

Contents

Special Reports

Theme Report

Banks: Modest start to corporate insolvency process

Daily Alerts

Change in Reco

Sun Pharmaceuticals: Better to travel than arrive

Company alerts

Coal India: FY2018—a few things did go right

YES Bank: Uncertain future

Sector alerts

Cement: Pet-coke—shrinking cost advantage

EQUITY MARKETS

India	Change %			
	19-Sep	1-day	1-mo	3-mo
Sensex	37,121	(0.5)	(3.0)	4.4
Nifty	11,234	(0.4)	(2.7)	4.3
Global/Regional indices				
Dow Jones	26,657	1.0	3.2	9.0
Nasdaq Composite	8,028	1.0	2.2	4.1
FTSE	7,367	0.5	(2.6)	(2.5)
Nikkei	23,826	0.6	7.2	5.0
Hang Seng	27,478	0.3	(1.0)	(6.2)
KOSPI	2,330	0.3	2.6	(0.4)
Value traded – India				
Cash (NSE+BSE)	360		380	351
Derivatives (NSE)	20,503		5,529	6,672
Deri. open interest	4,586		4,079	4,093

Forex/money market

	Change, basis points			
	19-Sep	1-day	1-mo	3-mo
Rs/US\$	71.8	6	192	395
10yr govt bond, %	8.3	-	19	20

Net investment (US\$ mn)

	18-Sep	MTD	CYTD
FIs	(152)	(232)	(924)
MFs	8	604	12,414

Top movers

Best performers	Change, %			
	19-Sep	1-day	1-mo	3-mo
DIVI IN Equity	1,391	0.8	11.5	31.7
HDIL IN Equity	28	(3.1)	(12.7)	30.5
WPRO IN Equity	333	0.0	15.1	28.6
ARBP IN Equity	776	(0.0)	17.1	27.5
JSTL IN Equity	417	2.4	22.0	25.3

Worst performers

JPA IN Equity	9	(3.1)	(27.6)	(43.9)
UT IN Equity	3	0.0	(25.6)	(31.5)
IDEA IN Equity	46	(1.1)	(13.5)	(24.8)
TTMT/A IN Equity	137	(0.9)	(5.5)	(24.2)
HPCL IN Equity	251	0.8	(5.8)	(20.3)

SEPTEMBER 21, 2018

THEME

BSE-30: 37,121

Modest start to corporate insolvency process. The latest release from the Insolvency and Bankruptcy Board of India tells us that 977 cases have been registered under the insolvency process as of 1QFY19. Of this, 241 new cases were admitted in 1QFY19. Notably, 52% of all closed cases (261) till date were via liquidation of the corporate debtor while only 34 (13%) cases were resolved with haircuts averaging ~45% on admitted claims. Recognition and admission grow smoothly though we remain concerned at the number of liquidated cases and the pace of resolution.

Gradual rise in admission of cases to corporate insolvency resolution process

The number of cases admitted under the insolvency process has seen a gradual rise over the last few quarters. Out of the total admitted cases (971) till 1QFY19, 25% (241) cases were admitted in 1QFY19 (Exhibit 1). This reflects the increasing pivotal role played by this body in faster resolution of stressed assets. Out of the total admitted cases, 46% cases were initiated by operational creditors and 39% by financial creditors cases with those admitted by the latter seeing a sharp rise in 1QFY19 to 125 entities (Exhibit 3). Out of the 76 cases which were closed till 1QFY19, only 11 cases were resolved while 47 cases faced liquidation. The average duration of resolution is ~280 days (for all resolved cases till 1QFY19) from date of admission hinting at greater chances of cases facing liquidation under the NCLT route.

Haircut on all resolved cases is less than 50% for financial creditors

Based on available data for all 34 cases resolved under the insolvency resolution process till 1QFY19, financial creditors have faced haircuts of ~45% on admitted claims. An interesting observation is the premium received on resolution (1.3X of liquidation value) compared to opportunity cost on liquidation. With respect to two cases under NCLT-1 which got resolved in 1QFY19, the haircut was ~41% for financial creditors with a 1.3X premium over liquidation value. In the case of Electrosteel Steels Ltd., the claimants realized ₹53 bn (38.1% of admitted claims) as against liquidation value of ₹29 bn. In the case of Bhushan Steel Ltd., the claimants realized ₹368 bn (64% of admitted claims) as against liquidation value of ₹145 bn (Exhibit 5).

Closure by liquidation is most common till 1QFY19

Liquidation remained the most favorable closure of all admitted claims under the insolvency resolution process (Exhibit 6) with 52% of closed cases facing liquidation. Of the 136 liquidated cases, 18 saw a resolution value higher than the liquidation value (Exhibit 4). This remains a concern going ahead where companies are liquidated even in the presence of optimal resolution. Of 716 cases under process, 186 cases have passed 270 days since admission while another 116 cases have crossed 180 days since admission (Exhibit 2). Under such circumstances, the number of cases facing liquidation will see a significant increase in the next few quarters. The number of cases of voluntary liquidation has seen a rise in the past two quarters though the closure of such cases is time consuming with only five out of 201 admitted cases being closed till 1QFY19 (Exhibits 7 and 8).

Available bandwidth on insolvency professionals adequate for now

The available number of insolvency professionals is almost double (1,883) the number of corporate debtors admitted under the insolvency process (977) till 1QFY19 (Exhibit 9). This gives the "Committee of Creditors" an opportunity to choose from a diverse pool of insolvency professionals. The number of insolvency professional entities (IPE) has also seen a rise in 1QFY19 with additional recognition of 73 (net) new IPEs during the quarter (Exhibit 10).

QUICK NUMBERS

- 241 new cases were registered under corporate insolvency resolution process in 1QFY19
- ~45% haircut on admitted claims for all resolved cases till 1QFY19
- 52% of all closed cases were through liquidation of corporate debtor

M B Mahesh CFA

Nischint Chawathe

Dipanjan Ghosh

Shrey Singh

Exhibit 1: Continuous rise in cases admitted under the corporate insolvency resolution process

Cases under corporate insolvency resolution process, March fiscal year-ends, 4QFY17-1QFY19 (#)

Quarter	No. of corporates undergoing resolution at the beginning of the quarter	Closure by				No. of corporates undergoing resolution at the end of the quarter
		Admitted	Appeal/ review	Approval of Resolution Plan	Commencement of Liquidation	
4QFY17	0	37	1	0	0	36
1QFY18	36	129	8	0	0	157
2QFY18	157	231	16	2	8	362
3QFY18	362	145	34	8	24	441
4QFY18	441	194	14	13	57	551
1QFY19	551	241	18	11	47	716
Total	NA	977	91	34	136	716

Source: IBBI, Kotak Institutional Equities

Exhibit 2: 42% of cases currently in the insolvency process have crossed 180 days since admission

Progress of corporate insolvency resolution process, March fiscal year-ends, 1QFY19 (#)

1QFY19	
Admitted	977
Closed on appeal/review	91
Closed on resolution	34
Closed on liquidation	136
Ongoing CIRP	716
>270 days	186
>180 days and <=270 days	116
>90 days and <=180 days	183
<=90 days	231

Source: IBBI, Kotak Institutional Equities

Exhibit 3: Admission of cases by operational creditors on the rise

Details of entities who initiated corporate insolvency against corporate debtors, March fiscal year-ends, 4QFY17-1QFY19 (#)

Quarter	No. of resolutions processes initiated by			Total
	Financial creditor	Operational creditor	Corporate debtor	
4QFY17	8	7	22	37
1QFY18	37	58	34	129
2QFY18	92	100	39	231
3QFY18	62	69	14	145
4QFY18	84	88	22	194
1QFY19	98	125	18	241
Total	381	447	149	977

Source: IBBI, Kotak Institutional Equities

Exhibit 4: Many liquidation cases saw resolution value lower than liquidation value
Distribution of corporate debtors ending up with liquidation, March fiscal year-ends, 1QFY19 (#)

State of the corporate debtor at the commencement of CIRP	No. of CIRPs initiated by			Total
	FC	OC	CD	
Either in BIFR or Non-functional or both	25	39	46	110
Resolution Value ≤ Liquidation Value	25	38	43	106
Resolution Value > Liquidation Value	3	2	13	18

Notes:

- (a) There were 136 CIRPs that yielded liquidation. There were eleven CIRPs, where CD was in BIFR or non-functional but had resolution value higher than liquidation value.
- (b) Liquidation value not available in 12 CIRPs that were closed by order of liquidation

Source: IBBI, Kotak Institutional Equities

Exhibit 5: Resolved cases had ~45% haircut

Corporate who found a resolution, March fiscal year-ends, 3QFY18-1QFY19 (Rs mn)

Name of CD	Not going Concern/ Erstwhile BIFR (Yes/No)	Date of commencement of CIRP	Date of approval of resolution plan 3QFY18	CIRP initiated by	Total admitted claims of FCs	Liquidation value	Realisation by FCs	Realisation by FCs as % of their claims admitted	Realisation by FCs as % of liquidation value
3QFY18									
Synergies Dooray Automotive Limited	Yes	23-Jan-17	2-Aug-17	CD	9,722	82	547	5.6	669.4
Chaaparia Industries Pvt. Limited	Yes	24-Feb-17	29-Aug-17	CD	498	172	206	41.4	120.1
Prowess International Pvt. Limited	No	20-Apr-17	17-Oct-17	OC	34	NC	34	100.0	NA
Sree Metalik Limited	No	30-Jan-17	7-Nov-17	FC	12,872	2,830	6,073	47.2	214.6
West Bengal Essential Commodities Supply Corporation Limited	No	29-May-17	20-Nov-17	FC	3,592	NC	1,858	51.7	NA
Kamineni Steel and Power India Pvt. Limited	Yes	10-Feb-17	27-Nov-17	CD	15,089	7,600	6,000	39.8	78.9
Shirdi Industries Limited	Yes	18-May-17	12-Dec-17	CD	6,739	1,031	1,764	26.2	171.1
Hotel Gaudavan Pvt. Limited	No	31-Mar-17	13-Dec-17	FC	708	361	442	62.4	122.4
Nandan Hotels Limited	No	17-Aug-17	14-Dec-17	OC	NA	NC	14	NA	NA
JEKPL Pvt. Limited	No	17-Mar-17	15-Dec-17	CD	5,990	2,221	1,620	27.0	73.0
Total					55,243	14,296	18,558	33.6	129.8
4QFY18									
Trinity Auto Components Ltd.	Yes	25-May-17	22-Jan-18	CD	174	208	174	100.0	83.5
Kalyanpur Cements Ltd.	Yes	5-Jan-17	31-Jan-18	OC	1,311	1,197	986	75.2	82.3
Precision Engineers & Fabricators Pvt. Ltd.	No	4-Apr-17	2-Jan-18	OC	793	272	351	44.2	128.7
Palogix Infrastructure Pvt. Ltd.	No	16-May-17	2-Dec-18	FC	1,544	489	568	36.8	116.3
Shree Radha Raman Packaging Pvt. Ltd.	No	28-Apr-17	15-Feb-18	OC	9	29	10	107.0	33.2
Kohinoor CTNL Infrastructure Company Pvt. Ltd.	No	16-Jun-17	21-Feb-18	FC	25,284	3,299	22,460	88.8	680.8
Sharo n Bio-Medicine Ltd.	No	11-Apr-17	28-Feb-18	FC	8,914	1,814	2,940	33.0	162.1
Burn Standard Company Ltd.	Yes	31-May-17	3-Jun-18	CD	588	5,930	655	111.4	11.0
Divya Jyoti Sponge Iron Pvt. Ltd.	No	23-Aug-17	13-Mar-18	FC	772	168	343	44.4	203.9
Propel Valves Pvt. Ltd.	No	8-Nov-17	19-Mar-18	OC	17	4	17	100.0	450.6
Forward Shoes (India) Ltd.	No	19-Jun-17	27-Mar-18	OC	1,206	797	1,206	100.0	151.4
Haldia Coke and Chemicals Pvt. Ltd.	Yes	7-Nov-17	27-Mar-18	CD	3,437	66	994	28.9	1,503.0
Total					44,050	14,270	30,700	69.7	215.1
1QFY19									
Kalpitaru Alloys Pvt. Ltd.	Yes	9-May-17	20-Mar-18	FC	512	275	316	61.7	115.0
Electrosteel Steels Ltd.	No	21-Jul-17	17-Apr-18	FC	131,751	29,000	53,200	40.4	183.5
MBL Infrastructure Ltd.	No	30-Mar-17	18-Apr-18	FC	14,282	2,699	15,971	111.8	591.8
Ved Cellulose Ltd.	No	30-Jun-17	14-May-18	FC	245	133	145	59.0	109.2
Bhushan Steel Ltd.	No	26-Jul-17	15-May-18	FC	560,221	145,410	355,710	63.5	244.6
Wig Associates Pvt. Ltd.	No	24-Aug-17	4-Jun-18	CD	107	9	36	33.3	408.1
Nutri First Agro International Pvt. Ltd.	No	31-Jul-17	8-Jun-18	OC	138	102	138	100.0	135.4
MOR Farms Pvt. Ltd.	No	9-Apr-17	15-Jun-18	FC	325	39	93	28.4	236.6
Master Shipyard Pvt. Ltd.	No	21-Dec-17	15-Jun-18	OC	-	38	-	100.0	0.1
Orissa Manganese & Minerals Ltd.	No	8-Mar-17	22-Jun-18	FC	53,885	3,010	3,100	5.8	103.0
Datre Corporation Ltd.	Yes	20-Sep-17	22-Jun-18	FC	849	91	92	10.9	101.7
Ellora Paper Mills Ltd.	No	19-Jul-17	26-Jun-18	FC	76	39	54	71.1	139.2
Total					762,391	180,844	428,854	56.3	237.1
Net					861,684	209,409	478,113	55.5	228.3

Source: IBBI, Kotak Institutional Equities

Exhibit 6: 47 corporates were liquidated in 1QFY19 (two were liquidated in previous quarters but reported in 1QFY19)
Liquidated cases, March fiscal year-ends, 1QFY19

SI No.	Name of CD	Not Going Concern / Erstwhile BIFR (Yes / No)	CIRP initiated by	Date of Commencement of CIRP	Date of liquidation order
1	VNR Infra Metals Pvt. Ltd.	No	OC	9-May-17	22-Feb-18
2	Shree Rajeshwar Weaving Mills Pvt. Ltd.	Yes	FC	29-Aug-17	20-Mar-18
3	24 X 7 Learning Pvt. Ltd.	Yes	OC	20-Sep-17	4-Feb-18
4	Gupta Coal India Pvt. Ltd.	Yes	CD	30-Jun-17	4-Apr-18
5	Auro Mira Energy Company Pvt. Ltd.	Yes	FC	18-Aug-17	4-May-18
6	Esskay Motors Pvt. Ltd.	Yes	OC	9-Jul-17	4-Jun-18
7	Thirupur Surya Hitec Apparel Pvt. Ltd.	Yes	CD	6-Dec-17	4-Sep-18
8	Gujarat NRE Coke Ltd.	Yes	CD	15-Nov-17	4-Sep-18
9	Gujarat Oleo Pvt. Ltd.	Yes	OC	7-Oct-17	4-Sep-18
10	Tiruppur Surya Textiles Pvt. Ltd.	Yes	OC	22-Aug-17	4-Dec-18
11	Orieon Kuries and Loans Pvt. Ltd.	No	CD	7-Jun-17	17-Apr-18
12	Radheshyam Fibres Pvt. Ltd.	Yes	FC	23-Nov-17	23-Apr-18
13	Roofit Industries Ltd.	No	OC	21-Jun-17	24-Apr-18
14	Mahaan Proteins Ltd.	Yes	OC	16-Jun-17	25-Apr-18
15	Jackonblock Facility Services Pvt. Ltd.	Yes	OC	28-Apr-17	26-Apr-18
16	Raman Ispat Pvt. Ltd.	No	OC	31-Mar-17	426/2018
17	Gupta Corporation Pvt. Ltd.	Yes	CD	21-Aug-17	27-Apr-18
18	Best Deal TV Pvt. Ltd.	Yes	OC	11-Jul-17	27-Apr-18
19	Dev Cotex Pvt. Ltd.	No	FC	10-Nov-17	5-Mar-18
20	Ruby Cables Ltd.	No	OC	14-Sep-17	5-Jul-18
21	Somnath Textile Pvt. Ltd.	No	OC	14-Sep-17	5-Jul-18
22	Diamond Polymers Pvt. Ltd.	No	OC	27-Apr-17	5-Jul-18
23	Dunn Foods Pvt. Ltd.	No	FC	6-Dec-17	5-Aug-18
24	MM Cargo Container Line Pvt. Ltd.	Yes	FC	14-Aug-17	5-Sep-18
25	Asian Natural Resources (India) Ltd.	Yes	CD	17-Aug-17	5-Nov-18
26	Sri Maharaja Oil Imports and Exports India Pvt. Ltd.	Yes	CD	17-Aug-17	5-Nov-18
27	Jenson & Nicholson (India) Ltd.	Yes	CD	28-Aug-17	17-May-18
28	Rolux Cycles Pvt. Ltd.	No	CD	7-Jun-17	17-May-18
29	Clutch Auto Ltd.	Yes	CD	4-Jul-17	17-May-18
30	Ultra Drytech Engineering Ltd.	Yes	FC	30-Jun-17	18-May-18
31	Infinity Fab Engineering Co. Pvt. Ltd.	No	CD	4-Jul-17	23-May-18
32	Karpagam Spinners Pvt. Ltd.	Yes	OC	28-Nov-17	25-May-18
33	RHD Enterprises Pvt. Ltd.	Yes	OC	10-May-17	29-May-18
34	SRS Modern Sales Ltd.	No	FC	21-Nov-17	30-May-18
35	DLS Industries Ltd.	Yes	FC	24-Aug-17	6-Jan-18
36	Mega Soft Infrastructure Pvt. Ltd.	Yes	OC	8-Jul-17	6-Jun-18
37	Upadan Commodities Pvt. Ltd.	Yes	OC	26-Aug-17	6-Jun-18
38	Sri Padambalaji Steels Pvt. Ltd.	Yes	FC	23-Aug-17	6-Jul-18
39	Kadevi Industries Ltd.	Yes	CD	8-Sep-17	6-Jul-18
40	Suvarna Karnataka Cements Pvt. Ltd.	Yes	OC	12-Dec-17	6-Nov-18
41	Maa Tara Industrial Complex Pvt. Ltd.	Yes	FC	14-Dec-17	6-Dec-18
42	Aarohi Motors Pvt. Ltd.	Yes	OC	5-Jan-17	6-Dec-18
43	Veesons Energy Systems Pvt. Ltd.	No	OC	27-Nov-17	6-Dec-18
44	Diamond Power Transformers Ltd.	Yes	OC	14-Sep-17	20-Jun-18
45	Jhelum Industries Pvt. Ltd.	Yes	OC	29-Nov-17	21-Jun-18
46	Varadha Steels Pvt. Ltd.	Yes	OC	21-Nov-17	22-Jun-18
47	Barjora Steel & Re-Rolling Mills Pvt. Ltd.	Yes	OC	9-Jan-17	22-Jun-18
48	Super Agri Seeds Pvt. Ltd.	Yes	FC	7-Dec-17	22-Jun-18
49	Tirupati Ceramics Ltd.	Yes	CD	3-Aug-17	26-Jun-18

Notes:

(a) Two more processes, which yielded liquidation during the quarter st ending 31 March, 2018, were reported subsequently in 1QFY19.

Source: IBBI, Kotak Institutional Equities

Exhibit 7: Cases of voluntary liquidation have increased

Voluntary liquidation, March fiscal year-ends, 1QFY18-1QFY19 (#)

Quarter	No. corporate persons	Paid up capital	Assets	Outstanding credit	No. of final reports submitted	No. of dissolution orders passed
1QFY18	13	1,790	400	90	0	0
2QFY18	38	1,950	3,400	80	0	0
3QFY18	56	670	1,800	140	4	1
4QFY18	66	3,540	2,200	80	6	1
1QFY19	41	9,920	3,330	390	21	3
Total	214	17,870	11,130	780	31	5

Source: IBBI, Kotak Institutional Equities

Exhibit 8: Few loss making businesses going into voluntary liquidation

Reason for voluntary liquidation, March fiscal year-ends, 4QFY18-1QFY19 (#)

Reason for voluntary liquidation	4QFY18	1QFY19
Not carrying business operations	98	109
Commercially unviable	25	29
Running into losses	7	7
No revenue	5	9
Promoters unable to manage affairs	2	2
Purpose for which company was formed accomplished	1	1
Contract termination	2	3
Miscellaneous	33	41
Total	173	201

Source: IBBI, Kotak Institutional Equities

Exhibit 9: Resolution of voluntary liquidation is time consuming

Status of voluntary liquidation, March fiscal year-ends, 1QFY19 (#)

	1QFY19
Initiated	214
Closed by dissolutions	5
Final reports submitted	31
>360 days	12
>270 and <=360 days	27
>180 and <=270 days	44
>90 and <=180 days	60
<=90 days	40

Source: IBBI, Kotak Institutional Equities

Exhibit 10: Registered number of insolvency professionals is higher than registered number of cases under insolvency process
Registered insolvency professional entities, March fiscal year-ends, 1QFY19 (#)

City / Region	The Indian Institute of Insolvency professional of ICAI	ICSI Institute of Insolvency Professionals	Insolvency Professional Agency of Institute of Cost Accountants of India	Total
New Delhi	240	154	40	434
Rest of Northern Region	168	105	28	301
Mumbai	201	72	18	291
Rest of Western Region	149	72	17	238
Chennai	75	42	7	124
Rest of Southern Region	167	104	28	299
Kolkata	110	24	10	144
Rest of Eastern Region	37	10	5	52
All India	1,147	583	153	1,883

Source: IBBI, Kotak Institutional Equities

Exhibit 11: Modest increase in addition of insolvency professional entities
Insolvency professional entities, March fiscal year-ends, 1QFY19 (#)

	Recognized during the quarter	De-recognized during the quarter	At the end of quarter
4QFY17	3	—	3
1QFY18	14	—	17
2QFY18	22	1	38
3QFY18	18	—	56
4QFY18	19	—	75
1QFY19	1	3	73
Total	77	4	73

Source: IBBI, Kotak Institutional Equities

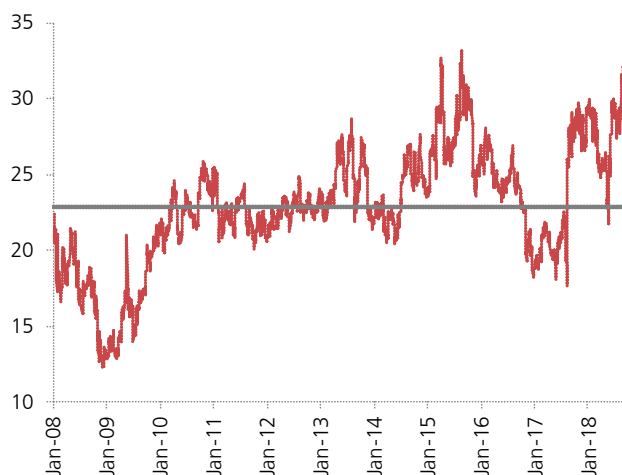
Back to CY2015 multiples, though industry economics structurally lower

Post the sharp rally, SUNP is now trading at one-year forward P/E multiple of 31X, and at 22.2X FY2021 P/E, with the recent rally led by P/E re-rating, and limited EPS upgrades. While the INR depreciation has a positive impact on earnings, the impact on FY2019 and FY2020 EPS will be partially offset by the brand promotion spend as well as R&D spend for specialty products, all of which will be US\$ denominated. On our estimates, for FY2020, SUNP has an EPS sensitivity of 120 bps for 100 bps INR depreciation. We model INR-USD rate of 70 for FY2019 and 72 for FY2020E and beyond, though our EPS actually stands downgraded by 2-3% for FY2020/21 despite INR tailwinds.

SoTP a classic way of double counting

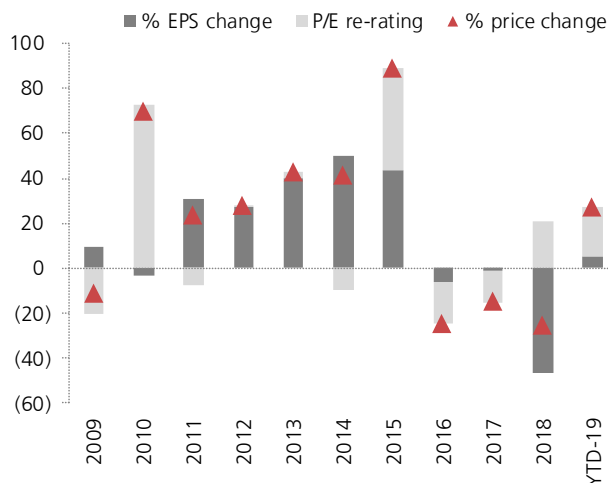
We believe the SoTP valuation methodology used to justify SUNP is fundamentally flawed, as it does not take into account the material reduction in growth rates for the underlying business, and also conveniently ignores the profitability from existing specialty products, namely, DUSA and Absorica, which are not only highly profitable but also face material pressures. For instance, our rNPV of the key three specialty products (Ilumya, Cequa and Odomzo) in FY2020 works out to be ₹25/share, with the other products hardly adding ₹5-7/share and Absorica and DUSA adding another ~₹5/share, taking the total to ~₹35/share. However, ex-specialty, we model SUNP's revenue growth rates falling to 8-9% from FY2021, and adjusting for both DUSA and Absorica, along with other specialty products, our EPS stands at ₹25/share (24X FY2021 P/E). We downgrade to SELL (from REDUCE) with a revised target price of ₹540/share as we roll forward to 20X September 2020E EPS.

Exhibit 1: SUNP now trading closer to peak multiples
1-year forward P/E multiple (X)



Source: Company, Kotak Institutional Equities

Exhibit 2: Recent share price move led by P/E re-rating
March fiscal year-ends, 2013-18



Source: Company, Kotak Institutional Equities

Iumya now approved in EU and US, though competitors upping the ante

The psoriasis market continues to see onslaught of real world and clinical data by competitors. Some recent key clinical data points and developments were:

- ▶ **De-bunking the convenience argument.** Novartis presented data from a patient preference survey of 300 psoriasis patients, reiterating the importance of clear skin (as measured by PASI 90/100, in our view). Among key preferred attributes, clear skin was followed by number of years of proven efficacy and safety data in large clinical trials, effectiveness in treating multiple manifestations of psoriatic disease (including PsA, nail, palmoplantar and scalp), with number of injections per dose and injection frequency being the least important attribute.
- ▶ **Cosentyx hits a century.** Earlier this year, Novartis announced the initiation of its 100th clinical trial for Cosentyx to assess the mechanistic superiority of IL-17A inhibitors versus IL-23. The trial seeks to establish IL-17A's, as the first choice of treatment for treatment of psoriasis.
- ▶ **Plethora of head-to-head trials.** Even as Iumya suffers from a weak efficacy data, other leading IL-17's and IL-23's agents have all initiated head-to-head trials against the leading TNF (Humira) or against each other.
- ▶ **Three new drugs lining up for launches over CY2019-21.** The psoriasis space is likely to become even more crowded with (1) AbbVie's risankizumab (IL-23) likely to be approved in 1QCY19, (2) LLY's mirakizumab (IL-23) set to be filed in CY2019, and (3) UCB's bimekizumab (IL-17) undergoing Phase III trials with read-outs in CY2019. We note that all the three companies have a strong presence in psoriasis (or auto-immune biologics) and are undergoing head-to-head trials against Cosentyx to gain a standing start in the market post approval.

Exhibit 3: Summary of key head-to-head trials

Drug	Status	Company	Trial	Comparator	Comments
Cosentyx	Approved	Novartis	CLEAR	Stelara	Superiority over Stelara
Cosentyx	Approved	Novartis	SURPASS	Humira	Ongoing trial to establish Cosentyx' superiority over Humira in Pso
Cosentyx	Approved	Novartis	EXCEED	Humira	Ongoing trial to establish Cosentyx' superiority over Humira in PsA
Cosentyx	Approved	Novartis	ARROW	Tremfya	Initiated Phase II PoC study vs Tremfya to establish mechanistic superiority of direct IL-17A inhibition over IL-23 inhibition in Stelara-resistant patients.
Taltz	Approved	Eli Lilly	IXORA-S	Stelara	Superiority over Stelara
Taltz	Approved	Eli Lilly	IXORA-R	Tremfya	Ongoing 960 patient, 24-week head-to-head trial comparing Taltz vs Tremfya on PASI-100 or complete clearance
Tremfya	Approved	J&J	VOYAGE	Humira	Superiority over Humira
Risankizumab	BLA filed	AbbVie	ultIMMa	Stelara	Superiority over Stelara
Risankizumab	BLA filed	AbbVie	IMMvent	Humira	Initiated
Risankizumab	BLA filed	AbbVie	—	Cosentyx	Ongoing 400 patient, 52-week, open-label trial comparing bimekizumab vs Cosentyx on PASI-90
Mirakizumab	Phase III	Eli Lilly	OASIS-2	Cosentyx	Ongoing 1,443 patient, head-to-head trial comparing bimekizumab vs Cosentyx on PASI-90
Bimekizumab	Phase III	UCB	BE VIVID	Cosentyx	Ongoing pivotal Phase III trial with Stelara as a comparator (PASI90 endpoint)
Bimekizumab	Phase III	UCB	OASIS-2	Cosentyx	Ongoing pivotal Phase III trial with Humira as a comparator (PASI90 endpoint)
Bimekizumab	Phase III	UCB	BE RADIANT	Cosentyx	Ongoing 700 patient, 48-week head-to-head trial comparing bimekizumab vs Cosentyx on PASI-100 or complete clearance

Source: Industry data, Kotak Institutional Equities

Exhibit 4: Ilumya efficacy weaker on PASI-75 against even Humira

Risankizumab												
1.00 (0.96, 1.05)	Izekizumab											
1.02 (0.96, 1.08)	1.01 (0.96, 1.07)	Guselkumab										
1.03 (0.98, 1.09)	1.03 (0.98, 1.08)	1.02 (0.96, 1.07)	Brodalumab									
1.07 (1.02, 1.14)	1.07 (1.02, 1.13)	1.06 (0.99, 1.13)	1.04 (0.99, 1.1)	Secukinumab								
1.12 (1.04, 1.22)	1.11 (1.05, 1.21)	1.10 (1.02, 1.2)	1.09 (1.02, 1.18)	1.04 (0.97, 1.12)	Infliximab							
1.26 (1.17, 1.38)	1.25 (1.16, 1.38)	1.24 (1.15, 1.35)	1.22 (1.13, 1.34)	1.17 (1.08, 1.28)	1.12 (1.03, 1.24)	Adalimumab						
1.26 (1.18, 1.37)	1.26 (1.18, 1.36)	1.24 (1.16, 1.35)	1.23 (1.15, 1.32)	1.18 (1.11, 1.26)	1.13 (1.05, 1.22)	1.01 (0.93, 1.08)	Ustekinumab					
1.30 (1.18, 1.47)	1.29 (1.18, 1.46)	1.28 (1.17, 1.44)	1.26 (1.15, 1.41)	1.21 (1.1, 1.35)	1.16 (1.05, 1.3)	1.03 (0.94, 1.15)	1.03 (0.94, 1.14)	Certolizumab				
1.42 (1.26, 1.66)	1.42 (1.26, 1.66)	1.40 (1.24, 1.64)	1.38 (1.23, 1.6)	1.32 (1.17, 1.54)	1.27 (1.12, 1.47)	1.13 (1, 1.31)	1.13 (1, 1.29)	1.10 (0.95, 1.27)	Tildrakizumab			
1.74 (1.54, 1.98)	1.74 (1.55, 1.98)	1.71 (1.52, 1.95)	1.69 (1.51, 1.92)	1.62 (1.45, 1.82)	1.55 (1.4, 1.73)	1.38 (1.25, 1.54)	1.37 (1.27, 1.5)	1.34 (1.2, 1.5)	1.22 (1.07, 1.38)	Etanercept		
2.44 (1.98, 3.12)	2.43 (1.97, 3.11)	2.40 (1.95, 3.03)	2.37 (1.92, 3)	2.28 (1.85, 2.87)	2.18 (1.78, 2.75)	1.94 (1.61, 2.4)	1.93 (1.6, 2.38)	1.88 (1.54, 2.34)	1.71 (1.39, 2.14)	1.40 (1.17, 1.71)	Apremilast	
16.54 (12, 23.47)	16.53 (11.94, 23.32)	16.27 (11.76, 22.9)	16.05 (11.63, 22.59)	15.43 (11.33, 21.42)	14.81 (10.97, 20.31)	13.12 (9.91, 17.67)	13.08 (9.93, 17.48)	12.74 (9.5, 17.07)	11.60 (8.84, 15.5)	9.51 (7.6, 12.09)	6.74 (5.3, 8.68)	Placebo

Notes:
 (1) Numbers in parenthesis denote confidence intervals, bold denotes statistically significant
 (2) NMA data based on unpublished grey literatures and manufacturer provided supplementary information, and hence, cross-comparison strictly not comparable

Source: ICER

Exhibit 5: Ilumya efficacy materially on PASI-90 against even Humira

Izekizumab												
1.05 (0.94, 1.18)	Risankizumab											
1.09 (0.98, 1.22)	1.04 (0.91, 1.18)	Brodalumab										
1.12 (0.98, 1.31)	1.07 (0.92, 1.26)	1.03 (0.89, 1.22)	Infliximab									
1.14 (1.01, 1.32)	1.09 (0.94, 1.57)	1.05 (0.91, 1.23)	1.02 (0.85, 1.21)	Guselkumab								
1.15 (1.03, 1.3)	1.10 (0.96, 1.26)	1.06 (0.93, 1.21)	1.02 (0.87, 1.21)	1.00 (0.85, 1.17)	Secukinumab							
1.55 (1.38, 1.76)	1.48 (1.31, 1.7)	1.43 (1.28, 1.62)	1.38 (1.17, 1.62)	1.35 (1.17, 1.58)	1.34 (1.2, 1.54)	Ustekinumab						
1.83 (1.54, 2.25)	1.75 (1.45, 2.17)	1.68 (1.41, 2.06)	1.63 (1.33, 2.04)	1.59 (1.38, 1.92)	1.59 (1.32, 1.95)	1.18 (1, 1.41)	Adalimumab					
1.86 (1.46, 2.51)	1.78 (1.39, 2.43)	1.71 (1.36, 2.3)	1.65 (1.29, 2.23)	1.62 (1.27, 2.22)	1.61 (1.29, 2.17)	1.20 (0.96, 1.57)	1.02 (0.79, 1.38)	Tildrakizumab				
1.88 (1.49, 2.48)	1.80 (1.41, 2.42)	1.73 (1.37, 2.28)	1.68 (1.31, 2.26)	1.64 (1.27, 2.22)	1.63 (1.28, 2.18)	1.21 (0.97, 1.59)	1.02 (0.78, 1.38)	1.02 (0.71, 1.37)	Certolizumab			
2.48 (2.1, 3.01)	2.37 (1.96, 2.91)	2.29 (1.91, 2.8)	2.20 (1.82, 2.73)	2.17 (1.8, 2.67)	2.16 (1.83, 2.61)	1.60 (1.39, 1.87)	1.36 (1.11, 1.67)	1.33 (1.04, 1.66)	1.32 (1.02, 1.68)	Etanercept		
5.25 (3.64, 8)	5.03 (3.41, 7.59)	4.84 (3.35, 7.27)	4.70 (3.18, 7.1)	4.59 (3.15, 6.94)	4.58 (3.2, 6.77)	3.40 (2.41, 4.94)	2.87 (2.00, 4.25)	2.83 (1.82, 4.39)	2.80 (1.83, 4.28)	2.11 (1.48, 3.11)	Apremilast	
49.58 (34, 73.52)	47.23 (32.44, 70.33)	45.80 (31.33, 67.37)	44.04 (30.48, 65.64)	43.12 (30.06, 63.68)	43.12 (30.13, 63.69)	31.99 (23.18, 44.63)	27.07 (19.62, 37.43)	26.64 (18.22, 38.5)	26.28 (18.38, 38.96)	20.03 (14.9, 26.79)	9.40 (6.57, 13.53)	Placebo

Notes:
 (1) Numbers in parenthesis denote confidence intervals, bold denotes statistically significant
 (2) NMA data based on unpublished grey literatures and manufacturer provided supplementary information, and hence, cross-comparison strictly not comparable

Source: ICER

Little to differentiate against other IL-23's on safety

A key differentiating feature for Ilumya, as highlighted by the company, is the strong safety profile as compared to the other psoriasis agents. While we agree that Ilumya has a strong safety profile against the TNF- α agents (tuberculosis related), we believe there is little to differentiate the IL-23's agents and even IL-17's (barring Siliq) on safety profile. As highlighted in Exhibit 4, an analysis of the adverse event profile across clinical trials for IL-23 agent suggests a relatively benign side effect profile for even Tremfya and risankizumab. At the same time, with Cosentyx now used in >150K patients cumulative, we believe the real world comfort that physicians have with using the drug is far more valuable than the data from Phase III trials, and a slightly better side effect profile (annual latent Tb testing required for IL-23's versus active tb testing required for IL-17's and superficial candida infections in IL-17's) will unlikely result in a meaningful share pick-up for Ilumya.

Exhibit 6: Cross-trial comparison of Ilumya adverse event profile versus other IL-23's (%)

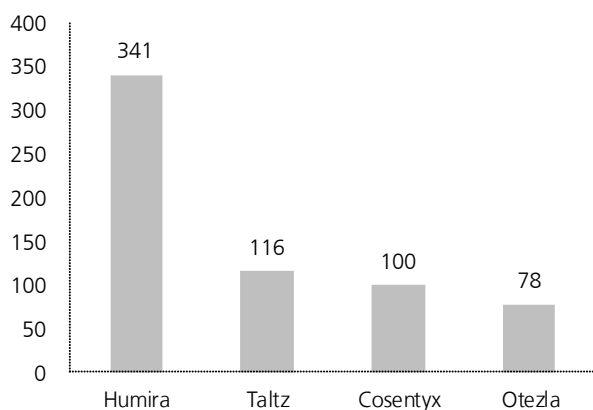
	Guselkumab	Tildrakizumab	Risankizumab	Placebo
# of patients	823	616	1,005	1,189
Week	16	12	16	12-16
Any AE	49	46	47	50
Tx related death	0	0.1	0	0
D/C due to AE's	1.3	0.5	0.5	1.3
Serious AE's	1.9	1.5	2.1	2.5
≥Grade 3 AE's	NR	NR	NR	NR
Common AE's occurring in >5% in one or more agent				
Any infections	23	NR	NR	24
Nasopharyngitis	8.0	10	NR	7.9
URTI	5.0	2	NR	4.4
Headache	4.5	NR	NR	3.3
AE's of interest				
Malignancy excluding NMSC	0.0	NR	0.2	0.0
NMSC	0.1	0.1	0.3	0.1
MACE	0.1	0.2	0.0	0.1
Serious infections	0.1	0.2	0.4	0.3

Source: Company, Kotak Institutional Equities estimates

Significant promotion effort required to build brand

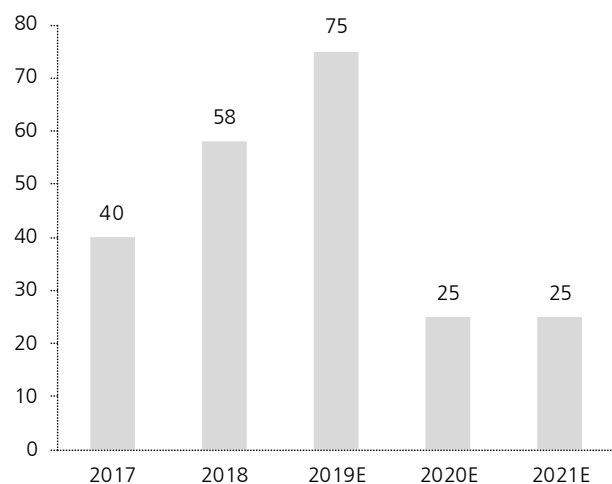
In CY2017, Cosentyx and Taltz spent cumulative US\$216 mn on television DTC spend, with Humira spending another US\$341 mn for spends across indications. We believe the DTC campaigns have partially helped shift the patient and physician preference towards PASI-90/100 efficacy measures. Given the overwhelming body of data as well as increasing years of patient exposure, we believe SUNP will need to spend materially in order to compete. We expect SUNP to spend US\$75 mn towards promotion spend in FY2020.

Exhibit 7: Significant DTC spends required to penetrate the crowded psoriasis market
DTC spend, calendar year-end, 2017 (US\$ mn)



Source: Industry data, Kotak Institutional Equities estimates

Exhibit 8: We expect SUNP to spend US\$75 mn in FY2020 on brand promotion expenses across all products
March fiscal year-ends 2017-21E (US\$ mn)



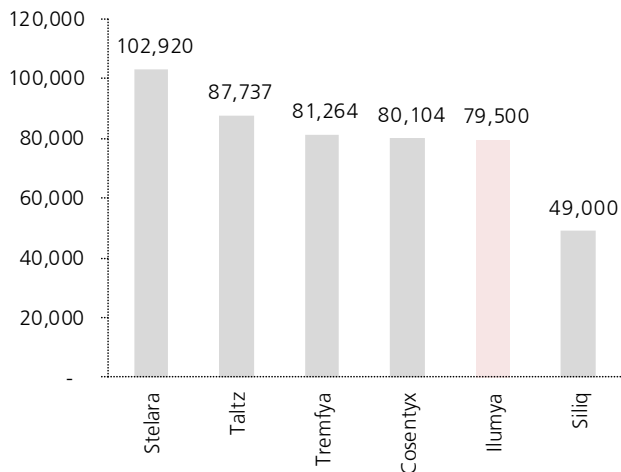
Source: Industry data, Kotak Institutional Equities estimates

Further aggressive rebates required to drive market share conversions

SUNP has priced Ilumya at a WAC of US\$79,500 for annual treatment, at a discount to other IL-17's and IL-23's, and also at a discount to Stelara. However, our checks suggest that on a net pricing, Ilumya is priced at an annual treatment cost of ~US\$40K, which places it at a premium to both Stelara and Siliq, and 20% discount to Taltz and Cosentyx.

Exhibit 9: Ilumya priced at the lower end on WAC

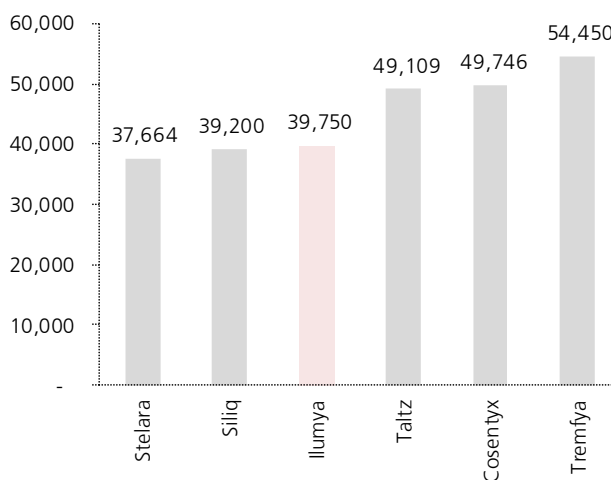
Annual treatment cost (US\$)



Source: Industry data

Exhibit 10: Ilumya seems to be priced at a premium to Stelara on net price

Annual treatment cost (US\$)

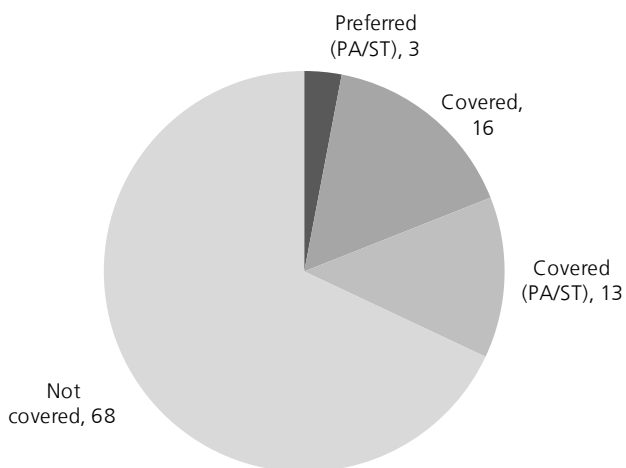


Source: Kotak Institutional Equities estimates

At the current pricing point, we believe SUNP will face a difficult task in gaining formulary uptick, given its lack of strong efficacy data, and notably, lack of head to head trials, given the deteriorating competitive landscape are critical in gaining formulary status. While it is early days, SUNP has very limited formulary coverage, with almost nil coverage at CVS and Express Scripts, though we expect the coverage to improve from CY2019.

Exhibit 11: Poor formulary coverage and likely to be gradual

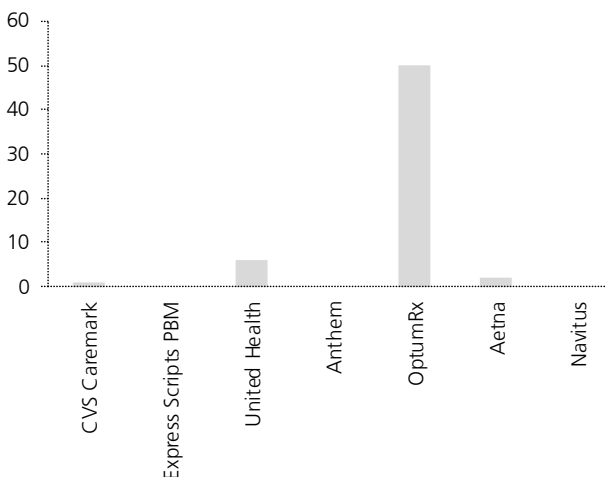
Status in commercial formularies across 4,526 plans (%)



Source: Industry data, Kotak Institutional Equities estimates

Exhibit 12: Limited coverage in Top-2 PBM's

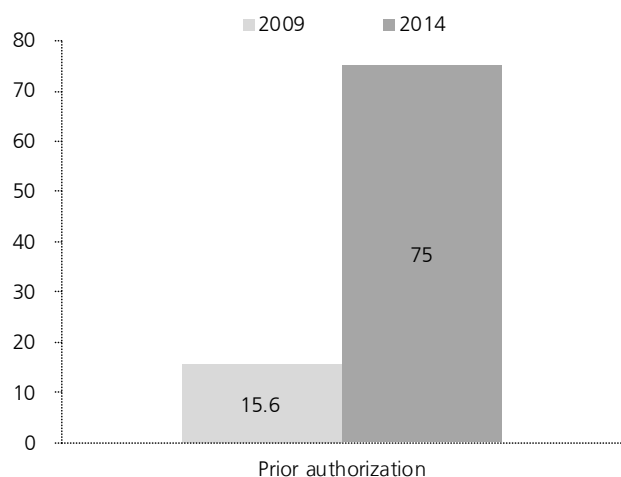
Status in commercial formularies across 4,526 plans (%)



Source: Industry data, Kotak Institutional Equities estimates

Exhibit 13: Insurers placing multiple restrictions on biologics use in psoriasis

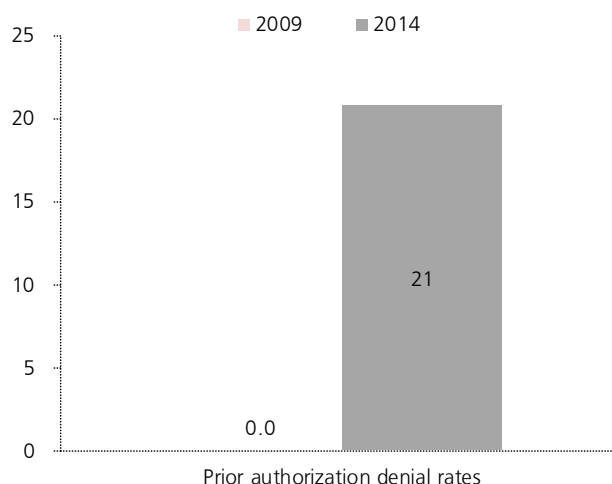
% of patients with prior authorization requirements



Source: Company, Kotak Institutional Equities

Exhibit 14: Insurance denial rates increasing for biologics usage in psoriasis

% of patients getting a denial at time of prior authorization



Source: Company, Kotak Institutional Equities

Will psoriasis go the Hep-C way?

Over CY2013-16, US payors such as Express Scripts and CVS targeted several expensive medications to curb overall pharma spending growth, through a combination of higher rebates from brand companies and formulary exclusions. The aggressive pricing behavior impacted several blockbuster primary care brands such as Advair and Lantus, both of which saw realizations declining by >20% from CY2013-15, with Advair even suffering from 15% market share loss due to formulary exclusions. Even specialty medications such as Gilead's Hep-C franchise saw ~50% decline in realizations from its peak, impacting ~US\$4 bn in sales for the Hep-C players.

As per Express Scripts, TNF- α 's and biologics for auto-immune disorders represent 9.8% of all US pharmacy spending, with spending on these projected to almost double from CY2015 to CY2018. Given the increasing competitive intensity in psoriasis as well as other indications, we believe the class could see incremental pricing pressure, particularly, as Humira approaches patent expiration in CY2022. Over time, we expect the PBM's to opt for indication-based reimbursement rather than broad label-based reimbursement, which should accelerate the switch of patients away from TNF- α 's, as we expect targeted and more efficacious treatments, including IL-17A's and IL-23's to receive better formulary coverage. However, the switch is likely to come at the cost of pricing and formulary exclusions with one proposal by Express Scripts even promising to refund up to US\$6,000 to plan sponsors if the patient discontinues a biologic treatment within 90 days. In such an environment, we expect HRQoL and head-to-head data to play a critical role, and expect coverage requirements to get more stringent resulting in an increase in denial rates. We also believe that indication expansion trials will get more risky given the move towards indication-based reimbursement levels. With two new IL-23's and one IL-17 likely to enter the market in CY2019/20, we believe the class will likely face persistent pricing pressure.

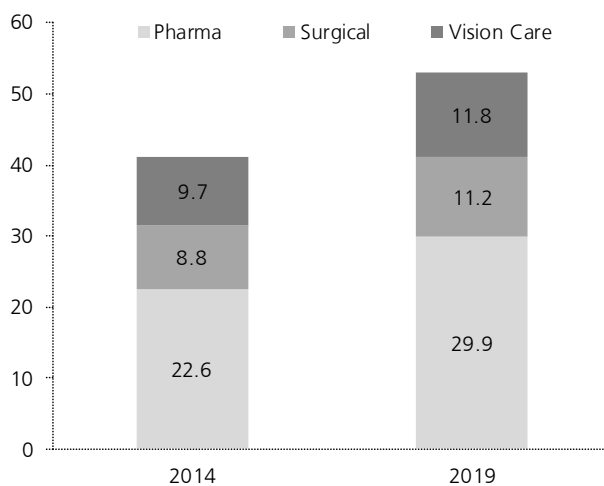
Multiple indications need to materially cross US\$300 mn peak sales

Despite the deteriorating landscape and SUNP's positioning, we forecast Ilumya sales of ~US\$150 mn in FY2021, which we do not believe is conservative by any means. While SUNP has initiated trials in Psoriatic arthritis and ankylosing spondylitis, we believe the real impact from these indication is unlikely before FY2023, by when we expect Humira biosimilars to enter the market, and also expect significant penetration by other IL-17's and IL-23's.

Discounting strategy required to gain share for Cequa

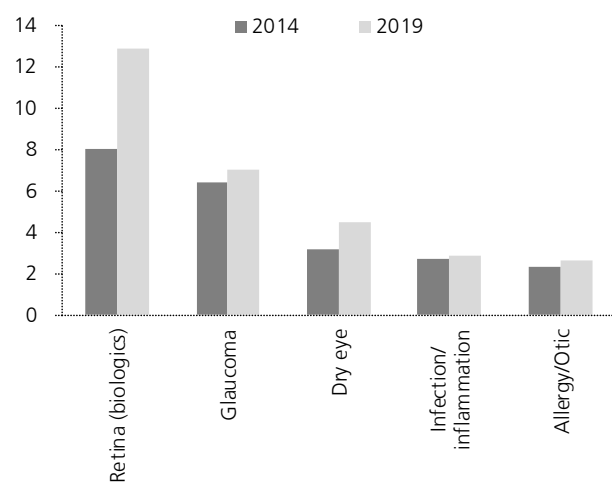
SUNP had high hopes from the upcoming launch of BromSite and hopes to achieve reasonable market share given the differentiating label claim (prevention of ocular pain versus reduction in ocular pain), though the actual switch Prolensa and Nevanac/Ilevro has been limited, given the lack of solid clinical differentiation. SUNP recently announced the approval of Cequa, a reformulated nanomicelle form of cyclosporine, the active ingredient also used in Allergan's Restasis. Seciera will compete directly with Allergan's Restasis, which was recently also launched in a preservative free multi-dose container, and with Shire's Xiidra (lifitegrast), as well as with potential new entrants in dry eye including KPI-121 (MMF formulation in Phase III with NDA filing in 2HCY18), and reproxalap (Phase IIb results likely in 4QCY18). We like the ophthalmics specialty strategy, given the high concentration of existing players with top-5 companies account for ~90% of the ophthalmics pharma market in the US. While this raises the barriers to entry for new companies, it has historically also provided meaningful pricing power to the successful players. The ophthalmics segment also suits SUNP given that most of the drugs (except retinal diseases) are essentially reformulations. However, given that these products are typically in complex sterile forms (polymer based solution in case of BromSite and nanomicelle colloid solution in case of Seciera), non-infringement is challenging, particularly given stringent Q1/Q2 equivalence requirements by the USFDA, thereby reducing the potential generic competition when compared to oral solid dosages.

Exhibit 15: Global ophthalmics market split
Calendar year-ends, 2014-19E (US\$ mn)



Source: Novartis, Kotak Institutional Equities

Exhibit 16: Global ophthalmics market size (pharma segment)
Calendar year-ends, 2014-19E (US\$ mn)



Source: Novartis, Kotak Institutional Equities

Cequa to benefit from better clinical profile, though rebating required

In its Phase III trials, Cequa demonstrated a similar efficacy compared to Restasis, though with a faster onset of treatment (12 week trial versus 6-month endpoint for Restasis), as well as better adverse event profile, with ~5% patients experiencing eye irritation versus 17% patients on Restasis experiencing ocular burning. However, Restasis is now available in a multi-dose container (60 doses) (Cequa is available only in unit-dose BFS packs), with Allergan aggressively trying to implement a switch away from its unit dose formulation towards the multi-dose formulation. We believe Allergan has a materially strong reimbursed position with significant rebating contracts in place, with even Shire finding it difficult to gain share for its Xiidra product. Moreover, with generic entry for Restasis unit dose likely in CY2019, and two new branded players likely to enter the dry eye market by FY2021 (KPI-121 and reproxalap), we believe Cequa will likely only reach US\$100-150 mn peak sales.

Odomzo ramp-up likely to remain slow

In December 2016, SUNP announced the acquisition of Odomzo, a branded oncology product from Novartis for US\$175 mn. Odomzo is a novel, oral drug approved in the US for the treatment of laBCC (locally advanced basal cell carcinoma), in patients cases where laBCC has recurred following surgery or radiation therapy, or those who are not candidates for surgery or radiation therapy. In many ways, the acquisition was a right fit for its dermatology specialty strategy in the US given:

- ▶ **Strong competitive profile in a niche market.** There are currently two approved oral treatments for laBCC, Erivedge (Roche) and Odomzo. Both the treatments target the Hedgehog pathway, and both have shown impressive data with largely similar profile, though cross comparisons are not relevant given the different efficacy measures (mRECIST and RECIST) and heterogeneity of BCC population. On a standalone basis, Odomzo has strong data with an ORR of 56% for the 200 mg dose, median DOR of 26.1 months and median PFS of ~23 months for mBCC sub-set. We do note the serious adverse event profile associated with Odomzo (and Erivedge), particularly, musco-skeletal adverse events that have likely restricted a more rapid penetration of the class of drugs.
- ▶ **Leveraging DUSA and MK-3222.** SUNP's Levulan drug/device combination actinic keratosis, a form of pre-cancerous cells, gives it access to dermatologists who account for 70% of prescriptions for laBCC. Combined with MK-3222, we believe Odomzo will help raise SUNP's brand profile amongst dermatologist and help leverage field force to drive prescription share.

Despite the attractive dynamics of the market, SUNP has struggled to build market share, with new prescription market share in low-teens. Given the long duration of response, this implies that the sales pickup will continue to lag estimates, and is unlikely to materially improve until FY2022, that too, assuming that SUNP is able to gain 25% NRx share by FY2020, which we believe might be difficult given the physician comfort in using Erivedge, and Roche's strong positioning in the oncology segment. This would imply a payback period of 7 years and IRR of ~20%.

Exhibit 17: Odomzo market share gains to translate into sales gradually

March fiscal year-ends, 2018-28E

	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Prevalance of BCC	2,156	2,174	2,191	2,207	2,222	2,238	2,254	2,269	2,285	2,303	2,320
- % locally advanced or inoperable	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Target population for Hedgehog inhibitors	17	17	17	18	18	18	18	18	18	18	18
Duration of response (months)	26	26	26	26	26	26	26	26	26	26	26
Target population for hedgehog's ('000)	37	37	38	38	38	38	39	39	39	39	40
% penetration for class	6	7	7	8	8	9	9	10	10	11	11
Treatment cost/patient/year on hedgehog's	93,636	95,509	97,419	99,367	101,355	103,382	105,449	107,558	109,709	111,904	114,142
Total market size for hedgehog's	207	231	256	282	309	337	367	397	430	464	499
Erivedge market share (%)	93	89	84	81	79	77	76	73	72	72	72
Odomzo market share (%)	6.8	10.7	15.7	19.3	21.3	22.9	24.3	26.8	28.4	28.4	28.4
- Odomzo share of NRx (%)	10.0	15.0	20.0	22.0	24.0	25.0	27.0	30.0	30.0	30.0	30.0
- Odomzo share of repeat Rx (%)	4.0	7.0	12.0	17.0	19.0	21.0	22.0	24.0	27.0	27.0	27.0
Erivedge sales (US\$ mn)	193	206	216	227	243	260	277	291	308	332	357
Odomzo sales (US\$mn)	14	25	40	54	66	77	89	106	122	132	142

Source: Kotak Institutional Equities estimates

Absorica, Yonsa and BromSite to all face generic competition by FY2021/22

A lot has been said about the life-cycle management potential for Absorica, though we believe the market commentary has been partially inaccurate. While SUNP has filed for additional patents covering new formulations of isotretinoin, the only one that can create a difference is the formulation having higher bio-availability, which could theoretically lower the dose required for the product. However, the data demonstrated in the relevant patent suggest that the new formulation indeed has a higher bio-availability on a fed state, the data in fasting state is not completely clear, with the AuC curve for fed/fasting suggesting 17% higher bio-availability for the fed dose over the fasting dose, with a broad confidence interval (upper bound at almost 125). Given the adverse event profile of the product, we believe the product might require tweaks to bring the bio-availability towards an acceptable range. In any event, the timelines remains tight, and if one were to assume that SUNP had to further tweak the formulation, it would imply that the new formulation is only likely to enter stability towards the end of CY2018, and given a 12-month stability requirement, a filing could be likely towards CY2019, with a launch in 4QCY20, around the time of Actavis' generic launch. In any event, we believe the reimbursement scenario has altered dramatically as compared to the early part of the decade when Absorica was launched, with SUNP only likely to be able to defend 20-30% of Absorica sales post multi-source generic entry in FY2022/23.

We believe both Yonsa and BromSite have weak formulation patents that are susceptible to a design-around strategy, with generic entry likely by FY2022 for both the products. As a strategy, save for sterile products (both ophthalmic and injectables), where the FDA has stringent criteria for Q1/Q2 compliance, we believe the 505(b)(2) strategy is unlikely to be a scalable strategy, given the shortening product lifecycles (e.g. Yonsa) and increasing pricing pressure as the reimbursement environment becomes more challenging.

Exhibit 18: FY2021 to be a peak year for SUNP – further in-licensing deals critical to drive incremental growth beyond FY2022

March fiscal year-ends, 2013-22E (US\$ mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
DUSA	55	72	111	105	130	92	92	91	90	89
Absorica		131	165	151	193	186	193	169	150	42
BromSite					4	25	32	38	46	23
Odomzo					4	14	25	40	54	66
Illumya							17	79	156	197
Cequa							10	47	93	119
Yonsa							15	45	35	20
Xelpros							5	15	25	35
Key US brands	55	203	275	256	330	317	389	525	650	591

Source: Kotak Institutional Equities estimates

Already assuming a leap of faith for Halol recovery

Post Halol clearance, we believe the Street has been expecting a material improvement from existing products as well as a slew of new launches. Indeed, even our estimates assume US\$100 mn annual new product sales from unidentified products from Halol every year from FY2020. However, we believe the potential for Halol is exaggerated with either the competitive profile for several of SUNP's expected launches deteriorating, or SUNP itself facing delays due to non-cGMP and product complexity issues (e.g. depot products).

- ▶ GNP recently announced the approval for Vagifem, which was a key FY2019 launch for SUNP from the Halol facility. Vagifem is a drug-device combination of a vaginal tablet and an applicator, and was an interesting near-term opportunity given only two competitors (Amneal and Teva), and attractive price dynamics, with the post generic market still at ~US\$200 mn. However, with GNP now likely to launch the market in 2HFY19, we believe the economics could deteriorate meaningfully, with the opportunity size now likely to reduce to US\$20-25 mn for FY2020/21.
- ▶ SUNP was expected to be the first generic for Makena multi-dose vials (US\$400 mn brand). However, American Regent/Amneal and Prasco have already entered the market with pricing erosion at >40%. AMAG/ATRS have also launched a sub-cu version, which has taken a 60% share of the market, and we believe Aspen has also filed for the multi-dose vial, bringing down the potential to US\$30-35 mn for SUNP.
- ▶ Among other key products, Venofer (iron sucrose) has characterization issues, while none of the larger depot formulations (Lupron or Sandostatin) have yet been filed, though we do expect Ambisome to be approved in FY2020. More importantly, we believe that the past few years have seen meaningful technology proliferation as seen with Doxil, where we have two approved players, and possibly 2-3 more filed ANDA's.
- ▶ For the existing products, we believe SUNP is unlikely to reach anywhere close to the peak contribution from Halol, given the pre-warning letter, high concentration in sales from few products, namely Doxil, Sumatriptan auto-injector, testosterone cypionate injection and diltiazem 360 mg. All the products, save for sumatriptan, have seen significant incremental competition and price erosion.
- ▶ We believe SUNP has lost a major first loser advantage in the depot products, largely due to the FDA's changing stance on the characterization, and while we might see individual companies (including SUNP) still being an early launcher in few of the products, the opportunity set for US\$75-100 mn generic products have meaningfully contracted.

Exhibit 19: New product launches and specialty to drive US revenue growth

March fiscal year-ends, 2013-21E (Rs mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Branded sales	11	70	312	317	375	356	410	541	687
Taro price-increase led products	454	469	526	577	508	291	230	200	188
Taro base business	134	195	240	265	214	154	131	124	127
Taro new products	—	—	—	10	44	85	155	194	179
SUNP key opportunities	345	700	565	526	622	275	420	501	492
SUNP base business + Halol recovery	127	179	631	375	284	193	215	249	321
Total US sales	1,070	1,613	2,274	2,070	2,048	1,355	1,562	1,810	1,994
yoy growth (%)	57.7	50.7	40.9	(9.0)	(1.1)	(33.8)	15.3	15.9	46.7
Branded sales	1	4	14	15	18	26	26	30	31.9
Taro price-increase led products	42	29	23	28	25	21	15	11	14.9
Taro base business	13	12	11	13	10	11	8	7	22.0
Taro new products	0	0	0	0	2	6	10	11	3.4
SUNP key opportunities	32	43	25	25	30	20	27	28	28

Source: Company, Kotak Institutional Equities estimates

US\$1 bn transactions with poor disclosure and/or limited strategic value

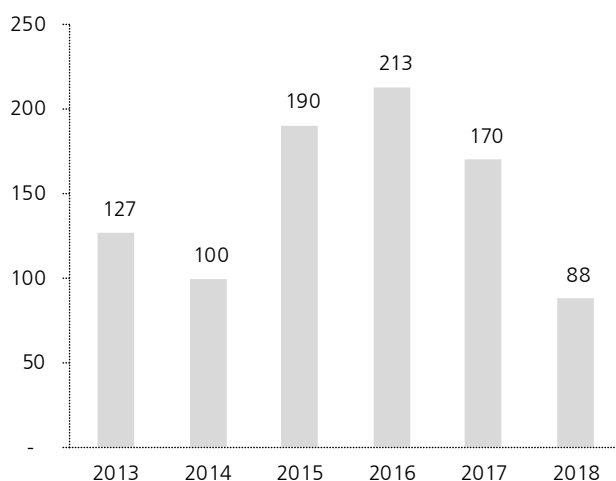
As per the FY2018 annual report, the long-term loans and advances for Sun Pharma Global FZE increased by ~US\$300 mn, with no disclosures around the number of parties receiving the loan, or the average quantum of loans given. This transaction represents the third instance in the past four years, where SUNP has chosen to undertake meaningful transactions with limited disclosures and/or limited strategic benefit.

- ▶ **US\$400 mn third-party deal.** In FY2014, SUNP entered in a deal with a third party, wherein the third party agreed to provide US\$400 mn funding to SUNP to pay off its Protonix-related patent infringement settlement, with remaining US\$150 mn paid by SUNP through internal accruals/debt. In exchange for the funding, SUNP agreed to provide goods at a 'discounted' rate for an unspecified period of time. In FY2014/15, SUNP also provided cumulative US\$55 mn in its P&L.
- ▶ **US\$400 mn interest-free loan in FY2015.** In FY2015, Sun Pharma Global FZE, a subsidiary based out of the UAE, gave a short-term interest free loan of US\$400 mn to an unspecified third party. While the company has not shared exact details of the loan and has stated that it has now received back the loan amount, it is puzzling to see a loan of such a magnitude provided on interest-free basis.

Tax-efficient structures historically, though contingent liabilities are a concern

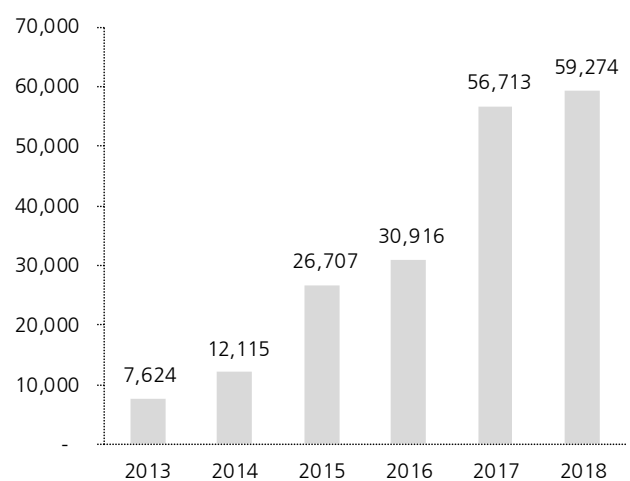
SUNP has historically had the lowest tax rate among front-line Indian pharma peers, thanks to its various tax-efficient structures that it has employed over the past 15 years, starting from: (1) setting up manufacturing facility in J&K, (2) partnership structure at Sikkim, (3) use of BVI subsidiary, (4) use of FZE structure in UAE, and (4) de-merger of domestic subsidiary to gain tax benefits on amortization under MAT. However, since FY2011, SUNP has had a spate of tax disputes, resulting in ~15 fold increase in contingent liabilities pertaining to income-tax related disputes in FY2018 to ₹59 bn, up from ₹4 bn in FY2011. The majority of the contingent liability pertains to income tax disputes in FY2013-17 timeframe.

Exhibit 20: SUNP's cash taxes were lower than reported taxes in FY2018, possibly due to impact of revised US tax code
Cash tax/reported tax, March fiscal year-ends, 2013-18 (%)



Source: Company, Kotak Institutional Equities

Exhibit 21: Contingent liabilities on account of tax disputes account for ~70% of net cash
March fiscal year-ends, 2013-18 (Rs mn)



Source: Company, Kotak Institutional Equities

Exhibit 22: Ex-Taro pending ANDA count now stagnant

March fiscal year-ends, 2013-21E (Rs mn)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Approvals													
ANDA approvals - during the period	4	4	1	5	7	6	1	4	5	3	5	5	6
Cumulative ANDA approvals	442	445	435	440	417	423	424	428	433	422	418	422	428
Filings													
ANDA filed - during the period	6	6	5	11	1	3	8	14	8	4	4	19	3
Cumulative ANDA's filed	592	598	603	614	615	618	626	640	648	652	656	675	678
Pending													
ANDA -pending approval	154	154	156	159	150	144	149	157	151	136	126	139	135
- of which tentative approvals	12	12	10	13	15	13	14	16	16	16	14	14	15

Source: Company, Kotak Institutional Equities estimates

Exhibit 23: Taro filing rate dropping to low-teens

March fiscal year-ends, 2013-21E (Rs mn)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Approvals													
ANDA approvals - during the quarter	2	—	1	4	4	1	1	4	4	1	4	1	2
NDA approvals - during the quarter	—	1	—	—	—	—	—	—	—	—	—	—	—
Filings													
ANDA filings - during the quarter	—	2	2	6	2	3	1	3	2	0	2	3	2
NDA filings - during the quarter	—	—	—	—	—	—	—	—	—	—	—	—	—
Pending approval													
ANDA	32	34	35	36	34	36	36	35	33	32	30	32	32
NDA	1	—	—	—	—	—	—	—	—	—	—	—	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 24: Sun Pharma – decline in generics R&D offset by increase in specialty R&D spend

March fiscal year-ends, 2013-21E (Rs mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
US Sales (Rs mn)	60,568	97,844	137,198	135,170	137,588	87,466	108,387	130,163	143,733	143,576
- Generics	21,397	39,744	67,594	56,701	56,628	24,218	37,311	46,988	51,844	55,520
- Specialty	2,972	12,240	16,844	16,765	22,102	20,488	26,325	36,027	46,085	41,315
- Taro	36,199	45,861	52,760	61,704	58,858	42,760	44,751	47,148	45,804	46,741
Sales	112,999	160,784	275,390	287,953	315,784	264,895	302,665	346,503	384,419	411,390
R&D expenses (Rs mn)	(7,042)	(10,169)	(18,373)	(23,025)	(21,459)	(20,669)	(23,978)	(25,254)	(25,709)	(26,566)
- Generics	(4,532)	(6,821)	(11,455)	(12,168)	(10,934)	(9,816)	(10,773)	(11,520)	(11,880)	(11,880)
- Specialty	—	—	(2,913)	(6,238)	(5,641)	(6,304)	(8,688)	(9,288)	(9,605)	(10,673)
- Taro	(2,510)	(3,348)	(4,005)	(4,618)	(4,884)	(4,549)	(4,518)	(4,446)	(4,224)	(4,013)
R&D as a % of sales	(6.2)	(6.3)	(6.7)	(8.0)	(6.8)	(7.8)	(7.9)	(7.3)	(6.7)	(6.5)
- of which generics	64	67	62	53	51	47	45	46	46	45
- of which Specialty	—	—	16	27	26	31	36	37	37	40
- of which Taro	36	33	22	20	23	22	19	18	16	15
R&D as a % of US sales	(11.6)	(10.4)	(13.4)	(17.0)	(15.6)	(23.6)	(22.1)	(19.4)	(17.9)	(18.5)
Generics R&D as a % of US generics sales	(21)	(17)	(17)	(21)	(19)	(41)	(29)	(25)	(23)	(21)
Specialty R&D as a % of US specialty sales	—	—	(17)	(37)	(26)	(31)	(33)	(26)	(21)	(26)
Taro R&D as a % of Taro sales	(7)	(7)	(8)	(7)	(8)	(11)	(10)	(9)	(9)	(9)
R&D expenses (US\$ mn)	(130)	(168)	(301)	(352)	(321)	(320)	(345)	(351)	(357)	(369)
- of which generics	(83)	(113)	(187)	(186)	(163)	(152)	(155)	(160)	(165)	(165)
- of which Specialty	—	—	(48)	(95)	(84)	(98)	(125)	(129)	(133)	(148)
- of which Taro	(46)	(55)	(66)	(71)	(73)	(70)	(65)	(62)	(59)	(56)

Source: Company, Kotak Institutional Equities estimates

Exhibit 25: SUNP has a strong domestic franchise
 March fiscal year-end, 2018

	IPM	Sun	Cipla	Mankind	Lupin	Alkem	Torrent	Cadila	GSK Pharma	Dr. Reddy's
FY2018 sales (Rs. mn) (IMS)	1,239,750	97,580	63,820	48,590	43,930	43,160	40,440	39,530	38,570	26,770
FY2018 sales (Rs. mn)		77,490	55,300	45,000	37,986	42,153	20,659	32,705	29,945	23,131
% of sales				95						
Market share (%)	100	7.9	5.1	3.9	3.5	3.5	3.3	3.2	3.1	2.2
% growth	6.8	4.0	5.5	12.2	8.7	8.3	3.5	4.3	2.9	2.5
3-year CAGR %	9.8	8.9	9.1	14.0	11.1	10.7	7.0	5.3	5.2	5.4
Top-3 therapeutic classes	Anti-infect.	CV	Respiratory	Anti-infect.	CV	Anti-infect.	CV	Anti-infect.	Dermat.	GI
	CV	CNS	Anti-infect.	GI	Anti-diabetic	GI	CNS	CV	Anti-infect.	CV
	GI	GI	CV	CV	Respiratory	Pain mgmt.	GI	Respiratory	Vaccines	Respiratory
% of sales from categories growing at >15%	42	41	48	44	52	20	46	30	27	44
Top-3 therapeutic classes share gain/(loss) over 3 years (bps)		85	23	32	45	46	(44)	(24)	(60)	(43)
% from chronic & sub-chronic	64	66	55	55	55	14	77	51	34	48
Sales force		9,200	9,400	8,000	6,650	9,000	5,600	6,100	3,200	5,800
Sales force productivity (Rs mn)		8.3	5.9	5.6	5.7	4.7	3.7	5.4	9.4	4.0
# of brands with >Rs1 bn sales	144	13	11	5	3	8	4	2	11	2
% of sales from top-10 brands	3.2	18.1	25.4	23.9	21.2	37.8	28.5	23.4	51.6	30.3
3-year CAGR for top-10 brands (%)		13.6	10.8	15.0	14.6	7.9	9.9	3.7	9.6	5.6
Market share in top-10 brands (%)		21.7	42.2	14.1	13.2	20.1	27.2	27.1	36.3	20.8
3-year market share gain/(loss) in top-10 brands (bps)		(80)	(110)	146	152	62	138	53	111	(202)

Notes:

(a) TRP numbers assume full impact from Unichem and hence PCPM numbers are lower.

Source: Industry data, Kotak Institutional Equities estimates

Exhibit 26: Sun Pharma – we expect US to drive revenue growth
 March fiscal year-ends, 2013-21E (Rs mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Domestic formulations	29,660	36,918	67,166	75,537	77,490	80,293	89,939	100,840	113,165
US (excluding Taro)	25,633	53,027	44,585	48,112	52,306	51,845	71,996	92,261	107,803
Taro (US)	31,956	40,468	47,506	56,634	52,487	35,502	36,391	37,903	35,930
RoW/EM	18,240	19,084	60,646	57,461	77,399	78,132	87,262	97,639	108,906
Total formulations	105,489	149,498	219,903	237,744	259,682	245,772	285,588	328,642	365,804
API	7,550	8,010	9,910	14,025	15,980	13,993	14,343	14,774	15,217
Others	73	138	792	752	715	679	645	613	582
Other income	610	740	1,469	5,256	13,142	4,235	2,088	2,475	2,816
Total	113,721	158,386	232,074	257,777	289,518	264,680	302,665	346,503	384,419
yoy growth, %									
Domestic formulations	2	24	82	12	3	4	12	12	12
US (excluding Taro)	104	107	(16)	8	9	(1)	39	28	17
Taro	44	27	17	19	(7)	(32)	3	4	(5)
RoW	64	5	218	(5)	35	1	12	12	12
Total formulations	41	42	47	8	9	(5)	16	15	11
API	23	6	24	42	14	(12)	2	3	3
Total	40	39	47	11	12	(9)	14	14	11
% of sales									
Domestic formulations	26	23	29	29	27	30	30	29	29
US (excluding Taro)	23	33	19	19	18	20	24	27	28
Taro	28	26	20	22	18	13	12	11	9
RoW	16	12	26	22	27	30	29	28	28
Total formulations	93	94	95	92	90	93	94	95	95
API	7	5	4	5	6	5	5	4	4

Source: Company, Kotak Institutional Equities estimates

Exhibit 27: Sun Pharma – consolidated profit and loss, balance sheet, cash model
March fiscal year-ends, 2013-21E (Rs mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net revenues	112,999	160,784	275,390	287,953	315,784	264,895	302,665	346,503	384,419
Gross Profit	92,265	132,990	207,998	223,121	234,477	190,648	216,635	250,494	278,285
Staff costs	(15,345)	(20,744)	(45,026)	(47,971)	(49,023)	(53,671)	(60,379)	(67,625)	(73,035)
R&D expenses	(7,042)	(10,169)	(18,373)	(23,025)	(21,459)	(20,669)	(23,978)	(25,254)	(25,709)
Other expenses	(20,916)	(30,142)	(64,462)	(63,630)	(63,103)	(60,227)	(67,051)	(70,187)	(78,653)
EBITDA	48,963	71,936	80,136	88,494	100,893	56,081	65,228	87,428	100,888
Depreciation & amortisation	(3,362)	(4,094)	(11,947)	(10,135)	(12,648)	(14,998)	(16,822)	(17,677)	(18,389)
EBIT	49,482	72,923	68,189	78,359	88,245	41,083	48,406	69,751	82,499
Net Interest	(432)	(442)	(5,790)	(4,769)	(3,998)	(5,176)	(5,363)	(5,281)	(5,198)
Other income	3,881	5,081	4,008	914	6,232	8,388	8,412	10,337	12,918
Exceptional items	—	(25,174)	(2,378)	(6,852)	—	(9,505)	—	—	—
Profit before tax	49,050	72,481	63,904	74,486	90,578	44,062	51,454	74,807	90,218
Tax & Deferred Tax	(8,456)	(7,908)	(9,147)	(9,349)	(12,116)	(8,452)	(8,499)	(13,856)	(17,319)
Less: minority interest	(4,863)	(7,375)	(9,363)	(11,126)	(8,819)	(4,468)	(3,728)	(3,867)	(3,503)
Net Income (adjusted)	35,732	57,198	45,394	54,011	69,644	33,665	39,227	57,084	69,395
EPS adjusted (Rs)	17.2	27.6	18.9	22.4	28.9	14.0	16.3	23.7	28.8
Balance sheet									
Equity	166,248	204,461	293,582	354,901	404,305	419,847	458,684	512,086	574,609
Total borrowings	1,982	24,890	75,963	83,381	80,910	97,518	96,018	94,518	93,018
Deferred tax liability	2,054	2,757	985	616	3,148	2,190	2,190	2,190	2,190
Other liabilities	30,568	35,493	92,561	80,263	112,321	118,846	123,508	127,991	134,345
Total liabilities	208,812	293,708	490,279	542,196	614,102	643,028	685,027	741,412	808,789
Net fixed assets	50,771	58,242	110,201	133,606	149,403	157,111	172,279	164,602	156,212
Investments	11,064	7,876	5,989	5,933	16,062	31,572	31,572	31,572	31,572
Cash	53,639	95,886	131,155	147,045	153,717	140,200	172,283	215,297	271,475
Other current assets	84,882	121,192	215,576	225,287	287,360	286,061	300,298	321,346	340,935
Total assets	208,812	293,708	490,279	542,196	614,102	643,028	704,516	760,902	828,279
Cashflow statement									
Operating profit before working capital	44,812	45,410	71,765	84,923	95,485	48,621	68,276	92,484	108,608
Tax paid	(10,735)	(7,889)	(17,404)	(19,885)	(20,571)	(7,417)	(8,499)	(13,856)	(17,319)
Change in working capital	(448)	2,071	1,796	2,656	(4,092)	(2,123)	(9,576)	(16,566)	(13,235)
Capital expenditure	(8,455)	(9,060)	(23,419)	(33,825)	(36,929)	(19,608)	(12,500)	(10,000)	(10,000)
Free cash flow	25,174	30,532	32,739	33,869	33,894	19,473	37,701	52,063	68,054
Margins and ratios									
Gross profit margin (%)	81.7	82.7	75.5	77.5	74.3	72.0	71.6	72.3	72.4
EBITDA margin (%)	43.3	44.7	29.1	30.7	31.9	21.2	21.6	25.2	26.2
Tax rate (%)	17.2	10.9	14.3	12.6	13.4	19.2	16.5	18.5	19.2
RoAE (%)	26.3	19.1	20.2	16.3	20.5	5.8	9.8	12.9	14.0
RoACE (%)	40.0	52.9	33.4	29.8	31.3	16.3	18.3	26.0	30.5

Source: Company, Kotak Institutional Equities estimates

FY2018—a few things did go right. Coal India had a forgetful FY2018 with high wage cost (+27% yoy) and weak realizations (+1.4% yoy) leading to a 24% yoy decline in net income. However, continued employee attrition (3.6%), capex to facilitate growth, and price increases taken towards the year-end make for a more formidable FY2019. Contained cost, improved pricing trajectory, and 9.5% YTD growth in volumes offer better prospects for the current fiscal. Maintain ADD with a target price of ₹320/share (from ₹326/share previously).

Company data and valuation summary

Coal India

Stock data

52-week range (Rs) (high,low)	317-248
Market Cap. (Rs bn)	1,742.1

Shareholding pattern (%)

Promoters	78.3
FIs	5.4
MFs	1.9

Price performance (%)

	1M	3M	12M
Absolute	(0.3)	2.8	8.5
Rel. to BSE-30	2.0	(2.3)	(5.3)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	11.3	24.9	25.5
EPS growth (%)	(24.2)	120.4	2.2
P/E (X)	24.8	11.3	11.0
Sales (Rs bn)	832.7	953.5	1,030.2
Net profits (Rs bn)	70.2	154.7	158.1
EBITDA (Rs bn)	86.6	184.9	211.7
EV/EBITDA (X)	16.7	8.6	7.3
ROE (%)	26.7	62.7	65.9
Div. Yield (%)	5.9	7.1	8.9

High wage provision coupled with weak prices and modest volumes lead to a dismal FY2018

Coal India's earnings in FY2018 were down 24% yoy to ₹70 bn on the back of an increase in employee cost by 27% yoy to ₹426 bn (+₹91 bn) that came from a revision in wage rates as well as additional liability for gratuity (mandated by a change in the law). Weak realizations (+1.4% yoy) didn't help earnings either as that was solely hinged on 7% yoy growth in volumes. We highlight that the earnings performance for FY2018 was the worst since listing, and came on the back of a dismal showing in FY2017 (-34% yoy) as well.

Focus on capacity increase, employee attrition and delayed price increase are the positives

Amongst the gloomy earnings profile of FY2018, there were a few positives for Coal India (1) a focus on capacity increase continues with capex in excess of ₹85 bn for the second consecutive year with a bulk of the funds allocated towards land and plant and machinery, (2) employee attrition is maintained with a net reduction of 11K employees in FY2018 and the employee profile having 67K (22% of employee force that is in the age group of 55-60 years, and (3) introduction of evacuation facility charge of ₹50/ton in December 2017 and another 6% increase in prices of notified coal in January 2018 that will likely benefit earnings in FY2019. We also note the reduction in working capital commitments through reduction in debtor days as well as inventory.

FY2019 on a firm footing as already reflected in early results

Coal India starts FY2019 on a firm footing with 1QFY19 delivering 61% yoy growth in earnings on the back of 22% yoy growth in revenue on account of 12% yoy growth in volumes and 10% yoy growth in blended realizations. Contained wage cost and double-digit revenue growth make for strong 120% yoy growth in net income for FY2019, reversing the earnings trajectory, and a marked improvement from the reported earnings of the past two years. Maintain ADD rating and target price of ₹320/share (from ₹326/share previously). We have revised downwards our earnings estimates by 7.5% for FY2019E and 8.2% for FY2020E, primarily to factor higher depreciation cost and marginally lower realizations, though offset by a higher volume trajectory.

Murtuza Arsiwalla

Samrat Verma

Volume—5-year trajectory of 4.5% CAGR growth, 9.5% YTD growth

Coal India reported 7% yoy growth in volumes in FY2018, with YTD growth further improving to 9.5% in FY2019. We note that CIL has maintained 4.5% CAGR for volumes between FY2013 and FY2018. CIL has also increased the capex momentum with an annual spend of ₹85 bn compared to ₹50 bn two year prior. The long awaited railway lines are being commissioned in parts, with two railway lines in Tori-Shivpuri and Jharsaguda-Barpali having been commissioned during the year. Our implied capacity calculation (based on company-wise production and capacity utilization) shows that production capacity for Coal India has increased to 681 mtpa from 545 mtpa in FY2014.

Amongst subsidiaries, NCL and CCL are the leaders with 16% and 11% growth in volumes in FY2018 and a 5-year CAGR of 7.5% and 5% respectively. SECL and MCL, the two larger subsidiaries had mixed trends with the former reporting 10% yoy growth in volumes while the latter reported a 3% yoy decline. On a 5-year CAGR basis, both subsidiaries have shown 4.3% CAGR in volumes.

In terms of evacuation infrastructure, railways showed a modest 2% yoy growth in FY2018 though they remain the more dominant mode of evacuation (53%). Road and MGR showed strong double-digit growth trends in FY2018.

Realizations—starting FY2019 on a more promising note

Coal India saw its blended realizations improve a modest 1.4% yoy in FY2018, though we highlight that the price increase taken in January 2018 coupled with improving trends in e-auctions have helped blended realizations in 1QFY19 improve to ₹1,473/ton (+10% yoy). We note that continued grade slippage, weak auction trends and an absence of revision in notified prices of coal drew down blended realizations for CIL in FY2018.

In terms of sales mix, e-auction coal continued to drive overall earnings with a 46% premium over raw coal prices and improved share with 18% of the overall dispatches. E-auction revenues contributed 24% of the overall revenues, aided by 13% yoy growth in volumes and 20% yoy growth in realizations to ₹1,839/ton.

We have previously highlighted the role of continued de-gradation that works against blended realizations, with average grade of coal having deteriorated by 5% over the past four years. Raw coal realizations in FY2018 were down 3.4% yoy to ₹1,257/ton with a 5-year CAGR of 0.4% decline. We highlight that against the annual exercise of re-grading coal mines, the extent of re-grading was far more severe in April 2018. Management expects that the re-grading is largely behind it and the price increase in January 2018 reflects in raw coal realizations in 1QFY19 increasing to ₹1,313/ton (+9.3% yoy).

A bulk of the incremental coal dispatches continue to be sold to the power sector (low price consumer), which does not help the cause of realizations. We note that the power sector consumed 78% of the coal dispatches in FY2018 compared to 74% in FY2013, a 400 bps shift in markets over the past five years.

Costs—wage cost provision including gratuity provision cost CIL dearly

Coal India saw a 15.5% increase in overall cost of production, implying an 8% yoy increase in per ton cost of production (5-year CAGR 3.7%). Amongst the cost, variable cost grew 9% yoy to ₹412/ton while fixed cost grew 7.7% yoy to ₹847/ton. We note that a large part of the increase is also attributable to ₹74 bn of cost pertaining to one-time revaluation of gratuity liability on account of a change in government regulations. Adjusted for the one-time gratuity linked cost, the overall cost of production would have increased at a more modest rate (4.4% yoy) to ₹1,138/ton.

We note that the overall strip ratio for CIL remained largely unchanged at 2.2, the last significant step-up in strip ratio being in FY2016.

We do highlight the disparity in cost of production, wherein MCL and SECL have an overall cost of production of ₹512/ton and ₹1005/ton, respectively, at a 38/20% discount to the average cost of production of ₹1,259/ton. We highlight that the superior strip ratio as well as OMS ratios for these subsidiaries allow for a lower cost of production.

Employee wages for CIL continue to be on the rise with average wages of ₹1,427K (+32% yoy). Even adjusting for the non-recurring charge of ₹74 bn, average wages stand at ₹1,193K (+10% yoy). We do note though that employee attrition continues to remain healthy with overall headcount reducing to 299K (from 310K as of March 2017). Further, the age profile of employees shows that as many as 67K employees currently are in the 55-60 age group and will retire over the next five years.

Capex—continuing to invest in growth

CIL continued to maintain an elevated capex with ₹85 bn incurred in FY2018, almost similar to ₹87 bn incurred in FY2017 though meaningfully higher than the 4-year average capex of ₹68 bn. Our assessment of the implied production capacity (based on company-wise utilizations) suggests that overall capacity for CIL has increased to 681 mtpa as of FY2018 compared to 655 mtpa in FY2017 and 545 mtpa as of March 2014.

Cash flow from operations in FY2018 were better despite the inferior earnings profile on account of the release of working capital to the tune of ₹138 bn, attributable to a reduction in inventory as well as receivables for the consolidated entity as well as increase in provisions and other liabilities.

The lower dividend payout in FY2018 reflects the weak earnings profile over the past few years, a trend we believe should mean-revert in FY2019E along with the normalization of earnings.

Exhibit 1: Five of the seven subsidiaries reported positive volume growth on the back of weak base in 2017
Subsidiary-wise coal dispatches, and target to achieve billion-ton target, March fiscal year ends, 2014-18 (mn tons)

	Volumes (mn tons)							Growth (%)	CAGR (%)
	2013	2014	2015	2016	2017	2018			
ECL	36	36	38	39	43	44	1	4.0	
BCCL	33	34	34	36	35	33	(4)	0.2	
CCL	53	52	55	60	61	68	11	5.0	
WCL	42	40	41	42	39	49	24	3.2	
SECL	122	122	123	139	137	151	10	4.4	
MCL	112	114	123	140	143	138	(3)	4.3	
NCL	67	72	74	79	83	97	16	7.5	
Others	1	1	1	0	1	1	(22)	7.7	
Total	465	472	489	534	543	580	7	4.5	

Source: Company, Kotak Institutional Equities

Exhibit 2: Coal India reported strong growth in August to improve YTD growth to 9.5%

Summary of monthly dispatches and production of Coal India (mn tons)

	Aug-18	Aug-17	Jul-18	Growth (%)		YTD			Quarterly		
				yoy	mom	2019	2018	(% chg.)	1QFY19	1QFY18	(% chg.)
Dispatches											
ECL	3.3	2.9	3.6	13.1	(8.7)	19.1	15.4	24.5	12.3	9.6	28.4
BCCL	2.5	2.6	3.0	(4.9)	(16.6)	14.6	12.9	12.9	9.1	7.8	16.4
CCL	4.6	5.3	4.9	(12.3)	(4.5)	27.2	26.1	4.2	17.7	16.0	10.8
NCL	8.3	7.8	8.4	5.9	(1.7)	41.0	36.8	11.3	24.4	21.8	11.9
WCL	3.7	3.4	3.9	7.8	(5.4)	21.2	18.5	15.1	13.6	11.1	22.2
SECL	12.1	11.5	13.1	5.7	(7.0)	65.8	61.0	7.9	40.6	37.6	8.0
MCL	10.7	10.2	11.4	4.7	(6.4)	57.8	54.6	5.7	35.7	33.4	7.0
NEC	0.0	0.0	0.0	50.0	—	0.2	0.3	(11.5)	0.2	0.2	(19.0)
CIL	45.2	43.8	48.3	3.4	(6.3)	246.9	225.5	9.5	153.5	137.4	11.7
Production											
ECL	3.0	2.6	3.1	17.2	(2.9)	17.1	13.8	23.7	11.0	8.9	24.0
BCCL	2.2	2.4	2.3	(9.1)	(5.2)	12.2	11.2	8.7	7.7	6.8	12.3
CCL	3.7	3.7	3.5	(0.8)	6.0	18.7	17.0	9.5	11.4	10.2	12.4
NCL	7.7	3.0	8.1	157.7	(4.2)	40.4	31.1	29.9	24.6	21.2	16.0
WCL	2.2	2.3	1.7	(5.6)	31.7	13.5	12.5	8.1	9.6	8.1	18.7
SECL	10.7	9.5	11.7	13.3	(8.6)	62.4	51.1	22.1	40.0	31.7	26.0
MCL	9.2	9.6	10.2	(3.9)	(9.5)	51.8	51.7	0.3	32.5	31.9	1.9
NEC	0.0	0.0	0.0	25.0	50.0	0.2	0.1	62.9	0.1	0.1	98.4
CIL	38.8	37.6	40.6	3.1	(4.4)	216.2	193.1	12.0	136.9	118.8	15.2

Source: Company, Kotak Institutional Equities

Exhibit 3: Railways continues to dominate the coal evacuation with 53% share

Mode-wise coal dispatch, March fiscal year-ends, 2013-18 (mn tons)

	Volumes (mn tons)						Growth (%)					Mix (%)						
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Rail	251	259	266	289	301	307	10	3	3	9	4	2	54	55	54	54	55	53
Road	116	113	122	140	139	164	2	(2)	8	15	(1)	18	25	24	25	26	26	28
MGR	89	89	90	92	89	97	12	(0)	1	2	(4)	9	19	19	18	17	16	17
Others	11	11	11	13	14	13	(5)	(1)	8	17	6	(4)	2	2	2	2	3	2
Total	466	471	490	535	542	581	8	1	4	9	1	7	100	100	100	100	100	100

Source: Company, Kotak Institutional Equities

Exhibit 4: E-auction realizations improved by 20% yoy in FY2018 helping blended realizations

Key operational and financial metrics, March fiscal year-ends (Rs mn)

	2013	2014	2015	2016	2017	2018	Growth (%)			Mix(%)		
							2017	2018	5-year CAGR	2013	2017	2018
Volumes (mn tons)												
Raw coal	402	396	426	448	430	460	(4.0)	7.0	2.8	86.4	79.1	79.3
E-auction	49	58	47	66	94	106	42.1	12.7	16.7	10.6	17.3	18.3
Beneficiated	14	13	12	14	14	11	(2.4)	(17.8)	(4.0)	3.0	2.6	2.0
Others	4	3	3	5	3	3	(33.4)	(15.4)	(4.4)	0.8	0.6	0.5
Volumes (mn tons)	465	472	489	534	543	580	1.7	6.8	4.5	100.0	100.0	100.0
Realizations												
Raw coal	1,284	1,313	1,327	1,311	1,301	1,257	(0.8)	(3.4)	(0.4)			
E-auction	2,544	2,182	2,450	1,858	1,536	1,839	(17.3)	19.7	(6.3)			
Beneficiated	3,006	2,358	2,348	2,328	3,049	3,023	30.9	(0.9)	0.1			
Others	2,789	3,407	3,442	2,611	2,914	3,249	11.6	11.5	3.1			
Realizations	1,480	1,463	1,475	1,418	1,397	1,408	(1.5)	0.8	(1.0)			
Revenue												
Raw coal	5,15,710	5,20,490	5,65,450	5,86,750	5,58,980	5,78,080	(4.7)	3.4	2.3	74.4	73.9	70.7
E-auction	1,25,030	1,26,560	1,14,920	1,23,210	1,44,770	1,95,310	17.5	34.9	9.3	18.0	19.1	23.9
Beneficiated	42,290	30,420	28,100	33,270	42,530	34,640	27.8	(18.6)	(3.9)	6.1	5.6	4.2
Others	9,930	10,630	11,670	13,210	9,820	9,260	(25.7)	(5.7)	(1.4)	1.4	1.3	1.1
Total revenue	6,92,960	6,88,100	7,20,140	7,56,440	7,56,100	8,17,290	(0.0)	8.1	3.4	100.0	100.0	100.0

Source: Company, Kotak Institutional Equities

Exhibit 5: Power sector continued to share of coal dispatches improved once again in FY2018

Sector-wise coal dispatches, March fiscal year-ends, 2009-18 (mn tons)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Sale (mn tons)										
Power	297	299	304	312	345	355	385	409	426	454
Steel (incl. coking coal)	9	9	10	8	8	7	7	8	7	6
Cement	9	9	7	7	6	5	6	5	4	5
Others	86	99	103	106	106	105	92	114	107	117
Total	401	416	423	433	466	471	490	535	543	581
Sales mix (%)										
Power	74	72	72	72	74	75	79	76	78	78
Steel (incl. coking coal)	2	2	2	2	2	1	1	1	1	1
Cement	2	2	2	2	1	1	1	1	1	1
Others	22	24	24	25	23	22	19	21	20	20
Total	100	100	100	100	100	100	100	100	100	100
Incremental share (%)										
Power	63	15	73	82	100	176	166	52	202	73
Steel (incl. coking coal)	(4)	(1)	8	(18)	1	(24)	1	2	(10)	(2)
Cement	(1)	-	(33)	(1)	(1)	(19)	1	(2)	(11)	3
Others	41	86	53	38	(0)	(33)	(68)	48	(79.82)	26.17
Realizations (Rs/ton)	968	1,075	1,183	1,441	1,470	1,459	1,472	1,415	1,389	1,408

Notes:

(1) Dispatches to cement sector excludes captive power plants.

Source: Company, Kotak Institutional Equities

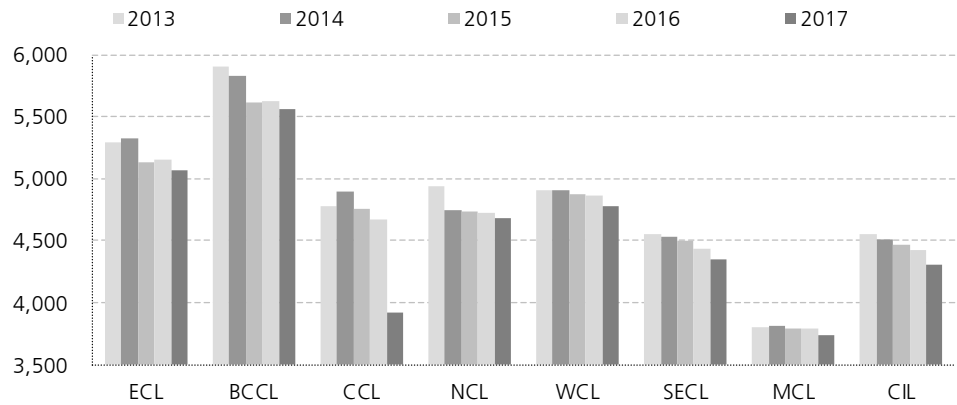
Exhibit 6: Grade slippages and lower e-auction prices have meant a 1% CAGR reduction in blended realizations over the last 5 years

Subsidiary-wise coal realizations, and target to achieve billion-ton target, March fiscal year ends, 2013-18

	Realizations (Rs/ton)						Growth (%)	CAGR (%)
	2013	2014	2015	2016	2017	2018		
ECL	2,565	2,452	2,604	2,489	2,213	2,402	8.6	(1.3)
BCCL	2,559	2,423	2,388	2,353	2,303	2,228	(3.3)	(2.7)
CCL	1,618	1,642	1,712	1,771	1,708	1,637	(4.2)	0.2
WCL	1,614	1,656	1,776	1,763	1,682	1,614	(4.1)	(0.0)
SECL	1,340	1,381	1,322	1,207	1,251	1,256	0.4	(1.3)
MCL	895	874	896	909	920	972	5.7	1.7
NCL	1,298	1,290	1,283	1,255	1,227	1,250	1.9	(0.8)
Others	5,681	5,069	5,197	4,770	2,479	3,976	60	(6.9)
Total	1,470	1,459	1,472	1,415	1,389	1,408	1.4	(0.9)

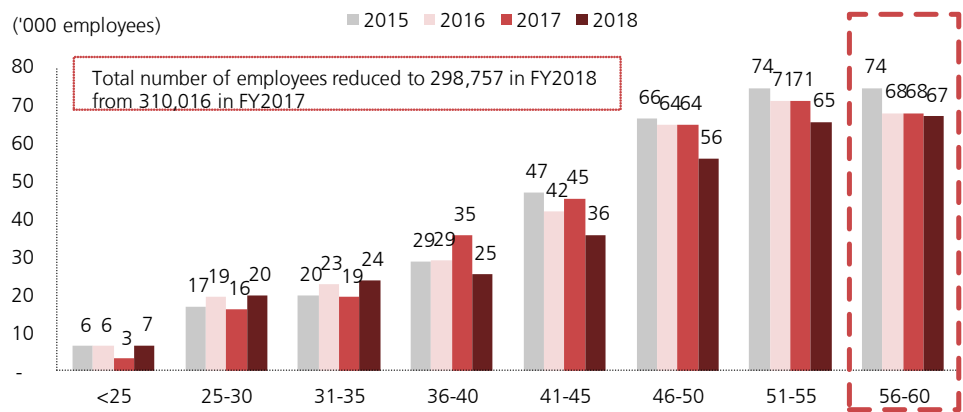
Source: Company, Kotak Institutional Equities

Exhibit 7: Average calorific value has dropped by 5% over the last five years
 Grade-wise (kcal/kg) coal mix of Coal India, March fiscal year-ends, 2015 (mn tons)



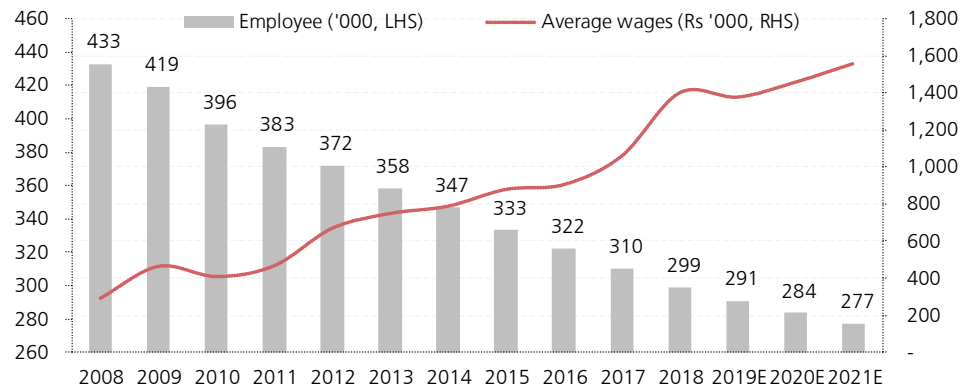
Source: Company, Kotak Institutional Equities estimates

Exhibit 8: 67K employees are due for retirement over the next five years
 Age-wise distribution of employees across subsidiaries (Nos) as on March 2018



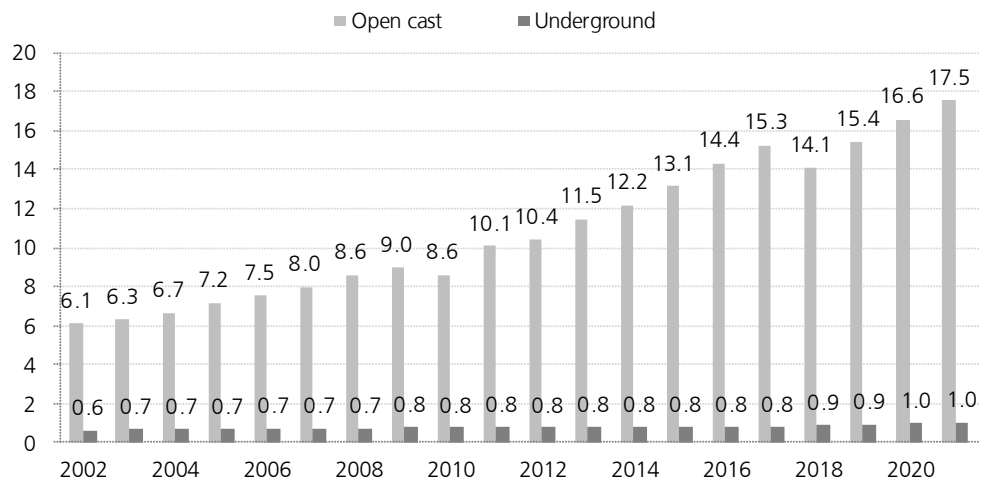
Source: Company, Kotak Institutional Equities

Exhibit 9: CIL to benefit from natural attrition as employees reach retirement age
Number of employees and average wages of CIL, March fiscal year-ends, 2008-20E



Source: Company, Kotak Institutional Equities

Exhibit 10: Employee productivity continues to improve for open-cast mines
Output per man shift (OMS) of CIL, March fiscal year-ends, 2002-18 (tons)



Source: Company, Kotak Institutional Equities

Exhibit 11: Overburden removal and strip ratio jumped up sharply in FY2016

Annual trend of overburden removal and strip ratio of Coal India, March fiscal year-ends, 2013-18

	2013	2014	2015	2016	2017	2018	2019
Overburden removal (mn m³)							
ECL	76	86	94	119	125	119	126
BCCL	84	85	104	149	131	110	119
CCL	63	66	97	107	103	96	106
WCL	114	120	123	155	166	185	197
SECL	118	145	158	175	179	205	222
MCL	90	96	89	98	123	138	150
NCL	196	209	211	338	324	317	334
Other (incl NEC)	5	7	10	7	5	8	8
CIL total	747	813	887	1,149	1,156	1,178	1,262
Strip ratio (X)							
ECL	2.8	2.9	2.9	3.6	3.8	3.4	3.4
BCCL	3.0	2.9	3.2	4.4	3.7	3.5	3.5
CCL	1.3	1.3	1.8	1.8	1.5	1.5	1.5
WCL	3.3	3.8	3.7	4.1	4.1	4.5	4.5
SECL	1.2	1.3	1.4	1.4	1.4	1.6	1.6
MCL	0.9	0.9	0.7	0.7	0.9	1.0	1.0
NCL	2.8	3.0	2.9	4.2	3.9	3.4	3.4
Other (incl NEC)	7.9	10.0	13.1	15.1	9.2	10.1	10.1
CIL total	1.8	1.9	1.9	2.3	2.2	2.2	2.2

Source: Company, Kotak Institutional Equities

Exhibit 12: Increasing capex was off-set by lower dividend payout and reduction in working capital

Key components of cash flow statement of Coal India (consolidated), March fiscal year-ends, 2015-18 (Rs mn)

	2015	2016	2017	2018	Comments
Operating cash flows					
Profit before tax	2,15,840	2,15,891	1,44,322	1,10,043	Volume growth off-set by weak realizations and higher production cost
Depreciation	23,220	24,586	29,101	30,468	
Interest	(49,259)	(40,920)	(27,367)	(20,029)	
Other income	(3,820)	(3,481)	2,650	(2,516)	
Others	47,067	43,697	38,973	30,535	
Taxes	(95,721)	(70,124)	(89,427)	(74,329)	
CFO (before working capital)	1,37,328	1,69,650	98,252	74,173	
Working capital	6,487	(55,667)	60,216	1,38,450	Lower inventory and receivables aid reduction in working capital investment
CFO (after working capital)	1,43,815	1,13,983	1,58,469	2,12,623	
Investing cash flows					
Capex	(49,014)	(54,451)	(86,761)	(85,293)	Capex has been maintained at elevated levels for the last two years
Investment in bank deposits	(4,529)	88,781	42,452	(15,260)	Banks deposits shown as separate line item despite being part of cash and equivalents
Investments (others)	9,615	(885)	14,215	(253)	
Other income	52,871	50,345	34,642	24,044	
CFI	8,943	83,789	4,546	(76,763)	
Financing cash flows					
Borrowings raised	1,998	7,289	18,169	(14,778)	
Borrowings repaid	(63)	(66)			
Net borrowings	1,935	7,223	18,169	(14,778)	
Interest	(73)	(207)	(306)	(370)	
Dividend	(1,55,963)	(2,08,302)	(1,51,031)	(1,23,238)	Curatiled dividend payout on reduced earnings
Other	3,844	2,732	(42,811)	2,513	
CFF	(1,50,257)	(1,98,553)	(1,75,980)	(1,35,873)	
Net change	2,501	(781)	(12,965)	(12)	
Opening cash	94,391	96,893	48,764	41,939	
Closing cash	96,893	96,112	35,799	41,927	

Source: Company, Kotak Institutional Equities

Exhibit 13: Debtor and inventory days have reduced significantly in FY2018

Key details of working capital of Coal India (consolidated), March fiscal year-ends, 2013-18 (Rs mn)

	2013	2014	2015	2016	2017	2018
Working capital						
Inventories	56,178	55,681	61,838	75,953	89,453	64,439
Receivables	1,04,802	82,410	85,219	1,14,637	1,07,359	86,892
Loans & Advances	1,73,701	77,594	1,05,150	1,03,108	358	10,238
Other	42,489	54,375	61,808	1,33,356	2,85,187	3,51,324
Total current assets	3,77,171	2,70,060	3,14,015	4,27,055	4,82,357	5,12,892
Trade payables	8,372	8,051	9,208	9,785	9,785	9,785
Other liabilities	1,70,931	1,90,806	2,16,853	2,26,717	3,01,969	3,56,900
Provisions	5,15,913	3,91,908	4,42,038	4,81,907	5,32,033	6,47,167
Total current liabilities & provisions	6,95,216	5,90,765	6,68,098	7,18,408	8,43,787	10,13,852
NWC ex-cash	(3,18,045)	(3,20,705)	(3,54,083)	(2,91,354)	(3,61,430)	(5,00,960)
Working capital as days of sales						
Inventories	30	29	30	35	41	28
Receivables	55	43	42	53	49	38
Loans & Advances	92	40	51	47	0	4
Other	22	28	30	61	131	154
Total current assets	199	140	154	196	222	225
Trade payables	4	4	5	5	4	4
Other liabilities	90	99	106	104	139	156
Provisions	272	203	216	222	244	284
Total current liabilities & provisions	366	306	327	331	388	444
NWC ex-cash	(168)	(166)	(173)	(134)	(166)	(220)

Source: Company, Kotak Institutional Equities

Exhibit 14: Variance analysis of income statement for Coal India and its subsidiaries, March fiscal year-ends, 2016-18

	CIL (Consolidated)					ECL					BCLL						
	2016	2017	2018	Change		2016	2017	2018	Change		2016	2017	2018	Change			
				(%)	(Rs bn)				(%)	(Rs bn)				(%)	(Rs bn)		
Volume (mn tons)	534	543	580	7	51	39	43	44	1	1	36	35	33	(4)	(4)	60	61
Realization (Rs/ton)	1,415	1,389	1,408	1.4	11	2,489	2,213	2,402	8.6	8	2,353	2,303	2,228	(3.3)	(3)	1,771	1,708
Revenue	756	755	817	8	62	96	95	105	10	10	85	80	74	(8)	(6)	106	104
Variable cost	-198	-205	-239	16	-34	-23	-27	-28	6	-2	-20	-16	-18	12	-2	-16	-17
Variable cost (Rs/ton)	371	378	412	9	(20)	589	620	647	4	(1)	557	462	542	17	(3)	271	284
Fixed cost	(376)	(427)	(491)	15	90	(64)	(69)	(91)	32	53	(57)	(66)	(78)	18	27	(59)	(64)
Employee cost	(297)	(335)	(426)	27	-91	(56)	(64)	(84)	31	-20	(45)	(51)	(64)	25	-13	(39)	(44)
Employees (Nos)	3,22,364	3,10,016	2,98,757	(4)	12	66,238	64,029	61,796	(3)	2	53,670	51,147	48,747	(5)	2	43,681	42,156
Wages ('000)	920	1,081	1,427	32	(103)	847	1,005	1,362	35	(22)	843	1,003	1,317	31	(15)	903	1,044
Other fixed cost	-80	-92	-65	(29)	27	-8	-5	-7	47	-2	-12	-14	-14	(5)	1	-20	-20
EBITDA	182	122	87	(29)	-36	10	-1	-15	1,853	-14	7	-2	-22	NM	-20	30	23
Depreciation/Interest	-25	-33	-35	5	-2	-3	-5	-6	28	-1	-2	-4	-5	7	-0	-3	-4
Other income	59	55	56	1	0	6	6	6	9	1	2	3	5	56	2	5	6
PBT	215	144	107	(26)	-37	13	0	-15	NM	-15	8	-3	-21	708	-19	31	24
Tax	(73)	(52)	(37)	(28)	15	(4)	(0.1)	5.4	NM	5	(0)	1	7	688	6	(12)	(10)
PAT	142	93	70	(24)	-22	9	0	-9	NM	-9	8	-2	-14	718	-12	19	14
	WCL					SECL					MCL						
	2016	2017	2018	Change		2016	2017	2018	Change		2016	2017	2018	Change			
				(%)	(Rs bn)				(%)	(Rs bn)				(%)	(Rs bn)		
Volume (mn tons)	42	39	49	24	16	139	137	151	10	17	140	143	138	(3)	(4)	79	83
Realization (Rs/ton)	1,763	1,682	1,614	(4.1)	(3)	1,207	1,251	1,256	0.4	1	909	920	972	5.7	7	1,255	1,227
Revenue	75	66	79	18	12	167	172	190	10	18	128	132	134	2	3	99	102
Variable cost	-21	-18	-36	95	-17	-42	-56	-54	(2)	1	-44	-36	-32	(10)	4	-34	-41
Variable cost (Rs/ton)	495	461	730	58	(13)	300	404	359	(11)	7	316	251	233	(7)	2	438	492
Fixed cost	(51)	(58)	(72)	25	23	(78)	(89)	(98)	10	11	(31)	(38)	(39)	2	1	(29)	(31)
Employee cost	(45)	(50)	(67)	33	-17	(64)	(72)	(89)	25	-18	(21)	(24)	(30)	27	-6	(18)	(21)
Employees (Nos)	49,062	47,632	45,663	(4)	2	64,505	61,209	58,143	(5)	4	22,397	22,036	22,431	2	(0)	16,078	15,357
Wages ('000)	912	1,051	1,459	39	(19)	993	1,169	1,535	31	(21)	928	1,077	1,339	24	(6)	1,140	1,375
Other fixed cost	-6	-8	-5	(30)	2	-14	-17	-8	(52)	9	-11	-14	-9	(40)	6	-10	-10
EBITDA	3	-10	-29	201	-19	48	27	38	39	11	52	58	64	10	6	36	30
Depreciation/Interest	-3	-5	-5	9	-0	-7	-8	-8	1	-0	-3	-4	-4	8	-0	-4	-6
Other income	4	3	6	66	2	11	12	8	(34)	-4	13	15	14	(5)	-1	9	7
PBT	4	-11	-28	163	-18	52	32	38	20	6	62	69	73	7	5	41	31
Tax	(1)	(2)	(1)	(42)	1	(19)	(11)	(15)	26	-3	(21)	(24)	(26)	9	-2	(13)	(10)
PAT	3	-13	-30	127	-17	32	20	24	16	3	42	45	48	6	3	27	21

Source: Company, Kotak Institutional Equities

Exhibit 15: Key subsidiary financials of Coal India, March fiscal year-ends, 2014-18 (Rs mn)

Subsidiary	Volumes (mn tons)						Sales (Rs bn)						EBITDA (Rs bn)					
	2014	2015	2016	2017	2018	Yoy (%)	2014	2015	2016	2017	2018	Yoy (%)	2014	2015	2016	2017	2018	Yoy (%)
ECL	36.3	38.5	38.6	43.0	43.6	1.5	88.9	100.2	96.1	95.2	104.8	10.1	9.7	13.0	9.6	(0.8)	(14.8)	1,852.6
BCCL	34.2	33.7	36.1	34.9	33.4	(4.4)	82.9	80.4	85.1	80.4	74.3	(7.6)	15.5	10.2	7.5	(1.5)	(21.7)	1,332.5
CCL	52.1	55.3	59.6	60.9	67.5	10.8	85.6	94.7	105.5	104.1	110.5	6.2	23.8	27.4	30.0	22.5	12.6	(44.3)
WCL	40.0	41.2	42.3	39.5	48.7	23.5	66.1	73.3	74.6	66.4	78.7	18.5	0.0	3.3	2.6	(9.6)	(29.0)	201.3
SECL	122.0	123.2	138.7	137.4	151.1	10.0	168.6	162.9	167.5	171.8	189.8	10.5	61.5	48.2	47.5	27.4	37.9	38.6
MCL	114.3	123.0	140.2	143.0	138.3	(3.3)	99.9	110.2	127.5	131.6	134.4	2.2	42.0	42.3	51.8	57.8	63.6	10.1
NCL	72.1	73.7	78.5	83.5	96.8	16.0	93.0	94.5	98.6	102.4	120.9	18.1	27.3	29.6	35.6	30.0	39.2	30.8

Subsidiary	PAT (Rs bn)						Realization (Rs/ton)						Profitability (Rs/ton)					
	2014	2015	2016	2017	2018	Yoy (%)	2014	2015	2016	2017	2018	Yoy (%)	2014	2015	2016	2017	2018	Yoy (%)
ECL	8.8	11.4	8.7	0.1	-9.3	NM	2,452	2,604	2,489	2,213	2,402	8.6	268	339	248	-18	-338	1,824.4
BCCL	17.1	7.6	7.7	-1.7	-13.9	718.5	2,423	2,388	2,353	2,303	2,228	(3.3)	454	303	207	-43	-649	1,399.0
CCL	16.6	18.0	19.2	13.9	7.9	(43.2)	1,642	1,712	1,771	1,708	1,637	(4.2)	457	496	503	370	186	(49.7)
WCL	2.2	3.1	2.9	-7.8	-17.6	126.1	1,656	1,776	1,763	1,682	1,614	(4.1)	1	80	60	-244	-594	143.9
SECL	47.7	36.6	32.4	20.4	23.7	16.3	1,381	1,322	1,207	1,251	1,256	0.4	504	391	343	199	251	26.0
MCL	36.3	35.4	41.6	44.9	47.6	5.9	874	896	909	920	972	5.7	368	344	370	404	460	13.9
NCL	20.2	21.1	27.1	21.0	26.9	27.7	1,290	1,283	1,255	1,227	1,250	1.9	379	402	454	359	405	12.8

Source: Company, Kotak Institutional Equities

Exhibit 16: Our earnings assumptions factor 5% yoy growth in volumes in FY2019

Key operational and financial assumptions, March fiscal year-ends, 2016-20E (Rs mn)

	2017	2018	2019E	2020E	2021E	Growth (%)				
						2017	2018	2019E	2020E	2021E
Volumes (mn tons)	543	580	608	637	658	2	7	5	5	3
Realization (Rs/ton)	1,389	1,408	1,519	1,569	1,609	(2)	1	8	3	3
Revenue (Rs mn)	7,54,666	8,17,000	9,24,315	9,99,695	10,58,172	(0)	8	13	8	6
Employee costs	-3,35,143	-4,26,336	-4,00,414	-4,13,435	-4,31,778	13	27	(6)	3	4
Overburden	-26,722	-33,583	-35,408	-37,983	-40,663	(5)	26	5	7	7
EBITDA	1,22,242	86,571	1,84,857	2,11,671	2,19,629	(33)	(29)	114	15	4
PAT	92,678	70,198	1,54,744	1,58,083	1,68,529	(35)	(24)	120	2	7

EBITDA margins	16	11	20	21	21	(33)	(35)	89	6	(2)
EBITDA (Rs/ton)	225	149	304	332	334	(34)	(34)	104	9	1

Source: Company, Kotak Institutional Equities estimates

Exhibit 17: SOTP value of Rs320/share

	2020E
EBITDA	212
Adj EBITDA (ex OBR adjustment)	250
PAT	158
Adjusted PAT (ex OBR adjustment and interest income)	181
EPS	25
Adj EPS (ex OBR adjustment and interest income)	29
P/E on core earnings	10
Value of core business (Rs/share)	284
Net cash (Rs bn)	205
Net cash (Rs/share)	33
Target price (Rs/share)	320

Notes:

(1) Adjusted EBITDA is calculated after removing the effect OBR adjustment.

(2) Adjusted PAT is calculated after removing the effect of OBR adjustment and interest income net of taxes.

Source: Kotak Institutional Equities estimates

Exhibit 18: Profit model, balance sheet, cash model of Coal India, March fiscal year ends, 2016-21E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Profit model						
Net sales	7,56,443	7,54,666	8,17,000	9,24,315	9,99,695	10,58,172
Transport and loading recovery	22,386	27,382	32,533	29,253	30,592	31,518
Total income	7,93,271	7,94,430	8,32,738	9,53,470	10,30,231	10,89,632
EBITDA	1,81,791	1,22,242	86,571	1,84,857	2,11,671	2,19,629
Interest income	48,042	37,306	33,531	20,975	3,621	10,409
Other Income (ex transport, interest)	10,515	18,008	22,144	51,976	51,976	51,976
Interest expense	(207)	(4,117)	(4,318)	(4,149)	(4,156)	(4,156)
Depreciation	(24,664)	(29,101)	(30,664)	(24,739)	(25,651)	(26,311)
Pretax profits	2,15,476	1,44,337	1,07,264	2,28,921	2,37,461	2,51,548
Tax	(73,148)	(51,660)	(37,067)	(74,177)	(79,379)	(83,019)
Net income	1,42,329	92,678	70,198	1,54,744	1,58,083	1,68,529
Extraordinary items	415	(18)	—	—	—	—
Reported profit	1,42,743	92,660	70,198	1,54,744	1,58,083	1,68,529
Earnings per share (Rs)	23	15	11	25	25	27
Balance sheet						
Paid-up common stock	63,164	62,074	62,074	62,074	62,074	62,074
Total shareholders' equity	3,38,976	2,45,268	1,98,466	2,07,969	1,84,501	1,71,478
Minority interest	1,048	3,459	3,625	3,625	3,625	3,625
Total borrowings	11,988	30,078	15,309	15,598	15,598	15,598
Shifting and rehab fund	31,777	38,197	43,666	43,666	43,666	43,666
Total liabilities and equity	3,83,788	3,17,002	2,61,065	2,70,858	2,47,389	2,34,367
Net fixed assets	1,83,608	2,20,900	2,75,774	2,65,454	2,54,222	2,34,319
Capital work-in progress	58,942	1,03,078	1,02,864	82,948	63,031	54,179
Investments	29,019	14,829	15,086	15,086	15,086	15,086
Cash	3,83,128	3,12,298	3,14,751	1,71,994	2,21,029	2,84,783
Current assets (excl. cash)	4,27,055	4,82,357	5,12,892	5,58,809	5,79,070	5,89,998
Current liabilities and provisions	7,18,408	8,43,787	10,13,852	8,77,696	9,40,657	10,00,942
Deferred tax asset	20,445	27,328	53,551	54,263	55,609	56,943
Misc. expenditure	—	—	—	—	—	—
Total assets	3,83,788	3,17,002	2,61,065	2,70,858	2,47,389	2,34,367
Ratios						
Net debt/equity (%)	(109)	(115)	(151)	(75)	(111)	(157)
Return on equity (%)	38	32	32	76	81	95
Book value per share (Rs)	54	40	32	34	30	28
ROCE (%)	39	34	36	88	92	106

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 21, 2018

UPDATE

 Coverage view: **Attractive**

 Price (₹): **319**

 Target price (₹): **250**

 BSE-30: **37,121**

Uncertain future. Ending months of speculation, RBI has declined the highly debated extension of tenor for the current MD and CEO of the bank. This turn of events creates uncertainty and puts the focus on (1) candidates who can take on this challenging role, (2) strategy shift, (3) capital adequacy ratios and (4) potential impact on earnings, especially from corporate banking fees. We capture these uncertainties through a higher cost of equity, resulting in a cut in target price to ₹250 (₹335 earlier). SELL stays.

Company data and valuation summary

Yes Bank

Stock data

52-week range (Rs) (high,low)	404-285
Market Cap. (Rs bn)	736.8

Shareholding pattern (%)

Promoters	20.0
FIs	42.5
MFs	11.6

Price performance (%)	1M	3M	12M
Absolute	(18.8)	(3.5)	(14.5)
Rel. to BSE-30	(17.0)	(8.3)	(25.4)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	18.3	19.8	21.7
EPS growth (%)	25.7	8.1	9.5
P/E (X)	17.4	16.1	14.7
NII (Rs bn)	77.4	94.8	109.9
Net profits (Rs bn)	42.2	45.7	50.0
BVPS	108.0	122.7	140.2
P/B (X)	3.0	2.6	2.3
ROE (%)	17.7	16.6	15.9
Div. Yield (%)	0.7	1.0	1.1

Yes Bank's MD and CEO Rana Kapoor to step down by January 31, 2019

RBI has curtailed the tenor of MD and CEO, Mr Rana Kapoor to January 31, 2019 ending months of speculation on his extension. The board and shareholders had approved Kapoor's extension for a period of three years. The board is scheduled to meet on September 25, 2018 to decide a future course of action.

Risks that investors need to be cognizant of for the next few quarters

Investors need to be cognizant of the following risks: (1) CET-1 at 9.5% implies limited headroom to grow. Raising capital after this uncertainty will not be easy. The bank could be left with an unappetizing choice of slowing down pace of growth, release capital by loan sell down or raise capital at not-so attractive valuations, (2) as a founding member of the bank, Kapoor has left a deep imprint on strategy, operations and execution, a tough act to follow. It will be interesting to see if the new CEO carries on with the existing strategy (a tough act) or makes adjustments (which would carry a cost). (3) Developing the earlier point, an internal or external CEO would different sets of challenges. An external candidate may bring in a fresh set of thinking and actions to lead the bank leading to unpleasant decisions (loan mix, risk appetite and profitability) which can be quite disruptive to the existing business model. An internal candidate would not trigger concerns of disruption but would struggle to match the effectiveness of the current CEO, (4) attrition of senior management bears watching, and (5) sustainability of high earnings contribution from corporate banking bears closer watching. (6) The corporate NPL cycle is turning favorable, which is positive, however, one would always be worried for chunky company specific exposures that are not easily identifiable from the outside.

Risks have increased, resulting in a cut in target price. Maintain SELL rating

We maintain our negative stance on the bank but revise our TP to ₹250 from (₹335 earlier) valuing the bank at 1.8X book (2.4X earlier) and 12X March 2020 EPS for RoEs in the range of ~15-17% in the medium term. We have captured the risks mentioned earlier through a higher cost of equity (14.5% from 13.75% earlier). We have also moderated the medium-term growth rate. Despite the recent underperformance, the stock has considerable further scope for underperformance. Retain SELL.

QUICK NUMBERS

- **Mr. Rana Kapoor's tenor as MD and CEO of Yes Bank ends by January 31, 2019**
- **Board to meet on September 25, 2018 to decide the future course of action**
- **Maintain SELL. Revise TP to ₹250 (from ₹335 earlier)**
-

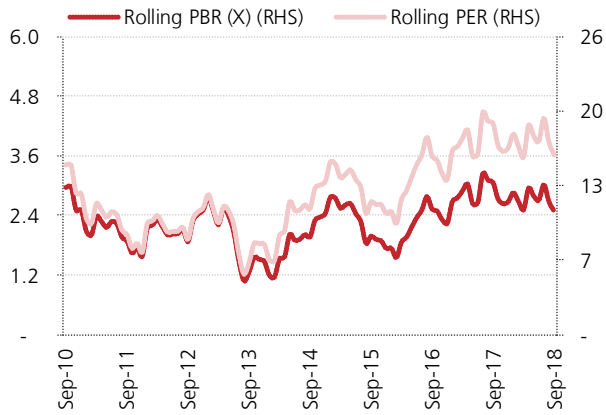
M B Mahesh CFA

Nischint Chawathe

Dipanjan Ghosh

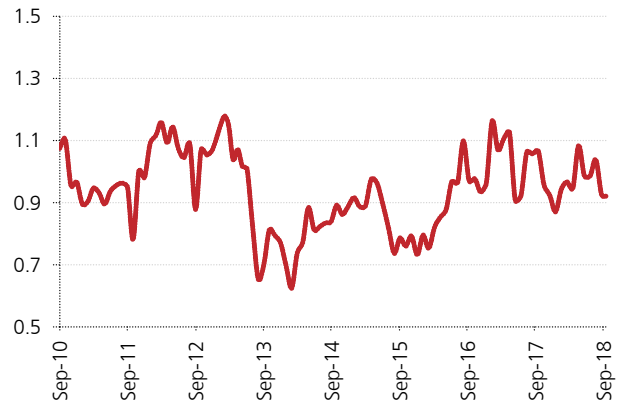
Shrey Singh

Exhibit 1: Yes Bank trading at 2.5X one-year forward book (adj.)
 March fiscal year-ends, September 2010- September 2018 (X)



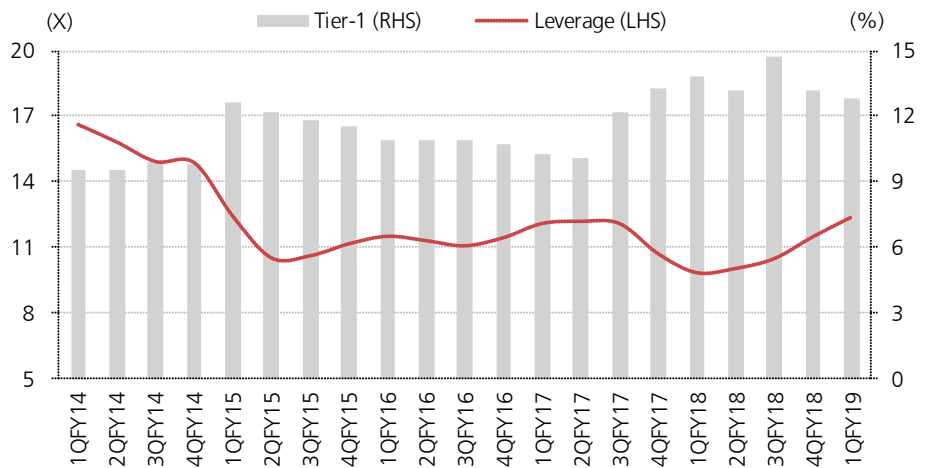
Source: Company, Bloomberg estimates, Kotak Institutional Equities

Exhibit 2: Yes bank trading premium in line with peers
 Yes Bank trading premium to peers, September 2010-September 2018(X)



Source: Company, Bloomberg estimates, Kotak Institutional Equities

Exhibit 3: Capital consumption remains high
 Total assets to net worth, March fiscal year-ends, 1QFY14-1QFY19 (X)



Source: Company, Kotak Institutional Equities

Exhibit 4: Contribution of corporate banking fees continues to rise

Break-up of fee income, March fiscal year-ends, 2008-1QFY19 (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Corporate trade and cash management	19	24	30	28	26	25	24	17	11	13	13
Retail banking	9	7	10	9	11	12	20	23	22	22	20
Forex, debt capital markets and securities	25	21	24	11	6	22	13	10	17	11	21
Corporate banking fees	21	31	39	38	39	32	37	39	35	38	40
Treasury trading and others	26	17	(3)	14	18	9	6	12	15	16	7

Note:

1) Treasury and trading income has been clubbed with forex, DCM and securities.

Source: Company, Kotak Institutional Equities

Exhibit 5: Yes Bank is targeting to improve the share of retail loans to overall loans

Break-up of loans, March fiscal year-ends, 2008-1QFY19 (%)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (%)
Loan book	1,059	1,102	1,171	1,323	1,400	1,487	1,715	2,035	2,147	53
Corporate and institutional	715	748	807	895	953	1,002	1,161	1,382	1,452	52
Business banking	117	118	125	139	139	147	170	197	187	35
Micro and small	128	141	138	163	161	168	182	208	208	29
Retail	100	95	101	126	147	169	202	248	301	105
% of loan book										
Corporate and institutional	68	68	69	68	68	67	68	68	68	-50 bps
Business banking	11	11	11	11	10	10	10	10	9	-120 bps
Micro and small	12	13	12	12	12	11	11	10	10	-180 bps
Retail	9	9	9	10	11	11	12	12	14	350 bps

Source: Company, Kotak Institutional Equities

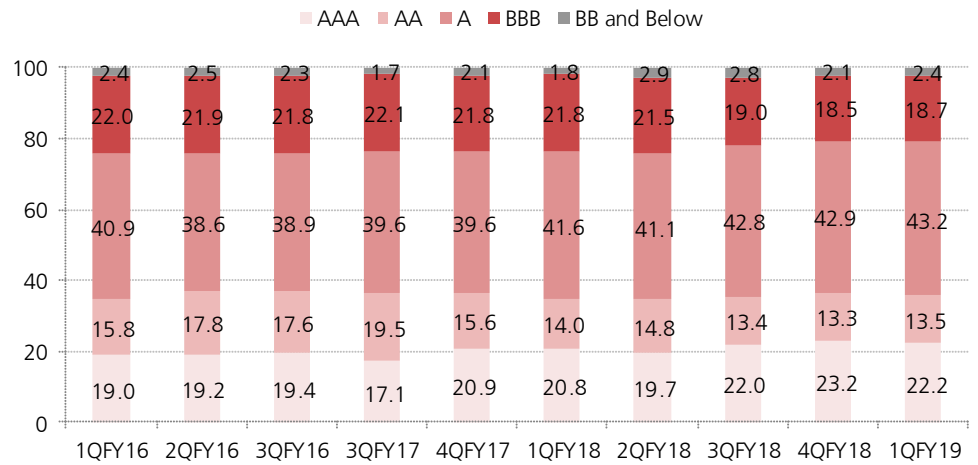
Exhibit 6: Yes Bank has seen a qoq rise in exposure to telecom and iron and steel sectors

Break-up of customer assets, March fiscal year-ends, 2013-1QFY19 (%)

	2013	2014	2015	2016	2017	2018	1QFY19
Electricity	3.0	4.8	8.3	8.7	11.3	9.2	9.3
Commercial real estate	-	0.0	0.0	6.8	5.8	5.9	5.8
Other real estate	-	0.0	0.0	0.9	0.8	0.5	0.4
Tech, ITES, Media	3.4	3.4	2.9	1.4	1.2	1.0	1.0
Food processing	4.6	4.4	3.2	2.7	2.4	2.4	2.4
Iron & Steel	5.7	3.5	3.3	2.2	1.8	2.0	2.6
Social & Commercial	2.1	1.8	2.7	2.4	2.7	2.5	2.4
Vehicles & equipments	2.4	2.8	3.1	2.5	2.4	2.8	2.8
Construction/ EPC	3.1	2.9	3.1	6.0	7.3	7.9	8.1
Other metal and metal	2.4	2.3	2.0	2.4	2.5	3.1	2.3
Telecom	2.4	3.1	2.2	4.5	4.9	2.2	3.6
Textiles	0.6	0.7	0.5	0.9	1.4	1.5	1.4
Aviation	0.3	0.3	0.2	0.6	1.0	0.8	0.9
Other industries	29.7	68.4	66.8	58.0	54.5	58.2	57.0

Source: Company, Kotak Institutional Equities

Exhibit 7: Share of AA and above rated corporates has increased yoy
 Credit rating of corporate portfolio, March fiscal year-ends, 1QFY16-1QFY19 (%)



Source: Company, Kotak Institutional Equities

Exhibit 8: Yes Bank - key financial growth rates and ratios
March fiscal year-ends, 2016-2021E (%)

	2016	2017	2018	2019E	2020E	2021E
Growth rates (%)						
Net loan	30.0	34.7	53.9	14.8	17.2	17.2
Net fixed assets	47.6	45.9	21.9	11.2	(1.2)	(1.0)
Cash and bank balance	8.8	137.9	26.6	12.9	22.1	4.3
Total Asset	21.4	30.1	45.3	16.4	18.7	17.4
Deposits	22.5	27.9	40.5	17.0	19.5	17.2
Current	28.5	74.6	51.1	21.1	23.5	21.0
Savings	62.3	60.6	35.3	25.0	27.1	24.2
Net interest income	30.9	29.4	30.9	22.5	16.0	24.1
Loan loss provisions	43.3	39.4	67.0	48.9	9.2	17.2
Total other income	32.5	51.1	29.0	8.5	11.9	15.1
Net fee income	24.4	30.2	31.4	13.5	8.5	14.6
Operating expenses	30.3	40.1	26.5	15.4	29.2	18.5
Employee expenses	32.4	41.9	21.4	12.5	11.4	9.2
Key ratios (%)						
Yield on average earning assets	9.6	9.3	8.1	9.0	9.0	9.0
Yield on average loans	11.2	10.7	9.2	10.2	10.1	10.1
Yield on average investments	7.6	7.7	7.0	7.7	7.8	7.9
Average cost of funds	6.9	6.5	5.5	6.5	6.4	6.3
Interest on deposits	7.1	6.4	5.5	6.3	6.2	5.9
Difference	2.8	2.7	2.7	2.5	2.5	2.7
Net interest income/earning assets	3.2	3.3	3.1	3.0	2.9	3.1
New provisions/average net loans	0.6	0.6	0.7	0.9	0.8	0.8
Interest income/total income	62.7	59.1	59.4	62.3	63.2	64.9
Other income / total income	37.3	40.9	40.6	37.7	36.8	35.1
Fee income to total income	33.8	32.0	32.3	31.4	29.7	28.2
Operating expenses/total income	40.9	41.7	40.5	40.0	45.2	44.3
Tax rate	32.6	34.0	31.8	32.3	32.8	33.3
Dividend payout ratio	16.6	14.0	13.0	16.6	16.6	16.6
Share of deposits						
Current	9.8	13.3	14.4	14.9	15.4	15.9
Savings	18.3	22.9	22.1	23.6	25.1	26.6
Loans-to-deposit ratio	87.9	92.6	101.4	99.4	97.5	97.5
Equity/assets (EoY)	8.3	10.2	8.2	8.1	7.7	7.6
Dupont analysis (%)						
Net interest income	3.0	3.1	2.9	2.8	2.8	2.9
Loan loss provisions	0.4	0.4	0.5	0.5	0.5	0.5
Net other income	1.8	2.2	2.0	1.7	1.6	1.6
Operating expenses	2.0	2.2	2.0	1.8	2.0	2.0
(1- tax rate)	67.4	66.0	68.2	67.7	67.2	66.7
ROA	1.7	1.8	1.6	1.4	1.3	1.3
Average assets/average equity	11.8	10.6	11.0	12.3	12.7	13.1
ROE	19.9	18.6	17.7	16.6	15.9	17.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Yes Bank - key financials

March fiscal year-ends, 2016-2021E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Income statement (Rs mn)						
Total interest income	135,334	165,374	202,686	288,683	338,423	400,426
Loans	97,115	123,225	154,778	221,935	256,852	300,394
Investments	35,082	37,968	41,025	58,597	72,410	89,470
Cash and deposits	3,138	4,180	6,882	8,152	9,161	10,563
Total interest expense	89,667	106,273	125,294	193,890	228,474	263,993
Deposits from customers	71,784	82,040	93,825	136,539	159,470	180,017
Net interest income	45,667	59,100	77,392	94,793	109,949	136,433
Loan loss provisions	5,361	7,474	12,480	18,577	20,290	23,777
Net interest income (after prov.)	40,307	51,627	64,912	76,216	89,659	112,656
Other income	27,121	40,969	52,829	57,310	64,121	73,799
Net fee income	24,592	32,009	42,071	47,741	51,784	59,328
Net capital gains	2,606	7,113	5,135	2,500	3,500	3,500
Net exchange gains	(176)	1,019	2,136	2,670	3,337	4,171
Operating expenses	29,764	41,686	52,735	60,845	78,631	93,162
Employee expenses	12,968	18,402	22,347	25,140	28,000	30,563
Depreciation on investments	25	522	2,599	4,500	-	-
Other Provisions	(23)	(54)	463	700	700	700
Pretax income	37,662	50,441	61,943	67,481	74,449	92,593
Tax provisions	12,268	17,140	19,697	21,796	24,419	30,833
Net Profit	25,394	33,301	42,246	45,685	50,030	61,760
% growth	26.6	31.1	26.9	8.1	9.5	23.4
Operating profit	40,419	51,270	72,351	88,758	91,939	113,570
% growth	27	24	31	14	9	26
Tax rate (%)	33	34	32	32	33	33
Balance sheet (Rsmn)						
Cash and bank balance	82,184	195,547	247,538	279,499	341,144	355,811
Cash	4,124	5,705	6,227	33,057	68,747	54,972
Balance with RBI	53,638	63,815	108,031	127,655	153,611	182,052
Balance with banks	556	667	976	976	976	976
Net value of investments	488,385	499,818	682,934	833,180	1,016,480	1,240,105
Govt. and other securities	351,863	354,805	488,861	607,229	752,384	930,327
Shares	628	2,369	644	644	644	644
Debentures and bonds	95,154	110,453	145,046	174,055	208,866	250,639
Net loans and advances	982,099	1,322,627	2,035,188	2,335,841	2,736,672	3,207,568
Fixed assets	4,707	6,868	8,373	9,312	9,198	9,110
Other assets	95,259	125,738	150,463	180,555	216,666	260,000
Total assets	1,652,634	2,150,597	3,124,497	3,638,387	4,320,160	5,072,593
Deposits	1,117,195	1,428,574	2,006,886	2,348,969	2,806,548	3,289,468
Borrowings and bills payable	319,759	391,992	758,087	886,962	1,064,355	1,277,225
Other liabilities	77,814	109,634	101,998	108,118	114,605	121,481
Total liabilities	1,514,768	1,930,201	2,866,971	3,344,049	3,985,508	4,688,175
Paid-up capital	4,205	4,565	4,606	4,606	4,606	4,606
Reserves & surplus	133,661	215,831	252,919	289,732	330,046	379,812
Total shareholders' equity	137,866	220,396	257,525	294,338	334,652	384,418

Source: Company, Kotak Institutional Equities estimates

Pet-coke—shrinking cost advantage. We believe the advantage of low cost pet-coke is waning for the cement industry due to multiple headwinds—(1) tightening regulation for pet-coke usage which though lenient for cement plants at this point, restricts imports for cement kilns only (and not as fuel for power), and also pushes up import duties, (2) likely reduction in domestic availability of pet-coke due to gasification projects by major refineries—this can keep prices firm, and (3) potential for levy of clean cess, which is not yet levied on pet-coke, even though it is more polluting than coal.

Pet-coke—regulation continues to tighten even though cement makers are spared

The Ministry of Environment and Forest (MOEF) in the past week laid down guidelines for pet-coke imports, which states (1) pet-coke import as fuel is prohibited. However, imports are allowed for cement, lime-kiln, calcium carbide and gasification industries, (2) these industries shall obtain consent of and register with the State Pollution Control Boards (SPCB), (2) consent from SPCB will clearly specify quantity permitted for imports and use per month. We believe the order permits cement companies to use pet-coke imports in kilns but not in power plants. We also note import duty on pet-coke was raised in December 2017 to 10% from 2.5%.

We highlight that over the past two years, the Supreme Court and the MOEF have restricted pet-coke imports to few industries due to harmful emissions given the high sulphur content of fuel (Exhibit 1). The cement industry has been spared as it uses pet-coke in kilns where limestone is ground and burnt till it forms clinker—in the process of calcination, limestone absorbs Sulphur and therefore emissions are minimized. We note that in the kiln, limestone dust combines with Sulphur-di-oxide gas (which is released from pet-coke burning) to form calcium sulfate.

Pet-coke sourcing—60% domestic; set to change due to Reliance's pet-coke gasification project

The Indian companies used 24 mn tons of pet-coke in FY2018, of which 14 mn tons (58%) was from domestic refineries and rest was imported. Among domestic refineries, Reliance Industries accounted for close to 50% of volumes (~6 mn tons) which is likely to go off the market as it ramps-up the pet-coke gasification project—this will convert refinery pet-coke to syngas which can substitute for its LNG imports (Exhibit 6). Indian Oil is also investing in pet-coke gasification.

Lower domestic availability of pet-coke will increase dependence of cement names on imports—we believe increasing demand of pet-coke from Asia (India, China) can keep global pet-coke prices firm. India already accounts for 17% of pet-coke exports from US and strong demand from Asia has led to pet-coke price rally, which has risen more than crude (Exhibit 5).

Clean environment cess—pet-coke still uncovered, potential cost increase for consumers

Coal usage in India requires a payment of Rs400/ton towards clean environment cess. However, despite pet-coke being more polluting, it is exempt from cess—the sulphur content of pet-coke (4-6%) is much higher than coal. We note that Coal India has, in the past, requested government to levy an environmental tax on pet-coke as well. If the government were to levy a similar Rs400/ton cess on pet-coke as well, it will result in 4-5% increase in pet-coke costs.

Cost advantage of Indian cement companies from pet-coke usage is shrinking

We note pet-coke costs used to be 25-30% lower than imported coal in FY2016-18—however, cost advantage has declined to close to 15-20% in FY2019 due to the increase in pet-coke prices and higher import duty. The lower pet-coke costs had earlier aided industry profitability even during period of lean cement prices—a reversing trend has led to weak earnings in the past few quarters despite strong volumes (Exhibits 9 & 10). We believe regulation will continue to tighten the noose around pet-coke usage, resulting in a shrinking cost advantage.

Abhishek Poddar

Murtuza Arsiwalla

Prayati Mahajan

Pet-coke usage high in developing countries due to lenient regulation

Fuel grade pet-coke is highly polluting, which has led to the US exporting pet-coke to Asian countries where environmental regulations are more lenient. Note that pet-coke contains as much as 9% sulphur. In 2017, US pet-coke production was 60 mn tons, of which it consumed only 21 mn tons and exported 39 mn tons. India accounted for close to 7 mn tons (17%) of those exports. India's pet-coke imports from mostly from US and Saudi Arabia (Exhibit 3). Pet-coke consumption in India has risen largely due to the increase consumption by the cement industry.

Exhibit 1: Imports of pet-coke in India are allowed for cement, lime kiln, calcium carbide and gasification only

Events and decisions of Supreme Court, Ministry of Environment and Forest for pet-coke usage, imports in India over last 2 years

Date	Order by	Comments
02-Dec-16	Supreme Court order	Mr. Harish N Salve, Amicus Curia argued that major causes of pollution in the NCR region includes use of pet-coke and furnace oil as fuel for industrial purpose and for power generation—both these fuel is highly harmful due to high sulphur content. He argued that government should ban use of pet-coke and furnace oil in the NCR region. The court ordered Central government to examine whether usage of these fuels is harmful due to high sulphur content in them.
02-May-17	Supreme Court	The government notified court that usage of pet-coke and furnace oil is prohibited in Delhi
24-Oct-17	Supreme Court order	The court ordered a ban on usage of pet-coke and furnace oil in the states of Uttar Pradesh, Haryana and Rajasthan from November 1, 2017.
13-Dec-17	Supreme Court order	The court observed that cement industry uses pet-coke in its kiln where limestone is ground and is burnt till it forms clinker—in the process of calcination, limestone absorbs sulphur and therefore emissions are minimized. As MOEF has notified emission standard for SO2 and NOX for cement industry, consequently permission can be given for usage of pet-coke in the cement industry. The court also noted that the MOEF stated that a ban on the import of pet-coke is under consideration in view of the environmental hazards due to its use. The MOEF is in discussion with Ministry of Petroleum and Natural Gas as well as the Director General of Foreign Trade.
Jan-18	Ministry of Finance	The import duty on pet-coke increased to 10% from 2.5% earlier
01-Feb-18	MOEF affidavit	As per Ministry of Petroleum and Natural Gas, the imports of pet-coke may be restricted to industry which is benign to environment on actual basis. MOEF is in agreement for pet-coke imports for cement industry, lime kilns, calcined-petroleum-coke in aluminum industry, and calcium carbide manufacturing.
16-Jul-18	At Supreme Court hearing	The ban on pet coke import was endorsed by the Ministry of Petroleum and Natural Gas (MoPNG), the government's lawyer stated in Supreme Court
26-Jul-18	Supreme Court order	A consensus decision has been taken that the use of imported pet coke all over the country may be permitted only in the following industries : cement, lime kiln, calcium carbide and gasification. It is stated that this would be in compliance with the WTO norms and these industries may be permitted to import pet coke for use as a feedstock or in the manufacturing process and not as a fuel.
17-Aug-18	Director General of Foreign Trade	Import of pet-coke for fuel purpose is prohibited. However, import of pet-coke is 'free' for cement, lime kiln, calcium carbide and gasification industries for use as feed stock in the manufacturing process only on actual user basis. Ministry of Environment, Forest and Climate change, in consultation with Customs and Directorate General of Foreign Trade will bring out detailed guidelines on regulating and monitoring the imported pet-coke.
10-Sep-18	Ministry of Environment, Forest and Climate Change	Guidelines for importing pet-coke in India: (1) Pet-coke importing industries namely cement, lime kiln, calcium carbide and gasification shall obtain the consent of and registration with the concerned State Pollution Control Boards (SPCB), (2) the consent from SPCB will clearly specify quantity permitted for imports and use per month.

Source: Industry, Kotak Institutional Equities estimates

Exhibit 2: We estimate cost savings from pet-coke usage (over imported coal) have declined to 15-20% from 25-30% in FY2016-2018

Estimate of pet-coke costs versus imported coal in Rs/mn kcal, March fiscal year-ends (US\$/ton, Rs/ton, Rs/mn kcal)

	2017		2018		2019 (YTD)	
	Imported coal	Pet-coke	Imported coal	Pet-coke	Imported coal	Pet-coke
Average price of fuel (US\$/ton)	67	84	88	100	98	114
INR/US\$ rate	67	67	65	65	68	68
Import duty (%)	2.5	2.5	2.5	2.5	2.5	10
Port handling & other charged	3	3	3	3	3	3
Clean energy cess	6	—	6	—	6	—
Landed cost at port (US\$/ton)	78	89	99	106	109	129
Landed cost at port (Rs/ton)	5,202	5,939	6,411	6,805	7,455	8,776
Domestic pet-coke prices (Rs/ton)		5,800		7,560		9,360
GCV (Kcal/kg)	5,500	8,000	5,500	8,000	5,500	8,000
Rs/mn kcal	946	742	1,166	851	1,356	1,097
Cost benefit of using pet-coke (%)		(22)		(27)		(19)

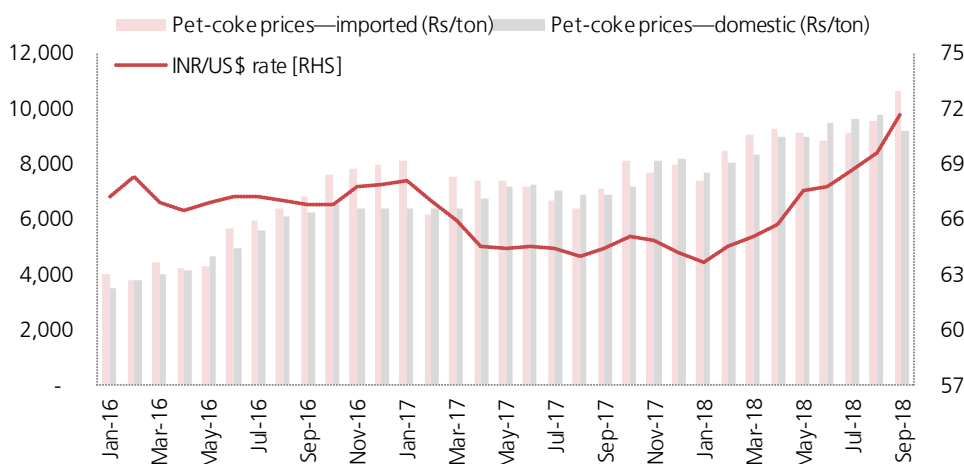
Source: Industry, Bloomberg, Kotak Institutional Equities estimates

Exhibit 3: Domestic production accounted for close to 60% pet-coke supplies in FY2018
 Pet-coke production, imports and consumption in India, March fiscal year-ends (mn tons)

	2014	2015	2016	2017	2018	CAGR (%)
Pet-coke production (mn tons)	11.3	11.7	13.3	12.9	13.8	5
Imports (mn tons)	1.4	3.3	6.4	13.0	9.9	63
—from USA	1.4	3.1	4.0	8.7	6.6	
—from Saudi Arabia	0.0	0.2	2.5	4.3	3.4	
Consumption (mn tons)	12.7	15.0	19.7	25.9	23.7	17

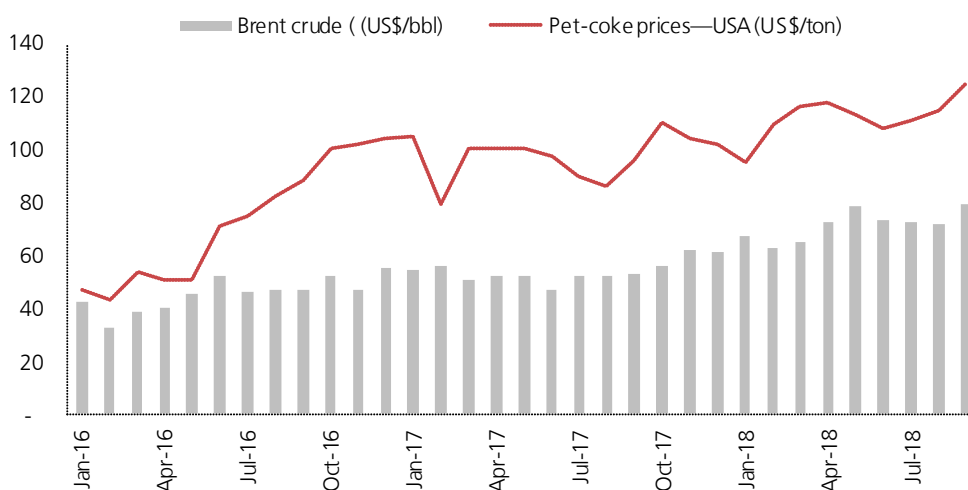
Source: Industry, Kotak Institutional Equities estimates

Exhibit 4: Domestic pet-coke prices closely follow import parity pricing
 Comparison of domestic pet-coke prices with import parity prices, 2016-2018 (Rs/ton)



Source: Industry, Kotak Institutional Equities estimates

Exhibit 5: Pet-coke prices have risen more than crude oil led by strong demand from India, China
 Comparison of pet-coke prices with Brent crude, 2016-2018 (US\$/ton, US\$/bbl)



Source: Bloomberg, Industry, Kotak Institutional Equities estimates

Exhibit 6: Reliance Industries accounts for close to 50% of India's pet-coke capacity
Capacity of pet-coke refineries in India (mtpa)

Company	Location	Capacity (mtpa)
Reliance Industries Limited	Jamnagar, Gujarat	6.2
Essar Oil Limited	Vadinar, Gujarat	1.8
Indian Oil Limited	Panipat, Haryana	0.9
Indian Oil Limited	Koyali, Gujarat	0.9
Indian Oil Limited	Paradip, Odisha	1.2
Bharat Oman Refinery Limited	Bina, Madhya Pradesh	0.5
HPCL-Mittal Energy Limited	Bhatinda, Punjab	0.9
Mangalore Refinery & Petrochemicals Limited	Mangalore, Karnataka	1.0
Total		13.4
Upcoming capacity		
Nagarjuna Oil Refinery Limited	Cuddalore, Tamil Nadu	0.4
Bharat Petroleum Corporation Limited	Kochi, Kerala	1.2
Chennai Petroleum Corporation Limited	Chennai, Tamil Nadu	0.5
Total		2.1

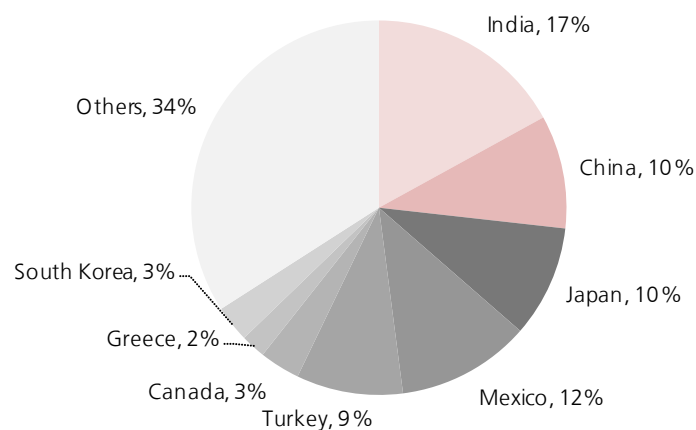
Source: Coalmint, Kotak Institutional Equities estimates

Exhibit 7: US is the largest exporter of pet-coke, with limited domestic consumption
Pet-coke—US production, consumption and exports/global production, 2011-2017 (mn tons)

	2010	2011	2012	2013	2014	2015	2016	2017
US pet-coke production	54	56	57	58	58	58	60	60
<i>yoy growth (%)</i>		4	2	2	1	(0)	4	(1)
US pet-coke consumption	25	24	24	23	23	23	23	21
<i>yoy growth (%)</i>		(4)	0	(2)	(2)	1	(1)	(9)
US pet-coke exports	30	33	33	35	36	36	38	39
<i>yoy growth (%)</i>		11	1	4	3	(1)	7	3
Global pet-coke production	107	115	121	125	125	128	—	—
<i>US production as % of global</i>	50	49	47	46	46	45	—	—

Source: UN data, US Energy Information Institute, Kotak Institutional Equities estimates

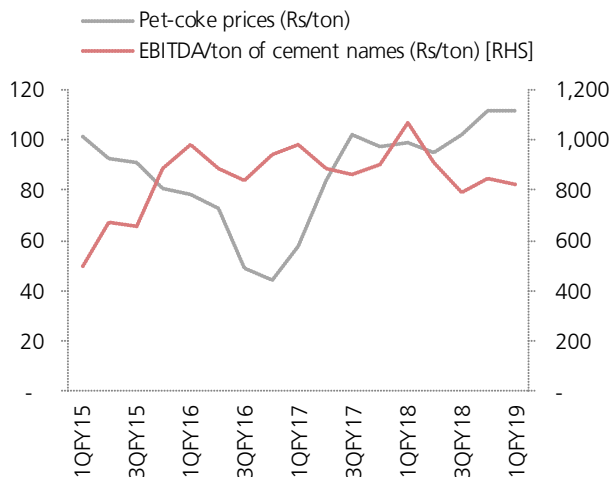
Exhibit 8: India is largest importer of pet-coke from USA
US pet-coke exports by regions (%)



Source: US Energy Information Institute, Kotak Institutional Equities estimates

Exhibit 9: Lower pet-coke prices has aided earnings

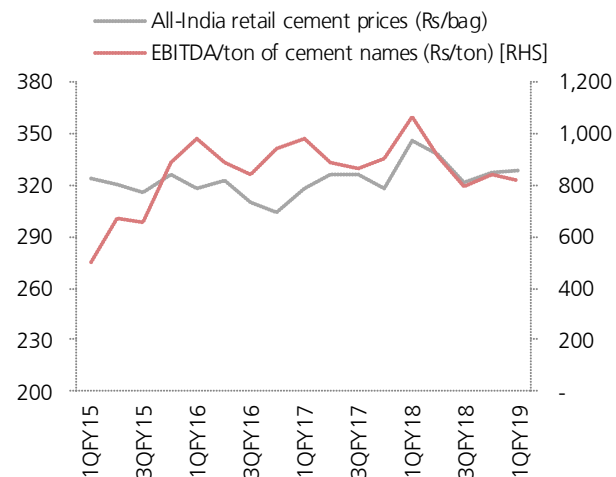
Pet-coke prices and EBITDA/ton of companies (US\$/ton, Rs/ton)



Source: Companies, Kotak Institutional Equities estimates

Exhibit 10: Profitability improved despite low prices led by costs

Cement prices and EBITDA/ton of companies (US\$/ton, Rs/ton)



Source: Companies, Kotak Institutional Equities estimates

Exhibit 11: Most of domestic companies have high dependence on pet-coke

Pet-coke usage by domestic cement companies (%)

	Pet-coke usage (%)
ACC	67
Shree Cement	100
UltraTech Cement	72
Dalmia Bharat	79
JK Cement	80
JK Lakshmi Cement	80
India Cements	30-50

Source: Companies, Kotak Institutional Equities estimates

Exhibit 12: Cement comparative valuation

Company	Market cap (US\$ mn)	CMP (Rs) 17-Sep	Target price (Rs)	Rating	EPS (Rs)				P/E (X)			
					2017	2018	2019E	2020E	2017	2018	2019E	2020E
Large-cap. stocks												
ACC	4,178	1,561	1,270	SELL	34	49	62	70	45	32	25	22
Ambuja Cements	6,357	225	210	REDUCE	6	8	9	11	39	30	26	21
Grasim Industries	6,967	1,068	1,170	BUY	68	47	50	59	16	23	21	18
Shree Cement	8,481	17,113	12,500	SELL	384	397	421	630	45	43	41	27
UltraTech Cement	15,790	4,051	2,950	SELL	96	88	126	162	42	46	32	25
Mid-cap. stocks												
Dalmia Bharat	2,933	2,540	2,830	ADD	39	60	94	122	65	42	27	21
India Cements	496	114	118	REDUCE	6	3	4	8	20	35	27	13
JK Cement	771	775	890	ADD	27	43	45	79	29	18	17	10
JK Lakshmi Cement	520	311	370	ADD	7	4	11	28	45	69	27	11
Orient Cement	299	103	145	ADD	(2)	2	7	11	(66)	48	15	10
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	21.9	17.2	14.0	12.0	117	114	112	107	3.3	3.1	2.9	2.6
Ambuja Cements	18.0	14.7	12.0	9.9	122	122	119	114	2.3	2.2	2.1	2.0
Grasim Industries	6.5	12.2	7.5	7.1	NA	NA	NA	NA	1.6	1.2	1.2	1.1
Shree Cement	22.5	23.2	18.9	14.2	275	233	212	199	7.7	6.7	5.9	4.9
UltraTech Cement	23.2	22.7	16.8	13.9	233	206	193	178	4.6	4.3	3.8	3.4
Mid-cap. stocks												
Dalmia Bharat	16.2	14.4	11.3	9.4	180	172	166	157	4.5	3.7	3.3	2.8
India Cements	7.5	9.6	8.7	6.8	59	61	61	59	0.7	0.7	0.7	0.6
JK Cement	11.4	9.8	10.2	8.4	106	99	105	114	3.1	2.7	2.4	2.0
JK Lakshmi Cement	15.2	13.1	9.7	6.3	80	73	71	66	2.6	2.5	2.4	2.0
Orient Cement	18.6	10.9	7.3	5.6	59	59	55	51	2.1	2.1	1.9	1.6

Source: 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)
		19-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Automobiles																													
Amara Raja Batteries	REDUCE	790	780	(1.2)	135	1.9	171	32	37	43	17.1	15.9	14.5	24.4	21.1	18.4	13.0	11.1	9.6	4.0	3.4	3.0	17.4	17.5	17.4	0.6	0.7	0.8	6.0
Apollo Tyres	BUY	240	340	41.8	137	1.9	541	20	25	29	46.9	25.7	17.0	12.2	9.7	8.3	7.6	6.4	5.2	1.3	1.2	1.0	11.0	12.5	13.1	1.3	1.3	1.3	11.9
Ashok Leyland	BUY	126	160	27.2	369	5.1	2,926	6.2	8.9	9.4	15.3	43.2	6.1	20.3	14.2	13.3	10.4	7.5	7.0	4.4	3.7	3.1	23.4	28.4	25.4	1.5	2.1	2.2	45.7
Bajaj Auto	SELL	2,790	2,700	(3.2)	807	11.1	289	156	174	185	11.2	11.5	6.3	17.9	16.1	15.1	12.2	10.5	9.6	3.8	3.4	3.0	22.2	22.1	21.0	2.2	2.5	2.6	31.6
Balkrishna Industries	REDUCE	1,107	1,300	17.4	214	3.0	193	50	62	70	34.5	24.1	12.8	22.0	17.7	15.7	12.0	9.8	8.5	4.3	3.6	3.0	21.6	22.1	20.7	0.5	0.6	0.6	14.6
Bharat Forge	SELL	639	600	(6.1)	297	4.1	466	23	27	29	44.4	14.6	7.1	27.3	23.9	22.3	15.5	13.5	12.5	5.4	4.6	4.0	21.5	21.0	19.4	0.8	0.9	0.9	12.0
CEAT	ADD	1,340	1,500	11.9	54	0.7	40	99	108	116	53.7	8.3	7.9	13.5	12.4	11.5	8.6	7.4	6.7	1.8	1.6	1.4	14.4	13.8	13.2	0.7	0.7	0.8	13.0
Eicher Motors	SELL	28,411	24,000	(15.5)	775	10.7	27	997	1,180	1,306	25.8	18.4	10.7	28.5	24.1	21.7	20.6	17.4	15.1	10.4	7.8	6.1	42.4	37.1	31.4	0.1	0.1	—	20.6
Escorts	BUY	725	1,200	65.4	62	1.2	89	59	71	78	52.2	19.9	10.6	12.3	10.3	9.3	7.5	6.1	5.0	2.2	1.8	1.6	17.6	18.0	17.1	1.2	1.5	1.6	14.4
Exide Industries	SELL	266	235	(11.7)	226	3.1	850	10	11	13	25.3	11.0	11.6	25.9	23.3	20.9	14.7	13.1	11.7	3.8	3.4	3.1	15.4	15.5	15.7	1.1	1.3	1.5	8.2
Hero Motocorp	SELL	3,154	3,000	(4.9)	630	8.7	200	183	204	225	(0.9)	11.4	10.2	17.2	15.4	14.0	10.2	9.0	7.9	4.8	4.2	3.8	29.3	29.1	28.6	2.9	3.2	3.6	20.8
Mahindra CIE Automotive	ADD	279	290	3.8	106	1.5	378	14	16	17	45.0	12.7	10.4	20.1	17.8	16.1	10.0	8.9	7.9	2.5	2.2	1.9	13.2	13.1	12.7	—	—	—	3.7
Mahindra & Mahindra	BUY	949	1,085	14.3	1,180	16.3	1,138	45	51	53	18.5	14.4	3.1	21.1	18.4	17.9	13.7	11.9	11.3	3.1	2.8	2.5	15.8	16.0	14.7	0.9	1.1	1.1	30.8
Maruti Suzuki	ADD	8,210	9,200	12.1	2,480	34.2	302	298	362	408	16.7	21.2	12.9	27.5	22.7	20.1	15.3	12.2	10.4	5.2	4.5	3.9	20.1	21.1	20.5	0.9	1.1	1.2	68.3
Motherson Sumi Systems	SELL	292	280	(4.0)	614	8.5	2,105	11	14	16	40.2	21.5	13.8	25.4	20.9	18.4	10.2	8.4	7.3	5.3	4.5	3.8	22.5	23.2	22.3	0.9	1.1	1.2	14.5
MRF	REDUCE	67,682	69,000	1.9	287	4.0	4	3,425	3,932	4,411	28.3	14.8	12.2	19.8	17.2	15.3	9.2	8.0	6.8	2.6	2.2	2.0	13.9	13.9	13.7	0.1	0.1	0.1	7.1
Schaeffler India	BUY	5,467	6,000	9.8	91	1.3	17	156	199	233	9.0	27.3	17.6	35.0	27.5	23.4	21.4	16.3	13.5	4.8	4.2	3.7	14.5	16.4	17.0	0.6	0.7	0.9	0.5
SKF	ADD	1,742	1,800	3.4	89	1.2	51	69	82	97	19.7	18.5	18.2	25.2	21.3	18.0	16.1	13.3	11.0	4.2	3.6	3.1	16.7	17.1	17.4	0.7	0.8	1.0	0.4
Tata Motors	BUY	253	425	68.3	858	11.0	3,396	22	36	39	10.7	62.7	8.0	11.4	7.0	6.5	3.5	2.9	2.7	0.8	0.7	0.7	7.6	11.2	10.8	—	—	—	51.5
Timken	SELL	636	660	3.8	43	0.6	68	19	25	30	42.3	27.5	21.8	33.0	25.9	21.3	18.2	14.5	12.0	5.2	4.4	3.7	17.1	18.5	18.8	0.2	0.2	0.2	0.3
TVS Motor	SELL	599	405	(32.4)	285	3.9	475	16	20	25	13.9	23.0	26.0	37.7	30.7	24.3	20.7	17.2	14.0	8.5	7.2	6.0	24.2	25.4	27.0	0.8	1.0	1.2	14.2
Varrco Engineering	BUY	989	1,250	26.4	133	1.8	135	39	47	51	52.3	19.9	10.2	25.4	21.2	19.2	19.5	16.5	14.4	3.9	3.2	2.6	15.3	15.3	13.5	—	—	—	—
WABCO India	SELL	6,950	6,350	(8.6)	132	1.8	19	169	222	225	17.8	31.3	1.0	41.0	31.2	30.9	26.8	20.3	20.0	7.2	5.9	5.0	19.2	20.9	17.7	0.1	0.2	0.2	0.4
Automobiles	Neutral				10,005	137					18.3	25.6	9.8	21.5	17.1	15.6	9.6	7.9	7.1	3.2	2.8	2.5	14.9	16.4	15.8	0.9	1.1	1.2	390.4
Banks																													
Axis Bank	REDUCE	609	600	(1.4)	1,564	21.6	2,567	18	40	45	1,577.6	122.3	12.3	33.8	15.2	13.5	—	—	—	2.6	2.2	1.9	7.1	14.1	14.1	0.4	1.0	1.1	80.4
Bank of Baroda	NR	116	—	—	308	4.2	2,652	21	26	29	323.7	26.4	12.1	5.7	4.5	4.0	—	—	—	1.0	0.8	0.6	12.7	14.0	13.7	—	—	—	36.7
Canara Bank	ADD	246	300	21.9	181	2.5	733	(5)	51	68	91.6	1,147.0	33.3	(50.8)	4.9	3.6	—	—	—	1.5	0.9	0.6	(1.0)	10.1	12.0	—	—	—	25.9
City Union Bank	REDUCE	179	200	12.0	131	1.8	665	9	11	12	5.8	13.3	16.7	18.9	16.7	14.3	—	—	—	2.9	2.6	2.2	15.5	15.6	16.0	0.9	1.1	1.2	1.7
DCB Bank	ADD	163	205	25.5	50	0.7	308	10	12	16	28.2	21.0	33.1	16.0	13.2	9.9	—	—	—	1.9	1.7	1.5	11.7	12.7	14.9	0.6	0.7	0.9	3.9
Equitas Holdings	BUY	138	190	38.0	47	0.6	340	4.4	8.4	11.4	378.4	89.9	35.6	31.0	16.3	12.0	—	—	—	2.0	1.8	1.6	6.4	11.2	13.4	—	—	—	4.8
Federal Bank	BUY	75	130	73.0	149	2.1	1,972	5.7	7.9	9.7	29.5	39.5	22.9	13.3	9.5	7.7	—	—	—	1.2	1.1	1.0	8.8	11.4	12.8	1.7	2.4	3.0	17.1
HDFC Bank	REDUCE	1,961	2,000	2.0	5,325	73.4	2,595	78	94	112	15.7	20.0	19.1	25.2	21.0	17.6	—	—	—	3.7	3.3	2.9	16.7	16.2	17.0	0.8	0.9	1.1	76.6
ICICI Bank	BUY	321	400	24.6	2,065	28.5	6,429	8	26	31	(19.6)	209.1	19.2	37.9	12.2	10.3	—	—	—	2.2	1.8	1.6	5.1	14.5	15.5	0.5	1.6	1.9	93.8
IDFC Bank	NR	43	—	—	147	2.0	3,404	1.2	2.9	4.3	(52.7)	146.7	44.8	36.3	14.7	10.1	—	—	—	0.9	0.9	0.8	2.6	6.3	8.6	0.6	1.4	2.0	7.4
IndusInd Bank	REDUCE	1,805	1,900	5.3	1,085	14.9	600	71	87	102	17.5	23.6	16.9	25.6	20.7	17.7	—	—	—	3.8	3.3	2.9	17.6	16.8	17.0	—	0.6	0.7	28.1
J&K Bank	BUY	52	100	92.7	29	0.4	557	7	11	15	82.4	63.8	33.5	7.8	4.8	3.6	—	—	—	0.6	0.6	0.5	5.9	9.1	11.2	2.6	4.2	5.6	0.3
Karur Vysya Bank	ADD	89	110	23.8	71	1.0	727	3	13	14	(32.3)	306.7	9.1	27.6	6.8	6.2	—	—	—	1.2	1.1	0.9	3.7	14.1	13.9	0.9	3.7	4.2	1.6
Punjab National Bank	ADD	79	90	13.6	219	3.0	2,761	(27)	12	18	40.4	145.3	46.9	(3.0)	6.6	4.5	—	—	—	4.0	1.3	0.8	(23.4)	10.7	13.8	—	—	—	39.0
RBL Bank	SELL	591	475	(19.6)	251	3.5	420	22	29	36	48.1	31.5	21.0	26.3	20.0	16.6	—	—	—	3.4	3.1	2.7	13.3	15.5	16.5	0.6	0.7	0.9	15.5
State Bank of India	BUY	272	370	36.3	2,423	33.4	8,925	8	37	53	204.8	380.5	42.7	35.3	7.3	5.2	—	—	—	1.8	1.3	1.0	3.1	13.6	16.7	—	0.1	0.2	95.2
Ujivan Financial Services	ADD	316	420	33.0	38	0.5	121	19	28	32	3,033.9	47.3	15.1	16.9	11.5	10.0	—	—	—	2.0	1.7	1.5	12.1	15.8	15.8	0.5	0.9	1.1	5.2
Union Bank	ADD	78	120	53.0	92	1.3	1,169	8	33	40																			

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT	
		19-Sep-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E
NBFCs																													
Bajaj Finance	SELL	2,500	2,000	(20.0)	1,445	19.9	575	68	90	114	56.6	31.9	27.3	36.8	27.9	21.9	—	—	—	7.5	6.1	4.9	22.4	24.0	24.6	0.3	0.4	0.5	60.8
Bajaj Finserv	REDUCE	6,312	6,100	(3.4)	1,004	13.8	159	245	307	376	39.7	25.2	22.5	25.7	20.6	16.8	—	—	—	4.1	3.4	2.9	17.5	18.1	18.6	0.2	0.2	0.2	19.6
Bharat Financial Inclusion	NA	1,114	—	—	156	2.2	139	43	54	69	31.1	27.2	25.8	26.0	20.5	16.3	—	—	—	4.2	3.4	2.8	17.9	18.5	19.0	—	—	—	9.7
Cholamandalam	REDUCE	1,317	1,500	13.9	206	2.8	156	90	110	136	44.8	22.1	23.4	14.6	12.0	9.7	—	—	—	3.4	2.8	2.2	24.5	24.3	24.3	0.8	1.0	1.2	7.1
HDFC	ADD	1,831	2,075	13.3	3,099	42.7	1,676	56	67	81	(25.8)	19.0	21.2	32.7	27.5	22.7	—	—	—	4.2	3.8	3.4	13.8	14.5	16.0	1.2	1.4	1.7	73.4
HDFC Standard Life Insurance	SELL	400	405	1.2	806	11.1	2,007	6	7	8	14.8	10.9	14.7	63.0	56.8	49.5	—	—	—	16.7	14.9	13.3	28.0	27.7	28.4	0.4	0.4	0.5	7.1
ICICI Lombard	SELL	865	620	(28.3)	393	5.4	454	26	32	37	37.1	21.5	18.5	33.2	27.3	23.1	—	—	—	7.3	6.1	5.1	23.8	24.2	24.0	0.7	0.8	1.0	3.3
ICICI Prudential Life	BUY	348	500	43.6	500	6.9	1,436	12	13	15	10.1	7.0	10.0	28.0	26.2	23.8	—	—	—	6.2	5.2	4.5	24.5	21.8	20.2	0.6	0.6	0.7	8.2
IIFL Holdings	SELL	601	625	4.0	192	2.6	319	38	45	52	31.5	18.6	16.0	16.0	13.5	11.6	—	—	—	2.9	2.5	2.1	20.5	20.0	20.0	1.3	1.6	1.8	1.7
L&T Finance Holdings	ADD	146	190	30.1	292	4.0	1,996	13	14	16	70.9	12.3	12.8	11.6	10.4	9.2	—	—	—	2.1	1.8	1.6	18.9	18.8	18.3	1.4	1.7	1.6	15.4
LIC Housing Finance	ADD	462	610	32.2	233	3.2	505	50	58	66	14.1	16.2	14.6	9.3	8.0	7.0	—	—	—	1.5	1.3	1.1	17.4	16.9	16.8	1.7	2.0	2.2	15.4
Magma Fincorp	BUY	132	190	44.3	35	0.5	237	13	17	21	34.0	31.8	23.0	10.1	7.7	6.2	—	—	—	1.3	1.1	1.0	13.9	15.8	17.0	1.5	2.0	2.4	1.0
Mahindra & Mahindra Financial	REDUCE	433	500	15.4	268	3.7	614	23	28	34	58.4	23.2	18.6	18.9	15.3	12.9	—	—	—	2.7	2.5	2.2	14.3	15.8	16.7	1.5	1.8	2.1	11.0
Max Financial Services	ADD	446	650	45.9	120	1.6	268	6	6	6	36.9	1.8	1.8	71.0	69.7	68.5	—	—	—	—	—	—	8.3	8.0	7.8	—	0.5	0.5	5.0
Muthoot Finance	ADD	460	480	4.3	184	2.5	400	40	42	48	(7.8)	6.0	14.8	11.6	10.9	9.5	—	—	—	2.1	1.8	1.6	19.0	17.6	17.8	2.0	2.1	2.4	6.0
PNB Housing Finance	REDUCE	1,234	1,325	7.4	207	2.8	167	62	75	92	25.3	20.9	22.4	19.8	16.4	13.4	—	—	—	2.9	2.5	2.2	15.2	15.9	17.0	0.3	0.3	0.3	4.7
SBI Life Insurance	ADD	612	785	28.2	612	8.4	1,000	15	18	21	26.0	22.9	17.0	42.1	34.3	29.3	—	—	—	8.0	6.7	5.6	20.6	21.3	20.9	0.4	0.5	0.5	2.6
Shriram City Union Finance	ADD	1,940	2,250	16.0	128	1.8	66	141	174	209	40.4	22.7	20.5	13.7	11.2	9.3	—	—	—	2.2	1.9	1.7	15.8	16.9	17.6	0.9	1.1	1.4	1.5
Shriram Transport	ADD	1,192	1,550	30.0	270	3.7	227	114	130	146	64.4	14.3	12.8	10.5	9.2	8.1	—	—	—	1.9	1.6	1.4	18.3	17.5	17.1	1.3	1.5	1.8	32.7
NBFCs	Neutral				10,149	140					15.1	19.5	19.4	25.8	21.6	18.1				4.1	3.6	3.1	16.1	16.7	17.3	0.8	0.9	1.1	627.8
Cement																													
ACC	SELL	1,561	1,270	(18.7)	293	4.0	188	62	70	81	27.0	13.8	15.2	25.2	22.2	19.2	14.0	12.0	10.2	2.9	2.6	2.4	11.9	12.5	13.1	1.1	1.1	1.1	16.1
Ambuja Cements	REDUCE	225	210	(6.7)	447	6.2	1,986	9	11	12	14.5	23.2	15.8	26.1	21.2	18.3	8.8	7.3	6.0	2.1	2.0	1.8	8.1	9.5	10.4	1.6	1.6	1.6	11.0
Dalmia Bharat	ADD	2,540	2,830	11.4	226	3.1	89	94	122	139	55.8	29.3	14.8	27.0	20.9	18.2	10.3	8.4	7.2	3.3	2.8	2.5	12.9	14.6	14.5	0.1	0.1	0.1	4.4
Grasim Industries	BUY	1,068	1,170	9.5	702	9.7	657	46	55	70	(2.5)	18.8	28.0	23.1	19.5	15.2	7.6	7.2	6.7	1.2	1.1	1.0	5.2	5.9	7.1	0.5	0.5	0.5	15.9
India Cements	REDUCE	114	118	3.9	35	0.5	308	4	8	12	28.0	102.6	41.3	27.2	13.4	9.5	8.7	6.8	5.7	0.7	0.6	0.6	2.5	4.8	6.5	0.9	0.9	0.9	9.3
J K Cement	ADD	775	890	14.8	54	0.7	70	45	79	78	3.7	75.4	(0.8)	17.3	9.9	9.9	10.2	8.4	6.9	2.4	2.0	1.7	15.0	22.3	18.5	1.0	1.0	1.0	0.5
JK Lakshmi Cement	ADD	311	370	19.1	37	0.5	118	11	28	37	153.5	147.9	30.5	27.4	11.1	8.5	9.7	6.3	5.1	2.4	2.0	1.6	8.9	19.5	21.0	0.6	0.6	0.6	0.3
Orient Cement	ADD	103	145	41.1	21	0.3	205	7	11	15	212.9	58.7	41.3	15.2	9.6	6.8	7.3	5.6	4.2	1.9	1.6	1.4	12.9	18.2	21.8	1.5	1.9	1.9	0.2
Shree Cement	SELL	17,113	12,500	(27.0)	596	8.2	35	421	630	760	6.0	49.7	20.6	40.6	27.1	22.5	18.9	14.2	11.5	5.9	4.9	4.1	15.4	19.7	19.8	0.3	0.3	0.3	5.5
UltraTech Cement	SELL	4,051	2,950	(27.2)	1,112	15.3	275	126	162	201	42.7	28.9	24.0	32.2	25.0	20.2	16.8	13.9	11.6	3.8	3.4	2.9	12.6	14.3	15.4	0.2	0.2	0.2	18.8
Cement	Cautious				3,525	49					19.5	30.3	21.8	28.5	21.9	17.9	10.9	9.3	8.1	2.4	2.2	2.0	8.4	10.0	11.0	0.6	0.6	0.6	82.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Target			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)
		Price (Rs) 19-Sep-18	price (Rs)	Upside (%)	(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	1,291	1,325	2.6	1,239	17.1	959	27	33	39	32.1	20.3	18.3	47.6	39.6	33.5	29.8	24.7	20.8	12.9	11.2	9.8	28.8	30.3	31.3	0.9	1.2	1.4	22.5
Bajaj Corp.	ADD	453	470	3.8	67	0.9	148	15	17	19	7.8	10.3	9.5	29.4	26.6	24.3	23.6	20.1	17.5	13.7	13.6	13.4	46.3	51.2	55.4	2.9	3.1	3.3	0.6
Britannia Industries	ADD	5,960	6,700	12.4	716	9.9	120	104	127	152	24.5	22.2	19.2	57.2	46.8	39.3	37.5	30.6	25.6	16.7	13.5	11.0	32.5	31.8	30.9	0.6	0.8	0.9	13.4
Coffee Day Enterprises	REDUCE	316	290	(8.1)	67	0.9	211	8	10	12	129.9	30.0	21.2	41.1	31.6	26.1	13.2	11.5	10.6	2.6	2.4	2.2	6.6	8.0	8.9	—	—	—	1.0
Colgate-Palmolive (India)	ADD	1,116	1,250	12.0	303	4.2	272	27	32	36	14.7	15.6	15.5	40.9	35.4	30.6	23.4	20.3	17.7	17.8	15.5	13.6	46.0	46.9	47.3	1.4	1.7	2.1	6.9
Dabur India	REDUCE	467	390	(16.5)	825	11.4	1,762	9	10	12	17.3	12.9	13.6	51.2	45.4	39.9	42.8	37.0	32.1	14.4	12.5	11.0	28.1	29.6	29.4	0.8	1.0	1.2	19.5
GlaxoSmithKline Consumer	ADD	7,586	7,300	(3.8)	319	4.4	42	199	223	246	19.5	12.1	10.1	38.1	34.0	30.9	26.9	23.2	20.4	8.2	7.5	6.8	22.8	23.0	23.1	1.2	1.4	1.6	2.2
Godrej Consumer Products	SELL	821	733	(10.7)	839	11.6	1,022	17	19	22	18.8	13.7	12.7	48.5	42.7	37.9	34.4	29.9	26.1	11.4	9.9	8.6	25.3	24.7	24.2	0.7	0.8	0.9	13.3
Hindustan Unilever	REDUCE	1,647	1,570	(4.7)	3,565	49.1	2,160	29	33	37	19.5	13.2	12.6	56.2	49.6	44.1	38.9	34.2	30.2	44.0	37.4	32.1	83.5	81.4	78.3	1.3	1.5	1.6	36.1
ITC	ADD	300	330	10.1	3,665	50.5	12,275	10	11	12	8.2	12.3	11.7	31.1	27.7	24.8	20.1	17.7	15.8	6.7	6.3	6.0	20.4	22.2	24.2	1.9	2.2	2.6	56.5
Jubilant Foodworks	BUY	1,332	1,650	23.9	176	2.4	132	25	35	46	73.6	37.5	32.3	52.7	38.3	29.0	26.3	19.8	15.0	13.1	10.0	7.6	28.9	29.5	29.7	0.2	0.2	0.3	28.7
Jyothy Laboratories	ADD	205	240	17.3	74	1.0	364	6	7	8	27.6	16.7	15.4	36.4	31.2	27.0	24.3	20.6	17.6	5.6	4.9	4.3	16.6	16.8	16.9	0.5	0.7	1.0	0.9
Marico	ADD	344	375	9.0	444	6.1	1,291	7	8	9	8.9	20.0	14.5	50.4	42.0	36.7	35.0	28.9	24.9	16.5	15.4	14.2	33.7	37.9	40.2	1.4	1.6	1.8	9.6
Nestle India	ADD	10,145	11,000	8.4	978	13.5	96	171	197	223	34.2	15.7	13.2	59.5	51.4	45.4	34.0	29.4	25.8	26.3	24.1	22.1	46.1	49.0	50.8	1.1	1.3	1.5	9.6
Page Industries	SELL	32,326	25,000	(22.7)	361	5.0	11	418	508	607	34.3	21.6	19.5	77.4	63.6	53.2	50.0	41.3	34.4	32.7	25.9	20.8	47.8	45.5	43.4	0.5	0.7	0.8	17.6
Pidlite Industries	REDUCE	1,120	1,080	(3.5)	569	7.8	508	21	26	31	16.8	21.8	20.2	53.2	43.6	36.3	35.3	29.2	24.3	13.5	11.3	9.5	27.4	28.2	28.4	0.6	0.7	0.8	8.1
S H Kelkar and Company	BUY	219	290	32.4	32	0.4	145	7	10	12	(6.2)	41.9	23.2	31.6	22.2	18.0	20.4	14.6	12.6	3.4	3.1	2.7	11.3	14.5	16.0	0.8	0.9	1.3	0.4
Tata Global Beverages	REDUCE	235	250	6.4	148	2.0	631	8	9	10	7.7	17.0	12.9	29.7	25.4	22.5	16.3	14.3	12.6	2.0	1.9	1.9	7.0	7.9	8.5	1.3	1.5	1.7	11.3
Titan Company	SELL	824	840	1.9	731	10.1	888	16	20	23	25.6	21.8	19.3	51.3	42.1	35.3	34.0	27.1	22.3	12.1	10.2	8.6	25.6	26.3	26.4	0.5	0.7	0.8	37.5
United Breweries	SELL	1,308	1,100	(15.9)	346	4.8	264	21	26	31	39.2	23.6	20.6	62.9	50.9	42.2	31.1	26.7	22.9	10.9	9.2	7.8	18.7	19.6	20.0	0.2	0.3	0.5	13.7
United Spirits	REDUCE	561	590	5.2	408	5.6	727	10	13	17	34.7	30.9	24.5	54.7	41.8	33.6	31.9	25.8	21.7	11.2	8.2	6.3	24.2	22.7	21.3	—	—	0.4	13.3
Varun Beverages	ADD	788	800	1.5	144	2.0	183	15	20	26	29.8	34.5	30.7	52.7	39.2	30.0	17.4	14.8	12.5	7.3	6.2	5.3	14.6	17.1	19.0	—	—	0.3	1.4
Consumer products	Cautious				16,015	221					17.7	16.0	14.7	45.1	38.9	33.9	29.2	25.1	21.8	11.8	10.5	9.4	26.1	27.1	27.8	1.2	1.4	1.6	324.3
Energy																													
BPCL	REDUCE	365	375	2.7	792	10.9	1,967	38	39	39	(6.7)	3.1	1.1	9.7	9.4	9.3	7.1	6.7	6.5	1.9	1.7	1.6	20.5	19.1	17.5	4.1	4.2	4.3	26.0
Castrol India	SELL	154	155	0.5	152	2.1	989	7	8	9	2.9	10.1	9.7	21.8	19.8	18.1	13.6	12.3	11.1	14.3	14.0	13.5	67.1	71.5	76.0	3.6	4.1	4.4	3.7
GAIL (India)	BUY	385	440	14.4	867	12.0	2,255	26	29	31	27.8	10.0	9.5	14.7	13.4	12.2	9.2	8.4	7.7	2.0	1.8	1.7	14.0	14.1	14.2	2.2	2.5	2.7	24.5
GSPL	SELL	179	175	(2.2)	101	1.4	564	11	11	12	(6.5)	(0.5)	11.9	16.1	16.2	14.5	6.0	6.0	5.3	1.8	1.7	1.5	11.7	10.7	10.9	0.9	0.9	1.0	1.3
HPCL	REDUCE	251	285	13.4	383	5.3	1,524	32	32	32	(22.3)	(2.2)	0.5	7.8	7.9	7.9	7.0	7.4	7.7	1.4	1.3	1.2	19.6	17.4	16.1	5.3	5.1	5.2	23.1
Indraprastha Gas	SELL	256	240	(6.4)	179	2.5	700	12	13	15	16.4	12.3	10.7	21.4	19.0	17.2	13.5	11.8	10.4	4.4	3.8	3.4	22.1	21.5	20.9	1.0	1.2	1.6	9.4
IOCL	REDUCE	153	150	(2.2)	1,490	20.5	9,479	18	17	18	(11.2)	(4.1)	2.8	8.4	8.8	8.5	4.8	4.8	4.6	1.2	1.1	1.1	15.1	13.4	12.9	4.7	4.6	4.7	18.6
Mahanagar Gas	ADD	836	965	15.5	83	1.1	99	56	60	64	16.0	7.6	5.4	14.9	13.8	13.1	8.6	7.8	7.2	3.5	3.1	2.7	24.8	23.5	22.0	2.6	2.9	3.0	12.3
ONGC	ADD	177	200	13.0	2,271	31.3	12,833	20	20	19	16.8	0.3	(5.9)	8.7	8.7	9.2	4.1	3.9	3.9	0.9	0.9	0.9	11.2	10.6	9.5	3.8	4.0	4.0	15.6
Oil India	SELL	208	200	(3.9)	236	3.3	1,135	23	24	23	(6.7)	3.4	(2.5)	9.0	8.7	9.0	5.9	5.7	5.7	0.8	0.8	0.7	9.2	9.0	8.4	4.4	4.6	4.5	2.1
Petronet LNG	BUY	233	280	19.9	350	4.8	1,500	16	18	20	16.7	13.1	9.4	14.4	12.7	11.6	9.6	8.1	7.2	3.1	2.8	2.5	23.3	23.2	22.7	2.4	3.1	3.9	10.3
Reliance Industries	SELL	1,211	985	(18.6)	7,165	98.7	5,922	69	78	87	17.6	12.4	11.9	17.4	15.5	13.9	11.8	10.1	8.5	2.2	1.9	1.7	12.2	12.1	12.1	0.5	0.6	0.6	140.0
Energy	Attractive				14,070	194					7.2	5.2	4.8	12.7	12.1	11.5	7.7	7.1	6.6	1.7	1.5	1.4	13.0	12.5	12.0	2.1	2.1	2.2	286.7

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)
		19-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Industrials																													
ABB	SELL	1,437	1,020	(29.0)	304	4.2	212	26	29	36	30.1	14.2	23.5	55.7	48.8	39.5	32.8	29.5	24.4	7.7	7.0	6.2	14.5	15.1	16.7	0.6	0.6	0.6	2.0
BHEL	REDUCE	75	89	19.3	274	3.8	3,671	3.3	5.5	7.6	47.9	69.3	38.0	23.0	13.6	9.8	7.3	4.5	3.2	0.8	0.8	0.8	3.6	6.1	8.2	2.7	4.6	6.3	9.3
Carborundum Universal	SELL	376	322	(14.4)	71	1.0	189	14	17	20	25.0	21.4	13.8	26.4	21.7	19.1	14.4	11.8	10.2	4.1	3.7	3.3	16.3	17.8	18.1	1.1	1.4	1.6	0.4
CG Power and Industrial	BUY	53	72	34.7	33	0.5	627	2.9	4.3	6.2	255.2	48.7	44.9	18.4	12.4	8.5	7.5	5.9	4.6	1.2	1.2	1.1	6.7	9.8	13.3	—	—	—	6.3
Cummins India	REDUCE	723	710	(1.8)	200	2.8	277	28	33	37	15.2	17.5	13.7	26.0	22.1	19.5	21.8	18.7	16.1	4.7	4.4	4.1	18.7	20.6	21.8	2.1	2.5	2.8	4.7
Kalpitaru Power Transmission	BUY	330	560	69.6	51	0.7	153	23.0	32.1	41.0	26.0	39.1	27.7	14.3	10.3	8.1	6.5	5.1	4.3	1.7	1.5	1.2	12.5	15.2	16.7	0.5	0.5	0.5	0.6
KEC International	BUY	307	410	33.5	79	1.1	257	21	27	33	16.9	29.7	23.0	14.7	11.3	9.2	8.2	6.7	5.7	3.2	2.6	2.1	24.1	25.2	24.9	0.7	1.0	1.2	2.7
L&T	BUY	1,333	1,600	20.0	1,868	25.7	1,401	66.3	67.6	79.5	28.2	1.9	17.6	20.1	19.7	16.8	18.0	17.4	14.5	3.4	3.0	2.7	17.6	16.2	17.1	1.7	1.7	2.0	45.6
Siemens	SELL	963	1,000	3.8	343	4.7	356	29	35	—	21.4	21.7	—	33.1	27.2	—	18.6	14.9	—	4.0	3.7	—	12.3	14.0	—	1.2	1.5	—	3.5
Thermax	REDUCE	961	1,010	5.1	114	1.6	113	27.8	38.7	43.8	34.7	39.2	13.2	34.6	24.8	21.9	21.9	16.2	13.8	3.7	3.4	3.1	11.1	14.3	14.7	1.0	1.2	1.3	0.9
Industrials	Neutral				3,339	46					29.0	13.9	11.9	23.0	20.2	18.1	16.6	14.8	12.1	2.8	2.6	2.6	12.3	12.9	14.3	1.5	1.8	2.0	76.1
Infrastructure																													
Adani Ports and SEZ	BUY	372	460	23.5	771	10.6	2,071	19	23	29	1.2	21.1	29.8	19.9	16.4	12.7	13.6	11.2	9.9	3.1	2.7	2.3	17.0	17.7	19.4	0.5	0.6	0.5	21.6
Ashoka Buildcon	BUY	118	235	99.8	33	0.5	282	9	10	10	4.1	17.8	(1.3)	13.4	11.4	11.5	8.8	7.5	6.9	1.5	1.3	1.2	11.8	12.3	11.0	1.4	1.1	1.1	0.5
Container Corp.	SELL	622	635	2.1	303	4.2	487	21	25	29	17.4	20.9	15.0	30.0	24.8	21.6	18.4	14.6	12.0	3.0	2.8	2.6	10.3	11.6	12.3	1.4	1.7	1.6	5.6
Dilip Buildcon	BUY	737	1,240	68.2	101	1.4	137	56	71	85	19.8	27.5	20.1	13.2	10.4	8.6	7.0	5.6	4.7	3.1	2.4	1.9	26.7	26.2	24.4	—	—	—	3.9
Gateway Distriparks	BUY	163	250	53.6	18	0.2	109	7	8	11	(5.8)	15.2	37.5	22.7	19.7	14.3	10.5	8.7	7.1	3.1	2.7	2.3	9.8	14.5	17.1	—	1.8	1.8	0.3
Gujarat Pipavav Port	BUY	105	150	41.9	51	0.7	483	5.3	6.5	7.8	29.7	22.9	19.3	19.8	16.1	13.5	10.5	8.6	7.1	2.5	2.4	2.4	12.7	15.3	17.8	4.2	5.1	6.0	1.0
IRB Infrastructure	BUY	165	320	94.5	58	0.8	351	31	33	23	36.8	7.1	(31.3)	5.3	5.0	7.2	6.2	6.7	8.0	0.9	0.8	0.7	17.6	16.3	10.0	1.9	2.4	2.6	5.5
Mahindra Logistics	REDUCE	546	565	3.4	39	0.5	71	15	21	25	50.7	39.3	23.7	37.0	26.5	21.5	20.5	14.9	11.8	7.7	6.2	5.0	22.7	25.8	25.8	—	—	—	0.6
Sadbhav Engineering	BUY	265	435	64.5	45	0.6	172	17	22	23	31.7	31.0	2.6	15.6	11.9	11.6	11.3	8.9	7.5	2.1	1.8	1.6	14.5	16.5	14.7	—	—	—	1.4
Infrastructure	Attractive				1,419	20					11.3	20.3	16.7	18.4	15.3	13.1	11.5	9.7	8.8	2.7	2.4	2.1	14.8	15.5	15.7	0.8	1.0	1.0	40.2
Internet																													
Info Edge	ADD	1,486	1,425	(4.1)	181	2.5	122	26	33	40	14.9	27.5	20.6	57.5	45.1	37.4	43.6	33.0	26.8	6.8	6.2	5.5	13.2	14.3	15.6	0.6	0.6	0.7	3.1
Just Dial	ADD	498	610	22.5	34	0.5	67	26	30	33	23.0	15.0	9.4	19.1	16.6	15.2	9.9	7.8	6.4	3.0	2.6	2.2	16.7	16.6	15.7	0.5	0.6	0.7	24.3
Internet	Cautious				215	3					17.6	23.0	16.8	43.8	35.6	30.5	32.0	25.2	21.0	5.7	5.1	4.5	12.9	14.2	14.7	0.5	0.6	0.7	27.4
Media																													
DB Corp.	REDUCE	212	270	27.4	39	0.5	184	20	23	26	14.9	12.3	14.8	10.5	9.3	8.1	5.6	4.9	—	2.1	2.0	—	20.7	22.3	25.2	7.9	9.9	11.9	0.6
DishTV	ADD	63	90	42.1	117	1.6	1,925	1.8	3.4	4.9	514.6	88.2	42.6	NM	18.4	12.9	5.5	4.3	3.4	1.7	1.6	1.4	5.1	8.9	11.5	—	—	—	5.3
Jagran Prakashan	REDUCE	119	131	9.9	35	0.5	311	11	12	14	10.0	13.6	14.5	11.2	9.9	8.6	4.9	4.2	3.6	1.9	1.8	1.7	15.9	18.2	19.7	4.2	6.3	7.1	0.4
PVR	BUY	1,335	1,430	7.1	62	0.9	47	38	50	61	41.2	32.3	22.4	35.2	26.6	21.8	13.5	11.5	9.7	5.1	4.3	3.7	15.3	17.6	18.3	0.3	0.4	0.5	11.4
Sun TV Network	REDUCE	655	925	41.2	258	3.6	394	35	39	43	20.7	10.9	10.7	18.8	17.0	15.4	12.7	11.0	9.4	5.0	4.5	4.1	28.1	27.9	27.9	2.7	3.1	3.4	20.2
Zee Entertainment Enterprises	ADD	451	600	33.1	433	6.0	960	17	20	22	11.3	17.0	13.9	27.0	23.0	20.2	16.6	14.0	12.1	5.1	4.5	3.9	19.9	20.6	20.7	1.0	1.2	1.6	18.0
Media	Attractive				945	13					28.7	21.0	17.2	22.6	18.7	16.0	10.7	9.1	7.5	3.7	3.3	3.2	16.3	17.7	19.8	1.7	2.0	2.4	55.7

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)
		19-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Metals & Mining																													
Coal India	ADD	281	320	14.0	1,742	24.0	6,207	25	25	27	120.4	2.2	6.6	11.3	11.0	10.3	8.6	7.3	6.7	6.9	7.6	8.1	62.7	65.9	76.0	7.1	8.9	8.9	14.4
Hindalco Industries	BUY	236	305	29.4	529	7.3	2,229	27	31	34	25.1	13.6	10.2	8.6	7.6	6.9	5.6	4.9	4.3	0.9	0.8	0.7	10.6	10.8	10.8	0.5	0.5	0.5	34.9
Hindustan Zinc	ADD	297	290	(2.3)	1,254	17.3	4,225	22	26	27	3.7	14.7	5.4	13.3	11.6	11.0	7.8	6.4	5.7	3.0	2.6	2.3	24.4	24.2	22.1	2.7	2.7	2.7	6.3
Jindal Steel and Power	REDUCE	232	215	(7.5)	225	3.1	968	8	14	22	195.9	68.5	60.8	28.5	16.9	10.5	7.1	6.5	5.6	0.7	0.7	0.7	2.7	4.3	6.5	—	—	—	32.6
JSW Steel	SELL	417	350	(16.1)	1,008	13.9	2,406	31	26	31	16.1	(16.2)	17.2	13.3	15.9	13.6	7.7	8.8	7.8	2.8	2.5	2.1	23.5	16.6	16.8	0.8	0.8	0.8	30.2
National Aluminium Co.	ADD	69	80	16.7	133	1.8	1,933	9	7	8	125.8	(21.1)	2.4	7.4	9.3	9.1	3.3	4.2	4.2	1.2	1.2	1.2	16.8	13.0	13.3	8.8	8.8	8.8	11.6
NMDC	REDUCE	118	120	1.6	374	5.2	3,164	12	10	11	4.2	(14.3)	5.9	9.7	11.3	10.7	6.0	6.9	6.4	1.4	1.4	1.3	15.3	12.4	12.5	4.7	4.7	4.7	5.8
Tata Steel	ADD	621	660	6.2	713	9.8	1,205	76	85	94	12.8	12.1	10.9	8.2	7	6.6	6.1	6.4	6.0	1.1	1.0	0.9	14.3	14.3	14.4	1.6	1.6	1.6	70.4
Vedanta	BUY	230	370	60.8	855	11.8	3,717	32	39	38	49.1	19.7	(0.7)	7.1	6.0	6.0	4.7	3.9	3.5	1.2	1.1	1.0	18.0	19.4	17.2	4.2	5.0	5.0	44.6
Metals & Mining		Attractive			6,832	94					39.9	6.7	7.8	10.3	9.7	9.0	6.4	6.0	5.5	1.8	1.7	1.5	17.9	17.5	17.1	3.6	4.1	4.1	250.7
Pharmaceutical																													
Apollo Hospitals	ADD	1,071	1,090	1.8	149	2.1	139	20	27	33	133.5	36.7	21.6	54.3	39.7	32.7	19.1	16.1	14.1	4.3	4.0	3.7	8.2	10.5	11.8	0.5	0.6	0.8	15.1
Aster DM Healthcare	BUY	161	240	49.1	81	1.1	505	5	8	12	74.4	62.0	51.4	33.5	20.7	13.7	12.1	9.5	7.4	2.7	2.4	2.1	8.3	12.2	16.3	—	—	—	0.2
Aurobindo Pharma	ADD	776	760	(2.1)	455	6.3	584	42	57	64	1.0	35.8	12.3	18.4	13.5	12.1	12.3	9.1	8.1	3.3	2.7	2.2	19.3	19.9	18.6	0.7	0.8	1.0	36.8
Biocon	SELL	668	330	(50.6)	401	5.5	601	8	15	18	35.9	75.7	21.7	79.3	45.1	37.1	34.5	23.1	19.6	6.6	6.0	5.3	8.7	13.9	14.3	0.4	0.8	0.9	20.3
Cipla	BUY	659	680	3.1	531	7.3	805	24	31	40	34.5	31.0	29.4	28.0	21.4	16.5	15.8	12.5	9.8	3.3	3.0	2.6	12.4	14.6	15.7	0.7	1.0	1.3	25.5
Dr Lal Pathlabs	REDUCE	960	900	(6.3)	80	1.1	83	24	29	34	19.0	17.9	18.4	39.4	33.5	28.3	24.2	20.2	16.5	8.5	7.1	6.0	23.4	23.1	22.9	0.5	0.6	0.7	1.3
Dr Reddy's Laboratories	REDUCE	2,604	2,150	(17.4)	432	6.0	166	89	118	141	50.2	32.8	19.3	29.4	22.1	18.5	14.8	10.5	8.8	3.1	2.8	2.5	11.1	12.6	13.3	0.5	0.7	0.8	36.8
HCG	REDUCE	246	290	18.0	22	0.3	85	2	4	7	39.8	80.3	80.8	112.4	62.3	34.5	18.1	15.0	11.6	3.9	3.7	3.3	3.5	6.1	10.1	—	—	—	0.2
Laurus Labs	ADD	435	500	14.8	46	0.6	106	16	29	34	2.4	79.9	17.5	26.8	14.9	12.7	12.4	8.6	7.6	2.8	2.3	2.0	10.9	17.1	15.6	—	—	—	0.7
Lupin	REDUCE	909	800	(12.0)	411	5.7	450	27	39	50	(28.9)	44.0	27.4	33.5	23.3	18.3	15.7	11.4	9.2	2.8	2.5	2.3	8.6	11.4	12.4	0.4	0.6	0.8	46.0
Narayana Hrudayalaya	ADD	251	265	5.6	51	0.7	204	3	6	9	23.0	103.2	40.7	81.2	39.9	28.4	23.0	16.1	12.9	4.7	4.2	3.6	5.9	11.0	13.7	—	—	—	0.1
Sun Pharmaceuticals	SELL	649	540	(16.8)	1,557	21.5	2,406	16	24	29	7.5	45.5	21.6	39.8	27.3	22.5	21.5	15.6	12.9	3.8	3.4	3.0	9.8	12.9	13.2	0.5	0.7	0.9	61.3
Torrent Pharmaceuticals	NR	1,759	—	—	298	4.1	169	47	61	81	18.0	29.6	32.1	37.2	28.7	21.7	16.2	13.9	11.5	5.7	4.9	4.2	15.3	17.2	19.3	0.6	0.8	1.1	7.8
Pharmaceuticals		Neutral			4,514	62					11.3	40.7	22.6	34.1	24.2	19.7	17.6	13.0	10.9	3.7	3.3	2.9	10.9	13.5	14.6	0.5	0.7	0.9	252.1
Real Estate																													
Brigade Enterprises	BUY	200	290	45.0	27	0.4	136	9	15	17	(17.0)	59.2	15.8	21.8	13.7	11.8	13.4	10.4	8.3	1.1	1.1	1.0	5.4	8.1	8.8	1.2	1.2	1.2	0.3
DLF	RS	201	—	—	359	4.9	1,784	5.3	23.9	14.1	(87.2)	354.6	(41.0)	38.3	8.4	14.3	53.6	9.4	17.6	1.0	0.9	0.9	2.6	11.3	6.2	1.0	1.0	1.0	17.3
Godrej Properties	SELL	619	400	(35.4)	142	2.0	216	13.3	15.8	18.2	(38.9)	19.1	15.2	46.7	39.2	34.0	278.0	145.3	119.6	4.0	3.6	3.3	10.5	9.7	10.1	—	—	—	1.4
Oberoi Realty	BUY	452	560	23.8	164	2.3	340	62	44	66	385.4	(28.0)	49.3	7.3	10.2	6.8	10.1	12.7	5.5	1.7	1.4	1.2	27.4	15.2	19.2	0.4	0.4	0.4	2.2
Prestige Estates Projects	ADD	230	315	37.1	86	1.2	375	19	21	11	(24.2)	8.4	—	12.1	11.1	21.5	10.2	10.4	13.9	0.9	0.8	—	14.6	14.9	7.3	1.3	1.3	0.7	0.8
Sobha	REDUCE	424	510	20.2	40	0.6	95	23	36	24	(48.8)	51.7	(32.6)	18.1	11.9	17.7	11.1	8.7	10.9	1.9	1.7	1.6	9.0	14.8	9.1	1.6	1.6	1.6	1.6
Sunteck Realty	REDUCE	473	360	(23.9)	69	1.0	140	19	19	39	22.4	1.6	106.6	25.3	24.9	12.1	21.1	20.4	9.0	2.3	2.1	1.8	9.5	8.9	16.2	0.2	0.2	0.2	2.0
Real Estate		Neutral			889	12					(53.1)	65.1	(14.4)	19.0	11.5	13.4	19.9	11.8	13.1	1.3	1.2	1.2	7.1	10.6	9.0	0.7	0.7	0.7	25.7

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		19-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E		
Technology																													
HCL Technologies	REDUCE	1,087	1,100	1.2	1,514	20.9	1,409	71	78	82	14.6	8.9	5.0	15.2	14.0	13.3	9.9	8.8	8.1	3.4	2.9	2.6	24.4	22.3	20.6	0.8	2.8	3.0	34.6
Hexaware Technologies	SELL	456	455	(0.3)	135	1.9	302	20	24	27	19.5	21.6	12.7	23.1	19.0	16.8	17.1	13.0	11.3	5.9	5.0	4.3	27.6	28.7	27.5	1.8	1.8	2.2	22.8
Infosys	ADD	720	770	7.0	3,144	43.3	4,350	36	41	45	12.8	13.3	8.9	19.7	17.4	16.0	13.5	11.8	10.5	4.4	4.0	3.6	23.4	24.2	23.7	3.0	2.7	2.9	85.4
L&T Infotech	ADD	1,837	2,100	14.3	318	4.4	175	83	96	113	30.5	15.6	18.1	22.2	19.2	16.2	16.8	13.5	11.4	6.7	5.4	4.4	33.5	31.3	30.0	1.3	1.4	1.6	8.6
Mindtree	ADD	1,120	1,225	9.3	184	2.5	165	45	57	65	29.5	27.0	14.5	25.1	19.7	17.2	15.9	12.5	10.8	5.7	4.8	4.1	24.7	26.6	25.8	1.2	1.5	1.7	26.1
Mphasis	SELL	1,228	900	(26.7)	237	3.3	193	53	60	63	21.9	12.1	4.7	23.0	20.5	19.6	17.0	14.4	13.4	4.5	4.1	3.7	18.9	21.0	20.0	1.6	2.0	2.4	6.7
TCS	REDUCE	2,077	1,950	(6.1)	7,952	109.6	3,829	84	94	101	24.9	11.7	7.4	24.7	22.1	20.5	18.1	16.2	15.1	8.0	7.8	7.7	34.3	35.6	37.7	2.0	3.6	3.9	85.6
Tech Mahindra	ADD	770	865	12.4	680	9.4	891	46	57	64	8.4	22.4	13.0	16.7	13.6	12.0	10.0	7.9	6.7	3.1	2.7	2.3	20.2	21.2	20.3	1.2	1.3	1.5	39.1
Wipro	REDUCE	333	325	(2.3)	1,505	20.7	4,507	19	23	25	12.8	19.5	7.5	17.4	14.6	13.6	11.3	9.5	8.7	2.7	2.5	2.3	16.5	17.6	17.4	0.5	3.0	3.3	18.2
Technology	Cautious				15,669	216					15.6	13.0	8.1	21.2	18.7	17.3	14.6	12.8	11.7	5.1	4.7	4.3	24.2	25.1	24.9	1.9	3.1	3.3	327.1
Telecom																													
Bharti Airtel	ADD	370	445	20.3	1,479	20.4	3,997	(6)	(4)	5	(221.5)	28.8	215.1	(64.3)	(90.4)	78.6	9.6	8.1	6.5	2.2	2.3	2.3	(3.4)	(2.5)	2.9	0.3	(0.2)	0.3	23.7
Bharti Infratel	REDUCE	271	285	5.2	501	6.9	1,850	13	12	13	(4.8)	(8.5)	7.7	20.7	22.6	21.0	7.6	8.1	7.6	3.1	3.1	3.0	14.6	13.7	14.6	3.9	3.6	3.9	10.3
IDEA	REDUCE	46	45	(1.6)	400	5.5	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(2.7)	(2.7)	(3.0)	42.6	35.6	21.7	0.9	1.4	2.5	(29.7)	(41.1)	(59.4)	—	—	—	15.8
Tata Communications	ADD	519	660	27.1	148	2.0	285	0	3	7	(77.5)	694.2	123.5	1,401	176.4	79.0	10.5	9.2	8.3	(64.5)	(87.6)	(1,696.5)	7.8	(42.1)	(211.0)	1.3	1.4	1.4	3.3
Telecom	Cautious				2,528	35					(2,384.5)	5.0	68.0	(35.2)	(37.0)	(115.8)	11.3	9.9	8.1	2.4	2.7	2.8	(6.9)	(7.2)	(2.4)	1.0	0.6	1.0	53.1
Utilities																													
CESC	BUY	976	1,180	20.9	129	1.8	133	115	128	141	31.7	11.6	10.1	8.5	7.6	6.9	5.9	5.2	4.6	0.8	0.8	0.7	10.0	10.4	10.5	1.3	1.3	1.4	7.4
JSW Energy	REDUCE	68	70	3.6	111	1.5	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	—	—	—	1.2
NHPC	ADD	24	30	24.2	248	3.4	10,260	3.1	3.2	3.4	26.9	1.8	8.0	7.8	7.7	7.1	7.2	7.0	7.5	0.8	0.8	0.7	10.4	10.2	10.6	7.2	7.3	6.1	1.6
NTPC	BUY	169	190	12.4	1,394	19.2	8,245	15	16	18	30.9	4.4	16.5	11.3	10.9	9.3	9.0	8.3	7.0	1.3	1.2	1.1	11.6	11.3	12.2	2.6	2.8	3.2	11.8
Power Grid	BUY	198	250	26.2	1,037	14.3	5,232	19	21	23	19.3	13.6	7.6	10.5	9.3	8.6	7.4	6.8	6.4	1.7	1.5	1.4	17.1	17.5	17.0	3.2	3.6	3.9	14.9
Tata Power	BUY	75	90	19.3	204	2.8	2,705	6.0	7.0	10.9	12.7	15.6	57.0	12.5	10.8	6.9	10.8	10.3	9.0	1.2	1.1	0.9	10.1	10.6	14.6	—	—	—	4.3
Utilities	Attractive				3,123	43					26.0	8.8	14.1	10.7	9.8	8.6	8.0	7.4	6.7	1.3	1.2	1.1	11.9	12.0	12.5	2.9	3.1	3.3	41.3

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) (US\$ 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)
		19-Sep-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	
Others																													
Aditya Birla Fashion and Retail	BUY	188	220	16.9	145	2.0	773	2	4	6	50.6	59.1	53.5	82.0	51.5	33.6	24.0	18.7	15.2	11.5	9.4	7.3	15.0	20.0	24.5	—	—	—	4.6
Astral Poly Technk	SELL	1,073	640	(40.4)	129	1.8	120	19	25	29	30.2	28.8	16.1	56.2	43.6	37.6	30.2	24.0	20.4	9.9	8.1	6.8	19.8	20.5	19.7	0.1	0.1	0.1	0.9
Avenue Supermarts	SELL	1,515	860	(43.2)	946	13.0	624	16	20	26	28.6	26.4	27.5	93.7	74.1	58.2	54.1	42.5	33.4	16.7	13.7	11.1	19.6	20.3	21.0	—	—	—	—
Bayer Cropscience	REDUCE	4,370	4,100	(6.2)	173	2.4	34	106	130	154	20.5	23.1	18.3	41.4	33.6	28.4	30.4	24.8	20.6	7.3	6.3	5.4	18.9	20.0	20.3	0.5	0.6	0.7	0.5
Crompton Greaves Consumer	SELL	226	215	(5.0)	142	2.0	627	6	7	9	19.5	20.7	17.4	36.6	30.3	25.8	22.8	19.3	16.3	12.5	9.6	7.3	40.4	35.8	32.3	0.9	1.1	—	2.5
Dhanuka Agritech	ADD	530	650	22.6	26	0.4	49	27	31	34	3.9	15.4	10.8	19.8	17.2	15.5	14.5	11.8	10.3	3.6	3.1	2.7	19.2	19.2	18.5	1.1	1.2	1.4	0.2
Godrej Agrovet	ADD	551	640	16.2	106	1.5	189	15	19	23	28.9	28.8	21.1	37.1	28.8	23.8	20.1	15.8	13.1	5.4	4.6	3.9	15.7	17.4	17.9	—	1—	0.6	0.9
Godrej Industries	RS	563	—	—	189	2.6	336	16	20	—	8.9	24.2	—	35.4	28.5	—	29.6	32.2	—	4.6	4.0	—	13.9	15.1	—	0.3	0.3	—	4.4
Havells India	SELL	646	485	(25.0)	404	5.6	625	14	17	20	26.6	20.5	17.6	46.1	38.3	32.5	29.5	24.0	20.2	9.5	8.3	7.3	22.0	23.2	23.9	0.8	0.9	1.1	13.7
InterGlobe Aviation	BUY	869	1,220	40.4	334	4.6	383	50	83	99	(17.9)	65.3	19.5	17.4	10.5	8.8	9.3	5.2	4.2	3.8	2.9	2.2	24.1	31.1	28.6	0.6	0.9	1.1	20.4
Kaveri Seed	SELL	619	515	(16.8)	41	0.6	66	34	34	37	7.3	0.1	8.3	18.0	18.0	16.6	15.1	14.4	12.9	4.3	3.8	3.3	26.4	22.4	21.0	1.3	1.6	1.6	5.1
PI Industries	BUY	772	875	13.3	106	1.5	138	31	40	48	17.9	26.8	21.5	24.6	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	2.1
Rallis India	ADD	196	220	12.4	38	0.5	195	10	12	13	17.2	19.4	9.7	19.4	16.2	14.8	12.7	10.7	9.5	2.9	2.6	2.4	15.8	17.1	16.9	1.9	2.0	2.2	0.8
SIS	REDUCE	999	1,130	13.1	73	1.0	73	33	40	48	48.5	21.1	17.8	30.0	24.8	21.0	18.8	15.7	13.1	6.0	4.9	4.1	21.8	21.7	21.1	0.3	0.4	0.4	0.6
SRF	BUY	1,983	2,200	11.0	114	1.6	57	100	132	150	23.8	32.2	14.1	19.9	15.1	13.2	11.5	9.2	7.8	2.8	2.4	2.1	15.0	17.3	17.0	0.7	0.7	0.8	12.3
Tata Chemicals	ADD	739	760	2.9	188	2.6	255	44	51	56	(15.3)	14.6	11.5	16.7	14.6	13.1	7.0	5.8	5.0	1.6	1.5	1.4	9.7	10.3	10.8	2.0	2.3	2.3	6.7
TCNS Clothing Co.	BUY	665	760	14.3	41	0.6	64	18	23	27	15.6	28.2	20.8	37.5	29.2	24.2	20.2	15.2	12.1	7.5	5.8	4.5	22.7	22.2	20.9	—	—	—	—
TeamLease Services	SELL	2,499	1,785	(28.6)	43	0.6	17	58	75	96	34.2	29.0	28.7	43.2	33.5	26.0	43.7	33.2	25.5	7.9	6.4	5.1	20.1	21.1	21.9	—	—	—	1.3
UPL	ADD	692	660	(4.7)	353	4.9	507	49	55	60	14.0	12.1	9.6	14.1	12.6	11.5	9.5	8.1	7.0	3.2	2.6	2.2	24.6	22.9	21.1	1.4	1.6	1.8	28.0
Vardhman Textiles	ADD	1,034	1,300	25.7	59	0.8	56	118	130	142	14.8	9.7	9.8	8.7	8.0	7.3	6.7	6.1	5.4	1.1	1.0	0.9	13.1	13.0	13.0	1.9	2.9	2.9	0.7
Volta	SELL	568	530	(6.7)	188	2.6	331	17	21	25	0.4	18.8	18.9	32.7	27.5	23.2	24.5	20.0	16.7	4.3	3.9	3.4	13.9	14.8	15.7	0.6	0.7	0.9	12.2
Whirlpool	SELL	1,495	1,350	(9.7)	190	2.6	127	37	46	56	33.9	24.7	20.2	40.4	32.4	26.9	24.5	19.3	15.8	8.8	7.3	6.2	23.7	24.5	24.8	—	0.6	1.1	1.3
Others																													
					4,027	55				8.3	26.4	12.5	30.7	24.3	21.6	18.6	14.8	12.0	5.2	4.4	4.0	17.0	18.3	18.5	0.6	0.7	0.7	119.0	
KIE universe					112,171	1,545				24.5	27.3	14.2	21.8	17.1	15.0	11.1	9.8	8.8	2.8	2.5	2.3	12.8	14.8	15.2	1.4	1.7	1.9		
KIE universe (ex-energy)					98,101	1,351				30.2	33.3	16.3	24.3	18.2	15.7	12.3	10.7	9.5	3.1	2.8	2.5	12.8	15.4	16.1	1.3	1.6	1.8		

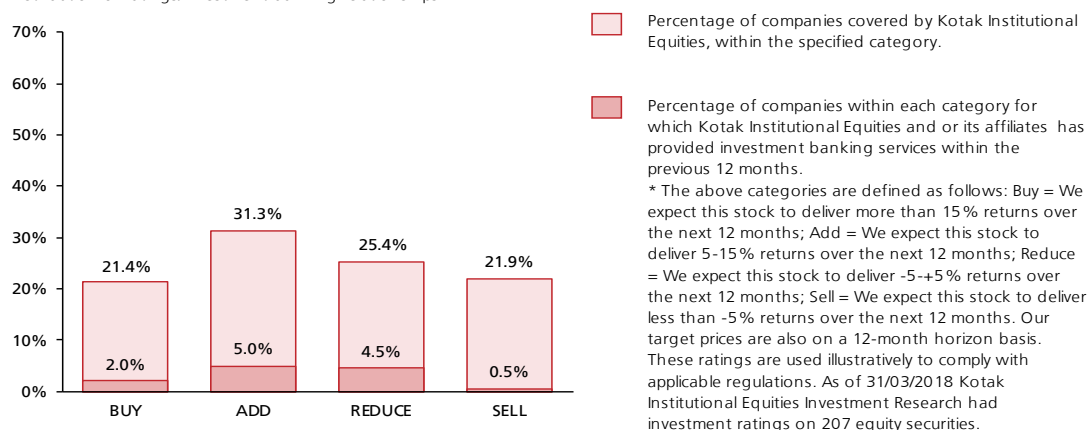
Notes:

- (a) We have used adjusted book values for banking companies.
- (b) 2019 means calendar year 2018, similarly for 2020 and 2021 for these particular companies.
- (c) Exchange rate (Rs/US\$)= 72.57

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>