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Sector alerts

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EQUITY MARKETS

India	Change %			
	27-Sep	1-day	1-mo	3-mo
Sensex	36,324	(0.6)	(6.6)	3.7
Nifty	10,978	(0.7)	(6.5)	3.7
Global/Regional indices				
Dow Jones	26,440	0.2	1.4	9.2
Nasdaq Composite	8,042	0.6	0.1	7.2
FTSE	7,545	0.5	(0.9)	(0.9)
Nikkei	24,093	1.2	5.6	8.2
Hang Seng	27,879	0.6	(1.7)	(2.2)
KOSPI	2,347	(0.4)	1.9	1.4
Value traded – India				
Cash (NSE+BSE)	383		407	366
Derivatives (NSE)	18,949		7,831	12,648
Deri. open interest	4,449		4,390	4,281

Forex/money market

	Change, basis points			
	27-Sep	1-day	1-mo	3-mo
Rs/US\$	72.7	5	241	387
10yr govt bond, %	8.3	(2)	14	14

Net investment (US\$ mn)

	26-Sep	MTD	CYTD
FIs	(96)	(1,166)	(1,857)
MFs	212	1,075	12,949

Top movers

Best performers	Change, %			
	27-Sep	1-day	1-mo	3-mo
DIVI IN Equity	1,366	(1.4)	6.6	36.6
RIL IN Equity	1,254	0.2	(4.9)	32.7
UBBL IN Equity	1,417	(0.1)	3.1	26.2
JSTL IN Equity	400	(1.9)	9.3	24.2
WPRO IN Equity	319	(0.1)	7.9	24.1
Worst performers				
JPA IN Equity	7	0.7	(32.9)	(52.8)
YES IN Equity	203	(9.2)	(45.2)	(38.3)
IDEA IN Equity	39	(7.1)	(24.7)	(32.1)
UT IN Equity	3	(5.1)	(28.2)	(31.7)
RCAPT IN Equity	293	(7.9)	(32.2)	(24.6)

Setting the stage. The sharp increase in regulated tariff for Dahej-Uran-Panvel-Dabhol pipeline by PNGRB sets the stage for a healthy upward revision in tariff for GAIL's remaining pipeline network of HVJ-DV-GREP as well, which contributes more than 60% of its transmission volumes. We raise FY2019-21 EPS estimates by 6-11% factoring in recent tariff orders, higher crude prices and a weaker Rupee, while reiterating BUY on the stock with a revised SoTP-based target price of ₹455 (₹440 earlier).

Company data and valuation summary

GAIL (India)

Stock data

52-week range (Rs) (high,low)	399-290
Market Cap. (Rs bn)	851.7
Shareholding pattern (%)	
Promoters	53.0
FIs	17.9
MFs	11.1

Price performance (%)

	1M	3M	12M
Absolute	(1.5)	14.9	26.0
Rel. to BSE-30	5.0	11.4	8.1

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	20.4	28.9	30.7
EPS growth (%)	21.7	41.7	6.4
P/E (X)	18.5	13.1	12.3
Sales (Rs bn)	536.6	795.9	874.8
Net profits (Rs bn)	46.0	65.2	69.3
EBITDA (Rs bn)	76.3	105.3	111.6
EV/EBITDA (X)	11.1	8.2	7.7
ROE (%)	11.7	15.4	14.9
Div. Yield (%)	1.9	2.5	2.6

54% hike in DUPL/DPPL tariffs and 2.5-7X jump in tariffs of smaller networks by PNGRB

PNGRB has issued the final tariff orders for a few of GAIL's pipelines, increasing tariffs by (1) 54% for Dahej-Uran-Panvel-Dabhol network, which contributed ~13% of transmission volumes in FY2018 and (2) 2.5-7X for smaller regional networks, which together contributed another ~6% of volumes. The new regulated tariffs, effective from April 1, 2018, will increase blended tariffs by 10% to ₹1.45/scm from ₹1.32/scm in FY2018, 4% above our estimate of ₹1.39/scm. We highlight that only ~20% of incremental tariff for GAIL's DUPL/DPPL network has been contributed by lower volume divisors and other minor changes; the remaining amount has been contributed by prospective adjustment for prior-period shortfall.

Expect further increase in tariffs for key pipeline network and gains from unification

We expect GAIL's transmission tariffs to increase further by ~20% over the next two years driven by (1) upward revision in tariffs for remaining old and new networks of HVJ-DV-GREP, which contributes to more than 60% of GAIL's overall transmission volumes and (2) likely implementation of unified tariff framework, along with commissioning of GAIL's East India pipeline network; we note that GAIL has submitted ~55% jump in tariff to ₹57/mn BTU for its interconnected network under unification based on PNGRB's recent tariff calculations, as compared to ₹37/mn BTU realized currently. We remain sanguine on gains from upward revision in pipeline tariffs for GAIL, as its pipelines are operating well below 75% utilization threshold that is being considered by PNGRB for final tariff calculations; hence, any benefit from increase in volumes until 75% utilization will entirely be retained by GAIL. This is contrary to GSPL, whose Gujarat state pipeline network is already operating above volume divisors considered by PNGRB for final tariff order and such surplus in volumes realized by GSPL will be prospectively adjusted from tariffs on NPV basis in the subsequent review by the regulator.

Raise EPS estimates by 6-11% and SoTP-based TP to ₹455

We raise GAIL's standalone EPS estimates to ₹28.9 (+11%) in FY2019, ₹30.7 (+7%) in FY2020 and ₹33.2 (+6%) in FY2021, factoring in (1) the recent final tariff orders issued by PNGRB for a few pipelines, (2) US\$2.5-7.5/bbl increase in our Dated Brent crude price assumptions, (3) weaker Rupee forecast by our economy team and (4) other minor changes. Our SoTP-based target price, based on March 2020 estimates, increases to ₹455 from ₹440 even as we ascribe a modestly lower multiple of 6X to LPG/petchem business as compared to 6.5X earlier.

Tarun Lakhotia

Akshay Bhora

Exhibit 1: We compute 10% increase in GAIL's blended pipeline tariffs from FY2018 level
Impact of recent revision in regulated tariffs for GAIL's pipelines

	Tariffs (Rs/mn BTU)			FY2018		
	Old	New	% change	Capacity (mcm/d)	Volumes	Utilization (%)
Final tariff orders issued earlier						
KG basin network	5.6	45.3	715	16.0	5.4	33.8
Ramnad subnetwork	3.1	16.6	442	2.3	1.7	75.0
Narimanam and Kuthalam subnetwork	7.5	17.4	133	2.0	1.5	75.1
Dabhol Bangalore	44.7	40.8	(9)	16.0	1.3	7.9
Kochi Bangalore Mangalore	29.0	42.8	48	16.0	2.3	14.3
Chainsa Jhajjar Hissar	4.2	7.9	89	35.0	1.0	2.9
Dadri Bawana Nangal	11.9	14.0	18	31.0	5.5	17.7
Final tariff orders issued in September 2018						
DUPL/DPPL	24.5	37.8	54	19.9	13.9	70.1
Baroda subnetwork (Gujarat)	7.8	27.6	253	8.3	4.4	52.6
Agartala regional network	5.8	45.9	691	2.0	1.3	65.0
Dukli Maharajgunj network	6.1	46.4	656	0.1	0.1	75.0
Blended pipeline tariffs (Rs/scm)	1.32	1.45	10			
Final tariff orders pending						
Extant HVJ-DV GREP	25.5			57.2	35.9	62.8
New HVJ-DV GREP	53.7			54.0	29.5	54.7

Source: PNGRB, Company, Kotak Institutional Equities estimates

Exhibit 2: Sharp upward revision in final tariff for GAIL's DUPL/DPPL network by PNGRB

S.No.	Particulars	Impact Rs./ MMBTU	Rs./ MMBTU
	Tariff as per Provisional Tariff Order		24.49
1	Volume Divisor (Para 6.5)	3.76	28.25
2	Actual and Future Capex (Para 6.2)	0.05	28.30
3	Actual and Future Opex (Para 6.3)	-2.01	26.29
4	Line Pack (Para 6.9), Tax Rate (Para 6.11), etc.	0.89	27.18
5	Impact on account of sr.no.1 to 4 above being applied prospectively from 01.04.2018 in terms of clause 9 (4) of Schedule A of Tariff Regulations.	10.60	37.78
	Final Levelised Tariff		37.78

Source: PNGRB, Kotak Institutional Equities

Exhibit 3: Final tariff order issued by PNGRB for GAIL's DUPL/DPPL network below GAIL's submission

S. No.	Particulars	Impact (Rs. / MMBTU on GCV basis)	Tariff (Rs. / MMBTU on GCV Basis)
	Submitted Tariff		69.25
1	Inflation (4.5% in place of 4.91%)	0.42	68.83
2	Unaccounted Gas (Nil in place of 0.3%)	10.44	58.39
3	Working Days (355 in place of 345)	4.09	54.30
4	Actual Opex	0.62	53.68
5	Future Opex	1.19	52.49
6	Future Capex (PD and O&M)	3.02	49.47
7	Terminal Value (Line Pack)	0.02	49.45
8	Net Block as on 20.11.2008	0.43	49.03
9	Volume Divisor	11.24	37.78
	Levelised Tariff after adjustments		37.78

Source: PNGRB, Kotak Institutional Equities

Exhibit 4: We expect gradual improvement in operating performance

Key assumptions behind GAIL model, March fiscal year-ends, 2014-21E

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Volumes								
Natural gas (mcm/d)								
Transmission	96	92	92	100	105	111	118	126
Sales	79	72	74	81	85	99	106	111
LPG/LHC ('000 tons)								
Transmission	3,145	3,094	2,819	3,363	3,721	3,725	3,750	3,775
Sales	1,307	1,277	1,085	1,082	1,276	1,307	1,343	1,379
Petrochemicals ('000 tons)								
Polyethylene	445	441	334	578	673	738	813	855
Prices/Margins								
Natural gas (Rs/scm)								
Blended transmission tariffs	1.17	1.00	1.13	1.26	1.32	1.45	1.59	1.75
Blended marketing margins	0.55	0.21	0.52	0.45	0.40	0.46	0.44	0.41
LPG								
LPG price (US\$/ton)	910	745	452	415	502	638	598	571
Transmission charges (Rs/kg)	1.3	1.4	1.7	1.5	1.5	1.6	1.6	1.6
Other assumptions								
Polyethylene, HDPE (US\$/ton)	1,585	1,540	1,390	1,275	1,175	1,360	1,285	1,245
Import tariff, Polyethylene	7.4%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%
Import tariff, LPG	0%	0%	0%	0%	0%	0%	0%	0%
Exchange rate (Rs/US\$)	60.5	61.1	65.5	67.1	64.5	69.9	72.0	73.0
Subsidy losses (Rs mn)	19,000	10,000	—	—	—	—	—	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Strong improvement in contribution across segments

Segment breakdown of GAIL's EBITDA, March fiscal year-ends, 2014-21E (Rs mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
EBITDA								
Gas transportation	25,371	19,647	25,384	31,702	37,137	43,011	50,526	61,197
LPG transportation	2,619	2,886	3,106	3,087	3,268	3,138	3,076	3,114
Gas marketing	15,803	5,609	13,950	13,486	12,561	16,598	16,916	16,748
LPG production	29,994	29,662	7,848	12,926	23,480	32,767	29,447	26,792
Petrochemicals	15,326	2,092	(4,438)	8,920	6,880	11,419	13,347	14,960
Others	3,064	(220)	(892)	(7,315)	(6,709)	(1,636)	(1,748)	(2,537)
Subsidy loss	(19,000)	(10,000)	—	—	—	—	—	—
Total	73,176	49,676	44,957	62,807	76,616	105,297	111,565	120,273

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: We value GAIL stock at Rs455 per share

Sum-of-the-parts valuation of GAIL, March 2020E basis (Rs bn)

	Valuation base (Rs bn)		Multiples (X)		EV (Rs bn)		Valuation (Rs/share)
	Other	EBITDA	Other	EV/EBITDA	Other	EBITDA basis	
Utility							
Natural gas transportation		49.7		8.0		397	176
Natural gas marketing		16.7		6.5		108	48
LPG transportation		3.1		6.5		20	9
Total utility businesses		69.4				525	233
Commodity							
LPG production		29.0		6.0		174	77
Petrochemicals		13.2		6.0		79	35
Total commodity businesses		42.2				253	112
Investments							
ONGC	62		0.8		49		22
Others	264		0.8		211		94
Investments	326				261		116
Total enterprise value							461
Net debt/(cash)					14		6
Equity value							455

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Profit model, balance sheet, cash model of GAIL, March fiscal year-ends, 2014-21E (Rs mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)								
Net sales	575,079	571,913	516,875	481,489	536,616	795,897	874,786	931,256
EBITDA	67,059	51,520	42,463	65,584	76,339	105,297	111,565	120,273
Other income	8,985	8,609	8,916	10,063	9,870	10,172	11,161	12,606
Interest	(3,662)	(3,613)	(7,999)	(4,794)	(2,751)	(1,117)	(1,135)	(1,162)
Depreciation	(11,809)	(9,807)	(13,098)	(13,968)	(14,151)	(16,318)	(17,731)	(19,630)
Pretax profits	60,574	46,708	30,282	56,886	69,307	98,034	103,859	112,088
Current tax	(17,607)	(4,578)	(1,355)	(13,345)	(16,333)	(29,147)	(29,702)	(30,388)
Deferred tax	(2,663)	(7,874)	(7,001)	(5,734)	(7,066)	(3,718)	(4,840)	(6,840)
Net profits	43,753	30,392	22,264	35,029	46,184	65,170	69,318	74,861
Adjusted net profits	41,395	33,133	22,019	37,807	46,000	65,170	69,318	74,861
Adjusted EPS (Rs)	18.4	14.7	9.8	16.8	20.4	28.9	30.7	33.2
Balance sheet (Rs mn)								
Total equity	270,723	291,195	350,946	381,494	403,281	442,667	484,843	531,205
Deferred taxation liability	25,664	33,087	40,714	46,559	46,309	50,027	54,867	61,707
Total borrowings	102,680	116,601	80,601	50,630	20,805	18,805	21,805	19,805
Current liabilities	99,046	88,049	85,714	84,017	110,427	124,201	131,230	135,835
Total liabilities and equity	498,113	528,932	557,974	562,700	580,822	635,699	692,744	748,552
Cash	26,510	11,416	17,939	13,419	25,294	10,851	16,479	25,546
Other current assets	118,822	153,095	142,704	138,523	112,959	138,247	146,608	152,443
Total fixed assets	311,751	321,197	311,484	315,662	343,038	387,071	430,127	471,033
Investments	41,030	43,224	85,847	95,096	99,531	99,531	99,531	99,531
Total assets	498,113	528,932	557,974	562,700	580,822	635,699	692,744	748,552
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	46,367	36,551	34,594	52,698	64,201	74,661	80,349	88,337
Working capital changes	(8,171)	(19,567)	(2,326)	(1,939)	18,864	(11,513)	(1,332)	(1,229)
Capital expenditure	(38,550)	(18,676)	(12,138)	(16,947)	(29,456)	(59,979)	(60,409)	(60,149)
Investments	(4,084)	(540)	4,500	(4,173)	(7,632)	—	—	—
Other income	6,291	6,522	6,541	8,164	11,377	10,172	11,161	12,606
Free cash flow	1,854	4,290	31,172	37,804	57,354	13,341	29,769	39,565
Ratios (%)								
Debt/equity	34.6	36.0	20.6	11.8	4.6	3.8	4.0	3.3
Net debt/equity	25.7	32.4	16.0	8.7	(1.0)	1.6	1.0	(1.0)
ROAE (%)	15.6	9.8	6.2	8.5	10.5	13.8	13.4	13.2
ROACE (%)	11.6	8.5	6.1	8.6	10.1	13.4	13.1	12.9

Source: Company, Kotak Institutional Equities estimates

No let-up in cost pressures. Adverse movements in crude price and rupee and no signs of upward movements in yields continue to weigh on Indigo's stock price. We align our forecasts with our new crude price assumptions (US\$80 in FY2019 and US\$77.5 in FY2020), resulting in sharp earnings cut and new TP of ₹980 (₹1,220 earlier). The current low-margin scenario for airlines will necessitate fare hikes or capacity rationalization, thus driving an eventual earnings recovery for Indigo.

Company data and valuation summary

InterGlobe Aviation

Stock data

52-week range (Rs) (high,low)	1,520-818
Market Cap. (Rs bn)	322.7

Shareholding pattern (%)

Promoters	74.9
FIs	15.0
MFs	5.3

Price performance (%)

	1M	3M	12M
Absolute	(20.0)	(27.0)	(20.6)
Rel. to BSE-30	(14.8)	(29.2)	(31.9)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	58.6	(10.6)	42.1
EPS growth (%)	27.2	(118.1)	496.4
P/E (X)	14.3	(79.1)	20.0
Sales (Rs bn)	230.2	287.9	366.2
Net profits (Rs bn)	22.4	(4.1)	16.1
EBITDA (Rs bn)	29.6	(5.2)	25.2
EV/EBITDA (X)	7.3	(46.3)	9.5
ROE (%)	41.3	(5.9)	21.5
Div. Yield (%)	0.7	(0.1)	0.0

Airfares: yields continue to be under pressure

Our monthly fare tracker shows that airfares remain depressed, with both July and August 2018 ticket prices (for one-month forward travel) remaining weak. This is further corroborated by CPI monthly inflation data on airfares, which shows month-on-month decline in airfares in July and August 2018. We thus believe 2QFY19 will be a challenging quarter for all airlines given weak yields and higher input costs. We see some improvement in fares offered in September (for travel in October), possibly on account of festive season demand.

No let-up in input cost pressures yet

Domestic ATF prices continue to rise, and 2QFY19 average price is 5% higher than 1QFY19 average. Further, weak rupee impacts not only ATF prices, but also other US\$-denominate costs such as interest payments on foreign debt, lease rentals, and capital cost of purchase of aircraft. We expect a poor 2QFY19 showing from Indigo primarily on account of input cost headwinds, seasonally strong yields in 3Q notwithstanding.

Passenger growth remains strong, partly aided by cheap fares

Domestic passenger volumes increased by a healthy 17% yoy in August 2018, and FY2019TD passenger volumes are up 20% yoy. Indigo and Go Air reported strongest yoy passenger growth of 29% and 31%, respectively, while Jet and SpiceJet reported yoy growth of -3% and 3%, respectively. Passenger growth is less of a concern at the moment as cheap fares stimulate demand and possibly wrest some share from railways. CPI data indicates airfares have come off in FY2016-19TD, while railway fares have increased over the same period.

Crude price trajectory may weigh in on stock momentum in the near term

Indigo stock has been battered by crude price rise, weak fares and a resultant decline in profitability. We believe upside risks to crude in the near-term may weigh in on earnings and stock price further. We incorporate higher crude and weaker rupee in our forecasts, leading to a net loss in FY2019, and 23-40% EPS cut in FY2020-21. We believe current fare and cost situation is untenable, and will eventually lead to industry capacity rationalization. This should drive fares up to more reasonable levels, and lead to market share gains for stronger incumbents. We believe Indigo's profitability would recover only by FY2021, by when we expect crude prices to ease and yields to improve. Our TP of ₹980 (₹1,220 earlier) is thus based on March 2021E P/E of 14X, discounted back to September 2020E.

Garima Mishra

Weak 2QFY19 fare momentum, see some improvement in September fares

Our airfare tracker indicates subdued fare momentum for 2QFY19 on account of seasonal weakness as well as inability of the industry to raise prices. We also note that ticket aggregator platforms indicated that a few airlines, Jet Airways in particular followed by Indigo, actually reduced fares on certain sectors (Mumbai-Chennai, Mumbai-Kolkata for instance) in July and August. We believe Jet may have resorted to price cuts in order to achieve higher load factors and increase upfront ticket sales. Indigo's price reductions were lower than those effected by Jet, and seemed limited to certain routes.

Data collected in September 2018 for travel a month ahead in October 2018 shows that yields have started improving going into the festive season. Of the routes we track, the largest month-on-month fare hikes were seen in the Delhi-Kolkata, Mumbai-Kolkata, Mumbai-Delhi and Delhi-Mumbai routes, while lowest hikes were seen in the Delhi-Chennai and Mumbai-Chennai routes. We note these fares are for flights early in the day, and are not weighted across operators. Further, airlines follow varied revenue management policies and thus the tracker is more directional than quantitatively accurate in nature.

Exhibit 1: 2QFY19 pricing subdued, some improvement seen in September 2018
Airline-wise monthly tracker of one-month forward airfares (Rs/trip)

Month	Air India	GoAir	Indigo	Jet Airways	SpiceJet	Vistara/others	Average
Jul-16	3,862	3,050	3,439	3,859	3,153	3,618	3,642
Aug-16	4,013	3,103	3,639	3,934	3,803	3,605	3,788
Sep-16	3,707	2,741	3,216	4,174	2,669	2,401	3,421
Oct-16	3,758	2,363	3,203	3,246	2,572	3,115	3,160
Nov-16	4,143	3,038	3,266	3,593	2,742	3,416	3,503
Dec-16	3,205	2,926	3,412	3,474	3,237	3,853	3,394
Jan-17	2,958	2,710	3,005	2,964	2,630	3,283	2,977
Feb-17	3,336	2,833	2,874	2,960	2,619	2,926	2,999
Mar-17	4,181	3,113	3,157	3,523	3,046	4,155	3,546
Apr-17	4,571	4,217	4,693	5,157	4,531	4,972	4,679
May-17	4,767	4,683	4,588	5,004	4,572	5,106	4,786
Oct-17	3,908	2,968	3,111	3,014	3,103	3,297	3,254
Nov-17	4,751	3,496	4,091	4,258	3,918	4,319	4,181
Dec-17	3,468	2,857	3,103	3,738	2,755	3,122	3,243
Jan-18	3,652	2,984	4,197	3,738	3,318	3,219	3,598
Feb-18	3,383	2,799	3,475	3,241	3,376	3,276	3,292
Mar-18	4,800	3,436	4,500	3,931	3,617	3,918	4,114
Apr-18	5,168	6,050	5,538	5,284	5,275	4,838	5,383
May-18	4,597	3,491	3,747	3,491	3,412	3,648	3,718
Jun-18	3,773	3,915	3,508	4,208	3,591	3,501	3,758
Jul-18	3,228	2,668	3,181	3,345	2,775	3,359	3,116
Aug-18	3,586	2,916	3,152	3,277	3,056	3,032	3,228
Sep-18	5,949	4,386	4,664	5,587	4,218	5,285	4,933
Mom change (%)							
Jul-16	(7.2)	(17.2)	(7.1)	12.9	(10.2)	(13.8)	(3.9)
Aug-16	3.9	1.7	5.8	1.9	20.6	(0.4)	4.0
Sep-16	(7.6)	(11.7)	(11.6)	6.1	(29.8)	(33.4)	(9.7)
Oct-16	1.4	(13.8)	(0.4)	(22.2)	(3.6)	29.8	(7.6)
Nov-16	10.3	28.6	2.0	10.7	6.6	9.6	10.8
Dec-16	(22.6)	(3.7)	4.5	(3.3)	18.1	12.8	(3.1)
Jan-17	(7.7)	(7.4)	(11.9)	(14.7)	(18.8)	(14.8)	(12.3)
Feb-17	12.8	4.6	(4.4)	(0.2)	(0.4)	(10.9)	0.7
Mar-17	25.4	9.9	9.9	19.0	16.3	42.0	18.2
Apr-17	9.3	35.4	48.6	46.4	48.7	19.7	32.0
May-17	4.3	11.1	(2.2)	(3.0)	0.9	2.7	2.3
Oct-17	(2.6)	(13.7)	(24.2)	(30.8)	(13.3)	(12.2)	(15.6)
Nov-17	21.6	17.8	31.5	41.2	26.3	31.0	28.5
Dec-17	(27.0)	(18.3)	(24.1)	(12.2)	(29.7)	(27.7)	(22.4)
Jan-18	5.3	4.5	35.2	(0.0)	20.4	3.1	10.9
Feb-18	(7.4)	(6.2)	(17.2)	(13.3)	1.7	1.8	(8.5)
Mar-18	41.9	22.7	29.5	21.3	7.1	19.6	25.0
Apr-18	7.7	76.1	23.1	34.4	45.8	23.5	30.8
May-18	(11.0)	(42.3)	(32.3)	(33.9)	(35.3)	(24.6)	(30.9)
Jun-18	(17.9)	12.2	(6.4)	20.5	5.2	(4.0)	1.1
Jul-18	(14.4)	(31.8)	(9.3)	(20.5)	(22.7)	(4.1)	(17.1)
Aug-18	11.1	9.3	(0.9)	(2.0)	10.1	(9.8)	3.6
Sep-18	65.9	50.4	48.0	70.5	38.0	74.3	52.8

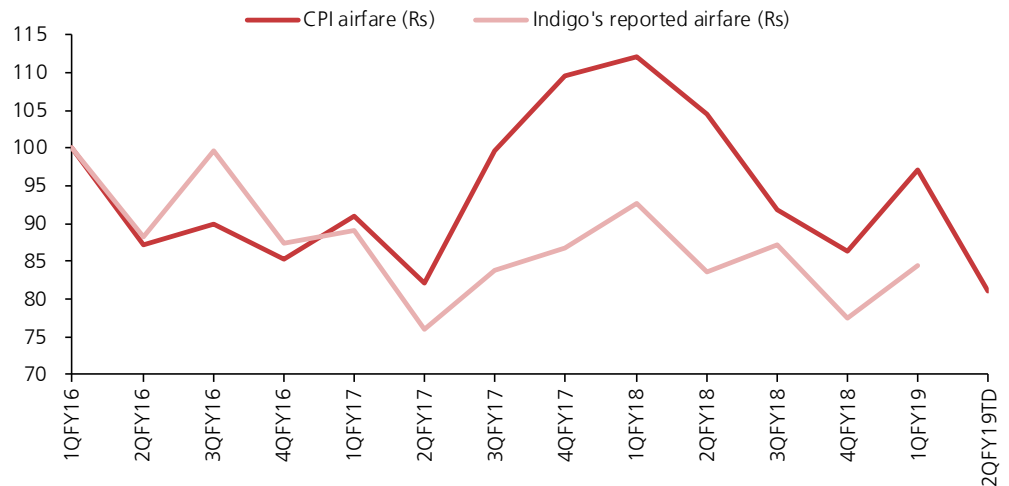
Notes:

(a) We have taken airfares from cleartrip.com for one month forward travel on a weekday for select routes.

Source: Cleartrip, Kotak Institutional Equities

We map data on airfares reported by MoSPI and reported as part of CPI calculations against Indigo's reported yields. We note that while absolute quantitative movements in the two data points are different, CPI data is a decent indicator of at least the directional airfare movement. Based on data for July and August 2018, we expect airfares to decline further in 2QFY19.

Exhibit 2: CPI airfare index for July-August 2018 indicates qoq decline in yields
Trends in CPI airfare and Indigo's reported airfare, March fiscal year-ends (Rs)



Notes:

(a) We have rebased CPI and Indigo airfares to 100 for 1QFY16.

Source: CEIC, Ministry of Statistics and Programme Implementation, Company, Kotak Institutional Equities

Volume growth remains robust, Indigo and Go Air are fastest-growing airlines

Volume growth for the industry remains solid with passenger volumes increasing 17% in August 2018 and 20% in FY2019TD. Strong capacity addition by Indigo and Go Air has resulted in strong passenger growth reported by these airlines.

Exhibit 3: Passenger volumes increased by a robust 17% in August 2018

Airline-wise domestic passenger volumes (mn)

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Passengers (mn)																	
Air India	1.18	1.32	1.25	1.29	1.28	1.29	1.37	1.42	1.47	1.53	1.42	1.55	1.53	1.52	1.41	1.43	1.44
Jet Airways + Jet Lite	1.61	1.80	1.68	1.74	1.78	1.70	1.80	1.84	1.89	1.90	1.80	1.93	1.87	1.81	1.71	1.75	1.72
SpiceJet	1.18	1.28	1.27	1.36	1.36	1.32	1.36	1.32	1.43	1.45	1.33	1.47	1.43	1.46	1.37	1.43	1.40
Go Air	0.74	0.86	0.81	0.74	0.78	0.81	0.92	0.93	1.08	1.10	1.02	1.04	1.01	1.03	1.06	1.03	1.01
IndiGo	3.78	4.19	3.83	3.70	3.68	3.67	4.13	4.13	4.43	4.56	4.29	4.58	4.58	4.85	4.67	4.87	4.76
Air Asia	0.30	0.33	0.35	0.34	0.42	0.39	0.45	0.44	0.49	0.49	0.46	0.52	0.58	0.65	0.60	0.56	0.54
Vistara	0.30	0.33	0.34	0.35	0.36	0.36	0.37	0.37	0.41	0.41	0.38	0.44	0.46	0.47	0.45	0.45	0.42
Others	0.05	0.05	0.04	0.05	0.05	0.04	0.04	0.03	0.03	0.14	0.04	0.04	0.06	0.06	0.06	0.05	0.05
Total	9.14	10.17	9.57	9.57	9.69	9.58	10.45	10.49	11.24	11.56	10.75	11.58	11.51	11.85	11.33	11.56	11.35
Yoy growth (%)																	
Air India	(1.5)	(1.9)	1.0	2.5	4.7	7.2	21.4	23.0	10.3	13.3	21.5	31.6	29.7	14.7	13.0	10.7	12.4
Jet Airways + Jet Lite	7.3	9.0	10.0	6.6	10.7	11.0	21.5	18.3	11.0	10.2	14.0	18.4	15.8	0.6	1.8	0.6	(2.9)
SpiceJet	15.3	16.7	26.0	36.6	28.9	28.2	22.0	15.0	17.9	17.8	17.7	23.6	21.2	14.1	7.6	5.1	3.3
Go Air	9.5	23.3	21.2	3.6	15.1	17.8	34.3	29.7	38.3	39.0	36.3	29.7	36.5	19.7	31.1	38.4	30.7
IndiGo	23.2	25.6	26.6	9.3	10.1	11.2	11.9	9.5	15.1	19.6	25.5	26.7	21.2	15.8	22.1	31.5	29.3
Air Asia	78.4	74.7	102.9	79.6	121.3	109.6	91.5	74.1	78.0	71.0	91.6	85.2	94.3	95.2	71.2	62.7	29.1
Vistara	62.3	51.1	51.5	55.1	75.1	78.3	59.5	43.1	35.9	35.3	42.2	51.4	55.9	41.0	31.4	29.2	17.8
Others	(1.9)	(12.9)	41.9	4.7	34.3	23.5	900.0	(34.0)	(26.8)	209.1	(35.2)	(26.7)	7.7	3.7	29.5	13.3	10.6
Total	15.2	17.4	20.4	12.4	15.6	16.5	21.1	17.0	17.7	20.7	24.1	28.0	26.0	16.4	18.4	20.8	17.1

Source: DGCA, Kotak Institutional Equities

Exhibit 4: Indigo's market-share steady at 42%
Airline-wise domestic passenger market-share (%)

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
IndiGo	41.4	41.2	40.0	38.7	37.9	38.2	39.6	39.4	39.4	39.4	39.9	39.5	39.8	41.0	41.3	42.1	41.9
Jet Airways + Jet Lite	17.6	17.7	17.5	18.2	18.3	17.7	17.2	17.5	16.8	16.4	16.8	16.6	16.2	15.3	15.1	15.1	15.2
Air India	12.9	13.0	13.1	13.5	13.2	13.5	13.1	13.6	13.1	13.2	13.2	13.4	13.3	12.8	12.5	12.4	12.7
SpiceJet	12.9	12.6	13.3	14.2	14.0	13.8	13.1	12.6	12.7	12.5	12.4	12.7	12.4	12.3	12.1	12.3	12.4
Go Air	8.1	8.5	8.4	7.8	8.0	8.4	8.8	8.9	9.6	9.5	9.5	9.0	8.8	8.7	9.3	8.9	8.9
Air Asia	3.3	3.3	3.7	3.6	4.3	4.1	4.3	4.2	4.4	4.2	4.2	4.5	5.0	5.5	5.3	4.8	4.7
Vistara	3.3	3.3	3.6	3.6	3.7	3.8	3.5	3.5	3.7	3.5	3.6	3.8	4.0	4.0	4.0	3.9	3.7
Others	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.3	1.2	0.3	0.4	0.5	0.5	0.5	0.4	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

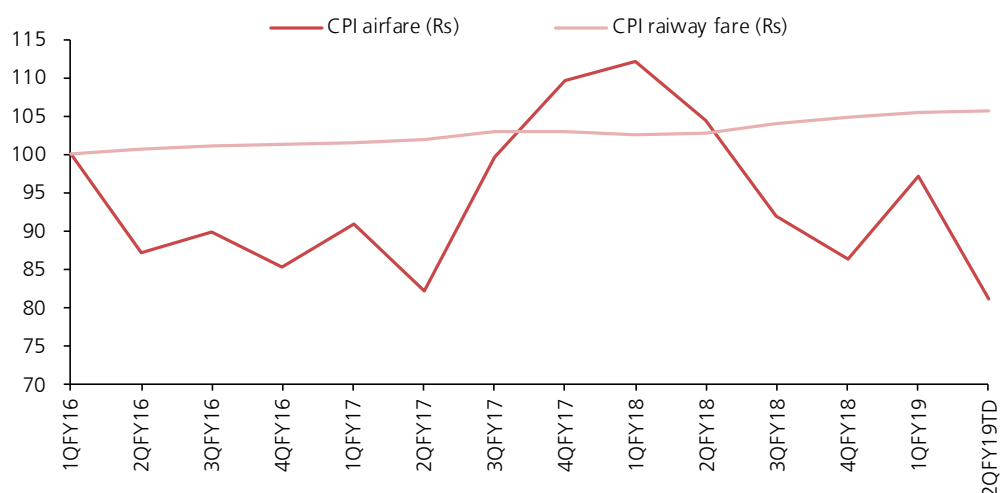
Source: DGCA, Kotak Institutional Equities

Exhibit 5: Load factors decline in August 2018, but still reasonably high
Airline-wise load factors (%)

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
SpiceJet	93.4	94.3	94.5	94.4	94.5	94.2	93.7	95.5	95.6	95.0	96.3	95.0	95.5	94.8	93.3	93.8	93.6
IndiGo	86.9	91.1	87.8	83.7	83.6	85.2	87.3	90.7	90.8	89.7	91.8	89.0	91.9	91.0	88.3	88.7	82.8
Go Air	84.7	93.0	89.4	82.5	85.4	88.5	87.6	90.0	92.0	90.0	90.4	88.0	89.5	89.2	88.6	87.2	84.6
Vistara	83.6	86.8	86.4	84.6	83.4	84.1	80.2	86.9	87.7	87.0	91.2	88.2	88.8	85.7	84.8	84.1	81.5
Jet Airways + Jet Lite	82.9	85.2	81.2	80.3	81.0	80.6	80.7	87.6	88.6	88.8	90.4	86.3	85.5	80.4	79.5	83.6	81.7
Air India	78.7	80.9	77.0	75.5	76.1	78.6	76.6	83.8	81.8	84.6	86.7	83.6	84.0	81.3	80.9	82.3	82.3
Air Asia	90.1	89.4	89.6	88.4	85.8	81.6	83.0	84.5	86.8	83.7	88.0	82.0	87.5	89.7	86.7	79.7	76.2
Others	74.6	80.3	75.7	80.7	83.2	74.4	65.7	68.5	75.7	77.0	77.0	72.4	80.0	82.7	79.0	74.8	75.7
Overall industry	85.6	88.9	86.2	83.5	83.8	84.7	85.1	89.3	89.7	88.4	91.1	88.0	89.5	88.0	86.3	86.8	83.6

Source: DGCA, Kotak Institutional Equities

Exhibit 6: Airline passenger growth in part boosted by low fares
Trends in airfares and rail fares, March fiscal year-ends (Rs)



Notes:

(a) We have rebased CPI airfares and railway fares to 100 for 1QFY16.

Source: CEIC, Ministry of Statistics and Programme Implementation, Kotak Institutional Equities

Fares and capacity discipline are required to improve profitability

Indian aviation sector has suffered in the recent past on account of increase in input costs without a corresponding increase in fares (Indigo's fares actually declined on a yoy basis in 1QFY19 versus 1QFY18).

ATF import duty hike is a negative for the industry

With the airline industry reeling under high crude prices, the announcement of 5% import duty on ATF is a negative. Given most airlines including Indigo consume domestically produced ATF, there is a case that the government's intent was to tax only imports. However, as ATF pricing is based on an IPP (import-parity pricing) based formula, we believe the OMCs will ultimately hike domestic prices to reflect the customs duty hike.

ATF tax reduction is now a low probability event

We note that airlines' demand for cut in ATF taxes typically increases when international crude prices increase with a resultant sharp hit to airlines' profitability. However, the government may not have much headroom to reduce taxes on ATF primarily as: (1) bulk of the taxation on ATF is on account of state taxes, which may not want to cut taxes, and (2) its own fiscal situation may not allow it to cut excise duty.

Exhibit 7: Bulk of the tax on ATF is on account of state taxes

Current taxation on ATF in key states

State/UT	Sales tax rate (%)	Central excise rate (%)	Total taxation (%)
Delhi	25	14	39
Maharashtra (Mumbai and Pune)	25	14	39
Karnataka	28	14	42
Tamil Nadu	29	14	43
West Bengal	30	14	44
Kerala	38	14	52

Source: PPAC, Ministry of Petroleum and Natural Gas, Kotak Institutional Equities

A hypothetical reduction in ATF taxes from an average of 43% at 6 states to 28% may potentially lead to huge cost savings for airline companies. However, actual realized savings may be lower as a large part of the cost savings may need to be passed on to passengers and government may scrutinize ticket pricing and ancillary revenues earned by airline companies more deeply.

With upside risks to crude prices on account of impending US sanctions on Iran in November 2018, we believe airlines' profitability for the remainder of the year may remain subdued. However, ability of at least some of the competitors to bear elevated input costs without a consequent improvement in yields may be constrained given already stretched balance sheets. We thus see three broad scenarios playing out:

- ▶ **Scenario 1:** Competitors manage to attract equity funding by existing and/or strategic investors. In this scenario fares may not see a revival in the near term, and there may be a structural pressure on yields. No airline, including Indigo, may succeed in improving profitability in such a scenario, ultimately leading to a situation where at least a few airlines may need another round of equity funding. This scenario is negative for Indigo. We view this as a low probability scenario.
- ▶ **Scenario 2:** Competition becomes wary of incurring more losses, and reduces capacity (by returning leased aircraft, sub-leasing of aircraft and deferring new aircraft delivery). As a result, Indigo can gain share while at the same time can effect a price hike also. We view this as a medium to high probability even to play out over the next 6-12 months.
- ▶ **Scenario 3:** Limited availability of fresh funding and continued fare competition in the near-term drive 1-2 competitors out of the industry, resulting in large capacity cuts. Stronger incumbents such as Indigo can then wrest market-share as well as take fares up, as seen earlier in FY2012-13.

What happened in FY2012-13?

Crude price shocks have impacted the airline industry in the past. Coupled with airfare competition, airlines have consequently posted fairly volatile margins and earnings. Crude prices shot up to US\$114 in FY2012, resulting in Kingfisher Airlines shutting operations. This resulted in a sharp 10% decline in industry RPKs in FY2013. However, Indigo's RPKs grew by 28% in FY2013, and coupled with a sharp 21% yoy increase in yields, resulted in a strong improvement in spreads (RASK-CASK).

Exhibit 8: Industry capacity reduction in FY2013 was accompanied by large yield increase for incumbents

Trends in industry and Indigo's capacity, March fiscal year-ends, 2011-18

	2011	2012	2013	2014	2015	2016	2017	2018
Industry ASKs (mn)	67.9	81.6	73.8	80.4	83.3	97.5	116.0	134.2
Yoy growth (%)		20.1	(9.6)	9.0	3.6	17.1	18.9	15.8
Industry RPKs (mn)	52.5	61.2	55.3	58.9	65.9	80.8	97.9	116.8
Yoy growth (%)		16.6	(9.6)	6.5	12.0	22.5	21.1	19.4
Indigo's RPKs (mn)	12.5	16.7	21.3	25.8	31.4	38.4	49.2	54.3
Yoy growth (%)		33.4	27.6	21.3	21.8	22.3	28.1	10.3
Yields (Rs/RPK)	3.6	3.8	4.5	4.8	4.9	4.5	4.0	4.1
Yoy growth (%)		4.1	21.0	5.8	2.9	(9.2)	(10.5)	3.3
Crude price (US\$/bbl)	87	114	111	108	86	47	49	57
RASK-CASK (Rs)	0.5	(0.0)	0.3	0.1	0.4	0.5	0.2	0.3

Notes:

(a) Indigo's RPKs are for domestic business only.

Source: Company, Kotak Institutional Equities estimates

We believe the current crude price and fare situation may ultimately drive some capacity rationalization in the future.

Higher input costs drive a net loss in FY2019 and 23-40% EPS cut in FY2020-21

In the current fare environment with airlines exhibiting very limited pricing power, delta in earnings from further crude price rise or depreciation of rupee could be very high. Yield improvement may happen only with time, and hence FY2019 and FY2020 margins could remain fairly volatile.

Exhibit 9: Crude price movements could keep net profit trajectory volatile

Sensitivity of Indigo's net profit to change in crude price assumption

		Case I	Base case	Case II
RASK	Rs/ASK	3.8	3.8	3.8
Crude price	US\$/bbl	68.875	72.5	76.125
Exchange rate	Rs/US\$	72.0	72.0	72.0
EBITDA	Rs mn	33,001	25,235	17,469
Net profit	Rs mn	21,655	16,102	10,549
Change in crude price versus base case (%)		(5.0)	—	5.0
Change in net profit versus base case (%)		34.5	—	(34.5)

Source: Company, Kotak Institutional Equities

Exhibit 10: Sensitivity of earnings to rupee movement is also high
Sensitivity of Indigo's net profit to change in Rs/US\$ exchange rate

		Case I	Base case	Case II
RASK	Rs/ASK	3.8	3.8	3.8
Crude price	US\$/bbl	72.5	72.5	72.5
Exchange rate	Rs/US\$	68.4	72.0	75.6
EBITDA	Rs mn	35,638	25,235	14,832
Net profit	Rs mn	23,596	16,102	8,608
Change in exchange rate versus base case (%)		(5.0)	—	5.0
Change in net profit versus base case (%)		46.5	—	(46.5)

Source: Company, Kotak Institutional Equities

We incorporate higher crude prices and weaker rupee into our forecasts. We do assume some fare hike, but not enough to fully pass on these cost pressures to consumers. Thus, we now forecast a net loss in FY2019E and 23-40% EPS cut in FY2020-21.

Exhibit 11: Change in estimates for IndiGo, March fiscal year-ends

	New estimates			Old estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Financials									
Revenues (Rs mn)	287,892	366,198	437,021	293,681	354,355	418,741	(2)	3	4
EBITDAR (Rs mn)	43,449	84,323	113,777	68,225	92,936	119,275	(36)	(9)	(5)
EBITDA (Rs mn)	(5,183)	25,235	45,782	23,052	38,719	56,155	(122)	(35)	(18)
PAT (Rs mn)	(4,062)	16,102	28,894	17,008	26,974	37,747	(124)	(40)	(23)
EPS (Rs)	(10.6)	42.1	75.5	44.4	70.5	98.6	(124)	(40)	(23)
Operating metrics									
ASKs (mn)	79,392	96,546	114,275	79,395	96,549	114,279	—	—	—
RPKs (mn)	69,127	82,953	97,055	69,125	82,950	97,052	—	—	—
Yield (Rs/RPK)	4.2	4.4	4.5	4.2	4.3	4.3	(2)	3	4
Fuel CASK (Rs/ASK)	1.8	1.6	1.5	1.5	1.4	1.3	15	14	15
Non-fuel CASK (Rs/ASK)	2.0	2.0	2.0	2.0	2.0	2.0	3	3	3
Load factor (%)	87	86	85	87	86	85	—	—	—
RASK-CASK (Rs/ASK)	(0.18)	0.14	0.27	0.18	0.29	0.37	NM	(52)	(28)
Other assumptions									
Exchange rate (US\$/INR)	70	72	72	67	68	68	4	7	6
Brent crude price (US\$/bbl)	80	73	68	73	68	65	10	7	4

Source: Kotak Institutional Equities estimates

Exhibit 12: Key assumptions for IndiGo, March fiscal year-ends

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
USD/INR rate	48	54	61	61	66	67	65	70	72	72
Crude price, Dated Brent (US\$/bbl)	114	111	108	86	47	49	57	80	73	68
Indigo's fleet size	55	66	77	94	107	131	159	204	244	286
Indigo's ASKs (mn units)	18,006	24,977	29,968	35,327	42,826	54,583	63,510	79,392	96,546	114,275
Yoy growth (%)	44	39	20	18	21	27	16	25	22	18
Indigo RPKs (mn units)	14,826	20,260	23,135	28,177	35,968	46,288	55,524	69,127	82,953	97,055
Yoy growth (%)	39	37	14	22	28	29	20	25	20	17
Load factor (%)	82	81	77	80	84	85	87	87	86	85
Average ticket price (Rs)	3,911	4,895	5,071	4,882	4,248	3,721	3,825	3,863	4,095	4,177
Yoy growth (%)	9	25	4	(4)	(13)	(12)	3	1	6	2
Yield (Rs per RPK)	3.8	4.5	4.8	4.9	4.5	4.0	4.1	4.2	4.4	4.5
Yoy growth (%)	4	21	6	3	(9)	(11)	3	0	6	2
Ancillary revenues (as % of ticket revenues)	11.6	11.3	12.0	13.3	14.8	14.7	15.4	14.8	14.8	14.8
RASK-CASK (Rs)	(0.0)	0.3	0.1	0.4	0.5	0.2	0.3	(0.2)	0.1	0.3
EBITDAR margins ex-fuel cost (%)	66.9	71.3	69.2	68.7	64.5	62.5	62.2	63.5	65.4	65.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: Summary financials of IndiGo

Profit and loss model, balance sheet and cash flow statement for IndiGo, March fiscal year-ends (Rs mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)										
Sales	55,647	92,031	111,166	139,253	161,399	185,805	230,209	287,892	366,198	437,021
EBITDAR	8,496	22,498	21,769	38,219	56,247	52,687	65,667	43,449	84,323	113,777
EBITDA	489	8,936	5,066	18,697	30,125	21,432	29,565	(5,183)	25,235	45,782
Other income	1,440	2,371	3,155	3,838	5,151	7,891	9,469	8,675	9,178	9,940
Interest	(514)	(578)	(1,226)	(1,155)	(3,041)	(3,308)	(3,398)	(3,138)	(3,138)	(3,138)
Depreciation	(665)	(856)	(2,260)	(3,022)	(5,055)	(4,573)	(4,369)	(6,036)	(8,755)	(12,173)
Profit before tax	749	9,873	4,736	18,357	27,181	21,443	31,267	(5,681)	22,520	40,411
Tax expense	657	(2,040)	9	(5,402)	(8,373)	(4,852)	(8,843)	1,619	(6,418)	(11,517)
Extraordinary items	—	—	—	—	—	—	—	—	—	—
PAT	1,406	7,834	4,744	12,956	18,807	16,591	22,424	(4,062)	16,102	28,894
Year-end number of shares	307	307	307	307	360	360	383	383	383	383
Fully diluted number of shares	344	344	344	344	351	360	383	383	383	383
EPS-fully diluted (Rs)	4.1	22.8	13.8	37.7	53.6	46.0	58.6	(10.6)	42.1	75.5
Balance sheet (Rs mn)										
Equity	2,433	3,890	4,076	4,207	27,232	37,792	70,774	66,957	83,059	110,214
Total borrowings	10,156	18,004	33,462	39,262	30,071	23,957	22,414	22,414	22,414	22,414
Deferred incentives	11,804	15,304	17,533	17,516	15,832	21,838	26,017	33,373	40,619	47,451
Other long term liabilities	2,952	8,004	13,869	24,784	20,302	25,602	36,297	43,196	49,022	54,514
Current liabilities and provisions	9,126	13,322	22,075	21,914	32,750	42,908	55,791	68,171	84,679	98,628
Total liabilities	36,471	58,525	91,015	107,682	126,187	152,098	211,293	234,111	279,793	333,221
Net fixed assets	8,860	17,713	39,560	48,765	47,794	38,190	46,113	83,986	120,453	160,704
Investments	4,523	10,105	22,309	27,237	22,318	19,443	18,865	22,451	25,479	28,334
Cash & cash equivalent	18,322	24,789	23,730	25,161	47,048	83,459	129,245	105,158	105,222	110,005
Loans and advances/other current assets	4,765	5,917	5,417	6,519	9,027	11,005	17,070	22,515	28,639	34,178
Total assets	36,471	58,525	91,015	107,682	126,187	152,098	211,293	234,111	279,793	333,221
Free cash flow (Rs mn)										
Operating cash flow	422	7,717	4,604	15,966	19,730	16,582	20,722	(3,564)	18,817	34,264
Working capital changes	8,535	9,696	11,309	7,765	7,082	22,361	22,269	17,604	20,428	17,879
Capital expenditure	(331)	(9,153)	(23,237)	(10,170)	(4,084)	5,031	(12,291)	(43,909)	(45,222)	(52,424)
Free cash flow	8,626	8,260	(7,324)	13,561	22,728	43,974	30,700	(29,869)	(5,977)	(281)
Ratios (%)										
EBITDAR	15.3	24.4	19.6	27.4	34.8	28.4	28.5	15.1	23.0	26.0
EBITDA margin	0.9	9.7	4.6	13.4	18.7	11.5	12.8	-1.8	6.9	10.5
Net debt/equity (X)	(0.0)	0.8	4.1	6.6	0.3	(0.5)	(0.7)	(0.2)	(0.2)	(0.2)
Book value (R/share)	7.1	11.3	11.9	12.2	77.7	104.9	184.9	174.9	217.0	288.0
ROAE	57.8	201.4	116.4	308.0	72.9	43.9	31.7	-6.1	19.4	26.2
ROACE	20.7	85.6	13.4	32.3	51.4	NM	NM	NM	NM	NM

Source: Company, Kotak Institutional Equities estimates

It's almost a bond now and with volatility. We see limited upside to GSPL stock from modestly higher-than-expected tariffs approved by PNGRB. It is predicated on lower steady-state volumes of 26 mcm/d and any surplus throughput (Street's base-case assumption) by GSPL will be adjusted on NPV basis in the subsequent review. We raise our FY2020-21 standalone EPS estimates by 6% accounting for higher tariffs, while reiterating SELL with a revised SoTP-based fair value of ₹185 (₹175 previously).

Company data and valuation summary

GSPL				Forecasts/Valuations			
Stock data				2018	2019E	2020E	
52-week range (Rs) (high,low)	236-165			EPS (Rs)	11.9	15.6	11.7
Market Cap. (Rs bn)	102.2			EPS growth (%)	34.5	31.3	(25.1)
Shareholding pattern (%)				P/E (X)	15.3	11.6	15.5
Promoters	37.7			Sales (Rs bn)	13.3	20.1	15.7
FIs	16.2			Net profits (Rs bn)	6.7	8.8	6.6
MFs	16.2			EBITDA (Rs bn)	11.5	17.8	13.6
Price performance (%)				EV/EBITDA (X)	7.7	4.6	5.6
Absolute	1M	3M	12M	ROE (%)	14.0	16.2	10.9
	(2.1)	0.5	(6.0)	Div. Yield (%)	1.0	1.3	1.0
Rel. to BSE-30	4.3	(2.6)	(19.4)				

PNGRB approved final tariffs for GSPL's Gujarat network, 4% higher than our expectations

PNGRB issued final orders for GSPL's Gujarat pipeline network revising tariffs for (1) high-pressure network to ₹34/mn BTU (₹1.28/scm) from ₹26.58/mn BTU (₹1/scm) and (2) low-pressure network to ₹4.08/mn BTU (₹0.15/scm) from ₹1.88/mn BTU (₹0.07/scm). The new regulated tariffs, effective from April 1, 2018, imply ₹0.31/scm increase in blended tariffs to ₹1.44/scm from ₹1.13/scm in FY2018, 4% above our estimate of ₹1.38/scm. We highlight that only ~40% of incremental tariffs for GSPL has been contributed by lower volume divisors and higher capex, partially offset by lower approved operating costs and other minor changes; the remaining amount has been contributed by prospective adjustment for prior-period shortfall.

Raise FY2020-21 standalone EPS estimates by 6% and SoTP-based fair value to ₹185

We raise GSPL's standalone EPS estimates by 6% to ₹11.7 for FY2020 and ₹13.1 for FY2021, factoring in modestly higher regulated tariffs versus our earlier assumption. Our FY2019 EPS estimate increases by a sharp 40% to ₹15.6, as these orders issued now before September 30 will be effective for the current fiscal year as well versus our expectation of deferment to FY2020. The sharp decline in EPS post FY2019 reflects our unchanged assumption of volumes declining to 29-30.5 mcm/d in FY2020-21 from 37.5 mcm/d in the current year led by startup of RIL's petcoke gasification project. Our SoTP-based fair value increases modestly to ₹185 from ₹175 previously, primarily led by modestly higher regulated tariffs and rollover.

Regulated steady-state EPS of ₹10.6 and any surplus will be adjusted on NPV basis

We compute steady-state standalone business EPS of ₹10.6 for GSPL, excluding net financial cost, based on (1) final regulated tariffs, (2) PNGRB's assumptions of 26 mcm/d of overall volumes from FY2020 onwards and (3) approved operating costs; PNGRB's calculations already account for future growth-related capex in the pipeline network as well as inflation in operating costs. In our view, the investors should treat GSPL's Gujarat state pipeline business as a bond now and refrain from giving a higher growth P/E multiple, as any surplus yield over regulated EPS of ~₹10.6, likely due to higher volumes versus PNGRB's assumptions, will be prospectively adjusted on an NPV basis in the subsequent review. The regulatory review may perceptibly look distant as it happens once in five years, but it matters less as the adjustment will be on NPV basis; a quicker review would have perhaps reduced the volatility in earnings yield. We compute fair value of ₹185, based on this exercise as well, ascribing 12X P/E on steady-state EPS plus the value of investments including Gujarat Gas, net of debt.

Tarun Lakhotia

Akshay Bhor

Exhibit 1: We compute steady-state EPS of ₹10.6 and fair value of ₹185 based on regulated tariffs
Hypothetical estimates and SoTP valuation based on PNGRB's order, March fiscal year-ends, 2019-20 (Rs mn)

	2019	2020
PNGRB's assumptions		
High pressure volumes (mcm/d)	29.1	26.0
High pressure tariffs (Rs/mn BTU)	34.0	34.0
High pressure tariffs (Rs/scm)	1.28	1.28
Low pressure volumes (mcm/d)	9.0	9.0
Low pressure tariffs (Rs/mn BTU)	4.1	4.1
Low pressure tariffs (Rs/scm)	0.15	0.15
Regulated financials for Gujarat network		
Revenues	14,129	12,669
Operating costs	(1,958)	(1,806)
EBITDA	12,171	10,863
Depreciation (KIE estimate)	(1,754)	(1,841)
EBIT	10,417	9,022
EBIT*(1-tax)	6,781	5,873
EPS (Rs)	12.0	10.4
Contribution from wind business		
EBIT	184	198
EPS (Rs)	0.2	0.2
Fair valuation exercise (Rs/share)		
Standalone business EPS (a)		10.6
P/E (X)		12.0
Fair value of Gujarat pipeline network		128
Value of 54.2% stake in Gujarat Gas @ CMP		86
Value of other investments		15
Less: net debt		44
SoTP-based fair valuation		185

Notes:

(a) Excluding net financial cost.

Source: PNGRB, Kotak Institutional Equities estimates

Exhibit 2: Final tariff approved by PNGRB for GSPL's high-pressure pipeline network

S.No.	Particulars	Impact Rs./ MMBTU	Rs. /MMBTU
	Provisional Tariff determined by PNGRB		26.58
1	Volume Divisor (Para 6.4)	5.02	31.61
2	NFA and Capex (Para 6.2)	3.12	34.72
4	Actual and Future Opex (Para 6.3)	-4.44	30.28
5	Tax Rate (Para 6.10)	-0.96	29.31
6	Cal Value (Para 6.8), Line Pack (Para 6.7), etc.	-0.27	29.04
7	Impact on account of sr.no.1 to 6 above being applied prospectively from 01.04.2018 in terms of clause 9 (4) of Schedule A of Tariff Regulations.	4.96	34.00
	Final Levelised Tariff		34.00

Source: PNGRB, Kotak Institutional Equities

Exhibit 3: Final tariff approved by PNGRB for GSPL's high-pressure pipeline network

(Rs./MMBTU on GCV basis)			
S. No.	Particulars	Impact	Tariff
	Submitted Tariff		64.70
1	Unaccounted Gas (Nil in place of 0.3%) [Para 6.3.2.21]	2.64	62.06
2	Actual Opex [Para 6.3.1]	1.28	60.78
3	Inflation (4.50% in place of 5.17% and w.e.f. FY 17-18 onwards in place of FY 18-19 onwards) [Para 6.3.2.1]	-0.07	60.85
4	Future Opex [Para 6.3.2]	8.64	52.21
5	Volume Divisor [Para 6.4]	8.68	43.53
6	Calorific Value [Para 6.8]	0.33	43.21
7	Actual Capex [Para 6.2.1]	5.25	37.95
8	Future Capex [Para 6.2.2]	4.45	33.50
9	Tax Rate (w.e.f. FY 2018-19) [Para 6.10]	-0.50	34.00
	Levelised Tariff after adjustment		34.00

Source: PNGRB, Kotak Institutional Equities

Exhibit 4: Volume divisor assumed by PNGRB lower than base-case estimates

In MMSCMD	
Year	Volume Considered
2012-13	26.86
2013-14	23.71
2014-15	23.64
2015-16	24.68
2016-17	24.72
2017-18	29.12
2018-19	29.12
2019-20 and onwards	26.00

Source: PNGRB, Kotak Institutional Equities

Exhibit 5: Final tariff approved by PNGRB for GSPL's low-pressure pipeline network

(Rs./MMBTU on GCV basis)			
S. No.	Particulars	Impact	Tariff
	Submitted Tariff		9.39
1	Inflation (4.5% in place of 5.17%) [Para 6.3.2.1]	0.11	9.27
2	Unaccounted Gas Actual and Future (Nil in place of submission) [Para 6.3.1 & 6.3.2.21]	3.21	6.06
3	Actual Opex [Para 6.3.1]	0.06	6.00
4	Future Opex [Para 6.3.2]	0.96	5.04
5	Calorific Value [Para 6.8]	0.03	5.02
6	Future Capex [Para 6.2.2]	0.81	4.21
7	Actual Capex [Para 6.2.1]	0.13	4.08
	Levelised Tariff after adjustment		4.08

Source: PNGRB, Kotak Institutional Equities

Exhibit 6: Final tariff approved by PNGRB for GSPL's low-pressure pipeline network

S.NO	Particulars	Impact Rs. MMBTU	Rs./ MMBTU
	Provisional Tariff determined by PNGRB w.e.f. 20.11.2008		1.88
1	Tariff computation from 19.03.2013 as per APTEL Order (Para 3.2.1)	0.09	1.97
2	Volume Divisor (Para 6.4)	0.65	2.62
3	Change in Opening Asset Base and Capex (Para 6.2)	0.25	2.87
4	Actual and Future Opex (Para 6.3)	-0.19	2.68
5	Tax Rate (Para 6.10), Cal Value (Para 6.8), etc.	-0.03	2.65
6	Impact on account of sr.no.1 to 5 above being applied prospectively from 01.04.2018 in terms of clause 9 (4) of Schedule A of Tariff Regulations.	1.43	4.08
	Final Levelized Tariff		4.08

Source: PNGRB, Kotak Institutional Equities

Exhibit 7: Volume divisor assumed by PNGRB for low-pressure network

In MMSCMD	
Year	Volume considered
2012-13	9.18
2013-14	9.01
2014-15	9.04
2015-16	9.00
2016-17	9.00
2017-18 and onwards	9.00

Source: PNGRB, Kotak Institutional Equities

Exhibit 8: We compute DCF value of Gujarat pipeline network at Rs128/share

DCF-based valuation of Gujarat pipeline network (Rs mn)

	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	
EBITDA	13,602	14,192	14,971	15,790	12,884	13,385	13,948	14,530	15,131	
Adjusted tax expense	(3,958)	(4,159)	(4,419)	(4,699)	(3,686)	(3,864)	(4,085)	(4,320)	(4,562)	
Change in working capital	401	(77)	(107)	(93)	251	(66)	(74)	(78)	(82)	
Operating cash flow	10,044	9,956	10,444	10,997	9,449	9,455	9,789	10,132	10,488	
Capital expenditure	(1,615)	(1,524)	(1,304)	(1,336)	(1,367)	(1,396)	(1,424)	(1,448)	(3,755)	
Free cash flow	8,430	8,432	9,140	9,662	8,082	8,059	8,364	8,684	6,733	
Discounted cash flow-1 year forward	7,982	7,161	6,962	6,600	4,950	4,427	4,121	3,837	2,667	
	+ 1-year									
Discount rate (%)	11.5									
Total PV of free cash flow	51,097									
Terminal value assumption										
Growth to perpetuity (%)	—									
FCF in 2028E	6,733									
Exit FCF multiple (X)	8.7									
Exit EV/EBITDA multiple (X)	3.9									
Terminal value	58,544									
PV of terminal value	20,799									
Total value of operating business	71,896									
Shares outstanding (mn)	564									
EV of Gujarat pipeline network (Rs)	128									
	Sensitivity of 12-month fair value to WACC and perpetual growth									
		Perpetual growth (%)								
			(2.0)	(1.0)	—	1.0	2.0			
		10.5	130	134	138	143	150			
		11.0	126	129	133	137	143			
		11.5	121	124	128	131	136			
		12.0	117	120	123	126	131			
		12.5	114	116	119	122	125			

Source: Kotak Institutional Equities estimates

Exhibit 9: We compute fair value of GSPL at Rs185 including investments
SoTP valuation of GSPL, March fiscal year-end, 2020E (Rs mn)

	Valuation basis	Fair value	
		(Rs mn)	(Rs/share)
Gujarat state pipeline network	DCF valuation	71,896	128
Gujarat Gas (54.2% stake)	CMP	48,474	86
Sabarmati Gas (27.5% stake)	4X book value	2,696	5
Other investments	0.8X book value	5,644	10
Net debt		24,752	44
Fair value of GSPL (Rs)		103,958	184

Source: Kotak Institutional Equities estimates

Exhibit 10: Standalone profit model, balance sheet, cash model, March fiscal year-ends, 2012-21E (Rs mn)

	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Profit model (Rs mn)										
Net sales	11,233	11,732	10,507	9,766	9,919	10,276	13,317	20,073	15,687	16,445
EBITDA	10,332	10,720	9,289	8,400	8,660	8,883	11,478	17,773	13,602	14,192
Other income	513	660	552	520	656	882	735	836	1,013	1,189
Interest	(1,302)	(1,263)	(1,418)	(1,178)	(799)	(596)	(354)	(2,341)	(2,023)	(1,832)
Depreciation	(1,822)	(1,861)	(1,839)	(1,892)	(1,829)	(1,791)	(1,750)	(1,825)	(1,894)	(1,969)
Pretax profits	7,722	8,257	6,583	5,850	6,688	7,378	10,108	14,443	10,698	11,580
Extraordinaries	(32)	1	—	754	—	—	—	—	—	—
Current tax	(1,866)	(2,253)	(2,056)	(2,198)	(1,994)	(2,107)	(3,156)	(5,533)	(3,991)	(4,097)
Deferred tax	(603)	(623)	(336)	(301)	(241)	(305)	(268)	(131)	(133)	(112)
Adjusted net profits	5,242	5,381	4,192	3,635	4,454	4,966	6,684	8,780	6,574	7,371
Adjusted EPS (Rs)	9.3	9.6	7.4	6.5	7.9	8.8	11.9	15.6	11.7	13.1
Balance sheet (Rs mn)										
Total equity	24,667	29,406	32,948	36,231	40,692	44,960	50,650	57,845	63,232	69,272
Deferred tax liability	3,244	3,867	4,202	4,504	4,723	4,719	4,984	5,115	5,248	5,360
Total borrowings	14,086	16,269	14,520	11,817	10,670	6,305	32,189	27,189	24,189	19,689
Current liabilities	2,690	2,993	2,357	2,852	2,373	2,350	1,662	1,778	1,660	1,672
Total liabilities and equity	44,686	52,534	54,028	55,403	58,458	58,334	89,485	91,927	94,328	95,993
Cash	5,203	8,596	4,992	4,352	5,529	8,026	3,645	2,437	3,021	3,541
Current assets	2,611	4,179	5,031	6,146	6,708	4,132	3,926	5,067	4,547	4,637
Total fixed assets	35,708	38,020	38,154	38,419	38,910	38,521	40,101	40,110	39,946	39,501
Investments	1,164	1,740	5,850	6,487	7,311	7,655	41,814	44,314	46,814	48,314
Total assets	44,686	52,534	54,028	55,403	58,458	58,334	89,485	91,927	94,328	95,993
Free cash flow (Rs mn)										
Operating cash flow, excl. working capital	7,225	7,032	5,719	5,751	5,469	5,863	8,067	9,774	7,472	8,263
Working capital changes	(851)	(1,599)	(869)	(871)	(650)	2,534	(482)	(1,025)	401	(77)
Capital expenditure	(2,581)	(3,822)	(2,401)	(2,157)	(1,828)	(1,054)	(3,241)	(1,710)	(1,615)	(1,524)
Investments	(401)	(54)	(4,581)	157	(2,027)	(3,323)	(34,159)	(2,500)	(2,500)	(1,500)
Other income	443	597	516	476	589	699	735	836	1,013	1,189
Free cash flow	4,236	2,207	2,965	3,199	3,579	8,042	5,079	7,876	7,271	7,851
Ratios (%)										
Debt/equity	50.5	48.9	39.1	29.0	23.5	12.7	57.9	43.2	35.3	26.4
Net debt/equity	33.5	32.8	28.1	22.5	19.0	11.3	36.7	30.2	26.1	20.9
RoAE	20.7	17.6	11.9	9.3	10.3	10.4	12.7	14.8	10.0	10.3
RoACE	17.2	15.1	10.9	9.0	9.7	10.2	10.0	11.6	8.7	9.3
CROCI	18.9	17.1	13.6	11.3	11.7	12.1	14.6	19.0	14.3	14.7
Key assumptions										
Volumes (mcm/d)	34.0	27.3	21.1	23.0	24.5	24.9	31.5	37.5	29.0	30.5
Average tariff (Rs/scm)	0.87	1.13	1.32	1.12	1.07	1.11	1.13	1.44	1.44	1.44

Source: Company, Kotak Institutional Equities estimates

On a roll. Accenture reported an exceptional August 2018 quarter (4QFY18) with 11% revenue growth in constant currency (c/c). After growing at 10.5% in c/c in FY2018 (8% on organic basis), Accenture has guided for 5-8% revenue growth in FY2019. The moderation bakes in a more volatile global environment. Read-through for Indian IT—the demand environment is robust. Companies with strong digital competencies and portfolio aligned to growth areas will likely report strong growth.

An exceptional quarter; revenue growth higher than the guided band

Accenture reported strong 4QFY18 with c/c revenue growth of 11%, 1% higher than the upper end of the 7-10% guidance band. Organic revenue growth was an impressive 10%. Revenue was strong across geos and most verticals with the exception of financial services. Consulting grew 12% and outsourcing 9%. New bookings grew at 7% to US\$10.8 bn. New services (digital, cloud and security services) contributed more than 60% to revenues in 4QFY18. Strategy & consulting growth accelerated to high single digits, while application services and operations grew in double digit. Accenture grew 10.5% in FY2018 and 8% on organic basis. Accenture added US\$3.65 bn of absolute revenues in c/c and US\$2.8 bn on organic basis.

Guides 5-8% revenue growth for FY2019

Accenture has guided for 5-8% revenue growth in FY2019, a surprisingly modest guidance after a strong exit and 7-10% c/c revenue growth guidance in 1QFY19. The guidance implies acquisition contribution of 1.5%, which is 1% lower than the previous year. Accenture has an outlay of US\$1.5 bn for inorganic initiatives. The company has guided for 10-30 bps expansion in FY2019 EBIT margin.

From Indian IT perspective, focus will be on weak banking and modest growth guidance

A couple of areas, which will be focus of investors, are

- ▶ **Guidance not conservative.** Accenture management indicated that the macro environment is a lot more volatile compared to FY2018. Risks of a hard Brexit and volatile global trade do have implications for guidance. Similar to the earlier years, the company will strive to achieve the upper end of the guidance. The guidance should not be construed as conservative, per management.
- ▶ **Weak financial services.** Financial services grew at modest 3% with the growth likely to stay in low single digit in 1HFY19. The insurance vertical accounted for bulk of the growth. Weak banking and capital markets were localized to European markets where a large program came to an end and will be replenished in FY2019. Structural growth drivers in the vertical are intact.

Read-through for Indian IT—demand environment is strong

Accenture's results indicate that the spending environment is strong. Ability to make the most of this strong demand environment is a function of—(1) strength in digital competencies and ability to participate in integrated digital programs, (2) magnitude of legacy drag and (3) ability to structure and win large multi-service deals. At an industry level, the outcomes of these points will determine the growth rates. We forecast a 1-2% acceleration in growth rates for FY2019. TCS stands out in our coverage universe in digital competencies and large deals but trade at punchy valuations. Infosys and Tech Mahindra among large-caps and LTI and Mindtree among midcaps are our preferred picks.

Kawaljeet Saluja

Sathishkumar S

What is driving Accenture's superior growth rates?

We believe a couple of factors are aiding Accenture's growth rates—(1) participation in the full lifecycle of clients' digital journey through its consulting, design and full spectrum of digital competencies that is strong across verticals and geos. This full spectrum of competencies becomes especially important in an environment of constant disruption and changes ensuring Accenture participates early in every element of change and is in sharp contrast to participation in late-cycle opportunities for technology-focused companies and (2) a portfolio that is nicely balanced between legacy and new, reducing the friction on growth. New services, in fact, contributed close to 60% of Accenture's revenues in FY2018. New services are growing above 20%.

Few interesting data points

- ▶ Attrition rate has increased to multi-quarter high of 18%.
- ▶ Revenue productivity per employee has started inching up. For example, employee headcount addition in 4QFY18 was 8% as compared to 11% revenue growth reported by the company. Increasing contribution of revenues from consulting, higher productivity and reduction in GDN drag could be the potential contributors.

Exhibit 1: Accenture interim results, August fiscal year-ends (US\$ mn)

	4QFY17	3QFY18	4QFY18	% qoq	% yoy
Revenues	9,150	10,315	10,150	(1.6)	10.9
Cost of revenues	6,263	6,996	6,927	(1.0)	10.6
SG&A expenses	1,590	1,699	1,770	4.2	11.3
Pension settlement charge					
EBIT	1,297	1,620	1,453	(10.3)	12.1
Other income	(5)	(7)	4		
PBT	1,292	1,613	1,457	(9.7)	12.8
Provision for taxes	309	554	408		
PAT	983	1,058	1,049	(0.9)	6.6
Minority interest	51	15	19	24.6	(62.8)
PAT after minority interest	932	1,043	1,030	(1.3)	10.4
Margins (%)					
EBIT (recurring)	14.2	15.7	14.3		
Net income	10.7	10.3	10.3		

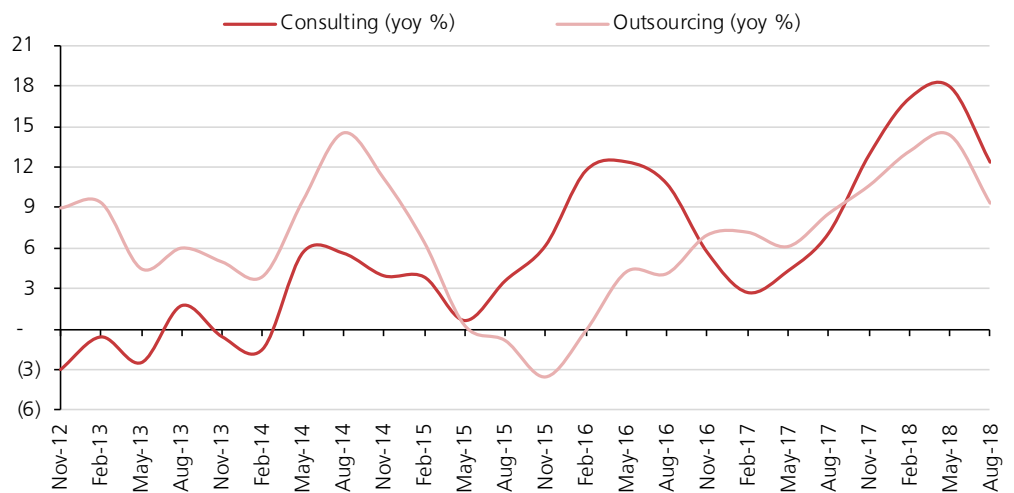
Source: Company, Kotak Institutional Equities

Exhibit 2: Revenue growth by segments and new bookings (August 2018 quarter)

	Revenues (US\$ mn)	Growth (%)			% of total
		(qoq)	(yoy)	(yoy) l/c	
Total revenues	10,150	(1.6)	10.9	11.0	100.0
by geography					
Americas	4,708	2.8	11.3	11.0	46.4
EMEA	3,445	(7.7)	10.4	8.0	33.9
Asia Pacific	1,997	(0.3)	11.1	15.0	19.7
by verticals					
Communications & High Tech	2,092	(1.9)	14.8	15.0	20.6
Financial Services	2,011	(6.2)	3.1	3.0	19.8
Health & Public Services	1,708	0.3	6.0	6.0	16.8
Products	2,796	(1.6)	12.5	12.0	27.6
Resources	1,518	3.3	20.3	20.0	15.0
by service line					
Consulting	5,544	(2.5)	12.4	12.0	54.6
Outsourcing	4,606	(0.5)	9.3	9.0	45.4
New bookings (US\$ bn)					
Consulting	6.1	3.4	19.6		56.5
Outsourcing	4.7	(19.0)	(6.0)		43.5
Total	10.8	(7.7)	6.9		100.0

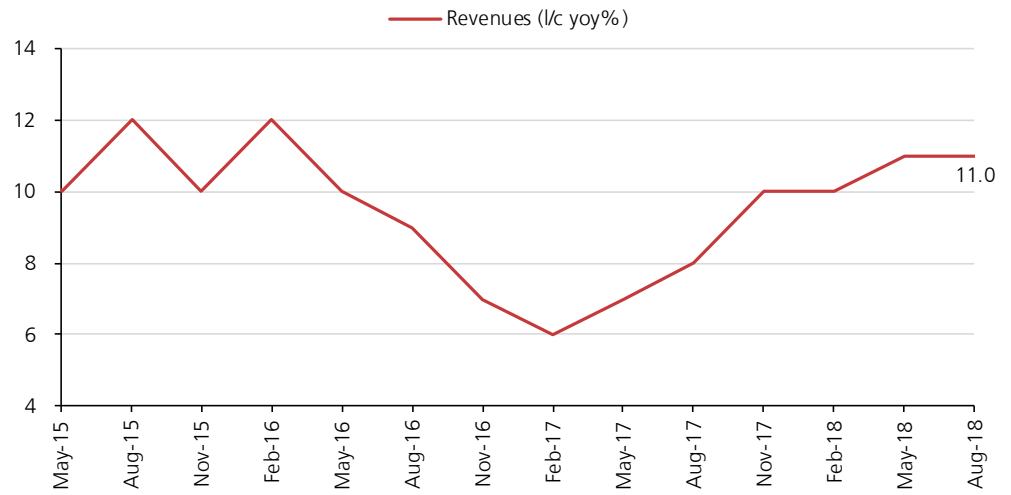
Source: Company, Kotak Institutional Equities

Exhibit 3: Consulting growth rates continue to outpace outsourcing growth rates



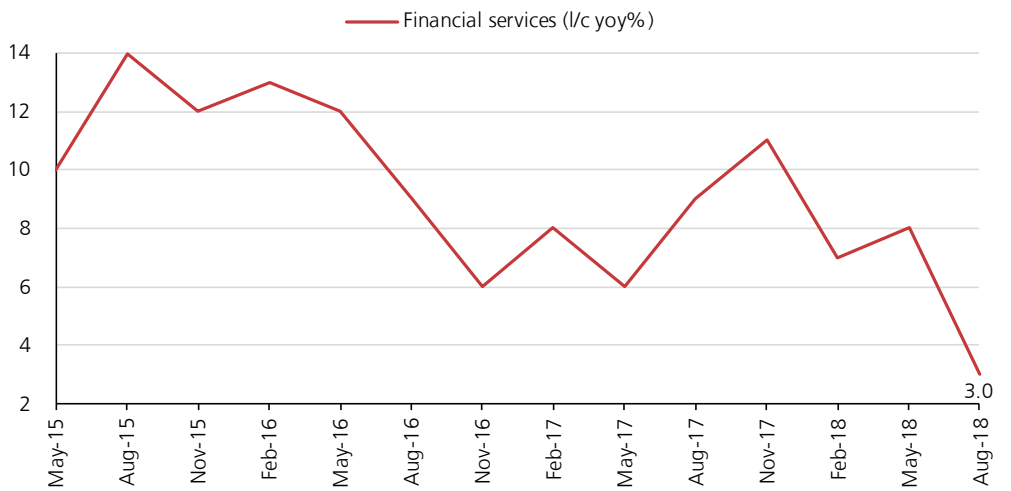
Source: Company, Kotak Institutional Equities

Exhibit 4: Revenue growth of Accenture (local currency yoy %)



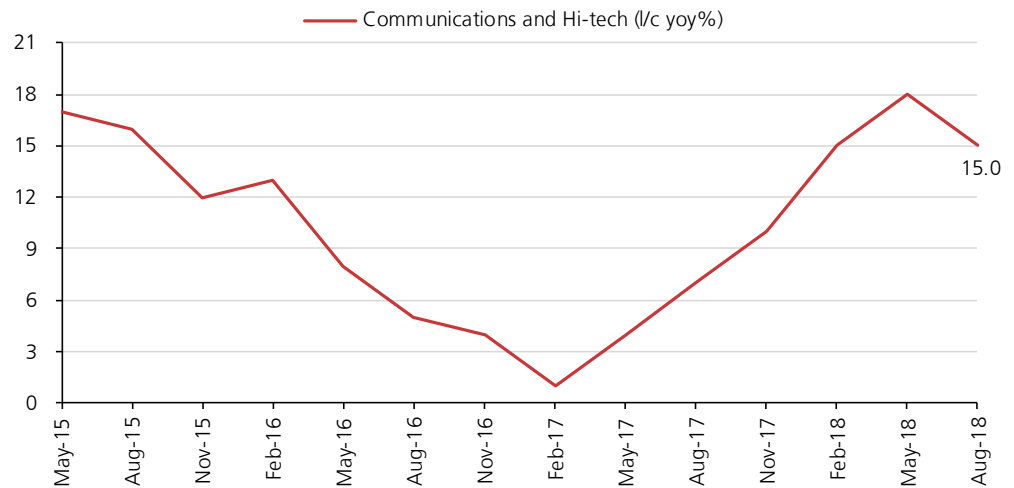
Source: Company, Kotak Institutional Equities

Exhibit 5: Revenue growth from financial services drops to multi-quarter lows



Source: Company, Kotak Institutional Equities

Exhibit 6: Revenue growth from communications & hi-tech declines marginally



Source: Company, Kotak Institutional Equities

Exhibit 7: Kotak Institutional Equities: valuation summary of key Indian technology companies

Company	27-Sep-18		Mkt cap.		EPS (Rs)			P/E (X)			EV/EBITDA (X)			RoE (%)		
	Price (Rs)	Rating	(Rs m)	(US\$ m)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
HCL Technologies	1,092	REDUCE	1,520,912	20,957	71.4	77.8	81.6	15.3	14.0	13.4	10.0	8.8	8.2	24.4	22.3	20.6
Hexaware Technologies	436	SELL	129,280	1,781	19.8	24.0	27.1	22.0	18.1	16.1	16.3	12.4	10.8	27.6	28.7	27.5
Infosys	725	ADD	3,166,204	43,629	36.5	41.3	45.0	19.9	17.5	16.1	13.6	11.9	10.6	23.4	24.2	23.7
L&T Infotech	1,872	ADD	323,906	4,463	82.9	95.8	113.2	22.6	19.5	16.5	17.1	13.8	11.7	33.5	31.3	30.0
Mindtree	1,052	ADD	172,785	2,381	44.7	56.8	65.0	23.5	18.5	16.2	14.9	11.6	10.0	24.7	26.6	25.8
Mphasis	1,160	SELL	224,412	3,092	53.5	59.9	62.7	21.7	19.4	18.5	16.0	13.6	12.6	18.9	21.0	20.0
TCS	2,189	REDUCE	8,380,177	115,475	84.2	94.1	101.1	26.0	23.3	21.7	19.1	17.2	15.9	34.3	35.6	37.7
Tech Mahindra	746	ADD	658,464	9,073	46.2	56.6	64.0	16.1	13.2	11.7	9.6	7.6	6.5	20.2	21.2	20.3
Wipro	321	REDUCE	1,450,410	19,986	19.1	22.8	24.5	16.8	14.0	13.1	10.8	9.1	8.3	16.5	17.6	17.4
Technology			16,026,550	220,839				21.6	19.2	17.7	14.9	13.1	12.0	24.2	25.1	24.9
KIE universe			109,453,941	1,507,811				21.3	16.7	14.6	10.9	9.7	8.7	12.8	14.8	15.2

Company	Target Price (Rs)	O/S shares (mn)	EPS CAGR (%)	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)			
				2019-21E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
HCL Technologies	1,100	1,409	9.4	14.6	8.9	5.0	98,130	105,611	110,939	139,646	151,107	156,173	598,791	665,956	711,801	
Hexaware Technologies	455	302	17.9	19.5	21.6	12.7	5,969	7,256	8,175	7,502	9,689	10,860	47,057	56,606	63,674	
Infosys	770	4,350	11.7	12.8	13.3	8.9	158,570	179,718	195,786	215,987	243,162	265,544	816,013	912,938	998,588	
L&T Infotech	2,100	175	21.2	30.5	15.6	18.1	14,529	16,794	19,838	17,824	21,623	24,657	94,015	109,967	124,844	
Mindtree	1,225	165	23.5	29.5	27.0	14.5	7,346	9,331	10,681	10,905	13,608	15,342	69,453	80,436	90,700	
Mphasis	900	193	12.7	21.9	12.1	4.7	9,941	11,141	11,665	13,178	15,324	16,324	78,129	89,419	97,654	
TCS	1,950	3,829	14.4	24.9	11.7	7.4	318,745	353,207	379,295	409,505	457,365	493,917	1,465,336	1,635,923	1,778,578	
Tech Mahindra	865	891	14.5	8.4	22.4	13.0	41,205	50,908	57,529	61,460	73,816	80,408	353,001	392,021	424,030	
Wipro	325	4,507	13.1	12.8	19.5	7.5	86,137	102,923	110,606	113,585	131,300	138,589	589,977	641,752	678,487	
Technology							740,571	836,890	904,515	989,592	1,116,995	1,201,815	4,111,774	4,585,017	4,968,357	
KIE universe				24.2	27.4	14.3										

Notes:

(a) Hexaware Technologies is December year-ending.

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (Rs bn) (US\$ bn)		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		27-Sep-18	Target price (Rs)		2019E	2020E		2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	
NBFCs																													
Bajaj Finance	SELL	2,204	2,000	(9.3)	1,274	17.6	575	68	90	114	56.6	31.9	27.3	32.4	24.6	19.3	—	—	—	6.6	5.3	4.3	22.4	24.0	24.6	0.3	0.4	0.5	70.1
Bajaj Finserv	REDUCE	5,980	6,100	2.0	952	13.1	159	245	307	376	39.7	25.2	22.5	24.4	19.5	15.9	—	—	—	3.9	3.2	2.7	17.5	18.1	18.6	0.2	0.2	0.2	21.1
Bharat Financial Inclusion	NA	1,043	—	—	146	2.0	139	43	54	69	31.1	27.2	25.8	24.4	19.2	15.2	—	—	—	3.9	3.2	2.6	17.9	18.5	19.0	—	—	—	10.8
Cholamandalam	ADD	1,179	1,425	20.8	184	2.5	156	74	92	113	19.4	23.8	23.1	15.9	12.8	10.4	—	—	—	3.2	2.6	2.2	20.6	21.3	21.7	0.8	0.9	1.2	7.6
HDFC	ADD	1,729	2,020	16.8	2,928	40.4	1,676	55	65	79	(27.3)	18.7	21.2	31.5	26.6	21.9	—	—	—	4.0	3.6	3.3	13.6	14.2	15.7	1.2	1.4	1.7	79.8
HDFC Standard Life Insurance	SELL	404	405	0.2	814	11.2	2,007	6	7	8	14.8	10.9	14.7	63.6	57.4	50.0	—	—	—	16.9	15.1	13.4	28.0	27.7	28.4	0.4	0.4	0.5	7.8
ICICI Lombard	SELL	845	620	(26.6)	383	5.3	454	26	32	37	37.1	21.5	18.5	32.5	26.7	22.5	—	—	—	7.1	5.9	5.0	23.8	24.2	24.0	0.7	0.9	1.0	4.9
ICICI Prudential Life	BUY	338	500	48.1	485	6.7	1,436	12	13	15	10.1	7.0	10.0	27.2	25.4	23.1	—	—	—	6.1	5.1	4.3	24.5	21.8	20.2	0.6	0.7	0.7	8.8
IIFL Holdings	SELL	526	625	18.8	168	2.3	319	38	45	52	31.5	18.6	16.0	14.0	11.8	10.2	—	—	—	2.5	2.2	1.9	20.5	20.0	20.0	1.5	1.8	2.1	1.8
L&T Finance Holdings	ADD	125	165	31.7	250	3.4	1,996	13	14	16	70.9	31.3	12.8	10.0	8.9	7.9	—	—	—	1.8	1.6	1.3	18.9	18.8	18.3	1.6	2.0	1.9	18.6
LIC Housing Finance	BUY	421	580	37.8	212	2.9	505	48	55	66	10.9	13.9	19.8	8.7	7.6	6.4	—	—	—	1.4	1.2	1.0	17.0	16.2	16.9	1.8	2.0	2.4	16.6
Magma Fincorp	BUY	120	165	37.4	32	0.4	237	13	17	21	34.0	31.8	23.0	9.2	7.0	5.7	—	—	—	1.2	1.0	0.9	13.9	15.8	17.0	1.6	2.1	2.6	1.0
Mahindra & Mahindra Financial	ADD	400	450	12.6	247	3.4	614	23	28	34	58.4	23.2	18.6	17.4	14.1	11.9	—	—	—	2.5	2.3	2.0	14.3	15.8	16.7	1.6	2.0	2.3	11.9
Max Financial Services	ADD	419	650	55.1	112	1.5	268	6	6	6	36.9	1.8	1.8	66.8	65.6	64.5	—	—	—	—	—	—	8.3	8.0	7.8	1—	0.5	0.5	5.2
Muthoot Finance	ADD	413	480	16.2	165	2.3	400	40	42	48	(7.8)	6.0	14.8	10.4	9.8	8.6	—	—	—	1.9	1.6	1.4	19.0	17.6	17.8	2.2	2.3	2.7	7.0
PNB Housing Finance	REDUCE	929	1,200	29.2	155	2.1	167	62	75	92	25.3	20.9	22.4	14.9	12.3	10.1	—	—	—	2.2	1.9	1.6	15.2	15.9	17.0	0.4	0.4	0.4	4.3
SBI Life Insurance	ADD	555	785	41.4	555	7.6	1,000	15	18	21	26.0	22.9	17.0	38.2	31.1	26.6	—	—	—	7.3	6.1	5.1	20.6	21.3	20.9	0.4	0.5	0.6	2.7
Shriram City Union Finance	ADD	1,662	2,120	27.6	110	1.5	66	139	171	206	38.1	22.6	20.5	11.9	9.7	8.1	—	—	—	1.9	1.7	1.4	15.5	16.7	17.4	1.1	1.3	1.6	1.5
Shriram Transport	BUY	1,150	1,450	26.1	261	3.6	227	109	127	143	57.8	16.2	12.5	10.5	9.1	8.1	—	—	—	1.8	1.5	1.4	17.6	17.2	16.8	1.3	1.5	1.9	34.4
NBFCs	Neutral				9,435	130					13.2	19.5	19.6	24.3	20.4	17.0				3.9	3.4	2.9	15.9	16.5	17.1	0.8	0.9	1.1	693.6
Cement																													
ACC	SELL	1,561	1,270	(18.7)	293	4.0	188	62	70	81	27.0	13.8	15.2	25.2	22.2	19.2	14.0	12.0	10.2	2.9	2.6	2.4	11.9	12.5	13.1	1.1	1.1	1.1	16.6
Ambuja Cements	REDUCE	227	210	(7.6)	451	6.2	1,986	9	11	12	14.5	23.2	15.8	26.4	21.4	18.5	8.9	7.4	6.1	2.1	2.0	1.9	8.1	9.5	10.4	1.6	1.6	1.6	10.9
Dalmia Bharat	ADD	2,371	2,830	19.4	211	2.9	89	94	122	139	55.8	29.3	14.8	25.2	19.5	17.0	9.7	7.9	6.7	3.1	2.7	2.3	12.9	14.6	14.5	0.1	0.1	0.1	4.4
Grasim Industries	BUY	1,026	1,170	14.1	674	9.3	657	46	55	70	(2.5)	18.8	28.0	22.2	18.7	14.6	7.5	7.1	6.6	1.1	1.1	1.0	5.2	5.9	7.1	0.5	0.5	0.5	16.5
India Cements	REDUCE	105	118	12.9	32	0.4	308	4	8	12	28.0	102.6	41.3	25.0	12.3	8.7	8.3	6.5	5.4	0.6	0.6	0.6	2.5	4.8	6.5	1.0	1.0	1.0	9.5
J K Cement	ADD	785	890	13.4	55	0.8	70	45	79	78	3.7	75.4	(0.8)	17.5	10.0	10.0	10.3	8.5	6.9	2.5	2.0	1.7	15.0	22.3	18.5	1.0	1.0	1.0	0.5
JK Lakshmi Cement	ADD	306	370	20.9	36	0.5	118	11	28	37	153.5	147.9	30.5	27.0	10.9	8.4	9.6	6.2	5.1	2.3	1.9	1.6	8.9	19.5	21.0	0.7	0.7	0.7	0.3
Orient Cement	ADD	98	145	47.7	20	0.3	205	7	11	15	212.9	58.7	41.3	14.5	9.2	6.5	7.1	5.4	4.0	1.8	1.6	1.3	12.9	18.2	21.8	1.5	2.0	2.0	0.3
Shree Cement	SELL	17,320	12,500	(27.8)	603	8.3	35	421	630	760	6.0	49.7	20.6	41.1	27.5	22.8	19.1	14.4	11.7	5.9	5.0	4.1	15.4	19.7	19.8	0.3	0.3	0.3	5.3
UltraTech Cement	SELL	4,120	2,950	(28.4)	1,132	15.6	275	126	162	201	42.7	28.9	24.0	32.8	25.4	20.5	17.1	14.1	11.8	3.9	3.4	3.0	12.6	14.3	15.4	0.2	0.2	0.2	19.2
Cement	Cautious				3,508	48					19.5	30.3	21.8	28.3	21.8	17.9	10.8	9.3	8.0	2.4	2.2	2.0	8.4	10.0	11.0	0.6	0.6	0.6	83.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Target			Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		Price (Rs) 27-Sep-18	price (Rs)	Upside (%)	(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Consumer products																													
Asian Paints	REDUCE	1,288	1,325	2.9	1,235	17.0	959	27	33	39	32.1	20.3	18.3	47.5	39.5	33.4	29.8	24.6	20.8	12.8	11.2	9.8	28.8	30.3	31.3	0.9	1.2	1.4	23.8
Bajaj Corp.	ADD	424	470	10.7	63	0.9	148	15	17	19	7.8	10.3	9.5	27.5	24.9	22.8	22.0	18.8	16.4	12.8	12.7	12.5	46.3	51.2	55.4	3.1	3.3	3.5	0.6
Britannia Industries	ADD	5,700	6,700	17.5	685	9.4	120	104	127	152	24.5	22.2	19.2	54.7	44.8	37.6	35.8	29.3	24.4	15.9	12.9	10.5	32.5	31.8	30.9	0.6	0.8	1.0	14.4
Coffee Day Enterprises	REDUCE	286	290	1.4	60	0.8	211	8	10	12	129.9	30.0	21.2	37.2	28.6	23.6	12.3	10.8	10.0	2.4	2.2	2.0	6.6	8.0	8.9	—	—	—	1.2
Colgate-Palmolive (India)	ADD	1,103	1,250	13.3	300	4.1	272	27	32	36	14.7	15.6	15.5	40.5	35.0	30.3	23.1	20.1	17.4	17.7	15.3	13.5	46.0	46.9	47.3	1.5	1.7	2.1	7.4
Dabur India	REDUCE	438	390	(10.9)	773	10.6	1,762	9	10	12	17.3	12.9	13.6	48.0	42.5	37.4	40.2	34.7	30.1	13.5	11.7	10.3	28.1	29.6	29.4	0.9	1.0	1.3	20.9
GlaxoSmithKline Consumer	ADD	7,019	7,300	4.0	295	4.1	42	199	223	246	19.5	12.1	10.1	35.3	31.5	28.6	24.6	21.2	18.6	7.6	6.9	6.3	22.8	23.0	23.1	1.3	1.5	1.8	2.3
Godrej Consumer Products	SELL	783	733	(6.4)	801	11.0	1,022	17	19	22	18.8	13.7	12.7	46.3	40.8	36.2	32.9	28.5	24.9	10.9	9.4	8.2	25.3	24.7	24.2	0.7	0.8	0.9	13.8
Hindustan Unilever	REDUCE	1,620	1,570	(3.1)	3,507	48.3	2,160	29	33	37	19.5	13.2	12.6	55.3	48.8	43.4	38.2	33.6	29.7	43.2	36.7	31.6	83.5	81.4	78.3	1.3	1.5	1.7	37.5
ITC	ADD	293	330	12.5	3,588	49.4	12,275	10	11	12	8.2	12.3	11.7	30.4	27.1	24.2	19.6	17.3	15.4	6.6	6.2	5.9	20.4	22.2	24.2	1.9	2.3	2.6	58.7
Jubilant Foodworks	BUY	1,239	1,650	33.2	164	2.3	132	25	35	46	74.7	37.6	32.4	48.7	35.4	26.7	24.3	18.2	13.7	12.1	9.2	7.0	29.0	29.7	29.9	0.2	0.2	0.3	28.3
Jyothy Laboratories	ADD	201	240	19.1	73	1.0	364	6	7	8	27.6	16.7	15.4	35.8	30.7	26.6	23.9	20.3	17.3	5.5	4.8	4.2	16.6	16.8	16.9	0.5	0.7	1.0	0.9
Marico	ADD	337	375	11.4	435	6.0	1,291	7	8	9	8.9	20.0	14.5	49.4	41.1	35.9	34.2	28.3	24.4	16.2	15.0	13.9	33.7	37.9	40.2	1.4	1.6	1.9	10.2
Nestle India	ADD	9,579	11,000	14.8	924	12.7	96	171	197	223	34.2	15.7	13.2	56.2	48.5	42.9	32.0	27.7	24.3	24.8	22.8	20.9	46.1	49.0	50.8	1.2	1.4	1.6	10.0
Page Industries	SELL	33,014	25,000	(24.3)	368	5.1	11	418	508	607	34.3	21.6	19.5	79.0	65.0	54.4	51.1	42.1	35.2	33.4	26.5	21.3	47.8	45.5	43.4	0.5	0.7	0.8	17.8
Pidilite Industries	REDUCE	1,056	1,080	2.2	537	7.4	508	21	26	31	16.8	21.8	20.2	50.2	41.2	34.2	33.3	27.5	22.8	12.7	10.7	8.9	27.4	28.2	28.4	0.7	0.8	0.9	8.2
S H Kelkar and Company	BUY	205	290	41.3	30	0.4	145	7	10	12	(6.2)	41.9	23.2	29.6	20.8	16.9	19.1	13.7	11.9	3.2	2.9	2.6	11.3	14.5	16.0	0.9	1.0	1.3	0.5
Tata Global Beverages	REDUCE	233	250	7.2	147	2.0	631	8	9	10	7.7	17.0	12.9	29.5	25.2	22.3	16.1	14.2	12.5	2.0	1.9	1.8	7.0	7.9	8.5	1.3	1.5	1.7	11.0
Titan Company	SELL	821	840	2.3	729	10.0	888	16	20	23	25.6	21.8	19.3	51.2	42.0	35.2	33.9	27.0	22.2	12.1	10.2	8.6	25.6	26.3	26.4	0.5	0.7	0.9	39.7
United Breweries	SELL	1,419	1,100	(22.5)	375	5.2	264	21	26	31	39.2	23.6	20.6	68.3	55.2	45.8	33.7	29.0	24.9	11.8	10.0	8.5	18.7	19.6	20.0	0.2	0.3	0.4	14.2
United Spirits	REDUCE	515	590	14.6	374	5.2	727	10	13	17	34.7	30.9	24.5	50.2	38.4	30.8	29.4	23.7	19.9	10.3	7.6	5.8	24.2	22.7	21.3	—	—	0.5	13.1
Varun Beverages	ADD	760	800	5.2	139	1.9	183	15	20	26	29.8	34.5	30.7	50.9	37.8	28.9	16.9	14.4	12.1	7.0	6.0	5.1	14.6	17.1	19.0	—	—	0.3	1.3
Consumer products	Cautious				15,601	215					17.7	16.0	14.7	43.9	37.9	33.0	28.4	24.4	21.2	11.5	10.3	9.2	26.1	27.1	27.8	1.2	1.4	1.6	335.8
Energy																													
BPCL	REDUCE	372	375	0.7	808	11.1	1,967	38	39	39	(6.7)	3.1	1.1	9.9	9.6	9.5	7.2	6.8	6.6	1.9	1.7	1.6	20.5	19.1	17.5	4.0	4.2	4.2	25.7
Castrol India	SELL	147	155	5.3	145	2.0	989	7	8	9	2.9	10.1	9.7	20.8	18.9	17.2	12.9	11.7	10.6	13.7	13.3	12.9	67.1	71.5	76.0	3.7	4.2	4.6	3.7
GAIL (India)	BUY	378	455	20.5	852	11.7	2,255	29	31	33	41.7	6.4	8.0	13.1	12.3	11.4	8.2	7.7	7.0	1.9	1.8	1.6	15.4	14.9	14.7	2.5	2.6	2.8	25.0
GSPL	SELL	181	185	2.1	102	1.4	564	16	12	13	31.3	(25.1)	12.1	11.6	15.5	13.9	4.6	5.6	4.9	1.8	1.6	1.5	16.2	10.9	11.1	1.3	1.0	1.1	1.3
HPCL	REDUCE	249	285	14.3	380	5.2	1,524	32	32	32	(22.3)	(2.2)	0.5	7.7	7.9	7.8	6.9	7.3	7.7	1.4	1.3	1.2	19.6	17.4	16.1	5.3	5.2	5.2	22.4
Indraprastha Gas	SELL	257	240	(6.7)	180	2.5	700	12	13	15	16.4	12.3	10.7	21.4	19.1	17.2	13.5	11.9	10.5	4.4	3.8	3.4	22.1	21.5	20.9	1.0	1.2	1.6	9.8
IOCL	REDUCE	153	150	(1.7)	1,483	20.4	9,479	18	17	18	(11.2)	(4.1)	2.8	8.4	8.7	8.5	4.8	4.8	4.6	1.2	1.1	1.1	15.1	13.4	12.9	4.8	4.6	4.7	17.8
Mahanagar Gas	ADD	828	965	16.5	82	1.1	99	56	60	64	16.0	7.6	5.4	14.8	13.7	13.0	8.5	7.8	7.1	3.4	3.0	2.7	24.8	23.5	22.0	2.7	2.9	3.1	12.6
ONGC	ADD	176	200	13.6	2,259	31.1	12,833	20	20	19	16.8	0.3	(5.9)	8.7	8.6	9.2	4.1	3.9	3.9	0.9	0.9	0.8	11.2	10.6	9.5	3.8	4.0	4.0	16.4
Oil India	SELL	215	200	(7.0)	244	3.4	1,135	23	24	23	(6.7)	3.4	(2.5)	9.3	9.0	9.3	6.1	5.8	5.8	0.8	0.8	0.8	9.2	9.0	8.4	4.3	4.4	4.3	2.2
Petronet LNG	BUY	227	280	23.3	341	4.7	1,500	16	18	20	16.7	13.1	9.4	14.0	12.4	11.3	9.4	7.9	7.0	3.1	2.7	2.4	23.3	23.2	22.7	2.5	3.2	4.0	10.2
Reliance Industries	SELL	1,254	985	(21.4)	7,420	102.2	5,922	69	78	87	17.6	12.4	11.9	18.0	16.1	14.4	12.1	10.3	8.8	2.2	2.0	1.8	12.2	12.1	12.1	0.5	0.5	0.6	144.9
Energy	Attractive				14,294	197					8.0	4.8	4.8	12.8	12.2	11.7	7.7	7.2	6.6	1.7	1.5	1.4	13.1	12.5	12.1	2.1	2.1	2.2	292.0

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)
		27-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Industrials																													
ABB	SELL	1,420	1,020	(28.2)	301	4.1	212	26	29	36	30.1	14.2	23.5	55.1	48.2	39.0	32.4	29.1	24.1	7.7	6.9	6.2	14.5	15.1	16.7	0.6	0.6	0.6	2.2
BHEL	REDUCE	71	89	25.2	261	3.6	3,671	3.3	5.5	7.6	47.9	69.3	38.0	21.9	12.9	9.4	6.7	4.1	3.0	0.8	0.8	0.8	3.6	6.1	8.2	2.8	4.8	6.6	9.4
Carborundum Universal	SELL	385	322	(16.3)	73	1.0	189	14	17	20	25.0	21.4	13.8	27.0	22.2	19.5	14.8	12.1	10.5	4.2	3.7	3.3	16.3	17.8	18.1	1.1	1.4	1.5	0.4
CG Power and Industrial	BUY	47	72	54.6	29	0.4	627	2.9	4.3	6.2	255.2	48.7	44.9	16.1	10.8	7.4	6.8	5.3	4.1	1.1	1.0	1.0	6.7	9.8	13.3	—	—	—	5.7
Cummins India	REDUCE	675	710	5.2	187	2.6	277	28	33	37	15.2	17.5	13.7	24.3	20.6	18.1	20.3	17.4	15.0	4.4	4.1	3.8	18.7	20.6	21.8	2.2	2.6	3.0	4.9
Kalpitaru Power Transmission	BUY	329	560	70.4	50	0.7	153	23.0	32.1	41.0	26.0	39.1	27.7	14.3	10.2	8.0	6.5	5.1	4.3	1.7	1.5	1.2	12.5	15.2	16.7	0.5	0.5	0.5	0.6
KEC International	BUY	296	410	38.7	76	1.0	257	21	27	33	16.9	29.7	23.0	14.1	10.9	8.8	8.0	6.5	5.5	3.1	2.5	2.0	24.1	25.2	24.9	0.8	1.0	1.2	2.6
L&T	BUY	1,310	1,600	22.1	1,836	25.3	1,401	66.3	67.6	79.5	28.2	1.9	17.6	19.8	19.4	16.5	17.8	17.2	14.4	3.3	3.0	2.7	17.6	16.2	17.1	1.7	1.7	2.0	46.1
Siemens	SELL	951	1,000	5.2	339	4.7	356	29	35	—	21.4	21.7	—	32.7	26.9	—	18.3	14.7	—	3.9	3.6	—	12.3	14.0	—	1.3	1.5	—	3.6
Thermax	REDUCE	970	1,010	4.1	116	1.6	113	27.8	38.7	43.8	34.7	39.2	13.2	34.9	25.1	22.2	22.1	16.4	14.0	3.8	3.4	3.1	11.1	14.3	14.7	1.0	1.1	1.2	1.0
Industrials	Neutral				3,267	45					29.0	13.9	11.9	22.5	19.8	17.7	16.3	14.5	11.9	2.8	2.6	2.5	12.3	12.9	14.3	1.6	1.8	2.0	76.6
Infrastructure																													
Adani Ports and SEZ	BUY	335	460	37.2	694	9.6	2,071	19	23	29	1.2	21.1	29.8	17.9	14.8	11.4	12.4	10.3	9.0	2.8	2.4	2.0	17.0	17.7	19.4	0.5	0.6	0.6	17.4
Ashoka Buildcon	BUY	110	235	113.1	31	0.4	282	9	10	10	4.1	17.8	(1.3)	12.6	10.7	10.8	8.3	7.0	6.5	1.4	1.2	1.1	11.8	12.3	11.0	1.5	1.2	1.2	0.5
Container Corp.	SELL	621	635	2.3	303	4.2	487	21	25	29	17.4	20.9	15.0	30.0	24.8	21.6	18.4	14.6	12.0	3.0	2.8	2.6	10.3	11.6	12.3	1.4	1.7	1.6	5.5
Dilip Buildcon	BUY	677	1,240	83.2	93	1.3	137	56	71	85	19.8	27.5	20.1	12.2	9.5	7.9	6.5	5.2	4.4	2.9	2.2	1.7	26.7	26.2	24.4	—	—	—	4.1
Gateway Distriparks	BUY	151	250	65.1	16	0.2	109	7	8	11	(5.8)	15.2	37.5	21.1	18.3	13.3	10.0	8.2	6.7	2.8	2.5	2.1	9.8	14.5	17.1	—	2.0	2.0	0.3
Gujarat Pipavav Port	BUY	101	150	48.0	49	0.7	483	5.3	6.5	7.8	29.7	22.9	19.3	19.0	15.4	12.9	10.0	8.2	6.8	2.4	2.3	2.3	12.7	15.3	17.8	4.4	5.3	6.3	1.0
IRB Infrastructure	BUY	137	320	133.4	48	0.7	351	31	33	23	36.8	7.1	(31.3)	4.4	4.1	6.0	5.9	6.4	7.7	0.7	0.6	0.6	17.6	16.3	10.0	2.2	2.9	3.1	5.8
Mahindra Logistics	REDUCE	528	565	7.0	38	0.5	71	15	21	25	50.7	39.3	23.7	35.7	25.7	20.8	19.8	14.4	11.4	7.4	6.0	4.8	22.7	25.8	25.8	—	—	—	0.5
Sadbhav Engineering	BUY	220	435	97.8	38	0.5	172	17	22	23	31.7	31.0	2.6	13.0	9.9	9.6	9.8	7.7	6.5	1.8	1.5	1.3	14.5	16.5	14.7	—	—	—	1.4
Infrastructure	Attractive				1,309	18					11.3	20.3	16.7	17.0	14.1	12.1	10.8	9.1	8.2	2.5	2.2	1.9	14.8	15.5	15.7	0.9	1.1	1.1	36.4
Internet																													
Info Edge	ADD	1,461	1,425	(2.5)	178	2.5	122	26	33	40	14.9	27.5	20.6	56.5	44.3	36.7	42.8	32.4	26.2	6.7	6.1	5.4	13.2	14.3	15.6	0.6	0.6	0.7	3.3
Just Dial	ADD	503	610	21.2	34	0.5	67	26	30	33	23.0	15.0	9.4	19.3	16.8	15.3	10.1	8.0	6.6	3.0	2.6	2.3	16.7	16.6	15.7	0.5	0.6	0.7	23.4
Internet	Cautious				212	3					17.6	23.0	16.8	43.2	35.1	30.1	31.5	24.8	20.7	5.6	5.0	4.4	12.9	14.2	14.7	0.6	0.6	0.7	26.6
Media																													
DB Corp.	REDUCE	204	270	32.4	38	0.5	184	20	23	26	14.9	12.3	14.8	10.1	9.0	7.8	5.3	4.7	—	2.0	2.0	—	20.7	22.3	25.2	8.3	10.3	12.4	0.5
DishTV	ADD	57	90	56.9	106	1.5	1,925	1.8	3.4	4.9	514.6	88.2	42.6	NM	16.7	11.7	5.0	3.9	3.1	1.6	1.4	1.3	5.1	8.9	11.5	—	—	—	5.3
Jagran Prakashan	REDUCE	115	131	13.9	34	0.5	311	11	12	14	10.0	13.6	14.5	10.8	9.5	8.3	4.7	4.0	3.4	1.8	1.7	1.6	15.9	18.2	19.7	4.3	6.5	7.4	0.4
PVR	BUY	1,255	1,430	13.9	59	0.8	47	38	50	61	41.2	32.3	22.4	33.1	25.0	20.4	12.8	10.9	9.2	4.8	4.1	3.5	15.3	17.6	18.3	0.3	0.4	0.5	11.6
Sun TV Network	REDUCE	620	925	49.2	244	3.4	394	35	39	43	20.7	10.9	10.7	17.8	16.1	14.5	11.9	10.4	8.9	4.7	4.3	3.9	28.1	27.9	27.9	2.8	3.2	3.6	19.1
Zee Entertainment Enterprises	ADD	445	600	34.7	428	5.9	960	17	20	22	11.3	17.0	13.9	26.6	22.8	20.0	16.3	13.8	11.9	5.0	4.4	3.9	19.9	20.6	20.7	1.0	1.2	1.6	18.4
Media	Attractive				908	13					28.7	21.0	17.2	21.8	18.0	15.3	10.3	8.7	7.2	3.5	3.2	3.0	16.3	17.7	19.8	1.7	2.1	2.5	55.3

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs) 27-Sep-18	Target price (Rs)	Upside (%)	Mkt cap.		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
					(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	276	320	15.8	1,715	23.6	6,207	25	25	27	120.4	2.2	6.6	11.1	10.8	10.2	8.5	7.1	6.6	6.8	7.5	8.0	62.7	65.9	76.0	7.2	9.0	9.0	15.0
Hindalco Industries	BUY	244	305	25.1	548	7.5	2,229	27	31	34	25.1	13.6	10.2	8.9	7.8	7.1	5.7	5.0	4.4	0.9	0.8	0.7	10.6	10.8	10.8	0.5	0.5	0.5	36.0
Hindustan Zinc	ADD	304	290	(4.6)	1,284	17.7	4,225	22	26	27	3.7	14.7	5.4	13.6	11.9	11.3	8.0	6.6	5.8	3.1	2.7	2.3	24.4	24.2	22.1	2.6	2.6	2.7	6.3
Jindal Steel and Power	REDUCE	224	215	(3.8)	216	3.0	968	8	14	22	195.9	68.5	60.8	27.4	16.3	10.1	7.0	6.4	5.5	0.7	0.7	0.6	2.7	4.3	6.5	—	—	—	35.0
JSW Steel	SELL	400	350	(12.6)	968	13.3	2,406	31	26	31	16.1	(16.2)	17.2	12.8	15.3	13.0	7.4	8.6	7.6	2.7	2.4	2.0	23.5	16.6	16.8	0.8	0.8	0.8	32.5
National Aluminium Co.	ADD	65	80	23.5	125	1.7	1,933	9	7	8	125.8	(21.1)	2.4	6.9	8.8	8.6	3.1	3.9	3.8	1.1	1.1	1.1	16.8	13.0	13.3	9.3	9.3	9.3	11.7
NMDC	REDUCE	118	120	1.6	374	5.2	3,164	12	10	11	4.2	(14.3)	5.9	9.7	11.3	10.7	6.0	6.9	6.4	1.4	1.4	1.3	15.3	12.4	12.5	4.7	4.7	4.7	6.0
Tata Steel	ADD	612	660	7.9	701	9.7	1,205	76	85	94	12.8	12.1	10.9	8.1	7	6.5	6.1	6.4	6.0	1.1	1.0	0.9	14.3	14.3	14.4	1.6	1.6	1.6	74.7
Vedanta	BUY	241	370	53.8	895	12.3	3,717	32	39	38	49.1	19.7	(0.7)	7.5	6.2	6.3	4.8	4.0	3.7	1.3	1.1	1.0	18.0	19.4	17.2	4.0	4.8	4.8	46.0
Metals & Mining		Attractive			6,825	94					39.9	6.7	7.8	10.3	9.7	9.0	6.4	6.0	5.5	1.8	1.7	1.5	17.9	17.5	17.1	3.6	4.2	4.2	263.3
Pharmaceutical																													
Apollo Hospitals	ADD	1,068	1,090	2.1	149	2.0	139	20	27	33	133.5	36.7	21.6	54.2	39.6	32.6	19.0	16.1	14.1	4.3	4.0	3.7	8.2	10.5	11.8	0.5	0.6	0.8	15.5
Aster DM Healthcare	BUY	155	240	54.5	78	1.1	505	5	8	12	74.4	62.0	51.4	32.3	19.9	13.2	11.8	9.2	7.2	2.6	2.3	2.0	8.3	12.2	16.3	—	—	—	0.2
Aurobindo Pharma	ADD	741	760	2.5	434	6.0	584	42	57	64	1.0	35.8	12.3	17.6	12.9	11.5	11.8	8.8	7.8	3.1	2.6	2.1	19.3	19.9	18.6	0.7	0.8	1.0	38.9
Biocon	SELL	708	330	(53.4)	425	5.9	601	8	15	18	35.9	75.7	21.7	84.1	47.9	39.4	36.6	24.4	20.8	7.0	6.3	5.6	8.7	13.9	14.3	0.4	0.7	0.9	22.8
Cipla	BUY	659	680	3.1	531	7.3	805	24	31	40	34.5	31.0	29.4	28.0	21.4	16.5	15.8	12.5	9.8	3.3	3.0	2.6	12.4	14.6	15.7	0.7	1.0	1.3	24.4
Dr Lal Pathlabs	REDUCE	970	900	(7.2)	81	1.1	83	24	29	34	19.0	17.9	18.4	39.8	33.8	28.6	24.4	20.5	16.7	8.6	7.2	6.0	23.4	23.1	22.9	0.5	0.6	0.7	1.3
Dr Reddy's Laboratories	REDUCE	2,541	2,150	(15.4)	422	5.8	166	89	118	141	50.2	32.8	19.3	28.7	21.6	18.1	14.4	10.3	8.6	3.0	2.7	2.4	11.1	12.6	13.3	0.5	0.7	0.8	35.1
HCG	REDUCE	218	290	33.0	19	0.3	85	2	4	7	39.8	80.3	80.8	99.7	55.3	30.6	16.4	13.6	10.4	3.5	3.3	3.0	3.5	6.1	10.1	—	—	—	0.2
Laurus Labs	ADD	431	500	15.9	46	0.6	106	16	29	34	2.4	79.9	17.5	26.6	14.8	12.6	12.3	8.6	7.5	2.8	2.3	2.0	10.9	17.1	15.6	—	—	—	0.7
Lupin	REDUCE	896	800	(10.7)	405	5.6	450	27	39	50	(28.9)	44.0	27.4	33.1	23.0	18.0	15.5	11.2	9.0	2.8	2.5	2.2	8.6	11.4	12.4	0.5	0.7	0.8	45.8
Narayana Hrudayalaya	ADD	246	265	7.5	50	0.7	204	3	6	9	23.0	103.2	40.7	79.7	39.2	27.9	22.6	15.8	12.7	4.6	4.1	3.6	5.9	11.0	13.7	—	—	—	0.1
Sun Pharmaceuticals	SELL	631	540	(14.5)	1,515	20.9	2,406	16	24	29	7.5	45.5	21.6	38.7	26.6	21.9	20.9	15.1	12.5	3.6	3.3	2.9	9.8	12.9	13.2	0.5	0.8	0.9	61.7
Torrent Pharmaceuticals	NR	1,679	—	—	284	3.9	169	47	61	81	18.0	29.6	32.1	35.5	27.4	20.7	15.5	13.3	11.0	5.4	4.7	4.0	15.3	17.2	19.3	0.6	0.8	1.1	7.8
Pharmaceuticals		Neutral			4,439	61					11.3	40.7	22.6	33.5	23.8	19.4	17.3	12.8	10.7	3.6	3.2	2.8	10.9	13.5	14.6	0.5	0.7	0.9	254.5
Real Estate																													
Brigade Enterprises	BUY	194	290	49.5	26	0.4	136	9	15	17	(17.0)	59.2	15.8	21.1	13.3	11.5	13.2	10.3	8.2	1.1	1.0	1.0	5.4	8.1	8.8	1.3	1.3	1.3	0.3
DLF	RS	172	—	—	307	4.2	1,784	5.3	23.9	14.1	(87.2)	35.4	(41.0)	32.7	7.2	12.2	48.2	8.5	15.8	0.9	0.8	0.7	2.6	11.3	6.2	1.2	1.2	1.2	19.1
Godrej Properties	SELL	609	400	(34.3)	140	1.9	216	13.3	15.8	18.2	(38.9)	19.1	15.2	46.0	38.6	33.5	273.9	143.3	117.8	3.9	3.6	3.2	10.5	9.7	10.1	—	—	—	1.6
Oberoi Realty	BUY	417	560	34.3	152	2.1	340	62	44	66	385.4	(28.0)	49.3	6.8	9.4	6.3	9.4	11.7	5.0	1.5	1.3	1.1	27.4	15.2	19.2	0.5	0.5	0.5	2.3
Prestige Estates Projects	ADD	234	315	34.7	88	1.2	375	19	21	11	(24.2)	8.4	—	12.3	11.3	21.9	10.3	10.5	14.0	0.9	0.8	—	14.6	14.9	7.3	1.3	1.3	0.6	0.8
Sobha	REDUCE	409	510	24.6	39	0.5	95	23	36	24	(48.8)	51.7	(32.6)	17.4	11.5	17.1	10.9	8.5	10.7	1.8	1.6	1.5	9.0	14.8	9.1	1.7	1.7	1.7	1.6
Sunteck Realty	REDUCE	403	360	(10.7)	59	0.8	140	19	19	39	22.4	1.6	106.6	21.6	21.2	10.3	18.4	17.8	7.7	2.0	1.8	1.5	9.5	8.9	16.2	0.2	0.2	0.2	1.9
Real Estate		Neutral			810	11					(53.1)	65.1	(14.4)	17.3	10.5	12.3	18.7	11.1	12.2	1.2	1.1	1.1	7.1	10.6	9.0	0.8	0.8	0.7	27.7

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.		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo	
		27-Sep-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	(US\$ mn)
Technology																													
HCL Technologies	REDUCE	1,092	1,100	0.7	1,521	21.0	1,409	71	78	82	14.6	8.9	5.0	15.3	14.0	13.4	10.0	8.8	8.2	3.4	2.9	2.6	24.4	22.3	20.6	0.8	2.8	3.0	36.0
Hexaware Technologies	SELL	436	455	4.5	129	1.8	302	20	24	27	19.5	21.6	12.7	22.0	18.1	16.1	16.3	12.4	10.8	5.7	4.8	4.1	27.6	28.7	27.5	1.8	1.8	2.3	23.2
Infosys	ADD	725	770	6.2	3,166	43.6	4,350	36	41	45	12.8	13.3	8.9	19.9	17.5	16.1	13.6	11.9	10.6	4.5	4.0	3.6	23.4	24.2	23.7	3.0	2.7	2.9	88.5
L&T Infotech	ADD	1,872	2,100	12.2	324	4.5	175	83	96	113	30.5	15.6	18.1	22.6	19.5	16.5	17.1	13.8	11.7	6.8	5.5	4.5	33.5	31.3	30.0	1.3	1.4	1.6	9.2
Mindtree	ADD	1,052	1,225	16.4	173	2.4	165	45	57	65	29.5	27.0	14.5	23.5	18.5	16.2	14.9	11.6	10.0	5.4	4.5	3.9	24.7	26.6	25.8	1.3	1.6	1.9	26.6
Mphasis	SELL	1,160	900	(22.4)	224	3.1	193	53	60	63	21.9	12.1	4.7	21.7	19.4	18.5	16.0	13.6	12.6	4.3	3.9	3.5	18.9	21.0	20.0	1.7	2.2	2.6	6.9
TCS	REDUCE	2,189	1,950	(10.9)	8,380	115.5	3,829	84	94	101	24.9	11.7	7.4	26.0	23.3	21.7	19.1	17.2	15.9	8.4	8.2	8.1	34.3	35.6	37.7	1.9	3.4	3.7	85.3
Tech Mahindra	ADD	746	865	15.9	658	9.1	891	46	57	64	8.4	22.4	13.0	16.1	13.2	11.7	9.6	7.6	6.5	3.0	2.6	2.2	20.2	21.2	20.3	1.2	1.4	1.5	40.5
Wipro	REDUCE	321	325	1.4	1,450	20.0	4,507	19	23	25	12.8	19.5	7.5	16.8	14.0	13.1	10.8	9.1	8.3	2.6	2.4	2.2	16.5	17.6	17.4	0.5	3.1	3.4	19.4
Technology	Cautious				16,027	221					15.6	13.0	8.1	21.6	19.2	17.7	14.9	13.1	12.0	5.2	4.8	4.4	24.2	25.1	24.9	1.8	3.0	3.2	335.7
Telecom																													
Bharti Airtel	ADD	357	445	24.7	1,426	19.7	3,997	(6)	(4)	5	(221.5)	28.8	215.1	(62.0)	(87.2)	75.8	9.5	7.9	6.4	2.2	2.2	2.2	(3.4)	(2.5)	2.9	0.3	(0.2)	0.3	24.5
Bharti Infratel	REDUCE	267	285	6.6	495	6.8	1,850	13	12	13	(4.8)	(8.5)	7.7	20.4	22.3	20.7	7.5	8.0	7.5	3.0	3.1	3.0	14.6	13.7	14.6	3.9	3.6	3.9	10.3
IDEA	REDUCE	39	45	16.9	336	4.6	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(2.3)	(2.2)	(2.5)	39.7	33.3	20.5	0.8	1.2	2.1	(29.7)	(41.1)	(59.4)	—	—	—	16.3
Tata Communications	ADD	505	660	30.7	144	2.0	285	0	3	7	(77.5)	694.2	123.5	1,362	171.5	76.8	10.3	9.1	8.2	(62.7)	(85.1)	(1,649.5)	7.8	(42.1)	(211.0)	1.3	1.5	1.5	3.3
Telecom	Cautious				2,401	33					(2,384.5)	5.0	68.0	(33.4)	(35.2)	(110.0)	11.0	9.6	7.9	2.3	2.5	2.7	(6.9)	(7.2)	(2.4)	1.0	0.6	1.0	54.3
Utilities																													
CESC	BUY	872	1,180	35.2	116	1.6	133	115	128	141	31.7	11.6	10.1	7.6	6.8	6.2	5.5	4.9	4.3	0.7	0.7	0.6	10.0	10.4	10.5	1.5	1.5	1.5	7.7
JSW Energy	REDUCE	63	70	11.3	103	1.4	1,640	5.1	6.5	6.6	65.9	26.8	2.9	12.4	9.7	9.5	5.5	4.5	4.0	0.9	0.8	0.7	7.2	8.5	8.0	—	—	—	1.3
NHPC	ADD	23	30	31.0	235	3.2	10,260	3.1	3.2	3.4	26.9	1.8	8.0	7.4	7.3	6.7	7.0	6.8	7.2	0.8	0.7	0.7	10.4	10.2	10.6	7.6	7.7	6.5	1.6
NTPC	BUY	168	190	13.1	1,385	19.1	8,245	15	16	18	30.9	4.4	16.5	11.3	10.8	9.3	9.0	8.3	7.0	1.3	1.2	1.1	11.6	11.3	12.2	2.7	2.8	3.2	11.9
Power Grid	BUY	195	250	28.5	1,018	14.0	5,232	19	21	23	19.3	13.6	7.6	10.4	9.1	8.5	7.3	6.7	6.4	1.7	1.5	1.4	17.1	17.5	17.0	3.2	3.7	3.9	14.7
Tata Power	BUY	69	90	30.6	186	2.6	2,705	6.0	7.0	10.9	12.7	15.6	57.0	11.4	9.9	6.3	10.5	10.0	8.7	1.1	1.0	0.9	10.1	10.6	14.6	—	—	—	4.5
Utilities	Attractive				3,043	42					26.0	8.8	14.1	10.4	9.5	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	41.7

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

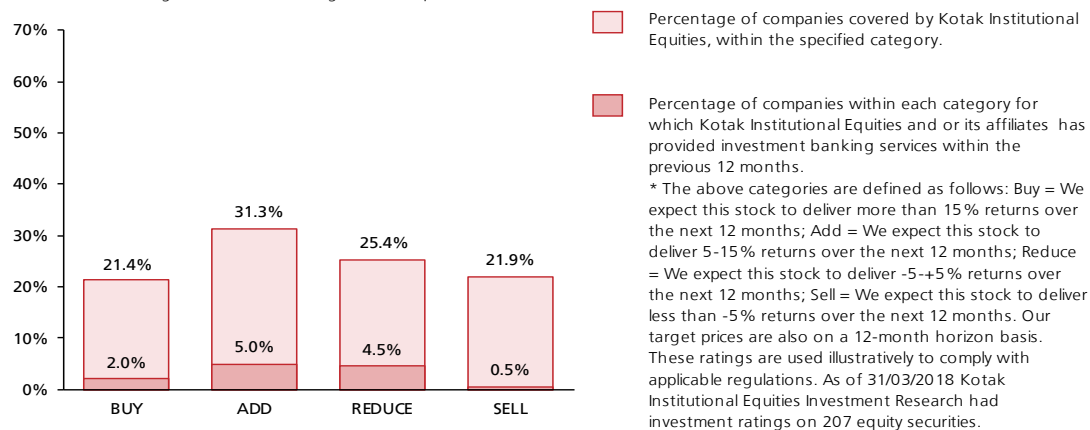
Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		27-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Others																													
Aditya Birla Fashion and Retail	BUY	186	220	18.2	144	2.0	773	2	4	6	50.6	59.1	53.5	81.1	51.0	33.2	23.8	18.5	15.0	11.3	9.3	7.2	15.0	20.0	24.5	—	—	—	4.8
Astral Poly Technk	SELL	959	640	(33.3)	115	1.6	120	19	25	29	30.2	28.8	16.1	50.3	39.0	33.6	27.1	21.5	18.2	8.8	7.3	6.0	19.8	20.5	19.7	0.1	0.1	0.1	0.9
Avenue Supermarts	SELL	1,405	860	(38.8)	877	12.1	624	16	20	26	28.6	26.4	27.5	86.9	68.7	53.9	50.1	39.4	31.0	15.5	12.7	10.3	19.6	20.3	21.0	—	—	—	—
Bayer Cropscience	REDUCE	4,326	4,100	(5.2)	149	2.0	34	106	130	154	20.5	23.1	18.3	41.0	33.3	28.2	26.0	21.1	17.6	7.2	6.2	5.3	18.9	20.0	20.3	0.5	0.6	0.7	0.5
Crompton Greaves Consumer	SELL	222	215	(3.3)	139	1.9	627	6	7	9	19.5	20.7	17.4	36.0	29.8	25.4	22.4	18.9	16.0	12.3	9.4	7.2	40.4	35.8	32.3	0.9	1.1	—	2.6
Dhanuka Agritech	ADD	418	650	55.4	21	0.3	49	27	31	34	3.9	15.4	10.8	15.7	13.6	12.3	11.2	9.1	7.9	2.8	2.4	2.1	19.2	19.2	18.5	1.4	1.6	1.7	0.2
Godrej Agrovet	ADD	517	640	23.7	99	1.4	189	15	19	23	28.9	28.8	21.1	34.8	27.0	22.3	19.0	14.8	12.3	5.1	4.4	3.7	15.7	17.4	17.9	—	1—	0.7	0.9
Godrej Industries	RS	526	—	—	177	2.4	336	16	20	—	8.9	24.2	—	33.1	26.7	—	28.1	30.6	—	4.3	3.8	—	13.9	15.1	—	0.3	0.3	—	4.2
Havells India	SELL	613	485	(20.8)	383	5.3	625	14	17	20	26.6	20.5	17.6	43.7	36.3	30.8	27.9	22.7	19.0	9.0	7.9	6.9	22.0	23.2	23.9	0.8	1.0	1.1	14.1
InterGlobe Aviation	BUY	840	980	16.7	323	4.4	383	(11)	42	75	(118.1)	496.4	79.4	(79.1)	20.0	11.1	(46.3)	9.5	5.1	4.8	3.9	2.9	(5.9)	21.5	29.9	(0.1)	-	0.4	19.6
Kaveri Seed	SELL	611	515	(15.7)	40	0.6	66	34	34	37	7.3	0.1	8.3	17.8	17.8	16.4	14.9	14.2	12.7	4.3	3.7	3.2	26.4	22.4	21.0	1.3	1.6	1.6	4.7
PI Industries	BUY	732	875	19.6	101	1.4	138	31	40	48	17.9	26.8	21.5	23.4	18.4	15.2	16.6	12.9	10.4	4.4	3.7	3.0	20.5	21.7	21.9	0.5	0.7	0.8	2.1
Rallis India	ADD	188	220	17.3	36	0.5	195	10	12	13	17.2	19.4	9.7	18.6	15.5	14.2	12.2	10.3	9.1	2.8	2.5	2.3	15.8	17.1	16.9	1.9	2.1	2.3	0.8
SIS	REDUCE	905	1,130	24.8	66	0.9	73	33	40	48	48.5	21.1	17.8	27.2	22.4	19.0	17.0	14.2	11.8	5.4	4.4	3.7	21.8	21.7	21.1	0.3	0.4	0.5	0.6
SRF	BUY	1,810	2,200	21.6	104	1.4	57	100	132	150	23.8	32.2	14.1	18.2	13.7	12.1	10.7	8.5	7.2	2.6	2.2	1.9	15.0	17.3	17.0	0.7	0.8	0.9	11.8
Tata Chemicals	ADD	683	760	11.2	174	2.4	255	44	51	56	(15.3)	14.6	11.5	15.5	13.5	12.1	6.4	5.3	4.5	1.4	1.4	1.3	9.7	10.3	10.8	2.2	2.5	2.5	6.9
TCNS Clothing Co.	BUY	638	760	19.2	39	0.5	64	18	23	27	15.6	28.2	20.8	35.9	28.0	23.2	19.3	14.6	11.5	7.2	5.5	4.3	22.7	22.2	20.9	—	—	—	—
TeamLease Services	SELL	2,500	1,785	(28.6)	43	0.6	17	58	75	96	34.2	29.0	28.7	43.2	33.5	26.0	43.7	33.2	25.5	7.9	6.4	5.1	20.1	21.1	21.9	—	—	—	1.2
UPL	ADD	683	660	(3.4)	348	4.8	507	49	55	60	14.0	12.1	9.6	14.0	12.4	11.4	9.4	8.0	6.9	3.1	2.6	2.2	24.6	22.9	21.1	1.5	1.6	1.8	29.1
Vardhman Textiles	ADD	1,004	1,300	29.4	58	0.8	56	118	130	142	14.8	9.7	9.8	8.5	7.7	7.1	6.5	5.9	5.3	1.1	1.0	0.9	13.1	13.0	13.0	2.0	3.0	3.0	0.4
Volta	SELL	536	530	(1.1)	177	2.4	331	17	21	25	0.4	18.8	18.9	30.9	26.0	21.9	23.1	18.8	15.7	4.1	3.7	3.2	13.9	14.8	15.7	0.7	0.8	0.9	12.6
Whirlpool	SELL	1,398	1,350	(3.4)	177	2.4	127	37	46	56	33.9	24.7	20.2	37.8	30.3	25.2	22.7	17.9	14.6	8.2	6.8	5.8	23.7	24.5	24.8	—	0.7	1.2	1.5
Others																													
					3,790	52				(10.2)	39.2	18.2	35.1	25.2	21.3	20.5	15.1	11.7	5.0	4.3	3.9	14.4	17.2	18.3	0.6	0.7	0.7	119.6	
KIE universe					109,454	1,508				23.9	27.5	14.4	21.4	16.8	14.7	11.0	9.7	8.7	2.7	2.5	2.2	12.8	14.8	15.2	1.4	1.7	1.9		
KIE universe (ex-energy)					95,160	1,311				29.2	33.8	16.5	23.7	17.7	15.2	12.1	10.6	9.4	3.0	2.7	2.4	12.7	15.3	16.1	1.3	1.7	1.9		

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

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2018

Ratings and other definitions/identifiers**Definitions of ratings**

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

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Corporate Office

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

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

Overseas Affiliates

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

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