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### EQUITY MARKETS

India	Change %			
	21-Sep	1-day	1-mo	3-mo
Sensex	36,842	(0.8)	(3.7)	3.2
Nifty	11,143	(0.8)	(3.6)	3.0
<b>Global/Regional indices</b>				
Dow Jones	26,744	0.3	3.7	8.8
Nasdaq Composite	7,987	(0.5)	0.5	3.8
FTSE	7,490	1.7	(1.2)	(2.5)
Nikkei	23,870	0.8	5.6	6.0
Hang Seng	27,562	(1.4)	(0.4)	(6.1)
KOSPI	2,339	0.7	2.0	(0.8)
<b>Value traded – India</b>				
Cash (NSE+BSE)	711		397	358
Derivatives (NSE)	13,338		7,114	17,570
Deri. open interest	3,945		4,322	4,448

#### Forex/money market

	Change, basis points			
	21-Sep	1-day	1-mo	3-mo
Rs/US\$	72.4	20	267	434
10yr govt bond, %	8.2	-	15	18

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

	19-Sep	MTD	CYTD
FIs	(301)	(533)	(1,225)
MFs	96	699	12,523

#### Top movers

Best performers	Change, %			
	21-Sep	1-day	1-mo	3-mo
DIVI IN Equity	1,388	(0.2)	6.7	32.9
WPRO IN Equity	335	0.8	14.7	29.8
ARBP IN Equity	763	(1.7)	10.0	24.8
JSTL IN Equity	408	(2.2)	15.0	21.1
RIL IN Equity	1,218	0.6	(4.7)	20.2

#### Worst performers

JPA IN Equity	8	(12.2)	(30.8)	(51.9)
UT IN Equity	3	(4.9)	(27.5)	(34.8)
YES IN Equity	227	(29.0)	(39.5)	(32.4)
TTMT/A IN Equity	132	(3.4)	(5.1)	(27.4)
IDEA IN Equity	45	(0.7)	(12.8)	(24.9)

SEPTEMBER 24, 2018

**UPDATE**

 Coverage view: **Cautious**

 Price (₹): **335**

 Target price (₹): **325**

 BSE-30: **36,842**

**More faith than fine fettle.** Wipro's stock has done well in the past three months on hopes of a turnaround. Such faith rides on the conviction that strategy and execution are in sync and that the underperformance seen in the recent past is on account of external client-specific factors or portfolio rationalization (especially in Asia). We find such a view overly optimistic given that Wipro has continued to cede ground in core areas of competence. The stock may well be considered a trade but has not displayed enough muscle and consistency to be a core holding. Cautious view stays.

**Company data and valuation summary**

Wipro

**Stock data**

52-week range (Rs) (high,low) 338-254

Market Cap. (Rs bn) 1,516.5

**Shareholding pattern (%)**

Promoters 74.3

FIs 11.0

MFs 2.7

**Price performance (%)**

	1M	3M	12M
Absolute	16.0	29.6	14.8
Rel. to BSE-30	20.5	25.0	1.0

**Forecasts/Valuations**

	2018	2019E	2020E
EPS (Rs)	16.9	19.1	22.8
EPS growth (%)	(3.1)	12.8	19.5
P/E (X)	19.8	17.5	14.7
Sales (Rs bn)	546.4	590.0	641.8
Net profits (Rs bn)	80.1	86.1	102.9
EBITDA (Rs bn)	105.3	113.6	131.3
EV/EBITDA (X)	12.9	11.4	9.6
ROE (%)	16.0	16.5	17.6
Div. Yield (%)	0.3	0.4	3.0

**Excitement in Wipro stock is fine as a trade but not so to be considered as core**

Wipro stock has risen by 30% in the last three months on the back of general sector and Rupee depreciation tailwinds. The excitement has increased even more on the back—(1) another hope of turnaround, (2) possible buyback announcement sometime in the month of January 2019 and (3) hope of strong December 2018 quarter on the back of Aight Solutions deal. Investing in the stock based on tactical considerations may as well work in the near term but lacks sustainability. Wipro has shown a few bright spots in digital, financial services and attempts to strengthen campus recruitment model but has many gaps on execution in multiple areas to be considered as core investment

**Gaps in execution keep us from subscribing to a turnaround view**

Investment in Wipro with a turnaround in view rides on the belief that (1) strategy and execution are working seamlessly, and (2) recent weak performance can be attributed entirely to customer-specific challenges and a weak external environment, specifically in case of the Healthcare and Energy & Utilities vertical. Such a belief seems optimistic noting that the company has ceded leadership in core areas (IMS, BPO, ERD and likely to cede ground in Energy and Utilities vertical to TCS) and underperformed in other strong areas. In fact, Wipro has not gleaned a native advantage going in many verticals or horizontal areas for the past twenty years. We note that its frequent client-specific challenges are due to a relatively weak profile of clients, the outcome of misplaced strategic calls over the past 20 years, more on this later.

**Weak growth profile deserves a valuation discount**

Wipro's EPS CAGR has been a pedestrian 6.7% from FY2012-18 at a time when the Rupee has depreciated to 65 in FY2018 from an average of 48 in FY2012. Even after making a generous assumption of currency-led EPS CAGR of 13.1% over the next three years, the stock trades at a rather full valuation of 14X FY2021E earnings. One could have argued for a higher turnaround-based multiple; however, the company has not displayed consistency in execution nor any signs of defending its leadership in core areas. As a result, the financial performance will continue with an erratic pattern with overall continuity of underperformance.

Kawaljeet Saluja

Sathishkumar S

### The cons of the turnaround argument

Wipro has been considered a turnaround candidate at various points in the past nine years. However, it has failed to make good due to two key challenges—(1) execution challenges and (2) client-specific challenges. Details:1

#### Constant client specific challenges are due to a weaker portfolio

One way to create a constructive view on Wipro is to consider recent customer-specific challenges as one one-offs. However, doing so ignores an important factor that has brought Wipro to such a situation. Specifically, we highlight that:

- ▶ Wipro's has a long list of missed strategic calls in the past 20 years, starting with its decision to not support clients on the Y2K bug fix. Subsequently, it focused excessively on systems integration opportunities in telcos when cost takeouts were a bigger consideration in early 2000s, followed by focusing on wrong segments in the healthcare vertical in 2003-05, not pivoting quickly enough in BPO services to non-voice work, cutting back on investments during the global financial crisis and missing the rebid opportunity in IMS. As a result, the company failed to capitalize on opportunities and missed working with many industry leaders in many of its verticals such as banking, telecom, and healthcare.
- ▶ An outcome of missed strategic bets has forced the company to be in perpetual catch-up mode. Industry leaders in many verticals already decided the IT vendors they would work with. It is not easy for Wipro to get in to these clients easily unless it penetrates through a differentiated value proposition or incumbents fail to deliver on projects. As a result, Wipro is forced to work with many clients that may not be necessarily leaders in their respective spaces and is therefore more prone to more volatility. We note that the difference that we refer to is relative to larger competition.

A weaker client base has led to natural challenges on scalability as reflected in weak client metrics [Exhibit 3].

#### Missed opportunity: native advantage in verticals and horizontals

Wipro never fully capitalized the native advantage across many verticals and services offerings under any CEO. There are plenty of such examples:

- ▶ Wipro had a head start over the competition in BPO services through the acquisition of Spectramind but did not transition into non-voice services in time to sustain leadership. BPO is an important element of transformation IT+ ops large deals, which could have been capitalized better. In fact, some of the largest deals reported by IT companies involve integrated business process and technology transformation.
- ▶ **IMS.** Wipro was a leader in the IMS market till FY2013, after which it lost its leadership to HCLT. Wipro missed out on early participation in the large deals rebid market during the 2012-14 period, leading to a loss of its leadership status.
- ▶ **ERD.** Wipro was a leader in the ERD market, thanks to its strong heritage in semiconductors, telecom & hitech and consumer electronics. However, engineering spends by the clients did not increase meaningfully, denting Wipro's ERD leadership status.
- ▶ **Energy and Utilities.** E&U is one vertical where Wipro has enjoyed leadership and made smart acquisitions such as the global energy practice of AMS and SAIC's Oil and Gas IT services business. The company also closed out a large deal with ATCO, a large Canadian utility, which cemented Wipro's leadership in the practice. Wipro established an early presence in both energy and utilities practices. The company has retained leadership in the energy practice, though it failed to capitalize on ensuing opportunities in the utilities

vertical. Specifically, digital adoption has created new revenue streams across for utilities in the non-regulated areas. This has led to aggressive digital adoption across the US and European markets. Wipro has missed this wave. The company may end up losing leadership in the vertical to TCS soon.

This loss of leadership across services lines and verticals has happened steadily over the past two decades. A valid question is what led to consistent misreading of the market or aligning for growth in these areas? Is it the inability to build depth or simply an inward looking organization culture? We think it is probably the latter, combined with a lack of sharply defined strategic bets. A passive and inward looking approach worked in the past during times of stable business and technology models. The current environment of disruption and dislocation does not afford such an approach. Wipro has attempted to move away from the passive approach a few years back and has sharpened its strategic calls, especially in digital technologies. Surprisingly, the broader loss of share continues.

### Wipro does not have enough muscle to support all verticals

Wipro's underperformance over a period of time has meant that the company is not relevant in some verticals. The company is better off diverting some of the investment dollars in other higher potential verticals. Communications clearly stands out as one such vertical in which the company has subscale presence and profitability. Manufacturing was a strong point for the company but seems to have hit a rough patch.

The financials of different verticals bear this out. Scale and growing verticals such as financial services and technology are running at 17.4% and 20.8% EBIT margin, respectively. On the other hand, sub-scale verticals such as communications and even manufacturing have a rather tepid EBIT margin of 9.7% and 12.4%; adjusting for one-offs and client specific events, margins would have been higher but nonetheless lower than scale verticals.

### A few strengths that can aid the turnaround effort

Notwithstanding Wipro's disappointment at a broader level, it has excelled in a few areas:

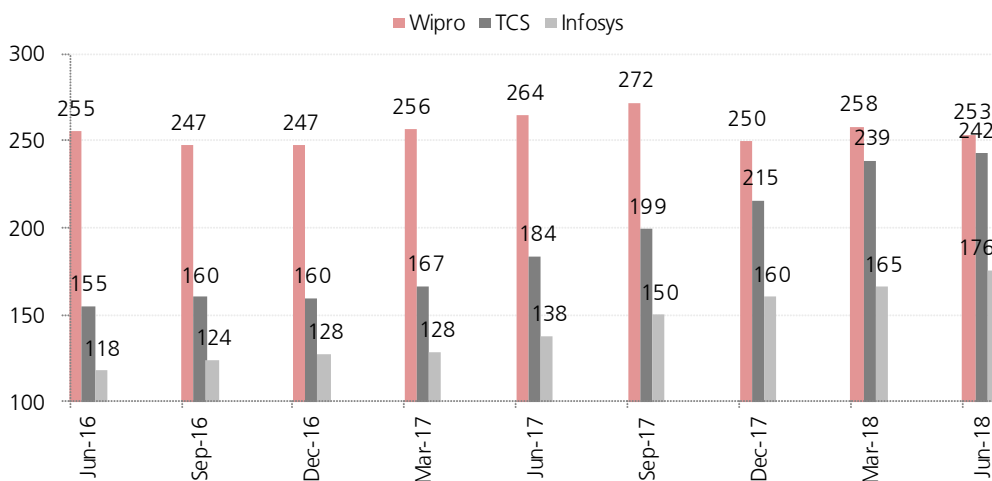
- ▶ **Digital services.** Wipro Digital has built up a credible brand under the leadership of Rajan Kohli (promoted to President recently). Wipro was late to invest in digital competencies but made up through digital acquisitions. These acquisitions were expensive but they have started making a difference to Wipro's overall portfolio. Wipro has won a few interesting large digital programs in financial services thanks to acquired design capabilities. The Appirio acquisition expanded its presence and scale in Salesforce and Workday implementation services. The company has a strong presence in IoT services. Wipro's digital services have received increasingly positive industry analyst recognition.
- ▶ **A good start to large deals.** The importance of large deals cannot be underestimated in any organization. The company has carved out a nice large deal/ acquisition through the acquisition of Alight Solutions captive center in India. This has translated into a US\$1.5 bn opportunity over a period of 10 years. This deal was partly possible through Workday capabilities that came as a part of the Appirio acquisition. The company has done such deals/ acquisitions in the past (viz Atco) though the hope is that the outcome will be different this time around.
- ▶ **Financial services practice in good shape.** The one real bright spot for Wipro is strong growth in financial services. The company grew 14% yoy in the most recent quarter. The growth was led by wins in a few consolidation deals and new design-led digital opportunities. Wipro has won a few integrated digital programs led by design capabilities which built up the momentum and mindshare with select clients. Further, the company had solid new account wins that will set the platform for future growth but may not contribute as much in the near term. Wipro's name figures lot more in banking deals than in the past.

### Maintain cautious stance

Wipro's growth is likely to be a tug of war between the above-mentioned positives and the company's perennial challenge of identifying shifts in the market to sustain the native advantage. We would like to see more of the latter before turning constructive.

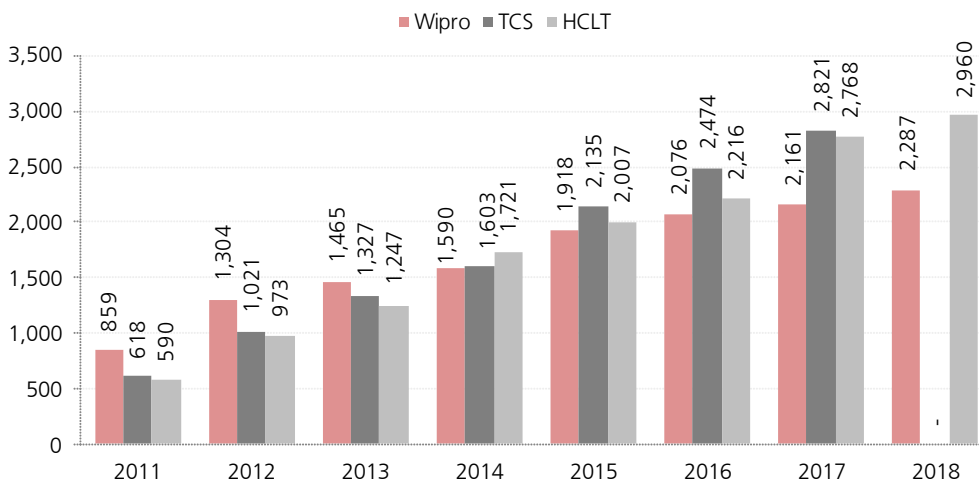
Headline earnings growth will be strong in FY2020E for the company due to a lag benefit of (since Wipro hedges over 50% for net cash inflow for 2-4 quarters) Rupee depreciation. Nonetheless, core revenue and earnings growth will be weak. We maintain our cautious stance.

Exhibit 1: Wipro's E&U revenues stagnated while TCS and Infosys grew rapidly in the vertical



Source: Company, Kotak Institutional Equities

Exhibit 2: Wipro's IMS revenue growth has lagged behind TCS and HCLT  
Revenues from IMS, March fiscal year-ends, US\$ mn



Source: Company, Kotak Institutional Equities

Exhibit 3: Mixed trends in client metrics; top client has powered large part of incremental revenues

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	4 qtr CQGR (%)
<b>Revenue(US\$ mn)</b>										
Top client	48	50	53	57	57	62	62	72	75	7.0
Top 5 clients	199	194	190	195	203	221	227	245	237	3.9
Top 10 clients	340	335	322	330	345	362	358	379	371	1.8
ex- Top 10 clients	1,591	1,581	1,581	1,624	1,627	1,651	1,655	1,683	1,656	0.4
<b>Growth (qoq %)</b>										
Top client	(5.0)	3.2	6.9	6.4	0.9	9.2	(0.0)	15.7	3.9	
Top 5 clients	(3.9)	(2.7)	(1.7)	2.7	3.9	9.1	2.7	7.9	(3.4)	
Top 10 clients	(0.8)	(1.3)	(4.1)	2.7	4.5	5.0	(1.1)	5.9	(2.3)	
ex- Top 10 clients	3.3	(0.6)	0.0	2.7	0.1	1.5	0.2	1.7	(1.6)	
<b>Client buckets</b>										
US\$ 100 mn+	9	8	9	9	9	9	9	8	8	
US\$ 75 mn+	19	19	17	18	18	16	17	20	19	
US\$ 50 mn+	33	33	33	34	36	39	41	39	40	

Source: Company, Kotak Institutional Equities

Exhibit 4: Growth verticals have healthy profitability

	Segment margin(%)		Growth (yoy c/c %)		Contribution to revenues (%)	
	Jul-17	Jul-18	Jul-17	Jul-18	Jul-17	Jul-18
<b>Banking Financial Services &amp; Insurance</b>	<b>15.6</b>	<b>17.4</b>	<b>8.1</b>	<b>14.4</b>	<b>30.0</b>	<b>26.7</b>
Communications	16.4	9.7	(7.8)	(13.6)	5.6	6.8
Consumer	14.3	11.9	2.9	4.8	16.0	15.8
Energy, Natural Resources & Utilities	20.9	15.6	7.0	(4.3)	12.5	13.4
Healthcare, Life Sciences & Services	14.3	11.4	(0.6)	(7.7)	13.4	14.8
Manufacturing	14.5	12.4		(6.0)	8.3	9.0
<b>Technology</b>	<b>19.7</b>	<b>20.8</b>		<b>7.2</b>	<b>14.2</b>	<b>13.5</b>

Source: Company, Kotak Institutional Equities

## Exhibit 5: Wipro's operating metrics

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
<b>IT services revenues (US\$ mn)</b>	<b>1,882</b>	<b>1,931</b>	<b>1,916</b>	<b>1,903</b>	<b>1,955</b>	<b>1,972</b>	<b>2,014</b>	<b>2,013</b>	<b>2,062</b>	<b>2,027</b>
<b>Service line split of revenues (%) - new</b>										
Global Infrastructure Services	28.9	27.9	28.2	28.1	28.0	28.1	28.4	28.2	28.8	27.4
Wipro Analytics	7.2	7.4	7.3	7.0	6.9	7.1	7.1	7.0	7.0	7.1
Business Process Services	10.6	12.9	13.4	13.3	12.3	12.0	12.1	12.6	12.1	12.1
Product Engineering	8.0	7.1	7.3	7.2	7.1	7.0	6.9	6.9	7.3	7.3
Application Services	45.3	44.7	43.8	44.4	45.7	45.8	45.5	45.3	44.8	46.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Vertical split of revenues (%) - new classification</b>										
Communications	7.7	7.6	7.5	7.4	6.9	6.8	6.5	6.4	5.8	5.6
Consumer	16.4	15.8	15.7	15.8	15.8	15.8	15.9	16.0	15.6	16.0
Energy, Natural Resources & Utilities	14.0	13.2	12.9	13.0	13.1	13.4	13.5	12.4	12.5	12.5
Finance Solutions	25.4	25.6	25.5	25.5	26.0	26.7	27.6	28.5	29.2	30.0
Healthcare, Life Sciences & Services	13.3	15.3	16.0	16.0	15.4	14.8	13.7	14.0	13.9	13.4
Manufacturing						9.0	8.7	8.6	8.7	8.3
Technology						13.5	14.1	14.1	14.3	14.2
<b>Geographical split of revenues (%)</b>										
US	52.5	53.5	54.8	55.5	54.9	54.5	53.6	53.1	52.7	54.9
Europe	25.6	25.4	24.0	23.6	24.4	24.2	25.1	25.9	27.0	25.6
India and Middle east business	11.0	10.4	10.4	10.0	9.9	10.4	11.4	11.0	9.4	8.6
APAC & other emerging markets	10.9	10.7	10.8	10.9	10.8	10.9	9.9	10.0	10.9	10.9
<b>Client metrics</b>										
<b>Customer size distribution (TTM)</b>										
Million dollar clients of which	550	565	571	576	602	624	627	635	631	624
> US\$100 mn	9	9	8	9	9	9	9	9	8	8
US\$75 mn - US\$100 mn	9	10	11	8	9	9	7	8	12	11
US\$50 mn - US\$75 mn	15	14	14	16	16	18	23	24	19	21
US\$20 mn - US\$50 mn	56	58	58	57	57	54	51	49	56	51
US\$10 mn - US\$20 mn	71	79	80	80	72	73	80	77	76	82
US\$5 mn - US\$10 mn	88	82	87	94	105	99	100	105	106	105
US\$3 mn - US\$5 mn	83	84	83	85	86	95	100	92	92	90
US\$1 mn - US\$3 mn	219	229	230	227	248	267	257	271	262	256
Repeat business (%)	96.5	99.7	98.6	97.6	98.0	99.6	99.2	98.2	97.4	99.5
New client additions	119	50	47	108	64	45	41	79	58	75
Total active customers	1,223	1,208	1,180	1,259	1,323	1,244	1,274	1,281	1,248	1,254
<b>Customer concentration (%)</b>										
Top customer	2.7	2.5	2.6	2.8	2.9	2.9	3.1	3.1	3.5	3.7
Top 5 customers	11.0	10.3	10.1	10.0	10.0	10.3	11.0	11.3	11.9	11.7
Top 10 customers	18.2	17.6	17.5	16.9	16.9	17.5	18.0	17.8	18.4	18.3
Employees (IT services)	172,912	173,863	174,238	179,129	181,482	181,559	178,639	177,434	179,042	179,735
<b>Utilization (%)</b>										
Global IT Services excl IFOX-Gross (a) (b)	68.1	69.9	71.2	71.6	73.1	72.0	72.9	71.0	73.1	74.5
Global IT Services excl IFOX-Net	76.1	78.8	80.2	80.0	81.9	80.3	81.8	80.0	82.4	83.9
<b>Attrition (%)</b>										
Global IT Services - Voluntary - Qtrly annualized	14.9	17.9	17.2	15.4	14.8	16.1	16.7	16.2	17.5	17.7
<b>Revenues by project type (%)</b>										
Fixed price	56.9	56.0	56.4	57.7	58.3	58.2	57.7	57.7	58.7	58.9
Time and material	43.1	44.0	43.6	42.3	41.7	41.8	42.3	42.3	41.3	41.1
<b>Onsite-offshore revenue split (%)</b>										
Onsite	54.2	54.4	53.9	53.5	52.8	53.6	53.2	53.5	52.7	52.9
Offshore	45.8	45.6	46.1	46.5	47.2	46.4	46.8	46.5	47.3	47.1

Source: Company, Kotak Institutional Equities

Exhibit 6: Profit model, balance sheet, cash model of Wipro Limited, March fiscal year-ends, 2015-2021E (Rs mn)

	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model</b>							
Revenues	473,185	516,307	558,261	546,359	589,977	641,752	678,487
Cost of revenues (including depreciation)	(321,328)	(356,723)	(391,434)	(385,575)	(418,079)	(450,097)	(474,388)
<b>Gross profit</b>	<b>151,857</b>	<b>159,584</b>	<b>166,827</b>	<b>160,784</b>	<b>171,899</b>	<b>191,655</b>	<b>204,099</b>
SG&A expenses (including depreciation)	(56,434)	(62,561)	(72,950)	(76,490)	(76,866)	(80,044)	(86,296)
<b>EBIT</b>	<b>95,423</b>	<b>97,023</b>	<b>93,877</b>	<b>84,294</b>	<b>95,033</b>	<b>111,611</b>	<b>117,803</b>
Other income	16,260	17,698	16,477	18,169	17,240	22,203	26,497
<b>Pre-tax profits</b>	<b>111,683</b>	<b>114,721</b>	<b>110,354</b>	<b>102,463</b>	<b>112,272</b>	<b>133,814</b>	<b>144,300</b>
Provision for tax	(24,624)	(25,305)	(25,213)	(22,390)	(26,128)	(30,857)	(33,632)
<b>PAT</b>	<b>87,059</b>	<b>89,416</b>	<b>85,141</b>	<b>80,073</b>	<b>86,144</b>	<b>102,957</b>	<b>110,668</b>
Equity in earnings of affiliates, minority interest (net)	(531)	(492)	(248)	8	—	—	—
<b>PAT from continuing operations</b>	<b>86,528</b>	<b>88,924</b>	<b>84,893</b>	<b>80,081</b>	<b>86,144</b>	<b>102,957</b>	<b>110,668</b>
<b>EPS (Rs)</b>	<b>17.5</b>	<b>18.0</b>	<b>17.5</b>	<b>16.9</b>	<b>19.1</b>	<b>22.8</b>	<b>24.6</b>
<b>Balance Sheet</b>							
Shareholders funds	407,982	466,078	520,304	482,936	560,969	609,850	661,035
Borrowings	78,913	125,221	142,412	138,259	—	—	—
Minority interest	1,646	2,224	2,391	2,410	2,410	2,410	2,410
Other liabilities	13,669	20,697	21,667	22,731	22,731	22,731	22,731
<b>Total liabilities</b>	<b>502,210</b>	<b>614,220</b>	<b>686,774</b>	<b>646,336</b>	<b>586,110</b>	<b>634,991</b>	<b>686,176</b>
Net fixed assets	54,206	64,952	69,794	64,443	72,922	76,500	80,802
Goodwill & intangibles	76,009	117,832	141,718	135,697	132,715	129,732	126,750
Cash and bank balances	254,915	306,339	351,843	301,687	224,215	260,814	301,651
Net current assets excluding cash	83,754	88,551	84,311	67,410	76,435	84,889	91,624
Other assets	33,326	36,546	39,108	77,099	79,823	83,056	85,349
<b>Total assets</b>	<b>502,210</b>	<b>614,220</b>	<b>686,774</b>	<b>646,336</b>	<b>586,110</b>	<b>634,991</b>	<b>686,176</b>
<b>Cashflow statement</b>							
Operating profit before working capital changes	108,115	111,823	119,261	105,277	113,585	131,300	138,589
Tax paid	(24,265)	(26,935)	(25,476)	(28,105)	(26,128)	(30,857)	(33,632)
Change in working capital/other adjustments	(7,978)	(6,151)	4,541	(936)	(11,748)	(11,688)	(9,029)
Capital expenditure	(11,272)	(13,172)	(19,646)	(20,699)	(24,049)	(20,284)	(22,105)
Acquisitions	(11,574)	(39,373)	(29,374)	(6,816)	—	—	—
Other income	11,511	17,086	9,843	14,956	17,240	22,203	26,497
<b>Free cash flow</b>	<b>64,537</b>	<b>43,278</b>	<b>59,149</b>	<b>63,677</b>	<b>68,899</b>	<b>90,674</b>	<b>100,320</b>
<b>Margins and ratios</b>							
Consolidated gross profit margin (%)	32.1	30.9	29.9	29.4	29.1	29.9	30.1
Consolidated EBIT margin (%)	20.2	18.8	16.8	15.4	16.1	17.4	17.4
IT services EBIT margin (%)	22.0	20.5	17.4	15.8	16.6	17.8	17.8
RoAE (%)	23.0	20.3	17.2	16.0	16.5	17.6	17.4
RoACE (%)	19.8	17.3	14.7	13.1	14.0	14.7	14.2

Source: Company, Kotak Institutional Equities estimates



**Usha Martin's steel asset acquisition—small but good.** TATA will acquire Usha Martin's 1 mtpa steel operations on a slump-sale basis for Rs43-47 bn. The steel plant is integrated with a coke oven, rolling mills as well as a captive iron-ore mine, offering large scope of earnings improvement (FY2018 EBITDA: Rs3.4 bn) given that peers with similar facilities are earning much higher EBITDA/ton. We believe the acquisition is at a reasonable valuation (6-6.5X potential EBITDA), and will be marginally earnings accretive, with a limited impact to leverage ratio. The final outcome of the Bhushan Power & Steel acquisition will be more important to determine TATA's leverage.

**Company data and valuation summary**

Tata Steel

**Stock data**

52-week range (Rs) (high,low) 748-493

Market Cap. (Rs bn) 716.9

**Shareholding pattern (%)**

Promoters 33.1

FIs 16.9

MFs 16.2

**Price performance (%)**

	1M	3M	12M
Absolute	8.6	11.3	1.4
Rel. to BSE-30	12.8	7.8	(12.1)

**Forecasts/Valuations**

	2018	2019E	2020E
EPS (Rs)	67.3	75.9	85.1
EPS growth (%)	62.6	12.8	12.1
P/E (X)	9.3	8.2	7.3
Sales (Rs bn)	1,317.0	1566	1,025.3
Net profits (Rs bn)	81.1	91.4	102.5
EBITDA (Rs bn)	218.9	280.7	229.8
EV/EBITDA (X)	6.5	6.1	6.4
ROE (%)	17.2	14.3	14.3
Div. Yield (%)	1.5	1.6	1.6

**TATA to acquire 1 mtpa steel plant of Usha Martin in Jamshedpur for Rs43-47 bn**

TATA signed a definitive agreement for the purchase of steel operations of Usha Martin (UML) on a slump-sale basis for Rs43-47 bn. We note that the assets to be acquired include 1 mtpa long product capacity in Jamshedpur (where TATA's main India steel plant is located), iron-ore mine, an under-development coal mine and a captive power plant. Note that Tata Steel will not acquire the wire-rope operations of UML. The company expects to complete this transaction in 6-9 months.

**We believe there is substantial scope of earnings improvement for acquired assets**

Despite captive iron-ore mines and integrated operations (plant includes coke-oven facility as well as rolling mills), UML's steel operations earned EBITDA/ton of Rs5,500/ton in FY2018, much lower than peers (JSP: Rs10,600/ton; Exhibit 1). We note that the company has a captive iron-ore mine of 2.5 mtpa located 160 kms from the plant that meets a large part of captive requirement even though iron-content at ~56% Fe is low. Weak profitability can be due to operational issues facing the company as highlighted in few unauthenticated media reports.

We believe there is strong potential for earnings improvement at these operations as peers with similar facilities earn much higher EBITDA/ton. Also, Tata Steel's brand 'Tata Tiscon' has a strong market presence with premium pricing—the rebranding of UML's steel products can also aid earnings. UML's steel operations earned EBITDA/ton of Rs3.4 bn in FY2018, which we estimate can increase to Rs6-8 bn with improvements and given it has captive iron ore mines.

**We maintain our ADD rating; the outcome of Bhushan Power & Steel remains important**

The UML's steel plant acquisition at Rs43-47 bn works out to only 3% of Tata Steel's enterprise value. The transaction is fairly priced at 6-6.5X potential EBITDA and EV/ton of close to US\$700. We believe this acquisition can be marginally earnings accretive in next 1-2 years and will have limited impact on leverage. Tata Steel's leverage can increase to 3.6X/3.4X on FY2019/2020E basis from 3.6X/3.3X without this acquisition (Exhibit 3).

We believe the more important outcome to determine Tata Steel's leverage position will be the final decision on Bhushan Power & Steel (BPSL) acquisition where Tata Steel is competing with other bidders (JSW Steel, Liberty House). We maintain our ADD rating on the stock.

Abhishek Poddar

Prayatn Mahajan

Exhibit 1: UML's steel operations EBITDA/ton is much lower than peers despite captive iron-ore—we expect large scope of improvement  
Standalone financials of Usha Martin including segment details—quarterly & annual, March fiscal year-ends, 2017-2019 (Rs mn)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2017	2018
<b>Standalone results</b>							
Revenues	9,503	9,795	9,954	12,002	12,280	33,633	41,254
EBITDA	1,057	1,248	1,064	2,253	2,332	4,626	5,622
PAT	(983)	(868)	(111)	134	193	(3,550)	(2,823)
<b>Segment</b>							
<b>Steel</b>							
Revenues	8,852	7,629	7,875	9,855	10,481	30,210	34,212
Inter-segment revenues	(2,064)	(1,802)	(2,103)	(2,035)	(2,726)	(7,678)	(7,948)
EBIT	(3)	126	35	840	1,128	793	998
<b>Estimated EBITDA</b>	<b>604</b>	<b>733</b>	<b>642</b>	<b>1,447</b>	<b>1,734</b>	<b>3,182</b>	<b>3,425</b>
<b>Wire rope/others</b>							
Revenues	3,680	3,703	4,098	3,742	4,443	13,536	15,180
EBIT	473	455	419	738	574	1,411	2,094
Estimated EBITDA	546	528	491	811	646	1,680	2,385
<b>Production (tons)</b>							
Billet	165,373	157,863	140,305	157,310	167,709	670,405	620,904
Rolled products	151,488	148,959	143,171	155,298	165,113	601,018	581,799
<b>Profitability calculations</b>							
<b>EBITDA/ton (Rs)*</b>	<b>3,651</b>	<b>4,641</b>	<b>4,576</b>	<b>9,196</b>	<b>10,341</b>	<b>4,747</b>	<b>5,516</b>
Tata Steel's EBITDA/ton (Rs)	10,786	10,959	14,025	15,872	17,077	10,823	12,987
JSW Steel's EBITDA/ton (Rs)	6,262	7,467	9,000	11,950	12,590	7,813	8,796
Jindal Steel & Power's EBITDA/ton (Rs)	9,253	9,442	9,799	12,871	12,928	8,540	10,567

Note:

- (1) We have estimated segment EBITDA by adding assumed quarterly depreciation to EBIT by allocating the total reported depreciation between steel and wire-ropes segment. We have used management's reported full year segment EBITDA (less EBIT) to compute segment depreciation.
- (2) Our EBITDA/ton computation is based on billet production in the absence of finished steel sales data.

Source: Company, Kotak Institutional Equities estimates

### Usha Martin's steel capacity in Jamshedpur

We understand that TATA will acquire the steel plant located in Jamshedpur, India where Tata Steel's 10 mtpa steel capacity is also located. The facilities include coke-oven, sinter-plant, Blast-furnaces with capacity of 600 ktpa, DRI plant with capacity of 500 ktpa and 1 mtpa rolling mill. The company has EAFs for processing of hot-metal and DRI.

The rolling facilities include 400 ktpa wire-rod capacity and ~300 ktpa bar-mill. We note that UML also used to transfer steel from this operation to downstream wire-ropes operations. It is possible that UML enters into an arrangement for continued supply of steel for its wire-rope operations with TATA.

**Captive mines.** The company has iron ore mine in Barajamda, Jharkhand located at distance of 160 kms from the Jamshedpur steel plant. The company also has a coal mine (won in 2015 mine auctions) at Brinda and Sasai, Jharkhand which is under development—this is a thermal coal mine which can be used for DRI production and in the captive power plant.

Exhibit 2: UML's steel operations has 1 mtpa of billet capacity at ~700 ktpa of rolling capacity  
Capacity details for Jamshedpur steel operations of Usha Martin Ltd ('000 tons)

Capacity details		('000 tons)
Iron-ore mining		2,500
Pellet plant		1,200
Coke oven		400
Blast furnace		600
DRI		500
Billets		1,000
Wire rod		400
Bars		323

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: We expect the acquisition of UML assets to be marginally earnings accretive in 1-2 years; leverage ratio will be largely similar  
Exercise on Tata Steel's earnings, leverage assuming acquisition of steel assets of Usha Martin, March fiscal year-ends (Rs bn)

	Tata Steel (includes acquired Bhushan Steel)				+ Usha Martin		
	FY2018	FY2019E	FY2020E	FY2021E	FY2019E	FY2020E	FY2021E
<b>Financials</b>							
Revenues (Rs bn)	1,317	1,567	1,025	1,061	1,601	1,060	1,095
EBITDA (Rs bn)	219	281	230	238	287	238	246
Net-income (Rs bn)	81	91	102	114	91	104	116
EPS (Rs)	67.3	75.9	85.1	94.3	75.7	86.2	95.9
<b>Leverage ratio (X)</b>							
Net-debt (Rs bn)	715	999	761	724	1,044	806	769
<b>Net-debt/EBITDA</b>	<b>3.3</b>	<b>3.6</b>	<b>3.3</b>	<b>3.0</b>	<b>3.6</b>	<b>3.4</b>	<b>3.1</b>
<b>Assumptions</b>							
India EBITDA/ton (Rs/ton)	12,987	15,440	13,433	13,495	15,440	13,433	13,495
Europe EBITDA/ton (US\$)	59	78	80	79	78	80	79
Capex (Rs bn)	74	106	81	105	106	81	105
		<b>Bhushan Steel</b>			<b>Usha Martin</b>		
Volumes (mn tons)		4.0	5.0	5.2	0.7	0.7	0.7
EBITDA (Rs bn)		32	51	53	6	8	8

Source: Kotak Institutional Equities estimates

Exhibit 4: TATA's leverage ratios to improve aided by strong earnings  
Tata Steel consolidated leverage details, March fiscal year ends (Rs mn), FY2016-21E (X)

	2016	2017	2018	2019E	2020E	2021E
<b>Existing</b>						
EBITDA (Rs mn)	79,683	170,078	218,905	280,724	229,812	237,538
Net debt (Rs mn)	731,855	744,767	714,900	998,551	761,109	724,079
<b>Net debt/ EBITDA (X)</b>	<b>9.2</b>	<b>4.4</b>	<b>3.3</b>	<b>3.6</b>	<b>3.3</b>	<b>3.0</b>

Source: Kotak Institutional Equities estimates

Exhibit 5: Tata Steel, Key assumptions, March fiscal-year ends, FY2016 - 2021E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
<b>Tata Steel (India)</b>						
Average HRC Price (US\$/ton)	307	435	540	540	495	495
Crude Steel capacity (mn tons)	9.7	12.7	12.7	12.7	12.9	13.1
<b>Volume (mn tons)</b>	<b>9.5</b>	<b>11.0</b>	<b>12.2</b>	<b>12.5</b>	<b>12.8</b>	<b>13.1</b>
EBITDA margin (%)	19.9	24.7	26.7	30.4	27.4	27.3
<b>EBITDA/ton (US\$/ton)</b>	<b>122</b>	<b>161</b>	<b>201</b>	<b>225</b>	<b>193</b>	<b>193</b>
<b>Europe</b>						
Average HRC Price (US\$/ton)	751	781	882	880	881	882
Premium over HRC Price (US\$/ton)	352	267	263	261	307	309
Crude Steel capacity (mn tons)	12.1	12.1	12.1	12.1	12.1	12.1
<b>Volume (mn tons)</b>	<b>11.0</b>	<b>9.9</b>	<b>10.0</b>	<b>10.1</b>	<b>10.1</b>	<b>10.1</b>
EBITDA margin (%)	(2.8)	9.1	6.7	8.9	9.1	9.0
<b>EBITDA/ton (US\$/ton)</b>	<b>(21)</b>	<b>71</b>	<b>59</b>	<b>78</b>	<b>80</b>	<b>79</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Tata Steel, valuation, March fiscal year-ends, March 2020E basis (Rs mn)

	<u>EBITDA</u> (Rs mn)	<u>Multiple</u> (X)	<u>Enterprise value</u> (Rs mn)	<u>EV</u> (Rs/share)
FY2020E EBITDA	227,971	6	1,379,228	1,145
<b>Total Enterprise Value</b>	<b>227,971</b>		<b>1,379,228</b>	<b>1,145</b>
Consolidated net-debt			761,109	
<b>Total borrowings</b>			<b>761,109</b>	<b>632</b>
Arrived market capitalization			618,118	513
Add: Value of investments			4,028	3
Add: Equity value in European JV			172,858	144
<b>Arrived market capitalization</b>			<b>795,005</b>	<b>660</b>
<b>Target price (Rs)</b>				<b>660</b>

Source: Kotak Institutional Equities estimates

Exhibit 7: Tata Steel (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2016-2021E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
<b>Profit model (Rs mn)</b>						
Net sales	1,019,647	1,122,994	1,317,003	1,566,600	1,025,320	1,061,145
<b>EBITDA</b>	<b>79,683</b>	<b>170,078</b>	<b>218,905</b>	<b>280,724</b>	<b>229,812</b>	<b>237,538</b>
Other income	4,122	5,275	9,095	11,522	11,570	14,223
Interest	(42,214)	(50,722)	(55,018)	(79,207)	(70,545)	(66,892)
Depreciation	(53,064)	(56,729)	(59,617)	(76,000)	(62,519)	(63,786)
<b>Profit before tax</b>	<b>(11,472)</b>	<b>67,902</b>	<b>113,365</b>	<b>137,038</b>	<b>108,318</b>	<b>121,082</b>
Extraordinaries	39,904	(43,242)	95,991	3,436—	—	—
Taxes	(6,900)	(27,780)	(34,054)	(45,425)	(34,662)	(38,746)
<b>Profit after tax</b>	<b>21,532</b>	<b>(3,120)</b>	<b>175,303</b>	<b>88,178</b>	<b>73,656</b>	<b>82,336</b>
Minority interest	1,143	(722)	(43,285)	(500)	(500)	(500)
Share in profit/(loss) of associates	(1,104)	77	1,741	1,500	29,321	31,781
<b>Reported net income</b>	<b>21,571</b>	<b>(3,766)</b>	<b>133,759</b>	<b>89,178</b>	<b>102,477</b>	<b>113,617</b>
<b>Adjusted net income</b>	<b>(19,480)</b>	<b>40,200</b>	<b>81,052</b>	<b>91,445</b>	<b>102,477</b>	<b>113,617</b>
<b>Fully diluted EPS (Rs)</b>	<b>(20.1)</b>	<b>41.4</b>	<b>67.3</b>	<b>75.9</b>	<b>85.1</b>	<b>94.3</b>
<b>Balance sheet (Rs mn)</b>						
Equity	414,576	355,443	585,956	697,078	739,564	838,686
Deferred tax liability	87,934	91,442	95,341	129,086	124,703	121,239
Total Borrowings	840,354	850,709	937,783	1,269,783	1,024,283	994,283
Current liabilities	418,167	410,863	458,776	615,543	440,783	451,147
Minority interest	7,809	16,017	9,365	9,865	10,365	10,865
<b>Total liabilities</b>	<b>1,768,840</b>	<b>1,724,475</b>	<b>2,087,222</b>	<b>2,721,356</b>	<b>2,339,699</b>	<b>2,416,220</b>
Net fixed assets	681,322	885,118	921,079	1,345,847	1,116,760	1,087,336
Capital work in progress	359,961	157,841	166,144	230,076	278,007	348,475
Goodwill	40,676	34,947	40,995	40,995	—	—
Investments	108,227	125,367	178,995	184,194	200,212	217,575
Cash	61,863	49,211	79,379	127,728	119,669	126,699
Other current assets	516,791	471,989	700,631	792,516	625,050	636,134
<b>Total assets</b>	<b>1,768,840</b>	<b>1,724,475</b>	<b>2,087,222</b>	<b>2,721,356</b>	<b>2,339,699</b>	<b>2,416,220</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow excl. working capital	473	112,319	52,124	162,185	145,094	157,077
Working capital changes	61,656	(48,907)	11,606	20,068	(7,294)	(720)
Capital expenditure	(99,328)	(74,269)	(74,000)	(106,432)	(81,362)	(104,831)
<b>Free cash flow</b>	<b>(37,199)</b>	<b>(10,858)</b>	<b>(10,270)</b>	<b>75,820</b>	<b>56,438</b>	<b>51,526</b>
<b>Ratios</b>						
EBITDA margin (%)	7.8	15.1	16.6	17.9	22.4	22.4
EBIT margin (%)	2.6	10.1	12.1	13.1	16.3	16.4
Debt/equity (X)	2.0	2.4	1.6	1.8	1.4	1.2
Net debt/equity (X)	1.8	2.1	1.2	1.4	1.0	0.9
Net debt/EBITDA (X)	9.2	4.4	3.3	3.6	3.3	3.0
P/B (X)	1.3	1.5	1.2	1.0	0.9	0.8
RoAE (%)	(5.4)	10.4	17.2	14.3	14.3	14.4
<b>RoACE (%)</b>	<b>2.4</b>	<b>7.1</b>	<b>8.3</b>	<b>8.3</b>	<b>6.4</b>	<b>6.8</b>

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 24, 2018

UPDATE

Coverage view: **Cautious**

Price (₹): **1,304**

Target price (₹): **1,650**

BSE-30: **36,842**

**FY2018 AR analysis: back to basics.** Timely and well-executed management interventions, coupled with support from improved industry demand and GST, drove a strong reversal of a multi-year deteriorating trend in fundamentals. Per store metrics and return ratios remain materially below the peaks of FY2011-13 but are moving up steadily, in our view. The recent correction is a good opportunity to accumulate what remains the best QSR/foodservice play in India, in our view. Reiterate BUY; target price unchanged at Rs1,650.

#### Company data and valuation summary

Jubilant Foodworks

##### Stock data

52-week range (Rs) (high,low)	1,578-666
Market Cap. (Rs bn)	172.0

##### Shareholding pattern (%)

Promoters	44.9
FIs	37.6
MFs	8.1

##### Price performance (%)

	1M	3M	12M
Absolute	(14.2)	(3.9)	87.2
Rel. to BSE-30	(10.8)	(7.3)	64.7

##### Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	14.6	25.4	35.0
EPS growth (%)	191.7	74.7	37.6
P/E (X)	89.6	51.3	37.3
Sales (Rs bn)	30.2	35.6	42.0
Net profits (Rs bn)	1.9	3.4	4.7
EBITDA (Rs bn)	4.4	6.4	8.3
EV/EBITDA (X)	38.2	25.6	19.2
ROE (%)	21.7	29.0	29.7
Div. Yield (%)	0.1	0.2	0.2

#### FY2018: a year of repair with well-executed back-to-basics interventions

The annual report details the interventions that drove the remarkable turnaround in financial performance in FY2018, key being –

- ▶ Product innovation/refreshing – the innovation/refresh was not as much about new product launches as it was about improving the quality of the existing product range. The refresh was backed by a high-decibel campaign that acknowledged that the product needed refreshing and that the company was serious about delivering it. We note that Domino's US had done something similar to revive its consumer satisfaction scores in the late 2000s. JUBI saw an increase in overall CSAT scores, with accelerated new customer acquisition and a jump in frequency of orders post this refreshing.
- ▶ Strengthening VFM proposition through the super-successful Everyday Value proposition, super value menu for small towns and improvement in product quality (as discussed above) without any increase in menu prices.
- ▶ Improved consumer experience through (a) improvement in mobile app, (b) lighter web pages, (c) quick checkout functionality, (d) introduction of a digital wallet, (e) improved in-store POS software, and (d) extended delivery hours (until 3 AM) in as many as 52 stores across seven cities.
- ▶ Cost reduction initiatives – (a) aggressive rental renegotiations, (b) investment in energy management solutions and (c) tighter ROI norms that drove the shutdown of several DD stores.

#### The outcome: Sharp improvement in operating and financial performance

Overall EBITDA and PAT growth of 83% and 192% yoy, respectively, was driven by a sharp 77% yoy jump in per-store EBITDA to Rs3.7 mn, still 20% below the peak levels of Rs4.6 mn hit in FY2013. Per-store EBIT of Rs2.3 mn (+209% yoy) stood 35% below the peak level of Rs3.6 mn hit in FY2012. ROE and ROCE for FY2018 stood at 21.7% and 28.8%, respectively, up sharply from multi-year lows of 8.4% and 10% reported in FY2017.

Rohit Chordia

Jaykumar Doshi

Aniket Sethi

Exhibit 1: Jubilant Foodworks - per-store economics, March fiscal year-ends, 2009-18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	yoy (%)	9-year CAGR (%)
Average # of stores (a)	212	274	342	422	526	669	841	1,014	1,139	1,176	3.2	21.0
<b>Per store metrics</b>												
# of pizzas sold per day (#)	249	271	299	373	413	393	373	356	327	373	14.1	4.6
Average realization per pizza (Rs)	139	141	143	138	135	135	135	137	139	146	5.0	0.5
Pizza revenues (Rs mn)	12.7	14.0	15.6	18.8	20.3	19.3	18.3	17.8	16.6	19.9	19.8	5.1
Beverages revenues (Rs mn)	0.6	0.7	0.7	0.9	1.0	1.0	1.1	1.0	0.9	1.1	22.6	7.5
Dessert revenues (Rs mn)	—	0.5	0.9	1.4	1.2	0.9	0.8	0.7	0.6	0.8	36.5	NM
Other revenues (Rs mn)	1.6	2.2	2.6	3.1	4.3	4.5	4.4	4.3	4.3	3.6	(16.4)	9.4
<b>Total revenues (Rs mn)</b>	<b>14.8</b>	<b>17.4</b>	<b>19.8</b>	<b>24.1</b>	<b>26.8</b>	<b>25.8</b>	<b>24.7</b>	<b>23.8</b>	<b>22.4</b>	<b>25.3</b>	<b>13.4</b>	<b>6.1</b>
Cheese consumption (Rs mn)	1.2	1.1	2.0	2.6	2.7	2.5	2.4	2.1	1.9	2.4	27.9	7.9
Other raw material (Rs mn)	2.2	2.7	2.9	3.7	4.3	4.2	3.9	3.6	3.7	4.1	12.4	7.3
Packing material (Rs mn)	0.5	0.6	0.8	1.0	1.1	1.1	0.9	0.8	0.7	0.8	5.7	4.4
Employee expenses	2.6	2.9	4.0	4.7	5.2	5.1	5.3	5.7	5.2	5.2	(0.0)	7.9
Rent (Rs mn)	1.3	1.4	1.6	1.8	2.2	2.3	2.5	2.5	2.7	2.7	2.3	8.8
Franchisee fees (Rs mn)	0.4	0.5	0.7	0.8	0.9	0.8	0.8	0.8	0.8	0.8	13.1	7.4
A&SP (Rs mn)	0.6	0.6	0.8	1.0	1.2	1.3	1.4	1.3	1.3	1.2	(3.2)	7.9
Other expenses (Rs mn)	7.0	7.9	7.5	8.9	9.7	9.7	9.8	10.0	9.3	9.5	2.5	3.5
<b>EBITDA (Rs mn)</b>	<b>1.6</b>	<b>2.4</b>	<b>3.5</b>	<b>4.5</b>	<b>4.6</b>	<b>3.7</b>	<b>3.0</b>	<b>2.6</b>	<b>2.1</b>	<b>3.7</b>	<b>76.8</b>	<b>10.0</b>
Depreciation (Rs mn)	0.8	0.9	0.9	0.9	1.1	1.2	1.2	1.3	1.4	1.4	3.7	6.5
<b>EBIT (Rs mn)</b>	<b>0.8</b>	<b>1.5</b>	<b>2.6</b>	<b>3.6</b>	<b>3.5</b>	<b>2.6</b>	<b>1.8</b>	<b>1.3</b>	<b>0.8</b>	<b>2.3</b>	<b>209.3</b>	<b>12.8</b>
Capital employed (Rs mn)	5.0	4.6	5.8	7.4	8.7	8.9	8.7	8.2	7.7	8.7	13.3	6.3
Pre-tax ROCE (%)	15.6	33.5	45.4	48.0	40.8	28.6	21.0	16.2	9.8	26.7		

Notes:

(a) Including Dunkin Donuts.

Source: Company, Kotak Institutional Equities

### P&L analysis: strong revival led by SSG rebound and more

JUBI's consolidated revenues, EBITDA, and PAT grew 17%, 83% and 192% yoy in FY2018 led by (a) SSG revival in the standalone business to 13.9%, the highest since FY2013, (b) disciplined store expansion; the company opened a net 17 Domino's stores, lowest addition in more than a decade, and shut down 26 Dunkin Donuts stores; EOP store count stood at 1,134 for Domino's and 37 for Dunkin Donuts and (c) cost rationalization initiatives.

JUBI does not provide a breakup of SSG between volumes and pricing but we believe SSG was primarily volume led. The pricing (discounting) construct changed meaningfully with the introduction of the EDV proposition while net consumer-level pricing declined (without any impact on JUBI's net realization) on account of lower indirect taxes under GST versus the previous VAT regime. The company saw an improvement in both customer count as well as ordering frequency; ticket size likely went up a tad as well.

Pizzas contributed a multi-year high of 78.3% to overall revenues with a growth of 23.7% yoy to Rs23.3 bn. The share of other manufactured items went down to 12.9% of sales; this was primarily on account of DD store closures as well as Domino's menu revamp, in our view. Beverages and Desserts (both traded goods) saw strong growth (27% and 41%, respectively) accompanied by an improvement in gross margin profile for both. GM profile improvement for beverages and desserts reflects smart pricing decisions wherein the company focused on the VFM proposition of its core offering (pizzas) via EDV discounting while removing discounts offered on 'sides'. This helped mitigate some pressure on overall gross margin on account of EDV and product refresh.

Sharp margin improvement (530 bps yoy to 14.6% on a FY basis; exit quarter margins higher at 16.4%) reflected SSG leverage and benefits of cost rationalization initiatives. On a per store basis (a) employee expenses were flat yoy despite higher per store volumes; (b) rent/store went up a modest 2.3%, lower than the expected normal inflation; the company indicated aggressive rental renegotiations while higher input tax credits between July 1 and Nov 15, 2017, also helped, in our view; and (c) A&SP and other expenses also lent leverage benefits as these grew materially lower than revenues. Product refresh investments were visible in the sharp 28% increase in per store cheese consumption and 12.4% increase in per store 'other RM' consumption, both materially higher than the increase in per store volumes, in our view.

Net loss in the Sri Lanka subsidiary was constant yoy at around Rs100 mn; EPS drag reduced to 5% from 13% in FY2017 on the back of sharp improvement in standalone PAT.

ETR for the year stood at 35.3%. This isn't just an academic point we are making. It is important when looking at relative PE multiples within the sector. ETR increase will not be a drag on EPS growth for companies already at marginal tax rates; there are several companies in the sector at ETR levels materially below marginal tax rates. We believe this is a factor often ignored when setting PE-based target prices; DCF approach captures it.

### Balance sheet and cash flow analysis

Sharp improvement in return ratios – ROE up to 21.7% from 8.4% in FY2017 and ROCE up to 28.8% from 10% - was primarily driven by improvement in profitability with a modest contribution from higher asset turn as well. Asset turns stood at 3.2X, higher yoy but still materially below peak levels of 4.2X in FY2011. We are not suggesting asset turn can go back to FY2011 peak levels but we do believe there is scope for these to go up as the company leverages its large Greater Noida commissary investment in the coming years.

Working capital cycle saw an improvement to minus19 days of sales from minus14 with increase in creditors and reduction in loans and advances being the key contributors. WC swing contributed nearly a third of the overall strong FCF generation of Rs2.9 bn (3X FY2010-18 combined); FCF/EBITDA stood at a strong 66%; we do not see these levels as sustainable as FY2018 was a year of slow network expansion and hence, low capex. EOP net cash stood at just under Rs4 bn.

### Other tid-bits

- ▶ JUBI consumed a little over 6,000 tons of cheese in FY2018; this would easily place them as the single largest consumer of cheese in the country (just under 10% of total consumption).
- ▶ The company's railway station presence (delivery offering for trains stopping at the station) stood at 206 at end-FY018, up from 134 at end-FY2017.
- ▶ Online ordering accounted for 58% of all delivery orders versus 46% in FY2017 while mobile ordering as a proportion of online stood at 74% versus 57% in FY2017. App download count nearly doubled yoy to 12.7 mn versus 6.9 mn at end-FY2017.

Exhibit 2: Key changes to consolidated earnings model, Jubilant Foodworks, March fiscal year-ends (Rs mn)

	Revised			Earlier			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues (Rs mn)	35,575	42,004	49,834	35,575	42,004	49,834	—	—	—
EBITDA (Rs mn)	6,385	8,252	10,492	6,365	8,220	10,444	0.3	0.4	0.5
EBITDA (%)	17.9	19.6	21.1	17.9	19.6	21.0			
PAT (Rs mn)	3,367	4,653	6,183	3,348	4,620	6,135	0.6	0.7	0.8
EPS (Rs/share)	25.4	35.0	46.3	25.3	34.7	46.0	0.6	0.7	0.8
SSG (%)	15.5	11.3	11.0	15.5	11.3	11.0			
Store count EOP (a)	1,240	1,366	1,491	1,240	1,366	1,491			

Source: Company, Kotak Institutional Equities



**Exhibit 3: JUBI pace of store expansion slowed down – it added 17 Domino's and closed down 26 Dunkin Donuts restaurants (net basis)**  
Store count breakup, March fiscal year-ends, 2010-18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Store-breakup</b>									
Number of total stores	306	378	465	586	752	930	1,097	1,180	1,171
- Dominos	306	378	465	576	726	876	1,026	1,117	1,134
- Dunkin Donuts	—	—	—	10	26	54	71	63	37
Number of cities present	69	90	105	123	150	196	235	264	266
<b>Change, yoy</b>									
Number of total stores	65	72	87	121	166	178	167	83	(9)
- Dominos	65	72	87	111	150	150	150	91	17
- Dunkin Donuts	—	—	—	10	16	28	17	(8)	(26)
Number of cities present	69	21	15	18	27	46	39	29	2

Source: Company, Kotak Institutional Equities

**Exhibit 4: EBITDA margin expanded by 525 bps yoy (despite a 96 bps contraction in gross margin) to a 5-year high of 14.6% in FY2018**  
EBITDA margin decomposition, March fiscal year-ends, 2010-18 (% of net revenues)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>SSG (%)</b>	<b>22.0</b>	<b>37.2</b>	<b>29.6</b>	<b>16.2</b>	<b>1.6</b>	<b>0.05</b>	<b>3.20</b>	<b>(2.40)</b>	<b>13.86</b>
Cost of Materials	24.8	25.1	25.7	26.2	26.1	25.2	23.8	24.4	25.4
Employee expenses	19.0	20.0	19.4	19.2	19.6	21.2	23.6	23.0	20.3
Other expenses	40.5	37.2	36.5	37.6	39.9	41.4	41.7	43.2	39.7
- Stores consumed	1.3	1.4	1.4	0.7	0.8	0.8	0.8	0.7	0.6
- Packing materials	3.9	4.0	4.0	4.0	4.1	3.8	3.5	3.3	3.1
- Power and fuel	5.5	5.0	4.7	5.2	6.0	5.9	5.7	5.6	5.3
- Repairs	2.0	1.5	1.4	1.4	1.6	1.9	2.2	2.8	2.6
- Rent	9.3	7.9	7.6	8.3	9.0	9.9	10.5	11.7	10.6
- Freight and delivery expenses	3.4	3.3	3.3	3.1	3.0	2.9	2.7	3.0	2.8
- Franchisee fees	3.3	3.3	3.3	3.4	3.2	3.3	3.3	3.3	3.3
- A&SP	4.0	4.1	4.0	4.5	5.1	5.6	5.3	5.7	4.9
- Miscellaneous exp	7.8	6.7	6.7	6.9	6.9	7.3	7.7	7.2	6.6
<b>Gross margin (%)</b>	<b>75.2</b>	<b>74.9</b>	<b>74.3</b>	<b>73.8</b>	<b>73.9</b>	<b>74.8</b>	<b>76.2</b>	<b>75.6</b>	<b>74.6</b>
<b>EBITDA margin (%)</b>	<b>15.7</b>	<b>17.7</b>	<b>18.4</b>	<b>17.1</b>	<b>14.4</b>	<b>12.2</b>	<b>10.8</b>	<b>9.3</b>	<b>14.6</b>

Source: Company, Kotak Institutional Equities

**Exhibit 5: Within products sold by JUBI – pizza sales grew ~24% yoy; an even stronger growth seen in sale of beverages/desserts**  
India business (standalone) revenue break-up product offering-wise, March fiscal year-ends, 2012-18

	2012	2013	2014	2015	2016	2017	2018
<b>Revenue break-up (Rs mn)</b>							
Pizzas	7,926	10,658	12,940	15,427	18,012	18,875	23,343
Other manufactured items	1,139	2,000	2,728	3,413	3,995	4,543	3,831
Beverages	361	533	693	907	1,027	1,005	1,272
Dessert	582	608	586	667	689	677	954
Others	163	274	284	326	372	356	398
<b>Total</b>	<b>10,171</b>	<b>14,073</b>	<b>17,232</b>	<b>20,741</b>	<b>24,095</b>	<b>25,455</b>	<b>29,798</b>
<b>Growth yoy (%) (a)</b>							
Pizzas	48.3	34.5	21.4	19.2	16.8	4.8	23.7
Other manufactured items	27.5	75.6	36.4	25.1	17.0	13.7	(15.7)
Beverages	49.2	47.8	29.9	31.0	13.1	(2.1)	26.6
Dessert	94.5	4.4	(3.5)	13.8	3.3	(1.8)	40.9
Others	—	68.2	3.7	14.4	14.3	(4.3)	11.8
<b>Total</b>	<b>50.0</b>	<b>38.4</b>	<b>22.4</b>	<b>20.4</b>	<b>16.2</b>	<b>5.6</b>	<b>17.1</b>
<b>% of revenues</b>							
Pizzas	77.9	75.7	75.1	74.4	74.8	74.1	78.3
Other manufactured items	11.2	14.2	15.8	16.5	16.6	17.8	12.9
Beverages	3.5	3.8	4.0	4.4	4.3	3.9	4.3
Dessert	5.7	4.3	3.4	3.2	2.9	2.7	3.2
Others	1.6	1.9	1.7	1.6	1.5	1.4	1.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, Kotak Institutional Equities

**Exhibit 6: Higher margins from sale of traded goods helped mitigate some pressure on overall gross margin on account of EDV**

Segmental break-up of standalone revenue and gross profit (Rs mn), March fiscal year-ends, 2016-18

	FY2016	FY2017	FY2018
<b>Total standalone revenue</b>			
Sale of manufactured goods	22,007	23,418	27,174
Sale of traded goods	2,088	2,038	2,623
Sub-franchise income and others	7	5	7
<b>Total revenue</b>	<b>24,102</b>	<b>25,461</b>	<b>29,804</b>
Gross profit	18,402	19,301	22,290
<b>Blended gross margin (%)</b>	<b>76.3</b>	<b>75.8</b>	<b>74.8</b>
<b>Sale of traded goods</b>			
<b>Revenue</b>	<b>2,088</b>	<b>2,038</b>	<b>2,623</b>
Beverages	1,027	1,005	1,272
Desert	689	677	954
Dips	290	273	305
Others	82	83	93
<b>Cost of sales</b>	<b>767</b>	<b>796</b>	<b>918</b>
Gross profit	1,321	1,242	1,705
<b>Gross margin (%)</b>	<b>63.2</b>	<b>60.9</b>	<b>65.0</b>
<b>Sale of manufactured goods</b>			
Revenue	22,007	23,418	27,174
Implied gross profit	17,073	18,054	20,578
<b>Gross margin (%)</b>	<b>77.6</b>	<b>77.1</b>	<b>75.7</b>

Source: Company, Kotak Institutional Equities

**Exhibit 7: 45-55% of JUBI's cost structure are fixed/semi-fixed in nature**

Per store fixed/semi-fixed cost structure, March fiscal year-ends, 2010-18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>SSG (%)</b>	<b>22.0</b>	<b>37.2</b>	<b>29.6</b>	<b>16.2</b>	<b>1.6</b>	<b>0.1</b>	<b>3.2</b>	<b>(2.4)</b>	<b>13.9</b>
<b>Fixed/semi-fixed cost - % of sales</b>									
Employee costs	19.0	20.0	19.4	19.2	19.6	21.2	23.6	23.0	20.3
Power and fuel	5.5	5.0	4.7	5.2	6.0	5.9	5.7	5.6	5.3
Repairs - P&M	0.6	0.5	0.4	0.4	0.5	0.7	0.9	1.4	1.2
Repairs - others	1.4	1.0	1.0	1.0	1.0	1.2	1.3	1.4	1.4
<b>Rent</b>	<b>9.3</b>	<b>7.9</b>	<b>7.6</b>	<b>8.3</b>	<b>9.0</b>	<b>9.9</b>	<b>10.5</b>	<b>11.7</b>	<b>10.6</b>
Rates and taxes	0.7	0.6	0.7	0.7	0.7	0.6	0.6	0.3	0.2
Insurance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Traveling and conveyance	0.9	0.8	0.7	0.7	0.7	0.8	0.8	0.7	0.5
A&SP	4.0	4.1	4.0	4.5	5.1	5.6	5.3	5.7	4.9
Miscellaneous exp	6.2	5.1	5.2	5.4	5.4	5.8	6.3	6.0	5.8
<b>Total fixed/semi-fixed cost</b>	<b>47.6</b>	<b>45.2</b>	<b>43.8</b>	<b>45.5</b>	<b>48.3</b>	<b>51.8</b>	<b>55.1</b>	<b>56.0</b>	<b>50.3</b>
<b>Fixed/semi-fixed cost - per store (Rs mn)</b>									
Power and fuel	0.9	1.0	1.1	1.4	1.6	1.5	1.4	1.3	1.4
Repairs - P&M	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3
Repairs - others	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4
<b>Rent</b>	<b>1.4</b>	<b>1.6</b>	<b>1.8</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>	<b>2.5</b>	<b>2.7</b>	<b>2.7</b>
Rates and taxes	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Traveling and conveyance	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
A&SP	0.6	0.8	1.0	1.2	1.3	1.4	1.3	1.3	1.2
Miscellaneous exp	1.0	1.0	1.3	1.5	1.4	1.4	1.5	1.4	1.5
<b>Growth, yoy (%)</b>									
Power and fuel	2.0	17.0	13.7	23.6	11.6	(5.9)	(6.1)	(7.2)	6.0
Repairs - P&M	16.8	8.0	2.2	20.7	18.0	24.3	23.1	47.8	1.0
Repairs - others	56.0	(8.7)	23.7	6.0	2.0	14.2	(1.1)	4.7	9.4
<b>Rent</b>	<b>13.4</b>	<b>9.1</b>	<b>17.4</b>	<b>21.2</b>	<b>5.0</b>	<b>5.2</b>	<b>2.9</b>	<b>4.7</b>	<b>1.9</b>
Rates and taxes	30.6	11.1	33.4	16.9	(5.8)	(13.6)	(13.0)	(43.6)	(32.9)
Insurance	(0.6)	(28.3)	33.7	16.4	21.0	16.0	(9.7)	(3.1)	(4.3)
Traveling and conveyance	3.2	25.3	4.1	8.1	(3.1)	7.3	(3.9)	(12.2)	(26.8)
A&SP	(0.3)	29.7	19.5	25.1	9.6	4.1	(7.7)	0.9	(3.6)
Miscellaneous exp	14.8	6.5	24.1	14.8	(3.2)	2.5	4.9	(10.0)	9.0
<b>Employee expenses breakup</b>									
# of employees	8,196	11,514	14,626	19,734	24,969	27,122	27,719	26,604	26,604
Employees per store	26.8	30.5	31.5	33.7	33.2	29.2	25.3	22.5	22.5
Change (%)	13.7	13.7	3.3	7.1	(1.4)	(12.2)	(13.4)	(10.8)	(10.8)
Average cost per employee (Rs/month)	9,667	11,470	12,590	13,167	12,716	14,214	17,522	18,247	18,247
Change (%)	3.5	18.7	9.8	4.6	(3.4)	11.8	23.3	4.1	4.1
<b>Employee expenses (Rs mn)</b>	<b>805</b>	<b>1,356</b>	<b>1,975</b>	<b>2,715</b>	<b>3,411</b>	<b>4,443</b>	<b>5,765</b>	<b>5,948</b>	<b>5,948</b>

Source: Company, Kotak Institutional Equities

**Exhibit 8: Net working capital improved to negative 19 days**

Working capital movement, March fiscal year-ends, 2010-18 (Rs mn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Working Capital</b>									
Inventory	71	142	187	240	331	433	552	607	642
Receivables	29	41	64	81	90	119	125	161	157
Loans and advances	362	710	688	826	1,353	1,404	1,700	2,158	2,109
Other current assets	0	10	2	4	6	84	58	81	104
Creditors	547	775	1,096	1,325	1,737	2,467	3,004	3,192	3,951
Other current liabilities	115	311	476	622	893	800	694	767	625
Provisions	39	65	67	72	115	(23)	8	38	0
<b>Net Working Capital (ex-cash)</b>	<b>(239)</b>	<b>(247)</b>	<b>(698)</b>	<b>(869)</b>	<b>(965)</b>	<b>(1,205)</b>	<b>(1,272)</b>	<b>(989)</b>	<b>(1,565)</b>
<b>Working Capital (Days)</b>									
Inventory	6	8	7	6	7	8	8	9	8
Receivables	3	2	2	2	2	2	2	2	2
Loans and advances	31	38	25	21	28	24	25	30	26
Other current assets	0	1	0	0	0	1	1	1	1
Creditors	47	42	39	34	37	43	45	45	48
Other current liabilities	10	17	17	16	19	14	10	11	8
Provisions	3	3	2	2	2	(0)	0	1	0
<b>Net Working Capital (ex-cash)</b>	<b>(21)</b>	<b>(13)</b>	<b>(25)</b>	<b>(22)</b>	<b>(20)</b>	<b>(21)</b>	<b>(19)</b>	<b>(14)</b>	<b>(19)</b>
<b>Net Working Capital (% of sales)</b>	<b>(5.6)</b>	<b>(3.6)</b>	<b>(6.9)</b>	<b>(6.1)</b>	<b>(5.6)</b>	<b>(5.8)</b>	<b>(5.2)</b>	<b>(3.8)</b>	<b>(5.2)</b>

Source: Company, Kotak Institutional Equities

**Exhibit 9: Strong SSSG drives sharp jump in RoE from single-digit low levels in the previous year**  
Return ratios movement, March fiscal year-ends, 2010-18 (Rs mn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Fixed assets</b>									
GFA	2,276	2,904	3,935	5,802	8,065	7,373	9,466	10,604	11,730
CWIP	26	34	135	102	196	199	261	608	142
<b>Capex</b>	<b>502</b>	<b>637</b>	<b>1,132</b>	<b>1,834</b>	<b>2,357</b>	<b>2,872</b>	<b>2,156</b>	<b>1,485</b>	<b>660</b>
Capex per store (Rs mn)	7.7	8.8	13.0	15.2	14.2	16.1	12.9	17.9	(73.3)
<b>Asset turns (gross rev/GFA)</b>	<b>1.9</b>	<b>2.3</b>	<b>2.6</b>	<b>2.4</b>	<b>2.2</b>	<b>2.8</b>	<b>2.6</b>	<b>2.4</b>	<b>2.6</b>
<b>Return ratios (%)</b>									
RoE	47.3	46.5	44.0	36.1	24.1	18.2	13.5	8.4	21.7
RoCE	36.4	55.6	58.6	48.4	32.5	23.1	17.3	10.0	28.8
RoIC	37.9	48.8	54.7	47.3	27.9	19.3	13.4	7.7	25.7
<b>DuPont analysis</b>									
Net margin (%)	7.9	10.6	10.5	9.3	6.8	5.3	4.0	2.5	6.4
Asset turnover (X)	3.6	4.2	4.0	3.7	3.3	3.1	3.1	3.0	3.2
Equity multiplier	1.6	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
<b>RoE (%)</b>	<b>47.3</b>	<b>46.5</b>	<b>44.0</b>	<b>36.1</b>	<b>24.1</b>	<b>18.2</b>	<b>13.5</b>	<b>8.4</b>	<b>21.7</b>

Source: Company, Kotak Institutional Equities

**Exhibit 10: Strong FCF conversion seen after remaining weak and volatile for a few years**  
Cash flow movement, March fiscal year-ends, 2010-18 (Rs mn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Cash flow from operations (excl. exceptional items)	632	1,025	1,487	1,943	2,119	2,273	2,425	1,979	3,178
Change in net working capital	162	260	204	144	132	488	(308)	57	912
<b>Capex</b>	<b>(521)</b>	<b>(718)</b>	<b>(1,307)</b>	<b>(1,914)</b>	<b>(2,479)</b>	<b>(2,872)</b>	<b>(2,273)</b>	<b>(2,009)</b>	<b>(1,193)</b>
<b>Free cash flow</b>	<b>273</b>	<b>567</b>	<b>384</b>	<b>173</b>	<b>(229)</b>	<b>(111)</b>	<b>(156)</b>	<b>26</b>	<b>2,897</b>
Cash from from investing	(1)	(480)	(367)	9	151	249	275	127	(2,126)
Cash from from financing	(229)	(67)	22	15	15	9	(177)	(148)	(347)
<b>Net change in cash and equivalents</b>	<b>43</b>	<b>20</b>	<b>39</b>	<b>196</b>	<b>(63)</b>	<b>147</b>	<b>(57)</b>	<b>5</b>	<b>424</b>
<b>Cash balance</b>	<b>70</b>	<b>90</b>	<b>129</b>	<b>375</b>	<b>242</b>	<b>389</b>	<b>332</b>	<b>354</b>	<b>1,290</b>
Marketable investments	—	205	923	940	937	746	908	936	2,631
<b>Cash and equivalents</b>	<b>70</b>	<b>295</b>	<b>1,052</b>	<b>1,315</b>	<b>1,180</b>	<b>1,135</b>	<b>1,239</b>	<b>1,290</b>	<b>3,921</b>
<b>Growth in FCF (%)</b>	<b>—</b>	<b>107</b>	<b>(32)</b>	<b>(55)</b>	<b>(232)</b>	<b>52</b>	<b>(41)</b>	<b>117</b>	<b>(10,889)</b>
<b>FCF as % of EBITDA</b>	<b>41</b>	<b>47</b>	<b>20</b>	<b>7</b>	<b>(9)</b>	<b>(4)</b>	<b>(6)</b>	<b>1</b>	<b>66</b>
<b>FCF as % of PAT</b>	<b>82</b>	<b>79</b>	<b>36</b>	<b>13</b>	<b>(19)</b>	<b>(10)</b>	<b>(16)</b>	<b>4</b>	<b>151</b>

Source: Company, Kotak Institutional Equities

**Exhibit 11: Consolidated PAT was 5% lower versus standalone PAT due to losses in Sri Lanka business**  
Abridged standalone and consolidated profit & loss model of Jubilant Foodworks, March fiscal year-ends, 2013-18 (Rs mn)

	Standalone						Consolidated					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
<b>Net revenues</b>	<b>14,073</b>	<b>17,232</b>	<b>20,741</b>	<b>24,095</b>	<b>25,457</b>	<b>29,800</b>	<b>14,143</b>	<b>17,363</b>	<b>20,928</b>	<b>24,380</b>	<b>25,834</b>	<b>30,184</b>
Cost of materials	(3,670)	(4,487)	(5,212)	(5,701)	(6,160)	(7,514)	(3,700)	(4,534)	(5,279)	(5,801)	(6,308)	(7,660)
<b>Gross profit</b>	<b>10,403</b>	<b>12,745</b>	<b>15,529</b>	<b>18,394</b>	<b>19,297</b>	<b>22,286</b>	<b>10,443</b>	<b>12,829</b>	<b>15,649</b>	<b>18,579</b>	<b>19,526</b>	<b>22,524</b>
Employee costs	(2,692)	(3,369)	(4,387)	(5,684)	(5,845)	(6,041)	(2,715)	(3,411)	(4,443)	(5,765)	(5,948)	(6,140)
SG&A	(5,270)	(6,828)	(8,517)	(9,999)	(10,990)	(11,785)	(5,312)	(6,922)	(8,655)	(10,177)	(11,167)	(11,984)
<b>EBITDA</b>	<b>2,441</b>	<b>2,548</b>	<b>2,625</b>	<b>2,710</b>	<b>2,462</b>	<b>4,460</b>	<b>2,417</b>	<b>2,496</b>	<b>2,551</b>	<b>2,637</b>	<b>2,411</b>	<b>4,401</b>
D&A	(547)	(767)	(982)	(1,243)	(1,512)	(1,622)	(556)	(787)	(1,011)	(1,282)	(1,554)	(1,664)
<b>EBIT</b>	<b>1,895</b>	<b>1,781</b>	<b>1,643</b>	<b>1,468</b>	<b>950</b>	<b>2,838</b>	<b>1,861</b>	<b>1,709</b>	<b>1,540</b>	<b>1,354</b>	<b>857</b>	<b>2,737</b>
Interest expense	(1)	—	—	—	—	—	(1)	—	—	—	—	—
other income	78	93	74	113	145	227	77	85	65	112	141	218
Other operating income	3	3	4	7	4	4	1	9	10	4	7	13
<b>PBT</b>	<b>1,974</b>	<b>1,877</b>	<b>1,721</b>	<b>1,588</b>	<b>1,099</b>	<b>3,069</b>	<b>1,939</b>	<b>1,803</b>	<b>1,615</b>	<b>1,470</b>	<b>1,004</b>	<b>2,968</b>
Provision for taxes	(623)	(619)	(488)	(522)	(346)	(1,047)	(628)	(620)	(504)	(501)	(346)	(1,047)
<b>PAT</b>	<b>1,351</b>	<b>1,258</b>	<b>1,233</b>	<b>1,066</b>	<b>753</b>	<b>2,022</b>	<b>1,311</b>	<b>1,182</b>	<b>1,111</b>	<b>969</b>	<b>658</b>	<b>1,921</b>
Extraordinary items	—	—	—	—	(80)	42	—	—	—	—	(80)	42
<b>PAT after EO items</b>	<b>1,351</b>	<b>1,258</b>	<b>1,233</b>	<b>1,066</b>	<b>673</b>	<b>2,064</b>	<b>1,311</b>	<b>1,182</b>	<b>1,111</b>	<b>969</b>	<b>578</b>	<b>1,962</b>
<b>Dilution due to Sri Lankan subsidiary in recurring PAT</b>							<b>(3.0)</b>	<b>(6.0)</b>	<b>(9.9)</b>	<b>(9.1)</b>	<b>(12.6)</b>	<b>(5.0)</b>

Source: Company, Kotak Institutional Equities

Exhibit 12: : JUBI added 17 new Domino's stores in FY2018 (total stores: 1,134) on a net basis; current tally stands at 1,169  
Year-end store count and presence, March fiscal-year ends

State	# of stores						# of cities present in					
	Current	Mar-17	Mar-16	Mar-15	Mar-14	Mar-13	Current	Mar-17	Mar-16	Mar-15	Mar-14	Mar-13
AP & Telangana	78	77	67	58	46	35	13	13	12	9	6	5
Arunachal Pradesh	1	—	—	—	—	—	1	—	—	—	—	—
Assam	16	16	13	8	4	3	7	7	5	2	1	1
Bihar	20	19	14	9	4	4	10	10	7	3	1	1
Chandigarh	8	7	7	7	7	4	1	1	1	1	1	1
Chhattisgarh	15	15	15	14	13	7	6	7	7	6	6	3
Daman	1	1	1	1	1	1	1	1	1	1	1	—
Dadra and Nagar Haveli	0	1	1	1	1	—	—	1	1	1	1	1
Goa	12	12	11	10	10	7	3	3	1	1	1	1
Gujarat	81	76	69	60	48	37	22	21	18	16	13	12
Haryana	56	53	50	45	40	34	18	20	18	15	12	11
HP	9	9	8	6	4	3	9	9	8	6	4	3
J&K	5	4	4	4	4	1	2	2	2	2	2	1
Jharkhand	11	10	9	7	6	5	5	5	5	3	3	3
Karnataka	132	127	116	104	88	76	14	17	14	12	10	7
Kerala	21	19	15	12	9	7	7	7	5	5	4	4
Madhya Pradesh	40	39	38	30	21	15	15	15	14	10	5	5
Maharashtra	232	219	210	179	157	131	32	28	24	19	17	14
Meghalaya	2	2	2	1	1	1	1	1	1	1	1	1
New Delhi	93	89	84	76	69	59	1	1	1	1	1	1
Nagaland	1	—	—	—	—	—	1	—	—	—	—	—
Odisha	11	10	10	10	8	4	6	6	6	6	5	4
Puducherry	0	2	1	1	1	—	—	1	1	1	1	—
Punjab	50	48	43	35	23	20	21	20	18	17	10	8
Rajasthan	24	25	23	16	10	7	11	12	11	8	4	3
Sikkim	2	2	2	2	2	1	2	2	2	2	2	1
TN	81	78	74	61	52	39	12	12	13	11	10	8
UP	88	80	70	59	52	43	24	23	21	19	14	12
Uttaranchal	15	14	14	14	11	6	10	9	9	9	7	5
WB	64	61	54	46	34	26	11	10	9	9	7	7
<b>Total</b>	<b>1,169</b>	<b>1,117</b>	<b>1,026</b>	<b>876</b>	<b>726</b>	<b>576</b>	<b>266</b>	<b>264</b>	<b>235</b>	<b>196</b>	<b>150</b>	<b>123</b>

Source: Company, Kotak Institutional Equities

Exhibit 13: Consolidated Profit model, balance sheet, cash model of Jubilant Foodworks, March fiscal year-ends, 2015-21E (Rs mn)

	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model</b>							
Net revenues	20,928	24,380	25,834	30,184	35,575	42,004	49,834
<b>EBITDA</b>	<b>2,551</b>	<b>2,637</b>	<b>2,411</b>	<b>4,401</b>	<b>6,385</b>	<b>8,252</b>	<b>10,492</b>
Other income	75	116	147	231	387	640	913
Interest expense	0	0	0	0	0	0	0
Depreciation	(1,011)	(1,282)	(1,554)	(1,664)	(1,591)	(1,707)	(1,857)
<b>Pretax profits</b>	<b>1,615</b>	<b>1,470</b>	<b>1,004</b>	<b>2,968</b>	<b>5,181</b>	<b>7,185</b>	<b>9,548</b>
Tax	(504)	(501)	(346)	(1,047)	(1,813)	(2,533)	(3,366)
<b>Net income</b>	<b>1,111</b>	<b>969</b>	<b>658</b>	<b>1,921</b>	<b>3,367</b>	<b>4,653</b>	<b>6,183</b>
Extraordinary items	—	—	(80)	42	—	—	—
<b>Reported Net income</b>	<b>1,111</b>	<b>969</b>	<b>578</b>	<b>1,962</b>	<b>3,367</b>	<b>4,653</b>	<b>6,183</b>
<b>Earnings per share (Rs)</b>	<b>8.4</b>	<b>7.4</b>	<b>5.0</b>	<b>14.6</b>	<b>25.4</b>	<b>35.0</b>	<b>46.3</b>
<b>Balance sheet</b>							
Total shareholder's equity	6,714	7,620	8,053	9,677	13,511	17,850	23,557
Total borrowings	—	—	—	—	—	—	—
Deferred tax liability	624	729	693	550	550	550	550
<b>Total liabilities and equity</b>	<b>7,338</b>	<b>8,350</b>	<b>8,746</b>	<b>10,227</b>	<b>14,061</b>	<b>18,400</b>	<b>24,107</b>
Net fixed assets	7,572	8,546	8,609	8,034	7,738	7,979	8,196
Investments	746	908	936	2,631	2,631	2,631	2,631
Cash	389	332	354	1,290	5,937	10,637	16,846
Net current assets	(1,369)	(1,436)	(1,153)	(1,729)	(2,245)	(2,847)	(3,566)
<b>Total assets</b>	<b>7,338</b>	<b>8,350</b>	<b>8,746</b>	<b>10,227</b>	<b>14,061</b>	<b>18,400</b>	<b>24,107</b>
<b>Free cash flow</b>							
Operating cash flow, excl. working capital	2,273	2,425	1,979	3,178	4,571	5,719	7,127
Working capital changes	488	-308	57	912	517	602	718
Capital expenditure	(2,872)	(2,273)	(2,009)	(1,193)	(1,295)	(1,948)	(2,074)
<b>Free cash flow</b>	<b>(111)</b>	<b>(156)</b>	<b>26</b>	<b>2,897</b>	<b>3,793</b>	<b>4,373</b>	<b>5,771</b>
<b>Growth</b>							
Revenue growth	20.5	16.5	6.0	16.8	17.9	18.1	18.6
EBITDA growth	2.2	3.4	(8.6)	82.5	45.1	29.2	27.2
EPS growth	(6.1)	(12.8)	(32.2)	191.7	74.7	37.6	32.4
<b>Ratios</b>							
Gross margin (%)	74.8	76.2	75.6	74.6	74.1	74.0	73.9
EBITDA margin (%)	12.2	10.8	9.3	14.6	17.9	19.6	21.1
Net profit margin (%)	5.3	4.0	2.5	6.4	9.5	11.1	12.4
ROE (%)	18.2	13.5	8.4	21.7	29.0	29.7	29.9
ROCE (%)	23.1	17.3	10.0	28.8	39.5	40.3	40.6
<b>Key assumptions</b>							
No of stores	930	1,097	1,180	1,171	1,240	1,366	1,491
Store addition yoy	178	167	83	(9)	69	126	125
SSG (%)	0.1	3.2	(2.4)	13.9	15.5	11.3	11.0
No of employees	27,122	27,719	26,604	27,539	29,161	32,124	35,064

Source: Company, Kotak Institutional Equities

SEPTEMBER 24, 2018

UPDATE

BSE-30: 36,842

**Positive review of select stocks.** The recent correction on the back of debt market liquidity concerns prompts us to review a few strong NBFCs. Several factors including business tailwinds, robust operating models catering to the retail segment and parental support provide comfort to banks/debt markets and ensure that liquidity remains strong; stress, if any, remains only to near-term NIM. In the context of current valuations, we see a case for several upgrades: Chola (ADD from REDUCE; TP of Rs1,425, down from Rs1,500), LICHF (BUY from ADD with TP of Rs580), Mahindra Finance (ADD from REDUCE; TP of Rs450 versus Rs500 earlier) and Shriram Transport Finance (BUY from ADD; TP of Rs1,450, down from Rs1,550).

#### Liquidity in focus; most NBFCs well placed

Post recent events in debt markets, mutual funds and other debt market players may likely take a more measured and cautious stand on NBFCs. However, we believe that well-run NBFCs with proven business models across cycles and/or those focusing on the retail segment that have generally lower credit and concentration risks may be less affected. NBFCs with strong parentage i.e. sovereign/ large financial institutions like LICHF, PFC and REC and business houses like Aditya Birla Finance, Bajaj Finance, Cholamandalam, Mahindra Finance, will continue to earn support from debt markets and banks. More importantly, underlying business trends in most asset classes (CVs, rural auto and retail housing) have been robust over the past few quarters.

#### Some risk to near-term NIM

We don't find liquidity risk to any of the NBFCs under coverage due to factors discussed above. However, the risk-averse stance of debt markets will likely lead to higher funding costs in the near term. We are building NIM compression into our forecasts, though we do not rule out any near-term risk due to vagaries in the bond market. However, supported by our thesis of strong fundamentals and business trends of NBFCs under coverage, we prefer to look beyond near-term volatility and find value gradually building up in select stocks.

#### Upgrade Chola (ADD), LICHF (BUY) Mahindra Finance (ADD), Shriram Transport Finance (BUY)

We are revising down our estimates and price targets to factor higher near-term borrowing costs (for select stocks) and higher cost of equity. Some challenges in forecasting NIM include (1) duration of stress in debt markets, (2) pricing power of NBFCs (which currently seems strong) and (3) migration to Ind-AS which makes it challenging for us to forecast NIM and earning trends over the next few quarters. Regrouping/restatement of interest expenses to include

(1) off-balance sheet funding costs, (2) premium on redemption of ZCBs and (3) upfront expenses on bank loans/NCDs makes it challenging for us to forecast borrowing costs.

We upgrade select stocks despite the downward revision to earnings and TP as follows:

(1) Sharp stock correction provides an opportunity to add Cholamandalam, which we believe is one of the best NBFCs plays and a core holding in the sector. (2) LICHF's valuation appear compelling even as NIM may be under pressure in the near term. (3) We upgrade Mahindra Finance to ADD from REDUCE; strong rural cash flows in the near term will continue to drive growth and improvement in ECL. (4) Shriram Transport Finance is currently trading at 1.6X FY2020E book and provides a good entry point; CV sales may moderate from current high levels, while the increase in axle load norms will benefit asset quality performance.

#### QUICK NUMBERS

- 12% upside for Chola
- 25% upside for Shriram Transport
- 32% upside for LICHF
- 18% upside for LTHF
- 30% upside for Magma

Nischint Chawathe

M B Mahesh CFA

Dipanjan Ghosh

### Investment thesis on key NBFCs under coverage

- ▶ **Bajaj Finance remains rich, retain SELL.** We reiterate our SELL rating on Bajaj Finance with TP of Rs2,000. Bajaj Finance remains the best franchise in the sector, though its rich valuations (5.7X book FY2020E) drive our stock call. We continue to await better entry points.
- ▶ **Cholamandalam, upgrade to ADD from REDUCE with TP of Rs1,425 (down from Rs1,500).** We continue to like the business of Chola given its (1) strong execution as demonstrated by improving RoE over the past few years, (2) diversification across vehicles and business loans that ensured strong performance across cycles. Impact of recent management changes is the key monitorable even as we believe that its business is fairly institutionalized. Reduction in TP reflects 1-3% reducing in EPS due to lower NIM and higher cost of equity. Its debt market exposure (excluding Tier II bonds) is considerable at 37%; as on March 2018, the company has a negative gap in 1HFY19 but covered up in 2HFY19. At our revised TP, the stock will trade at 3X FY2020E book.
- ▶ **HDFC; retain ADD with TP of Rs2,020.** HDFC is a large borrower in bond market with 54% borrowings from NCDs and CP, however, overall investor comfort on HDFC will ensure liquidity for the company. Besides, the company has a dynamic deposit mobilization program which can be scaled up if the debt market fund dries up (as seen in FY2008). The company had a surplus 15% in one-year bucket in March 2018. Nevertheless, we cut our estimates by 2% to reflect lower NIM. At our revised TP, HDFC's core business will trade at 2.8X FY2020E book. Our investment thesis on subsidiaries remains unchanged.
- ▶ **LICHF; upgrade to BUY with TP of Rs580.** LICHF has the highest dependence on bond market at 87% of total borrowings. However, comfort in its strong parentage ensures steady funding availability for the company. In fact, PSU banks prefer lending to LIC over other private NBFCs during period of crises. However, marginal spreads are currently thin and the company will need to raise home loan rates over the next few weeks. We build NIM compression into our estimates (EPS down 3-5%) but don't rule out further near-term downside risk. The company saw a 54% deficit in the first bucket in March 2018, lower than 100%+ deficit in the first bucket during the previous few years. According to the management, high prepayments in home loans helps in managing liquidity and hence it keeps deficit in the first bucket. However, current valuations (1.3X FY2020E book) factor in the aforesaid risk if one looks at the medium term. A large retail book (79% home loans and 16% LAP) provides comfort.
- ▶ **L&T Finance Holdings, retain ADD with TP of Rs165.** Tailwinds in rural business, cleaner book post write-offs in wholesale book will drive 18-19% RoE over the medium term. At our TP of Rs160, the lending business will trade at 2.2X book FY2020E. Reduction in TP from Rs190 reflects a lower multiple for the lending business on the back of an increase in cost of equity. Its exposure to NCDs is high at 45%; however, its parentage provides comfort to debt investors.
- ▶ **PNBHF, retain REDUCE; await clarity on ownership.** We retain our REDUCE rating on PNBHF with a TP of Rs1,200 i.e. 2.4X FY2020E book (down from Rs1,325); the reduction reflects a higher cost of equity assumptions. Share of CPs was high at 17% in 1QFY19; even exposure to NCD is 37%. The company showed a 17% deficit in first bucket in March 2018. PNB and Carlyle have initiated a process to sell down a majority stake in the company. The shareholding of PNB has provided comfort to debt markets and lenders in the past. With uncertainty on ownership, we find some risk to the bond yields of the company at the current juncture.



- ▶ **Magma, retain BUY with TP of Rs165; investment theses unchanged.** We continue to believe that recent operational changes under the new management will boost the profitability of Magma over the next two years, even as loan growth may remain muted in the near term. We expect the company to deliver medium-term RoE of about 15%. Our revision in TP to Rs165 from Rs200 reflects a higher cost of equity. Being a smaller NBFC, the company is a bit more vulnerable to vagaries in debt market but a lower bond market exposure (23% of total) provides comfort.
- ▶ **Mahindra Finance, upgrade to ADD with TP of Rs450, down from Rs500 earlier as rural cycle remains strong.** Strong rural cash flows will boost the near-term growth of Mahindra Finance even as NIM may remain under pressure due to competition from banks and NBFCs like L&T Finance. Its exposure to NCD is 44% and CP is high at 16%. From a liquidity point of view, the Mahindra Group provides comfort; the company is running positive ALM in the first two buckets. We expect the company to deliver 16-17% medium-term RoE and 21% EPS CAGR during FY2020E-21E. At our RGM-based TP, the stock will trade at 2.1X FY2020E book; we add Rs65 as value of the subsidiaries. Our earnings are keenly sensitive to government spending in rural areas.
- ▶ **Muthoot Finance- no change.** We retain our ADD rating on Muthoot with a price target of Rs480. Valuations remain reasonable, though challenges in forecasting NIM and credit cost under Ind-AS temper our bullishness. Limited share to bond borrowings (21%) will cap the impact of any reduction in lines of funding from debt markets. The company has access to gold bonds (largely from retail investors); these bonds are currently at 4% of borrower, down from 22% in FY2016; the company can scale up in this segment. Its pricing power in gold loans remains high; higher INR gold prices will drive growth.
- ▶ **Shriram City Union, retain ADD with TP of Rs2,120, down from Rs2,550.** We believe that SCUF has a strong franchise of lending at the lower-end of the market. Improving growth in business loans will drive 21% loan book CAGR and 27% EPS CAGR during FY2019-21E. We expect near-term RoA to remain strong at 3% and RoE moderate at 16-17%. At our revised TP, the stock will trade at 2X FY2020E book.
- ▶ **Shriram Transport, upgrade to BUY from ADD with TP of Rs1,450 from Rs1,550 earlier.** Shriram Transport Finance trades at 1.6X book FY2020E. We expect the company to deliver 17-18% medium-term RoE. We expect CV sales to moderate hereon, though we note that loan growth will remain strong at 17-18% during FY2019-21E on the back of strong business in used CVs. Increase in axle load norms will partially offset pressure of higher fuel prices and augur well for asset quality performance even as NIMs in CV business remain under pressure. As on March 2018, the company has a negative ALM gap in 1HFY19, which is fully covered in 2HFY19. Increasing competition from banks and the organized sector over the medium term poses key risk. Besides, its large size and limited segments of operations is a concern. However, these risks are reflected in current valuations, in our view.

**Exhibit 1: Valuation of NBFCs**  
 March fiscal year-ends, 2020E

	New rating	Old Rating	New TP (Rs)	Old TP (Rs)	CMP (Rs) 21-Sep-18	Upside (%)	PBR at TP (2020E, X)	PBR (X)			RoE (%)			RoA (%)		
								2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E
<b>Auto Finance</b>																
Cholamandalam	ADD	REDUCE	1,425	1,500	1,276	12	3.0	3.9	3.2	2.7	20.6	21.0	21.2	2.8	2.7	2.7
Mahindra Finance	ADD	REDUCE	450	500	411	9	2.0	2.7	2.5	2.2	11.3	14.0	14.8	1.8	2.3	2.2
Shriram Transport	BUY	ADD	1,450	1,550	1,161	25	1.9	2.1	1.8	1.6	13.1	17.6	18.0	1.8	2.3	2.3
<b>Housing Finance</b>																
HDFC	ADD	ADD	2,020	2,075	1,839	10		5.0	4.4	4.0	24.0	13.8	14.1	3.3	2.1	2.0
HDFC core					823		2.8	2.5	2.7	2.3	21.4	16.9	14.0			
UC Housing Finance	BUY	ADD	580	605	440	32	1.6	1.8	1.5	1.3	14.5	17.0	16.2	1.1	1.1	1.1
PNBHF	REDUCE	REDUCE	1,200	1,325	1,173	2	2.4	3.6	3.0	2.6	14.0	15.2	15.9	1.6	1.3	1.1
<b>Others</b>																
Bajaj Finance	SELL	SELL	2,000	2,000	2,379	(16)	4.8	8.3	6.9	5.7	20.5	19.9	21.5	3.6	3.5	3.4
Bharat Financial Inclusion		NA		-	1,090			5.1	4.1	3.4	16.7	17.9	18.5	4.2	4.1	3.9
L&T Finance Holdings	ADD	ADD	165	190	140	18	2.2	2.2	2.0	1.7	14.2	14.7	16.1	1.8	2.0	2.0
Muthoot Finance	ADD	ADD	480	480	457	5	1.9	2.4	2.1	1.8	24.1	19.0	17.6	5.5	4.6	4.3
Magma Fincorp	BUY	BUY	165	200	126	31	1.4	1.3	1.2	1.1	10.2	15.0	14.0	1.5	2.3	2.1
Shriram City Union Finance	ADD	ADD	2,120	2,550	1,812	17	2.0	2.1	1.9	1.6	12.5	15.5	16.7	2.6	3.1	3.1

Source: Company, Kotak Institutional Equities estimates

### Higher debt market exposure for high-rated HFCs and NBFCs with strong parentage

Exhibit 2 shows that HDFC and LICHF have high exposure to debt. However, these companies have strong financial flexibility given their high credit rating and comfort on account of their management/parentage.

PNBHF has high exposure to NCDs and CPs (54% of total); the share of public deposits has declined in 1QFY19 which can be scaled up. Clarity on shareholding and ownership is crucial for debt markets.

LTFH has a high (45%) share of NCDs. But its strong parentage provides comfort to debt markets.

**Exhibit 2: High debt market exposure for large players**

Break-up of borrowings, 1QFY17-1F19 (% of total)

	1QFY17	4QFY17	1QFY18	4QFY18	1QFY19
<b>HDFC</b>					
Term loans	14	13	12	15	16
Bonds/ debenture/ CPs	53	56	59	57	54
Deposits	33	31	30	29	30
<b>LICHT</b>					
Bank	11	9	9	10	12
NCDs	80	79	79	79	74
Tier-II	2	2	2	2	2
Deposit	4	5	5	5	5
NHB	3	3	3	1	1
CP and others	1	2	2	3	7
<b>PNBHF</b>					
NCDs	NA	41	41	41	37
CP and others	NA	12	16	19	17
Banks	NA	7	7	8	18
Public deposit	NA	28	25	21	19
ECB	NA	4	4	3	3
NHB	NA	8	7	7	6
<b>L&amp;TFH</b>					
Term loan	20	16	14	16	17
NCDs and Others	42	43	49	43	45
LOC/CC/WCL/STL	23	22	24	23	18
CP	15	19	13	18	20
<b>Shriram transport</b>					
Banks/ institutional	81	82	83	85	90
Others	19	19	17	15	10
<b>SCUF</b>					
Retail	27	23	22	17	17
Bank borrowings	56	56	56	60	59
Market borrowings	14	18	20	22	24
Public issue NCD	3	2	2	1	-
<b>Chola</b>					
Bank	52	35	34	45	40
CP	10	11	11	7	11
Debenture	27	42	42	37	26
Subordinated debt	11	12	13	11	23
<b>Mahindra Finance</b>					
NCDs	39	46	49	48	44
Bank loans	33	27	24	30	30
FDs	15	12	11	8	8
CP/ ICD	4	12	13	12	16
Securitisation/ assignmen	8	2	2	2	1
<b>Magma</b>					
Banks	74	65	68	68	66
DCM	16	23	19	20	23
Others	10	12	13	12	10
<b>Dewan Housing</b>					
Banks and FIs	52	42	44	42	36
Multilateral agencies	5	4	4	3	3
NHB	2	4	4	3	3
NCDs	32	42	39	40	48
Others/ FDs	9	8	9	12	10

Source: Company, Kotak Institutional Equities

Most NBFCs have a positive gap in the first 12 months

**Exhibit 3: Positive ALM for most NBFCs**  
ALM gap, March fiscal year-ends, 2018 (%)

	Bajaj Finance	Chola	Magma	MMFS	SCUF	SHTF
0-6 months	55	(22)	5	27	52	(25)
6-12 months	35	21	15	38	17	26
1-3 years	(44)	(3)	26	6	(12)	28
3-5 years	18	30	16	31	5	32
5 years and above	60	74	32	54	100	(57)

Source: Company

**Exhibit 4: Mixed trends in ALM**

ALM statement for select HFCs, March fiscal year-ends, 2011-2018 (Rs bn)

Maturity	2011	2012	2013	2014	2015	2016	2017	2018
<b>HDFC</b>	AR	AR	AR	AR	AR	AR	AR	AR
<b>Upto 1 year</b>								
Assets	266	283	371	473	546	570	572	750
Liabilities	221	252	206	348	315	431	533	635
Gap	45	32	165	125	232	139	38	115
<b>Gap/assets (%)</b>	<b>17</b>	<b>11</b>	<b>45</b>	<b>27</b>	<b>42</b>	<b>24</b>	<b>7</b>	<b>15</b>
<b>1-3 years</b>								
Assets	348	437	531	632	715	768	914	1,049
Liabilities	239	253	302	423	429	506	1,082	1,136
Gap	109	184	229	208	286	261	(168)	(87)
<b>3-5 years</b>								
Assets	222	291	370	409	495	541	595	744
Liabilities	195	246	302	300	337	376	673	736
Gap	27	44	68	110	159	164	(78)	8
<b>Over 5 years</b>								
Assets	450	515	559	591	664	862	1,081	1,356
Liabilities	232	257	241	186	327	294	509	691
Gap	219	258	318	405	336	568	572	664
<b>Cumulative gap</b>	<b>400</b>	<b>518</b>	<b>781</b>	<b>848</b>	<b>1,012</b>	<b>1,133</b>	<b>364</b>	<b>701</b>
<b>LIC Housing Finance</b>	AR	AR	AR	AR	AR	AR	AR	AR
<b>Upto 1 year</b>								
Assets	58	51	46	55	65	75	91	246
Liabilities	77	96	121	142	160	203	228	379
Gap	(19)	(44)	(75)	(88)	(95)	(127)	(136)	(133)
<b>Gap/assets (%)</b>	<b>(33)</b>	<b>(86)</b>	<b>(165)</b>	<b>(161)</b>	<b>(145)</b>	<b>(169)</b>	<b>(150)</b>	<b>(54)</b>
<b>1-3 years</b>								
Assets	72	78	98	114	132	158	204	175
Liabilities	144	159	198	273	267	313	427	582
Gap	(72)	(80)	(99)	(159)	(135)	(155)	(224)	(407)
<b>3-5 years</b>								
Assets	60	74	94	109	129	152	188	195
Liabilities	61	123	151	204	285	302	270	215
Gap	(1)	(49)	(57)	(94)	(155)	(150)	(83)	(20)
<b>Over 5 years</b>								
Assets	330	422	535	631	752	861	958	1,045
Liabilities	169	183	219	202	253	291	339	277
Gap	161	239	317	429	499	569	619	768
<b>Cumulative gap</b>	<b>68</b>	<b>65</b>	<b>85</b>	<b>88</b>	<b>114</b>	<b>137</b>	<b>177</b>	<b>208</b>
<b>PNB Housing Finance</b>		AR	AR	AR	AR	AR	AR	PPT
<b>Upto 1 year</b>								
Assets	NA	5	10	25	39	68	137	180
Liabilities	NA	13	4	21	74	78	114	196
Gap	NA	(8)	7	4	(35)	(10)	23	(17)
<b>Gap/assets (%)</b>		<b>(151)</b>	<b>64</b>	<b>14</b>	<b>(88)</b>	<b>(14)</b>	<b>17</b>	<b>(9)</b>
<b>1-3 years</b>								
Assets	NA	3	5	30	39	88	129	173
Liabilities	NA	12	22	30	51	51	99	234
Gap	NA	(9)	(17)	(1)	(12)	37	29	(61)
<b>3-5 years</b>								
Assets	NA	3	6	19	28	45	63	104
Liabilities	NA	9	12	20	28	62	92	92
Gap	NA	(6)	(6)	(1)	0	(17)	(29)	13
<b>Over 5 years</b>								
Assets	NA	22	53	40	80	88	90	181
Liabilities	NA	22	20	30	15	71	51	115
Gap	NA	(0)	33	9	65	16	39	65
<b>Cumulative gap</b>	<b>NA</b>	<b>(23)</b>	<b>17</b>	<b>11</b>	<b>19</b>	<b>27</b>	<b>63</b>	<b>0</b>

Note:

1) "AR" refers to annual report and "PPT" refers to company presentation.

Source: Company

**Exhibit 5: We cut estimates to reflect reduction in NIMs**

Old and new estimates, March fiscal year-ends, 2019-21E (Rs bn)

	New estimates			Old estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Cholamandalam	11.6	14.4	17.7	12.0	14.6	18.0	(3)	(1)	(1)
HDFC	93.9	111.5	135.1	95.8	114.0	138.2	(2)	(2)	(2)
LICHF	24.5	27.9	33.4	25.1	29.2	33.5	(3)	(5)	(0)
SCUF	9.2	11.3	13.6	9.3	11.5	13.8	(2)	(2)	(2)

Source: Kotak Institutional Equities estimates

**Exhibit 6: SOTP of L&T Finance Holdings**

March fiscal year-ends, 2020-21E

	2020E	2021E
Net worth of lending business	129,189	149,695
Valuation multiple (X)	2.2	2.2
Valuation (Rs mn)	284,216	329,329
Others	36,656	42,000
Value of MF	42,000	42,000
Preference shares	(5,344)	—
Fair value of LTFH	320,872	371,329
Per share (Rs)	161	186

Notes:

(a) We value the MF at Rs42 bn.

Source: Kotak Institutional Equities estimates

**Exhibit 7: Our TP implies 2.5X PBR for rural business, 2.0X for housing and 1.1X 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	2.5	88,413	44
Housing	32,346	2.0	64,693	32
Wholesale	61,478	1.1	67,626	34
Total			220,731	111
After assuming 25% diversification benefit			275,914	140
MF and others			36,656	18
Total				159

Source: Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)			Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		21-Sep-18	Target price (Rs)	Upside (%)	(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>Automobiles</b>																													
Amara Raja Batteries	REDUCE	752	780	3.7	129	1.8	171	32	37	43	17.1	15.9	14.5	23.3	20.1	17.5	12.4	10.6	9.1	3.8	3.3	2.8	17.4	17.5	17.4	0.6	0.7	0.9	6.2
Apollo Tyres	BUY	231	340	47.1	132	1.8	541	20	25	29	46.9	25.7	17.0	11.8	9.3	8.0	7.4	6.2	5.1	1.2	1.1	1.0	11.0	12.5	13.1	1.3	1.3	1.3	12.3
Ashok Leyland	BUY	122	160	30.8	359	5.0	2,926	6.2	8.9	9.4	15.3	43.2	6.1	19.7	13.8	13.0	10.0	7.3	6.8	4.3	3.6	3.0	23.4	28.4	25.4	1.5	2.2	2.3	46.0
Bajaj Auto	SELL	2,799	2,700	(3.5)	810	11.2	289	156	174	185	11.2	11.5	6.3	18.0	16.1	15.2	12.3	10.6	9.7	3.8	3.4	3.0	22.2	22.1	21.0	2.2	2.5	2.6	31.6
Balkrishna Industries	REDUCE	1,085	1,300	19.8	210	2.9	193	50	62	70	34.5	24.1	12.8	21.6	17.4	15.4	11.7	9.6	8.3	4.2	3.5	2.9	21.6	22.1	20.7	0.5	0.6	0.6	15.2
Bharat Forge	SELL	625	600	(3.9)	291	4.0	466	23	27	29	44.4	14.6	7.1	26.7	23.3	21.8	15.2	13.3	12.3	5.3	4.5	3.9	21.5	21.0	19.4	0.8	0.9	1.0	12.4
CEAT	ADD	1,280	1,500	17.2	52	0.7	40	99	108	116	53.7	8.3	7.9	12.9	11.9	11.0	8.3	7.2	6.5	1.7	1.5	1.4	14.4	13.8	13.2	0.8	0.8	0.8	12.9
Eicher Motors	SELL	27,940	24,000	(14.1)	762	10.5	27	997	1,180	1,306	25.8	18.4	10.7	28.0	23.7	21.4	20.2	17.0	14.8	10.2	7.7	6.0	42.4	37.1	31.4	0.1	0.1	—	21.1
Escorts	BUY	686	1,200	75.0	58	1.2	89	59	71	78	52.2	19.9	10.6	11.6	9.7	8.8	7.1	5.7	4.7	2.0	1.7	1.5	17.6	18.0	17.1	1.3	1.5	1.7	15.0
Exide Industries	SELL	268	235	(12.3)	228	3.1	850	10	11	13	25.3	11.0	11.6	26.1	23.5	21.0	14.8	13.2	11.8	3.8	3.5	3.1	15.4	15.5	15.7	1.1	1.3	1.5	8.4
Hero Motocorp	SELL	3,175	3,000	(5.5)	634	8.8	200	183	204	225	(0.9)	11.4	10.2	17.3	15.5	14.1	10.3	9.0	8.0	4.8	4.3	3.8	29.3	29.1	28.6	2.9	3.2	3.5	21.0
Mahindra CIE Automotive	ADD	281	290	3.1	107	1.5	378	14	16	17	45.0	12.7	10.4	20.2	17.9	16.3	10.1	8.9	8.0	2.5	2.2	1.9	13.2	13.1	12.7	—	—	—	3.6
Mahindra & Mahindra	BUY	960	1,085	13.0	1,193	16.5	1,138	45	51	53	18.5	14.4	3.1	21.3	18.7	18.1	13.9	12.0	11.4	3.2	2.8	2.5	15.8	16.0	14.7	0.9	1.1	1.1	31.5
Maruti Suzuki	ADD	8,040	9,200	14.4	2,429	33.5	302	298	362	408	16.7	21.2	12.9	27.0	22.2	19.7	15.0	11.9	10.1	5.1	4.4	3.8	20.1	21.1	20.5	0.9	1.1	1.3	72.6
Motherson Sumi Systems	SELL	276	280	1.6	580	8.0	2,105	11	14	16	40.2	21.5	13.8	24.0	19.8	17.4	9.7	8.0	6.9	5.0	4.2	3.6	22.5	23.2	22.3	1.0	1.2	1.3	14.6
MRF	REDUCE	66,744	69,000	3.4	283	3.9	4	3,425	3,932	4,411	28.3	14.8	12.2	19.5	17.0	15.1	9.1	7.8	6.7	2.5	2.2	1.9	13.9	13.9	13.7	0.1	0.1	0.1	7.2
Schaeffler India	BUY	5,443	6,000	10.2	90	1.2	17	156	199	233	9.0	27.3	17.6	34.9	27.4	23.3	21.3	16.2	13.5	4.8	4.2	3.7	14.5	16.4	17.0	0.6	0.7	0.9	0.6
SKF	ADD	1,734	1,800	3.8	89	1.2	51	69	82	97	19.7	18.5	18.2	25.1	21.2	17.9	16.1	13.3	10.9	4.2	3.6	3.1	16.7	17.1	17.4	0.7	0.8	1.0	0.4
Tata Motors	BUY	250	425	69.8	850	10.9	3,396	22	36	39	10.7	62.7	8.0	11.3	7.0	6.4	3.5	2.9	2.7	0.8	0.7	0.7	7.6	11.2	10.8	—	—	—	52.2
Timken	SELL	619	660	6.7	42	0.6	68	19	25	30	42.3	27.5	21.8	32.1	25.2	20.7	17.7	14.1	11.6	5.1	4.3	3.6	17.1	18.5	18.8	0.2	0.2	0.2	0.3
TVS Motor	SELL	593	405	(31.7)	282	3.9	475	16	20	25	13.9	23.0	26.0	37.4	30.4	24.1	20.5	17.0	13.8	8.4	7.1	6.0	24.2	25.4	27.0	0.8	1.0	1.2	14.5
Varrco Engineering	BUY	986	1,250	26.8	133	1.8	135	39	47	51	52.3	19.9	10.2	25.3	21.1	19.2	19.4	16.5	14.4	3.9	3.2	2.6	15.3	15.3	13.5	—	—	—	—
WABCO India	SELL	7,011	6,350	(9.4)	133	1.8	19	169	222	225	17.8	31.3	1.0	41.4	31.5	31.2	27.0	20.5	20.2	7.3	6.0	5.1	19.2	20.9	17.7	0.1	0.2	0.2	0.4
<b>Automobiles</b>	<b>Neutral</b>				<b>9,876</b>	<b>136</b>					<b>18.3</b>	<b>25.6</b>	<b>9.8</b>	<b>21.2</b>	<b>16.9</b>	<b>15.4</b>	<b>9.5</b>	<b>7.8</b>	<b>7.0</b>	<b>3.2</b>	<b>2.8</b>	<b>2.4</b>	<b>14.9</b>	<b>16.4</b>	<b>15.8</b>	<b>1.0</b>	<b>1.1</b>	<b>1.2</b>	<b>399.9</b>
<b>Banks</b>																													
Axis Bank	REDUCE	599	600	0.1	1,539	21.3	2,567	18	40	45	1,577.6	122.3	12.3	33.3	15.0	13.3	—	—	—	2.6	2.2	1.9	7.1	14.1	14.1	0.5	1.0	1.1	84.9
Bank of Baroda	NR	111	—	—	295	4.1	2,652	21	26	29	323.7	26.4	12.1	5.4	4.3	3.8	—	—	—	1.0	0.7	0.6	12.7	14.0	13.7	—	—	—	40.4
Canara Bank	ADD	239	300	25.3	176	2.4	733	(5)	51	68	91.6	1,147.0	33.3	(49.4)	4.7	3.5	—	—	—	1.4	0.8	0.6	(1.0)	10.1	12.0	—	—	—	26.5
City Union Bank	REDUCE	180	200	11.1	132	1.8	665	9	11	12	5.8	13.3	16.7	19.1	16.8	14.4	—	—	—	3.0	2.6	2.2	15.5	15.6	16.0	0.9	1.1	1.2	1.8
DCB Bank	ADD	157	205	30.4	49	0.7	308	10	12	16	28.2	21.0	33.1	15.4	12.7	9.6	—	—	—	1.8	1.6	1.4	11.7	12.7	14.9	0.6	0.7	1.0	4.1
Equitas Holdings	BUY	133	190	43.1	45	0.6	340	4.4	8.4	11.4	378.4	89.9	35.6	29.9	15.7	11.6	—	—	—	1.9	1.7	1.5	6.4	11.2	13.4	—	—	—	4.9
Federal Bank	BUY	74	130	76.9	146	2.0	1,972	5.7	7.9	9.7	29.5	39.5	22.9	13.0	9.3	7.6	—	—	—	1.2	1.1	1.0	8.8	11.4	12.8	1.8	2.5	3.0	17.5
HDFC Bank	REDUCE	1,970	2,000	1.5	5,349	73.9	2,595	78	94	112	15.7	20.0	19.1	25.3	21.0	17.7	—	—	—	3.7	3.3	2.9	16.7	16.2	17.0	0.8	0.9	1.1	79.2
ICICI Bank	BUY	317	400	26.1	2,040	28.2	6,429	8	26	31	(19.6)	209.1	19.2	37.4	12.1	10.2	—	—	—	2.1	1.8	1.6	5.1	14.5	15.5	0.5	1.7	2.0	94.2
IDFC Bank	NR	41	—	—	138	1.9	3,404	1.2	2.9	4.3	(52.7)	146.7	44.8	33.9	13.7	9.5	—	—	—	0.9	0.8	0.8	2.6	6.3	8.6	0.6	1.5	2.1	7.5
IndusInd Bank	REDUCE	1,762	1,900	7.8	1,059	14.6	600	71	87	102	17.5	23.6	16.9	25.0	20.2	17.3	—	—	—	3.7	3.2	2.8	17.6	16.8	17.0	—	0.6	0.7	30.0
J&K Bank	BUY	47	100	111.0	26	0.4	557	7	11	15	82.4	63.8	33.5	7.1	4.4	3.3	—	—	—	0.6	0.5	0.5	5.9	9.1	11.2	2.8	4.6	6.1	0.3
Karur Vysya Bank	ADD	85	110	30.2	68	0.9	727	3	13	14	(32.3)	306.7	9.1	26.2	6.5	5.9	—	—	—	1.2	1.0	0.9	3.7	14.1	13.9	1.0	3.9	4.4	1.6
Punjab National Bank	ADD	73	90	23.5	201	2.8	2,761	(27)	12	18	40.4	145.3	46.9	(2.7)	6.1	4.1	—	—	—	3.6	1.2	0.7	(23.4)	10.7	13.8	—	—	—	40.1
RBL Bank	SELL	565	475	(15.9)	240	3.3	420	22	29	36	48.1	31.5	21.0	25.2	19.2	15.8	—	—	—	3.3	2.9	2.6	13.3	15.5	16.5	0.6	0.8	0.9	15.9
State Bank of India	BUY	271	370	36.7	2,415	33.4	8,925	8	37	53	204.8	380.5	42.7	35.2	7.3	5.1	—	—	—	1.8	1.3	1.0	3.1	13.6	16.7	—	0.1	0.2	99.0
Ujivan Financial Services	ADD	296	420	42.1	36	0.5	121	19	28	32	3,033.9	47.3	15.1	15.8	10.7	9.3	—	—	—	1.8	1.6	1.4	12.1	15.8	15.8	0.6	0.9	1.2	5.4
Union Bank	ADD	74	120	62.6	86	1.2	1,169	8	33	40	117.1	330.8	22.5	9.6	2.2														

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		21-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>NBFCs</b>																													
Bajaj Finance	SELL	2,379	2,000	(15.9)	1,375	19.0	575	68	90	114	56.6	31.9	27.3	35.0	26.5	20.9	—	—	—	7.1	5.8	4.6	22.4	24.0	24.6	0.3	0.4	0.5	64.4
Bajaj Finserv	REDUCE	6,260	6,100	(2.6)	996	13.8	159	245	307	376	39.7	25.2	22.5	25.5	20.4	16.6	—	—	—	4.0	3.4	2.8	17.5	18.1	18.6	0.2	0.2	0.2	20.7
Bharat Financial Inclusion	NA	1,090	—	—	153	2.1	139	43	54	69	31.1	27.2	25.8	25.5	20.0	15.9	—	—	—	4.1	3.4	2.7	17.9	18.5	19.0	—	—	—	9.9
Cholamandalam	ADD	1,276	1,425	11.7	199	2.8	156	74	92	113	19.4	23.8	23.1	17.2	13.9	11.3	—	—	—	3.4	2.8	2.4	20.6	21.3	21.7	0.7	0.9	1.1	7.2
HDFC	ADD	1,839	2,020	9.8	3,115	43.0	1,676	55	65	79	(27.3)	18.7	21.2	33.5	28.2	23.3	—	—	—	4.2	3.8	3.5	13.6	14.2	15.7	1.1	1.3	1.6	76.3
HDFC Standard Life Insurance	SELL	388	405	4.3	782	10.8	2,007	6	7	8	14.8	10.9	14.7	61.1	55.1	48.1	—	—	—	16.2	14.5	12.9	28.0	27.7	28.4	0.4	0.5	0.5	7.3
ICICI Lombard	SELL	889	620	(30.2)	404	5.6	454	26	32	37	37.1	21.5	18.5	34.2	28.1	23.7	—	—	—	7.5	6.3	5.2	23.8	24.2	24.0	0.7	0.8	1.0	3.4
ICICI Prudential Life	BUY	339	500	47.6	486	6.7	1,436	12	13	15	10.1	7.0	10.0	27.3	25.5	23.2	—	—	—	6.1	5.1	4.3	24.5	21.8	20.2	0.6	0.7	0.7	8.5
IIFL Holdings	SELL	609	625	2.6	194	2.7	319	38	45	52	31.5	18.6	16.0	16.2	13.7	11.8	—	—	—	2.9	2.5	2.2	20.5	20.0	20.0	1.3	1.6	1.8	1.7
L&T Finance Holdings	ADD	140	165	17.9	280	3.9	1,996	13	14	16	70.9	12.3	12.8	11.2	9.9	8.8	—	—	—	2.0	1.7	1.5	18.9	18.8	18.3	1.4	1.8	1.7	16.8
LIC Housing Finance	BUY	440	580	31.8	222	3.1	505	48	55	66	10.9	13.9	19.8	9.1	8.0	6.7	—	—	—	1.4	1.2	1.1	17.0	16.2	16.9	1.7	2.0	2.3	16.3
Magma Fincorp	BUY	126	165	31.1	34	0.5	237	13	17	21	34.0	31.8	23.0	9.7	7.3	6.0	—	—	—	1.2	1.1	0.9	13.9	15.8	17.0	1.6	2.0	2.5	1.0
Mahindra & Mahindra Financial	ADD	411	450	9.4	254	3.5	614	23	28	34	58.4	23.2	18.6	17.9	14.5	12.2	—	—	—	2.6	2.3	2.1	14.3	15.8	16.7	1.5	1.9	2.3	11.3
Max Financial Services	ADD	451	650	44.1	121	1.7	268	6	6	6	36.9	1.8	1.8	71.9	70.6	69.4	—	—	—	—	—	—	8.3	8.0	7.8	—	0.5	0.5	5.2
Muthoot Finance	ADD	457	480	5.0	183	2.5	400	40	42	48	(7.8)	6.0	14.8	11.5	10.9	9.5	—	—	—	2.1	1.8	1.6	19.0	17.6	17.8	2.0	2.1	2.4	6.9
PNB Housing Finance	REDUCE	1,190	1,200	0.9	199	2.8	167	62	75	92	25.3	20.9	22.4	19.1	15.8	12.9	—	—	—	2.8	2.4	2.1	15.2	15.9	17.0	0.3	0.3	0.3	5.1
SBI Life Insurance	ADD	613	785	28.0	613	8.5	1,000	15	18	21	26.0	22.9	17.0	42.2	34.3	29.3	—	—	—	8.0	6.7	5.6	20.6	21.3	20.9	0.4	0.5	0.5	2.7
Shriram City Union Finance	ADD	1,812	2,120	17.0	120	1.7	66	139	171	206	38.1	22.6	20.5	13.0	10.6	8.8	—	—	—	2.1	1.8	1.6	15.5	16.7	17.4	1.0	1.2	1.4	1.5
Shriram Transport	BUY	1,161	1,450	24.9	263	3.6	227	109	127	143	57.8	16.2	12.5	10.7	9.2	8.1	—	—	—	1.8	1.6	1.4	17.6	17.2	16.8	1.3	1.5	1.8	33.7
<b>NBFCs</b>	<b>Neutral</b>				<b>9,994</b>	<b>138</b>					<b>13.2</b>	<b>19.5</b>	<b>19.6</b>	<b>25.8</b>	<b>21.6</b>	<b>18.0</b>				<b>4.1</b>	<b>3.6</b>	<b>3.1</b>	<b>15.9</b>	<b>16.5</b>	<b>17.1</b>	<b>0.8</b>	<b>0.9</b>	<b>1.1</b>	<b>666.3</b>
<b>Cement</b>																													
ACC	SELL	1,540	1,270	(17.5)	289	4.0	188	62	70	81	27.0	13.8	15.2	24.9	21.9	19.0	13.8	11.8	10.0	2.9	2.6	2.4	11.9	12.5	13.1	1.1	1.1	1.1	16.4
Ambuja Cements	REDUCE	225	210	(6.9)	448	6.2	1,986	9	11	12	14.5	23.2	15.8	26.2	21.3	18.4	8.8	7.3	6.1	2.1	2.0	1.8	8.1	9.5	10.4	1.6	1.6	1.6	11.1
Dalmia Bharat	ADD	2,482	2,830	14.0	221	3.1	89	94	122	139	55.8	29.3	14.8	26.4	20.4	17.8	10.1	8.3	7.1	3.2	2.8	2.4	12.9	14.6	14.5	0.1	0.1	0.1	4.5
Grasim Industries	BUY	1,051	1,170	11.3	691	9.5	657	46	55	70	(2.5)	18.8	28.0	22.8	19.1	15.0	7.6	7.2	6.7	1.2	1.1	1.0	5.2	5.9	7.1	0.5	0.5	0.5	16.2
India Cements	REDUCE	111	118	6.0	34	0.5	308	4	8	12	28.0	102.6	41.3	26.6	13.1	9.3	8.6	6.8	5.6	0.6	0.6	0.6	2.5	4.8	6.5	0.9	0.9	0.9	9.5
J K Cement	ADD	804	890	10.6	56	0.8	70	45	79	78	3.7	75.4	(0.8)	17.9	10.2	10.3	10.5	8.6	7.0	2.5	2.1	1.8	15.0	22.3	18.5	1.0	1.0	1.0	0.5
JK Lakshmi Cement	ADD	319	370	16.2	37	0.5	118	11	28	37	153.5	147.9	30.5	28.1	11.3	8.7	9.9	6.4	5.2	2.4	2.0	1.7	8.9	19.5	21.0	0.6	0.6	0.6	0.3
Orient Cement	ADD	100	145	45.2	20	0.3	205	7	11	15	212.9	58.7	41.3	14.8	9.3	6.6	7.2	5.5	4.1	1.8	1.6	1.3	12.9	18.2	21.8	1.5	2.0	2.0	0.2
Shree Cement	SELL	16,858	12,500	(25.9)	587	8.1	35	421	630	760	6.0	49.7	20.6	40.0	26.7	22.2	18.6	13.9	11.3	5.8	4.8	4.0	15.4	19.7	19.8	0.3	0.3	0.3	5.4
UltraTech Cement	SELL	4,069	2,950	(27.5)	1,118	15.4	275	126	162	201	42.7	28.9	24.0	32.4	25.1	20.2	16.9	14.0	11.6	3.8	3.4	2.9	12.6	14.3	15.4	0.2	0.2	0.2	19.4
<b>Cement</b>	<b>Cautious</b>				<b>3,503</b>	<b>48</b>					<b>19.5</b>	<b>30.3</b>	<b>21.8</b>	<b>28.3</b>	<b>21.7</b>	<b>17.8</b>	<b>10.8</b>	<b>9.3</b>	<b>8.0</b>	<b>2.4</b>	<b>2.2</b>	<b>2.0</b>	<b>8.4</b>	<b>10.0</b>	<b>11.0</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>83.5</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates



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

Company	Rating	Target			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)	
		Price (Rs) 21-Sep-18	price (Rs)	Upside (%)			2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E		
<b>Consumer products</b>																													
Asian Paints	REDUCE	1,305	1,325	1.6	1,252	17.3	959	27	33	39	32.1	20.3	18.3	48.1	40.0	33.8	30.2	24.9	21.1	13.0	11.3	9.9	28.8	30.3	31.3	0.9	1.1	1.4	23.3
Bajaj Corp.	ADD	450	470	4.5	66	0.9	148	15	17	19	7.8	10.3	9.5	29.2	26.4	24.1	23.4	20.0	17.4	13.6	13.5	13.3	46.3	51.2	55.4	2.9	3.1	3.3	0.6
Britannia Industries	ADD	5,791	6,700	15.7	696	9.6	120	104	127	152	24.5	22.2	19.2	55.6	45.5	38.2	36.4	29.7	24.8	16.2	13.1	10.7	32.5	31.8	30.9	0.6	0.8	0.9	13.9
Coffee Day Enterprises	REDUCE	315	290	(7.9)	67	0.9	211	8	10	12	129.9	30.0	21.2	41.0	31.5	26.0	13.1	11.5	10.6	2.6	2.4	2.2	6.6	8.0	8.9	—	—	—	1.1
Colgate-Palmolive (India)	ADD	1,110	1,250	12.7	302	4.2	272	27	32	36	14.7	15.6	15.5	40.7	35.2	30.5	23.2	20.2	17.6	17.8	15.4	13.5	46.0	46.9	47.3	1.4	1.7	2.1	7.2
Dabur India	REDUCE	456	390	(14.4)	805	11.1	1,762	9	10	12	17.3	12.9	13.6	50.0	44.3	39.0	41.8	36.1	31.3	14.1	12.2	10.8	28.1	29.6	29.4	0.8	1.0	1.2	20.4
GlaxoSmithKline Consumer	ADD	7,707	7,300	(5.3)	324	4.5	42	199	223	246	19.5	12.1	10.1	38.7	34.5	31.4	27.4	23.6	20.8	8.4	7.6	6.9	22.8	23.0	23.1	1.2	1.4	1.6	2.3
Godrej Consumer Products	SELL	819	733	(10.5)	838	11.6	1,022	17	19	22	18.8	13.7	12.7	48.5	42.6	37.8	34.4	29.8	26.1	11.4	9.8	8.6	25.3	24.7	24.2	0.7	0.8	0.9	13.8
Hindustan Unilever	REDUCE	1,621	1,570	(3.2)	3,510	48.5	2,160	29	33	37	19.5	13.2	12.6	55.3	48.9	43.4	38.3	33.6	29.8	43.3	36.8	31.6	83.5	81.4	78.3	1.3	1.5	1.7	37.3
ITC	ADD	304	330	8.6	3,717	51.3	12,275	10	11	12	8.2	12.3	11.7	31.5	28.1	25.1	20.4	18.0	16.0	6.8	6.4	6.1	20.4	22.2	24.2	1.9	2.2	2.5	57.8
Jubilant Foodworks	BUY	1,304	1,650	26.6	172	2.4	132	25	35	46	74.7	37.6	32.4	51.3	37.3	28.1	25.6	19.2	14.5	12.8	9.7	7.4	29.0	29.7	29.9	0.2	0.2	0.3	28.7
Jyothy Laboratories	ADD	198	240	21.5	72	1.0	364	6	7	8	27.6	16.7	15.4	35.1	30.1	26.1	23.5	19.9	16.9	5.4	4.7	4.1	16.6	16.8	16.9	0.5	0.8	1.0	0.9
Marico	ADD	338	375	11.0	436	6.0	1,291	7	8	9	8.9	20.0	14.5	49.5	41.3	36.0	34.4	28.4	24.5	16.2	15.1	13.9	33.7	37.9	40.2	1.4	1.6	1.9	9.8
Nestle India	ADD	9,750	11,000	12.8	940	13.0	96	171	197	223	34.2	15.7	13.2	57.2	49.4	43.6	32.6	28.2	24.7	25.3	23.2	21.3	46.1	49.0	50.8	1.2	1.4	1.6	9.9
Page Industries	SELL	33,605	25,000	(25.6)	375	5.2	11	418	508	607	34.3	21.6	19.5	80.4	66.1	55.3	52.0	42.9	35.8	34.0	26.9	21.6	47.8	45.5	43.4	0.5	0.6	0.8	18.2
Pidlite Industries	REDUCE	1,137	1,080	(5.0)	577	8.0	508	21	26	31	16.8	21.8	20.2	54.0	44.3	36.9	35.9	29.6	24.7	13.7	11.5	9.6	27.4	28.2	28.4	0.6	0.7	0.8	8.3
S H Kelkar and Company	BUY	216	290	34.4	31	0.4	145	7	10	12	(6.2)	41.9	23.2	31.1	21.9	17.8	20.1	14.4	12.4	3.4	3.0	2.7	11.3	14.5	16.0	0.8	0.9	1.3	0.5
Tata Global Beverages	REDUCE	235	250	6.6	148	2.0	631	8	9	10	7.7	17.0	12.9	29.6	25.3	22.4	16.2	14.3	12.6	2.0	1.9	1.9	7.0	7.9	8.5	1.3	1.5	1.7	11.0
Titan Company	SELL	801	840	4.9	711	9.8	888	16	20	23	25.6	21.8	19.3	49.9	40.9	34.3	33.1	26.4	21.6	11.8	9.9	8.4	25.6	26.3	26.4	0.6	0.7	0.9	39.0
United Breweries	SELL	1,312	1,100	(16.2)	347	4.8	264	21	26	31	39.2	23.6	20.6	63.1	51.1	42.3	31.2	26.7	22.9	10.9	9.2	7.8	18.7	19.6	20.0	0.2	0.3	0.4	13.9
United Spirits	REDUCE	537	590	9.8	390	5.4	727	10	13	17	34.7	30.9	24.5	52.4	40.0	32.2	30.6	24.7	20.8	10.7	7.9	6.1	24.2	22.7	21.3	—	—	0.5	13.5
Varun Beverages	ADD	778	800	2.9	142	2.0	183	15	20	26	29.8	34.5	30.7	52.0	38.7	29.6	17.2	14.7	12.4	7.2	6.1	5.2	14.6	17.1	19.0	—	—	0.3	1.5
<b>Consumer products</b>	<b>Cautious</b>				<b>15,917</b>	<b>220</b>					<b>17.7</b>	<b>16.0</b>	<b>14.7</b>	<b>44.8</b>	<b>38.6</b>	<b>33.7</b>	<b>29.0</b>	<b>24.9</b>	<b>21.6</b>	<b>11.7</b>	<b>10.5</b>	<b>9.4</b>	<b>26.1</b>	<b>27.1</b>	<b>27.8</b>	<b>1.2</b>	<b>1.4</b>	<b>1.6</b>	<b>332.5</b>
<b>Energy</b>																													
BPCL	REDUCE	377	375	(0.4)	817	11.3	1,967	38	39	39	(6.7)	3.1	1.1	10.0	9.7	9.6	7.3	6.9	6.7	1.9	1.8	1.6	20.5	19.1	17.5	4.0	4.1	4.2	26.1
Castrol India	SELL	154	155	0.7	152	2.1	989	7	8	9	2.9	10.1	9.7	21.8	19.8	18.0	13.6	12.3	11.1	14.3	14.0	13.4	67.1	71.5	76.0	3.6	4.1	4.4	3.7
GAIL (India)	BUY	390	440	12.8	880	12.2	2,255	26	29	31	27.8	10.0	9.5	14.9	13.6	12.4	9.3	8.5	7.8	2.0	1.8	1.7	14.0	14.1	14.2	2.2	2.4	2.7	25.1
GSPL	SELL	180	175	(2.6)	101	1.4	564	11	11	12	(6.5)	(0.5)	11.9	16.2	16.3	14.6	6.0	6.0	5.3	1.8	1.7	1.5	11.7	10.7	10.9	0.9	0.9	1.0	1.2
HPCL	REDUCE	258	285	10.5	393	5.4	1,524	32	32	32	(22.3)	(2.2)	0.5	8.0	8.1	8.1	7.1	7.5	7.8	1.5	1.4	1.3	19.6	17.4	16.1	5.1	5.0	5.0	22.9
Indraprastha Gas	SELL	250	240	(4.0)	175	2.4	700	12	13	15	16.4	12.3	10.7	20.8	18.6	16.8	13.1	11.5	10.2	4.3	3.7	3.3	22.1	21.5	20.9	1.0	1.2	1.6	9.5
IOCL	REDUCE	158	150	(5.2)	1,536	21.2	9,479	18	17	18	(11.2)	(4.1)	2.8	8.7	9.1	8.8	5.0	4.9	4.8	1.3	1.2	1.1	15.1	13.4	12.9	4.6	4.4	4.5	18.4
Mahanagar Gas	ADD	825	965	16.9	82	1.1	99	56	60	64	16.0	7.6	5.4	14.7	13.7	13.0	8.5	7.7	7.1	3.4	3.0	2.7	24.8	23.5	22.0	2.7	2.9	3.1	12.5
ONGC	ADD	180	200	10.9	2,315	32.0	12,833	20	20	19	16.8	0.3	(5.9)	8.9	8.8	9.4	4.2	4.0	3.9	1.0	0.9	0.9	11.2	10.6	9.5	3.7	3.9	3.9	16.2
Oil India	SELL	219	200	(8.5)	248	3.4	1,135	23	24	23	(6.7)	3.4	(2.5)	9.5	9.2	9.4	6.2	5.9	5.9	0.8	0.8	0.8	9.2	9.0	8.4	4.2	4.4	4.2	2.2
Petronet LNG	BUY	236	280	18.6	354	4.9	1,500	16	18	20	16.7	13.1	9.4	14.6	12.9	11.8	9.7	8.2	7.3	3.2	2.8	2.5	23.3	23.2	22.7	2.4	3.1	3.8	10.3
Reliance Industries	SELL	1,218	985	(19.1)	7,205	99.5	5,922	69	78	87	17.6	12.4	11.9	17.5	15.6	13.9	11.8	10.1	8.6	2.2	1.9	1.7	12.2	12.1	12.1	0.5	0.6	0.6	146.6
<b>Energy</b>	<b>Attractive</b>				<b>14,258</b>	<b>197</b>					<b>7.2</b>	<b>5.2</b>	<b>4.8</b>	<b>12.9</b>	<b>12.3</b>	<b>11.7</b>	<b>7.8</b>	<b>7.2</b>	<b>6.6</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>13.0</b>	<b>12.5</b>	<b>12.0</b>	<b>2.0</b>	<b>2.1</b>	<b>2.2</b>	<b>294.9</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		21-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>Industrials</b>																													
ABB	SELL	1,432	1,020	(28.8)	303	4.2	212	26	29	36	30.1	14.2	23.5	55.6	48.6	39.4	32.7	29.4	24.3	7.7	7.0	6.2	14.5	15.1	16.7	0.6	0.6	0.6	2.1
BHEL	REDUCE	72	89	24.5	263	3.6	3,671	3.3	5.5	7.6	47.9	69.3	38.0	22.0	13.0	9.4	6.7	4.1	3.0	0.8	0.8	0.8	3.6	6.1	8.2	2.8	4.8	6.6	9.5
Carborundum Universal	SELL	383	322	(15.9)	72	1.0	189	14	17	20	25.0	21.4	13.8	26.8	22.1	19.4	14.7	12.0	10.4	4.2	3.7	3.3	16.3	17.8	18.1	1.1	1.4	1.5	0.4
CG Power and Industrial	BUY	51	72	40.1	32	0.4	627	2.9	4.3	6.2	255.2	48.7	44.9	17.7	11.9	8.2	7.3	5.7	4.5	1.2	1.1	1.1	6.7	9.8	13.3	—	—	—	6.0
Cummins India	REDUCE	685	710	3.7	190	2.6	277	28	33	37	15.2	17.5	13.7	24.6	20.9	18.4	20.6	17.7	15.2	4.5	4.2	3.9	18.7	20.6	21.8	2.2	2.6	3.0	4.9
Kalpitaru Power Transmission	BUY	330	560	69.7	51	0.7	153	23.0	32.1	41.0	26.0	39.1	27.7	14.3	10.3	8.1	6.5	5.1	4.3	1.7	1.5	1.2	12.5	15.2	16.7	0.5	0.5	0.5	0.6
KEC International	BUY	305	410	34.4	78	1.1	257	21	27	33	16.9	29.7	23.0	14.6	11.2	9.1	8.2	6.7	5.7	3.2	2.5	2.0	24.1	25.2	24.9	0.7	1.0	1.2	2.7
L&T	BUY	1,330	1,600	20.3	1,864	25.7	1,401	66.3	67.6	79.5	28.2	1.9	17.6	20.1	19.7	16.7	18.0	17.4	14.5	3.3	3.0	2.7	17.6	16.2	17.1	1.7	1.7	2.0	46.0
Siemens	SELL	925	1,000	8.1	329	4.6	356	29	35	—	21.4	21.7	—	31.8	26.1	—	17.7	14.2	—	3.8	3.5	—	12.3	14.0	—	1.3	1.6	—	3.5
Thermax	REDUCE	941	1,010	7.4	112	1.5	113	27.8	38.7	43.8	34.7	39.2	13.2	33.9	24.3	21.5	21.4	15.8	13.5	3.7	3.3	3.0	11.1	14.3	14.7	1.0	1.2	1.3	1.0
<b>Industrials</b>	<b>Neutral</b>				<b>3,295</b>	<b>46</b>					<b>29.0</b>	<b>13.9</b>	<b>11.9</b>	<b>22.7</b>	<b>20.0</b>	<b>17.8</b>	<b>16.4</b>	<b>14.6</b>	<b>12.0</b>	<b>2.8</b>	<b>2.6</b>	<b>2.6</b>	<b>12.3</b>	<b>12.9</b>	<b>14.3</b>	<b>1.6</b>	<b>1.8</b>	<b>2.0</b>	<b>76.8</b>
<b>Infrastructure</b>																													
Adani Ports and SEZ	BUY	362	460	27.2	749	10.3	2,071	19	23	29	1.2	21.1	29.8	19.3	16.0	12.3	13.3	11.0	9.6	3.1	2.6	2.2	17.0	17.7	19.4	0.5	0.6	0.5	21.8
Ashoka Buildcon	BUY	113	235	107.9	32	0.4	282	9	10	10	4.1	17.8	(1.3)	12.9	11.0	11.1	8.5	7.2	6.7	1.4	1.3	1.2	11.8	12.3	11.0	1.5	1.2	1.1	0.5
Container Corp.	SELL	644	635	(1.4)	314	4.3	487	21	25	29	17.4	20.9	15.0	31.1	25.7	22.4	19.1	15.2	12.5	3.1	2.9	2.7	10.3	11.6	12.3	1.4	1.6	1.5	5.5
Dilip Buildcon	BUY	763	1,240	62.5	104	1.4	137	56	71	85	19.8	27.5	20.1	13.7	10.8	8.9	7.2	5.7	4.8	3.2	2.5	1.9	26.7	26.2	24.4	—	—	—	4.0
Gateway Distriparks	BUY	155	250	61.3	17	0.2	109	7	8	11	(5.8)	15.2	37.5	21.6	18.8	13.6	10.1	8.4	6.9	2.9	2.5	2.2	9.8	14.5	17.1	—	1.9	1.9	0.3
Gujarat Pipavav Port	BUY	102	150	45.9	50	0.7	483	5.3	6.5	7.8	29.7	22.9	19.3	19.2	15.7	13.1	10.2	8.3	6.9	2.4	2.4	2.3	12.7	15.3	17.8	4.3	5.2	6.2	1.0
IRB Infrastructure	BUY	154	320	107.7	54	0.7	351	31	33	23	36.8	7.1	(31.3)	5.0	4.7	6.8	6.1	6.6	7.9	0.8	0.7	0.7	17.6	16.3	10.0	2.0	2.6	2.8	5.6
Mahindra Logistics	REDUCE	540	565	4.6	38	0.5	71	15	21	25	50.7	39.3	23.7	36.5	26.2	21.2	20.3	14.7	11.6	7.6	6.1	4.9	22.7	25.8	25.8	—	—	—	0.5
Sadbhav Engineering	BUY	260	435	67.5	45	0.6	172	17	22	23	31.7	31.0	2.6	15.3	11.7	11.4	11.2	8.8	7.4	2.1	1.8	1.6	14.5	16.5	14.7	—	—	—	1.4
<b>Infrastructure</b>	<b>Attractive</b>				<b>1,403</b>	<b>19</b>					<b>11.3</b>	<b>20.3</b>	<b>16.7</b>	<b>18.2</b>	<b>15.1</b>	<b>13.0</b>	<b>11.4</b>	<b>9.6</b>	<b>8.7</b>	<b>2.7</b>	<b>2.3</b>	<b>2.0</b>	<b>14.8</b>	<b>15.5</b>	<b>15.7</b>	<b>0.8</b>	<b>1.0</b>	<b>1.0</b>	<b>40.5</b>
<b>Internet</b>																													
Info Edge	ADD	1,531	1,425	(6.9)	187	2.6	122	26	33	40	14.9	27.5	20.6	59.2	46.4	38.5	45.1	34.1	27.7	7.0	6.3	5.7	13.2	14.3	15.6	0.5	0.5	0.6	3.2
Just Dial	ADD	523	610	16.6	35	0.5	67	26	30	33	23.0	15.0	9.4	20.0	17.4	15.9	10.7	8.6	7.2	3.1	2.7	2.3	16.7	16.6	15.7	0.5	0.6	0.6	23.9
<b>Internet</b>	<b>Cautious</b>				<b>222</b>	<b>3</b>					<b>17.6</b>	<b>23.0</b>	<b>16.8</b>	<b>45.3</b>	<b>36.8</b>	<b>31.5</b>	<b>33.2</b>	<b>26.2</b>	<b>21.9</b>	<b>5.9</b>	<b>5.2</b>	<b>4.6</b>	<b>12.9</b>	<b>14.2</b>	<b>14.7</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>27.1</b>
<b>Media</b>																													
DB Corp.	REDUCE	208	270	29.8	38	0.5	184	20	23	26	14.9	12.3	14.8	10.3	9.1	8.0	5.5	4.8	—	2.1	2.0	—	20.7	22.3	25.2	8.1	10.1	12.1	0.6
DishTV	ADD	63	90	42.5	116	1.6	1,925	1.8	3.4	4.9	514.6	88.2	42.6	NM	18.4	12.9	5.5	4.3	3.4	1.7	1.6	1.4	5.1	8.9	11.5	—	—	—	5.3
Jagran Prakashan	REDUCE	116	131	13.3	34	0.5	311	11	12	14	10.0	13.6	14.5	10.9	9.6	8.4	4.7	4.0	3.5	1.8	1.7	1.6	15.9	18.2	19.7	4.3	6.5	7.3	0.4
PVR	BUY	1,344	1,430	6.4	63	0.9	47	38	50	61	41.2	32.3	22.4	35.5	26.8	21.9	13.6	11.5	9.8	5.1	4.4	3.7	15.3	17.6	18.3	0.3	0.4	0.5	11.5
Sun TV Network	REDUCE	664	925	39.3	262	3.6	394	35	39	43	20.7	10.9	10.7	19.1	17.2	15.6	12.8	11.2	9.5	5.1	4.6	4.1	28.1	27.9	27.9	2.6	3.0	3.4	20.2
Zee Entertainment Enterprises	ADD	451	600	33.1	433	6.0	960	17	20	22	11.3	17.0	13.9	27.0	23.0	20.2	16.6	14.0	12.1	5.1	4.5	3.9	19.9	20.6	20.7	1.0	1.2	1.6	18.7
<b>Media</b>	<b>Attractive</b>				<b>946</b>	<b>13</b>					<b>28.7</b>	<b>21.0</b>	<b>17.2</b>	<b>22.7</b>	<b>18.7</b>	<b>16.0</b>	<b>10.7</b>	<b>9.1</b>	<b>7.6</b>	<b>3.7</b>	<b>3.3</b>	<b>3.2</b>	<b>16.3</b>	<b>17.7</b>	<b>19.8</b>	<b>1.7</b>	<b>2.0</b>	<b>2.4</b>	<b>56.6</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (Rs bn) (US\$ bn)		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		21-Sep-18	Target price (Rs)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E		2021E
<b>Metals &amp; Mining</b>																													
Coal India	ADD	275	320	16.3	1,709	23.6	6,207	25	25	27	120.4	2.2	6.6	11.0	10.8	10.1	8.4	7.1	6.6	6.8	7.5	7.9	62.7	65.9	76.0	7.3	9.1	9.1	15.0
Hindalco Industries	BUY	240	305	26.9	540	7.5	2,229	27	31	34	25.1	13.6	10.2	8.8	7.7	7.0	5.7	4.9	4.4	0.9	0.8	0.7	10.6	10.8	10.8	0.5	0.5	0.5	35.7
Hindustan Zinc	ADD	297	290	(2.4)	1,255	17.3	4,225	22	26	27	3.7	14.7	5.4	13.3	11.6	11.0	7.8	6.4	5.7	3.0	2.6	2.3	24.4	24.2	22.1	2.7	2.7	2.7	6.3
Jindal Steel and Power	REDUCE	235	215	(8.5)	227	3.1	968	8	14	22	195.9	68.5	60.8	28.8	17.1	10.6	7.2	6.5	5.6	0.8	0.7	0.7	2.7	4.3	6.5	—	—	—	34.1
JSW Steel	SELL	408	350	(14.2)	986	13.6	2,406	31	26	31	16.1	(16.2)	17.2	13.1	15.6	13.3	7.5	8.7	7.7	2.8	2.4	2.1	23.5	16.6	16.8	0.8	0.8	0.8	31.7
National Aluminium Co.	ADD	66	80	21.7	127	1.8	1,933	9	7	8	125.8	(21.1)	2.4	7.1	8.9	8.7	3.1	4.0	3.9	1.2	1.2	1.2	16.8	13.0	13.3	9.1	9.1	9.1	11.7
NMDC	REDUCE	116	120	3.7	366	5.1	3,164	12	10	11	4.2	(14.3)	5.9	9.5	11.1	10.4	5.8	6.8	6.3	1.4	1.3	1.3	15.3	12.4	12.5	4.8	4.8	4.8	6.0
Tata Steel	ADD	625	660	5.6	717	9.9	1,205	76	85	94	12.8	12.1	10.9	8.2	7	6.6	6.1	6.4	6.1	1.1	1.0	0.9	14.3	14.3	14.4	1.6	1.6	1.6	73.0
Vedanta	BUY	230	370	60.6	857	11.8	3,717	32	39	38	49.1	19.7	(0.7)	7.2	6.0	6.0	4.7	3.9	3.5	1.2	1.1	1.0	18.0	19.4	17.2	4.2	5.0	5.0	45.8
<b>Metals &amp; Mining</b>	<b>Attractive</b>				<b>6,784</b>	<b>94</b>					<b>39.9</b>	<b>6.7</b>	<b>7.8</b>	<b>10.3</b>	<b>9.6</b>	<b>8.9</b>	<b>6.4</b>	<b>6.0</b>	<b>5.5</b>	<b>1.8</b>	<b>1.7</b>	<b>1.5</b>	<b>17.9</b>	<b>17.5</b>	<b>17.1</b>	<b>3.6</b>	<b>4.2</b>	<b>4.2</b>	<b>259.2</b>
<b>Pharmaceutical</b>																													
Apollo Hospitals	ADD	1,044	1,090	4.4	145	2.0	139	20	27	33	133.5	36.7	21.6	53.0	38.8	31.9	18.7	15.8	13.8	4.2	3.9	3.6	8.2	10.5	11.8	0.5	0.6	0.8	15.1
Aster DM Healthcare	BUY	163	240	47.7	82	1.1	505	5	8	12	74.4	62.0	51.4	33.8	20.9	13.8	12.2	9.6	7.5	2.7	2.4	2.1	8.3	12.2	16.3	—	—	—	0.2
Aurobindo Pharma	ADD	763	760	(0.4)	447	6.2	584	42	57	64	1.0	35.8	12.3	18.1	13.3	11.9	12.1	9.0	8.0	3.2	2.6	2.2	19.3	19.9	18.6	0.7	0.8	1.0	37.6
Biocon	SELL	677	330	(51.2)	406	5.6	601	8	15	18	35.9	75.7	21.7	80.4	45.7	37.6	35.0	23.4	19.9	6.7	6.0	5.4	8.7	13.9	14.3	0.4	0.8	0.9	22.0
Cipla	BUY	653	680	4.1	526	7.3	805	24	31	40	34.5	31.0	29.4	27.7	21.2	16.4	15.6	12.4	9.7	3.3	2.9	2.6	12.4	14.6	15.7	0.7	1.0	1.3	24.7
Dr Lal Pathlabs	REDUCE	935	900	(3.7)	78	1.1	83	24	29	34	19.0	17.9	18.4	38.4	32.6	27.5	23.5	19.6	16.0	8.2	6.9	5.8	23.4	23.1	22.9	0.5	0.6	0.7	1.3
Dr Reddy's Laboratories	REDUCE	2,556	2,150	(15.9)	424	5.9	166	89	118	141	50.2	32.8	19.3	28.8	21.7	18.2	14.5	10.4	8.6	3.1	2.7	2.4	11.1	12.6	13.3	0.5	0.7	0.8	35.7
HCG	REDUCE	235	290	23.3	21	0.3	85	2	4	7	39.8	80.3	80.8	107.6	59.7	33.0	17.5	14.5	11.1	3.7	3.5	3.2	3.5	6.1	10.1	—	—	—	0.2
Laurus Labs	ADD	430	500	16.2	46	0.6	106	16	29	34	2.4	79.9	17.5	26.5	14.7	12.5	12.3	8.5	7.5	2.7	2.3	2.0	10.9	17.1	15.6	—	—	—	0.7
Lupin	REDUCE	890	800	(10.1)	403	5.6	450	27	39	50	(28.9)	44.0	27.4	32.8	22.8	17.9	15.4	11.1	9.0	2.7	2.5	2.2	8.6	11.4	12.4	0.5	0.7	0.8	46.3
Narayana Hrudayalaya	ADD	248	265	6.7	51	0.7	204	3	6	9	23.0	103.2	40.7	80.3	39.5	28.1	22.8	15.9	12.8	4.6	4.1	3.6	5.9	11.0	13.7	—	—	—	0.1
Sun Pharmaceuticals	SELL	635	540	(14.9)	1,523	21.0	2,406	16	24	29	7.5	45.5	21.6	38.9	26.8	22.0	21.0	15.2	12.6	3.7	3.3	2.9	9.8	12.9	13.2	0.5	0.7	0.9	62.8
Torrent Pharmaceuticals	NR	1,730	—	—	293	4.0	169	47	61	81	18.0	29.6	32.1	36.6	28.2	21.4	15.9	13.7	11.3	5.6	4.8	4.1	15.3	17.2	19.3	0.6	0.8	1.1	7.8
<b>Pharmaceuticals</b>	<b>Neutral</b>				<b>4,444</b>	<b>61</b>					<b>11.3</b>	<b>40.7</b>	<b>22.6</b>	<b>33.5</b>	<b>23.8</b>	<b>19.4</b>	<b>17.3</b>	<b>12.8</b>	<b>10.7</b>	<b>3.6</b>	<b>3.2</b>	<b>2.8</b>	<b>10.9</b>	<b>13.5</b>	<b>14.6</b>	<b>0.5</b>	<b>0.7</b>	<b>0.9</b>	<b>254.5</b>
<b>Real Estate</b>																													
Brigade Enterprises	BUY	199	290	45.9	27	0.4	136	9	15	17	(17.0)	59.2	15.8	21.6	13.6	11.7	13.3	10.4	8.3	1.1	1.1	1.0	5.4	8.1	8.8	1.3	1.3	1.3	0.3
DLF	RS	200	—	—	356	4.9	1,784	5.3	23.9	14.1	(87.2)	354.6	(41.0)	38.0	8.4	14.2	53.3	9.3	17.5	1.0	0.9	0.9	2.6	11.3	6.2	1.0	1.0	1.0	17.9
Godrej Properties	SELL	575	400	(30.4)	132	1.8	216	13.3	15.8	18.2	(38.9)	19.1	15.2	43.4	36.4	31.6	259.9	136.2	111.9	3.7	3.4	3.0	10.5	9.7	10.1	—	—	—	1.4
Oberoi Realty	BUY	432	560	29.7	157	2.2	340	62	44	66	385.4	(28.0)	49.3	7.0	9.7	6.5	9.7	12.1	5.2	1.6	1.4	1.1	27.4	15.2	19.2	0.5	0.5	0.5	2.3
Prestige Estates Projects	ADD	227	315	38.6	85	1.2	375	19	21	11	(24.2)	8.4	—	12.0	11.0	21.3	10.2	10.3	13.8	0.8	0.8	—	14.6	14.9	7.3	1.3	1.3	0.7	0.8
Sobha	REDUCE	418	510	22.1	40	0.5	95	23	36	24	(48.8)	51.7	(32.6)	17.8	11.7	17.4	11.0	8.7	10.8	1.8	1.6	1.5	9.0	14.8	9.1	1.7	1.7	1.7	1.7
Sunteck Realty	REDUCE	465	360	(22.6)	68	0.9	140	19	19	39	22.4	1.6	106.6	24.9	24.5	11.8	20.8	20.1	8.8	2.3	2.1	1.8	9.5	8.9	16.2	0.2	0.2	0.2	2.0
<b>Real Estate</b>	<b>Neutral</b>				<b>865</b>	<b>12</b>					<b>(53.1)</b>	<b>65.1</b>	<b>(14.4)</b>	<b>18.5</b>	<b>11.2</b>	<b>13.1</b>	<b>19.5</b>	<b>11.6</b>	<b>12.8</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>7.1</b>	<b>10.6</b>	<b>9.0</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>	<b>26.3</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		21-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E		
<b>Technology</b>																													
HCL Technologies	REDUCE	1,085	1,100	1.4	1,511	20.9	1,409	71	78	82	14.6	8.9	5.0	15.2	14.0	13.3	9.9	8.8	8.1	3.4	2.9	2.6	24.4	22.3	20.6	0.8	2.8	3.0	35.7
Hexaware Technologies	SELL	444	455	2.4	132	1.8	302	20	24	27	19.5	21.6	12.7	22.5	18.5	16.4	16.7	12.6	11.0	5.8	4.9	4.2	27.6	28.7	27.5	1.8	1.8	2.2	23.1
Infosys	ADD	705	770	9.2	3,081	42.6	4,350	36	41	45	12.8	13.3	8.9	19.3	17.1	15.7	13.2	11.5	10.3	4.4	3.9	3.5	23.4	24.2	23.7	3.1	2.8	3.0	87.1
L&T Infotech	ADD	1,857	2,100	13.1	321	4.4	175	83	96	113	30.5	15.6	18.1	22.4	19.4	16.4	17.0	13.6	11.5	6.8	5.5	4.5	33.5	31.3	30.0	1.3	1.4	1.6	9.0
Mindtree	ADD	1,086	1,225	12.8	178	2.5	165	45	57	65	29.5	27.0	14.5	24.3	19.1	16.7	15.4	12.1	10.4	5.6	4.7	4.0	24.7	26.6	25.8	1.2	1.6	1.8	26.7
Mphasis	SELL	1,188	900	(24.2)	230	3.2	193	53	60	63	21.9	12.1	4.7	22.2	19.8	18.9	16.4	13.9	12.9	4.4	3.9	3.6	18.9	21.0	20.0	1.7	2.1	2.5	6.8
TCS	REDUCE	2,103	1,950	(7.3)	8,052	111.2	3,829	84	94	101	24.9	11.7	7.4	25.0	22.3	20.8	18.3	16.4	15.3	8.1	7.9	7.8	34.3	35.6	37.7	2.0	3.6	3.8	84.9
Tech Mahindra	ADD	738	865	17.2	651	9.0	891	46	57	64	8.4	22.4	13.0	16.0	13.0	11.5	9.5	7.5	6.4	3.0	2.6	2.2	20.2	21.2	20.3	1.3	1.4	1.5	40.0
Wipro	REDUCE	335	325	(3.0)	1,516	20.9	4,507	19	23	25	12.8	19.5	7.5	17.5	14.7	13.7	11.4	9.6	8.8	2.7	2.5	2.3	16.5	17.6	17.4	0.4	3.0	3.3	18.8
<b>Technology</b>	<b>Cautious</b>				<b>15,673</b>	<b>216</b>					<b>15.6</b>	<b>13.0</b>	<b>8.1</b>	<b>21.2</b>	<b>18.7</b>	<b>17.3</b>	<b>14.6</b>	<b>12.8</b>	<b>11.7</b>	<b>5.1</b>	<b>4.7</b>	<b>4.3</b>	<b>24.2</b>	<b>25.1</b>	<b>24.9</b>	<b>1.9</b>	<b>3.1</b>	<b>3.3</b>	<b>332.1</b>
<b>Telecom</b>																													
Bharti Airtel	ADD	371	445	20.1	1,481	20.5	3,997	(6)	(4)	5	(221.5)	28.8	215.1	(64.4)	(90.5)	78.7	9.7	8.1	6.5	2.2	2.3	2.3	(3.4)	(2.5)	2.9	0.3	(0.2)	0.3	24.0
Bharti Infratel	REDUCE	281	285	1.4	520	7.2	1,850	13	12	13	(4.8)	(8.5)	7.7	21.5	23.5	21.8	8.0	8.4	8.0	3.2	3.2	3.2	14.6	13.7	14.6	3.8	3.4	3.7	10.5
IDEA	REDUCE	45	45	(1.0)	397	5.5	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(2.7)	(2.6)	(3.0)	42.5	35.5	21.7	0.9	1.4	2.5	(29.7)	(41.1)	(59.4)	—	—	—	16.2
Tata Communications	ADD	500	660	32.1	142	2.0	285	0	3	7	(77.5)	694.2	123.5	1,349	169.8	76.0	10.3	9.0	8.1	(62.1)	(84.3)	(1,633.0)	7.8	(42.1)	(211.0)	1.3	1.5	1.5	3.2
<b>Telecom</b>	<b>Cautious</b>				<b>2,541</b>	<b>35</b>					<b>(2,384.5)</b>	<b>5.0</b>	<b>68.0</b>	<b>(35.4)</b>	<b>(37.2)</b>	<b>(116.4)</b>	<b>11.3</b>	<b>10.0</b>	<b>8.2</b>	<b>2.4</b>	<b>2.7</b>	<b>2.8</b>	<b>(6.9)</b>	<b>(7.2)</b>	<b>(2.4)</b>	<b>1.0</b>	<b>0.6</b>	<b>1.0</b>	<b>54.0</b>
<b>Utilities</b>																													
CESC	BUY	945	1,180	24.9	125	1.7	133	115	128	141	31.7	11.6	10.1	8.2	7.4	6.7	5.8	5.1	4.5	0.8	0.7	0.7	10.0	10.4	10.5	1.4	1.4	1.4	7.5
JSW Energy	REDUCE	64	70	10.0	104	1.4	1,640	5.1	6.5	6.6	65.9	26.8	2.9	12.5	9.9	9.6	5.5	4.6	4.1	0.9	0.8	0.7	7.2	8.5	8.0	—	—	—	1.2
NHPC	ADD	24	30	26.3	244	3.4	10,260	3.1	3.2	3.4	26.9	1.8	8.0	7.7	7.5	7.0	7.1	6.9	7.4	0.8	0.8	0.7	10.4	10.2	10.6	7.3	7.4	6.2	1.6
NTPC	BUY	168	190	12.9	1,387	19.2	8,245	15	16	18	30.9	4.4	16.5	11.3	10.8	9.3	9.0	8.3	7.0	1.3	1.2	1.1	11.6	11.3	12.2	2.7	2.8	3.2	12.1
Power Grid	BUY	200	250	24.8	1,048	14.5	5,232	19	21	23	19.3	13.6	7.6	10.7	9.4	8.7	7.4	6.8	6.5	1.7	1.6	1.4	17.1	17.5	17.0	3.1	3.6	3.8	14.9
Tata Power	BUY	73	90	23.5	197	2.7	2,705	6.0	7.0	10.9	12.7	15.6	57.0	12.1	10.5	6.7	10.7	10.2	8.9	1.2	1.1	0.9	10.1	10.6	14.6	—	—	—	4.5
<b>Utilities</b>	<b>Attractive</b>				<b>3,106</b>	<b>43</b>					<b>26.0</b>	<b>8.8</b>	<b>14.1</b>	<b>10.6</b>	<b>9.7</b>	<b>8.5</b>	<b>8.0</b>	<b>7.4</b>	<b>6.7</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>11.9</b>	<b>12.0</b>	<b>12.5</b>	<b>2.9</b>	<b>3.1</b>	<b>3.3</b>	<b>41.9</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

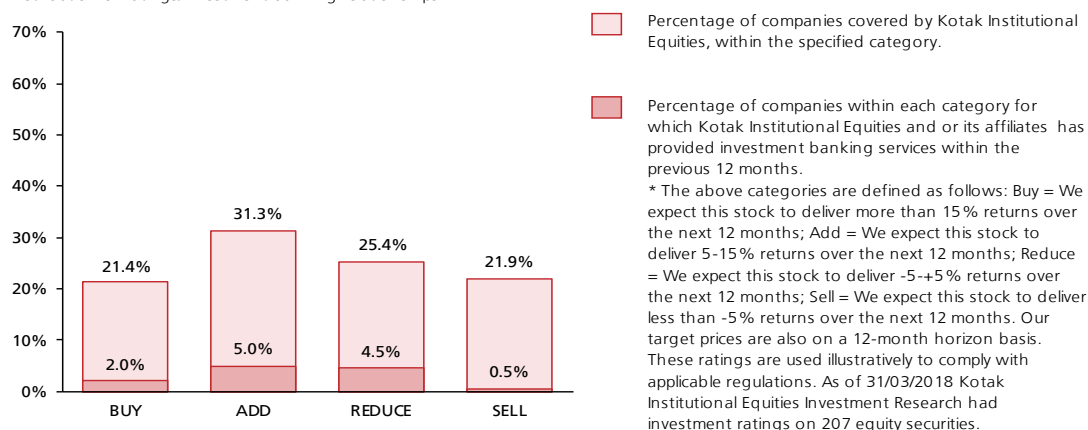
Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		21-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
<b>Others</b>																													
Aditya Birla Fashion and Retail	BUY	183	220	20.3	141	1.9	773	2	4	6	50.6	59.1	53.5	79.7	50.1	32.6	23.4	18.3	14.8	11.1	9.1	7.1	15.0	20.0	24.5	—	—	—	4.8
Astral Poly Technk	SELL	1,072	640	(40.3)	128	1.8	120	19	25	29	30.2	28.8	16.1	56.2	43.6	37.6	30.2	24.0	20.3	9.9	8.1	6.8	19.8	20.5	19.7	0.1	0.1	0.1	0.9
Avenue Supermarts	SELL	1,502	860	(42.7)	937	12.9	624	16	20	26	28.6	26.4	27.5	92.9	73.5	57.6	53.6	42.1	33.1	16.6	13.5	11.0	19.6	20.3	21.0	—	—	—	—
Bayer Cropscience	REDUCE	4,221	4,100	(2.9)	167	2.3	34	106	130	154	20.5	23.1	18.3	40.0	32.5	27.5	29.3	23.9	19.9	7.0	6.0	5.2	18.9	20.0	20.3	0.5	0.6	0.7	0.5
Crompton Greaves Consumer	SELL	231	215	(6.9)	145	2.0	627	6	7	9	19.5	20.7	17.4	37.4	31.0	26.4	23.3	19.7	16.6	12.8	9.8	7.5	40.4	35.8	32.3	0.9	1.1	—	2.4
Dhanuka Agritech	ADD	471	650	38.0	23	0.3	49	27	31	34	3.9	15.4	10.8	17.6	15.3	13.8	12.7	10.4	9.0	3.2	2.7	2.4	19.2	19.2	18.5	1.2	1.4	1.6	0.2
Godrej Agrovet	ADD	530	640	20.8	102	1.4	189	15	19	23	28.9	28.8	21.1	35.7	27.7	22.9	19.4	15.2	12.6	5.2	4.5	3.8	15.7	17.4	17.9	—	1—	0.7	0.9
Godrej Industries	RS	547	—	—	184	2.5	336	16	20	—	8.9	24.2	—	34.5	27.8	—	29.0	31.5	—	4.5	3.9	—	13.9	15.1	—	0.3	0.3	—	4.3
Havells India	SELL	635	485	(23.6)	397	5.5	625	14	17	20	26.6	20.5	17.6	45.3	37.6	32.0	29.0	23.6	19.8	9.4	8.2	7.1	22.0	23.2	23.9	0.8	0.9	1.1	14.1
InterGlobe Aviation	BUY	897	1,220	36.0	345	4.8	383	50	83	99	(17.9)	65.3	19.5	18.0	10.9	9.1	9.7	5.5	4.4	3.9	3.0	2.3	24.1	31.1	28.6	0.5	0.9	1.1	20.4
Kaveri Seed	SELL	599	515	(14.1)	40	0.5	66	34	34	37	7.3	0.1	8.3	17.5	17.4	16.1	14.6	13.9	12.4	4.2	3.6	3.2	26.4	22.4	21.0	1.3	1.7	1.7	4.7
PI Industries	BUY	763	875	14.8	105	1.5	138	31	40	48	17.9	26.8	21.5	24.3	19.2	15.8	17.3	13.5	10.9	4.6	3.8	3.2	20.5	21.7	21.9	0.5	0.6	0.8	2.1
Rallis India	ADD	185	220	18.8	36	0.5	195	10	12	13	17.2	19.4	9.7	18.3	15.4	14.0	12.1	10.2	9.0	2.8	2.5	2.3	15.8	17.1	16.9	2.0	2.2	2.4	0.8
SIS	REDUCE	974	1,130	16.0	71	1.0	73	33	40	48	48.5	21.1	17.8	29.2	24.1	20.5	18.3	15.3	12.8	5.8	4.8	4.0	21.8	21.7	21.1	0.3	0.4	0.4	0.6
SRF	BUY	1,932	2,200	13.9	111	1.5	57	100	132	150	23.8	32.2	14.1	19.4	14.7	12.9	11.3	9.0	7.6	2.7	2.4	2.0	15.0	17.3	17.0	0.7	0.8	0.8	12.7
Tata Chemicals	ADD	737	760	3.2	188	2.6	255	44	51	56	(15.3)	14.6	11.5	16.7	14.6	13.1	7.0	5.8	5.0	1.5	1.5	1.4	9.7	10.3	10.8	2.0	2.3	2.3	7.0
TCNS Clothing Co.	BUY	640	760	18.7	39	0.5	64	18	23	27	15.6	28.2	20.8	36.1	28.1	23.3	19.4	14.6	11.6	7.2	5.6	4.3	22.7	22.2	20.9	—	—	—	—
TeamLease Services	SELL	2,546	1,785	(29.9)	44	0.6	17	58	75	96	34.2	29.0	28.7	44.0	34.1	26.5	44.5	33.8	26.0	8.1	6.5	5.2	20.1	21.1	21.9	—	—	—	1.2
UPL	ADD	666	660	(0.9)	339	4.7	507	49	55	60	14.0	12.1	9.6	13.6	12.1	11.1	9.2	7.8	6.7	3.0	2.5	2.1	24.6	22.9	21.1	1.5	1.7	1.8	29.1
Vardhman Textiles	ADD	1,007	1,300	29.1	58	0.8	56	118	130	142	14.8	9.7	9.8	8.5	7.8	7.1	6.5	6.0	5.3	1.1	1.0	0.9	13.1	13.0	13.0	2.0	3.0	3.0	0.6
Volta	SELL	563	530	(5.8)	186	2.6	331	17	21	25	0.4	18.8	18.9	32.4	27.3	23.0	24.2	19.8	16.5	4.3	3.8	3.4	13.9	14.8	15.7	0.6	0.7	0.9	12.6
Whirlpool	SELL	1,495	1,350	(9.7)	190	2.6	127	37	46	56	33.9	24.7	20.2	40.4	32.4	26.9	24.5	19.3	15.8	8.8	7.3	6.2	23.7	24.5	24.8	—	0.6	1.1	1.4
<b>Others</b>					3,976		55				8.3	26.4	12.5	30.3	24.0	21.3	18.4	14.6	11.8	5.1	4.4	3.9	17.0	18.3	18.5	0.6	0.7	0.8	121.4
<b>KIE universe</b>					111,363		1,538				24.3	27.3	14.2	21.7	17.0	14.9	11.1	9.8	8.8	2.8	2.5	2.3	12.8	14.8	15.2	1.4	1.7	1.9	
<b>KIE universe (ex-energy)</b>					97,105		1,341				30.0	33.3	16.3	24.1	18.1	15.5	12.2	10.7	9.5	3.1	2.8	2.5	12.8	15.4	16.1	1.3	1.7	1.8	

Notes:  
(a) We have used adjusted book values for banking companies.  
(b) 2019 means calendar year 2018, similarly for 2020 and 2021 for these particular companies.  
(c) Exchange rate (Rs/US\$)= 72.40

Source: Company, Bloomberg, Kotak Institutional Equities estimates

**Kotak Institutional Equities Research coverage universe**

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2018

**Ratings and other definitions/identifiers**

**Definitions of ratings**

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

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

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

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

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

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