

Conference call takeaways

- ▶ The company indicated that they will pursue market share in the domestic motorcycle segment through CT100 and Platina over the next 2-3 years. They want to reach a market share of 24% in domestic motorcycle segment from current market share of 16% in the next 2-3 years. This has implications for the industry, Hero and TVS will also get impacted as they defend their market share in the economy segment. If industry growth is driven by the economy segment, industry profitability will decline. Our analysis suggests that in CT100 and Platina segment, Bajaj Auto is making negative 10% EBITDA margin and it forms 15% of Bajaj Auto's revenues.
- ▶ The company expects 10-11% yoy growth in the domestic motorcycle industry in FY2019E due to pick-up in rural demand. The company is targeting to gain market share led by (1) pick-up in demand for Pulsar brand after launch of the new Pulsar 150 and price adjustments in one variant, (2) increase in Discover brand volumes to 25,000 units per month from 18,000 units currently and (3) continued strong demand for CT100 post price cuts of ₹3,000-3,500 announced towards the end of FY2018. Volume target for Dominar model is 25,000 units in FY2019E (18,000 units in FY2018). The company is targeting market share of 45% in entry segment motorcycles as compared to around 33% currently and expects the overall motorcycle market share to improve to 20% (~16% share in 1QFY19) in the next few quarters. We believe that the company's overall expectations are optimistic and we expect marginal market share gain for the company's domestic motorcycle segment in FY2018-21E (refer to Exhibit 5-6 for our assumptions).
- ▶ In the domestic three-wheeler segment, the demand environment remains strong given new permits have got released in Telangana, Delhi and Bangalore. Further, as per management, there is still growth potential in Maharashtra (ex-Mumbai) post discontinuation of permit requirement in the state. The company is doing well in the diesel segment – both on passenger and cargo products, which will likely continue going ahead. The company will launch the Qute vehicle (quadricycle) for retail sales in Kerala and North-east states next month.
- ▶ The company expects export volumes of 2 mn units in FY2019E (implies 22% yoy growth) due to pick-up in demand from Nigeria post rebound in oil prices. Key growth areas for exports – (1) Volumes in Nigeria market more than doubled to 119,000 units in 1QFY19 versus 46,000 units in 1QFY18, (2) Sales to Egypt more than doubled to 42,000 units in 1QFY19 versus 19,000 units in 1QFY18 and (3) Cambodia, Iraq and Ghana markets saw significant volume growth in three-wheelers; 1QFY19 volumes were over 10,000 units versus only 1,900 units in 1QFY18. Overall the company expects to sell 800,000 units in FY2019E (implies 28% yoy growth); we expect 814,149 units of three-wheeler sales volumes for the company in FY2019E. The company expects export realizations at around 68 in FY2019 (USD:INR rate).
- ▶ In the domestic market, the company has taken a price increase of 1% each in March/April 2018 and mid-May 2018 and another 1% in July 2018, which will take care of the recent commodity cost increases. In the export markets, Bajaj has taken a price increase in certain markets and believes that the benefit of rupee depreciation will offset the cost increases in other markets.
- ▶ Domestic ASPs declined by 12% qoq, which was 7.6% below our estimate. The decline in domestic ASPs was possibly driven by (1) 5-6% due to a weaker mix (higher share of CT100 and lower share of three-wheelers), (2) 3% due to price cut in CT100 and (3) 3% due to increase in discounts/dealer incentives/higher sales of lower price variants in Pulsar.
- ▶ Employee cost rose in 1QFY19 due to a special bonus given to employees on achieving annual targets. This run-rate would sustain if targets keep getting achieved else will come down.
- ▶ The company's spare revenues grew by 8% yoy in 1QFY19 (₹6.5 bn) and FY2018 (₹27.6 bn). Tax rate will be around 31% in FY2019E.

Exhibit 1: Bajaj Auto's 1QFY19 results were significantly below our estimates
Interim result of Bajaj Auto, March fiscal year-ends (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	Yoy chg (%)
					1QFY19E	1QFY18	4QFY18			
Volumes (units)	1,226,641	1,226,641	888,434	1,045,378		38.1	17.3	4,668,579	4,006,791	16.5
Net realisations	59,245	62,786	59,976	63,621	(5.6)	(1.2)	(6.9)	59,994	61,646	
Net sales	72,672	77,015	53,285	66,508	(5.6)	36.4	9.3	280,087	247,003	
Operating income	1,521	1,200	1,139	1,225	26.8	33.5	24.2	5,549	4,646	
Net sales (including op income)	74,193	78,215	54,424	67,733	(5.1)	36.3	9.5	285,636	251,649	13.5
Inc/dec in stock	(1,344)	—	(544)	1,306				383	(97)	
Raw materials	(51,648)	(54,551)	(37,549)	(48,275)	(2.9)	39.1	12.8	(204,215)	(174,004)	
Staff costs	(3,140)	(3,000)	(2,725)	(2,670)	4.7	15.2	17.6	(11,653)	(10,691)	
Other expenses	(5,246)	(5,534)	(4,222)	(4,942)	(5.2)	24.2	6.2	(21,436)	(19,023)	
Total expenses	(61,379)	(63,085)	(45,040)	(54,581)	(2.7)	36.3	12.5	(236,922)	(203,815)	
EBITDA	12,814	15,130	9,384	13,152	(15.3)	36.6	(2.6)	48,714	47,834	1.8
Other income	4,044	3,800	4,573	3,667	6.4	(11.6)	10.3	16,538	13,473	
Interest expense	(3)	(3)	(2)	(3)			3.3	—	(13)	
Depreciation expense	(700)	(880)	(753)	(879)	(20.5)	(7.0)	(20.4)	(3,230)	(3,148)	
Profit before tax before exceptional	16,156	18,047	13,201	15,937	(10.5)	22.4	1.4	62,021	58,146	
Extraordinary expense	—	—	(320)	—				—	(320)	
Profit before tax	16,156	18,047	12,881	15,937	(10.5)	25.4	1.4	62,021	57,826	7.3
Tax expense	(5,003)	(5,595)	(3,642)	(5,138)	(10.6)	37.4	(2.6)	(19,227)	(17,145)	
Profit after tax	11,152	12,452	9,239	10,799	(10.4)	20.7	3.3	42,795	40,681	
AEJ PAT	11,152	12,452	9,463	10,799	(10.4)	17.8	3.3	42,795	40,905	4.6
Raw material cost as % of net sales	71.4	69.7	70.0	69.3				71.4	69.2	
Staff cost as % of net sales	4.2	3.8	5.0	3.9				4.1	4.2	
Other expenses as % of net sales	7.1	7.1	7.8	7.3				7.5	7.6	
EBITDA margin (%)	17.3	19.3	17.2	19.4				17.1	19.0	
No of shares	289	289	289	289				289	289	
EPS	38.5	43.0	32.7	37.3				147.9	141.3	4.6
Tax rate (%)	31.0	31.0	27.6	32.2				31.0	29.5	
Revenue breakdown (Rs mn)										
Export revenues	31,510	32,000	24,790	24,010	(1.5)	27.1	31.2	120,528	97,030	24.2
Export ASPs (Rs/unit)	58,571	59,482	60,534	56,420	(1.5)	(3.2)	3.8	59,252	58,361	1.5
Domestic revenues	42,683	46,215	29,634	43,723	(7.6)	44.0	(2.4)	165,108	154,619	6.8
Domestic ASPs (Rs/unit)	61,979	67,109	61,878	70,542	(7.6)	0.2	(12.1)	62,673	65,958	(5.0)
Volume breakdown (units)										
Economy	295,329	295,329	180,000	190,848		64.1	54.7	1,082,492	896,216	20.8
Executive	55,021	55,021	66,000	87,814		(16.6)	(37.3)	256,531	247,351	3.7
Premium	243,884	243,884	180,562	218,925		35.1	11.4	869,594	831,010	4.6
Domestic motorcycle	594,234	594,234	426,562	497,587		39.3	19.4	2,208,617	1,974,577	11.9
Platina	104,449	104,449	70,000	112,303		49.2	(7.0)	522,216	428,045	22.0
CT	190,880	190,880	110,000	78,545		73.5	143.0	560,276	468,171	19.7
Discover/V15	55,021	55,021	66,000	87,814		(16.6)	(37.3)	256,531	247,351	3.7
Pemium bikes (Pulsar, Avenger, KTM)	243,884	243,884	180,562	218,925		35.1	11.4	869,594	831,010	4.6
Export motorcycle	435,730	435,730	349,152	358,802		24.8	21.4	1,645,813	1,394,757	18.0
Total motorcycle	1,029,964	1,029,964	775,714	856,389		32.8	20.3	3,854,431	3,369,334	14.4
Domestic 3 wheelers	94,431	94,431	52,347	122,229		80.4	(22.7)	425,810	369,637	15.2
Export 3 wheelers	102,246	102,246	60,373	66,760		69.4	53.2	388,339	267,820	45.0
3 wheelers	196,677	196,677	112,720	188,989		74.5	4.1	814,149	637,457	27.7
Total volumes	1,226,641	1,226,641	888,434	1,045,378		38.1	17.3	4,668,579	4,006,791	16.5
Volume mix (%)										
Economy	24.1	24.1	20.3	18.3				23.2	22.4	
Executive	4.5	4.5	7.4	8.4				5.5	6.2	
Premium	19.9	19.9	20.3	20.9				18.6	20.7	
Domestic motorcycle	48.4	48.4	48.0	47.6				47.3	49.3	
Platina	8.5	8.5	7.9	10.7				11.2	10.7	
CT	15.6	15.6	12.4	7.5				12.0	11.7	
Discover/V15	4.5	4.5	7.4	8.4				5.5	6.2	
Pemium bikes (Pulsar, Avenger, KTM)	19.9	19.9	20.3	20.9				18.6	20.7	
Export motorcycle	35.5	35.5	39.3	34.3				35.3	34.8	
Total motorcycle	84.0	84.0	87.3	81.9				82.6	84.1	
Domestic 3 wheelers	7.7	7.7	5.9	11.7				9.1	9.2	
Export 3 wheelers	8.3	8.3	6.8	6.4				8.3	6.7	
3 wheelers	16.0	16.0	12.7	18.1				17.4	15.9	
Total volumes	100.0	100.0	100.0	100.0				100.0	100.0	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Strong yoy growth in Boxer exports in 1QFY19 (led by strong demand in Nigeria) led to weaker product mix on yoy basis
Volume mix of two-wheeler exports, 1QFY16-1QFY19, (Units, %)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	ASPs (Rs)
Export volumes (units)														
Platina	18,222	21,672	13,175	8,954	16,446	18,125	15,270	14,772	14,791	13,542	12,612	13,567	11,823	33,000
Boxer	206,154	233,023	195,830	116,339	151,353	129,238	109,926	112,936	136,114	140,804	173,678	186,474	230,654	32,000
CT	46,468	33,776	29,855	35,228	44,165	52,022	51,556	49,044	53,302	43,230	48,300	52,474	54,224	30,000
Discover/V15	42,013	42,497	28,610	31,643	28,167	32,308	33,264	38,476	40,367	36,280	37,421	29,986	37,019	46,000
Pulsar	61,376	96,659	76,158	78,343	68,897	72,205	67,570	59,728	78,515	72,558	67,904	63,953	76,353	63,000
KTM/Avenger/Others	15,184	6,140	8,746	13,116	14,632	13,971	11,948	12,522	26,063	28,310	12,164	12,348	25,657	70,000
Total volumes	389,417	433,767	352,374	283,623	323,660	317,869	289,534	287,478	349,152	334,724	352,079	358,802	435,730	
ASPs (Rs)	39,686	40,712	40,648	43,665	41,313	41,865	42,108	41,680	43,163	43,233	40,541	39,749	40,637	
Qoq increase (%)	(7.1)	2.6	(0.2)	7.4	(5.4)	1.3	0.6	(1.0)	3.6	0.2	(6.2)	(2.0)	2.2	
Volume mix (%)														
Platina	4.7	5.0	3.7	3.2	5.1	5.7	5.3	5.1	4.2	4.0	3.6	3.8	2.7	
Boxer	52.9	53.7	55.6	41.0	46.8	40.7	38.0	39.3	39.0	42.1	49.3	52.0	52.9	
CT	11.9	7.8	8.5	12.4	13.6	16.4	17.8	17.1	15.3	12.9	13.7	14.6	12.4	
Discover	10.8	9.8	8.1	11.2	8.7	10.2	11.5	13.4	11.6	10.8	10.6	8.4	8.5	
Pulsar	15.8	22.3	21.6	27.6	21.3	22.7	23.3	20.8	22.5	21.7	19.3	17.8	17.5	
KTM/Avenger/Others	3.9	1.4	2.5	4.6	4.5	4.4	4.1	4.4	7.5	8.5	3.5	3.4	5.9	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

Source: SIAM, Kotak Institutional Equities

Exhibit 3: Bajaj Auto gained significant market share in economy segment (on both yoy and qoq basis) due to aggressive pricing strategy
Domestic market share of major two-wheeler players, 1QFY14-1QFY19 (%)

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Economy																	
Bajaj Auto	28.6	21.2	22.5	26.2	40.3	37.3	34.2	30.8	35.1	35.1	33.2	25.5	25.3	32.0	31.8	24.1	31.8
Hero Motocorp	51.0	54.6	55.0	54.0	43.8	46.2	47.6	55.1	51.4	50.9	54.1	65.3	59.8	56.0	56.5	65.8	58.1
Executive																	
Bajaj Auto	9.3	9.5	9.0	5.4	4.0	4.3	3.9	3.7	6.6	5.1	5.4	5.0	3.8	3.0	2.8	5.2	3.0
Hero Motocorp	66.8	63.6	65.5	69.9	72.6	70.6	70.8	72.3	66.9	68.2	71.0	72.9	69.3	69.0	69.6	69.6	71.0
HMSI	20.1	23.7	22.8	23.2	20.5	22.7	22.2	20.9	21.5	22.1	19.8	19.5	24.2	24.1	23.8	22.4	23.7
Premium																	
Bajaj Auto	35.1	36.1	35.3	34.0	33.9	34.3	37.0	36.7	34.1	34.9	31.0	31.5	26.1	31.3	28.3	28.3	28.3
Hero Motocorp	12.4	9.1	4.9	5.5	6.0	6.1	7.1	4.4	4.3	4.1	3.9	5.0	3.8	3.0	1.9	1.2	1.2
HMSI	15.6	12.7	10.0	13.3	11.9	8.2	5.4	10.5	12.9	9.1	11.1	12.8	15.9	14.5	11.8	13.9	16.0
Royal Enfield	14.4	15.3	17.2	18.5	20.5	22.6	22.8	22.9	23.8	23.6	28.3	27.8	26.3	25.0	31.3	28.7	25.5
Total																	
Bajaj Auto	17.7	16.7	16.6	15.1	17.9	17.7	17.9	17.5	18.6	18.8	18.5	16.1	14.0	16.9	16.4	15.3	16.3
Hero Motocorp	53.8	51.3	52.3	54.1	53.5	51.3	52.2	52.5	50.6	49.8	50.5	54.7	52.4	50.5	50.8	52.4	51.3
HMSI	15.4	16.4	15.9	16.7	14.1	14.5	13.2	13.8	14.9	14.1	12.8	13.4	16.5	15.7	14.7	15.0	15.8

Source: SIAM, Kotak Institutional Equities

Exhibit 4: We lower our FY2019-21E EPS estimates by 7.5-9.5%
Earnings estimates revision, March fiscal year-ends, 2019-21E (₹ mn, units)

	New estimates			Old estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Domestic two-wheelers	2,208,617	2,368,042	2,540,697	2,073,306	2,158,028	2,246,417	6.5	9.7	13.1
Domestic three-wheelers	425,810	448,100	469,405	391,125	411,681	431,166	8.9	8.8	8.9
Export two-wheelers	1,645,813	1,810,395	2,027,642	1,603,971	1,796,447	2,012,021	2.6	0.8	0.8
Export three-wheelers	388,339	407,756	428,144	299,958	329,954	362,950	29.5	23.6	18.0
Total volumes (units)	4,668,579	5,034,293	5,465,888	4,368,360	4,696,110	5,052,553	6.9	7.2	8.2
Average net realization	61,183	61,363	62,298	64,261	65,041	66,749	(4.8)	(5.7)	(6.7)
Net sales (incl. operating income)	285,636	308,920	340,516	280,715	305,440	337,254	1.8	1.1	1.0
EBITDA	48,714	53,004	57,762	52,149	57,074	62,893	(6.6)	(7.1)	(8.2)
EBITDA margin (%)	17.1	17.2	17.0	18.6	18.7	18.6			
Profit after tax	42,795	46,648	50,988	46,284	50,894	56,330	(7.5)	(8.3)	(9.5)
EPS (Rs/share)	147.9	161.2	176.2	159.9	175.9	194.6	(7.5)	(8.3)	(9.5)

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Bajaj Auto's volumes are expected to grow at 11% CAGR over FY2018-21E
 Bajaj Auto volume projections, March fiscal year-ends, 2013-21E (units, %)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales volume (units)									
Motorcycles	3,757,105	3,422,403	3,291,315	3,358,252	3,179,521	3,369,334	3,854,431	4,178,437	4,568,339
Domestic	2,463,874	2,099,230	1,770,009	1,898,957	1,960,980	1,974,577	2,208,617	2,368,042	2,540,697
Platina	484,600	465,111	486,568	275,276	383,542	435,180	522,216	574,438	631,881
CT100	—	—	29,189	590,067	452,712	466,897	560,276	616,304	677,934
Discover	1,311,843	992,176	557,942	238,098	303,032	244,315	256,531	264,227	272,153
Pulsar/Avenger/KTM	667,431	641,943	696,310	795,516	821,694	828,185	869,594	913,074	958,728
Exports	1,293,231	1,323,173	1,521,306	1,459,295	1,218,541	1,394,757	1,645,813	1,810,395	2,027,642
Total two-wheelers	3,757,105	3,422,403	3,291,315	3,358,252	3,179,521	3,369,334	3,854,431	4,178,437	4,568,339
RE 60	—	—	—	334	2,000	—	—	—	—
Domestic three-wheelers	226,131	186,912	234,345	256,320	253,147	369,637	425,810	448,100	469,405
Passenger three-wheelers	223,287	186,856	234,345	254,995	239,985	346,846	405,810	426,100	447,405
Goods three-wheelers	2,844	56	—	1,325	13,162	22,791	20,000	22,000	22,000
Exports	253,926	260,762	285,541	280,000	191,236	267,820	388,339	407,756	428,144
Total three-wheelers	480,057	447,674	519,886	536,320	444,383	637,457	814,149	855,856	897,549
Total vehicles	4,237,162	3,870,077	3,811,201	3,894,906	3,625,904	4,006,791	4,668,579	5,034,293	5,465,888
Growth (yoy %)									
Motorcycles	(2.0)	(8.9)	(3.8)	2.0	(5.3)	6.0	14.4	8.4	9.3
Domestic	(4.0)	(14.8)	(15.7)	7.3	3.3	0.7	11.9	7.2	7.3
Platina	(9.5)	(4.0)	4.6	(43.4)	39.3	13.5	20.0	10.0	10.0
CT100	—	—	—	—	(23.3)	3.1	20.0	10.0	10.0
Discover	(0.3)	(24.4)	(43.8)	(57.3)	27.3	(19.4)	5.0	3.0	3.0
Pulsar/Avenger/KTM	(6.7)	(3.8)	8.5	14.2	3.3	0.8	5.0	5.0	5.0
Exports	2.0	2.3	15.0	(4.1)	(16.5)	14.5	18.0	10.0	12.0
Total two-wheelers	(2.0)	(8.9)	(3.8)	2.0	(5.3)	6.0	14.4	8.4	9.3
RE 60	—	—	—	—	—	—	—	—	—
Domestic three-wheelers	11.4	(17.3)	25.4	9.4	(1.2)	46.0	15.2	5.2	4.8
Passenger three-wheelers	14.4	(16.3)	25.4	8.8	(5.9)	44.5	17.0	5.0	5.0
Goods three-wheelers	(63.7)	(98.0)	—	—	—	—	—	—	—
Exports	(18.7)	2.7	9.5	(1.9)	(31.7)	40.0	45.0	5.0	5.0
Total three-wheelers	(6.8)	(6.7)	16.1	3.2	(17.1)	43.4	27.7	5.1	4.9
Total vehicles	(2.6)	(8.7)	(1.5)	2.2	(6.9)	10.5	16.5	7.8	8.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: We expect Bajaj Auto to gain 70 bps market share in domestic motorcycle industry over the next three years

Domestic motorcycle industry growth estimates by segment, March fiscal year-ends, 2012-21E (mn units, %)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Economy	1.9	1.9	1.9	2.1	2.4	2.6	3.2	3.6	3.8	4.0
Executive	6.5	6.5	6.8	6.7	6.0	6.0	6.5	7.0	7.3	7.7
Premium	1.7	1.6	1.7	2.0	2.2	2.5	2.9	3.4	3.6	3.9
Total volumes	10.1	10.1	10.5	10.7	10.7	11.1	12.6	14.0	14.6	15.5
yoy change (%)										
Economy	20.1	4.3	(1.0)	8.9	16.0	6.2	23.0	14.0	5.0	5.0
Executive	12.3	(0.5)	6.0	(2.5)	(9.3)	(0.6)	9.3	7.4	3.2	5.5
Premium	4.0	(3.4)	5.5	15.3	12.1	12.6	14.7	16.0	7.0	8.0
Total	11.8	0.2	3.9	2.5	(0.4)	3.7	13.7	11.0	4.6	6.0
Player-wise volumes (mn units)										
Economy	1.9	1.9	1.9	2.1	2.4	2.6	3.2	3.6	3.8	4.0
Hero Motocorp	0.8	1.0	1.1	1.1	1.2	1.4	1.9	2.1	2.2	2.3
Bajaj Auto	0.5	0.5	0.5	0.5	0.9	0.8	0.9	1.1	1.2	1.3
TVS	0.5	0.4	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.4
Executive	6.5	6.5	6.8	6.7	6.0	6.0	6.5	7.0	7.3	7.7
Hero Motocorp	4.5	4.1	4.2	4.4	4.3	4.2	4.5	4.9	5.2	5.5
Bajaj Auto	1.3	1.3	1.0	0.6	0.2	0.3	0.2	0.3	0.3	0.3
Honda	0.6	1.0	1.3	1.5	1.3	1.2	1.5	1.6	1.6	1.7
Mahindra & Mahindra	0.0	0.0	0.1	0.0	0.1	0.2	0.1	0.2	0.2	0.2
Others	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0
Premium	1.7	1.6	1.7	2.0	2.2	2.5	2.9	3.4	3.6	3.9
Hero Motocorp	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Bajaj Auto	0.7	0.7	0.6	0.7	0.8	0.8	0.8	0.9	0.9	1.0
Honda	0.2	0.2	0.3	0.3	0.2	0.3	0.4	0.5	0.5	0.5
Yamaha	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Royal Enfield	0.1	0.1	0.2	0.3	0.5	0.7	0.8	0.9	1.0	1.1
TVS	0.1	0.1	0.1	0.2	0.3	0.3	0.4	0.5	0.5	0.6
Others	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2
Total volumes	10.1	10.1	10.5	10.7	10.7	11.1	12.6	14.0	14.6	15.5
Hero Motocorp	5.7	5.4	5.4	5.7	5.6	5.7	6.5	7.1	7.5	7.9
Bajaj Auto	2.6	2.5	2.1	1.8	1.9	2.0	2.0	2.2	2.4	2.5
Honda	0.8	1.2	1.7	1.8	1.5	1.5	2.0	2.1	2.1	2.2
TVS	0.6	0.6	0.6	0.7	0.7	0.8	0.9	1.0	1.1	1.1
Domestic motorcycle market share (%)										
Hero Motocorp	56.2	53.2	51.9	52.9	52.3	51.3	51.5	51.0	51.2	50.8
Bajaj Auto	25.5	24.4	20.0	16.5	17.7	17.7	15.7	15.8	16.2	16.4
Honda	7.6	11.8	15.8	16.3	14.0	13.8	15.5	14.9	14.4	14.3
TVS	6.2	5.5	5.5	6.3	6.6	7.0	7.3	7.1	7.3	7.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: We expect Bajaj Auto's earnings to grow at 8% CAGR over FY2018-21E

Bajaj Auto - financial summary, March fiscal year-ends, 2013-21E (₹ mn)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)									
Net sales	204,684	205,147	216,120	225,865	217,636	251,649	285,636	308,920	340,516
EBITDA	41,064	44,710	41,166	47,820	44,223	47,834	48,714	53,004	57,762
Other income	3,244	3,412	10,736	10,736	12,220	13,473	16,538	17,956	19,644
Interest	(5)	(5)	(65)	(11)	(14)	(13)	—	—	—
Depreciation	(1,640)	(1,796)	(2,674)	(3,072)	(3,073)	(3,148)	(3,230)	(3,355)	(3,510)
Profit before tax	42,662	46,321	49,162	55,474	53,355	58,146	62,021	67,606	73,896
Extra-ordinary items	—	—	(3,403)	—	—	(320)	—	—	—
Taxes	(12,227)	(13,887)	(12,711)	(16,177)	(15,080)	(17,145)	(19,227)	(20,958)	(22,908)
Net profit	30,436	32,433	33,049	39,298	38,276	40,681	42,795	46,648	50,988
Adjusted net profit	30,436	32,433	36,452	39,298	38,276	40,905	42,795	46,648	50,988
Adjusted earnings per share (Rs)	105.2	112.1	126.0	135.8	132.3	141.3	147.9	161.2	176.2
Balance sheet (Rs mn)									
Equity	79,020	96,080	106,922	132,666	170,341	191,039	213,292	237,549	264,063
Deferred tax liability	1,151	1,432	1,416	2,028	3,136	3,234	3,234	3,234	3,234
Total borrowings	2,105	1,466	1,699	—	—	—	—	—	—
Current liabilities	42,511	48,498	45,587	30,172	34,672	43,922	32,356	34,022	36,510
Total liabilities	124,786	147,476	155,623	164,865	208,149	238,195	248,882	274,805	303,806
Net fixed assets	20,277	20,386	20,190	21,383	20,440	19,349	19,118	20,763	22,253
Investments	64,305	85,496	91,533	90,379	135,088	163,656	179,477	201,477	224,477
Cash	5,589	4,955	5,862	8,595	2,937	7,780	3,824	2,877	3,210
Other current assets	33,913	35,524	36,507	43,615	49,239	47,411	46,463	49,688	53,866
Miscellaneous expenditure	703	1,115	1,532	893	447	—	—	—	—
Total assets	124,786	147,476	155,623	164,865	208,149	238,195	248,882	274,805	303,806
Free cash flow (Rs mn)									
Operating cash flow excl. working capital	26,557	31,419	27,611	30,816	30,859	32,157	40,476	43,880	47,683
Working capital changes	(5,213)	4,039	(6,138)	5,753	2,533	10,451	(10,619)	(1,559)	(1,690)
Capital expenditure	(5,082)	(2,201)	(2,697)	(2,651)	(1,994)	(1,826)	(3,000)	(5,000)	(5,000)
Free cash flow	16,262	33,257	18,777	33,917	31,398	40,782	26,857	37,321	40,993
Ratios									
Gross margin (%)	29.6	32.4	31.3	33.3	32.8	30.8	28.6	28.8	28.4
EBITDA margin (%)	20.1	21.8	19.0	21.2	20.3	19.0	17.1	17.2	17.0
PAT margin (%)	14.9	15.8	16.9	17.4	17.6	16.3	15.0	15.1	15.0
Book Value (Rs/share)	273.0	332.0	369.5	458.4	588.6	660.1	737.0	820.8	912.4
RoAE (%)	43.2	36.5	32.1	32.3	24.8	22.1	20.8	20.4	20.1

Source: Company, Kotak Institutional Equities estimates

We believe that the success of LTI in the last two years can be attributed to the induction of new leadership and revamp of talent by the CEO. Investments in sales transformation, focus on large deals (another deal with TCV of US\$50 mn over a period of 5-years announced in 1QFY19), deepening of relationships with top 50 clients through multiple initiatives and investments in digital are reaping rich dividends. We note that LTI revamped and augmented its sales force, sharpened focus on the top 50 accounts and target accounts (must-win logos), increased engagement with sourcing advisors and external consultants for proactive pipeline generation, enhanced branding/marketing and improved responsiveness in RFPs. This shows in deepening of relationships (top 5 and 10 clients grew 18.6% and 22% respectively on yoy comparison) and TCV of new deals won. We expect LTI to comfortably outpace larger competition on growth rates.

Key highlights from 1QFY19 results

- ▶ Revenues grew 5.1% qoq and 22.9% yoy in c/c terms. In USD terms revenues grew 23.4% yoy to US\$320 mn. BFS vertical accounting for 30.9% of revenues grew 40.6% yoy. Revenues from the manufacturing vertical declined 3.5% qoq largely since the previous quarter has a pass-through revenue stream. Rest of the verticals except energy and utilities grew at an impressive pace. All service offerings grew in double digits on yoy comparison. From a geo standpoint, RoW grew 76% yoy powered by a large BFS deal from a South Africa based client. Over 50% of incremental revenues in the quarter were from RoW market.
- ▶ Client metrics held steady with the addition of two clients to the US\$10 mn bucket. There was no change to US\$50 mn and US\$100 mn client buckets. Revenues from top 5, 10 and 20 clients grew 18.6%, 22% and 22.9% on yoy comparison.
- ▶ EBIT margin increased 330 bps yoy and 180 bps qoq. Sequential EBIT margin increase can be attributed to—(1) 130 bps tailwind from INR depreciation against USD and (2) 40 bps from higher realized rate and lower pass-through revenues.
- ▶ Hedging gain of ₹841 mn was more than double our expectations. This can be attributed to—(1) gains from debtor revaluation to end of June 2018 quarter rates, and (2) forward contracts that matured in the quarter and had an attractive maturity price. The company has hedges of US\$730 mn as of last quarter. Nearly 70% of net cash inflows over the next 12-months were hedged. The company could have possibly increased hedging towards the end of the quarter to 90% of expected net cash inflow expected over the next 12-months.
- ▶ ETR increased to 25.5% from 21.3% in 4QFY18. One of the SEZs moved to 50% tax bracket from 100% tax exemption earlier.

Exhibit 1: LTI: Consolidated quarterly results as per Ind-AS, March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	% chg.			FY2018	FY2019E	% chg.
					KIE	yoy	qoq			
Revenue (US\$ mn)	320	314	259	309	1.9	23.4	3.5	1,132	1,349	19.1
Revenues	21,557	21,076	16,707	20,012	2.3	29.0	7.7	73,065	92,890	27.1
Employee costs	(12,681)	(12,270)	(9,844)	(11,693)	3.3	28.8	8.4	(43,288)	(54,551)	26.0
Gross profit	8,876	8,806	6,863	8,319	0.8	29.3	6.7	29,777	38,339	28.8
Other operating expenses	(4,687)	(4,997)	(4,065)	(4,783)	(6.2)	15.3	(2.0)	(17,285)	(20,767)	20.1
EBITDA	4,189	3,809	2,798	3,536	10.0	49.7	18.5	12,492	17,572	40.7
Depreciation	(378)	(410)	(393)	(360)	(7.8)	(3.8)	5.0	(1,562)	(1,663)	6.5
EBIT	3,811	3,399	2,405	3,176	12.1	58.5	20.0	10,930	15,909	45.6
Other Income	195	254	280	261				903	1,019	
Forex gains/(loss)	841	412	839	910	104.2	0.2	(7.6)	3,357	2,444	(27.2)
Finance costs	—	—	(35)	(52)				(158)	—	
Profit Before Tax	4,847	4,064	3,489	4,295	19.3	38.9	12.9	15,032	19,372	28.9
Provision for Tax	(1,236)	(1,016)	(817)	(915)	21.6	51.3	35.1	(3,422)	(4,843)	41.5
Net Profit	3,611	3,048	2,672	3,380	18.5	35.1	6.8	11,610	14,529	25.1
Minority Interest	—	—	—	1				—	—	
Extraordinary charge (net of taxes)	—	—	—	(486)				(486)	—	
Net Profit- Reported	3,611	3,048	2,672	2,895	18.5	35.1	24.7	11,124	14,529	30.6
Recurring EPS (Rs/share)	20.6	17.4	15.3	16.5	18.4	34.7	24.7	63.6	82.9	30.4
Weighted average share count (mn)	175.3	175.2	174.8	175.2				175.0	175.3	
As % of revenues										
Gross margin	41.2	41.8	41.1	41.6				40.8	41.3	
EBITDA margin (post Fx gain/loss)	23.3	20.0	21.8	22.2				21.7	21.5	
EBITDA margin (ex FX gain/loss)	19.4	18.1	16.7	17.7				17.1	18.9	
EBIT margin (post forex gains/losses)	21.6	18.1	19.4	20.4				19.6	19.8	
EBIT margin (ex Fx gain/loss)	17.7	16.1	14.4	15.9				15.0	17.1	
Net profit margin (%)	16.8	14.5	16.0	14.5				15.2	15.6	
Effective tax rate (%)	25.5	25.0	23.4	21.3				22.8	25.0	

Note:

Extraordinary charge(net of taxes) of INR 486 mn due to one-time commercial settlement entered with company's clients on March 27, 2018

Source: Company, Kotak Institutional Equities estimates

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

	New			Old			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues	92,890	106,897	121,358	88,450	102,050	115,960	5.0	4.7	4.7
EBITDA (before Fx gain/(loss))	17,572	20,324	23,197	15,684	18,322	21,075	12.0	10.9	10.1
EBIT (before Fx gain/(loss))	15,909	18,373	20,965	13,992	16,381	18,855	13.7	12.2	11.2
Net profit	14,530	16,422	19,127	12,753	14,757	17,042	13.9	11.3	12.2
EPS (Rs/ share)	82.9	93.7	109.1	72.8	84.2	97.3	13.9	11.3	12.2
Revenues (US\$ mn)	1,349	1,538	1,746	1,331	1,512	1,718	1.3	1.7	1.6
US\$ revenue growth (%)	19.1	14.0	13.5	17.6	13.6	13.6			
EBITDA margin (before Fx gain/(loss)) (%)	18.9	19.0	19.1	17.7	18.0	18.2	119 bps	106 bps	94 bps
EBIT margin (before Fx gain/(loss)) (%)	17.1	17.2	17.3	15.8	16.1	16.3	131 bps	114 bps	102 bps
Net profit margin (%)	15.6	15.4	15.8	14.4	14.5	14.7			
Forex gains/(loss)	2,444	2,307	2,881	1,664	1,663	1,890	46.9	38.7	52.5
Exchange rate (Rs/US\$)	68.9	69.5	69.5	66.4	67.5	67.5	3.7	3.0	3.0

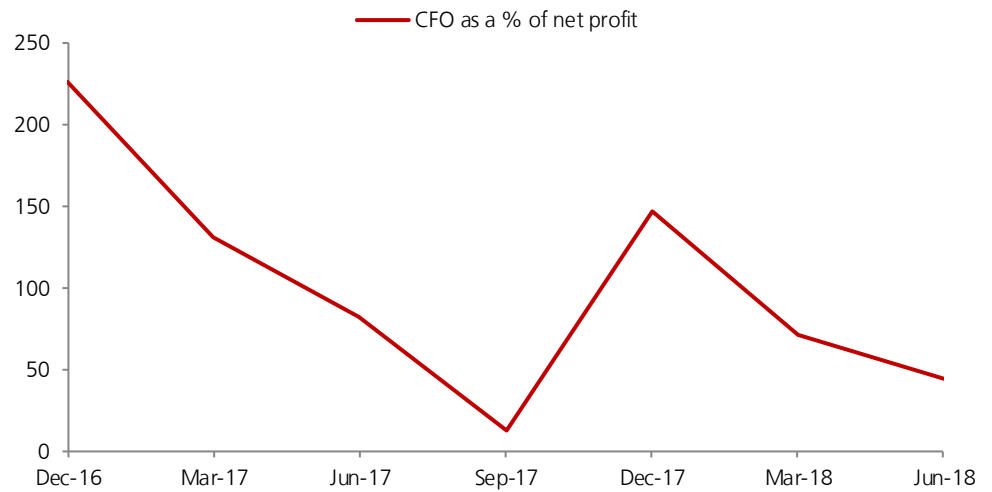
Source: Kotak Institutional Equities estimates

Exhibit 3: Revenue growth across geographies, verticals and service lines (June 2018)

	Jun-18	Growth (%)		Contribution to revenues (%)	C/C growth (%)	
		qoq	yoy		qoq	yoy
Total revenues	319.9	3.5	23.4	100.0	5.1	22.9
Geographical split of revenues						
North America	213.1	4.5	19.6	66.6	4.7	19.4
Europe	57.3	(0.4)	24.1	17.9	4.7	20.2
India	20.5	(17.2)	11.3	6.4	(14.4)	16.8
RoW	29.1	27.3	78.3	9.1	30.8	76.1
Vertical split of revenues						
Banking and financial services	98.8	11.6	42.3	30.9	13.4	40.6
Insurance	58.2	3.0	9.0	18.2	4.4	8.7
Manufacturing	50.2	(6.0)	16.7	15.7	(3.5)	17.2
Energy & utilities	32.3	(9.1)	6.5	10.1	(6.7)	6.8
CPG retail and pharma	29.1	4.7	32.1	9.1	6.7	31.3
High-Tech, Media & Entertainment	36.1	10.4	32.8	11.3	10.4	32.7
Others	14.4	1.3	4.8	4.5	1.9	9.1
Service line split of revenues						
ADM	108.8	7.3	15.9	34.0	8.7	15.5
Enterprise solutions	84.1	0.8	41.7	26.3	2.9	41.0
IMS	36.8	1.8	15.4	11.5	3.1	15.9
Testing	25.9	(0.2)	11.1	8.1	3.0	11.5
Analytics, AI and Cognitive	32.9	(0.3)	31.1	10.3	1.0	32.0
Enterprise integration and mobility	20.8	3.5	25.3	6.5	7.0	26.4
Platform based solutions	9.9	3.5	6.3	3.1	8.8	3.1
Revenue metrics						
Top 5 clients	117.1	7.6	18.6	36.6		
Top 10 clients	160.9	5.0	22.0	50.3		
Top 20 clients	211.1	5.0	22.9	66.0		

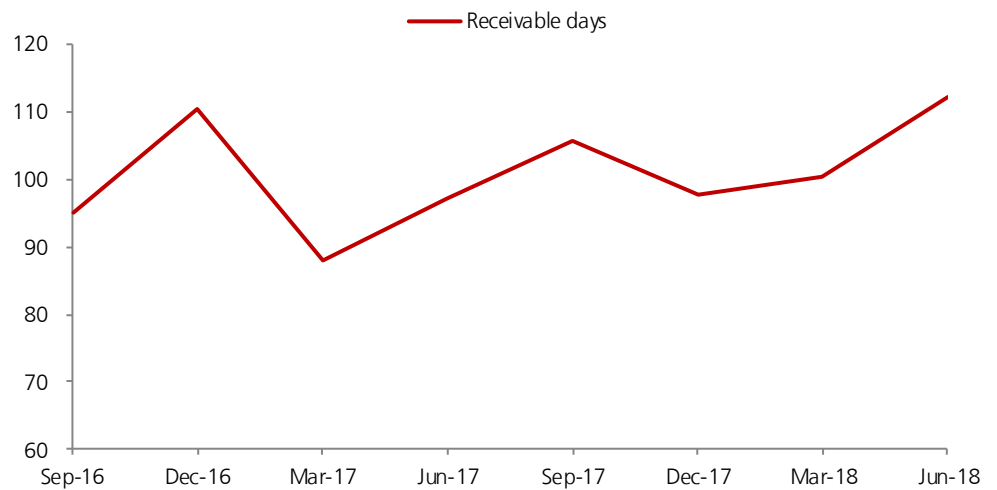
Source: Company, Kotak Institutional Equities

Exhibit 4 : Cash flow from operations as a % of net profit has declined over few quarters



Source: Company, Kotak Institutional Equities

Exhibit 5 : Receivable days increase sharply to 112



Source: Company, Kotak Institutional Equities

Exhibit 6: LTI: Key operating metrics

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Revenues (US\$ mn)	225	230	231	240	245	254	259	271	294	309	320
qoq growth (%)	0.4	2.1	0.6	3.7	2.3	3.7	2.0	4.4	8.5	5.3	3.5
Revenues (Rs mn)	14,870	15,579	15,550	16,020	16,667	16,772	16,707	17,508	18,838	20,012	21,557
Exchange rate	66.1	67.8	67.3	66.8	68.0	66.0	64.5	64.7	64.2	64.8	67.4
Revenue by verticals (%)											
Banking and financial services	27.2	24.9	25.2	26.0	26.0	26.9	26.8	27.3	27.1	28.7	30.9
Insurance	20.0	21.1	21.9	21.4	20.8	20.7	20.6	20.6	19.4	18.3	18.2
Manufacturing	19.2	19.9	18.1	18.0	17.8	19.1	16.6	16.0	17.2	17.3	15.7
Energy & utilities	12.3	11.5	11.3	10.8	11.3	11.1	11.7	12.0	11.8	11.5	10.1
CPG retail and pharma	8.2	7.5	8.1	7.8	8.0	8.2	8.5	9.0	9.2	9.0	9.1
High-Tech, Media & Entertainment	10.4	10.9	11.2	10.7	10.5	10.2	10.5	11.1	10.6	10.6	11.3
Others	2.7	4.3	4.3	5.3	5.7	3.9	5.3	4.0	4.6	4.6	4.5
Revenue by service lines (%) - new classification											
ADM	39.0	38.0	38.5	38.2	36.3	36.4	36.2	34.6	33.5	32.8	34.0
Enterprise solutions	24.2	24.1	24.1	23.0	23.2	23.6	22.9	24.1	26.4	27.0	26.3
IMS	10.0	12.0	10.6	10.4	11.4	11.4	12.3	10.9	10.8	11.7	11.5
Testing	9.6	9.2	9.9	9.5	9.0	9.1	9.0	8.9	8.3	8.4	8.1
Analytics, AI and Cognitive	7.8	6.9	7.3	8.7	9.6	9.5	9.7	10.9	10.8	10.7	10.3
Enterprise integration and mobility	5.3	5.7	5.6	6.2	6.6	6.0	6.4	6.8	6.7	6.5	6.5
Platform based solutions	4.1	4.2	4.0	4.0	4.0	3.9	3.6	3.8	3.5	3.1	3.1
Revenue by geographies (%) - new classification											
North America	67.8	68.2	69.4	68.9	68.4	68.6	68.7	70.4	67.3	66.0	66.6
Europe	16.9	17.8	18.0	18.4	18.3	18.1	17.8	17.5	18.0	18.6	17.9
India	7.0	7.8	5.7	5.9	8.0	7.5	7.1	5.5	8.4	8.0	6.4
RoW	8.2	6.2	6.9	6.8	5.3	5.7	6.3	6.7	6.4	7.4	9.1
Onsite-Offshore mix (%)											
Onsite	23.6	23.9	24.7	24.2	24.3	24.0	23.8	23.3	23.5	23.1	23.0
Offshore	76.4	76.1	75.3	75.8	75.7	76.0	76.2	76.7	76.5	76.9	77.0
Revenue mix (%)											
Onsite	48.6	47.6	48.1	48.8	47.7	48.7	46.8	46.6	46.2	45.7	46.8
Offshore	51.4	52.4	51.9	51.2	52.3	51.3	53.2	53.4	53.8	54.3	53.2
Billed person months											
Onsite	9,937	9,987	10,312	10,160	10,608	10,796	10,995	11,470	12,070	12,298	12,463
Offshore	32,354	31,832	31,382	31,774	33,031	34,115	35,216	37,777	39,276	40,843	41,713
Total	42,291	41,819	41,694	41,934	43,639	44,911	46,211	49,247	51,346	53,141	54,176
Utilization (%)											
Including trainees	74.0	75.9	77.4	78.7	78.1	78.3	77.7	79.6	80.3	79.9	79.7
Excluding trainees	76.5	77.1	78.0	80.6	80.5	79.3	78.2	80.7	81.5	81.1	81.2
Client metrics											
Clients billed	250	258	259	259	264	261	256	256	289	300	301
Clients added	12	22	12	16	14	15	12	13	17	15	19
Revenue concentration (%)											
Top 1 client	15.7	13.5	13.3	14.0	15.1	15.5					
Top 5 clients	37.6	37.1	36.7	37.1	38.3	38.5	38.1	38.0	36.4	35.2	36.6
Top 10 clients	54.6	52.4	51.3	51.8	52.1	53.1	50.9	50.9	50.8	49.6	50.3
Top 20 clients	68.5	69.0	67.7	67.6	68.3	68.0	66.3	66.0	66.1	65.1	66.0
Client size (ttm)											
> US\$1 mn	86	85	89	91	95	96	97	99	102	109	114
> US\$5 mn	32	35	35	34	35	35	35	39	43	44	42
> US\$10 mn	17	17	19	20	22	23	24	23	22	23	25
> US\$20 mn	9	10	10	10	10	11	12	12	13	13	13
> US\$50 mn	3	3	3	4	4	4	4	4	4	4	4
>US\$100 mn	1	1	1	1	1	1	1	1	1	1	1
Employee metrics											
Total employees (consolidated)	21,073	20,072	19,292	19,751	20,605	21,203	22,321	22,554	23,394	24,139	25,150
Development	19,669	18,705	17,959	18,428	19,234	19,627	20,899	21,147	21,979	22,655	23,656
Sales and support	1,404	1,367	1,333	1,323	1,371	1,396	1,422	1,407	1,415	1,484	1,494
Attrition (%)	18.5	18.4	19.5	18.5	18.1	16.9	14.7	15.0	14.6	14.8	15.1

Source: Company, Kotak Institutional Equities

Exhibit 7: Condensed consolidated financials for LTIT, March fiscal year-ends, 2014-21E (Rs mn)

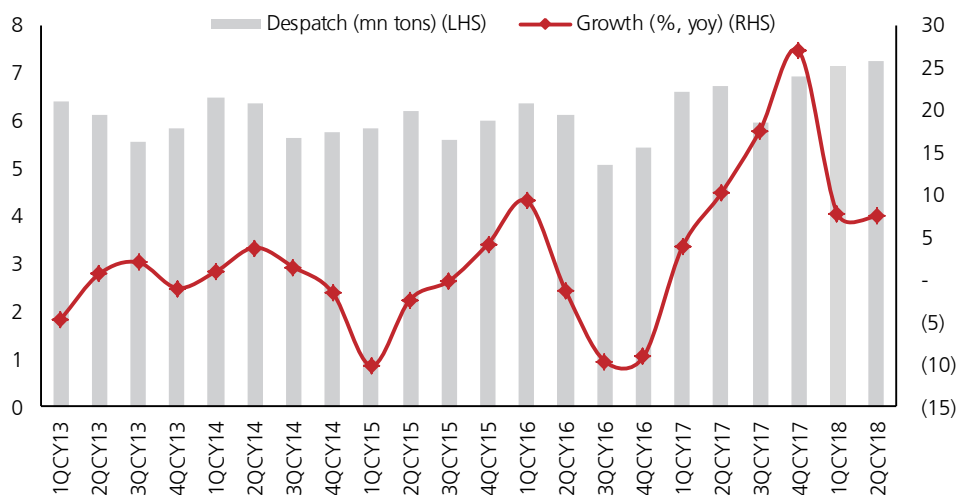
	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Profit model								
Revenues	49,205	49,780	58,464	65,009	73,065	92,890	106,897	121,358
EBITDA	11,473	10,045	10,248	12,302	11,876	17,572	20,324	23,197
Depreciation and amortization	(1,300)	(1,579)	(1,740)	(1,779)	(1,562)	(1,663)	(1,951)	(2,232)
EBIT	10,173	8,465	8,508	10,523	10,314	15,909	18,373	20,965
Other income	52	100	199	222	744	1,019	1,361	1,827
Forex gains/(loss)	(885)	815	1,698	1,645	3,357	2,444	2,444	2,307
Interest expense	(305)	(104)	(58)	(32)	—	—	—	—
Pretax profits	9,035	9,276	10,347	12,358	14,415	19,372	22,178	25,099
Tax	(2,072)	(1,668)	(1,982)	(2,649)	(3,291)	(4,843)	(5,620)	(6,547)
Adjusted profit from continuing ops	6,522	7,604	8,363	9,707	11,120	14,530	16,422	19,127
Adj diluted EPS (Rs)	38.7	45.1	49.3	55.8	63.5	82.9	93.7	109.1
Weighted avg fully diluted shares (mn)	168.5	168.5	169.8	174.0	175.0	175.2	175.2	175.2
Balance sheet								
Total equity	16,103	20,263	20,227	31,443	38,598	48,064	59,000	71,798
Borrowings	1,100	2,175	545	—	1,042	1,042	1,042	1,042
Long term liabilities	1,274	880	2,581	456	411	411	411	411
Current liabilities	8,527	7,258	11,212	12,437	13,762	16,041	18,352	20,731
Total liabilities and equity	27,006	30,581	34,570	44,344	53,826	65,571	78,816	93,992
Tangible fixed assets	2,795	2,750	2,792	2,578	2,508	3,341	4,277	5,026
Goodwill and Intangibles	3,693	4,085	3,583	2,841	4,298	3,476	2,870	2,189
Other non-current assets	2,537	2,450	4,252	5,625	5,010	5,260	5,510	5,760
Cash and cash equivalents	3,277	3,045	2,463	13,201	16,276	20,235	27,779	37,339
Other current assets	14,138	18,000	21,285	20,086	25,666	33,190	38,312	43,609
Total assets	27,006	30,581	34,570	44,344	53,826	65,571	78,816	93,992
Cash flow								
Operating cash flow, excl. w-capital	7,686	7,345	9,569	11,075	11,058	14,254	17,011	19,532
Working capital changes	(1,408)	(922)	(936)	2,643	(2,259)	(5,495)	(3,062)	(3,168)
Capital expenditure	(950)	(1,132)	(1,141)	(684)	(983)	(1,674)	(2,281)	(2,301)
Acquisitions	—	(807)	—	(70)	—	—	—	—
Proceeds from sale of PES Business(net)	3,800	94	—	—	—	—	—	—
Other income (net)	(27)	(33)	(33)	221	540	1,019	2,722	3,653
Free cash flow (includes other income)	9,101	4,544	7,460	13,185	8,356	8,104	14,391	17,716
Key ratios/metrics								
EBITDA margin before forex gains/loss (%)	23.3	20.2	17.5	18.9	16.3	18.9	19.0	19.1
EBIT margin before forex gains/loss (%)	20.7	17.0	14.6	16.2	14.1	17.1	17.2	17.3
NPM (excluding extraordinaries) (%)	14.0	15.3	14.3	14.9	15.2	15.6	15.4	15.8
US\$ revenues from continuing ops	747	810	887	970	1,132	1,349	1,538	1,746
US\$ revenue growth (%)	18.5	8.5	9.5	9.3	16.7	19.1	14.0	13.5
Net cash and cash equivalents	2,177	869	1,918	13,201	15,234	19,193	26,737	36,297
Effective tax rate (%)	22.9	18.0	19.2	21.4	22.8	25.0	25.5	25.5
RoAE (%)	46.7	41.9	41.3	37.6	31.8	33.5	30.7	29.2
RoACE (%)	56.9	40.5	36.5	38.1	28.7	35.5	33.4	31.4

Source: Company, Kotak Institutional Equities estimates

15% or more, the fuel cost increase should have been higher than the 2% yoy increase reported by the company. The company's pet-coke consumption was high at 67% in CY2017 as pet-coke cost still remains lower than coal.

The company also accounted for ₹438 mn as employee separation expense in the quarter—this is non-recurring expenditure.

Exhibit 2: ACC's cement volumes increased 7% yoy to 7.2 mn tons
Quarterly cement volumes of ACC, 1QCY13- 2QCY18 (mn tons)



Source: Company, Kotak Institutional Equities

Exhibit 3: ACC Cement, changes in estimates, December year-ends, 2018-20E

	Revised estimate			Previous estimate			Change (%)		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Volume and realizations (mn tons, Rs/ton)									
Cement sales (mn tons)	28.0	29.4	30.9	27.9	29.3	30.7	0	0	0
Realization (Rs/ton)	5,204	5,327	5,472	5,118	5,263	5,431	2	1	1
EBITDA (Rs/ton)	670	709	753	594	669	737	13	6	2
Earnings estimates (Rs mn)									
Revenues	145,814	156,717	169,056	142,738	154,111	166,973	2	2	1
EBITDA	18,772	20,858	23,265	16,574	19,585	22,653	13	7	3
PAT	11,627	13,236	15,254	10,121	12,446	15,023	15	6	2
EPS	61.9	70.4	81.1	53.8	66.2	79.9	15	6	2

Source: Kotak Institutional Equities estimates

Exhibit 4: Our assumptions factor a healthy improvement in profitability coupled with reasonable volume growth

Key assumptions in the profit model for ACC, December year-ends, 2015-20E (Rs mn)

	2016	2017	2018E	2019E	2020E	Growth (%)				
						2016	2017	2018E	2019E	2020E
Key Standalone financials (Rs mn)										
Revenue	107,678	129,310	145,814	156,717	169,056	(6)	20	13	7	8
EBITDA	12,518	15,555	18,772	20,858	23,265	8	24	21	11	12
PAT	6,899	9,154	11,627	13,236	15,254	(7)	33	27	14	15
Key operating metrics										
Volumes (mn tons)	23.0	26.2	28.0	29.4	30.9	(3)	14	7	5	5
Realization (Rs/ton)	4,684	4,934	5,204	5,327	5,472	(3)	5	5	2	3
Operating cost (Rs/ton)	4,139	4,340	4,534	4,618	4,719	(5)	5	4	2	2
Profitability (Rs/ton)	544	593	670	709	753	11	9	13	6	6

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Our fair value of Rs1,270/share is based on 9X March 2020E EV/EBITDA

ACC Cement, Valuation details, March 2020E

Valuation	(Rs mn)	Multiple	EV	
		(X)	(Rs mn)	(Rs/share)
EBITDA (Rs mn)	21,460	9	193,137	1,027
Cash & cash equivalents (Rs mn)			45,661	243
Equity value (Rs mn)			238,799	1,270
Target Price (Rs/share)				1,270

Source: Kotak Institutional Equities estimates

Exhibit 6: ACC Cement, Profit model, balance sheet and cash flow model, December year-ends, 2015-20E (Rs mn)

	2015	2016	2017	2018E	2019E	2020E
Profit model (Rs mn)						
Net sales	114,139	107,678	129,310	145,814	156,717	169,056
EBITDA	11,542	12,518	15,555	18,772	20,858	23,265
Other income	5,023	3,503	4,853	5,592	6,273	7,235
Interest	(673)	(826)	(1,023)	(1,023)	(1,023)	(1,023)
Depreciation	(6,521)	(6,052)	(6,401)	(6,242)	(6,644)	(7,045)
Extraordinary item	(1,532)	(428)	—	—	—	—
Profit before tax	7,840	8,715	12,984	17,099	19,465	22,432
Current tax	(2,588)	(2,350)	(3,511)	(5,130)	(5,839)	(6,730)
Deferred tax	664	106	(318)	(342)	(389)	(449)
Reported net income	5,916	6,471	9,154	11,627	13,236	15,254
Adjusted PAT	7,447	6,899	9,154	11,627	13,236	15,254
Earnings per share (Rs)	39.6	36.7	48.7	61.9	70.4	81.1
Balance sheet (Rs mn)						
Equity	84,430	88,319	93,655	101,436	110,825	122,232
Deferred tax liability	4,692	4,474	5,414	5,756	6,145	6,594
Borrowings	355	500	592	—	—	—
Current liabilities	38,931	41,103	49,229	49,070	52,140	55,232
Total liabilities	128,408	134,396	148,889	156,261	169,110	184,058
Fixed assets	76,559	77,858	75,027	73,785	72,141	70,096
Investments	14,757	2,585	2,302	2,302	2,302	2,302
Cash	916	19,451	26,954	30,838	42,277	55,815
Other current assets	36,176	34,502	44,606	49,336	52,390	55,845
Total assets	128,408	134,396	148,889	156,261	169,110	184,058
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	14,258	12,288	16,762	18,212	20,269	22,747
Working capital changes	579	1,764	(890)	(4,890)	17	(363)
Capital expenditure	(11,681)	(4,976)	(5,194)	(5,000)	(5,000)	(5,000)
Free cash flow	3,156	9,077	10,679	8,322	15,286	17,384
Ratios						
Book value (Rs/share)	449	470	498	540	590	650
RoAE (%)	8.9	8.0	10.1	11.9	12.5	13.1
RoACE (%)	4.8	5.6	7.1	8.7	9.1	9.5
CRoCI (%)	12.7	13.6	19.8	20.8	21.3	22.3

Source: Company, Kotak Institutional Equities estimates

Key takeaways from the conference call

- ▶ Overall volumes for the company increased by 18% yoy and were flattish qoq. As per the management, volumes in the OEM segment and exports grew by more than 20% while growth in the replacement segment was driven largely by the CV segment. ASPs increased by 1.6% qoq due to price increases taken in segments other than two-wheeler replacement segment while RM cost per kg increased by ~2% in 1QFY19 (refer to Exhibit 3 for more details). We note that RM cost will likely increase by 2-3% qoq in 2QFY19, which will require 1.5-2% price increase to maintain profitability. Given strong demand in CVs, we believe companies should be able to take 2% price increase in this segment but taking price increase in the two-wheeler segment will be difficult. The company has taken 1% price increase in the two-wheeler segment in July 2018 but we will have to see if MRF follows with similar hike, otherwise, CEAT might need to roll back the price hike. We expect 50 bps decline in gross margin in subsequent quarters due to RM cost pressures.
- ▶ With regards to recent developments around increase in load-carrying capacity in the CV segment, the company believes that it can lead to some decline in tire demand from CV OEMs in the near term. Further, demand may shift towards higher-sized tires (to 11R20 and 295 from 10R20 currently), which will require some changes in existing moulds (won't result in meaningful increase in capex) and certain SKUs will need to be tested, which may require 3-6 months.
- ▶ Consolidated debt was ₹7.5 bn as of June 2018, down from ₹8.7 bn as of March 2018. This is due to working capital savings of around ₹1.3 bn led by lower debtor and inventory days. Consequently, interest expenses declined by 22% qoq to ₹150 mn.
- ▶ The company reiterated its FY2019E capex guidance to ₹15-17 bn as it wants to commission the truck bus radial tire plant by 3QFY19. Greenfield plant for passenger vehicle tires and capacity expansion at Ambernath plant for specialty tires will likely be commissioned by mid-FY2020E. The company has incurred capex of around ₹2 bn in 1QFY19.
- ▶ There was marginal positive EBITDA (₹18 mn) in all other subsidiaries combined in 1QFY19 versus marginal loss last quarter. Revenues were ₹322 mn in 1QFY19, up from ₹112 mn in 1QFY18 due to commissioning of special tires plant in Ambernath. Capacity utilization of Ambernath plant was around 25% in 1QFY19.

Exhibit 1: 1QFY19 EBITDA was 9% above our estimates on lower other expenses

Interim results of CEAT, standalone, March fiscal year-ends (₹ mn, %)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	Yoy (%)
					1QFY19E	1QFY18	4QFY18			
Total Income	16,742	16,530	14,511	16,485	1.3	15.4	1.6	69,184	61,614	12.3
Total Expenditure	(15,001)	(14,932)	(13,971)	(14,491)	0.5	7.4	3.5	(61,201)	(55,348)	
Raw materials	(10,281)	(10,166)	(9,651)	(10,082)	1.1	6.5	2.0	(42,782)	(38,035)	
Employee expense	(1,103)	(1,070)	(962)	(1,063)	3.0	14.7	3.8	(4,461)	(4,131)	
Other expenditure	(3,617)	(3,696)	(3,358)	(3,346)	(2.1)	7.7	8.1	(13,957)	(13,182)	
EBITDA	1,741	1,598	540	1,995	8.9	222.6	(12.7)	7,983	6,265	27.4
Depreciation	(414)	(420)	(393)	(412)	(1.4)	5.2	0.5	(1,776)	(1,617)	
Interest	(150)	(200)	(222)	(193)	(24.9)	(32.2)	(22.0)	(801)	(865)	
Other income	56	90	314	92	(37.8)	(82.2)	(39.3)	512	577	
PBT	1,232	1,068	239	1,482	15.4	415.9	(16.9)	5,918	4,361	35.7
Exceptional items	(23)	—	(4)	(246)				—	(264)	
Tax expense	(431)	(331)	(44)	(385)	30.1		12.0	(1,923)	(1,309)	
Reported net profit	779	737	191	851	5.7	306.8	(8.5)	3,995	2,788	
Adjusted net profit	795	737	194	1,024	7.8	310.0	(22.4)	3,995	2,972	34.4
Number of shares (mn)	40	40	40	40				40	40	
EPS	19.3	18.2	4.7	21.0				98.8	68.9	
Adjusted EPS	19.6	18.2	4.8	25.3	7.8	310.0	(22.4)	98.8	73.5	34.4
Ratios (%)										
RM as % of sales	61.4	61.5	66.5	61.2				61.8	61.7	
Employee cost as % of sales	6.6	6.5	6.6	6.4				6.4	6.7	
Other expenditure as % of sales	21.6	22.4	23.1	20.3				20.2	21.4	
EBITDA (%)	10.4	9.7	3.7	12.1				11.5	10.2	
Effective tax rate	35.0	31.0	18.4	25.9				32.5	30.0	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: 1QFY19 consolidated EBITDA was 11% above our estimates on lower other expenses

Interim results of CEAT, consolidated, March fiscal year-ends (₹ mn, %)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	Yoy (%)
					1QFY19E	1QFY18	4QFY18			
Total Income	17,063	16,830	14,597	16,739	1.4	16.9	1.9	72,347	62,308	16.1
Total Expenditure	(15,305)	(15,242)	(14,051)	(14,763)	0.4	8.9	3.7	(64,032)	(56,169)	
Raw materials	(10,350)	(10,266)	(9,609)	(10,100)	0.8	7.7	2.5	(44,227)	(38,100)	
Employee expense	(1,189)	(1,160)	(1,002)	(1,151)	2.5	18.7	3.4	(4,890)	(4,383)	
Other expenditure	(3,766)	(3,816)	(3,439)	(3,512)	(1.3)	9.5	7.2	(14,915)	(13,686)	
EBITDA	1,758	1,588	547	1,976	10.7	221.7	(11.0)	8,315	6,139	35.4
Depreciation	(460)	(460)	(396)	(448)	—	16.2	2.7	(1,952)	(1,686)	
Interest	(204)	(245)	(226)	(238)	(16.9)	(9.7)	(14.4)	(924)	(974)	
Other income	37	70	103	69	(47.6)	(64.4)	(47.1)	238	303	
PBT	1,131	953	28	1,359	18.7	3,911.3	(16.8)	5,678	3,783	50.1
Exceptional items	(23)	—	(4)	(246)				—	(340)	
Tax expense	(442)	(320)	(48)	(397)	38.2		11.3	(1,960)	(1,340)	
Share of profit from joint venture	48	55	37	52	(12.4)	31.7	(8.0)	258	230	
Minority interest	(6)	(3)	(3)	(3)				(47)	(47)	
Reported net profit	720	691	16	771	4.2	4,319.0	(6.6)	4,023	2,380	
Adjusted net profit	736	691	19	943	6.5	3,827.1	(21.9)	4,023	2,617	
Number of shares (mn)	40	40	40	40				40	40	
EPS	17.8	17.1	0.4	19.1				99.4	58.8	
Adjusted EPS	18.2	17.1	0.5	23.3	6.5	3,827.1	(21.9)	99.4	64.7	53.7
Ratios (%)										
RM as % of sales	60.7	61.0	65.8	60.3				61.1	61.1	
Employee cost as % of sales	7.0	6.9	6.9	6.9				6.8	7.0	
Other expenditure as % of sales	22.1	22.7	23.6	21.0				20.6	22.0	
EBITDA (%)	10.3	9.4	3.7	11.8				11.5	9.9	
Effective tax rate	39.1	33.6	168.4	29.2				34.5	35.4	

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Volumes increased by 18% yoy in 1QFY19; RM cost per kg increased by 2% qoq in 1QFY19; ASPs were up 1.6% qoq
Trend in operating parameters for the standalone business, CEAT, March fiscal year-ends, 2016-18 (tons, ₹ per kg)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	Qoq (%)	Yoy (%)
Volumes (tons)	66,800	65,500	65,200	71,000	75,800	73,700	72,300	73,998	69,558	74,437	77,361	82,138	82,138	—	18.1
Net realizations	210.9	205.7	202.1	196.0	192.1	191.7	191.2	196.0	208.6	203.1	200.4	200.7	203.8	1.6	(2.3)
RM cost	121.5	115.9	112.6	110.5	110.0	110.8	112.5	123.2	138.8	123.6	117.7	122.7	125.2	2.0	(9.8)
Gross profit	89.4	89.8	89.5	85.4	82.1	80.9	78.7	72.8	69.9	79.5	82.7	78.0	78.7	0.9	12.6
Employee cost	13.8	14.8	14.2	12.7	11.9	12.9	13.8	13.4	13.8	14.1	13.6	12.9	13.4	3.8	(2.9)
Other expenses	42.6	46.7	45.2	46.5	45.7	42.9	44.1	40.7	48.3	41.1	44.2	40.7	44.0	8.1	(8.8)
EBITDA	33.0	28.4	30.1	26.2	24.5	25.1	20.8	18.7	7.8	24.4	24.8	24.3	21.2	(12.7)	173.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: International rubber prices have come off marginally over the last 1-2 months

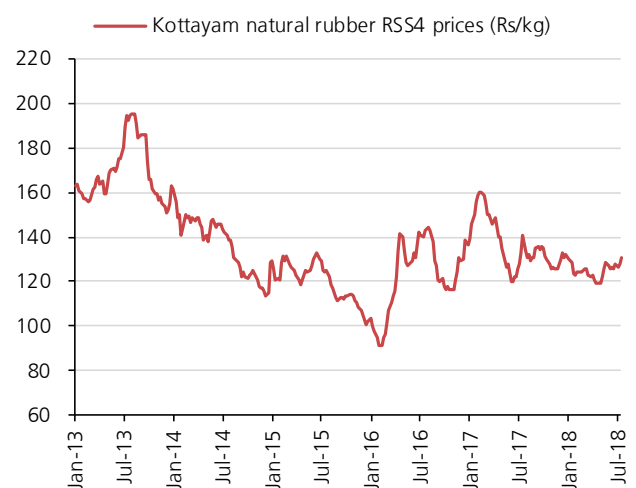
Tokyo commodity exchange rubber future contract, 2013-18 (₹ per kg)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 5: Domestic natural rubber prices remain steady at lower levels

Kottayam natural rubber RSS4 prices, 2013-18 (₹ per kg)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 6: Synthetic rubber prices have inched up over the past 1-2 months

NNS synthetic rubber prices, Korea, 2013-18 (₹ per kg)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 7: Natural rubber prices remain steady at lower levels; synthetic rubber prices have inched higher over the past 1-2 months
Natural rubber and synthetic rubber prices, March fiscal year-ends, 1QFY16-1QFY19 (₹ per kg, %)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
RSS4-natural rubber (Rs/kg)	129	113	109	100	132	135	125	152	132	133	129	125	124
QoQ chg (%)	3.2	(12.5)	(3.6)	(8.5)	32.4	2.2	(7.1)	21.3	(13.3)	0.7	(2.8)	(2.9)	(1.5)
Tokyo generic first rubber price (Rs/kg)	111	95	81	88	104	113	131	179	145	120	112	111	107
QoQ chg (%)	3.0	(14.7)	(14.3)	8.9	18.0	8.1	15.9	37.1	(19.1)	(17.2)	(7.1)	(0.2)	(3.6)
Synthetic rubber prices (Rs/kg)	120	102	99	103	120	116	133	200	155	150	132	124	135
QoQ chg (%)	0.8	(15.1)	(2.9)	4.3	16.8	(3.3)	14.4	50.8	(22.8)	(2.9)	(12.1)	(6.0)	8.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: We lower our FY2019-21E EPS estimates by 1-5% on lower EBITDA margin assumptions
Earnings revision table, CEAT, March fiscal year-ends, 2019-21 (₹ mn, %)

	New estimates			Old estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Standalone									
Net sales	69,184	76,460	83,492	68,867	76,127	83,143	0.5	0.4	0.4
EBITDA	7,983	9,060	9,966	8,079	9,360	10,290	(1.2)	(3.2)	(3.2)
EBITDA margin (%)	11.5	11.8	11.9	11.7	12.3	12.4			
Net profit	3,995	4,033	4,271	4,039	4,258	4,532	(1.1)	(5.3)	(5.8)
EPS (Rs)	98.8	99.7	105.6	99.8	105.3	112.0	(1.1)	(5.3)	(5.8)
Consolidated									
Net sales	72,347	81,385	90,433	72,030	81,052	90,083	0.4	0.4	0.4
EBITDA	8,315	9,895	11,204	8,410	10,196	11,528	(1.1)	(2.9)	(2.8)
EBITDA margin (%)	11.5	12.2	12.4	11.7	12.6	12.8			
Net profit	4,023	4,355	4,700	4,066	4,580	4,961	(1.1)	(4.9)	(5.3)
EPS (Rs)	99.4	107.7	116.2	100.5	113.2	122.6	(1.1)	(4.9)	(5.3)

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: We expect revenue mix from passenger vehicle and new specialty tires business (100% subsidiary) to increase over FY2018-21E
CEAT consolidated revenue mix, March fiscal year-ends, 2011-21E (₹ mn, %)

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2018-21 CAGR (%)
Revenues (Rs mn)												
Truck & Bus (MHCV)	20,116	23,530	25,151	24,399	23,067	20,591	18,672	19,441	20,854	22,064	23,158	6.0
Two-wheeler/Three-wheeler	3,630	5,250	6,390	8,990	12,460	14,830	16,480	19,020	21,515	23,237	25,096	9.7
Passenger vehicles	1,460	2,840	3,760	4,760	5,610	6,190	7,430	8,480	10,553	12,670	14,621	19.9
LCV	n/a	n/a	6,771	7,426	7,140	7,044	7,356	7,290	8,444	9,808	11,095	15.0
Farm	n/a	n/a	3,386	4,243	3,845	3,251	3,961	4,253	4,708	5,230	5,705	10.3
Specialty and other income	n/a	n/a	3,356	3,730	3,292	2,644	3,119	3,129	3,110	3,451	3,818	6.9
Standalone revenues	34,988	44,720	48,815	53,548	55,414	54,551	57,017	61,613	69,184	76,460	83,492	10.7
Yoy growth (%)			9.2	9.7	3.5	(1.6)	4.5	8.1	12.3	10.5	9.2	
Revenues of subsidiaries	1,323	1,770	1,708	1,992	2,107	285	648	694	3,163	4,926	6,941	115.4
Consolidated revenues	36,311	46,490	50,522	55,540	57,521	54,836	57,665	62,308	72,347	81,385	90,433	13.2
Yoy growth (%)			8.7	9.9	3.6	(4.7)	5.2	8.1	16.1	12.5	11.1	
Standalone revenue mix (%)												
Truck & Bus (MHCV)	57	53	52	46	42	38	33	32	30	29	28	
Two-wheeler/Three-wheeler	10	12	13	17	22	27	29	31	31	30	30	
Passenger vehicles	4	6	8	9	10	11	13	14	15	17	18	
LCV	n/a	n/a	14	14	13	13	13	12	12	13	13	
Farm	n/a	n/a	7	8	7	6	7	7	7	7	7	
Specialty	n/a	n/a	7	7	6	5	5	5	4	5	5	
Overall revenues	100	100	100	100	100	100	100	100	100	100	100	

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: We expect EBITDA per kg to improve over FY2019-20E

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales volumes (tons)	159,000	179,000	187,000	202,100	214,500	238,600	252,121	268,536	295,798	306,070	336,582	368,842	399,495
Yoy growth (%)		12.6	4.5	8.1	6.1	11.2	5.7	6.5	10.2	3.5	10.0	9.6	8.3
Key ratios (Rs per kg)													
Net realizations	149.7	157.6	187.1	221.3	227.6	224.4	219.8	203.1	192.8	201.3	205.5	207.3	209.0
RM cost	113.2	104.4	138.7	165.1	157.5	145.3	136.2	115.1	114.1	124.3	127.1	129.0	131.0
Gross profit	36.5	53.2	48.4	56.2	70.1	79.1	83.5	88.1	78.6	77.0	78.4	78.3	78.0
Employee cost	10.1	10.8	10.9	11.5	12.5	12.1	13.9	13.7	13.0	13.5	13.3	13.1	13.0
Other expenses	25.0	26.0	29.6	32.1	38.5	41.1	44.3	44.8	43.4	43.0	41.5	40.7	40.1
EBITDA	1.4	16.5	7.9	12.6	19.0	25.9	25.3	29.5	22.3	20.5	23.7	24.6	24.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 11: CEAT is looking to increase capacity by 75% over the next five years

Existing capacity by plant and market segment and expansion plans, March fiscal year-ends, 2017-22E (tons per day)

Tons per day (TPD)	2017	2018	2019E	2020E	2021E	2022E	Comments
Ambarnath							
Specialty (new farm radial facility)	—	40	40	100	100	100	Assuming new capacity addition over FY2020-21
Total	—	40	40	100	100	100	
Bhandup							
TBB (Truck Bus bias tyres)	150	150	150	150	150	150	
Two-wheeler/three-wheeler	15	15	15	15	15	15	
Others (LCV, Farm, etc.)	85	85	85	85	85	85	
Total	250	250	250	250	250	250	
Halol - I							
TBR (Truck Bus radial)	80	80	80	80	80	80	
PCR	70	70	70	70	70	70	
Total	150	150	150	150	150	150	
Halol - II							
PCR	76	80	110	110	110	110	
TBR	—	10	10	10	10	10	
Total	76	90	120	120	120	120	
Halol - III							
TBR	—	—	30	160	210	210	Assuming new TBR capacity will come online over FY2019-21
Total	—	—	30	160	210	210	
Nagpur -I							
Two-wheeler/three-wheeler	66	120	120	120	120	120	
Total	66	120	120	120	120	120	
Nagpur -II							
Two-wheeler/three-wheeler	—	—	—	70	140	140	Assuming new 2W/3W capacity will come online over FY2020-22
Total	—	—	—	70	140	140	
Nashik							
TBB (Truck Bus bias tyres)	90	90	90	90	90	90	
PCR	12	12	12	12	12	12	
Others (LCV, Farm, etc.)	98	98	98	98	98	98	
Total	200	200	200	200	200	200	
Greenfiled							
PCR	—	—	—	75	150	150	
Total	—	—	—	75	150	150	
Outourced							
Two-wheeler/three-wheeler	200	200	200	200	200	200	Company might reduce sourcing from vendor with increase in in-house production
Total	200	200	200	200	200	200	
Total capacity	942	1,050	1,110	1,445	1,640	1,640	
Two-wheeler/three-wheeler	281	335	335	405	475	475	
PCR	158	162	192	267	342	342	
TBR (Truck Bus radial)	80	90	120	250	300	300	
TBB (Truck Bus bias tyres)	240	240	240	240	240	240	
Others (LCV, Farm, Specialty, etc.)	183	223	223	283	283	283	

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: We expect standalone earnings to grow at 13% CAGR over FY2018-21
CEAT, standalone financial summary, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)										
Net sales	44,720	48,815	53,548	55,414	54,551	57,017	61,613	69,184	76,460	83,492
EBITDA	2,556	4,080	6,184	6,384	7,933	6,600	6,274	7,983	9,060	9,966
Other income	200	215	205	289	461	415	568	512	558	638
Interest	(1,922)	(1,779)	(1,692)	(1,305)	(933)	(938)	(911)	(801)	(1,520)	(1,764)
Depreciation	(705)	(782)	(826)	(878)	(1,068)	(1,420)	(1,617)	(1,776)	(2,168)	(2,560)
Extraordinary income/(losses)	(32)	(277)	(100)	(61)	(114)	(133)	(264)	—	—	—
Profit before tax	98	1,457	3,772	4,429	6,278	4,523	4,050	5,918	5,930	6,281
Tax	(23)	(393)	(1,234)	(1,439)	(1,826)	(1,039)	(1,309)	(1,923)	(1,898)	(2,010)
Reported net profit	75	1,064	2,538	2,990	4,452	3,484	2,741	3,995	4,033	4,271
Adjusted net profit	100	1,266	2,605	3,031	4,533	3,586	2,926	3,995	4,033	4,271
Adjusted EPS (Rs)	2.9	37.0	72.5	74.9	112.1	88.7	72.3	98.8	99.7	105.6
Balance sheet (Rs mn)										
Equity	6,563	7,467	9,671	15,985	19,491	23,062	25,468	29,004	32,573	36,352
Deferred tax liability	224	745	1,091	1,172	1,481	1,346	1,782	1,782	1,782	1,782
Other long-term liabilities	95	134	216	285	413	613	467	467	467	467
Total borrowings	12,664	10,117	11,488	7,594	6,957	7,751	6,409	16,409	17,909	19,909
Current liabilities	10,339	12,099	11,311	11,327	10,584	12,661	13,679	14,896	16,079	17,235
Total liabilities	29,886	30,562	33,777	36,362	38,926	45,432	47,805	62,557	68,809	75,745
Net fixed assets	15,375	15,129	15,044	16,454	21,881	24,576	26,371	39,595	43,428	46,868
Investments	745	447	1,243	4,368	2,245	2,587	3,201	3,600	4,400	5,200
Other long-term assets	80	1,289	853	723	729	676	1,153	1,153	1,153	1,153
Cash	334	814	1,030	622	242	175	730	1,055	1,079	2,234
Other current assets	13,351	12,884	15,606	14,196	13,829	17,418	16,350	17,154	18,748	20,290
Total assets	29,885	30,561	33,777	36,362	38,925	45,432	47,805	62,557	68,809	75,745
Free cash flow (Rs mn)										
Operating cash flow excl. working capital	2,184	3,562	5,358	5,412	6,363	5,600	5,171	6,060	7,162	7,956
Working capital changes	(1,460)	2,008	(3,806)	1,640	838	(2,205)	2,023	413	(412)	(385)
Capital expenditure	(1,253)	(630)	(771)	(2,633)	(5,984)	(3,994)	(4,029)	(15,000)	(6,000)	(6,000)
Free cash flow	(529)	4,940	782	4,419	1,217	(598)	3,165	(8,527)	750	1,571
Ratios										
Gross margin (%)	25.4	30.8	35.3	38.0	43.4	40.8	38.3	38.2	37.8	37.3
EBITDA margin (%)	5.7	8.4	11.5	11.5	14.5	11.6	10.2	11.5	11.8	11.9
PAT margin (%)	0.2	2.6	4.9	5.5	8.3	6.3	4.7	5.8	5.3	5.1
Net debt/equity (X)	1.8	1.2	1.1	0.2	0.3	0.3	0.2	0.5	0.5	0.5
Book value (Rs/share)	192	218	269	395	482	570	630	717	805	899
RoAE (%)	1.5	18.0	30.4	23.6	25.6	16.9	12.1	14.7	13.1	12.4
RoACE (%)	8.4	13.6	19.5	18.6	21.3	14.3	10.4	11.2	10.0	9.7

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: We expect consolidated earnings to grow at 22% earnings CAGR over FY2018-21
CEAT, consolidated financial summary, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)										
Net sales	46,490	50,522	55,540	57,521	54,836	57,665	62,308	72,347	81,385	90,433
EBITDA	2,825	4,380	6,580	6,804	7,732	6,568	6,148	8,315	9,895	11,204
Other income	136	177	140	226	277	186	295	238	285	364
Interest	(1,958)	(1,808)	(1,721)	(1,319)	(949)	(817)	(974)	(924)	(1,714)	(2,084)
Depreciation	(728)	(806)	(865)	(934)	(1,077)	(1,431)	(1,686)	(1,952)	(2,424)	(2,976)
Extraordinary income/(losses)	(32)	(277)	(100)	(61)	(114)	(133)	(340)	—	—	—
Profit before tax	243	1,665	4,032	4,716	5,869	4,373	3,443	5,678	6,041	6,509
Tax	(61)	(463)	(1,325)	(1,577)	(1,873)	(1,064)	(1,340)	(1,960)	(2,022)	(2,179)
Profit from associates & minority interest	(1)	—	4	33	380	303	277	305	336	370
Reported net profit	181	1,202	2,712	3,172	4,375	3,612	2,380	4,023	4,355	4,700
Adjusted net profit	205	1,402	2,780	3,213	4,453	3,712	2,618	4,023	4,355	4,700
Adjusted EPS (Rs)	6.0	40.9	77.3	79.4	110.1	91.8	64.7	99.4	107.7	116.2
Balance sheet (Rs mn)										
Equity	6,778	7,856	10,286	16,823	20,547	24,150	26,061	29,624	33,516	37,725
Minority interest	—	—	363	327	322	292	234	234	234	234
Deferred tax liability	248	786	1,148	1,250	1,582	1,449	1,893	1,893	1,893	1,893
Other long-term liabilities	111	157	260	338	434	676	511	511	511	511
Total borrowings	12,954	10,377	11,738	7,751	6,837	9,893	9,193	18,909	20,409	22,909
Current liabilities	10,531	12,295	11,667	11,737	11,357	12,710	13,719	15,284	16,553	17,974
Total liabilities	30,622	31,470	35,462	38,224	41,079	49,169	51,610	66,454	73,115	81,245
Net fixed assets	15,837	15,786	16,247	17,883	23,311	27,788	30,338	44,071	49,247	54,472
Goodwill	205	216	227	215	—	—	—	—	—	—
Investments	309	6	0	3,124	1,955	2,316	2,135	1,735	1,735	1,735
Other long-term assets	89	912	961	925	1,283	1,289	1,392	1,392	1,392	1,392
Cash	360	1,121	1,679	1,236	630	359	863	1,361	1,179	2,016
Other current assets	13,822	13,430	16,348	14,840	13,900	17,418	16,883	17,896	19,563	21,632
Total assets	30,621	31,470	35,461	38,224	41,079	49,169	51,610	66,454	73,115	81,245
Free cash flow (Rs mn)										
Operating cash flow excl. working capital	2,441	3,890	5,766	5,773	6,200	5,519	5,090	6,660	8,209	9,396
Working capital changes	(1,607)	1,955	(3,800)	1,714	820	(2,174)	1,667	552	(397)	(648)
Capital expenditure	(1,301)	(847)	(1,446)	(2,999)	(7,137)	(5,633)	(4,872)	(15,685)	(7,600)	(8,200)
Free cash flow	(467)	4,998	520	4,488	(117)	(2,288)	1,885	(8,474)	211	548
Ratios										
Gross margin (%)	25.8	31.2	35.8	38.6	43.6	41.0	38.9	38.9	38.8	38.4
EBITDA margin (%)	6.1	8.7	11.8	11.8	14.1	11.4	9.9	11.5	12.2	12.4
PAT margin (%)	0.4	2.8	5.0	5.6	8.1	6.4	4.2	5.6	5.4	5.2
Net debt/equity (X)	1.8	1.2	1.0	0.2	0.3	0.4	0.3	0.6	0.6	0.6
Book value (Rs/share)	198	229	286	416	508	597	644	732	829	933
RoAE (%)	3.1	19.2	30.6	23.7	23.8	16.6	10.4	14.4	13.8	13.2
RoACE (%)	9.0	14.3	20.5	19.3	19.5	13.1	8.1	10.3	10.0	9.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 1: Interim results of Hindustan Zinc , March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	(%chg)
					1QFY19E	1QFY18	4QFY18			
Net sales	53,100	56,618	45,760	62,770	(6)	16	(15)	231,643	220,840	5
Total expenditure	(25,970)	(25,380)	(21,920)	(26,570)	2	18	(2)	(101,765)	(98,120)	4
Inc/(Dec) in stock	(410)	—	(1,250)	(180)				—	—	
Mining and manufacturing	(4,400)	(4,464)	(3,870)	(4,420)				(85,063)	(82,773)	
Staff cost	(2,320)	(1,862)	(1,740)	(1,820)				(8,536)	(7,760)	
Other expenditure	(18,840)	(19,054)	(15,060)	(20,150)				(8,166)	(7,587)	
EBITDA	27,130	31,238	23,840	36,200	(13)	14	(25)	129,879	122,720	6
OPM (%)	51.1	55.2	52.1	57.7				56.1	55.6	
Other income	2,990	4,100	5,300	4,860	(27)	(44)	(38)	17,657	17,510	1
Interest	(150)	—	(1,370)	(450)				(566)	(2,830)	
Depreciation	(3,870)	(4,636)	(3,600)	(4,590)	(17)	8	(16)	(17,024)	(14,830)	15
Pretax profits	26,100	30,702	24,170	36,020	(15)	8	(28)	129,946	122,570	6
Extraordinaries	—	—	—	(510)				—	2,400	
Tax	(6,920)	(8,597)	(5,410)	(10,460)	(20)	28	(34)	(35,735)	(32,210)	11
Net income	19,180	22,105	18,760	25,050	(13)	2	(23)	94,211	92,760	2
Adjusted profits	19,180	22,105	18,760	25,443	(13)	2	(25)	94,211	90,868	4
Ratios										
EBITDA margin (%)	51.1	55.2	52.1	57.7				56.1	55.6	
ETR (%)	26.5	28.0	22.4	29.5				27.5	26.3	
EPS (Rs)	4.5	5.2	4.4	6.0				22.3	21.5	4
Other details										
Mined metal volumes (tons)	212,000	237,500	233,000	255,000	(11)	(9)	(17)	967,389	714,000	35
Sales volumes										
Zinc (tons)	170,000	187,000	190,000	210,000	(9)	(11)	(19)	766,455	793,000	(3)
Lead (tons)	42,000	37,800	34,000	50,000	11	24	(16)	178,034	169,000	5
Silver -saleable (kgs)	141,000	139,860	110,000	167,000	1	28	(16)	656,908	555,000	18
Average prices (US\$/ton)										
LME Zinc (US/ton)	3,263	3,263	2,591	3,417	—	26	(5)	2,850	3,050	(7)
Lead (US\$/ton)	2,384	2,384	2,157	2,522	—	11	(5)	2,250	2,375	(5)
Silver (US\$/ozt)	16.6	16.6	17.2	16.8	—	(4)	(1)	16.8	16.9	(1)
Segment revenues (Rs mn)										
Zinc and lead	46,740		44,640	55,470		5	(16)	197,173	199,350	(1)
Silver	5,470		4,350	6,370		26	(14)	26,328	21,480	23
Others	560		620	220		(10)	155	8,142	1,620	403
Total	52,770		49,610	62,060		6	(15)	231,643	222,450	4
Segmental EBIT (Rs mn)										
Zinc and lead	19,000		16,830	26,610		13	(29)		88,670	
Silver	4,730		3,410	5,470		39	(14)		18,220	
Others	410		460	100		(11)	310		910	
Total	24,140		20,700	32,180		17	(25)		107,800	

Source: Company, Kotak Institutional Equities estimates

Changes in our estimates

Exhibit 7 highlights key changes in our estimates.

We incorporate our economist's revised INR:US\$ rate assumption of ₹68.7, ₹69.5 and ₹70 for FY2019E, FY2020E and FY2021E. We cut our zinc price assumption by 8-9% to US\$2,850/ton, US\$2,500/ton and US\$2,550/ton for FY2019E, FY2020E and FY2021E.

We lower our FY2019E mined metal volumes by 1% to 967,000 tons—the management guidance for FY2019E is of slightly higher than FY2018 volumes (947,000 tons).

This results in 7-8% cut in our FY2019-2021E EBITDA estimate. We estimate EBITDA of ₹130 bn in FY2019E, ₹149 bn in FY2020E and ₹157 bn in FY2021E. Our EPS estimate is cut by 8-9% to ₹22.3, ₹25.6 and ₹27 for FY2019E, FY2020E and FY2021E.

Our target price of ₹290/share is based on 6X FY2020E EBITDA.

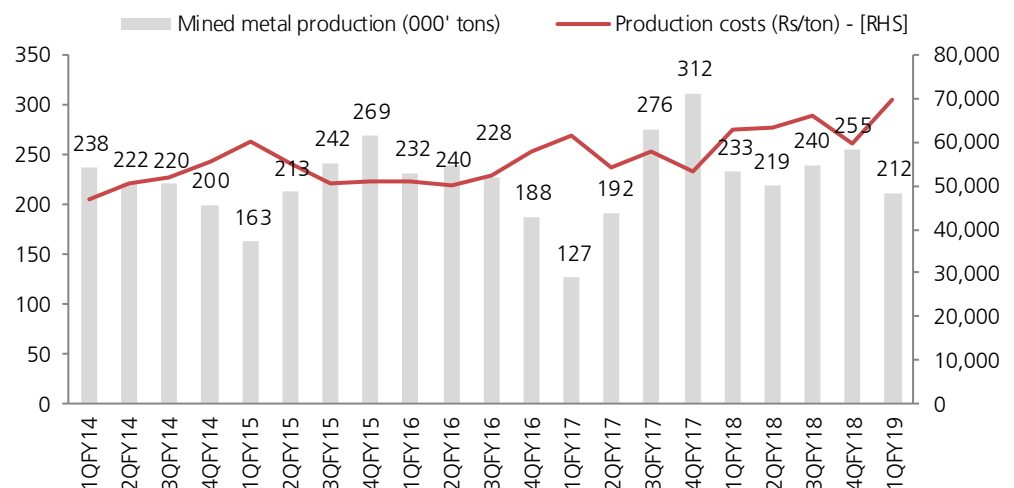
Other highlights, key takeaways from conference call

- ▶ **Cost increases by 17% qoq—to decline for rest of the year.** Production costs increased 17% qoq to ₹69,900/ton (+11% yoy) due to a combination of lower volumes, high power & maintenance costs and the impact of wage settlement. The company concluded a five year wage settlement which resulted in costs increasing by US\$33/ton (as final settlement was more than provisions made based on earlier expectations).

The company's fuel costs increased during the quarter due to lower receipt of linkage coal due to issue with rake availability from railways. The company has close to 40% its coal sourcing through linkage with Coal India but it received only 7 to 8%—these balance quantities are a deferment and not a lapse and hence the company remains hopeful of receiving higher linkage coal for the rest of the year. Besides, we also highlight that mining has large fixed costs and lower volumes result in adverse operating leverage—higher volumes in the rest of the year should aid cost reduction. The management expects production costs to range from US\$950 to 975/ton in FY2019 (US\$1,043/ton in 1QFY19).

- ▶ **Increase in silver production.** The silver production is expected to be 650 to 700 tons (138 tons in 1QFY19).
- ▶ **Next phase of expansion to 1.35 mtpa from 1.2 mtpa—planning underway.** HZ's board in the previous quarter had approved phase 1 of the project for expansion towards 1.5 mtpa mined metal capacity—the company will expand to 1.35 mtpa (in phase 1) in the next three years at capex of ₹45 bn—this will be through brownfield expansion of existing mines. The company also received environment clearance at SK mine from 4.5 mtpa to 6 mtpa mine.
- ▶ **Cash reserves—increased to ₹213 bn (₹50/share).** The cash reserves increased to ₹213 bn in June 2018 (₹50/share) from ₹204 bn in March 2018. We note that the company earned cash profit of ₹23 bn during the quarter.
- ▶ **Hedging loss of US\$2 mn in 1QFY19; no outstanding hedges.** The hedging losses were close to US\$2 mn for the quarter. The company has no outstanding hedges now.

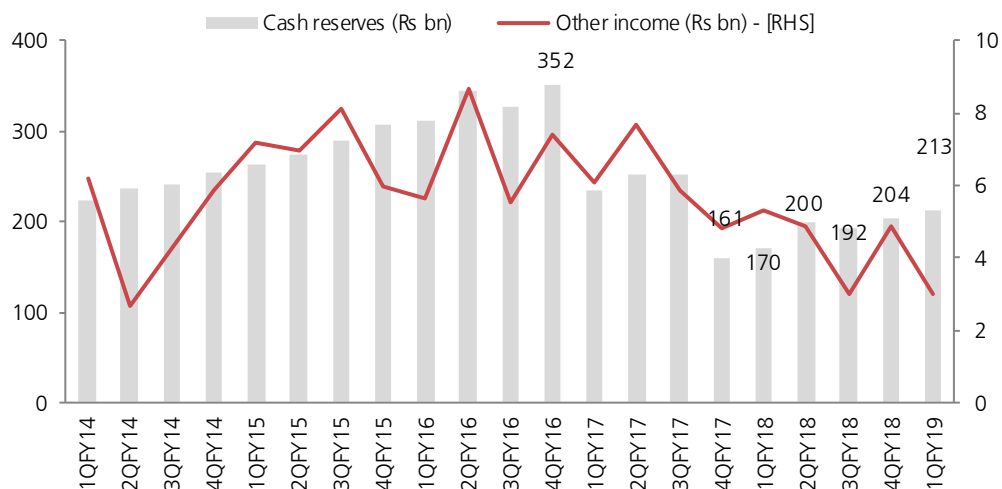
Exhibit 2: HZ's cost increased in the quarter due to lower volumes, higher fuel and wage costs
Mined metal production and production costs of Hindustan Zinc, 1QFY14 - 1QFY19 (000' tons, Rs/ton)



Source: Company, Kotak Institutional Equities estimates

Exhibit 3: HZ's cash reserves increased to Rs213 bn (or Rs50/share) in June 2019

Cash reserves and other income of Hindustan Zinc, 1QFY14 - 1QFY19 (Rs bn)



Source: Company, Kotak Institutional Equities estimates

Exhibit 4: HZ's EPS changes by 1% for every 1% change in zinc prices
EPS sensitivity of HZ to zinc prices, Fx rate, FY2020E (Rs)

FY2020E EPS	Zinc prices (US\$/ton)				
	2,000	2,250	2,500	2,750	3,000
67.5	19.5	22.0	24.5	27.0	29.4
68.5	20.0	22.5	25.0	27.6	30.1
69.5	20.5	23.0	25.6	28.1	30.7
70.5	20.9	23.5	26.1	28.7	31.3
71.5	21.4	24.1	26.7	29.3	32.0

Source: Kotak Institutional Equities estimates

Exhibit 5: HZ's fair value changes by 0.8% for 1% price change
Fair value sensitivity of HZ to prices, Fx rate, March 2020E (Rs/share)

Fair value (Rs/share)	Zinc prices (US\$/ton)				
	2,000	2,250	2,500	2,750	3,000
67.5	236	258	280	302	324
68.5	240	263	285	307	329
69.5	244	267	290	312	334
70.5	248	272	295	317	340
71.5	253	276	300	322	345

Source: Kotak Institutional Equities estimates

Exhibit 6: The global zinc supply deficit will likely narrow down as more mine supplies come on stream

Zinc mine production, capacity and demand supply details, December year ends, ('000 tons)

	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E
Total world mine production	12,360	12,585	12,896	13,039	13,493	13,610	12,807	13,000	13,780	14,255
YoY change (%)	6.5	1.8	2.5	1.1	3.5	0.9	(5.9)	1.5	6.0	3.4
Total smelter production capacity	14,378	14,618	14,715	14,928	14,655	14,874	15,086	15,126	15,124	15,300
YoY change (%)	(1.8)	1.7	0.7	1.4	(1.8)	1.5	1.4	0.3	(0.0)	1.2
Total world smelter production	12,730	12,973	12,322	12,871	13,242	13,688	13,545	13,424	13,840	14,317
YoY change (%)	13.1	1.9	(5.0)	4.5	2.9	3.4	(1.0)	(0.9)	3.1	3.4
Total world zinc consumption	12,134	12,515	12,540	13,021	13,388	13,311	13,697	14,012	14,200	14,378
YoY change (%)	16.9	3.1	0.2	3.8	2.8	(0.6)	2.9	2.3	1.3	1.3
Government sales	150	—	(150)	5	—	—	—	—	150	—
Surplus/ (Deficit)	746	458	(368)	(145)	(146)	377	(152)	(588)	(210)	(60)

Source: CRU, Kotak Institutional Equities estimates

Exhibit 7: Hindustan Zinc, changes in estimates, March fiscal year ends, FY2019-2021E

	Revised estimate			Previous estimate			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Price (US\$/ton)									
Zinc	2,850	2,500	2,550	3,100	2,750	2,800	(8)	(9)	(9)
Lead	2,250	2,250	2,300	2,450	2,350	2,400	(8)	(4)	(4)
Silver (US\$/ozt)	18.8	19.0	19.0	19	19.0	19.0	(1)	0	0
Volumes (tons)									
Mined metal	967,389	1,200,033	1,226,048	980,423	1,200,033	1,226,048	(1)	0	0
Zinc ingots	766,455	942,621	955,089	778,218	942,621	955,089	(2)	0	0
Lead ingots	178,034	214,766	214,766	179,058	214,766	214,766	(1)	0	0
Refined silver	657	800	844	660	800	844	(0)	0	0
Earnings estimates (Rs mn)									
Revenues	231,643	267,262	283,476	243,274	278,052	296,462	(5)	(4)	(4)
EBITDA	129,879	148,695	157,131	141,894	160,518	170,961	(8)	(7)	(8)
PAT	94,211	108,099	113,989	103,182	117,379	124,917	(9)	(8)	(9)
EPS	22.3	25.6	27.0	24.4	27.8	29.6	(9)	(8)	(9)
Re/US\$ rate	68.7	69.5	70.0	66.4	67.5	68.5	3	3	2

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Hindustan Zinc, Key assumptions, March fiscal-year ends, 2016-2021E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Volumes (tons)						
Mined metal volume	888,700	906,000	947,000	967,389	1,200,033	1,226,048
Zinc	760,436	696,000	793,000	766,455	942,621	955,089
Lead	145,417	138,000	169,000	178,034	214,766	214,766
Silver	426	448	555	657	800	844
Average realizations (Rs/ton)						
Zinc	133,581	176,147	210,328	216,744	192,226	197,808
Lead	129,696	151,793	170,888	174,397	174,596	179,515
Silver (Rs mn/ton)	33	38	39	40	41	41
LME-assumptions (US\$/ton)						
Zinc	1,833	2,365	3,047	2,850	2,500	2,550
Lead	1,770	2,000	2,372	2,250	2,250	2,300
Silver (US\$/ozt)	16.0	18.0	19.3	18.8	19.0	19.0
Rs/US\$ rate	65.4	67.1	64.5	68.7	69.5	70.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Our fair value of Rs290/share is based on March 2020E financials
Hindustan Zinc, valuation details, March 2020E basis

	EBITDA	Multiple	Enterprise Value		
	(Rs bn)	(X)	(Rs bn)	(US\$ mn)	(Rs/ share)
EBITDA estimate	149	6	856	13,285	203
Less: Net debt (dividend adjusted)			(369)	(5,722)	(87)
Arrived market capitalization			1,225	19,007	290
Target price (Rs/share)					290

Source: Kotak Institutional Equities estimates

Exhibit 10: Hindustan Zinc, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2016-2021E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)						
Net sales	141,810	172,730	220,840	231,643	267,262	283,476
EBITDA	66,521	97,392	122,720	129,879	148,695	157,131
Other income	27,630	24,740	17,510	17,657	21,214	25,767
Interest	(170)	(2,020)	(2,830)	(566)	(283)	(142)
Depreciation	(7,450)	(18,112)	(14,830)	(17,024)	(19,488)	(19,914)
Profit before tax	86,230	102,000	124,970	129,946	150,138	162,842
Current tax	(18,050)	(21,960)	(26,470)	(35,735)	(42,039)	(48,853)
MAT Credit	12,160	3,530	(5,740)	—	—	—
Deferred tax	1,410	(410)	—	—	—	—
Net profit	81,750	83,160	92,760	94,211	108,099	113,989
Earnings per share (Rs)	19.4	19.7	21.5	22.3	25.6	27.0
Balance sheet (Rs mn)						
Equity	373,851	308,051	359,321	412,851	480,268	553,099
Deferred tax liability	—	—	—	—	—	—
Current liabilities	158,099	130,819	70,000	70,050	71,513	72,180
Total liabilities	531,950	517,950	429,321	482,900	551,782	625,279
Net fixed assets	128,130	130,640	145,220	155,688	164,000	172,086
Investments	352,210	237,830	202,220	232,220	262,220	292,220
Cash	510	1,890	1,730	11,432	39,074	73,153
Other current assets	26,120	120,110	58,071	61,480	64,408	65,740
Deferred tax assets	24,980	27,480	22,080	22,080	22,080	22,080
Total assets	531,950	517,950	429,321	482,900	551,782	625,279
Free cash flow (Rs mn)						
Operating cash flow (excl. work cap.)	48,190	73,790	95,820	93,577	106,373	108,137
Interest Income	5,090	3,270	17,510	17,657	21,214	25,767
Working capital changes	16,320	1,980	1,220	(3,360)	(1,464)	(666)
Capital expenditure	(15,500)	(20,080)	(29,363)	(27,492)	(27,800)	(28,000)
Free cash flow	54,100	58,960	85,187	80,383	98,323	105,237
Ratios						
Net debt/equity (X)	(0.9)	(0.5)	(0.6)	(0.6)	(0.6)	(0.7)
RoAE (%)	18.1	22.1	30.0	25.9	25.5	23.0
RoACE (%)	61.1	53.7	56.5	67.6	71.3	70.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 1: L&T Finance Holdings (lending business)- quarterly summary
 March fiscal year-ends, 1QFY18-1QFY19 (Rs mn)

	Ind-AS	IGAAP	Ind-AS	IGAAP	(% chg.)			Ind-AS	IGAAP	(% chg.)	Ind-AS
	1QFY19	1QFY19E	1QFY18	4QFY18	1QFY19E	1QFY18	4QFY18	FY2019E	FY2018		FY2020E
Income statement (Rs mn)											
Total income	28,250		21,220	27,110	33.1	4.2		74,940	71,680	4.5	77,470
Interest income	25,310		19,050	24,520	32.9	3.2		112,719	87,210	29.3	137,766
Fee and other income	2,940	2,500	2,170	2,590	17.6	35.5	13.5	13,640	9,650	41.3	14,471
Interest expenses	14,810		11,900	13,830	24.5	7.1		68,783	51,150	34.5	85,828
NII	10,500	11,107	7,150	10,690	(5.5)	46.9	(1.8)	43,936	36,060	21.8	51,938
Credit losses/ provisions	3,440	4,820	3,440	4,340	(28.6)	—	(20.7)	15,977	16,900	(5.5)	19,985
NII post provision	10,000	8,787	5,880	8,940	13.8	70.1	11.9	41,599	28,810	44.4	46,424
Operating expenses	2,430	2,449	1,550	2,370	(0.8)	56.8	2.5	9,482	7,660	23.8	11,376
PBT	7,570	6,338	4,330	6,570	19.4	74.8	15.2	32,117	21,150	51.9	35,048
Taxes	1,900	2,091	500	2,110	(9.2)	280.0	(10.0)	9,337	5,530	68.8	10,236
PAT	5,670	4,246	3,830	4,460	33.5	48.0	27.1	22,781	15,620	45.8	24,812
PBT+provisions	11,010	11,158	7,770	10,910	(1.3)	41.7	0.9	48,094	38,050	26.4	55,033
PAT (de-focused business)	(290)	(300)	(690)	(300)	(3.3)	(58.0)	(3.3)	(502)	(1,600)	(68.6)	—
PAT for lending business	5,380	3,946	3,140	4,160	36.3	71.3	29.3	22,279	14,020	58.9	24,812
Tax rate (%)	25	33	12	32	-790 bps	1355 bps	-702 bps	29	26		29
Key balance sheet items (Rs bn)											
Gross loans	854	855	673	821	(0.2)	26.8	4.0	999	821	21.7	1,164
Rural	191		108	165	76.3	15.9		217	165	32.0	276
Microfinance	91		39	75	133.4	20.7		98	75	30.0	128
2-W	38		22	33	68.0	13.7		44	33	33.0	55
Farm equipment	62		47	56	32.5	10.9		75	56	34.0	94
Housing	204		137	189	48.1	7.7		271	189	43.4	333
Home loans/ LAP	91		77	88	17.9	3.4		114	88	30.0	145
Real estate finance	112		60	101	87.0	11.5		156	101	55.0	188
Wholesale	459		428	468	7.4	(1.7)		511	468	9.3	554
Infrastructure finance	371		348	373	6.5	(0.6)		407	373	9.0	439
Structured finance	76		61	77	25.2	(0.9)		89	77	15.0	99
Supply chain finance	12		18	17	(33.7)	(29.6)		16	17	(10.0)	16
Net worth	110		73	117	49.7	(6.0)		116	117	(0.5)	129
Asset quality											
GNPL (Rs mn)	64,800		75,770	32,990				24,300	20,830		24,900
GNPL (%)	7.9		11.7	4.0				4.1	3.6		3.9
NNPL (Rs mn)	24,630		37,320	15,830				16,020	13,720		14,610
NNPL (%)	3.2		6.1	1.9				2.7	2.4		2.3
PCR (%)	62		52	52				34	34		41
Key calculated ratios (%)											
Yield on AUM	12.1		11.6	12.5	48 bps	-46 bps		12.4	11.9		12.7
NIM (NII/AUM)	5.0	5.3	4.4	5.5	-28 bps	66 bps	-46 bps	4.8	4.9		4.8
Cost to income	18.1	18.0	16.6	17.8	8 bps	145 bps	23 bps	16.5	16.8		17.1
Cost to average AUM	1.2		0.9	1.2	22 bps	-5 bps		1.0	1.0		1.1
Credit cost	1.6	2.3	2.1	2.2	-66 bps	-45 bps	-58 bps	1.8	2.3		1.8
Disbursement mix (Rs bn)											
Net disbursements	156		146	227	6.8	(31.2)			804		
Rural	45		20	44	127.3	2.0			152		
Microfinance	26		8	26	213.7	0.5			72		
2-W	10		5	9	104.7	3.3			37		
Farm equipment	9		7	9	36.0	5.1			43		
Housing	25		23	29	7.8	(14.0)			108		
Home loans/ LAP	9		7	11	24.8	(19.1)			37		
Real estate finance	16		16	18	0.1	(10.9)			71		
Wholesale	87		104	154	(16.3)	(43.8)			544		
Infrastructure finance	66		74	109	(10.4)	(39.3)			397		
Structured finance	4		6	21	(31.6)	(81.7)			46		
Supply chain finance	17		24	25	(30.6)	(31.7)			102		

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Strong performance of focused business

PAT, net worth and RoE across business segments, March fiscal year-ends, 1QFY18-1QFY19

	Ind-AS				IGAAP				Ind-AS			
	PAT (Rs mn)				Networth (Rs Bn)				RoE (%)			
	1QFY18	4QFY18	1QFY19	YoY (%)	1QFY18	4QFY18	1QFY19	YoY (%)	1QFY18	4QFY18	1QFY19	
Rural	1,040	1,480	1,930	86	14	26	30	120	31.3	26.9	28.0	
Housing	1,190	1,600	1,660	39	15	26	27	83	34.4	29.8	25.7	
Wholesale	1,600	1,380	2,080	30	45	65	53	18	14.5	9.0	15.6	
Focus lending business	3,830	4,460	5,670	48	73	117	110	50	21.5	17.1	21.3	
De-focussed business	(600)	(300)	(180)	(70)	3	2	2	(36)				
Lending businesses	3,230	4,160	5,490	70	76	119	111	47				
Other businesses	210	(90)	50	(76)	8	17	9	11				
LTFH consolidated	3,440	4,070	5,540	61	84	136	120	43	16.7	14.5	18.9	
Others	300	260	160	(47)	7	10	1	(90)				
LTFH consol. (to shareholders)	3,140	3,810	5,380	71	77	126	120	56	17.2	15.1	18.5	

Source: Company, Kotak Institutional Equities

Exhibit 3: We value LTFH at Rs190 per share

SoTP-based valuation, March fiscal year-ends, 2020-2021E (Rs mn)

	2020E	2021E
Net worth of lending business	129,189	149,695
Valuation multiple (X)	2.6	2.6
Valuation (Rs mn)	335,892	389,208
Others	36,656	42,000
Value of MF	42,000	42,000
Preference shares	(5,344)	—
Fair value of LTFH	372,548	431,208
Per share (Rs)	187	216

Notes:

(a) We value the MF at Rs42 bn.

Source: Company, Kotak Institutional Equities

Exhibit 4: Our price target implies 3X PBR for rural business, 2.4X for housing and 1.3X for wholesale
Implied segmental valuation for our SoTP, March fiscal year-ends, 2020E

	Net worth (Rs mn)	Multiple (X)	Valuation (Rs mn)	Value/share (Rs)
Rural	35,365	3.0	107,510	54
Housing	32,346	2.4	78,925	40
Wholesale	61,478	1.3	79,921	40
Total			266,356	133
After assuming 25% diversification benefit			332,945	170
MF and others			36,656	18
Total				188

Source: Kotak Institutional Equities estimates

Large provisions on wholesale business, rest is challenging to forecast

- ▶ **Large one-time provision adjustment.** LTFH has adjusted one-time provisions of ₹18 bn (₹11.7 bn on post-tax basis) with its net worth on account of stressed loans in its wholesale business. The company has identified stressed loans of ₹50 bn in the wholesale segment on which provision now stands at ₹30 bn. High provisions on infra book have been built in our forecasts; as such, we are revising down our provision forecasts post this adjustment.
- ▶ **How will standard loan provisions build up?** Coverage on NPLs in other segments (rural and housing finance) are sufficient on migration to Ind-AS. However, we need more clarity on the buildup of standard loan provisions (on both delinquent and non-delinquent loans known as stage 1 and stage 2). Based on expected losses in these segments, the provisions in these segments can be revised to incorporate recent experience. The company currently has coverage of 0.4% on stage 1 loans and 6% on stage loans across all three businesses.
- ▶ **Extra provisions in 1QFY19 but this remains the key sensitivity.** With a positive outlook on collections in the near-term, we believe that current policy may be sufficient. Moreover, the company is making extra provisions (₹900 mn in 1QFY19) in addition to the regulatory requirements. However, at this stage, in the absence of sufficient data and clarity of the methodology, we find it challenging to forecast – this remains the biggest sensitivity to our earnings.

Key adjustments under Ind-AS: Large one-off provisions, deferment of fees and expenses

- ▶ **Provisions on wholesale loans and other adjustments with net worth.** We estimate LTFH's net worth adjustment at ₹8.8 bn on account of the transition. This includes ₹11.7 bn of impact of provisions in wholesale loans (net of tax provisions); other items include revaluation of its investments, ESOP expenses etc (Exhibit 4).
- ▶ **Loan sell down income will be booked upfront.** As per Ind-AS, fee income should be deferred over the tenure of the loan. However, management clarified that loan sell down/syndication fees will continue to be booked upfront.
- ▶ **Borrowing-related expenses will be deferred.** Borrowing-related expenses were booked below the line, now deferred. In the past, LTFH adjusted borrowing-related expenses to its share premium account; outstanding deferred borrowing expenses were ₹230 mn as of April 2017. This will now be booked above the line over and deferred over the tenure of the loan.
- ▶ **Preference shares adjusted to net worth.** LTFH had preference shares of ₹12 bn in March 2018. These will be considered as debt and adjusted from net worth as per the new accounting norm. We await balance sheet under Ind-AS in 2QFY19 to adjust the same.

Exhibit 4: Reconciliation of net worth under IGAAP and Ind-AS

March fiscal year-ends, 2017-18, 1QFY19 (Rs mn)

Net worth as on March 31, 2017	91,070
Infra book provisions (I)	(18,000)
DTA on above provisions (II)	6,230
Preference shares classified as liability	(12,130)
Valuation of investments (III)	2,260
Consolidation of infrastructure fund (IV)	240
Amortized cost of borrowings (V)	230
Others (amortization of fees, ECL on non-infra book) (VI)	(100)
Net worth as on April 01, 2017	69,800
PAT for FY2018	12,750
Equity infusion	33,540
Dividend payout	(2,220)
ESOP reserve (VII)	260
Net worth as on March 31, 2018	114,130
PAT for 1QFY18	5,380
Net worth as on June 30, 2018	119,510
Total adjustments (I+II+III+IV+V+VI+VII)	(8,880)

Source: Company, Kotak Institutional Equities

Exhibit 5: Comparison of IGAAP and Ind-AS estimates

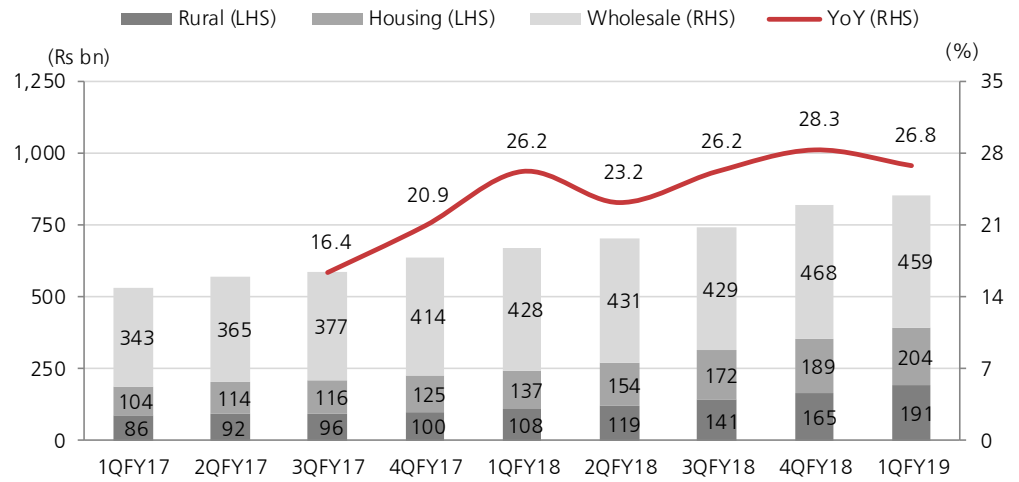
March fiscal year-ends, 1QFY18 (Rs mn)

	1QFY18		Difference	Comments
	IGAAP	Ind-AS		
Total income	21,770	21,220	(550)	
Interest income	19,680	19,050	(630)	Deferment of fee income
Fee income+other income	2,090	2,170	80	
Interest cost	11,680	11,900	220	Deferment of lending-related expenses
Net interest income	8,000	7,150	(850)	
Credit losses/ provisions	3,830	3,440	(390)	Lower provisions on infra book
NII post provisions	6,260	5,880	(380)	
Operating expenses	1,610	1,550	(60)	ESOP expenses
PBT	4,650	4,330	(320)	
Tax	1,420	500	(920)	
PAT	3,230	3,830	600	
PBT+ provisions	8,480	7,770	(710)	

Source: Company

Exhibit 5: Strong loan growth at 27% yoy

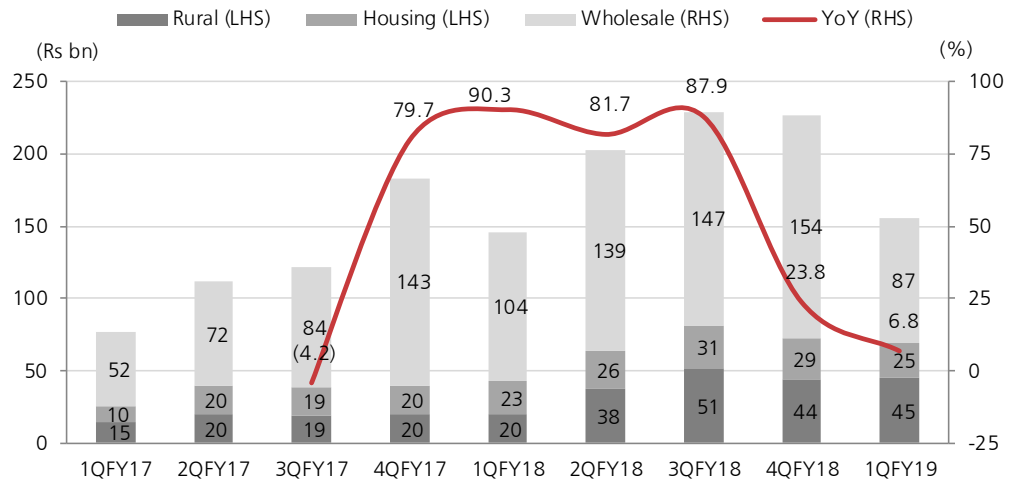
Loan book break-up (lending business), March fiscal year-ends, 1QFY17-1QFY19



Source: Kotak Institutional Equities , Company

Exhibit 6: Disbursement growth dropped to 7% yoy as impact of low base gradually wear away

Disbursements break-up (lending business), March fiscal year-ends, 1QFY17-1QFY19



Source: Kotak Institutional Equities , Company

Exhibit 9: RoE of lending business will move to ~20% by FY2021E

DU Pont analysis of lending business, March fiscal year-end, 2017-2021E (%)

	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Du Pont analysis					
(% of average assets)					
Net interest income	4.9	4.7	4.6	4.6	4.7
Other income	0.8	1.3	1.4	1.3	1.2
Total income	5.6	5.9	6.0	5.8	5.8
Credit costs	1.9	2.2	1.7	1.8	1.8
Operating expenses	1.1	1.0	1.0	1.0	1.0
PBT post extraordinary	2.6	2.7	3.4	3.1	3.0
1-tax rate	69	74	71	71	71
RoA	1.8	2.0	2.4	2.2	2.1
Average assets / average equity (X)	8.5	7.8	8.2	9.3	9.5
RoE	15.3	15.9	19.6	20.2	20.3
RoE (including discontinued businesses)	13.5	14.3	19.3	20.3	20.3

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: Retail book to increase in overall portfolio mix going ahead

Loan book composition, March fiscal year-end, 2016-2021E

	IGAAP 2016	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Loan book composition						
Wholesale	344,450	414,030	467,590	511,002	554,490	601,863
Housing loans	98,110	125,340	188,980	270,904	333,098	409,895
Rural	86,440	100,410	164,570	217,173	276,373	342,709
Total	529,000	639,780	821,140	999,078	1,163,960	1,354,468
(% of total)						
Wholesale	65	65	57	51	48	44
Housing loans	19	20	23	27	29	30
Rural	16	16	20	22	24	25
Total	100	100	100	100	100	100
YoY (%)						
Wholesale	—	20	13	9	9	9
Housing loans	—	NA	51	43	23	23
Rural	—	16	64	32	27	24
Total	—	21	28	22	17	16

Source: Company, Kotak Institutional Equities estimates

Exhibit 11: Higher earnings post Ind-AS migration

Key financial statements of LTFH, March fiscal year-end, 2016-2021E

	IGAAP 2016	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Income statement (Rs mn)						
Interest income	62,480	72,730	87,210	112,719	137,766	162,532
Interest costs	36,440	42,500	51,150	68,783	85,828	100,950
Net interest income	26,040	30,230	36,060	43,936	51,938	61,583
Other income	2,600	4,750	9,650	13,640	14,471	15,538
Net total income	28,640	34,980	45,710	57,576	66,409	77,121
Provisioning expenses	8,760	12,050	16,900	15,977	19,985	24,314
Net income (post provisions)	19,880	22,930	28,810	41,599	46,424	52,807
Operating expenses	7,210	6,750	7,660	9,482	11,376	12,888
PBT before extraordinaries	12,670	16,180	21,150	32,117	35,048	39,919
Extraordinary income	—	—	—	—	—	—
PBT post extraordinaries	12,670	16,180	21,150	32,117	35,048	39,919
Tax	3,830	4,950	5,530	9,337	10,236	11,679
PAT (continuing operations)	8,840	11,230	15,620	22,781	24,812	28,240
PAT of defocus business	(700)	(1,450)	(1,600)	(502)	—	—
PAT for all lending business	8,140	9,780	14,020	22,279	24,812	28,240
Dividend	—	2,934	4,206	9,112	9,925	6,610
Dividend tax	—	496	711	1,549	1,687	1,124
Balance sheet (Rs mn) - continuing ops						
Assets						
Gross loans	529,000	639,780	821,140	999,078	1,163,960	1,354,468
Net other assets	38,930	37,650	42,560	51,302	58,940	67,866
Total assets	567,930	677,430	863,700	1,050,380	1,222,901	1,422,334
Liabilities						
Borrowings	467,510	569,640	707,860	934,391	1,093,711	1,272,639
Other liabilities	33,680	27,690	39,260	—	—	—
Total liabilities	501,190	597,330	747,120	934,391	1,093,711	1,272,639
Shareholders funds	66,740	80,100	116,580	115,989	129,189	149,695

Source: Company, Kotak Institutional Equities estimates

Rural book growth strong; will moderate on a high base

- ▶ **AUM growth maintains momentum.** Rural segment witnessed 1.2X yoy growth driven by sharp rise in microfinance loans. The company has rapidly expanded business in this space as the impact of demonetization faded. Disbursement growth (1.3X yoy) was strong; a trend observed since 2QFY18. The share of rural loans to overall AUM increased to 22.4% in 1QFY19 from 16.1% yoy. As the company focuses on retailisation of the book and increase on the ground footprint, this book is expected to maintain growth at a significant pace. However, the present pace of swift growth will moderate going ahead (low base impact will gradually lessen). We forecast 28% CAGR in rural AUM over FY2018-21E.
- ▶ **Focus on collections drives improvement in asset quality.** Strong focus on collections and focused growth approach had led to ~640 bps yoy decline in GNPL to 4.9% in 1QFY19. Net NPL dropped 70 bps qoq to 1.7% (down 490 bps yoy and 100 bps qoq). Provision on stage-1 (non-delinquent loans) is 0.8% of loans. LTFH has created accelerated provisions to improve NPL coverage to 66% from 43% a year ago. The company has made additional provisions of ₹900 mn in this portfolio (not included in calculation of coverage ratio). Top management guided of incremental provisions in this pool to avoid unforeseen risks in this space like demonetization/ GST; in that sense it becomes a challenge to make provision forecasts. We build in credit cost in the range of ~4-4.5% over FY2019-21E; volatility in ECL model estimates can be a key determinant to our estimates.
- ▶ **Microfinance business witnesses mammoth growth at 1.3X yoy.** Microfinance loan growth witnessed strong growth at 1.3X yoy in 1QFY19 (up 21% qoq). The trend has been similar over the past five quarters with each quarter witnessing higher yoy growth than the former. Share of microfinance has increased to ~48% of rural loans and 11% of total loans compared to 36% and 6% respectively a year ago. Disbursement growth was high at 2.1X yoy in 1QFY19. The share of MF disbursements to overall rural disbursements has increased to 58% in 1QFY19 (similar to prior demonetization share) from 42% in 1QFY18. We project loan growth of about 28% CAGR over FY2018-21E for LTFH's microfinance business; reduction in pace is an impact of low base for previous quarters gradually fading away. L&TFH continues to expand into newer geographies with a push towards higher customer acquisition from branches in these locations. The company is focusing on customers whose annual income is greater than ₹0.1 mn.
- ▶ **Two-wheeler growth maintains pace.** Loan growth was robust at 68% yoy on a low base in 1QFY19; a trend similar to previous quarters. Disbursement growth remained strong at 1X yoy in 1QFY19. The share of the 2-W segment to the overall rural segment however continues to drop; down 38 bps qoq and 100 bps yoy to 19.8%. L&TFH's investments in technology have seen a reduction in turnaround time to less than 5 minutes from a few hours earlier. Average ticket size is ₹52,000 with 25 months of tenor. This business is largely done out of large 8-10 cities through dealer tie-ups. LTFH has around 10% market share in this segment. We project loan growth of about 26% CAGR over FY2018-2021E for LTFH's 2-W business. The company has guided strong focus to grow this business from 2QFY19 onwards. Increase in per branch productivity will drive business for this segment.
- ▶ **Tractor loans rally on the back of positive rural demand.** Farm equipment (tractor) AUM witnessed 32.5% yoy growth in 1QFY19 driven by 36% yoy growth in disbursements. Disbursement growth has softened over the last two quarters. Majority of growth in this segment comes from the back of higher penetration across large OEMs (M&M, Tafe and John Deer accounts for ~80% of the business) and geographies. We expect ~28% AUM CAGR during FY2018-21E in farm equipment segment driven by rural recovery and market share gains across the geography. Rural sentiment has been positive

driven by favourable monsoon. In tractors, PAR>0 has almost approached 80% from ~50% during tough times witnessed previously.

- ▶ **Margin expansion drives RoA.** Reported yields expanded 30 bps yoy to 18.3% in 1QFY19. The rise in yields resulted in margin expansion (reported) by 30 bps yoy. Rise in share of high-yielding microfinance loans in newer geographies led to increase in yields. There was further improvement in credit cost by 60 bps yoy as asset quality continued to improve. A combined impact of the above was 30 bps yoy rise in RoA (reported) to 28% in 1QFY19.
- ▶ **Margin compression in medium-term.** We forecast broadly stable margins around 18% in medium-term. Borrowing cost is expected to rise given rising interest rate environment. In the past, fees on borrowings were adjusted with share premium account but will now need to be added to interest expenses and deferred over the tenure the borrowing – this will inch up borrowings costs as well. We forecast 20 bps rise in cost of funds over FY2019-21E to 8.6%. Yields on the other hand will remain broadly stable. While the rise can be passed on the borrower, rising competition will keep asset price rise under check. Cumulatively, margins are expected to shrink in medium term by 50 bps over FY2019-21E to 10.4%.
- ▶ **Cost pressure looms in medium-term.** The company has been investing rapidly on technology and analytics to improve origination, penetration and collection statistics in its rural business. There has been additional, investment on infrastructure and human capital to increase presence in newer location; a strategy core to the business. Operating expenses increased 67% yoy in 1QFY19 – the company has guided for further investments in growth and technology. We expect cost-income ratio to remain high at 26% in FY2019E and moderate marginally to 24% by FY2021E.

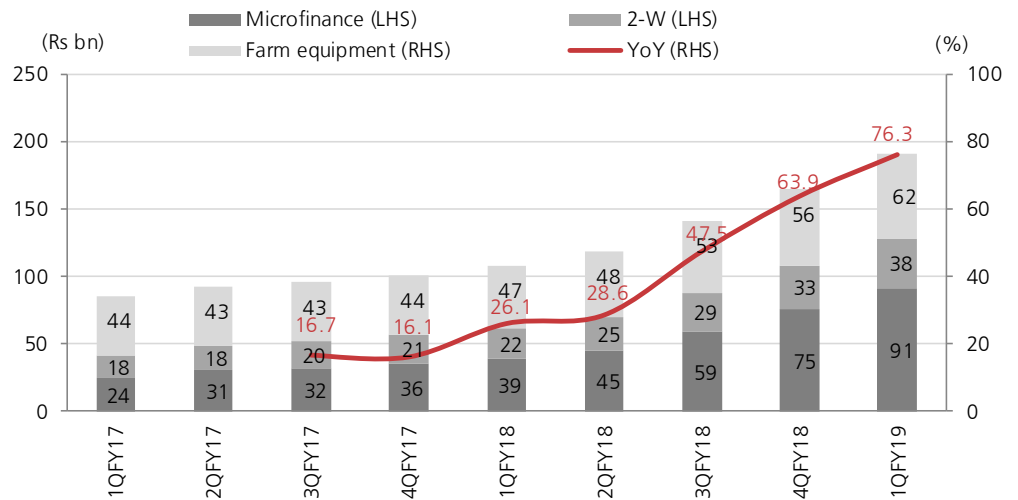
Exhibit 12: Rural segment delivered ~28% RoE as of 1QFY19

Quarterly summary, March fiscal year-ends, 1QFY17-1QFY19

	IGAAP 1QFY17	IGAAP 2QFY17	IGAAP 3QFY17	IGAAP 4QFY17	Ind-AS 1QFY18	IGAAP 2QFY18	IGAAP 3QFY18	IGAAP 4QFY18	Ind-AS 1QFY19	YoY (%)	QoQ (%)
Financials summary (Rs mn)											
Net interest income	2720	2,780	3,040	2,870	2,870	3,370	4,120	4,820	5,070	77	5
Fee and othe income	130	210	170	340	420	610	650	610	740	76	21
Credit losses/provisions	910	890	1,210	1,240	1,230	1,630	1,880	1,790	1,860	51	4
Operating expenses	920	960	900	820	820	980	1,190	1,550	1,370	67	(12)
PBT	1,020	1,140	1,100	1,150	1,240	1,370	1,700	2,090	2,580	108	23
PAT	670	760	740	730	1,040	920	1,120	1,480	1,930	86	30
Reported ratios (%)											
Yield	20.3	19.9	20.4	19.0	18.0	18.8	19.7	19.4	18.3	38 bps	-102 bps
Net Interest Margin	12.6	12.5	13.0	11.7	11.0	12.1	12.7	12.6	11.3	24 bps	-134 bps
Fee Income	0.6	1.0	0.7	1.4	1.6	2.2	2.0	1.6	1.6	4 bps	4 bps
Operating Expenses	4.3	4.3	3.8	3.3	3.1	3.5	3.7	4.1	3.1	-9 bps	-100 bps
Credit Cost	4.2	4.0	5.2	5.1	4.7	5.8	5.8	4.7	4.1	-59 bps	-55 bps
Return on Assets	2.9	3.2	3.0	2.8	4.0	3.2	3.3	3.8	4.3	32 bps	51 bps
Return on Equity	22.0	23.8	22.1	21.0	31.3	25.3	27.0	26.9	28.0	-329 bps	112 bps
GNPL (%)	9.6	8.4	9.7	7.7	11.3	10.9	8.2	6.4	4.9	-639 bps	-150 bps
NNPL (%)	7.4	6.4	7.4	5.5	6.8	7.0	4.1	2.6	1.7	-510 bps	-83 bps

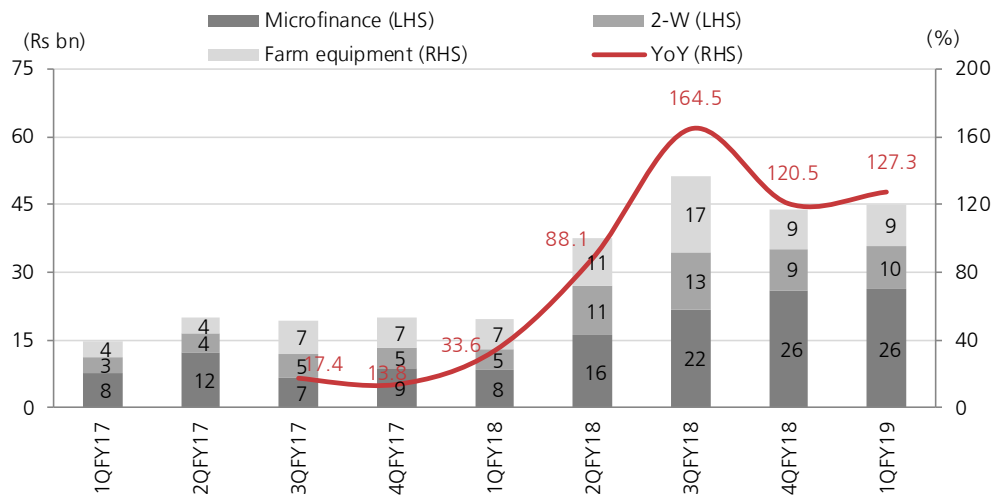
Source: Kotak Institutional Equities estimates

Exhibit 13: Microfinance portfolio has witnessed sharp increase in the last few quarters
 Loan book break-up (rural business), March fiscal year-ends, 1QFY17-1QFY19



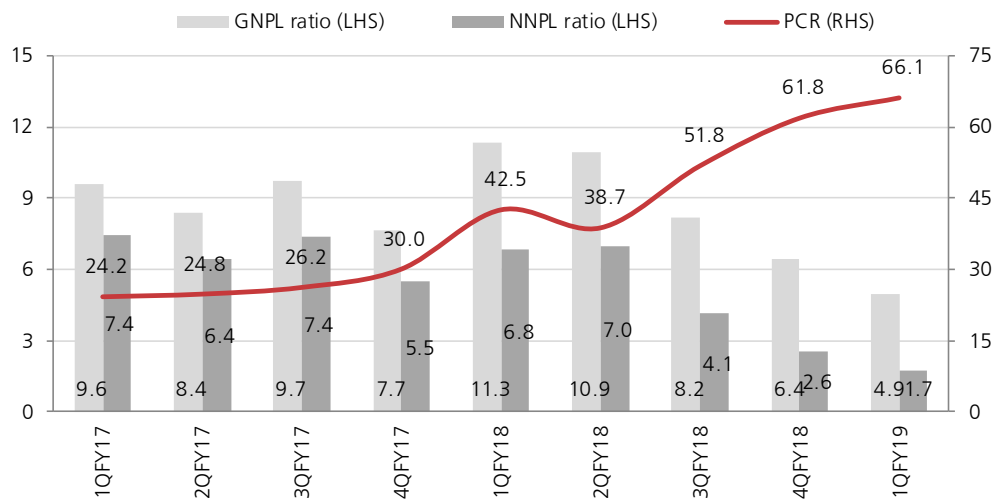
Source: Kotak Institutional Equities , Company

Exhibit 14: Disbursement growth stood at 1.3X yoy
 Disbursements break-up (rural business), March fiscal year-ends, 1QFY18-1QFY19



Source: Kotak Institutional Equities , Company

Exhibit 15: Continuous improvement in asset quality driven by improvement in collections
 Asset quality (rural business), March fiscal year-ends, 1QFY18-1QFY19 (%)



Note:

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

Source: Kotak Institutional Equities , Company

Exhibit 17: RoA of rural business at ~3%
Key ratios, March fiscal year-end, 2017-2021E

	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Growth in key parameters (%)					
Profit and loss statement - yoy (%)					
Interest income	15	32	43	31	25
Interest costs	12	25	61	35	30
Net interest income	17	37	32	28	22
Other income	23	160	20	15	15
Net total income	17	45	31	26	21
Provisioning expenses	9	63	10	45	28
Net income (post provisions)	22	36	44	17	17
Operating expenses	(8)	28	30	25	15
PAT	38	48	54	12	18
Balance sheet - yoy (%)					
Loans	16	64	32	27	24
Total assets	14	61	32	27	24
Borrowings	19	57	39	30	26
Total liabilities	14	56	38	29	25
Shareholders funds	12	95	21	12	13
Key ratios (%)					
Interest yield	19.8	18.2	18.0	18.2	18.2
Interest cost	8.5	7.6	8.4	8.5	8.7
Spreads	11.3	10.6	9.6	9.7	9.5
NIMs	12.2	11.8	10.8	10.7	10.4
Cost-income ratio	29.3	25.8	25.6	25.3	24.0
Cost to assets (%)	3.7	3.4	4.0	4.0	4.0
Tax rate	34.8	32.2	32.2	32.2	32.2
Debt/ equity (X)	6.5	5.3	6.0	7.0	7.7
Credit costs(%)	4.5	5.2	4.0	4.5	4.6
Du Pont analysis					
(% of average assets)					
Net interest income	11.7	11.5	10.6	10.5	10.2
Other income	0.9	1.6	1.4	1.2	1.1
Total income	12.5	13.1	12.0	11.7	11.3
Credit costs	4.3	5.1	3.9	4.4	4.5
Operating expenses	3.7	3.4	3.1	3.0	2.7
PBT post extraordinary	4.5	4.6	5.0	4.3	4.1
1-tax rate	65.2	67.8	67.8	67.8	67.8
RoA	3.0	3.1	3.4	2.9	2.8
Average assets / average equity (X)	7.8	6.9	6.8	7.5	8.4
RoE	22.9	21.8	23.0	22.1	23.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 18: High growth in the rural finance to moderate going forward

Loan book break-up, March fiscal year-end, 2017-2021E

	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Loan book (Rs mn)					
Microfinance	35,510	75,490	98,137	127,578	159,473
2W finance	21,100	33,160	44,103	55,129	66,154
Farm equipment	43,790	55,920	74,933	93,666	117,083
Total	100,400	164,570	217,173	276,373	342,709
YoY growth (%)					
Microfinance	59	113	30	30	25
2W finance	20	57	33	25	20
Farm equipment	(6)	28	34	25	25
Total	16	64	32	27	24

Source: Company, Kotak Institutional Equities estimates

Exhibit 19: Key financials of LTFH's rural finance business

March fiscal year-end, 2017-2021E

	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Income statement (Rs mn)					
Interest income	18,230	24,100	34,357	44,913	56,336
Interest costs	6,820	8,520	13,724	18,555	24,188
Net interest income	11,410	15,580	20,633	26,358	32,149
Other income	860	2,240	2,688	3,091	3,555
Net total income	12,270	17,820	23,321	29,449	35,704
Provisioning expenses	4,250	6,920	7,635	11,105	14,239
Net income (post provisions)	8,020	10,900	15,686	18,344	21,465
Operating expenses	3,590	4,590	5,967	7,459	8,578
PBT before extraordinaries	4,430	6,310	9,719	10,886	12,887
PBT post extraordinaries	4,430	6,310	9,719	10,886	12,887
Tax	1,540	2,030	3,127	3,502	4,146
PAT	2,890	4,280	6,592	7,384	8,741
Balance sheet (Rs mn)					
Assets					
Gross loans	100,410	164,570	217,173	276,373	342,709
Total assets	104,120	167,850	221,501	281,881	349,540
Liabilities					
Borrowings	86,860	136,700	190,064	246,516	309,524
Total liabilities	90,810	141,850	195,214	251,666	314,674
Shareholders funds	13,310	26,000	31,437	35,365	40,015

Source: Company, Kotak Institutional Equities estimates

Housing finance: Strong growth in 1Q; real estate financing to moderate

- ▶ **48% yoy AUM growth in 1QFY19.** Housing segment AUM grew 48% yoy driven by 87% yoy growths in construction finance and robust 18% yoy growth in home loan/LAP. Growth picked up in the home loan/ LAP space in 1QFY19 post muted growth since 2QFY18. Home loan/LAP segment disbursement was up 25% yoy on the back of recent efforts to include more salaried people in the home loan/ LAP mix. The disbursements in construction finance category were flat yoy (down 11% qoq). The share of home loans/LAP in overall housing portfolio has dropped to 45% in 1QFY19 from 56% yoy.
- ▶ **Loan growth to moderate going ahead.** Construction finance segment has seen rapid growth over the last three quarters. This is expected to slow down going ahead as the company focuses on re-aligning its product mix towards higher share of retail home loans. We forecast 43% AUM growth in FY2019E drive by robust growth across home loans/LAP and real estate financing. However, real estate financing will dip from FY2020E onwards resulting in drag on AUM growth (AUM CAGR of 23% over FY2019-21E).
- ▶ **Change in AUM mix going ahead.** LTFH has increased the exposure to wholesale real-estate loans in the housing segment to 55% in 1QFY19 from 39% in FY2017 and 36% in FY2016. However, disbursements in this space have started to slow down since 3QFY18. Construction finance disbursements were flat yoy (down 11% qoq). On the other hand, disbursements in home loans has picked pace since 3QFY18. The company has increased share of direct sourcing (65% as of 1QFY19) for retail home loans which will further boost loan growth. Going ahead, we expect growth in home loan/ LAP segment to outpace real estate financing from FY2020E onwards resulting in portfolio re-alignment.
- ▶ **Rising NPLs and low coverage pose concerns.** GNPL increased 57% yoy in 1QFY19 to ₹2 bn (1% of loans; up 6 bps yoy) whereas net NPL increased 58% yoy to ₹1.5 bn (0.8% of loans; up 15 bps yoy). Provision coverage ratio has been lower in this segment; 23% as of 1QFY19 down ~150 bps yoy). Reported credit cost at 1.3% (up 42 bps yoy) of loans was high in 1QFY19 driven by higher write-offs in the real estate finance book. Going ahead credit cost will be in the range of 1.1-1.5% but we expect volatility in our estimates arising from ECL modeling of developer loans.
- ▶ **Medium-term margin compression.** Reported margins increased 57 bps yoy to 5.2% led by increase in yields. The rise in yields has mostly been drive by the rising share of high- yielding real estate financing in overall housing finance portfolio. Additionally, home loan rates have seen marginal rise in 1QFY19. Going ahead, yields will witness marginal compression led by change in AUM mix towards higher share of low yielding home loans. There will be additional pressure from the cost of funds side on the back of rising interest rate environment (calculated cost of funds up 12 bps to 8.3% over FY2019-21E).

Exhibit 20: Strong overall performance in the housing finance segment

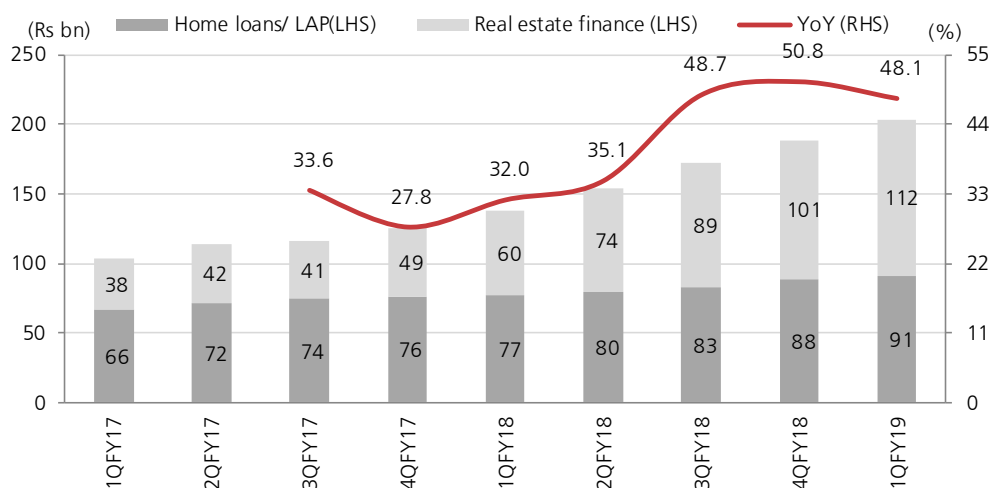
Quarterly summary, March fiscal year-ends, 1QFY17-1QFY19

	IGAAP 1QFY17	IGAAP 2QFY17	IGAAP 3QFY17	IGAAP 4QFY17	Ind-AS 1QFY18	IGAAP 2QFY18	IGAAP 3QFY18	IGAAP 4QFY18	Ind-AS 1QFY19	YoY (%)	QoQ (%)
Financials summary (Rs mn)											
Net interest income	1,100	1,250	1,480	1,700	1,490	2,100	2,530	2,640	2,540	70	(4)
Fee and othe income	100	180	360	260	520	400	510	430	770	48	79
Credit losses/provisions	150	110	180	240	300	680	820	190	660	120	247
Operating expenses	460	380	350	380	280	400	350	380	380	36	-
PBT	590	940	1,310	1,340	1,430	1,420	1,870	2,500	2,270	59	(9)
PAT	390	610	880	870	1,190	1,130	1,290	1,600	1,660	39	4
Reported ratios (%)											
Yield	12.1	12.3	12.6	12.8	11.4	12.6	13.3	12.7	12.1	74 bps	-60 bps
Net Interest Margin	4.3	4.6	5.2	5.7	4.6	5.8	6.2	5.8	5.2	57 bps	-68 bps
Fee Income	0.4	0.7	1.3	0.9	1.6	1.1	1.3	1.0	1.6	-4 bps	61 bps
Operating Expenses	1.8	1.4	1.2	1.3	0.9	1.1	0.9	0.9	0.8	-12 bps	-9 bps
Credit Cost	0.6	0.4	0.6	0.8	0.9	1.9	2.0	0.4	1.3	42 bps	92 bps
Return on Assets	1.4	2.1	2.9	2.8	3.5	3.0	3.0	3.4	3.2	-31 bps	-16 bps
Return on Equity	15.0	21.9	29.9	27.1	34.4	30.2	31.7	29.8	25.7	-870 bps	-407 bps
GNPL (%)	0.9	0.8	0.8	0.6	0.9	0.8	0.8	0.9	1.0	6 bps	14 bps
NNPL (%)	0.3	0.5	0.4	0.3	0.7	0.6	0.5	0.5	0.8	5 bps	30 bps

Source: Company, Kotak Institutional Equities

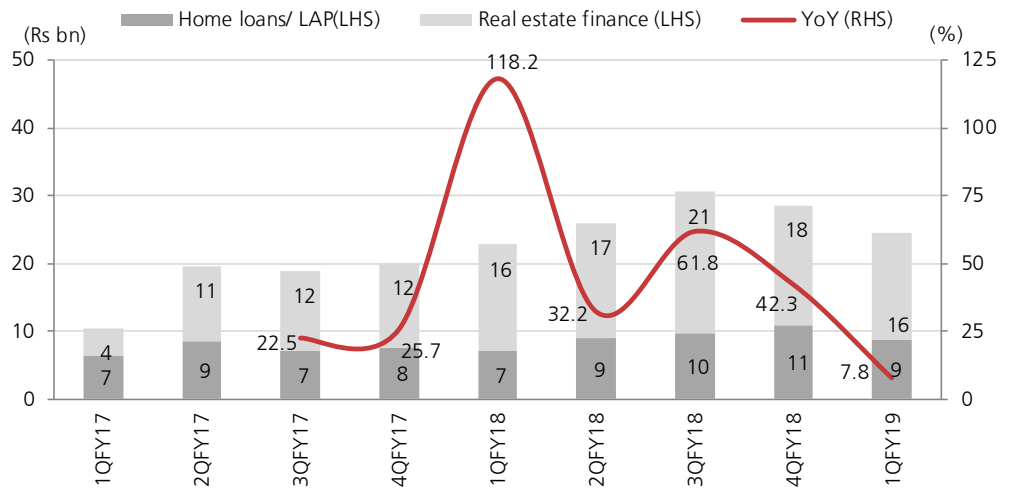
Exhibit 21: Loan growth at 48% yoy driven by 87% yoy growth in real estate finance

Loan book break-up (housing business), March fiscal year-ends, 1QFY17-1QFY19



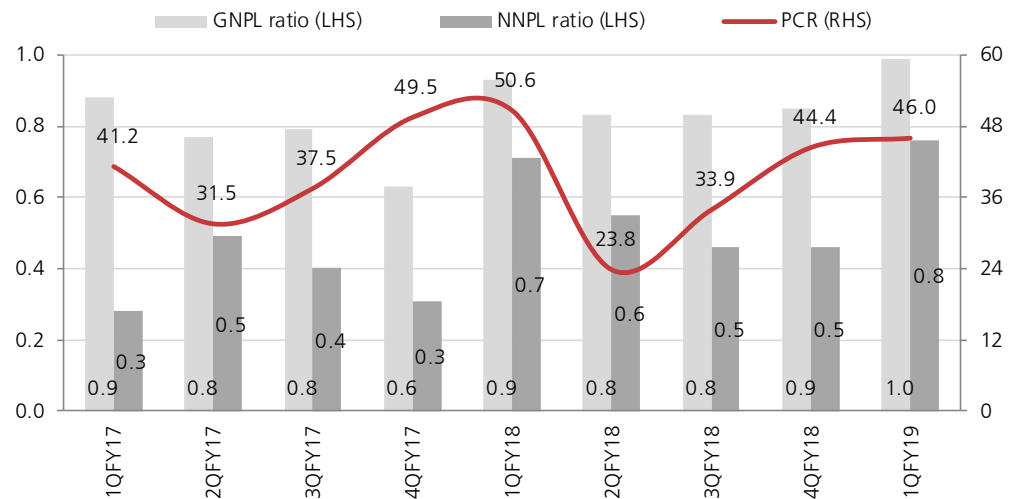
Source: Kotak Institutional Equities , Company

Exhibit 22: Disbursement growth slowed down in 1QFY19 to 16% yoy
 Disbursements break-up (housing business), March fiscal year-ends, 1QFY17-1QFY19



Source: Kotak Institutional Equities , Company

Exhibit 23: GNPL ratio is high for the segment
 Asset quality (housing business), March fiscal year-ends, 1QFY17-1QFY19 (%)



Notes:
 (a) 1QFY18 and 1QFY19 numbers are based on Ind-AS.

Source: Kotak Institutional Equities , Company

Exhibit 25: Housing finance – key ratios and growth rates

Key ratios, March fiscal year-end, 2017-2021E

	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Growth in key parameters (%)					
Profit and loss statement - yoy (%)					
Interest income	47	42	50	27	23
Interest costs	38	28	62	39	26
Net interest income	64	62	36	11	19
Other income	96	98	25	(20)	(20)
Net total income	68	67	34	7	14
Provisioning expenses	172	209	64	(12)	23
Net income (post provisions)	60	51	27	13	12
Operating expenses	1	(8)	20	15	12
PAT	116	86	22	12	12
Balance sheet - yoy (%)					
Loans	28	51	43	23	23
Total assets	25	52	43	23	23
Borrowings	26	49	57	24	24
Total liabilities	26	49	57	24	24
Shareholders funds	37	88	12	13	13
Key ratios (%)					
Interest yield	12.4	12.5	12.8	12.4	12.4
Interest cost	8.3	7.7	8.1	8.2	8.3
Spreads	4.1	4.8	4.7	4.2	4.1
NIMs	5.0	5.7	5.3	4.5	4.3
Cost-income ratio	24	13	12	13	13
Cost to assets (%)	1.3	0.9	0.7	0.6	0.6
Tax rate	35	29	33	33	33
Debt/ equity (X)	8.2	6.5	9.1	9.9	10.9
Credit costs(%)	0.6	1.3	1.5	1.0	1.0
Du Pont analysis					
(% of average assets)					
Net interest income	4.6	5.4	5.0	4.2	4.1
Other income	0.8	1.1	0.9	0.6	0.4
Total income	5.4	6.5	5.9	4.8	4.5
Credit costs	0.6	1.3	1.4	0.9	0.9
Operating expenses	1.3	0.9	0.7	0.6	0.6
PBT post extraordinary	3.5	4.3	3.8	3.2	2.9
1-tax rate	65.4	70.7	67.0	67.0	67.0
RoA	2.3	3.1	2.5	2.2	2.0
Average assets / average equity (X)	10.1	8.5	9.0	10.5	11.5
RoE	23.3	26.1	22.9	22.8	22.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 26: Construction finance growth to lower by FY2020E

Loan book break-up, March fiscal year-end, 2017-2021E

	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Loan book (Rs mn)					
Home loans / LAP	76,430	88,060	114,478	145,387	184,642
Real estate finance	48,910	100,920	156,426	187,711	225,253
Total	125,340	188,980	270,904	333,098	409,895
YoY growth (%)					
Home loans / LAP	21	15	30	27	27
Real estate finance	40	106	55	20	20
Total	28	51	43	23	23

Source: Company, Kotak Institutional Equities estimates

Exhibit 27: Key financials of LTFH's housing finance business

March fiscal year-end, 2017-2021E

	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Income statement (Rs mn)					
Interest income	13,860	19,630	29,433	37,448	46,066
Interest costs	8,320	10,630	17,199	23,820	29,916
Net interest income	5,540	9,000	12,234	13,628	16,150
Other income	900	1,780	2,225	1,780	1,424
Net total income	6,440	10,780	14,459	15,408	17,574
Provisioning expenses	680	2,100	3,449	3,020	3,715
Net income (post provisions)	5,760	8,680	11,010	12,388	13,859
Operating expenses	1,570	1,450	1,740	2,001	2,241
PBT before extraordinaries	4,190	7,230	9,270	10,387	11,618
PBT post extraordinaries	4,190	7,230	9,270	10,387	11,618
Tax	1,450	2,120	3,059	3,428	3,834
PAT	2,740	5,110	6,211	6,959	7,784
Balance sheet (Rs mn)					
Assets					
Loans	125,340	188,980	270,904	333,098	409,895
Total assets	132,200	200,860	287,934	354,038	435,663
Liabilities					
Borrowings	111,140	165,370	259,290	321,692	399,175
Total liabilities	111,140	165,370	259,290	321,692	399,175
Shareholders funds	13,620	25,610	28,644	32,346	36,487

Source: Company, Kotak Institutional Equities estimates

Wholesale business: PPOP weak; the large adjustment boosts return ratios

- ▶ **Drop in credit cost improves earnings.** Wholesale segment reported PAT of ₹2.1 bn, up 30% yoy. This was driven by 52% drop in provisions as a consequence of one-time provisions adjusted from net worth. PPOP growth was muted at 2% yoy. NII growth was muted at 4% yoy in 1QFY19.
- ▶ **Disbursement down 16% yoy.** Wholesale segment loans disbursements dropped 16% yoy (adjusting for IPO funding book), driven drop in structured finance book by 32% yoy and supply chain finance book by 31% yoy. Infra (including DCM) disbursements were down 10% yoy. The company continues to maintain a cautious stance in this space.
- ▶ **Muted loan book growth.** Loan book growth was modest at 7% yoy driven by 25% yoy increase in the structured finance book and muted 7% yoy rise in the infra book. Within the wholesale book, the share of infrastructure loans has broadly been stable in the range of ~80% over the last eight quarters. Within infrastructure (including DCM), renewable power exposure continued to ramp up at 38% yoy even as overall exposure to power sector continued to drop. We forecast 9% AUM CAGR over FY2018-21E driven by muted infrastructure AUM CAGR of ~8% and moderate 13% AUM CAGR in the structured finance space.
- ▶ **A low base will boost profitability.** With a large write-off, the net worth of the company reduced to ₹52 bn from ₹65 bn in 4QFY18. This, coupled with lower provisions and consequently higher earnings, its calculated RoE will be about 14-16% from 7-8% earlier.

Asset/wealth management business maintains robust performance

Average AUM of the AMC business increased 60% yoy and 8% qoq to ₹711 bn. Equity (including ELSS) comprises 54% of the total average AUM, up from 47% qoq. Wealth management AUS has also grown 10% yoy to ₹189 bn.

Exhibit 28: Margin compression drags profitability for the wholesale business

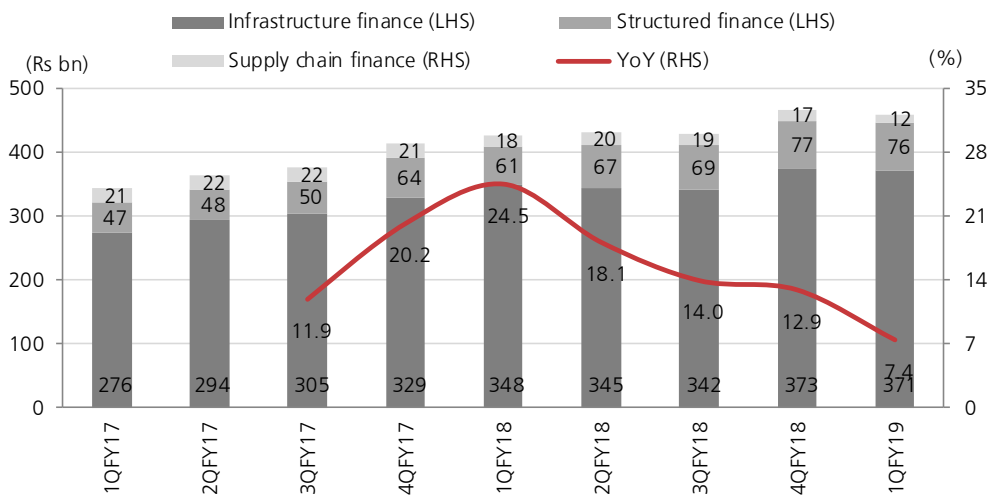
Quarterly summary of wholesale business, March fiscal year-ends, 1QFY17-1QFY19

	IGAAP	IGAAP	IGAAP	IGAAP	Ind-AS	IGAAP	IGAAP	IGAAP	Ind-AS		
	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (%)	QoQ (%)
Financials summary (Rs mn)											
Net interest income	3,300	3,560	3,250	3,160	2,790	3,250	2,850	3,230	2,890	4	(11)
Fee and othe income	360	430	730	1,480	1,230	1,500	1,220	1,550	1,430	16	(8)
Credit losses/provisions	1,380	1,880	1,710	2,150	1,910	2,400	1,710	2,360	920	(52)	(61)
Operating expenses	430	430	430	290	450	410	410	440	680	51	55
PBT	1,850	1,680	1,840	2,200	1,660	1,940	1,950	1,980	2,720	64	37
PAT	1,320	1,210	1,280	1,790	1,600	1,420	1,450	1,380	2,080	30	51
Gross loans	347,610	364,780	376,600	414,030	427,600	430,980	429,140	467,590	459,450	7	(2)
Networth	48,700	48,280	50,770	53,170	44,830	57,740	57,050	64,970	52,680	18	(19)
Reported ratios (%)											
Yield	11.7	11.6	10.9	10.2	10.1	10.6	10.0	10.2	9.5	-56 bps	-66 bps
Net Interest Margin	3.7	4.0	3.5	3.2	2.6	3.1	2.7	2.9	2.5	-17 bps	-41 bps
Fee Income	0.3	0.3	0.8	1.5	1.2	1.4	1.1	1.4	1.2	6 bps	-16 bps
Operating Expenses	0.5	0.5	0.5	0.3	0.4	0.4	0.4	0.4	0.6	16 bps	18 bps
Credit Cost	1.6	2.1	2.0	2.2	1.8	2.3	1.6	2.1	0.8	-102 bps	-132 bps
Return on Assets	1.4	1.3	1.3	1.3	1.5	1.2	1.2	1.1	1.8	30 bps	61 bps
Return on Equity	11.4	10.2	10.3	13.7	14.5	10.1	10.1	9.0	15.6	111 bps	655 bps
Gross impaired assets (%)	8.7	9.6	9.2	9.8	9.6	10.3	10.7	9.5	-	-958 bps	-948 bps
Net impaired assets (%)	6.8	7.4	7.1	7.2	6.9	7.6	7.6	6.5	-	-694 bps	-647 bps

Source: Company, Kotak Institutional Equities

Exhibit 29: Loan growth was muted at 7% yoy

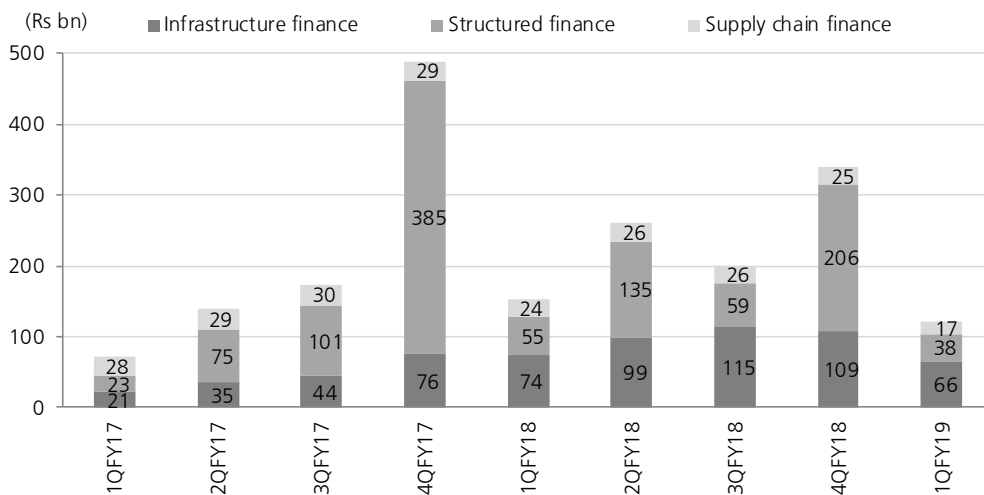
Loan book break-up (wholesale business), March fiscal year-ends, 1QFY17-1QFY19



Source: Kotak Institutional Equities , Company

Exhibit 30: Structured finance disbursements saw a dip in 1QFY19

Disbursements break-up (wholesale business), March fiscal year-ends, 1QFY17-1QFY19



Source: Kotak Institutional Equities , Company

Exhibit 33: Moderate profitability of the wholesale finance business
Key ratios, March fiscal year-end, 2017-2021E

	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Growth in key parameters (%)					
Profit and loss statement - yoy (%)					
Interest income	9	9	11	13	9
Interest costs	13	16	19	15	8
Net interest income	3	(7)	(10)	8	11
Other income	108	86	3	10	10
Net total income	14	10	11	9	11
Provisioning expenses	54	16	(41)	20	9
Net income (post provisions)	(6)	5	55	5	11
Operating expenses	(10)	6	5	8	8
PBT before extraordinaries	(5)	5	66	5	12
Tax	(21)	17	38	5	12
PAT	2	1	77	5	12
Balance sheet - yoy (%)					
Loans	20	13	9	9	9
Total assets	19	12	9	9	9
Borrowings	21	9	20	8	7
Total liabilities	21	9	20	8	7
Key ratios (%)					
Interest yield	11.2	10.2	10.0	10.4	10.4
Interest cost	8.2	8.2	8.5	8.6	8.6
Spreads	3.0	2.0	1.5	1.8	1.8
NIMs	3.5	2.8	2.3	2.2	2.3
Cost-income ratio	9.8	9.5	9.0	8.9	8.7
Cost to assets (%)	0.4	0.4	0.3	0.3	0.3
Tax rate	25.9	28.9	24.0	24.0	24.0
Debt/ equity (X)	7.0	6.2	8.7	8.5	7.7
Credit costs(%)	1.9	1.9	1.0	1.1	1.1
Du Pont analysis					
(% of average assets)					
Net interest income	3.3	2.6	2.1	2.1	2.2
Other income	0.7	1.2	1.7	1.7	1.7
Total income	4.0	3.8	3.8	3.8	3.9
Credit costs	1.8	1.8	0.9	1.0	1.0
Operating expenses	0.4	0.4	0.3	0.3	0.3
PBT post extraordinaries	1.9	1.7	2.5	2.4	2.5
1-tax rate	74.1	71.1	76.0	76.0	76.0
RoA	1.4	1.2	1.9	1.9	1.9
Average assets / average equity (X)	8.3	7.9	8.6	9.6	9.1
RoE	11.4	9.5	16.5	17.8	17.4

Source: Company, Kotak Institutional Equities estimates

Exhibit 34: Share of IDF will increase in the wholesale business

Loan book break-up, March fiscal year-end, 2017-2021E

	IGAAP 2017	IGAAP 2018E	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Infrastructure finance	328,840	373,200	406,788	439,331	474,478
IDF	60,000	100,000	115,000	130,000	145,000
Others	268,840	273,200	291,788	309,331	329,478
Structured finance	63,970	77,050	88,608	99,240	111,149
Supply chain finance	21,230	17,340	15,606	15,918	16,236
Total	414,040	467,590	511,002	554,490	601,863
YoY growth (%)					
Infrastructure finance	21	13	9	8	8
Structured finance	28	20	15	12	12
Supply chain finance	(7)	(18)	(10)	2	2
Total	20	13	9	9	9

Source: Company, Kotak Institutional Equities estimates

Exhibit 35: Key financials of LTFH's wholesale finance business

March fiscal year-end, 2017-2021E

	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Income statement (Rs mn)					
Interest income	40,640	44,110	48,930	55,406	60,130
Interest costs	27,360	31,790	37,860	43,453	46,846
Net interest income	13,280	12,320	11,069	11,952	13,284
Other income	2,990	5,560	8,727	9,599	10,559
Net total income	16,270	17,880	19,796	21,552	23,844
Provisioning expenses	7,120	8,270	4,893	5,860	6,360
Net income (post provisions)	9,150	9,610	14,903	15,692	17,484
Operating expenses	1,590	1,690	1,775	1,916	2,070
PBT before extraordinaries	7,560	7,920	13,129	13,775	15,414
PBT post extraordinaries	7,560	7,920	13,129	13,775	15,414
Tax	1,960	2,290	3,151	3,306	3,699
PAT	5,600	5,630	9,978	10,469	11,715
Balance sheet (Rs mn)					
Assets					
Loans	414,030	467,590	511,002	554,490	601,863
Total assets	441,110	494,990	540,945	586,982	637,131
Liabilities					
Borrowings	371,640	405,790	485,037	525,504	563,939
Total liabilities	371,640	405,790	485,037	525,504	563,939
Shareholders funds	53,170	64,970	55,908	61,478	73,192

Source: Company, Kotak Institutional Equities estimates

Exhibit 36: Change in estimates

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

	Ind-AS			IGAAP			% Change		
	New estimates			Old estimates			2019E	2020E	2021E
	2019E	2020E	2021E	2019E	2020E	2021E			
Net interest income	43,936	51,938	61,583	46,241	53,930	63,752	(5)	(4)	(3)
Loan book	999,078	1,163,960	1,354,468	1,017,908	1,173,137	1,357,782	(2)	(1)	(0)
NPL provisions	15,977	19,985	24,314	23,610	21,308	24,448	(32)	(6)	(1)
Operating expenses	9,482	11,376	12,888	9,482	11,376	12,888	0	0	0
PBT	32,117	35,048	39,919	27,013	32,652	38,909	19	7	3
Tax	9,337	10,236	11,679	8,120	9,698	11,558	15	6	1
PAT	22,279	24,812	28,240	18,391	22,953	27,351	21	8	3

Source: Company, Kotak Institutional Equities estimates

Exhibit 37: L&T Finance Holdings - key ratios and growth rates

March fiscal year-ends, 2016-2021E (%)

	IGAAP 2016	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Growth in key parameters (%)						
Profit and loss statement - yoy (%)						
Interest income	17.6	14.4	20.1	13.3	21.4	18.0
Interest costs	15.6	12.2	15.1	30.5	24.0	17.7
Net interest income	20.4	17.3	26.4	(6.3)	17.2	18.4
Other income	28.8	27.4	106.7	289.0	8.5	10.6
Net total income	20.8	17.9	31.1	21.0	14.6	16.2
Provisioning expenses	18.0	103.6	19.3	(13.7)	22.1	21.7
Net income (post provisions)	21.7	(8.2)	39.1	41.1	11.9	14.1
PBT post extraordinary	6.6	(13.9)	61.3	81.0	14.1	13.9
Tax	23.1	(90.9)	654.2	135.0	20.7	17.8
PAT	0.4	22.1	40.5	70.9	12.3	12.8
Balance sheet - yoy (%)						
Loans	22.5	11.1	27.3	25.9	16.5	16.4
Investments	34.5	68.7	(19.4)	72.9	20.1	9.8
Fixed assets	(3.1)	(11.1)	15.0	15.0	15.0	15.0
Other current assets	(6.4)	(21.4)	32.6	5.0	5.0	5.0
Total assets	20.9	12.6	23.0	27.5	16.3	15.4
Borrowings	22.6	15.9	19.7	30.5	17.1	16.4
Total liabilities	23.0	13.2	19.0	31.4	16.7	15.9
Shareholders funds	12.9	9.7	60.5	9.1	16.1	16.3
Key ratios (%)						
Interest yield	14.3	14.1	14.1	12.7	12.7	12.9
Interest cost	8.8	8.3	8.1	8.4	8.5	8.6
Spreads	5.5	5.8	6.0	4.2	4.2	4.3
NIMs	6.2	6.3	6.6	4.9	4.8	4.8
Operating costs/ net income (pre provisions)	39.2	32.4	29.7	23.6	22.1	21.8
Tax rate	31.8	3.4	15.8	20.5	21.7	22.4
Debt/ equity (X)	7.2	7.6	5.6	6.8	6.8	6.8
Credit costs(%)	1.5	2.7	2.7	1.8	1.8	1.9
Du Pont analysis						
(% of average assets)						
Net interest income	5.4	5.5	5.9	4.4	4.2	4.3
Other income	0.3	0.3	0.6	1.9	1.7	1.6
Credit costs	1.3	2.3	2.4	1.6	1.6	1.7
Operating expenses	2.3	1.9	1.9	1.5	1.3	1.3
PBT post extraordinary	2.2	1.6	2.2	3.1	3.0	2.9
1-tax rate	0.7	1.0	0.8	0.8	0.8	0.8
RoA	1.5	1.5	1.8	2.5	2.3	2.3
Average assets / average equity (X)	8.6	9.0	7.8	7.6	8.1	8.1
RoE	12.6	13.8	14.2	18.9	18.8	18.3

Source: Company, Kotak Institutional Equities estimates

Exhibit 38: L&T Finance Holdings - key financials

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

	IGAAP 2016	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Income statement (Rs mn)						
Interest income	72,888	83,406	100,210	113,489	137,766	162,532
Interest costs	41,241	46,270	53,261	69,507	86,223	101,519
Net interest income	31,647	37,136	46,949	43,982	51,543	61,013
Other income	1,819	2,317	4,789	18,631	20,217	22,363
Net total income	33,466	39,453	51,738	62,613	71,760	83,376
Provisioning expenses	7,810	15,899	18,968	16,362	19,985	24,314
Net income (post provisions)	25,655	23,554	32,771	46,251	51,775	59,063
Operating expenses	13,129	12,765	15,373	14,755	15,851	18,146
PBT before extraordinaries	12,527	10,789	17,398	31,497	35,924	40,916
PBT post extraordinaries	12,527	10,789	17,398	31,497	35,924	40,916
Tax	3,990	364	2,748	6,459	7,797	9,182
PAT	8,537	10,425	14,650	25,038	28,127	31,734
PAT for appropriation	8,537	10,422	14,587	25,038	28,127	31,734
Dividend	1,403	1,500	3,500	4,000	5,000	4,750
Dividend tax	237	254	592	676	845	803
Payout ratio (%)	16	14	24	16	18	15
No of shares (mn)	1,754	1,756	1,996	1,996	1,996	1,996
EPS (Rs)	5	6	7	13	14	16
BVPS (Rs)	41	45	64	69	80	94
Balance sheet (Rs mn)						
Loans	560,654	623,145	793,300	999,078	1,163,960	1,354,468
Investments	35,633	60,115	48,433	83,762	100,571	110,456
Fixed assets	6,962	6,189	5,311	5,577	5,856	6,148
Current assets	27,826	21,872	29,008	30,459	31,982	33,581
Total assets	637,463	717,710	882,442	1,124,945	1,308,135	1,510,130
Liabilities						
Borrowings	516,156	598,111	715,771	934,391	1,093,711	1,272,639
Deferred tax liability	(3,993)	(7,426)	(9,837)	(9,837)	(9,837)	(9,837)
Current liabilities and provisions	40,211	34,767	38,186	43,914	50,501	58,076
Total liabilities	552,375	625,451	744,120	977,560	1,140,968	1,322,126
Share capital	17,538	17,561	19,957	19,957	19,957	19,957
Reserves and surplus	54,418	61,382	106,773	118,336	140,618	166,799
Minority interest	1,003	1,186	1,248	1,248	1,248	1,248
Shareholders funds	71,956	78,943	126,730	138,292	160,575	186,756
Preference shares	71,956	78,943	126,730	138,292	160,575	186,756

Notes:

(a) We have not netted-off preference shares with net worth.

Source: Company, Kotak Institutional Equities estimates

June 2018: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
23-Jul	24-Jul	25-Jul	26-Jul	27-Jul	28-Jul	29-Jul
		Ambuja Cements	Bharat Financial Inclusion	Bank of Baroda	J K Cement	
		Bharti Infratel	Bharti Airtel	Coromandel International	NTPC	
		BHEL	Biocon	Equitas Holdings		
		Canara Bank	CESC	HCL Technologies		
		Crompton Greaves Consumer	Cholamandalam	ICICI Bank		
		GRUH Finance	City Union Bank	JSW Energy		
		Hero Motocorp	Colgate-Palmolive (India)	Jubilant Life Science		
		IRB Infrastructure	Container Corporation	Mahindra & Mahindra Financial		
		JSW Steel	Dr Reddy's Laboratories	Prestige Estates Projects		
		Jubilant Foodworks	ITC	Reliance Industries		
		Jyothy Laboratories	J&K Bank			
		Karur Vysya Bank	Maruti Suzuki			
		L&T	Petronet LNG			
		PVR	SBI Life Insurance			
		Reliance Nippon Life Asset Management	Schaeffler India			
		Rural Electrification Corp.	Shriram Transport			
		Shriram City Union Finance	Tata Power			
		SIS	WABCO India			
		SKF	Yes Bank			
30-Jul	31-Jul	1-Aug	2-Aug	3-Aug	4-Aug	5-Aug
Avenue Supermarts	Ajanta Pharma	Aditya Birla Fashion	Godrej Properties	Berger Paints	Divi's Laboratories	PI Industries
Axis Bank	Astral Poly Technik	Apollo Tyres	Indiabulls Housing	Carborundum Universal		
Central Bank of India	Bharat Electronics	Emami	JK Lakshmi Cement	CG Power and Industrial		
Century Textile	Castrol India	Exide Industries	Mahindra Logistics	SAIL		
Escorts	Dabur India	Gateway Distriparks	Marico	Titan Company		
Godrej Consumer Products	IIFL Holdings	Orient Cement	The Ramco Cement			
GSPL	Jagran Prakashan	Pidilite Industries	Torrent Pharmaceuticals			
HDFC	Mahanagar Gas	Tata Global Beverages				
Idea	Power Grid	Torrent Power				
IDFC Bank	Supreme Industries					
Interglobe Aviation	Tata Motors					
New India Assurance	UPL					
NHPC	Vedanta					
Oberoi Realty						
Piramal Enterprises						
Shree Cement						
Tech Mahindra						
6-Aug	7-Aug	8-Aug	9-Aug	10-Aug	11-Aug	12-Aug
Adani Port and SEZ	AU Small Finance	Cipla	Coffee Day Enterprises	Apollo Hospitals	Amara Raja Batteries	
Britannia Industries	GlaxoSmithkline Consumer	HPCL	Gujarat Pipavav Port	Dr Lal Pathlabs	NBCC	
Ujivan Financial Services	Kalpataru Power Transmission	PNB Housing Finance	HCG	Endurance Technologies		
	Mahindra & Mahindra	Thermax	S H Kelkar and Company	Timken		
	Motherson Sumi Systems			Volta		
	Mphasis					
	SRF					
	TVS Motor					
13-Aug	14-Aug	15-Aug	16-Aug	17-Aug	18-Aug	19-Aug
Cadila Healthcare	Grasim Industries					
Dewan Housing Finance						
Godrej Industries						

Source: NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		23-Jul-18	Target price (Rs)				2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E		
Automobiles																													
Amara Raja Batteries	REDUCE	790	780	(1.3)	135	2.0	171	28	33	39	(1.6)	21.2	15.5	28.6	23.6	20.4	15.2	12.6	10.8	4.6	4.0	3.4	17.0	18.0	18.0	0.5	0.6	0.7	5.9
Apollo Tyres	BUY	276	340	23.2	158	2.3	541	13	20	25	(38.0)	48.3	25.0	20.6	13.9	11.1	11.5	8.2	6.8	1.5	1.5	1.3	8.5	11.1	12.5	1.0	1.1	1.1	9.9
Ashok Leyland	BUY	109	160	46.7	320	4.6	2,926	5.4	6.2	8.9	8.0	15.3	43.2	20.3	17.6	12.3	11.7	8.8	6.4	4.5	3.8	3.2	23.7	23.4	28.4	2.2	1.7	2.4	45.2
Bajaj Auto	SELL	2,684	2,500	(6.9)	777	11.3	289	140	148	161	6.0	5.4	9.0	19.1	18.2	16.7	13.0	12.5	11.1	4.1	3.6	3.3	22.9	21.2	20.7	2.2	2.2	2.4	27.8
Balkrishna Industries	REDUCE	1,202	1,260	4.8	232	3.4	193	37	50	63	4.8	34.8	25.0	32.1	23.8	19.1	17.1	13.1	10.5	5.7	4.7	3.9	19.0	21.6	22.2	0.4	0.5	0.5	8.4
Bharat Forge	SELL	604	600	(0.6)	281	4.1	466	16	23	27	10.1	43.0	16.8	37.3	26.1	22.3	18.0	14.8	12.7	6.1	5.2	4.4	17.3	21.5	21.4	0.7	0.8	0.9	10.3
CEAT	ADD	1,324	1,500	13.3	54	0.8	40	65	99	108	(29.5)	53.7	8.3	20.5	13.3	12.3	10.0	8.6	7.4	2.1	1.8	1.6	10.4	14.4	13.8	0.9	0.7	0.8	14.1
Eicher Motors	SELL	27,023	26,000	(3.8)	737	10.7	27	792	995	1,200	29.3	25.5	20.6	34.1	27.2	22.5	24.5	19.7	16.0	13.7	9.9	7.4	46.4	42.3	37.5	0.1	0.1	0.1	17.4
Escorts	BUY	857	1,170	36.6	73	1.5	89	39	56	69	71.3	43.6	23.6	22.1	15.4	12.4	12.6	9.3	7.3	3.0	2.6	2.2	13.5	16.8	17.7	0.5	1.0	1.2	15.8
Exide Industries	SELL	270	225	(16.7)	229	3.3	850	8	10	11	0.6	23.7	10.9	32.9	26.6	24.0	18.4	15.5	13.7	4.3	3.9	3.5	13.5	15.2	15.3	0.9	1.1	1.3	8.2
Hero Motocorp	SELL	3,165	3,500	10.6	632	9.2	200	185	206	227	9.5	11.1	10.1	17.1	15.4	14.0	10.5	9.4	8.4	5.4	4.7	4.2	33.8	32.6	31.6	2.7	3.3	3.6	19.6
Mahindra CIE Automotive	ADD	239	290	21.2	91	1.3	378	10	14	16	107.0	45.0	12.7	24.9	17.2	15.3	12.3	8.7	7.6	2.4	2.1	1.9	10.4	13.2	13.1	—	—	—	3.0
Mahindra & Mahindra	BUY	910	1,015	11.5	1,132	16.4	1,138	38	44	50	22.0	15.6	14.8	24.0	20.7	18.1	15.8	13.4	11.6	3.4	3.0	2.7	15.1	15.4	15.7	0.8	1.0	1.1	32.5
Maruti Suzuki	ADD	9,701	9,700	(0.0)	2,930	42.5	302	256	330	395	5.1	29.2	19.6	38.0	29.4	24.6	21.4	16.7	13.5	7.0	6.0	5.1	19.8	22.0	22.6	0.7	0.9	1.0	62.8
Motherson Sumi Systems	SELL	293	265	(9.6)	617	9.0	2,105	8	11	14	6.1	37.7	21.7	35.9	26.0	21.4	13.5	10.4	8.7	6.2	5.3	4.5	19.0	22.1	22.9	0.8	0.9	1.1	13.6
MRF	REDUCE	77,783	76,000	(2.3)	330	4.8	4	2,669	3,896	4,447	(23.9)	46.0	14.1	29.1	20.0	17.5	13.3	9.8	8.4	3.4	2.9	2.5	12.3	15.7	15.4	0.1	0.1	0.1	7.2
Schaeffler India	BUY	5,259	6,000	14.1	87	1.3	17	143	171	207	22.0	19.4	21.1	36.7	30.8	25.4	21.6	18.5	15.0	5.2	4.6	4.0	15.0	15.8	16.9	0.3	0.7	0.8	0.7
SKF	REDUCE	1,642	1,700	3.5	84	1.2	51	58	70	81	24.6	20.8	16.4	28.5	23.6	20.3	17.6	15.0	12.6	4.6	4.0	3.5	16.1	17.0	17.2	0.7	0.9	1.0	0.2
Tata Motors	BUY	259	445	72.0	879	11.9	3,396	20	23	38	(28.0)	15.9	63.8	13.0	11.2	6.8	3.8	3.5	2.9	0.9	0.9	0.8	8.8	7.9	11.7	—	—	—	57.8
Timken	SELL	735	660	(10.2)	50	0.7	68	14	19	25	(5.3)	42.3	27.5	54.3	38.2	29.9	30.3	21.1	16.8	7.1	6.1	5.1	13.9	17.1	18.5	0.1	0.1	0.1	0.4
TVS Motor	SELL	542	410	(24.4)	258	3.7	475	14	18	22	18.7	26.8	21.8	38.9	30.7	25.2	23.7	17.9	14.9	8.9	7.5	6.3	25.1	26.7	27.3	0.6	1.0	1.2	11.3
WABCO India	SELL	6,659	6,350	(4.6)	126	1.8	19	144	169	222	27.8	17.8	31.3	46.3	39.3	29.9	30.0	25.6	19.3	8.3	6.9	5.7	19.5	19.2	20.9	0.1	0.2	0.2	0.5
Automobiles	Neutral				10,212	148					(0.9)	22.2	25.4	26.1	21.4	17.1	11.6	9.7	8.0	3.7	3.3	2.9	14.2	15.4	16.8	0.8	1.0	1.1	372.6
Banks																													
Axis Bank	ADD	540	600	11.0	1,388	20.1	2,567	1	20	39	(92.6)	1,735.5	100.1	503.1	27.4	13.7	—	—	—	2.6	2.3	2.0	0.5	7.7	13.8	0.9	0.5	1.1	59.2
Bank of Baroda	NR	126	—	—	334	4.8	2,652	(9)	20	23	(253.2)	323.2	10.5	(13.8)	6.2	5.6	—	—	—	1.5	1.1	0.8	(5.8)	12.6	12.3	—	—	—	28.6
Bank of India	ADD	86	120	39.0	151	2.2	1,744	(35)	(6)	16	(134.7)	82.2	366.7	(2.5)	(14.0)	5.3	—	—	—	1.3	1.6	1.0	(21.3)	(3.6)	9.5	—	(1.4)	3.8	11.1
Canara Bank	ADD	247	300	21.5	181	2.6	733	(58)	(2)	60	(406.6)	97.3	4,031.4	(4.3)	(160.7)	4.1	—	—	—	1.5	1.5	0.9	(11.9)	(0.3)	11.8	—	—	—	27.6
City Union Bank	ADD	170	190	11.6	125	1.8	665	9	10	12	6.4	16.2	13.0	19.1	16.5	14.6	—	—	—	2.9	2.6	2.2	15.3	15.5	15.5	0.2	1.1	1.2	1.9
DCB Bank	ADD	160	205	28.4	49	0.7	308	8	10	12	13.8	28.2	21.0	20.0	15.6	12.9	—	—	—	2.0	1.8	1.6	10.9	11.7	12.7	—	0.6	0.7	4.8
Equitas Holdings	BUY	136	190	39.7	46	0.7	340	0.9	4.4	8.3	(80.4)	374.7	88.2	147.0	31.0	16.5	—	—	—	2.1	2.0	1.8	1.4	6.4	11.0	—	—	—	4.5
Federal Bank	BUY	88	130	48.0	174	2.5	1,972	4.4	5.7	7.9	(9.3)	29.5	39.5	20.1	15.5	11.1	—	—	—	1.5	1.4	1.3	8.2	8.8	11.4	1.1	1.5	2.1	20.0
HDFC Bank	REDUCE	2,156	2,000	(7.3)	5,616	81.5	2,595	67	77	93	18.7	14.1	21.1	32.0	28.1	23.2	—	—	—	5.3	4.1	3.6	17.9	16.5	16.2	0.6	0.7	0.8	82.8
ICICI Bank	BUY	276	400	45.2	1,772	25.7	6,429	11	15	25	(31.1)	46.5	64.1	26.1	17.8	10.9	—	—	—	2.1	1.9	1.6	6.6	9.1	13.7	0.5	1.1	1.8	85.3
IDFC Bank	NR	38	—	—	128	1.9	3,404	2.5	1.6	3.3	(16.0)	(38.5)	109.8	14.9	24.3	11.6	—	—	—	0.8	0.8	0.8	5.7	3.4	6.9	1.3	0.8	1.7	9.2
IndusInd Bank	REDUCE	1,940	1,900	(2.1)	1,165	16.9	600	60	71	87	25.3	17.5	23.6	32.3	27.5	22.2	—	—	—	5.1	4.1	3.6	17.1	17.6	16.8	—	0.4	0.5	30.9
J&K Bank	BUY	48	105	119.7	27	0.4	557	4	8	11	111.6	116.7	44.4	13.1	6.1	4.2	—	—	—	0.6	0.5	0.4	3.4	6.9	9.4	—	3.3	4.8	0.3
Karur Vysya Bank	ADD	99	120	21.6	72	1.0	727	5	4	14	(52.2)	(22.8)	274.8	20.7	26.9	7.2	—	—	—	1.4	1.4	1.2	6.1	4.2	14.7	0.6	0.9	3.5	1.7
Punjab National Bank	ADD	79	90	14.0	218	3.2	2,761	(44)	(39)	9	(814.7)	13.4	124.1	(1.8)	(2.0)	8.5	—	—	—	4.7	(3.6)	(13.5)	(32.4)	(31.3)	8.2	—	(10.6)	2.5	29.7
RBL Bank	SELL	570	475	(16.6)	240	3.5	420	15	22	29	27.3	48.1	31.5	37.7	25.4	19.3	—	—	—	3.7	3.3	3.0	11.5	13.3	15.5	0.4	0.6	0.8	13.0
State Bank of India	BUY	266	370	38.9	2,377	34.5	8,925	(7)	18	37	(155.8)	NM	106.1	NM	14.8	7.2	—	—	—	2.1	1.6	1.2	(3.2)	7.1	13.2	—	0.1	0.2	73.4
Ujivan Financial Services	REDUCE	384	420	9.3	46	0.7	121	1	22	29	(96.5)	3,564.0	30.0	636.5	17.4	13.4	—	—	—	2.8	2.4	2.0	0.4	14.2	16.1	0.0	0.6	0.8	6.8
Union Bank	ADD	79	130	64.7	92	1.3	1,169	(45)	1	24																			

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (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)	
		23-Jul-18	Target price (Rs)		2018	2019E		2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E			
NBFCs																													
Bajaj Finance	SELL	2,756	2,000	(27.4)	1,593	23.1	575	43	68	90	29.2	56.6	31.9	63.5	40.6	30.7	—	—	—	10.1	8.3	6.7	19.7	22.4	24.0	0.1	0.2	0.3	51.9
Bajaj Finserv	REDUCE	6,923	6,100	(11.9)	1,102	16.0	159	176	245	307	10.3	39.7	25.2	39.4	28.2	22.5	—	—	—	5.5	4.5	3.8	15.6	17.5	18.1	0.2	0.2	0.2	17.0
Bharat Financial Inclusion	NA	1,187	—	—	165	2.4	139	33	43	54	55.5	31.1	27.2	36.3	27.7	21.8	—	—	—	5.5	4.5	3.7	16.7	17.9	18.5	—	—	—	10.2
Cholamandalam	REDUCE	1,539	1,510	(1.9)	241	3.5	156	62	76	92	35.5	22.3	20.8	24.7	20.2	16.7	—	—	—	4.9	4.1	3.4	20.6	21.0	21.2	0.4	0.6	0.7	8.0
HDFC	BUY	1,967	2,075	5.5	3,324	48.2	1,676	75	58	67	52.1	(23.1)	15.2	26.1	33.9	29.5	—	—	—	5.2	4.5	4.1	23.9	14.3	14.5	1.0	1.0	1.2	70.8
HDFC Standard Life Insurance	SELL	483	405	(16.1)	972	14.1	2,007	6	6	7	24.4	14.8	10.9	87.3	76.1	68.6	—	—	—	22.6	20.1	18.0	27.3	28.0	27.7	0.3	0.3	0.4	13.0
ICICI Lombard	SELL	783	620	(20.8)	355	5.2	454	19	26	32	22.0	37.1	21.5	41.2	30.1	24.8	—	—	—	7.8	6.6	5.5	20.8	23.8	24.2	0.5	0.8	0.9	2.3
ICICI Prudential Life	BUY	375	500	33.4	538	7.8	1,436	11	12	13	(3.7)	3.8	7.6	33.2	32.0	29.7	—	—	—	8.2	6.8	5.7	25.0	23.2	20.9	1.5	0.5	0.6	12.4
IIFL Holdings	SELL	632	625	(1.0)	202	2.9	319	29	34	41	32.4	17.3	21.4	22.1	18.9	15.5	—	—	—	4.0	3.4	2.9	19.0	19.3	20.0	1.0	1.1	1.4	1.4
L&T Finance Holdings	ADD	171	190	11.2	341	5.0	1,996	7	13	14	23.7	70.9	12.3	23.3	13.6	12.1	—	—	—	2.7	2.5	2.1	14.2	18.9	18.8	1.0	1.2	1.5	10.6
LIC Housing Finance	BUY	521	610	17.0	263	3.8	505	44	50	58	3.2	13.8	17.5	11.9	10.5	8.9	—	—	—	2.0	1.7	1.4	14.5	14.3	14.4	1.3	1.5	1.7	13.0
Magma Fincorp	BUY	142	200	41.3	38	0.6	237	10	12	15	1,014.5	24.6	25.8	14.6	11.7	9.3	—	—	—	1.4	1.4	1.2	10.2	12.9	14.1	0.6	1.3	1.6	1.7
Mahindra & Mahindra Financial	REDUCE	467	475	1.8	288	4.2	614	15	22	26	105.0	53.5	16.6	32.2	20.9	18.0	—	—	—	3.3	3.0	2.7	11.3	14.0	14.8	0.9	1.3	1.5	10.8
Max Financial Services	BUY	454	650	43.3	122	1.8	268	5	6	6	(20.4)	36.9	1.8	99.0	72.3	71.0	—	—	—	—	—	—	6.5	8.3	8.0	—	0.5	0.5	4.6
Muthoot Finance	ADD	395	480	21.4	158	2.3	400	43	38	40	45.6	(10.8)	4.0	9.2	10.3	9.9	—	—	—	2.0	1.8	1.6	24.1	18.4	16.9	2.5	2.2	2.3	4.6
PNB Housing Finance	REDUCE	1,257	1,375	9.4	210	3.1	167	50	61	77	57.8	23.0	25.3	25.3	20.5	16.4	—	—	—	3.3	3.0	2.6	14.0	15.2	16.8	0.7	0.3	0.3	10.0
SBI Life Insurance	ADD	653	815	24.9	653	9.5	1,000	12	15	18	20.8	26.0	22.9	56.6	44.9	36.5	—	—	—	10.1	8.5	7.1	19.4	20.6	21.3	0.3	0.4	0.4	4.9
Shriram City Union Finance	ADD	1,900	2,325	22.3	125	1.8	66	101	140	174	19.6	39.4	23.8	18.9	13.5	10.9	—	—	—	2.4	2.1	1.8	12.5	15.5	16.7	0.9	0.9	1.2	0.7
Shriram Transport	ADD	1,213	1,400	15.4	275	4.0	227	69	105	125	24.7	52.1	18.7	17.6	11.5	9.7	—	—	—	2.3	2.0	1.7	13.1	17.6	18.0	0.9	1.2	1.4	27.9
NBFCs	Neutral				10,966	159					36.9	11.7	18.8	32.0	28.7	24.1				5.4	4.6	4.0	16.8	16.1	16.6	0.7	0.7	0.8	565.8
Cement																													
ACC	SELL	1,311	1,270	(3.1)	246	3.6	188	49	62	70	32.7	27.0	13.8	26.9	21.2	18.6	14.1	11.5	9.8	2.6	2.4	2.2	10.1	11.9	12.5	1.3	1.3	1.3	11.1
Ambuja Cements	REDUCE	198	215	8.6	393	5.7	1,986	8	7	9	29.7	(1.3)	27.0	26.3	26.7	21.0	8.6	8.5	6.9	1.9	1.8	1.8	7.4	7.0	8.6	1.8	1.8	1.8	9.4
Dalmia Bharat	ADD	2,396	2,900	21.0	214	3.1	89	60	98	128	55.4	62.6	30.3	39.7	24.4	18.7	12.5	9.5	7.7	3.5	3.1	2.6	9.7	13.4	15.2	0.1	0.1	0.1	4.9
Grasim Industries	BUY	921	1,275	38.4	606	8.8	657	47	52	69	(30.1)	9.1	32.8	19.4	17.8	13.4	11.5	7.1	6.5	1.1	1.0	0.9	7.0	5.8	7.2	0.6	0.6	0.6	13.7
India Cements	REDUCE	107	135	26.2	33	0.5	308	3	5	9	(42.5)	56.2	84.4	32.8	21.0	11.4	9.3	8.0	6.3	0.6	0.6	0.6	2.0	3.0	5.3	0.9	0.9	0.9	6.7
J K Cement	REDUCE	752	1,000	33.0	53	0.8	70	43	51	83	25.1	17.0	65.0	17.4	14.9	9.0	9.4	10.0	8.1	2.7	2.3	1.9	16.2	16.7	23.2	1.1	1.1	1.1	0.5
JK Lakshmi Cement	ADD	321	425	32.5	38	0.5	118	4	18	33	(35.7)	311.2	79.6	71.7	17.4	9.7	13.4	8.0	5.7	2.6	2.3	1.9	3.7	14.1	21.5	0.6	0.6	0.6	0.4
Orient Cement	ADD	112	165	46.9	23	0.3	205	2	8	12	237.8	250.7	64.8	52.0	14.8	9.0	11.6	7.4	5.4	2.3	2.0	1.7	4.4	14.3	20.6	0.7	1.3	1.8	0.2
Shree Cement	SELL	16,867	12,700	(24.7)	588	8.5	35	397	486	662	3.4	22.3	36.2	42.5	34.7	25.5	22.8	17.2	13.5	6.6	5.7	4.7	16.7	17.6	20.2	0.3	0.3	0.3	4.8
UltraTech Cement	SELL	4,010	2,950	(26.4)	1,101	16.0	275	88	126	162	(7.8)	42.7	28.9	45.5	31.9	24.7	22.5	16.7	13.8	4.2	3.8	3.3	9.7	12.6	14.3	0.2	0.2	0.2	18.6
Cement	Cautious				3,294	48					5.9	24.8	32.4	31.8	25.5	19.2	14.4	10.3	8.7	2.4	2.2	2.0	7.5	8.7	10.5	0.6	0.6	0.6	70.2

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)		RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)			
		23-Jul-18	Target price (Rs)				2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018		2019E	2020E	
Consumer products																													
Asian Paints	REDUCE	1,433	1,275	(11.0)	1,375	20.0	959	21	26	31	2.9	26.5	20.5	69.8	55.2	45.8	42.7	34.6	28.6	16.3	14.3	12.6	24.6	27.7	29.3	0.6	0.8	1.0	19.2
Bajaj Corp.	ADD	400	470	17.4	59	0.9	148	14	15	17	(9.4)	7.8	10.3	28.0	26.0	23.5	22.0	20.7	17.7	12.0	12.1	12.0	42.8	46.3	51.2	3.0	3.2	3.5	0.4
Britannia Industries	ADD	6,436	6,000	(6.8)	773	11.2	120	84	104	126	13.5	24.4	21.5	76.9	61.8	50.9	50.9	39.9	32.9	22.7	18.0	14.6	32.9	32.4	31.6	0.4	0.5	0.7	9.5
Coffee Day Enterprises	REDUCE	260	340	30.7	55	0.8	211	3	8	13	49.1	149.7	59.4	77.8	31.2	19.6	13.3	—	—	2.3	2.2	1.9	3.1	7.2	10.4	—	—	—	1.3
Colgate-Palmolive (India)	ADD	1,112	1,300	16.9	302	4.4	272	24	27	32	15.2	14.6	16.9	46.8	40.8	34.9	26.8	23.5	20.1	19.8	20.0	17.0	46.2	48.8	52.6	2.2	1.4	1.7	7.9
Dabur India	REDUCE	374	350	(6.4)	660	9.6	1,762	8	9	10	7.2	16.1	11.7	48.1	41.4	37.1	40.7	35.3	30.9	11.5	11.6	10.1	25.9	27.9	29.1	2.0	1.0	1.2	9.8
GlaxoSmithKline Consumer	ADD	6,440	6,750	4.8	271	3.9	42	166	189	211	6.6	13.3	11.9	38.7	34.1	30.5	26.6	22.8	19.6	7.8	7.1	6.5	21.2	21.7	22.2	1.2	1.4	1.6	2.0
Godrej Consumer Products	REDUCE	1,347	1,020	(24.3)	918	13.3	681	21	25	28	11.5	17.6	13.3	63.1	53.7	47.3	44.7	38.1	33.2	14.7	12.7	11.0	25.2	25.4	24.9	0.5	0.6	0.7	8.9
Hindustan Unilever	REDUCE	1,690	1,570	(7.1)	3,657	53.1	2,160	25	29	33	25.0	19.5	13.2	68.9	57.6	50.9	49.4	39.9	35.1	51.6	45.1	38.3	78.1	83.5	81.4	1.2	1.2	1.4	33.4
ITC	ADD	284	315	10.9	3,472	50.4	12,275	9	10	11	7.8	7.8	12.4	31.9	29.6	26.3	20.9	19.1	16.9	6.8	6.4	6.0	19.4	20.3	22.2	1.8	2.0	2.4	41.8
Jubilant Foodworks	BUY	1,450	1,500	3.4	191	2.8	132	15	24	33	191.7	64.1	39.2	99.6	60.7	43.6	42.6	29.5	22.1	19.8	14.4	11.1	21.7	27.5	28.8	0.1	0.1	0.2	37.0
Jyothy Laboratories	ADD	219	220	0.5	80	1.2	364	4	6	6	35.1	25.4	17.2	49.7	39.7	33.9	30.5	25.2	21.8	7.0	6.0	5.3	14.3	16.3	16.6	0.2	0.5	0.7	1.5
Manpasand Beverages	SELL	113	132	17.3	13	0.2	114	9	11	13	37.6	21.3	26.5	12.9	10.6	8.4	6.4	4.2	3.4	1.0	0.9	0.9	8.3	9.3	10.7	0.4	0.4	0.4	3.7
Marico	ADD	352	345	(2.0)	454	6.6	1,291	6	7	8	7.4	16.7	13.7	56.2	48.1	42.3	39.6	33.3	29.0	17.9	16.5	15.3	33.2	35.7	37.5	1.2	1.3	1.6	9.1
Nestle India	ADD	10,393	9,500	(8.6)	1,002	14.5	96	127	168	191	21.1	32.5	13.4	81.8	61.7	54.5	45.0	35.0	30.8	29.3	26.9	24.7	36.6	45.5	47.3	0.8	1.1	1.3	8.6
Page Industries	SELL	28,514	21,000	(26.4)	318	4.6	11	311	392	482	32.5	26.1	22.9	91.7	72.7	59.1	58.4	46.2	38.0	37.5	29.3	23.4	45.9	45.3	44.0	0.5	0.6	0.7	7.9
Pidlite Industries	REDUCE	1,050	1,050	(0.0)	533	7.7	508	18	22	26	7.5	20.4	20.4	58.2	48.4	40.2	38.9	32.4	26.7	14.9	12.5	10.5	26.0	28.2	28.5	0.6	0.7	0.8	13.3
S H Kelkar and Company	BUY	198	315	59.0	29	0.4	145	7	8	11	2.1	11.8	28.4	26.8	23.9	18.6	18.7	15.6	12.2	3.3	3.0	2.7	12.8	13.3	15.3	0.9	0.9	1.0	0.2
Tata Global Beverages	REDUCE	243	285	17.1	154	2.2	631	7	10	11	20.7	29.4	19.1	33.1	25.6	21.5	17.4	14.6	12.6	2.2	2.1	2.0	7.0	8.3	9.4	1.0	1.2	1.4	13.3
Titan Company	SELL	859	800	(6.8)	762	11.1	888	13	16	20	43.3	26.7	20.6	67.2	53.0	44.0	46.0	35.1	28.1	15.0	12.6	10.6	24.3	25.8	26.2	0.4	0.5	0.6	35.6
United Breweries	SELL	1,071	1,000	(6.7)	283	4.1	264	15	19	24	71.6	29.7	23.4	71.8	55.4	44.9	31.6	26.3	22.7	10.5	9.0	7.7	15.7	17.6	18.6	0.2	0.3	0.4	10.2
United Spirits	SELL	579	560	(3.3)	421	6.1	727	8	11	14	39.1	40.5	27.4	76.2	54.2	42.5	43.9	32.3	26.7	16.8	11.4	8.4	24.9	25.1	22.8	—	—	0.3	18.6
Varun Beverages	ADD	699	750	7.4	128	1.9	183	12	17	22	377.8	45.4	29.8	60.6	41.7	32.1	18.7	15.0	12.9	7.2	6.2	5.3	12.1	16.0	17.7	—	—	0.1	1.5
Consumer products	Cautious				15,911	231					15.0	17.6	15.7	52.5	44.7	38.6	34.2	28.8	24.8	12.9	11.6	10.4	24.5	26.0	26.9	1.1	1.2	1.4	294.8
Energy																													
BPCL	REDUCE	390	390	0.1	845	12.3	1,967	40	39	41	(1.5)	(3.6)	5.3	9.7	10.0	9.5	7.8	7.4	6.8	2.2	2.0	1.8	24.8	21.1	20.0	5.4	4.0	4.2	32.8
Castrol India	ADD	167	215	28.9	165	2.4	989	7	8	9	3.3	13.6	10.9	24.3	21.4	19.3	15.2	13.4	12.1	16.2	15.3	15.0	67.9	73.6	78.6	2.8	3.6	4.2	4.0
GAIL (India)	BUY	359	410	14.3	809	11.7	2,255	20	25	27	21.8	23.2	8.3	17.6	14.3	13.2	11.0	9.1	8.5	2.0	1.9	1.7	11.7	13.5	13.5	2.0	2.4	2.5	21.6
GSPL	SELL	186	170	(8.6)	105	1.5	564	12	11	11	34.5	(7.0)	(4.6)	15.7	16.9	17.7	8.0	6.6	6.6	2.1	1.9	1.7	14.0	11.7	10.2	0.9	0.9	0.8	1.6
HPCL	REDUCE	279	320	14.7	425	6.2	1,524	42	32	33	(3.2)	(23.4)	3.4	6.7	8.7	8.4	5.8	7.6	7.7	1.8	1.6	1.5	28.7	19.3	18.2	6.1	4.7	4.8	30.8
Indraprastha Gas	SELL	281	240	(14.7)	197	2.9	700	10	12	13	19.0	16.5	12.0	27.3	23.4	20.9	17.2	14.9	13.2	5.6	4.8	4.2	22.4	22.2	21.5	0.7	0.9	1.1	10.5
IOCL	REDUCE	163	160	(1.5)	1,578	22.9	9,479	21	17	18	(24.8)	(17.9)	7.4	7.9	9.6	9.0	4.6	5.4	4.9	1.4	1.3	1.2	18.5	14.0	14.0	7.1	4.1	4.5	25.8
Mahanagar Gas	ADD	845	850	0.6	83	1.2	99	48	52	54	21.5	6.5	5.3	17.5	16.4	15.6	10.6	9.5	8.8	4.0	3.5	3.2	24.3	22.8	21.4	2.2	2.4	2.6	4.2
ONGC	ADD	157	200	27.8	2,009	29.2	12,833	17	21	21	3.1	19.6	(1.3)	9.0	7.5	7.6	4.9	3.8	3.7	0.9	0.8	0.8	9.9	11.5	10.7	4.2	4.5	4.5	18.0
Oil India	SELL	206	220	7.1	233	3.4	1,135	25	24	24	22.6	(1.3)	(0.7)	8.3	8.4	8.5	6.5	5.9	5.9	0.8	0.8	0.8	9.8	9.7	9.2	5.0	5.3	5.3	3.3
Petronet LNG	BUY	209	280	34.0	313	4.5	1,500	14	16	18	22.1	17.3	13.2	15.0	12.8	11.3	10.0	8.6	7.2	3.2	2.8	2.5	23.3	23.4	23.3	2.2	2.7	3.5	12.1
Reliance Industries	REDUCE	1,120	930	(17.0)	6,630	96.2	5,922	59	68	77	16.9	14.9	13.9	19.0	16.5	14.5	14.0	11.3	9.5	2.3	2.0	1.8	11.6	11.9	12.1	0.5	0.6	0.6	117.7
Energy	Attractive				13,393	194					1.0	5.8	7.3	13.0	12.3	11.4	8.5	7.5	6.8	1.7	1.6	1.4	13.3	12.8	12.6	2.5	2.2	2.3	282.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target	Upside (%)	Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)		
		23-Jul-18	(Rs)				2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E		2020E	
Industrials																													
ABB	SELL	1,143	1,020	(10.8)	242	3.5	212	20	26	29	12.1	30.1	14.2	57.7	44.4	38.8	31.7	25.9	23.2	6.7	6.2	5.6	12.2	14.5	15.1	0.3	0.8	0.8	1.5
BHEL	SELL	70	81	16.5	255	3.7	3,671	2.2	2.6	5.4	62.7	19.4	106.9	31.6	26.5	12.8	7.4	6.8	3.4	0.8	0.8	0.8	2.5	3.0	6.1	2.6	3.1	6.5	9.0
Carborundum Universal	SELL	330	310	(6.1)	62	0.9	189	11	14	17	22.8	25.4	20.2	28.9	23.1	19.2	15.6	11.6	9.9	4.0	3.6	3.2	14.6	16.4	17.6	0.7	1.3	1.6	0.3
CG Power and Industrial	BUY	61	65	6.8	38	0.6	627	0.8	3.1	4.3	(72.2)	275.7	40.5	74.5	19.8	14.1	11.0	8.3	6.8	1.4	1.5	1.4	1.5	7.3	10.4	—	—	—	6.9
Crompton Greaves Consumer	SELL	241	210	(12.7)	151	2.2	627	5.2	6.2	7.5	13.3	20.0	20.9	46.6	38.8	32.1	28.6	24.2	20.4	19.1	13.3	10.2	49.5	40.5	35.9	0.6	0.8	1.0	2.4
Cummins India	REDUCE	636	680	6.9	176	2.6	277	24	28	32	(7.8)	16.1	13.9	26.3	22.6	19.9	23.1	19.8	16.4	4.4	4.1	3.8	17.4	18.9	20.1	2.4	2.3	2.7	4.0
Havells India	SELL	610	485	(20.5)	382	5.5	625	11	14	17	16.6	26.6	20.5	55.1	43.5	36.1	35.1	27.8	22.6	10.2	9.0	7.9	19.8	22.0	23.2	0.6	0.8	1.0	11.4
Kalpataru Power Transmission	BUY	339	530	56.3	52	0.8	153	19	24	34	36.5	24.3	39.8	17.5	14.1	10.1	7.7	6.4	5.1	1.9	1.7	1.5	11.7	13.1	16.1	0.7	0.7	0.7	0.6
KEC International	BUY	332	430	29.4	85	1.2	257	18	22	29	51.1	22.0	34.4	18.6	15.2	11.3	10.0	8.3	6.6	4.3	3.5	2.8	25.7	25.2	27.1	0.7	0.9	1.2	3.0
L&T	BUY	1,279	1,560	22.0	1,793	26.0	1,401	52	62	76	22.4	19.4	23.0	24.7	20.7	16.8	20.5	16.9	15.0	3.6	3.2	2.9	15.0	16.5	18.2	1.3	1.8	2.2	41.6
Siemens	SELL	970	975	0.5	345	5.0	356	24	30	37	22.5	23.0	23.2	40.1	32.6	26.4	22.6	18.1	14.4	4.2	4.0	3.7	10.9	12.6	14.5	1.0	1.3	1.5	3.5
Thermax	REDUCE	1,058	1,065	0.7	126	1.8	113	21	30	42	(3.6)	44.2	42.8	51.3	35.6	24.9	31.2	22.1	15.7	4.4	4.0	3.6	8.8	11.8	15.3	0.6	0.7	0.9	0.8
Voltas	SELL	574	525	(8.5)	190	2.8	331	17	19	22	12.6	8.3	15.6	33.2	30.6	26.5	27.6	23.4	19.5	4.9	4.4	3.9	15.9	15.0	15.5	0.7	0.8	0.9	14.1
Industrials	Neutral				3,898	57					19.8	21.5	28.3	30.3	25.0	19.4	20.0	16.5	13.7	3.3	3.1	2.8	10.8	12.3	14.5	1.1	1.5	2.0	99.2
Infrastructure																													
Adani Ports and SEZ	BUY	384	470	22.5	795	11.5	2,071	20	20	23	6.1	(0.2)	14.7	19.1	19.2	16.7	13.6	13.2	11.6	3.8	3.2	2.8	21.5	18.1	17.9	0.6	0.6	0.8	24.8
Ashoka Buildcon	BUY	147	210	42.8	41	0.6	282	8	8	9	34.6	0.5	5.2	17.5	17.4	16.5	14.1	12.0	10.6	2.2	1.9	1.7	13.0	11.4	10.7	0.7	1.1	0.8	0.8
Container Corp.	SELL	659	635	(3.6)	321	4.7	487	18	21	26	7.3	20.0	21.4	37.3	31.0	25.6	24.6	19.2	15.2	3.4	3.2	2.9	9.4	10.6	11.9	2.6	1.3	1.6	8.7
Dilip Buildcon	BUY	629	1,220	94.0	86	1.2	137	46	54	69	76.5	16.1	28.0	13.5	11.7	9.1	8.0	5.7	4.7	3.5	2.7	2.1	29.5	25.9	25.4	—	—	—	8.2
Gateway Distriparks	BUY	166	250	50.8	18	0.3	109	8	8	9	12.1	(1.2)	17.5	21.7	21.9	18.7	20.7	10.4	8.7	1.8	3.5	3.1	8.2	10.8	17.6	4.2	—	1.8	0.8
Gujarat Pipavav Port	BUY	116	170	47.0	56	0.8	483	4.1	5.9	7.2	(20.6)	43.7	22.5	28.2	19.6	16.0	13.8	11.4	9.0	2.8	2.7	2.7	9.8	14.0	16.8	2.9	4.2	5.1	0.8
IRB Infrastructure	BUY	189	330	74.8	66	1.0	351	23	31	33	10.8	36.8	7.1	8.4	6.1	5.7	6.9	6.5	7.0	1.2	1.0	0.9	14.5	17.6	16.3	1.2	1.6	2.1	8.5
Mahindra Logistics	BUY	574	540	(5.9)	41	0.6	71	10	14	18	16.2	42.8	31.2	58.5	41.0	31.2	33.8	22.6	17.2	9.7	8.1	6.7	18.2	21.6	23.5	—	—	—	0.8
Sadbhav Engineering	BUY	274	440	60.4	47	0.7	172	13	18	18	17.4	38.4	2.2	21.3	15.4	15.1	14.9	11.9	9.2	2.5	2.2	1.9	12.5	15.2	13.7	—	—	—	0.8
Infrastructure	Attractive				1,471	21					10.9	10.5	15.5	20.3	18.4	15.9	13.0	11.5	10.0	3.2	2.8	2.5	15.8	15.4	15.5	1.1	0.9	1.1	54.2
Internet																													
Info Edge	BUY	1,341	1,390	3.7	163	2.4	122	23	26	32	33.3	13.9	25.9	59.5	52.3	41.5	49.7	39.2	29.9	7.7	6.2	5.7	13.4	13.2	14.3	0.4	0.6	0.6	1.9
Just Dial	ADD	557	610	9.6	38	0.5	67	21	26	30	21.7	23.0	15.0	26.2	21.3	18.5	15.4	11.9	9.6	3.8	3.3	2.9	15.2	16.7	16.6	—	0.5	0.5	50.1
Internet	Cautious				201	3					28.0	17.0	22.0	48.2	41.2	33.8	37.5	29.8	23.6	6.5	5.4	4.8	13.5	13.0	14.2	0.3	0.5	0.6	52.0
Media																													
DB Corp.	REDUCE	263	270	2.8	48	0.7	184	18	20	23	(14.1)	14.9	12.3	14.9	13.0	11.5	7.9	7.1	6.3	2.9	2.6	2.5	19.9	20.7	22.3	4.9	6.4	8.0	0.6
DishTV	ADD	71	90	27.0	130	1.9	1,925	(0.4)	1.8	3.4	(143.0)	514.6	88.2	NM	38.8	20.6	11.6	6.1	4.8	2.0	1.9	1.8	(2.3)	5.1	8.9	—	—	—	7.7
Jagran Prakashan	REDUCE	133	168	26.0	42	0.6	311	10	12	14	(6.0)	21.7	15.3	13.3	11.0	9.5	6.0	5.4	4.7	2.0	2.0	1.9	14.8	18.1	20.9	2.2	3.7	6.7	0.4
PVR	REDUCE	1,153	1,425	23.6	54	0.8	47	27	38	50	25.5	39.8	33.2	43.0	30.7	23.1	14.7	12.1	10.0	5.0	4.4	3.8	12.3	15.2	17.5	0.2	0.3	0.4	9.2
Sun TV Network	REDUCE	781	925	18.4	308	4.5	394	29	35	39	10.2	20.7	10.9	27.1	22.5	20.3	18.2	15.2	13.3	6.7	6.0	5.4	26.3	28.1	27.9	1.3	2.2	2.6	21.5
Zee Entertainment Enterprises	ADD	515	600	16.6	494	7.2	960	15	17	20	7.8	11.3	17.0	34.3	30.8	26.3	22.2	19.1	16.2	6.5	5.8	5.1	20.3	19.9	20.6	0.5	0.9	1.1	16.0
Media	Attractive				1,076	16					(1.5)	29.6	21.1	33.1	25.5	21.1	15.9	12.2	10.4	4.5	4.2	3.8	13.7	16.4	17.9	0.9	1.5	1.8	55.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		23-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E		2020E
Metals & Mining																													
Coal India	ADD	262	326	24.6	1,624	23.6	6,207	11	27	28	(24.2)	138.2	3.0	23.1	9.7	9.4	17.1	6.1	5.8	6.7	6.2	6.4	26.7	66.1	66.4	6.3	7.6	9.6	13.7
Hindalco Industries	BUY	196	315	60.6	440	6.4	2,229	22	27	31	155.4	23.9	13.6	9.0	7.2	6.4	6.0	5.1	4.4	0.8	0.7	0.7	9.7	10.5	10.7	0.6	0.6	0.6	34.5
Hindustan Zinc	ADD	268	290	8.3	1,131	16.4	4,225	22	22	26	9.3	3.7	14.7	12.4	12.0	10.5	7.6	6.8	5.6	3.1	2.7	2.4	27.2	24.4	24.2	3.0	3.0	3.0	8.5
Jindal Steel and Power	REDUCE	187	255	36.0	181	2.6	968	(8)	8	18	59.3	194.2	129.1	(22.1)	23.4	10.2	9.3	6.7	5.7	0.6	0.6	0.6	(2.7)	2.6	5.7	—	—	—	28.8
JSW Steel	ADD	307	345	12.5	741	10.8	2,417	27	27	25	83.9	(0.7)	(5.7)	11.4	11.5	12.2	7.6	7.0	7.5	2.6	2.2	1.9	24.8	20.4	16.5	1.1	1.1	1.1	19.1
National Aluminium Co.	ADD	59	85	45.2	113	1.6	1,933	4	7	7	12.7	63.0	11.1	14.2	8.7	7.8	5.6	3.7	3.4	1.1	1.1	1.1	7.7	12.4	13.6	9.7	9.4	9.4	10.1
NMDC	REDUCE	95	125	31.2	302	4.4	3,164	12	10	10	43.3	(16.5)	3.6	8.1	9.7	9.4	4.3	5.9	5.6	1.2	1.2	1.1	15.8	12.5	12.4	5.8	5.8	5.8	3.6
Tata Steel	ADD	517	700	35.4	589	8.5	1,205	67	69	82	62.6	3.1	18.4	7.7	7	6.3	6.0	5.9	6.0	1.1	0.9	0.9	17.2	13.1	13.9	1.8	1.9	1.9	69.2
Vedanta	BUY	212	415	96.1	787	11.4	3,717	22	37	43	9.6	71.9	16.9	9.8	5.7	4.9	5.5	4.0	3.4	1.2	1.1	1.0	12.9	20.6	21.4	3.8	5.3	6.2	53.2
Metals & Mining	Attractive				5,909	86					32.3	39.6	11.4	12.5	9.0	8.0	7.1	5.6	5.2	1.8	1.6	1.5	14.3	17.8	18.2	3.7	4.2	4.9	240.8
Pharmaceutical																													
Apollo Hospitals	ADD	954	1,090	14.3	133	1.9	139	8	19	26	(46.9)	124.3	38.0	113.0	50.4	36.5	20.7	17.6	14.9	4.1	3.9	3.6	3.4	7.9	10.2	0.2	0.5	0.7	7.2
Aurobindo Pharma	ADD	590	640	8.4	346	5.0	584	42	45	49	6.0	8.0	9.4	14.1	13.1	12.0	9.9	9.2	8.1	3.0	2.5	2.1	23.2	20.5	17.4	0.7	0.9	1.1	20.9
Biocon	SELL	569	300	(47.2)	341	5.0	601	6	8	15	(39.2)	27.1	84.9	91.7	72.2	39.0	41.2	30.3	19.9	6.0	5.7	5.1	6.9	8.1	13.7	0.4	0.5	0.9	22.5
Cipla	BUY	634	650	2.5	511	7.4	805	18	26	34	40.2	48.7	30.8	36.2	24.3	18.6	18.8	13.8	11.0	3.5	3.1	2.8	10.2	13.6	15.9	0.6	0.9	1.1	23.6
Dr Lal Pathlabs	REDUCE	898	865	(3.6)	75	1.1	83	20	25	29	7.0	20.8	18.5	43.9	36.3	30.7	26.6	22.3	18.7	9.5	7.9	6.6	23.5	23.7	23.4	0.5	0.6	0.7	1.5
Dr Reddy's Laboratories	REDUCE	2,042	2,150	5.3	339	4.9	166	59	89	119	(18.5)	51.4	32.9	34.6	22.8	17.2	16.1	10.9	8.2	2.7	2.4	2.2	7.8	11.2	12.7	1.0	0.7	0.9	33.8
HCG	REDUCE	284	305	7.4	25	0.4	85	2	3	5	(40.0)	120.9	57.3	181.6	82.2	52.3	23.9	18.6	15.8	4.7	4.4	4.1	2.8	5.5	8.1	—	—	—	0.2
Laurus Labs	ADD	453	540	19.3	48	0.7	106	16	22	34	(11.9)	37.3	54.4	28.5	20.8	13.5	14.0	11.4	8.4	3.2	2.8	2.3	11.9	14.4	18.8	—	—	—	0.7
Lupin	REDUCE	800	800	(0.0)	362	5.3	450	38	35	45	(32.9)	(7.7)	28.6	21.0	22.7	17.7	13.0	11.5	9.4	2.6	2.4	2.2	12.6	11.1	12.9	0.6	0.7	0.8	34.0
Narayana Hrudayalaya	ADD	250	275	10.2	51	0.7	204	3	4	7	(38.1)	52.2	76.9	99.2	65.2	36.9	27.3	20.6	15.1	4.9	4.6	4.1	5.1	7.3	11.7	—	—	—	0.4
Sun Pharmaceuticals	REDUCE	562	500	(11.0)	1,348	19.6	2,406	15	17	24	(47.5)	12.0	42.0	37.0	33.0	23.3	21.9	17.9	13.2	3.5	3.2	2.9	9.8	10.2	13.1	0.4	0.6	0.9	52.7
Torrent Pharmaceuticals	NR	1,450	—	—	245	3.6	169	40	46	61	(27.4)	15.1	32.9	36.2	31.5	23.7	20.2	14.5	12.1	5.3	4.7	4.1	15.1	14.9	17.2	1.1	0.7	1.0	5.2
Pharmaceuticals	Neutral				3,823	55					(27.6)	18.6	32.6	32.5	27.4	20.7	18.0	14.5	11.4	3.5	3.2	2.8	10.9	11.6	13.7	0.5	0.6	0.9	202.6
Real Estate																													
Brigade Enterprises	BUY	185	340	83.8	25	0.4	136	11	9	9	(17.7)	(15.1)	(1.6)	16.7	19.7	20.0	10.6	10.8	10.7	1.1	1.1	1.0	7.6	5.5	5.2	1.4	1.4	1.4	0.4
DLF	RS	178	—	—	317	4.6	1,784	19.6	6.5	3.9	403.9	(66.9)	(39.6)	9.1	27.4	45.3	27.4	12.0	11.8	0.9	0.9	0.9	11.7	3.2	1.9	1.1	1.1	1.1	16.7
Godrej Properties	SELL	658	400	(39.2)	151	2.2	216	11.6	16.8	19.2	21.9	43.9	14.9	56.5	39.3	34.2	142.8	101.5	72.2	6.3	5.4	4.7	11.8	14.9	14.7	—	—	—	2.8
Oberoi Realty	BUY	483	560	16.0	176	2.5	340	13	62	44	14.0	385.4	(28.1)	38.0	7.8	10.9	28.4	10.8	13.6	2.7	1.8	1.5	7.3	27.4	15.2	0.4	0.4	0.4	3.4
Prestige Estates Projects	ADD	256	315	23.1	96	1.4	375	13	10	10	24.3	(24.2)	8.4	20.4	26.9	24.8	14.4	14.9	15.0	2.0	1.9	1.8	10.3	7.3	7.5	0.6	0.6	0.6	1.1
Sobha	REDUCE	475	510	7.4	45	0.7	95	22	20	23	30.9	(7.5)	14.8	21.7	23.5	20.5	13.1	13.4	12.5	1.6	1.6	1.5	7.6	6.8	7.4	1.5	1.5	1.5	1.6
Sunteck Realty	REDUCE	389	330	(15.1)	57	0.8	140	15	18	20	4.8	20.2	6.9	25.5	21.2	19.8	16.4	18.0	16.7	2.1	1.9	1.7	9.7	9.4	9.2	0.3	0.3	0.3	1.7
Real Estate	Neutral				866	13					140.1	(12.6)	(20.2)	16.6	19.0	23.8	23.3	14.2	14.6	1.5	1.4	1.4	9.3	7.5	5.7	0.7	0.7	0.7	27.6

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		23-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
Technology																													
HCL Technologies	REDUCE	1,005	1,010	0.5	1,399	20.3	1,409	62	68	71	5.3	9.0	5.0	16.1	14.8	14.1	11.4	9.6	8.8	3.9	3.3	2.9	24.8	23.8	21.9	0.8	2.9	3.1	35.1
Hexaware Technologies	SELL	504	420	(16.7)	150	2.2	304	16	20	22	19.8	20.5	12.5	30.7	25.5	22.7	22.0	18.5	15.8	7.6	6.6	5.7	26.6	27.8	27.0	0.8	1.6	1.6	14.5
Infosys	ADD	1,356	1,400	3.2	2,962	43.0	2,175	65	71	78	3.0	9.7	10.4	21.0	19.1	17.3	14.5	13.1	11.7	4.5	4.3	3.9	21.8	23.0	23.5	2.0	3.2	2.9	80.4
L&T Infotech	ADD	1,721	2,000	16.2	298	4.3	175	64	83	94	13.9	30.5	13.0	27.1	20.8	18.4	23.8	15.9	13.3	7.8	6.3	5.1	31.8	33.5	30.7	1.0	1.4	1.5	4.7
Mindtree	ADD	960	1,115	16.2	157	2.3	165	35	43	53	37.8	24.9	23.6	27.8	22.3	18.0	20.1	13.9	11.1	5.8	4.9	4.2	21.4	23.9	25.2	1.1	1.3	1.7	31.2
Mphasis	SELL	1,127	760	(32.6)	218	3.2	193	44	52	56	14.4	18.3	8.2	25.7	21.7	20.1	18.6	15.0	13.4	4.0	3.6	3.3	14.6	17.4	17.1	1.8	1.8	1.8	11.4
TCS	REDUCE	2,006	1,790	(10.8)	7,679	111.4	3,829	67	82	89	1.1	21.2	8.8	29.7	24.5	22.5	22.2	18.0	16.5	8.8	7.7	7.6	29.4	33.4	33.8	1.2	2.0	3.6	114.9
Tech Mahindra	ADD	649	775	19.5	572	8.3	891	43	45	53	33.1	6.6	15.8	15.2	14.3	12.3	11.1	8.6	7.0	3.1	2.6	2.3	21.5	19.9	19.7	2.2	1.4	1.6	35.7
Wipro	REDUCE	276	295	6.7	1,251	18.2	4,507	17	19	22	(3.1)	11.8	14.6	16.3	14.6	12.7	10.3	9.1	8.0	2.6	2.2	2.1	16.0	16.4	16.8	0.4	0.5	3.6	13.5
Technology	Cautious				14,685	213					1.6	12.7	9.6	22.9	20.3	18.6	16.7	14.0	12.6	5.4	4.8	4.5	23.7	23.7	24.1	1.3	2.2	3.2	341.5
Telecom																													
Bharti Airtel	ADD	359	470	30.9	1,435	20.8	3,997	5	(4)	0	(42.9)	(187.4)	104.6	75.8	(86.7)	1,899.8	8.0	9.2	7.3	2.1	2.2	2.2	2.8	(2.4)	0.1	1.5	0.3	0.0	33.5
Bharti Infratel	REDUCE	287	285	(0.6)	530	7.7	1,850	14	13	11	(7.4)	(8.7)	(9.0)	20.8	22.8	25.1	7.5	8.2	8.7	3.1	3.3	3.3	15.7	14.0	13.1	5.0	3.5	3.2	13.5
IDEA	REDUCE	53	75	42.7	229	3.3	4,359	(10)	(15)	(14)	(656.8)	(54.9)	6.4	(5.5)	(3.5)	(3.8)	12.2	22.3	16.5	0.8	1.1	1.6	(16.0)	(26.9)	(34.0)	—	—	—	15.8
Tata Communications	ADD	566	725	28.0	161	2.3	285	2	4	8	(84.3)	121.9	117.7	344	155.0	71.2	10.5	9.4	8.2	32.3	26.1	18.9	4.5	18.6	30.7	1.1	1.1	1.3	4.7
Telecom	Cautious				2,356	34					(94.7)	(1,906.6)	36.2	749.0	(41.5)	(64.9)	8.6	10.2	8.5	2.1	2.3	2.4	0.3	(5.5)	(3.7)	2.0	1.0	0.7	67.5
Utilities																													
CESC	ADD	884	1,180	33.5	117	1.7	133	87	102	118	67.1	16.8	15.5	10.1	8.7	7.5	7.5	5.5	4.8	0.8	0.7	0.7	7.9	8.8	9.4	1.4	1.1	1.2	5.8
JSW Energy	REDUCE	64	80	26.0	104	1.5	1,640	3.1	5.9	8.2	(19.2)	92.2	38.7	20.7	10.8	7.8	6.7	5.3	4.3	0.9	0.9	0.8	4.7	8.5	11.0	3.1	3.1	3.1	1.7
NHPC	ADD	23	30	29.0	239	3.5	10,260	2.4	3.1	3.2	(17.3)	26.9	1.8	9.5	7.5	7.4	8.9	7.0	6.8	0.8	0.8	0.7	8.5	10.4	10.2	6.0	7.5	7.6	2.1
NTPC	BUY	158	190	20.1	1,304	18.9	8,245	11	15	16	(7.6)	30.9	4.4	13.9	10.6	10.2	11.2	8.7	8.0	1.3	1.2	1.1	9.5	11.6	11.3	3.6	2.8	3.0	13.3
Power Grid	BUY	177	250	41.2	926	13.4	5,232	16	19	21	9.6	19.3	13.6	11.2	9.4	8.3	8.2	7.0	6.4	1.7	1.5	1.4	15.8	17.1	17.5	3.0	3.5	4.0	29.8
Reliance Power	SELL	31	43	38.0	87	1.3	2,805	3.5	5.1	5.2	(16.4)	45.6	2.7	8.9	6.1	6.0	7.8	6.7	6.5	0.4	0.4	0.3	4.5	6.1	5.9	—	—	—	4.1
Tata Power	ADD	68	97	42.5	184	2.7	2,705	5.3	7.8	8.7	(9.6)	46.1	11.2	12.7	8.7	7.8	10.1	9.3	8.4	1.2	1.1	0.9	10.7	12.9	12.7	—	—	—	5.3
Utilities	Attractive				2,962	43					(2.4)	28.6	9.0	12.2	9.5	8.7	9.2	7.6	7.0	1.2	1.1	1.0	9.7	11.5	11.6	3.1	3.1	3.3	62.1

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		23-Jul-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E		
Others																														
Astral Poly Technik	SELL	1,076	625	(41.9)	129	1.9	120	15	19	23	20.8	28.0	23.0	73.4	57.3	46.6	41.2	32.0	26.0	12.7	10.5	8.6	18.8	20.0	20.3	0.1	0.1	0.1	1.0	
Avenue Supermarts	SELL	1,532	860	(43.8)	956	13.9	624	13	16	20	47.9	28.6	26.4	121.8	94.8	74.9	71.4	54.7	42.9	20.6	16.9	13.8	18.5	19.6	20.3	—	—	—	—	
Bayer Cropscience	REDUCE	4,430	4,000	(9.7)	175	2.5	34	86	105	124	4.4	22.7	17.5	51.6	42.0	35.8	41.7	32.6	26.1	8.5	7.4	6.4	15.4	18.8	19.2	0.4	0.5	0.6	0.5	
Dhanuka Agritech	ADD	520	690	32.8	26	0.4	49	26	28	32	7.7	8.9	15.4	20.2	18.6	16.1	14.8	12.7	10.6	4.0	3.5	3.0	21.9	20.1	20.0	1.1	1.2	1.3	0.1	
Godrej Agrovet	ADD	611	650	6.4	117	1.7	189	12	16	20	6.9	39.8	24.6	53.1	37.9	30.5	27.3	21.0	17.0	6.9	6.0	5.0	14.7	16.9	17.9	0.3	0.4	0.5	1.6	
Godrej Industries	RS	605	—	—	204	3.0	336	15	16	20	6.8	8.9	24.2	41.5	38.1	30.7	37.0	31.3	34.1	5.6	5.0	4.4	14.4	13.9	15.1	0.3	0.3	0.3	4.4	
InterGlobe Aviation	BUY	1,055	1,430	35.6	406	5.9	383	59	71	98	27.2	21.8	37.5	18.0	14.8	10.8	10.1	8.2	5.6	5.7	4.3	3.2	41.3	33.0	33.8	0.6	0.7	1.0	24.6	
Kaveri Seed	SELL	605	470	(22.2)	40	0.6	66	32	31	33	18.4	(3.7)	6.1	18.9	19.6	18.5	16.1	16.7	15.1	5.1	4.4	3.8	23.6	24.0	21.9	1.0	1.3	1.7	4.9	
PI Industries	BUY	770	900	16.9	106	1.5	138	27	33	41	(20.0)	25.0	23.2	29.0	23.2	18.8	21.3	16.8	13.3	5.5	4.6	3.8	20.7	21.7	22.1	0.4	0.5	0.6	1.5	
Rallis India	ADD	187	220	17.5	36	0.5	195	9	10	12	(1.5)	17.2	19.4	21.7	18.5	15.5	13.5	12.2	10.3	3.1	2.8	2.5	14.6	15.8	17.1	1.8	1.9	2.1	0.8	
SIS	REDUCE	1,119	1,250	11.7	82	1.2	73	23	36	43	44.0	58.5	20.6	49.6	31.3	25.9	26.6	20.2	16.6	7.9	6.7	5.5	20.2	23.4	23.3	0.3	0.5	0.6	0.8	
SRF	BUY	1,568	2,110	34.6	90	1.3	57	80	92	123	(10.4)	14.4	33.6	19.5	17.0	12.8	12.1	9.6	7.8	2.5	2.3	2.0	13.7	14.0	16.4	0.8	0.8	0.9	10.8	
Tata Chemicals	ADD	670	760	13.5	171	2.5	255	51	46	52	6.5	(11.2)	13.6	13.0	14.7	12.9	7.2	6.1	5.1	1.5	1.4	1.3	13.8	10.0	10.5	3.3	2.2	2.5	8.6	
TeamLease Services	SELL	2,784	1,750	(37.1)	48	0.7	17	43	59	75	28.0	37.4	27.2	64.6	47.0	36.9	67.2	47.7	36.8	10.8	8.8	7.1	18.2	20.6	21.2	—	—	—	1.9	
UPL	ADD	632	640	1.2	322	4.7	510	43	47	53	20.9	9.0	13.5	14.7	13.5	11.9	10.2	8.9	7.5	3.5	2.9	2.4	26.4	23.6	22.4	1.3	1.5	1.7	19.8	
Vardhman Textiles	ADD	1,202	1,400	16.5	69	1.0	56	103	130	140	(8.0)	26.4	7.4	11.7	9.2	8.6	9.8	7.3	6.5	1.4	1.2	1.1	12.7	14.3	13.8	1.2	1.7	2.5	1.0	
Whirlpool	SELL	1,575	1,240	(21.3)	200	2.9	127	28	37	45	13.0	33.9	22.5	57.0	42.5	34.7	33.7	26.0	20.9	11.1	9.2	7.7	21.4	23.7	24.1	0.3	0.4	0.6	1.0	
Others					3,175	46						15.0	15.7	22.8	31.1	26.9	21.9	20.0	16.5	13.5	5.6	4.8	4.1	18.1	17.8	18.5	0.6	0.6	0.7	83.2
KIE universe					109,291	1,586						(6.2)	30.4	25.0	27.1	20.8	16.6	12.5	10.6	9.4	3.0	2.7	2.4	11.0	13.0	14.7	1.3	1.4	1.8	
KIE universe (ex-energy)					95,898	1,391						(8.5)	38.8	29.7	32.0	23.0	17.7	14.0	11.6	10.2	3.3	3.0	2.7	10.4	13.0	15.2	1.1	1.3	1.7	

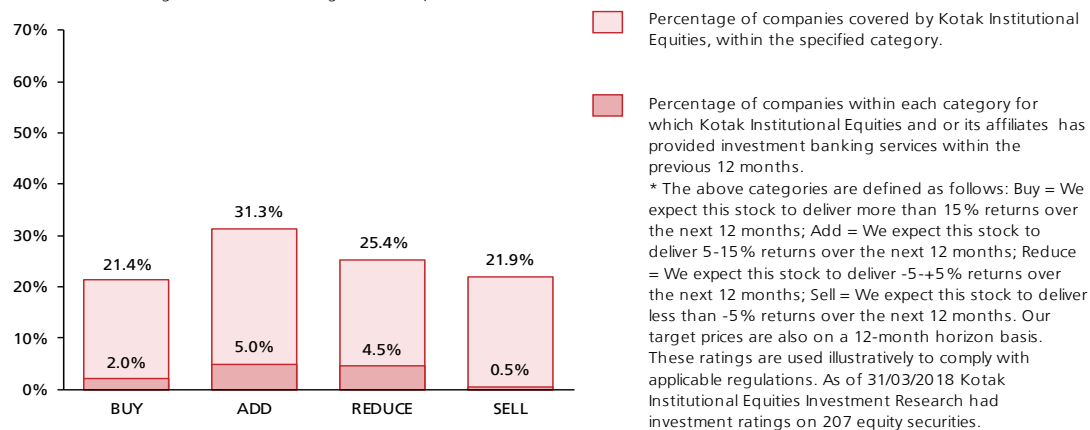
Notes:

- (a) We have used adjusted book values for banking companies.
(b) 2018 means calendar year 2017, similarly for 2019 and 2020 for these particular companies.
(c) Exchange rate (Rs/US\$)= 68.90

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2018

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

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