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EQUITY MARKETS

India	Change %			
	24-Sep	1-day	1-mo	3-mo
Sensex	36,305	(1.5)	(5.1)	2.4
Nifty	10,967	(1.6)	(5.1)	1.9
Global/Regional indices				
Dow Jones	26,562	(0.7)	3.0	9.5
Nasdaq Composite	7,993	0.1	0.6	6.1
FTSE	7,458	(0.4)	(1.6)	(0.7)
Nikkei	23,907	0.2	5.8	6.2
Hang Seng	27,499	(1.6)	(0.6)	(5.0)
KOSPI	2,339	0.7	2.0	(0.8)
Value traded – India				
Cash (NSE+BSE)	458		402	361
Derivatives (NSE)	10,476		7,198	7,125
Deri. open interest	4,076		4,271	4,024

Forex/money market

	Change, basis points			
	24-Sep	1-day	1-mo	3-mo
Rs/US\$	73.3	36	339	523
10yr govt bond, %	8.3	5	16	23

Net investment (US\$ mn)

	21-Sep	MTD	CYTD
Fls	115	(418)	(1,110)
MFs	37	731	12,565

Top movers

Best performers	Change, %			
	24-Sep	1-day	1-mo	3-mo
DIVI IN Equity	1,362	(1.9)	4.7	31.8
WPRO IN Equity	333	(0.7)	13.9	29.2
RIL IN Equity	1,232	1.2	(3.6)	22.7
TCS IN Equity	2,198	4.5	7.6	20.8
HCLT IN Equity	1,096	1.1	7.1	20.6

Worst performers

JPA IN Equity	8	(6.0)	(35.0)	(55.3)
UT IN Equity	3	(3.4)	(30.0)	(35.6)
YES IN Equity	226	(0.0)	(39.5)	(32.2)
IDEA IN Equity	42	(7.3)	(19.2)	(24.7)
TTMT/A IN Equity	128	(3.0)	(8.0)	(24.1)

Smooth sailing. We find valuations of M&M attractive considering the company can deliver 19% EPS CAGR over FY2018-20E led by (1) strong demand for S201 and Marazzo and (2) strong double-digit growth in tractors. Rural demand is likely to remain strong in FY2019 and M&M is the best play in the auto sector to capture the rural growth story. Maintain BUY rating with revised target price of ₹1,125 (earlier ₹1,085).

Company data and valuation summary

Mahindra & Mahindra

Stock data

52-week range (Rs) (high,low)	993-612
Market Cap. (Rs bn)	1,113.2

Shareholding pattern (%)

Promoters	20.5
FIs	37.7
MFs	9.2

Price performance (%)

	1M	3M	12M
Absolute	(7.5)	(1.4)	39.1
Rel. to BSE-30	(2.6)	(3.1)	22.3

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	38.0	45.1	53.7
EPS growth (%)	22.0	18.8	19.0
P/E (X)	23.6	19.9	16.7
Sales (Rs bn)	475.8	559.2	660.8
Net profits (Rs bn)	43.2	51.3	61.1
EBITDA (Rs bn)	70.4	84.3	99.4
EV/EBITDA (X)	15.5	12.9	10.7
ROE (%)	15.1	15.8	16.6
Div. Yield (%)	0.8	1.0	1.2

Tractor demand to remain strong in 2HFY19

We believe tractor industry volumes will likely grow in mid-teens (12-13% yoy) in 2HFY19 despite rainfall being slightly weaker than normal levels due to sharp rise in minimum support prices, higher sowing levels than last year and 6% higher reservoir levels than last year (which bodes well for the rabi sowing season). The domestic tractor industry grew by 22% yoy in April-July 2018 with demand being strong across most of the states except for MP, Rajasthan and Punjab. M&M has retained its market share during this period. M&M gained market share in the <40 HP segment and lost in the >40 HP segment. The company had highlighted that it would focus on increasing market share in states where they have less than 43% market share in the tractor segment. During April-July 2018, performance on this strategy is mixed—the company gained market share in three out of seven major states where its market share is less than 43%, while losing market share in two and maintaining market share in two states. We have not built market share gain for M&M in 2HFY19 in the domestic tractor segment.

Marazzo and S201 to be driver of volume growth in SUV segment

Initial response to Marazzo MPV has been good as per media reports and our channel checks. We were earlier forecasting 1,500 units/month for Marazzo but due to a strong response, we have increased our volume estimates to 4,000 units/month for Marazzo. We have also increased the volume estimates for S201 from 3,000/month to 4,000/month as S201 will also share the same engine as Marazzo. The company has the capacity to produce 10,000 units/month for three new vehicles—Marazzo, Rexton upgrade and S201 SUV. The engine family and platform of these three vehicles are the same and hence production schedules can be aligned across these vehicles depending on demand. We have thus raised our earnings estimates by 5-6% over FY2020-21 to reflect the increase in volume estimates of S201, Marazzo and exports. We maintain our BUY rating on the stock with a revised target price of ₹1,125 (from ₹1,085 earlier) based on SoTP methodology. We roll over to September 2020E (from June 2020E earlier). We find valuations inexpensive (11.7X on FY2020E M&M+MVML EPS).

Hitesh Goel

Nishit Jalan

Exhibit 1: Tractor volumes have been strong across most major states in FYTD19 (data until July 2018)

State-wise tractor volumes and volume growth, March fiscal year-ends, 2008-18 (units, %)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	FYTD19	FYTD18
Andhra Pradesh + Telengana	43,758	38,417	34,730	44,099	41,958	30,784	44,163	37,028	43,243	65,840	76,976	30,609	24,007
Bihar	13,104	17,572	29,047	27,244	29,162	34,854	40,437	36,090	35,394	38,081	43,155	21,227	14,850
Chattisgarh	6,570	8,790	10,174	12,861	13,277	15,803	24,271	20,011	16,862	17,944	19,457	8,079	7,198
Gujarat	25,255	20,179	24,346	40,951	56,664	43,183	46,751	46,411	39,418	47,112	48,769	24,382	18,202
Haryana	23,627	22,573	28,671	24,123	26,040	27,871	35,290	30,626	22,685	25,812	36,568	13,627	10,558
Karnataka	17,230	13,835	23,927	28,403	31,533	23,745	30,601	33,758	32,679	34,170	36,600	11,656	10,111
Madhya Pradesh	18,242	24,306	33,342	48,435	50,597	70,803	87,835	63,744	48,275	62,847	72,958	26,175	25,354
Maharashtra	29,815	25,610	34,313	53,604	57,191	44,401	65,631	49,839	42,012	52,414	73,253	19,570	17,426
Orissa	4,993	5,099	7,940	11,134	9,254	9,210	12,125	10,878	12,665	15,068	20,586	9,636	7,749
Punjab	18,062	20,027	28,608	26,621	25,987	28,254	30,187	26,074	17,835	16,760	20,687	7,932	7,499
Rajasthan	29,456	25,763	31,799	35,173	53,175	63,266	74,920	64,565	61,228	60,239	64,735	24,108	23,868
Tamil Nadu	16,894	14,609	15,819	20,638	26,298	18,548	9,886	8,072	14,626	17,635	26,970	8,065	5,274
Uttar Pradesh	39,682	51,513	73,686	76,981	82,613	84,537	95,660	92,219	71,202	85,588	114,635	44,192	35,044
West Bengal	5,354	6,096	9,153	13,045	12,187	12,751	13,760	12,751	12,917	17,663	21,609	10,574	7,612
Others	10,906	11,479	17,053	18,946	20,950	19,752	22,634	19,397	21,891	25,671	34,520	17,360	11,816
Domestic tractor volumes	302,948	305,868	402,608	482,258	536,886	527,762	634,151	551,463	492,932	582,844	711,478	277,192	226,568
Yoy growth (%)													
Andhra Pradesh + Telengana		(12.2)	(9.6)	27.0	(4.9)	(26.6)	43.5	(16.2)	16.8	52.3	16.9	27.5	
Bihar		34.1	65.3	(6.2)	7.0	19.5	16.0	(10.8)	(1.9)	7.6	13.3	42.9	
Chattisgarh		33.8	15.7	26.4	3.2	19.0	53.6	(17.6)	(15.7)	6.4	8.4	12.2	
Gujarat		(20.1)	20.7	68.2	38.4	(23.8)	8.3	(0.7)	(15.1)	19.5	3.5	34.0	
Haryana		(4.5)	27.0	(15.9)	7.9	7.0	26.6	(13.2)	(25.9)	13.8	41.7	29.1	
Karnataka		(19.7)	72.9	18.7	11.0	(24.7)	28.9	10.3	(3.2)	4.6	7.1	15.3	
Madhya Pradesh		33.2	37.2	45.3	4.5	39.9	24.1	(27.4)	(24.3)	30.2	16.1	3.2	
Maharashtra		(14.1)	34.0	56.2	6.7	(22.4)	47.8	(24.1)	(15.7)	24.8	39.8	12.3	
Orissa		2.1	55.7	40.2	(16.9)	(0.5)	31.7	(10.3)	16.4	19.0	36.6	24.4	
Punjab		10.9	42.8	(6.9)	(2.4)	8.7	6.8	(13.6)	(31.6)	(6.0)	23.4	5.8	
Rajasthan		(12.5)	23.4	10.6	51.2	19.0	18.4	(13.8)	(5.2)	(1.6)	7.5	1.0	
Tamil Nadu		(13.5)	8.3	30.5	27.4	(29.5)	(46.7)	(18.3)	81.2	20.6	52.9	52.9	
Uttar Pradesh		29.8	43.0	4.5	7.3	2.3	13.2	(3.6)	(22.8)	20.2	33.9	26.1	
West Bengal		13.9	50.1	42.5	(6.6)	4.6	7.9	(7.3)	1.3	36.7	22.3	38.9	
Others		5.3	48.6	11.1	10.6	(5.7)	14.6	(14.3)	12.9	17.3	34.5	46.9	
Total		1.0	31.6	19.8	11.3	(1.7)	20.2	(13.0)	(10.6)	18.2	22.1	22.3	
Volume mix (%)													
Andhra Pradesh + Telengana	14.4	12.6	8.6	9.1	7.8	5.8	7.0	6.7	8.8	11.3	10.8	11.0	10.6
Bihar	4.3	5.7	7.2	5.6	5.4	6.6	6.4	6.5	7.2	6.5	6.1	7.7	6.6
Chattisgarh	2.2	2.9	2.5	2.7	2.5	3.0	3.8	3.6	3.4	3.1	2.7	2.9	3.2
Gujarat	8.3	6.6	6.0	8.5	10.6	8.2	7.4	8.4	8.0	8.1	6.9	8.8	8.0
Haryana	7.8	7.4	7.1	5.0	4.9	5.3	5.6	5.6	4.6	4.4	5.1	4.9	4.7
Karnataka	5.7	4.5	5.9	5.9	5.9	4.5	4.8	6.1	6.6	5.9	5.1	4.2	4.5
Madhya Pradesh	6.0	7.9	8.3	10.0	9.4	13.4	13.9	11.6	9.8	10.8	10.3	9.4	11.2
Maharashtra	9.8	8.4	8.5	11.1	10.7	8.4	10.3	9.0	8.5	9.0	10.3	7.1	7.7
Orissa	1.6	1.7	2.0	2.3	1.7	1.7	1.9	2.0	2.6	2.6	2.9	3.5	3.4
Punjab	6.0	6.5	7.1	5.5	4.8	5.4	4.8	4.7	3.6	2.9	2.9	2.9	3.3
Rajasthan	9.7	8.4	7.9	7.3	9.9	12.0	11.8	11.7	12.4	10.3	9.1	8.7	10.5
Tamil Nadu	5.6	4.8	3.9	4.3	4.9	3.5	1.6	1.5	3.0	3.0	3.8	2.9	2.3
Uttar Pradesh	13.1	16.8	18.3	16.0	15.4	16.0	15.1	16.7	14.4	14.7	16.1	15.9	15.5
West Bengal	1.8	2.0	2.3	2.7	2.3	2.4	2.2	2.3	2.6	3.0	3.0	3.8	3.4
Others	3.6	3.8	4.2	3.9	3.9	3.7	3.6	3.5	4.4	4.4	4.9	6.3	5.2
Total	100												

Source: Industry data, Kotak Institutional Equities

Exhibit 2: M&M has gained market share in <40 HP segments in FYTD19 so far (data until July 2018)
HP-wise sales volumes and market share of key players, March fiscal year-ends, 2011-19 (units, %)

Market share (%)	2011	2012	2013	2014	2015	2016	2017	2018	FYTD19
Upto 30 HP									
M&M	49.5	50.3	55.7	53.8	51.5	50.0	49.9	49.3	51.0
TAFE	27.7	27.2	26.7	25.7	22.3	18.1	15.2	16.8	15.1
Escorts	12.5	10.5	1.9	0.8	1.0	1.9	2.1	3.5	4.2
Sonalika	2.4	1.9	4.3	6.2	9.6	9.5	10.1	9.8	8.5
John Deere	—	—	—	—	—	—	—	—	1.3
Others	7.9	10.1	11.4	13.5	15.7	20.4	22.8	20.7	20.0
Total	100.0								
30-40 HP									
M&M	44.0	40.4	36.3	36.6	36.4	38.3	41.0	37.3	40.8
TAFE	30.9	36.6	29.9	30.0	29.7	29.6	26.8	28.2	23.3
Escorts	9.1	7.6	14.2	14.3	14.3	13.1	12.6	14.5	14.8
Sonalika	8.7	8.6	11.4	12.1	13.0	12.6	12.5	11.4	11.4
John Deere	3.2	3.4	3.9	3.4	2.7	2.7	4.5	6.2	6.4
Others	4.0	3.4	4.3	3.6	4.0	3.7	2.6	2.3	3.2
Total	100.0								
40-50 HP									
M&M	28.6	30.2	42.7	43.0	42.6	43.7	44.9	48.1	45.7
TAFE	7.5	9.2	23.4	23.1	23.5	21.7	19.6	15.3	19.0
Escorts	26.2	23.6	12.9	10.9	9.7	10.7	11.7	10.4	9.4
Sonalika	9.5	8.9	6.3	7.4	9.4	10.0	10.1	11.2	10.3
John Deere	12.4	11.5	6.8	7.9	7.3	7.5	8.4	9.7	8.9
Others	15.8	16.6	7.7	7.7	7.5	6.5	5.2	5.3	6.6
Total	100.0								
> 51 HP									
M&M	57.0	60.8	17.8	23.7	26.0	27.6	28.3	26.6	24.5
TAFE	1.7	1.1	1.0	1.7	2.7	3.6	2.8	3.2	3.1
Escorts	—	—	5.8	6.4	9.7	6.0	6.8	7.8	5.9
Sonalika	13.7	13.8	37.1	35.7	31.3	25.5	23.7	24.2	22.6
John Deere	25.6	22.4	20.2	17.5	16.0	25.4	26.3	25.8	24.2
Others	2.0	1.8	18.1	15.0	14.3	12.0	12.2	12.4	19.6
Total	100.0								
Total									
M&M	42.2	41.8	40.6	41.0	40.3	41.3	42.8	42.7	42.9
TAFE	20.4	23.4	25.0	24.8	24.4	23.0	20.5	19.2	19.0
Escorts	13.2	11.4	11.6	10.7	10.4	10.3	10.8	11.0	10.6
Sonalika	8.6	8.3	9.6	10.3	12.0	11.9	11.9	12.1	11.5
John Deere	8.0	7.4	5.7	5.9	5.3	6.1	7.6	8.7	8.3
Others	7.6	7.7	7.5	7.3	7.5	7.4	6.4	6.2	7.7
Total	100.0								

Source: Industry data, Kotak Institutional Equities

Exhibit 3: M&M has gained 20 bps market share yoy in FYTD19 so far (data until July 2018) from FY2018 levels
M&M's tractor market share across states, March fiscal year-ends, 2011-19 (%)

	2011	2012	2013	2014	2015	2016	2017	2018	FYTD19
Andhra Pradesh + Telengana	52.4	48.7	47.0	47.2	46.8	48.4	47.9	40.0	48.5
Bihar	46.6	42.3	41.7	43.8	45.2	45.5	47.6	46.6	49.2
Chattisgarh	48.7	45.8	45.7	46.6	46.0	45.6	48.7	46.8	48.1
Gujarat	42.2	44.3	43.8	43.0	44.6	43.4	43.4	41.9	42.7
Haryana	25.6	27.8	30.5	33.4	33.9	35.3	34.5	30.8	28.7
Karnataka	45.6	43.9	45.9	49.1	45.6	47.5	49.2	48.3	48.5
Madhya Pradesh	36.3	37.0	37.3	36.7	34.5	32.6	35.9	35.3	35.0
Maharashtra	50.9	50.1	47.4	47.3	45.6	45.3	47.1	47.5	46.3
Orissa	49.5	52.1	51.1	52.0	51.3	49.9	51.9	49.1	46.4
Punjab	36.2	39.9	37.3	40.4	37.5	39.5	41.7	41.4	44.9
Rajasthan	26.1	27.8	29.5	29.6	28.5	28.6	30.1	30.7	30.0
Tamil Nadu	52.0	55.2	54.0	51.3	53.5	51.0	50.1	48.3	50.1
Uttar Pradesh	38.6	37.9	37.7	37.2	37.5	39.1	39.9	40.5	40.0
West Bengal	53.2	56.0	55.6	54.1	50.7	51.4	51.8	53.2	55.4
Others	45.1	44.4	48.3	48.7	47.4	49.4	49.9	71.3	50.4
Total	42.2	41.8	40.6	41.0	40.3	41.3	42.8	42.7	42.9

Source: Industry data, Kotak Institutional Equities

Exhibit 4: Government has announced sharp hike in minimum support prices in FY2019, which should support tractor demand
Trend in minimum support prices, March fiscal year-ends, 2008-19 (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Kharif												
Paddy (Common)	11.2	31.8	17.6	—	8.0	15.7	4.8	3.8	3.7	4.3	5.4	12.9
Paddy (Gr. A)	10.7	30.4	17.0	—	7.8	15.3	5.1	4.1	3.6	4.1	5.3	11.3
Jowar	11.1	40.0	—	4.8	11.4	53.1	—	2.0	2.6	3.5	4.6	42.9
Bajra	11.1	40.0	—	4.8	11.4	19.9	6.4	—	2.0	4.3	7.1	36.8
Maize	14.8	35.5	—	4.8	11.4	19.9	11.5	—	1.1	3.0	4.4	19.3
Ragi	11.1	52.5	—	5.5	8.8	42.9	—	3.3	6.5	4.5	10.1	52.5
Tur	9.9	29.0	15.0	30.4	6.7	20.3	11.7	1.2	6.3	9.2	7.9	4.1
Moong	11.8	48.2	9.5	14.9	10.4	25.7	2.3	2.2	5.4	7.7	6.7	25.1
Urad	11.8	48.2	—	15.1	13.8	30.3	—	1.2	6.3	8.1	8.0	3.7
Groundnut	2.0	35.5	—	9.5	17.4	37.0	8.1	—	0.8	4.7	5.5	9.9
Soyabean (Black)	1.1	48.4	—	3.7	17.9	33.3	13.6	—	4.0	6.7	9.9	11.4
Soyabean (Yellow)	2.9	32.4	—	3.6	17.4	32.5	14.3	—	1.6	6.7	9.9	11.4
Cotton (medium staple)	1.7	38.9	—	—	12.0	28.6	2.8	1.4	1.3	1.6	4.1	28.1
Rabi												
Wheat	33.3	8.0	1.9	1.8	14.7	5.1	3.7	3.6	5.2	6.6	6.8	—
Gram	10.7	8.1	1.7	19.3	33.3	7.1	3.3	2.4	7.9	16.8	10.0	—
Masur (Lentil)	10.0	10.0	—	20.3	24.4	3.6	1.7	4.2	8.1	18.8	7.6	—
Rapseed/mustard	5.0	1.7	—	1.1	35.1	20.0	1.7	1.6	8.1	10.4	10.8	—
Barley	15.0	4.6	10.3	4.0	25.6	—	12.2	4.5	6.5	8.2	6.4	—
Sugarcane	1.2	—	59.9	7.1	4.2	17.2	23.5	4.8	4.5	—	10.9	—

Source: Kotak Institutional Equities estimates

Exhibit 5: Reservoir levels are 6% higher than past 10-year average, which bodes well for rabi crop

Reservoir levels of 84 large basins in India, billion cubic meters (BCM)

	7-Sep-17	14-Sep-17	21-Sep-17	6-Sep-18	13-Sep-18	20-Sep-18
Current live storage (BCM)	91.2	92.5	97.0	119.0	121.7	120.1
Live capacity at FRL (BCM)	157.8	157.8	157.8	162.0	162.0	162.0
Corresponding storage last year	107.3	107.3	110.5	90.7	92.3	97.2
Corresponding storage last 10-year average	108.9	115.2	118.3	103.7	110.2	113.4
% storage as FRL capacity	57.8	58.6	61.4	73.5	75.1	74.1
Corresponding % last year	68.0	68.0	70.0	56.0	57.0	60.0
Corresponding % (last 10-year average)	69.0	73.0	75.0	64.0	68.0	70.0
Current year's storage as % of last year	85.0	86.2	87.8	131.2	131.8	123.6
Current year's storage as % of last 10-yr average	83.8	80.3	81.9	114.8	110.4	105.9
Reservoir surplus/(deficiency) (%)	(16.2)	(19.7)	(18.1)	14.8	10.4	5.9

Source: Ministry of Water Resources, Kotak Institutional Equities estimates

Exhibit 6: Rainfall has been weaker than last year

Cumulative rainfall surplus/deficiency in sub-divisions, 2017 and 2018 (%)

	6-Sep-17	13-Sep-17	20-Sep-17	5-Sep-18	12-Sep-18	19-Sep-18
India	(4)	(6)	(5)	(7)	(8)	(10)
All-India normal rainfall (mm)	756	802	839	752	798	837
Deficient (< -19% to -59%)						
Lakshadweep	10	14	16	(44)	(46)	(47)
Arunachal Pradesh	(0)	(1)	(6)	(38)	(34)	(34)
Rayalaseema	24	26	32	(46)	(45)	(34)
Saurashtra and Kutch	47	39	40	(25)	(29)	(31)
Assam & Meghalaya	(13)	(11)	(13)	(31)	(29)	(29)
North interior Karnataka	(10)	(1)	4	(21)	(24)	(27)
Jharkhand	(4)	(9)	(8)	(22)	(23)	(26)
West Rajasthan	50	43	42	(22)	(24)	(25)
Gujarat region	18	11	12	(16)	(22)	(24)
Haryana, Chandigarh and Delhi	(26)	(28)	(30)	(20)	(19)	(22)
Gangetic West Bengal	5	0	2	(18)	(19)	(21)
Bihar	(1)	(5)	(8)	(16)	(18)	(21)
Normal (-19% to +19%)						
Nagaland, Manipur, Mizoram and Tripura	31	30	29	(13)	(15)	(17)
Marathwada	(11)	(5)	(3)	(8)	(13)	(16)
Punjab	(15)	(18)	(20)	(16)	(16)	(16)
Sub-Himalayan West Bengal and Sikkim	(2)	(3)	(5)	(22)	(17)	(14)
East Uttar Pradesh	(21)	(27)	(31)	(4)	(9)	(13)
Tamil Nadu and Pondicherry	46	45	36	(9)	(14)	(11)
East Madhya Pradesh	(28)	(29)	(28)	(9)	(7)	(11)
Vidarbha	(28)	(27)	(23)	(4)	(6)	(10)
West Madhya Pradesh	(22)	(22)	(20)	(5)	(5)	(9)
Uttaranchal	(1)	(5)	(8)	(2)	(4)	(7)
Himachal Pradesh	(10)	(12)	(15)	(4)	(4)	(5)
Madhya Maharashtra	9	14	20	4	(1)	(4)
Chhattisgarh	(13)	(15)	(11)	1	(1)	(4)
Andaman & Nicobar Islands	(10)	(15)	(13)	(2)	(7)	(3)
West Uttar Pradesh	(34)	(37)	(39)	5	3	(2)
East Rajasthan	(5)	(7)	(6)	(4)	0	(2)
Telangana region	(10)	(13)	(12)	6	1	(1)
Konkan and Goa	1	1	9	5	3	1
Coastal Karnataka	(19)	(20)	(17)	5	3	2
Coastal Andhra Pradesh	23	20	18	11	5	4
Jammu & Kashmir	13	9	6	7	4	4
South interior Karnataka	(10)	(1)	(0)	12	10	7
Odisha	(8)	(11)	(7)	11	12	11
Excess (> +19%)						
Kerala	(20)	(19)	(8)	32	29	26

Source: IMD

Exhibit 7: We expect 15% yoy growth in overall volumes in FY2019E; expect double-digit growth in both auto and tractor segments
Volume assumptions, March fiscal year-ends, 2012-21E (units)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Volumes (units)										
Bolero	104,064	117,665	107,178	100,553	81,559	69,328	85,368	85,368	89,636	89,636
Scorpio	50,985	50,168	50,950	51,553	48,087	49,317	53,934	53,934	56,631	56,631
Xylo	27,691	25,067	13,970	8,472	7,274	6,588	7,319	7,319	7,319	7,319
XUV500	13,819	45,418	30,007	34,418	36,320	26,894	25,413	25,413	26,684	26,684
Quanto/Nuvo Sport	—	16,434	7,415	1,939	1,815	2,417	254	—	—	—
Rexton	—	1,783	1,843	1,010	228	121	86	100	100	100
Jeeps, Hard Tops	5,602	7,199	8,058	8,804	6,525	5,935	6,981	7,330	7,697	8,081
TUV300					24,189	26,241	29,018	26,116	27,422	27,422
KUV100 Petrol					6,395	17,000	14,000	12,600	13,230	13,230
KUV100 Diesel					7,816	18,698	11,413	7,989	8,389	7,550
Verito	17,895	15,348	9,734	3,184	3,393	3,219	725	725	725	725
Marazzo	—	—	—	—	—	—	—	24,000	48,000	50,400
S201	—	—	—	—	—	—	—	9,000	48,000	50,400
Exports	29,176	32,457	29,660	30,196	36,033	37,241	28,247	36,721	40,393	44,433
Passenger vehicles	249,232	311,539	258,815	240,129	259,633	262,999	262,758	296,615	374,225	382,610
Yoy growth (%)		25.0	(16.9)	(7.2)	8.1	1.3	(0.1)	12.9	26.2	2.2
MTBL	13,818	11,902	8,161	8,915	12,130	14,340	17,229	19,813	23,776	22,587
Pick ups	73,134	102,885	123,715	129,800	140,219	150,382	181,380	217,656	239,422	239,422
Maxximo and Gio	79,539	71,348	53,872	29,157	27,141	26,598	33,248	39,897	43,887	43,887
3 wheelers	67,440	65,510	62,614	56,764	54,975	52,306	54,625	60,088	63,092	63,092
Tractors	235,452	223,885	267,634	234,025	213,591	262,992	317,533	365,163	394,376	414,095
Total volumes	718,615	787,069	774,811	698,790	707,689	769,617	866,773	999,233	1,138,778	1,165,693
Yoy growth (%)		9.5	(1.6)	(9.8)	1.3	8.8	12.6	15.3	14.0	2.4

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: We value M&M at ₹1,125/share

SoTP, March fiscal year-ends (units)

	EPS (Rs/share)	Multiple (X)	Value per share (Rs)	Comment
M&M standalone + MVML	50.5	16.0	807	Based on 16X September 2020 less dividend income from subs
Subsidiaries			318	
Tech Mahindra			156	Based on KIE target price of Rs865/share
Mahindra Holidays			11	Based on current market price
M&M Financial Services Ltd			92	Based on KIE target price of Rs450/share
Mahindra Lifespace Developers Ltd			7	Based on current market price
Mahindra CIE Automotive Limited			13	Based on KIE target price of Rs 290/share
Mahindra Logistics			17	Based on KIE target price of Rs 565/share
Ssangyong Motors			23	Based on 6X CY2018E EBITDA
SOTP-based value			1,125	

Notes:

(a) The subsidiaries have been valued at a holding company discount of 20%.

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: We have increased our FY2020-21E EPS estimates by 5-6% on higher SUV volume assumptions
Earnings revision table, March fiscal year-ends, 2019-21E (₹ mn, %)

	New estimates			Old estimates			% change		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
M&M+MVML									
Volumes (units)	999,233	1,138,778	1,165,693	989,817	1,095,610	1,120,371	1.0	3.9	4.0
Net sales	559,216	660,818	715,724	553,601	630,400	679,902	1.0	4.8	5.3
EBITDA	84,289	99,388	103,595	84,087	95,708	98,861	0.2	3.8	4.8
EBITDA margin (%)	15.1	15.0	14.5	15.2	15.2	14.5			
Profit after tax	51,321	61,092	63,650	51,181	58,553	60,384	0.3	4.3	5.4
EPS FD	45.1	53.7	55.9	45.0	51.5	53.1	0.3	4.3	5.4
EPS FD (ex subs dividends)	41.1	49.4	51.5	40.9	47.2	48.6	0.3	4.7	5.9

Source: Kotak Institutional Equities estimates

Exhibit 10: We expect M&M's EPS to grow by 14% CAGR over FY2018-21E
M&M+MVML profit model, balance sheet and cash flow, March fiscal year-ends, 2012-21E (₹ mn)

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Volumes	718,615	787,069	774,811	698,790	707,689	769,617	866,773	999,233	1,138,778	1,165,693
Avg realization	436,689	487,335	500,988	529,025	549,505	537,643	548,903	559,645	580,287	613,990
Net sales	313,811	383,566	388,171	369,677	388,879	413,779	475,774	559,216	660,818	715,724
Raw materials	223,947	273,971	269,199	257,269	265,013	280,192	316,280	377,471	449,356	490,271
Staff costs	17,946	19,977	23,108	24,936	25,720	29,920	31,773	35,586	40,924	45,016
Other expenses	30,306	36,326	43,383	41,440	45,683	49,625	57,287	61,870	71,150	76,842
Total expenses	272,199	330,274	335,690	323,645	336,416	359,737	405,340	474,926	561,431	612,130
EBITDA	41,613	53,292	52,481	46,033	52,463	54,042	70,434	84,289	99,388	103,595
Other income	4,735	5,697	6,648	8,201	7,845	12,064	9,518	10,618	12,318	14,218
Interest expense	2,874	2,964	3,611	3,039	2,653	2,426	1,882	1,804	2,041	2,041
Depreciation	6,699	8,178	9,760	10,980	12,047	16,745	16,254	18,726	21,125	23,525
Extraordinary income	1,083	906	528	3,357	60	5,485	4,336	—	—	—
Profit before tax	37,858	48,753	46,286	43,572	45,667	52,420	66,152	74,378	88,539	92,247
Tax expenses	7,887	12,410	7,235	9,339	12,230	13,181	19,920	23,057	27,447	28,596
Profit after tax	29,970	36,343	39,051	34,233	33,438	39,239	46,232	51,321	61,092	63,650
Adj profit after tax	28,888	35,437	38,523	30,876	33,394	35,400	43,197	51,321	61,092	63,650
EPS FD	25.4	31.1	33.9	27.1	29.3	31.1	38.0	45.1	53.7	55.9
EPS FD ex subs dividends	24.5	30.2	31.9	24.1	26.3	26.5	33.9	41.1	49.4	51.5
Ratios (%)										
EBITDA margin (%)	13.3	13.9	13.5	12.5	13.5	13.1	14.8	15.1	15.0	14.5
Gross margin (%)	28.6	28.6	30.6	30.4	31.9	32.3	33.5	32.5	32.0	31.5
Raw material cost as % of sales	71.4	71.4	69.4	69.6	68.1	67.7	66.5	67.5	68.0	68.5
Staff cost as % of sales	5.7	5.2	6.0	6.7	6.6	7.2	6.7	6.4	6.2	6.3
Other expenses as % of sales	9.7	9.5	11.2	11.2	11.7	12.0	12.0	11.1	10.8	10.7
Effective tax rate (%)	20.8	25.5	15.6	21.4	26.8	25.1	30.1	31.0	31.0	31.0

Source: Company, Kotak Institutional Equities estimates

Too early to search for value. We would advise resisting any temptation to look at the recent correction in the sector as an opportunity to start looking for value; there is very little value, yet. Only a few names have seen any meaningful correction in 12-month forward PE multiples on a CYTD basis. Earnings prognosis is a mixed bag with volume prognosis improving a tad but risks to margin improvement thesis rising as well. We remain cautious overall; ITC, BRIT, NEST, JUBI and CLGT remain our preferred picks.

Sector still expensive; search for value still a futile exercise

Tempting as it may be, we would advise against letting the 'impression of a sharp correction' drive a search for value in the sector. We are not there yet; far from it, in fact. Sharp recent correction notwithstanding, most of the names in our coverage universe are still up substantially on a CYTD basis (several still up 20%+). Forward multiples have expanded for most large-cap names and very few stocks in the sector have seen any meaningful correction in multiples.

Weighted-average 12-month forward multiple (ex-ITC) for our coverage universe still stands at a rich 45X, broadly where it was at end-Dec 2017. If one were to adjust for the increase in bond yields (which should logically drive higher cost of capital for FMCG names as well), the fact that multiples are the same can be seen as a reflection of higher implied earnings growth expectations. Even as this is understandable against the backdrop of improved volume growth prognosis, we wonder if the rising risks to margin expansion thesis are being underappreciated. RM pressure and competitive intensity are both on the rise and these would test the companies' ability to keep expanding margins at the super-normal pace they have in the past few years. We do believe the sector enjoys pricing power; however, with household budgets under increasing pressure, we are not sure if exercising the same will come without a volume growth tradeoff.

Interesting divergence in CYTD return drivers for various stocks

JUBI tops the charts on CYTD performance with a 45% return. Interestingly, this is a combination of (a) sharp increase in 12-month forward EPS expectation (nearly 2X versus end-Dec 2017 levels led by strong, above-estimate 4QFY17 and 1QFY18 SSG prints) and (b) sharp decline in forward PE (to 49X from 65X). We see the multiple correction as a healthy one and expect strong forward EPS growth to aid solid returns from the current levels. BUY.

Dabur's strong (27% CYTD) return drivers are interesting; multiples have expanded (+14%) and so has forward EPS expectation (+12%). However, forward EPS expectation increase is (a) materially lower than what several other names have seen and (b) fairly modest in the backdrop of the sharp positive swing in the qualitative narrative. We are not sure why the EPS forecasts haven't caught with the narrative yet. Looked at differently, this is perhaps another example of how the multiple expansion in the sector has largely been a story of narratives and market-level factors and not that of the shape of the forward EPS curve (and the derivatives) or sector fundamentals. Against this backdrop, we find it surprising that we have witnessed a more intense search for fundamental linkages in the recent correction phase than we saw in the multi-year unabated PE expansion phase. The run-up did not have much to do with any meaningful delta in the sector's long-term fundamentals; recent fall doesn't, either, in our view.

Another interesting case is PIDI, up 21% YTD on the back of a normal rollover-led 10% increase in forward EPS estimate and a similar rise in forward PE. We note that fundamentals, if anything, have weakened slightly CYTD with the sharp rise in crude and INR depreciation. The company's guidance on margins is a wide range with the lower-end being materially below what is built into consensus forecasts. Fundamental linkage to relative returns? Absent, again.

Exhibit 1 breaks down the CYTD returns for key consumer names into EPS/PE delta.

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Exhibit 1: Break-up of CYTD returns for key consumer names into EPS/PE delta

Company	Price (Rs/share)			12-month forward EPS (Rs)			12-month forward PE (X)			Relative PE to HUVR (X)	
	31-Dec-17	24-Sep-18	Change (%)	31-Dec-17	24-Sep-18	Change (%)	31-Dec-17	24-Sep-18	Change (%)	31-Dec-17	24-Sep-18
Jubilant foodworks	881	1,274	45	13.5	26.3	95	65.3	48.5	(26)	1.60	1.11
Page Industries	25,542	32,848	29	357.5	454.1	27	71.4	72.3	1	1.75	1.66
Dabur	345	439	27	8.8	9.9	12	39.2	44.5	14	0.96	1.02
Nestle	7,871	9,663	23	166.9	213.9	28	47.2	45.2	(4)	1.16	1.04
United Breweries	1,079	1,317	22	16.5	20.9	27	65.5	63.1	(4)	1.61	1.45
Pidilite	902	1,093	21	20.5	22.6	10	44.0	48.4	10	1.08	1.11
Britannia	4,709	5,602	19	98.6	113.4	15	47.7	49.4	3	1.17	1.14
Godrej Consumers	666	790	18	16.4	18.1	11	40.7	43.5	7	1.00	1.00
Hindustan Unilever	1,368	1,590	16	26.9	31.6	17	50.8	50.3	(1)	1.25	1.16
ITC	263	298	13	10.4	10.8	5	25.4	27.5	8	0.62	0.63
GSK-CH	6,538	7,352	12	184.3	208.5	13	35.5	35.3	(1)	0.87	0.81
Asian Paints	1,159	1,272	10	25.5	27.7	9	45.4	45.9	1	1.12	1.05
Berger	274	298	9	5.7	6.3	11	48.1	47.0	(2)	1.18	1.08
Marico	323	339	5	7.7	8.1	5	41.9	41.8	(0)	1.03	0.96
Jyothy Labs	191	197	3	5.4	6.1	14	35.4	32.1	(9)	0.87	0.74
Colgate	1,090	1,092	0	26.7	29.7	11	40.9	36.8	(10)	1.00	0.85
Bajaj Corp	478	458	(4)	17.3	17.1	(1)	27.6	26.8	(3)	0.68	0.62
Titan	858	791	(8)	16.0	19.2	20	53.7	41.2	(23)	1.32	0.95
Emami	665	519	(22)	14.9	14.2	(5)	44.7	36.6	(18)	1.10	0.84
TGBL	316	233	(26)	9.2	9.5	4	34.4	24.5	(29)	0.84	0.56
United Spirits	734	521	(29)	10.1	11.5	15	73.0	45.2	(38)	1.79	1.04
S H Kelkar	299	212	(29)	9.1	9.1	1	32.9	23.1	(30)	0.81	0.53

Source: Companies, Bloomberg, Kotak Institutional Equities

Exhibit 2: Pace of margin expansion likely to be lower than the past few years

Gross margin and EBITDA margin of consumer companies, March fiscal year-ends, 2014-21E (%)

	Gross margin (%)									EBITDA margin (%)							
	2014	2015	2016	2017	2018	2019E	2020E	2021E		2014	2015	2016	2017	2018	2019E	2020E	2021E
Asian Paints	42.3	43.8	43.6	44.7	42.4	42.9	43.1	43.4		15.7	15.8	19.4	19.8	19.0	20.8	21.1	21.5
Bajaj Corp.	60.0	61.7	62.7	66.2	67.5	66.4	66.5	66.6		27.7	29.0	34.2	33.1	30.6	29.2	30.2	31.0
Britannia Industries	39.7	40.3	40.3	38.3	38.4	39.2	40.0	40.4		9.1	11.0	14.5	14.1	15.1	16.5	17.4	17.9
Colgate-Palmolive (India)	60.8	63.1	61.8	62.9	64.4	65.5	65.1	65.3		18.6	20.6	24.3	23.7	26.6	28.0	28.3	28.8
Dabur India	52.1	52.5	51.1	50.1	50.4	50.8	50.8	50.9		16.3	16.8	19.3	19.6	20.9	21.7	22.0	22.3
GlaxoSmithKline Consumer	64.3	65.2	67.5	67.5	66.8	68.3	68.5	68.6		17.9	16.9	20.3	20.9	20.5	21.9	22.3	22.5
Godrej Consumer Products	53.2	53.6	54.1	55.4	56.6	56.9	56.9	57.0		15.1	16.5	19.4	20.5	21.0	22.0	22.4	22.7
Hindustan Unilever	48.8	49.2	50.7	50.8	53.0	54.2	54.3	54.4		16.0	16.6	18.3	19.0	21.1	23.0	23.4	23.7
ITC	60.4	59.8	63.2	60.1	61.1	61.3	61.4	61.5		37.0	36.9	37.5	36.4	38.3	39.6	40.4	41.2
Jubilant Foodworks	73.9	74.8	76.2	75.6	74.6	74.1	74.0	73.9		14.4	12.2	10.8	9.3	14.6	17.9	19.6	21.0
Jyothy Laboratories	47.5	48.5	47.5	46.9	49.9	47.9	48.1	48.3		11.9	12.4	15.0	15.3	15.5	15.6	15.9	16.2
Marico	48.8	45.6	49.0	52.2	47.0	45.6	47.5	48.2		16.0	15.2	17.5	19.6	18.0	17.2	18.3	18.8
Nestle India	54.5	53.9	57.3	57.2	56.5	58.6	58.9	59.0		21.9	20.9	19.6	21.7	21.7	24.8	25.5	25.8
Page Industries	53.1	53.7	61.8	59.5	57.4	57.7	57.9	58.1		21.5	20.7	20.9	19.4	21.2	23.3	23.6	23.8
Pidilite Industries	44.9	44.9	51.8	53.0	52.5	51.4	51.9	52.4		15.7	15.9	21.9	22.4	22.1	21.9	22.8	23.6
Tata Global Beverages	52.5	52.0	45.4	47.5	45.7	45.5	45.8	46.1		9.7	9.7	9.9	11.7	12.3	12.0	12.6	13.2
Titan Company	26.3	26.5	27.5	28.3	27.5	26.8	27.3	27.4		9.6	9.6	8.3	8.7	10.2	10.8	11.4	11.6
United Breweries	59.0	59.6	56.1	53.9	53.2	53.7	53.9	54.1		14.1	13.3	14.3	13.6	16.1	17.7	18.0	18.4
United Spirits	40.8	40.8	41.3	42.9	47.5	49.1	49.6	49.7		10.0	7.4	10.7	11.4	12.5	14.7	16.1	16.9

Source: Companies, Kotak Institutional Equities

Exhibit 3: Consumer valuation summary

Company	Rating	TP (Rs)	24-Sep-18 Price (Rs)	Upside / (downside) (%)	Mkt cap.		EPS (Rs)			EPS Growth, %			PER (X)			EPS CAGR - (2018-20E), %	Sales
					(Rs bn)	(US\$ m)	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E		
Consumer Products																	
Asian Paints	REDUCE	1,325	1,272	4	1,220	16,782	20.5	27.1	32.6	2.9	32.1	20.3	62.0	46.9	39.0	26.0	18.0
Bajaj Corp	ADD	470	458	3	68	929	14.3	15.4	17.0	(9.4)	7.8	10.3	32.0	29.7	26.9	9.1	12.6
Britannia Industries	ADD	6,700	5,602	20	672	9,247	83.7	104.2	127.3	13.5	24.5	22.2	66.9	53.8	44.0	23.4	14.7
Coffee day Enterprises	REDUCE	290	303	(4)	62	859	3.4	7.9	10.3	53.0	129.9	30.0	88.3	38.4	29.6	72.9	10.6
Colgate-Palmolive (India)	ADD	1,250	1,092	14	297	4,085	23.8	27.3	31.5	15.2	14.7	15.6	45.9	40.0	34.6	15.1	10.4
Dabur India	REDUCE	390	432	(10)	762	10,477	7.8	9.1	10.3	7.2	17.3	12.9	55.6	47.4	42.0	15.1	13.4
GlaxoSmithKline Consumer	ADD	7,300	7,352	(1)	309	4,253	166.5	199.0	223.1	6.6	19.5	12.1	44.2	36.9	33.0	15.8	11.0
Godrej Consumer Products	SELL	733	790	(7)	807	11,099	14.2	16.9	19.2	11.6	18.8	13.7	55.5	46.7	41.1	16.2	11.8
Hindustan Unilever	REDUCE	1,570	1,591	(1)	3,443	47,363	24.5	29.3	33.1	24.8	19.5	13.2	65.0	54.4	48.0	16.3	12.2
ITC	ADD	330	298	11	3,641	50,085	8.9	9.6	10.8	7.8	8.2	12.3	33.4	30.9	27.5	10.2	8.0
Jubilant Foodworks	BUY	1,650	1,274	30	168	2,312	14.6	25.4	35.0	191.7	74.7	37.6	87.5	50.1	36.4	55.1	18.0
Jyothy Laboratories	ADD	240	197	22	72	986	4.4	5.6	6.6	(26.4)	27.6	16.7	44.7	35.1	30.1	22.0	14.3
Marico	ADD	375	333	13	429	5,902	6.3	6.8	8.2	2.0	8.1	20.0	52.7	48.7	40.6	13.9	14.2
Nestle India	ADD	11,000	9,690	14	934	12,852	127.1	170.6	197.4	21.1	34.2	15.7	76.3	56.8	49.1	24.6	11.9
Page Industries	SELL	25,000	32,845	(24)	366	5,039	311.1	417.8	508.2	30.3	34.3	21.6	105.6	78.6	64.6	27.8	19.5
Pidlite Industries	REDUCE	1,080	1,093	(1)	560	7,708	18.0	21.1	25.7	7.5	16.8	21.8	60.6	51.9	42.6	19.3	16.6
S H Kelkar	BUY	290	211	38	30	419	7.4	6.9	9.9	2.1	(6.2)	41.9	28.5	30.3	21.4	15.4	9.3
Tata Global Beverages	REDUCE	250	233	7	147	2,025	7.3	7.9	9.3	20.7	7.7	17.0	31.8	29.5	25.2	12.3	5.5
Titan Co.	SELL	840	790	6	702	9,653	12.5	16.1	19.6	45.3	28.1	21.8	63.0	49.2	40.4	24.9	20.1
United Breweries	SELL	1,100	1,317	(16)	348	4,790	14.9	20.8	25.7	71.6	39.2	23.6	88.1	63.3	51.2	31.2	12.3
United Spirits	REDUCE	590	521	13	379	5,209	7.6	10.2	13.4	39.1	34.7	30.9	68.5	50.9	38.8	32.8	10.6
Varun Beverages	ADD	800	760	5	139	1,906	11.5	15.0	20.1	378.1	29.9	34.5	65.9	50.8	37.7	32.2	18.6
KIE universe					15,569	214,160				12.6	17.9	16.1	51.5	43.7	37.6	15.2	12.9
KIE universe (ex-ITC)					11,790	162,169				15.2	23.3	17.9	61.1	49.5	42.0	19.2	14.1

	Price performance (%)				EV/EBITDA (X)			EV/Sales (X)			FCF yield (%)			Dividend yield (%)	
	1-mo	3-mo	6-mo	1-yr	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2019E	2020E
Asian Paints	(9)	0	14	5	37.9	29.4	24.3	7.2	6.1	5.1	0.6	1.1	2.0	0.9	1.2
Bajaj Corp	10	14	(0)	15	25.4	23.9	20.4	7.8	7.0	6.1	2.5	3.0	3.6	2.8	3.1
Britannia Industries	(17)	(6)	16	31	44.2	35.2	28.7	6.7	5.8	5.0	1.2	1.3	1.6	0.6	0.8
Coffee day	23	6	1	32	14.5	12.6	11.0	2.4	2.2	2.0	2.4	0.4	0.9	—	—
Colgate-Palmolive (India)	(7)	(7)	6	0	26.3	22.9	19.9	7.0	6.4	5.6	1.7	2.8	2.8	1.5	1.7
Dabur India	(9)	14	38	44	49.1	42.4	36.6	9.9	8.7	7.6	1.2	1.7	1.9	0.9	1.0
GlaxoSmithKline Consumer	(2)	22	14	47	30.9	26.0	22.4	6.3	5.7	5.0	2.5	2.0	2.2	1.2	1.4
Godrej Consumer Products	(15)	2	8	29	40.3	33.9	29.4	8.5	7.5	6.6	2.7	2.2	2.4	0.7	0.8
Hindustan Unilever	(11)	(1)	22	28	46.5	37.5	33.0	9.8	8.6	7.7	1.5	1.8	2.0	1.3	1.5
ITC	(4)	12	16	11	22.5	20.5	18.1	8.5	8.0	7.2	3.0	2.7	3.0	1.9	2.3
Jubilant Foodworks	(16)	(9)	12	85	37.3	25.7	19.9	5.4	4.6	3.9	0.0	1.8	2.3	0.2	0.2
Jyothy Laboratories	(2)	(9)	9	4	29.2	23.7	20.1	4.3	3.7	3.2	3.3	2.3	3.1	0.5	0.8
Marico	(12)	(0)	2	3	37.4	33.8	27.9	6.7	5.8	5.1	1.0	2.0	2.6	1.4	1.7
Nestle India	(15)	(2)	24	35	41.6	32.2	27.8	9.0	8.0	7.1	1.8	2.2	2.5	1.2	1.4
Page Industries	(5)	22	60	72	67.3	50.8	41.9	14.3	11.9	9.9	1.1	1.0	1.2	0.5	0.7
Pidlite Industries	(5)	4	21	34	40.9	34.8	28.7	9.0	7.6	6.5	0.8	1.0	1.5	0.6	0.8
S H Kelkar	(8)	(8)	(16)	(18)	19.8	19.6	14.1	3.1	3.0	2.6	(1.0)	1.7	2.2	0.8	0.9
Tata Global Beverages	1	(11)	(10)	16	16.7	16.1	14.2	2.1	1.9	1.8	0.0	2.5	2.8	1.3	1.5
Titan Co.	(11)	(10)	(12)	31	42.3	32.6	26.0	4.3	3.5	3.0	(0.6)	1.3	1.1	0.6	0.7
United Breweries	(6)	4	40	63	38.9	31.3	26.9	6.2	5.5	4.8	1.0	1.3	1.7	0.2	0.3
United Spirits	(18)	(24)	(15)	6	39.8	29.7	24.0	5.0	4.4	3.9	3.2	1.6	2.0	—	0.4
Varun Beverages	(4)	1	26	45	20.0	16.9	14.4	4.2	3.3	2.9	(3.0)	0.8	1.4	—	—
KIE FMCG universe	(9)	3	16	23	33.8	28.5	24.5	7.5	6.6	5.8	1.6	1.9	2.2	0.9	1.1
KIE universe (ex-ITC)	(11)	(1)	15	26	39.6	32.2	27.3	7.2	6.3	5.5	1.3	1.7	2.0	0.9	1.1
Sensex	(5)	2	11	14											

Source: Companies, Kotak Institutional Equities

SEPTEMBER 25, 2018

UPDATE

BSE-30: 36,305

Liquidity: Remains tight beyond the recent squeeze. While the recent event-based squeeze in money market liquidity has been in focus, overall liquidity was due to remain tight in FY2019, especially given the FX reserves depletion. We expect the RBI to do OMO purchase of around ₹1.5-2.0 tn to alleviate the stress. However, it is unlikely to completely offset the liquidity tightness implying that the short-term rates would still likely remain elevated. Meanwhile, the government is likely to refrain from issuing extra dated securities, at least for now. We expect the benchmark 10-year to trade in a broad range of 7.75-8.25% in 2HFY19.

Recent liquidity squeeze is event-based but system liquidity will structurally be under strain

We believe that the recent squeeze in money market liquidity has mostly been on the back of portfolio adjustments in debt funds, which had a relatively larger exposure to specific entities. While, as of now, we assign a low probability to a full-fledged liquidity crisis, the pressure in the NBFC debt space may continue for some time with the consequent hardening of short-term rates. However, as short-term rates harden, the funding cost of most NBFCs (and companies) will increase in the near term. We note that borrowing costs in general have been adverse over the past few quarters as the debt markets have been pricing in the concerns on systemic liquidity, fiscal slippages, and policy rate hikes by the RBI (Exhibit 1).

Short-term rates may remain elevated even with ₹1.5-2.0 tn of OMOs

The liquidity tightness in 1HFY19 has largely been led by spurt in currency in circulation (₹3.8 tn) and FX intervention (₹1.4 tn) even as the aggressive government spending has kept the average liquidity in surplus in FYTD19. We expect the liquidity conditions to deteriorate in 2HFY19 led by (1) seasonally high festive-led CIC, (2) continued FX intervention given the pressure on BOP (Kotak: (-)US\$34 bn), (3) cash build-up by government, and (4) CRR-related product build-up. Our estimates suggest that the system liquidity conditions will tighten towards ₹4.6 tn by the end -FY2019 with core liquidity deficit at ₹3.6 tn (Exhibit 2).

We factor in a reserve money growth of around 13.8% (primary liquidity accretion of ₹3.3 tn) to support economic growth. However, the need for primary liquidity infusion has increased significantly because of the FX reserves depletion (Exhibit 3). In order to avert a systemic shock and adverse impact on growth, we expect the RBI to conduct OMO purchase, at least around ₹1.5-2.0 tn in FY2019 with the remaining liquidity to be met by the regular money market operations. We expect OMO purchases' frequency to increase to 2-3 per month in 2HFY19.

Government likely to stick to the dated securities borrowing calendar, at least for now

We remain skeptical on the GFD/GDP being restricted to 3.3% and expect some fiscal slippage though the effect may not necessarily be seen in the dated segment given the government's commitment to maintain the deficit at budgeted levels. The government will likely stick to the revised borrowing target and borrow ₹2.68 tn in 2HFY19 after ₹2.88 tn in 1HFY19. The recent revision in small savings rates may boost the NSSF collections and provide room to offset any fiscal slippage or further lower market borrowings. However, given the high yields on state market loans (SDLs), we could possibly see the states' tapping the NSSF fund again making it difficult to gauge the overall impact on G-Sec and SDL supply. Short-end rates are likely to remain elevated due to liquidity conditions. Overall, while the OMO purchases are expected to provide some comfort to the bond market, elevated crude oil prices, weakening INR, tight domestic liquidity and expectations of tighter monetary policy are expected to cap the gains. We expect the benchmark 10-year to trade in a broad range of 7.75-8.25% in 2HFY19.

QUICK NUMBERS

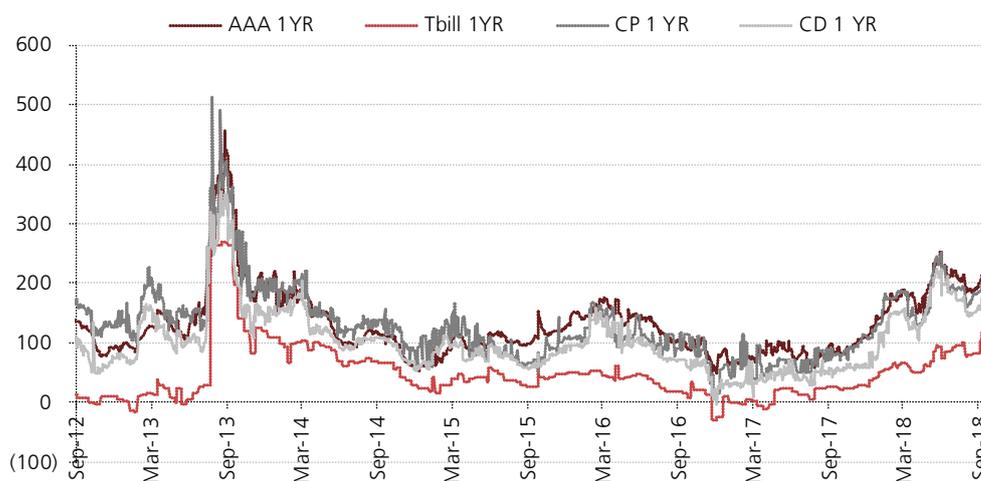
- Core liquidity deficit at around ₹3.6 tn
- RBI likely to do OMO purchase of around ₹1.5-2.0 tn
- 2HFY19 G-Sec borrowing likely at ₹2.68 tn
- Expect yields within 7.75-8.25% for rest of FY2019

Suvodeep Rakshit

Upasna Bhardwaj

Exhibit 1: Short-term rates spreads significantly lower than 2013 phase but have been increasing over the 12 months

Trend in spread across various fixed income assets over the repo rate (bps)



Source: Bloomberg, Kotak Economics Research

Exhibit 2: System liquidity will remain tight in 2HFY19

Estimated liquidity scenario (Rs bn)

Outstanding liquidity (end-Sep 2018)	(1,300)
Estimated flows (Oct 2018-Mar 2019)	
- CIC	(1,675)
- Cash balance	(950)
- FX intervention	(450)
- CRR	(200)
Systemic liquidity (end-Mar 2019)	(4,575)
Core liquidity (end-Mar 2019)	(3,625)

Notes:

(a) Negative indicates deficit.

Source: Bloomberg, Kotak Economics Research estimates

Exhibit 3: Even after a sizeable OMO purchase, liquidity deficit will be significant

Reserve money and sources of reserve money, March fiscal year-ends (Rs bn)

	FY2019E
Reserve money (incremental)	3,333
- CIC (incremental)	2,817
Sources	
Foreign assets	(1,820)
Domestic assets (OMO/Term repos/etc.)	5,153
- OMO purchase	1,750
- Other RBI liquidity operations	3,403

Notes:

(a) OMO purchase is taken at midpoint of our estimate range.

Source: Bloomberg, Kotak Economics Research 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)
		24-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Automobiles																													
Amara Raja Batteries	REDUCE	762	780	2.4	130	1.8	171	32	37	43	17.1	15.9	14.5	23.6	20.3	17.8	12.5	10.7	9.2	3.8	3.3	2.9	17.4	17.5	17.4	0.6	0.7	0.8	6.1
Apollo Tyres	BUY	226	340	50.4	129	1.8	541	20	25	29	46.9	25.7	17.0	11.5	9.1	7.8	7.2	6.1	5.0	1.2	1.1	1.0	11.0	12.5	13.1	1.3	1.3	1.3	12.2
Ashok Leyland	BUY	120	160	32.9	353	4.8	2,926	6.2	8.9	9.4	15.3	43.2	6.1	19.4	13.6	12.8	9.9	7.1	6.7	4.2	3.5	3.0	23.4	28.4	25.4	1.5	2.2	2.4	46.0
Bajaj Auto	SELL	2,759	2,700	(2.1)	798	10.9	289	156	174	185	11.2	11.5	6.3	17.7	15.9	14.9	12.1	10.4	9.5	3.7	3.3	3.0	22.2	22.1	21.0	2.3	2.5	2.7	31.4
Balkrishna Industries	REDUCE	1,091	1,300	19.1	211	2.9	193	50	62	70	34.5	24.1	12.8	21.7	17.5	15.5	11.8	9.7	8.4	4.3	3.5	2.9	21.6	22.1	20.7	0.5	0.6	0.6	15.3
Bharat Forge	SELL	608	600	(1.3)	283	3.9	466	23	27	29	44.4	14.6	7.1	26.0	22.7	21.2	14.8	12.9	11.9	5.2	4.4	3.8	21.5	21.0	19.4	0.8	0.9	1.0	12.1
CEAT	ADD	1,260	1,500	19.0	51	0.7	40	99	108	116	53.7	8.3	7.9	12.7	11.7	10.8	8.2	7.1	6.4	1.7	1.5	1.4	14.4	13.8	13.2	0.8	0.8	0.8	12.6
Eicher Motors	SELL	25,853	24,000	(7.2)	705	9.6	27	997	1,180	1,306	25.8	18.4	10.7	25.9	21.9	19.8	18.6	15.6	13.5	9.5	7.1	5.5	42.4	37.1	31.4	0.1	0.1	—	21.6
Escorts	BUY	654	1,200	83.6	56	1.1	89	59	71	78	52.2	19.9	10.6	11.1	9.2	8.4	6.7	5.4	4.4	2.0	1.7	1.4	17.6	18.0	17.1	1.4	1.6	1.8	14.9
Exide Industries	SELL	266	235	(11.6)	226	3.1	850	10	11	13	25.3	11.0	11.6	25.8	23.3	20.9	14.7	13.1	11.7	3.8	3.4	3.1	15.4	15.5	15.7	1.1	1.3	1.5	8.4
Hero Motocorp	SELL	3,110	3,000	(3.5)	621	8.5	200	183	204	225	(0.9)	11.4	10.2	17.0	15.2	13.8	10.0	8.8	7.8	4.7	4.2	3.7	29.3	29.1	28.6	2.9	3.3	3.6	21.1
Mahindra CIE Automotive	ADD	272	290	6.6	103	1.4	378	14	16	17	45.0	12.7	10.4	19.5	17.3	15.7	9.8	8.6	7.7	2.4	2.1	1.9	13.2	13.1	12.7	—	—	—	3.5
Mahindra & Mahindra	BUY	896	1,125	25.6	1,114	15.2	1,138	45	54	56	18.8	19.0	4.2	19.9	16.7	16.0	12.9	10.7	10.1	3.0	2.6	2.3	15.8	16.6	15.4	1.0	1.2	1.2	30.8
Maruti Suzuki	ADD	7,793	9,200	18.1	2,354	32.1	302	298	362	408	16.7	21.2	12.9	26.1	21.6	19.1	14.4	11.5	9.7	4.9	4.2	3.7	20.1	21.1	20.5	1.0	1.2	1.3	74.9
Motherson Sumi Systems	SELL	254	280	10.1	535	7.3	2,105	11	14	16	40.2	21.5	13.8	22.2	18.3	16.0	9.0	7.4	6.5	4.6	3.9	3.3	22.5	23.2	22.3	1.1	1.3	1.4	15.1
MRF	REDUCE	64,568	69,000	6.9	274	3.7	4	3,425	3,932	4,411	28.3	14.8	12.2	18.9	16.4	14.6	8.8	7.5	6.4	2.5	2.1	1.9	13.9	13.9	13.7	0.1	0.1	0.1	7.3
Schaeffler India	BUY	5,322	6,000	12.7	88	1.2	17	156	199	233	9.0	27.3	17.6	34.1	26.8	22.8	20.7	15.8	13.1	4.7	4.1	3.6	14.5	16.4	17.0	0.6	0.7	0.9	0.6
SKF	ADD	1,717	1,800	4.8	88	1.2	51	69	82	97	19.7	18.5	18.2	24.9	21.0	17.8	15.9	13.1	10.8	4.2	3.6	3.1	16.7	17.1	17.4	0.7	0.8	1.0	0.4
Tata Motors	BUY	240	425	76.9	816	10.3	3,396	22	36	39	10.7	62.7	8.0	10.9	6.7	6.2	3.4	2.8	2.6	0.8	0.7	0.6	7.6	11.2	10.8	—	—	—	52.1
Timken	SELL	618	660	6.8	42	0.6	68	19	25	30	42.3	27.5	21.8	32.1	25.2	20.7	17.7	14.0	11.6	5.1	4.3	3.6	17.1	18.5	18.8	0.2	0.2	0.2	0.3
TVS Motor	SELL	574	405	(29.5)	273	3.7	475	16	20	25	13.9	23.0	26.0	36.2	29.4	23.3	19.9	16.5	13.4	8.1	6.9	5.8	24.2	25.4	27.0	0.8	1.0	1.3	14.7
Varrco Engineering	BUY	979	1,250	27.7	132	1.8	135	39	47	51	52.3	19.9	10.2	25.2	21.0	19.0	19.3	16.4	14.3	3.9	3.2	2.6	15.3	15.3	13.5	—	—	—	—
WABCO India	SELL	6,893	6,350	(7.9)	131	1.8	19	169	222	225	17.8	31.3	1.0	40.7	31.0	30.7	26.5	20.1	19.8	7.2	5.9	5.0	19.2	20.9	17.7	0.1	0.2	0.2	0.4
Automobiles	Neutral				9,514	129					18.3	26.1	9.9	20.4	16.2	14.7	9.1	7.5	6.7	3.0	2.7	2.3	14.9	16.4	15.9	1.0	1.2	1.3	401.8
Banks																													
Axis Bank	REDUCE	597	600	0.4	1,534	20.9	2,567	18	40	45	1,577.6	122.3	12.3	33.1	14.9	13.3	—	—	—	2.6	2.2	1.9	7.1	14.1	14.1	0.5	1.0	1.1	85.6
Bank of Baroda	NR	108	—	—	285	3.9	2,652	21	26	29	323.7	26.4	12.1	5.3	4.2	3.7	—	—	—	0.9	0.7	0.6	12.7	14.0	13.7	—	—	—	40.3
Canara Bank	ADD	233	300	28.8	171	2.3	733	(5)	51	68	91.6	1,147.0	33.3	(48.1)	4.6	3.4	—	—	—	1.4	0.8	0.6	(1.0)	10.1	12.0	—	—	—	26.4
City Union Bank	REDUCE	180	200	10.9	132	1.8	665	9	11	12	5.8	13.3	16.7	19.1	16.9	14.5	—	—	—	3.0	2.6	2.2	15.5	15.6	16.0	0.9	1.1	1.2	1.8
DCB Bank	ADD	154	205	33.0	48	0.6	308	10	12	16	28.2	21.0	33.1	15.1	12.5	9.4	—	—	—	1.8	1.6	1.4	11.7	12.7	14.9	0.6	0.8	1.0	4.1
Equitas Holdings	BUY	129	190	47.0	44	0.6	340	4.4	8.4	11.4	378.4	89.9	35.6	29.1	15.3	11.3	—	—	—	1.9	1.7	1.5	6.4	11.2	13.4	—	—	—	4.9
Federal Bank	BUY	72	130	80.8	142	1.9	1,972	5.7	7.9	9.7	29.5	39.5	22.9	12.7	9.1	7.4	—	—	—	1.2	1.1	0.9	8.8	11.4	12.8	1.8	2.5	3.1	17.5
HDFC Bank	REDUCE	1,926	2,000	3.9	5,228	71.3	2,595	78	94	112	15.7	20.0	19.1	24.7	20.6	17.3	—	—	—	3.6	3.2	2.8	16.7	16.2	17.0	0.8	0.9	1.1	78.5
ICICI Bank	BUY	309	400	29.6	1,987	27.1	6,429	8	26	31	(19.6)	209.1	19.2	36.4	11.8	9.9	—	—	—	2.1	1.8	1.5	5.1	14.5	15.5	0.5	1.7	2.0	93.0
IDFC Bank	NR	39	—	—	132	1.8	3,404	1.2	2.9	4.3	(52.7)	146.7	44.8	32.5	13.2	9.1	—	—	—	0.8	0.8	0.8	2.6	6.3	8.6	0.6	1.5	2.2	7.2
IndusInd Bank	REDUCE	1,674	1,900	13.5	1,007	13.7	600	71	87	102	17.5	23.6	16.9	23.7	19.2	16.4	—	—	—	3.5	3.1	2.7	17.6	16.8	17.0	—	0.6	0.7	31.1
J&K Bank	BUY	47	100	113.2	26	0.4	557	7	11	15	82.4	63.8	33.5	7.1	4.3	3.2	—	—	—	0.6	0.5	0.5	5.9	9.1	11.2	2.8	4.6	6.2	0.3
Karur Vysya Bank	ADD	82	110	34.1	66	0.9	727	3	13	14	(32.3)	306.7	9.1	25.5	6.3	5.7	—	—	—	1.1	1.0	0.9	3.7	14.1	13.9	1.0	4.0	4.5	1.6
Punjab National Bank	ADD	69	90	30.1	191	2.6	2,761	(27)	12	18	40.4	145.3	46.9	(2.6)	5.8	3.9	—	—	—	3.4	1.1	0.7	(23.4)	10.7	13.8	—	—	—	40.0
RBL Bank	SELL	531	475	(10.6)	225	3.1	420	22	29	36	48.1	31.5	21.0	23.7	18.0	14.9	—	—	—	3.1	2.8	2.4	13.3	15.5	16.5	0.6	0.8	1.0	16.0
State Bank of India	BUY	264	370	40.0	2,359	32.2	8,925	8	37	53	204.8	380.5	42.7	34.4	7.2	5.0	—	—	—	1.7	1.3	1.0	3.1	13.6	16.7	—	0.2	0.2	98.9
Ujivan Financial Services	ADD	277	420	51.7	34	0.5	121	19	28	32	3,033.9	47.3	15.1	14.8	10.0	8.7	—	—	—	1.7	1.5	1.3	12.1	15.8	15.8	0.6	1.0	1.3	5.2
Union Bank	ADD	72	120	66.0	84	1.2	1,169																						

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Target price	Upside	Mkt cap.	O/S	EPS (Rs)			EPS growth (%)			P/E (X)		EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT		
		24-Sep-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	(US\$ mn)
NBFCs																													
Bajaj Finance	SELL	2,261	2,000	(11.5)	1,307	17.8	575	68	90	114	56.6	31.9	27.3	33.3	25.2	19.8	—	—	—	6.8	5.5	4.4	22.4	24.0	24.6	0.3	0.4	0.5	67.5
Bajaj Finserv	REDUCE	6,068	6,100	0.5	966	13.2	159	245	307	376	39.7	25.2	22.5	24.7	19.8	16.1	—	—	—	3.9	3.3	2.8	17.5	18.1	18.6	0.2	0.2	0.2	20.8
Bharat Financial Inclusion	NA	1,031	—	—	144	2.0	139	43	54	69	31.1	27.2	25.8	24.1	18.9	15.0	—	—	—	3.9	3.2	2.6	17.9	18.5	19.0	—	—	—	9.8
Cholamandalam	ADD	1,181	1,425	20.7	185	2.5	156	74	92	113	19.4	23.8	23.1	15.9	12.8	10.4	—	—	—	3.2	2.6	2.2	20.6	21.3	21.7	0.8	0.9	1.2	7.3
HDFC	ADD	1,719	2,020	17.5	2,910	39.7	1,676	55	65	79	(27.3)	18.7	21.2	31.3	26.4	21.8	—	—	—	3.9	3.6	3.3	13.6	14.2	15.7	1.2	1.4	1.7	77.1
HDFC Standard Life Insurance	SELL	369	405	9.7	743	10.1	2,007	6	7	8	14.8	10.9	14.7	58.1	52.4	45.7	—	—	—	15.4	13.8	12.3	28.0	27.7	28.4	0.4	0.5	0.5	7.4
ICICI Lombard	SELL	814	620	(23.8)	370	5.0	454	26	32	37	37.1	21.5	18.5	31.3	25.7	21.7	—	—	—	6.8	5.7	4.8	23.8	24.2	24.0	0.7	0.9	1.1	3.5
ICICI Prudential Life	BUY	334	500	49.5	480	6.5	1,436	12	13	15	10.1	7.0	10.0	26.9	25.2	22.9	—	—	—	6.0	5.0	4.3	24.5	21.8	20.2	0.6	0.7	0.7	8.6
IIFL Holdings	SELL	555	625	12.6	177	2.4	319	38	45	52	31.5	18.6	16.0	14.8	12.5	10.7	—	—	—	2.6	2.3	2.0	20.5	20.0	20.0	1.4	1.7	2.0	1.7
L&T Finance Holdings	ADD	130	165	26.8	260	3.5	1,996	13	14	16	70.9	12.3	12.8	10.4	9.2	8.2	—	—	—	1.9	1.6	1.4	18.9	18.8	18.3	1.5	1.9	1.8	17.3
LIC Housing Finance	BUY	427	580	36.0	215	2.9	505	48	55	66	10.9	13.9	19.8	8.8	7.7	6.5	—	—	—	1.4	1.2	1.0	17.0	16.2	16.9	1.8	2.0	2.4	16.2
Magma Fincorp	BUY	121	165	36.9	32	0.4	237	13	17	21	34.0	31.8	23.0	9.3	7.0	5.7	—	—	—	1.2	1.0	0.9	13.9	15.8	17.0	1.6	2.1	2.6	1.0
Mahindra & Mahindra Financial	ADD	393	450	14.5	243	3.3	614	23	28	34	58.4	23.2	18.6	17.1	13.9	11.7	—	—	—	2.5	2.2	2.0	14.3	15.8	16.7	1.6	2.0	2.4	11.3
Max Financial Services	ADD	448	650	45.0	120	1.6	268	6	6	6	36.9	1.8	1.8	71.5	70.2	69.0	—	—	—	—	—	—	8.3	8.0	7.8	—	0.5	0.5	5.2
Muthoot Finance	ADD	432	480	11.2	173	2.4	400	40	42	48	(7.8)	6.0	14.8	10.9	10.3	8.9	—	—	—	1.9	1.7	1.5	19.0	17.6	17.8	2.1	2.2	2.6	6.8
PNB Housing Finance	REDUCE	1,084	1,200	10.7	181	2.5	167	62	75	92	25.3	20.9	22.4	17.4	14.4	11.7	—	—	—	2.5	2.2	1.9	15.2	15.9	17.0	0.3	0.3	0.3	5.1
SBI Life Insurance	ADD	587	785	33.8	587	8.0	1,000	15	18	21	26.0	22.9	17.0	40.4	32.9	28.1	—	—	—	7.7	6.4	5.4	20.6	21.3	20.9	0.4	0.5	0.6	2.7
Shriram City Union Finance	ADD	1,726	2,120	22.8	114	1.6	66	139	171	206	38.1	22.6	20.5	12.4	10.1	8.4	—	—	—	2.0	1.7	1.5	15.5	16.7	17.4	1.0	1.2	1.5	1.5
Shriram Transport	BUY	1,135	1,450	27.7	258	3.5	227	109	127	143	57.8	16.2	12.5	10.4	9.0	8.0	—	—	—	1.8	1.5	1.3	17.6	17.2	16.8	1.3	1.6	1.9	34.1
NBFCs	Neutral				9,465	129					13.2	19.5	19.6	24.4	20.4	17.1				3.9	3.4	2.9	15.9	16.5	17.1	0.8	0.9	1.1	670.5
Cement																													
ACC	SELL	1,527	1,270	(16.9)	287	3.9	188	62	70	81	27.0	13.8	15.2	24.7	21.7	18.8	13.6	11.7	9.9	2.8	2.6	2.3	11.9	12.5	13.1	1.1	1.1	1.1	16.4
Ambuja Cements	REDUCE	219	210	(4.0)	434	5.9	1,986	9	11	12	14.5	23.2	15.8	25.4	20.6	17.8	8.5	7.0	5.8	2.0	1.9	1.8	8.1	9.5	10.4	1.6	1.6	1.6	10.9
Dalmia Bharat	ADD	2,411	2,830	17.4	215	2.9	89	94	122	139	55.8	29.3	14.8	25.7	19.8	17.3	9.8	8.0	6.9	3.1	2.7	2.3	12.9	14.6	14.5	0.1	0.1	0.1	4.4
Grasim Industries	BUY	1,019	1,170	14.8	670	9.1	657	46	55	70	(2.5)	18.8	28.0	22.1	18.6	14.5	7.5	7.1	6.6	1.1	1.1	1.0	5.2	5.9	7.1	0.5	0.5	0.5	16.2
India Cements	REDUCE	106	118	11.8	33	0.4	308	4	8	12	28.0	102.6	41.3	25.2	12.5	8.8	8.4	6.6	5.5	0.6	0.6	0.6	2.5	4.8	6.5	0.9	0.9	0.9	9.4
J K Cement	ADD	783	890	13.6	55	0.7	70	45	79	78	3.7	75.4	(0.8)	17.5	10.0	10.0	10.3	8.4	6.9	2.5	2.0	1.7	15.0	22.3	18.5	1.0	1.0	1.0	0.5
JK Lakshmi Cement	ADD	303	370	22.1	36	0.5	118	11	28	37	153.5	147.9	30.5	26.7	10.8	8.3	9.5	6.2	5.0	2.3	1.9	1.6	8.9	19.5	21.0	0.7	0.7	0.7	0.3
Orient Cement	ADD	96	145	50.7	20	0.3	205	7	11	15	212.9	58.7	41.3	14.2	9.0	6.3	7.0	5.3	4.0	1.8	1.5	1.3	12.9	18.2	21.8	1.6	2.1	2.1	0.2
Shree Cement	SELL	17,226	12,500	(27.4)	600	8.2	35	421	630	760	6.0	49.7	20.6	40.9	27.3	22.7	19.0	14.3	11.6	5.9	4.9	4.1	15.4	19.7	19.8	0.3	0.3	0.3	5.3
UltraTech Cement	SELL	3,975	2,950	(25.8)	1,092	14.9	275	126	162	201	42.7	28.9	24.0	31.6	24.5	19.8	16.5	13.7	11.3	3.8	3.3	2.8	12.6	14.3	15.4	0.3	0.3	0.3	19.3
Cement	Cautious				3,441	47					19.5	30.3	21.8	27.8	21.3	17.5	10.7	9.1	7.9	2.3	2.1	1.9	8.4	10.0	11.0	0.6	0.6	0.6	82.9

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Target price			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)
		24-Sep-18	Price (Rs)	Upside (%)	(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Consumer products																													
Asian Paints	REDUCE	1,272	1,325	4.2	1,220	16.6	959	27	33	39	32.1	20.3	18.3	46.9	39.0	33.0	29.4	24.3	20.5	12.7	11.0	9.7	28.8	30.3	31.3	0.9	1.2	1.4	23.3
Bajaj Corp.	ADD	458	470	2.6	68	0.9	148	15	17	19	7.8	10.3	9.5	29.7	26.9	24.6	23.9	20.4	17.7	13.8	13.7	13.5	46.3	51.2	55.4	2.8	3.1	3.3	0.6
Britannia Industries	ADD	5,602	6,700	19.6	673	9.2	120	104	127	152	24.5	22.2	19.2	53.8	44.0	36.9	35.2	28.7	24.0	15.7	12.6	10.4	32.5	31.8	30.9	0.6	0.8	1.0	14.0
Coffee Day Enterprises	REDUCE	304	290	(4.6)	64	0.9	211	8	10	12	129.9	30.0	21.2	39.5	30.4	25.1	12.8	11.2	10.3	2.5	2.3	2.1	6.6	8.0	8.9	—	—	—	1.1
Colgate-Palmolive (India)	ADD	1,092	1,250	14.5	297	4.1	272	27	32	36	14.7	15.6	15.5	40.0	34.6	30.0	22.9	19.9	17.3	17.5	15.2	13.3	46.0	46.9	47.3	1.5	1.7	2.1	7.2
Dabur India	REDUCE	432	390	(9.8)	764	10.4	1,762	9	10	12	17.3	12.9	13.6	47.4	42.0	37.0	39.7	34.3	29.7	13.4	11.6	10.2	28.1	29.6	29.4	0.9	1.0	1.3	20.6
GlaxoSmithKline Consumer	ADD	7,352	7,300	(0.7)	309	4.2	42	199	223	246	19.5	12.1	10.1	36.9	33.0	29.9	26.0	22.4	19.6	8.0	7.2	6.6	22.8	23.0	23.1	1.2	1.4	1.7	2.3
Godrej Consumer Products	SELL	790	733	(7.1)	807	11.0	1,022	17	19	22	18.8	13.7	12.7	46.7	41.1	36.4	33.1	28.7	25.1	10.9	9.5	8.3	25.3	24.7	24.2	0.7	0.8	0.9	13.7
Hindustan Unilever	REDUCE	1,590	1,570	(1.3)	3,443	47.0	2,160	29	33	37	19.5	13.2	12.6	54.3	47.9	42.6	37.5	33.0	29.2	42.5	36.1	31.0	83.5	81.4	78.3	1.3	1.5	1.7	37.2
ITC	ADD	298	330	10.8	3,645	49.7	12,275	10	11	12	8.2	12.3	11.7	30.9	27.5	24.6	20.0	17.6	15.7	6.7	6.3	5.9	20.4	22.2	24.2	1.9	2.2	2.6	57.6
Jubilant Foodworks	BUY	1,274	1,650	29.5	168	2.3	132	25	35	46	74.7	37.6	32.4	50.1	36.4	27.5	25.0	18.8	14.2	12.5	9.5	7.2	29.0	29.7	29.9	0.2	0.2	0.3	28.2
Jyothy Laboratories	ADD	197	240	21.7	72	1.0	364	6	7	8	27.6	16.7	15.4	35.1	30.1	26.0	23.5	19.9	16.9	5.4	4.7	4.1	16.6	16.8	16.9	0.5	0.8	1.0	0.9
Marico	ADD	333	375	12.8	429	5.9	1,291	7	8	9	8.9	20.0	14.5	48.7	40.6	35.5	33.8	27.9	24.1	16.0	14.8	13.7	33.7	37.9	40.2	1.4	1.7	1.9	9.9
Nestle India	ADD	9,663	11,000	13.8	932	12.7	96	171	197	223	34.2	15.7	13.2	56.7	49.0	43.2	32.3	27.9	24.5	25.1	23.0	21.1	46.1	49.0	50.8	1.2	1.4	1.6	9.8
Page Industries	SELL	32,848	25,000	(23.9)	366	5.0	11	418	508	607	34.3	21.6	19.5	78.6	64.6	54.1	50.8	41.9	35.0	33.2	26.3	21.2	47.8	45.5	43.4	0.5	0.7	0.8	17.9
Pidlite Industries	REDUCE	1,093	1,080	(1.2)	555	7.6	508	21	26	31	16.8	21.8	20.2	51.9	42.6	35.4	34.5	28.4	23.7	13.2	11.1	9.2	27.4	28.2	28.4	0.6	0.8	0.9	8.1
S H Kelkar and Company	BUY	212	290	37.1	31	0.4	145	7	10	12	(6.2)	41.9	23.2	30.5	21.5	17.4	19.7	14.1	12.2	3.3	3.0	2.6	11.3	14.5	16.0	0.8	0.9	1.3	0.5
Tata Global Beverages	REDUCE	233	250	7.2	147	2.0	631	8	9	10	7.7	17.0	12.9	29.5	25.2	22.3	16.1	14.2	12.5	2.0	1.9	1.8	7.0	7.9	8.5	1.3	1.5	1.7	10.9
Titan Company	SELL	791	840	6.2	702	9.6	888	16	20	23	25.6	21.8	19.3	49.3	40.5	33.9	32.7	26.0	21.4	11.6	9.8	8.3	25.6	26.3	26.4	0.6	0.7	0.9	39.0
United Breweries	SELL	1,317	1,100	(16.5)	348	4.7	264	21	26	31	39.2	23.6	20.6	63.4	51.3	42.5	31.3	26.9	23.0	11.0	9.3	7.9	18.7	19.6	20.0	0.2	0.3	0.4	13.8
United Spirits	REDUCE	521	590	13.2	379	5.2	727	10	13	17	34.7	30.9	24.5	50.9	38.8	31.2	29.7	24.0	20.2	10.4	7.7	5.9	24.2	22.7	21.3	—	—	0.5	13.1
Varun Beverages	ADD	768	800	4.1	140	1.9	183	15	20	26	29.8	34.5	30.7	51.4	38.2	29.2	17.0	14.5	12.2	7.1	6.1	5.1	14.6	17.1	19.0	—	—	0.3	1.3
Consumer products	Cautious				15,559	212					17.7	16.0	14.7	43.8	37.8	32.9	28.3	24.3	21.1	11.4	10.2	9.1	26.1	27.1	27.8	1.2	1.4	1.6	330.9
Energy																													
BPCL	REDUCE	367	375	2.1	797	10.9	1,967	38	39	39	(6.7)	3.1	1.1	9.8	9.5	9.4	7.1	6.7	6.6	1.9	1.7	1.6	20.5	19.1	17.5	4.1	4.2	4.3	25.7
Castrol India	SELL	151	155	3.0	149	2.0	989	7	8	9	2.9	10.1	9.7	21.3	19.3	17.6	13.3	12.0	10.8	14.0	13.7	13.2	67.1	71.5	76.0	3.7	4.2	4.5	3.7
GAIL (India)	BUY	381	440	15.5	859	11.7	2,255	26	29	31	27.8	10.0	9.5	14.6	13.3	12.1	9.1	8.4	7.6	2.0	1.8	1.7	14.0	14.1	14.2	2.2	2.5	2.8	25.0
GSPL	SELL	178	175	(1.9)	101	1.4	564	11	11	12	(6.5)	(0.5)	11.9	16.1	16.2	14.5	6.0	5.9	5.3	1.8	1.7	1.5	11.7	10.7	10.9	0.9	0.9	1.0	1.2
HPCL	REDUCE	248	285	14.8	378	5.2	1,524	32	32	32	(22.3)	(2.2)	0.5	7.7	7.8	7.8	6.9	7.3	7.6	1.4	1.3	1.2	19.6	17.4	16.1	5.3	5.2	5.2	22.2
Indraprastha Gas	SELL	257	240	(6.7)	180	2.5	700	12	13	15	16.4	12.3	10.7	21.4	19.1	17.2	13.5	11.9	10.5	4.4	3.8	3.4	22.1	21.5	20.9	1.0	1.2	1.6	9.5
IOCL	REDUCE	155	150	(3.2)	1,505	20.5	9,479	18	17	18	(11.2)	(4.1)	2.8	8.5	8.9	8.6	4.9	4.8	4.7	1.2	1.2	1.1	15.1	13.4	12.9	4.7	4.5	4.6	17.8
Mahanagar Gas	ADD	815	965	18.4	80	1.1	99	56	60	64	16.0	7.6	5.4	14.5	13.5	12.8	8.4	7.6	7.0	3.4	3.0	2.7	24.8	23.5	22.0	2.7	3.0	3.1	12.6
ONGC	ADD	181	200	10.7	2,318	31.6	12,833	20	20	19	16.8	0.3	(5.9)	8.9	8.9	9.4	4.2	4.0	3.9	1.0	0.9	0.9	11.2	10.6	9.5	3.7	3.9	3.9	16.1
Oil India	SELL	219	200	(8.7)	249	3.4	1,135	23	24	23	(6.7)	3.4	(2.5)	9.5	9.2	9.4	6.2	5.9	5.9	0.8	0.8	0.8	9.2	9.0	8.4	4.2	4.4	4.2	2.2
Petronet LNG	BUY	227	280	23.3	341	4.6	1,500	16	18	20	16.7	13.1	9.4	14.0	12.4	11.3	9.4	7.9	7.0	3.1	2.7	2.4	23.3	23.2	22.7	2.5	3.2	4.0	10.2
Reliance Industries	SELL	1,232	985	(20.1)	7,291	99.4	5,922	69	78	87	17.6	12.4	11.9	17.7	15.8	14.1	11.9	10.2	8.7	2.2	2.0	1.7	12.2	12.1	12.1	0.5	0.6	0.6	142.3
Energy	Attractive				14,247	194					7.2	5.2	4.8	12.9	12.3	11.7	7.8	7.2	6.6	1.7	1.5	1.4	13.0	12.5	12.0	2.0	2.1	2.2	288.6

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		24-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	
Industrials																													
ABB	SELL	1,388	1,020	(26.5)	294	4.0	212	26	29	36	30.1	14.2	23.5	53.9	47.2	38.2	31.6	28.4	23.6	7.5	6.8	6.0	14.5	15.1	16.7	0.6	0.6	0.6	2.2
BHEL	REDUCE	71	89	26.2	259	3.5	3,671	3.3	5.5	7.6	47.9	69.3	38.0	21.7	12.8	9.3	6.6	4.0	2.9	0.8	0.8	0.8	3.6	6.1	8.2	2.8	4.8	6.7	9.4
Carborundum Universal	SELL	378	322	(14.9)	72	1.0	189	14	17	20	25.0	21.4	13.8	26.5	21.8	19.2	14.5	11.9	10.3	4.1	3.7	3.3	16.3	17.8	18.1	1.1	1.4	1.6	0.4
CG Power and Industrial	BUY	49	72	45.5	31	0.4	627	2.9	4.3	6.2	255.2	48.7	44.9	17.1	11.5	7.9	7.1	5.6	4.3	1.1	1.1	1.0	6.7	9.8	13.3	—	—	—	5.7
Cummins India	REDUCE	692	710	2.6	192	2.6	277	28	33	37	15.2	17.5	13.7	24.9	21.2	18.6	20.8	17.9	15.4	4.5	4.2	3.9	18.7	20.6	21.8	2.2	2.6	2.9	4.9
Kalpitaru Power Transmission	BUY	331	560	69.4	51	0.7	153	23.0	32.1	41.0	26.0	39.1	27.7	14.3	10.3	8.1	6.6	5.1	4.3	1.7	1.5	1.3	12.5	15.2	16.7	0.5	0.5	0.5	0.6
KEC International	BUY	295	410	39.2	76	1.0	257	21	27	33	16.9	29.7	23.0	14.1	10.8	8.8	8.0	6.5	5.5	3.1	2.5	2.0	24.1	25.2	24.9	0.8	1.0	1.2	2.7
L&T	BUY	1,318	1,600	21.4	1,848	25.2	1,401	66.3	67.6	79.5	28.2	1.9	17.6	19.9	19.5	16.6	17.9	17.3	14.4	3.3	3.0	2.7	17.6	16.2	17.1	1.7	1.7	2.0	45.0
Siemens	SELL	920	1,000	8.7	328	4.5	356	29	35	—	21.4	21.7	—	31.6	26.0	—	17.6	14.1	—	3.8	3.5	—	12.3	14.0	—	1.3	1.6	—	3.5
Thermax	REDUCE	921	1,010	9.7	110	1.5	113	27.8	38.7	43.8	34.7	39.2	13.2	33.1	23.8	21.0	21.0	15.5	13.2	3.6	3.3	2.9	11.1	14.3	14.7	1.0	1.2	1.3	1.0
Industrials	Neutral				3,259	44					29.0	13.9	11.9	22.5	19.7	17.6	16.3	14.5	11.9	2.8	2.6	2.5	12.3	12.9	14.3	1.6	1.8	2.0	75.4
Infrastructure																													
Adani Ports and SEZ	BUY	346	460	33.0	716	9.8	2,071	19	23	29	1.2	21.1	29.8	18.5	15.3	11.8	12.8	10.6	9.2	2.9	2.5	2.1	17.0	17.7	19.4	0.5	0.6	0.6	17.0
Ashoka Buildcon	BUY	113	235	107.8	32	0.4	282	9	10	10	4.1	17.8	(1.3)	12.9	11.0	11.1	8.5	7.2	6.7	1.4	1.3	1.2	11.8	12.3	11.0	1.5	1.2	1.1	0.5
Container Corp.	SELL	621	635	2.3	303	4.1	487	21	25	29	17.4	20.9	15.0	30.0	24.8	21.6	18.4	14.6	12.0	3.0	2.8	2.6	10.3	11.6	12.3	1.4	1.7	1.6	5.4
Dilip Buildcon	BUY	718	1,240	72.6	98	1.3	137	56	71	85	19.8	27.5	20.1	12.9	10.1	8.4	6.8	5.5	4.6	3.0	2.3	1.8	26.7	26.2	24.4	—	—	—	4.0
Gateway Distriparks	BUY	155	250	60.8	17	0.2	109	7	8	11	(5.8)	15.2	37.5	21.7	18.8	13.7	10.2	8.4	6.9	2.9	2.5	2.2	9.8	14.5	17.1	—	1.9	1.9	0.3
Gujarat Pipavav Port	BUY	102	150	46.4	49	0.7	483	5.3	6.5	7.8	29.7	22.9	19.3	19.2	15.6	13.1	10.1	8.3	6.9	2.4	2.4	2.3	12.7	15.3	17.8	4.3	5.2	6.2	1.0
IRB Infrastructure	BUY	142	320	126.1	50	0.7	351	31	33	23	36.8	7.1	(31.3)	4.6	4.3	6.2	6.0	6.5	7.7	0.7	0.7	0.6	17.6	16.3	10.0	2.2	2.8	3.0	5.7
Mahindra Logistics	REDUCE	547	565	3.3	39	0.5	71	15	21	25	50.7	39.3	23.7	37.0	26.6	21.5	20.6	14.9	11.8	7.7	6.2	5.0	22.7	25.8	25.8	—	—	—	0.5
Sadbhav Engineering	BUY	255	435	70.4	44	0.6	172	17	22	23	31.7	31.0	2.6	15.1	11.5	11.2	11.0	8.6	7.3	2.1	1.8	1.5	14.5	16.5	14.7	—	—	—	1.4
Infrastructure	Attractive				1,348	18					11.3	20.3	16.7	17.5	14.5	12.5	11.0	9.3	8.4	2.6	2.3	2.0	14.8	15.5	15.7	0.9	1.1	1.1	35.7
Internet																													
Info Edge	ADD	1,534	1,425	(7.1)	187	2.5	122	26	33	40	14.9	27.5	20.6	59.3	46.5	38.6	45.1	34.2	27.7	7.0	6.4	5.7	13.2	14.3	15.6	0.5	0.5	0.6	3.2
Just Dial	ADD	504	610	21.1	34	0.5	67	26	30	33	23.0	15.0	9.4	19.3	16.8	15.3	10.1	8.0	6.6	3.0	2.6	2.3	16.7	16.6	15.7	0.5	0.6	0.7	23.3
Internet	Cautious				221	3					17.6	23.0	16.8	45.1	36.6	31.3	33.0	26.0	21.8	5.8	5.2	4.6	12.9	14.2	14.7	0.5	0.5	0.6	26.5
Media																													
DB Corp.	REDUCE	205	270	31.7	38	0.5	184	20	23	26	14.9	12.3	14.8	10.1	9.0	7.8	5.4	4.7	—	2.0	2.0	—	20.7	22.3	25.2	8.2	10.3	12.3	0.5
DishTV	ADD	59	90	52.8	108	1.5	1,925	1.8	3.4	4.9	514.6	88.2	42.6	NM	17.1	12.0	5.1	4.0	3.2	1.6	1.5	1.3	5.1	8.9	11.5	—	—	—	5.2
Jagran Prakashan	REDUCE	115	131	14.4	34	0.5	311	11	12	14	10.0	13.6	14.5	10.8	9.5	8.3	4.7	4.0	3.4	1.8	1.7	1.6	15.9	18.2	19.7	4.4	6.5	7.4	0.4
PVR	BUY	1,287	1,430	11.1	60	0.8	47	38	50	61	41.2	32.3	22.4	34.0	25.7	21.0	13.1	11.1	9.4	4.9	4.2	3.6	15.3	17.6	18.3	0.3	0.4	0.5	11.5
Sun TV Network	REDUCE	633	925	46.2	249	3.4	394	35	39	43	20.7	10.9	10.7	18.2	16.4	14.8	12.2	10.6	9.1	4.8	4.4	3.9	28.1	27.9	27.9	2.8	3.2	3.6	19.3
Zee Entertainment Enterprises	ADD	448	600	33.9	430	5.9	960	17	20	22	11.3	17.0	13.9	26.8	22.9	20.1	16.4	13.9	12.0	5.0	4.4	3.9	19.9	20.6	20.7	1.0	1.2	1.6	18.1
Media	Attractive				920	13					28.7	21.0	17.2	22.0	18.2	15.5	10.4	8.9	7.3	3.6	3.2	3.1	16.3	17.7	19.8	1.7	2.1	2.5	55.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		24-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E		
Metals & Mining																													
Coal India	ADD	281	320	13.8	1,745	23.8	6,207	25	25	27	120.4	2.2	6.6	11.3	11.0	10.4	8.6	7.3	6.7	6.9	7.6	8.1	62.7	65.9	76.0	7.1	8.9	8.9	14.9
Hindalco Industries	BUY	240	305	27.1	539	7.3	2,229	27	31	34	25.1	13.6	10.2	8.8	7.7	7.0	5.6	4.9	4.3	0.9	0.8	0.7	10.6	10.8	10.8	0.5	0.5	0.5	35.6
Hindustan Zinc	ADD	297	290	(2.5)	1,256	17.1	4,225	22	26	27	3.7	14.7	5.4	13.3	11.6	11.0	7.8	6.4	5.7	3.0	2.6	2.3	24.4	24.2	22.1	2.7	2.7	2.7	6.2
Jindal Steel and Power	REDUCE	224	215	(3.9)	216	3.0	968	8	14	22	195.9	68.5	60.8	27.5	16.3	10.1	7.0	6.4	5.5	0.7	0.7	0.6	2.7	4.3	6.5	—	—	—	34.2
JSW Steel	SELL	400	350	(12.6)	968	13.2	2,406	31	26	31	16.1	(16.2)	17.2	12.8	15.3	13.0	7.4	8.6	7.6	2.7	2.4	2.0	23.5	16.6	16.8	0.8	0.8	0.8	32.0
National Aluminium Co.	ADD	65	80	22.9	126	1.7	1,933	9	7	8	125.8	(21.1)	2.4	7.0	8.8	8.6	3.1	3.9	3.9	1.2	1.2	1.1	16.8	13.0	13.3	9.2	9.2	9.2	11.6
NMDC	REDUCE	113	120	6.7	356	4.9	3,164	12	10	11	4.2	(14.3)	5.9	9.2	10.7	10.2	5.7	6.5	6.1	1.4	1.3	1.2	15.3	12.4	12.5	4.9	4.9	4.9	5.9
Tata Steel	ADD	608	660	8.6	696	9.5	1,205	76	85	94	12.8	12.1	10.9	8.0	7	6.4	6.0	6.3	6.0	1.1	1.0	0.9	14.3	14.3	14.4	1.6	1.6	1.6	72.8
Vedanta	BUY	230	370	60.9	855	11.7	3,717	32	39	38	49.1	19.7	(0.7)	7.1	6.0	6.0	4.7	3.9	3.5	1.2	1.1	1.0	18.0	19.4	17.2	4.2	5.0	5.0	45.4
Metals & Mining		Attractive			6,757	92					39.9	6.7	7.8	10.2	9.6	8.9	6.4	6.0	5.5	1.8	1.7	1.5	17.9	17.5	17.1	3.6	4.2	4.2	258.6
Pharmaceutical																													
Apollo Hospitals	ADD	1,017	1,090	7.2	141	1.9	139	20	27	33	133.5	36.7	21.6	51.6	37.7	31.1	18.3	15.4	13.5	4.1	3.8	3.5	8.2	10.5	11.8	0.5	0.7	0.8	15.1
Aster DM Healthcare	BUY	159	240	50.6	81	1.1	505	5	8	12	74.4	62.0	51.4	33.2	20.5	13.5	12.0	9.4	7.4	2.6	2.4	2.0	8.3	12.2	16.3	—	—	—	0.2
Aurobindo Pharma	ADD	731	760	3.9	429	5.8	584	42	57	64	1.0	35.8	12.3	17.3	12.8	11.4	11.6	8.7	7.7	3.1	2.5	2.1	19.3	19.9	18.6	0.7	0.9	1.0	37.7
Biocon	SELL	665	330	(50.4)	399	5.4	601	8	15	18	35.9	75.7	21.7	79.0	45.0	37.0	34.4	23.0	19.5	6.6	5.9	5.3	8.7	13.9	14.3	0.4	0.8	0.9	22.0
Cipla	BUY	646	680	5.3	520	7.1	805	24	31	40	34.5	31.0	29.4	27.4	20.9	16.2	15.4	12.3	9.6	3.2	2.9	2.5	12.4	14.6	15.7	0.7	1.0	1.3	24.3
Dr Lal Pathlabs	REDUCE	947	900	(5.0)	79	1.1	83	24	29	34	19.0	17.9	18.4	38.9	33.0	27.9	23.8	19.9	16.3	8.4	7.0	5.9	23.4	23.1	22.9	0.5	0.6	0.7	1.3
Dr Reddy's Laboratories	REDUCE	2,554	2,150	(15.8)	424	5.8	166	89	118	141	50.2	32.8	19.3	28.8	21.7	18.2	14.5	10.3	8.6	3.1	2.7	2.4	11.1	12.6	13.3	0.5	0.7	0.8	34.7
HCG	REDUCE	232	290	25.2	20	0.3	85	2	4	7	39.8	80.3	80.8	106.0	58.8	32.5	17.3	14.3	11.0	3.7	3.5	3.1	3.5	6.1	10.1	—	—	—	0.2
Laurus Labs	ADD	430	500	16.3	46	0.6	106	16	29	34	2.4	79.9	17.5	26.5	14.7	12.5	12.3	8.5	7.5	2.7	2.3	2.0	10.9	17.1	15.6	—	—	—	0.7
Lupin	REDUCE	861	800	(7.1)	389	5.3	450	27	39	50	(28.9)	44.0	27.4	31.7	22.1	17.3	14.9	10.8	8.7	2.6	2.4	2.1	8.6	11.4	12.4	0.5	0.7	0.9	45.8
Narayana Hrudayalaya	ADD	241	265	10.0	49	0.7	204	3	6	9	23.0	103.2	40.7	77.9	38.3	27.2	22.2	15.5	12.5	4.5	4.0	3.5	5.9	11.0	13.7	—	—	—	0.1
Sun Pharmaceuticals	SELL	624	540	(13.5)	1,497	20.4	2,406	16	24	29	7.5	45.5	21.6	38.3	26.3	21.6	20.6	14.9	12.3	3.6	3.2	2.9	9.8	12.9	13.2	0.5	0.8	0.9	62.2
Torrent Pharmaceuticals	NR	1,683	—	—	285	3.9	169	47	61	81	18.0	29.6	32.1	35.6	27.5	20.8	15.5	13.3	11.0	5.4	4.7	4.0	15.3	17.2	19.3	0.6	0.8	1.1	7.8
Pharmaceuticals		Neutral			4,359	59					11.3	40.7	22.6	32.9	23.4	19.1	17.0	12.6	10.5	3.6	3.2	2.8	10.9	13.5	14.6	0.5	0.8	0.9	252.0
Real Estate																													
Brigade Enterprises	BUY	191	290	52.1	26	0.4	136	9	15	17	(17.0)	59.2	15.8	20.8	13.0	11.3	13.2	10.2	8.2	1.1	1.0	1.0	5.4	8.1	8.8	1.3	1.3	1.3	0.3
DLF	RS	185	—	—	330	4.5	1,784	5.3	23.9	14.1	(87.2)	35.46	(41.0)	35.2	7.8	13.1	50.6	8.9	16.6	0.9	0.8	0.8	2.6	11.3	6.2	1.1	1.1	1.1	18.1
Godrej Properties	SELL	566	400	(29.3)	130	1.8	216	13.3	15.8	18.2	(38.9)	19.1	15.2	42.7	35.8	31.1	256.2	134.3	110.3	3.7	3.3	3.0	10.5	9.7	10.1	—	—	—	1.5
Oberoi Realty	BUY	406	560	37.8	148	2.0	340	62	44	66	385.4	(28.0)	49.3	6.6	9.1	6.1	9.2	11.4	4.9	1.5	1.3	1.1	27.4	15.2	19.2	0.5	0.5	0.5	2.3
Prestige Estates Projects	ADD	217	315	45.0	81	1.1	375	19	21	11	(24.2)	8.4	—	11.4	10.5	20.4	10.0	10.2	13.5	0.8	0.8	—	14.6	14.9	7.3	1.4	1.4	0.7	0.8
Sobha	REDUCE	406	510	25.7	38	0.5	95	23	36	24	(48.8)	51.7	(32.6)	17.3	11.4	16.9	10.8	8.5	10.6	1.8	1.6	1.5	9.0	14.8	9.1	1.7	1.7	1.7	1.7
Sunteck Realty	REDUCE	446	360	(19.2)	65	0.9	140	19	19	39	22.4	1.6	106.6	23.8	23.5	11.4	20.0	19.4	8.5	2.2	2.0	1.7	9.5	8.9	16.2	0.2	0.2	0.2	1.9
Real Estate		Neutral			819	11					(53.1)	65.1	(14.4)	17.5	10.6	12.4	18.8	11.1	12.3	1.2	1.1	1.1	7.1	10.6	9.0	0.8	0.8	0.7	26.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)	
		24-Sep-18	Target price (Rs)		(Rs bn)	(US\$ bn)	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E		
Technology																													
HCL Technologies	REDUCE	1,096	1,100	0.3	1,527	20.8	1,409	71	78	82	14.6	8.9	5.0	15.4	14.1	13.4	10.0	8.9	8.2	3.4	2.9	2.6	24.4	22.3	20.6	0.8	2.8	3.0	35.6
Hexaware Technologies	SELL	451	455	1.0	134	1.8	302	20	24	27	19.5	21.6	12.7	22.8	18.7	16.6	16.9	12.8	11.2	5.9	4.9	4.2	27.6	28.7	27.5	1.8	1.8	2.2	23.1
Infosys	ADD	718	770	7.2	3,138	42.8	4,350	36	41	45	12.8	13.3	8.9	19.7	17.4	16.0	13.5	11.7	10.5	4.4	4.0	3.6	23.4	24.2	23.7	3.0	2.7	2.9	87.5
L&T Infotech	ADD	1,898	2,100	10.6	328	4.5	175	83	96	113	30.5	15.6	18.1	22.9	19.8	16.8	17.4	14.0	11.8	6.9	5.6	4.6	33.5	31.3	30.0	1.3	1.4	1.6	9.1
Mindtree	ADD	1,073	1,225	14.2	176	2.4	165	45	57	65	29.5	27.0	14.5	24.0	18.9	16.5	15.2	11.9	10.2	5.5	4.6	3.9	24.7	26.6	25.8	1.3	1.6	1.8	26.6
Mphasis	SELL	1,189	900	(24.3)	230	3.1	193	53	60	63	21.9	12.1	4.7	22.2	19.8	18.9	16.4	13.9	12.9	4.4	4.0	3.6	18.9	21.0	20.0	1.7	2.1	2.5	6.7
TCS	REDUCE	2,198	1,950	(11.3)	8,417	114.8	3,829	84	94	101	24.9	11.7	7.4	26.1	23.4	21.7	19.2	17.2	16.0	8.5	8.3	8.1	34.3	35.6	37.7	1.9	3.4	3.7	84.3
Tech Mahindra	ADD	751	865	15.1	663	9.0	891	46	57	64	8.4	22.4	13.0	16.3	13.3	11.7	9.7	7.6	6.5	3.0	2.6	2.2	20.2	21.2	20.3	1.2	1.4	1.5	40.0
Wipro	REDUCE	333	325	(2.3)	1,505	20.5	4,507	19	23	25	12.8	19.5	7.5	17.4	14.6	13.6	11.3	9.5	8.7	2.7	2.5	2.3	16.5	17.6	17.4	0.5	3.0	3.3	18.7
Technology	Cautious				16,118	220					15.6	13.0	8.1	21.8	19.3	17.8	15.0	13.2	12.1	5.3	4.8	4.4	24.2	25.1	24.9	1.8	3.0	3.2	331.6
Telecom																													
Bharti Airtel	ADD	356	445	24.9	1,424	19.4	3,997	(6)	(4)	5	(221.5)	28.8	215.1	(61.9)	(87.0)	75.6	9.4	7.9	6.3	2.2	2.2	2.2	(3.4)	(2.5)	2.9	0.3	(0.2)	0.3	24.1
Bharti Infratel	REDUCE	278	285	2.6	514	7.0	1,850	13	12	13	(4.8)	(8.5)	7.7	21.2	23.2	21.5	7.9	8.3	7.9	3.2	3.2	3.1	14.6	13.7	14.6	3.8	3.5	3.8	10.2
IDEA	REDUCE	42	45	6.8	368	5.0	4,359	(17)	(17)	(15)	(75.6)	(2.4)	11.4	(2.5)	(2.5)	(2.8)	41.1	34.5	21.1	0.8	1.3	2.3	(29.7)	(41.1)	(59.4)	—	—	—	16.3
Tata Communications	ADD	503	660	31.1	143	2.0	285	0	3	7	(77.5)	694.2	123.5	1,359	171.1	76.6	10.3	9.1	8.2	(62.5)	(84.9)	(1,645.0)	7.8	(42.1)	(211.0)	1.3	1.5	1.5	3.2
Telecom	Cautious				2,449	33					(2,384.5)	5.0	68.0	(34.1)	(35.9)	(112.2)	11.1	9.7	8.0	2.4	2.6	2.7	(6.9)	(7.2)	(2.4)	1.0	0.6	1.0	53.8
Utilities																													
CESC	BUY	896	1,180	31.6	119	1.6	133	115	128	141	31.7	11.6	10.1	7.8	7.0	6.4	5.6	5.0	4.4	0.8	0.7	0.6	10.0	10.4	10.5	1.4	1.4	1.5	7.6
JSW Energy	REDUCE	64	70	8.6	106	1.4	1,640	5.1	6.5	6.6	65.9	26.8	2.9	12.7	10.0	9.7	5.5	4.6	4.1	0.9	0.8	0.8	7.2	8.5	8.0	—	—	—	1.2
NHPC	ADD	23	30	29.0	239	3.3	10,260	3.1	3.2	3.4	26.9	1.8	8.0	7.5	7.4	6.8	7.0	6.8	7.3	0.8	0.7	0.7	10.4	10.2	10.6	7.5	7.6	6.4	1.6
NTPC	BUY	168	190	13.2	1,384	18.9	8,245	15	16	18	30.9	4.4	16.5	11.3	10.8	9.3	9.0	8.3	7.0	1.3	1.2	1.1	11.6	11.3	12.2	2.7	2.8	3.2	11.9
Power Grid	BUY	198	250	26.5	1,034	14.1	5,232	19	21	23	19.3	13.6	7.6	10.5	9.3	8.6	7.4	6.7	6.4	1.7	1.5	1.4	17.1	17.5	17.0	3.2	3.6	3.9	14.6
Tata Power	BUY	69	90	30.2	187	2.5	2,705	6.0	7.0	10.9	12.7	15.6	57.0	11.5	9.9	6.3	10.5	10.0	8.7	1.1	1.0	0.9	10.1	10.6	14.6	—	—	—	4.5
Utilities	Attractive				3,068	42					26.0	8.8	14.1	10.5	9.6	8.4	8.0	7.4	6.6	1.2	1.2	1.1	11.9	12.0	12.5	2.9	3.1	3.3	41.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

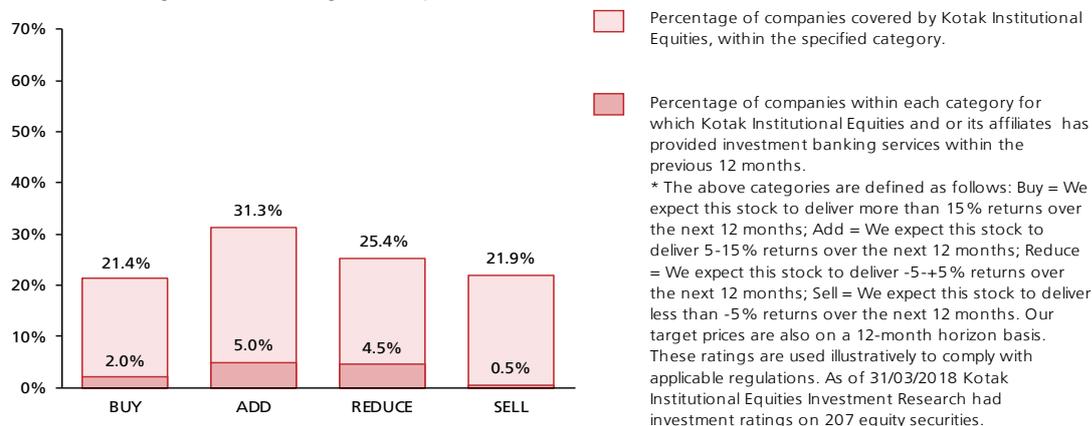
Company	Rating	Price (Rs)		Upside (%)	Mkt cap. (Rs bn) (US\$ bn)		O/S shares (mn)	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo (US\$ mn)
		24-Sep-18	Target price (Rs)		2019E	2020E		2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	
Others																													
Aditya Birla Fashion and Retail	BUY	180	220	22.2	139	1.9	773	2	4	6	50.6	59.1	53.5	78.4	49.3	32.1	23.1	18.0	14.6	11.0	9.0	7.0	15.0	20.0	24.5	—	—	—	4.8
Astral Poly Technk	SELL	1,012	640	(36.8)	121	1.7	120	19	25	29	30.2	28.8	16.1	53.0	41.2	35.5	28.5	22.7	19.2	9.3	7.7	6.4	19.8	20.5	19.7	0.1	0.1	0.1	0.9
Avenue Supermarts	SELL	1,451	860	(40.7)	905	12.3	624	16	20	26	28.6	26.4	27.5	89.8	71.0	55.7	51.8	40.6	32.0	16.0	13.1	10.6	19.6	20.3	21.0	—	—	—	—
Bayer Cropscience	REDUCE	4,194	4,100	(2.2)	166	2.3	34	106	130	154	20.5	23.1	18.3	39.8	32.3	27.3	29.1	23.7	19.8	7.0	6.0	5.1	18.9	20.0	20.3	0.5	0.6	0.7	0.5
Crompton Greaves Consumer	SELL	220	215	(2.3)	138	1.9	627	6	7	9	19.5	20.7	17.4	35.6	29.5	25.1	22.1	18.7	15.8	12.1	9.3	7.1	40.4	35.8	32.3	0.9	1.1	—	2.5
Dhanuka Agritech	ADD	447	650	45.6	22	0.3	49	27	31	34	3.9	15.4	10.8	16.7	14.5	13.1	12.0	9.8	8.5	3.0	2.6	2.3	19.2	19.2	18.5	1.3	1.5	1.6	0.2
Godrej Agrovet	ADD	523	640	22.4	100	1.4	189	15	19	23	28.9	28.8	21.1	35.2	27.3	22.6	19.2	15.0	12.5	5.2	4.4	3.7	15.7	17.4	17.9	—	1—	0.7	0.9
Godrej Industries	RS	536	—	—	180	2.5	336	16	20	—	8.9	24.2	—	33.8	27.2	—	28.5	31.0	—	4.4	3.9	—	13.9	15.1	—	0.3	0.3	—	4.2
Havells India	SELL	626	485	(22.5)	391	5.3	625	14	17	20	26.6	20.5	17.6	44.6	37.0	31.5	28.5	23.2	19.5	9.2	8.1	7.0	22.0	23.2	23.9	0.8	0.9	1.1	14.0
InterGlobe Aviation	BUY	863	1,220	41.4	332	4.5	383	50	83	99	(17.9)	65.3	19.5	17.3	10.5	8.7	9.2	5.2	4.2	3.8	2.9	2.2	24.1	31.1	28.6	0.6	0.9	1.1	19.6
Kaveri Seed	SELL	599	515	(14.0)	40	0.5	66	34	34	37	7.3	0.1	8.3	17.4	17.4	16.1	14.6	13.9	12.4	4.2	3.6	3.2	26.4	22.4	21.0	1.3	1.7	1.7	4.6
PI Industries	BUY	756	875	15.8	104	1.4	138	31	40	48	17.9	26.8	21.5	24.1	19.0	15.7	17.1	13.4	10.8	4.6	3.8	3.1	20.5	21.7	21.9	0.5	0.6	0.8	2.1
Rallis India	ADD	191	220	15.4	37	0.5	195	10	12	13	17.2	19.4	9.7	18.9	15.8	14.4	12.4	10.5	9.2	2.8	2.6	2.3	15.8	17.1	16.9	1.9	2.1	2.3	0.8
SIS	REDUCE	951	1,130	18.8	70	0.9	73	33	40	48	48.5	21.1	17.8	28.6	23.6	20.0	17.9	14.9	12.5	5.7	4.7	3.9	21.8	21.7	21.1	0.3	0.4	0.4	0.6
SRF	BUY	1,905	2,200	15.5	109	1.5	57	100	132	150	23.8	32.2	14.1	19.1	14.5	12.7	11.2	8.9	7.5	2.7	2.3	2.0	15.0	17.3	17.0	0.7	0.8	0.8	12.1
Tata Chemicals	ADD	708	760	7.4	180	2.5	255	44	51	56	(15.3)	14.6	11.5	16.0	14.0	12.6	6.7	5.6	4.7	1.5	1.4	1.3	9.7	10.3	10.8	2.1	2.4	2.4	6.9
TCNS Clothing Co.	BUY	637	760	19.3	39	0.5	64	18	23	27	15.6	28.2	20.8	35.9	28.0	23.2	19.3	14.5	11.5	7.2	5.5	4.3	22.7	22.2	20.9	—	—	—	—
TeamLease Services	SELL	2,534	1,785	(29.6)	43	0.6	17	58	75	96	34.2	29.0	28.7	43.8	34.0	26.4	44.3	33.7	25.9	8.0	6.5	5.2	20.1	21.1	21.9	—	—	—	1.2
UPL	ADD	651	660	1.3	332	4.5	507	49	55	60	14.0	12.1	9.6	13.3	11.9	10.8	9.0	7.6	6.6	3.0	2.5	2.1	24.6	22.9	21.1	1.5	1.7	1.9	28.7
Vardhman Textiles	ADD	1,026	1,300	26.7	59	0.8	56	118	130	142	14.8	9.7	9.8	8.7	7.9	7.2	6.6	6.0	5.3	1.1	1.0	0.9	13.1	13.0	13.0	1.9	2.9	2.9	0.4
Volta	SELL	568	530	(6.7)	188	2.6	331	17	21	25	0.4	18.8	18.9	32.7	27.5	23.2	24.5	20.0	16.7	4.3	3.9	3.4	13.9	14.8	15.7	0.6	0.7	0.9	12.5
Whirlpool	SELL	1,487	1,350	(9.2)	189	2.6	127	37	46	56	33.9	24.7	20.2	40.2	32.2	26.8	24.3	19.2	15.7	8.7	7.2	6.2	23.7	24.5	24.8	—	0.6	1.1	1.4
Others																													
					3,885	53				8.3	26.4	12.5	29.6	23.4	20.8	18.0	14.2	11.5	5.0	4.3	3.8	17.0	18.3	18.5	0.6	0.7	0.8	118.9	
KIE universe					109,647	1,495				24.3	27.3	14.2	21.3	16.8	14.7	11.0	9.7	8.7	2.7	2.5	2.2	12.8	14.8	15.2	1.4	1.7	1.9		
KIE universe (ex-energy)					95,400	1,301				30.0	33.4	16.3	23.6	17.7	15.2	12.1	10.6	9.4	3.0	2.7	2.4	12.8	15.4	16.1	1.3	1.7	1.9		

Notes:
 (a) We have used adjusted book values for banking companies.
 (b) 2019 means calendar year 2018, similarly for 2020 and 2021 for these particular companies.
 (c) Exchange rate (Rs/US\$)= 73.32

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2018

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

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