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EQUITY MARKETS

India	Change %			
	29-Oct	1-day	1-mo	3-mo
Sensex	34,067	2.2	(6.0)	(9.1)
Nifty	10,251	2.2	(6.2)	(9.4)
Global/Regional indices				
Dow Jones	24,443	(1.0)	(7.6)	(3.4)
Nasdaq Composite	7,050	(1.6)	(12.4)	(7.6)
FTSE	7,026	1.3	(6.4)	(8.8)
Nikkei	21,315	0.8	(11.6)	(5.5)
Hang Seng	24,812	0.4	(10.7)	(13.6)
KOSPI	2,013	0.9	(14.1)	(12.2)
Value traded – India				
Cash (NSE+BSE)	377		393	388
Derivatives (NSE)	6,076		7,144	4,152
Deri. open interest	2,943		2,899	3,094

Forex/money market

	Change, basis points			
	29-Oct	1-day	1-mo	3-mo
Rs/US\$	73.6	(2)	26	492
10yr govt bond, %	8.0	(5)	(22)	(9)

Net investment (US\$ mn)

	25-Oct	MTD	CYTD
	FIs	(182)	(3,054)
MFs	(99)	2,190	16,088

Top movers

Best performers	Change, %			
	29-Oct	1-day	1-mo	3-mo
ARBP IN Equity	773	7.4	3.8	28.0
DIVI IN Equity	1,440	14.7	9.9	24.5
DRRD IN Equity	2,533	5.3	0.1	22.5
WPRO IN Equity	330	2.8	1.7	20.6
ICICIB IN Equity	349	10.7	14.4	13.7

Worst performers

JPA IN Equity	6	4.3	(7.6)	(60.3)
YES IN Equity	181	0.3	(1.3)	(50.9)
UT IN Equity	2	(2.3)	(17.3)	(47.6)
RCAPT IN Equity	235	5.0	(16.6)	(43.0)
IDEA IN Equity	38	2.0	(2.2)	(35.4)

Uninspiring results. BPCL's normalized EBITDA at ₹19.1 bn in 2QFY19 was modestly below our estimate, as higher-than-expected marketing margins were offset by weaker normalized refining margin; reported results were boosted by ₹14.4 bn of adventitious gains. We retain REDUCE with a TP of ₹275, noting material risk to earnings from curtailment of marketing margins on auto fuels and uncertainty on cooking fuel subsidy-sharing mechanism under an adverse global/local macro environment.

Company data and valuation summary

Bharat Petroleum

Stock data				Forecasts/Valuations				
	2019E	2020E	2021E					
52-week range (Rs) (high,low)	552-239				EPS (Rs)	30.2	33.2	35.9
Market Cap. (Rs bn)	601.6				EPS growth (%)	(25.0)	10.0	8.1
Shareholding pattern (%)				P/E (X)	9.2	8.4	7.7	
Promoters	53.9				Sales (Rs bn)	3,395.8	3,298.2	3,248.5
FIs	17.0				Net profits (Rs bn)	59.4	65.3	70.6
MFs	7.5				EBITDA (Rs bn)	100.5	111.7	120.7
Price performance (%)				EV/EBITDA (X)	6.9	6.2	5.6	
Absolute	(25.9)	(30.2)	(47.5)	ROE (%)	16.6	16.8	16.6	
Rel. to BSE-30	(21.2)	(23.5)	(48.9)	Div. Yield (%)	4.4	4.8	5.2	

Weaker underlying refining margins offset higher implied margins from the marketing segment

BPCL's normalized EBITDA was sequentially steady at ₹19.1 bn, adjusted for adventitious/forex gains, as a sharp decline in inventory-adjusted refining margins to US\$3.3/bbl was offset by surprising 14% qoq jump in marketing margins to ₹5,195/ton; segment margins for OMCs have been fairly volatile in the quarters of sharp fluctuation in crude prices. Reported EBITDA at ₹24.2 bn and net income at ₹12.2 bn were boosted by large adventitious gains of ₹14.4 bn across refining and marketing segments, which was partly offset by (1) forex-related loss of ₹9.3 bn and MTM loss of ₹1.2 bn on oil bonds, both accounted in other expenses and (2) lower-than-expected other income, due to low dividend receipts from subsidiaries/JVs. Debt increased sharply to ₹240 bn as on September 30, 2018 from ₹197 bn a quarter ago.

- ▶ **Lower normalized refining margins at US\$3.3/bbl.** Inventory-adjusted refining contribution declined to ₹12.6 bn from ₹15.6 bn in 1QFY19, led by US\$0.9/bbl decline in normalized margins to US\$3.3/bbl. Reported refining margins of US\$5.6/bbl included US\$2.3/bbl of adventitious gains (₹9 bn). Crude throughput declined 2% qoq to 7.6 mn tons.
- ▶ **14% qoq increase in implied marketing margins.** Inventory-adjusted implied marketing contribution increased to ₹55 bn from ₹51.3 bn in 1QFY19, led by sharp 14% qoq increase in realized marketing margins to ₹5,195/ton, well above our expectations.
- ▶ **3% growth in domestic volumes and 2.9% growth in auto fuels, below growth in consumption.** BPCL's domestic volumes grew by 3% yoy to 10.1 mn tons; exports increased to 0.5 mn tons. BPCL's diesel and gasoline sales volumes grew at 2% and 5.2% yoy, both below growth in domestic consumption in the same period.

7% cut in FY2019 EPS estimate; retain REDUCE with a TP of ₹275

We cut standalone EPS estimate by 7% to ₹30.2 (-7%) in FY2019, factoring in (1) lower refining margins, (2) modestly higher marketing margins, (3) adventitious gains and forex loss reported during 1HFY19 and (4) other minor changes. Our FY2020-21 EPS estimates remain largely unchanged. Our fair value remains at ₹275 based on 5X March 2020E EBITDA plus value of investments. We remain cautious on OMCs' earnings under an adverse macro environment underpinned by higher crude prices, which has a bearing on (1) refining margins due to falling Middle-East discounts and rising fuel and loss, (2) marketing profitability due to curtailment of margins on auto fuels and possibility of subsidy sharing on cooking fuels and (3) interest cost due to increase in working capital and debt thereby.

Tarun Lakhota

Exhibit 1: Normalized results were modestly below our expectations led by higher operating costs

Calculation of normalized profitability, 1QFY18 onwards (Rs bn)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	2QFY19E
Gross contribution	53.6	77.1	75.8	84.1	93.7	82.0	80.4
Operating expenses	41.4	41.8	43.9	46.9	55.0	57.8	56.9
Reported EBITDA	12.3	35.3	31.9	37.2	38.8	24.2	23.6
Add: net under-recovery	—	—	—	—	—	—	—
Add: forex-related loss/(gain)	—	0.9	(0.9)	0.1	7.1	9.3	8.5
Add: adventitious loss/(gain)	13.5	(6.8)	(16.0)	(4.5)	(26.8)	(14.4)	(12.4)
Normalized EBITDA	25.7	29.3	15.0	32.8	19.0	19.1	19.7
Other income	6.3	8.0	6.4	9.5	5.5	5.4	7.0
Interest expense	1.8	2.3	2.0	2.2	3.0	3.3	3.2
Depreciation	5.9	6.4	6.8	7.4	7.4	7.6	7.5
Normalized PBT	24.3	28.6	12.7	32.7	14.1	13.7	15.9
Effective tax	8.3	9.7	4.3	11.1	4.8	4.7	5.4
Reported net income	7.4	23.6	21.4	26.7	22.9	12.2	13.6
Normalized adjusted net income	16.0	18.9	8.4	21.6	9.3	9.0	10.5
Normalized adjusted EPS (Rs)	8.2	9.6	4.3	11.0	4.7	4.6	5.3

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Sharp decline in underlying refining margins to US\$3.3/bbl was offset by 14% qoq increase in marketing margins

Calculation of segment-wise contribution, 1QFY18 onwards (Rs bn)

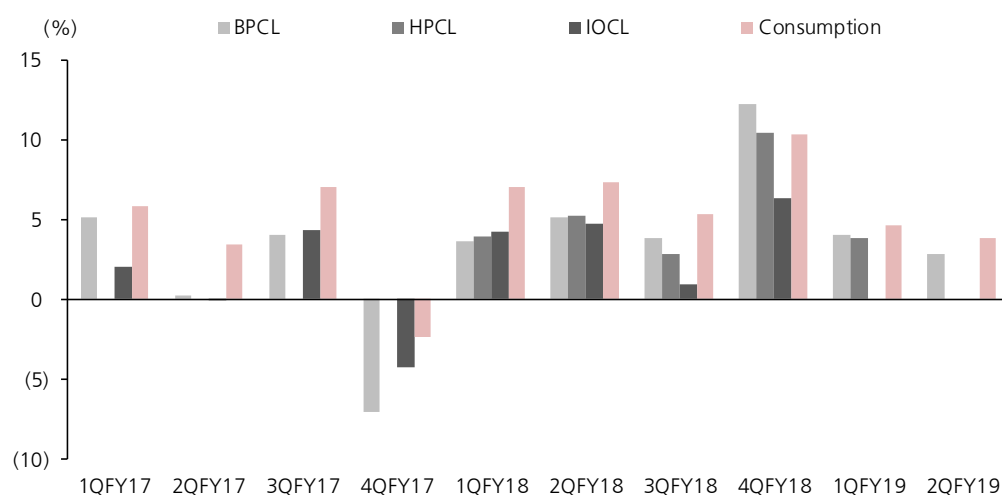
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	2QFY19E
Segment-wise contribution							
Gross contribution	53.6	77.1	75.8	84.1	93.7	82.0	80.4
Add: net under-recovery	—	—	—	—	—	—	—
Add: adventitious loss/(gain)	13.5	(6.8)	(16.0)	(4.5)	(26.8)	(14.4)	(12.4)
Normalized gross contribution	67.1	70.2	59.9	79.6	66.9	67.6	68.0
Refining segment	20.9	21.2	16.8	20.6	15.6	12.6	19.7
Marketing and other segments	46.2	49.0	43.1	59.0	51.3	55.0	48.3
Blended marketing margins (Rs/ton)	4,385	4,726	3,837	5,332	4,552	5,195	4,525
Reported refining margins (US\$/bbl)	4.9	8.0	7.9	6.5	7.5	5.6	6.5
Normalized refining margins (US\$/bbl)	6.9	6.5	4.9	5.6	4.2	3.3	5.0
Crude throughput (mn tons)	6.4	7.0	7.3	7.9	7.7	7.6	7.7
Domestic sales (mn tons)	10.0	9.8	10.7	10.7	11.0	10.1	10.2
Export sales (mn tons)	0.5	0.6	0.6	0.3	0.3	0.5	0.5
Exchange rate (Rs/US\$)	64.5	64.3	64.7	64.4	67.0	70.1	70.1

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Interim results of BPCL, March fiscal year-ends (Rs mn)

	2QFY19	2QFY19E	2QFY18	1QFY19	(% chg.)			yoy			FY2019E
					2QFY19E	2QFY18	1QFY19	1HFY19	1HFY18	(% chg.)	
Net sales	722,918	715,903	533,252	716,967	1.0	35.6	0.8	1,439,886	1,104,510	30.4	3,395,753
Increase/(decrease) in stock	25,245		10,012	23,042				48,287	(14,677)		
Raw material	(309,684)	(302,215)	(174,285)	(286,885)	2.5	77.7	7.9	(596,569)	(345,876)	72.5	(1,235,309)
Trading purchase	(356,494)	(333,239)	(291,928)	(359,387)	7.0	22.1	(0.8)	(715,881)	(613,292)	16.7	(1,847,650)
Staff cost	(9,503)	(8,971)	(8,887)	(8,751)	5.9	6.9	8.6	(18,254)	(16,973)	7.5	(36,883)
Other expenses	(48,288)	(47,919)	(32,888)	(46,235)	0.8	46.8	4.4	(94,522)	(66,166)	42.9	(175,382)
Total expenditure	(698,724)	(692,343)	(497,976)	(678,215)	0.9	40.3	3.0	(1,376,939)	(1,056,984)	30.3	(3,295,224)
EBITDA	24,194	23,559	35,276	38,752	2.7	(31.4)	(37.6)	62,947	47,526	32.4	100,529
Other income	5,380	6,950	8,004	5,480	(22.6)	(32.8)	(1.8)	10,860	14,570	(25.5)	27,170
Interest	(3,276)	(3,205)	(2,348)	(3,018)	2.2	39.5	8.5	(6,295)	(4,137)	52.2	(10,595)
Depreciation	(7,571)	(7,512)	(6,406)	(7,392)	0.8	18.2	2.4	(14,963)	(12,298)	21.7	(29,448)
Pretax profits	18,727	19,792	34,526	33,823	(5.4)	(45.8)	(44.6)	52,550	45,661	15.1	87,656
Extraordinary item	—	—	—	—	—	—	—	—	—	—	—
Current tax	(3,970)	(4,217)	(6,550)	(6,620)				(10,590)	(8,770)	20.8	(20,226)
Deferred tax	(2,570)	(2,017)	(4,402)	(4,270)				(6,840)	(5,872)		(8,069)
Net income	12,187	13,557	23,574	22,933	(10.1)	(48.3)	(46.9)	35,120	31,020	13.2	59,362
Adjusted net income	12,187	13,557	23,574	22,933	(10.1)	(48.3)	(46.9)	35,120	31,020	13.2	59,362
Adjusted EPS (Rs)	6.2	6.9	12.0	11.7				17.9	15.8		30.2
Other comprehensive income	416		2,062	341				758	561		
Total comprehensive income	12,603		25,636	23,274				35,877	31,580		
Tax rate (%)	34.9	31.5	31.7	32.2				33.2	32.1		32.3
Volume data											
Crude throughput (mn tons)	7.6	7.7	7.0	7.7	(1.7)	8.1	(2.2)	15.3	13.4	14.1	30.3
Domestic sales volume (mn tons)	10.1	10.2	9.8	11.0	(1.0)	3.0	(8.1)	21.1	19.8	6.2	44.1
Exports sales volume (mn tons)	0.5	0.5	0.6	0.3	2.0	(12.1)	64.5	0.8	1.1	(23.4)	2.0
Reported refining margin (US\$/bbl)	5.6	6.5	8.0	7.5	(14.3)	(30.1)	(25.6)	6.5	6.5	0.0	5.7
Normalized refining margin (US\$/bbl)	3.3	5.0	6.5	4.2	(33.8)	(49.1)	(20.2)	3.7	6.6	(44.8)	4.3
Implied marketing margins (Rs/ton)	5,195	4,525	4,726	4,552	14.8	9.9	14.1	4,876	4,557	7.0	4,456
Adventitious gain/(loss) - refining	8,960	5,905	4,990	12,750				21,710	(1,180)		21,710
Adventitious gain/(loss) - marketing	5,390	6,503	1,850	14,040				19,430	(5,464)		19,430
Net over-recovery/(under-recovery)	—	—	—	—				—	—		—
Exchange gain/(loss)	(9,302)	(8,535)	(880)	(7,050)				(16,353)	(588)		(16,353)

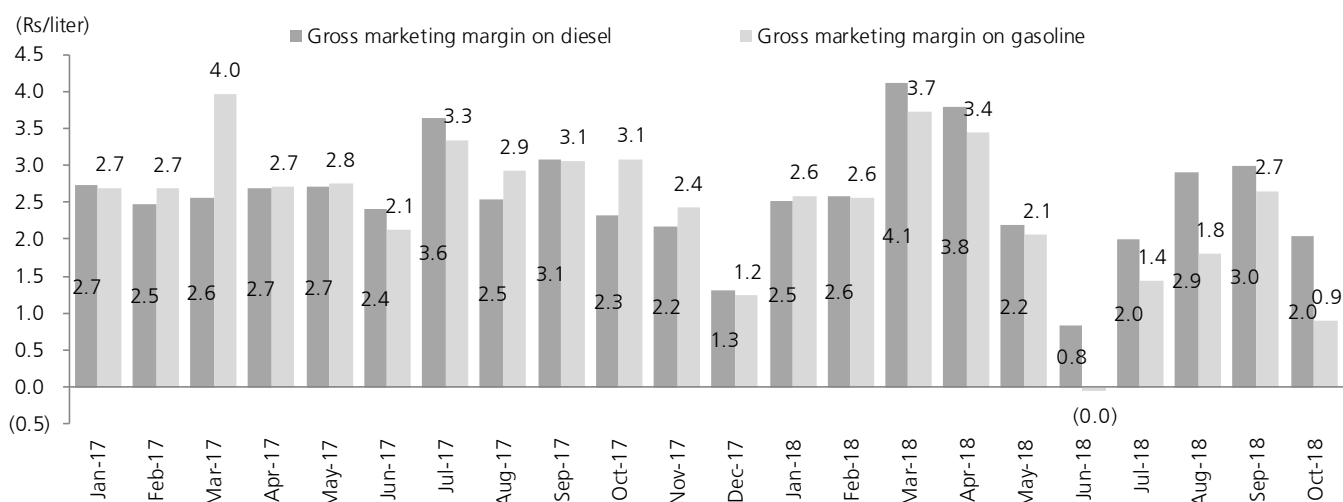
Source: Company, Kotak Institutional Equities estimates

Exhibit 4: BPCL's growth in auto fuels was modestly below domestic consumption during 2QFY19
Growth in auto fuels volumes, 1QFY17 onwards

Source: Companies, PPAC, Kotak Institutional Equities

Exhibit 5: Marketing margins on auto fuels remain curtailed in the recent months

Gross margins on diesel and gasoline, January 2017 onwards (Rs/liter)



Source: Kotak Institutional Equities estimates

Exhibit 6: We have assumed higher refining margins driven by Kochi up-gradation and normal marketing margins in FY2020-21

Key assumptions, March fiscal year-ends, 2014-21E

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Refining assumptions								
Exchange rate (Rs/US\$)	60.5	61.2	65.4	67.1	64.5	69.9	72.0	73.0
Effective tariff protection (%)	2.3	2.4	2.4	2.4	2.3	2.5	2.6	2.6
Crude throughput (mn tons)	23.4	23.4	24.1	25.4	28.5	30.3	30.8	31.0
Net refining margin (US\$/bbl)	4.3	3.6	6.6	5.3	6.9	5.7	6.0	6.2
Refining EBITDA (Rs bn)	27.4	20.0	55.7	43.7	65.1	55.4	60.7	64.3
Marketing assumptions								
Sales volume (mn tons)	37.0	36.7	38.4	40.2	43.2	45.9	47.9	49.9
Marketing margin on auto fuels (Rs/liter)	—	—	1.9	1.8	1.8	1.6	1.8	1.8
Subsidy under-recoveries (Rs mn)	(5,115)	(4,874)	—	—	—	—	—	—
Implied marketing EBITDA (Rs bn)	44.9	52.1	66.6	49.7	50.3	42.1	51.0	56.4

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Earnings sensitivity of BPCL to refining margins and marketing margins, March fiscal year-ends, 2019-21E (Rs mn)

	Fiscal 2019E			Fiscal 2020E			Fiscal 2021E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Refining margins									
Refining margins (US\$/bbl)	4.7	5.7	6.7	5.0	6.0	7.0	5.2	6.2	7.2
Net profits (Rs mn)	49,250	59,362	69,473	54,678	65,298	75,917	59,721	70,597	81,473
EPS (Rs)	25.0	30.2	35.3	27.8	33.2	38.6	30.4	35.9	41.4
% upside/(downside)	(17.0)		17.0	(16.3)		16.3	(15.4)		15.4
Marketing margins									
Auto fuels marketing margin (Rs/liter)	1.1	1.6	2.1	1.3	1.8	2.3	1.3	1.8	2.3
Net profits (Rs mn)	47,777	59,362	70,946	53,215	65,298	77,381	57,989	70,597	83,205
EPS (Rs)	24.3	30.2	36.1	27.1	33.2	39.3	29.5	35.9	42.3
% upside/(downside)	(19.5)		19.5	(18.5)		18.5	(17.9)		17.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: We compute fair value of ₹275 for BPCL

Fair valuation of BPCL, March 2020E (Rs/share)

P/B based valuation		EV/EBITDA based valuation	
Refining and marketing business (Rs bn)		Refining and marketing business (Rs bn)	
March 2019E book value	372	March 2020E standalone EBITDA	112
Less: investments valued separately	112	EV/EBITDA (X)	5.0
March 2019E adjusted book value	260	EV of refining and marketing business (Rs bn)	558
March 2019E adjusted BVPS (Rs)	132	EV of refining and marketing business (Rs) (A)	284
P/B multiple (X)	1.3	Investments (Rs bn)	
Value of refining and marketing business (Rs) (A)	172	Numaligarh Refinery	66
Investments (Rs bn)		Petronet LNG	42
Numaligarh Refinery	66	Indraprastha Gas	30
Petronet LNG	42	Oil India Ltd	3
Indraprastha Gas	30	Others	58
Oil India Ltd	3	Value of investments (Rs bn)	198
Others	58	Value of investments (Rs) (B)	101
Value of investments (Rs bn)	198	Net debt (Rs bn)	215
Value of investments (Rs) (B)	101	Net debt (Rs) (C)	110
Total equity value (A) + (B)	273	Total equity value (A) + (B) - (C)	275

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2014-21E (Rs mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)								
Net sales	2,600,605	2,380,869	1,884,046	2,022,106	2,363,131	3,395,753	3,298,217	3,248,503
EBITDA	80,862	76,567	110,246	113,193	116,689	100,529	111,669	120,708
Other income	14,687	22,000	17,762	26,007	30,109	27,170	28,020	28,370
Interest	(13,591)	(5,831)	(5,652)	(4,959)	(8,333)	(10,595)	(10,663)	(10,098)
Depreciation	(22,468)	(25,160)	(18,446)	(18,913)	(26,485)	(29,448)	(32,377)	(34,302)
Pretax profits	59,490	67,576	103,910	115,328	111,980	87,656	96,649	104,677
Extraordinary items	—	6,579	—	(4,900)	—	—	—	—
Current tax	(21,829)	(19,836)	(26,987)	(20,988)	(18,468)	(20,226)	(24,493)	(28,146)
Deferred tax	2,948	(3,474)	(6,360)	(9,047)	(14,318)	(8,069)	(6,858)	(5,933)
Adjusted net profits	40,609	46,334	70,564	83,960	79,194	59,362	65,298	70,597
Adjusted EPS (Rs)	20.6	23.6	35.9	42.7	40.3	30.2	33.2	35.9
Balance sheet (Rs mn)								
Total equity	194,588	224,675	273,230	296,684	341,520	372,303	406,165	442,774
Deferred taxation liability	13,609	17,083	35,118	36,182	50,924	58,993	65,851	71,784
Total borrowings	203,298	130,976	158,575	231,592	233,507	255,507	249,007	243,507
Current liabilities	312,780	324,555	286,651	355,439	376,274	452,911	450,518	449,506
Total liabilities and equity	724,274	697,289	753,574	919,896	1,002,225	1,139,714	1,171,539	1,207,571
Cash	2,038	13,602	20,674	647	881	2,193	671	286
Current assets	382,722	279,968	246,069	342,637	369,285	458,862	446,687	438,851
Total fixed assets	221,046	279,807	358,721	430,598	473,852	518,450	561,973	604,226
Investments	118,469	123,911	128,110	146,015	158,208	160,208	162,208	164,208
Total assets	724,274	697,289	753,574	919,896	1,002,225	1,139,714	1,171,539	1,207,571
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	62,232	58,016	86,450	79,658	92,074	68,951	75,461	81,120
Working capital changes	7,086	117,160	7,522	(8,441)	(10,640)	(12,941)	9,782	6,825
Capital expenditure	(47,439)	(80,349)	(93,246)	(89,824)	(69,154)	(73,289)	(74,849)	(75,212)
Investments	(6,527)	(9,092)	26	(29,314)	(59)	(2,000)	(2,000)	(2,000)
Other income	11,107	10,351	13,338	17,836	21,718	27,170	28,020	28,370
Free cash flow	26,459	96,085	14,090	(30,086)	33,938	7,891	36,414	39,102
Ratios (%)								
Debt/equity	104.5	58.3	58.0	78.1	68.4	68.6	61.3	55.0
Net debt/equity	103.4	52.2	50.5	77.8	68.1	68.0	61.1	54.9
RoAE	20.8	22.6	25.7	25.1	21.8	14.4	14.5	14.3
RoACE	12.0	12.8	17.7	17.0	14.3	10.1	10.3	10.5

Source: Company, Kotak Institutional Equities estimates

OCTOBER 30, 2018

RESULT

 Coverage view: **Cautious**

 Price (₹): **1,102**

 Target price (₹): **1,185**

 BSE-30: **34,067**

Encouraging volume print but sustenance the key. CLGT's 2QFY19 print was broadly on expected lines—in-line revenues and slightly-below-estimate margins leading to a marginal miss on PAT. Aggressiveness on volumes and market share revival was a much-needed step and recent in-market actions are encouraging. Expectations are low and valuations reasonable; not many stocks in the sector offer this combination. Maintain ADD with a revised TP of ₹1,185 (₹1,120 earlier).

Company data and valuation summary

Colgate-Palmolive (India)

Stock data		Forecasts/Valuations		2019E	2020E	2021E
52-week range (Rs) (high,low)	1,270-1,006	EPS (Rs)		27.5	31.7	36.8
Market Cap. (Rs bn)	299.7	EPS growth (%)		15.6	15.4	16.1
Shareholding pattern (%)		P/E (X)		40.1	34.8	29.9
Promoters	51.0	Sales (Rs bn)		45.3	51.1	57.4
FIs	11.5	Net profits (Rs bn)		7.5	8.6	10.0
MFs	6.8	EBITDA (Rs bn)		12.6	14.4	16.5
Price performance (%)		EV/EBITDA (X)		23.2	20.1	17.4
Absolute	1M 3M 12M	ROE (%)		46.3	46.9	47.4
	1.9 (0.0) 5.1	Div. Yield (%)		1.5	1.7	2.1
Rel. to BSE-30	8.4 9.6 2.3					

2QFY19—in-line performance

Colgate reported in-line net operating revenues of ₹11.7 bn (+8% yoy) on the back of a healthy 7% volume growth print. Price/mix growth was lower than our expectations. Two-year volume CAGR stood at a still-modest (but improving) 3%. Slight miss in gross margin (64.8% versus KIE: 65.0%) and higher-than-expected other expenditure (+14% yoy) led to a 2% miss on EBITDA—reported EBITDA stood at ₹3.3 bn (+10% yoy; similar two-year CAGR). EBITDA margins expanded 50 bps yoy to 28.2% (KIE: 28.7%). Impact of miss in other income was offset by lower depreciation. Lower-than-expected ETR of 34.2% narrowed the miss on net profit to just 1%; recurring PAT grew 11% yoy to ₹1.96 bn (KIE: ₹1.98 bn; consensus: ₹2.01 bn). Recurring EPS stood at ₹7.2/share. 1HFY19 revenue, EBITDA and PAT growth stood at 7%, 17% and 19%, respectively; recurring EPS stood at ₹13.3/share.

Encouraging volume growth print was too soon to call out inflection

CLGT reported volume growth of 7% yoy for 2QFY19, good for a 3% two-year CAGR. Even as the 3% two-year CAGR on volume is modest in itself, it is the highest two-year volume growth CAGR reported by the company since the Sep 2016 quarter. Too soon to call out inflection but our channel checks do suggest that CLGT may have started growing in line with the market in the past few months. Nielsen data points, reported by the company in its earnings press releases, suggest stability in MAT market share at around 52.5%. Toothbrush market share stayed steady in the mid-40s.

Commentary in the press release appears incrementally more positive than it has appeared in a while. Actions in the market place too seem a lot more purposeful after a long time. The company finally seems confident of its challenger product (Swarna Vedshakti) in the naturals segment and is putting all its marketing and distribution muscle behind the brand. Early results and checks in the market are encouraging.

Retain ADD with increased TP of ₹1,185/share—attractive on a sector-relative basis

We tweak our forecasts marginally. At ~35X FY2020E, CLGT offers decent risk-reward, in our view—a combination of low expectations and reasonable valuations. Retain ADD with a revised DCF-based fair value target of ₹1,185/share (₹1,120/share earlier).

Rohit Chordia

Jaykumar Doshi

Aniket Sethi

Exhibit 1: Interim results of Colgate Palmolive India (as per Ind-AS), March fiscal year-ends (Rs mn)

	2QFY19	2QFY19E	2QFY18	4QFY18	(% chg)			1HFY19	1HFY18	(% chg)
					KIE Est	yoy	qoq			
Net sales	11,606	11,642	10,780	10,336	(0)	8	12	21,942	20,474	7
Other operating income	74	75	69	78	(1)	7	(5)	152	156	(3)
Net operating revenues	11,680	11,717	10,849	10,413	(0)	8	12	22,093	20,630	7
Material cost	(4,115)	(4,101)	(3,970)	(3,550)	0	4	16	(7,665)	(7,553)	1
Gross profit	7,565	7,616	6,879	6,863	(1)	10	10	14,429	13,077	10
Gross margin (%)	64.8	65.0	63.4	65.9	-24 bps	135 bps	-115 bps	65.3	63.4	192 bps
Total expenditure	(4,269)	(4,254)	(3,873)	(4,048)	0	10	5	(8,317)	(7,852)	6
Staff cost	(764)	(840)	(823)	(749)	(9)	(7)	2	(1,513)	(1,551)	(2)
Advertising & sales promotion	(1,389)	(1,371)	(1,192)	(1,435)	1	17	(3)	(2,825)	(2,626)	8
Other expenditure	(2,116)	(2,043)	(1,858)	(1,863)	4	14	14	(3,979)	(3,676)	8
EBITDA	3,296	3,362	3,006	2,816	(2)	10	17	6,112	5,224	17
OPM (%)	28.2	28.7	27.7	27.0	-48 bps	50 bps	117 bps	27.7	25.3	233 bps
Other income	86	100	89	92	(14)	(2)	(6)	178	213	(16)
Depreciation	(398)	(415)	(392)	(394)	(4)	2	1	(792)	(765)	4
Pretax profits	2,984	3,047	2,703	2,514	(2)	10	19	5,497	4,673	18
Tax	(1,020)	(1,066)	(945)	(847)	(4)	8	20	(1,867)	(1,629)	15
Recurring net income	1,964	1,980	1,758	1,666	(1)	12	18	3,630	3,044	19
Extraordinaries	—	—	18	229				229	96	
Reported profits	1,964	1,980	1,776	1,895	(1)	11	4	3,859	3,140	23
Income tax rate (%)	34.2	35.0	34.7	30.9	-82 bps	-55 bps	329 bps	32.6	34.2	156 bps
Recurring EPS (Rs/share)	7.2	7.3	6.5	6.1	(1)	12	18	13.3	11.2	19
Cost as a % of Net op revenues										
Material cost	35.2	35.0	36.6	34.1	23 bps	-136 bps	114 bps	34.7	36.6	-193 bps
Staff cost	6.5	7.2	7.6	7.2	-63 bps	-105 bps	-66 bps	6.8	7.5	-67 bps
Advertising & sales promotion	11.9	11.7	11.0	13.8	19 bps	90 bps	-189 bps	12.8	12.7	5 bps
Other expenditure	18.1	17.4	17.1	17.9	67 bps	99 bps	22 bps	18.0	17.8	19 bps

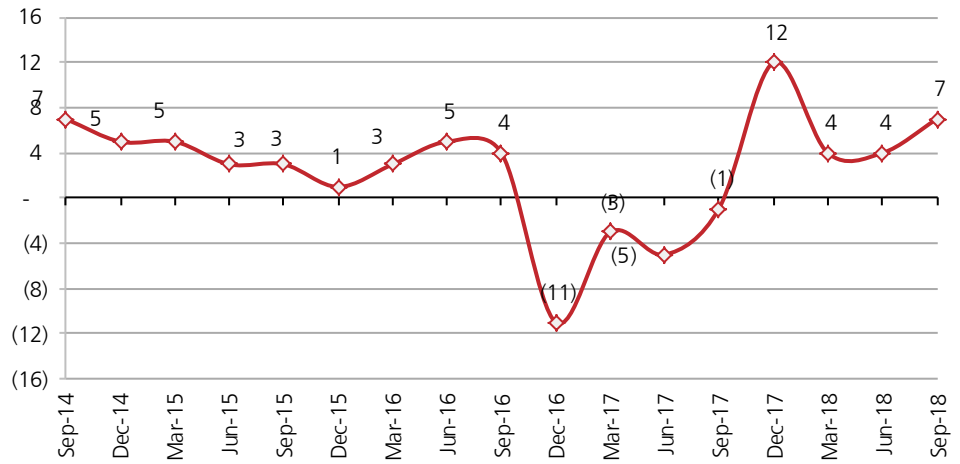
Source: Company, Kotak Institutional Equities

Exhibit 2: Key changes to estimates (as per Ind-AS), Colgate, March fiscal year-ends, 2019-21E

	Revised			Earlier			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Net operating revenues (Rs mn)	45,262	51,071	57,395	45,258	51,067	57,239	0.0	0.0	0.3
EBITDA (Rs mn)	12,633	14,420	16,504	12,681	14,448	16,464	(0.4)	(0.2)	0.2
EBITDA margin (%)	27.9	28.2	28.8	28.0	28.3	28.8			
Net income (Rs mn)	7,476	8,625	10,011	7,417	8,573	9,902	0.8	0.6	1.1
Recurring EPS (Rs/share)	27.5	31.7	36.8	27.3	31.5	36.4	0.8	0.6	1.1

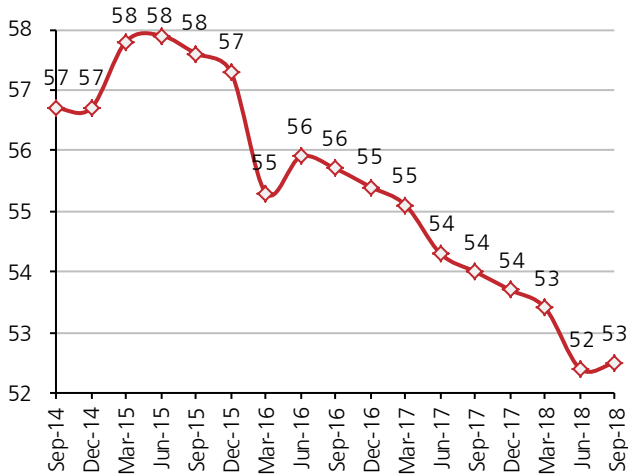
Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Overall volumes up 7% yoy; 2-year CAGR of 3%
 Quarterly overall volume growth trend (%)



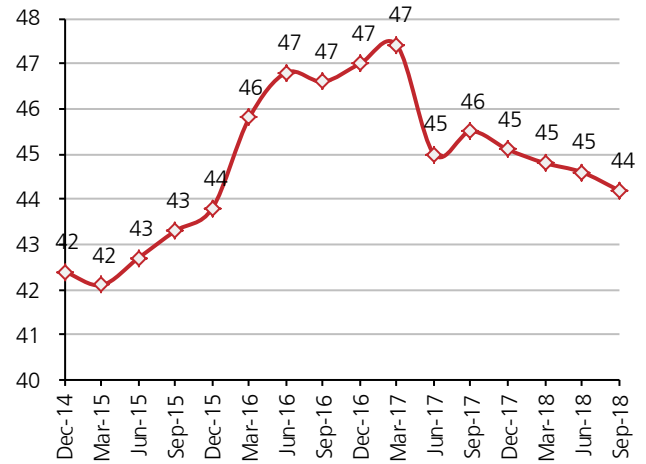
Source: Company

Exhibit 4: Toothpaste market share up 10 bps qoq
 Quarterly toothpaste market share trend (%)



Source: Company, Kotak Institutional Equities

Exhibit 5: Toothbrush market share down 40 bps qoq
 Quarterly toothbrushes market share trend (%)



Source: Company, Kotak Institutional Equities

Exhibit 6: Colgate: Profit model, balance sheet and cash flow (based on Ind-AS), 2015-21E, March fiscal year-ends (Rs mn)

	IGAAP			Ind-AS			
	2015	2016	2017	2018	2019E	2020E	2021E
Profit model							
Net sales	39,548	38,381	39,515	41,594	44,973	50,753	57,044
Other operating income	272	301	304	285	290	319	350
Net operating revenues	39,819	38,682	39,818	41,880	45,262	51,071	57,395
EBITDA	8,222	9,385	9,435	11,124	12,633	14,420	16,504
Other income	332	395	411	388	391	554	787
Interest	—	—	—	—	—	—	—
Depreciation	(750)	(1,114)	(1,332)	(1,565)	(1,610)	(1,806)	(2,006)
Pretax profits	7,804	8,666	8,514	9,947	11,414	13,168	15,284
Tax	(2,214)	(2,541)	(2,902)	(3,480)	(3,938)	(4,543)	(5,273)
PAT	5,590	6,125	5,613	6,467	7,476	8,625	10,011
Extraordinary items	—	(313)	162	267	229	—	—
Reported Net profit	5,590	5,812	5,774	6,734	7,705	8,625	10,011
Earnings per share (Rs)	20.6	22.5	20.6	23.8	27.5	31.7	36.8
Balance sheet							
Total equity	7,703	10,310	12,738	15,246	17,058	19,709	22,519
Total borrowings	—	—	—	—	—	—	—
Deferred tax liabilities (net)	26	97	275	355	355	355	355
Total liabilities and equity	7,729	10,407	13,013	15,601	17,413	20,064	22,874
Net fixed assets (Incl CWIP)	9,228	10,865	12,747	13,045	12,895	13,133	13,342
Investments	371	312	312	312	312	312	312
Cash	2,545	2,887	2,943	4,562	6,780	9,599	12,656
Net current assets (excl cash)	(4,414)	(3,656)	(2,989)	(2,317)	(2,573)	(2,980)	(3,435)
Total assets	7,729	10,407	13,013	15,601	17,413	20,064	22,874
Free cash flow							
Operating cash flow (excl working capit.	6,333	6,732	6,569	7,828	8,923	9,877	11,230
Working capital	49	156	311	(889)	256	407	455
Capital expenditure	(2,994)	(2,713)	(3,212)	(2,087)	(1,460)	(2,044)	(2,215)
Free cash flow	3,387	4,175	3,668	4,852	7,719	8,240	9,471
Key assumptions, growth (%)							
Net operating revenue growth	11.3	(2.9)	2.9	5.2	8.1	12.8	12.4
EBITDA growth	23.8	14.1	0.5	17.9	13.6	14.1	14.5
EPS growth	13.9	9.6	(8.4)	15.2	15.6	15.4	16.1
EBITDA margin (%)	20.6	24.3	23.7	26.6	27.9	28.2	28.8
Gross margin (%)	63.1	61.8	62.9	64.4	65.5	65.1	65.3
A&SP (% of sales)	17.9	11.6	12.9	12.6	13.0	12.8	12.7
Tax rate (% of PBT)	28.4	29.3	34.1	35.0	34.5	34.5	34.5
Ratios (%)							
ROE (%)	81.6	68.0	48.7	46.2	46.3	46.9	47.4
ROCE (%)	103.6	87.3	67.9	65.7	65.9	66.5	66.7

Source: Company, Kotak Institutional Equities estimates

OCTOBER 30, 2018
RESULT

Coverage view: **Attractive**

Price (₹): **78**

Target price (₹): **90**

BSE-30: **34,067**

Mundra takes center stage. A validation of the recommendations of the high powered committee for compensation of fuel cost under-recovery at Mundra, dwarfed the outcome of quarterly earnings. TPWR's earnings continue to benefit from rising prices of imported coal, with blended realizations for coal business improving to US\$69/ton. Improving earnings trajectory, coupled with de-leveraging from sale of non-core assets and potential resolution of under-recovery at Mundra lead to our positive stance. Maintain BUY rating with target price of Rs90/share.

Company data and valuation summary

Tata Power

Stock data

52-week range (Rs) (high,low) 102-60

Market Cap. (Rs bn) 209.9

Shareholding pattern (%)

Promoters 33.0

Fls 27.5

MFs 6.8

Price performance (%)

Absolute 1M 3M 12M

Rel. to BSE-30 25.3 18.4 (11.2)

Forecasts/Valuations

	2019E	2020E	2021E
EPS (Rs)	6.3	6.9	9.7
EPS growth (%)	17.0	10.6	39.7
P/E (X)	12.4	11.2	8.0
Sales (Rs bn)	306.7	318.8	335.4
Net profits (Rs bn)	16.9	18.7	26.1
EBITDA (Rs bn)	61.3	56.3	54.2
EV/EBITDA (X)	9.8	10.0	9.4
ROE (%)	10.5	10.5	13.0
Div. Yield (%)	0.0	0.0	0.0

Supreme Court validates a potential resolution on Mundra

As per unconfirmed media reports, the Supreme Court has validated the process of amending the power purchase agreement and referred the same to CERC to be ratified within a period of eight weeks. Assuming that the charge for lenders' waivers (Rs0.2/kwh) is borne by TPWR the profits per unit from the coal business are Rs0.3/kwh (50% of the attributable coal profits), the compensation works out to Rs0.35/kwh (Rs8.7 bn or Rs3.2/share) on 25 BU of net generation.

The high powered committee constituted by the state of Gujarat had recommended an equitable distribution of the burden, on account of the change in Indonesian laws that has led to Mundra UMPP making cumulative losses of Rs82 bn and with Tata Power having contributed Rs116 bn of equity towards the project. HPC recommended (1) pass through of fuel cost with a cap at US\$110/ton on a prospective basis, (2) reduction in capacity charge by Rs0.2/kwh by waiver on debt by the lenders (Rs42 bn on debt of Rs112 bn). In lieu of the increased fuel charge (partly compensated by capacity charge reduction) the consumers get (1) the option to extend the PPA by another ten years on current terms, (2) increase in the normative plant availability to 90% (from 80%) and (3) sharing of profits on incremental coal supplied from Indonesian mines to the power plant. HPC is of the view that CGPL's tariff even after the increased fuel cost is much lower than the current market price of power as well as tariffs offered under long-term PPA.

Higher interest cost, losses at Mundra lead to modest consolidated earnings

Tata Power's consolidated earnings were aided by contribution from coal and infra companies at Rs24 bn (15% yoy) off-set by losses of Rs4.6 bn at Mundra (Rs4.3 bn in 1QFY19) that were sequentially higher on account of lagged indexation of tariffs. Overall interest cost increased 5% yoy to Rs10.3 bn due to (1) an increase in working capital at Mundra and Maithon, (2) conversion of CP to long-term debt and (3) debt taken for the addition of 301 MW of renewable capacities.

Maintain BUY rating with target price of Rs90/share

Strong coal earnings and stable performance of regulated assets aside, continued asset sale of non-core investments could help de-leverage the balance sheet while potential resolution on the under-recovery of fuel cost at Mundra carries a large option value (Rs25/share). Maintain BUY rating and PT of Rs90/share.

Murtuza Arsiwalla

Samrat Verma

Realization contained due to DMO, fuel cost under-recovery at Mundra

Rising coal prices have boosted the earnings from coal mines in Indonesia, with the share of attributable profit for TPWR increasing 11% yoy to Rs42.6 bn. The improvement was price led, with net realizations growing 3% yoy to US\$69/ton though volumes declined by 11% yoy. Correspondingly losses at Mundra increased 66% yoy to Rs46.3 bn, with fuel cost under-recovery rising to Rs0.83/kwh from Rs0.7/kwh in 2QFY18.

Prior period revenues boost standalone earnings

Tata Power reported standalone revenues of Rs19.2 bn (KIE Rs19.5 bn) and PAT of Rs2.6 bn (KIE Rs1.7 bn). Higher-than-estimated revenues were on account of receipt of true up tariff of Rs920 mn for the years FY2015 and FY2016. Generation for the standalone business stood at 3.4 BU (KIE: 3.2 BU) with average realization of Rs5.9/unit. TPWR is currently in talks with BEST for extension of contract with Trombay generation unit for another five years.

Maithon—decline in earnings due to lower plant availability

Maithon reported revenues of Rs6.15 bn, a decline of 5% yoy due to lower PAF of 72% (PLF of 69%) resulting in net generation for the quarter at 1.6 BU (2.1 BU in 2QFY18). An increase in realization to Rs4.1/unit in 2QFY19 (Rs3.2/unit in 2QFY18) could not contain the increase in the cost of production which stood at Rs3.04/unit in 2QFY19 (Rs2.24/unit in 2QFY18) resulting in EBITDA decline of 20% yoy to Rs1.6 bn in 2QFY19 from Rs2 bn in 2QFY18. Regulated equity for Maithon plant stands at Rs14 bn as of 2QFY19.

Mundra UMPP—higher interest cost due to refinancing

Mundra UMPP reported negative EBITDA for the quarter as increase in fuel cost to Rs2.93/unit due to increase in imported coal prices and currency depreciation (US\$ 65/ton in 2QFY19) surpassed realizations which were at Rs2.9/unit in 2QFY19. Consequently, fuel cost under-recovery increased 19% yoy to Rs0.83/unit. Lower plant availability at 71% (81% in 2QFY18) during the quarter resulted in a 15% yoy decline in generation to 6 BU from 7 BU in 2QFY18. Interest cost for the quarter remained high at Rs2.9 bn due to refinancing of US\$ 770 mn foreign currency loans to INR bonds and loans in CGPL.

Exhibit 1: Higher contribution from coal was off-set by losses at Mundra

Interim results for Tata Power (consolidated), March fiscal year-ends (Rs mn)

	2QFY19	2QFY19E	2QFY18	1QFY19	(% Chg.)			1HFY19	1HFY18	(% chg.)	FY2019E	FY2018	(% chg.)
					vs est.	yoy	qoq						
Net sales	72,341	79,410	73,932	71,386	(9)	(2)	1	143,728	141,181	2	306,730	289,214	6
Employee cost	(3,413)	(4,104)	(3,908)	(3,341)				(6,753)	(7,243)		(14,510)	(13,819)	
Cost of power purchased	(17,060)	(27,118)	(21,901)	(17,283)				(34,343)	(40,855)		(87,575)	(80,042)	
Cost of fuel	(26,532)	(26,379)	(25,292)	(25,578)				(52,111)	(46,550)		(108,291)	(100,099)	
Cost of raw material and components	(2,718)	(146)	(950)	(3,358)				(6,076)	(2,441)				
Other expenditure	(6,345)	(6,742)	(6,025)	(5,867)				(12,211)	(12,361)		(35,091)	(35,782)	
EBITDA	16,274	14,921	15,856	15,960	9	3	2	32,234	31,730	2	61,262	59,471	3
Depreciation	(6,106)	(6,122)	(5,900)	(6,006)				(12,112)	(11,757)		(25,193)	(23,981)	
EBIT	10,168	8,799	9,956	9,954				20,122	19,974		36,069	35,490	
Other income	1,046	1,336	1,331	898				1,944	1,644		3,844	4,327	
Net interest	(10,344)	(8,942)	(9,814)	(10,130)				(20,474)	(19,100)		(36,801)	(37,230)	
PBT	869	1,193	1,474	722	(27)	(41)	20	1,592	2,517	(37)	3,112	2,587	20
Tax	(935)	(537)	(1,553)	(1,553)				(2,488)	(4,183)		(5,212)	(1,643)	
Minority interest and share of associates	3,755	4,110	3,909	3,047				6,802	7,133		19,014	13,514	
Net profit	3,690	4,766	3,830	2,216	(23)	(4)	67	5,905	5,467	8	16,914	14,458	17
Extraordinary	(329)	—	(1,488)	14,493				14,164	(1,488)		14,164	10,308	
Reported profit	3,361	4,766	2,342	16,709	(29)	44	(80)	20,069	3,979	404	31,078	24,766	25
EPS (Rs/share)	1.4	1.8	1.4	0.8				2.2	2.0		6.3	5.3	
EBITDA margin (%)	22	19	21	22				22	22		20	21	
Effective tax rate (%)	108	45	105	215				156	166		167	64	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Coal earnings were impacted by domestic market obligation, losses at Mundra were due to interest cost
Subsidiary-wise key financial and operational metrics (Rs mn)

	2QFY19	2QFY18	1QFY19	(% Chg.)		1HFY19	1HFY18	(% chg.)	FY2019E	FY2018	(% chg.)
				(yoy)	(qoq)						
Tata Power (Standalone)											
Net sales	19,218	18,206	18,440	6	4	37,658	37,362	1	74,044	73,006	1
EBITDA	6,668	6,288	5,720	6	17	12,388	12,208	1	24,412	23,581	4
PAT	2,983	1,635	2,374	82	26	5,357	3,517	52	9,488	13,586	(30)
Regulated equity	37,880	38,120	37,930	(1)	(0)	37,905	37,975	(0)	38,589	37,647	3
Tata Power Delhi Distribution											
Net sales	20,330	19,410	20,280	5	—	40,610	36,860	10	76,029	69,297	10
EBITDA	2,480	2,080	2,690	19	(8)	5,170	4,780	8	10,070	10,097	(0)
PAT	820	210	940	290	(13)	1,760	1,050	68	3,523	3,435	3
Regulated equity	13,600	12,250	13,480	11	1	13,540	12,190	11	13,620	12,720	7
Coastal Gujarat Power Ltd (Mundra UMP)											
Net sales	16,240	16,900	15,530	(4)	5	31,770	28,560	11	71,706	63,568	13
EBITDA	(160)	1,140	180	(114)	(189)	20	200	(90)	2,067	(987)	(309)
PAT	(4,630)	(2,790)	(4,320)	66	7	(8,950)	(7,100)	26	(12,920)	(17,213)	(25)
Sales (MU)	5,520	6,468	5,434	(15)	2	10,954	11,344	(3)	25,176	24,582	2
Realization (Rs/kwh)	2.9	2.6	2.7	11	7	2.8	2.5	12	2.8	2.5	14
Cost of Production (Rs/kwh)	2.9	2.4	2.4	20	22	2.7	2.5	6	2.8	2.5	9
EBITDA incl. other income (Rs/kwh)	(0.0)	0.2	0.0	(116)	(188)	0.0	(0.0)	(125)	0.1	(0.0)	(304)
Maithon Power Ltd											
Net sales	6,150	6,460	6,460	(5)	(5)	12,610	12,660	(0)	24,085	22,704	6
EBITDA	1,600	2,000	1,850	(20)	(14)	3,450	4,080	(15)	7,264	6,451	13
PAT	400	680	630	(41)	(37)	1,030	1,440	(28)	2,589	1,817	43
Sales (MU)	1,498	1,992	1,842	(25)	(19)	3,340	3,834	(13)	6,985	6,985	—
Realization (Rs/kwh)	4.1	3.2	3.5	27	17	3.8	3.3	15	3.4	3.3	6
Cost of Production (Rs/kwh)	3.0	2.2	2.5	36	21	2.8	2.2	24	2.4	2.3	3
EBITDA (Rs/kwh)	1.1	1.0	1.0	6	6	1.0	1.1	(3)	1.0	0.9	13
Coal											
KPC											
Volumes (mn tons)	13	15	14	(11)	(7)	27	29	(7)	58	57	2
Realizations (US\$/ton)	69	67	65	3	7	67	66	2	73	68	7
COGS (US\$/ton)	35	33	36	7	(4)	35	33	8	38	35	10
Gross profit (US\$/ton)	25	26	20	(5)	23	22	24	(9)	25	25	—
Coal + Infra											
Net sales	24,890	21,830	20,760	14	20	45,650	42,240	8	91,692	86,410	6
EBITDA	9,000	7,640	6,010	18	50	15,010	14,000	7	34,889	28,890	21
PAT	4,690	3,830	2,830	22	66	7,520	7,070	6	17,635	14,230	24
TPREL											
Capacity (MW)	724	448	724	62	—	724	436	66	724	624	16
Generation (MU)	409	223	365	83	12	774	459	69	1,205	847	42
Tariff (Rs/kwh)	4.9	6.0	5.4	(18)	(9)	5.2	6.1	(15)	6.3	6.0	5
Net sales	1,950	1,340	1,780	46	10	3,730	2,760	35	7,628	4,944	54
EBITDA	1,780	1,170	1,610	52	11	3,390	2,460	38	6,977	4,409	58
PAT	390	900	710	(57)	(45)	1,100	1,480	(26)	3,399	2,014	69
WREL											
Capacity (MW)	1,008	1,153	1,153	(13)	(13)	1,081	1,153	(6)	1,153	1,153	—
Generation (MU)	417	385	491	8	(15)	908	854	6	1,717	1,688	2
Tariff (Rs/kwh)	7.0	7.1	7.1	(1)	(1)	7.0	7.1	(1)	7.0	7.0	—
Net sales	2,910	2,720	3,470	7	(16)	6,380	6,040	6	12,069	11,865	2
EBITDA	2,650	2,490	3,240	6	(18)	5,890	5,590	5	10,981	10,829	1
PAT	540	700	1,010	(23)	(47)	1,550	1,270	22	2,669	2,325	15

Source: Company, Kotak Institutional Equities

Exhibit 3: Receipt of prior period regulatory increased revenues for standalone business
Interim results for Tata Power (standalone), March fiscal year-ends (Rs mn)

	2QFY19	1QFY19E	2QFY18	1QFY19	(% Chg.)			1HFY19	1HFY18	(% chg.)	FY2019E	FY2018	(% chg.)
					KIE	yoy	qoq						
Net sales	19,218	18,334	18,206	18,440	5	6	4	37,658	37,362	1	74,044	73,006	1
Cost of electrical energy purchased	(767)	(1,062)	(855)	(1,491)				(2,258)	(2,323)		(3,193)	(4,121)	
Cost of fuel	(7,592)	(7,611)	(6,674)	(7,349)				(14,941)	(13,280)		(29,325)	(27,764)	
Personnel costs, other expenses and provisions	(4,191)	(4,223)	(4,389)	(3,880)				(8,071)	(9,551)		(17,115)	(17,541)	
Total expenses	(12,550)	(12,896)	(11,918)	(12,720)				(25,270)	(25,154)		(49,633)	(49,425)	
EBITDA	6,668	5,439	6,288	5,720	23	6	17	12,388	12,208	1	24,412	23,581	4
Depreciation	(1,578)	(1,626)	(1,684)	(1,571)				(3,149)	(3,315)		(6,598)	(6,632)	
EBIT	6,521	5,793	6,415	6,178				12,699	12,614		25,981	26,242	
Other income	1,431	1,980	1,810	2,029				3,460	3,722		8,167	9,293	
Net interest	(3,328)	(3,512)	(3,966)	(3,441)				(6,769)	(7,393)		(13,816)	(14,314)	
PBT	3,192	2,282	2,448	2,738	40	30	17	5,930	5,221	14	12,165	11,928	2
Tax	(209)	(570)	(813)	(363)				(573)	(1,704)		(2,676)	1,658	
Net profit	2,983	1,711	1,635	2,374	74	82	26	5,357	3,517	52	9,488	13,586	(30)
Extraordinary	(329)	—	(1,132)	8,963				8,634	(1,132)		8,634	45,091	
Reported PAT after statutory appropriation	2,654	1,711	503	11,338	55	427	(77)	13,991	2,386	486	18,123	58,678	(69)
EPS (Rs/share)	1.1	0.6	0.6	0.9				2.0	1.3		3.5	5.0	
EBITDA margin (%)	35	30	35	31				33	33		33	32	
Effective tax rate (%)	7	25	33	13				10	33		22	(14)	
Key operating parameters													
Units generated (MU)	3,378	3,179	3,288	3,034	6	3	11	6,412	6,575	(2)	12,391	12,237	1
Units sold (MU)	3,182	3,056	3,219	3,205	4	(1)	(1)	6,387	6,650	(4)	14,454	12,258	18
Per unit price realization (Rs)	5.9	6.0	5.4	5.6	(1)	10	5	5.8	5.3	9	0.0	5.8	(100)
Fuel cost per unit sold (Rs)	2.8	2.8	2.4	2.8	(0)	18	(0)	2.8	2.3	21	2.7	2.6	4

Source: Company, Kotak Institutional Equities

Exhibit 4: Tata Power sum-of-the-parts valuation

		Methodology	Multiple	Ownership	Value	
			(X)	(%)	(Rs mn)	(Rs/share)
Mumbai	Distribution	P/B	1.5	100	59,102	22
Delhi	Distribution	P/B	1.5	51	10,962	4
Tala	Transmission	DCF		51	2,178	1
Mundra	Generation	DCF		100	(121,539)	(45)
Maithon	Generation	DCF		74	8,818	3
IEL	Generation	DCF		74	8,289	3
Renewable	Generation	EV/EBITDA	8	100	9,281	3
Coal	Coal	EV/EBITDA	6	30	175,266	65
Solar	Equipment	EV/EBITDA	6	100	4,861	2
Investments					86,466	32
Total					243,683	90

Source: Kotak Institutional Equities estimates

Exhibit 5: Change in estimates for Tata Power, March fiscal year-ends, 2019-20E (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues	306,730	318,756	335,442	309,310	318,668	330,756	(0.8)	0.0	1.4
EBITDA	61,262	56,302	54,203	56,198	54,663	56,677	9.0	3.0	(4.4)
Net profit	16,914	18,698	26,128	16,293	18,836	29,574	3.8	(0.7)	(11.7)

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Tata Power: Profit model, balance sheet, cash model (consolidated), March fiscal year-ends, 2016-21E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)						
Net sales	285,257	272,883	289,214	306,730	318,756	335,442
EBITDA	61,718	52,372	59,471	61,262	56,302	54,203
Other income	913	2,022	4,327	3,844	9,610	17,630
Interest	(32,358)	(31,140)	(37,230)	(36,801)	(36,102)	(34,678)
Depreciation	(16,487)	(19,886)	(23,981)	(25,193)	(26,126)	(26,577)
Pretax profits	13,786	3,369	2,587	3,112	3,685	10,577
Tax	(6,803)	458	(1,643)	(5,212)	(5,656)	(5,795)
Minority interest & profit from associates	1,860	12,173	13,514	19,014	20,670	21,346
Net profits	8,842	16,000	14,458	16,914	18,698	26,128
Extraordinary items	(978)	(6,515)	10,308	14,164	—	—
Earnings per share (Rs)	3.3	5.9	5.3	6.3	6.9	9.7
Balance sheet (Rs mn)						
Total equity	116,334	117,795	152,602	169,516	188,214	214,342
Deferred taxation liability	27,772	24,158	5,166	5,166	5,166	5,166
Total borrowings	403,486	503,154	426,836	463,162	453,669	442,806
Current liabilities	135,507	157,567	232,616	230,635	238,283	249,141
Capital contribution from Consumers						
Minority interest	17,498	18,690	20,153	20,153	20,153	20,153
Total liabilities and equity	700,597	821,364	837,373	888,631	905,484	931,607
Cash	6,632	9,543	11,858	69,781	102,281	144,371
Current assets	107,264	114,888	102,131	128,322	131,272	135,979
Total fixed assets	395,499	511,634	535,217	502,361	483,764	463,090
Investments	117,828	119,570	124,289	124,289	124,289	124,289
Deferred expenditure	73,375	65,729	63,878	63,878	63,878	63,878
Total assets	700,597	821,364	837,373	888,631	905,484	931,607
Key ratios						
Net debt / equity (X)	3.0	3.6	2.4	2.1	1.7	1.3
ROE (%)	6.8	13.7	10.7	10.5	10.5	13.0

Source: Company, Kotak Institutional Equities estimates

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RESULT

 Price (₹): **732**

 Target price (₹): **850**

 BSE-30: **34,067**

In-line results as exports rebound. PI's results were in line with our expectations in 2QFY19, as a stronger growth in revenues was offset by moderation in margins due to RM headwinds. We cut EPS estimates by 3-5% factoring in modestly lower margins. We retain BUY with a revised TP of ₹850 (₹875 earlier), expecting sustained recovery in CSM business adequately supported by commercialization of new molecules in the near term and a healthy order book of US\$1.15 bn in the medium term.

Company data and valuation summary

PI Industries

Stock data

52-week range (Rs) (high,low)	1,034-676
Market Cap. (Rs bn)	101.0

Shareholding pattern (%)

Promoters	51.4
FIs	15.2
MFs	17.8

Price performance (%)

	1M	3M	12M
Absolute	2.9	(9.6)	(3.0)
Rel. to BSE-30	9.4	(0.9)	(5.5)

Forecasts/Valuations

	2019E	2020E	2021E
EPS (Rs)	29.6	38.5	45.9
EPS growth (%)	11.5	29.9	19.2
P/E (X)	24.7	19.0	16.0
Sales (Rs bn)	27.4	33.1	38.7
Net profits (Rs bn)	4.1	5.3	6.3
EBITDA (Rs bn)	5.6	7.2	8.6
EV/EBITDA (X)	17.6	13.4	11.0
ROE (%)	19.6	21.5	21.5
Div. Yield (%)	0.6	0.8	0.9

Strong 29% yoy growth in revenues partly offset by ~90 bps qoq moderation in margins

2QFY19 revenues were 10% above our estimate at ₹7.23 bn, growing by 29% yoy from a low base driven by 24% rise in domestic business and 32% jump in exports; the company indicated that revenues growth was largely driven by recovery in volumes rather than pricing escalations. EBITDA grew 10% yoy to ₹1.35 bn, in line with our estimate, despite ~370 bps qoq moderation in gross margins due to sharp increase in RM costs and pricing lag in CSM contracts. EBITDA margins moderated by ~90 bps qoq to 18.6% benefiting from operating leverage. Net income was in line with our estimate growing by 19% yoy to ₹944 mn (EPS of ₹6.8). PI's EBITDA remained flat at ₹2.53 bn in 1HFY19, while net income declined by a modest 2% yoy to ₹1.76 bn (EPS of ₹12.7) due to higher depreciation expense. Net cash balance increased modestly to ₹3.02 bn from ₹2.35 bn at end-FY2018; net working capital increased during 1HFY19 amid higher inventories (+₹0.9 bn), receivables (+₹1.7 bn) and payables (+₹1.7 bn).

Robust growth across domestic business and exports; management retains FY2019 guidance

- ▶ **Robust growth in domestic; rebound in exports.** PI delivered (1) strong 24% yoy growth in domestic business revenues continuing the momentum gained in the previous quarter and (2) sharp 32% yoy growth in CSM exports reaffirming initial signs of recovery in the end-markets. The management indicated that growth across both domestic and exports businesses was largely driven by a healthy recovery in volumes and modest escalations in price, which has been undertaken with a lag to offset rising raw material costs; the gains on exports due to rupee depreciation was also limited due to existing hedges.
- ▶ **Retains guidance given optimism on exports.** PI retained its guidance of 18-20% growth in overall revenues and steady margins around 21% for FY2019 despite rising input cost pressures. PI management indicated that there is strong traction in export shipments and it is expected to pick up further during 2HFY19 given improving demand in key markets. The ongoing expansion projects remain on track to complete by end-FY2019. The company is also working on debottlenecking of existing facilities to meet the rising demand.

Cut FY2019-21 EPS estimates by 3-5% and TP to ₹850

We cut our EPS estimates for FY2019-21 by 3-5% factoring in (1) lower gross/EBITDA margins amid rising cost of raw material and (2) other minor changes. Our target price reduces to ₹850 (₹875 previously), based on 22X March 2020E EPS.

Tarun Lakhotia

Exhibit 1: Interim results of PI, March fiscal year-ends (₹ mn)

	2QFY19	2QFY19E	2QFY18	1QFY19	Change (%)			1HFY19	1HFY18	Yoy (%)	FY2019E
					Est.	Yoy	Qoq				
Revenues	7,230	6,588	5,611	6,056	10	29	19	13,286	11,143	19	27,368
Raw material cost	(4,125)	(3,492)	(2,914)	(3,235)	18	42	28	(7,360)	(5,642)	30	(14,642)
Employee cost	(683)	(680)	(604)	(660)	0	13	3	(1,343)	(1,204)	12	(2,699)
Other expenses	(1,076)	(1,072)	(871)	(980)	0	23	10	(2,056)	(1,770)	16	(4,379)
EBITDA	1,346	1,345	1,222	1,181	0	10	14	2,527	2,526	0	5,648
Other income	124	120	123	102	3	1	22	226	248	(9)	642
Depreciation and amortization	(228)	(220)	(205)	(220)	4	11	4	(448)	(402)	11	(979)
Interest cost	(14)	(18)	(12)	(17)	(22)	13	(18)	(31)	(26)	18	(58)
Extraordinaries	—	—	—	—	—	—	—	—	—	—	—
Profit before tax	1,228	1,227	1,127	1,046	0	9	17	2,274	2,346	(3)	5,253
Tax (net)	(284)	(282)	(324)	(229)	—	—	—	(513)	(541)	(5)	(1,156)
Net income	944	944	803	817	(0)	18	16	1,761	1,805	(2)	4,097
Adjusted net income	944	944	803	817	(0)	18	16	1,761	1,805	(2)	4,097
EPS (Rs)	6.8	6.8	5.8	5.9	(0)	18	16	12.7	13.1	(2)	29.6
Revenue break-up											
Domestic	3,209	2,846	2,588	3,149	13	24	2	6,358	5,148	24	9,864
CSM	4,021	3,742	3,023	2,907	7	33	38	6,928	5,995	16	17,504
Total	7,230	6,588	5,611	6,056	10	29	19	13,286	11,143	19	27,368
Key ratios (%)											
Gross margins	42.9	47.0	48.1	46.6	—	—	—	44.6	49.4	—	46.5
EBITDA margins	18.6	20.4	21.8	19.5	—	—	—	19.0	22.7	—	20.6
Effective tax rate	23.1	23.0	28.7	21.9	—	—	—	22.6	23.1	—	22.0

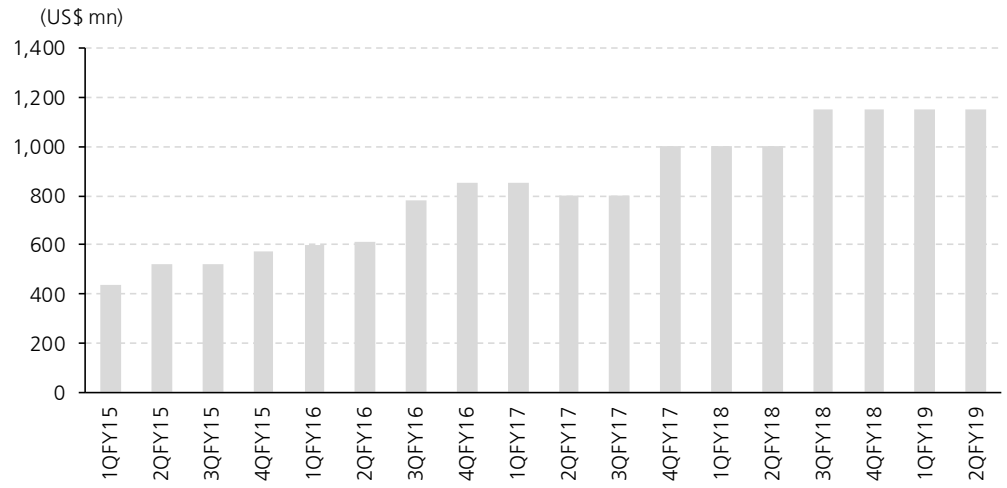
Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Domestic ag-chem business sustains growth momentum; exports rebound
Segment-wise revenues of PI, 1QFY17 onwards (₹ mn)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Revenues (Rs mn)										
- Domestic ag-chem	2,989	2,290	1,635	1,743	2,560	2,588	1,700	1,870	3,149	3,209
- CSM	3,400	3,151	3,244	4,313	2,972	3,023	3,677	4,381	2,907	4,021
Total	6,389	5,441	4,879	6,056	5,532	5,611	5,377	6,251	6,056	7,230
Yoy growth (%)										
- Domestic ag-chem	(3)	(14)	4	(10)	(14)	13	4	7	23	24
- CSM	20	49	(12)	5	(13)	(4)	13	2	(2)	33
Total	8	14	(7)	0	(13)	3	10	3	9	29
Revenue-mix (%)										
- Domestic ag-chem	47	42	34	29	46	46	32	30	52	44
- CSM	53	58	66	71	54	54	68	70	48	56

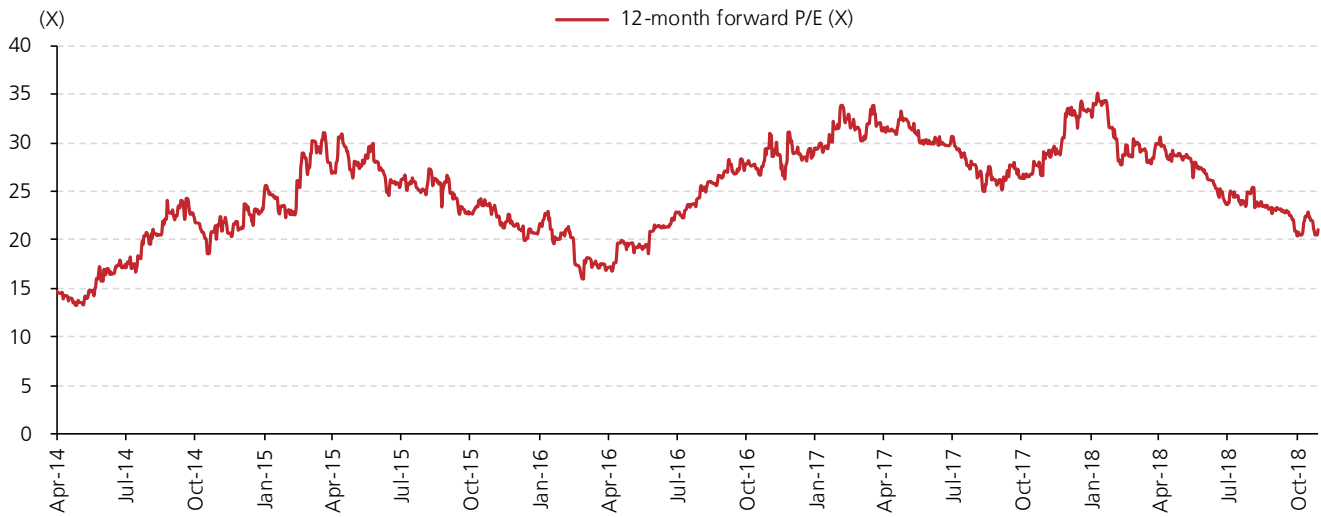
Source: Company, Kotak Institutional Equities

Exhibit 3: CSM order book remains steady at US\$1.15 bn
Trend in the order book in the CSM business, 1QFY15 onwards (US\$ mn)



Source: Company, Kotak Institutional Equities

Exhibit 4: PI stock is trading at forward P/E of 21X
12-month forward P/E for PI (X)



Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 5: Comparative valuations for ag-chem companies

	Price (LC)	Market cap. (US\$ mn)	P/E (X)			EV/EBITDA (X)		
			FY2018	FY2019E	FY2020E	FY2018	FY2019E	FY2020E
Global companies								
BASF SE	67	70,262	10.3	10.7	9.9	6.1	7.2	6.6
Bayer AG	66	70,636	10.4	11.5	8.9	7.3	10.3	7.4
Dow DuPont	52	119,984	16.0	12.8	10.9	9.0	7.7	6.8
FMC Corp.	76	10,204	28.5	12.5	11.2	20.9	10.0	8.7
Nufarm Ltd	5	1,480	12.4	18.7	13.3	7.5	9.6	6.4
Indian companies								
Bayer CropScience	3,770	1,762	43.1	40.1	33.1	30.6	24.3	20.2
Dhanuka Agritech	369	247	14.4	13.8	12.0	10.3	9.8	7.9
Godrej Agrovet	520	1,360	45.2	35.0	27.2	23.4	19.1	14.9
PI Industries	732	1,375	27.6	24.7	19.0	20.3	17.6	13.4
Rallis India	168	444	19.5	16.7	13.9	12.0	11.0	9.2
UPL	632	4,379	14.7	13.4	11.7	10.2	9.0	7.6

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 6: Key assumptions, March fiscal year-ends (₹ mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Total operating revenues	15,955	19,403	20,963	22,768	22,771	27,368	33,078	38,700
- CSM businesss	9,255	11,418	12,435	13,797	14,551	17,504	21,635	25,884
- Domestic ag-chem business	6,700	7,985	8,528	8,971	8,220	9,864	11,442	12,815
Overall revenue growth (%)	38.6	21.6	8.0	8.6	0.0	20.2	20.9	17.0
- CSM businesss	53.9	23.4	8.9	10.9	5.5	20.3	23.6	19.6
- Domestic ag-chem business	21.8	19.2	6.8	5.2	(8.4)	20.0	16.0	12.0
Overall EBITDA margin (%)	18.1	19.2	20.6	24.3	21.7	20.6	21.9	22.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Consolidated profit model, balance sheet and cash flow for PI, March fiscal year-ends (₹ mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model								
Revenues	15,955	19,403	20,963	22,768	22,771	27,368	33,078	38,700
EBITDA	2,889	3,727	4,312	5,533	4,934	5,648	7,245	8,584
Other income	157	237	355	366	603	642	786	908
Interest	(118)	(97)	(96)	(72)	(53)	(58)	(63)	(68)
Depreciation	(316)	(498)	(543)	(730)	(830)	(979)	(1,145)	(1,289)
Extraordinary items	—	184	—	(1)	—	—	—	—
Profit before tax	2,612	3,552	4,028	5,095	4,653	5,253	6,822	8,135
Tax expense	(733)	(1,093)	(913)	(501)	(979)	(1,156)	(1,501)	(1,790)
PAT	1,879	2,459	3,116	4,594	3,675	4,097	5,322	6,345
EPS (Rs)	13.8	18.0	22.6	33.2	26.6	29.6	38.5	45.9
Balance sheet								
Equity	6,945	8,965	11,709	16,272	19,248	22,593	26,938	32,118
Total borrowings	1,223	1,148	1,244	830	463	463	463	463
Long-term liabilities	437	369	438	—	—	—	—	—
Current liabilities and provisions	4,574	5,851	6,094	5,913	6,553	7,377	8,917	10,432
Total liabilities	13,179	16,332	19,486	23,014	26,264	30,434	36,318	43,013
Net fixed assets	5,692	6,659	9,455	10,223	10,876	12,647	13,752	14,712
Investments	5	5	3	833	1,607	1,607	1,607	1,607
Cash and equivalents	438	341	560	1,326	1,307	2,027	3,990	6,953
Other current assets and miscellaneous	7,045	9,326	9,468	10,631	12,475	14,153	16,969	19,742
Total assets	13,179	16,332	19,486	23,014	26,264	30,434	36,318	43,013
Free cash flow								
Operating cash flow	2,153	2,702	3,547	4,551	4,184	4,434	5,681	6,727
Working capital changes	(81)	(971)	20	(1,234)	(1,043)	(853)	(1,277)	(1,257)
Capital expenditure	(640)	(1,685)	(3,215)	(1,419)	(1,696)	(2,750)	(2,250)	(2,250)
Free cash flow	1,432	46	352	1,898	1,444	831	2,155	3,220
Ratios								
EBITDA margin (%)	18.1	19.2	20.6	24.3	21.7	20.6	21.9	22.2
Net debt/equity (X)	0.1	0.1	0.1	(0.0)	(0.0)	(0.1)	(0.1)	(0.2)
Book value (Rs/share)	51	66	85	118	139	163	195	232
ROAE (%)	28.8	27.3	27.5	30.5	18.0	17.2	19.0	19.1
ROACE (%)	31.1	33.8	31.6	31.5	22.3	21.8	24.2	24.3

Source: Company, Kotak Institutional Equities estimates

OCTOBER 30, 2018

RESULT

Coverage view: **Attractive**

Price (₹): **70**

Target price (₹): **90**

BSE-30: **34,067**

Slippages at a three-year low. Union Bank reported a marginal profit on the back of lower provisions for bad loans. Gross NPLs and net NPLs declined 25 bps qoq while slippages were lower at 3.3%—the lowest in the past three years. Lack of capital (CET-1 at 7.5% and Tier-1 at 9%) limits balance sheet growth while dilution entails pressure on book value per share growth. Inexpensive valuations drive our positive view as asset quality concerns are gradually easing. Maintain ADD (TP unchanged).

Company data and valuation summary

Union Bank

Stock data

52-week range (Rs) (high,low) 192-61

Market Cap. (Rs bn) 81.4

Shareholding pattern (%)

Promoters 67.4

FIs 4.8

MFs 8.5

Price performance (%)

Absolute 1M 3M 12M 6.0 (18.0) (60.3)

Rel. to BSE-30 12.7 (10.2) (61.4)

Forecasts/Valuations

2019E 2020E 2021E

EPS (Rs) 7.9 31.2 43.5

EPS growth (%) 117.6 294.3 39.2

P/E (X) 8.8 2.2 1.6

NII (Rs bn) 105.8 124.0 142.3

Net profits (Rs bn) 9.3 36.5 50.8

BVPS 72.6 119.2 196.5

P/B (X) 1.0 0.6 0.4

ROE (%) 4.0 14.4 17.5

Div. Yield (%) 1.7 6.7 9.4

Lower credit costs lead to improvement in earnings

Union Bank reported net profit of ₹1.4 bn in 2QFY19 versus a loss of ₹15.3 bn yoy on the back of sharp drop in credit costs (down 39 bps qoq and 270 bps yoy to 1.9%, lowest in past nine quarters). NII growth was muted at 7% driven by flat loan growth and marginal 5 bps yoy NIM (calculated) expansion to 2.2% owing to lower interest reversals. Non-interest income dropped 26% yoy on the back of sharp drop in treasury gains while fee income maintained the momentum (up 17% yoy). Growth in operating expenses was low at 1% yoy; employee expenses decreased 4% yoy (the company provided ₹0.6 bn incremental provisions for wage revision). Cost income ratio, however, increased 230 bps qoq and 260 bps yoy to 47.8%. Slowdown in loan growth was due to 4% yoy drop in corporate loans and slowdown in the pace of retail growth (up 15% yoy compared to 18-23% yoy growth over the past three quarters). CASA ratio increased 130 bps qoq to 35%; SA up 10% yoy while CA was flat yoy.

Asset quality shows improvement; slippages at a three-year low at 3.3% of loans

After a long time, we have seen an improvement in asset quality with gross and net NPLs declining ~25 bps qoq. Gross NPLs are at 15.7% while net NPLs are at 8.4% of loans while the provision coverage ratio was stable at 51% (including technical write-off at 57%). Slippages at 3.3% of loans were at a three-year low and mostly as slippages from the corporate loan portfolio significantly slowed down this quarter. The bank has ~20% of loans as a part of the NCLT process where there has been significant progress on resolution. SMA-2 was marginally higher at ~3% of loans and mostly comprised of small-ticket loans. The bank has ~12% exposure to NBFCs and ~0.3% to the IL&FS group; we do not envisage this exposure to hurt going ahead. Directionally, we believe that gross NPL ratios should steadily improve from here.

Maintain ADD; valuations inexpensive

We maintain ADD rating and value the bank at ₹90 (TP unchanged). CET-1 capital at 7.5% does indicate that there is likely to be more dilution ahead putting pressure on book value per share growth and loan growth is likely to be negligible and towards low-risk assets. At our target price, we value the bank at 0.5X book and 5X March 2020E EPS for short-term RoEs in the range of 8-10% and strong growth in earnings, primarily off a low base. Earnings growth trends will be volatile in the medium term.

QUICK NUMBERS

- NII growth muted at 7% yoy; reported net profit at ₹1.4 bn
- GNPL ratio down 26 bps qoq to 15.7%; NNPL down 28 bps qoq to 8.4%
- Maintain ADD rating with TP at ₹90 (unchanged)

M B Mahesh CFA

Nischint Chawathe

Dipanjan Ghosh

Exhibit 1: Union Bank of India – quarterly performance
March fiscal year-ends, 2QFY18-2QFY19 (₹ mn)

	(% chg.)													
	2QFY19	2QFY19E	2QFY18	1QFY19	2QFY19E	2QFY18	1QFY19	1HFY19	1HFY18	(% chg.)	2019E	2018	(% chg.)	2020E
Interest income	85,388	87,143	82,224	87,008	(2.0)	3.8	(1.9)	172,396	163,754	5.3	351,174	327,480	7.2	391,414
Loans	59,072	59,859	57,543	60,115	(1.3)	2.7	(1.7)	119,187	114,919	3.7	241,574	227,730	6.1	273,085
Investments	23,799	24,124	21,949	23,522	(1.3)	8.4	1.2	47,321	43,425	9.0	95,273	87,800	8.5	103,579
Others	2,517	3,160	2,733	3,371	(20.4)	(7.9)	(25.3)	5,888	5,410	8.8	14,327	23,344	(38.6)	14,750
Interest expense	60,457	61,975	59,017	60,747	(2.4)	2.4	(0.5)	121,204	118,121	2.6	245,360	234,434	4.7	267,436
Net interest income	24,931	25,168	23,207	26,261	(0.9)	7.4	(5.1)	51,192	45,633	12.2	105,814	93,046	13.7	123,978
Non-int.income	8,994	11,154	12,173	12,080	(19.4)	(26.1)	(25.5)	21,074	26,320	(19.9)	43,168	49,899	(13.5)	47,314
Treasury Income	820	1,000	4,770	1,940	(18.0)	(82.8)	(57.7)	2,760	11,290	(75.6)	4,000	12,579	(68.2)	5,500
Non-int.income excl treasury	8,174	10,154	7,403	10,140	(19.5)	10.4	(19.4)	18,314	15,030	21.8	39,168	37,320	5.0	41,814
Total income	33,926	36,323	35,381	38,341	(6.6)	(4.1)	(11.5)	72,266	71,953	0.4	148,982	142,945	4.2	171,292
Op. expenses	16,207	17,187	15,991	17,453	(5.7)	1.3	(7.1)	33,660	31,998	5.2	69,909	67,550	3.5	78,192
Employee cost	7,755	8,461	8,058	7,702	(8.3)	(3.8)	0.7	15,457	16,271	(5.0)	32,549	32,552	(0.0)	36,911
Other cost	8,452	8,726	7,933	9,751	(3.1)	6.5	(13.3)	18,203	15,727	15.7	37,359	34,997	6.7	41,281
Operating profit	17,719	19,135	19,390	20,888	(7.4)	(8.6)	(15.2)	38,607	39,956	(3.4)	79,074	75,395	4.9	93,100
Provisions and cont.	16,556	21,176	35,547	22,291	(21.8)	(53.4)	(25.7)	38,846	52,584	(26.1)	67,364	141,807	(52.5)	45,727
Investment Depreciation	1,460	2,167	1,660	271	(32.6)	(12.0)	438.7	1,731	1,070	61.8	2,300	15,600	(85.3)	(500)
NPLs	14,810	15,113	34,570	17,780	(2.0)	(57.2)	(16.7)	32,590	52,895	(38.4)	63,564	125,438	(49.3)	45,727
PBT	1,164	(2,041)	(16,157)	(1,403)	NM	NM	NM	(239)	(12,628)	(98.1)	11,709	(66,412)	NM	47,373
Tax	(227)	(428)	(850)	(2,698)	NM	NM	NM	(2,925)	1,513	(293.3)	2,457	(13,938)	NM	10,889
Net profit	1,391	(1,612)	(15,307)	1,295	NM	NM	NM	2,686	(14,141)	NM	9,252	(52,474)	NM	36,483
Tax rate (%)	(20)	NM	NM	NM	NM	NM	NM	NM	NM	NM	21	NM	NM	23
PBT-invt gains+ provisions	16,899	18,135	14,620	18,948	(6.8)	15.6	(10.8)	35,847	28,666	25.1	75,074	62,816	19.5	87,600
Key balance sheet items (Rs bn)														
Total Deposit	3,991	4,140	3,860	4,059	(3.6)	3.4	(1.7)				4,172	4,085	2.1	4,541
Savings deposits	1,184		1,075	1,155		10.1	2.6				1,166	1,142	2.1	1,269
Current deposits	224		221	226		1.5	(0.7)				256	251	2.1	279
Term deposits	2,583		2,564	2,678		0.7	(3.6)				2,750	2,693	2.1	2,993
CASA (%)	35.3		33.6	34.0		171 bps	127 bps				34	34	0bps	34
Gross loans	3,176	3,282	3,100	3,186	(3.2)	2.5	(0.3)				3,314	3,247	2.1	3,675
Retail loans	513		447	500		14.6	2.6					494		
Investments	1,301	1,369	1,293	1,329	(5.0)	0.6	(2.1)				1,360	1,265	7.5	1,464
AFS	440		499	461		(11.9)	(4.5)					392		
Duration (years)	3		4	3								5		
HTM	857		784	866		9.3	(1.0)					873		
Duration (years)	5		4	5								8		
Yield management measures (%)														
Yield on advances	7.4		7.6	7.6	-18 bps	-18 bps	7.6	7.5	3 bps		7.4	7.2	19bps	7.8
Yield on investment	7.2		7.0	7.3	24 bps	-1 bps	7.4	7.2	22 bps		7.3	7.4	-10bps	7.3
Cost of deposit	6.0		6.2	6.0	-19 bps	4 bps	6.0	6.2	-18 bps		5.9	6.0	-3bps	6.1
NIM	2.2		2.2	2.4	5 bps	-14 bps	2.3	2.1	17 bps		2.3	2.1	17bps	2.5
Cost to income	47.8		45.2	45.5	257 bps	225 bps	46.6	44.5	211 bps		46.9	47.3	-33bps	45.6
Cost to average assets	1.3		1.4	1.4	-4 bps	-9 bps	1.4	1.4	2 bps		1.4	1.4	-2bps	1.5
Credit cost	1.9		4.6	2.2	-271 bps	-39 bps	2.1	3.5	-139 bps		2.0	4.0	-209bps	1.4
RoA	0.1		(1.3)	0.1			0.1	(0.6)	72 bps		0.2	(1.1)		0.7
RoE	2.2		(26.2)	2.1			2.1	(12.1)	1427 bps		3.6	(21.4)		13.3
Capital adequacy details (%)														
CAR	11.6		11	11	33 bps	10 bps						12		
Tier I	9.0		9	9	53 bps	4 bps						9		
Tier II	2.5		3	2	-20 bps	6 bps						2		
Asset quality details														
Gross NPLs (Rs bn)	502		383	510	31.0	(1.6)					509	493	3.2	480
Gross NPLs (%)	15.7		12.4	16.0	339 bps	-26 bps					15.4	15.2	17bps	13.1
Net NPLs (Rs bn)	247		195	255	26.6	(3.3)					234	243	(3.9)	199
Net NPLs (%)	8.4		6.7	8.7	172 bps	-28 bps					8.1	8.4	-33bps	6.2
Provision coverage ratio (%)	50.8		49	50	172 bps	88 bps					54	51	339bps	59
Provision coverage ratio (tech w/o) (%)	57.7		56	56	160 bps	117 bps								
Net restructured loans (Rs bn)	13		53	11	(75.3)	21.0								
Net restructured loans (%)	0.4		1.7	0.3	-129 bps	7 bps								
Slippages (Rs bn)	27		27	47	(0.7)	(42.7)		73	71	2.5	116	213		43
Slippages (%)	3.3		3.6	5.9	-29 bps	-258 bps		4.7	4.7	-7 bps	4.0	7.4	-344bps	1.5
Other key parameters (#)														
Branches	4,299		4,295	4,302	0.1	(0.1)					4,306	4,301	0.1	4,381
ATM	6,794		7,674	7,556	(11.5)	(10.1)						7,642		

Source: Company, Kotak Institutional Equities

Asset quality shows signs of improvement

Gross NPL dropped ~26 bps qoq to 16% primarily on drop in slippages from the corporate book and rise in recoveries. Overall stressed assets (NNPL + standard restructured + SDR + S4A + 5/25) decreased 20 bps qoq to 9.3%. The company has 12 accounts under 5/25 worth ₹34 bn and 3 accounts under S4A worth ₹1.3 bn. While SMA-2 book was stable qoq at ~₹105 bn; there was marginal rise in corporate SMA-2 book to ₹25 bn. Provision coverage ratio (including technical write-off) improved 120 bps qoq and 160 bps yoy to 57.7%.

Slippages dropped to 3.3% in 2QFY19 owing to sharp improvement in slippages from the corporate book (down 590 bps qoq to 3%, lowest in past 11 quarters). There were no slippages from SSSDR, S4A and 5/25 book in this quarter. Retail slippages, which had inched up in the past two quarters, improved to 1.7% (down 240 bps qoq). Agriculture slippages, however, increased 280 bps qoq to 7.4%. These accounts are mostly from the crop loan space and are granular in nature. The slippages from this book have been volatile over the past few quarters with sudden spike in 1QFY18 and 4QFY18. SME slippages, which had improved to 1.8% in 1QFY19, deteriorated to 2.8% in 2QFY19.

The company has improved credit profile of corporate borrowers with lending to AA and above rated borrowers increasing 210 bps to 46.6% in 1HFY19 over FY2018. With respect to lending to NBFCs (total exposure of ₹356 bn), 89% exposure to NBFCs and 97% exposure to HFCs is rated A and above.

Union Bank has exposure to 8 accounts (2 accounts resolved in 2QFY19) worth ₹60 bn and 16 accounts worth ₹45 bn for accounts under NCLT list 1 and 2, respectively as of September 2018. The company maintains provision coverage ratio of 63% and 69%, respectively on these accounts. The cumulative provisions on these accounts are 65.3%. No additional provisions were made for these accounts in 1QFY19.

The company has an exposure of ₹10.1 bn to IL&FS group. Out of this, ₹8.2 bn exposure is to a power SPV of the group, which is currently classified as standard and is making timely repayments. We do not expect this exposure to hurt going ahead.

We forecast GNPL to reduce to 12% by FY2021E driven by drop in slippages to ~1.5% over FY2020-21E.

Exhibit 2: Corporate slippages are low qoq

Gross NPL and net NPL ratios, March fiscal year-ends, 2QFY17-2QFY19 (%)

	Gross NPLs (%)									Slippages (%)								
	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Agriculture	5.1	5.6	5.1	8.0	6.7	6.1	6.1	6.9	7.6	1.6	0.3	2.7	6.3	3.9	2.3	6.8	4.6	7.4
MSE	8.5	9.3	8.9	9.6	10.7	11.0	12.0	12.0	12.2	3.8	1.2	2.5	3.8	4.3	2.4	7.2	1.8	2.8
Retail	3.1	3.0	3.1	2.7	2.5	2.3	2.1	2.7	2.5	2.3	0.5	3.2	1.9	1.2	1.0	2.0	3.1	1.7
Corporate/others	14.7	16.4	15.2	17.4	20.6	18.2	23.3	23.3	22.8	7.3	8.5	5.7	7.7	4.0	8.6	19.7	8.9	3.0
Overall	10.7	11.7	11.2	12.6	12.4	13.0	15.7	16.0	15.7	5.1	4.7	4.3	5.9	3.6	5.4	12.8	5.9	3.3

Source: Company, Kotak Institutional Equities

Exhibit 3: Overall stressed assets increased 20 bps qoq to 9.3%

Movement of NPLs and restructured loans, March fiscal year-ends, 2QFY16-2QFY19

	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Movement of NPLs (Rs bn)													
Opening NPL	141.4	155.4	185.0	241.7	272.8	298.6	324.0	337.1	372.9	382.9	409.9	493.7	509.7
Addition of gross NPL	19.3	34.1	61.7	36.0	34.0	32.9	29.5	44.5	26.9	41.9	100.4	46.5	26.7
Reductions	5.3	4.6	4.9	4.9	8.1	7.5	5.3	8.8	16.9	14.9	16.6	30.5	34.8
Upgradations	2.1	1.9	4.0	4.9	6.7	3.6	3.9	5.4	14.0	11.9	8.1	16.2	16.2
Write off	2.7	2.6	1.0	0.0	1.5	4.0	7.2	3.4	11.1	7.9	12.3	14.3	18.7
Closing NPL	155.4	185.0	241.7	272.8	298.6	324.0	337.1	372.9	382.9	409.9	493.7	509.7	501.6
Slippages (%)	3.0	5.4	9.4	5.2	5.1	4.7	4.3	5.9	3.6	5.4	12.8	5.9	3.3
Gross NPLs (%)	6.1	7.1	8.7	10.2	10.7	11.7	11.2	12.6	12.4	13.0	15.7	16.0	15.7
Net NPLs	83.3	103.2	140.3	158.2	169.5	182.5	188.3	207.8	194.8	204.3	243.3	255.1	246.6
Net NPLs (%)	3.4	4.1	5.3	6.2	6.4	7.0	6.6	7.5	6.7	7.0	8.4	8.7	8.4
Restructured loans (Rs bn)													
Outstanding restructured loans (net)	139.1	136.2	85.7	72.5	56.4	56.4	57.0	38.6	52.7	37.4	12.4	10.8	13.0
Outstanding restructured loans (net) (%)	5.5	5.2	3.1	2.7	2.0	2.0	1.9	1.3	1.7	1.2	0.4	0.3	0.4
Net NPL and restr. loans (%)	8.9	9.3	8.3	8.9	8.4	9.0	8.5	8.8	8.4	8.1	8.8	9.0	8.8
Fresh impairments (%)	3.7	6.9	10.4	5.2	5.1	4.7	4.3	6.0	6.4	5.4	12.8	6.1	3.3
Other formats (Rs bn)													
SDR				21.2	46.8	50.3	42.8	42.3	37.2	26.6	—	—	—
5:25				35.9	39.3	37.4	33.2	32.8	31.0	28.0	36.3	34.5	34.5
S4A				-	2.8	10.8	15.4	19.4	9.5	19.2	1.2	1.3	1.2
Total				57.2	88.8	98.5	91.5	94.5	77.6	73.8	37.4	35.8	35.7
Less: Overlap								18.7	25.0	—	—	—	—
Total stressed loans (Rs bn)	222.5	239.4	226.0	287.9	314.7	337.3	336.7	322.2	325.1	290.4	293.0	301.6	295.3
(% of loans)	8.8	9.1	8.1	10.7	11.3	12.2	11.2	10.9	10.5	9.2	9.3	9.5	9.3

Source: Company, Kotak Institutional Equities

Exhibit 4: 65% coverage ratio on accounts under NCLT

Details of NCLT accounts, March fiscal year-end, 2QFY19 (₹ bn)

	NCLT list 1	NCLT list 2	Total
Exposure			
# of accounts	8	16	24
Loans outstanding	59.73	45.01	104.74
Provision held	37.43	30.96	68.39
PCR (%)	62.7	68.8	65.3

Notes:

(1) 2 accounts under list 1 got resolved in 2QFY19.

Source: Company, Kotak Institutional Equities

Muted growth in gross advances at 3% yoy in 2QFY19

Loan growth was modest at 3% yoy. Retail loan growth slowed pace (up 15% yoy), lower than 18-22% yoy growth in the past three quarters. Within the retail portfolio, the housing loan portfolio dropped 8% yoy to ₹257 bn; similar to previous quarter. The share of retail loans in the overall portfolio increased to 16.1% in 2QFY19 (up 40 bps qoq and 170 bps yoy). Vehicle loans saw strong growth at 12% yoy. LAP and other retail loan portfolio saw a sharp spike in growth at 31% yoy (on a low base) and 35% yoy, respectively. Agriculture loans saw revival in growth (up 8% yoy) post muted performance in 1QFY19. SME loans remained modest, up 6% yoy. Corporate loans dropped 4% yoy.

We expect loan growth to improve at ~7% CAGR over FY2018-21E driven by modest performance in SME and agriculture loans. While retail loans will drive majority growth, corporate growth is expected to pick up pace in the medium term.

Exhibit 5: Others and personal loan to overall retail loans continue to rise

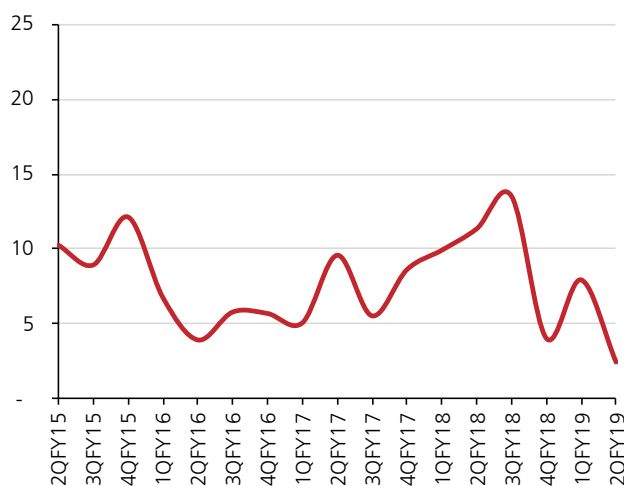
Break-up of retail loans, March fiscal year-ends, 2QFY17-2QFY19 (₹ bn)

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Retail loans (Rs mn)									
Home loan	225	225	278	235	241	247	252	254	257
Vehicle loans	31	32	33	35	37	39	40	40	41
Education loans	30	29	30	31	32	32	32	33	34
LAP	67	68	25	16	37	42	50	49	49
Personal loans	13	14	13	14	14	14	13	13	14
Others	10	9	25	92	86	89	108	110	117
Total	375	376	404	424	447	463	494	500	513
Share of total (%)									
Home loan	60.0	59.7	68.8	55.5	53.9	53.3	50.9	50.8	50.2
Vehicle loans	8.2	8.4	8.2	8.2	8.2	8.4	8.0	8.0	8.0
Education loans	8.0	7.8	7.5	7.3	7.2	7.0	6.5	6.6	6.7
LAP	17.8	18.0	6.2	3.8	8.3	9.1	10.1	9.9	9.5
Personal loans	3.4	3.6	3.1	3.4	3.1	3.0	2.7	2.7	2.8
Others	2.6	2.5	6.2	21.8	19.3	19.2	21.8	22.0	22.8

Source: Company, Kotak Institutional Equities

Exhibit 6: Loan growth muted in 2QFY19

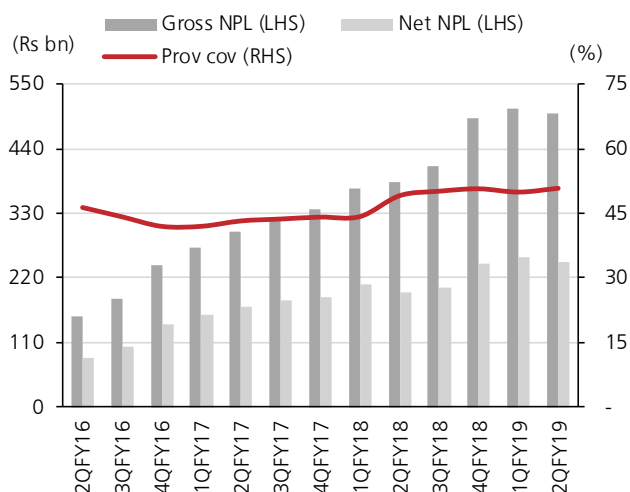
March fiscal year-ends, 2QFY16-2QFY19 (%)



Source: Company, Kotak Institutional Equities

Exhibit 7: Asset quality shows signs of improvement

Gross, net NPL and provision coverage ratio, 2QFY16-2QFY19



Source: Company, Kotak Institutional Equities

Lower interest reversals drive marginal NIM (calculated) expansion

Calculated NIM increased 5 bps yoy to 2.2%. Calculated yields decreased 18 bps yoy to 7.4% while cost of deposits dropped 19 bps yoy to 6%. The drop in yields on yoy basis is mostly driven by change in retail lower towards higher share of lower-yielding retail products. On a qoq basis, NIM squeezed as the base quarter had impact of one off-interest income recognition from one account resolved under NCLT list-1.

Yields are expected to improve going ahead as recoveries from various NCLT cases pick pace in 2HFY19E. There will be marginal drag on yields driven by change in loan mix towards higher share of low-yielding retail loans. We maintain a positive view on NIM driven by higher recoveries, lower cost of funds, change in loans mix to include more retail products and lower interest reversals. We forecast NIM to improve to 2.3% by FY2019E from 2.1% in FY2018 and further improve to 2.6% by FY2021E.

Muted deposit growth

Growth in total deposits was muted at 3% yoy. While CASA growth was strong at 9% yoy in 2QFY19, growth in term deposits was low at 1% yoy. Strong growth in CASA at 9% yoy was driven by robust rise in SA at 10% yoy, similar to past two quarters. CASA ratio increased 130 bps qoq and 170 bps yoy to 35.3%.

We forecast 7% CAGR in CASA over FY2019-21E and stable CASA of 34% during the same period.

Other highlights of the quarter

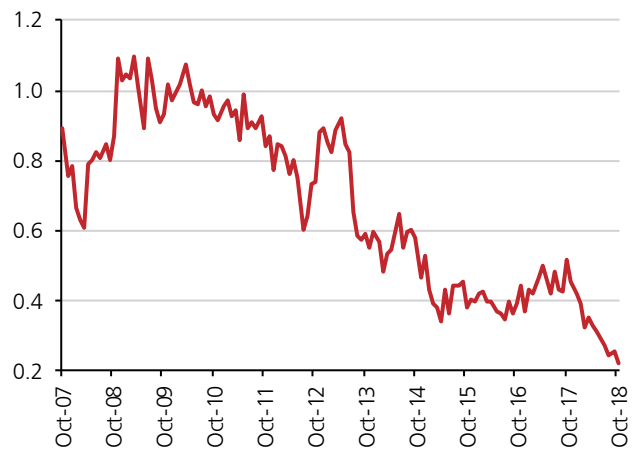
- ▶ Non-interest income decreased 26% yoy on the back of a steep drop in treasury gains at 83% yoy. Fee income maintained strong momentum, up 17% yoy. Recovery from written-off accounts saw a sharp rise in 2QFY19 to ₹1.1 bn (up 93% yoy).
- ▶ Cost-income ratio increased 230 bps yoy and 260 bps qoq to 47.8% driven by muted growth in operating expenses at 1% yoy offset by 4% yoy drop in revenues. While other expenses were modest at 7% yoy led by continuous investment in business expansion and technology innovation, employee expenses dropped 4% yoy (this was despite accounting for incremental provisions for wage revision worth ₹0.6 bn).
- ▶ Capital adequacy ratio (CAR) is comfortable at 11.6% with Tier-1 ratio of 9%. RWA dropped by 4% yoy compared to growth in gross advances at 3% yoy showing a gradually improving credit profile of borrowers and rise in share of retail mix.

Exhibit 8: Union Bank trading at 0.3X one-year forward book
One-year forward rolling trading multiples, October 2008- October 2018



Source: Bloomberg, Company, Kotak Institutional Equities

Exhibit 9: Union Bank trading at sharp discount to peers
Union Bank trading premium to public banks, October 2007- October 2018



Source: Bloomberg, Company, Kotak Institutional Equities

Exhibit 10: Change in estimates

March fiscal year-ends, 2019E-21E (₹ mn)

	New estimates (Rs mn)			Old estimates (Rs mn)			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Net interest income	105,814	123,978	142,286	105,899	121,198	131,083	(0.1)	2.3	8.5
NIM (%)	2.3	2.5	2.6	2.3	2.4	2.4	1 bps	9 bps	24 bps
Loan growth (%)	0	11	11	6	11	11	-570 bps	3 bps	3 bps
Loan loss provisions	63,564	45,727	40,563	62,402	41,880	35,711	1.9	9.2	13.6
Other income	43,168	47,314	51,670	46,662	51,148	55,875	(7.5)	(7.5)	(7.5)
Treasury income	4,000	5,500	7,000	4,000	5,500	7,000	—	—	—
Operating expenses	69,909	78,192	87,428	71,826	80,378	89,857	(2.7)	(2.7)	(2.7)
Employee expenses	32,549	36,911	41,469	33,864	38,402	43,145	(3.9)	(3.9)	(3.9)
PBT	11,709	47,373	65,965	11,334	50,088	61,390	3.3	(5.4)	7.5
Net profit	9,252	36,483	50,793	8,955	38,574	47,270	3.3	(5.4)	7.5
PBT -treasury + NPL provisions	71,274	87,600	99,528	69,736	86,467	90,101	2.2	1.3	10.5

Source: Kotak Institutional Equities

Exhibit 11: Union Bank of India: Growth rates and key ratios
March fiscal year-ends, 2016-21E (%)

	2016	2017	2018	2019E	2020E	2021E
Growth rates (%)						
Net loan	4.6	7.1	0.8	0.1	10.9	10.9
Customer assets	6.4	8.2	1.5	0.1	10.2	10.2
Investments excld. CPs and debentures	(0.6)	23.4	11.2	12.0	9.2	9.4
Net fixed and leased assets	46.9	(1.2)	(1.6)	(3.4)	1.5	1.6
Cash and bank balance	30.8	12.1	50.6	0.3	3.8	4.0
Total Asset	6.0	11.9	7.7	2.8	9.0	9.1
Deposits	8.2	9.7	8.7	2.1	8.9	8.8
Current	41.0	(20.2)	5.5	2.1	8.9	8.8
Savings	13.4	28.3	9.7	2.1	8.9	8.8
Fixed	3.4	7.0	8.5	2.1	8.9	8.8
Net interest income	(1.5)	7.1	4.5	13.7	17.2	14.8
Loan loss provisions	35.2	68.5	89.7	(49.3)	(28.1)	(11.3)
Total other income	3.1	36.7	0.5	(13.5)	9.6	9.2
Net fee income	4.8	14.4	11.3	15.0	12.0	12.0
Net capital gains	29.0	127.9	(39.7)	(68.2)	37.5	27.3
Net exchange gains	0.6	(2.6)	(6.3)	(40.0)	10.0	10.0
Operating expenses	2.6	2.2	4.9	3.5	11.8	11.8
Employee expenses	(2.3)	(7.2)	(5.2)	(0.0)	13.4	12.4
Key ratios (%)						
Yield on average earning assets	8.6	8.0	7.3	7.5	7.9	8.1
Yield on average loans	9.0	8.3	7.9	8.4	9.0	9.3
Yield on average investments	8.8	8.8	7.6	7.5	7.4	7.4
Average cost of funds	6.6	6.0	5.4	5.3	5.5	5.6
Interest on deposits	6.7	6.1	5.5	5.4	5.6	5.7
Difference	2.1	2.0	2.0	2.2	2.4	2.5
Net interest income/earning assets	2.2	2.2	2.1	2.3	2.5	2.6
New provisions/average net loans	1.5	2.4	4.4	2.2	1.5	1.2
Interest income/total income	75.4	75.6	71.4	73.0	74.8	76.1
Other income / total income	30.4	35.8	34.9	29.0	27.6	26.6
Operating expenses/total income	57.1	54.6	51.8	48.2	47.2	46.8
Operating profit /AWF	0.2	(0.4)	(1.8)	0.2	0.8	1.1
Tax rate	23.4	(62.2)	21.0	21.0	23.0	23.0
Dividend payout ratio	9.9	—	—	15.0	15.0	15.0
Current deposit	23.7	27.7	28.0	28.0	28.0	28.0
Fixed deposit	67.6	66.0	65.9	65.9	65.9	65.9
Savings deposit	23.7	27.7	28.0	28.0	28.0	28.0
Loans-to-deposit ratio	78.0	76.2	70.7	69.3	70.6	71.9
Asset quality (%)						
Gross NPL	8.5	10.9	15.2	15.4	13.1	10.6
Net NPL	5.2	6.6	8.4	8.1	6.2	3.6
Slippages	5.1	5.0	7.4	4.0	1.5	1.5
Provision coverage (ex write-off)	42.0	44.1	50.7	54.0	58.6	70.8
Dupont analysis (%)						
Net interest income	2.1	2.1	2.0	2.2	2.4	2.5
Loan loss provisions	1.0	1.6	2.7	1.3	0.9	0.7
Net other income	0.9	1.2	1.1	0.9	0.9	0.9
Operating expenses	1.6	1.5	1.5	1.5	1.5	1.5
Inv. depreciation	0.0	0.1	0.3	0.0	(0.0)	(0.0)
(1- tax rate)	76.6	162.2	79.0	79.0	77.0	77.0
ROA	0.3	0.1	(1.1)	0.2	0.7	0.9
Average assets/average equity	20.2	20.4	21.1	21.2	20.6	19.6
ROE	7.0	2.7	(23.7)	4.0	14.4	17.5

Source: Company, Kotak Institutional Equities

Exhibit 12: Union Bank of India: financial summary
March fiscal year-ends, 2016-21E (%)

	2016	2017	2018	2019E	2020E	2021E
Income statement						
Total interest income	321,988	326,600	327,480	351,174	391,414	441,872
Loans	236,581	229,431	227,730	241,574	273,085	314,783
Investments	75,351	86,951	87,800	95,273	103,579	111,711
Cash and deposits	10,056	10,218	11,951	14,327	14,750	15,377
Total interest expense	238,857	237,566	234,434	245,360	267,436	299,585
Deposits from customers	220,774	219,991	215,562	224,749	242,913	270,655
Net interest income	83,131	89,033	93,046	105,814	123,978	142,286
Loan loss provisions	39,243	66,134	125,438	63,564	45,727	40,563
Net interest income (after prov.)	43,888	22,899	(32,392)	42,250	78,250	101,723
Other income	36,317	49,646	49,899	43,168	47,314	51,670
Net fee income	4,098	4,687	5,218	6,001	6,721	7,528
Net capital gains	9,146	20,845	12,579	4,000	5,500	7,000
Net exchange gains	9,776	9,523	8,925	5,355	5,891	6,480
Operating expenses	63,022	64,378	67,550	69,909	78,192	87,428
Employee expenses	36,993	34,342	32,552	32,549	36,911	41,469
Depreciation on investments	1,493	6,304	15,600	2,300	(500)	(500)
Other Provisions	(1,964)	(1,559)	769	1,500	500	500
Pretax income	17,654	3,422	(66,412)	11,709	47,373	65,965
Tax provisions	4,138	(2,130)	(13,938)	2,457	10,889	15,172
Net Profit	13,516	5,552	(52,474)	9,252	36,483	50,793
% growth	(24.1)	(58.9)	(1,045.1)	(117.6)	294.3	39.2
PBT - Treasury + Provisions	47,280	53,456	62,816	75,074	87,600	99,528
% growth	(7.6)	13.1	17.5	19.5	16.7	13.6
Balance sheet						
Cash and bank balance	292,762	328,225	494,412	495,678	514,606	535,145
Cash	11,248	10,308	12,903	13,549	14,226	14,937
Balance with RBI	144,799	154,897	197,261	197,882	216,133	235,960
Balance with banks	39,172	56,482	71,811	71,811	71,811	71,811
Net value of investments	892,083	1,121,490	1,237,801	1,359,668	1,464,222	1,581,361
Govt. and other securities	714,690	875,510	973,490	1,095,357	1,199,911	1,317,050
Shares	12,370	20,061	18,469	18,469	18,469	18,469
Debentures and bonds	133,534	172,217	194,536	194,536	194,536	194,536
Net loans and advances	2,673,540	2,864,666	2,887,606	2,890,963	3,206,035	3,554,403
Fixed assets	39,399	38,944	38,333	37,034	37,586	38,169
Other assets	149,175	173,720	215,908	226,703	238,038	249,940
Total assets	4,046,959	4,527,044	4,874,060	5,010,046	5,460,487	5,959,018
Deposits	3,427,200	3,758,990	4,085,016	4,171,561	4,541,314	4,942,393
Borrowings and bills payable	327,027	427,214	469,444	509,802	554,196	603,030
Other liabilities	63,820	101,078	68,633	70,087	76,299	83,038
Total liabilities	3,818,047	4,287,282	4,623,093	4,751,450	5,171,810	5,628,461
Paid-up capital	6,874	6,874	11,686	11,686	11,686	11,686
Reserves & surplus	222,038	232,888	239,282	246,910	276,991	318,871
Total shareholders' equity	228,912	239,762	250,968	258,596	288,677	330,557

Source: Company, Kotak Institutional Equities

Concerns aggravated by technical factors. In our view, even a soft quarter and Jio concerns should not have warranted sharp 30-35% correction in the stock price this month. Other elements could be at play with high promoter pledge (~84% of promoter holdings). We find the current stock valuations at 5.3X FY2019E EBITDA attractive notwithstanding underlying business concerns. However, resolution of high promoter pledge concern is critical for some recovery in the stock price. We cut FY2019-21E EBITDA by 4-5% and TP to ₹51 (₹70 earlier) valuing it at 5.5X FY2020E EV/EBITDA.

Company data and valuation summary

DishTV

Stock data				Forecasts/Valuations			
				2019E	2020E	2021E	
52-week range (Rs) (high,low)				87-36			
Market Cap. (Rs bn)				79.7			
Shareholding pattern (%)							
Promoters				36.4			
FIIs				25.9			
MFs				2.4			
Price performance (%)				1M	3M	12M	
Absolute				(24.6)	(35.5)	(44.5)	
Rel. to BSE-30				(19.9)	(29.3)	(45.9)	
EPS (Rs)				1.0	2.4	3.2	
EPS growth (%)				329.2	139.8	31.6	
P/E (X)				42.8	17.9	13.6	
Sales (Rs bn)				67.4	70.8	73.2	
Net profits (Rs bn)				1.9	4.7	6.1	
EBITDA (Rs bn)				23.1	25.0	26.0	
EV/EBITDA (X)				4.2	3.5	2.9	
ROE (%)				40.2	75.0	71.2	
Div. Yield (%)				0.0	0.0	0.0	

Assessing risk from Jio and overall business outlook

- ▶ **Risk from Jio.** There are two parts to this: (1) Direct risks to subscriber base and ARPU. We expect Jio to roll out FTTH+IPTV services in about top 100 cities in the next three years and gain around 5 mn subs from DTH. Impact on Dish TV will be nominal as about 75% of its subscriber base is in rural markets where Jio may not roll out for a foreseeable future. Even within urban markets, Dish TV has a relatively lower share in high-ARPU subs that are more likely to switch to Jio. We model Dish TV to lose 1 mn subs and modest pressure on ARPU. (2) Indirect risks from higher competitive intensity in rural. It is likely that DTH companies who lose subscribers to Jio in urban market may become more aggressive in the semi-urban and rural markets. Further consolidation can't be ruled out either. The impact of likely increase in competitive intensity in rural markets needs to be factored in through lower valuations.
- ▶ **Other risks/overhang.** We see some slowdown in DTH industry's subscriber addition (down 15%/30% yoy for Airtel/Dish in 1H). It could be due to Freedish and a lack of push for phase IV digitization. Subscriber addition trends need to be watched closely. About 84% of the shareholding of Dish TV promoters (implies ~51% of total shares of the company) was pledged as of Sep 2018-end and the stock has corrected about 35% since then. High promoter pledge (as of Sep 2018-end) in Dish TV and other group companies (Zee Ent. 60%, Zee Media 73%, Zee Learn 95%) is a key investor concern. The stock may remain under pressure until this overhang is resolved. We believe that the group has several assets that can be divested to reduce promoter borrowing and pledges; we will keep a close eye (Essel Infra recently divested power projects).

Valuation compelling but technical factors overwhelming; maintain ADD

We cut FY2019-21E EBITDA estimates by 4-5% as we factor in 2Q miss and model potential impact of Jio. We model (1) subscriber addition of 0.8 mn/year over FY2020-21E (1.2 mn in FY2019E), and (2) 1% ARPU CAGR. Our revised TP is ₹51 (₹70 earlier). We value Dish TV at 5.5X FY2020E EV/EBITDA (6.5X earlier). Our target multiple largely captures Jio risk and potential prior period license fee liability payout of ₹2 bn. SC verdict on TRAI tariff order is expected soon; Dish TV's management is hopeful of a favorable outcome for the DTH industry.

Jaykumar Doshi

2QFY19 results—operating performance short of expectations

Dish TV's net subscriber addition of 200K was below our estimate. ARPU at ₹207 (KIE ₹212) declined 3.3% qoq due to lower sports content (seasonal) as per the management. Operating costs declined 2% qoq driven by efficiencies; it included forex loss of about ₹210 mn (similar to that in 1Q). EBITDA at ₹5.4 bn was 2% below our estimate. Interest expense was higher due to forex loss. Weaker-than-estimated performance following a good 1Q once again raises questions around consistency. Net debt as of Sep 2018-end was ₹21.5 bn and FCF for the quarter was about ₹2 bn; the management has guided end-FY2019E net debt of ₹16.5 bn. It has also reiterated guidance of 8% revenue growth, exit EBITDA margin of 35% and net subscriber addition of 1.3 mn. Dish TV declared dividend of ₹0.5/share for the first time.

Exhibit 1: Interim results of Dish TV India (DITV) (merged entity), March fiscal year-ends (Rs mn)

	2QFY19	2QFY19E	2QFY18	1QFY19	% chg.		
					KIE	yoy	qoq
Total revenues	15,943	16,610	7,486	16,556	(0)	113	(4)
- Subscription revenues	14,536	15,010	6,917	14,893	1	110	(2)
- Other operating income	1,407	1,600	569	1,663	(9)	147	(15)
Total expenditure	(10,537)	(10,950)	(5,325)	(10,989)	0	98	(4)
Direct operating costs	(8,672)	(8,775)	(3,921)	(8,841)	(1)	121	(2)
Employee expenses	(626)	(575)	(366)	(577)	4	71	9
Other expenses	(1,238)	(1,600)	(1,038)	(1,571)	11	19	(21)
EBITDA	5,406	5,660	2,161	5,568	(2)	150	(3)
EBITDA Margin (%)	33.9	34.1	28.9	33.6			
Other income	147	155	77	157	17	91	(7)
Interest expense	(1,592)	(1,575)	(611)	(1,775)	27	161	(10)
Depreciation	(3,675)	(3,600)	(1,899)	(3,608)	5	94	2
Pretax profits	286	640	(272)	342	(67)	(205)	(16)
Extraordinaries							
Tax provision	(89)	(90)	93	(87)			
Minority interest							
Net income	197	550	(179)	255	(72)	(210)	(23)
EPS	0.1	0.3	(0.1)	0.1			
Operational metrics							
Net sub adds ('000s)	200	250	NA	301	(33.3)		(33.6)
Net paying subscribers (mn)	23.5	23.6	NA	23.3	0.9		0.9
ARPU (Rs/month/sub)	207	212	NA	214	(0.5)		(3.3)

Notes:

(1) 2QFY19 and 1QFY19 financials represent Dish TV + Videocon d2h (merged entity)
yoy numbers are not comparable

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Revised estimates for DITV, March fiscal year-ends, 2019E-21E (Rs mn)

	Revised			Previous			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Subscription revenues	59,472	62,548	64,779	61,454	65,085	68,208	(3.2)	(3.9)	(5.0)
Other revenues	7,895	8,208	8,376	6,537	6,754	6,820	20.8	21.5	22.8
Total revenues	67,367	70,756	73,155	67,991	71,840	75,028	(0.9)	(1.5)	(2.5)
Total expenditure	44,278	45,707	47,132	43,935	45,682	47,849	0.8	0.1	(1.5)
EBITDA	23,090	25,049	26,023	24,056	26,158	27,179	(4.0)	(4.2)	(4.3)
D&A expenses	15,073	15,828	16,014	15,073	15,828	16,014	-	-	-
EBIT	8,016	9,221	10,009	8,982	10,330	11,165	(10.8)	(10.7)	(10.4)
PAT	1,945	4,664	6,136	3,518	5,551	7,061	(44.7)	(16.0)	(13.1)
EPS (Rs/share)	1.0	2.4	3.2	1.8	2.9	3.7	(44.7)	(16.0)	(13.1)
EBITDA margin (%)	34.3	35.4	35.6	35.4	36.4	36.2			
Key assumptions									
Net subscribers yr-end (mn)	24.2	25.0	25.7	24.2	25.1	25.8			
Net subscriber additions (mn)	1.2	0.8	0.8	1.2	0.9	0.8			
ARPU (Rs/month/sub)	210	212	213	217	220	224			
ARPU growth (yoy %)	1.5	1.0	0.5	4.9	1.5	1.5			

Source: Companies, Kotak Institutional Equities estimates

Exhibit 3: Valuation of Dish TV (merged entity)

EBITDA (Rs mn)- FY2020E	25,049
EV/EBITDA target multiple (X)	5.40
EV (Rs mn)	135,267
Net debt (Rs mn) - FY2019E	17,175
Prior period license fee liability	20,000
Equity value (Rs mn)	98,092
Shares outstanding (mn)	1,925
Target price (Rs/share)	51

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Consolidated financial summary of Dish TV (merged entity), March fiscal year-ends, 2018-21E (Rs mn)

	2018	2019E	2020E	2021E
Profit model (Rs mn)				
Total revenues	46,342	67,367	70,756	73,155
EBITDA	13,161	23,090	25,049	26,023
Other income	542	356	477	854
Interest	(3,964)	(5,941)	(3,868)	(3,193)
Depreciation	(10,717)	(15,073)	(15,828)	(16,014)
Pretax profits	(979)	2,432	5,830	7,670
Taxes	130	(486)	(1,166)	(1,534)
PAT	(849)	1,945	4,664	6,136
EPS (Rs)	(0.4)	1.0	2.4	3.2
Balance sheet (Rs mn)				
Total Equity	67,361	69,306	73,970	80,106
Total borrowings	27,731	20,731	13,231	5,731
Current liabilities	56,780	57,864	59,550	61,298
Total liabilities	151,871	147,901	146,750	147,135
Cash and cash eq	5,635	3,556	5,567	9,487
Inventories	381	419	440	455
Receivables	3,020	3,322	3,489	3,607
Loans and advances	4,811	5,292	5,559	5,747
Other current assets	3,369	3,705	3,892	4,024
Net fixed assets	128,630	125,581	121,778	117,789
Deferred tax assets	6,027	6,027	6,027	6,027
Total assets	151,871	147,901	146,750	147,135
Free cash flow (Rs mn)				
Operating cash flow, excl. W-cap, ex-taxes		23,090	25,049	26,023
Working capital		(3,833)	(1,296)	(1,045)
Taxes paid		(486)	(1,166)	(1,534)
Capital expenditure		(12,025)	(12,025)	(12,025)
Other income (net)		(1,824)	(1,051)	1
Free cash flow		4,920	9,512	11,420
Key assumptions / metrics				
Year-end net subs (mn)	23.0	24.2	25.0	25.7
Net sub adds (mn)	(5.4)	1.2	0.8	0.8
ARPU (Rs/sub/month)	207	210	212	213
Content cost as % of subscription revenue	36.0	34.3	32.8	32.0
Effective tax rate (%)	13.3	20.0	20.0	20.0
EBITDA margin (%)	28.4	34.3	35.4	35.6
ROAE	(2.1)	2.8	6.5	8.0
ROACE	3.0	6.9	8.3	9.3
Net debt (Rs mn)	22,096	17,175	7,664	(3,756)

Notes:

- (1) Appointment date of the Dish TV and Videocon d2h merger is October 1, 2017.
- (2) FY2018 financials above represent financial performance of Dish TV for 12 months and Videocon d2h for 6 months starting Oct 01, 2017.
- (3) Had financials represented 12 months of Dish TV and Videocon d2h performance, revenues would have been Rs62.37 bn and EBITDA of Rs19.69 bn.

Source: Company, Kotak Institutional Equities estimates

September 2018: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
29-Oct	30-Oct	31-Oct	1-Nov	2-Nov	3-Nov	4-Nov
	3M India	Adani Power	Arvind	Aditya Birla Fashion	Adani Transmission	
	ABB	AIA Engineering	Berger Paints	Alkem Laboratories	Ashoka Buildcon	
	Bank of Baroda	Ajanta Pharma	DLF	Axis Bank	Cadila Healthcare	
	Cholamandalam	Canara Bank	GlaxoSmithkline Consumer	Bharat Forge	Endurance Technologies	
	Container Corporation	Castrol India	Godrej Properties	City Union Bank	GSPL	
	Cummins India	Cholamandalam	HDFC	Equitas Holdings	J K Cement	
	Dalmia Bharat	Dabur India	HPCL	Gillette India	ONGC	
	Emami	Escorts	IIFL Holdings	Godrej Consumer Products	Reliance Infrastructure	
	Gateway Distriparks	Gujarat Pipavav Port	Laurus Labs	Hindalco Industries	Torrent Pharmaceuticals	
	Info Edge	Jagran Prakashan	Mahindra Logistics	IOCL		
	IRB Infrastructure	Kalpataru Power Transmission	Marico	JSW Energy		
	Manpasand Beverages	L&T	S H Kelkar and Company	KEC International		
	Motilal Oswal Financial Services	Lupin	SRF	Magma Fincorp		
	Pdillite Industries	Narayana Hrudayalaya	Tata Communications	NTPC		
	Prestige Estates Projects	Reliance Nippon Life Asset Management		Oracle Financial Services		
	Tata Global Beverages	Tata Motors		P&G Hygiene		
	TeamLease Services	United Spirits		Petronet LNG		
	Tech Mahindra	Vedanta		PFC		
	The Ramco Cement			Punjab National Bank		
	Torrent Power			Reliance Power		
	Vakrangee			SAIL		
				Sun TV Network		
				Tata Chemicals		
				TCNS Clothing Co.		
				Whirlpool		
5-Nov	6-Nov	7-Nov	8-Nov	9-Nov	10-Nov	11-Nov
Balkrishna Industries	Dr Lal Pathlabs	Voltas		Amara Raja Batteries	National Aluminium Co.	
Bosch	Voltas	Dr Lal Pathlabs		India Cements		
Cipla				Sobha		
Exide Industries				Titan Company		
GAIL (India)						
Godrej Agrovet						
Indraprastha Gas						
Natco Pharma						
Orient Cement						
PNB Housing Finance						
Power Grid						
State Bank of India						
Timken						
WABCO India						
12-Nov	13-Nov	14-Nov	15-Nov	16-Nov	17-Nov	18-Nov
Aster DM Healthcare	Ashok Leyland	Apollo Hospitals				
Aurobindo Pharma	Grasim Industries	Coffee Day Enterprises				
Britannia Industries	Lemon Tree Hotels	JK Lakshmi Cement				
Coal India	Mahanagar Gas	Mahindra & Mahindra				
Godrej Industries	Sun Pharmaceuticals	Motherson Sumi Systems				
Oil India	Varroc Engineering	NBCC				
Shree Cement		Page Industries				
		Thermax				

Source: NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)			Mkt cap.		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		29-Oct-18	Target price (Rs)	Upside (%)	(Rs bn)	(US\$ bn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E		
Technology																													
HCL Technologies	ADD	986	1,100	11.6	1,373	18.7	1,409	74	78	81	18.1	5.6	4.5	13.4	12.7	12.1	8.8	7.9	7.2	3.1	2.6	2.4	25.1	22.1	20.5	0.8	3.1	3.3	32.8
Hexaware Technologies	REDUCE	313	360	15.0	93	1.3	302	20	23	25	20.3	13.6	12.3	15.7	13.8	12.3	11.7	9.1	7.9	4.1	3.5	3.0	27.8	27.1	26.3	2.6	2.6	3.2	19.5
Infosys	ADD	645	780	21.0	2,817	38.4	4,350	37	41	45	13.5	12.3	10.4	17.6	15.7	14.2	12.1	10.5	9.4	4.0	3.6	3.2	23.5	24.1	23.9	3.4	3.0	3.3	85.7
L&T Infotech	ADD	1,695	2,000	18.0	293	4.0	175	83	95	110	30.5	14.0	16.0	20.4	17.9	15.5	14.9	12.4	10.5	6.2	5.1	4.2	33.9	31.3	29.6	1.4	1.5	1.8	9.9
Mindtree	ADD	778	1,080	38.9	128	1.7	165	45	55	63	30.2	23.1	14.0	17.3	14.1	12.3	10.9	8.5	7.3	4.0	3.4	2.9	24.8	26.0	25.2	1.7	2.1	2.4	22.4
Mphasis	SELL	979	900	(8.0)	189	2.6	193	55	63	65	26.4	13.4	2.7	17.7	15.6	15.2	12.2	11.1	10.3	3.1	3.2	2.9	18.5	19.8	20.1	2.0	2.6	3.1	8.2
TCS	REDUCE	1,871	1,950	4.2	7,021	95.6	3,752	85	95	103	25.6	11.6	8.9	22.1	19.8	18.2	15.6	14.0	12.9	6.9	6.5	6.1	33.8	33.7	34.8	1.8	3.5	3.9	75.8
Tech Mahindra	ADD	664	865	30.2	586	8.0	891	46	57	64	8.4	22.4	13.0	14.4	11.7	10.4	8.4	6.6	5.6	2.7	2.3	2.0	20.2	21.2	20.3	1.4	1.5	1.7	38.9
Wipro	REDUCE	330	325	(1.4)	1,491	20.3	4,507	19	23	25	11.7	21.2	7.9	17.4	14.4	13.3	11.2	9.3	8.5	2.7	2.4	2.2	16.4	17.7	17.6	0.5	3.0	3.3	21.6
Technology	Cautious				13,990	191					16.6	12.3	9.0	18.7	16.7	15.3	12.8	11.2	10.2	4.5	4.1	3.7	23.9	24.5	24.3	1.9	3.2	3.5	314.8
Telecom																													
Bharti Airtel	ADD	294	360	22.4	1,176	16.0	3,997	(8)	(9)	(4)	(278.8)	(8.6)	54.5	(34.7)	(32.0)	(70.3)	9.3	8.3	7.0	2.0	2.2	2.5	(5.2)	(6.5)	(3.3)	2.0	2.0	2.0	29.2
Bharti Infratel	REDUCE	265	270	2.0	489	6.7	1,850	13	13	14	(4.1)	(2.7)	11.6	20.1	20.6	18.5	7.5	7.7	7.0	3.0	3.0	2.9	14.7	14.6	16.0	4.0	4.0	4.4	10.5
IDEA	REDUCE	38	45	19.4	329	4.5	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(2.2)	(2.2)	(2.5)	39.4	33.0	20.3	0.7	1.1	2.1	(29.7)	(41.1)	(59.4)	—	—	—	15.0
Tata Communications	ADD	466	660	41.6	133	1.8	285	0	3	7	(77.5)	694.2	123.5	1,258	158.4	70.9	9.9	8.7	7.8	(57.9)	(78.6)	(1,523.3)	7.8	(42.1)	(211.0)	1.4	1.6	1.6	2.9
Telecom	Cautious				2,127	29					(2,723.8)	(5.5)	37.2	(25.8)	(24.4)	(38.9)	10.8	9.9	8.4	2.2	2.5	2.9	(8.4)	(10.4)	(7.6)	2.1	2.1	2.2	57.6
Utilities																													
CESC	BUY	864	1,180	36.5	115	1.6	133	115	128	141	31.7	11.6	10.1	7.5	6.7	6.1	5.5	4.9	4.2	0.7	0.7	0.6	10.0	10.4	10.5	1.5	1.5	1.5	9.9
JSW Energy	REDUCE	66	70	6.4	108	1.5	1,640	5.1	6.5	6.6	65.9	26.8	2.9	12.9	10.2	9.9	5.6	4.7	4.2	0.9	0.8	0.8	7.2	8.5	8.0	—	—	—	1.3
NHPC	ADD	24	30	23.2	250	3.4	10,260	3.1	3.2	3.4	26.9	1.8	8.0	7.9	7.7	7.2	7.3	7.0	7.5	0.8	0.8	0.7	10.4	10.2	10.6	7.1	7.2	6.1	1.2
NTPC	BUY	159	190	19.5	1,311	17.9	8,245	15	16	18	18.8	4.4	16.5	10.7	10.2	8.8	8.7	8.0	6.8	1.2	1.1	1.0	11.6	11.3	12.2	2.8	2.9	3.4	14.0
Power Grid	BUY	190	250	31.9	992	13.5	5,232	19	21	23	19.3	13.6	7.6	10.1	8.9	8.3	7.2	6.6	6.3	1.6	1.5	1.3	17.1	17.5	17.0	3.3	3.8	4.0	13.2
Tata Power	BUY	78	90	16.0	210	2.9	2,705	6.3	6.9	9.7	17.0	10.6	39.7	12.4	11.2	8.0	9.8	10.0	9.4	1.2	1.1	1.0	10.5	10.5	13.0	—	—	—	5.8
Utilities	Attractive				2,984	41					21.3	8.6	13.1	10.2	9.4	8.3	7.8	7.2	6.6	1.2	1.1	1.0	11.9	12.0	12.4	3.0	3.2	3.4	45.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

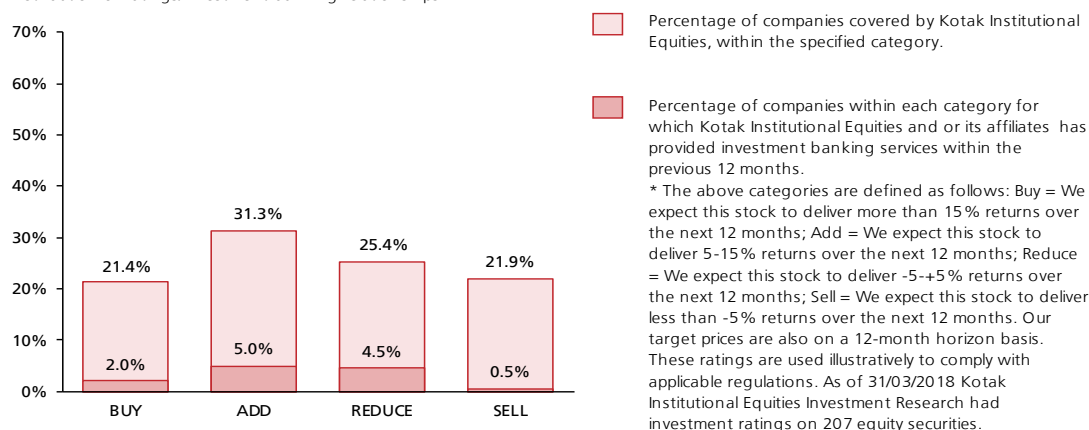
Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (Rs bn) (US\$ bn)		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		29-Oct-18	Target price (Rs)		2019E	2020E		2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	
Others																													
Aditya Birla Fashion and Retail	BUY	180	220	22.5	139	1.9	773	2	4	6	50.6	59.1	53.5	78.2	49.2	32.0	23.1	17.9	14.5	10.9	8.9	7.0	15.0	20.0	24.5	—	—	—	5.5
Astral Poly Technk	SELL	870	640	(26.4)	104	1.4	120	19	25	29	30.2	28.8	16.1	45.6	35.4	30.5	24.6	19.5	16.4	8.0	6.6	5.5	19.8	20.5	19.7	0.1	0.1	0.2	1.1
Avenue Supermarts	SELL	1,291	890	(31.1)	806	11.0	624	16	20	26	29.8	27.3	27.9	80.3	63.1	49.3	46.5	36.1	28.4	14.2	11.6	9.4	19.4	20.2	21.0	—	—	—	—
Bayer Cropscience	SELL	3,812	3,550	(6.9)	131	1.8	34	94	114	135	7.4	21.0	18.8	40.6	33.5	28.2	24.5	20.4	17.0	6.5	5.6	4.9	17.0	18.0	18.6	0.5	0.6	0.7	0.6
Crompton Greaves Consumer	SELL	202	190	(6.0)	127	1.7	627	6	7	8	15.6	21.3	17.0	33.8	27.9	23.8	21.0	17.6	14.9	11.3	8.7	6.7	39.3	35.3	32.0	1.0	1.2	—	3.0
Dhanuka Agritech	ADD	366	650	77.4	18	0.2	49	27	31	34	3.9	15.4	10.8	13.7	11.9	10.7	9.7	7.9	6.7	2.5	2.1	1.9	19.2	19.2	18.5	1.6	1.8	2.0	0.1
Godrej Agrovet	ADD	521	640	22.9	100	1.4	189	15	19	23	28.9	28.8	21.1	35.1	27.2	22.5	19.1	14.9	12.4	5.1	4.4	3.7	15.7	17.4	17.9	—	0.6	0.7	0.8
Godrej Industries	RS	460	—	—	155	2.1	336	16	20	—	8.9	24.2	—	29.0	23.3	—	25.5	27.6	—	3.8	3.3	—	13.9	15.1	—	0.4	0.4	—	3.9
Havells India	SELL	620	490	(20.9)	387	5.3	625	13	17	19	19.7	24.8	17.7	46.7	37.5	31.8	30.0	23.7	19.9	9.2	8.1	7.0	20.9	22.9	23.6	0.7	0.9	1.1	13.9
InterGlobe Aviation	BUY	884	950	7.4	340	4.6	383	(42)	40	73	(171.5)	194.3	84.7	(21.1)	22.4	12.1	(15.0)	10.6	5.4	6.1	4.8	3.5	(25.4)	23.9	33.3	(0.2)	—	0.4	22.2
Kaveri Seed	SELL	475	515	8.5	31	0.4	66	34	34	37	7.3	0.1	8.3	13.8	13.8	12.8	11.0	10.4	9.1	3.3	2.9	2.5	26.4	22.4	21.0	1.7	2.1	2.1	5.1
PI Industries	BUY	732	850	16.1	101	1.4	138	30	38	46	11.5	29.9	19.2	24.7	19.0	16.0	17.6	13.4	11.0	4.5	3.8	3.2	19.6	21.5	21.5	0.6	0.8	0.9	2.1
Rallis India	ADD	168	220	31.2	33	0.4	195	10	12	13	16.6	20.0	9.7	16.7	13.9	12.7	11.0	9.2	8.1	2.5	2.3	2.0	15.7	17.1	16.9	2.2	2.4	2.6	0.6
SIS	REDUCE	850	855	0.6	62	0.8	73	28	34	41	26.0	21.4	19.1	30.1	24.8	20.8	18.2	14.8	12.4	5.2	4.4	3.7	18.8	19.2	19.3	0.3	0.4	0.4	0.3
SRF	BUY	1,855	2,200	18.6	107	1.5	57	100	132	150	23.8	32.2	14.1	18.6	14.1	12.4	10.9	8.7	7.4	2.6	2.3	2.0	15.0	17.3	17.0	0.7	0.8	0.9	11.3
Tata Chemicals	ADD	685	760	10.9	175	2.4	255	44	51	56	(15.3)	14.6	11.5	15.5	13.6	12.2	6.4	5.3	4.5	1.4	1.4	1.3	9.7	10.3	10.8	2.2	2.5	2.5	6.7
TCNS Clothing Co.	BUY	595	760	27.7	36	0.5	64	18	23	27	15.3	27.5	20.8	33.7	26.4	21.9	18.0	13.5	10.7	6.7	5.2	4.0	22.7	22.2	20.9	—	—	—	—
TeamLease Services	SELL	2,471	1,785	(27.8)	42	0.6	17	60	77	100	38.9	29.2	28.7	41.3	31.9	24.8	41.6	31.5	24.2	7.8	6.2	5.0	20.8	21.7	22.4	—	—	—	1.0
UPL	ADD	632	650	2.9	322	4.4	507	47	54	60	9.5	14.7	11.4	13.4	11.7	10.5	9.0	7.6	6.5	2.9	2.4	2.1	23.9	22.9	21.5	1.4	1.7	1.9	24.0
Vardhman Textiles	ADD	1,011	1,300	28.6	58	0.8	56	118	130	142	14.8	9.7	9.8	8.5	7.8	7.1	6.6	6.0	5.3	1.1	1.0	0.9	13.1	13.0	13.0	2.0	3.0	3.0	0.5
Volta	SELL	522	530	1.5	173	2.4	331	17	21	25	0.4	18.8	18.9	30.1	25.3	21.3	22.4	18.3	15.2	4.0	3.6	3.2	13.9	14.8	15.7	0.7	0.8	1.0	11.6
Whirlpool	SELL	1,350	1,350	0.0	171	2.3	127	37	46	56	33.9	24.7	20.2	36.5	29.2	24.3	21.8	17.2	14.0	7.9	6.6	5.6	23.7	24.5	24.8	0.5	0.7	1.2	1.6
Others																													
					3,617	49				(22.2)	57.8	18.7	38.7	24.5	20.7	21.4	14.6	11.2	4.9	4.2	3.8	12.7	17.2	18.4	0.5	0.7	0.8	115.8	
KIE universe					101,732	1,385				22.0	28.8	15.3	20.3	15.8	13.7	10.3	9.1	8.1	2.6	2.3	2.1	12.6	14.7	15.2	1.5	1.9	2.0		
KIE universe (ex-energy)					89,131	1,214				28.0	34.7	16.9	22.7	16.9	14.4	11.4	9.9	8.8	2.9	2.6	2.3	12.6	15.3	16.0	1.4	1.8	2.0		

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\$)= 73.42

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2018

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

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NC = Not Covered. Kotak Securities does not cover this company.

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NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

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