

Contents

Special Reports

Strategy

Strategy: The curious case of the Indian 2-W stocks, Part 3

- ▶ HMCL and TVSL to sell 30 mn 2-Ws by FY2028 as per our reverse DCF valuation exercise
- ▶ EIM to sell 3 mn 2-Ws by FY2028 and 6 mn by FY2033 as per our reverse DCF valuation
- ▶ Lower margin assumptions result in unacceptably high implied volumes in the long term
- ▶ Peak domestic 2-W annual volumes may be around 30-35 mn

Daily Alerts

Results

Magma Fincorp: Operating trends on track

- ▶ Large impact of Ind-AS; net hit to net worth in line with estimates
- ▶ NII growth moderate; lower provisions boost profits
- ▶ Growth a tad lower - asset finance growth remains monitorable
- ▶ Retain BUY with TP of Rs190

Company alerts

L&T: Right ingredients for a structured buyback program

- ▶ L&T board to meet on August 23 to consider buyback of equity shares
- ▶ Quantum of buyback can be significant given comfort on leverage
- ▶ Can L&T have a structured buyback program? Yes, in our view
- ▶ Buyback reaffirms RoE-focused business strategy of L&T

Sector alerts

Cement: Cement prices - weak trends

- ▶ Cement prices - another month of weak prices, but expected during monsoons
- ▶ Cost challenges high due to increased fuel prices and weakening INR/US\$ rate
- ▶ 2QFY19 spreads - weak so far for pan-India names; North, Central regions to do better
- ▶ Industry volumes increase by 13% yoy in June 2018; demand largely aided by infrastructure
- ▶ Maintain cautious stance on the sector on expensive valuations, large capacity additions

EQUITY MARKETS

India	Change %			
	20-Aug	1-day	1-mo	3-mo
Sensex	38,279	0.9	4.9	10.6
Nifty	11,552	0.7	4.9	9.8
Global/Regional indices				
Dow Jones	25,759	0.3	2.8	3.0
Nasdaq Composite	7,821	0.1	0.0	5.8
FTSE	7,591	0.4	(1.1)	(3.4)
Nikkei	22,104	(0.4)	(2.6)	(3.9)
Hang Seng	27,671	0.3	(2.0)	(11.4)
KOSPI	2,255	0.3	(1.5)	(8.5)
Value traded - India				
Cash (NSE+BSE)	346		363	335
Derivatives (NSE)	5,835		5,245	5,322
Deri. open interest	4,252		3,880	3,926

Forex/money market

	Change, basis points			
	20-Aug	1-day	1-mo	3-mo
Rs/US\$	69.7	(7)	74	123
10yr govt bond, %	8.1	(2)	3	-

Net investment (US\$ mn)

	17-Aug	MTD	CYTD
FIs	(190)	30	(383)
MFs	2	22	11,140

Top movers

	Change, %			
	20-Aug	1-day	1-mo	3-mo
Best performers				
RCOM IN Equity	19	(0.8)	47.1	42.7
SUNP IN Equity	626	0.5	11.8	41.1
RIL IN Equity	1,235	2.6	9.4	32.6
HDIL IN Equity	34	(0.3)	89.4	29.5
GCPL IN Equity	1,399	3.9	8.7	29.4

Worst performers

TTMT/A IN Equity	144	6.1	2.3	(17.8)
VEDL IN Equity	222	3.1	9.6	(15.9)
JSP IN Equity	205	3.3	11.9	(14.4)
HPCL IN Equity	270	0.9	(2.0)	(13.7)
PWGR IN Equity	188	0.3	6.7	(11.8)

AUGUST 21, 2018

UPDATE

BSE-30: 38,279

The curious case of the Indian 2-W stocks, Part 3. Our reverse valuation exercise for 2-W stocks still shows unreasonably high long-term volumes for the 2-W stocks in our coverage despite the sharp decline in market capitalization/EV of the stocks over the past 12-15 months. We assume lower margins versus in our earlier exercises to reflect increased industry competition, which results in similar outlandish long-term volumes. We do not rule out further deterioration in price competition and industry margins.

HMCL and TVSL to sell 30 mn 2-Ws by FY2028 as per our reverse DCF valuation exercise

Our reverse valuation exercise for HMCL and TVSL (see Exhibits 1-2) implies combined volumes of about 30 mn 2-W vehicles by FY2028 and 55 mn vehicles by FY2033 for the two companies. To put this in perspective, HMCL and TVSL sold about 11 mn 2-Ws in FY2018 and they account for about 48% of the total sales of the Indian 2-W industry (including exports). This suggests industry volumes of 60 mn by FY2028 and 110 mn by FY2033, which seems quite unlikely without exports accounting for a large portion of the volumes.

EIM to sell 3 mn 2-Ws by FY2028 and 6 mn by FY2033 as per our reverse DCV valuation

Our reverse valuation exercise for EIM (see Exhibit 3) shows 3 mn 2-W sales volume by FY2028 and 6 mn FY2033. The FY2033 implied volume of 6 mn is lower than the 7 mn implied figure at the time of our May 2017 exercise. However, even the 6 mn figure looks quite high unless EIM can export a meaningful portion of its volumes. EIM sold 820K RE bikes in FY2018 and we expect it to sell 943K in FY2019, 1,037K in FY2020 and 1,089K 2-Ws in FY2021.

Lower margin assumptions result in unacceptably high implied volumes in the long term

We note that lower margin assumptions versus 15 months earlier in our reverse DCF valuation exercises result in similar unacceptably high long-term volumes despite a sharp decline in the market capitalization/EV of the 2-wheeler stocks over the past 15 months. In Exhibit 4, we compare our current EBITDA margin estimates for FY2019-21E with EBITDA margin estimates for FY2018-20E at the time of FY2017 results (May 2017) when we had first done the reverse valuation exercises to compute the implied long-term sales volumes of the 2-W companies. The implied volumes still look too high to us. We note that any further weakness in margins due to increased industry competition (function of overall penetration and market share ambitions of various players) will push up implied volumes higher. Most industry players earn superlative financial returns to indulge in aggressive price competition (see Exhibit 5 for RoAE, RoACE and CRoCI) in pursuit of their market share ambitions.

Peak domestic 2-W annual volumes may be around 30-35 mn

We estimate peak 2-W industry domestic sales volumes at around 30-35 mn, which could be achieved by FY2025 (see Exhibit 6). We note that current 2-W stock of around 155 mn vehicles (no official data on stock of vehicles is available; we simply add the volumes of the previous 10 years) translates into 55% penetration on the basis of households and 12% penetration in terms of individuals. We project stock of around 250-270 mn vehicles by FY2025, which would result in penetration of 80-85% in terms of households and 20% in terms of individuals. We expect domestic volume growth to slow down significantly beyond FY2025.

QUICK NUMBERS

- **HMCL would need to sell 30 mn 2-Ws by FY2033 to justify its current EV**
- **TVSL would need to sell 27 mn 2-Ws by FY2033 to justify its current EV**
- **We estimate total domestic 2-W market at 30-35 mn units in FY2033**

Sanjeev Prasad

Anindya Bhowmik

Sunita Baldawa

Exhibit 1: HMCL would need to sell 18 mn 2-Ws by FY2028 and 29 mn by FY2033 to justify its current stock price, it sold 7.6 mn 2-Ws in FY2018

Hypothetical EV of Hero Motocorp, March fiscal year-ends, 2018-33E (Rs bn)

Assumptions																
Growth rate of volumes	9.8%															
Growth rate of ASP	2.0%															
Post-tax discount rate	12.0%															
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Volumes ('000 units)	7,587	8,390	8,908	9,466	10,391	11,406	12,521	13,744	15,087	16,561	18,179	19,955	21,905	24,045	26,394	28,973
ASP (Rs/unit)	42,486	42,320	43,929	45,598	46,510	47,440	48,389	49,356	50,344	51,350	52,377	53,425	54,494	55,583	56,695	57,829
EBITDA margin (%)	16.4	15.2	15.4	15.3	15.5	15.7	15.9	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
PAT + depreciation		38	42	47	53	60	68	76	85	96	107	120	134	150	168	188
Capex including recurring capex		(15)	(13)	(14)	(19)	(21)	(23)	(26)	(29)	(32)	(35)	(39)	(43)	(48)	(53)	(59)
FCF		23	29	32	34	39	44	50	57	64	72	81	91	102	115	129
FCF discounted @ 12%		20	23	23	22	22	23	23	23	23	23	23	23	23	24	24
NPV of cash flows		342														
Terminal value		1,291														
NPV of terminal value		236														
EV of Hero Motocorp		578														
Current EV of Hero Motocorp		578														

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: TVSL would need to sell 13 mn 2-Ws by FY2028 and 27 mn by FY2033 to justify its current stock price; it sold 3.5 mn 2-Ws in FY2018

Hypothetical EV of TVS Motor, March fiscal year-ends, 2018-33E (Rs bn)

Assumptions																
Growth rate of volumes	15.6%															
Growth rate of ASP	2.5%															
Post-tax discount rate	12.0%															
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Volumes ('000 units)	3,466	3,917	4,282	4,689	5,421	6,266	7,244	8,374	9,680	11,191	12,936	14,954	17,287	19,984	23,101	26,705
ASP (Rs/unit)	43,646	45,600	47,170	49,005	50,230	51,486	52,773	54,092	55,444	56,831	58,251	59,708	61,200	62,730	64,299	65,906
EBITDA margin (%)	7.5	8.0	8.5	9.0	9.3	9.6	9.9	10.2	10.5	10.8	11.0	11.0	11.0	11.0	11.0	11.0
PAT + depreciation		11	13	15	19	23	28	34	41	50	60	71	84	100	118	140
Capex including recurring capex		(8)	(8)	(9)	(13)	(15)	(17)	(20)	(24)	(28)	(33)	(38)	(44)	(52)	(61)	(71)
FCF		3	5	7	6	8	10	13	17	22	27	33	40	47	57	69
FCF discounted @ 12%		2	4	5	4	4	5	6	7	8	9	9	10	11	12	13
NPV of cash flows		108														
Terminal value		871														
NPV of terminal value		159														
EV of TVS Motor		268														
Current EV of TVS Motor		268														

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: EIM would need to sell 3 mn 2-Ws by FY2028 and 6 mn by FY2033 to justify its current stock price; it sold 0.82 mn 2-Ws in FY2018

Hypothetical EV of Eicher Motors, March fiscal year-ends, 2018-33E (Rs bn)

Assumptions																
Growth rate of volumes	14.9%															
Growth rate of ASP	3.0%															
Post-tax discount rate	12.0%															
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Volumes ('000 units)	820	943	1,037	1,089	1,252	1,439	1,654	1,901	2,185	2,512	2,887	3,318	3,814	4,384	5,039	5,792
ASP (Rs/unit)	109,172	100,786	104,818	109,010	112,280	115,649	119,118	122,692	126,372	130,164	134,069	138,091	142,233	146,500	150,895	155,422
EBITDA margin (%)	31.9	32.4	32.8	32.8	33.0	33.3	33.6	33.9	34.2	34.5	35.0	35.0	35.0	35.0	35.0	35.0
PAT + depreciation		21	24	27	32	38	45	54	64	77	92	109	129	153	181	214
Capex including recurring capex		(3)	(3)	(3)	(4)	(5)	(6)	(7)	(8)	(10)	(11)	(13)	(16)	(19)	(22)	(26)
FCF		18	21	24	27	33	39	47	56	67	81	95	113	134	159	189
FCF discounted @ 12%		16	17	17	17	18	20	21	23	24	26	27	29	31	33	34
NPV of cash flows		353														
Terminal value		1,634														
NPV of terminal value		298														
EV of Eicher Motors 2-W segment		651														
EV of non-2W segment		59														
Current EV of Eicher Motors		711														

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Our margin assumptions have seen downward revision
Current and May 2017 EBITDA margin estimates, March fiscal year-ends, 2018-21E

	Current estimates			Previous estimates		
	2019E	2020E	2021E	2018E	2019E	2020E
Eicher Motors	32.4	32.8	32.8	32.6	32.4	32.8
Hero Motocorp	15.2	15.4	15.3	16.5	16.5	16.5
TVS Motor	8.0	8.5	9.0	8.2	8.5	8.7

Source: Companies, Kotak Institutional Equities estimates

Exhibit 5: Most industry players earn supernormal financial returns
RoAE, RoACE and CRoCI of 2-wheeler companies, March fiscal year-ends, 2016-21E (%)

	RoAE (%)						RoACE (%)						CRoCI(%)					
	2016	2017	2018	2019E	2020E	2021E	2016	2017	2018	2019E	2020E	2021E	2016	2017	2018	2019E	2020E	2021E
Eicher Motors	72	49	43	37	33	30	159	382	569	228	228	241	438	332	291	177	137	125
Hero Motocorp	41	35	32	28	28	28	63	66	64	64	55	57	39	35	37	34	34	34
TVS Motor	27	26	25	27	27	28	17	15	16	19	22	26	21	20	23	27	28	31

Source: Companies, Kotak Institutional Equities estimates

Exhibit 6: We expect 2-W penetration (of households) to reach 80% by FY2024-25 and India to sell 30 mn 2-Ws by then
Estimates of 2-W market in India, March fiscal year-ends, 2018-40E

	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2035E	2040E
Number of households (mn)	287	293	298	304	310	316	323	329	336	342	349	356	363	401	443
India's population (mn)	1,300	1,314	1,327	1,341	1,355	1,369	1,383	1,397	1,368	1,377	1,386	1,407	1,428	1,464	1,505
Domestic two-wheeler volumes (mn units)	19	21	23	25	27	28	30	31	32	32	32	32	32	32	32
Domestic two-wheeler population (mn units)	155	169	184	202	219	236	252	269	286	302	317	332	344	408	415
Penetration of two-wheelers (% of households)	54	58	62	66	71	75	78	82	85	88	91	93	95	102	94
Penetration of two-wheelers (% of population)	12	13	14	15	16	17	18	19	21	22	23	24	24	28	28

Source: SIAM, Kotak Institutional Equities estimates

AUGUST 21, 2018

RESULT

Coverage view: **Neutral**

Price (₹): **145**

Target price (₹): **190**

BSE-30: **38,279**

Operating trends on track. Magma Fincorp continued to report strong operating trends with increasing disbursements, marginal NIM expansion and improvement in collections. However, momentum in rural cars/UV and tractors remained a bit weak as compared to peers that benefitted from ongoing rural buoyancy. Impact of Ind-AS transition, though large, was in line with expectations. Investments thesis remains unchanged; retain BUY with TP of ₹190 (₹200 earlier).

Company data and valuation summary

Magma Fincorp

Stock data

52-week range (Rs) (high,low)	194-134
Market Cap. (Rs bn)	39.0

Shareholding pattern (%)

Promoters	27.7
FIs	18.0
MFs	4.0

Price performance (%)

	1M	3M	12M
Absolute	6.6	(19.7)	(19.6)
Rel. to BSE-30	1.7	(26.9)	(33.8)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	9.7	13.0	17.2
EPS growth (%)	1,014.5	34.0	31.8
P/E (X)	14.9	11.1	8.4
NII (Rs bn)	10.3	12.4	14.9
Net profits (Rs bn)	2.3	3.5	4.6
BVPS	97.9	101.7	115.9
P/B (X)	1.5	1.4	1.2
ROE (%)	10.2	13.9	15.8
Div. Yield (%)	0.6	1.4	1.8

QUICK NUMBERS

- PAT up 56% yoy
- AUM muted at 3% yoy; disbursements growth strong at 25% yoy in 1QFY19
- Reported NIM increased 100 bps yoy to 8.6%

Large impact of Ind-AS; net hit to net worth in line with estimates

Magma Fincorp reported 17% (₹3.7 bn) reduction in its April 2017 net worth as a one-time impact of migration to Ind-AS. This is a tad higher than ad-hoc provisions of ₹3.5 bn built in our model. Two drivers (1) high provisions on stage 1 and 2 assets (2.9% in FY2018 and 2.6% in 1QFY19) versus 40 bps of standard provisions earlier and (2) 100% provisions coverage on 2 year+ GNPLs - this segment has increased over the last few months due to ageing of pre-December 2015 loans. While the impact of Ind-AS transition may seem large, it is in line with expectations and gives Magma the much needed catch up on provisioning buffer with peers.

NII growth moderate; lower provisions boost profits

Magma Fincorp reported 56% growth in earnings (before share of JV profits) to ₹602 mn. While calculated NIM expanded by 30 bps yoy (adjusting the benefit of capital issuance) due to falling interest rates, subdued loan growth (3% yoy) led to 9% NII growth. Provisions declined yoy due to decline in stage 1 and 2 provisions on the back of improved experience. Operating expenses growth was steady at 15% yoy.

Growth a tad lower - asset finance growth remains monitorable

Growth in disbursements was strong at 25% yoy, largely driven by CVs, used vehicles, SME loans and mortgages. Unlike its peers (L&T Finance and Mahindra Finance), Magma has not reported buoyant growth in rural auto segments viz. tractor and car/UV segment. The company is consciously slowing down in tractors. While improvement in rural cash flows is likely reflected in better collections performance, growth in these segments remains a bit below our expectations. We would closely monitor the trend over the next few quarters as we expect CV-led growth to moderate.

Retain BUY with TP of ₹190

We are revising our estimates from -4% to 2% for FY2018-20E to reflect transition to Ind-AS. Post the revisions, we expect Magma to deliver 14-17% medium-term RoE and 28% PAT CAGR during FY2019-21E due to improving loan growth, operating efficiency and credit costs. We tweak our target price to ₹190; the stock will trade at 1.8X adjusted book at our TP.

Nischint Chawathe

M B Mahesh CFA

Dipanjana Ghosh

Exhibit 1: Magma Fincorp Limited- quarterly summary
March fiscal year-ends, 1QFY18-1QFY19 (Rs mn)

	Ind-AS	IGAAP	Ind-AS	IGAAP	(% chg.)			Ind-AS	IGAAP	Ind-AS	
	1QFY19	1QFY19E	1QFY18	4QFY18	1QFY19E	1QFY18	4QFY18	FY2019E	FY2018	YoY (%)	FY2020E
Income statement (Rs mn)											
Interest income	5,862	6,000	5,867	5,810	(2)	(0)	1	26,651	22,415	19	33,707
Interest expense	2,651	2,300	2,921	2,165	15	(9)	22	12,082	9,054	33	16,420
NII	3,211	3,700	2,946	3,645	(13)	9	(12)	14,569	13,360	9	17,287
Other operational income	196	51	130	(1)	286	51	NM	291	572	(49)	332
Total income	3,407	3,800	3,076	3,737	(10)	11	(9)	14,860	13,932	7	17,619
Operating expenses	1,674	1,970	1,455	1,899	(15)	15	(12)	7,166	7,012	2	7,655
Employee expenses	1,098	1,000	882	961	10	24	14	3,966	3,686	8	4,209
Other expenses	455	850	445	810	(46)	2	(44)	2,658	2,835	(6)	2,878
Depreciation expense	121	120	129	128	1	(6)	(5)	541	492	10	568
PPOP	1,733	1,830	1,620	1,838	(5)	7	(6)	7,694	6,919	11	9,964
Provisions	846	900	1,500	1,058	(6)	(44)	(20)	2,536	3,739	(32)	3,164
PBT	887	930	120	780	(5)	637	14	5,158	3,180	62	6,800
Tax	285	279	(266)	66	2	NM	332	1,651	877	88	2,176
PAT	602	651	386	714	(8)	56	(16)	3,508	2,304	52	4,624
PBT+provisions	1,733	1,830	1,620	1,838	(5)	7	(6)	7,694	6,919	11	9,964
Tax rate (%)	32	30	(221)	8				32	28		32
Key items (Rs mn)											
AUM	159,660	158,000	154,830	155,550	1	3	3	172,788	155,550	11	206,224
On-book	149,630	122,846	144,050	120,396	22	4	24	162,788	120,396	35	199,224
Off-book	10,030	35,154	10,780	35,154	(71)	(7)	(71)	10,000	35,154	(7)	7,000
AUM	159,660	158,000	154,830	155,550	1	3	3	172,788	155,550	11	206,224
Car	38,990		39,860	36,710		(2)	6	38,145	36,710	4	43,406
CV	13,790		10,000	12,288		38	12	15,324	12,288	25	19,444
CE	10,640		10,610	9,800		0	9	9,861	9,800	1	10,632
Used CV/assets	26,840		20,490	24,421		31	10	32,959	24,421	35	45,357
SME loans	20,756		18,580	19,444		12	7	24,242	19,444	25	30,764
Tractor	22,010		29,830	25,510		(26)	(14)	25,101	25,510	(2)	27,304
Mortgages	26,634		25,460	27,377		5	(3)	27,157	27,377	(1)	29,316
Borrowings	118,440		121,850	98,290		(3)	21	138,614	98,290	41	174,149
Banks	78,170		84,077	66,837		(7)	17				
DCM	27,241		24,370	19,658		12	39				
Others	13,028		13,404	11,795		(3)	10				
Key calculated ratios (%)											
Yield on loans	17.4		18	20	1737 bps	-43 bps	-223 bps	17	16	117 bps	17
Cost of borrowings	9.8		10	9		-70 bps	83 bps	10	9	111 bps	11
Spread	7.6		7	11		27 bps	-305 bps	7	7	6 bps	7
NIM	9.5	12	9	12	-203 bps	58 bps	-214 bps	9	9	18 bps	8
Cost to income	49.1	52	47	51	-270 bps	182 bps	-168 bps	48	50	-211 bps	43
Cost to average AUM	4.2		4	5	425 bps	56 bps	-68 bps	4	4	-7 bps	4
Credit cost	2.1		4	3		-165 bps	-60 bps	2	2	-82 bps	2
Disbursements (Rs mn)											
Net disbursements	18,400		14,730	22,330		25	(18)	89,656	72,860	23	111,640
Car and UV	4,210		3,820	4,399		10	(4)	18,689	16,251	15	22,426
CV	1,940		810	2,992		140	(35)	9,426	7,540	25	11,782
CE	1,200		1,110	1,652		8	(27)	4,961	4,725	5	5,209
Used CV/assets	4,220		3,320	4,868		27	(13)	22,214	17,087	30	28,878
SME loans	3,330		2,480	4,645		34	(28)	16,853	13,483	25	21,067
Tractor	1,900		1,900	2,010		-	(5)	9,795	7,836	25	12,244
Mortgage	1,600		1,290	1,764		24	(9)	7,719	5,938	30	10,035
Aseet quality (Rs mn)											
GNPL	15,168		18,115	10,889		(16)	39	12,095	10,889	11	14,436
GNPL (%)	9.5		11.7	7.0		-220 bps	250 bps	7.0	7.0	0 bps	7.0
NNPL	7,025		10,838	8,089		(35)	(13)	8,237	8,089	2	8,929
NNPL (%)	4.4		7.0	5.2		-260 bps	-80 bps	4.8	5.2	-43 bps	4.3
PCR-KS (%)	54		40	26		1351 bps	2797 bps	32	26	619 bps	38
Repayment rate-KS (%)	37		52	51		-1520 bps	1387 bps	47	49	-209 bps	45
Capital adequacy details (%)											
CAR	23		20	21		340 bps	240 bps				
Tier-I	17		12	17		550 bps	0 bps				
Key parameters (#)											
Branch	304		297	305		2	(0)	325	305	7	345

Source: Company, Kotak Institutional Equities

Three key items of Ind-AS impact

Magma Fincorp reported 17% (₹3.7 bn) reduction in its April 2017 net worth as one-time impact of migration on Ind-AS. This has three key components:

- **Provision on hard bucket NPL and stage1/2 loans on migration to ECL.** Magma had to make higher provisions on stage 1 and 2 loans (in line with the new norms) and increase coverage on stage 3 loans that are over 2 years old; net hit of ₹6.23 bn. Management believes that stage 3/GNPLs over two years may be loans in which security may be compromised, leaving limited scope of recovery. Hence, the company decided to make 100% provisions on such loans even as historic experience may be better.

- ▶ **Gain on assignment.** The company has ₹10 bn of loan assignments outstanding as on June 2018. As per the Ind-AS norms, since these transactions are in nature of 'true-sale', the gain on these transactions is booked upfront. This provided considerable net benefit (₹870 mn) reducing the impact on account of higher ECL. Loan assignments can boost NII and earnings in a significant manner and temper earnings trends. We are not building in any further loan sell down in our projections.
- ▶ **Deferment of upfront fees.** Magma was recognizing subvention income and management fees upfront which needs to be deferred under the new norms. As such, despite benefits of adding back of interest reversals to the topline, the net income was negative of ₹310 mn on April 2018 net worth.

Exhibit 2: Reconciliation of net worth based on Ind-AS (Rs mn)

	Amount
Net worth as per IGAAP on 1 April 2017	21,250
Impact of expected credit loss on loan loss provisions	(6,230)
Net gain on recognition of loans sold under direct assignment	870
Effective interest rate impact on financial assets and financial liabilities	(310)
Fair valuation of financial assets and liabilities	110
Deferred tax impact on Ind-AS adjustments	1,750
Share of Ind-AS adjustment in joint ventures (equity pickup accounting)	60
Total equity under Ind-AS excluding OCI as on 1 April 2017	17,500
Fair valuation of LAP portfolio and MHDl debt instrument (through OCI)	40
Total equity under Ind-AS including OCI as on 1 April 2017	17,540
Ind-AS profit for year ended 31 March 2018	2,370
Equity infusion	5,000
Fair valuation of LAP portfolio and MHDl debt instrument (through OCI)	30
Dividend, share issue expenses and others	(320)
Ind-AS profit for quarter ended 30 June 2018	680
Net worth under Ind-AS on 30 June 2018	25,300

Source: Company, Kotak Institutional Equities

Exhibit 3: Reconciliation of net profit based on Ind-AS (Rs mn)

	1QFY18	FY18
Net profit after tax as per IGAAP	450	2,300
Adjustment as per Ind-AS – benefit/(charge):	(60)	60
Application of expected credit loss method for loan loss provisions	(510)	180
Net gain on de-recognition of loans sold under assignment transaction	(60)	(70)
Effective interest rate impact on financial assets and financial liabilities	10	(540)
Fair valuation of financial assets and liabilities	-	150
Others (actuarial gain/loss on gratuity valuation)	10	10
Deferred tax impact on Ind-AS adjustments	490	330
Share of Ind-AS adjustment in joint ventures (equity pickup accounting)	-	-
Net profit after tax as per Ind AS	390	2,360

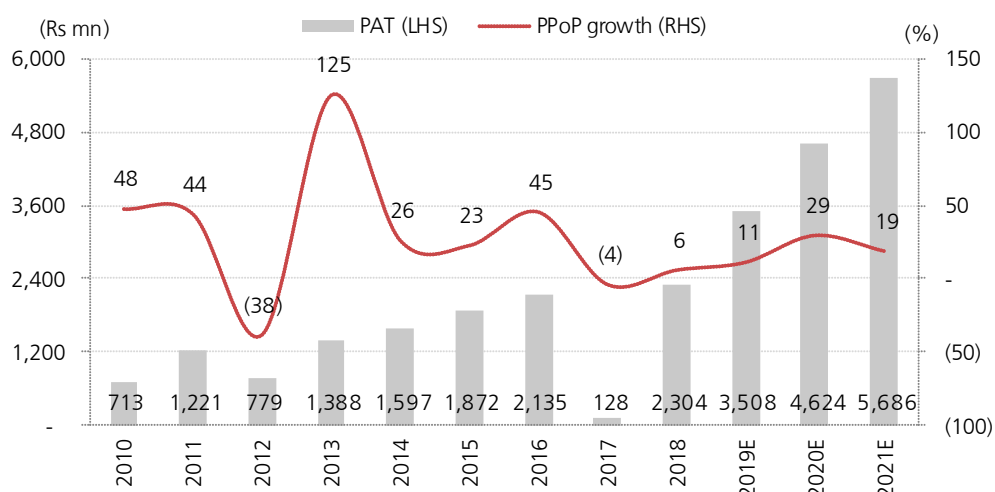
Source: Company, Kotak Institutional Equities

Exhibit 4: RoE will improve significantly going ahead
Du Pont analysis, March fiscal year-ends, 2012-2021E (% of total)

	IGAAP							Ind-AS		
	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
NII	3.7	4.7	5.2	6.0	6.8	7.1	8.4	8.9	9.1	8.9
Other income	0.4	0.7	0.4	0.2	0.2	0.3	0.4	0.2	0.2	0.2
Total income	4.1	5.4	5.5	6.2	7.0	7.4	8.8	9.1	9.3	9.1
Operating expense	2.8	3.3	3.3	3.7	3.4	3.6	4.4	4.4	4.0	3.9
PPoP	1.2	2.1	2.2	2.5	3.6	3.8	4.4	4.7	5.3	5.2
Credit cost	0.3	0.7	1.1	1.3	2.0	3.5	2.4	1.5	1.7	1.5
PBT	1.0	1.5	1.2	1.2	1.6	0.3	2.0	3.1	3.6	3.7
(1-tax rate)	0.8	0.7	0.8	0.8	0.7	0.3	0.7	0.7	0.7	0.7
RoA	0.7	1.0	0.9	1.0	1.1	0.1	1.5	2.1	2.4	2.5
Average assets/ equity	10.7	9.8	10.3	10.7	9.4	7.7	7.0	6.5	6.5	6.8
RoE	7.7	9.6	9.7	10.7	10.6	0.6	10.2	13.9	15.8	17.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: We expect significant earnings growth over the medium-term
March fiscal year-ends, 2010-2021E



Note:

1) Numbers from FY2021E onwards are based on Ind-AS.

Source: Company, Kotak Institutional Equities estimates

Gross stage-3 loans down 220 bps yoy to 9.5%

- ▶ **Gradual improvement in asset quality.** Asset quality improved in 1QFY19 driven by improvement in collections. Gross stage 3 loans dropped 220 bps yoy to 9.5%. Collection efficiency increased 100 bps yoy to 98% in 1QFY19, driven by improvement across segments. In addition to a dedicated collections team, Magma has also built up a tractor collection team in stressed areas like UP, Bihar and Jharkhand.
- ▶ **Coverage ratio high at 56% on stage 3.** Provision coverage ratio was high at 56% on stage 3 loans in 1QFY19 compared to 43% in 1QFY18. Increase in coverage ratio in spite of a drop in stage 3 loans as most of the assets under stress have been NPLs for over two years. The company has decided to provide 100% for assets over two years under NPL. The coverage on stage 1 and 2 loans reduced to 2.65% of loans from 3% yoy, reflecting improving collections.

Improved credit systems lead to asset quality improvement

- ▶ Magma has highlighted that early delinquencies have showed an improvement across businesses and early warning indicators suggest lowest levels since the transformation started two years back. The EWI and CPMI indicators for the vehicle finance business have shown significant improvement since 1QFY18. The rise in EWI in 1QFY19 is likely a seasonal event.
- ▶ Post shifting to 90 dpd NPL recognition, Magma has changed collection strategy by moving collection in the 60-90 day bucket to the recovery team to facilitate early legal action against delinquent customers and curb NPLs. The business team continues to handle the 0-60 day collections.
- ▶ Other initiatives to improve underwriting/collections include: (1) branch and product grading, (2) dedicated collections team for tractor, (3) active monitoring using portfolio analytics and use of back-tested models for better originations, (4) higher share of incremental business with non-cash repayment.

Exhibit 6: Significant improvement in GNPL; coverage ratio for stage 3 loans high at 56%
GNPL, NNPL and PCR based on Ind-AS, March fiscal year-ends, 1QFY18-1QFY19 (Rs mn)

	1QFY18	4QFY18	1QFY19	YoY (%)	QoQ (%)
Gross AUM					
Gross stage 3	16,820	13,730	14,220	(15.5)	3.6
(%) of gross AUM	11.7	9.3	9.5	-217 bps	20 bps
Gross stage 1 and 2	127,230	133,840	135,420	6.4	1.2
(%) of gross AUM	88.3	90.7	90.5	217 bps	-20 bps
Gross AUM	144,050	147,570	149,640	3.9	1.4
ECL provisions					
Stage 3	7,200	7,480	7,960	10.6	6.4
Stage 1 and 2	4,000	3,880	3,590	(10.3)	(7.5)
Total ECL Provisions	11,200	11,360	11,550	3.1	1.7
Net AUM					
Net stage 3	9,620	6,250	6,260	(34.9)	0.2
(%) of net AUM	7.2	4.6	4.5	-271 bps	-6 bps
Net stage 1 and 2	123,230	129,960	131,830	7.0	1.4
(%) of net AUM	92.8	95.4	95.5	271 bps	6 bps
Net AUM	132,850	136,210	138,090	3.9	1.4
Coverage ratio (%)					
Stage 3	42.8	54.5	56.0	1317 bps	150 bps
Stage 1 and 2	3.1	2.9	2.7	-49 bps	-25 bps
Overall PCR (%)	7.8	7.7	7.7	-6 bps	2 bps

Source: Company, Kotak Institutional Equities

Exhibit 7: Coverage ratio for stage-3 loans higher most than peers
PCR, March fiscal year-ends, 1QFY15-1QFY18 (%)

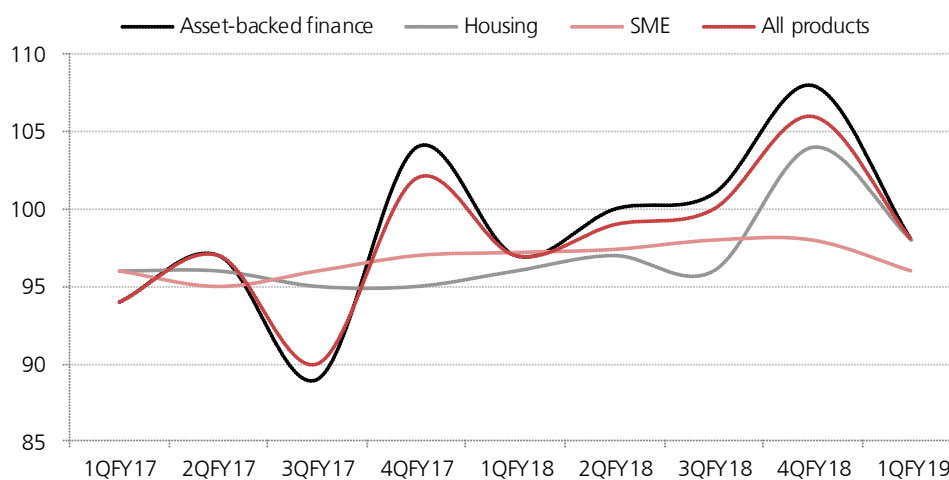
	1QFY15	2QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Cholamandalam																
GNPLs	2.4	2.6	3.1	3.3	4.4	4.3	3.5	3.6	3.5	3.8	4.7	4.7	4.5	3.7	2.9	3.0
Coverage	54.2	46	35	38	30	37	40	42	43	39	32	33	35	37	44	43
Recognition norm (dpd)	180	180	150	150	120	120	120	120	120	120	90	90	90	90	90	90
Magma Fincorp																
GNPLs	3.2	3.5	3.9	5.9	6.9	8.0	8.1	8.7	9.2	9.9	6.7	11.7	7.2	7.1	7.0	9.5
Coverage	20	42	40	38	34	24	30	21	22	24	17	40	24	27	26	54
Recognition norm (dpd)	180	180	180	120	120	120	120	120	120	120	120	120	120	120	90	90
Mahindra Finance																
GNPLs	6.2	6.3	5.9	8.0	9.4	10.1	8.0	10.7	11.0	11.1	9.0	14.5	12.5	11.6	8.5	9.4
Coverage	54	52	61	57	53	57	62	52	52	56	62	40	51	55	58	35
Recognition norm (dpd)	150	150	150	135	135	135	120	120	120	120	120	120	90	90	90	90
Shriram City Union Finance																
GNPLs	2.9	2.9	3.1	3.2	3.3	3.4	5.2	5.1	5.0	4.5	6.7	6.8	6.9	6.8	9.0	8.9
Coverage	86	80	78	79	80	81	70	71	73	87	73	74	74	74	62	62
Recognition norm (dpd)	180	180	180	180	180	180	150	150	150	150	120	120	120	120	90	90
Shriram Transport Finance																
GNPLs	3.7	3.7	3.8	4.1	4.2	4.3	6.2	6.4	6.6	6.6	8.2	8.0	8.1	8.0	9.2	9.1
Coverage	79	79	80	79	78	80	70	70	70	75	69	71	71	71	71	36
Recognition norm (dpd)	180	180	180	180	180	180	150	150	150	150	120	120	120	120	90	90

Notes:

- 1) Cholamandalam shifted to 90 dpd from 4QFY17.
- 2) Mahindra Finance migrated to 90 dpd norms from 2QFY18.
- 3) SCUF, Shriram transport finance and Mahindra Finance shifted to 90 dpd in 4QFY18.
- 4) Number for coverage for 1QFY18 and 1QFY19 are based on Ind-AS.

Source: Company, Kotak Institutional Equities

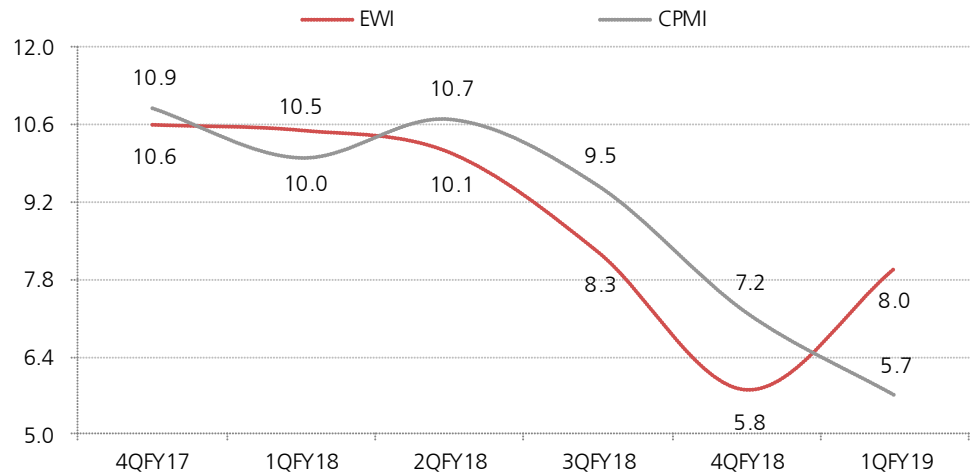
Exhibit 8: Collection efficiency continues to remain high; up 110 bps yoy to 97.7%
Collection efficiency across business segments, March fiscal year-ends, 1QFY17-1QFY19 (%)



Source: Company, Kotak Institutional Equities

Exhibit 9: Early warning indicators saw an upward trend in 1QFY19; CPMI continues to dip downward indicating improvement in asset quality going ahead

Early warning indicators for vehicle finance business, March fiscal year-ends, 4QFY17-1QFY19 (%)



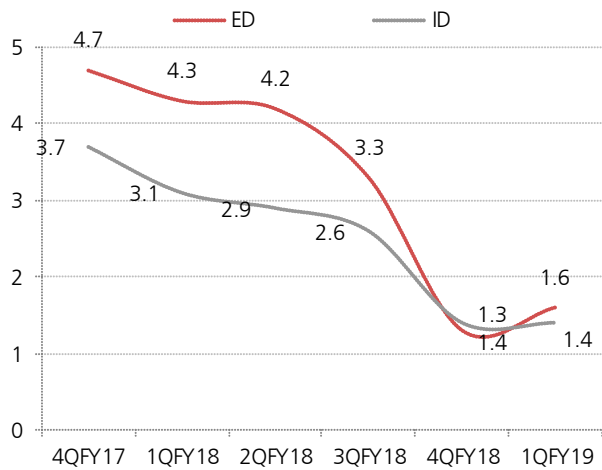
Notes:

- (1) EWI: Early Warning Indicators are the 0+ % of each quarterly portfolio with 1 Quarter Lag (Tractor Non-Monthly structure is with 2 Quarter Lag).
- (2) CPMI: Continuous Portfolio Monitoring Indicator is a composite index of 4 indices monitoring the 60+ % movement of quarterly portfolio at different time lag.

Source: Company, Kotak Institutional Equities

Exhibit 10: Significant improvement in ED for mortgage business yoy

ID and ED trends for home loan/ mortgage business, March fiscal – year-ends, 4QFY17-1QFY19 (%)

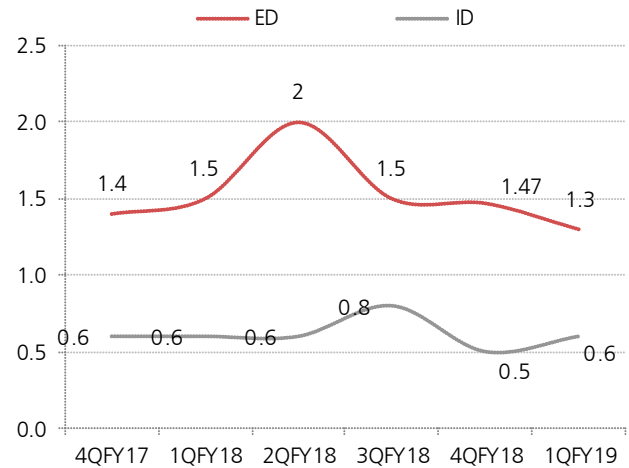


Notes:

- 1) ED: 0+ bkt % for cases sourced in last 6 months on 1 months lag basis including current month.
- 2) ID: 30+ bkt % for cases sourced in last 12 months on 2 month lag basis including current month.

Source: Company, Kotak Institutional Equities

Exhibit 11: ED trends for SME business continues to improve
ID and ED trends for SME business, March fiscal – year-ends, 4QFY17-1QFY19 (%)



Notes:

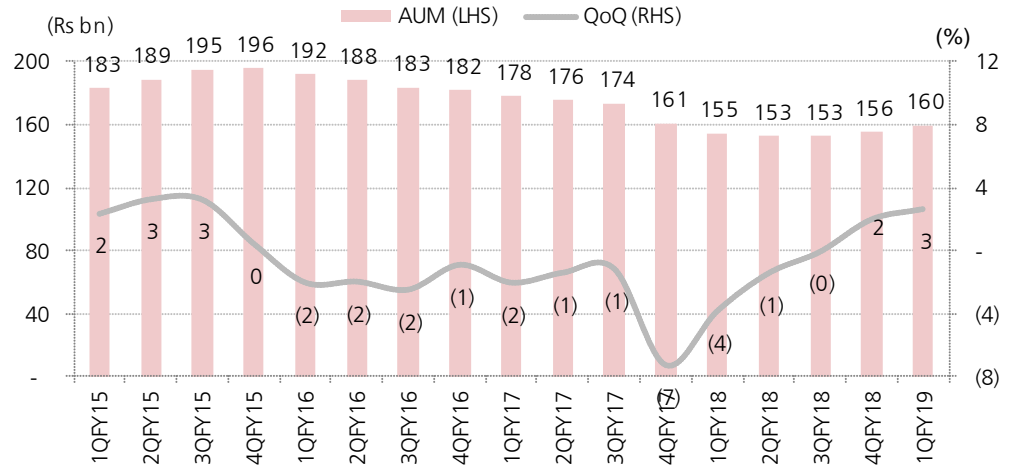
- 1) ED: 0+ bkt % for cases sourced in last 6 months on 1 months lag basis including current month.
- 2) ID: 30+ bkt % for cases sourced in last 12 months on 2 month lag basis including current month.

Source: Company, Kotak Institutional Equities

Disbursements pick pace; up 25% yoy

- ▶ **Disbursements gain momentum.** Disbursements witnessed 25% yoy growth in 1QFY19. Disbursements have picked pace in the last two quarters post muted growth since 2QFY17. CV disbursements was the primary growth driver with 1.4X yoy increase in 1QFY19 followed by used vehicle financing at 34% yoy and SME loans at 24% yoy.
- ▶ **AUM growth muted at 3% yoy.** AUM growth was muted at 3% yoy in 1QFY19 even though disbursements were high at 25% and repayments (calculated) lower at 37% yoy compared to 52% yoy. This is on the back of continuous yoy drop in AUM since 2QFY16. As disbursements pick pace, AUM growth will improve going ahead.
- ▶ **Change in AUM mix.** Magma is gradually trying to re-align its portfolio mix towards higher share of SME loans. Additionally within the vehicle finance segment, the company is gradually changing the AUM mix
 - **Higher share of used vehicle in vehicle finance business.** Magma is gradually trying to increase its share of used vehicle finance with its portfolio increasing to 16.8% of AUM in 1QFY19 from 13.2% in 1QFY18 and CV portfolio rising 210 bps yoy to 8.6% in 1QFY19. Within the vehicle finance business, the company has gradually reduced the share of tractors (down 550 bps yoy to 13.8%) and cars (down 130 bps yoy to 24.4%). Magma's strategy on asset backed finance is to increase the share of high RoA segments like used vehicles and CVs (selective segments). Within used vehicles and CVs, Magma will focus on light and small commercial vehicles as these tend to have better profitability. While CV had grown fast in 1Q, we expect moderation in this segment in the near term in line with the slowdown in new CV sales. Unlike its peers, the company has not ramped up rural cars and tractors in 1QFY19, making this trend a key monitorable.
 - **Rise in focus on home loans in the mortgage finance business.** In the mortgage business, Magma is focused on increasing the share of affordable home loans with greater share of direct business (up to 67% in 1QFY19 from 24% yoy). The share of mortgage loans stand at 16.7% (up 30 bps yoy) of overall AUM. The disbursements on home loans were 142% yoy in 1QFY19 compared to 24% yoy for the overall mortgage finance segment. Magma has been catering to the housing needs of self-employed individuals living in tier II and III towns and is banking a lot of its growth on government sponsored schemes for housing for all. The company has built a new team of direct sales in 12 states to cater to the growing housing needs of these customers and expects significant traction in the business going ahead.
 - **SME loans gain traction.** Magma continued to expand the SME business, now covering 63 branches from ~50 branches last year. The intention is to go deeper with higher focus on tier-2 and tier-3 towns in the existing footprint of asset finance business. Cross-sell remains a large opportunity with potential to increase direct business with pre-approved loans on a large customer base. SME AUM was up 100 bps yoy to 13%.
- ▶ **We expect 17% AUM CAGR over FY2018-21E.** We expect AUM growth to trend higher over the next three years at 17% CAGR over FY2018-21E. AUM is expected to be moderate at 11% yoy in FY2019E, compared to a 3% yoy decline in FY2018. The drag on AUM growth will subside as newer segments contribute to incremental growth and growth revives in dominant segments. Our forecast for loan growth builds 21-25% yoy disbursement growth over FY2018-21E. We expect focus segments such as used vehicles, CV, SME loans and mortgage loans to drive 77% of the incremental loan growth in FY2018-21E, with the share of these products increasing to 77% by FY2021E from 67% in FY2017.

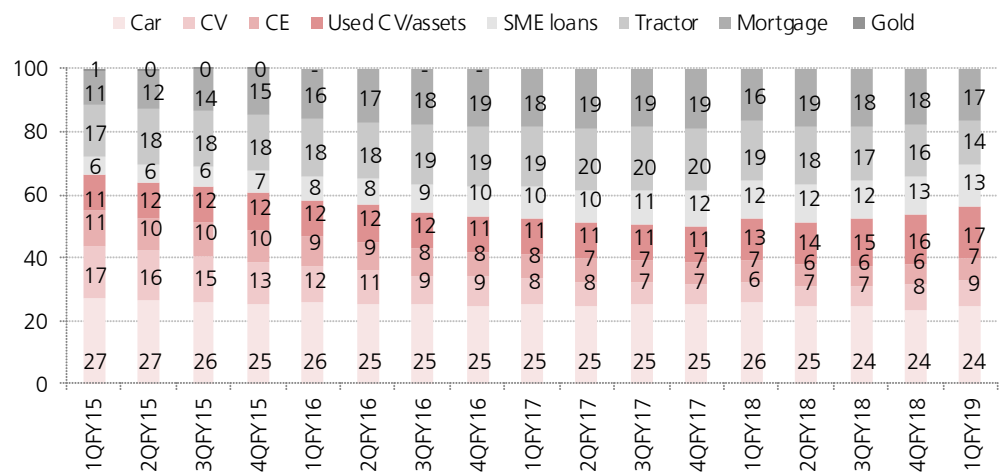
Exhibit 12: AUM growth was muted at 3% yoy in 1QFY19
 AUM, March fiscal year-ends, 1QFY15-1QFY19



Note:
 1) Numbers for 1QFY18 and 1QFY19 are based on Ind-AS.

Source: Company, Kotak Institutional Equities

Exhibit 13: CV AUM continues to gain share
 AUM mix, March fiscal year-ends, 1QFY15-1QFY19 (%)



Note:
 1) Numbers for 1QFY18 and 1QFY19 are based on Ind-AS.

Source: Company, Kotak Institutional Equities

Exhibit 14: Disbursements in the CV and used vehicle financing was strong in 1QFY19

Disbursement mix, March fiscal year-ends, 2014-1QFY19 (%)

	2014	2015	2016	2017	2018	1QFY19	YoY (%)
Disbursements (Rs mn)							
Car and UV	29	25	17	18	16	4	10
CV	11	10	3	3	8	2	140
CE	10	8	4	4	5	1	8
Used CV/assets	11	14	10	11	17	4	27
SME loans	8	11	11	12	13	3	34
Tractor	16	16	12	12	8	2	-
Mortgage	7	17	14	7	6	2	24
Disbursements	92	101	72	67	73	18	25
Total (ex-tractors and mortgages)	68	69	45	48	59	15	29
% of disbursements	75	68	63	71	81	81	

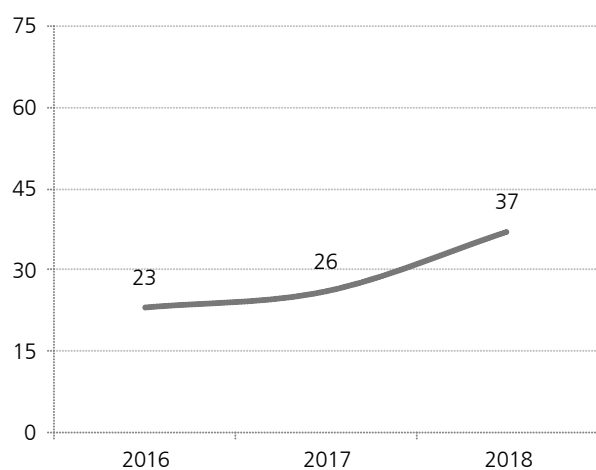
Note:

1) Numbers for 1QFY18 and 1QFY19 are based on Ind-AS.

Source: Company, Kotak Institutional Equities

Exhibit 15: Rising share of direct business in asset-backed finance

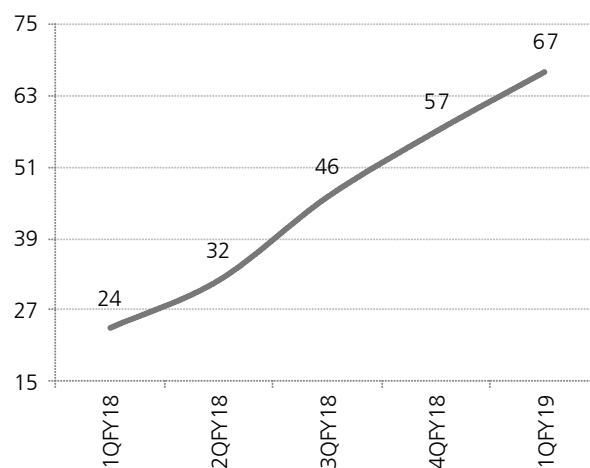
Share of direct in disbursal, March fiscal –year-ends, 2016-2018 (%)



Source: Company, Kotak Institutional Equities

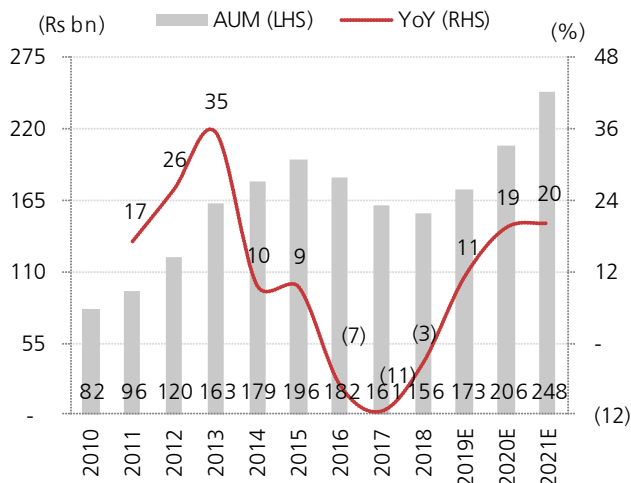
Exhibit 16: Direct sourcing in mortgage is high at 67%

Share of direct in disbursal, 1QFY18-1QFY19 (%)



Source: Company, Kotak Institutional Equities

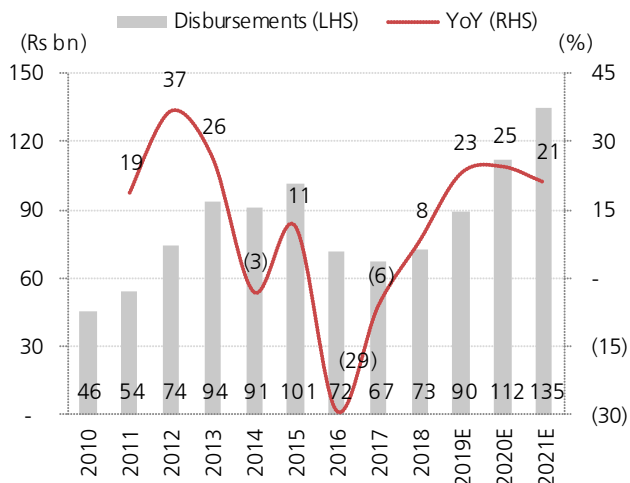
Exhibit 17: AUM growth is expected to pick up going forward
AUM, March fiscal year-ends, 2010-2021E



Note:
1) Numbers from FY2019E are based on Ind-AS.

Source: Company, Kotak Institutional Equities estimates

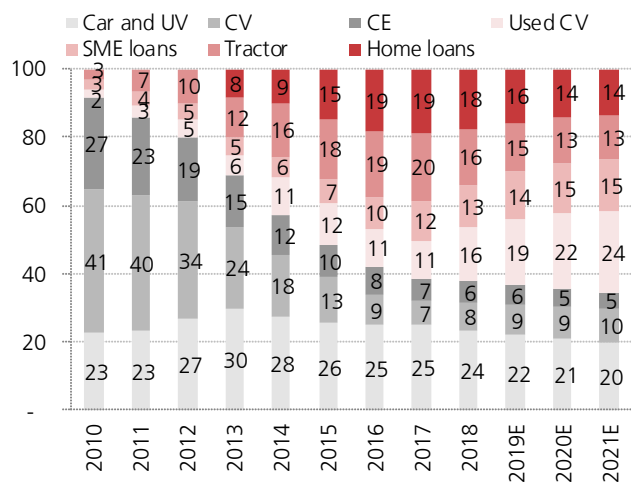
Exhibit 18: Disbursements have started to gain momentum
Disbursements, March fiscal year-ends, 2010-2021E



Note:
1) Numbers from FY2019E are based on Ind-AS.

Source: Company, Kotak Institutional Equities estimates

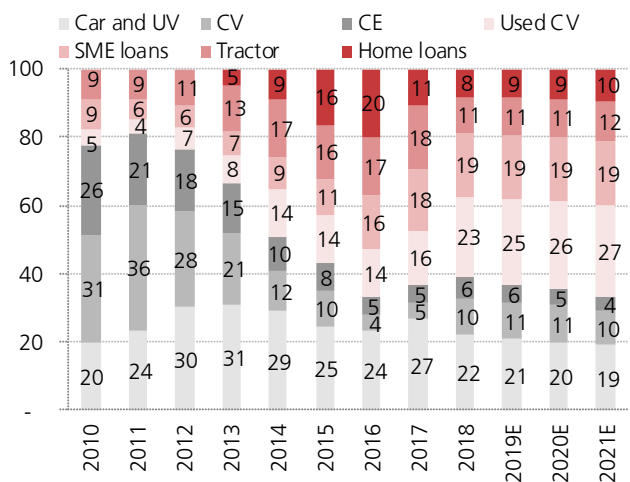
Exhibit 19: Used CV AUM is expected to grow
AUM break-up, March fiscal year-ends, 2010-2021E



Note:
1) Numbers from FY2019E are based on Ind-AS.

Source: Company, Kotak Institutional Equities estimates

Exhibit 20: Disbursements in tractors will pick up
Disbursements breakup, March fiscal year-ends, 2010-2021E



Note:
1) Numbers from FY2019E are based on Ind-AS.

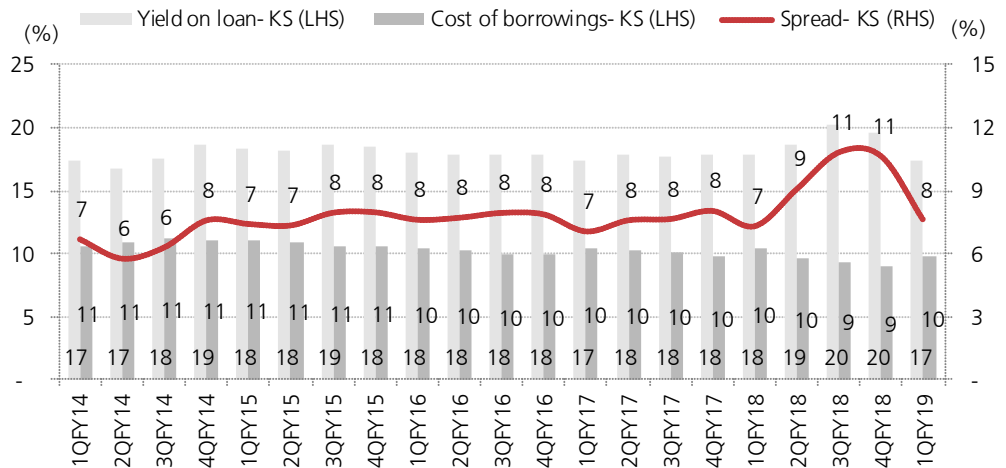
Source: Company, Kotak Institutional Equities estimates

110 bps yoy improvement in margins (reported) to 8.6%

Reported margins improved 110 bps yoy to 8.6% in 1QFY19 on the back of drop in cost of borrowings; calculated NIM up 50 bps, 30 bps adjusting impact of recent capital issuance. Calculated cost of borrowing was down 70 bps yoy to 9.8% in 1QFY19. The company continues to maintain high share of bank borrowings at 66% (down 300 bps yoy). Notably, most banks have raised their MCLR rates in recent months which is yet to get reflected in the borrowing's cost of Magma. Calculated yields dropped 40 bps yoy to 17.4% driven by higher share of low-yielding products. On a qoq basis yields dropped due to change in recognition of interest income on transition to Ind-AS. Earlier, fees and subvention income was booked up-front but under Ind-AS, fees and origination expenses will be adjusted with interest income and deferred over the tenure of the loans.

Over FY2019- 21E, we expect spreads to moderate down by 40 bps, largely led by a rise in the cost of funds in an environment of rising interest rate and rise in MCLR rates by most banks. Borrowings cost will rise 140 bps yoy to 10.5%.

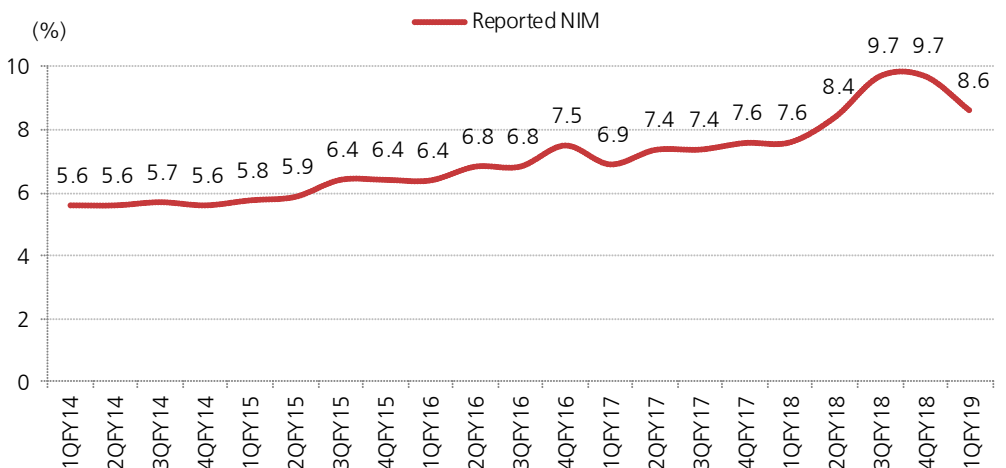
Exhibit 21: Yield improved significantly in 1QFY19 owing to lower interest reversals
YoA, CoF and spread, March fiscal year ends, 1QFY14-1QFY19 (%)



Note:
1) Numbers for 1QFY18 and 1QFY19 are based on Ind-AS.

Source: Company, Kotak Institutional Equities

Exhibit 22: Margins improved 110 bps yoy to 8.6% in 1QFY19
NIM (reported), March fiscal year-ends, 1QFY14-1QFY19 (%)



Note:
1) Numbers for 1QFY18 and 1QFY19 are based on Ind-AS.

Source: Company, Kotak Institutional Equities

Cost pressure to moderate going ahead

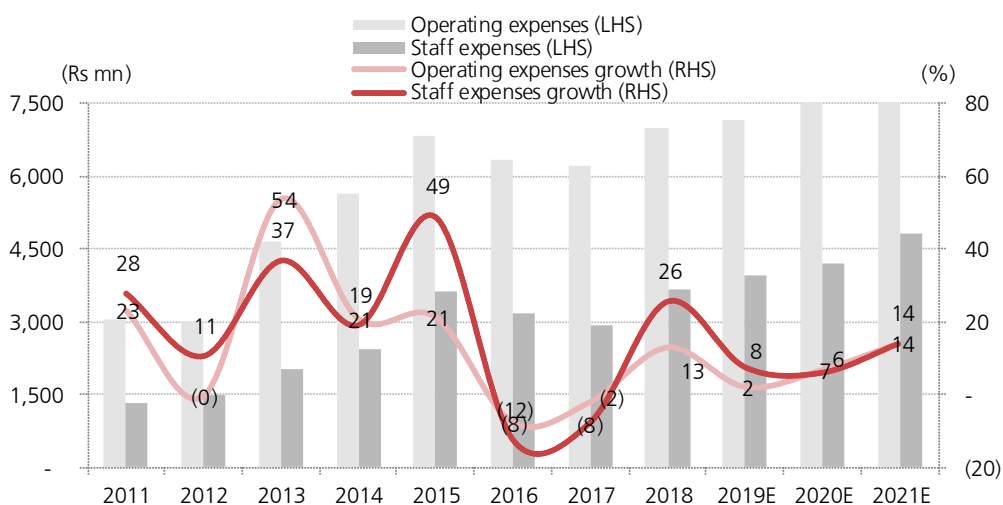
Cost-to-income ratio increased 180 bps yoy to 49.1% driven by 15% yoy rise in operating expenses. Cost-to-average AUM increased 56 bps yoy to 4.3%. The growth in expenses has moderated in the last few quarters. The deterioration in cost ratios was a result of muted AUM growth even when disbursement growth was high at 25% yoy. Going ahead as newer branches scale up and AUM growth picks pace, cost ratios are expected to improve. Additionally, branch productivity, which has been low comparative to peers, is expected to improve significantly going ahead. We forecast cost-income ratio to drop to 42.5% from 50.3% in FY2018.

Capital position comfortable

Capital position was comfortable with CAR at 23.1% (up from 19.7% yoy); this is assuming IGAAP treatment of securitized loans. Management highlighted that CAR would be lower by about 200-250 bps if the new norms were considered. It has guided additional requirement of capital infusion of ₹0.5 bn in the general insurance business if premium remains strong at 70% yoy.

Exhibit 23: Expenses are expected to moderate going ahead

March fiscal year-ends, 2010-2020E



Note:

1) Numbers from FY2019E are based on Ind-AS.

Source: Company, Kotak Institutional Equities estimates

Exhibit 24: Magma' branch productivity has been low compared to its peers

Branch productivity, March fiscal year-ends, 2013-3QFY18

	2013	2014	2015	2016	2017	2018	1QFY19
Chola							
Loans (Rs bn)	144	171	176	201	236	315	334
Branches (#)	518	574	534	534	703	873	883
Branch productivity (Rs mn)	277	297	330	376	336	361	378
Magma							
Loans (Rs bn)	141	152	153	131	112	109	112
Branches (#)	275	274	250	234	284	305	304
Branch productivity (Rs mn)	514	555	613	559	394	356	369
Mahindra							
Loans (Rs bn)	279	341	369	409	466	551	587
Branches (#)	657	893	1,108	1,167	1,182	1,284	1,291
Branch productivity (Rs mn)	425	382	333	351	394	429	455
Shriram transport							
Loans (Rs bn)	494	528	584	727	787	953	961
Branches (#)	539	654	741	853	918	1,213	1,230
Branch productivity (Rs mn)	916	807	788	852	858	786	781

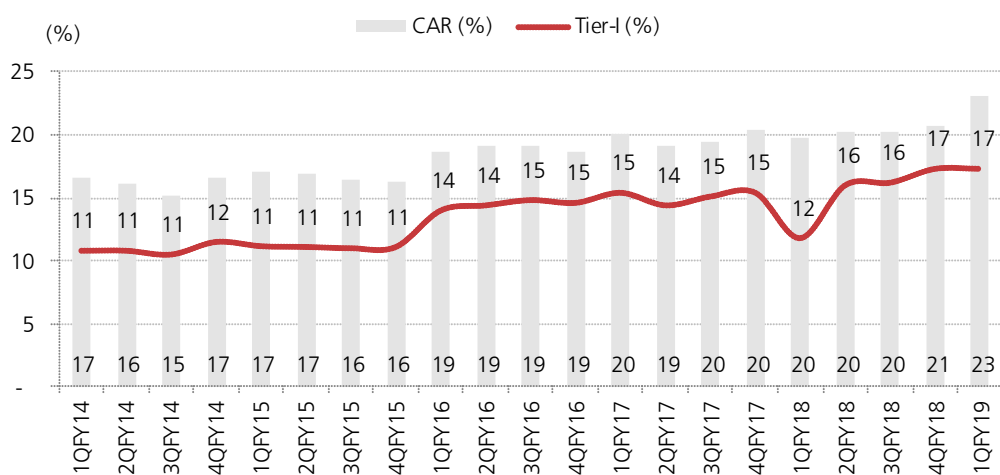
Note:

1) Numbers for 1QFY19 are based on Ind-AS.

Source: Company, Kotak Institutional Equities

Exhibit 25: Capital position remains comfortable for now

March fiscal year-ends, 1QFY14-1QFY19 (%)



Note:

1) Numbers for 1QFY18 and 1QFY19 are based on Ind-AS.

Source: Company, Kotak Institutional Equities

Exhibit 26: Magma Fincorp Limited- change in estimates
 March fiscal year-ends, 2019-2021E (Rs mn)

	Ind-AS			IGAAP			(% chg.)		
	New estimates			Old estimates					
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
NII	14,569	17,287	20,228	14,599	16,967	19,605	(0.2)	1.9	3.2
AUM (Rs bn)	173	206	248	173	206	248	0.0	-	(0.0)
NIM (%)	8.9	9.1	8.9	8.9	9.0	8.6			
Operating expenses	7,166	7,655	8,745	7,416	7,926	9,054	(3.4)	(3.4)	(3.4)
Employee expenses	3,966	4,209	4,806	4,006	4,251	4,854	(1.0)	(1.0)	(1.0)
Other expenses	3,199	3,446	3,938	3,411	3,675	4,200	(6.2)	(6.2)	(6.2)
PPOP	7,694	9,964	11,846	7,856	9,830	11,475	(2.1)	1.4	3.2
Provisions	2,536	3,164	3,484	2,486	3,071	3,284	2.0	3.0	6.1
PBT	5,158	6,800	8,362	5,370	6,759	8,191	(3.9)	0.6	2.1
Taxes	1,651	2,176	2,676	1,718	2,163	2,621	(3.9)	0.6	2.1
PAT	3,508	4,624	5,686	3,652	4,596	5,570	(3.9)	0.6	2.1
EPS	13.0	17.2	21.1	13.6	17.1	20.7	(3.9)	0.6	2.1
BVPS	101.7	115.9	133.3	102.9	117.0	134.1	(1.2)	(1.0)	(0.6)

Source: Company, Kotak Institutional Equities estimates

Exhibit 27: Magma Fincorp Limited- key growth rates and ratios
March fiscal year-ends, 2016-2021E

	IGAAP 2016	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
YoY growth in key paramaters						
Profit and loss statement (%)						
Net interest income	14	(5)	9	9	19	17
Provisioning expenses	53	62	(38)	(32)	25	10
Net income (post provisions)	3	(29)	53	21	17	18
Operating expenses	(8)	(2)	13	2	7	14
Staff expenses	(12)	(8)	26	8	6	14
Other operating expenses	(4)	1	2	(6)	8	14
Depreciation expenses	14	23	1	10	5	15
PBT post extraordinary	37	(85)	579	62	32	23
Tax	155	(63)	157	88	32	23
PAT post minority interest	27	(90)	1024	52	32	23
Balance sheet (%)						
Loans and advances	6	(15)	1	35	22	23
Assets under management	(7)	(11)	(3)	11	19	20
Fixed assets	26	2	(50)	10	10	10
Other current assets	(23)	7	9	30	30	30
Total assets	4	(12)	1	33	22	23
Borrowings	0	(15)	(3)	41	26	26
Current liabilities	21	(10)	18	5	5	5
Total liabilities	1	(15)	(0)	36	23	24
Share capital	24	0	1	14	0	0
Reserves and surplus	30	1	7	18	14	15
Shareholders funds	30	1	7	18	14	15
Key ratios (%)						
Interest yield	16.9	16.5	16.1	17.3	17.3	17.2
Interest cost	10.0	10.2	9.1	10.2	10.5	10.5
Spreads	6.9	6.2	7.0	7.1	6.8	6.7
NII/loans under management	6.8	7.1	8.4	8.9	9.1	8.9
Operating costs/net income (post provisions)	67.4	93.0	68.8	58.1	53.0	51.1
Cash/total assets + loan sold down	2.1	2.0	2.4	0.9	0.7	0.4
Tax rate	30.2	72.7	27.6	32.0	32.0	32.0
Debt/equity (X)	5.5	4.6	4.2	5.1	5.6	6.1
Du Pont analysis						
(% of average assets including loans sold down)						
Net interest income	6.8	7.1	8.4	8.9	9.1	8.9
Credit costs	2.0	3.5	2.4	1.5	1.7	1.5
Operating expenses	3.4	3.6	4.4	4.4	4.0	3.9
RoAUM	1.1	0.1	1.5	2.1	2.4	2.5
Average AUM/average equity (X)	9.4	7.7	7.0	6.5	6.5	6.8
RoE	10.6	0.6	10.2	13.9	15.8	17.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 28: Magma Fincorp Limited- financial summary
March fiscal year-ends, 2016-2021E (Rs mn)

	IGAAP 2016	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Income statement (Rs mn)						
Interest income	23,125	21,441	19,342	24,470	31,291	38,257
Interest costs	(11,916)	(11,255)	(9,054)	(12,082)	(16,420)	(20,687)
Net interest income	12,779	12,201	13,360	14,569	17,287	20,228
Net total income	13,133	12,740	13,932	14,860	17,619	20,591
Provisioning expenses	(3,750)	(6,068)	(3,739)	(2,536)	(3,164)	(3,484)
Net income (post provisions)	9,383	6,672	10,193	12,324	14,455	17,107
Operating expenses	(6,325)	(6,204)	(7,012)	(7,166)	(7,655)	(8,745)
Staff expenses	(3,172)	(2,933)	(3,686)	(3,966)	(4,209)	(4,806)
Other operating expenses	(2,758)	(2,785)	(2,835)	(2,658)	(2,878)	(3,285)
Depreciation expenses	(395)	(485)	(492)	(541)	(568)	(654)
PBT post extraordinary	3,058	469	3,180	5,158	6,800	8,362
Tax	(923)	(341)	(877)	(1,651)	(2,176)	(2,676)
PAT	2,135	128	2,304	3,508	4,624	5,686
PAT post minority interest	2,114	205	2,304	3,508	4,624	5,686
No of shares (mn)	235	235	237	269	269	269
EPS (Rs)	9	1	10	13	17	21
DPS (Rs)	1	1	1	2	3	3
BVPS (Rs)	92	92	98	102	116	133
Balance sheet (Rs mn)						
Assets						
Loans and advances	140,990	119,680	120,440	162,788	199,224	245,745
Investments	3,997	5,465	6,485	6,685	6,885	7,085
Fixed assets	2,785	2,853	1,430	1,573	1,730	1,903
Current assets	7,460	7,953	8,657	11,255	14,631	19,020
Cash and bank balances	4,084	3,533	4,179	1,763	1,578	1,209
Total assets	155,232	135,950	137,013	182,301	222,470	273,754
Liabilities						
Borrowings	119,020	100,960	98,290	138,614	174,149	219,882
Current liabilities	14,572	13,140	15,530	16,307	17,122	17,978
Total liabilities	133,722	114,230	113,818	154,920	191,271	237,860
Share capital	470	470	474	539	539	539
Reserves and surplus	21,040	21,250	22,721	26,843	30,660	35,355
Shareholders funds	21,510	21,720	23,195	27,381	31,199	35,894
Minority interest	420	340	—	—	—	—
Aggregate loan book (incl sell down)						
Loan on books	140,990	119,680	120,396	162,788	199,224	245,745
Loans under management	181,830	161,010	155,550	172,788	206,224	247,745

Source: Company, Kotak Institutional Equities estimates

AUGUST 21, 2018
UPDATE

Coverage view: **Neutral**

Price (₹): **1,324**

Target price (₹): **1,600**

BSE-30: **38,279**

Right ingredients for a structured buyback program. L&T's proposal for share buyback is a natural fallout of (1) limited investment opportunities in EPC, (2) L&T's aversion to investment in long-gestation projects and (3) strong cash-flow generation in its core E&C business. Consistency of dividend payout through the weak past five-year period and large quantum of current dividend payout (~US\$350 mn) strengthen the case for a structured buyback program for L&T. Current buyback meaningfully supports L&T's case for achieving 18% RoE by/before FY2021.

Company data and valuation summary

Larsen & Toubro

Stock data		Forecasts/Valuations		2018	2019E	2020E
52-week range (Rs) (high,low)	1,470-1,113	EPS (Rs)		51.7	63.0	69.8
Market Cap. (Rs bn)	1,855.8	EPS growth (%)		22.4	21.7	10.9
Shareholding pattern (%)		P/E (X)		25.6	21.0	19.0
Promoters	0.0	Sales (Rs bn)		1,196.8	1,358.5	1,556.8
FIs	20.5	Net profits (Rs bn)		72.5	88.2	97.8
MFs	14.4	EBITDA (Rs bn)		135.7	177.2	190.5
Price performance (%)		EV/EBITDA (X)		21.0	16.6	16.0
Absolute	1M 3M 12M	ROE (%)		15.0	16.8	16.8
	4.2 0.6 17.1	Div. Yield (%)		1.2	1.7	1.9
Rel. to BSE-30	(0.6) (8.4) (3.6)					

L&T board to meet on August 23 to consider buyback of equity shares

L&T's board of directors will meet on August 23 to consider a buyback of shares. The buyback amount can be up to 10% of shareholder funds (through a board-approved route). Alternately, the company can allocate a buyback amount of up to 25% of shareholder funds through shareholder approval. We estimate the maximum outlay of buyback through the board-approved route of ₹49 bn (2.7% of current market cap) and ₹123 bn (6.6% of current market cap) through the shareholder-approval route.

Quantum of buyback can be significant given comfort on leverage

L&T's standalone/consolidated gross debt to equity ratio is comfortable at 0.21X/1.75X and would be meaningfully lower if adjusted for cash and current investments; standalone leverage would be negligible in that context. A reasonably large US\$1 bn buyback, if it were to happen, would increase gross leverage to 0.35X/1.9X at a standalone and consolidated level. L&T standalone had limited net debt of ₹22 bn at end-March 2018 (excluding cash and current investments) and has generated ~₹125 bn of free-cash flows over the past five years.

Can L&T have a structured buyback program? Yes, in our view

L&T's standalone gross debt to equity ratio has declined meaningfully over the past decade, with material gains happening over the past five years. This was despite a (1) tepid performance for the core E&C business (5-year CAGR of 8/3% for revenues/EBITDA), (2) large increase in investments with limited commensurate income and (3) worsening of working capital. Most of these factors (if not all) would be in L&T's favor over the next five years.

Buyback reaffirms RoE-focused business strategy of L&T

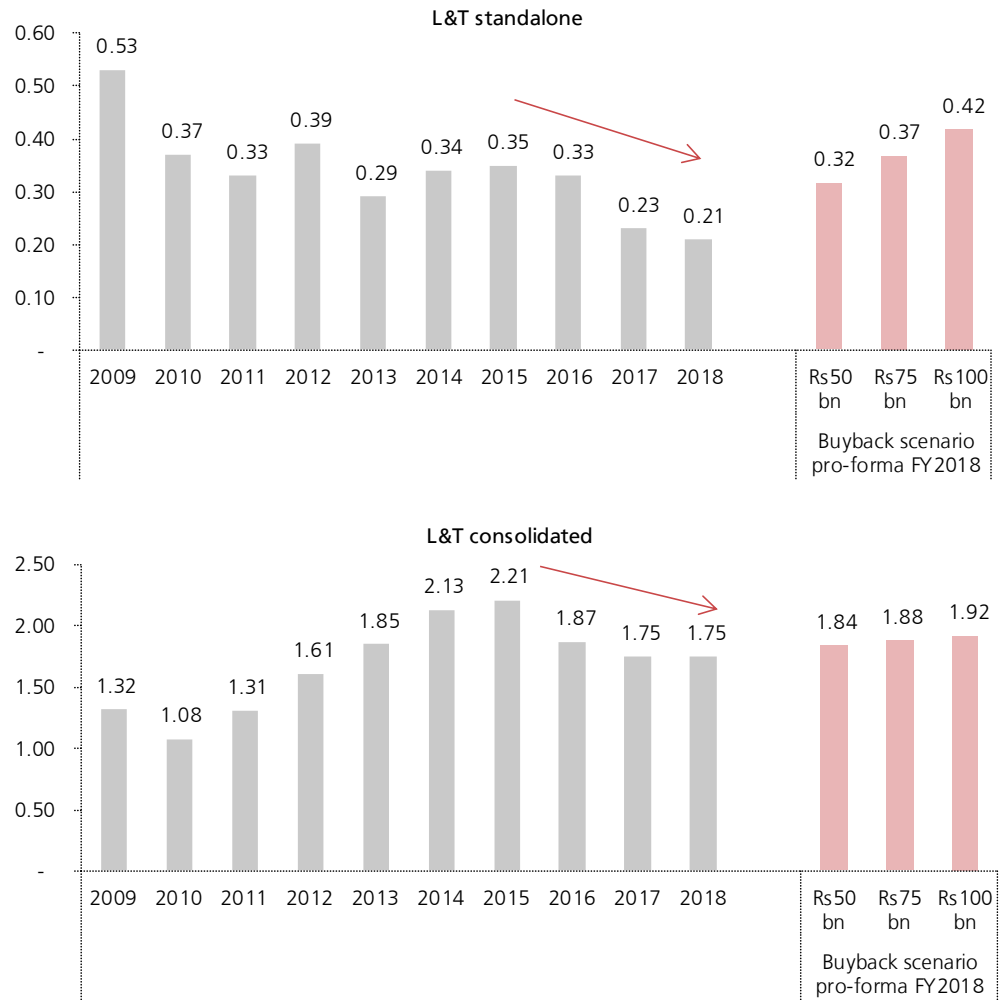
Our interaction with the management suggests that the decision to buy back shares is independent of the large proceeds expected from the divestment of its E&A business. L&T also does not expect the buyback to materially alter the quantum of dividends that it pays to shareholders. Through such a buyback, L&T aims to maintain a certain levered capital structure. In our view, the divestment brings forth the RoE-focused strategy of L&T. L&T has been consistent with such strategy since the start of the Lakshya program in FY2017. Recent divestments and now this buyback would support reaching the 18% RoE target by FY2021.

Aditya Mongia

Ajinkya Bhat

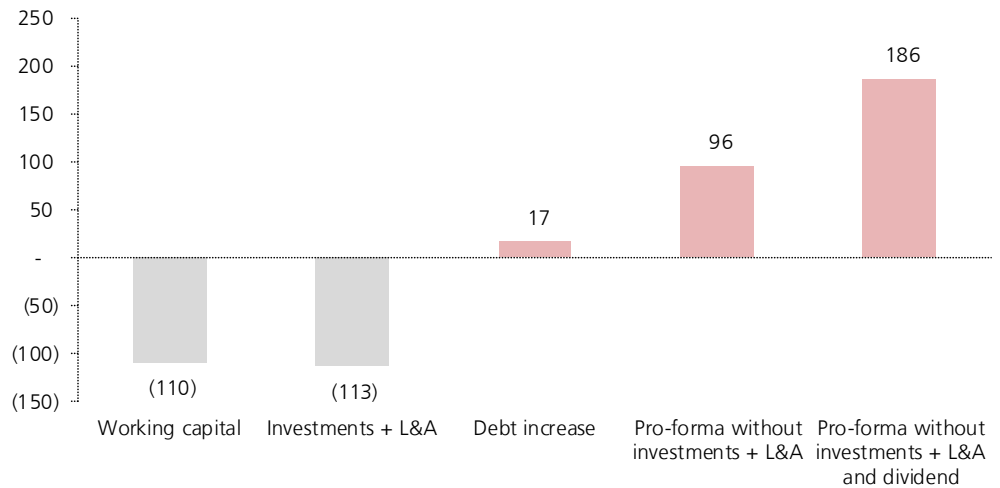
Exhibit 1: Financial leverage on both standalone and consolidated balance sheet has declined meaningfully in the past five years

Gross debt to equity ratio of L&T standalone and consolidated, March fiscal year-ends, 2009-18 (X)



Source: Company, Kotak Institutional Equities estimates

Exhibit 2: L&T standalone generates strong cash flow that would have touched ~Rs100 bn over the past five years if L&T had chosen to avoid new investments and subsidiary L&A
 Standalone cash flows for L&T over the past five years, March fiscal year-ends, 2014-18 (Rs bn)

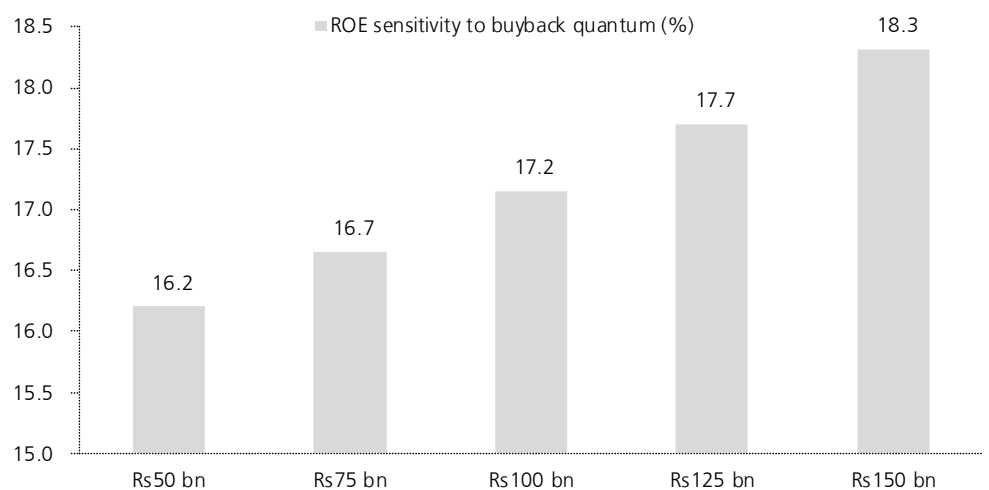


Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Buyback will be EPS dilutive but RoE accretive

Sensitivity of pro-forma EPS and RoE in FY2020 to the quantum of buyback and buyback price, March fiscal year-ends

		Consolidated EPS sensitivity to buyback quantum and buyback premium (Rs/share)				
		Buyback quantum (Rs bn)				
		50.0	75.0	100.0	125.0	150.0
Buyback price (Rs/share)	1,350	69.1	68.7	68.3	67.9	67.5
	1,450	69.0	68.5	68.0	67.6	67.1
	1,550	68.8	68.3	67.8	67.3	66.8
	1,650	68.7	68.2	67.6	67.0	66.5
	1,750	68.7	68.1	67.4	66.8	66.2



Source: Company, Kotak Institutional Equities estimates

Exhibit 4: L&T - SoTP-based target price of Rs1,600/share

	Earnings/Book (Rs mn)	Target multiple (X)	Value (Rs bn)	Valuation basis	Stake (%)	Value (Rs bn)	March-20 Per share (Rs)	March-21 Per share (Rs)
Core E&C business (consolidated)	78,047	18.0	1,405	P/E	100.0	1,405	1,002	1,192
L&T Finance Holdings			379	(at KIE TP)	66.7	253	180	206
L&T Infotech			350	(at KIE TP)	84.3	295	211	240
L&T Technology Services	10,339	20.0	207	P/E	89.8	186	132	151
IDPL- Roads, Transmission	31,881	2.0	64	P/B	97.4	62	44	51
Hyderabad Metro	41,268	0.6	25	P/B	100.0	25	18	20
Kattupalli port (held for sale)	3,880	2.0	8	P/B	97.0	8	5	6
Power development			47	P/B	100.0	47	33	38
Total subsidiaries			917	15% holding co. disc.		744	531	604
Grand total							1,533	1,797
One-year-forward SoTP							1,599	

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Consolidated financials of L&T, March fiscal year-ends, 2012-21E (Rs mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Income statement										
Revenues	643,131	744,980	851,284	906,546	1,019,753	1,100,110	1,196,832	1,358,506	1,556,808	1,748,061
Expenditure	(555,711)	(646,894)	(743,986)	(806,690)	(915,125)	(989,363)	(1,061,118)	(1,181,289)	(1,366,310)	(1,522,315)
EBITDA	87,420	98,087	107,298	99,856	104,628	110,747	135,714	177,217	190,498	225,747
EBITDA margin (%)	13.6	13.2	12.6	11.0	10.3	10.1	11.3	13.0	12.2	12.9
Other income	8,290	10,959	9,818	10,072	9,044	14,010	14,120	16,440	19,680	22,036
Interest & finance charges	11,019	20,950	31,380	28,507	16,551	13,398	15,385	27,911	29,348	27,501
Depreciation	15,523	16,371	14,458	26,225	17,867	23,699	19,287	20,443	24,768	29,376
PBT	69,167	71,725	71,277	55,195	79,254	87,659	115,162	145,302	156,062	190,905
Tax	22,826	23,855	26,284	20,876	24,848	20,066	31,989	47,352	50,576	59,949
PAT	47,151	48,976	45,468	32,631	41,387	59,198	72,469	88,228	97,827	122,758
EPS (Rs)	33.6	34.9	32.4	23.3	29.5	42.2	51.7	63.0	69.8	87.6
Reported PAT	47,719	53,124	49,020	47,648	42,329	60,412	73,699	90,037	99,636	125,157
Balance Sheet										
Share holder's funds	311,402	365,126	408,908	459,077	470,732	537,801	612,820	665,359	723,500	796,534
Capital	1,225	1,231	1,854	1,859	1,863	1,866	2,803	2,803	2,803	2,803
Reserves and surplus	292,643	337,366	375,262	407,232	439,941	500,299	553,767	606,307	664,448	737,481
Minority interest	17,535	26,529	31,792	49,986	28,928	35,636	56,250	56,250	56,250	56,250
Loan funds	471,501	619,937	803,304	905,714	881,355	939,763	1,075,241	1,231,167	1,334,467	1,361,413
Deferred tax liability	818	1,837	3,375	(1,846)	(7,364)	(11,252)	(14,941)	(14,941)	(14,941)	(14,941)
Total sources of funds	827,898	986,900	1,250,405	1,393,267	1,344,861	1,481,268	1,687,740	1,896,206	2,057,646	2,157,626
Gross block	257,568	382,216	414,765	457,586	165,705	170,056	185,330	335,318	363,870	394,542
Acc. depreciation	63,560	77,884	90,790	110,206	23,948	39,317	58,604	79,048	103,816	133,192
Net block	194,008	304,332	323,975	347,381	141,757	130,739	126,726	256,271	260,054	261,350
Cash & bank balances	35,221	36,312	41,353	58,555	53,899	55,725	80,325	142,446	147,013	153,522
Investments	87,895	87,675	81,090	96,121	154,651	231,828	212,190	212,190	212,190	212,190
Loans & advances towards financing activities	247,732	320,021	438,517	553,669	665,946	720,612	882,646	995,445	1,127,683	1,184,067
Net current assets	113,915	125,492	223,686	182,304	203,069	191,156	236,295	274,731	295,582	331,373
Total application of funds	827,898	986,900	1,250,405	1,393,267	1,344,861	1,481,268	1,687,740	1,896,206	2,057,646	2,157,626
Yoy growth (%)										
Revenues	23.5	15.8	14.3	6.5	12.5	7.9	8.8	13.5	14.6	12.3
EBITDA	25.2	16.4	15.0	8.4	13.4	8.1	7.3	11.3	15.7	11.4
Recurring PAT	10.0	3.9	(7.2)	(28.2)	26.8	43.0	22.4	21.7	10.9	25.5
Key ratios										
EBITDA margin (%)	14.9	14.6	13.8	12.1	11.1	11.3	12.5	14.3	13.5	14.2
PAT margin (%)	7.3	6.6	5.3	3.6	4.1	5.4	6.1	6.5	6.3	7.0
Effective tax rate (%)	33.0	33.3	36.9	37.8	31.4	22.9	27.8	32.6	32.4	31.4
Net debt to equity (X)	1.4	1.6	1.9	1.8	1.8	1.6	1.6	1.6	1.6	1.5
RoE (%)	16.5	14.5	11.7	7.5	8.9	11.7	12.6	13.8	14.1	16.2
RoCE (%)	8.0	7.6	6.3	5.1	4.0	5.0	5.4	6.1	6.0	6.8
Book value per share (Rs)	209.7	241.6	269.1	291.9	315.3	358.3	397.2	434.7	476.1	528.3
Net Wcap (excl cash) as days of sales (#)	64.7	61.5	95.9	73.4	72.7	63.4	72.1	73.8	69.3	69.2

Source: Company, Kotak Institutional Equities estimates

AUGUST 21, 2018

UPDATE

BSE-30: 38,279

Cement prices—weak trends. Cement prices for August 2018 declined by ₹6/bag (all-India average), per our channel checks. The prices in East were steady but declined in North and Central after sharp increases seen in these regions in July 2018. The cost environment remains challenging due to increase in pet-coke (+12% qoq) and diesel prices as well as depreciating INR/US\$ (for Fx-related costs). The current price trends indicate weak 2QFY19 earnings for pan-India names although companies with higher regional sales mix in North and Central may report an improvement. We maintain our cautious stance on the sector on expensive valuations.

Cement prices—another month of weak prices, but expected during monsoons

All-India cement prices declined in August 2018 by ₹6/bag mom to ₹329/bag, expected given weak demand during monsoons and heavy rainfall in a few states including Kerala. The prices are ₹10/bag lower than August 2017—we note that last year saw strong cement prices during April-August 2017. As per our channel checks, the price corrections were seen in North and Central regions (-₹8 to -₹13 bag), West (-₹10/bag) and South (-₹2/bag) while prices were steady in East markets (Exhibits 1 and 2).

Despite correction in North and Central regions, prices are still ₹8-15/bag qoq higher in 2QFY19E in these regions led by price increase in June & July 2018. Based on price trends for July-August 2018, the 2QFY19 prices can be 1% qoq higher led by North and Central regions.

Cost challenges high due to increased fuel prices and weakening INR/US\$ rate

The imported pet-coke prices increased to US\$125/ton (+12% from 1QFY19) while domestic prices of pet-coke increased to ₹9,950/ton (+8% from 1QFY19). Besides higher import prices, the weakening INR/US\$ rate will also increase costs for cement companies, which continue to rely heavily on pet-coke imports—India imported close to 3 mn tons of pet-coke in 1QFY19. Besides higher energy costs, the rising diesel prices (+2% qoq) will add to the rising cost pressures.

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

Exhibit 3 highlights the monthly spread movement between cement prices (net of taxes) and energy costs (estimated assuming 70% pet-coke usage for the industry). The spreads continue to remain weak for pan-India names in 2QFY19 (we estimate 1% qoq decline). We expect spreads to improve for regional names in North and Central (+2 to 4% qoq), aided by higher cement prices, and to weaken in West and South (-2% to -4% qoq).

Industry volumes increase by 13% yoy in June 2018; demand largely aided by infrastructure

As per DIPP data, industry volumes increased by 13% yoy in June 2018 to 28.6 mn tons, albeit on a low base—we note that demand declined by 3% in June 2017. The two-year volume CAGR works out to 4.7% for June 2018. As per company narratives, the improvement in demand in the past few months is mostly led by pickup in infrastructure activity from increased government spending. The demand to an extent is also helped by sorting of sand-mining issue in states such as Tamil Nadu. The company narratives do not yet indicate any major improvement in cement demand from trade sales (retail), which reflects subdued real estate markets in the country.

Maintain cautious stance on the sector on expensive valuations, large capacity additions

We maintain our cautious stance on the cement sector on expensive valuations and expectations of moderate improvement in earnings over the next two years. The cost headwinds on the back of rising fuel costs and weakening INR/US\$ rate necessitate sharp improvement in industry utilizations for meaningful earnings improvement. However, we believe close to 70 mtpa of new capacities over three years will keep industry utilizations low (<70%).

Abhishek Poddar

Murtuza Arsiwalla

Exhibit 1: All-India prices declined by Rs6/bag mom in August 2018; price decline across regions save for East markets
Monthly cement prices across regions in India, August 2017 – 2018 (Rs per 50 kg bag)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
North	314	308	305	304	320	309	309	303	300	296	296	309	302
Central	317	315	313	314	320	320	327	318	323	320	325	344	331
East	350	342	324	331	332	332	337	337	336	337	336	343	344
West	321	309	310	302	300	307	307	303	311	325	321	322	312
South	370	363	348	332	333	352	353	337	346	357	347	347	345
All India average	339	332	324	319	323	328	331	322	326	331	328	335	329
Change per bag (Rs, mom)													
North	(5)	(6)	(3)	(1)	16	(12)	—	(6)	(3)	(3)	(1)	14	(8)
Central	1	(2)	(2)	1	6	—	7	(9)	5	(3)	5	19	(13)
East	9	(8)	(18)	6	1	(—)	5	—	(1)	—	(—)	6	1
West	(10)	(12)	2	(8)	(3)	7	1	(5)	8	14	(4)	2	(10)
South	(5)	(6)	(16)	(16)	1	19	1	(17)	9	11	(10)	(0)	(2)
All India average	(3)	(7)	(8)	(6)	4	5	3	(9)	5	5	(3)	7	(6)
Change per bag (Rs, yoy)													
North	(4)	(1)	—	(—)	21	15	4	(11)	(35)	(30)	(23)	(10)	(12)
Central	(7)	1	(3)	8	16	22	19	4	(16)	(10)	4	28	14
East	18	8	(6)	3	11	16	17	11	(4)	(12)	(15)	2	(6)
West	44	24	2	(1)	(—)	30	23	13	3	(8)	(14)	(9)	(9)
South	25	(4)	(17)	(25)	(23)	6	(2)	(6)	(35)	(23)	(21)	(28)	(25)
All India average	16	4	(6)	(7)	—	16	10	1	(21)	(18)	(15)	(7)	(10)

Source: Industry, Kotak Institutional Equities estimates

Region-wise cement price trends for August 2018 (second week)

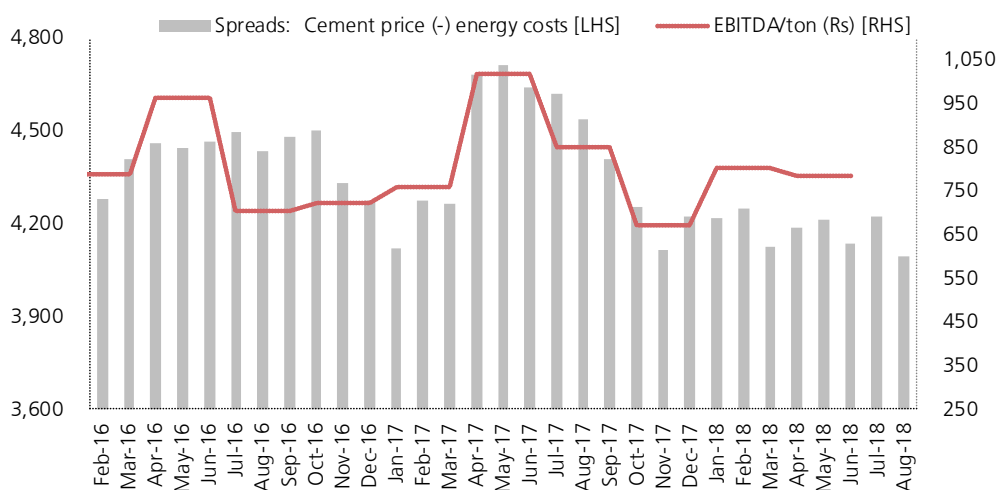
- ▶ **North and Central—prices declined by ₹8-13/bag.** Cement prices in the North and Central regions gave up some of the gains from July 2018 and prices declined by ₹8-13/bag during the month; however, prices are still ₹8-15/bag qoq higher in 2QFY19 in these regions. In August, we note price corrections in Uttar Pradesh, Haryana and Punjab of as high as ₹10-20/bag. The prices in Rajasthan, Madhya Pradesh were either flat or declined by ₹5/bag during the month.
- ▶ **West—prices declined by ₹10/bag.** Cement prices in West declined by ₹10/bag mom to ₹312/bag. As per our channel checks, prices declined by close to ₹5-10/bag in Gujarat in cities such as Baroda and Surat though a few cities such as Ahmedabad saw steady prices. In Maharashtra, the prices corrected by ₹10-30/bag in Pune, Nagpur and Mumbai—price decline was the highest in Mumbai region.
- ▶ **South—marginal decline and weak overall.** Cement prices in South markets declined to ₹345/bag in August 2018 from ₹347/bag in July 2018. The prices were flat in states of Tamil Nadu and Karnataka while declined in Kerala. We note that companies in South reported weak demand from Kerala due to heavy rains and floods.
- ▶ **East—prices steady.** Cement prices in East were steady at ₹344/bag in August 2018. Our checks indicate that prices were higher by ₹10/bag mom in West Bengal, but declined in other states including Odisha (-₹5/bag mom) and Assam (-₹10/bag mom).

Exhibit 2: Based on price trends for July-August 2018, the 2QFY19 prices can be 1% qoq higher led by North, Central regions
Quarterly trend in cement prices in India across geographies, 2QFY17 - 2QFY19E (Rs per 50 kg bag)

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19E	FY2018	FY2019E	CY2017	CY2018
North	315	303	304	327	314	310	307	297	306	314	301	314	303
Central	321	309	307	330	316	316	322	322	337	321	330	317	327
East	333	326	321	347	344	329	335	336	343	339	340	335	338
West	284	304	283	325	320	304	306	319	317	314	318	308	314
South	354	359	348	376	369	338	347	350	346	358	348	358	348
All India average	326	326	318	346	338	322	327	328	332	333	330	331	329
Change per bag (Rs, qoq)													
North	10	(12)	1	23	(14)	(4)	(3)	(10)	8				
Central	16	(12)	(2)	23	(14)	(—)	6	1	15				
East	2	(6)	(6)	26	(3)	(15)	6	1	7				
West	(2)	20	(21)	42	(5)	(16)	1	13	(1)				
South	12	5	(11)	28	(7)	(32)	10	3	(4)				
All India average	9	(0)	(8)	28	(8)	(16)	5	2	4				
Change per bag (Rs, yoy)													
North	35	32	38	22	(2)	7	3	(30)	(8)	7	(13)	16	(10)
Central	25	32	28	25	(5)	7	15	(7)	21	10	9	14	10
East	(18)	(14)	(10)	16	12	3	15	(10)	(1)	11	1	5	3
West	(4)	32	14	39	36	—	22	(6)	(3)	24	4	22	6
South	(11)	3	1	34	15	(21)	(1)	(26)	(24)	7	(10)	7	(10)
All India average	4	16	13	29	12	(4)	9	(18)	(6)	11	(3)	12	(2)

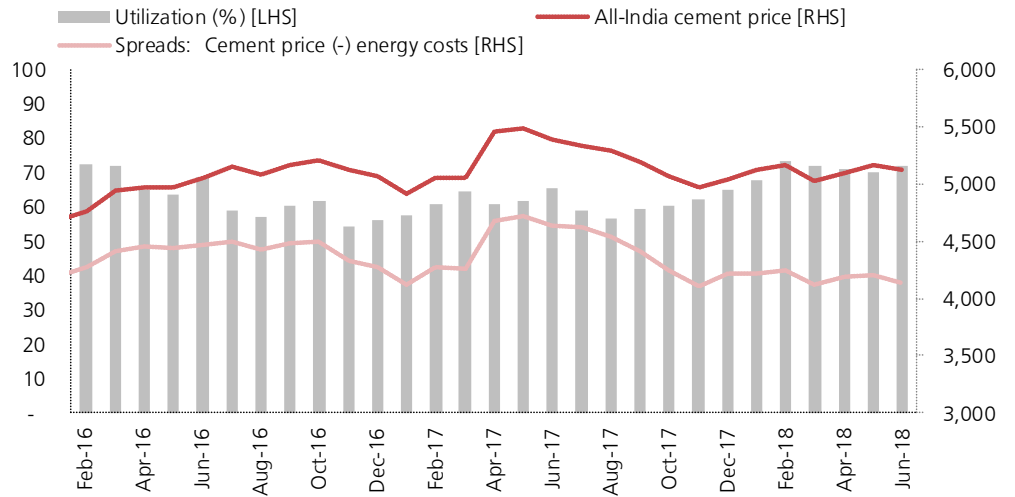
Source: Industry, Kotak Institutional Equities estimates

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



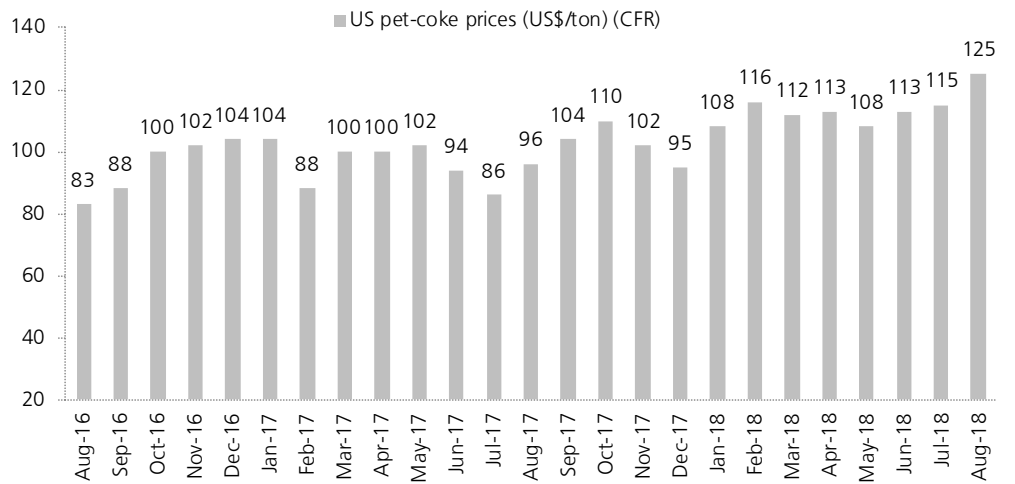
Source: Bloomberg, Company, Kotak Institutional Equities estimates

Exhibit 4: Cement prices have been weak since Sep 2017 as industry utilization remains at ~70%
 Estimated cement industry utilization and monthly price trends (% , Rs/ton)



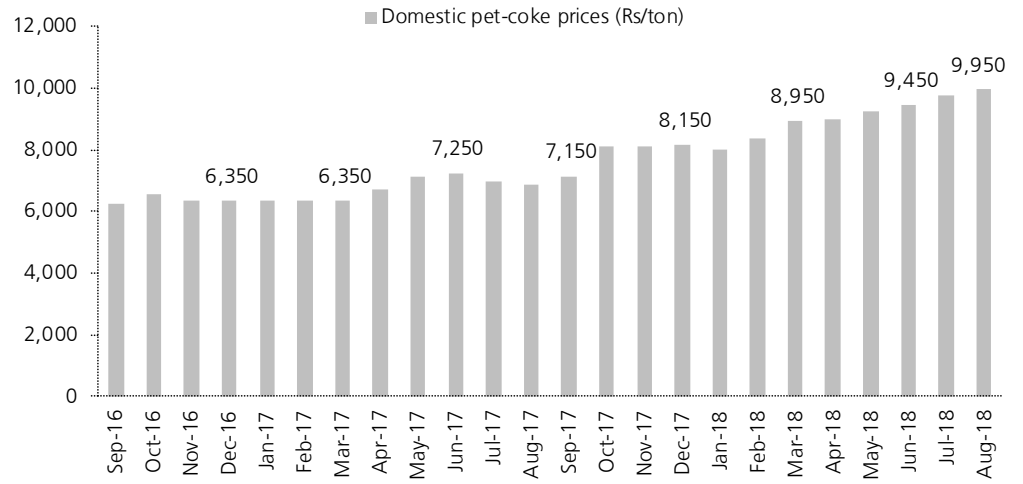
Source: Industry, DIPP, Companies, Kotak Institutional Equities estimates

Exhibit 5: Higher pet-coke prices and weak INR/US\$ rate continue to add to cost pressures
 US pet coke prices (CFR basis), 2016 - 2018 (US\$/ton)



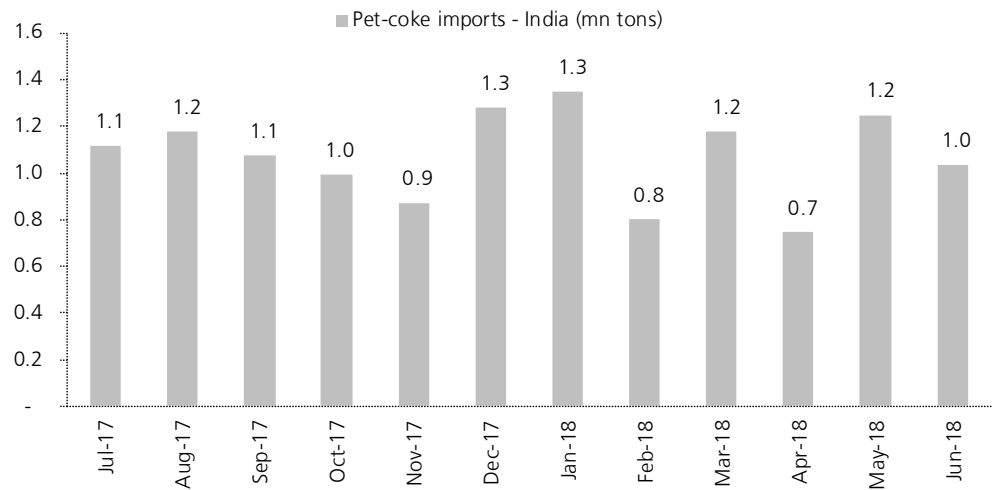
Source: Industry, Kotak Institutional Equities estimates

Exhibit 6: Domestic pet-coke prices increased by 45% over the past year
Domestic pet coke prices, 2016 - 2018 (Rs/ton)



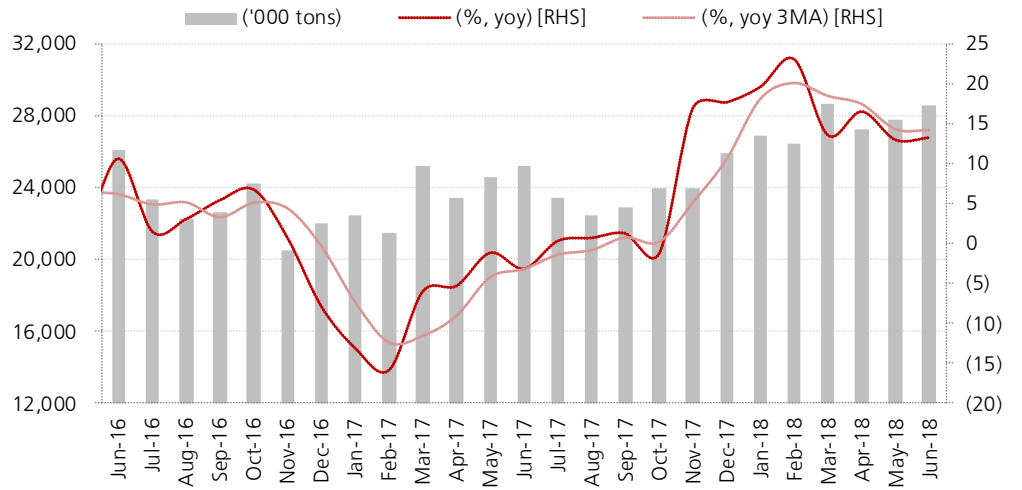
Source: Industry, Kotak Institutional Equities estimates

Exhibit 7: Indian cement companies continue to rely heavily on pet-coke imports
Pet-coke imports by India, 2017-2018



Source: Industry, Kotak Institutional Equities estimates

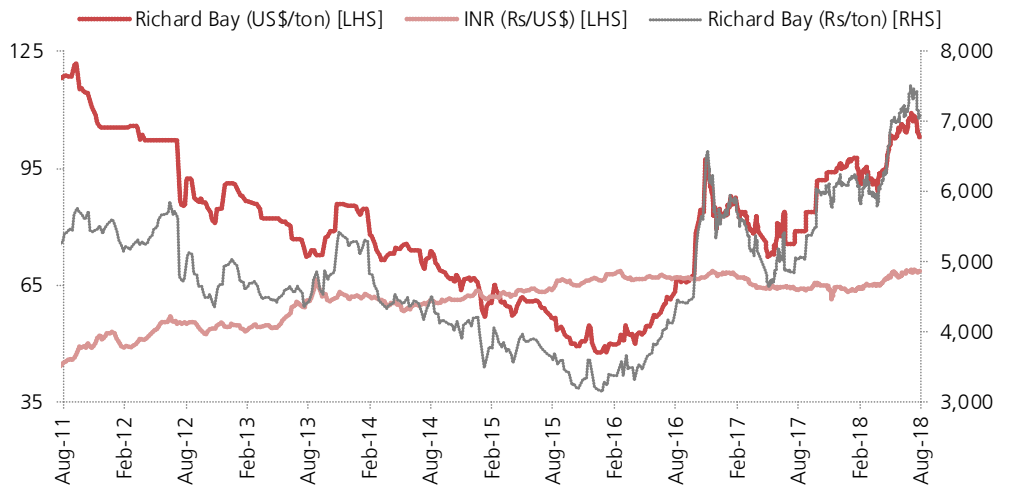
Exhibit 8: Cement volume growth at 13.2% for June 2018; two-year volume CAGR at 4.7%
 Monthly cement production volumes in India, 2016 - 2018 ('000 tons, %)



Source: DIPP, Kotak Institutional Equities estimates

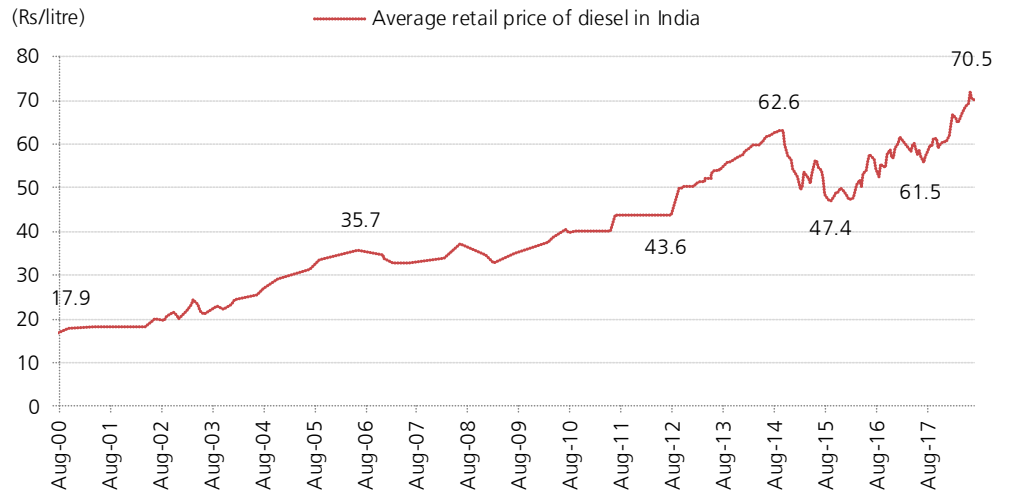
Exhibit 9: Even though imported coal prices have moderated by 4%, the weakening INR/US\$ rate will add to cost pressures

Coal prices at Richard Bay (US\$/ton, Rs/ton), 2011-18



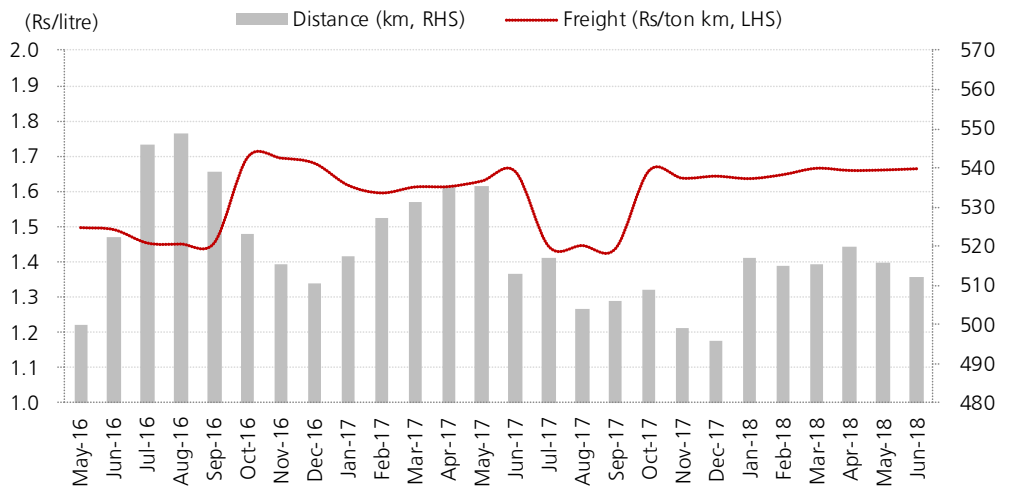
Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 10: Retail diesel prices in India are 2% qoq higher in 2QFY19
Average retail price of diesel in major cities in India (Rs/litre)



Source: Company, Kotak Institutional Equities estimates

Exhibit 11: Railway freights have remained steady over the past few months
Lead distance of cement transportation by railways and average freight rates (km, Rs/ton km)



Source: Indian Railways, Kotak Institutional Equities estimates

Exhibit 12: Cement comparative valuation

Company	Market cap. (US\$ mn)	CMP (Rs) 17-Aug	Target price (Rs)	Rating	EPS (Rs)				P/E (X)			
					2017	2018	2019E	2020E	2017	2018	2019E	2020E
Large-cap. stocks												
ACC	4,280	1,599	1,270	SELL	34	49	62	70	46	33	26	23
Ambuja Cements	6,489	230	210	REDUCE	6	8	9	11	40	31	27	22
Grasim Industries	6,796	1,042	1,170	BUY	68	47	46	55	15	22	23	19
Shree Cement	8,817	17,790	12,500	SELL	384	397	421	630	46	45	42	28
UltraTech Cement	16,765	4,301	2,950	SELL	96	88	126	162	45	49	34	27
Mid-cap. stocks												
Dalmia Bharat	3,123	2,705	2,830	ADD	39	60	94	122	70	45	29	22
India Cements	513	117	118	REDUCE	6	3	4	8	21	36	28	14
JK Cement	785	789	890	ADD	27	43	45	79	29	18	18	10
JK Lakshmi Cement	562	336	370	ADD	7	4	11	28	48	75	30	12
Orient Cement	340	117	145	ADD	(2)	2	7	11	(74)	54	17	11

Company	EV/EBITDA (X)				EV/ton of capacity (US\$)				P/B (X)			
	2017	2018	2019E	2020E	2017	2018	2019E	2020E	2017	2018	2019E	2020E
Large-cap. stocks												
ACC	22.5	17.6	14.4	12.4	120	117	115	110	3.4	3.2	3.0	2.7
Ambuja Cements	18.4	15.0	12.2	10.2	125	125	122	117	2.3	2.2	2.1	2.0
Grasim Industries	6.3	12.1	7.5	7.1	NA	NA	NA	NA	1.5	1.2	1.1	1.1
Shree Cement	23.4	24.1	19.7	14.8	286	243	221	208	8.1	7.0	6.1	5.1
UltraTech Cement	24.7	24.0	17.8	14.7	248	218	204	188	4.9	4.6	4.1	3.6
Mid-cap. stocks												
Dalmia Bharat	17.1	15.2	11.9	10.0	190	182	175	166	4.8	4.0	3.5	3.0
India Cements	7.6	9.8	8.8	6.9	60	62	62	60	0.7	0.7	0.7	0.7
JK Cement	11.5	10.0	10.3	8.5	107	100	106	115	3.1	2.8	2.5	2.0
JK Lakshmi Cement	16.0	13.8	10.2	6.7	84	77	74	70	2.8	2.7	2.6	2.1
Orient Cement	20.2	11.9	8.0	6.2	64	64	60	56	2.4	2.3	2.1	1.8

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		20-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Automobiles																													
Amara Raja Batteries	REDUCE	892	780	(12.5)	152	2.2	171	32	37	43	17.1	15.9	14.5	27.6	23.8	20.8	14.7	12.6	10.9	4.5	3.9	3.4	17.4	17.5	17.4	0.5	0.6	0.7	5.6
Apollo Tyres	BUY	262	340	29.8	150	2.1	541	20	25	29	46.9	25.7	17.0	13.3	10.6	9.0	8.1	6.8	5.6	1.4	1.3	1.1	11.0	12.5	13.1	1.1	1.1	1.1	11.0
Ashok Leyland	BUY	128	160	24.7	377	5.4	2,926	6.2	8.9	9.4	15.3	43.2	6.1	20.7	14.4	13.6	10.6	7.7	7.2	4.5	3.8	3.2	23.4	28.4	25.4	1.5	2.1	2.2	49.0
Bajaj Auto	SELL	2,735	2,500	(8.6)	792	11.3	289	148	161	176	5.4	9.0	9.3	18.5	17.0	15.5	12.8	11.3	10.0	3.7	3.3	3.0	21.2	20.7	20.3	2.2	2.4	2.6	32.2
Balkrishna Industries	REDUCE	1,359	1,300	(4.3)	263	3.8	193	50	63	71	34.5	24.7	13.6	27.0	21.7	19.1	14.8	11.9	10.6	5.3	4.4	3.6	21.6	22.2	20.9	0.4	0.5	0.5	10.0
Bharat Forge	SELL	648	600	(7.4)	302	4.3	466	23	27	29	44.4	14.6	7.1	27.7	24.2	22.6	15.7	13.7	12.7	5.5	4.7	4.1	21.5	21.0	19.4	0.8	0.8	0.9	11.6
CEAT	ADD	1,429	1,500	5.0	58	0.8	40	99	108	116	53.7	8.3	7.9	14.4	13.3	12.3	9.1	7.8	7.0	2.0	1.7	1.5	14.4	13.8	13.2	0.7	0.7	0.7	13.7
Eicher Motors	SELL	28,427	24,000	(15.6)	775	11.1	27	997	1,180	1,306	25.8	18.4	10.7	28.5	24.1	21.8	20.6	17.4	15.1	10.4	7.8	6.1	42.4	37.1	31.4	0.1	0.1	—	19.7
Escorts	BUY	891	1,200	34.6	76	1.6	89	59	71	78	52.3	19.9	10.2	15.1	12.6	11.4	9.1	7.5	6.3	2.7	2.3	1.9	17.6	18.0	17.1	1.0	1.2	1.3	16.3
Exide Industries	SELL	295	235	(20.4)	251	3.6	850	10	11	13	25.3	11.0	11.6	28.7	25.9	23.2	16.3	14.6	13.0	4.2	3.8	3.5	15.4	15.5	15.7	1.0	1.2	1.4	8.1
Hero Motocorp	SELL	3,304	3,000	(9.2)	660	9.4	200	183	204	225	(0.9)	11.4	10.2	18.0	16.2	14.7	10.7	9.5	8.4	5.0	4.4	4.0	29.3	29.1	28.6	2.8	3.1	3.4	21.4
Mahindra CIE Automotive	ADD	256	290	13.5	97	1.4	378	14	16	17	45.0	12.7	10.4	18.4	16.3	14.8	9.2	8.1	7.2	2.3	2.0	1.8	13.2	13.1	12.7	—	—	—	2.9
Mahindra & Mahindra	BUY	968	1,085	12.0	1,204	17.2	1,138	45	51	53	18.5	14.4	3.1	21.5	18.8	18.3	14.0	12.1	11.5	3.2	2.8	2.5	15.8	16.0	14.7	0.9	1.1	1.1	33.9
Maruti Suzuki	ADD	9,076	10,000	10.2	2,742	39.3	302	323	393	461	26.4	21.8	17.2	28.1	23.1	19.7	16.2	12.8	10.5	5.6	4.8	4.1	21.6	22.5	22.6	0.9	1.1	1.3	65.4
Motherson Sumi Systems	SELL	315	280	(11.1)	663	9.5	2,105	12	14	16	41.9	21.4	13.8	27.1	22.4	19.6	10.9	9.0	7.8	5.7	4.8	4.1	22.7	23.4	22.6	0.9	1.1	1.2	15.5
MRF	REDUCE	74,762	69,000	(7.7)	317	4.5	4	3,425	3,932	4,411	28.3	14.8	12.2	21.8	19.0	16.9	10.3	8.9	7.7	2.8	2.5	2.2	13.9	13.9	13.7	0.1	0.1	0.1	6.8
Schaeffler India	BUY	5,300	6,000	13.2	88	1.3	17	156	199	233	9.0	27.3	17.6	34.0	26.7	22.7	20.6	15.7	13.0	4.7	4.1	3.6	14.5	16.4	17.0	0.6	0.7	0.9	0.6
SKF	ADD	1,760	1,800	2.3	90	1.3	51	69	82	97	19.7	18.5	18.2	25.5	21.5	18.2	16.3	13.5	11.1	4.3	3.7	3.2	16.7	17.1	17.4	0.7	0.8	1.0	0.4
Tata Motors	BUY	270	425	57.7	915	12.2	3,396	22	36	39	10.7	62.7	8.0	12.2	7.5	6.9	3.7	3.1	2.8	0.9	0.8	0.7	7.6	11.2	10.8	—	—	—	58.4
Timken	SELL	709	660	(6.9)	48	0.7	68	19	25	30	42.3	27.5	21.8	36.8	28.9	23.7	20.3	16.2	13.4	5.8	4.9	4.1	17.1	18.5	18.8	0.1	0.1	0.2	0.4
TVS Motor	SELL	537	405	(24.6)	255	3.7	475	16	20	25	13.9	23.0	26.0	33.8	27.5	21.8	18.7	15.4	12.5	7.6	6.4	5.4	24.2	25.4	27.0	0.9	1.1	1.4	13.0
WABCO India	SELL	6,725	6,350	(5.6)	128	1.8	19	169	222	225	17.8	31.3	1.0	39.7	30.2	29.9	25.8	19.5	19.2	7.0	5.8	4.9	19.2	20.9	17.7	0.2	0.2	0.2	0.5
Automobiles	Neutral				10,401	149					19.4	25.5	11.0	22.3	17.8	16.0	10.0	8.2	7.3	3.4	2.9	2.6	15.1	16.5	16.1	0.9	1.1	1.2	396.7
Banks																													
Axis Bank	REDUCE	624	600	(3.9)	1,604	23.0	2,567	18	40	45	1,577.6	122.3	12.3	34.7	15.6	13.9	—	—	—	2.7	2.3	1.9	7.1	14.1	14.1	0.4	1.0	1.1	61.4
Bank of Baroda	NR	151	—	—	399	5.7	2,652	21	26	29	323.7	26.4	12.1	7.4	5.8	5.2	—	—	—	1.3	1.0	0.8	12.7	14.0	13.7	—	—	—	34.8
Canara Bank	ADD	288	300	4.3	211	3.0	733	(5)	51	68	91.6	1,147.0	33.3	(59.3)	5.7	4.3	—	—	—	1.7	1.0	0.7	(1.0)	10.1	12.0	—	—	—	27.5
City Union Bank	ADD	182	190	4.6	133	1.9	665	9	11	12	5.8	13.3	16.7	19.3	17.0	14.6	—	—	—	3.0	2.6	2.2	15.5	15.6	16.0	0.9	1.0	1.2	1.8
DCB Bank	ADD	174	205	17.9	54	0.8	308	10	12	16	28.2	21.0	33.1	17.0	14.1	10.6	—	—	—	2.0	1.8	1.6	11.7	12.7	14.9	0.6	0.7	0.9	4.2
Equitas Holdings	BUY	144	190	32.3	49	0.7	340	4.4	8.4	11.4	378.4	89.9	35.6	32.4	17.0	12.6	—	—	—	2.1	1.9	1.7	6.4	11.2	13.4	—	—	—	4.4
Federal Bank	BUY	82	130	59.5	161	2.3	1,972	5.7	7.9	9.7	29.5	39.5	22.9	14.4	10.3	8.4	—	—	—	1.3	1.2	1.1	8.8	11.4	12.8	1.6	2.2	2.7	15.8
HDFC Bank	REDUCE	2,097	2,000	(4.6)	5,684	81.4	2,595	78	94	112	15.7	20.0	19.1	26.9	22.4	18.8	—	—	—	4.0	3.5	3.1	16.7	16.2	17.0	0.7	0.9	1.0	86.5
ICICI Bank	BUY	338	400	18.2	2,177	31.2	6,429	8	26	31	(19.6)	209.1	19.2	39.9	12.9	10.8	—	—	—	2.3	1.9	1.7	5.1	14.5	15.5	0.5	1.5	1.8	95.8
IDFC Bank	NR	48	—	—	163	2.3	3,404	1.2	2.9	4.3	(52.7)	146.7	44.8	40.1	16.3	11.2	—	—	—	1.0	1.0	0.9	2.6	6.3	8.6	0.5	1.2	1.8	9.5
IndusInd Bank	REDUCE	1,991	1,900	(4.6)	1,196	17.1	600	71	87	102	17.5	23.6	16.9	28.2	22.8	19.5	—	—	—	4.2	3.7	3.2	17.6	16.8	17.0	—	0.5	0.6	29.1
J&K Bank	BUY	57	100	76.7	32	0.5	557	7	11	15	82.4	63.8	33.5	8.5	5.2	3.9	—	—	—	0.7	0.6	0.6	5.9	9.1	11.2	2.3	3.8	5.1	0.4
Karur Vysya Bank	ADD	99	110	11.2	79	1.1	727	3	13	14	(32.3)	306.7	9.1	30.7	7.6	6.9	—	—	—	1.4	1.2	1.1	3.7	14.1	13.9	0.8	3.3	3.8	1.9
Punjab National Bank	ADD	84	90	6.9	232	3.3	2,761	(27)	12	18	40.4	145.3	46.9	(3.2)	7.0	4.8	—	—	—	4.2	1.4	0.8	(23.4)	10.7	13.8	—	—	—	38.9
RBL Bank	SELL	591	475	(19.6)	250	3.6	420	22	29	36	48.1	31.5	21.0	26.4	20.1	16.6	—	—	—	3.5	3.1	2.7	13.3	15.5	16.5	0.6	0.7	0.9	12.6
State Bank of India	BUY	308	370	20.3	2,746	39.3	8,925	8	37	53	204.8	380.5	42.7	40.0	8.3	5.8	—	—	—	2.0	1.5	1.1	3.1	13.6	16.7	—	0.1	0.2	98.2
Ujivan Financial Services	ADD	359	420	17.1	43	0.6	121	19	28	32	3,033.9	47.3	15.1	19.2	13.0	11.3	—	—	—	2.2	1.9	1.7	12.1	15.8	15.8	0.5	0.8	1.0	5.8
Union Bank	ADD	89	120	35.4	104	1.5	1,169	8	33	40	117.1	330.8	22.5	11.6	2.7	2.2	—	—	—	1.3	0.8	0.5	3.9	15.2	16.3	1.3	5.6	6.8	9.6
YES Bank	SELL	394	335	(15.0)	909	13.0	2,303	20	22	27																			

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.	O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo	
		20-Aug-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	(US\$ mn)	
NBFCs																													
Bajaj Finance	SELL	2,840	2,000	(29.6)	1,641	23.5	575	68	90	114	56.6	31.9	27.3	41.8	31.7	24.9	—	—	—	8.5	6.9	5.5	22.4	24.0	24.6	0.2	0.3	0.4	59.9
Bajaj Finserv	REDUCE	7,075	6,100	(13.8)	1,126	16.1	159	245	307	376	39.7	25.2	22.5	28.8	23.0	18.8	—	—	—	4.6	3.8	3.2	17.5	18.1	18.6	0.2	0.2	0.2	19.9
Bharat Financial Inclusion	NA	1,213	—	—	170	2.4	139	43	54	69	31.1	27.2	25.8	28.3	22.3	17.7	—	—	—	4.6	3.7	3.0	17.9	18.5	19.0	—	—	—	10.0
Cholamandalam	REDUCE	1,469	1,500	2.1	230	3.3	156	90	110	136	44.8	22.1	23.4	16.3	13.3	10.8	—	—	—	3.8	3.1	2.5	24.5	24.3	24.3	0.7	0.9	1.1	7.4
HDFC	ADD	1,920	2,075	8.1	3,245	46.5	1,676	56	67	81	(25.8)	19.0	21.2	34.3	28.8	23.8	—	—	—	4.4	4.0	3.6	13.8	14.5	16.0	1.1	1.3	1.6	71.1
HDFC Standard Life Insurance	SELL	462	405	(12.4)	931	13.3	2,007	6	7	8	14.8	10.9	14.7	72.8	65.7	57.3	—	—	—	19.3	17.2	15.4	28.0	27.7	28.4	0.3	0.4	0.4	10.0
ICICI Lombard	SELL	802	620	(22.7)	364	5.2	454	26	32	37	37.1	21.5	18.5	30.8	25.4	21.4	—	—	—	6.7	5.6	4.7	23.8	24.2	24.0	0.7	0.9	1.1	2.4
ICICI Prudential Life	BUY	388	500	28.9	557	8.0	1,436	12	13	15	10.1	7.0	10.0	31.2	29.2	26.5	—	—	—	7.0	5.8	5.0	24.5	21.8	20.2	0.5	0.6	0.6	9.1
IIFL Holdings	SELL	732	625	(14.6)	234	3.3	319	38	45	52	31.5	18.6	16.0	19.5	16.4	14.2	—	—	—	3.5	3.0	#DIV/0!	20.5	20.0	20.0	1.1	1.3	1.5	1.6
L&T Finance Holdings	ADD	186	190	1.9	372	5.3	1,996	13	14	16	70.9	12.3	12.8	14.9	13.2	11.7	—	—	—	2.7	2.3	2.0	18.9	18.8	18.3	1.1	1.3	1.3	12.4
LIC Housing Finance	BUY	554	610	10.2	279	4.0	505	50	58	67	13.8	17.5	15.6	11.1	9.5	8.2	—	—	—	1.8	1.5	1.3	14.3	14.4	14.3	1.4	1.6	1.9	12.6
Magma Fincorp	BUY	145	190	31.4	39	0.6	237	13	17	21	34.0	31.8	23.0	11.1	8.4	6.9	—	—	—	1.4	1.2	1.1	13.9	15.8	17.0	1.4	1.8	2.2	0.9
Mahindra & Mahindra Financial	REDUCE	480	500	4.3	296	4.2	614	23	28	34	58.4	23.2	18.6	20.9	16.9	14.3	—	—	—	3.0	2.7	2.4	14.3	15.8	16.7	1.3	1.6	1.9	10.5
Max Financial Services	ADD	483	650	34.6	130	1.9	268	6	6	6	36.9	1.8	1.8	77.0	75.6	74.3	—	—	—	—	—	—	8.3	8.0	7.8	—	0.5	0.5	4.7
Muthoot Finance	ADD	399	480	20.4	159	2.3	400	38	40	46	(10.8)	4.0	15.7	10.4	10.0	8.6	—	—	—	1.8	1.6	1.4	18.4	16.9	17.2	2.2	2.3	2.7	4.4
PNB Housing Finance	REDUCE	1,372	1,325	(3.4)	230	3.3	167	62	75	92	25.3	20.9	22.4	22.0	18.2	14.9	—	—	—	3.2	2.8	2.4	15.2	15.9	17.0	0.2	0.2	0.2	4.9
SBI Life Insurance	ADD	673	785	16.7	673	9.6	1,000	15	18	21	26.0	22.9	17.0	46.3	37.6	32.2	—	—	—	8.8	7.3	6.2	20.6	21.3	20.9	0.3	0.4	0.5	3.3
Shriram City Union Finance	ADD	2,005	2,250	12.2	132	1.9	66	141	174	209	40.4	22.7	20.5	14.2	11.6	9.6	—	—	—	2.3	2.0	1.7	15.8	16.9	17.6	0.9	1.1	1.3	1.5
Shriram Transport	ADD	1,331	1,550	16.4	302	4.3	227	114	130	146	64.4	14.3	12.8	11.7	10.2	9.1	—	—	—	2.1	1.8	1.6	18.3	17.5	17.1	1.2	1.4	1.7	30.4
NBFCs	Neutral				11,110	159					14.9	19.5	19.5	28.2	23.6	19.8				4.6	4.0	3.4	16.1	16.8	17.3	0.7	0.8	1.0	596.1
Cement																													
ACC	SELL	1,599	1,270	(20.6)	300	4.3	188	62	70	81	27.0	13.8	15.2	25.9	22.7	19.7	14.4	12.4	10.5	3.0	2.7	2.5	11.9	12.5	13.1	1.1	1.1	1.1	15.9
Ambuja Cements	REDUCE	230	210	(8.6)	456	6.5	1,986	9	11	12	14.5	23.2	15.8	26.7	21.7	18.7	9.0	7.5	6.2	2.1	2.0	1.9	8.1	9.5	10.4	1.6	1.6	1.6	11.2
Dalmia Bharat	ADD	2,705	2,830	4.6	241	3.5	89	94	122	139	55.8	29.3	14.8	28.8	22.3	19.4	10.9	9.0	7.7	3.5	3.0	2.6	12.9	14.6	14.5	0.1	0.1	0.1	4.9
Grasim Industries	BUY	1,042	1,170	12.3	685	9.8	657	46	55	70	(2.5)	18.8	28.0	22.6	19.0	14.8	7.5	7.1	6.6	1.1	1.1	1.0	5.2	5.9	7.1	0.5	0.5	0.5	15.0
India Cements	REDUCE	117	118	0.5	36	0.5	308	4	8	12	28.0	102.6	41.3	28.1	13.9	9.8	8.8	7.0	5.8	0.7	0.7	0.6	2.5	4.8	6.5	0.9	0.9	0.9	8.4
J K Cement	ADD	789	890	12.8	55	0.8	70	45	79	78	3.7	75.4	(0.8)	17.6	10.0	10.1	10.3	8.5	6.9	2.5	2.0	1.7	15.0	22.3	18.5	1.0	1.0	1.0	0.5
JK Lakshmi Cement	ADD	336	370	10.1	40	0.6	118	11	28	37	153.5	147.9	30.5	29.6	12.0	9.2	10.2	6.7	5.4	2.6	2.1	1.8	8.9	19.5	21.0	0.6	0.6	0.6	0.4
Orient Cement	ADD	117	145	24.3	24	0.3	205	7	11	15	212.9	58.7	41.3	17.3	10.9	7.7	8.0	6.2	4.7	2.1	1.8	1.5	12.9	18.2	21.8	1.3	1.7	1.7	0.2
Shree Cement	SELL	17,790	12,500	(29.7)	620	8.9	35	421	630	760	6.0	49.7	20.6	42.3	28.2	23.4	19.7	14.8	12.0	6.1	5.1	4.2	15.4	19.7	19.8	0.3	0.3	0.3	5.2
UltraTech Cement	SELL	4,301	2,950	(31.4)	1,181	16.9	275	126	162	201	42.7	28.9	24.0	34.2	26.5	21.4	17.8	14.7	12.3	4.1	3.6	3.1	12.6	14.3	15.4	0.2	0.2	0.2	20.1
Cement	Cautious				3,639	52					19.5	30.3	21.8	29.4	22.6	18.5	11.2	9.6	8.3	2.5	2.2	2.0	8.4	10.0	11.0	0.6	0.6	0.6	81.9

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		20-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Consumer products																													
Asian Paints	REDUCE	1,409	1,325	(6.0)	1,352	19.4	959	27	33	39	32.1	20.3	18.3	52.0	43.2	36.5	32.6	26.9	22.8	14.0	12.2	10.7	28.8	30.3	31.3	0.8	1.1	1.3	20.3
Bajaj Corp.	ADD	418	470	12.4	62	0.9	148	15	17	19	7.8	10.3	9.5	27.1	24.6	22.4	21.7	18.5	16.1	12.6	12.5	12.3	46.3	51.2	55.4	3.1	3.3	3.6	0.4
Britannia Industries	ADD	6,771	6,700	(1.1)	813	11.6	120	104	127	152	24.5	22.2	19.2	65.0	53.2	44.6	42.7	34.9	29.2	18.9	15.3	12.5	32.5	31.8	30.9	0.5	0.7	0.8	12.1
Coffee Day Enterprises	REDUCE	244	290	18.7	52	0.7	211	8	10	12	129.9	30.0	21.2	31.8	24.4	20.2	11.1	9.7	9.0	2.0	1.9	1.7	6.6	8.0	8.9	—	—	—	0.8
Colgate-Palmolive (India)	ADD	1,147	1,250	9.0	312	4.5	272	27	32	36	14.7	15.6	15.5	42.1	36.4	31.5	24.2	21.0	18.3	20.6	17.6	15.3	48.8	52.2	51.9	1.4	1.7	2.0	7.9
Dabur India	REDUCE	454	390	(14.0)	801	11.5	1,762	9	10	12	17.3	12.9	13.6	49.8	44.1	38.8	41.6	36.0	31.2	14.0	12.2	10.7	28.1	29.6	29.4	0.8	1.0	1.2	14.8
GlaxoSmithKline Consumer	ADD	6,787	7,300	7.6	285	4.1	42	199	223	246	19.5	12.1	10.1	34.1	30.4	27.6	23.7	20.4	17.9	7.4	6.7	6.1	22.8	23.0	23.1	1.3	1.5	1.8	2.0
Godrej Consumer Products	SELL	1,399	1,100	(21.4)	953	13.7	681	25	29	33	18.8	13.7	12.7	55.2	48.5	43.0	39.2	34.0	29.8	13.0	11.2	9.8	25.4	24.8	24.3	0.6	0.7	0.8	9.7
Hindustan Unilever	REDUCE	1,777	1,570	(11.6)	3,847	55.1	2,160	29	33	37	19.5	13.2	12.6	60.6	53.6	47.6	42.0	37.0	32.7	47.4	40.3	34.6	83.5	81.4	78.3	1.2	1.4	1.5	34.3
ITC	ADD	313	330	5.4	3,827	54.8	12,275	10	11	12	8.2	12.3	11.7	32.5	28.9	25.9	21.0	18.6	16.5	7.0	6.6	6.2	20.4	22.2	24.2	1.8	2.1	2.5	51.4
Jubilant Foodworks	BUY	1,513	1,650	9.1	200	2.9	132	25	35	46	73.6	37.5	32.3	59.9	43.5	32.9	30.0	22.7	17.3	14.9	11.3	8.6	28.9	29.5	29.7	0.1	0.2	0.3	35.9
Jyothy Laboratories	ADD	217	240	10.8	79	1.1	364	6	7	8	27.6	16.7	15.4	38.5	33.0	28.6	25.7	21.8	18.6	5.9	5.2	4.5	16.6	16.8	16.9	0.5	0.7	0.9	1.6
Marico	ADD	364	375	3.0	470	6.7	1,291	7	8	9	8.9	20.0	14.5	53.4	44.5	38.8	37.1	30.6	26.4	17.5	16.3	15.0	33.7	37.9	40.2	1.3	1.5	1.7	9.4
Nestle India	ADD	10,841	11,000	1.5	1,045	15.0	96	171	197	223	34.2	15.7	13.2	63.6	54.9	48.5	36.4	31.5	27.6	28.1	25.8	23.6	46.1	49.0	50.8	1.1	1.2	1.4	8.5
Page Industries	SELL	34,865	25,000	(28.3)	389	5.6	11	418	508	607	34.3	21.6	19.5	83.5	68.6	57.4	54.0	44.5	37.2	35.3	28.0	22.5	47.8	45.5	43.4	0.5	0.6	0.8	10.3
Pidlite Industries	REDUCE	1,146	1,080	(5.7)	582	8.3	508	21	26	31	16.8	21.8	20.2	54.4	44.7	37.1	36.2	29.9	24.9	13.8	11.6	9.7	27.4	28.2	28.4	0.6	0.7	0.8	13.3
S H Kelkar and Company	BUY	219	290	32.2	32	0.5	145	7	10	12	(6.2)	41.9	23.2	31.6	22.3	18.1	20.4	14.7	12.6	3.4	3.1	2.7	11.3	14.5	16.0	0.8	0.9	1.3	0.4
Tata Global Beverages	REDUCE	245	250	2.0	155	2.2	631	8	9	10	7.7	17.0	12.9	31.0	26.5	23.4	17.0	14.9	13.2	2.1	2.0	1.9	7.0	7.9	8.5	1.2	1.4	1.6	11.9
Titan Company	SELL	922	840	(8.9)	818	11.7	888	16	20	23	25.6	21.8	19.3	57.4	47.1	39.5	38.1	30.4	25.0	13.6	11.4	9.6	25.6	26.3	26.4	0.5	0.6	0.8	35.8
United Breweries	SELL	1,385	1,100	(20.6)	366	5.2	264	21	25	31	38.9	22.3	20.5	66.8	54.6	45.3	32.8	28.3	24.3	11.6	9.8	8.3	18.7	19.4	19.8	0.2	0.3	0.4	13.5
United Spirits	REDUCE	630	590	(6.4)	458	6.6	727	10	13	17	34.7	30.9	24.5	61.5	47.0	37.7	35.7	28.9	24.5	12.5	9.3	7.1	24.2	22.7	21.3	—	—	0.4	17.2
Varun Beverages	ADD	780	800	2.5	143	2.0	183	15	20	26	29.8	34.5	30.7	52.2	38.8	29.7	17.3	14.7	12.4	7.2	6.2	5.2	14.6	17.1	19.0	—	—	0.3	1.6
Consumer products	Cautious				17,039	244					17.7	15.9	14.7	48.0	41.4	36.1	31.1	26.7	23.2	12.6	11.2	10.0	26.2	27.1	27.8	1.1	1.3	1.5	313.2
Energy																													
BPCL	REDUCE	376	375	(0.3)	816	11.7	1,967	38	39	39	(6.7)	3.1	1.1	10.0	9.7	9.6	7.3	6.9	6.7	1.9	1.8	1.6	20.5	19.1	17.5	4.0	4.1	4.2	30.2
Castrol India	SELL	159	155	(2.5)	157	2.2	989	7	8	9	2.9	10.1	9.7	22.5	20.4	18.6	14.1	12.7	11.5	14.8	14.4	13.9	67.1	71.5	76.0	3.5	3.9	4.2	4.1
GAIL (India)	BUY	379	440	16.1	855	12.2	2,255	26	29	31	27.8	10.0	9.5	14.5	13.2	12.1	9.1	8.3	7.6	1.9	1.8	1.6	14.0	14.1	14.2	2.2	2.5	2.8	24.3
GSPL	SELL	191	175	(8.5)	108	1.5	564	11	11	12	(6.5)	(0.5)	11.9	17.2	17.3	15.5	6.5	6.5	5.8	1.9	1.8	1.6	11.7	10.7	10.9	0.9	0.9	1.0	1.5
HPCL	REDUCE	270	285	5.6	411	5.9	1,524	32	32	32	(22.3)	(2.2)	0.5	8.3	8.5	8.5	7.3	7.7	8.0	1.6	1.4	1.3	19.6	17.4	16.1	4.9	4.8	4.8	27.3
Indraprastha Gas	SELL	284	240	(15.5)	199	2.8	700	12	13	15	16.4	12.3	10.7	23.7	21.1	19.0	15.0	13.2	11.7	4.9	4.2	3.8	22.1	21.5	20.9	0.9	1.1	1.4	11.6
IOCL	REDUCE	159	150	(5.5)	1,541	22.1	9,479	18	17	18	(11.2)	(4.1)	2.8	8.7	9.1	8.8	5.0	4.9	4.8	1.3	1.2	1.1	15.1	13.4	12.9	4.6	4.4	4.5	23.4
Mahanagar Gas	ADD	923	965	4.6	91	1.3	99	56	60	64	16.0	7.6	5.4	16.4	15.3	14.5	9.6	8.7	8.1	3.8	3.4	3.0	24.8	23.5	22.0	2.4	2.6	2.8	5.0
ONGC	ADD	169	200	18.6	2,165	31.0	12,833	20	20	19	16.8	0.3	(5.9)	8.3	8.3	8.8	4.0	3.8	3.7	0.9	0.9	0.8	11.2	10.6	9.5	4.0	4.1	4.1	18.1
Oil India	SELL	206	200	(2.9)	234	3.3	1,135	23	24	23	(6.7)	3.4	(2.5)	8.9	8.6	8.9	5.9	5.6	5.6	0.8	0.8	0.7	9.2	9.0	8.4	4.5	4.6	4.5	2.9
Petronet LNG	BUY	226	280	24.0	339	4.8	1,500	16	18	20	16.7	13.1	9.4	13.9	12.3	11.3	9.3	7.9	7.0	3.0	2.7	2.4	23.3	23.2	22.7	2.5	3.2	4.0	11.9
Reliance Industries	SELL	1,235	985	(20.2)	7,308	104.7	5,922	69	78	87	17.6	12.4	11.9	17.8	15.8	14.1	12.0	10.2	8.7	2.2	2.0	1.7	12.2	12.1	12.1	0.5	0.6	0.6	122.7
Energy	Attractive				14,223	204					7.2	5.2	4.8	12.9	12.2	11.7	7.8	7.2	6.6	1.7	1.5	1.4	13.0	12.5	12.0	2.0	2.1	2.2	282.9

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Target price	Upside	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo
		20-Aug-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	2019E		2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E
Industrials																														
ABB	SELL	1,220	1,020	(16.4)	259	3.7	212	26	29	36	30.1	14.2	23.5	47.3	41.4	33.6	27.7	24.8	20.5	6.6	6.0	5.3	14.5	15.1	16.7	0.7	0.7	0.7	1.1	
BHEL	REDUCE	75	78	4.1	275	3.9	3,671	2.6	5.0	7.4	16.5	95.3	48.5	29.3	15.0	10.1	8.0	4.2	3.2	0.8	0.8	0.8	2.9	5.6	8.3	2.8	5.5	8.2	9.9	
Carborundum Universal	SELL	358	322	(10.1)	68	1.0	189	14	17	20	25.0	21.4	13.8	25.1	20.7	18.2	13.8	11.3	9.7	3.9	3.5	3.1	16.3	17.8	18.1	1.2	1.4	1.6	0.4	
CG Power and Industrial	BUY	60	72	19.0	38	0.5	627	2.9	4.3	6.2	25.2	48.7	44.9	20.8	14.0	9.7	8.2	6.5	5.1	1.4	1.3	1.2	6.7	9.8	13.3	—	—	—	8.1	
Crompton Greaves Consumer	SELL	265	215	(18.8)	166	2.4	627	6.2	7.5	8.8	19.5	20.7	17.4	42.9	35.5	30.2	26.7	22.7	19.3	14.6	11.2	8.6	40.4	35.8	32.3	0.8	0.9	—	2.6	
Cummins India	REDUCE	709	710	0.2	196	2.8	277	28	33	37	15.2	17.5	13.7	25.5	21.7	19.1	21.3	18.3	15.7	4.6	4.3	4.0	18.7	20.6	21.8	2.1	2.5	2.9	4.1	
Havells India	SELL	689	485	(29.6)	431	6.2	625	14	17	20	26.6	20.5	17.6	49.2	40.8	34.7	31.5	25.7	21.6	10.2	8.9	7.7	22.0	23.2	23.9	0.7	0.9	1.0	13.1	
Kalpataru Power Transmission	BUY	361	560	55.3	55	0.8	153	23	32	41	26.0	39.1	27.7	15.6	11.2	8.8	6.9	5.4	4.6	1.8	1.6	1.4	12.5	15.2	16.7	0.5	0.5	0.5	0.6	
KEC International	BUY	294	410	39.6	76	1.1	257	21	27	33	16.9	29.7	23.0	14.0	10.8	8.8	8.0	6.5	5.5	3.1	2.5	2.0	24.1	25.2	24.9	0.8	1.0	1.2	2.8	
L&T	BUY	1,324	1,600	20.9	1,856	26.6	1,401	63	70	88	21.7	10.9	25.5	21.0	19.0	15.1	16.6	16.0	13.6	3.4	3.0	2.7	16.8	16.8	19.0	1.7	1.9	2.4	43.4	
Siemens	SELL	1,020	1,000	(2.0)	363	5.2	356	29	35	—	21.4	21.7	—	35.1	28.8	—	19.9	16.0	—	4.2	3.9	—	12.3	14.0	—	1.2	1.4	—	3.0	
Thermax	REDUCE	975	1,010	3.6	116	1.7	113	28	39	44	34.7	39.2	13.2	35.1	25.2	22.3	22.2	16.5	14.1	3.8	3.4	3.1	11.1	14.3	14.7	1.0	1.1	1.2	0.8	
Volta	SELL	621	530	(14.6)	205	2.9	331	17	21	25	0.4	18.8	18.9	35.8	30.1	25.3	26.8	21.9	18.3	4.7	4.2	3.8	13.9	14.8	15.7	0.6	0.7	0.8	14.9	
Industrials	Neutral				4,104	59					21.7	20.7	17.6	26.3	21.8	18.5	17.0	14.8	12.2	3.2	3.0	2.9	12.3	13.7	15.8	1.4	1.8	2.1	104.8	
Infrastructure																														
Adani Ports and SEZ	BUY	378	460	21.6	783	11.2	2,071	19	23	29	1.2	21.1	29.8	20.2	16.7	12.9	13.8	11.4	10.0	3.2	2.7	2.3	17.0	17.7	19.4	0.5	0.5	0.5	23.8	
Ashoka Buildcon	BUY	144	235	62.7	41	0.6	282	9	10	10	4.1	17.8	(1.3)	16.5	14.0	14.2	10.8	8.9	8.3	1.8	1.6	1.5	11.8	12.3	11.0	1.2	0.9	0.9	0.6	
Container Corp.	SELL	628	635	1.1	306	4.4	487	21	25	29	17.4	20.9	15.0	30.3	25.1	21.8	18.6	14.8	12.1	3.0	2.8	2.6	10.3	11.6	12.3	1.4	1.7	1.6	6.8	
Dilip Buildcon	BUY	855	1,230	43.8	117	1.7	137	54	71	85	17.2	31.0	19.7	15.7	12.0	10.0	7.8	6.3	5.3	3.6	2.8	2.2	26.1	26.1	24.2	—	—	—	8.6	
Gateway Distriparks	BUY	183	250	36.8	20	0.3	109	7	8	11	(5.8)	15.2	37.5	25.5	22.1	16.1	11.3	9.4	7.7	3.4	3.0	2.5	9.8	14.5	17.1	—	1.6	1.6	0.7	
Gujarat Pipavav Port	BUY	108	150	38.2	52	0.7	483	5.3	6.5	7.8	29.7	22.9	19.3	20.3	16.5	13.9	10.8	8.8	7.4	2.5	2.5	2.4	12.7	15.3	17.8	4.1	4.9	5.8	0.8	
IRB Infrastructure	BUY	195	320	64.4	68	1.0	351	31	33	23	36.8	7.1	(31.3)	6.3	5.9	8.6	6.6	7.1	8.3	1.0	0.9	0.8	17.6	16.3	10.0	1.6	2.1	2.2	5.8	
Mahindra Logistics	REDUCE	561	565	0.7	40	0.6	71	15	21	25	50.7	39.3	23.7	38.0	27.3	22.0	21.1	15.3	12.1	7.9	6.4	5.1	22.7	25.8	25.8	—	—	—	0.7	
Sadbhav Engineering	BUY	269	435	61.7	46	0.7	172	17	22	23	31.7	31.0	2.6	15.9	12.1	11.8	11.5	9.0	7.6	2.2	1.9	1.6	14.5	16.5	14.7	—	—	—	0.8	
Infrastructure	Attractive				1,474	21					11.1	20.6	16.7	19.2	15.9	13.6	11.8	10.0	9.1	2.8	2.5	2.1	14.8	15.5	15.7	0.8	1.0	1.0	48.7	
Internet																														
Info Edge	ADD	1,483	1,425	(3.9)	181	2.6	122	26	33	40	14.9	27.5	20.6	57.4	45.0	37.3	43.5	32.9	26.7	6.8	6.1	5.5	13.2	14.3	15.6	0.6	0.6	0.7	2.6	
Just Dial	ADD	584	610	4.4	39	0.6	67	26	30	33	23.0	15.0	9.4	22.4	19.4	17.8	12.8	10.5	8.9	3.5	3.0	2.6	16.7	16.6	15.7	—	0.5	0.6	46.5	
Internet	Cautious				220	3					17.6	23.0	16.8	44.9	36.5	31.2	32.9	25.9	21.7	5.8	5.2	4.6	12.9	14.2	14.7	0.5	0.5	0.6	49.0	
Media																														
DB Corp.	REDUCE	252	270	7.4	46	0.7	184	20	23	26	14.9	12.3	14.8	12.4	11.1	9.6	6.8	6.0	—	2.5	2.4	—	20.7	22.3	25.2	6.7	8.4	10.0	0.6	
DishTV	ADD	71	90	26.8	131	1.9	1,925	1.8	3.4	4.9	514.6	88.2	42.6	NM	20.6	14.5	6.1	4.9	3.9	1.9	1.8	1.6	5.1	8.9	11.5	—	—	—	7.6	
Jagran Prakashan	REDUCE	118	131	10.8	35	0.5	311	11	12	14	10.0	13.6	14.5	11.1	9.8	8.6	4.8	4.2	3.6	1.8	1.7	1.6	15.9	18.2	19.7	4.2	6.3	7.2	0.6	
PVR	BUY	1,333	1,430	7.3	62	0.9	47	38	50	61	41.2	32.3	22.4	35.2	26.6	21.7	13.5	11.5	9.7	5.1	4.3	3.7	15.3	17.6	18.3	0.3	0.4	0.5	10.7	
Sun TV Network	REDUCE	793	925	16.7	312	4.5	394	35	39	43	20.7	10.9	10.7	22.8	20.6	18.6	15.5	13.5	11.6	6.1	5.5	4.9	28.1	27.9	27.9	2.2	2.5	2.8	20.0	
Zee Entertainment Enterprises	ADD	506	600	18.5	486	7.0	960	17	20	22	11.3	17.0	13.9	30.3	25.9	22.7	18.8	15.9	13.8	5.7	5.0	4.4	19.9	20.6	20.7	0.9	1.1	1.4	17.0	
Media	Attractive				1,073	15					28.7	21.0	17.2	25.7	21.2	18.1	12.2	10.4	8.6	4.2	3.8	3.6	16.3	17.7	19.8	1.5	1.8	2.1	56.4	

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (Rs bn)		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		20-Aug-18	Target price (Rs)		2019E	2020E		2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	
Metals & Mining																													
Coal India	ADD	284	326	14.7	1,764	25.3	6,207	27	28	28	138.2	3.0	0.7	10.5	10.2	10.2	6.8	6.4	6.1	6.7	6.9	7.2	66.1	66.4	69.1	7.0	8.8	8.8	15.0
Hindalco Industries	BUY	227	305	34.6	509	7.3	2,229	27	31	34	25.1	13.6	10.2	8.3	7.3	6.6	5.5	4.8	4.2	0.8	0.8	0.7	10.6	10.8	10.8	0.5	0.5	0.5	34.9
Hindustan Zinc	ADD	280	290	3.5	1,184	17.0	4,225	22	26	27	3.7	14.7	5.4	12.6	11.0	10.4	7.2	5.9	5.2	2.9	2.5	2.1	24.4	24.2	22.1	2.9	2.9	2.9	7.7
Jindal Steel and Power	REDUCE	205	215	4.7	199	2.8	968	8	14	22	195.9	68.5	60.8	25.2	15.0	9.3	6.8	6.2	5.3	0.7	0.6	0.6	2.7	4.3	6.5	—	—	—	28.6
JSW Steel	ADD	342	350	2.5	826	11.8	2,417	30	27	30	10.2	(8.7)	11.7	11.6	12.7	11.3	7.1	7.8	6.6	2.4	2.0	1.8	22.4	17.3	16.7	1.0	1.0	1.0	20.6
National Aluminium Co.	ADD	72	80	11.8	138	2.0	1,933	9	7	8	125.8	(21.1)	2.4	7.7	9.7	9.5	3.5	4.5	4.4	1.3	1.3	1.3	16.8	13.0	13.3	8.4	8.4	8.4	9.9
NMDC	REDUCE	106	120	13.7	334	4.8	3,164	12	10	11	4.2	(14.3)	5.9	8.6	10.1	9.5	5.3	6.1	5.7	1.3	1.2	1.2	15.3	12.4	12.5	5.2	5.2	5.2	4.7
Tata Steel	ADD	599	660	10.1	687	9.8	1,205	76	85	94	12.8	12.1	10.9	7.9	7	6.4	6.0	6.3	5.9	1.0	1.0	0.9	14.3	14.3	14.4	1.7	1.7	1.7	72.7
Vedanta	BUY	222	370	66.8	825	11.8	3,717	32	39	38	49.1	19.7	(0.7)	6.9	5.8	5.8	4.6	3.8	3.5	1.2	1.1	0.9	18.0	19.4	17.2	4.4	5.2	5.2	51.0
Metals & Mining		Attractive			6,466	93					41.7	7.7	5.9	9.7	9.0	8.5	6.0	5.6	5.1	1.7	1.6	1.4	18.0	17.8	17.1	3.8	4.4	4.4	245.2
Pharmaceutical																													
Apollo Hospitals	ADD	1,198	1,090	(9.0)	167	2.4	139	20	27	33	133.5	36.7	21.6	60.8	44.5	36.6	21.0	17.7	15.6	4.8	4.5	4.1	8.2	10.5	11.8	0.4	0.6	0.7	11.4
Aster DM Healthcare	BUY	185	240	30.0	93	1.3	505	5	8	12	74.4	62.0	51.4	38.4	23.7	15.7	13.5	10.7	8.4	3.1	2.7	2.4	8.3	12.2	16.3	—	—	—	0.3
Aurobindo Pharma	ADD	660	640	(3.0)	386	5.5	584	40	48	54	(4.5)	20.1	13.1	16.5	13.8	12.2	11.1	9.2	7.9	2.8	2.4	2.0	18.4	17.3	16.8	0.8	0.9	1.1	22.3
Biocon	SELL	604	330	(45.4)	362	5.2	601	8	15	18	35.9	75.7	21.7	71.7	40.8	33.6	31.2	20.9	17.8	6.0	5.4	4.8	8.7	13.9	14.3	0.5	0.9	1.0	22.6
Cipla	BUY	644	680	5.6	518	7.4	805	24	31	40	34.5	31.0	29.4	27.3	20.9	16.1	15.4	12.2	9.6	3.2	2.9	2.5	12.4	14.6	15.7	0.8	1.0	1.3	27.1
Dr Lal Pathlabs	REDUCE	1,036	900	(13.1)	86	1.2	83	24	29	34	19.0	17.9	18.4	42.6	36.1	30.5	26.2	22.0	18.0	9.1	7.7	6.4	23.4	23.1	22.9	0.5	0.6	0.7	1.5
Dr Reddy's Laboratories	REDUCE	2,381	2,150	(9.7)	395	5.7	166	89	118	141	50.2	32.8	19.3	26.8	20.2	16.9	13.5	9.6	8.0	2.8	2.5	2.3	11.1	12.6	13.3	0.6	0.8	0.9	36.8
HCG	REDUCE	246	290	17.9	22	0.3	85	2	4	7	39.8	80.3	80.8	112.6	62.4	34.5	18.2	15.1	11.6	3.9	3.7	3.3	3.5	6.1	10.1	—	—	—	0.2
Laurus Labs	ADD	442	500	13.0	47	0.7	106	16	29	34	2.4	79.9	17.5	27.3	15.1	12.9	12.6	8.7	7.7	2.8	2.4	2.0	10.9	17.1	15.6	—	—	—	0.6
Lupin	REDUCE	870	800	(8.0)	393	5.6	450	27	39	50	(28.9)	44.0	27.4	32.1	22.3	17.5	15.0	10.9	8.8	2.7	2.4	2.2	8.6	11.4	12.4	0.5	0.7	0.9	41.5
Narayana Hrudayalaya	ADD	243	265	9.3	50	0.7	204	3	6	9	23.0	103.2	40.7	78.4	38.6	27.4	22.3	15.6	12.5	4.5	4.0	3.5	5.9	11.0	13.7	—	—	—	0.3
Sun Pharmaceuticals	REDUCE	626	520	(17.0)	1,503	21.5	2,406	17	24	29	11.1	42.5	20.5	37.2	26.1	21.6	20.3	14.9	12.5	3.6	3.2	2.9	10.2	13.1	13.3	0.5	0.8	0.9	59.1
Torrent Pharmaceuticals	NR	1,743	—	—	295	4.2	169	47	61	81	18.0	29.6	32.1	36.9	28.4	21.5	16.1	13.8	11.4	5.6	4.9	4.2	15.3	17.2	19.3	0.6	0.8	1.1	7.1
Pharmaceuticals		Neutral			4,318	62					11.3	37.2	22.7	32.6	23.7	19.4	16.8	12.9	10.7	3.5	3.1	2.8	10.9	13.2	14.3	0.6	0.8	0.9	230.7
Real Estate																													
Brigade Enterprises	BUY	191	290	51.5	26	0.4	136	9	15	17	(17.0)	59.2	15.8	20.8	13.1	11.3	13.2	10.2	8.2	1.1	1.0	1.0	5.4	8.1	8.8	1.3	1.3	1.3	0.3
DLF	RS	215	—	—	383	5.5	1,784	5.3	23.9	14.1	(87.2)	354.6	(41.0)	40.9	9.0	15.2	56.1	9.8	18.4	1.1	1.0	0.9	2.6	11.3	6.2	0.9	0.9	0.9	17.2
Godrej Properties	SELL	710	400	(43.7)	163	2.3	216	13.3	15.8	18.2	(38.9)	19.1	15.2	53.6	45.0	39.0	315.3	164.2	135.3	4.6	4.2	3.8	10.5	9.7	10.1	—	—	—	1.9
Oberoi Realty	BUY	480	560	16.8	174	2.5	340	62	44	66	385.4	(28.0)	49.3	7.8	10.8	7.2	10.7	13.4	5.9	1.8	1.5	1.3	27.4	15.2	19.2	0.4	0.4	0.4	2.2
Prestige Estates Projects	ADD	249	315	26.3	94	1.3	375	19	21	11	(24.2)	8.4	—	13.1	12.1	23.4	10.6	10.7	14.5	0.9	0.9	—	14.6	14.9	7.3	1.2	1.2	0.6	1.0
Sobha	REDUCE	466	510	9.4	44	0.6	95	23	36	24	(48.8)	51.7	(32.6)	19.9	13.1	19.4	11.9	9.3	11.6	2.0	1.8	1.7	9.0	14.8	9.1	1.5	1.5	1.5	1.7
Sunteck Realty	REDUCE	478	360	(24.7)	70	1.0	140	19	19	39	22.4	1.6	106.6	25.6	25.2	12.2	21.3	20.6	9.1	2.3	2.1	1.8	9.5	8.9	16.2	0.2	0.2	0.2	1.9
Real Estate		Neutral			954	14					(53.1)	65.1	(14.4)	20.4	12.4	14.4	20.9	12.4	13.8	1.4	1.3	1.3	7.1	10.6	9.0	0.7	0.7	0.6	26.3

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Target price	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo
		20-Aug-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	(US\$ mn)	
Technology																														
HCL Technologies	REDUCE	988	1,025	3.7	1,376	19.7	1,409	70	74	77	12.8	5.0	5.0	14.1	13.4	12.8	9.2	8.4	7.7	3.1	2.8	2.5	24.2	21.8	20.5	0.8	3.1	3.3	30.9	
Hexaware Technologies	SELL	494	435	(11.9)	147	2.1	302	20	23	25	18.4	18.0	10.0	25.2	21.4	19.4	18.9	15.0	13.2	6.5	5.5	4.8	27.4	27.8	26.3	1.6	1.6	2.0	12.8	
Infosys	ADD	1,384	1,400	1.1	3,023	43.3	2,175	71	78	85	9.7	10.4	9.1	19.5	17.7	16.2	13.4	12.0	10.7	4.4	4.0	3.6	23.0	23.5	23.3	3.1	2.8	3.0	81.7	
L&T Infotech	ADD	1,881	2,000	6.3	325	4.7	175	83	94	109	30.5	13.0	16.5	22.7	20.1	17.2	17.4	14.7	12.5	6.9	5.6	4.6	33.5	30.7	29.2	1.3	1.4	1.6	4.4	
Mindtree	ADD	1,037	1,115	7.6	170	2.4	165	43	53	62	24.9	23.6	15.9	24.0	19.4	16.8	15.1	12.1	10.3	5.3	4.5	3.9	23.9	25.2	24.9	1.2	1.5	1.8	23.2	
Mphasis	SELL	1,199	825	(31.2)	232	3.3	193	53	57	59	20.5	7.1	4.6	22.7	21.2	20.2	16.7	14.9	13.8	4.4	4.0	3.7	18.7	19.9	19.2	1.7	2.1	2.5	6.7	
TCS	REDUCE	2,010	1,790	(10.9)	7,695	110.2	3,829	82	89	96	21.2	8.8	7.4	24.6	22.6	21.0	18.0	16.6	15.4	7.8	7.6	7.5	33.4	33.8	35.9	2.0	3.5	3.8	96.0	
Tech Mahindra	ADD	688	785	14.1	607	8.7	891	46	55	61	8.3	18.2	11.1	14.9	12.6	11.3	8.9	7.2	6.1	2.8	2.4	2.1	20.2	20.5	19.5	1.3	1.5	1.6	37.4	
Wipro	REDUCE	285	295	3.5	1,290	18.5	4,507	19	22	23	11.8	14.6	7.7	15.1	13.1	12.2	9.5	8.3	7.5	2.3	2.1	2.0	16.4	16.8	16.8	0.5	3.5	3.9	12.5	
Technology	Cautious				14,865	213					13.1	9.7	8.0	20.5	18.7	17.3	14.1	12.7	11.7	4.9	4.5	4.2	23.8	24.2	24.2	1.9	3.1	3.4	305.6	
Telecom																														
Bharti Airtel	ADD	371	445	20.1	1,481	21.2	3,997	(6)	(4)	5	(221.5)	28.8	215.1	(64.4)	(90.5)	78.7	9.7	8.1	6.5	2.2	2.3	2.3	(3.4)	(2.5)	2.9	0.3	(0.2)	0.3	27.0	
Bharti Infratel	REDUCE	285	285	0.1	527	7.5	1,850	13	12	13	(4.8)	(8.5)	7.7	21.8	23.8	22.1	8.1	8.6	8.1	3.2	3.3	3.2	14.6	13.7	14.6	3.7	3.4	3.7	11.3	
IDEA	REDUCE	53	45	(15.7)	233	3.3	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(3.2)	(3.1)	(3.5)	34.9	29.6	18.4	1.1	1.6	3.0	(29.7)	(41.1)	(59.4)	—	—	—	15.0	
Tata Communications	ADD	552	660	19.6	157	2.3	285	0	3	7	(77.5)	694.2	123.5	1,489	187.5	83.9	10.9	9.6	8.7	(68.5)	(93.1)	(1,803.0)	7.8	(42.1)	(211.0)	1.2	1.4	1.4	3.9	
Telecom	Cautious				2,398	34					(2,384.5)	5.0	68.0	(33.4)	(35.1)	(109.9)	11.0	9.6	7.9	2.3	2.5	2.7	(6.9)	(7.2)	(2.4)	1.0	0.6	1.0	57.2	
Utilities																														
CESC	BUY	941	1,180	25.3	125	1.8	133	115	128	141	31.7	11.6	10.1	8.2	7.4	6.7	5.8	5.1	4.5	0.8	0.7	0.7	10.0	10.4	10.5	1.4	1.4	1.4	5.6	
JSW Energy	REDUCE	68	70	3.3	111	1.6	1,640	5.1	6.5	6.6	65.9	26.8	2.9	13.3	10.5	10.2	5.7	4.7	4.3	0.9	0.9	0.8	7.2	8.5	8.0	—	—	—	1.6	
NHPC	ADD	26	30	16.7	264	3.8	10,260	3.1	3.2	3.4	26.9	1.8	8.0	8.3	8.2	7.5	7.5	7.3	7.8	0.8	0.8	0.8	10.4	10.2	10.6	6.8	6.8	5.8	2.0	
NTPC	BUY	159	190	19.9	1,307	18.7	8,245	15	16	18	30.9	4.4	16.5	10.6	10.2	8.7	8.7	8.0	6.7	1.2	1.1	1.0	11.6	11.3	12.2	2.8	2.9	3.4	12.6	
Power Grid	BUY	188	250	33.2	982	14.1	5,232	19	21	23	19.3	13.6	7.6	10.0	8.8	8.2	7.2	6.6	6.3	1.6	1.5	1.3	17.1	17.5	17.0	3.3	3.8	4.1	26.8	
Tata Power	BUY	70	90	28.5	189	2.7	2,705	6.0	7.0	10.9	(43.7)	15.6	57.0	11.6	10.1	6.4	10.5	10.1	8.8	1.1	1.0	0.9	10.1	10.6	14.6	—	—	—	4.3	
Utilities	Attractive				2,978	43					18.6	8.8	14.1	10.2	9.3	8.2	7.9	7.2	6.5	1.2	1.1	1.0	11.9	12.0	12.5	3.0	3.2	3.4	52.9	

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

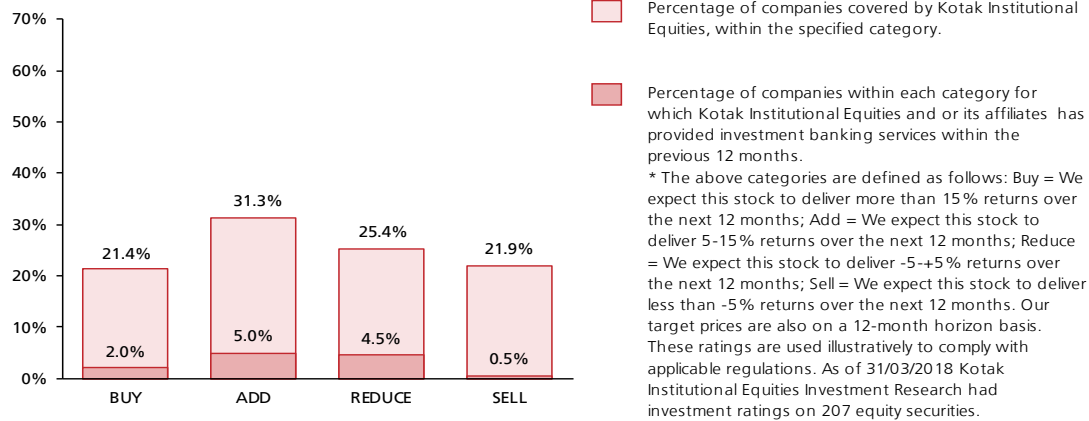
Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		20-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Others																													
Astral Poly Technik	SELL	1,111	640	(42.4)	133	1.9	120	19	25	29	30.2	28.8	16.1	58.2	45.2	38.9	31.3	24.9	21.1	10.2	8.4	7.0	19.8	20.5	19.7	0.1	0.1	0.1	1.1
Avenue Supermarts	SELL	1,616	860	(46.8)	1,009	14.4	624	16	20	26	28.6	26.4	27.5	100.0	79.1	62.0	57.7	45.3	35.7	17.8	14.6	11.8	19.6	20.3	21.0	—	—	—	—
Bayer Cropscience	REDUCE	4,095	4,100	0.1	162	2.3	34	106	130	154	20.5	23.1	18.3	38.8	31.5	26.7	28.4	23.1	19.3	6.8	5.9	5.0	18.9	20.0	20.3	0.5	0.6	0.8	0.5
Dhanuka Agritech	ADD	553	650	17.6	27	0.4	49	27	31	34	3.9	15.4	10.8	20.7	17.9	16.2	15.1	12.4	10.8	3.7	3.2	2.8	19.2	19.2	18.5	1.0	1.2	1.3	0.2
Godrej Agrovet	ADD	601	640	6.4	115	1.7	189	15	19	23	28.9	28.8	21.1	40.5	31.4	26.0	21.9	17.2	14.4	5.9	5.1	4.3	15.7	17.4	17.9	0.4	0.5	0.6	1.1
Godrej Industries	RS	619	—	—	208	3.0	336	16	20	—	8.9	24.2	—	39.0	31.4	—	31.8	34.7	—	5.1	4.5	—	13.9	15.1	—	0.3	0.3	—	4.7
InterGlobe Aviation	BUY	1,086	1,220	12.3	418	6.0	383	50	83	99	(17.9)	65.3	19.5	21.7	13.2	11.0	12.5	7.1	5.7	4.7	3.6	2.8	24.1	31.1	28.6	0.5	0.7	0.9	21.3
Kaveri Seed	SELL	616	515	(16.4)	41	0.6	66	34	34	37	7.3	0.1	8.3	17.9	17.9	16.5	15.0	14.3	12.9	4.3	3.7	3.2	26.4	22.4	21.0	1.3	1.6	1.6	5.7
PI Industries	BUY	772	875	13.3	106	1.5	138	31	40	48	17.9	26.8	21.5	24.7	19.4	16.0	17.5	13.7	11.0	4.7	3.9	3.2	20.5	21.7	21.9	0.5	0.6	0.8	1.6
Rallis India	ADD	193	220	13.8	38	0.5	195	10	12	13	17.2	19.4	9.7	19.1	16.0	14.6	12.6	10.6	9.4	2.9	2.6	2.4	15.8	17.1	16.9	1.9	2.1	2.3	0.8
SIS	REDUCE	1,137	1,130	(0.6)	83	1.2	73	33	40	48	48.5	21.1	17.8	34.1	28.2	23.9	21.4	17.9	15.1	6.8	5.6	4.6	21.8	21.7	21.1	0.3	0.3	0.4	0.7
SRF	BUY	1,969	2,200	11.7	113	1.6	57	100	132	150	23.8	32.2	14.1	19.8	15.0	13.1	11.5	9.1	7.7	2.8	2.4	2.1	15.0	17.3	17.0	0.7	0.7	0.8	13.0
Tata Chemicals	ADD	704	760	8.0	179	2.6	255	44	51	56	(15.3)	14.6	11.5	15.9	13.9	12.5	6.6	5.5	4.7	1.5	1.4	1.3	9.7	10.3	10.8	2.1	2.4	2.4	7.0
TeamLease Services	SELL	2,630	1,785	(32.1)	45	0.6	17	58	75	96	34.2	29.0	28.7	45.4	35.2	27.4	46.0	35.0	27.0	8.3	6.7	5.4	20.1	21.1	21.9	—	—	—	1.2
UPL	ADD	619	660	6.6	315	4.5	507	49	55	60	14.0	12.1	9.6	12.6	11.3	10.3	8.6	7.3	6.3	2.8	2.4	2.0	24.6	22.9	21.1	1.6	1.8	2.0	22.7
Vardhman Textiles	ADD	1,137	1,300	14.4	65	0.9	56	118	130	142	14.8	9.7	9.8	9.6	8.8	8.0	7.2	6.5	5.8	1.2	1.1	1.0	13.1	13.0	13.0	1.8	2.6	2.6	1.0
Whirlpool	SELL	1,736	1,350	(22.2)	220	3.2	127	37	46	56	33.9	24.7	20.2	46.9	37.6	31.3	28.8	22.8	18.7	10.2	8.4	7.2	23.7	24.5	24.8	0.4	0.5	1.0	1.2
Others						3,278	47				6.6	26.9	10.7	29.8	23.5	21.2	18.2	14.4	11.5	5.0	4.2	3.8	16.7	18.1	18.1	0.5	0.7	0.7	83.9
KIE universe					114,765	1,643				23.8	27.1	14.3	22.4	17.6	15.4	11.1	9.9	8.8	2.9	2.6	2.3	12.8	14.7	15.2	1.3	1.7	1.8		
KIE universe (ex-energy)					100,542	1,439				29.3	33.1	16.3	25.0	18.8	16.1	12.3	10.8	9.6	3.2	2.9	2.6	12.8	15.3	16.0	1.2	1.6	1.8		

Notes:

- (a) We have used adjusted book values for banking companies.
(b) 2019 means calendar year 2018, similarly for 2020 and 2021 for these particular companies.
(c) Exchange rate (Rs/US\$)= 69.83

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe
Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2018

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

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

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Corporate Office

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

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

Overseas Affiliates

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

Copyright 2018 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

1. Note that the research analysts contributing to this report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.
3. Any U.S. recipients of the research who wish to effect transactions in any security covered by the report should do so with or through Kotak Mahindra Inc and (ii) any transactions in the securities covered by the research by U.S. recipients must be effected only through Kotak Mahindra Inc at vinay.goenka@kotak.com.

This report is distributed in Singapore by Kotak Mahindra (UK) Limited (Singapore Branch) to institutional investors, accredited investors or expert investors only as defined under the Securities and Futures Act. Recipients of this analysis / report are to contact Kotak Mahindra (UK) Limited (Singapore Branch) (16 Raffles Quay, #35-02/03, Hong Leong Building, Singapore 048581) in respect of any matters arising from, or in connection with, this analysis / report. Kotak Mahindra (UK) Limited (Singapore Branch) is regulated by the Monetary Authority of Singapore.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Institutional Equities Research Group of Kotak Securities Limited. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Private Client Group.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment. Certain transactions - including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house. Kotak Securities Limited is a corporate trading and clearing member of BSE Limited (BSE), National Stock Exchange of India Limited (NSE), MSEI a. Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management. Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). Kotak Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise letters or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us

Details of Associates are available on our website i.e. www.kotak.com

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months. YES

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: YES

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

A graph of daily closing prices of securities is available at www.nseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart).

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com / www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230, MSE INE 260808130/INB 260808135/INF 260808135, AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com. Investments in securities market are subject to market risks, read all the related documents carefully before investing.

In case you require any clarification or have any concern, kindly write to us at below email ids:

Level 1: For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: Toll free numbers 18002099191 / 1800222299 and 18002099292

Level 2: If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on 022-42858208.

Level 3: If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Name: Mr. Manoj Agarwal) at ks.compliance@kotak.com or call on 91-(022) 4285 8484.

Level 4: If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at ceo.ks@kotak.com or call on 91-(022) 4285 8301.

First Cut notes published on this site are for information purposes only. They represent early notations and responses by analysts to recent events. Data in the notes may not have been verified by us and investors should not act upon any data or views in these notes. Most First Cut notes, but not necessarily all, will be followed by final research reports on the subject. There could be variance between the First cut note and the final research note on any subject, in which case the contents of the final research note would prevail. We accept no liability for the contents of the First Cut Notes.

For further disclosure please view <https://kie.kotak.com/kinsite/index.php>