

### Contents

#### Special Reports

##### Initiating Coverage

L&T Infotech: A high potential mid-tier company

#### Daily Alerts

##### Results

Castrol India: Good results

##### Company alerts

Jindal Steel and Power: Analyst meeting takeaways

##### Sector alerts

Cement: South saves the day

##### Economy alerts

Economy: MPC minutes: Keeping an open mind

### EQUITY MARKETS

India	Change %			
	22-Feb	1-day	1-mo	3-mo
Sensex	28,865	0.4	6.4	10.8
Nifty	8,927	0.2	6.4	11.1
<b>Global/Regional indices</b>				
Dow Jones	20,776	0.2	4.9	8.9
Nasdaq Composite	5,861	(0.1)	5.5	8.9
FTSE	7,302	0.4	2.1	7.1
Nikkei	19,267	(0.6)	2.0	6.1
Hang Seng	24,122	(0.3)	5.3	6.4
KOSPI	2,107	0.0	2.0	6.0
<b>Value traded – India</b>				
Cash (NSE+BSE)	299		280	151
Derivatives (NSE)	6,817		4,164	4,964
Deri. open interest	3,623		2,986	3,055

#### Forex/money market

	Change, basis points			
	22-Feb	1-day	1-mo	3-mo
Rs/US\$	66.9	3	(112)	(187)
10yr govt bond, %	7.3	6	52	73

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

	20-Feb	MTD	CYTD
FIs	(292)	(1,170)	2,903
MFs	181	881	6,951

#### Top movers

Best performers	Change, %			
	22-Feb	1-day	1-mo	3-mo
JPA IN Equity	13.9	(3.8)	39.0	86.6
JSP IN Equity	110.3	0.8	39.7	64.4
IDEA IN Equity	112.6	3.9	53.5	54.5
TTAN IN Equity	440.0	(3.8)	20.9	40.8
GMRI IN Equity	15.0	0.0	19.1	32.9

#### Worst performers

DIVI IN Equity	751.0	(1.5)	9.3	(36.2)
CRG IN Equity	66.8	(1.4)	4.4	(8.6)
UBBL IN Equity	791.3	(1.9)	(2.0)	(7.7)
DRRD IN Equity	2903.2	0.3	(0.7)	(7.2)
ARBP IN Equity	678.2	(1.1)	(2.0)	(7.1)

**FEBRUARY 23, 2017**
**INITIATING COVERAGE**

Coverage view: **Neutral**

Price (₹): **713**

Target price (₹): **800**

BSE-30: **28,865**

**A high potential mid-tier company.** We initiate coverage on L&T Infotech (LTI) with a BUY rating and target price of ₹800, valuing the company at 12X FY2019E earnings. LTI's business model is designed for scale with (1) solid presence in scale verticals of banking, insurance and manufacturing, (2) large account management capabilities and (3) excellent client base. The company is building automation and digital capabilities, an important growth driver. Key risks: adverse H-1B visa regulations (partly factored through lower valuation multiple), high client concentration and tilt of portfolio towards legacy services.

**Company data and valuation summary**

L&amp;T Infotech

**Stock data**

52-week range (Rs) (high,low)	718-595
Market Cap. (Rs bn)	121.7

**Shareholding pattern (%)**

Promoters	84.6
FIs	3.5
MFs	0.7

Price performance (%)	1M	3M	12M
Absolute	5.2	18.6	0.0
Rel. to BSE-30	(1.5)	6.7	0.0

**Forecasts/Valuations**

	2017E	2018E	2019E
EPS (Rs)	54.5	59.6	65.9
EPS growth (%)	10.7	9.3	10.6
P/E (X)	13.1	12.0	10.8
Sales (Rs bn)	65.1	72.2	80.3
Net profits (Rs bn)	9.5	10.4	11.5
EBITDA (Rs bn)	12.4	14.1	15.8
EV/EBITDA (X)	9.4	8.1	7.1
ROE (%)	42.4	38.3	35.7
Div. Yield (%)	3.4	3.6	4.2

**A promising mid-tier company—initiate with BUY rating**

Our positive view on LTI is led by—(1) inexpensive valuations with the stock trading at 11.5X FY2018E earnings. High dividend payout ratio (KIE estimate of 50%, 3.5% yield at current market price) can act as additional support, (2) impressive new management team that can mine high quality client base and solid execution in traditional services and (3) high RoEs of 40% and healthy free cash generation metrics with FCF/PAT conversion of 89% in FY2016. We value LTI at 12X FY2019E earnings, leading to a fair value of ₹800/ share.

**Business model designed for scale; investments in automation and digital encouraging**

LTI has many attributes of scale—(1) strong account management—despite modest size the company manages four relationships of over US\$50 mn including one account above US\$100 mn in size, (2) breadth of capabilities. This shows in diversified base of service offerings, acceptance of which is visible from the size of large accounts, and (3) strong client base—LTI works with 51 F-500 clients. Deepening of relationships with large clients, benefits of improvement in the front-end (sales) and digital (28% of revenues growing at about 20%+ yoy) will be key growth drivers.

**Financials: 11% c/c revenue CAGR over the next three years with relatively stable margins**

We forecast c/c revenue CAGR of 11% over FY2016-19E led by—(1) share gains in existing clients and large deal wins, (2) digital services that are growing at a robust 20%+ and (3) gains from changes in front-end (sales) implemented by the CEO. We expect stable margins over the next three years; investments in digital and pricing pressure can be managed through SG&A efficiency and use of traditional levers such as utilization and role ratios account. We expect earnings CAGR of 11% over FY2016-19E.

**Key risks: Client concentration, legacy tilt of portfolio and H-1B visa regulations**

High concentration with top client accounting for 15.1% of revenues in 3QFY17 and (2) relatively low exposure to IMS (11%) and no exposure to BPO—the two big opportunity segments. Also, it derives 22% of revenues from slowing enterprise solutions. Increase in minimum wage of H-1B workers is the key risk to profitability of LTI and Indian IT.

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## FINANCIAL SNAPSHOT: 10-11% CAGR IN C/C REVENUES AND EARNINGS OVER FY2016-19E

Exhibit 1: Key financials of LTI, March fiscal year-ends, 2015-19E

	Revenues	Revenues		EBIT (b)	PAT	Adj. diluted	P/E	EV/EBITDA	RoAE	RoACE
	(Rs mn)	(US\$ mn)	Growth (%)	margin (%)	(Rs mn)	EPS (Rs)	(X)	(X)	(%)	(%)
2015	49,681	810	8.5	18.7	7,604	45.1	15.8	12.0	41.9	40.5
2016	58,464	887	9.5	17.5	8,363	49.3	14.5	11.7	41.3	36.5
2017E	65,127	964	8.6	18.2	9,514	54.5	13.1	9.4	42.4	41.7
2018E	72,169	1,061	10.1	18.0	10,397	59.6	12.0	8.1	38.3	40.5
2019E	80,301	1,181	11.3	18.0	11,497	65.9	10.8	7.1	35.7	39.2

Notes:

(a) All financials and growth numbers are for continuing operations (excludes PES business).

(b) EBIT and EBIT margin post forex gains/loss.

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: We estimate 10% CAGR in earnings over FY2016-19E led by 10% growth in US\$ revenues and steady margins  
Condensed consolidated financials for LTI, March fiscal year-ends, 2013-19E (Rs mn)

	2013	2014	2015	2016	2017E	2018E	2019E
<b>Profit model</b>							
Revenues	38,514	49,205	49,780	58,464	65,127	72,169	80,301
EBITDA	8,705	11,473	10,045	10,248	12,403	14,114	15,833
Depreciation and amortization	(1,232)	(1,300)	(1,579)	(1,740)	(1,846)	(2,047)	(2,189)
EBIT	7,473	10,173	8,465	8,508	10,557	12,068	13,644
Other income	306	52	100	199	278	405	503
Forex gains/(loss)	(85)	(885)	815	1,698	1,322	955	797
Interest expense	(208)	(305)	(104)	(58)	(21)	(12)	(12)
Pretax profits	7,486	9,035	9,276	10,347	12,137	13,415	14,932
Tax	(1,870)	(2,072)	(1,668)	(1,982)	(2,622)	(3,018)	(3,434)
Extraordinaries (net of tax)	—	2,397	79	—	—	—	—
Net profit - Reported	5,737	9,283	7,692	8,363	9,514	10,397	11,497
Adjusted profit from continuing ops	5,221	6,522	7,604	8,363	9,514	10,397	11,497
Adj diluted EPS (Rs)	31.0	38.7	45.1	49.3	54.5	59.6	65.9
Weighted avg fully diluted shares (mn)	168.5	168.5	168.5	169.8	174.5	174.5	174.5
<b>Balance sheet</b>							
Total equity	13,388	16,103	20,263	20,227	24,700	29,636	34,833
Borrowings	2,336	1,100	2,175	545	45	—	—
Long term liabilities	1,558	1,274	880	2,581	2,581	2,581	2,581
Current liabilities	6,372	8,527	7,258	11,212	11,416	11,696	11,771
Total liabilities and equity	23,656	27,006	30,581	34,570	38,748	43,919	49,191
Tangible fixed assets	2,450	2,795	2,750	2,792	2,820	3,091	3,514
Goodwill and Intangibles	4,541	3,693	4,085	3,583	3,511	3,462	3,571
Other non-current assets	1,991	2,537	2,450	4,252	4,502	4,752	5,002
Cash and cash equivalents	1,680	3,277	3,045	2,463	5,276	7,708	9,568
Other current assets	11,570	14,138	18,000	21,285	22,444	24,712	27,341
Total assets	23,656	27,006	30,581	34,570	38,748	43,919	49,191
<b>Cash flow</b>							
Operating cash flow, excl. w-capital	6,896	7,686	7,345	9,569	11,104	12,051	13,195
Working capital changes	(819)	(1,408)	(922)	(936)	(1,205)	(2,238)	(2,804)
Capital expenditure	(2,479)	(950)	(1,132)	(1,141)	(1,732)	(2,268)	(2,721)
Acquisitions	—	—	(807)	—	(70)	—	—
Proceeds from sale of PES Business(net)	—	3,800	94	—	—	—	—
Other income (net)	(68)	(27)	(33)	(33)	257	393	491
Free cash flow (includes other income)	3,530	9,101	4,544	7,460	8,353	7,938	8,161
<b>Key ratios/metrics</b>							
EBITDA margin post forex gains/loss (%)	22.4	21.5	21.8	20.4	21.1	20.9	20.7
EBIT margin post forex gains/loss (%)	19.2	18.9	18.6	17.5	18.2	18.0	18.0
NPM (excluding extraordinaries) (%)	14.9	14.0	15.3	14.3	14.6	14.4	14.3
US\$ revenues from continuing ops	630	747	810	887	964	1,061	1,181
Growth (%)	7.5	18.5	8.5	9.5	8.6	10.1	11.3
Net cash and cash equivalents	(656)	2,177	869	1,918	5,231	7,708	9,568
RoAE (%)	46.9	46.7	41.9	41.3	42.4	38.3	35.7
RoACE (%)	45.0	56.9	40.5	36.5	41.7	40.5	39.2

Source: Company, Kotak Institutional Equities estimates

## VALUATIONS: INEXPENSIVE VALUATIONS MAKE THE STOCK A COMPELLING PLAY

LTI trades at 11.5X FY2018E earnings, inexpensive on absolute and relative basis. We believe that the discount is unjustified noting—(1) growth has been better than of most peers, (2) profitability, employee productivity and operating and free cash generation profile are similar/better and (3) comfort on growth rates and confidence on sustainability of it is no different than of peers. LTI's smart alliances in automation and investments in digital capabilities lend comfort on long-term growth trajectory. We value LTI at 12X FY2019E earnings.

### Valuations—we value LTI at 12X FY2019E earnings; company scores well on most parameters against competition

We value LTI at 12X FY2019E earnings in line with companies such as Tech Mahindra and HCLT. Downside of lower size of LTI is offset with likely better capital allocation, margins and free cash generation. Our target multiple implies 11-12% growth for the next 6-7years, followed by 3.5% growth to perpetuity assuming 12% CoE

Revenue growth drivers and business models of Indian IT companies are largely similar with execution being the key differentiator. Indian IT sector has a number of listed companies of different sizes and market capitalization. Relative P/E multiple of the closest comparable after comprehensive benchmarking exercise is the best valuation approach.

Exhibits 3-7 detail multiple parameters across select basket of companies. LTI compares favorably on most as

- ▶ US\$ revenue CAGR of 12% from continuing operations i.e. revenues excluding demerged PES business over FY2013-16. This compares with 7-18% growth of peers.
- ▶ EBIT margin of 16.1% in 9MFY17 as compared to 18-26% Tier 1 IT and 10-15% for mid-tier companies such as Mindtree and Hexaware.
- ▶ Employee revenue productivity of US\$45,000 per person is comparable with smaller IT companies but is lower than of Infosys, TCS and HCLT. EBIT/employee is also lower at US\$7,800/ employee (EBIT post forex gain) as compared to US\$9-13K/employee for Tier 1 IT but better than those of mid-tier companies. One of the reasons for seeming lower productivity numbers is that LTI includes subcontractors in the reported headcount which competitors do not.
- ▶ Receivables' collection cycle is in line with the industry. EBITDA to OCF and EBITDA to FCF conversion is in line with the industry.

RoAE of 41% in FY2016 is at the higher end of the industry spectrum and owes to better capital allocation. While the company is yet to articulate a dividend payout policy, we forecast 50% dividend payout ratio over the next three years. This implies dividend yield of 3.5% on FY2017E likely payout

**Exhibit 3: LTI has delivered better organic US\$ CAGR over the past three years than most peers**  
CAGR in US\$ revenues, March fiscal year-ends (%)

Companies	CAGR in US\$ revenues over 2013-16	
	Reported	Organic
Mindtree	17.8	15.3
<b>LTI</b>	<b>12.0</b>	<b>11.6</b>
TCS	12.5	11.3
HCL Tech	10.8	10.7
Hexaware	9.9	9.9
Tech Mahindra	15.2	9.0
Infosys	8.6	8.1
Wipro	5.7	5.3

Notes:

(a) June and Dec fiscal year-ends for HCL Tech and Hexaware.

Source: Companies, Kotak Institutional Equities estimates

**Exhibit 4: LTI's EBIT margin is better than mid-tier IT companies**  
EBIT margin, March fiscal year-ends (%)

	9MFY17
TCS	25.7
Infosys	24.7
HCL Tech	20.4
Wipro	18.0
<b>LTI (excl forex gains/losses)</b>	<b>16.1</b>
Hexaware	15.2
Tech Mahindra	12.0
Mindtree	10.0

Source: Company, Kotak Institutional Equities

**Exhibit 5: LTI's revenues/EBIT per employee is comparable to Mindtree and Hexaware**  
Productivity metrics per employee based on total employees, March fiscal year-end (US\$/employee), 2013-16

	2013	2014	2015	2016	9MFY17
<b>TCS</b>					
Revenues	44,946	46,616	49,843	49,126	47,785
EBIT	12,136	13,566	12,005	13,018	12,281
<b>Infosys Technologies</b>					
Revenues	48,245	52,030	51,760	51,325	51,728
EBIT	12,469	12,724	13,428	12,838	12,780
<b>HCL Tech</b>					
Revenues	55,191	60,495	60,191	59,372	63,683
EBIT	10,892	14,580	13,389	11,870	12,991
<b>Wipro</b>					
Revenues	44,139	45,351	46,547	44,375	43,555
EBIT	9,121	10,254	10,250	9,080	7,840
<b>LTI</b>					
Revenues	40,514	44,352	43,622	44,859	46,932
EBIT (excl forex gains/losses)	8,833	9,949	7,433	6,528	7,556
EBIT (post forex gains/losses)	8,732	9,083	8,148	7,831	8,636
<b>Hexaware</b>					
Revenues	41,919	43,263	44,759	45,384	45,412
EBIT	8,068	8,969	7,528	7,081	6,903
<b>Mindtree</b>					
Revenues	38,573	40,919	43,044	46,404	47,610
EBIT	6,918	7,141	7,340	6,894	4,761
<b>Tech Mahindra</b>					
Revenues	33,490	35,910	38,017	38,690	38,587
EBIT	6,248	6,982	5,931	5,216	4,630

Source: Company, Kotak Institutional Equities

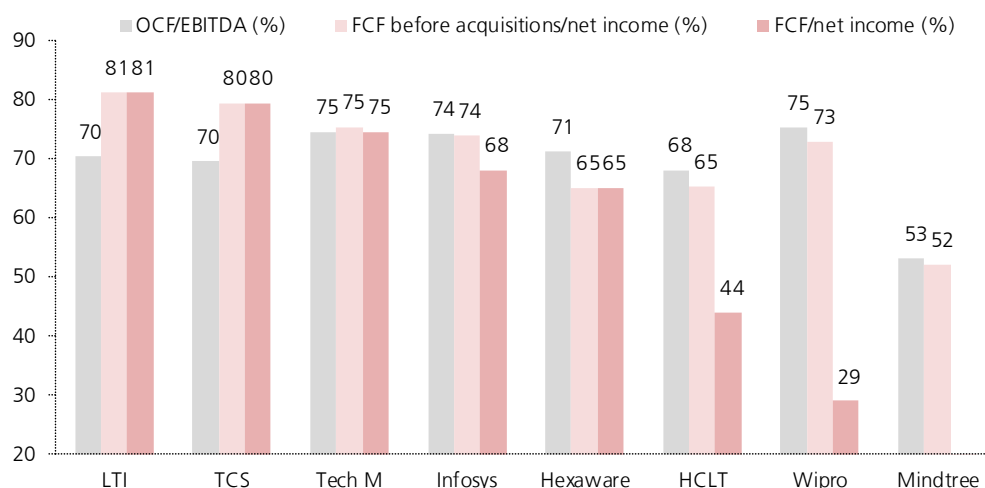
**Exhibit 6: LTI's receivable days including unbilled revenues are in line with industry**  
Days sales outstanding (DSO) including unbilled revenues, March fiscal year-ends, 2013-16

	2013	2014	2015	2016
Hexaware	79	70	70	75
Infosys	86	81	86	84
Mindtree	80	84	81	92
TCS	100	99	94	94
<b>LTI</b>	<b>83</b>	<b>78</b>	<b>91</b>	<b>96</b>
HCL Tech	81	87	91	96
Wipro	106	104	103	107
Tech Mahindra	102	105	105	107

Source: Company, Kotak Institutional Equities

**Exhibit 7: LTI's cash generation is in line with the industry**

Cash conversion, March fiscal year-end, 2016 (%)



Source: Company, Kotak Institutional Equities

### Nice balance between growth, margins and investments

Our confidence on growth and relatively stable profitability emanates from:

#### Sales restructuring and strong growth prospects from large clients

LTI has improved the selling process with (1) significant change in personnel, (2) creation of large deals team, (3) dedicated technology and digital experts in focus accounts and bid to drive digital/analytics in every focus account, (4) effective marketing by engaging with a leading brand consultant and (5) augmenting alliances and partnerships. The pipeline of the company is extremely strong with projects having TCV of US\$250 mn in advanced stages of decision cycle. The real proof of the change would be the conversion of it into order book.

We note that LTI has received some early success in the form of (1) US\$100 mn CBDT project and (2) wallet share gain in large accounts. Citigroup, the largest account of LTI, grew 20% in FY2016 and was flat yoy in 9MFY17. We expect growth to pick up as LTI has won new deals in the account. Others in the top-five list will also grow at a fair clip in our view. The company has also opened three-four marquee logos in the past 12 months.

#### Deeper mining of high-quality client base

LTI has stepped up focus on mining top 50 accounts through dedicated account and digital managers. New initiatives such as ADEA (Analytics and Digital in Every Account) will lead to deepening of engagements. Note that, LTI has high quality client base comprising about 51 F-500 accounts. About 33 of its top 50 accounts are F-100 companies. Some of the large clients are Citibank, Chevron, Nordea, Times Warner and Barclays.

#### Investments in automation and digital to pay off

LTI focuses on a few key areas in digital viz: cloudapps, mobility, analytics and industrial IoT. The company has built key strengths and forged partnerships with several companies such as Pega, Coupa and GE digital. Analytics and industrial IoT are areas of inherent strength for the company and LTI continues to make investments; acquisition of AugmentIQ would further boost analytics/data science capabilities. We note that US\$100 mn CBDT project would further augment LTI's capabilities in analytics. Besides these service offerings, cyber security is also an area of focus and the company is open to acquisitions

LTI's approach towards automation is through use of alliances/partnerships with the best-of-breed products for automation. For example, the company had success in Robotic Process Automation (RPA) through alliance with Blue Prism/Automation Anywhere. It is also co-creating digital solutions under the initiative digital jedi.

### Multiple levers to keep margins in a narrow band

We expect LTI's profitability (EBIT excluding forex gains/losses) to move in a band of 16-17%. In our view headwinds in the business can be offset through – (1) further efficiencies in managed services contracts, (2) management of role ratios. About 28-29% of employees are in 0-3 years' experience bracket. This metric can go up to 32-33% and (3) marginal increase in utilization from current 78-79% level.

### Addressing key concern of high financial services and ERP exposure

#### LTI's 47% BFSI exposure has high contribution from GRC and P&C segment

LTI derives 47% of revenues from the BFSI vertical, seemingly high and a potential worry. However there are a few mitigating factors—(1) the company derives 21% of revenues from Property & Casualty (P&C) and life insurance companies, (2) within 26% of revenues from financial services, about 14 percent is from the Citibank. Note that the company has been gaining a share of business from this account over a long period of time and (3) the company derives close to 4% from platforms and (4) additionally LTI derives significant revenues from global risk and compliance, a relatively steadier area of spending. While the headline BFSI exposure is a concern, underlying trends are a lot more comforting: (1) well-positioned in large accounts, (2) strong player in its areas of strength, and (3) success in opening new marquee accounts in the past 12 months.

We note that LTI's client base in insurance vertical comprises (1) two of the top five global brokers, (2) three of the top-10 insurers in North America, (3) leading five workers compensation insurers, and (4) one of the top-3 global reinsurers. Its client base in BFS include (1) three of the top-10 global banks, (2) three of the top-10 AMCs in US, (3) two of the top five banks in UK, (4) two of the top-5 banks in Europe, and (5) two of the top-5 banks in South Africa.

#### Enterprise solutions portfolio is undergoing transition

ERP accounts for 23% of the revenue of LTI. Of big concern in enterprise solutions, is migration and wider acceptance of cloud and SaaS based models in which the effort intensity is lower than on-premise implementations. While these are valid concerns the company's portfolio is undergoing a transition with S4/ HANA and Hybris (digital commerce) and other cloud capabilities account for 25% of segment revenues. Additionally, LTI's inherent strength and positioning in traditional ERP practice augur well and would help the company capture opportunities in the cloud-based ERP ecosystem.

#### Churn in senior leadership in the past

LTI has seen new CEO, COO, CFO, head of sales and chief digital officer in the last 12-15 months. Continuity of leadership is important in any organization. Among the positives, the new CEO has added depth to leadership through the following recruitments—(1) Aftab Ullah (COO) from Bank of America's captive unit, (2) Sudhir Chaturvedi, President- Sales. Sudhir was COO at NIIT Tech and earlier, Head of North America Financial Services at Infosys, (3) Rohit Kedia (Head- Manufacturing & ERP, Americas), earlier VP and head of Manufacturing Americas at Infosys, (4) Siddharth Bohra (Head- Tech, Media, CRP & Digital, Americas), earlier VP and head of Hi-Tech Americas at Infosys and (5) Soumendra Mohanty (EVP and Chief Digital and Analytics Officer), earlier Digital Architecture and solutions lead at Mindtree and previously Global lead for BI, DW, Big Data and Analytics at Accenture.

### A light IMS practice and no presence in BPO services

IMS accounts for 10% of revenues of LTI though the leaning is lot more towards India business. LTI lacks scale and depth to manage end-to-end infrastructure. The company is attempting to correct the gaps. The first change has been the recruitment of Amit Bhattacharjee (earlier a MD, IMS practice at Accenture) to lead IMS practice. The company has increased tie-ups with multiple vendors (AWS, Nutanix, etc) to build strong partnership ecosystem. The company recently launched converged infrastructure capability and is creating new partnerships. LTI's strength is in datacenter management and cloud migration services. The company is also open to M&A especially in new-gen infra and cyber security

LTI lacks BPO capability but has taken a disruptive approach to Business Process Automation (BPA)/Robotic Process Automation (RPA). LTI's BPA offering includes the use of BOTS, orchestrators, digitizers, and machine intelligence along with third-party software tools to solve customer back-end problems. The company is essentially playing the role of systems integrator responsible for bringing in the right tools and weaving everything together in a client's environment [Source: ISG]. LTI management believes that it is better off since it does not have any legacy business, does not run the risk of revenue cannibalization and hence can play the role of disruptor in BPO practice.

### Key risk: Changes in H-1B visa rules and/or border adjustment tax in US

Increase in minimum wages of visa workers or introduction of border adjustment tax in US are key risks industry-wide risks. We note that about 25% of LTI's US workforce is local and the balance 75% (or about 1,500-1,700 employees) on visa (at present, average onsite salary of LTI is about US\$77K). Exhibit 8 shows sensitivity (gross impact and impact net of potential offsets) of LTI's operating margin and earnings to increase in minimum wages. That said, we note that any increase in minimum wage would likely be on prospective basis (on new visas and renewals). Thus, the eventual impact could be slightly staggered or tad lower.

We note that there is a possibility that visa rules may not change materially despite all the noise. Further, legislative process could likely take 9-18 months; Indian IT is already increasing local hiring and will be better positioned to mitigate risks over time.

**Exhibit 8: Potential impact of increase in minimum visa wage on FY2019E margins and earnings**

	Minimum wage at		
	US\$80K	US\$100K	US\$130
<b>Gross impact</b>			
Margin impact (bps)	(170)	(435)	(835)
Impact on EPS (%)	(8)	(21)	(40)
<b>Net impact after potential offsets on</b>			
Margin impact (bps)	(25)	(290)	(690)
Impact on EPS (%)	(2)	(14)	(33)

Source: Companies, Kotak Institutional Equities estimates



Exhibit 9: Kotak Institutional Equities: valuation summary of key Indian technology companies

Company	22-Feb-17		Mkt cap.		EPS (Rs)			P/E (X)			EV/EBITDA (X)			RoE (%)		
	Price (Rs)	Rating	(Rs m)	(US\$ m)	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
HCL Technologies	834	REDUCE	1,177,221	17,573	57.5	61.4	64.6	14.5	13.6	12.9	10.2	9.2	8.4	27.3	25.4	25.4
Hexaware Technologies	219	NR	66,250	989	13.7	14.8	16.6	16.0	14.8	13.2	10.7	9.2	8.1	26.5	25.1	25.1
Infosys	990	ADD	2,274,320	33,950	63.0	67.9	74.0	15.7	14.6	13.4	10.1	9.1	8.0	23.5	22.7	22.7
L&T Infotech	713	BUY	121,660	1,816	54.5	59.6	65.9	13.1	12.0	10.8	9.4	8.1	7.1	42.4	38.3	38.3
Mindtree	468	REDUCE	78,657	1,174	26.0	32.5	39.3	18.0	14.4	11.9	10.1	8.0	6.5	17.2	19.0	19.0
Mphasis	581	SELL	122,182	1,824	39.5	40.8	41.1	14.7	14.2	14.1	9.5	9.8	9.5	12.9	12.6	12.6
TCS	2,412	REDUCE	4,751,687	70,932	134.7	143.2	156.4	17.9	16.8	15.4	13.1	11.7	10.4	33.1	29.9	29.9
Tech Mahindra	508	BUY	494,328	7,379	34.0	38.2	43.4	14.9	13.3	11.7	10.4	8.6	7.2	19.5	19.1	19.1
Wipro	475	REDUCE	1,153,454	17,218	34.5	37.8	40.8	13.7	12.6	11.6	8.3	7.4	6.1	17.2	16.9	16.9
<b>Technology</b>		<b>Neutral</b>	<b>10,239,758</b>	<b>152,856</b>				<b>16.2</b>	<b>15.1</b>	<b>13.9</b>	<b>11.1</b>	<b>9.9</b>	<b>8.7</b>	<b>23.9</b>	<b>22.7</b>	<b>22.7</b>
<b>KIE universe</b>			<b>86,170,243</b>	<b>1,286,325</b>				<b>19.9</b>	<b>16.5</b>	<b>14.2</b>	<b>11.3</b>	<b>9.7</b>	<b>8.5</b>	<b>13.2</b>	<b>14.3</b>	<b>14.3</b>

Company	Target Price (Rs)	O/S shares (mn)	EPS CAGR (%)	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)		
				2017-19E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E
HCL Technologies	840	1,413	6.0	10.5	6.8	5.3	82,148	87,853	92,599	103,371	112,924	119,899	471,142	535,404	585,478
Hexaware Technologies	NA	304	10.1	5.9	7.9	12.5	4,170	4,498	5,058	5,746	6,508	7,289	35,348	39,636	44,471
Infosys	1,140	2,286	8.4	6.7	7.8	9.0	143,950	155,249	169,195	187,461	203,961	226,387	688,898	756,133	839,823
L&T Infotech	800	170	9.9	10.7	9.3	10.6	9,514	10,397	11,497	12,403	14,114	15,833	65,127	72,169	80,301
Mindtree	490	168	22.8	(27.4)	24.8	20.8	4,380	5,467	6,604	7,143	8,603	10,087	52,347	57,486	64,710
Mphasis	450	210	1.9	14.8	3.3	0.6	8,312	7,875	7,923	9,735	10,304	10,455	61,452	65,843	70,147
TCS	2,415	1,970	7.7	9.6	6.3	9.2	265,468	282,156	308,147	330,166	359,620	389,869	1,187,988	1,295,643	1,420,936
Tech Mahindra	510	872	13.0	(4.8)	12.2	13.7	29,683	33,313	37,875	44,635	52,399	59,912	293,606	321,120	352,471
Wipro	500	2,467	8.7	(4.2)	9.4	8.0	83,846	90,187	97,416	115,449	123,658	134,962	554,899	584,313	628,959
<b>Technology</b>				<b>7.2</b>	<b>7.2</b>	<b>8.8</b>	<b>631,471</b>	<b>676,996</b>	<b>736,316</b>	<b>816,111</b>	<b>892,092</b>	<b>974,691</b>	<b>3,410,807</b>	<b>3,727,746</b>	<b>4,087,296</b>
<b>KIE universe</b>				<b>20.8</b>	<b>20.3</b>	<b>16.2</b>									

Notes:

(a) HCL Technologies adjusted for shift to March fiscal year-end. FY2016 financials and ratios are based on TTM March 2016.

(b) Hexaware Technologies is December year-ending.

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: LTI: Consolidated quarterly results as per Ind-AS- March fiscal year-ends (Rs mn)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	9MFY17	9MFY16	% chg.
										yoy
Revenue (US\$ mn)	209	224	225	230	231	240	245	716	657	8.9
Revenues	13,332	14,683	14,870	15,579	15,550	16,020	16,667	48,237	42,885	12.5
Employee costs	(8,550)	(9,065)	(8,553)	(9,137)	(9,235)	(9,422)	(9,647)	(28,304)	(26,168)	8.2
Gross profit	4,782	5,618	6,317	6,442	6,315	6,598	7,020	19,933	16,717	19.2
Other operating expenses	(2,713)	(3,186)	(3,403)	(3,598)	(3,265)	(3,552)	(4,002)	(10,819)	(9,285)	16.5
EBITDA	2,069	2,432	2,914	2,844	3,050	3,046	3,018	9,114	7,415	22.9
Depreciation	(445)	(429)	(434)	(431)	(429)	(465)	(469)	(1,363)	(1,308)	4.2
EBIT	1,624	2,003	2,480	2,413	2,621	2,581	2,549	7,751	6,107	27
Other Income	32	23	(25)	152	36	73	95	204	30	
Forex gains/(loss)	488	525	314	361	339	293	514	1,146	1,327	
Finance costs	(25)	(16)	(4)	(14)	(4)	(3)	(11)	(18)	(45)	
Profit Before Tax	2,119	2,535	2,765	2,912	2,992	2,944	3,147	9,083	7,419	22.4
Provision for Tax	(389)	(444)	(520)	(629)	(634)	(618)	(667)	(1,919)	(1,353)	41.8
Net Profit	1,730	2,091	2,245	2,283	2,358	2,326	2,480	7,164	6,066	18.1
Minority Interest	(1)	(1)	(1)	1	—	(1)	—	(1)	(3)	
Net Profit- Reported	1,729	2,090	2,244	2,284	2,358	2,325	2,480	7,163	6,063	18.1
Recurring EPS (Rs/share)	10.3	12.3	13.2	13.5	13.9	13.4	14.2	41.2	35.9	14.9
Weighted average share count (mn)	167.7	169.4	169.5	169.5	170.3	173.9	174.2	173.7	168.9	
<b>As % of revenues</b>										
Gross margin	35.9	38.3	42.5	41.4	40.6	41.2	42.1	41.3	39.0	
EBITDA margin (post forex gains/losses)	19.2	20.1	21.7	20.6	21.8	20.8	21.2	21.3	20.4	
EBITDA margin (ex forex gains/losses)	15.5	16.6	19.6	18.3	19.6	19.0	18.1	18.9	17.3	
EBIT margin (post forex gains/losses)	15.8	17.2	18.8	17.8	19.0	17.9	18.4	18.4	17.3	
EBIT margin (ex forex gains/losses)	12.2	13.6	16.7	15.5	16.9	16.1	15.3	16.1	14.2	
Net profit margin (%)	13.0	14.2	15.1	14.7	15.2	14.5	14.9	14.8	14.1	
Effective tax rate (%)	18.4	17.5	18.8	21.6	21.2	21.0	21.2	21.1	18.2	

Source: Company, Kotak Institutional Equities estimates

Exhibit 11: LTI: Key metrics, March fiscal year-ends

	2013	2014	2015	2016	1QFY17	2QFY17	3QFY17
<b>Revenues (US\$ mn)</b>	<b>630</b>	<b>746.6</b>	<b>809.9</b>	<b>887.1</b>	<b>231.1</b>	<b>239.7</b>	<b>245.1</b>
Exchange rate (Re/US\$)	54.4	60.7	61.3	65.9	67.3	66.8	68.0
<b>Revenue by verticals (%)</b>							
Banking and financial services	29.1	26.0	27.1	26.3	25.3	26.1	26.2
Insurance	17.8	18.8	20.0	20.7	21.9	21.4	20.8
Energy and process	20.7	22.0	16.2	12.7	11.9	11.5	12.0
CPG, retail and pharma	7.3	8.4	9.3	9.3	8.0	7.8	8.0
Hi-tech and consumer electronics	10	7.4	6.9	5.2	11.5	11.3	10.7
Automotive and aerospace and others	3.6	4.2	5.7	6.8			
Media and entertainment	4.4	4.6	5.4	6.2	21.3	21.9	22.4
Others (a)	7.1	8.6	9.4	12.8			
<b>Revenue by service offerings (%)</b>							
ADM	43.3	43.0	43.4	42.4	40.0	40.0	38.4
ERP	26.8	27.5	24.8	23.7	23.8	22.6	22.3
IMS	7.4	8.0	8.7	9.7	10.6	10.4	11.4
Testing	7.5	8.5	9.5	9.8	9.9	9.5	9.0
AIM, Enterprise Integration, Mobility	7.9	7.5	9.5	11.1	11.7	13.5	15.0
Platform based solutions	7.1	5.5	4.1	3.3	4.0	4.0	4.0
<b>Revenue by geography (%)</b>							
North America	69.9	67.3	68.6	69.0	69.4	68.9	68.4
Europe	18.2	20.1	17.9	17.4	18.0	18.4	18.3
Asia Pacific	2.3	2.6	2.4	2.0	2.6	2.8	2.1
India	3.6	3.4	4.2	5.8	5.7	5.9	8.0
ROW	5.9	6.6	6.9	5.8	4.3	4.0	3.2
<b>Revenue mix by delivery (%) (b)</b>							
Onsite	53.0	53.9	51.8	52.3	48.1	48.8	47.7
Offshore	47.0	46.1	48.2	47.7	51.9	51.2	52.3
<b>Billed Person Months</b>							
Onsite					10,312	10,160	10,608
Offshore					31,382	31,774	33,031
<b>Billing rate (implied)</b>							
					10,780	11,513	11,021
					3,822	3,862	3,881
<b>Effort mix (%)</b>							
Onsite					24.7	24.2	24.3
Offshore					75.3	75.8	75.7
<b>Revenue by project type (%)</b>							
Time and Material	60.0	63.0	59.7	55.0	NA	NA	NA
Fixed price	40.0	37.0	40.3	45.0	NA	NA	NA
<b>Utilization (%)</b>							
Including trainees	71.0	71.6	73.4	73.8	77.4	78.7	78.1
Excluding trainees	72.0	73.6	75.8	75.7	78.0	80.6	80.5
<b>Employee metrics</b>							
Total employees (consolidated)	16,013	17,654	19,479	20,072	19,292	19,751	20,605
Development					17,959	18,428	19,234
Sales and support					1,333	1,323	1,371
Attrition (%) - LTM	12.3	13.2	19.5	18.4	19.5	18.5	18.1
<b>Client metrics</b>							
Top client contribution to revenues (%)	16.3	13.1	14.1	14.9	13.3	14.0	15.1
Top 5 client contribution to revenues (%)	38.6	36.1	37.2	37.5	36.7	37.1	38.3
Top 10 client contribution to revenues (%)	48.5	47.2	49.5	52.7	51.3	51.8	52.1
Top 20 client contribution to revenues (%)	64.5	65.6	63.6	68.2	67.7	67.6	68.3
Number of active clients	198	204	232	258	259	259	264
New clients added in the period	58	54	57	73	12	16	14
Repeat business %	97.5	96.9	98.1	96.9			
Clients > US\$1 mn	74	84	82	85	89	91	95
Clients > US\$5 mn	27	33	33	35	35	34	35
Clients > US\$10 mn	14	19	20	17	19	20	22
Clients > US\$20 mn	6	7	8	10	10	10	10
Clients > US\$50 mn	3	3	3	3	3	4	4
Clients > US\$100 mn	1	0	1	1	1	1	1

## Notes:

- (a) Includes plant equipment, utilities, engineering and construction and travel and logistics.  
(b) Revenue mix for FY2013-16 excludes India whereas for 1Q-3QFY17 it includes India but excludes platform revenues.

Source: Company, Kotak Institutional Equities

Exhibit 12: We estimate 10% EPS CAGR over FY2016-19E driven by 10% growth in US\$ revenues and steady margins  
Consolidated income statement, March fiscal year-ends (Rs mn)

	2012	2013	2014	2015	2016	2017E	2018E	2019E
<b>Profit and loss model</b>								
US\$ revenues - continuing ops	586	630	747	810	887	964	1,061	1,181
Exchange rate (Rs/US\$)	—	54.4	60.7	61.3	65.9	67.6	68.0	68.0
Revenues	31,820	38,514	49,205	49,780	58,464	65,127	72,169	80,301
Cost of revenues	(21,211)	(25,406)	(32,473)	(34,128)	(41,977)	(45,659)	(50,469)	(56,128)
- Employee costs	(18,635)	(22,486)	(27,582)	(29,243)	(35,266)	(38,185)	(42,845)	(48,073)
- Other direct costs	(2,575)	(2,920)	(4,892)	(4,886)	(6,711)	(7,473)	(7,625)	(8,056)
Gross profit	10,610	13,108	16,732	15,652	16,487	19,469	21,700	24,172
SG&A expense	(3,712)	(4,404)	(5,259)	(5,607)	(6,239)	(7,065)	(7,585)	(8,340)
EBITDA	6,898	8,705	11,473	10,045	10,248	12,403	14,114	15,833
Depreciation and amortization	(1,049)	(1,232)	(1,300)	(1,579)	(1,740)	(1,846)	(2,047)	(2,189)
EBIT	5,849	7,473	10,173	8,465	8,508	10,557	12,068	13,644
Other Income	293	306	52	100	199	278	405	503
Forex gains/(loss)	(197)	(85)	(885)	815	1,698	1,322	955	797
Finance costs	(342)	(208)	(305)	(104)	(58)	(21)	(12)	(12)
Profit before tax	5,602	7,486	9,035	9,276	10,347	12,137	13,415	14,932
Provision for Tax	(1,409)	(1,870)	(2,072)	(1,668)	(1,982)	(2,622)	(3,018)	(3,434)
Profit before minority interest	4,193	5,617	6,962	7,608	8,365	9,515	10,397	11,497
Minority Interest	—	(1)	(1)	(2)	(2)	(1)	—	—
Profit before extraordinary	4,193	5,616	6,962	7,606	8,363	9,514	10,397	11,497
Extraordinaries (net of tax)	—	—	2,397	79	—	—	—	—
Restatement adjustments	138	121	(76)	6	—	—	—	—
Net profit - Reported	4,331	5,737	9,283	7,692	8,363	9,514	10,397	11,497
Profit from discontinued operations	—	516	364	8	—	—	—	—
Adjusted profit from continuing ops	4,331	5,221	6,522	7,604	8,363	9,514	10,397	11,497
Adjusted diluted EPS (Rs/share) (d)	25.7	31.0	38.7	45.1	49.3	54.5	59.6	65.9
Weighted average shares outstanding - basic (mn)	161.3	161.3	161.3	161.3	169.8	169.8	169.8	169.8
Weighted avg fully diluted shares (mn)	168.5	168.5	168.5	168.5	169.8	174.5	174.5	174.5
<b>Key metrics and assumptions</b>								
Gross profit margin (%)	33.3	34.0	34.0	31.4	28.2	29.9	30.1	30.1
EBITDA margin post forex gains/loss (%)	21.1	22.4	21.5	21.8	20.4	21.1	20.9	20.7
EBIT margin post forex gains/loss (%)	17.8	19.2	18.9	18.6	17.5	18.2	18.0	18.0
EBITDA margin before forex gains/loss (%)	21.7	22.6	23.3	20.2	17.5	19.0	19.6	19.7
EBIT margin before forex gains/loss (%)	18.4	19.4	20.7	17.0	14.6	16.2	16.7	17.0
NPM (excluding extraordinaries) (%)	13.6	14.9	14.0	15.3	14.3	14.6	14.4	14.3
Effective tax rate (%)	25.2	25.0	22.9	18.0	19.2	21.6	22.5	23.0
US\$ revenue growth (%)		7.5	18.5	8.5	9.5	8.6	10.1	11.3
Net profit growth (%)	30.9	32.5	61.8	(17.1)	8.7	13.8	9.3	10.6
Average exchange rate (US\$/INR)	48.2	54.4	60.7	61.3	65.9	67.6	68.0	68.0

## Notes:

- (a) Extraordinary gain (net of taxes) from sale of PES business to a group company L&T Tech was Rs2.4 bn and Rs79 mn in FY2014 and FY2015.  
(b) Sale of PES business affected revenues, EBITDA and reported profit in FY2014 and FY2015. For like-to-like comparison, refer to revenues and profit from continuing ops.  
(c) Acquisition of ISRC, a captive unit of OTIS elevators, aided FY2015 revenues and net profit by Rs565 mn and Rs130 mn.  
(d) Diluted EPS on net profit before extraordinary items until FY2012 and diluted EPS on profit from continuing ops before extraordinary item starting FY2013.

Source: Company, Kotak Institutional Equities estimates

**Exhibit 13: LTI has strong RoE and RoCE at about 40%**  
Consolidated Balance Sheet, March fiscal year-ends (Rs mn)

	2012	2013	2014	2015	2016	2017E	2018E	2019E
Share capital	161	161	161	161	170	170	170	170
Reserves and surplus	10,892	13,227	15,942	20,102	20,057	24,530	29,466	34,663
<b>Total Equity</b>	<b>11,054</b>	<b>13,388</b>	<b>16,103</b>	<b>20,263</b>	<b>20,227</b>	<b>24,700</b>	<b>29,636</b>	<b>34,833</b>
Minority interest	—	1	2	4	5	6	6	6
<b>Non-current liabilities</b>								
Long-term borrowings	452	362	266	139	—	—	—	—
Deferred tax liabilities (net)	118	207	414	238	1,206	1,206	1,206	1,206
Other long term liabilities	2,022	1,257	729	538	1,251	1,251	1,251	1,251
Long Term Provisions	51	94	131	104	124	124	124	124
<b>Current liabilities</b>								
Short-term borrowings	2,236	1,975	834	2,036	545	45	—	—
Trade payables	2,015	2,065	2,415	2,719	3,276	3,280	3,360	3,235
Other current liabilities	1,712	2,520	3,736	1,723	2,765	2,965	3,165	3,365
Short-term provisions	1,618	1,786	2,377	2,815	5,171	5,171	5,171	5,171
<b>Total Equity and liabilities</b>	<b>21,279</b>	<b>23,656</b>	<b>27,006</b>	<b>30,581</b>	<b>34,570</b>	<b>38,748</b>	<b>43,919</b>	<b>49,191</b>
<b>Assets</b>								
Fixed assets - tangible	2,263	2,450	2,795	2,750	2,792	2,820	3,091	3,514
Fixed assets - intangible	4,059	4,541	3,693	4,085	3,583	3,511	3,462	3,571
Capital work-in-progress	101	483	94	53	7	7	7	7
Intangible assets under development	975	940	473	198	188	188	188	188
Non-current investments	20	—	—	—	—	—	—	—
Deferred tax assets	21	59	2	10	2	2	2	2
Long-term loans and advances	1,367	1,932	2,535	2,440	4,249	4,499	4,749	4,999
<b>Current assets</b>								
Current investments	571	487	1,688	1,036	429	429	429	429
Inventory	—	—	—	—	—	—	—	—
Trade receivable	6,846	7,411	9,310	10,901	11,660	12,478	14,103	16,002
Unbilled revenue	895	1,333	1,194	1,545	3,788	3,938	4,088	4,238
Cash and bank	1,321	1,194	1,589	2,009	2,034	4,847	7,279	9,139
Short-term loans and advances	2,841	2,826	3,634	5,555	5,837	6,028	6,521	7,101
<b>Total Assets</b>	<b>21,279</b>	<b>23,656</b>	<b>27,006</b>	<b>30,581</b>	<b>34,570</b>	<b>38,748</b>	<b>43,919</b>	<b>49,191</b>
<b>Key metrics/ratios</b>								
Weighted average shares outstanding - basic (mn)	161.3	161.3	161.3	161.3	169.8	169.8	169.8	169.8
Weighted avg fully diluted shares (mn)	168.5	168.5	168.5	168.5	169.8	174.5	174.5	174.5
Cash and cash equivalents	1,892	1,680	3,277	3,045	2,463	5,276	7,708	9,568
Gross borrowings	2,688	2,336	1,100	2,175	545	45	—	—
<b>Net cash and cash equivalents</b>	<b>(797)</b>	<b>(656)</b>	<b>2,177</b>	<b>869</b>	<b>1,918</b>	<b>5,231</b>	<b>7,708</b>	<b>9,568</b>
Debtor days (incl. unbilled revenues)	89	83	78	91	96	92	92	92
Working capital days (ex-cash)	53	49	40	60	65	59	61	65
RoAE (%)	39	47	47	42	41	42	38	36
RoACE (%)	39	45	57	41	36	42	41	39

Source: Company, Kotak Institutional Equities estimates

**Exhibit 14: Healthy cash generation to continue, we expect LTI to payout about 50% of earnings**

Consolidated cash flow statement, March fiscal year-ends (Rs mn)

	2012	2013	2014	2015	2016	2017E	2018E	2019E
PBT before extraordinary items	5,741	7,607	8,959	9,282	11,473	12,137	13,415	14,932
Depreciation and amortization	916	1,095	1,385	1,579	1,740	1,846	2,047	2,189
Other income (net)	(60)	(36)	(52)	(108)	41	(257)	(393)	(491)
Unrealised foreign exchange loss (gain)	(375)	(202)	(517)	(569)	(902)	(1)	—	—
Others	(387)	529	52	(73)	(126)	—	—	—
Operating cash flow before w-cap and taxes	5,833	8,992	9,827	10,112	12,226	13,725	15,069	16,630
<b>Working capital changes</b>	<b>(1,402)</b>	<b>(819)</b>	<b>(1,408)</b>	<b>(922)</b>	<b>(936)</b>	<b>(1,205)</b>	<b>(2,238)</b>	<b>(2,804)</b>
- (Increase)/decrease in trade receivables	(1,217)	(1,049)	(1,906)	(1,980)	(3,070)	(968)	(1,775)	(2,050)
- (Increase)/decrease in inventory	3	—	—	—	—	—	—	—
- (Increase)/decrease in other receivables	(267)	471	(834)	(108)	11	(441)	(743)	(830)
- Increase/(decrease) in trade & other payables	79	(241)	1,333	1,165	2,123	204	280	75
Direct taxes paid	(1,068)	(2,096)	(2,141)	(2,767)	(2,657)	(2,622)	(3,018)	(3,434)
<b>Cash flow from operations</b>	<b>3,363</b>	<b>6,076</b>	<b>6,279</b>	<b>6,423</b>	<b>8,634</b>	<b>9,899</b>	<b>9,813</b>	<b>10,391</b>
(Purchase) / sale of fixed assets (net)	(1,594)	(2,479)	(950)	(1,132)	(1,141)	(1,802)	(2,268)	(2,721)
Acquisitions	—	—	—	(807)	—	(70)	—	—
(Purchase)/sale of current investments (net)	588	208	(1,122)	794	675	—	—	—
Interest received	35	30	75	23	25	278	405	503
Proceeds from sale of PES Business(net)	0	0	3,800	94	—	—	—	—
<b>Cash flow from investing</b>	<b>(971)</b>	<b>(2,242)</b>	<b>1,803</b>	<b>(1,029)</b>	<b>(441)</b>	<b>(1,594)</b>	<b>(1,863)</b>	<b>(2,218)</b>
Issue of Share Capital	—	—	—	—	69	—	—	—
Proceeds from/(repayment) of borrowings	488	(377)	(1,229)	1,013	(1,663)	(500)	(45)	—
Interest paid	(61)	(98)	(102)	(56)	(58)	(21)	(12)	(12)
Dividend paid including tax	(2,960)	(3,488)	(6,356)	(5,931)	(6,516)	(5,041)	(5,461)	(6,301)
Proceeds from issue of shares to minority shareholder:	—	1	—	—	—	—	—	—
<b>Cash flow from financing</b>	<b>(2,533)</b>	<b>(3,962)</b>	<b>(7,686)</b>	<b>(4,974)</b>	<b>(8,167)</b>	<b>(5,562)</b>	<b>(5,518)</b>	<b>(6,313)</b>
<b>Free cash flow</b>	<b>1,743</b>	<b>3,530</b>	<b>9,101</b>	<b>4,544</b>	<b>7,460</b>	<b>8,283</b>	<b>7,938</b>	<b>8,161</b>
Net increase in cash and cash equivalents	(141)	(127)	395	420	25	2,743	2,432	1,860
Cash and cash equivalents as at year-beginning	1,462	1,321	1,194	1,589	2,009	2,034	4,777	7,209
Cash and cash equivalents as at year-end	1,321	1,194	1,589	2,009	2,034	4,777	7,209	9,069

Source: Company, Kotak Institutional Equities estimates

FEBRUARY 23, 2017

#### RESULT

Coverage view: **Attractive**

Price (₹): **424**

Target price (₹): **470**

BSE-30: **28,865**

**Good results.** Castrol's 4QCY16 results were ahead of our estimates led by a modest 2% growth in volumes versus our assumption of a decline and higher-than-expected EBITDA margins at 28%. We maintain our positive view on the stock seeking comfort from (1) expected favorable change in business mix towards personal mobility segment (>50% in 2-3 years), (2) management's renewed emphasis on volume growth and (3) recent price hike, which will offset rising RM costs. ADD stays with TP of ₹470.

#### Company data and valuation summary

Castrol India

##### Stock data

52-week range (Rs) (high,low) 495-353

Market Cap. (Rs bn) 209.7

##### Shareholding pattern (%)

Promoters 51.0

FIs 11.8

MFs 10.7

##### Price performance (%)

	1M	3M	12M
Absolute	7.9	9.8	4.2
Rel. to BSE-30	1.0	(1.3)	(14.1)

##### Forecasts/Valuations

	2017E	2018E	2019E
EPS (Rs)	13.5	14.7	15.9
EPS growth (%)	12.3	8.4	8.5
P/E (X)	31.4	28.9	26.7
Sales (Rs bn)	33.7	36.6	40.0
Net profits (Rs bn)	6.7	7.2	7.9
EBITDA (Rs bn)	10.0	10.6	11.5
EV/EBITDA (X)	20.1	19.0	17.4
ROE (%)	114.1	120.6	128.4
Div. Yield (%)	2.6	2.8	3.1

#### Robust results in a tough quarter driven by modest growth in volumes and firm EBITDA margins

Castrol's adjusted net income jumped 11% yoy to ₹1.5 bn (EPS of ₹3), 12% above our estimate driven by (1) 2% yoy growth in volumes to 47 mn liters—encouraging in a quarter, which was impacted by demonetization and (2) steady EBITDA margins at 28%. Revenues declined 1% yoy to ₹7.82 bn and EBITDA increased 3.5% yoy to ₹2.2 bn. Reported net income of ₹1.56 bn was boosted by one-off gain of ₹100 mn on sale of property. Gross contribution (sales – raw material costs) increased by 1% qoq to ₹89/liter led by stable realizations at ₹166/liter and modest 1% decline in unit raw material cost to ₹77/liter led by a good volume discount from supplier.

#### Modest 2% growth in volumes and steady EBITDA margins at 28%

- ▶ **Modest growth in volumes.** Castrol's volumes grew a modest 2% in 4QCY16, despite 8-10% decline in volumes during November 2016 due to demonetization, reflecting a reasonable growth in October and December.
- ▶ **Steady margins aided by a modest decline in raw material cost.** Gross margins expanded by ~50 bps qoq to 53.5% led by (1) surprising 1% decline in unit raw material costs and (2) stable gross realizations. EBITDA margins remained steady at 28.1%.
- ▶ **Improvement in working capital.** Castrol's net working capital turned further negative to –₹465 mn as on December 31, 2016, as compared to a negligible –₹4 mn a year ago, led by sharp increase in trade payables to five months of RM costs versus four months earlier.

#### 12% growth in CY2016 EPS led by 4% growth in volumes and ~270 bps expansion in margins

Castrol's EBITDA grew 12% yoy to ₹10 bn and adjusted net income grew 12% yoy to ₹6.7 bn (EPS of ₹13.5) in CY2016, driven by a robust 4% growth in volumes to 199.4 mn liters and ~270 bps expansion in EBITDA margins to 29.8%. The management indicated that the company has maintained its automotive Bazaar market share around 20%, led by low double-digit growth in personal mobility segment and stable volumes for commercial vehicles segment. Castrol declared a dividend of ₹6.5/share, taking full-year payout to ₹11/share (81%) for CY2016.

#### Fine-tune estimates; retain ADD with TP of ₹470

We have marginally tweaked our EPS estimates to ₹14.7 (-0.7%) for CY2017 and ₹15.9 (-0.3%) for CY2018, to reflect (1) modest changes in assumptions for volumes and margins and (2) CY2016 details. Our TP remains unchanged at ₹470, based on 30X CY2018E EPS.

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Exhibit 1: Interim results of Castrol, calendar year-ends (₹ mn)

	4QCY16	4QCY16E	4QCY15	3QCY16	(% chg.)			yoy			CY2017E
					4QCY16E	4QCY15	3QCY16	CY2016	CY2015	(% chg.)	
Net sales	7,822	7,316	7,909	7,617	6.9	(1.1)	2.7	33,704	32,980	2.2	36,648
Raw materials	3,636	3,383	3,726	3,582	7.5	(2.4)	1.5	15,316	16,008	(4.3)	17,168
Employees	401	407	432	458	(1.6)	(7.2)	(12.4)	1,726	1,766	(2.3)	1,812
Others	1,590	1,550	1,631	1,448	2.6	(2.5)	9.8	6,613	6,258	5.7	7,077
Advertisement and sales promotion	492	486	536	552	1.3	(8.2)	(10.9)	2,456	2,397	2.5	2,611
CIF costs	255	251	255	258	1.7	—	(1.2)	1,103	1,043	5.8	1,229
Other expenditure	843	813	840	638	3.6	0.4	32.1	3,054	2,818	8.4	3,237
Total expenditure	5,627	5,341	5,789	5,488	5.4	(2.8)	2.5	23,655	24,032	(1.6)	26,058
EBITDA	2,195	1,976	2,120	2,129	11.1	3.5	3.1	10,049	8,948	12.3	10,590
Other income	258	187	223	155	37.7	15.7	66.5	773	646	19.7	834
Interest	3	8	2	1				15	8		15
Depreciation	108	108	91	107	(0.1)	18.7	0.9	450	390	15.4	432
Pre-tax profits	2,342	2,047	2,250	2,176	14.4	4.1	7.6	10,357	9,196	12.6	10,977
Extraordinaries	100	—	—	—				100	313		—
Tax	884	716	842	778	23.4	5.0	13.6	3,708	3,238	14.5	3,800
Deferred tax	—	—	—	—				—	119		(69)
Net income	1,558	1,330	1,408	1,398	17.1	10.7	11.4	6,749	6,152	9.7	7,246
Adjusted net income	1,494	1,330	1,408	1,398	12.3	6.1	6.9	6,684	5,949	12.4	7,246
Effective tax rate (%)	36.2	35.0	37.4	35.8				35.5	35.3		34.0
Adjusted EPS (Rs)	3.0	2.7	2.8	2.8	12.3	6.1	6.9	13.5	12.0	12.4	14.7
<b>Other details</b>											
Sales volumes (mn liters)	47.0	43.8	46.1	45.7	7.3	2.0	2.8	199.4	191.1	4.4	208.5
Gross realization (Rs/liter)	166.4	167.1	171.6	166.7	(0.4)	(3.0)	(0.1)	169.0	172.6	(2.1)	175.7
Raw material (Rs/liter)	77.4	77.3	80.8	78.4	0.1	(4.3)	(1.3)	76.8	83.8	(8.3)	82.3
Contribution (Rs/liter)	89.1	89.8	90.8	88.3	(0.8)	(1.9)	0.9	92.2	88.8	3.8	93.4
EBITDA (Rs/liter)	46.7	45.1	46.0	46.6	3.5	1.5	0.2	50.4	46.8	7.6	50.8
Gross margin (%)	53.5	53.8	52.9	53.0	(24)bps	63 bps	54 bps	54.6	51.5	310 bps	53.2
EBITDA margins (%)	28.1	27.0	26.8	28.0	106 bps	126 bps	11 bps	29.8	27.1	268 bps	28.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Moderation of growth in volumes during 2HCY16

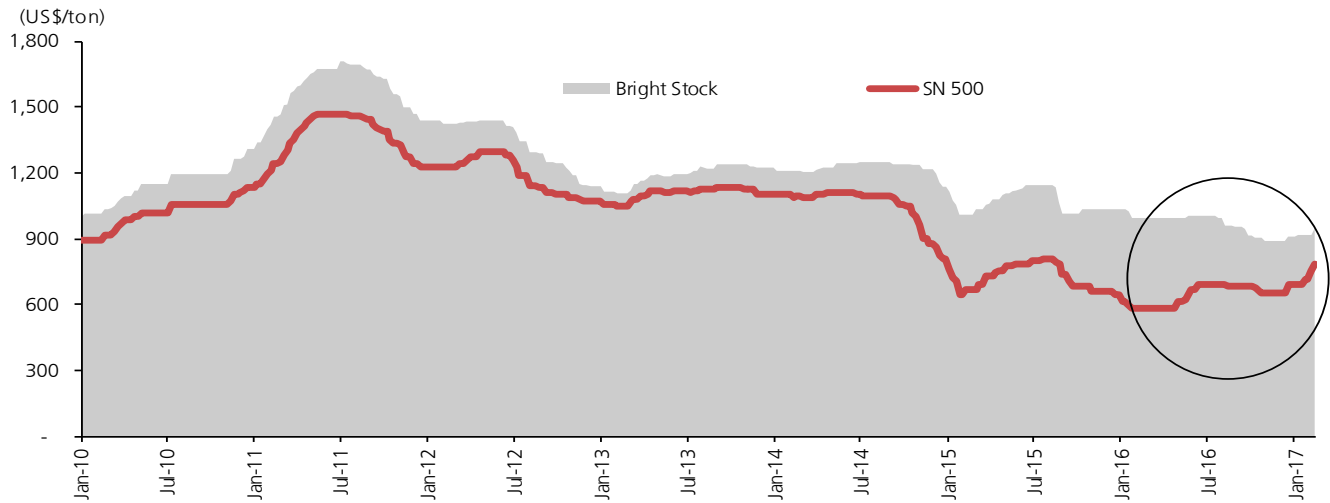
Quarterly volumes, calendar year-ends, 2008-16 (mn liters)

	1Q	2Q	3Q	4Q
<b>Sales volumes (mn liters)</b>				
2008	54.3	63.9	50.6	46.0
2009	45.2	56.0	50.7	53.7
2010	54.6	60.2	50.4	53.8
2011	55.9	54.1	46.0	51.8
2012	52.6	56.7	46.1	48.5
2013	50.1	54.1	44.8	47.8
2014	48.8	53.3	45.6	48.2
2015	46.0	53.7	45.3	46.1
2016	50.1	56.5	45.7	47.0
<b>Growth (% yoy)</b>				
2008	6	3	1	(17)
2009	(17)	(12)	0	17
2010	21	8	(1)	0
2011	2	(10)	(9)	(4)
2012	(6)	5	0	(6)
2013	(5)	(5)	(3)	(1)
2014	(3)	(1)	2	1
2015	(6)	1	(1)	(4)
2016	9	5	1	2

Source: Company, Kotak Institutional Equities

**Exhibit 3: Base oil prices have increased in the recent months**

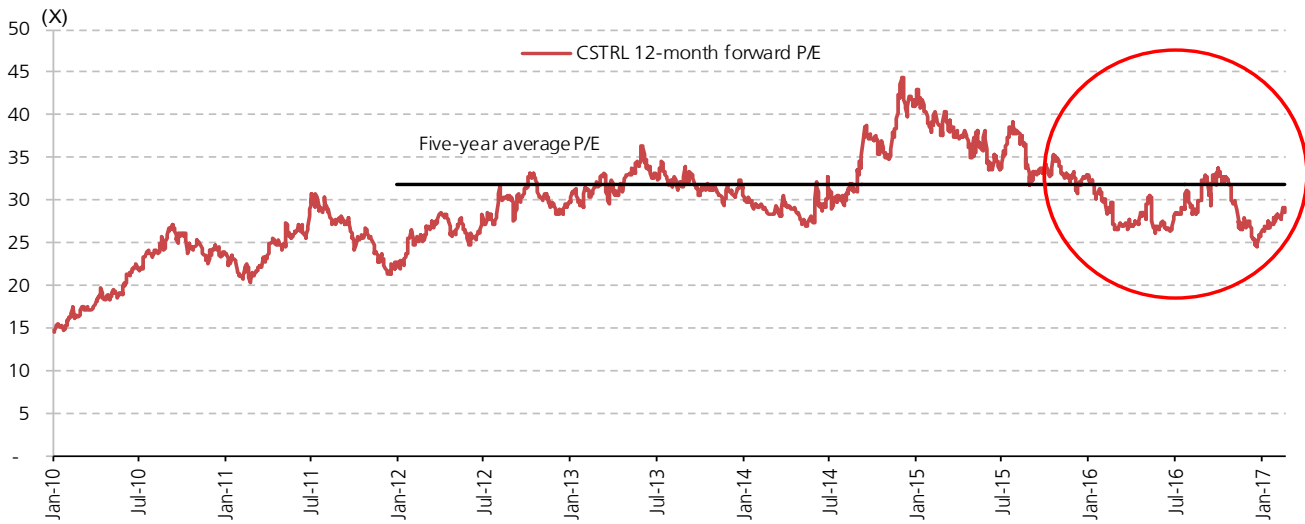
Singapore base oil price (US\$/ton)



Source: ICIS, Kotak Institutional Equities

**Exhibit 4: Castrol is trading below its five-year average multiple**

12-month forward P/E for Castrol India (X)



Source: Bloomberg, Kotak Institutional Equities estimates



**Exhibit 5: Castrol is trading at a reasonable multiple as compared to consumer stocks**

Valuation summary of consumer sector companies, March fiscal year-ends, 2017-19E

Company	22-Feb-17	Mkt cap. (US\$ mn)	EPS growth (%)			P/E (X)		
	Price (Rs)		2017E	2018E	2019E	2017E	2018E	2019E
Asian Paints	1,020	14,609	5.8	12.5	18.5	51.5	45.8	38.7
<b>Castrol India (a)</b>	<b>424</b>	<b>9,826</b>	<b>12.3</b>	<b>8.4</b>	<b>8.5</b>	<b>31.4</b>	<b>28.9</b>	<b>26.7</b>
Colgate-Palmolive (India)	900	3,654	2.0	21.9	20.5	41.6	34.1	28.3
Dabur India	271	7,118	2.0	10.7	14.6	37.8	34.2	29.9
Godrej Consumer Products	1,711	8,701	12.0	19.7	14.6	44.9	37.5	32.7
Hindustan Unilever	864	27,919	0.6	14.3	15.3	44.9	39.3	34.1
ITC	263	47,705	8.5	13.1	12.6	31.5	27.8	24.7
Jubilant Foodworks	1,010	994	(17.9)	59.4	46.3	77.3	48.5	33.2
Marico	273	5,262	7.6	15.5	15.1	45.5	39.4	34.2
Nestle India	6,398	9,208	7.1	25.1	21.2	64.4	51.5	42.5
Tata Global Beverages	140	1,319	39.1	13.5	14.9	20.2	17.8	15.5
Titan Company	440	5,831	28.3	20.9	15.5	43.9	36.3	31.4
<b>Median</b>			<b>7.4</b>	<b>14.9</b>	<b>15.2</b>	<b>44.4</b>	<b>36.9</b>	<b>32.1</b>

Notes:

(a) Calendar year-ends; FY2017 represents CY2016.

Source: Company, Bloomberg, Kotak Institutional Equities estimates

**Exhibit 6: Our assumptions are factoring in reasonable volume growth and gradual moderation in margins**

Key assumptions, calendar year-ends, 2011-19E

	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E
<b>Macro assumptions</b>									
Exchange rate (Rs/US\$)	46.0	53.2	58.0	61.0	64.1	67.2	68.5	69.5	71.0
Global base oil (US\$/ton)	1,248	1,152	1,032	1,029	705	585	635	670	705
Domestic base oil (Rs/liter)	61.8	64.5	62.9	66.0	47.5	41.3	45.7	49.0	52.6
Change (%)	34.3	4.3	(2.4)	4.8	(28.0)	(13.0)	8.5	5.5	5.2
<b>Realization (Rs/liter)</b>									
<b>Gross realization [A]</b>	<b>142.9</b>	<b>153.1</b>	<b>161.5</b>	<b>173.1</b>	<b>172.6</b>	<b>169.0</b>	<b>175.7</b>	<b>183.1</b>	<b>190.7</b>
Change (%)	14.5	7.1	5.5	7.2	(0.3)	(2.1)	4.0	4.2	4.2
<b>Raw material cost [B]</b>	<b>81.8</b>	<b>89.6</b>	<b>93.0</b>	<b>98.1</b>	<b>82.6</b>	<b>76.8</b>	<b>82.3</b>	<b>86.8</b>	<b>91.8</b>
Change (%)	27.6	9.5	3.8	5.5	(15.9)	(7.0)	7.2	5.5	5.7
<b>Gross contribution [A] - [B]</b>	<b>61.1</b>	<b>63.4</b>	<b>68.6</b>	<b>75.0</b>	<b>90.0</b>	<b>92.2</b>	<b>93.4</b>	<b>96.2</b>	<b>98.9</b>
Gross margins (%)	42.7	41.5	42.4	43.3	52.2	54.6	53.2	52.6	51.9
<b>EBITDA</b>	<b>31.5</b>	<b>30.5</b>	<b>34.9</b>	<b>36.6</b>	<b>46.8</b>	<b>50.4</b>	<b>50.8</b>	<b>52.7</b>	<b>54.5</b>
EBITDA margin (%)	22.1	19.9	21.6	21.1	27.1	29.8	28.9	28.8	28.6
<b>Volume (Kilo liters)</b>									
Non-automotive grades	30,989	27,487	26,718	27,974	26,015	27,706	29,092	30,401	31,769
Automotive grades	170,240	170,069	163,947	161,816	159,065	165,427	172,872	181,515	190,591
Traded items	7,465	6,345	6,155	6,140	6,035	6,277	6,559	6,854	7,163
<b>Total</b>	<b>208,694</b>	<b>203,902</b>	<b>196,820</b>	<b>195,929</b>	<b>191,115</b>	<b>199,410</b>	<b>208,522</b>	<b>218,770</b>	<b>229,522</b>
Growth (%)	(4.8)	(2.3)	(3.5)	(0.5)	(2.5)	4.3	4.6	4.9	4.9

Source: Company, Kotak Institutional Equities estimates

**Exhibit 7: Castrol's EPS is leveraged to exchange rate and raw material prices**  
Sensitivity of Castrol's earnings to key variables

	CY2017E			CY2018E		
	Downside	Base case	Upside	Downside	Base case	Upside
<b>Exchange rate</b>						
Exchange rate (Rs/US\$)	70	69	68	71	70	69
Net profits (Rs mn)	7,171	7,246	7,321	7,782	7,864	7,947
EPS (Rs)	14.5	14.7	14.8	15.7	15.9	16.1
<b>% upside/(downside)</b>	<b>(1.0)</b>		<b>1.0</b>	<b>(1.1)</b>		<b>1.1</b>
<b>Raw material price</b>						
Raw material price (US\$/ton)	660	635	610	695	670	645
Net profits (Rs mn)	7,045	7,246	7,448	7,650	7,864	8,079
EPS (Rs)	14.2	14.7	15.1	15.5	15.9	16.3
<b>% upside/(downside)</b>	<b>(2.8)</b>		<b>2.8</b>	<b>(2.7)</b>		<b>2.7</b>

Source: Kotak Institutional Equities estimates

**Exhibit 8: Profit model, balance sheet, cash model, calendar year-ends, 2011-19E (₹ mn)**

	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E
<b>Profit model (Rs mn)</b>									
Net sales	29,818	31,209	31,796	33,923	32,980	33,704	36,648	40,048	43,764
<b>EBITDA</b>	<b>6,584</b>	<b>6,226</b>	<b>6,875</b>	<b>7,167</b>	<b>8,949</b>	<b>10,049</b>	<b>10,590</b>	<b>11,534</b>	<b>12,504</b>
Other income	651	722	836	481	646	773	834	845	866
Interest	(19)	(18)	(17)	(24)	(8)	(15)	(15)	(15)	(15)
Depreciation	(251)	(266)	(305)	(361)	(390)	(450)	(432)	(450)	(464)
<b>Pretax profits</b>	<b>6,964</b>	<b>6,663</b>	<b>7,390</b>	<b>7,263</b>	<b>9,197</b>	<b>10,357</b>	<b>10,977</b>	<b>11,914</b>	<b>12,891</b>
Tax	(2,541)	(2,278)	(2,411)	(2,606)	(3,238)	(3,881)	(3,800)	(4,116)	(4,445)
Deferred taxation	191	89	(121)	89	(119)	173	69	66	64
<b>Adjusted net profits</b>	<b>4,679</b>	<b>4,474</b>	<b>4,933</b>	<b>4,746</b>	<b>5,950</b>	<b>6,684</b>	<b>7,246</b>	<b>7,864</b>	<b>8,509</b>
<b>Earnings per share (Rs)</b>	<b>9.5</b>	<b>9.0</b>	<b>10.0</b>	<b>9.6</b>	<b>12.0</b>	<b>13.5</b>	<b>14.7</b>	<b>15.9</b>	<b>17.2</b>
<b>Balance sheet (Rs mn)</b>									
Total equity	6,042	6,492	7,514	4,968	5,756	5,957	6,061	6,187	6,363
Deferred taxation liability	(562)	(651)	(530)	(618)	(499)	(672)	(741)	(807)	(871)
Total borrowings	—	—	—	—	—	—	—	—	—
Current liabilities	7,991	8,303	8,636	9,951	10,860	12,916	13,511	14,294	15,184
<b>Total liabilities and equity</b>	<b>13,471</b>	<b>14,145</b>	<b>15,621</b>	<b>14,300</b>	<b>16,117</b>	<b>18,201</b>	<b>18,830</b>	<b>19,674</b>	<b>20,676</b>
Cash	5,490	5,746	5,942	4,315	6,965	8,219	8,262	8,485	8,801
Current assets	6,545	6,828	7,925	8,108	7,300	8,139	8,782	9,463	10,213
Total fixed assets	1,436	1,571	1,753	1,877	1,853	1,843	1,786	1,726	1,662
Investments	—	—	—	—	—	—	—	—	—
<b>Total assets</b>	<b>13,471</b>	<b>14,145</b>	<b>15,621</b>	<b>14,300</b>	<b>16,117</b>	<b>18,201</b>	<b>18,830</b>	<b>19,674</b>	<b>20,676</b>
<b>Free cash flow (Rs mn)</b>									
Operating cash flow, excl. working capital	4,433	4,428	4,704	4,873	6,262	6,253	6,775	7,403	8,043
Working capital	(948)	223	(756)	580	1,128	1,216	(48)	103	140
Capital expenditure	(366)	(348)	(260)	(504)	(370)	(441)	(375)	(390)	(400)
<b>Free cash flow</b>	<b>3,119</b>	<b>4,303</b>	<b>3,688</b>	<b>4,950</b>	<b>7,020</b>	<b>7,028</b>	<b>6,352</b>	<b>7,116</b>	<b>7,783</b>
Investments	—	—	—	—	—	—	—	—	—
Other income	480	356	559	366	392	773	834	845	866
<b>Ratios (%)</b>									
RoAE	90.4	79.0	79.3	83.7	128.1	128.0	136.7	147.0	156.5
<b>RoACE</b>	<b>88.2</b>	<b>79.3</b>	<b>77.1</b>	<b>84.0</b>	<b>124.0</b>	<b>127.0</b>	<b>136.8</b>	<b>147.2</b>	<b>156.7</b>
<b>Assumptions</b>									
<b>Volume (mn liters)</b>	<b>208.7</b>	<b>203.9</b>	<b>196.8</b>	<b>195.9</b>	<b>191.1</b>	<b>199.4</b>	<b>208.5</b>	<b>218.8</b>	<b>229.5</b>
Gross realization (Rs/liter)	142.9	153.1	161.5	173.1	172.6	169.0	175.7	183.1	190.7
<b>Gross contribution (Rs/liter)</b>	<b>61.1</b>	<b>63.4</b>	<b>68.6</b>	<b>75.0</b>	<b>90.0</b>	<b>92.2</b>	<b>93.4</b>	<b>96.2</b>	<b>98.9</b>
<b>EBITDA margins (%)</b>	<b>22.1</b>	<b>19.9</b>	<b>21.6</b>	<b>21.1</b>	<b>27.1</b>	<b>29.8</b>	<b>28.9</b>	<b>28.8</b>	<b>28.6</b>

Source: Company, Kotak Institutional Equities estimates

**Analyst meeting takeaways.** The key takeaways from our interaction with Mr. Naveen Jindal are (1) blast furnace commissioning for March 2017 is on track with detailed planning for phase-wise ramp-up, (2) Angul plant at present is operating sub-optimally (high cost, low volumes) due to problems with coal-gasification/DRI plant—BF commissioning can change this, (3) company has seen interest for strategic stake from Chinese/Japanese steel mills but at lower valuations. JSP would be open to bring in strategic partner when operations stabilize and valuations improve, (4) JSP will not undertake any further major 'asset' divestment or investment. **BUY.**

#### Company data and valuation summary

Jindal Steel and Power

Stock data				Forecasts/Valuations						
				2017E	2018E	2019E				
52-week range (Rs) (high,low)				112-52	EPS (Rs)	(21.7)	(8.5)	2.6		
Market Cap. (Rs bn)				100.9	EPS growth (%)	(19.4)	60.8	130.8		
Shareholding pattern (%)					P/E (X)	(5.1)	(12.9)	42.0		
Promoters				61.9	Sales (Rs bn)	211.7	287.4	345.4		
Fls				17.6	Net profits (Rs bn)	(19.9)	(7.8)	2.4		
MFs				1.1	EBITDA (Rs bn)	45.1	62.1	75.8		
Price performance (%)				1M	3M	12M	EV/EBITDA (X)	12.9	9.2	7.3
Absolute				42.9	64.7	94.3	ROE (%)	(7.4)	(2.2)	0.7
Rel. to BSE-30				33.8	48.1	60.1	Div. Yield (%)	0.0	0.0	0.0

#### Management's key focus on early ramp-up of blast furnace and stabilization of Angul plant

JSP's Angul steel plant has been a drag on the company's financials until now due to weak operational performance despite high capital employed. The problem is mainly centered around operational issues in running the coal gasification plant and consequently DRI—the high quality coal required at the coal gasification plant increases costs and there are operational disruptions. The plant is operating at low utilization of below 100,000 tons per month of production with marginal EBITDA contribution of ₹500-600 mn (per month) compared to overall capital employed of ₹270-280 bn. The financials of Angul plant will improve from the commissioning of the blast furnace.

The 3.2 mtpa blast furnace is expected to be operational by April 2017 with associated commissioning of downstream BOF by August 2017. The company expects Angul volumes to increase to (1) 200,000 tons per month from April 2017, (2) 350,000 tons per months from September 2017 (after BOF is commissioned), and (3) 425,000 tons per month from March 2018—after coke oven batteries are commissioned as it will provide gas as energy source for DRI.

#### Synchronization with downstream operations—Angul to depend on Patratu, Raigarh on its own

The commissioning of the blast furnace will take steel-making capacity at Angul to 5 mtpa. The company will use downstream finished steel capacities at (1) Angul of 2.6 mtpa (includes plate and rebar mill), and (2) Patratu of 1.6 mtpa (wire rod and rebar mill) for Angul plant. In addition, JSP may also tie up with Jindal Stainless for the use of their 0.6 mtpa Hot Strip Mill at Jajpur to convert slabs. The Raigarh plant (3 mtpa) will be mostly self-sufficient and any production over downstream capacities (2.35 mtpa) will be sold as rounds and semis.

#### Strategic partner remains an option but valuation is important

The management highlighted that it was in discussions with Japanese and Chinese steel companies to induct them as strategic partners but it is not comfortable at current low offers. The company will work towards stabilizing the operations which can reflect in improved valuations. The company also refuted media reports about the strategic sale of a 2,400 MW power plant. The focus would be to retain major assets and stabilize them. It has also ruled out further investments except to complete current projects or aid cost efficiencies in existing operations.

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### Other key management meeting notes

- ▶ **Operational disruptions at DRI plant.** The DRI plant has some operational issue and will go for a shutdown in April 2017 for 3-4 months after the blast furnace is commissioned. The weak production at DRI plant (0.8 mtpa to 1mtpa) also results in higher costs due to higher overheads. The current cost at Angul is higher than at Raigarh plant.

The management expects cost for DRI to also decline with the commissioning of BF led by (1) using gases from BF and coke oven, (2) government has approved that linkage coal can be used for the coal gasification plant. This can reduce coal costs for the DRI plant, and (3) higher production will result in lower overheads.

- ▶ **Demand for steel India.** The management is confident of selling additional 2.5 – 3 mtpa of volumes in the India market. The key demand drivers are (1) about 55% of rebar market is being catered to by secondary producers. The company is promoting Jindal Panther and expects to gain market share from secondary producers, (2) Plates demand in domestic market is growing strongly. The company has also tied up with Jindal Saw to supply plates for a 300 kt export order it has for FY2018.
- ▶ **International operations—earnings and debt.** There is about US\$2 bn of debt in international operations. Of this, US\$1 bn is at Oman steel plant which continues to report strong earnings. The balance US\$ 1bn pertains to mining operations in Africa and Australia and has low cost of borrowing. As per the management, the annual interest payment for US\$1 bn loan is about US\$40 mn, but the company expects to earn US\$10 mn per month from these mining operations. Australian (US\$3-5 mn) and Mozambique operations (US\$3 mn) will account for the bulk of these earnings.
- ▶ **Open to certain low pay-back projects.** JSP is open to taking a few small low pay-back projects to improve cost efficiencies in steel operations. Key projects include (1) slurry pipeline for fines transportation which can cut transportation costs by more than half and has payback of less than 1 year. Investment in such a project will be less than ₹5 bn, and (2) shifting coking coal washery from Raigarh which can save ₹400/ton in logistics costs, etc.
- ▶ **Capex and investment in steel plant.** The total capex for the blast furnace project was ₹70 bn of which ~₹50 bn is already spent. JSP will spend ₹10 bn each over the next two years to complete the projects. As some retention payments are released later, there will be capex payments in FY2019E.
- ▶ **Mine auctions—being prudent to not overpay.** The management highlighted that it has refrained in overpaying for the coal and iron-ore mine auctions given long term tie-ups and expectation of easy availability of these resources. The company had bid for iron-ore mines in Odisha but found it prudent to opt out amid rising bids.
- ▶ **Debt servicing.** The management highlighted that it continued to pay interest to banks and overdues are gradually declining. It has repayments due of ₹10 bn each in FY2018 and FY2019 which it expects to pay through internal accruals.

**Exhibit 1 : The commissioning of 3.2 mtpa blast furnace at Angul will enable JSP to increase steel volumes in FY2018-19E**

Details of JSP's upstream and downstream steel making facilities, March fiscal year ends (tons)

	2016	2017E	2018E	2019E
<b>Installed capacity (tons)</b>				
Sponge iron - Raigarh	1,370,000	1,370,000	1,370,000	1,370,000
Sponge iron - Angul	1,800,000	1,800,000	1,800,000	1,800,000
<b>Sponge iron (tons)</b>	<b>3,170,000</b>	<b>3,170,000</b>	<b>3,170,000</b>	<b>3,170,000</b>
Hot metal/pig iron - Raigarh	2,125,000	2,125,000	2,125,000	2,125,000
Hot metal/pig iron - Angul	—	—	3,200,000	3,200,000
<b>Hot metal/pig iron</b>	<b>2,125,000</b>	<b>2,125,000</b>	<b>5,325,000</b>	<b>5,325,000</b>
Mild steel - Raigarh	3,250,000	3,250,000	3,250,000	3,250,000
Angul	1,500,000	1,500,000	4,000,000	4,000,000
<b>Mild Steel</b>	<b>4,750,000</b>	<b>4,750,000</b>	<b>7,250,000</b>	<b>7,250,000</b>
<b>Finished steel capacities (tons)</b>				
Plate mill - Raigarh	1,000,000	1,000,000	1,000,000	1,000,000
Plate mill - Angul	1,200,000	1,200,000	1,200,000	1,200,000
Rail & Universal beam mill	750,000	750,000	750,000	750,000
Wire rod (Patraru)	600,000	600,000	600,000	600,000
Medium and light sections	600,000	600,000	600,000	600,000
Bar mill (Patraru)	1,000,000	2,400,000	2,400,000	2,400,000
<b>Finished steel capacities (tons)</b>	<b>5,150,000</b>	<b>6,550,000</b>	<b>6,550,000</b>	<b>6,550,000</b>
<b>Steel volumes (mn tons)</b>	<b>3,274,320</b>	<b>3,513,455</b>	<b>4,803,129</b>	<b>5,994,098</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 2 : JSP's steel EBITDA increased 45% qoq aided by increase in steel realizations and better volumes**

JSP's domestic steel sales and realizations, 3QFY15 - 3QFY17, (mn tons, Rs/ton)

	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	(Change %)	
										yoy	qoq
<b>Segment revenue (Rs mn)</b>											
Iron & Steel (Rs mn)	32,784	32,486	29,757	30,699	26,334	32,202	30,022	30,040	37,205	41	24
Power (Rs mn)	7,772	6,919	7,037	7,136	6,997	6,906	6,396	6,363	6,983	(0)	10
Others (Rs mn)	539	626	676	587	1,534	1,553	609	683	876		
<b>Sub-total</b>	<b>41,095</b>	<b>40,030</b>	<b>37,470</b>	<b>38,423</b>	<b>34,864</b>	<b>40,661</b>	<b>37,026</b>	<b>37,086</b>	<b>45,064</b>	<b>29</b>	<b>22</b>
Less: Intersegment revenue	5,685	6,745	6,132	6,698	5,420	6,043	5,791	5,829	9,874	82	69
<b>Net segment revenue</b>	<b>35,410</b>	<b>33,286</b>	<b>31,339</b>	<b>31,725</b>	<b>29,444</b>	<b>34,618</b>	<b>31,235</b>	<b>31,257</b>	<b>35,190</b>	<b>20</b>	<b>13</b>
<b>Steel product sales (tons)</b>	<b>714,048</b>	<b>779,274</b>	<b>820,000</b>	<b>780,000</b>	<b>740,000</b>	<b>1,000,000</b>	<b>780,000</b>	<b>810,000</b>	<b>840,000</b>	<b>14</b>	<b>4</b>
Steel EBITDA	10,000	6,222	7,104	6,331	4,230	5,992	6,621	5,371	7,810	85	45
<b>EBITDA/ton</b>	<b>14,005</b>	<b>7,984</b>	<b>8,663</b>	<b>8,117</b>	<b>5,716</b>	<b>5,992</b>	<b>8,488</b>	<b>6,630</b>	<b>9,298</b>	<b>63</b>	<b>40</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: JSP has 870 MW of long term PPA's of which some portion is yet to start  
JSP's existing long term power purchase agreements (MW)

Project	Buyer	Period	Quantity (MW)
Tamnar II	Tamil Nadu	Feb 2014 to Sep 2028	400
Tamnar II	KSEB	Jun 2016 to May 2041	200
Tamnar II	KSEB	Oct 2017 to Sep 2042	150
Tamnar II	Chhattisgarh	From start of commercial operation	60
Tamnar II	Chhattisgarh	From start of commercial operation	60
<b>Total</b>			<b>870</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Jindal Power EBITDA increased 66% qoq led by 14% qoq increase in blended realizations due to few one-off recoveries  
Jindal Power, Interim results, 3QFY15 - 3QFY17, (mn units, Rs mn)

	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	(Change %)	
										yoy	qoq
<b>Jindal Power</b>											
Sales (Rs mn)	8,250	7,740	6,160	8,890	8,150	6,920	6,680	7,340	8,540	5	16
Power generation (mn units)	2,699	2,742	1,875	2,728	2,580	2,358	2,171	2,313	2,356	(9)	2
JPL realizations (Rs/unit)	3.4	3.1	3.7	3.6	3.5	3.3	3.4	3.5	4.0	15	14
<b>EBITDA</b>	<b>4,140</b>	<b>3,350</b>	<b>1,800</b>	<b>1,680</b>	<b>1,860</b>	<b>1,190</b>	<b>1,820</b>	<b>1,820</b>	<b>3,020</b>	<b>62</b>	<b>66</b>
Cost/unit (Rs/unit)	1.7	1.8	2.6	2.9	2.7	2.7	2.5	2.7	2.6	(4)	(2)
<b>EBITDA/unit (Rs/unit)</b>	<b>1.7</b>	<b>1.4</b>	<b>1.1</b>	<b>0.7</b>	<b>0.8</b>	<b>0.6</b>	<b>0.9</b>	<b>0.9</b>	<b>1.4</b>	<b>78</b>	<b>63</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: We expect debt situation to improve at JSP from FY2019E led by improved steel earnings  
JSP's break-up of debt at parent and various subsidiaries, March fiscal year-ends, 2014-2019E, (Rs bn)

	2013	2014	2015	2016	2017E	2018E	2019E
<b>Net debt (Rs bn)</b>							
Standalone (steel)	204	235	270	254	270	268	256
Jindal Power	17	36	55	83	83	73	63
International subsidiaries	15	79	104	125	128	130	130
-Shadeed	NA	NA	54	62	62	62	59
-Wollongong	NA	NA	32	34	35	36	37
-Others			18	30	31	32	33
<b>Total net debt (Rs bn)</b>	<b>236</b>	<b>350</b>	<b>429</b>	<b>462</b>	<b>480</b>	<b>471</b>	<b>449</b>
<b>EBITDA (Rs bn)</b>							
Standalone (steel)	45.8	40.0	37.2	21.8	29.0	41.5	52.9
Jindal Power	14.2	15.3	16.8	6.7	9.3	13.0	15.3
International subsidiaries	5.7	2.3	0.5	2.6	6.8	7.6	7.7
<b>Total EBITDA (Rs bn)</b>	<b>65.7</b>	<b>57.7</b>	<b>54.6</b>	<b>31.1</b>	<b>45.1</b>	<b>62.1</b>	<b>75.8</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Jindal Steel and Power, Key assumptions, March fiscal year ends, 2014-2019E (Rs mn, mn tons, Rs/ton)

	2013	2014	2015	2016	2017E	2018E	2019E
<b>Standalone steel business</b>							
<b>Total steel sales (mn tons)</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>	<b>3.3</b>	<b>3.5</b>	<b>4.8</b>	<b>6.0</b>
<b>Revenues (Rs mn)</b>							
Mild and finished steel sales	124,507	110,160	110,381	104,386	117,871	175,367	225,111
Iron ore pellets	20,223	14,720	4,361	3,824	8,991	9,206	9,206
Power	8,970	6,893	9,993	6,963	9,921	8,087	5,453
Others	14,583	12,781	15,178	20,594	22,098	30,210	37,700
<b>Total</b>	<b>168,281</b>	<b>144,554</b>	<b>139,913</b>	<b>135,766</b>	<b>158,881</b>	<b>222,870</b>	<b>277,471</b>
<b>Realization (Rs/ton)</b>							
Mild / finished steel (US\$/ ton)	704	576	590	444	453	483	496
<b>Re/US\$ rate</b>	<b>54.4</b>	<b>60.5</b>	<b>61.1</b>	<b>65.4</b>	<b>67.5</b>	<b>69.0</b>	<b>69.0</b>
<b>EBITDA (Rs mn)</b>							
<b>Steel EBITDA (Rs mn)</b>	<b>45,788</b>	<b>39,709</b>	<b>37,222</b>	<b>21,772</b>	<b>28,991</b>	<b>41,468</b>	<b>52,851</b>
<b>Jindal Power</b>							
<b>Capacity (MW)</b>	<b>1,000</b>	<b>1,000</b>	<b>2,200</b>	<b>2,800</b>	<b>2,800</b>	<b>3,400</b>	<b>3,400</b>
Units generated (mn units)	6,447	7,012	9,029	8,880	8,624	12,748	14,938
PLF (%)	80	87	48	39	38	46	54
Revenues (Rs mn)	24,204	24,568	32,276	30,186	31,048	45,256	53,028
EBITDA (Rs mn)	14,175	15,331	16,835	6,701	9,250	13,036	15,274

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Jindal Steel and Power, SOTP-based valuation, March 2019E basis (Rs mn)

	(Rs bn)	(Rs/share)
<b>Steel business</b>		
Steel business EBITDA	53	
Assigned multiple (X)	6.6	
<b>Steel business enterprise value (Includes captive power)</b>	<b>351</b>	<b>384</b>
Less: Debt of steel business	(256)	(280)
<b>Steel business equity value (A)</b>	<b>95</b>	<b>104</b>
<b>Power business</b>		
Equity value of Tamnar I and Tamnar II	95	104
<b>Power business equity value (B)</b>	<b>95</b>	<b>104</b>
<b>International subsidiaries</b>		
EBITDA (mainly Shadeed)	8	
Assigned multiple (X)	7	
<b>Enterprise value (Rs mn)</b>	<b>54</b>	<b>59</b>
Less: Debt of international subsidiaries	(130)	(142)
<b>International business equity value (B)</b>	<b>(76)</b>	<b>(83)</b>
<b>Target price (A+B+C) (Rs/share)</b>	<b>114</b>	<b>125</b>

Source: Kotak Institutional Equities estimates



Exhibit 8: Jindal Steel &amp; Power (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2014-2019E (Rs mn)

	2014	2015	2016	2017E	2018E	2019E
<b>Profit model (Rs mn)</b>						
Net sales	200,040	201,592	192,024	211,672	287,438	345,352
<b>EBITDA</b>	<b>57,671</b>	<b>54,598</b>	<b>31,057</b>	<b>45,066</b>	<b>62,133</b>	<b>75,802</b>
Other income	656	2,256	5,273	1,250	1,503	1,542
Interest	(14,915)	(25,837)	(32,527)	(34,515)	(34,986)	(32,814)
Depreciation	(18,292)	(27,328)	(28,194)	(39,707)	(39,851)	(40,662)
Unusual or infrequent items	-	(19,116)	(2,358)	(6,257)	—	—
<b>Profit before tax</b>	<b>25,120</b>	<b>(15,428)</b>	<b>(26,749)</b>	<b>(34,163)</b>	<b>(11,201)</b>	<b>3,868</b>
Taxes	(6,182)	882	6,763	5,999	2,410	(2,465)
<b>Net profit</b>	<b>18,938</b>	<b>(14,546)</b>	<b>(19,986)</b>	<b>(28,164)</b>	<b>(8,791)</b>	<b>1,403</b>
Share in profit/(loss) of associates	26	26	(14)	—	—	—
Minority interest	140	1,738	980	2,019	1,000	1,000
<b>Profit after tax and minority interest</b>	<b>19,104</b>	<b>(12,781)</b>	<b>(19,020)</b>	<b>(26,145)</b>	<b>(7,791)</b>	<b>2,403</b>
<b>Adjusted PAT</b>	<b>19,104</b>	<b>6,335</b>	<b>(16,662)</b>	<b>(19,887)</b>	<b>(7,791)</b>	<b>2,403</b>
<b>Earnings per share (Rs)</b>	<b>20.9</b>	<b>6.9</b>	<b>(18.2)</b>	<b>(21.7)</b>	<b>(8.5)</b>	<b>2.6</b>
<b>Balance sheet (Rs mn)</b>						
Equity	226,105	210,421	181,471	355,326	347,535	349,938
Deferred tax liability	14,727	20,185	13,477	12,002	10,418	9,931
Total Borrowings	363,682	455,007	468,046	491,746	479,593	460,769
Current liabilities	125,405	61,181	64,396	67,530	82,482	92,784
Minority interest	10,802	8,573	8,003	5,983	4,983	3,983
<b>Total liabilities</b>	<b>740,721</b>	<b>755,366</b>	<b>735,392</b>	<b>932,587</b>	<b>925,011</b>	<b>917,405</b>
Net fixed assets	522,072	551,677	567,148	749,988	724,639	698,980
Goodwill	5,930	5,485	5,485	5,485	5,485	5,485
Investments	3,418	14,324	—	—	—	—
Cash	10,153	11,391	6,204	11,751	8,722	11,927
Other current assets	199,148	172,490	156,555	165,363	186,166	201,013
<b>Total assets</b>	<b>740,720</b>	<b>755,366</b>	<b>735,392</b>	<b>932,588</b>	<b>925,011</b>	<b>917,405</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow excl. working capital	28,299	(4,776)	(6,281)	10,068	29,476	41,578
Working capital changes	12,816	(19,716)	13,660	(5,674)	(5,850)	(4,546)
Capital expenditure	(141,525)	(50,456)	(38,529)	(22,547)	(14,502)	(15,003)
<b>Free cash flow</b>	<b>(100,411)</b>	<b>(74,947)</b>	<b>(31,150)</b>	<b>(18,153)</b>	<b>9,123</b>	<b>22,030</b>
<b>Ratios</b>						
Debt/equity	1.7	2.3	2.7	1.4	1.4	1.3
Net debt/equity	1.6	2.1	2.6	1.4	1.4	1.3
RoAE (%)	8.9	3.0	(10.0)	(9.9)	(2.3)	0.7
<b>RoACE (%)</b>	<b>5.7</b>	<b>3.9</b>	<b>0.6</b>	<b>(0.3)</b>	<b>2.0</b>	<b>3.1</b>

Source: Company, Kotak Institutional Equities estimates

FEBRUARY 23, 2017

UPDATE

BSE-30: 28,865

**South saves the day.** Strong double-digit volume growth in South India helped maintain respectability of earnings for cement players in 3QFY17, as the region benefitted from improved demand and a favorable base. Price increases taken in 4QFY16 continue to aid strong head-line realization growth (yoy) for North-based players, even as a 5% qoq decline in realizations implies a declining profit trend. Weak price trends, impact of rising fuel cost and an unfavorable volume base point to a weaker 4QFY17 for cement players.

#### Resilient dispatch numbers despite de-monetization, aided by low base in South

Cement companies reported flat volumes at 37 mn tons in 3QFY17, though weak volume growth by pan-India players (-6% yoy) was offset by strong 21% yoy growth in cement volumes by players in South India. Cement players in South benefitted from (1) low-base effect on account of floods in Chennai during the same period last year, (2) improved institutional demand in Andhra Pradesh/ Telangana, and (3) lower impact of de-monetization on account of higher penetration of banking system in South.

ACC and Ambuja were the laggards with 9% yoy decline in cement volumes, even as Ultratech reported a more resilient performance with a 2% yoy decline in cement volumes. Dalmia Bharat (+36% yoy), India Cement (+22% yoy) and Orient Cement (+19% yoy) among our coverage universe reported strong volume growth, owing to their presence in South India markets.

#### Profitability declines 11% qoq though still a respectable improvement from 3QFY16

Profitability of cement companies declined 11% qoq to ₹753/ton—still a respectable 10% yoy improvement from the same period last year, though meaningfully lower than the profitability of ₹970/ton reported in 1QFY17. The drop in profitability over the past three quarters can be attributed to higher production cost (primarily of power and fuel) that moved up to ₹3,712/ton (-1% yoy, +0.5% qoq) from ₹3,430/ton in 1QFY17. Realizations have remained largely range-bound over the past three quarters and came in at ₹4,464/ton (+1% yoy, -1.7% qoq) in 3QFY17.

North-based players reported profitability of ₹766/ton (+35% yoy), still substantially better off compared to the same period last year but down 21% qoq (₹976/ton in 2QFY17). North-based players have enjoyed the dual benefit of rising prices and declining production cost since 1QFY17, though realizations have declined 5% qoq reflecting a drop in profitability.

#### Price trends and input costs point to a weaker 4QFY17, volumes less likely to be the savior

Current price trends suggest that all-India prices will settle at ₹319/bag in 4QFY17—down ₹7/bag qoq, though still up ₹15/bag yoy. However, on the cost-side the full impact of the increase in pet-coke prices will hit earnings in 4QFY17. We highlight that the full benefit of low cost fuel came through in 4QFY16 with average production cost coming down by 7% qoq to ₹3,487/ton and further declined by 3% qoq to ₹3,430/ton in 1QFY17. On the volume front, cement consumption in 4QFY16 stood at 78 mn tons (+11.4% yoy) among the best quarters for the industry and accordingly the sector deals with head-winds of a very unfavorable base.

#### Stocks have re-traced over the past month, though earnings risk remains high

Large cap stocks have re-bounded by 5-10% over the past month reflecting a potential normalization in demand. We highlight that our earnings estimates do carry a downside risk on account of weak price trends and continued cost pressures.

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**Exhibit 1: Companies with higher presence in north saw sequential drop in realizations, South-based players saw strong volumes**  
Operational metrics for cement companies for the quarter ended September 2016

	ACC					Ambuja Cements				
	Dec-16	Dec-15	Sep-16	% (yoy)	% (qoq)	Dec-16	Dec-15	Sep-16	% (yoy)	% (qoq)
Sales, (mn tons)	5.5	6.0	5.1	(9)	7	5.0	5.5	4.5	(9)	11
Realization (Rs/ton)	4,477	4,409	4,462	2	—	4,393	4,299	4,454	2	(1)
Operating costs (Rs/ton)	4,167	4,055	4,036	3	3	3,804	3,744	3,841	2	(1)
<b>Profitability (Rs/ton)</b>	<b>309</b>	<b>354</b>	<b>426</b>	<b>(13)</b>	<b>(27)</b>	<b>589</b>	<b>555</b>	<b>613</b>	<b>6</b>	<b>(4)</b>

	Ultratech Cement					India Cement				
	Dec-16	Dec-15	Sep-16	% (yoy)	% (qoq)	Dec-16	Dec-15	Sep-16	% (yoy)	% (qoq)
Sales, (mn tons)	11.0	11.3	10.6	(2)	4	2.4	1.9	2.4	22	(2)
Realization (Rs/ton)	5,032	5,104	5,117	(1)	(2)	4,653	4,746	4,721	(2)	(1)
Operating costs (Rs/ton)	4,083	4,177	4,080	(2)	—	3,866	4,003	3,827	(3)	1
<b>Profitability (Rs/ton)</b>	<b>949</b>	<b>927</b>	<b>1,037</b>	<b>2</b>	<b>(8)</b>	<b>786</b>	<b>743</b>	<b>894</b>	<b>6</b>	<b>(12)</b>

	Shree Cement					JK Lakshmi Cement				
	Dec-16	Dec-15	Sep-16	% (yoy)	% (qoq)	Dec-16	Dec-15	Sep-16	% (yoy)	% (qoq)
Sales, (mn tons)	4.9	4.7	4.6	5	8	1.8	1.8	1.7	4	5
Realization (Rs/ton)	3,697	3,504	3,969	5	(7)	3,665	3,683	3,765	(0)	(3)
Operating costs (Rs/ton)	2,707	2,750	2,617	(2)	3	3,214	3,303	3,227	(3)	(0)
<b>Profitability (Rs/ton)</b>	<b>989</b>	<b>754</b>	<b>1,352</b>	<b>31</b>	<b>(27)</b>	<b>452</b>	<b>380</b>	<b>538</b>	<b>19</b>	<b>(16)</b>

	JK Cement					Orient Cement				
	Dec-16	Dec-15	Sep-16	% (yoy)	% (qoq)	Dec-16	Dec-15	Sep-16	% (yoy)	% (qoq)
Sales, (mn tons)	1.7	1.8	1.6	(6)	1	1.3	1.1	1.2	19	7
Realization (Rs/ton)	3,574	3,507	3,641	2	(2)	3,632	3,340	3,273	9	11
Operating costs (Rs/ton)	3,122	3,251	3,243	(4)	(4)	3,283	3,141	3,137	5	5
<b>Profitability (Rs/ton)</b>	<b>452</b>	<b>257</b>	<b>398</b>	<b>76</b>	<b>14</b>	<b>349</b>	<b>198</b>	<b>136</b>	<b>76</b>	<b>156</b>

Source: Company, Kotak Institutional Equities estimates

**Exhibit 2: Cement demand growth was weak in 3QFY17 owing to impact of de-monetization**  
Quarterly volumes of cement companies, March fiscal year-ends, 3QFY16 - 3QFY17 (mn tons)

	3QFY17	3QFY16	2QFY17	Growth (%)	
				(yoy)	(qoq)
ACC	5.5	6.0	5.1	(9)	7
Ambuja	5.0	5.5	4.5	(9)	11
Ultratech	11.0	11.3	10.6	(2)	4
Shree Cement	4.9	4.7	4.6	5	8
India Cement	2.4	1.9	2.4	22	(2)
JK Cement	1.7	1.8	1.6	(6)	1
JK Lakshmi Cement	1.8	1.8	1.7	4	5
Dalmia Cement (ex-OCL)	2.3	1.7	2.2	36	4
Orient Cement	1.3	1.1	1.2	19	7
OCL India	1.2	1.3	1.2	(2)	4
<b>Total</b>	<b>37.0</b>	<b>36.9</b>	<b>35.1</b>	<b>0</b>	<b>6</b>

Source: Companies, Kotak Institutional Equities

**Exhibit 3: Cement realizations declined sequentially for companies in North**

Quarterly realizations of cement companies, March fiscal year-ends, 1QFY15 - 3QFY17 (Rs/ton)

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	yoy growth (%)			
												1QFY17	2QFY17	3QFY17	
<b>Pan-India players</b>															
ACC	4,492	4,577	4,497	4,620	4,460	4,530	4,409	4,246	4,341	4,462	4,477		(3)	(1)	2
Ambuja	4,674	4,684	4,575	4,532	4,239	4,347	4,299	4,127	4,412	4,454	4,393		4	2	2
Ultratech	5,000	5,175	5,228	5,335	5,066	5,293	5,104	4,876	4,864	5,117	5,032		(4)	(3)	(1)
<b>Pan-India</b>	<b>4,782</b>	<b>4,902</b>	<b>4,874</b>	<b>4,962</b>	<b>4,707</b>	<b>4,873</b>	<b>4,727</b>	<b>4,545</b>	<b>4,628</b>	<b>4,803</b>	<b>4,742</b>		<b>(2)</b>	<b>(1)</b>	<b>0</b>
<b>North based players</b>															
Shree Cement	4,009	3,655	3,547	3,544	3,487	3,648	3,504	3,363	3,906	3,969	3,697		12	9	5
JK Cement	3,844	3,787	3,658	3,942	3,652	3,806	3,507	3,410	3,706	3,641	3,574		1	(4)	2
JK Lakshmi Cement	4,170	3,922	3,706	3,774	3,567	3,686	3,683	3,452	3,684	3,765	3,665		3	2	(0)
<b>North</b>	<b>4,005</b>	<b>3,741</b>	<b>3,606</b>	<b>3,683</b>	<b>3,540</b>	<b>3,690</b>	<b>3,543</b>	<b>3,393</b>	<b>3,817</b>	<b>3,856</b>	<b>3,666</b>		<b>8</b>	<b>5</b>	<b>3</b>
<b>South based players</b>															
India Cement	4,244	4,655	4,765	4,801	5,032	4,874	4,746	4,597	4,521	4,721	4,653		(10)	(3)	(2)
Dalmia Cement (ex-OCL)	4,335	4,745	4,616	5,340	5,210	4,950	5,016	4,939	4,779	4,741	4,491		(8)	(4)	(10)
OCL India	5,422	5,457	5,150	4,930	4,934	4,792	4,820	4,732	4,574	5,258	5,506		(7)	10	14
Orient Cement	3,527	3,901	3,734	3,911	3,574	3,519	3,340	3,227	3,126	3,273	3,632		(13)	(7)	9
<b>South</b>	<b>4,333</b>	<b>4,669</b>	<b>4,610</b>	<b>4,851</b>	<b>4,829</b>	<b>4,654</b>	<b>4,591</b>	<b>4,477</b>	<b>4,348</b>	<b>4,576</b>	<b>4,570</b>		<b>(10)</b>	<b>(2)</b>	<b>(0)</b>
<b>Overall</b>	<b>4,562</b>	<b>4,622</b>	<b>4,575</b>	<b>4,684</b>	<b>4,492</b>	<b>4,577</b>	<b>4,441</b>	<b>4,279</b>	<b>4,401</b>	<b>4,543</b>	<b>4,464</b>		<b>(2)</b>	<b>(1)</b>	<b>1</b>

Source: Companies, Kotak Institutional Equities

**Exhibit 4: Cost of production inched up as the benefit of low cost fuel continued to recede**

Quarterly production cost of cement companies, March fiscal year-ends, 1QFY15 - 3QFY17 (Rs/ton)

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	yoy growth (%)			
												1QFY17	2QFY17	3QFY17	
<b>Pan India players</b>															
ACC	3,872	4,038	4,192	3,920	4,018	4,077	4,055	3,696	3,679	4,036	4,167		(8)	(1)	3
Ambuja	3,683	3,873	3,936	3,651	3,617	3,736	3,744	3,404	3,403	3,841	3,804		(6)	3	2
Ultratech	4,108	4,377	4,423	4,264	4,149	4,419	4,177	3,902	3,784	4,080	4,083		(9)	(8)	(2)
<b>Pan-India</b>	<b>3,939</b>	<b>4,171</b>	<b>4,243</b>	<b>4,031</b>	<b>3,985</b>	<b>4,171</b>	<b>4,040</b>	<b>3,736</b>	<b>3,669</b>	<b>4,015</b>	<b>4,039</b>		<b>(8)</b>	<b>(4)</b>	<b>(0)</b>
<b>North based players</b>															
Shree Cement	2,900	2,877	2,888	2,789	2,818	2,874	2,750	2,618	2,619	2,617	2,707		(7)	(9)	(2)
JK Cement	3,518	3,591	3,413	3,399	3,436	3,538	3,251	2,938	3,091	3,243	3,122		(10)	(8)	(4)
JK Lakshmi Cement	3,382	3,311	3,204	3,307	3,261	3,305	3,303	3,049	3,127	3,227	3,214		(4)	(2)	(3)
<b>North</b>	<b>3,146</b>	<b>3,130</b>	<b>3,074</b>	<b>3,037</b>	<b>3,045</b>	<b>3,115</b>	<b>2,976</b>	<b>2,780</b>	<b>2,826</b>	<b>2,880</b>	<b>2,900</b>		<b>(7)</b>	<b>(8)</b>	<b>(3)</b>
<b>South based players</b>															
India Cement	3,797	4,004	4,063	3,974	4,148	3,882	4,003	3,756	3,664	3,827	3,866		(12)	(1)	(3)
Dalmia Cement (ex-OCL)	4,086	4,091	4,057	4,306	3,873	3,735	3,633	3,646	3,337	3,513	3,406		(14)	(6)	(6)
OCL India	4,487	4,838	4,354	4,209	3,985	4,167	4,032	3,628	3,430	4,281	4,258		(14)	3	6
Orient Cement	2,933	3,116	3,143	2,972	2,969	3,158	3,141	2,797	2,848	3,137	3,283		(4)	(1)	5
<b>South</b>	<b>3,831</b>	<b>3,999</b>	<b>3,952</b>	<b>3,967</b>	<b>3,848</b>	<b>3,771</b>	<b>3,751</b>	<b>3,525</b>	<b>3,366</b>	<b>3,688</b>	<b>3,683</b>		<b>(13)</b>	<b>(2)</b>	<b>(2)</b>
<b>Overall</b>	<b>3,774</b>	<b>3,926</b>	<b>3,959</b>	<b>3,819</b>	<b>3,773</b>	<b>3,872</b>	<b>3,757</b>	<b>3,487</b>	<b>3,430</b>	<b>3,692</b>	<b>3,712</b>		<b>(9)</b>	<b>(5)</b>	<b>(1)</b>

Source: Companies, Kotak Institutional Equities

**Exhibit 5: Profitability of north based companies remained strong, though lower than preceding quarters**

Quarterly profitability of cement companies, March fiscal year-ends, 1QFY15 - 3QFY17 (Rs/ton)

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	yoy growth (%)			
												1QFY17	2QFY17	3QFY17	
<b>Pan India players</b>															
ACC	620	539	304	700	442	452	354	550	662	426	309	50	(6)	(13)	
Ambuja	991	811	639	881	623	611	555	723	1,009	613	589	62	0	6	
Ultratech	892	798	805	1,072	917	874	927	973	1,080	1,037	949	18	19	2	
<b>Pan-India</b>	<b>843</b>	<b>730</b>	<b>631</b>	<b>931</b>	<b>722</b>	<b>701</b>	<b>686</b>	<b>810</b>	<b>959</b>	<b>788</b>	<b>703</b>	<b>33</b>	<b>12</b>	<b>2</b>	
<b>North based players</b>															
Shree Cement	1,109	778	659	755	670	774	754	745	1,287	1,352	989	92	75	31	
JK Cement	326	196	244	543	216	268	257	472	615	398	452	184	49	76	
JK Lakshmi Cement	788	611	503	466	306	380	380	403	557	538	452	82	41	19	
<b>North</b>	<b>860</b>	<b>612</b>	<b>532</b>	<b>646</b>	<b>495</b>	<b>576</b>	<b>567</b>	<b>612</b>	<b>991</b>	<b>976</b>	<b>766</b>	<b>100</b>	<b>70</b>	<b>35</b>	
<b>South based players</b>															
India Cement	448	651	702	827	884	992	743	842	857	894	786	(3)	(10)	6	
Dalmia Cement (ex-OCL)	249	654	558	1,034	1,338	1,215	1,383	1,294	1,442	1,228	1,085	8	1	(22)	
OCL India	935	618	796	721	948	625	788	1,104	1,144	977	1,248	21	56	58	
Orient Cement	594	785	591	939	606	360	198	431	279	136	349	(54)	(62)	76	
<b>South</b>	<b>502</b>	<b>670</b>	<b>659</b>	<b>884</b>	<b>981</b>	<b>883</b>	<b>839</b>	<b>952</b>	<b>982</b>	<b>888</b>	<b>886</b>	<b>0</b>	<b>0</b>	<b>6</b>	
<b>Overall</b>	<b>788</b>	<b>696</b>	<b>616</b>	<b>866</b>	<b>719</b>	<b>706</b>	<b>684</b>	<b>792</b>	<b>970</b>	<b>851</b>	<b>753</b>	<b>35</b>	<b>21</b>	<b>10</b>	

Source: Companies, Kotak Institutional Equities

**Exhibit 6: Cement prices improved sequentially in West and South**

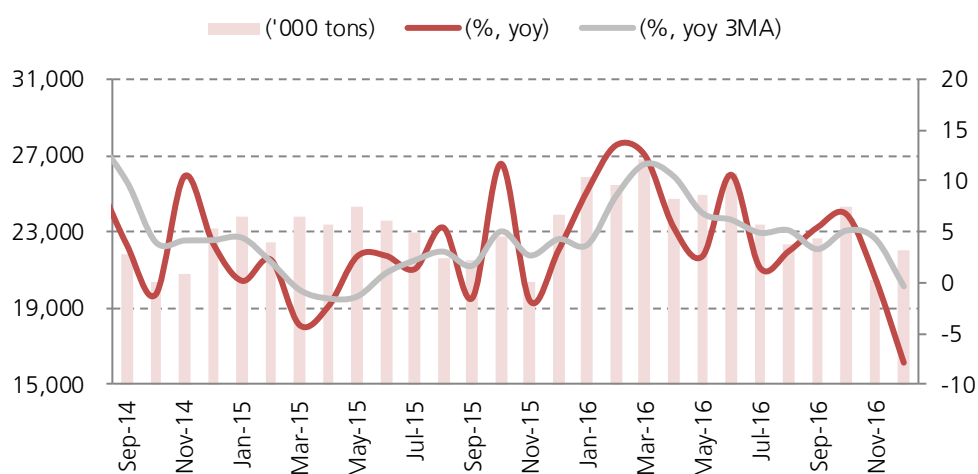
Quarterly cement prices per region (Rs per 50 kg bag)

	3QFY16	1QFY17	2QFY17	3QFY17	3QFY17—change (%)	
					(yoy)	(qoq)
North	271	306	315	303	11	(4)
Central	277	304	321	309	12	(4)
East	341	331	333	326	(4)	(2)
West	271	288	284	304	12	7
South	357	342	354	359	1	1
<b>All India average</b>	<b>310</b>	<b>318</b>	<b>326</b>	<b>326</b>	<b>5</b>	<b>(0)</b>

Source: Industry, Kotak Institutional Equities estimates

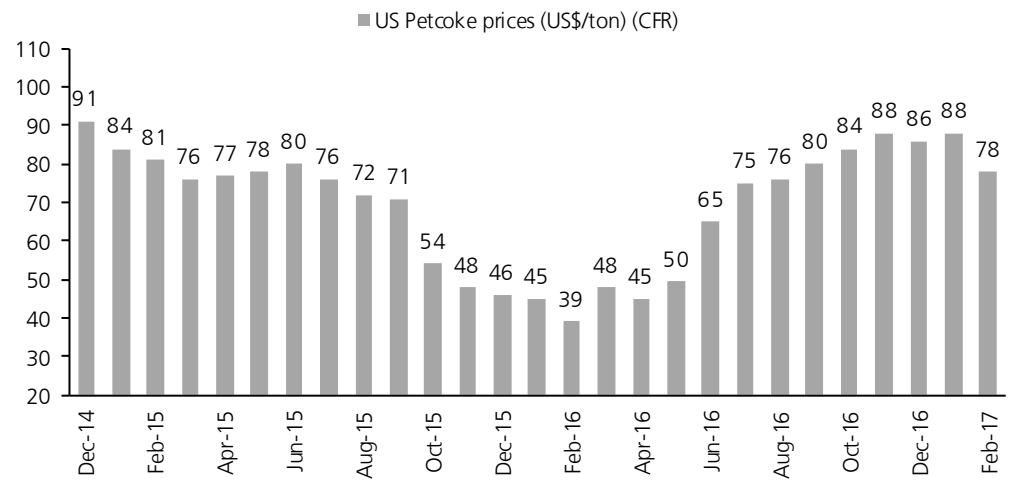
**Exhibit 7: Cement volumes were flat in 3QFY17 owing to impact of de-monetization**

Monthly cement production volumes in India, September 2014 - 2016 ('000 tons, %)



Source: DIPP, Kotak Institutional Equities

**Exhibit 8: The increase in pet coke prices since 1QFY17 will reverse large part of fuel cost savings**  
 US pet coke prices (CFR basis), December 2014 – February 2017 (US\$/ton)



Source: Industry, Kotak Institutional Equities estimates

**Exhibit 9: Among large cap cos., UTCEM & SRCM reported strong earnings growth led by higher cement prices in north markets, lower fuel costs**

Earnings of cement companies for the quarter ended September 2016 (Rs mn)

	Dec-15	Sep-16	Dec-16	Change (%)	
				yoy	qoq
<b>ACC</b>					
Net sales	28,461	24,706	26,686	(6)	8
EBITDA	2,162	2,247	1,915	(11)	(15)
EBIT	603	718	237	(61)	(67)
PBT	1,292	1,265	847	(34)	(33)
PAT	1,026	841	911	(11)	8
Extraordinaries	—	—	428		
PAT-reported	1,026	841	483	(53)	(43)
<b>Ambuja Cements</b>					
Net sales	23,558	20,043	21,967	(7)	10
EBITDA	3,043	2,760	2,947	(3)	7
EBIT	1,402	1,165	1,385	(1)	19
PBT	2,287	3,477	2,003	(12)	(42)
PAT	1,657	2,770	1,759	6	(37)
Extraordinaries	557	—	—		
PAT-reported	1,100	2,770	1,759	60	(37)
<b>Grasim Industries</b>					
Net sales	89,241	82,928	84,954	(5)	2
EBITDA	15,982	16,913	16,057	0	(5)
EBIT	11,131	12,422	11,557	4	(7)
PBT	11,184	14,824	12,726	14	(14)
PAT	6,496	8,460	7,282	12	(14)
Extraordinaries	—	—	—		
PAT-reported	6,496	8,460	7,282	12	(14)
<b>Shree Cement</b>					
Net sales	18,268	20,068	18,434	1	(8)
EBITDA	4,240	6,563	4,689	11	(29)
EBIT	1,197	2,241	1,513	26	(32)
PBT	1,200	3,180	2,459	105	(23)
PAT	1,030	2,915	2,354	129	(19)
Extraordinaries	1	—	—		
PAT-reported	1,029	2,915	2,354	129	(19)
<b>UltraTech Cement</b>					
Net sales	57,473	53,979	55,401	(4)	3
EBITDA	10,439	10,938	10,445	0	(5)
EBIT	7,201	7,799	7,289	1	(7)
PBT	7,262	8,767	7,655	5	(13)
PAT	5,086	6,011	5,634	11	(6)
Extraordinaries	—	—	—		
PAT-reported	5,086	6,011	5,634	11	(6)

Source: Companies, Kotak Institutional Equities

**Exhibit 10: North based regional names gained from higher realizations; Dalmia reported another strong quarter**

Earnings of cement companies for the quarter ended September 2016 (Rs mn)

	Dec-15	Sep-16	Dec-16	Change (%)	
				yoy	qoq
<b>Orient Cement</b>					
Net sales	3,507	3,843	4,547	30	18
EBITDA	208	160	437	110	173
EBIT	(35)	(152)	130	(475)	(186)
PBT	(199)	(488)	(181)	(9)	(63)
PAT	(131)	(294)	(117)	(10)	(60)
Extraordinaries	—	—	—		
PAT-reported	(131)	(294)	(117)	(10)	(60)
<b>JK Lakshmi Cement</b>					
Net sales	6,483	6,556	6,709	3	2
EBITDA	669	937	826	24	(12)
EBIT	250	525	383	53	(27)
PBT	(90)	233	49	(155)	(79)
PAT	(37)	249	76	(307)	(69)
Extraordinaries	—	—	—		
PAT-reported	(37)	249	76	(307)	(69)
<b>JK Cement</b>					
Net sales	9,028	9,110	8,878	(2)	(3)
EBITDA	1,260	1,462	1,482	18	1
EBIT	864	1,024	1,035	20	1
PBT	328	522	815	148	56
PAT	171	409	664	289	62
Extraordinaries	—	—	—		
PAT-reported	171	409	664	289	62
<b>Dalmia Bharat</b>					
Net sales	14,600	16,829	17,247	18	2
EBITDA	3,344	3,902	4,065	22	4
EBIT	2,185	2,314	2,472	13	7
PBT	808	1,125	1,131	40	1
PAT	156	311	357	129	15
Extraordinaries	(0)	—	—		
PAT-reported	156	311	357	129	15
<b>India Cements</b>					
Net sales	9,296	11,465	11,119	20	(3)
EBITDA	1,462	2,244	1,886	29	(16)
EBIT	910	1,723	1,370	50	(21)
PBT	79	917	542	587	(41)
PAT	55	624	353	547	(43)
Extraordinaries	—	—	—		
PAT-reported	55	624	353	547	(43)

Source: Companies, Kotak Institutional Equities



**MPC minutes: Keeping an open mind.** The minutes reaffirm our view that the RBI will stay on an extended pause for now. While the minutes could be read as a mix of neutral and hawkish voices, the unanimous view seems to be of (1) risks from high and sticky core inflation, (2) uncertainty from international factors and (3) upside risks to inflation from growth rebound through re-monetization. The RBI has set itself up now to bring inflation to 4% on a durable basis. With this objective in mind, the RBI seems set for an extended pause and keeps an open mind to move either ways (hike or cut) depending, possibly, on the disinflationary impulses and global factors.

### Exhibit 1: Summary of MPC members' views and policy decision

Member	Rationale for action	Stance / Vote
Dr Urjit R. Patel	(a) Non-food non-fuel inflation has remained sticky, notwithstanding the transitory impact of demonetisation on consumption demand. (b) Limited data available on the corporate sector performance in Q3 suggests that sales growth may have improved relative to the previous quarter. (c) <b>While pursuing 4% CPI headline inflation... it is necessary to adopt a calibrated approach so as to minimise the collateral costs of achieving the target as well as ensure its durability.</b> (d) By shifting the stance of monetary policy from accommodative to neutral, <b>there will now be sufficient flexibility to move the policy rate in either direction, depending on future data outcomes and projections, to help ensure that inflation is brought closer to 4%.</b>	Neutral to Hawkish / no change
Dr Viral Acharya	(a) Given the difficulty in resolving this trade-off between temporary effects on output gap and the persistent nature of core inflation, my attention turned heavily to international factors. (b) <b>It is important to guard the Indian macro-economy from global headwinds... keep the option open to start getting closer to our long-term target of 4%.</b> (c) Overall, this required no rate cut for now and switching to a neutral stance so as to <b>remain fully flexible to raise rates, or to stay put, or to cut rates, as more data becomes available on both domestic and international fronts.</b>	Neutral / no change
Dr Michael D. Patra	(a) Recent sharp disinflation is entirely driven by transitory forces. (b) <b>Reflationary effects of remonetisation are likely being underestimated</b> in the commentary around it. (c) <b>If the seasonal upturn in vegetables prices and these reflationary effects coincide as they might by as early as March-April, monetary policy needs to be preemptively on guard.</b> (d) <b>Forward-lookingness necessitated by lags in transmission requires monetary policy to centre its focus now on the mandated inflation target of 4%.</b>	Hawkish / no change
Dr Chetan Ghate	(a) Since I do not see a persistent opening up of the output gap because of demonetisation, <b>this does not warrant a rate cut.</b> (b) A quicker pace of disinflation may not sustain on a durable basis. (c) <b>With a shift in focus towards the mid-point of the medium-term inflation target of 4 +/- 2%, these arguments warrant no change in the policy rate.</b>	Neutral to Hawkish / no change
Dr Pami Dua	(a) Banks have already reduced the marginal-cost-based lending rates which should fuel demand in the economy. (b) Volatility in the foreign exchange markets is a concern.	Neutral / no change
Dr Ravindra H. Dholakia	(a) There is a general agreement that the growth in the coming quarters is likely to pick up with the economy returning to its pre-demonetisation growth path. (b) The decline in overall CPI inflation is not reliably stable because it is mainly on account of vegetables and pulses coupled with the transitory impact of demonetisation. (c) <b>The real neutral rate of interest in India seems to be higher than the one for most of the developed countries.</b>	Hawkish / no change

#### Notes:

- (a) Stance is our interpretation of the members' views in the minutes.  
(b) Emphasis in text is our addition.

Source: RBI, Kotak Economic Research

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			ADVT-3mo (US\$ mn)
		22-Feb-17	Target price (Rs)		(Rs mn)	(US\$ mn)		2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	
<b>Automobiles</b>																													
Amara Raja Batteries	SELL	849	765	(9.9)	145,020	2,165	171	29.4	34.7	39.4	2.6	18.1	13.5	28.9	24.4	21.5	16.5	14.2	12.7	5.8	4.9	4.2	0.7	0.8	0.9	21.9	21.9	21.1	4.0
Apollo Tyres	BUY	180	250	39.0	91,574	1,367	509	21.7	22.0	27.2	7.8	1.3	23.7	8.3	8.2	6.6	5.7	5.3	4.1	1.3	1.2	1.0	1.1	1.1	1.4	16.8	15.0	16.2	7.6
Ashok Leyland	SELL	93	75	(18.9)	263,244	3,930	2,846	4.2	4.7	5.7	19.0	12.4	21.5	22.3	19.8	16.3	12.2	11.1	9.3	4.2	3.7	3.2	1.3	1.5	1.8	20.1	19.9	21.1	13.3
Bajaj Auto	ADD	2,800	3,050	8.9	810,155	12,094	289	136.1	156.3	181.5	7.8	14.8	16.1	20.6	17.9	15.4	15.2	12.7	10.5	5.6	4.8	4.1	1.9	2.2	2.6	29.5	29.0	28.9	10.7
Balkrishna Industries	ADD	1,172	1,250	6.6	113,327	1,692	97	77.2	85.4	98.9	29.6	10.6	15.9	15.2	13.7	11.9	10.5	8.4	6.8	3.3	2.7	2.2	0.5	0.6	0.6	23.9	21.5	20.6	2.2
Bharat Forge	SELL	1,065	900	(15.5)	247,879	3,700	237	27.6	36.1	44.9	1.1	30.7	24.4	38.5	29.5	23.7	19.3	15.6	12.9	6.2	5.4	4.6	0.6	0.8	0.9	17.2	19.6	20.9	14.0
Eicher Motors	SELL	25,070	19,000	(24.2)	682,169	10,183	27	617.7	777.1	919.0	31.3	25.8	18.3	40.6	32.3	27.3	29.2	23.9	19.5	18.7	12.5	9.0	0.1	0.1	0.1	47.2	46.4	38.2	20.0
Exide Industries	SELL	213	175	(17.9)	181,093	2,703	850	8.2	8.9	9.7	12.1	8.5	8.5	25.9	23.9	22.1	16.1	14.7	13.3	3.7	3.4	3.1	1.2	1.4	1.4	15.0	14.8	14.7	5.5
FAG Bearings	BUY	4,095	5,000	22.1	68,048	1,016	17	120.4	161.3	196.3	1.3	34.0	21.7	34.0	25.4	20.9	19.5	15.2	12.2	4.6	4.1	3.6	0.3	0.8	1.4	14.5	17.1	18.4	0.3
Hero Motocorp	REDUCE	3,166	3,200	1.1	632,280	9,438	200	174.7	198.6	216.2	11.4	13.7	8.9	18.1	15.9	14.6	11.8	10.2	9.2	6.8	5.8	5.0	2.8	3.1	3.4	40.4	39.2	36.7	18.5
Mahindra & Mahindra	ADD	1,311	1,360	3.7	814,376	12,157	569	64.3	72.0	80.0	10.9	12.0	11.2	20.4	18.2	16.4	13.8	12.3	11.0	3.0	2.7	2.4	1.2	1.4	1.5	15.4	15.5	15.4	16.8
Maruti Suzuki	ADD	6,080	6,400	5.3	1,836,541	27,415	302	249.0	299.0	346.5	64.5	20.1	15.9	24.4	20.3	17.5	15.5	12.1	10.1	5.7	4.8	4.0	1.0	1.2	1.4	25.4	25.5	24.8	52.3
Minda Corp.	REDUCE	93	105	12.4	19,560	292	209	5.5	6.6	8.4	19.0	19.1	28.1	17.0	14.2	11.1	8.7	7.5	6.2	3.0	2.5	2.1	0.6	0.6	0.7	18.8	19.1	20.4	0.4
Motherson Sumi Systems	SELL	352	300	(14.8)	494,347	7,379	1,323	11.4	13.8	16.5	18.0	21.3	18.9	30.9	25.5	21.4	11.9	10.0	8.5	6.3	5.4	4.7	1.0	1.2	1.4	26.5	22.9	23.4	12.8
SKF	REDUCE	1,488	1,450	(2.6)	78,466	1,171	53	48.2	56.0	64.7	(0.1)	16.2	15.5	30.9	26.6	23.0	20.4	17.4	14.9	4.5	4.1	3.7	1.0	1.1	1.3	15.4	16.2	16.8	0.6
Suprajit Engineering	REDUCE	202	190	(6.1)	26,583	397	131	7.6	9.1	10.8	39.5	18.9	19.0	26.5	22.3	18.7	14.8	12.8	10.9	5.1	4.3	3.6	0.7	0.8	1.0	20.6	20.8	21.1	0.2
Tata Motors	BUY	460	550	19.6	1,472,256	21,977	3,396	20.7	41.5	55.1	(46.4)	100.1	32.8	22.2	11.1	8.4	6.0	4.4	3.5	1.8	1.5	1.3	—	—	—	8.4	14.9	16.8	56.8
Timken	ADD	612	670	9.5	41,599	621	68	15.1	20.7	26.3	9.2	37.0	27.2	40.6	29.6	23.3	24.3	17.3	13.7	6.8	5.7	4.9	0.2	0.3	1.3	18.1	20.9	22.6	0.5
TVS Motor	SELL	427	260	(39.1)	202,981	3,030	475	11.5	14.3	17.4	50.2	24.4	21.1	37.1	29.8	24.6	21.6	17.7	14.9	10.4	8.4	6.7	0.7	0.9	1.0	30.9	31.0	30.3	7.9
WABCO India	ADD	5,475	6,100	11.4	103,855	1,550	19	122.2	148.4	180.2	13.3	21.4	21.4	44.8	36.9	30.4	27.9	22.8	18.5	8.2	6.8	5.7	0.2	0.2	0.3	20.0	20.2	20.4	1.2
<b>Automobiles</b>	<b>Neutral</b>				<b>8,402,993</b>	<b>125,437</b>					<b>(1.4)</b>	<b>33.5</b>	<b>20.8</b>	<b>23.6</b>	<b>17.7</b>	<b>14.6</b>	<b>11.4</b>	<b>8.9</b>	<b>7.4</b>	<b>3.8</b>	<b>3.3</b>	<b>2.8</b>	<b>0.9</b>	<b>1.1</b>	<b>1.3</b>	<b>16.3</b>	<b>18.5</b>	<b>19.1</b>	<b>245.9</b>
<b>Banks</b>																													
Axis Bank	ADD	525	550	4.7	1,256,613	18,758	2,383	13.3	28.3	38.0	(61.4)	112.8	34.1	39.4	18.5	13.8	—	—	—	2.5	2.3	2.0	0.4	0.8	1.1	5.8	11.5	13.9	60.2
Bank of Baroda	REDUCE	168	175	4.4	386,408	5,768	2,310	7.5	18.0	20.8	131.9	142.1	15.5	22.5	9.3	8.0	—	—	—	1.6	1.3	1.1	0.9	2.2	2.5	4.7	10.7	11.3	24.3
Bank of India	ADD	128	155	21.3	134,737	2,011	817	(3.9)	19.9	34.4	94.7	606.6	72.8	(32.5)	6.4	3.7	—	—	—	1.1	0.9	0.7	(0.6)	3.1	5.4	(1.5)	7.1	11.5	6.9
Canara Bank	REDUCE	292	310	6.3	158,850	2,371	543	20.8	57.1	63.4	140.2	173.9	11.0	14.0	5.1	4.6	—	—	—	1.2	0.9	0.7	—	—	—	3.5	9.1	9.2	14.1
City Union Bank	REDUCE	150	150	0.0	90,130	1,345	598	8.0	9.3	10.6	7.2	16.7	14.3	18.8	16.1	14.1	—	—	—	2.8	2.5	2.1	0.9	1.0	1.1	14.7	15.2	15.3	1.2
DCB Bank	ADD	150	150	0.0	42,744	638	284	6.8	7.9	10.3	(1.0)	17.4	29.3	22.1	18.9	14.6	—	—	—	2.3	2.1	1.8	—	—	—	10.5	11.0	12.7	3.0
Equitas Holdings	ADD	180	190	5.8	60,589	904	270	4.9	6.9	9.2	(21.3)	40.8	34.4	36.8	26.2	19.5	—	—	—	2.8	2.5	2.3	—	—	—	9.2	9.8	11.8	2.2
Federal Bank	BUY	84	100	18.6	145,116	2,166	1,719	4.8	6.2	6.9	74.7	27.6	11.8	17.4	13.7	12.2	—	—	—	1.8	1.6	1.5	1.5	1.9	2.1	9.9	11.7	12.0	10.9
HDFC Bank	REDUCE	1,399	1,450	3.6	3,579,422	53,433	2,528	57.3	66.7	76.9	17.8	16.3	15.3	24.4	21.0	18.2	—	—	—	4.3	3.7	3.2	0.8	0.9	1.1	18.5	18.7	18.6	62.5
ICICI Bank	BUY	286	365	27.6	1,665,915	24,868	5,849	16.2	19.3	25.2	(2.5)	18.8	30.7	17.6	14.9	11.4	—	—	—	2.1	1.9	1.6	1.7	2.0	2.6	10.2	11.3	13.6	66.2
IDFC Bank	ADD	63	75	18.9	214,324	3,199	—	3.1	4.1	5.5	155.1	34.2	33.5	20.6	15.3	11.5	—	—	—	1.5	1.4	1.3	1.0	1.3	1.7	7.4	9.3	11.5	12.1
IndusInd Bank	ADD	1,327	1,400	5.5	793,361	11,843	595	48.7	56.8	65.9	26.7	16.5	16.1	27.2	23.4	20.1	—	—	—	4.1	3.5	3.1	0.5	0.5	0.6	15.8	15.9	16.1	23.9
J&K Bank	BUY	75	90	20.1	36,334	542	485	(27.0)	10.2	14.4	(414.9)	137.6	42.1	(2.8)	7.4	5.2	—	—	—	1.1	0.9	0.7	(7.4)	2.8	3.9	(22.1)	8.8	11.5	1.0
Karur Vysya Bank	BUY	97	110	14.0	58,316	871	609	8.9	11.0	14.4	(4.8)	24.5	30.4	10.9	8.7	6.7	—	—	—	1.3	1.2	1.0	2.3	2.9	3.7	11.3	13.0	15.3	1.8
Punjab National Bank	REDUCE	142	145	2.1	302,065	4,509	1,964	7.3	19.0	23.8	136.2	159.0	25.3	19.3	7.5	6.0	—	—	—	1.9	1.3	1.0	1.0	2.7	3.4	4.2	9.9	11.4	23.0
Ujivan Financial Services	REDUCE	430	410	(4.7)	51,339	766	101	20.1	14.6	15.0	14.5	(27.0)	2.5	21.5	29.4	28.7	—	—	—	2.9	2.7	2.5	0.4	0.3	0.3	16.0	9.4	8.8	7.0
State Bank of India	BUY	272	360	32.2	2,171,185	32,411	7,763	14.4	26.3	33.4	12.5	82.4	27.1	18.9	10.4	8.1	—	—	—	1.5	1.3	1.1	1.0	1.1	1.2	6.8	10.5	12.1	62.9
Union Bank	ADD	147	165	12.1	101,157	1,510	687	7.4	28.7	42.6	(62.6)	289.9	48.5	20.0	5.1	3.5	—	—	—	1.1	0.9	0.6	0.5	1.9	2.9	2.5	9.0	12.1	11.0
YES Bank	REDUCE	1,447	1,350	(6.7)	612,576	9,144	421	76.1	79.9	93.2	26.0	5.0	16.6	19.0	18.1	15.5	—	—	—	3.8	3.3	2.8	0.9	0.9					

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

Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			ADVT-3mo (US\$ mn)
		22-Feb-17	Target price (Rs)		(US\$ mn)	(US\$ mn)		2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	
<b>Cement</b>																													
ACC	SELL	1,448	1,290	(10.9)	271,841	4,058	188	34.3	47.1	70.7	(13.3)	37.3	50.0	42.2	30.7	20.5	21.2	16.2	11.4	3.1	3.0	2.7	1.2	1.2	1.2	7.5	9.9	13.8	6.4
Ambuja Cements	REDUCE	233	225	(3.5)	462,953	6,911	1,552	5.8	8.2	11.8	4.2	42.3	43.2	40.2	28.3	19.7	14.6	10.8	7.7	2.4	2.3	2.1	1.5	1.5	1.5	7.6	8.2	11.2	6.1
Dalmia Bharat	ADD	1,895	2,050	8.2	168,546	2,516	89	29.0	84.0	121.6	35.0	189.4	44.8	65.3	22.6	15.6	12.6	9.3	7.4	4.1	3.5	2.9	0.1	0.1	0.1	6.5	16.7	20.2	2.0
Grasim Industries	ADD	1,048	1,060	1.2	488,975	7,299	467	73.0	84.2	98.8	32.8	15.4	17.4	14.4	12.4	10.6	7.4	5.7	4.3	1.7	1.5	1.3	0.4	0.4	0.4	12.4	12.7	13.2	15.1
India Cements	SELL	167	110	(34.3)	51,437	768	307	6.2	8.8	11.2	35.1	42.5	27.1	NM	18.9	14.9	9.8	8.4	7.3	1.4	1.3	1.2	1.3	1.3	5.1	7.0	8.4	9.5	
J.K. Cement	ADD	885	895	1.2	61,856	923	70	28.7	66.1	87.1	236.0	130.4	31.8	30.8	13.4	10.2	13.1	8.7	7.1	3.5	2.8	2.2	0.5	0.5	0.5	11.7	23.0	24.3	0.9
JK Lakshmi Cement	ADD	393	460	16.9	46,291	691	118	6.4	25.8	39.8	224.4	302.3	54.3	61.4	15.3	9.9	16.2	8.2	6.1	3.3	2.8	2.2	0.5	0.5	0.5	5.5	19.8	24.8	1.0
Orient Cement	ADD	146	155	6.4	29,839	445	205	(0.8)	10.8	15.1	(126.9)	1,428.0	39.1	(178.4)	13.4	9.7	23.0	8.7	7.0	3.1	2.6	2.1	1.2	1.2	1.2	(1.7)	21.2	24.4	0.6
Shree Cement	SELL	16,137	12,750	(21.0)	562,177	8,392	35	389.3	528.1	713.4	237.5	35.7	35.1	41.5	30.6	22.6	20.9	15.4	11.9	7.9	6.3	5.0	0.6	0.1	0.1	20.4	23.0	24.7	4.2
UltraTech Cement	SELL	3,778	2,750	(27.2)	1,036,948	15,479	274	96.3	126.3	159.2	21.5	31.2	26.0	39.2	29.9	23.7	21.4	16.6	13.5	4.5	4.0	3.4	0.3	0.3	0.3	12.1	14.1	15.5	18.9
<b>Cement</b>	<b>Cautious</b>				<b>3,180,863</b>	<b>47,483</b>					<b>37.1</b>	<b>39.0</b>	<b>30.4</b>	<b>32.1</b>	<b>23.1</b>	<b>17.7</b>	<b>14.5</b>	<b>10.9</b>	<b>8.5</b>	<b>3.2</b>	<b>2.9</b>	<b>2.5</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>10.0</b>	<b>12.4</b>	<b>14.2</b>	<b>64.6</b>
<b>Consumer products</b>																													
Asian Paints	REDUCE	1,020	900	(11.8)	978,669	14,609	959	19.8	22.3	26.4	5.8	12.5	18.5	51.5	45.8	38.7	32.0	28.2	23.8	15.0	13.0	11.3	0.8	1.0	1.2	31.3	30.4	31.3	20.0
Bajaj Corp.	BUY	369	450	22.0	54,428	812	148	16.8	18.8	21.0	5.9	11.8	11.7	22.0	19.7	17.6	18.7	16.0	13.7	10.7	9.8	9.0	3.1	3.5	3.9	50.0	52.0	53.2	0.3
Britannia Industries	ADD	3,239	3,550	9.6	388,647	5,802	120	75.0	92.5	113.2	7.9	23.2	22.5	43.2	35.0	28.6	29.6	23.8	19.2	16.8	13.0	10.1	0.8	0.9	1.1	44.2	41.9	39.8	7.3
Coffee Day Enterprises	ADD	231	255	10.4	47,576	710	206	2.3	6.6	9.8	151.1	188.9	47.9	100.6	34.8	23.6	13.6	11.5	10.2	2.2	2.0	1.9	—	—	—	2.2	6.0	8.3	0.9
Colgate-Palmolive (India)	ADD	900	1,040	15.6	244,746	3,654	272	21.6	26.4	31.8	2.0	21.9	20.5	41.6	34.1	28.3	24.4	20.0	16.7	19.4	15.8	12.9	1.2	1.4	1.8	51.6	51.0	50.1	5.2
Dabur India	REDUCE	271	270	(0.3)	476,844	7,118	1,759	7.2	7.9	9.1	2.0	10.7	14.6	37.8	34.2	29.9	32.0	28.2	24.3	9.9	8.6	7.5	1.0	1.2	1.4	28.1	26.9	26.9	4.2
GlaxoSmithKline Consumer	ADD	5,097	5,700	11.8	214,365	3,200	42	156.7	173.7	193.9	1.4	10.8	11.6	32.5	29.3	26.3	22.0	19.5	17.0	7.9	7.3	6.7	1.6	1.9	2.2	25.6	25.8	26.5	3.1
Godrej Consumer Products	REDUCE	1,711	1,420	(17.0)	582,904	8,701	341	38.1	45.7	52.3	12.0	19.7	14.6	44.9	37.5	32.7	32.2	26.9	23.4	10.0	8.3	6.8	0.4	0.4	0.4	23.8	24.2	22.9	4.5
Hindustan Unilever	REDUCE	864	860	(0.5)	1,870,258	27,919	2,164	19.3	22.0	25.4	0.6	14.3	15.3	44.9	39.3	34.1	30.7	26.6	22.8	29.9	29.4	29.1	2.0	2.1	2.4	66.5	75.5	85.9	13.0
ITC	ADD	263	280	6.3	3,195,760	47,705	12,104	8.4	9.5	10.7	8.5	13.1	12.6	31.5	27.8	24.7	20.8	18.3	16.1	9.0	8.5	8.1	2.0	2.1	2.4	29.7	29.7	32.6	39.2
Jubilant Foodworks	SELL	1,010	850	(15.8)	66,605	994	66	13.1	20.8	30.5	(17.9)	59.4	46.3	77.3	48.5	33.2	24.9	17.8	13.5	8.4	7.5	6.5	0.2	0.5	0.9	11.3	16.3	21.1	8.4
Jyothy Laboratories	NR	353	—	—	64,180	958	181	9.5	10.7	11.1	31.6	12.3	3.9	37.0	32.9	31.7	25.9	22.1	19.4	8.1	7.5	7.0	1.4	1.7	2.0	26.5	23.5	22.8	0.5
Manpasand Beverages	REDUCE	695	685	(1.4)	39,768	594	50	13.0	19.7	27.2	28.9	51.6	38.0	53.4	35.2	25.5	24.8	18.1	12.2	3.4	3.1	2.8	0.2	0.3	0.4	8.4	9.3	11.7	1.1
Marico	REDUCE	273	260	(4.8)	352,529	5,262	1,290	6.0	6.9	8.0	7.6	15.5	15.1	45.5	39.4	34.2	31.1	27.1	23.5	14.6	12.8	11.1	1.1	1.3	1.5	34.4	34.6	34.8	5.2
Nestle India	SELL	6,398	5,550	(13.3)	616,848	9,208	96	99.3	124.2	150.6	7.1	25.1	21.2	64.4	51.5	42.5	33.2	29.0	24.5	20.5	19.1	17.8	1.0	1.3	1.6	32.8	38.4	43.4	4.1
Page Industries	REDUCE	13,856	13,000	(6.2)	154,544	2,307	11	250.3	310.6	388.8	20.0	24.1	25.2	55.4	44.6	35.6	35.0	28.6	22.9	23.5	17.9	13.4	0.7	0.8	0.8	48.0	45.6	43.0	2.3
PC Jeweller	REDUCE	376	390	3.7	67,386	1,006	179	21.5	23.7	27.2	(3.6)	10.1	14.8	17.5	15.9	13.8	9.0	7.3	6.4	2.3	2.0	1.8	1.0	1.2	1.5	14.8	14.2	13.8	3.8
Pidlite Industries	ADD	696	730	4.9	356,720	5,325	513	16.7	19.1	22.2	13.2	14.6	16.1	41.7	36.4	31.4	27.3	23.7	20.0	10.7	9.0	7.7	0.7	0.9	1.0	28.0	26.9	26.5	5.2
S H Kelkar and Company	SELL	302	270	(10.6)	43,654	652	145	7.5	9.0	10.3	41.5	20.2	14.3	40.3	33.5	29.3	24.3	21.1	18.4	5.2	4.8	4.3	0.7	0.9	1.1	13.6	14.9	15.5	0.8
Tata Global Beverages	ADD	140	150	7.1	88,358	1,319	631	6.9	7.9	9.0	39.1	13.5	14.9	20.2	17.8	15.5	10.5	9.4	8.2	1.5	1.4	1.3	1.6	1.8	2.1	7.4	8.0	8.8	3.0
Titan Company	REDUCE	440	390	(11.4)	390,626	5,831	888	10.0	12.1	14.0	28.3	20.9	15.5	43.9	36.3	31.4	29.5	24.5	20.8	9.7	8.3	7.1	0.7	0.8	1.0	23.6	24.6	24.4	9.5
United Breweries	SELL	791	680	(14.1)	209,211	3,123	264	10.8	14.3	18.3	(4.4)	32.4	27.8	73.3	55.3	43.3	29.8	25.0	21.2	8.9	7.9	6.9	0.2	0.3	0.3	12.8	11.1	17.0	2.8
United Spirits	ADD	2,397	2,400	0.1	348,401	5,201	145	30.8	47.4	66.4	154.9	54.1	40.1	77.9	50.6	36.1	33.8	26.8	20.7	14.9	9.9	7.0	—	—	—	21.7	23.5	22.7	12.8
<b>Consumer products</b>	<b>Cautious</b>				<b>10,853,028</b>	<b>162,011</b>					<b>9.1</b>	<b>16.3</b>	<b>16.1</b>	<b>40.1</b>	<b>34.5</b>	<b>29.7</b>	<b>25.9</b>	<b>22.3</b>	<b>19.1</b>	<b>11.0</b>	<b>9.8</b>	<b>8.8</b>	<b>1.4</b>	<b>1.6</b>	<b>1.9</b>	<b>27.4</b>	<b>28.5</b>	<b>29.7</b>	<b>157.4</b>
<b>Energy</b>																													
BPCL	SELL	714	640	(10.4)	1,032,998	15,420	1,446	53.1	50.6	55.1	3.2	(4.5)	8.9	13.5	14.1	13.0	9.7	8.8	8.0	3.3	2.9	2.5	2.8	2.1	2.3	26.2	21.7	20.6	25.3
Cairn India	ADD	289	280	(3.1)	542,133	8,093	1,875	12.9	16.5	20.4	12.5	28.5	23.5	22.4	17.5	14.1	11.1	9.4	7.2	1.1	1.0	1.0	1.2	1.6	2.4	4.9	6.0	7.1	7.6
Castrol India	ADD	424	470	10.8	209,719	3,131	495	13.5	14.7	15.9	12.3	8.4	8.5	31.4	28.9	26.7	20.1	19.0	17.4	35.2	34.6	33.9	2.6	2.8	3.1	114.1	120.6	128.4	4.5
GAIL (India)	ADD	519	515	(0.8)	658,213	9,826	1,268	29.5	35.2	38.3	64.6	19.4	8.6	17.6	14.7	13.6	10.7	9.2	8.6	2.0	1.8	1.7	1.9	2.0	2.2	11.7	12.9	12.9	17.9
GSPL	ADD	158	175	10.8																									

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

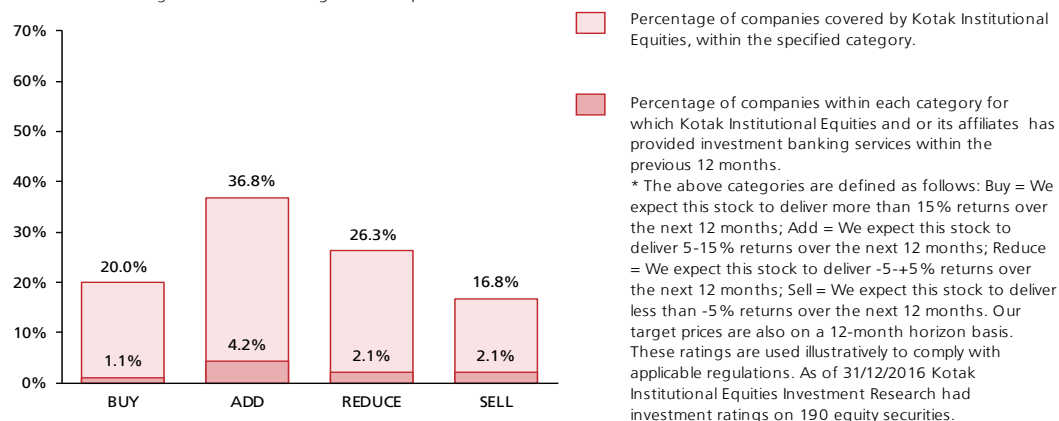
Company	Rating	Price (Rs)		Target price (Rs)	Upside (%)	Mkt cap. (US\$ mn)		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			ADVT-3mo (US\$ mn)
		22-Feb-17				(Rs mn)	(US\$ mn)		2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	
<b>Industrials</b>																														
ABB	SELL	1,206	1,100	(8.8)	255,583	3,815	212	17.8	26.3	36.7	25.5	48.1	39.5	67.9	45.9	32.9	33.4	24.3	19.3	7.8	7.0	6.1	0.3	0.6	0.7	12.0	16.0	19.7	1.4	
BHEL	SELL	154	120	(22.2)	377,665	5,638	2,448	3.3	5.6	8.4	187.2	71.8	50.8	47.4	27.6	18.3	26.9	12.6	6.9	1.1	1.1	1.0	0.5	0.9	1.4	2.4	4.0	5.8	14.1	
Carborundum Universal	REDUCE	259	260	0.6	48,771	728	188	9.6	12.7	16.0	25.8	32.9	26.0	27.0	20.3	16.1	14.8	11.4	9.2	3.7	3.3	2.9	1.1	1.5	1.9	14.5	17.4	19.4	0.9	
Crompton Greaves	REDUCE	67	65	(2.6)	41,835	625	627	2.9	3.5	5.1	23.5	21.2	46.8	23.2	19.1	13.0	11.3	8.3	5.4	0.9	0.9	0.9	0.8	0.9	1.5	3.9	4.8	6.8	5.8	
Crompton Greaves Consumer	ADD	189	195	3.2	118,455	1,768	627	4.5	5.3	6.5	17.4	16.0	24.3	41.7	35.9	28.9	25.4	22.4	18.3	25.7	16.2	11.1	0.5	0.8	1.1	82.5	55.4	45.6	2.6	
Cummins India	REDUCE	891	915	2.7	247,041	3,688	277	28.6	32.5	36.6	8.1	13.7	12.5	31.2	27.4	24.4	28.3	24.0	21.0	7.1	6.4	5.8	1.6	1.9	2.1	23.8	24.5	24.9	2.7	
Havells India	REDUCE	413	390	(5.5)	257,784	3,848	624	9.6	11.4	13.2	23.2	18.7	15.9	43.1	36.3	31.3	29.0	22.7	19.4	8.1	7.2	6.5	1.0	1.1	1.4	19.8	21.0	21.9	9.2	
Kalpataru Power Transmission	BUY	283	310	9.5	43,460	649	153	9.5	11.5	19.8	23.5	21.8	71.6	29.9	24.6	14.3	8.4	7.7	6.2	1.8	1.7	1.5	0.5	0.5	0.5	6.1	7.0	11.1	0.4	
KEC International	BUY	167	170	2.1	42,818	639	257	9.6	12.7	15.6	29.2	31.5	23.4	17.3	13.2	10.7	7.9	7.0	6.1	2.5	2.1	1.8	0.8	1.0	1.3	15.3	17.5	18.6	0.9	
L&T	BUY	1,477	1,700	15.1	1,377,944	20,570	930	57.0	77.1	95.3	11.9	35.3	23.6	25.9	19.2	15.5	21.0	17.1	14.5	3.4	3.1	2.8	1.7	2.1	2.6	13.7	17.0	19.2	28.3	
Siemens	SELL	1,218	940	(22.8)	6,474	536,701	956	24.3	30.2	37.3	42.8	24.2	23.6	50.1	40.4	32.7	30.3	24.6	19.7	6.3	5.9	5.5	1.0	1.2	1.5	12.8	15.0	17.4	4.2	
Thermax	REDUCE	850	850	-	101,283	1,512	119	25.8	30.5	36.7	11.5	18.4	20.2	33.0	27.9	23.2	23.1	18.5	16.1	3.9	3.5	3.2	0.6	0.8	0.9	12.4	13.4	14.5	0.8	
Voltas	ADD	355	370	4.3	117,381	1,752	331	13.1	14.3	17.2	25.3	9.3	20.1	27.1	24.8	20.7	22.9	19.8	15.6	4.4	4.0	3.6	1.1	1.4	1.9	17.1	16.8	18.3	7.3	
<b>Industrials</b>	<b>Cautious</b>				<b>3,463,721</b>	<b>51,705</b>					<b>41.9</b>	<b>32.4</b>	<b>26.6</b>	<b>33.0</b>	<b>24.9</b>	<b>19.7</b>	<b>21.9</b>	<b>17.3</b>	<b>14.1</b>	<b>3.3</b>	<b>3.0</b>	<b>2.8</b>	<b>1.2</b>	<b>1.5</b>	<b>1.9</b>	<b>9.9</b>	<b>12.2</b>	<b>14.2</b>	<b>78.8</b>	
<b>Infrastructure</b>																														
Adani Port and SEZ	ADD	300	335	11.6	621,907	9,284	2,085	18.0	13.6	14.0	31.0	(24.6)	3.0	16.7	22.1	21.5	14.8	14.1	13.5	3.8	3.3	3.0	0.5	0.7	0.9	25.2	16.0	14.6	15.4	
Ashoka Buildcon	BUY	183	235	28.1	34,323	512	188	5.9	5.5	5.9	88.8	(5.7)	6.9	31.2	33.1	31.0	10.3	8.9	8.0	1.8	1.7	1.7	1.1	1.4	1.5	5.8	5.3	5.5	0.4	
Container Corporation	REDUCE	1,215	1,200	(1.2)	236,864	3,536	195	35.1	40.0	47.6	(13.2)	14.2	18.9	34.7	30.3	25.5	21.7	17.8	14.5	2.8	2.6	2.5	1.0	1.1	1.3	8.2	8.9	10.0	5.1	
Gateway Distriparks	BUY	251	300	19.6	27,264	407	109	9.2	11.4	15.2	(9.2)	24.8	33.4	27.4	21.9	16.5	11.8	8.9	6.7	2.1	2.0	1.8	1.1	1.4	1.8	7.8	9.3	11.5	0.4	
Gujarat Pipavav Port	BUY	157	165	4.9	76,045	1,135	483	5.1	5.8	7.6	49.4	12.9	30.7	30.6	27.1	20.8	17.7	14.5	12.3	3.9	3.9	3.8	2.5	2.9	3.8	12.9	14.4	18.5	0.9	
IRB Infrastructure	BUY	232	270	16.6	81,413	1,215	351	20.8	25.6	35.3	15.0	23.2	38.1	11.2	9.1	6.6	7.8	7.1	6.2	1.3	1.1	1.1	2.0	2.4	3.4	13.3	13.2	16.7	5.9	
Sadbhav Engineering	ADD	274	320	16.7	47,045	702	172	11.2	13.4	15.8	43.0	20.3	17.7	24.5	20.4	17.3	16.0	12.7	11.0	2.9	2.6	2.3	—	—	—	12.3	13.3	13.9	0.3	
<b>Infrastructure</b>	<b>Attractive</b>				<b>1,124,861</b>	<b>16,792</b>					<b>22.3</b>	<b>(9.8)</b>	<b>14.3</b>	<b>19.3</b>	<b>21.4</b>	<b>18.7</b>	<b>13.3</b>	<b>11.9</b>	<b>10.7</b>	<b>3.0</b>	<b>2.6</b>	<b>2.5</b>	<b>0.9</b>	<b>1.1</b>	<b>1.3</b>	<b>15.3</b>	<b>12.4</b>	<b>13.1</b>	<b>28.3</b>	
<b>Internet</b>																														
Info Edge	ADD	840	960	14.3	101,738	1,519	121	18.2	19.7	24.5	55.1	8.7	24.3	46.2	42.6	34.2	39.5	28.9	22.4	5.3	4.9	4.4	0.5	0.6	0.7	11.9	11.9	13.6	0.5	
Just Dial	REDUCE	530	400	(24.5)	36,862	550	69	18.6	16.5	19.5	(9.1)	(11.0)	17.9	28.6	32.1	27.2	24.5	19.7	15.8	4.7	4.2	3.7	0.4	0.3	0.4	17.7	13.7	14.3	12.0	
<b>Internet</b>	<b>Attractive</b>				<b>138,600</b>	<b>2,069</b>					<b>23.0</b>	<b>1.4</b>	<b>22.2</b>	<b>39.8</b>	<b>39.2</b>	<b>32.1</b>	<b>34.4</b>	<b>26.0</b>	<b>20.4</b>	<b>5.1</b>	<b>4.7</b>	<b>4.2</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>12.9</b>	<b>11.9</b>	<b>13.1</b>	<b>12.5</b>	
<b>Media</b>																														
DB Corp.	REDUCE	382	380	(0.5)	70,222	1,048	184	21.2	24.3	29.2	31.3	14.7	19.8	18.0	15.7	13.1	10.1	8.7	7.1	4.7	4.3	3.8	2.9	3.7	4.5	27.4	28.4	30.8	0.5	
DishTV	BUY	94	105	11.5	100,411	1,499	1,066	1.5	2.4	3.6	(76.9)	62.8	48.8	NM	38.6	25.9	10.1	8.4	6.9	6.0	6.0	6.0	—	—	1.1	9.6	15.6	23.2	6.9	
Jagran Prakashan	REDUCE	188	190	1.3	61,329	915	327	11.3	12.9	15.0	8.8	14.3	16.1	16.6	14.5	12.5	9.6	8.1	7.0	3.6	3.3	3.0	3.2	3.7	3.7	22.4	23.6	24.9	0.6	
Ortel Communications	BUY	116	185	59.5	3,522	53	30	4.0	5.6	12.5	1.7	40.6	122.6	29.1	20.7	9.3	7.5	6.2	4.8	2.3	2.1	1.7	—	—	—	8.3	10.6	20.2	0.0	
PVR	ADD	1,263	1,350	6.9	59,047	881	47	24.8	34.3	45.6	(8.2)	38.4	33.0	51.0	36.8	27.7	17.9	14.4	11.9	6.1	5.3	4.5	0.2	0.3	0.4	12.6	15.4	17.7	3.2	
Sun TV Network	ADD	697	750	7.6	274,736	4,101	394	26.3	29.8	36.3	12.4	13.2	21.9	26.5	23.4	19.2	17.2	14.9	12.1	7.1	6.5	5.8	2.2	2.4	2.7	28.1	29.1	31.9	27.3	
Zee Entertainment Enterprises	BUY	516	540	4.6	495,736	7,400	960	12.5	15.5	18.8	32.9	24.2	21.2	41.3	33.3	27.5	23.4	20.2	16.8	5.2	4.8	4.4	0.5	0.7	0.8	15.3	15.1	16.7	15.3	
<b>Media</b>	<b>Attractive</b>				<b>1,065,003</b>	<b>15,898</b>					<b>(0.3)</b>	<b>20.9</b>	<b>23.4</b>	<b>32.4</b>	<b>26.8</b>	<b>21.7</b>	<b>16.3</b>	<b>13.9</b>	<b>11.5</b>	<b>5.5</b>	<b>5.1</b>	<b>4.6</b>	<b>1.2</b>	<b>1.4</b>	<b>1.7</b>	<b>17.0</b>	<b>18.9</b>	<b>21.1</b>	<b>53.8</b>	
<b>Metals &amp; Mining</b>																														
Coal India	REDUCE	328	320	(2.5)	2,038,203	30,426	6,316	18.1	25.5	28.5	(20.0)	40.7	11.7	18.1	12.9	11.5	11.4	8.5	7.6	5.7	5.3	4.9	3.9	5.4	6.1	31.1	43.0	44.3	15.7	
Hindalco Industries	REDUCE	180	165	(8.4)	372,054	5,554	2,065	11.4	14.0	14.4	321.9	22.7	2.4	15.8	12.8	12.5	7.3	7.0	6.7	0.9	0.9	0.8	0.6	0.6	0.6	6.0	7.0	6.8	33.6	
Hindustan Zinc	REDUCE	302	290	(4.1)	1,277,525	19,071	4,225	19.7	24.4	25.8	1.6	23.9	5.5	15.3	12.4	11.7	10.3	7.4	6.3	2.9	2.5	2.1	1.5	1.5	1.5	20.6	21.7	19.5	9.7	
Jindal Steel and Power	BUY	110	125	13.4	100,868	1,506	915	(21.7)	(8.5)	2.6	(19.4)	60.8	130.8	(5.1)	(12.9)	42.0	12.9	9.2	7.3	0.3	0.3	0.3	—	—	—	(7.4)	(2.2)	0.7	16.4	
JSW Steel	ADD	185	225	21.6	447,186	6,675	2,417	14.6	19.5	22.1	1,487.5	33.5	13.4	12.7	9.5	8.4	7.1	6.1	5.5	2.0	1.7	1.4	0.5	0.5	0.5	16.2	19.4	18.4	15.0	
National Aluminium Co.	SELL	65	42	(35.1)	125,061	1,867	2,577	3.1	3.4	3.4	15.5	9.0	0.1	20.8	19.0	19.0	9.4	7.8	7.5	1.2	1.2									

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

Company	Rating	Price (Rs)			Mkt cap. (Rs mn)	O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			ADVT-3mo (US\$ mn)	
		22-Feb-17	Target price (Rs)	Upside (%)			2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E		
<b>Real Estate</b>																													
DLF	BUY	146	160	9.6	260,552	3,889	1,784	3.7	1.6	1.9	18.7	(55.2)	14.2	39.9	89.1	78.1	15.3	16.1	15.8	0.9	0.9	0.9	1.4	1.4	1.4	2.2	1.0	1.1	18.9
Godrej Properties	REDUCE	367	280	(23.7)	79,373	1,185	216	9.7	10.5	11.4	(9.3)	8.5	8.3	37.9	34.9	32.2	70.0	57.7	34.9	3.4	3.2	3.0	0.4	0.7	0.7	9.3	9.4	9.5	0.9
Oberoi Realty	BUY	330	350	6.2	111,864	1,670	339	10.8	30.9	43.2	(13.7)	185.2	39.9	30.4	10.7	7.6	20.1	6.6	6.8	2.0	1.7	1.4	0.6	0.6	0.6	6.7	17.3	20.2	1.2
Prestige Estates Projects	BUY	171	225	31.8	63,994	955	375	7.0	8.4	8.9	(24.8)	18.7	6.3	24.2	20.4	19.2	12.2	11.8	11.3	1.5	1.4	1.3	0.9	0.9	0.9	6.2	7.0	7.1	0.6
Sobha	BUY	291	395	35.9	27,986	418	98	16.1	17.0	17.9	2.9	6.0	4.8	18.1	17.1	16.3	12.0	11.5	11.1	1.1	1.0	1.0	2.4	2.4	2.4	6.0	6.1	6.2	0.3
Sunteck Realty	BUY	246	360	46.5	15,468	231	60	55.8	57.8	113.7	105.4	3.7	96.6	4.4	4.2	2.2	5.4	3.9	1.7	0.8	0.6	0.8	0.8	0.8	18.6	16.3	26.0	0.4	
<b>Real Estate</b>		<b>Attractive</b>			<b>559,237</b>	<b>8,348</b>					<b>5.8</b>	<b>20.7</b>	<b>35.2</b>	<b>28.2</b>	<b>23.4</b>	<b>17.3</b>	<b>15.5</b>	<b>13.1</b>	<b>11.9</b>	<b>1.2</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>4.3</b>	<b>5.0</b>	<b>6.4</b>	<b>22.5</b>
<b>Technology</b>																													
HCL Technologies	REDUCE	834	840	0.7	1,177,221	17,573	1,413	57.5	61.4	64.6	46.4	6.8	5.3	14.5	13.6	12.9	10.2	9.2	8.4	3.7	3.3	3.0	3.0	3.5	3.9	27.3	25.4	24.0	19.0
Hexaware Technologies	NR	219	NA	-	66,250	989	304	13.7	14.8	16.6	5.9	7.9	12.5	16.0	14.8	13.2	10.7	9.2	8.1	3.9	3.6	3.2	2.5	3.6	3.6	26.5	25.1	25.6	3.8
Infosys	ADD	990	1,140	15.1	2,274,320	33,950	2,286	63.0	67.9	74.0	6.7	7.8	9.0	15.7	14.6	13.4	10.1	9.1	8.0	3.5	3.1	2.8	2.7	3.0	3.5	23.5	22.7	22.3	66.1
L&T Infotech	BUY	713	800	12.2	121,660	1,816	170	54.5	59.6	65.9	10.7	9.3	10.6	13.1	12.0	10.8	9.4	8.1	7.1	5.0	4.2	3.6	3.4	3.6	4.2	42.4	38.3	35.7	0.6
Mindtree	REDUCE	468	490	4.7	78,657	1,174	168	26.0	32.5	39.3	(27.4)	24.8	20.8	18.0	14.4	11.9	10.1	8.0	6.5	2.9	2.6	2.2	1.5	1.9	2.3	17.2	19.0	20.1	4.3
Mphasis	SELL	581	450	(22.5)	122,182	1,824	210	39.5	40.8	41.1	14.8	3.3	0.6	14.7	14.2	14.1	9.5	9.8	9.5	1.8	1.9	1.8	3.4	3.4	3.4	12.9	12.6	13.1	1.2
TCS	REDUCE	2,412	2,415	0.1	4,751,687	70,932	1,970	134.7	143.2	156.4	9.6	6.3	9.2	17.9	16.8	15.4	13.1	11.7	10.4	5.5	4.7	4.0	2.2	2.4	2.6	33.1	29.9	28.1	48.4
Tech Mahindra	BUY	508	510	0.4	494,328	7,379	872	34.0	38.2	43.4	(4.8)	12.2	13.7	14.9	13.3	11.7	10.4	8.6	7.2	2.8	2.4	2.0	2.4	1.2	1.4	19.5	19.1	18.6	16.8
Wipro	REDUCE	475	500	5.4	1,153,454	17,218	2,467	34.5	37.8	40.8	(4.2)	9.4	8.0	13.7	12.6	11.6	8.3	7.4	6.1	2.3	2.0	1.8	1.1	1.1	1.1	17.2	16.9	16.3	7.9
<b>Technology</b>		<b>Neutral</b>			<b>10,239,758</b>	<b>152,856</b>					<b>9.2</b>	<b>7.2</b>	<b>8.8</b>	<b>16.2</b>	<b>15.1</b>	<b>13.9</b>	<b>11.1</b>	<b>9.9</b>	<b>8.7</b>	<b>3.9</b>	<b>3.4</b>	<b>3.0</b>	<b>2.3</b>	<b>2.5</b>	<b>2.8</b>	<b>23.9</b>	<b>22.7</b>	<b>21.7</b>	<b>168.2</b>
<b>Telecom</b>																													
Bharti Airtel	BUY	361	375	3.9	1,443,061	21,542	3,997	8.1	3.9	9.5	(17.0)	(51.3)	141.8	44.5	91.5	37.8	7.2	7.7	6.5	2.1	2.1	2.1	0.7	0.3	1.0	4.8	2.3	5.6	17.6
Bharti Infratel	REDUCE	301	335	11.4	556,270	8,304	1,897	14.5	15.8	17.5	15.3	8.9	10.7	20.8	19.1	17.2	9.2	8.4	7.8	3.3	3.2	3.1	3.5	3.7	4.1	15.3	17.3	18.5	12.9
IDEA	RS	113	-	-	405,550	6,054	3,601	(2.4)	(10.2)	(8.0)	(127.5)	(335.1)	22.2	(47.9)	(11.0)	(14.1)	9.2	12.2	9.8	1.8	2.1	2.5	-	-	-	(3.5)	(17.7)	(16.3)	29.4
Tata Communications	ADD	741	670	(9.6)	211,128	3,152	285	23.1	22.7	28.6	1,306.8	(1.9)	26.5	32.1	32.7	25.9	9.3	8.3	7.5	862.2	31.4	14.2	0.9	0.9	0.9	(334.2)	185.4	75.5	9.3
<b>Telecom</b>		<b>Cautious</b>			<b>2,616,009</b>	<b>39,051</b>					<b>(39.1)</b>	<b>(74.6)</b>	<b>243.2</b>	<b>45.7</b>	<b>179.8</b>	<b>52.4</b>	<b>7.9</b>	<b>8.5</b>	<b>7.3</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	<b>1.1</b>	<b>1.0</b>	<b>1.4</b>	<b>5.3</b>	<b>1.4</b>	<b>4.8</b>	<b>69.2</b>
<b>Utilities</b>																													
Adani Power	SELL	37	24	(34.6)	128,483	1,918	3,334	(2.0)	4.2	4.2	(233.7)	315.3	(0.2)	(18.7)	8.7	8.7	8.8	6.4	6.0	1.8	1.5	1.3	-	-	-	(9.3)	18.9	15.9	5.8
CESC	SELL	873	785	(10.1)	115,689	1,727	133	53.7	75.6	96.8	92.1	40.8	28.2	16.3	11.6	9.0	8.3	7.6	6.6	1.2	1.1	1.0	1.2	1.3	1.4	7.8	10.3	12.1	6.2
JSW Energy	ADD	63	70	10.9	103,487	1,545	1,640	5.0	6.5	6.8	(33.6)	28.4	5.3	12.5	9.7	9.3	6.6	5.7	5.2	1.2	1.1	1.0	3.2	3.2	3.2	9.4	11.4	11.2	3.7
NHPC	ADD	30	32	5.6	335,441	5,007	11,071	2.9	3.4	3.6	21.6	17.6	6.7	10.5	8.9	8.4	9.6	7.3	6.3	1.0	1.0	1.0	5.3	6.3	6.6	10.0	11.3	11.6	4.4
NTPC	BUY	167	185	11.0	1,374,519	20,518	8,245	12.1	15.3	16.5	5.4	26.0	8.2	13.7	10.9	10.1	11.5	9.6	8.0	1.4	1.3	1.2	2.2	2.8	3.0	10.9	12.7	12.6	12.2
Power Grid	BUY	202	230	14.1	1,054,688	15,744	5,232	14.3	15.7	17.7	25.9	9.2	13.2	14.1	12.9	11.4	9.8	8.5	7.4	2.2	1.9	1.7	1.4	1.6	1.8	16.5	15.9	15.9	16.1
Reliance Power	SELL	46	37	(19.8)	129,457	1,932	2,805	4.2	4.5	5.1	(13.8)	7.7	13.8	11.0	10.2	9.0	8.8	8.0	7.7	0.6	0.6	0.5	-	-	-	5.5	5.6	6.0	1.8
Tata Power	ADD	84	87	3.4	227,607	3,398	2,800	6.8	7.3	9.9	24.5	6.5	35.9	12.3	11.5	8.5	10.5	8.9	8.4	1.5	1.3	1.2	1.4	1.4	1.4	12.3	12.1	14.7	5.4
<b>Utilities</b>		<b>Attractive</b>			<b>3,469,371</b>	<b>51,790</b>					<b>6.9</b>	<b>27.0</b>	<b>11.5</b>	<b>14.1</b>	<b>11.1</b>	<b>9.9</b>	<b>9.9</b>	<b>8.4</b>	<b>7.4</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>	<b>2.1</b>	<b>2.4</b>	<b>2.6</b>	<b>10.3</b>	<b>12.0</b>	<b>12.3</b>	<b>55.5</b>
<b>Others</b>																													
Astral Poly Technik	SELL	437	360	(17.5)	52,278	780	120	10.2	13.0	16.1	21.0	28.2	23.2	43.0	33.5	27.2	22.1	17.7	14.4	6.2	5.3	4.5	0.1	0.1	0.2	15.0	17.1	17.9	0.4
Cera Sanitaryware	REDUCE	2,490	2,140	(14.1)	32,385	483	13	74.2	89.0	104.4	15.6	20.0	17.3	33.6	28.0	23.9	19.9	16.6	14.2	6.3	5.2	4.3	0.4	0.4	0.4	20.7	20.5	19.8	0.2
Dhanuka Agritech	BUY	768	860	11.9	38,437	574	50	26.1	30.8	37.8	24.8	18.1	22.7	29.5	25.0	20.3	20.9	17.2	13.8	6.6	5.5	4.5	1.0	1.1	1.4	24.5	23.9	24.3	0.3
Godrej Industries	REDUCE	505	430	(14.9)	169,868	2,536	336	17.6	20.6	21.7	22.4	17.0	5.0	28.6	24.5	23.3	21.5	19.3	19.3	4.2	3.7	3.2	0.3	0.3	0.3	15.8	16.1	14.7	3.1
HSIL	ADD	305	325	6.4	22,083	330	72	16.1	19.1	22.0	30.5	18.9	15.2	19.0	16.0	13.9	8.5	7.2	6.4	1.5	1.4	1.3	1.3	1.3	1.3	8.2	9.1	9.8	0.4
InterGlobe Aviation	ADD	845	1,060	25.5	305,387	4,559	351	46.6	66.8	85.2	(17.9)	43.4	27.5	18.1	12.6	9.9	13.5	8.5	6.5	12.8	9.1	6.6	2.8	4.0	5.0	82.5	84.0	77.2	2.6
Kaveri Seed	BUY	460	540	17.4	31,752	474	69	25.9	35.8	43.8	3.1	38.5	22.2	17.8	12.8	10.5	14.7	9.9	7.7	3.1	2.7	2.3	1.7	2.3	3.3	18.5	22.5	23.8	4.8
PI Industries	ADD	854	960	12.5	117,458	1,753	136	30.7	34.4	40.6	32.5	12.2	18.1	27.8	24.8	21.0	22.3	18.4	15.2	7.6	6.1	4.9	0.5	0.5	0.6	31.0	27.3	25.8	2.9
Rallis India	ADD	240	250	4.1	46,692	6																							

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#### Kotak Institutional Equities Research coverage universe Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of December 31, 2016

## Ratings and other definitions/identifiers

### Definitions of ratings

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

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

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

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

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

### Other definitions

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

### Other ratings/identifiers

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