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EQUITY MARKETS

India	Change %			
	10-Aug	1-day	1-mo	3-mo
Sensex	37,869	(0.4)	3.6	6.6
Nifty	11,430	(0.4)	3.7	5.8
Global/Regional indices				
Dow Jones	25,313	(0.8)	1.2	1.9
Nasdaq Composite	7,839	(0.7)	0.2	5.9
FTSE	7,667	(1.0)	0.1	(0.7)
Nikkei	22,064	(1.0)	(2.4)	(3.1)
Hang Seng	28,367	(0.8)	(0.6)	(8.9)
KOSPI	2,260	(1.0)	(2.2)	(8.8)
Value traded – India				
Cash (NSE+BSE)	382		357	335
Derivatives (NSE)	5,540		5,864	11,461
Deri. open interest	3,883		3,632	4,148

Forex/money market

	Change, basis points			
	10-Aug	1-day	1-mo	3-mo
Rs/US\$	69.1	4	65	144
10yr govt bond, %	8.0	-	(13)	8

Net investment (US\$ mn)

	9-Aug	MTD	CYTD
FIs	60	214	(200)
MFs	2	23	11,140

Top movers

Best performers	Change, %			
	10-Aug	1-day	1-mo	3-mo
RCOM IN Equity	19	(3.0)	49.6	42.0
DABUR IN Equity	443	(0.7)	17.7	22.4
RIL IN Equity	1,204	(1.1)	9.5	21.7
SBIN IN Equity	304	(4.1)	18.1	21.6
GCPL IN Equity	1,294	(0.3)	(1.2)	19.9
Worst performers				
JPA IN Equity	13	(7.0)	(14.8)	(29.0)
TTMT/A IN Equity	140	(2.3)	(6.8)	(28.3)
TTMT IN Equity	250	(3.0)	(5.1)	(24.4)
VEDL IN Equity	224	(3.0)	6.3	(22.0)
AL IN Equity	128	(1.3)	(3.7)	(21.2)

AUGUST 14, 2018
RESULT

Coverage view: **Attractive**

Price (₹): **161**

Target price (₹): **150**

BSE-30: **37,645**

Weak results. IOCL's normalized EBITDA at ₹65.2 bn in 1QFY19 was well below our estimate led by sharp weakness in underlying refining margins, which was partly offset by surprisingly strong marketing margins; reported results were boosted by ₹78.7 bn of adventitious gains. We retain REDUCE with a revised TP of ₹150 (₹160 earlier), noting material risk to earnings from uncertainty on cooking fuel subsidy-sharing mechanism and auto fuel price hikes under an adverse global/local macro environment.

Company data and valuation summary

Indian Oil Corporation

Stock data		Forecasts/Valuations			
		2018	2019E	2020E	
52-week range (Rs) (high,low)	231-150	EPS (Rs)	20.5	18.2	17.5
Market Cap. (Rs bn)	1,560.2	EPS growth (%)	(24.8)	(11.2)	(4.1)
Shareholding pattern (%)		P/E (X)	7.8	8.8	9.2
Promoters	57.0	Sales (Rs bn)	4,212.2	5,452.2	5,375.0
FIs	6.2	Net profits (Rs bn)	194.5	172.7	165.6
MFs	4.1	EBITDA (Rs bn)	364.8	337.2	327.9
Price performance (%)	1M	3M	12M		
Absolute	1.0	(5.0)	(22.0)	EV/EBITDA (X)	4.6
Rel. to BSE-30	(2.0)	(10.3)	(35.3)	ROE (%)	18.5
				Div. Yield (%)	7.2
					4.5
					4.4

Lower refining margin mars results; marketing margins were surprisingly strong

IOCL's normalized EBITDA declined 10% qoq to ₹65.2 bn, adjusted for adventitious/forex gains, led by sharp decline in inventory-adjusted refining margins to US\$3.4/bbl, which was partly offset by surprisingly higher marketing margins at ~₹1,059/ton. Reported EBITDA at ₹125.8 bn and net income at ₹68.3 bn were well above our expectations, boosted by large adventitious gains of ₹78.7 bn across refining and marketing segments, which was partly offset by (1) forex-related loss of ₹18.1 bn, (2) lower other income and (3) higher other expenses.

- ▶ **Lower normalized refining margins at US\$3.4/bbl.** Refining segment reported EBITDA loss of ₹1 bn, adjusted for inventory movement, as compared to a contribution of ₹15.8 bn in 4QFY18, reflecting sharp decline in normalized margins to US\$3.4/bbl from US\$6.1/bbl in 4QFY18. Reported refining margins of US\$10.2/bbl included large adventitious gains of US\$6.8/bbl (~₹59.2 bn). Throughput increased 3% qoq to 17.7 mn tons. IOCL's segment EBITDA implied higher refining operating cost of US\$3.5/bbl versus US\$3/bbl in FY2018.
- ▶ **Surprisingly strong marketing margins.** Inventory-adjusted marketing EBITDA increased to ₹24.2 bn from ₹20 bn in 4QFY18, led by sharp 20% qoq jump in implied unit margins to ₹1,059/ton; we are surprised by sharp increase in IOCL's margins, contrary to the moderation in auto fuels margins and sequential decline in gross margins reported by BPCL/HPCL. We note that IOCL's cost allocation across other segments seemed to have increased in 1QFY19, which may have perhaps skewed the differential on segment EBITDA.
- ▶ **Lower contribution from petchem and pipeline.** Petchem EBITDA declined modestly to ₹16.3 bn reflecting 3.5% qoq moderation in unit EBITDA margins to US\$381/ton. Pipeline EBITDA declined 7% qoq to ₹16.3 bn, led by 8% reduction in implied margins to ₹712/ton.
- ▶ **4.3% growth in domestic volumes despite modest 2.3% growth in auto fuels.** IOCL's domestic volumes grew by 4.3% yoy to 21.6 mn tons; exports declined to 1.2 mn tons from 1.8 mn tons in 4QFY18. IOCL's diesel and gasoline sales volumes grew at 1.5% and 4.9% yoy, both slower than increase in domestic consumption.

Fine-tune estimates; retain REDUCE with revised TP of ₹150

We revise our consolidated EPS estimates to ₹18.6 (+8%) in FY2019 and ₹17.9 (-3%) in FY2020, factoring in (1) lower underlying refining margins, (2) modestly lower marketing margins, (3) a weaker rupee and (4) other minor changes; our FY2019 EPS estimate has increased due to inclusion of 1QFY19 adventitious gains. Our TP reduces to ₹150 from ₹160 previously, based on 5.5X March 2020E EBITDA plus value of investments. We remain cautious on OMCs' earnings under an adverse macro environment underpinned by higher crude prices.

Tarun Lakhotia

Akshay Bhora

Exhibit 1: Normalized profits were sharply below estimates due to lower underlying refining margins
Calculation of normalized profitability (Rs bn)

	FY2016	FY2017	1QFY18	2QFY18	3QFY18	4QFY18	FY2018	1QFY19	1QFY19E
Gross contribution	578.0	763.0	176.1	172.7	233.1	230.0	780.0	249.2	212.5
Operating expenses	(374.5)	(445.2)	(96.1)	(99.0)	(100.4)	(119.7)	(415.2)	(123.5)	(118.1)
Reported EBITDA	203.5	317.8	80.0	73.7	132.7	110.3	364.8	125.8	94.4
Add: forex-related adjustment	14.1	—	—	2.6	(2.6)	—	—	18.1	19.2
Add: one-off provision/charges	7.1	86.0	(28.1)	—	—	(3.8)	—	—	—
Add: adventitious loss/(gain)	97.6	(124.8)	40.4	(10.6)	(63.0)	(34.4)	(67.6)	(78.7)	(30.6)
Normalized EBITDA	322.2	279.0	92.3	65.8	67.0	72.1	297.3	65.2	83.0
Other income	23.0	31.0	6.2	5.9	9.9	9.2	34.1	5.9	9.5
Finance cost	31.0	34.5	7.2	7.7	6.5	10.1	31.5	10.3	9.1
Depreciation	49.4	62.2	17.2	17.0	17.2	19.3	70.7	17.9	18.9
Normalized PBT	264.8	213.3	74.1	47.0	53.2	51.9	229.1	42.8	64.4
Normalized tax	90.0	72.5	25.2	16.0	18.1	17.6	77.9	14.6	21.9
Reported net income	109.2	191.1	45.5	37.0	78.8	52.2	213.5	68.3	50.1
Normalized net income	174.8	140.8	48.9	31.0	35.1	34.2	151.2	28.3	42.5
Normalized EPS (Rs)	18.4	14.9	5.2	3.3	3.7	3.6	16.0	3.0	4.5

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Sharp decline in refining contribution; marketing remains surprisingly strong
Segment-wise performance (Rs bn)

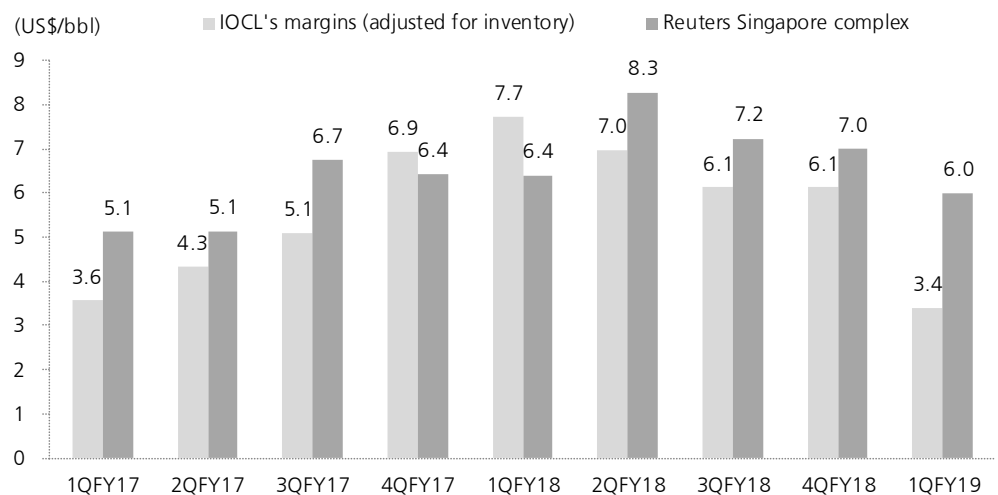
	FY2016	FY2017	1QFY18	2QFY18	3QFY18	4QFY18	FY2018	1QFY19
Break-up of normalized EBITDA								
Refining EBITDA	121.6	86.9	44.2	26.0	33.5	15.8	119.5	(1.0)
Throughput (mn tons)	56.7	65.2	17.5	16.1	18.2	17.2	69.0	17.7
Refining margins (US\$/bbl)	7.5	5.0	7.7	7.0	6.1	6.1	6.7	3.4
Implied refining cost (US\$/bbl)	3.0	2.3	2.4	3.5	2.2	4.2	3.0	3.5
Pipelines EBITDA	59.3	61.3	15.9	14.2	15.7	17.5	63.3	16.3
Throughput (mn tons)	79.8	82.5	21.4	19.3	22.4	22.6	85.7	22.9
Pipeline margins (Rs/ton)	743	743	745	736	701	774	739	712
Petchem EBITDA	60.9	75.9	18.2	10.3	15.6	16.9	61.0	16.3
Volumes (mn tons)	2.5	2.6	0.6	0.5	0.6	0.7	2.4	0.6
Petchem margins (US\$/ton)	365	438	464	356	376	395	400	381
Marketing EBITDA	81.6	76.5	21.4	14.4	16.4	20.0	72.2	24.2
Volumes (mn tons)	80.7	83.5	22.5	20.9	22.8	22.6	88.8	22.9
Marketing margins (Rs/ton)	1,011	916	953	689	717	885	813	1,059

Source: Company, Kotak Institutional Equities estimates

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

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			yoy		
					1QFY19E	1QFY18	4QFY18	FY2019E	FY2018	(% chg.,
Net sales	1,294,750	1,331,210	1,026,262	1,173,685	(3)	26	10	5,452,167	4,212,247	29
Total expenditure	(1,168,989)	(1,236,794)	(974,347)	(1,067,143)	(5)	20	10	(5,114,922)	(3,847,406)	33
Increase/(Decrease) in stocks	27,845		(67,193)	22,778				—	(23,275)	
Purchase of products/crude for resale	(456,523)	(510,996)	(354,973)	(426,275)	(11)	29	7	(2,016,814)	(1,521,176)	33
Consumption of raw materials	(616,859)	(607,726)	(456,080)	(543,987)	2	35	13	(2,683,731)	(1,887,801)	42
Staff cost	(23,686)	(25,828)	(24,141)	(29,419)	(8)	(2)	(19)	(103,314)	(100,794)	3
Other expenditure	(99,767)	(92,244)	(71,960)	(90,240)	8	39	11	(311,064)	(314,361)	(1)
EBITDA	125,761	94,416	51,915	106,542	33	142	18	337,245	364,841	(8)
Other income	5,853	9,495	12,276	2,401	(38)	(52)	144	33,981	34,067	(0)
Finance cost	(10,311)	(9,123)	(7,180)	(10,092)	13	44	2	(34,650)	(31,547)	10
Depreciation	(17,879)	(18,883)	(17,213)	(19,336)	(5)	4	(8)	(74,069)	(70,670)	5
Pretax profits	103,424	75,906	39,798	79,516	36	160	30	262,506	296,690	(12)
Prior-period/extraordinary income	(2)	—	28,081	813				—	28,953	
Current tax	(23,334)	(21,361)	(13,762)	(18,428)				(71,568)	(72,765)	
Deferred tax	(11,776)	(4,447)	(8,631)	(9,720)				(18,281)	(39,417)	
Net income	68,311	50,098	45,485	52,181	36	50	31	172,658	213,461	(19)
Adjusted net income	68,313	50,098	26,668	51,653	36	156	32	172,658	194,483	(11)
Adjusted EPS (Rs)	7.2	5.3	2.8	5.4				18.2	20.5	
Other comprehensive income	(20,447)		(29,750)	(16,640)					3,974	
Total comprehensive income	47,864		15,735	35,541					217,435	
Tax rate (%)	33.9	34.0	33.0	35.0				34.2	34.4	
Key data										
Crude throughput (mn tons)	17.7	17.8	17.5	17.2	(0.8)	0.8	3.0	71.2	69.0	3.2
Domestic sales (mn tons)	21.6	21.8	20.7	20.8	(0.7)	4.3	4.0	84.2	81.5	3.3
Export sales (mn tons)	1.2		1.8	1.8		(29.6)	(29.3)	6.2	7.3	(15.0)
Petchem sales (mn tons)	0.6		0.6	0.7		4.9	(3.9)	2.6	2.4	9.3
Pipelines throughput (mn tons)	22.9		21.4	22.6		7.0	1.3	87.2	85.7	1.8
Reported refining margin (US\$/bbl)	10.2	7.5	4.3	9.1				7.2	8.5	
Normalized refining margin (US\$/bbl)	3.4	5.0	7.7	6.1				5.5	6.7	
Implied marketing EBITDA margin (Rs/ton)	1,059	923	953	885				695	813	
Adventitious gain/(loss) -products	19,480	8,845	(12,360)	9,940				19,480	9,900	
Adventitious gain/(loss) -refining	59,180	21,765	(28,060)	24,480				59,180	57,690	
Net over-recovery/(under-recovery)	—	—	—	—				—	—	
Exchange gain/(loss)	(18,050)	(19,153)	6,120	(6,760)				(18,050)	3,040	
Contribution (EBITDA + other income)										
Refining	58,170		44,240	40,300		31	44	142,396	205,330	(31)
Marketing	43,690		9,080	29,910		381	46	82,239	82,060	0
Pipelines	16,270		15,900	17,470		2	(7)	66,850	63,320	6
Petchem	16,300		18,190	16,890		(10)	(3)	63,809	61,050	5
Others	(2,830)		5,070	8,120		(156)	(135)	15,931	19,030	(16)
Total	131,600		92,480	112,690		42	17	371,226	430,790	(14)

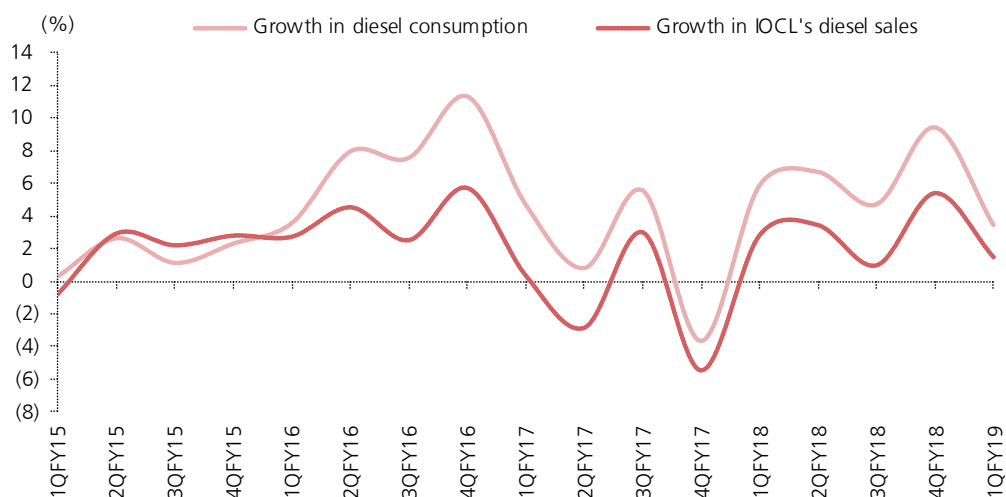
Source: Company, Kotak Institutional Equities estimates

Exhibit 4: IOCL's refining margins at a significant discount to Reuters Singapore complex
Refining margin performance, March fiscal year-ends, 1QFY17 onwards (US\$/bbl)

Source: Company, Kotak Institutional Equities

Exhibit 5: IOCL continues to lose market share in diesel

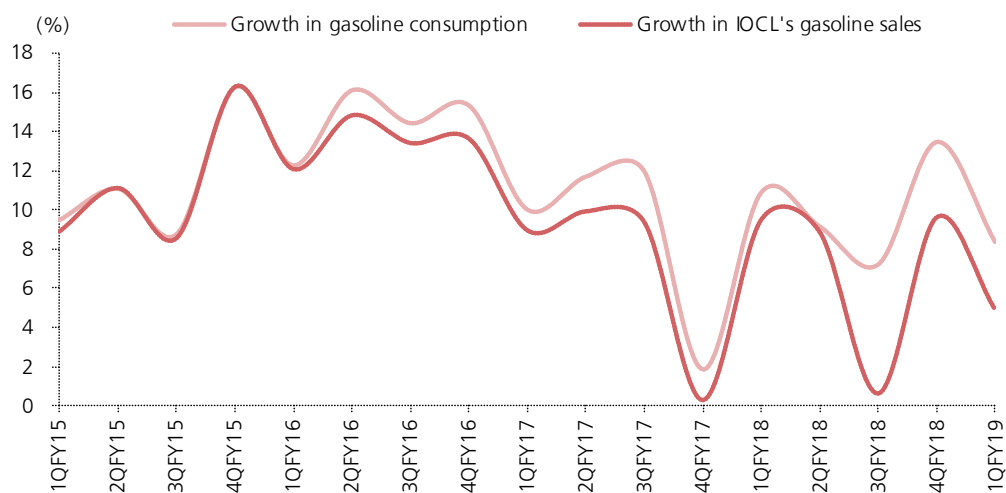
Growth in diesel consumption versus IOCL's sales, 1QFY15 onwards (%)



Source: Company, PPAC, Kotak Institutional Equities

Exhibit 6: IOCL continues to lose market share in gasoline

Growth in gasoline consumption versus IOCL's sales, 1QFY15 onwards (%)



Source: Company, Kotak Institutional Equities

Exhibit 7: We assume robust underlying refining margins and steady marketing margins over the next few years

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

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Key assumptions (IOC standalone)								
Exchange rate (Rs/US\$)	60.5	61.2	65.4	67.1	64.5	68.7	69.5	70.0
Effective tariff protection (%)	2.3	2.3	2.0	2.1	2.0	2.0	2.0	2.0
Crude throughput (mn tons)	53.1	53.6	57.2	65.2	69.0	71.2	72.0	72.0
Net refining margin (US\$/bbl)	4.2	0.3	5.1	7.8	8.5	7.2	6.4	6.6
Sales volume (mn tons)	68.8	70.3	74.4	75.9	78.9	82.1	85.4	88.9
Marketing margin on auto fuels (Rs/liter)	—	—	1.9	1.8	1.8	1.6	1.8	1.8
Subsidy under-recoveries (Rs mn)	(10,826)	(12,005)	(91)	—	—	—	—	—

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Lower refining/marketing margins pose significant risk to IOCL's earnings

Earnings sensitivity of IOCL (standalone) to refining margins and marketing margins (Rs mn)

	Fiscal 2019E			Fiscal 2020E			Fiscal 2020E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Refining margins									
Refining margins (US\$/bbl)	6.2	7.2	8.2	5.4	6.4	7.4	5.6	6.6	7.6
Net profits (Rs mn)	149,206	172,658	196,110	141,675	165,638	189,602	146,223	170,359	194,495
EPS (Rs)	15.7	18.2	20.7	14.9	17.5	20.0	15.4	18.0	20.5
% upside/(downside)	(13.6)		13.6	(14.5)		14.5	(14.2)		14.2
Marketing margins									
Auto fuels margins (Rs/liter)	1.1	1.6	2.1	1.3	1.8	2.3	1.3	1.8	2.3
Net profits (Rs mn)	152,671	172,658	192,645	144,819	165,638	186,458	148,664	170,359	192,054
EPS (Rs)	16.1	18.2	20.3	15.3	17.5	19.7	15.7	18.0	20.3
% upside/(downside)	(11.6)		11.6	(12.6)		12.6	(12.7)		12.7

Source: Kotak Institutional Equities estimates

Exhibit 9: We compute fair value of Rs150 for IOCL

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

EV/EBITDA based valuation	
Downstream business (Rs bn)	
March 2020E standalone EBITDA	328
EV/EBITDA (X)	5.5
EV of refining and marketing business (Rs bn)	1,803
EV of refining and marketing business (Rs) (A)	190
Investments (Rs bn)	
ONGC	158
Petronet LNG	42
CPCL	26
GAIL India	14
Oil India	6
Value of investments (Rs bn)	247
Value of investments (Rs) (B)	26
Net debt, including tax liabilities (Rs bn)	629
Net debt, including tax liabilities (Rs) (C)	66
Total equity value (A) + (B) - (C)	150

Source: Kotak Institutional Equities estimates

Exhibit 10: Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2014-21E (Rs mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)								
Net sales	4,732,101	4,375,261	3,471,764	3,598,732	4,212,247	5,452,167	5,374,971	5,653,566
EBITDA	162,880	100,099	223,963	423,154	385,690	355,826	346,087	350,975
Other income	34,446	41,808	23,586	42,486	34,454	34,356	35,404	36,429
Interest	(56,524)	(38,390)	(34,416)	(29,913)	(34,756)	(38,254)	(37,796)	(34,758)
Depreciation	(61,497)	(47,548)	(50,923)	(65,016)	(74,072)	(78,222)	(80,915)	(82,754)
Pretax profits	79,306	55,968	162,210	370,711	311,316	273,706	262,779	269,892
Extraordinary items	17,468	16,681	13,643	(93,231)	28,953	—	—	—
Current tax	(28,029)	(12,630)	(37,479)	(77,683)	(76,431)	(74,903)	(71,037)	(75,785)
Deferred tax	(998)	(7,559)	(18,532)	2,182	(41,204)	(18,821)	(18,906)	(16,619)
Net profits	67,152	52,340	119,841	201,362	222,591	179,982	172,837	177,488
Adjusted net profits after minority interests	56,388	40,483	106,969	264,262	199,248	176,453	169,368	174,053
Adjusted earnings per share (Rs)	5.8	4.2	11.0	27.9	21.0	18.6	17.9	18.4
Balance sheet (Rs mn)								
Total equity	672,052	691,157	899,864	1,015,332	1,125,182	1,221,159	1,313,386	1,408,000
Deferred tax liability	63,196	67,202	68,590	68,585	122,258	141,079	159,984	176,603
Total borrowings	918,172	606,441	574,440	603,172	629,769	671,144	612,519	583,894
Current liabilities	1,005,047	938,148	760,371	1,004,906	1,056,752	1,195,867	1,190,256	1,209,209
Total liabilities and equity	2,658,467	2,302,948	2,303,265	2,691,995	2,933,961	3,229,249	3,276,145	3,377,706
Cash	26,546	1,518	5,518	1,034	901	1,310	1,234	1,202
Current assets	1,386,185	992,932	749,201	979,837	1,117,160	1,335,090	1,303,795	1,327,753
Total fixed assets	1,014,640	1,074,342	1,181,706	1,253,051	1,355,991	1,430,439	1,506,207	1,581,342
Investments	231,097	234,156	366,840	458,072	459,909	462,409	464,909	467,409
Total assets	2,658,467	2,302,948	2,303,265	2,691,995	2,933,961	3,229,248	3,276,145	3,377,706
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	113,893	56,818	182,457	327,660	313,447	239,441	233,853	236,485
Working capital changes	51,750	350,039	32,023	(71,558)	(55,600)	(78,815)	25,684	(5,005)
Capital expenditure	(151,548)	(116,658)	(151,324)	(151,507)	(172,882)	(149,443)	(153,283)	(153,942)
Investments	(64,573)	(2,869)	(16,283)	(46,057)	(1,837)	(2,500)	(2,500)	(2,500)
Other Income	19,290	18,434	22,862	29,133	34,454	34,356	35,404	36,429
Free cash flow	(31,188)	305,765	69,735	87,670	117,583	43,039	139,158	111,467
Ratios (%)								
Debt/equity	124.9	80.0	59.3	55.6	50.5	49.3	41.6	36.8
Net debt/equity	121.3	79.8	58.7	55.6	50.4	49.2	41.5	36.8
RoAE	8.0	5.5	12.5	26.1	17.4	13.7	12.1	11.6
RoACE	5.9	4.5	9.2	18.1	12.7	10.5	9.6	9.4
Key assumptions (IOC standalone)								
Crude throughput (mn tons)	53.1	53.6	57.2	65.2	69.0	71.2	72.0	72.0
Effective tariff protection (%)	2.3	2.3	2.0	2.1	2.0	2.0	2.0	2.0
Net refining margin (US\$/bbl)	4.2	0.3	5.0	7.8	8.5	7.2	6.4	6.6
Sales volume (mn tons)	68.8	70.3	74.4	75.9	78.9	82.1	85.4	88.9
Marketing margin on auto fuels (Rs/liter)	—	—	1.9	1.8	1.8	1.6	1.8	1.8
Subsidy under-recoveries (Rs mn)	(10,826)	(12,005)	(91)	—	—	—	—	—
Adventitious gain/(loss) (Rs mn)	7,800	(22,220)	(30,710)	35,210	9,900	19,480	—	—

Source: Company, Kotak Institutional Equities estimates

AUGUST 14, 2018
RESULT

Coverage view: **Attractive**

Price (₹): **569**

Target price (₹): **660**

BSE-30: **37,645**

Good, though dented by one-offs. TATA's EBITDA of Rs64.7 bn (+30% yoy, flat qoq) was lower than our estimate due to a one-off impact of Rs1.3 bn pertaining to taxes, and forex loss of Rs7 bn (non-cash). TATA consolidated Bhushan Steel from May 18 which resulted in a bigger hit at the net-income level—this should improve from 2Q. Net-debt increased to Rs1.06 tn (from Rs715 bn)—leverage ratios are tad high but comfortable. We maintain our ADD rating but revise TP of Rs660 (Rs700 earlier).

Company data and valuation summary

Tata Steel

Stock data		Forecasts/Valuations			
		2018	2019E	2020E	
52-week range (Rs) (high,low)	748-493	EPS (Rs)	67.3	75.9	85.1
Market Cap. (Rs bn)	651.0	EPS growth (%)	62.6	12.8	12.1
Shareholding pattern (%)		P/E (X)	8.5	7.5	6.7
Promoters	33.2	Sales (Rs bn)	1,317.0	1567	1,025.3
FIs	19.6	Net profits (Rs bn)	81.1	91.4	102.5
MFs	13.7	EBITDA (Rs bn)	218.9	280.7	229.8
Price performance (%)		EV/EBITDA (X)	6.2	5.9	6.1
Absolute	1M (1.8)	ROE (%)	17.2	14.3	14.3
Rel. to BSE-30	3M (6.8)	Div. Yield (%)	1.7	1.8	1.8
	12M (19.2)				

Reported earnings weak due to forex losses, one-offs and consolidation of Bhushan Steel

TATA's EBITDA of Rs64.7 bn (+30% yoy, flat qoq) was lower than our estimate (KIE: Rs71.2 bn) largely due to forex losses and one-offs in standalone operations. The main factors that impacted EBITDA include (1) Rs1.3 bn on rates and taxes towards VAT facility charges and disallowance of credit on education cess, and Rs1.3 bn towards forex loss towards revaluation of the company's holdings—these were in standalone operations, and (2) Rs6.1 bn of forex loss in a subsidiary Tata Steel Global Holdings. The impact of forex losses in subsidiaries' EBITDA compared to the previous quarter earnings was close to Rs11 bn due to forex gains accounted earlier and forex losses booked in this quarter. Thus, the segment 'other trade related operations' comprising SE Asia subsidiaries reported EBITDA loss of Rs3.7 bn against EBITDA income of Rs4.2 bn in 4QFY18.

Standalone EBITDA improved 5% qoq to Rs50.7 bn (+71% yoy), 4% lower than our estimates—EBITDA/ton improved 8% qoq to Rs17,080/ton (+58% yoy) while volumes increased 8% yoy to 2.97 mn tons (-2% qoq). Europe's EBITDA/ton improved to US\$101 (from US\$70/ton in 4QFY18) while sales volumes increased 2% yoy to 2.45 mn tons. TSE reported revenues of Rs164 bn (+17% yoy, +1% qoq), EBITDA of Rs16.7 bn (+33% yoy, KIE: Rs13 bn).

Consolidation of Bhushan Steel impacts net income

TATA consolidated Bhushan Steel from May 18, 2018. This resulted in EBITDA contribution of only Rs0.7 bn against underlying full-quarter EBITDA of Rs8.2 bn (Rs9,800/ton for 850 kt) due to accounting of inventories at fair value (against costs)—EBITDA contribution from Bhushan will improve from 2QFY19. The impact on net income was higher as interest, depreciation cost increased by Rs4.9 bn qoq. As such, adjusted net-income declined 30% qoq to Rs22.8 bn (+49% yoy), lower than our estimate of Rs30.8 bn. Reported net-income of Rs19.5 bn was after Rs3.4 bn of exceptional items pertaining to mining issues.

Net-debt increases to Rs1.06 tn from Rs715 bn due to Bhushan acquisition

TATA's net debt increased to Rs1.06 tn compared to Rs715 bn for March 2018, post the acquisition of Bhushan Steel. We estimate the company's net-debt/EBITDA at 3.6X for FY2019E falling to 3.3X in FY2020E (led by European JV)—a tad high but comfortable. However, the leverage can increase if TATA acquires Bhushan Power & Steel—we await clarity on how this will unfold as TATA has submitted a revised bid, as per media reports. We cut our TP to Rs660 (Rs700 earlier) as we ascribe lower multiple of 6X EBITDA (6.5X earlier) on increased leverage.

Abhishek Poddar

Samrat Verma

Exhibit 1: Interim results of Tata Steel (consolidated), March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	(%chg)
					KIE	yoy	qoq			
Net sales	378,328	356,494	295,568	361,323	6	28	5	1,566,600	1,317,003	19
Expenditure	(313,651)	(285,269)	(245,828)	(296,334)	10	28	6	(1,285,877)	(1,098,098)	17
Consumption of raw materials	(139,995)	(135,113)	(110,699)	(136,772)				(622,988)	(521,646)	
Staff Cost	(49,333)	(43,557)	(43,039)	(45,827)				(191,818)	(176,062)	
Other Expenditure	(124,323)	(106,600)	(92,091)	(113,735)				(471,071)	(400,390)	
EBITDA	64,677	71,225	49,740	64,989	(9)	30	(0)	280,724	218,905	28
Other income	3,473	3,454	1,555	2,749				11,522	9,095	
Interest	(16,701)	(14,847)	(13,437)	(14,809)				(79,207)	(55,018)	
Depreciation	(18,056)	(15,197)	(15,011)	(15,122)				(76,000)	(59,617)	
Pretax profits	33,392	44,635	22,846	37,808	(25)	46	(12)	137,038	113,365	21
Extraordinaries	(3,436)	—	(6,168)	113,761				(3,436)	95,991	
Deferred tax	8,956		(4,150)	(653)				1,409	(14,026)	
Current tax	(19,992)	(14,401)	(3,255)	(5,108)				(46,834)	(20,028)	
Net income	18,919	30,234	9,273	145,808	(37)	104	(87)	88,178	175,303	(50)
Minority interest	173	(100)	(148)	(44,522)				(500)	(43,285)	
Share of profit from associates	448	592	59	586				1,500	1,741	
PAT after minority interest	19,540	30,726	9,184	101,872	(36)	113	(81)	89,178	133,759	(33)
Adjusted PAT	22,803	30,826	15,352	32,633	(26)	49	(30)	91,445	81,052	13
Ratios										
EBITDA margin (%)	17.1	20.0	16.8	18.0				17.9	16.6	
ETR (%)	33.1	32.3	44.4	3.8				33.1	30.0	
Adjusted EPS (Rs)	18.9	25.6	13.4	28.5				75.9	67.3	
Per ton analysis										
Realisations (Rs/ton)	57,760	59,416	50,698	58,278	(3)	14	(1)	62,284	53,424	17
EBITDA (Rs/ton)	9,874	11,871	8,532	10,482	(17)	16	(6)	11,161	8,880	26
Steel sales volumes (mn tons)	6.6	6.0	5.8	6.2	9	12	6	25.2	24.7	2.0
Segment revenue										
Tata Steel India	164,055		144,217	162,810		14	1		605,194	
Other Indian operations	49,574		18,312	30,425		171	63		94,224	
Tata Steel Europe	164,293		140,788	162,079		17	1		599,854	
Other trade related operations	79,332		72,027	77,004		10	3		278,318	
SE Asia operations	25,597		19,910	25,431		29	1		94,420	
Rest of the world	1,405		1,188	2,275		18	(38)		7,520	
Less: Inter-segment	(105,927)		(86,707)	(98,700)		22	7		(349,366)	
Net sales	378,328		309,733	361,323		22	5		1,330,164	
Segment EBITDA										
Tata Steel India	51,181		29,215	48,234		75	6	193,004	157,999	
Other Indian operations	3,300		2,048	3,481		61	(5)	26,616	9,560	
Tata Steel Europe	16,662		12,525	11,542		33	44	54,221	37,920	
Other trade related operations	(3,663)		8,177	4,212		NM	NM	1,840	20,502	
SE Asia operations	1,111		258	1,064		331	4	5,042	4,543	
Rest of the world	157		(255)	(358)				—	(37)	
Less: Inter-segment	(3,154)		(2,575)	(2,388)				—	(10,038)	
EBITDA	65,594		49,393	65,787		33	(0)	280,724	220,449	

Source: Company, Kotak Institutional Equities estimates

Changes in our estimates

Exhibit 9 highlights key changes in our estimates.

We incorporate KIE's economist-revised forex rate in our estimate of Rs68.7/US\$, Rs69.5/US\$ and Rs70/US\$ for FY2019E, FY2020E and FY2021E. We raise our India EBITDA/ton estimate by 2-7% to Rs15,400/ton, Rs13,400/ton and Rs13,500/ton for FY2019E, FY2020E and FY2021E. This results in a 2-5% increase in our consolidated EBITDA estimate to Rs281 bn, Rs230 bn and Rs238 bn for FY2019E, FY2020E and FY2021E. We estimate EPS of Rs75.9, Rs85.1 and Rs94.3 for FY2019E, FY2020E and FY2021E.

Our fair value of Rs660 is based on 6X FY2020E EBITDA. We value our European JV separately at Rs144/share assuming TATA's effective economic stake of 45%.

Exhibit 2: Interim results of Tata Steel (standalone), March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	(%chg)
					KIE	yoy	qoq			
Net sales	164,055	161,947	129,706	162,809	1	26	1	635,158	591,608	7
Expenditure	(113,335)	(108,863)	(100,043)	(114,716)	4	13	(1)	(442,154)	(433,818)	2
Consumption of raw materials	(42,928)	(44,154)	(35,776)	(43,126)				(180,402)	(180,702)	
Staff Cost	(12,820)	(12,735)	(11,577)	(14,094)				(50,346)	(48,289)	
Other Expenditure	(57,588)	(51,975)	(52,691)	(57,496)				(143,369)	(204,828)	
EBITDA	50,719	53,084	29,663	48,093	(4)	71	5	193,004	157,790	22
Other income	5,060	2,899	1,121	2,199				10,064	7,637	
Interest	(6,834)	(7,275)	(7,001)	(7,311)				(22,434)	(28,106)	
Depreciation	(9,867)	(9,394)	(9,664)	(9,348)				(38,402)	(37,275)	
Pretax profits	39,079	39,313	14,119	33,633	(1)	177	16	142,232	100,045	42
Extraordinaries	(3,347)	—	(6,168)	(16,074)				(3,347)	(33,663)	
Tax	(12,550)	(13,602)	(2,886)	(7,249)				(47,221)	(24,687)	
Net income	23,182	25,711	5,064	10,309	(10)	358	125	91,664	41,696	120
Adjusted net income	26,528	25,711	11,232	26,383	3	136	1	93,873	75,358	
Ratios										
EBITDA margin (%)	30.9	32.8	22.9	29.5				30.4	26.7	
ETR (%)	35.1	34.6	36.3	41.3				34.0	37.2	
EPS (Rs)	22.0	21.3	11.6	27.2				77.9	62.5	
Per ton analysis (Rs/ton)										
Realisations	54,392	53,628	46,675	52,628	1	17	3	50,813	47,775	6
EBITDA	17,077	17,873	10,786	15,872	(4)	58	8	15,440	12,976	19
Steel sales (mn tons)	2.97	2.97	2.75	3.03	-	8	(2)	12.50	12.16	3

Source: Company, Kotak Institutional Equities estimates

Analyzing 1QFY19 results and conference call highlights

- ▶ **India—EBITDA/ton improves 8% qoq to Rs17,080/ton.** The company reported standalone EBITDA of Rs50.7 bn (+71% yoy, +5% qoq), 4% lower than our estimates—EBITDA/ton improved 8% qoq to Rs17,080/ton (+58% yoy) while volumes increased 8% yoy to 2.97 mn tons (-2% qoq). India earnings were impacted by (1) Rs1.3 bn due to a one-off impact of rates and taxes pertaining to VAT facility charges, disallowance of credit on education cess, etc., and (2) forex loss of Rs1.3 bn. This is a translation loss for the company's investment in Tata Steel Holdings for payment of GBP550 mn towards British Steel Pension Scheme.

The company highlighted that steel realizations in India for 2Q are lower by Rs500/ton while coking coal costs are steady.

- ▶ **Europe—EBITDA/ton improves to US\$101/ton.** TSE's EBITDA/ton improved to US\$101 (from US\$70/ton in 4QFY18 & US\$81/ton in 1QFY18) while sales volumes increased 2% yoy to 2.45 mn tons. TSE reported revenues of Rs164 bn (+17% yoy, +1% qoq), EBITDA of Rs16.7 bn (+33% yoy, KIE: Rs13 bn). Improved earnings were led by improvement in operational manufacturing efficiencies, which were aided by GBP27 mn qoq led by lower repairs and maintenance and overheads as company schedules a maintenance shutdown mostly in 2Q and 3Q. The company will shut down its blast furnace in the UK in 2Q and 3Q this year as well.
- ▶ **South East Asia operations.** SE Asia operations reported EBITDA of Rs1.1 bn (Rs950 mn in 4QFY18). Volumes were flat yoy at 0.6 mn tons while EBITDA/ton was US\$27/ton (US\$24/ton in 4QFY18).
- ▶ **Net-debt increases on consolidation of Bhushan Steel.** The company reported net debt of Rs1,06 tn in June 2018 (includes perpetual securities) from Rs715 bn in March 2018—the increase was led by Bhushan Steel acquisition. Besides, there was impact of (1) Rs11 bn due to forex translation, (2) Rs29 bn due to increase in working capital.

We estimate net debt to decline to Rs999 bn by March 2019 and Rs761 bn by March 2020E—the fall in FY2020E indicates deconsolidation of European operations which will result in debt of Euro2.5 bn being transferred to the JV. We estimate net debt/EBITDA of 3.6X/3.3X for FY2019/2020E—this can increase if TATA acquires Bhushan Power & Steel.

- ▶ **Iron-ore for Bhushan Steel.** As per the management, close to 3 mn tons of iron-ore is available from captive mines in Tata Steel for Bhushan operations. The company said that in the past as well, they have been allowed to supply iron-ore for few of the subsidiaries and believe there is no reason why they will not be allowed to use this iron-ore. They are in discussion with the Odisha government and expect this issue to be resolved soon. The company is also expanding its Khondbond mines for increasing mining capacity.
- ▶ **Economic interest in Bhushan Steel.** The management stated that a Rs250 bn portion of unsustainable debt that was novated to TATA has now been written off to make debt at Bhushan more sustainable. The company stated that it will be able to maintain its economic interest of 100% in the subsidiary as they have Rs180 bn of inter-company loans which will be structured in a manner that will provide such economic stake.

Exhibit 3: Interim results of Tata Steel International operations, 1QFY17 - 1QFY19 (Rs mn)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Net Sales	161,093	157,692	153,247	182,571	165,862	182,432	178,508	198,514	214,273
Expenditure	150,887	147,140	151,643	155,928	145,784	168,978	167,820	181,618	200,316
Stock adjustment	(7,932)	(11,589)	(10,464)	(3,915)	(10,627)	3,895	(2,810)	3,652	(8,656)
Raw materials	75,015	75,497	75,381	82,886	85,550	84,510	86,780	89,994	105,723
Employee costs	35,193	33,374	31,289	31,558	31,462	31,790	32,789	31,733	36,513
Other expenditure	48,612	49,858	55,437	45,399	39,400	48,783	51,061	56,239	66,736
EBITDA	10,206	10,552	1,604	26,642	20,077	13,454	10,688	16,896	13,957
Other Income	312	(562)	323	1,057	433	37	437	550	(1,588)
Interest (net)	5,415	6,143	6,177	6,102	6,436	6,408	6,571	7,497	9,867
Depreciation	5,388	5,560	5,103	5,317	5,347	5,609	5,612	5,774	8,190
Profit Before Extra-ord Items	(285)	(1,714)	(9,353)	16,280	8,728	1,475	(1,058)	4,175	(5,687)
Extra-ord items	(123)	50	130	(36,265)	—	(180)	(1)	129,835	(89)
Profit Before Tax	(408)	(1,664)	(9,223)	(19,986)	8,728	1,295	(1,059)	134,010	(5,776)
Tax	3,767	2,462	1,071	1,359	4,519	4,556	1,781	(1,489)	(1,514)
Reported net earnings	(4,174)	(4,125)	(10,294)	(21,345)	4,209	(3,260)	(2,840)	135,499	(4,262)
Adjusted net profit	(3,679)	(4,175)	(10,602)	16,276	4,120	(3,002)	(436)	6,249	(3,725)

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Interim results of Tata Steel International operations, 1QFY17 - 1QFY19 (Rs mn)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
International operations									
Revenues	161,093	157,692	153,247	182,571	165,862	182,432	178,508	198,514	214,273
EBITDA	10,206	10,552	1,604	26,642	20,077	13,454	10,688	16,896	13,957
- South East Asia									
Revenues	20,200	19,660	19,850	22,750	19,950	24,240	24,920	26,310	26,040
EBITDA	1,870	690	1,270	1,450	220	1,350	1,840	950	1,100
- Tata Steel Europe									
Revenues	131,000	123,577	125,370	152,440	140,790	150,060	146,930	162,079	164,290
EBITDA	8,560	10,348	6,100	19,720	12,530	7,530	6,320	11,542	16,660
- Others									
Revenues	9,893	14,455	8,027	7,381	5,122	8,132	6,658	10,125	23,943
EBITDA	(224)	(486)	(5,766)	5,472	7,327	4,574	2,528	4,404	(3,803)

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Tata Steel Europe EBITDA/ton quarterly trend, 1QFY17 - 1QFY19

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Tata Steel Europe									
Deliveries (mn tons)	2.5	2.3	2.4	2.9	2.4	2.6	2.4	2.6	2.5
Turnover (US\$ mn)	1,958	1,846	1,871	2,279	2,183	2,334	2,270	2,518	2,451
Adjusted EBITDA (US\$ mn)	128	155	91	295	194	117	98	179	249
Adjusted EBITDA/ton (US\$)	51	67	38	103	81	45	40	70	101
Tata Steel Europe (Rs mn)									
Revenues	131,000	123,577	125,370	152,440	140,790	150,060	146,930	162,079	164,290
EBITDA	8,560	10,348	6,100	19,720	12,530	7,530	6,320	11,542	16,660

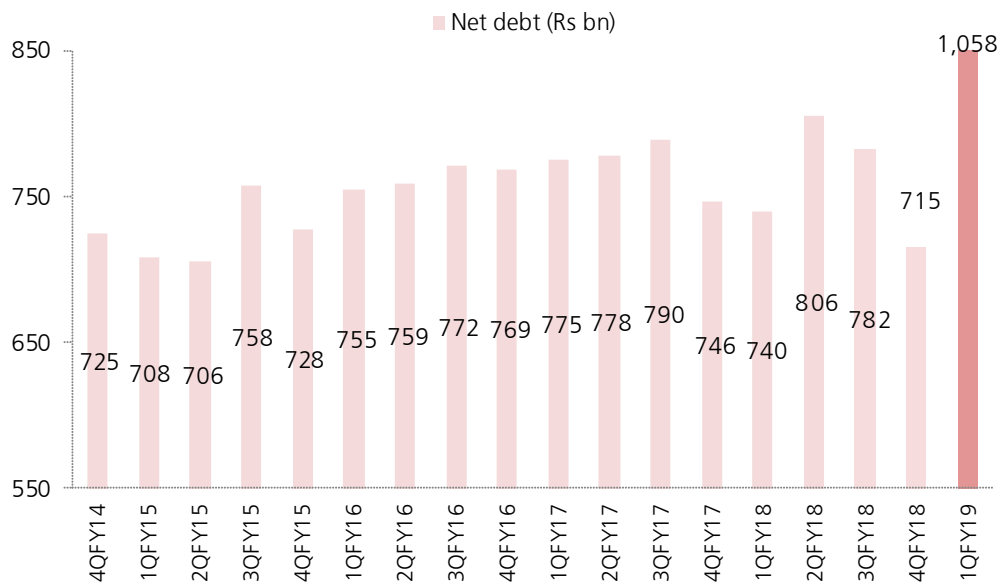
Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Tata Steel India, Quarterly analysis of cost-structure and profitability, 1QFY17 - 1QFY19 (Rs/ton, US\$/ton)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Tata Steel India (Rs/ton)									
Realization (Rs/ ton)	42,328	40,102	41,742	47,410	46,675	45,164	46,394	52,628	54,392
Other operating income	291	301	448	1,310	491	1,008	866	1,105	846
Raw material cost	6,896	11,494	10,042	14,175	13,009	17,692	14,336	14,233	14,454
Employee cost	5,422	4,500	4,017	3,306	4,210	3,620	3,475	4,652	4,316
Power and fuel cost	—	—	—	—	—	—	—	—	—
Freight and handling	—	—	—	—	—	—	—	—	—
Other expenditure	19,921	17,111	16,846	17,654	19,160	13,901	15,425	18,976	19,390
Conversion cost	25,343	21,612	20,863	20,959	23,370	17,521	18,899	23,627	23,706
EBITDA/ ton (Rs/ ton)	10,380	7,297	11,285	13,586	10,786	10,959	14,025	15,872	17,077
Tata Steel (Consolidated) (US\$/ton)									
Realization (US\$/ ton)	697	697	679	754	785	783	788	905	862
Raw material cost	226	248	231	277	294	345	309	343	319
Employee cost	129	119	105	94	114	104	104	115	112
Power and fuel cost	34	32	30	—	—	—	—	—	—
Freight and handling	47	45	45	—	—	—	—	—	—
Other expenditure	172	174	182	227	245	221	240	285	283
EBITDA/ ton	90	78	86	156	132	114	134	163	147

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: TATA's net debt increased to Rs1,058 bn in 1QFY19 due to acquisition of Bhushan Steel
Tata steel group quarterly net debt trend, 4QFY14 - 1QFY19 (Rs bn)



Source: Company, Kotak Institutional Equities estimates

Exhibit 8: TATA's leverage ratios can improve aided by strong EBITDA margins
Tata Steel consolidated leverage details, March fiscal year ends (Rs mn), FY2016-21E (X)

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

Source: Kotak Institutional Equities estimates

Exhibit 9: Tata Steel, changes in estimates, March fiscal year ends, FY2019-2021E

	Revised estimates			Old estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Earnings (consolidated)									
Net sales	1,566,600	1,025,320	1,061,145	1,542,394	1,017,648	1,053,717	2	1	1
EBITDA	280,724	229,812	237,538	267,893	225,501	232,394	5	2	2
Adj. PAT	91,445	102,477	113,617	83,564	98,960	109,807	9	4	3
EPS (Rs)	75.9	85.1	94.3	69.4	82.2	91.2	9	4	3
Volumes									
India (mn tons)	12.5	12.8	13.1	12.5	12.8	13.1	—	—	—
Pricing									
HRC prices - China (US\$/ton)	540	495	495	540	500	500	—	(1)	(1)
Re/US\$ rate	68.7	69.5	70.0	67.6	68.0	69.0	2	2	1
Tata Steel India									
Net sales	635,158	626,539	646,534	622,067	620,709	640,360	2	1	1
EBITDA	193,004	171,944	176,787	181,122	167,752	171,729	7	2	3
EBITDA/ton	15,440	13,433	13,495	14,490	13,106	13,109	7	2	3
Re/US\$ rate	68.7	69.5	70.0	67.6	68.0	69.0	2	2	1
Tata Steel Europe									
Net sales	611,790	—	—	601,999	—	—	2	—	—
EBITDA	54,221	—	—	53,353	—	—	2	—	—
EBITDA/ton	78	—	—	78	—	—	—	—	—
JV — thyssenkrupp Tata Steel BV									
Volumes (mn tons)	—	21.7	21.7	—	21.7	21.7	—	—	—
Net sales (US\$ mn)	—	19,692	19,725	—	19,692	19,736	—	—	—
EBITDA (US\$ mn)	—	2,168	2,253	—	2,168	2,259	—	—	—
EBITDA/ton (US\$)	—	100	104	—	100	104	—	—	—
PAT (US\$ mn)	—	844	908	—	844	912	—	—	—
Share of profit (US\$ mn)	—	422	454	—	422	456	—	—	—

Source: Kotak Institutional Equities estimates

Exhibit 10: Tata Steel, Key assumptions, March fiscal-year ends, FY2016 - 2021E (Rs mn)

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

Source: Company, Kotak Institutional Equities estimates

Exhibit 11: Tata Steel, valuation, March fiscal year-ends, March 2020E basis (Rs mn)

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

Source: Kotak Institutional Equities estimates

Exhibit 12: Tata Steel (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2016-2021E (Rs mn)

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

Source: Company, Kotak Institutional Equities estimates

AUGUST 14, 2018

RESULT

Coverage view: **Cautious**

Price (₹): **1,298**

Target price (₹): **1,100**

BSE-30: **37,645**

1QFY19 earnings—good but below estimates. UNSP reported a decent earnings print even as the same was below our expectations. Management reiterated its optimism on medium-term volume growth (guidance stays at 6-8%) as well as market share gain potential. RM environment remains soft and should continue to aid healthy margin expansion and earnings growth in the short term. We like the beer narrative as well as UBBL execution. Too expensive to upgrade, however. SELL stays with a revised fair value target of ₹1,100/share (from ₹1,000).

Company data and valuation summary

United Breweries

Stock data

52-week range (Rs) (high,low)	1,314-775
Market Cap. (Rs bn)	343.1

Shareholding pattern (%)

Promoters	73.3
FIs	16.8
MFs	3.7

Price performance (%)

	1M	3M	12M
Absolute	8.7	16.7	64.8
Rel. to BSE-30	5.5	10.1	36.6

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	14.9	20.7	25.4
EPS growth (%)	71.6	38.9	22.3
P/E (X)	87.0	62.6	51.2
Sales (Rs bn)	56.2	62.9	70.5
Net profits (Rs bn)	3.9	5.5	6.7
EBITDA (Rs bn)	9.0	11.1	12.7
EV/EBITDA (X)	38.3	30.7	26.5
ROE (%)	15.7	18.7	19.4
Div. Yield (%)	0.2	0.2	0.3

Double-digit volume growth sustains

Net sales grew 11% yoy to ₹18.7 bn, 9% below our estimate. We note that adoption of Ind-AS 115 revenue accounting standards had an impact of ₹398 mn on net revenues. Adjusted for this, the miss versus estimates would have been around 7%. We note that there was a corresponding decline in material costs as well and hence, numbers are largely comparable versus estimate from the gross profit line down. PAT impact of this change was under 2%. Gross margins expanded 155 bps yoy to 54.1%, partly optical on account of the new revenue recognition standard. This was 57 bps ahead of our estimate.

EBITDA stood at ₹4 bn, +26% yoy, 13% below our estimate on account of revenue miss as well as higher-than-expected staff costs. This was partly mitigated by lower-than-expected other expenses, which benefitted to the tune of ₹138 mn from reversal of prior-period sales promotion expenses. Adjusted EBITDA growth was lower at around 22% yoy. EBITDA margin stood at 21.5%, up 248 bps yoy and 95 bps below expectation. Recurring PAT stood at ₹2.22 bn, +37% yoy and 13% below estimate.

Volumes for the quarter stood at around 55 mn cases, +12% yoy. Our expectation was 16% volume growth. On a per case basis, net realization was flat yoy while EBITDA was up 12% yoy on account of leverage benefits as other expenses grew only 6% yoy versus 12% volume growth. Other expenses formed 27% of revenues for the quarter. **Two-year CAGRs: +5.8%** volumes, +9% net revenues, +17% EBITDA, and +23% recurring PAT.

Good story but stock too expensive for our comfort

Two-year CAGR numbers normalize the benefit of a soft base and UBBL's numbers are healthy on this count; we had expected an even better print but that does not take away the strength of the reported numbers. We note that these CAGRs were materially better than those reported by UNSP. We like UBBL as a business but remain unconvinced about the ultra-bullish narrative and correspondingly high current trading multiples as a good entry point. Our SELL rating stays with a revised fair value target of ₹1,100/share (from ₹1,000); TP increase is on the back of margin-led 5-7% EPS upgrades for FY2019-21E.

Rohit Chordia

Jaykumar Doshi

Aniket Sethi

Key takeaways from the earnings call

- ▶ 1QFY19 performance highlights –
 - Volume growth of 12% yoy was ahead of the industry's 9%.
 - UBL realized good volume growth in most states except West Bengal and Mumbai. West Bengal is seeing some weakness post the sharp increase in duties in the state.
 - The company faced supply constraints in several states including Uttar Pradesh (a large number of wholesale licenses were granted) and also multiple markets in South India.
 - Recovery in Kerala and Maharashtra (except Mumbai) was good, which also reversed the highway ban impact. Growth in some of the south markets remains strong – particularly Telangana (despite a not so weak base).
 - Higher other income during the quarter was due to reversal of provisions related to collectables – approximately ₹115-120 mn.
- ▶ Management expects the market to grow at 6-8% yoy in FY2019 and they should be gaining market share.
- ▶ Company seemed confident of its ability to meet demand in the state of UP given that the next couple of quarters see some natural softness due to seasonality.
- ▶ Premium product portfolio (mid-single digit contribution to overall volumes) is seeing strong double-digit volume growth.
- ▶ Company targets to continue with its debt-reduction plan in FY2019 as well.
- ▶ Management indicated plans to get into the craft beer category in the medium term. However, they highlighted that the category is still at a very nascent stage in India.

Exhibit 1: Key changes to estimates, United Breweries, FY2019-21E

	Revised			Earlier			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Net operating revenues (Rs mn)	62,910	70,480	78,782	64,377	72,702	81,905	(2.3)	(3.1)	(3.8)
EBITDA (Rs mn)	11,113	12,684	14,516	10,728	12,212	14,108	3.6	3.9	2.9
EBITDA margin (%)	17.7	18.0	18.4	16.7	16.8	17.2			
Net income (Rs mn)	5,476	6,700	8,071	5,114	6,310	7,669	7.1	6.2	5.2
EPS (Rs/share)	20.7	25.4	30.5	19.4	23.9	29.0	7.1	6.2	5.2

Source: Kotak Institutional Equities estimates

Exhibit 2: Interim standalone results of United Breweries, March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% change)			1QFY17	2-yr CAGR (%)
					KIE Est	yoy	qoq		
Volumes (mn cases)	54.5	56.4	48.7	43.3	(3)	12	26	48.7	6
Gross revenues	41,579	46,186	38,101	32,731	(10)	9	27	32,429	13
Excise	(22,920)	(25,613)	(21,359)	(18,014)	(11)	7	27	(16,804)	17
Excise as % of gross rev	55.1	55.5	56.1	55.0	-34 bps	-94 bps	8 bps	51.8	
Net operating revenues	18,659	20,574	16,780	14,718	(9)	11	27	15,624	9
Cost of materials	(8,564)	(9,561)	(7,963)	(6,955)	(10)	8	23	(7,052)	10
Gross profit	10,095	11,013	8,817	7,762	(8)	14	30	8,572	9
Gross margin (%)	54.1	53.5	52.5	52.7	57 bps	155 bps	136 bps	54.9	
Employee cost	(1,068)	(968)	(880)	(1,097)	10	21	(3)	(897)	9
Other expenditure	(5,023)	(5,436)	(4,754)	(4,583)	(8)	6	10	(4,766)	3
Total other expenditure	(6,091)	(6,404)	(5,634)	(5,680)	(5)	8	7.2	(5,663)	4
EBITDA	4,004	4,609	3,184	2,082	(13)	26	92	2,909	17
EBITDA margin (%)	21.5	22.4	19.0	14.1	-95 bps	248 bps	731 bps	18.6	
Depreciation	(637)	(650)	(649)	(648)	(2)	(2)	(2)	(637)	0
Interest	(92)	(100)	(142)	(114)	(8)	(35)	(19)	(148)	(21)
Other income	153	65	63	48	135	144	222	136	6
PBT	3,428	3,924	2,456	1,368	(13)	40	151	2,260	23
Tax expense	(1,208)	(1,373)	(837)	(459)	(12)	44	163	(790)	24
Recurring PAT	2,219	2,550	1,619	909	(13)	37	144	1,471	23
Exceptional items	—	—	—	—				—	
Reported PAT	2,219	2,550	1,619	909	(13)	37	144	1,471	23
Recurring EPS	8.4	9.6	6.1	3.4	(13)	37	144	5.6	23
Income tax rate (%)	35.3	35.0	34.1	33.6	25 bps	118 bps	167 bps	34.9	
Costs as a % of net sales									
Cost of materials	45.9	46.5	47.5	47.3	-58 bps	-156 bps	-137 bps	45.1	
Employee cost	5.7	4.7	5.2	7.5	102 bps	48 bps	-174 bps	5.7	
Other expenditure	26.9	26.4	28.3	31.1	49 bps	-141 bps	-422 bps	30.5	

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Key performance metrics, United Breweries, March fiscal year-ends

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Volume (mn cases)	48.7	32.8	29.3	34.9	48.7	36.4	32.3	43.3	54.5
Growth, yoy (%)	6.0	(1.0)	(8.0)	(9.4)	—	11.0	10.4	24.0	12.0
Gross revenues (Rs mn)	32,429	21,995	22,280	25,578	38,101	27,380	26,078	32,731	41,579
Excise duty (Rs mn)	16,804	11,627	12,058	14,451	21,359	14,616	14,107	18,014	22,920
Net operating revenues (Rs mn)	15,624	10,368	10,222	11,127	16,780	12,764	11,971	14,718	18,659
EBITDA (Rs mn)	2,909	1,212	1,280	1,011	3,184	2,219	1,526	2,082	4,004
Raw material (Rs mn)	7,052	4,750	4,723	5,417	7,963	5,857	5,699	6,955	8,564
Other expenses (Rs mn)	5,663	4,407	4,219	4,699	5,634	4,688	4,746	5,680	6,091
Interest+depreciation (Rs mn)	785	843	850	978	791	778	743	762	729
EBITDA (%)	18.6	11.7	12.5	9.1	19.0	17.4	12.7	14.1	21.5
Gross realization (Rs/case)	667	671	762	733	783	753	808	756	763
Excise duty (Rs/case)	345	355	412	414	439	402	437	416	421
Net realization (Rs/case)	321	316	349	319	345	351	371	340	342
RM cost (Rs/case)	145	145	161	155	164	161	176	161	157
Other expenses (Rs/case)	116	135	144	135	116	129	147	131	112
EBITDA (Rs/case)	60	37	44	29	65	61	47	48	73
Interest+depreciation (Rs/case)	16	26	29	28	16	21	23	18	13
Growth, yoy (%)									
Gross realization (Rs/case)	11.2	6.7	13.0	14.6	17.5	12.1	6.0	3.2	(2.6)
Excise duty (Rs/case)	14.9	10.6	18.4	27.4	27.1	13.3	6.0	0.5	(4.2)
Realization (Rs/case)	1.3	(2.3)	1.3	1.3	7.4	10.9	6.1	6.7	(0.7)
RM cost (Rs/case)	1.9	3.4	11.9	6.1	12.9	11.1	9.3	3.5	(4.0)
Other expenses (Rs/case)	(3.5)	(6.0)	(0.8)	(0.8)	(0.5)	(4.2)	1.9	(2.5)	(3.5)
EBITDA (Rs/case)	10.5	(9.4)	(21.0)	(11.4)	9.4	65.0	8.1	66.1	12.3
Interest+depreciation (Rs/case)	(5.7)	6.1	15.6	31.8	0.7	(16.9)	(20.8)	(37.2)	(17.6)

Source: Company, Kotak Institutional Equities

Exhibit 4: Condensed financial summary, March fiscal-year ends, 2015-21E

	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)							
Net revenues	46,881	48,331	47,292	56,190	62,910	70,480	78,782
EBITDA	6,217	6,930	6,421	9,020	11,113	12,684	14,516
Other income	377	864	517	131	327	735	1,092
Interest	(728)	(811)	(587)	(477)	(357)	(339)	(322)
Depreciation	(2,075)	(2,436)	(2,871)	(2,597)	(2,586)	(2,687)	(2,766)
Profit before tax	3,790	4,547	3,481	6,078	8,497	10,394	12,520
Tax expense	(1,188)	(1,560)	(1,182)	(2,132)	(3,016)	(3,690)	(4,445)
Exceptional items/minority int.	4	4	4	4	4	4	4
Reported PAT	2,606	2,990	2,303	3,951	5,485	6,708	8,080
Adjusted PAT	2,598	2,983	2,296	3,942	5,476	6,700	8,071
EPS (Rs/share)	9.8	11.3	8.7	14.9	20.7	25.4	30.5
Balance sheet (Rs mn)							
Equity	18,506	21,471	23,342	26,852	31,692	37,373	44,076
Total borrowings	6,992	4,708	3,959	2,578	2,578	2,578	2,578
Deferred tax liability/minority interest	685	659	497	215	219	224	228
Current liabilities and provisions	12,663	16,820	16,988	17,545	19,692	22,119	24,790
Total liabilities	38,846	43,659	44,787	47,191	54,181	62,293	71,671
Net fixed assets	18,612	18,235	18,338	17,521	17,670	17,344	16,823
Investments and goodwill	648	596	537	495	590	697	815
Cash	131	140	243	202	4,021	9,083	15,315
Other current assets	19,455	24,688	25,669	28,974	31,900	35,170	38,718
Total assets	38,846	43,659	44,787	47,191	54,181	62,293	71,671
Free cash flow (Rs mn)							
Operating cash	5,028	6,169	5,419	6,456	8,097	8,994	10,071
Working capital changes	3,381	(777)	22	(2,779)	(779)	(843)	(877)
Capital expenditure	(4,069)	(2,430)	(2,355)	(1,736)	(2,831)	(2,467)	(2,363)
Free cash flow	4,339	2,962	3,085	1,941	4,487	5,684	6,830
Ratios							
Revenue growth (%)	10.8	3.1	(2.2)	18.8	12.0	12.0	11.8
EBITDA growth (%)	4.1	11.5	(7.3)	40.5	23.2	14.1	14.4
PAT growth (%)	14.9	14.8	(23.0)	71.6	38.9	22.3	20.5
Gross margin (%)	59.6	56.1	53.9	53.2	53.7	53.9	54.1
EBITDA margin (%)	13.3	14.3	13.6	16.1	17.7	18.0	18.4
RoE (%)	14.6	14.9	10.3	15.7	18.7	19.4	19.8
RoCE (%)	15.7	17.4	13.3	22.6	26.7	26.9	27.1

Source: Company, Kotak Institutional Equities estimates

AUGUST 14, 2018

RESULT

 Coverage view: **Attractive**

 Price (₹): **25**

 Target price (₹): **30**

 BSE-30: **37,645**

Slow start. NHPC had a weak start to the year in a seasonally relevant quarter on account of poor water flows leading to 18% yoy decline in generation at 7BU, causing 15% yoy drop in PAT at ₹7.3 bn. Commissioning of Kishanganga (330 MW) during the quarter will likely aid earnings growth in FY2019, though absence of a resolution for the Subansiri deadlock remains worrying. Maintain ADD rating with TP at ₹30/share.

Company data and valuation summary

NHPC				Forecasts/Valuations			
Stock data				2018	2019E	2020E	
52-week range (Rs) (high,low)	35-22			EPS (Rs)	2.4	3.1	3.2
Market Cap. (Rs bn)	253.4			EPS growth (%)	(17.3)	26.9	1.8
Shareholding pattern (%)				P/E (X)	10.1	8.0	7.8
Promoters	74.0			Sales (Rs bn)	77.5	91.0	89.5
FIs	4.3			Net profits (Rs bn)	25.0	31.8	32.3
MFs	2.6			EBITDA (Rs bn)	42.0	54.9	52.6
Price performance (%)				EV/EBITDA (X)	9.3	7.3	7.1
Absolute	1M	3M	12M	ROE (%)	8.5	10.4	10.2
Rel. to BSE-30	3.6	(10.5)	(18.5)	Div. Yield (%)	5.7	7.0	7.1
	0.5	(15.5)	(32.4)				

Poor water flows impact generation and earnings during the quarter

Lower water flows during the quarter impacted NHPC's performance in 1QFY19 with 18% yoy decline in generation at 7BU. Lower generation coupled with weak plant availability—92.3% PAF in 1QFY19 compared to 97.1% in 1QFY18, led to 9% yoy decline in revenues at ₹21.3 bn (KIE ₹21 bn). Earnings outperformance during the quarter is attributable to reduction in employee cost by ₹530 mn, which management highlighted is sustainable. The reduction in employee cost is due to retirement of 666 employees.

Incentives for the quarter remained low at ₹1.56 bn (-16% yoy) as no secondary charges were received due to lower generation. We note that secondary energy charges are accrued more in the second half as computation of secondary energy is done on a full-year basis. However, the weak generation in 1QFY19 does pose a risk to the high secondary energy incentive of ₹1.4 bn earned in FY2018.

NHPC under recovered ₹2 bn in 1QFY19—₹300 mn due to design energy (non-recoverable) and the rest due to energy charges, which can be recovered in subsequent quarters if generation improves. No dividends were received from NHDC during the quarter.

Kishanganga gets commissioned, though deadlock at Subansiri continues

NHPC commissioned 50 MW of solar capacity in 1QFY19, which generated 16 MUs contributing PBT of ₹26.3 mn. Kishanganga plant commissioned in May 2018 reported a loss of ₹200 mn for 1QFY19. Parbati II (800 MW) is expected to commission over the next two years while Subansiri (2 GW) continues to be stalled. The company spent ₹4.7 bn during the quarter while full-year (FY2019) capex is estimated at ₹27.4 bn—Parbati-II (₹5 bn), Subansiri (₹8.7 bn), Kishanganga (₹2.1 bn), Dibang (₹4 bn), Teesta-IV (₹1 bn), among other projects.

Maintain ADD rating with target price of ₹30/share

We remain positive on NHPC owing to (1) its rich dividend yield, with a dividend of ₹1.40/share (5% yield), (2) growth from commissioning of 800 MW of Parbati II and (3) a potential resolution of the longstanding embargo on construction of the large Subansiri project. Maintain ADD rating and target price of ₹30/share.

Murtuza Arsiwalla

Samrat Verma

Exhibit 1: Lower water availability led to 18% yoy decline in generation in 1QFY19

Interim results for NHPC (standalone), March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% Chg.)			FY2018	FY2017	(% Chg.)	FY2019E
					KIE	yoy	qoq				
Net sales	21,290	21,001	23,275	11,369	1	(9)	87	69,340	72,712	(5)	80,054
Operating cost	(8,386)	(9,550)	(9,412)	(7,793)				(32,909)	(35,076)		(33,394)
EBITDA	12,904	11,451	13,863	3,576	13	(7)	261	36,431	37,636	(3)	46,661
EBITDA margin (%)	61	55	60	31				53	52		58
Other income	1,129	2,066	1,053	2,975				14,910	14,587		12,267
Interest & finance charges	(2,212)	(2,285)	(2,409)	(2,179)				(9,223)	(10,732)		(11,425)
Rate regulated income	1,431	2,226	2,010	2,053				7,198	7,140		7,198
Depreciation	(3,726)	(3,638)	(3,536)	(3,549)				(14,059)	(13,884)		(14,466)
PBT	9,527	9,820	10,980	2,877	(3)	(13)	231	35,257	34,746	1	40,235
Provision for tax (net)	(2,151)	(2,651)	(2,354)	(983)				(7,671)	(6,790)		(10,480)
Net profit	7,376	7,169	8,627	1,894	3	(15)	289	27,587	27,956	(1)	29,756
Extraordinary income	—	—	—	—				—	—		—
Reported PAT	7,376	7,169	8,627	1,894				27,587	27,956		29,756
EPS (Rs/share)	0.7	0.7	0.8	0.2				2.6	2.6		2.8
EBITDA margin (%)	61	55	60	31				53	52		58
Tax rate (%)	23	27	21	34				22	20		26
Key operating parameters											
Units generated (mn units)	7,035	7,000	8,549	2,127	—	(18)	231	22,973	23,275	(1)	26,336
Tariff (Rs/kwh)	3.03	3.00	2.72	5.35	1	11	(43)	3.02	3.12	(3)	3.04
O&M (Rs/kwh)	1.19	1.30	1.10	3.66	(8)	8	(67)	1.43	1.51	(5)	1.27

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Secondary energy charges are accrued in the second half, though poor generation poses a risk for full-year FY2019E

Incentive position for NHPC, 2017-19, March fiscal year-ends (Rs mn)

	1QFY17	2QFY17	3QFY17	4QFY17	FY2017	1QFY18	2QFY18	3QFY18	4QFY18	FY2018	1QFY19
Secondary charges	—	209	461	582	1,251	—	16	322	1,069	1,407	—
Incentives	1,724	1,442	98	91	3,355	1,354	1,434	106	180	3,074	940
Deviation charges	485	405	523	409	1,821	498	396	250	350	1,493	620
Total	2,208	2,055	1,082	1,082	6,428	1,851	1,846	678	1,599	5,974	1,560
PAF (%)	97.1	94.1	76.8	73.2	85.3	97.1	95.4	74.0	72.0	83.1	92.3

Source: Company, NHPC investor presentation, Kotak Institutional Equities

Exhibit 3: NGT has asked for formation of a committee to look into the objections to construction work at Subansiri

Status of under-construction projects of NHPC, March fiscal year-ends

Project	Capacity (MW)	Project cost (Rs bn)	Capex (Rs bn)	CoD	Key issues and status
Subansiri Lower	2,000	174	94	2022	Work stopped since Dec-2011 due to agitation by various (anti-dam) activists in Assam. NGT has proposed formation of a committee that will prepare a report and submit to MoEF for their consideration
Parbati-II	800	84	65	2020	Poor geology in HRT, but the project is progressing

Source: Company, NHPC investor presentation, Kotak Institutional Equities

Exhibit 4: Key developments on the Subansiri project in the last one year

Date	Key development	Additional comments
16-Oct-17	NGT has recommended formation of a committee that will submit a report to MoEF for its consideration	Formation of a committee is already lagging behind the scheduled one month time, committee to submit report within three months, MoEF to give its decision within sixty days of receiving the report
29-Jul-17	State government files plea with NGT to allow NHPC to resume work at Subansiri	The State government in its affidavit before the Eastern Zone Bench of the NGT, which was submitted on July 15, 2017 opposing the submissions made by former All Assam Students' Union leader and Gauhati High Court advocate Tularam Gogoi
28-Jul-17	Anti-dam protests gain new strength	The All Assam Students' Union today demanded decommissioning of the 405MW Ranganadi hydel project in Arunachal Pradesh and a downstream impact survey of any such project before it is commissioned, dashing the hopes of early resumption of work on the Lower Subansiri project. Lakhimpur and Majuli are two of the worst affected districts in the current wave of flood, which has impacted 2.5 mn people in 29 of the state's 33 districts.
9-Jan-17	AJYCP restarts stir against Subansiri dam	Asom Jatiyatabadi Yuva Chatra Parishad (AJYCP) have been blocking the entry of goods to the dam project site from two places in Lakhimpur district – Khelmati and Gogamukh
17-Nov-16	Plan to hold tripartite meet on Subansiri project	Leader of opposition in Assam assembly wrote a letter to the Prime Minister to hold the delayed tripartite meeting for examining the expert committee report on the Subansiri project. The meeting can help arrive at a solution to resume work on the project.
29-Jul-16	Project implementation committee called for declaring Dollungmukh circle as the downstream affected zone.	Declaring the circle as downstream-affected zone would make it eligible to receive financial package as per the downstream policy and programs. As per the press reports, it could cost NHPC additional Rs4-5 bn, similar to another program it is implementing for downstream affected zones.
24-May-16	NGT directed NHPC to halt all construction activities of the project.	This directive comes after the order in Jan-2016 that allowed urgent repair and maintenance work. This work was alleged by protesting groups to be a resumption of construction activity through backdoor route.
30-Apr-16	A parliamentary panel has recommended "removing the stumbling blocks" in implementation of the Lower Subansiri hydel project.	The parliamentary standing committee on home affairs recommended early resumption of work on Subansiri project in its report placed before the parliament of India.
12-Jan-16	NGT allowed the repair work of Subansiri project on emergency basis.	Activists have largely termed this as effectively a resumption of construction activities.
10-Nov-15	NHPC decided not to raise the height of the dam, the Centre constituted a Project Oversight Committee in this connection.	NHPC Director Technical clarified that a proposal to run one machine continuously for minimum water flow in the river has been accepted. He also asserted that the seismic value considered for the project is safe.
13-Oct-15	In a renewed agitation, green activists restricted the movement of trucks carrying construction materials for the project	A seven-day agitation was launched by the activists in protest of the dam
8-May-15	L&T released from Subansiri project contract	NA

Source: Company, Kotak Institutional Equities

Exhibit 5: SoTP-based target price of Rs31/share

	Value (Rs mn)	Value per share (Rs/share)
Power projects	228,911	22
Operational projects	204,507	20
Under-construction	24,403	2
Cash	69,571	7
Total	298,481	29

Source: Kotak Institutional Equities estimates

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

	2016	2017	2018	2019E	2020E	2021E
Profit model						
Net revenues	85,246	86,231	77,512	90,950	89,528	85,477
EBITDA	50,638	48,433	42,018	54,881	52,579	47,273
Other income	16,027	22,226	18,375	23,342	23,638	32,583
Interest expense	(11,133)	(10,734)	(9,226)	(12,529)	(10,741)	(13,886)
Depreciation	(17,427)	(14,618)	(14,791)	(16,415)	(14,473)	(15,027)
Pretax profits	38,104	45,307	36,376	49,279	51,002	50,943
Tax	(9,174)	(8,886)	(8,161)	(13,487)	(14,781)	(10,649)
Deferred taxation	(341)	(1,646)	(467)	(659)	(215)	(1,569)
Minority interest	(2,313)	(4,482)	(2,709)	(3,364)	(3,660)	(3,795)
Net income	26,276	30,294	25,039	31,769	32,347	34,930
Extraordinary items	607	—	—	—	—	—
Reported profit	26,883	30,294	25,039	31,769	32,347	34,930
Earnings per share (Rs)	2.4	2.8	2.4	3.1	3.2	3.4
Balance sheet						
Paid-up common stock	110,707	102,593	102,593	102,593	102,593	102,593
Total shareholders' equity	313,680	290,148	300,179	311,061	322,300	339,446
Advance against depreciation (AAD)	12,796	—	—	820	—	—
Minority interest	34,512	33,822	29,349	32,713	36,372	40,168
Total borrowings	201,738	175,481	170,082	214,561	197,595	198,681
Deferred tax liabilities	10,227	16,653	17,109	17,768	17,982	19,551
Total liabilities and equity	572,954	516,105	516,719	576,922	574,249	597,847
Net fixed assets	278,139	222,271	211,772	297,226	282,753	326,422
Capital work-in progress	170,092	175,876	190,871	168,696	188,696	145,000
Investments	3,831	10,200	11,248	146	146	146
Miscellaneous expenses not w/o	—	—	—	—	—	—
Cash	74,439	34,725	33,191	66,241	77,107	92,955
Net current assets (incl. cash)	120,892	107,758	102,828	110,855	102,655	126,279
Total assets	572,954	516,105	516,719	576,922	574,249	597,847
Free cash flow						
Operating cash flow, excl. working capital	46,462	43,023	42,995	53,027	49,874	55,321
Working capital changes	862	(26,580)	3,396	25,023	19,066	(7,776)
Capital expenditure	(22,722)	35,466	(19,287)	(79,693)	(20,000)	(15,000)
Free cash flow	24,603	51,910	27,104	(1,644)	48,940	32,545
Ratios						
Net debt/equity (%)	22	22	12	22	21	20
Return on equity (%)	8.5	10.0	8.5	10.4	10.2	10.6
Book value per share (Rs)	29	30	31	32	33	35
ROCE (%)	5.7	6.9	5.6	7.1	6.7	7.5

Source: Company, Kotak Institutional Equities estimates

AUGUST 14, 2018
RESULT

 Coverage view: **Attractive**

 Price (₹): **212**

 Target price (₹): **200**

 BSE-30: **37,645**

Weak results amid higher expenses. OIL's 1QFY19 results were below our estimates, adjusted for nil subsidy, driven by (1) modestly lower oil volumes/realizations, (2) higher other expenses including ~₹1 bn of forex loss and (3) increase in DD&A charges. We cut FY2019-20E EPS by 2-5% and retain SELL with a revised TP of ₹200 (₹220 previously), based on 8X FY2020E EPS; we ascribe lower multiple to OIL versus ONGC given our concerns on its muted production trajectory and declining reserves profile.

Company data and valuation summary

Oil India

Stock data

52-week range (Rs) (high,low) 259-180

Market Cap. (Rs bn) 241.1

Shareholding pattern (%)

Promoters 66.1

FIs 3.8

MFs 1.0

Price performance (%)

	1M	3M	12M
Absolute	3.6	(9.8)	14.2
Rel. to BSE-30	0.6	(14.8)	(5.3)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	24.7	23.1	23.8
EPS growth (%)	18.6	(6.7)	3.4
P/E (X)	8.6	9.2	8.9
Sales (Rs bn)	106.6	116.9	123.3
Net profits (Rs bn)	28.0	26.2	27.0
EBITDA (Rs bn)	42.9	47.8	50.7
EV/EBITDA (X)	6.7	6.0	5.8
ROE (%)	9.8	9.2	9.0
Div. Yield (%)	4.9	4.3	4.5

Higher other expenditure and DD&A charge mar 1QFY19 performance

OIL's 1QFY19 revenue at ₹33.9 bn was 3.5% below our estimate, adjusted for nil subsidy, due to modestly lower crude sales volumes as well as realizations versus our expectations. Reported EBITDA at ₹15.3 bn was 9.4% below our estimate, impacted by 53% yoy jump in other expenditure, which included ₹1 bn of forex-related loss on US\$ loans related to Mozambique block. Net income at ₹7 bn (EPS of ₹6.2) was 20% below our expectation, further impacted by (1) sharp 35% yoy jump in DD&A expense to ₹4.6 bn due to higher depreciation charge and exploratory write-offs and (2) increase in effective tax rate to 35.2%.

- ▶ **1% decline in oil sales volumes; steady gas volumes.** Crude oil sales volumes declined 1% yoy to 0.811 mn tons, 3.5% below our expectation; crude production was stable though indicating build-up of inventory due to lower off-take. Natural gas sales volume was stable yoy at 0.6 bcm, despite 4% decline in production volumes.
- ▶ **Higher oil and gas realizations based on benchmarks.** Crude price realization increased to US\$72/bbl from US\$64.9/bbl in 4QFY18 reflecting qoq increase in benchmarks, a tad below our expectation though; OIL's crude discount to Dated Brent increased to US\$2.5/bbl in 1QFY19 as compared to US\$2/bbl in FY2018. Natural gas price increased to US\$3.4/mn BTU from US\$3.2/mn BTU in 4QFY18 based on domestic gas price formula.

Cut FY2019-20 EPS estimates by 2-5%; reiterate SELL

We revise our standalone EPS estimates to ₹23.1 (-5%) in FY2019E and ₹23.8 (-2%) in FY2020E, factoring in (1) higher operating expenses, (2) our economics team's forecast of weaker INR-USD exchange rate, (3) higher DD&A charge and (4) other minor changes. We have assumed that the government will restrict net realizations for upstream PSUs to US\$55/bbl, in order to manage rising subsidy burden on cooking fuels as compared to the Budget provision. We retain SELL rating on the stock with a revised target price of ₹200 (₹220 previously) based on 8X FY2020E EPS as compared to 8.5X earlier. We ascribe a lower multiple to OIL as compared to ONGC due to a relatively weak and declining reserves profile—OIL's 1P reserves translate into modest 8-9 years of current oil and gas production. Elevated oil prices are key risk to our estimates and negative view on the stock.

Tarun Lakhota

Akshay Bhor

Exhibit 1: OIL interim results, March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			yoy			
					1QFY19E	1QFY18	4QFY18	FY2019E	FY2018	(% chg.)	FY2019E
Net sales	33,905	35,142	23,317	29,984	(3.5)	45.4	13.1	116,949	106,565	9.7	116,949
Total expenditure	(18,629)	(18,290)	(14,100)	(19,387)	1.9	32.1	(3.9)	(69,108)	(63,651)	8.6	(69,108)
Increase/(decrease) in stock	(60)		(171)	(376)					(490)		
Staff expenditure	(3,430)	(4,251)	(4,063)	(4,497)	(19.3)	(15.6)	(23.7)	(17,780)	(16,933)	5.0	(17,780)
Statutory levies	(9,676)	(10,015)	(6,293)	(8,461)	(3.4)	53.8	14.4	(32,205)	(29,290)	10.0	(32,205)
Other expenditure	(5,462)	(4,023)	(3,573)	(6,053)	35.8	52.9	(9.8)	(19,123)	(16,938)	12.9	(19,123)
EBITDA	15,276	16,852	9,217	10,598	(9.4)	65.7	44.1	47,841	42,913	11.5	47,841
Other income	1,268	1,449	1,540	7,865	(12.5)	(17.7)	(83.9)	11,854	14,842	(20.1)	11,854
Interest	(1,124)	(1,112)	(999)	(1,077)	1.1	12.5	4.4	(4,337)	(4,157)	4.3	(4,337)
DD&A	(4,565)	(3,712)	(3,379)	(3,691)	23.0	35.1	23.7	(17,005)	(14,600)	16.5	(17,005)
Depletion	(2,413)	(2,412)	(2,358)	(1,697)				(10,305)	(9,406)		(10,305)
Depreciation	(960)	(643)	(545)	(1,301)				(4,075)	(3,294)		(4,075)
Exploratory write-offs	(1,192)	(656)	(476)	(692)				(2,625)	(1,900)		(2,625)
Pretax profits	10,855	13,477	6,379	13,695	(19.5)	70.2	(20.7)	38,353	38,998	(1.7)	38,353
Extraordinary/Prior-period adjustment	—	—	—	(1,900)				—	(1,900)		—
Current tax	(3,300)	(4,083)	(1,422)	(958)				(9,696)	(6,484)		(9,696)
Deferred tax	(523)	(581)	(455)	(2,172)				(2,495)	(3,935)		(2,495)
Net income	7,032	8,814	4,502	8,665	(20.2)	56.2	(18.8)	26,163	26,679	(1.9)	26,163
Adjusted net income	7,032	8,814	4,502	9,919	(20.2)	56.2	(29.1)	26,163	27,933	(6.3)	26,163
Adjusted EPS (Rs)	6.2	7.8	4.0	8.7				23.1	24.6		23.1
Other comprehensive income	(9,018)		7,145	(15,680)					(6,355)		
Total comprehensive income	(1,985)		11,648	(7,015)					20,325		
Tax rate (%)	35.2	34.6	29.4	26.5				31.8	28.1		

Volume data

Subsidy loss	—	—	—	—				25,232	—		25,232
Crude production ('000 tons)	844		844	832		0.0	1.4	3,426	3,390	1.1	
Gas production (mcm)	696		724	691		(3.9)	0.7	2,966	2,894	2.5	
Crude sales ('000 tons)	811	840	818	828	(3.5)	(0.9)	(2.1)	3,360	3,325	1.1	3,360
Gas sales (mcm)	597	588	595	583	1.6	0.3	2.4	2,475	2,415	2.5	2,475
LPG sales (000 tons)	8		5	9				32	34		32

Pricing data (US\$/bbl)

Gross crude price realization	72.0	73.3	48.4	64.9	(1.8)	48.7	10.9	70.5	55.7	26.6	70.5
Subsidy discount	—	—	—	—				15.5	—		15.5
Net crude price realization	72.0	73.3	48.4	64.9	(1.8)	48.7	10.9	55.0	55.7	(1.3)	55.0
Domestic gas price (US\$/mn BTU)	3.4	3.4	2.8	3.2		23.2	5.9	3.6	3.0	20.6	3.6

Segmental results**Revenues**

Crude oil	27,778		18,157	24,657		53.0	12.7		84,998		
Natural gas	4,431		3,541	3,954		25.1	12.1		15,314		
LPG	283		179	371		58.1	(23.6)		1,209		
Transportation	898		966	753		(7.1)	19.3		3,656		
Unallocated	515		474	250		8.5	105.8		1,388		
Total revenue	33,905		23,317	29,984		45.4	13.1		106,565		

EBIT

Crude oil	11,357		5,985	7,141		89.8	59.0		28,762		
Natural gas	1,190		952	1,203		24.9	(1.1)		4,561		
LPG	80		71	208					639		
Transportation	(261)		169	(784)					(469)		
Unallocated	(387)		201	5,104					7,760		
Interest	1,124		999	1,077					4,157		
Total PBT	10,855		6,379	11,795		70.2	(8.0)		37,098		
Tax	3,823		1,877	3,130		103.7	22.1		10,419		
PAT	7,032		4,502	8,665		56.2	(18.8)		26,679		

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: OIL's reserves have declined over the past several years

Domestic oil and gas reserves of OIL, March fiscal year-ends, 2010-17 (mn boe)

	2010	2011	2012	2013	2014	2015	2016	2017
1P reserves								
Crude oil	282	280	274	261	244	227	208	215
Natural gas	239	225	199	181	164	160	149	135
Overall	521	505	473	442	408	387	357	350
2P reserves								
Crude oil	580	584	600	598	610	608	592	578
Natural gas	377	360	341	318	315	293	282	256
Overall	957	944	941	916	924	902	874	834
3P reserves								
Crude oil	915	867	878	850	864	843	805	778
Natural gas	522	505	486	463	463	440	416	388
Overall	1,437	1,372	1,364	1,313	1,328	1,283	1,220	1,166

Source: Company, Kotak Institutional Equities

Exhibit 3: We assume the government to restrict net realizations to US\$55/bbl for upstream PSUs, in order to manage fuel subsidies

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

	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Macro assumptions									
Exchange rate (Rs/US\$)	60.5	61.2	65.5	67.1	64.5	68.7	69.5	70.0	71.0
Subsidy loss (Rs bn)	87.4	55.2	1.6	—	—	25.2	17.3	13.9	14.2
Import tariff on crude oil (%)	—	—	—	—	—	—	—	—	—
Crude/natural gas prices									
Crude price									
Crude price, Dated Brent (US\$/bbl)	107.5	85.5	47.5	49.0	57.6	72.5	67.5	65.0	65.0
Gross realized crude price, India (US\$/bbl)	106.4	84.3	46.4	47.4	55.7	70.5	65.5	63.2	63.2
Net realized crude price, India (US\$/bbl)	47.1	46.9	45.3	47.4	55.7	55.0	55.0	55.0	55.0
Natural gas price									
Natural gas price, India (Rs/cu m)	10.1	11.6	12.2	8.2	7.6	9.8	11.7	12.5	12.7
Natural gas price, India (US\$/mn BTU)	4.2	4.8	4.7	3.1	3.0	3.6	4.3	4.5	4.5
Sales volumes—Domestic fields									
Crude oil (mn tons)	3.5	3.4	3.2	3.2	3.3	3.4	3.4	3.4	3.5
Natural gas (bcm)	2.1	2.2	2.3	2.4	2.4	2.5	2.5	2.6	2.7
Total sales (mn toe)	5.4	5.4	5.3	5.4	5.5	5.6	5.7	5.8	5.9
Total sales (mn boe)	39	39	39	39	40	41	41	42	43
Crude oil (%)	65	63	61	60	60	60	60	59	59
Natural gas (%)	35	37	39	40	40	40	40	41	41

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: OIL stock is discounting US\$45/bbl of net realization at current levels of crude price

Sensitivity of OIL's EPS to gross and net crude realization, March fiscal year-end, 2019E (Rs)

OIL EPS sensitivity		Dated Brent crude price (US\$/bbl)				
		55.0	60.0	65.0	70.0	75.0
Net crude realization (US\$/bbl)	45.0	16.5	16.6	16.7	16.8	16.9
	50.0	19.7	19.7	19.8	19.9	20.0
	55.0	22.8	22.8	22.9	23.0	23.1
	60.0		26.0	26.0	26.1	26.2
	65.0			29.1	29.2	29.3
	70.0				32.3	32.4
	75.0					35.5

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: OIL's earnings are highly leveraged to assumptions on oil and gas prices
Earnings sensitivity of OIL to key variables

	2019E			2020E			2020E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Exchange rate (Rs/US\$)	67.7	68.7	69.7	68.5	69.5	70.5	69.0	70.0	71.0
Net profits (Rs mn)	25,404	26,163	26,923	26,242	27,042	27,842	25,533	26,354	27,176
Earnings per share (Rs)	22.4	23.1	23.7	23.1	23.8	24.5	22.5	23.2	23.9
% upside/(downside)	(2.9)		2.9	(3.0)		3.0	(3.1)		3.1
Crude price									
Net realization (US\$/bbl)	50.0	55.0	60.0	65.0	55.0	60.0	65.0	55.0	60.0
Net profits (Rs mn)	22,635	26,163	29,692	23,438	27,042	30,646	22,689	26,354	30,020
Earnings per share (Rs)	19.9	23.1	26.2	20.7	23.8	27.0	20.0	23.2	26.5
% upside/(downside)	(13.5)		13.5	(13.3)		13.3	(13.9)		13.9
Natural gas prices									
Natural gas price (US\$/mn BTU)	3.1	3.6	4.1	3.8	4.3	4.8	4.0	4.5	5.0
Net profits (Rs mn)	24,505	26,163	27,821	25,324	27,042	28,760	24,580	26,354	28,128
Earnings per share (Rs)	21.6	23.1	24.5	22.3	23.8	25.3	21.7	23.2	24.8
% upside/(downside)	(6.3)		6.3	(6.4)		6.4	(6.7)		6.7

Source: Kotak Institutional Equities estimates

Exhibit 6: We compute fair value of OIL India at Rs200/share

Fair value of OIL, March 2020E (Rs/share)

March 2020E EPS	24
Less: income from investments valued separately	3
Add: interest on loans for Area 1, Mozambique	2
March 2020E EPS (adjusted)	22
P/E (X)	8
Valuation of domestic operations	175
Write-off from stake in Area 1, Mozambique	(58)
Value of investments	82
IOCL	51
Numaligarh Refinery Limited	18
Other equity investments	13
Fair value	200

Source: Kotak Institutional Equities estimates

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

	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Profit model (Rs mn)									
Net sales	96,127	97,482	97,649	95,104	106,565	116,949	123,300	127,203	130,290
EBITDA	42,638	37,803	40,371	35,507	42,913	47,841	50,682	51,193	50,600
Other income	13,924	12,716	13,938	16,807	14,842	11,854	11,849	11,874	11,914
Interest	(688)	(3,407)	(3,840)	(3,967)	(4,157)	(4,337)	(4,487)	(4,587)	(4,687)
DD&A	(11,770)	(10,271)	(13,912)	(13,616)	(14,600)	(17,005)	(18,340)	(19,833)	(21,247)
Pretax profits	44,104	36,842	36,557	34,731	38,998	38,353	39,704	38,647	36,580
Current tax	(13,336)	(8,535)	(7,172)	(4,748)	(6,484)	(9,696)	(10,038)	(8,536)	(7,757)
Deferred tax	(956)	(3,650)	(4,217)	(1,229)	(3,935)	(2,495)	(2,624)	(3,757)	(3,814)
Adjusted net profits	29,813	24,657	24,456	25,060	28,046	26,163	27,042	26,354	25,009
Earnings per share (Rs)	24.8	20.5	20.3	20.8	24.7	23.1	23.8	23.2	22.0
Balance sheet (Rs mn)									
Total equity	207,082	215,143	249,195	290,905	279,094	292,662	306,685	320,351	333,320
Deferred tax liability	13,142	16,743	21,806	30,795	34,390	36,884	39,508	43,265	47,079
Liability for abandonment cost	4,583	4,643	3,193	4,963	4,680	4,680	4,680	4,680	4,680
Total borrowings	97,827	83,411	91,328	89,475	75,294	75,294	75,294	75,294	75,294
Current liabilities	26,111	42,332	25,970	37,258	46,884	47,587	47,735	47,888	48,044
Total liabilities and equity	348,745	362,271	391,492	453,396	440,342	457,107	473,902	491,478	508,418
Cash	115,437	87,073	99,082	65,423	30,926	27,873	24,176	21,750	18,726
Current assets	43,183	68,812	48,629	48,741	52,081	53,467	54,826	55,660	56,321
Total fixed assets	75,559	91,272	99,251	119,728	129,480	144,474	160,134	175,801	191,554
Investments	114,566	115,115	144,530	219,504	227,856	231,292	234,767	238,267	241,817
Total assets	348,745	362,271	391,492	453,396	440,342	457,107	473,902	491,478	508,418
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	29,412	22,143	27,818	22,780	28,476	31,184	33,282	34,945	34,781
Working capital changes	(876)	(15,856)	3,435	7,678	6,286	(684)	(1,210)	(682)	(504)
Capital expenditure	(19,279)	(23,644)	(25,360)	(28,501)	(39,750)	(29,375)	(31,125)	(32,375)	(33,625)
Investments	(95,790)	(2,503)	(9,720)	(2,873)	(8,352)	(3,437)	(3,475)	(3,500)	(3,550)
Other income	14,285	14,513	13,333	15,719	14,842	11,854	11,849	11,874	11,914
Free cash flow	(72,248)	(5,347)	9,506	14,804	1,503	9,543	9,321	10,262	9,017
Ratios (%)									
Debt/equity	44.4	36.0	33.7	27.8	24.0	22.8	21.7	20.7	19.8
Net debt/equity	(8.0)	(1.6)	(2.9)	7.5	14.2	14.4	14.8	14.7	14.9
RoAE	14.0	10.9	9.7	8.5	8.8	8.1	8.0	7.4	6.7
RoACE	11.0	7.1	6.5	5.8	6.3	5.9	5.8	5.4	4.9
Key assumptions									
Exchange rate (Rs/US\$)	60.5	61.2	65.5	67.1	64.5	68.7	69.5	70.0	71.0
Net realized crude price, India (US\$/bbl)	47.1	46.9	45.3	47.4	55.7	55.0	55.0	55.0	55.0
Natural gas price, India (US\$/mn BTU)	4.2	4.8	4.7	3.1	3.0	3.6	4.3	4.5	4.5
Subsidy loss (Rs bn)	87.4	55.2	1.6	—	—	25.2	17.3	13.9	14.2

Source: Company, Kotak Institutional Equities estimates

AUGUST 14, 2018

RESULT

Coverage view: **Neutral**

Price (₹): **1,228**

Target price (₹): **1,300**

BSE-30: **37,645**

Strong all-round performance. Balkrishna reported a strong quarter with revenue and EBITDA growth of 38% and 67% yoy, respectively in 1QFY19. Volumes increased by 23% yoy led by (1) 29% yoy growth in OTR volumes aided by strong growth in mining tires and (2) 21% yoy growth in agriculture tires. We believe that BKT is well-placed to benefit from uptick in global off-highway tire industry and has scope to gain market share across segments. Valuations at 20X FY2020E EPS are already building in strong growth prospects leaving little room for upside over the next one year. REDUCE stays.

Company data and valuation summary

Balkrishna Industries

Stock data				Forecasts/Valuations			
				2018	2019E	2020E	
52-week range (Rs) (high,low)	1,352-719			EPS (Rs)	37.4	50.3	62.8
Market Cap. (Rs bn)	237.3			EPS growth (%)	4.8	34.5	24.7
Shareholding pattern (%)				P/E (X)	32.8	24.4	19.6
Promoters	58.3			Sales (Rs bn)	46.6	57.3	66.6
FIs	17.6			Net profits (Rs bn)	7.2	9.7	12.1
MFs	10.9			EBITDA (Rs bn)	13.5	17.1	20.5
Price performance (%)				EV/EBITDA (X)	17.4	13.3	10.7
Absolute	1M	3M	12M	ROE (%)	19.0	21.6	22.2
	3.9	2.3	62.6	Div. Yield (%)	0.4	0.5	0.5
Rel. to BSE-30	0.9	(3.4)	34.8				

Strong 1QFY19 results driven by double-digit volume growth and realizations

Balkrishna reported 1QFY19 EBITDA of ₹4.1 bn (+67% yoy), which was 3% above our estimates due to stronger-than-expected revenues led by higher volume growth and realizations. Revenues grew by 38% yoy led by (1) 23% yoy volume growth (growth was 7% yoy in 1QFY18) and (2) 13% yoy increase in net realizations led by price increases, currency benefits and better product mix. EBITDA margin came in at 29.1% (+500 bps yoy and 30 bps qoq), which was 130 bps below our estimates due to higher-than-expected other expenses and lower gross margin (60 bps below our estimates). EBITDA per kg was ₹72.3 (+36% yoy), which was marginally below our estimates. Gross profit per kg was ₹136.6 (+27% yoy), which was 2% ahead of our estimates due to higher realizations. Other expenses increased by 53% yoy, which was 14% above our estimates. Other expenses per kg increased by 25% yoy to ₹52.2 in 1QFY19 (KIE: ₹47.7/kg). Adjusted PAT (adjusted for forex gains of ₹200 mn below EBITDA) came in at ₹2.3 bn (+62% yoy), which was 5% below our estimates due to higher depreciation expenses and higher tax rate.

Robust volume growth and profitability outlook; expect 24% EPS CAGR over FY2018-21E

We remain positive on BKT's volume growth prospects and expect the company to deliver 14% volume CAGR over FY2018-21E led by (1) recovery in global off-highway tire industry, (2) rising presence in the OTR segment and (3) stronger growth in the OEM segment as BKT is now an approved vendor for all the leading global OEMs. We expect EBITDA margin to range at 30-31% over the next three years; better product mix due to increased production of higher-sized OTR tires, operating leverage benefits and backward integration are key margin tailwinds. Overall, we expect the company to deliver 24% EPS CAGR over FY2018-21E.

Fine-tune earnings estimates; maintain REDUCE with revised TP of ₹1,300 (from ₹1,260)

Our FY2019-21E EPS estimates remain largely unchanged. BKT is well-placed to benefit from uptick in the global off-highway tire industry and has room to gain market share in both agri and mining tire segments. Valuations at 20X FY2020E EPS are already building in strong growth prospects leaving little room for upside over the next one year. Maintain REDUCE with TP of ₹1,300 (from ₹1,260), valuing the company at 20X June 2020E EPS (from March 2020E earlier).

Nishit Jalan

Hitesh Goel

Key takeaways from conference call

- ▶ Volume growth in 1QFY19 was driven by (1) 64% yoy volume growth in America aided by market share gains and also partly due to low base, (2) 26-30% yoy growth in India and rest of the world markets and (3) 11% yoy volume growth in Europe. Agriculture segment volumes grew by 21% yoy aided possibly by recovery in European OEM segment while OTR volumes increased by 29% yoy as the company's new higher-sized mining tyres are getting good traction in the market. OEM volumes increased by 29% yoy while volumes in the replacement market grew by 22% yoy (refer to Exhibit 3 for more details).
- ▶ The company has revised FY2019 volume guidance to 225,000-230,000 units (from 220,000 units earlier), which implies 12-15% yoy volume growth. We have been highlighting that the company's volume guidance was conservative and were already building in 15% yoy volume growth in FY2019E. In fact, we are building in 15% volume growth in FY2020E as well (refer to Exhibit 10 for our volume growth assumptions).
- ▶ The company has decided to increase the project size of carbon black project to 140,000 tons from 60,000 tons earlier. Phase 1 of the project with capacity of 60,000 tons will be commissioned by end-FY2019 while phase 2 will be completed by end of FY2021. The entire project will entail a capex of ₹4.25 bn. This plant will benefit the company's EBITDA margin by 100-150 bps.
- ▶ Long-term debt was ₹2.23 bn as of June 2018, which is payable on August 14, 2018. The company has cash and cash equivalents of ₹12.7 bn as of June 2018.

Exhibit 1: Strong 1QFY19 results led by robust double-digit volume growth and realizations
Interim results of BKT, standalone, March fiscal year-ends (₹ mn, %)

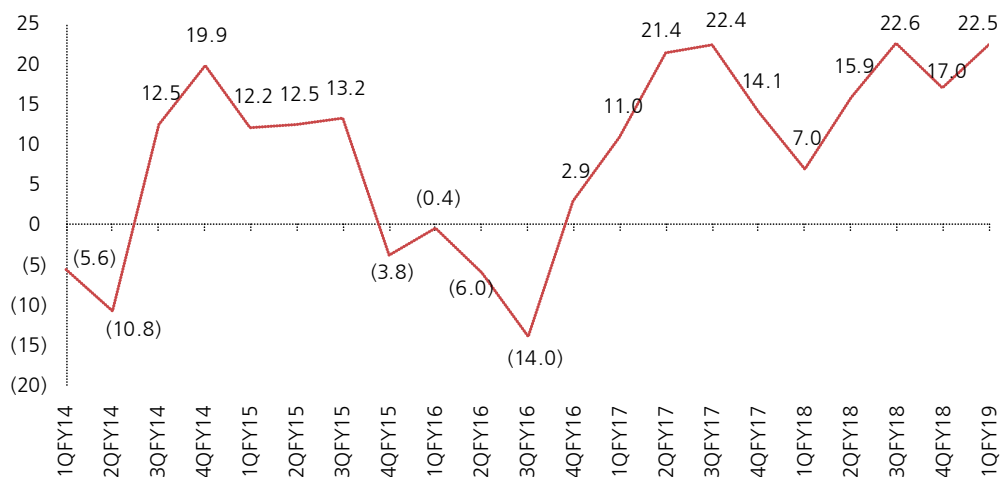
	1QFY19	1QFY19E	1QFY18	4QFY18	Change (%)			FY2019E	FY2018	Yoy (%)
					1QFY19E	1QFY18	4QFY18			
Volumes (tonnes)	56,754	54,500	46,327	54,002	4.1	22.5	5.1	230,308	199,213	15.6
Realizations per kg	249.0	242.0	220.6	242.0	2.9	12.9	2.9	248.6	234.2	
Total Income	14,134	13,189	10,222	13,068	7.2	38.3	8.2	57,252	46,648	22.7
Of which - realized forex gain/(loss)	510	700	240	750	(27.1)	112.5	(32.0)	1,508	2,210	
Total Expenditure	(10,028)	(9,186)	(7,760)	(9,302)	9.2	29.2	7.8	(40,124)	(33,182)	20.9
Raw materials	(6,382)	(5,886)	(5,232)	(5,737)	8.4	22.0	11.3	(25,908)	(21,432)	20.9
Employee expense	(681)	(700)	(587)	(689)	(2.7)	15.9	(1.2)	(3,172)	(2,799)	13.3
Other expenditure	(2,965)	(2,600)	(1,941)	(2,876)	14.0	52.7	3.1	(11,044)	(8,951)	23.4
EBITDA	4,106	4,003	2,462	3,766	2.6	66.8	9.0	17,128	13,466	27.2
EBITDA margin (%)	29.1	30.4	24.1	28.8				29.9	28.9	
Depreciation	(841)	(785)	(755)	(783)	7.1	11.4	7.5	(3,453)	(3,114)	
Interest	(33)	(40)	(51)	(34)	(17.0)	(35.4)	(3.2)	(100)	(139)	
Other non-operating income	292	230	623	27	27.0	(53.1)	982.2	1,202	948	
Of which - unrealized forex gain/(loss)	200	—	280	(150)				200	184	
Of which - other income	92	230	343	177	(59.9)			1,002	764	
PBT	3,524	3,408	2,278	2,976	3.4	54.7	18.4	14,777	11,160	32.4
Tax expense	(1,222)	(1,125)	(747)	(1,040)	8.6	63.5	17.5	(4,913)	(3,803)	
PAT	2,302	2,283	1,531	1,936	0.8	50.3	18.9	9,865	7,358	
Adjusted PAT(excluding unrealized forex loss)	2,162	2,283	1,335	2,041	(5.3)	61.9	5.9	9,725	7,229	34.5
Number of shares (mn)	193.3	193.3	193.3	193.3				193.3	193.3	
Adjusted EPS (Rs)	11.2	11.8	6.9	10.6				50.3	37.4	34.5
Key ratios (%)										
RM/sales	45.2	44.6	51.2	43.9				45.3	45.9	
Employee cost/sales	4.8	5.3	5.7	5.3				5.5	6.0	
Other expenditure/sales	21.0	19.7	19.0	22.0				19.3	19.2	
Effective tax rate	34.7	33.0	32.8	34.9				33.2	34.1	
Key ratios (Rs per kg)										
Realizations	249.0	242.0	220.6	242.0	2.9	12.9	2.9	248.6	234.2	
RM cost	112.5	108.0	112.9	106.2	4.1	(0.4)	5.9	112.5	107.6	
Gross profit	136.6	134.0	107.7	135.8	1.9	26.8	0.6	136.1	126.6	
Employee cost	12.0	12.8	12.7	12.8	(6.6)	(5.4)	(6.0)	13.8	14.1	
Other expenses	52.2	47.7	41.9	53.3	9.5	24.7	(1.9)	48.0	44.9	
EBITDA	72.3	73.4	53.1	69.7	(1.5)	36.1	3.7	74.4	67.6	

Notes:

(1) We account for realized hedged forex gains and losses in revenues and unrealized forex losses below EBITDA

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: BKT's volumes grew by 22.5% yoy in 1QFY19
Trend in yoy growth in BKT's volumes, March fiscal year-ends, 2014-2018 (%)



Source: Company, Kotak Institutional Equities

Exhibit 3: Agriculture/OTR segment volumes grew by 20%/29% yoy in 1QFY19; strong growth across markets particularly US
Segmental volume performance across segments, March fiscal year-ends, 1QFY17-1QFY19 (tons, %)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Volume by region (tons)									
Europe	25,230	23,179	19,179	25,868	26,349	25,578	25,786	29,586	29,131
America	5,024	6,490	8,352	6,538	5,708	8,394	8,629	7,109	9,364
Rest of World	6,332	6,282	6,103	6,950	6,316	8,495	6,762	7,662	8,207
India	6,720	6,599	6,781	6,793	7,954	6,864	8,376	9,645	10,052
Total	43,306	42,550	40,415	46,149	46,327	49,331	49,553	54,002	56,754
Volume by end segment (tons)									
Agriculture	27,429	26,947	24,252	28,939	29,410	30,859	30,764	33,214	35,445
OTR	14,315	14,065	14,417	15,433	15,089	16,625	16,915	18,660	19,498
Others	1,562	1,538	1,746	1,777	1,828	1,847	1,874	2,128	1,811
Total	43,306	42,550	40,415	46,149	46,327	49,331	49,553	54,002	56,754
Volume by channel (tons)									
Off-take	1,538	1,290	909	995	1,306	1,551	1,202	1,774	1,190
OEM	10,642	9,753	8,708	11,413	11,803	11,384	12,905	14,963	15,194
Replacement	31,126	31,507	30,798	33,741	33,218	36,396	35,446	37,265	40,370
Total	43,306	42,550	40,415	46,149	46,327	49,331	49,553	54,002	56,754
Yoy growth (%)									
Volume by region (%)									
Europe	24.3	30.6	2.7	8.3	4.4	10.3	34.4	14.4	10.6
America	(6.4)	17.1	44.3	9.6	13.6	29.3	3.3	8.7	64.1
Rest of World	4.5	15.3	19.3	33.5	(0.3)	35.2	10.8	10.2	29.9
India	17.7	18.0	21.3	26.1	18.4	4.0	23.5	42.0	26.4
Total	15.7	23.9	14.9	14.1	7.0	15.9	22.6	17.0	22.5
Volume by end segment (%)									
Agriculture	15.2	28.8	11.3	11.2	7.2	14.5	26.9	14.8	20.5
OTR	17.5	16.6	19.5	18.7	5.4	18.2	17.3	20.9	29.2
Others	7.4	14.3	32.8	25.3	17.0	20.1	7.3	19.8	(0.9)
Total	15.7	23.9	14.9	14.1	7.0	15.9	22.6	17.0	22.5
Volume by channel (%)									
Off-take	7.6	20.4	49.8	(0.2)	(15.1)	20.2	32.2	78.3	(8.9)
OEM	29.1	27.0	15.1	6.7	10.9	16.7	48.2	31.1	28.7
Replacement	12.1	23.2	14.1	17.4	6.7	15.5	15.1	10.4	21.5
Total	15.7	23.9	14.9	14.1	7.0	15.9	22.6	17.0	22.5

Source: Company, Kotak Institutional Equities

Exhibit 4: EBITDA per kg increased by 36% yoy to ₹72 in 1QFY19

Trend in operating parameters for the standalone business, BKT, March fiscal year-ends, 2014-18

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
USD/INR	63.4	64.9	65.9	67.5	66.9	66.9	67.4	66.9	64.5	64.2	64.7	64.4	67.0
Euro/INR	70.3	72.3	72.2	74.4	75.5	74.7	72.6	71.3	70.9	75.5	76.2	79.1	79.9
Volumes (MT)	39,031	35,056	33,010	40,438	43,306	42,550	40,415	46,148	46,327	49,331	49,553	54,002	56,754
Sales (Rs mn)	9,819	7,348	7,867	10,072	9,601	9,555	9,224	10,512	10,222	11,815	11,613	13,068	14,134
EBITDA (Rs mn)	2,359	1,822	2,505	3,691	3,250	3,305	3,080	3,054	2,462	3,769	3,520	3,766	4,106
RMs (Rs mn)	4,180	3,347	3,026	3,541	3,846	3,666	3,584	4,718	5,232	5,482	5,048	5,737	6,382
Net sales per kg	252	210	238	249	222	225	228	228	221	239	234	242	249
RM per kg (Rs)	107	95	92	88	89	86	89	102	113	111	102	106	112
Gross profit (Rs per kg)	144	114	147	161	133	138	140	126	108	128	132	136	137
EBITDA per kg (Rs)	60	52	76	91	75	78	76	66	53	76	71	70	72
EBITDA (%)	24.0	24.8	31.8	36.6	33.9	34.6	33.4	29.1	24.1	31.9	30.3	28.8	29.1

Source: Company, Bloomberg, Kotak Institutional Equities

Exhibit 5: Global OHT makers have also reported volume ramp-up over the past 5-6 quarters

Quarterly revenues in USD, and yoy growth trend for key OHT players, December calendar year-ends (US\$ mn, %)

	1QCY14	2QCY14	3QCY14	4QCY14	1QCY15	2QCY15	3QCY15	4QCY15	1QCY16	2QCY16	3QCY16	4QCY16	1QCY17	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18
Michelin (a)	1,062	1,101	954	846	869	885	808	710	813	825	762	738	903	997	931	955	1,324	1,355
Trelleborg (b)	174	158	140	125	135	135	126	120	136	177	216	208	261	268	245	264	309	298
Titan International	539	524	450	383	402	376	309	308	322	330	306	307	358	364	371	376	425	429
BKT (c)	162	161	154	165	168	155	113	119	149	144	143	137	157	159	184	179	203	211
Yoy growth (%)																		
Michelin	(2)	(6)	(6)	(4)	(18)	(20)	(15)	(16)	(6)	(7)	(6)	4	11	21	22	29	22	16
Trelleborg	2	(5)	(11)	(16)	(23)	(15)	(10)	(4)	1	1	1	1	8	8	7	7	9	9
Titan International	(7)	(12)	(10)	(22)	(25)	(28)	(31)	(20)	(20)	(12)	(1)	(0)	11	10	21	22	19	18
BKT	11	8	18	20	4	(4)	(26)	(28)	(11)	(7)	26	15	5	10	29	31	29	33

Notes:

- (a) Data pertains to revenues from speciality tires division
 (b) Data pertains to revenues from wheel systems division
 (c) Data corresponds to March fiscal year-ends

Source: Company, Bloomberg, Kotak Institutional Equities

Exhibit 6: International rubber prices remain steady at lower levels

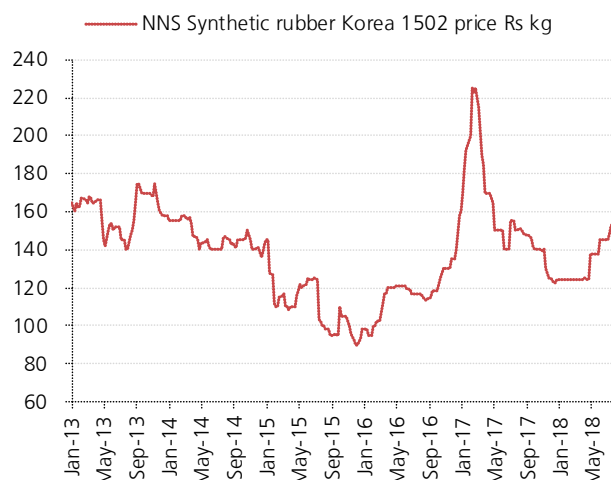
Tokyo commodity exchange rubber future contract, 2013-18 (₹ per kg)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 7: Synthetic rubber prices have inched higher over the past two months

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



Source: Bloomberg, Kotak Institutional Equities

Exhibit 8: Synthetic rubber prices increased by 9% qoq in 1QFY19

Natural rubber and synthetic rubber prices, March fiscal year-ends, 1QFY16-1QFY19 (₹ per kg, %)

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

Source: Bloomberg, Kotak Institutional Equities

Exhibit 9: We have fine-tuned our FY2019-21E consolidated EPS estimates

Earnings revision table, consolidated numbers, March fiscal year-ends, 2019-21E (₹ mn, %)

	New estimates			Old estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues (Rs mn)	57,252	66,563	74,802	56,145	65,276	73,356	2.0	2.0	2.0
EBITDA (Rs mn)	17,128	20,473	22,802	16,942	20,351	22,640	1.1	0.6	0.7
EBITDA margin (%)	29.9	30.8	30.5	30.2	31.2	30.9			
PAT (Rs mn)	9,725	12,131	13,779	9,742	12,174	13,723	(0.2)	(0.4)	0.4
EPS (Rs)	50.3	62.8	71.3	50.4	63.0	71.0	(0.2)	(0.4)	0.4

Source: Kotak Institutional Equities estimates

Exhibit 10: We expect BKT to deliver 14% volume CAGR over FY2018-21 period; mining segment will be key growth driver

Historical volume growth across segments and forecasts, March fiscal year-ends, 2010-20E (tons, %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	CAGR (%)		
													2010-18	2018-21E	
Segment-wise volumes (tons)															
Agricultural	55,731	72,290	82,968	85,859	90,564	98,058	92,958	107,567	124,247	139,157	153,072	165,318	10.5	10.0	
OTR (Industrial, mining, construction)	23,986	32,506	45,229	47,394	47,683	50,492	49,752	58,230	67,289	82,093	101,795	119,100	13.8	21.0	
Others	4,737	6,748	4,842	5,086	4,563	5,606	4,825	6,623	7,677	9,059	10,508	12,190	6.2	16.7	
Total volumes	84,454	111,544	133,039	138,339	142,810	154,156	147,535	172,420	199,213	230,308	265,375	296,608	11.3	14.2	
Channel-wise volumes (tons)															
OEM	11,320	15,241	19,310	20,268	28,337	33,534	34,629	40,516	51,055	61,777	73,514	86,011	20.7	19.0	
Replacement	67,964	89,854	106,850	112,278	108,777	114,866	109,511	127,172	142,325	163,674	186,588	205,247	9.7	13.0	
Off-take (contract manufacturing)	5,170	6,449	6,879	5,794	5,695	5,756	3,395	4,732	5,833	4,858	5,273	5,349	1.5	(2.8)	
Total volumes	84,454	111,544	133,039	138,340	142,809	154,156	147,535	172,420	199,213	230,308	265,375	296,608	11.3	14.2	
Region-wise volumes (tons)															
Europe	42,699	53,238	61,802	65,990	75,589	82,865	81,468	93,456	107,299	123,394	140,669	157,549	12.2	13.7	
America	15,567	25,274	33,650	32,071	26,645	28,955	22,669	26,404	29,840	34,316	40,150	45,369	8.5	15.0	
Rest of World	16,790	21,729	25,754	28,332	28,500	23,266	21,831	25,667	29,235	33,620	38,663	43,303	7.2	14.0	
India	9,398	11,302	11,833	11,946	12,076	19,070	21,567	26,893	32,839	38,978	45,893	50,386	16.9	15.3	
Total volumes	84,454	111,543	133,039	138,339	142,810	154,156	147,535	172,420	199,213	230,308	265,375	296,608	11.3	14.2	
Segmental volume mix (%)															
Agricultural	66.0	64.8	62.4	62.1	63.4	63.6	63.0	62.4	62.4	60.4	57.7	55.7			
OTR (Industrial, mining, construction)	28.4	29.1	34.0	34.3	33.4	32.8	33.7	33.8	33.8	35.6	38.4	40.2			
Others	5.6	6.0	3.6	3.7	3.2	3.6	3.3	3.8	3.9	3.9	4.0	4.1			
Total volumes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			
Channel-wise volumes (tons)															
OEM	13.4	13.7	14.5	14.7	19.8	21.8	23.5	23.5	25.6	26.8	27.7	29.0			
Replacement	80.5	80.6	80.3	81.2	76.2	74.5	74.2	73.8	71.4	71.1	70.3	69.2			
Off-take (contract manufacturing)	6.1	5.8	5.2	4.2	4.0	3.7	2.3	2.7	2.9	2.1	2.0	1.8			
Total volumes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			
Region-wise volumes (tons)															
Europe	50.6	47.7	46.5	47.7	52.9	53.8	55.2	54.2	53.9	53.6	53.0	53.1			
America	18.4	22.7	25.3	23.2	18.7	18.8	15.4	15.3	15.0	14.9	15.1	15.3			
Rest of World	19.9	19.5	19.4	20.5	20.0	15.1	14.8	14.9	14.7	14.6	14.6	14.6			
India	11.1	10.1	8.9	8.6	8.5	12.4	14.6	15.6	16.5	16.9	17.3	17.0			
Total volumes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			

Source: Company, Kotak Institutional Equities estimates

Exhibit 11: We expect EBITDA margin to remain strong over the next two years

Our assumptions for BKT, consolidated, March fiscal year-ends, 2011-20E

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Volumes (MT)	111,544	133,039	138,339	142,810	154,156	147,535	172,420	199,213	230,308	265,375	296,608
Sales (Rs mn)	21,921	29,987	33,804	36,808	40,586	35,305	37,923	46,648	57,252	66,563	74,802
EBITDA (Rs mn)	3,675	4,940	6,689	8,896	9,689	11,133	12,150	13,466	17,128	20,473	22,802
RMs (Rs mn)	13,249	18,174	18,947	18,219	19,784	14,192	15,796	21,432	25,908	29,775	33,591
Net sales per kg	196.5	225.4	244.4	257.7	263.3	239.3	219.9	234.2	248.6	250.8	252.2
RM per kg (Rs)	118.8	136.6	137.0	127.6	128.3	96.2	91.6	107.6	112.5	112.2	113.3
EBITDA per kg (Rs)	32.9	37.1	48.3	62.3	62.9	75.5	70.5	67.6	74.4	77.1	76.9
EBITDA margin (%)	16.8	16.5	19.8	24.2	23.9	31.5	32.0	28.9	29.9	30.8	30.5

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: We expect BKT to deliver 24% EPS CAGR over FY2018-21E

Profit and loss model, cash flow statement and balance sheet for BKT, consolidated, March fiscal year-ends, 2011-21E (₹ mn)

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)											
Sales	21,921	29,987	33,804	36,808	40,586	35,305	37,923	46,648	57,252	66,563	74,802
EBITDA	3,675	4,940	6,689	8,896	9,689	11,133	12,150	13,466	17,128	20,473	22,802
Other income	204	220	45	141	382	(1,173)	1,696	948	1,202	1,422	1,672
Interest	(223)	(292)	(274)	(272)	(476)	(395)	(220)	(139)	(100)	(74)	(49)
Depreciation	(773)	(864)	(1,122)	(1,703)	(2,437)	(2,823)	(3,040)	(3,114)	(3,453)	(3,662)	(3,805)
Profit before tax	2,882	4,004	5,338	7,062	7,159	6,743	10,586	11,160	14,777	18,160	20,620
Tax expense	(936)	(1,315)	(1,839)	(2,316)	(2,408)	(2,285)	(3,418)	(3,803)	(4,913)	(6,029)	(6,841)
PAT	1,946	2,689	3,499	4,747	4,751	4,457	7,169	7,358	9,865	12,131	13,779
Adjusted PAT	1,946	2,689	3,499	4,747	4,751	6,040	6,897	7,229	9,725	12,131	13,779
Adjusted EPS	10.1	13.9	18.1	24.6	24.6	31.2	35.7	37.4	50.3	62.8	71.3
Balance sheet (Rs mn)											
Equity	8,614	11,101	14,430	18,951	22,760	27,749	35,429	40,834	49,355	60,008	72,161
Deferred tax liability	603	667	1,067	1,796	1,887	2,459	3,529	3,289	3,289	3,289	3,289
Total borrowings	6,215	17,092	21,640	24,385	23,578	18,983	13,909	8,675	6,330	4,330	2,330
Current liabilities and provisions	6,318	4,520	4,371	5,089	4,958	4,794	5,025	5,985	7,096	8,111	9,052
Total liabilities	21,749	33,379	41,507	50,220	53,184	53,984	57,891	58,782	66,069	75,737	86,831
Net fixed assets	7,812	13,498	23,479	29,546	30,494	30,984	29,584	29,678	30,225	30,564	38,759
Investments	138	25	33	3,702	4,441	8,273	13,492	11,027	11,027	11,027	11,027
Cash & cash equivalents	123	3,698	2,780	149	4,342	3,300	248	334	5,113	12,338	13,374
Other current assets	13,677	16,159	15,215	16,823	13,906	11,428	14,567	17,743	19,703	21,808	23,671
Total assets	21,749	33,380	41,507	50,220	53,184	53,984	57,891	58,782	66,069	75,737	86,831
Free cash flow (Rs mn)											
Operating cash flow excl. working capital	2,642	3,374	4,938	7,089	7,405	8,097	9,351	9,561	12,115	14,371	15,912
Working capital changes	(2,149)	(2,832)	273	(1,355)	1,959	2,267	(1,111)	(2,154)	(849)	(1,090)	(922)
Capital expenditure	(2,306)	(7,049)	(10,143)	(8,866)	(3,708)	(2,424)	(1,849)	(4,203)	(4,000)	(4,000)	(12,000)
Free cash flow	(1,813)	(6,507)	(4,932)	(3,131)	5,656	7,940	6,391	3,204	7,266	9,281	2,990
Ratios											
EBITDA margin (%)	16.8	16.5	19.8	24.2	23.9	31.5	32.0	28.9	29.9	30.8	30.5
PAT margin (%)	8.9	9.0	10.4	12.9	11.7	17.1	18.2	15.5	17.0	18.2	18.4
Net debt/equity (X)	0.69	1.20	1.30	1.08	0.65	0.27	0.00	(0.07)	(0.20)	(0.32)	(0.31)
Book value (Rs/share)	44.6	57.4	74.7	98.0	117.7	143.6	183.3	211.2	255.3	310.4	373.3
RoAE (%)	25.2	27.3	27.4	28.4	22.8	23.9	21.8	19.0	21.6	22.2	20.9
RoACE (%)	15.4	14.0	12.6	13.3	12.5	15.1	17.4	18.5	23.5	27.9	27.9

Source: Company, Kotak Institutional Equities estimates

AUGUST 14, 2018

RESULT

Coverage view: **Cautious**

Price (₹): **2,561**

Target price (₹): **2,830**

BSE-30: **37,645**

A good quarter. Dalmia Bharat's earnings were in line with estimate as the company reported strong volume growth (+13% yoy) though EBITDA/ton was weak due to subdued realization & rising costs. The company expects to commission the Kalyanpur facility by October 2018—this acquisition and 8 mtpa expansion will position Dalmia to leadership position in East markets where capacity utilization is relatively high among different regions. We maintain ADD rating; revise TP to ₹2,830 (₹2,900 earlier).

Company data and valuation summary

Dalmia Bharat

Stock data

52-week range (Rs) (high,low) 3,350-2,174

Market Cap. (Rs bn) 228.3

Shareholding pattern (%)

Promoters 57.9

FIs 16.7

MFs 5.1

Price performance (%)

Absolute 9.9 (8.7) 2.7

Rel. to BSE-30 6.6 (13.8) (14.9)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	60.3	94.0	121.5
EPS growth (%)	55.4	55.8	29.3
P/E (X)	42.4	27.2	21.1
Sales (Rs bn)	86.1	102.4	114.1
Net profits (Rs bn)	5.4	8.3	10.8
EBITDA (Rs bn)	20.4	24.6	27.9
EV/EBITDA (X)	13.2	10.4	8.5
ROE (%)	9.7	12.9	14.6
Div. Yield (%)	0.1	0.1	0.1

1QFY19 earnings—in line; volumes increase 13% yoy while EBITDA/ton declines

Dalmia Bharat's earnings were broadly in line with our estimates—the company reported revenues of ₹23.7 bn (+15% yoy, -10% qoq), EBITDA of ₹5.2 bn (-6% yoy, -11% qoq) and net income of ₹1.2 bn (-24% yoy, -32% qoq), against our estimate of ₹22 bn, ₹5 bn and ₹1.3 bn, respectively. The company reported volume growth of 13% yoy to 4.5 mn tons (-13% qoq) aided by strong demand in the key markets—as per the company, sector cement demand in 1QFY19 increased by 13% in East, 16% in South and 17% in North East markets—we note that most of the companies are reporting strong offtake from pickup in infrastructure activity.

Dalmia's EBITDA/ton declined 17% yoy to ₹1,162/ton (+2% qoq) due to subdued realizations and rising costs—the company's realizations improved 2% yoy to ₹5,250/ton (+3% qoq) while costs increased by 9% yoy to ₹4,090/ton (+3% qoq). The company, in line with industry trends, reported increase in slag costs, fuel and freight costs. The cost increase was partially offset by lower fixed costs, which aided by operating leverage gains declined by 8% yoy to ₹776/ton.

Acquisitions—Kalyanpur to start operations from October, but Murli awaits NCLT approval

The company expects production at Kalyanpur Cement (1.1 mtpa) to start from October 2018—the total investment in this project will be ₹3 bn, which includes ₹1.5 bn of upfront equity. The management highlighted that limestone mines for this plant has been restored by Bihar government. The Murli Industries acquisition still awaits approval from NCLT—we note that this is a 3 mtpa plant in Maharashtra, which the company believes can cater to demand in Telangana. The company expects to tie up limestone for this plant.

Dalmia is yet to close the merger of OCL India as it awaits approval for transfer of a few mines, which can take 2-3 months—they expect to close this restructuring by December 2018.

Maintain ADD rating with revised target price of ₹2,830 (₹2,900 earlier)

The company's net debt declined to ₹34.3 bn in June 2018 from ₹35.1 bn in March 2018 (₹46 bn in June 2017) and leverage ratio (net-debt/EBITDA) is comfortable at 1.7X. The company's growth strategy in the East should augur well for earnings given strong demand growth in region and relatively higher capacity utilization rates—we note that Dalmia will set up 8 mtpa of capacity in the East at a capital expenditure of ₹37.2 bn. We retain our ADD rating though cut target price to ₹2,830 (₹2,900 earlier).

Abhishek Poddar

Murtuza Arsiwalla

Samrat Verma

Exhibit 1: Dalmia's EBITDA declined 6% yoy despite volume growth of 13% yoy due to subdued prices & increasing cost pressures
Quarterly results for Dalmia Bharat, March fiscal year-ends, 2017-19E (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	Change (%)			FY2019E	FY2018	(% chg)
					KIE	yoy	qoq			
Net sales	23,676	22,048	20,589	26,380	7	15	(10)	102,358	86,088	19
Raw materials	(4,414)	(4,121)	(3,151)	(5,265)				(18,835)	(15,834)	
Employee costs	(1,682)	(1,670)	(1,646)	(1,599)				(6,923)	(6,415)	
Power costs	(3,950)	(3,555)	(3,229)	(3,922)				(16,481)	(13,661)	
Freight costs	(4,651)	(4,141)	(3,735)	(5,329)				(19,210)	(15,911)	
Other costs	(3,740)	(3,605)	(3,261)	(4,375)				(16,269)	(13,853)	
EBITDA	5,240	4,955	5,566	5,891	6	(6)	(11)	24,640	20,415	21
EBITDA (%)	22.1	22.5	27.0	22.3				24.1	23.7	
Other income	432	661	700	655				3,142	2,784	
Interest	(1,620)	(1,523)	(2,117)	(1,539)				(7,110)	(7,049)	
Depreciation	(1,798)	(1,879)	(1,532)	(1,861)				(7,206)	(7,037)	
PBT	2,254	2,214	2,617	3,146				13,465	9,112	
Current tax	(773)	(686)	(569)	(1,060)				(5,042)	(3,173)	
Deferred tax	—	—	(52)	—				1,002	496	
PAT	1,481	1,528	1,996	2,086	(3)	(26)	(29)	9,426	6,436	46
Share of profit of associates	—	—	—	—				—	1	
Minority interest	238	255	357	249				1,079	1,078	
Net profit after minority	1,243	1,272	1,639	1,837	(2)	(24)	(32)	8,347	5,359	56
Extraordinaries	—	—	—	—				—	—	
Reported PAT	1,243	1,272	1,639	1,837				8,347	5,359	
EPS (Rs/share)	14.0	14.3	18.5	20.7				94.0	60.3	
Effective tax rate (%)	34	31	24	34				30	29	
Operational parameters										
Consolidated										
Cement volumes (mn tons)	4.5	4.3	4.0	5.2	5	13	(13)	19.4	17.0	14
Blended realization (Rs/ton)	5,250	5,135	5,160	5,093	2	2	3	5,278	5,068	4
Blended EBITDA/ton (Rs)	1,162	1,154	1,395	1,137	1	(17)	2	1,271	1,202	6

Source: Company, Kotak Institutional Equities estimates

Changes in our estimates

Exhibit 4 highlights key changes in our estimates. We increase our volume estimate (consolidated) by 1-3% to 19.4 mn tons, 21 mn tons and 21.6 mn tons for FY2019E, FY2020E and FY2021E. We cut our realization assumption and tweak cost estimates resulting in cut in our EBITDA/ton estimate by 1-7% for OCL India and Dalmia's operations on ex-OCL basis. This results in cut in our consolidated EBITDA by 1-3% to ₹24.6 bn, ₹28 bn and ₹30 bn for FY2019E, FY2020E and FY2021E.

We estimate EPS of ₹94, ₹121.5 and ₹139.5 for FY2019E, FY2020E and FY2021E.

OCL India results—volume growth at 8% yoy

OCL reported revenues of ₹9.2 bn (+11% yoy, -13% qoq), EBITDA of ₹1.6 bn (-20% yoy, -14% qoq) and net income of ₹746 mn (-36% yoy, -31% qoq). The company's volumes increased by 8% yoy to 1.7 mn tons—we believe the company is now operating at top-end of the capacity, which could be restricting volume growth from this operation. We note that as per management, the volumes in East markets increased by 13% yoy in 1QFY19. The weak earnings at OCL were due to fall in EBITDA/ton by 25% yoy to ₹950 on account of rising costs.

Dalmia Bharat to expand East capacity by 8 mtpa besides acquisitions

Dalmia through OCL India will set up a new cement plant in Odisha with capacity of 8 mtpa at capital expenditure of ₹37.2 bn—the capex cost/ton works out to US\$70/ton and is lower than peers. The project will be completed in 24 months after all regulatory clearances are received. As per company, its total capacity in East will increase to 18.2 mtpa from 9.3 mtpa at present with the (1) 8 mtpa of new project, and (2) 1.1 mtpa of acquired capacity of Kalyanpur Cement. The company expects its market share to increase to 20% from 12% now.

Other highlights from earnings call

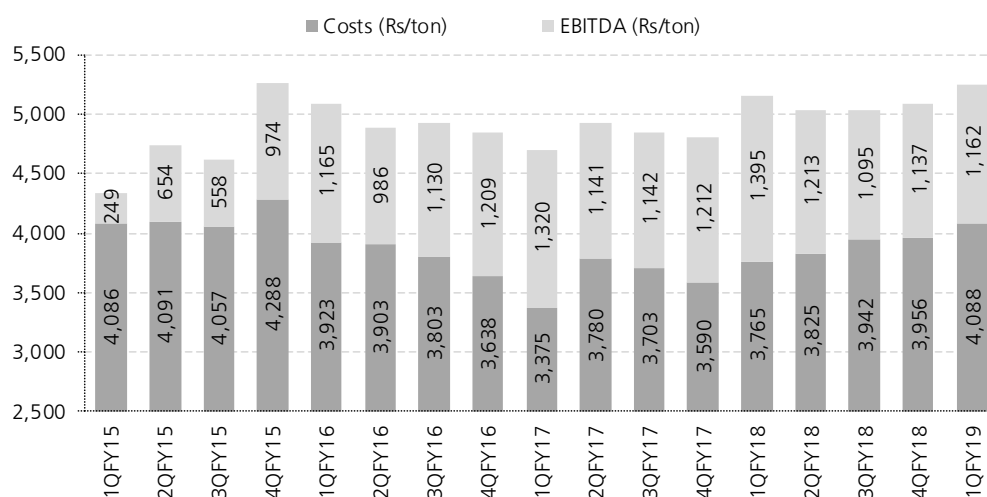
- ▶ **Sales of premium cement aids realizations.** As per company, the blended realizations improved 3% qoq was higher than close to 2% reported by peers—this was due to higher sales of premium cement. The company is realizing a premium of ₹25-30/bag for premium cement, per management. The premium sales have improved to 12-14% of overall sales, an improvement of 3-4% over the year. The company's trade sales is close to 60-65%—it has improved by 9% over the past year. The sales of PSC accounts for 35-38% of overall sales.
- ▶ **Industry demand improves by 14% in 1QFY19.** As per management, the industry demand increased by 14% yoy in 1QFY19, which includes (1) 13% yoy growth in East, (2) 16% yoy growth in South and (3) 17% yoy growth in the North-East region.
- ▶ **Fuel costs—incremental shift towards linkage.** The management does not expect pet-coke costs to rise further. The company's usage of pet-coke is down in few of the plants and they are looking to increase in usage of linkage coal, especially in the East operations. We highlight that the increase in the company's fuel costs was contained to 8% yoy to ₹880/ton despite 27% yoy increase in higher pet-coke costs to US\$99/ton. The fuel cost efficiencies was aided by increased usage of (1) domestic coal which increased to 35% in 1QFY19 versus 21% in 1QFY18 and (2) higher usage of alternate fuel (4% versus 3% in 1QFY18) and green power (9% versus nil)—this comprises solar power and waste heat recovery.
- ▶ **Fiscal incentives decline.** The total fiscal incentives accrued for the quarter was ₹390 mn, 50% lower than last year. We note that Dalmia Bharat accrued ₹3.4 bn of fiscal incentives in FY2018 and had received ₹1.5 bn of incentives up to March 2018 and another ₹500 mn post March 2018.
- ▶ **Net debt declines; borrowing costs lower.** The company's net debt declined to ₹34.3 bn in June 2018 from ₹35.1 bn in March 2018 (₹46 bn in June 2017). The company's net debt/EBITDA improved to 1.7X In June 2018 from 2.3X in June 2017. Dalmia's borrowing cost declined to 8% in 1QFY19 from 8.3% a year ago---these factors helped in declined in finance cost by 24% yoy to ₹1.6 bn (+5% qoq).
- ▶ **Subdued volume growth in the East for the company.** We note that Dalmia's cement volumes at OCL India increased 8% yoy to 1.7 m tons, lower than industry growth rate of 13% yoy in 1QFY19, as per management estimates of industry growth. The company stated that industry demand of 13% yoy was aided by high demand in Chhattisgarh state, where Dalmia has limited/no presence.

Exhibit 2: OCL's EBITDA declined by 20% yoy to Rs1.6 bn in 1QFY19 due to subdued realizations, increasing cost pressure
Interim results for OCL India, March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% Chg.)			FY2019E	FY2018	(% Chg.)
					KIE	yoy	qoq			
Net sales	9,218	9,249	8,293	10,545	(0)	11	(13)	37,342	34,419	8
Raw materials	(2,722)	(2,419)	(1,838)	(3,099)				(9,457)	(9,042)	
Employee costs	(497)	(524)	(499)	(493)				(2,102)	(1,967)	
Power & fuel costs	(1,010)	(1,024)	(812)	(1,112)				(4,079)	(3,735)	
Freight costs	(1,490)	(1,532)	(1,303)	(1,712)				(5,960)	(5,324)	
Other costs	(1,880)	(1,957)	(1,825)	(2,255)				(7,971)	(7,349)	
Expenditure	(7,598)	(7,455)	(6,277)	(8,671)				(29,569)	(27,418)	
EBITDA	1,621	1,794	2,016	1,874	(10)	(20)	(14)	7,773	7,001	11
EBITDA (%)	18	19	24	18				21	20	
Other income	203	377	360	374				1,400	1,304	
Interest	(332)	(288)	(291)	(286)				(972)	(1,149)	
Depreciation	(460)	(465)	(375)	(460)				(1,748)	(1,676)	
Pre-tax profits	1,033	1,418	1,711	1,502				6,454	5,479	
Tax	(286)	(397)	(538)	(417)				(1,936)	(1,256)	
Net income	746	1,021	1,172	1,085	(27)	(36)	(31)	4,518	4,223	7
Extraordinaries	—	—	—	—				—	—	
Reported net income	746	1,021	1,172	1,085	(27)	(36)	(31)	4,518	4,223	7
Tax rate (%)	28	28	31	28				30	23	
Key operating parameters										
Despatch (mn tons)	1.70	1.70	1.58	2.00	0	8	(15)	6.80	6.60	3
Realization (Rs/ton)	5,423	5,449	5,249	5,273	(0)	3	3	5,493	5,215	5
Profitability (Rs/ton)	953	1,057	1,276	937	(10)	(25)	2	1,143	1,061	8

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Dalmia has reported EBITDA/ton in range of Rs1,100-1,200/ton over past few quarters
Quarterly cement realization of Dalmia Bharat, 1QFY15-1QFY19 (Rs/ton)



Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Dalmia Bharat, Changes in estimates, March fiscal year ends, 2019-2021E

	Revised estimate			Previous estimate			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Consolidated estimates (Rs mn)									
Cement sales (mn tons)	19.4	21.0	21.6	19.3	20.7	20.9	0	1	3
Revenues (Rs mn)	102,358	114,131	121,272	101,638	112,884	118,018	1	1	3
EBITDA (Rs mn)	24,640	27,945	30,007	25,220	28,755	30,368	(2)	(3)	(1)
PAT (Rs mn)	8,347	10,792	12,387	8,713	11,357	12,653	(4)	(5)	(2)
EPS (Rs)	94.0	121.5	139.5	98.1	127.9	142.5	(4)	(5)	(2)
Dalmia Cement Bharat Ltd (Rs mn)									
Cement sales (mn tons)	8.3	9.4	10.0	8.3	9.4	9.6	—	—	4
Realization/ton (Rs)	4,771	4,891	5,011	4,791	4,951	5,111	(0)	(1)	(2)
EBITDA/ton (Rs)	1,482	1,564	1,620	1,500	1,620	1,697	(1)	(3)	(5)
Revenues (Rs mn)	39,600	45,976	50,111	39,766	46,540	49,066	(0)	(1)	2
EBITDA (Rs mn)	12,298	14,703	16,197	12,453	15,230	16,294	(1)	(3)	(1)
OCL India (Rs mn)									
Cement sales (mn tons)	6.8	6.9	7.0	6.7	6.7	6.7	1	3	5
Realization/ton (Rs)	4,894	5,054	5,214	4,800	4,960	5,120	2	2	2
EBITDA/ton (Rs)	1,143	1,193	1,241	1,215	1,277	1,337	(6)	(7)	(7)
Revenues (Rs mn)	37,342	39,525	41,444	36,457	37,714	39,234	2	5	6
EBITDA (Rs mn)	7,773	8,273	8,693	8,199	8,556	8,956	(5)	(3)	(3)

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: We expect Dalmia Bharat's EBITDA to grow at CAGR of 14% over FY2018-2021E
Dalmia Bharat, Assumptions, March fiscal year-ends, 2016-2021E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E	CAGR (%)
Consolidated financials							
Revenue (Rs mn)	63,673	74,044	86,088	102,358	114,131	121,272	12
EBITDA (Rs mn)	15,079	19,019	20,415	24,640	27,945	30,007	14
EBITDA - attributable* (Rs mn)	12,349	16,962	18,260	22,320	25,419	27,320	14
PAT (Rs mn)	1,908	3,448	5,359	8,347	10,792	12,387	32
Operational details							
Volumes (mn tons)	12.8	15.3	17.0	19.4	21.0	21.6	8
Realization (Rs/ton)	4,978	4,839	5,068	5,278	5,444	5,606	3
EBITDA (Rs/ton)	1,179	1,243	1,202	1,271	1,333	1,387	5

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Our fair value of Rs2,830/share for Dalmia Bharat is based on 10X FY2020E EBITDA
Dalmia Bharat, Valuation details, March 2020E financials

	EBITDA (Rs mn)	Multiple (X)	EV (Rs mn)	Net Debt (Rs mn)	Equity Value (Rs mn)	Economic Stake (%)	Value (Rs mn)	Rs/share
DCBL	14,703	10	148,575	(10,255)	138,320	100	138,320	1,558
OCL	8,273	10	83,599	18,994	102,593	74.6	76,534	862
Others	3,881	10	39,221	(11,545)	27,676		27,676	312
Equity value (Rs/share)							242,531	2,731
Value of listed Investments							8,759	99
Equity value (Rs/share)							251,290	2,830

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Dalmia Bharat, Financial summary (Consolidated), March fiscal year-ends, 2016-2021E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)						
Net sales	63,673	74,044	86,088	102,358	114,131	121,272
EBITDA	15,079	19,019	20,415	24,640	27,945	30,007
Other income	2,349	2,988	2,784	3,142	3,478	3,790
Interest	(7,256)	(8,900)	(7,049)	(7,110)	(6,920)	(6,730)
Depreciation	(4,528)	(6,027)	(7,037)	(7,206)	(7,338)	(7,469)
Pretax profits	5,644	7,080	9,112	13,465	17,165	19,598
Taxation	(2,991)	(2,762)	(2,677)	(4,040)	(5,149)	(5,879)
Add: Share in associates	—	—	1	—	—	—
Less: Minority Interest	745	870	1,078	1,079	1,223	1,332
Net profits	1,908	3,448	5,359	8,347	10,792	12,387
Extraordinary items	—	—	—	—	—	—
Earnings per share (Rs)	21.5	38.8	60.3	94.0	121.5	139.5
Balance sheet (Rs mn)						
Equity	178	178	178	178	178	178
Reserves and surplus	38,391	49,471	60,517	68,650	79,229	91,403
Borrowings	88,930	80,490	87,173	83,106	81,106	79,106
Deferred tax liability	5,674	15,764	15,268	14,266	13,244	12,159
Minority Interest	3,576	6,129	7,207	8,286	9,509	10,841
Current liabilities	22,829	27,746	27,037	30,885	32,480	33,198
Total liabilities and equity	159,578	179,778	197,379	205,371	215,746	226,885
<i>Gross block</i>	<i>105,113</i>	<i>131,259</i>	<i>134,906</i>	<i>137,856</i>	<i>140,756</i>	<i>143,656</i>
Net fixed assets	74,696	94,814	91,424	87,168	82,730	78,161
Capital work in progress	4,123	1,325	3,614	2,642	2,142	1,642
Cash	2,483	1,750	24,107	33,655	48,945	65,970
Current assets	25,342	27,508	27,764	31,436	31,459	30,642
Investments	25,752	27,434	23,522	23,522	23,522	23,522
Goodwill	27,182	26,947	26,947	26,947	26,947	26,947
Total assets	159,578	179,778	197,379	205,370	215,746	226,885
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	6,500	7,462	10,094	12,488	14,854	16,312
Working capital	4,362	3,913	(965)	177	1,571	1,536
Capital expenditure	(5,970)	(4,662)	(5,937)	(1,978)	(2,400)	(2,400)
Free cash flow	4,892	6,713	3,193	10,687	14,025	15,448
Ratios						
EBITDA margin (%)	23.7	25.7	23.7	24.1	24.5	24.7
PAT margin (%)	3.0	4.7	6.2	8.2	9.5	10.2
Net debt/equity (X)	1.6	1.1	0.7	0.4	0.1	(0.1)
Book value per share (Rs)	434	559	683	775	894	1031
Net debt/EBITDA (X)	4.1	2.7	2.0	1.1	0.3	(0.3)
RoAE (%)	5.5	7.8	9.7	12.9	14.6	14.5
RoACE (%)	5.8	6.8	6.4	7.8	8.8	9.1
CROCI (%)	9.4	11.6	12.3	14.2	15.6	16.6

Source: Company, Kotak Institutional Equities estimates

AUGUST 14, 2018
RESULT

Coverage view: **Neutral**

Price (₹): **671**

Target price (₹): **710**

BSE-30: **37,645**

Not enough to excite. 1QFY19 results and management outlook hint at a recovery in domestic powergen and an improving margin. However, they are uncertain (1) on the ability to take price increases in domestic powergen and (2) on recovery in exports sustaining. We broadly retain our estimates, net of higher EBITDA margin and tax rate assumptions; increase TP to ₹710 on roll-forward. We would await proof on scale-up in HHP exports (still declining) before turning positive. REDUCE stays on limited upside.

Company data and valuation summary

Cummins India

Stock data

52-week range (Rs) (high,low)	984-612
Market Cap. (Rs bn)	186.0

Shareholding pattern (%)

Promoters	51.0
FIIs	14.1
MFs	14.2

Price performance (%)

	1M	3M	12M
Absolute	3.6	(13.4)	(24.8)
Rel. to BSE-30	0.6	(18.3)	(37.6)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	24.2	27.8	32.7
EPS growth (%)	(8.0)	15.2	17.5
P/E (X)	27.8	24.1	20.5
Sales (Rs bn)	50.8	55.7	62.6
Net profits (Rs bn)	6.7	7.7	9.1
EBITDA (Rs bn)	7.3	8.8	10.3
EV/EBITDA (X)	24.4	20.1	17.3
ROE (%)	17.3	18.7	20.6
Div. Yield (%)	2.1	2.2	2.7

CIL to participate in sector growth in powergen and overcome supply constraints in industrials

Cummins India retained guidance of 10% and 0% revenue growth for domestic and exports, banking on improving growth prospects in the domestic business but with uncertainty on the sustainability of recovery in exports. On the domestic front, it revealed improving prospects of HHP power gen revenues across sectors (commercial realty, manufacturing, infrastructure, healthcare, pharma) and of sustained growth in demand for industrials (not fully captured due to supply constraints). Unlike in the past, the mix of growth volumes is in favor of CIL and it expects to participate and grow with the market. It is on the exports front that the company remains cautious on growth despite a good 1QFY19 (up 12% yoy). Perhaps CIL regards it as prudent to turn optimistic on exports once the HHP segment starts firing (still flat-to-declining trend).

Revenue mix, forex and operating leverage gains to aid strong improvement in FY2019

Cummins India guided a material 100-150 bps increase in EBITDA margin, attributed broadly equally to (1) forex impact on gross margin, (2) improving mix (higher HP) and (3) operating leverage benefits. Cost-reduction initiatives are yielding savings and the same is getting negated by cost inflation. Realization increase/stiffening RM price are the key upside/downside risk to our margin estimates, where we build improvement at the upper end of the 100-150 bps guidance. The management mentioned the static price of competitors in the key powergen segment despite the inflationary trend seen in pig iron prices.

Retain estimates; awaiting strong recovery in HHP exports to turn constructive

Cummins India reported broadly in-line results in 1QFY19 with outperformance on EBITDA margin getting negated by higher tax rates. Overall revenues/EBITDA/PAT grew -1/10/3% yoy. We broadly retain our estimates for CIL net of (1) higher 35-55 bps EBITDA margin assumptions and (2) increase in tax rates (as tax exemption for income from Phaltan unit declines to 50%). We increase our target price to ₹710 from ₹680 on roll-forward to June 2020E EPS (21X multiple). At CMP, the stock trades reasonable at 24X/21X on FY2019/20E basis. REDUCE stays given modest 6% upside. While noting recovery in EBITDA margin and improved sectoral prospects, we await performance of HHP exports before turning constructive on the stock.

Aditya Mongia

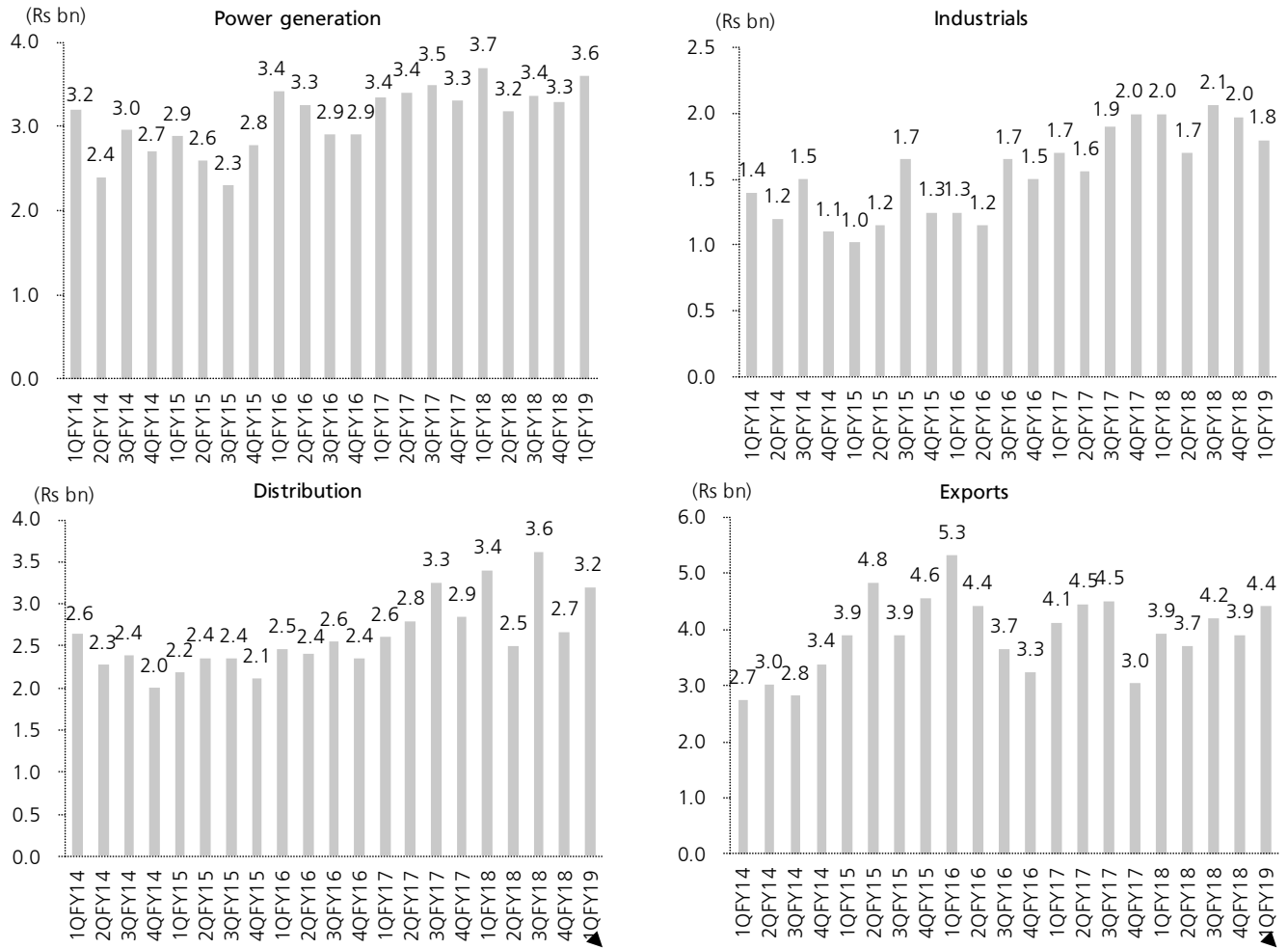
Ajinkya Bhat

Exhibit 1: Domestic revenue declined 7% yoy on high base of pre-buying before GST and supplier constraints; exports grew 12% yoy
Cummins – 1QFY19 standalone results – key numbers (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	% change			FY2018	FY2017	% change		FY2019E	FY2018	% change
					vs est.	yoy	qoq			yoy	yoy			
Sales	13,280	14,255	13,408	12,332	(7)	(1)	8	50,825	50,773	0	55,739	50,825	10	
Expenses	(11,133)	(12,152)	(11,455)	(10,601)	(8)	(3)	5	(43,501)	(42,755)	2	(46,916)	(43,501)	8	
Stock	360	(200)	(288)	210				(400)	(218)		—	(400)		
Raw material	(8,690)	(9,066)	(8,435)	(8,240)				(32,181)	(32,527)		(35,174)	(32,181)		
Employee	(1,265)	(1,290)	(1,226)	(1,180)				(4,979)	(4,334)		(5,369)	(4,979)		
Other Exp	(1,538)	(1,597)	(1,507)	(1,391)				(5,940)	(5,677)		(6,372)	(5,940)		
EBITDA	2,147	2,103	1,953	1,731	2	10	24	7,325	8,018	(9)	8,824	7,325	20	
Other income	696	592	583	664				2,285	2,080		2,655	2,285		
Interest	(36)	(69)	(42)	(34)				(148)	(168)		(149)	(148)		
Depreciation	(271)	(261)	(208)	(273)				(938)	(848)		(1,198)	(938)		
PBT	2,536	2,365	2,286	2,088	7	11	21	8,523	9,082	(6)	10,132	8,523	19	
Tax	(706)	(544)	(502)	(455)				(1,856)	(1,736)		(2,533)	(1,856)		
Net profit	1,830	1,821	1,784	1,633	1	3	12	6,667	7,346	(9)	7,599	6,667	14	
Extraordinary items	—	—	438	(20)				418	—		—	418		
RPAT	1,830	1,821	2,222	1,613	1	(18)	13	7,085	7,346	(4)	7,599	7,085	7	
Recurring EPS (RS)	6.6	6.6	6.4	5.9	1	3	12	24.1	26.5	(9)	27.4	24.1	14	
Key ratios (%)														
Raw material/Sales	62.7	65.0	65.1	65.1				64.1	64.5		63.1	64.1		
Employee exp./Sales	9.5	9.0	9.1	9.6				9.8	8.5		9.6	9.8		
Other exp./Sales	11.6	11.2	11.2	11.3				11.7	11.2		11.4	11.7		
EBITDA margin	16.2	14.8	14.6	14.0				14.4	15.8		15.8	14.4		
PBT Margin	19.1	16.6	17.0	16.9				16.8	17.9		18.2	16.8		
Tax rate	27.8	23.0	22.0	21.8				21.8	19.1		25.0	21.8		
PAT margin	13.8	12.8	13.3	13.2				13.1	14.5		13.6	13.1		

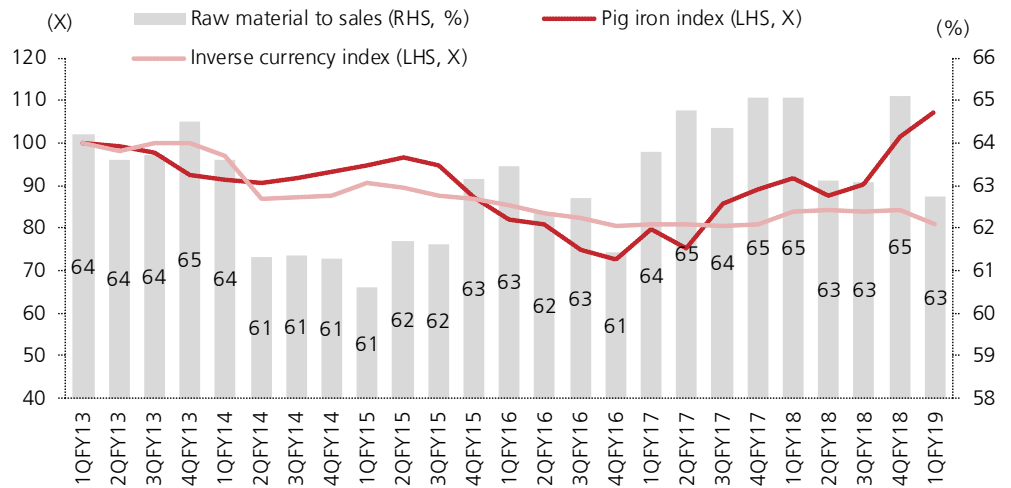
Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Domestic powergen revenue continued to decline yoy for fourth consecutive quarter; industrial segment also declined 10% yoy due to flat construction sub-segment and sharp decline in compressor sub-segment
Trajectory of Cummins' segmental sales, March fiscal year-ends, 1QFY14-1QFY19



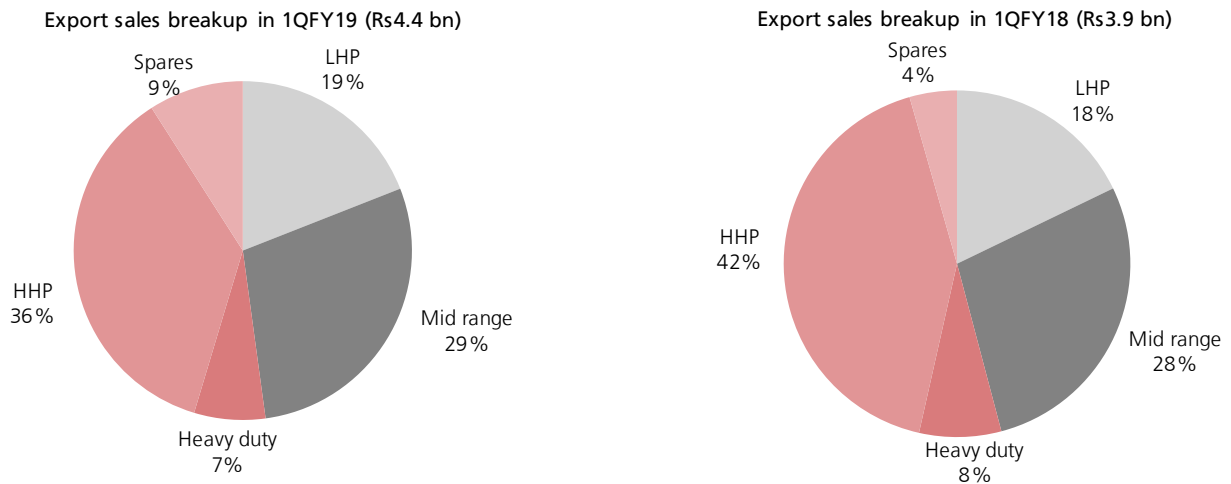
Source: Company, Kotak Institutional Equities

Exhibit 3: Gross margin improved in 1QFY19 due to favorable mix from export growth as well as forex benefit to realization; gross margin for FY2019 guided at 100 bps higher yoy
 Impact of raw material cost and currency on margin, March fiscal year-ends, 1QFY13-1QFY19



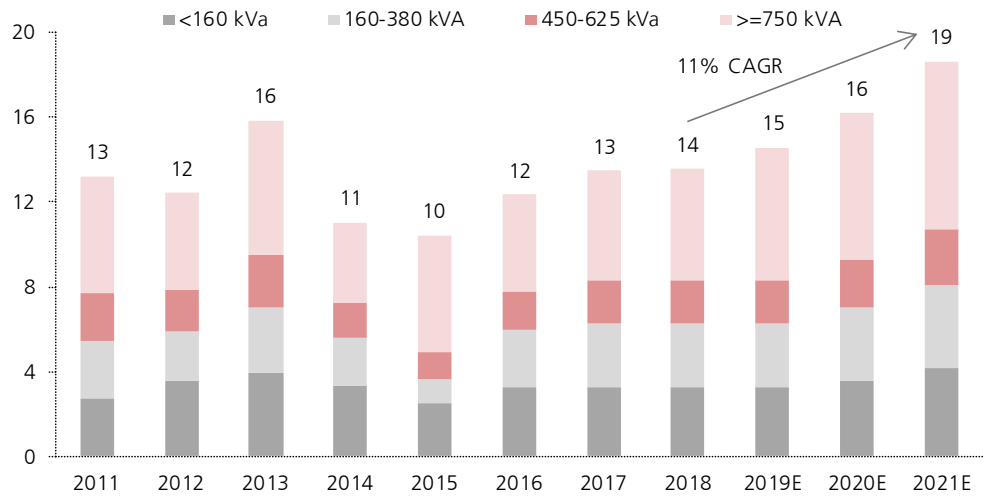
Source: Kotak Institutional Equities analysis

Exhibit 4: LHP and mid-range exports grew 20% and 15% yoy, respectively; management has cautiously retained flat guidance for FY2019
 Breakup of Cummins India's exports, March fiscal year-ends, 1QFY19 and 1QFY18



Source: Company, Kotak Institutional Equities

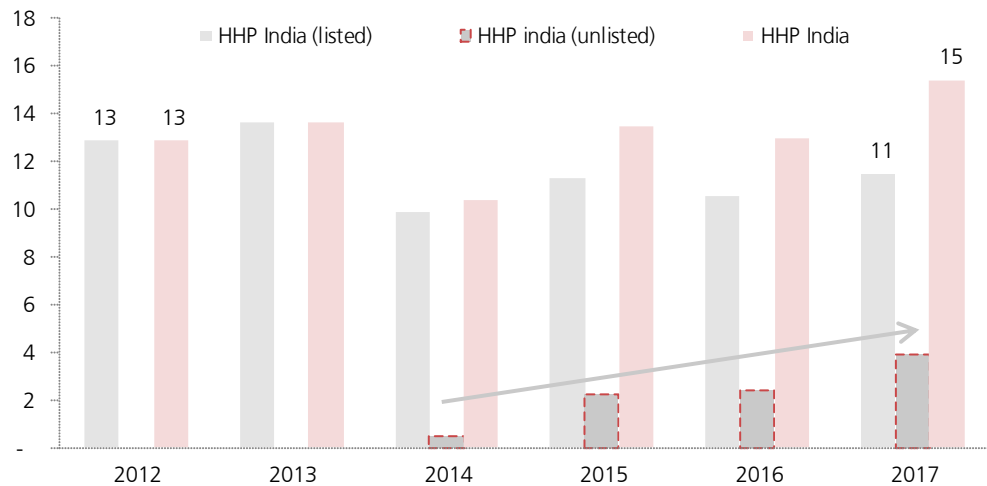
Exhibit 5: Powergen revenues are expected to grow at 11% CAGR over FY2018-21E
 Breakup of powergen revenues of Cummins India, March fiscal year-ends, 2011-21E (Rs bn)



Source: Company, Kotak Institutional Equities estimates

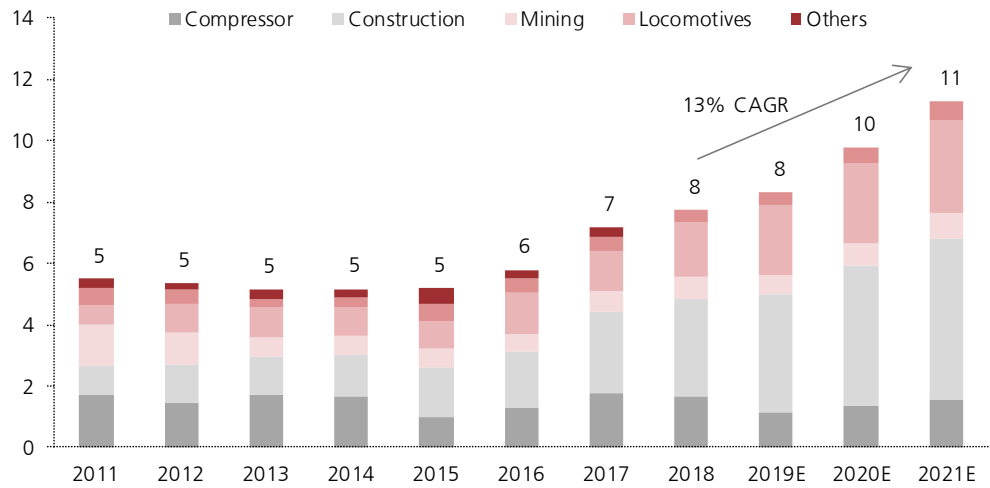
Exhibit 6: HHP revenues of the listed entity have declined even as overall India HHP revenues have grown over the past six years

India HHP revenues, bifurcated between listed and unlisted entities of Cummins, March fiscal year-ends, 2012-17 (Rs bn)



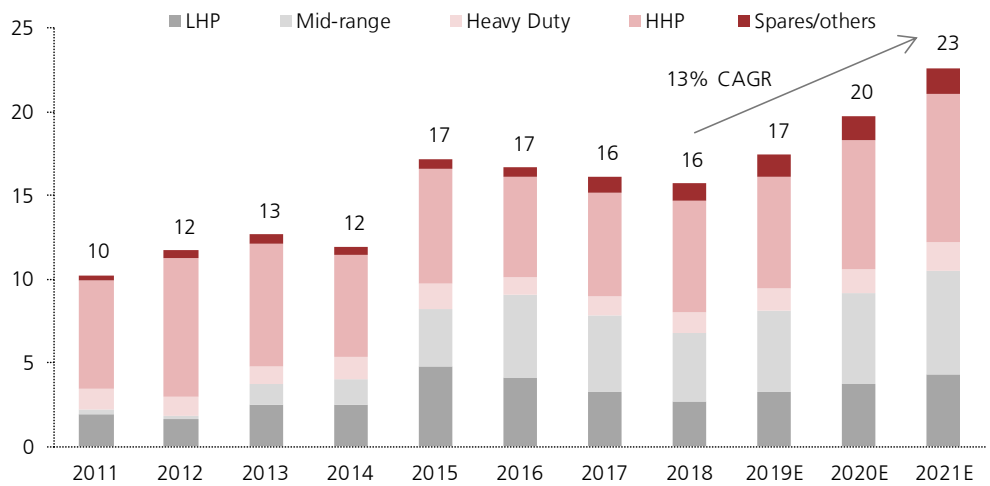
Source: Company, Kotak Institutional Equities

Exhibit 7: Industrial revenues are expected to grow at 13% CAGR over FY2018-21E
 Breakup of Industrial revenues of Cummins India, March fiscal year-ends, 2011-21E (Rs bn)



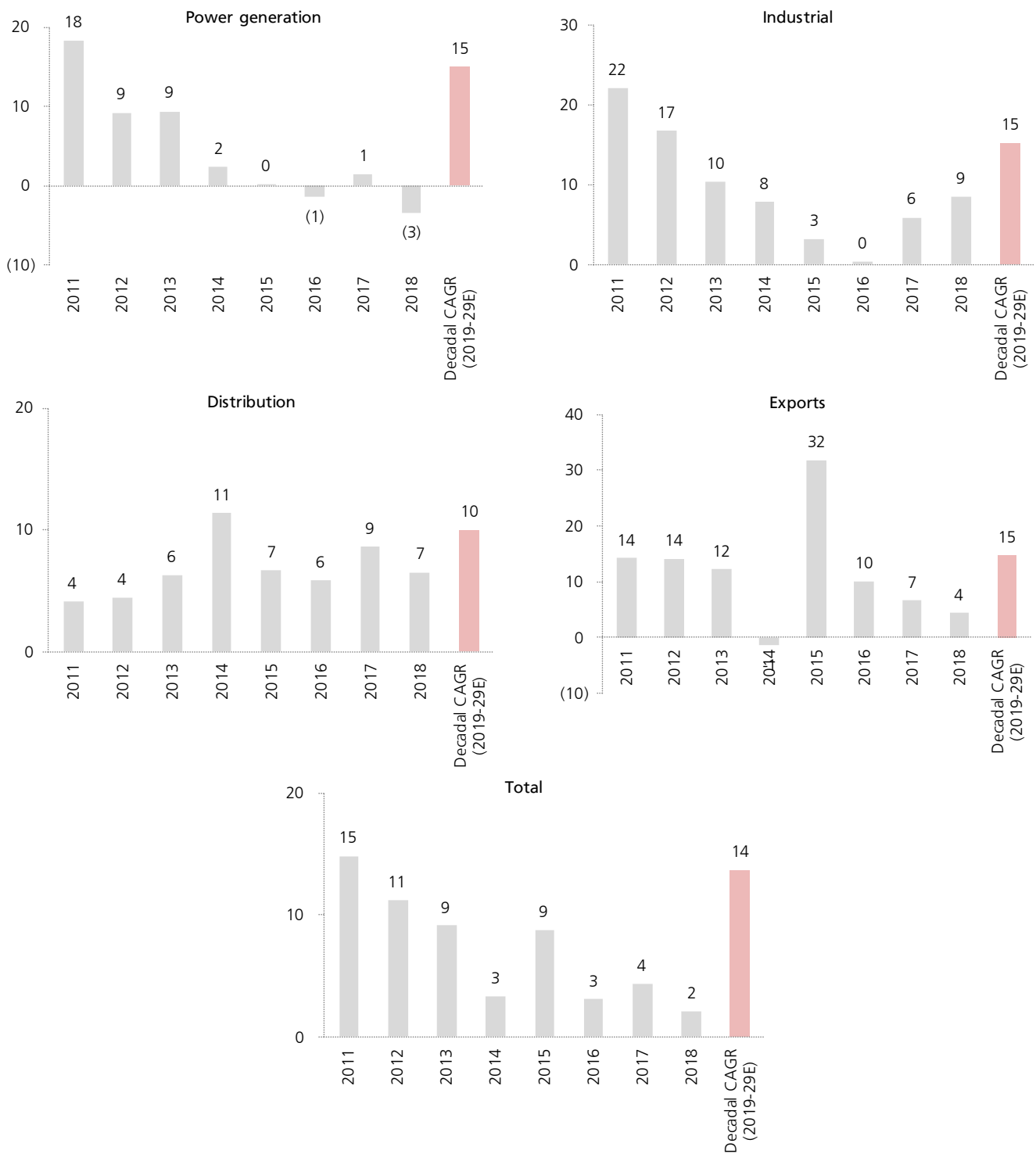
Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Export revenues are expected to grow at 13% CAGR over FY2018-21E
 Breakup of export revenues of Cummins India, March fiscal year-ends, 2011-21E (Rs bn)



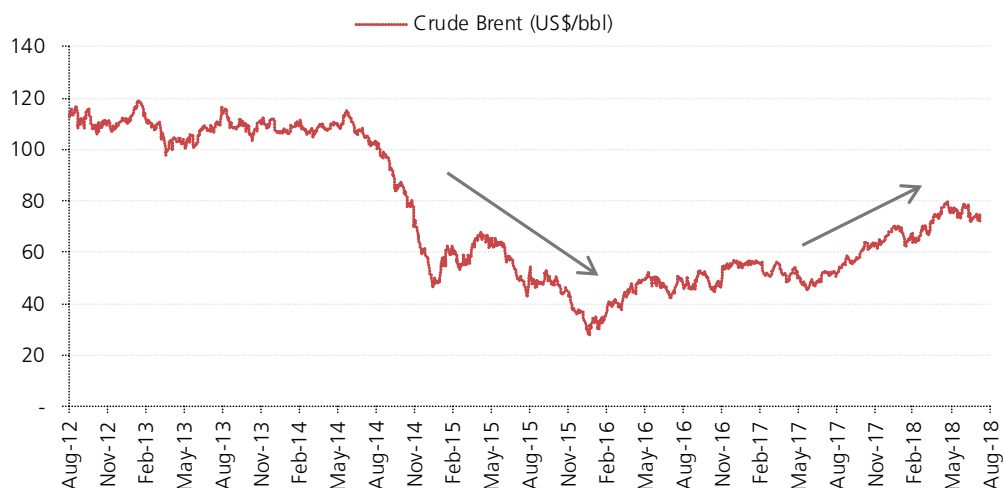
Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Comparison of segmental revenue CAGR projections to historical 5-year CAGR of CIL, March fiscal year-ends, 2011-29E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 10: Increasing commodity and oil prices have lifted export outlook for Cummins India, although export guidance for the year has been cautiously retained at flat yoy
Trend in price of Brent crude, December calendar year-ends, Aug-2012 – Aug-2018 (US\$/bbl)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 11: Change in estimates for Cummins India, March fiscal year-ends, 2018-21E (Rs mn)

	2018	New estimates			Old estimates			% revision		
		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues	50,825	55,739	62,634	71,083	55,425	62,611	71,053	1	0	0
Power generation	13,540	14,585	16,205	18,635	14,768	16,421	18,884	(1)	(1)	(1)
Industrials	7,733	8,311	9,793	11,287	8,768	10,326	11,897	(5)	(5)	(5)
Auto	—	—	—	—	—	—	—	NA	NA	NA
Distribution	12,190	13,653	15,018	16,520	13,653	15,291	16,820	—	(2)	(2)
Exports	15,740	17,459	19,767	22,661	16,502	18,718	21,466	6	6	6
EBITDA	7,325	8,824	10,274	11,878	8,473	10,041	11,599	4	2	2
EBITDA margin (%)	14.4	15.8	16.4	16.7	15.3	16.0	16.3	54 bps	36 bps	38 bps
Other income	2,285	2,655	3,031	3,259	2,664	3,024	3,291			
Interest	(148)	(149)	(149)	(149)	(277)	(277)	(277)			
Depreciation	(938)	(1,198)	(1,147)	(1,328)	(1,044)	(1,054)	(1,079)			
PBT	8,523	10,132	12,010	13,661	9,816	11,734	13,535	3	2	1
Tax rate (%)	22	25	25	25	22	24	24	300 bps	99 bps	100 bps
PAT	7,085	7,599	9,008	10,246	7,657	8,918	10,287	(1)	1	(0)
Adjusted PAT	6,695	7,710	9,063	10,305	7,795	8,881	10,246	(1)	2	1
EPS (Rs)	24.2	27.8	32.7	37.2	28.1	32.0	37.0	(1)	2	1
Growth (%)										
Revenues	0.1	9.7	12.4	13.5						
Power generation	—	7.7	11.1	15.0						
Industrials	8.0	7.5	17.8	15.3						
Auto	NA	NA	NA	NA						
Distribution	6.0	12.0	10.0	10.0						
Exports	(2.5)	10.9	13.2	14.6						
EBITDA	(8.7)	20.5	16.4	15.6						
PAT	(8.0)	15.2	17.5	13.7						

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: Standalone balance sheet, profit model and cash flow statement of Cummins, March fiscal year-ends, 2012-21E (Rs mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model										
Net revenue	41,172	46,012	39,767	44,058	47,088	50,773	50,825	55,739	62,634	71,083
Total operating costs	(34,200)	(37,545)	(32,799)	(36,708)	(39,337)	(42,755)	(43,501)	(46,916)	(52,359)	(59,204)
EBITDA	6,972	8,467	6,967	7,351	7,751	8,018	7,325	8,824	10,274	11,878
Other operational income	651	922	776	847	1,212	1,192	1,307	1,402	1,504	1,614
Other income	1,233	1,949	1,777	2,040	2,259	2,080	2,285	2,655	3,031	3,259
PBDIT	8,206	10,416	8,744	9,390	10,010	10,098	9,609	11,479	13,305	15,138
Financial charges	(54)	(46)	(42)	(45)	(96)	(168)	(148)	(149)	(149)	(149)
Depreciation	(420)	(473)	(528)	(797)	(810)	(848)	(938)	(1,198)	(1,147)	(1,328)
Pre-tax profit	7,732	9,897	8,175	8,548	9,104	9,082	8,523	10,132	12,010	13,661
Taxation	(2,282)	(2,872)	(2,175)	(1,515)	(1,561)	(1,736)	(1,876)	(2,533)	(3,003)	(3,415)
PAT	5,913	7,641	6,000	7,859	7,543	7,346	7,085	7,599	9,008	10,246
Adjusted PAT	5,788	7,348	5,999	6,805	7,179	7,280	6,695	7,710	9,063	10,305
Balance sheet										
Shareholders funds	20,432	23,867	25,652	28,865	34,813	37,422	39,861	42,450	45,519	49,009
Loan funds	—	—	—	—	—	2,508	2,515	2,515	2,515	2,515
Total source of funds	20,432	23,867	25,652	28,865	34,813	39,930	42,376	44,965	48,034	51,525
Net block	4,649	4,934	9,192	12,340	12,894	12,322	12,882	14,419	16,024	16,825
Net fixed assets	6,273	8,066	12,215	14,763	18,086	16,954	13,261	14,799	16,404	17,205
Investments and goodwill	5,975	6,276	4,954	4,650	3,336	9,753	12,798	13,798	13,798	13,798
Cash balances	2,235	3,547	865	799	897	1,291	4,709	5,680	5,786	6,810
Net current assets excluding cash	5,879	6,307	8,083	9,284	12,246	11,501	11,866	10,987	12,345	14,011
Total application of funds	20,432	23,867	25,652	28,865	34,813	39,930	42,376	44,965	48,034	51,525
Cash flow statement										
Operating profit before working capital changes	7,404	8,826	7,525	8,006	8,579	8,951	8,537	11,030	12,699	14,413
Change in working capital	(825)	(883)	(1,607)	(1,142)	33	371	(370)	879	(1,359)	(1,665)
Tax paid	(2,155)	(2,657)	(2,308)	(1,853)	(1,694)	(1,867)	(1,823)	(2,533)	(3,003)	(3,415)
Cashflow from operating activities	4,425	5,286	3,611	5,012	6,918	7,456	6,344	9,376	8,337	9,332
Fixed assets	(2,281)	(2,148)	(4,678)	(3,304)	(4,899)	(2,315)	(905)	(2,695)	(2,751)	(2,129)
Investments	1,547	302	1,489	1,296	1,339	(3,655)	(1,518)	(1,000)	—	—
Cash (used) / realised in investing activities	77	(2,186)	552	(563)	(2,121)	(4,860)	(1,327)	(3,246)	(2,145)	(1,404)
Borrowings	—	—	—	—	—	—	—	—	—	—
Dividend paid	(3,452)	(3,544)	(4,216)	(4,216)	(4,669)	(4,663)	(4,639)	(5,010)	(5,939)	(6,755)
Cash (used) /realised in financing activities	(3,506)	(3,590)	(4,258)	(4,261)	(4,677)	(2,245)	(4,731)	(5,158)	(6,087)	(6,904)
Cash generated /utilised	996	(490)	(95)	188	119	350	285	972	105	1,024
Cash at beginning of year	156	1,152	662	567	755	851	1,237	4,709	5,680	5,786
Cash at end of year (excl. other bank balances)	1,152	662	567	755	851	1,237	1,523	5,680	5,786	6,810
Growth (%)										
Revenue growth	1.8	11.8	(13.6)	10.8	6.9	7.8	0.1	9.7	12.4	13.5
EBITDA growth	(8.7)	21.4	(17.7)	5.5	5.4	3.4	(8.7)	20.5	16.4	15.6
Recurring PAT growth	(7.5)	26.9	(18.4)	13.4	5.5	1.4	(8.0)	15.2	17.5	13.7
Key ratios (%)										
EBITDA margin	16.9	18.4	17.5	16.7	16.5	15.8	14.4	15.8	16.4	16.7
PAT margin	13.2	15.3	15.1	16.0	16.0	14.5	13.1	13.6	14.4	14.4
RoE	28.3	31.7	24.2	25.8	23.7	20.3	17.2	18.6	20.5	21.7
RoCE	22.7	28.7	19.9	26.1	18.8	11.5	9.6	9.2	11.7	13.4
Debt / equity (X)	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Adj. EPS (Rs)	20.9	26.5	21.6	24.5	25.9	26.3	24.2	27.8	32.7	37.2

Source: Company, Kotak Institutional Equities estimates

AUGUST 14, 2018

RESULT

Coverage view: **Neutral**

Price (₹): **61**

Target price (₹): **72**

BSE-30: **37,645**

Reducing levers of volatility. CG Power reported steady revenue growth and qoq margin expansion across segments on a consolidated basis. (1) Strong overall orders (up 40% yoy), (2) improved outlook for power systems (states, PGCIL, JVs in SE Asia), (3) stabilizing consolidated debt levels and (4) Hungary divestment completion should meaningfully reduce volatility in results. On losses in Belgium, the company quashed any structural issues and is considering bringing Ireland and Belgium entities under continued operations. We marginally increase estimates and roll forward to ₹72 target price (from ₹65 earlier). BUY.

Company data and valuation summary

CG Power and Industrial

Stock data				Forecasts/Valuations			
				2018	2019E	2020E	
52-week range (Rs) (high,low)				99-47			
Market Cap. (Rs bn)				38.3			
Shareholding pattern (%)				EPS (Rs)			
Promoters				34.4			
FIs				19.1			
MFs				25.1			
Price performance (%)				EPS growth (%)			
	1M	3M	12M	P/E (X)			
Absolute	6.5	(22.2)	(20.7)	74.8			
Rel. to BSE-30	3.4	(26.6)	(34.2)	21.1			
				14.2			
				Sales (Rs bn)			
				62.7			
				69.1			
				80.5			
				Net profits (Rs bn)			
				0.5			
				1.8			
				2.7			
				EBITDA (Rs bn)			
				4.6			
				6.0			
				7.4			
				EV/EBITDA (X)			
				11.0			
				8.3			
				6.6			
				ROE (%)			
				1.5			
				6.7			
				9.8			
				Div. Yield (%)			
				0.0			
				0.0			
				0.0			

Limited levers of volatility in financials from here

Unlike in the past, CG Power's results are now impacted by limited set of variables. The standalone industrial segment continues on its path of growing market share in a growing market. Overseas losses (excluding Hungary) have reduced, setting the stage for deleveraging. Operating losses from Hungary unit will not impact financials from 2QFY19 and a one-time settlement of no more than 5% of consolidated net debt of CG Power (cash + book loss) will be done at the time of final audit. With Ireland restructuring exercise complete and Hungary operations out, volatile Belgian performance may lead to ~₹1 bn of annual cash loss (in our view) against steady free-cash flow of ₹2.5-3 bn from the standalone entity. Deleveraging would reasonably improve PAT CAGR over the next few years beyond the business-led growth.

Continues to expand opportunity set

CG Power's standalone powergen business would benefit from (1) opportunities in India (inkling of PGCIL ramping up tendering activity, although no proof yet; SEBs continue to order) and (2) formation of JVs to leverage demand in Indonesia and Malaysia. Export market is also opening up in Middle East and Africa. CG Power has expanded scope in railways in traction electronics and propulsion systems, and would incrementally focus on opportunities in monorail and metros. This would add to the good growth seen from sectors such as cement and irrigation. It recently became the first player in India with a testing lab accredited by the National Accreditation Board for Testing and Calibration, reflective of its positioning for energy-efficient motors. This would help the company add to the 300 bps of market share gains in the motors segment. The company achieved faster growth in industrial systems in the past 2-3 years by leveraging its reach and changes in competitive landscape after GST.

Marginally increase estimates and roll forward to ₹72 per share target price

CG Power reported in-line results with 11% yoy growth in revenues and margin improving qoq in both segments despite seasonality. We marginally revise our estimates and roll forward to ₹72/share target price (15X June 2020E consolidated EPS). We expect consolidated net debt to peak out at current levels and start declining materially from FY2020 onwards. Retain BUY.

Aditya Mongia

Ajinkya Bhat

1QFY19 earnings call takeaways

- ▶ **Outlook on India business.** CG Power's India business reported yoy flat revenues of ₹12 bn in 1QFY18, led by 19% decline in Power Systems and 23% growth in Industrial Systems segments.
 - **Power Systems.** The management does not see the decline in Power Systems revenue as a cause for concern. The decline was largely led by ₹1 bn of revenue booking deferred from 1QFY19, which will normalize in this quarter. Had it not been deferred, the segment would have reported yoy revenue decline of 3.5%. Against this, the management mentioned that SEBs are now expediting tendering (especially Bihar, Uttar Pradesh, Rajasthan and Maharashtra). The company also has an inkling of PGCIL deciding to ramp up its tendering, although there are no visible signs yet. Overall, the management remains optimistic on domestic prospects for Power Systems segment.
 - **Industrial Systems.** This segment has been the key highlight for CG Power growing in mid-teens for each of the past eight quarters. Over this period, the growth came from various factors such as leveraging the company's presence in tier-2/3 towns, the company capitalizing on greater formalization due to GST, increased portfolio offering to railways and early entry into high efficiency motors. The company improved its market share by ~300 bps in motors over this period, based on the management's analysis of IEEMA industry data. The company will further benefit from being the first and currently the only motor manufacturer in India with NBL accredited laboratory.

The quality of growth in Industrial Systems has also been robust with 1QFY19 witnessing balanced growth support from all the three sub-segments of motors (still constitutes 70% of segmental revenue), railways (traction transformers and electronics) and smaller businesses such as drives. Good demand is seen from cement and irrigation sectors going forward. The management expects 14-15% growth for this segment in FY2019 on the conservative side, with further upside potential.

- ▶ **Outlook on overseas business.** As of now the Indonesia and Sweden businesses are part of continuing international operations for CG Power. Indonesia business has good prospects and the company is taking steps to expand more in the South-East Asian market. To that effect, the company has formed joint ventures with local utilities in Indonesia and Malaysia.
 - In Indonesia, the JV will start operations from Aug 20, 2018 with an initial order of US\$33 mn and will place a major part of manufacturing order to CG's Nashik facility. The JV has a total starting capital of US\$22 mn including US\$9 mn of equity, 51% of which has been contributed by CG Power.
 - A similar JV without any equity contribution from CG Power has been formed in Malaysia, which will import completely knocked down (CKD) switchgear units from India and will assemble them in Malaysia. CG would get its ownership against a contribution-in-kind in the form of knowhow and technology transfer through CKD units to Malaysia.

► Update on divestments.

- **Hungary business.** The company has signed an amendment to the divestment agreement of Hungary business by which the shares will be placed in an escrow account for the buyer. The shares will be released automatically on fulfillment of certain conditions by the buyer, primarily related to debt repayment and non-fund based arrangements such as bank guarantees. The deal is expected to be completed by end-2QFY19. The company has booked corresponding loss for 1QFY19 and any further losses in this business from July 1, 2018 onwards will accrue to the buyer. The company expects a one-time impact of ₹600 mn – ₹1 bn when the final audit of the Hungary business is completed.
- **Ireland and Belgium.** These subsidiaries are currently a part of discontinued operations. However, a strategic thinking within the management has encouraged a review of the same. The management does not want to undertake any distress sale and if there is a chance to make these entities profitable for a better monetization on eventual divestment, the company would bring these back within the ambit of continued operations. Such a proposal is under consideration of the board. Ireland business, after a restructuring effort, has become EBITDA positive now.

- **Balance sheet management.** CG Power currently has a net debt of ₹11.6 bn in the standalone India business and ₹18.3 bn on a consolidated basis. After the divestments, the company plans to restructure the debt by raising debt in overseas entities and repaying the L&A to the parent, which the parent will in turn used to repay standalone debt. Such a structure will reduce overall cost of debt by raising forex debt at a cheaper cost while it will also create room on the standalone balance sheet for working capital facilities for the growing India business.

Exhibit 1: Crompton Greaves - 1QFY19 consolidated financials, March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	% change			FY2018	FY2017	% change	FY2019E	FY2018	% change
					vs est.	yoy	qoq						
Sales	14,901	14,561	13,390	18,143	2	11	(18)	62,678	55,165	14	69,123	62,678	10
Expenses	(13,709)	(13,374)	(12,898)	(16,708)	3	6	(18)	(58,128)	(50,741)	15	(63,075)	(58,128)	9
Stock	33		(75)	(969)		(144)	(103)	(1,354)	1,700	(180)	—	(1,354)	
Raw material	(10,018)		(9,056)	(11,396)		11	(12)	(41,150)	(40,568)	1	(46,887)	(41,150)	14
Employee	(1,461)		(1,271)	(1,388)		15	5	(5,320)	(5,133)	4	(5,859)	(5,320)	10
Other expenses	(2,264)		(2,496)	(2,955)		(9)	(23)	(10,305)	(6,739)	53	(10,329)	(10,305)	0
EBITDA	1,192	1,186	492	1,435	0	142	(17)	4,550	4,424	3	6,048	4,550	33
Other income	82	69	116	2				395	676	(41)	596	395	51
PBDIT	1,275	1,255	608	1,437	2	110	(11)	4,945	5,100	(3)	6,645	4,945	34
Interest	(566)	(595)	(536)	(522)	(5)	5	8	(2,193)	(1,861)	18	(2,287)	(2,193)	4
Depreciation	(377)	(397)	(343)	(384)	(5)	10	(2)	(1,492)	(1,429)	4	(1,582)	(1,492)	6
PBT	332	263	(271)	531	26	(223)	(37)	1,260	1,809	(30)	2,775	1,260	120
Tax	(272)	(58)	(146)	(285)	370	NM	NM	(749)	(281)		(958)	(749)	
Net profit	60	205	(417)	246	(71)	(114)	(75)	512	1,528	(67)	1,818	512	255
Extraordinary items / Exchange gains	—	—	—	(4,148)				(4,428)	(727)		(279)	(4,428)	
Share of associates/minority interest	(15)	—	(8)	29				3	(18)		—	3	
Net impact of discontinued ops	(902)	(900)	(436)	(1,923)				(7,726)	(5,691)		(1,850)	(7,726)	
RPAT	(856)	(695)	(860)	(5,796)	NM	NM	NM	(11,639)	(4,909)	137	(312)	(11,639)	(97)
Key ratios (%)													
Raw material/Sales	67.0		68.2	68.2				67.8	70.5		67.8	67.8	
Employee exp./Sales	9.8		9.5	7.6				8.5	9.3		8.5	8.5	
Other exp./Sales	15.2		18.6	16.3				16.4	12.2		14.9	16.4	
EBITDA margin	8.0	8.1	3.7	7.9				7.3	8.0		8.7	7.3	
PBT Margin	2.2	1.8	(2.0)	2.9				2.0	3.3		4.0	2.0	
Tax rate	81.9	22.0	(53.7)	53.6				59.4	15.5		34.5	59.4	
PAT margin	0.4	1.4	(3.1)	1.4				0.8	2.8		2.6	0.8	
EPS (Rs)	0.1	0.3	(0.7)	0.4				0.8	2.4		2.9	0.8	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Segment-wise consolidated revenues and EBIT for Crompton Greaves, March fiscal year-ends (Rs mn)

Consolidated	1QFY19	1QFY19E	1QFY18	4QFY18	% change			FY2018	FY2017	% change	FY2019E	FY2018	% change
					vs est.	yoy	qoq						
Revenues													
Power Systems	7,685	7,744	7,493	10,623	(0.8)	2.6	(27.7)	36,492	33,487	9.0	37,822	36,492	3.6
Industrial systems	7,182	6,780	5,862	7,479	5.9	22.5	(4.0)	26,026	21,495	21.1	31,275	26,026	20.2
Automation Systems	—	—	—	—				—	—		—	—	
Others	43	37	37	43		16.0	0.9	165	190	(13.2)	133	165	(19.2)
Total	14,901	14,561	13,390	18,143	2.3	11.3	(17.9)	62,678	55,165	13.6	69,123	62,678	10.3
PBIT													
Power Systems	677	619	425	843	9.3	59.1	(19.7)	3,120	3,439	(9.3)	3,487	3,120	11.8
Industrial systems	627	610	166	632	2.7	278.2	(0.8)	1,659	1,751	(5.2)	2,706	1,659	63.1
Automation Systems	—	—	—	—				—	—		—	—	
Others	(8)	—	5	(1)		(246)	1,028.6	30	1	3,637.5	24	30	(19.2)
Total	1,296	1,230	597	1,474	5.4	117.2	(12.1)	4,809	5,190	(7.3)	6,217	4,809	29.3
Revenue mix (%)													
Power Systems	51.6	53.2	56.0	58.6				58.2	60.7		54.7	58.2	
Industrial systems	48.2	46.6	43.8	41.2				41.5	39.0		45.2	41.5	
Automation Systems	—	—	—	—				—	—		—	—	
Others	0.3	0.3	0.3	0.2				0.3	0.3		0.2	0.3	
PBIT margins (%)													
Power Systems	8.8	8.0	5.7	7.9				8.6	10.3		9.2	8.6	
Industrial systems	8.7	9.0	2.8	8.4				6.4	8.1		8.7	6.4	
Automation Systems	—	—	—	—				—	—		—	—	
Others	(18.3)	—	14.5	(1.6)				18.2	0.4		18.2	18.2	
Total	8.7	8.4	4.5	8.1				7.7	9.4		9.0	7.7	

Notes:

(1) Historical segmental revenues have been adjusted to net-off excise duty by allocating as per the revenue mix.

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Crompton Greaves - 1QFY19 standalone financials, March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	% change			FY2018	FY2017	% change	FY2019E	FY2018	% change
					vs est.	yoy	qoq						
Sales	11,798	12,660	11,785	14,527	(6.8)	0.1	(18.8)	50,599	43,568	16.1	55,917	50,599	10.5
Expenses	(10,889)	(11,582)	(11,132)	(13,370)	(6.0)	(2.2)	(18.6)	(47,147)	(40,448)	16.6	(51,263)	(47,147)	8.7
Stock	746	—	(561)	(809)		(233)	(192)	(1,791)	1,681	(206.5)	—	(1,791)	(100.0)
Raw material	(8,755)	—	(7,648)	(9,476)		14.5	(7.6)	(33,630)	(33,698)	(0.2)	(39,144)	(33,630)	16.4
Employee	(1,006)	—	(855)	(974)		17.7	3.2	(3,634)	(3,583)	1.4	(4,016)	(3,634)	10.5
Other Exp	(1,874)	—	(2,068)	(2,110)		(9.4)	(11.2)	(8,091)	(4,848)	66.9	(8,103)	(8,091)	0.1
EBITDA	909	1,079	653	1,157	(15.7)	39.2	(21.4)	3,452	3,120	10.7	4,654	3,452	34.8
Other income	375	499	428	484	(25.0)	(12.5)	(22.5)	1,981	2,004	(1.2)	1,886	1,981	(4.8)
PBDIT	1,284	1,578	1,081	1,641	(18.7)	18.7	(21.7)	5,433	5,124	6.0	6,540	5,433	20.4
Interest	(517)	(579)	(525)	(538)	(10.8)	(1.6)	(3.9)	(2,140)	(1,638)	30.6	(2,228)	(2,140)	4.1
Depreciation	(257)	(292)	(229)	(264)	(12.1)	12.2	(2.6)	(1,021)	(917)	11.3	(1,084)	(1,021)	6.2
PBT	510	707	327	839	(27.9)	55.9	(39.2)	2,272	2,568	(11.5)	3,228	2,272	42.1
Tax	(156)	(141)	(142)	(212)				(465)	7		(968)	(465)	
Net profit	354	565	185	627	(37.5)	91.1	(43.6)	1,807	2,575	(29.8)	2,260	1,807	25.0
Extraordinary items / Exchange gains	15	—	125	(4,044)				(4,534)	(998)		(490)	(4,534)	
Net impact of discontinued ops	—	—	—	(324)				(520)	(333)		—	(520)	
RPAT	368	565	310	(3,741)				(3,247)	1,245	(360.9)	1,769	(3,247)	(154.5)
Key ratios (%)													
Raw material/Sales	67.9	—	69.7	70.8				70.0	73.5		70.0	70.0	
Employee exp./Sales	8.5	—	7.3	6.7				7.2	8.2		7.2	7.2	
Other exp./Sales	15.9	—	17.5	14.5				16.0	11.1		14.5	16.0	
EBITDA margin	7.7	8.5	5.5	8.0				6.8	7.2		8.3	6.8	
PBT Margin	4.3	5.6	2.8	5.8				4.5	5.9		5.8	4.5	
Tax rate	30.7	20.0	43.4	25.2				20.5	(0.3)		30.0	20.5	
PAT margin	3.0	4.5	1.6	4.3				3.6	5.9		4.0	3.6	

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Segment-wise standalone revenues and EBIT for Crompton Greaves, March fiscal year-ends (Rs mn)

Standalone	1QFY19	1QFY19E	1QFY18	4QFY18	% change			FY2018	FY2017	% change	FY2019E	FY2018	% change
					vs est.	yoy	qoq						
Revenues													
Power Systems	5,268	6,445	6,491	7,747	(18.3)	(18.8)	(32.0)	27,209	24,560	10.8	27,274	27,209	0.2
Industrial systems	6,539	6,217	5,297	6,781	5.2	23.4	(3.6)	23,394	19,014	23.0	28,643	23,394	22.4
Automation Systems	—	—	—	—				—	—		—	—	
Others	—	—	—	—				—	—		—	—	
Total	11,798	12,660	11,785	14,527	(6.8)	0.1	(18.8)	50,599	43,568	16.1	55,917	50,599	10.5
PBIT													
Power Systems	352	451	436	532	(22.0)	(19.2)	(33.8)	1,850	2,080	(11.1)	1,991	1,850	7.6
Industrial systems	648	622	239	648	4.2	171.3	0.0	1,867	1,900	(1.8)	2,864	1,867	53.5
Automation Systems	—	—	—	—				—	—		—	—	
Others	—	—	—	—				—	—		—	—	
Total	1,000	1,073	674	1,179	(6.8)	48.2	(15.2)	3,716	3,980	(6.6)	4,855	3,716	30.6
Revenue mix (%)													
Power Systems	44.7	50.9	55.1	53.3				53.8	56.4		48.8	53.8	
Industrial systems	55.4	49.1	44.9	46.7				46.2	43.6		51.2	46.2	
Automation Systems	—	—	—	—				—	—		—	—	
Others	—	—	—	—				—	—		—	—	
PBIT margins (%)													
Power Systems	6.7	7.0	6.7	6.9				6.8	8.5		7.3	6.8	
Industrial systems	9.9	10.0	4.5	9.5				8.0	10.0		10.0	8.0	
Automation Systems	—	—	—	—				—	—		—	—	
Others	—	—	—	—				—	—		—	—	
Total	8.5	8.5	5.7	8.1				7.3	9.1		8.7	7.3	

Notes:

(1) Historical segmental revenues have been adjusted to net-off excise duty by allocating as per the revenue mix.

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Segment-wise subsidiary revenues and EBIT for Crompton Greaves (implied), March fiscal year-ends (Rs mn)

Subsidiaries	1QFY19	1QFY19E	1QFY18	4QFY18	%change			FY2018	FY2017	% change	FY2019E	FY2018	% change
					vs est.	yoy	qoq						
Revenues													
Power Systems	2,417	1,299	1,003	2,876	86.0	141.0	(16.0)	9,283	8,927	4	10,548	9,283	13.6
Industrial systems	643	563	565	697	14.3	13.8	(7.8)	2,632	2,480	6.1	2,632	2,632	—
Automation Systems	—	—	—	—				—	—		—	—	
Others	43	37	37	43				165	190		133	165	
Total	3,103	1,900	1,605	3,616	63.3	93.3	(14.2)	12,079	11,597	4.2	13,206	12,079	9.3
PBIT													
Power Systems	325	168	(10)	311	93.0	NM	4	1,270	1,359	(7)	1,496	1,270	18
Industrial systems	(21)	(12)	(73)	(16)		(71)	32.3	(207)	(150)	39	(158)	(207)	(24)
Automation Systems	—	—	—	—				—	—		—	—	
Others	(8)	—	5	(1)				30	1		24	30	
Total	296	157	(78)	295	88.8	NM	1	1,093	1,210	(9.7)	1,362	1,093	24.7
Revenue mix (%)													
Power Systems	77.9	68.4	62.5	79.5				76.8	77.0		79.9	76.8	
Industrial systems	20.7	29.6	35.2	19.3				21.8	21.4		19.9	21.8	
Automation Systems	—	—	—	—				—	—		—	—	
Others	1.4	1.9	2.3	1.2				1.4	1.6		1.0	1.4	
PBIT margins (%)													
Power Systems	13.4	13.0	(1.0)	10.8				13.7	15.2		14.2	13.7	
Industrial systems	(3.2)		(12.9)	(2.3)				(7.9)	(6.0)		(6.0)	(7.9)	
Automation Systems	—	—	—	—				—	—		—	—	
Others	(18.3)		14.5	(1.6)				18.2	0.4		18.2	18.2	
Total	9.5	8.3	(4.9)	8.1				9.0	10.4		10.3	9.0	

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Change in segmental assumptions and estimates for Crompton Greaves, March fiscal year-ends, 2018-21E (Rs mn)

	New estimates				Old estimates			% change		
	2018	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Standalone										
Revenues	50,604	55,917	65,814	78,509	56,942	64,302	75,114	(1.8)	2.4	4.5
Growth (%)	16.2	10.5	17.7	19.3	12.5	12.9	16.8			
Power systems	27,209	27,274	29,951	32,930	26,734	28,018	30,403	2.0	6.9	8.3
Growth (%)	9.6	0.2	9.8	9.9	(1.7)	4.8	8.5			
Industrial systems	23,394	28,643	35,863	45,579	30,208	36,284	44,711	(5.2)	(1.2)	1.9
Growth (%)	24.7	22.4	25.2	27.1	29.1	20.1	23.2			
EBITDA	3,452	4,654	5,682	6,939	4,926	5,794	6,876	(5.5)	(1.9)	0.9
EBITDA margin (%)	6.8	8.3	8.6	8.8	8.7	9.0	9.2	(33) bps	(38) bps	(32) bps
Overseas										
Revenues	12,014	13,206	14,705	16,027	13,022	14,265	15,471	1.4	3.1	3.6
Growth (%)	(11.6)	9.9	11.4	9.0	8.4	9.5	8.5			
EBITDA	1,098	1,394	1,747	2,073	1,317	1,626	1,930	5.9	7.4	7.4
EBITDA margin (%)	9.1	10.6	11.9	12.9	10.1	11.4	12.5	45 bps	48 bps	46 bps
Consolidated										
Revenues	62,678	69,123	80,519	94,536	69,964	78,567	90,585	(1.2)	2.5	4.4
Growth (%)	9.7	10.3	16.5	17.4	11.6	12.3	15.3			
EBITDA	4,550	6,048	7,429	9,013	6,243	7,420	8,806	(3.1)	0.1	2.3
EBITDA margin (%)	7.3	8.7	9.2	9.5	8.9	9.4	9.7	(17) bps	(22) bps	(19) bps
Net finance cost	(1,798)	(1,691)	(1,654)	(1,439)	(1,828)	(1,647)	(1,442)			
PAT	512	1,818	2,703	3,916	1,923	2,702	3,701	(5.5)	0.0	5.8
EPS (Rs)	0.8	2.9	4.3	6.2	3.1	4.3	5.9	(5.5)	0.0	5.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Financials of Crompton Greaves (standalone), March fiscal year-ends, 2015-21E (Rs mn)

Standalone	2015	2016	2017	2018	2019E	2020E	2021E
Income statement							
Operating income	42,302	39,008	43,564	50,599	55,917	65,814	78,509
Total operating expenses	(39,647)	(36,756)	(40,448)	(47,147)	(51,263)	(60,131)	(71,570)
EBITDA	2,655	2,253	3,116	3,452	4,654	5,682	6,939
Other income	1,293	2,263	2,004	1,981	1,886	2,007	2,224
Interest expense	(427)	(398)	(1,638)	(2,140)	(2,228)	(2,228)	(2,228)
Depreciation	(1,128)	(986)	(917)	(1,021)	(1,084)	(1,135)	(1,197)
Pre-tax profit	2,393	3,132	2,564	2,272	3,228	4,326	5,738
Tax	35	(453)	7	(465)	(968)	(1,384)	(1,836)
Net profits	2,428	2,679	2,571	1,807	2,260	2,942	3,902
EPS (Rs)	3.9	4.3	4.1	2.9	3.6	4.7	6.2
Balance sheet							
Shareholders funds	46,154	41,281	41,993	38,407	40,667	43,608	47,510
Equity share capital	1,254	1,254	1,254	1,254	1,254	1,254	1,254
Reserves and surplus	44,900	40,027	40,739	37,154	39,413	42,355	46,256
Minority interest	—	—	—	—	—	—	—
Loan funds	2,970	6,255	14,152	17,678	17,678	17,678	17,678
Total sources of funds	64,539	50,239	58,302	56,215	58,475	61,416	65,318
Net fixed assets	16,250	13,865	13,153	13,773	13,611	13,583	13,715
Investments	10,050	4,826	4,459	10,285	10,285	10,285	10,285
Net current assets (excl. cash)	26,860	23,911	33,527	25,468	29,057	29,198	29,332
Cash	4,570	5,120	5,558	5,941	4,773	7,602	11,238
Net deferred tax asset	(3,014)	(2,403)	(2,148)	(121)	(121)	(121)	(121)
Total application of funds	64,539	50,239	58,302	56,215	58,475	61,416	65,318
Free cash flow							
Operating profit before wcap. changes	5,248	3,525	2,805	(4,093)	3,686	4,298	5,103
Change in working capital	(11,506)	(12,733)	(10,137)	8,059	(3,589)	(141)	(134)
Net cashflow from operating activities	(6,258)	(9,208)	(7,332)	3,966	96	4,157	4,969
Purchase of Fixed Assets	(811)	(1,096)	(419)	(1,641)	(923)	(1,107)	(1,329)
Investments	(1,354)	1,688	(17)	—	—	—	—
Cash (used) / realised in investing activities	(86)	7,356	1,895	(4,629)	963	900	895
Free cash flow (CFO + net capex)	(7,068)	(10,304)	(7,751)	2,325	(826)	3,050	3,640
Growth (%)							
Revenue growth	NA	(7.8)	11.7	16.1	10.5	17.7	19.3
EBITDA growth	NA	(15.1)	38.3	10.8	34.8	22.1	22.1
Recurring PAT growth	NA	10.3	(4.0)	(29.7)	25.0	30.2	32.6
Key ratios							
EBITDA margin (%)	6.3	5.8	7.2	6.8	8.3	8.6	8.8
Debt/equity	0.1	0.2	0.3	0.5	0.4	0.4	0.4
Net debt/equity	(0.0)	0.0	0.2	0.3	0.3	0.2	0.1
RoAE (%)	NA	6.1	6.2	4.5	5.7	7.0	8.6
RoACE (%)	NA	5.3	7.8	6.1	6.7	7.4	8.5

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Financials of Crompton Greaves (consolidated), March fiscal year-ends, 2015-21E (Rs mn)

Consolidated	2015	2016	2017	2018	2019E	2020E	2021E
Income statement							
Operating income	55,054	52,686	57,127	62,678	69,123	80,519	94,536
Total operating expenses	(49,962)	(48,384)	(52,425)	(58,128)	(63,075)	(73,090)	(85,524)
EBITDA	5,092	4,302	4,702	4,550	6,048	7,429	9,013
Other income	934	1,115	687	395	596	633	635
Interest expense	(1,047)	(800)	(1,880)	(2,193)	(2,287)	(2,287)	(2,074)
Depreciation	(2,447)	(1,717)	(1,500)	(1,492)	(1,582)	(1,693)	(1,815)
Pre-tax profit	2,531	2,901	2,009	1,260	2,775	4,081	5,759
Tax	104	(667)	(166)	(749)	(958)	(1,379)	(1,842)
Net profits	2,635	2,233	1,843	512	1,818	2,703	3,916
Share of profit in associates	14	12	(16)	(17)	—	—	—
Minority interest	13	13	(2)	20	—	—	—
Recurring PAT for common shareholders	2,663	2,259	1,825	514	1,818	2,703	3,916
EPS (Rs)	4.2	3.6	2.9	0.8	2.9	4.3	6.2
Balance sheet							
Shareholders funds	43,078	45,972	41,111	27,141	27,109	28,212	30,528
Equity share capital	1,254	1,254	1,254	1,254	1,254	1,254	1,254
Reserves and surplus	41,825	44,718	39,857	25,888	25,856	26,958	29,275
Minority interest	—	—	—	—	—	—	—
Loan funds	24,720	15,678	16,108	18,800	18,800	18,800	15,300
Total sources of funds	84,231	89,956	80,568	68,084	65,776	66,947	65,763
Net fixed assets	42,366	26,774	17,661	17,798	16,902	16,416	16,030
Investments	4,361	2,313	2,091	1,454	1,454	1,454	1,454
Net current assets (excl. cash)	23,868	15,992	21,970	12,305	13,204	13,605	13,968
Cash	6,828	7,969	7,607	6,934	7,025	8,280	7,119
Net deferred tax asset	(4,033)	(2,528)	(2,357)	(80)	(206)	(273)	(273)
Total application of funds	84,231	89,956	80,568	68,084	65,776	66,947	65,763
Free cash flow							
Operating profit before wcap. changes	4,243	(1,829)	51	(10,626)	3,366	4,518	5,570
Change in working capital	(10,967)	1,222	(5,450)	9,665	(899)	(401)	(363)
Net cashflow from operating activities	(6,723)	(608)	(5,400)	(961)	2,467	4,118	5,207
Purchase of Fixed Assets	(2,086)	(1,437)	(638)	(1,391)	(686)	(1,207)	(1,429)
Investments	(1,354)	1,692	(17)	—	—	—	—
Cash (used) / realised in investing activities	4,285	4,320	4,968	2,120	(90)	(575)	(794)
Free cash flow (CFO + net capex)	(8,809)	(2,044)	(6,037)	(2,352)	1,781	2,910	3,778
Growth (%)							
Revenue growth	NA	(4.3)	8.4	9.7	10.3	16.5	17.4
EBITDA growth	NA	(15.5)	9.3	(3.2)	32.9	22.8	21.3
Recurring PAT growth	NA	(15.2)	(19.2)	(71.8)	253.4	48.7	44.9
Key ratios							
EBITDA margin (%)	9.2	8.2	8.2	7.3	8.7	9.2	9.5
Debt/equity	0.6	0.3	0.4	0.7	0.7	0.7	0.5
Net debt/equity	0.4	0.2	0.2	0.4	0.4	0.4	0.3
RoAE (%)	NA	5.0	4.2	1.5	6.7	9.8	13.3
RoACE (%)	NA	3.3	4.2	1.9	5.0	6.4	8.0

Source: Company, Kotak Institutional Equities estimates

SPI acquisition: picture perfect. PVR has announced the acquisition of SPI Cinemas (SPI), a leading multiplex chain in the South (especially TN), at an EV of Rs10.4 bn. This acquisition would strengthen PVR's footprint in the South, making it the largest multiplex player in the top 3 cities in the South. We like what we see—an acquisition of a premium asset in an important market at a marginal valuation discount (versus PVR) with nominal equity dilution and debt capital. We build in potential value (upside) from this acquisition into our target price. BUY with a revised TP of Rs1,430 (Rs1,360).

Company data and valuation summary

PVR				Forecasts/Valuations			
Stock data				2018	2019E	2020E	
52-week range (Rs) (high,low)	1,568-1,063			EPS (Rs)	26.8	37.9	50.2
Market Cap. (Rs bn)	60.0			EPS growth (%)	25.5	41.2	32.3
Shareholding pattern (%)				P/E (X)	47.8	33.9	25.6
Promoters	19.9			Sales (Rs bn)	23.5	27.7	32.6
FIs	48.0			Net profits (Rs bn)	1.3	1.8	2.3
MFs	9.9			EBITDA (Rs bn)	4.2	5.0	6.0
Price performance (%)				EV/EBITDA (X)	16.1	13.0	11.1
Absolute	1M	3M	12M	ROE (%)	12.3	15.3	17.6
	6.0	(9.2)	(0.3)	Div. Yield (%)	0.2	0.3	0.4
Rel. to BSE-30	2.9	(14.3)	(16.8)				

Deal details— smartly structured and funded through BMS/Paytm deal + share-swap + debt

PVR will acquire SPI at an EV of Rs10.4 bn (equity value of Rs8.8 bn + SPI's debt of Rs1.6 bn) implying 10X FY2020 EBITDA. Deal details: (1) 71.7% stake for a cash consideration of Rs6.33 bn (incl. milestone-based deferred payout of Rs1 bn). This will be funded by the upfront payment of Rs3.5 bn received from the BMS/Paytm deal and incremental debt of Rs1.5 bn, (2) balance 28.3% stake through share-swap. PVR will issue 1.6 mn shares (3.3% of diluted equity) to promoters of SPI (it indirectly implies issuance of PVR equity to SPI promoters at Rs1,560/share).

SPI acquisition: excellent asset, strengthens PVR's positioning in South

SPI is a leading Chennai-based multiplex player with (a) 68 operational screens across TN (42), AP/Telangana (14), Bangalore (5), Mumbai (5) and Kerala (2), (b) 21 under-construction screens of which 8 will open within 3 months and 13 over the next 12 months, and (c) a pipeline of 100+ screens over the next few years. The ambience of SPI's screens and profitability are a notch above PVR's. We like PVR's M&A strategy of acquiring only best-in-class assets (Cinemas and DT Cinemas earlier and SPI now). In addition, we particularly like two things about this-reasonable valuations and smart funding.

Understanding SPI's financials, potential synergies and EBITDA/earnings accretion for PVR

SPI reported revenues of Rs3.1 bn led by 12.3 mn footfalls (occupancy of 58%), average ticket price of Rs141 and F&B spends per head of Rs83 in FY2018. Its EBITDA was Rs633 mn and EBITDA margin stood at 20.4%. PVR expects to garner revenues of Rs5 bn and EBITDA margin of 21-23% (base case EBITDA of Rs1.1 bn) from SPI in FY2020E after factoring (1) usual cost synergies, potential to improve monetization on advertising and F&B front, (2) full-year impact of ticket price cap increase in TN, and (3) 21 new screens, taking the count to 89 screens. It is worth noting that out of the 68 operational screens of SPI, about 19 have opened in the past 12 months or so. Thus, FY2018 financials of SPI cinemas were partly suppressed by new properties. Core Chennai-based screens of SPI have EBITDA margin of 25-30% and occupancy of 65-70% as per our estimate. We expect this acquisition to be EPS accretive by 10-15%.

Jaykumar Doshi

PVR has stepped up its game further; maintain BUY

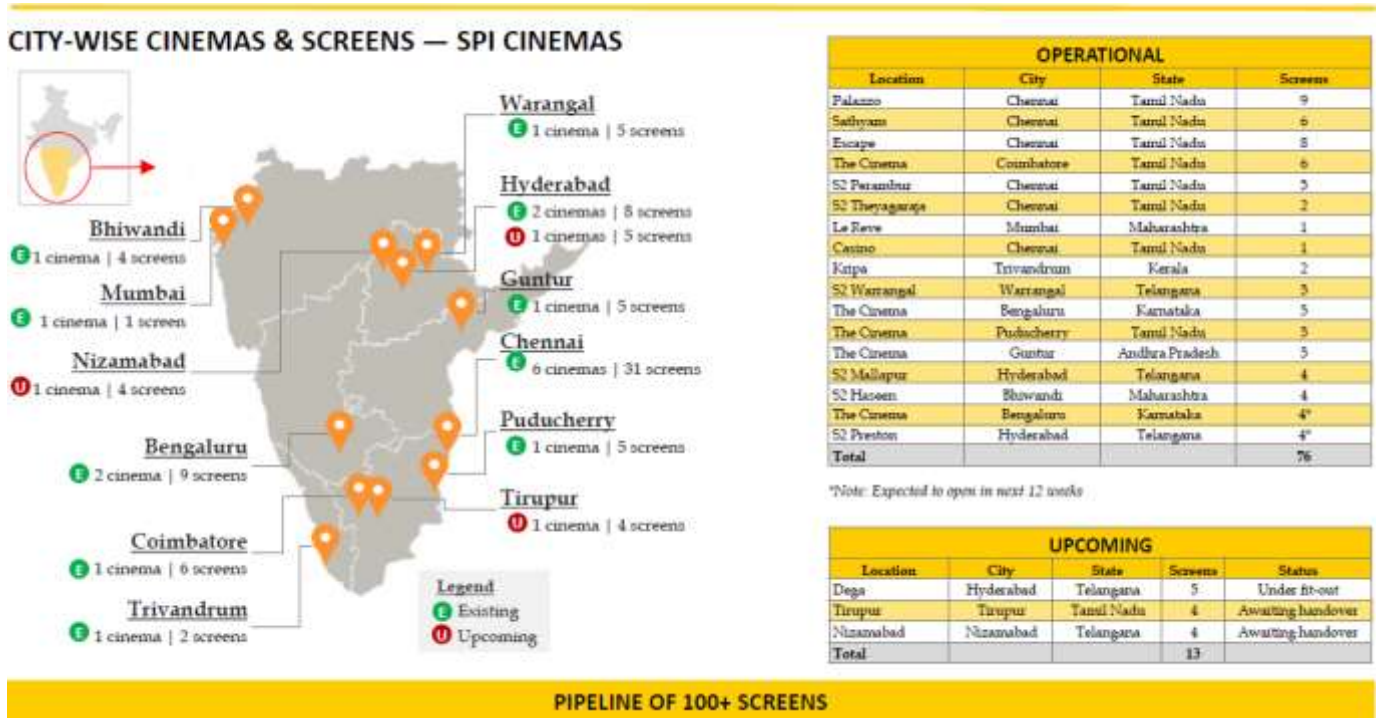
As highlighted in our recent notes, PVR is stepping up its game in terms of pace of screen additions and upgradation of its existing screen portfolio. Recent contracts with online ticketing aggregators and the acquisition of SPI cinemas are steps in the right direction. We believe PVR is on track to achieve 1,000 screens by FY2021 and widen the gap versus competition. We value PVR at 11X June-18 EBITDA factoring in uncertainty in the F&B business even as we believe that outcome will be benign relative to concerns.

Key highlights from the conference call

- ▶ **Key rationale for the acquisition.** SPI acquisition would significantly strengthen PVR's footprint in the South. It will make PVR the largest multiplex in the top 3 cities in the South. We note that PVR is already a dominant multiplex chain in Delhi/NCR and Mumbai. With this acquisition, PVR will become the leader in most key markets. Multiplex penetration as a proportion of total screens in South is about 14% as against 60% in the North and 47% in the West. The South offers immense growth potential for multiplexes through market share gains from single screens and overall increase in screen penetration. PVR is well-positioned to benefit from this opportunity.
- ▶ **CCI approval not required.** SPI cinemas acquisition does not require approval of competition commission as the asset size and turnover is below the threshold.
- ▶ **Potential to negotiate contract with Pepsi.** SPI has an existing deal with online ticketing aggregators (Bookmyshow, Paytm etc). These contracts will continue as is till expiry. SPI cinemas have a tie-up with Coke. We expect PVR to negotiate a better deal with its F&B vendor Pepsi.
- ▶ **Capex and screen additions.** PVR's capex over the next 2-3 years would be about Rs4.5 bn, including capex pertaining to SPI cinemas' screens and pipeline. PVR expects 100 screen additions per year over the next 2-3 years including SPI's under-construction screens and future pipeline. It does not include 76 odd screens of SPI that PVR would add on completion of the merger.
- ▶ **To continue with SPI brand in TN.** PVR will continue with SPI brand in Tamil Nadu. In other states, it would rebrand SPI properties as PVR over time. Upcoming properties of SPI would have SPI branding in Chennai whereas in other markets, it would be launched under PVR brand.
- ▶ **PVR to incur capex for 13 under-construction screens of SPI.** SPI currently operates 68 screens and about 8 screens are ready to open in the next 12 weeks. PVR would not incur any capex on these 76 screens. PVR would incur capex of about Rs300 mn on the 13 screens are currently under construction and are expected to open in the next 12 months.
- ▶ **Regional contribution to go up and dependency on Bollywood to reduce.** Acquisition of SPI would reduce dependency of PVR on Bollywood and its revenue mix going forward would be more balanced across Bollywood, regional and Hollywood.

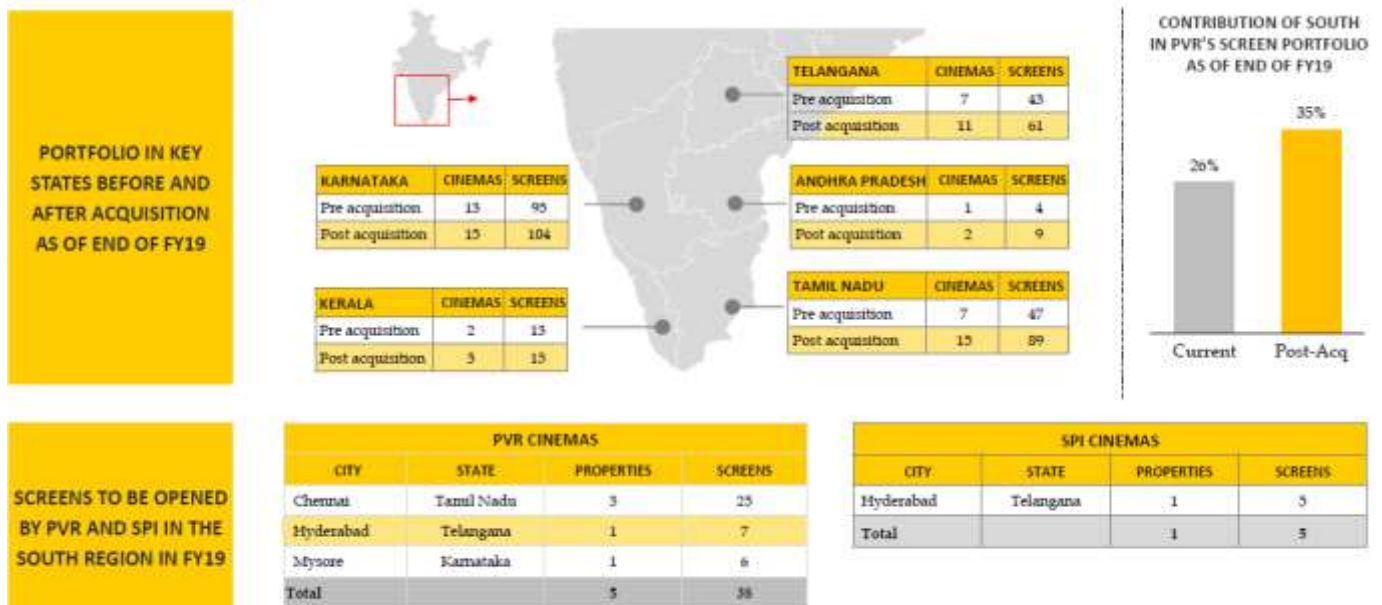
We have incorporated upside from the SPI acquisition into our target price assuming EBITDA of Rs1.1 bn in FY2020E (in line with guidance). We have not yet built the SPI acquisition into our estimates as PVR is yet to share the balance sheet, cash flows of SPI or the complete P&L of the latter.

Exhibit 1: Screen portfolio of SPI cinemas



Source: Company, Kotak Institutional Equities

Exhibit 2: Screen portfolio of PVR post acquisition of SPI cinemas



Note: pre-acquisition and post-acquisition screen count is as on end of FY19, includes new screens likely to be opened in FY19 by PVR and SPI respectively

Source: Company, Kotak Institutional Equities

Exhibit 3: Condensed consolidated financials for PVR, March fiscal year-ends (Rs mn), 2014-21E

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model								
Revenues	13,475	14,813	18,688	21,628	23,535	27,689	32,568	38,006
EBITDA	2,117	2,044	3,306	3,570	4,212	5,020	6,039	7,198
Other income	113	46	283	189	119	150	205	250
Depreciation	944	1,168	1,252	1,384	1,537	1,798	2,111	2,426
Interest expense	795	783	839	806	837	690	585	680
Pretax profits	523	118	1,432	1,528	1,952	2,681	3,548	4,342
Tax	19	8	232	570	704	912	1,206	1,476
PAT before minority interest	504	110	1,200	958	1,247	1,770	2,342	2,866
Minority interest	(57)	(11)	5	1	0	-	-	-
PAT	561	121	1,194	958	1,247	1,770	2,342	2,866
Diluted earnings per share (Rs)	13.7	2.9	25.6	20.5	26.7	37.9	50.2	61.4
Balance sheet								
Total equity	3,993	4,092	8,695	9,650	10,754	12,310	14,370	16,891
Deferred taxation liability	4	11	93	9	6	6	6	6
Total borrowings	6,134	7,470	6,623	8,196	8,305	5,855	7,155	7,955
Minority interest	771	383	401	405	8	8	8	8
Current liabilities	2,600	2,309	3,276	3,925	4,316	5,063	5,925	6,881
Total liabilities and equity	13,533	14,288	19,108	22,257	23,488	23,342	27,564	31,841
Cash and cash equivalents	495	261	2,674	309	339	455	229	254
Other current assets	3,763	4,605	5,763	5,363	5,880	3,382	5,659	8,038
Tangible fixed assets	6,990	7,523	8,824	10,447	11,270	13,527	15,720	17,614
Goodwill and Intangibles	1,466	1,273	1,262	4,640	4,629	4,606	4,585	4,564
CVIP	806	611	570	1,056	1,017	1,017	1,017	1,017
Total assets	13,533	14,288	19,108	22,257	23,488	23,342	27,564	31,841
Free cash flow								
Operating cash flow, excl. working capital	2,003	2,170	3,169	3,442	3,502	4,108	4,833	5,722
Working capital changes	128	(617)	204	(246)	(127)	3,245	(1,415)	(1,424)
Interest expense (net)	(667)	(759)	837	(617)	(718)	(540)	(380)	(430)
Capital expenditure	(1,802)	(1,694)	(2,334)	(2,499)	(2,310)	(4,033)	(4,283)	(4,299)
Free cash flow	(337)	(900)	1,877	80	348	2,780	(1,245)	(431)
Key ratios and assumptions								
Footfalls (mn)	59.9	59.1	69.6	75.2	76.1	83.5	92.9	102.0
Average Ticket Price (ATP) (Rs)	168	177	188	196	210	224	237	251
F&B spends per head (SPH) (Rs)	54	66	72	81	89	90	94	104
Ad revenue growth (%)	75.9	17.2	21.1	17.3	18.7	18.0	19.0	16.4
Screens (#)	421	464	516	579	625	710	795	880
EBITDA margin (%)	15.7	13.8	17.7	16.5	17.9	18.1	18.5	18.9
Net debt/equity (X)	1.4	1.8	0.5	0.8	0.7	0.4	0.5	0.5
RoAE (%)	10.8	3.0	18.7	10.4	12.2	15.3	17.6	18.3
RoACE (%)	10.3	7.8	14.4	9.1	9.4	11.7	13.3	13.7

Source: Company, Kotak Institutional Equities estimates

Understanding SPI's financials and the potential it offers to PVR

Key conference takeaways

- ▶ Help diversify content risk further. Healthy mix of Hollywood, Bollywood and regional contribution.
- ▶ 100 mn admissions in FY2019
- ▶ It is efficiently run circuit, bulk of synergies within next 12 months
- ▶ Expect Rs383cr to be funded out of internal accruals and
- ▶ Deferred consideration of Rs150cr
- ▶ Online aggregators (Rs4.1 bn); bulk of consideration received upfront will part-fund this acquisition
- ▶ Occupancies are quite high and we will not be touching ATP at all. ATP increase will be volume driven than value driven
- ▶ Sathyam cinemas is owned by the family and on lease to the company
- ▶ Advertising revenues—big kicker as far as circuit was given. They didn't have a national presence. PVR being a national player has advertisers on board. Ad revenue for SPI not shared.
- ▶ Major capex left— balance screens would be Rs25-30cr for fitting out 13 screens
- ▶ SPI has online deal with aggregators
- ▶ PVR will rebrand in Hyderabad and Karnataka and Mumbai
- ▶ 21-23% operating margin, Rs95cr revenue, FY2020 should be closer to Rs500cr revenue number and 21-22% margin

Picking up gradually. Private life insurance companies have been gradually improving individual APE growth, reporting 13% yoy growth in July from 9% in June, 4% in May and 2% decline in April 2018. The larger players seem to be slowing down with single-digit growth for HDFC, ICICI and SBI Life. The companies that stood out are Max (increasing focus on ULIPs), Tata Life and Birla SL, clear beneficiaries of penetration in HDFC Bank.

High growth at Birla SL and Tata AIA

Birla Sun Life has delivered 74% growth in individual APE in July 2018, translating into 49% growth YTD. Similarly, Tata AIA reported 41% YTD growth in individual APE. In its earnings call last week, Aditya Birla Capital highlighted that Birla Sun Life Insurance is making strong inroads in HDFC Bank and has already deployed about 1,500 employees across 3,000 branches in the bank. This will likely drive higher APE growth for Birla Sun Life Insurance over the next few months while HDFC Life continues to focus on high-margin protection and annuity products.

Volumes picking up gradually but equity inflows to mutual funds declining

Private sector individual APE is gradually improving from yoy decline in April to 13% growth in July 2018. YTD growth of 7% is much lower than 24% in FY2018. With gradual pickup at ICICI Prudential Life, the gap in overall growth between the top two players (ICICI Prudential Life and SBI Life) is gradually reducing. In July 2018, ex-ICICI/SBI growth was 800 bps higher than overall industry growth rates at 21% as compared to 2,300 bps difference in April 2018. Average policy ticket size in individual non-single business improved yoy and mom for all large players. However, if mutual fund inflows are any indication, inflows are declining consistently mom since April 2018. The mutual fund industry reported equity inflows of ₹97 bn in July 2018 versus ₹182 bn in July 2017.

HDFC Life, SBI Life and ICICI Prudential Life weak; Max Life up 42% yoy

- ▶ SBI Life Insurance reported 6% yoy growth in individual APE in June 2018 (8% in May 2018). Growing at about 30% for several quarters, slowdown in SBI is a bit of a concern. SBI Life's management highlighted that they have been focusing on strengthening their systems, especially with respect to the bank and have guided that volumes will pick up in the near term.
- ▶ ICICI Prudential Life reported 4% growth as compared to 5-31% decline in individual APE in the preceding three months. A high post-demonetization base at the beginning of the year was the key reason and yoy growth rate is now gradually picking up.
- ▶ HDFC Life reported 3% in individual APE in June 2018 (4% in June) on a high base (55% in July 2017). A high base till December 2018 will put pressure on growth in FY2019E. The company will lose some business from HDFC Bank to Birla SL and Tata AIA but the management's focus is on more profitable protection and annuity products.
- ▶ Max Life reported 42% growth in individual APE in June 2018 (20% in June) due to its shifting focus to ULIPs. Its ticket size was up 9% yoy and flat qoq.

AUGUST 14, 2018

UPDATE

BSE-30: 37,645

QUICK NUMBERS

- Private sector individual APE up 13% yoy in July 2018
- Overall individual APE growth of 7.8% in July 2018
- Equity inflows to mutual funds down to ₹97 bn versus ₹182 bn yoy

Nischint Chawathe

M B Mahesh CFA

Dipanjan Ghosh

Shrey Singh

Exhibit 1: Private sector life insurance APE was up at 15% in July 2018
APE in individual and group business, March fiscal year-end, July 2018 (Rs mn)

	Jul-18					YTD FY2019						
	Individual	yoy growth (%)	Group	yoy growth (%)	Total	yoy growth (%)	Individual	yoy growth (%)	Group	yoy growth (%)	Total	yoy growth (%)
Aegon Religare	78	(6)	0	(28)	78	(6)	248	(14)	0	23	249	(14)
Aviva	124	4	1	44	124	4	429	15	2	(65)	431	13
Bajaj Allianz	994	20	171	84	1,166	26	3,822	6	529	16	4,351	7
Bharti Axa	472	72	24	16	496	68	1,500	69	88	29	1,588	66
Birla Sunlife	980	74	94	(28)	1,074	55	3,251	49	461	23	3,713	45
Canara HSBC	566	1	63	52	629	4	1,943	7	152	65	2,095	10
DHFL Pramerica	297	36	73	5	370	29	1,120	44	258	(14)	1,377	28
Edelweiss	202	89	5	(53)	207	78	681	93	15	(27)	696	86
Future Generali	195	15	6	70	202	16	627	29	18	(51)	645	24
HDFC Life	3,313	3	574	13	3,887	4	11,429	13	1,968	46	13,397	17
ICICI Prudential	6,070	4	80	705	6,150	5	18,890	(15)	217	20	19,107	(15)
IDBI Federal	392	34	7	32	399	34	1,055	(13)	25	18	1,080	(13)
India First	446	1	57	91	503	6	1,449	0	338	—	1,787	12
Exide Life	422	6	8	59	430	7	1,713	18	29	(13)	1,742	17
Kotak	967	4	74	268	1,042	10	3,043	9	303	(2)	3,347	8
Max Life	2,341	41	24	7	2,365	41	7,597	22	87	(7)	7,684	21
PNB MetLife	966	10	12	32	978	11	3,212	15	40	6	3,252	15
Reliance Life	553	9	3	(31)	556	8	2,261	19	28	(33)	2,289	18
SBI Life	6,803	6	491	245	7,294	11	18,839	8	1,225	72	20,064	10
Shriram Life	409	41	23	250	432	46	1,253	15	80	(1)	1,333	14
Star Union Daichi	418	11	6	201	424	12	1,046	(9)	16	50	1,062	(8)
Tata AIA	1,348	52	3	23	1,351	52	3,999	41	24	81	4,023	42
Private players	28,358	13	1,798	59	30,156	15	89,408	7	5,905	34	95,313	8
Pvt. Ex-ICICI and SBI	15,485	21	1,227	25	16,712	21	51,679	18	4,464	27	56,143	19
LIC	21,517	1	11,292	(10)	32,809	(3)	73,644	5	27,459	(0)	101,103	4
Total Premium	49,875	8	13,090	(4)	62,965	5	163,052	6	33,364	5	196,417	6

Source: IRDA, Life council

Exhibit 2: Private sector individual APE was up 13% yoy
Yoy growth in adjusted individual business premium, March fiscal year-ends, June 2017-July 2018 (%)

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Bajaj Allianz	54.3	37.6	30.5	31.4	15.7	49.7	20.9	70.5	27.6	5.0	(20.3)	17.2	18.6	19.6
Birla Sunlife	34.9	13.8	24.8	18.1	23.1	23.5	(0.1)	(11.7)	13.4	20.2	37.3	40.6	40.6	74.1
Canara HSBC	50.5	96.2	109.2	101.9	38.6	53.4	28.3	16.2	7.9	(11.4)	64.9	(16.7)	2.7	0.8
HDFC Standard Life	37.2	55.5	24.5	70.8	30.4	65.2	84.1	28.8	22.2	(2.4)	69.6	11.3	3.7	3.1
ICICI Prudential Life	27.2	19.1	14.0	17.9	25.8	10.7	(2.4)	(10.7)	(15.6)	16.6	(31.1)	(30.0)	(5.1)	3.8
India First	184.6	117.4	76.5	69.1	32.6	51.6	51.0	48.2	17.7	(20.1)	1.4	0.9	(1.4)	0.8
Kotak	24.3	46.8	40.7	16.3	62.6	63.9	36.2	27.3	47.7	12.9	34.2	5.8	3.6	4.4
Max Life	9.7	12.7	23.2	18.6	30.6	9.8	15.5	65.1	33.1	16.0	(1.4)	19.7	19.7	41.4
MetLife	14.6	42.3	10.4	31.2	20.7	35.3	19.8	43.2	19.9	4.8	(8.3)	31.5	22.4	10.3
Reliance Life	15.4	3.8	11.8	(2.7)	(7.2)	(17.2)	5.4	3.4	8.6	5.8	37.1	18.6	16.3	8.6
SBI Life	24.5	39.8	50.7	45.7	46.1	37.6	34.3	11.7	17.9	4.6	(11.0)	27.2	8.1	5.9
Star Union Daichi	38.3	56.3	26.3	(10.8)	42.3	17.0	(4.7)	31.1	(34.8)	(39.2)	29.8	(9.3)	(33.5)	11.4
Tata AIA	50.9	53.4	38.9	14.5	75.9	47.8	7.3	42.6	34.5	21.8	5.2	32.4	55.2	52.1
Private sector	27.8	33.0	29.0	30.4	33.2	30.3	22.3	16.3	11.4	7.9	(1.9)	4.2	8.9	13.2
Pvt. ex-ICICI and SBI	29.3	37.0	27.5	30.3	31.3	37.5	27.7	32.1	22.4	7.1	21.0	16.4	15.0	21.1
LIC	17.0	22.8	9.3	9.9	25.9	23.5	12.9	17.4	9.3	5.1	3.3	20.6	(1.3)	1.5
Total	22.5	28.1	19.7	21.1	29.6	27.0	18.8	16.7	10.5	6.6	0.4	11.6	4.1	7.8

Source: IRDA, Life council

Exhibit 3: APE growth has slowed down in 1QFY19 to 6% yoy

Adjusted premium equivalent of life insurance players, March fiscal year-ends, 2011-1QFY19 (Rs bn)

	APE (Rs bn)									YoY (%)								Market share (%)							
	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19	2012	2013	2014	2015	2016	2017	2018	1QFY19	2012	2013	2014	2015	2016	2017	2018	1QFY19
Bajaj Allianz Life	20	14	14	11	9	9	12	17	3	(29)	(2)	(17)	(18)	(2)	34	34	1	3	3	2	2	2	2	2	2
Birla Sunlife	16	12	11	9	9	8	11	12	3	(24)	(11)	(17)	(7)	(3)	30	11	41	2	2	2	2	2	2	2	2
DHFL Pramerica	1	1	1	1	2	2	2	4	1	35	43	(17)	63	11	21	62	27	0	0	0	0	0	0	1	1
Exide	6	6	5	5	4	5	6	6	1	(5)	(15)	(3)	(12)	10	27	2	21	1	1	1	1	1	1	1	1
HDFC Life	30	28	32	25	32	36	41	53	10	(7)	16	(22)	26	14	13	29	23	5	6	5	7	7	6	7	7
ICICI Prudential Life	39	30	34	33	46	51	65	75	13	(23)	14	(5)	41	10	27	15	(22)	6	7	6	10	10	10	10	10
Max Life	17	15	15	18	20	21	27	32	5	(12)	0	17	10	8	26	21	14	3	3	3	4	4	4	4	4
Reliance Life	20	11	10	12	13	10	7	7	2	(44)	(12)	19	8	(26)	(24)	2	22	2	2	2	3	2	1	1	1
SBI Life	33	24	26	30	33	45	63	80	13	(27)	8	14	10	36	40	27	10	5	5	6	7	9	10	11	10
Private players	239	186	189	182	211	241	306	373	65	(22)	2	(3)	16	14	27	22	6	35	37	36	45	46	49	51	49
Private (ex. SBI, ICICI)	167	131	128	119	132	145	178	218	39	(21)	(3)	(7)	10	10	22	23	18	25	25	23	28	28	28	30	30
LIC	308	343	326	331	253	279	324	360	68	12	(5)	1	(23)	10	16	11	7	65	63	64	55	54	51	49	51
Total industry	547	529	515	513	464	520	630	733	133	(3)	(3)	(0)	(9)	12	21	16	6								

Source: IRDA, Life council

Exhibit 4: Private sector growth was strong in FY2018

YoY growth in individual APE, March fiscal year-ends, 2014-18 (%)

	2014	2015	2016	2017	2018
Bajaj Allianz	(18.5)	(22.6)	(7.5)	40.9	38.3
Birla Sunlife	(18.9)	(11.8)	(7.7)	35.3	14.9
Canara HSBC	(22.8)	17.9	35.2	38.5	33.5
HDFC Standard Life	(24.2)	25.0	12.3	9.1	30.8
ICICI Prudential Life	(1.7)	41.3	8.1	29.0	16.4
India First	(37.2)	5.5	38.1	82.3	42.9
Kotak	1.2	32.8	52.2	28.1	31.0
Max Life	16.9	10.2	8.0	25.5	21.8
MetLife	2.8	23.4	28.5	10.8	20.3
Reliance Life	14.6	7.3	(25.6)	(22.8)	5.4
SBI Life	17.7	11.0	37.0	38.9	31.1
Star Union Daichi	23.3	18.6	(9.0)	64.4	(4.5)
Private sector	(3.6)	15.8	14.0	26.6	24.3
Pvt. ex-ICICI and SBI	(7.8)	9.8	9.5	21.8	24.9
LIC	(3.4)	(26.3)	2.9	14.7	13.4
Total	(3.4)	(10.4)	8.3	20.7	19.3

Source: IRDA, Life council

Exhibit 5: Private players gained 100 bps market share in July 2018

Trend in adjusted individual business market share, March fiscal year-ends, July 2017-18 (%)

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Bajaj Allianz	1.9	1.8	1.9	2.1	2.1	2.2	2.4	2.1	2.1	2.2	3.4	2.2	2.2	2.0
Birla Sunlife	1.8	1.2	1.4	1.5	1.2	1.3	2.1	1.5	1.7	2.4	1.7	1.8	2.4	2.0
Canara HSBC	1.4	1.2	1.5	1.8	0.9	1.2	1.6	1.1	1.4	1.2	1.5	0.8	1.4	1.1
HDFC Standard Life	6.7	6.9	7.1	8.6	7.0	7.3	7.9	8.5	8.1	7.6	7.5	7.6	6.6	6.6
ICICI Prudential	12.6	12.6	12.9	12.1	12.4	12.5	11.8	10.2	11.7	7.5	12.4	10.4	11.5	12.2
Max Life	4.8	3.6	4.6	5.3	3.8	4.4	5.8	4.5	6.0	6.8	3.8	4.2	5.5	4.7
Met Life	1.8	1.9	1.7	2.2	1.7	1.9	2.2	1.8	2.0	2.1	1.7	2.1	2.1	1.9
Reliance Life	1.2	1.1	1.1	1.2	0.9	0.9	1.2	1.1	1.2	1.2	2.2	1.3	1.3	1.1
SBI Life	10.9	13.9	14.3	12.5	12.6	12.5	17.1	17.2	9.2	8.4	9.5	10.6	11.3	13.6
Tata AIA	1.9	1.9	1.9	2.1	1.9	1.8	2.0	2.4	2.5	3.1	1.6	2.3	2.8	2.7
Private sector	53.5	54.2	56.8	58.6	52.2	54.0	64.3	59.1	56.8	53.7	54.6	51.1	55.9	56.9
LIC	46.5	45.8	43.2	41.4	47.8	46.0	35.7	40.9	43.2	46.3	45.4	48.9	44.1	43.1

Source: IRDA, Life council

Exhibit 6: Ticket size increase for most players
Average policy size in individual non-single segment (Rs)

	Jun-17	May-18	Jun-18	YoY (%)	MoM (%)
Aegon Religare	25,907	13,871	19,749	(24)	42
Aviva	56,499	50,041	53,444	(5)	7
Bajaj Allianz	43,810	50,426	48,949	12	(3)
Bharti Axa	39,044	36,411	36,549	(6)	0
Birla Sun Life	33,520	45,493	47,206	41	4
Canara HSBC Oriental	71,272	69,016	74,926	5	9
DHFL Pramerica	32,994	42,250	39,644	20	(6)
HDFC Life	39,057	39,212	40,076	3	2
ICICI Prudential	90,175	78,085	98,646	9	26
IDBI Federal	37,566	38,738	41,233	10	6
IndiaFirst	35,505	33,350	35,261	(1)	6
Exide Life	28,345	31,920	33,854	19	6
Kotak	44,191	51,744	46,722	6	(10)
Edelweiss Tokio	31,421	40,369	42,942	37	6
Max Life	46,473	46,148	52,533	13	14
PNB Metlife	49,538	57,220	62,083	25	8
Reliance	30,170	34,370	35,020	16	2
SBI	50,031	50,199	57,554	15	15
Shriram	20,255	12,649	15,465	(24)	22
Star Union	44,034	41,346	48,057	9	16
Tata AIA	60,190	60,569	59,769	(1)	(1)
LIC	13,305	15,604	14,224	7	(9)

Source: IRDA, Life council

Exhibit 7: Ticket size dropped slightly in 1QFY19

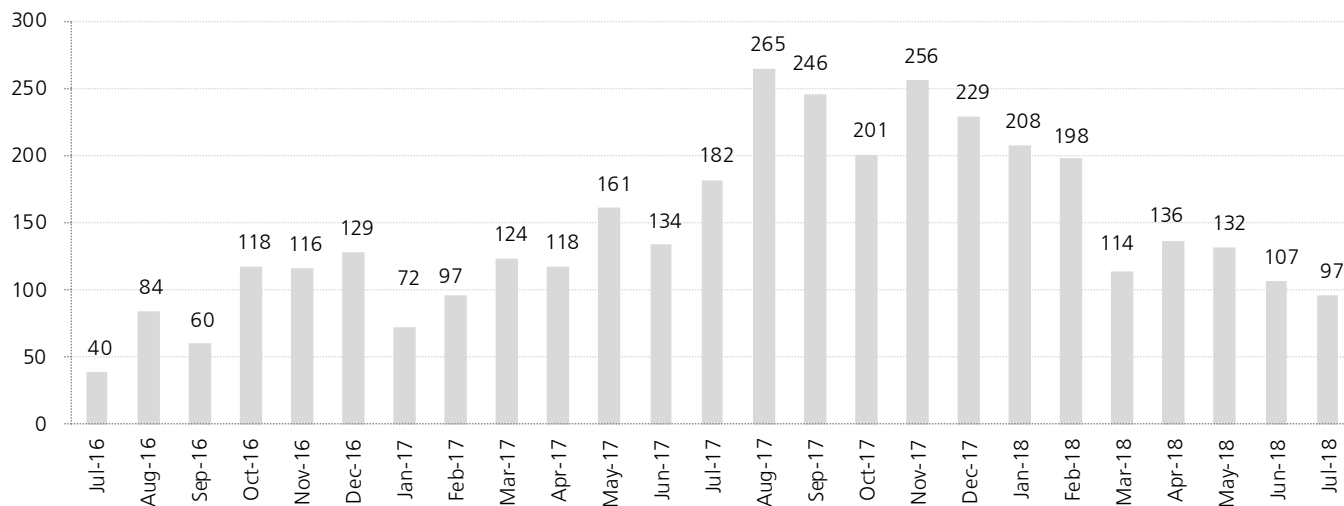
Average policy-size in individual non-single segment, 2009-18, 1QFY19 (Rs)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Bajaj Allianz	15,024	14,598	12,566	13,428	17,151	22,216	26,857	28,170	37,066	45,448	48,793
Exide	17,861	21,622	23,311	26,221	24,704	25,014	26,214	24,594	31,413	31,855	33,362
Reliance Life	13,796	13,713	10,704	10,330	12,951	19,145	25,145	24,544	25,380	33,636	36,240
SBI Life	33,625	30,880	37,099	25,266	27,315	27,499	28,103	34,098	47,109	54,929	52,964
Tata AIA	13,839	16,255	17,537	22,368	20,144	20,810	32,577	44,411	57,204	62,780	60,463
HDFC Standard	24,941	37,201	46,297	43,584	39,559	34,811	43,839	38,211	42,345	45,244	40,361
ICICI Prudential	19,686	29,081	28,462	27,533	34,570	41,948	72,582	88,373	94,759	93,116	84,086
Birla Sunlife	19,941	13,722	16,348	13,849	18,468	20,062	25,480	23,700	30,445	42,518	47,622
Aviva	18,057	29,427	30,961	28,200	30,032	29,012	39,995	42,580	57,923	70,440	52,684
Kotak Mahindra Old Mutual	23,878	29,827	29,069	24,762	29,832	32,753	38,221	42,657	47,157	55,909	52,681
Max Life	13,198	16,546	20,869	25,973	29,564	32,999	38,909	44,569	51,057	55,836	50,397
Met Life	32,760	31,719	27,355	28,958	28,747	31,393	35,753	38,064	46,860	55,665	60,447
Sahara Life	8,230	9,008	7,952	6,540	5,969	7,397	6,534	8,780	11,782	14,072	NA
Shriram Life	16,928	21,982	18,767	12,897	12,700	13,627	13,727	13,815	18,820	17,382	14,425
Bharti Axa Life	14,229	24,840	20,868	19,952	22,030	29,960	40,491	40,464	39,017	40,695	37,673
Future Generali Life	12,903	13,308	10,859	15,566	13,673	16,842	34,786	42,945	44,659	19,704	39,700
IDBI Federal	29,239	35,271	28,082	25,994	21,763	24,845	29,066	30,856	36,158	40,836	41,015
Canara HSBC	82,635	62,624	62,372	66,162	49,016	54,072	53,981	57,487	67,193	78,115	76,935
Aegon Religare	12,910	32,576	28,402	25,374	22,015	26,883	36,630	28,475	22,807	24,278	18,189
DHFL Pramerica	12,102	18,645	19,021	13,525	13,134	16,897	25,838	27,324	28,332	37,979	43,595
Star Union Dai-ichi	29,220	29,529	30,483	19,333	18,608	27,033	39,855	41,301	50,424	50,941	45,888
Private total	18,686	21,005	21,851	21,956	25,296	28,345	36,669	39,193	48,008	52,943	50,587
LIC	5,885	7,169	7,595	8,649	7,983	8,180	10,516	10,399	11,718	12,510	14,146
Grand total	9,942	11,208	11,000	11,142	10,865	11,312	16,403	16,969	20,341	22,549	23,762

Source: IRDA, Life council

Exhibit 8: MF inflows continue to trend downwards

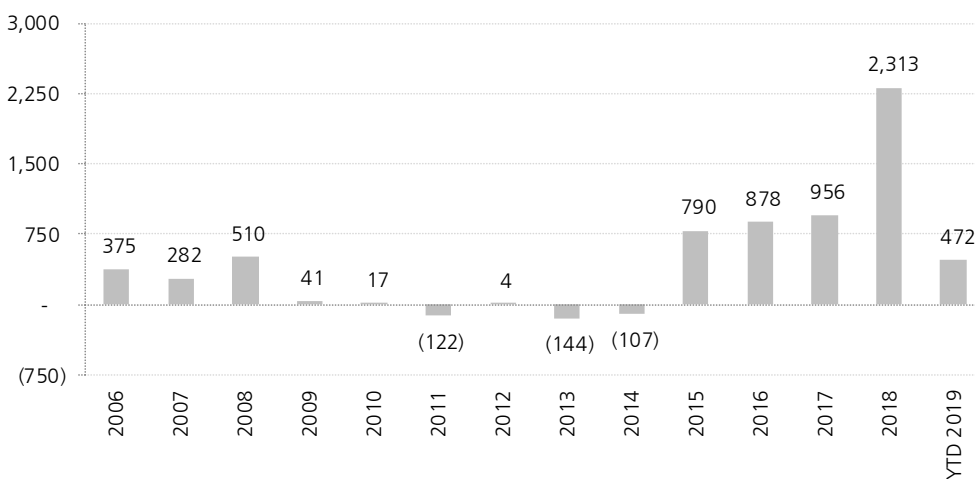
Net MF flows (Equity + ELSS+70%balanced), March fiscal year-ends, July 2016 –July 2018 (Rs bn)



Source: AMFI, Kotak Institutional Equities

Exhibit 9: MF inflows peaked in FY2018

Net MF flows (Equity + ELSS+70%balanced), March fiscal year-ends, 2006 – YTD FY19 (Rs bn)



Source: AMFI, Kotak Institutional Equities

Exhibit 10: Share of ULIPs remain strong for major private players

Contribution of various products to APE, March fiscal year-ends, 2012-18 (% of total)

	2012	2013	2014	2015	2016	2017	2018
Bajaj Life							
Unit linked policies	12	12	10	24	29	62	64
Participating policies	60	49	51	21	19	20	20
Non participating policies	28	39	38	54	52	18	17
Birla SL							
Unit linked policies	59	43	45	35	48	38	NA
Participating policies	0	2	14	16	13	11	NA
Non participating policies	41	55	41	49	38	51	NA
ICICI Prudential Life							
Unit linked policies	56	60	66	85	84	86	84
Participating policies	18	7	18	13	13	10	11
Non participating policies	26	33	15	2	3	5	5
HDFC Life							
Unit linked policies	57	62	49	60	55	49	53
Participating policies	40	34	34	20	27	31	25
Non participating policies	3	5	17	21	18	20	23
Max Life							
Unit linked policies	12	10	21	26	27	32	41
Participating policies	76	74	67	58	59	55	45
Non participating policies	12	16	12	15	14	14	14
SBI Life							
Unit linked policies	44	35	32	40	54	71	67
Participating policies	21	22	31	40	30	16	24
Non participating policies	35	43	37	19	16	12	9

Source: Company, Kotak Institutional Equities

Exhibit 11: High share of bancassurance for select players

Contribution of various products to APE, March fiscal year-ends, 2012-18 (% of total)

	2012	2013	2014	2015	2016	2017	2018
Bajaj Life							
Agency	66	76	84	92	90	90	79
Bancassurance	10	7	8	1	2	2	5
Corporate agents	19	13	5	1	1	1	1
Others	5	4	3	7	7	7	14
Birla SL							
Agency	70	66	65	67	81	75	69
Bancassurance	14	17	20	19	9	9	19
Corporate agents	15	17	4	2	5	6	1
Others	—	—	12	12	5	10	11
HDFC Life							
Agency	20	16	16	16	13	15	13
Bancassurance	64	72	70	67	68	61	59
Corporate agents	11	7	7	2	3	4	5
Others	4	5	7	14	16	19	23
ICICI Prudential Life							
Agency	44	34	28	25	23	23	26
Bancassurance	38	45	54	58	57	57	53
Corporate agents	10	13	10	5	4	4	3
Others	7.5	7	8	13	16	16	19
Max Life							
Agency	37	35	31	29	28	25	24
Bancassurance	40	48	51	57	59	62	64
Corporate agents	13	10	9	6	4	3	3
Others	9	7	8	8	9	10	10
SBI Life							
Agency	52	53	50	46	38	34	31
Bancassurance	44	44	47	52	61	65	67
Corporate agents	1	1	1	1	0	0	1
Others	2	3	2	1	1	1	1

Source: Company, Kotak Institutional Equities

Exhibit 12: Agent productivity has improved across most players

Agency data, March fiscal year-ends, 2014-18

	2014	2015	2016	2017	2018	CAGR (%) (2014-18)
Policies per agent (#)						
Bajaj Life	2.3	1.9	2.2	2.1	2.4	1.3
Birla Sunlife	2.7	2.1	1.8	1.9	2.0	(7.3)
Exide Life	3.9	3.4	3.1	2.0	1.9	(16.4)
HDFC Standard Life	5.2	5.2	5.6	5.2	2.1	(20.2)
ICICI Prudential Life	1.3	1.0	1.2	1.3	1.4	2.6
Kotak Life	7.1	2.5	1.6	1.5	1.5	(31.8)
Max Life	5.0	3.8	3.6	2.7	2.3	(17.2)
PNB Metlife	2.1	1.9	2.3	1.6	1.0	(16.1)
Reliance Nippon Life	3.4	2.9	2.1	1.3	1.2	(22.2)
SBI Life	5.5	4.8	5.2	4.7	5.2	(1.6)
TATA AIA	2.1	1.5	2.3	2.8	3.8	16.6
Total of the above	3.2	2.6	2.7	2.3	2.2	(8.2)
LIC	26.7	16.3	17.7	17.7	18.0	(9.4)
Average size of policy (Rs)						
Bajaj Life	26,904	35,054	34,525	50,760	63,830	24
Birla Sunlife	22,434	28,402	31,066	38,536	45,823	20
Exide Life	29,008	41,668	29,409	54,928	39,841	8
HDFC Standard Life	12,106	17,368	11,954	18,320	56,394	47
ICICI Prudential Life	52,947	81,958	88,554	101,274	106,448	19
Kotak Life	30,089	33,420	34,577	38,354	43,373	10
Max Life	33,567	40,716	45,274	60,950	72,316	21
PNB Metlife	34,889	32,179	32,908	56,128	105,193	32
Reliance Nippon Life	20,102	24,672	23,619	24,679	34,919	15
SBI Life	28,366	36,987	40,690	49,492	49,919	15
TATA AIA	29,120	29,838	34,667	47,441	45,702	12
Total of the above	26,677	34,618	34,224	45,093	56,914	21
LIC	12,636	16,318	16,075	22,622	24,181	18
Premium per agent (Rs)						
Bajaj Life	62,336	66,686	76,129	108,097	155,958	26
Birla Sunlife	60,345	59,637	56,452	73,546	91,097	11
Exide Life	113,294	140,918	90,267	112,422	75,856	(10)
HDFC Standard Life	62,969	91,110	66,701	95,073	119,221	17
ICICI Prudential Life	67,095	80,494	104,411	127,531	149,334	22
Kotak Life	213,797	84,549	54,367	57,169	66,481	(25)
Max Life	166,402	155,588	163,550	165,933	168,807	0
PNB Metlife	71,642	60,765	74,238	90,778	107,181	11
Reliance Nippon Life	68,342	71,279	49,900	32,686	43,452	(11)
SBI Life	156,478	177,082	213,417	234,501	257,937	13
TATA AIA	60,341	45,645	78,330	132,211	175,066	31
Total of the above	84,167	91,438	91,953	105,868	127,749	11
LIC	337,096	266,440	284,819	399,628	434,128	7

Notes:

(a) We have considered individual premium for the above calculation.

Source: Company, IRDAI, Life Insurance Council, Kotak Institutional Equities

Exhibit 13: Individual agent addition was strong in 1QFY19

Gross individual agent addition, March fiscal year-ends, 2014-1QFY19

	Gross individual agents added (#)					1QFY19	YoY (%)				
	2014	2015	2016	2017	2018		2015	2016	2017	2018	1QFY19
Aviva	6,851	5,465	6,881	4,766	5,490	990	(20)	26	(31)	4	(19)
Bajaj	22,356	20,552	30,075	17,734	22,277	4,836	(8)	46	(41)	7	11
Bharti Axa	10,704	10,564	11,791	9,677	16,586	5,782	(1)	12	(18)	43	126
Birla Sunlife	31,918	22,911	20,992	20,753	24,999	6,124	(28)	(8)	(1)	10	(4)
Canara HSBC	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
DHFL	2,328	1,255	2,467	3,213	5,052	999	(46)	97	30	40	0
Edelweiss Tokio	3,930	3,939	5,102	5,423	10,498	2,317	0	30	6	71	96
Exide	24,642	20,698	32,278	24,411	28,478	4,972	(16)	56	(24)	3	(11)
Future Generali	8,316	3,930	4,852	3,822	3,421	607	(53)	23	(21)	(17)	(27)
HDFC Life	22,469	21,476	17,911	14,479	24,037	6,254	(4)	(17)	(19)	39	62
ICICI Pru	35,799	11,910	18,286	14,264	18,057	5,393	(67)	54	(22)	13	35
IDBI Federal	4,432	4,945	4,477	3,777	4,439	1,684	12	(9)	(16)	5	54
IndiaFirst	862	566	449	457	362	78	(34)	(21)	2	(26)	123
Kotak	24,184	29,903	43,494	42,813	53,151	11,142	24	45	(2)	10	9
Max	22,826	21,524	26,171	22,966	25,497	6,346	(6)	22	(12)	(2)	18
PNB Metlife	6,892	6,776	8,334	1,766	1,108	140	(2)	23	(79)	(43)	(48)
Reliance Nippon	76,578	63,252	47,692	29,036	25,153	7,190	(17)	(25)	(39)	(24)	44
SBI Life	40,639	35,571	43,498	38,336	52,258	13,956	(12)	22	(12)	17	60
Tata AIA	18,507	14,622	15,615	13,490	17,598	3,768	(21)	7	(14)	13	8
Private	374,152	305,205	345,715	273,003	338,682	82,585	(18)	13	(21)	9	26
LIC	253,416	342,048	319,428	296,441	265,806	46,373	35	(7)	(7)	(22)	2
Total	626,802	647,253	665,143	569,444	604,488	128,958	3	3	(14)	(7)	17

Source: Company, IRDAI, Life Insurance Council, Kotak Institutional Equities

Private sector reports 14% market share in group business; private players reduce focus on single business

LIC remained focus on single premium with 75% share in total premium in July 2018. The share of single premium for private players decreased to 45% from 49% in June 2018—almost all players reported a decline.

The market share of private players in group business decreased to 14% from 21% in June 2018. The swing was largely led by Bajaj Allianz, Birla SL, HDFC Life and SBI Life.

Exhibit 14: Share of single premium in overall business increased in July 2018

Share of single premium to total premium, March fiscal year-ends, 2014-July 2018 (%)

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Bajaj Allianz	54	52	87	72	54	43	36	68	70	46	54	65	64
Birla Sunlife	46	50	77	67	60	37	30	24	58	34	64	67	50
HDFC Life	64	56	61	62	54	51	53	64	61	74	65	73	72
ICICI Prudential	12	13	12	14	13	14	16	19	21	25	24	20	21
Max Life	33	29	27	30	30	29	24	25	20	36	31	29	28
Reliance Life	6	8	6	3	8	5	3	4	3	6	6	5	6
SBI Life	22	17	16	19	20	17	19	26	46	37	36	48	45
Private sector	35	31	43	39	34	29	29	38	42	46	43	49	45
LIC	87	83	87	78	84	76	69	73	73	71	81	82	86
Total	77	71	75	66	71	59	53	60	62	62	70	72	75

Source: IRDA, Life council, Kotak Institutional Equities

Exhibit 14: LIC gained significant market share in July 2018

Market share in group business, March fiscal year-ends, 2014-July 2018 (%)

	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Bajaj Allianz	1.3	0.7	0.9	5.5	4.0	2.4	1.5	1.4	3.8	3.7	2.4	1.3	1.9	1.3
Birla Sunlife	1.2	0.9	0.7	2.1	1.4	2.0	1.1	0.9	1.2	2.3	1.0	1.6	2.2	0.7
HDFC Life	4.2	3.7	3.7	4.7	6.9	7.0	5.3	8.7	9.0	5.8	13.4	4.7	6.4	4.4
ICICI Prudential	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.5	0.4	0.3	0.7	0.6	0.7	0.6
Max Life	0.4	0.2	0.2	0.2	0.4	0.5	0.4	0.5	0.5	0.3	0.4	0.3	0.3	0.2
Reliance Life	0.2	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.0	0.0
SBI Life	3.3	1.0	1.0	0.7	1.8	2.4	2.1	4.1	2.6	5.2	3.8	2.6	4.3	3.7
Private sector	15	8	9	16	19	22	16	21	23	22	29	15	21	14
LIC	85	92	91	84	81	78	84	79	77	78	71	85	79	86

Source: IRDA, Life council, Kotak Institutional Equities

AUGUST 14, 2018

UPDATE

BSE-30: 37,645

Subdued inflation to provide comfort to RBI. Lower-than-expected CPI inflation should provide the space to MPC to maintain a status quo through the rest of FY2019, while assessing the impact of the cumulative 50 bps of repo rate hikes. Even as inflation is expected to stay capped at 5%, domestic risks persist amid firm (though gliding down) core inflation, extent of pass-through of MSP prices and weakness in the INR. We remain watchful of the evolution of the recent turmoil in the global financial markets and the consequent contagion on INR, which may prompt RBI to take unconventional measures.

CPI inflation moderates to a nine-month low

CPI inflation moderated to 4.17% in July from a peak of 5% in June (Kotak: 4.34%, Consensus: 4.49%) led by broad-based easing in food prices and core inflation. Food inflation moderated to 4.17% from 4.92% in June. On a sequential basis, however, food prices increased by 1.6% mom from 1.1% in June led primarily by price increases of 8.6% mom in vegetable prices, 2.7% in egg, 2.2% in sugar and 0.4% in cereals. Price of pulses witnessed the first monthly pickup in nine months (0.2% mom). Meanwhile, prices of fruits declined by 1% mom. High-frequency *mandi* data for August indicates that prices have marginally picked up for vegetables while prices of cereals, fruits, sugar and pulses have remained muted.

Core inflation eases but inherent momentum remains firm

Core inflation (including petrol and diesel) moderated to 6.1% in July after 6.3% in June. The sequential momentum was at 0.5% mom (0.02% in June), led largely by the biannual revision in housing (0.8% mom). 'Transport and communication' increased to 6.6% (6.2% yoy in June, (-) 0.1% mom) followed by 'education' at 5.8% (5.5% in June, 1.3% mom). Meanwhile, 'health, personal care and effects' and 'recreation and amusement' moderated.

CPI inflation to remain at sub-5% but uncertainties abound

We expect CPI inflation to stay broadly capped at 5% in FY2019. However, the impact of partial MSP pass-through from the next quarter and firm core inflation should trend the headline CPI inflation towards 4.8% by March 2019 (Exhibit 1). We expect CPI inflation to average 4.4% in FY2019 (3.6% in FY2018). Similar to the headline CPI trajectory, while core inflation peaked in June, we expect the reading at an elevated level of 5.1% by March 2019. We estimate average core inflation at 5.7% in FY2019 (FY2018: 4.5%). We further remain watchful of the volatility in the global financial markets, oil prices, MSP pass-through and staggered impact of HRA increases by states and its second-round impact.

RBI to maintain status quo; caution to prevail amid global volatility

Moderation in inflation reaffirms our view that the RBI may remain on hold through rest of FY2019. Easing growth momentum in 2HFY19 on the back of tighter financial conditions and adverse global growth is expected to begin dragging core inflation lower. Additionally, stable crude oil prices and partial pass-through of MSP on inflation (25-30 bps) seem less of a concern in FY2019. The weekly improvement in sowing pattern and reservoir levels should further keep a lid on food prices. While the growth-inflation dynamics and the assessment of monetary policy transmission may keep the MPC on hold through rest of FY2019, we remain watchful of the INR depreciation on the back of ongoing EM meltdown in financial assets. Persistence of global risk-off and a consequent runaway depreciation in INR may warrant unconventional measures by the RBI, including further rate hikes.

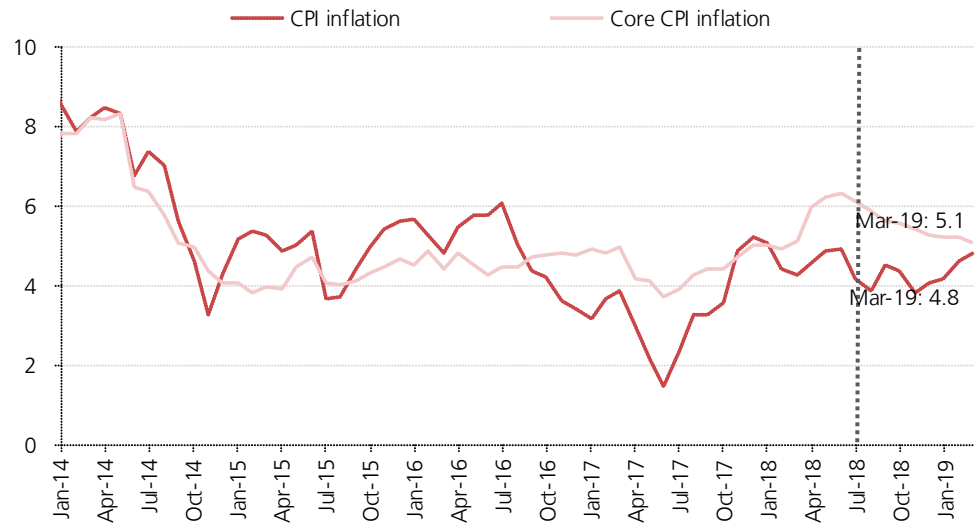
QUICK NUMBERS

- July CPI inflation at 4.17%
- July core CPI inflation at 6.1%
- RBI expected to remain on hold in FY2019

Upasna Bhardwaj

Suvodeep Rakshit

Exhibit 1: Upside risks to inflation from crude price, INR weakness and higher-than-usual MSP hikes
 Headline and core CPI inflation (%)



Source: CEIC, Kotak Economics Research estimates

June 2018: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
13-Aug	14-Aug	15-Aug	16-Aug	17-Aug	18-Aug	19-Aug
	Brigade Enterprises					
	Dilip Buildcon					
	GMR Infrastructure					
	Grasim Industries					
	IDBI					
	Rajesh Exports					
	Sun Pharmaceuticals					
20-Aug	21-Aug	22-Aug	23-Aug	24-Aug	25-Aug	26-Aug
Magma Fincorp		P&G Hygiene	Gillette India	LIC Housing Finance		

Source: NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		13-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E		2020E
NBFCs																													
Bajaj Finance	SELL	2,760	2,000	(27.5)	1,595	22.8	575	43	68	90	29.2	56.6	31.9	63.6	40.6	30.8	—	—	—	10.1	8.3	6.7	19.7	22.4	24.0	0.1	0.2	0.3	58.6
Bajaj Finserv	REDUCE	6,945	6,100	(12.2)	1,105	15.8	159	176	245	307	10.3	39.7	25.2	39.6	28.3	22.6	—	—	—	5.5	4.5	3.8	15.6	17.5	18.1	0.2	0.2	0.2	19.3
Bharat Financial Inclusion	NA	1,209	—	—	169	2.4	139	33	43	54	55.5	31.1	27.2	37.0	28.2	22.2	—	—	—	5.6	4.6	3.7	16.7	17.9	18.5	—	—	—	10.1
Cholamandalam	REDUCE	1,443	1,500	4.0	226	3.2	156	62	90	110	35.5	44.8	22.1	23.2	16.0	13.1	—	—	—	4.6	3.7	3.0	20.6	24.5	24.3	0.5	0.8	0.9	7.3
HDFC	ADD	1,947	2,075	6.6	3,291	47.1	1,676	75	56	67	52.1	(25.8)	19.0	25.8	34.8	29.2	—	—	—	5.1	4.4	4.1	23.9	13.8	14.5	1.0	1.1	1.3	69.7
HDFC Standard Life Insurance	SELL	464	405	(12.7)	934	13.4	2,007	6	6	7	24.4	14.8	10.9	83.9	73.1	65.9	—	—	—	21.7	19.4	17.3	27.3	28.0	27.7	0.3	0.3	0.4	11.3
ICICI Lombard	SELL	774	620	(19.9)	351	5.0	454	19	26	32	22.0	37.1	21.5	40.8	29.8	24.5	—	—	—	7.7	6.5	5.4	20.8	23.8	24.2	0.5	0.8	0.9	2.2
ICICI Prudential Life	BUY	407	500	22.8	585	8.4	1,436	11	12	13	(3.7)	10.1	7.0	36.1	32.8	30.7	—	—	—	8.9	7.3	6.1	25.0	24.5	21.8	1.4	0.5	0.5	9.1
IIFL Holdings	SELL	729	625	(14.2)	233	3.3	319	29	38	45	32.4	31.5	18.6	25.5	19.4	16.3	—	—	—	4.6	3.5	3.0	19.0	20.5	20.0	0.8	1.1	1.3	1.5
L&T Finance Holdings	ADD	175	190	8.9	349	5.0	1,996	7	13	14	23.7	70.9	12.3	23.8	13.9	12.4	—	—	—	2.7	2.5	2.2	14.2	18.9	18.8	1.0	1.1	1.4	12.2
LIC Housing Finance	BUY	548	610	11.4	276	4.0	505	44	50	58	3.2	13.8	17.5	12.5	11.0	9.4	—	—	—	2.1	1.7	1.5	14.5	14.3	14.4	1.2	1.4	1.7	12.5
Magma Fincorp	BUY	144	200	38.8	39	0.6	237	10	12	15	1,014.5	24.6	25.8	14.8	11.9	9.5	—	—	—	1.5	1.4	1.3	10.2	12.9	14.1	0.6	1.3	1.6	1.1
Mahindra & Mahindra Financial	REDUCE	484	500	3.3	299	4.3	614	15	23	28	105.0	58.4	23.2	33.4	21.1	17.1	—	—	—	3.4	3.0	2.7	11.3	14.3	15.8	0.8	1.3	1.6	10.5
Max Financial Services	ADD	481	650	35.1	129	1.8	268	5	6	6	(20.4)	36.9	1.8	105.0	76.7	75.3	—	—	—	—	—	—	6.5	8.3	8.0	—	0.5	0.5	4.6
Muthoot Finance	ADD	411	480	16.7	165	2.4	400	43	38	40	45.6	(10.8)	4.0	9.6	10.7	10.3	—	—	—	2.1	1.9	1.6	24.1	18.4	16.9	2.4	2.1	2.2	4.7
PNB Housing Finance	REDUCE	1,256	1,325	5.5	210	3.0	167	50	62	75	57.7	25.3	20.9	25.2	20.1	16.7	—	—	—	3.3	2.9	2.6	14.0	15.2	15.9	0.7	0.3	0.3	4.9
SBI Life Insurance	ADD	654	785	20.1	654	9.4	1,000	12	15	18	20.8	26.0	22.9	56.7	45.0	36.6	—	—	—	10.2	8.5	7.1	19.4	20.6	21.3	0.3	0.4	0.4	3.5
Shriram City Union Finance	ADD	1,954	2,250	15.2	129	1.8	66	101	141	174	19.6	40.4	22.7	19.4	13.8	11.3	—	—	—	2.5	2.2	1.9	12.5	15.8	16.9	0.9	0.9	1.1	1.3
Shriram Transport	ADD	1,349	1,550	14.9	306	4.4	227	69	114	130	24.7	64.4	14.3	19.5	11.9	10.4	—	—	—	2.6	2.1	1.8	13.1	18.3	17.5	0.8	1.2	1.3	30.2
NBFCs	Neutral				11,045	158					36.9	14.8	19.4	32.3	28.1	23.5				5.4	4.5	3.9	16.8	16.1	16.8	0.7	0.7	0.8	590.4
Cement																													
ACC	SELL	1,523	1,270	(16.6)	286	4.1	188	49	62	70	32.7	27.0	13.8	31.3	24.6	21.6	16.7	13.6	11.7	3.1	2.8	2.6	10.1	11.9	12.5	1.1	1.1	1.1	15.7
Ambuja Cements	REDUCE	221	210	(4.9)	439	6.3	1,986	8	9	11	29.7	14.5	23.2	29.4	25.7	20.8	9.8	8.6	7.1	2.1	2.0	1.9	7.4	8.1	9.5	1.6	1.6	1.6	11.3
Dalmia Bharat	ADD	2,561	2,830	10.5	228	3.3	89	60	94	122	55.4	55.8	29.3	42.4	27.2	21.1	13.2	10.4	8.5	3.7	3.3	2.9	9.7	12.9	14.6	0.1	0.1	0.1	4.7
Grasim Industries	BUY	987	1,275	29.2	649	9.3	657	47	52	69	(30.1)	9.1	32.8	20.8	19.1	14.4	12.0	7.3	6.7	1.1	1.1	1.0	7.0	5.8	7.2	0.6	0.6	0.6	13.8
India Cements	REDUCE	108	135	25.1	33	0.5	308	3	5	9	(42.5)	56.2	84.4	33.0	21.1	11.5	9.4	8.1	6.3	0.6	0.6	0.6	2.0	3.0	5.3	0.9	0.9	0.9	8.1
J K Cement	ADD	752	890	18.4	53	0.8	70	43	45	79	59.3	3.7	75.4	17.4	16.8	9.6	9.6	10.0	8.2	2.7	2.4	1.9	16.2	15.0	22.3	1.1	1.1	1.1	0.5
JK Lakshmi Cement	ADD	318	370	16.4	37	0.5	118	4	11	28	(35.7)	153.5	147.9	71.1	28.0	11.3	13.3	9.8	6.4	2.6	2.4	2.0	3.7	8.9	19.5	0.6	0.6	0.6	0.4
Orient Cement	ADD	115	145	25.8	24	0.3	205	2	7	11	237.8	212.9	58.7	53.4	17.1	10.7	11.8	7.9	6.1	2.3	2.1	1.8	4.4	12.9	18.2	0.7	1.3	1.7	0.2
Shree Cement	SELL	17,189	12,500	(27.3)	599	8.6	35	397	421	630	3.4	6.0	49.7	43.3	40.8	27.3	23.3	19.0	14.2	6.7	5.9	4.9	16.7	15.4	19.7	0.3	0.3	0.3	5.3
UltraTech Cement	SELL	4,194	2,950	(29.7)	1,152	16.5	275	88	126	162	(7.8)	42.7	28.9	47.6	33.4	25.9	23.4	17.4	14.4	4.4	4.0	3.5	9.7	12.6	14.3	0.2	0.2	0.2	19.7
Cement	Cautious				3,499	50					6.5	23.2	33.6	33.8	27.4	20.5	15.2	10.8	9.1	2.5	2.4	2.1	7.5	8.6	10.5	0.6	0.6	0.6	79.6

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		13-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
Consumer products																													
Asian Paints	REDUCE	1,399	1,325	(5.3)	1,342	19.2	959	21	27	33	2.9	32.1	20.3	68.2	51.6	42.9	41.7	32.4	26.8	16.0	13.9	12.2	24.6	28.8	30.3	0.6	0.9	1.1	20.8
Bajaj Corp.	ADD	412	470	14.0	61	0.9	148	14	15	17	(9.4)	7.8	10.3	28.8	26.7	24.2	22.7	21.4	18.2	12.3	12.4	42.8	46.3	51.2	2.9	3.2	3.4	0.4	
Britannia Industries	ADD	6,431	6,700	4.2	772	11.0	120	84	104	127	13.5	24.5	22.2	76.9	61.8	50.5	50.8	40.5	33.1	22.7	18.0	14.5	32.9	32.5	31.8	0.4	0.5	0.7	11.8
Coffee Day Enterprises	REDUCE	252	290	15.2	53	0.8	211	3	8	10	49.1	129.9	30.0	75.3	32.8	25.2	13.0	11—	10—	2.2	2.1	1.9	3.1	6.6	8.0	—	—	—	0.8
Colgate-Palmolive (India)	ADD	1,130	1,250	10.6	307	4.4	272	24	27	32	15.2	14.7	15.6	47.5	41.4	35.8	27.2	23.8	20.7	20.2	20.3	17.3	46.2	48.8	52.2	2.1	1.4	1.7	8.1
Dabur India	REDUCE	441	390	(11.6)	779	11.1	1,762	8	9	10	7.2	17.3	12.9	56.8	48.4	42.9	48.1	40.5	35.0	13.6	13.6	11.8	25.9	28.1	29.6	1.7	0.8	1.0	14.3
GlaxoSmithKline Consumer	ADD	6,686	7,300	9.2	281	4.0	42	166	199	223	6.6	19.5	12.1	40.2	33.6	30.0	27.8	23.3	20.0	8.1	7.3	6.6	21.2	22.8	23.0	1.1	1.3	1.6	2.2
Godrej Consumer Products	SELL	1,306	1,100	(15.7)	890	12.7	681	21	25	29	11.5	18.8	13.7	61.1	51.5	45.3	43.3	36.5	31.7	14.2	12.1	10.5	25.2	25.4	24.8	0.5	0.7	0.7	9.4
Hindustan Unilever	REDUCE	1,729	1,570	(9.2)	3,742	53.5	2,160	25	29	33	25.0	19.5	13.2	70.5	59.0	52.1	50.6	40.9	35.9	52.8	46.1	39.2	78.1	83.5	81.4	1.2	1.2	1.4	35.6
ITC	ADD	306	330	7.9	3,739	53.5	12,275	9	10	11	7.8	8.2	12.3	34.3	31.7	28.2	22.6	20.5	18.1	7.3	6.9	6.5	19.4	20.4	22.2	1.7	1.9	2.2	49.6
Jubilant Foodworks	BUY	1,502	1,650	9.8	198	2.8	132	15	25	35	191.7	73.6	37.5	103.2	59.4	43.2	44.2	29.8	22.5	20.5	14.8	11.2	21.7	28.9	29.5	0.1	0.1	0.2	36.1
Jyothy Laboratories	ADD	222	240	8.1	81	1.2	364	4	6	7	(26.4)	27.6	16.7	50.4	39.5	33.8	30.9	26.3	22.4	7.1	6.1	5.3	14.4	16.6	16.8	0.2	0.5	0.7	1.6
Marico	ADD	360	375	4.3	464	6.6	1,291	6	7	8	7.4	8.9	20.0	57.4	52.7	43.9	40.5	36.6	30.2	18.3	17.3	16.0	33.2	33.7	37.9	1.1	1.3	1.5	9.5
Nestle India	ADD	10,851	11,000	1.4	1,046	15.0	96	127	171	197	21.1	34.2	15.7	85.4	63.6	55.0	47.0	36.5	31.5	30.6	28.1	25.8	36.6	46.1	49.0	0.8	1.1	1.2	8.5
Page Industries	SELL	32,392	25,000	(22.8)	361	5.2	11	311	418	508	32.5	34.3	21.6	104.1	77.5	63.7	66.4	50.1	41.3	42.6	32.8	26.0	45.9	47.8	45.5	0.4	0.5	0.7	9.0
Pidlite Industries	REDUCE	1,125	1,080	(4.0)	571	8.2	508	18	21	26	7.5	16.8	21.8	62.4	53.4	43.9	41.7	35.5	29.3	16.0	13.5	11.4	26.0	27.4	28.2	0.5	0.6	0.7	13.5
S H Kelkar and Company	BUY	194	290	49.8	28	0.4	145	7	7	10	2.1	(6.2)	41.9	26.2	27.9	19.6	18.3	18.1	13.0	3.3	3.0	2.7	12.8	11.3	14.5	0.9	0.9	1.0	0.4
Tata Global Beverages	REDUCE	235	250	6.6	148	2.1	631	7	8	9	20.7	7.7	17.0	31.9	29.6	25.3	16.8	16.2	14.3	2.1	2.0	1.9	7.0	7.0	7.9	1.1	1.3	1.5	13.4
Titan Company	SELL	914	840	(8.1)	811	11.6	888	13	16	20	43.3	25.6	21.8	71.5	56.9	46.7	49.0	37.8	30.1	15.9	13.4	11.3	24.3	25.6	26.3	0.4	0.5	0.6	36.6
United Breweries	SELL	1,298	1,100	(15.2)	343	4.9	264	15	21	25	71.6	38.9	22.3	87.0	62.6	51.2	38.3	30.7	26.5	12.8	10.8	9.2	15.7	18.7	19.4	0.2	0.2	0.3	12.1
United Spirits	REDUCE	608	590	(2.9)	442	6.3	727	8	10	13	39.1	34.7	30.9	79.9	59.3	45.3	46.0	34.5	27.9	17.6	12.1	8.9	24.9	24.2	22.7	—	—	0.3	17.6
Varun Beverages	ADD	777	800	3.0	142	2.0	183	12	15	20	377.8	29.8	34.5	67.4	51.9	38.6	20.4	17.2	14.6	8.0	7.2	6.1	12.1	14.6	17.1	—	—	0.1	1.6
Consumer products	Cautious				16,603	237					14.5	17.7	15.9	55.0	46.7	40.3	35.9	30.3	26.0	13.5	12.2	10.9	24.6	26.2	27.1	1.0	1.1	1.3	312.9
Energy																													
BPCL	REDUCE	380	375	(1.2)	824	11.8	1,967	40	38	39	(1.5)	(6.7)	3.1	9.4	10.1	9.8	7.7	7.3	6.9	2.2	2.0	1.8	24.8	20.5	19.1	5.5	4.0	4.1	30.6
Castrol India	SELL	155	155	(0.1)	153	2.2	989	7	7	8	3.3	2.9	10.1	22.6	22.0	19.9	14.1	13.7	12.4	15.0	14.4	14.1	67.9	67.1	71.5	3.1	3.5	4.0	4.0
GAIL (India)	BUY	375	440	17.2	847	12.1	2,255	20	26	29	21.8	27.8	10.0	18.4	14.4	13.1	11.5	9.0	8.2	2.1	1.9	1.8	11.7	14.0	14.1	1.9	2.3	2.5	23.1
GSPL	SELL	201	175	(12.8)	113	1.6	564	12	11	11	34.5	(6.5)	(0.5)	16.9	18.1	18.2	8.7	6.9	6.9	2.2	2.0	1.9	14.0	11.7	10.7	0.9	0.8	0.8	1.5
HPCL	REDUCE	273	285	4.4	416	6.0	1,524	42	32	32	(3.2)	(22.3)	(2.2)	6.5	8.4	8.6	5.8	7.3	7.7	1.7	1.6	1.4	28.7	19.6	17.4	6.2	4.8	4.7	27.8
Indraprastha Gas	SELL	290	240	(17.3)	203	2.9	700	10	12	13	19.0	16.4	12.3	28.1	24.2	21.5	17.7	15.3	13.5	5.8	5.0	4.3	22.4	22.1	21.5	0.7	0.9	1.1	11.5
IOCL	REDUCE	161	150	(6.6)	1,560	22.3	9,479	21	18	17	(24.8)	(11.2)	(4.1)	7.8	8.8	9.2	4.6	5.0	5.0	1.4	1.3	1.2	18.5	15.1	13.4	7.2	4.5	4.4	24.0
Mahanagar Gas	ADD	946	965	2.0	93	1.3	99	48	56	60	21.5	16.0	7.6	19.6	16.9	15.7	11.9	9.8	9.0	4.5	3.9	3.5	24.3	24.8	23.5	2.0	2.3	2.6	5.0
ONGC	ADD	166	200	20.4	2,131	30.5	12,833	17	20	20	3.1	16.8	0.3	9.5	8.2	8.1	5.1	3.9	3.7	0.9	0.9	0.8	9.9	11.2	10.6	4.0	4.1	4.2	18.3
Oil India	SELL	212	200	(5.8)	241	3.4	1,135	25	23	24	18.6	(6.7)	3.4	8.6	9.2	8.9	6.7	6.0	5.8	0.9	0.8	0.8	9.8	9.2	9.0	4.9	4.3	4.5	2.9
Petronet LNG	BUY	221	280	26.6	332	4.7	1,500	14	16	18	22.1	16.7	13.1	15.9	13.7	12.1	10.6	9.1	7.7	3.4	3.0	2.6	23.3	23.3	23.2	2.0	2.6	3.3	12.3
Reliance Industries	SELL	1,188	985	(17.1)	7,029	100.5	5,922	59	69	78	16.9	17.6	12.4	20.1	17.1	15.2	14.6	11.6	9.9	2.4	2.1	1.9	11.6	12.2	12.1	0.5	0.5	0.6	122.1
Energy	Attractive				13,942	199					0.9	7.2	5.2	13.5	12.6	12.0	8.8	7.6	7.1	1.8	1.6	1.5	13.3	13.0	12.5	2.4	2.1	2.2	283.1

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Target			Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		Price (Rs) 13-Aug-18	price (Rs)	Upside (%)			2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E		
Industrials																													
ABB	SELL	1,191	1,020	(14.4)	252	3.6	212	20	26	29	12.1	30.1	14.2	60.1	46.2	40.5	33.1	27.0	24.2	7.0	6.4	5.8	12.2	14.5	15.1	0.3	0.8	0.8	1.1
BHEL	REDUCE	73	78	7.4	267	3.8	3,671	2.2	2.6	5.0	62.7	16.5	95.3	33.0	28.4	14.5	8.0	7.5	3.9	0.8	0.8	0.8	2.5	2.9	5.6	2.5	2.9	5.7	10.0
Carborundum Universal	SELL	346	322	(6.8)	65	0.9	189	11	14	17	22.8	25.0	21.4	30.3	24.2	20.0	16.4	13.3	10.8	4.2	3.8	3.4	14.6	16.3	17.8	0.5	1.2	1.5	0.4
CG Power and Industrial	BUY	61	72	17.7	38	0.5	627	0.8	2.9	4.3	(72.2)	255.2	48.7	74.8	21.1	14.2	11.0	8.3	6.6	1.4	1.4	1.4	1.5	6.7	9.8	—	—	—	7.9
Crompton Greaves Consumer	SELL	267	215	(19.4)	167	2.4	627	5.2	6.2	7.5	13.3	19.5	20.7	51.7	43.2	35.8	31.7	26.9	22.9	21.2	14.7	11.3	49.5	40.4	35.8	0.6	0.7	0.9	2.8
Cummins India	REDUCE	671	710	5.8	186	2.7	277	24	28	33	(8.0)	15.2	17.5	27.8	24.1	20.5	24.4	20.1	17.3	4.7	4.4	4.1	17.3	18.7	20.6	2.1	2.2	2.7	4.1
Havells India	SELL	676	485	(28.3)	423	6.1	625	11	14	17	16.6	26.6	20.5	61.1	48.2	40.0	39.1	30.9	25.2	11.3	10.0	8.7	19.8	22.0	23.2	0.5	0.7	0.9	12.8
Kalpataru Power Transmission	BUY	359	560	55.8	55	0.8	153	18	23	32	50.6	26.0	39.1	19.6	15.6	11.2	8.4	6.9	5.4	2.1	1.8	1.6	11.0	12.5	15.2	0.5	0.5	0.5	0.7
KEC International	BUY	302	410	35.7	78	1.1	257	18	21	27	51.1	16.9	29.7	16.9	14.4	11.1	9.2	8.1	6.6	3.9	3.1	2.5	25.7	24.1	25.2	0.6	0.7	1.0	3.1
L&T	BUY	1,269	1,600	26.1	1,779	25.4	1,401	52	63	70	22.4	21.7	10.9	24.5	20.2	18.2	20.4	16.2	15.6	3.6	3.2	2.9	15.0	16.8	16.8	1.3	1.8	2.0	43.0
Siemens	SELL	1,007	1,000	(0.7)	359	5.1	356	24	29	35	21.2	21.4	21.7	42.1	34.6	28.5	24.2	19.6	15.8	4.4	4.1	3.9	10.8	12.3	14.0	1.0	1.2	1.4	3.1
Thermax	REDUCE	1,057	1,010	(4.5)	126	1.8	113	21	28	39	(3.6)	34.7	39.2	51.3	38.1	27.3	31.3	24.2	17.9	4.4	4.1	3.7	8.8	11.1	14.3	0.6	0.9	1.0	0.7
Voltas	SELL	621	530	(14.6)	205	2.9	331	17	17	21	10.7	0.4	18.8	35.9	35.8	30.1	30.8	26.8	21.9	5.3	4.7	4.2	15.9	13.9	14.8	0.6	0.6	0.7	14.8
Industrials	Neutral				4,001	57					19.8	21.7	20.7	31.2	25.6	21.2	20.4	16.6	14.5	3.4	3.1	2.9	10.8	12.3	13.7	1.1	1.5	1.8	104.4
Infrastructure																													
Adani Ports and SEZ	BUY	377	460	22.0	781	11.2	2,071	18	19	23	(2.1)	1.2	21.1	20.4	20.2	16.6	13.7	13.7	11.4	3.7	3.2	2.7	19.8	17.0	17.7	0.5	0.5	0.5	24.2
Ashoka Buildcon	BUY	141	210	49.1	40	0.6	282	8	8	9	34.6	0.5	5.2	16.7	16.7	15.8	13.5	11.5	10.2	2.1	1.8	1.6	13.0	11.4	10.7	0.8	1.2	0.8	0.6
Container Corp.	SELL	640	635	(0.7)	312	4.5	487	18	21	25	7.1	17.4	20.9	36.2	30.9	25.5	23.9	19.0	15.1	3.3	3.1	2.8	9.4	10.3	11.6	2.7	1.4	1.6	7.0
Dilip Buildcon	BUY	853	1,220	43.0	117	1.7	137	46	54	69	76.5	16.1	28.0	18.4	15.8	12.4	10.2	7.4	6.1	4.7	3.6	2.8	29.5	25.9	25.4	—	—	—	8.8
Gateway Distriparks	BUY	181	250	37.9	20	0.3	109	8	7	8	11.2	(5.8)	15.2	23.8	25.3	22.0	22.7	11.3	9.3	2.0	3.4	3.0	8.2	9.8	14.5	3.9	—	1.7	0.7
Gujarat Pipavav Port	BUY	108	150	37.9	52	0.7	483	4.1	5.3	6.5	(20.6)	29.7	22.9	26.4	20.4	16.6	12.9	10.8	8.9	2.6	2.5	9.8	12.7	15.3	3.1	4.1	4.9	0.8	
IRB Infrastructure	BUY	190	320	68.0	67	1.0	351	23	31	33	10.8	36.8	7.1	8.4	6.2	5.8	6.9	6.5	7.0	1.2	1.0	0.9	14.5	17.6	16.3	1.2	1.6	2.1	6.0
Mahindra Logistics	REDUCE	562	565	0.5	40	0.6	71	10	15	21	16.2	50.7	39.3	57.3	38.0	27.3	33.1	21.2	15.3	9.5	7.9	6.4	18.2	22.7	25.8	—	—	—	0.7
Sadbhav Engineering	BUY	282	440	56.0	48	0.7	172	13	18	18	17.4	38.4	2.2	21.9	15.8	15.5	15.2	12.1	9.4	2.6	2.3	2.0	12.5	15.2	13.7	—	—	—	0.8
Infrastructure	Attractive				1,476	21					5.9	11.0	18.8	21.3	19.2	16.2	13.1	11.9	10.1	3.2	2.8	2.5	15.1	14.8	15.3	1.1	0.8	0.9	49.8
Internet																													
Info Edge	ADD	1,471	1,425	(3.1)	179	2.6	122	23	26	33	33.3	14.9	27.5	65.3	56.9	44.6	55.1	43.1	32.6	8.5	6.7	6.1	13.4	13.2	14.3	0.4	0.6	0.6	2.6
Just Dial	ADD	580	610	5.1	39	0.6	67	21	26	30	21.7	23.0	15.0	27.3	22.2	19.3	16.4	12.7	10.3	4.0	3.4	3.0	15.2	16.7	16.6	—	0.5	0.5	46.9
Internet	Cautious				218	3					28.0	17.6	23.0	52.4	44.5	36.2	41.3	32.6	25.7	7.1	5.8	5.1	13.5	12.9	14.2	0.3	0.5	0.6	49.5
Media																													
DB Corp.	REDUCE	246	270	9.6	45	0.6	184	18	20	23	(14.1)	14.9	12.3	14.0	12.2	10.8	7.4	6.6	5.8	2.7	2.5	2.4	19.9	20.7	22.3	5.3	6.8	8.5	0.6
DishTV	ADD	66	90	37.2	121	1.7	1,925	(0.4)	1.8	3.4	(143.0)	514.6	88.2	NM	35.9	19.1	10.9	5.7	4.5	1.9	1.8	1.6	(2.3)	5.1	8.9	—	—	—	7.7
Jagran Prakashan	REDUCE	117	131	12.3	35	0.5	311	10	11	12	(9.3)	10.0	13.6	12.1	11.0	9.7	4.9	4.8	4.1	1.8	1.8	1.7	14.3	15.9	18.2	2.6	4.3	6.4	0.5
PVR	BUY	1,284	1,360	6.0	60	0.9	47	27	38	50	25.5	41.2	32.3	47.8	33.9	25.6	16.1	13.0	11.1	5.6	4.9	4.2	12.3	15.3	17.6	0.2	0.3	0.4	10.4
Sun TV Network	REDUCE	763	925	21.3	301	4.3	394	29	35	39	10.2	20.7	10.9	26.5	21.9	19.8	17.7	14.9	12.9	6.5	5.8	5.3	26.3	28.1	27.9	1.3	2.3	2.6	22.6
Zee Entertainment Enterprises	ADD	506	600	18.5	486	7.0	960	15	17	20	7.8	11.3	17.0	33.7	30.3	25.9	21.8	18.8	15.9	6.4	5.7	5.0	20.3	19.9	20.6	0.5	0.9	1.1	17.5
Media	Attractive				1,048	15					(1.8)	28.7	21.0	32.3	25.1	20.7	15.5	11.9	10.2	4.4	4.1	3.7	13.7	16.3	17.7	0.9	1.5	1.8	59.3

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)			Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		13-Aug-18	Target price (Rs)	Upside (%)	(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
Metals & Mining																													
Coal India	ADD	279	326	16.8	1,732	24.8	6,207	11	27	28	(24.2)	138.2	3.0	24.7	10.4	10.1	18.5	6.6	6.3	7.2	6.6	6.8	26.7	66.1	66.4	5.9	7.2	9.0	14.8
Hindalco Industries	BUY	222	305	37.6	498	7.1	2,229	22	27	31	155.4	25.1	13.6	10.1	8.1	7.1	6.4	5.4	4.7	0.9	0.8	0.7	9.7	10.6	10.8	0.5	0.5	0.5	35.6
Hindustan Zinc	ADD	287	290	1.2	1,211	17.3	4,225	22	22	26	9.3	3.7	14.7	13.3	12.9	11.2	8.2	7.4	6.1	3.4	2.9	2.5	27.2	24.4	24.2	2.8	2.8	2.8	7.7
Jindal Steel and Power	REDUCE	200	215	7.6	193	2.8	968	(8)	8	14	59.3	195.9	68.5	(23.5)	24.5	14.6	9.5	6.8	6.2	0.6	0.6	0.6	(2.7)	2.7	4.3	—	—	—	28.7
JSW Steel	ADD	342	350	2.3	827	11.8	2,417	27	30	27	83.9	10.2	(8.7)	12.8	11.6	12.7	8.2	7.1	7.8	2.9	2.4	2.0	24.8	22.4	17.3	1.0	1.0	1.0	20.5
National Aluminium Co.	ADD	71	80	12.8	137	2.0	1,933	4	9	7	12.7	125.8	(21.1)	17.2	7.6	9.6	7.3	3.5	4.4	1.3	1.3	1.3	7.7	16.8	13.0	8.0	8.5	8.5	9.5
NMDC	REDUCE	104	120	15.6	328	4.7	3,164	12	12	10	43.3	4.2	(14.3)	8.8	8.5	9.9	4.8	5.2	6.0	1.3	1.3	1.2	15.8	15.3	12.4	5.3	5.3	5.3	4.6
Tata Steel	ADD	569	660	16.0	651	9.3	1,205	67	76	85	62.6	12.8	12.1	8.5	7	6.7	6.2	5.9	6.1	1.2	1.0	0.9	17.2	14.3	14.3	1.7	1.8	1.8	71.1
Vedanta	BUY	216	370	71.1	804	11.5	3,717	22	32	39	9.6	49.1	19.7	10.0	6.7	5.6	5.5	4.6	3.7	1.3	1.2	1.0	12.9	18.0	19.4	3.7	4.5	5.3	51.2
Metals & Mining	Attractive				6,382	91					32.3	41.7	7.7	13.5	9.5	8.8	7.6	5.9	5.6	1.9	1.7	1.6	14.3	18.0	17.8	3.4	3.8	4.4	243.8
Pharmaceutical																													
Apollo Hospitals	ADD	1,069	1,090	2.0	149	2.1	139	8	20	27	(46.9)	133.5	36.7	126.6	54.2	39.7	22.7	19.0	16.1	4.6	4.3	4.0	3.4	8.2	10.5	0.2	0.5	0.6	8.8
Aster DM Healthcare	BUY	165	240	45.5	83	1.2	505	3	5	7	163.1	64.2	59.2	59.9	36.5	22.9	16.7	12.4	9.9	2.9	2.7	2.5	5.9	7.8	11.4	-	-	-	0.2
Aurobindo Pharma	ADD	619	640	3.4	363	5.2	584	42	40	48	6.0	(4.5)	20.1	14.8	15.5	12.9	10.3	10.5	8.7	3.1	2.6	2.2	23.2	18.4	17.3	0.7	0.8	1.0	21.1
Biocon	SELL	572	390	(42.3)	343	4.9	601	6	8	15	(39.2)	35.9	75.7	92.3	67.9	38.6	41.4	29.6	19.8	6.1	5.7	5.1	6.9	8.7	13.9	0.2	0.5	0.9	22.3
Cipla	BUY	628	680	8.2	506	7.2	805	18	24	31	40.2	34.5	31.0	35.9	26.7	20.4	18.6	15.0	11.9	3.5	3.2	2.8	10.2	12.4	14.6	0.6	0.8	1.0	26.7
Dr Lal Pathlabs	REDUCE	944	900	(4.7)	79	1.1	83	20	24	29	7.0	19.0	17.9	46.1	38.8	32.9	28.1	23.7	19.9	10.0	8.3	7.0	24.6	23.4	23.1	0.5	0.5	0.6	1.6
Dr Reddy's Laboratories	REDUCE	2,242	2,150	(4.1)	372	5.3	166	59	89	118	(18.5)	50.2	32.8	38.0	25.3	19.0	17.5	12.7	9.1	2.9	2.7	2.4	7.8	11.1	12.6	1.1	0.6	0.8	36.1
HCG	REDUCE	248	290	16.9	22	0.3	85	2	2	4	(40.0)	39.8	80.3	158.6	113.4	62.9	21.2	18.3	15.2	4.1	4.0	3.7	2.8	3.5	6.1	—	—	—	0.2
Laurus Labs	ADD	440	500	13.6	47	0.7	106	16	16	29	(11.9)	2.4	79.9	27.7	27.1	15.1	13.7	12.5	8.7	3.1	2.8	2.4	11.9	10.9	17.1	—	—	—	0.6
Lupin	REDUCE	812	800	(1.5)	367	5.3	450	38	27	39	(32.9)	(28.9)	44.0	21.3	29.9	20.8	13.2	14.1	10.2	2.7	2.5	2.3	12.6	8.6	11.4	1.1	0.5	0.7	41.3
Narayana Hrudayalaya	ADD	250	265	5.8	51	0.7	204	3	3	6	(38.1)	23.0	103.2	99.6	81.0	39.8	27.4	22.9	16.1	4.9	4.7	4.2	5.1	5.9	11.0	—	—	—	0.3
Sun Pharmaceuticals	REDUCE	564	500	(11.3)	1,353	19.4	2,406	15	17	24	(47.5)	12.0	42.0	37.2	33.2	23.4	21.9	18.0	13.3	3.6	3.2	2.9	9.8	10.2	13.1	0.4	0.6	0.9	51.8
Torrent Pharmaceuticals	NR	1,698	—	—	287	4.1	169	40	47	61	(27.4)	18.0	29.6	42.4	35.9	27.7	23.3	15.7	13.4	6.2	5.5	4.8	15.1	15.3	17.2	0.9	0.6	0.8	6.7
Pharmaceuticals	Neutral				4,021	58					(25.8)	11.5	36.9	33.8	30.3	22.1	18.5	15.7	12.0	3.6	3.3	2.9	10.7	10.9	13.2	0.6	0.6	0.8	217.7
Real Estate																													
Brigade Enterprises	BUY	190	340	78.9	26	0.4	136	11	9	9	(17.7)	(15.1)	(1.6)	17.2	20.2	20.5	10.8	11.0	10.8	1.1	1.1	1.1	7.6	5.5	5.2	1.3	1.3	1.3	0.3
DLF	RS	194	—	—	346	5.0	1,784	20.5	5.3	23.9	427.2	(74.4)	354.6	9.5	37.0	8.1	29.3	52.3	9.2	1.0	1.0	0.9	12.2	2.6	11.3	1.0	1.0	1.0	16.6
Godrej Properties	SELL	692	400	(42.2)	159	2.3	216	10.9	13.3	15.8	13.5	22.1	19.1	63.8	52.2	43.8	(4,272.4)	308.0	160.5	6.7	4.5	4.1	11.1	10.5	9.7	—	—	—	2.0
Oberoi Realty	BUY	482	560	16.3	175	2.5	340	13	62	44	14.0	385.4	(28.0)	37.9	7.8	10.8	28.3	10.7	13.5	2.7	1.8	1.5	7.3	27.4	15.2	0.4	0.4	0.4	2.3
Prestige Estates Projects	ADD	250	315	25.8	94	1.3	375	13	10	10	24.3	(24.2)	8.4	20.0	26.3	24.3	14.2	14.8	14.9	2.0	1.9	1.8	10.3	7.3	7.5	0.6	0.6	0.6	1.1
Sobha	REDUCE	502	510	1.5	48	0.7	95	23	23	36	37.5	2.4	51.7	21.9	21.4	14.1	13.4	12.5	9.8	1.7	2.2	2.0	8.0	9.0	14.8	1.4	1.4	1.4	1.7
Suntek Realty	REDUCE	461	330	(28.3)	67	1.0	140	15	18	20	4.8	20.2	6.9	30.2	25.1	23.5	19.2	20.8	19.3	2.5	2.3	2.1	9.7	9.4	9.2	0.3	0.2	0.2	2.0
Real Estate	Neutral				915	13					147.2	(19.7)	68.3	17.0	21.2	12.6	25.0	23.0	12.7	1.6	1.5	1.4	9.6	7.1	10.7	0.7	0.7	0.7	25.9

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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		13-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
Technology																													
HCL Technologies	REDUCE	983	1,025	4.3	1,369	19.6	1,409	62	70	74	5.3	12.8	5.0	15.8	14.0	13.3	11.1	9.1	8.3	3.8	3.1	2.7	24.8	24.2	21.8	0.8	0.8	3.1	30.6
Hexaware Technologies	SELL	482	435	(9.8)	143	2.0	302	17	20	23	20.2	18.4	18.0	29.1	24.6	20.9	21.0	18.4	14.6	7.3	6.3	5.4	26.6	27.4	27.8	0.8	1.7	1.7	12.9
Infosys	ADD	1,409	1,400	(0.6)	3,077	44.0	2,175	65	71	78	3.0	9.7	10.4	21.8	19.9	18.0	15.1	13.6	12.2	4.7	4.4	4.0	21.8	23.0	23.5	2.0	3.1	2.8	80.8
L&T Infotech	ADD	1,724	2,000	16.0	298	4.3	175	64	83	94	13.9	30.5	13.0	27.1	20.8	18.4	23.8	15.9	13.4	7.8	6.3	5.1	31.8	33.5	30.7	1.0	1.4	1.5	4.3
Mindtree	ADD	983	1,115	13.4	161	2.3	165	35	43	53	37.8	24.9	23.6	28.5	22.8	18.4	20.7	14.3	11.4	5.9	5.1	4.3	21.4	23.9	25.2	1.1	1.3	1.6	22.8
Mphasis	SELL	1,168	825	(29.4)	226	3.2	193	44	53	57	14.4	20.5	7.1	26.6	22.1	20.6	19.3	16.3	14.5	4.1	4.3	3.9	14.6	18.7	19.9	1.7	1.7	2.1	10.8
TCS	REDUCE	2,000	1,790	(10.5)	7,658	109.5	3,829	67	82	89	1.1	21.2	8.8	29.7	24.5	22.5	22.1	17.9	16.5	8.8	7.7	7.6	29.4	33.4	33.8	1.2	2.0	3.6	95.3
Tech Mahindra	ADD	660	785	18.9	582	8.3	891	43	46	55	33.1	8.3	18.2	15.5	14.3	12.1	11.3	8.5	6.9	3.1	2.7	2.3	21.5	20.2	20.5	2.2	1.4	1.6	36.0
Wipro	REDUCE	282	295	4.7	1,275	18.2	4,507	17	19	22	(3.1)	11.8	14.6	16.6	14.9	13.0	10.6	9.3	8.2	2.6	2.3	2.1	16.0	16.4	16.8	0.4	0.5	3.5	12.4
Technology	Cautious				14,790	212					1.6	13.1	9.7	23.1	20.4	18.6	16.8	14.1	12.7	5.5	4.9	4.5	23.7	23.8	24.2	1.3	1.9	3.1	306.0
Telecom																													
Bharti Airtel	ADD	370	445	20.2	1,480	21.2	3,997	5	(6)	(4)	(42.9)	(221.5)	28.8	78.2	(64.4)	(90.4)	8.3	9.6	8.1	2.1	2.2	2.3	2.8	(3.4)	(2.5)	1.4	0.3	(0.2)	28.1
Bharti Infratel	REDUCE	285	285	(0.1)	528	7.5	1,850	14	13	12	(7.4)	(4.8)	(8.5)	20.7	21.8	23.8	7.5	8.1	8.6	3.1	3.2	3.3	15.7	14.6	13.7	5.1	3.7	3.4	11.4
IDEA	REDUCE	53	45	(14.3)	229	3.3	4,359	(10)	(17)	(17)	(656.8)	(75.6)	(2.4)	(5.5)	(3.1)	(3.1)	12.2	34.8	29.4	0.8	1.0	1.6	(16.0)	(29.7)	(41.1)	—	—	—	15.7
Tata Communications	ADD	559	660	18.0	159	2.3	285	2	0	3	(84.3)	(77.5)	694.2	340	1,509.5	190.1	10.2	11.0	9.7	31.9	(69.5)	(94.3)	4.5	7.8	(42.1)	1.2	1.2	1.3	3.8
Telecom	Cautious				2,396	34					(94.7)	(2,384.5)	5.0	761.6	(33.3)	(35.1)	8.8	10.9	9.6	2.1	2.3	2.5	0.3	(6.9)	(7.2)	2.1	1.0	0.6	59.0
Utilities																													
CESC	BUY	917	1,180	28.7	122	1.7	133	87	115	128	67.1	31.7	11.6	10.5	8.0	7.2	7.6	5.7	5.0	0.8	0.8	0.7	7.9	10.0	10.4	1.3	1.4	1.4	5.6
JSW Energy	REDUCE	67	70	4.6	110	1.6	1,640	3.1	5.1	6.5	(19.2)	65.9	26.8	21.8	13.2	10.4	6.9	5.7	4.7	1.0	0.9	0.8	4.7	7.2	8.5	-	-	-	1.5
NHPC	ADD	25	30	20.7	255	3.6	10,260	2.4	3.1	3.2	(17.3)	26.9	1.8	10.2	8.0	7.9	9.3	7.3	7.1	0.8	0.8	0.8	8.5	10.4	10.2	5.6	7.0	7.1	2.0
NTPC	BUY	158	190	20.3	1,303	18.6	8,245	11	15	16	(7.6)	30.9	4.4	13.9	10.6	10.2	11.1	8.7	8.0	1.3	1.2	1.1	9.5	11.6	11.3	3.6	2.8	3.0	12.9
Power Grid	BUY	188	250	33.0	984	14.1	5,232	16	19	21	9.6	19.3	13.6	11.9	10.0	8.8	8.5	7.2	6.6	1.8	1.6	1.5	15.8	17.1	17.5	2.8	3.3	3.8	28.9
Tata Power	BUY	69	90	30.9	186	2.7	2,705	10.7	6.0	7.0	80.7	(43.7)	15.6	6.4	11.4	9.9	8.5	10.5	10.0	0.6	1.1	1.0	21.4	10.1	10.6	—	—	—	4.5
Utilities	Attractive				2,959	42					4.5	18.6	8.8	12.0	10.1	9.3	9.3	7.8	7.2	1.2	1.2	1.1	10.2	11.9	12.0	3.0	3.0	3.2	55.5

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		13-Aug-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	
Others																													
Astral Poly Technik	SELL	1,118	640	(42.8)	134	1.9	120	15	19	25	20.8	30.2	28.8	76.3	58.6	45.5	42.8	31.5	25.0	13.2	10.3	8.5	18.8	19.8	20.5	0.1	0.1	0.1	1.1
Avenue Supermarts	SELL	1,566	860	(45.1)	977	14.0	624	13	16	20	47.9	28.6	26.4	124.6	96.9	76.6	73.0	55.9	43.9	21.1	17.3	14.1	18.5	19.6	20.3	—	—	—	—
Bayer Cropscience	REDUCE	4,188	4,100	(2.1)	165	2.4	34	88	106	130	6.4	20.5	23.1	47.8	39.7	32.2	39.4	29.1	23.7	8.1	7.0	6.0	15.7	18.9	20.0	0.4	0.5	0.6	0.5
Dhanuka Agritech	ADD	562	650	15.6	28	0.4	49	26	27	31	7.7	3.9	15.4	21.9	21.1	18.3	16.0	15.4	12.6	4.4	3.8	3.3	21.9	19.2	19.2	1.0	1.0	1.2	0.2
Godrej Agrovet	ADD	607	650	7.1	116	1.7	189	12	16	20	6.9	39.8	24.6	52.7	37.7	30.3	27.1	20.9	16.9	6.8	5.9	5.0	14.7	16.9	17.9	0.3	0.4	0.5	1.2
Godrej Industries	RS	598	—	—	201	2.9	336	15	16	20	6.8	8.9	24.2	41.1	37.7	30.4	36.7	31.0	33.8	5.6	4.9	4.3	14.4	13.9	15.1	0.3	0.3	0.3	4.7
InterGlobe Aviation	BUY	1,044	1,220	16.9	401	5.7	383	61	50	83	32.1	(17.9)	65.3	17.2	20.9	12.6	9.8	11.8	6.7	5.6	4.6	3.5	42.9	24.1	31.1	0.6	0.5	0.8	21.7
Kaveri Seed	SELL	618	515	(16.7)	41	0.6	66	32	34	34	18.4	7.3	0.1	19.3	18.0	18.0	16.5	15.1	14.4	5.3	4.3	3.8	23.6	26.4	22.4	1.0	1.3	1.6	5.7
PI Industries	BUY	775	875	12.9	107	1.5	138	27	31	40	(20.0)	17.9	26.8	29.2	24.7	19.5	21.5	17.6	13.8	5.6	4.7	3.9	20.7	20.5	21.7	0.4	0.5	0.6	1.7
Rallis India	ADD	196	220	12.0	38	0.5	195	9	10	12	(1.5)	17.2	19.4	22.8	19.4	16.3	14.1	12.8	10.8	3.2	2.9	2.6	14.6	15.8	17.1	1.7	1.8	2.0	0.8
SIS	REDUCE	1,087	1,130	4.0	80	1.1	73	22	33	40	43.3	48.5	21.1	48.4	32.6	26.9	26.0	20.4	17.1	7.7	6.5	5.3	20.1	21.8	21.7	0.2	0.3	0.3	0.7
SRF	BUY	1,880	2,200	17.0	108	1.5	57	80	100	132	(10.4)	23.8	32.2	23.4	18.9	14.3	15.1	11.1	8.8	3.0	2.7	2.3	13.7	15.0	17.3	0.6	0.7	0.8	12.4
Tata Chemicals	ADD	676	760	12.5	172	2.5	255	51	46	52	6.5	(11.2)	13.6	13.1	14.8	13.0	7.2	6.2	5.2	1.6	1.4	1.3	13.8	10.0	10.5	3.3	2.2	2.5	6.8
TeamLease Services	SELL	2,552	1,785	(30.1)	44	0.6	17	43	58	75	28.0	34.2	29.0	59.2	44.1	34.2	61.5	44.6	33.9	9.9	8.1	6.5	18.2	20.1	21.1	—	—	—	1.3
UPL	ADD	625	660	5.5	318	4.6	507	43	49	55	20.9	14.0	12.1	14.6	12.8	11.4	10.1	8.7	7.4	3.5	2.9	2.4	26.4	24.6	22.9	1.3	1.6	1.8	22.3
Vardhman Textiles	ADD	1,164	1,400	20.2	67	1.0	56	103	130	140	(8.0)	26.4	7.4	11.3	8.9	8.3	9.6	7.1	6.4	1.4	1.2	1.1	12.7	14.3	13.8	1.3	1.7	2.6	1.0
Whirlpool	SELL	1,710	1,350	(21.0)	217	3.1	127	28	37	46	13.0	33.9	24.7	61.9	46.2	37.0	36.8	28.3	22.5	12.1	10.0	8.3	21.4	23.7	24.5	0.2	0.4	0.5	1.1
Others					3,215	46					16.1	8.0	26.4	31.2	28.9	22.9	20.3	17.7	14.0	5.7	4.9	4.2	18.3	16.9	18.2	0.5	0.5	0.7	83.3
KIE universe					112,407	1,608					(4.8)	25.2	27.1	27.4	21.9	17.2	12.9	10.9	9.7	3.1	2.8	2.5	11.3	12.8	14.8	1.3	1.4	1.7	
KIE universe (ex-energy)					98,465	1,408					(6.5)	31.3	33.1	32.1	24.5	18.4	14.3	12.1	10.6	3.4	3.1	2.8	10.7	12.8	15.4	1.1	1.3	1.6	

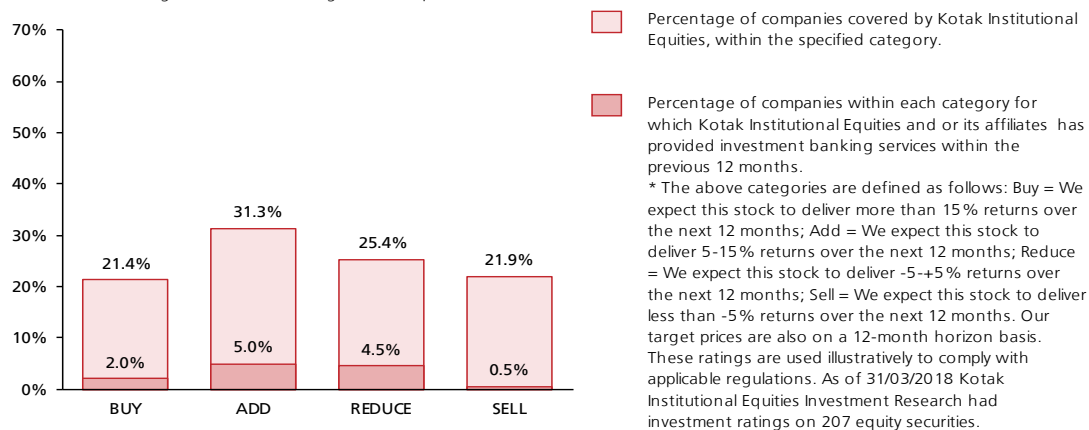
Notes:

- (a) We have used adjusted book values for banking companies.
 (b) 2018 means calendar year 2017, similarly for 2019 and 2020 for these particular companies.
 (c) Exchange rate (Rs/US\$)= 69.91

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

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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 to +5% returns over the next 12 months.

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

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

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