

Contents

Daily Alerts

Sector alerts

Banks: 4QFY18E preview - pain for banks, NBFCs remain in sweet spot

- ▶ Credit costs and weak NII growth to impact bank earnings
- ▶ New RBI guidelines will likely lead to elevated slippages
- ▶ Growth picks up; retail still driving growth
- ▶ NBFCs in the sweetest spot

Consumer Products: 4QFY18E preview - expect strong prints as growth accelerates

- ▶ Volume growth acceleration, GST-led savings and higher leverage benefits = solid prints
- ▶ Margin expansion drivers - higher pricing contribution, operating leverage and GST-led savings
- ▶ Comfort on earnings is our relative 'top picks' basis; absolute valuations remain high

EQUITY MARKETS

India	Change %			
	4-Apr	1-day	1-mo	3-mo
Sensex	33,019	(1.1)	(2.2)	(3.3)
Nifty	10,128	(1.1)	(2.2)	(4.1)
Global/Regional indices				
Dow Jones	24,264	1.0	(2.5)	(4.1)
Nasdaq Composite	7,042	1.5	(3.9)	(1.3)
FTSE	7,034	0.1	(1.2)	(8.9)
Nikkei	21,488	0.8	2.1	(9.4)
Hang Seng	29,519	(2.2)	(1.2)	(4.2)
KOSPI	2,421	0.6	1.9	(3.1)
Value traded – India				
Cash (NSE+BSE)	361		352	387
Derivatives (NSE)	8,956		13,186	10,362
Deri. open interest	3,481		3,904	3,921

Forex/money market

	Change, basis points			
	4-Apr	1-day	1-mo	3-mo
Rs/US\$	65.0	3	3	176
10yr govt bond, %	7.7	(1)	(34)	9

Net investment (US\$ mn)

	3-Apr	MTD	CYTD
FIs	(73)	(73)	2,052
MFs	7	115	5,259

Top movers

Best performers	Change, %			
	4-Apr	1-day	1-mo	3-mo
TECHM IN Equity	606	(1.6)	(3.9)	15.4
AL IN Equity	146	(1.3)	4.1	14.4
INFO IN Equity	1,124	(1.4)	(2.7)	11.1
IDBI IN Equity	70	(2.9)	(17.3)	9.7
GCPL IN Equity	1,085	(1.8)	0.9	9.6
Worst performers				
PNB IN Equity	94	(1.1)	(5.7)	(46.4)
BOI IN Equity	103	(3.9)	(6.5)	(39.9)
HDIL IN Equity	41	(2.9)	(13.0)	(36.4)
RCOM IN Equity	22	(1.3)	(19.6)	(34.4)
UNBK IN Equity	96	(1.3)	(5.1)	(34.2)

APRIL 05, 2018

UPDATE

BSE-30: 33,019

4QFY18E preview—pain for banks, NBFCs remain in sweet spot. We expect banks to report weak earnings due to elevated credit costs, weak NII growth and lower treasury gains. We build in high slippages due to recent RBI guidelines on stress recognition and resolution. Recent RBI dispensation to amortize investment provisions will provide support. We expect most NBFCs to deliver 18-53% yoy growth in core PBT supported by improving loan growth, margins and asset quality.

Credit costs and weak NII growth to impact bank earnings

We expect the banks under coverage to report decline in earnings led by increase in loan-loss provisions, lower contribution from treasury income and weak NII growth. We see an improvement in loan growth (~10% yoy) but high slippages and margin pressure leading to weak NII growth (5% yoy), which coupled with decline in contribution from treasury would result in muted revenue growth (2% yoy). Banks, especially PSUs, will benefit from recent RBI dispensation to amortize investment provisions over four quarters. Retail-oriented assets such as HDFC Bank, IndusInd Bank, City Union and Federal Bank are likely to report stable/better performance while other banks should report weak performance.

New RBI guidelines will likely lead to elevated slippages

Forecasting 4QFY18 slippages and thus credit costs is a tricky exercise due to lack of clarity on impact of recent RBI guideline on stress loans. We expect banks to upfront large part of unrecognized stress in 4QFY18 and remaining in FY2019. These stress loans are currently restructured under various RBI dispensations (SDR, S4A, etc.). Large corporate banks (Axis Bank, ICICI Bank and SBI) have around 4-5% of stress loans, which are currently not recognized as GNPL. For PNB, we expect nearly half of fraud amount in the gems accounts to be recognized as NPL in 4QFY18 and remaining in FY2019. The benefit of recent IBC transactions in steel sector will likely reflect in FY2019E.

Growth picks up; retail still driving growth

Headline loan growth for the banking system improved to ~11% as of mid-March, offering some signs of improved outlook for loan growth in FY2019E. Retail continues to drive growth at ~20% yoy with private banks getting quite aggressive in unsecured lending such as personal loans and credit cards. Housing loan growth for the banking sector remains steady at ~15% while credit card loans are consistently clocking 30% yoy growth. There is some element of growth because of higher working capital utilization due to increase in commodity prices and GST implementation.

NBFCs in the sweetest spot

We expect most NBFCs to deliver 18-53% yoy growth in core PBT supported by improving loan growth, margins and asset quality. Strong rural cash flows, high growth in CV/construction equipment, increasing momentum in housing and reducing borrowing costs during 1HFY18 are key drivers. High loan growth will provide a boost to PNBHF (PAT up 53%) and Bajaj Finance (PAT up 35%). Better NIM and control over expenses will drive earnings for L&T Finance and Cholamandalam while lower credit costs will be the key driver for Shriram Transport Finance. HDFC's strong earnings growth is backed by improving momentum in retail business and float income of recent capital issuance.

QUICK NUMBERS

- **Spike in credit cost for most banks due to new RBI guidelines**
- **PSU banks drag profitability; private banks maintain balance**
- **We revise ratings for Canara Bank (ADD from REDUCE) and Chola (REDUCE from ADD)**

M B Mahesh CFA
mb.mahesh@kotak.com
Mumbai: +91-22-4336-0886

Nischint Chawathe
nischint.chawathe@kotak.com
Mumbai: +91-22-4336-0887

Abhijeet Sakhare
abhijeet.sakhare@kotak.com
Mumbai: +91-22-4336-0889

Dipanjn Ghosh
dipanjn.ghosh@kotak.com
Mumbai: +91-22-4336-0888

Revision in ratings and earnings estimates

We make significant changes to our earnings estimates for PSU banks as we factor the impact of higher slippages on account of changes in regulatory guidelines. RBI's dispensation to amortize investment provisions for 3QFY18 and 4QFY18 over four quarters provides earnings relief (Exhibit 1).

We revise ratings for below stocks:

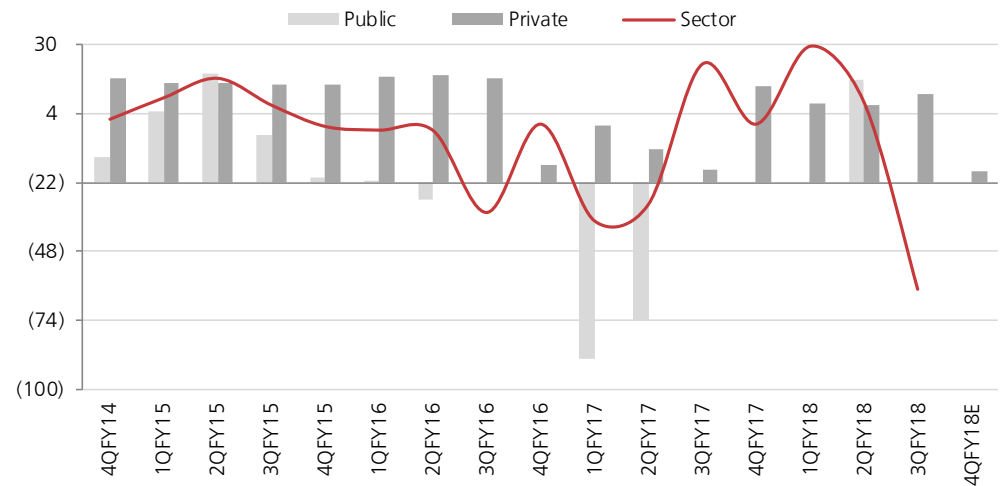
- ▶ Canara Bank. We upgrade the stock to ADD from REDUCE valuing the bank at 0.9X book and 5X March 2020E EPS for RoE in the range of 10% and steady earnings growth of 15% CAGR. The stock has corrected by ~45% from peak levels on the back of new regulation on NPL recognition and change in interest rates.
- ▶ Cholamandalam. We downgrade the stock to REDUCE from ADD with no changes to earnings estimates or target price (₹1,400) due to strong stock performance. We remain positive on Chola's business prospects.

Exhibit 1: Change in ratings, TP and earnings estimates for stocks under coverage
March fiscal year-ends, 2018-20E

	Rating	TP (Rs)		CMP (Rs)	Upside (%)	New estimates (Rs mn)			Old estimates (Rs mn)			Change in estimates (%)		
		New	Old			2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Banks														
Public sector banks														
Bank of Baroda	NR	—	—	145	NA	8,247	61,655	68,514	18,613	60,905	65,256	(56)	1	5
Bank of India	ADD	140	190	108	30	(28,286)	25,728	39,686	(23,282)	32,918	41,168	NM	(22)	(4)
Canara Bank	ADD	350	390	269	30	1,125	37,153	45,877	7,052	37,364	41,683	(84)	(1)	10
PNB	ADD	150	220	95	57	(31,416)	(11,844)	49,298	21,893	52,168	58,318	(243)	(123)	(15)
SBI	BUY	380	380	250	52	(73)	187,890	391,715	(24,440)	211,722	391,686	NM	(11)	0
Union Bank	ADD	150	180	97	55	(39,733)	14,390	24,932	(34,848)	20,539	26,368	NM	(30)	(5)
Old private banks														
City Union	ADD	180	180	178	1	5,588	6,668	7,440	5,549	6,863	7,681	1	(3)	(3)
DCB Bank	ADD	210	210	168	25	2,434	3,019	4,072	2,313	2,939	3,956	5	3	3
Federal Bank	BUY	140	140	92	53	9,971	14,268	16,443	9,954	14,260	16,246	0	0	1
Karur Vysya	ADD	135	135	105	29	3,424	6,024	10,869	3,260	5,792	10,531	5	4	3
J&K Bank	BUY	110	110	58	90	2,596	8,065	8,951	2,643	8,067	8,953	(2)	(0)	(0)
New private banks														
Axis Bank	REDUCE	600	600	502	20	25,044	71,863	108,346	38,452	89,776	108,899	(35)	(20)	(1)
HDFC Bank	REDUCE	1,900	1,900	1,916	(1)	174,810	222,287	264,415	175,864	221,202	263,136	(1)	0	0
ICICI Bank	BUY	400	400	270	48	58,525	99,486	158,071	58,560	99,487	158,073	(0)	(0)	(0)
IDFC bank	NR	—	—	49	NA	10,149	13,720	16,944	13,764	16,989	23,120	(26)	(19)	(27)
IndusInd Bank	REDUCE	1,750	1,750	1,830	(4)	35,575	49,616	58,005	35,957	49,693	58,015	(1)	(0)	(0)
RBL bank	SELL	420	420	485	(13)	6,153	7,639	9,975	6,118	7,606	9,950	1	0	0
Yes Bank	SELL	295	295	313	(6)	37,414	39,781	46,202	36,714	38,495	44,699	2	3	3
Small finance banks														
Equitas	BUY	180	180	149	21	237	1,493	2,833	237	1,493	2,833	0	(0)	0
Ujjivan	ADD	420	420	363	16	(209)	2,208	2,538	(209)	2,208	2,538	0	(0)	(0)
NBFCs														
Bajaj Finance	REDUCE	1,750	1,750	1,834	(5)	25,311	34,849	43,690	25,311	34,849	43,690	(0)	0	(0)
Cholamandalam	REDUCE	1,400	1,400	1,516	(8)	9,611	11,339	13,565	9,611	11,339	13,565	0	(0)	(0)
HDFC	ADD	2,000	2,000	1,826	10	119,391	89,478	105,664	118,085	89,420	105,619	1	0	0
L&T Finance	REDUCE	160	160	163	(2)	13,940	17,446	19,651	13,940	17,463	19,695	(0)	(0)	(0)
LIC Housing	ADD	605	605	554	9	19,969	22,177	27,157	19,969	22,177	27,157	0	(0)	(0)
IIFL Holdings	SELL	600	600	715	(16)	9,227	10,600	12,648	9,107	10,394	12,483	1	2	1
Mahindra Finance	REDUCE	450	450	474	(5)	9,740	13,138	15,332	9,740	13,138	15,332	0	(0)	(0)
Muthoot	ADD	500	500	417	20	16,429	14,789	16,536	16,429	14,789	16,536	(0)	(0)	0
PNBHF	ADD	1,300	1,300	1,274	2	8,489	10,542	12,682	8,489	10,542	12,682	0	(0)	(0)
Shriram City Union	ADD	2,275	2,275	2,245	1	7,049	9,674	11,340	7,049	9,674	11,340	0	0	(0)
Shriram Transport	REDUCE	1,360	1,360	1,481	(8)	19,172	23,238	25,840	19,172	23,238	25,840	0	(0)	0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 2: Performance of PSUs to remain weak driven by high LLP and drop in treasury income
Growth in PAT (yoy), March fiscal year-ends, 4QFY14-4QFY18E (%)



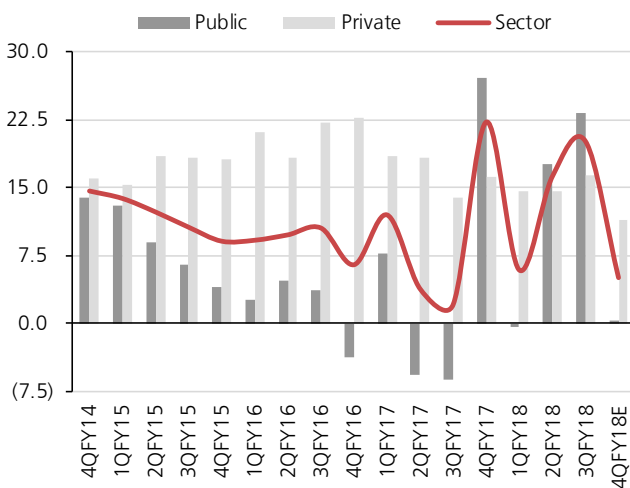
Notes:

(1) Figures for quarters where either the base or current quarter numbers are negative are not shown.

(2) PSU banks under coverage are expected to report Rs80.9 bn loss compared to Rs37.5 bn loss in 4QFY17. Similar figures for all banks under coverage are Rs4.3 bn and Rs55.9 bn profit respectively.

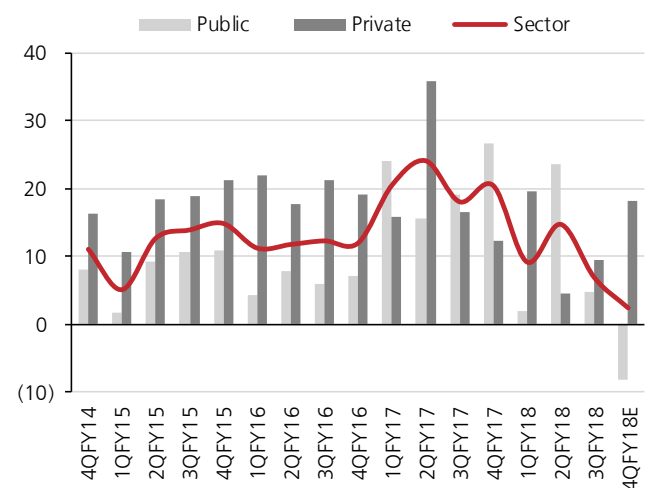
Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Modest NII growth at 5% yoy; NIM compresses
Growth in NII, March fiscal year-ends, 4QFY14-4QFY18E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Revenue for the sector to grow at ~2.4% yoy; drop 8% yoy for public banks
Revenue growth, March fiscal year-ends, 4QFY14-4QFY18E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 5: High provisions for investments, low treasury income and high loan-loss provision are likely to lead to weak earnings performance

Yoy and qoq growth in NII, PPOP and earnings, March fiscal year-ends, 4QFY17-4QFY18E

	Net interest income					Pre-provisioning profit					PAT				
	4QFY17	3QFY18	4QFY18E	YoY	QoQ	4QFY17	3QFY18	4QFY18E	YoY	QoQ	4QFY17	3QFY18	4QFY18E	YoY	QoQ
	(Rs mn)	(Rs mn)	(Rs mn)	(%)	(%)	(Rs mn)	(Rs mn)	(Rs mn)	(%)	(%)	(Rs mn)	(Rs mn)	(Rs mn)	(%)	(%)
Public banks															
Bank of Baroda	35,819	43,940	45,893	28	4	30,202	36,501	34,220	13	(6)	1,547	1,118	1,541	(0)	38
Bank of India	34,686	25,012	28,942	(17)	16	31,275	13,543	16,167	(48)	19	(10,455)	(23,412)	(7,542)	(28)	(68)
Canara Bank	27,082	36,791	32,902	21	(11)	29,729	28,314	21,832	(27)	(23)	2,142	1,257	(6,531)	(405)	(619)
PNB	36,835	39,887	40,924	11	3	62,318	42,452	37,807	(39)	(11)	2,619	2,301	(42,757)	(1,733)	(1,958)
State Bank of India	210,660	186,875	197,615	(6)	6	173,100	117,546	137,167	(21)	17	(34,420)	(24,164)	(12,496)	(64)	(48)
Union Bank	23,870	25,483	24,083	1	(5)	21,341	16,546	14,745	(31)	(11)	1,089	(12,499)	(13,093)	(1,303)	5
Old private banks															
City Union Bank	3,106	3,650	3,654	18	0	2,476	2,963	2,836	15	(4)	1,289	1,547	1,550	20	0
DCB	2,203	2,505	2,601	18	4	1,153	1,225	1,328	15	8	529	570	622	18	9
Federal Bank	8,424	9,504	9,815	17	3	5,492	5,618	6,288	14	12	2,566	2,604	2,629	2	1
Karur Vysya Bank	5,800	5,616	5,655	(2)	1	5,071	4,212	4,178	(18)	(1)	2,176	715	473	(78)	(34)
J&K Bank	6,550	7,802	8,122	24	4	2,764	3,827	4,597	66	20	(5,543)	725	855	NM	18
New private banks															
Axis Bank	47,286	47,315	49,021	4	4	43,748	38,538	45,968	5	19	12,251	7,264	400	(97)	(94)
HDFC Bank	90,551	103,143	107,709	19	4	72,794	84,513	86,640	19	3	39,901	46,426	47,937	20	3
ICICI Bank	59,622	57,053	57,986	(3)	2	51,120	50,578	80,190	57	59	20,246	16,502	955	(95)	(94)
IDFC bank	5,156	5,111	5,731	11	12	2,602	2,041	3,603	38	77	1,759	1,461	1,976	12	35
IndusInd Bank	16,675	18,948	19,287	16	2	15,722	16,647	16,365	4	(2)	7,516	9,362	9,046	20	(3)
RBL	3,522	4,673	4,843	38	4	2,818	3,334	3,290	17	(1)	1,301	1,653	1,583	22	(4)
Yes Bank	16,397	18,888	20,412	24	8	16,910	20,018	18,062	7	(10)	9,141	10,769	8,028	(12)	(25)
Small finance banks															
Equitas	2,209	2,349	2,465	12	5	520	416	720	39	73	69	(300)	272	293	NM
Ujjivan	1,371	2,167	2,365	73	9	418	753	854	104	13	194	293	277	43	(6)
Total	637,821	646,713	670,023	5	4	571,571	489,586	536,858	(6)	10	55,916	44,194	(4,275)	(108)	(110)
Public banks	368,952	357,989	370,358	0	3	347,964	254,902	261,938	(25)	3	(37,479)	(55,398)	(80,877)	116	46
Private banks	268,869	288,724	299,665	11	4	223,607	234,684	274,920	23	17	93,395	99,592	76,602	(18)	(23)

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Sharp drop in profitability for most PSU banks

Yoy growth in PAT, March fiscal year-ends, 4QFY17-4QFY18E (%)

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Public banks					
Bank of Baroda	NM	(52)	(36)	(56)	(0)
Bank of India	(70.9)	NM	41.2	(2,401.8)	(27.9)
Canara Bank	NM	9.9	(27.1)	(60.9)	(404.9)
PNB	NM	12.1	2.0	11.1	(1,732.6)
State Bank of India	(372.4)	436.4	NM	(232.8)	(63.7)
Union Bank	13.3	(29.9)	(966.4)	(1,301.8)	(1,302.6)
Old private banks					
City Union Bank	14.8	13.6	17.0	22.1	20.3
DCB Bank	(24.0)	38.7	21.5	11.1	17.7
Federal Bank	2,400.9	25.6	31.0	26.6	2.4
Karur Vysya Bank	57.7	1.1	(40.1)	(38.2)	(78.3)
J&K Bank	889.5	31.5	NM	NM	NM
New private banks					
Axis Bank	(43.1)	(16.1)	35.5	25.3	(96.7)
HDFC Bank	18.3	20.2	20.1	20.1	20.1
ICICI Bank	188.5	(8.3)	(33.7)	(32.4)	(95.3)
IDFC bank	6.6	65.2	(39.7)	(23.6)	12.3
IndusInd Bank	21.2	26.5	25.0	24.7	20.4
RBL	54.6	44.9	67.6	28.5	21.7
Yes Bank	30.2	31.9	25.1	22.0	(12.2)
Small finance banks					
Equitas	(85.2)	(74.4)	(76.4)	(166.8)	293.0
Ujjivan	(64.8)	(205.0)	(116.4)	(31.5)	43.0
Total banks	NM	29.4	8.4	(62.3)	(107.6)
Public sector banks	(74.6)	297.0	16.7	(297.3)	115.8
Private sector banks	14.2	7.9	7.3	11.5	(18.0)

Notes:

(1) 'NM' indicates loss in the base quarter and profit in current quarter.

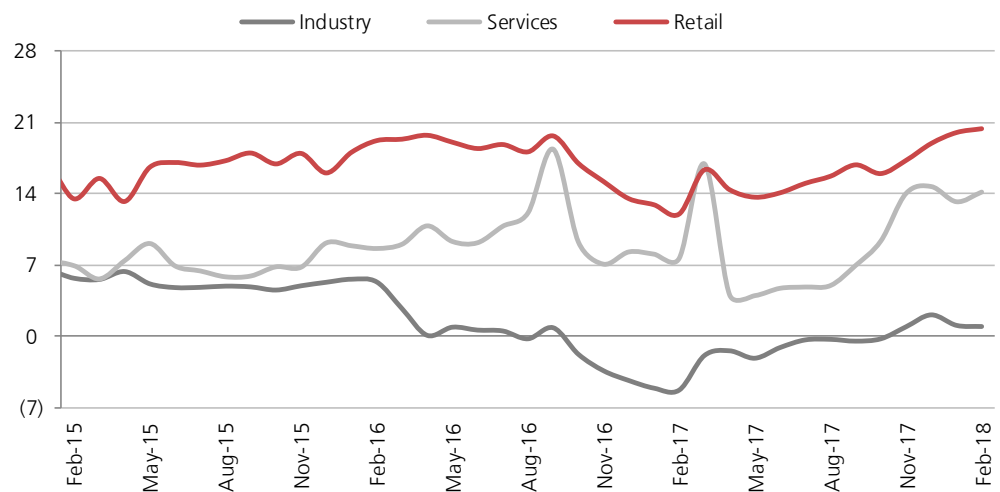
Source: Companies, Kotak Institutional Equities estimates

BANKS: SIGNS OF RECOVERY IN LOAN GROWTH, DRIVEN BY RETAIL

System loan growth clocking at 11% yoy

As per latest available data (March 16) for the banking system, loan growth has improved to 11% yoy from 9-10% in 3QFY18 and is now at levels seen pre-demonetization. Retail growth momentum continues to sustain over the past few months at ~20% yoy, driven by housing, vehicles and credit card loans. There is continued weakness in off-take from industrial sector but the trend line has moved to positive trajectory after being negative for nearly 12 months.

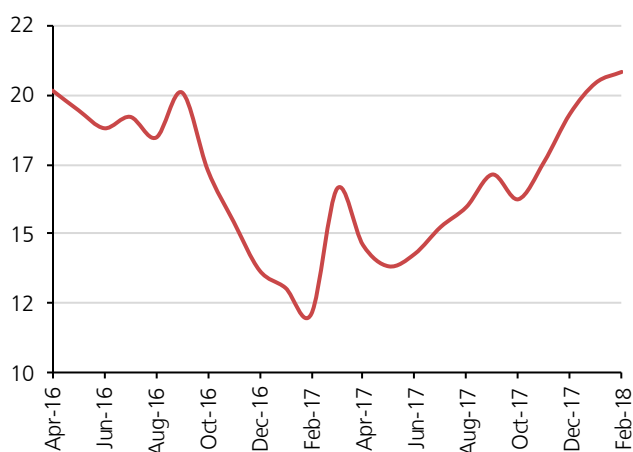
Exhibit 7: Credit growth has picked pace in the past few month on a lower base
Monthly data on yoy credit growth across industry, services and retail segments



Source: RBI, Kotak Institutional Equities

Exhibit 8: Retail loans growth continues to rise

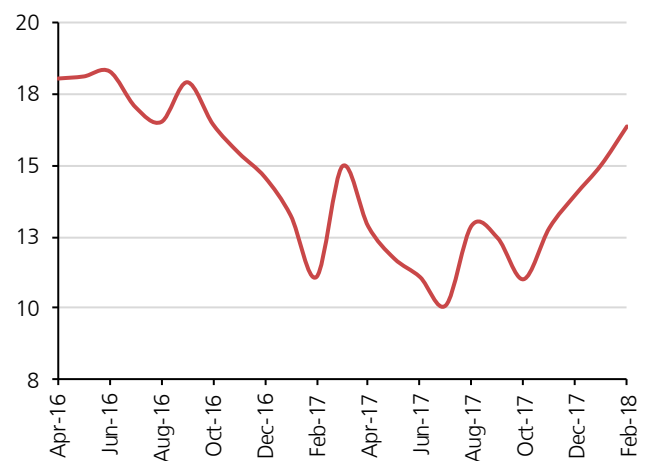
Growth in retail loans, March fiscal year-ends, April 2016- February 2018 (%)



Source: RBI, Kotak Institutional Equities

Exhibit 9: Housing loans have shown strong traction in recent months

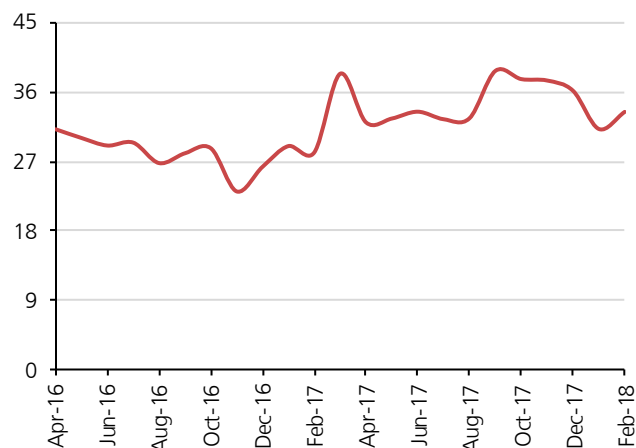
Growth in housing loans, March fiscal year-ends, April 2016- February 2018 (%)



Source: RBI, Kotak Institutional Equities

Exhibit 10: Credit card loans remain robust on a low base

Growth in credit card receivable, March fiscal year-ends, April 2016- February 2018 (%)



Source: RBI, Kotak Institutional Equities

Exhibit 11: Auto loans growth was flat in the last quarter

Growth in vehicle loans, March fiscal year-ends, April 2016- February 2018 (%)



Source: RBI, Kotak Institutional Equities

Corporate loan growth remains weak. With a sharp slowdown in fresh investments, loan disbursements to the corporate segment have fallen sharply. This is hurting public banks given that their exposure in the corporate book is >50% of loans. Also, many of the restructured loans are now completing their moratorium period, which implies that the pace of repayment of existing loans could have also accelerated or resulted in slippages. A combination of this has hurt corporate loan growth, which is nearly flat yoy. There was some expectation of a recovery in loan growth led by GST implementation given that the taxes are paid early by the entire supply chain. However, discussions with banks did not elicit any favorable response on increase in credit limits and higher utilization of undrawn limits but we probably need to wait for a few more quarter as there would be bottlenecks at the start of this program and we were also in a seasonally weak quarter. However, there is positive impact on credit growth due to higher commodity prices as well as shift to bank channel from NCD/CP due to volatility in bond yields.

Medium-term outlook for corporate loan growth remains weak given (1) ongoing deleveraging of large corporate borrowers, (2) lack of large-ticket capex and (3) regulatory thrust towards moving exposure of large borrowers from banking system to bond markets. Interaction with market participants suggests intense competition within banks to chase top-rated companies both in the loan and bond markets.

Growth recovery in small-ticket loans but weaker than pre-demonetization trends.

Retail has been an important growth driver for most banks in the past few years. While retail loan growth for banks remained around 20% yoy pre-demonetization, it fell to ~12% by end of FY2018. 2QFY18 growth of ~16% yoy shows some recovery and we are now at pre-demonetization levels of 20% yoy. Channel checks reaffirm these trends. Banks with established retail loan machinery such as Axis Bank, HDFC Bank, ICICI Bank and SBI will be better-positioned. These banks (except HDFC Bank) have a sizable proportion of long tenure housing loans where the short-term impact will be lower.

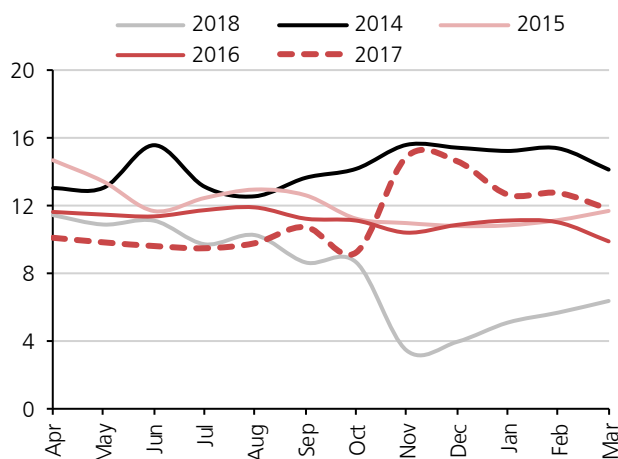
Regional banks with their thrust on SME loans may find it difficult to grow their loan book given the weak demand environment for working capital, even as recent sharp growth in commodity prices may have a positive impact.

Small banks: growth is showing some signs of life

Ujjivan and Equitas have been impacted on account of demonetization due to high dependence on cash, especially for repayments and sharp rise in delinquency levels. However, there seems to be an improvement on the ground as recovery levels is steadily catching up in regions affected by the crisis. Channel checks indicate that UP was probably the best in recovery while parts of MP and Maharashtra is still quite weak. On the back of better recovery trends, we have seen a few MFI/SFBs stepping up disbursements in their portfolio. We believe that a few players have seen their disbursements moving back to pre-demonetization levels.

We expect provisions to decline from a high base for Equitas and increase for Ujjivan to provide for or write-off part of the overdue loans, which have remained unpaid at the end of the quarter. Equitas has PAR>0 of ~7%, while it is lower for Ujjivan at ~5% though a lot of this has been declared as NPLs. Loan growth will accelerate to 14% for Equitas and 18% for Ujjivan.

Exhibit 12: Deposits growth was at modest at 5-6.5% in 4QFY18
Yoy growth in deposits, March fiscal year-ends, 2014 – March 2018 (%)

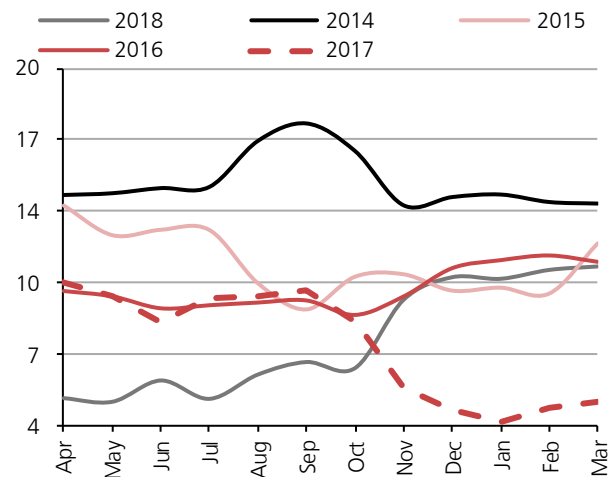


Note

1) Growth for March 2018 is as of 16/03/2018.

Source: RBI, Kotak Institutional Equities

Exhibit 13: Loan growth was stronger than 3QFY18 at 10.5-11%
Yoy growth in advances, March fiscal year-ends, 2014 – March 2018 (%)



Note

1) Growth for March 2018 is as of 16/03/2018.

Source: RBI, Kotak Institutional Equities

System deposit growth slows down to 6%, lower than pre-demonetization level

Deposit growth as of 16 March has recovered to 6% yoy after falling to 3% yoy at December-end, largely reflecting the base effect due to demonetization. However, current growth rate is lower than pre-demonetization levels of 8-9% yoy. CASA level has also declined from peak of demonetization levels. Given the tightening in liquidity conditions in recent months and some pickup in loan growth, banks have started to increase bulk and retail term deposit rates.

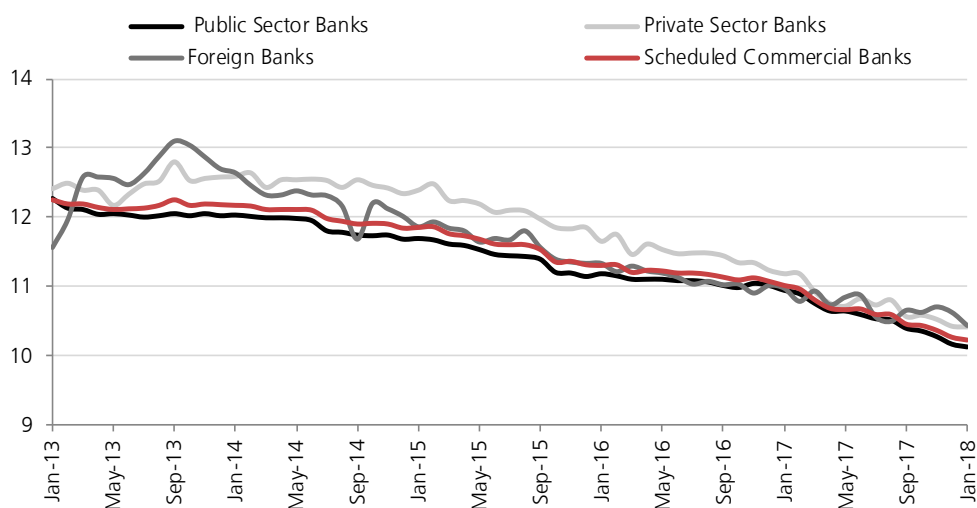
Banks will also need to comply with 90% LCR requirement starting January 1 – this will add pressure to keep higher investments in treasury to comply with need to maintain liquid assets.

Signs of reversal in lending yields and deposit costs

Latest data by RBI (as of January 2018) on system-wide lending yields and borrowing costs suggests signs on reversal in lending yields, which hitherto have been declining and vice versa in case of deposit costs. Having peaked in September 2013, the weighted average deposit rates for PSU and private banks have declined by ~240 bps through November 2017, before inching up in December 2017 and January 2018. On the lending rates front, the trends are relatively not as firm. However, the pace of decline has slowed down and recent trends in MCLR rates and CP/CD rates suggest possible reversion in lending rate cycle.

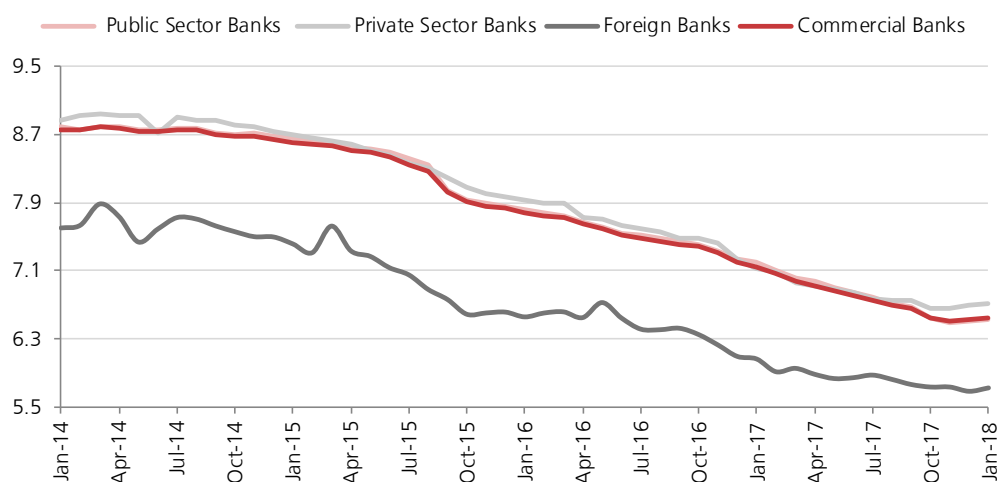
Rising interest rates coupled with improving loan growth is an ideal scenario for banks from an NIM point of view. We appear to be heading in this direction as rates have started to firm, along with improving growth trends. While we have seen fresh lending rate move up marginally, average lending rates are still ~80 bps above the fresh lending rates. This gap needs to narrow down as the portfolio is still witnessing pressure on the downside while the cost of funds has already started to increase. In this context higher borrowing costs for NBFCs can provide competitive relief to some extent. Slippages, the other variable in the NIM math, are a key unknown in the short term in the wake of recent guidelines by RBI on stress resolution.

Exhibit 14: Weighted average lending rates have declined by ~80 bps yoy
Bank group-wise weighted average lending rates, January 2013 – January 2018 (%)



Source: RBI, Kotak Institutional Equities

Exhibit 15: Weighted average deposit rates have declined by ~60 bps yoy for the sector
Bank group-wise weighted average deposit rates, January 2014 – January 2018 (%)



Source: Company, Kotak Institutional Equities

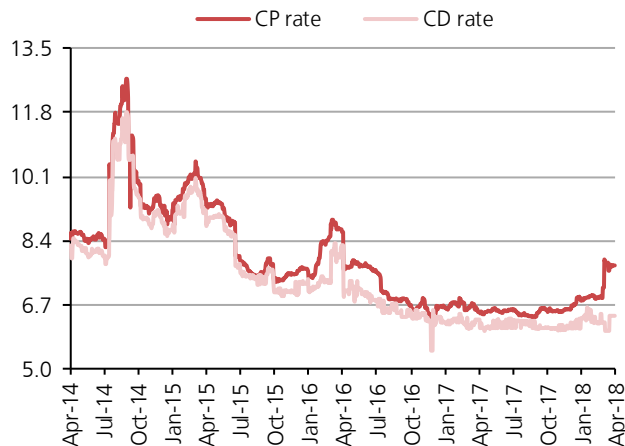
Exhibit 16: Margin pressure for most bank, NII growth to slow down
Yoy growth in NII, March fiscal year-ends, 4QFY17-4QFY18E (%)

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Public banks					
Bank of Baroda	7.6	1.0	8.6	40.2	28.1
Bank of India	8.8	(8.7)	6.9	(12.6)	(16.6)
Canara Bank	14.1	17.6	14.0	52.4	21.5
PNB	33.1	4.2	3.5	6.9	11.1
State Bank of India	37.8	(3.5)	28.7	26.7	(6.2)
Union Bank	14.5	6.7	1.9	19.3	0.9
Old private banks					
City Union Bank	17.4	22.3	17.8	18.9	17.7
DCB	30.6	31.7	30.4	19.6	18.1
Federal Bank	22.8	15.6	23.8	20.1	16.5
Karur Vysya Bank	22.7	11.9	12.1	8.5	(2.5)
J&K Bank	1.2	12.6	12.7	33.8	24.0
New private banks					
Axis Bank	3.9	2.2	0.6	9.2	3.7
HDFC Bank	21.5	20.4	22.0	24.1	18.9
ICICI Bank	10.3	8.4	8.7	6.4	(2.7)
IDFC bank	27.7	(15.1)	(5.9)	(4.5)	11.1
IndusInd Bank	31.5	30.8	24.7	20.0	15.7
RBL	46.6	54.7	38.7	45.3	37.5
Yes Bank	32.1	37.4	30.4	25.3	24.5
Small finance banks					
Equitas	29.7	5.6	0.3	2.6	11.6
Ujjivan	(10.8)	(8.2)	(6.8)	2.8	72.5

Source: Company, Kotak Institutional Equities estimates

Exhibit 17: Sharp increase in rates in 4QFY18

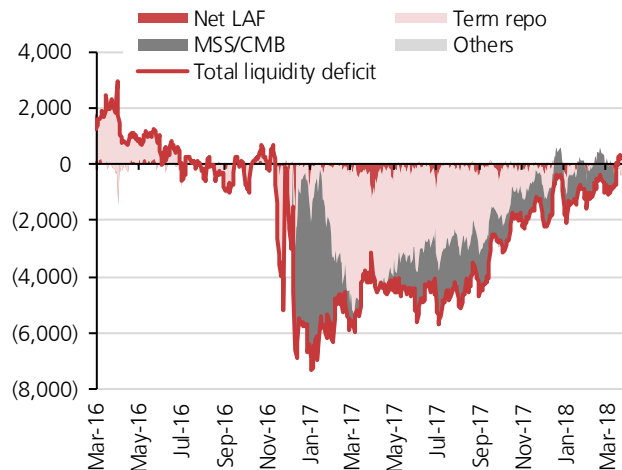
CP and CD rates, April 2014- April 2018 (%)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 18: Liquidity has tightened significantly

March 201 – March 201 (₹ bn)



Source: Bloomberg, RBI, Kotak Institutional Equities

Exhibit 19: Base rates have declined in last couple of months

Base rate movements since 2014 (%)

	Apr-14	Oct-14	Jan-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Dec-15	Apr-16	Jul-16	Sep-16	Oct-16	Jan-17	Feb-17	Apr-17	May-17	Jul-17	Aug-17	Sep-17	Nov-17	Jan-18	Feb-18	Apr-18	
Public banks																											
Andhra Bank						10.00			9.75						9.70								9.55				
Bank of Baroda					10.00		9.90		9.65				9.60								9.50		9.15				
Bank of India					9.95				9.70					9.65				9.55			9.50			9.45			
Canara Bank					10.00				9.90	9.65								9.40									
Indian Bank	10.25					9.95			9.65										9.45								
IOB					10.05		9.90								9.70						9.45						
OBC					10.00			9.90	9.70				9.65					9.50			9.45						
PNB					10.00				9.60								9.35					9.15					
SBI				9.85		9.70			9.30								9.25		9.10		9.00		8.95		8.65	8.70	
Union Bank			10.00						9.65				9.60				9.30				9.20			8.95			
Private banks																											
Axis Bank		10.15		9.95		9.85			9.50			9.45	9.35			9.25		9.15		9.05			9.00		8.95		
ICICI Bank				9.75		9.70			9.35										9.10		9.00			8.85			
HDFC Bank				9.85		9.70			9.35		9.30	9.30			9.25			9.00		8.90			8.85				
Yes Bank						10.50			10.25																		
IndusInd Bank						10.85				10.60						10.55											

Source: Company, Kotak Institutional Equities

Exhibit 20: SBI's MCLR rates were up 20 bps in March 2018

SBI MCLR rates, April 2016 – March 2018 (%)

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Oct-16	Nov-16	Jan-17	Jun-17	Aug-17	Sep-17	Nov-17	Jan-18	Feb-18	Mar-18
Overnight	8.95	8.90	8.90	8.90	8.85	8.80	8.65	7.75	7.75	7.75	7.75	7.70	7.70	7.70	7.80
One month	9.05	9.00	9.00	9.00	8.95	8.90	8.75	7.85	7.85	7.85	7.85	7.80	7.80	7.80	7.80
Three month	9.10	9.05	9.05	9.05	9.00	8.95	8.80	7.90	7.90	7.90	7.90	7.85	7.85	7.85	7.85
Six month	9.15	9.10	9.10	9.10	9.05	9.00	8.85	7.95	7.95	7.95	7.95	7.90	7.90	7.90	8.00
One year	9.20	9.15	9.15	9.15	9.10	9.05	8.90	8.00	8.00	8.00	8.00	7.95	7.95	7.95	8.15
Two years	9.30	9.25	9.25	9.25	9.20	9.15	9.00	8.10	8.10	8.10	8.10	8.05	8.05	8.05	8.25
Three years	9.35	9.30	9.30	9.30	9.25	9.20	9.05	8.15	8.15	8.15	8.15	8.10	8.10	8.10	8.35

Source: Company, Kotak Institutional Equities

Lower support from treasury but insurance listing to help large banks

We expect contribution from non-interest income to be lower for the quarter. We note that 10-year G-Sec has inched marginally from 7.3% level at December-end. Across the board we see banks reporting lower treasury gains except ICICI Bank, which will benefit from proceeds of stake sale in ICICI Securities through an IPO.

Other issues on non-interest income line would continue as we don't see an immediate recovery in fee income, exchange income or recovery from written-off loans. Our broad discussion with a few banks continues to indicate that the core fee income growth would be subdued as the capital expenditure cycle is yet to revive and intense competition on retail front will limit retail fee growth. Income from forex could be marginally better due to volatility this quarter.

Exhibit 21: Contribution from treasury to drop significantly adjusted for impact of stake sale by ICICI Bank

Growth in treasury income, March fiscal year-ends, 4QFY17 – 4QFY18E (%)

	Income from treasury (Rs mn)					Income from treasury (% of PBT)				
	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Public banks										
Bank of Baroda	6,770	5,530	6,450	5,090	1,930	170	197	91	228	84
Bank of India	8,460	6,480	7,430	810	2,280	(53)	483	266	(2)	(25)
Canara Bank	11,250	8,840	5,660	4,060	940	426	329	175	257	(12)
PNB	9,210	8,020	7,010	15,370	2,223	193	132	84	(694)	(4)
State Bank of India	19,970	17,700	85,660	10,260	13,876	(55)	60	994	(14)	(73)
Union Bank	5,820	6,520	4,770	60	650	(188)	185	(30)	(0)	(2)
Old private banks										
City Union Bank	357	390	646	344	198	20	22	34	16	9
DCB Bank	41	287	71	55	61	5	28	8	6	7
Federal Bank	540	1,120	750	290	240	13	35	18	7	6
Karur Vysya Bank	780	470	200	260	170	27	22	19	27	27
J&K Bank	229	263	26	(20)	82	(5)	(18)	2	(2)	5
New private banks										
Axis Bank	4,280	8,240	3,770	2,000	3,990	24	42	59	19	610
HDFC Bank	1,804	3,314	3,559	2,594	2,533	3	6	6	4	4
ICICI Bank	5,030	8,580	21,930	660	31,830	23	33	88	4	630
IDFC bank	(258)	4,689	1,464	(330)	177	(10)	71	42	(16)	5
IndusInd Bank	2,150	1,930	1,750	1,100	420	19	15	13	8	3
RBL Bank	316	739	381	282	(2)	16	34	17	11	(0)
Yes Bank	850	1,190	800	200	410	6	8	5	1	3
Total	77,599	84,302	152,326	43,085	62,008	85.4	43.6	100.5	224.7	(4,271)

Note:

(1) Numbers for SBI IN 2QFY18 include one-off gains from stake sale in SBI Life worth Rs54,360 mn.

Source: Companies, Kotak Institutional Equities

Exhibit 22: Short-term yields have inched up marginally

Yield of 1-year G-Sec, April 2012- April 2018 (%)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 23: Long-term yields showing signs of firming up

Yield of 10-year G-Sec, April 2012- April 2018 (%)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 24: Banks likely to report weak contribution from treasury income
Indicative impact of 50 bps decline in yields, March fiscal year-end, 3QFY18

	Investment (Rs bn)	AFS (Rs bn)	% of book (%)	Duration (Years)	Impact (Rs mn)	PBT 2018E (Rs mn)	Impact on PBT (%)	Networth 2018E (Rs mn)	Impact on networth (%)
Public banks									
Allahabad Bank	669	261	39.0	5.7	7,372	(4,868)	(151.4)	142,276	5.2
Andhra Bank	696	278	39.9	4.2	5,877	(5,958)	(98.6)	110,776	5.3
Bank of Baroda	1,636	671	41.0	3.0	10,071	8,247	122.1	405,769	2.5
Bank of India	1,349	508	37.6	4.0	10,182	(40,409)	(25.2)	324,636	3.1
Canara Bank	1,418	457	32.2	5.0	11,424	(215)	(5,317)	350,792	3.3
Corporation Bank	727	306	42.1	4.0	6,120	(11,307)	(54.1)	121,056	5.1
Indian Bank	722	335	46.3	4.5	7,593	27,352	27.8	185,219	4.1
IOB	633	229	36.2	6.2	7,073	(45,047)	(15.7)	104,397	6.8
OBC	675	326	48.3	2.8	4,531	(38,618)	(11.7)	101,582	4.5
PNB	2,073	824	39.7	4.4	18,002	(46,200)	(39.0)	445,622	4.0
Union Bank	1,244	416	33.4	4.7	9,765	(56,761)	(17.2)	200,299	4.9
Private banks									
Axis Bank	1,424	484.12	34.0	3.8	9,174	36,943	24.8	681,501	1.3
City Union Bank	76	15	20.0	2.0	155	5,588	2.8	40,129	0.4

Note:

(1) Duration for OBC is recorded as of 3QFY17.

(2) Duration for PNB is recorded as of 3QFY17 and AFS proportion is taken as of 2QFY18.

(3) Duration for Axis Bank is recorded as of 4QFY17

Source: Kotak Institutional Equities estimates

A quarter of uncertainty on fresh impairments

We expect banks to report higher slippages in the quarter as we build the potential impact of recent RBI directive on stress resolution. We expect banks will need to recognize the existing pool of stress across various dispensations as NPL. We have upfronted slippages in our revised estimates. This leads to increase in credit cost estimates for banks under coverage. We see public banks reporting elevated slippages, while private banks will likely report sharp rise in slippages (led by ICICI Bank and Axis Bank). The benefit of recent IBC transactions in steel sector will likely reflect in FY2019E.

We expect the frontline corporate banks to have a relatively weak quarter. Axis Bank and ICICI Bank would report weak performance as they report high slippages from their corporate portfolio. For ICICI Bank impact is cushioned due to sale proceeds from stake sale in ICICI Securities. For Axis Bank high exposure to power sector under watchlist is an overhang on future slippages.

Exhibit 25: Banks with weaker provision coverage will be impacted more due to RBI directives
Calculated provision coverage ratio, 4QFY17-4QFY18 (%)

	Ex write-off					Inc write-off				
	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Public banks										
BoB	55.4	57.7	57.7	57.7	59.1	64.5	66.8	66.3	67.2	68.0
BoI	50.7	51.4	52.2	52.2	43.8	58.7	61.5	63.5	65.2	57.0
Canara	35.1	36.7	35.5	35.7	37.3	52.5	55.6	54.5	54.8	55.8
OBC	33.2	38.2	39.3	46.5	48.5	49.4	53.6	54.7	59.8	62.1
PNB	37.1	40.9	40.1	40.0	40.8	56.0	58.6	58.2	59.2	60.8
SBI	43.2	48.1	42.7	47.4	48.6	62.9	66.0	60.8	65.1	65.9
Union	43.7	44.1	44.3	49.1	50.2	50.6	51.4	51.1	56.1	57.1
Old private banks										
City Union Bank	43.0	40.1	42.0	43.5	47.9	62.0	61.0	62.0	63.0	65.0
DCB	52.6	51.1	47.7	50.3	54.4	75.6	73.8	71.8	72.0	73.4
Federal Bank	43.5	45.5	43.2	45.3	46.5	71.0	71.8	70.3	70.0	70.0
Karur Vysya Bank	37.6	30.4	34.2	34.1	36.2	67.1	57.8	57.0	54.1	54.1
J&K Bank	52.8	59.6	59.8	59.2	60.1	61.7	66.9	70.3	69.2	69.5
New private banks										
Axis Bank	59.5	59.5	55.7	48.7	52.9					
HDFC Bank	70.1	68.7	65.1	66.3	66.3					
ICICI Bank	47.1	40.2	41.3	45.8	48.3					
IDFC bank	65.2	62.6	59.9	59.8	56.6					
Yes	66.0	46.9	60.0	43.3	46.4					
RBL	50.9	46.7	44.5	45.8	38.3					
IndusInd Bank	58.8	58.4	60.0	60.1	60.5					

Source: Company, Kotak Institutional Equities

Exhibit 26: Restructured loans and net NPLs to total loans are at about 8% for public banks, 3% for private banks

Restructured loans and net NPLs, March fiscal year-ends, 3QFY17-3QFY18 (%)

	Restructured loans (%)					Net NPLs (%)				
	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Public banks										
BoB	4.0	2.8	3.1	3.0	2.3	5.4	4.7	5.2	5.1	5.0
BoI	3.3	2.9	3.0	3.0	2.8	7.1	6.9	6.7	6.5	10.3
Canara	3.6	3.0	2.5	2.1	1.9	6.7	6.3	7.1	7.0	6.8
OBC	4.5	3.6	3.5	2.0	1.0	9.7	9.0	9.6	9.4	9.5
PNB	4.5	2.8	2.8	2.5	2.1	9.1	7.8	8.7	8.4	7.6
SBI	2.4	2.3	2.2	1.9	1.1	5.3	5.2	6.0	5.4	5.6
Union	2.0	1.9	1.3	1.7	1.2	7.0	6.6	7.5	6.7	7.0
Old private banks										
City Union	0.8	0.6	0.6	0.1	0.0	1.7	1.7	1.8	1.8	1.7
DCB	0.2	0.2	0.2	0.2	0.1	0.7	0.8	0.9	0.9	0.9
Federal	2.1	1.7	1.7	1.7	1.7	1.6	1.3	1.4	1.3	1.4
Karur Vysya	3.3	2.0	1.9	1.6	1.6	1.7	2.5	2.9	3.2	3.9
J&K	10.7	11.1	11.4	11.2	9.8	6.0	4.9	4.7	4.8	4.3
Private										
Axis	1.6	1.3	1.3	0.8	1.5	2.2	2.1	2.3	3.1	2.6
HDFC Bank	0.1	0.0	0.0	0.0	0.0	0.3	0.3	0.4	0.4	0.4
ICICI	1.4	0.9	0.5	0.4	0.4	4.4	5.5	5.5	5.0	4.7
IDFC bank	2.5	1.3	1.0	1.0	1.0	2.6	1.1	1.7	1.6	2.5
IndusInd	0.4	0.4	0.2	0.2	0.1	0.4	0.4	0.4	0.4	0.5
RBL	0.3	0.3	0.2	0.4	0.2	0.5	0.6	0.8	0.8	1.0
Yes	0.4	0.4	0.2	0.1	0.1	0.3	0.8	0.4	1.0	0.9
Total	2.4	2.0	1.9	1.7	1.3	5.1	4.8	4.9	4.7	4.8
Public banks	3.0	2.5	2.4	2.2	1.6	6.8	6.3	6.4	6.0	6.4
Private banks	1.3	1.0	0.9	0.7	0.8	2.1	2.2	2.2	2.3	2.2

Source: Company, Kotak Institutional Equities

Exhibit 27: We expect LLP to increase sharply owing to new RBI directives

Loan-loss provisions and credit cost of banks, March fiscal year-ends, 4QFY17-4QFY18E (₹ mn)

	Loan loss provisions (Rs mn)					Credit cost (%)				
	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Public banks										
Bank of Baroda	24,250	21,567	18,472	31,553	31,017	2.6	2.3	1.9	3.2	3.0
Bank of India	44,835	21,562	18,668	43,731	27,383	4.6	2.2	1.9	4.5	2.8
Canara Bank	26,351	21,000	20,130	18,000	31,503	3.1	2.5	2.3	2.0	3.3
PNB	49,890	22,647	24,260	31,554	102,762	5.0	2.2	2.4	2.9	9.2
State Bank of India	193,230	121,250	167,150	177,600	155,982	4.7	2.6	3.6	3.8	3.4
Union Bank	15,930	18,325	34,570	25,200	43,320	2.2	2.5	4.6	3.2	5.5
Old private banks										
City Union Bank	450	1,090	870	695	617	0.8	1.8	1.4	1.1	0.9
DCB	285	320	272	308	379	0.8	0.8	0.6	0.7	0.8
Federal Bank	1,090	2,300	1,600	1,400	829	0.6	1.2	0.8	0.7	0.4
Karur Vysya Bank	2,040	2,240	2,930	3,060	3,232	2.0	2.1	2.7	2.7	2.8
J&K Bank	6,271	4,712	1,960	2,160	2,596	5.3	3.8	1.6	1.6	1.8
New private banks										
Axis Bank	20,830	21,830	33,740	27,540	42,838	2.3	2.3	3.4	2.7	4.0
HDFC Bank	12,582	15,495	14,762	13,514	14,671	1.0	1.1	1.0	0.9	0.9
ICICI Bank	28,982	26,087	45,029	35,696	75,137	2.5	2.2	3.8	2.9	5.9
IDFC bank	48	(19)	265	(20)	171	0.0	(0.0)	0.2	(0.0)	0.1
IndusInd Bank	2,560	2,100	2,220	1,870	2,530	0.9	0.7	0.7	0.6	0.8
RBL	430	940	660	680	705	0.6	1.2	0.8	0.8	0.7
Yes Bank	2,177	2,842	4,024	4,213	5,711	0.7	0.8	1.1	1.1	1.3
Small finance banks										
Equitas	410	441	271	869	320	2.3	2.5	1.5	4.6	1.6
Ujjivan	72	1,592	882	287	405	0.4	9.9	5.4	1.7	2.2
Total	432,714	308,322	392,735	419,910	542,106	3.2	2.1	2.7	2.8	3.5
Total - Public sector	354,486	226,351	283,250	327,638	391,967	4.1	2.5	3.1	3.5	4.1
Total - Private sector	78,228	81,970	109,485	92,272	150,139	1.7	1.7	2.2	1.7	2.7

Source: Companies, Kotak Institutional Equities estimates

NBFCs: IN THE SWEETEST SPOT

We expect most NBFCs to deliver 18-53% yoy growth in core PBT supported by improving loan growth, margins and asset quality. Strong rural cash flows, high growth in CV/construction equipment, increasing momentum in housing and reducing borrowing costs during 1HFY18 are key drivers. High loan growth will provide a boost to PNBHF (PAT up 53%) and Bajaj Finance (PAT up 35%). Better NIM and control over expenses will drive earnings for L&T Finance and Cholamandalam while lower credit costs will be the key driver for Shriram Transport Finance. HDFC's strong earnings growth is backed by improving momentum in retail business and float income of recent capital issuance.

Operational trends strong

We find several positive catalysts for a strong 4QFY18E and FY2018E in general.

- ▶ Cash flows in rural India have been robust, leading to higher loan growth (tagging on strong auto sales) and collections. CV sales have been strong and picked up in the LCV-end; market sources suggest that sales of construction equipment peaked in 4QFY18. The housing industry seems to be coming out of the impact of GST and RERA that hit in 1QFY18. The microfinance business, post demon, is picking up qoq during the last one year.
- ▶ Decline in borrowing costs has boosted NIM for past few quarters. For the larger/higher-rated players, rise in bond yields have led to higher incremental funding costs, though, on a yoy basis, the overall borrowing costs, for most players, is down.
- ▶ Most NBFCs, other the Shriram twins, have migrated to 90 dpd NPL norms; the Shriram companies will migrate in 4QFY18E. With improving macro and collections, the impact on 90 dpd is reducing. Shriram Transport and SCUF have maintained high provision coverage (65-70%) which they can drop down on 90 dpd transition. Among the two, Shriram Transport seems to be better-placed.

Will 4QFY18E be the peak?

We find two trends playing out. (1) On the positive side, strong CV/construction equipment sales, on the back of likely increase in construction/infrastructure activity and Government's focus on rural India in FY2019E, will provide a boost to demand and may keep the good times going; CY2018 monsoon is a monitorable. (2) Rising rates is a concern – we expect a combination of lower asset yields (following reduction in funding costs) to get reflected over the next few quarters; this, coupled with rising borrowing costs, will put pressure on NIM; almost all NBFCs have guided for NIM compression in FY2019E.

Over the medium term, NBFCs will face more competition from banks as the latter master the skills of lending to the unbanked/less banked due to digitalization and formalization. Most NBFCs are already working hard to gear up to likely rise in competition from new tech-savvy NBFCs and banks; this remains the key medium-term trend to watch out for.

Exhibit 28: Robust growth in earnings for most companies

Quarterly trends in yoy PAT growth, March fiscal year-ends, 4QFY17-4QFY18E (%)

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Bajaj Finance	43	42	37	38	35
Bharat Financial Inclusion	(378)	(116)	(18)	12	NM
Cholamandalam	14	25	33	53	27
HDFC	(20)	(15)	14	220	34
IIFL	37	44	25	32	39
LICHF	19	15	(1)	(2)	4
L&T Finance (lending)	33	44	43	37	11
Mahindra Finance	(37)	(46)	(18)	23	23
Muthoot Finance	21	30	53	59	16
PFC	(371)	(17)	1	(18)	NM
PNBHF	48	92	51	58	57
REC	14	(9)	(31)	(26)	(2)
Shriram Transport	4	20	24	43	230
Shriram City Union Finance	(78)	7	(3)	43	625

Source: Company, Kotak Institutional Equities

Exhibit 29: Core PBT growth trends are volatile across companies in the NBFC space

Quarterly trends in yoy core PBT growth, 4QFY17- 4QFY18E (%)

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Bajaj Finance	41	42	37	38	36
Bharat Financial Inclusion	(313)	(127)	(18)	12	NM
Cholamandalam	14	25	32	51	24
HDFC	18	16	11	14	18
IIFL	52	60	39	31	30
LICHF	22	11	2	(1)	(3)
L&T Finance (lending)	32	34	26	30	38
Mahindra Finance	(18)	10	150	4	4
Muthoot Finance	24	30	63	62	6
PFC	(240)	(18)	1	(22)	NM
PNBHF	54	92	54	61	53
REC	19	(8)	(19)	(15)	(13)
Shriram Transport	5	23	25	18	19
Shriram City Union Finance	(76)	7	(3)	41	511

Source: Company, Kotak Institutional Equities

Strong loan growth

We expect most NBFCs to deliver loan growth in the range of 20-35% as rural sales are robust, CV sales remain strong (24% sales growth at AL and 31% CV growth at Tata Motors) and housing demand picks up post a weak 1HFY18.

Highest loan growth will likely be observed in (1) PNBHF (55%; its business momentum continues) followed by (2) Bhafin (49%; continuous qoq improvement) and (3) Bajaj Finance (35%; mostly consumer loans). With strong CV sales, we expect the momentum at Shriram Transport Finance to continue (20% loan growth, up from 18% in 3QFY18). Chola will likely deliver 20% loan growth as well. Large HFCs (HDFC and LICHF) will deliver 16-18% loan growth.

Exhibit 30: Strong positive loan growth for most NBFCs similar to 3QFY18

Quarterly trends in loan growth, March fiscal year-ends, 4QFY17-4QFY18E (%)

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Bajaj Finance	36	39	38	35	35
Bharat Financial Inclusion	19	14	17	34	49
Cholamandalam	15	14	14	20	20
HDFC	14	18	18	19	18
LIC Housing Finance	16	15	16	15	16
L&T Finance Holdings	21	22	23	26	19
Mahindra Finance	28	27	14	13	15
Muthoot Finance	12	8	1	5	6
Power Finance Corporation	3	12	9	10	7
PNBHF	51	51	47	53	55
Rural Electrification Corporation	3	10	10	11	11
Shriram City Union Finance	18	17	16	16	20
Shriram Transport Finance	8	9	13	18	20

Source: Company, Kotak Institutional Equities estimates

NIM up yoy for most companies

On yoy basis, we expect significant NIM expansion in 4QFY18E. Most vehicle finance NBFCs have benefitted from falling borrowings costs; while these companies have passed on the benefit of lower rates on the asset side, this is yet to get reflected in the average yields as vehicle loans carries fixed rates. Rise in interest rates in 2H may not yet get reflected in its overall borrowing cost. We expect stable/declining NIM for housing finance companies as home loan rate reduction has been rapid and sharp; these loans carry a floating rate ensuring quicker transition.

Exhibit 31: Margin compression across most NBFCs

Quarterly trends in NIM, March fiscal year-ends, 4QFY17-4QFY18E (%)

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Bajaj Finance	11.1	12.6	10.8	12.4	11.1
Bharat Financial Inclusion	7.4	8.4	9.8	10.2	10.2
Cholamandalam	8.0	8.0	8.3	8.4	8.5
HDFC	3.6	3.1	3.0	3.2	3.5
L&T Finance Holdings	5.0	4.9	5.1	5.3	5.2
LIC Housing Finance	3.0	2.5	2.4	2.3	2.5
Mahindra Finance	10.5	8.0	8.1	9.1	11.7
Muthoot Finance	17.0	12.2	16.6	15.1	14.0
Power Finance Corporation	2.5	4.4	4.3	3.0	4.1
PNB Housing Finance	3.4	3.1	3.2	3.0	3.2
Rural Electrification Corporation	4.9	4.3	4.0	3.9	3.9
Shriram City Union Finance	12.5	13.8	14.3	14.4	11.8
Shriram Transport Finance	7.3	7.9	7.8	7.8	7.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 32: 10-year G-Sec and AAA have started to moderate

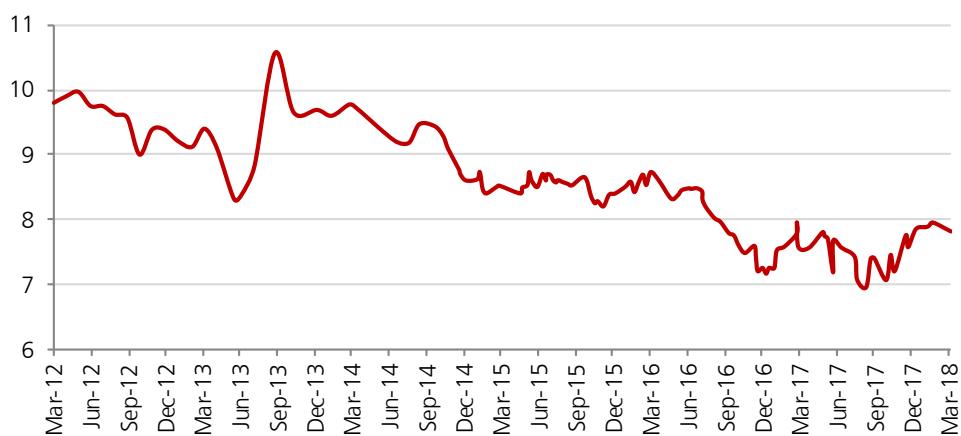
Yields on 5-year corporate bonds and 10-year G-Secs in India, April 2012- April 2018 (%)



Source: Company, Bloomberg, Kotak Institutional Equities

Exhibit 33: Bond borrowing rates have been flat in 4QFY18

LICHF –yields on 1-10 year bonds, March 2012- March 2018 (%)



Source: Prime Database

Exhibit 34: Most NBFCs have large share of bank borrowings

Composition of borrowings, 3QFY18 (% of total)

	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
HDFC									
Term loans	14	18	14	12	12	13	12	13	13
Bonds/ debenture/ CPs	54	51	53	55	56	56	59	57	56
Deposits	32	31	33	33	32	31	30	30	31
LICHF									
Bank	13	13	11	9	9	9	9	9	10
NCDs	77	77	80	81	81	79	79	79	78
Tier-II	2	2	2	2	2	2	2	2	2
Deposit	3	3	4	4	4	5	5	5	5
NHB	3	3	3	3	2	3	3	3	2
CP and others	2	2	1	1	1	2	2	3	3
PNBHF									
NCDs	NA	36	NA	43	44	41	41	46	43
Cp and others	NA	19	NA	14	8	12	16	15	17
Banks	NA	7	NA	3	5	7	7	7	11
Public deposit	NA	27	NA	25	28	28	25	23	21
ECB	NA	2	NA	5	5	4	4	3	3
NHB	NA	8	NA	10	9	8	7	6	5
L&TFH									
Term loan	22	32	20	14	14	16	14	15	15
NCDs	35	28	34	35	35	34	38	37	37
LOC/CC/WCL/STL	17	19	23	27	27	22	25	22	22
CP	14	11	15	13	14	19	13	17	17
Others	12	10	8	11	10	9	10	9	9
Shriram transport									
Banks/ institutional	80	81	81	81	81	82	83	83	84
Others	20	19	19	19	19	19	17	17	16
SCUF									
Retail	29	28	27	26	24	23	22	21	19
Bank borrowings	53	59	56	56	55	56	56	56	60
Market borrowings	15	10	14	16	18	18	20	21	20
Public issue NCD	3	3	3	3	2	2	2	2	1
Chola									
Bank	56	56	55	52	43	35	35	34	34
CP	7	9	12	10	14	16	11	11	12
Debenture	25	23	21	27	32	37	42	42	42
Subordinated debt	12	12	12	11	11	12	12	13	12
Mahindra Fianance									
Banks	46	47	40	46	43	46	40	37	38
Insurance	17	18	22	8	8	8	13	15	17
MFs	22	19	19	21	24	21	25	31	28
Others	16	17	20	25	25	25	22	17	18
Muthoot									
Gold bonds	22	22	18	15	14	12	10	7	5
Listed NCDs	17	19	20	15	14	18	25	22	21
Bank loans	43	41	41	42	46	44	42	46	57
CPs	1	2	4	14	13	15	13	15	7
Subordinated debt	11	11	13	11	11	9	8	7	7
Others	5	5	4	3	2	2	2	3	3
Magma									
Banks	64	74	74	76	67	65	68	70	68
DCM	25	16	16	12	21	23	19	18	20
Others	11	10	10	11	12	12	13	12	12
PFC									
Bonds	90	86	88	92	92	94	92	89	89
Term loans	5	10	5	5	5	5	4	3	5
Short term loans	5	4	7	3	3	1	4	8	6
REC									
Capital gains	10	18	18	19	19	19	19	19	19
Institutional bonds	73	65	64	63	66	68	68	63	67
Banks	1	1	1	1	0	0	0	1	1
Foreign currency	16	13	14	13	13	13	12	14	14
CP	1	3	3	3	1	-	1	3	-

Source: Company, Kotak Institutional Equities

Exhibit 35: Cash equity market volumes were ~30%, up yoy in 4QFY18

Average daily volumes on BSE and NSE, March fiscal year-ends, 2008-4QFY18 (Rs bn)

Period	Volumes in cash market			YoY (%)	F&O- NSE (Rs bn)	YoY (%)	Total vol. (Rs bn)	YoY (%)
	BSE (Rs bn)	NSE (Rs bn)	Total (Rs bn)					
2008	62	144	205	78	530	77	735	77
2009	45	113	158	(23)	453	(15)	611	(17)
2010	56	168	224	41	717	58	941	54
2011	44	141	184	(18)	1,148	60	1,332	42
2012	26	113	139	(25)	1,269	11	1,408	6
2013	32	127	158	(15)	1,306	56	1,465	43
2014	21	112	133	2	1,530	21	1,663	19
2015	36	181	217	63	2,327	52	2,544	53
1QFY16	26	177	203	(10)	2,700	45	2,903	39
2QFY16	28	177	205	(5)	2,602	9	2,807	8
3QFY16	27	163	189	(4)	2,236	(5)	2,425	(5)
4QFY16	28	173	201	(12)	3,012	12	3,212	10
1QFY17	26	174	200	(2)	2,983	10	3,183	10
2QFY17	34	216	249	21	3,762	45	4,011	43
3QFY17	29	195	224	18	4,036	80	4,259	76
4QFY17	65	232	298	48	4,469	48	4,767	48
1QFY18	41	254	295	48	5,367	80	5,662	78
2QFY18	38	270	308	23	6,259	66	6,567	64
3QFY18	46	312	358	60	6,806	69	7,164	68
4QFY18	45	342	386	30	8,249	85	8,635	81

Source: BSE, NSE and Bloomberg

Key highlights of 4QFY18E preview for key NBFCs

- **Bajaj Finance.** We expect strong growth trajectory of Bajaj Finance to continue. We forecast 35% loan book growth in 4QFY18E; similar for the past two quarters. Consumer loans will likely be the key growth driver. We forecast stable yoy NIM (though seasonally lower; in line with historic annual trends) and operating expenses. The company will share its detailed plan for the housing finance business that will be carved and managed separately from 1QFY19.
- **Cholamandalam.** Strong CV sales will drive 20% loan growth. Lower funding costs will drive 8.5% NIM, up 50 bps yoy. With stable qoq and yoy cost to assets ratio, we expect the company to deliver 27% earnings growth in 4QFY18.
- **HDFC.** With improvement in momentum in the retail business, we expect HDFC's loan growth to inch up to 18% (17% in 3QFY18). NIM will likely expand by about 30 bps qoq; this is in line with seasonal trends of higher collections in 4Q. Large capital issuance (₹130 bn) will boost NII by about ₹1 bn.
- **IDFC.** While retail momentum continues, we expect pressure in the wholesale (infrastructure) loan book due to constant downward repricing; a large part of the income in its wholesale is booked on cash basis and may hence tend to be volatile. RBI's recent guideline to defer recognition of treasury losses during 3QFY18 over four quarters will lead to marginal treasury profits during 4QFY18E.
- **IIFL Holdings.** We expect IIFL Holdings to deliver 37% pre-minority earnings growth. 8% qoq and 30% yoy growth in cash market volumes on NSE will drive almost similar growth in capital market-related revenue. Income in wealth management business will likely remain stable qoq. Loan book growth will likely moderate to 31% yoy from 33% yoy due to lower loan-against-shares (LAS) business on the back of correction in equity markets.
- **LICHF.** We expect loan growth of 16% yoy. Retail disbursements were likely better qoq. We expect 20 bps qoq NIM expansion as collections, largely in retail business, improve.

- ▶ **L&T Finance Holdings.** We are forecasting earnings of LTFH's lending business (excluding asset management and wealth management) to grow by 21% yoy. We expect 19% loan growth to ₹761 bn on the back of 55% growth in rural finance, 38% growth in housing loans and almost stable wholesale loans. We expect NIM to remain stable yoy at 5.3% while ratio of fee/other income to loans will likely expand by 40 bps yoy to 1.3%. Cost to income ratio will likely remain stable at 16%.
- ▶ **Mahindra Finance.** We expect strong collections at MMFS on the back of improving cash flows in rural India. We expect NIM to expand to 11.7% from 9.1% in 3QFY18 and 10.5% in 4QFY17 due to lower reversals and higher recoveries. We are forecasting 50% yoy decline in provisions for the quarter. While auto sales have been strong, we expect loan growth to remain moderate at 15% likely due to higher competition in rural auto finance.
- ▶ **PNBHF.** We expect loan growth to remain strong at 55% yoy, up from 53% in 3QFY18. This will likely be driven by high growth across segments with no significant change in loan mix. We build in credit costs of 0.57% as compared to 0.4% in 3QFY18 and 0.7% in 4QFY17. NIM will likely moderate to 3% from 3.2% in 3QY18 and 3.4% in 4QFY18 to reflect (1) competition in home loans and (2) increasing leverage on balance sheet.
- ▶ **Shriram City Union Finance.** SCUF will migrate to 90 dpd NPLs in 4QFY18E. While we expect its growth momentum to remain strong (20% loan growth in small business loans), higher provisions on account of the migration and interest reversals will put pressure on earnings. We expect GNPLs to increase to 9% in 4QFY18 (90 dpd) from 6.7% in 3QFY18 (120 dpd); we expect the company to drop its coverage to 60% from 74% currently. Operating expenses to income ratio will likely remain stable yoy at 4.8% of loans.
- ▶ **Shriram Transport Finance.** Shriram Transport Finance will migrate to 90 dpd NPLs in 4QFY18E. Beneficiary of high growth in CVs, we expect the company to deliver 20% loan growth (up from 18% in 3QFY18). NIM will, however, moderate 50 bps qoq to 7.55% due to rise in funding costs and higher competition on the asset side.

Exhibit 36: Key valuation metrics of banks and NBFCs

March fiscal year-ends, 2017-2019E

		Target price	Price	Market cap.	EPS (Rs)			PER (X)			ABVPS (Rs)			APBR (X)			RoE (%)		
	Reco.	(Rs)	3-Apr-18	US \$bn	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Public banks																			
Bank of Baroda	NR	—	145	5.1	4	27	30	40.7	5.4	4.9	97	130	167	1.5	1.1	0.9	2.2	15.5	15.3
Bank of India	ADD	190	108	2.0	(21)	19	30	(5.1)	5.6	3.6	43	61	94	2.5	1.8	1.1	(10.5)	9.2	13.1
Canara Bank	REDUCE	390	269	2.5	(0)	58	72	NM	4.7	3.7	196	272	388	1.4	1.0	0.7	(0.0)	9.4	10.7
PNB	ADD	220	95	3.6	(13)	(5)	20	(7.4)	(19.5)	4.7	75	97	129	1.3	1.0	0.7	(7.9)	(2.9)	11.5
SBI	BUY	380	250	33.2	(0)	22	45	NM	11.5	5.5	117	151	211	2.1	1.7	1.2	(0.0)	8.5	15.9
Union Bank	ADD	180	97	1.3	(55)	20	34	(1.8)	4.9	2.8	29	38	116	3.3	2.6	0.8	(20.2)	7.8	12.3
Old private banks																			
City Union Bank	ADD	180	178	1.8	8	10	11	21.1	17.6	15.8	56	64	73	3.2	2.8	2.4	14.7	15.6	15.4
DCB Bank	ADD	210	168	0.8	8	10	13	21.3	17.2	12.7	80	89	100	2.1	1.9	1.7	10.7	11.1	13.4
Karur Vysya Bank	ADD	135	105	1.2	5	8	15	22.3	12.6	7.0	67	72	85	1.6	1.5	1.2	6.1	9.4	15.5
J&K Bank	BUY	110	58	0.5	5	15	17	11.6	3.7	3.4	81	94	111	0.7	0.6	0.5	4.5	13.1	13.1
New private banks																			
Axis Bank	REDUCE	600	502	19.8	10	28	41	51.4	18.2	12.1	228	260	304	2.2	1.9	1.6	4.1	10.1	13.6
IndusInd Bank	REDUCE	1,750	1,830	16.9	59	71	82	30.8	26.0	22.2	383	467	533	4.8	3.9	3.4	16.6	17.5	16.2
HDFC Bank	REDUCE	1,900	1,916	76.4	65	83	98	29.4	23.1	19.5	464	528	604	4.1	3.6	3.2	16.2	16.5	17.2
ICICI Bank	BUY	400	270	26.6	9	16	25	29.5	17.4	10.9	130	149	177	2.1	1.8	1.5	5.8	9.2	13.4
ICICI standalone		238	167	16.5	(1)	13	22	NM	13.0	7.7	117	136	163	1.4	1.2	1.0	(0.5)	8.4	12.7
IDFC Bank	NR	—	49	2.5	3	4	5	16.3	12.0	9.7	46	49	52	1.1	1.0	0.9	6.7	8.6	9.9
RBL Bank	SELL	420	485	3.1	15	19	24	32.1	25.9	19.8	155	168	186	3.1	2.9	2.6	11.3	11.2	13.2
Yes Bank	SELL	295	313	11.1	16	17	20	19.1	18.0	15.5	105	118	134	3.0	2.6	2.3	15.9	14.9	15.3
Small finance banks																			
Equitas	BUY	180	149	0.8	1	4	8	NM	33.7	17.7	63	67	75	2.4	2.2	2.0	1.1	6.4	11.1
Ujjivan	REDUCE	400	363	0.7	(2)	18	21	NM	19.6	17.1	138	159	179	2.6	2.3	2.0	(1.2)	12.0	12.4
NBFCs																			
Bajaj Finance	REDUCE	1,750	1,834	16.3	44	61	76	41.6	30.2	24.1	284	337	404	6.5	5.4	4.5	19.5	19.6	20.6
Bajaj Finserv	ADD	5,600	5,382	13.2	184	222	274	29.2	24.2	19.7	1,298	1,511	1,771	4.1	3.6	3.0	16.1	15.8	16.7
Cholamandalam	REDUCE	1,400	1,516	3.6	61	73	87	24.7	20.9	17.5	310	369	440	4.9	4.1	3.4	20.3	20.1	20.2
Bharat Financial Inclusion	NA	-	1,116	2.4	32	21	32	35.1	53.1	35.1	208	267	336	5.4	4.2	3.3	16.5	21.8	21.2
HDFC	ADD	2,000	1,826	47.0	75	57	67	24.2	32.2	27.3	385	434	478	4.7	4.2	3.8	23.7	13.6	14.4
HDFC core			907	23.4	43	47	55	21.0	19.4	16.4	253	304	348	3.6	3.0	2.6	19.8	19.7	17.0
IIFL Holdings	SELL	600	715	3.5	29	33	40	24.6	21.4	18.0	160	185	214	4.5	3.9	3.3	19.1	18.6	19.2
LIC Hsg Fin	ADD	605	554	4.3	40	44	54	14.0	12.6	10.3	281	327	383	2.0	1.7	1.4	16.6	15.9	16.8
L&T Finance Holdings	REDUCE	160	163	5.0	7	9	10	22.1	17.7	15.7	48	54	62	3.4	3.0	2.6	16.4	18.1	17.8
Mahindra Finance	REDUCE	450	474	4.5	16	21	25	29.9	22.1	19.0	136	149	161	3.5	3.2	2.9	12.4	13.7	14.7
Muthoot Finance	ADD	500	417	2.6	41	37	41	10.1	11.3	10.1	195	223	255	2.1	1.9	1.6	23.0	17.7	17.3
Power Finance Corporation	ADD	130	88	3.6	25	21	27	3.5	4.1	3.2	104	111	126	0.8	0.8	0.7	17.0	13.2	15.4
PNB Housing Finance	ADD	1,300	1,274	3.3	51	62	74	25.1	20.5	17.2	367	412	473	3.5	3.1	2.7	14.3	15.5	16.3
Rural Electrification Corp.	REDUCE	155	128	3.9	26	22	24	5.0	5.8	5.5	169	153	172	0.8	0.8	0.7	14.5	11.3	11.0
Shriram City Union Finance	ADD	2,275	2,245	2.3	107	147	172	21.0	15.3	13.1	802	921	1,060	2.8	2.4	2.1	13.2	16.0	16.3
Shriram Transport	REDUCE	1,360	1,481	5.2	85	102	114	17.5	14.5	13.0	529	611	703	2.8	2.4	2.1	15.8	16.7	16.2

Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Exhibit 37: Public banks have outperformed better over past three months owing to government announcement regarding recapitalization

Stock price performance—absolute and relative (%)

	Change in price (%)					Relative performance to BSE-30 Index (%)					52 week	52 week
	1 month	3 month	6 month	12 month	Ytd	1 month	3 month	6 month	12 month	Ytd	high (Rs)	low (Rs)
Public banks												
Andhra Bank	(3.8)	(23.9)	(22.4)	(25.9)	(25.0)	(1.7)	(22.4)	(26.7)	(33.6)	(22.6)	76	32
Bank of Baroda	5.1	(7.9)	5.9	(15.7)	(9.5)	6.9	(6.6)	(0.1)	(24.4)	(7.4)	207	128
Bank of India	(4.8)	(36.0)	(21.8)	(22.7)	(36.5)	(2.7)	(34.3)	(26.2)	(30.7)	(33.8)	217	91
Canara Bank	(7.4)	(23.8)	(12.8)	(11.7)	(25.4)	(5.3)	(22.2)	(17.7)	(20.8)	(22.9)	464	225
Corporation Bank	(4.0)	(21.8)	(19.2)	(42.8)	(19.9)	(2.0)	(20.3)	(23.7)	(48.7)	(17.5)	65	27
Indian Bank	(3.1)	(17.6)	16.8	9.4	(18.4)	(1.1)	(16.2)	10.3	(1.9)	(16.1)	428	251
IOB	(9.9)	(21.3)	(20.8)	(34.1)	(19.9)	(7.8)	(19.8)	(25.3)	(40.9)	(17.5)	32	17
OBC	(3.7)	(20.7)	(21.3)	(33.4)	(21.4)	(1.6)	(19.2)	(25.7)	(40.3)	(19.0)	191	84
PNB	(5.5)	(42.7)	(26.4)	(36.3)	(44.3)	(3.5)	(40.9)	(30.5)	(42.9)	(41.5)	232	91
SBI	(4.5)	(17.3)	(0.4)	(14.6)	(19.2)	(2.5)	(15.9)	(6.0)	(23.5)	(16.9)	352	232
Union Bank	(6.4)	(32.2)	(23.4)	(37.5)	(32.8)	(4.3)	(30.6)	(27.7)	(44.0)	(30.2)	205	86
Old private banks												
City Union Bank	(1.5)	(0.2)	8.4	29.1	(1.0)	0.5	1.0	2.4	15.7	1.0	209	132
DCB	3.7	(12.2)	(8.5)	(1.2)	(14.1)	5.6	(10.8)	(13.6)	(11.4)	(11.8)	213	155
Karur Vysya Bank	(3.3)	(13.6)	(21.5)	(3.5)	(16.4)	(1.3)	(12.2)	(25.9)	(13.5)	(14.1)	150	96
J&K Bank	(13.7)	(29.6)	(23.1)	(22.8)	(26.4)	(11.5)	(28.0)	(27.4)	(30.8)	(23.9)	96	54
New private banks												
Axis Bank	(4.6)	(10.5)	(1.6)	0.2	(11.1)	(2.6)	(9.1)	(7.1)	(10.2)	(8.9)	628	448
IndusInd Bank	7.6	12.2	8.1	30.4	11.0	9.4	13.3	2.0	16.9	12.7	1,841	1,375
HDFC Bank	2.2	3.4	5.9	33.7	2.3	4.1	4.6	(0.0)	19.8	4.3	2,015	1,425
ICICI Bank	(11.6)	(14.4)	(3.2)	3.4	(14.1)	(9.4)	(13.0)	(8.6)	(7.3)	(11.9)	366	241
Yes Bank	(2.5)	(0.9)	(10.8)	1.7	(0.7)	(0.5)	0.4	(15.8)	(8.8)	1.3	383	275
Small finance banks												
Equitas	1.8	2.8	(2.1)	(12.8)	0.5	3.7	4.0	(7.6)	(21.8)	2.5	184	129
Ujjivan	(1.5)	(8.7)	13.8	(13.3)	(6.7)	0.5	(7.3)	7.5	(22.3)	(4.6)	427	285
Non-banks												
Bajaj Finserv	7.6	5.5	1.1	31.3	2.9	9.4	6.7	(4.6)	17.7	4.8	5,835	3,796
Cholamandalam	4.5	15.8	36.8	55.8	16.7	6.3	16.8	29.2	39.7	18.3	1,532	960
Dewan housing	(0.7)	(9.2)	(2.9)	43.1	(8.4)	1.2	(7.8)	(8.4)	28.3	(6.3)	679	367
HDFC	0.6	7.3	3.6	19.0	6.7	2.6	8.5	(2.2)	6.7	8.6	1,986	1,460
IDFC	(1.4)	(16.0)	(12.1)	(4.9)	(17.6)	0.5	(14.5)	(17.1)	(14.7)	(15.2)	69	48
IIFL Holdings	(11.1)	10.9	19.5	81.6	7.1	(9.0)	12.0	12.8	62.7	8.9	874	387
LIC Housing Finance	9.3	(2.2)	(13.6)	(11.3)	(1.7)	11.0	(1.0)	(18.5)	(20.5)	0.3	794	477
L&T Finance Holdings	0.2	(4.3)	(16.3)	31.8	(6.5)	(1.8)	(24.9)	(25.8)	(24.2)	(21.4)	214	119
Magma Fincorp	0.7	(2.4)	(8.0)	50.7	1.9	2.6	(1.2)	(13.1)	35.0	3.8	192	106
MMFS	10.9	2.0	12.2	48.5	0.1	12.6	3.2	5.9	33.1	2.1	524	290
Muthoot Finance	7.3	(8.9)	(12.6)	9.5	(12.2)	9.1	(7.5)	(17.5)	(1.9)	(10.0)	526	357
PFC	(14.3)	(29.0)	(29.5)	(40.5)	(27.8)	(14.3)	(29.0)	(29.5)	(40.5)	(27.8)	169	83
REC	(9.8)	(18.8)	(15.8)	(28.7)	(17.7)	(7.6)	(17.3)	(20.5)	(36.1)	(15.3)	224	121
Shriram City Union Finance	11.7	7.1	10.1	(3.5)	6.6	13.5	8.3	3.9	(13.5)	8.4	2,648	1,850
Shriram Transport	10.6	2.0	39.5	34.1	(0.0)	12.4	3.2	31.7	20.2	1.9	1,546	898

Source: Bloomberg

Exhibit 38: Public banks are trading at ~1.3X book (adj.)

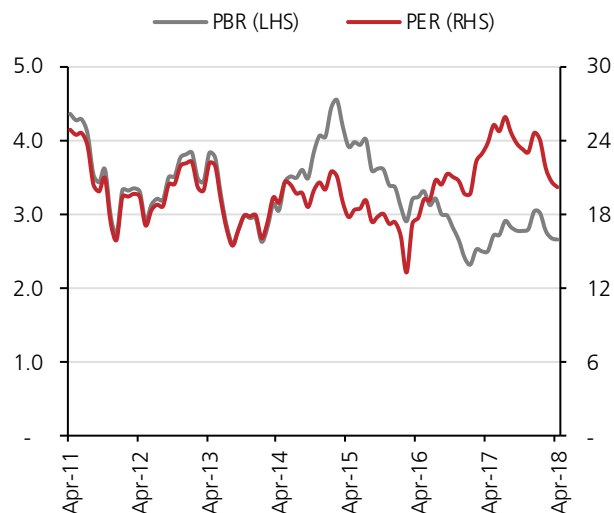
Public banks – one-year forward PBR and PER, 2011-18 (X)



Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Exhibit 39: Private banks are trading at 2.7X book (adj.)

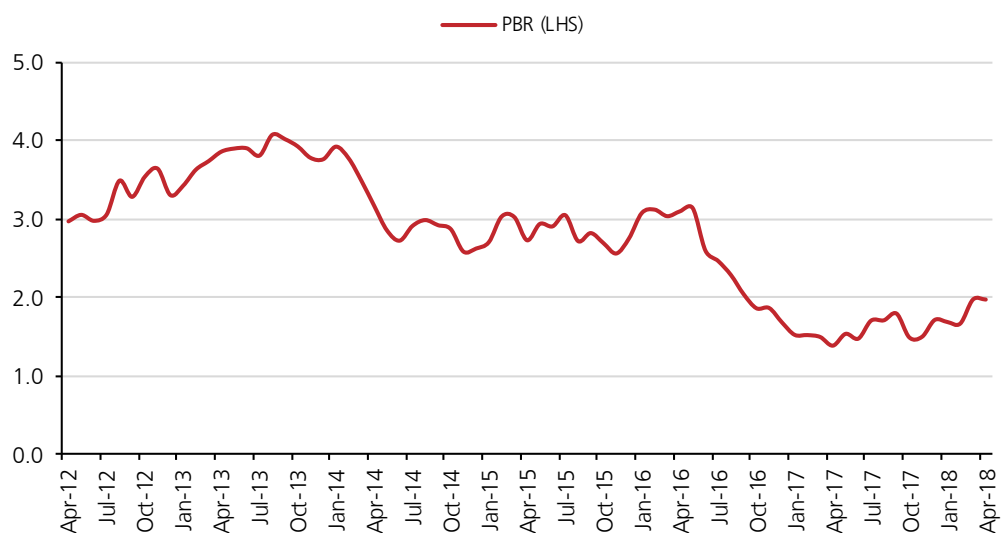
Private banks – one-year forward PBR and PER, 2011-18 (X)



Source: Companies, Bloomberg, Kotak Institutional Equities estimates

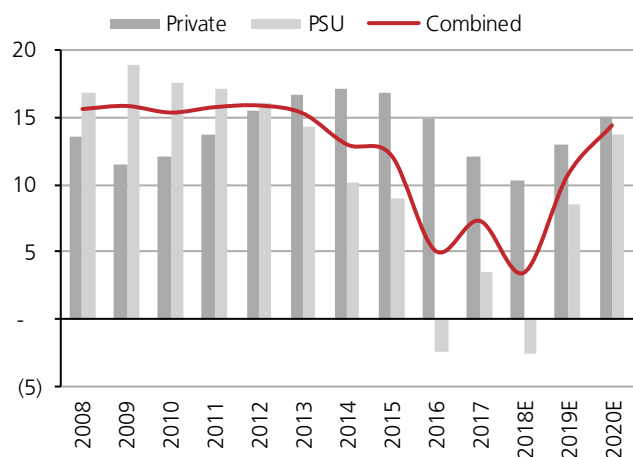
Exhibit 40: Private banks trade at a premium to public banks

PBR (adj.) and PER of private and public banks, April 2012 - April 2018 (X)



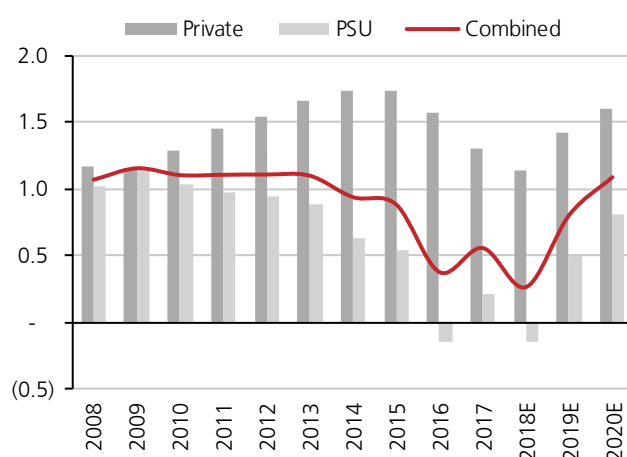
Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Exhibit 41: RoE likely to show improvement by FY2019E
RoE-public and private banks, March fiscal year-ends, 2008-20E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 42: RoA to improve gradually from 0.3% in FY2017
RoA-public and private banks, March fiscal year-ends, 2008-20E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 43: Quarterly result expectation for companies under coverage

	Mar-17	Dec-17	Mar-18E	Change (%)		Comments
				yoy	qoq	
Banks/Financial Institutions						
Axis Bank						
Net interest income	47,286	47,315	49,021	3.7	3.6	NII growth (4% yoy) and revenue growth (7% yoy) will significantly lag loan growth (18% yoy) as high slippages and underlying yield pressure take toll on NIMs (down 40 bps yoy and stable qoq at 3.4%)
Pre-provision profit	43,748	38,538	45,968	5.1	19.3	
Fee income	24,230	22,460	26,353	8.8	17.3	
Treasury income (net)	1,660	2,090	4,041	143.4	93.3	
Loan-loss provisions	20,830	27,540	42,838	105.7	55.5	We expect slippages of Rs55 bn (versus Rs44 bn in 3QFY18) as new guidelines take effect, impacting the unrecognized stress loans (SDR, S4A, etc.). Elevated credit costs will help improve coverage ratio (53% at 3QFY18)
Adjusted PAT	12,251	7,264	400	(96.7)	(94.5)	
EPS (Rs/share)	5.2	3.1	0.2	(96.7)	(94.5)	
Bajaj Finance						
Net interest income	16,806	23,696	22,535	34.1	(4.9)	We expect loan book growth to remain strong at 35% yoy similar to 3QFY18 largely driven by consumer loans; momentum in business loans will remain weak
Loan-loss provisions	3,811	2,468	4,708	23.5	90.7	
Adjusted PAT	4,492	7,667	6,054	34.8	(21.0)	Seasonal trends suggest qoq compression in NIM to 11.1% (down 128 bps qoq)
EPS (Rs/share)	8.2	14.0	11.1	34.8	(21.0)	
Bank of Baroda						
Net interest income	35,819	43,940	45,893	28.1	4.4	We expect 28% yoy NII growth on the back of improving loan growth (up 10% yoy). Calculated NIM is expected to be stable qoq at 3.2% and up 40 bps yoy. Treasury gains to be sharply lower qoq due to M2M losses
Pre-provision profit	30,202	36,501	34,220	13.3	(6.2)	
Fee income	6,640	7,710	6,115	(7.9)	(20.7)	
Treasury income (net)	7,600	3,360	2,290	(69.9)	(31.8)	
Loan-loss provisions	24,250	31,553	31,017	27.9	(1.7)	We expect fresh slippages at Rs87bn on the back of new RBI guidelines leading to higher provisions. Coverage ratio at ~65% levels could drop qoq
Adjusted PAT	1,547	1,118	1,541	(0.4)	37.9	
EPS (Rs/share)	3.3	2.4	3.3	(0.4)	37.9	
Bank of India						
Net interest income	34,686	25,012	28,942	(16.6)	15.7	Higher NPLs should result in drop of NII by 17% yoy, while loan growth remains muted at ~5% yoy. Sequentially NIM should improve ~30 bps to 2.2% due to lower slippages qoq (last quarter had one-off due to SBLC slippages).
Pre-provision profit	31,275	13,543	16,167	(48.3)	19.4	
Fee income	3,440	3,340	5,000	45.3	49.7	
Treasury income (net)	5,810	(8,250)	4,560	(21.5)	NM	
Loan-loss provisions	44,835	43,731	27,383	(38.9)	(37.4)	We expect slippages of Rs85 bn (vs Rs185 bn in 3QFY18, driven by one-offs), while upgrades of Rs113 bn (vs Rs33 bn in 3QFY18) will result in ~200 bps qoq decline in GNPL to ~15%. Bank will also benefit from reversal of investment provisions.
Adjusted PAT	(10,455)	(23,412)	(7,542)	(27.9)	(67.8)	
EPS (Rs/share)	(9.9)	(19.8)	(5.6)	(43.2)	(71.5)	
Bharat Financial Inclusion						
Net interest income	1,640	2,817	3,200	95.1	13.6	Improving business momentum will drive 49% yoy loan growth (34% yoy in 3QFY18)
Loan-loss provisions	3,350	86	158	(95.3)	83.3	
Adjusted PAT	(2,355)	1,623	1,950	NM	20.2	We expect moderate reduction in cost to income ratio at 50% from 52% in 9MFY18 as operating leverage picks up
EPS (Rs/share)	(17.1)	11.7	14.1	NM	21.0	
Canara Bank						
Net interest income	27,082	36,791	34,672	28.0	(5.8)	We expect 11% yoy loan growth and ~50 bps yoy NIM improvement (down 30 bps qoq), leading to 28% yoy loan growth. PPOP to decline ~20% yoy due to lower treasury gains (other income down ~40% yoy) and operating expense growth (up 16% yoy)
Pre-provision profit	29,729	28,314	23,602	(20.6)	(16.6)	
Fee income	3,630	2,770	3,295	(9.2)	18.9	
Treasury income (net)	10,800	(4,680)	4,700	(56.5)	NM	
Loan-loss provisions	26,351	18,000	31,503	19.6	75.0	We expect slippages of Rs56 bn (vs Rs26 bn in 3QFY18), driven by change in RBI guidelines. With absence of strong recoveries, this will lead to ~50 bps qoq rise in GNPL to 10.9%
Adjusted PAT	2,142	1,257	(5,251)	(345.2)	(517.6)	
EPS (Rs/share)	3.6	2.1	(7.2)	(299.7)	(440.1)	
Cholamandalam						
Net interest income	6,657	7,930	8,483	27.4	7.0	We expect steady growth in the vehicle finance business on the back of strong CV volumes; business loan growth will remain muted; we forecast overall loan growth of 20% yoy to Rs411 bn
Loan-loss provisions	529	902	749	41.8	(16.9)	
Adjusted PAT	2,196	2,492	2,781	26.7	11.6	We expect 50 bps NIM compression to 8.5% on the back of lower funding cost (down 8 bps qoq and 55 bps yoy to 8.6%)
EPS (Rs/share)	14.2	16.1	17.9	26.7	11.6	
City Union Bank						
Net interest income	3,106	3,650	3,654	17.7	0.1	Recovery in business momentum in key states will lead to strong loan growth at 15% yoy. NII growth will be similar to loan growth at 17.7% yoy but NIM can be under a bit of pressure qoq (it is at peak levels currently of 3.99% and is expected to drop 10 bps qoq)
Pre-provision profit	2,476	2,963	2,836	14.5	(4.3)	
Fee income	582	612	673	15.7	10.0	
Treasury income (net)	357	284	185	(48.1)	(34.8)	
Loan-loss provisions	450	695	617	37.2	(11.2)	We expect fresh impairments to lower leading to lower provisions for bad loans; slippages are expected to drop 20 bps qoq to 1.9%
Adjusted PAT	1,289	1,547	1,550	20.3	0.2	
EPS (Rs/share)	2.1	2.3	2.3	9.0	0.2	
DCB Bank						
Net interest income	2,203	2,505	2,601	18.1	3.8	We expect revenue growth to slowdown due to NIM pressure (calculated NIM is expected to drop 6 bps qoq) as yield on advances have started to drop (calculated yield on advances were down 13 bps qoq in 3QFY18 and will fall another 28 bps qoq in the current quarter). Performance in LAP would be the key monitorable given intense competition and pricing pressure
Pre-provision profit	1,153	1,225	1,328	15.2	8.4	
Fee income	586	658	693	18.2	5.2	
Treasury income (net)	41	55	51	25.1	(6.7)	
Loan-loss provisions	285	308	379	32.7	22.9	We expect slow PAT growth due to high provisions for the LAP portfolio (NPLs in the mortgage business have increased by 60 bps from 3QFY17-3QFY18)
Adjusted PAT	529	570	622	17.7	9.1	
EPS (Rs/share)	1.9	1.9	2.0	7.8	9.1	
Equitas Holdings						
Net interest income	2,209	2,349	2,465	11.6	4.9	AUM growth will be modest as MFI portfolio continues to de-grow (MFI portfolio will lower 30% yoy to Rs23bn in 4QFY18E on the back of 30.3% and 26.8% drop in 3QFY18 and 2QFY18 respectively)
Pre-provision profit	520	416	720	38.5	72.9	
Loan-loss provisions	410	869	320	(22.1)	(63.2)	
Adjusted PAT	69	(300)	272	293.0	NM	
EPS (Rs/share)	0.2	(0.9)	0.8	293.0	NM	Improvement in cost of funds by 255 bps yoy to 7.6% aided by strong growth in deposits franchise (CASA will grow 1.4X yoy)
Federal Bank						
Net interest income	8,424	9,504	9,815	16.5	3.3	Loan growth is expected to be robust at 22% yoy (similar to previous quarters at 23% yoy in 3QFY18 and 26% yoy in 2QFY18) driven by strong momentum in the retail business (retail loans for the sector have grown in the range of 18-21% yoy in the last few months)
Pre-provision profit	5,492	5,618	6,288	14.5	11.9	
Treasury income (net)	310	100	(1,275)	(511.3)	(1,375.0)	
Loan-loss provisions	1,090	1,400	829	(23.9)	(40.8)	
Adjusted PAT	2,566	2,604	2,629	2.4	0.9	We expect slippages (2% of loans) at normalized levels but provisions for security receipts will be a key monitorable. Cost growth at 7.3% will be lower than revenue growth at 10.8% yoy
EPS (Rs/share)	3.0	2.7	2.7	(10.3)	0.4	

Source: Company, Kotak Institutional Equities

Exhibit 43: Quarterly result expectation for companies under coverage (contd)

	Mar-17	Dec-17	Mar-18E	Change (%)		Comments
				yoy	qoq	
HDFC						
Net interest income	27,611	28,490	10,405	(62.3)	(63.5)	We expect strong momentum in retail business to drive 18% yoy loan growth
Pre-provision profit	29,382	64,902	37,535	27.7	(42.2)	
Adjusted PAT	20,442	56,702	26,564	29.9	(53.2)	Seasonal trend in collections and recent capital issuance will boost NIM by 30 bps qoq to 3.54%
EPS (Rs/share)	12.9	35.5	16.0	24.1	(55.0)	
HDFC Bank						
Net interest income	90,551	103,143	107,709	18.9	4.4	We expect revenue growth to slowdown to <20% yoy from ~25% yoy in last quarter due to pressure on NIM. Fee income growth likely to be around ~18% yoy
Pre-provision profit	72,794	84,513	86,640	19.0	2.5	
Fee income	25,230	28,721	29,940	18.7	4.2	
Treasury income (net)	1,804	2,594	2,533	40.4	(2.4)	
Loan-loss provisions	12,582	13,514	14,671	16.6	8.6	We expect loan impairments to be flat qoq. Extent of revenue slowdown will be the key monitorable. We expect 20% yoy loan growth and marginal qoq reduction in NIM to 3.6%
Adjusted PAT	39,901	46,426	47,937	20.1	3.3	
EPS (Rs/share)	15.6	17.9	18.5	18.9	3.3	
ICICI Bank						
Net interest income	59,622	57,053	57,986	(2.7)	1.6	We expect muted earnings led by higher provisions for bad loans (based on the new RBI circular). We expect 3% yoy NII decline with 12% yoy loan growth, reflecting the pressure on NIMs (down ~10 bps yoy) due to high slippages
Pre-provision profit	51,120	50,578	80,190	56.9	58.5	
Fee income	24,460	26,390	28,869	18.0	9.4	
Treasury income (net)	5,030	660	31,830	532.8	4,722.7	We expect high slippages at >Rs100 bn (vs Rs44 bn in 3QFY18) to factor the new RBI circular and a meaningful reduction in watchlist as well. All gains from I-Sec stake sale (~Rs31 bn) would be used to improve coverage (48% at 3QFY18)
Loan-loss provisions	28,982	35,696	75,137	159.3	110.5	
Adjusted PAT	20,246	16,502	955	(95.3)	(94.2)	
EPS (Rs/share)	3.5	2.6	0.1	(95.7)	(94.2)	
IDFC Bank						
Net interest income	5,156	5,111	5,731	11.1	12.1	We expect drop in momentum of wholesale business to moderate loan growth to 10% yoy from 12% yoy in 3QFY18
Pre-provision profit	2,602	2,041	3,603	38.5	76.5	
Loan-loss provisions	48	(20)	171	255.7	NM	Partial reversal of 3QFY18 treasury losses (Rs180 mn) will boost earnings.
Tax	795	600	1,456	83.2	142.7	
Adjusted PAT	1,759	1,461	1,976	12.3	35.2	
EPS (Rs/share)	0.5	0.4	0.6	12.3	35.2	
IIFL Holdings						
Net sales	14,044	16,868	17,385	23.8	3.1	30% yoy and 8% qoq growth in cash market volumes will drive capital market-related income
Adjusted PAT	1,865	2,358	2,598	39.3	10.2	
EPS (Rs/share)	5.9	7.4	8.2	39.3	10.2	Slowdown in loan against shares will lead to moderation in overall loan growth to 31% yoy from 35% yoy in 3QFY18
IndusInd Bank						
Net interest income	16,675	18,948	19,287	15.7	1.8	We expect strong loan growth at ~20% yoy led by steady growth in retail business with vehicle finance business showing positive momentum amidst a strong CV cycle. NIM is expected to decline ~10 bps qoq/yoy, in-line with recent trends, reflecting pressure on loan yields
Pre-provision profit	15,722	16,647	16,365	4.1	(1.7)	
Fee income	9,963	10,768	11,227	12.7	4.3	We expect limited asset quality stress but divergence, if any, could be reported this quarter. The company had base quarter impact of one-off provisions against cement account. We expect GNPL of 1.3%, up ~10 bps qoq and up 15% qoq on absolute basis
Treasury income (net)	2,150	1,100	420	(80.5)	(61.8)	
Loan-loss provisions	2,560	1,870	2,530	(1.2)	35.3	
Adjusted PAT	7,516	9,362	9,046	20.4	(3.4)	
EPS (Rs/share)	12.6	15.6	15.1	20.4	(3.1)	
J&K Bank						
Net interest income	6,550	7,802	8,122	24.0	4.1	Loan growth within J&K will be a key monitorable where the performance has been relatively weak in the last few quarters (CQGR of 2.5% since 3QFY16 compared to 4% outside J&K). Overall loan growth will be better than industry trends but lower on a qoq basis
Pre-provision profit	2,764	3,827	4,597	66.3	20.1	
Fee income	451	432	493	9.1	13.9	We expect fresh impairment ratios to remain lower (slippages at 1.9% is lower than 4-6% from 4QFY17-2QFY18) and gross NPLs can decline (down 50 bps qoq to 9.6%) with NPL sell down. Bank is well covered for the top NPLs
Treasury income (net)	(13)	(81)	(19)	44.5	(77.2)	
Loan-loss provisions	6,271	2,160	2,596	(58.6)	20.2	
Adjusted PAT	(5,543)	725	855	NM	18.0	
EPS (Rs/share)	(10.6)	1.3	1.6	NM	26.0	
Karur Vysya Bank						
Net interest income	5,800	5,616	5,655	(2.5)	0.7	We expect sharp drop in earnings (PAT down 78% yoy) as provisions for bad loans is likely to be high (credit cost at 2.8%; up 80 bps yoy)
Pre-provision profit	5,071	4,212	4,178	(17.6)	(0.8)	
Fee income	1,281	1,991	1,909	49.0	(4.2)	We expect slippages to remain at 6.4% high led by stress in corporate loans (part of the watchlist-1.5% of loans is unrecognized)
Treasury income (net)	590	70	190	(67.8)	171.4	
Loan-loss provisions	2,040	3,060	3,232	58.4	5.6	
Adjusted PAT	2,176	715	473	(78.3)	(33.8)	
EPS (Rs/share)	17.9	5.9	3.9	(78.3)	(33.8)	
LIC Housing Finance						
Net interest income	10,396	8,976	10,223	(1.7)	13.9	We expect strong momentum in retail home loans to drive 16% yoy overall loan growth
Pre-provision profit	8,954	8,051	8,726	(2.5)	8.4	
Loan-loss provisions	893	484	236	(73.6)	(51.3)	We expect collections to improve in line with seasonal trends; GNPL will reduce 20 bps qoq. Lower reversals will drive NIM by 20 bps qoq to 2.5%
Adjusted PAT	5,292	4,911	5,466	3.3	11.3	
EPS (Rs/share)	10.5	9.7	10.8	3.3	11.3	
Mahindra & Mahindra Financial						
Net interest income	11,117	10,711	14,583	31.2	36.2	We expect loan growth to remain moderate (15% yoy); similar to 3QFY18
Pre-provision profit	7,252	7,202	9,459	30.4	31.3	
Loan-loss provisions	3,614	1,989	1,906	(47.3)	(4.2)	Seasonally strong collections will lead to lower provisions (down 47% yoy); 250 bps yoy higher NIMs in 4QFY18
Adjusted PAT	2,341	3,420	5,066	116.4	48.1	
EPS (Rs/share)	4.1	6.1	9.0	116.4	48.1	
Muthoot Finance						
Net interest income	11,535	10,538	10,028	(13.1)	(4.8)	Stable gold prices will drive 3% qoq loan growth
Pre-provision profit	8,323	7,767	7,183	(13.7)	(7.5)	
Loan-loss provisions	2,430	565	931	(61.7)	64.7	Normalization of NIM to 14% from 17% in 4QFY18 will lead to lower NII
Adjusted PAT	3,217	4,637	3,740	16.3	(19.3)	
EPS (Rs/share)	8.1	11.6	9.4	16.3	(19.3)	

Source: Company, Kotak Institutional Equities

Exhibit 43: Quarterly result expectation of companies under coverage (contd)

	Mar-17	Dec-17	Mar-18E	Change (%)		Comments
				yoy	qoq	
PFC						
Net interest income	15,380	19,660	27,007	75.6	37.4	A low base (on account of large slippages and reversals in 4QFY17) will lead to high NII growth (up 14% qoq)
Pre-provision profit	16,350	18,929	25,644	56.8	35.5	
Loan-loss provisions	44,990	(2,190)	2,101	(95.3)	NM	
Adjusted PAT	(34,110)	16,040	16,331	NM	1.8	We expect loan book to be stable qoq leading to 7% yoy loan growth, down from 10% yoy in 3QFY18.
EPS (Rs/share)	(12.9)	6.1	6.2	NM	1.8	
PNB Housing Finance						
Net interest income	3,330	4,110	4,830	45.1	17.5	We expect strong momentum across business lines to drive 55% yoy loan growth (52% yoy in 3QFY18)
Pre-provision profit	3,082	3,899	4,575	48.4	17.3	
Loan-loss provisions	670	561	878	31.0	56.5	We expect stable NIM (including fees) qoq and yoy at 3.9%
Tax	892	1,164	1,309	46.7	12.5	
Adjusted PAT	1,520	2,175	2,388	57.2	9.8	
EPS (Rs/share)	9.2	13.1	14.4	57.2	9.8	
Punjab National Bank						
Net interest income	36,835	39,887	40,924	11.1	2.6	We expect a high losses coming due to the recent scam that was unearthed in the jewelry sector. We are building a provision of Rs65 of Rs140 bn for FY2018 and the balance for FY2019. Overall provisions expected to be Rs77 bn (vs Rs32 bn in 3QFY18)
Pre-provision profit	62,318	42,452	37,807	(39.3)	(10.9)	
Fee income	9,660	8,620	11,843	22.6	37.4	
Treasury income (net)	7,130	4,620	6,023	(15.5)	30.4	Operating cost growth (up 5x yoy) is optically elevated due to one-of staff expense benefit in the base quarter. Adjusted PPOP is expected to decline 10% yoy. We expect loan growth of 5% yoy and NIM to remain stable qoq at 2.5%
Loan-loss provisions	49,890	31,554	102,762	106.0	225.7	
Adjusted PAT	2,619	2,301	(45,457)	(1,835.7)	(2,075.5)	
EPS (Rs/share)	1.2	0.9	(18.7)	(1,622.7)	(2,075.5)	
RBL Bank						
Net interest income	3,522	4,673	4,843	37.5	3.6	Solid NII growth (38% yoy) will be on the back of strong loan growth (33% yoy) driven by robust traction in retail assets; expect significant pick up in pace of the cards business
Pre-provision profit	2,818	3,334	3,290	16.8	(1.3)	
Treasury income (net)	316	282	(2)	(100.7)	(100.7)	High operating expense growth (~40% yoy) will lead to lower PPOP growth compared to revenue growth (30% yoy). We expect PAT growth (22% yoy) to be slower than loan growth due to balance provisions in the MFI portfolio (MFI NPL of 5% as of 3QFY18)
Loan-loss provisions	430	680	705	63.9	3.6	
Adjusted PAT	1,301	1,653	1,583	21.7	(4.2)	
EPS (Rs/share)	3.5	4.4	4.2	21.7	(4.2)	
Rural Electrification Corp.						
Net interest income	24,792	21,403	21,712	(12.4)	1.4	We expect stable loan growth (11% yoy) and about 100 bps yoy compression in NIM to 3.85% to put pressure on NII
Pre-provision profit	25,026	20,802	22,523	(10.0)	8.3	
Loan-loss provisions	6,162	2,053	3,916	(36.4)	90.7	Trend in provisions remains key sensitivity to our earnings
Adjusted PAT	13,192	12,965	12,898	(2.2)	(0.5)	
EPS (Rs/share)	6.7	6.6	6.5	(2.2)	(0.5)	
Shriram City Union Finance						
Net interest income	7,134	9,157	7,939	11.3	(13.3)	We expect GNPL ratio to increase to 9% from 6.7% in 3QFY18 on account of NPL transition to 90 dpd
Loan-loss provisions	4,118	2,046	3,778	(8.3)	84.7	
Adjusted PAT	120	2,255	872	624.9	(61.3)	Rise in GNPL will drive higher provisions and interest reversals; strong (20% yoy) loan growth will support earnings
EPS (Rs/share)	1.8	34.2	13.2	621.9	(61.5)	
Shriram Transport						
Net interest income	14,087	17,094	17,415	23.6	1.9	We expect 35% yoy disbursements growth largely led by used CVs to drive 20% yoy loan growth (18% yoy in 3QFY18)
Pre-provision profit	11,424	13,486	13,619	19.2	1.0	
Loan-loss provisions	9,114	5,854	5,908	(35.2)	0.9	Rise in funding costs and reduction in yields (down 10 bps qoq to 14%) will lead to 25 bps yoy compression in NIM
Adjusted PAT	1,496	4,956	4,938	230.0	(0.4)	
EPS (Rs/share)	6.6	21.8	21.8	230.0	(0.4)	
State Bank of India						
Net interest income	210,660	186,875	197,615	(6.2)	5.7	Loan growth is expected to be around 9% yoy but high slippages and NIM pressure lead to 6% NII decline. Weak other income growth (down 17% yoy) and stable operating expense growth lead to ~20% yoy decline in PPOP
Pre-provision profit	173,100	117,546	137,167	(20.8)	16.7	
Fee income	74,340	49,790	59,535	(19.9)	19.6	
Treasury income (net)	19,970	10,260	28,136	40.9	174.2	Slippages to remain high (Rs238 bn vs 2258 bn in 3QFY18) as new RBI guidelines take effect. Without meaningful upgrades/recoveries, GNPL is expected to increase 60 bps qoq to 11%. SBI is well placed with ~50% PCR (calculated) as of 3QFY18
Loan-loss provisions	193,230	177,600	155,982	(19.3)	(12.2)	
Adjusted PAT	(34,420)	(24,164)	(12,496)	(63.7)	(48.3)	
EPS (Rs/share)	3.5	(2.8)	(1.4)	(141.0)	(48.3)	
Ujjivan Financial Services						
Net interest income	1,371	2,167	2,365	72.5	9.1	We expect Ujjivan to report strong PAT growth at 43% yoy on a low base. AUM growth is expected to be around 18% yoy driven by strong performance in MFI and housing space
Loan-loss provisions	72	287	405	464.2	41.0	
Adjusted PAT	194	293	277	43.0	(5.6)	Cost ratios are expected to be high as transition to a bank continues (cost to income income at 68% will be similar to 3QFY18 ratio at 69%); a trend similar to previous quarters
EPS (Rs/share)	1.6	2.5	2.3	43.0	(5.6)	
Union Bank						
Net interest income	23,870	25,483	24,083	0.9	(5.5)	Muted NII growth is driven by ~15 bps qoq and yoy decline in NIM to 2.2%, even with 7% yoy loan growth. Weak treasury profits and high expense growth (13% yoy) will lead to ~30% yoy decline in PPOP
Pre-provision profit	15,301	9,546	17,315	13.2	81.4	
Fee income	6,410	5,970	6,091	(5.0)	2.0	We expect slippages to increase 70% qoq to Rs73 bn from Rs42 bn given the SMA-2 book which would be impacted by the new RBI circular. GNPL to increase by ~100 bps to 14%. Provision coverage (calculated) was 50% as of 3QFY18
Treasury income (net)	(220)	(6,940)	3,220	NM	NM	
Loan-loss provisions	15,930	25,200	43,320	171.9	71.9	
Adjusted PAT	1,089	(12,499)	(13,093)	(1,302.6)	4.8	
EPS (Rs/share)	1.6	(14.6)	(18.0)	(1,238.0)	23.4	
YES Bank						
Net interest income	16,397	18,888	20,412	24.5	8.1	Loan growth (30% yoy) will show similar trends as previous quarters; sharp growth on the back of increase in retail assets. Lower other income will hurt revenue growth (9% yoy) while expense growth (12% yoy) will lead to much lower PPOP growth
Pre-provision profit	16,910	20,018	18,062	6.8	(9.8)	
Fee income	11,724	14,023	10,724	(8.5)	(23.5)	
Treasury income (net)	850	200	410	(51.8)	105.0	Improvement in provision coverage ratio by 100 bps qoq to 48% will lead to high provisions, pulling down PAT growth. Impact of recent RBI guideline is unlikely to be material but we expect GNPL to inch up to 1.9%
Loan-loss provisions	2,177	4,213	5,711	162.3	35.5	
Adjusted PAT	9,141	10,769	8,028	(12.2)	(25.5)	
EPS (Rs/share)	20.0	23.6	17.6	(12.2)	(25.5)	

Source: Company, Kotak Institutional Equities

APRIL 05, 2018

UPDATE

BSE-30: 33,019

4QFY18E preview—expect strong prints as growth accelerates. Drawing quarterly forecasts for the FMCG space continues to be a challenging exercise as the base still remains noisy; 4QFY17, for instance, was the post-demonetization, pre-GST quarter and hence, one needs to adjust for (1) restocking uplift in the base quarter and (2) GST-related reporting changes in the current quarter. That said, we expect healthy growth comps for our coverage universe. The long-anticipated volume growth uptick is likely to show up while margins, aided partly by GST, are likely to expand further for most companies.

Volume growth acceleration, GST-led savings and higher leverage benefits = solid prints

At the very outset, we note that current quarter reported performance isn't strictly comparable yoy due to GST-led reporting changes and demonetization impact in the base quarter (post-demonetization restocking uplift).

Overall, we expect a solid set of earnings prints for most companies in our coverage universe. Even as volume growth numbers look weaker versus 3QFY18, the same needs to be adjusted for (1) favorable demonetization-quarter base for 3QFY18, and (2) slightly adverse post-demonetization quarter base for 4QFY18. While a scientific, mathematically-accurate, adjustment is not possible, we believe our estimated 4QFY18 volume growth numbers reflect acceleration in underlying volume growth trends in the sector. This reflects share gains from the unorganized sector in the post-GST world to a large extent and uptick in rural demand to a smaller extent.

At an aggregate level, we expect net revenue growth of 11.8% yoy for our coverage universe, highest in the past 18 quarters. We expect 9.9% growth for the staples pack, a tad lower than 3QFY18's 11.2% on a reported basis but higher on a base-adjusted basis. Our aggregate revenue growth estimate for the discretionary pack stands at 13.5%. Our aggregate volume growth estimate stands at 8%. We note that companies have started increasing prices selectively (to pass on RM inflation) after being cautious for the first few months post GST implementation. 4QFY18 is thus likely to see higher price contribution than 3QFY18.

We expect aggregate EBITDA for the coverage universe to grow at 20.7% with discretionary pack outperforming the staples pack by a few % points. This implies an EBITDA margin expansion of 155 bps at an aggregate level, similar to the expansion seen in 3QFY18. At the adjusted PAT level, we expect 22% yoy growth, highest since 1QFY13.

Margin expansion drivers – higher pricing contribution, operating leverage and GST-led savings

Our aggregate EBITDA margin forecast of 22.2% (+150 bps yoy, +130 bps qoq) for our coverage universe would be a new all-time-high. Even as higher pricing contribution, operating leverage and GST-led cost savings stand out as the key drivers for margin expansion, the broader theme on the margins is that of very benign competitive intensity in the market, in our view. A favorable RM environment, except oil commodities, also helps. Most F&B companies should see good gross margin expansion given the stable to deflationary input cost scenario in agri commodities. Price hikes should help mitigate GM pressure to some extent on companies facing RM inflation – the likes of APNT, PIDI and MRCO.

Comfort on earnings is our relative 'top picks' basis; absolute valuations remain high

Assumptions baked into the absolute valuations of most stocks are somewhere between aggressive and stretched. Our relative picks (ITC, CLGT, BRIT, NEST, JUBI, JYL, SHK) reflect relatively higher degree of comfort on earnings.

Rohit Chordia
rohit.chordia@kotak.com
Mumbai: +91-22-4336-0885

Jaykumar Doshi
jaykumar.doshi@kotak.com
Mumbai: +91-22-4336-0882

Aniket Sethi
aniket.sethi@kotak.com
Mumbai: +91-22-4336-0881

Expect BRIT, JUBI, NEST, PAGE, the jewelry names and the alcobev names to outperform; BJCOR, MRCO, DABUR, GSK-CH and ITC relative laggards

Quick summary of expectations for select companies –

- ▶ ITC – we expect 4% yoy decline in cigarette volumes and 12% improvement in per stick gross realizations to drive 8.5% growth in cigarette EBIT. Sharp jump in the EBIT of non-cigarette segments to drive stronger overall EBIT growth.
- ▶ HUVR – we expect an 8% UVG print on a 4% UVG base, implying roughly 6% 2-year UVG CAGR. Another quarter of healthy margin expansion (+131 bps yoy) to drive 16% EBITDA and 18% PAT growth yoy.
- ▶ JUBI – we expect further acceleration in SSG to 24% (from 17.8% SSG print in 3QFY18) on the back of (1) favorable base; 4QFY17 SSG was (-)7.5%, (2) continued success of the EDV (everyday value) intervention, and (3) full-quarter benefit of selective price hikes taken in mid-Nov 2017. Low base would mean very strong EBITDA (+113% yoy) and PAT (+305% yoy) comps.
- ▶ MRCO – headwinds in the form of copra inflation and weak volume growth in Saffola would mean a relatively modest quarter for MRCO despite continued aggressive cost rationalization efforts. The company would end FY2018E with a modest mid-single-digits EPS growth.
- ▶ Alcobev names (UNSP, UBBL) – weak base (impacted by highway ban issue) and RM tailwinds (especially for UNSP) should reflect in very strong profit growth comps for UNSP and UBBL.
- ▶ Jewelry names (TTAN, PCJ) – share gains on the back of the struggling unorganized segment should result in healthy topline and profit growth for both TTAN and PCJ. While TTAN's topline growth may lag PCJ marginally (much stronger base quarter for Titan on revenues), we expect a materially higher EBITDA and PAT growth for TTAN.
- ▶ BRIT – return of double-digit volume growth levels and expected margin improvement on the back of stability/ modest deflation in RM basket should drive a very healthy EBITDA and PAT growth for BRIT. We expect 30%+ growth in both EBITDA and PAT.

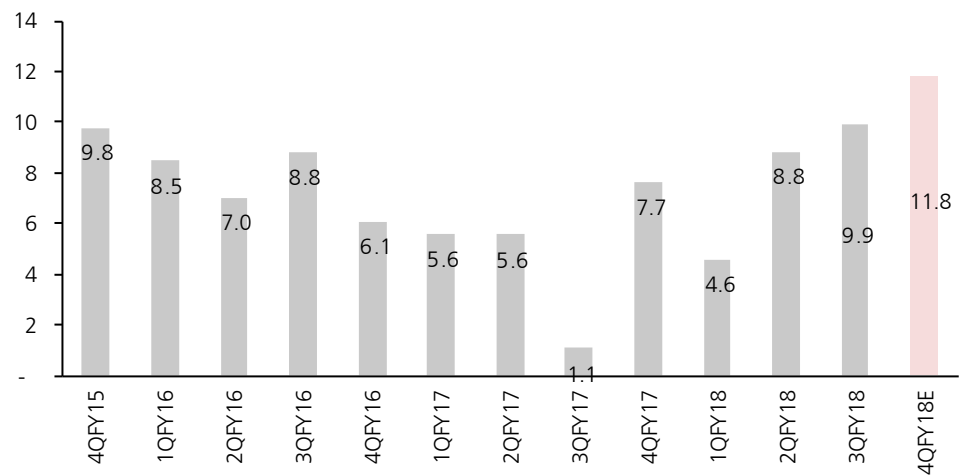
Exhibit 1: KIE Consumer universe valuation summary

Company	Rating	TP	4-Apr-18	Upside /	Mkt cap.	EPS (Rs)			EPS Growth, %			PER (X)			EPS CAGR - (2018-20E), %	Sales	
		(Rs)	Price (Rs)	(%)		(Rs bn)	(US\$ m)	2018E	2019E	2020E	2018E	2019E	2020E	2018E			2019E
Consumer Products																	
Asian Paints	REDUCE	1,100	1,138	(3)	1,091	17,050	21.3	24.3	27.9	6.5	14.5	14.7	53.5	46.7	40.7	14.6	15.4
Bajaj Corp	ADD	570	462	23	68	1,065	15.1	18.2	20.0	(4.7)	20.6	10.0	30.7	25.4	23.1	15.1	15.1
Britannia Industries	ADD	5,350	5,024	6	603	9,421	84.8	105.3	127.4	15.0	24.2	21.0	59.3	47.7	39.4	22.6	15.7
Coffee day Enterprises	REDUCE	340	301	13	62	969	4.0	9.4	14.2	77.3	136.5	51.5	75.8	32.0	21.1	89.3	12.8
Colgate-Palmolive (India)	ADD	1,225	1,091	12	297	4,638	23.7	28.2	33.5	14.6	19.0	19.0	46.1	38.8	32.6	19.0	13.2
Dabur India	REDUCE	330	335	(2)	591	9,230	7.7	8.9	9.9	5.4	15.6	12.0	43.8	37.8	33.8	13.8	12.8
GlaxoSmithKline Consumer	ADD	6,500	6,057	7	255	3,980	159.3	182.3	203.3	2.0	14.5	11.5	38.0	33.2	29.8	13.0	12.9
Godrej Consumer Products	REDUCE	980	1,085	(10)	739	11,551	21.8	25.0	28.6	13.9	14.8	14.4	49.8	43.3	37.9	14.6	11.5
Hindustan Unilever	REDUCE	1,300	1,357	(4)	2,938	45,903	23.3	27.4	30.7	18.8	17.4	12.3	58.2	49.6	44.2	14.8	10.0
ITC	ADD	315	259	22	3,161	49,388	9.0	9.9	11.1	8.7	10.0	11.7	28.8	26.1	23.4	10.9	9.7
Jubilant Foodworks	BUY	2,500	2,309	8	152	2,380	28.5	45.4	61.2	186.1	59.0	34.9	80.9	50.9	37.7	46.4	15.9
Jyothy Laboratories	ADD	405	383	6	70	1,086	8.6	11.7	13.6	31.9	36.2	15.8	44.5	32.6	28.2	25.6	15.2
Manpasand Beverages	BUY	450	372	21	43	664	8.7	11.5	16.6	36.9	32.5	44.0	42.8	32.3	22.4	38.1	36.6
Marico	ADD	345	325	6	419	6,553	6.4	7.8	8.8	3.4	21.4	13.0	50.8	41.8	37.0	17.1	13.7
Nestle India	ADD	9,000	8,351	8	805	12,581	127.2	164.1	186.5	21.1	29.1	13.6	65.7	50.9	44.8	21.1	13.4
Page Industries	SELL	18,200	22,685	(20)	253	3,954	298.6	358.4	438.3	25.1	20.0	22.3	76.0	63.3	51.8	21.2	19.7
PC Jeweller	REDUCE	520	299	74	107	1,672	14.8	18.7	21.9	26.3	25.9	17.3	20.1	16.0	13.6	21.5	17.0
Pidlite Industries	NR	-	957		491	7,667	17.9	21.9	25.6	6.6	22.5	16.7	53.5	43.7	37.4	19.6	15.7
S H Kelkar	BUY	325	253	28	37	572	7.5	9.5	11.5	4.0	26.3	20.7	33.6	26.6	22.0	23.4	14.6
Tata Global Beverages	ADD	300	270	11	170	2,658	8.2	10.3	12.6	33.9	26.6	22.2	33.1	26.1	21.4	24.4	7.4
Titan Co.	SELL	670	904	(26)	803	12,545	12.1	15.7	19.2	40.4	29.9	21.7	74.6	57.5	47.2	25.7	20.4
United Breweries	SELL	850	961	(12)	254	3,968	14.2	17.6	22.9	111.0	23.8	29.7	67.4	54.5	42.0	26.7	11.4
United Spirits	SELL	2,800	3,155	(11)	458	7,164	38.2	56.2	73.2	39.7	47.1	30.3	82.6	56.2	43.1	38.5	11.7
Varun Beverages	ADD	700	637	10	116	1,816	11.5	15.3	20.5	378.1	32.8	33.8	55.3	41.6	31.1	33.3	18.8
KIE universe					13,866	216,657				15.0	17.6	15.1	45.5	38.7	33.6	16.3	13.1
KIE universe (ex-ITC)					10,705	167,269				18.7	21.8	16.8	54.3	44.6	38.2	20.2	13.9
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
Asian Paints		2	(3)	(1)	5			33.1	28.8	25.1	6.4	5.5	4.8	1.0	1.5	2.0	1.2
Bajaj Corp		(5)	(5)	17	17			24.8	20.9	17.7	7.7	6.6	5.7	3.0	3.6	4.0	2.8
Britannia Industries		2	9	16	48			39.3	31.7	26.2	6.0	5.1	4.4	1.2	1.4	1.8	0.7
Coffee day		(3)	10	43	30			15.1	12.5	10.6	2.5	2.2	2.0	(0.7)	0.6	2.2	—
Colgate-Palmolive (India)		3	(0)	1	8			26.5	22.5	19.3	6.9	6.1	5.3	1.8	2.5	2.9	1.5
Dabur India		3	(6)	6	20			37.0	32.4	28.6	7.5	6.5	5.8	2.0	2.2	2.4	1.1
GlaxoSmithKline Consumer		(11)	(5)	21	17			26.0	21.6	18.7	5.1	4.4	3.9	1.4	2.8	2.5	1.6
Godrej Consumer Products		0	10	12	28			36.6	31.3	27.1	7.8	6.9	6.1	1.4	2.1	2.6	0.8
Hindustan Unilever		3	0	13	47			40.4	34.9	30.8	8.4	7.6	6.9	1.5	1.9	2.2	1.5
ITC		(2)	(1)	(3)	(8)			19.6	17.7	15.7	7.2	6.6	6.0	2.8	2.9	3.4	2.6
Jubilant Foodworks		15	26	64	109			33.2	24.5	19.3	4.9	4.3	3.7	0.0	2.0	2.1	0.6
Jyothy Laboratories		11	1	(3)	11			28.5	22.4	19.5	4.2	3.6	3.2	2.5	2.6	3.1	1.8
Manpasand Beverages		(5)	(22)	(22)	5			20.9	14.5	10.9	4.1	2.9	2.2	(3.3)	0.3	2.9	0.2
Marico		4	1	5	10			35.9	29.4	25.7	6.5	5.6	5.0	1.8	2.2	2.5	1.4
Nestle India		6	6	14	27			35.9	28.4	24.9	7.8	6.7	5.9	2.0	2.6	2.8	1.3
Page Industries		3	(8)	22	56			48.8	40.0	33.0	9.9	8.2	6.9	0.9	1.0	1.2	0.7
PC Jeweller		(10)	(39)	(19)	42			9.0	7.3	6.1	0.9	0.8	0.7	6.4	7.0	6.9	0.7
Pidlite Industries		7	6	20	36			34.8	29.2	24.8	7.8	6.6	5.7	1.4	1.6	1.9	0.7
S H Kelkar		(13)	(13)	(5)	(16)			20.4	16.2	13.4	3.6	3.1	2.7	1.3	2.0	2.9	0.7
Tata Global Beverages		(2)	(14)	31	77			17.5	14.8	12.6	2.3	2.1	1.9	3.4	3.3	3.7	1.2
Titan Co.		12	1	50	97			49.4	37.8	30.6	5.0	4.0	3.4	0.6	1.0	1.4	0.5
United Breweries		(9)	(11)	14	26			28.9	25.6	22.4	4.6	4.1	3.6	1.7	1.2	1.2	0.3
United Spirits		(3)	(14)	32	54			45.3	33.8	27.1	6.0	5.2	4.6	2.4	1.1	1.6	—
Varun Beverages		(1)	(7)	25	58			16.8	13.8	11.7	3.5	2.7	2.4	(1.1)	0.7	4.4	—
KIE FMCG universe		0	(2)	9	22			29.6	25.3	21.9	6.4	5.6	4.9	1.8	2.1	2.5	1.0
KIE universe (ex-ITC)		1	(3)	13	35			34.5	28.8	24.7	6.2	5.3	4.7	1.5	1.8	2.2	1.0
Sensex		(3)	(3)	4	10												

Source: Company, Kotak Institutional Equities estimates

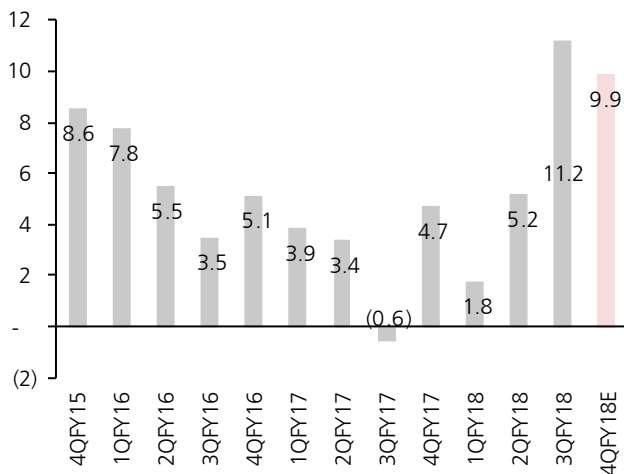
Aggregate sectoral trends (in charts)

Exhibit 2: Overall revenue growth to accelerate further to highest level in the past 18 quarters
KIE consumer universe revenue growth trends, yoy (%)



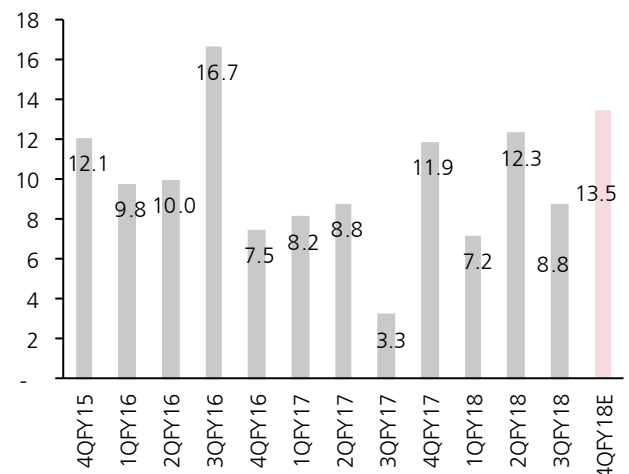
Source: Company, Kotak Institutional Equities

Exhibit 3: Staples revenue growth to inch up to ~10% yoy
KIE consumer staples universe revenue growth trends, yoy (%)



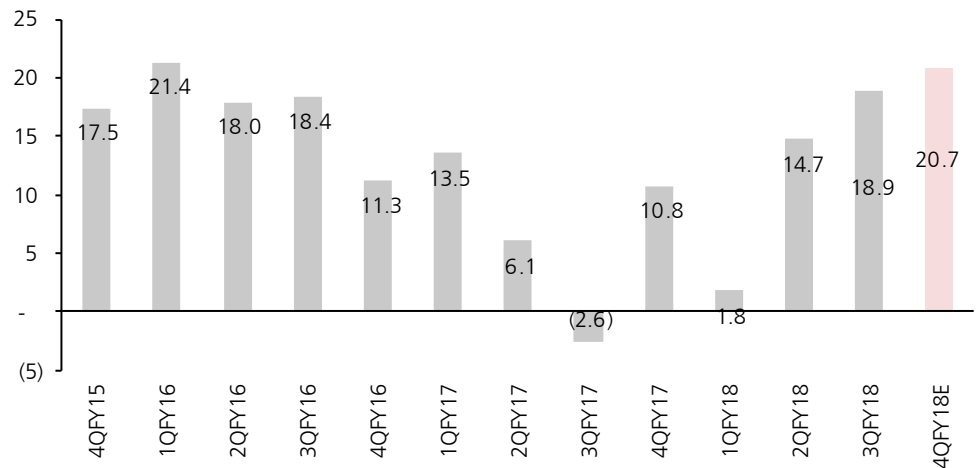
Source: Company, Kotak Institutional Equities

Exhibit 4: Discretionary revenues to grow relatively better
KIE consumer discretionary universe revenue growth trends, yoy (%)



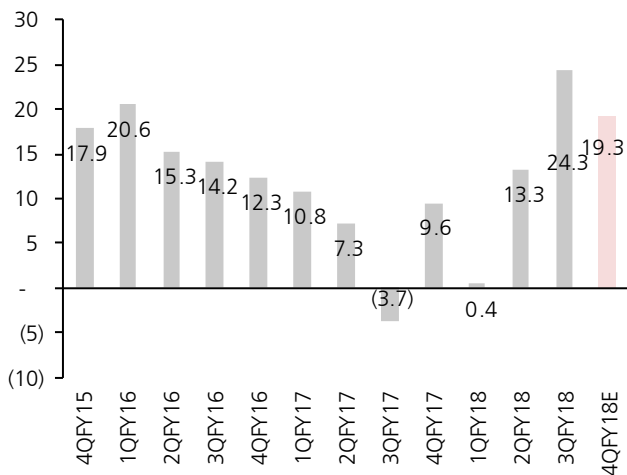
Source: Company, Kotak Institutional Equities

Exhibit 5: Overall EBITDA to grow at 20%+ aided by GST-led savings and higher operating leverage
KIE consumer universe EBITDA growth trends, yoy (%)



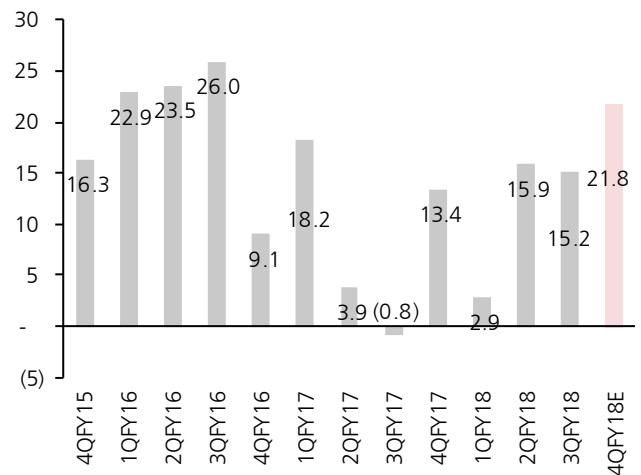
Source: Company, Kotak Institutional Equities

Exhibit 6: Staples EBITDA growth could see some moderation
KIE consumer staples universe EBITDA growth trends, yoy (%)



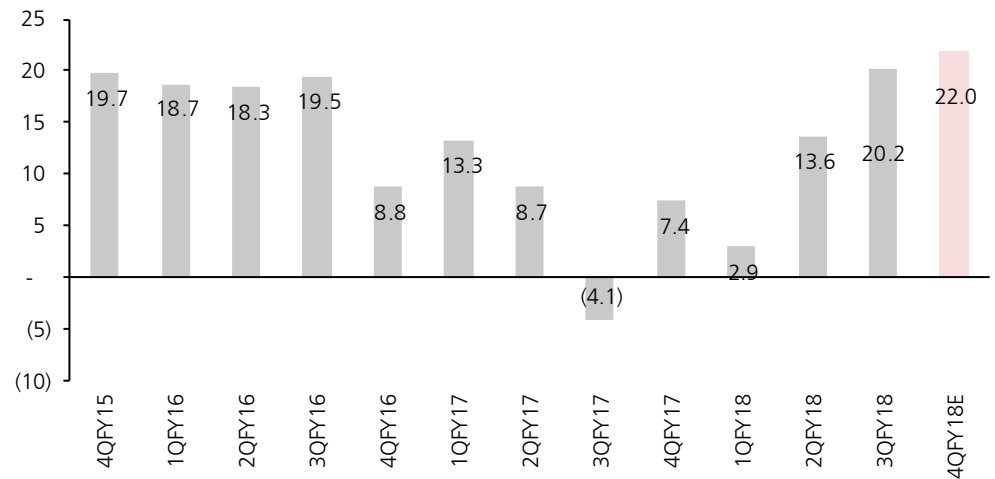
Source: Company, Kotak Institutional Equities

Exhibit 7: Discretionary could marginally outperform staples
KIE consumer discretionary universe EBITDA growth trends, yoy (%)



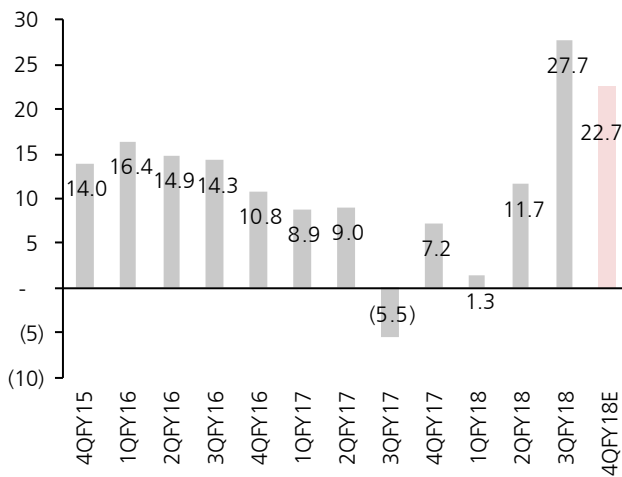
Source: Company, Kotak Institutional Equities

Exhibit 8: Overall PAT to grow at 22% levels
KIE consumer universe PAT growth trends, yoy (%)



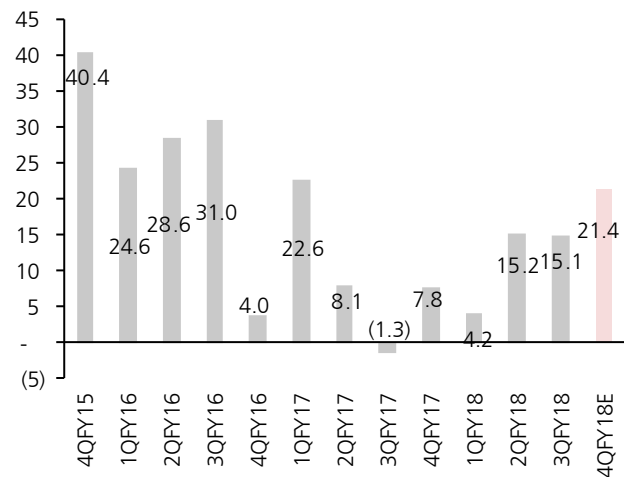
Source: Company, Kotak Institutional Equities

Exhibit 9: Staples PAT likely to grow at ~23% yoy
KIE consumer staples universe PAT growth trends, yoy (%)



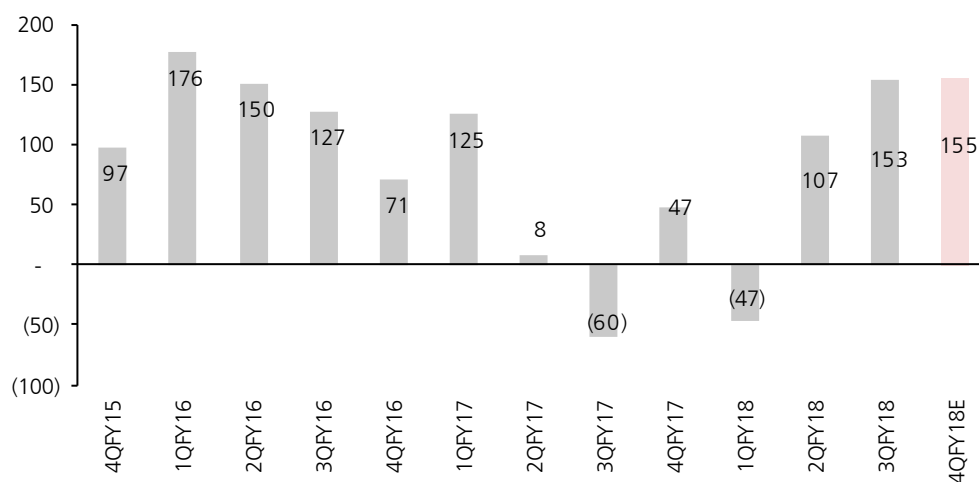
Source: Company, Kotak Institutional Equities

Exhibit 10: Discretionary PAT likely to grow at robust pace
KIE consumer discretionary universe PAT growth trends, yoy (%)



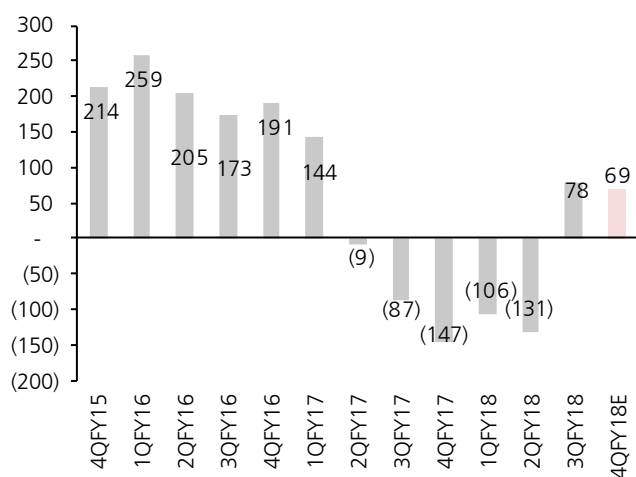
Source: Company, Kotak Institutional Equities

Exhibit 11: Aggregate EBITDA margin expansion driven by combination of favorable factors
KIE consumer universe EBITDA margin change yoy (bps)



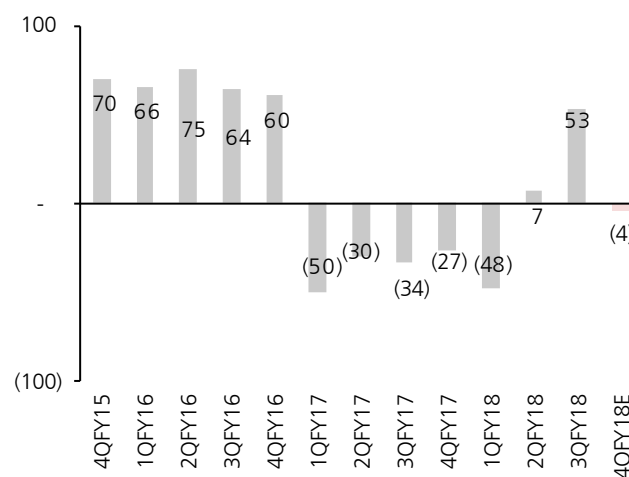
Source: Company, Kotak Institutional Equities

Exhibit 12: Favorable RM environment (except oil) to help GMs
KIE consumer universe gross margin change yoy (bps)



Source: Company, Kotak Institutional Equities

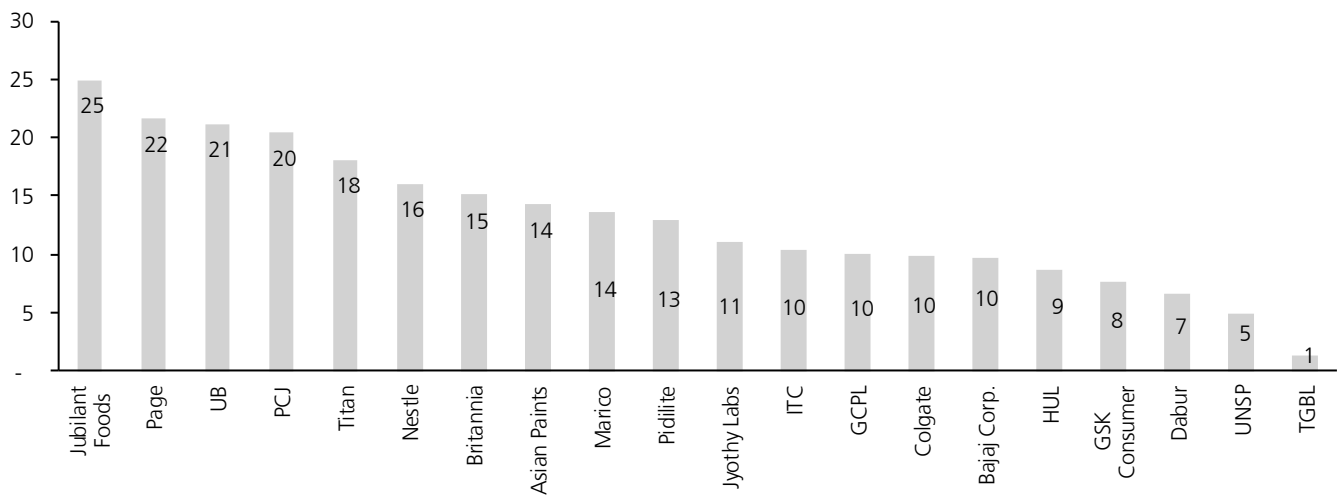
Exhibit 13: Aggregate A&SP spends remain largely flattish yoy
KIE consumer universe A&SP change yoy (bps)



Source: Company, Kotak Institutional Equities

Company-wise estimates for 4QFY18 (in charts)

Exhibit 14: JUBI, Page, UBL, PCJ, Titan, Nestle, BRIT to post strong revenue growth; UNSP and TGBL to post relatively subdued growth
KIE consumer universe company-wise revenue growth estimate for 4QFY18, yoy (%)



Source: Company, Kotak Institutional Equities estimates

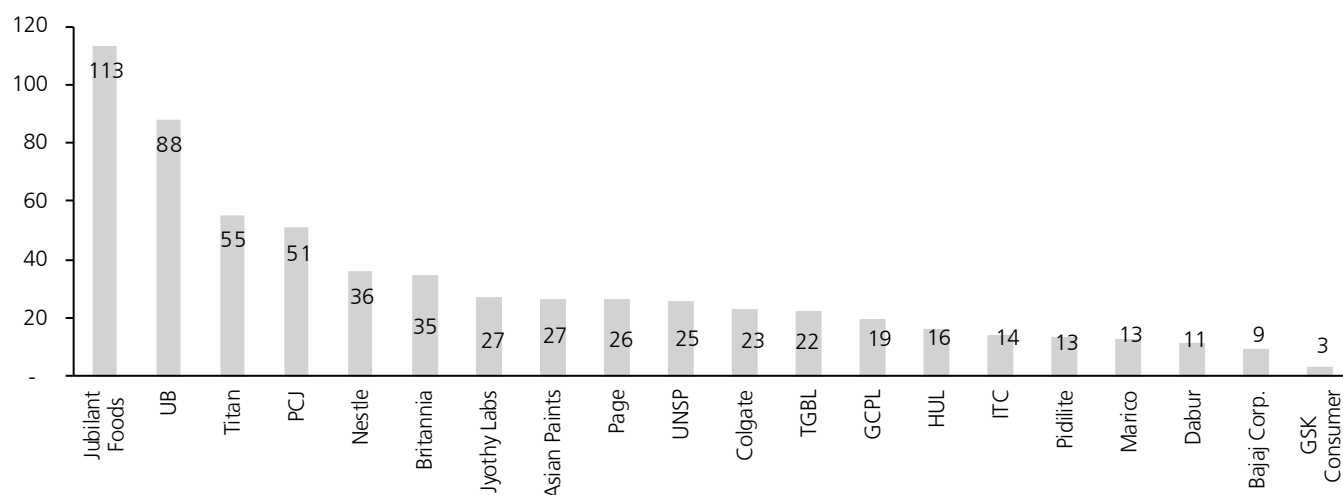
Exhibit 15: Even as volume growth looks weaker than 3QFY18, underlying trends show acceleration given the not so favorable base
KIE consumer universe company-wise revenue growth trends, yoy (%)

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	4QFY18 - 2yr CAGR
Staples										
Bajaj Corp. - Almond Drop Hair Oil	(4.3)	2.2	1.6	(4.2)	(7.1)	(6.6)	6.5	4.5	6.0	0.7
Britannia Industries - Domestic	10.0	8.0	8.0	2.0	2.0	2.0	6.0	13.0	13.0	11.5
Colgate - Overall	6.0	6.0	4.0	(11.0)	(3.0)	(5.0)	(0.9)	12.0	5.0	5.5
Dabur - Domestic	7.0	4.1	4.5	(5.2)	2.4	(4.4)	7.2	13.0	6.0	6.5
GSK Consumer	—	—	(3.0)	(17.0)	(0.7)	(3.0)	2.4	17.0	5.0	2.5
GCPL - Soaps	11.0	10.0	(5.0)	(8.0)	5.0	(8.0)	15.0	15.0	8.0	9.5
HUL (FMCG business)	4.0	4.0	(1.0)	(4.0)	4.0	—	4.0	11.0	8.0	6.0
Marico - Domestic	8.4	8.0	3.4	(4.0)	10.0	(9.0)	8.0	9.4	6.0	7.2
Marico - Parachute	6.0	7.0	(6.0)	(1.0)	15.0	(9.0)	12.0	15.0	6.0	6.0
Marico - Saffola	13.0	11.0	8.0	6.0	6.0	(9.0)	3.0	—	2.0	7.4
Marico - Value-added hair oils	11.0	9.0	11.0	(12.0)	10.0	(8.0)	12.0	8.0	11.0	11.0
Discretionary										
Asian Paints (Domestic paints)	14.0	12.0	12.0	3.0	10.0	2.0	9.0	6.0	8.0	11.0
ITC - Cigarettes	—	3.0	4.0	(1.0)	—	2.0	(7.0)	(5.0)	(4.0)	(2.0)
Jubilant Foodworks - SSG	2.9	(3.2)	4.2	(3.3)	(7.5)	6.5	5.5	17.8	24.0	13.0
Page (overall)	7.0	21.3	10.7	8.7	10.8	13.4	11.1	11.3	15.2	11.0
Pidilite - Domestic consumer busine:	14.0	9.0	7.8	(1.5)	8.2	—	15.0	23.0	15.0	14.5
Titan - Jewelry (tonnage)	15.0	6.0	(32.0)	4.0	37.0	49.0	49.0	6.0	13.7	14.4
United Breweries (overall)	9.0	6.0	(1.0)	(8.0)	(9.4)	—	11.0	10.4	12.3	10.6
United Spirits (overall)	(4.1)	—	0.9	(5.0)	(8.2)	(18.9)	(15.9)	(13.9)	(9.0)	(6.6)

Source: Company, Kotak Institutional Equities estimates

Exhibit 16: Strong EBITDA growth across companies led by JUBI, UBL, Titan, PCJ, Nestle and BRIT

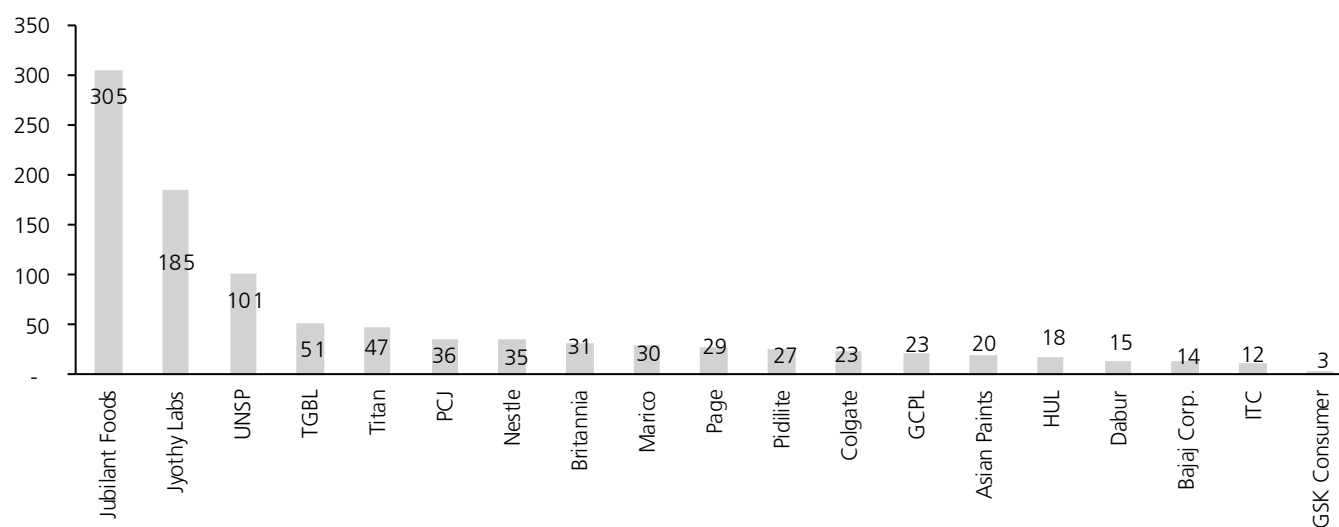
KIE consumer universe company-wise EBITDA growth estimate for 4QFY18, yoy (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 17: PAT growth robust across most companies

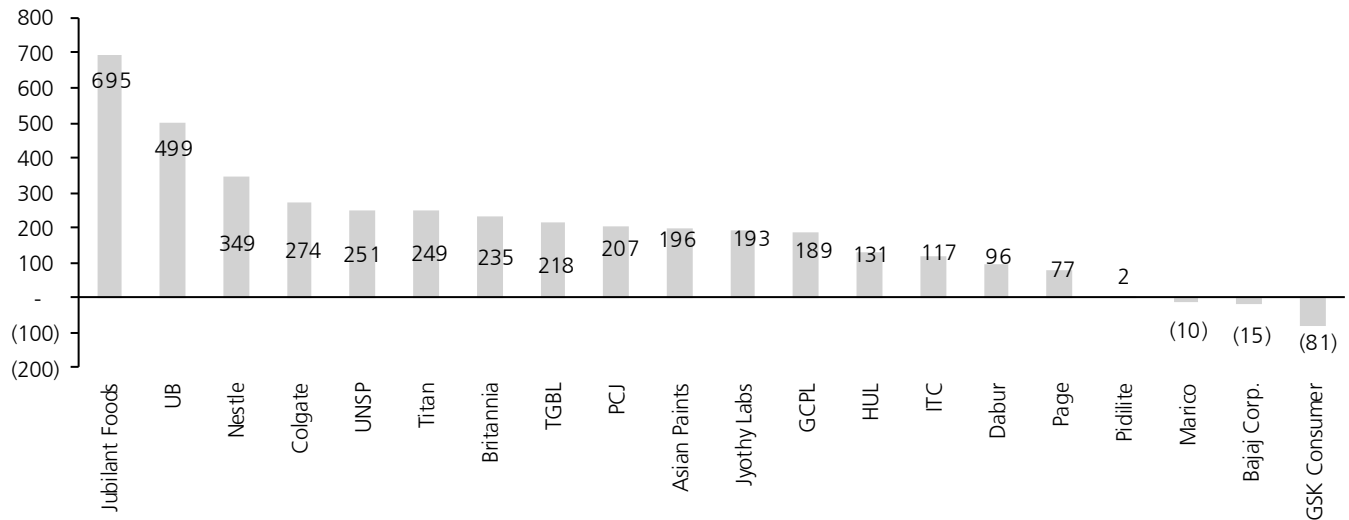
KIE consumer universe company-wise recurring PAT growth estimate for 4QFY18, yoy (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 18: EBITDA margin to expand across most companies led by JUBI, UBL, Nestle, CLGT, UNSP and Titan

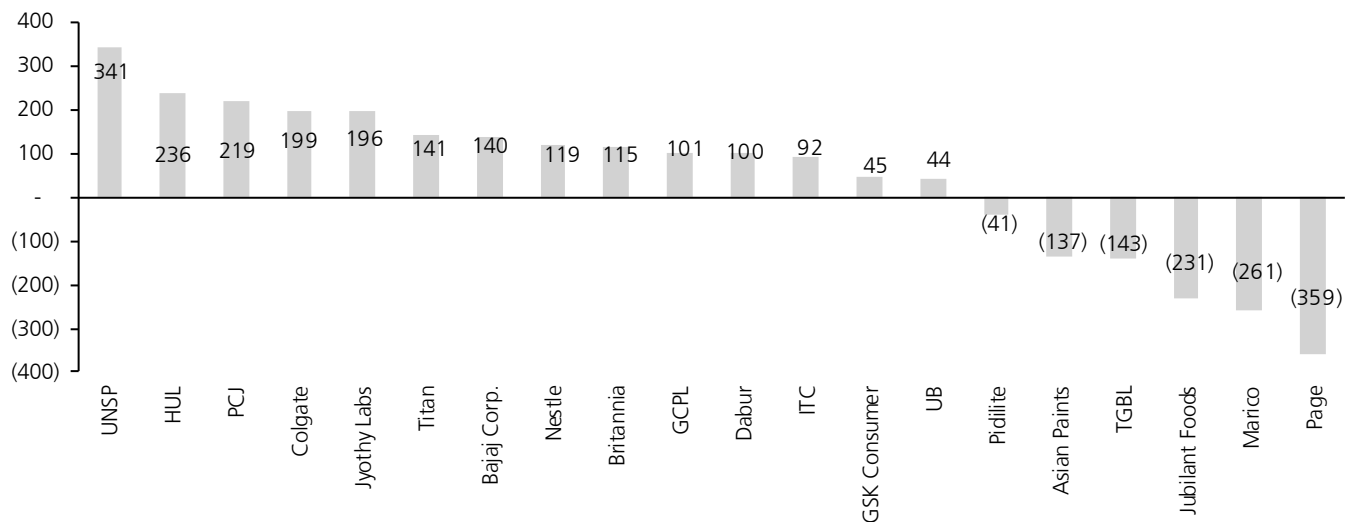
KIE consumer universe company-wise EBITDA margin change estimate for 4QFY18, yoy (bps)



Source: Company, Kotak Institutional Equities estimates

Exhibit 19: Favorable RM environment except oil commodities along with higher pricing contribution to help companies

KIE consumer universe company-wise GM change estimate for 4QFY18, yoy (bps)



Source: Company, Kotak Institutional Equities estimates

Exhibit 20: Stable to deflationary trends in agri commodities; oil commodities seeing cost inflation
Quarterly movement in inputs/commodities

									Inflationary = +3%	
									Deflationary = -3%	
No	Commodity	Unit	4QFY18	% chg - local currency			% chg - currency Adj.			Companies impacted
				qoq	yoy	vs FY17	qoq	yoy	vs FY17	
Agri Commodities										
1	Tea - India Avg.	Rs/Kg	112	(19)	(4)	(15)	(19)	(4)	(15)	HUL, TGBL
2	Tea - World Avg.	USD/MT	2,767	(13)	(5)	(0)	(13)	(9)	(4)	HUL, TGBL
3	Tea - Mombassa/Kenya	USD/Kg	5	29	30	57	28	25	50	HUL, TGBL
4	Coffee Arabica - Intl.	US cents/Pound	142	(0)	(13)	(15)	(1)	(17)	(19)	HUL, Nestle, TGBL
5	Coffee Robusta - Intl.	US cents/Pound	93	(4)	(16)	(9)	(5)	(19)	(12)	HUL, Nestle, TGBL
6	Sugar - domestic	Rs/Quintal	3,480	(10)	(12)	(9)	(10)	(12)	(9)	HUL, Nestle, GSKCHL, ITC, Dabur, Britannia
7	Wheat	Rs/Quintal	1,786	(1)	(9)	(5)	(1)	(9)	(5)	ITC, Nestle, GSKCHL, Britannia
8	Barley	Rs/Quintal	1,464	(2)	(16)	(11)	(2)	(16)	(11)	GSKCHL
9	Maize (corn)	USD/MT	161	8	0	1	8	(4)	(3)	Colgate, HUL, Dabur (Sorbitol)
10	Liquid Milk - domestic	Rs/Ltr	34	-	(21)	(14)	-	(21)	(14)	Nestle, GSKCHL, Jubilant Foodworks, Britannia
11	Milk Powder - domestic	Rs/Kg	253	1	(11)	(3)	1	(11)	(3)	Nestle, GSKCHL, Britannia
12	Cocoa Bean	USD/MT	2,443	7	4	(18)	6	(0)	(21)	Nestle
Oil Commodities										
13	Crude Oil - Brent	USD/Barrel	67	9	24	37	8	19	31	HUL, GCPL, Jyothy Labs, Asian Paints, Pidilite
14	Palm oil	MYR/Ton	2,469	(5)	(22)	(13)	(6)	(25)	(16)	HUL, GCPL, Jyothy Labs
15	PFAD	USD/MT	616	(1)	(11)	(2)	(2)	(15)	(6)	HUL, GCPL, Jyothy Labs
16	Light liquid paraffin (LLP)	Rs/Ltr	48	6	20	33	6	20	33	Marico, Dabur, Bajaj Corp
17	Copra	Rs/Quintal	12,592	7	51	92	7	51	92	Marico, Dabur
18	Coconut oil	Rs/Quintal	18,694	6	51	93	6	51	93	Marico, Dabur
19	Rice Bran oil	Rs/10Kg	588	1	(5)	(2)	1	(5)	(2)	Marico
20	Kardi oil/ Safflower oil	Rs/MT	1,461	10	30	37	10	30	37	Marico
21	Sunflower oil	Rs/MT	68,182	5	6	3	5	6	3	Marico
22	Groundnut oil	Rs/MT	88,371	(1)	(10)	(22)	(1)	(10)	(22)	Marico, Dabur
23	Linseed oil	Rs/MT	81,863	8	(8)	(22)	8	(8)	(22)	Marico, Dabur, Bajaj Corp, Asian Paints
24	Castor oil	Rs/MT	88,229	(7)	3	14	(7)	3	14	Marico, Dabur, Bajaj Corp, Asian Paints
25	Mentha oil	Rs/Kg	1,561	(6)	43	50	(6)	43	50	Emami, Colgate, HUL, Dabur
Chemicals/Paints/Other Commodities										
26	Caustic soda	Rs/ 50Kg	2,477	10	19	29	10	19	29	HUL, GCPL, Jyothy Labs
27	Soda ash	Rs/ 50Kg	1,247	6	1	2	6	1	2	HUL, GCPL, Jyothy Labs
28	LAB	Rs/Kg	105	4	7	15	4	7	15	HUL, Jyothy Labs
29	HDPE - domestic	Rs/Kg	112	13	9	8	13	9	8	All companies
30	PAN	Rs/Kg	70	—	(10)	(4)	—	(10)	(4)	Asian Paints
31	PENTA	Rs/Kg	115	—	-	(4)	—	-	(4)	Asian Paints
32	Tio2 Anatase	Rs/Kg	185	-	34	36	-	34	36	Asian Paints
33	Tio2 Rutile	Rs/Kg	210	—	8	19	—	8	19	Asian Paints
34	Tio2 Dupont	Rs/Kg	243	2	3	9	2	3	9	Asian Paints
35	Turpentine oil	Rs/Ltr	80	11	0	(1)	11	0	(1)	Asian Paints
36	Formaldehyde	Rs/Kg	24	6	12	15	6	12	15	Asian Paints
37	Acrylic acid	Rs/Kg	119	12	14	41	12	14	41	Asian Paints
38	Vinyl Acetate - China	USD/MT	1,245	16	42	43	16	37	37	
39	Styrene - domestic	Rs/Kg	104	(2)	(4)	18	(2)	(4)	18	Asian Paints
40	Gold	Rs/10gm	30,203	3	4	2	3	4	2	Titan, Jewellery companies
41	Diamond price index	USD/Carrat	118	2	1	(2)	2	(3)	(5)	Titan, Jewellery companies

Source: Bloomberg, Kotak Institutional Equities

Exhibit 21: INR has appreciated against most currencies; this is likely to drag reported growth for IBD for consumer companies
 Movement of rupee vs relevant international currencies for KIE consumer universe

Currency	Period end			Average rate			Companies impacted
	31st Mar 2018	31st Dec 2017	qoq (%)	4QFY18 Avg	4QFY17 Avg	yoy (%)	
Euro	80.3	76.7	5	79.1	71.3	11	Dabur, TGBL
USD	65.1	63.8	2	64.4	67.0	(4)	All Companies
GBP	91.2	86.3	6	89.6	83.0	8	GCPL, TGBL
Canada	50.5	50.8	(1)	50.9	50.6	1	TGBL
Australia	50.0	49.9	0	50.6	50.8	(0)	TGBL
SL	0.4	0.4	1	0.4	0.4	(6)	GCPL, Marico, Dabur, Asian Paints
Bangladesh	0.8	0.8	1	0.8	0.8	(9)	GCPL, Marico, Dabur, Asian Paints, Pidilite
Nepal	0.6	0.6	(0)	0.6	0.6	0	Dabur, Asian Paints
Indonesia	0.5	0.5	1	0.5	0.5	(5)	GCPL
Malaysia	16.9	15.7	7	16.4	15.1	9	Marico (Revenue), GCPL/HUL (Palm oil imports)
Vietnam	0.3	0.3	2	0.3	0.3	(4)	Marico
South Africa	5.5	5.2	7	5.4	5.1	7	GCPL, Marico, TGBL
Nigeria	0.2	0.2	2	0.2	0.2	(16)	GCPL, Dabur
Kenya	0.6	0.6	4	0.6	0.6	(2)	GCPL, TGBL
Turkey	16.5	16.8	(2)	16.9	18.1	(7)	Dabur
Egypt	3.7	3.6	3	3.6	3.8	(4)	Marico, Dabur, Pidilite
Middle East (AED)	17.7	17.4	2	17.5	18.2	(4)	GCPL, Marico, Dabur, Asian Paints, Pidilite
Argentina	3.2	3.4	(6)	3.3	4.3	(23)	GCPL
Uruguay	2.3	2.2	3	2.3	2.4	(4)	GCPL
Chile	1.1	1.0	4	1.1	1.0	5	GCPL
Poland	19.0	18.3	4	18.9	16.5	15	TGBL
Czech	3.2	3.0	5	3.1	2.6	18	TGBL
Russia	1.1	1.1	4	1.1	1.1	(1)	TGBL

Source: Bloomberg, Kotak Institutional Equities

Exhibit 22: Results preview for KIE Consumer universe for the quarter ending March 2018 (Rs mn)

Company	Mar-17	Dec-17	Mar-18E	YoY (%)	qoq (%)	Comments
Asian Paints (consolidated)						
Revenues	39,084	42,605	44,645	14.2	4.8	We model about 14.4% domestic sales growth aided by 8% volume growth and 6% price-led growth (aided by price hikes in 1QFY18 and 4QFY18)
Gross margin (%)	43.7	42.2	42.3	-138 bps	9 bps	Our volume growth assumption translates into a 2-year CAGR of around 9%
EBITDA	7,078	8,912	8,962	26.6	0.6	
EBITDA margin (%)	18.1	20.9	20.1	196 bps	-85 bps	We expect EBITDA margin to expand about 200 bps yoy, despite 140 bps contraction in GM, aided by tight cost control and higher operating leverage
Net income	4,587	5,546	5,507	20.1	(0.7)	
EPS (Rs/share)	4.8	5.8	5.7	20.1	(0.7)	
Bajaj Corp.						
Revenues	2,045	2,081	2,242	9.6	7.7	We expect ADHO volumes to grow 6% yoy; this translates into flattish 2-year CAGR, in line with recent trends
Gross margin (%)	67.3	69.0	68.7	139 bps	-40 bps	
EBITDA	662	678	722	9.1	6.5	Sustained investments in enhancing sales and R&D capabilities to prevent flow through of GM expansion to the EBITDA margin line
EBITDA margin (%)	32.4	32.6	32.2	-16 bps	-39 bps	
Net income	527	552	601	14.1	8.9	
EPS (Rs/share)	147.5	3.7	4.1	(97.2)	8.9	
Britannia Industries (consolidated)						
Revenues	22,444	25,675	25,822	15.1	0.6	Our operating revenue estimate bakes in (a) 13% volume growth in the biscuits segment and (b) sharp jump in other op income as we bake in VAT refunds (not booked in 2Q/3QFY18 pending clarity under GST)
Gross margin (%)	38.0	38.7	39.2	115 bps	47 bps	
EBITDA	3,081	3,984	4,151	34.7	4.2	We expect EBITDA margin to expand 235 bps yoy aided by 120 bps expansion in GM and operating leverage (off a low base). Agri commodity prices are now favorable
EBITDA margin (%)	13.7	15.5	16.1	234 bps	55 bps	
Net income	2,109	2,636	2,768	31.3	5.0	
EPS (Rs/share)	17.6	22.0	23.0	31.2	4.9	
Colgate						
Revenues	10,375	10,333	11,400	9.9	10.3	Our topline growth estimate of 10% yoy bakes in 5% volume and a similar realization growth. Our volume growth assumption translates into a 2-yr CAGR of around 1%
Gross margin (%)	62.6	65.2	64.6	198 bps	-57 bps	
EBITDA	2,443	2,824	2,997	22.7	6.1	Our margin expansion estimate (EBITDA margin up 273 bps yoy) primarily bakes in GST-related tailwinds
EBITDA margin (%)	23.5	27.3	26.3	273 bps	-105 bps	
Net income	1,426	1,635	1,755	23.1	7.3	
EPS (Rs/share)	5.2	6.0	6.5	23.1	7.3	
Coffee Day Global (CDGL) - coffee business only						
Revenues	4,510	4,350	5,470	21.3	25.7	Our revenue growth estimate bakes in (a) 23 net café additions qoq, (b) 10% growth in retail ASPD, and (c) around 20% yoy growth in vending revenues.
Gross margin (%)	48.5	55.9	47.0	-149 bps	-896 bps	
EBITDA	632	715	776	22.9	8.6	Sequential decline in margins in the coffee business is on account of higher salience of low-margin exports business
EBITDA margin (%)	14.0	16.4	14.2	18 bps	-224 bps	
Net income	93	101	168	81.4	67.5	
EPS (Rs/share)	0.5	0.6	1.0	81.4	67.5	
Dabur (consolidated)						
Revenues	19,090	19,601	20,358	6.6	3.9	We model around 10.5% like-on-like growth in domestic revenues, a combination of 6% volume growth and 4.5% realization improvement. We note that the base quarters remain noisy - March 2017 had a post-demon restocking benefit
Gross margin (%)	48.9	51.4	49.9	100 bps	-155 bps	
EBITDA	4,119	3,972	4,587	11.4	15.5	GST tailwinds continue to aid margin expansion; not much in terms of leverage benefits for Dabur
EBITDA margin (%)	21.6	20.3	22.5	95 bps	226 bps	
Net income	3,331	3,321	3,824	14.8	15.1	
EPS (Rs/share)	1.9	1.9	2.2	14.8	15.1	
GSK Consumer						
Revenues	11,019	10,347	11,864	7.7	14.7	Our revenue growth forecast bakes in 8% growth in domestic revenues, 5% in exports, and 4% in auxiliary income. Domestic revenue growth a combination of 5% volumes and 3% realization growth
Gross margin (%)	65.8	68.8	66.3	44 bps	-257 bps	
EBITDA	2,171	2,040	2,241	3.2	9.8	Estimated EBITDA margin contraction of 82 bps yoy largely on account of a sharp jump in employee expenses, in line with recent trends
EBITDA margin (%)	19.7	19.7	18.9	-82 bps	-84 bps	
Net income	1,759	1,637	1,815	3.2	10.9	
EPS (Rs/share)	41.8	38.9	43.1	3.2	10.9	
GCPL (consolidated)						
Revenues	23,898	26,303	26,296	10.0	(0.0)	We model 13% yoy growth in domestic and 7% in international business. On the domestic front, we expect weakness in HI to persist (model 6% growth), soaps segment to sustain healthy momentum (model 15% growth) and growth in hair colors to normalize versus the strong 3Q levels (model 12% growth)
Gross margin (%)	56.7	57.2	57.8	100 bps	57 bps	
EBITDA	5,414	5,890	6,455	19.2	9.6	We model 190 bps expansion in EBITDA margin driven by still-benign overall RM scenario, continued benefits from the company's cost rationalization programs and GST-related tailwinds
EBITDA margin (%)	22.7	22.4	24.5	189 bps	215 bps	
Net income	3,803	4,322	4,661	22.6	7.9	
EPS (Rs/share)	5.6	6.3	6.8	22.6	7.9	

Source: Company, Kotak Institutional Equities estimates

Exhibit 22 (contd): Results preview for KIE Consumer universe for the quarter ending March 2018 (Rs mn)

Company	Mar-17	Dec-17	Mar-18E	YoY (%)	qoq (%)	Comments
HUL (standalone)						
Revenues	82,130	85,900	89,266	8.7	3.9	We model 14% revenue growth in domestic FMCG business (comparable) aided by 8% UVG and 6% price-led growth; this implies a 2-yr UVG CAGR of 6%. Our channel checks suggest healthy share gains for the organized players in categories like soaps and detergents, HUL being a key beneficiary
Gross margin (%)	51.0	54.5	53.4	236 bps	-116 bps	
EBITDA	16,510	16,800	19,118	15.8	13.8	We expect EBITDA margin to expand 130 bps yoy aided by 240 bps expansion in GM (partly GST-linked). We model some reinvestment of this GM expansion into higher A&P intensity
EBITDA margin (%)	20.1	19.6	21.4	131 bps	185 bps	
Net income	11,180	11,980	13,179	17.9	10.0	
EPS (Rs/share)	5.2	5.5	6.1	17.9	10.0	
ITC (standalone)						
Revenues	109,995	96,726	121,387	10.4	25.5	We model 4% decline in cigarette volumes yoy and a 12% increase in gross realizations (portfolio-level; dragged by adverse mix). We forecast 8.5% yoy growth in cigarette EBIT
Gross margin (%)	57.4	63.0	58.3	92 bps	-463 bps	
EBITDA	37,493	38,051	42,796	14.1	12.5	We model modest acceleration in yoy growth for all the other segments (low base). Expect other FMCG revenues to grow ~17% yoy (comparable)
EBITDA margin (%)	34.1	39.3	35.3	116 bps	-409 bps	
Net income	26,695	28,202	29,838	11.8	5.8	
EPS (Rs/share)	2.2	2.3	2.4	11.0	5.4	
Jubilant Foodworks						
Revenues	6,127	7,951	7,655	24.9	(3.7)	We model 24% SSG (partly optical due to price hikes taken to compensate for loss of ITC) and ~25% topline growth; we have modeled 8 Dominos store addition and 1 store closure in DD (net)
Gross margin (%)	76.9	74.5	74.5	-231 bps	3 bps	
EBITDA	605	1,368	1,287	112.9	(5.9)	
EBITDA margin (%)	9.9	17.2	16.8	694 bps	-39 bps	We expect EBITDA margin to expand 700 bps yoy aided, despite 230 bps contraction in GM, aided by leverage, cost saving initiatives and GST-related tailwinds
Net income	148	660	597	304.6	(9.6)	
EPS (Rs/share)	2.2	10.0	9.0	304.4	(9.6)	
Jyothy Laboratories (consolidated)						
Revenues	4,457	4,305	4,950	11.1	15.0	We expect 16% comparable growth in underlying revenues driven by 10% volume growth
Gross margin (%)	43.9	48.2	45.8	196 bps	-239 bps	
EBITDA	603	686	766	26.9	11.6	Estimated EBITDA margin expansion of 200 bps yoy is largely GM-driven; GM expansion primarily led by mix improvement as we expect the lowest-GM HI segment to grow the slowest
EBITDA margin (%)	13.5	15.9	15.5	193 bps	-47 bps	
Net income	169	347	480	185.0	38.3	
EPS (Rs/share)	0.9	1.8	2.6	200.4	42.4	
Marico (consolidated)						
Revenues	13,146	16,243	14,939	13.6	(8.0)	We model 16% topline growth in the domestic business driven by 6% volume growth and around 10% realization improvement. We bake in volume growth of 6%, 2% and 11% in Parachute rigids, Saffola and VAHO, respectively
Gross margin (%)	52.2	46.5	49.5	-261 bps	303 bps	
EBITDA	2,595	3,021	2,933	13.0	(2.9)	Copra inflation remains high and reflects in our 260 bps yoy GM decline forecast. Expect EBITDA margins to be nearly flat yoy on account of (a) pass-through of a good portion of copra inflation; we expect a 28% realization improvement in CNO, and (b) cost controls and leverage benefits
EBITDA margin (%)	19.7	18.6	19.6	-11 bps	103 bps	
Net income	1,687	2,205	2,201	30.5	(0.2)	
EPS (Rs/share)	1.3	1.7	1.7	30.4	(0.2)	
Manpasand Beverages						
Revenues	2,672	1,431	3,737	39.9	161.1	We model 40% yoy growth in revenues largely volume-led, aided by capacity addition and early onset of summer season in a few states
Gross margin (%)	34.3	39.2	34.9	60 bps	-438 bps	
EBITDA	518	267	782	51.0	192.4	EBITDA margin expansion driven by some softening of RM prices and leverage benefits
EBITDA margin (%)	19.4	18.7	20.9	154 bps	224 bps	
Net income	313	120	426	35.9	255.0	
EPS (Rs/share)	2.7	1.0	3.7	35.8	255.0	
Nestle						
Revenues	24,757	25,896	28,724	16.0	10.9	We model 12% growth in net domestic revenues aided by robust growth in both Maggi and non-Maggi portfolio (expect 16% yoy growth)
Gross margin (%)	55.8	58.7	57.0	118 bps	-172 bps	
EBITDA	5,110	6,331	6,932	35.7	9.5	
EBITDA margin (%)	20.6	24.4	24.1	349 bps	-32 bps	We model 350 bps expansion in EBITDA margin driven by GST tailwinds and operating leverage benefits
Net income	3,068	3,118	4,146	35.2	33.0	
EPS (Rs/share)	31.8	32.3	43.0	35.2	33.0	
Page Industries						
Revenues	4,989	6,210	6,069	21.6	(2.3)	We expect ~22% revenue growth aided by 15% volume growth and 7% price/mix-led growth
Gross margin (%)	64.6	55.6	61.0	-360 bps	545 bps	GM decline reflects higher in-house production; there is a corresponding decline in subcontracting expenses below the gross profit line
EBITDA	974	1,289	1,231	26.4	(4.5)	We model 75 bps expansion in EBITDA margin aided by operating leverage
EBITDA margin (%)	19.5	20.8	20.3	76 bps	-47 bps	
Net income	623	834	803	28.8	(3.8)	
EPS (Rs/share)	55.9	74.8	72.0	28.8	(3.8)	

Source: Company, Kotak Institutional Equities estimates

Exhibit 22 (contd): Results preview for KIE consumer universe for the quarter ending March 2018 (Rs mn)

Company	Mar-17	Dec-17	Mar-18E	YoY (%)	qoq (%)	Comments
Pidlite Industries (consolidated)						
Revenues	12,954	15,429	14,628	12.9	(5.2)	We model 15% underlying volume as well as revenue growth for the consumer bazaar (CBP) business. Reported growth to be lower at around 13% on account of GST-related accounting changes
Gross margin (%)	53.1	53.4	52.7	-42 bps	-72 bps	
EBITDA	2,579	3,703	2,915	13.1	(21.3)	Estimated flat EBITDA margins for the quarter are reflects (a) 60 bps decline in standalone EBITDA margins on account of RM inflation and (b) sharp expansion in subsidiary margins off a low base
EBITDA margin (%)	19.9	24.0	19.9	2 bps	-407 bps	
Net income	1,569	2,398	1,987	26.6	(17.2)	
EPS (Rs/share)	3.1	4.7	3.9	26.6	(17.2)	
PC Jeweller						
Revenues	21,554	26,449	25,942	20.4	(1.9)	We expect about 27% revenue growth in domestic jewelry business aided by market share gains from unorganised sector and 2% growth in exports
Gross margin (%)	12.1	14.0	14.3	219 bps	36 bps	
EBITDA	1,769	2,689	2,664	50.7	(0.9)	We model 206 bps expansion in EBITDA margin entirely aided by expansion in GM (driven by better studded share) and operating leverage
EBITDA margin (%)	8.2	10.2	10.3	206 bps	10 bps	
Net income	1,101	1,627	1,492	35.5	(8.3)	
EPS (Rs/share)	3.1	4.1	3.8	23.1	(8.3)	
S H Kelkar and Company (consolidated)						
Revenues	2,475	2,831	2,860	15.6	1.0	We estimate 15.5% growth in consolidated revenues aided by low base and the general uptick in aggregate FMCG volume growth
Gross margin (%)	44.3	46.1	43.1	-112 bps	-299 bps	
EBITDA	370	576	462	24.9	(19.9)	Expect the recent RM challenges to result in GM contraction of 110 bps yoy and 300 bps qoq. EBITDA margins should however expand on the back of operating leverage and cost controls
EBITDA margin (%)	14.9	20.3	16.1	120 bps	-421 bps	
Net income	274	272	295	7.4	8.4	
EPS (Rs/share)	1.9	2.3	2.0	3.3	(16.5)	
Tata Global Beverages (consolidated)						
Revenues	16,743	17,304	16,952	1.2	(2.0)	We model 1% growth in consolidated revenues aided by about 8% growth in domestic tea business partially negated by subdued growth in international business
Gross margin (%)	50.4	46.4	48.9	-143 bps	252 bps	
EBITDA	1,789	2,351	2,182	21.9	(7.2)	We model 200 bp yoy expansion in EBITDA margin aided by robust margin expansion in domestic tea business, cost saving initiatives and incremental gain from divestment of select loss making businesses
EBITDA margin (%)	10.7	13.6	12.9	218 bps	-72 bps	
Net income	739	1,273	1,119	51.4	(12.1)	Higher jump in PAT aided by sharp reduction in interest expense
EPS (Rs/share)	1.2	2.0	1.8	51.4	(12.1)	
Titan Industries						
Revenues	34,297	41,366	40,509	18.1	(2.1)	We model (a) 19% yoy growth in jewelry segment revenues off a high 54% growth in the base quarter; FY2018E growth works out to around 27% yoy, above company's guided 25%, (b) 13% like-on-like growth in the watches segment revenues, driven by share gains, and (c) modest revival in growth in other smaller business segments
Gross margin (%)	25.1	24.3	26.5	140 bps	217 bps	
EBITDA	2,721	4,447	4,222	55.2	(5.1)	
EBITDA margin (%)	7.9	10.8	10.4	248 bps	-33 bps	We bake in strong yoy expansion in margins driven by operating leverage benefits
Net income	2,022	3,082	2,968	46.8	(3.7)	
EPS (Rs/share)	2.3	3.5	3.3	46.8	(3.7)	
United Breweries						
Revenues	11,127	11,971	13,478	21.1	12.6	We expect 21% growth in revenues aided by 12% volume growth aided by low base and upstocking in Maharashtra and 8% growth in net realization/case
Gross margin (%)	51.3	52.4	51.8	44 bps	-64 bps	
EBITDA	1,011	1,526	1,898	87.7	24.3	We model 500 bps expansion in EBITDA margin aided by better leverage and cost saving initiatives
EBITDA margin (%)	9.1	12.7	14.1	499 bps	132 bps	
Net income	67	474	812	1,106.4	71.4	
EPS (Rs/share)	0.3	1.8	3.1	1,106.4	71.4	
United Spirits (standalone)						
Revenues	20,250	22,633	21,254	5.0	(6.1)	We model 5% net revenue growth led by 3.9% growth in underlying volumes; on a reported basis, we expect a volume decline of 9% yoy on account of low-end franchising impact
Gross margin (%)	44.2	47.4	47.6	341 bps	22 bps	
EBITDA	2,609	2,723	3,273	25.4	20.2	We model 340 bps yoy expansion in gross margin on account of RM softness (molasses in particular). At an EBITDA level, we expect the expansion to be lower at 250 bps yoy as the company reinvests the GM gains
EBITDA margin (%)	12.9	12.0	15.4	251 bps	336 bps	
Net income	877	1,473	1,765	101.2	19.8	
EPS (Rs/share)	6.0	10.1	12.1	101.2	19.8	
Varun Beverages (consolidated)						
Revenues	8,746	5,190	10,650	21.8	105.2	We expect 22% net revenue growth driven by 19% volume growth (low base and kicker from consolidation of acquired territories) and 3% price-led growth
Gross margin (%)	54.5	63.6	53.5	-100 bps	-1014 bps	
EBITDA	1,372	225	1,606	17.1	614.8	We model 60 bps yoy drop in EBITDA margin largely due to lower profitability of acquired territories and distribution rights for Tropicana and Quaker oat drinks
EBITDA margin (%)	15.7	4.3	15.1	-61 bps	1075 bps	
Net income	45	(728)	96	112.4	(113.1)	
EPS (Rs/share)	0	(4.0)	0.6	52.3	(114.0)	

Source: Company, 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	
		4-Apr-18	price				(Rs)	(bn)	shares	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E
Automobiles																													
Amara Raja Batteries	REDUCE	798	780	(2.3)	136	2.1	171	29	34	39	1.7	20.2	14.5	28.0	23.3	20.4	15.0	12.7	11.1	4.6	3.9	3.4	17.4	18.1	17.9	0.5	0.6	0.7	6.7
Apollo Tyres	BUY	282	335	18.7	161	2.5	541	13	20	25	(39.9)	52.7	25.7	21.8	14.2	11.3	11.9	8.5	6.9	1.6	1.6	1.4	8.4	11.6	13.1	1.0	0.9	0.9	12.7
Ashok Leyland	ADD	146	140	(4.0)	427	6.6	2,926	4.9	6.0	7.9	(0.7)	20.9	32.0	29.5	24.4	18.5	17.1	13.8	10.6	6.1	5.2	4.4	22.0	23.0	25.9	1.0	1.2	1.6	34.8
Bajaj Auto	SELL	2,766	2,900	4.8	800	12.3	289	147	166	182	11.4	12.6	9.8	18.8	16.7	15.2	12.9	11.1	9.7	4.2	3.7	3.3	23.5	23.4	22.8	2.1	2.4	2.6	15.0
Balkrishna Industries	ADD	1,151	1,290	12.0	223	3.4	193	40	53	64	7.2	30.8	22.0	28.6	21.8	17.9	15.3	12.0	9.7	5.3	4.3	3.6	20.1	21.8	21.9	0.4	0.4	0.5	6.9
Bharat Forge	SELL	716	650	(9.3)	334	5.1	466	20	24	27	33.2	25.0	10.8	36.6	29.3	26.4	19.8	16.5	14.8	7.0	5.9	5.1	20.5	21.9	20.8	0.6	0.8	0.9	14.2
CEAT	ADD	1,573	1,860	18.2	64	1.0	40	65	110	125	(28.8)	68.2	13.4	24.1	14.3	12.6	11.4	8.8	7.5	2.4	2.1	1.8	10.5	15.8	15.6	0.6	0.8	0.9	14.8
Eicher Motors	SELL	28,944	24,000	(17.1)	789	12.1	27	781	907	1,087	27.4	16.2	19.9	37.1	31.9	26.6	26.2	21.9	18.0	14.1	10.5	8.0	44.7	37.7	34.0	0.1	0.1	0.1	27.1
Escorts	BUY	871	1,020	17.1	74	1.6	89	34	47	60	50.1	37.9	28.1	25.7	18.6	14.5	14.3	11.0	8.7	3.1	2.7	2.4	12.1	14.7	16.3	0.6	0.8	1.0	21.0
Exide Industries	SELL	231	205	(11.2)	196	3.0	850	8	10	11	1.6	14.7	11.1	27.8	24.3	21.8	15.9	13.8	12.2	3.7	3.4	3.1	13.7	14.5	14.7	1.3	1.3	1.3	6.3
Hero Motocorp	SELL	3,670	3,100	(15.5)	733	11.3	200	178	194	208	5.3	8.9	7.4	20.6	18.9	17.6	13.1	12.0	10.9	6.5	5.7	5.1	33.3	32.3	30.6	2.8	2.6	2.8	19.9
Mahindra CIE Automotive	ADD	218	260	19.2	83	1.3	378	10	12	14	107.0	24.7	17.4	22.7	18.2	15.5	11.3	9.0	7.5	2.2	2.0	1.8	10.4	11.5	12.0	—	—	—	1.2
Mahindra & Mahindra	BUY	757	945	24.9	941	14.4	1,138	39	43	49	19.9	9.5	13.2	19.2	17.5	15.5	13.4	11.6	10.1	2.9	2.5	2.3	15.9	15.4	15.5	1.0	1.1	1.3	28.5
Maruti Suzuki	ADD	9,015	10,000	10.9	2,723	41.8	302	268	339	406	10.5	26.2	19.9	33.6	26.6	22.2	19.3	15.0	12.2	6.5	5.6	4.7	20.8	22.5	23.0	0.7	0.9	1.1	82.9
Motherson Sumi Systems	SELL	333	265	(20.5)	701	10.8	2,105	8	11	14	9.3	30.4	24.3	39.5	30.3	24.4	14.7	11.9	9.6	7.5	6.5	5.5	20.1	22.9	24.4	0.7	1.0	1.2	20.1
MRF	ADD	74,734	77,000	3.0	317	4.9	4	2,756	3,988	4,511	(21.4)	44.7	13.1	27.1	18.7	16.6	12.5	9.1	7.9	3.2	2.8	2.4	12.7	15.9	15.5	0.1	0.1	0.1	9.3
Schaeffler India	BUY	5,415	6,000	10.8	90	1.4	17	143	172	209	22.0	19.8	21.7	37.8	31.6	25.9	22.3	18.9	15.3	5.3	4.7	4.1	15.0	15.8	17.0	0.3	0.6	0.8	0.5
SKF	REDUCE	1,800	1,700	(5.6)	92	1.4	51	59	69	81	28.5	15.8	18.2	30.3	26.1	22.1	19.3	16.6	13.8	5.1	4.6	4.0	17.0	17.5	18.2	1.0	1.1	1.4	0.7
Suprajit Engineering	SELL	292	235	(19.5)	41	0.6	140	9	11	12	0.5	20.3	17.6	33.1	27.5	23.4	18.6	16.0	13.7	6.6	5.5	4.6	21.8	22.0	21.6	0.5	0.6	0.7	0.4
Tata Motors	BUY	356	520	46.2	1,208	17.3	3,396	23	46	51	(17.6)	101.1	10.1	15.6	7.7	7.0	4.8	3.5	3.3	1.7	1.4	1.2	12.1	20.1	18.3	—	—	—	52.6
Timken	SELL	726	660	(9.1)	49	0.8	68	14	22	27	1.4	50.2	25.0	50.1	33.4	26.7	28.1	18.9	15.2	7.0	6.2	5.4	14.9	19.7	21.6	0.2	0.9	1.1	0.6
TVS Motor	SELL	646	410	(36.5)	307	4.7	475	14	18	22	31.4	30.3	18.8	45.7	35.1	29.5	25.2	19.8	17.1	11.6	9.6	7.9	27.6	29.9	29.3	0.7	0.8	1.0	10.6
WABCO India	SELL	7,900	6,130	(22.4)	150	2.3	19	134	176	215	18.7	31.5	22.4	59.2	45.0	36.7	38.8	29.3	23.6	10.0	8.3	6.9	18.3	20.2	20.6	0.1	0.2	0.2	0.9
Automobiles		Neutral			10,639	163					2.9	36.4	15.0	26.0	19.1	16.6	12.0	9.4	8.1	4.3	3.7	3.1	16.5	19.1	18.8	0.8	1.0	1.1	387.6
Banks																													
Axis Bank	REDUCE	492	600	21.9	1,263	19.4	2,568	10	28	41	(36.5)	182.0	50.8	50.5	17.9	11.9	—	—	—	2.2	1.9	1.6	4.1	10.1	13.6	0.3	0.8	1.3	64.3
Bank of Baroda	NR	140	—	—	322	4.9	2,310	4	27	30	(40.4)	647.6	11.1	39.2	5.2	4.7	—	—	—	1.4	1.1	0.8	2.2	15.5	15.3	0.5	3.8	4.2	44.0
Bank of India	ADD	103	140	35.4	122	1.9	1,341	(21)	19	30	(42.8)	191.0	54.3	(4.9)	5.4	3.5	—	—	—	2.4	1.7	1.1	(10.5)	9.2	13.1	(4.1)	3.7	5.7	18.6
Canara Bank	ADD	263	350	33.3	157	2.4	733	2	51	63	(91.8)	3,202.9	23.5	171.1	5.2	4.2	—	—	—	1.1	0.9	0.7	0.3	8.9	10.0	—	1.0	1.3	30.4
City Union Bank	ADD	180	180	0.2	119	1.8	661	8	10	11	1.0	19.3	11.6	21.3	17.8	16.0	—	—	—	3.2	2.8	2.5	14.7	15.6	15.4	0.8	1.0	1.1	2.8
DCB Bank	ADD	166	210	26.8	51	0.8	308	8	10	13	12.9	24.1	34.9	21.0	16.9	12.5	—	—	—	2.1	1.9	1.7	10.7	11.1	13.4	—	—	0.6	3.9
Equitas Holdings	BUY	146	180	23.1	50	0.8	338	0.7	4.4	8.4	(85.1)	529.3	89.8	208.3	33.1	17.4	—	—	—	2.3	2.2	1.9	1.1	6.4	11.1	—	—	—	5.5
Federal Bank	BUY	91	140	53.2	180	2.8	1,832	5.4	7.8	9.0	13.0	43.1	15.2	16.8	11.7	10.2	—	—	—	1.5	1.3	1.2	9.4	11.2	11.8	1.2	1.7	1.9	18.1
HDFC Bank	REDUCE	1,885	1,900	0.8	4,891	75.1	2,686	65	83	98	14.6	27.2	19.0	29.0	22.8	19.1	—	—	—	4.1	3.6	3.1	16.2	16.5	17.2	0.7	0.9	1.0	47.3
ICICI Bank	BUY	269	400	48.9	1,727	26.5	6,408	9	16	25	(40.3)	70.0	58.9	29.4	17.3	10.9	—	—	—	2.1	1.8	1.5	5.8	9.2	13.4	0.7	1.2	1.8	99.1
IDFC Bank	NR	48	—	—	164	2.5	3,393	3.0	4.0	5.0	(0.5)	35.2	23.5	16.1	11.9	9.7	—	—	—	1.1	1.0	0.9	6.7	8.6	9.9	1.2	1.7	2.1	13.4
IndusInd Bank	REDUCE	1,799	1,750	(2.7)	1,080	16.6	598	59	71	82	24.0	18.5	16.9	30.3	25.5	21.8	—	—	—	4.7	3.9	3.4	16.6	17.5	16.2	—	0.5	0.6	36.1
J&K Bank	BUY	58	110	91.1	32	0.5	521	5	15	17	115.9	210.7	11.0	11.6	3.7	3.4	—	—	—	0.7	0.6	0.5	4.5	13.1	13.1	1.8	5.6	6.3	0.6
Karur Vysya Bank	ADD	102	135	32.3	74	1.1	728	5	8	15	(52.7)	75.9	80.4	21.7	12.3	6.8	—	—	—	1.5	1.4	1.2	6.1	9.4	15.5	1.2	2.0	3.7	2.9
Punjab National Bank	ADD	94	150	58.9	229	3.5	2,426	(13)	(5)	20	(308.0)	62.3	516.2	(7.3)	(19.3)	4.6	—	—	—	1.3	1.0	0.7	(7.9)	(2.9)	11.5	(3.0)	(1.1)	4.7	91.4
RBL Bank	SELL	488	420	(13.9)	205	3.1	408	15	19	24	26.9	24.2	30.6	32.3	26.0	19.9	—	—	—	3.1	2.9	2.6	11.3	11.2	13.2	0.5	0.6	0.8	10.4
State Bank of India	BUY	247	380	53.9	2,131	32.7	8,632	(0)	22	45	(100.1)	258,436.7	108.5	(29,303.4)	11.3	5.4	—	—	—	2.1	1.6	1.2	(0.0)	8.5	15.9	1.2	1.2	1.3	114.3
Ujjivan Financial Services	ADD	359	420	17.1	43	0.7	119	(2)	18	21	(110.1)	1,153.9	14.9	(204.4)	19.4	16.9	—	—	—	2.6	2.3	2.0	(1.2)	12.0	12.4	(0.0)	0.5	0.6	7.4
Union Bank	ADD	96	150	56.8	82	1.3																							

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)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo	
		4-Apr-18	(Rs)	(%)	(Rs bn) (US\$ bn)	(mn)	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	(US\$ mn)	
NBFCs																													
Bajaj Finance	REDUCE	1,850	1,750	(5.4)	1,069	16.4	573	44	61	76	31.5	37.7	25.4	41.9	30.4	24.3	—	—	—	6.5	5.5	4.6	19.5	19.6	20.6	1.3	1.8	2.3	27.9
Bajaj Finserv	ADD	5,227	5,600	7.1	832	12.8	159	184	222	274	20.3	20.5	23.2	28.3	23.5	19.1	—	—	—	4.0	3.5	3.0	16.1	15.8	16.7	0.3	0.3	0.3	14.5
Bharat Financial Inclusion	NA	1,101	—	—	153	2.4	138	32	52	64	51.4	62.3	23.3	34.6	21.3	17.3	—	—	—	5.3	4.1	3.3	16.5	21.8	21.2	—	—	—	11.9
Cholamandalam	REDUCE	1,490	1,400	(6.0)	233	3.6	156	61	73	87	33.7	18.0	19.6	24.2	20.5	17.2	—	—	—	4.8	4.0	3.4	20.3	20.1	20.2	0.4	0.6	0.7	6.4
HDFC	ADD	1,803	2,000	10.9	3,022	46.4	1,663	75	57	67	51.9	(24.7)	18.1	23.9	31.8	26.9	—	—	—	4.7	4.2	3.8	23.6	14.0	14.7	1.5	1.1	1.3	104.2
HDFC Standard Life Insurance	REDUCE	496	385	(22.4)	998	15.3	2,007	5	6	7	18.2	20.5	10.5	94.3	78.3	70.9	—	—	—	23.3	20.8	18.6	26.0	28.1	27.7	0.3	0.3	0.4	18.1
ICICI Lombard	SELL	779	580	(25.5)	354	5.4	451	20	25	29	26.2	26.5	16.3	39.7	31.4	27.0	—	—	—	8.1	6.8	5.8	21.9	23.6	23.2	0.6	0.8	0.9	4.5
ICICI Prudential Life	BUY	388	445	14.6	558	8.6	1,435	12	13	14	1.7	9.4	6.5	32.6	29.8	28.0	—	—	—	8.0	7.5	7.2	25.6	26.1	26.4	1.8	2.2	2.5	9.7
IIFL Holdings	SELL	722	600	(16.9)	230	3.5	318	29	33	40	34.5	14.9	19.3	24.9	21.7	18.2	—	—	—	4.5	3.9	3.4	19.1	18.6	19.2	0.9	1.0	1.2	5.1
L&T Finance Holdings	REDUCE	162	160	(1.0)	323	5.0	1,895	7	9	10	33.7	25.3	12.8	22.0	17.5	15.5	—	—	—	3.4	3.0	2.6	16.4	18.1	17.8	1.1	1.3	1.3	13.3
LIC Housing Finance	ADD	535	605	13.0	270	4.1	505	44	49	60	3.6	11.1	22.5	12.2	11.0	9.0	—	—	—	1.9	1.6	1.4	18.4	17.6	18.6	1.2	1.3	1.6	16.3
Mahindra & Mahindra Financial	REDUCE	466	450	(3.4)	288	4.4	614	16	21	25	124.0	34.9	16.7	29.4	21.8	18.7	—	—	—	3.4	3.1	2.9	12.4	13.7	14.7	1.2	1.6	1.8	13.7
Max Financial Services	BUY	449	650	44.9	120	1.8	267	6	6	6	4.0	7.0	0.5	74.8	69.9	69.6	—	—	—	—	—	—	8.6	8.7	8.4	0.5	0.6	0.6	5.9
Muthoot Finance	ADD	414	500	20.8	166	2.5	400	41	37	41	39.3	(10.0)	11.8	10.1	11.2	10.0	—	—	—	2.1	1.9	1.6	23.0	17.7	17.3	2.0	1.8	2.0	5.2
PFC	ADD	86	130	51.1	227	3.5	2,640	25	21	27	207.9	(14.4)	28.5	3.5	4.1	3.2	—	—	—	0.8	0.8	0.7	17.0	13.2	15.4	8.7	7.4	9.5	10.6
PNB Housing Finance	ADD	1,272	1,300	2.2	212	3.3	168	51	62	74	60.5	23.0	19.1	25.1	20.4	17.1	—	—	—	3.4	3.0	2.6	14.3	15.5	16.3	0.3	0.3	0.3	4.1
Rural Electrification Corp.	REDUCE	128	155	21.2	253	3.9	1,975	26	22	24	(18.3)	(14.2)	6.0	5.0	5.8	5.4	—	—	—	0.8	0.8	0.7	14.5	11.3	11.0	4.3	3.7	3.9	11.8
SBI Life Insurance	BUY	677	800	18.2	677	10.4	1,000	12	15	18	25.5	21.6	22.9	56.5	46.5	37.8	—	—	—	10.5	8.8	7.4	20.1	20.6	21.2	0.3	0.3	0.4	4.2
Shriram City Union Finance	ADD	2,280	2,275	(0.2)	150	2.3	66	107	147	172	26.9	37.2	17.2	21.3	15.5	13.3	—	—	—	2.8	2.5	2.2	13.2	16.0	16.3	0.6	0.8	0.9	1.1
Shriram Transport	REDUCE	1,455	1,360	(6.5)	330	5.1	227	85	102	114	52.5	21.2	11.2	17.2	14.2	12.8	—	—	—	2.8	2.4	2.1	15.8	16.7	16.2	0.8	1.0	1.1	16.1
NBFCs	Neutral				10,502	161					38.9	0.9	18.4	21.9	21.7	18.4				3.8	3.3	3.0	17.2	15.3	16.1	1.1	1.0	1.2	694.2
Cement																													
ACC	SELL	1,529	1,560	2.1	287	4.4	188	49	61	84	41.9	24.5	38.8	31.4	25.2	18.2	16.8	14.3	10.5	3.1	2.8	2.5	10.2	11.7	14.8	1.1	1.1	1.1	9.0
Ambuja Cements	REDUCE	237	260	9.9	470	7.2	1,986	8	8	11	29.7	12.2	30.0	31.5	28.1	21.6	10.6	9.4	7.3	2.3	2.2	2.1	7.4	7.9	9.8	1.5	1.5	1.5	12.1
Dalmia Bharat	ADD	2,897	2,980	2.9	258	4.0	89	65	117	160	68.5	78.8	36.6	44.3	24.8	18.1	13.9	10.0	7.8	4.2	3.6	3.0	10.5	15.7	18.1	0.1	0.1	0.1	7.4
Grasim Industries	ADD	1,059	1,275	20.4	696	10.7	657	52	49	67	(22.9)	(5.5)	35.7	20.2	21.4	15.8	8.9	7.3	6.7	1.2	1.1	1.0	7.6	5.3	6.9	0.5	0.5	0.5	17.6
India Cements	REDUCE	150	165	10.2	46	0.7	308	4	8	11	(24.2)	84.0	44.0	34.8	18.9	13.1	9.8	7.8	6.4	0.9	0.9	0.8	2.6	4.6	6.3	0.7	0.7	0.7	12.3
J K Cement	REDUCE	996	1,020	2.5	70	1.1	70	41	66	84	18.2	61.2	28.3	24.4	15.1	11.8	11.9	10.2	9.5	3.5	2.9	2.4	15.3	21.2	22.4	0.8	0.8	0.8	0.8
JK Lakshmi Cement	ADD	436	450	3.3	51	0.8	118	9	26	39	34.4	181.2	47.7	46.6	16.6	11.2	12.6	8.4	6.5	3.5	2.9	2.3	7.6	19.0	23.0	0.5	0.5	0.5	1.0
Orient Cement	ADD	141	170	21.0	29	0.4	205	3	9	14	303.9	166.1	60.0	44.0	16.5	10.3	12.1	8.4	6.3	2.9	2.5	2.1	6.6	16.3	22.4	1.3	1.4	1.6	0.5
Shree Cement	SELL	16,318	14,000	(14.2)	568	8.7	35	440	465	658	14.5	5.7	41.4	37.1	35.1	24.8	20.0	16.2	12.1	6.2	5.3	4.4	18.2	16.4	19.5	0.1	0.1	0.1	6.8
UltraTech Cement	SELL	3,884	3,050	(21.5)	1,067	16.4	275	91	117	150	(5.0)	27.7	28.8	42.5	33.3	25.8	19.1	15.7	13.1	4.1	3.7	3.3	10.0	11.6	13.4	0.3	0.3	0.3	14.0
Cement	Cautious				3,542	54					13.4	18.5	34.8	32.0	27.0	20.0	12.9	10.4	8.7	2.5	2.3	2.1	7.9	8.7	10.6	0.5	0.5	0.5	81.4

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	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo	
		4-Apr-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	shares (mn)	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	(US\$ mn)
Consumer products																													
Asian Paints	REDUCE	1,138	1,100	(3.3)	1,091	16.8	959	21	24	28	6.1	14.5	14.7	53.5	46.7	40.7	33.1	28.8	25.1	13.1	12.0	11.0	25.6	26.8	28.2	1.0	1.2	1.4	17.4
Bajaj Corp.	ADD	462	570	23.4	68	1.0	148	15	18	20	(3.2)	20.6	10.1	30.2	25.1	22.8	24.4	20.6	17.4	13.5	12.4	11.4	45.0	51.6	52.2	2.6	2.8	3.0	0.8
Britannia Industries	ADD	5,024	5,350	6.5	603	9.3	120	85	105	127	15.0	24.2	21.0	59.3	47.7	39.4	39.3	31.7	26.2	18.1	14.8	12.2	51.2	51.7	51.4	0.5	0.7	0.9	11.5
Coffee Day Enterprises	REDUCE	301	340	12.9	64	1.0	206	4	9	14	77.3	136.5	51.5	75.8	32.0	21.1	—	—	—	2.6	2.4	2.2	3.6	7.9	10.9	—	—	—	3.2
Colgate-Palmolive (India)	ADD	1,091	1,225	12.2	297	4.6	272	24	29	34	16.4	19.1	19.0	45.4	38.2	32.1	26.1	22.2	19.0	19.5	16.7	14.3	46.8	47.3	48.1	1.2	1.5	1.7	5.5
Dabur India	REDUCE	335	330	(1.6)	591	9.1	1,762	8	9	10	7.0	15.6	12.0	43.8	37.8	33.8	36.5	32.0	28.2	10.7	9.4	8.3	26.0	26.4	26.1	0.9	1.1	1.3	10.0
GlaxoSmithKline Consumer	ADD	6,057	6,500	7.3	255	3.9	42	159	182	203	2.0	14.5	11.5	38.0	33.2	29.8	26.0	21.6	18.7	7.5	6.9	6.4	20.6	21.7	22.3	1.3	1.6	1.8	2.0
Godrej Consumer Products	REDUCE	1,085	980	(9.7)	739	11.4	681	22	25	29	14.4	14.8	14.4	49.6	43.2	37.8	35.9	30.7	26.6	12.1	10.4	9.0	26.1	25.9	25.6	0.7	0.8	0.9	9.6
Hindustan Unilever	REDUCE	1,357	1,300	(4.2)	2,938	45.1	2,160	23	27	31	19.0	17.4	12.3	58.1	49.5	44.1	40.4	34.9	30.8	41.6	38.8	36.6	74.5	81.1	85.5	1.3	1.5	1.8	26.8
ITC	ADD	259	315	21.8	3,156	48.5	12,235	9	10	11	8.9	10.0	11.7	28.8	26.1	23.4	19.0	17.2	15.3	6.6	6.3	6.0	21.8	23.4	25.6	2.2	2.6	3.0	58.4
Jubilant Foodworks	BUY	2,309	2,500	8.3	152	2.3	66	29	45	61	172.6	58.2	35.7	80.7	51.0	37.6	33.2	24.1	18.6	16.6	13.9	11.4	21.9	29.7	33.5	0.4	0.6	0.9	40.0
Jyothy Laboratories	ADD	383	405	5.9	70	1.1	182	9	12	14	34.8	34.6	14.6	43.5	32.3	28.2	27.9	22.1	19.3	6.2	5.9	5.6	14.5	18.7	20.3	1.6	1.8	2.1	1.3
Manpasand Beverages	BUY	372	450	21.1	43	0.7	114	9	12	17	39.5	32.0	43.8	41.9	31.8	22.1	21.3	14.6	10.7	3.4	3.1	2.8	8.4	10.2	13.2	0.1	0.2	0.4	1.2
Marico	ADD	325	345	6.2	420	6.4	1,291	7	8	9	13.3	18.4	13.0	49.1	41.5	36.7	34.9	29.2	25.6	16.1	14.4	12.9	34.7	36.7	37.1	1.2	1.4	1.6	6.0
Nestle India	ADD	8,351	9,000	7.8	805	12.4	96	127	164	186	21.1	29.1	13.6	65.7	50.9	44.8	35.9	28.4	24.9	23.5	21.7	19.9	38.1	44.4	46.4	1.0	1.3	1.5	8.7
Page Industries	SELL	22,685	18,200	(19.8)	253	3.9	11	299	358	438	27.2	20.0	22.3	76.0	63.3	51.8	48.8	40.0	33.0	30.4	24.6	19.9	44.5	42.9	42.5	0.5	0.7	0.8	6.9
PC Jeweller	REDUCE	299	520	74.1	118	1.8	394	15	19	23	29.9	25.9	17.5	19.6	15.5	13.2	9.8	7.6	6.2	2.7	2.4	2.1	15.7	16.3	16.6	0.5	0.7	1.0	65.4
Pidlite Industries	NR	957	—	—	486	7.5	513	18	22	26	6.6	22.5	16.7	53.5	43.7	37.4	34.4	28.9	24.5	12.2	10.4	8.9	24.5	25.8	25.7	0.6	0.7	0.9	7.8
S H Kelkar and Company	BUY	253	325	28.5	37	0.6	145	8	10	11	4.0	26.3	20.7	33.6	26.6	22.0	20.4	16.2	13.4	4.1	3.7	3.2	12.8	14.6	15.6	0.7	0.7	0.8	1.0
Tata Global Beverages	ADD	270	300	11.3	170	2.6	631	8	10	13	33.9	26.6	22.2	33.1	26.1	21.4	17.5	14.8	12.6	2.6	2.4	2.3	8.0	9.5	10.9	1.0	1.2	1.3	18.0
Titan Company	SELL	904	670	(25.9)	803	12.3	888	12	16	19	31.7	32.5	21.7	76.9	58.1	47.7	50.9	38.2	30.9	16.4	13.8	11.6	22.8	25.8	26.5	0.4	0.5	0.6	35.8
United Breweries	SELL	961	850	(11.5)	254	3.9	264	14	18	21	64.4	25.3	19.1	67.2	53.6	45.0	29.2	25.6	22.5	9.6	8.4	7.4	15.2	16.8	17.5	0.2	0.3	0.4	8.4
United Spirits	SELL	3,155	2,800	(11.2)	458	7.0	145	38	56	73	39.7	47.1	30.3	82.6	56.2	43.1	45.4	33.8	27.1	17.7	12.0	8.8	24.5	25.5	23.6	—	—	0.3	27.0
Varun Beverages	ADD	637	700	9.8	116	1.8	183	12	15	20	377.8	32.7	33.8	55.3	41.7	31.2	16.8	13.8	11.7	6.6	5.7	4.8	12.1	14.6	16.8	—	—	0.2	2.6
Consumer products	Cautious				13,986	215					15.3	17.7	15.1	44.7	38.0	33.0	29.1	24.8	21.5	11.3	10.2	9.3	25.2	26.9	28.1	1.2	1.4	1.7	375.1
Energy																													
BPCL	REDUCE	415	410	(1.2)	900	13.8	1,967	36	37	40	(11.9)	2.3	7.4	11.5	11.3	10.5	8.8	8.3	7.7	2.5	2.2	2.0	22.6	20.9	20.4	3.9	3.9	4.2	30.7
Castrol India	ADD	208	220	5.9	205	3.2	989	7	8	9	2.6	14.6	10.7	30.2	26.4	23.8	19.1	16.9	15.2	20.1	20.0	20.6	84.1	76.2	85.4	3.1	3.1	3.6	6.1
GAIL (India)	BUY	328	400	21.9	740	11.4	2,255	22	24	27	31.5	9.5	10.2	14.9	13.6	12.3	9.3	8.7	7.9	1.8	1.7	1.5	12.5	12.7	13.0	2.2	2.4	2.6	25.1
GSPL	SELL	185	180	(2.6)	104	1.6	564	12	12	14	41.1	0.4	8.7	14.9	14.8	13.6	7.6	7.1	6.2	2.1	1.9	1.7	14.7	13.3	13.1	1.3	1.4	1.5	2.5
HPCL	REDUCE	344	350	1.7	524	8.1	1,524	39	32	33	(10.4)	(16.8)	2.0	8.9	10.7	10.5	7.6	8.7	8.9	2.3	2.1	1.9	27.0	20.1	18.6	4.8	4.0	4.1	26.2
Indraprastha Gas	SELL	281	250	(11.1)	197	3.0	700	10	12	14	20.3	16.7	12.4	27.0	23.1	20.6	16.7	14.3	12.6	5.8	5.1	4.5	23.1	23.4	23.2	0.8	1.2	1.5	11.8
IOCL	REDUCE	171	175	2.2	1,662	25.5	9,479	19	17	18	(28.8)	(11.6)	7.3	8.8	10.0	9.3	5.2	5.8	5.4	1.5	1.4	1.3	17.7	14.5	14.6	5.8	4.7	5.0	39.6
Mahanagar Gas	SELL	988	910	(7.9)	98	1.5	99	50	53	54	26.7	4.1	2.0	19.6	18.8	18.5	11.4	10.8	10.4	4.7	4.3	3.9	25.4	23.7	22.0	2.1	2.7	2.7	3.4
ONGC	ADD	175	210	19.7	2,251	34.6	12,833	19	21	23	12.3	11.5	7.7	9.3	8.3	7.7	4.4	3.9	3.5	0.9	0.9	0.8	10.5	11.0	11.1	3.4	4.0	4.6	21.8
Oil India	SELL	216	225	4.3	245	3.8	1,135	24	23	24	17.2	(2.5)	2.7	9.1	9.4	9.1	6.4	6.0	5.8	0.8	0.8	0.8	9.1	8.7	8.6	4.9	4.8	4.9	4.5
Petronet LNG	BUY	231	290	25.6	346	5.3	1,500	14	16	17	21.4	12.5	12.0	16.7	14.9	13.3	10.8	9.6	8.1	3.6	3.1	2.8	23.4	22.6	22.1	1.5	1.9	2.7	13.7
Reliance Industries	REDUCE	895	900	0.6	5,296	81.3	5,918	59	66	77	17.1	12.0	15.7	15.1	13.5	11.7	11.8	9.6	8.1	1.8	1.6	1.4	11.7	11.7	12.1	0.7	0.9	1.0	103.8
Energy	Attractive				12,569	193					0.9	4.8	10.4	12.2	11.6	10.5	7.8	7.1	6.4	1.6	1.5	1.3	13.1	12.6	12.8	2.5	2.5	2.8	289.2

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. (Rs bn)	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)
		4-Apr-18	(Rs)					2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	
Industrials																													
ABB	SELL	1,271	1,100	(13.5)	269	4.1	212	20	27	34	12.1	34.1	29.2	64.2	47.8	37.0	35.4	28.6	22.2	7.5	6.8	6.1	12.2	14.9	17.3	0.3	0.7	0.7	2.4
BHEL	SELL	85	80	(5.9)	312	4.8	3,671	2.5	3.8	5.9	86.2	53.0	52.4	33.8	22.1	14.5	20.3	9.1	5.4	0.9	0.9	0.9	2.8	4.2	6.2	0.8	1.2	1.8	14.6
Carborundum Universal	SELL	370	325	(12.2)	70	1.1	189	11	15	18	23.5	28.4	22.4	32.3	25.1	20.5	17.4	13.0	11.1	4.6	4.1	3.6	14.9	17.2	18.7	0.9	1.2	1.5	1.2
CG Power and Industrial	REDUCE	79	87	10.1	50	0.8	627	1.3	4.3	6.0	(56.2)	234.8	40.0	61.3	18.3	13.1	14.0	8.5	6.5	1.4	1.4	1.3	2.1	7.6	10.1	0.3	1.1	1.5	4.3
Crompton Greaves Consumer	SELL	229	210	(8.4)	144	2.2	627	5.1	6.1	7.5	8.3	21.4	22.1	45.3	37.3	30.5	27.3	23.0	19.1	15.7	11.0	8.3	43.7	34.8	31.0	0.4	0.4	0.4	4.4
Cummins India	REDUCE	735	855	16.3	204	3.1	277	25	29	34	(6.4)	19.4	16.7	29.9	25.1	21.5	26.3	21.6	18.2	5.1	4.7	4.4	17.6	19.6	21.2	1.9	2.1	2.4	5.6
Havells India	SELL	504	450	(10.8)	315	4.8	625	11	14	17	14.8	26.0	20.8	46.3	36.7	30.4	30.1	23.1	19.1	8.7	7.8	7.1	19.7	22.4	24.5	0.9	1.2	1.6	14.1
Kalpataru Power Transmission	BUY	483	575	19.2	74	1.1	153	17	28	40	21.7	62.4	42.5	27.9	17.2	12.1	9.4	7.7	6.1	2.8	2.5	2.1	10.5	15.3	18.7	0.4	0.4	0.4	1.2
KEC International	ADD	405	455	12.4	104	1.6	257	16	23	30	37.1	39.8	32.8	24.9	17.8	13.4	12.4	9.9	7.9	5.4	4.3	3.4	23.7	26.8	28.2	0.5	0.8	1.0	5.2
L&T	BUY	1,296	1,505	16.1	1,816	27.9	1,399	54	62	75	26.5	15.3	21.8	24.2	21.0	17.3	20.5	17.5	15.5	3.6	3.2	2.9	15.3	16.1	17.8	1.5	1.7	2.1	61.0
Siemens	SELL	1,117	1,045	(6.4)	398	6.1	356	26	31	38	30.2	21.9	22.6	43.4	35.6	29.1	25.0	20.2	16.3	4.9	4.5	4.2	11.5	13.2	15.1	0.9	1.1	1.4	4.2
Thermax	REDUCE	1,116	1,065	(4.6)	133	2.0	113	27	34	43	24.2	28.9	24.4	42.0	32.6	26.2	28.3	22.9	19.0	4.6	4.1	3.7	11.3	13.3	14.9	0.5	0.7	0.8	1.1
Voltas	SELL	618	526	(15.0)	204	3.1	331	17	18	21	11.9	6.0	14.5	36.0	33.9	29.6	29.4	24.9	21.1	5.5	4.9	4.4	16.1	15.2	15.5	0.6	0.7	0.8	15.3
Industrials	Neutral				4,093	63					23.6	23.0	25.5	30.8	25.1	20.0	21.3	17.1	14.4	3.4	3.1	2.9	11.0	12.5	14.4	1.1	1.3	1.6	134.5
Infrastructure																													
Adani Ports and SEZ	ADD	368	475	29.1	762	11.7	2,071	18	21	23	(4.3)	17.1	7.5	20.4	17.4	16.2	13.8	11.8	11.0	3.7	3.1	2.7	19.6	19.4	17.8	0.5	0.7	0.8	24.2
Ashoka Buildcon	BUY	260	310	19.2	49	0.7	188	12	13	13	18.9	9.0	4.5	22.3	20.5	19.6	16.2	13.9	12.3	2.4	2.1	1.9	11.2	10.9	10.2	0.7	1.2	0.8	1.4
Container Corp.	SELL	1,241	1,200	(3.3)	302	4.6	244	34	40	48	3.8	19.6	19.5	36.8	30.8	25.8	23.2	18.6	14.6	3.2	3.0	2.8	9.0	10.0	11.1	1.2	1.3	1.6	7.6
Gateway Distriparks	BUY	183	270	47.9	20	0.3	109	6	10	14	(7.8)	55.8	41.9	29.3	18.8	13.3	21.8	17.5	13.8	1.9	1.8	1.6	6.5	9.6	12.7	1.0	1.6	2.3	0.8
Gujarat Pipavav Port	BUY	140	180	28.6	68	1.0	483	4.4	6.3	8.2	(15.0)	43.2	29.9	31.9	22.3	17.1	16.1	12.3	9.6	3.3	3.2	3.0	10.4	14.4	18.0	2.4	3.4	4.4	2.1
IRB Infrastructure	BUY	235	280	19.3	83	1.3	351	29	36	32	43.2	24.5	(12.4)	8.1	6.5	7.4	7.6	6.3	6.7	1.3	1.1	1.0	17.9	18.9	14.3	1.0	1.5	1.9	5.7
Mahindra Logistics	BUY	488	570	16.7	35	0.5	71	10	14	20	21.1	41.2	37.9	47.7	33.8	24.5	28.5	18.5	13.3	8.3	6.7	5.3	19.0	22.0	24.0	—	—	—	1.1
Sadbhav Engineering	ADD	393	475	20.9	67	1.0	172	15	19	20	33.2	31.1	5.0	26.9	20.6	19.6	19.2	15.1	11.4	3.6	3.1	2.7	14.1	16.1	14.7	—	—	—	1.3
Infrastructure	Attractive				1,385	21					3.8	20.5	7.3	21.6	17.9	16.7	13.9	11.6	10.6	3.2	2.8	2.4	14.6	15.4	14.6	0.8	1.0	1.2	44.2
Internet																													
Info Edge	REDUCE	1,220	1,290	5.7	149	2.3	121	22	28	33	32.1	23.3	19.1	54.7	44.3	37.2	40.6	31.8	26.1	6.2	5.7	5.1	12.4	13.3	14.4	1.0	0.6	0.7	2.9
Just Dial	SELL	461	500	8.5	31	0.5	67	20	23	25	16.0	14.0	8.5	22.8	20.0	18.4	12.4	10.3	8.8	3.3	2.9	2.5	14.8	15.4	14.6	—	0.5	0.5	30.6
Internet	Cautious				180	3					24.7	20.2	15.7	44.2	36.8	31.8	31.1	25.0	21.0	5.4	4.9	4.4	12.2	13.2	13.7	0.9	0.6	0.6	33.5
Media																													
DB Corp.	REDUCE	314	360	14.5	58	0.9	184	18	23	27	(10.0)	26.4	14.3	17.0	13.5	11.8	9.2	7.3	6.3	3.5	3.3	3.2	20.8	25.2	27.6	4.1	5.1	6.4	0.9
DishTV	ADD	71	84	18.9	75	1.2	1,066	(0.4)	0.5	0.9	(134.5)	248.3	70.8	NM	134.8	79.0	9.9	8.6	7.9	16.6	14.8	12.5	(8.0)	11.6	17.1	—	—	—	7.7
Jagran Prakashan	REDUCE	169	190	12.5	53	0.8	311	11	14	15	3.6	26.7	10.3	15.3	12.1	11.0	7.4	6.2	5.5	2.6	2.4	2.3	16.3	20.6	21.4	2.4	5.0	5.3	0.5
PVR	REDUCE	1,261	1,350	7.1	59	0.9	47	25	37	52	16.2	50.1	39.4	50.7	33.8	24.2	17.3	13.8	11.2	5.5	4.8	4.1	11.4	15.2	18.3	0.2	0.3	0.4	5.2
Sun TV Network	REDUCE	861	975	13.2	339	5.2	394	29	36	40	10.8	22.8	12.6	29.7	24.2	21.5	20.3	16.5	14.5	7.4	6.6	5.9	—	—	—	1.5	2.0	2.3	19.3
Zee Entertainment Enterprises	ADD	574	625	8.8	552	8.5	960	13	18	21	(7.9)	38.4	17.2	44.7	32.3	27.6	25.2	20.8	17.5	7.0	6.1	5.3	17.0	20.1	20.6	0.6	0.8	1.0	22.4
Media	Attractive				1,136	17					(5.0)	34.0	16.3	36.2	27.0	23.2	17.9	14.8	12.8	6.4	5.7	5.1	17.8	21.1	21.9	1.1	1.5	1.8	55.9

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Target			O/S	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT		
Company	Rating	4-Apr-18	(Rs)	Upside	(%)	Mkt cap.		2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	3mo	
						(Rs bn)	(US\$ bn)																					(US\$ mn)		
Metals & Mining																														
Coal India	RS	275	—	—		1,704	26.2	6,207	19	24	25	25.4	26.7	5.8	14.7	11.6	10.9	9.1	7.0	6.3	5.6	5.1	4.7	39.5	46.3	45.1	4.8	6.0	6.4	24.9
Hindalco Industries	BUY	201	315	56.9		451	6.9	2,227	21	26	30	147.9	21.2	16.5	9.5	7.8	6.7	6.1	5.3	4.4	0.9	0.8	0.7	9.7	10.5	11.1	0.5	0.5	0.5	37.4
Hindustan Zinc	ADD	307	325	5.8		1,298	19.9	4,225	21	26	28	8.9	22.6	7.5	14.3	11.7	10.9	9.0	7.1	6.0	3.5	3.0	2.5	26.8	27.5	25.0	2.1	2.6	2.8	13.4
Jindal Steel and Power	REDUCE	220	250	13.8		213	3.3	915	(9)	8	17	56.4	191.0	106.9	(24.2)	26.5	12.8	9.7	7.0	6.0	0.7	0.7	0.7	(2.8)	2.7	5.3	—	—	—	61.0
JSW Steel	ADD	295	315	6.7		714	11.0	2,417	19	23	25	27.4	21.4	10.2	15.9	13.1	11.9	8.5	7.8	7.5	2.6	2.2	1.9	17.6	18.2	17.2	0.8	0.8	0.8	27.1
National Aluminium Co.	ADD	70	85	21.3		135	2.1	1,933	6	7	7	54.4	19.3	10.3	12.4	10.4	9.4	5.4	4.3	3.7	1.2	1.2	1.1	10.3	11.5	12.0	4.3	4.3	4.3	9.8
NMDC	SELL	116	125	7.9		367	5.6	3,164	13	10	11	55.4	(24.0)	8.8	9.1	12.0	11.0	5.6	7.7	6.9	1.5	1.4	1.4	17.1	12.2	12.7	4.7	4.7	4.7	12.1
Tata Steel	ADD	561	750	33.8		642	9.9	1,205	66	66	73	59.3	0.5	10.9	8.5	8	7.6	5.5	5.8	5.3	1.4	1.2	1.1	18.9	15.4	15.0	1.8	1.8	1.8	90.5
Vedanta	BUY	274	445	62.3		1,019	15.7	3,717	23	39	46	15.1	71.2	18.8	12.1	7.1	5.9	7.1	5.0	4.1	1.6	1.4	1.2	13.4	20.9	22.0	2.5	4.2	5.0	56.5
Metals & Mining	Attractive					6,543	100					41.4	27.7	12.4	12.9	10.1	9.0	7.3	6.2	5.4	2.0	1.8	1.6	15.5	17.8	17.9	2.7	3.4	3.7	332.8
Pharmaceutical																														
Apollo Hospitals	ADD	1,067	1,230	15.3		148	2.3	139	13	23	30	(19.7)	81.8	30.6	83.6	46.0	35.2	20.9	17.6	15.0	3.9	3.7	3.4	4.8	8.2	10.1	0.3	0.5	0.7	7.1
Aurobindo Pharma	ADD	590	690	16.9		346	5.3	584	43	46	50	9.6	7.4	7.9	13.7	12.7	11.8	9.6	8.8	7.9	2.9	2.4	2.0	23.9	20.8	17.2	0.4	0.5	0.6	26.4
Biocon	SELL	598	280	(53.2)		359	5.5	601	6	8	14	(40.3)	36.2	80.6	102.4	75.2	41.6	41.8	31.3	20.7	6.5	6.1	5.5	6.6	8.4	13.9	0.3	0.5	0.8	30.2
Cipla	BUY	570	720	26.4		459	7.0	805	21	31	38	64.6	49.6	22.1	27.7	18.5	15.2	15.3	11.0	9.0	3.2	2.8	2.5	12.2	16.3	17.4	0.7	1.1	1.4	16.7
Dr Lal Pathlabs	REDUCE	848	880	3.8		71	1.1	83	21	24	29	7.7	18.7	18.5	41.2	34.7	29.3	25.0	21.0	17.5	8.8	7.3	6.1	23.5	23.0	22.6	0.4	0.4	0.5	1.3
Dr Reddy's Laboratories	SELL	2,091	2,250	7.6		347	5.3	166	62	96	136	(15.1)	55.5	42.3	34.0	21.9	15.4	14.9	10.0	7.3	2.6	2.4	2.1	8.0	11.4	13.7	0.5	0.7	1.0	22.9
HCG	REDUCE	301	305	1.2		26	0.4	85	2	3	5	(35.5)	87.1	58.0	179.2	95.8	60.6	25.9	19.8	16.8	5.3	5.0	4.6	3.1	5.4	7.9	—	—	—	0.8
Laurus Labs	ADD	510	540	6.0		54	0.8	106	17	23	34	(3.5)	34.3	45.1	29.3	21.9	15.1	14.7	12.1	9.2	3.6	3.1	2.5	12.9	15.1	18.4	—	—	—	0.8
Lupin	REDUCE	775	840	8.5		350	5.4	450	30	37	47	(46.5)	20.1	27.7	25.5	21.2	16.6	11.6	10.1	8.2	2.4	2.2	1.9	9.7	10.7	12.4	0.6	0.7	0.9	23.1
Narayana Hrudayalaya	ADD	289	320	10.6		59	0.9	204	3	4	7	(32.8)	61.7	68.7	106.0	65.5	38.9	29.6	20.8	15.6	5.8	5.3	4.7	5.6	8.5	12.8	—	—	—	0.7
Sun Pharmaceuticals	REDUCE	502	500	(0.4)		1,205	18.5	2,406	13	20	26	(55.0)	54.0	30.8	38.6	25.1	19.2	19.1	12.7	9.8	3.2	2.8	2.5	8.4	11.9	14.0	0.3	0.8	1.0	61.7
Torrent Pharmaceuticals	NR	1,284	—	—		217	3.3	169	40	59	73	(28.0)	47.3	25.0	32.3	21.9	17.5	18.0	13.1	11.0	4.5	3.9	3.3	14.6	17.6	18.8	0.7	1.0	1.3	4.4
Pharmaceuticals	Neutral					3,641	56					(30.2)	37.7	27.8	32.1	23.3	18.3	16.3	12.4	9.9	3.3	2.9	2.6	10.3	12.6	14.2	0.4	0.7	1.0	196.0
Real Estate																														
Brigade Enterprises	BUY	255	340	33.2		35	0.5	136	10	10	10	(26.4)	0.7	(3.7)	25.8	25.6	26.6	11.5	11.7	11.6	1.5	1.5	1.4	6.7	5.8	5.4	1.0	1.0	1.0	0.3
DLF	RS	199	—	—		354	5.4	1,784	47.0	1.8	2.1	1,107.8	(96.3)	20.6	4.2	113.3	94.0	20.6	15.9	16.0	1.1	1.1	1.1	29.4	1.0	1.2	1.0	1.0	1.0	26.9
Godrej Properties	SELL	716	400	(44.1)		155	2.4	216	8.0	8.7	15.5	(15.8)	8.2	77.9	89.0	82.2	46.2	97.6	353.0	67.2	7.1	6.5	5.7	8.3	8.3	13.2	—	—	—	3.0
Oberoi Realty	REDUCE	497	520	4.7		169	2.6	340	12	66	46	11.1	432.0	(30.3)	40.1	7.5	10.8	28.0	10.0	13.1	2.8	2.1	1.7	7.1	31.3	17.4	0.4	0.4	0.4	4.0
Prestige Estates Projects	ADD	292	315	7.8		110	1.7	375	9	12	13	(6.7)	30.0	5.9	31.0	23.9	22.5	16.6	14.6	14.4	2.3	2.1	2.0	7.7	9.3	9.1	0.5	0.5	0.5	2.3
Sobha	REDUCE	496	510	2.9		47	0.7	96	23	23	26	40.6	(3.8)	13.4	21.1	22.0	19.4	13.4	12.9	12.0	1.7	1.6	1.5	8.3	7.6	8.2	1.4	1.4	1.4	4.7
Sunteck Realty	REDUCE	408	330	(19.1)		60	0.9	140	17	16	17	19.3	(6.4)	2.6	23.4	25.0	24.4	17.2	20.8	20.7	2.1	2.0	1.8	10.9	8.2	7.8	0.3	0.2	0.2	3.5
Real Estate	Neutral					929	14					356.6	(62.0)	(10.9)	9.3	24.6	27.6	21.4	16.1	16.6	1.7	1.6	1.6	18.7	6.7	5.7	0.6	0.6	0.6	44.6

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)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT 3mo		
		4-Apr-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	(US\$ mn)	
Technology																														
HCL Technologies	REDUCE	959	1,000	4.2	1,335	20.5	1,407	63	66	70	5.7	6.1	5.3	15.3	14.5	13.7	10.8	9.4	8.6	3.6	3.2	3.0	24.6	23.6	22.6	0.9	3.4	3.9	29.4	
Hexaware Technologies	REDUCE	396	335	(15.4)	118	1.8	304	16	19	21	20.0	13.5	10.3	24.1	21.2	19.2	17.0	14.9	13.0	6.3	5.5	4.9	27.6	27.6	26.9	2.0	2.0	2.5	8.3	
Infosys	ADD	1,124	1,250	11.2	2,455	37.7	2,175	65	70	76	3.5	7.3	8.8	17.3	16.1	14.8	12.2	11.0	9.9	3.9	3.5	3.2	21.9	22.9	22.8	2.9	3.2	3.5	92.4	
L&T Infotech	ADD	1,415	1,100	(22.2)	243	3.7	175	65	70	80	15.9	8.4	14.4	21.9	20.2	17.6	18.2	14.6	12.6	6.4	5.4	4.6	32.3	29.1	28.1	1.4	1.7	1.8	4.7	
Mindtree	ADD	780	735	(5.7)	128	2.0	165	32	37	45	27.6	16.2	21.5	24.4	21.0	17.3	16.6	12.5	10.2	4.8	4.2	3.6	20.1	21.3	22.3	1.1	1.3	1.6	23.6	
Mphasis	SELL	870	650	(25.3)	168	2.6	193	42	46	48	9.0	9.2	5.7	20.8	19.1	18.0	14.5	12.7	11.7	3.1	2.9	2.7	14.0	15.7	15.4	2.3	2.3	2.3	4.3	
TCS	REDUCE	2,911	2,700	(7.2)	5,572	85.6	1,914	134	145	156	0.6	8.3	7.1	21.7	20.0	18.7	15.7	13.9	12.7	6.4	6.0	5.5	29.4	30.9	30.6	1.7	3.1	3.3	102.0	
Tech Mahindra	ADD	606	685	13.0	535	8.2	883	39	42	48	22.3	7.9	12.4	15.5	14.3	12.8	10.3	8.3	7.1	2.8	2.5	2.2	19.6	18.5	18.0	1.5	1.5	1.5	31.2	
Wipro	REDUCE	282	310	10.1	1,274	19.6	4,507	18	20	22	1.4	13.3	10.3	15.9	14.0	12.7	9.6	8.0	6.9	2.6	2.2	1.9	16.4	17.1	16.3	0.4	0.5	0.9	17.3	
Technology	Cautious				11,829	182					1.1	7.4	8.2	18.6	17.3	16.0	13.1	11.5	10.3	4.4	4.0	3.6	23.7	22.9	22.4	1.7	2.8	3.0	313.1	
Telecom																														
Bharti Airtel	ADD	395	470	19.1	1,577	24.2	3,997	3	(3)	1	(65.3)	(220.4)	125.1	137.3	(114.0)	453.9	9.0	10.1	8.2	2.4	2.5	2.5	1.7	(2.2)	0.6	0.7	0.3	0.0	59.1	
Bharti Infratel	SELL	337	260	(22.8)	623	9.6	1,850	14	12	10	(7.5)	(15.8)	(14.5)	24.5	29.1	34.1	9.6	10.9	12.1	4.0	3.9	3.9	16.3	13.6	11.6	3.2	2.8	2.5	25.5	
IDEA	REDUCE	77	75	(2.1)	334	5.1	3,605	(13)	(16)	(14)	(963.2)	(18.7)	12.4	(5.7)	(4.8)	(5.5)	16.1	17.7	13.7	1.4	2.0	3.0	(21.7)	(33.8)	(43.3)	—	—	—	24.5	
Tata Communications	ADD	639	740	15.8	182	2.8	285	1	5	10	(94.2)	751.3	95.6	1,055	123.9	63.3	11.3	9.9	8.6	16.4	14.4	11.7	1.3	12.4	20.4	1.0	1.0	1.2	4.9	
Telecom	Cautious				2,716	42					(119.3)	(325.8)	47.0	(238.6)	(56.0)	(105.7)	10.1	11.2	9.4	2.7	2.9	3.1	(1.1)	(5.2)	(2.9)	1.1	0.8	0.6	114.1	
Utilities																														
CESC	ADD	977	1,140	16.7	130	2.0	133	87	98	115	66.5	12.8	17.7	11.3	10.0	8.5	7.1	6.7	5.9	0.8	0.8	0.7	7.7	8.2	9.0	1.2	1.2	1.3	9.9	
JSW Energy	REDUCE	81	76	(5.8)	132	2.0	1,640	3.9	5.4	7.7	1.6	39.4	42.4	20.9	15.0	10.5	8.1	6.9	5.8	1.2	1.2	1.1	6.0	8.1	10.9	2.5	2.5	2.5	7.0	
NHPC	ADD	29	30	5.1	293	4.5	10,259	2.9	3.1	3.4	(3.4)	10.2	7.4	10.0	9.1	8.5	9.2	7.6	6.5	1.0	0.9	0.9	9.9	10.5	10.9	5.5	6.0	6.4	4.0	
NTPC	BUY	167	190	14.1	1,373	21.1	8,245	12	17	17	(2.6)	38.1	4.8	13.9	10.0	9.6	11.0	8.2	7.0	1.3	1.2	1.1	9.9	12.7	12.3	2.3	3.0	3.1	17.1	
Power Grid	BUY	196	250	27.5	1,026	15.7	5,232	16	19	21	11.7	17.3	13.4	12.2	10.4	9.2	8.5	7.3	6.7	1.9	1.7	1.5	16.0	16.9	17.1	2.5	2.9	3.3	25.3	
Reliance Power	SELL	42	43	1.4	119	1.8	2,805	3.6	5.2	6.1	(14.3)	45.6	16.5	11.9	8.2	7.0	8.9	7.8	7.2	0.5	0.5	0.5	4.6	6.3	6.9	—	—	—	11.6	
Tata Power	REDUCE	83	83	(0.1)	225	3.4	2,705	6.4	6.6	8.3	8.1	3.8	25.1	13.0	12.5	10.0	11.4	10.0	9.1	1.7	1.5	1.3	13.7	12.5	13.7	—	—	—	9.2	
Utilities	Attractive				3,297	51					3.8	25.0	10.9	12.8	10.2	9.2	9.5	7.8	6.9	1.3	1.2	1.1	10.3	11.9	12.1	2.4	2.8	3.0	84.1	

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	price	Upside	Mkt cap.		shares			EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			3mo
		4-Apr-18	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	(US\$ mn)		
Others																															
Astral Poly Technik	SELL	903	570	(36.9)	108	1.7	120	15	19	23	22.8	24.9	22.0	60.6	48.5	39.8	35.6	27.4	22.0	10.6	8.8	7.3	19.2	19.8	20.0	0.1	0.1	0.1	0.9		
Avenue Supermarts	SELL	1,359	810	(40.4)	848	13.0	624	13	17	21	53.0	28.1	25.6	104.5	81.6	65.0	63.2	48.1	38.3	18.2	14.9	12.1	19.1	20.1	20.6	—	—	—	—		
Bayer Cropscience	ADD	4,402	4,450	1.1	174	2.7	34	96	115	134	17.2	19.1	16.9	45.6	38.3	32.8	37.2	29.7	23.7	8.4	7.2	6.2	17.2	20.3	20.3	0.4	0.5	0.6	1.3		
Cera Sanitaryware	REDUCE	3,400	2,950	(13.2)	44	0.7	13	82	100	116	7.3	22.7	15.3	41.5	33.9	29.4	25.3	20.6	17.3	7.2	6.0	6.0	18.9	19.3	20.3	0.3	0.3	0.2	0.8		
Dhanuka Agritech	REDUCE	588	690	17.4	29	0.4	49	25	28	31	3.3	11.5	14.3	23.8	21.4	18.7	16.5	14.0	11.9	4.8	4.1	3.6	21.5	20.7	20.5	1.0	1.2	1.3	0.3		
Godrej Agrovet	ADD	657	615	(6.3)	126	1.9	189	12	16	21	(1.6)	34.4	25.5	53.9	40.1	32.0	28.1	22.3	18.2	6.9	6.1	5.1	15.1	16.3	17.4	0.3	0.4	0.5	3.5		
Godrej Industries	RS	534	—	—	180	2.8	336	15	16	20	6.8	8.9	24.2	36.6	33.6	27.1	33.6	28.4	30.9	5.0	4.4	3.8	14.4	13.9	15.1	0.3	0.3	0.3	4.4		
HSIL	REDUCE	393	390	(0.8)	28	0.4	72	11	18	23	(19.3)	56.0	27.4	34.2	21.9	17.2	12.6	9.6	8.0	1.9	1.8	1.6	5.6	8.4	10.0	1.0	1.0	1.0	0.5		
InterGlobe Aviation	BUY	1,387	1,500	8.1	533	8.2	383	70	92	108	52.8	31.2	16.8	19.7	15.0	12.9	12.9	9.2	7.7	6.6	5.2	4.1	45.6	38.6	35.6	1.5	2.0	2.3	15.9		
Kaveri Seed	SELL	497	470	(5.5)	33	0.5	66	32	34	36	19.8	5.9	5.0	15.4	14.5	13.8	12.9	11.7	10.5	4.2	3.5	3.0	23.8	26.3	23.3	1.2	1.6	2.0	4.8		
PI Industries	BUY	881	940	6.7	122	1.9	138	27	34	43	(18.1)	23.3	27.3	32.4	26.2	20.6	22.8	18.3	14.3	6.3	5.2	4.3	21.1	21.6	22.7	0.4	0.5	0.6	1.8		
Rallis India	ADD	229	290	26.6	45	0.7	194	9	12	16	2.3	37.0	30.2	25.6	18.7	14.3	16.3	11.9	9.2	3.7	3.3	2.8	15.0	18.6	21.1	1.4	1.6	1.7	1.9		
SIS	REDUCE	1,146	1,100	(4.1)	84	1.3	73	25	35	41	90.9	39.2	18.6	46.1	33.1	27.9	26.1	20.9	17.6	7.7	6.4	5.2	22.5	21.4	20.6	—	—	—	0.4		
SRF	BUY	2,000	2,185	9.2	115	1.8	57	83	102	129	(7.8)	23.2	26.4	24.2	19.6	15.5	13.8	10.7	8.7	3.2	2.8	2.4	14.0	15.3	16.8	0.6	0.7	0.7	5.5		
Tata Chemicals	ADD	708	760	7.3	180	2.8	255	45	43	50	(6.6)	(3.8)	15.9	15.7	16.3	14.1	6.1	6.3	5.3	1.7	1.6	1.5	12.3	10.0	10.9	1.8	2.1	2.4	9.4		
TeamLease Services	SELL	2,268	1,700	(25.0)	39	0.6	17	43	57	74	9.9	34.5	28.3	53.2	39.5	30.8	55.1	38.1	29.3	8.5	7.0	5.7	17.5	19.5	20.5	—	—	—	1.6		
UPL	ADD	733	875	19.5	373	5.7	507	39	47	55	9.8	21.6	15.6	18.8	15.4	13.4	11.4	10.0	8.6	4.2	3.4	2.9	24.3	24.5	23.5	1.1	1.3	1.6	21.9		
Vardhman Textiles	ADD	1,263	1,400	10.8	73	1.1	55	106	138	140	(5.5)	30.6	1.6	11.9	9.1	9.0	10.6	7.2	6.9	1.5	1.3	1.2	12.9	15.1	13.7	1.6	1.6	2.4	1.2		
Whirlpool	SELL	1,508	1,150	(23.7)	191	2.9	127	27	36	44	8.7	30.4	23.7	55.3	42.4	34.3	32.1	25.4	20.4	10.8	9.0	7.5	21.3	23.2	23.9	0.3	0.4	0.6	1.4		
Others					3,252	50							16.9	22.7	18.1	31.2	25.5	21.5	19.1	15.6	13.2	5.7	4.9	4.2	18.4	19.2	19.4	0.7	0.8	0.9	76.2
KIE universe					103,940	1,595							3.6	24.8	20.6	22.8	18.2	15.1	11.8	10.1	8.9	2.8	2.5	2.3	12.2	13.9	15.1	1.3	1.6	1.9	
KIE universe (ex-energy)					91,371	1,402							4.3	30.7	23.0	25.9	19.8	16.1	13.2	11.1	9.7	3.1	2.8	2.5	12.0	14.2	15.7	1.2	1.5	1.7	

Notes:

(a) We have used adjusted book values for banking companies.

(b) 2018 means calendar year 2017, similarly for 2019 and 2020 for these particular companies.

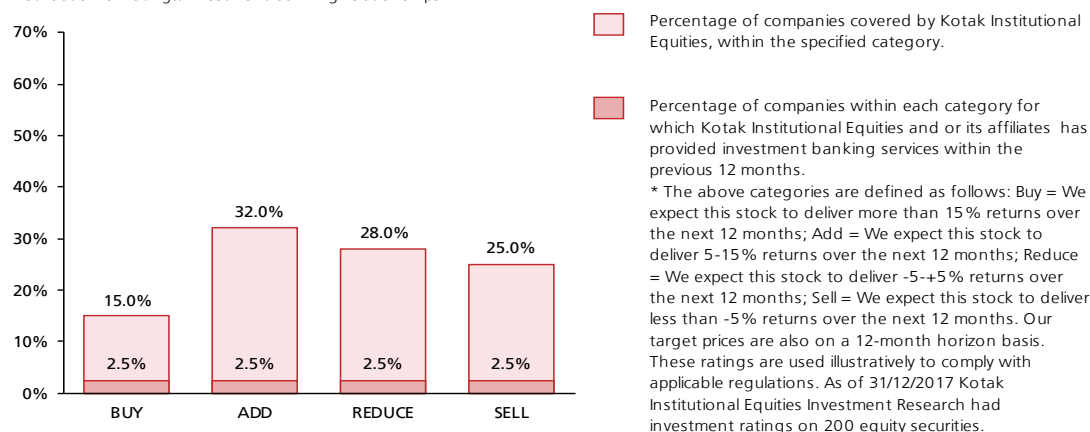
(c) Exchange rate (Rs/US\$)= 65.13

Source: Company, Bloomberg, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Rohit Chordia, M.B. Mahesh."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of December 31, 2017

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

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

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

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

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

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

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Corporate Office

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

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

Overseas Affiliates

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

Copyright 2018 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

1. Note that the research analysts contributing to this report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.
3. Any U.S. recipients of the research who wish to effect transactions in any security covered by the report should do so with or through Kotak Mahindra Inc and (ii) any transactions in the securities covered by the research by U.S. recipients must be effected only through Kotak Mahindra Inc at vinay.goenka@kotak.com.

This report is distributed in Singapore by Kotak Mahindra (UK) Limited (Singapore Branch) to institutional investors, accredited investors or expert investors only as defined under the Securities and Futures Act. Recipients of this analysis / report are to contact Kotak Mahindra (UK) Limited (Singapore Branch) (16 Raffles Quay, #35-02/03, Hong Leong Building, Singapore 048581) in respect of any matters arising from, or in connection with, this analysis / report. Kotak Mahindra (UK) Limited (Singapore Branch) is regulated by the Monetary Authority of Singapore.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Institutional Equities Research Group of Kotak Securities Limited. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Private Client Group.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house.

Kotak Securities Limited is a corporate trading and clearing member of BSE Limited (BSE), National Stock Exchange of India Limited (NSE), MSEI a. Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). Kotak Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise letters or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us

Details of Associates are available on our website i.e. www.kotak.com

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months. YES

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: YES

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

A graph of daily closing prices of securities is available at www.nseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart).

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +91-22 43360 000, Fax No.: +91-22- 6713 2430. Website: www.kotak.com. SEBI Registration No: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230, MSEI INE 260808130/NB 260808135/INF 260808135, Research Analyst INH000000586, AMFI ARN 0164 and PMS INP000000258. NSDL: IN-DP-NSDL-23-97. CDSL: IN-DP-CDSL-158-2001.

Compliance Officer Details: Mr. Manoj Agarwal. Call: +91-22-4285 6825, or Email: ks.compliance@kotak.com.

In case you require any clarification or have any concern, kindly write to us at below email ids:

Level 1: For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: Online Customers - 30305757 (by using your city STD code as a prefix) or Toll free numbers 18002099191 / 1800222299, Offline Customers - 18002099292

Level 2: If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on +91-22-4285 8445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on +91-22-4285 8208.

Level 3: If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Name: Manoj Agarwal) at ks.compliance@kotak.com or call on +91-22-4285 6825.

Level 4: If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at ceo.ks@kotak.com or call on +91-22-6652 9160.

First Cut notes published on this site are for information purposes only. They represent early notations and responses by analysts to recent events. Data in the notes may not have been verified by us and investors should not act upon any data or views in these notes. Most First Cut notes, but not necessarily all, will be followed by final research reports on the subject. There could be variance between the First cut note and the final research note on any subject, in which case the contents of the final research note would prevail. We accept no liability for the contents of the First Cut Notes.