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EQUITY MARKETS

India	Change %			
	17-Jul	1-day	1-mo	3-mo
Sensex	36,520	0.5	2.7	6.4
Nifty	11,008	0.7	1.9	4.6
Global/Regional indices				
Dow Jones	25,120	0.2	0.5	1.5
Nasdaq Composite	7,855	0.6	1.4	7.7
FTSE	7,626	0.3	(0.1)	4.2
Nikkei	22,903	0.9	1.0	3.4
Hang Seng	28,182	(1.3)	(7.0)	(6.9)
KOSPI	2,309	0.5	(2.9)	(6.9)
Value traded – India				
Cash (NSE+BSE)	307		305	331
Derivatives (NSE)	7,465		5,988	5,875
Deri. open interest	3,887		3,887	4,055

Forex/money market

	Change, basis points			
	17-Jul	1-day	1-mo	3-mo
Rs/US\$	68.4	2	33	265
10yr govt bond, %	8.0	(5)	(13)	30

Net investment (US\$ mn)

	16-Jul	MTD	CYTD
FIs	(79)	(257)	(879)
MFs	2	204	10,708

Top movers

Best performers	Change, %			
	17-Jul	1-day	1-mo	3-mo
TCS IN Equity	2,002	0.9	9.5	26.8
YES IN Equity	381	0.6	14.8	23.0
KMB IN Equity	1,401	(0.6)	6.5	21.4
INFO IN Equity	1,328	(0.4)	4.8	18.9
APNT IN Equity	1,376	1.2	7.3	17.4

Worst performers

HDIL IN Equity	19	2.2	(16.8)	(54.7)
RCOM IN Equity	13	8.3	(13.9)	(37.9)
UT IN Equity	4	1.3	(11.0)	(35.2)
JPA IN Equity	15	5.3	(3.9)	(29.5)
VEDL IN Equity	210	1.8	(9.5)	(27.8)

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THEME

BSE-30: 36,520

Rise in rates for private; stable for public banks. While RBI's data for system-wide average lending and deposit rates for May indicate a flattish trend for the sector (slack period), the outcomes has been different for private (deteriorating but marginal) and public (stable) banks. In parallel to the increase in funding cost in 4QFY18, most banks raised MCLR rates in 1QFY19. The gap between outstanding WALR and fresh loans has started to shrink but the drop in lending yields is still a key concern. NIM pressure likely to remain in the medium term.

Cost of funds shows improvement for public banks but deteriorates for private banks

Latest data by RBI (as of May 2018) suggest flat trends in term deposit rates over the last two months for the sector. Term deposit rates across banks which had increased to 6.7% in March 2018 (up 20 bps since November 2017) have remained stable thereafter (Exhibit 1). However, the key difference is the difference in trends where there is an increase for private banks (who are currently lending in the market) as opposed to public banks where a large number of banks are under the PCA framework. Wholesale deposit cost (as measured by CD rates) increased by ~80 bps between March and May. This increase in CD rates was over and above the irregular rise in CD rates during March-April (see Exhibit 2).

MCLR rates continue to rise in 1QFY19

Fresh lending for banks saw a dip in March-May by 15-20 bps from high levels in January-February (see Exhibit 3). The decline in fresh lending rates is on the back of higher focus of banks to lend towards low yielding segments which are closer to MCLR rates (ex: NBFCs). Additionally, increase in focus on retail credit could be on the driving factors for flat trends in fresh lending rates over March-May 2018. MCLR rates (8.5% as of June 2018) however continue to rise, up 22 bps since December 2017 and 12 bps since March 2018 (Exhibits 4 and 5). With deposit rates broadly stable, further rise in MCLR rates at a swift pace, is less likely.

Gap between outstanding lending rates and fresh loans decline

As we have highlighted in earlier notes, there is significant presence of a gap between fresh lending rates and weighted average lending rates (see Exhibits 6-8), even as funding costs have started to rise. There has however been some improvement over April-May 2018 resulting in a decline in the spread between them. However, the challenge is that we need to see an upward movement in lending rates to prevent NIM compression, which did not happen this quarter for the system. The gap for the sector declined to ~70 bps in May 2018 from ~80 bps in March 2018. PSU banks saw a drop in spread to ~75 bps in May 2018 from ~95 bps in March 2018 and the spread deteriorated 10bps mom to ~65 bps for private banks over the same period.

NIM pressure likely to remain in the short term for private banks

On balance, while the difference between weighted average and fresh lending has declined, the overall trend should have an upward momentum to arrest NIM pressure, which is yet to happen for the sector. Recent results from the private banks broadly reiterate the above hypothesis. We are in a relatively unique situation where lending is quite concentrated with a few banks while deposit accretion continues to happen by all banks. Consequently, CD ratio for public banks, especially those under the PCA framework continues to remain low while it remains very high for private banks. This is pushing these private banks to increase rates to borrow funds while passing them has not been easier but directionally it is improving.

QUICK NUMBERS

- **WATDR for SCBs at 6.7% in May 2018 (up 20 bps since November 2017, flat MoM)**
- **~80 bps rise in CD rates since March 2018**
- **22 bps rise in median MCLR since December 2017**

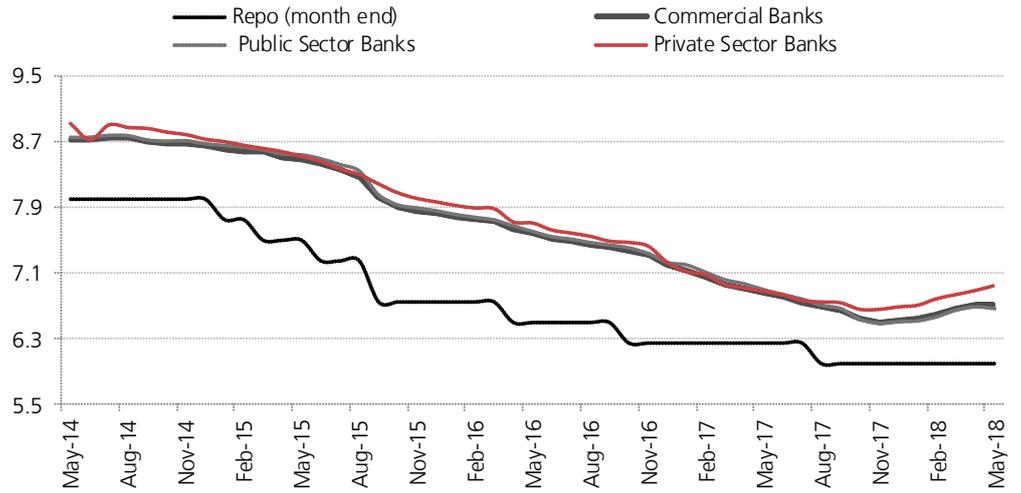
M B Mahesh CFA

Nischint Chawathe

Dipanjan Ghosh

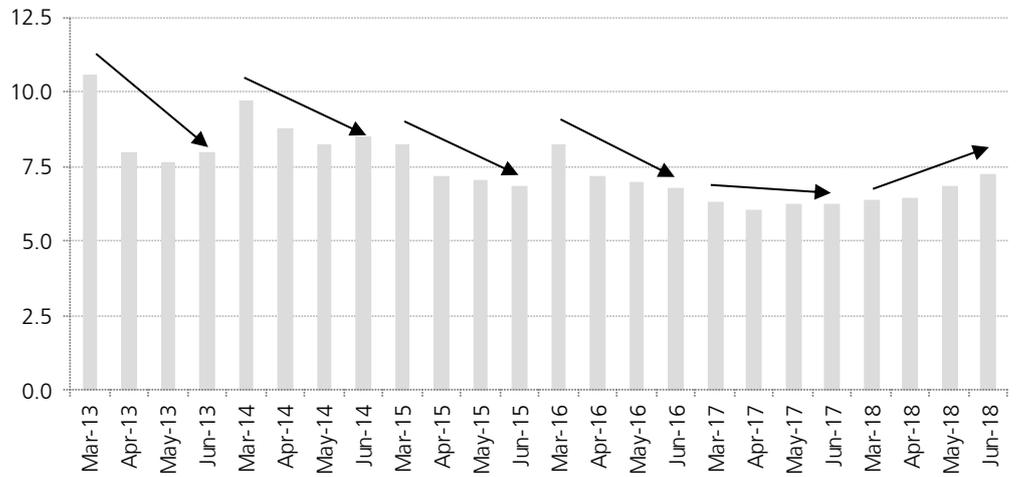
Shrey Singh

Exhibit 1: Deposit rates was stable for the sector but rose marginally for private banks
 Weighted average term deposit rates, March fiscal year ends, May 2014 – May 2018 (%)



Source: RBI, Kotak Institutional Equities

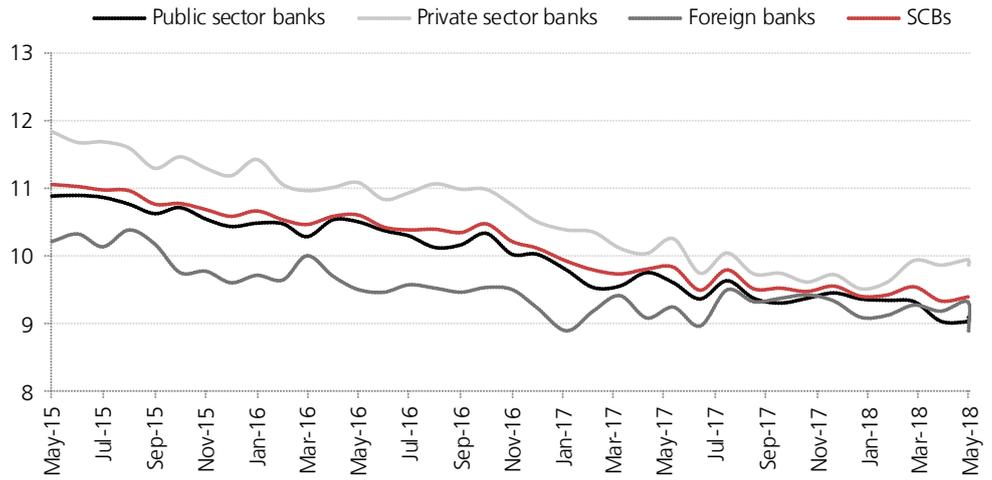
Exhibit 2: CD rates have continued to increase in May-June
 CD rates, March fiscal year ends, March 2013 – June 2018 (%)



Source: RBI, Kotak Institutional Equities

Exhibit 3: Fresh lending rates have been flat over the last three months

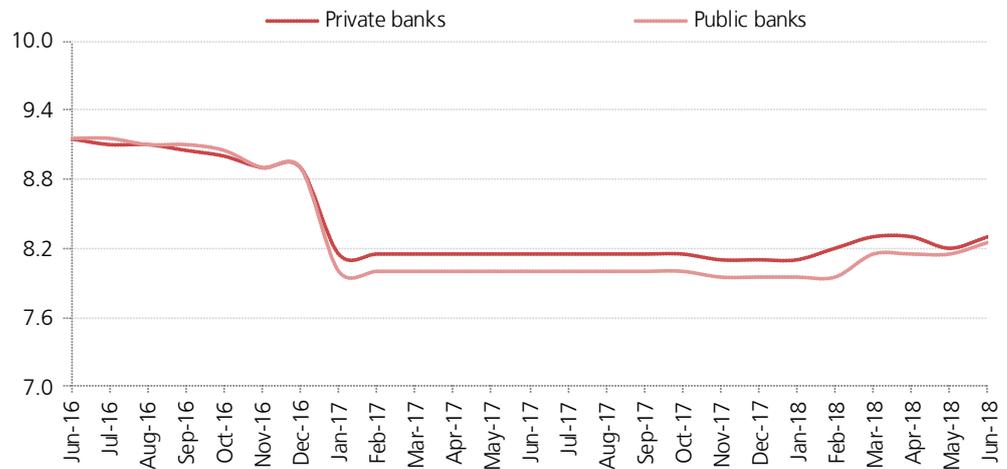
Weighted fresh lending rates, March fiscal year ends, May 2015 – May 2018 (%)



Source: RBI, Kotak Institutional Equities

Exhibit 4: MCLR rates have increased in recent months

One year MCLR rate for private and public banks, June 2016-June 2018 (%)



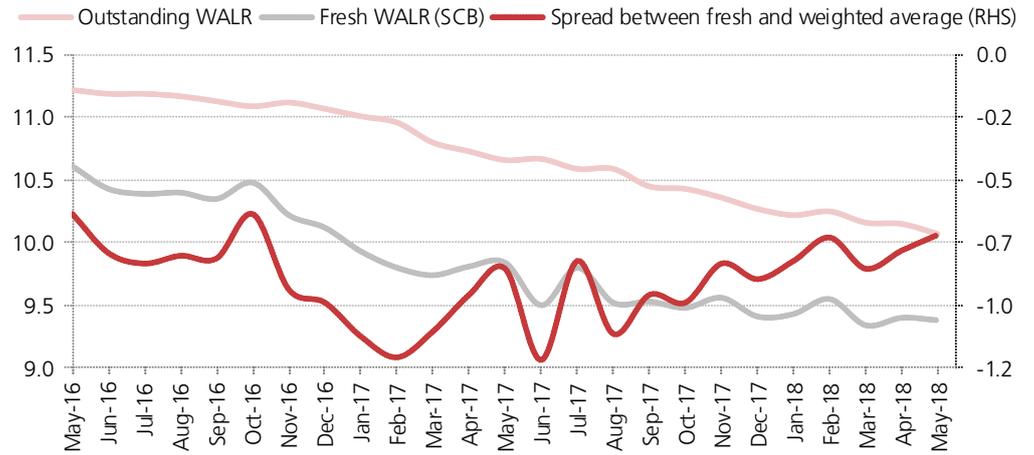
Source: RBI, Kotak Institutional Equities

Exhibit 5: MCLR rates have been an increase across most banks
MCLR rate across banks, October 2017-June 2018 (%)

	Oct-17	Nov-17	Mar-18	Apr-18	May-18	Jun-18	(bps change) (Mar-18 to Jun-18)
Public sector banks							
Allahabad	8.45	8.45	8.45	8.25	8.25	8.35	(0.10)
Andhra	8.40	8.40	8.40	8.40	8.50	8.55	0.15
BoB	8.35	8.30	8.30	8.30	8.40	8.45	0.15
BoI	8.30	8.30	8.30	8.30	8.40	8.50	0.20
BoMH	8.70	8.65	8.65	8.65	8.75	8.75	0.10
Canara	8.30	8.30	8.30	8.40	8.45	8.50	0.20
Central	8.30	8.30	8.30	8.45	8.45	8.45	0.15
Corporation	8.65	8.65	8.65	8.75	8.75	8.85	0.20
Dena	8.25	8.25	8.30	8.30	8.35	8.35	0.05
IDBI	8.55	8.65	8.55	8.55	8.65	8.65	0.10
Indian	NA	NA	8.25	8.25	8.40	8.50	0.25
IOB	8.55	8.40	8.40	8.40	8.50	8.50	0.10
OBC	8.40	8.40	8.35	8.50	8.50	8.65	0.30
PNB	8.15	8.15	8.30	8.30	8.30	8.40	0.10
PSB	8.55	8.45	8.40	8.40	8.50	8.60	0.20
SBI	8.00	7.95	8.15	8.15	8.15	8.25	0.10
Syndicate	8.50	8.50	8.45	8.45	8.50	8.55	0.10
UCO	8.45	8.45	8.45	8.45	8.45	8.55	0.10
Union	8.20	8.20	8.20	8.35	8.35	8.45	0.25
United Bank	8.75	8.60	8.60	8.60	8.70	8.70	0.10
Vijaya	8.50	8.50	8.50	8.50	8.50	8.50	-
Old private banks							
CUBK	9.25	9.25	9.25	9.05	9.05	9.05	(0.20)
DCB	9.72	9.72	9.87	9.87	9.87	9.97	0.10
FB	8.90	8.90	8.90	8.90	8.90	9.15	0.25
J&K	8.90	8.80	8.80	8.70	8.80	8.80	-
KVB	9.00	9.00	9.00	9.15	9.15	9.30	0.30
New private banks							
Axis	8.25	8.25	8.40	8.40	8.40	8.50	0.10
Bandhan	-	-	9.95	9.91	9.75	9.75	(0.20)
HDFC	8.15	8.10	8.20	8.30	8.30	8.40	0.20
ICICI	8.20	8.20	8.20	8.30	8.30	8.40	0.20
IDFC	8.00	8.50	8.60	8.75	8.80	8.90	0.30
IndusInd	8.95	8.85	9.10	9.25	9.25	9.35	0.25
Karnataka	8.85	8.75	8.75	8.35	8.80	8.85	0.10
Kotak	8.60	8.60	8.65	8.60	8.70	8.90	0.25
LVB	9.35	9.30	9.35	9.40	9.45	9.70	0.35
RBL	9.30	9.25	9.40	9.45	9.50	9.55	0.15
SIB	9.00	9.00	9.00	9.00	9.00	9.00	-
Yes	8.80	8.85	9.25	9.25	9.35	9.45	0.20
Small finance banks							
AU	12.85	12.75	12.95	12.55	12.90	13.00	0.05
Equitas	16.15	16.15	16.15	16.10	15.55	15.30	(0.85)
Ujjivan	16.80	16.80	14.90	15.00	15.20	15.45	0.55

Source: Company, Public documents, Kotak Institutional Equities

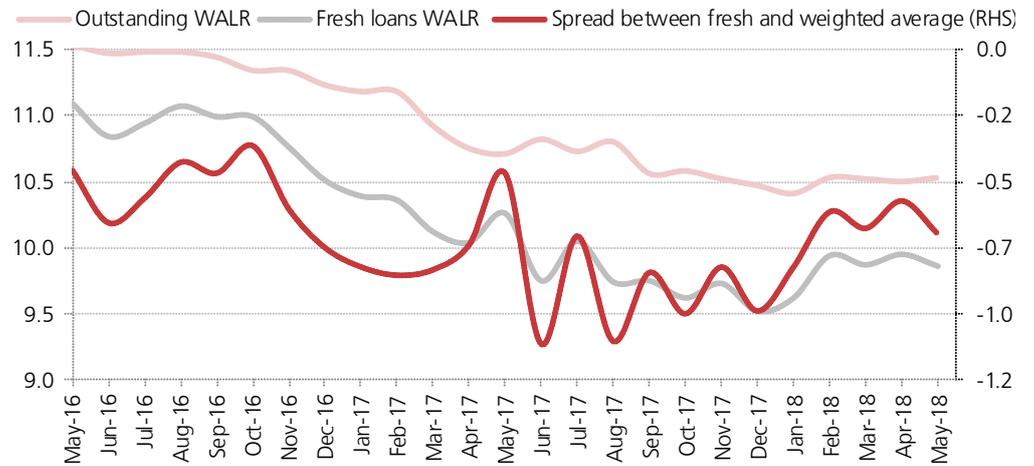
Exhibit 6: The spread between fresh and outstanding lending rates continue to drop
 Average outstanding and fresh lending rates for all SCBs, May 2016 – May 2018 (%)



Source: RBI, Kotak Institutional Equities

Exhibit 7: Private banks –deterioration in the current month of ~10 bps

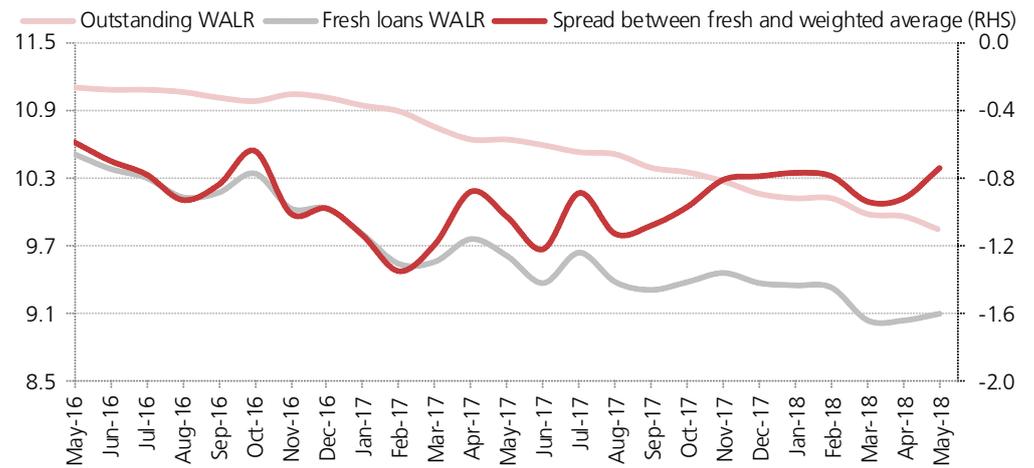
Average outstanding and fresh lending rates for private banks, March fiscal year ends, May 2016 – May 2018 (%)



Source: RBI, Kotak Institutional Equities

Exhibit 8: Public banks – sharp drop in spread led by rise in fresh lending rates

Average outstanding and fresh lending rates for PSU banks, March fiscal year ends, May 2016 – May 2018 (%)



Source: RBI, Kotak Institutional Equities

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RESULT

Coverage view: **Attractive**

Price (₹): **517**

Target price (₹): **600**

BSE-30: **36,520**

Solid on core. Zee delivered a good quarter with 19%, 17% and 14% yoy growth in ad revenues, EBITDA and adjusted net profit. Even as its core business performance remains consistent and impressive, the stock has underperformed due to concerns on treasury management and digital disruption. Zee's guidance to address the former is reassuring; we welcome a swift response to minority feedback. While we do not see any impact of digital on TV for a foreseeable future, the key trigger for stock performance will be the success of ZEE5. We will closely track ZEE5 over the next six months. ADD.

Company data and valuation summary

Zee Entertainment Enterprises

Stock data		Forecasts/Valuations			
		2018	2019E	2020E	
52-week range (Rs) (high,low)	619-477	EPS (Rs)	15.0	16.7	19.6
Market Cap. (Rs bn)	496.8	EPS growth (%)	7.8	11.3	17.0
Shareholding pattern (%)		P/E (X)	34.4	30.9	26.4
Promoters	41.6	Sales (Rs bn)	66.9	77.3	88.5
FIs	41.4	Net profits (Rs bn)	14.4	16.1	18.8
MFs	5.5	EBITDA (Rs bn)	20.8	24.0	28.1
Price performance (%)		EV/EBITDA (X)	22.3	19.2	16.3
Absolute	1M (6.8) 3M (10.1) 12M (1.3)	ROE (%)	20.3	19.9	20.6
Rel. to BSE-30	(9.1) (15.3) (13.3)	Div. Yield (%)	0.5	0.9	1.1

1QFY19— Nice and steady quarter for the core business

Zee's domestic ad revenue grew 22.3% yoy (2-year CAGR at 13%) partly aided by a low base and market share gains (we attribute 7 pts outperformance over industry powered by share gains). Overall ad growth was a tad lower at 18.6% (KIE 21%) due to muted 2% growth in international ad revenues. Domestic subscription revenue growth at 12.3% was in line with our estimate. EBITDA grew 17% yoy to Rs5.66 bn after absorbing digital losses and EBITDA margin stood at 31.9%; both in line with our estimates. Impressively, content cost increase was contained at 14% yoy despite investments in movies and its digital platform. Net profit adjusted for fair value adjustments pertaining to RPS (notional) grew 14% yoy to Rs3.5 bn; it missed our estimates by 7.5% largely due to higher taxes (ETR at 39%).

Our thoughts on digital and ZEE5

We are cognizant of loss of mind share, market share and de-rating of broadcasters, globally. Yet, we believe that the dynamics of the Indian Television market (subdued PayTV ARPU, linguistic diversity, varied content preferences and weak wireline broadband infrastructure) make it a little bit more immune to digital risk than the developed world. Further, Indian broadcasters have time to transition to digital and the benefit of learnings from the developed world. In our view, at least 1-2 Indian broadcasters will successfully transition to digital over time. Hotstar is a clear leader. Among others, we find ZEE5's digital strategy pragmatic (it aligns with the company's core strength in Hindi/regional genres) and the company is a lot more focused on execution than a year ago. As of now, we believe ZEE5 stands a chance to become a relevant player in the digital ecosystem. Eventual outcome will be a function of execution and more importantly competitive landscape; we will keep a close eye.

Core on full steam, digital catch-up will be key trigger for the stock

Even as Zee's execution in the core broadcasting business continues to be impressive and consistent, the next leg of stock performance is contingent on sustenance of rich valuations, which hinges on the success of ZEE5. We will closely track ZEE5's execution. We value Zee at 28X FY2020E core earnings (excluding RPS and digital losses; no positive/negative value ascribed to ZEE5 as of now). Maintain ADD and revise TP to Rs600 (Rs625 earlier); we trim earnings by 2% as we tweak below EBITDA line items (depreciation and other income).

Jaykumar Doshi

Progress on digital and management commentary

- ▶ Zee's management has indicated that ZEE5 is among the top-5 digital entertainment platforms in the country as per Google play store's top entertainment apps. Zee aspires to be #1 digital destination for non-sports entertainment content in India and believes that it should be able to achieve this milestone in 18-24 months if its executes well on its digital strategy.
- ▶ In its FY2018 annual report, Zee guided for 90 original digital series by the end of FY2019. The management indicated that it has released 14 digital originals on ZEE5 across six languages so far and has 20 more originals lined up for release in Q2. The first tentpole original— 'Karenjit Kaur— biopic of Sunny Leone' was launched on July 16, 2018. Zee intends to launch at least one tentpole biopic every quarter.
- ▶ ZEE5 will premiere 150 exclusive movies across languages over the next twelve months
- ▶ Zee's management indicated that ZEE5 would tie up with telcos only when it gets fair value for its content. Zee is working to augment consumption of ZEE5 through Margo's distribution infrastructure; expect more updates next quarter after its launch
- ▶ ZEE5 will be launched globally in a phased manner during the course of FY2019. The management indicated that if ZEE5 ends up cannibalizing international subscription revenue stream in a few global markets, it would be a good problem to have. Direct ownership of customers by ZEE5 in overseas markets would be better from a monetization perspective as compared to international subscription revenue earned through a local distribution partner.
- ▶ On questions around inflation in digital content in view of large sums of investments by Netflix and Amazon Prime, Zee indicated that it is not witnessing any unusual inflation and the company is comfortable producing digital content at content costs budgeted earlier.
- ▶ Zee's management indicated that it is planning to step up its marketing and promotion activities around digital content. It was waiting for the launch of 'Karenjit Kaur' series so far.
- ▶ Zee's management reiterated that it would start disclosing key operating metrics of ZEE5 starting next quarterly earnings call.

Key highlights from conference call

- ▶ Commentary on treasury management— Zee's management acknowledged the feedback of minority investors around surplus cash invested in overseas funds. The management indicated that, historically, a part of cash and cash equivalents were overseas due to (1) day-to-day operations of sports business and overseas entertainment business, (2) receipt of proceeds on sale of sports business. Repatriation of cash from overseas subsidiaries attracts tax rate of 17%, which can be offset against dividend distribution tax. Zee is in the process of bringing back surplus cash in a calibrated manner to optimize tax outgo. The management indicated that there is a requirement of funds in the overseas market for existing operations and that it plans a global launch of ZEE5. **Other than these requirements, surplus cash including investments in overseas funds will be brought to India in due course of time. Zee also guided on switching investments from high yield securities to low-risk liquid funds starting coming quarter.**

- ▶ **Implication of TRAI tariff order on domestic subscription outlook.** TRAI tariff order would be implemented from January 2019. Zee's management expects stable or marginally better growth trajectory for domestic subscription revenues post implementation. We note that the benefits of phase III digitization have not fully accrued due to impending implementation of TRAI tariff order. Additionally, (1) Zee network has gained viewership share, (2) acquired RBNL's two channels, (3) is in the process of entering the Malayalam market, and (4) we expect at least one regional movie channel launch in the next 12 months or so, (5) digital content deals with telcos and paid subscription revenue will start contributing to domestic subscription at some point over the next 12 months. **Given these factors, we are comfortable with our forecast of 14.5% CAGR in domestic subscription revenues over FY2019-21E.**
- ▶ **Comments on Reliance Jio's foray in FTTH and consolidation in distribution space—**Zee's management indicated that subscription deals with Reliance Jio will be similar to that with other distributors. On questions around the impact of ongoing consolidation in the distribution space on domestic subscription revenues of Zee, the management indicated that consolidation in the distribution space will bring pricing discipline and boost industry ARPU. This, in turn, should be net positive for broadcasters and Zee.
- ▶ **New channel launches—**Zee plans to launch its Malayalam GEC in September subject to regulatory approvals. Further, it has aspirations to launch movie channels in a few regional markets thus closing gaps in its portfolio. Acquisition of a movie library for the same is work in progress. The company has not given any specific time line about regional movie channel launches. We expect Zee to launch in either Kannada or Tamil or both markets sometime in FY2019 or FY2020.
- ▶ **Outlook for International revenues—**Zee's international ad revenues grew at muted 2% to Rs590 mn. The management attributed weakness to geopolitical issues in the Middle East market and it does not have visibility on recovery. International subscription revenues declined 7% yoy to Rs934 mn as it moved from paid channel on SKY platform to FTA channel. June quarter run-rate is the new normal.
- ▶ **Other income, depreciation and tax rate—** Other in the base quarter included forex gain of about Rs500 mn and hence the drop on yoy basis. In 4QFY18, it included interest on income tax refunds. Thus other income was soft on yoy and qoq basis. Additionally, a change in accounting standards pertaining to fair value adjustments impact other income for the quarter. Also, Zee has moved to reinvestment option on most of our mutual fund from dividend option. These factors explain trends in other income. June quarter depreciation is the new run-rate. Effective tax rate for FY2019 would be around 34-35%

Exhibit 1: Interim results of Zee Entertainment, March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	% chg.			FY2019E	FY2018	% chg.
					KIE	yoy	qoq			
Total revenues	17,720	18,149	15,403	17,253	(2.4)	15.0	2.7	77,284	66,857	16
Advertising revenues	11,460	11,694	9,665	10,496	(2.0)	18.6	9.2	49,616	42,048	18
Subscription revenues	5,186	5,255	4,791	5,465	(1.3)	8.2	(5.1)	22,586	20,287	11
--Domestic subscription	4,252	4,280	3,788	4,521	(0.7)	12.2	(6.0)	18,764	16,388	15
--International subscription	934	975	1,000	944	(4.2)	(6.6)	(1.1)	3,821	3,899	(2)
Other sales (incl. syndication)	1,074	1,200	947	1,292	(10.5)	13.4	(16.9)	5,083	4,522	12
Total expenditure	(12,064)	(12,380)	(10,559)	(12,191)	(2.6)	14.3	(1.0)	(53,271)	(46,095)	16
Content and other direct costs	(6,683)	(7,050)	(5,863)	(6,893)	(5.2)	14.0	(3.0)	(30,075)	(25,275)	19
Employee costs	(1,714)	(1,750)	(1,669)	(1,638)	(2.1)	2.7	4.6	(7,655)	(6,657)	15
Advt. and publicity costs	(1,402)	(1,400)	(1,241)	(1,326)	0.1	13.0	5.7	(6,466)	(5,773)	12
Other expenses	(2,265)	(2,180)	(1,786)	(2,334)	3.9	26.9	(2.9)	(9,076)	(8,390)	8
EBITDA	5,656	5,769	4,844	5,062	(2.0)	16.8	11.7	24,013	20,761	16
EBITDA margin (%)	31.9	31.8	31.4	29.3				31.1	31.1	
Other income	498	500	1,011	881	(0.5)	(50.8)	(43.5)	2,459	2,795	(12)
Fair value through P&L (RPS)	(213)	(290)	(533)	1,032	(26.6)			(969)	(68)	(93)
Finance costs (b)	(53)	(20)	(147)	(1,274)	165	(64.0)	(95.8)	(100)	(1,448)	(93)
D&A expenses	(576)	(575)	(311)	(594)	0.2	85.4	(3.0)	(2,326)	(1,821)	28
Pretax profits	5,311	5,384	4,864	5,106	(1.4)	9.2	4.0	23,077	20,220	14
Extraordinaries	—	—	—	—				—	2,955	
Tax provision (c)	(2,071)	(1,929)	(2,344)	(2,805)	7.3	(11.7)	(26.2)	(8,007)	(8,409)	(5)
Minority interest	18	9	(6)	9				25	25	-
Reported PAT (post RPS impact)	3,258	3,464	2,514	2,310	(5.9)	29.6	41.1	15,095	14,791	2
EPS post RPS impact (Rs)	3.4	3.6	2.6	2.4	(5.9)	29.6	41.1	15.7	15.4	
Adj. PAT (pre-RPS and pre-exceptional)	3,471	3,754	3,047	1,278	(7.5)	13.9	171.5	16,064	14,428	11
Adj. EPS (pre-RPS and pre-exceptional) (3.6	3.9	3.2	1.3	(7.5)	13.9	171.5	16.7	15.0	11
Tax rate (%)	39.0	35.8	48.2	54.9				34.7	41.6	

Notes:

(a) Fair value through P&L (RPS) incorporates MTM changes in RPS liability.

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: We tweak below EBITDA line items and trim earnings marginally
Revised earnings estimates of Zee, FY2019E-21E (Rs mn)

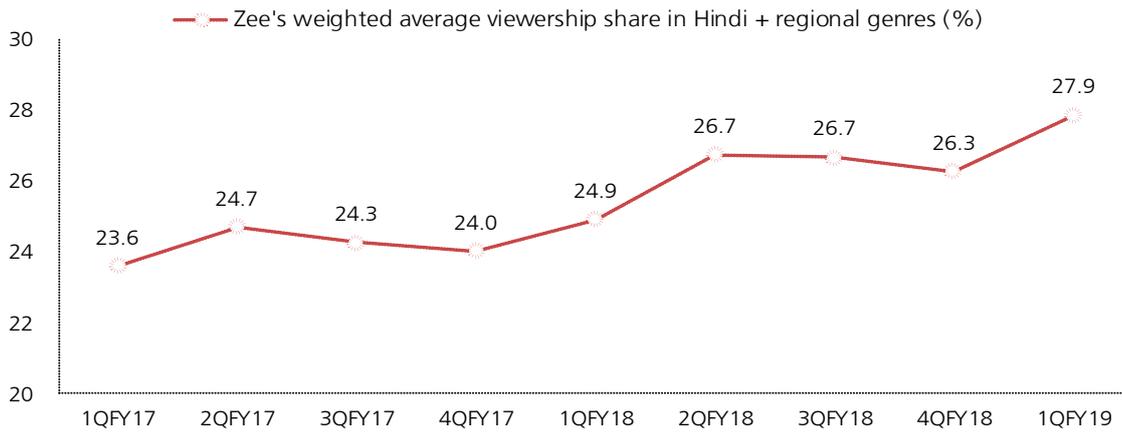
	Revised			Previous			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Consolidated									
Ad revenues	49,616	57,307	65,616	49,616	57,307	65,616	-	-	-
Subscription revenues	22,586	25,400	28,637	22,742	25,676	29,035	(0.7)	(1.1)	(1.4)
Other operating revenues	5,083	5,810	6,543	5,083	5,810	6,543	-	-	-
Total revenues	77,284	88,517	100,796	77,440	88,793	101,194	(0.2)	(0.3)	(0.4)
Direct costs	30,075	35,114	40,858	30,192	35,253	41,020	(0.4)	(0.4)	(0.4)
Employee cost	7,655	8,574	9,603	7,655	8,574	9,603	-	-	-
SG&A expenses	15,542	16,713	18,308	15,582	16,715	18,311	(0.3)	(0.0)	(0.0)
Total expenditure	53,271	60,400	68,768	53,429	60,541	68,934	(0.3)	(0.2)	(0.2)
EBITDA	24,013	28,117	32,028	24,011	28,252	32,261	0.0	(0.5)	(0.7)
PAT	15,095	18,105	20,895	15,451	18,484	21,346	(2.3)	(2.1)	(2.1)
Adj PAT (excl. RPS impact)	16,064	18,797	21,406	16,419	19,177	21,857	(2.2)	(2.0)	(2.1)
EPS (Rs)	15.7	18.8	21.8	16.1	19.2	22.2	(2.3)	(2.1)	(2.1)
Adj EPS (Rs) (excl. RPS impact)	16.7	19.6	22.3	17.1	20.0	22.8	(2.2)	(2.0)	(2.1)
Adj EPS (Rs) (excl. RPS impact and Digital losses)	18.5	20.8	23.5	18.8	21.2	24.0	(2.0)	(1.9)	(2.0)

Key assumptions

Ad revenue growth (%) (a)	18.0	15.5	14.5	18.0	15.5	14.5
Domestic subscription growth (%) (a)	14.5	15.0	15.0	14.5	15.0	15.0
International subscription growth (%) (a)	(2.0)	-	-	2.0	3.0	3.0
EBITDA margin (%)	31.1	31.8	31.8	31.0	31.8	31.9
EBITDA loss in digital (Rs mn)	2,500	1,800	1,800	2,500	1,800	1,800

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Weighted average viewership share of Zee network in Hindi and regional genres

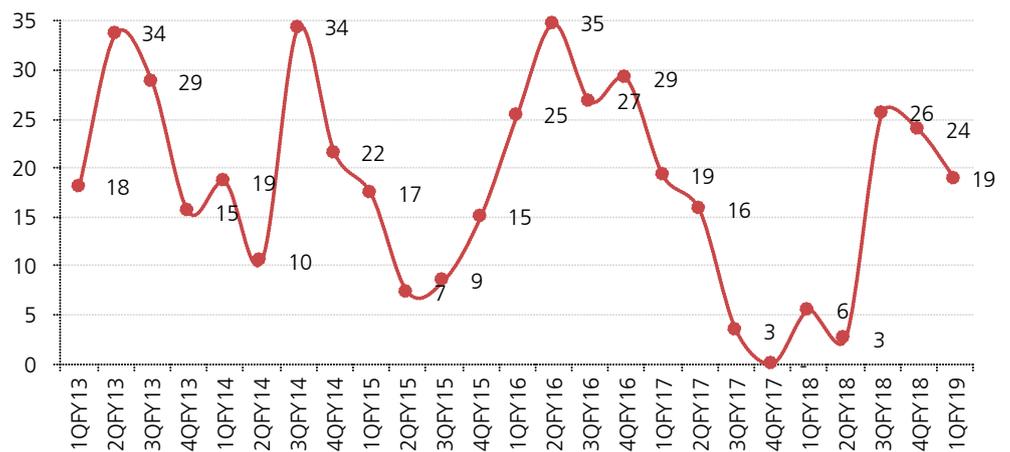


Notes:

- (1) Above market share working is based on Zee network's quarterly viewership share in its key genres (Hindi Gec, Hindi movies Hindi FTA GEC+movies and regional GECs) and it uses ad market size of respective genre as weight
- (2) The above calculation does not cover English, music, regional movies and niche genres that collectively account for less than 10% of Zee's domestic ad revenues. Zee's domestic/international ad revenue is 94%/6%.

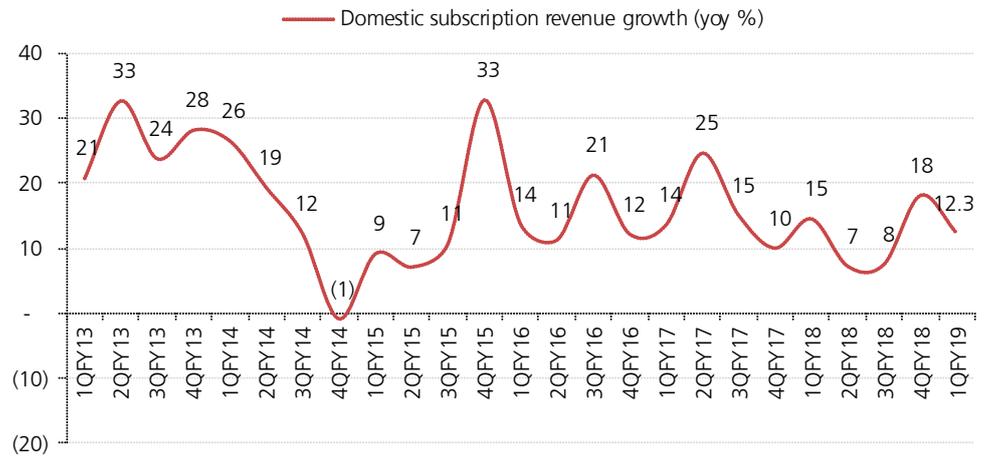
Source: BARC, Kotak Institutional Equities estimates

Exhibit 4: Zee's ad revenue growth, 1QFY13-1QFY19 (yoy %)



Source: Company, Kotak Institutional Equities

Exhibit 5: Zee's domestic subscription revenue growth, 1QFY13-1QFY19 (yoy %)

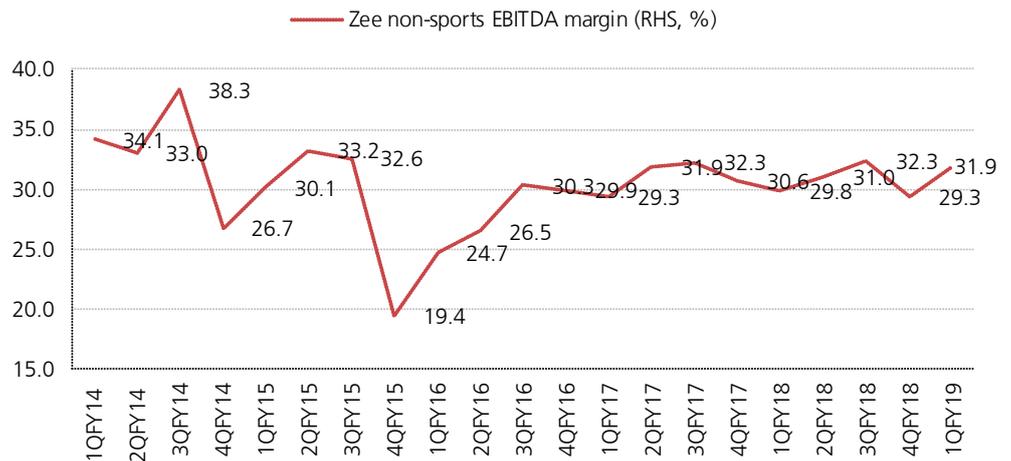


Notes.

(a) Adjusted for accounting changes (like-to-like)

Source: Company, Kotak Institutional Equities

Exhibit 6: Zee's non-sports EBITDA margin, 1QFY14-1QFY19 (yoy %)



Source: Company, Kotak Institutional Equities

Exhibit 7: Hindi genre- BARC ratings market share, 10-Oct-15 to 29-Jun-18 (Week 41, 2015 to Week 26, 2018) (%)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	Apr-18	May-18	Jun-18	1QFY19
Hindi GEC (Urban + Rural)- Viewership share in the top 7 channels (%)												
Star Plus	21.0	21.9	20.8	21.7	21.5	18.9	16.3	15.9	17.8	17.4	17.8	17.6
Colors (TV 18)	20.7	17.6	20.8	20.1	17.3	18.1	19.9	19.1	17.6	16.0	20.2	17.9
Zee TV	17.5	18.0	14.9	15.0	17.4	20.1	20.9	19.1	20.2	22.1	21.2	21.2
Sony TV	10.1	11.9	13.3	13.3	12.3	13.8	13.4	14.9	13.4	13.5	12.1	13.0
Sony SAB	11.4	11.4	11.9	12.1	14.5	12.3	12.5	13.2	13.3	14.8	13.5	13.9
&TV (Zee)	5.3	6.0	6.0	5.9	5.4	6.4	6.0	5.6	5.2	5.0	4.9	5.0
Life Ok (Star Bharat)	14.0	13.1	12.3	11.9	11.6	10.5	11.0	12.2	12.6	11.3	10.3	11.4
Total	100.0											
Zee Network	22.8	24.1	20.8	20.9	22.8	26.4	26.9	24.7	25.3	27.0	26.1	26.2
Hindi movies (Urban + Rural)- Viewership share in the top 6 channels (%)												
Sony Max	26.0	25.8	26.7	25.6	27.2	26.8	28.2	27.6	27.7	28.3	27.6	27.9
Star Gold	21.7	21.2	18.1	20.2	20.2	20.2	19.1	19.9	19.6	19.7	20.2	19.8
Zee Cinema	22.2	22.0	23.7	22.0	22.1	20.8	20.7	20.3	20.4	20.5	21.4	20.8
Movies OK	11.7	11.5	11.5	11.3	10.8	12.0	11.7	11.3	11.5	11.3	10.7	11.2
& Pictures	10.9	11.3	11.9	12.3	11.5	11.4	11.3	11.2	11.9	11.8	11.7	11.8
Sony Max 2	7.6	8.1	8.1	8.5	8.2	8.8	9.1	9.6	8.9	8.4	8.4	8.5
Total	100.0											
Zee Network	33.1	33.4	35.6	34.4	33.7	32.2	32.0	31.5	32.3	32.3	33.1	32.5
FTA Hindi GEC (Urban + Rural)- Viewership share in the top 8 channels (%)												
Star Bharat						4.1	10.9	10.7	9.9	8.2	8.7	8.9
Zee Anmol	21.8	24.5	22.0	19.0	19.7	25.0	21.1	21.5	21.2	24.6	23.8	23.3
Sony PAL	22.8	20.5	21.6	21.3	23.9	19.3	18.6	19.2	18.7	17.3	18.8	18.2
Colors Rishtey	17.2	15.5	19.6	21.5	21.2	18.3	13.5	13.2	16.2	19.3	15.0	17.1
Star Utsav	21.6	24.5	19.1	18.8	15.4	10.7	15.7	16.6	16.3	13.5	15.4	14.9
Zee Big Magic	8.4	7.0	8.9	7.6	7.9	7.9	7.0	7.1	7.8	8.2	8.4	8.1
Dangal TV	2.8	3.3	3.7	4.5	4.9	8.1	9.2	9.6	8.2	7.4	8.4	7.9
DD National	5.4	4.8	5.0	7.3	6.9	6.5	4.0	2.2	1.6	1.5	1.6	1.6
Total	100.0											
Zee Network	30.2	31.4	30.9	26.7	27.6	32.9	28.1	28.6	29.1	32.8	32.2	31.5
FTA Hindi movies (Urban + Rural)- Viewership share in the top 4 channels (%)												
Sony Wah	18.6	41.9	35.2	32.0	29.9	29.7	27.2	29.2	29.3	29.0	29.3	29.2
Rishtey Cineplex	41.8	24.3	20.9	21.9	24.5	26.0	27.2	27.3	26.2	26.2	25.6	26.0
Zee Anmol Cinema	0.0	9.0	23.1	24.0	23.8	21.7	22.6	21.9	21.0	22.2	20.9	21.4
Star Utsav movies	39.6	24.7	20.8	22.1	21.8	22.7	23.0	21.5	23.5	22.7	24.2	23.4
Total	100.0											

Notes:

- (a) Top 5-8 channels (relevant channels) in each genre are considered for market share calculation.
(b) Life Ok was rebranded as Star Bharat (Free-to-Air channel) on 28th August 2017. We have split its ratings in 50:50 (Paid/FTA) ratio for market share calculation of Paid and FTA Hindi GEC groups starting 28th Aug 2017.

Source: BARC, Kotak Institutional Equities

Exhibit 8: Regional genres- BARC ratings market share, 10-Oct-15 to 29-Jun-18 (Week 41, 2015 to Week 26, 2018) (%)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	Apr-18	May-18	Jun-18	1QFY19
Tamil GEC (Urban + Rural)- Viewership share in the top 6 channels (%)												
Sun TV	65.7	61.5	62.3	61.7	57.5	50.5	52.8	50.7	48.0	46.9	45.5	46.8
STAR Vijay	12.2	12.9	10.7	12.6	16.9	24.6	21.9	20.5	21.1	21.0	22.1	21.4
Zee Tamil	8.4	12.4	14.0	13.4	13.6	14.3	15.6	18.1	18.8	20.2	21.4	20.1
Polimer	5.5	4.9	4.5	4.7	4.8	3.8	3.7	3.3	3.2	3.4	2.8	3.1
Kalaighar TV	4.6	3.6	3.5	3.3	3.1	2.9	3.5	3.4	2.5	2.6	2.3	2.5
Jaya TV	3.6	4.7	5.0	4.2	4.0	3.9	2.5	2.4	2.1	2.4	2.2	2.2
Colors Tamil								1.5	4.3	3.6	3.6	3.8
Total of top 7	100.0											
Telugu GEC (Urban + Rural)- Viewership share in the top 4 channels (%)												
Zee Telugu	27.9	24.5	22.8	24.0	24.3	22.9	24.6	24.0	25.9	26.6	27.8	26.8
Star Maa TV	24.4	22.1	22.5	23.0	22.2	27.7	24.5	25.7	27.8	27.3	28.4	27.8
Gemini TV (Sun)	21.8	28.3	30.1	29.3	29.4	25.6	24.4	24.8	22.8	22.9	21.4	22.4
ETV Telugu	25.9	25.1	24.6	23.7	24.1	23.8	26.4	25.6	23.5	23.2	22.4	23.0
Total of Top 4	100.0											
Kannada GEC (Urban + Rural)- Viewership share in the top 5 channels (%)												
Colors Kannada	35.5	36.2	35.2	34.2	34.4	35.0	34.8	35.0	34.6	33.9	33.3	33.9
Colors Super	0.0	2.8	4.5	6.5	8.0	8.4	11.4	10.3	8.6	7.7	7.6	8.0
Zee Kannada	23.4	22.4	24.5	24.8	25.6	24.5	22.3	24.7	24.0	24.7	26.3	25.0
Udaya TV (Sun)	20.2	18.8	12.8	13.0	13.6	16.4	18.7	18.0	19.0	18.7	18.5	18.8
Star Suvama	20.9	19.8	23.0	21.6	18.3	15.6	12.8	12.0	13.9	15.0	14.2	14.4
Total of Top 5	100.0											
Malayalam GEC (Urban + Rural)- Viewership share in the top 4 channels (%)												
Star Asianet	57.2	52.9	55.3	56.8	54.9	51.9	43.7	48.1	51.1	54.5	52.3	52.8
Surya TV (Sun)	12.3	17.4	15.5	14.5	15.5	20.1	20.3	18.4	17.8	16.5	15.4	16.6
Mazhavil Manorama	18.7	16.8	15.5	15.7	18.2	16.7	21.3	16.9	15.5	15.2	16.0	15.5
Flowers TV	11.8	12.8	13.7	12.9	11.4	11.3	14.8	16.6	15.6	13.8	16.3	15.1
Total of Top 4	100.0											
Telugu movie channels (Urban + Rural)- Viewership share in the top 4 channels (%)												
Gemini movies (Sun)	48.3	47.0	42.2	41.0	35.6	32.2	31.9	33.1	27.8	27.0	30.9	28.4
Zee Cinemalu	0.0	3.3	14.2	17.2	18.9	21.7	21.8	23.1	26.4	25.5	26.5	26.0
Star MAA movies	35.3	32.3	26.2	25.3	29.2	32.4	30.2	28.3	32.6	34.0	28.0	31.8
ETV cinema	16.4	17.4	17.4	16.6	16.2	13.6	16.1	15.5	13.2	13.5	14.6	13.7
Total of Top 4	100.0											

Source: BARC, Kotak Institutional Equities

Exhibit 9: Regional genres- BARC ratings market share, 10-Oct-15 to 29-Jun-18 (Week 41, 2015 to Week 26, 2018) (%)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	Apr-18	May-18	Jun-18	1QFY19
Marathi GEC (Urban + Rural)- Viewership share in the top 6 channels (%)												
Zee Marathi	42.5	46.2	51.3	54.4	54.4	51.5	50.8	45.5	46.9	49.2	46.6	47.7
Colors Marathi	29.7	23.5	19.6	17.6	16.0	15.1	16.0	19.1	18.1	18.3	19.4	18.6
Star Pravah	9.0	10.1	10.0	11.4	13.4	14.1	16.3	18.4	18.0	16.9	16.7	17.2
Zee Yuva	0.0	1.7	6.6	5.4	7.2	10.1	8.2	8.5	9.4	8.0	9.1	8.8
Fakt Marathi	8.5	9.5	7.1	6.2	5.3	5.8	4.6	4.8	4.4	4.4	5.0	4.6
Maiboli	10.4	9.0	5.4	5.0	3.8	3.5	4.2	3.8	3.3	3.2	3.2	3.2
Total of top 6	100.0											
Bangla GEC (Urban + Rural)- Viewership share in the top 4 channels (%)												
Star Jalsha	50.4	51.4	55.2	57.1	55.7	57.1	55.3	47.7	47.3	44.5	43.0	44.8
Zee Bangla	36.1	37.3	34.7	33.8	32.1	31.7	31.7	38.8	38.7	41.3	42.9	41.0
Colors Bangla	7.1	5.0	5.1	4.2	5.1	6.1	8.2	9.3	9.0	8.3	7.7	8.3
Sony Aath	6.5	6.3	4.9	4.9	7.0	5.2	4.8	4.3	5.0	5.9	6.4	5.8
Total of Top 4	100.0											
Oriya GEC (Urban + Rural)- Viewership share in the top 4 channels (%)												
Sarthak TV	52.8	53.3	55.1	50.1	48.4	51.3	49.2	45.2	46.1	48.5	46.0	47.0
Tarang TV	32.1	31.4	26.4	31.2	35.3	34.0	37.4	41.1	38.1	35.9	39.6	37.8
Odisha TV	7.6	9.9	10.7	11.0	8.4	8.7	7.8	7.4	8.8	8.6	7.1	8.2
Colors Oriya	7.4	5.5	7.7	7.7	7.9	6.1	5.6	6.4	7.0	7.0	7.3	7.1
Total of Top 4	100.0											

Notes:

- (1) Top 5-7 channels (relevant channels) in each genre are considered for market share calculation.
- (2) Colors Tamil's viewership share was 4.5% in the month of March 2018 (Channel ratings were released starting March)

Source: BARC, Kotak Institutional Equities

Exhibit 10: Consolidated financial summary of Zee Entertainment, March fiscal year-ends, 2013-21E (Rs mn)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model (Rs mn)								
Total revenues	44,217	48,837	58,514	64,332	66,857	77,284	88,517	100,796
EBITDA	12,033	12,538	15,094	19,260	20,761	24,013	28,117	32,028
Other income	1,807	2,278	2,016	2,240	2,795	2,459	2,623	2,927
Interest	(158)	(103)	(123)	(161)	(1,448)	(100)	(50)	(50)
Depreciation	(501)	(673)	(840)	(1,152)	(1,821)	(2,326)	(2,496)	(2,704)
Pretax profits	13,181	14,040	16,147	20,187	20,287	24,046	28,195	32,202
Extraordinary items	—	—	(331)	12,234	2,955	—	—	—
Taxes	(4,291)	(4,284)	(5,528)	(6,805)	(8,409)	(8,007)	(9,389)	(10,788)
Minority interest	21	20	(22)	5	25	25	25	25
RPS dividends (incl tax)	(101)	(1,453)	(1,457)	(1,211)	0	(969)	(727)	(545)
PAT	8,810	8,323	8,810	22,205	14,791	15,095	18,105	20,895
Adj PAT (pre-exceptional; excl RPS impact)	8,911	9,776	10,482	13,386	14,428	16,064	18,797	21,406
EPS (Rs)	9.2	8.7	9.2	23.1	15.4	15.7	18.8	21.8
Adj EPS (Rs) - (excl RPS impact)	9.3	10.2	10.9	13.9	15.0	16.7	19.6	22.3
Balance sheet (Rs mn)								
Total Equity	27,207	35,306	42,145	66,567	75,617	85,509	97,253	110,053
Preference capital	20,169	20,192	20,169	0	0	0	0	0
Minority interest	61	4	85	10	141	141	141	141
Total borrowings	29	12	9	19,088	15,254	11,441	7,627	3,814
Current liabilities	12,850	14,544	16,532	14,702	20,284	23,293	26,527	30,204
Total capital	47,467	55,514	62,408	85,665	91,012	97,090	105,021	114,008
Cash and cash eq	16,500	20,476	21,346	40,935	33,264	35,474	39,693	45,504
Inventories	11,736	11,878	13,160	16,843	26,278	29,278	32,278	35,278
Receivables	10,281	10,692	13,245	13,059	15,365	16,939	19,401	22,092
Loans and advances	7,645	11,627	12,972	14,156	13,114	14,994	16,723	18,265
Other current assets	1,243	1,706	2,127	3,429	7,026	7,326	7,726	8,126
Net fixed assets	11,730	12,254	14,960	9,721	14,125	14,249	13,603	12,500
Investments	884	894	576	1,321	2,124	2,124	2,124	2,124
Deferred tax assets	298	531	556	903	0	0	0	0
Total assets	47,467	55,514	62,408	85,665	91,012	97,090	105,021	114,007
Free cash flow (Rs mn)								
Operating cash flow, excl. W-cap, ex-taxes	12,976	13,209	15,713	19,170	22,390	24,332	28,142	32,053
Working capital	(4,904)	(2,236)	(2,632)	(5,670)	(8,551)	(3,744)	(4,357)	(3,956)
Taxes paid	(4,242)	(4,164)	(5,827)	(6,810)	(8,295)	(8,007)	(9,389)	(10,788)
Capital expenditure	(1,482)	(1,147)	(4,064)	(2,768)	(4,605)	(2,450)	(1,850)	(1,600)
Other income (net)	1,108	1,126	1,003	1,001	1,107	2,359	2,573	2,877
Free cash flow (prior to RPS dividends)	3,456	6,788	4,193	4,923	2,046	12,490	15,120	18,587
RPS dividends	(101)	(1,453)	(1,457)	(1,211)	-	(969)	(727)	(545)
Free cash flow to equity holders	3,355	5,335	2,736	3,712	2,046	11,521	14,393	18,042
Key assumptions / metrics								
Ad revenue growth (%)	21.2	11.8	28.9	9.2	14.5	18.0	15.5	14.5
Domestic subscription revenue growth (%)	13.2	8.0	14.5	11.7	11.8	14.5	15.0	15.0
Overseas subscription revenue growth (%)	5.5	(23.6)	15.7	3.0	(2.8)	(2.0)	-	-
Content cost as % of revenue	37.7	38.6	41.2	42.2	40.9	35.3	36.6	37.5
Effective tax rate (%)	32.6	30.5	34.2	33.7	41.5	33.3	33.3	33.5
EBITDA margin (%)	27.2	25.7	25.8	29.9	31.1	31.1	31.8	31.8
ROAE	26.6	26.6	22.7	40.9	20.8	18.7	19.8	20.2
ROACE	24.9	21.8	21.6	20.5	15.7	20.0	22.4	24.0

Notes:

(1) Indian GAAP until FY2016 and Ind-AS thereafter.

Source: Company, Kotak Institutional Equities estimates

JULY 18, 2018
RESULT

Coverage view: **Neutral**

Price (₹): **739**

Target price (₹): **620**

BSE-30: **36,520**

Motor and crop segments drive performance. Higher profitability in the motor and crop segments coupled with reduction in expense ratios were the key drivers of ICICI Lombard's 1QFY19 performance. With strong industry tailwinds, we expect the business to remain in a sweet spot in the near term. Current valuations, however, seem to extrapolate the trend, driving our SELL rating with a TP of ₹620 (up from ₹600).

Company data and valuation summary

ICICI Lombard

Stock data			Forecasts/Valuations				
			2018	2019E	2020E		
52-week range (Rs) (high,low)	872-619		EPS (Rs)	19.0	26.0	31.6	
Market Cap. (Rs bn)	335.4		EPS growth (%)	22.0	37.1	21.5	
Shareholding pattern (%)			P/E (X)	38.9	28.4	23.4	
Promoters	55.9		NIIL (Rs bn)	0.0	0.0	0.0	
FIs	6.4		Net profits (Rs bn)	8.6	11.8	14.4	
MFs	7.0		BVPS	100.0	119.1	142.2	
Price performance (%)			P/B (X)	7.4	6.2	5.2	
Absolute	1M	3M	12M	ROE (%)	20.8	23.8	24.2
Rel. to BSE-30	(0.2)	(9.1)	0.0	Div. Yield (%)	0.5	0.8	1.0

Strong earnings growth in 1QFY19

ICICI Lombard reported 35% yoy earnings growth to ₹2.89 bn. Net earned premium was up 20% yoy. Decline in commissions and operating expenses ratio by 200 bps and claims ratio by 120 bps led to reduction in underwriting loss (₹699 mn, down from ₹1.56 bn in 1QFY18). Investment income was up 12% yoy on the back of 22% growth in the investment book even as calculated investment yield declined to 10.8% from 11.9% in 1QFY18.

Retain SELL with TP of ₹620

- ▶ Improvement in combined ratio on the back of higher pricing in motor TP and health, better experience in motor insurance and lower expenses were the key drivers of strong performance of ICICI Lombard in 1QFY19. Its strong efforts to sustain pricing, cherry pick segments and manage expenses will likely continue to buoy its performance over the next few quarters.
- ▶ We forecast ICICI Lombard's combined ratio to improve to 98.9% in FY2019E (100.2% in FY2018 and 98.8% in 1QFY19) on the back of 100 bps lower claims ratio and marginal improvement in expenses and commissions ratios. Improvement in underwriting performance coupled with higher investment yields (9.4% in FY2019E from 9.2% in FY2018) will drive 37% earnings growth in FY2019E.
- ▶ While the business is in a sweet spot, we continue to believe that the general insurance industry is inherently volatile. On a strong base, we expect the company to deliver moderate improvements (about 100 bps combined ratio) driving about 20% earnings CAGR during FY2020-21E.
- ▶ ICICI Lombard has consciously preferred profitability over growth. We expect topline (net premium) growth to remain muted at about 14% CAGR during FY2019-21E. We are not including any large participation in the proposed health insurance schemes. Strong competition leading to lack of pricing discipline remains the key risk to the business.
- ▶ We find current valuations of ICICI Lombard rich, extrapolating its current strong performance and pricing to perfection. We hence retain our SELL rating on the stock with a TP of ₹620; at our TP, the stock will trade at 20X earnings and 4.25X book FY2020E, juxtaposed to 24% RoE and 26% earnings CAGR during FY2019-21E.

QUICK NUMBERS

- **PAT up 35% yoy**
- **Net earned premium up 20% yoy**
- **Combined ratio of 98.8%**

Nischint Chawathe

M B Mahesh CFA

Dipanjana Ghosh

Shrey Singh

Exhibit 1: ICICI Lombard – quarterly summary
March fiscal year-ends, 1QFY18-1QFY19 (Rs mn)

	1QFY19	1QFY18	4QFY18	(% change)		2019E	2018	(% change)	2020E
				1QFY18	4QFY18				
Income statement (Rs mn)									
Gross direct premium	38,557	33,944	29,700	14	30	140,785	123,569	14	163,174
Premium ceded	15,880	13,676	10,625	16	49	53,955	45,121	20	62,732
Net premium	22,677	20,267	19,075	12	19	86,830	78,448	11	100,442
Change in unexpired risk reserve	4,228	4,930	909	(14)	365	9,876	9,330	6	11,452
Net earned premium	18,449	15,338	18,166	20	2	76,954	69,117	11	88,990
Net incurred claims	14,191	11,975	14,267	19	(1)	58,601	53,147	10	66,731
Net commission paid	413	(1,037)	(147)	140	380	(3,023)	(2,840)	(6)	(3,624)
Operating expenses related to insurance	4,544	5,964	4,143	(24)	10	22,816	21,119	8	26,498
Underwriting profit	(699)	(1,564)	(96)	NM	NM	(1,440)	(2,309)	38	(616)
Investment income	5,254	4,710	3,311	12	59	18,428	15,601	18	21,188
Other income, FX gain, etc.	78	(11)	11	803	596	100	85	18	100
Provisions	8	2	87	243	(91)	50	679	(93)	50
Other expenses	193	129	267	50	(28)	400	736	(46)	400
Profit before tax	4,432	3,004	2,872	48	54	16,638	11,962	39	20,222
Tax	1,539	863	753	78	104	4,825	3,345	44	5,864
Profit after tax	2,893	2,141	2,119	35	37	11,813	8,618	37	14,358
Balance sheet items									
Investments	198,726	163,214	181,927	22		198,314	181,927	9	235,907
Shareholders equity	48,305	39,216	45,412	23		54,046	45,412	19	64,540
Fair value change account	5,661	7,224	7,339	(22)		8,219	7,339	12	9,206
Key ratios									
Retention ratio	58.8	59.7	64.2			60.6	62.3		60.7
Net incurred claims ratio	76.9	78.1	78.5			76.2	76.9		75.0
Net commission ratio	1.8	(5.1)	(0.8)			(3.5)	(3.6)		(3.6)
Operating expense ratio	20.0	29.4	21.7			26.3	26.9		26.4
Combined ratio	98.8	102.4	99.5			98.9	100.2		97.8
Investment yield	10.8	11.9	7.3			9.4	9.2		9.5
Solvency ratio	221	-	221			205	203		206
RoE	24.7	21.8	19.1			23.8	20.8		24.2

Source: Company, Kotak Institutional Equities estimates

Improvement in motor TP and crop drives profitability

We find three drivers for strong growth of ICICI Lombard, viz. (1) 25% growth in net earned premium in motor insurance, and (2) high (72%) contribution of the motor segment to operating profits, largely supporting yoy operating profit growth for the company. Loss ratios in the motor TP segment declined to 90.6% from 97.5% in 1QFY18 on the back of improvements in pricing and previous period loss provisions in the base. Similarly, loss ratios in the crop business declined to 117% from 140% yoy due to high provisions in the base.

Motor business is the key driver

- ▶ **Motor business.** Motor has driven 72% of its operating profit (23% in 1QFY18) and 63% of net earned premium (up 25% yoy) in 1QFY19. Improvement in pricing in the motor TP segment coupled with a higher provision in the base year (the company made provisions for dismantled pool in 1QFY18) led to decrease in loss ratio to 90.6% from 97.5% in 1QFY18; loss ratio in motor OD was almost stable at 63%. Management has guided that loss ratio in motor TP segment will likely remain at the current levels unless tariff hikes are low in FY2020E. After defocusing on commercial segment, the company is once again picking up profitable pockets in CVs, though CVs remain low at 17.8% as compared to over 40% for the industry. The profitable car segment contributed 49% of its business in 1QFY19. Net benefits of the MISP guidelines, though largely offset by reduction in pricing, are already reflected in the loss ratios in the motor OD segment.
- ▶ **Health.** ICICI Lombard has delivered 24% growth in net earned premium, shifting its focus a bit to the corporate segment (up 35% yoy, up 900 bps to 63% of the health premiums). Its loss ratio was stable at about 86%. Within the corporate business, pricing has been better in SME and mid-corporate segments. Large corporate segment remains unattractive even as prices have improved here as well.
- ▶ **Crop.** Net premium in crop declined 29% yoy; its share remains low at 3% of net premium. Loss ratio in this segment reduced to 117% from 140% in 1QFY18. The high base reflects a higher provision made for previous period; incrementally, the company is providing for about 100% loss ratio and likely variation in reinsurance rates. While ICICI Lombard is going slow in this segment, it is open to look at profitable pockets, especially in well-governed states such as Maharashtra and MP; it covered 4 states and 30 districts in FY2019 versus 7 states and 56 districts in FY2018. The long-term contracts in MP will continue to put pressure on combined ratio in FY2019E as well.

Exhibit 2: 15% premium growth in FY2018

Segmental gross premium, March fiscal year-ends, 2013-18

	Gross direct premium (Rs mn)						YoY (%)				
	2013	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Fire	3,803	4,870	5,447	6,327	7,446	8,650	28	12	16	18	16
Motor	27,058	32,138	34,158	41,498	45,418	53,135	19	6	21	9	17
Motor OD	18,298	20,737	21,319	25,231	27,602	30,893	13	3	18	9	12
Motor TP	8,760	11,401	12,839	16,267	17,816	22,243	30	13	27	10	25
Marine	2,292	2,518	2,464	2,998	3,411	3,707	10	(2)	22	14	9
Health	17,621	16,838	15,505	16,628	20,254	23,478	(4)	(8)	7	22	16
Crop	NA	NA	NA	5,925	21,509	23,478	NA	NA	NA	263	9
Others	10,566	12,198	9,203	7,530	9,214	11,121	15	(25)	(18)	22	21
Total	61,340	68,562	66,778	80,907	107,252	123,570	12	(3)	21	33	15
Share of total (%)											
Fire	6	7	8	8	7	7					
Motor	44	47	51	51	42	43					
Motor OD	30	30	32	31	26	25					
Motor TP	14	17	19	20	17	18					
Marine	4	4	4	4	3	3					
Health	29	25	23	21	19	19					
Crop	NA	NA	NA	7	20	19					
Others	17	18	14	9	9	9					

Source: Company, Kotak Institutional Equities

Exhibit 3: Strong net premium growth in 1QFY19

Net premium, March fiscal year ends, 1QFY18-1QFY19 (Rs mn)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (%)
Fire	302	356	410	373	285	(6)
Marine	440	476	508	534	515	17
Health including personal accident	3,498	3,809	3,918	3,877	4,412	26
Miscellaneous	982	936	936	893	989	1
Crop insurance	747	2,515	870	1,316	533	(29)
Motor	9,369	10,016	10,863	11,174	11,715	25
Total	15,338	18,108	17,505	18,166	18,449	20

Source: Company

Exhibit 4: Motor business drives operating profit growth

Segmental operating profits, March fiscal year ends, 1QFY18-1QFY19 (Rs mn)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (%)
Fire	341	206	344	438	130	(62)
Marine	(73)	33	96	414	(130)	79
Health including personal accident						
Health retail	1,305	1,504	1,536	1,201	1,292	(1)
Health Group, Corporate	160	(186)	(97)	(327)	(831)	(618)
Health government business	(152)	49	(107)	143	(22)	(86)
Miscellaneous						
Miscellaneous retail	0	1	1	1	1	100
Miscellaneous Group, Corporate	(156)	250	456	(261)	195	(225)
Crop insurance	42	217	189	(1,084)	289	584
Motor	449	(50)	478	1,879	2,372	428
Total	1,917	2,022	2,895	2,404	3,296	72

Source: Company

Exhibit 5: High claims ratio in crop segment

Claims ratio, March fiscal year-ends, 2015-18 (%)

	2015	2016	2017	2018
Fire	96.0	63.6	68.4	43.1
Marine	98.7	97.5	83.9	54.2
Motor OD	61.6	65.6	64.2	53.7
Motor TP	105.8	97.7	97.4	107.1
Engineering	74.4	69.4	53.3	24.0
Health	88.8	84.7	97.9	77.6
Personal accident	79.7	64.3	41.3	23.9
Crop	80.0	140.0	84.2	135.0
Others	55.2	69.3	62.1	57.3
Total	81.4	81.6	80.6	76.9

Source: Company, Kotak Institutional Equities

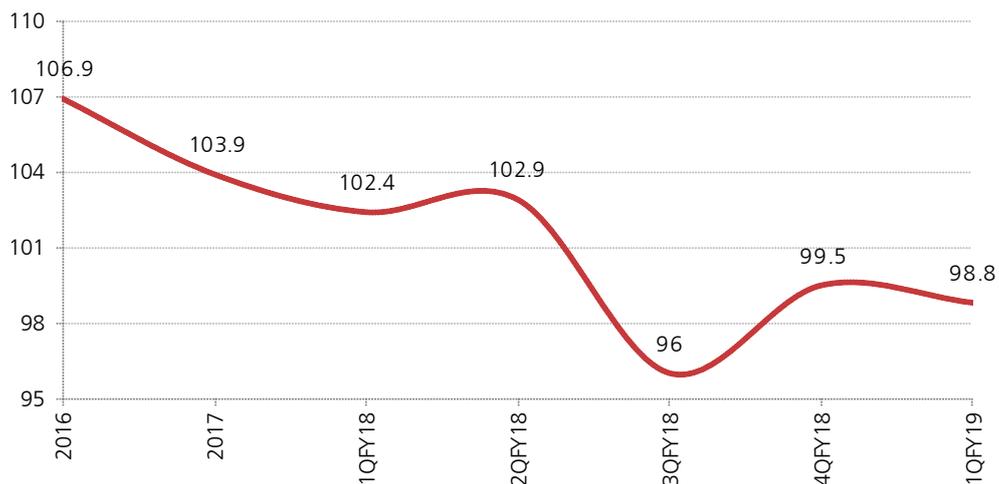
Exhibit 6: Improvement in motor TP and crop

Claims ratio, March fiscal year-ends, 1QFY18-1QFY19 (%)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Fire	60.7	61.0	59.7	(6.5)	115.2
Marine	75.0	68.3	61.3	17.7	81.1
Motor OD	62.2	54.0	51.1	48.7	62.9
Motor TP	97.5	111.4	106.0	112.6	90.6
Engineering	52.3	35.1	42.2	(35.5)	44.9
Health	86.0	75.3	73.5	76.7	85.5
Personal accident	43.8	19.3	30.1	4.0	56.5
Crop	140.1	106.3	98.1	211.4	116.8
Others	49.8	64.6	57.9	57.4	60.8
Total	78.1	78.5	72.5	78.5	76.9

Source: Company, Kotak Institutional Equities

Exhibit 7: Improvement in combined ratio in 1QFY19
 Combined ratio, March fiscal year-ends, 2016- 1QFY19 (%)



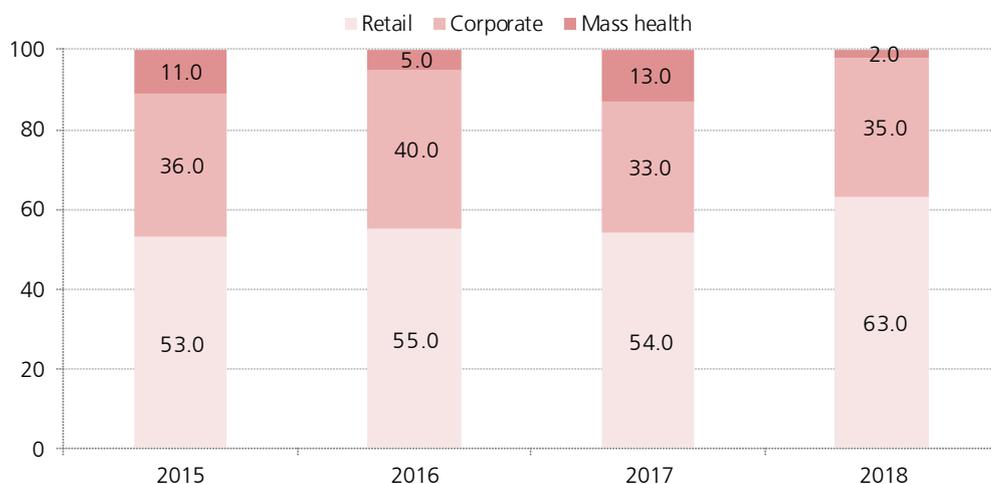
Source: Company, Kotak Institutional Equities

Exhibit 8: We build in ~98-99% combined ratio in our forecasts
 Break-up of combined ratio, March fiscal year-ends, 2016-21E (%)

	2016	2017	2018	2019E	2020E	2021E
Claims ratio	82	81	77	76	75	75
Commissions ratio	(6)	(7)	(4)	(3)	(4)	(4)
Operating expense ratio	31	30	27	26	26	27
Combined ratio	107	104	100	99	98	98

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: ICICI Lombard has high share of retail health
 Break-up of health insurance premium, March fiscal year-ends, 2015-18 (%)



Source: Company, Kotak Institutional Equities

Exhibit 10: ICICI Lombard: old and new estimates

March fiscal year-ends, 2019-21E (Rs bn)

	New estimates			Old estimates			Difference (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Key financials (Rs mn)									
Gross direct premium	140,785	163,174	189,183	143,941	170,074	201,672	(2)	(4)	(6)
Net earned premium	76,954	88,990	102,961	81,339	96,493	114,881	(5)	(8)	(10)
Net incurred claims	58,601	66,731	77,060	61,549	71,232	84,719	(5)	(6)	(9)
Net commission paid	(3,023)	(3,624)	(4,348)	(4,230)	(3,423)	(4,488)	(29)	6	(3)
Operating expenses	22,816	26,498	30,990	25,880	30,571	36,621	(12)	(13)	(15)
Underwriting profit/(loss)	(1,440)	(616)	(741)	(1,860)	(1,886)	(1,971)	(23)	(67)	(62)
Investment income	18,428	21,188	25,058	18,771	21,619	25,255	(2)	(2)	(1)
Profit before tax	16,638	20,222	23,968	16,561	19,383	22,934	0	4	5
Profit after tax	11,813	14,358	17,017	11,758	13,762	16,283	0	4	5
Key ratios (%)									
Combined ratio	98.9	97.8	97.8	99.6	99.1	98.8	-70 bps	-130 bps	-110 bps
Investment yield	9.4	9.5	9.5	9.3	9.3	9.3	10 bps	20 bps	20 bps
RoA	3.6	3.8	3.8	3.7	3.7	3.7	0 bps	10 bps	10 bps
RoE	23.8	24.2	24.0	23.7	23.5	23.5	0 bps	70 bps	50 bps

Source: Kotak Institutional Equities estimates

Exhibit 11: ICICI Lombard – valuation summary

March fiscal year-ends, 2015-21E (%)

Year	PAT	EPS	PER	BVPS	P/B	RoA	RoE	DPS	Dividend yield	Dividend payout
	(Rs mn)	(Rs)	(X)	(Rs)	(X)	(%)	(%)	(Rs)	(%)	(%)
2015	5,858	13.1	56.3	65	11.4	2.9	16	2.0	0.3	15
2016	5,053	11.3	65.4	73	10.2	2.5	13	3.0	0.4	27
2017	7,018	15.6	47.5	83	8.9	3.5	20	3.5	0.5	22
2018E	8,618	19.0	38.9	100	7.4	3.2	21	4.0	0.5	21
2019E	11,813	26.0	28.4	119	6.2	3.6	24	6.0	0.8	23
2020E	14,358	31.6	23.4	142	5.2	3.8	24	7.3	1.0	23
2021E	17,017	37.5	19.7	170	4.4	3.8	24	8.6	1.2	23

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: ICICI Lombard – key growth rates and ratios
 March fiscal year-ends, 2016-21E (%)

	2016	2017	2018	2019E	2020E	2021E
Growth rates						
Gross premium	20	32	15	14	16	16
Net premium	23	21	19	11	16	16
Net premium earned	14	28	12	11	16	16
Total claims incurred	14	26	7	10	14	15
Commission paid	(5)	32	(35)	6	20	20
Operating expenses	23	16	7	8	16	17
Underwriting profit/loss	97	(28)	(35)	(38)	(57)	20
Income from investments	20	13	17	18	15	18
Profit after tax	(14)	39	23	37	22	19
Key performance ratios						
Premium retention ratio	66	60	62	61	61	61
Net incurred claims ratio	82	81	77	76	75	75
IBNR/net earned premium	75	116	148	130	130	130
Technical reserve to net premium	221	232	259	249	251	252
Net commission ratio	(6)	(7)	(4)	(3)	(4)	(4)
Operating expense ratio	31	30	27	26	26	27
Combined ratio	107.1	104.1	100.2	99	98	98
Investment yield	10.7	9.9	9.2	9.4	9.5	9.5
Dividend payout ratio	27	22	21	23	23	23
Solvency ratio	1.8	2.1	2.0	2.0	2.1	2.1
DuPont analysis (%)						
Premium earned	23.8	30.4	26.0	23.6	23.3	23.2
Claims incurred	19.5	24.5	20.0	18.0	17.5	17.3
Commission paid	(1.6)	(2.1)	(1.1)	(0.9)	(0.9)	(1.0)
Investments	5.8	6.6	5.9	5.7	5.5	5.6
Operating and other expense	8.5	10.3	8.2	7.1	7.0	7.1
Provisions	0.0	0.0	0.3	0.0	0.0	0.0
RoA (pre-tax)	3.5	4.5	4.5	5.1	5.3	5.4
Tax expense	71.7	77.1	72.0	71.0	71.0	71.0
RoA	2.5	3.5	3.2	3.6	3.8	3.8
Leverage	5.2	5.8	6.4	6.5	6.4	6.3
RoE	12.9	20.1	20.8	23.8	24.2	24.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: ICICI Lombard – financial summary
March fiscal year-ends, 2016-21E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E
Income statement						
Net premium	54,349	65,948	78,448	86,830	100,442	116,248
Adjustment for change in reserve for unexpired risks	(6,085)	(4,370)	(9,330)	(9,876)	(11,452)	(13,287)
Net premium earned	48,263	61,578	69,117	76,954	88,990	102,961
Net claims incurred	(39,391)	(49,656)	(53,147)	(58,601)	(66,731)	(77,060)
Net commission paid	3,280	4,341	2,840	3,023	3,624	4,348
Operating expenses related to insurance business	(17,112)	(19,820)	(21,119)	(22,816)	(26,498)	(30,990)
Underwriting profit/loss	(4,960)	(3,557)	(2,309)	(1,440)	(616)	(741)
Other expenses	(194)	(1,035)	(736)	(400)	(400)	(400)
Income from investments	11,817	13,350	15,601	18,428	21,188	25,058
Interest, dividend & rent - gross	8,197	9,194	15,326	12,794	14,549	17,227
Profit on sale of investments	3,735	4,579	275	5,633	6,639	7,831
Loss of sale of investment	(116)	(423)	—	—	—	—
Other income	385	343	85	100	100	100
Provisions	(10)	(51)	(679)	(50)	(50)	(50)
Profit before tax	7,048	9,100	11,962	16,638	20,222	23,968
Tax expense	(1,995)	(2,082)	(3,345)	(4,825)	(5,864)	(6,951)
Profit after tax	5,053	7,018	8,618	11,813	14,358	17,017
Tax rate (%)	28	23	29	29	29	29
Number of shares (mn)	448	451	454	454	454	454
Dividend	1,342	1,571	1,810	2,717	3,302	3,914
Dividend distribution tax	273	320	308	462	561	665
DPS (Rs)	3.0	3.5	4.0	6.0	7.3	8.6
EPS (Rs)	11.3	15.6	19.0	26.0	31.6	37.5
BVPS (Rs)	73	83	100	119	142	170
BVPS (incl. fair value change)	80	98	116	137	162	192
Balance sheet						
Investments	115,625	150,789	181,927	198,314	235,907	279,795
Shareholders	23,886	39,826	47,284	55,918	66,412	78,849
Policyholders	91,739	110,963	134,643	142,396	169,495	200,945
Fixed asset	3,832	3,827	4,060	4,141	4,224	4,308
Deferred tax asset	1,435	872	2,114	2,114	2,114	2,114
Cash and bank balances	1,948	1,940	5,918	5,918	5,918	5,918
Advances and other assets	48,502	76,080	103,478	142,912	162,533	186,144
Total assets	171,342	233,509	297,497	353,399	410,696	478,279
Share capital	4,475	4,512	4,539	4,539	4,539	4,539
Reserves and surplus	28,079	32,754	40,872	49,506	60,000	72,438
Shareholders' funds	32,554	37,266	45,412	54,046	64,540	76,977
Borrowings	—	4,850	4,850	4,850	4,850	4,850
Fair value change account	3,090	6,772	7,339	8,219	9,206	10,310
Shareholders funds	605	1,745	1,857	—	—	—
Policyholders funds	2,485	5,027	5,481	—	—	—
Current liabilities	104,598	149,136	195,112	182,335	206,205	234,521
Claims outstanding	89,429	118,051	159,160	162,335	186,205	214,521
Provisions	31,100	35,485	44,784	54,754	66,206	79,494
Unexpired risk reserve	30,677	35,048	44,378	54,254	65,706	78,994
Liabilities	171,342	233,509	297,497	299,353	346,156	401,302

Source: Company, Kotak Institutional Equities estimates

JULY 18, 2018
RESULT

Coverage view: **Attractive**

Price (₹): **88**

Target price (₹): **130**

BSE-30: **36,520**

A decent start to a tough year ahead. As compared to a disappointing 4QFY18, FB has started FY2019 with an impressive overall performance led by solid loan growth and comfort on impairment ratios. The management has maintained its fresh impairments for the balance of FY2019 and targets to achieve 1% RoA for 4QFY19 (80 bps currently), which is a challenge but not unsurmountable. Valuations are inexpensive, which drives our positive rating currently (TP unchanged at ₹130). **BUY.**

Company data and valuation summary

Federal Bank

Stock data

52-week range (Rs) (high,low) 128-74

Market Cap. (Rs bn) 174.8

Shareholding pattern (%)

Promoters 0.0

Fls 40.5

MFs 23.9

Price performance (%)

Absolute 1M 3M 12M 5.2 (11.1) (22.6)

Rel. to BSE-30 2.7 (16.3) (32.0)

Forecasts/Valuations

2018 2019E 2020E EPS (Rs) 4.4 5.7 7.9

EPS growth (%) (9.3) 29.5 39.5

P/E (X) 20.2 15.6 11.2

NII (Rs bn) 35.8 41.0 48.4

Net profits (Rs bn) 8.6 11.2 15.6

BVPS 56.8 61.3 68.0

P/B (X) 1.6 1.4 1.3

ROE (%) 8.2 8.8 11.4

Div. Yield (%) 1.1 1.5 2.0

Steady performance overall; no negative surprises anywhere

FB's reported earnings grew 25% yoy led by 8% yoy growth in operating profits but 16% yoy decline in provisions. Revenue growth was at 11% yoy led by healthy NII growth of 22% yoy while lower treasury income resulted in 18% yoy decline in non-interest income. Loan growth, however, retained momentum at 24% yoy driven by healthy growth in corporate loans at 36% yoy and retail loans at 19% yoy. NIM was stable qoq at 3.1% partly aided by a decline in cost of deposits while there was a bit of pressure on yield as it was flat qoq despite lower slippages.

Waiting for the much-desired consistency in performance

1QFY19 has kicked off the year quite well for Federal Bank. The bank has been quite inconsistent in its performance over the years largely led by the high degree of unpredictability of the movement of impaired loans. However, looking at the outstanding stock of bad loans in the restructured pool and security receipts at ~1% of loans and the comment that the SMA portfolio is at its lowest level, asset quality issues appear to be behind the bank.

While the bank has delivered on loan growth for the past two years, there has been disappointment on its translation into earnings growth and RoE improvement. Discussion is now likely to shift towards RoA/RoE as the bank has indicated that it could look to achieve 1% exit RoA for FY2019 led by better revenue growth (improvement in NIM and fee income contribution). These levers are harder than costs, which in our view is a lot easier to achieve near-term targets. A few more quarters of consistent performance should give a lot more comfort in what has been a disappointing decade for the bank.

Retain BUY; TP unchanged

We maintain our positive view on the stock with a TP of ₹130 (unchanged), valuing the bank at ~2X book and 17X March 2020E EPS for RoEs in the range of ~12-13% in the medium term and strong earnings growth of ~30% CAGR in FY2019-20E. Federal Bank's delivery on growth across segments, owing to recent changes in management and new hires, is impressive. We do see a strong case of re-rating over the time, which is driving our positive view at this stage.

QUICK NUMBERS

- **NII up 22% yoy; net profit increased 25% yoy**
- **GNPL and NNPL ratios stable qoq at 3% and 1.7%, respectively**
- **Maintain BUY rating with TP at ₹130 (unchanged)**

M B Mahesh CFA

Nischint Chawathe

Dipanjn Ghosh

Exhibit 1: Federal Bank quarterly results

March fiscal year-ends, 1QFY18-1QFY19 (₹ mn)

	(% chg.)							2018	2019	(% chg.)	2020	(% chg.)
	1QFY19	1QFY19E	1QFY18	4QFY18	1QFY19E	1QFY18	4QFY18					
Interest earned	26,674	26,981	23,241	25,480	(1.1)	14.8	4.7	97,533	113,500	16.4	135,349	19.3
Interest/discount on advances/bills	20,794	20,770	17,878	19,511	0.1	16.3	6.6	75,388	88,997	18.1	108,244	21.6
Income on Investments	5,072	5,572	4,683	5,170	(9.0)	8.3	(1.9)	19,174	21,320	11.2	24,074	12.9
Interest on balances / inter bank	252	147	237	184	71.4	6.6	37.1	2,966	3,183	7.3	3,031	(4.8)
Interest expensed	16,873	17,644	15,234	16,148	(4.4)	10.8	4.5	61,701	72,528	17.5	86,901	19.8
Net interest income	9,801	9,338	8,007	9,332	5.0	22.4	5.0	35,832	40,971	14.3	48,448	18.2
Other Income	2,709	2,546	3,291	3,142	6.4	(17.7)	(13.8)	11,591	11,383	(1.8)	12,568	10.4
Total income	12,509	11,884	11,298	12,474	5.3	10.7	0.3	47,423	52,355	10.4	61,016	16.5
Operating Expenses	6,480	6,714	5,719	6,588	(3.5)	13.3	(1.6)	24,509	26,701	8.9	29,522	10.6
Staff costs	3,450	3,432	2,985	3,308	0.5	15.6	4.3	12,425	14,139	13.8	15,501	9.6
Other operating expenses	3,030	3,282	2,735	3,280	(7.7)	10.8	(7.6)	12,084	12,562	4.0	14,021	11.6
Operating profit	6,029	5,170	5,579	5,886	16.6	8.1	2.4	22,914	25,654	12.0	31,494	22.8
Other Provisions and Contingencies	1,992	3,842	2,364	3,715	(48.2)	(15.8)	(46.4)	9,472	8,728	(7.9)	7,882	(9.7)
PBT	4,038	1,328	3,214	2,170	204.1	25.6	86.0	13,443	16,926	25.9	23,612	39.5
Provision for Taxes	1,411	437	1,113	721	222.8	26.8	95.8	4,650	5,686	22.3	7,932	39.5
Net Profit	2,627	891	2,102	1,450	194.9	25.0	81.2	8,792	11,240	27.8	15,680	39.5
Tax rate (%)	35	33	35	33	202 bps	32 bps	174 bps	35	34	-100 bps	34	0 bps
PBT before provisions	6,029	5,170	5,579	5,886	16.6	8.1	2.4	22,914	25,654	12.0	31,494	22.8
Key balance sheet items (Rs bn)												
Deposits	1,112	1,165	958	1,120	(4.5)	16.1	(0.7)	1,120	1,298	15.9	1,562	20.3
Reported CASA ratio (%)	33.5		33.4	33.3		0.1	0.6					
Advances	955	943	771	932	1.3	23.9	2.5	920	1,112	21.0	1,315	18.2
Retail	358		302	351		18.8	2.2					
SME and agri	187		168	194		11.3	(3.9)					
Others	410		301	387		36.1	6.0					
Investments	283	326	267	308	(13.2)	6.1	(8.0)	0	0	2.2	0	26.7
Asset management details												
Gross Non-performing loans (Rs mn)	28,688		18,679	27,956		53.6	2.6	27,956	28,594	2.3	30,033	5.0
Gross NPL ratio (%)	3.0		2.4	3.0		58 bps	0 bps	3.0	2.5	-47 bps	2.2	-29 bps
Net Non-performing loans (Rs mn)	16,202		10,613	15,520		52.7	4.4	15,520	14,695	(5.3)	12,038	(18.1)
Net NPL ratio (%)	1.7		1.4	1.7		33 bps	3 bps	1.7	1.3	-37 bps	0.9	-41 bps
Restructured loans (Rs bn)	5.8		13.3	7.9		(56.2)	(26.6)					
Restructured loans (%)	0.6		1.7	0.9		-112 bps	-25 bps					
Slippages (Rs mn)	4,610		4,250	8,720		8.5	(47.1)	22,007	16,487	(25.1)	18,873	14.5
Slippage ratio (%)	2.0		2.3	4.1		-31 bps	-210 bps	3.0	1.8	-120 bps	1.7	-10 bps
Key calculated ratios (%)												
Yield on advances	8.8		9.5	8.7		-64 bps	10 bps	9.1	8.8	-36 bps	8.9	16 bps
Yield on investment	6.9		6.8	6.8		4 bps	4 bps	6.6	7.0	35 bps	6.9	-12 bps
Cost of deposit	6.0		6.3	6.1		-25 bps	-3 bps	5.5	5.5	7 bps	5.7	15 bps
NIM	2.9		2.8	2.8		8 bps	5 bps	3.0	2.9	-10 bps	2.9	1 bps
CD ratio	85.9		80.4	83.2		543 bps	267 bps	82.1	85.7	357 bps	84.2	-150 bps
Credit cost	0.7		1.2	1.2		-51 bps	-47 bps	0.9	0.8	-14 bps	0.7	-13 bps
Cost to income	51.8	56.5	50.6	52.8	-469 bps	118 bps	-101 bps	51.7	51.0	-68 bps	48.4	-262 bps
Capital Adequacy details (%)												
Capital Adequacy ratio	14.5		15.3	14.7		-78 bps	-20 bps					
Tier I	14.0		14.7	14.2		-71 bps	-17 bps					
Key business parameters (#)												
Branches	1,252		1,252	1,252		—	—	1,252	1,262	0.8	1,332	5.5
ATMs	1,684		1,678	1,696		0.4	(0.7)	1,696	1,796	5.9	1,896	5.6

Source: Company, Kotak Institutional Equities estimates

Loan growth maintains momentum at ~20%+ consistently for ~8-10 quarters

Federal Bank reported strong 24% yoy loan growth in 1QFY19, driven by growth in corporate advances (up 36% yoy). Corporate loan growth has been in the range of 30-40% over the past few quarters. The share of A and above-rated loans has increased to ~71% in 1QFY19 from 61% as of FY2016. Business banking grew 23% yoy while agriculture loans grew 22% yoy. Retail advances maintained growth momentum with 19% yoy growth. Within the retail segment, housing loans witnessed strong growth at ~30% yoy; LAP growth was 21% yoy while gold loan book continued to decline at ~9% yoy. The agriculture book has seen strong growth at 20-30% yoy over the past few quarters on a low base. Federal Bank has maintained >20% yoy credit growth over the past nine quarters, which is quite impressive in our view. The spike in retail loans has been a result of greater distribution franchise through relationship managers, larger feet-on-street and activation of the in-house NBFC channel (Fedfina). Additionally, there has been a significant increase in focus on brand recognition.

We forecast the retail and corporate segments to deliver robust growth going ahead. Top management guided for growing focus on CV and personal loans (unsecured retail lending space) in the medium term. We forecast ~19% loan CAGR in FY2019-21E.

Exhibit 2: Contribution of corporate loans continues to increase

Break-up of loans, March fiscal year-ends, 2012-1QFY19 (%)

	2012	2013	2014	2015	2016	2017	2018	1QFY19
Retail	28.1	30.2	32.5	43.8	40.4	39.6	37.6	38.9
Housing	14.9	11.6	13.6	13.4	13.6	12.3	12.5	12.8
Gold loans	6.9	9.7	8.3	6.6	4.0	2.8	2.1	1.9
LAP	0.8	2.3	3.8	4.7	5.4	5.3	5.1	5.1
Others	5.5	6.7	6.8	19.1	17.4	19.2	17.9	19.1
SME	18.6	18.4	25.4	12.9	15.4	12.0	10.8	9.7
Agriculture	11.9	10.7	11.8	12.3	10.4	10.1	10.1	9.9
Others	41.3	40.7	30.3	31.0	33.8	38.4	41.5	41.5

Source: Company, Kotak Institutional Equities

No major surprises on loan impairment ratios; stable qoq

Asset quality was stable qoq with GNPL flat qoq at ₹28 bn (GNPL ratio flat qoq to 3%). Net NPL was also flat qoq at 1.7% (similar to the previous quarter on absolute basis). Provision coverage ratio was at 44% on calculated basis and 65% on a reported basis.

Slippages declined sharply to 2% of loans in 1QFY19 (annualized) from 4% in 4QFY18. Unlike the previous quarter, where the bank had to report high slippages consequent to the change in RBI directive, this quarter was less of a surprise. The bulk of the slippages were still from the corporate loan portfolio but directionally the pool of impaired loans is declining sharply. The management indicated that ~35% of loans that slipped this quarter came from the restructured loan portfolio. The outstanding stock of restructured loans has declined to ~60 bps of loans and the outstanding security receipts where there is a risk of impairment has also declined to ~0.5% of loans. Security receipts saw a decline of 12% qoq as there has been repayments this quarter.

Retail GNPL (excluding agriculture loans) was stable at 2% of loans. Slippages were marginally higher but not too worrisome at 1.7% of loans. SME gross NPL declined ~30 bps qoq to 5%. The trend was reverse for agriculture NPLs, which increased 30 bps qoq to 3.4% of loans.

The management had guided slippages of ~1.3% of loans in FY2019 and 1QFY19 slippages are already 40% of this target. Management highlighted on the call that it believes that the guidance does not have to undergo a change considering that the risk in the corporate portfolio has declined significantly while there is not too much concern on the balance of the portfolio.

We expect GNPL to trend down to 2.0% by FY2021E. Slippages are expected to drop to 2% by FY2021E. We expect ~70-75 bps credit cost in FY2019-21E.

Exhibit 3: Rise in corporate slippages owing to recognition of stressed assets as NPLs post revised RBI framework

Sectoral break-up of slippages, March fiscal year-ends, 1QFY16-1QFY19 (%)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Retail	1.1	1.4	1.5	2.0	1.5	1.4	1.7	1.0	1.8	1.9	2.6	1.2	1.7
SME	3.4	4.8	3.3	4.4	3.6	3.5	3.2	3.0	2.8	2.5	2.8	3.1	1.9
Agri	1.2	1.2	1.3	2.8	2.2	1.6	0.8	1.8	2.4	2.6	2.0	2.6	2.3
Corporate	3.4	4.6	9.8	6.1	0.9	0.8	0.9	0.6	2.4	0.3	1.2	7.0	2.1
Total	2.5	3.3	4.5	4.1	1.9	1.8	1.7	1.4	2.3	1.5	2.0	4.1	2.0

Source: Company, Kotak Institutional Equities

Exhibit 4: Net stressed assets continue to follow a downward trajectory

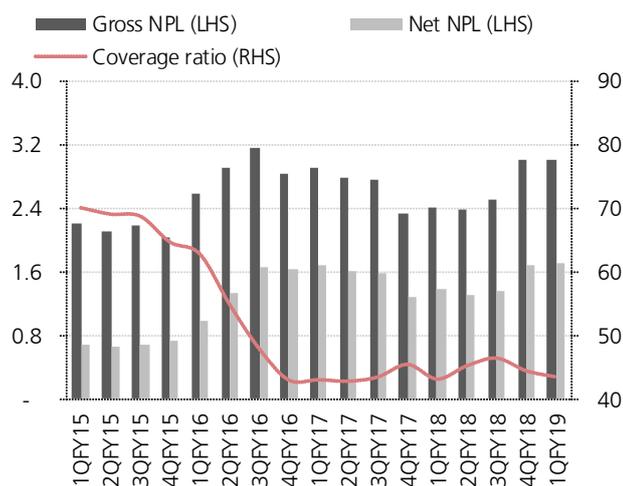
Stressed assets, March fiscal year-ends, 1QFY16-1QFY19 (Rs bn)

	2016	2017	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Net stressed assets (Rs bn)							
Standard restructured	16	13	13	13	14	8	6
Net SR	6	7	8	8	8	5	5
Total	22	20	21	21	22	13	11
% of loan book	3.8	2.7	2.8	2.6	2.6	1.4	1.1

Source: Company, Kotak Institutional Equities

Exhibit 5: Calculated coverage ratio stable qoq at 45%

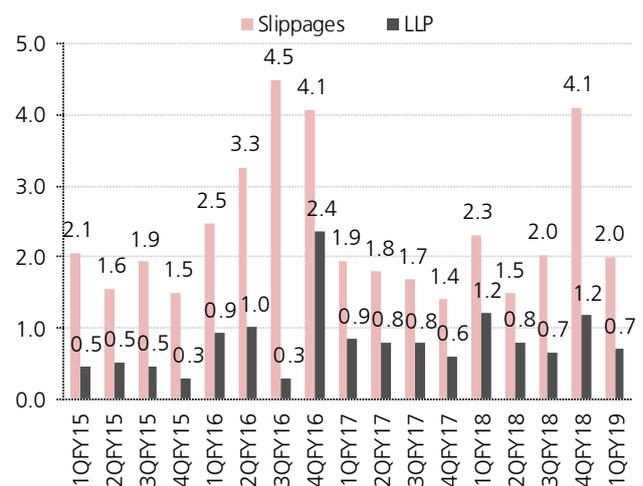
March fiscal year-ends, 4QFY15-4QFY19 (%)



Source: Company, Kotak Institutional Equities

Exhibit 6: Slippages declined to ~2% of loans

March fiscal year-ends, 1QFY15-1QFY19 (%)



Source: Company, Kotak Institutional Equities

CASA ratio flat in recent quarters

Overall deposit growth was 16% yoy in 1QFY19 driven by strong SA growth at 18% yoy. Federal Bank reported flat qoq growth in CASA in 1QFY19 (up 16% yoy). CASA ratio stood at 34% in 1QFY19 and has been stable over the past five quarters. Deposit growth outside Kerala continued to grow at a swift pace on a low base. SA reported 21% yoy growth outside Kerala. NRE deposits maintained momentum reporting 20% yoy growth in 1QFY19. The share of NR deposits to total deposits increased to 40% from 34% in FY2015 (up 230 bps qoq).

We expect CASA ratio to remain in the range of ~33% over the medium term driven by 19% CAGR in CASA over FY2018-21E.

NIM stable qoq; cost of deposits declines, a bit surprising

Reported NIM was stable qoq at 3.1% on the back of stable lending yields and marginal decline in cost of deposits. The decline in cost of deposits was a bit surprising considering the interest rate movement in the past few quarters. Yield on loans saw a compression in the previous quarter and the stable performance indicates that the pressure on improving lending yields is still a challenge. However, there is some improvement on pricing pressure from what we see on the ground. Tight liquidity and lack of easy access to credit implies shift in pricing power back to banks and we believe that this is probably one of the rationales for the bank to maintain a positive stance for the next few quarters. The other tailwind is likely to emerge from the mix in loan book towards retail and SME where the yields are higher by 100-200 bps.

We expect calculated NIM to range 2.7-2.8% during FY2019-21E.

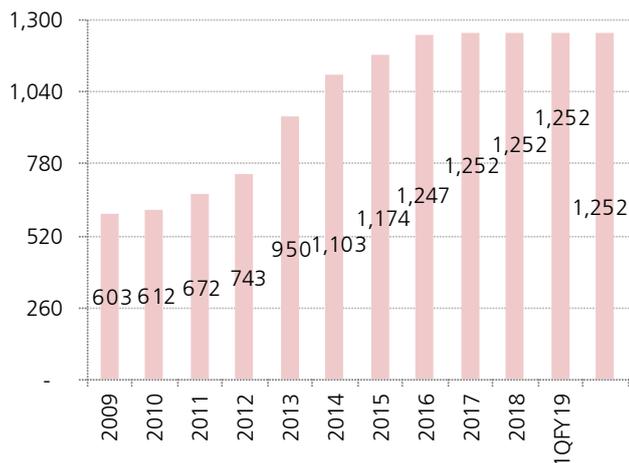
Cost pressure to moderate going ahead

Cost-to-income ratio was high at 52% in 1QFY19 (down 100 bps qoq and up 60 bps yoy) driven by robust growth in operating expenses at 13% yoy in 1QFY19. Growth in operating expenses was driven by sharp spike in employee expenses. Employee expenses saw a sharp jump in 1QFY19 at 19% yoy owing to increased provisions for gratuity. The company had to make additional provisions of ₹536 mn in the upcoming three quarters starting from 1QFY19. Federal Bank incurred the additional provisions in this quarter resulting in strong growth in employee expenses at 16% yoy. Adjusting for the same, cost-to-income ratio stood at 48% and employee expenses were flat yoy. There has been additional investment to expand the digital channel; a trend observed over the previous quarters. We expect cost-to-income ratio to gradually moderate to 46% by FY2021E on the back of 10% CAGR in operating expenses over FY2018-21E (employee expense CAGR of 10% over the same period).

Other operational highlights for the quarter

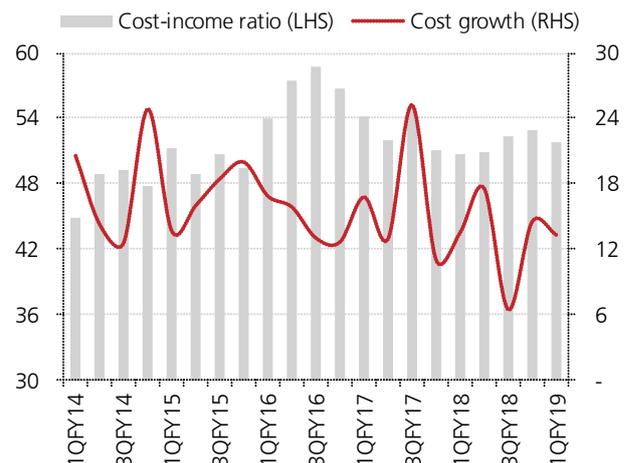
- ▶ Non-interest income dropped 18% yoy in 1QFY19 led by drop in treasury gains at 56% yoy. Recovery from written-off assets was down 62% yoy. Fee income, however, saw modest growth at 10% yoy in 1QFY19.
- ▶ Tier-1 stands comfortable at 14% as per Basel-3 norms, with overall capital adequacy at 14.5%. Growth in RWA at 1.4% yoy was lower than loan growth at 24% yoy in 1QFY19.

Exhibit 7: Bank has slowed fresh expansion in branches
Total branches, March fiscal year-ends, 2009-1QFY19 (#)



Source: Company, Kotak Institutional Equities

Exhibit 8: Cost-income ratio showed a marginal improvement
Cost-income ratio, March fiscal year-ends, 1QFY14-1QFY19 (%)



Source: Company, Kotak Institutional Equities

Exhibit 9: We marginally change our near-term earnings estimates

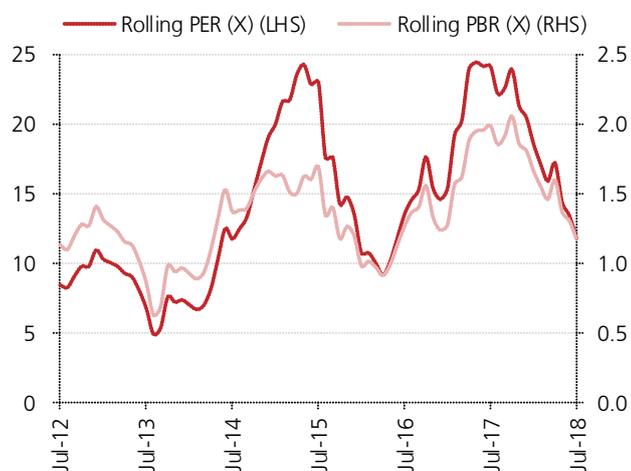
Old and new estimates, March fiscal year-ends, 2019E-21E (₹ mn)

	New estimates			Old estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Net interest income	40,971	48,448	56,194	41,266	48,250	55,686	(0.7)	0.4	0.9
NIM (%)	2.9	2.9	2.8	2.8	2.8	2.7	5 bps	13 bps	14 bps
Loan growth (%)	21.0	18.2	17.9	20.4	17.9	17.6	58 bps	28 bps	25 bps
Loan loss provisions	8,128	7,282	9,311	8,613	7,840	9,943	(5.6)	(7.1)	(6.4)
Other income	11,383	12,568	15,543	12,785	13,586	16,277	(11.0)	(7.5)	(4.5)
Treasury income	1,200	1,600	2,000	2,500	2,600	2,600	(52.0)	(38.5)	(23.1)
Operating expenses	26,701	29,522	32,808	27,867	30,504	33,505	(4.2)	(3.2)	(2.1)
Employee expenses	14,139	15,501	17,143	14,139	15,212	16,511	(0.0)	1.9	3.8
Net profit	11,240	15,680	19,270	11,386	15,358	18,728	(1)	2	3
PBT-treasury+provisions	24,454	29,894	36,929	23,684	28,732	35,858	3.3	4.0	3.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: Federal Bank trading at 1.6X one-year forward book

Rolling PER and PBR, July 2012- July 2017 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 11: Federal Bank's discount has increased

Trading premium to peers, July 2012- July 2017 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 12: Federal Bank – key growth rates and financial ratios

March fiscal year-ends, 2016-21E (%)

	2016	2017	2018	2019E	2020E	2021E
Growth rates (%)						
Net loan	13.3	26.2	25.4	21.0	18.2	17.9
Customer assets	14.8	25.0	24.5	20.6	18.0	17.7
Investments excluding CPs and debentures	0.7	26.3	13.0	3.2	32.8	21.5
Net fixed and leased assets	11.4	(5.9)	(6.6)	(18.9)	8.2	6.5
Cash and bank balance	13.4	37.5	23.5	6.9	10.7	10.2
Total assets	10.4	25.8	20.3	14.8	18.7	17.0
Deposits	11.8	23.4	14.7	15.9	20.3	17.9
Current	21.1	22.1	19.7	8.5	20.3	18.8
Savings	20.8	23.2	17.1	15.9	20.3	17.9
Fixed	7.8	23.5	13.3	16.6	20.3	17.8
Net interest income	5.2	21.9	17.4	14.3	18.2	16.0
Loan loss provisions	233.1	(5.6)	31.5	5.0	(10.4)	27.9
Total other income	(10.5)	37.6	7.1	(1.8)	10.4	23.7
Net fee income	9.0	38.7	10.5	15.0	17.0	18.0
Net exchange gains	12.3	(2.2)	32.7	15.0	15.0	15.0
Operating expenses	14.5	18.4	10.9	8.9	10.6	11.1
Employee expenses	18.0	10.5	6.8	13.8	9.6	10.6
Key ratios (%)						
Yield on average earning assets	9.6	9.0	8.1	8.0	8.1	8.2
Yield on average loans	10.4	10.0	9.1	8.8	8.9	9.1
Yield on average investments	8.4	7.3	6.6	7.0	6.9	6.7
Average cost of funds	6.8	6.1	5.4	5.4	5.5	5.7
Difference	2.8	2.9	2.7	2.6	2.6	2.5
Net interest income/earning assets	3.1	3.2	3.0	2.9	2.9	2.8
New provisions/average net loans	1.1	0.9	0.9	0.8	0.6	0.7
Interest income/total income	76.1	73.8	75.6	78.3	79.4	78.3
Fee income to total income	12.6	13.9	13.4	14.0	14.0	14.1
Fees income to PBT	57.7	44.1	47.4	43.3	36.3	34.8
Net trading income to PBT	6.5	21.4	4.9	4.1	4.7	5.2
Exchange income to PBT	18.1	9.8	12.6	11.5	9.5	8.9
Operating expenses/total income	56.7	53.4	51.7	51.0	48.4	45.7
Operating expenses/assets	2.1	2.1	1.9	1.8	1.7	1.6
Operating profit /AWF	0.7	1.0	0.9	1.1	1.3	1.4
Tax rate	33.9	36.4	34.6	33.6	33.6	33.6
Dividend payout ratio	25.3	18.7	22.4	22.4	22.4	22.4
Share of deposits						
Current	5.8	5.8	6.0	5.7	5.7	5.7
Fixed	67.1	67.2	66.3	66.7	66.7	66.7
Savings	27.1	27.0	27.6	27.6	27.6	27.6
Loans-to-deposit ratio	73.4	75.1	82.1	85.7	84.2	84.2
Equity/assets (EoY)	8.8	7.8	8.8	8.2	7.5	7.1
Asset quality trends (%)						
Gross NPL	2.8	2.3	3.0	2.5	2.2	2.0
Net NPL	1.6	1.3	1.7	1.3	0.9	0.6
Slippages	3.6	1.8	3.0	1.8	1.7	1.6
Provision coverage	43.0	45.5	44.5	48.6	59.9	72.9
Dupont analysis (%)						
Net interest income	2.9	3.0	2.8	2.8	2.8	2.7
Loan loss provisions	0.7	0.6	0.6	0.5	0.4	0.5
Net other income	0.9	1.0	0.9	0.8	0.7	0.8
Operating expenses	2.1	2.1	1.9	1.8	1.7	1.6
Invnt. depreciation	0.1	0.0	0.1	0.0	0.0	0.0
(1- tax rate)	66.1	63.6	65.4	66.4	66.4	66.4
RoA	0.5	0.8	0.7	0.8	0.9	0.9
Average assets/average equity	11.0	12.1	12.0	11.8	12.7	13.7
RoE	6.0	9.8	8.3	8.9	11.5	12.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: Federal Bank – income statement and balance sheet

March fiscal year-ends, 2016-21E (₹ mn)

	2016	2017	2018	2019E	2020E	2021E
Income statement						
Total interest income	77,452	86,774	97,533	113,500	135,349	161,906
Loans	56,693	65,457	75,388	88,997	108,244	130,079
Investments	17,601	18,014	19,174	21,320	24,074	28,941
Cash and deposits	3,158	3,303	2,966	3,183	3,031	2,886
Total interest expense	52,404	56,247	61,701	72,528	86,901	105,712
Deposits from customers	50,614	54,036	57,219	66,864	81,167	99,962
Net interest income	25,047	30,526	35,832	40,971	48,448	56,194
Loan loss provisions	6,240	5,889	7,742	8,128	7,282	9,311
Net interest income (after prov.)	18,808	24,638	28,090	32,844	41,166	46,883
Other income	7,864	10,818	11,591	11,383	12,568	15,543
Net fee income	4,155	5,761	6,368	7,323	8,568	10,110
Net capital gains	1,272	3,087	2,389	1,200	1,600	2,000
Net exchange gains	1,305	1,277	1,695	1,949	2,241	2,578
Operating expenses	18,668	22,095	24,509	26,701	29,522	32,808
Employee expenses	10,529	11,638	12,425	14,139	15,501	17,143
Depreciation on investments	802	296	1,729	500	500	500
Other Provisions	—	—	—	100	100	100
Pretax income	7,201	13,065	13,443	16,926	23,612	29,018
Tax provisions	2,440	4,757	4,650	5,686	7,932	9,748
Net Profit	4,761	8,308	8,792	11,240	15,680	19,270
% growth	(52.7)	74.5	5.8	27.8	39.5	22.9
PBT - Treasury + Provisions	12,971	16,163	20,525	24,454	29,894	36,929
% growth	(5.5)	24.6	27.0	19.1	22.2	23.5
Balance sheet						
Assets						
Cash and bank balance	54,198	74,522	92,034	98,368	108,902	120,053
Net value of investments	222,175	281,961	307,811	314,666	398,634	471,776
Govt. and other securities	170,040	215,654	244,662	252,578	337,503	411,505
Shares	1,554	2,176	2,086	2,086	2,086	2,086
Debentures and bonds	16,990	14,076	10,617	9,555	8,600	7,740
Net loans and advances	580,901	733,363	919,575	1,112,303	1,314,880	1,550,058
Fixed assets	5,200	4,895	4,574	3,707	4,011	4,271
Other assets	51,826	55,029	59,146	59,146	59,146	59,146
Total assets	914,300	1,149,769	1,383,140	1,588,191	1,885,573	2,205,305
Liabilities						
Deposits	791,717	976,646	1,119,925	1,298,200	1,562,038	1,841,422
Borrowings and bills payable	21,859	61,722	118,717	134,849	154,207	177,437
Other liabilities	19,812	21,977	22,396	24,635	27,099	29,808
Total liabilities	833,388	1,060,346	1,261,037	1,457,684	1,743,343	2,048,667
Paid-up capital	3,438	3,448	3,944	3,944	3,944	3,944
Reserves & surplus	77,474	85,976	118,158	126,562	138,286	152,693
Total shareholders' equity	80,912	89,424	122,102	130,506	142,230	156,637

Source: Company, Kotak Institutional Equities estimates

JULY 18, 2018

UPDATE

BSE-30: 36,520

Understanding the impact of revised load-carrying norms for trucks. As per a notification issued by the Ministry of Road Transport and Highways, (1) load-bearing capacity of trucks in India will increase by 10-25% depending on the number of axle and tires in the vehicle and (2) there will be stricter implementation of overloading ban (tolerance level of only 5%). As per press reports (not specified in the notification), these norms will apply on entire population of trucks and not only on new truck sales. Under this scenario, stricter overloading ban will likely offset the impact of increase in rated freight-carrying capacity of the industry; thus, it will be neutral for CV industry.

Ministry of Road Transport issues notification to revise load-bearing capacity of trucks in India

In a July 16, 2018 notification, the Ministry of Road Transport and Highways in India has revised the maximum safe axle weight of each axle type for transport vehicles in India. As per the notification, single axle with four tires can carry load of up to 11.5-12.5 tons as compared to 10.2 tons earlier while a tandem axle (two axles) for rigid vehicles and trailers can carry load of 21-22 tons as compared to 19 tons as per earlier norms. We note that post the revised norms, load-carrying capacity of trucks in India will become higher than that of the US or Europe. For example—as per the norms in the US, a tandem axle can carry load of 15-19 tons. Other key details from the notification include: (1) gross vehicle weight shall not exceed total permissible safe axle weight and in no case exceed 49 tons for rigid vehicles and 55 tons in case of truck trailers and (2) stricter compliance of the notified loading norms with a tolerance level of only up to 5%.

As per our calculations, post the revised norms, load-bearing capacity of trucks in India will increase by 10-25% depending on the number of axle and tires in the vehicle (refer to Exhibit 1 for details); on an average, load-carrying capacity will go up by 15-17%.

Press reports suggest norms are applicable on entire truck population; neutral for CV industry

The notification does not clearly state whether these revised norms apply only to trucks registered post this notification or the norms are applicable to the entire population of trucks. However, as per press reports, these norms will apply on entire population of trucks and not only on new truck sales. Thus, the impact on the domestic CV industry would depend on the actual implementation of stricter overloading ban as stated in the notification.

If the norms are applicable to the entire population of trucks, then overall rated freight-carrying capacity of the industry will go up by 15-17%. As per our checks, 20-25% overloading on trucks is quite prevalent in the industry – in Southern states (accounts for 20% of industry sales), overloading is negligible while overloading is significantly higher in other regions. Therefore, if the applicability of new load-carrying norms on overall truck population is coupled with stricter implementation of overloading ban across regions, then it will have a neutral impact on new truck sales. Potential decline in demand for trucks in South India will be offset by higher demand in Western and Northern states (overloading is more than increase in rated freight-carrying capacity post these new norms).

Hitesh Goel

Nishit Jalan

Exhibit 1: As per recent government notification, load-bearing capacity of trucks can increase by 10-25% in India
 Details on change in maximum safe axle load for trucks by Ministry of Road Transport in India (tons)

Axle type	Maximum safe axle weight (tons)		
	Now	Earlier	% increase
Single axle			
Single axle with single tire	3.0		
Single axle with two tires	7.5	6.0	25.0
Single axle with four tires	11.5-12.5	10.2	12-22
Tandem axles (two axles) (where the distance between two axles is less than 1.8 mtr)			
Tandem axle for rigid vehicles, trailers and semi-trailers	21-22	19.0	10-16
Tandem axle for puller tractors for hydraulic and pneumatic trailers	28.5	25.0	14.0
Tri-axles (three axles) (where the distance between outer axles is less than 3 mtr)			
Tri-axle for rigid vehicles, trailers and semi-trailers	27-28	24.0	12-17
Axle row (two axles with four tires each) in modular hydraulic trailers (9 ton load shall be permissible for single axle)	18.0		

Source: Ministry of Road Transport and Highways, Kotak Institutional Equities

June 2018: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
16-Jul	17-Jul	18-Jul	19-Jul	20-Jul	21-Jul	22-Jul
		Mahindra CIE Automotive	ABB	Bajaj Auto	HDFC Bank	
		Mindtree	Bajaj Finance	Bajaj Holding & Investment	Reliance Power	
		UltraTech Cement	Bajaj Finserv	CEAT		
			DB Corp.	Havells India		
			Kotak Mahindra Bank	HDFC Standard Life		
			RBL Bank	Just Dial		
				Kansai Nerolac		
				L&T Finance Holdings		
				Wipro		
23-Jul	24-Jul	25-Jul	26-Jul	27-Jul	28-Jul	29-Jul
ACC	Asian Paints	Ambuja Cements	Bharat Financial Inclusion	Bank of Baroda	J K Cements	
Hindustan Zinc	GlaxoSmithkline Pharmaceuticals	Bharti Infratel	Bharti Airtel	Coromandel International		
Indiabulls Ventures	Hexaware Technologies	BHEL	Biocon	HCL Technologies		
L&T Infotech	ICICI Prudential Life	Canara Bank	CESC	ICICI Bank		
United Spirits	Info Edge	Crompton Greaves Consumer	Cholamandalam	JSW Energy		
	TeamLease Services	GRUH Finance	Colgate-Palmolive (India)	Mahindra & Mahindra Financial		
		Hero Motocorp	Container Corporation	Prestige Estates Projects		
		JSW Steel	Dr Reddy's Laboratories			
		Jubilant Foodworks	ITC			
		Jyothy Laboratories	Maruti Suzuki			
		Karur Vysya Bank	Petronet LNG			
		L&T	SBI Life Insurance			
		PVR	Schaeffler India			
		Reliance Nippon Life Asset Management	Tata Power			
		Rural Electrification Corp.	WABCO India			
		Shriram City Union Finance	Yes Bank			
		SIS				
		SKF				
30-Jul	31-Jul	1-Aug	2-Aug	3-Aug	4-Aug	5-Aug
Axis Bank	Bharat Electronics	Aditya Birla Fashion	Indiabulls Housing	Berger Paints		PI Industries
Century Textile	Castrol India	Emami	Mahindra Logistics	Carborundum Universal		
Godrej Consumer Products	Dabur India	Exide Industries	Marico	Titan Company		
GSPL	Mahanagar Gas	Pdillite Industries	The Ramco Cement			
HDFC	Supreme Industries	Torrent Power	Torrent Pharmaceuticals			
IDFC Bank	Tata Motors					
Shree Cement	Vedanta					
Tech Mahindra						
6-Aug	7-Aug	8-Aug	9-Aug	10-Aug	11-Aug	12-Aug
Britannia Industries	AU Small Finance	Cipla	Gujarat Pipavav Port	Apollo Hospitals	Amara Raja Batteries	
Ujivan Financial Services	Mahindra & Mahindra	PNB Housing Finance	HCG	Dr Lal Pathlabs		
	Mphasis	Thermax		Endurance Technologies		
	TVS Motor			Timken		
13-Aug	14-Aug	15-Aug	16-Aug	17-Aug	18-Aug	19-Aug
Godrej Industries						

Source: NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (US\$ bn)		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)		RoE (%)		Dividend yield (%)			ADVT 3mo (US\$ mn)			
		17-Jul-18	Target price (Rs)		2018	2019E		2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E		2020E		
Automobiles																													
Amara Raja Batteries	REDUCE	784	780	(0.6)	134	2.0	171	28	33	39	(1.6)	21.2	15.5	28.4	23.5	20.3	15.1	12.5	10.7	4.6	3.9	3.4	17.0	18.0	0.5	0.6	0.7	6.2	
Apollo Tyres	BUY	277	340	22.7	159	2.3	541	13	20	25	(38.0)	48.3	25.0	20.7	14.0	11.2	11.5	8.2	6.9	1.5	1.5	1.3	8.5	11.1	12.5	1.0	1.1	1.1	10.2
Ashok Leyland	BUY	129	160	24.5	377	5.5	2,926	5.4	6.2	8.9	8.0	15.3	43.2	23.9	20.7	14.5	13.8	10.6	7.7	5.3	4.5	3.8	23.7	23.4	28.4	1.9	1.4	2.1	36.9
Bajaj Auto	SELL	3,094	2,800	(9.5)	895	13.1	289	140	160	176	6.0	14.0	10.0	22.1	19.3	17.6	15.4	13.9	12.3	4.7	4.2	3.7	22.9	22.8	22.3	1.9	2.1	2.3	22.3
Balkrishna Industries	REDUCE	1,157	1,260	8.9	224	3.3	193	37	50	63	4.8	34.8	25.0	30.9	23.0	18.4	16.4	12.6	10.0	5.5	4.5	3.7	19.0	21.6	22.2	0.5	0.5	0.5	8.4
Bharat Forge	SELL	616	600	(2.6)	287	4.2	466	16	23	27	10.1	43.0	16.8	38.1	26.6	22.8	18.3	15.1	13.0	6.2	5.3	4.5	17.3	21.5	21.4	0.7	0.8	0.9	10.3
CEAT	ADD	1,271	1,600	25.9	51	0.8	40	65	101	113	(29.5)	55.4	12.6	19.6	12.6	11.2	9.7	8.1	6.9	2.0	1.7	1.5	10.4	14.6	14.4	0.9	0.8	0.8	13.2
Eicher Motors	SELL	27,216	26,000	(4.5)	742	10.8	27	792	995	1,200	29.3	25.5	20.6	34.3	27.4	22.7	24.7	19.9	16.1	13.8	10.0	7.4	46.4	42.3	37.5	0.1	0.1	0.1	16.9
Escorts	BUY	893	1,170	31.0	76	1.6	89	39	56	69	71.3	43.6	23.6	23.0	16.0	13.0	13.1	9.8	7.6	3.1	2.7	2.3	13.5	16.8	17.7	0.4	0.9	1.2	16.9
Exide Industries	SELL	267	225	(15.8)	227	3.3	850	8	10	11	0.6	23.7	10.9	32.6	26.3	23.7	18.2	15.3	13.6	4.2	3.8	3.5	13.5	15.2	15.3	0.9	1.1	1.3	8.2
Hero Motocorp	SELL	3,489	3,500	0.3	697	10.2	200	185	206	227	9.5	11.1	10.1	18.8	17.0	15.4	11.7	10.5	9.4	5.9	5.2	4.6	33.8	32.6	31.6	2.4	2.9	3.2	18.4
Mahindra CIE Automotive	ADD	261	275	5.5	99	1.4	378	10	13	15	107.0	35.8	12.9	27.2	20.0	17.7	13.3	10.1	8.8	2.7	2.3	2.1	10.4	12.5	12.4	—	—	—	3.1
Mahindra & Mahindra	BUY	922	1,015	10.0	1,147	16.8	1,138	38	44	50	22.0	15.6	14.8	24.3	21.0	18.3	16.0	13.6	11.8	3.4	3.1	2.7	15.1	15.4	15.7	0.8	1.0	1.1	33.6
Maruti Suzuki	ADD	9,445	9,700	2.7	2,853	41.7	302	256	330	395	5.1	29.2	19.6	37.0	28.6	23.9	20.7	16.2	13.1	6.8	5.9	5.0	19.8	22.0	22.6	0.7	0.9	1.0	62.3
Motherson Sumi Systems	SELL	285	265	(7.0)	600	8.8	2,105	8	11	14	6.1	37.7	21.7	34.9	25.3	20.8	13.2	10.2	8.4	6.1	5.2	4.4	19.0	22.1	22.9	0.8	1.0	1.1	13.5
MRF	REDUCE	74,609	76,000	1.9	316	4.6	4	2,669	3,896	4,447	(23.9)	46.0	14.1	28.0	19.1	16.8	12.7	9.3	8.0	3.2	2.8	2.4	12.3	15.7	15.4	0.1	0.1	0.1	7.3
Schaeffler India	BUY	5,292	6,000	13.4	88	1.3	17	143	171	207	22.0	19.4	21.1	37.0	30.9	25.6	21.7	18.7	15.1	5.2	4.6	4.1	15.0	15.8	16.9	0.3	0.6	0.8	0.7
SKF	REDUCE	1,750	1,700	(2.9)	90	1.3	51	58	70	81	24.6	20.8	16.4	40.3	25.1	21.6	18.8	16.2	13.5	4.9	4.3	3.7	16.1	17.0	17.2	0.7	0.8	1.0	0.2
Tata Motors	BUY	258	445	72.7	875	11.9	3,396	20	23	38	(28.0)	15.9	63.8	12.9	11.1	6.8	3.8	3.5	2.9	0.9	0.8	0.8	8.8	7.9	11.7	—	—	—	60.5
Timken	SELL	736	660	(10.3)	50	0.7	68	14	19	25	(5.3)	42.3	27.5	54.4	38.2	30.0	30.3	21.1	16.9	7.1	6.1	5.1	13.9	17.1	18.5	0.1	0.1	0.1	0.4
TVS Motor	SELL	573	410	(28.5)	272	4.0	475	14	17	21	18.7	23.0	22.0	41.1	33.4	27.4	25.0	19.5	16.3	9.5	8.0	6.7	25.1	26.0	26.7	0.6	0.9	1.1	11.6
WABCO India	SELL	6,984	6,350	(9.1)	132	1.9	19	144	169	222	27.8	17.8	31.3	48.6	41.2	31.4	31.6	26.9	20.4	8.7	7.3	6.0	19.5	19.2	20.9	0.1	0.1	0.2	0.5
Automobiles	Neutral				10,392	152					(0.9)	23.0	25.5	26.6	21.6	17.2	11.8	9.9	8.1	3.8	3.3	2.9	14.2	15.5	16.9	0.8	1.0	1.1	361.5
Banks																													
Axis Bank	ADD	538	600	11.5	1,381	20.2	2,567	1	20	39	(92.6)	1,735.5	100.1	500.8	27.3	13.6	—	—	—	2.6	2.3	2.0	0.5	7.7	13.8	0.9	0.5	1.1	60.9
Bank of Baroda	NR	121	—	—	320	4.7	2,652	(9)	20	23	(253.2)	323.2	10.5	(13.2)	5.9	5.3	—	—	—	1.4	1.1	0.8	(5.8)	12.6	12.3	—	—	—	28.6
Bank of India	ADD	82	120	46.2	143	2.1	1,744	(35)	(6)	16	(134.7)	82.2	366.7	(2.4)	(13.3)	5.0	—	—	—	1.2	1.6	1.0	(21.3)	(3.6)	9.5	—	(1.5)	4.0	11.3
Canara Bank	ADD	235	300	27.8	172	2.5	733	(58)	(2)	60	(406.6)	97.3	4,031.4	(4.1)	(152.7)	3.9	—	—	—	1.5	1.5	0.9	(11.9)	(0.3)	11.8	—	—	—	28.4
City Union Bank	ADD	176	190	7.9	129	1.9	665	9	10	12	6.4	16.2	13.0	19.8	17.0	15.1	—	—	—	3.0	2.6	2.3	15.3	15.5	15.5	0.2	1.0	1.2	2.0
DCB Bank	ADD	163	205	26.1	50	0.7	308	8	10	12	13.8	28.2	21.0	20.4	15.9	13.2	—	—	—	2.0	1.9	1.7	10.9	11.7	12.7	—	0.6	0.7	6.4
Equitas Holdings	BUY	136	190	39.3	46	0.7	340	0.9	4.4	8.3	(80.4)	374.7	88.2	147.4	31.1	16.5	—	—	—	2.1	2.0	1.8	1.4	6.4	11.0	—	—	—	4.4
Federal Bank	BUY	88	130	47.2	175	2.6	1,972	4.4	5.7	7.9	(9.3)	29.5	39.5	20.2	15.6	11.2	—	—	—	1.6	1.4	1.3	8.2	8.8	11.4	1.1	1.5	2.0	17.1
HDFC Bank	REDUCE	2,177	1,900	(12.7)	5,668	82.9	2,595	67	77	93	18.7	14.7	20.0	32.3	28.2	23.5	—	—	—	5.4	4.1	3.6	17.9	16.6	16.2	0.6	0.7	0.8	78.7
ICICI Bank	BUY	266	400	50.1	1,714	25.1	6,429	11	15	25	(31.1)	46.5	64.1	25.3	17.2	10.5	—	—	—	2.0	1.8	1.5	6.6	9.1	13.7	0.6	1.2	1.9	86.5
IDFC Bank	NR	37	—	—	127	1.9	3,404	2.5	1.6	3.3	(16.0)	(38.5)	109.8	14.8	24.1	11.5	—	—	—	0.8	0.8	0.8	5.7	3.4	6.9	1.3	0.8	1.7	9.1
IndusInd Bank	REDUCE	1,905	1,900	(0.3)	1,144	16.7	600	60	71	87	25.3	17.5	23.6	31.7	27.0	21.8	—	—	—	5.0	4.0	3.5	17.1	17.6	16.8	—	0.4	0.5	31.6
J&K Bank	BUY	46	105	130.3	25	0.4	557	4	8	11	111.6	116.7	44.4	12.5	5.8	4.0	—	—	—	0.6	0.5	0.4	3.4	6.9	9.4	—	3.5	5.0	0.3
Karur Vysya Bank	ADD	100	120	19.9	73	1.1	727	5	4	14	(52.2)	(22.8)	274.8	21.0	27.3	7.3	—	—	—	1.4	1.4	1.2	6.1	4.2	14.7	0.6	0.9	3.4	1.7
Punjab National Bank	ADD	79	90	14.4	217	3.2	2,761	(44)	(39)	9	(814.7)	13.4	124.1	(1.8)	(2.0)	8.5	—	—	—	4.7	(3.6)	(13.4)	(32.4)	(31.3)	8.2	—	(10.6)	2.6	29.2
RBL Bank	SELL	562	450	(19.9)	237	3.5	420	15	20	25	27.3	32.9	21.8	37.1	28.0	22.9	—	—	—	3.6	3.3	3.0	11.5	12.0	13.2	0.4	0.5	0.7	10.1
State Bank of India	BUY	259	370	42.8	2,312	33.8	8,925	(7)	18	37	(155.8)	NM	106.1	NM	14.4	7.0	—	—	—	2.1	1.6	1.2	(3.2)	7.1	13.2	—	0.1	0.2	74.4
Ujivan Financial Services	REDUCE	378	420	11.1	46	0.7	121	1	22	29	(96.5)	3,564.0	30.0	626.2	17.1	13.2	—	—	—	2.7	2.3	2.0	0.4	14.2	16.1	0.0	0.6	0.8	7.2
Union Bank	ADD	81	130	61.0	94	1.4	1,169	(45)	1	24	(655.5)	101.4	3,896.2	(1.8)	131.9	3.3	—												

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)	
		17-Jul-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	REDUCE	2,469	1,850	(25.1)	1,427	20.9	575	46	63	82	38.5	34.9	30.0	53.1	39.4	30.3	—	—	—	8.6	7.2	5.9	20.5	19.9	21.5	0.2	0.3	0.3	42.7
Bajaj Finserv	ADD	6,352	5,900	(7.1)	1,011	14.8	159	174	206	266	13.5	18.7	28.8	36.5	30.8	23.9	—	—	—	5.0	4.0	3.5	15.3	14.5	15.6	0.2	0.2	0.2	14.3
Bharat Financial Inclusion	NA	1,163	—	—	162	2.4	139	33	43	54	55.5	31.1	27.2	35.6	27.2	21.4	—	—	—	5.4	4.4	3.6	16.7	17.9	18.5	—	—	—	10.6
Cholamandalam	REDUCE	1,579	1,510	(4.4)	247	3.6	156	62	76	92	35.5	22.3	20.8	25.3	20.7	17.2	—	—	—	5.0	4.2	3.5	20.6	21.0	21.2	0.4	0.6	0.7	7.5
HDFC	BUY	1,989	2,075	4.3	3,352	49.0	1,676	75	58	67	52.1	(23.1)	15.2	26.4	34.3	29.8	—	—	—	5.2	4.5	4.1	23.9	14.3	14.5	1.0	1.0	1.2	72.5
HDFC Standard Life Insurance	SELL	465	405	(12.8)	935	13.7	2,007	6	6	7	24.4	14.8	10.9	84.0	73.2	66.0	—	—	—	21.7	19.4	17.3	27.3	28.0	27.7	0.3	0.3	0.4	13.4
ICICI Lombard	SELL	739	620	(16.1)	335	4.9	454	19	26	32	22.0	37.1	21.5	38.9	28.4	23.4	—	—	—	7.4	6.2	5.2	20.8	23.8	24.2	0.5	0.8	1.0	1.8
ICICI Prudential Life	BUY	357	500	39.9	513	7.5	1,436	11	12	13	(3.7)	3.8	7.6	31.7	30.5	28.4	—	—	—	7.8	6.5	5.5	25.0	23.2	20.9	1.6	0.6	0.6	12.2
IIFL Holdings	SELL	614	625	1.8	196	2.9	319	29	34	41	32.4	17.3	21.4	21.5	18.3	15.1	—	—	—	3.9	3.3	2.9	19.0	19.3	20.0	1.0	1.2	1.4	1.4
L&T Finance Holdings	REDUCE	147	185	25.6	294	4.3	1,996	7	10	12	23.7	34.6	24.1	20.1	14.9	12.0	—	—	—	2.3	2.1	1.8	14.2	14.7	16.1	1.2	1.4	1.4	9.9
LIC Housing Finance	BUY	517	610	17.9	261	3.8	505	44	50	58	3.2	13.8	17.5	11.9	10.4	8.9	—	—	—	2.0	1.7	1.4	14.5	14.3	14.4	1.3	1.5	1.8	12.8
Magma Fincorp	BUY	142	200	41.3	38	0.6	237	10	12	15	1,014.5	24.6	25.8	14.6	11.7	9.3	—	—	—	1.4	1.4	1.2	10.2	12.9	14.1	0.6	1.3	1.6	1.6
Mahindra & Mahindra Financial	REDUCE	485	475	(2.0)	299	4.4	614	15	22	26	105.0	53.5	16.6	33.4	21.7	18.7	—	—	—	3.4	3.1	2.8	11.3	14.0	14.8	0.8	1.3	1.5	11.2
Max Financial Services	BUY	444	650	46.2	119	1.7	268	5	6	6	(20.4)	36.9	1.8	97.0	70.8	69.6	—	—	—	—	—	—	6.5	8.3	8.0	—	0.5	0.5	5.2
Muthoot Finance	ADD	404	480	18.9	162	2.4	400	43	38	40	45.6	(10.8)	4.0	9.4	10.5	10.1	—	—	—	2.1	1.8	1.6	24.1	18.4	16.9	2.5	2.2	2.3	4.6
PNB Housing Finance	REDUCE	1,216	1,375	13.1	204	3.0	167	50	61	77	57.8	23.0	25.3	24.4	19.9	15.9	—	—	—	3.2	2.9	2.6	14.0	15.2	16.8	0.7	0.3	0.3	10.2
SBI Life Insurance	ADD	666	815	22.4	666	9.7	1,000	12	15	18	20.8	26.0	22.9	57.8	45.8	37.3	—	—	—	10.4	8.7	7.3	19.4	20.6	21.3	0.3	0.3	0.4	5.0
Shriram City Union Finance	ADD	1,900	2,325	22.4	125	1.8	66	101	140	174	19.6	39.4	23.8	18.9	13.5	10.9	—	—	—	2.4	2.1	1.8	12.5	15.5	16.7	0.9	0.9	1.2	0.7
Shriram Transport	ADD	1,265	1,400	10.7	287	4.2	227	69	105	125	24.7	52.1	18.7	18.3	12.0	10.1	—	—	—	2.4	2.1	1.8	13.1	17.6	18.0	0.9	1.2	1.4	26.9
NBFCs	Neutral				10,633	155					38.0	7.0	19.5	30.9	28.9	24.2				5.2	4.4	3.9	16.8	15.4	16.1	0.7	0.7	0.8	563.2
Cement																													
ACC	SELL	1,288	1,205	(6.5)	242	3.5	188	49	54	66	32.7	10.6	23.0	26.5	23.9	19.5	13.9	12.9	10.3	2.6	2.4	2.2	10.1	10.5	11.9	1.3	1.3	1.3	11.2
Ambuja Cements	REDUCE	196	215	9.9	388	5.7	1,986	8	7	9	29.7	(1.3)	27.0	26.0	26.4	20.8	8.5	8.4	6.8	1.9	1.8	1.7	7.4	7.0	8.6	1.8	1.8	1.8	9.5
Dalmia Bharat	ADD	2,365	2,900	22.6	211	3.1	89	60	98	128	55.4	62.6	30.3	39.2	24.1	18.5	12.3	9.3	7.6	3.5	3.0	2.6	9.7	13.4	15.2	0.1	0.1	0.1	5.0
Grasim Industries	BUY	941	1,275	35.5	619	9.0	657	47	52	69	(30.1)	9.1	32.8	19.8	18.2	13.7	11.7	7.2	6.6	1.1	1.0	1.0	7.0	5.8	7.2	0.6	0.6	0.6	13.8
India Cements	REDUCE	103	135	31.3	32	0.5	308	3	5	9	(42.5)	56.2	84.4	31.5	20.2	10.9	9.2	7.9	6.2	0.6	0.6	0.6	2.0	3.0	5.3	1.0	1.0	1.0	6.7
J K Cement	REDUCE	776	1,000	28.9	54	0.8	70	43	51	83	25.1	17.0	65.0	17.9	15.3	9.3	9.6	10.2	8.3	2.7	2.4	2.0	16.2	16.7	23.2	1.0	1.0	1.0	0.6
JK Lakshmi Cement	ADD	333	425	27.8	39	0.6	118	4	18	33	(35.7)	311.2	79.6	74.4	18.1	10.1	13.7	8.2	5.9	2.7	2.4	2.0	3.7	14.1	21.5	0.6	0.6	0.6	0.4
Orient Cement	ADD	107	165	54.3	22	0.3	205	2	8	12	237.8	250.7	64.8	49.5	14.1	8.6	11.2	7.1	5.2	2.1	1.9	1.6	4.4	14.3	20.6	0.7	1.4	1.9	0.2
Shree Cement	SELL	16,019	12,700	(20.7)	558	8.2	35	397	486	662	3.4	22.3	36.2	40.3	33.0	24.2	21.6	16.3	12.7	6.3	5.4	4.5	16.7	17.6	20.2	0.3	0.3	0.3	4.8
UltraTech Cement	SELL	3,895	2,950	(24.3)	1,070	15.6	275	88	126	162	(7.8)	42.7	28.9	44.2	31.0	24.0	21.9	16.2	13.4	4.1	3.7	3.2	9.7	12.6	14.3	0.3	0.3	0.3	18.0
Cement	Cautious				3,235	47					5.9	23.4	33.3	31.2	25.3	19.0	14.2	10.2	8.6	2.3	2.2	2.0	7.5	8.6	10.5	0.6	0.6	0.6	70.3

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target	Upside	Mkt cap.	O/S	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)		RoE (%)		Dividend yield (%)			ADVT 3mo (US\$ mn)				
		17-Jul-18	price (Rs)				(%)	(Rs bn)	(US\$ bn)	(mn)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E		2020E	2018	2019E	2020E
Consumer products																													
Asian Paints	REDUCE	1,376	1,100	(20.1)	1,320	19.3	959	21	24	28	2.9	18.7	14.7	67.0	56.5	49.3	41.0	35.3	30.7	15.7	13.9	12.4	24.6	26.1	26.6	0.6	0.8	1.0	18.2
Bajaj Corp.	ADD	408	470	15.2	60	0.9	148	14	15	17	(9.4)	7.8	10.3	28.5	26.5	24.0	22.5	21.1	18.0	12.2	12.3	12.2	42.8	46.3	51.2	2.9	3.2	3.4	0.4
Britannia Industries	ADD	6,438	6,000	(6.8)	773	11.3	120	84	104	126	13.5	24.4	21.5	77.0	61.9	50.9	50.9	40.0	32.9	22.7	18.0	14.6	32.9	32.4	31.6	0.4	0.5	0.7	9.4
Coffee Day Enterprises	REDUCE	261	340	30.5	55	0.8	211	3	8	13	49.1	149.7	59.4	77.9	31.2	19.6	13.3	—	—	2.3	2.2	1.9	3.1	7.2	10.4	—	—	—	1.4
Colgate-Palmolive (India)	ADD	1,125	1,300	15.6	306	4.5	272	24	27	32	15.2	14.6	16.9	47.3	41.3	35.3	27.1	23.7	20.4	20.1	20.2	17.2	46.2	48.8	52.6	2.1	1.4	1.7	8.1
Dabur India	REDUCE	378	350	(7.4)	667	9.8	1,762	8	9	10	7.2	16.1	11.7	48.6	41.9	37.5	41.1	35.6	31.2	11.7	11.7	10.2	25.9	27.9	29.1	2.0	1.0	1.2	9.3
GlaxoSmithKline Consumer	ADD	6,380	6,750	5.8	268	3.9	42	166	189	211	6.6	13.3	11.9	38.3	33.8	30.2	26.3	22.6	19.4	7.7	7.0	6.4	21.2	21.7	22.2	1.2	1.4	1.6	2.0
Godrej Consumer Products	REDUCE	1,305	1,020	(21.8)	889	13.0	681	21	25	28	11.5	17.6	13.3	61.1	52.0	45.8	43.3	36.8	32.2	14.2	12.3	10.7	25.2	25.4	24.9	0.5	0.7	0.7	9.3
Hindustan Unilever	REDUCE	1,684	1,570	(6.8)	3,645	53.3	2,160	25	29	33	25.0	19.5	13.2	68.6	57.4	50.7	49.2	39.8	35.0	51.4	44.9	38.2	78.1	83.5	81.4	1.2	1.2	1.4	29.7
ITC	ADD	270	315	16.7	3,294	48.2	12,275	9	10	11	7.8	7.8	12.4	30.3	28.1	25.0	19.7	18.1	15.9	6.4	6.1	5.7	19.4	20.3	22.2	1.9	2.1	2.5	42.5
Jubilant Foodworks	BUY	1,428	1,500	5.0	189	2.8	132	15	24	33	191.7	64.1	39.2	98.1	59.8	43.0	41.9	29.0	21.8	19.5	14.2	10.9	21.7	27.5	28.8	0.1	0.1	0.2	36.9
Jyothy Laboratories	ADD	208	220	5.6	76	1.1	364	4	6	6	35.1	25.4	17.2	47.3	37.7	32.2	29.1	24.0	20.7	6.6	5.7	5.0	14.3	16.3	16.6	0.2	0.5	0.7	1.5
Manpasand Beverages	SELL	130	132	1.6	15	0.2	114	9	11	13	37.6	21.3	26.5	14.9	12.3	9.7	7.5	5.0	4.0	1.2	1.1	1.0	8.3	9.3	10.7	0.4	0.4	0.4	3.7
Marico	ADD	348	345	(0.8)	449	6.6	1,291	6	7	8	7.4	16.7	13.7	55.5	47.6	41.8	39.1	32.9	28.6	17.7	16.3	15.1	33.2	35.7	37.5	1.2	1.4	1.6	8.8
Nestle India	ADD	10,512	9,500	(9.6)	1,013	14.8	96	127	168	191	21.1	32.5	13.4	82.7	62.5	55.1	45.5	35.4	31.2	29.6	27.2	25.0	36.6	45.5	47.3	0.8	1.1	1.2	8.8
Page Industries	SELL	28,702	21,000	(26.8)	320	4.7	11	311	392	482	32.5	26.1	22.9	92.3	73.1	59.5	58.8	46.5	38.2	37.8	29.5	23.6	45.9	45.3	44.0	0.5	0.6	0.7	7.7
Pidlite Industries	REDUCE	1,059	1,050	(0.9)	538	7.9	508	18	22	26	7.5	20.4	20.4	58.7	48.8	40.5	39.2	32.6	26.9	15.1	12.7	10.6	26.0	28.2	28.5	0.6	0.7	0.8	13.8
S H Kelkar and Company	BUY	208	315	51.8	30	0.4	145	7	8	11	2.1	11.8	28.4	28.0	25.1	19.5	19.5	16.3	12.8	3.5	3.2	2.8	12.8	13.3	15.3	0.8	0.8	1.0	0.2
Tata Global Beverages	REDUCE	248	285	15.0	156	2.3	631	7	10	11	20.7	29.4	19.1	33.7	26.1	21.9	17.8	14.9	12.8	2.2	2.1	2.0	7.0	8.3	9.4	1.0	1.2	1.4	13.7
Titan Company	SELL	845	800	(5.3)	750	11.0	888	13	16	20	43.3	26.7	20.6	66.1	52.2	43.3	45.3	34.5	27.7	14.7	12.4	10.4	24.3	25.8	26.2	0.4	0.5	0.7	36.3
United Breweries	SELL	1,168	1,000	(14.4)	309	4.5	264	15	19	24	71.6	29.7	23.4	78.3	60.3	48.9	34.5	28.7	24.8	11.5	9.9	8.4	15.7	17.6	18.6	0.2	0.2	0.3	9.8
United Spirits	SELL	580	560	(3.4)	421	6.2	727	8	11	14	39.1	40.5	27.4	76.3	54.3	42.6	44.0	32.3	26.7	16.8	11.5	8.4	24.9	25.1	22.8	—	—	0.3	18.4
Varun Beverages	ADD	730	750	2.7	133	1.9	183	12	17	22	377.8	45.4	29.8	63.4	43.6	33.6	19.4	15.6	13.4	7.5	6.5	5.5	12.1	16.0	17.7	—	—	0.1	1.3
Consumer products	Cautious				15,677	229					15.0	17.1	15.3	51.8	44.2	38.3	33.7	28.5	24.6	12.7	11.4	10.2	24.5	25.9	26.7	1.1	1.2	1.4	291.2
Energy																													
BPCL	REDUCE	393	390	(0.7)	852	12.5	1,967	40	39	41	(1.5)	(3.6)	5.3	9.8	10.1	9.6	7.9	7.4	6.9	2.3	2.0	1.8	24.8	21.1	20.0	5.3	4.0	4.2	34.9
Castrol India	ADD	160	215	34.8	158	2.3	989	7	8	9	3.3	13.6	10.9	23.2	20.4	18.4	14.5	12.8	11.5	15.5	14.6	14.3	67.9	73.6	78.6	3.0	3.8	4.4	4.2
GAIL (India)	BUY	359	410	14.3	809	11.8	2,255	20	25	27	21.8	23.2	8.3	17.6	14.3	13.2	11.0	9.1	8.5	2.0	1.9	1.7	11.7	13.5	13.5	2.0	2.4	2.5	21.5
GSPL	SELL	185	170	(7.9)	104	1.5	564	12	11	11	34.5	(7.0)	(4.6)	15.6	16.7	17.6	7.9	6.6	6.6	2.1	1.9	1.7	14.0	11.7	10.2	0.9	0.9	0.9	1.6
HPCL	REDUCE	281	320	13.8	429	6.3	1,524	42	32	33	(3.2)	(23.4)	3.4	6.7	8.8	8.5	5.9	7.6	7.8	1.8	1.6	1.5	28.7	19.3	18.2	6.0	4.6	4.8	31.7
Indraprastha Gas	SELL	265	240	(9.5)	186	2.7	700	10	12	13	19.0	16.5	12.0	25.7	22.1	19.7	16.2	14.0	12.4	5.3	4.6	4.0	22.4	22.2	21.5	0.8	0.9	1.2	10.3
IOCL	REDUCE	164	160	(2.7)	1,597	23.4	9,479	21	17	18	(24.8)	(17.9)	7.4	8.0	9.8	9.1	4.7	5.4	5.0	1.4	1.3	1.2	18.5	14.0	14.0	7.0	4.1	4.4	26.6
Mahanagar Gas	ADD	825	850	3.1	81	1.2	99	48	52	54	21.5	6.5	5.3	17.0	16.0	15.2	10.3	9.2	8.6	3.9	3.5	3.1	24.3	22.8	21.4	2.3	2.5	2.6	4.6
ONGC	ADD	156	200	28.1	2,004	29.3	12,833	17	21	21	3.1	19.6	(1.3)	9.0	7.5	7.6	4.9	3.8	3.7	0.9	0.8	0.8	9.9	11.5	10.7	4.2	4.5	4.5	17.3
Oil India	SELL	207	220	6.4	235	3.4	1,135	25	24	24	22.6	(1.3)	(0.7)	8.4	8.5	8.5	6.5	5.9	5.9	0.8	0.8	0.8	9.8	9.7	9.2	5.0	5.3	5.3	3.4
Petronet LNG	BUY	209	280	34.0	313	4.6	1,500	14	16	18	22.1	17.3	13.2	15.0	12.8	11.3	10.0	8.6	7.2	3.2	2.8	2.5	23.3	23.4	23.3	2.2	2.7	3.5	11.9
Reliance Industries	REDUCE	1,092	930	(14.9)	6,465	94.5	5,922	59	68	77	16.9	14.9	13.9	18.5	16.1	14.1	13.7	11.1	9.3	2.2	2.0	1.7	11.6	11.9	12.1	0.5	0.6	0.6	114.9
Energy	Attractive				13,232	193					1.0	5.8	7.3	12.8	12.1	11.3	8.4	7.4	6.8	1.7	1.6	1.4	13.3	12.8	12.6	2.6	2.2	2.3	283.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Target			Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)		EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		Price (Rs) 17-Jul-18	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
Industrials																													
ABB	SELL	1,184	1,100	(7.1)	251	3.7	212	20	26	34	12.1	31.2	31.7	59.7	45.5	34.6	32.9	28.0	21.2	7.0	6.4	5.7	12.2	14.6	17.3	0.3	0.8	0.8	1.5
BHEL	SELL	68	81	19.0	250	3.7	3,671	2.2	2.6	5.4	62.7	19.4	106.9	31.0	25.9	12.5	7.1	6.5	3.2	0.8	0.8	0.8	2.5	3.0	6.1	2.7	3.2	6.6	8.9
Carborundum Universal	SELL	333	310	(6.8)	63	0.9	189	11	14	17	22.8	25.4	20.2	29.1	23.2	19.3	15.8	11.7	10.0	4.0	3.6	3.2	14.6	16.4	17.6	0.7	1.3	1.6	0.3
CG Power and Industrial	BUY	59	65	10.6	37	0.5	627	0.8	3.1	4.3	(72.2)	275.7	40.5	72.0	19.2	13.6	10.7	8.0	6.6	1.4	1.4	1.4	1.5	7.3	10.4	—	—	—	6.5
Crompton Greaves Consumer	SELL	228	210	(8.0)	143	2.1	627	5.2	6.2	7.5	13.3	20.0	20.9	44.2	36.8	30.5	27.1	22.9	19.4	18.1	12.6	9.7	49.5	40.5	35.9	0.7	0.9	1.1	2.7
Cummins India	REDUCE	629	680	8.1	174	2.5	277	24	28	32	(7.8)	16.1	13.9	26.0	22.4	19.6	22.8	19.6	16.2	4.4	4.1	3.8	17.4	18.9	20.1	2.4	2.3	2.7	4.4
Havells India	SELL	555	460	(17.1)	347	5.1	625	11	14	17	16.6	26.2	19.6	50.1	39.7	33.2	31.8	25.3	20.6	9.3	8.2	7.2	19.8	21.9	23.0	0.6	0.9	1.1	9.9
Kalpataru Power Transmission	BUY	355	530	49.4	54	0.8	153	19	24	34	36.5	24.3	39.8	18.3	14.7	10.5	8.0	6.6	5.3	2.0	1.8	1.6	11.7	13.1	16.1	0.7	0.7	0.7	0.7
KEC International	BUY	330	430	30.5	85	1.2	257	18	22	29	51.1	22.0	34.4	18.4	15.1	11.2	9.9	8.3	6.6	4.2	3.4	2.7	25.7	25.2	27.1	0.7	0.9	1.2	3.3
L&T	BUY	1,287	1,560	21.2	1,803	26.4	1,401	52	62	76	22.4	19.4	23.0	24.9	20.8	16.9	20.6	17.0	15.0	3.6	3.3	2.9	15.0	16.5	18.2	1.2	1.7	2.1	41.9
Siemens	SELL	963	975	1.3	343	5.0	356	24	30	37	22.5	23.0	23.2	39.8	32.3	26.2	22.4	17.9	14.3	4.2	3.9	3.7	10.9	12.6	14.5	1.0	1.3	1.6	3.5
Thermax	REDUCE	1,019	1,065	4.5	121	1.8	113	21	30	42	(3.6)	44.2	42.8	49.4	34.3	24.0	30.1	21.3	15.1	4.2	3.9	3.5	8.8	11.8	15.3	0.6	0.8	0.9	0.7
Voltas	SELL	546	525	(3.8)	180	2.6	331	17	19	22	12.6	8.3	15.6	31.5	29.1	25.2	26.2	22.3	18.5	4.6	4.1	3.7	15.9	15.0	15.5	0.7	0.8	0.9	14.4
Industrials	Neutral				3,852	56					19.8	21.6	28.9	30.0	24.7	19.1	19.8	16.4	13.5	3.3	3.0	2.8	10.8	12.3	14.6	1.1	1.5	2.0	98.6
Infrastructure																													
Adani Ports and SEZ	BUY	367	470	28.2	759	11.1	2,071	20	20	23	6.1	(0.2)	14.7	18.3	18.3	16.0	13.1	12.7	11.1	3.6	3.1	2.7	21.5	18.1	17.9	0.6	0.7	0.8	25.4
Ashoka Buildcon	BUY	151	210	38.7	43	0.6	282	8	8	9	34.6	0.5	5.2	18.0	17.9	17.0	14.5	12.3	10.9	2.2	1.9	1.7	13.0	11.4	10.7	0.7	1.1	0.7	0.9
Container Corp.	SELL	641	635	(1.0)	313	4.6	487	18	21	26	7.3	20.0	21.4	36.3	30.2	24.9	24.0	18.6	14.7	3.3	3.1	2.8	9.4	10.6	11.9	2.7	1.4	1.7	9.0
Dilip Buildcon	BUY	732	1,220	66.8	100	1.5	137	46	54	69	76.5	16.1	28.0	15.7	13.6	10.6	9.0	6.5	5.4	4.1	3.1	2.4	29.5	25.9	25.4	—	—	—	8.2
Gateway Distriparks	BUY	164	250	52.3	18	0.3	109	8	8	9	12.1	(1.2)	17.5	21.5	21.7	18.5	20.4	10.3	8.6	1.8	3.4	3.1	8.2	10.8	17.6	4.3	—	1.8	0.8
Gujarat Pipavav Port	BUY	115	170	47.8	56	0.8	483	4.1	5.9	7.2	(20.6)	43.7	22.5	28.0	19.5	15.9	13.7	11.4	9.0	2.8	2.7	2.6	9.8	14.0	16.8	3.0	4.2	5.1	0.9
IRB Infrastructure	BUY	195	330	69.7	68	1.0	351	23	31	33	10.8	36.8	7.1	8.6	6.3	5.9	6.9	6.6	7.1	1.2	1.0	0.9	14.5	17.6	16.3	1.2	1.6	2.1	9.8
Mahindra Logistics	BUY	585	540	(7.7)	42	0.6	71	10	14	18	16.2	42.8	31.2	59.6	41.8	31.8	34.4	23.1	17.5	9.9	8.3	6.8	18.2	21.6	23.5	—	—	—	0.8
Sadbhav Engineering	BUY	279	440	57.5	48	0.7	172	13	18	18	17.4	38.4	2.2	21.7	15.7	15.4	15.1	12.0	9.3	2.6	2.2	2.0	12.5	15.2	13.7	—	—	—	0.8
Infrastructure	Attractive				1,446	21					10.9	10.5	15.5	19.9	18.0	15.6	12.8	11.3	9.9	3.2	2.8	2.4	15.8	15.4	15.5	1.1	0.9	1.1	56.6
Internet																													
Info Edge	BUY	1,260	1,390	10.3	154	2.2	122	23	26	32	33.3	13.9	25.9	56.0	49.2	39.1	46.4	36.6	27.9	7.3	5.9	5.3	13.4	13.2	14.3	0.4	0.6	0.6	1.8
Just Dial	BUY	586	550	(6.2)	40	0.6	67	21	25	28	21.7	16.7	12.9	27.6	23.6	20.9	16.7	13.9	11.7	4.0	3.5	3.1	15.2	15.9	15.6	—	0.4	0.5	48.1
Internet	Cautious				193	3					28.0	14.8	21.4	46.3	40.3	33.2	35.8	29.1	23.1	6.3	5.2	4.6	13.5	12.8	13.9	0.3	0.6	0.6	49.9
Media																													
DB Corp.	REDUCE	254	295	16.2	47	0.7	184	18	20	24	(14.1)	13.2	18.8	14.4	12.7	10.7	7.7	6.7	5.6	2.8	2.7	2.6	19.9	21.5	24.5	5.1	6.3	7.9	0.6
DishTV	ADD	68	90	31.6	126	1.8	1,925	(0.4)	1.8	3.4	(143.0)	514.6	88.2	NM	37.4	19.9	11.2	5.9	4.7	2.0	1.9	1.7	(2.3)	5.1	8.9	—	—	—	8.1
Jagran Prakashan	REDUCE	128	168	31.1	40	0.6	311	10	12	14	(6.0)	21.7	15.3	12.8	10.5	9.1	5.8	5.1	4.5	1.9	2.0	1.9	14.8	18.1	20.9	2.3	3.9	7.0	0.8
PVR	REDUCE	1,161	1,425	22.8	54	0.8	47	27	38	50	25.5	39.8	33.2	43.2	30.9	23.2	14.8	12.2	10.1	5.0	4.4	3.8	12.3	15.2	17.5	0.2	0.3	0.4	7.8
Sun TV Network	REDUCE	764	925	21.0	301	4.4	394	29	35	39	10.2	20.7	10.9	26.5	22.0	19.8	17.7	14.9	13.0	6.5	5.8	5.3	26.3	28.1	27.9	1.3	2.3	2.6	22.4
Zee Entertainment Enterprises	ADD	517	600	16.0	497	7.3	960	15	17	20	7.8	11.3	17.0	34.4	30.9	26.4	22.3	19.2	16.3	6.6	5.8	5.1	20.3	19.9	20.6	0.5	0.9	1.1	15.2
Media	Attractive				1,065	16					(1.5)	30.0	21.6	32.7	25.2	20.7	15.8	12.0	10.2	4.5	4.1	3.7	13.7	16.5	18.1	0.9	1.5	1.9	54.9

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)		EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo	
		17-Jul-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E	(US\$ mn)
Metals & Mining																													
Coal India	ADD	265	326	23.1	1,643	24.0	6,207	11	27	28	(24.2)	138.2	3.0	23.4	9.8	9.5	17.3	6.2	5.9	6.8	6.2	6.4	26.7	66.1	66.4	6.2	7.6	9.4	13.8
Hindalco Industries	BUY	220	315	43.4	493	7.2	2,229	22	27	31	155.4	23.5	14.3	10.0	8.1	7.1	6.4	5.4	4.7	0.9	0.8	0.7	9.7	10.4	10.8	0.5	0.5	0.5	37.3
Hindustan Zinc	REDUCE	270	325	20.5	1,139	16.7	4,225	22	24	28	9.3	13.6	13.8	12.5	11.0	9.7	7.6	6.2	5.1	3.2	2.7	2.3	27.2	26.4	25.6	3.0	3.0	3.1	8.7
Jindal Steel and Power	REDUCE	199	255	28.2	193	2.8	968	(8)	8	18	59.3	194.2	129.1	(23.4)	24.9	10.9	9.5	6.8	5.8	0.6	0.6	0.6	(2.7)	2.6	5.7	—	—	—	28.3
JSW Steel	ADD	307	345	12.2	743	10.9	2,417	27	27	25	83.9	(0.7)	(5.7)	11.5	11.6	12.3	7.6	7.0	7.5	2.6	2.2	1.9	24.8	20.4	16.5	1.1	1.1	1.1	19.2
National Aluminium Co.	ADD	60	85	41.3	116	1.7	1,933	4	7	7	12.7	63.0	11.1	14.6	8.9	8.0	5.9	3.9	3.6	1.1	1.1	1.1	7.7	12.4	13.6	9.5	9.1	9.1	12.8
NMDC	REDUCE	97	125	28.5	308	4.5	3,164	12	10	10	43.3	(16.5)	3.6	8.3	9.9	9.6	4.4	6.0	5.8	1.3	1.2	1.2	15.8	12.5	12.4	5.7	5.7	5.7	3.8
Tata Steel	ADD	532	700	31.5	608	8.9	1,205	67	69	82	62.6	3.1	18.4	7.9	8	6.5	6.0	6.0	6.1	1.1	0.9	0.9	17.2	13.1	13.9	1.8	1.9	1.9	67.3
Vedanta	BUY	210	415	97.5	781	11.4	3,717	22	37	43	9.6	71.9	16.9	9.7	5.7	4.8	5.4	4.0	3.3	1.2	1.1	1.0	12.9	20.6	21.4	3.8	5.3	6.2	56.8
Metals & Mining	Attractive				6,024	88					32.3	41.4	11.3	12.7	9.0	8.1	7.3	5.7	5.2	1.8	1.6	1.5	14.3	18.0	18.4	3.6	4.1	4.8	247.9
Pharmaceutical																													
Apollo Hospitals	ADD	977	1,090	11.5	136	2.0	139	8	19	26	(46.9)	124.3	38.0	115.8	51.6	37.4	21.1	18.0	15.2	4.2	4.0	3.7	3.4	7.9	10.2	0.2	0.5	0.7	6.9
Aurobindo Pharma	ADD	584	640	9.7	342	5.0	584	42	45	49	6.0	8.0	9.4	14.0	12.9	11.8	9.8	9.1	8.0	2.9	2.4	2.1	23.2	20.5	17.4	0.7	0.9	1.1	20.8
Biocon	SELL	593	300	(49.4)	356	5.2	601	6	8	15	(39.2)	27.1	84.9	95.6	75.2	40.7	42.9	31.6	20.7	6.3	5.9	5.3	6.9	8.1	13.7	0.4	0.5	0.9	23.2
Cipla	BUY	637	650	2.0	513	7.5	805	18	26	34	40.2	48.7	30.8	36.4	24.5	18.7	18.9	13.9	11.0	3.5	3.2	2.8	10.2	13.6	15.9	0.6	0.8	1.1	24.5
Dr Lal Pathlabs	REDUCE	913	865	(5.3)	76	1.1	83	20	25	29	7.0	20.8	18.5	44.6	36.9	31.2	27.1	22.7	19.0	9.6	8.0	6.7	23.5	23.7	23.4	0.5	0.5	0.6	1.4
Dr Reddy's Laboratories	REDUCE	2,065	2,150	4.1	343	5.0	166	59	89	119	(18.5)	51.4	32.9	35.0	23.1	17.4	16.3	11.1	8.3	2.7	2.5	2.2	7.8	11.2	12.7	1.0	0.7	0.9	32.6
HCG	REDUCE	287	305	6.2	25	0.4	85	2	3	5	(40.0)	120.9	57.3	183.7	83.2	52.9	24.1	18.8	16.0	4.7	4.5	4.1	2.8	5.5	8.1	—	—	—	0.2
Laurus Labs	ADD	460	540	17.4	49	0.7	106	16	22	34	(11.9)	37.3	54.4	29.0	21.1	13.7	14.2	11.6	8.5	3.3	2.8	2.4	11.9	14.4	18.8	—	—	—	0.7
Lupin	REDUCE	827	800	(3.3)	374	5.5	450	38	35	45	(32.9)	(7.7)	28.6	21.7	23.5	18.3	13.4	11.9	9.7	2.7	2.5	2.2	12.6	11.1	12.9	0.6	0.6	0.8	32.5
Narayana Hrudayalaya	ADD	253	275	8.9	52	0.8	204	3	4	7	(38.1)	52.2	76.9	100.4	65.9	37.3	27.6	20.8	15.3	5.0	4.6	4.1	5.1	7.3	11.7	—	—	—	0.4
Sun Pharmaceuticals	REDUCE	549	500	(8.9)	1,317	19.3	2,406	15	17	24	(47.5)	12.0	42.0	36.2	32.3	22.7	21.3	17.4	12.8	3.5	3.2	2.8	9.8	10.2	13.1	0.4	0.6	0.9	52.6
Torrent Pharmaceuticals	NR	1,450	—	—	245	3.6	169	40	46	61	(27.4)	15.1	32.9	36.2	31.4	23.7	20.2	14.5	12.0	5.3	4.7	4.1	15.1	14.9	17.2	1.1	0.7	1.0	5.2
Pharmaceuticals	Neutral				3,827	56					(27.6)	18.6	32.6	32.5	27.4	20.7	18.1	14.5	11.4	3.5	3.2	2.8	10.9	11.6	13.7	0.5	0.6	0.9	201.0
Real Estate																													
Brigade Enterprises	BUY	191	340	78.0	26	0.4	136	11	9	9	(17.7)	(15.1)	(1.6)	17.2	20.3	20.7	10.8	11.0	10.8	1.1	1.1	1.1	7.6	5.5	5.2	1.3	1.3	1.3	0.4
DLF	RS	180	—	—	321	4.7	1,784	19.6	6.5	3.9	403.9	(66.9)	(39.6)	9.2	27.7	45.9	27.7	12.1	11.9	0.9	0.9	0.9	11.7	3.2	1.9	1.1	1.1	1.1	17.0
Godrej Properties	SELL	692	400	(42.2)	159	2.3	216	11.6	16.8	19.2	21.9	43.9	14.9	59.4	41.3	36.0	149.2	106.1	75.4	6.6	5.7	4.9	11.8	14.9	14.7	—	—	—	3.1
Oberoi Realty	BUY	464	560	20.6	169	2.5	340	13	62	44	14.0	385.4	(28.1)	36.5	7.5	10.5	27.4	10.4	13.0	2.6	1.7	1.5	7.3	27.4	15.2	0.4	0.4	0.4	3.4
Prestige Estates Projects	ADD	254	315	24.2	95	1.4	375	13	10	10	24.3	(24.2)	8.4	20.2	26.7	24.6	14.3	14.9	15.0	2.0	1.9	1.8	10.3	7.3	7.5	0.6	0.6	0.6	1.2
Sobha	REDUCE	462	510	10.3	44	0.6	95	22	20	23	30.9	(7.5)	14.8	21.2	22.9	19.9	12.9	13.1	12.3	1.6	1.5	1.4	7.6	6.8	7.4	1.5	1.5	1.5	1.6
Sunteck Realty	REDUCE	389	330	(15.2)	57	0.8	140	15	18	20	4.8	20.2	6.9	25.5	21.2	19.8	16.4	18.0	16.7	2.1	1.9	1.7	9.7	9.4	9.2	0.3	0.3	0.3	1.8
Real Estate	Neutral				870	13					140.1	(12.6)	(20.2)	16.7	19.1	23.9	23.4	14.3	14.6	1.6	1.4	1.4	9.3	7.5	5.7	0.7	0.7	0.7	28.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		17-Jul-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	980	1,010	3.0	1,365	20.0	1,409	62	68	71	5.3	9.0	5.0	15.7	14.4	13.7	11.1	9.3	8.6	3.8	3.2	2.8	24.8	23.8	21.9	0.8	2.9	3.1	36.0
Hexaware Technologies	SELL	506	420	(17.0)	150	2.2	304	16	20	22	19.8	20.5	12.5	30.8	25.6	22.7	22.1	18.6	15.9	7.7	6.6	5.7	26.6	27.8	27.0	0.8	1.6	1.6	14.6
Infosys	ADD	1,328	1,400	5.4	2,900	42.4	2,175	65	71	78	3.0	9.7	10.4	20.5	18.7	17.0	14.2	12.8	11.4	4.4	4.2	3.8	21.8	23.0	23.5	2.1	3.3	2.9	84.6
L&T Infotech	ADD	1,850	1,650	(10.8)	319	4.7	175	64	73	84	13.9	14.5	15.7	29.1	25.4	22.0	25.6	19.1	16.0	8.4	7.0	5.8	31.8	30.0	29.0	0.9	1.3	1.4	4.8
Mindtree	ADD	1,081	1,015	(6.1)	177	2.6	165	35	43	52	37.8	23.2	23.2	31.3	25.4	20.6	22.8	16.0	13.0	6.5	5.6	4.8	21.4	23.6	24.9	1.0	1.2	1.5	30.8
Mphasis	SELL	1,153	760	(34.1)	223	3.3	193	44	52	56	14.4	18.3	8.2	26.3	22.2	20.5	19.1	15.4	13.8	4.1	3.7	3.4	14.6	17.4	17.1	1.7	1.7	1.7	11.5
TCS	REDUCE	2,002	1,790	(10.6)	7,665	112.1	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	124.4
Tech Mahindra	ADD	647	775	19.8	571	8.3	891	43	45	53	33.1	6.6	15.8	15.2	14.2	12.3	11.1	8.6	7.0	3.1	2.6	2.3	21.5	19.9	19.7	2.2	1.4	1.6	36.3
Wipro	REDUCE	284	295	3.9	1,284	18.8	4,507	17	19	21	(3.1)	11.1	13.7	16.8	15.1	13.3	10.6	9.1	7.9	2.6	2.3	2.1	16.0	16.3	16.6	0.4	0.5	3.5	12.7
Technology	Cautious				14,655	214					1.6	12.3	9.6	22.9	20.4	18.6	16.6	14.0	12.6	5.4	4.8	4.5	23.7	23.7	24.0	1.3	2.2	3.2	355.7
Telecom																													
Bharti Airtel	ADD	343	470	37.2	1,369	20.0	3,997	5	(4)	0	(42.9)	(187.4)	104.6	72.4	(82.8)	1,813.0	7.8	8.9	7.2	2.0	2.1	2.1	2.8	(2.4)	0.1	1.6	0.3	0.0	33.7
Bharti Infratel	REDUCE	303	285	(6.0)	561	8.2	1,850	14	13	11	(7.4)	(8.7)	(9.0)	22.1	24.1	26.5	8.0	8.8	9.3	3.3	3.5	3.5	15.7	14.0	13.1	4.8	3.3	3.0	14.1
IDEA	REDUCE	52	75	43.0	229	3.3	4,359	(10)	(15)	(14)	(656.8)	(54.9)	6.4	(5.5)	(3.5)	(3.8)	12.2	22.3	16.5	0.8	1.1	1.5	(16.0)	(26.9)	(34.0)	—	—	—	17.2
Tata Communications	ADD	567	725	27.8	162	2.4	285	2	4	8	(84.3)	121.9	117.7	345	155.3	71.4	10.5	9.4	8.2	32.4	26.1	18.9	4.5	18.6	30.7	1.1	1.1	1.3	4.7
Telecom	Cautious				2,321	34					(94.7)	(1,906.6)	36.2	737.9	(40.8)	(64.0)	8.6	10.1	8.4	2.0	2.2	2.4	0.3	(5.5)	(3.7)	2.1	1.0	0.7	69.7
Utilities																													
CESC	ADD	897	1,180	31.5	119	1.7	133	87	102	118	67.1	16.8	15.5	10.3	8.8	7.6	7.6	5.5	4.8	0.8	0.7	0.7	7.9	8.8	9.4	1.4	1.1	1.2	5.9
JSW Energy	REDUCE	64	80	24.3	106	1.5	1,640	3.1	5.9	8.2	(19.2)	92.2	38.7	21.0	10.9	7.9	6.8	5.3	4.4	0.9	0.9	0.8	4.7	8.5	11.0	3.1	3.1	3.1	1.9
NHPC	ADD	24	30	25.8	245	3.6	10,260	2.4	3.1	3.2	(17.3)	26.9	1.8	9.8	7.7	7.6	9.1	7.2	6.9	0.8	0.8	0.8	8.5	10.4	10.2	5.9	7.3	7.4	2.1
NTPC	BUY	155	190	22.3	1,281	18.7	8,245	11	15	16	(7.6)	30.9	4.4	13.6	10.4	10.0	11.0	8.6	7.9	1.3	1.2	1.1	9.5	11.6	11.3	3.6	2.9	3.0	13.6
Power Grid	BUY	181	250	37.8	949	13.9	5,232	16	19	21	9.6	19.3	13.6	11.5	9.7	8.5	8.3	7.1	6.5	1.7	1.6	1.4	15.8	17.1	17.5	2.9	3.5	3.9	30.8
Reliance Power	SELL	30	43	41.7	85	1.2	2,805	3.5	5.1	5.2	(16.4)	45.6	2.7	8.7	6.0	5.8	7.7	6.6	6.4	0.4	0.4	0.3	4.5	6.1	5.9	—	—	—	4.1
Tata Power	ADD	71	97	36.8	192	2.8	2,705	5.3	7.8	8.7	(9.6)	46.1	11.2	13.3	9.1	8.2	10.2	9.4	8.5	1.3	1.1	1.0	10.7	12.9	12.7	—	—	—	5.5
Utilities	Attractive				2,976	44					(2.4)	28.6	9.0	12.3	9.6	8.8	9.3	7.6	7.0	1.2	1.1	1.0	9.7	11.5	11.6	3.1	3.1	3.3	63.9

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)			EVEBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		17-Jul-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	1,079	625	(42.1)	129	1.9	120	15	19	23	20.8	28.0	23.0	73.5	57.5	46.7	41.3	32.1	26.1	12.7	10.5	8.7	18.8	20.0	20.3	0.1	0.1	0.1	1.0
Avenue Supermarts	SELL	1,562	860	(44.9)	975	14.2	624	13	16	20	47.9	28.6	26.4	124.2	96.6	76.4	72.8	55.7	43.8	21.0	17.2	14.1	18.5	19.6	20.3	—	—	—	—
Bayer Cropscience	REDUCE	4,416	4,000	(9.4)	174	2.6	34	86	105	124	4.4	22.7	17.5	51.4	41.9	35.7	41.6	32.5	26.0	8.5	7.4	6.4	15.4	18.8	19.2	0.4	0.5	0.6	0.5
Dhanuka Agritech	ADD	520	690	32.7	26	0.4	49	26	28	32	7.7	8.9	15.4	20.2	18.6	16.1	14.8	12.7	10.6	4.0	3.5	3.0	21.9	20.1	20.0	1.1	1.2	1.3	0.1
Godrej Agrovet	ADD	607	650	7.1	117	1.7	189	12	16	20	6.9	39.8	24.6	52.7	37.7	30.3	27.2	20.9	16.9	6.8	5.9	5.0	14.7	16.9	17.9	0.3	0.4	0.5	1.8
Godrej Industries	RS	596	—	—	201	2.9	336	15	16	20	6.8	8.9	24.2	40.9	37.5	30.2	36.6	30.9	33.7	5.5	4.9	4.3	14.4	13.9	15.1	0.3	0.3	0.3	4.6
InterGlobe Aviation	BUY	1,120	1,430	27.7	431	6.3	383	59	71	98	27.2	21.8	37.5	19.1	15.7	11.4	10.9	8.9	6.1	6.1	4.5	3.4	41.3	33.0	33.8	0.5	0.7	0.9	25.5
Kaveri Seed	SELL	549	470	(14.4)	36	0.5	66	32	31	33	18.4	(3.7)	6.1	17.2	17.8	16.8	14.5	14.9	13.4	4.7	4.0	3.4	23.6	24.0	21.9	1.1	1.5	1.8	4.7
PI Industries	BUY	776	900	16.1	107	1.6	138	27	33	41	(20.0)	25.0	23.2	29.2	23.3	18.9	21.5	16.9	13.4	5.6	4.6	3.8	20.7	21.7	22.1	0.4	0.5	0.6	1.5
Rallis India	ADD	188	235	24.8	37	0.5	195	9	11	13	(1.5)	26.4	19.7	21.8	17.3	14.4	13.9	11.4	9.7	3.1	2.8	2.5	14.6	16.9	18.1	1.8	1.9	2.1	0.8
SIS	REDUCE	1,092	1,250	14.5	80	1.2	73	23	36	43	44.0	58.5	20.6	48.4	30.5	25.3	26.0	19.7	16.2	7.7	6.5	5.4	20.2	23.4	23.3	0.3	0.5	0.6	0.7
SRF	BUY	1,646	2,110	28.2	95	1.4	57	80	92	123	(10.4)	14.4	33.6	20.5	17.9	13.4	12.6	10.0	8.1	2.7	2.4	2.1	13.7	14.0	16.4	0.7	0.8	0.9	10.6
Tata Chemicals	ADD	684	760	11.1	174	2.5	255	51	46	52	6.5	(11.2)	13.6	13.3	15.0	13.2	7.3	6.3	5.2	1.6	1.4	1.3	13.8	10.0	10.5	3.2	2.2	2.5	9.0
TeamLease Services	SELL	2,684	1,750	(34.8)	46	0.7	17	43	59	75	28.0	37.4	27.2	62.3	45.3	35.6	64.8	45.9	35.4	10.4	8.5	6.8	18.2	20.6	21.2	—	—	—	2.4
UPL	ADD	571	850	48.9	291	4.3	507	43	73	82	20.9	71.2	11.9	13.3	7.8	6.9	9.3	8.1	6.8	3.2	2.6	2.2	26.4	23.6	22.4	1.4	1.7	1.9	16.3
Vardhman Textiles	ADD	1,210	1,400	15.7	70	1.0	56	103	130	140	(8.0)	26.4	7.4	11.7	9.3	8.7	9.9	7.3	6.6	1.4	1.3	1.1	12.7	14.3	13.8	1.2	1.7	2.5	1.0
Whirlpool	SELL	1,515	1,240	(18.2)	192	2.8	127	28	37	45	13.0	33.9	22.5	54.8	40.9	33.4	32.3	24.9	20.1	10.7	8.9	7.4	21.4	23.7	24.1	0.3	0.4	0.6	1.0
Others					3,178		46				15.0	15.9	22.8	31.1	26.9	21.9	20.1	16.5	13.5	5.6	4.8	4.1	18.1	17.8	18.6	0.6	0.6	0.7	81.4
KIE universe					108,530	1,586						(6.2)	30.1	25.0	26.9	20.7	16.5	12.5	10.5	9.3	3.0	2.7	2.4	11.0	12.9	14.7	1.3	1.4	1.8
KIE universe (ex-energy)					95,299	1,393						(8.4)	38.5	29.7	31.7	22.9	17.7	14.0	11.6	10.2	3.3	3.0	2.7	10.4	13.0	15.2	1.1	1.3	1.7

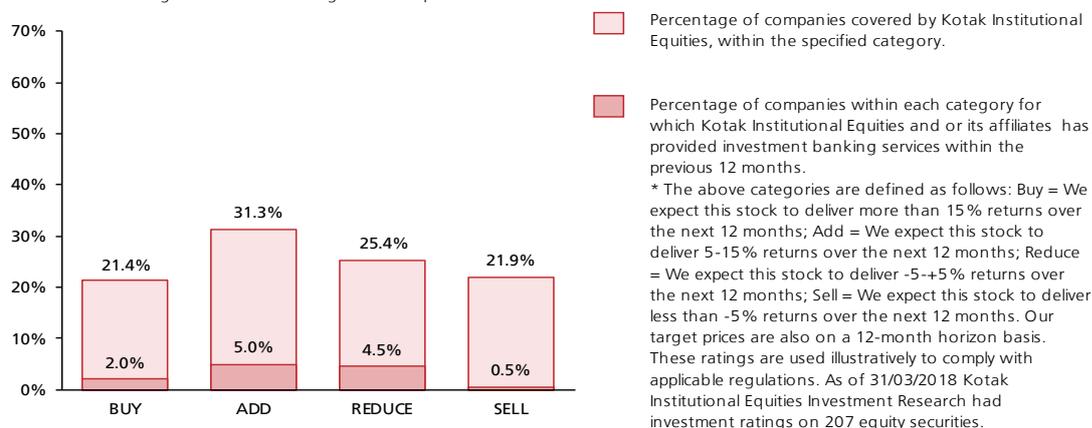
Notes:

- (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\$)= 68.40

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2018

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

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Corporate Office

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

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

Overseas Affiliates

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

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