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EQUITY MARKETS

India	Change %			
	24-Aug	1-day	1-mo	3-mo
Sensex	38,252	(0.2)	2.5	9.5
Nifty	11,557	(0.2)	2.5	9.0
Global/Regional indices				
Dow Jones	25,790	0.5	1.3	4.2
Nasdaq Composite	7,946	0.9	2.7	6.9
FTSE	7,577	0.2	(1.6)	(2.0)
Nikkei	22,759	0.7	0.2	1.4
Hang Seng	28,016	1.2	(2.7)	(8.4)
KOSPI	2,296	0.1	0.0	(6.7)
Value traded – India				
Cash (NSE+BSE)	370		368	337
Derivatives (NSE)	7,198		8,742	15,248
Deri. open interest	4,271		4,051	4,408

Forex/money market

	Change, basis points			
	24-Aug	1-day	1-mo	3-mo
Rs/US\$	69.9	9	121	243
10yr govt bond, %	8.1	1	2	2

Net investment (US\$ mn)

	23-Aug	MTD	CYTD
FIs	59	170	(244)
MFs	5	358	11,504

Top movers

Best performers	Change, %			
	24-Aug	1-day	1-mo	3-mo
RIL IN Equity	1,278	0.6	13.1	38.7
SUNP IN Equity	630	(1.5)	13.1	35.0
RCOM IN Equity	19	1.3	36.4	33.6
DABUR IN Equity	475	(1.8)	23.1	27.2
DRRD IN Equity	2,447	(0.7)	17.5	24.4
Worst performers				
JPA IN Equity	12	(7.0)	(20.0)	(25.5)
TTMT/A IN Equity	139	(0.9)	(6.7)	(19.2)
JSP IN Equity	202	1.0	(0.7)	(14.1)
TTMT IN Equity	256	(0.5)	(4.7)	(13.1)
UT IN Equity	4	(1.2)	(3.6)	(13.0)

AUGUST 27, 2018

RESULT, CHANGE IN RECO.

Coverage view: **Neutral**

Price (₹): 572

Target price (₹): 610

BSE-30: 38,252

Weak results. LICHF reported 11% yoy growth in PBT before provisions (under Ind-AS) on the back of 15% loan growth (13% in retail loans), 17 bps NIM compression to 2.37% leading to 8% growth in NII. A decline in provisions, despite a significant rise in stage 3 loans led to 18% PAT growth. While business trends in 1Q were weak, we retain our assertive medium-term view on mortgages. We downgrade our rating to ADD from BUY post the sharp rally; TP of Rs610 remains unchanged.

Company data and valuation summary

LIC Housing Finance

Stock data				Forecasts/Valuations				
				2018	2019E	2020E		
52-week range (Rs) (high,low)		690-455		EPS (Rs)	43.6	49.8	57.9	
Market Cap. (Rs bn)		288.4		EPS growth (%)	3.2	14.1	16.2	
Shareholding pattern (%)				P/E (X)	13.1	11.5	9.9	
Promoters		40.3		NII (Rs bn)	38.1	43.0	50.0	
FIs		39.1		Net profits (Rs bn)	22.0	25.1	29.2	
MFs		3.9		BVPS	262.8	308.8	356.3	
Price performance (%)				P/B (X)	2.2	1.9	1.6	
Absolute		1M	3M	12M	ROE (%)	14.5	17.4	16.9
Rel. to BSE-30		6.3	21.3	(13.1)	Div. Yield (%)	1.2	1.4	1.6
		2.4	10.0	(28.3)				

Weak on multiple counts

LIC Housing Finance's results were weak on multiple counts viz. (1) YoY NIM compression on the back of reprising on loan yields (reported loan yields down 39 bps to 10.2%, funding cost was down 21 bps yoy as well), (2) moderate disbursement growth of 5% in the retail business (with 9% growth in home loans and 12% decline in LAP) and (3) yoy rise in NPLs/stage 3 loans to 1.21% of total loans from 0.72% yoy, largely in the retail business.

Assertive on growth; NPL trends is a monitorable

LICHF's 1QFY19 results were disappointing but we would be a bit more patient by maintaining our NII growth forecasts due to (1) rise in home loan rates in recent months which will provide some comfort on NIM even as cost of funding will move up, (2) our view that bonds yields will be range bound and (2) gradual improvement in mortgage volumes over the medium-term as impact of RERA/GST wanes off.

NPL rise is a key monitorable. Rise in stage 3 loans/NPLs over the last four quarters is the key monitorable. LICHF reported stage 3 loans at 1.21% as compared to 0.72% in 1QFY18. While GNPLs are not strictly comparable with stage 3 loans as the latter includes interest reversals, a qoq rise in retail stage 3 loans/GNPLs was 95% in 1QFY19. This is in line with seasonal trends-retail GNPL have increased by 60-114% qoq between 4Q and 1Q during the last four years. However, GNPLs typically reduce during 2Q-4Q which was not the case last year indicating stress in the business/sector. Interestingly, a qoq rise in 1QFY19 (95%) was lower than 114% in 1QFY18. This is a likely reason for the yoy decline in provisions.

Retain assertive outlook; downgrade to ADD post sharp rally

We are tweaking our estimates to comply with Ind-AS norms. We continue to build in 13% NII growth (higher than 8% in 1QFY19) as (1) we retain our positive outlook on mortgages and expect growth to inch up and (2) rising home loan rates to partially offset the rise in funding costs. With a stable pre-tax RoA of 1.9% and lower tax rates (no DTL provisions under Ind-AS), we expect the company to deliver about 16% earnings CAGR during FY2018-20E and 17% medium-term RoE. The stock has appreciated by 20% since our upgrade; we hence revise our rating to ADD from BUY as we keep our RGM-based TP unchanged at Rs610 (1.7X FY2020E book).

QUICK NUMBERS

- PAT up 18% yoy
- AUM increased 15% yoy; disbursements up 10% yoy
- GNPL up 50 bps yoy to 1.2%; individual GNPL up 40 bps yoy to 0.8%

Nischint Chawathe

M B Mahesh CFA

Dipanjn Ghosh

Exhibit 1: LIC Housing Finance – quarterly results

Quarterly data, 1QFY18 - 1QFY19 (Rs mn)

	Ind-AS	IGAAP	Ind-AS	IGAAP	(% chg.)			Ind-AS	IGAAP	Ind-AS	
	1QFY19	1QFY19E	1QFY18	4QFY18	1QFY19	1QFY18	4QFY18	2019E	2018	(% chg.)	2020E
Operating income	40,510	39,675	36,482	39,341	2	11	3	177,600	150,729	18	208,257
Interest on loans	40,050	39,150	36,176	38,467	2	11	4	175,096	148,260	18	205,592
Fees and other charges	140	275	93	542	(49)	51	(74)	1,604	1,337	20	1,765
Other income	320	250	214	332	28	50	(4)	900	1,133	(21)	900
Interest expenses	30,249	29,000	26,982	28,431	4	12	6	132,714	111,246	19	155,795
Net operating income	10,260	10,675	9,500	10,911	(4)	8	(6)	44,887	39,483	14	52,462
Total fund based income	40,370	39,400	36,390	38,799	2	11	4	175,996	149,392	18	206,492
Net interest income	9,800	10,150	9,194	10,036	(3)	7	(2)	42,383	37,013	15	49,797
Other exp.	2,350	1,975	2,930	2,497	19	(20)	(6)	9,935	8,764	13	11,416
Establishment exp.	270	900	356	1,584	(70)	(24)	(83)	4,830	4,200	15	5,554
Staff expenses	473	575	534	631	(18)	(11)	(25)	2,393	2,175	10	2,680
Provisions	1,608	500	2,040	281	222	(21)	471	2,712	2,389	14	3,182
PBDT	7,910	8,700	6,570	8,414	(9)	20	(6)	34,952	30,719	14	41,046
Depreciation	26	25	25	27	5	7	(1)	110	100	10	120
PBT	7,884	8,675	6,546	8,387	(9)	20	(6)	34,842	30,619	14	40,926
Tax	2,205	2,950	1,749	2,994	(25)	26	(26)	12,195	10,723	14	14,324
PAT	5,679	5,726	4,797	5,393	(1)	18	5	22,647	19,896	14	26,602
Tax rate (%)	28	34	27	36	-604 bps	124 bps	-774 bps	35	35	-2 bps	35
PBT excl. extraordinary item+provisions	9,492	9,175	8,586	8,669	3	11	9	37,554	33,008	14	44,108
EPS before DTL/ normalised (Rs)	11	13	9	12	(15)	26	(8)	50	44	14	58
Business growth											
Disbursements (Rs bn)	96		87	174		10	(45)	590	494	19	708
Retail home loan	73		67	111		9	(34)		354		
LAP/non-core	14		16	41		(10)	(64)		98		
Developer/others	9		4	23		115	(61)		43		
Outstanding portfolio (Rs bn)	1,687	1,691	1,471	1,664	(0)	15	1	1,953	1,664	17	2,290
Individual housing loans	1,332		1,225	1,344		9	(1)		1,344		
LAP, LRD and & non--core	270		190	238		42	13		238		
Developer	84		56	82		51	3		82		
Key calculated ratios (%)											
Yield on advances	9.6		9.9	9.5	-36 bps	2 bps		9.7	9.5	15 bps	9.7
Cost of borrowings	8.3		8.4	8.0	-19 bps	22 bps		8.4	8.2	23 bps	8.5
Spread	1.3		1.5	1.5	-17 bps	-20 bps		1.3	1.3	-8 bps	1.2
NIM	2.34	2.42	2.52	2.49	-18 bps	-15 bps		2.34	2.38	-4 bps	2.35
Cost-to-income	7.5		9.6	20.5	-214 bps	-1306 bps		16.3	16.4	-6 bps	15.9
Cost-to-average AUM	0.2		0.3	0.6	-7 bps	-37 bps		0.4	0.4	-1 bps	0.4
Asset quality											
Gross NPLs (Rs mn)	20,407		10,588	13,040		93	56	14,996	13,040	15	16,496
Gross NPL ratio (%)	1.2		0.7	0.8	49 bps	43 bps		0.8	0.8	-1 bps	0.7
Net NPLs (Rs mn)	13,883		5,651	7,189		146	93	7,807	5,851	33	7,711
Net NPL ratio (%)	0.8		0.4	0.4	44 bps	39 bps		0.4	0.4	-1 bps	0.4
PCR (%)	32.0		46.6	44.9	-1466 bps	-1290 bps		47.9	55.1	-719 bps	53.3
Repayment rate (%)	17.6		17.3	18.5	25 bps	-92 bps					
Borrowings (Rs mn)											
Net borrowings	1,477,350		1,291,630	1,453,390		14	2		1,453,390		
Banks	169,895		114,955	145,339		48	17		145,339		
NCDs	1,096,932		1,021,679	1,148,178		7	(4)		1,148,178		
Tier-II	25,115		25,833	29,068		(3)	(14)		29,068		
Deposits	69,435		67,165	72,670		3	(4)		72,670		
NHB	18,467		36,166	14,534		(49)	27		14,534		
CP and others	97,505		25,833	43,602		277	124		43,602		

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Reconciliation of profit under Ind-AS

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

Particulars	1QFY18
Net profit after tax as per previous GAAP	4,701
Adjustment on account of effective interest rate for fin	231
Adjustment on account of expected credit loss	(651)
Reversal of deferred tax liability	514
Other adjustments	2
Net profit after tax as per Ind AS	4,797

Note:

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

Source: Company, Kotak Institutional Equities

Exhibit 3: Marginal difference in 1QFY18 PAT under IGAAP and Ind-AS

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

	IGAAP	Ind-AS	YoY (%)
Interest on loans	36,088	36,176	0
Interest expenses	26,962	26,982	0
NII	9,125	9,194	1
Other income	458	307	(33)
Fees and charges	244	93	(62)
Others	214	214	0
Net operational income	9,583	9,500	(1)
Operating expenses	1,354	915	(32)
Staff expense	541	534	(1)
Establishment expense	789	356	(55)
Depreciation	25	25	(0)
PPOP	8,229	8,586	4
Provisions	1,045	2,040	95
PBT	7,185	6,546	(9)
Tax	2,484	1,749	(30)
PAT	4,701	4,797	2
Tax rate (%)	35	27	

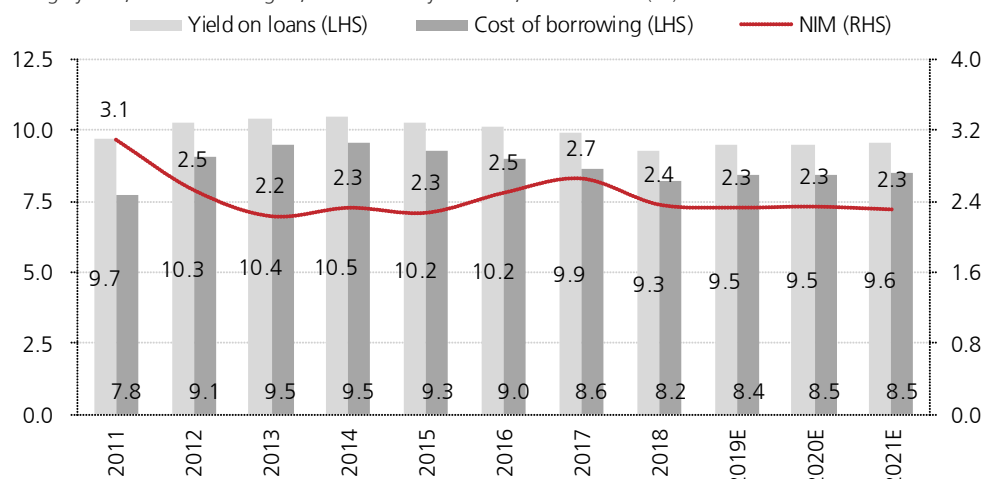
Source: Company, Kotak Institutional Equities

Calculated NIM down 18 bps yoy to 2.3%

- ▶ NIM (calculated) dropped ~18 bps yoy to 2.3% in 1QFY19 indicating pressure on asset yields. Yield on loans dropped by 36 bps yoy whereas cost of borrowings was down by 19 bps yoy in 1QFY19. The drop in yields was on the back of stiff competition in the individual home loan space leading to reprising of existing high-yield borrowers. Notably, pre-payment rates have been high in the range of 10% in the last few quarters. The drop in the cost of funds was driven by a decrease in the cost of NCDs yoy, a trend which has reversed in the last few months.
- ▶ We expect marginal NIM compressions in the near term. It would be inaccurate to compare FY2018 and FY2019E NIM due to migration to Ind-AS. Our views are broadly based on an interplay of the following factors: (1) rise in individual home loan rates leading to lower yield pressure, (2) increasing share of relatively higher-yielding developer loans in AUM mix, (3) increase in bank borrowings (most banks have increased MCLR rate and LICHF witnessed 8 bps qoq rise in weighted average cost of bank borrowings) and (4) higher cost of incremental bonds. We believe that 10-year G-sec will remain range bound at 7.9-8.1%, the weighted average cost of bonds will slowly catch-up with higher bond yields even as bond yields may not rise hereon.

Exhibit 4: Marginal NIM compression in medium term

Average yields, costs and margins, March fiscal year-ends, 2011-2021E (%)



Note:

1) Numbers post FY2018 are based on Ind-AS.

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Rise in home loan rates off-late

Retail home loan rates for loans below ₹7.5 mn

	Jan-17	Apr-17	May-17	Jul-17	Oct-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
HFCs - home loan rates														
HDFC	8.70	8.50	8.30	8.30	8.35	8.35	8.35	8.35	8.35	8.45	8.45	8.55	8.75	8.75
LIC Housing Finance	8.70	8.60	8.50	8.25	8.35	8.35	8.35	8.35	8.35	8.55	8.55	8.55	8.55	8.60
PNBHF	8.60	8.55	8.50	8.60	8.50	8.50	8.50	8.50	8.60	8.60	8.60	8.75	8.85	8.85
Banks														
ICICI Bank														
Home loan rates	8.70	8.50	8.30	8.30	8.35	8.35	8.35	8.35	8.45	8.45	8.45	8.50	8.60	8.75
Base rate / 1 year MCLR	8.20	8.20	8.20	8.20	8.20	8.20	8.20	8.20	8.30	8.30	8.30	8.40	8.40	8.40
Spread	0.50	0.30	0.10	0.10	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.10	0.20	0.35
SBI														
Home loan rates	8.65	8.65	8.30	8.30	8.35	8.35	8.35	8.35	8.40	8.40	8.40	8.50	8.50	8.50
Base rate / 1 year MCLR	8.00	8.00	8.00	8.00	8.00	7.95	7.95	7.95	8.15	8.15	8.15	8.25	8.25	8.25
Spread	0.65	0.65	0.30	0.30	0.35	0.40	0.40	0.40	0.25	0.25	0.25	0.25	0.25	0.25

Notes:

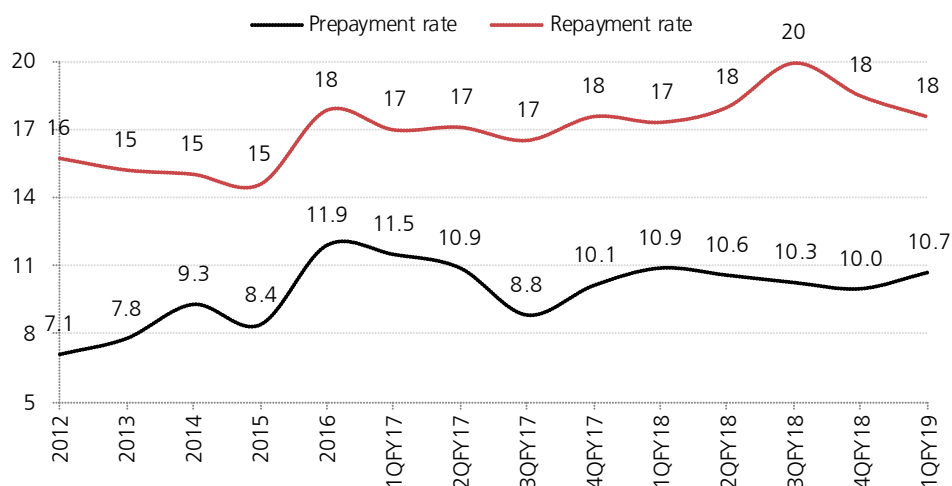
(a) For ICICI Bank and SBI base rate from April 2016 onwards refers to 1 year MCLR.

(b) Data for HDFC is for home loan rates of <₹3 mn. The home loan rate for 0.3 mn-7.5 mn is 8.6% as of April 2018 (increased from 8.45% earlier).

Source: Company, Public documents, Kotak Institutional Equities

Exhibit 6: Pre-payment rates continue to increase

Calculated repayment and pre-payment rate, March fiscal year-ends, 2012-1QFY19 (%)



Note:

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

Source: Company, Kotak Institutional Equities

Exhibit 7: Gradual rise in bank borrowings; NCDs maintain dominance at 74%

Break-up of borrowings, March fiscal year-ends, 1QFY17-1QFY19 (%)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Bank	10.80	9.40	9.20	9.10	8.90	8.76	10.00	10.00	11.50
NCD	79.60	80.60	80.70	78.60	79.10	78.82	78.00	79.00	74.25
Tier-II	2.20	2.20	2.00	2.00	2.00	1.87	2.00	2.00	1.70
Deposit	3.60	3.60	4.30	5.00	5.20	5.07	5.00	5.00	4.70
NHB	2.90	2.70	2.40	3.00	2.80	2.50	2.00	1.00	1.25
CP and others	0.90	1.50	1.40	2.30	2.00	2.98	3.00	3.00	6.60

Note:

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

Source: Company, Kotak Institutional Equities

Exhibit 8: Weighted average cost of bank borrowings increase in 1QFY19 by 8 bps qoq

Weighted average cost of borrowings, March fiscal year-ends, 1QFY17-1QFY19 (%)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Bank	9.92	9.72	9.50	8.63	8.32	8.31	8.18	8.17	8.25
NCD	8.98	8.87	8.75	8.64	8.57	8.46	8.41	8.37	8.37
Tier-II	9.18	9.19	9.18	9.18	9.18	9.18	9.18	9.18	9.18
Deposit	8.90	8.71	8.37	8.15	8.10	8.04	8.09	7.92	7.90
NHB	8.59	8.59	8.57	8.35	8.35	8.22	8.20	8.13	8.13
CP	7.90	6.88	6.83	6.63	6.50	6.37	6.44	7.41	7.53

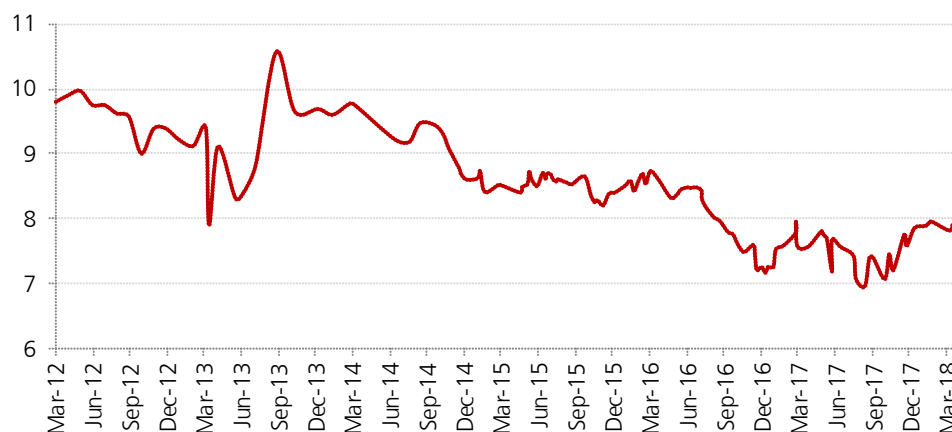
Note:

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

Source: Company

Exhibit 9: Rise in bon borrowings rates for LICHF

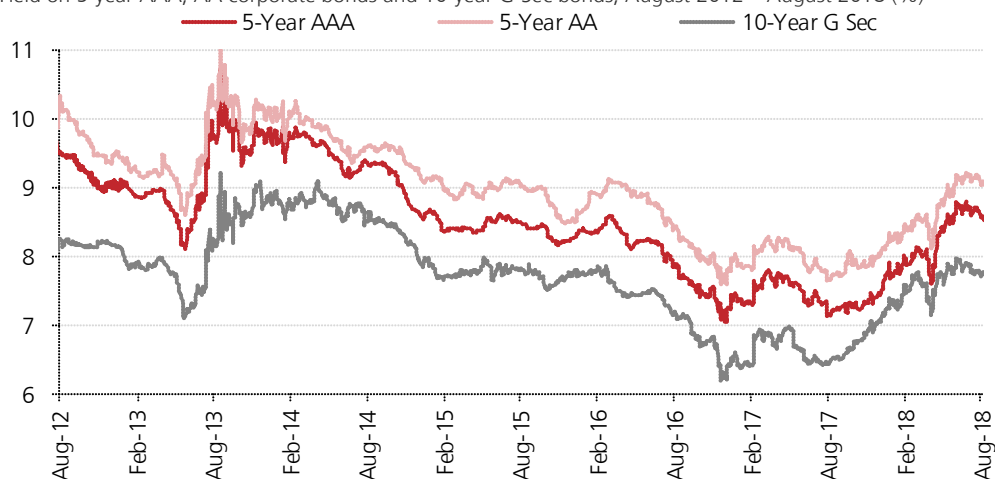
LICHF –Yields on 1-5 year bonds, March fiscal year-ends, March 2012-August 2018 (%)



Source: Prime Database

Exhibit 10: Yield on 5-year AAA rated corporate bond has increased in the last few months

Yield on 5-year AAA, AA corporate bonds and 10-year G-Sec bonds, August 2012 – August 2018 (%)



Source: Bloomberg

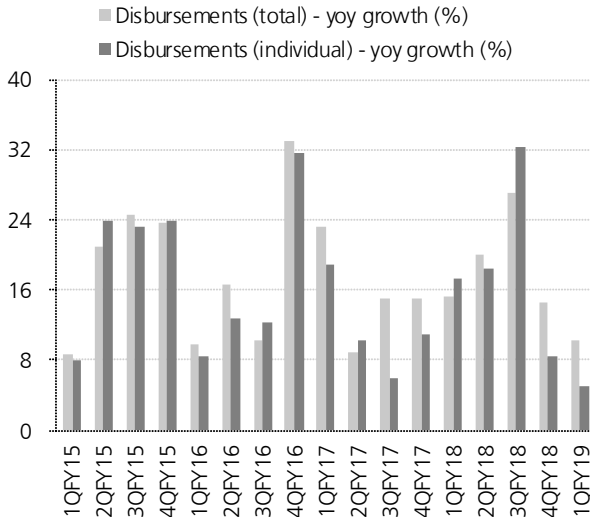
AUM up 15% yoy

- ▶ **Loan book grew by 15% yoy.** Individual home loan growth improved to 13% yoy post recording sluggish growth in the last couple of quarters. Individual disbursements were however slow at 5% yoy (base quarter was high owing to ramp up in pre GST sales volume in 1QFY18). Within this, LAP book recorded 42% yoy loan growth though disbursements in this space have slowed down. Incrementally the growth in this book is slowing down with a gradual drop in disbursement growth. Retail home loans were up 9% yoy. Developer loans witnessed maximum growth at 49% yoy on a low base; a trend similar to previous quarters. Disbursements were up 1.2X yoy (down 61% qoq). LICHF is expected to ramp up its disbursements in the developer loans business as the business environment stabilizes. LICHF has continued to rapidly expand its non-core book over the last few quarters. Share of the non-core book steadily increased to ~21% (up 180 bps qoq and 430 bps yoy) in 1QFY19 from 16.4% in FY2017, 12% in FY2016 and 7% in FY2015. Disbursement trends in 1QFY19 indicate that the share of non-core book may grow at a slower pace hereon; we await more detailed management commentary on this.

- ▶ **16.6% loan CAGR over FY2018-21E.** We forecast loan growth to improve to ~17% in medium-term as retail disbursements pick pace. We forecast retail home loans to witness modest loan CAGR at 14% over FY2018-21E. Stable real estate prices in most large cities have improved affordability. Share of non-core loans is expected to witness maximum growth at 25% CAGR over FY2018-21E thereby increasing its share by 465 bps to 23.8% by FY2021E from 19.2% in FY2018- we will revisit this if the management commentary is otherwise. Developer loans are expected to grow at 27% CAGR on a low base.

Exhibit 11: Disbursements growth was low at 10% yoy in 1QFY19

Disbursement growth, March fiscal year-ends, 1QFY15-1QFY19

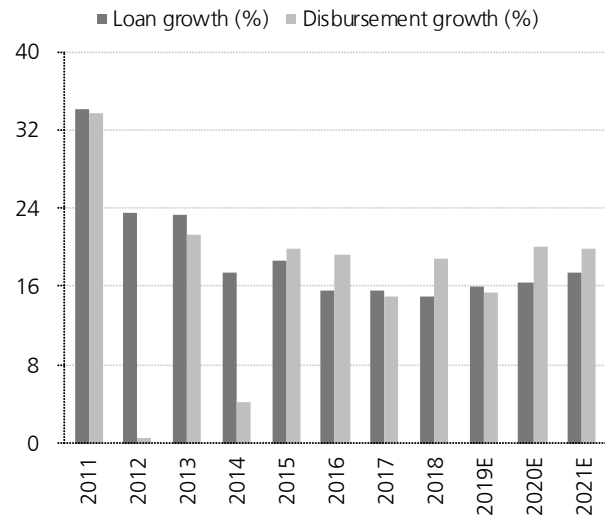


Note:
1) Numbers for 1QFY18 and 1QFY19 are based on Ind-AS.

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: We expect LICHF to report ~16% loan growth in FY2019E

Loan and disbursement growth, March fiscal year-ends, 2011-2021E



Note:
1) Numbers post FY2018 are based on Ind-AS.

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: Growth in average ticket size is higher than disbursement growth on a yoy basis

March fiscal year-end, 2011-1QFY19

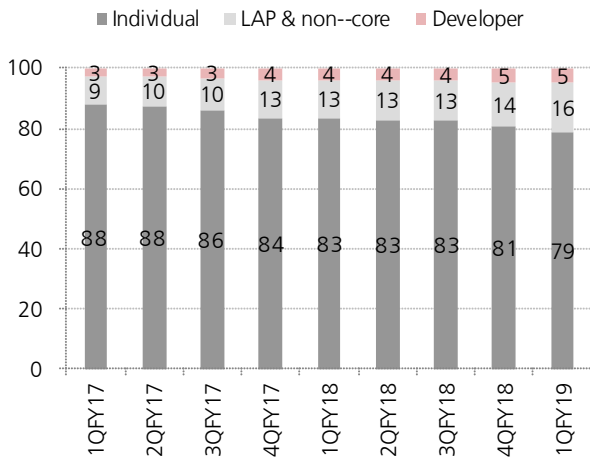
	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Ticket size (Rs mn)	1.52	1.56	1.73	1.85	1.9	2.07	2.20	2.35	2.50
Ticket size growth (%)		2.4	10.6	6.9	4.4	7.4	12.8	13.5	13.6
Disbursement (Rs bn)	199	200	243	253	303	362	416	494	96
Disbursement growth (%)		0.5	21.4	4.1	19.9	19.2	15.0	18.8	10.3

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

Source: Company, Kotak Institutional Equities

Exhibit 14: Share of non-core (LAP, developer) loans increasing gradually

Loan book break-up, March fiscal year-end, 1QFY17-1QFY19 (%)

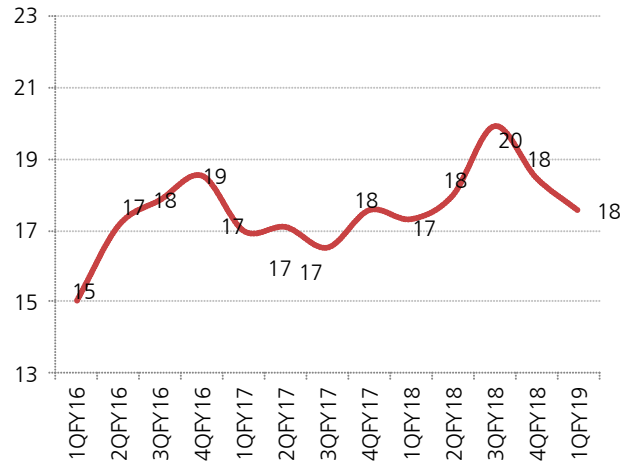


Note:
1) Numbers for 1QFY18 and 1QFY19 are based on Ind-AS.

Source: Company, Kotak Institutional Equities

Exhibit 15: Repayment rates showed reduction in 1QFY19

Repayment rates, March fiscal year-end, 1QFY17-1QFY19 (%)

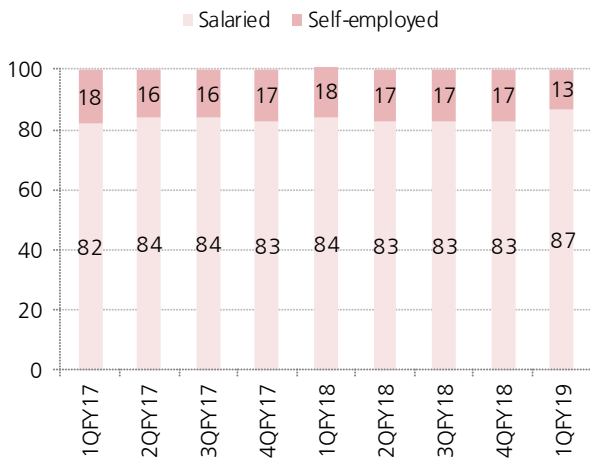


Note:
1) Numbers for 1QFY18 and 1QFY19 are based on Ind-AS.

Source: Company, Kotak Institutional Equities

Exhibit 16: Share of salaried segment increased to 87%

Loan book break-up, March fiscal year-end, 1QFY17-1QFY19 (%)

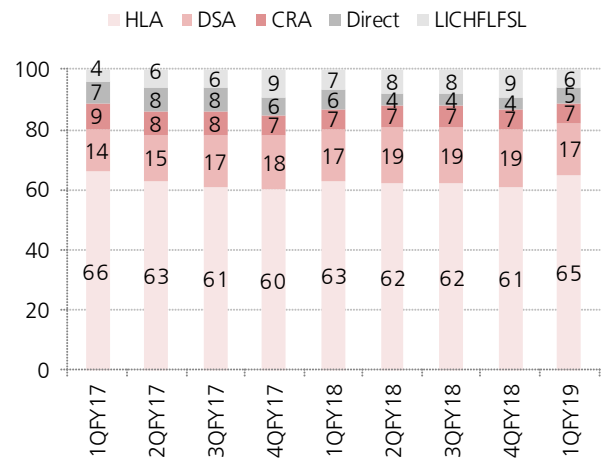


Note:
1) Numbers for 1QFY18 and 1QFY19 are based on Ind-AS.

Source: Company, Kotak Institutional Equities

Exhibit 17: Increase in HLAs in 1QFY19

Loan origination mix, March fiscal year-end, 1QFY17-1QFY19 (%)



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

Source: Company, Kotak Institutional Equities

Individual GNPL/stage 3 loans up 39 bps yoy to 0.8%

Asset quality saw deterioration in 1QFY19 with GNPL/stage 3 loans rising 49 bps yoy to 1.2%. Individual GNPL increased 39 bps yoy to 0.8% whereas developer GNPL increased ~55 bps yoy to 8.9%. Unlike seasonal trends seen in the past, the company was not able to meaningfully bring down individual GNPLs during 2HFY18 leading to 0.42% GNPL ratio in 4QFY18 (up 22 bps yoy). The rise in individual GNPL to 0.8% in 1QFY19 had the impact of a high base superimposed on a seasonal effect of a rise in GNPL in 1Q. On an absolute basis GNPL increased 95% qoq compared to 113% qoq in 1QFY18, 77% qoq in 1QFY17 and 67% qoq in 1QFY16. We expect moderation in individual GNPLs going ahead in FY2019E. Provision coverage ratio for stage 3 loans dropped to 32% from ~47% in 1QFY18. We expect asset quality to improve considerably going forward as concerns around RERA and GST wear away.

Exhibit 18: Coverage of stage-3 loans drop sharply; up 103 bps for stage 1 and 2 loans
Asset quality metrics, March fiscal year-ends, 1QFY18-1QFY19 (Rs mn)

	1QFY18	1QFY19	YoY (%)
Gross AUM break-up			
Gross stage 1	1,407,131	1,601,519	14
Gross stage 2	52,791	64,594	22
Gross stage 1 and 2	1,459,922	1,666,113	14
Gross stage 3	10,588	20,407	93
Gross AUM	1,470,510	1,686,520	15
ECL provisions			
Stage 1	1,427	18,992	1,231
Stage 2	782	740	(5)
Stage 1 and 2	2,208	19,732	794
Stage 3	4,937	6,524	32
Total ECL provisions	7,145	26,256	267
Net AUM break-up			
Net stage 1	1,405,704	1,582,527	13
Net stage 2	52,010	63,854	23
Net stage 1 and 2	1,457,714	1,646,381	13
Net stage 3	5,651	13,883	146
Net AUM	1,463,365	1,660,264	13
Coverage ratios (%)			
Stage 1	0.10	1.19	108 bps
Stage 2	1.48	1.15	-33 bps
Stage 1 and 2	0.15	1.18	103 bps
Stage 3	46.63	31.97	-1466 bps
Total coverage	0.49	1.56	107 bps

Note:

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

Source: Company, Kotak Institutional Equities

Exhibit 19: LICHF's coverage ratio is higher compared to peers

Asset quality comparison across HFCs, March fiscal year-ends, 1QFY18 (Rs mn)

	1QFY18	1QFY19	(% chg.)
Indiabulls			
Book (Rs mn)	950,000	1,259,600	33
Gross stage 3 (Rs mn)	7,600	9,800	29
Standard loans (Rs mn)	936,900	1,249,800	33
Provisions (Rs mn)			
Stage 3	1,800	2,400	33
Stage 1 and 2	2,700	3,200	19
Total ECL provisions	4,500	5,600	24
PCR (%)			
Stage 3	23.68	24.49	81 bps
Stage 1 and 2	0.29	0.26	-3 bps
Total portfolio	0.47	0.44	-3 bps
DHFL			
Book (Rs mn)	762,248	1,009,805	32
Gross stage 3 (Rs mn)	7,367	9,440	28
Standard loans (Rs mn)	754,881	1,000,365	33
Provisions (Rs mn)			
Stage 3	2,294	2,563	12
Stage 1 and 2	4,859	7,564	56
Total ECL provisions	7,153	10,127	42
PCR (%)			
Stage 3	31.14	27.15	-399 bps
Stage 1 and 2	0.64	0.76	11 bps
Total portfolio	0.94	1.00	6 bps
HDFC Limited			
Book (Rs mn)	3,165,230	3,746,040	18
Gross stage 3 (Rs mn)	82,220	138,660	69
Standard loans (Rs mn)	3,083,010	3,607,380	17
Provisions (Rs mn)			
Stage 3	23,960	38,630	61
Stage 1 and 2	5,860	5,650	(4)
Total ECL provisions	29,820	44,280	48
PCR (%)			
Stage 3	29.14	27.86	-128 bps
Stage 1 and 2	0.19	0.16	-3 bps
Total portfolio	0.94	1.18	24 bps
PNBHF			
Book (Rs mn)	440,027	639,059	45
Gross stage 3 (Rs mn)	1,871	2,766	48
Standard loans (Rs mn)	438,156	636,293	45
Provisions (Rs mn)			
Stage 3	459	679	48
Stage 1 and 2	1,129	2,616	132
Total ECL provisions	1,588	3,295	107
PCR (%)			
Stage 3	24.53	24.55	2 bps
Stage 1 and 2	0.26	0.41	15 bps
Total portfolio	0.36	0.52	15 bps
LICHF			
Book (Rs mn)	1,470,510	1,686,520	15
Gross stage 3 (Rs mn)	10,588	20,407	93
Standard loans (Rs mn)	1,459,922	1,666,113	14
Provisions (Rs mn)			
Stage 3	4,937	6,524	32
Stage 1 and 2	2,208	19,732	794
Total ECL provisions	7,145	26,256	267
PCR (%)			
Stage 3	46.63	31.97	-1466 bps
Stage 1 and 2	0.15	1.18	103 bps
Total portfolio	0.49	1.56	107 bps

Source: Company, Kotak Institutional Equities

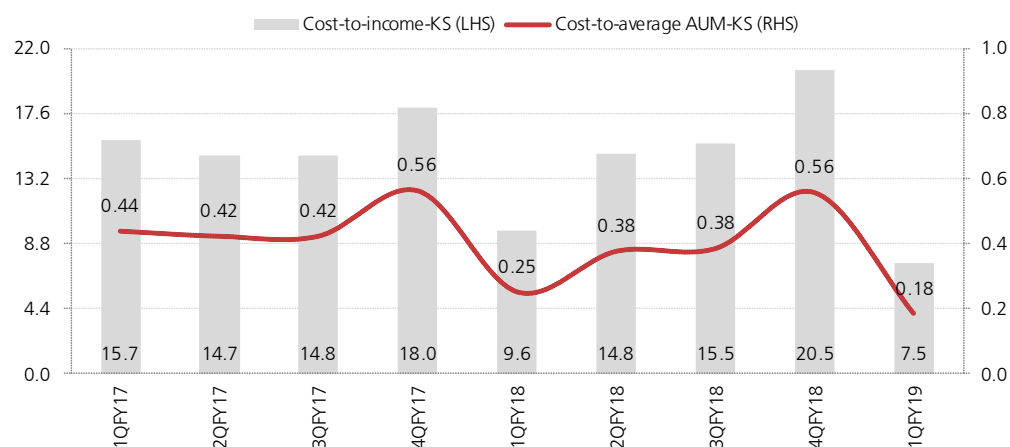
Significant improvement on cost ratios

LICHF's cost-to-income ratio dropped 210 bps yoy to 7.5% on the back of a 24% yoy drop in establishment expenses and 11% yoy drop in staff expenses. The company continued to ramp up its pan-India expansion with the addition of 24 new marketing offices in 1QFY19 as compared to four in FY2018. The total number of employees (net) dropped by 35 in 1QFY19. The sharp drop in establishment expenses on a qoq basis was on account of adjustment of business origination expenses with Nil as a result of transition to Ind-AS.

We expect further moderation in cost ratios going ahead as operating leverage kicks in. Business expansion is also expected to gradually slow down in the medium-term.

Exhibit 20: YoY improvement in cost ratios

Cost ratios, March fiscal year-ends, 1QFY17-1QFY19 (%)



Note:

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

Source: Company, Kotak Institutional Equities

Exhibit 21: Business expansion maintains pace

Offices and employees of LICHF, March fiscal year-ends, 2003-1QFY19 (%)

	2003	2008	2013	2016	2017	2018	1QFY19
Marketing offices	105	125	194	234	245	249	273
Back offices	0	14	16	16	21	23	23
Regional offices	6	6	7	7	7	9	9
Total offices	111	145	217	257	273	281	305
Employees	870	985	1,446	1,726	1,833	2,103	2,068

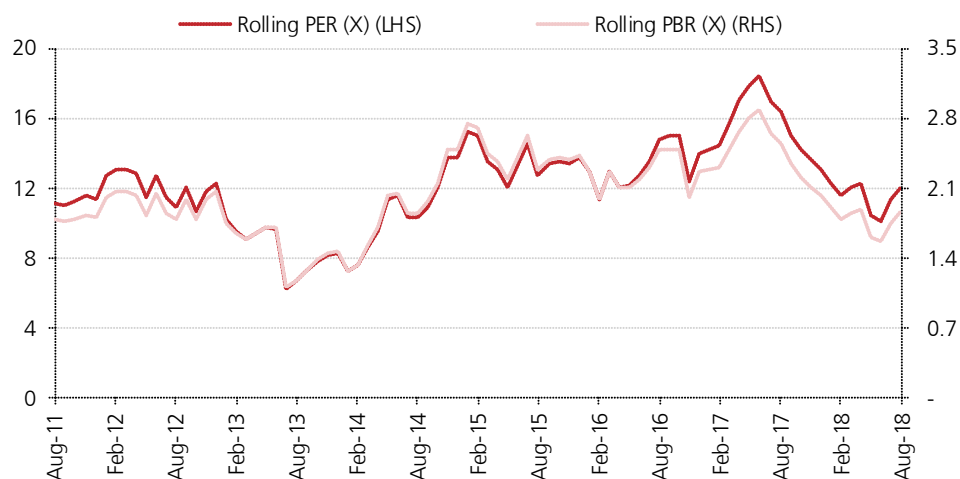
Note:

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

Source: Company, Kotak Institutional Equities

Exhibit 22: LICHF is trading at 1.7X book (one-year forward)

LICHF: Rolling PER and PBR, August 2011- August 2018 (X)



Source: Kotak Institutional Equities , Company, Bloomberg

Exhibit 23: LIC Housing Finance- old and new estimates

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

	Ind-AS			IGAAP			Old vs New (%)		
	New estimates			Old estimates					
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
NIMs(%)	2.33	2.34	2.31	2.33	2.34	2.31	0 bps	0 bps	0 bps
Loan growth (%)	16	16	17	17	17	18	-147 bps	-77 bps	-56 bps
Net interest income	42,138	49,076	56,597	42,383	49,799	57,814	(0.6)	(1.5)	(2.1)
Other income	2,504	2,665	2,859	2,504	2,665	2,859	-	-	-
Fee income	1,604	1,765	1,959	1,604	1,765	1,959	-	-	-
Other income	900	900	900	900	900	900	-	-	-
Total income	44,642	51,741	59,456	44,887	52,463	60,673	(0.5)	(1.4)	(2.0)
Loan loss provisions	2,641	3,081	3,682	2,712	3,182	3,744	(2.6)	(3.2)	(1.6)
Operating expenses	7,079	8,064	9,266	7,332	8,354	9,600	(3.5)	(3.5)	(3.5)
Employee expenses	2,349	2,631	3,026	2,393	2,680	3,082	(1.8)	(1.8)	(1.8)
Other expenses	4,729	5,433	6,240	4,939	5,674	6,517	(4.3)	(4.3)	(4.3)
PBT	34,922	40,595	46,508	34,843	40,927	47,329	0.2	(0.8)	(1.7)
Tax	9,778	11,367	13,022	9,756	11,460	13,252	0.2	(0.8)	(1.7)
PAT	25,144	29,229	33,486	22,648	26,603	30,764	11.0	9.9	8.8
PAT (before DTL/ normalised)	25,144	29,229	33,486	25,087	29,467	34,077	0.2	(0.8)	(1.7)

Source: Company, Kotak Institutional Equities

Exhibit 24: LIC Housing Finance - key growth rates and financial ratios

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

	IGAAP 2016	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Growth (%)						
Total assets	16	16	14	15	16	17
Housing loans	16	16	15	16	16	17
Total borrowings	14	12	15	16	17	18
Net income before provisions	28	23	2	13	16	15
Fee income	18	(24)	21	20	10	11
Total expenses	24	31	6	9	14	15
PBT	22	15	4	14	16	15
PAT (before DTL/normalised)	21	17	3	14	16	15
Spread calculation (%)						
Average cost of funds	9.0	8.6	8.2	8.4	8.5	8.5
Average yield on assets	10.2	9.9	9.3	9.5	9.5	9.6
Spreads	1.2	1.3	1.1	1.0	1.1	1.1
Difference on housing loan	1.5	1.7	1.3	1.3	1.2	1.2
NIM	2.5	2.7	2.4	2.3	2.3	2.3
Other ratios (%)						
Tax rate	35	35	35	28	28	28
Tax rate including DTL	44	43	44	28	28	28
Debt/equity (X)	12	11	11	10	11	11
Total expenses/assets	0.4	0.4	0.4	0.4	0.4	0.3
Total expenses/total income	15	16	16	16	16	16
Divd payout ratio	15	15	16	16	16	16
Du Pont analysis (% of average assets)						
Net interest income	2.5	2.7	2.4	2.3	2.3	2.3
Loan loss provisions and Inv pro	0.1	0.2	0.1	0.1	0.1	0.1
Net other income	0.1	0.1	0.1	0.1	0.1	0.1
Operating expenses	0.4	0.4	0.4	0.4	0.4	0.4
(1- tax rate)	56.0	56.7	56.2	72.0	72.0	72.0
RoA	1.2	1.2	1.1	1.4	1.4	1.3
Average assets/average equity (X)	14.3	13.9	13.6	12.8	12.3	12.5
RoE (%)	16.9	16.6	14.5	17.4	16.9	16.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 25: LIC Housing Finance - income statement and balance sheet

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

	IGAAP 2016	IGAAP 2017	IGAAP 2018	Ind-AS 2019E	Ind-AS 2020E	Ind-AS 2021E
Income statement						
Total income excluding fee income	122,508	138,767	148,260	173,926	202,337	236,861
Other operating income	893	934	1,133	900	900	900
Interest payable	93,067	102,315	111,246	131,788	153,261	180,264
Provisions	1,465	2,813	2,389	2,641	3,081	3,682
Net total income	30,322	35,675	37,094	42,001	48,659	55,774
Total expenses	4,687	6,118	6,475	7,079	8,064	9,266
Staff expenses	1,503	2,458	2,175	2,349	2,631	3,026
Establishment expenses	2,055	2,298	2,742	3,016	3,469	3,989
Other expenses	1,031	1,268	1,458	1,604	1,844	2,121
Depreciation	97	94	100	110	120	130
Profit before tax	25,636	29,558	30,619	34,922	40,595	46,508
Tax	7,302	8,198	8,578	9,778	11,367	13,022
Deferred tax	1,726	2,049	2,145	0	0	0
Profit after tax	16,608	19,311	19,896	25,144	29,229	33,486
PAT (before DTL/normalised)	18,333	21,360	22,041	25,144	29,229	33,486
EPS (Rs)	33	38	39	50	58	66
EPS before DTL/ normalised (Rs)	36	42	44	50	58	66
BVPS (Rs)	181	219	251	320	367	421
BVPS before DTL/ normalised (Rs)	200	243	279	320	367	421
Balance sheet						
Disbursements	361,510	415,410	493,773	569,971	684,064	819,669
Yoy growth (%)	19	15	19	15	20	20
Net loans	1,251,730	1,446,122	1,663,630	1,928,292	2,246,317	2,637,828
Total investments	2,768	5,270	9,868	2,371	2,371	2,371
Cash & deposits	39,268	44,633	29,535	29,535	29,535	29,535
Loans and advances and other assets	9,031	10,755	13,256	13,256	13,256	13,256
Deferred tax assets	1,260	1,260	1,260	1,260	1,260	1,260
Fixed assets owned	920	965	971	410	410	410
Total assets	1,304,978	1,509,006	1,718,520	1,975,124	2,293,150	2,684,660
Total loans and bonds	1,071,642	1,200,183	1,380,721	1,604,287	1,877,846	2,218,322
Deposits	37,718	63,168	72,670	72,670	72,670	72,670
Total borrowings	1,109,360	1,263,350	1,453,390	1,676,957	1,950,515	2,290,991
Deferred tax liabilities	9,676	11,725	13,869	0	0	0
Other current liabilities	94,482	123,160	124,353	136,789	157,307	180,903
Total liabilities	1,213,518	1,398,235	1,591,613	1,813,745	2,107,822	2,471,894
Share capital	1,010	1,010	1,010	1,010	1,010	1,010
Reserves	90,450	109,760	125,897	160,369	184,318	211,755
Shareholders' funds	91,460	110,770	126,907	161,379	185,328	212,766

Source: Company, Kotak Institutional Equities estimates

Distributable cash set to accelerate. Even as stressed businesses in Hyderabad metro and shipbuilding/forgings JV would require funding for the next few years, start of cash flows/monetization proceeds from other long-gestation businesses would provide support. The core E&C business has seen significant reduction in net debt over the troublesome FY2013-18 post large dividend payout. A stabilizing backlog mix, good ordering prospects, potential bottoming out of key infrastructure segment margin and most of the stressed businesses becoming self-sustaining should accelerate (1) the pace of deleveraging for L&T and/or (2) the rewards for shareholders. **BUY.**

Company data and valuation summary

Larsen & Toubro

Stock data

52-week range (Rs) (high,low)	1,470-1,116
Market Cap. (Rs bn)	1,882.4

Shareholding pattern (%)

Promoters	0.0
FIs	20.5
MFs	14.4

Price performance (%)

	1M	3M	12M
Absolute	1.4	0.4	18.7
Rel. to BSE-30	(2.4)	(9.1)	(2.0)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	51.7	66.3	67.6
EPS growth (%)	22.4	28.2	1.9
P/E (X)	26.0	20.3	19.9
Sales (Rs bn)	1,196.8	1,347.5	1,542.7
Net profits (Rs bn)	72.5	92.9	94.7
EBITDA (Rs bn)	135.7	170.9	186.4
EV/EBITDA (X)	21.2	18.1	17.5
ROE (%)	15.0	17.6	16.2
Div. Yield (%)	1.0	1.6	1.7

Large cash flows generated in troublesome past five-year period

Our analysis of the annual reports shows that the consolidated-ex-services business witnesses a marked decline of net debt over the past five years despite (1) a large dividend-related payout, (2) tepid low single-digit EBITDA CAGR and (3) sharp increase in days of sales of working capital. Reported standalone cash flows also suggest strong ~₹120 bn of free-cash flow generated over FY2013-18 to get deployed into investments/loans to subsidiaries and dividend payout. The fact that FY2018 is the second consecutive year of declining borrowings for L&T standalone speaks of the kind of cash flows its E&C business generates.

Future looks better as most long-gestation businesses have become self-sustaining

We expect significant moderation in requirement of funding from subsidiaries (investment/loss funding) over the medium term, assuming no further divestments or new asset addition. Incremental addition would be limited to the loss funding of shipbuilding and forgings JVs and pending equity commitment/loss funding of Hyderabad metro. Over the past few years, most of the other stressed businesses have become self-sustaining. (1) The power boiler JV is now net cash, (2) the debt of the turbine JV has peaked out, (3) L&T IDPL's borrowings have declined in FY2018 and (4) L&T Hydrocarbon Engineering now has nil gross debt and cash of ₹12 bn.

Margin likely to bottom out; increase in contingent liability worrying

For the core E&C business, the key infrastructure segment margin has not improved in FY2018 despite increasing domestic share of revenues. We consider this a reflection of difficulties in closure of large-sized overseas projects won in FY2014; we note rapid increase reported in provisions against receivables. We expect recovery in infrastructure segment margin based on (1) impending closure of FY2014 overseas order wins and (2) stabilizing share in revenues of the B&F segment. We, however, do feel concerned with rapid increase in contingent liabilities, primarily driven by the hydrocarbon segment.

We increase our core E&C estimates by 2-3% primarily on higher infrastructure segment margin. Weakness in Hyderabad Metro and forgings business yields unchanged ₹1,600 target price.

Aditya Mongia

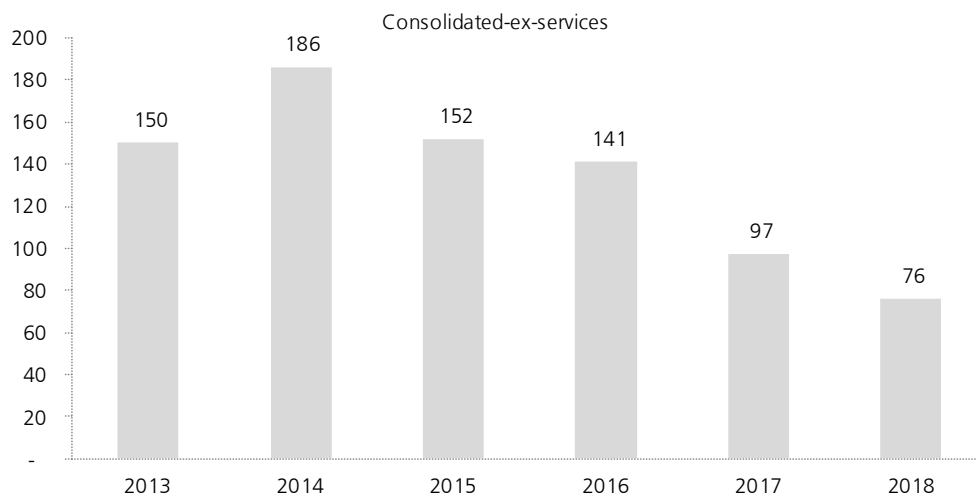
Ajinkya Bhat

Large cash flows
generated in
troublesome past
five-year period

Based on our assessment of the consolidated financials adjusted for the non-E&C businesses, we arrive at the following trajectory of net debt for the consolidated-ex-services business. While the same may not be fully representative of the workings of the consolidated-ex-services business, it does bring about the quantum of cash generated by the business despite the dividend payout done over the past five years.

Exhibit 1: There has been a meaningful reduction in net debt for the consolidated-ex-services business over the past five years

Net debt for L&T consolidated-ex-services, March fiscal year-ends, 2013-18 (Rs bn)



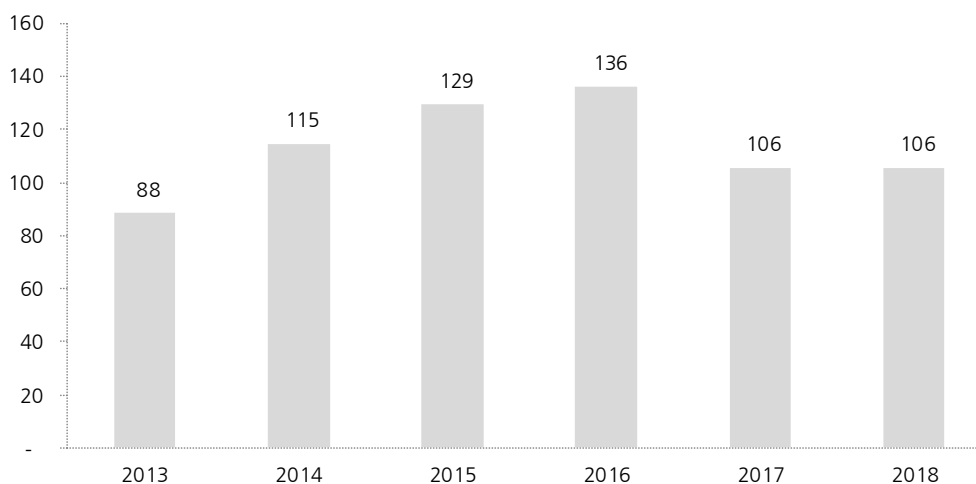
Notes:

(a) The above series assumes no investment into services business or divestment gains within consolidated-ex-services business over the period.

Source: Company, Kotak Institutional Equities

Exhibit 2: Standalone gross debt has also reduced in FY2017 and FY2018

Gross debt for L&T standalone, March fiscal year-ends, 2013-18 (Rs bn)

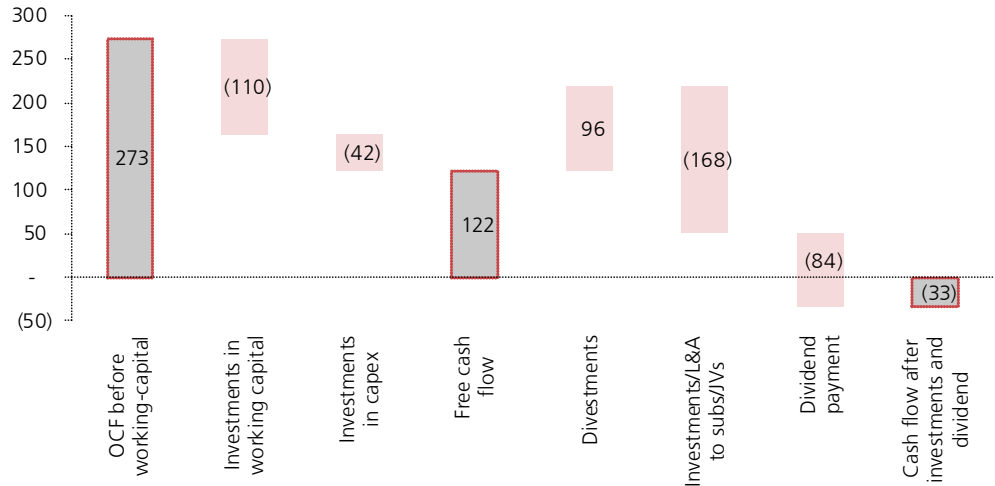


Source: Company, Kotak Institutional Equities

Now let's see a more granular assessment of cash flows over the past five years. This is limited to the standalone operations. In the exhibit below, we dissect the cash flows from the core E&C business excluding any impact of investments. The ₹122 bn of free cash flow generated by the business does not account for income or investment/divestment related to subsidiaries. Such quantum got spent in the investments into subsidiaries and dividends.

Exhibit 3: L&T's standalone operations have generated Rs122 bn of free cash flow, that got used up in funding to subsidiaries and dividends

Standalone cash flows of L&T (standalone) over past five years, March fiscal year-ends, 2013-18 (Rs bn)



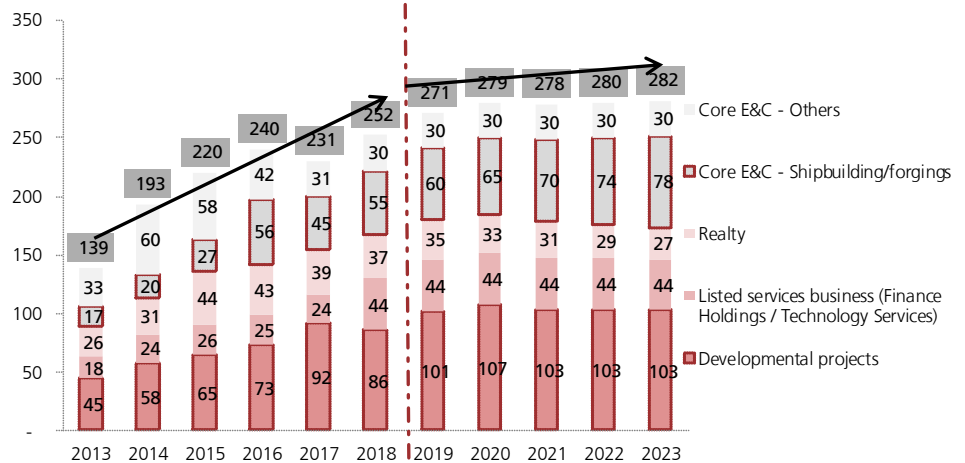
Source: Company, Kotak Institutional Equities

Limited requirement of funding from subsidiaries from here

L&T standalone has added more than ₹110 bn of investments and L&A into its subsidiaries over the past five years excluding any gains on divestments. We expect the incremental addition to be limited to the developmental projects and the shipbuilding/forgings business. On an overall basis we envisage an increase of no more than ₹50 bn in funding to subsidiaries over the next 3-5 years.

Exhibit 4: We envisage moderation in pace of incremental investments for L&T

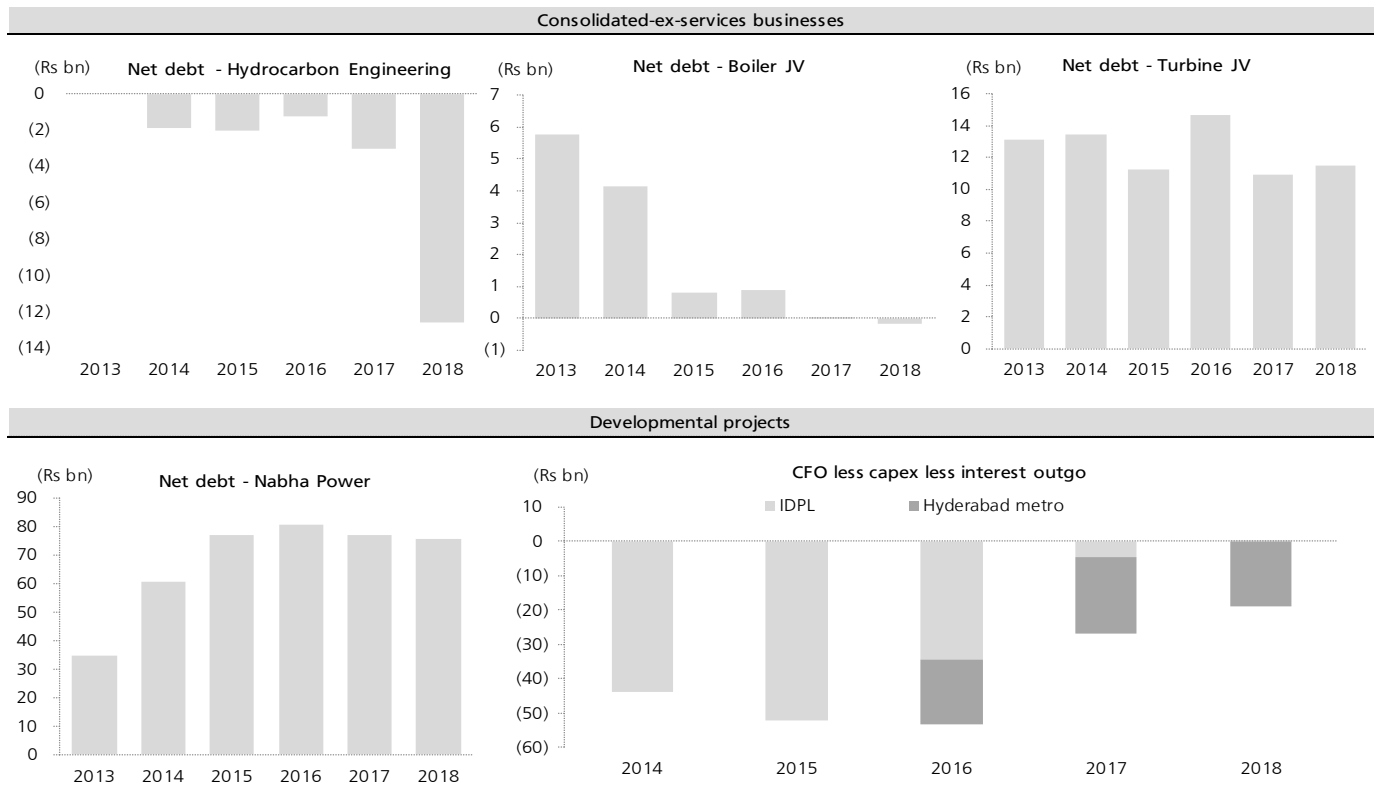
Break-up of investments of L&T (standalone), March fiscal year-ends, 2013-18 (Rs bn)



Source: Company, Kotak Institutional Equities estimates

We note that other key businesses of L&T have largely become self-sustaining, with some businesses generating large quantum of cash flows.

Exhibit 5: Several key businesses beyond standalone have started generating cash flows
 Movement of cash flows for key businesses beyond L&T standalone, March fiscal year-ends, 2013-18



Notes:

(a) Hyderabad Metro was part of IDPL prior to FY2016

Source: Company, Kotak Institutional Equities

Operating performance of consolidated-ex-services should improve from here

Last five years of operating performance has been weak on account of tepid low single-digit EBITDA CAGR. We expect mid-teens EBITDA CAGR based on (1) reasonable order backlog, (2) good prospects shared by the company for key segments and (3) potential bottoming out and improvement in EBITDA margin from FY2019.

Exhibit 6: Detailed outlook for each segment of L&T

Segment and overall outlook	Key takeaways from the annual report
Infrastructure	
<p><u>Buildings & Factories.</u> Outlook in domestic still heavily reliant on government push to infrastructure; GCC and Bangladesh are promising geographies on the international front.</p>	<ul style="list-style-type: none"> - Past two years have been challenging with clear shift towards government clients. - Private sector deferred investment plans due to economic changes, most notably RERA and GST; these measures are long-term positives for the economy. - On the domestic front, FY2018 was better than FY2017 with progress seen in airports and hospital sectors pushed by the government. Business from IT sector for this segment remained sluggish. - On the international front, there were no major orders from GCC countries as oil prices were still stabilizing and GCC economies remained under pressure; additional impact was seen from Qatar embargo. - Outlook for the segment is positive with key domestic contributors expected to be (1) airport expansion given fast air traffic growth in India, (2) healthcare due to increasing medical tourism and (3) affordable housing due to government thrust. On the international front, promising geographies are GCC countries (due to recent uptick in oil prices) and Bangladesh.
<p><u>Heavy Civil Infrastructure.</u> Positive outlook due to large ambitious government programs.</p>	<ul style="list-style-type: none"> - This segment caters to diverse infrastructure areas with specialized engineering requirements and construction methodologies. FY2018 was marked by several big orders in this area, most notably the construction package for Mumbai Trans Harbour Link, order from Indian Navy, construction progress at Kalpakkam and Kudankulam nuclear sites, and construction of Hyderabad, Kochi and Lucknow metro rail. This segment is currently executing 12 metro projects across 9 cities in 4 countries. - Nearly Rs6 tn budget allocation for infrastructure bodes well for L&T Heavy Civil Infrastructure. Key growth drivers will be large and ambitious government programs such as bullet train, Bharatmala, Sagarmala, river interlinking and hydropower projects on Indus river and its tributaries.
<p><u>Transportation Infrastructure.</u> Bharatmala, railway electrification, high-speed rail and urban transit will be the key drivers in FY2019.</p>	<ul style="list-style-type: none"> - Roads: the pace of awarding and construction for national highways has increased significantly and will remain so under the Bharatmala Pariyojana. However, NHAI's decision to have a mix of 10:30:60 for BOT:EPC:HAM will impact L&T's addressable market especially as the company remains averse to investing new capital in development projects and is only willing to recycle capital through monetization of existing assets. Competition has also intensified in road EPC. - Railways: key positive lies in shift to EPC mode of project execution compared to conventional BOQ mode. Increased focus on new track laying, track renewals, electrification and enhancing speed will provide strong opportunity set for L&T. A change in metro policy mandates PPP component to avail central assistance, although its impact on L&T, in our view, will be mixed in our view. This is because L&T itself may not be willing to participate in PPP projects with capital contribution, but increased PPP component will mobilize greater resources towards this area and will increase EPC opportunity for experienced players like L&T. - The outlook is positive on domestic side on both road and railway sectors. Road sector ordering will be driven by Bharatmala Pariyojana. In the railway sector, apart from railway electrification and expansion in conventional rail, the company believes high speed rail and urban mass transit to be the next big growth opportunities. - With increasing oil prices, tendering in the Middle East on both mainline railway and urban transit is expected to pick up in the coming year.
<p><u>Power T&D.</u> <u>Positive outlook shared on T&D with Saubhagya, network upgradation in domestic market and continued expansion in SAARC and Middle East expected to be the growth drivers.</u></p>	<ul style="list-style-type: none"> - FY2018 remained vibrant with rural electrification through Saubhagya scheme, network improvements to reduce AT&C losses, improve stability through STATCOM installation and network strengthening by states. Key orders were received in FY2018 from states such as Uttar Pradesh, West Bengal, Jharkhand, Tamil Nadu, Karnataka and Andhra Pradesh. - Despite overall capex cuts in the Middle East reeling from previously lower oil prices before the uptick started, stable T&D capex was maintained by Saudi Arabia, Qatar and Oman. In UAE, opportunities arose out of Expo 2020 related developments. In Africa, the company entered Morocco and Egypt and strengthened presence in Algeria, Malawi and Kenya. - Domestic outlook stays positive due to schemes such as Saubhagya, smart cities (urban underground cable network, smart metering) and system strengthening by state utilities. Substation opportunity will be concentrated towards GIS as it requires lower land acquisition. - In the international markets, SAARC (mainly Bangladesh and Nepal) as well as Middle East are expected to present greater opportunities.
<p><u>Water and effluent treatment.</u> Reliance is more on mega government programs and select opportunities in GCC, SAARC and Africa.</p>	<ul style="list-style-type: none"> - At present, L&T and only a few other players are competing on a pan-India basis while smaller players are focussing on their regional home markets. - This business commissioned over 25 projects in FY2018. Key growth drivers in the coming years will be Namami Gange, Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) and smart cities program.
<p><u>Smart world and communication.</u> Positive outlook based on start of ordering in smart cities and digital India initiatives.</p>	<ul style="list-style-type: none"> - The business is currently executing five major smart city projects namely Jaipur, Nagpur, Pune, Vizag and Raipur. L&T is also playing a key role in BharatNet program by deploying Gigabyte Passive Optical Network across 11 states in India. It is also executing various security and surveillance programmes in Telangana and Rajasthan. - The union budget allocated Rs250 bn for areas of smart cities and digital initiatives in FY2019. Surveillance, intelligent traffic management and broadband internet networks are expected to pick up in several tier 2 cities, providing a positive outlook for this segment of L&T.

Source: Company, Kotak Institutional Equities

Detailed outlook for each segment (continued)

Segment and overall outlook	Key takeaways from the annual report
Power EPC/BTG	
Outlook is driven by hope of economic recovery, industrialization and success of UDAY scheme in improving power offtake by SEBs but there are no concrete signs of turnaround mentioned by the company.	<ul style="list-style-type: none"> - Lack of momentum in industrialization and moderate economic growth have impacted power sector in recent times. The sector is facing various challenges such as low thermal PLFs, shift to renewables, financial stress, lack of PPAs and issues with water and land availability. On this background, L&T has steadfastly refused to bid at margin diluting prices and has instead focused on cost improvement efforts to make the division more competitive for the future opportunity. - In the international markets, Bangladesh and Oman provided orders for gas-based power plants. - L&T has also diversified into environmental solutions and has actively started to participate in FGD tenders. - The company maintains a positive outlook led by expected recovery in the economy, industrialization and UDAY scheme. Coal will remain the dominant power fuel in the domestic market where as South East Asia, Bangladesh, Sri Lanka, UAE and Indonesia offer opportunities for gas-based projects.
Heavy Engineering	
Process plant equipment. Optimistic outlook driven by BS-VI led refinery modernization, fertilizer and indigenous nuclear projects.	<ul style="list-style-type: none"> - First three quarters of FY2018 were impacted by sluggish global economy, especially in key markets of USA, Brazil, China and Middle East. Other target markets of Iran and Russia were impacted by geopolitical reasons. - On the domestic front, refinery upgradation to meet BS-VI emission norms will lead to large scale capex by oil PSUs. Additional opportunities are seen in the fertilizer sector with revival of FCI, HFCL and Talcher Fertilizer projects. In the nuclear sector, fleet procurement for 700 MWe PHWR projects will provide opportunities as well. - In the international markets, the company expects opportunities from Takreer in Abu Dhabi, DUQM in Oman, KNPC in Kuwait and Thai Oil in Thailand.
Defence and Aerospace. The impetus towards indigenization will drive growth for the business over the long-term.	<ul style="list-style-type: none"> - Key achievement of this segment in FY2018 include the largest ever contract to private player (Rs45 bn) awarded to L&T for manufacturing K-9 Vajra Howitzers. The defence shipbuilding business of L&T has also delivered interceptor boats, offshore patrol vessels and a floating dock for the Indian Navy. - L&T has a positive outlook for the segment based on the draft defence production policy envisaging increased domestic manufacturing in defence as well as the new strategic partnership policy for major weapon platform development.
Electrical & Automation	
Despite good medium-term prospects, this segment was considered as non-core by L&T and the company has thus signed an agreement to sell it to Schneider Electric for Rs140 bn once all regulatory approvals are received.	<ul style="list-style-type: none"> - In FY2018, the business introduced various new products in power distribution, motor control and power quality market segments. - Given weak private capex, new order bookings remain a challenge for the E&A business in the short-term. In the medium-term, however, growth will return. As per industry estimates quoted by L&T, LV switchgear market is expected to grow by 8-10% CAGR and reach Rs76 bn by year 2020. - Nonetheless, the business was a non-core segment for L&T and thus the company signed an agreement to sell it to Schneider Electric for Rs140 bn. The deal will be completed once all regulatory approvals are received.
Hydrocarbon	
Domestic outlook is positive due to refinery expansion, modernization by OMCs as well as ONGC's exploration efforts. Increasing focus on gas (LNG/LPG) and revival of fertilizer units will further provide business opportunities for L&T. International markets are also expected to do better with crude prices climbing higher after a prolonged low-price period.	<ul style="list-style-type: none"> - In FY2018, the segment secured orders, individually and in consortium, from major customers such as Saudi Aramco, ONGC, oil marketing companies as well as fertilizer companies in both domestic and international markets. During the year, the company also strategically entered new product line and won its first Electrical House project (design and implementation of electric power supply system for refineries). - Gradual firming up of crude oil prices is expected to increase investments in the sector, mainly in North America and Middle East. In the domestic sector, ONGC has made significant discoveries in Mumbai High fields and the government has also received interest from private players under open acreage licensing policy (OALP). - India's ambitious plan to double its refining capacity by 2030 and focus on increasing share of gas in energy mix will lead to significant capex in the sector. With roll out of Urea policy, fertilizer units have been revived and are pursuing energy efficiency improvement projects. As part of geographic diversification, the company is exploring new markets such as Algeria, Iraq and Indonesia. - Competitive intensity is expected to remain high due to European and Chinese competition while Korean competitors have shown a lack of appetite to undertake new EPC projects. Tighter project schedules will continue to keep pressure as well.

Source: Company, Kotak Institutional Equities

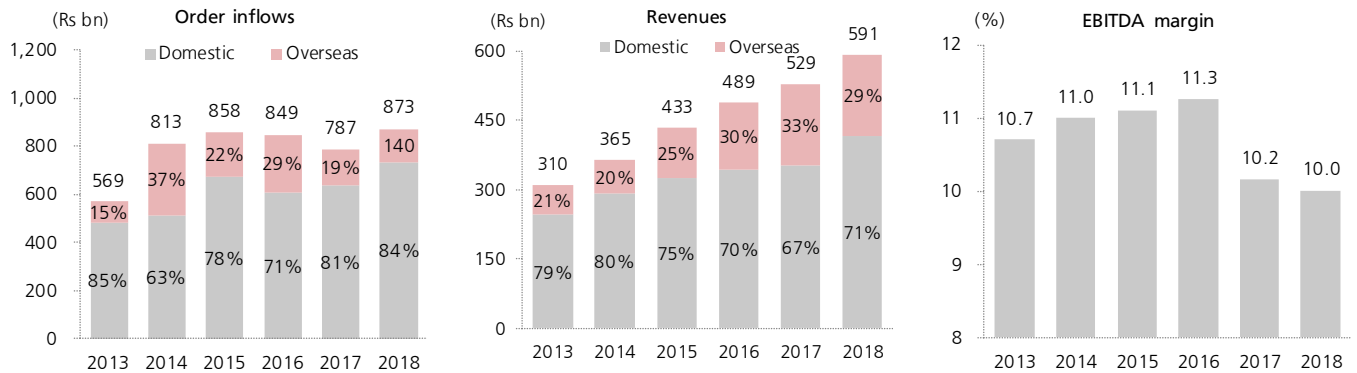
In the outlook, the company has shared further improvement in prospects in overseas.

- ▶ Given buoyant times globally, L&T shared prospects of a faster growth in construction. It mentioned the strong correlation of the construction sector with economic growth. Construction's share of the economy expands in greater proportion when GDP rises above a moderate rate. Developed economies still account for about half of global construction market.
- ▶ In line with its aim of diversifying the spread of its international business beyond the Middle East, L&T is actively pursuing opportunities in East and North Africa, and East Asia (Bangladesh, Myanmar, Thailand, Vietnam and Sri Lanka). Of the total international order book, non-GCC business now accounts for 31% share.

EBITDA margin for the key infrastructure segment should grow from here

For the core E&C business, the key infrastructure segment margin has not improved in FY2018 despite increasing domestic share of revenues. We consider this a reflection of difficulties in closure of large-sized overseas projects won in FY2014; we note rapid increase reported in provisions against receivables. We expect recovery in infrastructure segment margin based on (1) impending closure of FY2014 overseas order wins and (2) stabilizing share in revenues of B&F segment.

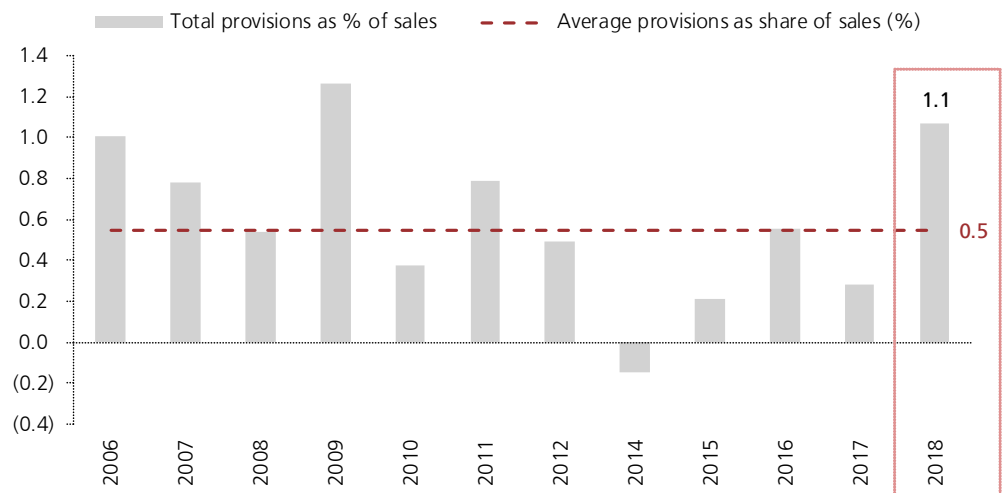
Exhibit 7: Change in business mix for L&T's Infrastructure segment, March fiscal year-ends, 2013-18



Source: Company, Kotak Institutional Equities

Exhibit 8: L&T is operating at close to historical peaks of provisions for doubtful debts

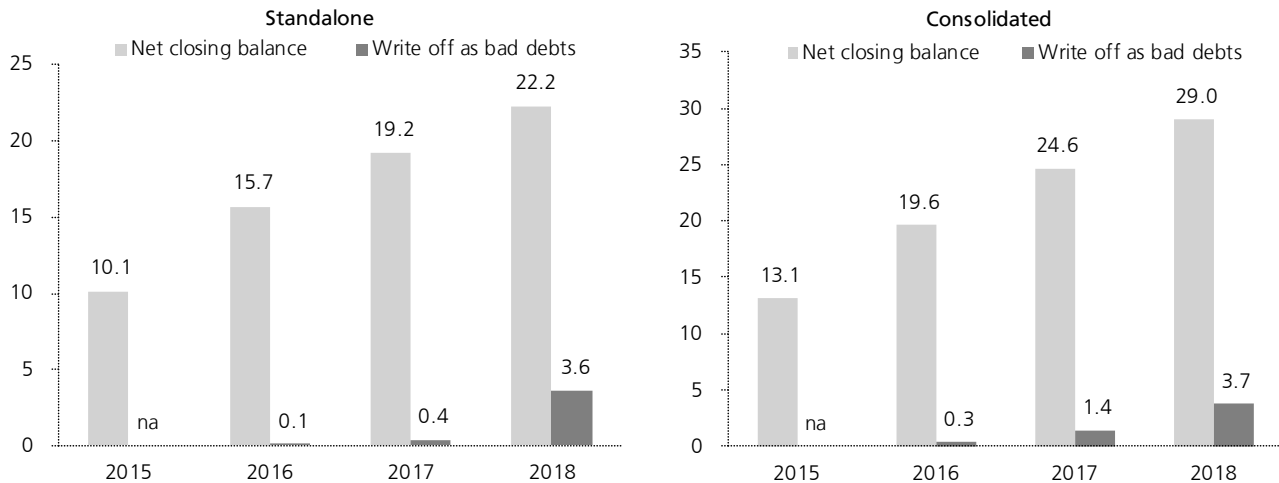
Total provisions (including allowance for doubtful debts) taken by L&T standalone, March fiscal year-ends, 2006-18 (%)



Source: Company, Kotak Institutional Equities

Exhibit 9: L&T's outstanding provisions on receivables have more than doubled over the past four years

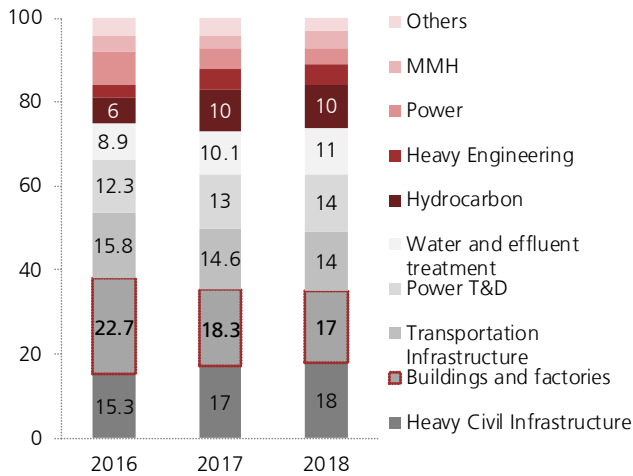
Movement of provisions outstanding against receivables (excluding financial services business) for L&T, March fiscal year-ends, 2015-18 (Rs bn)



Source: Company, Kotak Institutional Equities

Exhibit 10: Buildings and factories accounted for a 17% share of order backlog at end-FY2018, stable yoy

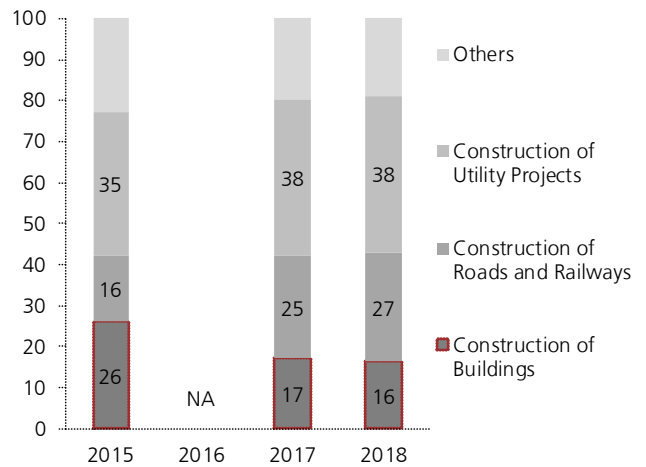
Break-up of L&T's consolidated order book, March fiscal year-ends, 2016-18 (%)



Source: Company, Kotak Institutional Equities

Exhibit 11: Construction of buildings accounted for a 16% share of revenues in FY2018, stable yoy

Break-up of L&T's standalone revenues, March fiscal year-ends, 2015-18 (%)



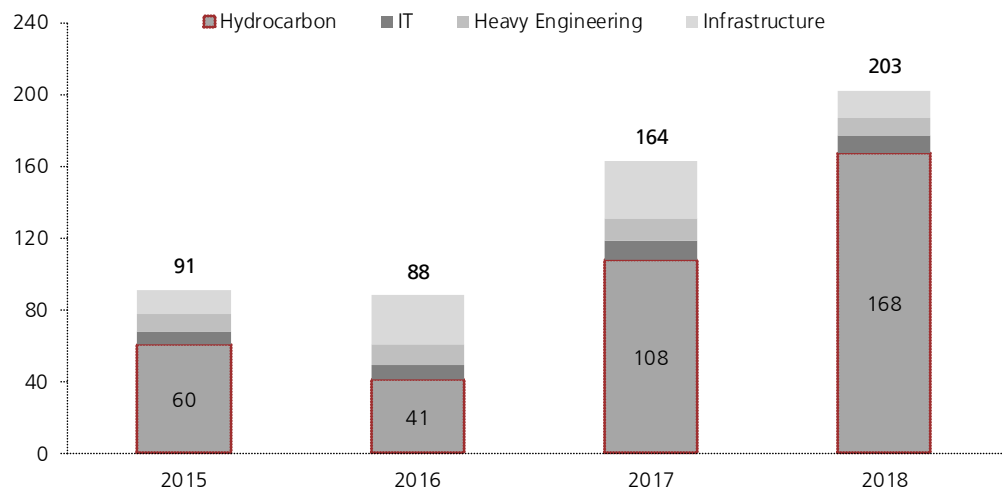
Source: Company, Kotak Institutional Equities

Sharp increase in contingent liability related to project performance is discomfoting

We however do feel concerned with rapid increase in contingent liabilities, primarily driven by the hydrocarbon segment.

Exhibit 12: Contingent liability related to project performance has more than doubled over the past few years

Break-up of contingent liability related to performance of subsidiaries of L&T, March fiscal year-ends, 2015-18 (Rs bn)



Source: Company, Kotak Institutional Equities

Marginally increase estimates for the core E&C business

We increase our core-E&C estimates by 2-3% primarily on higher infrastructure segment margin. Weakness in Hyderabad Metro and forgings business yields unchanged ₹1,600 target price.

Exhibit 13: Revision in core E&C financials of L&T, March fiscal year-ends, 2018-21E (Rs mn)

	New estimates				Old estimates			% change		
	2018	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Consolidated (ex-services)										
Orders received	1,273,657	1,423,361	1,591,038	1,772,647	1,423,361	1,591,038	1,772,647	—	—	—
% growth	6.0	11.8	11.8	11.4	11.8	11.8	11.4			
Net sales	941,500	1,045,595	1,191,005	1,345,341	1,046,538	1,193,258	1,350,970	(0)	(0)	(0)
% growth	8.2	11.1	13.9	13.0	11.2	14.0	13.2			
Bill to book ratio (%)	30.7	33.3	33.3	33.4	33.4	33.4	33.5			
EBITDA	99,408	114,322	132,106	152,775	114,144	130,849	151,499	0	1	1
EBITDA margin (%)	10.6	10.9	11.1	11.4	10.9	11.0	11.2	3 bps	13 bps	14 bps
EPS	40.3	46.8	57.4	68.2	45.8	55.7	66.2	2	3	3
Infrastructure										
Orders received	873,059	969,095	1,075,696	1,194,023	969,095	1,075,696	1,194,023	—	—	—
% growth	11.0	11.0	11.0	11.0	11.0	11.0	11.0			
Revenues	590,700	658,347	759,446	863,072	658,347	759,446	863,072	—	—	—
% growth	12	11	15	14	11	15	14			
Bill to book ratio (%)	27	30	30	30	30	30	30			
EBITDA margin (%)	10.0	10.1	10.3	10.4	10.0	10.1	10.2	10 bps	20 bps	20 bps
Heavy engineering										
Orders received	58,102	66,817	76,840	88,366	66,817	76,840	88,366	—	—	—
% growth	(18.7)	15.0	15.0	15.0	15.0	15.0	15.0			
Revenues	38,300	45,861	54,902	67,185	45,861	54,902	67,185	—	—	—
% growth	24	20	20	22	20	20	22			
Bill to book ratio (%)	24	27	28	30	27	28	30			
EBITDA margin (%)	17.1	20.1	18.1	18.1	20.1	18.1	18.1	0 bps	0 bps	0 bps
Electrical and automation										
Orders received	56,573	65,059	74,818	86,040	65,059	74,818	86,040	—	—	—
% growth	(1.1)	15.0	15.0	15.0	15.0	15.0	15.0			
Revenues	51,400	60,261	69,349	79,762	60,261	69,349	79,762	—	—	—
% growth	11	17	15	15	17	15	15			
Bill to book ratio (%)	78	78	78	78	78	78	78			
EBITDA margin (%)	16.0	17.0	17.0	17.0	17.0	17.0	17.0	0 bps	0 bps	0 bps
Hydrocarbons										
Orders received	157,487	181,110	208,277	233,270	181,110	208,277	233,270	—	—	—
% growth	(15.3)	15.0	15.0	12.0	15.0	15.0	12.0			
Revenues	117,200	141,721	172,035	192,530	141,721	172,035	192,530	—	—	—
% growth	22	21	21	12	21	21	12			
Bill to book ratio (%)	33	38	40	40	38	40	40			
EBITDA margin (%)	7.8	7.3	7.3	7.3	8.0	8.0	8.0	-67 bps	-67 bps	-67 bps
Power										
Orders received	24,464	26,910	29,601	32,562	26,910	29,601	32,562	—	—	—
% growth	(14.5)	10.0	10.0	10.0	10.0	10.0	10.0			
Revenues	62,000	43,092	36,504	33,886	43,092	36,504	33,886	—	—	—
% growth	(11)	(30)	(15)	(7)	(30)	(15)	(7)			
Bill to book ratio (%)	45	42	42	42	42	42	42			
EBITDA margin (%)	3.4	4.4	4.4	4.4	4.4	4.4	4.4	0 bps	0 bps	0 bps
Others										
Orders received	103,972	114,369	125,806	138,387	114,369	125,806	138,387	—	—	—
% growth	45	10	10	10	10	10	10			
Revenues	81,900	96,314	98,770	108,907	97,257	101,023	114,536	(1.0)	(2.2)	(4.9)
% growth	(17)	18	3	10	19	4	13			
Bill to book ratio (%)	52	54	50	47	54	51	51			
EBITDA margin (%)	17.5	16.7	18.1	19.9	16.0	16.8	18.2	64 bps	128 bps	171 bps

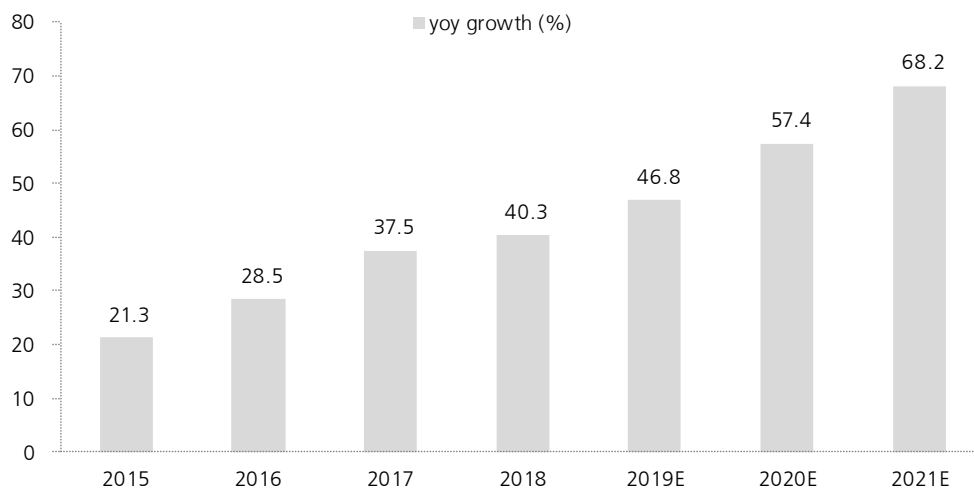
Source: Company, Kotak Institutional Equities estimates

Exhibit 14: Key financials of core E&C business of L&T (consolidated), March fiscal year-ends, 2014-21E (Rs)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
P&L statement								
Net sales	719,000	728,700	802,600	870,100	941,500	1,045,595	1,191,005	1,345,341
% growth	12.2	1.3	10.1	8.4	8.2	11.1	13.9	13.0
EBITDA	79,280	67,940	76,130	86,855	99,408	114,322	132,106	152,775
EBITDA margin (%)	11.0	9.3	9.5	10.0	10.6	10.9	11.1	11.4
Other income	7,700	8,080	6,962	10,550	9,600	12,035	13,783	14,715
Depreciation	(14,610)	(18,080)	(10,742)	(19,950)	(15,600)	(16,924)	(18,773)	(20,736)
EBIT	72,370	57,940	72,349	77,455	93,408	109,433	127,116	146,754
EBIT margin (%)	10.1	8.0	9.0	8.9	9.9	10.5	10.7	10.9
Interest cost	(18,510)	(17,430)	(9,140)	(12,630)	(14,600)	(13,910)	(12,519)	(10,015)
PBT	53,860	40,510	63,209	64,825	78,808	95,524	114,597	136,739
Income tax	(20,590)	(15,680)	(19,817)	(15,590)	(24,900)	(32,104)	(36,223)	(43,221)
Tax rate (%)	38.2	38.7	31.4	24.0	31.6	33.6	31.6	31.6
Recurring PAT	33,270	24,830	43,392	49,235	53,908	63,419	78,375	93,518
PAT margin (%)	4.6	3.4	5.4	5.7	5.7	6.1	6.6	7.0
PAT	35,488	29,861	39,917	52,575	56,501	65,619	80,491	95,528
Net shares outstanding (current, mn)	1,401	1,401	1,401	1,401	1,401	1,401	1,401	1,401
EPS	25.3	21.3	28.5	37.5	40.3	46.8	57.4	68.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 15: EPS for core E&C business of L&T (consolidated), March fiscal year-ends, 2015-21E (Rs)



Source: Company, Kotak Institutional Equities estimates

Exhibit 16: The consolidated EPS gets cut on account of higher initial losses for Hyderabad metro and for forgings business
Revision in financials of L&T (consolidated), March fiscal year-ends, 2018-21E (Rs mn)

	New estimates				Old estimates			% revision		
	2018	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Income statement										
Revenues	1,196,832	1,347,539	1,542,678	1,730,410	1,358,506	1,556,808	1,748,061	(1)	(1)	(1)
Expenditure	(1,061,118)	(1,176,681)	(1,356,294)	(1,505,147)	(1,181,289)	(1,366,310)	(1,522,315)	(0)	(1)	(1)
EBITDA	135,714	170,858	186,385	225,263	177,217	190,498	225,747	(4)	(2)	(0)
EBITDA margin (%)	11.3	12.7	12.1	13.0	13.0	12.2	12.9			
Other income	14,120	16,282	18,878	20,507	16,440	19,680	22,036			
Interest & finance charges	15,385	17,523	22,724	27,876	27,911	29,348	27,501			
Depreciation	19,287	21,018	24,418	30,354	20,443	24,768	29,376			
PBT	115,162	148,600	158,120	187,540	145,302	156,062	190,905	2	1	(2)
Tax	31,989	46,942	51,541	62,405	47,352	50,576	59,949			
PAT (prior to associate profit)	76,827	93,164	98,109	114,575	89,319	97,082	120,859	4	1	(5)
PAT	72,469	92,924	94,734	111,385	88,228	97,827	122,758	5	(3)	(9)
EPS (Rs)	51.7	66.3	67.6	79.5	63.0	69.8	87.6	5	(3)	(9)
YoY growth (%)										
Revenues	8.8	12.6	14.5	12.2	13.5	14.6	12.3			
EBITDA	22.5	25.9	9.1	20.9	30.6	7.5	18.5			
PAT	22.4	28.2	1.9	17.6	21.7	10.9	25.5			

Source: Company, Kotak Institutional Equities estimates

Exhibit 17: L&T – SoTP-based target price of Rs1,600

	Earnings/Book	Target multiple	Value	Valuation basis	Stake	Value	March-20	March-21
	(Rs mn)	(X)	(Rs bn)		(%)	(Rs bn)	Per share (Rs)	Per share (Rs)
Core E&C business (consolidated)	80,491	18.0	1,449	P/E	100.0	1,449	1,034	1,227
L&T Finance Holdings			379	(at KIE TP)	66.7	253	180	206
L&T Infotech			350	(at KIE TP)	84.3	295	211	240
L&T Technology Services	10,168	20.0	203	P/E	89.8	183	130	146
IDPL- Roads, Transmission	18,557	2.0	37	P/B	97.4	36	26	29
Hyderabad Metro	41,268	0.4	15	P/B	100.0	15	11	11
Power development	31,127	1.5	47	P/B	100.0	47	33	33
Total subsidiaries			876	20% holding co. disc.	0.0	704	502	565
Grand total							1,536	1,792
One-year-forward SoTP							1,600	

Source: Company, Kotak Institutional Equities estimates

Exhibit 18: Consolidated financials of L&T, March fiscal year-ends, 2012-21E (Rs mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Income statement										
Revenues	643,131	744,980	851,284	906,546	1,019,753	1,100,110	1,196,832	1,347,539	1,542,678	1,730,410
Expenditure	(555,711)	(646,894)	(743,986)	(806,690)	(915,125)	(989,363)	(1,061,118)	(1,176,681)	(1,356,294)	(1,505,147)
EBITDA	87,420	98,087	107,298	99,856	104,628	110,747	135,714	170,858	186,385	225,263
EBITDA margin (%)	13.6	13.2	12.6	11.0	10.3	10.1	11.3	12.7	12.1	13.0
Other income	8,290	10,959	9,818	10,072	9,044	14,010	14,120	16,282	18,878	20,507
Interest & finance charges	11,019	20,950	31,380	28,507	16,551	13,398	15,385	17,523	22,724	27,876
Depreciation	15,523	16,371	14,458	26,225	17,867	23,699	19,287	21,018	24,418	30,354
PBT	69,167	71,725	71,277	55,195	79,254	87,659	115,162	148,600	158,120	187,540
Tax	22,826	23,855	26,284	20,876	24,848	20,066	31,989	46,942	51,541	62,405
PAT	47,151	48,976	45,468	32,631	41,387	59,198	72,469	92,924	94,734	111,385
EPS (Rs)	33.6	34.9	32.4	23.3	29.5	42.2	51.7	66.3	67.6	79.5
Reported PAT	47,719	53,124	49,020	47,648	42,329	60,412	73,699	94,733	96,543	115,175
Balance Sheet										
Share holder's funds	311,402	365,126	408,908	459,077	470,732	537,801	612,820	669,735	727,738	796,935
Capital	1,225	1,231	1,854	1,859	1,863	1,866	2,803	2,803	2,803	2,803
Reserves and surplus	292,643	337,366	375,262	407,232	439,941	500,299	553,767	610,683	668,686	737,883
Minority interest	17,535	26,529	31,792	49,986	28,928	35,636	56,250	56,250	56,250	56,250
Loan funds	471,501	626,716	803,304	905,714	881,355	939,763	1,075,241	1,323,666	1,488,017	1,530,664
Deferred tax liability	818	1,837	3,375	(1,846)	(7,364)	(11,252)	(14,941)	(14,941)	(14,941)	(14,941)
Total sources of funds	827,898	1,033,218	1,250,405	1,393,267	1,344,861	1,481,268	1,687,740	1,993,080	2,215,434	2,327,279
Gross block	257,568	381,603	414,765	457,586	165,705	170,056	199,908	248,276	408,520	435,416
Acc. depreciation	63,560	77,738	90,790	110,206	23,948	39,317	57,565	78,582	103,001	133,355
Net block	194,008	303,865	323,975	347,381	141,757	130,739	142,343	169,694	305,520	302,061
Cash & bank balances	35,221	36,312	41,353	58,555	53,899	55,725	80,325	115,567	112,228	125,506
Investments	87,895	87,675	81,090	96,121	154,651	231,828	196,572	196,572	196,572	196,572
Loans & advances towards financing activities	247,732	320,008	438,517	553,669	665,946	720,612	882,646	1,107,934	1,278,069	1,341,972
Net current assets	113,915	171,826	223,686	182,304	203,069	191,156	236,295	269,647	291,884	330,005
Total application of funds	827,898	1,033,218	1,250,405	1,393,267	1,344,861	1,481,268	1,687,740	1,993,080	2,215,434	2,327,279
Yoy growth (%)										
Revenues	23.5	15.8	14.3	6.5	12.5	7.9	8.8	12.6	14.5	12.2
EBITDA	25.2	16.4	15.0	8.4	13.4	8.1	7.3	10.9	15.3	11.0
Recurring PAT	10.0	3.9	(7.2)	(28.2)	26.8	43.0	22.4	28.2	1.9	17.6
Key ratios										
EBITDA margin (%)	14.9	14.6	13.8	12.1	11.1	11.3	12.5	13.9	13.3	14.2
PAT margin (%)	7.3	6.6	5.3	3.6	4.1	5.4	6.1	6.9	6.1	6.4
Effective tax rate (%)	33.0	33.3	36.9	37.8	31.4	22.9	27.8	31.6	32.6	33.3
Net debt to equity (X)	1.4	1.6	1.9	1.8	1.8	1.6	1.6	1.8	1.9	1.8
RoE (%)	16.5	14.5	11.7	7.5	8.9	11.7	12.6	14.5	13.6	14.6
RoCE (%)	8.0	7.6	6.2	5.1	4.0	5.0	5.4	5.8	5.3	5.9
Book value per share (Rs)	209.7	241.6	269.1	291.9	315.3	358.3	397.2	437.8	479.2	528.6
Net Wcap (excl cash) as days of sales (#)	64.7	84.2	95.9	73.4	72.7	63.4	72.1	73.0	69.1	69.6

Source: Company, Kotak Institutional Equities estimates

Subsidiaries
performance: Key
takeaways

We detail below the takeaways from the annual reports of the key subsidiaries of L&T. These include businesses in roads, shipbuilding, nuclear forgings, power, infrastructure and realty.

Exhibit 19: Details of key subsidiaries and related entities of L&T, March fiscal year-ends, 2012-17 (Rs mn)

	Revenues								PAT							
	2012	2013	2014	2015	2016	2017	2018	2012	2013	2014	2015	2016	2017	2018		
Infrastructure																
L&T Oman LLC	20,638	19,952	22,575	18,985	29,308	37,045	29,552	1,013	148	(794)	(1,574)	18	152	195		
L&T Saudi Arabia LLC	2,055	6,479	2,289	4,161	16,213	26,267	19,026	46	(192)	(397)	(568)	90	3,386	2,212		
Total	22,693	26,431	24,864	23,146	45,521	63,312	48,578	1,059	(44)	(1,191)	(2,142)	108	3,539	2,407		
Hydrocarbon																
L&T Hydrocarbon Engineering	—	92,623	87,159	57,234	71,112	87,866	110,444	—	5,262	1,057	(6,541)	865	4,365	4,057		
L&T Sapura Shipping	1,010	2,324	2,048	1,778	1,989	1,388	1,222	(694)	295	269	82	221	261	70		
L&T Sapura Offshore	627	3	5	367	63	—	—	(26)	17	1	(6)	10	(2)	(1)		
L&T-Valdel Engineering	812	840	816	1,210	1,232	—	—	64	62	2	103	114	—	—		
L&T-Gulf	187	98	211	200	193	206	258	47	45	49	24	20	21	54		
L&T Modular Fabrication Yard	1,509	4,764	3,418	607	3,422	4,560	5,013	87	171	(535)	(1,248)	(370)	67	92		
L&T Atco Saudia	655	1,159	5,413	8,978	3,129	353	525	25	30	(32)	(1,995)	2,180	(176)	(6)		
L&T Electromech, Oman	4,769	5,947	7,882	6,040	4,791	1,425	3,205	484	306	(683)	(1,788)	(165)	(525)	163		
L&T Kuwait construction general contracting	300	871	1,445	390	—	—	—	(1)	66	14	(370)	(67)	(5)	16		
Larsen Toubro Arabia	—	—	467	4,250	7,756	6,179	3,863	—	—	(26)	(191)	(458)	(2,710)	(854)		
Total	9,869	108,629	108,863	81,054	93,688	101,976	124,529	(14)	6,254	115	(11,931)	2,350	1,296	3,590		
Power																
L&T MHPS Boilers	23,250	23,598	12,549	12,286	17,117	24,907	29,665	111	1,414	1,002	1,223	2,575	2,213	2,415		
L&T MHPS Turbine Generators	12,274	9,923	7,478	6,148	7,183	9,103	9,633	(171)	(895)	(855)	(1,325)	(867)	(59)	575		
L&T Sargent & Lundy	1,144	1,023	1,018	1,111	1,313	1,125	951	197	75	72	116	167	28	98		
L&T Howden	30	1,561	793	1,153	1,380	1,571	2,349	(77)	7	(11)	20	162	186	130		
Total	36,698	36,105	21,838	20,697	26,992	36,705	42,597	59	602	207	35	2,037	2,368	3,219		
Heavy Engineering																
L&T Special Steels and Heavy Forgings	—	141	649	1,020	946	1,300	1,279	(115)	(1,557)	(3,345)	(2,798)	(2,843)	(2,547)	(2,703)		
Spectrum Infotech	123	245	429	135	170	162	—	21	26	30	10	13	(9)	—		
L&T Heavy Engineering LLC	335	1,510	1,986	3,391	2,667	2,173	491	(304)	(267)	(32)	266	(152)	(209)	(1,312)		
Total	457	1,895	3,063	4,545	3,784	3,635	1,770	(397)	(1,798)	(3,346)	(2,523)	(2,982)	(2,764)	(4,015)		
Electrical & Automation																
TAMCO Group of companies																
TAMCO switchgear (Malaysia)	5,188	5,754	6,818	10,697	7,875	7,426	5,006	440	682	474	707	672	618	155		
TAMCO electrical industries Australia	905	1,176	844	265	109	148	27	97	100	18	(60)	(113)	(18)	(38)		
PT TAMCO Indonesia	326	453	606	383	526	478	594	13	17	37	(49)	48	(76)	23		
L&T Electrical and Automation FZE	1,113	2,524	3,546	3,250	2,754	2,771	4,303	171	341	466	138	(508)	(220)	329		
L&T Electrical And Automation Saudi Arabia	577	740	737	1,366	722	625	793	(19)	(70)	(29)	42	(212)	(87)	87		
Henikwon Corporation	—	319	635	763	555	282	421	—	(131)	(35)	(5)	29	(7)	(10)		
Servowatch Systems	—	146	310	602	877	358	659	—	(66)	(124)	(144)	15	(147)	29		
Kana Controls General Trading & Contracting	—	—	—	301	206	434	294	—	—	—	(5)	(21)	4	(21)		
Total	8,109	11,112	13,496	17,626	13,624	12,520	12,097	702	873	807	624	(90)	65	554		
Others																
Realty																
CSJ Infrastructure	—	1,248	2,283	2,109	—	—	—	(45)	115	(190)	166	—	—	—		
Hyderabad International Trade Expositions	180	231	210	225	—	—	—	30	70	51	35	—	—	—		
L&T Hitech City	7	8	8	9	—	—	—	(50)	(13)	(17)	(21)	—	—	—		
L&T Infocity	1,450	467	421	315	—	—	—	400	126	514	59	—	—	—		
L&T Parel Project	na	na	na	na	na	na	na	na	na	na	na	815	819	823		
L&T Realty	—	—	17	198	4,069	3,137	395	6	7	(582)	(15)	2,821	3,187	212		
L&T Seawoods	—	—	—	1,080	2,292	11,702	1,327	(5)	6	54	(14)	114	321	270		
L&T South City Projects	2,420	332	28	26	7	na	na	310	23	(73)	(56)	57	331	na		
Total	4,057	2,285	2,967	3,960	6,369	14,839	645	334	(243)	154	3,807	4,659	1,305	1,305		
Construction Equipment and Others (Valves and Welding Equipment)																
L&T Construction Equipment	16,150	—	5,100	3,891	4,605	5,217	11,515	na	na	115	219	6	(69)	5,094		
L&T Cutting Tools	1,216	86	963	1,644	1,590	1,679	na	45	(173)	143	223	166	161	89		
L&T Kobelco Machinery	139	138	356	951	1,001	441	789	(20)	(138)	(69)	27	36	6	59		
L&T Valves	5,860	6,507	9,127	13,549	14,653	15,031	9,306	na	398	971	1,385	1,379	1,205	(314)		
Ewac Alloys	3,512	3,845	2,685	2,397	2,206	2,104	na	na	581	347	426	344	350	214		
Total	26,877	10,577	18,232	22,432	24,056	24,473	21,611	25	668	1,507	2,280	1,931	1,654	5,142		

Source: Company, Kotak Institutional Equities

Road projects – strong operating performance; debt levels declining

The roads portfolio reported strong 10% two-year CAGR in revenues and a steady 8% two-year CAGR in EBITDA. We are taking a two-year CAGR given impact of toll ban and exemption from tolling lightweight vehicles in Gujarat on FY2017 financials. Debt levels for operational projects have started declining. The two remaining under-construction projects started collecting toll in the second half of FY2018 and we would wait for toll collections to stabilize before commenting on their financial health; starting point was reasonable. The other two troubled projects (PNG, Chennai Tada) are on the verge of being taken out with NHA accepting L&T's case; claim amounts yet to be decided. Exit from these projects at 100% debt and 1X invested book would yield a multiple of 1.5X for the portfolio, which we use in our SoTP.

- ▶ **PNG project.** NHAI has accepted the notice for termination of the project and has made a termination payment of ₹4.2 bn in March 2017, which was disputed by the SPV given claim amount of ₹17 bn. The case has been referred to Conciliation Committee of Independent Experts and a decision is awaited.
- ▶ **Chennai-Tada.** The issue of acceptance of termination and of the related payout of ₹4.54 bn (plus interest) has not been decided yet. NHAI continues to challenge the same. The Arbitration Tribunal has started hearing the arguments of the company's counsel in April 2018.

Exhibit 20: Key financials of roads SPVs of L&T, March fiscal year-ends, 2012-18 (Rs mn)

	Project cost (Rs mn)	Revenues						PAT					
		2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Roads and bridges													
Old operational projects													
L&T Panipat Elevated Corridor	4,215	453	519	580	591	585	704	(372)	(465)	(268)	(396)	(378)	(292)
L&T Krishnagiri Thopur Toll Road	5,250	1,212	1,264	1,540	1,529	1,573	1,723	(38)	(266)	(106)	(23)	204	300
L&T Western Andhra Tollways	3,728	481	504	561	632	667	757	(112)	(358)	(125)	6	98	111
L&T Transportation Infrastructure	1,040	248	243	248	258	251	296	131	246	112	188	271	60
L&T Interstate Road corridor	5,370	864	864	864	478	480	269	87	8	(44)	97	87	(47)
L&T Vadodara Baruch Tollway	14,610	2,268	2,489	2,775	2,821	2,662	3,303	(405)	(849)	1	173	(545)	561
L&T Rajkot Vadinar Tollway	10,960	682	807	1,010	1,094	1,128	1,281	(1,135)	(125)	(712)	(586)	(580)	(468)
L&T Halol Shamlaji Tollway	13,050	933	867	784	862	863	989	(1,251)	(268)	(1,157)	(984)	(1,896)	(446)
L&T Ahemdabad - Malliya Tollway	10,154	885	1,298	1,384	1,847	1,770	2,037	(843)	(453)	(991)	(562)	(515)	(473)
L&T Devihalli Hassan Tollway	4,940	104	298	377	481	468	519	—	(32)	(148)	(115)	(35)	(114)
Subtotal	73,317	8,128	9,153	10,124	10,593	10,446	11,878	(3,937)	(2,563)	(3,438)	(2,202)	(3,289)	(808)
New projects with recent CoD													
L&T Samakhiali Gandhidham Tollway	13,000	875	903	89	1,107	1,102	1,392	700	722	(36)	(1,012)	(1,070)	(1,048)
L&T Krishnagiri Walajahpet Tollway	13,700	269	—	775	1,397	1,508	1,752	—	8	(107)	6	(251)	225
L&T Beawar-Pali-Pindwara	24,720	—	—	—	2,424	3,075	3,604	—	(21)	(1)	(2,231)	(2,912)	(3,026)
Subtotal	51,420	1,144	903	864	4,927	5,684	6,748	700	709	(143)	(3,237)	(4,233)	(3,848)
Projects under termination notice													
PNG Tollway	16,910	189	401	859	938	—	—	(376)	(324)	(1,536)	(1,426)	(115)	(1,667)
Chennai Tada	8,480	562	545	569	217	—	—	—	—	—	0	(49)	(3)
Subtotal	25,390	752	947	1,428	1,155	—	—	(376)	(324)	(1,536)	(1,426)	(163)	(1,670)
Total	124,737	9,272	10,055	10,987	15,520	16,130	18,626	(3,238)	(1,854)	(3,581)	(5,440)	(7,522)	(4,656)

Source: Company, Kotak Institutional Equities

Exhibit 21: Debt for operational road SPVs continues to decline

Summary of L&T's roads projects, March fiscal year-ends (Rs mn)

Project	Length (kms)	Project cost	Debt			Equity invested			Concession period	Equity valuation (March 2019)	P/B (X)
			FY2016	FY2017	FY2018	FY2016	FY2017	FY2018			
Operational projects											
L&T Panipat Elevated Corridor	10	5,081	5,073	4,540	4,436	843	843	843	20 yrs	(748)	(0.9)
L&T Krishnagiri Thopur Toll Road	86	6,821	3,463	3,413	4,370	788	788	788	20 yrs	4,812	6.1
L&T Western Andhra Tollways	56	3,092	2,214	2,146	2,055	565	565	565	20 yrs	3,669	6.5
L&T Transportation Infra	28	984	776	589	542	414	414	414	32 yrs	1,425	3.4
L&T Vadodara Bharuch Tollway	83	14,665	9,672	9,628	9,583	435	435	435	15 yrs	4,259	9.8
Rajkot Vadinar Tollway	132	10,552	8,596	9,112	8,761	2,200	2,200	2,200	20 yrs	(1,384)	(0.6)
L&T Halol-Shamlaji Tollway	173	12,975	9,542	6,342	6,354	2,610	3,905	3,905	20 yrs	(543)	(0.1)
Ahmedabad-Maliya Tollway	180	14,808	12,095	12,116	11,723	2,490	2,490	2,490	22 yrs	5,079	2.0
Interstate Road Corridor (annuity)	76	6,265	2,691	2,809	2,932	572	572	572	17.5 yrs	(1,714)	(3.0)
Samakhiali-Gandhidham	56	17,019	9,327	9,150	7,819	805	805	805	24 yrs	(76)	(0.1)
Devihalli-Hassan	77	3,745	2,854	2,787	2,808	900	900	900	30 yrs	2,246	2.5
Krishnagiri-Walajahpet	148	12,983	7,735	7,720	7,562	900	900	900	30 yrs	12,039	13.4
Beawar-Pali-Pindwara	244	20,463	19,323	19,434	18,642	2,472	2,472	2,472	23 yrs	1,593	0.6
Sub-total	1,349	129,453	93,360	89,786	87,586	15,994	17,289	17,289		30,654	1.8
Under construction projects											
L&T Deccan Tollways	145	12,730	5,772	8,508	19,666	1,525	2,060	2,853	25 yrs	2,389	1.2
Sambalpur-Rourkela	165	12,926	3,914	7,829	8,852	2,159	2,900	2,900	22 yrs	2,081	0.7
Sub-total	310	25,656	9,686	16,338	28,518	3,684	4,960	5,754		4,470	0.9
Projects under termination notice											
PNG Tollway	60	16,982	15,458	13,645	14,645	3,382	3,382	3,382	20 yrs	1,691	0.5
Chennai-Tada Tollway	43	8,480	3,537	3,550	3,550	420	420	420	15 yrs	(128)	(0.3)
Sub-total	103	25,462	18,995	17,194	18,194	3,802	3,802	3,802		1,563	0.4
Total	1,762	180,571	122,042	123,318	134,299	23,479	26,051	26,844		36,688	1.4
Proforma analysis for projects under termination notice - assuming receipt of 1X book											
PNG Tollway	60	16,982	15,458	13,645		3,382	3,382		20 yrs	3,382	1.0
Chennai-Tada Tollway	43	8,480	3,537	3,550		420	420		15 yrs	420	1.0
Pro-forma sub-total	103	25,462	18,995	17,194		3,802	3,802			3,802	1.0
Pro-forma total	1,762	180,571	122,042	123,318		23,479	26,051			38,926	1.5

Source: Company, Kotak Institutional Equities estimates

Exhibit 22: Yoy comparable projects have grown revenues at 10% 2-year CAGR; toll ban impacted FY2017 performance

Yoy revenue comparison of operational BOT projects of L&T IDPL, March fiscal year-ends, 2016-17 (Rs mn)

	2016	2017	2018	Yoy growth (%)	2-year CAGR (%)
L&T Panipat Elevated Corridor	591	585	704	21	9
L&T Krishnagiri Thopur Toll Road	1,529	1,573	1,723	10	6
L&T Western Andhra Tollways	632	667	757	13	9
L&T Transportation Infra	258	251	296	18	7
L&T Vadodara Bharuch Tollway	2,821	2,662	3,303	24	8
Rajkot Vadinar Tollway	1,094	1,128	1,281	14	8
L&T Halol-Shamlaji Tollway	862	863	989	15	7
Ahmedabad-Maliya Tollway	1,847	1,770	2,037	15	5
Interstate Road Corridor (annuity)	478	480	269	(44)	(25)
Samakhiali-Gandhidham	1,107	1,102	1,392	26	12
Devihalli-Hassan	377	481	468	(3)	11
Krishnagiri-Walajahpet	1,397	1,508	1,752	16	12
Beawar-Pali-Pindwara	2,424	3,075	3,604	17	22
Total (yoy comparable projects)	15,416	16,143	18,576	15	10
L&T Deccan Tollways Ltd	—	—	561		
Sambalpur-Rourkela	—	—	58		
Total	15,416	16,143	19,195	19	12

Source: Company, Kotak Institutional Equities

Exhibit 23: Yoy comparable projects have grown EBITDA at 8% 2-year revenue CAGR; toll ban impacted FY2017 performance

Yoy EBITDA comparison of operational BOT projects of L&T IDPL, March fiscal year-ends, 2016-18 (Rs mn)

	2016	2017	2018	Yoy growth (%)	2-year CAGR (%)
L&T Panipat Elevated Corridor	420	416	518	24	11
L&T Krishnagiri Thopur Toll Road	1,029	1,031	1,089	6	3
L&T Western Andhra Tollways	453	463	518	12	7
L&T Transportation Infra	149	122	183	50	11
L&T Vadodara Bharuch Tollway	2,395	2,250	2,708	20	6
Rajkot Vadinar Tollway	629	583	733	26	8
L&T Halol-Shamlaji Tollway	443	370	555	50	12
Ahmedabad-Maliya Tollway	1,146	1,054	1,260	20	5
Interstate Road Corridor (annuity)	358	351	126	(64)	(41)
Samakhiali-Gandhidham	905	859	1,061	23	8
Devihalli-Hassan	238	290	235	(19)	(1)
Krishnagiri-Walajahpet	917	938	1,094	17	9
Beawar-Pali-Pindwara	2,016	2,522	2,969	18	21
Total (yoy comparable projects)	11,097	11,250	13,048	16	8
L&T Deccan Tollways Ltd	—	—	373		
Sambalpur-Rourkela	—	—	29		
Total	11,097	11,250	13,450	20	10

Source: Company, Kotak Institutional Equities

Exhibit 24: Stable operational projects are a year of growth away from cash break-even

Yoy cash profit comparison of operational BOT projects of L&T IDPL, March fiscal year-ends, 2016-18 (Rs mn)

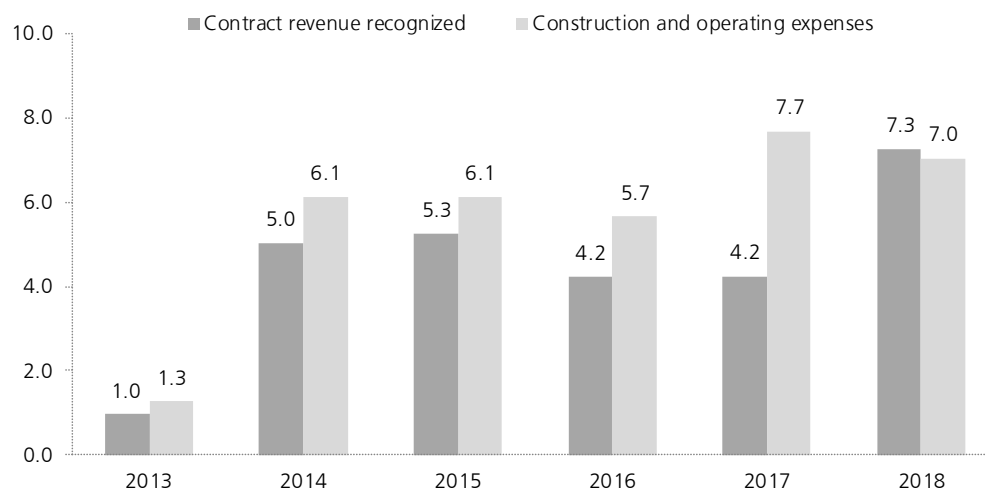
	2016	2017	2018	Yoy growth (%)
L&T Panipat Elevated Corridor	(133)	(99)	(4)	(96)
L&T Krishnagiri Thopur Toll Road	388	580	689	19
L&T Western Andhra Tollways	178	221	274	24
L&T Transportation Infra	54	48	121	154
L&T Vadodara Bharuch Tollway	1,336	1,274	1,628	28
Rajkot Vadinar Tollway	(411)	(420)	(279)	(33)
L&T Halol-Shamlaji Tollway	(816)	(1,455)	(210)	(86)
Ahmedabad-Maliya Tollway	(247)	(274)	7	(102)
Interstate Road Corridor (annuity)	27	59	(136)	(330)
Samakhiali-Gandhidham	(871)	(927)	(842)	(9)
Devihalli-Hassan	(71)	21	(55)	(368)
Krishnagiri-Walajahpet	45	(211)	345	(263)
Beawar-Pali-Pindwara	(1,891)	(2,521)	(2,522)	0
Cash profit (yoy comparable projects)	(2,411)	(3,704)	(984)	NA
As share of revenues (%)	(16)	(23)	(5)	
L&T Deccan Tollways Ltd	(6)	(6)	(644)	
Sambalpur-Rourkela	(7)	(3)	(17)	
Total	(2,440)	(3,736)	(1,651)	53
As share of revenues (%)	(16)	(23)	(9)	

Source: Company, Kotak Institutional Equities

Shipbuilding – turns gross margin positive

- ▶ The entity would now focus only on defense shipbuilding and not on commercial shipbuilding. Key projects remaining include (1) offshore patrol vessels (first vessel recently delivered) and (2) export order for design and construction of 12 fast patrol vessels. Incremental opportunities include (1) new types of warships for Indian Navy, (2) Pollution Control Vessels for Coast Guard and (3) Landing Platform Docks, apart from export opportunities.
- ▶ **Financials.** The revenue line from construction has grown materially on a yoy basis after being stuck in a tight range. Despite nil income from ship repairs, the entity showed positive gross margin for the first time in the past six years. EBITDA was still negative although related loss materially declined on a yoy basis.

Exhibit 25: Shipbuilding business was able to cover up for the variable expenses in FY2018
Contract revenues and variable expenses of L&T Shipbuilding, March fiscal year-ends, 2013-18 (Rs bn)



Source: Company, Kotak Institutional Equities

- ▶ **Preference share issue.** The company has made allotment of ₹6.18 bn of 9% non-convertible non-cumulative redeemable preference shares on rights issue basis. All these were for loss funding and capital expenditure was negligible for the year.
- ▶ **Currency risk.** Currency fluctuations are a key risk for the operations of the company. Its forex outgo of ₹6.8 bn compares against forex earnings of one-tenth of such amount.

Special steels and heavy forgings – further increase in L&A support from the parent

- ▶ The company has secured an order from the Nuclear Power Corporation of India amounting to ₹3.75 bn for supply of critical forgings required in manufacturing of Steam Generators for 6 Nuclear Power Plant Reactors. It has also procured development orders for special grade forged plates for naval vessels.
- ▶ The company witnessed fierce competition from global players having excess capacities. It is more hopeful of the domestic demand from specific sectors materializing (nuclear, defense, manufacturing). It will be making inroads into exports of defense ships during FY2019.
- ▶ The strategic focus of the company remains to fill the technological and manufacturing gap in the country for critical heavy forgings for nuclear, strategic, defense and other engineering sectors. The company has demonstrated its capability to manufacture critical forgings for the Indian Pressurized Heavy Water Reactor (PHWR) plants. It has also taken up the development of the critical forgings for the next generation IPWR – nuclear plants. Discussions are on with foreign technology partners for possible development of forgings to meet their specifications for future Indian nuclear installations.
- ▶ **Financials.** Static sales of ₹1-1.1 bn over the past three years have led to ₹2.5-3 bn of reported PAT loss for the entity over such period. EBITDA loss, however, continues to come down, broke even at a gross margin level (versus ₹0.2 bn in FY2017). L&T has increased its L&A to the entity by ₹3 bn in FY2018.
- ▶ **Preference share issue.** The company has made allotment of ₹6.4 bn of 6% cumulative redeemable preference shares to promoters. ₹5 bn has been used to return long-term foreign currency and rupee term loans.

Exhibit 26: Financials for shipbuilding and forging subsidiaries of L&T, March fiscal year-ends, 2013-18 (Rs mn)

	2013	2014	2015	2016	2017	2018	Yoy change
L&T Shipbuilding							
Sales	1,048	5,326	5,894	4,595	6,211	7,309	
EBITDA	(850)	(2,050)	(2,234)	(2,483)	(2,546)	(1,248)	
PAT	(1,965)	(6,475)	(6,735)	(5,278)	(5,875)	(4,413)	
Share Capital	12,659	13,559	14,059	8,440	4,440	4,440	
Reserves	(2,021)	(8,713)	(15,260)	(11,848)	(12,734)	(12,532)	
Liabilities	27,537	33,648	39,341	41,158	28,750	28,855	
Total Liabilities	38,174	38,493	38,139	37,750	20,456	20,764	
L&T investments (equity +L&A)	12,406	13,306	17,681	43,086	29,014	33,138	4,123
L&T Special Steels and Heavy Forgings							
Sales	141	649	1,020	946	1,175	1,246	
EBITDA	(617)	(1,187)	(819)	(711)	(254)	(385)	
PAT	(1,557)	(3,344)	(2,798)	(2,849)	(2,547)	(2,703)	
Share Capital	5,400	5,666	5,666	5,666	5,666	5,666	
Reserves	(1,758)	(5,079)	(7,900)	(9,513)	(12,077)	(11,652)	
Liabilities	12,322	14,742	17,589	18,887	20,745	19,767	
Total Liabilities	15,964	15,328	15,355	15,040	14,334	13,781	
L&T investments (equity +L&A)	4,457	6,645	9,740	12,858	15,865	21,924	6,059

Source: Company, Kotak Institutional Equities

Hyderabad Metro – weak start on gross margin; scheduled COD deferred to July 2019

- ▶ **Capital structure.** Borrowings have increased to ₹105 bn from ₹97 bn yoy. Also the project has received ₹12bn of the ₹14.6 bn of grant promised to date; ₹2.5 bn received in FY2018. The company also issued ₹1.4 bn of equity. All these add up to ~₹20 bn increase in capital employed over the past two years to ~₹140 bn. Debt to equity including debentures and government grant on the equity side yields a 2.3X ratio for end-FY2018.
- ▶ **Progress.** During the year under report, the entity has received provisional certificate for the stretches between Nagole to Mettuguda (8.05 kms) of Corridor III, Mettuguda to Ameerpet (9.916 kms) of Corridor III and Miyapur to SR Nagar (11.781 kms) of Corridor I, from the Independent Engineer of Hyderabad Metro Rail project. This 30 km stretch got inaugurated on November 28, 2017. The Government of Telangana granted the extension of Scheduled Completion Date to November 30, 2018. Further, the Senior Lenders have also extended the Scheduled Commercial Operation Date of the project, as defined under the Financing Agreements, to July 6, 2019.
- ▶ **Financials – steady start on ridership, weak on margin.** The weak traffic earnings of ₹286 mn imply a steady starting ridership of ~0.1 mn or so. However, against total earnings of ₹626 mn, the EBITDA was negligible at ₹22 mn. Gross margin needs to improve along with scale-up in ridership from here for the project to generate a positive NPV.

Power subsidiaries – L&T MHPS Turbine Generators turned PBT positive

- ▶ MHI Boiler JV
 - During the year, the entity bagged a ₹4.3 bn export order through Mitsubishi Hitachi Power Systems. It is looking forward to gain foothold in Selective Catalytic Reduction system market in India.
 - Financials – the strong growth in revenues happened with steady support from overseas projects. EBITDA margin has further declined by 50 bps to 13.2% primarily on contraction in gross margin. Resulting cash profit was negated by limited customer advances, leading to a flattish yoy nil debt. Current investments in mutual funds of ₹5.8 bn are in addition to such nil net debt.

► MHI Turbine JV

- The constant focus on exports and timely execution of projects has resulted in marginal increase in revenue for the year. The better utilization of capacity along with implementation of various cost-reduction initiatives has resulted in turning it into a profitable company during the year. Incremental focus is to win domestic prospects on which the company is hopeful in FY2019.
- Unlike FY2017, most of the revenues came from the domestic market in FY2018. The significant decline in losses with improving capacity utilization and various cost-reduction initiatives helped it report a positive PAT for FY2018. EBITDA margin at 20%+ levels was supported by steady gross margin of 35% and marked reduction in other expenses (down 140 bps yoy).

Exhibit 27: Financials for power subsidiaries of L&T, March fiscal year-ends, 2013-18 (Rs mn)

	2013	2014	2015	2016	2017	2018
L&T MHPS Boilers						
Revenue	23,598	12,549	12,286	17,068	24,838	29,599
Gross profit	5,082	4,356	5,583	5,687	7,516	7,807
Gross margin (%)	21.5	34.7	45.4	33.3	30.3	26.4
EBITDA	2,060	2,114	2,549	2,822	3,409	3,899
EBITDA margin (%)	8.7	16.8	20.8	16.5	13.7	13.2
PBT	1,634	1,551	1,814	2,736	3,321	3,682
Recurring PAT	1,414	1,002	1,223	1,990	2,213	2,415
L&T MHPS Turbine Generators						
Revenue	9,923	7,478	6,148	7,083	8,817	9,523
Gross profit	2,169	3,329	3,114	2,598	3,383	3,340
Gross margin (%)	21.9	44.5	50.7	36.7	38.4	35.1
EBITDA	328	838	1,217	1,120	1,951	1,997
EBITDA margin (%)	3.3	11.2	19.8	15.8	22.1	21.0
PBT	(894)	(718)	(1,161)	(984)	195	602
Recurring PAT	(894)	(855)	(1,325)	(981)	(59)	575

Source: Company, Kotak Institutional Equities

Realty business

- **Seawoods project.** The company called ₹2.1 bn of non-cumulative redeemable preference shares despite ₹0.78 bn of spending on project development activities. In the process, the company has sold its ₹5.6 bn of current investments.

Exhibit 28: Realty and others business have supported profitability to the extent of Rs6 bn for the past three years
Details of other-related entities of L&T, March fiscal year-ends, 2013-18 (Rs mn)

	Revenues						PAT					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Realty												
CSJ Infrastructure	1,248	2,283	2,109	—	—	—	115	(190)	166	—	—	—
Hyderabad International Trade Expositions	231	210	225	—	—	—	70	51	35	—	—	—
L&T Hitech City	8	8	9	—	—	—	(13)	(17)	(21)	—	—	—
L&T Infocity	467	421	315	—	—	—	126	514	59	—	—	—
L&T Parel Project	na	na	na	na	na	na	na	na	na	815	819	823
L&T Realty	—	17	198	4,069	3,137	395	7	(582)	(15)	2,821	3,187	212
L&T Seawoods	—	—	1,080	2,292	11,702	1,327	6	54	(14)	114	321	270
L&T South City Projects	332	28	26	7	na	na	23	(73)	(56)	57	331	na
Total	2,285	2,967	3,960	6,369	14,839	1,722	334	(243)	154	3,807	4,659	1,305
Construction Equipment and Others (Valves and Welding Equipment)												
L&T Construction Equipment	—	5,100	3,891	4,605	5,217	11,515	na	115	219	6	(69)	5,094
L&T Cutting Tools	86	963	1,644	1,590	1,679	na	(173)	143	223	166	161	89
L&T Kobelco Machinery	138	356	951	1,001	441	789	(138)	(69)	27	36	6	59
L&T Valves	6,507	9,127	13,549	14,653	15,031	9,306	398	971	1,385	1,379	1,205	(314)
Ewac Alloys	3,845	2,685	2,397	2,206	2,104	na	581	347	426	344	350	214
Total	10,577	18,232	22,432	24,056	24,473	21,611	668	1,507	2,280	1,931	1,654	5,142
Grand total	12,862	21,199	26,392	30,424	39,312	23,333	1,002	1,264	2,435	5,738	6,313	6,446

Source: Company, Kotak Institutional Equities

Infrastructure subsidiaries – limited order booking dampens prospects

- ▶ The key overseas subsidiaries in Oman and Saudi Arabia have sustained the improvement in profitability seen in FY2017. However, the depleted order backlog has led to revenues declining to FY2016 levels. While prospects for order inflows look promising, the depleted backlog would possibly lead to further contraction of revenues in FY2018. For the entity in Oman, order inflows have improved meaningfully over last year's low base though are still below current revenue base.

Exhibit 29: Details of key infrastructure-related entities of L&T, March fiscal year-ends, 2013-18 (Rs mn)

	Revenues						PAT					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Infrastructure												
L&T Oman LLC	19,952	22,575	18,985	29,308	37,045	29,552	148	(794)	(1,574)	18	152	195
L&T Saudi Arabia LLC	6,479	2,289	4,161	16,213	26,267	19,026	(192)	(397)	(568)	90	3,386	2,212
Total	26,431	24,864	23,146	45,521	63,312	48,578	(44)	(1,191)	(2,142)	108	3,539	2,407

Source: Company, Kotak Institutional Equities

Exhibit 30: L&T segmental sales and profitability break-up, March fiscal year-ends, 2014-18

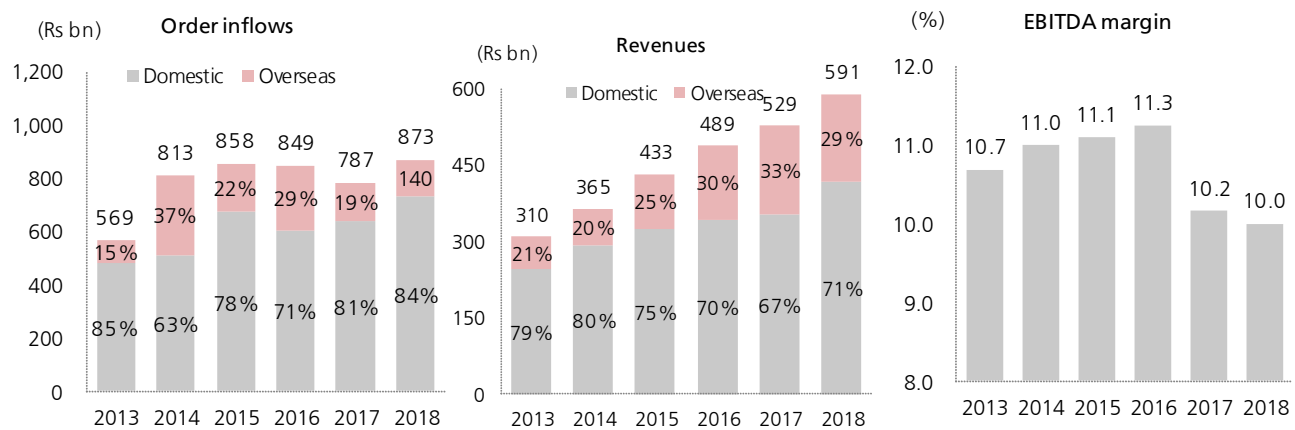
L&T segmental sales and profitability break-up, March fiscal year-ends, 2014-18 (Rs mn)

(Rs mn)	Consolidated					Standalone					Difference				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Gross Revenue															
Infrastructure	380,213	448,588	505,351	539,210	598,190	351,153	406,520	456,464	468,944	547,858	29,060	42,069	48,887	70,266	50,332
Heavy Engineering	45,247	36,246	32,550	34,470	41,139	43,218	32,993	29,355	33,318	40,463	2,029	3,254	3,195	1,152	675
E&A	51,327	54,595	53,994	53,670	55,083	39,073	41,294	41,834	42,813	44,465	12,254	13,301	12,160	10,857	10,617
Hydrocarbons	NA	74,318	86,195	96,280	117,596	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Power	61,546	47,564	64,268	69,388	62,085	51,401	44,590	64,268	69,388	62,082	10,146	2,975	—	—	3
Others	112,245	100,113	97,200	108,620	88,343	42,899	28,279	59,066	61,158	61,154	69,345	71,833	38,134	47,462	27,189
EBIT															
Infrastructure	36,967	42,466	49,905	47,225	52,933	38,791	44,424	47,011	41,471	48,701	(1,824)	(1,957)	2,894	5,754	4,232
Heavy Engineering	4,996	2,270	(975)	4,986	5,158	6,857	3,361	(985)	5,309	5,697	(1,861)	(1,091)	10	(323)	(538)
E&A	5,424	5,492	4,331	5,499	6,688	4,339	5,039	4,366	5,204	6,248	1,085	454	(35)	295	440
Hydrocarbons	NA	(13,428)	(953)	5,084	7,718	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Power	13,758	5,508	1,128	2,012	1,640	5,183	2,015	1,128	2,012	1,620	8,576	3,494	—	—	20
Others	13,024	14,311	9,845	4,147	11,391	12,469	8,921	3,844	4,921	4,824	555	5,390	6,001	(774)	6,568
EBIT margin (%)															
Infrastructure	9.7	9.5	9.9	8.8	8.8	11.0	10.9	10.3	8.8	8.9	(6.3)	(4.7)	5.9	8.2	8.4
Heavy Engineering	11.0	6.3	(3.0)	14.5	12.5	15.9	10.2	(3.4)	15.9	14.1	(91.7)	(33.5)	0.3	(28.0)	(79.7)
E&A	10.6	10.1	8.0	10.2	12.1	11.1	12.2	10.4	12.2	14.1	8.9	3.4	(0.3)	2.7	4.1
Hydrocarbons	NA	(18.1)	(1.1)	5.3	6.6	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Power	22.4	11.6	1.8	2.9	2.6	10.1	4.5	1.8	2.9	2.6	84.5	117.4	NA	NA	NA
Others	11.6	14.3	10.1	3.8	12.9	29.1	31.5	6.5	8.0	7.9	0.8	7.5	15.7	(1.6)	24.2

Source: Company, Kotak Institutional Equities

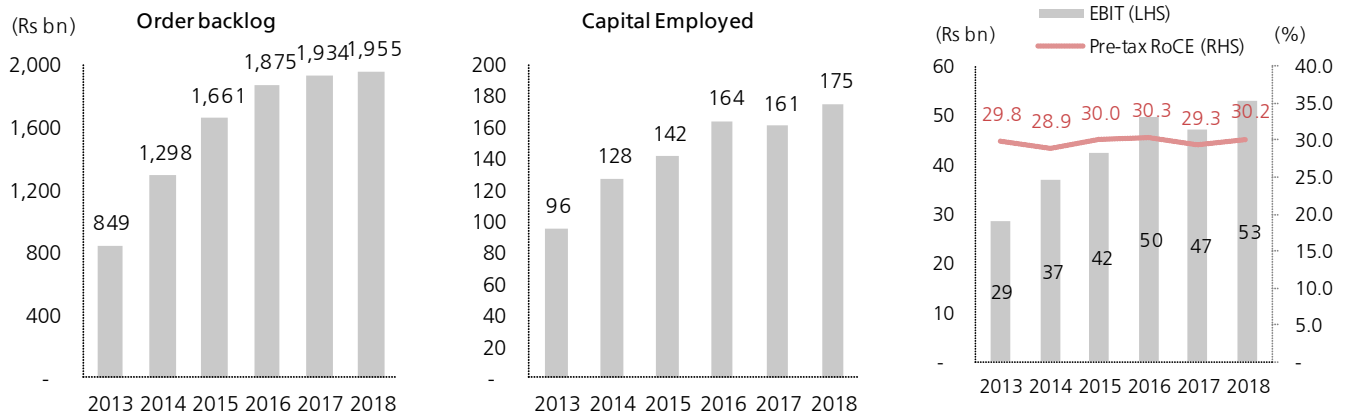
APPENDIX

Exhibit 31: Key financials of L&T's consolidated infrastructure segment, March fiscal year-ends, 2013-18



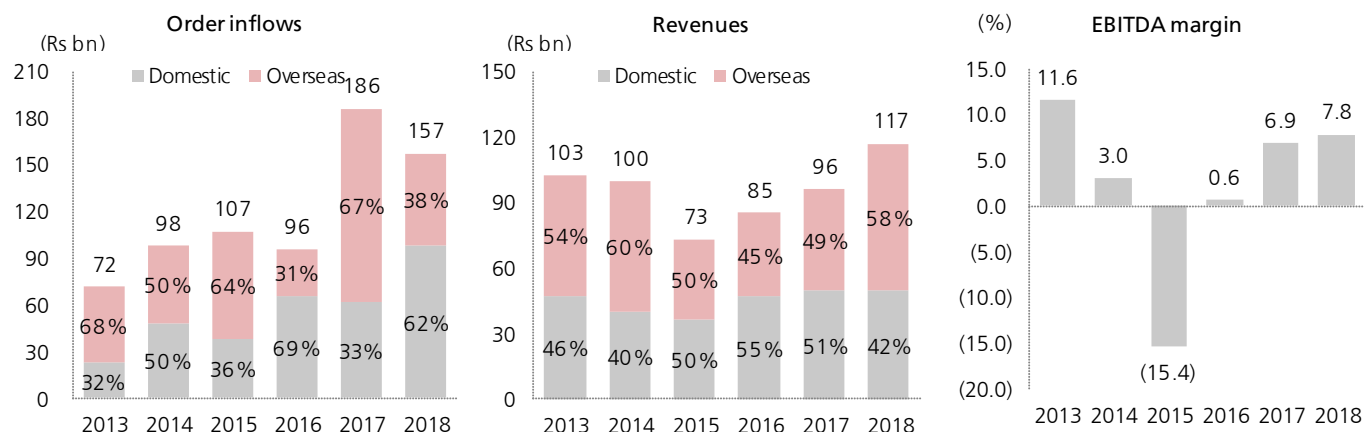
Source: Company, Kotak Institutional Equities

Exhibit 32: Order backlog and RoCE (%) for L&T's infrastructure segment, March fiscal year-ends, 2013-18



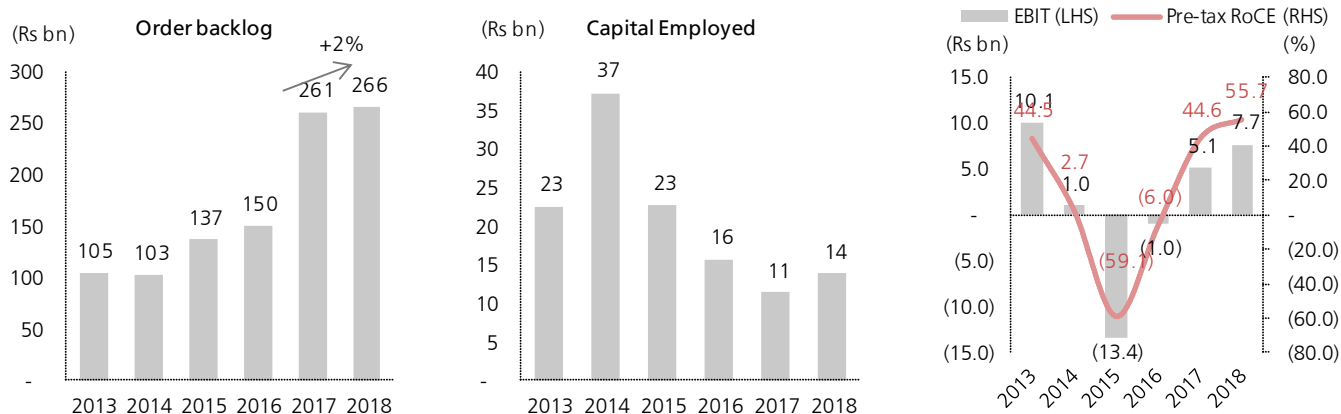
Source: Company, Kotak Institutional Equities

Exhibit 33: Change in business mix for L&T's hydrocarbon segment, March fiscal year-ends, 2013-18



Source: Company, Kotak Institutional Equities

Exhibit 34: Order backlog and RoCE for L&T's hydrocarbon segment, March fiscal year-ends, 2013-18



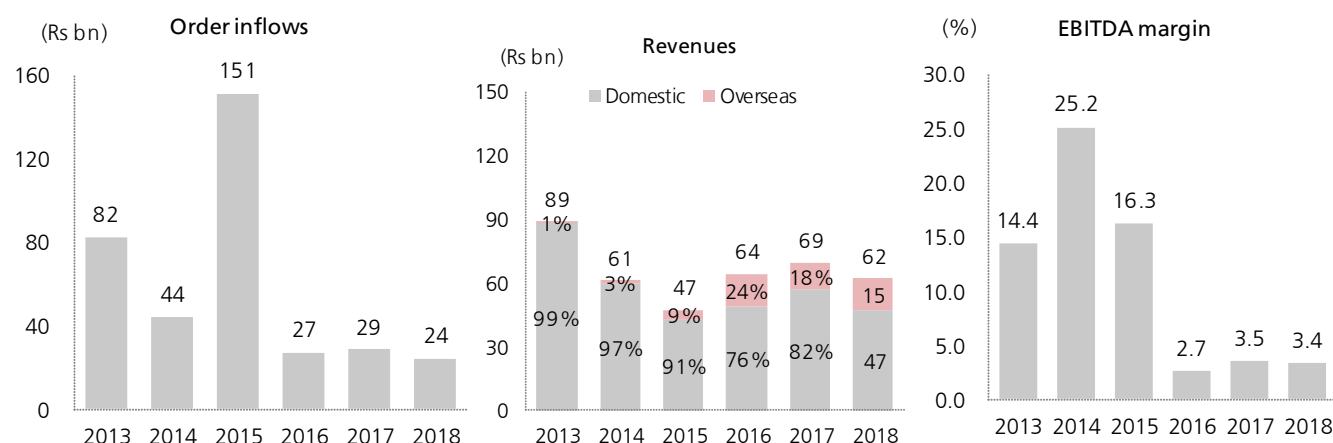
Source: Company, Kotak Institutional Equities

Exhibit 35: Details of Hydrocarbon-related entities of L&T, March fiscal year-ends, 2013-18 (Rs mn)

	Revenues						PAT					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Hydrocarbon												
L&T Hydrocarbon Engineering	92,623	87,159	57,234	71,112	87,866	110,444	5,262	1,057	(6,541)	865	4,365	4,057
L&T Sapura Shipping	2,324	2,048	1,778	1,989	1,388	1,222	295	269	82	221	261	70
L&T Sapura Offshore	3	5	367	63	—	—	17	1	(6)	10	(2)	(1)
L&T-Valdel Engineering	840	816	1,210	1,232	—	—	62	2	103	114	—	—
L&T-Gulf	98	211	200	193	206	258	45	49	24	20	21	54
L&T Modular Fabrication Yard	4,764	3,418	607	3,422	4,560	5,013	171	(535)	(1,248)	(370)	67	92
L&T Atco Saudia	1,159	5,413	8,978	3,129	353	525	30	(32)	(1,995)	2,180	(176)	(6)
L&T Electromech, Oman	5,947	7,882	6,040	4,791	1,425	3,205	306	(683)	(1,788)	(165)	(525)	163
L&T Kuwait construction general contracting	871	1,445	390	—	—	—	66	14	(370)	(67)	(5)	16
Larsen Toubro Arabia	—	467	4,250	7,756	6,179	3,863	—	(26)	(191)	(458)	(2,710)	(854)
Total	108,629	108,863	81,054	93,688	101,976	124,529	6,254	115	(11,931)	2,350	1,296	3,590

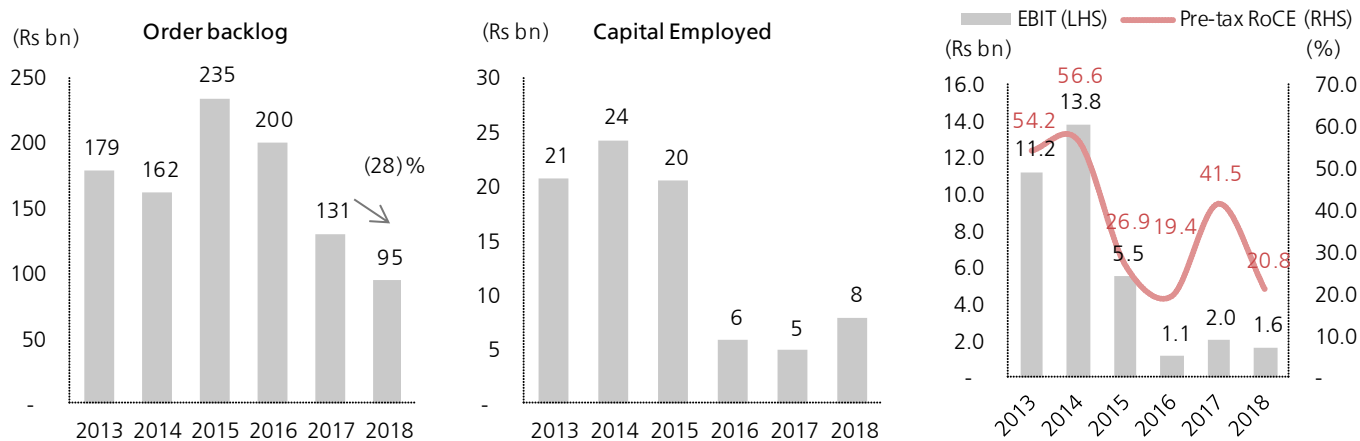
Source: Company, Kotak Institutional Equities

Exhibit 36: Change in business mix for L&T's power segment, March fiscal year-ends, 2013-18



Source: Company, Kotak Institutional Equities

Exhibit 37: Order backlog and RoCE for L&T's power segment, March fiscal year-ends, 2013-18



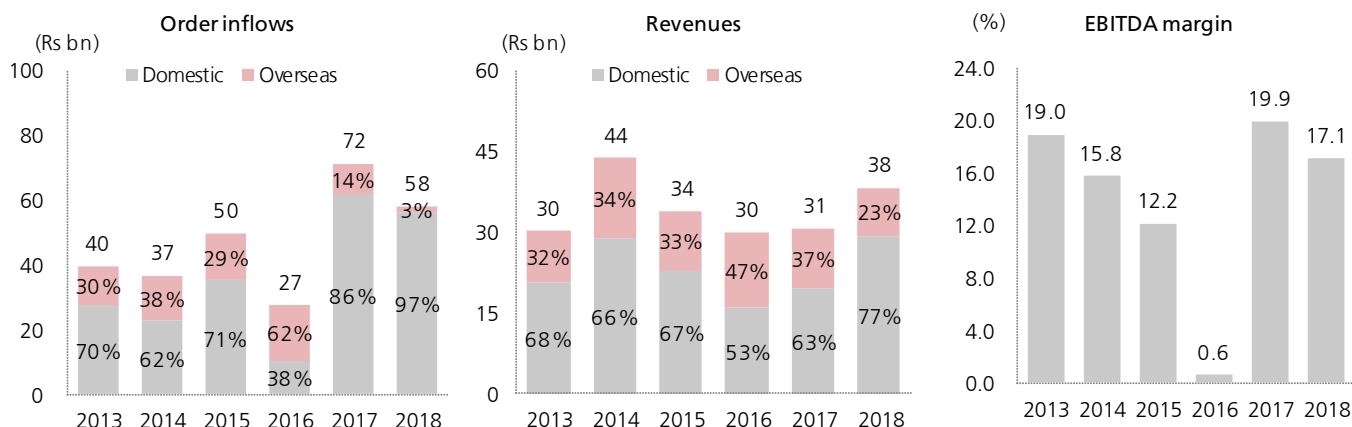
Source: Company, Kotak Institutional Equities

Exhibit 38: Key financials of power subsidiaries of L&T, March fiscal year-ends, 2013-18 (Rs mn)

	Revenues						PAT					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Power												
L&T MHPS Boilers	23,598	12,549	12,286	17,117	24,907	29,665	1,414	1,002	1,223	2,575	2,213	2,415
L&T MHPS Turbine Generators	9,923	7,478	6,148	7,183	9,103	9,633	(895)	(855)	(1,325)	(867)	(59)	575
L&T Sargent & Lundy	1,023	1,018	1,111	1,313	1,125	951	75	72	116	167	28	98
L&T Howden	1,561	793	1,153	1,380	1,571	2,349	7	(11)	20	162	186	130
Total	36,105	21,838	20,697	26,992	36,705	42,597	602	207	35	2,037	2,368	3,219

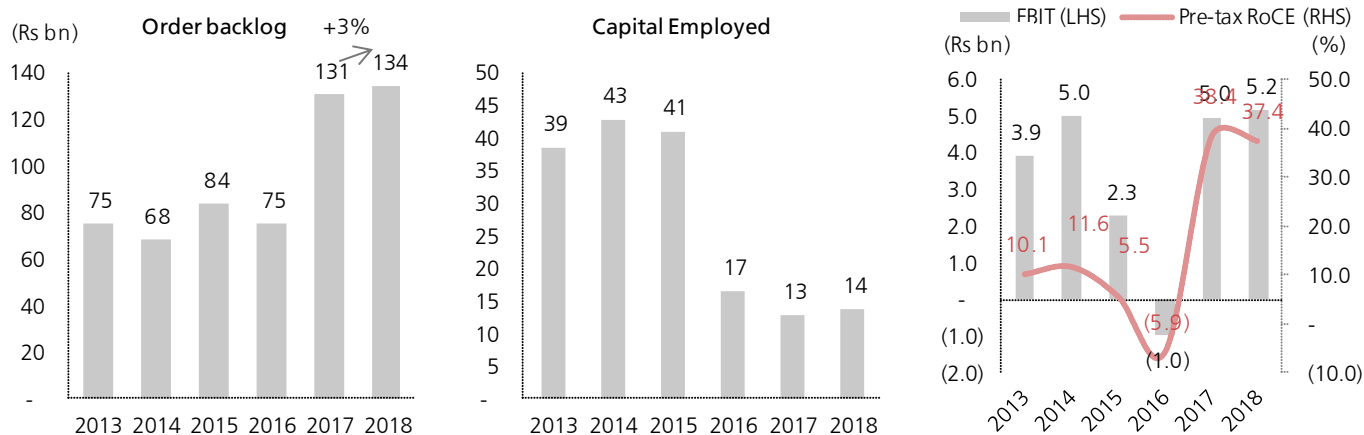
Source: Company, Kotak Institutional Equities

Exhibit 39: Change in business mix for L&T's heavy engineering segment, March fiscal year-ends, 2013-18



Source: Company, Kotak Institutional Equities

Exhibit 40: Order backlog and RoCE for L&T's heavy engineering segment, March fiscal year-ends, 2013-18



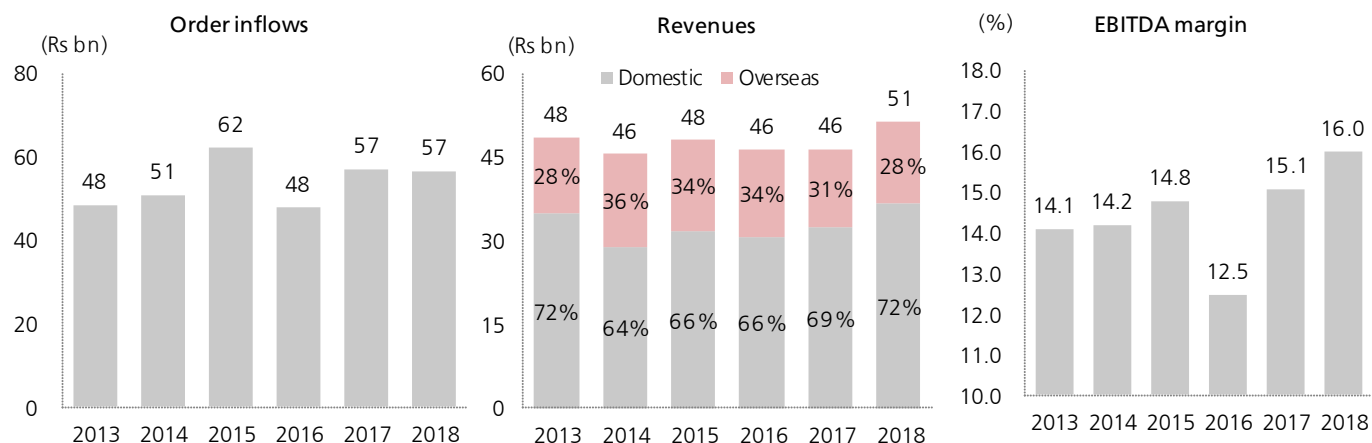
Source: Company, Kotak Institutional Equities

Exhibit 41: Details of heavy engineering-related entities of L&T, March fiscal year-ends, 2013-18 (Rs mn)

	Revenues						PAT					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Heavy Engineering												
L&T Special Steels and Heavy Forgings	141	649	1,020	946	1,300	1,279	(1,557)	(3,345)	(2,798)	(2,843)	(2,547)	(2,703)
Spectrum Infotech	245	429	135	170	162	—	26	30	10	13	(9)	—
L&T Heavy Engineering LLC	1,510	1,986	3,391	2,667	2,173	491	(267)	(32)	266	(152)	(209)	(1,312)
Total	1,895	3,063	4,545	3,784	3,635	1,770	(1,798)	(3,346)	(2,523)	(2,982)	(2,764)	(4,015)

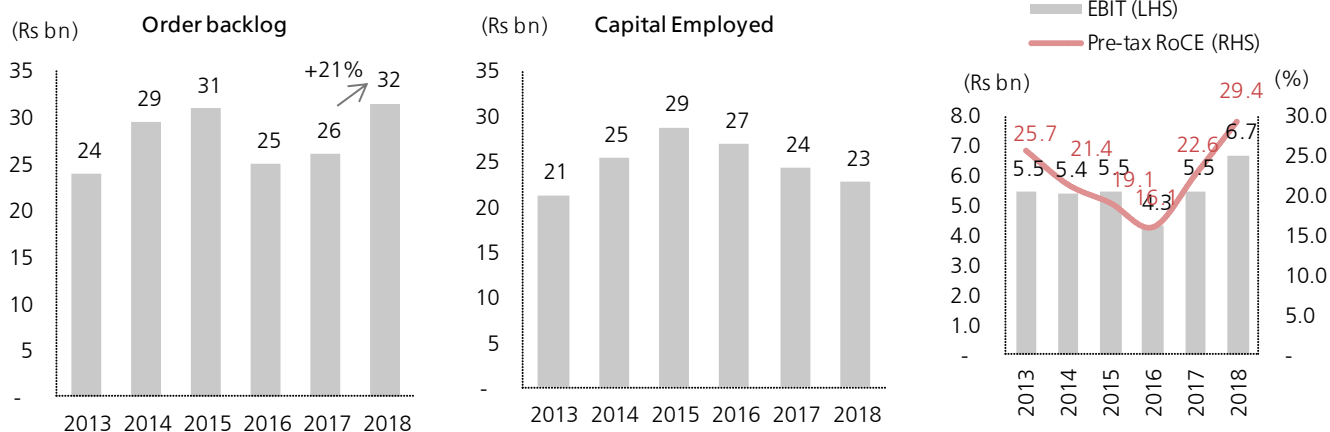
Source: Company, Kotak Institutional Equities

Exhibit 42: Change in business mix for L&T's electrical & automation segment, March fiscal year-ends, 2013-18



Source: Company, Kotak Institutional Equities

Exhibit 43: Order backlog and RoCE for L&T's electrical & automation segment, March fiscal year-ends, 2013-18



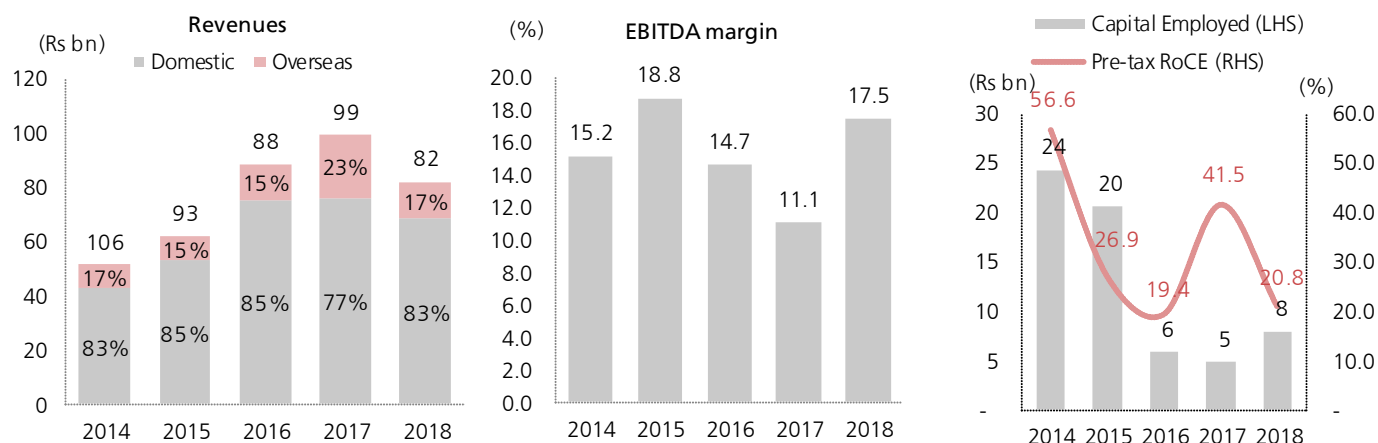
Source: Company, Kotak Institutional Equities

Exhibit 44: Details of electrical & automation-related entities of L&T, March fiscal year-ends, 2013-18 (Rs mn)

	Revenues						PAT					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Electrical & Automation												
TAMCO Group of companies												
TAMCO switchgear (Malaysia)	5,754	6,818	10,697	7,875	7,426	5,006	682	474	707	672	618	155
TAMCO electrical industries Australia	1,176	844	265	109	148	27	100	18	(60)	(113)	(18)	(38)
PT TAMCO Indonesia	453	606	383	526	478	594	17	37	(49)	48	(76)	23
L&T Electrical and Automation FZE	2,524	3,546	3,250	2,754	2,771	4,303	341	466	138	(508)	(220)	329
L&T Electrical And Automation Saudi Arabia	740	737	1,366	722	625	793	(70)	(29)	42	(212)	(87)	87
Henikwon Corporation	319	635	763	555	282	421	(131)	(35)	(5)	29	(7)	(10)
Servowatch Systems	146	310	602	877	358	659	(66)	(124)	(144)	15	(147)	29
Kana Controls General Trading & Contracting	—	—	301	206	434	294	—	—	(5)	(21)	4	(21)
Total	11,112	13,496	17,626	13,624	12,520	12,097	873	807	624	(90)	65	554

Source: Company, Kotak Institutional Equities

Exhibit 45: Change in business mix for L&T's other segments, March fiscal year-ends, 2014-18



Source: Company, Kotak Institutional Equities

Exhibit 46: Details of other-related entities of L&T, March fiscal year-ends, 2014-18 (Rs mn)

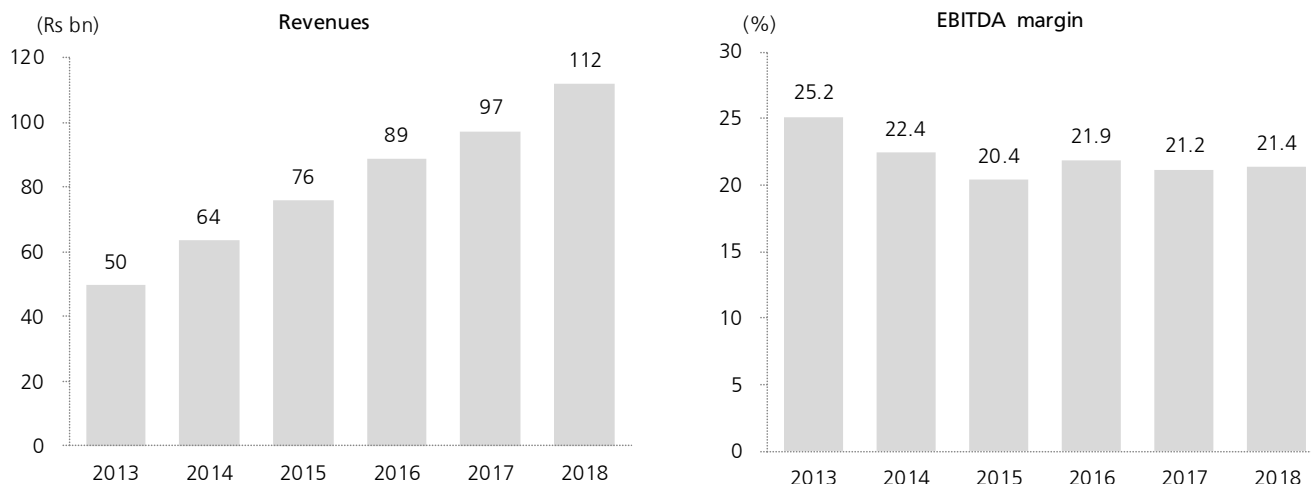
	Gross Revenues					EBITDA				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Other										
Realty (gross revenues)	12,960	19,290	19,320	24,720	14,770	7,530	10,650	11,300	5,888	8,862
Shipbuilding (gross revenues)	6,190	7,980	8,360	7,020	7,660	(4,970)	(2,080)	(3,280)	(3,362)	(1,649)
MIP (gross revenues)	35,269	38,580	41,120	36,440	29,690	2,340	5,580	5,510	2,551	2,969
MMH (gross revenues)	54,800	31,500	28,400	40,440	36,220	9,097	3,339	1,300	4,853	5,433
Others/excise duty	(3,119)	(3,950)	(8,900)	(9,620)	(6,440)	2,128	25	(1,891)	1,015	(1,323)
Total net revenues	106,100	93,400	88,300	99,000	81,900	16,125	17,514	12,939	10,945	10,945

Notes:

(1) EBITDA for FY2017 and FY2018 is estimated.

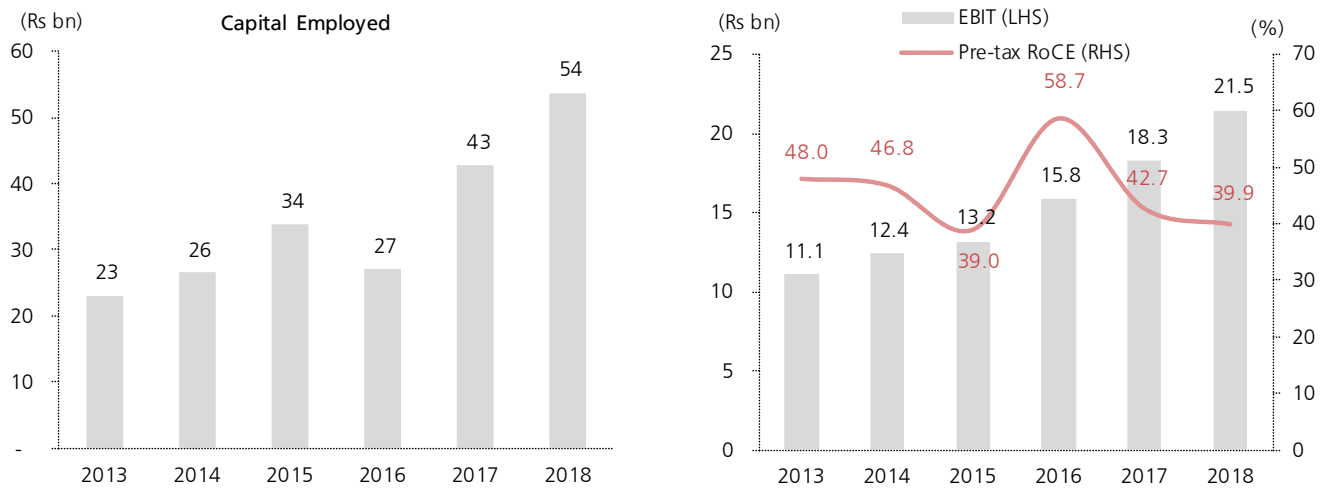
Source: Company, Kotak Institutional Equities

Exhibit 47: Change in business mix for L&T's IT&TS segment, March fiscal year-ends, 2013-18



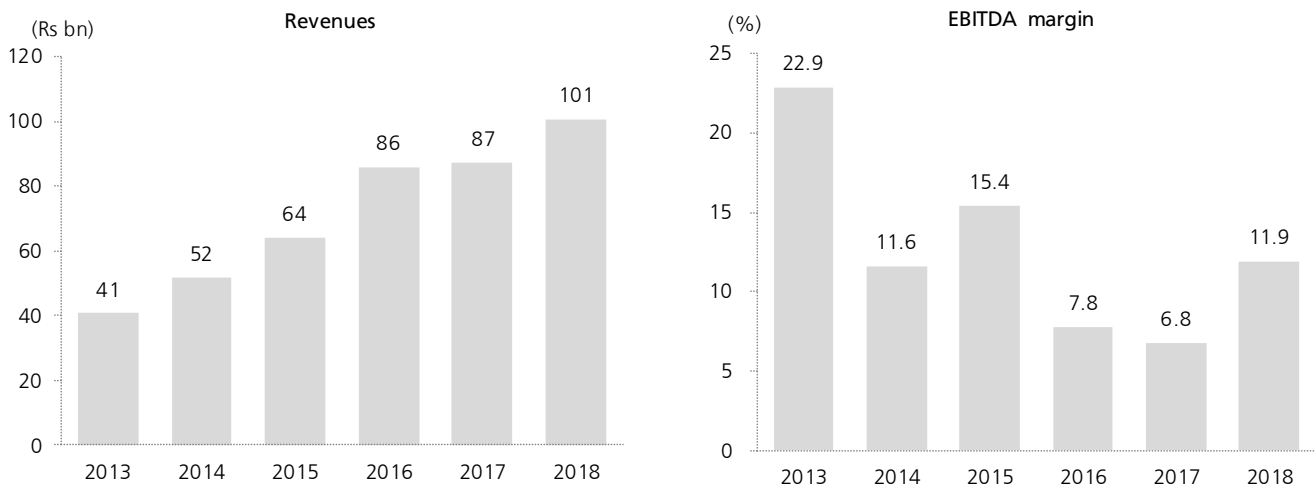
Source: Company, Kotak Institutional Equities

Exhibit 48: RoCE for L&T's IT & technology services segment, March fiscal year-ends, 2013-18



Source: Company, Kotak Institutional Equities

Exhibit 49: Change in business mix for L&T's financial services segment, March fiscal year-ends, 2013-18



Source: Company, Kotak Institutional Equities

AUGUST 27, 2018
UPDATE

Coverage view: **Cautious**

Price (₹): **1,840**

Target price (₹): **2,000**

BSE-30: **38,252**

NDR meeting notes. We hosted Sanjay Jalona, CEO and Nitin Mohta, Head-Investor Relations for investor meetings recently. The management is confident of strong growth in FY2019 and being in the leaders' quadrant on growth in the medium term. A rich client base, focus (verticals, accounts, and competencies), strong digital capabilities and lesser drags will continue to power strong growth. Such growth shall result in margin expansion; instead the company will reinvest gains to create a longer-term sustainable growth theme. Healthy growth deserves premium multiples; we retain our positive view.

Company data and valuation summary

L&T Infotech

Stock data

52-week range (Rs) (high,low)	1,909-725
Market Cap. (Rs bn)	318.5

Shareholding pattern (%)

Promoters	83.0
FIs	6.9
MFs	1.7

Price performance (%)

	1M	3M	12M
Absolute	2.1	9.2	150.0
Rel. to BSE-30	(1.7)	(1.1)	106.5

Forecasts/Valuations	2018	2019E	2020E
EPS (Rs)	63.5	82.9	93.7
EPS growth (%)	13.9	30.5	13.0
P/E (X)	29.0	22.2	19.6
Sales (Rs bn)	73.1	92.9	106.9
Net profits (Rs bn)	11.1	14.5	16.4
EBITDA (Rs bn)	11.9	17.6	20.3
EV/EBITDA (X)	25.5	17.0	14.4
ROE (%)	31.8	33.5	30.7
Div. Yield (%)	0.9	1.3	1.4

Growth drivers—four key factors helped accelerate growth

LTI grew 9.3% and 16.7% in FY2017 and FY2018. The company grew 23.4% in USD terms in 1QFY19. LTI is confident of strong growth in FY2019 and being in the leaders' quadrant on growth. Four factors have helped growth rates:

- ▶ **Mined high quality clients.** LTI has one in every five accounts or 59 clients in the F-500 category. These accounts are large and scalable. Changes made on the account facing teams and multiple initiatives detailed later have helped mine large accounts. The company has barely scratched the surface in making the most of existing client relationships.
- ▶ **Focus,** on account hunting, mining large accounts and seeding digital services in key accounts led to a productive use of resources and firing up the growth engine. Account hunting is carried out through top focus account list, a target list comprising of must-win logos in focus verticals. LTI has opened up plenty of large accounts through this target focus list. This focus helps in getting the right profile of customers on board and avoids unproductive investments. Minecraft account mining initiative was created to replicate the success of mining top 20 accounts to a larger base of top 50 accounts. ADEA (Analytics and Digital in Every Account) was created to drive broader acceptance of digital offerings, an area where the company has achieved a fair bit of success. Focus on verticals is not broad-brush but on micro-verticals where it enjoys an edge. In short, knowing what to do is half the battle won.
- ▶ **Lesser legacy drags.** LTI does not have any presence in BPO, a segment that has faced deflationary pressure from RPA and Intelligent Automation. LTI's presence in IMS has increased to 11.5% but only in the last two years through next-gen infra offerings. The company has little legacy IMS revenues. While enterprise solutions contributes 26% to revenues, it has grown 41% yoy in 1QFY19 (33% yoy on organic basis); lower size helps overcome the legacy drag. In addition LTI has high revenues from SaaS and next gen offerings.
- ▶ **Capability building.** The company has stepped up vertical, cloud and cloudapp partnerships with and not restricted to AWS, Azure, Duck Creek, Mulesoft, Nutanix and Workplace by Facebook. These partnerships have been augmented with acquisitions such as AugmentIQ and Syncordis.

Kawaljeet Saluja

Jaykumar Doshi

AugmentIQ acquisition, a Pune-based big data and analytics platforms and solutions firm, has helped the company enhance its big data platform and MOSAIC offerings. AugmentIQ serviced large credit bureaus and large banks in fraud detection. LTI's US\$100 mn+ CBDT project uses AugmentIT platform. LTI acquired Syncordis in November 2017 for EUR15 mn. Syncordis is retail core banking implementation partner for Temenos. This acquisition provides access to retail banking clients, a relatively weak area of LTI.

Strong revenue growth can lead to margin expansion but LTI prefers to reinvest

Growth is a strong margin lever in the IT services business. This holds true for LTI as well. However, rather than allow margin to expand, the company prefers to reinvest these gains back in the business. The company's objective is to ensure consistency in margin performance and deliver growth in the leaders' quadrant. Note that LTI has guided for net profit margin range of 14-15% though it has delivered at the upper end of the range.

Digital—focus on business outcomes

Digital accounts for 34% of revenues and grew 43% on yoy comparison in 1QFY19. Rather than think about digital as a set of technologies, LTI views digital as a way of working that can—(1) enable new business models, (2) enable revenue growth, (3) transform experience with customers, partners and employees and (4) drive efficiency in operations or next-gen operations.

LTI has delivered business outcomes in each of the buckets. For example for a Nordic-based payment service provider, LTI has created micro-payments solutions using Blockchain technology. This platform facilitates small denomination payments, a roadblock for anyone keen on single articles of user's choice as opposed to the traditional mode of buying a full magazine issue. In another instance, LTI reduced the customer onboarding process for an NBFC to two hours from three weeks. For CBDT, it is using social media analytics to identify non-tax compliance. LTI has created a semantic web on individuals. For a diversified commodities major, LTI has helped improve oil field production leveraging its strong understanding of operational technologies.

The building blocks of LTI's success under the current leadership

LTI has been in the business for a long time. However the company has met with success after success only under the current leadership. The success can be attributed to four key transformations:

- ▶ **Sales.** The first key transformation was to move LTI from a passive RFP-driven organization to a proactive people driven organization. Within nine months of the CEO getting on board, LTI had to revamp the majority of its sales team. LTI's leadership team's connect in the industry and previous organizations helped in accelerated recruitment. The sales model moved away from a pure-RFP driven organization to co-creation and proactive sales organization.
- ▶ **Marketing.** The company changed the name of the organization to LTI from L&T Infotech. Saffron helped with the rebranding effort. The company revamped the website to create new channels of customer acquisition. Further the company has built strong relationships with third party deal advisory firms such as ISD.
- ▶ **Channel.** LTI (1) created new alliances to become an effective ecosystem player, (2) deepened relationships with existing partners such SAP, Oracle etc, and (3) engaged with industry analysts to get a wider audience for LTI's capabilities,
- ▶ **People.** The IT services market has changed to an expertise market from a scale driven market. LTI changed the model of hiring to top 100 colleges from the diffused hiring model of the past. The company has started hiring from top B-school campuses to create a quality talent pool for different functions such a consulting and sales.

Maintain positive view

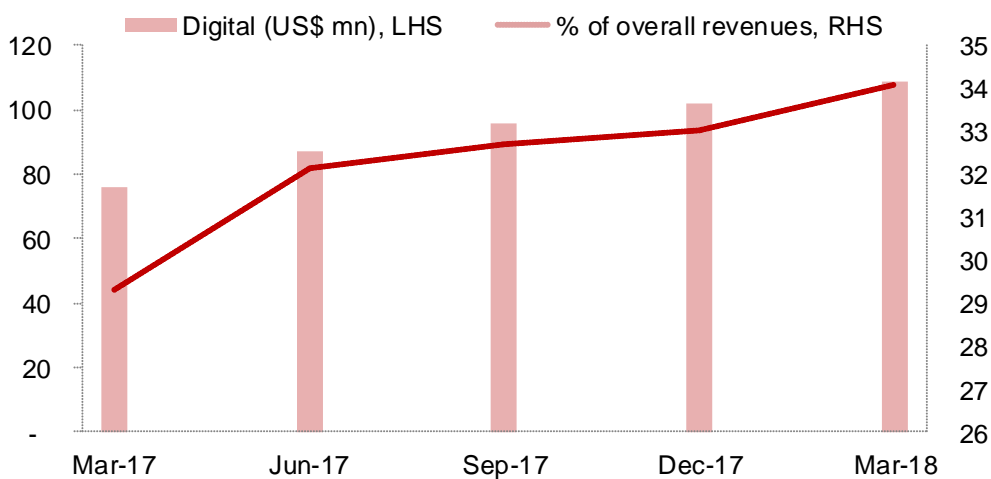
LTI will lead the industry on revenue growth in FY2019. We believe that the success of LTI in the last two years can be attributed to the induction of new leadership and revamp of talent by the CEO. Investments in sales transformation, focus on large deals (net new TCV of US\$250 mn), deepening of relationships with top 50 clients through multiple initiatives and investments in digital are reaping rich dividends. We note that LTI revamped and augmented its sales force, sharpened focus on the top 50 accounts and target accounts (must-win logos), increased engagement with sourcing advisors and external consultants for proactive pipeline generation, enhanced branding/marketing and improved responsiveness in RFPs. We expect LTI to comfortably outpace larger competition on growth rate. Stock valuations are not cheap at 19X FY2020E earnings but justified for premium growth and the confidence on its sustainability.

Exhibit 1: LTI's yoy revenue growth rate has accelerated



Source: Company, Kotak Institutional Equities

Exhibit 2: Digital revenues contributes 34% to overall revenues



Source: Company, Kotak Institutional Equities

Exhibit 3: LTI key operating metrics

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

Source: Company, Kotak Institutional Equities

Exhibit 4: Condensed consolidated financials for LTIT, March fiscal year-ends, 2014-21E (Rs mn)

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

Source: Company, Kotak Institutional Equities estimates

AUGUST 27, 2018

UPDATE

BSE-30: 38,252

1QFY19 revenue report – flat qoq overall, down 3% ex-Jio. The wireless industry's adjusted AGR (TRAI reported AGR plus our estimate of captive NLD AGR attributable to wireless segment) rose 0.6% qoq to Rs306 bn in 1QFY19. Jio's adjusted AGRMS stood at 23.5% while Bharti's (including TTSL and Telenor) and Idea-Voda's AGRMS stood at 33.3% and 36.3%, respectively. Essentially, big gains for Jio in 1QFY19 came at the expense of Idea-Voda while Bharti just about held its own. Sobering fact – Jio just delivered 14% qoq in growth in revenues without needing the industry revenue pie to expand! This must worry the incumbents.

Incumbents in a tough spot, overall revenue stability notwithstanding

Our estimate of consumer spends (adjusted AAGR) rose 0.6% qoq to Rs306 bn in 1QFY19. This includes the adjustments for NLD revenues to make up for the understated nature of TRAI's reported AGR numbers. On an ex-Jio basis, industry AAGR declined 3% qoq and 33% yoy to Rs234 bn. This is what the nub of the 1QFY19 TRAI revenue report really is – if Jio can grow its wireless revenue base by as much as Rs9 bn or 14% qoq without needing a price increase, there is no plausible reason for it to look at one till this equation works. Incumbents, on their part, face a tough choice given Jio's declared pricing stance; the incumbents

- ▶ Can choose to match Jio on pricing to close the relative performance gap but Jio's response could mean industry revenue pie shrinks further; a lose-lose situation.
- ▶ Can continue to price their services at a premium to Jio, prevent shrinkage of the industry pie but lose share to Jio; a lose-win situation? An adverse ruling on the selective pricing case could make things even tougher.

AAGRMS up 280 bps qoq to 23.5% for Jio; bulk of the gains at Idea-Voda's expense

Key numbers from the adjusted AGR view –

- ▶ Overall industry adjusted AGR (AAGR) for 1QFY19 stood at Rs306 bn or Rs1.22 tn annualized.
- ▶ Bharti's AAGR stood at Rs95 bn, flat qoq and down 20% yoy. AAGR market share for Bharti (standalone) stood at 31.0%, down 413 bps yoy. Including TTSL and Telenor, AAGRMS was 33.3%, down 945 bps yoy.
- ▶ Idea-Voda's AAGR stood at Rs111 bn, down 27% yoy. Combined market share stood at 36.3%, down 858 bps yoy.
- ▶ R-Jio's AAGR of Rs72 bn, +14% qoq, represented an AAGRMS of 23.5%. Jio's reported AGRMS now stands at an aggregate 25.3% in Metro + A circles (highest 32.9% in Gujarat), 32.5% in the B circles (highest 42.6% in Haryana) and a 39.2% in the C circles (highest 43.5% in Himachal Pradesh).
- ▶ On a reported basis, Idea-Voda's combined AGRMS is above 50% now only in three circles – Maharashtra (53.9%), Gujarat (54.1%), and Kerala (57.5%).
- ▶ Circle-wise leadership – Bharti now #1 in seven (five of which metros or A circles), Idea-Voda in eight (five of which B circles), and Jio in seven circles (no metros or A circles yet).

Rohit Chordia

Aniket Sethi

Exhibit 1: Increasing divergence between AGR and net revenues as bundled plans drive higher long-distance traffic

Rs mn	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Idea						
As reported to TRAI						
Gross revenues	82,012	83,030	76,084	67,516	68,330	63,060
Adjusted gross revenues	64,011	61,609	53,078	47,461	40,334	37,431
AGR/GR (%)	78	74	70	70	59	59
As reported to investors						
Wireless gross revenues	81,261	81,665	74,655	65,096	61,373	58,892
As % of reported to TRAI	99	98	98	96	90	93
Wireless net revenues	71,837	70,975	63,457	58,735	54,264	51,148
As % of reported to TRAI	112	115	120	124	135	137

Source: TRAI, Company, Kotak Institutional Equities

Exhibit 2: Adjusted AGRMS for Indian telecom companies

	AGR (UL, reported, Rs mn)	AGRMS (% reported)	Add: NLD AGR (Rs mn)	Of which, captive NLD AGR (Rs mn)	Adjusted AGR (Rs mn)	Adjusted AGRMS (%)
Bharti	67,235	28.0	34,686	27,749	94,984	31.0
Vodafone	44,837	18.7	17,231	16,887	61,723	20.2
Idea	37,431	15.6	12,199	11,955	49,386	16.1
R-Jio	71,257	29.6	747	747	72,004	23.5
TTSL	5,540	2.3	-	-	5,540	1.8
Aircel	-	-	-	-	-	-
BSNL+MTNL	11,647	4.8	14,373	7,186	18,833	6.2
RCOM	1,491	0.6	1,465	732	2,223	0.7
Telenor	862	0.4	579	579	1,441	0.5
Others	59	0.0	-	-	59	0.0
Total	240,359	100.0	81,279	65,835	306,194	100.0

Source: TRAI, Kotak Institutional Equities estimates

Exhibit 3: Adjusted AGR trends, March fiscal year-ends

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	yoy change (%)
Adjusted AGR (Rs mn)						
Bharti	119,169	110,765	100,825	94,959	94,984	(20.3)
Vodafone	82,852	75,177	69,952	66,520	61,723	(25.5)
Idea	69,261	61,660	57,182	52,119	49,386	(28.7)
R-Jio	(9,570)	44,014	53,375	63,043	72,004	NA
TTSL	18,611	17,623	12,795	3,689	5,540	(70.2)
Aircel	17,156	15,487	12,738	-	-	(100.0)
BSNL+MTNL	24,283	22,458	13,663	18,774	18,833	(22.4)
RCOM	9,115	9,893	4,723	1,673	2,223	(75.6)
Telenor	7,157	6,458	4,917	3,573	1,441	(79.9)
Others	1,027	857	351	59	59	(94.3)
Total	339,060	364,392	330,521	304,409	306,194	(9.7)
Adjusted AGR market share (%)						yoy change (bps)
Bharti	35.1	30.4	30.5	31.2	31.0	(413)
Vodafone	24.4	20.6	21.2	21.9	20.2	(428)
Idea	20.4	16.9	17.3	17.1	16.1	(430)
R-Jio	(2.8)	12.1	16.1	20.7	23.5	2,634
TTSL	5.5	4.8	3.9	1.2	1.8	(368)
Aircel	5.1	4.3	3.9	-	-	(506)
BSNL+MTNL	7.2	6.2	4.1	6.2	6.2	(101)
RCOM	2.7	2.7	1.4	0.5	0.7	(196)
Telenor	2.1	1.8	1.5	1.2	0.5	(164)
Others	0.3	0.2	0.1	0.0	0.0	(28)
Total	100.0	100.0	100.0	100.0	100.0	
Bharti + TTSL + Telenor (a)	42.7	37.0	35.9	33.6	33.3	(945)
Vodafone + Idea (b)	44.9	37.6	38.5	39.0	36.3	(858)
(a) + (b) + R-Jio	84.8	86.6	90.5	93.3	93.1	832

Source: TRAI, Kotak Institutional Equities

Exhibit 4: Jun 2018 quarter AGR matrix

AGR (Rs mn)	Bharti	Jio	Vodafone	Idea	TTSL	RCOM	BSNL/MTNL	Telenor	Others	Total	Voda+Idea
Metro + A circles	36,770	31,228	25,855	17,896	5,225	1,385	5,097	32		123,488	43,752
Maharashtra	3,162	5,189	4,402	6,992	900	76	420	1		21,142	11,394
Tamilnadu	7,870	4,740	5,544	965	270	104	1,125			20,196	6,509
Delhi	3,923	3,147	1,919	107	596	302	636			10,629	2,026
Andhra Pradesh	8,126	5,583	814	4,614	528	148	1,370	85		21,266	5,428
Karnataka	9,345	3,365	2,125	1,704	790	425	727			18,481	3,829
Mumbai	1,915	2,659	4,000	531	1,645	208	260			11,218	4,532
Gujarat	969	4,582	4,901	2,649	206	32	663	(54)		13,948	7,551
Kolkata	1,460	1,323	1,825	338	146	28	108			5,228	2,163
B circles	19,259	27,926	15,826	17,255	177	99	4,925	451	59	85,975	33,080
UP (East)	4,490	4,805	4,321	1,578	62	-	596	199		16,051	5,900
Rajasthan	3,965	4,237	2,042	848	66	28	469			11,654	2,890
Kerala	1,188	2,014	2,558	4,009	60	41	1,556			11,426	6,567
Madhya Pradesh	2,753	5,159	283	5,134	(26)	-	515			13,819	5,417
UP (West)	1,960	3,654	1,808	2,625	6	-	488	252		10,792	4,432
Punjab	2,065	3,043	525	1,796	4	24	586		59	8,102	2,321
West Bengal	2,270	3,261	3,534	648	7	1	290			10,012	4,183
Haryana	569	1,754	754	616	(2)	5	425			4,121	1,370
C circles	11,207	12,103	3,156	2,281		8	1,626	380		30,897	5,437
Bihar	4,769	5,735	1,074	1,454	64	(0)	286	367		13,748	2,528
Orissa	2,061	2,233	639	273		5	403			5,665	912
Assam	1,600	1,812	931	195		-	272	13		4,823	1,126
North East	1,017	775	385	85		-	176			2,438	470
J&K	1,075	735	117	118		-	310			2,353	234
Himachal Pradesh	686	813	10	156	24	3	178			1,870	166
Total	67,235	71,257	44,837	37,431	5,540	1,491	11,647	862	59	240,359	82,268

Source: TRAI, Kotak Institutional Equities

Exhibit 5: June 2018 quarter AGR market share matrix

AGRMS (%)	Bharti	Jio	Vodafone	Idea	TTSL	RCOM	BSNL/MTNL	Telenor	Others	Total	Voda+Idea
Metro + A circles	29.8	25.3	20.9	14.5	4.2	1.1	4.1	0.0		100.0	35.4
Maharashtra	15.0	24.5	20.8	33.1	4.3	0.4	2.0	0.0		100.0	53.9
Tamilnadu	39.0	23.5	27.4	4.8	1.3	0.5	5.6			100.0	32.2
Delhi	36.9	29.6	18.1	1.0	5.6	2.8	6.0			100.0	19.1
Andhra Pradesh	38.2	26.3	3.8	21.7	2.5	0.7	6.4	0.4		100.0	25.5
Karnataka	50.6	18.2	11.5	9.2	4.3	2.3	3.9			100.0	20.7
Mumbai	17.1	23.7	35.7	4.7	14.7	1.9	2.3			100.0	40.4
Gujarat	6.9	32.9	35.1	19.0	1.5	0.2	4.8	(0.4)		100.0	54.1
Kolkata	27.9	25.3	34.9	6.5	2.8	0.5	2.1			100.0	41.4
B circles	22.4	32.5	18.4	20.1	0.2	0.1	5.7	0.5	0.1	100.0	38.5
UP (East)	28.0	29.9	26.9	9.8	0.4	-	3.7	1.2		100.0	36.8
Rajasthan	34.0	36.4	17.5	7.3	0.6	0.2	4.0			100.0	24.8
Kerala	10.4	17.6	22.4	35.1	0.5	0.4	13.6			100.0	57.5
Madhya Pradesh	19.9	37.3	2.0	37.2	(0.2)	-	3.7			100.0	39.2
UP (West)	18.2	33.9	16.7	24.3	0.1	-	4.5	2.3		100.0	41.1
Punjab	25.5	37.6	6.5	22.2	0.0	0.3	7.2		0.7	100.0	28.7
West Bengal	22.7	32.6	35.3	6.5	0.1	0.0	2.9			100.0	41.8
Haryana	13.8	42.6	18.3	15.0	(0.0)	0.1	10.3			100.0	33.3
C circles	36.3	39.2	10.2	7.4	0.0	0.0	5.3	1.2		100.0	17.6
Bihar	34.7	41.7	7.8	10.6	0.5	(0.0)	2.1	2.7		100.0	18.4
Orissa	36.4	39.4	11.3	4.8		0.1	7.1			100.0	16.1
Assam	33.2	37.6	19.3	4.0		-	5.6	0.3		100.0	23.3
North East	41.7	31.8	15.8	3.5		-	7.2			100.0	19.3
J&K	45.7	31.2	5.0	5.0		-	13.2			100.0	10.0
Himachal Pradesh	36.7	43.5	0.5	8.4	1.3	0.2	9.5			100.0	8.9
Total	28.0	29.6	18.7	15.6	2.3	0.6	4.8	0.4	0.0	100.0	34.2

Source: TRAI, Kotak Institutional Equities

Exhibit 6: Player-wise AGR trends

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	qoq (%)	yoy (%)
Adjusted gross revenues (Rs mn)							
Bharti	98,883	88,471	76,593	70,865	67,235	(5.1)	(32.0)
Vodafone	70,894	63,044	56,565	50,958	44,837	(12.0)	(36.8)
Idea	61,609	53,078	47,461	40,334	37,431	(7.2)	(39.2)
BSNL/MTNL	15,922	16,066	9,322	13,177	11,647	(11.6)	(26.8)
Aircel	14,236	12,856	10,117	-	-	NM	(100.0)
RCOM	7,481	8,268	3,712	818	1,491	82.3	(80.1)
TTSL	17,355	16,655	12,028	2,710	5,540	104.4	(68.1)
Uninor	5,859	5,362	3,551	2,080	862	(58.6)	(85.3)
Sistema	1,191	810	230	-	-	NM	(100.0)
HFCL	(165)	46	119	59	59	(0.5)	(135.7)
Jio	(10,366)	42,736	54,072	62,176	71,257		
Total	282,898	307,391	273,769	243,178	240,359	(1.2)	(15.0)
AGR market share (%)						qoq (bps)	yoy (bps)
Bharti	35.0	28.8	28.0	29.1	28.0	(117)	(698)
Vodafone	25.1	20.5	20.7	21.0	18.7	(230)	(641)
Idea	21.8	17.3	17.3	16.6	15.6	(101)	(620)
BSNL/MTNL	5.6	5.2	3.4	5.4	4.8	(57)	(78)
Aircel	5.0	4.2	3.7	-	-	-	(503)
RCOM	2.6	2.7	1.4	0.3	0.6	28	(202)
TTSL	6.1	5.4	4.4	1.1	2.3	119	(383)
Uninor	2.1	1.7	1.3	0.9	0.4	(50)	(171)
Sistema	0.4	0.3	0.1	-	-	-	(42)
HFCL	(0.1)	0.0	0.0	0.0	0.0	0	8
Jio	(3.7)	13.9	19.8	25.6	29.6		
Total	100.0	100.0	100.0	100.0	100.0		
Top-3	81.8	66.6	66.0	66.7	62.2	(448)	(1,959)
R-Jio	(3.7)	13.9	19.8	25.6	29.6	408	3,331
Rest	21.9	19.5	14.3	7.7	8.2	40	(1,372)

Source: TRAI, Kotak Institutional Equities

Exhibit 7: Jio's circle-wise ARPU

	Jun-18 GR (Rs mn)	Avg subs ('000)	Implied ARPU (Rs/sub/month)
Metro + A circles	43,294	96,402	150
Maharashtra	7,243	14,611	165
Tamilnadu	6,287	13,380	157
Delhi	5,048	11,527	146
Andhra Pradesh	7,442	16,552	150
Karnataka	4,829	11,054	146
Mumbai	3,772	8,951	140
Gujarat	6,184	14,017	147
Kolkata	2,488	6,310	131
B circles	34,860	74,970	155
UP (East)	6,608	13,505	163
Rajasthan	5,186	10,950	158
Kerala	2,340	5,726	136
Madhya Pradesh	6,277	12,821	163
UP (West)	4,556	10,243	148
Punjab	3,708	8,712	142
West Bengal	3,984	7,937	167
Haryana	2,202	5,075	145
C circles	15,168	29,516	171
Bihar	7,302	13,615	179
Orissa	2,800	5,592	167
Assam	2,200	3,943	186
North East	924	1,852	166
J&K	960	2,430	132
Himachal Pradesh	982	2,084	157
Total	93,322	200,888	155

Source: TRAI, Kotak Institutional Equities

Exhibit 8: Circle-wise AGR trends

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	qoq (%)	yoy (%)
Adjusted gross revenues (Rs mn)							
Metro + A circles	144,690	158,363	141,840	122,839	123,488	0.5	(14.7)
Maharashtra	25,489	26,589	24,313	22,833	21,142	(7.4)	(17.1)
Tamilnadu	25,736	27,622	24,891	20,196	21,576	6.8	(16.2)
Delhi	13,976	15,668	12,507	9,084	10,629	17.0	(23.9)
Andhra Pradesh	23,508	26,130	23,881	21,760	21,266	(2.3)	(9.5)
Karnataka	21,995	23,396	20,799	18,610	18,481	(0.7)	(16.0)
Mumbai	13,293	14,942	12,839	10,110	11,218	11.0	(15.6)
Gujarat	14,739	16,993	15,756	14,353	13,948	(2.8)	(5.4)
Kolkata	5,956	7,025	6,854	5,893	5,228	(11.3)	(12.2)
B circles	101,993	109,573	96,437	88,107	85,975	(2.4)	(15.7)
UP (East)	21,208	21,833	19,631	16,491	16,051	(2.7)	(24.3)
Rajasthan	14,000	14,816	13,431	11,573	11,654	0.7	(16.8)
Kerala	14,664	15,090	14,135	11,636	11,426	(1.8)	(22.1)
Madhya Pradesh	14,881	16,335	14,813	14,038	13,819	(1.6)	(7.1)
UP (West)	13,330	14,467	12,964	11,771	10,792	(8.3)	(19.0)
Punjab	8,878	10,390	9,637	7,875	8,102	2.9	(8.7)
West Bengal	10,575	11,327	10,434	8,921	10,012	12.2	(5.3)
Haryana	4,459	5,314	1,392	5,802	4,121	(29.0)	(7.6)
C circles	36,215	39,456	35,493	32,232	30,897	(4.1)	(14.7)
Bihar	17,185	18,491	16,390	15,769	13,748	(12.8)	(20.0)
Orissa	5,630	6,748	6,115	6,229	5,665	(9.1)	0.6
Assam	5,647	5,832	5,455	4,568	4,823	5.6	(14.6)
North East	3,122	3,030	2,909	2,110	2,438	15.6	(21.9)
J&K	2,787	3,034	2,689	1,822	2,353	29.2	(15.6)
Himachal Pradesh	1,844	2,321	1,936	1,733	1,870	7.9	1.4
Total	282,898	307,391	273,769	243,178	240,359	(1.2)	(15.0)

Source: TRAI, Kotak Institutional Equities

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)
		24-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Automobiles																													
Amara Raja Batteries	REDUCE	864	780	(9.8)	148	2.1	171	32	37	43	17.1	15.9	14.5	26.8	23.1	20.2	14.2	12.2	10.6	4.4	3.8	3.3	17.4	17.5	17.4	0.6	0.7	0.7	5.6
Apollo Tyres	BUY	261	340	30.4	149	2.1	541	20	25	29	46.9	25.7	17.0	13.3	10.5	9.0	8.1	6.8	5.6	1.4	1.3	1.1	11.0	12.5	13.1	1.2	1.2	1.2	11.7
Ashok Leyland	BUY	129	160	23.8	379	5.4	2,926	6.2	8.9	9.4	15.3	43.2	6.1	20.8	14.5	13.7	10.7	7.8	7.3	4.5	3.8	3.2	23.4	28.4	25.4	1.4	2.1	2.2	46.1
Bajaj Auto	SELL	2,682	2,500	(6.8)	776	11.1	289	148	161	176	5.4	9.0	9.3	18.1	16.6	15.2	12.5	11.1	9.7	3.6	3.3	2.9	21.2	20.7	20.3	2.2	2.4	2.6	31.9
Balkrishna Industries	REDUCE	1,336	1,300	(2.7)	258	3.7	193	50	63	71	34.5	24.7	13.6	26.6	21.3	18.7	14.5	11.7	10.4	5.2	4.3	3.6	21.6	22.2	20.9	0.4	0.5	0.5	10.3
Bharat Forge	SELL	647	600	(7.3)	301	4.3	466	23	27	29	44.4	14.6	7.1	27.7	24.2	22.5	15.7	13.7	12.7	5.5	4.7	4.1	21.5	21.0	19.4	0.8	0.8	0.9	11.0
CEAT	ADD	1,397	1,500	7.4	57	0.8	40	99	108	116	53.7	8.3	7.9	14.0	13.0	12.0	8.9	7.7	6.9	1.9	1.7	1.5	14.4	13.8	13.2	0.7	0.7	0.8	13.8
Eicher Motors	SELL	28,870	24,000	(16.9)	787	11.3	27	997	1,180	1,306	25.8	18.4	10.7	29.0	24.5	22.1	21.0	17.7	15.4	10.6	7.9	6.2	42.4	37.1	31.4	0.1	0.1	—	20.0
Escorts	BUY	892	1,200	34.6	76	1.6	89	59	71	78	52.3	19.9	10.2	15.1	12.6	11.4	9.1	7.5	6.3	2.7	2.3	2.0	17.6	18.0	17.1	1.0	1.2	1.3	15.0
Exide Industries	SELL	293	235	(19.8)	249	3.6	850	10	11	13	25.3	11.0	11.6	28.5	25.6	23.0	16.2	14.5	12.9	4.2	3.8	3.4	15.4	15.5	15.7	1.0	1.2	1.4	8.5
Hero Motocorp	SELL	3,212	3,000	(6.6)	642	9.2	200	183	204	225	(0.9)	11.4	10.2	17.5	15.7	14.3	10.4	9.2	8.1	4.8	4.3	3.9	29.3	29.1	28.6	2.9	3.2	3.5	21.4
Mahindra CIE Automotive	ADD	258	290	12.3	98	1.4	378	14	16	17	45.0	12.7	10.4	18.6	16.5	14.9	9.3	8.2	7.3	2.3	2.0	1.8	13.2	13.1	12.7	—	—	—	3.1
Mahindra & Mahindra	BUY	968	1,085	12.1	1,204	17.2	1,138	45	51	53	18.5	14.4	3.1	21.5	18.8	18.2	14.0	12.1	11.5	3.2	2.8	2.5	15.8	16.0	14.7	0.9	1.1	1.1	34.4
Maruti Suzuki	ADD	9,164	10,000	9.1	2,768	39.6	302	323	393	461	26.4	21.8	17.2	28.4	23.3	19.9	16.4	12.9	10.6	5.7	4.9	4.2	21.6	22.5	22.6	0.9	1.1	1.3	65.3
Motherson Sumi Systems	SELL	300	280	(6.7)	632	9.0	2,105	12	14	16	41.9	21.4	13.8	25.9	21.3	18.7	10.4	8.6	7.5	5.4	4.6	3.9	22.7	23.4	22.6	0.9	1.1	1.2	15.3
MRF	REDUCE	74,076	69,000	(6.9)	314	4.5	4	3,425	3,932	4,411	28.3	14.8	12.2	21.6	18.8	16.8	10.2	8.8	7.6	2.8	2.5	2.1	13.9	13.9	13.7	0.1	0.1	0.1	7.1
Schaeffler India	BUY	5,373	6,000	11.7	89	1.3	17	156	199	233	9.0	27.3	17.6	34.4	27.1	23.0	21.0	15.9	13.3	4.7	4.2	3.7	14.5	16.4	17.0	0.6	0.7	0.9	0.6
SKF	ADD	1,783	1,800	0.9	92	1.3	51	69	82	97	19.7	18.5	18.2	25.8	21.8	18.4	16.6	13.7	11.3	4.3	3.7	3.2	16.7	17.1	17.4	0.7	0.8	0.9	0.4
Tata Motors	BUY	256	425	66.3	868	11.6	3,396	22	36	39	10.7	62.7	8.0	11.6	7.1	6.6	3.5	3.0	2.7	0.8	0.8	0.7	7.6	11.2	10.8	—	—	—	58.9
Timken	SELL	706	660	(6.5)	48	0.7	68	19	25	30	42.3	27.5	21.8	36.6	28.7	23.6	20.2	16.1	13.4	5.8	4.9	4.1	17.1	18.5	18.8	0.1	0.1	0.2	0.4
TVS Motor	SELL	550	405	(26.3)	261	3.7	475	16	20	25	13.9	23.0	26.0	34.6	28.1	22.3	19.1	15.8	12.8	7.8	6.6	5.5	24.2	25.4	27.0	0.9	1.1	1.3	13.7
WABCO India	SELL	6,775	6,350	(6.3)	129	1.8	19	169	222	225	17.8	31.3	1.0	40.0	30.5	30.2	26.0	19.7	19.4	7.0	5.8	4.9	19.2	20.9	17.7	0.2	0.2	0.2	0.5
Automobiles	Neutral				10,324	147					19.4	25.5	11.0	22.1	17.6	15.9	9.9	8.2	7.3	3.3	2.9	2.6	15.1	16.5	16.1	0.9	1.1	1.2	394.9
Banks																													
Axis Bank	REDUCE	640	600	(6.2)	1,643	23.5	2,567	18	40	45	1,577.6	122.3	12.3	35.5	16.0	14.2	—	—	—	2.7	2.3	2.0	7.1	14.1	14.1	0.4	0.9	1.1	65.9
Bank of Baroda	NR	147	—	—	390	5.6	2,652	21	26	29	323.7	26.4	12.1	7.2	5.7	5.1	—	—	—	1.3	1.0	0.8	12.7	14.0	13.7	—	—	—	34.6
Canara Bank	ADD	276	300	8.6	203	2.9	733	(5)	51	68	91.6	1,147.0	33.3	(57.0)	5.4	4.1	—	—	—	1.7	1.0	0.7	(1.0)	10.1	12.0	—	—	—	27.0
City Union Bank	ADD	188	190	1.0	138	2.0	665	9	11	12	5.8	13.3	16.7	20.0	17.6	15.1	—	—	—	3.1	2.7	2.3	15.5	15.6	16.0	0.9	1.0	1.2	1.8
DCB Bank	ADD	170	205	20.4	53	0.8	308	10	12	16	28.2	21.0	33.1	16.7	13.8	10.3	—	—	—	2.0	1.8	1.5	11.7	12.7	14.9	0.6	0.7	0.9	4.3
Equitas Holdings	BUY	144	190	31.9	49	0.7	340	4.4	8.4	11.4	378.4	89.9	35.6	32.4	17.1	12.6	—	—	—	2.1	1.9	1.7	6.4	11.2	13.4	—	—	—	4.2
Federal Bank	BUY	82	130	59.3	162	2.3	1,972	5.7	7.9	9.7	29.5	39.5	22.9	14.4	10.3	8.4	—	—	—	1.3	1.2	1.1	8.8	11.4	12.8	1.6	2.2	2.7	17.3
HDFC Bank	REDUCE	2,070	2,000	(3.4)	5,610	80.3	2,595	78	94	112	15.7	20.0	19.1	26.5	22.1	18.6	—	—	—	3.9	3.4	3.0	16.7	16.2	17.0	0.7	0.9	1.0	89.3
ICICI Bank	BUY	330	400	21.2	2,124	30.4	6,429	8	26	31	(19.6)	209.1	19.2	38.9	12.6	10.6	—	—	—	2.2	1.9	1.6	5.1	14.5	15.5	0.5	1.6	1.9	97.2
IDFC Bank	NR	47	—	—	159	2.3	3,404	1.2	2.9	4.3	(52.7)	146.7	44.8	39.2	15.9	11.0	—	—	—	1.0	1.0	0.9	2.6	6.3	8.6	0.5	1.3	1.8	9.7
Indusind Bank	REDUCE	1,928	1,900	(1.5)	1,159	16.6	600	71	87	102	17.5	23.6	16.9	27.3	22.1	18.9	—	—	—	4.1	3.6	3.1	17.6	16.8	17.0	—	0.5	0.6	29.3
J&K Bank	BUY	57	100	74.4	32	0.5	557	7	11	15	82.4	63.8	33.5	8.6	5.3	4.0	—	—	—	0.7	0.6	0.6	5.9	9.1	11.2	2.3	3.8	5.1	0.4
Karur Vysya Bank	ADD	96	110	14.5	77	1.1	727	3	13	14	(32.3)	306.7	9.1	29.8	7.3	6.7	—	—	—	1.3	1.2	1.0	3.7	14.1	13.9	0.8	3.4	3.9	1.9
Punjab National Bank	ADD	86	90	4.9	237	3.4	2,761	(27)	12	18	40.4	145.3	46.9	(3.2)	7.1	4.9	—	—	—	4.3	1.4	0.8	(23.4)	10.7	13.8	—	—	—	38.9
RBL Bank	SELL	610	475	(22.1)	258	3.7	420	22	29	36	48.1	31.5	21.0	27.2	20.7	17.1	—	—	—	3.6	3.2	2.8	13.3	15.5	16.5	0.6	0.7	0.9	14.1
State Bank of India	BUY	300	370	23.1	2,681	38.4	8,925	8	37	53	204.8	380.5	42.7	39.1	8.1	5.7	—	—	—	2.0	1.4	1.1	3.1	13.6	16.7	—	0.1	0.2	94.0
Ujivan Financial Services	ADD	357	420	17.5	43	0.6	121	19	28	32	3,033.9	47.3	15.1	19.1	13.0	11.3	—	—	—	2.2	1.9	1.7	12.1	15.8	15.8	0.5	0.8	1.0	5.4
Union Bank	ADD	87	120	38.5	101	1.4	1,169	8	33	40	117.1	330.8	22.5	11.3	2.6	2.1	—	—	—	1.3	0.7	0.5	3.9	15.2	16.3	1.3	5.7	7.0	9.4
YES Bank	SELL	374	335	(10.5)	863	12.4	2,303	20	22	27	8.1																		

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT	
		24-Aug-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E
NBFCS																													
Bajaj Finance	SELL	2,917	2,000	(31.4)	1,686	24.1	575	68	90	114	56.6	31.9	27.3	42.9	32.5	25.6	—	—	—	8.7	7.1	5.7	22.4	24.0	24.6	0.2	0.3	0.4	54.3
Bajaj Finserv	REDUCE	7,051	6,100	(13.5)	1,122	16.1	159	245	307	376	39.7	25.2	22.5	28.7	23.0	18.7	—	—	—	4.6	3.8	3.2	17.5	18.1	18.6	0.2	0.2	0.2	18.7
Bharat Financial Inclusion	NA	1,186	—	—	166	2.4	139	43	54	69	31.1	27.2	25.8	27.7	21.8	17.3	—	—	—	4.5	3.7	3.0	17.9	18.5	19.0	—	—	—	10.2
Cholamandalam	REDUCE	1,458	1,500	2.9	228	3.3	156	90	110	136	44.8	22.1	23.4	16.2	13.2	10.7	—	—	—	3.8	3.1	2.5	24.5	24.3	24.3	0.7	0.9	1.1	7.3
HDFC	ADD	1,919	2,075	8.1	3,245	46.4	1,676	56	67	81	(25.8)	19.0	21.2	34.3	28.8	23.8	—	—	—	4.4	4.0	3.6	13.8	14.5	16.0	1.1	1.3	1.6	69.7
HDFC Standard Life Insurance	SELL	462	405	(12.4)	931	13.3	2,007	6	7	8	14.8	10.9	14.7	72.8	65.6	57.2	—	—	—	19.3	17.2	15.4	28.0	27.7	28.4	0.3	0.4	0.4	9.8
ICICI Lombard	SELL	746	620	(16.8)	339	4.8	454	26	32	37	37.1	21.5	18.5	28.6	23.6	19.9	—	—	—	6.3	5.2	4.4	23.8	24.2	24.0	0.8	1.0	1.2	2.4
ICICI Prudential Life	BUY	374	500	33.6	537	7.7	1,436	12	13	15	10.1	7.0	10.0	30.1	28.2	25.6	—	—	—	6.7	5.6	4.8	24.5	21.8	20.2	0.6	0.6	0.7	9.0
IIFL Holdings	SELL	718	625	(13.0)	229	3.3	319	38	45	52	31.5	18.6	16.0	19.1	16.1	13.9	—	—	—	3.4	2.9	#DIV/0!	20.5	20.0	20.0	1.1	1.3	1.5	1.7
L&T Finance Holdings	ADD	181	190	5.2	361	5.2	1,996	13	14	16	70.9	12.3	12.8	14.4	12.8	11.4	—	—	—	2.6	2.2	1.9	18.9	18.8	18.3	1.1	1.4	1.3	13.3
LIC Housing Finance	ADD	573	610	6.4	289	4.1	505	50	58	66	14.1	16.2	14.6	11.5	9.9	8.6	—	—	—	1.9	1.6	1.4	17.4	16.9	16.8	1.4	1.6	1.8	13.4
Magma Fincorp	BUY	140	190	35.4	38	0.5	237	13	17	21	34.0	31.8	23.0	10.8	8.2	6.6	—	—	—	1.4	1.2	1.1	13.9	15.8	17.0	1.4	1.8	2.3	1.0
Mahindra & Mahindra Financial	REDUCE	464	500	7.8	286	4.1	614	23	28	34	58.4	23.2	18.6	20.2	16.4	13.8	—	—	—	2.9	2.6	2.4	14.3	15.8	16.7	1.4	1.7	2.0	10.6
Max Financial Services	ADD	470	650	38.4	126	1.8	268	6	6	6	36.9	1.8	1.8	74.9	73.5	72.3	—	—	—	—	—	—	8.3	8.0	7.8	—	0.5	0.5	4.7
Muthoot Finance	ADD	407	480	17.8	163	2.3	400	38	40	46	(10.8)	4.0	15.7	10.6	10.2	8.8	—	—	—	1.8	1.6	1.4	18.4	16.9	17.2	2.2	2.3	2.6	4.0
PNB Housing Finance	REDUCE	1,378	1,325	(3.9)	231	3.3	167	62	75	92	25.3	20.9	22.4	22.1	18.3	14.9	—	—	—	3.2	2.8	2.4	15.2	15.9	17.0	0.2	0.2	0.2	5.0
SBI Life Insurance	ADD	661	785	18.8	661	9.5	1,000	15	18	21	26.0	22.9	17.0	45.5	37.0	31.6	—	—	—	8.6	7.2	6.1	20.6	21.3	20.9	0.4	0.4	0.5	3.2
Shriram City Union Finance	ADD	2,016	2,250	11.6	133	1.9	66	141	174	209	40.4	22.7	20.5	14.3	11.6	9.6	—	—	—	2.3	2.0	1.7	15.8	16.9	17.6	0.9	1.1	1.3	1.5
Shriram Transport	ADD	1,303	1,550	18.9	296	4.2	227	114	130	146	64.4	14.3	12.8	11.5	10.0	8.9	—	—	—	2.0	1.7	1.5	18.3	17.5	17.1	1.2	1.4	1.7	31.1
NBFCS	Neutral				11,065	158					14.9	19.4	19.4	28.1	23.6	19.7				4.5	3.9	3.4	16.1	16.7	17.2	0.7	0.8	1.0	604.7
Cement																													
ACC	SELL	1,641	1,270	(22.6)	308	4.4	188	62	70	81	27.0	13.8	15.2	26.5	23.3	20.2	14.8	12.7	10.8	3.0	2.8	2.5	11.9	12.5	13.1	1.0	1.0	1.0	16.7
Ambuja Cements	REDUCE	237	210	(11.3)	470	6.7	1,986	9	11	12	14.5	23.2	15.8	27.5	22.3	19.3	9.3	7.7	6.5	2.2	2.1	1.9	8.1	9.5	10.4	1.5	1.5	1.5	11.6
Dalmia Bharat	ADD	2,729	2,830	3.7	243	3.5	89	94	122	139	55.8	29.3	14.8	29.0	22.5	19.6	11.0	9.1	7.8	3.5	3.1	2.6	12.9	14.6	14.5	0.1	0.1	0.1	5.0
Grasim Industries	BUY	1,060	1,170	10.3	697	10.0	657	46	55	70	(2.5)	18.8	28.0	23.0	19.3	15.1	7.6	7.2	6.7	1.2	1.1	1.0	5.2	5.9	7.1	0.5	0.5	0.5	15.4
India Cements	REDUCE	120	118	(1.8)	37	0.5	308	4	8	12	28.0	102.6	41.3	28.7	14.2	10.0	9.0	7.0	5.9	0.7	0.7	0.6	2.5	4.8	6.5	0.8	0.8	0.8	8.9
J K Cement	ADD	798	890	11.6	56	0.8	70	45	79	78	3.7	75.4	(0.8)	17.8	10.1	10.2	10.4	8.5	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	333	370	11.0	39	0.6	118	11	28	37	153.5	147.9	30.5	29.4	11.9	9.1	10.2	6.6	5.4	2.5	2.1	1.7	8.9	19.5	21.0	0.6	0.6	0.6	0.3
Orient Cement	ADD	116	145	24.5	24	0.3	205	7	11	15	212.9	58.7	41.3	17.2	10.9	7.7	8.0	6.2	4.7	2.1	1.8	1.5	12.9	18.2	21.8	1.3	1.7	1.7	0.3
Shree Cement	SELL	18,373	12,500	(32.0)	640	9.2	35	421	630	760	6.0	49.7	20.6	43.6	29.1	24.2	20.4	15.3	12.5	6.3	5.3	4.4	15.4	19.7	19.8	0.3	0.3	0.3	5.3
UltraTech Cement	SELL	4,316	2,950	(31.6)	1,185	17.0	275	126	162	201	42.7	28.9	24.0	34.3	26.6	21.5	17.9	14.8	12.3	4.1	3.6	3.1	12.6	14.3	15.4	0.2	0.2	0.2	19.1
Cement	Cautious				3,700	53					19.5	30.3	21.8	29.9	22.9	18.8	11.3	9.7	8.4	2.5	2.3	2.1	8.4	10.0	11.0	0.5	0.5	0.5	83.1

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)			Target price		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		24-Aug-18	(Rs)	(%)	(Rs bn)	(US\$ bn)		2019E	2020E		2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	
Consumer products																																
Asian Paints	REDUCE	1,394	1,325	(4.9)	1,337	19.1	959	27	33	39	32.1	20.3	18.3	51.4	42.7	36.1	32.2	26.6	22.5	13.9	12.1	10.6	28.8	30.3	31.3	0.9	1.1	1.3	21.0			
Bajaj Corp.	ADD	418	470	12.4	62	0.9	148	15	17	19	7.8	10.3	9.5	27.1	24.6	22.4	21.7	18.5	16.1	12.6	12.5	12.3	46.3	51.2	55.4	3.1	3.3	3.6	0.4			
Britannia Industries	ADD	6,773	6,700	(1.1)	813	11.6	120	104	127	152	24.5	22.2	19.2	65.0	53.2	44.6	42.7	34.9	29.2	18.9	15.3	12.5	31.8	30.9	0.5	0.7	0.8	12.5				
Coffee Day Enterprises	REDUCE	246	290	17.9	52	0.7	211	8	10	12	129.9	30.0	21.2	32.0	24.6	20.3	11.2	9.8	9.1	2.0	1.9	1.7	6.6	8.0	8.9	—	—	—	0.8			
Colgate-Palmolive (India)	ADD	1,170	1,250	6.9	318	4.6	272	27	32	36	14.7	15.6	15.5	42.9	37.1	32.1	24.5	21.3	18.5	18.7	16.2	14.3	46.0	46.9	47.3	1.4	1.6	2.0	6.8			
Dabur India	REDUCE	475	390	(17.9)	839	12.0	1,762	9	10	12	17.3	12.9	13.6	52.1	46.2	40.6	43.6	37.7	32.7	14.7	12.8	11.2	28.1	29.6	29.4	0.8	0.9	1.2	16.5			
GlaxoSmithKline Consumer	ADD	7,516	7,300	(2.9)	316	4.5	42	199	223	246	19.5	12.1	10.1	37.8	33.7	30.6	26.6	22.9	20.2	8.2	7.4	6.8	22.8	23.0	23.1	1.2	1.4	1.7	2.1			
Godrej Consumer Products	SELL	1,396	1,100	(21.2)	951	13.6	681	25	29	33	18.8	13.7	12.7	55.0	48.4	42.9	39.1	34.0	29.7	13.0	11.2	9.8	25.4	24.8	24.3	0.6	0.7	0.8	10.5			
Hindustan Unilever	REDUCE	1,781	1,570	(11.8)	3,855	55.2	2,160	29	33	37	19.5	13.2	12.6	60.8	53.7	47.7	42.1	37.0	32.8	47.5	40.4	34.7	83.5	81.4	78.3	1.2	1.3	1.5	33.8			
ITC	ADD	310	330	6.3	3,794	54.3	12,275	10	11	12	8.2	12.3	11.7	32.2	28.6	25.6	20.8	18.4	16.4	7.0	6.6	6.2	20.4	22.2	24.2	1.8	2.2	2.5	52.7			
Jubilant Foodworks	BUY	1,522	1,650	8.4	201	2.9	132	25	35	46	73.6	37.5	32.3	60.2	43.8	33.1	30.2	22.9	17.4	14.9	11.4	8.7	28.9	29.5	29.7	0.1	0.2	0.3	35.4			
Jyothy Laboratories	ADD	202	240	18.8	73	1.1	364	6	7	8	27.6	16.7	15.4	35.9	30.8	26.7	24.0	20.4	17.3	5.5	4.8	4.2	16.6	16.8	16.9	0.5	0.7	1.0	1.1			
Marico	ADD	379	375	(1.0)	489	7.0	1,291	7	8	9	8.9	20.0	14.5	55.5	46.2	40.4	38.6	31.9	27.5	18.2	16.9	15.6	33.7	37.9	40.2	1.3	1.5	1.7	10.0			
Nestle India	ADD	11,363	11,000	(3.2)	1,096	15.7	96	171	197	223	34.2	15.7	13.2	66.6	57.6	50.8	38.2	33.1	29.0	29.5	27.0	24.8	46.1	49.0	50.8	1.0	1.2	1.4	8.9			
Page Industries	SELL	34,652	25,000	(27.9)	387	5.5	11	418	508	607	34.3	21.6	19.5	82.9	68.2	57.1	53.6	44.3	36.9	35.1	27.8	22.3	47.8	45.5	43.4	0.5	0.6	0.8	11.3			
Pidlite Industries	REDUCE	1,151	1,080	(6.2)	585	8.4	508	21	26	31	16.8	21.8	20.2	54.7	44.9	37.3	36.4	30.0	25.0	13.9	11.6	9.7	27.4	28.2	28.4	0.6	0.7	0.8	13.3			
S H Kelkar and Company	BUY	230	290	26.4	33	0.5	145	7	10	12	(6.2)	41.9	23.2	33.1	23.3	18.9	21.3	15.3	13.2	3.6	3.2	2.9	11.3	14.5	16.0	0.8	0.9	1.2	0.4			
Tata Global Beverages	REDUCE	231	250	8.2	146	2.1	631	8	9	10	7.7	17.0	12.9	29.2	24.9	22.1	16.0	14.0	12.4	2.0	1.9	1.8	7.0	7.9	8.5	1.3	1.5	1.7	11.3			
Titan Company	SELL	885	840	(5.1)	786	11.3	888	16	20	23	25.6	21.8	19.3	55.1	45.3	38.0	36.6	29.2	24.0	13.0	10.9	9.2	25.6	26.3	26.4	0.5	0.6	0.8	36.1			
United Breweries	SELL	1,396	1,100	(21.2)	369	5.3	264	21	25	31	38.9	22.3	20.5	67.3	55.0	45.7	33.1	28.6	24.5	11.6	9.9	8.4	18.7	19.4	19.8	0.2	0.3	0.4	14.5			
United Spirits	REDUCE	632	590	(6.6)	459	6.6	727	10	13	17	34.7	30.9	24.5	61.7	47.1	37.8	35.8	29.0	24.5	12.6	9.3	7.1	24.2	22.7	21.3	—	—	0.4	16.8			
Varun Beverages	ADD	795	800	0.7	145	2.1	183	15	20	26	29.8	34.5	30.7	53.1	39.5	30.2	17.5	14.9	12.6	7.3	6.3	5.3	14.6	17.1	19.0	—	—	0.3	1.6			
Consumer products	Cautious				17,105	245					17.7	15.9	14.7	48.1	41.5	36.2	31.2	26.8	23.3	12.6	11.2	10.1	26.1	27.1	27.8	1.1	1.3	1.5	317.9			
Energy																																
BPCL	REDUCE	357	375	5.1	774	11.1	1,967	38	39	39	(6.7)	3.1	1.1	9.5	9.2	9.1	6.9	6.5	6.4	1.8	1.7	1.5	20.5	19.1	17.5	4.2	4.3	4.4	29.4			
Castrol India	SELL	158	155	(1.9)	156	2.2	989	7	8	9	2.9	10.1	9.7	22.3	20.3	18.5	14.0	12.6	11.4	14.7	14.3	13.8	67.1	71.5	76.0	3.5	4.0	4.3	4.2			
GAIL (India)	BUY	381	440	15.6	858	12.3	2,255	26	29	31	27.8	10.0	9.5	14.6	13.3	12.1	9.1	8.3	7.6	2.0	1.8	1.6	14.0	14.1	14.2	2.2	2.5	2.8	24.5			
GSPL	SELL	188	175	(7.0)	106	1.5	564	11	11	12	(6.5)	(0.5)	11.9	17.0	17.1	15.2	6.4	6.4	5.7	1.9	1.7	1.6	11.7	10.7	10.9	0.9	0.9	1.0	1.4			
HPCL	REDUCE	259	285	10.0	395	5.6	1,524	32	32	32	(22.3)	(2.2)	0.5	8.0	8.2	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	26.2			
Indraprastha Gas	SELL	279	240	(13.9)	195	2.8	700	12	13	15	16.4	12.3	10.7	23.2	20.7	18.7	14.7	13.0	11.5	4.8	4.2	3.7	22.1	21.5	20.9	0.9	1.1	1.5	11.4			
IOCL	REDUCE	154	150	(2.8)	1,498	21.4	9,479	18	17	18	(11.2)	(4.1)	2.8	8.5	8.8	8.6	4.9	4.8	4.6	1.2	1.1	1.1	15.1	13.4	12.9	4.7	4.5	4.7	22.7			
Mahanagar Gas	ADD	844	965	14.3	83	1.2	99	56	60	64	16.0	7.6	5.4	15.0	14.0	13.3	8.7	7.9	7.3	3.5	3.1	2.8	24.8	23.5	22.0	2.6	2.9	3.0	11.4			
ONGC	ADD	175	200	14.4	2,243	32.1	12,833	20	20	19	16.8	0.3	(5.9)	8.6	8.6	9.1	4.1	3.9	3.8	0.9	0.9	0.8	11.2	10.6	9.5	3.9	4.0	4.0	18.6			
Oil India	SELL	208	200	(3.7)	236	3.4	1,135	23	24	23	(6.7)	3.4	(2.5)	9.0	8.7	8.9	5.9	5.7	5.7	0.8	0.8	0.7	9.2	9.0	8.4	4.4	4.6	4.5	2.9			
Petronet LNG	BUY	232	280	20.5	349	5.0	1,500	16	18	20	16.7	13.1	9.4	14.3	12.7	11.6	9.6	8.1	7.2	3.1	2.8	2.5	23.3	23.2	22.7	2.4	3.2	3.9	10.5			
Reliance Industries	SELL	1,278	985	(22.9)	7,560	108.2	5,922	69	78	87	17.6	12.4	11.9	18.4	16.4	14.6	12.2	10.5	8.9	2.3	2.0	1.8	12.2	12.1	12.1	0.5	0.5	0.6	127.2			
Energy	Attractive				14,453	207					7.2	5.2	4.8	13.1	12.4	11.9	7.9	7.3	6.7	1.7	1.6	1.4	13.0	12.5	12.0	2.0	2.1	2.2	290.3			

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)
		24-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Industrials																													
ABB	SELL	1,319	1,020	(22.7)	280	4.0	212	26	29	36	30.1	14.2	23.5	51.2	44.8	36.3	30.0	27.0	22.3	7.1	6.5	5.7	14.5	15.1	16.7	0.7	0.7	0.7	1.3
BHEL	REDUCE	80	78	(2.7)	294	4.2	3,671	2.6	5.0	7.4	16.5	95.3	48.5	31.3	16.0	10.8	9.0	4.8	3.6	0.9	0.9	2.9	5.6	8.3	2.6	5.2	7.7	10.5	
Carborundum Universal	SELL	365	322	(11.7)	69	1.0	189	14	17	20	25.0	21.4	13.8	25.6	21.1	18.5	14.0	11.5	9.9	4.0	3.6	3.2	16.3	17.8	18.1	1.2	1.4	1.6	0.4
CG Power and Industrial	BUY	59	72	21.4	37	0.5	627	2.9	4.3	6.2	255.2	48.7	44.9	20.4	13.7	9.5	8.1	6.4	5.0	1.4	1.3	1.2	6.7	9.8	13.3	—	—	—	8.4
Crompton Greaves Consumer	SELL	264	215	(18.6)	166	2.4	627	6.2	7.5	8.8	19.5	20.7	17.4	42.8	35.4	30.2	26.7	22.6	19.2	14.6	11.2	8.6	40.4	35.8	32.3	0.8	0.9	—	2.5
Cummins India	REDUCE	762	710	(6.8)	211	3.0	277	28	33	37	15.2	17.5	13.7	27.4	23.3	20.5	23.0	19.8	17.0	5.0	4.6	4.3	18.7	20.6	21.8	2.0	2.3	2.7	4.7
Havells India	SELL	700	485	(30.7)	438	6.3	625	14	17	20	26.6	20.5	17.6	49.9	41.4	35.2	32.0	26.1	22.0	10.3	9.0	7.9	22.0	23.2	23.9	0.7	0.8	1.0	13.3
Kalpataru Power Transmission	BUY	374	560	49.8	57	0.8	153	23	32	41	26.0	39.1	27.7	16.2	11.7	9.1	7.1	5.6	4.7	1.9	1.7	1.4	12.5	15.2	16.7	0.4	0.4	0.4	0.6
KEC International	BUY	316	410	29.9	81	1.2	257	21	27	33	16.9	29.7	23.0	15.1	11.6	9.4	8.4	6.8	5.8	3.3	2.6	2.1	24.1	25.2	24.9	0.7	0.9	1.1	3.0
L&T	BUY	1,343	1,600	19.1	1,882	26.9	1,401	66	68	79	28.2	1.9	17.6	20.3	19.9	16.9	18.1	17.5	14.6	3.4	3.1	2.7	17.6	16.2	17.1	1.6	1.7	2.0	49.4
Siemens	SELL	1,036	1,000	(3.5)	369	5.3	356	29	35	—	21.4	21.7	—	35.6	29.3	—	20.3	16.4	—	4.3	4.0	—	12.3	14.0	—	1.1	1.4	—	3.3
Thermax	REDUCE	989	1,010	2.1	118	1.7	113	28	39	44	34.7	39.2	13.2	35.6	25.6	22.6	22.6	16.7	14.3	3.8	3.5	3.2	11.1	14.3	14.7	1.0	1.1	1.2	0.9
Volta	SELL	613	530	(13.5)	203	2.9	331	17	21	25	0.4	18.8	18.9	35.3	29.7	25.0	26.4	21.6	18.1	4.7	4.2	3.7	13.9	14.8	15.7	0.6	0.7	0.8	12.7
Industrials	Neutral				4,205	60					25.4	15.2	13.4	26.1	22.7	20.0	18.1	15.8	13.0	3.3	3.0	3.0	12.6	13.4	14.9	1.4	1.6	1.8	111.0
Infrastructure																													
Adani Ports and SEZ	BUY	377	460	22.1	780	11.2	2,071	19	23	29	1.2	21.1	29.8	20.1	16.6	12.8	13.7	11.3	10.0	3.2	2.7	2.3	17.0	17.7	19.4	0.5	0.5	0.5	23.9
Ashoka Buildcon	BUY	138	235	70.2	39	0.6	282	9	10	10	4.1	17.8	(1.3)	15.8	13.4	13.6	10.3	8.6	8.0	1.7	1.6	1.4	11.8	12.3	11.0	1.2	0.9	0.9	0.6
Container Corp.	SELL	640	635	(0.8)	312	4.5	487	21	25	29	17.4	20.9	15.0	30.9	25.6	22.2	19.0	15.1	12.4	3.1	2.8	2.6	10.3	11.6	12.3	1.4	1.6	1.5	6.5
Dilip Buildcon	BUY	849	1,230	44.8	116	1.7	137	54	71	85	17.2	31.0	19.7	15.6	11.9	9.9	7.8	6.2	5.3	3.6	2.8	2.1	26.1	26.1	24.2	—	—	—	8.5
Gateway Distriparks	BUY	184	250	36.1	20	0.3	109	7	8	11	(5.8)	15.2	37.5	25.6	22.2	16.2	11.4	9.4	7.8	3.5	3.0	2.6	9.8	14.5	17.1	—	1.6	1.6	0.7
Gujarat Pipavav Port	BUY	110	150	36.1	53	0.8	483	5.3	6.5	7.8	29.7	22.9	19.3	20.6	16.8	14.1	11.0	9.0	7.5	2.6	2.5	2.5	12.7	15.3	17.8	4.0	4.9	5.8	0.8
IRB Infrastructure	BUY	191	320	67.9	67	1.0	351	31	33	23	36.8	7.1	(31.3)	6.2	5.8	8.4	6.5	7.0	8.3	1.0	0.9	0.8	17.6	16.3	10.0	1.6	2.1	2.2	5.6
Mahindra Logistics	REDUCE	562	565	0.5	40	0.6	71	15	21	25	50.7	39.3	23.7	38.0	27.3	22.1	21.2	15.3	12.2	7.9	6.4	5.2	22.7	25.8	25.8	—	—	—	0.6
Sadbhav Engineering	BUY	265	435	63.9	46	0.7	172	17	22	23	31.7	31.0	2.6	15.7	11.9	11.6	11.4	8.9	7.5	2.1	1.8	1.6	14.5	16.5	14.7	—	—	—	0.8
Infrastructure	Attractive				1,473	21					11.1	20.6	16.7	19.1	15.9	13.6	11.8	10.0	9.1	2.8	2.5	2.1	14.8	15.5	15.7	0.8	1.0	1.0	48.1
Internet																													
Info Edge	ADD	1,570	1,425	(9.2)	191	2.7	122	26	33	40	14.9	27.5	20.6	60.7	47.6	39.5	46.3	35.1	28.5	7.2	6.5	5.8	13.2	14.3	15.6	0.5	0.5	0.6	2.6
Just Dial	ADD	556	610	9.8	37	0.5	67	26	30	33	23.0	15.0	9.4	21.3	18.5	16.9	11.8	9.6	8.1	3.3	2.9	2.5	16.7	16.6	15.7	—	0.5	0.6	45.8
Internet	Cautious				229	3					17.6	23.0	16.8	46.7	37.9	32.5	34.4	27.1	22.7	6.0	5.4	4.8	12.9	14.2	14.7	0.5	0.5	0.6	48.4
Media																													
DB Corp.	REDUCE	251	270	7.8	46	0.7	184	20	23	26	14.9	12.3	14.8	12.4	11.0	9.6	6.7	6.0	—	2.5	2.4	—	20.7	22.3	25.2	6.7	8.4	10.1	0.6
DishTV	ADD	73	90	23.8	134	1.9	1,925	1.8	3.4	4.9	514.6	88.2	42.6	NM	21.1	14.8	6.2	5.0	4.0	2.0	1.8	1.6	5.1	8.9	11.5	—	—	—	7.7
Jagran Prakashan	REDUCE	124	131	5.9	37	0.5	311	11	12	14	10.0	13.6	14.5	11.7	10.3	9.0	5.1	4.4	3.8	1.9	1.8	1.7	15.9	18.2	19.7	4.0	6.1	6.9	0.6
PVR	BUY	1,323	1,430	8.1	62	0.9	47	38	50	61	41.2	32.3	22.4	34.9	26.4	21.6	13.4	11.4	9.7	5.0	4.3	3.7	15.3	17.6	18.3	0.3	0.4	0.5	11.2
Sun TV Network	REDUCE	769	925	20.3	303	4.3	394	35	39	43	20.7	10.9	10.7	22.1	20.0	18.0	15.0	13.1	11.2	5.9	5.3	4.8	28.1	27.9	27.9	2.3	2.6	2.9	20.0
Zee Entertainment Enterprises	ADD	510	600	17.6	490	7.0	960	17	20	22	11.3	17.0	13.9	30.5	26.1	22.9	18.9	16.0	13.9	5.7	5.0	4.5	19.9	20.6	20.7	0.9	1.1	1.4	17.2
Media	Attractive				1,072	15					28.7	21.0	17.2	25.7	21.2	18.1	12.2	10.4	8.6	4.2	3.8	3.6	16.3	17.7	19.8	1.5	1.8	2.1	57.2

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)
		24-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Metals & Mining																													
Coal India	ADD	291	326	12.0	1,806	25.9	6,207	27	28	28	138.2	3.0	0.7	10.8	10.5	10.4	7.0	6.6	6.3	6.8	7.1	7.3	66.1	66.4	69.1	6.9	8.6	8.6	15.6
Hindalco Industries	BUY	222	305	37.3	499	7.1	2,229	27	31	34	25.1	13.6	10.2	8.1	7.1	6.5	5.4	4.7	4.1	0.8	0.7	0.7	10.6	10.8	10.8	0.5	0.5	0.5	34.0
Hindustan Zinc	ADD	292	290	(0.8)	1,235	17.7	4,225	22	26	27	3.7	14.7	5.4	13.1	11.4	10.8	7.6	6.3	5.5	3.0	2.6	2.2	24.4	24.2	22.1	2.7	2.7	2.8	7.6
Jindal Steel and Power	REDUCE	202	215	6.3	196	2.8	968	8	14	22	195.9	68.5	60.8	24.8	14.7	9.2	6.8	6.2	5.3	0.6	0.6	0.6	2.7	4.3	6.5	—	—	—	28.5
JSW Steel	ADD	355	350	(1.4)	858	12.3	2,417	30	27	30	10.2	(8.7)	11.7	12.0	13.2	11.8	7.3	8.0	6.8	2.5	2.1	1.8	22.4	17.3	16.7	0.9	0.9	0.9	20.1
National Aluminium Co.	ADD	72	80	10.8	140	2.0	1,933	9	7	8	125.8	(21.1)	2.4	7.7	9.8	9.6	3.6	4.6	4.5	1.3	1.3	1.3	16.8	13.0	13.3	8.3	8.3	8.3	10.3
NMDC	REDUCE	104	120	15.9	328	4.7	3,164	12	10	11	4.2	(14.3)	5.9	8.5	9.9	9.3	5.2	6.0	5.5	1.3	1.2	1.1	15.3	12.4	12.5	5.3	5.3	5.3	4.8
Tata Steel	ADD	576	660	14.7	659	9.4	1,205	76	85	94	12.8	12.1	10.9	7.6	7	6.1	5.9	6.2	5.8	1.0	0.9	0.8	14.3	14.3	14.4	1.7	1.7	1.7	71.1
Vedanta	BUY	224	370	65.1	833	11.9	3,717	32	39	38	49.1	19.7	(0.7)	7.0	5.8	5.9	4.6	3.8	3.5	1.2	1.1	1.0	18.0	19.4	17.2	4.3	5.2	5.1	50.3
Metals & Mining		Attractive			6,552	94					41.7	7.7	5.9	9.8	9.1	8.6	6.0	5.7	5.2	1.8	1.6	1.5	18.0	17.8	17.1	3.7	4.3	4.3	242.4
Pharmaceutical																													
Apollo Hospitals	ADD	1,198	1,090	(9.0)	167	2.4	139	20	27	33	133.5	36.7	21.6	60.8	44.5	36.6	21.0	17.7	15.6	4.8	4.5	4.1	8.2	10.5	11.8	0.4	0.6	0.7	13.1
Aster DM Healthcare	BUY	175	240	37.5	88	1.3	505	5	8	12	74.4	62.0	51.4	36.3	22.4	14.8	12.9	10.2	8.0	2.9	2.6	2.2	8.3	12.2	16.3	—	—	—	0.3
Aurobindo Pharma	ADD	694	640	(7.7)	406	5.8	584	40	48	54	(4.5)	20.1	13.1	17.4	14.5	12.8	11.6	9.7	8.3	3.0	2.5	2.1	18.4	17.3	16.8	0.7	0.9	1.1	24.1
Biocon	SELL	607	330	(45.6)	364	5.2	601	8	15	18	35.9	75.7	21.7	72.0	41.0	33.7	31.4	21.0	17.8	6.0	5.4	4.8	8.7	13.9	14.3	0.5	0.9	1.0	22.6
Cipla	BUY	651	680	4.4	524	7.5	805	24	31	40	34.5	31.0	29.4	27.7	21.1	16.3	15.6	12.4	9.7	3.3	2.9	2.6	12.4	14.6	15.7	0.7	1.0	1.3	26.5
Dr Lal Pathlabs	REDUCE	1,019	900	(11.7)	85	1.2	83	24	29	34	19.0	17.9	18.4	41.9	35.5	30.0	25.8	21.6	17.7	9.0	7.5	6.3	23.4	23.1	22.9	0.5	0.6	0.7	1.4
Dr Reddy's Laboratories	REDUCE	2,447	2,150	(12.2)	406	5.8	166	89	118	141	50.2	32.8	19.3	27.6	20.8	17.4	13.9	9.9	8.2	2.9	2.6	2.3	11.1	12.6	13.3	0.6	0.7	0.9	37.3
HCG	REDUCE	243	290	19.4	21	0.3	85	2	4	7	39.8	80.3	80.8	111.1	61.6	34.1	17.9	14.9	11.4	3.9	3.6	3.3	3.5	6.1	10.1	—	—	—	0.2
Laurus Labs	ADD	442	500	13.2	47	0.7	106	16	29	34	2.4	79.9	17.5	27.2	15.1	12.9	12.6	8.7	7.6	2.8	2.4	2.0	10.9	17.1	15.6	—	—	—	0.6
Lupin	REDUCE	907	800	(11.8)	410	5.9	450	27	39	50	(28.9)	44.0	27.4	33.5	23.2	18.2	15.6	11.3	9.1	2.8	2.5	2.3	8.6	11.4	12.4	0.4	0.6	0.8	44.2
Narayana Hrudayalaya	ADD	249	265	6.3	51	0.7	204	3	6	9	23.0	103.2	40.7	80.6	39.7	28.2	22.9	16.0	12.9	4.6	4.2	3.6	5.9	11.0	13.7	—	—	—	0.3
Sun Pharmaceuticals	REDUCE	630	520	(17.4)	1,511	21.6	2,406	17	24	29	11.1	42.5	20.5	37.4	26.2	21.8	20.4	15.0	12.6	3.6	3.2	2.9	10.2	13.1	13.3	0.5	0.8	0.9	61.8
Torrent Pharmaceuticals	NR	1,771	—	—	300	4.3	169	47	61	81	18.0	29.6	32.1	37.5	28.9	21.9	16.3	14.0	11.5	5.7	5.0	4.2	15.3	17.2	19.3	0.6	0.8	1.1	7.7
Pharmaceuticals		Neutral			4,381	63					11.3	37.2	22.7	33.1	24.1	19.6	17.1	13.0	10.8	3.6	3.2	2.8	10.9	13.2	14.3	0.5	0.8	0.9	240.1
Real Estate																													
Brigade Enterprises	BUY	200	290	45.2	27	0.4	136	9	15	17	(17.0)	59.2	15.8	21.7	13.7	11.8	13.4	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	213	—	—	380	5.4	1,784	5.3	23.9	14.1	(87.2)	354.6	(41.0)	40.5	8.9	15.1	55.7	9.8	18.3	1.1	1.0	0.9	2.6	11.3	6.2	0.9	0.9	0.9	16.7
Godrej Properties	SELL	708	400	(43.5)	162	2.3	216	13.3	15.8	18.2	(38.9)	19.1	15.2	53.4	44.8	38.9	314.4	163.8	135.0	4.6	4.2	3.8	10.5	9.7	10.1	—	—	—	1.8
Oberoi Realty	BUY	469	560	19.4	170	2.4	340	62	44	66	385.4	(28.0)	49.3	7.6	10.5	7.1	10.5	13.1	5.8	1.7	1.5	1.2	27.4	15.2	19.2	0.4	0.4	0.4	2.2
Prestige Estates Projects	ADD	244	315	29.1	91	1.3	375	19	21	11	(24.2)	8.4	—	12.8	11.8	22.9	10.5	10.6	14.3	0.9	0.9	—	14.6	14.9	7.3	1.2	1.2	0.6	1.0
Sobha	REDUCE	465	510	9.6	44	0.6	95	23	36	24	(48.8)	51.7	(32.6)	19.8	13.1	19.4	11.9	9.3	11.6	2.0	1.8	1.7	9.0	14.8	9.1	1.5	1.5	1.5	1.7
Sunteck Realty	REDUCE	521	360	(30.9)	76	1.1	140	19	19	39	22.4	1.6	106.6	27.9	27.4	13.3	22.9	22.1	9.9	2.5	2.3	2.0	9.5	8.9	16.2	0.2	0.2	0.2	2.0
Real Estate		Neutral			952	14					(53.1)	65.1	(14.4)	20.4	12.3	14.4	20.9	12.3	13.8	1.4	1.3	1.3	7.1	10.6	9.0	0.7	0.7	0.6	25.6

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADV T 3mo (US\$ mn)
		24-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Technology																													
HCL Technologies	REDUCE	1,023	1,025	0.2	1,425	20.4	1,409	70	74	77	12.8	5.0	5.0	14.6	13.9	13.2	9.6	8.7	8.1	3.3	2.9	2.6	24.2	21.8	20.5	0.8	3.0	3.2	32.4
Hexaware Technologies	SELL	426	435	2.1	127	1.8	302	20	23	25	18.4	18.0	10.0	21.7	18.4	16.8	16.1	12.8	11.2	5.6	4.7	4.1	27.4	27.8	26.3	1.9	1.9	2.3	20.0
Infosys	ADD	1,378	1,400	1.6	3,010	43.1	2,175	71	78	85	9.7	10.4	9.1	19.4	17.6	16.1	13.3	11.9	10.7	4.3	4.0	3.6	23.0	23.5	23.3	3.2	2.8	3.0	84.0
L&T Infotech	ADD	1,840	2,000	8.7	318	4.6	175	83	94	109	30.5	13.0	16.5	22.2	19.6	16.9	17.0	14.4	12.2	6.7	5.5	4.5	33.5	30.7	29.2	1.3	1.4	1.6	4.8
Mindtree	ADD	1,013	1,115	10.0	166	2.4	165	43	53	62	24.9	23.6	15.9	23.5	19.0	16.4	14.7	11.8	10.1	5.2	4.4	3.8	23.9	25.2	24.9	1.3	1.6	1.8	23.1
Mphasis	SELL	1,256	825	(34.3)	243	3.5	193	53	57	59	20.5	7.1	4.6	23.8	22.2	21.2	17.6	15.6	14.6	4.6	4.2	3.9	18.7	19.9	19.2	1.6	2.0	2.4	6.6
TCS	REDUCE	2,043	1,790	(12.4)	7,822	112.0	3,829	82	89	96	21.2	8.8	7.4	25.0	23.0	21.4	18.3	16.9	15.7	7.9	7.7	7.6	33.4	33.8	35.9	2.0	3.5	3.7	96.3
Tech Mahindra	ADD	719	785	9.2	634	9.1	891	46	55	61	8.3	18.2	11.1	15.6	13.2	11.9	9.4	7.6	6.5	2.9	2.5	2.1	20.2	20.5	19.5	1.3	1.4	1.6	40.5
Wipro	REDUCE	292	295	1.0	1,322	18.9	4,507	19	22	23	11.8	14.6	7.7	15.4	13.5	12.5	9.8	8.5	7.8	2.4	2.2	2.0	16.4	16.8	16.8	0.5	3.4	3.8	12.8
Technology	Cautious				15,067	216					13.1	9.7	8.0	20.8	19.0	17.6	14.3	12.9	11.8	5.0	4.6	4.3	23.8	24.2	24.2	1.9	3.1	3.3	320.4
Telecom																													
Bharti Airtel	ADD	369	445	20.6	1,475	21.1	3,997	(6)	(4)	5	(221.5)	28.8	215.1	(64.1)	(90.2)	78.3	9.6	8.1	6.5	2.2	2.3	2.3	(3.4)	(2.5)	2.9	0.3	(0.2)	0.3	25.3
Bharti Infratel	REDUCE	286	285	(0.2)	528	7.6	1,850	13	12	13	(4.8)	(8.5)	7.7	21.8	23.8	22.1	8.1	8.6	8.1	3.2	3.3	3.2	14.6	13.7	14.6	3.7	3.4	3.7	11.1
IDEA	REDUCE	52	45	(13.7)	227	3.3	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(3.1)	(3.0)	(3.4)	34.7	29.4	18.3	1.0	1.6	2.9	(29.7)	(41.1)	(59.4)	—	—	—	15.3
Tata Communications	ADD	543	660	21.7	155	2.2	285	0	3	7	(77.5)	694.2	123.5	1,464	184.4	82.5	10.8	9.5	8.6	(67.4)	(91.5)	(1,772.6)	7.8	(42.1)	(211.0)	1.2	1.4	1.4	3.8
Telecom	Cautious				2,385	34					(2,384.5)	5.0	68.0	(33.2)	(34.9)	(109.3)	10.9	9.6	7.9	2.3	2.5	2.7	(6.9)	(7.2)	(2.4)	1.1	0.6	1.0	55.6
Utilities																													
CESC	BUY	989	1,180	19.3	131	1.9	133	115	128	141	31.7	11.6	10.1	8.6	7.7	7.0	5.9	5.3	4.7	0.8	0.8	0.7	10.0	10.4	10.5	1.3	1.3	1.3	6.3
JSW Energy	REDUCE	68	70	2.9	112	1.6	1,640	5.1	6.5	6.6	65.9	26.8	2.9	13.4	10.5	10.2	5.7	4.8	4.3	0.9	0.9	0.8	7.2	8.5	8.0	—	—	—	1.6
NHPC	ADD	25	30	18.1	261	3.7	10,260	3.1	3.2	3.4	26.9	1.8	8.0	8.2	8.1	7.5	7.5	7.2	7.7	0.8	0.8	0.8	10.4	10.2	10.6	6.9	6.9	5.8	1.9
NTPC	BUY	164	190	15.6	1,355	19.4	8,245	15	16	18	30.9	4.4	16.5	11.0	10.6	9.1	8.8	8.2	6.9	1.2	1.1	1.1	11.6	11.3	12.2	2.7	2.8	3.3	12.7
Power Grid	BUY	191	250	30.9	999	14.3	5,232	19	21	23	19.3	13.6	7.6	10.2	8.9	8.3	7.2	6.6	6.3	1.7	1.5	1.3	17.1	17.5	17.0	3.3	3.7	4.0	25.5
Tata Power	BUY	72	90	25.4	194	2.8	2,705	6.0	7.0	10.9	(43.7)	15.6	57.0	11.9	10.3	6.6	10.6	10.2	8.9	1.1	1.0	0.9	10.1	10.6	14.6	—	—	—	4.2
Utilities	Attractive				3,051	44					18.6	8.8	14.1	10.4	9.6	8.4	7.9	7.3	6.6	1.2	1.1	1.0	11.9	12.0	12.5	2.9	3.1	3.3	52.2

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)
		24-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Others																													
Aditya Birla Fashion and Retail	BUY	202	220	8.9	156	2.2	773	2	4	6	50.6	59.1	53.5	88.0	55.3	36.1	25.6	20.0	16.2	12.3	10.1	7.9	15.0	20.0	24.5	—	—	—	3.6
Astral Poly Technik	SELL	1,125	640	(43.1)	135	1.9	120	19	25	29	30.2	28.8	16.1	58.9	45.7	39.4	31.7	25.2	21.4	10.4	8.5	7.1	19.8	20.5	19.7	0.1	0.1	0.1	1.2
Avenue Supermarts	SELL	1,560	860	(44.9)	973	13.9	624	16	20	26	28.6	26.4	27.5	96.5	76.3	59.9	55.7	43.7	34.4	17.2	14.1	11.4	19.6	20.3	21.0	—	—	—	—
Bayer Cropscience	REDUCE	4,081	4,100	0.5	161	2.3	34	106	130	154	20.5	23.1	18.3	38.7	31.4	26.6	28.3	23.0	19.2	6.8	5.8	5.0	18.9	20.0	20.3	0.5	0.6	0.8	0.5
Dhanuka Agritech	ADD	561	650	15.9	28	0.4	49	27	31	34	3.9	15.4	10.8	21.0	18.2	16.4	15.4	12.6	11.0	3.8	3.3	2.8	19.2	19.2	18.5	1.0	1.2	1.3	0.2
Godrej Agrovet	ADD	599	640	6.9	115	1.6	189	15	19	23	28.9	28.8	21.1	40.3	31.3	25.9	21.8	17.1	14.3	5.9	5.0	4.3	15.7	17.4	17.9	0.4	0.5	0.6	1.0
Godrej Industries	RS	630	—	—	212	3.0	336	16	20	—	8.9	24.2	—	39.7	32.0	—	32.3	35.2	—	5.2	4.5	—	13.9	15.1	—	0.3	0.3	—	4.9
InterGlobe Aviation	BUY	1,055	1,220	15.7	406	5.8	383	50	83	99	(17.9)	65.3	19.5	21.1	12.8	10.7	12.0	6.8	5.5	4.6	3.5	2.7	24.1	31.1	28.6	0.5	0.8	0.9	21.3
Kaveri Seed	SELL	638	515	(19.3)	42	0.6	66	34	34	37	7.3	0.1	8.3	18.6	18.6	17.1	15.7	15.0	13.4	4.5	3.9	3.4	26.4	22.4	21.0	1.3	1.6	1.6	5.8
PI Industries	BUY	769	875	13.8	106	1.5	138	31	40	48	17.9	26.8	21.5	24.6	19.4	15.9	17.4	13.6	11.0	4.6	3.8	3.2	20.5	21.7	21.9	0.5	0.6	0.8	1.5
Rallis India	ADD	194	220	13.3	38	0.5	195	10	12	13	17.2	19.4	9.7	19.2	16.1	14.7	12.6	10.7	9.4	2.9	2.6	2.4	15.8	17.1	16.9	1.9	2.1	2.3	0.8
SIS	REDUCE	1,146	1,130	(1.4)	84	1.2	73	33	40	48	48.5	21.1	17.8	34.4	28.4	24.1	21.5	18.1	15.2	6.8	5.6	4.7	21.8	21.7	21.1	0.3	0.3	0.4	0.7
SRF	BUY	1,973	2,200	11.5	113	1.6	57	100	132	150	23.8	32.2	14.1	19.8	15.0	13.1	11.5	9.1	7.7	2.8	2.4	2.1	15.0	17.3	17.0	0.7	0.7	0.8	12.0
Tata Chemicals	ADD	730	760	4.1	186	2.7	255	44	51	56	(15.3)	14.6	11.5	16.5	14.4	13.0	6.9	5.8	4.9	1.5	1.4	1.3	9.7	10.3	10.8	2.1	2.3	2.3	6.7
TeamLease Services	SELL	2,640	1,785	(32.4)	45	0.6	17	58	75	96	34.2	29.0	28.7	45.6	35.4	27.5	46.2	35.1	27.1	8.3	6.8	5.4	20.1	21.1	21.9	—	—	—	1.5
UPL	ADD	654	660	1.0	333	4.8	507	49	55	60	14.0	12.1	9.6	13.4	11.9	10.9	9.0	7.7	6.6	3.0	2.5	2.1	24.6	22.9	21.1	1.5	1.7	1.9	23.9
Vardhman Textiles	ADD	1,117	1,300	16.4	64	0.9	56	118	130	142	14.8	9.7	9.8	9.4	8.6	7.8	7.1	6.4	5.7	1.2	1.1	1.0	13.1	13.0	13.0	1.8	2.7	2.7	1.0
Whirlpool	SELL	1,756	1,350	(23.1)	223	3.2	127	37	46	56	33.9	24.7	20.2	47.4	38.0	31.6	29.1	23.1	19.0	10.3	8.5	7.3	23.7	24.5	24.8	0.4	0.5	0.9	1.2
Others																													
					3,419	49				7.1	27.4	11.5	30.6	24.0	21.5	18.4	14.5	11.6	5.1	4.3	3.9	16.7	18.1	18.2	0.5	0.6	0.7	87.7	
KIE universe					115,415	1,652				23.9	26.9	14.2	22.5	17.7	15.5	11.2	10.0	8.9	2.9	2.6	2.4	12.8	14.7	15.2	1.3	1.6	1.8		
KIE universe (ex-energy)					100,961	1,445				29.4	32.8	16.2	25.1	18.9	16.2	12.4	10.9	9.7	3.2	2.9	2.6	12.8	15.3	16.0	1.2	1.6	1.7		

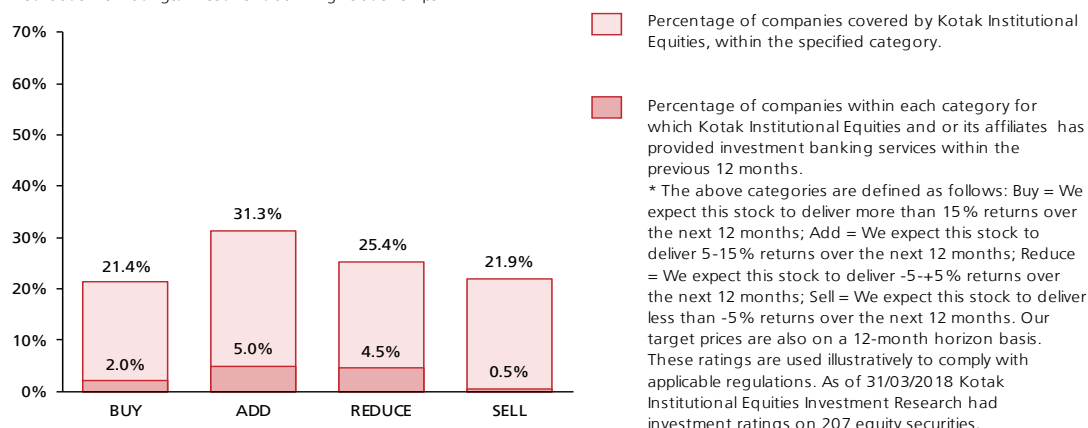
Notes:

- (a) We have used adjusted book values for banking companies.
 (b) 2019 means calendar year 2018, similarly for 2020 and 2021 for these particular companies.
 (c) Exchange rate (Rs/US\$)= 69.86

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2018

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

Other definitions

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

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