.2)	5.8	8.1
Net interest income	19.9	3.0	0.8	2.3	13.3	22.1
Other income	(25.8)	(20.8)	(10.7)	38.9	2.5	12.9
Net total income	8.1	(1.2)	(0.8)	7.0	11.5	20.7
Provisioning expenses	116.3	41.7	(38.0)	54.9	(25.3)	16.4
Net income (post provisions)	(12.9)	(21.9)	31.7	(12.8)	38.6	22.4
PBT post extraordinary	(27.7)	(32.2)	(1.4)	192.2	(35.3)	26.9
Tax	(38.2)	7.9	(22.1)	119.6	(25.5)	27.3
PAT (pre minority interest)	(23.8)	(44.2)	10.6	221.6	(38.0)	26.8
Adjusted PAT	(23.6)	(42.9)	10.2	50.9	29.6	26.8
Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Dividend tax	0.0	0.0	0.0	0.0	0.0	0.0
No of shares	0.3	23.2	0.2	0.0	0.0	0.0
EPS	-24.1	-54.7	10.4	221.6	-38.0	26.8
DPS	0.0	0.0	0.0	0.0	0.0	0.0
BVPS	8.9	3.7	6.1	16.3	8.5	10.1
Balance sheet - yoy (%)						
Loans	0.2	(4.8)	(5.2)	2.0	7.6	12.7
Investments	(30.8)	48.4	34.3	(32.4)	(8.6)	(9.1)
Fixed assets	(17.6)	(0.1)	(2.9)	16.0	15.0	15.0
Other current assets	122.6	8.9	0.7	5.0	5.0	5.0
Total assets	3.3	(0.5)	(1.9)	(1.5)	6.0	10.3
Borrowings	4.2	(3.9)	(3.8)	(6.0)	5.1	10.3
Total liabilities	1.7	(4.3)	(2.5)	(5.5)	5.3	10.4
Shareholders funds	9.2	27.8	6.3	16.3	8.5	10.1
Key ratios (%)						
Interest yield	14.5	14.7	13.8	13.9	14.6	15.3
Interest cost	8.3	8.0	6.6	6.7	7.1	7.1
Spreads	6.2	6.7	7.2	7.3	7.5	8.2
NIMs	6.3	6.6	7.0	7.3	7.9	8.8
Operating costs/ net income (pre provisions)	28.9	34.8	49.1	35.6	37.4	36.6
Tax rate	23.0	36.5	28.9	21.7	25.0	25.0
Debt/ equity (X)	6.3	4.7	4.3	3.5	3.3	3.4
Credit costs(%)	2.5	3.6	2.4	3.7	2.6	2.8
Du Pont analysis						
(% of average assets)						
Net interest income	5.3	5.4	5.5	5.7	6.4	7.2
Other income	1.1	0.9	0.8	1.1	1.1	1.2
Credit costs	2.1	2.9	1.8	2.9	2.1	2.3
Operating expenses	1.9	2.2	3.1	2.5	2.8	3.1
PBT post extraordinary	2.5	1.2	1.4	4.1	2.6	3.0
1-tax rate	0.8	0.6	0.7	0.8	0.8	0.7
RoA	1.9	0.7	1.0	3.2	1.9	2.3
Average assets / average equity (X)	7.7	6.5	5.6	4.9	4.5	4.4
RoE	14.7	4.8	5.4	15.6	8.7	10.0

Notes:

(1) FY2023E PAT adjusted for capital gains from stake-sale in AMC and extra provisions.

Source: Company, Kotak Institutional Equities estimates

Exhibit 29: L&T Finance Holdings (consolidated) - key financials
 March fiscal year-ends, 2020-25E (Rs mn)

	Ind-AS 2020	Ind-AS 2021	Ind-AS 2022	Ind-AS 2023E	Ind-AS 2024E	Ind-AS 2025E
Income statement (Rs mn)						
Interest income	132,447	131,049	117,042	115,990	127,316	147,294
Interest costs	75,136	71,999	57,538	55,114	58,313	63,045
Net interest income	57,311	59,049	59,504	60,876	69,003	84,249
Other income	12,320	9,753	8,713	12,103	12,404	14,008
Net total income	69,632	68,802	68,217	72,979	81,406	98,256
Provisioning expenses	22,684	32,153	19,942	30,891	23,091	26,873
Net income (post provisions)	46,947	36,649	48,275	42,088	58,316	71,384
Operating expenses	20,147	23,953	33,527	25,997	30,425	35,984
PBT before extraordinary	26,801	12,696	14,748	16,092	27,890	35,399
PBT post extraordinary	22,067	14,952	14,748	43,092	27,890	35,399
Tax	5,064	5,463	4,256	9,345	6,965	8,865
PAT	17,003	9,489	10,492	33,747	20,925	26,534
Adjusted PAT	17,002	9,709	10,701	16,147	20,925	26,534
EPS (Rs)	8	4	4	14	8	11
BVPS (Rs)	73	76	81	94	102	112
Balance sheet (Rs mn)						
Loans	914,625	870,303	824,694	841,124	904,931	1,019,707
Investments	59,793	88,721	119,169	80,594	73,701	67,023
Fixed assets	3,589	3,587	3,482	3,656	3,838	4,030
Current assets	109,582	119,372	120,164	126,172	132,481	139,105
Total assets	1,095,290	1,089,717	1,069,022	1,052,983	1,116,317	1,231,162
Liabilities						
Borrowings	921,704	885,916	852,012	800,489	841,633	928,304
Total liabilities	928,923	888,772	866,737	819,188	862,834	952,382
Share capital	20,048	24,695	24,740	24,740	24,740	24,740
Reserves and surplus	126,876	163,038	174,747	207,256	226,944	252,241
Minority interest	2,202	1,972	1,798	1,798	1,798	1,798
Shareholders funds	146,924	187,732	199,487	231,997	251,685	276,982
Preference shares	17,241	11,241	1,000	-	-	-

Notes:

(1) FY2023E PAT adjusted for capital gains from stake-sale in AMC and extra provisions.

Source: Company, Kotak Institutional Equities estimates

JULY 21, 2022

RESULT

Sector view: **Neutral**

CMP (₹): **205**

Fair Value (₹): **210**

BSE-30: **55,398**

Soft 1Q, as expected, and outlook remains uncertain. We trim FY2023-25E EPS by 2-3%, factoring in a softer-than-expected 1QFY23 and an uncertain near-term outlook. 2QFY23 earnings may stay under pressure amid possible inventory mark-downs, competitive pressures and erratic climatic conditions. We cut our target P/E to 18X (from 20X) considering the pressures on the business and a higher interest rate environment. Maintain REDUCE with a revised FV of Rs210/share.

Rallis India				Forecasts/valuations		
Stock data				2022	2023E	2024E
CMP(Rs)/FV(Rs)/Rating	205/210/REDUCE			EPS (Rs)	8.4	9.5
52-week range (Rs) (high-low)	337-183			EPS growth (%)	(25.8)	12.5
Mcap (bn) (Rs/US\$)	40/0.5			P/E (X)	24.3	21.6
ADTV-3M (mn) (Rs/US\$)	109/1			P/B (X)	2.4	2.2
Shareholding pattern (%)				EV/EBITDA (X)	14.6	13.1
Promoters	50.1			RoE (%)	10.0	10.5
FPIs/MFs/BFIs	6.1/12.6/3.3			Div. yield (%)	1.5	1.7
Price performance (%)				Sales (Rs bn)	26	30
Absolute	1M	3M	12M	EBITDA (Rs bn)	3	3
	10.5	(26.9)	(37.4)	Net profits (Rs bn)	2	2
Rel. to BSE-30	3.1	(24.0)	(43.5)			

Source: Bloomberg, Kotak Institutional Equities estimates

Soft 1QFY23 results, as expected

Rallis India's (Rallis) 1QFY23 earnings were under pressure, as expected, primarily due to input cost inflation and higher provisions on slow-moving seed inventories. The pressure was particularly acute in the seeds business, where EBITDA plunged 33% yoy. The crop care business fared relatively better on a yoy basis, albeit versus a depressed base; however, its EBITDA margins remain very low at just 9.6%. The one relatively bright spot in the results was the exports business, which grew 51% yoy. Overall revenue growth of 16.5% was driven primarily by price hikes, which contributed 11.6 ppt yoy, whereas volume growth was a more modest 5%.

Near-term outlook remains uncertain

Rallis continues to hold high-cost inventories of chemical intermediates, and these are seen being liquidated only towards the end of 2QFY23. Besides, the seeds business will also assess the need for any further provisions on inventories by October 2023. The uneven progress of the monsoon thus far is also a cause for concern. Meanwhile, channel inventories are high for the industry as well as Rallis, and management alluded to competitive pricing, saying some firms have pointed to price reductions. Given all of the above, we see risk of another difficult quarter in 2QFY23, although the base is easy.

Story remains predicated on exports, but traction there could take time

The export business was a bright spot in the 1QFY23 results, and management expects continued good growth in sales volumes in this business, underpinned by recently expanded production capacities and healthy demand from overseas customers. Shipments of PEKK, which were disrupted post-Covid, are also expected to resume starting 4QFY23. However, product realizations have begun to correct amid softness in chemical prices, and this will likely weigh on revenue growth. Also, growth from newer areas including CRAMS and difenoconazole will take 2-3 years.

Abhijit Akella, CFA

Prasenjit Bhuiya

Retain REDUCE with revised FV of Rs210/share

We cut our target P/E multiple to 18X (from 20X previously), considering the lackluster performance of the business as well as a higher interest rate environment. We also roll forward to June 2024E EPS (from March 2024E previously), and our FV falls to Rs210 from Rs230. The stock now trades at 22X/18X FY2023E/FY2024E EPS, and we continue to see risk of a de-rating given the disappointing long-term growth history, decline in return ratios and limited earnings visibility. We would await signs of a turnaround in the operations before considering a more constructive stance.

Key takeaways from the conference call

- ▶ **Comments on the industry scenario.** Rainfall distribution thus far has been highly uneven, with 53% of districts having received excess rainfall, whereas UP, Bihar and Jharkhand have been in deficit. The latter states are expected to receive improved rains in coming weeks. However, we note that floods in southern India have led to crop damage and will require re-sowing, and the erratic pattern of rainfall so far is cause for concern. Channel inventories are high across the industry as well as for Rallis.
- ▶ **Domestic crop care.** The business registered 17% yoy revenue growth, of which ~14 ppt came from higher realizations and only 2-3 ppt from volume growth. The company took median price increases of 4-5 ppt during 1QFY23. Revenue growth was driven primarily by the herbicides portfolio, whereas fungicides witnessed sales returns, particularly in the Rabi paddy and chilly segments, dragging down growth. With regard to the pricing outlook, management said it is not yet clear whether prices are on the way down, but acknowledged that certain peers have announced price cuts, given falling input costs.
- ▶ **International business.** Agrochemical export revenue growth of 51% yoy was driven almost evenly by both volumes and prices. Management remains positive on the volume growth outlook, given healthy demand as well as the company's enhanced production capacities, but did highlight that falling realizations will weigh on revenue growth.
 - **On capacity utilization,** management said that: (1) in metribuzin, the company still has some excess inventory to work off, and this is expected to be done by the end of 2QFY23; thereafter, the expanded capacity – which stands doubled at 2,300 tpa versus 1,100 tpa previously – should run at least at 60-65% capacity utilization, if not higher; (2) the acephate plant is running flat out; (3) pendimethalin is currently operating at 70-75% capacity utilization; (4) hexaconazole is at 'slightly lower' utilization due to seasonality; and (5) PEKK shipments are expected to resume in 4QFY23 after a hiatus of around two years post-Covid.
 - **On the raw material sourcing front,** a key starting material for pendimethalin remains in short supply, and while the company is managing with local sources, the situation is expected to normalize only towards the end of CY2022. Rallis has also identified a local supplier for raw materials for one of its key products, and while this will not be superior to China in terms of unit economics, it will nevertheless de-risk supplies. The supply chain scenario globally has turned more sanguine versus six months ago (but still remains tight relative to two years ago), and logistics costs have also fallen.
 - **In terms of growth initiatives,** (1) a multi-purpose plant (for difenoconazole) is expected to be commissioned by November 2022; (2) the company has obtained registrations to ship acephate formulations to all 27 states of Brazil, and these shipments will commence in 2QFY23; and (3) in the contract manufacturing business, Rallis has won two new contracts, but their quantum is currently not material. Key export markets for the company are the US, Brazil, Europe and to a lesser extent Southeast Asia.

- ▶ **Seeds business.** The business took an ageing provision of Rs130 mn on seeds. Plus, it also had to lower prices to liquidate inventories at the channel, and these two factors weighed on margins. Management will evaluate the need for any further write-downs at the end of 2QFY23. Key crops for the business are paddy (the top crop for Rallis, and the company is within the top 3 in the industry here), corn (although the Rabi portfolio is a challenge here, for which Rallis is doubling down on R&D) and bajra (where it is again within the top 3). Vegetables are a ~Rs200 mn portfolio per year, while cotton is a small segment, but one new product (brand Diggaz) scaled up from 20k packets in FY2022 to 175k in FY2023. Cotton demand at the industry level has been impacted thus far this Kharif season by a delayed monsoon and further proliferation of illegal HTBT seeds.
- ▶ **Capex.** Management reiterated guidance for capex of Rs2.5 bn in FY2023. This is primarily towards the new multi-purpose plant (MPP) in 2HFY23 and the subsequent production of difenoconazole .
- ▶ **Outlook.** Management said on the earnings call that while the seeds business may remain soft this year, but the agrochemicals business (both domestic and exports) should pick up pace. Margins are expected to normalize only towards the end of 2QFY23, once high-cost inventories have been used up.

Exhibit 1: Rallis 1QFY23 EBITDA declined yoy versus our expectation of a flat EBITDA primarily due to weak performance in the seeds business

Interim results of Rallis, March fiscal year-ends (Rs mn, unless specified)

	1QFY23	1QFY23E	1QFY22	4QFY22	Change (%)			2022	2021	Yoy (%)	2023E
					1QFY23E	1QFY22	4QFY22				
Revenues	8,628	8,385	7,405	5,075	2.9	16.5	70.0	26,039	24,294	7.2	30,030
Raw material cost	(5,535)	(5,480)	(4,529)	(3,311)	1.0	22.2	67.2	(16,236)	(14,752)	10.1	(19,143)
Employee cost	(660)	(585)	(598)	(552)	12.8	10.3	19.5	(2,391)	(2,160)	10.7	(2,726)
Other expenses	(1,306)	(1,150)	(1,062)	(1,241)	13.6	23.0	5.2	(4,671)	(4,153)	12.5	(5,042)
EBITDA	1,127	1,170	1,216	(28)	(3.7)	(7.4)		2,741	3,229	(15.1)	3,118
Other income	40	80	70	75	(49.8)	(42.4)	(46.3)	274	404	(32.1)	310
Interest cost	(17)	(14)	(9)	(12)	19.3	79.6	35.8	(48)	(52)	(8.1)	(84)
Depreciation	(247)	(205)	(185)	(197)	20.3	33.4	25.5	(743)	(641)	16.0	(881)
Profit before tax	903	1,031	1,092	(162)	(12.4)	(17.2)		2,225	2,941	(24.3)	2,463
Extraordinaries	6	—	—	—				—	95		—
Tax (net)	(235)	(258)	(268)	21	(8.9)	(12.2)		(582)	(749)		(616)
PAT	675	773	824	(141)	(12.7)	(18.1)		1,642.7	2,286	(28.1)	1,847
Adjusted net income	670	773	824	(141)	(13.3)	(18.7)		1,643	2,215	(25.8)	1,847
Adjusted EPS (Rs)	3.4	4.0	4.2	(0.7)	(13.3)	(18.7)		8.4	11.4	(25.8)	9.5
Key ratios (%)											
Gross margins	35.8	34.6	38.8	34.8	120 bps	(299)bps	107 bps	37.6	39.3	(162.9)	36.3
EBITDA margins	13.1	14.0	16.4	(0.6)	(90)bps	(336)bps	1,362 bps	10.5	13.3	(276.3)	10.4
Tax rate	26.0	25.0	24.5	13.0				26.2	25.5		25.0
Crop care											
Revenue	5,960	5,614	4,710	4,810	6.2	26.5	23.9	22,550	20,284	11.2	26,515
Domestic	3,971	3,900	3,391	2,672	1.8	17.1	48.6	14,627	12,779	14.5	16,821
International	1,989	1,714	1,319	2,138	16.0	50.8	(7.0)	7,923	7,505	5.6	9,694
EBITDA	570	470	380	220	21.3	50.0	159.1	2,470	2,689	(8.1)	2,784
EBITDA margin (%)	9.6	8.4	8.1	4.6	119 bps	150 bps	499 bps	11.0	13.3	(230.3)	10.5
Seeds											
Revenue	2,670	2,771	2,690	260	(4)	(1)	927	3,480	4,010	(13.2)	3,515
EBITDA	560	700	830	(250)	(20)	(33)	(324)	280	540	(48.1)	334
EBITDA margin (%)	21.0	25.3	30.9	(96)	(429)	(988)		8.0	13.5	(542.0)	9.5

Source: Company, Kotak Institutional Equities

Exhibit 2: Crop care margins improved yoy while seeds margin saw severe compression

Segment break-up, March fiscal year ends, 1QFY19 onwards (Rs mn, unless specified)

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	1QFY23E
Crop care																		
Revenue	3,520	6,130	3,880	3,180	3,630	6,920	5,030	3,220	4,020	6,520	5,290	4,450	4,710	7,030	6,000	4,810	5,960	5,614
Domestic	4,000	4,291	2,018	1,940	2,251	4,567	2,716	1,996	2,573	4,955	3,174	2,136	3,391	5,104	3,460	2,672	3,971	3,900
International			1,862	1,240	1,379	2,353	2,314	1,224	1,447	1,565	2,116	2,314	1,319	1,926	2,540	2,138	1,989	1,714
EBITDA	180	1,290	390	200	190	1,200	670	60	450	1,070	820	340	380	1,080	790	220	570	470
EBITDA margin (%)	5.1	21.0	10.1	6.3	5.2	17.3	13.3	1.9	11.2	16.4	15.5	7.6	8.1	15.4	13.2	4.6	9.6	8.4
Net income	80	870	230	110	80	830	460	110	310	820	610	230	230	740	490	60	300	
Seeds																		
Revenue	2,470	370	290	230	2,540	570	300	240	2,610	730	410	260	2,690	250	280	260	2,670	2,771
EBITDA	640	(50)	(130)	(140)	780	(50)	(110)	(190)	820	100	(220)	(160)	830	(200)	(100)	(250)	560	700
EBITDA margin (%)	25.9	(13.5)	(44.8)	(60.9)	30.7	(8.8)	(36.7)	(79.2)	31.4	13.7	(53.7)	(61.5)	30.9	(80.0)	(35.7)	(96.2)	21.0	25.3
Net income	460	(10)	(100)	(110)	580	(40)	(50)	(170)	600	10	(150)	(150)	600	(170)	(100)	(200)	380	
Crop care Geographical mix (%)																		
Domestic		70	52	61	62	66	54	62	64	76	60	48	72	73	58	56	67	69
International		30	48	39	38	34	46	38	36	24	40	52	28	27	42	44	33	31

Source: Company, Kotak Institutional Equities

Exhibit 3: We make cut to our estimates to reflect weak performance in seeds and lower realization in crop protection business

Changes to estimates, March fiscal year-ends (Rs mn, unless specified)

	New estimates			Old estimates			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	30,030	33,990	37,863	31,806	35,313	39,450	(5.6)	(3.7)	(4.0)
Gross profit	10,886	12,213	13,573	10,958	12,294	13,679	(0.7)	(0.7)	(0.8)
Gross margin (%)	36.3	35.9	35.8	34.5	34.8	34.7			
EBITDA	3,118	3,668	4,173	3,189	3,749	4,279	(2.2)	(2.2)	(2.5)
EBITDA margin (%)	10.4	10.8	11.0	10.0	10.6	10.8			
PAT	1,847	2,180	2,507	1,901	2,233	2,575	(2.8)	(2.4)	(2.6)
EPS (Rs)	9.5	11.2	12.9	9.8	11.5	13.2	(2.8)	(2.4)	(2.6)

Source: Kotak Institutional Equities estimates

Exhibit 4: Key assumptions for Rallis, March fiscal year-ends, 2017-25E (Rs mn, unless specified)

	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenue	16,783	17,909	19,840	22,518	24,294	26,030	30,030	33,990	37,863
Crop care	14,005	14,984	16,715	18,868	20,284	22,550	26,515	30,123	33,688
Seeds	2,778	2,925	3,125	3,650	4,010	3,480	3,515	3,866	4,176
Growth (%)	9.8	6.7	10.8	13.5	7.9	7.1	15.4	13.2	11.4
Crop care	8.7	7.0	11.6	12.9	7.5	11.2	17.6	13.6	11.8
Seeds	15.2	5.3	6.8	16.8	9.9	(13.2)	1.0	10.0	8.0
EBITDA	2,634	2,630	2,531	2,594	3,229	2,741	3,118	3,668	4,173
Crop care	2,350	2,262	2,185	2,174	2,689	2,470	2,784	3,223	3,672
Seeds	283	368	346	420	540	280	334	445	501
EBITDA (%)	15.7	14.7	12.8	11.5	13.3	10.5	10.4	10.8	11.0
Crop care	16.8	15.1	13.1	11.5	13.3	11.0	10.5	10.7	10.9
Seeds	10.2	12.6	11.1	11.5	13.5	8.0	9.5	11.5	12.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Rallis India's average one-year forward P/E multiple since 2015 is 19.7X
12-month forward consensus P/E valuation (X)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 6: We estimate Rallis to be one of slowest growing companies in the agrochemicals space
Agrochemicals valuation summary, March fiscal year-ends

	BBG	MCap	CMP	P/E (X)			EV/EBITDA (X)			RoE (%)			CAGR 2021-24E (%)			
	Ticker	(US\$ mn)		Rating	(Rs)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E	Revenue	EBITDA
Agrochemicals																
Bayer CropSc	BYRCS IN	2,920	SELL	5,196	38.8	32.6	27.6	27.8	23.4	19.6	23.7	25.5	24.6	11.5	10.9	13.1
Chambal Fertilizers	CHMB IN	1,634	NR	314	8.3	9.9	7.6	7.6	6.8	6.4	38.2	37.7	25.1	15.9	2.2	1.2
Coromandel Intl	CRIN IN	3,656	NR	995	20.0	17.4	15.9	13.1	11.8	10.8	27.7	28.1	25.5	19.7	8.8	11.5
Dhanuka	DAGRI IN	409	REDUCE	703	15.7	15.1	13.6	11.7	10.7	9.7	23.8	21.1	20.6	9.5	5.4	5.0
Godrej Agrovet	GOAGRO IN	1,224	ADD	509	23.3	21.0	17.6	17.0	14.1	12.0	16.3	16.4	17.7	18.8	19.6	21.1
PI Industries	PI IN	5,597	ADD	2,950	53.0	41.0	33.1	38.2	29.7	23.9	14.7	16.5	17.8	19.3	20.9	21.4
Rallis	RALI IN	498	REDUCE	205	24.2	21.6	18.3	14.6	13.1	11.0	10.0	10.5	11.6	11.8	4.3	(0.5)
Sharda Cropchem	SHCR IN	768	NR	681	18.3	15.3	12.9	28.0	21.2	16.8	19.3	19.5	19.4	26.6	32.7	27.7
Sumitomo Chemicals	SUMICHEM IN	2,952	NR	473	56.5	46.6	38.4	39.8	32.5	26.9	19.0	23.9	24.0	15.5	22.7	21.2
UPL	UPLL IN	6,440	BUY	686	13.7	11.4	9.8	7.8	6.5	5.4	17.7	19.1	19.5	13.0	13.4	21.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 7: Consolidated financial summary for Rallis, March fiscal year-ends (Rs mn, unless specified)

	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Profit model									
Revenues	16,783	17,909	19,840	22,518	24,294	26,039	30,030	33,990	37,863
EBITDA	2,634	2,630	2,531	2,594	3,229	2,741	3,118	3,668	4,173
Other income	128	144	307	343	404	274	310	324	337
Interest	(73)	(43)	(53)	(61)	(52)	(48)	(84)	(99)	(49)
Depreciation	(473)	(460)	(461)	(615)	(641)	(743)	(881)	(986)	(1,119)
Extraordinary items	1,584	—	(122)	114	95	—	—	—	—
Profit before tax	3,799	2,270	2,203	2,375	3,035	2,225	2,463	2,907	3,342
Tax expense	(829)	(600)	(655)	(538)	(749)	(582)	(616)	(727)	(836)
Minority interest	(4)	(6)	(6)	(12)	—	—	—	—	—
Reported PAT	2,975	1,676	1,554	1,849	2,286	1,643	1,847	2,180	2,507
Adjusted PAT	1,702	1,676	1,640	1,760	2,215	1,643	1,847	2,180	2,507
Adjusted EPS (Rs)	8.8	8.6	8.4	9.0	11.4	8.4	9.5	11.2	12.9
Balance sheet									
Equity	11,112	11,906	12,859	14,095	15,908	16,967	18,133	19,535	21,167
Borrowings	390	261	752	967	503	796	1,796	1,254	254
Long-term liabilities/minority interest	542	449	443	528	312	242	242	242	242
Current liabilities and provisions	5,242	7,370	7,790	8,895	9,164	10,793	11,612	12,713	13,789
Total liabilities	17,286	19,986	21,843	24,485	25,886	28,797	31,783	33,744	35,452
Net fixed assets	4,049	4,196	4,302	4,462	5,299	6,196	7,815	8,329	8,710
Goodwill	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958
Investments	2,392	1,012	1,148	3,290	2,836	2,311	2,311	2,311	2,311
Cash and cash equivalents	99	334	458	487	551	632	879	731	591
Other current assets	8,787	12,486	13,978	14,288	15,242	17,700	18,820	20,414	21,880
Total assets	17,286	19,986	21,843	24,485	25,886	28,797	31,783	33,744	35,452
Free cash flow									
Operating cash flow	3,277	2,050	1,980	2,365	2,747	2,328	2,418	2,842	3,288
Working capital changes	537	(1,680)	(1,232)	969	(602)	(688)	(300)	(495)	(389)
Capital expenditure	(393)	(574)	(462)	(786)	(1,685)	(1,850)	(2,500)	(1,500)	(1,500)
Free cash flow	3,420	(203)	286	2,548	460	(210)	(382)	847	1,399
Ratios									
Gross margin (%)	43.4	43.1	40.9	38.3	39.3	37.6	36.3	35.9	35.8
EBITDA margin (%)	15.7	14.7	12.8	11.5	13.3	10.5	10.4	10.8	11.0
Net debt/equity (X)	0.0	(0.0)	0.0	0.0	(0.0)	0.0	0.1	0.0	(0.0)
Book value (Rs/share)	57.1	61.2	66.1	72.5	81.8	87.2	93.2	100.4	108.8
RoAE (%)	16.3	13.6	11.5	11.0	12.7	8.8	9.2	10.3	11.1
RoACE (%)	15.2	12.9	10.9	10.3	12.1	8.5	8.8	9.8	10.7

Source: Company, Kotak Institutional Equities estimates

June 2022: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
18-Jul	19-Jul	20-Jul	21-Jul	22-Jul	23-Jul	24-Jul
			Embassy Office Parks RET	Atul	ICICI Bank	Infosys
			Hindustan Zinc	Bandhan Bank	Kotak Mahindra Bank	
			IDBI Bank	Coforge	Navin Fluorine	
			JSW Energy	Crompton Greaves Consumer	Yes Bank	
			Mphasis	HDFC AMC		
			Persistent Systems	JSW Steel		
			PVR	Mahindra CIE Automotive		
			RBL Bank	Reliance Industries		
			SRF	UltraTech Cement		
25-Jul	26-Jul	27-Jul	28-Jul	29-Jul	30-Jul	31-Jul
Axis Bank	Asian Paints	Bajaj Finance	Aavas Financiers	Ashok Leyland	Bank of Baroda	
Canara Bank	Bajaj Auto	Biocon	Bajaj Finserv	Cholamandalam	IDFC Bank	
GlaxoSmithkline Pharma	L&T	Clean Science	Bajaj Holdings & Investment	Cipla		
IIFL Wealth	Relaxo Footwear	Colgate-Palmolive (India)	Dr Reddys Laboratories	Emami		
Jyothy Labs	SIS	Coromandel International	Equitas Small Finance Bank	Exide Industries		
Macrotech Developers	Tata Power Co.	Laurus Labs	Jubilant Foodworks	HDFC		
Supreme Industries	Ujjivan Small Finance Bank	Maruti Suzuki	MMFSL	IOCL		
Tata Steel	Union Bank of India	Schaeffler India	Nestle India	Mahindra Logistics		
Tech Mahindra	United Spirits	Shriram City Union Finance	Nippon Life India Asset Management	Star Health Insurance		
		Tata Motors	Orient Cement	Sun Pharmaceuticals		
		TeamLease Services	SBI Life Insurance	Torrent Pharmaceuticals		
		United Breweries	Shree Cement			
			Shriram Transport Finance Co.			
			Sona BLW Precision			
			TVS Motor Co.			
			Vedanta			
			Westlife Development			
1-Aug	2-Aug	3-Aug	4-Aug	5-Aug	6-Aug	7-Aug
Castrol India	Bosch	Aditya Birla Capital	Dabur India	Petronet LNG	Amara Raja Batteries	
Escorts Kubota	Godrej Properties	Godrej Consumer Products	GSPL	Titan Co.	Marico	
Kansai Nerolac Paints	Gujarat Gas					
The Ramco Cements	Indus Towers					
UPL						
8-Aug	9-Aug	10-Aug	11-Aug	12-Aug	13-Aug	14-Aug
Motherson Sumi Systems	ABB	Endurance Technologies	Page Industries	Apollo Tyres		
		Pidilite Industries		Timken India		
		Tata Consumer Products				

Source: BSE, NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M	
		20-Jul-22	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	(US\$ mn)
Automobiles & Components																													
Amara Raja Batteries	SELL	476	500	5	81	1.0	171	30	37	44	(21)	24	19	16	13	11	8	6	5	1.8	1.6	1.4	12	13	14	0.9	1.6	1.9	3
Apollo Tyres	REDUCE	212	175	(18)	135	1.7	638	10	10	15	(20)	(4)	55	21	22	14	7	7	5	1.2	1.1	1.1	6	5	8	1.4	1.7	1.9	9
Ashok Leyland	BUY	149	150	1	436	5.4	2,936	1	4	7	153	661	82	275	36	20	45	18	12	5.7	5.2	4.5	2	15	24	0.7	1.1	2.0	27
Bajaj Auto	ADD	4,002	4,100	2	1,158	14	289	165	194	221	5	18	13	24	21	18	18	15	13	4.3	4.2	4.0	19	21	22	3.5	3.9	4.4	28
Balkrishna Industries	SELL	2,276	1,775	(22)	440	5.5	193	74	85	88	22	14	4	31	27	26	20	17	16	6.3	5.4	4.7	22	22	20	1.2	1.1	1.2	8
Bharat Forge	REDUCE	682	660	(3)	318	4.0	466	23	23	33	948	1	41	29	29	21	18	17	13	4.8	4.3	3.7	18	16	19	0.8	0.9	1.0	12
CEAT	SELL	1,200	850	(29)	49	0.6	40	20	10	68	(83)	(49)	589	61	121	18	10	10	7	1.5	1.5	1.4	2	1	8	0.2	1.0	1.5	2
Eicher Motors	SELL	3,045	2,250	(26)	833	10.4	272	62	91	114	25	47	25	49	34	27	34	24	20	7.7	6.7	5.7	16	21	23	0.7	0.8	0.8	27
Endurance Technologies	ADD	1,429	1,320	(8)	201	2.5	141	34	45	61	(8)	32	33	42	31	24	20	15	12	5.1	4.6	4.0	12	15	17	0.4	0.8	0.9	3
Escorts Kubota	REDUCE	1,733	1,600	(8)	192	2.9	111	76	83	92	(12)	9	11	23	21	19	20	16	15	2.2	2.2	2.0	10	11	11	0.4	0.7	0.8	11
Exide Industries	REDUCE	150	155	3	128	1.6	850	9	10	11	1	16	8	17	14	13	9	8	7	1.2	1.1	1.1	9	8	8	1.3	1.7	1.7	3
Hero Motocorp	REDUCE	2,827	2,450	(13)	565	7.1	200	124	152	180	(17)	23	18	23	19	16	14	11	9	3.6	3.4	3.2	16	19	21	3.4	3.8	4.5	25
Mahindra CIE Automotive	SELL	246	215	(13)	93	1.2	378	11	18	20	277	67	10	23	14	13	10	7	6	1.8	1.6	1.5	8	12	12	—	—	—	3
Mahindra & Mahindra	BUY	1,166	1,400	20	1,449	18.1	1,159	44	58	70	54	33	19	27	20	17	20	14	12	3.5	3.0	2.6	14	16	17	1.0	0.8	0.9	57
Maruti Suzuki	SELL	8,749	7,150	(18)	2,643	33.0	302	125	207	300	(12)	66	45	70	42	29	39	25	17	4.9	4.6	4.2	7	11	15	0.7	0.9	1.4	75
Minda Industries	ADD	522	475	(9)	298	3.7	571	6	11	14	65	72	32	84	49	37	35	25	20	8.7	7.4	6.1	10	15	17	0.1	0.2	0.3	4
Motherson Sumi Systems	ADD	127	140	11	572	7.1	4,518	1	2	6	(28)	68	196	105	63	21	15	14	8	2.8	2.7	2.4	3	4	12	0.5	0.5	0.5	11
MRF	SELL	79,785	55,000	(31)	338	4.2	4	1,578	1,707	3,004	(48)	8	76	51	47	27	16	14	10	2.4	2.3	2.1	5	5	8	0.2	0.1	0.2	9
Schaeffler India	ADD	2,411	2,250	(7)	377	4.7	156	40	57	67	116	41	18	60	42	36	37	27	23	10.3	9.0	7.8	19	23	23	0.1	0.1	0.1	3
SKF	SELL	3,866	2,750	(29)	191	2.4	49	80	97	115	33	22	18	48	40	34	34	27	23	10.1	8.4	7.0	21	21	21	0.3	0.4	0.4	2
Sona BLW Precision	SELL	573	550	(4)	335	4.2	583	6	7	11	65	17	53	92	79	52	60	46	32	16.7	14.2	11.6	21	19	25	0.1	0.2	0.3	6
Tata Motors	BUY	453	470	4	1,736	20.2	3,829	(28)	14	40	(654)	150	185	NM	32	11	10	7	4	3.9	3.5	2.7	NM	11	27	—	—	—	97
Timken	SELL	2,809	2,000	(29)	211	2.6	75	43	60	75	128	39	24	65	46	38	41	31	25	12.8	10.4	8.4	22	25	25	0.1	0.1	0.1	3
TVS Motor	SELL	877	600	(32)	417	5.2	475	19	26	34	46	40	28	47	33	26	22	17	14	8.6	7.2	5.9	20	24	25	0.4	0.5	0.6	18
Varroc Engineering	ADD	340	500	47	52	0.6	135	(82)	9	23	(76)	112	144	NM	36	15	18	12	8	2.3	2.1	1.9	NM	6	13	—	—	—	4
Automobiles & Components	Cautious				13,247	164.5					(30.1)	165.8	50.9	80.5	30.3	20.1	17.9	12.9	9.6	4.2	3.9	3.4	5.3	12.8	16.9	0.9	1.0	1.3	450
Banks																													
AU Small Finance Bank	SELL	577	550	(5)	364	4.5	630	18	19	25	(4)	5	30	32	31	24	—	—	—	4.9	4.3	3.7	16	15	16	—	—	—	21
Axis Bank	BUY	706	960	36	2,168	27.1	3,070	42	54	71	97	26	33	17	13	10	—	—	—	2.0	1.7	1.6	12	13	17	0.1	1.1	0.7	81
Bandhan Bank	ADD	282	360	28	454	5.7	1,611	1	32	40	(94)	4,000	25	361	9	7	—	—	—	2.8	2.2	1.7	1	27	27	—	2.3	2.8	28
Bank of Baroda	ADD	112	110	(2)	579	7.2	5,178	14	18	26	777	29	44	8	6	4	—	—	—	0.8	0.8	0.6	10	11	15	2.5	3.2	4.6	33
Canara Bank	ADD	220	260	18	399	5.0	1,814	31	33	40	101	6	21	7	5	—	—	—	0.9	0.8	0.7	9	9	10	3—	3—	4—	25	
City Union Bank	ADD	158	145	(8)	117	1.5	740	10	11	14	28	6	26	15	15	12	—	—	—	2.0	1.8	1.6	12	12	13	0.6	1.4	1.7	4
DCB Bank	BUY	88	145	65	27	0.3	311	9	17	22	(14)	81	32	9	5	4	—	—	—	0.8	0.7	0.6	8	13	15	1.1	3.0	4.0	1
Equitas Small Finance Bank	ADD	43	56	32	53	0.7	1,252	2	4	5	(34)	79	33	19	11	8	—	—	—	1.3	1.1	1.0	7	11	13	—	—	—	1
Federal Bank	BUY	105	120	14	221	2.8	2,103	9	13	14	13	44	10	12	8	7	—	—	—	1.2	1.1	1.0	11	14	13	1.7	2.5	2.7	15
HDFC Bank	BUY	1,365	1,650	21	7,583	94.8	5,546	67	76	79	18	14	4	20	18	17	—	—	—	3.2	2.8	2.3	17	16	16	1.1	1.3	1.3	142
ICICI Bank	BUY	783	975	25	5,448	68.1	6,950	34	40	45	43	19	12	23	20	17	—	—	—	3.4	3.0	2.6	15	15	15	0.7	1.0	1.2	116
IndusInd Bank	ADD	879	1,000	14	682	8.5	775	60	86	106	62	44	24	15	10	8	—	—	—	1.5	1.3	1.2	10	13	15	1.0	1.4	1.7	33
Karur Vysya Bank	BUY	48	70	47	38	0.5	800	8	12	16	87	44	29	6	4	3	—	—	—	0.6	0.5	0.5	9	12	14	3.4	6.6	8.5	2
Punjab National Bank	REDUCE	31	30	(4)	346	4.3	11,011	3	5	6	63	52	27	10	7	5	—	—	—	0.5	0.5	0.4	4	6	7	2	3	4	12
RBL Bank	RS	91	—	—	55	0.7	600	(1)	20	29	(115)	1,740	44	NM	4	3	—	—	—	0.5	0.4	0.4	NM	9	12	(0.1)	2.2	4.8	29
SBI Cards and Payment Service	BUY	877	1,150	31	827	10.3	943	17	25	35	64	43	43	51	36	25	—	—	—	10.7	8.3	6.3	23	26	29	0.1	0.2	0.2	17
State Bank of India	BUY	509	700	38	4,539	56.7	8,925	35	53	59	55	48	12	14	10	9	—	—	—	1.9	1.6	1.4	12	16	15	1.4	1.8	2.2	83
Ujjivan Small Finance Bank	BUY	16	20	25	28	0.3	1,728	(3)	3	4	(4,058)	202	47	NM	6	4	—	—	—	1.1	0.9	0.8	NM	15	19	0.0	0.0	0.0	0
Union Bank	ADD	37	45	20	256	3.2	6,835	8	8	11	72	(2)	50	5	5	3	—	—	—	0.5	0.4	0.4	8	7	10	5.1	5.0	7.5	3
YES Bank	SELL	14	13	(4)	341	4.3	25,055	0	0	1	131	(56)	180</																

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M	
		20-Jul-22	(Rs)	(%)	(Rs bn) (US\$ bn)	(mn)	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	(US\$ mn)	
Building Products																													
Astral	SELL	1,763	1,530	(13)	354	4.4	201	26	31	39	28	18	29	68	58	45	43	36	29	15.2	12.7	10.6	25	24	26	0.2	0.4	0.7	7
Building Products		Cautious			354	4.4					28.0	18.5	28.5	68.4	57.7	44.9	43.2	36.4	28.8	15.2	12.7	10.6	22	22	24	0.2	0.4	0.7	7
Capital goods																													
ABB	ADD	2,599	2,380	(8)	551	6.9	212	19	27	39	140	41	44	134	95	66	94	59	46	13.6	12.3	10.8	11	14	17	0.2	0.2	0.3	9
Bharat Electronics	REDUCE	255	250	(2)	621	7.8	2,437	10	10	11	14	6	6	26	25	23	16	16	14	5.1	4.6	4.3	21	20	19	0.6	1.9	2.0	19
BHEL	SELL	51	32	(37)	177	2.2	3,482	1	(0)	2	115	(130)	684	43	NM	24	21	88	9	0.7	0.7	0.6	2	NM	3	0.0	(0.3)	1.3	14
Carborundum Universal	ADD	759	820	8	144	1.8	190	18	23	28	17	30	22	43	33	27	27	20	17	6.1	5.4	4.8	15	17	19	0.3	0.8	1.0	2
Cochin Shipyard	BUY	321	450	40	42	0.5	132	45	32	32	(4)	(28)	(0)	7	10	10	2	4	3	1.0	0.9	0.9	14	9	9	1.2	4.3	4.5	1
Cummins India	BUY	1,159	1,360	17	321	4.0	277	30	37	43	30	22	18	39	32	27	35	29	24	6.6	6.1	5.6	18	20	22	0.9	1.7	2.0	6
G R Infraprojects	SELL	1,245	1,236	(1)	120	1.5	97	79	90	102	(3)	14	14	16	14	12	10	9	8	2.8	2.3	1.9	17	17	16	0.0	0.0	0.0	0
IRB Infrastructure	BUY	212	315	48	128	1.6	604	6	10	15	208	73	45	35	20	14	10	9	7	1.0	1.0	0.9	4	5	7	0.7	1.2	1.9	4
Kalpataru Power Transmission	BUY	371	430	16	55	0.7	164	20	34	43	(36)	71	27	19	11	9	6	5	4	1.4	1.3	1.1	8	12	14	1.8	0.9	1.1	1
KEC International	BUY	455	465	2	117	1.5	257	15	23	36	(32)	57	56	31	20	13	16	11	8	3.2	2.8	2.4	11	15	20	0.3	0.5	0.8	2
L&T	BUY	1,740	2,025	16	2,445	30.6	1,405	61	74	97	26	21	31	29	24	18	19	16	14	3.5	3.3	3.1	13	14	18	1.3	1.8	2.3	45
Siemens	REDUCE	2,676	2,300	(14)	953	11.9	356	39	46	56	31	20	21	69	58	48	46	38	32	8.4	7.7	6.9	13	14	15	0.4	0.5	0.5	9
Thermax	ADD	2,107	2,100	(0)	251	3.1	113	28	42	55	20	51	32	76	50	38	58	39	29	58.2	38.6	29.0	9	13	16	0.4	1.2	1.5	2
Capital goods		Attractive			5,926	74.1					52.9	17.0	30.9	34.8	29.7	22.7	20.8	18.0	14.8	3.6	3.4	3.1	10.4	11.4	13.8	0.8	1.2	1.6	114
Commercial & Professional Services																													
SIS	BUY	468	600	28	69	0.9	148	22	23	31	(10)	6	33	21	20	15	15	13	11	3.3	3.0	2.6	17	16	18	1.2	1.2	1.6	1
TeamLease Services	BUY	3,601	4,200	17	62	0.8	17	23	94	124	(33)	306	32	156	38	29	41	32	25	8.9	7.2	5.8	5.9	21	22	—	—	—	1
Commercial & Professional Services		Attractive			130	1.6					(14.2)	38.3	32.8	35.7	25.8	19.4	20.7	17.4	14.0	4.7	4.1	3.5	13.2	15.9	17.9	0.6	0.6	0.9	2
Commodity Chemicals																													
Asian Paints	REDUCE	3,006	3,150	5	2,884	36.0	959	33	45	55	0	38	22	92	67	55	60	44	36	20.9	18.6	16.5	24	30	32	0.6	0.9	1.2	54
Berger Paints	REDUCE	578	610	5	562	7.0	971	9	12	15	16	38	23	67	49	40	42	31	25	14.3	12.4	10.7	23	27	29	0.6	1.0	1.2	7
Kansai Nerolac	REDUCE	396	415	5	214	2.7	539	7	9	13	(31)	33	42	57	43	31	34	27	20	5.1	4.9	4.6	9	12	15	0.6	1.3	2.0	2
Tata Chemicals	BUY	863	1,090	26	220	2.7	255	50	67	74	393	35	11	17	13	12	9	7	6	1.2	1.1	1.0	8	9	9	1.4	1.9	2.2	17
Commodity Chemicals		Cautious			3,879	48.5					20.7	36.7	20.9	69.0	50.5	41.8	42.5	31.8	26.5	9.7	8.8	8.0	14.0	17.5	19.20	0.7	1.0	1.3	79
Construction Materials																													
ACC	REDUCE	2,159	2,075	(4)	405	5.1	188	97	57	110	29	(41)	92	22	38	20	11	18	10	2.9	2.7	2.6	14	7	14	2.7	1.3	2.6	15
Ambuja Cements	REDUCE	368	345	(6)	730	9.1	1,986	15	11	16	8	(28)	49	25	35	23	10	13	9	2.9	2.7	2.5	12	8	11	1.7	0.6	0.8	29
Dalmia Bharat	ADD	1,513	1,600	6	283	3.5	185	62	35	57	(6)	(43)	62	25	43	27	12	12	9	1.8	1.7	1.6	8	4	6	1	—	1	4
Grasim Industries	ADD	1,442	1,500	4	949	11.9	658	109	104	130	60	(4)	25	13	14	11	7	7	5	1.3	1.2	1.0	10	9	10	0.7	0.4	0.4	19
J K Cement	SELL	2,237	1,820	(19)	173	2.2	77	89	69	106	(5)	(23)	55	25	33	21	13	15	11	4.0	3.6	3.1	17	12	16	0.7	0.4	0.4	4
Nuvoco Vistas Corp	ADD	291	350	20	104	1.3	357	1	1	14	209	40	1,008	324	231	21	10	10	7	1.2	1.2	1.1	0	1	5	0.0	0.0	0.0	1
Orient Cement	BUY	115	140	21	24	0.3	205	13	8	12	23	(40)	60	9	15	9	4	7	7	1.5	1.4	1.3	19	10	15	2.2	1.7	1.7	1
Shree Cement	SELL	20,208	15,500	(23)	729	9.1	36	659	501	740	3	(24)	48	31	40	27	20	21	15	4.2	3.9	3.5	15	10	13	0.4	0.4	0.5	11
The Ramco Cements	SELL	666	540	(19)	157	2.0	236	38	18	37	17	(54)	113	18	38	18	15	16	10	2.4	2.2	2.0	14	6	12	0.0	0.3	0.6	4
UltraTech Cement	REDUCE	6,089	6,200	2	1,758	22.0	289	249	209	298	29	(16)	42	24	29	20	16	16	12	3.5	3.2	2.8	15	11	15	0.6	0.5	0.7	33
Construction Materials		Cautious			5,313	66.4					26.5	(19.5)	45.1	21.7	27.0	18.6	11.1	11.7	8.7	2.4	2.2	2.0	11.1	8.3	10.9	0.9	0.5	0.8	122

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M	
		20-Jul-22	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	(US\$ mn)
Consumer Durables & Apparel																													
Crompton Greaves Consumer	ADD	396	400	1	251	3.1	628	9	11	14	(4)	18	23	42	36	29	34	26	22	10.1	8.3	6.8	27	26	26	1.4	0.6	0.6	7
Havells India	REDUCE	1,223	1,235	1	766	9.6	626	19	25	29	15	31	17	64	49	42	42	36	31	13.2	11.6	10.1	22	25	26	0.6	0.8	1.0	14
Page Industries	SELL	43,991	38,350	(13)	491	6.1	11	481	613	742	58	27	21	91	72	59	62	49	41	45.1	38.1	32.8	54	58	59	0.8	1.1	1.3	12
Polycab	REDUCE	2,199	2,105	(4)	329	4.1	149	57	76	86	0	34	14	39	29	26	26	20	17	5.9	5.2	4.5	16	19	19	0.6	0.9	1.0	13
TCNS Clothing Co.	SELL	578	500	(13)	36	0.4	69	(1)	14	17	92	1,787	16	NM	40	34	43	16	12.5	6.3	5.2	4.3	NM	14	14	—	—	—	1
Voltas	SELL	1,030	875	(15)	341	4.3	331	15	19	25	(4)	25	31	68	54	41	50	39	31	6.2	5.8	5.4	10	11	14	0.5	0.7	0.9	17
Whirlpool	SELL	1,695	1,425	(16)	215	2.7	127	19	34	45	(31)	77	33	89	50	38	48	27	22	6.4	5.8	5.2	8	12	14	0.3	0.4	0.5	3
Consumer Durables & Apparel	Cautious				2,429	30.3					6.9	33.8	20.6	62.1	46.4	38.5	41.3	32.0	26.7	10.0	8.8	7.7	16.0	19.0	20.1	0.7	0.8	0.9	67
Consumer Staples																													
Britannia Industries	ADD	3,828	3,700	(3)	922	11.5	241	63	67	85	(18)	6	26	60	57	45	43	40	32	36.1	36.6	29.5	50	63	72	1.8	1.6	1.8	18
Colgate-Palmolive (India)	ADD	1,574	1,675	6	428	5.3	272	40	41	46	4	4	12	40	38	34	27	25	23	24.7	24.0	22.8	74	64	69	2.5	2.5	2.8	7
Dabur India	ADD	558	575	3	989	12.4	1,768	10	11	13	7	8	16	54	50	43	44	41	35	11.8	10.9	10.0	23	23	24	0.9	1.1	1.3	13
Godrej Consumer Products	BUY	874	925	6	893	11.2	1,023	18	18	23	2	4	24	50	48	39	37	34	27	7.7	8.0	7.4	17	17	20	1.1	1.3	1.5	15
Hindustan Unilever	ADD	2,605	2,750	6	6,120	76.5	2,350	37	42	51	10	13	21	70	62	51	48	43	36	12.6	12.2	11.6	18	20	23	1.3	1.4	1.7	62
ITC	BUY	298	310	4	3,682	46.0	12,342	12	14	15	15	15	8	24	21	20	18	15	14	6.0	5.8	5.7	24	27	29	3.9	4.0	4.4	62
Jyothy Laboratories	ADD	168	160	(5)	62	0.8	367	4	6	8	(26)	26	36	38	30	22	24	20	15	4.3	4.2	4.0	11	14	19	2.7	3.0	3.3	1
Marico	REDUCE	513	505	(2)	663	8.3	1,290	9	11	12	5	11	16	54	49	42	39	34	29	19.8	18.5	17.2	37	39	43	1.5	1.7	2.0	11
Nestle India	ADD	18,617	19,100	3	1,795	22.4	96	247	265	314	14	7	19	75	70	59	51	46	40	86.1	74.2	64.2	116	113	116	1.1	1.2	1.5	17
Tata Consumer Products	ADD	795	785	(1)	733	9.2	922	11	14	16	11	27	19	74	59	49	42	34	30	4.8	4.6	4.4	7	8	9	0.8	0.9	0.9	16
United Breweries	ADD	1,656	1,725	4	438	5.5	264	14	28	36	204	100	30	120	60	46	62	37	29	11.1	10.0	9.1	10	18	21	0.6	1.3	1.6	6
United Spirits	ADD	817	940	15	594	7.4	727	13	15	19	112	11	26	61	55	43	39	35	29	11.5	10.1	8.8	21	20	22	0.0	0.6	0.9	12
Varun Beverages	BUY	893	850	(5)	580	7.3	650	11	19	22	75	77	18	84	47	40	37	25	22	14.2	11.1	8.9	18	26	25	0.2	0.1	0.2	15
Consumer Staples	Attractive				17,898	223.7					12.6	14.8	15.6	48.7	42.4	36.7	34.5	29.9	25.9	10.6	10.1	9.6	22	24	26	1.7	1.9	2.1	255
Diversified Financials																													
Aavas Financiers	ADD	2,268	2,150	(5)	179	2.2	79	45	52	62	23	15	20	50	44	36	—	—	—	6.4	5.6	4.8	14	14	14	0.0	0.0	0.0	2
Aptus Value Housing Finance	ADD	283	275	—	141	1.8	497	8	8	10	36	12	14	38	33	29	—	—	—	4.8	4.2	3.7	15	13	13	0.0	0.0	0.0	1
Bajaj Finance	REDUCE	6,074	5,100	(16)	3,678	46.0	603	116	159	190	59	37	19	52	38	32	—	—	—	8.4	7.0	5.8	17	20	20	0.3	0.3	0.3	105
Bajaj Finserv	ADD	12,421	13,300	7	1,977	24.7	159	286	516	633	2	80	23	43	24	20	—	—	—	4.9	4.7	4.0	12	20	22	0.1	0.1	0.1	50
Cholamandalam	ADD	672	750	12	552	6.9	821	26	30	37	42	16	23	26	22	18	—	—	—	5.0	4.2	3.5	20	19	20	0.3	0.3	0.4	17
Computer Age Management S	SELL	2,396	2,050	(14)	117	1.5	49	59	63	70	39	8	10	41	38	34	—	—	—	18.1	15.3	13.1	49	44	41	1.6	1.7	1.9	5
HDFC	BUY	2,231	2,750	23	4,049	50.6	1,813	76	83	94	14	10	13	29	27	24	—	—	—	3.4	3.1	2.8	12	12	12	1.0	1.1	1.3	100
HDFC AMC	ADD	1,922	1,900	(1)	410	5.1	214	65	70	77	5	7	10	29	27	25	—	—	—	7.4	6.7	6.0	27	26	25	2.2	2.4	2.6	13
Home First Finance	BUY	771	910	18	68	0.8	88	21	25	31	85	19	22	36	31	25	—	—	—	4.3	3.8	3.3	13	13	14	—	—	—	1
IIFL Wealth	BUY	1,613	2,025	26	143	1.8	89	64	72	84	54	12	17	25	22	19	—	—	—	4.9	4.5	4.3	20	21	23	3.4	3.3	3.9	1
L&T Finance Holdings	ADD	71	95	34	176	2.2	2,474	4	5	8	13	14	72	16	14	8	—	—	—	0.9	0.8	0.7	5	6	9	0.7	0.7	0.7	9
LIC Housing Finance	BUY	368	600	63	202	2.5	550	42	65	74	(23)	56	14	9	6	5	—	—	—	1.0	0.9	0.8	10	14	14	2.3	3.6	4.1	13
Mahindra & Mahindra Finance	ADD	204	210	3	252	3.2	1,233	8	16	20	194	103	20	25	13	10	—	—	—	1.7	1.6	1.4	7	12	14	1.8	3.6	1.9	10
Muthoot Finance	ADD	1,025	1,225	19	412	5.1	401	99	114	134	6	15	18	10	9	8	—	—	—	2.2	1.9	1.6	24	23	22	2.0	2.2	2.6	10
Shriram City Union Finance	BUY	1,866	2,600	39	125	1.6	67	163	179	225	6	10	25	11	10	8	—	—	—	1.5	1.3	1.2	13	13	14	2.0	1.4	1.8	2
Shriram Transport	BUY	1,408	1,675	19	381	4.8	271	100	141	161	2	41	14	14	10	9	—	—	—	1.5	1.3	1.2	11	14	14	1.4	1.5	1.7	18
Diversified Financials	Attractive				12,860	160.7					17.9	30.2	17.8	30.1	23.1	19.6				3.7	3.3	2.9	12.4	14.4	14.9	0.8	0.9	0.9	359

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M	
		20-Jul-22	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	(US\$ mn)
Electric Utilities																													
CESC	BUY	75	105	40	99	1.2	1,326	10	13	14	2	23	13	7	6	5	6	4	4	0.8	0.7	0.6	11	13	13	1.6	2.7	2.8	1
JSW Energy	SELL	242	115	(52)	397	5.0	1,640	7	6	7	36	(10)	26	37	41	32	14	15	13	2.3	2.2	2.1	7	5	7	0.8	0.8	0.8	3
NHPC	ADD	33	36	8	334	4.2	10,045	4	4	4	5	17	2	9	8	8	11	9	8	1.0	0.9	0.9	10	12	11	5.4	7.1	7.2	4
NTPC	ADD	151	165	10	1,460	18.2	9,895	17	18	20	3	7	11	8.9	8.3	8	9	8	7	1.1	1.0	0.9	12	12	13	4.6	4.5	5.0	38
Power Grid	BUY	209	245	17	1,460	18.2	6,975	19	21	22	4	9	4	10.9	10.0	10	8	7	6	1.9	1.8	1.7	18	19	18	7.0	6.3	6.5	34
Tata Power	SELL	228	220	(3)	727	9.1	3,196	7	7	9	84	(6)	23	31	33	27	16	16	15	3.2	2.9	2.7	11	9	11	—	—	—	66
Electric Utilities	Attractive				4,478	56.0					7.0	8.1	8.5	11.7	10.8	9.9	9.0	8.1	7.5	1.5	1.4	1.3	12.7	12.8	12.9	4.3	4.2	4.5	147
Fertilizers & Agricultural Chemicals																													
Bayer Cropscience	SELL	5,196	4,700	(10)	234	2.9	45	134	159	188	3	19	18	39	33	28	28	23	20	9.2	7.5	6.2	24	25	25	0.5	0.6	0.7	1
Dhanuka Agritech	REDUCE	703	725	3	33	0.4	47	45	47	52	1	4	11	16	15	14	12	11	10	3.4	3.0	2.6	24	21	21	2.0	2.4	3.0	0
Godrej Agrovet	ADD	509	580	14	98	1.2	192	22	24	29	34	11	19	23	21	18	17	14	12	3.6	3.3	2.9	16	16	18	1.9	2.2	2.6	3
Rallis India	REDUCE	205	210	3	40	0.5	195	8	9	11	(26)	12	18	24	22	18	15	13	11	2.3	2.2	2.0	10	11	12	1.5	1.7	2.0	1
UPL	BUY	686	910	33	515	6.4	765	50	60	70	27	20	16	14	11	10	8	6	5	2.4	2.1	1.8	18	19	20	1.5	1.9	2.2	24
Fertilizers & Agricultural Chen	Neutral				919	11.5					19.2	23.9	18.9	18.7	15.1	12.7	10.0	8.4	7.1	3.1	2.7	2.3	16.6	17.7	18.1	1.3	1.6	1.9	30
Gas Utilities																													
GAIL (India)	BUY	142	200	41	620	7.8	4,440	23	19	19	115	(20)	(0)	6	8	8	5	6	6	1.1	1.0	1.0	20	14	13	7.1	4.9	5.3	18
GSPL	SELL	228	260	14	129	1.6	564	13	9	9	(21)	(31)	4	18	26	25	7	9	9	1.6	1.5	1.5	9	6	6	1.1	1.0	1.2	2
Indraprastha Gas	ADD	369	415	12	258	3.2	700	22	24	27	31	8	12	17	16	14	13	11	10	3.7	3.3	2.9	24	22	22	1.5	1.9	2.4	11
Mahanagar Gas	BUY	784	1,050	34	77	1.0	99	60	80	83	(4)	32	4	13	10	9	8	6	5	2.2	1.9	1.8	17	21	19	3.2	4.7	5.4	4
Petronet LNG	BUY	226	250	11	339	4.2	1,500	22	18	21	14	(18)	14	10	12	11	6	7	6	2.5	2.3	2.1	27	20	20	5.1	4.2	4.8	7
Gas Utilities	Attractive				1,424	17.8					58.1	(15.6)	4.5	8.6	10.2	9.7	6.0	6.8	6.4	1.6	1.5	1.4	18.9	14.6	14.0	4.9	3.9	4.3	43
Health Care Services																													
Apollo Hospitals	BUY	4,110	4,710	15	591	7.4	144	53	72	98	749	36	35	78	57	42	28	25	21	10.5	9.4	8.3	15	17	21	0.7	0.7	1.0	34
Aster DM Healthcare	BUY	222	240	8	111	1.4	500	9	11	13	220	20	18	24	20	17	9	7	6	2.8	2.5	2.2	13	14	14	—	—	—	2
Dr Lal Pathlabs	SELL	2,093	1,900	(9)	174	2.2	83	44	35	42	26	(21)	20	47	60	50	31	30	26	11.6	10.5	9.4	27	18	20	0.9	0.7	0.9	10
Max Healthcare	ADD	367	410	12	356	4.4	970	9	10	11	77	10	14	40	37	32	27	25	22	5.3	4.6	4.0	14	13	13	0.0	0.0	0.0	5
Metropolis Healthcare	REDUCE	1,481	1,575	6	76	0.9	51	39	36	43	7	(7)	21	38	41	34	22	23	20	8.5	7.5	6.6	25	19	21	0.8	0.7	0.9	7
Narayana Hrudayalaya	ADD	683	645	(6)	139	1.7	204	17	18	21	2,490	7	19	41	38	32	22	18	16	9.4	7.5	6.1	26	22	21	—	—	—	1
Health Care Services	Attractive				1,448	18.1					153.3	12.9	22.4	47.9	42.4	34.7	22.5	20.5	17.5	7.2	6.3	5.5	15.0	14.9	16.0	0.4	0.4	0.5	58
Hotels & Restaurants																													
Devyani International	ADD	165	151	(9)	199	2.5	1,204	1	2	2	304	5	38	113	108	78	42	31	24	29.0	22.9	17.7	44	24	26	0.0	0.0	0.0	3
Jubilant Foodworks	ADD	577	615	7	381	4.8	660	7	8	10	89	28	18	87	68	58	34	27	23	19.5	15.7	12.6	26	25	24	0.2	0.2	0.2	25
Lemon Tree Hotels	ADD	65	64	(2)	52	0.6	791	(1)	1	3	31	174	251	NM	80	23	57	16	10	6.2	6.2	5.4	NM	8	25	0.0	1.1	1.5	3
Restaurant Brands Asia	ADD	117	115	(2)	58	0.7	493	(2)	(0)	1	57	98	2,008	NM	NM	168	59	25	17	3.0	3.0	2.9	NM	NM	2	0.0	0.0	0.0	1
Sapphire Foods	BUY	1,111	1,425	28	71	0.9	64	7	12	20	147	60	71	152	95	55	22	16	12	7.0	6.5	5.8	6	7	11	0.0	0.0	0.0	2
Westlife Development	ADD	516	540	5	81	1.0	156	(0)	7	10	98	6,396	45	NM	77	53	43	22	18	17.4	14.2	11.2	NM	20	24	0.0	0.0	0.0	1
Hotels & Restaurants	Attractive				841	10.5					237.1	106.7	47.7	176.7	85.5	57.9	36.9	24.5	19.0	12.2	10.9	9.3	6.9	12.7	16.1	0.1	0.1	0.2	35

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M	
		20-Jul-22	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	(US\$ mn)
Insurance																													
HDFC Life Insurance	BUY	525	710	35	1,110	13.9	2,020	6	7	8	(15)	21	22	92	76	62	—	—	—	7.2	6.9	6.6	10	9	11	0.3	0.3	0.4	26
ICICI Lombard	REDUCE	1,217	1,300	7	598	7.5	491	26	37	44	(20)	44	19	47	33	28	—	—	—	6.6	5.7	4.9	15	19	19	0.7	0.8	0.9	12
ICICI Prudential Life	BUY	523	650	24	752	9.4	1,437	5	6	7	(22)	15	15	100	87	75	—	—	—	8.2	7.6	7.1	8	9	10	0.6	0.6	0.6	9
Max Financial Services	BUY	836	1,050	26	288	3.6	345	3	11	12	3	281	8	281	74	68	—	—	—	—	—	—	2	6	6	0.0	0.0	0.0	5
PB Fintech	BUY	524	700	34	236	2.9	467	(18)	(13)	(5)	(343)	29	59	NM	NM	NM	—	—	—	—	—	—	NM	NM	NM	0.0	0.0	0.0	9
SBI Life Insurance	BUY	1,186	1,500	26	1,187	14.8	1,003	15	17	19	3	14	12	79	69	62	—	—	—	10.4	9.2	8.2	14	14	14	0.2	0.2	0.3	15
Star Health and Allied Insuranc	ADD	684	625	(9)	393	4.9	576	(18)	7	16	(9)	141	122	NM	92	42	—	—	—	8.5	7.9	6.7	NM	9	17	0.0	0.0	0.0	5
Insurance	Attractive				4,563	57.0					(32.2)	105.4	31.1	153.9	75.0	57.2				7.4	6.8	6.2	4.8	9.1	10.9	0.2	0.2	0.3	82
Internet Software & Services																													
Cartrade Tech	ADD	682	675	(1)	32	0.4	51.5	(26)	6	10	(234)	125	60	NM	108	68	(17)	50	32	1.8	1.7	1.7	NM	1.6	2.5	0.0	0.0	0.0	1
FSN E-commerce Ventures	BUY	1,406	1,835	31	667	8.3	479.2	1	3	7	(36)	275	123	1,632	435	195	406	213	116	50.3	45.1	36.6	4.5	10.9	21	—	—	—	10
Info Edge	BUY	4,131	4,330	5	533	6.7	128.7	(46)	55	69	(315)	221	25	NM	75	60	110	64	50	3.8	3.7	3.5	NM	5.0	6.0	8.0	0.3	0.4	25
Just Dial	BUY	588	880	50	50	0.6	83.6	8	9	32	(75)	3	266	69	67	18	(621)	13	6	1.4	1.4	1.3	3.0	2.1	7.2	—	—	—	5
Zomato	ADD	53	77	44	420	5.3	8,966	(1)	(1)	(1)	16	25	35	NM	NM	NM	(15)	(19)	(25)	2.7	2.3	2.3	NM	NM	NM	0.0	0.0	0.0	44
Internet Software & Services	Attractive				1,701	21.3					(945)	99	6,812	NM	NM	188	(109)	(551)	221	4.6	4.0	3.9	NM	NM	2.1	2.5	0.1	0.1	85
IT Services																													
HCL Technologies	BUY	917	1,165	27	2,490	31.1	2,714	50	52	57	4	4	11	18	18	16	11	10	10	4.1	3.8	3.7	22	22	23	4.8	4.9	5.5	46
Infosys	BUY	1,515	1,725	14	6,376	79.7	4,204	52	58	66	15	11	13	29	26	23	20	18	15	8.5	7.5	6.8	29	31	31	2.0	2.3	3.0	138
L&T Infotech	REDUCE	4,445	4,150	(7)	779	9.7	176	131	152	173	19	17	14	34	29	26	24	20	18	8.9	7.3	6.1	28	28	26	0.9	0.9	1.0	32
L&T Technology Services	REDUCE	3,406	2,850	(16)	360	4.5	106	91	108	118	44	19	9	38	31	29	24	21	19	8.6	7.2	6.2	25	25	23	0.8	0.8	0.9	17
Mindtree	REDUCE	3,149	3,150	0	519	6.5	165	100	122	131	49	21	7	31	26	24	22	18	17	9.5	7.8	6.5	34	33	29	1.3	1.5	1.7	32
Mphasis	ADD	2,256	2,650	17	424	5.3	188	76	91	104	17	19	14	30	25	22	19	16	14	6.1	5.6	5.0	21	23	24	2.0	2.4	2.7	16
TCS	ADD	3,165	3,400	7	11,580	144.7	3,660	104	113	128	16	9	14	31	28	25	21	19	17	12.8	11.6	10.6	43	43	45	1.4	2.8	3.2	109
Tech Mahindra	BUY	1,046	1,300	24	916	11.4	889	63	63	71	23	1	13	17	17	15	11	9	8	3.4	3.3	3.1	22	20	22	3.7	3.8	4.0	48
Wipro	REDUCE	412	410	(1)	2,259	28.2	5,487	22	21	23	17	(5)	10	19	19	18	12	12	10	3.4	3.0	2.7	20	17	16	1.5	1.2	2.2	46
IT Services	Attractive				25,703	321.2					14.1	6.6	12.7	26.2	24.6	21.8	17.6	16.0	14.2	7.4	6.7	6.1	28.4	27.3	28.2	1.9	2.6	3.1	485
Media																													
PVR	BUY	1,885	2,000	6	115	1.4	61	(69)	53	62	37	176	17	NM	36	31	(53)	15	13	4.8	4.3	3.9	NM	13	13	(0.4)	0.3	0.3	14
Sun TV Network	BUY	425	540	27	167	2.1	394	42	45	52	8	8	16	10	9	8	6	6	5	2.1	1.8	1.6	22	21	21	3.2	4.7	5.9	6
Zee Entertainment Enterprises	ADD	231	275	19	221	2.8	960	11	13	15	(2)	13	14	20	18	16	12	11	10	2.0	2.0	1.9	10	11	12	1.7	2.0	2.0	26
Media	Attractive				504	6.3					17.1	43.9	15.0	21.7	15.1	13.1	12.9	9.1	7.9	2.4	2.2	2.0	10.9	14.7	15.3	1.8	2.5	2.9	45
Metals & Mining																													
Hindalco Industries	BUY	369	540	46	830	10.4	2,220	61	44	52	140	(29)	18	6	8	7	4.3	4.8	4.4	1.0	0.9	0.8	19	12	12	1.1	1.2	1.4	74
Hindustan Zinc	REDUCE	279	285	2	1,178	14.7	4,225	23	28	21	22	20	(23)	12	10	13	6.2	5.3	6.5	3.4	3.4	3.4	29	34	26	6.5	9.9	7.6	4
Jindal Steel and Power	REDUCE	356	360	1	364	4.5	1,011	86	38	40	38	(56)	6	4	9	9	2.9	5.2	5.2	1.0	0.9	0.8	26	10	10	—	—	—	41
JSW Steel	SELL	590	460	(22)	1,427	17.8	2,417	88	43	56	166	(50)	29	7	14	11	5.1	8.4	7.3	2.1	1.9	1.6	37	15	16	3.0	1.1	1.3	41
National Aluminium Co.	ADD	75	95	26	138	1.7	1,837	17	11	12	217	(35)	4	4	7	6	2.2	3.3	3.3	1.1	1.0	0.9	27	16	15	6.7	4.5	4.7	20
NMDC	REDUCE	104	105	1	305	3.8	2,931	32	15	11	43	(54)	(24)	3	7	9	2.1	4.6	6.3	0.9	0.8	0.8	29	12	9	14.1	7.1	5.4	14
SAIL	SELL	75	55	(27)	310	3.9	4,130	30	7	6	208	(76)	(11)	2	10	12	2.2	5.8	5.7	0.6	0.6	0.5	25	5	5	4.5	4.5	4.5	36
Tata Steel	REDUCE	928	1,100	18	1,135	14.2	1,222	330	154	115	363	(53)	(25)	3	6	8	2.6	4.4	4.7	1.0	0.9	0.8	43	15	10	5.5	2.5	1.4	121
Vedanta	REDUCE	253	290	15	941	11.8	3,717	53	48	41	59	(10)	(14)	5	5	6	2.9	3.1	3.3	1.4	1.3	1.2	31	26	20	17.8	12.7	9.6	59
Metals & Mining	Cautious				6,627	82.8					128.5	(40.9)	(7.7)	4.8	8.1	8.8	3.4	4.9	5.0	1.3	1.2	1.1	27.8	14.9	12.7	6.4	5.0	4.0	410

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3mo	
		20-Jul-22	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	(US\$ mn)
Oil, Gas & Consumable Fuels																													
BPCL	BUY	317	400	26	688	8.6	2,093	42	9	47	(37)	(79)	439	8	36	7	5.0	12.7	4.4	1.3	1.3	1.2	17	4	18	5.0	1.1	5.7	20
Coal India	REDUCE	198	185	(6)	1,219	15.2	6,163	28	20	19	37	(29)	(5)	7	10	10	6.2	9.1	10.0	2.8	2.8	2.9	44	29	27	8.6	10.1	10.1	35
HPCL	BUY	234	275	17	332	4.2	1,419	44	2	57	(45)	(96)	3,175	5	135	4	7.8	24.2	5.8	0.9	0.9	0.8	17	1	20	6.0	0.3	9.7	15
IOCL	BUY	72	140	94	1,022	12.8	9,181	26	12	25	2	(53)	102	3	6	3	3.8	6.1	3.4	0.5	0.5	0.4	20	9	16	17.4	8.6	17.4	18
Oil India	SELL	197	150	(24)	214	2.7	1,084	35	29	31	241	(18)	9	6	7	6	6.0	6.5	5.8	0.7	0.7	0.6	14	10	10	7.2	5.9	6.4	16
ONGC	SELL	133	105	(21)	1,668	20.8	12,580	38	32	31	205	(16)	(2)	4	4	4	2.9	2.7	2.6	0.6	0.6	0.5	20	15	13	7.9	9.5	9.7	57
Reliance Industries	BUY	2,503	3,050	22	15,892	198.6	6,352	91	125	136	26	37	9	27	20	18	15.2	10.9	9.4	2.0	1.9	1.7	8	10	10	0.3	0.3	0.4	296
Oil, Gas & Consumable Fuels	Neutral				21,035	262.9					36.0	(10.5)	22.3	12.7	14.2	11.6	8.3	8.0	6.4	1.6	1.5	1.3	12.5	10.3	11.6	2.2	2.0	2.6	457
Pharmaceuticals																													
Aurobindo Pharma	ADD	560	650	16	328	4.1	586	45	48	54	(19)	8	13	13	12	10	7	6	5	1.3	1.2	1.1	11	11	11	0.8	1.9	2.3	14
Biocon	REDUCE	326	350	7	391	4.9	1,202	6	10	15	(2)	68	50	53	32	21	21	14	11	4.1	3.7	3.3	8	12	15	-	1.1	1.7	10
Cipla	BUY	982	1,180	20	792	9.9	806	31	41	54	5	32	30	31	24	18	17	13	10	3.7	3.3	2.9	12	14	16	0.5	0.8	1.1	21
Divis Laboratories	REDUCE	3,742	3,500	(6)	993	12.4	265	112	99	109	49	(11)	10	34	38	34	25	26	23	8.5	7.4	6.5	25	20	19	0.5	0.9	1.0	28
Dr Reddy's Laboratories	ADD	4,459	4,520	1	742	9.3	166	188	204	256	20	9	25	24	22	17	16	13	10	3.9	3.4	2.9	16	15	17	0.6	0.7	0.8	25
Gland Pharma	REDUCE	2,473	2,325	(6)	407	5.1	164	74	73	88	21	(1)	21	34	34	28	25	25	20	5.7	4.9	4.1	17	14	15	-	-	-	13
Laurus Labs	REDUCE	514	550	7	276	3.5	536	15	24	28	(16)	54	16	33	22	19	21	14	12	8.2	6.0	4.5	25	28	24	-	-	-	9
Lupin	ADD	658	725	10	299	3.7	450	24	25	40	(13)	5	62	28	26	16	13	11	8	2.4	2.2	2.0	9	8	12	-	0.6	0.9	10
Sun Pharmaceuticals	ADD	868	985	14	2,081	26.0	2,406	33	33	39	32	2	18	27	26	22	19	17	14	4.3	3.8	3.3	17	15	15	1.0	0.8	0.9	36
Torrent Pharmaceuticals	ADD	1,497	1,490	(0)	507	6.3	338	37	43	53	1	14	25	40	35	28	21	18	15	8.5	7.1	5.9	21	20	21	1.3	0.5	0.6	7
Pharmaceuticals	Neutral				6,817	85.2					13.1	9.6	22.9	28.2	25.8	21.0	17.8	15.2	12.3	4.2	3.7	3.2	14.8	14.3	15.4	0.5	0.5	0.6	173
Real Estate																													
Brigade Enterprises	BUY	478	580	21	110	1.4	230	4	12	15	264	242	22	133	39	32	18	10	8	3.8	3.6	3.3	3	10	11	0.5	0.5	0.5	2
Brookfield India Real Estate Tru	ADD	326	330	1	109	1.4	335	8	10	14	88	19	39	40	34	24	26	17	14	1.1	1.2	1.3	3	4	5	5.2	4.1	4.8	0
DLF	BUY	356	410	15	882	11.0	2,475	6	9	19	43	40	117	57	41	19	50	46	26	2.4	2.3	2.1	4	6	12	0.6	0.6	0.6	25
Embassy Office Parks REIT	ADD	368	420	14	349	4.4	948	9	11	16	27	18	43	40	33	23	19	16	13	1.3	1.4	1.5	3	4	6	5.9	5.8	7.5	3
Godrej Properties	SELL	1,413	1,270	(10)	393	4.9	278	13	32	38	285	157	16	112	44	37	300	102	280	4.5	4.1	3.7	4	10	10	-	-	-	12
Macrotech Developers	BUY	1,132	1,350	19	545	6.8	482	25	38	73	97	52	91	45	30	16	31	24	13	4.5	3.9	3.1	14	14	22	-	-	-	4
Mindspace REIT	ADD	361	365	1	214	2.7	593	9	12	15	65	36	25	42	31	25	19	16	13	1.4	1.3	1.4	3	4	6	5.3	5.9	6.6	1
Oberoi Realty	ADD	898	950	6	326	4.1	364	29	40	45	41	37	13	31	23	20	29	18	12	3.1	2.8	2.4	11	13	13	0.2	0.2	0.2	8
Phoenix Mills	BUY	1,204	1,380	15	215	2.7	179	19	35	51	527	81	46	63	35	24	31	15	11	3.3	3.0	2.7	6	9	12	0.2	0.2	0.3	3
Prestige Estates Projects	BUY	456	580	27	183	2.3	401	9	27	35	2,615	218	29	53	17	13	13	5	5	2.0	1.8	1.6	4	11	13	0.3	0.3	0.3	3
Sobha	BUY	691	890	29	66	0.8	95	12	48	54	84	292	14	57	14	13	10	6	5	2.7	2.3	2.0	5	17	17	1.0	1.0	1.0	4
Sunteck Realty	BUY	529	540	2	77	1.0	140	2	18	21	(53)	918	13	296	29	26	88	22	20	2.7	2.4	2.2	1	9	9	0.2	0.2	0.2	4
Real Estate	Attractive				3,470	43.4					97.7	65.6	54.5	51.9	31.3	20.3	28.7	19.3	13.9	2.4	2.3	2.2	4.7	7.4	10.6	1.3	1.3	1.5	69
Retailing																													
Aditya Birla Fashion and Retail	BUY	263	365	39	247	3.1	938	(1)	5	7	86	526	37	NM	53	39	23	14	11	8.9	7.6	6.4	NM	15	18	-	-	-	7
Avenue Supermarts	SELL	3,915	3,530	(10)	2,536	31.7	648	23	41	52	35	79	28	171	96	75	101	61	48	18.5	15.5	12.9	11	18	19	-	-	-	24
Titan Company	ADD	2,271	2,400	6	2,016	25.2	888	25	33	40	131	29	23	90	69	56	60	45	37	21.6	18.0	15.0	27	28	29	0.3	0.5	0.7	47
Vedant Fashions	REDUCE	1,093	1,000	(8)	265	3.3	248	13	15	18	137	18	20	86	73	61	53	44	36	25.0	20.4	16.4	29	31	30	-	-	-	2
Retailing	Neutral				4,799	63.3					168.4	62.1	26.1	128.6	79.3	62.9	67.8	45.7	37.1	18.9	15.8	13.1	14.7	19.9	21	0.1	0.2	0.3	80

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3mo	
		20-Jul-22	(Rs)	(%)	(Rs bn) (US\$ bn)	(mn)	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	(US\$ mn)	
Specialty Chemicals																													
Aarti Industries	SELL	739	690	(7)	268	3.3	363	22	23	29	48	4	28	34	33	26	22	20	17	4.5	4.0	3.6	17	13	15	0.5	0.3	—	8
Atul	SELL	8,256	7,765	(6)	244	3.0	30	204	240	298	(8)	18	24	40	34	28	27	23	18	5.5	4.9	4.2	15	15	16	0.3	0.3	0.4	4
Castrol India	BUY	111	130	17	110	1.4	989	8	9	10	27	19	10	15	12	11	9	8	7	6.7	6.4	6.1	50	54	57	4.9	7.6	8.1	1
Clean Science & Technology	REDUCE	1,670	1,650	(1)	177	2.2	106	22	27	34	15	27	26	78	61	48	59	46	36	23.1	17.5	13.4	35	33	31	0.2	0.2	0.3	2
Navin Fluorine	ADD	3,698	3,920	6	183	2.3	50	52	68	112	18	30	65	71	55	33	52	37	23	9.9	8.5	6.9	15	17	23	0.3	0.2	0.3	7
Pidlite Industries	REDUCE	2,321	2,200	(5)	1,180	14.7	508	24	32	41	6	34	30	98	73	56	64	49	38	18.4	16.3	14.0	20	24	27	0.4	0.6	0.8	12
PI Industries	ADD	2,950	2,850	(3)	448	5.6	152	56	72	89	12	29	24	53	41	33	38	30	24	7.3	6.3	5.5	15	17	18	0.2	0.4	0.5	7
S H Kelkar and Company	BUY	146	175	19	20	0.3	138	12	9	11	21	(21)	23	13	16	13	12	9	8	2.0	1.9	1.7	16	12	14	1.7	2.2	2.9	0
SRF	BUY	2,287	2,500	9	678	8.5	296	64	83	96	55	31	15	36	27	24	22	18	15	7.9	6.6	5.6	24	26	25	1.1	1.4	1.6	21
Vinati Organics	ADD	2,096	2,100	0	215	2.7	104	34	46	62	29	36	35	62	46	34	49	35	26	11.8	9.4	7.9	21	23	25	0.3	0.5	0.9	2
Specialty Chemicals	Attractive				3,523	44.0					25.2	24.6	23.7	49.7	39.9	32.3	32.9	26.5	21.6	9.1	7.9	6.8	18.4	19.8	21.1	0.7	0.9	1.1	65
Telecommunication Services																													
Bharti Airtel	BUY	671	870	30	3,796	47.4	5,759	5	26	43	191	437	69	141	26	16	9	7	5	5.6	4.7	3.6	4	20	27	0.4	0.6	0.9	63
Indus Towers	ADD	222	235	6	598	7.5	2,695	21	22	25	4	4	13	10	10	9	4	4	4	2.7	2.4	2.1	30	25	25	5.0	5.0	5.6	11
Vodafone Idea	RS	9	—	—	283	3.5	32,119	(9)	(7)	(6)	NM	NM	NM	NM	NM	NM	13	10	9	(0.5)	(0.3)	(0.3)	57	31	19	—	—	—	16
Tata Communications	ADD	979	1,400	43	279	3.5	285	53	48	56	19	(8)	17	19	20	17	8	8	7	30.1	16.3	10.0	288	104	72	2.1	1.9	2.3	9
Telecommunication Services	Attractive				4,956	61.9					8	95	1,804	NM	NM	30.8	8.7	7.0	5.6	18	21	13	NM	NM	41	1.0	1.2	1.5	99
Transportation																													
Adani Ports and SEZ	REDUCE	744	735	(1)	1,571	19.6	2,112	27	30	39	35	11	27	27	24	19	20	16	13	4.1	3.6	3.1	17	16	17	0.7	0.5	0.5	56
Container Corp.	BUY	674	680	1	410	5.1	609	17	22	29	81	27	29	39	30	23	22	18	14	3.8	3.5	3.2	10	12	14	—	0.7	1.3	14
Gateway Distriparks	BUY	69	94	36	35	0.4	500	4	4	5	(41)	(5)	26	16	16	13	11	8	6	2.1	1.9	1.7	14	12	14	1.1	1.1	1.1	-
GMR Infrastructure	BUY	35	43	24	209	2.6	6,036	(0)	(1)	(1)	58	(202)	38	NM	NM	NM	21	24	19	(25.5)	(14.7)	(12.0)	20	69	30	—	—	—	6
Gujarat Pipavav Port	BUY	81	105	29	39	0.5	483	4	5	6	(9)	22	15	20	16	14	7	7	6	1.9	1.9	1.9	10	12	14	4.9	5.9	6.8	1
InterGlobe Aviation	BUY	1,766	2,580	46	681	8.5	383	(161)	78	127	(12)	148	63	NM	23	14	101	5	4	(11.2)	(22.1)	3.7	207	NM	NM	—	—	—	15
Mahindra Logistics	REDUCE	481	540	12	35	0.4	71	6	12	21	18	97	76	81	41	23	19	14	9	5.8	5.3	4.5	7	14	21	—	—	—	1
Transportation	Attractive				2,979	37.2					196.8	1,103.9	42.4	341.2	28.3	19.9	22.5	12.2	9.7	6.4	5.3	4.3	1.9	18.9	22	0.4	0.4	0.6	93
KIE universe					182,612	2,281					39.5	9.0	22.5	23.4	21.5	17.5	12.6	11.9	10.1	3.2	2.9	2.6	13.5	13.5	14.6	1.5	1.6	1.9	

Notes:

(a) We have used adjusted book values for banking companies.

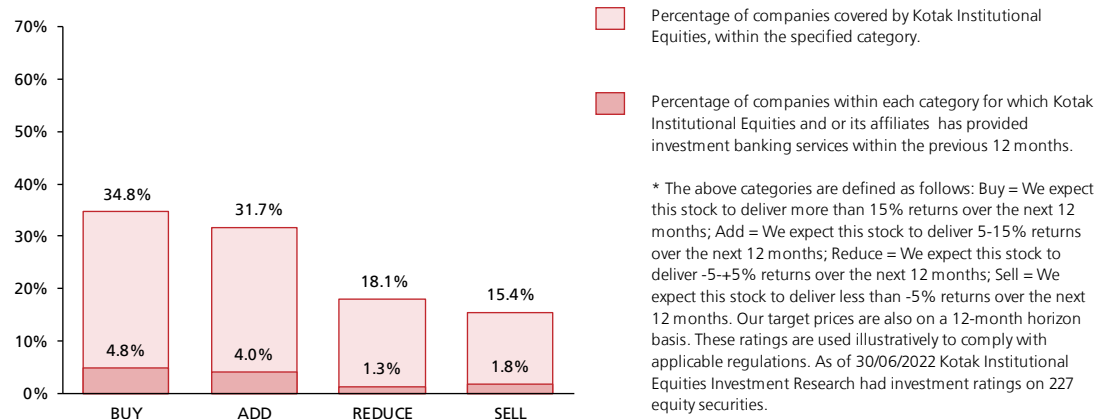
(b) 2022 means calendar year 2021, similarly for 2023 and 2024 for these particular companies.

(c) Exchange rate (Rs/US\$)= 80.02

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, 2022

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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