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### EQUITY MARKETS

India	Change %			
	20-Jul	1-day	1-mo	3-mo
Sensex	36,496	0.4	2.3	5.9
Nifty	11,010	0.5	1.7	4.0
<b>Global/Regional indices</b>				
Dow Jones	25,058	(0.0)	1.9	2.5
Nasdaq Composite	7,820	(0.1)	1.7	9.7
FTSE	7,679	(0.1)	(0.0)	3.8
Nikkei	22,445	(1.1)	(0.3)	1.6
Hang Seng	28,224	0.8	(3.8)	(6.7)
KOSPI	2,281	(0.4)	(3.2)	(7.8)
<b>Value traded – India</b>				
Cash (NSE+BSE)	319		309	329
Derivatives (NSE)	5,245		8,877	5,874
Deri. open interest	3,880		4,173	4,083

#### Forex/money market

	Change, basis points			
	20-Jul	1-day	1-mo	3-mo
Rs/US\$	68.7	(1)	63	218
10yr govt bond, %	8.1	-	3	13

#### Net investment (US\$ mn)

	19-Jul	MTD	CYTD
FIs	(35)	(378)	(1,000)
MFs	(4)	530	11,057

#### Top movers

Best performers	Change, %			
	20-Jul	1-day	1-mo	3-mo
YES IN Equity	387	(1.5)	15.3	23.5
RIL IN Equity	1,129	2.2	11.5	20.6
APNT IN Equity	1,396	(0.5)	10.2	18.5
TCS IN Equity	1,997	0.8	10.3	17.1
NEST IN Equity	10,348	0.6	4.8	16.2

#### Worst performers

HDIL IN Equity	18	(0.8)	(16.7)	(54.3)
RCOM IN Equity	13	1.2	(11.9)	(35.1)
VEDL IN Equity	202	(2.8)	(11.4)	(33.7)
UT IN Equity	4	0.0	(9.0)	(33.1)
AL IN Equity	107	1.7	(21.2)	(32.6)

**JULY 23, 2018**
**RESULT**

Coverage view: **Attractive**

Price (₹): **2,189**

Target price (₹): **2,000**

BSE-30: **36,496**

**Expected concerns surface, but not too worrisome.** HDFC Bank reported 18% yoy earnings growth led by 15% yoy operating profit growth and a 5% yoy decline in provisions. Loan growth accelerated to 22% yoy but NII growth slipped to 15% yoy as NIM declined 20 bps yoy (10 bps qoq). Near-term concerns on revenue growth remain a worry as drivers for operating profit growth have weakened, which along with expensive valuations remain a primary reason for not taking a positive view on the stock. Maintain REDUCE (TP at ₹2,000 from ₹1,900).

**Company data and valuation summary**

HDFC Bank

**Stock data**

52-week range (Rs) (high,low) 2,220-1,685

Market Cap. (Rs bn) 5,700.6

**Shareholding pattern (%)**

Promoters 20.9

Fls 51.3

MFs 9.9

**Price performance (%)**

Absolute 1M 3M 12M 6.5 11.9 27.9

Rel. to BSE-30 3.7 5.5 11.8

**Forecasts/Valuations**

2018 2019E 2020E

EPS (Rs) 67.4 76.9 93.1

EPS growth (%) 18.7 14.1 21.1

P/E (X) 32.5 28.5 23.5

NII (Rs bn) 400.9 456.0 535.9

Net profits (Rs bn) 174.9 209.1 253.3

BVPS 403.1 527.2 596.6

P/B (X) 5.4 4.2 3.7

ROE (%) 17.9 16.5 16.2

Div. Yield (%) 0.6 0.7 0.8

**Margin compression and treasury losses drag earnings**

HDFC Bank reported 18% yoy growth in earning on the back of 15% yoy NII growth and muted rise in credit cost at 5% yoy in 1QFY19. 22 bps qoq margins to 4.2% led to slow NII growth, while loan growth was robust at 22% yoy. Other income growth was low at 9% yoy on the back of treasury losses. Fee income (up 23% yoy) saw traction led by sale of third-party products. Moderate operating expense growth at 11% yoy led to improvement in cost-income ratio by 70 bps yoy to 41%. CASA dropped 180 bps qoq to 42% on the back of 14% yoy growth (SA up 17% yoy), lower than deposit growth at 20% yoy.

**Operating profit growth needs support from costs in the short term until NIM recovers**

The quarter showed that the bank has adequate levers to generate healthy operating profit and earnings growth. However, the quality has been a bit disappointing as the bank had to significantly slow down operating expenses to offset the NIM pressure. NIM expansion (unadjusted for capital infusion) is likely to remain in the short term for a few reasons – (1) opportunity to gain share on assets and liabilities is not similar. CASA share gains are a lot tougher and long term challenges while asset-side growth is relatively easier and (2) re-pricing of fixed-rate loans on the retail side would take a few more quarters till the earlier low-yielding book is repaid. In the interim, the bank has increased the share of unsecured loans, which has not been able to fully offset the pressure. Gross NPLs are already increasing at a much faster pace than loan growth at a time when NPL ratio in the retail book is at its lowest levels.

**Maintain REDUCE with TP of ₹2,000 (from ₹1,900); near-term business headwinds a concern**

We maintain our REDUCE rating post changes to earnings. At our TP, we value the bank at 3.2X book (lower than historical multiple to factor the equity dilution) and 20X March 2020E EPS for 20% earnings CAGR for FY2019-21E and RoEs in the range of 16-17% over the same period. Gradual increase in competition in the retail space and change in product mix raise concerns over risk-adjusted NIM and its impact on asset quality in medium term. While growth remains strong, earnings drag on the back of margin compression remains our key concern.

**QUICK NUMBERS**

- NII up 15% yoy; PAT increased 18% yoy in 1QFY19
- GNPL and NNPL ratio stable qoq at 1.3% and 0.4%, respectively
- Maintain REDUCE with TP at ₹2,000 (from ₹1,900)

M B Mahesh CFA

Nischint Chawathe

Dipanjan Ghosh

Exhibit 1: HDFC Bank – quarterly performance  
March fiscal year-ends, 1QFY18-1QFY19 (₹ mn)

	(% chg.)							2019E	2018	(% chg.)	2020E
	1QFY19	1QFY19E	1QFY18	4QFY18	1QFY19E	1QFY18	4QFY18				
<b>Income statement (Rs mn)</b>											
Interest income	225,490	226,293	186,687	213,211	(0.4)	20.8	5.8	961,732	802,109	19.9	1,103,492
Interest on advances	173,907	175,242	144,861	166,634	(0.8)	20.1	4.4	740,211	626,618	18.1	847,713
Interest on investments	45,893	46,614	38,930	42,226	(1.5)	17.9	8.7	201,180	161,919	24.2	218,884
Other interest	5,690	4,438	2,897	4,351	28.2	96.4	30.8	20,341	13,572	49.9	36,894
Interest expense	117,354	115,526	92,980	106,634	1.6	26.2	10.1	505,967	401,465	26.0	567,712
Net interest income	108,136	110,768	93,707	106,577	(2.4)	15.4	1.5	455,765	400,644	13.8	535,780
Non interest income	38,181	37,108	35,167	42,286	2.9	8.6	(9.7)	174,803	152,203	14.8	202,099
- fee income	31,710	30,164	25,781	33,297	5.1	23.0	(4.8)	133,824	113,939	17.5	149,710
- exchange income	4,996	3,562	2,968	4,164	40.3	68.3	20.0	18,282	15,235	20.0	20,476
- sale of invts.	(2,832)	(300)	3,314	(220)	844.0	(185.5)	1,187.3	5,500	9,243	(40.5)	12,500
Non treasury income	41,013	37,408	31,853	42,506	9.6	28.8	(3.5)	169,303	142,960	18.4	189,599
Total income	146,316	147,876	128,874	148,863	(1.1)	13.5	(1.7)	630,568	552,847	14.1	737,879
Op. expenses	59,839	61,716	53,675	60,506	(3.0)	11.5	(1.1)	261,468	226,904	15.2	288,766
Employee cost	18,105	17,934	16,575	17,412	1.0	9.2	4.0	76,685	68,057	12.7	87,644
Other cost	41,734	43,782	37,100	43,094	(4.7)	12.5	(3.2)	184,783	158,846	16.3	201,122
Operating profit	86,478	86,160	75,199	88,357	0.4	15.0	(2.1)	369,100	325,943	13.2	449,113
Provisions and cont.	16,294	15,565	15,588	15,411	4.7	4.5	5.7	54,624	58,970	(7.4)	73,792
PBT	70,184	70,594	59,612	72,946	(0.6)	17.7	(3.8)	314,476	266,973	17.8	375,321
Tax	24,169	23,649	20,673	24,953	2.2	16.9	(3.1)	105,349	92,106	14.4	121,980
Net profit	46,014	46,945	38,938	47,993	(2.0)	18.2	(4.1)	209,127	174,867	19.6	253,342
Tax rate (%)	34.4	33.5	34.7	34.2	94 bps	-24 bps	23 bps	33.5	34.5	-100 bps	32.5
Op.profit excl treasury gains	89,310	86,460	71,885	88,577	3.3	24.2	0.8	363,600	316,700	14.8	436,613
EPS (Rs)	18	18	15	18	(2.3)	16.8	(4.5)	77	67	14.1	93
<b>Key balance sheet items (Rs bn)</b>											
Total deposits	8,058	8,203	6,714	7,888	(1.8)	20.0	2.2	9,395	7,888	19.1	11,140
Savings deposits	2,267		1,931	2,238		17.4	1.3	2,642	2,238	18	3,105
Current deposits	1,093		1,020	1,193		7.1	(8.4)	1,456	1,193	22	1,727
Term deposits	4,698		3,762	4,457		24.9	5.4	5,297	4,457	19	6,308
CASA ratio (%)	41.7		44.0	43.5		-227 bps	-180 bps	43.62	43.50	13 bps	43.37
Investment	2,756.8	2,543	2,161.1	2,422.0	8.4	27.6	13.8	2,706	2,412	12.2	2,943
Loans	7,086	6,978	5,810	6,583	1.6	22.0	7.6	7,983	6,583	21.3	9,380
Corporate and others	3,282		2,781	2,958		18.0	10.9		2,958.4		
Retail credit	3,805		3,029	3,625		25.6	5.0		2,524.1		
Housing loans	440		388	363		13.5	21.4		335.6		
Car loans	777		660	764		17.6	1.6		564.8		
Loan against sec	17		14	18		20.8	(3.7)		12.6		
Personal loans	779		555	719		40.2	8.3		447.1		
Two wheeler	92		65	87		41.3	6.4		58.2		
Credit cards	385		291	361		32.2	6.5		213.4		
Commercial vehicles	249		197	234		26.1	6.2		166.0		
Business Banking	521		404	541		28.7	(3.8)		315.2		
<b>Asset quality (Rs bn)</b>											
GNPL	95		72	86		31.7	10.8	119.0	86.1	38.2	142.9
NNPL	29		25	26		15.0	11.8	45.7	26.0	75.6	57.0
GNPL (%)	1		1.2	1.3		9 bps	3 bps	1.5	1.3	17 bps	1.5
NNPL (%)	0		0.4	0.4		-3 bps	1 bps	0.6	0.4	18 bps	0.6
PCR (%)	70		65	70		443 bps	-26 bps	61.6	69.8	-816 bps	60.1
<b>Capital adequacy (%)</b>											
CAR	15		16	15		-100 bps	-20 bps		14.8		
Tier- I	13		14	13		-50 bps	-10 bps		13.2		
<b>Key calculated ratios (%)</b>											
Yield on advances	10.2		10.2	10.3		-3 bps	-16 bps	10.2	10.3	-17 bps	9.8
Yield on investment	6.7		6.7	6.8		-4 bps	-7 bps	7.9	7.1	75 bps	7.8
Yield on funds	8.8		8.9	8.8		-17 bps	-9 bps	8.6	8.7	-9 bps	8.5
Cost of funds	5.1		5.0	5.0		6 bps	13 bps	5.1	4.9	24 bps	4.9
NIM	4.2		4.5	4.4		-28 bps	-22 bps	4.1	4.4	-27 bps	4.1
Cost-income	40.9		41.6	40.6		-75 bps	25 bps	41.5	41.0	42 bps	39.1
Cost to average assets	2.2		2.4	2.4		-21 bps	-17 bps	2.3	2.4	-9 bps	2.1
CD ratio	87.9		86.5	83.5		141 bps	448 bps	85.0	83.5	150 bps	84.2
RoA	1.7		1.8	1.9		-5 bps	-19 bps	1.8	1.8	-1 bps	1.9
RoE	17.2		17.0	18.5		25 bps	-131 bps	16.5	17.9	-132 bps	16.2
<b>Other key parameters (#)</b>											
Branch	4,804		4,727	4,787		1.6	0.4	5,137	4,787	7.3	5,487
ATM	12,808		12,220	12,635		4.8	1.4	13,635	12,635	7.9	14,635

Source: Company, Kotak Institutional Equities estimates

**Exhibit 2: NII growth drop to <20%; treasury losses drag revenue growth**

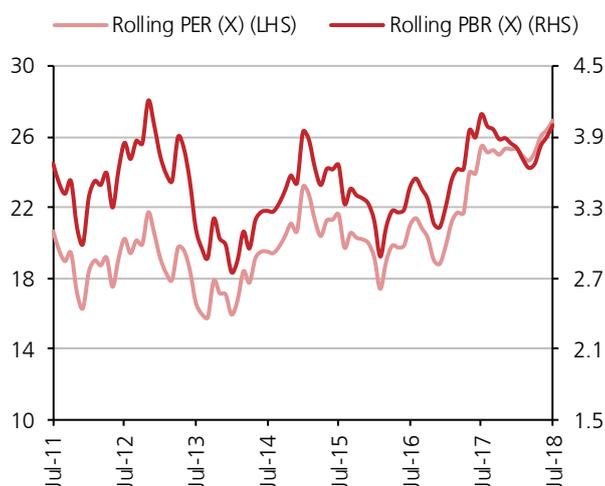
Revenue and earnings growth, March fiscal year-ends, 2007-1QFY19 (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Net interest income	45.7	40.9	42.0	13.0	25.7	22.2	22.7	16.9	21.2	23.2	20.1	21.0	15.4
Non interest income	35.0	50.4	44.2	15.7	13.9	33.4	18.5	15.6	13.6	19.5	14.4	23.8	8.6
<b>Total revenue</b>	<b>42.4</b>	<b>43.7</b>	<b>42.6</b>	<b>13.8</b>	<b>22.0</b>	<b>25.5</b>	<b>21.4</b>	<b>16.5</b>	<b>18.9</b>	<b>22.1</b>	<b>18.5</b>	<b>21.7</b>	<b>13.5</b>
Total operating expenses	43.2	54.7	47.7	4.2	24.1	29.7	21.1	7.2	16.2	21.4	16.0	15.2	11.5
Loans	33.9	35.1	55.9	27.3	27.1	22.2	22.7	26.4	20.6	27.1	19.4	18.7	22.0
Balance sheet	24.1	46.0	37.6	21.4	24.7	21.8	18.5	22.8	20.1	25.5	16.6	23.2	20.6
<b>Earnings growth</b>	<b>31.1</b>	<b>39.3</b>	<b>41.2</b>	<b>31.4</b>	<b>33.2</b>	<b>31.6</b>	<b>30.2</b>	<b>26.0</b>	<b>20.5</b>	<b>20.4</b>	<b>18.3</b>	<b>20.2</b>	<b>18.2</b>

Source: Company, Kotak Institutional Equities

**Exhibit 3: HDFC Bank trading at 4X one-year forward book**

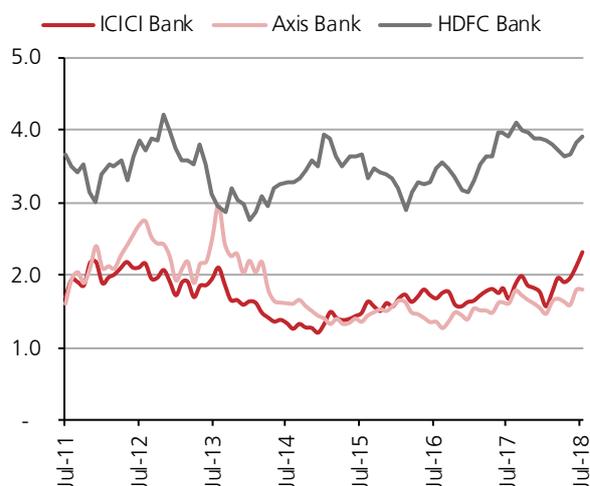
One-year forward PER and PBR, July 2011-July 2018 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

**Exhibit 4: HDFC Bank trades at premium to peers**

HDFC Bank PBR to ICICI Bank and Axis Bank PBR, July 2011-July 2018 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

**Loan growth accelerates; share of unsecured loans rise stable qoq**

HDFC Bank reported 22% yoy loan growth, driven by 25% yoy retail loan growth and recovery in the non-retail loans segment which grew 18% yoy as per RBI classification and 25% yoy growth in retail and 16% growth yoy in corporate loans as per internal classification. Loan growth had marginally slipped <20% in the previous quarter and aided by strong growth in the corporate segment, growth has again moved back >20% levels. The bank has been rapidly expanding its retails asset base which now stands at ~55% compared to 51% in FY2017 and 48% in FY2016 (as per RBI classification). Unsecured loans continue to gain dominance amidst a low base with its share in total loans at 16.4% (as per RBI classification). There has not been too much change qoq but it is an increase of 180 bps yoy.

Within retail loans (as per RBI classification), unsecured loans (personal loans and credit cards) and 2 wheeler loans saw maximum traction followed by business banking and commercial vehicles. Personal loans witnessed 40% yoy loan growth and credit cards witnessed 32% yoy loan growth. Business banking and 2-W loans on the other hand recorded 29% yoy and 40% yoy growth respectively. Car and CV loans also increased 18% yoy and 26% yoy respectively. Housing loans however grew 14% yoy as the bank has again started to buy back loans from HDFC Ltd as they have the requisite clarification on GST.

### Unsecured loan growth remains high, contributing ~30% of retail loans

The trend in growth in unsecured loans was broadly similar to that in previous quarters with personal loans and credit cards contributing major portion of incremental retail loan growth. Personal loan and credit card loans together at ~44% yoy and 39% yoy, Contribution of unsecured retail loans to total retail loans has grown to ~30% from ~22% in FY2014.

With strong support from low cost funding and emerging yield pressure arising from rising competition in various retail segments, the bank has been aggressive in growing the unsecured book, thus providing support to the overall margins. Given the strength of the retail balance sheets, the current level of strong growth does not raise any red-flags at the moment.

HDFC Bank has grown at ~20% CAGR over last 4 years, well above the industry loan growth. The bank has indicated that it plan to grow above the industry growth rate going ahead though the difference may taper down with rising competition. The bank does not explicitly target any share for retail, but the relative slowdown in corporate have led to increase in share of retail loans.

We are not too sure if the bank would be able to improve loan growth >25% in the medium term considering that the underlying business environment is yet to improve firmly across corporate and SMEs, even as retail engine continues to deliver strong growth. We forecast 18% loan CAGR over FY2018-2021E.

#### Exhibit 5: Corporate loan growth saw a turnaround in 1QFY19

Break-up of loan book, March fiscal year-ends, 2008-1QFY19 (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
<b>Retail</b>	<b>61.9</b>	<b>61.8</b>	<b>50.2</b>	<b>50.1</b>	<b>54.8</b>	<b>56.9</b>	<b>48.0</b>	<b>47.3</b>	<b>48.2</b>	<b>51.2</b>	<b>55.1</b>	<b>53.7</b>
Housing loans	3.0	5.1	6.9	7.2	7.3	7.0	6.3	6.6	6.9	6.9	5.5	6.2
Auto loans	26.9	25.7	20.4	20.2	21.5	20.9	16.5	15.7	15.1	15.8	16.5	15.8
Commercial vehicles	9.4	8.1	4.8	5.1	6.7	6.7	4.3	3.5	3.2	3.5	3.6	3.5
Car loans	15.1	15.7	14.3	13.8	13.5	12.9	11.1	11.1	10.8	11.2	11.6	11.0
Two wheelers	2.4	1.9	1.3	1.2	1.3	1.3	1.1	1.1	1.2	1.1	1.3	1.3
<b>Unsecured</b>	<b>15.5</b>	<b>12.8</b>	<b>10.0</b>	<b>9.5</b>	<b>10.7</b>	<b>11.5</b>	<b>11.1</b>	<b>11.5</b>	<b>12.4</b>	<b>13.7</b>	<b>16.4</b>	<b>16.4</b>
Personal loans	10.5	8.9	6.9	6.4	7.1	7.3	6.9	7.1	8.0	9.0	10.9	11.0
Credit cards	5.0	3.9	3.1	3.0	3.6	4.2	4.3	4.4	4.4	4.7	5.5	5.4
Business loans	13.5	12.8	8.7	9.4	9.5	10.2	7.1	5.2	5.4	6.5	8.2	7.3
Others	3.1	5.3	4.2	3.9	5.8	7.3	7.0	8.3	8.4	8.2	8.4	8.0
<b>Corporate</b>	<b>38.1</b>	<b>38.2</b>	<b>49.8</b>	<b>49.9</b>	<b>45.2</b>	<b>43.1</b>	<b>52.0</b>	<b>52.7</b>	<b>51.8</b>	<b>48.8</b>	<b>44.9</b>	<b>46.3</b>

Source: Company, Kotak Institutional Equities

### An outsider's view on the profitability of the unsecured business of HDFC Bank

As discussed in our previous report, we have tried to look at the profitability and contribution of the unsecured business. HDFC Bank has grown its credit and unsecured loan portfolio quite meaningfully in the previous few years. The share of these loans is at an all-time high at ~15% of loans. The management articulated that the performance on these portfolios continues to remain quite solid. The credit card business has seen a reasonably strong growth in volumes and spends but is marginally offset by lower revolve rates. Card acceptance is gaining ground across all segments of population (salaried and non-salaried), age as well as in semi-urban, urban and metropolitan areas. The bank is building a reasonably well diversified portfolio to reduce the underlying risk. The contribution between new-to-credit customers appears to be quite healthy. At this point, there are no signs of worry.

We looked at the contribution of these two portfolios. Note that these are our internal estimates and not been shared by the management. We have based our assumption looking at the financials of SBI Cards and Payment Services, which is the credit card subsidiary of SBI. We have made further adjustments to various metrics to account for relative strengths of each company. Our study suggests that though the contribution of these two loans was ~15% of the overall loans, the contribution towards PBT could be between 25-30% of the

overall bank. The credit card business which is 5% of loans is probably contributing to ~15% of PBT while the personal loans, 10% of loans, could be ~10-12% of PBT. The share of profits from the credit card business is probably moved to ~15% of PBT in FY2018 from 10% a few years back. The card business probably generates ~50% of its income from net interest income (revolving customers) and the balance through interchange fees, foreign exchange and other cross sell/late fees, etc. (see Exhibits 1 and 2).

The main challenge that we see currently is that these business can turn towards low profitability or losses in extreme scenarios quite quickly. This would result in the bank immediately lowering its exposure to these segments resulting in slower loan growth which would put higher pressure on revenue growth as NIM are quite high along with fee income opportunities. Further, the bank would need to strengthen its collection team resulting in higher operating expenses while it would also have to make for higher provisions for bad loans. In many ways, the cyclicity of this business appears to be less comforting, in our view.

**Exhibit 6: Credit card and personal loans business probably contributes 25% of revenues and ~30% of PBT for the bank**  
Credit card and personal loan business contribution to the overall business, March fiscal year-end, 2018 (₹ mn)

	Bank	Credit card	Contribution	Personal loans	Contribution	Total	Contribution
	(Rs mn)	(Rs mn)	(%)	(Rs mn)	(%)	(Rs mn)	(%)
(% of loans)			5.2		10.3		15.5
Average loans	6,188,469	324,173	5.2	637,310	10.3	961,483	15.5
Revenues	553,152	91,112	16.5	53,237	9.6	144,349	26.1
Interest income	802,414	70,802	8.8	88,208	11.0	159,010	19.8
Interest on loans	626,618	61,593	9.8	70,104	11.2	131,697	21.0
Interest on investments	162,224	8,498	5.2	16,706	10.3	25,204	15.5
Others	13,572	711	5.2	1,398	10.3	2,109	15.5
Interest expenses	401,465	21,030	5.2	41,344	10.3	62,374	15.5
Net interest income	400,949	49,771	12.4	46,864	11.7	96,635	24.1
Non-interest income	152,203	41,341	27.2	6,373	4.2	47,714	31.3
Operating expenses	226,904	43,263	19.1	15,933	7.0	59,196	26.1
PPOP	326,248	47,849	14.7	37,304	11.4	85,153	26.1
Provisions	59,328	5,149	8.7	7,966	13.4	13,115	22.1
PBT	266,973	42,700	16.0	29,338	11.0	72,038	27.0
Average number of cards (mn)		9.6					
Receivables/card (Rs)		33,700					
Spends/card (Rs/year)		135,033					
Transactions/card (#/year)		42					
Revenue/card (Rs)		9,500					
NII/card		5,200					
Non-interest income/card		4,300					
Opex/card (Rs)		4,500					

Notes:

- This is a hypothetical exercise based on external available information (SBI Cards) which has been fine tuned to HDFC Bank.
- The yield on loans has been assumed at 20% for cards and ~11% for personal loans
- Opex to loans has been assumed at 2.5%, non-interest income at 1% and provisions at 1.25% for personal loans
- Transfer pricing has not been considered for this exercise but we have loaded the SLR costs to the business

Source: Company, Kotak Institutional Equities estimates

**Exhibit 7: Contribution from the credit card business to profitability has been rising over the years**

Credit card and personal loan business contribution to the overall business, March fiscal year-ends, 2018 (₹ mn)

	Credit card business						Bank					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
(% of loans)							3.9	4.0	4.3	4.4	4.6	5.2
Average loans (D)	91,053	113,508	146,985	187,685	230,648	324,173	2,315,502	2,817,371	3,379,912	4,253,774	5,036,630	6,188,469
Revenues	29,121	32,192	39,446	51,304	67,085	91,112	226,637	264,023	313,920	383,432	454,357	553,152
Interest income	20,541	25,373	32,837	42,452	51,723	70,802	350,649	411,355	484,699	602,214	693,060	802,414
Interest on loans	17,300	21,566	27,927	35,660	43,823	61,593	268,224	316,869	371,808	448,279	520,553	626,618
Interest on investments	3,075	3,641	4,287	6,230	7,302	8,498	78,203	90,368	98,585	141,200	159,443	162,224
Others	166	166	622	562	598	711	4,222	4,118	14,306	12,736	13,064	13,572
Interest expenses	7,571	9,127	11,339	14,397	16,562	21,030	192,538	226,529	260,742	326,299	361,667	401,465
Net interest income	12,970	16,247	21,497	28,055	35,161	49,771	158,111	184,826	223,957	275,915	331,392	400,949
Non-interest income	16,151	15,945	17,949	23,249	31,925	41,341	68,526	79,196	89,964	107,517	122,965	152,203
Operating expenses	16,902	16,687	18,784	24,330	33,409	43,263	112,361	120,422	139,875	169,797	197,033	226,904
PPOP	12,219	15,505	20,663	26,974	33,676	47,849	114,276	143,601	174,045	213,635	257,324	326,248
Provisions	2,538	2,392	2,570	3,178	4,166	5,149	16,242	15,914	20,788	27,104	36,009	59,328
PBT	9,680	13,113	18,092	23,796	29,510	42,700	97,512	127,728	153,295	186,379	221,391	266,973
Contribution to PBT of bank	10	10	12	13	13	16						
Number of cards (mn) A	6.0	5.4	5.6	6.5	8.2	9.6						
Spends/card (Rs mn) B	352,558	451,167	569,455	733,902	964,813	1,298,222						
Spends/card (Rs/year) (B/A)	58,283	83,102	102,498	112,180	118,139	135,033						
Growth in spends/card (%)		42.6	23.3	9.4	5.3	14.3						
Transactions/card (Rs mn) C	107	160	197	250	331	400						
Transactions/card (#/year) (C/A)	18	29	35	38	41	42						
Growth in transactions/card (%)		67.1	20.3	7.8	6.2	2.6						
Loans/card (D/A)	15,052	20,907	26,456	28,689	28,242	33,719						
Revenue/card (Rs)	4,814	5,929	7,100	7,842	8,214	9,477						
NI/card	2,144	2,993	3,869	4,288	4,305	5,177						
Non-interest income/card	2,670	2,937	3,231	3,554	3,909	4,300						
Opex/card (Rs)	2,794	3,074	3,381	3,719	4,091	4,500						

Notes:

(a) We have assumed a growth in ~10% in opex/card and non-interest income/card

Source: Company, Kotak Institutional Equities estimates

**Asset quality stable qoq; absolute growth in NPLs surpass loan growth**

Gross NPL and net NPL ratios were flat qoq at 1.3% and 0.4% respectively; a trend observed over the past four quarters. On an absolute basis, GNPL increased by 11% qoq whereas NNPL was down 12% qoq. The bank increased its provision coverage ratio to ~70%. Slippages for the quarter stood at 2.1% of loans (up ~35 bps qoq). There was increasing signs of stress in the agricultural portfolio which saw rise in slippages in 1QFY19. We note that the growth in GNPLs at 32% yoy is higher than loan growth at 22% yoy indicating gradual rise in stress of the book. This could also be a reflection of the vintage cycle of the loan book reflecting maturity of various cycles. We forecast 1.3%-1.5% gross NPL ratio over next two years with credit costs of ~90 bps.

**Exhibit 8: Provisions saw a sharp rise in FY2018**

Break-up of provisions made during a year, March fiscal year-ends, 2010-2018 (₹ mn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
NPAs	19,389	7,630	10,918	12,342	16,326	17,236	21,336	31,453	49,104
Standard assets	—	—	1,505	1,237	2,213	2,963	4,400	3,922	5,974
Investment depreciation	—	—	934	522	(41)	(38)	152	(76)	305
Floating	500	6,700	7,000	4,000	300	—	1,150	250	5,240
Securitized assets	(0)	26	98	59	(262)	46	(29)	26	21
Restructured assets	150	(44)	(41)	(64)	(9)	179	(126)	(25)	(30)
Contingencies	1,361	4,749	(1,645)	(1,332)	(2,654)	365	373	383	(1,339)
Outstanding provisions	21,400	19,061	18,769	16,764	15,873	20,750	27,256	35,933	59,275

Notes:

(a) Comparison with earlier years will be incorrect as FY2013 has seen a change in reporting where income from written-off loans have been shifted to non-interest income from the earlier practice of netting with provisions. FY2012 numbers restated as per the change in accounting policy.

Source: Company, Kotak Institutional Equities

### Margin compression led by higher costs and inability to pass through

Calculated NIM dropped ~22 bps qoq to 4.2% (reported NIM down 10 bps qoq at 4.2%) on the back of dual impact of rise in cost of funds and drop in lending yields. Calculated yields dropped 16 bps qoq to 10.2% while calculated cost of funds increased 14 bps qoq to 5.1% in 1QFY19. It is quite likely that the bulk of pressure on lending yields is coming from the retail asset book. This is despite the fact that there is a change in product mix within the retail book which is seeing an increasing share of high yielding unsecured loans. A sharp decline in cost of funds post demonetization and a relatively fixed rate interest rate book allowed the bank to reported slightly better NIM in FY2018 which is probably now starting to reverse. Additionally drop in CASA led by muted CA growth has led to increase in cost of deposits in 1QFY19.

We forecast NIM to drop in medium term led by stable CASA, drop in lending yields on the back of gradual rise in low yielding corporate loans and stiff competition on the retail side. We expect NII CAGR of ~16% in FY2018-21E and expect it to lag ~19% loan CAGR during the same period. We forecast NIM (calculated) to decline by ~20 bps over FY2018-21E.

### Treasury losses drag other income growth

HDFC bank reported robust 23% yoy growth in fee income; a trend similar to previous quarters. The strong traction in fee income has been on the back of sale of third party products. Bank has tied up with two more life insurance companies (apart from HDFC Life) and one general insurance company in FY2018. The three pillars of core fee income growth going ahead will be selling third party products like insurances and MFs, retail asset fees and credit cards. The bank reported treasury losses of ₹.8 bn (high M2M losses) in 1QFY19 which led to sharp drop in other income.

### Cost-income ratio showing marginal improvement yoy

Cost-income ratio dropped 70 bps yoy as growth in operating cost at 11% yoy in 1QFY19 was lower than revenue growth at 14% yoy. Base quarter had one-off impact on other income of ~₹3.1 bn. Adjusting for the same cost-income ratio as down 180 bps yoy. Ongoing staff efficiency program led to savings as employee expenses growth was low at 9% yoy even though employee count increased by 5,793 (net change yoy). Non-staff cost growth was modest at 12% yoy.

We forecast cost-to income ratio to moderate to ~38% by FY2021E on the back of strict cost controls and robust revenue growth. However, a key concern would be on the pace of delinquencies as the bank would have to step up collection teams.

### CASA ratio down 180 bps qoq to 42%

Overall deposit growth was strong at 20% yoy led by strong growth in term deposit at 25% yoy and SA at 17% yoy. CA growth was muted at 7% yoy; a trend similar to previous quarter. This led to overall drop in CASA to 42% (down 180 bps qoq and 230 bps yoy). CASA dropped for the second quarter in a row. Growth has been a bit of a challenge given that the market share shift on deposits would be lot more gradual as compared to loans. Hence, the short term reliance on term deposits to fund balance sheet growth would be high.

We project 18% CAGR in CASA balances from FY2018-21E driven by ~18% CAGR in savings account during the same period. We project CASA ratio to moderate down to ~43% by FY2021E.

### Other key highlights

- ▶ Tier-1 ratio stands comfortable at 13.1% with overall CAR at 14.6% as per Basel-3 guidelines. Growth in RWA at 22% yoy was similar to loan growth in 1QFY19.
- ▶ The bank has slowed down on expansion adding only 17 branches (net) in 1QFY19 (72 in FY2018) compared to net additions of 195 and 506 in FY2016 and FY2015 respectively. Growth in ATM stood low at 5% yoy to 12,808. The bank has been rapidly expanding footprint in semi-urban areas and rural areas. Of the total banking outlets, 53% are in semi-urban and rural areas.

#### Exhibit 9: Network expansion picked pace in 1QFY19

March fiscal year-ends, 2008-2018 (#)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Branches	761	1,412	1,725	1,986	2,544	3,062	3,403	4,014	4,520	4,715	4,787	4,804
ATMs	1,977	3,295	4,232	5,471	8,913	10,743	11,176	12,000	12,000	12,260	12,635	12,808

Source: Company, Kotak Institutional Equities

#### Exhibit 10: HDFC Bank has seen a convergence in its opex to assets ratio in relation to other private sector banks

Operating expenses to total assets, March fiscal year-ends, 2014-2021E (%)

	Opex to total assets								Employee costs to total assets							
	2014	2015	2016	2017	2018	2019E	2020E	2021E	2014	2015	2016	2017	2018	2019E	2020E	2021E
Axis Bank	2.2	2.2	1.8	2.2	2.1	2.2	2.2	2.2	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6
HDFC Bank	2.6	2.6	2.6	2.5	2.4	2.3	2.1	2.0	0.9	0.9	0.9	0.8	0.7	0.7	0.7	0.6
ICICI Bank	1.9	1.9	1.9	2.1	1.9	1.8	1.8	1.8	0.8	0.8	0.7	0.8	0.7	0.7	0.7	0.7
IndusInd Bank	2.9	2.9	2.9	3.0	2.8	2.7	2.6	2.5	1.0	1.0	1.0	0.9	0.9	0.8	0.8	0.7
Yes Bank	1.7	1.9	2.0	2.2	2.0	1.8	1.8	1.8	0.8	0.8	0.9	1.0	0.8	0.7	0.7	0.7

Source: Companies, Kotak Institutional Equities estimates

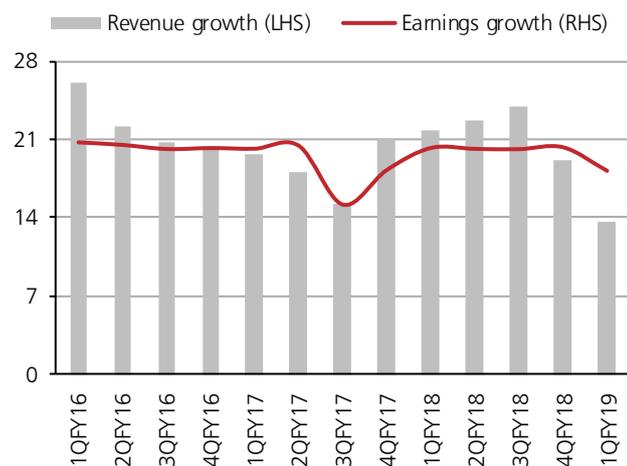
#### Exhibit 11: Consistent improvement in cost-income ratio

Cost-income ratio, March fiscal year-ends, 2012-2021E (%)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Axis Bank	44.7	42.6	40.8	40.7	38.5	41.0	47.3	49.2	48.6	50.0
HDFC Bank	49.7	49.6	44.6	44.6	44.3	43.4	41.0	41.5	39.1	37.8
ICICI Bank	43.0	40.6	36.8	36.8	34.7	35.8	38.8	41.6	40.0	38.7
IndusInd Bank	49.4	48.8	48.1	48.1	47.0	46.7	45.7	46.3	44.0	43.4
Yes Bank	37.7	38.4	39.4	41.3	40.9	41.7	40.5	41.0	43.6	43.4

Source: Companies, Kotak Institutional Equities estimates

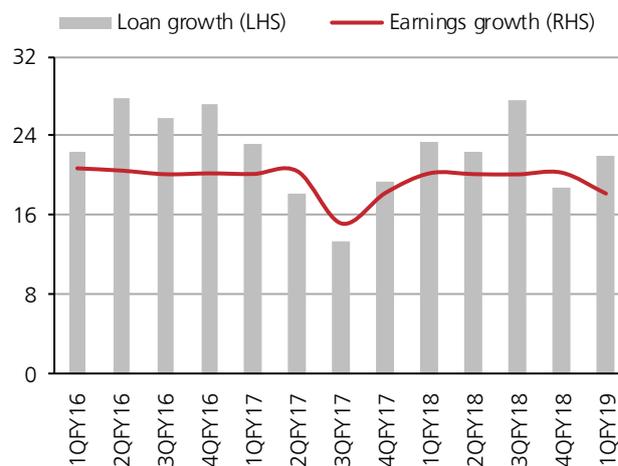
**Exhibit 12: Earnings growth outpaces revenue growth**  
Earnings and revenue growth, March fiscal year-ends, 1QFY16-1QFY19 (%)



Notes:  
(a) Revenues not strictly comparable as the bank has changed its accounting for certain expenses and income.

Source: Company, Kotak Institutional Equities

**Exhibit 13: Loan growth has slowed down in the last two quarters**  
Earnings and loan growth, March fiscal year-ends, 1QFY16-1QFY19 (%)



Source: Company, Kotak Institutional Equities

Exhibit 14: HDFC Bank—key parameters and balance sheet  
March fiscal year-ends, 1QFY18-1QFY19

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
<b>Yield management measures (%)</b>					
Reported NIM (%)	4.4	4.3	4.3	4.3	4.2
<b>Asset quality details</b>					
Gross NPL(Rs mn)	72,429	77,028	82,349	86,070	95,386
Gross NPL (%)	1.2	1.3	1.3	1.3	1.3
Net NPLs (Rs mn)	25,282	25,968	27,737	26,010	29,071
Net NPL (%)	0.4	0.4	0.4	0.4	0.4
<b>Capital adequacy ratios (%)</b>					
CAR	15.6	15.1	15.5	14.8	14.6
Tier I	13.6	13.3	13.6	13.2	13.1
Tier II	2.0	1.8	1.9	1.6	1.5
<b>Other key details</b>					
Branches	4,727	4,729	4,734	4,787	4,804
ATM network	12,220	12,259	12,333	12,635	12,808
<b>Balance sheet snapshot (Rs bn)</b>					
Capital and liabilities					
Capital	5	5	5	5	5
Reserves and surplus	937	954	1,005	1,058	1,071
Deposits	6,714	6,893	6,990	7,888	8,058
Borrowings	860	1,015	1,039	1,231	1,210
Other liabilities and provisions	440	468	451	458	459
<b>Total</b>	<b>8,957</b>	<b>9,336</b>	<b>9,491</b>	<b>10,639</b>	<b>10,804</b>
Assets					
Cash and balances with RBI	362	359	344	1,047	396
Balances with banks, money at call and short notice	208	99	56	182	119
Investments	2,161	2,403	2,327	2,422	2,757
Advances	5,810	6,049	6,312	6,583	7,086
Fixed assets	36	35	35	36	36
Other assets	380	391	416	369	410
<b>Total</b>	<b>8,957</b>	<b>9,336</b>	<b>9,491</b>	<b>10,639</b>	<b>10,804</b>

Source: Company, Kotak Institutional Equities

Exhibit 15: HDFC Bank—estimate changes  
March fiscal year-ends, 2019E-2021E (₹ bn)

	New estimates			Old estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Net loan growth (%)	21.3	17.5	17.0	19.1	18.6	18.1	215 bps	-107 bps	-106 bps
Total assets	12,497	14,455	16,729	12,498	14,455	16,730	(0.0)	(0.0)	(0.0)
Total income	631	738	840	636	740	847	(0.9)	(0.3)	(0.8)
Net interest income	456	536	614	463	545	629	(1.4)	(1.6)	(2.4)
NIM (%)	4.1	4.1	4.0	4.1	4.2	4.1	-6 bps	-7 bps	-10 bps
Other income	175	202	227	174	196	218	0.7	3.4	3.9
Fee income	134	150	168	129	144	162	3.7	3.7	3.7
Expenses	261	289	318	266	293	323	(1.5)	(1.5)	(1.5)
Employee cost	77	88	100	77	88	100	-	-	-
Other cost	185	201	218	189	206	223	(2.2)	(2.2)	(2.1)
Loan loss provisions	55	74	81	54	73	81	1.0	1.3	0.4
PBT	314	375	441	316	374	443	(0.6)	0.3	(0.5)
PAT	209	253	302	210	252	303	(0.6)	0.3	(0.5)
PBT-treasury+provisions	364	437	509	359	433	510	1.3	0.7	(0.4)
EPS (Rs)	77	93	111	77	93	111	(0.6)	0.3	(0.5)

Source: Company, Kotak Institutional Equities estimates

**Exhibit 16: We expect HDFC bank to deliver ROEs of 16-17% in the medium term**  
 ROE breakup, March fiscal year-ends, 2013-2021E (%)

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net interest income	4.3	4.1	4.1	4.1	4.1	4.2	3.9	4.0	3.9
Other income	1.9	1.7	1.7	1.6	1.5	1.6	1.5	1.5	1.5
Treasury	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
Others	1.8	1.6	1.6	1.5	1.4	0.5	1.5	1.4	1.4
Total income	6.1	5.8	5.8	5.8	5.7	5.7	5.5	5.5	5.4
Operating expenses	3.0	2.6	2.6	2.6	2.5	2.4	2.3	2.1	2.0
Employees	1.1	0.9	0.9	0.9	0.8	0.7	0.7	0.7	0.6
Others	1.9	1.7	1.7	1.7	1.7	1.7	1.6	1.5	1.4
Pre provision income	3.1	3.2	3.2	3.2	3.2	3.3	3.2	3.3	3.3
Loan loss provisions	0.5	0.4	0.4	0.4	0.4	0.6	0.5	0.5	0.5
Pre -tax pre extraordinary income	2.6	2.8	2.8	2.8	2.8	2.8	2.7	2.8	2.8
RoA pre-tax/prov/treasury/extr.	3.1	3.1	3.1	3.1	3.1	3.2	3.1	3.2	3.3
(1- tax rate)	69.0	66.6	66.6	66.0	65.7	65.5	66.5	67.5	68.5
RoA	1.8	1.9	1.9	1.8	1.8	1.8	1.8	1.9	1.9
Avg assets/avg equity	11.2	10.3	10.3	9.9	9.9	9.8	9.2	8.6	8.8
RoE	20.3	19.4	19.4	18.3	17.9	17.9	16.5	16.2	17.0

Notes:

(a) Net interest income includes income from mutual fund reported under income from investments.

Source: Company, Kotak Institutional Equities estimates

**Exhibit 17: HDFC Bank growth rates and key ratios**  
March fiscal year-ends, 2016-2021E (%)

	2016	2017	2018	2019E	2020E	2021E
<b>Growth rates (%)</b>						
Net loan	27.1	19.4	18.7	21.3	17.5	17.0
Customer assets growth	28.3	23.1	21.3	19.9	16.6	16.2
Retail loans to Customer assets	47.6	48.9	51.5	51.1	51.8	52.6
Net fixed assets	(20.3)	54.5	(0.5)	(4.8)	(6.4)	(8.1)
Cash and bank balance	7.1	25.8	153.0	12.7	22.7	23.9
Total Asset	25.5	16.6	23.2	17.5	15.7	15.7
Deposits	21.2	17.8	22.5	19.1	18.6	18.1
Current	20.2	30.7	3.2	22.1	18.6	18.1
Savings	22.9	7.9	33.2	18.8	19.1	18.6
Fixed	18.4	30.9	15.6	18.1	17.5	17.0
Net interest income	23.2	20.1	21.0	13.7	17.5	14.5
Loan loss provisions	30.9	33.3	54.6	(0.8)	35.1	10.3
Total other income	19.5	14.4	23.8	14.8	15.6	12.1
Net fee income	17.8	13.6	29.3	17.5	11.9	11.9
Net capital gains	25.8	55.5	(18.8)	(40.5)	127.3	8.0
Net exchange gains	19.4	2.9	20.6	20.0	12.0	15.0
Operating expenses	21.4	16.0	15.2	15.2	10.4	10.1
Employee expenses	20.0	13.7	5.0	12.7	14.3	13.8
<b>Key ratios (%)</b>						
Yield on average earning assets	9.6	9.1	8.7	8.6	8.5	8.3
Yield on average loans	10.8	10.2	10.3	10.2	9.8	9.6
Yield on average investments	8.1	7.8	7.1	7.9	7.8	7.7
Average cost of funds	5.7	5.3	4.9	5.1	4.9	4.8
Interest on deposits	5.9	5.3	4.6	4.8	4.7	4.6
<b>Difference</b>	<b>3.9</b>	<b>3.9</b>	<b>3.9</b>	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>
Net interest income/earning assets	4.4	4.4	4.4	4.1	4.1	4.0
New provisions/average net loans	0.6	0.7	0.9	0.8	0.9	0.8
Interest income/total income	72.0	72.9	72.5	72.3	72.6	73.0
Fee income to total income	20.2	19.4	20.6	21.2	20.3	19.9
Fees income to PBT	41.6	39.8	42.7	42.6	39.9	38.0
Net trading income to PBT	3.8	5.2	3.3	1.7	3.3	3.0
Exchange inc./PBT	6.6	5.7	5.7	5.8	5.5	5.3
Operating expenses/total income	44.3	43.4	41.0	41.5	39.1	37.8
Operating expenses/assets	2.6	2.5	2.4	2.3	2.1	2.0
Operating profit /AWF	2.9	2.8	2.8	2.8	2.8	2.8
Tax rate	34.0	34.3	34.5	33.5	32.5	31.5
Dividend payout ratio	19.5	19.4	19.3	19.3	19.3	19.3
Share of deposits						
Current	16.2	18.0	15.1	15.5	15.5	15.5
Fixed	56.8	52.0	56.5	56.4	56.6	56.9
Savings	27.1	30.1	28.4	28.1	27.9	27.6
Loans-to-deposit ratio	85.0	86.2	83.5	85.0	84.2	83.4
Equity/assets (EoY)	9.8	10.4	10.0	11.7	11.5	11.3
<b>Asset quality trends (%)</b>						
Gross NPL	0.9	1.1	1.3	1.5	1.5	1.5
Net NPL	0.3	0.3	0.4	0.6	0.6	0.6
Slippages	1.6	1.5	2.3	1.8	1.6	1.6
Provision coverage (ex writeoff)	69.9	68.7	69.8	61.6	60.1	63.1
<b>Dupont analysis (%)</b>						
Net interest income	4.1	4.1	4.2	3.9	4.0	3.9
Loan loss provisions	0.4	0.4	0.6	0.5	0.5	0.5
Net other income	1.6	1.5	1.6	1.5	1.5	1.5
Operating expenses	2.6	2.5	2.4	2.3	2.1	2.0
(1- tax rate)	66.0	65.7	65.5	66.5	67.5	68.5
<b>ROA</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>1.9</b>	<b>1.9</b>
Average assets/average equity	9.9	9.9	9.8	9.2	8.6	8.8
<b>ROE</b>	<b>18.3</b>	<b>17.9</b>	<b>17.9</b>	<b>16.5</b>	<b>16.2</b>	<b>17.0</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 18: HDFC Bank P&L and balance sheet**  
March fiscal year-ends, 2016-2021E (₹ mn)

	2016	2017	2018	2019E	2020E	2021E
<b>Income statement</b>						
Total interest income	602,214	693,060	802,414	961,945	1,103,641	1,262,551
Loans	448,279	520,553	626,618	740,211	847,713	980,974
Investments	141,200	159,443	162,224	201,393	219,033	235,272
Cash and deposits	12,736	13,064	13,572	20,341	36,894	46,305
Total interest expense	326,299	361,667	401,465	505,967	567,712	648,911
Deposits from customers	291,783	313,315	327,713	418,350	483,620	562,038
Net interest income	275,915	331,392	400,949	455,979	535,929	613,639
Loan loss provisions	26,732	35,626	55,070	54,624	73,792	81,422
Net interest income (after prov.)	249,184	295,766	345,879	401,355	462,137	532,217
Other income	107,517	122,965	152,203	174,803	202,099	226,512
Net fee income	77,590	88,116	113,939	133,824	149,710	167,501
Net capital gains	7,317	11,380	9,243	5,500	12,500	13,500
Net exchange gains	12,277	12,634	15,235	18,282	20,476	23,547
Operating expenses	169,797	197,033	226,904	261,468	288,766	317,939
Employee expenses	57,022	64,837	68,057	76,685	87,644	99,761
Other Provisions	373	383	3,900	-	-	-
Pretax income	186,379	221,391	266,973	314,476	375,321	440,686
Tax provisions	63,417	75,894	92,106	105,349	121,980	138,816
Net Profit	122,962	145,496	174,867	209,127	253,342	301,870
% growth	20.4	18.3	20.2	19.6	21.1	19.2
Operating profit	206,167	246,020	316,700	363,600	436,613	508,608
% growth	22.5	19.3	28.7	14.8	20.1	16.5
<b>Balance sheet</b>						
<b>Assets</b>						
Cash and bank balance	389,188	489,521	1,238,689	1,395,799	1,712,132	2,120,697
Cash	55,695	42,636	75,323	112,985	169,477	254,216
Balance with RBI	244,889	336,333	971,381	1,135,514	1,321,705	1,535,058
Balance with banks	9,205	11,795	9,539	14,308	21,462	32,193
Net value of investments	1,968,322	2,144,633	2,412,464	2,705,941	2,943,028	3,203,972
Govt. and other securities	1,576,611	1,624,187	1,883,648	2,183,064	2,420,150	2,681,095
Shares	739	1,114	1,198	1,198	1,198	1,198
Debentures and bonds	48,874	194,698	347,873	347,873	347,873	347,873
Net loans and advances	4,645,940	5,545,682	6,583,331	7,983,076	9,379,687	10,975,789
Fixed assets	23,472	36,267	36,072	34,323	32,131	29,528
Net Owned assets	23,472	36,267	36,072	34,323	32,131	29,528
Other assets	381,038	422,298	368,787	377,861	387,842	398,821
<b>Total assets</b>	<b>7,407,961</b>	<b>8,638,402</b>	<b>10,639,343</b>	<b>12,497,000</b>	<b>14,454,819</b>	<b>16,728,808</b>
<b>Liabilities</b>						
Deposits	5,464,242	6,436,397	7,887,706	9,395,499	11,139,565	13,153,640
Borrowings and bills payable	923,475	906,960	1,313,268	1,285,258	1,324,827	1,371,610
Other liabilities	293,466	400,422	375,419	351,977	329,999	309,394
<b>Total liabilities</b>	<b>6,681,183</b>	<b>7,743,778</b>	<b>9,576,393</b>	<b>11,032,734</b>	<b>12,794,391</b>	<b>14,834,643</b>
Paid-up capital	5,056	5,125	5,190	5,442	5,442	5,442
Reserves & surplus	721,721	889,498	1,057,760	1,458,824	1,654,986	1,888,723
<b>Total shareholders' equity</b>	<b>726,778</b>	<b>894,624</b>	<b>1,062,950</b>	<b>1,464,265</b>	<b>1,660,428</b>	<b>1,894,165</b>

Source: Company, Kotak Institutional Equities estimates

JULY 23, 2018

**RESULT**

 Coverage view: **Cautious**

 Price (₹): **283**

 Target price (₹): **295**

 BSE-30: **36,496**

**Running in the same place.** Wipro reported better-than-expected revenue performance but disappointed with further decline in its adjusted EBIT margin. Guidance for 2QFY19 is on expected lines. As is always the case, Wipro's performance has a lot of bright spots (financial services and consumer) and some terrible disappointments (healthcare and manufacturing). Net result—continuing underperformance. The stock is inexpensive and will remain so until the company reaches some consistency in execution. Our FY2019-21E EPS remains largely unchanged.

**Company data and valuation summary**

Wipro

Stock data			Forecasts/Valuations				
			2018	2019E	2020E		
52-week range (Rs) (high,low)	334-254		EPS (Rs)	16.9	18.9	21.7	
Market Cap. (Rs bn)	1,280.5		EPS growth (%)	(3.1)	11.8	14.6	
<b>Shareholding pattern (%)</b>			P/E (X)	16.7	15.0	13.0	
Promoters	74.3		Sales (Rs bn)	546.4	584.3	623.7	
FIs	11.5		Net profits (Rs bn)	80.1	85.3	97.8	
MFs	2.2		EBITDA (Rs bn)	105.3	112.5	124.7	
<b>Price performance (%)</b>			EV/EBITDA (X)	10.6	9.4	8.2	
Absolute	1M	3M	12M	ROE (%)	16.0	16.4	16.8
	9.0	(5.0)	5.2	Div. Yield (%)	0.4	0.5	3.5
Rel. to BSE-30	6.2	(10.4)	(8.1)				

**1QFY19—revenue surprises positively though margin performance disappoints**

Wipro reported better-than-expected revenue numbers. Revenues were flat in c/c as compared to our expectation of a 1.2% decline. The positive surprise was led by continued growth in the banking vertical (+3% qoq, +14.4% yoy) and solid 2.6% growth in the consumer vertical. Reported EBIT margin of 17.2% was helped by profit from the sale of its data center business; adjusted for this sale, EBIT margin was 15.6%, disappointing. Adjusted EBIT margins are at a multi-decade low. Wipro has hedged currency exposure; as a result the net benefit from rupee depreciation was minimal at 20 bps. Wage revision and the lack of growth have meant a further decline in the adjusted EBIT margin. Net profit of Rs20.94 bn was higher than our estimate due to profit from the sale of its hosted data center business.

**A few verticals deliver, others fall short. Net result—2.2% yoy growth in c/c**

Wipro's performance has a few bright spots—financial services grew at an impressive 3.0% qoq and 14.4% yoy led by share gains, strong digital competencies and a portfolio of clients that have not jumped the insourcing/captive bandwagon. The consumer business vertical also grew 2.6% qoq and 4.8% yoy. However, rest of the verticals underperformed with communications, manufacturing and healthcare reporting high single-digit to double-digit revenue decline. Performance of service lines was also volatile—IMS revenues declined 4.6% qoq and grew at 0.5% yoy. It is simply remarkable that Wipro has ended up with mere 2.4% yoy c/c growth when the challenging vertical for everyone, i.e. financial services has grown 14.4%. Other Tier-1 IT saw exactly the opposite metrics—faster overall growth with financial services underperformance.

**Stock is seemingly inexpensive, yet weak execution drives our cautious stance**

We broadly maintain FY2019-21E EPS estimates. Revenue estimates on c/c basis increase marginally due to 1QFY19 outperformance. The stock offers FCF yield of 7.2%. This may seem inexpensive but has to be viewed against the backdrop of weak revenue growth and 6% EPS CAGR in the past five years. A weak portfolio of clients, inconsistent execution and the loss of leadership in core areas of competence keep us cautious on the stock. Unchanged target price of Rs295 values Wipro at 13.5X June 2020E earnings. WE maintain REDUCE rating. Further depreciation of INR against USD is the key risk to our call.

Kawaljeet Saluja

Jaykumar Doshi

### Revenue growth guidance of 0.3-2.3%

Adjusting for the sale of the hosted data center business to ESONO, that impacts 2QFY19 revenues by US\$23 mn, revenue growth guidance stood at 0.3-2.3%, in line with our estimate. Guidance indicates a process of stabilization after the business was disrupted in the past two quarters due to bankruptcy of two of its clients. However, the trend of Wipro's underperformance on growth will continue; we forecast a c/c revenue growth rate of 4% for FY2019.

### Signs a large deal with Alight Solutions

Wipro has signed a large deal with Alight Solutions to acquire the latter's captive center in India. Alight Solutions provides benefits administration and cloud-based HR and financial solutions to 1,400 clients serving 19 mn employees. Wipro will acquire and take on responsibility for the services delivered from Alight's India locations. Wipro will pay US\$117 mn to Alight for this deal

As a part of this deal, Wipro will take on board 9,000 employees of Alight working in captive centers out of Gurgaon, Noida, Mumbai and Chennai. Alight India reported revenues of Rs11.3 bn in FY2018 (US\$175 mn). Assuming Wipro passes on productivity gains, the net annual revenue accretion would be in the ballpark of US\$140 mn per annum. Wipro will pay US\$117 mn for this deal. This deal is not part of the revenue growth guidance for the September 2018 quarter.

### What is driving Wipro's financial services vertical?

At a time when Tier-1 competitors have struggled to grow, Wipro's 14% yoy growth in c/c in financial services has impressed. We believe the growth can be explained by a few key factors—(1) health of clients that are in robust state and where IT spending is growing at a solid clip. Management highlighted retail banking as a strong growth area, (2) client base where there is no incremental captive shift threat. Captive shift has been an ongoing concern for Indian IT, especially among financial services clients. Wipro has been fortuitous enough to escape from this threat, (3) growth from design-led digital opportunities. Wipro has won a few integrated digital programs led by design capabilities, which built up the momentum and mindshare with select clients, (4) the company has also won a few consolidation deals and (5) a smaller factor but nonetheless important for the future is new account wins that may not contribute a lot at present but sets the platform for future growth. Wipro's name figures a lot more in banking deals than in the past. The net result is double-digit revenue growth that is likely to sustain.

Wipro's insurance practice has also turned around led by deal wins in enterprise modernization.

### The importance of growth for margins

This is best illustrated in the divergent margin performance of Wipro's various verticals. Financial services vertical that grew 14.4% yoy in c/c reported a 180 bps increase in EBIT margin to 17.4%. Similarly, the technology vertical's EBIT margin increased 110 bps yoy to 20.8%. Contrast this with yoy EBIT margin decline of 290 bps, 530 bps, 210 bps and 670 bps for healthcare, energy and utilities, manufacturing and communications verticals respectively. Revenues have declined or barely grown for these challenged verticals.

Wipro has ended up with a unique portfolio—a growth portfolio of financial services and technology vertical accounting for 44.2% of revenues and enjoying 18.5% EBIT margin. Plus, a challenged portfolio of healthcare, communications and manufacturing with margins of 10-16%.

The call for Wipro is straightforward—does it have strength and capabilities across verticals to grow consistently. In case it does not, can it pull back investments in verticals where it does not enjoy an edge and mindshare anymore? Clearly there are some verticals such as

communications where Wipro may not be relevant anymore and it may make sense to divert investment dollars to other higher potential verticals.

### Key highlights of earnings call

- ▶ **Margin walk-through.** IT services EBIT margin for the quarter improved 120 bps to 17.2% due to (1) 170 bps positive impact of sale of data center business, (2) 20 bps tailwind from rupee depreciation, (3) tailwinds from operational efficiencies, offset by (4) wage hikes and (5) low revenue growth. Adjusted EBIT margin declined 40 bps to 15.6%.
- ▶ **Commentary on verticals.** (1) BFSI—Wipro sees strong growth momentum in the vertical, reaping the benefits of its early investment in digital and client mining, (2) consumer- retail is undergoing massive transformation. Growth in the vertical is led by media, travel and transportation, (3) energy, gas & utilities—renewed investment, renewed demand in oil and gas segment is driving growth, which is partially offset by softness in utilities, (4) technology—the vertical shows good growth momentum despite a seasonal blip in the quarter, (5) communication—although bankruptcy in Indian client continues to affect growth, the vertical is showing signs of recovery, (6) health—the vertical continues to face challenges due to legislative uncertainty over the Affordable Care Act. The company is selective in choosing deals in India and Middle East regions and (7) manufacturing—softness in the vertical is due to revamp of offerings to digital in areas of additive manufacturing, plant automation and IoT. Wipro expects revenue growth from new deals to kick in after 2-3 quarters.
- ▶ **Manufacturing vertical outlook.** Manufacturing vertical revenues declined by 5.4% sequentially in c/c terms. Management reported that it had exited two infrastructure contracts with high product components leading to the loss in revenues. Wipro is revamping its offerings from traditional to digital. The company reported that it has a strong order book and pipeline and expects revenue growth to kick in over the next 2-3 quarters on the back of new deal wins.
- ▶ **Utilities vertical outlook.** Wipro has lost a couple of large accounts in the vertical when the accounts went for renewal due to regulatory requirements. The company reported that the pipeline is good and is building its presence in the U.S. market. Management expects growth to accelerate after the next 2-3 quarters.
- ▶ **Healthcare vertical outlook.** The healthcare vertical's revenues declined by 4.7% sequentially in c/c terms. Management attributed the softness to a decline in the HPS business. Uncertainty on reimbursement to insurers from the administration has caused demand erosion in HPS business. Wipro is focusing on re-platforming and leveraging the HPS platform to cross-sell services to both existing and new clients. The restructured platform has had a couple of deal wins, which are being ramped up.
- ▶ **India business.** Wipro is restructuring its India business to focus on profitable and relevant business for the company. Wipro indicated that it is rationalizing its India business further. This impacted its IMS revenues that declined 4% sequentially in c/c terms. Wipro is pivoting its India business to a digital transformation application-led, consulting-led business where profitability is higher.
- ▶ **Localization.** Wipro reported that it has achieved 58% localization in the US. The company maintains high levels of localization across other markets like Continental Europe, UK, APAC and LATAM.
- ▶ **Client metrics.** Wipro's US\$100 mn bucket remained steady while the company incrementally lost a client in the US\$75 mn bucket and added a client in the US\$50 mn bucket during the quarter

Exhibit 1: Wipro 1QFY19 results (IFRS) (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	% chg.			FY2019E	FY2018
					KIE	yoy	qoq		
IT services revenues (US\$ mn)	2,027	2,009	1,972	2,062	0.9	2.8	(1.7)	8,255	8,060
- IT Services	137,003	134,628	130,256	134,119	1.8	5.2	2.2	568,889	528,410
- IT Products	3,532	6,470	6,343	4,169	(45.4)	(44.3)	(15.3)	15,420	17,998
- reconciling items	13	—	15	(45)				13	(49)
<b>Total revenues</b>	<b>140,548</b>	<b>141,097</b>	<b>136,614</b>	<b>138,243</b>	<b>(0.4)</b>	<b>2.9</b>	<b>1.7</b>	<b>584,322</b>	<b>546,359</b>
<b>Operating Income</b>	<b>23,308</b>	<b>22,417</b>	<b>22,093</b>	<b>19,386</b>	<b>4.0</b>	<b>5.5</b>	<b>20.2</b>	<b>93,964</b>	<b>84,294</b>
- IT Services	23,968	22,417	21,916	19,323	6.9	9.4	24.0	94,508	83,613
- IT Products	(740)	—	31	49	—	(2,487.1)	(1,610.2)	(621)	363
- reconciling items	80	—	146	14				77	318
Other income/ (expense)	3,548	3,418	4,726	3,239	3.8	(24.9)	9.5	17,287	18,169
<b>PBT</b>	<b>26,856</b>	<b>25,836</b>	<b>26,819</b>	<b>22,625</b>	<b>3.9</b>	<b>0.1</b>	<b>18.7</b>	<b>111,252</b>	<b>102,463</b>
Income taxes	(5,865)	(5,870)	(5,994)	(4,615)	(0.1)	(2.2)	27.1	(25,920)	(22,390)
<b>PAT</b>	<b>20,991</b>	<b>19,966</b>	<b>20,825</b>	<b>18,010</b>	<b>5.1</b>	<b>0.8</b>	<b>16.6</b>	<b>85,332</b>	<b>80,073</b>
Equity in earnings of affiliates	(53)	—	—	(3)				—	11
Minority interest	270	—	(60)	22				—	(3)
<b>Net income</b>	<b>21,208</b>	<b>19,966</b>	<b>20,765</b>	<b>18,029</b>	<b>6.2</b>	<b>2.1</b>	<b>17.6</b>	<b>85,332</b>	<b>80,081</b>
<b>EPS (Rs/share)</b>	<b>4.7</b>	<b>4.4</b>	<b>4.3</b>	<b>4.0</b>	<b>6.8</b>	<b>9.8</b>	<b>17.5</b>	<b>18.9</b>	<b>16.9</b>
<b>Operating margin (%)</b>									
IT Services	17.2	16.7	16.8	14.4				16.6	15.8
IT Products	(21.0)	—	0.5	1.2				(4.0)	2.0
Net Income Margin	15.1	14.2	15.2	13.0				14.8	15.8
Tax rates (%)	21.8	22.7	22.3	20.4				23.3	21.9

Notes:

(1) Wipro has guided for 2QFY19 revenues to be in the range of US\$2,009—2,049 mn, a growth of 0.3% to 2.3%. We note that the guidance excludes impact of divestment of data services business which concluded during the June 2018 quarter

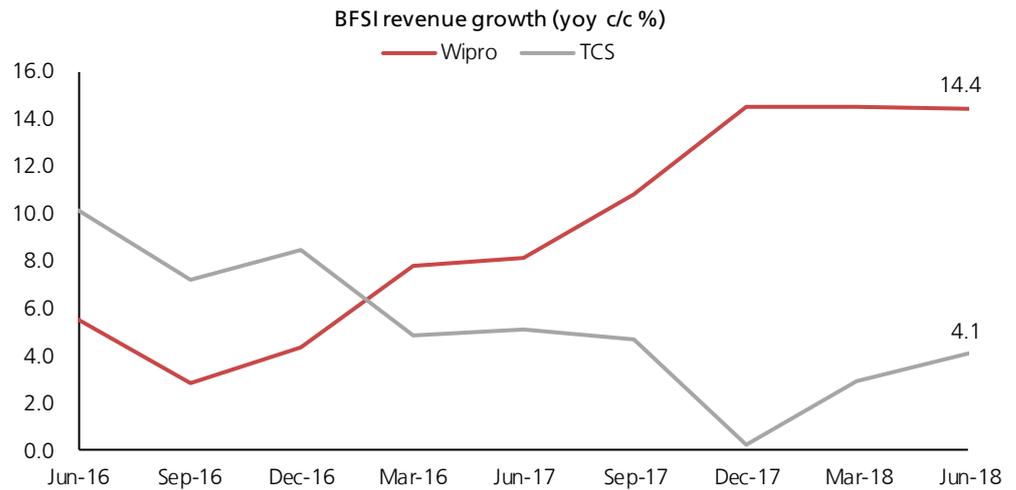
Source: Company, Kotak Institutional Equities

Exhibit 2: Wipro: Key changes to FY2019-21E estimates

Rs mn	New			Old			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
IT Services revenues (US\$ mn)	8,255	8,748	9,257	8,280	8,751	9,265	(0.3)	(0.0)	(0.1)
Revenue growth (%)	2.4	6.0	5.8	2.7	5.7	5.9			
Rupee/ US\$ rate	68.9	69.5	69.5	67.1	68.00	69.00	2.8	2.2	0.7
EBITDA margin (%)	19.9	20.5	20.5	20.8	21.4	21.4			
<b>EBIT margin (%)</b>	<b>16.6</b>	<b>17.3</b>	<b>17.3</b>	<b>17.0</b>	<b>17.6</b>	<b>17.7</b>			
EPS (Rs/share)	18.9	21.7	23.4	18.8	21.4	23.6	0.6	1.4	(0.9)

Source: Kotak Institutional Equities estimates

Exhibit 3: Contrasting growth in BFSI vertical for Wipro and TCS



Source: Company, Kotak Institutional Equities

Exhibit 4: Except BFSI and technology, other verticals have reported decline in profitability

	Segment margin(%)		Growth (yoy c/c %)		Contribution to revenues (%)	
	Jul-17	Jul-18	Jul-17	Jul-18	Jul-17	Jul-18
<b>Banking Financial Services &amp; Insurance</b>	<b>15.6</b>	<b>17.4</b>	<b>8.1</b>	<b>14.4</b>	<b>30.0</b>	<b>26.7</b>
Communications	16.4	9.7	(7.8)	(13.6)	5.6	6.8
Consumer	14.3	11.9	2.9	4.8	16.0	15.8
Energy, Natural Resources & Utilities	20.9	15.6	7.0	(4.3)	12.5	13.4
Healthcare, Life Sciences & Services	14.3	11.4	(0.6)	(7.7)	13.4	14.8
Manufacturing	14.5	12.4		(6.0)	8.3	9.0
<b>Technology</b>	<b>19.7</b>	<b>20.8</b>		<b>7.2</b>	<b>14.2</b>	<b>13.5</b>

Source: Company, Kotak Institutional Equities

Exhibit 5: Growth rates across verticals, geographies and service lines (June 2018)

	Jun-18	Growth (%)		Contribution to revenues (%)	C/C growth (%)	
		QoQ	YoY		QoQ	YoY
Revenues (US\$ mn)	2,027	(1.7)	2.8	100	0.1	2.4
<b>Service line split of revenues</b>						
Global Infrastructure Services	555	(6.5)	0.2	27	(4.6)	0.5
Wipro Analytics	144	(0.3)	2.8	7.1	1.5	1.8
Business Process Services	245	(1.7)	3.6	12.1	(0.6)	3.2
Product Engineering	148	(1.7)	7.2	7.3	(1.1)	7.0
Application Services	934	1.1	3.5	46.1	3.3	2.7
<b>Vertical split of revenues - new classification</b>						
Communications	113	(5.1)	(15.4)	5.6	(1.3)	(13.6)
Consumer	324	0.8	4.1	16.0	2.6	4.8
Energy, Natural Resources & Utilities	253	(1.7)	(4.1)	12.5	1.7	(4.3)
Finance Solutions	608	1.0	15.5	30.0	3.0	14.4
Healthcare, Life Sciences & Services	272	(5.3)	(6.9)	13.4	(4.7)	(7.7)
Manufacturing	168	(6.2)	(5.2)	8.3	(5.4)	(6.0)
Technology	288	(2.4)	8.1	14.2	(1.3)	7.2
<b>Geographical split of revenues</b>						
US	1,113	2.4	3.5	54.9	2.9	3.7
Europe	519	(6.8)	8.7	25.6	(3.0)	5.8
India and Middle east business	174	(10.1)	(15.0)	8.6	(7.5)	(12.2)
Other emerging markets	221	(1.7)	2.8	10.9	1.1	2.4
<b>Customer concentration</b>						
Top customer	75	3.9	31.1	3.7		
Top 5 customers	237	(3.4)	16.7	11.7		
Top 10 customers	371	(2.3)	7.5	18.3		
Non top 10	1,656	(1.6)	1.8	81.7		

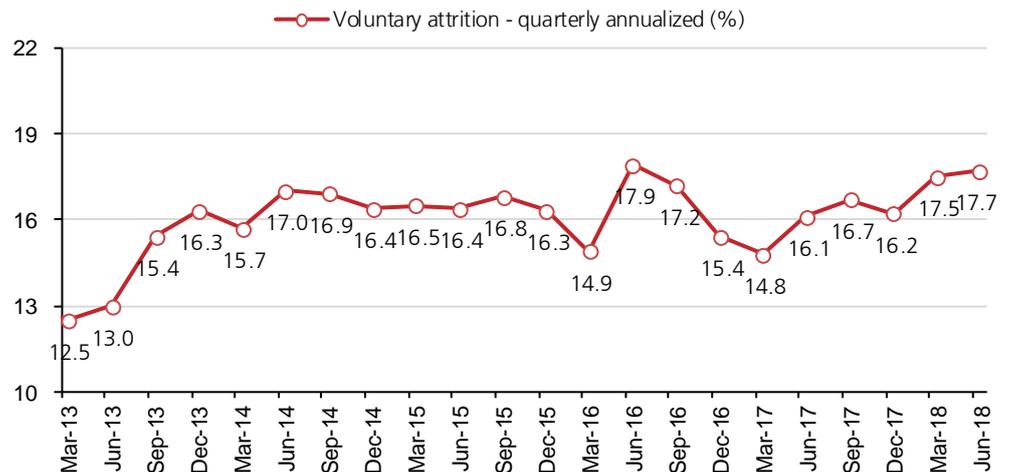
Source: Company, Kotak Institutional Equities

Exhibit 6: Key client metrics

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	4 qtr CQGR (%)
<b>Revenue(US\$ mn)</b>											
Top client	51	48	50	53	57	57	62	62	72	75	7.0
Top 5 clients	207	199	194	190	195	203	221	227	245	237	3.9
Top 10 clients	343	340	335	322	330	345	362	358	379	371	1.8
ex- Top 10 clients	1,539	1,591	1,581	1,581	1,624	1,627	1,651	1,655	1,683	1,656	0.4
<b>Growth (qoq %)</b>											
Top client	(13.6)	(5.0)	3.2	6.9	6.4	0.9	9.2	(0.0)	15.7	3.9	
Top 5 clients	(2.1)	(3.9)	(2.7)	(1.7)	2.7	3.9	9.1	2.7	7.9	(3.4)	
Top 10 clients	(3.5)	(0.8)	(1.3)	(4.1)	2.7	4.5	5.0	(1.1)	5.9	(2.3)	
ex- Top 10 clients	3.8	3.3	(0.6)	0.0	2.7	0.1	1.5	0.2	1.7	(1.6)	
<b>Client buckets</b>											
US\$ 100 mn+	9	9	8	9	9	9	9	9	8	8	
US\$ 75 mn+	18	19	19	17	18	18	16	17	20	19	
US\$ 50 mn+	33	33	33	33	34	36	39	41	39	40	

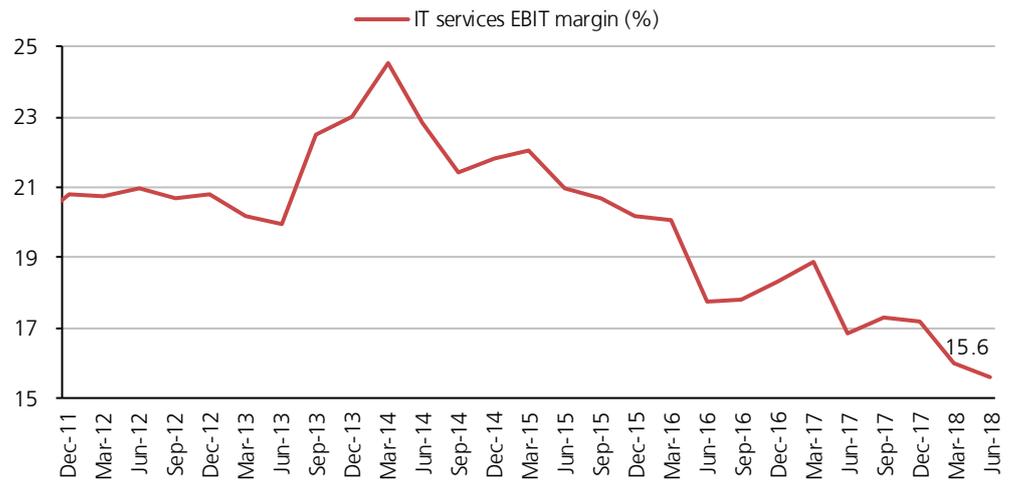
Source: Company, Kotak Institutional Equities

Exhibit 7: Attrition increases by 20 bps



Source: Company, Kotak Institutional Equities

Exhibit 8: Wipro's adjusted EBIT margin declined further



Source: Company, Kotak Institutional Equities

## Exhibit 9: Wipro: operating metrics

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
<b>IT services revenues (US\$ mn)</b>	<b>1,882</b>	<b>1,931</b>	<b>1,916</b>	<b>1,903</b>	<b>1,955</b>	<b>1,972</b>	<b>2,014</b>	<b>2,013</b>	<b>2062.0</b>	<b>2,027</b>
<b>Service line split of revenues (%) - new</b>										
Global Infrastructure Services	28.9	27.9	28.2	28.1	28.0	28.1	28.4	28.2	28.8	27.4
Wipro Analytics	7.2	7.4	7.3	7.0	6.9	7.1	7.1	7.0	7.0	7.1
Business Process Services	10.6	12.9	13.4	13.3	12.3	12.0	12.1	12.6	12.1	12.1
Product Engineering	8.0	7.1	7.3	7.2	7.1	7.0	6.9	6.9	7.3	7.3
Application Services	45.3	44.7	43.8	44.4	45.7	45.8	45.5	45.3	44.8	46.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>								
<b>Vertical split of revenues (%) - new classification</b>										
Communications	7.7	7.6	7.5	7.4	6.9	6.8	6.5	6.4	5.8	5.6
Consumer	16.4	15.8	15.7	15.8	15.8	15.8	15.9	16.0	15.6	16.0
Energy, Natural Resources & Utilities	14.0	13.2	12.9	13.0	13.1	13.4	13.5	12.4	12.5	12.5
Finance Solutions	25.4	25.6	25.5	25.5	26.0	26.7	27.6	28.5	29.2	30.0
Healthcare, Life Sciences & Services	13.3	15.3	16.0	16.0	15.4	14.8	13.7	14.0	13.9	13.4
Manufacturing & Technology	23.2	22.5	22.4	22.3	22.8	22.5	22.8	22.7	23.0	22.5
<b>Geographical split of revenues (%)</b>										
US	52.5	53.5	54.8	55.5	54.9	54.5	53.6	53.1	52.7	54.9
Europe	25.6	25.4	24.0	23.6	24.4	24.2	25.1	25.9	27.0	25.6
India and Middle east business	11.0	10.4	10.4	10.0	9.9	10.4	11.4	11.0	9.4	8.6
APAC & other emerging markets	10.9	10.7	10.8	10.9	10.8	10.9	9.9	10.0	10.9	10.9
<b>Client metrics</b>										
Customer size distribution (TTM)										
Million dollar clients of which	550	565	571	576	602	624	627	635	631	624
> US\$100 mn	9	9	8	9	9	9	9	9	8	8
US\$75 mn - US\$100 mn	9	10	11	8	9	9	7	8	12	11
US\$50 mn - US\$75 mn	15	14	14	16	16	18	23	24	19	21
US\$20 mn - US\$50 mn	56	58	58	57	57	54	51	49	56	51
US\$10 mn - US\$20 mn	71	79	80	80	72	73	80	77	76	82
US\$5 mn - US\$10 mn	88	82	87	94	105	99	100	105	106	105
US\$3 mn - US\$5 mn	83	84	83	85	86	95	100	92	92	90
US\$1 mn - US\$3 mn	219	229	230	227	248	267	257	271	262	256
Repeat business (%)	96.5	99.7	98.6	97.6	98.0	99.6	99.2	98.2	97.4	99.5
New client additions	119	50	47	108	64	45	41	79	58	75
Total active customers	1,223	1,208	1,180	1,259	1,323	1,244	1,274	1,281	1,248	1,254
<b>Customer concentration (%)</b>										
Top customer	2.7	2.5	2.6	2.8	2.9	2.9	3.1	3.1	3.5	3.7
Top 5 customers	11.0	10.3	10.1	10.0	10.0	10.3	11.0	11.3	11.9	11.7
Top 10 customers	18.2	17.6	17.5	16.9	16.9	17.5	18.0	17.8	18.4	18.3
Employees (IT services)	172,912	173,863	174,238	179,129	181,482	181,559	178,639	177,434	179,042	179,735
<b>Utilization (%)</b>										
Global IT Services excl IFOX-Gross (a) (b)	68.1	69.9	71.2	71.6	73.1	72.0	72.9	71.0	73.1	74.5
Global IT Services excl IFOX-Net	76.1	78.8	80.2	80.0	81.9	80.3	81.8	80.0	82.4	83.9
<b>Attrition (%)</b>										
Global IT Services - Voluntary - Qtrly annualized	14.9	17.9	17.2	15.4	14.8	16.1	16.7	16.2	17.5	17.7
<b>Revenues by project type (%)</b>										
Fixed price	56.9	56.0	56.4	57.7	58.3	58.2	57.7	57.7	58.7	58.9
Time and material	43.1	44.0	43.6	42.3	41.7	41.8	42.3	42.3	41.3	41.1
<b>Onsite-offshore revenue split (%)</b>										
Onsite	54.2	54.4	53.9	53.5	52.8	53.6	53.2	53.5	52.7	52.9
Offshore	45.8	45.6	46.1	46.5	47.2	46.4	46.8	46.5	47.3	47.1

Source: Company, Kotak Institutional Equities

Exhibit 10: Profit model, balance sheet, cash model of Wipro, March fiscal year-ends, 2015-21E (Rs mn)

	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model</b>							
Revenues	473,185	516,307	558,261	546,359	584,322	623,734	659,407
Cost of revenues (including depreciation)	(321,328)	(356,723)	(391,434)	(385,575)	(414,110)	(439,451)	(463,254)
<b>Gross profit</b>	<b>151,857</b>	<b>159,584</b>	<b>166,827</b>	<b>160,784</b>	<b>170,213</b>	<b>184,283</b>	<b>196,153</b>
SG&A expenses (including depreciation)	(56,434)	(62,561)	(72,950)	(76,490)	(76,248)	(79,235)	(84,856)
<b>EBIT</b>	<b>95,423</b>	<b>97,023</b>	<b>93,877</b>	<b>84,294</b>	<b>93,964</b>	<b>105,048</b>	<b>111,298</b>
Other income	16,260	17,698	16,477	18,169	17,287	22,210	26,168
<b>Pre-tax profits</b>	<b>111,683</b>	<b>114,721</b>	<b>110,354</b>	<b>102,463</b>	<b>111,252</b>	<b>127,258</b>	<b>137,466</b>
Provision for tax	(24,624)	(25,305)	(25,213)	(22,390)	(25,920)	(29,479)	(32,157)
<b>PAT</b>	<b>87,059</b>	<b>89,416</b>	<b>85,141</b>	<b>80,073</b>	<b>85,332</b>	<b>97,779</b>	<b>105,309</b>
Equity in earnings of affiliates, minority interest (net)	(531)	(492)	(248)	8	—	—	—
<b>PAT from continuing operations</b>	<b>86,528</b>	<b>88,924</b>	<b>84,893</b>	<b>80,081</b>	<b>85,332</b>	<b>97,779</b>	<b>105,309</b>
<b>EPS (Rs)</b>	<b>17.5</b>	<b>18.0</b>	<b>17.5</b>	<b>16.9</b>	<b>18.9</b>	<b>21.7</b>	<b>23.4</b>
<b>Balance Sheet</b>							
Shareholders funds	407,982	466,078	520,304	482,936	560,156	603,860	649,685
Borrowings	78,913	125,221	142,412	138,259	—	—	—
Minority interest	1,646	2,224	2,391	2,410	2,410	2,410	2,410
Other liabilities	13,669	20,697	21,667	22,731	22,731	22,731	22,731
<b>Total liabilities</b>	<b>502,210</b>	<b>614,220</b>	<b>686,774</b>	<b>646,336</b>	<b>585,297</b>	<b>629,001</b>	<b>674,826</b>
Net fixed assets	54,206	64,952	69,794	64,443	73,345	76,763	80,889
Goodwill & intangibles	76,009	117,832	141,718	135,697	132,715	129,732	126,750
Cash and bank balances	254,915	306,339	351,843	301,687	224,057	258,041	293,952
Net current assets excluding cash	83,754	88,551	84,311	67,410	75,711	82,534	89,077
Other assets	33,326	36,546	39,108	77,099	79,470	81,930	84,158
<b>Total assets</b>	<b>502,210</b>	<b>614,220</b>	<b>686,774</b>	<b>646,336</b>	<b>585,297</b>	<b>629,001</b>	<b>674,826</b>
<b>Cashflow statement</b>							
Operating profit before working capital changes	108,115	111,823	119,261	105,277	112,513	124,723	132,056
Tax paid	(24,265)	(26,935)	(25,476)	(28,105)	(25,920)	(29,479)	(32,157)
Change in working capital/other adjustments	(7,978)	(6,151)	4,541	(936)	(10,672)	(9,284)	(8,771)
Capital expenditure	(11,272)	(13,172)	(19,646)	(20,699)	(24,468)	(20,110)	(21,902)
Acquisitions	(11,574)	(39,373)	(29,374)	(6,816)	—	—	—
Other income	11,511	17,086	9,843	14,956	17,287	22,210	26,168
<b>Free cash flow</b>	<b>64,537</b>	<b>43,278</b>	<b>59,149</b>	<b>63,677</b>	<b>68,740</b>	<b>88,060</b>	<b>95,395</b>
<b>Margins and ratios</b>							
Consolidated gross profit margin (%)	32.1	30.9	29.9	29.4	29.1	29.5	29.7
Consolidated EBIT margin (%)	20.2	18.8	16.8	15.4	16.1	16.8	16.9
IT services EBIT margin (%)	22.0	20.5	17.4	15.8	16.6	17.3	17.3
RoAE (%)	23.0	20.3	17.2	16.0	16.4	16.8	16.8
RoACE (%)	19.8	17.3	14.7	13.1	13.8	13.9	13.6

Source: Company, Kotak Institutional Equities

JULY 23, 2018

#### RESULT

Coverage view: **Neutral**

Price (₹): **490**

Target price (₹): **405**

BSE-30: **36,496**

**Remains on track.** HDFC Life continued to deliver strong performance as demonstrated by (1) 26% yoy APE growth, (2) increase in share of protection APE to 18% from 13% yoy, (3) 24% VNB margins (21% in 1QFY18) and (4) 18% operating RoEV. While we continue to build in a positive business trajectory, valuations remain rich and drive our SELL rating; TP stands at ₹405 (unchanged).

#### Company data and valuation summary

HDFC Standard Life Insurance

Stock data		Forecasts/Valuations			
		2018	2019E	2020E	
52-week range (Rs) (high,low)	548-307	EPS (Rs)	5.5	6.3	7.0
Market Cap. (Rs bn)	985.3	EPS growth (%)	24.4	14.8	10.9
<b>Shareholding pattern (%)</b>		P/E (X)	88.5	77.1	69.5
Promoters	80.9	NII (Rs bn)	86.7	130.0	141.9
FIs	8.9	Net profits (Rs bn)	11.1	12.8	14.1
MFs	1.9	BVPS	21.4	24.0	26.8
<b>Price performance (%)</b>		P/B (X)	22.9	20.4	18.3
Absolute	1M 3.4 3M (1.2) 12M 0.0	ROE (%)	27.3	28.0	27.7
Rel. to BSE-30	0.7 (6.9) 0.0	Div. Yield (%)	0.3	0.3	0.4

#### HDFC Life reports 20% growth in earnings

HDFC Life reported PAT of ₹3.9 bn (up 20% yoy) in 1QFY19. Growth in underwriting profits was strong at 34% to ₹6.3 bn. This absorbed high (45%) growth in new business strain (₹3.2 bn versus ₹2.2 bn in 1QFY18). ULIP, a segment in which new business strain is typically high, was 44% of total APE, lower than 50% in FY2018; the company has a conscious strategy to go slow in this segment (up 9% yoy). If the trend continues, earnings growth will likely be strong.

#### Net flows strong in 1QFY19

HDFC Life reported 13% growth in new business premium and 37% growth in overall premium. Coupled with control over benefit payouts (up 12% yoy) and management expenses (up 28% yoy), net cash flows increased to ₹11 bn from ₹3 bn in 1QFY19. This trend may be volatile and hence it may not be accurate to track the same on a qoq basis.

#### Business momentum on track; retain SELL

HDFC Life's 1QFY19 is broadly on track with our full-year forecasts. We expect HDFC Life to deliver 20-25% growth in APE over FY2019-21E. We expect VNB margins to remain stable at about 23-24%; even as the share of high-margin protection increases, competition across product lines may likely offset. With a favorable experience leading to positive operating variance, we expect the company to deliver 22% medium-term operating RoEV and 22% EVOP CAGR during FY2018-21E. While the business provides visibility of maintaining superior medium-term profitability, current rich valuations (25X EVOP and 4.4X EV FY2020E) drive our negative view on the stock.

#### QUICK NUMBERS

- APE up 26% yoy
- VNB margin of 24%
- PAT up 20% yoy

Nischint Chawathe

M B Mahesh CFA

Dipanjan Ghosh

Shrey Singh

**ULIP growth moderate, non-par savings and protection rise**

HDFC Life reported 26% growth in APE in 1QFY18 to ₹10.3 bn on the back of 18% growth in savings APE. The focus was on non-par savings and protection policies. Individual ULIP APE was up 9% yoy. Non-par savings (individual) inched up 9% from 7% in 1QFY18 while share of par policies declined by 500 bps to 23% in 1QFY19. Group savings business (on the back of rise in interest rates) almost doubled, increasing to 6% of APE from 3% in 1QFY18. HDFC Life increased its protection business to 18% from 11% (13% post restatement) in 1QFY18 and 4QFY18. The share of group protection APE increased to 65% of protection APE (12% of total APE) from 60% (7% of total APE) in 1QFY18. This likely highlights the increase in credit protect business, which may have lower margins. As such, VNB margins moderated from 25% in 4QFY18 even as the share of protection in overall APE increased qoq.

**Bancassurance remains strong; direct channel picks up**

Bancassurance business continues to be strong at 65% of individual APE (down from 68% in 1QFY18). Share of direct business increased to 19% from 15% in 1QFY18.

**VNB margins improves to 24%; operating RoEV moderate at 18%**

HDFC Life reported VNB margins of 24% versus 21% in 1QFY18 and 25% in 4QFY18. HDFC Life's margins are calculated on assumed expenses for the year and hence may be revised in 4Q. We find three drivers for margins—(1) increase in share of non-par policies to 9% of APE from 7% in 1QFY18, (2) protection APE at 18% from 13% (restated) in 1QFY18 and (3) higher share of group savings business (6% of APE from 3% of APE in 1QFY18) likely partially offset this.

HDFC Life reported annualized operating RoEV of 18.4% in 1QFY19. Typically, the business has lower volumes in 1Q and hence lower VNB; as such RoEV accelerates towards the second half. During the quarter, the company has reported positive variances on persistency, mortality and expenses. Notably, the company reported operating RoEV of 22% in 1QFY18 due to one-time restatement of assumptions and as such may not be comparable yoy.

Exhibit 1: HDFC Standard Life – quarterly summary  
 March fiscal year-ends, 1QFY18-1QFY19, 2015-18 (Rs mn)

	1QFY19	1QFY18	4QFY18	% change	
				1QFY18	4QFY18
<b>Policyholder's account (Rs mn)</b>					
Premium	50,577	37,037	89,564	37	(44)
First	8,124	7,168	17,356	13	(53)
Renewal	23,801	20,849	46,722	14	(49)
Single	18,652	9,021	25,487	107	(27)
Net premium	50,013	36,615	89,000	37	(44)
Commissions (I)	1,982	1,563	4,087	27	(52)
First	1,418	1,292	3,253	10	(56)
Renewal	340	251	588	36	(42)
Single	223	20	245	995	(9)
Operating expenses (II)	7,246	5,638	10,998	29	(34)
Expenses of management (I+II)	9,228	7,200	15,085	28	(39)
Other income and trf. to shareholders a/c	594	536	1,714	11	(65)
Provisions and service taxes	1,125	752	2,459	50	(54)
Benefits paid	29,425	26,154	44,111	13	(33)
Net flows	10,830	3,045	29,060	256	(63)
Income on investments	17,967	27,722	(9,368)	(35)	NM
Change in liabilities	25,409	27,755	15,725	(8)	62
Surplus/deficit	3,389	3,012	3,967	12	(15)
<b>Appropriations</b>					
Transfer to shareholders account	3,200	2,546	3,965	26	(19)
FFA	189	466	2	(59)	7,767
<b>Shareholders account</b>					
Transfer from policyholders	3,200	2,546	3,965	26	(19)
Total income	881	805	974	10	(9)
Investment income	788	675	974	17	(19)
Other expenses	24	62	6	(61)	286
Any other item	139	22	1,543	518	(91)
PBT	3,918	3,266	3,389	20	16
Tax	116	103	(79)	13	NM
PAT	3,802	3,164	3,468	20	10
Tax rate (%)	3.0	3.2	(2.3)	(5.7)	NM

Source: Company, Kotak Institutional Equities estimates

**Exhibit 2: 20% yoy growth in PAT in 1QFY19**

PAT and solvency ratio for HDFC Standard Life, March fiscal year-ends, 1QFY18-1QFY19, 2016-18 (Rs bn)

	1QFY18	4QFY18	1QFY19	YoY (%)	2016	2017	2018	YoY (%)
PAT	3.2	3.5	3.8	20	8.1	8.9	11.1	24
Underwriting profits	2.5	2.5	3.1	24	6.8	7.5	8.5	13
New business strain	(2.2)	5.5	(3.2)	45	14.5	14.6	19.1	31
Existing business surplus	4.7	(3.0)	6.3	34	(7.7)	(7.1)	(10.6)	49
Shareholder's surplus	0.7	1.0	0.7	6	1.3	1.4	2.6	82
Solvency (%)	198	192	197	(1)	198	192	192	

Source: Company, Kotak Institutional Equities

**Exhibit 3: Focus on group business in 1QFY19**

March fiscal year-ends, 1QFY18-1QFY19, 2015-18 (% of total APE)

	1QFY18	1QFY19	YoY (%)	2015	2016	2017	2018	YoY (%)
<b>Product-wise break-up of APE (Rs bn)</b>								
Individual savings	7.0	7.8	11	28.0	34.5	35.9	46.0	28
ULIP	4.2	4.5	9	18.7	18.6	19.4	27.9	43
PAR	2.3	2.4	4	6.2	10.0	13.1	13.7	5
Non-par	0.6	0.9	58	3.3	3.0	3.4	4.4	31
Group savings	0.3	0.6	118	(0.2)	2.8	1.9	3.1	63
Protection	0.9	1.9	106	2.0	2.7	3.2	6.2	95
Individual protection	0.4	0.7	84					
Group protection	0.5	1.2	121					
<b>Share of total APE (%)</b>								
Individual savings	85	76	-10 bps	93	93	88	83	-4 bps
ULIP	51	44	-7 bps	62	50	47	50	3 bps
PAR	28	23	-5 bps	21	27	32	25	-7 bps
Non-par	7	9	2 bps	11	8	8	8	0 bps
Group savings	3	6	3 bps	(1)	8	5	6	1 bps
Protection	11	18	7 bps	7	7	8	11	4 bps

Source: Company, Kotak Institutional Equities

**Exhibit 4: Cost to average AUM in the range of 3-6%**

Quarterly summary, March fiscal year-ends, 1QFY18-1QFY19, 2015-18 (Rs mn)

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (%)	2015	2016	2017	2018	YoY (%)
<b>Key financials (Rs mn)</b>											
Premium	37,037	54,366	54,677	89,564	50,577	37	148,299	163,130	194,455	235,644	21
First year	7,168	10,837	12,024	17,356	8,124	13			36,570	47,385	30
Renewal	20,849	26,525	28,052	46,722	23,801	14			108,245	122,148	13
Single	9,021	17,004	14,601	25,487	18,652	107			49,640	66,112	33
APE	8,070	12,537	13,484	19,905	9,990	24			41,534	53,996	30
Commission (I)	1,563	2,475	2,625	4,087	1,982	27	6,235	7,019	7,920	10,749	36
First year	1,292	2,032	2,126	3,253	1,418	10			6,469	8,702	35
Renewal	251	349	361	588	340	36			1,377	1,550	13
Single	20	94	138	245	223	995			74	497	569
Operating expenses (II)	5,638	7,189	7,769	10,998	7,246	29	14,888	18,718	23,853	31,593	32
Expenses of management (I+II)	7,200	9,663	10,394	15,085	9,228	28	21,123	25,737	31,773	42,342	33
AUM (Rs bn)	947	995	1,044	1,066	1,096	16	671	743	917	1,066	16
<b>Key calculated ratios (%)</b>											
Cost/APE	25	25	25	23	27	241 bps			21.2	24.0	283 bps
Cost/average AUM	3.1	4.0	4.1	5.7	3.4	33 bps	3.6	3.6	3.8	4.3	44 bps
Net commission ratio	5.4	6.3	6.3	6.1	5.9	46 bps			5.3	6.1	81 bps
First year	18.0	18.7	17.7	18.7	17.5	-56 bps			17.7	18.4	68 bps
Renewal	1.2	1.3	1.3	1.3	1.4	23 bps			1.3	1.3	0 bps
Single	0.2	0.5	0.9	1.0	1.2	97 bps			0.1	0.8	60 bps

Source: Company, Kotak Institutional Equities

**Exhibit 5: Improvement in persistency in most buckets**

March fiscal year-ends, 9MFY17-1QFY19 (%)

	9MFY17	4QFY17	FY2017	9MFY18	4QFY18	FY2018	1QFY19
13th month	83.0	83.1	84.0	86.4	85.5	87.1	85.0
25th month	73.2	75.9	75.4	76.9	76.9	77.4	77.8
37th month	62.7	65.6	65.2	68.9	72.0	70.9	71.2
49th month	60.2	57.7	58.9	60.4	63.2	62.2	63.6
61st month	60.2	56.6	56.8	53.5	47.6	51.0	49.5

Source: Company, Kotak Institutional Equities

**Exhibit 6: Mixed trends in persistency for most products**

Product and channel-wise persistency, March fiscal year-ends, 2017-1QFY19 (%)

	Product-wise persistency				Channel-wise persistency		
	Par	Non-par	Non-par (others)	ULIP	Agency	Banca	Direct and others
<b>2017</b>							
13th month	75	75	89	82	86	81	80
25th month	65	73	86	72	79	72	74
37th month	59	70	81	62	55	65	66
49th month	56	75	95	58	56	59	61
61st month	56	74	93	56	52	58	58
<b>2018</b>							
13th month	78	73	92	85	89	84	78
25th month	69	67	85	76	80	75	73
37th month	60	65	84	68	76	65	69
49th month	57	66	82	60	55	62	63
61st month	54	73	93	47	50	50	56
<b>1QFY19</b>							
13th month	77	73	92	85	88	83	80
25th month	70	66	85	77	78	75	75
37th month	60	67	85	69	77	68	72
49th month	56	58	80	61	55	63	65
61st month	53	69	94	45	51	48	56

Source: Company, Kotak Institutional Equities

**Exhibit 7: Share of bancassurance is high at 65%**

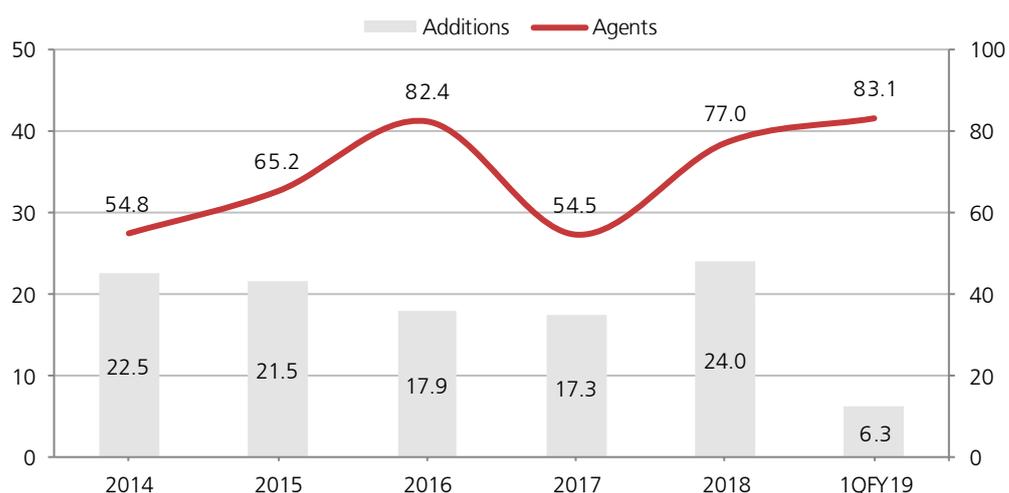
Channel-wise total individual new business premium, March fiscal year-ends, 1QFY18-1QFY19, 2015-18 (%)

	1QFY18	1QFY19	(change)	2015	2016	2017	2018	(change)
Individual agents	10	11	100 bps	13	12	12	11	-100 bps
Bancassurance	68	65	-300 bps	73	75	72	71	-100 bps
Direct	15	19	400 bps	9	9	11	14	300 bps
Brokers and others	7	5	-200 bps	5	4	5	5	0 bps

Source: Company, Kotak Institutional Equities

**Exhibit 8: Individual agent addition regained momentum in FY2018**

Individual agents for HDFC Standard Life, March fiscal year-ends, 2014-1QFY19 (# 000')



Source: Life Insurance Council

**Exhibit 9: We expect 21-22% operating RoEV and VNB margin of 23-24% for HDFC Life**

Key metrics and RoEV movement, March fiscal year-ends, 2012-21E (Rs bn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
APE	27.9	32.8	25.4	29.5	36.1	41.9	55.3	69.1	84.3	102.9
YoY (%)		17.6	(22.6)	16.1	22.4	16.1	32.0	25.0	22.0	22.0
VNB	4.7	6.0	6.6	7.4	7.4	9.2	12.8	16.3	20.2	24.7
YoY (%)		27.7	10.0	12.1		24.3	39.1	27.4	24.1	22.0
EV movement										
Opening EV	42.1	48.2	58.7	69.9	88.9	102.3	124.7	152.1	185.5	225.8
Methodology changes	(0.1)	0.6	1.6	3.5						
Assumption change				0.1		1.2	1.6			
VNB	4.7	6.0	6.6	7.4	7.4	9.2	12.8	16.3	20.2	24.7
Acquisition expense overrun	(1.9)	(1.5)	(2.5)	(1.5)						
Expected return in force	3.0	3.9	4.4	6.1	8.1	9.6	10.4	13.1	16.0	19.4
Operating variance	1.2	0.6	(0.1)	(0.3)	3.2	2.2	2.0	4.0	4.2	4.4
Tax changes	0.2		1.1							
EVOP	6.9	9.6	11.1	15.3	18.7	22.2	26.8	33.4	40.4	48.5
Investment variance	(1.0)	0.9	1.3	4.6	(3.1)	2.5	2.6	2.2	2.4	2.6
Dividend payout			(1.2)	(1.7)	(2.2)	(2.4)	(2.0)	(2.2)	(2.5)	(2.6)
Closing EV	48.2	58.7	69.9	88.1	102.3	124.6	152.1	185.5	225.8	274.3
Key ratios (%)										
VNB margins	10.4	13.2	16.4	17.4	20.5	22.0	23.1	23.6	24.0	24.0
RoEV		21.8	19.1	26.0	16.2	21.8	22.0	22.0	21.7	21.5
Operating RoEV		19.9	18.9	21.9	21.2	21.7	21.5	22.0	21.8	21.5

Source: Company, Kotak Institutional Equities estimates

**Exhibit 10: We expect HDFC Standard Life to deliver overall VNB margin of 23%**  
VNB margins in individual business, March fiscal year-ends, 2016-21E (Rs bn)

	2016	2017	2018	2019E	2020E	2021E
APE	36.1	41.9	55.3	69.1	84.3	102.9
Protection	2.5	3.4	6.2	8.3	10.5	12.9
Savings	33.6	38.5	49.1	60.8	73.8	90.0
VNB post overrun	7.4	9.2	12.8	16.3	20.2	24.7
VNB margins post overrun (%)	20.5	22.0	23.1	23.6	24.0	24.0
Protection (assumed)	100	80	80	75	75	75
Savings	14.5	16.9	15.9	16.6	16.7	16.7

Source: Company, Kotak Institutional Equities estimates

**Exhibit 11: HDFC Standard Life will trade at 3.6X EV at our appraisal value-based target price**  
Calculation of appraisal value for HDFC Standard Life, March fiscal year-ends, 2019-21E (Rs bn)

	2019E	2020E	2021E
Embedded value (EV, Rs bn)	185	226	274
Value of new business (VNB, Rs bn)	16	20	25
New business multiple (NBM, X)	28.8	28.8	28.8
Structural value (SV= VNB X NBM, Rs bn)	470	583	711
Appraisal value (AV= EV + SV, Rs bn)	656	809	986
Appraisal value/ EV (X)	3.5	3.6	3.6
Appraisal value/ VNB (X)	40.2	40.0	39.9
Value of HDFC at 51.7% stake and 10% holding company discount (Rs bn)	305	376	459
Value of HDFC (Rs/ share)	183	226	276
Value of HDFC Standard Life (Rs/ share)	327	404	492

Source: Company, Kotak Institutional Equities estimates

**Exhibit 12: HDFC Standard Life trades at higher multiples compared to peers**

Valuation comparison of life insurance companies in India, March fiscal year-ends, 2017-21E (Rs bn)

	Rating	TP (Rs)	Price (Rs)	Market cap. (Rs bn)	EVOP (Rs bn)				Embedded value (Rs bn)				VNB margin (%)				Price/EV (X)				Price/EVOP (X)				Operating RoEV (%)									
					2017	2018	2019E	2020E	2021E	2017	2018	2019E	2020E	2021E	2017	2018	2019E	2020E	2021E	2017	2018	2019E	2020E	2021E	2017	2018	2019E	2020E	2021E					
HDFC Life	SELL	405	471	948	22	27	33	40	49	125	152	185	226	274	22	23	24	24	24	7.6	6.2	5.1	4.2	3.5	42.7	35.4	28.4	23.5	19.5	22	22	22	22	21
ICICI Prudential Life	BUY	500	349	501	23	37	33	39	47	161	188	214	245	283	10	17	16	16	17	3.1	2.7	2.3	2.0	1.8	21.8	13.6	15.0	12.7	10.7	17	23	18	18	19
Max Life	BUY	650	440	118	11	14	15	18	20	66	75	87	101	116	19	20	20	20	20	2.7	2.3	2.0	1.8	1.5	15.8	13.0	11.5	10.0	8.7	20	21	20	20	20
SBI Life	ADD	815	634	634	29	30	36	45	54	165	191	224	266	318	15	16	17	17	17	3.8	3.3	2.8	2.4	2.0	21.9	21.4	17.4	14.2	11.7	23	18	19	20	20

Source: Company, Kotak Institutional Equities estimates

JULY 23, 2018

**RESULT**

Coverage view: **Neutral**

Price (₹): **560**

Target price (₹): **485**

BSE-30: **36,496**

**Strong topline performance but margins below expectations.** Havells reported 1QFY19 EBITDA of ₹3.1 bn (+81% yoy), which was 11% below our estimates; positive surprise on revenue growth was offset by lower profitability due to higher employee cost and A&P spend. The management sounded optimistic on growth prospects led by its efforts to launch new products/enter into newer segments and gain market share. We expect profitability to improve going ahead led by continued strong revenue growth and benefit of recent weakness in commodity prices. We already bake in these positives in our estimates; SELL stays on expensive valuations; TP revised to ₹485 (₹460 earlier).

#### Company data and valuation summary

Havells India

##### Stock data

52-week range (Rs) (high,low)	593-450
Market Cap. (Rs bn)	350.5

##### Shareholding pattern (%)

Promoters	59.6
FIs	24.9
MFs	4.5

##### Price performance (%)

	1M	3M	12M
Absolute	4.8	2.2	20.9
Rel. to BSE-30	2.0	(3.6)	5.7

##### Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	11.1	14.0	16.9
EPS growth (%)	16.6	26.6	20.5
P/E (X)	50.6	40.0	33.2
Sales (Rs bn)	81.5	98.7	115.1
Net profits (Rs bn)	6.9	8.8	10.6
EBITDA (Rs bn)	10.4	13.1	15.9
EV/EBITDA (X)	32.2	25.4	20.6
ROE (%)	19.8	22.0	23.2
Div. Yield (%)	0.6	0.9	1.1

#### Strong revenue growth but margins below estimates driven largely by higher employee costs

- ▶ Havells reported 1QFY19 EBITDA of ₹3.1 bn (+81% yoy), which was 11% below our estimates as the positive impact of stronger-than-expected revenue growth was offset by higher employee costs and A&P spend. Revenues increased by 40% yoy (4% above estimates), driven by (1) 19% yoy growth in organic business (2-year revenue CAGR is 14%) and (2) 20% due to acquisition of the consumer durables business of Lloyd.
- ▶ In terms of segments, revenue growth was driven by (1) 33% yoy growth in the ECD segment led by market share gains in premium fans and home appliances segments, (2) 20% yoy growth in the switchgear segment led by strong growth in modular switches and exports and (3) 18% yoy growth in the cables segment. Lighting segment revenues were flat yoy due to negligible EESL revenues in 1QFY19 versus ₹554 mn in 1QFY18 (ex-EESL, revenues grew by 25% yoy).
- ▶ EBITDA margin came in at 12% (+270 bps yoy), which was 200 bps below our estimates due to (1) higher-than-expected employee cost (+20% qoq), (2) forex losses in Lloyds business (₹85 mn) and (3) higher A&P spend (+57% yoy). EBITDA margin in the organic business was 13.5% (+360 bps yoy) while margin in Lloyd business was 8.1%. Adjusted PAT came in at ₹2.1 bn (+73% yoy), which was 10% below our estimates.

#### Expect the company to deliver 22% EPS CAGR over FY2018-21E

Havells has a very strong product portfolio and it has built strong brand and distribution network over the years, which should enable it to penetrate deeper into existing categories and expand presence in newer segments. We believe that Havells has the potential to deliver strong double-digit revenue growth over the medium term. We build in 22% EPS CAGR over FY2018-21E led by (1) 18% revenue CAGR and (2) 120 bps expansion in EBITDA margin.

#### Earnings estimates largely unchanged; SELL stays on expensive valuations

Our FY2019-21E EPS estimates remain largely unchanged. While we like the company's strong franchisee and premium brand positioning across segments, expensive valuations drive our SELL rating on the stock. DCF-based TP revised to ₹485 (₹460 earlier) on rollover to June 2020E EPS.

Nishit Jalan

Hitesh Goel

### Conference call takeaways

- ▶ **Volume growth and price increases drive strong revenue growth.** Reported revenue growth of the ex-Lloyd business was 19% yoy in 1QFY19; adjusted for accounting changes post GST, revenues growth would be 2-3% higher in 1QFY19. Apart from strong volume performance, revenue growth was also aided by (1) low base in electrical consumer durable segment (+2% yoy revenue growth in 1QFY19) and switchgear segment (4% yoy revenue decline in 1QFY18) and (2) 5-10% price hike taken across segments to offset RM cost pressures.
- ▶ **More details on the segmental performance.** (1) 18% revenue growth in the cables and wires segment was driven by 8% yoy volume growth and 10% price increases, (2) in the switchgear segment, there was strong growth in modular switches segment led by replacement demand and possibly market share gains and strong growth in exports. The company highlighted that there was mild uptick in demand for switchgears from the residential segment as well, (3) in the ECD segment, Havells now has around 15% market in overall fans segment and 40%+ share in premium fans category and is among top three players in the water heater segment. This has also aided profitability leading to higher contribution margin in 1QFY19 (+600 bps yoy and 150 bps qoq). The company believes that personal grooming, water purifiers and air purifiers are categories where there is strong medium-term growth potential and (4) in the lighting segment, EESL revenues were only ₹10 mn in 1QFY19 versus ₹545 mn in 1QFY18 and around ₹1.3 bn in FY2018; this reflects lumpy nature of EESL business and conscious decision by the company to limit its exposure to this segment. Excluding the EESL segment, lighting revenues grew by 25% yoy to ₹2.6 bn in 1QFY19.
- ▶ **Strong revenue growth in Lloyd business but profitability below estimates.** Reported revenues for Lloyd business were ₹7.1 bn in 1QFY19, which was 9% above our estimates. Despite industry headwinds, like for like revenue growth was 14% yoy (adjusted for changes in accounting norms post GST and deduction of discounts from revenues itself), which was driven largely by higher ASPs while volume growth was possibly in low single digit. Price increase was due to change in energy-efficiency norms plus hikes taken to pass on RM cost hikes. Inverter ACs accounted for 30% of overall revenues in 1QFY19. The company highlighted that it is continuously working on brand building and expansion of distribution network (both in terms of higher number of exclusive outlets and greater presence in large multi-brand outlets), which should drive market share gain over the medium term. EBITDA margin was 8.1% in FY2018 (KIE: 12%) after accounting for forex loss of ₹85 mn (120 bps margin impact) due to currency fluctuations; EBITDA margin was 5.1% in 1QFY19 and 12.6% in 4QFY18.
- ▶ **Status of in-house AC manufacturing facility.** The company is on track to commission its in-house AC manufacturing capacity of ACs by end-FY2019 with initial capacity of 0.6 mn units and overall capex of ₹3 bn. We believe that this would help the company achieve greater control over product quality, reduce foreign currency exposure, expand product offerings (higher number of SKUs) and should also aid profitability.
- ▶ **A&P spend for the company increased by 57% yoy to ₹1.15 bn in 1QFY19 (4.5% of sales) led by (1) A&P spend of ₹500 mn in Lloyd in 1QFY19 versus ₹181 mn in 1QFY18 and (2) 18% yoy increase in A&P spend in the organic business (₹656 mn in 1QFY19 versus ₹554 mn yoy).** The company mentioned that on a full-year basis, A&P spend will remain within 3.5-4% of revenues.

Exhibit 1: Stronger-than-expected revenue growth in 1QFY19 but EBITDA margin was below estimates due to higher employee expenses  
Interim results of Havells – standalone for 4QFY18, March fiscal year-ends (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	Change (%)			FY2019E	FY2018	Yoy (%)
					1QFY19E	1QFY18	4QFY18			
<b>Net revenues</b>	<b>25,963</b>	<b>24,973</b>	<b>18,605</b>	<b>25,349</b>	<b>4.0</b>	<b>39.5</b>	<b>2.4</b>	<b>98,660</b>	<b>81,386</b>	<b>21.2</b>
Total expenditure	(22,841)	(21,466)	(16,881)	(21,772)	6.4	35.3	4.9	(85,516)	(70,893)	
Material consumed	(16,209)	(15,366)	(11,965)	(15,728)	5.5	35.5	3.1	(60,873)	(49,808)	
Employee expenses	(1,970)	(1,700)	(1,619)	(1,637)	15.9	21.7	20.3	(8,056)	(6,497)	
Other expenses	(4,663)	(4,400)	(3,297)	(4,407)	6.0	41.4	5.8	(16,587)	(14,588)	
Of which A&P spend	(1,156)	(1,049)	(735)	(1,046)	10.2	57.4	10.5	(3,599)	(3,076)	
<b>EBITDA</b>	<b>3,123</b>	<b>3,506</b>	<b>1,724</b>	<b>3,577</b>	<b>(10.9)</b>	<b>81.1</b>	<b>(12.7)</b>	<b>13,144</b>	<b>10,493</b>	<b>25.3</b>
<b>Margins (%)</b>	<b>12.0</b>	<b>14.0</b>	<b>9.3</b>	<b>14.1</b>				<b>13.3</b>	<b>12.9</b>	
Depreciation	(350)	(350)	(336)	(347)	0.1	4.3	0.9	(1,529)	(1,395)	
<b>EBIT</b>	<b>2,772</b>	<b>3,156</b>	<b>1,389</b>	<b>3,230</b>	<b>(12.2)</b>	<b>99.6</b>	<b>(14.2)</b>	<b>11,615</b>	<b>9,098</b>	<b>27.7</b>
<b>Margins (%)</b>	<b>10.7</b>	<b>12.6</b>	<b>7.5</b>	<b>12.7</b>				<b>11.8</b>	<b>11.2</b>	
Other income	292	280	348	257	4.4	(16.0)	13.5	1,260	1,170	
Interest expenses	(26)	(40)	(34)	(84)	(36.3)	(25.0)	(69.5)	(177)	(240)	
PBT	3,039	3,396	1,703	3,404	(10.5)	78.5	(10.7)	12,697	10,028	
Extraordinaries	—	—	—	(91)				—	119	
Reported PBT	3,039	3,396	1,703	3,313	(10.5)	78.5	(8.3)	12,697	10,147	
Tax	(935)	(1,053)	(489)	(1,055)	(11.2)	91.2	(11.4)	(3,936)	(3,022)	
<b>Reported PAT</b>	<b>2,104</b>	<b>2,344</b>	<b>1,214</b>	<b>2,258</b>	<b>(10.2)</b>	<b>73.3</b>	<b>(6.8)</b>	<b>8,761</b>	<b>7,125</b>	
<b>Adjusted PAT</b>	<b>2,104</b>	<b>2,344</b>	<b>1,214</b>	<b>2,321</b>	<b>(10.2)</b>	<b>73.3</b>	<b>(9.4)</b>	<b>8,761</b>	<b>7,042</b>	<b>24.4</b>
Number of shares (mn)	625	625	625	625				625	625	
<b>Adjusted EPS (Rs)</b>	<b>3.4</b>	<b>3.8</b>	<b>1.9</b>	<b>3.7</b>	<b>(10.2)</b>	<b>73.3</b>	<b>(9.4)</b>	<b>14.0</b>	<b>11.3</b>	<b>24.4</b>
<b>Key ratios (%)</b>										
RM as % of sales	62.4	61.5	64.3	62.0				61.7	61.2	
Employee cost as % of sales	7.6	6.8	8.7	6.5				8.2	8.0	
Other expenditure as % of sales	18.0	17.6	17.7	17.4				16.8	17.9	
Effective tax rate	30.8	31.0	28.7	31.9				31.0	29.8	
<b>Segmental</b>										
<b>Revenues</b>										
Switchgear	4,041	3,660	3,389	3,946	10.4	19.2	2.4	15,908	14,077	13.0
Cable and Wires	7,499	7,190	6,363	7,689	4.3	17.9	(2.5)	30,162	26,002	16.0
Lighting and fixtures - India	2,583	3,144	2,598	3,227	(17.8)	(0.6)	(19.9)	13,182	11,563	14.0
Electrical consumer durables	4,759	4,479	3,583	4,646	6.2	32.8	2.4	19,186	15,602	23.0
Lloyd	7,081	6,500	2,672	5,841	8.9		21.2	20,222	14,141	43.0
<b>Total</b>	<b>25,963</b>	<b>24,973</b>	<b>18,605</b>	<b>25,349</b>	<b>4.0</b>	<b>39.6</b>	<b>2.4</b>	<b>98,660</b>	<b>81,385</b>	<b>21.2</b>
<b>Contribution</b>										
Switchgear	1,549	1,446	1,307	1,523	7.1	18.5	1.7	6,125	5,572	9.9
Cable and Wires	1,279	1,222	859	1,318	4.6	48.8	(3.0)	5,128	4,380	17.1
Lighting and fixtures - India	711	975	765	998	(27.0)	(7.0)	(28.7)	3,625	3,356	8.0
Electrical consumer durables	1,367	1,299	816	1,262	5.3	67.5	8.4	5,354	4,202	27.4
Lloyd	1,370	1,495	394	1,283	(8.3)		6.8	4,044	2,683	50.7
Unallocable	(3,211)	(3,000)	(2,405)	(2,896)	7.0	33.5	10.9	(11,400)	(9,926)	14.9
<b>Overall contribution</b>	<b>3,064</b>	<b>3,436</b>	<b>1,736</b>	<b>3,487</b>	<b>(10.8)</b>	<b>76.5</b>	<b>(12.1)</b>	<b>12,875</b>	<b>10,267</b>	<b>25.4</b>
<b>Contribution margin (%)</b>										
Switchgear	38.3	39.5	38.6	38.6				38.5	39.6	
Cable and Wires	17.0	17.0	13.5	17.1				17.0	16.8	
Lighting and fixtures - India	27.5	31.0	29.4	30.9				27.5	29.0	
Electrical consumer durables	28.7	29.0	22.8	27.2				27.9	26.9	
Lloyd	19.4	23.0		22.0				20.0	19.0	
<b>Net contribution margin</b>	<b>11.8</b>	<b>13.8</b>	<b>9.3</b>	<b>13.8</b>				<b>13.0</b>	<b>12.6</b>	

Source: Company, Kotak Institutional Equities estimates

**Exhibit 2: Revenues of ex-Lloyd business grew by 19% yoy in 1QFY19**

Breakdown of Havells overall revenues and EBITDA, March fiscal year-ends, 2018-19 (₹ mn, %)

	1QFY19	1QFY19E	1QFY18	4QFY18	Change (%)			FY2019	FY2018	Yoy (%)
					1QFY19E	1QFY18	4QFY18			
<b>Total revenues</b>	<b>25,963</b>	<b>24,973</b>	<b>18,605</b>	<b>25,349</b>	<b>4.0</b>	<b>39.5</b>	<b>2.4</b>	<b>98,660</b>	<b>81,386</b>	<b>21.2</b>
- Havells ex-Lloyd	18,882	18,473	15,933	19,508	2.2	18.5	(3.2)	78,438	67,245	16.6
- Lloyd	7,081	6,500	2,672	5,841	8.9	165.0	21.2	20,222	14,141	43.0
<b>Total EBITDA</b>	<b>3,123</b>	<b>3,506</b>	<b>1,724</b>	<b>3,577</b>	<b>(10.9)</b>	<b>81.1</b>	<b>(12.7)</b>	<b>13,144</b>	<b>10,493</b>	<b>25.3</b>
- Havells ex-Lloyd	2,549	2,726	1,583	2,840	(6.5)	61.0	(10.3)	11,122	9,198	20.9
- Lloyd	574	780	141	737	(26.4)	307.1	(22.1)	2,022	1,295	56.2
<b>Overall EBITDA margin</b>	<b>12.0</b>	<b>14.0</b>	<b>9.3</b>	<b>14.1</b>				<b>13.3</b>	<b>12.9</b>	
- Havells ex-Lloyd	13.5	14.8	9.9	14.6				14.2	13.7	
- Lloyd	8.1	12.0	5.3	12.6				10.0	9.2	

Source: Company, Kotak Institutional Equities estimates

**Exhibit 3: We have fine-tuned our FY2019-21E earnings estimates**

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

	New estimates			Old estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues	98,660	115,058	132,302	98,680	114,920	132,131	(0.0)	0.1	0.1
EBITDA	13,144	15,891	18,562	13,158	15,839	18,517	(0.1)	0.3	0.2
EBITDA (%)	13.3	13.8	14.0	13.3	13.8	14.0			
PAT	8,761	10,556	12,418	8,737	10,452	12,319	0.3	1.0	0.8
<b>EPS (Rs)</b>	<b>14.0</b>	<b>16.9</b>	<b>19.9</b>	<b>14.0</b>	<b>16.7</b>	<b>19.7</b>	<b>0.3</b>	<b>1.0</b>	<b>0.8</b>

Source: Kotak Institutional Equities estimates

**Exhibit 4: Expect strong double-digit revenue growth across segments in FY2019-20E**  
Revenue and contribution margin assumptions, March fiscal year-ends, 2014-21E (₹ mn, %)

	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Segmental net revenues</b>								
Cables & Wires	19,264	21,904	21,865	23,794	26,002	30,162	34,083	38,173
Electrical Consumer Durables	8,534	10,283	11,264	13,784	15,602	19,186	23,478	27,351
Lloyd					14,141	20,222	23,862	28,157
Lighting & Fixtures	7,207	7,410	7,930	9,710	11,563	13,182	15,818	18,665
Switchgears	12,192	12,790	12,724	14,065	14,078	15,908	17,817	19,955
<b>Total revenue</b>	<b>47,197</b>	<b>52,387</b>	<b>53,783</b>	<b>61,353</b>	<b>81,386</b>	<b>98,660</b>	<b>115,058</b>	<b>132,302</b>
<b>Yoy growth (%)</b>								
Cables & Wires		13.7	(0.2)	8.8	9.3	16.0	13.0	12.0
Electrical Consumer Durables		20.5	9.5	22.4	13.2	23.0	22.4	16.5
Lloyd						43.0	18.0	18.0
Lighting & Fixtures		2.8	7.0	22.4	19.1	14.0	20.0	18.0
Switchgears		4.9	(0.5)	10.5	0.1	13.0	12.0	12.0
<b>Total revenue</b>		<b>11.0</b>	<b>2.7</b>	<b>14.1</b>	<b>32.7</b>	<b>21.2</b>	<b>16.6</b>	<b>15.0</b>
<b>Segmental revenue mix (%)</b>								
Cables & Wires	40.8	41.8	40.7	38.8	31.9	30.6	29.6	28.9
Electrical Consumer Durables	18.1	19.6	20.9	22.5	19.2	19.4	20.4	20.7
Lloyd	—	—	—	—	17.4	20.5	20.7	21.3
Lighting & Fixtures	15.3	14.1	14.7	15.8	14.2	13.4	13.7	14.1
Switchgears	25.8	24.4	23.7	22.9	17.3	16.1	15.5	15.1
<b>Total revenue</b>	<b>100.0</b>	<b>100.0</b>						
<b>Contribution from segments</b>								
Cables & Wires	2,110	2,657	3,089	3,256	4,380	5,128	5,794	6,489
Electrical Consumer Durables	2,304	2,580	2,864	3,494	4,202	5,354	6,535	7,610
Lloyd					2,683	4,044	4,892	5,913
Lighting & Fixtures	1,787	1,969	1,909	2,651	3,356	3,625	4,350	5,133
Switchgears	4,032	4,390	5,006	5,610	5,572	6,125	6,860	7,583
<b>Total contribution</b>	<b>10,233</b>	<b>11,595</b>	<b>12,868</b>	<b>15,011</b>	<b>20,193</b>	<b>24,275</b>	<b>28,431</b>	<b>32,728</b>
Unallocable expenses	(4,012)	(4,957)	(5,675)	(6,623)	(9,926)	(11,400)	(12,954)	(14,553)
<b>Overall EBIT</b>	<b>6,220</b>	<b>6,638</b>	<b>7,194</b>	<b>8,388</b>	<b>10,267</b>	<b>12,875</b>	<b>15,476</b>	<b>18,175</b>
<b>Segmental contribution mix (%)</b>								
Cables & Wires	20.6	22.9	24.0	21.7	21.7	21.1	20.4	19.8
Electrical Consumer Durables	22.5	22.2	22.3	23.3	20.8	22.1	23.0	23.3
Lloyd					13.3	16.7	17.2	18.1
Lighting & Fixtures	17.5	17.0	14.8	17.7	16.6	14.9	15.3	15.7
Switchgears	39.4	37.9	38.9	37.4	27.6	25.2	24.1	23.2
<b>Total contribution</b>	<b>100.0</b>	<b>100.0</b>						
<b>Contribution margin (%)</b>								
Cables & Wires	11.0	12.1	14.1	13.7	16.8	17.0	17.0	17.0
Electrical Consumer Durables	27.0	25.1	25.4	25.3	26.9	27.9	27.8	27.8
Lloyd					19.0	20.0	20.5	21.0
Lighting & Fixtures	24.8	26.6	24.1	27.3	29.0	27.5	27.5	27.5
Switchgears	33.1	34.3	39.3	39.9	39.6	38.5	38.5	38.0
<b>Contribution margin (%)</b>	<b>21.7</b>	<b>22.1</b>	<b>23.9</b>	<b>24.5</b>	<b>24.8</b>	<b>24.6</b>	<b>24.7</b>	<b>24.7</b>
Unallocable expenses as % of sales	(8.5)	(9.5)	(10.6)	(10.8)	(12.2)	(11.6)	(11.3)	(11.0)
<b>Overall EBIT</b>	<b>13.2</b>	<b>12.7</b>	<b>13.4</b>	<b>13.7</b>	<b>12.6</b>	<b>13.0</b>	<b>13.5</b>	<b>13.7</b>

Source: Company, Kotak Institutional Equities estimates

## Exhibit 5: Our DCF-based target price is ₹485

DCF valuation of Havells, March fiscal year-ends, 2018-35E (₹ mn)

	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2035E
<b>FCFF calculation</b>									
Net revenue	81,464	98,660	115,058	132,302	152,130	174,930	195,921	219,432	528,698
Revenue growth (%)	32.3	21.1	16.6	15.0	15.0	15.0	12.0	12.0	8.0
EBITDA	10,434	13,144	15,891	18,562	21,298	24,490	27,429	30,720	74,018
EBITDA margin (%)	12.8	13.3	13.8	14.0	14.0	14.0	14.0	14.0	14.0
Operating tax expense	(2,754)	(3,601)	(4,345)	(5,058)	(5,814)	(6,690)	(7,575)	(8,489)	(20,518)
NOPLAT	6,275	8,014	9,671	11,257	12,941	14,891	16,860	18,894	45,668
Depreciation	1,405	1,529	1,874	2,247	2,543	2,909	2,994	3,338	7,832
Change in working capital	2,702	81	475	484	581	668	615	689	1,147
Capital expenditure	(15,892)	(5,000)	(2,500)	(2,600)	(3,868)	(4,118)	(3,693)	(4,498)	(8,470)
Free cash flow to the firm	(5,511)	4,624	9,521	11,388	12,197	14,350	16,776	18,422	46,177
<b>Key assumptions and value drivers</b>									
Tax rate (%)	31	31	31	31	31	31	31	31	31
Gross FATR (%)	5.2	4.8	5.0	5.1	5.1	5.2	5.2	5.2	5.2
NWC ex-cash as % of sales	(3.5)	(3.0)	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)
<b>DCF valuation</b>									
Terminal growth rate (%)	5.0								
WACC (%)	11.5								
<b>EV and target price calculation</b>									
Sum of discounted FCF	151,226								
PV of terminal value	134,315								
Enterprise value	285,541								
Net debt/(cash)	(15,868)								
Equity value	301,409								
Target price (Rs/share)	482								

Source: Company, Kotak Institutional Equities estimates

**Exhibit 6: We expect Havells to deliver 22% EPS CAGR over FY2018-21E**  
 Consolidated financial summary of Havells, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model</b>										
Total income	65,182	72,479	81,858	85,694	76,126	61,558	81,464	98,660	115,058	132,302
<b>EBITDA</b>	<b>6,573</b>	<b>6,744</b>	<b>7,425</b>	<b>7,211</b>	<b>7,580</b>	<b>8,182</b>	<b>10,434</b>	<b>13,144</b>	<b>15,891</b>	<b>18,562</b>
Interest (expense)/income	(1,281)	(1,232)	(741)	(640)	(544)	(133)	(248)	(177)	(177)	(177)
Depreciation	(949)	(1,097)	(1,155)	(1,387)	(1,344)	(1,205)	(1,405)	(1,529)	(1,874)	(2,247)
Other income	414	279	413	505	866	1,382	1,179	1,260	1,460	1,860
<b>Pretax profits</b>	<b>4,757</b>	<b>4,694</b>	<b>5,941</b>	<b>5,690</b>	<b>6,559</b>	<b>8,225</b>	<b>9,960</b>	<b>12,697</b>	<b>15,299</b>	<b>17,998</b>
Extraordinary items	—	1,944	—	—	8,621	(949)	(312)	—	—	—
<b>Reported PBT</b>	<b>4,757</b>	<b>6,638</b>	<b>5,941</b>	<b>5,690</b>	<b>15,180</b>	<b>7,276</b>	<b>9,648</b>	<b>12,697</b>	<b>15,299</b>	<b>17,998</b>
Tax	(1,058)	(824)	(1,478)	(1,836)	(2,193)	(2,288)	(3,038)	(3,936)	(4,743)	(5,579)
Minority interest	5	—	—	—	18	(44)	14	—	—	—
<b>Profit after tax</b>	<b>3,704</b>	<b>5,814</b>	<b>4,463</b>	<b>3,854</b>	<b>13,005</b>	<b>4,945</b>	<b>6,624</b>	<b>8,761</b>	<b>10,556</b>	<b>12,418</b>
<b>Adjusted PAT</b>	<b>3,704</b>	<b>4,453</b>	<b>4,463</b>	<b>3,854</b>	<b>6,970</b>	<b>5,609</b>	<b>6,842</b>	<b>8,761</b>	<b>10,556</b>	<b>12,418</b>
<b>EPS (Rs)</b>	<b>5.9</b>	<b>7.1</b>	<b>7.2</b>	<b>6.2</b>	<b>11.2</b>	<b>9.0</b>	<b>10.9</b>	<b>14.0</b>	<b>16.9</b>	<b>19.9</b>
<b>Balance sheet</b>										
Total equity	9,556	14,420	16,660	18,182	30,277	32,768	37,292	42,362	48,472	55,659
Deferred tax liability and minority interest	557	481	468	(137)	1,058	1,259	2,193	2,193	2,193	2,193
Total borrowings	9,795	9,785	10,506	4,191	855	2,083	1,424	1,350	1,350	1,350
Long-term provisions	3,174	3,132	3,889	4,524	127	100	247	239	239	239
Current liabilities	18,672	16,761	21,801	20,980	11,560	13,714	24,918	26,934	31,345	35,939
<b>Total liabilities and equity</b>	<b>41,754</b>	<b>44,579</b>	<b>53,324</b>	<b>47,740</b>	<b>43,876</b>	<b>49,925</b>	<b>66,074</b>	<b>73,078</b>	<b>83,599</b>	<b>95,380</b>
Cash	2,336	4,736	8,817	9,530	14,680	19,745	15,620	17,218	23,177	30,495
Current assets	24,847	24,594	28,059	22,417	14,696	15,302	21,851	23,786	27,722	31,832
Fixed assets plus intangibles	14,571	15,250	16,448	15,793	14,500	14,878	28,603	32,074	32,699	33,053
<b>Total assets</b>	<b>41,754</b>	<b>44,579</b>	<b>53,324</b>	<b>47,740</b>	<b>43,876</b>	<b>49,925</b>	<b>66,074</b>	<b>73,078</b>	<b>83,599</b>	<b>95,380</b>
<b>Free cash flow</b>										
Operating cash flow, excl. working capital	5,753	7,764	6,962	5,474	6,328	7,102	8,298	9,208	11,148	12,983
Working capital changes	(1,234)	(1,419)	1,719	4,152	(1,015)	1,135	2,702	81	475	484
Capital expenditure	(1,716)	(1,750)	(1,764)	(1,739)	8,326	(2,344)	(11,717)	(5,000)	(2,500)	(2,600)
<b>Free cash flow</b>	<b>2,803</b>	<b>4,595</b>	<b>6,918</b>	<b>7,887</b>	<b>13,638</b>	<b>5,893</b>	<b>(717)</b>	<b>4,288</b>	<b>9,123</b>	<b>10,867</b>
<b>Ratios (%)</b>										
EBITDA margin	10.1	9.3	9.1	8.4	10.0	13.3	12.8	13.3	13.8	14.0
Debt/equity	1.0	0.7	0.6	0.2	0.0	0.1	0.0	0.0	0.0	0.0
Net debt/equity	0.8	0.4	0.1	(0.3)	(0.5)	(0.5)	(0.4)	(0.4)	(0.5)	(0.5)
RoE	46.0	32.3	28.7	22.1	18.0	18.8	19.8	22.0	23.2	23.9
<b>RoCE</b>	<b>37.6</b>	<b>29.8</b>	<b>26.4</b>	<b>26.9</b>	<b>29.9</b>	<b>35.2</b>	<b>35.3</b>	<b>32.7</b>	<b>36.4</b>	<b>42.4</b>

Source: Company, Kotak Institutional Equities estimates

**JULY 23, 2018**
**RESULT**

Coverage view: **Neutral**

Price (₹): **1,135**

Target price (₹): **1,020**

BSE-30: **36,496**

**Second half expected to be weak.** ABB India's 2QCY18 results reiterated the theme of (1) opex-driven growth, (2) weak near-term outlook and (3) optimism on potential of new-age offerings. With UHVDC order already 90% executed and weak ordering in 1HCY18, second half will be weak for the power grids segment. Growth support from robotics & motion may get negated by persistent margin pressure from forex and commodities. We reduce estimates by 9-14% and roll forward to a revised target price of Rs1,020 (from Rs1,100 previously). Retain SELL on high valuations.

**Company data and valuation summary**

ABB

**Stock data**

52-week range (Rs) (high,low) 1,749-1,123

Market Cap. (Rs bn) 240.5

**Shareholding pattern (%)**

Promoters 75.0

Fls 3.2

MFs 6.3

**Price performance (%)**

Absolute (5.8) (10.9) (22.4)

Rel. to BSE-30 (8.2) (16.0) (32.1)

**Forecasts/Valuations**

2018 2019E 2020E

EPS (Rs) 19.8 25.8 29.4

EPS growth (%) 12.1 30.1 14.2

P/E (X) 57.3 44.0 38.6

Sales (Rs bn) 90.9 106.9 111.6

Net profits (Rs bn) 4.2 5.5 6.2

EBITDA (Rs bn) 7.4 9.0 9.9

EV/EBITDA (X) 31.5 25.7 23.0

ROE (%) 12.2 14.5 15.1

Div. Yield (%) 0.4 0.8 0.8

**Strong topline growth but sequential decline in margin and order backlog disappoint**

2QCY18 revenues of Rs27 bn, up 21% yoy, were marginally lower than estimates due to a miss on the power grids segment, partly compensated by an outperformance on robotics & motion. Nonetheless, yoy growth was strong across all the segments aided by execution progress in a large UHVDC project, better sales in medium voltage portfolio and nascent revival in process industries. EBITDA of Rs1.9 bn was up 33% yoy and EBITDA margin of 7.2% was up 60 bps yoy. Sequentially, margin was 30 bps lower due to higher share of project revenues in topline, INR depreciation impact on imported components and commodity prices. Reported PAT of Rs1 bn was up 36% yoy. Order intake growth was weak at 7.5% yoy while order backlog of Rs107 bn was down 11% yoy largely due to depletion from execution progress on the UHVDC order and absence of another such large order to replenish the backlog. The management stated that the quality of the order backlog is robust with diverse industry base, services and exports.

**Management commentary weak for the near term, hopeful for the long term**

ABB India, like most other capital goods companies, is facing weak private capex and an absence of large, growth-propelling orders. Even on the government capex, (1) traditional core of power generation is weak, (2) T&D opportunity is undesirably shifting to state utilities, and (3) transportation infrastructure is insufficient to compensate for the weakness (conventional rail growing; metro, high speed rail, ports yet to materialize). Near term will thus remain weak and ordering will be largely restricted to base orders. Apart from exports and better-margin services, the management has shifted focus to building new-age businesses of digitalization (ABB Ability platform), fast EV-charging and smart grids. With several MoUs signed for pilot projects of digitalization across both heavy and light industries, ABB has demonstrated progress and management is hopeful of the eventual ramp-up of the new offerings.

**Cut estimates by 9-14% and reduce target price to Rs1,020; retain SELL**

We cut our EPS estimates for CY2019-20E by 9-14% led by (1) lower margin assumptions given fast depreciation of rupee and high commodity prices, and (2) front-ended execution of UHVDC project in 1HCY18 and thus lower revenue support from the same in CY2019/20. Roll forward to June 2020E based target price of Rs1,020 at justified one-year forward P/E of 31X. SELL.

Aditya Mongia

Ajinkya Bhat

## 2QCY18 earnings call takeaways

### ▶ Outlook on key end markets.

- **Utilities.** Growth possibilities in utilities will be opened by digital solutions which will be necessary for seamless integration of renewable energy with the transmission grid. Data analysis and monitoring will help curb transmission losses and optimize grid operation. Other growth opportunities will emanate from railway electrification (already growing with railway propulsion orders) and government push to electric vehicles. The management cited the EV policy rolled out by Karnataka, Maharashtra, Andhra Pradesh and Telangana. Near-term growth will be driven by renewables and state T&D capex.
- **Industry.** Impact of demonetization and GST is fading and the industry is slowly improving with good leading indicators as per the management. Orders are being driven by opex in consumption oriented sectors such as automotive. Core sectors such as cement and steel are still subdued. Recovery will greatly depend on banking sector NPA resolution process.
- **Infrastructure and Transportation.** The company sees good opportunities in airports, railways, metro rail, water, smart cities (getting out of drawing board into execution phase) and data centers. The management emphasized on opportunity from data centers given the privacy laws pushing for onshore server farms and continued expansion of communication network across the country.

### ▶ Other takeaways.

- The management clarified that government contracts typically have variable price clauses whereas the company employs hedging measures to protect against forex and input cost variations in fixed price private sector orders. As a result, barring certain MTM and derivative gains or losses, margin will be broadly protected against these external challenges from hereon. Electrification Products and Robotics & Motion are the segments with significant import content and are susceptible to forex and commodity price shocks.
- UHVDC order execution has progressed over 90% of the order value and has an outstanding backlog of just about Rs3 bn that is yet to be delivered over the next 12-18 months.

Exhibit 1: Strong yoy growth across all segments; sequential decline in margin and order backlog are key negatives  
ABB 2QCY18 – key numbers, December calendar year-ends (Rs mn)

	2QCY18	2QCY18E	2QCY17	1QCY18	% change			1HCY18	1HCY17	% change	CY2018E	CY2017	% change
					vs est.	yoy	qoq						
<b>Sales</b>	<b>27,127</b>	<b>28,081</b>	<b>22,333</b>	<b>25,255</b>	<b>(3.4)</b>	<b>21.5</b>	<b>7.4</b>	<b>52,382</b>	<b>43,845</b>	<b>19.5</b>	<b>106,859</b>	<b>90,873</b>	<b>17.6</b>
<b>Expenses</b>	<b>(25,168)</b>	<b>(25,885)</b>	<b>(20,860)</b>	<b>(23,365)</b>		<b>20.7</b>	<b>7.7</b>	<b>(48,533)</b>	<b>(40,763)</b>	<b>19.1</b>	<b>(97,821)</b>	<b>(83,513)</b>	<b>17.1</b>
Stock	445		(6)	(60)				385	511		-	655	
Raw material cost	(18,475)		(14,247)	(17,171)		29.7	7.6	(35,645)	(28,493)	25.1	(68,390)	(59,561)	14.8
Employee expenses	(2,231)		(2,168)	(2,184)		2.9	2.1	(4,415)	(4,101)	7.7	(8,966)	(7,963)	12.6
Other expenses	(4,908)		(4,440)	(3,951)		10.5	24.2	(8,858)	(8,680)	2.0	(20,466)	(16,644)	23.0
<b>EBITDA</b>	<b>1,959</b>	<b>2,196</b>	<b>1,473</b>	<b>1,890</b>	<b>(10.8)</b>	<b>33.0</b>	<b>3.7</b>	<b>3,849</b>	<b>3,082</b>	<b>24.9</b>	<b>9,038</b>	<b>7,361</b>	<b>22.8</b>
Other income	236	218	326	269	8.0	(27.7)	(12.5)	505	644	(21.7)	1,083	1,210	(10.5)
Interest	(232)	(232)	(231)	(232)	0.2	0.6	0.2	(463)	(442)	4.7	(372)	(773)	(51.9)
Depreciation	(356)	(356)	(383)	(356)	(0.0)	(7.1)	(0.0)	(712)	(759)	(6.2)	(1,597)	(1,580)	1.1
PBT	1,607	1,827	1,185	1,571	(12.0)	35.6	2.3	3,178	2,525	25.9	8,152	6,218	31.1
Tax	(586)	(641)	(435)	(546)	(8.7)	34.7	7.2	(1,132)	(874)	29.4	(2,690)	(2,018)	33.3
<b>Net profit</b>	<b>1,021</b>	<b>1,185</b>	<b>751</b>	<b>1,025</b>	<b>(13.8)</b>	<b>36.1</b>	<b>(0.3)</b>	<b>2,046</b>	<b>1,650</b>	<b>24.0</b>	<b>5,462</b>	<b>4,200</b>	<b>30.1</b>
Extraordinary items	-	-	-	-				-	-		-	-	
<b>Reported PAT</b>	<b>1,021</b>	<b>1,185</b>	<b>751</b>	<b>1,025</b>	<b>(13.8)</b>	<b>36.1</b>	<b>(0.3)</b>	<b>2,046</b>	<b>1,650</b>	<b>24.0</b>	<b>5,462</b>	<b>4,200</b>	<b>30.1</b>
<b>Key ratios (%)</b>													
Raw material/ Sales	66.5		63.8	68.2				67.3	63.8		64.0	64.8	
Employee exp./ Sales	8.2		9.7	8.6				8.4	9.4		8.4	8.8	
Other exp./ Sales	18.1		19.9	15.6				16.9	19.8		19.2	18.3	
<b>EBITDA margin</b>	<b>7.2</b>	<b>7.8</b>	<b>6.6</b>	<b>7.5</b>				<b>7.3</b>	<b>7.0</b>		<b>8.5</b>	<b>8.1</b>	
PBT Margin	5.9	6.5	5.3	6.2				6.1	5.8		7.6	6.8	
PAT Margin	3.8	4.2	3.4	4.1				3.9	3.8		5.1	4.6	
Tax rate	36.4	35.1	36.7	34.8				35.6	34.6		33.0	32.5	
<b>EPS</b>	<b>4.8</b>	<b>5.6</b>	<b>3.5</b>	<b>4.8</b>	<b>(13.8)</b>	<b>36.1</b>	<b>(0.3)</b>	<b>9.7</b>	<b>7.8</b>	<b>24.0</b>	<b>25.8</b>	<b>19.8</b>	<b>30.1</b>
<b>Order details</b>													
Order booking	24,740		23,020	25,820		7.5	(4.2)	50,560	46,440	8.9	109,839	94,900	15.7
Order backlog	107,170		120,940	116,280		(11.4)	(7.8)	107,170	120,940	(11.4)	102,730	115,340	(10.9)

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: ABB's 2QCY18 segmental results (adjusted)<sup>(1)</sup> – key numbers, December calendar year-ends (Rs mn)

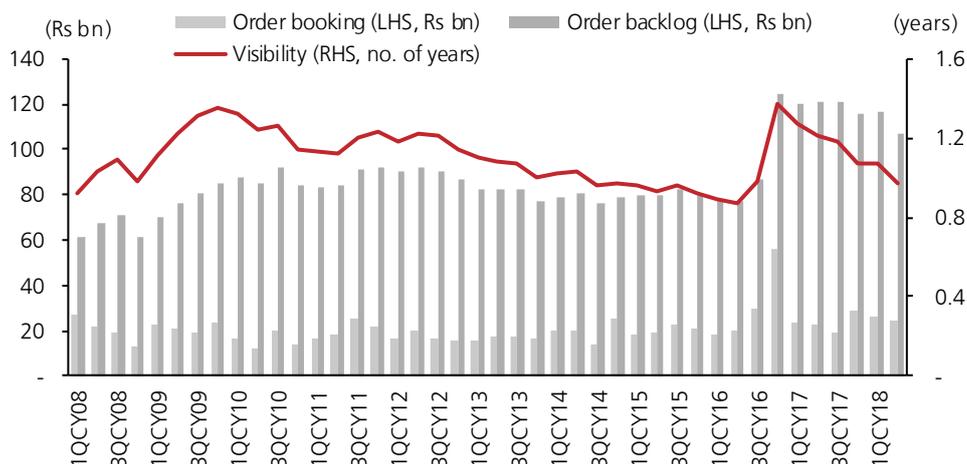
	2QCY18	2QCY18E	2QCY17	1QCY18	% change			1HCY18	1HCY17	% change	CY2018E	CY2017	% change
					vs est.	yoy adj.	qoq						
<b>Revenues</b>													
Robotics & Motion	6,152	4,803	4,303	5,969	28.1	43.0	3.1	12,121	8,950	35.4	23,824	19,359	23.1
Electrification Products	6,461	6,740	6,044	6,509	(4.1)	6.9	(0.7)	12,970	12,460	4.1	25,966	24,391	6.5
Industrial Automation	3,768	3,823	3,287	3,024	(1.5)	14.6	24.6	6,791	6,067	11.9	16,146	14,092	14.6
Power Grids	10,606	12,663	7,044	9,698	(16.2)	50.6	9.4	20,304	13,420	51.3	37,577	31,289	20.1
<b>Net Sales</b>	<b>27,127</b>	<b>28,081</b>	<b>22,333</b>	<b>25,255</b>	<b>(3.4)</b>	<b>21.5</b>	<b>7.4</b>	<b>52,382</b>	<b>43,845</b>	<b>19.5</b>	<b>106,859</b>	<b>90,873</b>	<b>17.6</b>
<b>EBIT</b>													
Robotics & Motion	507	347	307	431	46.1	65.0	18	938	688	36.3	1,906	1,628	17.1
Electrification Products	576	694	646	670	(17)	(11)	(14)	1,246	1,428	(12.7)	2,467	2,812	(12.3)
Industrial Automation	382	499	316	394	(23.5)	20.8	(3)	776	430	80.6	1,905	1,700	12.1
Power Grids	1,098	1,340	696	1,026	(18)	58	7	2,123	1,321	60.7	3,946	3,441	14.7
<b>Total</b>	<b>2,562</b>	<b>2,879</b>	<b>1,965</b>	<b>2,521</b>	<b>(11.0)</b>	<b>30.4</b>	<b>1.6</b>	<b>5,083</b>	<b>3,866</b>	<b>31.5</b>	<b>10,224</b>	<b>9,581</b>	<b>6.7</b>
Interest expense	(232)	(232)	(231)	(232)	0.2	0.6	0.2	(463)	(442)	4.7	(372)	(773)	(51.9)
Unallocated	(723)	(821)	(549)	(719)	(11.9)	31.8	0.6	(1,442)	(899)	60.3	(1,700)	(2,590)	(34.4)
<b>Total Profit Before Tax</b>	<b>1,607</b>	<b>1,827</b>	<b>1,185</b>	<b>1,571</b>	<b>(12.0)</b>	<b>35.6</b>	<b>2.3</b>	<b>3,178</b>	<b>2,525</b>	<b>25.9</b>	<b>8,152</b>	<b>6,218</b>	<b>31.1</b>
<b>EBIT margin (%)</b>													
Robotics & Motion	8.2	7.2	7.1	7.2				7.7	7.7		8.0	8.4	
Electrification Products	8.9	10.3	10.7	10.3				9.6	11.5		9.5	11.5	
Industrial Automation	10.1	13.0	9.6	13.0				11.4	7.1		11.8	12.1	
Power Grids	10.3	10.6	9.9	10.6				10.5	9.8		10.5	11.0	

Notes:

(a) Reported historical gross segmental revenues have been adjusted by proportionately allocating excise duty in order to make them comparable with the 2QCY18 numbers net of GST.

Source: Company, Kotak Institutional Equities estimates

**Exhibit 3: ABB's current order backlog provides revenue visibility of just about a year**  
 Order booking, backlog & revenue visibility trend for ABB, December calendar year-ends, 1QCY08-2QCY18



Source: Company, Kotak Institutional Equities estimates

**Exhibit 4: We arrive at a justified one-year forward P/E multiple of 31X for ABB India**  
 Justified multiple framework for ABB India, December calendar year-ends

Inputs for growth and terminal phase		Inputs for cash conversion	
Growth phase PAT CAGR (%)	22.0	PAT margin (%)	6.9
No. of years in initial growth phase (Growth_years)	10.0	Interest rate (%)	10.0
Terminal growth rate (Tg, %)	5.0	Marginal tax rate (%)	34.9
Cost of equity (COE, %)	12.5	Gross FATR (X)	8.3
Steady state capital structure - debt mix (%)	-	Average asset life (years)	10.0
WACC (%)	12.5	Working capital as days of sales	51

Component of justified multiple calculation	Formula	Calculation
One-year forward exit multiple on FCFE in terminal year	$1 / (COE - Tg)$	13.3
Terminal phase cash conversion ratio	FCFE / PAT	0.81
One-year forward P/E multiple in terminal year		10.8
Discount factor for terminal year multiple to target year	$1 / ((1+COE)^{growth\ years})$	0.31
Bump up the multiple by the PAT jump over the growth years	$1 * ((1 + growth\ CAGR)^{growth\ years-1}) * (1+Tg)$	6.3
<b>Justified one-year forward P/E multiple for terminal value component</b>		<b>21.0</b>
<b>Value of growth period</b>		
Value of growth period in terms of FCFE		12.1
Value of growth period in terms of P/E	FCFE multiple * cash conversion	9.9
<b>Justified one-year forward P/E multiple</b>		<b>30.8</b>

Source: Company, Kotak Institutional Equities analysis

Exhibit 5: Current one-year forward P/E multiple can be justified if the company can achieve 28% EPS CAGR for 10 years

Sensitivity of justified P/E multiple for ABB India, December calendar year-ends

		Sensitivity of justified one-year forward P/E multiple				
		PAT CAGR in initial high-growth period (%)				
		15	20	25	30	35
No. of years of business growth	6	16	19	22	26	31
	8	18	23	29	37	46
	10	20	27	37	50	68
	12	22	32	47	68	99
	14	25	38	60	93	144

Source: Kotak Institutional Equities analysis

Exhibit 6: Change in estimates incorporates growth performance of Robotics & Motion, front-ended execution of UHVDC project in Power Grids, subsequent weak execution support for 2HCY18 and persistent margin pressure from forex and commodity prices  
Change in estimates for ABB India, December calendar year-ends, 2017-20E (Rs mn)

	CY2017	New estimates			Old estimates			% change		
		CY2018E	CY2019E	CY2020E	CY2018E	CY2019E	CY2020E	CY2018E	CY2019E	CY2020E
Order inflows	94,900	109,839	131,831	154,894	116,014	137,534	163,389	(5.3)	(4.1)	(5.2)
Revenues	90,873	106,859	111,629	128,729	102,056	121,791	136,109	4.7	(8.3)	(5.4)
Robotics and Motion	19,359	23,824	27,355	32,254	22,037	26,985	33,219	8.1	1.4	(2.9)
Electrification Products	24,391	25,966	28,460	32,729	27,264	27,227	32,668	(4.8)	4.5	0.2
Process Automation	14,092	16,146	19,254	23,077	16,443	19,973	24,021	(1.8)	(3.6)	(3.9)
Power Grids	31,289	37,577	33,058	36,770	33,058	43,909	42,162	13.7	(24.7)	(12.8)
EBITDA	7,361	9,038	9,919	11,829	8,647	11,314	12,992	4.5	(12.3)	(9.0)
EBITDA margin (%)	8.1	8.5	8.9	9.2	8.5	9.3	9.5	-1 bps	-40 bps	-36 bps
Interest cost	(773)	(372)	-	-	(186)	-	-			
Recurring PAT	4,200	5,462	6,238	7,705	5,510	7,255	8,452	(0.9)	(14.0)	(8.8)
Recurring EPS (Rs)	19.8	25.8	29.4	36.4	26.0	34.2	39.9	(0.9)	(14.0)	(8.8)
<b>Growth (%)</b>										
Order inflows	(23.9)	15.7	20.0	17.5	22.2	18.6	18.8			
<b>Revenues</b>		17.6	4.5	15.3	12.3	19.3	11.8			
Robotics and Motion		23.1	14.8	17.9	13.8	22.5	23.1			
Electrification Products		6.5	9.6	15.0	11.8	(0.1)	20.0			
Process Automation		14.6	19.2	19.9	16.7	21.5	20.3			
Power Grids		20.1	(12.0)	11.2	5.7	32.8	(4.0)			
EBITDA		22.8	9.7	19.3	17.5	30.8	14.8			
PAT		30.1	14.2	23.5	31.2	31.7	16.5			

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Key financials of ABB, December calendar year-ends, 2011-20E (Rs mn)

	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>Income statement</b>										
Net revenues	74,490	75,650	77,220	77,333	81,403	86,427	90,873	106,859	111,629	128,729
Total operating expenses	(70,872)	(72,689)	(72,521)	(71,776)	(74,278)	(79,482)	(83,513)	(97,821)	(101,710)	(116,900)
Raw material cost	(54,785)	(54,595)	(53,985)	(52,429)	(53,000)	(56,173)	(58,906)	(68,390)	(70,884)	(81,099)
Employee expenses	(5,868)	(6,240)	(6,771)	(7,052)	(7,499)	(7,678)	(7,963)	(8,966)	(9,941)	(10,916)
Other expenses	(10,218)	(11,854)	(11,765)	(12,295)	(13,779)	(15,631)	(16,644)	(20,466)	(20,885)	(24,885)
<b>EBITDA</b>	<b>3,618</b>	<b>2,961</b>	<b>4,699</b>	<b>5,557</b>	<b>7,125</b>	<b>6,945</b>	<b>7,361</b>	<b>9,038</b>	<b>9,919</b>	<b>11,829</b>
Other income	162	55	70	173	130	1,216	1,210	1,083	988	1,272
Interest	(307)	(432)	(1,011)	(1,050)	(912)	(919)	(773)	(372)	-	-
Depreciation	(795)	(942)	(1,033)	(1,128)	(1,598)	(1,510)	(1,580)	(1,597)	(1,596)	(1,601)
PBT	2,677	1,642	2,725	3,552	4,746	5,733	6,218	8,152	9,310	11,500
Tax	(832)	(705)	(956)	(1,267)	(1,747)	(1,988)	(2,018)	(2,690)	(3,072)	(3,795)
<b>Recurring PAT</b>	<b>1,845</b>	<b>937</b>	<b>1,769</b>	<b>2,285</b>	<b>2,999</b>	<b>3,745</b>	<b>4,200</b>	<b>5,462</b>	<b>6,238</b>	<b>7,705</b>
Extraordinary income	-	-	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>1,845</b>	<b>937</b>	<b>1,769</b>	<b>2,285</b>	<b>2,999</b>	<b>3,745</b>	<b>4,200</b>	<b>5,462</b>	<b>6,238</b>	<b>7,705</b>
<b>Recurring EPS (Rs)</b>	<b>8.7</b>	<b>4.4</b>	<b>8.3</b>	<b>10.8</b>	<b>14.2</b>	<b>17.7</b>	<b>19.8</b>	<b>25.8</b>	<b>29.4</b>	<b>36.4</b>
<b>Balance sheet</b>										
Shareholders funds	25,345	26,016	26,776	28,120	30,086	32,867	36,069	39,299	43,306	48,780
Equity capital	424	424	424	424	424	424	424	424	424	424
Reserves and surplus	24,921	25,593	26,352	27,696	29,662	32,443	35,645	38,875	42,882	48,356
Loan funds	18	3,277	6,201	3,711	6,000	6,000	6,041	-	-	-
<b>Total sources of funds</b>	<b>25,364</b>	<b>29,293</b>	<b>32,977</b>	<b>31,831</b>	<b>36,086</b>	<b>38,867</b>	<b>42,110</b>	<b>39,299</b>	<b>43,306</b>	<b>48,780</b>
Total fixed assets	12,268	12,719	13,870	13,792	12,904	12,763	12,887	12,790	12,694	12,593
Investments	167	166	166	165	164	163	2,706	2,706	2,706	2,706
Cash and bank balance <sup>(a)</sup>	2,691	868	3,166	2,260	5,736	11,892	14,917	8,350	12,210	15,496
Net working capital <sup>(a)</sup>	9,493	14,600	14,976	14,939	16,269	12,282	9,963	13,815	14,059	16,347
<b>Total application of funds</b>	<b>25,364</b>	<b>29,293</b>	<b>32,977</b>	<b>31,831</b>	<b>36,086</b>	<b>38,867</b>	<b>42,110</b>	<b>39,299</b>	<b>43,306</b>	<b>48,780</b>
<b>Cash flow statement</b>										
Cash flow from operating activities	1,181	(502)	3,301	4,790	3,817	8,626	7,998	2,496	6,603	5,745
Cash flow from investing activities	(3,612)	(3,398)	(2,197)	(1,477)	(764)	(681)	(3,287)	(417)	(512)	(228)
<b>Free cash flow (CFO+net capex)</b>	<b>(355)</b>	<b>(2,243)</b>	<b>1,084</b>	<b>3,721</b>	<b>2,915</b>	<b>7,586</b>	<b>6,152</b>	<b>996</b>	<b>5,103</b>	<b>4,245</b>
Cash flow from financing activities	(799)	2,106	1,191	(4,221)	422	(1,788)	(1,710)	(8,645)	(2,231)	(2,231)
<b>Cash generated/(utilised)</b>	<b>(3,230)</b>	<b>(1,794)</b>	<b>2,296</b>	<b>(908)</b>	<b>3,474</b>	<b>6,156</b>	<b>3,001</b>	<b>(6,566)</b>	<b>3,860</b>	<b>3,286</b>
Net cash at start of the year	5,776	2,545	752	3,149	2,241	5,716	11,869	14,871	8,304	12,164
<b>Net cash at end of the year</b>	<b>2,644</b>	<b>767</b>	<b>3,166</b>	<b>2,260</b>	<b>5,736</b>	<b>11,892</b>	<b>14,917</b>	<b>8,350</b>	<b>12,210</b>	<b>15,496</b>
<b>Key ratios</b>										
<b>EBITDA margin (%)</b>	<b>4.9</b>	<b>3.9</b>	<b>6.1</b>	<b>7.2</b>	<b>8.8</b>	<b>8.0</b>	<b>8.1</b>	<b>8.5</b>	<b>8.9</b>	<b>9.2</b>
PAT margin (%)	2.5	1.2	2.3	3.0	3.7	4.3	4.6	5.1	5.6	6.0
Effective tax rate (%)	31.1	42.9	35.1	35.7	36.8	34.7	32.5	33.0	33.0	33.0
Net debt to equity	(0.1)	0.1	0.1	0.1	0.0	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Return on Equity (%)	7.5	3.6	6.7	8.3	10.3	11.9	12.2	14.5	15.1	16.7
ROCE (%)	8.3	4.3	7.8	9.1	10.5	11.6	11.7	14.0	15.1	16.7
Book value per share (Rs)	120	123	126	133	142	155	170	185	204	230

Notes:

(a) Notice that net working capital ex-cash is increasing sharply in CY2018E estimates and is affecting cash balance. This is due to 18% topline growth expected for CY2018 and deterioration i.e. normalization in NWC as days of sales in line with historical trends seen before CY2017.

Source: Company, Kotak Institutional Equities estimates

JULY 23, 2018

**RESULT, CHANGE IN RECO.**

 Coverage view: **Cautious**

 Price (₹): **580**

 Target price (₹): **610**

 BSE-30: **36,496**

**1QFY19: margin surprise.** JUST's 1QFY19 revenue growth of 11% was in line with expectations. Lower-than-expected expenses led to 13% EBITDA outperformance. Campaign addition is showing signs of picking up, though remains below past run-rates. We raise FY2019-21 estimates by 5-8% as we bake in 1-2% higher revenue growth and lower operating costs. TP changes to Rs610 as we roll forward to June 2020. Following a nearly 33% rise in stock price in the past two months, upsides will be more modest. This reflects in our revised rating of ADD, down a notch from BUY earlier.

**Company data and valuation summary**

Just Dial

Stock data				Forecasts/Valuations				
				2018	2019E	2020E		
52-week range (Rs) (high,low)		647-326		EPS (Rs)	21.2	26.1	30.0	
Market Cap. (Rs bn)		39.1		EPS growth (%)	21.7	23.0	15.0	
<b>Shareholding pattern (%)</b>				P/E (X)	27.3	22.2	19.3	
Promoters		34.0		Sales (Rs bn)	7.8	8.8	9.7	
Fls		35.9		Net profits (Rs bn)	1.4	1.8	2.0	
MFs		10.2		EBITDA (Rs bn)	1.6	2.0	2.2	
<b>Price performance (%)</b>				EV/EBITDA (X)	16.4	12.7	10.3	
Absolute		1M	3M	12M	ROE (%)	15.2	16.7	16.6
Rel. to BSE-30		(0.7)	27.1	53.3	Div. Yield (%)	0.0	0.5	0.5
		(3.3)	19.9	34.0				

**In-line revenues, lower costs drive 13% EBITDA outperformance**

1Q revenue growth of 11.3% was in line with estimates. This was driven by a 4% growth in campaigns and 7% increase in realization. JUST managed to sustain realization growth by selling more bundled products to the same customers. EBITDA outperformance of 13% was driven by: (1) accounting treatment of sales linked incentive to employees under Ind-AS 115 resulting in reported employee expense being lower by Rs26.8 mn, and (2) low advertising expense (~4% of revenues).

**Encouraging growth in collections is indicative of potentially higher revenue growth**

JUST's collections grew by 21% yoy and unearned revenues increased by a healthy 28% yoy. We believe this is on account of increasing focus on: (1) sales productivity led by better education of sales team of value added products, (2) focus on offering longer dated contracts with a view to reduce customer churn. We believe higher collections growth should lead to some growth acceleration in 2HFY19. JUST has been adding sales headcount for the previous two quarters to boost collections.

**Buyback provides some comfort on cash utilization**

JUST's board has approved buyback of 2.75 mn shares (4.1% of current equity), which will commence post receipt of SEBI's approval in September 2018 (one year post last buyback). The buyback would be via a tender offer at a maximum price of Rs800 per share, amounting to Rs2.2 bn (24.3% of JUST's March 2018 net worth). JUST had a cash balance of Rs12.9 bn as of June 2018. JUST would continue to use this route to return cash to shareholders.

**Improving execution impresses even as structural concerns stay. Downgrade a notch to ADD**

Our core view of JUST facing competition from well-funded competitors does not change. We are, however, impressed by strong focus on execution, steady growth in collections and impressive control on non-core costs. We raise FY2019-21 EPS forecasts by 5-8% as we upgrade revenue estimates by 1-2% and also assume lower other expenses. This combined with rollover increases our target price to Rs610 from Rs550 earlier. Upsides from here will be modest and reflects in our revised rating of ADD, down a notch from BUY earlier. We do note that our last upgrade of JUST was based on attractive valuations wherein the stock was available at EV/FCF multiple of only 7.6X. Valuations are still attractive at FY2020E EV/FCF of 12X though not attractive enough to warrant a BUY rating.

Kawaljeet Saluja

Garima Mishra

Exhibit 1: 1QFY19 results of Just Dial, March fiscal year-ends (Rs mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	Change (%)			FY2019	FY2018	Change (%)
					KIE Est	yoy	qoq			
Sales	2,114	2,109	1,900	2,005	0.2	11.3	5.5	8,825	7,818	12.9
Expenses	(1,540)	(1,599)	(1,576)	(1,547)	(3.7)	(2.2)	(0.4)	(6,857)	(6,174)	11.1
Employee	(1,176)	(1,219)	(1,070)	(1,189)	(3.6)	9.9	(1.1)	(4,863)	(4,416)	10.1
Other expenses	(364)	(380)	(506)	(358)	(4.2)	(28.0)	1.6	(1,994)	(1,758)	13.5
<b>Operating profit</b>	<b>574</b>	<b>510</b>	<b>325</b>	<b>458</b>	<b>12.6</b>	<b>76.7</b>	<b>25.4</b>	<b>1,969</b>	<b>1,644</b>	<b>19.7</b>
Other income	82	153	266	166	(46.2)	(69.1)	(50.5)	854	659	29.7
Interest	—	—	—	—	—	—	—	—	—	NM
Depreciation	(84)	(90)	(96)	(84)	(6.8)	(13.0)	(0.5)	(388)	(364)	6.6
<b>PBT</b>	<b>573</b>	<b>573</b>	<b>495</b>	<b>540</b>	<b>(0.1)</b>	<b>15.8</b>	<b>6.1</b>	<b>2,434</b>	<b>1,939</b>	<b>25.6</b>
Tax	(187)	(166)	(113)	(150)	12.7	65.8	24.8	(674)	(507)	33.0
<b>Net profit</b>	<b>385</b>	<b>407</b>	<b>382</b>	<b>390</b>	<b>(5.3)</b>	<b>1.0</b>	<b>(1.1)</b>	<b>1,760</b>	<b>1,432</b>	<b>23.0</b>
Extraordinary items	—	—	—	—	—	—	—	—	—	NM
Reported PAT	385	407	382	390	(5.3)	1.0	(1.1)	1,760	1,432	23.0
<b>Key ratios (%)</b>										
Employee cost/sales	55.6	57.8	56.3	59.3				55.1	56.5	
Other operating expenses/sales	17.2	18.0	26.6	17.9				22.6	22.5	
<b>EBITDA margin</b>	<b>27.2</b>	<b>24.2</b>	<b>17.1</b>	<b>22.8</b>				<b>22.3</b>	<b>21.0</b>	
PBT margin	27.1	27.2	26.0	26.9				27.6	24.8	
Tax rate	32.7	29.0	22.8	27.8				27.7	26.1	
PAT margin	18.2	19.3	20.1	19.4				19.9	18.3	
<b>Other operating metrics</b>										
Total campaigns (#)	452,900		435,980	445,110		3.9	1.8	471,817	445,110	6.0
Price per campaign (Rs)	18,673		17,436	18,015		7.1	3.7	18,705	17,564	6.5
Headcount (#)	12,281		11,262	11,452		9.0	7.2			
Advertising spend (Rs mn)	95		221	92		NA	3.3			
Unearned revenue (Rs mn)	3,713		2,904	3,330		27.9	11.5			

Source: Company, Kotak Institutional Equities estimates

### Other takeaways from the results

**Impressive growth in collections.** JUST's collections grew by 21% yoy and unearned revenues increased by a healthy 28% yoy. Nearly 10% of JUST's 4QFY18 unearned revenue was for longer-dates contracts (more than one year in duration), and adjusted for this, unearned revenue growth was ~15% (assuming no long dated contracts in the base quarter).

### Exhibit 2: Steady growth in unearned revenues should boost revenue growth

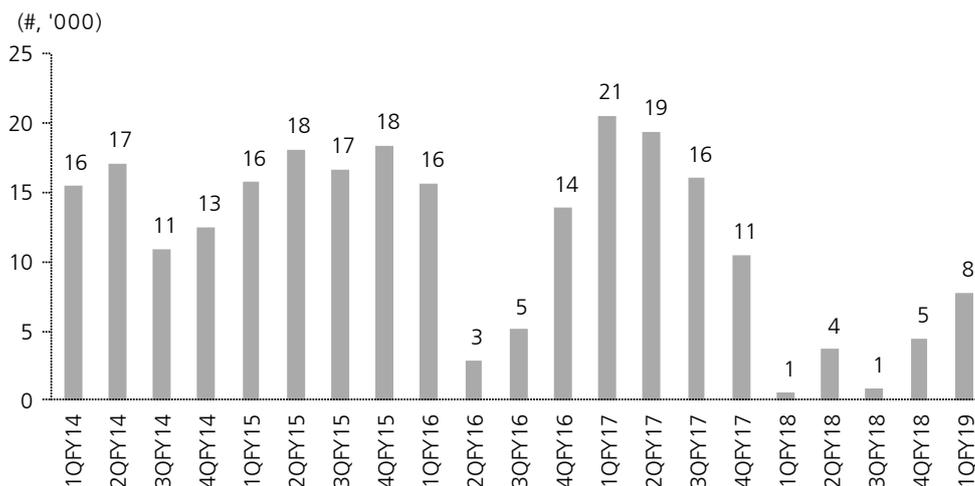
Unearned revenue growth, March fiscal year-ends

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Unearned revenue (Rs mn)	2,419	2,451	2,559	2,743	2,904	2,774	2,852	3,330	3,713
Yoy growth (%)					20	13	11	21	28
Revenue (Rs mn)	1,763	1,803	1,803	1,817	1,900	1,945	1,968	2,005	2,114
Yoy growth (%)					8	8	9	10	11

Source: Company, Kotak Institutional Equities

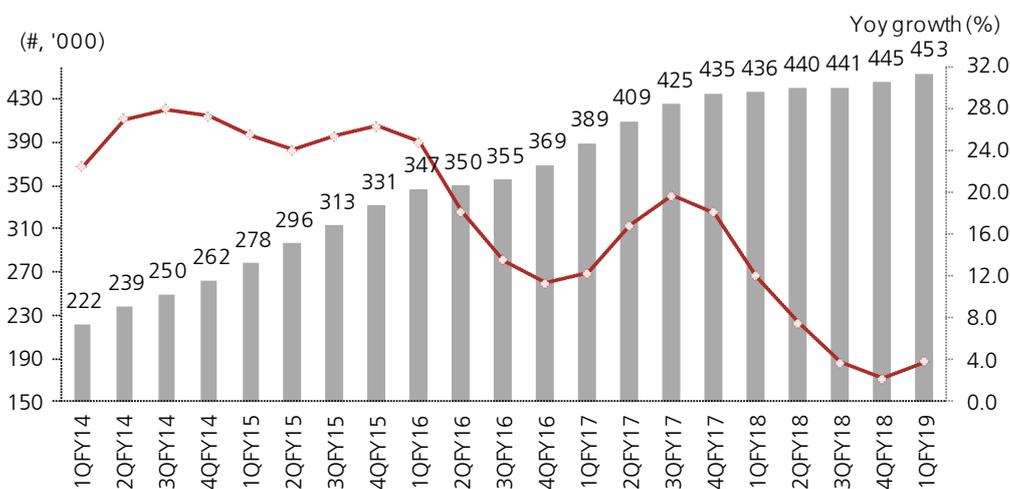
**Campaign addition slowly picking up.** Sequential quarterly campaign addition of ~7,800 is the highest in the past five quarters, though it is meaningfully below the earlier quarterly run rate. We believe JUST is focusing on overall revenue addition, and seeking to sell more bundled products to same customers. Further, it is also focusing on locking in these customers for longer durations in order to reduce churn.

**Exhibit 3: Campaign addition pace has recovered**  
Sequential campaign addition, March fiscal year-ends (#, '000)



Source: Company, Kotak Institutional Equities

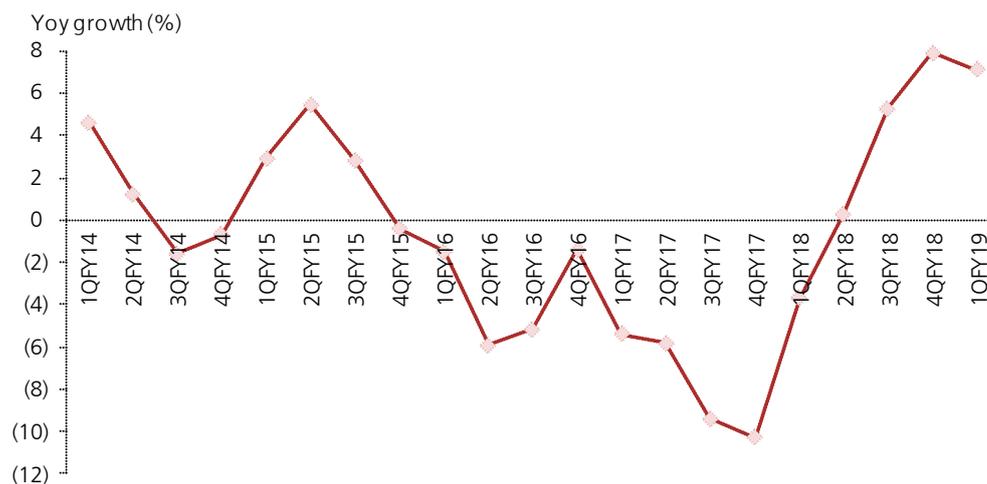
**Exhibit 4: Pace of campaigns addition recovered marginally in 1Q**  
End of the period paid campaigns (#, LHS) and yoy growth (%), March fiscal year-ends



Source: Company, Kotak Institutional Equities

**Price realization steadily inching up.** JUST managed to sustain realization growth by selling more bundled products to the same customers – these products include rating certificates, more areas, listing upgrades, etc..

**Exhibit 5: Pricing trend has consistently improved over past five quarters**  
Yoy change in per campaign realization, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

**Advertising expense low for the past two quarters.** We believe JUST would need to spend 8-9% of its revenues towards advertising. Advertising spends have been tepid over the past two quarters, (~4% of revenues) and we reckon they should go up 2QFY19 onwards as the company commences its TV campaigns. Further, user metrics indicate that daily app downloads rate has been on the decline, indicating ad-spends would need to increase to drive usage up.

**Exhibit 6: Visitor count continues to improve, though app download momentum continued to decline**  
Key operating metrics of JUST's platform, March fiscal year-ends

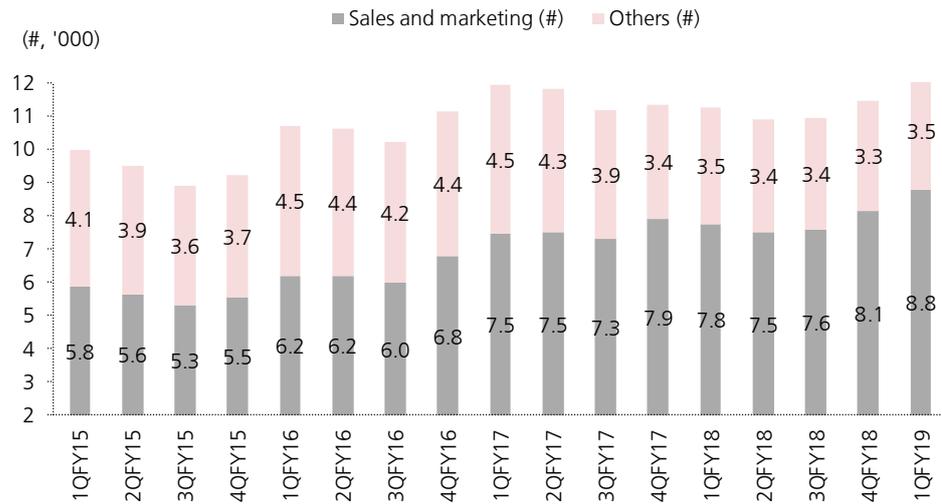
	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	Yoy growth (%)
Unique visitors (mn)	71.5	71.3	75.9	76.6	80.5	86.8	100.5	105.0	107.6	111.6	125.2	24.6
Total listings (mn)	16.1	16.3	16.6	16.9	17.3	17.9	18.8	19.8	20.7	21.8	22.7	20.7
Total images in listings (mn)	17.0	19.7	22.5	25.4	27.9	31.7	35.6	38.5	41.4	44.8	47.9	34.6
Listings with geocodes (mn)	5.6	5.9	6.1	6.2	6.3	6.8	7.8	9.2	10.1	10.9	11.8	51.3
Ratings and reviews (mn)	58.3	60.6	62.6	64.8	67.9	70.5	73.1	76.1	79.0	81.9	85.1	16.4
Cumulative app downloads (mn)	9.1	9.6	10.1	10.7	11.6	13.3	15.4	17.3	18.7	19.8	20.8	35.1
Android			8.1	8.6	9.4	10.9	12.9	14.7	16.0	17.0	17.9	38.8
iOS			1.4	1.4	1.5	1.6	1.7	1.8	1.9	2.0	2.1	23.5
Others			0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	-
Add downloads per day (#)			7,721	8,704	12,416	19,687	26,533	23,871	19,103	15,501	14,351	(45.9)

Source: Company, Kotak Institutional Equities

**Additions to sales force continues.** JUST continued to add to its sales force across both the telemarketing and FOS functions. This has led to steady revenue per employee. Campaigns per employee, though, have gone down – we reckon the company would strive to improve this metric going forward.

**Exhibit 7: Sales force headcount increased further**

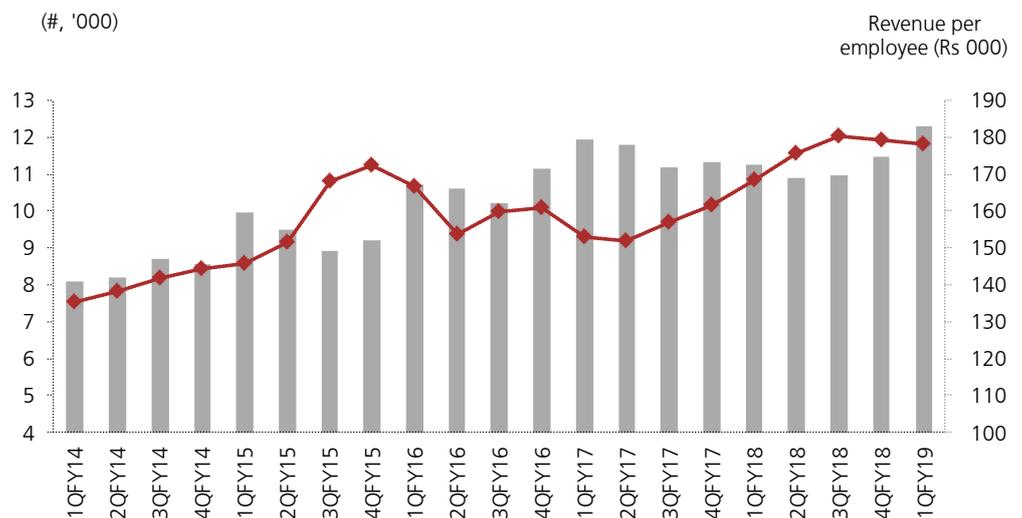
End of the period employee count in sales and other functions, March fiscal year-ends (#, '000)



Source: Company, Kotak Institutional Equities

**Exhibit 8: Revenue per employee steady in 1Q**

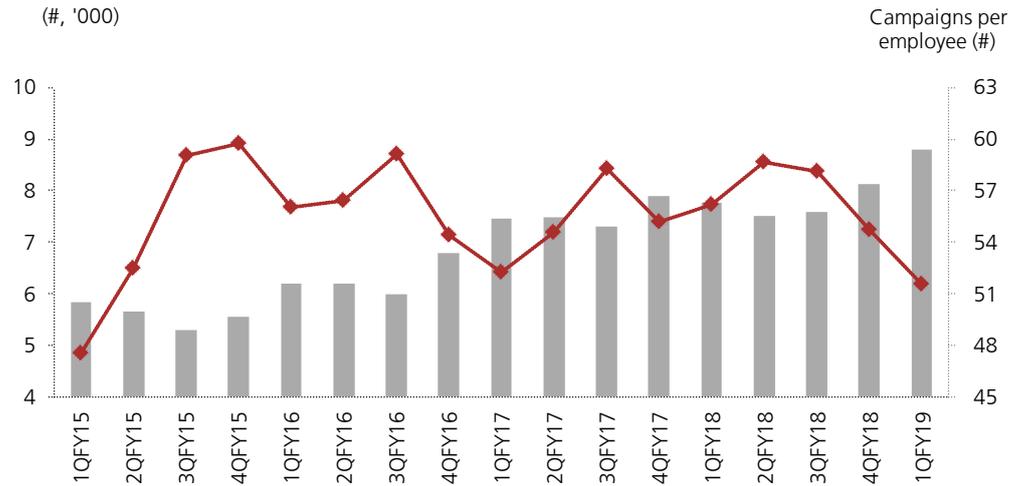
End of the period employee count (#, LHS) and revenue per employee (Rs 000, RHS), March fiscal year-ends



Source: Company, Kotak Institutional Equities

**Exhibit 9: Campaigns per sales employee metric normalized further in 1QFY19**

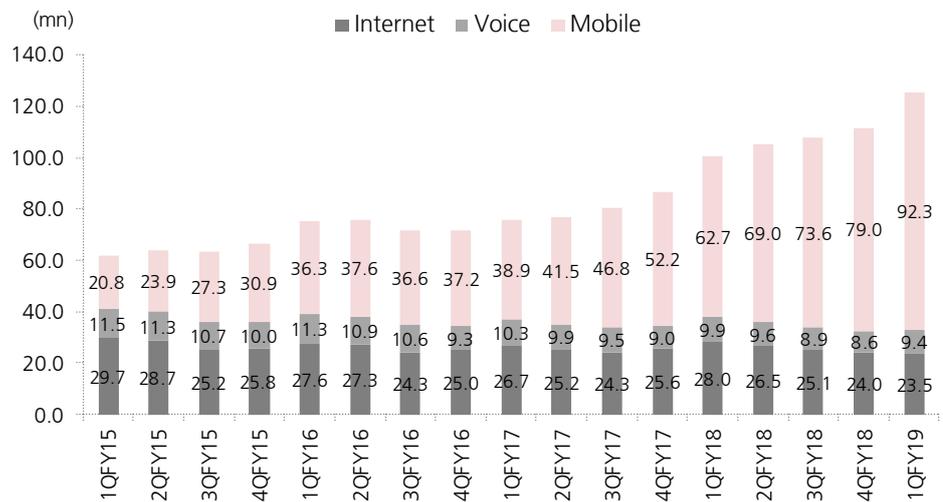
End of the period sales and marketing employee count (#, LHS) and campaigns per employee (#, RHS), March fiscal year-ends



Source: Company, Kotak Institutional Equities

**Exhibit 10: Mobile continues to drive user addition**

Unique visitors of Just Dial across various platforms, March fiscal year-ends (mn)



Source: Company, Kotak Institutional Equities

Exhibit 11: Change in estimates for Just Dial, March fiscal year-ends, 2019-21E (Rs mn)

	New estimates			Old estimates			% revision		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
<b>Total revenues</b>	<b>8,825</b>	<b>9,748</b>	<b>10,594</b>	<b>8,741</b>	<b>9,637</b>	<b>10,424</b>	<b>1.0</b>	<b>1.2</b>	<b>1.6</b>
<b>EBITDA</b>	<b>1,969</b>	<b>2,201</b>	<b>2,317</b>	<b>1,850</b>	<b>2,031</b>	<b>2,125</b>	<b>6.4</b>	<b>8.3</b>	<b>9.0</b>
EBITDA margin (%)	22.3	22.6	21.9	21.2	21.1	20.4			
PAT	1,760	2,025	2,215	1,672	1,887	2,054	5.3	7.3	7.8
<b>EPS (Rs)</b>	<b>26.1</b>	<b>30.0</b>	<b>32.9</b>	<b>24.8</b>	<b>28.0</b>	<b>30.5</b>	<b>5.3</b>	<b>7.3</b>	<b>7.8</b>
Tax rate (%)	27.7	27.6	27.3	27.4	27.3	27.0			
<b>Yoy growth metrics (%)</b>									
Sales	12.9	10.5	8.7	11.8	10.2	8.2			
EBITDA	19.7	11.8	5.3	12.5	9.8	4.6			
PAT	23.0	15.0	9.4	16.7	12.9	8.8			

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: Details of the estimates for Just Dial, March fiscal year-ends, 2015-21E (Rs mn)

	2015	2016	2017	2018	2019E	2020E	2021E
<b>Search</b>							
Campaigns (#)	331,200	367,000	429,840	445,110	471,817	498,710	518,659
Revenues from core business (Rs mn)	5,898	6,640	7,062	7,818	8,825	9,748	10,594
Yoy growth (%)	27.9	12.6	6.4	10.7	12.9	10.5	8.7
<b>Omni</b>							
Number of customers at year-end (#)	—	1,800	5,520	—	—	—	—
Omni revenues	—	37	124	—	—	—	—
<b>Search-Plus</b>							
Search-Plus revenues	—	—	8	0	0	0	0
<b>Total revenues</b>	<b>5,898</b>	<b>6,677</b>	<b>7,186</b>	<b>7,818</b>	<b>8,825</b>	<b>9,748</b>	<b>10,594</b>
<b>Yoy growth (%)</b>	<b>27.9</b>	<b>13.2</b>	<b>7.6</b>	<b>8.8</b>	<b>12.9</b>	<b>10.5</b>	<b>8.7</b>
Number of employees (#)	9,533	11,142	11,334	11,452	11,952	12,652	13,152
Employee cost/sales (%)	52.4	56.9	61.4	56.5	55.1	55.4	55.9
Other expenses/sales (%)	19.5	21.5	23.4	22.5	22.6	22.0	22.2
<b>EBITDA margin (%)</b>	<b>28.1</b>	<b>21.6</b>	<b>15.3</b>	<b>21.0</b>	<b>22.3</b>	<b>22.6</b>	<b>21.9</b>
<b>PAT</b>	<b>1,389</b>	<b>1,427</b>	<b>1,214</b>	<b>1,432</b>	<b>1,760</b>	<b>2,025</b>	<b>2,215</b>
<b>EPS (Rs)</b>	<b>19.7</b>	<b>20.5</b>	<b>17.5</b>	<b>21.2</b>	<b>26.1</b>	<b>30.0</b>	<b>32.9</b>
Yoy growth (%)	15.2	2.8	(15.0)	18.0	23.0	15.0	9.4

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: Financial snapshot of Just Dial, March fiscal year-ends, 2011-21E (Rs mn)

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Profit model</b>											
Total operating income	1,839	2,621	3,628	4,613	5,898	6,677	7,186	7,818	8,825	9,748	10,594
Operating expenses	(1,385)	(1,948)	(2,619)	(3,191)	(4,240)	(5,235)	(6,090)	(6,174)	(6,857)	(7,547)	(8,278)
Employee expenses	(947)	(1,308)	(1,779)	(2,286)	(3,088)	(3,799)	(4,409)	(4,416)	(4,863)	(5,398)	(5,926)
Operating and other expenses	(438)	(640)	(841)	(905)	(1,152)	(1,435)	(1,681)	(1,758)	(1,994)	(2,149)	(2,352)
EBITDA	454	672	1,008	1,422	1,658	1,442	1,096	1,644	1,969	2,201	2,317
Pre-tax profit	423	713	1,000	1,649	1,905	1,931	1,565	1,939	2,434	2,797	3,045
PAT	288	504	685	1,206	1,389	1,427	1,214	1,432	1,760	2,025	2,215
Weighted diluted number of shares (mn)	53	60	69	70	70	69	70	67	67	67	67
EPS (Rs)	5	8	10	17	20	21	17	21	26	30	33
<b>Balance sheet</b>											
Equity share capital	519	519	695	702	705	695	695	674	674	674	674
Reserves & surplus	433	542	3,556	4,643	6,029	6,699	8,356	9,118	10,667	12,448	14,396
Shareholders funds	954	1,033	4,259	5,345	6,734	7,394	9,052	9,792	11,341	13,122	15,070
Loan funds	1	—	—	—	—	—	—	—	—	—	—
Total source of funds	956	1,033	4,269	5,363	6,734	7,396	9,052	9,792	11,341	13,122	15,070
Net fixed assets	272	360	623	539	921	1,474	1,647	1,489	1,498	1,542	1,609
Investments	1,182	1,568	4,858	6,257	7,722	8,077	9,768	11,549	12,799	14,149	15,499
Cash balances	196	237	239	369	422	336	525	575	1,354	2,205	3,161
Net current assets excluding cash	(707)	(1,102)	(1,452)	(1,803)	(2,355)	(2,492)	(3,128)	(3,946)	(4,435)	(4,898)	(5,324)
Total application of funds	956	1,033	4,269	5,363	6,734	7,396	9,052	9,792	11,340	13,122	15,070
<b>Cash flow statement</b>											
Operating profit before working capital changes	357	595	846	1,379	1,630	1,738	1,615	1,796	2,149	2,420	2,624
Change in working capital/other adjustments	230	395	350	351	552	137	636	818	489	464	425
Cashflow from operating activities	586	990	1,196	1,730	2,182	1,875	2,251	2,614	2,638	2,883	3,049
Fixed assets	(152)	(179)	(407)	(89)	(623)	(864)	(574)	(207)	(397)	(439)	(477)
Free cash flow	435	811	789	1,641	1,559	1,012	1,677	2,407	2,240	2,445	2,572
Issue of share capital	8	(425)	2,541	43	170	(767)	444	(692)	—	—	—
Cash (used)/realised in financing activities	6	(427)	2,541	(121)	0	(767)	444	(692)	(212)	(244)	(267)
Cash generated/utilised	457	427	3,292	1,529	1,517	270	1,880	1,831	2,029	2,201	2,306
Cash+investments at beginning of year	922	1,378	1,805	5,097	6,626	8,143	8,414	10,294	12,124	14,153	16,354
Cash+investments at end of year	1,378	1,805	5,097	6,626	8,143	8,414	10,294	12,124	14,153	16,354	18,660

Source: Company, Kotak Institutional Equities estimates

JULY 23, 2018

UPDATE

Coverage view: **Cautious**

Price (₹): **1,396**

Target price (₹): **1,275**

BSE-30: **36,496**

**GST rate cut on paints – a big boost to earnings.** GST council's decision to cut GST rate on paints and varnishes to 18% from 28% could provide a material boost to APNT's (and other paint companies') earnings, in our view. Even as we expect companies to pass on the rate cut benefits, earnings get a boost from (a) likely higher volume growth as pricing gap versus the unorganized segment reduces, and (b) likely acceleration in pace of premiumization. Our FY2019-21E EPS forecasts go up by 7-13% and DCF-based fair value target increases to Rs1,275 (from Rs1,100). REDUCE stays.

#### Company data and valuation summary

Asian Paints

Stock data				Forecasts/Valuations				
				2018	2019E	2020E		
52-week range (Rs) (high,low)		1,409-1,082		EPS (Rs)	20.5	26.0	31.3	
Market Cap. (Rs bn)		1,339.5		EPS growth (%)	2.9	26.5	20.5	
Shareholding pattern (%)				P/E (X)	68.0	53.8	44.6	
Promoters		52.8		Sales (Rs bn)	168.2	199.1	235.2	
FIs		15.1		Net profits (Rs bn)	19.7	24.9	30.0	
MFs		2.9		EBITDA (Rs bn)	32.0	39.5	47.5	
Price performance (%)				EV/EBITDA (X)	41.6	33.7	27.9	
Absolute		1M	3M	12M	ROE (%)	24.6	27.7	29.3
Rel. to BSE-30		7.0	13.6	5.6	Div. Yield (%)	0.6	0.8	1.0

#### The event – GST council cuts GST on paints and varnishes to 18% from 28%

The GST council, in its 28<sup>th</sup> meeting, announced a cut in GST on paints and varnishes (including enamels and lacquers) to 18% from 28%. Encouraging higher tax compliance and providing a nudge to the end-consumer to shift to tax-paid organized sector products (by bridging the gap between the end-consumer price of organized and unorganized players) seem to be the key drivers of the rate cuts. Empirical evidence is not supportive of the higher compliance argument.

#### The nub – organized sector benefits, anti-profiteering guidelines notwithstanding

Anti-profiteering guidelines should mean that the organized paints sector passes on the benefits of the rate cuts to the end consumer. To that extent, we do not expect any 'direct' net retention of the rate cut benefits by the paint companies. That said, there are a few ways in which we have seen organized players in other consumption categories (that have seen rate cuts) benefit – (a) share gains from the unorganized sector, (b) acceleration in underlying overall (organized plus unorganized) volume growth for the category, and (c) accelerated premiumization within the organized segment products as companies have often chosen to pass on the aggregate rate cut benefits at a portfolio level, i.e. by reducing consumer price of the premium variants more than the reduction in consumer price of the economy variants. Essentially, while the aggregate rate cut benefits are being passed on to the consumer with such an approach, the company achieves accelerated margin-accretive premiumization.

#### The impact – definitive kicker to earnings growth for paints companies

For reasons highlighted above, we believe this is a major positive development for the paints companies. FY2010, we note, saw a similar positive exogenous indirect tax cut (sharp cut in excise as part of the post-GFC fiscal stimulus). In FY2010, APNT had grown its EBITDA and PAT by 83% and 92%, respectively, on the back of the stimulus as well as favorable RM scenario. Anti-profiteering guidelines, we believe, should ensure that the GST rate cut is not as earnings-accretive as the FY2010 stimulus. It is a meaningful kicker, nonetheless. We have accordingly taken our volume, realization and margin assumptions up. We raise our EPS forecasts for FY2019-21E by 7-13% and fair value target to Rs1,275 (from Rs1,100). REDUCE stays.

Rohit Chordia

Jaykumar Doshi

Aniket Sethi

Exhibit 1: Key changes to estimates, Asian Paints, March fiscal year-ends, 2019-21E

	Revised			Earlier			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues (Rs mn)	199,070	235,250	271,256	194,887	223,887	256,179	2.1	5.1	5.9
EBITDA (Rs mn)	39,462	47,487	55,743	37,109	42,483	49,132	6.3	11.8	13.5
EBITDA margin (%)	19.8	20.2	20.5	19.0	19.0	19.2	78 bps	121 bps	137 bps
Net income (Rs mn)	24,902	30,001	35,486	23,375	26,802	31,279	6.5	11.9	13.4
EPS (Rs/share)	26.0	31.3	37.0	24.4	27.9	32.6	6.5	11.9	13.4
<b>Other assumptions</b>									
Gross margin (%)	42.5	42.7	43.0	42.1	41.9	42.0	45 bps	88 bps	104 bps
Volume growth (%)	13.5	14.5	12.0	12.0	12.0	11.5	150 bps	250 bps	50 bps

Source: Kotak Institutional Equities estimates

Exhibit 2: Asian Paints: Consolidated profit model, balance sheet, 2015-2021E, March fiscal year-ends (Rs mn)

	IGAAP	Ind-AS					
	2015	2016	2017E	2018	2019E	2020E	2021E
<b>Profit model (Rs mn)</b>							
Net sales	141,828	142,715	150,620	168,246	199,070	235,250	271,256
EBITDA	22,354	27,692	29,864	31,976	39,462	47,487	55,743
Other income	1,697	2,134	2,624	2,206	2,589	3,032	3,763
Interest	(348)	(407)	(300)	(351)	(312)	(266)	(231)
Depreciation	(2,659)	(2,756)	(3,348)	(3,605)	(3,984)	(4,809)	(5,565)
Pretax profits	21,044	26,663	28,841	30,227	37,755	45,444	53,709
Tax	(6,495)	(8,445)	(9,433)	(10,410)	(12,837)	(15,451)	(18,261)
Minority interest	(322)	(242)	(272)	(128)	(16)	8	38
Extraordinary items	(276)	(525)	259	700	—	—	—
Net income	13,952	17,452	19,394	20,389	24,902	30,001	35,486
Recurring net income	14,227	17,976	19,136	19,689	24,902	30,001	35,486
Recurring EPS (Rs)	14.8	18.7	19.9	20.5	26.0	31.3	37.0
<b>Balance sheet (Rs mn)</b>							
Total shareholder's equity	47,424	65,248	76,039	84,102	95,819	109,276	124,366
Total borrowings	4,099	3,037	5,455	5,208	4,424	3,924	3,424
Deferred tax liability	1,799	2,950	3,430	3,975	3,975	3,975	3,975
Minority interest	2,637	3,837	3,755	3,277	3,292	3,285	3,247
Total liabilities and equity	55,959	75,072	88,679	96,562	107,511	120,460	135,012
Net fixed assets	26,102	33,240	33,678	48,101	54,057	59,166	59,796
Goodwill	2,458	1,990	1,935	3,273	3,273	3,273	3,273
Investments	15,878	27,121	26,520	21,407	21,407	21,407	21,407
Cash	2,044	4,242	8,012	4,047	4,563	9,131	19,775
Net current assets	9,477	8,480	18,534	19,735	24,211	27,484	30,761
Total assets	55,959	75,072	88,679	96,562	107,511	120,460	135,012
<b>Free cash flow (Rs mn)</b>							
Operating cash flow, excl. working capit	16,379	20,452	21,301	21,931	28,322	34,040	39,793
Working capital	(4,502)	1,978	(6,028)	(797)	(4,477)	(3,272)	(3,278)
Capital expenditure	(4,377)	(8,022)	(6,672)	(14,088)	(9,940)	(9,917)	(6,196)
Free cash flow	7,500	14,408	8,601	7,047	13,905	20,851	30,320
<b>Growth</b>							
Revenue growth	11.5	NM	5.5	11.7	18.3	18.2	15.3
EBITDA growth	11.9	23.9	7.8	7.1	23.4	20.3	17.4
EPS growth	15.8	26.4	6.5	2.9	26.5	20.5	18.3
<b>Ratios (%)</b>							
Gross margin (%)	43.8	43.6	44.7	42.4	42.5	42.7	43.0
EBITDA margin (%)	15.8	19.4	19.8	19.0	19.8	20.2	20.5
Net profit margin (%)	10.0	12.6	12.7	11.7	12.5	12.8	13.1
RoE (%)	32.4	31.9	27.1	24.6	27.7	29.3	30.4
RoCE (%)	34.7	34.2	28.5	24.4	26.4	28.6	31.6
<b>Key assumptions (%)</b>							
Volume growth (%)	7.0	12.0	9.5	6.8	13.5	14.5	12.0
Realisation growth (%)	3.8	(3.4)	(1.8)	(4.8)	2.5	5.0	4.0

Note:

(1) FY2016/17 P&amp;L and forecasts based on IND-AS and hence not strictly comparable to pre-FY2016 financials which were based on IGAAP.

Source: Company, Kotak Institutional Equities estimates

**JULY 23, 2018**
**UPDATE**

Coverage view:

 Price (₹): **550**

 Target price (₹): **640**

 BSE-30: **36,496**

**Levered up to be top-5, uncertainty on synergy gains.** UPL's acquisition of Arysta, at comparable valuations, will cement its position in the top-5 global ag-chem players. However, consequential increase in leverage, limited clarity on synergies and negligible earnings accretion without synergy benefits, keep us cautious on the stock. We retain ADD given reasonable valuation post recent correction, but cut TP to ₹640 from ₹850, reducing multiple to reflect lower LT growth potential and higher leverage.

**Company data and valuation summary**

UPL				Forecasts/Valuations		
Stock data				2018	2019E	2020E
52-week range (Rs) (high,low)	903-537			EPS (Rs)	42.9	53.1
Market Cap. (Rs bn)	279.9			EPS growth (%)	20.9	13.5
Shareholding pattern (%)				P/E (X)	12.8	10.3
Promoters	27.7			Sales (Rs bn)	173.8	211.8
FIs	48.7			Net profits (Rs bn)	21.9	27.1
MFs	9.5			EBITDA (Rs bn)	35.2	44.3
Price performance (%)				EV/EBITDA (X)	9.0	6.6
Absolute	1M	3M	12M	ROE (%)	26.4	22.4
	(15.7)	(28.2)	(35.8)	Div. Yield (%)	1.5	2.0
Rel. to BSE-30	(17.9)	(32.3)	(43.9)			

**Acquisition of Arysta LifeScience Inc. for US\$4.2 bn at 10X trailing EBITDA, subject to approvals**

UPL Corp. has signed a definitive agreement to acquire Arysta LifeScience Inc. from Platform Specialty Products Corp. for a cash consideration of ~US\$4.2 bn at 10X trailing adjusted EBITDA of US\$424 mn. UPL Corp. is currently 100% subsidiary of UPL and holds entire international business of UPL through step-down subsidiaries/JVs. The proposed transaction will be funded by (1) ~US\$1.2 bn of equity infusion by ADIA and TPG (50:50) in lieu of 22% combined stake in UPL Corp. and (2) US\$3 bn of five-year bullet loan at interest cost of 4-4.5%. UPL expects to complete the transaction by end-CY2018 or early-CY2019, subject to necessary approvals.

**Uncertainty on optimistic guidance of US\$200+ mn of synergies and ₹10-12 of EPS accretion**

We find UPL's guidance optimistic on potential synergy benefit run-rate of over US\$200 mn at EBITDA level in two years and EPS accretion of ₹10-12 in FY2020 itself, given limited details shared on the build-up of these synergies in the conference call. The company has broadly indicated that 35-40% of synergy benefit will come from COGS-savings through backward integration for Asysta's products on UPL's existing capacities without indicating any requirement of incremental capex, 25-30% will come from shared distribution infrastructure and remaining 30-40% from several business efficiencies. Our pro forma calculations suggest that UPL's guidance of EPS accretion of ₹10-12 in FY2020 is based on (1) ~US\$100 mn of cost synergies in the first year, (2) low unhedged interest cost of 4-4.5% and (3) low tax rate of ~15%.

**Nil EPS accretion without synergy, 3.3X net debt/EBITDA, ~US\$125 mn of increase in FCF**

Our pro forma financials of UPL along with Arysta, assuming no synergy benefit, implies no accretion in UPL's earnings over the next few years. On the other hand, UPL's net debt/EBITDA will jump to 3.3X by end-FY2019 from current 1X and recurring FCF will increase by a modest ~US\$125 mn only. We note that incremental earnings contribution from Arysta post interest cost on acquisition debt is being offset by 22% minority dilution in UPL's international business.

**Reduce TP to ₹640 on lower multiple, due to lower long-term growth and higher leverage**

We retain our estimates pending approvals for the transaction, but cut our target price to ₹640 from ₹850 earlier, valuing the company at 12X FY2020E EPS instead of 16X earlier. We have reduced our target multiple in line with the top global ag-chem players, noting (1) lower long-term growth potential from the high base of revenues post the transaction—UPL, along with Arysta, will become the fifth-largest global ag-chem company with nearly 9% market share and (2) significant increase in leverage with limited increase in FCF.

Tarun Lakhotia

Akshay Bhor

Exhibit 1: UPL's acquisition of Arysta LifeScience to result in negligible earnings accretion, modest increase in FCF and sharp jump in leverage, assuming no synergy benefit  
Pro forma financials of UPL + Arysta, March fiscal year-ends, 2018-22E

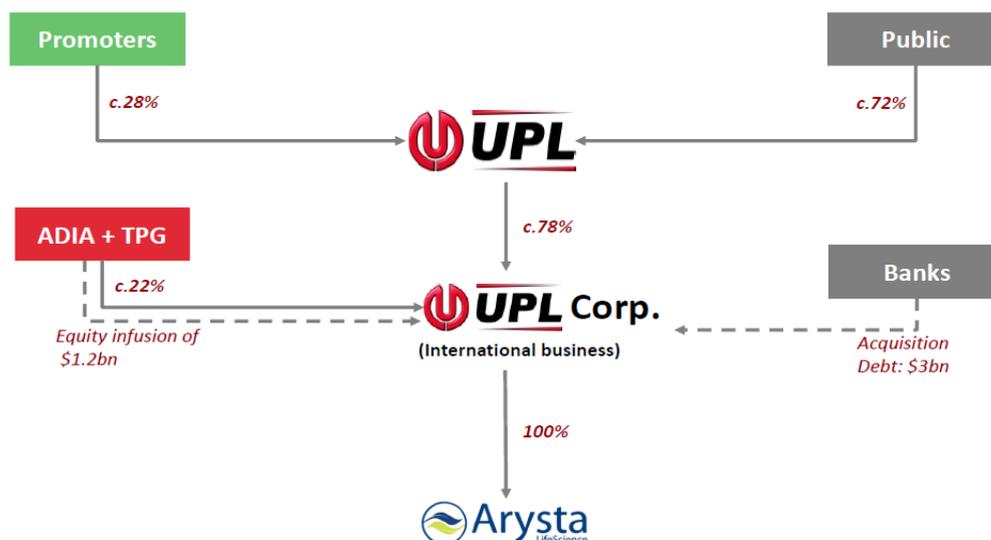
	2018	2019E	2020E	2021E	2022E
<b>UPL Corp. (US\$ mn)</b>					
Sales	2,140	2,300	2,461	2,609	2,766
EBITDA	393	430	471	504	537
EBITDA margin (%)	18	19	19	19	19
Adjusted PAT	212	232	271	303	339
<b>Arysta (US\$ mn)</b>					
Sales	1,956	2,015	2,075	2,137	2,201
EBITDA	424	443	457	470	484
EBITDA margin (%)	22	22	22	22	22
Adjusted PAT			205	211	217
<b>UPL Corp. + Arysta (US\$ mn)</b>					
Sales		4,315	4,537	4,746	4,967
EBITDA		873	928	974	1,021
EBITDA margin (%)		20	20	21	21
Adjusted PAT			348	395	444
<b>UPL Corp. + Arysta (Rs mn)</b>					
Sales		286,694	306,217	325,134	345,217
EBITDA		58,029	62,633	66,704	70,950
EBITDA margin (%)		20	20	21	21
Adjusted PAT			23,510	27,043	30,880
<b>UPL's India business (Rs mn)</b>					
Sales	35,756	39,692	45,613	51,605	56,438
EBITDA	9,824	10,851	12,486	14,044	15,312
EBITDA margin (%)	27	27	27	27	27
Adjusted PAT	8,222	8,484	8,820	9,080	9,615
<b>UPL Ltd + Arysta (Rs mn)</b>					
Sales		326,386	351,830	376,739	401,655
EBITDA		68,880	75,118	80,748	86,262
EBITDA margin (%)		21	21	21	21
Adjusted PAT			27,039	29,949	33,432
Adjusted EPS (Rs)			53.0	58.7	65.6
Net debt		227,351	201,273	171,239	135,033
Net debt/EBITDA (x)		3.3	2.7	2.1	1.6
FCF			28,498	31,745	37,228
<b>UPL Ltd (Rs mn)</b>					
Sales	173,780	192,530	211,759	230,329	248,651
EBITDA	35,160	39,432	44,303	48,538	52,601
EBITDA margin (%)	20	20	21	21	21
Adjusted PAT	20,220	23,868	27,099	29,869	33,143
Adjusted EPS (Rs)	42.9	46.8	53.1	58.6	65.0
Net debt	36,130	28,031	10,947	(8,756)	(33,373)
Net debt/EBITDA (x)	1.0	0.7	0.2	(0.2)	(0.6)
FCF	2,784	10,108	20,097	23,319	28,705

Source: Company, Kotak Institutional Equities estimates

### Details of UPL Corp. – international business of UPL

UPL's consolidated entity includes (1) international business under wholly-owned subsidiary, UPL Corp. and (2) domestic business under UPL Ltd and a few other relatively small subsidiaries in India. UPL Corp. holds the entire international business through several step-down subsidiaries/JVs. UPL Corp. accounted for nearly 80% of UPL's consolidated revenues, ~72% of EBITDA and ~62% of adjusted PAT in FY2018. UPL India exports a portion of manufactured formulations and products to UPL Corp. on an arms-length basis.

Exhibit 2: ADIA and TPG to take 22% stake in UPL Corp., UPL's international business entity, for an equity infusion of US\$1.2 bn to facilitate acquisition of Arysta for cash consideration of US\$4.2 bn  
Structure of proposed transaction to acquire Arysta – excerpt from UPL's presentation



Source: Company, Kotak Institutional Equities

Exhibit 3: Arysta has reported slower revenues growth and steady margins over the past three years  
Comparative financial performance of Arysta and UPL (US\$ mn)

	CY2015	CY2016	CY2017
<b>Arysta</b>			
Net sales	1,741	1,818	1,897
Cost of sales	1,138	1,086	1,122
Gross profit	603	732	775
SG&A expenses and overheads	223	334	356
Reported EBITDA	358	368	388
Corporate costs	24	33	32
Adjusted EBITDA	382	401	420
EBITDA margins (%)	21.9	22.1	22.1
Depreciation	171	186	199
Adjusted EBIT	211	216	221
Capital expenditure	57	59	69
Net working capital	382	501	718
<b>UPL Ltd</b>			
	FY2016	FY2017	FY2018
Net sales	2,193	2,491	2,714
Cost of sales	1,037	1,167	1,257
Gross profit	1,157	1,324	1,456
SG&A expenses and overheads	790	878	913
Adjusted EBITDA	366	446	543
EBITDA margins (%)	16.7	17.9	20.0
Depreciation	103	101	103
Adjusted EBIT	263	345	440
Capital expenditure	155	188	219
Net working capital	595	621	608

Source: Company, Kotak Institutional Equities

**Arysta: well-diversified presence as UPL, but with an asset-light business model**

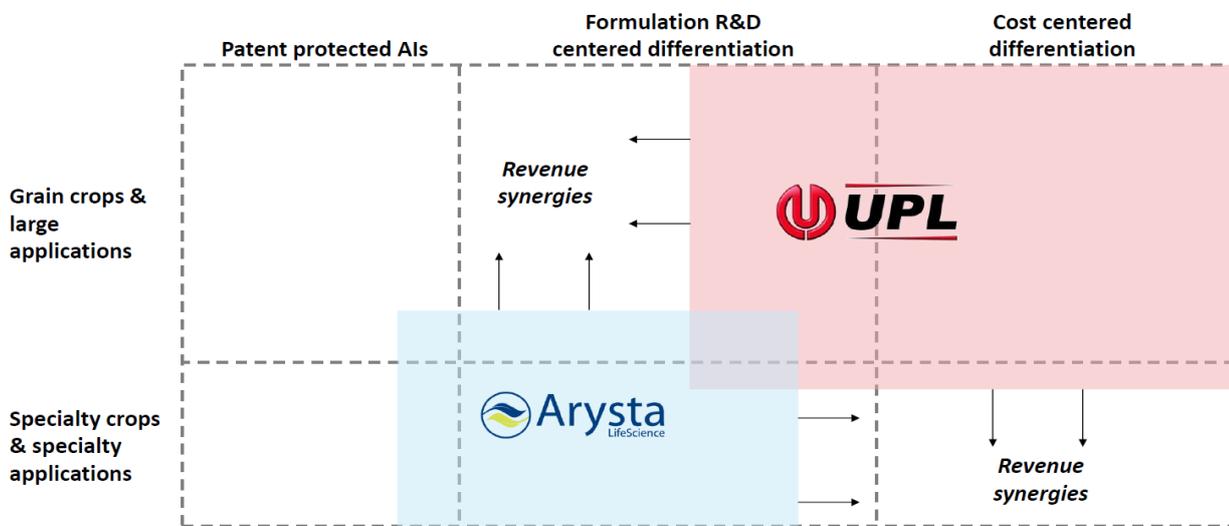
Arysta LifeScience Inc., a subsidiary of Platform Specialty Products Corp., is among the key global players in the post-patent crop protection industry with trailing 12-months segment revenues of US\$2 bn and EBITDA of US\$424 mn, a tad lower than UPL on both counts.

Platform established its agri-business division through acquisition of three companies (Arysta, CAS and Agrifar) with cumulative revenues of US\$2.1 bn for a total consideration of US\$4.9 bn during October 2014 to February 2015 period. Arysta’s overall revenues and EBITDA has increased by 4-5% annually during CY2015-17 period amid a weak global ag-chem environment.

Arysta has a diverse product portfolio across crop protection, bio-solutions and seed treatment segments, with a distribution reach spread across the world, similar to UPL. Arysta caters to specialty crops and applications with a focus on late-stage R&D solutions, while UPL is largely in generics catering to grains and bulk applications.

**Operational comparison of Arysta and UPL**

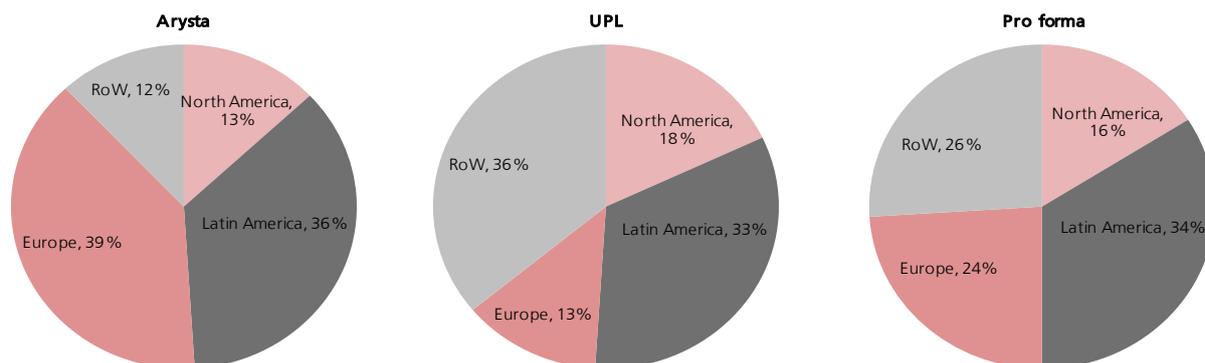
Exhibit 4: Arysta caters to specialty crops and applications through late-stage R&D and differential formulations, while UPL is present in the generics segment largely for grain crops and bulk applications  
Positioning of Arysta and UPL – excerpt from UPL’s presentation



Source: Company, Kotak Institutional Equities

- **Geographical presence.** Arysta’s distribution presence is well-diversified across the world in a way similar to UPL. However, Arysta has a relatively stronger presence in Africa, Middle-east, Eastern Europe and Russia, which will help in expanding the target market for UPL’s product portfolio. Similarly, UPL’s strong presence in India will open up distribution opportunity for Arysta’s products.

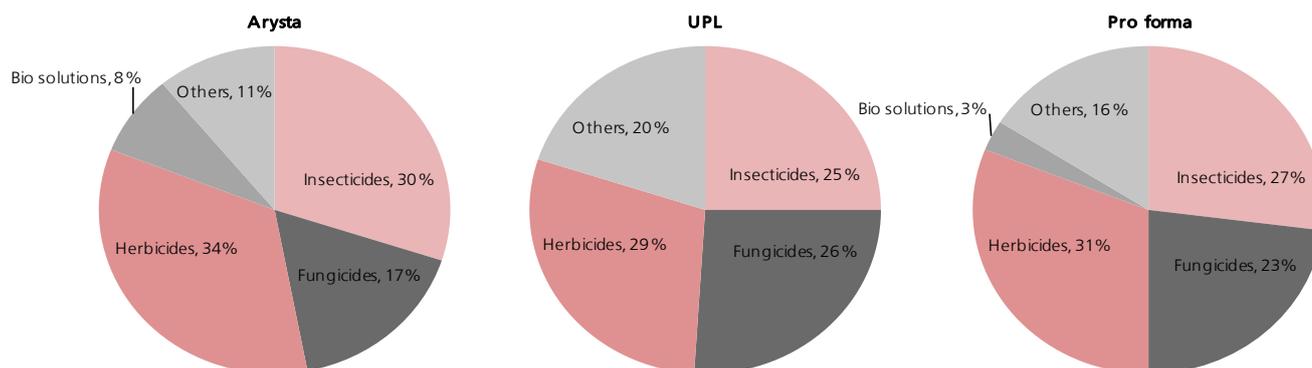
**Exhibit 5: Arysta has a widespread presence across the world, similar to UPL**  
 Geography-wise break-up of revenues for Arysta and UPL



Source: Company, Kotak Institutional Equities

- ▶ **Product portfolio.** Arysta's product portfolio is well-diversified across pesticides, similar to UPL. Besides, Arysta has a strong presence in bio-solutions and seed treatment segments, while UPL has acquired seeds business through recently amalgamated Advanta. Both the companies have focus in fruits and vegetables, cotton and sugarcane; UPL is strong in rice, soybean and corn as well, while Arysta also caters to sunflower, cocoa and cereals. The combined entity will have around 13,000+ product registrations, including Arysta's 6,850+ product registrations and UPL's 6,150+ registrations.

**Exhibit 6: Arysta has a well-diversified product portfolio in crop protection business like UPL, besides catering to bio-solutions segment**  
 Product-wise break-up of revenues for Arysta and UPL

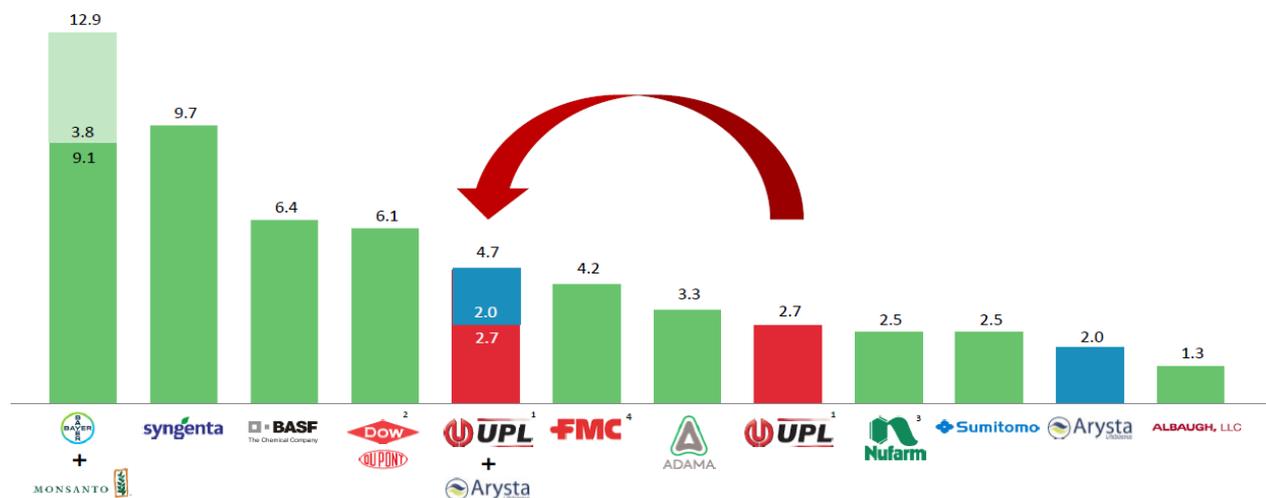


Source: Company, Kotak Institutional Equities

- ▶ **Manufacturing capabilities.** Arysta has established an asset-light business model by outsourcing manufacturing of active ingredients, while UPL has vertically integrated in-house manufacturing capabilities for active ingredients. Arysta has 13 formulations facilities, while UPL has 13 active ingredients manufacturing facilities, 14 formulations facilities and 7 seeds units.

Exhibit 7: UPL + Arysta will become fifth largest global ag-chem player  
Global ag-chem players – excerpt from UPL’s presentation

Agrochemical Revenue (US\$bn)



Source: Company, Kotak Institutional Equities

Exhibit 8: UPL is trading at a modest discount to global ag-chem players  
Peer valuation of UPL, March fiscal year-ends, 2018-20E

	Price (LC)	Market cap. (US\$ mn)	P/E (X)			EV/EBITDA (X)		
			2018	2019E	2020E	2018	2019E	2020E
<b>Global companies</b>								
Dow DuPont	66	152,754	15.7	13.5	12.0	9.2	8.1	7.3
Bayer AG	92	100,544	14.6	11.6	10.7	10.8	8.7	8.3
BASF SE	83	88,821	12.5	11.6	10.9	7.3	6.8	6.3
FMC Corp.	87	11,656	14.1	12.8	11.5	10.8	9.6	8.8
UPL	550	4,071	13.8	11.9	10.4	9.1	7.9	6.8
Nufarm Ltd	8	2,042	20.2	14.3	12.8	9.6	7.3	6.7

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 9: Financial summary for UPL, consolidated, March fiscal year-ends, 2016-22E (Rs mn)

	2016	2017	2018	2019E	2020E	2021E	2022E
<b>Profit model (Rs mn)</b>							
Sales	140,480	163,120	173,780	192,530	211,759	230,329	248,651
<b>EBITDA</b>	<b>23,950</b>	<b>29,850</b>	<b>35,160</b>	<b>39,432</b>	<b>44,303</b>	<b>48,538</b>	<b>52,601</b>
Other income	3,160	4,440	4,140	3,970	3,669	3,665	3,904
Interest	(7,040)	(7,350)	(6,470)	(5,929)	(4,642)	(3,612)	(2,582)
Depreciation	(6,760)	(6,720)	(6,750)	(8,152)	(9,637)	(11,060)	(12,359)
Extraordinary items	(1,290)	(810)	(1,670)	—	—	—	—
<b>Profit before tax</b>	<b>12,020</b>	<b>19,410</b>	<b>24,410</b>	<b>29,321</b>	<b>33,694</b>	<b>37,532</b>	<b>41,565</b>
Tax expense	(1,650)	(1,890)	(3,180)	(4,563)	(5,705)	(6,773)	(7,532)
Minority interest	(120)	(60)	(90)	(90)	(90)	(90)	(90)
Income from associates	(850)	(190)	(920)	(800)	(800)	(800)	(800)
<b>Adjusted PAT</b>	<b>10,690</b>	<b>18,080</b>	<b>21,890</b>	<b>23,868</b>	<b>27,099</b>	<b>29,869</b>	<b>33,143</b>
<b>Adjusted EPS (Rs)</b>	<b>24.9</b>	<b>35.5</b>	<b>42.9</b>	<b>46.8</b>	<b>53.1</b>	<b>58.6</b>	<b>65.0</b>
<b>Balance sheet (Rs mn)</b>							
Equity	58,887	73,974	91,690	110,378	131,596	154,983	180,934
Total borrowings	47,710	60,580	65,070	50,070	40,070	30,070	20,070
Deferred tax liability/minority interest	(4,507)	(6,164)	(5,860)	(5,770)	(5,680)	(5,590)	(5,500)
Current liabilities and provisions	60,690	66,480	72,030	74,520	81,852	88,932	95,918
<b>Total liabilities</b>	<b>162,780</b>	<b>194,870</b>	<b>222,930</b>	<b>229,198</b>	<b>247,838</b>	<b>268,396</b>	<b>291,422</b>
Net fixed assets	26,000	31,160	39,640	43,488	45,851	45,791	43,432
Goodwill/intangible assets	17,460	17,470	17,920	17,920	17,920	17,920	17,920
Investments	3,350	3,780	10,340	10,340	10,340	10,340	10,340
Cash	11,890	28,950	28,940	22,039	29,123	38,826	53,443
Other current assets and miscellaneous	104,080	113,510	126,090	135,412	144,604	155,518	166,287
<b>Total assets</b>	<b>162,780</b>	<b>194,870</b>	<b>222,930</b>	<b>229,198</b>	<b>247,838</b>	<b>268,396</b>	<b>291,422</b>
<b>Free cash flow (Rs mn)</b>							
Operating cash flow	16,880	19,010	15,494	28,940	33,957	38,153	42,488
Working capital changes	(8,780)	(270)	(2,300)	(6,832)	(1,860)	(3,834)	(3,783)
Capital expenditure	(10,140)	(12,590)	(10,410)	(12,000)	(12,000)	(11,000)	(10,000)
<b>Free cash flow</b>	<b>(2,040)</b>	<b>6,150</b>	<b>2,784</b>	<b>10,108</b>	<b>20,097</b>	<b>23,319</b>	<b>28,705</b>
<b>Ratios</b>							
EBITDA margin (%)	17.0	18.3	20.2	20.5	20.9	21.1	21.2
Net debt/equity (X)	0.61	0.43	0.39	0.25	0.08	(0.06)	(0.18)
Book value (Rs/share)	137	146	181	218	260	306	357
ROAE (%)	13.5	21.1	22.0	20.4	20.0	18.9	17.9
ROACE (%)	17.0	22.2	22.0	20.4	20.9	21.6	22.6

Source: Company, Kotak Institutional Equities estimates

## June 2018: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
<b>23-Jul</b>	<b>24-Jul</b>	<b>25-Jul</b>	<b>26-Jul</b>	<b>27-Jul</b>	<b>28-Jul</b>	<b>29-Jul</b>
ACC	Asian Paints	Ambuja Cements	Bharat Financial Inclusion	Bank of Baroda	J K Cement	
Hindustan Zinc	GlaxoSmithKline Pharmaceuticals	Bharti Infratel	Bharti Airtel	Coromandel International	NTPC	
Indiabulls Ventures	Hexaware Technologies	BHEL	Biocon	Equitas Holdings		
L&T Infotech	ICICI Prudential Life	Canara Bank	CESC	HCL Technologies		
United Spirits	Info Edge	Crompton Greaves Consumer	Cholamandalam	ICICI Bank		
	PFC	GRUH Finance	Colgate-Palmolive (India)	JSW Energy		
	TeamLease Services	Hero Motocorp	Container Corporation	Jubilant Life Science		
		IRB Infrastructure	Dr Reddy's Laboratories	Mahindra & Mahindra Financial		
		JSW Steel	ITC	Prestige Estates Projects		
		Jubilant Foodworks	J&K Bank	Reliance Industries		
		Jyothy Laboratories	Maruti Suzuki			
		Karur Vysya Bank	Petronet LNG			
		L&T	SBI Life Insurance			
		PVR	Schaeffler India			
		Reliance Nippon Life Asset Management	Shriram Transport			
		Rural Electrification Corp.	Tata Power			
		Shriram City Union Finance	WABCO India			
		SIS	Yes Bank			
		SKF				
<b>30-Jul</b>	<b>31-Jul</b>	<b>1-Aug</b>	<b>2-Aug</b>	<b>3-Aug</b>	<b>4-Aug</b>	<b>5-Aug</b>
Avenue Supermarts	Ajanta Pharma	Aditya Birla Fashion	Godrej Properties	Berger Paints		PI Industries
Axis Bank	Astral Poly Technik	Apollo Tyres	Indiabulls Housing	Carborundum Universal		
Central Bank of India	Bharat Electronics	Emami	JK Lakshmi Cement	CG Power and Industrial		
Century Textile	Castrol India	Exide Industries	Mahindra Logistics	SAIL		
Escorts	Dabur India	Orient Cement	Marico	Titan Company		
Godrej Consumer Products	Jagran Prakashan	Pdillite Industries	The Ramco Cement			
GSPL	Mahanagar Gas	Tata Global Beverages	Torrent Pharmaceuticals			
HDFC	Power Grid	Torrent Power				
IDFC Bank	Supreme Industries					
NHPC	Tata Motors					
Shree Cement	UPL					
Tech Mahindra	Vedanta					
<b>6-Aug</b>	<b>7-Aug</b>	<b>8-Aug</b>	<b>9-Aug</b>	<b>10-Aug</b>	<b>11-Aug</b>	<b>12-Aug</b>
Adani Port and SEZ	AU Small Finance	Cipla	Coffee Day Enterprises	Apollo Hospitals	Amara Raja Batteries	
Britannia Industries	Mahindra & Mahindra	PNB Housing Finance	Gujarat Pipavav Port	Dr Lal Pathlabs	NBCC	
Ujivan Financial Services	Motherson Sumi Systems	Thermax	HCG	Endurance Technologies		
	Mphasis			Timken		
	TVS Motor					
<b>13-Aug</b>	<b>14-Aug</b>	<b>15-Aug</b>	<b>16-Aug</b>	<b>17-Aug</b>	<b>18-Aug</b>	<b>19-Aug</b>
Godrej Industries	Grasim Industries					

Source: NSE, Kotak Institutional Equities

## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (Rs bn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		20-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		
<b>Automobiles</b>																													
Amara Raja Batteries	REDUCE	763	780	2.3	130	1.9	171	28	33	39	(1.6)	21.2	15.5	27.6	22.8	19.7	14.7	12.1	10.4	4.4	3.8	3.3	17.0	18.0	18.0	0.5	0.7	0.8	6.0
Apollo Tyres	BUY	280	340	21.3	160	2.3	541	13	20	25	(38.0)	48.3	25.0	20.9	14.1	11.3	11.6	8.3	6.9	1.5	1.5	1.3	8.5	11.1	12.5	1.0	1.1	1.1	9.8
Ashok Leyland	BUY	107	160	48.9	315	4.6	2,926	5.4	6.2	8.9	8.0	15.3	43.2	20.0	17.3	12.1	11.5	8.7	6.2	4.4	3.8	3.1	23.7	23.4	28.4	2.3	1.7	2.5	43.8
Bajaj Auto	SELL	2,840	2,800	(1.4)	822	11.9	289	140	160	176	6.0	14.0	10.0	20.2	17.8	16.1	13.9	12.5	11.0	4.3	3.8	3.4	22.9	22.8	22.3	2.1	2.3	2.5	22.8
Balkrishna Industries	REDUCE	1,200	1,260	5.0	232	3.4	193	37	50	63	4.8	34.8	25.0	32.1	23.8	19.0	17.0	13.1	10.4	5.7	4.7	3.9	19.0	21.6	22.2	0.4	0.5	0.5	8.3
Bharat Forge	SELL	587	600	2.2	273	4.0	466	16	23	27	10.1	43.0	16.8	36.3	25.4	21.7	17.5	14.4	12.4	5.9	5.1	4.3	17.3	21.5	21.4	0.8	0.9	0.9	10.5
CEAT	ADD	1,356	1,600	18.0	55	0.8	40	65	101	113	(29.5)	55.4	12.6	21.0	13.5	12.0	10.2	8.5	7.2	2.1	1.8	1.6	10.4	14.6	14.4	0.8	0.7	0.8	12.7
Eicher Motors	SELL	27,048	26,000	(3.9)	738	10.7	27	792	995	1,200	29.3	25.5	20.6	34.1	27.2	22.5	24.6	19.7	16.0	13.7	9.9	7.4	46.4	42.3	37.5	0.1	0.1	0.1	17.3
Escorts	BUY	848	1,170	38.0	72	1.5	89	39	56	69	71.3	43.6	23.6	21.9	15.2	12.3	12.4	9.2	7.2	3.0	2.6	2.2	13.5	16.8	17.7	0.5	1.0	1.2	15.8
Exide Industries	SELL	266	225	(15.4)	226	3.3	850	8	10	11	0.6	23.7	10.9	32.4	26.2	23.6	18.1	15.2	13.5	4.2	3.8	3.5	13.5	15.2	15.3	0.9	1.1	1.3	8.2
Hero Motocorp	SELL	3,377	3,500	3.6	674	9.8	200	185	206	227	9.5	11.1	10.1	18.2	16.4	14.9	11.3	10.2	9.0	5.7	5.0	4.4	33.8	32.6	31.6	2.5	3.0	3.4	18.3
Mahindra CIE Automotive	ADD	246	290	18.1	93	1.3	378	10	14	16	107.0	45.0	12.7	25.6	17.6	15.7	12.6	8.9	7.8	2.5	2.2	1.9	10.4	13.2	13.1	—	—	—	3.1
Mahindra & Mahindra	BUY	910	1,015	11.6	1,131	16.4	1,138	38	44	50	22.0	15.6	14.8	24.0	20.7	18.1	15.8	13.4	11.6	3.4	3.0	2.7	15.1	15.4	15.7	0.8	1.0	1.1	32.8
Maruti Suzuki	ADD	9,399	9,700	3.2	2,839	41.2	302	256	330	395	5.1	29.2	19.6	36.8	28.5	23.8	20.6	16.1	13.0	6.8	5.8	5.0	19.8	22.0	22.6	0.7	0.9	1.1	62.0
Motherson Sumi Systems	SELL	298	265	(11.2)	628	9.1	2,105	8	11	14	6.1	37.7	21.7	36.5	26.5	21.8	13.7	10.6	8.8	6.4	5.4	4.6	19.0	22.1	22.9	0.8	0.9	1.1	13.4
MRF	REDUCE	76,651	76,000	(0.8)	325	4.7	4	2,669	3,896	4,447	(23.9)	46.0	14.1	28.7	19.7	17.2	13.1	9.6	8.3	3.3	2.9	2.5	12.3	15.7	15.4	0.1	0.1	0.1	7.2
Schaeffler India	BUY	5,128	6,000	17.0	85	1.2	17	143	171	207	22.0	19.4	21.1	35.8	30.0	24.8	21.0	18.0	14.6	5.0	4.5	3.9	15.0	15.8	16.9	0.3	0.7	0.8	0.7
SKF	REDUCE	1,655	1,700	2.7	85	1.2	51	58	70	81	24.6	20.8	16.4	28.7	23.8	20.4	17.7	15.2	12.7	4.6	4.0	3.5	16.1	17.0	17.2	0.7	0.9	1.0	0.2
Tata Motors	BUY	253	445	75.6	861	11.6	3,396	20	23	38	(28.0)	15.9	63.8	12.7	11.0	6.7	3.8	3.5	2.9	0.9	0.8	0.7	8.8	7.9	11.7	—	—	—	58.4
Timken	SELL	717	660	(7.9)	49	0.7	68	14	19	25	(5.3)	42.3	27.5	53.0	37.2	29.2	29.5	20.6	16.4	6.9	5.9	5.0	13.9	17.1	18.5	0.1	0.1	0.1	0.4
TVS Motor	SELL	565	410	(27.4)	268	3.9	475	14	18	22	18.7	26.8	21.8	40.5	30.2	26.2	24.7	18.6	15.5	9.3	7.9	6.6	25.1	26.7	27.3	0.6	0.9	1.1	10.9
WABCO India	SELL	6,694	6,350	(5.1)	127	1.8	19	144	169	222	27.8	17.8	31.3	46.5	39.5	30.1	30.2	25.7	19.4	8.3	7.0	5.7	19.5	19.2	20.9	0.1	0.2	0.2	0.5
<b>Automobiles</b>	<b>Neutral</b>				<b>10,189</b>	<b>147</b>					<b>(0.9)</b>	<b>23.1</b>	<b>25.4</b>	<b>26.1</b>	<b>21.2</b>	<b>16.9</b>	<b>11.6</b>	<b>9.6</b>	<b>8.0</b>	<b>3.7</b>	<b>3.3</b>	<b>2.9</b>	<b>14.2</b>	<b>15.5</b>	<b>16.9</b>	<b>0.8</b>	<b>1.0</b>	<b>1.1</b>	<b>362.9</b>
<b>Banks</b>																													
Axis Bank	ADD	534	600	12.4	1,371	19.9	2,567	1	20	39	(92.6)	1,735.5	100.1	496.9	27.1	13.5	—	—	—	2.6	2.3	1.9	0.5	7.7	13.8	0.9	0.6	1.1	59.9
Bank of Baroda	NR	120	—	—	318	4.6	2,652	(9)	20	23	(253.2)	323.2	10.5	(13.1)	5.9	5.3	—	—	—	1.4	1.1	0.8	(5.8)	12.6	12.3	—	—	—	28.5
Bank of India	ADD	83	120	44.1	145	2.1	1,744	(35)	(6)	16	(134.7)	82.2	366.7	(2.4)	(13.5)	5.1	—	—	—	1.2	1.6	1.0	(21.3)	(3.6)	9.5	—	(1.5)	3.9	11.3
Canara Bank	ADD	237	300	26.8	174	2.5	733	(58)	(2)	60	(406.6)	97.3	4,031.4	(4.1)	(154.0)	3.9	—	—	—	1.5	1.5	0.9	(11.9)	(0.3)	11.8	—	—	—	27.9
City Union Bank	ADD	170	190	12.1	124	1.8	665	9	10	12	6.4	16.2	13.0	19.0	16.4	14.5	—	—	—	2.9	2.5	2.2	15.3	15.5	15.5	0.2	1.1	1.2	2.0
DCB Bank	ADD	161	205	27.7	50	0.7	308	8	10	12	13.8	28.2	21.0	20.2	15.7	13.0	—	—	—	2.0	1.8	1.7	10.9	11.7	12.7	—	0.6	0.7	5.0
Equitas Holdings	BUY	135	190	40.7	46	0.7	340	0.9	4.4	8.3	(80.4)	374.7	88.2	146.0	30.8	16.3	—	—	—	2.1	2.0	1.8	1.4	6.4	11.0	—	—	—	4.4
Federal Bank	BUY	86	130	51.6	170	2.5	1,972	4.4	5.7	7.9	(9.3)	29.5	39.5	19.6	15.2	10.9	—	—	—	1.5	1.4	1.3	8.2	8.8	11.4	1.2	1.5	2.1	19.8
HDFC Bank	REDUCE	2,189	2,000	(8.6)	5,701	82.7	2,595	67	77	93	18.7	14.1	21.1	32.5	28.5	23.5	—	—	—	5.4	4.2	3.7	17.9	16.5	16.2	0.6	0.7	0.8	80.7
ICICI Bank	BUY	266	400	50.4	1,711	24.8	6,429	11	15	25	(31.1)	46.5	64.1	25.2	17.2	10.5	—	—	—	2.0	1.8	1.5	6.6	9.1	13.7	0.6	1.2	1.9	85.6
IDFC Bank	NR	37	—	—	125	1.8	3,404	2.5	1.6	3.3	(16.0)	(38.5)	109.8	14.6	23.7	11.3	—	—	—	0.8	0.8	0.8	5.7	3.4	6.9	1.4	0.8	1.8	9.2
IndusInd Bank	REDUCE	1,903	1,900	(0.1)	1,142	16.6	600	60	71	87	25.3	17.5	23.6	31.7	26.9	21.8	—	—	—	5.0	4.0	3.5	17.1	17.6	16.8	—	0.4	0.5	31.8
J&K Bank	BUY	47	105	122.0	26	0.4	557	4	8	11	111.6	116.7	44.4	13.0	6.0	4.2	—	—	—	0.6	0.5	0.4	3.4	6.9	9.4	—	3.3	4.8	0.3
Karur Vysya Bank	ADD	98	120	22.8	71	1.0	727	5	4	14	(52.2)	(22.8)	274.8	20.5	26.6	7.1	—	—	—	1.4	1.3	1.1	6.1	4.2	14.7	0.6	0.9	3.5	1.7
Punjab National Bank	ADD	76	90	19.1	209	3.0	2,761	(44)	(39)	9	(814.7)	13.4	124.1	(1.7)	(2.0)	8.1	—	—	—	4.5	(3.4)	(12.9)	(32.4)	(31.3)	8.2	—	(11.1)	2.7	29.7
RBL Bank	SELL	577	475	(17.6)	243	3.5	420	15	22	29	27.3	48.1	31.5	38.1	25.7	19.6	—	—	—	3.7	3.4	3.0	11.5	13.3	15.5	0.4	0.6	0.8	12.3
State Bank of India	BUY	262	370	41.5	2,334	33.8	8,925	(7)	18	37	(155.8)	NM	106.1	NM	14.5	7.0	—	—	—	2.1	1.6	1.2	(3.2)	7.1	13.2	—	0.1	0.2	73.6
Ujivan Financial Services	REDUCE	380	420	10.4	46	0.7	121	1	22	29	(96.5)	3,564.0	30.0	630.2	17.2	13.2	—	—	—	2.7	2.3	2.0	0.4	14.2	16.1	0.0	0.6	0.8	6.9
Union Bank	ADD	77	130	69.4	90	1.3	1,169	(45)	1	24	(655.5)	101.4	3,896.2	(1.7)	125.4	3.1													

## 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)	
		20-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
<b>NBFCs</b>																													
Bajaj Finance	SELL	2,721	2,000	(26.5)	1,573	22.8	575	43	68	90	29.2	56.6	31.9	62.7	40.0	30.4	—	—	—	9.9	8.1	6.6	19.7	22.4	24.0	0.1	0.2	0.3	45.8
Bajaj Finserv	REDUCE	6,664	6,100	(8.5)	1,060	15.4	159	176	245	307	10.3	39.7	25.2	38.0	27.2	21.7	—	—	—	5.3	4.3	3.6	15.6	17.5	18.1	0.2	0.2	0.2	14.7
Bharat Financial Inclusion	NA	1,173	—	—	164	2.4	139	33	43	54	55.5	31.1	27.2	35.9	27.4	21.5	—	—	—	5.4	4.4	3.6	16.7	17.9	18.5	—	—	—	10.5
Cholamandalam	REDUCE	1,520	1,510	(0.7)	238	3.4	156	62	76	92	35.5	22.3	20.8	24.4	20.0	16.5	—	—	—	4.9	4.0	3.4	20.6	21.0	21.2	0.4	0.6	0.7	7.7
HDFC	BUY	1,975	2,075	5.1	3,339	48.4	1,676	75	58	67	52.1	(23.1)	15.2	26.2	34.1	29.6	—	—	—	5.2	4.5	4.1	23.9	14.3	14.5	1.0	1.0	1.2	71.8
HDFC Standard Life Insurance	SELL	490	405	(17.3)	985	14.3	2,007	6	6	7	24.4	14.8	10.9	88.5	77.1	69.5	—	—	—	22.9	20.4	18.3	27.3	28.0	27.7	0.3	0.3	0.4	13.2
ICICI Lombard	SELL	779	620	(20.4)	353	5.1	454	19	26	32	22.0	37.1	21.5	41.0	29.9	24.6	—	—	—	7.8	6.5	5.5	20.8	23.8	24.2	0.5	0.8	0.9	2.1
ICICI Prudential Life	BUY	356	500	40.5	511	7.4	1,436	11	12	13	(3.7)	3.8	7.6	31.5	30.4	28.2	—	—	—	7.8	6.4	5.5	25.0	23.2	20.9	1.6	0.6	0.6	12.3
IFL Holdings	SELL	630	625	(0.8)	201	2.9	319	29	34	41	32.4	17.3	21.4	22.1	18.8	15.5	—	—	—	4.0	3.4	2.9	19.0	19.3	20.0	1.0	1.1	1.4	1.4
L&T Finance Holdings	REDUCE	156	185	18.9	311	4.5	1,996	7	10	12	23.7	34.6	24.1	21.2	15.8	12.7	—	—	—	2.5	2.2	1.9	14.2	14.7	16.1	1.1	1.3	1.3	9.8
LIC Housing Finance	BUY	516	610	18.2	261	3.8	505	44	50	58	3.2	13.8	17.5	11.8	10.4	8.8	—	—	—	2.0	1.6	1.4	14.5	14.3	14.4	1.3	1.5	1.8	13.1
Magma Fincorp	BUY	136	200	47.4	37	0.5	237	10	12	15	1,014.5	24.6	25.8	14.0	11.2	8.9	—	—	—	1.4	1.3	1.2	10.2	12.9	14.1	0.6	1.3	1.7	1.7
Mahindra & Mahindra Financial	REDUCE	469	475	1.3	290	4.2	614	15	22	26	105.0	53.5	16.6	32.3	21.0	18.1	—	—	—	3.3	3.0	2.7	11.3	14.0	14.8	0.9	1.3	1.5	10.9
Max Financial Services	BUY	457	650	42.3	123	1.8	268	5	6	6	(20.4)	36.9	1.8	99.6	72.8	71.5	—	—	—	—	—	—	6.5	8.3	8.0	—	0.5	0.5	5.0
Muthoot Finance	ADD	391	480	22.9	156	2.3	400	43	38	40	45.6	(10.8)	4.0	9.1	10.2	9.8	—	—	—	2.0	1.8	1.6	24.1	18.4	16.9	2.6	2.3	2.4	4.4
PNB Housing Finance	REDUCE	1,256	1,375	9.5	210	3.0	167	50	61	77	57.8	23.0	25.3	25.2	20.5	16.4	—	—	—	3.3	3.0	2.6	14.0	15.2	16.8	0.7	0.3	0.3	10.1
SBI Life Insurance	ADD	633	815	28.7	633	9.2	1,000	12	15	18	20.8	26.0	22.9	54.9	43.6	35.4	—	—	—	9.8	8.3	6.9	19.4	20.6	21.3	0.3	0.4	0.5	4.9
Shriram City Union Finance	ADD	1,910	2,325	21.8	126	1.8	66	101	140	174	19.6	39.4	23.8	19.0	13.6	11.0	—	—	—	2.4	2.1	1.8	12.5	15.5	16.7	0.9	0.9	1.1	0.7
Shriram Transport	ADD	1,173	1,400	19.4	266	3.9	227	69	105	125	24.7	52.1	18.7	17.0	11.2	9.4	—	—	—	2.2	1.9	1.7	13.1	17.6	18.0	0.9	1.3	1.5	27.3
<b>NBFCs</b>	<b>Neutral</b>				<b>10,835</b>		<b>157</b>				<b>36.9</b>	<b>10.1</b>	<b>19.5</b>	<b>31.7</b>	<b>28.7</b>	<b>24.0</b>				<b>5.3</b>	<b>4.5</b>	<b>4.0</b>	<b>16.8</b>	<b>15.8</b>	<b>16.5</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>	<b>566.4</b>
<b>Cement</b>																													
ACC	SELL	1,292	1,205	(6.8)	243	3.5	188	49	54	66	32.7	10.6	23.0	26.5	24.0	19.5	13.9	12.9	10.4	2.6	2.4	2.2	10.1	10.5	11.9	1.3	1.3	1.3	11.2
Ambuja Cements	REDUCE	194	215	10.7	386	5.6	1,986	8	7	9	29.7	(1.3)	27.0	25.9	26.2	20.6	8.4	8.3	6.7	1.9	1.8	1.7	7.4	7.0	8.6	1.9	1.9	1.9	9.4
Dalmia Bharat	ADD	2,360	2,900	22.9	210	3.1	89	60	98	128	55.4	62.6	30.3	39.1	24.1	18.5	12.3	9.3	7.5	3.5	3.0	2.6	9.7	13.4	15.2	0.1	0.1	0.1	4.8
Grasim Industries	BUY	939	1,275	35.8	618	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	13.6
India Cements	REDUCE	103	135	31.7	32	0.5	308	3	5	9	(42.5)	56.2	84.4	31.4	20.1	10.9	9.1	7.8	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	763	1,000	31.0	53	0.8	70	43	51	83	25.1	17.0	65.0	17.7	15.1	9.2	9.5	10.1	8.2	2.7	2.4	1.9	16.2	16.7	23.2	1.0	1.0	1.0	0.5
JK Lakshmi Cement	ADD	324	425	31.4	38	0.6	118	4	18	33	(35.7)	311.2	79.6	72.4	17.6	9.8	13.4	8.1	5.7	2.6	2.3	1.9	3.7	14.1	21.5	0.6	0.6	0.6	0.4
Orient Cement	ADD	112	165	47.7	23	0.3	205	2	8	12	237.8	250.7	64.8	51.7	14.8	8.9	11.5	7.3	5.3	2.2	2.0	1.7	4.4	14.3	20.6	0.7	1.3	1.8	0.2
Shree Cement	SELL	16,537	12,700	(23.2)	576	8.4	35	397	486	662	3.4	22.3	36.2	41.6	34.0	25.0	22.3	16.9	13.2	6.5	5.5	4.6	16.7	17.6	20.2	0.3	0.3	0.3	4.8
UltraTech Cement	SELL	3,872	2,950	(23.8)	1,063	15.4	275	88	126	162	(7.8)	42.7	28.9	43.9	30.8	23.9	21.8	16.1	13.3	4.1	3.7	3.2	9.7	12.6	14.3	0.3	0.3	0.3	18.7
<b>Cement</b>	<b>Cautious</b>				<b>3,242</b>		<b>47</b>				<b>5.9</b>	<b>23.4</b>	<b>33.3</b>	<b>31.3</b>	<b>25.4</b>	<b>19.0</b>	<b>14.2</b>	<b>10.2</b>	<b>8.6</b>	<b>2.4</b>	<b>2.2</b>	<b>2.0</b>	<b>7.5</b>	<b>8.6</b>	<b>10.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>70.3</b>

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)		
		20-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
<b>Consumer products</b>																													
Asian Paints	REDUCE	1,396	1,275	(8.7)	1,339	19.4	959	21	26	31	2.9	26.5	20.5	68.0	53.8	44.6	41.6	33.7	27.9	15.9	14.0	12.3	24.6	27.7	29.3	0.6	0.8	1.0	18.6
Bajaj Corp.	ADD	395	470	19.0	58	0.8	148	14	15	17	(9.4)	7.8	10.3	27.6	25.6	23.2	21.7	20.4	17.4	11.8	11.9	11.9	42.8	46.3	51.2	3.0	3.3	3.5	0.4
Britannia Industries	ADD	6,358	6,000	(5.6)	763	11.1	120	84	104	126	13.5	24.4	21.5	76.0	61.1	50.3	50.3	39.5	32.5	22.4	17.8	14.4	32.9	32.4	31.6	0.4	0.6	0.7	9.4
Coffee Day Enterprises	REDUCE	259	340	31.4	55	0.8	211	3	8	13	49.1	149.7	59.4	77.4	31.0	19.4	13.2	—	—	2.3	2.1	1.9	3.1	7.2	10.4	—	—	—	1.3
Colgate-Palmolive (India)	ADD	1,125	1,300	15.6	306	4.4	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	8.0
Dabur India	REDUCE	373	350	(6.2)	659	9.6	1,762	8	9	10	7.2	16.1	11.7	48.0	41.3	37.0	40.6	35.2	30.8	11.5	11.6	10.1	25.9	27.9	29.1	2.0	1.0	1.2	9.7
GlaxoSmithKline Consumer	ADD	6,507	6,750	3.7	274	4.0	42	166	189	211	6.6	13.3	11.9	39.1	34.5	30.8	26.9	23.1	19.9	7.9	7.2	6.5	21.2	21.7	22.2	1.2	1.4	1.6	1.9
Godrej Consumer Products	REDUCE	1,287	1,020	(20.7)	877	12.7	681	21	25	28	11.5	17.6	13.3	60.3	51.3	45.2	42.7	36.3	31.7	14.0	12.1	10.5	25.2	25.4	24.9	0.5	0.7	0.7	9.1
Hindustan Unilever	REDUCE	1,656	1,570	(5.2)	3,584	52.0	2,160	25	29	33	25.0	19.5	13.2	67.5	56.5	49.9	48.4	39.1	34.4	50.6	44.2	37.6	78.1	83.5	81.4	1.2	1.3	1.4	32.6
ITC	ADD	274	315	15.0	3,348	48.5	12,275	9	10	11	7.8	7.8	12.4	30.7	28.5	25.4	20.1	18.4	16.2	6.5	6.1	5.8	19.4	20.3	22.2	1.9	2.1	2.4	41.2
Jubilant Foodworks	BUY	1,481	1,500	1.3	195	2.8	132	15	24	33	191.7	64.1	39.2	101.8	62.0	44.6	43.5	30.2	22.6	20.2	14.7	11.3	21.7	27.5	28.8	0.1	0.1	0.2	36.1
Jyothy Laboratories	ADD	214	220	2.9	78	1.1	364	4	6	6	35.1	25.4	17.2	48.5	38.7	33.1	29.8	24.6	21.3	6.8	5.9	5.1	14.3	16.3	16.6	0.2	0.5	0.7	1.5
Manpasand Beverages	SELL	116	132	14.0	13	0.2	114	9	11	13	37.6	21.3	26.5	13.2	10.9	8.6	6.6	4.3	3.5	1.1	1.0	0.9	8.3	9.3	10.7	0.4	0.4	0.4	3.7
Marico	ADD	351	345	(1.8)	454	6.6	1,291	6	7	8	7.4	16.7	13.7	56.1	48.0	42.2	39.5	33.2	28.9	17.8	16.5	15.3	33.2	35.7	37.5	1.2	1.4	1.6	8.9
Nestle India	ADD	10,351	9,500	(8.2)	998	14.5	96	127	168	191	21.1	32.5	13.4	81.5	61.5	54.3	44.8	34.9	30.7	29.2	26.8	24.6	36.6	45.5	47.3	0.8	1.1	1.3	8.7
Page Industries	SELL	28,461	21,000	(26.2)	317	4.6	11	311	392	482	32.5	26.1	22.9	91.5	72.5	59.0	58.3	46.1	37.9	37.5	29.3	23.4	45.9	45.3	44.0	0.5	0.6	0.7	7.8
Pidlitte Industries	REDUCE	1,031	1,050	1.8	524	7.6	508	18	22	26	7.5	20.4	20.4	57.2	47.5	39.4	38.2	31.7	26.2	14.6	12.3	10.3	26.0	28.2	28.5	0.6	0.7	0.8	13.4
S H Kelkar and Company	BUY	202	315	55.8	29	0.4	145	7	8	11	2.1	11.8	28.4	27.3	24.4	19.0	19.1	15.9	12.5	3.4	3.1	2.7	12.8	13.3	15.3	0.9	0.9	1.0	0.2
Tata Global Beverages	REDUCE	239	285	19.4	151	2.2	631	7	10	11	20.7	29.4	19.1	32.5	25.1	21.1	17.1	14.3	12.3	2.1	2.0	1.9	7.0	8.3	9.4	1.0	1.3	1.5	13.3
Titan Company	SELL	860	800	(7.0)	764	11.1	888	13	16	20	43.3	26.7	20.6	67.3	53.1	44.0	46.1	35.2	28.2	15.0	12.6	10.6	24.3	25.8	26.2	0.4	0.5	0.6	36.1
United Breweries	SELL	1,071	1,000	(6.6)	283	4.1	264	15	19	24	71.6	29.7	23.4	71.7	55.3	44.8	31.6	26.3	22.7	10.5	9.0	7.7	15.7	17.6	18.6	0.2	0.3	0.4	10.1
United Spirits	SELL	567	560	(1.2)	412	6.0	727	8	11	14	39.1	40.5	27.4	74.5	53.0	41.6	43.0	31.6	26.1	16.5	11.2	8.2	24.9	25.1	22.8	—	—	0.4	18.4
Varun Beverages	ADD	701	750	7.0	128	1.9	183	12	17	22	377.8	45.4	29.8	60.9	41.9	32.2	18.7	15.1	13.0	7.2	6.2	5.3	12.1	16.0	17.7	—	—	0.1	1.4
<b>Consumer products</b>	<b>Cautious</b>				<b>15,609</b>	<b>226</b>					<b>15.0</b>	<b>17.6</b>	<b>15.7</b>	<b>51.5</b>	<b>43.8</b>	<b>37.9</b>	<b>33.6</b>	<b>28.2</b>	<b>24.3</b>	<b>12.6</b>	<b>11.4</b>	<b>10.2</b>	<b>24.5</b>	<b>26.0</b>	<b>26.9</b>	<b>1.1</b>	<b>1.2</b>	<b>1.4</b>	<b>291.9</b>
<b>Energy</b>																													
BPCL	REDUCE	389	390	0.3	843	12.2	1,967	40	39	41	(1.5)	(3.6)	5.3	9.7	10.0	9.5	7.8	7.4	6.8	2.2	2.0	1.8	24.8	21.1	20.0	5.4	4.0	4.2	34.5
Castrol India	ADD	159	215	35.4	157	2.3	989	7	8	9	3.3	13.6	10.9	23.1	20.3	18.3	14.4	12.7	11.5	15.4	14.6	14.3	67.9	73.6	78.6	3.0	3.8	4.4	4.1
GAIL (India)	BUY	360	410	14.0	811	11.8	2,255	20	25	27	21.8	23.2	8.3	17.6	14.3	13.2	11.0	9.2	8.5	2.0	1.9	1.7	11.7	13.5	13.5	2.0	2.4	2.5	21.7
GSPL	SELL	185	170	(8.2)	104	1.5	564	12	11	11	34.5	(7.0)	(4.6)	15.6	16.8	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	275	320	16.2	420	6.1	1,524	42	32	33	(3.2)	(23.4)	3.4	6.6	8.6	8.3	5.8	7.5	7.7	1.8	1.6	1.4	28.7	19.3	18.2	6.2	4.7	4.9	32.1
Indraprastha Gas	SELL	279	240	(13.9)	195	2.8	700	10	12	13	19.0	16.5	12.0	27.0	23.2	20.7	17.0	14.8	13.0	5.6	4.8	4.2	22.4	22.2	21.5	0.7	0.9	1.1	10.3
IOCL	REDUCE	161	160	(0.7)	1,564	22.7	9,479	21	17	18	(24.8)	(17.9)	7.4	7.8	9.6	8.9	4.6	5.3	4.9	1.4	1.3	1.2	18.5	14.0	14.0	7.1	4.2	4.5	26.5
Mahanagar Gas	ADD	822	850	3.5	81	1.2	99	48	52	54	21.5	6.5	5.3	17.0	15.9	15.2	10.3	9.2	8.6	3.9	3.4	3.1	24.3	22.8	21.4	2.3	2.5	2.6	4.4
ONGC	ADD	158	200	26.7	2,026	29.4	12,833	17	21	21	3.1	19.6	(1.3)	9.1	7.6	7.7	4.9	3.8	3.7	0.9	0.8	0.8	9.9	11.5	10.7	4.2	4.4	4.4	17.9
Oil India	SELL	207	220	6.3	235	3.4	1,135	25	24	24	22.6	(1.3)	(0.7)	8.4	8.5	8.6	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	207	280	35.0	311	4.5	1,500	14	16	18	22.1	17.3	13.2	14.9	12.7	11.3	10.0	8.5	7.2	3.2	2.8	2.5	23.3	23.4	23.3	2.2	2.7	3.6	12.0
Reliance Industries	REDUCE	1,129	930	(17.6)	6,679	96.9	5,922	59	68	77	16.9	14.9	13.9	19.1	16.6	14.6	14.1	11.3	9.5	2.3	2.0	1.8	11.6	11.9	12.1	0.5	0.6	0.6	115.7
<b>Energy</b>	<b>Attractive</b>				<b>13,427</b>	<b>195</b>					<b>1.0</b>	<b>5.8</b>	<b>7.3</b>	<b>13.0</b>	<b>12.3</b>	<b>11.5</b>	<b>8.5</b>	<b>7.5</b>	<b>6.8</b>	<b>1.7</b>	<b>1.6</b>	<b>1.4</b>	<b>13.3</b>	<b>12.8</b>	<b>12.6</b>	<b>2.5</b>	<b>2.2</b>	<b>2.3</b>	<b>284.1</b>

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) 20-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	
<b>Industrials</b>																													
ABB	SELL	1,135	1,020	(10.1)	241	3.5	212	20	26	29	12.1	30.1	14.2	57.3	44.0	38.6	31.5	25.7	23.0	6.7	6.1	5.6	12.2	14.5	15.1	0.4	0.8	0.8	1.5
BHEL	SELL	68	81	20.0	248	3.6	3,671	2.2	2.6	5.4	62.7	19.4	106.9	30.7	25.7	12.4	7.0	6.4	3.2	0.8	0.8	0.8	2.5	3.0	6.1	2.7	3.2	6.7	9.0
Carborundum Universal	SELL	322	310	(3.6)	61	0.9	189	11	14	17	22.8	25.4	20.2	28.2	22.5	18.7	15.2	11.3	9.7	3.9	3.5	3.1	14.6	16.4	17.6	0.7	1.3	1.6	0.3
CG Power and Industrial	BUY	59	65	9.6	37	0.5	627	0.8	3.1	4.3	(72.2)	275.7	40.5	72.6	19.3	13.8	10.8	8.1	6.6	1.4	1.5	1.4	1.5	7.3	10.4	—	—	—	6.6
Crompton Greaves Consumer	SELL	235	210	(10.7)	147	2.1	627	5.2	6.2	7.5	13.3	20.0	20.9	45.5	38.0	31.4	28.0	23.6	20.0	18.7	13.0	10.0	49.5	40.5	35.9	0.6	0.9	1.1	2.5
Cummins India	REDUCE	632	680	7.5	175	2.5	277	24	28	32	(7.8)	16.1	13.9	26.1	22.5	19.7	22.9	19.7	16.3	4.4	4.1	3.8	17.4	18.9	20.1	2.4	2.3	2.7	4.2
Havells India	SELL	560	485	(13.5)	351	5.1	625	11	14	17	16.6	26.6	20.5	50.6	40.0	33.2	32.2	25.4	20.6	9.4	8.3	7.2	19.8	22.0	23.2	0.6	0.9	1.1	9.9
Kalpataru Power Transmission	BUY	337	530	57.3	52	0.7	153	19	24	34	36.5	24.3	39.8	17.4	14.0	10.0	7.7	6.4	5.1	1.9	1.7	1.5	11.7	13.1	16.1	0.7	0.7	0.7	0.6
KEC International	BUY	328	430	31.1	84	1.2	257	18	22	29	51.1	22.0	34.4	18.3	15.0	11.2	9.9	8.2	6.5	4.2	3.4	2.7	25.7	25.2	27.1	0.7	0.9	1.2	3.1
L&T	BUY	1,269	1,560	22.9	1,779	25.8	1,401	52	62	76	22.4	19.4	23.0	24.5	20.6	16.7	20.4	16.9	14.9	3.6	3.2	2.9	15.0	16.5	18.2	1.3	1.8	2.2	41.8
Siemens	SELL	965	975	1.0	344	5.0	356	24	30	37	22.5	23.0	23.2	39.9	32.4	26.3	22.5	18.0	14.4	4.2	4.0	3.7	10.9	12.6	14.5	1.0	1.3	1.6	3.5
Thermax	REDUCE	1,041	1,065	2.3	124	1.8	113	21	30	42	(3.6)	44.2	42.8	50.5	35.0	24.5	30.8	21.8	15.5	4.3	4.0	3.6	8.8	11.8	15.3	0.6	0.8	0.9	0.8
Voltas	SELL	553	525	(5.1)	183	2.7	331	17	19	22	12.6	8.3	15.6	32.0	29.5	25.5	26.6	22.6	18.8	4.7	4.2	3.7	15.9	15.0	15.5	0.7	0.8	0.9	14.0
<b>Industrials</b>	<b>Neutral</b>				<b>3,825</b>		<b>55</b>				<b>19.8</b>	<b>21.5</b>	<b>28.3</b>	<b>29.8</b>	<b>24.5</b>	<b>19.1</b>	<b>19.6</b>	<b>16.3</b>	<b>13.5</b>	<b>3.2</b>	<b>3.0</b>	<b>2.8</b>	<b>10.8</b>	<b>12.3</b>	<b>14.5</b>	<b>1.2</b>	<b>1.5</b>	<b>2.0</b>	<b>97.8</b>
<b>Infrastructure</b>																													
Adani Ports and SEZ	BUY	370	470	27.1	766	11.1	2,071	20	20	23	6.1	(0.2)	14.7	18.5	18.5	16.1	13.2	12.8	11.2	3.6	3.1	2.7	21.5	18.1	17.9	0.6	0.7	0.8	24.8
Ashoka Buildcon	BUY	144	210	45.8	40	0.6	282	8	8	9	34.6	0.5	5.2	17.1	17.0	16.2	13.8	11.7	10.4	2.1	1.8	1.7	13.0	11.4	10.7	0.7	1.1	0.8	0.9
Container Corp.	SELL	653	635	(2.8)	318	4.6	487	18	21	26	7.3	20.0	21.4	37.0	30.8	25.4	24.4	19.0	15.0	3.4	3.1	2.9	9.4	10.6	11.9	2.6	1.4	1.6	8.8
Dilip Buildcon	BUY	631	1,220	93.5	86	1.3	137	46	54	69	76.5	16.1	28.0	13.6	11.7	9.1	8.0	5.7	4.8	3.5	2.7	2.1	29.5	25.9	25.4	—	—	—	8.1
Gateway Distriparks	BUY	164	250	52.2	18	0.3	109	8	8	9	12.1	(1.2)	17.5	21.5	21.7	18.5	20.5	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	114	170	48.5	55	0.8	483	4.1	5.9	7.2	(20.6)	43.7	22.5	27.9	19.4	15.8	13.6	11.3	8.9	2.7	2.7	2.6	9.8	14.0	16.8	3.0	4.2	5.1	0.8
IRB Infrastructure	BUY	188	330	75.2	66	1.0	351	23	31	33	10.8	36.8	7.1	8.3	6.1	5.7	6.8	6.5	7.0	1.2	1.0	0.9	14.5	17.6	16.3	1.2	1.6	2.1	8.9
Mahindra Logistics	BUY	558	540	(3.2)	40	0.6	71	10	14	18	16.2	42.8	31.2	56.9	39.8	30.3	32.8	22.0	16.6	9.5	7.9	6.5	18.2	21.6	23.5	—	—	—	0.8
Sadbhav Engineering	BUY	278	440	58.5	48	0.7	172	13	18	18	17.4	38.4	2.2	21.6	15.6	15.3	15.0	12.0	9.3	2.6	2.2	2.0	12.5	15.2	13.7	—	—	—	0.8
<b>Infrastructure</b>	<b>Attractive</b>				<b>1,438</b>		<b>21</b>				<b>10.9</b>	<b>10.5</b>	<b>15.5</b>	<b>19.8</b>	<b>17.9</b>	<b>15.5</b>	<b>12.7</b>	<b>11.3</b>	<b>9.9</b>	<b>3.1</b>	<b>2.8</b>	<b>2.4</b>	<b>15.8</b>	<b>15.4</b>	<b>15.5</b>	<b>1.1</b>	<b>0.9</b>	<b>1.2</b>	<b>54.7</b>
<b>Internet</b>																													
Info Edge	BUY	1,262	1,390	10.2	154	2.2	122	23	26	32	33.3	13.9	25.9	56.0	49.2	39.1	46.5	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	ADD	580	610	5.2	39	0.6	67	21	26	30	21.7	23.0	15.0	27.3	22.2	19.3	16.4	12.7	10.3	4.0	3.4	3.0	15.2	16.7	16.6	—	0.5	0.5	48.8
<b>Internet</b>	<b>Cautious</b>				<b>193</b>		<b>3</b>				<b>28.0</b>	<b>17.0</b>	<b>22.0</b>	<b>46.3</b>	<b>39.6</b>	<b>32.4</b>	<b>35.8</b>	<b>28.3</b>	<b>22.4</b>	<b>6.2</b>	<b>5.2</b>	<b>4.6</b>	<b>13.5</b>	<b>13.0</b>	<b>14.2</b>	<b>0.3</b>	<b>0.6</b>	<b>0.6</b>	<b>50.6</b>
<b>Media</b>																													
DB Corp.	REDUCE	265	270	2.0	49	0.7	184	18	20	23	(14.1)	14.9	12.3	15.0	13.1	11.6	8.0	7.2	6.3	2.9	2.6	2.5	19.9	20.7	22.3	4.9	6.4	8.0	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	—	—	—	7.9
Jagran Prakashan	REDUCE	134	168	25.7	42	0.6	311	10	12	14	(6.0)	21.7	15.3	13.4	11.0	9.5	6.1	5.4	4.7	2.0	2.0	1.9	14.8	18.1	20.9	2.2	3.7	6.7	0.5
PVR	REDUCE	1,151	1,425	23.8	54	0.8	47	27	38	50	25.5	39.8	33.2	42.9	30.7	23.0	14.7	12.1	10.0	5.0	4.4	3.7	12.3	15.2	17.5	0.2	0.3	0.4	8.8
Sun TV Network	REDUCE	761	925	21.5	300	4.4	394	29	35	39	10.2	20.7	10.9	26.4	21.9	19.8	17.7	14.8	12.9	6.5	5.8	5.2	26.3	28.1	27.9	1.3	2.3	2.6	22.0
Zee Entertainment Enterprises	ADD	514	600	16.7	494	7.2	960	15	17	20	7.8	11.3	17.0	34.2	30.8	26.3	22.2	19.1	16.2	6.5	5.8	5.1	20.3	19.9	20.6	0.5	0.9	1.1	16.0
<b>Media</b>	<b>Attractive</b>				<b>1,064</b>		<b>15</b>				<b>(1.5)</b>	<b>29.6</b>	<b>21.1</b>	<b>32.7</b>	<b>25.2</b>	<b>20.8</b>	<b>15.8</b>	<b>12.1</b>	<b>10.3</b>	<b>4.5</b>	<b>4.1</b>	<b>3.7</b>	<b>13.7</b>	<b>16.4</b>	<b>17.9</b>	<b>0.9</b>	<b>1.5</b>	<b>1.9</b>	<b>55.8</b>

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
		20-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)
<b>Metals &amp; Mining</b>																													
Coal India	ADD	264	326	23.7	1,636	23.7	6,207	11	27	28	(24.2)	138.2	3.0	23.3	9.8	9.5	17.2	6.2	5.9	6.8	6.2	6.4	26.7	66.1	66.4	6.3	7.6	9.5	13.8
Hindalco Industries	BUY	196	315	61.0	439	6.4	2,229	22	27	31	155.4	23.9	13.6	8.9	7.2	6.4	6.0	5.1	4.4	0.8	0.7	0.6	9.7	10.5	10.7	0.6	0.6	0.6	36.5
Hindustan Zinc	REDUCE	265	325	22.5	1,121	16.3	4,225	22	24	28	9.3	13.6	13.8	12.3	10.9	9.6	7.5	6.1	5.0	3.1	2.7	2.3	27.2	26.4	25.6	3.0	3.0	3.1	8.6
Jindal Steel and Power	REDUCE	183	255	39.0	178	2.6	968	(8)	8	18	59.3	194.2	129.1	(21.6)	22.9	10.0	9.2	6.6	5.6	0.6	0.6	0.6	(2.7)	2.6	5.7	—	—	—	29.2
JSW Steel	ADD	304	345	13.4	735	10.7	2,417	27	27	25	83.9	(0.7)	(5.7)	11.3	11.4	12.1	7.5	7.0	7.5	2.6	2.1	1.9	24.8	20.4	16.5	1.1	1.1	1.1	19.5
National Aluminium Co.	ADD	59	85	44.4	114	1.6	1,933	4	7	7	12.7	63.0	11.1	14.2	8.7	7.9	5.7	3.8	3.4	1.1	1.1	1.1	7.7	12.4	13.6	9.7	9.3	9.3	12.1
NMDC	REDUCE	96	125	29.9	305	4.4	3,164	12	10	10	43.3	(16.5)	3.6	8.2	9.8	9.5	4.4	6.0	5.7	1.3	1.2	1.2	15.8	12.5	12.4	5.7	5.7	5.7	3.7
Tata Steel	ADD	503	700	39.1	573	8.3	1,205	67	69	82	62.6	3.1	18.4	7.5	7	6.1	5.9	5.9	6.0	1.0	0.9	0.8	17.2	13.1	13.9	1.9	2.0	2.0	70.0
Vedanta	BUY	202	415	105.0	752	10.9	3,717	22	37	43	9.6	71.9	16.9	9.4	5.5	4.7	5.3	3.9	3.3	1.2	1.1	0.9	12.9	20.6	21.4	4.0	5.5	6.4	55.5
<b>Metals &amp; Mining</b>	<b>Attractive</b>				<b>5,852</b>	<b>85</b>					<b>32.3</b>	<b>41.4</b>	<b>11.3</b>	<b>12.4</b>	<b>8.8</b>	<b>7.9</b>	<b>7.1</b>	<b>5.5</b>	<b>5.1</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>	<b>14.3</b>	<b>18.0</b>	<b>18.4</b>	<b>3.7</b>	<b>4.3</b>	<b>4.9</b>	<b>248.9</b>
<b>Pharmaceutical</b>																													
Apollo Hospitals	ADD	930	1,090	17.3	129	1.9	139	8	19	26	(46.9)	124.3	38.0	110.1	49.1	35.6	20.2	17.3	14.5	4.0	3.8	3.5	3.4	7.9	10.2	0.2	0.5	0.7	7.1
Aurobindo Pharma	ADD	584	640	9.6	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	20.7
Biocon	SELL	576	300	(47.9)	346	5.0	601	6	8	15	(39.2)	27.1	84.9	93.0	73.2	39.6	41.7	30.7	20.2	6.1	5.7	5.2	6.9	8.1	13.7	0.4	0.5	0.9	22.9
Cipla	BUY	626	650	3.9	504	7.3	805	18	26	34	40.2	48.7	30.8	35.7	24.0	18.4	18.5	13.6	10.8	3.5	3.1	2.7	10.2	13.6	15.9	0.6	0.9	1.1	23.4
Dr Lal Pathlabs	REDUCE	873	865	(0.9)	73	1.1	83	20	25	29	7.0	20.8	18.5	42.7	35.3	29.8	25.8	21.6	18.1	9.2	7.7	6.4	23.5	23.7	23.4	0.5	0.6	0.7	1.5
Dr Reddy's Laboratories	REDUCE	2,052	2,150	4.8	340	4.9	166	59	89	119	(18.5)	51.4	32.9	34.7	22.9	17.3	16.2	11.0	8.2	2.7	2.5	2.2	7.8	11.2	12.7	1.0	0.7	0.9	33.3
HCG	REDUCE	277	305	10.1	24	0.4	85	2	3	5	(40.0)	120.9	57.3	177.1	80.2	51.0	23.4	18.2	15.5	4.6	4.3	4.0	2.8	5.5	8.1	—	—	—	0.2
Laurus Labs	ADD	446	540	21.0	47	0.7	106	16	22	34	(11.9)	37.3	54.4	28.1	20.5	13.3	13.8	11.3	8.3	3.2	2.8	2.3	11.9	14.4	18.8	—	—	—	0.7
Lupin	REDUCE	801	800	(0.1)	362	5.2	450	38	35	45	(32.9)	(7.7)	28.6	21.0	22.7	17.7	13.0	11.5	9.4	2.6	2.4	2.2	12.6	11.1	12.9	0.6	0.7	0.8	33.4
Narayana Hrudayalaya	ADD	250	275	10.0	51	0.7	204	3	4	7	(38.1)	52.2	76.9	99.4	65.3	36.9	27.4	20.7	15.1	4.9	4.6	4.1	5.1	7.3	11.7	—	—	—	0.4
Sun Pharmaceuticals	REDUCE	560	500	(10.7)	1,344	19.5	2,406	15	17	24	(47.5)	12.0	42.0	36.9	33.0	23.2	21.8	17.9	13.1	3.5	3.2	2.9	9.8	10.2	13.1	0.4	0.6	0.9	52.7
Torrent Pharmaceuticals	NR	1,421	—	—	240	3.5	169	40	46	61	(27.4)	15.1	32.9	35.5	30.8	23.2	19.9	14.2	11.8	5.2	4.6	4.0	15.1	14.9	17.2	1.1	0.7	1.0	5.3
<b>Pharmaceuticals</b>	<b>Neutral</b>				<b>3,803</b>	<b>55</b>					<b>(27.6)</b>	<b>18.6</b>	<b>32.6</b>	<b>32.3</b>	<b>27.3</b>	<b>20.6</b>	<b>17.9</b>	<b>14.4</b>	<b>11.4</b>	<b>3.5</b>	<b>3.2</b>	<b>2.8</b>	<b>10.9</b>	<b>11.6</b>	<b>13.7</b>	<b>0.5</b>	<b>0.7</b>	<b>0.9</b>	<b>201.6</b>
<b>Real Estate</b>																													
Brigade Enterprises	BUY	188	340	80.9	26	0.4	136	11	9	9	(17.7)	(15.1)	(1.6)	17.0	20.0	20.3	10.7	10.9	10.7	1.1	1.1	1.0	7.6	5.5	5.2	1.3	1.3	1.3	0.4
DLF	RS	170	—	—	304	4.4	1,784	19.6	6.5	3.9	403.9	(66.9)	(39.6)	8.7	26.3	43.5	26.6	11.6	11.5	0.9	0.8	0.8	11.7	3.2	1.9	1.2	1.2	1.2	16.6
Godrej Properties	SELL	659	400	(39.3)	151	2.2	216	11.6	16.8	19.2	21.9	43.9	14.9	56.5	39.3	34.2	142.9	101.6	72.3	6.3	5.4	4.7	11.8	14.9	14.7	—	—	—	2.8
Oberoi Realty	BUY	487	560	15.0	177	2.6	340	13	62	44	14.0	385.4	(28.1)	38.3	7.9	11.0	28.6	10.9	13.7	2.7	1.8	1.6	7.3	27.4	15.2	0.4	0.4	0.4	3.4
Prestige Estates Projects	ADD	250	315	26.0	94	1.4	375	13	10	10	24.3	(24.2)	8.4	19.9	26.3	24.2	14.2	14.8	14.8	2.0	1.9	1.8	10.3	7.3	7.5	0.6	0.6	0.6	1.1
Sobha	REDUCE	466	510	9.5	44	0.6	95	22	20	23	30.9	(7.5)	14.8	21.3	23.0	20.1	13.0	13.2	12.4	1.6	1.5	1.5	7.6	6.8	7.4	1.5	1.5	1.5	1.6
Sunteck Realty	REDUCE	386	330	(14.4)	56	0.8	140	15	18	20	4.8	20.2	6.9	25.3	21.0	19.7	16.3	17.9	16.6	2.1	1.9	1.7	9.7	9.4	9.2	0.3	0.3	0.3	1.8
<b>Real Estate</b>	<b>Neutral</b>				<b>852</b>	<b>12</b>					<b>140.1</b>	<b>(12.6)</b>	<b>(20.2)</b>	<b>16.3</b>	<b>18.7</b>	<b>23.4</b>	<b>23.0</b>	<b>14.0</b>	<b>14.4</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>9.3</b>	<b>7.5</b>	<b>5.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>27.6</b>

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)
		20-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	
<b>Technology</b>																													
HCL Technologies	REDUCE	999	1,010	1.1	1,391	20.2	1,409	62	68	71	5.3	9.0	5.0	16.0	14.7	14.0	11.3	9.5	8.7	3.9	3.2	2.9	24.8	23.8	21.9	0.8	2.9	3.1	35.6
Hexaware Technologies	SELL	502	420	(16.4)	149	2.2	304	16	20	22	19.8	20.5	12.5	30.6	25.4	22.6	21.9	18.5	15.8	7.6	6.6	5.7	26.6	27.8	27.0	0.8	1.6	1.6	14.6
Infosys	ADD	1,348	1,400	3.8	2,945	42.7	2,175	65	71	78	3.0	9.7	10.4	20.9	19.0	17.2	14.4	13.0	11.6	4.5	4.3	3.9	21.8	23.0	23.5	2.1	3.2	2.9	81.6
L&T Infotech	ADD	1,751	1,650	(5.8)	302	4.4	175	64	73	84	13.9	14.5	15.7	27.6	24.1	20.8	24.1	18.0	15.1	7.9	6.6	5.5	31.8	30.0	29.0	1.0	1.4	1.5	5.0
Mindtree	ADD	977	1,115	14.1	160	2.3	165	35	43	53	37.8	24.9	23.6	28.3	22.7	18.3	20.5	14.2	11.4	5.9	5.0	4.3	21.4	23.9	25.2	1.1	1.3	1.6	33.1
Mphasis	SELL	1,162	760	(34.6)	225	3.3	193	44	52	56	14.4	18.3	8.2	26.5	22.4	20.7	19.2	15.6	13.9	4.1	3.7	3.4	14.6	17.4	17.1	1.7	1.7	1.7	11.5
TCS	REDUCE	1,996	1,790	(10.3)	7,642	110.8	3,829	67	82	89	1.1	21.2	8.8	29.6	24.4	22.4	22.0	17.9	16.5	8.8	7.7	7.5	29.4	33.4	33.8	1.3	2.0	3.6	122.2
Tech Mahindra	ADD	659	775	17.5	582	8.4	891	43	45	53	33.1	6.6	15.8	15.5	14.5	12.5	11.3	8.8	7.2	3.1	2.7	2.3	21.5	19.9	19.7	2.2	1.4	1.6	36.0
Wipro	REDUCE	283	295	4.2	1,281	18.6	4,507	17	19	22	(3.1)	11.8	14.6	16.7	15.0	13.0	10.6	9.4	8.2	2.6	2.3	2.1	16.0	16.4	16.8	0.4	0.5	3.5	12.9
<b>Technology</b>	<b>Cautious</b>				<b>14,676</b>	<b>213</b>					<b>1.6</b>	<b>12.4</b>	<b>9.7</b>	<b>22.9</b>	<b>20.4</b>	<b>18.6</b>	<b>16.7</b>	<b>14.0</b>	<b>12.7</b>	<b>5.4</b>	<b>4.8</b>	<b>4.5</b>	<b>23.7</b>	<b>23.7</b>	<b>24.1</b>	<b>1.3</b>	<b>2.2</b>	<b>3.2</b>	<b>352.4</b>
<b>Telecom</b>																													
Bharti Airtel	ADD	346	470	36.0	1,381	20.0	3,997	5	(4)	0	(42.9)	(187.4)	104.6	73.0	(83.5)	1,828.8	7.8	9.0	7.2	2.0	2.1	2.1	2.8	(2.4)	0.1	1.5	0.3	0.0	33.8
Bharti Infratel	REDUCE	286	285	(0.3)	529	7.7	1,850	14	13	11	(7.4)	(8.7)	(9.0)	20.8	22.8	25.0	7.5	8.2	8.7	3.1	3.3	3.3	15.7	14.0	13.1	5.0	3.5	3.2	13.5
IDEA	REDUCE	51	75	46.6	223	3.2	4,359	(10)	(15)	(14)	(656.8)	(54.9)	6.4	(5.3)	(3.5)	(3.7)	12.1	22.1	16.4	0.8	1.1	1.5	(16.0)	(26.9)	(34.0)	—	—	—	16.0
Tata Communications	ADD	553	725	31.1	158	2.3	285	2	4	8	(84.3)	121.9	117.7	336	151.3	69.5	10.3	9.2	8.1	31.6	25.5	18.4	4.5	18.6	30.7	1.2	1.2	1.4	4.5
<b>Telecom</b>	<b>Cautious</b>				<b>2,291</b>	<b>33</b>					<b>(94.7)</b>	<b>(1,906.6)</b>	<b>36.2</b>	<b>728.4</b>	<b>(40.3)</b>	<b>(63.2)</b>	<b>8.5</b>	<b>10.0</b>	<b>8.4</b>	<b>2.0</b>	<b>2.2</b>	<b>2.3</b>	<b>0.3</b>	<b>(5.5)</b>	<b>(3.7)</b>	<b>2.1</b>	<b>1.0</b>	<b>0.8</b>	<b>67.8</b>
<b>Utilities</b>																													
CESC	ADD	886	1,180	33.1	117	1.7	133	87	102	118	67.1	16.8	15.5	10.2	8.7	7.5	7.5	5.5	4.8	0.8	0.7	0.7	7.9	8.8	9.4	1.4	1.1	1.2	5.8
JSW Energy	REDUCE	62	80	29.3	101	1.5	1,640	3.1	5.9	8.2	(19.2)	92.2	38.7	20.2	10.5	7.6	6.6	5.2	4.2	0.9	0.9	0.8	4.7	8.5	11.0	3.2	3.2	3.2	1.8
NHPC	ADD	23	30	29.3	238	3.5	10,260	2.4	3.1	3.2	(17.3)	26.9	1.8	9.5	7.5	7.4	8.9	7.0	6.8	0.8	0.8	0.7	8.5	10.4	10.2	6.0	7.5	7.6	2.1
NTPC	BUY	156	190	22.1	1,283	18.6	8,245	11	15	16	(7.6)	30.9	4.4	13.7	10.4	10.0	11.1	8.6	8.0	1.3	1.2	1.1	9.5	11.6	11.3	3.6	2.9	3.0	13.2
Power Grid	BUY	176	250	42.2	920	13.3	5,232	16	19	21	9.6	19.3	13.6	11.2	9.4	8.2	8.2	7.0	6.4	1.7	1.5	1.4	15.8	17.1	17.5	3.0	3.6	4.0	29.8
Reliance Power	SELL	31	43	39.4	87	1.3	2,805	3.5	5.1	5.2	(16.4)	45.6	2.7	8.9	6.1	5.9	7.7	6.6	6.4	0.4	0.4	0.3	4.5	6.1	5.9	—	—	—	4.1
Tata Power	ADD	68	97	43.0	184	2.7	2,705	5.3	7.8	8.7	(9.6)	46.1	11.2	12.7	8.7	7.8	10.1	9.3	8.4	1.2	1.1	0.9	10.7	12.9	12.7	—	—	—	5.4
<b>Utilities</b>	<b>Attractive</b>				<b>2,930</b>	<b>42</b>					<b>(2.4)</b>	<b>28.6</b>	<b>9.0</b>	<b>12.1</b>	<b>9.4</b>	<b>8.6</b>	<b>9.2</b>	<b>7.6</b>	<b>7.0</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>	<b>9.7</b>	<b>11.5</b>	<b>11.6</b>	<b>3.2</b>	<b>3.1</b>	<b>3.4</b>	<b>62.2</b>

Source: Company, Bloomberg, Kotak Institutional Equities estimates

## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		20-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	
<b>Others</b>																													
Astral Poly Technik	SELL	1,045	625	(40.2)	125	1.8	120	15	19	23	20.8	28.0	23.0	71.2	55.7	45.3	40.0	31.1	25.3	12.3	10.2	8.4	18.8	20.0	20.3	0.1	0.1	0.1	1.0
Avenue Supermarts	SELL	1,517	860	(43.3)	947	13.7	624	13	16	20	47.9	28.6	26.4	120.6	93.8	74.2	70.7	54.1	42.5	20.4	16.7	13.7	18.5	19.6	20.3	—	—	—	—
Bayer Cropscience	REDUCE	4,339	4,000	(7.8)	171	2.5	34	86	105	124	4.4	22.7	17.5	50.5	41.2	35.1	40.8	31.9	25.5	8.4	7.2	6.3	15.4	18.8	19.2	0.4	0.5	0.6	0.5
Dhanuka Agritech	ADD	518	690	33.3	25	0.4	49	26	28	32	7.7	8.9	15.4	20.1	18.5	16.0	14.7	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	596	650	9.1	114	1.7	189	12	16	20	6.9	39.8	24.6	51.7	37.0	29.7	26.7	20.5	16.6	6.7	5.8	4.9	14.7	16.9	17.9	0.3	0.4	0.5	1.7
Godrej Industries	RS	590	—	—	198	2.9	336	15	16	20	6.8	8.9	24.2	40.5	37.2	29.9	36.3	30.7	33.4	5.5	4.9	4.2	14.4	13.9	15.1	0.3	0.3	0.3	4.5
InterGlobe Aviation	BUY	1,064	1,430	34.4	409	5.9	383	59	71	98	27.2	21.8	37.5	18.2	14.9	10.8	10.2	8.3	5.7	5.8	4.3	3.2	41.3	33.0	33.8	0.6	0.7	0.9	25.0
Kaveri Seed	SELL	580	470	(19.0)	38	0.6	66	32	31	33	18.4	(3.7)	6.1	18.1	18.8	17.8	15.4	15.9	14.3	4.9	4.2	3.6	23.6	24.0	21.9	1.0	1.4	1.7	4.6
PI Industries	BUY	777	900	15.8	107	1.6	138	27	33	41	(20.0)	25.0	23.2	29.2	23.4	19.0	21.6	17.0	13.5	5.6	4.6	3.8	20.7	21.7	22.1	0.4	0.5	0.6	1.5
Rallis India	ADD	186	220	18.3	36	0.5	195	9	10	12	(1.5)	17.2	19.4	21.6	18.4	15.4	13.4	12.1	10.2	3.0	2.8	2.5	14.6	15.8	17.1	1.8	2.0	2.1	0.9
SJS	REDUCE	1,106	1,250	13.0	81	1.2	73	23	36	43	44.0	58.5	20.6	49.0	30.9	25.7	26.3	19.9	16.4	7.8	6.6	5.5	20.2	23.4	23.3	0.3	0.5	0.6	0.8
SRF	BUY	1,563	2,110	35.0	90	1.3	57	80	92	123	(10.4)	14.4	33.6	19.4	17.0	12.7	12.1	9.6	7.8	2.5	2.2	1.9	13.7	14.0	16.4	0.8	0.9	0.9	10.7
Tata Chemicals	ADD	660	760	15.1	168	2.4	255	51	46	52	6.5	(11.2)	13.6	12.8	14.4	12.7	7.1	6.0	5.0	1.5	1.4	1.3	13.8	10.0	10.5	3.3	2.3	2.6	8.7
TeamLease Services	SELL	2,737	1,750	(36.1)	47	0.7	17	43	59	75	28.0	37.4	27.2	63.5	46.2	36.3	66.1	46.8	36.2	10.6	8.6	7.0	18.2	20.6	21.2	—	—	—	1.9
UPL	ADD	550	640	16.4	280	4.1	510	43	47	53	20.9	9.0	13.5	12.8	11.7	10.3	9.0	7.8	6.6	3.1	2.5	2.1	26.4	23.6	22.4	1.5	1.7	2.0	16.7
Vardhman Textiles	ADD	1,189	1,400	17.7	68	1.0	56	103	130	140	(8.0)	26.4	7.4	11.5	9.1	8.5	9.7	7.2	6.5	1.4	1.2	1.1	12.7	14.3	13.8	1.3	1.7	2.5	1.0
Whirlpool	SELL	1,527	1,240	(18.8)	194	2.8	127	28	37	45	13.0	33.9	22.5	55.2	41.2	33.7	32.6	25.1	20.2	10.8	8.9	7.4	21.4	23.7	24.1	0.3	0.4	0.6	0.9
<b>Others</b>					<b>3,100</b>		<b>45</b>				<b>15.0</b>	<b>15.7</b>	<b>22.8</b>	<b>30.4</b>	<b>26.2</b>	<b>21.4</b>	<b>19.5</b>	<b>16.2</b>	<b>13.1</b>	<b>5.5</b>	<b>4.7</b>	<b>4.0</b>	<b>18.1</b>	<b>17.8</b>	<b>18.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>80.3</b>
<b>KIE universe</b>					<b>108,313</b>	<b>1,570</b>					<b>(6.2)</b>	<b>30.5</b>	<b>25.1</b>	<b>26.9</b>	<b>20.6</b>	<b>16.5</b>	<b>12.4</b>	<b>10.5</b>	<b>9.3</b>	<b>2.9</b>	<b>2.7</b>	<b>2.4</b>	<b>11.0</b>	<b>13.0</b>	<b>14.7</b>	<b>1.3</b>	<b>1.4</b>	<b>1.8</b>	
<b>KIE universe (ex-energy)</b>					<b>94,886</b>	<b>1,376</b>					<b>(8.5)</b>	<b>39.0</b>	<b>29.8</b>	<b>31.6</b>	<b>22.7</b>	<b>17.5</b>	<b>13.9</b>	<b>11.5</b>	<b>10.1</b>	<b>3.3</b>	<b>3.0</b>	<b>2.7</b>	<b>10.4</b>	<b>13.0</b>	<b>15.2</b>	<b>1.1</b>	<b>1.3</b>	<b>1.7</b>	

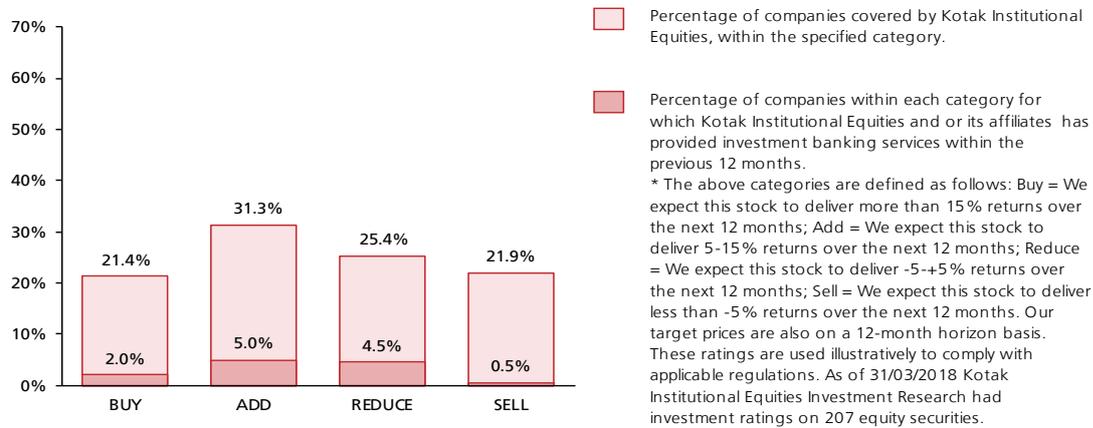
Notes:

- (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\$)= 68.96

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

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**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.

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