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### EQUITY MARKETS

India	Change %			
	18-Jan	1-day	1-mo	3-mo
Sensex	24,188	(1.1)	(5.2)	(11.6)
Nifty	7,351	(1.2)	(5.3)	(11.2)
<b>Global/Regional indices</b>				
Dow Jones	15,988	(2.4)	(6.7)	(7.1)
Nasdaq Composite	4,488	(2.7)	(8.8)	(8.2)
FTSE	5,780	(0.4)	(4.5)	(9.0)
Nikkei	17,022	0.4	(10.3)	(6.1)
Hang Seng	19,237	(1.5)	(11.6)	(16.6)
KOSPI	1,868	(0.5)	(5.4)	(8.0)
<b>Value traded – India</b>				
Cash (NSE+BSE)	214		120	41
Derivatives (NSE)	3,143		2,210	2,128
Deri. open interest	2,486		2,410	2,311

#### Forex/money market

	Change, basis points			
	18-Jan	1-day	1-mo	3-mo
Rs/US\$	67.7	6	146	280
10yr govt bond, %	8.0	2	3	21

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

	15-Jan	MTD	CYTD
FIs	(153)	(840)	(840)
MFs	41	245	248

#### Top movers

Best performers	Change, %			
	18-Jan	1-day	1-mo	3-mo
RELI IN Equity	471.3	(4.4)	4.7	23.3
JSTL IN Equity	991.0	1.9	(3.5)	11.3
NHPC IN Equity	19.2	(1.8)	(3.0)	8.8
NTPC IN Equity	134.6	(1.4)	(0.9)	5.7
RIL IN Equity	1016.9	(5.3)	2.5	5.5

#### Worst performers

CBK IN Equity	177.3	(1.4)	(26.9)	(40.6)
JPA IN Equity	8.8	(3.3)	(21.8)	(38.5)
VEDL IN Equity	68.7	(5.7)	(18.5)	(36.5)
UNBK IN Equity	112.7	(0.6)	(25.2)	(35.2)
BOI IN Equity	92.4	(2.3)	(21.4)	(34.8)

JANUARY 19, 2016

**RESULT**

 Coverage view: **Attractive**

 Price (₹): **547**

 Target price (₹): **585**

 BSE-30: **24,188**

**A tough row to hoe.** Wipro's headline numbers were in line with our estimates. Composition continues to disappoint with further deterioration in client progression metrics and weak growth in core markets and core areas of competence. Organic revenue growth guidance for 4QFY16 is in line for a seasonally strong period for Wipro. It is plausible to make a case of 10% trade on the back of inexpensive valuations and potential capture of low-hanging fruits by the new CEO. However, there is little for now to suggest that Wipro will reverse its industry growth underperformance. REDUCE stays.

**Company data and valuation summary**

Wipro

Stock data		Forecasts/Valuations		2016	2017E	2018E
52-week range (Rs) (high,low)	678-513	EPS (Rs)		36.8	40.1	44.5
Market Cap. (Rs bn)	1,351.7	EPS growth (%)		5.1	8.7	11.2
<b>Shareholding pattern (%)</b>		P/E (X)		14.9	13.7	12.3
Promoters	73.4	Sales (Rs bn)		513.7	567.8	626.9
FIs	10.7	Net profits (Rs bn)		90.9	98.8	109.9
MFs	2.3	EBITDA (Rs bn)		114.7	126.6	141.9
<b>Price performance (%)</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>	EV/EBITDA (X)		
Absolute	(1.3)	(5.2)	(1.4)	ROE (%)		
Rel. to BSE-30	4.2	6.6	14.6	Div. Yield (%)		

**3QFY16 headline numbers in line; weak composition, client metrics deteriorate further**

Wipro reported 1.4% growth in c/c, 80 bps ahead of our estimates. The company mitigated substantial part of Chennai floods impact on revenues through business continuity planning (which entailed additional working days for employees over weekends). However, EBIT margin suffered due to Chennai floods (~40 bps impact in our view) and declined 50 bps qoq to 20.2%. Additionally, a 340 bps decline in utilization rate also impacted EBIT margin. The quality of performance was patchy. Revenues from top-10 accounts declined 2.2% qoq. The number of US\$100 mn accounts declined further, which the company attributed to currency movements and decline in size of E&U clients. Growth was led by India and Middle East business (+21% yoy in c/c) and APAC markets (+12.3% yoy in c/c), while core US (+6.8% yoy) and Europe (-2.3% yoy) languished. Net profit of ₹22.3 bn was broadly in line with our estimate.

**Strategy unlikely to change materially under the new CEO; emphasis will be on execution**

In our view Wipro's strategy is unlikely to change meaningfully under the new CEO, Abidali Neemuchwala. In fact, growth strategies of most of the companies are similar. However, the difference lies in execution. Wipro has loose ends that require tightening in the areas of sales, account management, integrated deals, etc. This can help the company capture some of the low-hanging fruits. Of course, capturing the low-hanging fruits will be not be immediate and reflects in rather modest 2-4% revenue growth guidance for the March 2016 quarter (0.5-2.5% on organic basis, in our view). Ability to capture digital opportunity to the full potential remains questionable noting that Wipro is still struggling with the traditional business.

**Trade for sure but not a core investment; REDUCE rating stays**

Seemingly inexpensive valuations and possible capture of low-hanging fruits from tightening of execution can drive a small trade. Is that enough to make an investment case? Not really. Wipro's perpetual catch-mode with peers, cautious approach in taking big strategic bets and struggles in defending leadership areas (with the exception of energy and utilities and APAC/India) leave it vulnerable to continued underperformance. We cut FY016-18E EPS estimates by 1-3%. We roll over and value Wipro at 14X Sep 2017E EPS (~15X FY2017E EPS earlier). Our revised target price is ₹585 (₹590 earlier).

We note that we expect Wipro to continue to underperform industry on growth. We forecast FY2017E and FY2018E revenue growth of 8.4% and 10%, respectively.

### Wipro is also impacted by portfolio challenges

Lest we be accused of being harsh, we do highlight that Wipro will end FY2016 with c/c growth of 8%. While this is disappointing, part of the challenge has emanated from ~6.5% decline in US\$ revenues from the energy and utilities (E&U) vertical. Sharp decline in oil prices has led to massive cut in spending by clients in the vertical and also contributed to pricing pressure. Wipro has benefitted from vendor consolidation in E&U; however, even after the consolidation activity, the number of US\$100 mn clients in the vertical has declined to 1 from 4 a year ago. Continued decline in oil price means that challenges in the E&U vertical will not go away in a hurry.

While we appreciate the challenges posed by E&U, weakness in revenues from Top-5 and Top-10 accounts and # of US\$100 mn clients, we are left wondering on the possible reasons for poor client metrics across all size buckets. The company had hardly added any clients to the US\$20 mn, US\$50 mn and US\$75 mn buckets.

What continues to disappoint us is weakness in other areas. For example, IMS revenues barely grew (0.7% qoq and 3.9% yoy), disappointing for a company that was a leader. Rethink of strategy in IMS and participation in rebid deals did bump up the growth in the interim. However, growth has trended down once again. Management highlighted that the recent slowdown in growth was due to a lull in deal signings for a couple of quarters. However, Wipro indicated that deal wins have picked up and it has won a few large deals in the Dec quarter. Further, the management alluded to a few reasons for recovery as well: (1) Wipro believes that IMS business is going through a transformation whereby it is moving to as-a-service utility-based business. Wipro is confident that its investments in software-defined storage and software-defined data centers and partnerships across ecosystem partners will help transform its IMS offering, and (2) successful pilots of infrastructure-as-a-service in a couple of large clients give it additional confidence about prospects of IMS practice.

### No major change in strategy; a big emphasis on execution

One of the positives is that the new CEO has refrained from material changes to the organization structure other than creating a new group under the leadership of GK Prasanna. The structure is simply fine and there are minor changes to the reporting roles. GK Prasanna will head the new unit called marketing, innovations and technology (MIT). MIT will develop IP of strategic importance. It will be a central unit governing IP development across vertical and technology areas and it will enable monetization of IP on a standalone basis as well as embedded in IT service offerings. Wipro's AI platform HOLMES and robotics automation platforms will also be integrated into MIT with an objective to better industrialization of delivery. Lastly, Wipro's MIT would extend ecosystem to educational institutions and start-ups in which Wipro makes VC investment.

The strategic direction of the business will be fine-tuned but not changed, a positive in our view. Continuity of TK Kurien in an executive role shall help in seamless transition. All these factors shall ensure that the entire energy is expended on execution.

### Smart acquisitions shall help

Wipro seems to be using the buy decisions smartly. The company had made three acquisitions recently that shall help in building in new capabilities and access to new markets. We summarize the acquisitions below:

- ▶ **Designit.** Wipro acquired Designit, a Denmark-based creative agency with design capabilities, to spruce up its digital marketing capabilities. This investment has helped Wipro combine its deep engineering and transformative technology with human centered-design methods.

- ▶ **cellent AG.** Wipro's acquisition of cellent AG is for expansion of geographical footprint in continental Europe. This acquisition gave Wipro access to cellent's 45+ clients and 800 German-speaking IT professionals. cellent has a presence in 11 locations across Germany, Austria and Switzerland (DACH countries).
- ▶ **Viteos.** The acquisition of Viteos, a US-based business process as a service provider (BPaaS), gave access to BPaaS platform and buy-side clients, especially hedge funds. Viteos' BPaaS platform provides a full suite of shadow accounting, middle office and accounting solutions across asset class, currency, structure and geographies.

### Highlights from 3QFY16 results and conference call

- ▶ **Key priorities of the new CEO.** The new CEO highlighted three areas of immediate focus: (1) Sales transformation. Wipro has initiated a focused program to help its frontline teams sell and deliver in the new market, (2) strengthening consulting. Wipro is working towards enhancing its consulting capabilities and ability to consultatively sell and create demand in its client base, and (3) industrialization of services. Wipro intends to leverage its AI platform HOLMES and other robotics platforms to carry out automation and reduce the cost of delivery.
- ▶ **Demand outlook for CY2016.** Wipro management indicated that the demand environment is stable. It expects strong momentum in the US and is hopeful about Europe as well in view of its recent acquisition of cellent AG. The management alluded to intense pricing pressure in large deals and run-the-business services.
- ▶ **Guidance 2% to 4% (0.5 to 2.5% organic).** Wipro's 3QFY16 revenue guidance is US\$1,875-1,912 mn, implies growth of 2% to 4% in constant currency terms. Excluding contribution of about 1.5% from acquisitions (cellent AG and Viteos), organic growth guidance is 0.5% to 1.5%
- ▶ **Margins.** Wipro's IT services EBIT margin declined 50 bps qoq to 20.2% largely led by the costs associated with Chennai floods. Besides this, there was some impact of 310 bps decline in utilization (including trainees).
- ▶ **Deterioration in client metrics.** Wipro's top, top-5 and top-10 accounts have declined at CQGR of 3.9%, 1.9% and 1.5% over the past 4 quarters. The number of US\$100 mn accounts is down to 9 from 11 in March 2015. The management attributed this to decline in the energy vertical. Wipro has only 1 energy and utility vertical client in US\$100 mn bucket as against 4 clients a year ago. The management indicated that it expects growth challenges in a top E&U client for one more quarter.
- ▶ **Consolidation in energy and utilities vertical.** Wipro recently won a large vendor consolidation deals in the oil and gas vertical. The management indicated that it is gaining from vendor consolidation opportunities in its energy vertical; however, with oil prices plummeting further to US\$30/barrel levels, it is difficult to forecast the IT demand outlook of the vertical.
- ▶ **Employee count and attrition.** Wipro closed the quarter with a total headcount of 170,644, implying a net addition of 2,268 in 3Q. Voluntary quarterly annualized attrition declined 50 bps qoq to 16.3%.

## Exhibit 1: Wipro 3QFY16 results (IFRS)

	3QFY16	3QFY16E	2QFY16	3QFY15	Change (%)			9MFY16	9MFY15	Change (%)	FY2016E
					3QFY16E	2QFY16	3QFY15				
IT services revenues (US\$ mn)	1,838	1,833	1,832	1,795	0.3	0.3	2.4	5,464	5,307	3	7,356
- IT Services	123,147	121,147	120,428	113,445	1.7	2.3	8.6	359,348	327,763	10	484,642
- IT Products	6,503	7,972	5,442	7,740	(18.4)	19.5	(16.0)	20,119	24,552	(18)	29,762
- reconciling items	(134)	(202)	(202)	(334)				(577)	(847)	(32)	(711)
<b>Total revenues</b>	<b>129,516</b>	<b>128,917</b>	<b>125,668</b>	<b>120,851</b>	<b>0.5</b>	<b>3.1</b>	<b>7.2</b>	<b>378,890</b>	<b>351,468</b>	<b>8</b>	<b>513,693</b>
<b>Operating Income</b>	<b>23,874</b>	<b>24,426</b>	<b>24,289</b>	<b>24,034</b>	<b>(2.3)</b>	<b>(1.7)</b>	<b>(0.7)</b>	<b>72,185</b>	<b>70,867</b>	<b>2</b>	<b>98,703</b>
- IT Services	24,820	24,841	24,952	24,741	(0.1)	(0.5)	0.3	74,051	72,767	2	100,961
- IT Products	(505)	40	(208)	89	(1,366.9)	142.8	(667.4)	(574)	316	(282)	(526)
- reconciling items	(441)	(455)	(455)	(796)				(1,292)	(2,216)	(42)	(1,732)
Other income/ (expense)	4,804	4,779	4,605	4,225	0.5	4.3	13.7	13,365	11,696	14	18,457
<b>PBT</b>	<b>28,678</b>	<b>29,205</b>	<b>28,894</b>	<b>28,259</b>	<b>(1.8)</b>	<b>(0.7)</b>	<b>1.5</b>	<b>85,550</b>	<b>82,563</b>	<b>4</b>	<b>117,160</b>
Income taxes	(6,248)	(6,652)	(6,486)	(6,228)	(6.1)	(3.7)	0.3	(18,679)	(18,369)	2	(25,836)
<b>PAT</b>	<b>22,430</b>	<b>22,553</b>	<b>22,408</b>	<b>22,031</b>	<b>(0.5)</b>	<b>0.1</b>	<b>1.8</b>	<b>66,871</b>	<b>64,194</b>	<b>4</b>	<b>91,324</b>
Equity in earnings of affiliates	—	—	—	—				—	—		—
Minority interest	(89)	(146)	(54)	(103)				(299)	(386)	(23)	(425)
<b>Net income</b>	<b>22,341</b>	<b>22,407</b>	<b>22,354</b>	<b>21,928</b>	<b>(0.3)</b>	<b>(0.1)</b>	<b>1.9</b>	<b>66,572</b>	<b>63,808</b>	<b>4</b>	<b>90,900</b>
EPS (Rs/share)	9.1	9.1	9.1	8.9	(0.3)	(0.1)	2.1	27.0	25.9	5	36.8
<b>Operating margin</b>	<b>20.2</b>	<b>20.5</b>	<b>20.7</b>	<b>21.8</b>				<b>20.6</b>	<b>22.2</b>		<b>20.8</b>
IT Services	(7.8)	0.5	(3.8)	1.1				(2.9)	1.3		(1.8)
IT Products	17.2	17.4	17.8	18.1				17.6	18.2		16.8
Net Income Margin	21.8	22.8	22.4	22.0				21.8	22.2		22.1
Tax rates (%)											

Source: Company, Kotak Institutional Equities estimates

## Exhibit 2: Wipro: Key changes to FY2016-18E estimates

Rs mn	Revised			Earlier			Change (%)		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
IT Services revenues (US\$ mn)	7,356	7,977	8,771	7,420	8,258	9,087	(0.9)	(3.4)	(3.5)
Revenue growth (%)	3.9	8.4	10.0	4.8	11.3	10.0			
Rupee/ US\$ rate	65.89	67.44	68.00	65.39	66.54	67.00	0.76	1.3	1.5
EBITDA margin (%)	23.7	23.3	23.5	24.2	23.7	23.8			
EBIT margin (%) (ex forex gains)	20.8	20.7	21.1	21.4	20.9	21.2			
EPS (Rs/share)	36.8	40.1	44.5	37.5	40.5	45.7	(1.8)	(1.1)	(2.5)

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Growth rates across verticals, geographies and service lines

	Dec-15	Growth (%)		Contribution to revenues (%)
		QoQ	YoY	
<b>Revenues (US\$ mn)</b>	<b>1,838</b>	<b>0.3</b>	<b>2.4</b>	<b>100</b>
<b>Service line split of revenues</b>				
Global Infrastructure Services	517	0.7	3.9	28.1
Wipro Analytics	136	(1.0)	8.2	7.4
Business Process Services	180	0.3	5.6	9.8
Product Engineering	147	1.6	15.4	8.0
Application Services	858	0.1	(1.8)	46.7
R&D Business	191	(0.6)	8.7	10.4
Consulting	29	(15.5)	(13.8)	1.6
<b>Vertical split of revenues</b>				
Global Media and Telecom	246	0.3	(0.6)	13.4
Finance Solutions	482	(1.5)	4.4	26.2
Manufacturing and hi-tech	338	(1.3)	2.9	18.4
Healthcare, life sciences and services	221	5.6	5.0	12.0
Retail & transportation	287	3.7	13.3	15.6
Energy & Utilities	265	(1.7)	(10.1)	14.4
<b>Geographical split of revenues</b>				
US	971	(0.0)	5.2	52.8
Europe	456	(1.2)	(8.0)	24.8
India and Middle east business	202	4.1	17.3	11.0
Other emerging markets	210	2.1	2.4	11.4
<b>Customer concentration</b>				
Top customer	59	3.6	(13.8)	3.2
Top 5 customers	211	(1.4)	(7.3)	11.5
Top 10 customers	355	(2.2)	(5.9)	19.3
Non top 10	1,484	1.0	4.6	80.7

Source: Company, Kotak Institutional Equities

Exhibit 4: Key client metrics

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	8 qtr CQGR (%)
<b>Revenue (US\$ mn)</b>											
Top client	62	62	64	64	62	68	67	59	57	59	(0.7)
Top 5 clients	227	238	239	233	229	228	224	219	214	211	(1.5)
Top 10 clients	372	386	389	379	381	377	366	361	363	355	(1.0)
ex- Top 10 clients	1,259	1,292	1,331	1,361	1,391	1,418	1,409	1,433	1,469	1,484	1.7
<b>Growth (qoq %)</b>											
Top client	5.5	0.2	2.5	1.2	(3.7)	10.0	(1.2)	(12.2)	(4.1)	3.6	
Top 5 clients	4.2	5.1	0.3	(2.5)	(2.0)	(0.2)	(1.9)	(2.1)	(2.1)	(1.4)	
Top 10 clients	4.1	3.8	0.7	(2.4)	0.4	(1.0)	(3.0)	(1.3)	0.6	(2.2)	
ex- Top 10 clients	2.3	2.6	3.0	2.2	2.2	2.0	(0.7)	1.7	2.5	1.0	
<b>Client buckets</b>											
US\$100 mn+	10	11	10	10	10	10	11	10	10	9	
US\$75 mn+	15	15	14	14	15	16	15	17	17	17	
US\$50 mn+	27	28	29	29	30	31	31	30	31	32	

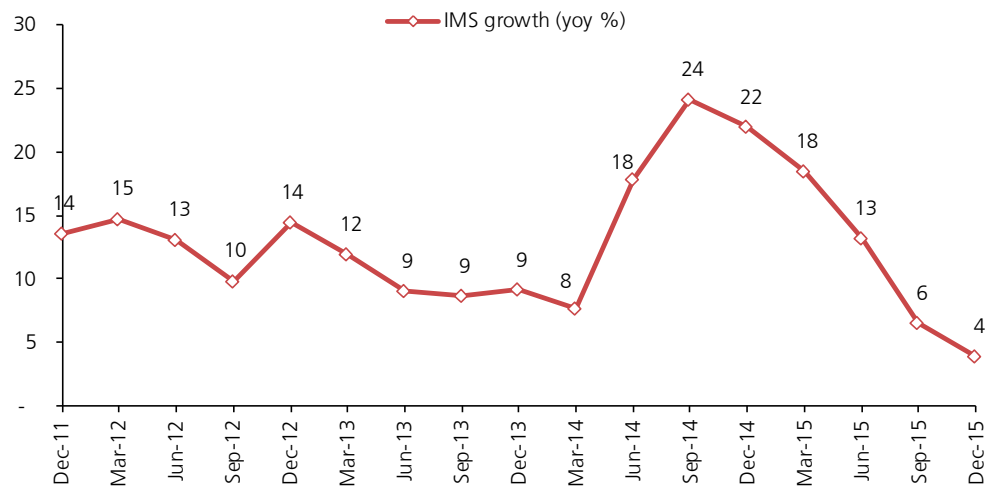
Source: Company, Kotak Institutional Equities

Exhibit 5: Energy segment contributes about ~5% to revenues, overall contribution of E&U is about 14.5%

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	4 qtr CQGR (%)
<b>Energy &amp; Utilities</b>										
Revenues (USD mn)	270	279	278	298	294	275	273	269	265	(2.6)
Growth (QoQ%)	4.9	3.1	(0.1)	6.9	(1.1)	(6.6)	(0.9)	(1.3)	(1.7)	
As % of IT services revenues	16.1	16.2	16.0	16.8	16.4	15.5	15.2	14.7	14.4	

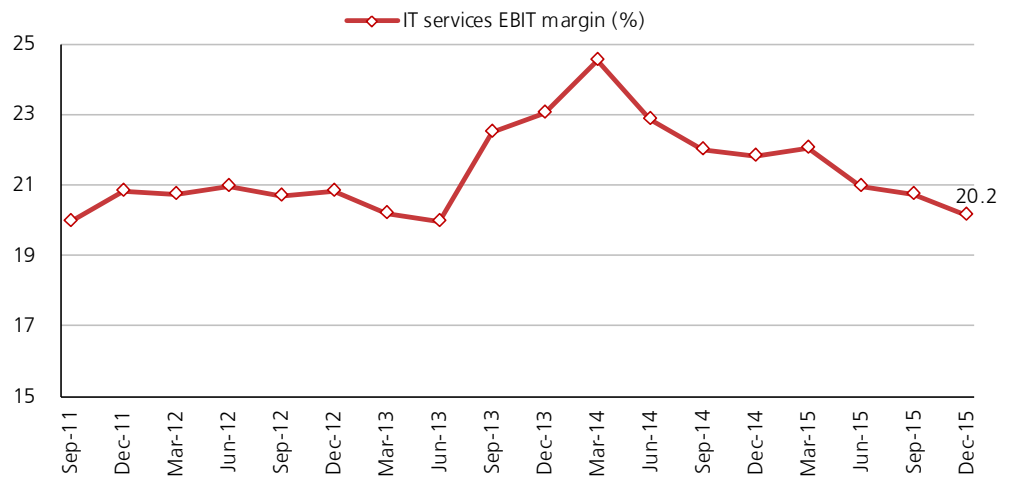
Source: Company, Kotak Institutional Equities

Exhibit 6: IMS growth has decelerated meaningfully; Wipro expect acceleration going forward



Source: Company, Kotak Institutional Equities

Exhibit 7: IT services EBIT margin at 20.2% was lowest in the past 10 quarters



Source: Company, Kotak Institutional Equities

Exhibit 8: Wipro: operating metrics

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
<b>IT services revenues (US\$ mn)</b>	<b>1,631</b>	<b>1,678</b>	<b>1,720</b>	<b>1,740</b>	<b>1,772</b>	<b>1,795</b>	<b>1,775</b>	<b>1,794</b>	<b>1,832</b>	<b>1,838</b>
<b>Service line split of revenues (%) - new</b>										
Global Infrastructure Services				25.5	27.2	27.7	27.9	28.0	28.0	28.1
Wipro Analytics				7.1	7.2	7.0	7.1	7.5	7.5	7.4
Business Process Services				9.7	9.2	9.5	9.4	9.3	9.8	9.8
Product Engineering				6.9	7.0	7.1	7.6	7.7	7.9	8.0
Application Services				50.8	49.4	48.7	48.0	47.5	46.8	46.7
<b>Total</b>				<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
R&D Business				9.5	9.7	9.8	10.2	10.3	10.5	10.4
Consulting				2.0	2.0	1.9	1.8	1.7	1.9	1.6
<b>Vertical split of revenues (%)</b>										
Global Media and Telecom	13.9	13.7	13.9	14.3	13.9	13.8	13.5	13.2	13.4	13.4
Finance Solutions	26.4	26.4	26.8	26.7	26.0	25.7	26.5	26.8	26.7	26.2
Manufacturing and hi-tech	19.0	18.6	18.0	18.2	18.2	18.3	18.3	18.6	18.7	18.4
Healthcare, life sciences and services	10.1	10.6	10.6	10.8	11.2	11.7	11.7	11.2	11.4	12.0
Retail & transportation	14.8	14.6	14.5	14.0	13.9	14.1	14.5	15.0	15.1	15.6
Energy & Utilities	15.8	16.1	16.2	16.0	16.8	16.4	15.5	15.2	14.7	14.4
<b>Geographical split of revenues (%)</b>										
US	49.8	49.9	50.0	49.8	51.0	51.4	51.7	52.5	53.0	52.8
Europe	28.9	29.6	30.0	29.6	27.8	27.6	26.3	25.6	25.2	24.8
India and Middle east business	8.3	8.5	8.8	9.1	9.2	9.6	10.7	10.6	10.6	11.0
APAC & other emerging markets	13.0	12.0	11.2	11.5	12.0	11.4	11.3	11.3	11.2	11.4
<b>Client metrics</b>										
Customer size distribution (TTM)										
Million dollar clients of which	487	495	501	511	524	526	542	537	533	536
> US\$100 mn	10	11	10	10	10	10	11	10	10	9
US\$75 mn - US\$100 mn	5	4	4	4	5	6	4	7	7	8
US\$50 mn - US\$75 mn	12	13	15	15	15	15	16	13	14	15
US\$20 mn - US\$50 mn	51	52	53	55	55	53	55	56	55	53
US\$10 mn - US\$20 mn	59	56	61	59	65	69	64	65	68	69
US\$5 mn - US\$10 mn	83	82	77	81	75	73	81	93	90	93
US\$3 mn - US\$5 mn	62	62	58	69	67	74	80	70	77	78
US\$1 mn - US\$3 mn	205	215	223	218	232	226	231	223	212	211
Repeat business (%)	99.1	98.1	97.0	99.6	98.6	97.7	96.7	99.6	98.5	97.9
New client additions	45	42	59	35	50	44	65	36	67	39
Total active customers	942	966	986	1,022	1,018	1,018	1,054	1,071	1,100	1,105
<b>Customer concentration (%)</b>										
Top customer	3.8	3.7	3.7	3.7	3.5	3.8	3.8	3.3	3.1	3.2
Top 5 customers	13.9	14.2	13.9	13.4	12.9	12.7	12.6	12.2	11.7	11.5
Top 10 customers	22.8	23.0	22.6	21.8	21.5	21.0	20.6	20.1	19.8	19.3
Employees (IT services)	147,216	146,402	146,053	147,452	154,297	156,866	158,217	161,789	168,396	170,664
<b>Utilization (%)</b>										
Global IT Services excl IFOX-Gross (a) (b)	66.1	66.0	67.7	68.7	70.0	68.5	70.5	71.3	69.5	66.4
Global IT Services excl IFOX-Net	73.0	72.9	74.9	76.0	77.5	75.9	78.0	79.4	77.2	73.8
<b>Attrition (%)</b>										
Global IT Services - Voluntary - Qtrly annualized	15.4	16.3	15.7	17.0	16.9	16.4	16.5	16.4	16.8	16.3
Global IT Services - Involuntary Qtrly annualized	5.6	4.2	4.2							
<b>Revenues by project type (%)</b>										
Fixed price	48.2	50.6	51.3	52.1	53.1	55.1	55.5	54.5	53.4	55.9
Time and material	51.8	49.4	48.7	47.9	46.9	44.9	44.5	45.5	46.2	44.1
<b>Onsite-offshore revenue split (%)</b>										
Onsite	54.2	54.1	54.1	54.3	53.7	54.3	53.7	54.6	53.9	53.8
Offshore	45.8	45.9	45.9	45.7	46.3	45.7	46.3	45.4	46.1	46.2

Source: Company, Kotak Institutional Equities



Exhibit 9: Profit model, balance sheet, cash model of Wipro, March fiscal year-ends, 2013-18E (Rs mn)

	2013	2014	2015	2016E	2017E	2018E
<b>Profit model</b>						
Revenues	374,256	437,628	473,185	513,693	567,820	626,881
Cost of revenues (including depreciation)	(260,665)	(295,489)	(321,328)	(353,621)	(391,115)	(428,916)
<b>Gross profit</b>	<b>113,591</b>	<b>142,139</b>	<b>151,857</b>	<b>160,071</b>	<b>176,705</b>	<b>197,965</b>
SG&A expenses (including depreciation)	(46,245)	(52,787)	(56,434)	(61,368)	(67,426)	(74,435)
<b>EBIT</b>	<b>69,972</b>	<b>89,352</b>	<b>95,423</b>	<b>98,703</b>	<b>109,279</b>	<b>123,530</b>
Other income	8,624	11,653	16,260	18,457	19,048	19,392
<b>Pre-tax profits</b>	<b>78,596</b>	<b>101,005</b>	<b>111,683</b>	<b>117,160</b>	<b>128,327</b>	<b>142,922</b>
Provision for tax	(16,912)	(22,601)	(24,624)	(25,836)	(29,046)	(32,576)
<b>PAT</b>	<b>61,684</b>	<b>78,404</b>	<b>87,059</b>	<b>91,324</b>	<b>99,281</b>	<b>110,346</b>
Equity in earnings of affiliates, minority interest (net)	(337)	(438)	(531)	(425)	(446)	(468)
<b>PAT from continuing operations</b>	<b>61,347</b>	<b>77,966</b>	<b>86,528</b>	<b>90,900</b>	<b>98,835</b>	<b>109,878</b>
<b>EPS (Rs)</b>	<b>24.9</b>	<b>31.7</b>	<b>35.1</b>	<b>36.8</b>	<b>40.1</b>	<b>44.5</b>
<b>Balance Sheet</b>						
Shareholders funds	283,812	343,499	407,982	463,360	520,754	583,271
Borrowings	63,816	51,592	78,913	—	—	—
Minority interest	1,171	1,387	1,646	2,071	2,517	2,985
Other liabilities	9,153	10,053	13,669	13,669	13,669	13,669
<b>Total liabilities</b>	<b>357,952</b>	<b>406,531</b>	<b>502,210</b>	<b>479,100</b>	<b>536,940</b>	<b>599,925</b>
Net fixed assets	50,525	51,449	54,206	49,443	47,407	45,897
Cash and bank balances	84,838	114,201	158,940	203,785	248,595	296,453
Net current assets excluding cash	140,787	144,712	179,729	98,309	110,342	123,669
Other assets	81,802	96,169	109,335	127,563	130,596	133,906
<b>Total assets</b>	<b>357,952</b>	<b>406,531</b>	<b>502,210</b>	<b>479,100</b>	<b>536,940</b>	<b>599,925</b>
<b>Cashflow statement</b>						
Operating profit before working capital changes	83,776	102,241	110,294	114,666	126,588	141,942
Tax paid	(16,493)	(19,165)	(20,680)	(21,766)	(24,735)	(28,156)
Change in working capital/other adjustments	(3,303)	(13,639)	(10,157)	(9,091)	(15,066)	(16,636)
Capital expenditure	(10,145)	(7,822)	(11,272)	(11,199)	(15,272)	(16,902)
<b>Free cash flow</b>	<b>53,835</b>	<b>61,615</b>	<b>68,185</b>	<b>72,610</b>	<b>71,514</b>	<b>80,248</b>
<b>Margins and ratios</b>						
Consolidated gross profit margin (%)	30.4	32.5	32.1	31.2	31.1	31.6
Consolidated EBIT margin (%)	18.7	20.4	20.2	19.2	19.2	19.7
IT services EBIT margin (%)	20.7	22.6	22.0	20.8	20.5	20.8
RoAE (%)	21.6	24.9	23.0	20.9	20.1	19.9
RoACE (%)	19.3	22.1	19.8	17.7	17.2	17.3

Source: Company, Kotak Institutional Equities

JANUARY 19, 2016

**RESULT**

 Coverage view: **Cautious**

 Price (₹): **850**

 Target price (₹): **800**

 BSE-30: **24,188**

**Solid quarter as healthy volume growth sustains.** APNT delivered a quarter of healthy volume growth despite one-off factors impacting sales in South India. Paints, as a category, continues to see robust volume growth in contrast to the slowdown seen in several other consumption categories. As always, we would refrain from reading much into the 'outperformance' aspect of the earnings print. Our FY2016-18E EPS estimates go up by 2-4% as we bake in higher gross margins in the backdrop of recent sharp fall in crude and other paint commodities. The stock remains fully valued. Our REDUCE rating stays with a revised TP of ₹800 (₹750 earlier), valuing the stock at 33X Sep 2017E EPS.

**Company data and valuation summary**

Asian Paints

**Stock data**

52-week range (Rs) (high,low) 927-693

Market Cap. (Rs bn) 815.6

**Shareholding pattern (%)**

Promoters 52.8

FIs 17.4

MFs 1.9

**Price performance (%)**

	1M	3M	12M
Absolute	(3.3)	(3.6)	0.8
Rel. to BSE-30	2.0	8.4	17.2

**Forecasts/Valuations**

	2016	2017E	2018E
EPS (Rs)	19.0	22.4	26.5
EPS growth (%)	28.0	17.8	18.5
P/E (X)	44.8	38.0	32.1
Sales (Rs bn)	155.0	175.7	202.3
Net profits (Rs bn)	18.2	21.5	25.4
EBITDA (Rs bn)	28.1	33.2	38.9
EV/EBITDA (X)	28.4	23.8	20.0
ROE (%)	35.3	35.2	35.2
Div. Yield (%)	1.0	1.1	1.4

**3QFY16 earnings print – solid numbers as the outperformance-miss cycle continues**

**Consolidated headline results.** Revenues up 14% yoy to ₹41.6 bn, 2% ahead of our expectations. Gross margins expanded 330 bps yoy to 47.1%, 50 bps ahead of our estimate. Gross profit outperformance flowed down to the EBITDA and PAT level, driving 8% and 9% outperformance on these, respectively. Reported consol EBITDA grew a strong 37% yoy. Recurring PAT (post minority interest but pre exceptionals) was up 40% yoy to ₹5.2 bn. The company took ₹525 mn exceptional charge on account of impairment of goodwill related to Sleek acquisition. We note that the company had acquired 51% stake in Sleek for ₹1.2 bn in March 2013.

**Standalone headline results.** Revenues up 13% yoy to ₹34.24 bn, 2% ahead of our estimate. Gross margins expanded 351 bps yoy to 48.3%, 50 bps ahead of our estimate. EBITDA of ₹7.15 bn (+32% yoy) was 6% ahead of our estimate while recurring net income of ₹4.84 bn (+37% yoy) was 7% ahead. We estimate that decorative volumes grew around 16-17% yoy with price/mix drag of 3-3.5% yoy. This is on the back of a weak 3QFY15 (volume growth was 3% yoy) on account of Diwali time shift. In that backdrop, strong volume growth was expected (our estimate was 15%) even as the company has surpassed expectations.

APNT's quarters are tough to forecast and the extent of outperformance or miss is typically fairly large. Consolidated EPS beat consensus estimate by 10% in 3QFY16. Even as 3QFY16 numbers are strong in their own right, we wouldn't read much into the outperformance angle. 2QFY16 EPS, for example, had missed consensus expectation by 10%, 1QFY16 was an 11% outperformance and 4QFY15 was a 12% miss. Of the past 18 quarters, the company has seen material misses in 11, and delivered healthy outperformance in 7. Also, the extent of outperformance or miss is typically material.

**Raise estimates as we bake in further RM correction; stock fully valued; REDUCE stays**

Our FY2016-18E EPS estimates go up by 2-4% as we bake in higher gross margins in the backdrop of recent sharp fall in crude and other paint commodities. Our revised EPS estimates stand at ₹22.4 for FY2017 and ₹26.5 for FY2018. The stock remains fully valued at the current levels. Our REDUCE rating stays with a revised TP of ₹800 (₹750 earlier), valuing the stock at 33X Sep 2017E EPS.

Exhibit 1: Interim consolidated results of Asian Paints, March fiscal year-ends (Rs mn)

	3QFY16	3QFY16E	3QFY15	2QFY16	(% change)			9MFY16	9MFY15	(% chg.)	FY2016E
					KIE Est	yoy	qoq				
Net sales	41,030	40,178	36,028	37,306	2	14	10	114,115	105,149	9	152,958
Other operating income	571	554	498	488	3	15	17	1,514	1,328	14	2,049
Net operating revenue	41,600	40,733	36,526	37,794	2	14	10	115,629	106,478	9	155,007
Material cost	(22,004)	(21,754)	(20,517)	(20,322)	1	7	8	(61,786)	(60,296)	2	(82,403)
Gross profit	19,597	18,979	16,009	17,471	3	22	12	53,842	46,182	17	72,605
Gross margin (%)	47.1	46.6	43.8	46.2	51 bps	327 bps	87 bps	46.6	43.4		46.8
Employee cost	(2,470)	(2,543)	(2,319)	(2,466)	(3)	7	0	(7,412)	(6,907)	7	(9,875)
Other expenditure	(9,121)	(9,006)	(7,855)	(8,797)	1	16	4	(25,381)	(22,513)	13	(34,584)
Total expenditure	(33,595)	(33,303)	(30,691)	(31,586)	1	9	6	(94,579)	(89,716)	5	(126,862)
EBITDA	8,006	7,429	5,835	6,208	8	37	29	21,049	16,762	26	28,145
EBITDA margin (%)	19.2	18.2	16.0	16.4	100 bps	326 bps	281 bps	18.2	15.7		18.2
Other income	358	455	321	575	(21)	12	(38)	1,668	1,273	31	2,175
Interest	(76)	(90)	(98)	(92)	(15)	(22)	(17)	(257)	(246)	5	(339)
Depreciation	(725)	(730)	(673)	(709)	(1)	8	2	(2,127)	(1,988)	7	(2,890)
Pretax profits	7,563	7,064	5,384	5,982	7	40	26	20,332	15,802	29	27,091
Tax	(2,288)	(2,208)	(1,667)	(1,836)	4	37	25	(6,238)	(4,797)	30	(8,371)
Recurring PAT	5,274	4,856	3,717	4,146	9	42	27	14,094	11,005	28	18,720
Extraordinary items	(525)	—	—	—				(525)	(252)		(525)
Minority interest	(117)	(125)	(35)	(156)	(6)	231	(25)	(395)	(212)	87	(510)
Net profit (reported)	4,633	4,731	3,682	3,990	(2)	26	16	13,175	10,542	25	17,685
Recurring PAT post MI	5,157	4,731	3,682	3,990	9	40	29	13,699	10,793	27	18,210
Recurring EPS	5.4	4.9	3.8	4.2	9	40	29	14.3	11.3	27	19.0
Income tax rate (%)	30.3	31.3	31.0	30.7	-101 bps	-71 bps	-44 bps	30.7	30.4		30.9
Costs as a % of net operating revenue											
Material cost	52.9	53.4	56.2	53.8	-52 bps	-328 bps	-88 bps	53.4	56.6	-320 bps	53.2
Employee cost	5.9	6.2	6.3	6.5	-31 bps	-42 bps	-59 bps	6.4	6.5	-8 bps	6.4
Other expenditure	21.9	22.1	21.5	23.3	-19 bps	42 bps	-136 bps	22.0	21.1	80 bps	22.3

Source: Company, Kotak Institutional Equities

Exhibit 2: Interim standalone results of Asian Paints, March fiscal year-ends (Rs mn)

	3QFY16	3QFY16E	3QFY15	2QFY16	(% change)			9MFY16	9MFY15	(% chg.)	FY2016E
					KIE Est	yoy	qoq				
Net sales	33,711	33,068	29,791	30,201	2	13	12	92,876	86,395	8	124,520
Other operating income	529	509	463	446	4	14	19	1,393	1,224	14	1,884
Net operating revenue	34,240	33,577	30,254	30,647	2	13	12	94,268	87,619	8	126,404
Material cost	(17,693)	(17,532)	(16,697)	(16,116)	1	6	10	(49,220)	(48,798)	1	(65,612)
Gross profit	16,546	16,046	13,557	14,531	3	22	14	45,048	38,820	16	60,791
Gross margin (%)	48.3	47.8	44.8	47.4	53 bps	351 bps	91 bps	47.8	44.3	348 bps	48.1
Employee cost	(1,604)	(1,647)	(1,539)	(1,600)	(3)	4	0	(4,856)	(4,614)	5	(6,447)
Other expenditure	(7,796)	(7,672)	(6,614)	(7,542)	2	18	3	(21,598)	(19,096)	13	(29,484)
Total expenditure	(27,094)	(26,851)	(24,850)	(25,258)	1	9	7	(75,674)	(72,508)	4	(101,542)
EBITDA	7,146	6,727	5,404	5,389	6	32	33	18,594	15,111	23	24,861
EBITDA margin (%)	20.9	20.0	17.9	17.6	83 bps	300 bps	328 bps	19.7	17.2	247 bps	19.7
Other income	472	500	368	583	(6)	28	(19)	1,817	1,362	33	2,417
Interest	(58)	(50)	(78)	(45)	16	(26)	28	(131)	(185)	(29)	(191)
Depreciation	(601)	(600)	(565)	(584)	0	6	3	(1,761)	(1,676)	5	(2,389)
Pretax profits	6,959	6,577	5,128	5,343	6	36	30	18,519	14,611	27	24,698
Tax	(2,124)	(2,072)	(1,598)	(1,698)	3	33	25	(5,761)	(4,484)	28	(7,708)
Recurring PAT	4,835	4,505	3,531	3,645	7	37	33	12,758	10,127	26	16,991
Extraordinary items	(653)	—	—	—				(653)	(252)		(653)
Net profit (reported)	4,182	4,505	3,531	3,645	(7)	18	15	12,105	9,876	23	16,338
Recurring EPS	5.0	4.7	3.7	3.8	7	37	33	12.6	10.3	23	17.7
Income tax rate (%)	30.5	31.5	31.2	31.8	-99 bps	-64 bps	-127 bps	31.1	30.7	42 bps	31.2
Costs as a % of net operating revenues											
Material cost	51.7	52.2	55.2	52.6	-54 bps	-352 bps	-92 bps	52.2	55.7	-349 bps	51.9
Employee cost	4.7	4.9	5.1	5.2	-22 bps	-41 bps	-54 bps	5.2	5.3	-12 bps	5.1
Other expenditure	22.8	22.8	21.9	24.6	-8 bps	90 bps	-184 bps	22.9	21.8	111 bps	23.3

Source: Company, Kotak Institutional Equities

Exhibit 3: Key changes to consolidated estimates, Asian Paints, March fiscal year-ends, 2016-18E

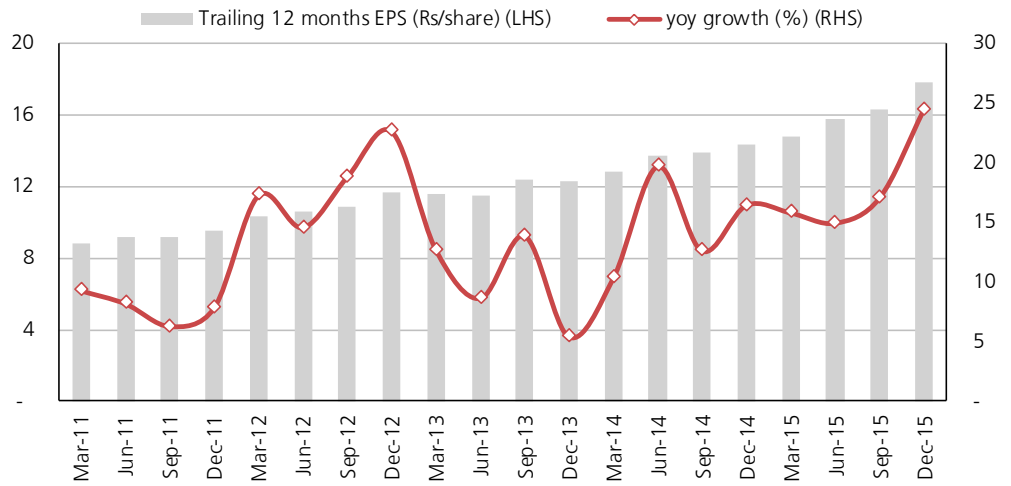
	Revised			Earlier			Change (%)		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Revenues (Rs mn)	155,007	175,745	202,301	154,039	177,749	204,540	0.6	(1.1)	(1.1)
EBITDA (Rs mn)	28,145	33,242	38,914	27,512	31,822	37,233	2.3	4.5	4.5
EBITDA margin (%)	18.2	18.9	19.2	17.9	17.9	18.2	29 bps	101 bps	103 bps
Net income (Rs mn)	18,210	21,459	25,434	17,803	20,766	24,583	2.3	3.3	3.5
<b>EPS (Rs/share)</b>	<b>19.0</b>	<b>22.4</b>	<b>26.5</b>	<b>18.6</b>	<b>21.6</b>	<b>25.6</b>	<b>2.3</b>	<b>3.3</b>	<b>3.5</b>
<b>Other assumptions</b>									
Gross margin (%)	46.8	47.2	47.4	46.4	46.1	46.3	45 bps	114 bps	116 bps
Volume growth (%)	12.0	12.0	12.5	11.0	13.0	12.5	100 bps	-100 bps	0 bps
Realisation growth (%)	(3.8)	2.0	3.5	(3.5)	3.5	3.5	-25 bps	-150 bps	0 bps

Source: Company, Kotak Institutional Equities estimates

### Key takeaways from the management concall

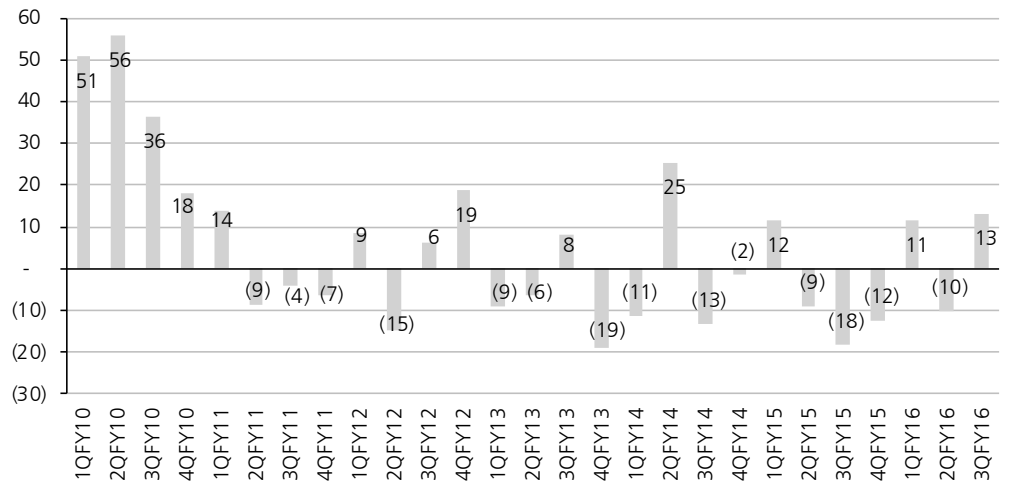
- ▶ **Comments on demand environment.** (1) Smaller towns continue to outperform urban centers by a significant margin and (2) southern markets witnessed slowdown partly impacted by heavy rainfall in Tamil Nadu, coastal Andhra Pradesh and Bangalore market.
- ▶ International business reported modest growth aided by growth in Middle East, Bangladesh and consolidation of Ethiopia business. However, Nepal and Egypt business remained a drag and management cautioned that (1) growth in select markets like GCC, Egypt and Ethiopia may get impacted due to sharp drop in crude oil prices and (2) markets like Ethiopia and Trinidad may also get impacted due to shortage of foreign exchange availability in local markets, which may impact inputs availability/pricing.
- ▶ Within industrial business – (1) AP-PPG (industrial coatings JV) posted robust growth led by good demand in industrial liquid paints and powder coatings segment and (2) PPG-AP (automotive coatings) witnessed decent growth in auto OEM (improved demand conditions) and refinish segment.
- ▶ **Update on home improvement business.** Sleek and Ess Ess business continues to remain sluggish due to overall demand weakness. Management highlighted that – (1) Ess Ess business growth has been hit by corrective actions taken to rebalance product portfolio and weakness in southern markets (partly impacted by heavy rainfall) and (2) APNT has taken a goodwill impairment provision of ₹525 mn in Sleek business (it had invested ₹1.2 bn for 51% stake in March, 2013) as external demand environment has changed considerably given sharp slowdown in new homes and construction activity (key demand driver).
- ▶ **Other takeaways.** (1) APNT has guided for a capex of ₹7 bn for FY2016E. Rohtak plant expansion (from 0.2 mn KL to 0.4 mn) is on schedule and (2) Indonesia plant is currently in design phase (likely to get completed in the next 3-4 months) and construction activity is likely to commence from 1QFY17.

**Exhibit 4: TTM EPS growth inched up to 24%; highest in the past 12 quarters**  
TTM EPS growth trend



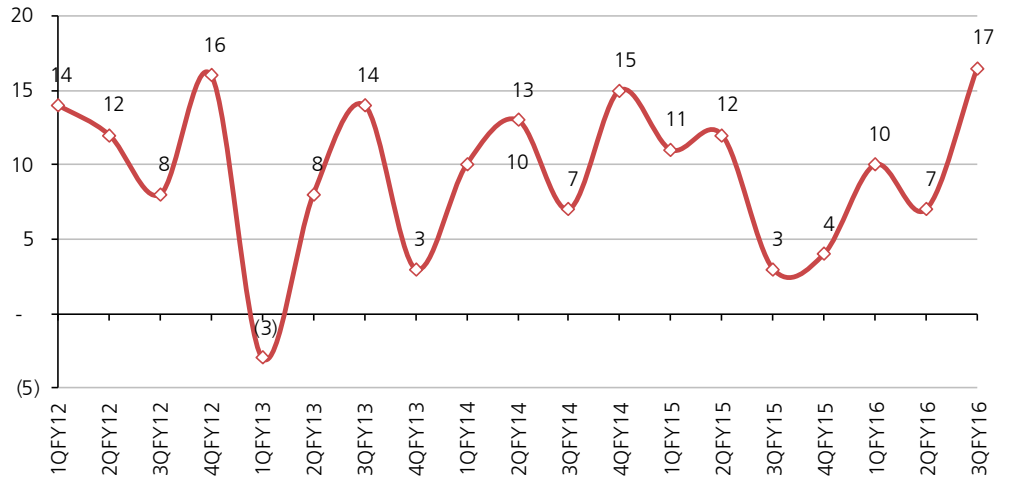
Source: Company, Kotak Institutional Equities

**Exhibit 5: The outperformance-miss cycle continues; beats consensus estimates by 13% this quarter**  
Quarterly earnings surprise trend versus consensus estimates



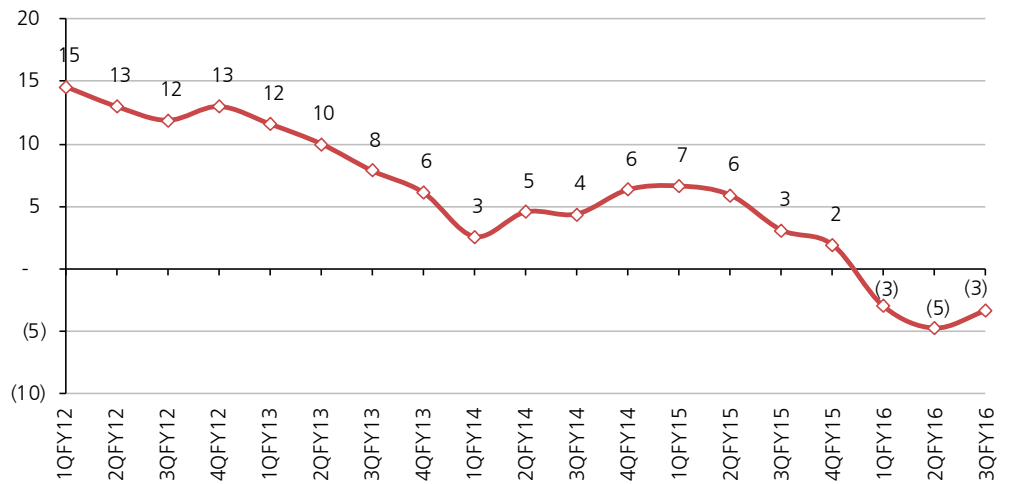
Source: Company, Kotak Institutional Equities

Exhibit 6: Volume growth inched up 17% yoy aided by strong festive sales and low base



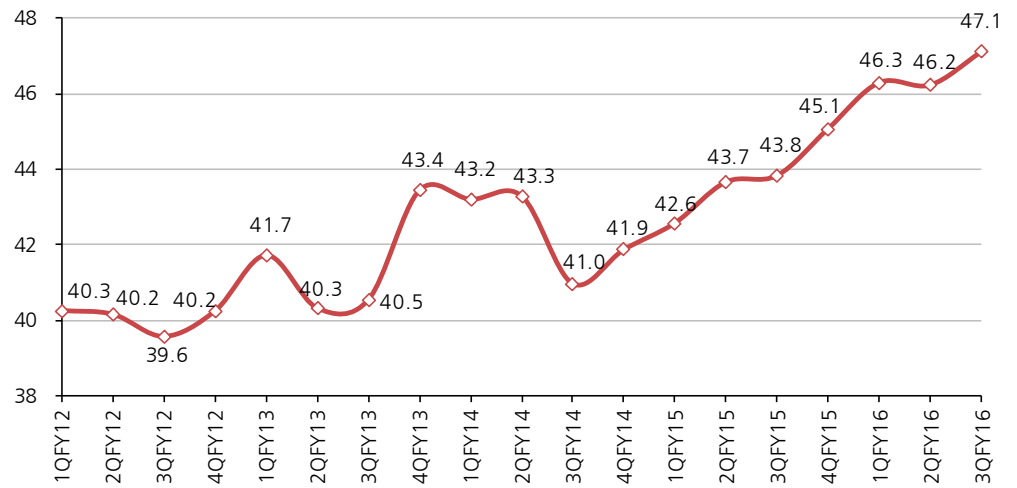
Source: Company, Kotak Institutional Equities

Exhibit 7: Price/mix led growth remained negative



Source: Company, Kotak Institutional Equities

Exhibit 8: Gross margin expands 330 bps yoy and 90 bps qoq



Source: Company, Kotak Institutional Equities

Exhibit 9: Key consolidated revenue growth assumptions, Asian Paints, March fiscal year-ends, 2012-18E

	2012	2013	2014	2015	2016E	2017E	2018E
<b>Gross revenue breakup (Rs mn)</b>							
<b>Standalone gross revenues</b>	<b>87,478</b>	<b>100,290</b>	<b>116,606</b>	<b>130,420</b>	<b>141,521</b>	<b>161,745</b>	<b>188,056</b>
Of which							
<b>Paints, enamels and varnishes</b>	<b>87,023</b>	<b>99,789</b>	<b>114,458</b>	<b>127,110</b>	<b>137,024</b>	<b>156,536</b>	<b>182,267</b>
Other products (PAN/PENTA)	1,293	1,237	1,814	2,253	2,479	2,714	2,958
Others (Traded Goods/Ess Ess)	2,327	3,024	4,154	5,475	6,651	7,699	8,892
Sale of services	152	78	59	99	114	131	150
Other operating income	395	501	1,186	1,632	1,884	2,195	2,501
Less: Discounts	3,712	4,340	5,064	6,149	6,631	7,530	8,712
<b>Subsidiary/JV revenues (net of discounts)</b>	<b>17,243</b>	<b>20,376</b>	<b>23,617</b>	<b>26,087</b>	<b>29,908</b>	<b>33,049</b>	<b>36,670</b>
Of which							
International	11,555	14,365	16,599	17,812	20,423	22,291	24,559
Others - Industrial (PPGAP/APPPG)	5,688	6,011	6,225	7,084	8,175	9,251	10,386
Home Décor	—	—	793	1,191	1,310	1,507	1,725
<b>Total Consolidated Gross revenues</b>	<b>104,720</b>	<b>120,665</b>	<b>140,223</b>	<b>156,507</b>	<b>171,428</b>	<b>194,794</b>	<b>224,726</b>
<b>Growth, yoy (%)</b>							
<b>Standalone revenues</b>	<b>25.7</b>	<b>14.6</b>	<b>16.3</b>	<b>11.8</b>	<b>8.5</b>	<b>14.3</b>	<b>16.3</b>
Of which							
<b>Paints, enamels and varnishes</b>	<b>25.2</b>	<b>14.7</b>	<b>14.7</b>	<b>11.1</b>	<b>7.8</b>	<b>14.2</b>	<b>16.4</b>
Other products (PAN/PENTA)	49.7	(4.4)	46.6	24.3	10.0	9.5	9.0
Others (Traded Goods/Ess Ess)	39.7	30.0	37.4	31.8	21.5	15.8	15.5
Sale of services	19.8	(48.5)	(24.8)	68.7	15.0	14.8	14.5
Other operating income	40.0	27.0	136.6	37.6	15.5	16.5	13.9
Discounts	30.3	16.9	16.7	21.4	7.8	13.6	15.7
<b>Subsidiary/JV revenues (net of discounts)</b>	<b>21.5</b>	<b>18.2</b>	<b>15.9</b>	<b>10.5</b>	<b>14.6</b>	<b>10.5</b>	<b>11.0</b>
Of which							
International	17.0	24.3	15.6	7.3	14.7	9.1	10.2
Others - Industrial (PPGAP/APPPG)	31.8	5.7	3.6	13.8	15.4	13.2	12.3
Home Décor	—	—	—	50.2	10.0	15.0	14.5
<b>Total Consolidated Gross revenues</b>	<b>25.0</b>	<b>15.2</b>	<b>16.2</b>	<b>11.6</b>	<b>9.5</b>	<b>13.6</b>	<b>15.4</b>
<b>Paints, enamels and varnishes</b>							
<b>Paint Revenues (Standalone/domestic)</b>	<b>87,023</b>	<b>99,789</b>	<b>114,458</b>	<b>127,110</b>	<b>137,024</b>	<b>156,536</b>	<b>182,267</b>
<b>Installed capacity (MT)</b>	<b>594,150</b>	<b>944,000</b>	<b>944,000</b>	<b>944,000</b>	<b>1,144,000</b>	<b>1,144,000</b>	<b>1,344,000</b>
Production volumes (MT)	531,136	563,005	639,645	703,171	808,553	929,101	1,058,469
Capacity utilisation (%)	89.4	59.6	67.8	74.5	70.7	81.2	78.8
Production: Sales volumes	71.0	71.0	73.0	75.0	77.0	79.0	80.0
<b>Standalone volumes (MT)</b>	<b>748,079</b>	<b>792,964</b>	<b>876,225</b>	<b>937,561</b>	<b>1,050,068</b>	<b>1,176,077</b>	<b>1,323,086</b>
Realization (Rs/MT)	116,329	125,843	130,627	135,575	130,491	133,100	137,759
<b>Volume growth (%)</b>	<b>12.0</b>	<b>6.0</b>	<b>10.5</b>	<b>7.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.5</b>
<b>Realization change (%)</b>	<b>11.8</b>	<b>8.2</b>	<b>3.8</b>	<b>3.8</b>	<b>(3.8)</b>	<b>2.0</b>	<b>3.5</b>

Source: Company, Kotak Institutional Equities estimates



Exhibit 10: Asian Paints: Consolidated profit model, balance sheet, March fiscal year-ends, 2012-18E

	2012	2013	2014	2015	2016E	2017E	2018E
<b>Profit model (Rs mn)</b>							
Net sales	96,322	109,386	127,148	141,828	155,007	175,745	202,301
EBITDA	15,088	17,320	19,979	22,354	28,145	33,242	38,914
Other income	1,074	1,145	1,342	1,697	2,175	2,736	3,581
Interest	(410)	(367)	(422)	(348)	(339)	(259)	(246)
Depreciation	(1,211)	(1,546)	(2,457)	(2,659)	(2,890)	(3,371)	(3,684)
Pretax profits	14,541	16,552	18,442	21,044	27,091	32,349	38,566
Tax	(4,335)	(4,957)	(5,715)	(6,495)	(8,371)	(10,352)	(12,534)
Minority interest	(319)	(456)	(440)	(322)	(510)	(539)	(598)
Extraordinary items	—	—	(100)	(276)	(525)	—	—
Net income	9,887	11,139	12,188	13,952	17,685	21,459	25,434
Recurring net income	9,887	11,139	12,288	14,227	18,210	21,459	25,434
Recurring EPS (Rs)	10.3	11.6	12.8	14.8	19.0	22.4	26.5
<b>Balance sheet (Rs mn)</b>							
Total shareholder's equity	27,485	33,843	40,392	47,424	55,786	66,194	78,277
Total borrowings	3,353	2,372	2,400	4,099	2,516	2,416	2,316
Deferred tax liability	928	1,544	1,878	1,799	1,799	1,799	1,799
Minority interest	1,367	1,608	2,460	2,637	3,147	3,685	4,283
Total liabilities and equity	33,133	39,366	47,131	55,959	63,248	74,095	86,675
Net fixed assets	18,761	24,560	24,918	26,102	30,262	31,773	33,675
Goodwill	415	442	1,414	2,458	2,458	2,458	2,458
Investments	3,547	2,957	14,236	15,878	15,878	15,878	15,878
Cash	6,243	7,367	2,290	2,044	5,839	15,682	26,491
Net current assets	4,167	4,040	4,274	9,477	8,811	8,304	8,173
Total assets	33,133	39,366	47,131	55,959	63,248	74,095	86,675
<b>Free cash flow (Rs mn)</b>							
Operating cash flow, excl. working capital	11,097	13,455	15,705	16,379	20,307	24,089	27,760
Working capital	(4,101)	(1,587)	(1,685)	(4,502)	666	506	131
Capital expenditure	(5,407)	(6,367)	(2,354)	(4,377)	(7,050)	(4,882)	(5,586)
Free cash flow	1,589	5,501	11,667	7,500	13,924	19,714	22,305
<b>Growth</b>							
Revenue growth	24.7	13.6	16.2	11.5	9.3	13.4	15.1
EBITDA growth	13.6	14.8	15.4	11.9	25.9	18.1	17.1
EPS growth	17.3	12.7	10.3	15.8	28.0	17.8	18.5
<b>Ratios (%)</b>							
Gross margin (%)	39.8	41.4	42.3	43.8	46.8	47.2	47.4
EBITDA margin (%)	15.7	15.8	15.7	15.8	18.2	18.9	19.2
Net profit margin (%)	10.3	10.2	9.7	10.0	11.7	12.2	12.6
RoE (%)	40.1	36.3	33.1	32.4	35.3	35.2	35.2
RoCE (%)	46.3	39.1	36.1	34.7	38.8	42.8	48.5
<b>Key assumptions (%)</b>							
Volume growth (%)	12.0	6.0	10.5	7.0	12.0	12.0	12.5
Realisation growth (%)	11.8	8.2	3.8	3.8	(3.8)	2.0	3.5

Source: Company, Kotak Institutional Equities estimates

**Another solid quarter; margins disappoint a tad.** Mindtree reported constant currency (c/c) revenue growth of 3%, 170 bps ahead of our estimate. EBIT margin declined sharply, leading to marginal earnings miss. High exposure to growth areas and continued investments in digital practice shall ensure industry-leading revenue growth in FY2017 for Mindtree. However, expensive valuations leave little scope to remain constructive. We retain REDUCE rating. In a major development, Mindtree has announced elevation of Rostow Ravanan to the role of MD and CEO.

**Company data and valuation summary**

Mindtree

**Stock data**

52-week range (Rs) (high,low)	1,602-1,151
Market Cap. (Rs bn)	123.3

**Shareholding pattern (%)**

Promoters	13.8
FIs	37.3
MFs	7.2

**Price performance (%)**

	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	(1.5)	3.3	6.5
Rel. to BSE-30	4.0	16.2	23.8

**Forecasts/Valuations**

	2016	2017E	2018E
EPS (Rs)	71.9	82.6	97.9
EPS growth (%)	12.9	14.9	18.5
P/E (X)	20.4	17.8	15.0
Sales (Rs bn)	46.5	56.9	66.0
Net profits (Rs bn)	6.1	7.0	8.2
EBITDA (Rs bn)	8.3	10.2	11.8
EV/EBITDA (X)	14.4	11.7	9.8
ROE (%)	27.3	26.1	25.9
Div. Yield (%)	1.3	1.5	1.8

**Another strong quarter for revenue growth; margins a tad lower than our estimate**

Mindtree reported 2.3% sequential revenue growth to US\$184.4 mn, 1.1% ahead of our estimate. Revenue growth was led by BFSI (+4% qoq) and travel and hospitality (+15.1% qoq) verticals. Top client grew by robust 4% qoq and 35% yoy to US\$20 mn. EBIT margin declined 100 bps qoq to 14.8% impacted by twin factors of Chennai floods and lower utilization rate (-290 bps qoq). Net profit of ₹1.51 bn (KIE ₹1.52 bn) was aided by forex gain of ₹95 mn.

**Expanding digital footprint aggressively—through organic build-out and acquisitions**

Mindtree announced acquisition of Mangnet 360, a Salesforce Platinum partner, for US\$50 mn. Magnet 360 has over 100 certified Salesforce experts and over US\$25 mn of revenues. Magnet has capabilities across the full suite of Salesforce solutions such as CRM, social campaign strategy and marketing automation. Mindtree has acquired four companies in the past four quarters, all focused on digital/new technologies for a total outlay of US\$141 mn. These acquisitions help build capabilities across the digital value chain and accelerate growth.

**Rostow Ravanan elevated to role of MD and CEO; Krishna Kumar Natarajan to be Chairman**

Mindtree has announced change in executive leadership. Subroto Bagchi, Co-founder and Chairman of Mindtree, will step down from executive role. Krishna Kumar will become the Chairman and pass on the baton of CEO and MD role to Rostow Ravanan from April 1, 2016. He is currently Executive Director and Head-Enterprise Service Line. He assumed business role 12 months ago and had done a good job of rebuilding Europe business (+36% yoy growth, partly contributed by acquisition) after senior-level attrition impacted the business.

**We like the business but not the valuations**


Mindtree's alignment to growth areas, ahead-of-peers investments in digital and strengthening core business, position the company well for growth. We expect Mindtree to grow ahead of industry for the next three years. We incorporate recent acquisition and revenue outperformance and raise FY2016-18E US\$ revenue growth estimate by 2-6%. However, investments for achieving this growth are higher than our estimate; we accordingly cut FY2016-18E margin estimate by 40-80 bps and broadly retain our EPS estimates. We roll over and revise TP to ₹1,425 (₹1,400 earlier). Even after valuing the stock at premium multiples of 16X Sep 2017E EPS, the stock leaves little room for upside. REDUCE stays.

Unlike competition, Mindtree has relatively low exposure to 'legacy' businesses. Mindtree derives 36.1% of revenues from fast-growing digital business. In addition, another 8.3% of revenues accrue from product engineering services where growth rates are likely to pick up. With ~45% of the business exposed towards high-growth segments, Mindtree is well-positioned to grow faster than the industry. However, the market is already paying a premium for this growth. We downgraded the stock at ₹1,471 in January 2015 citing expensive valuations. Expensive valuations continue, so does our REDUCE view.

### Another round of organization changes

Krishna Kumar has been elevated to the role of Chairman. He will continue in this role until June 30, 2017. Subroto Bagchi stepped down from Chairman's role a year prior to expiry of his term and so did Krishna Kumar from his CEO role. The current set of changes will help in seamless transition of the responsibilities to Rostow Ramanan. Krishna Kumar will focus on— (1) nurturing the digital business, (2) focus on automation drive and (3) partnering with and leveraging innovation coming out the start-up ecosystem. Heavy lifting of work in some of the areas will be done by Rostow Ramanan.

### Highlights from 3QFY16 results and conference call

- ▶ **Outlook for CY2016.** Mindtree management indicated that there is no material difference in its conversations with clients as compared to January last year. On the verticals front, Mindtree expects good traction in BFSI (especially in the insurance segment). Retail and CPG vertical growth will pick up in 4Q and it is too early to comment on FY2017. Likewise, Hi-Tech and Media vertical looks positive but early to comment. Lastly, Mindtree expects strong growth in Travel and Hospitality vertical driven by digital business.
- ▶ **Strong growth in top accounts.** Mindtree's emphasis on growing focused accounts is yielding results. The top account grew 3.9% qoq, top 5 grew 3.3% and top 10 by 4% qoq in the December quarter.
- ▶ **Margins.** EBITDA margin of 17.7% (KIE 18.2%) declined 80 bps qoq due to lower margin profile of Bluefin acquisition and lower utilization (-70 bps impact). The impact was partly offset by benefits of rupee depreciation (+30 bps). We note that EBITDA margin has declined 280 bps yoy. Excluding acquisition, EBITDA margin was 18.7 (down 180 bps yoy). The management has guided improvement in margins in 4Q (excluding currency and excluding impact of Magnet 360 acquisition). **Mindtree expects margins to stabilize over 18-24 months** 
- ▶ **Guidance.** Mindtree reiterated that it would exceed Nasscom's growth guidance of 12-14% in FY2016 on an organic basis (excluding Discoverture, Bluefin, Relational and Magnet 360 acquisitions). It expects sequential growth in 4QFY16 to be better than the Dec quarter on an organic basis.

### Highlighting focus areas in digital practice

Mindtree is investing heavily in digital practice, evidenced from recent acquisitions, new capability build out and disproportionate amount of executive focus. Against this backdrop, we thought it is important to highlight focus areas of Mindtree in digital.

Mindtree defines digital as a combination of four themes. The company has done an impressive array of engagements in each of these themes.

- ▶ **Creating digital customer experiences.** A few examples: (1) for one of the largest CPG companies, Mindtree acts as a system integrator for the digital marketing channel. Mindtree has built an end-to-end platform for digital marketing that involves reaching out to consumers, collecting data, cycling back data in feedback loop. This platform has resulted in 40% cost savings and 50% decrease in time to market for brand campaigns. Brand campaigns can now be done in 4-5 weeks versus 8-10 weeks earlier. Mindtree is the exclusive system integrator partner for the digital business for this large CPG client, and (2) for one of the largest car rental companies, Mindtree developed a tablet-based app to reduce queues for renting cars by customers.
- ▶ **Digitizing the value chain.** This approach involves connecting with the back-end system to deliver a true digital customer experience. For example, for one of the largest hospitality companies, Mindtree developed a completely integrated concierge app that allows guests to place requests and track them using any digital device (tab, mobile, laptop, etc.). This app has reduced the response time of guests of this hotel chain.
- ▶ **Developing 'sense and respond' systems.** Key emphasis here is to generate a set of live actions for the business using data-driven models and analytics. For example, for one large P&C insurance company, Mindtree was data partner for the 'sense and response' program. Mindtree built a huge analytical engine for the client that forecasts risk pricing and catastrophe damage estimation. This activity involved running 2,800 parameters for risk modeling. The client had mammoth data captured in legacy systems and lacked standardization. Mindtree took on the data on a common platform and drove harmonization and risk analytics. In the subsequent natural devastation, the client was much better-placed to assess and drive preventive measures for limiting risk damage.
- ▶ **Shaping innovative business models.** For a well-known industrial parts supplier facing serious competitive threat from Amazon, Mindtree developed (1) an e-commerce platform through which close to 58% of overall transactions of the company are processed and (2) more importantly, Mindtree created a solution for cross-referencing industrial parts with the factory shop—essentially a buyer simply needs to take a photograph of the part, which will then be processed by the part supplier.

#### **Go-to-market strategy of Mindtree's digital business:**

- ▶ **Digital account partners for key accounts.** Mindtree has assigned dedicated digital account partners to its top 10 accounts. It has cherry picked digital solution architects having consulting skills from within the company and also hired externally for this role. This initiative will help Mindtree engage actively with clients, enhancing its participation in digital opportunities. Mindtree plans to roll out this across a broader set of clients in FY2017.
- ▶ **Digital services to capture new accounts.** Mindtree has identified must-win logos in each vertical and is targeting to break into these names using its digital offerings. Mindtree's digital sales team comprises talent with sales background spanning analytics, Salesforce and ecommerce sales. Account hunting is now carried out jointly as well as independently by the digital sales team and vertical sales (business development team).

#### **Digital marketing and front-end analytics are areas of strength**

Front-end and webcommerce capabilities have been Mindtree's strength since inception. This area is attracting higher IT spends as clients are enhancing digital customer experience; Mindtree acts as a systems integrator for the digital marketing channel. It also has strength in front-end analytics capabilities (such as retail, POS, cross-sell, trade analytics) for Retail, CPG, travel and hospitality verticals. The acquisition of Bluefin (170 experts in SAP HANA, digital and real-time analytics) and Relational Solutions (a small but specialized provider in analytics solutions to CPG companies) have further augmented analytics capabilities.

Exhibit 1: Mindtree, 3QFY16 interim results (Indian GAAP), March fiscal year-ends (Rs mn)

	3QFY16	3QFY16E	2QFY16	3QFY15	Change (%)			9MFY16	9MFY15	Change (%)	FY2016E
					3QFY16E	2QFY16	3QFY15				
Revenues (US\$ mn)	184.4	182.3	180.3	147.7	1.1	2.3	24.8	519.6	436.1	19.2	712.9
<b>Revenues</b>	<b>12,145</b>	<b>12,050</b>	<b>11,693</b>	<b>9,117</b>	<b>0.8</b>	<b>3.9</b>	<b>33.2</b>	<b>33,654</b>	<b>26,438</b>	<b>27.3</b>	<b>46,457</b>
Direct costs	(7,249)	(7,125)	(6,868)	(5,264)	1.7	5.5	37.7	(19,829)	(15,334)	29.3	(27,451)
<b>Gross profit</b>	<b>4,896</b>	<b>4,925</b>	<b>4,825</b>	<b>3,853</b>	<b>(0.6)</b>	<b>1.5</b>	<b>27.1</b>	<b>13,825</b>	<b>11,104</b>	<b>24.5</b>	<b>19,007</b>
SG&A expenses	(2,749)	(2,730)	(2,661)	(1,987)	0.7	3.3	38.3	(7,785)	(5,798)	34.3	(10,660)
<b>EBITDA</b>	<b>2,147</b>	<b>2,195</b>	<b>2,164</b>	<b>1,866</b>	<b>(2.2)</b>	<b>(0.8)</b>	<b>15.1</b>	<b>6,040</b>	<b>5,306</b>	<b>13.8</b>	<b>8,346</b>
Depreciation	(345)	(336)	(317)	(260)	2.7	8.8	32.7	(984)	(723)	36.1	(1,338)
<b>EBIT</b>	<b>1,802</b>	<b>1,859</b>	<b>1,847</b>	<b>1,606</b>	<b>(3.1)</b>	<b>(2.4)</b>	<b>12.2</b>	<b>5,056</b>	<b>4,583</b>	<b>10.3</b>	<b>7,009</b>
Interest	—	(0)	—	(1)				(0)	(1)		(1)
Other income	147	97	195	210				716	661	8.3	816
<b>Profit before tax</b>	<b>1,949</b>	<b>1,956</b>	<b>2,042</b>	<b>1,815</b>	<b>(0.3)</b>	<b>(4.6)</b>	<b>7.4</b>	<b>5,772</b>	<b>5,243</b>	<b>10.1</b>	<b>7,824</b>
Tax	(440)	(438)	(458)	(407)				(1,297)	(1,167)		(1,768)
<b>Net profit</b>	<b>1,509</b>	<b>1,517</b>	<b>1,584</b>	<b>1,408</b>	<b>(0.5)</b>	<b>(4.7)</b>	<b>7.2</b>	<b>4,475</b>	<b>4,076</b>	<b>9.8</b>	<b>6,056</b>
EPS (Rs/ share)	18.0	18.1	18.9	16.8	(0.5)	(4.7)	7.2	53.4	48.6	9.8	71.9
Shares outstanding (mn)	84	83.9	83.9	83.9				83.9	83.9		84.2
<b>Margins (%)</b>											
Gross margin	40.3	40.9	41.3	42.3				41.1	42.0		40.9
SG&A as % of revenues	22.6	22.7	22.8	21.8				23.1	21.9		22.9
EBITDA margin	17.7	18.2	18.5	20.5				17.9	20.1		18.0
Tax rate (%)	22.6	22.4	22.4	22.4				22.5	22.3		22.6

Source: Company, Kotak Institutional Equities

Exhibit 2: Key changes to estimates, March fiscal year-ends, 2016E-18E

	New			Old			Change (%)		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Revenues (Rs mn)	46,457	56,929	65,976	45,626	53,933	61,990	1.8	5.6	6.4
Revenues (US\$ mn)	713	844	970	703	811	925	1.4	4.1	4.9
<b>Growth (%)</b>	<b>22.1</b>	<b>18.4</b>	<b>14.9</b>	<b>20.4</b>	<b>15.3</b>	<b>14.1</b>			
EBITDA (Rs mn)	8,346	10,162	11,809	8,403	10,012	11,365	(0.7)	1.5	3.9
Net Profit (Rs mn)	6,056	6,956	8,241	6,115	6,985	7,954	(1.0)	(0.4)	3.6
<b>Fully diluted EPS (Rs/share)</b>	<b>71.9</b>	<b>82.6</b>	<b>97.9</b>	<b>72.6</b>	<b>83.0</b>	<b>94.5</b>	<b>(1.0)</b>	<b>(0.4)</b>	<b>3.6</b>
Re/ \$ rate	65.2	67.4	68.0	64.9	66.5	67.0	0.4	1.3	1.5
EBITDA margin (%)	18.0	17.8	17.9	18.4	18.6	18.3			

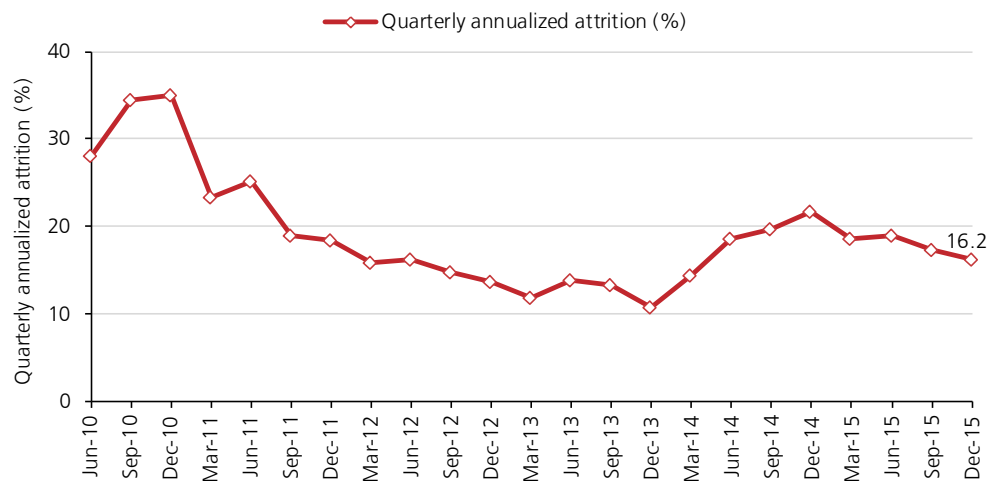
Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Strong growth from the top account continues

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	CQGR (%)		
														4 qtr	8 qtr	12 qtr
<b>Revenues (US\$ mn)</b>																
Top client	9.0	9.0	9.2	9.8	9.9	10.9	12.3	13.4	14.2	14.9	17.0	19.3	20.0	9.0	9.2	6.5
Top-5 clients	37.0	35.8	36.7	39.2	41.1	44.0	45.6	47.6	48.0	47.7	51.4	57.3	59.2	5.4	4.7	3.7
Top-10 clients	51.8	51.6	54.1	58.9	62.2	65.3	69.2	71.8	71.0	69.9	75.1	81.9	85.2	4.6	4.0	3.9
Non Top-10 accounts	58.1	61.4	63.6	65.1	64.9	67.5	72.1	75.3	76.7	77.9	79.8	98.4	99.2	6.7	5.4	4.5
<b>Growth (%)</b>																
Top client	3.7	0.3	1.6	6.7	1.2	9.8	12.9	8.9	6.0	5.3	14.1	13.2	3.9			
Top-5 clients	2.4	(3.3)	2.5	6.7	4.8	7.1	3.8	4.4	0.8	(0.5)	7.7	11.5	3.3			
Top-10 clients	3.1	(0.2)	4.8	8.8	5.5	5.1	6.0	3.6	(1.0)	(1.6)	7.5	9.0	4.0			
Non Top-10 accounts	1.8	5.5	3.6	2.4	(0.2)	3.9	6.8	4.5	1.8	1.6	2.4	23.4	0.8			

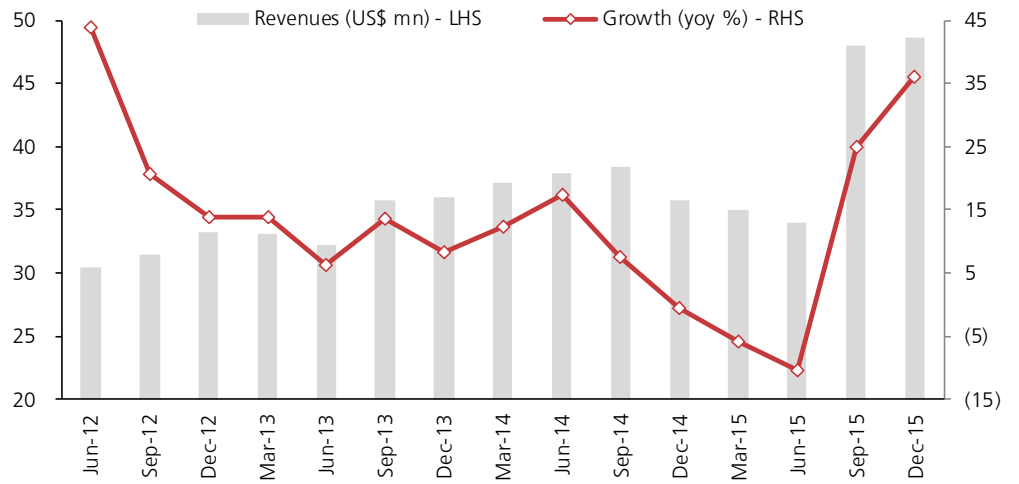
Source: Company, Kotak Institutional Equities

Exhibit 4: Attrition eased 100 bps in the September quarter



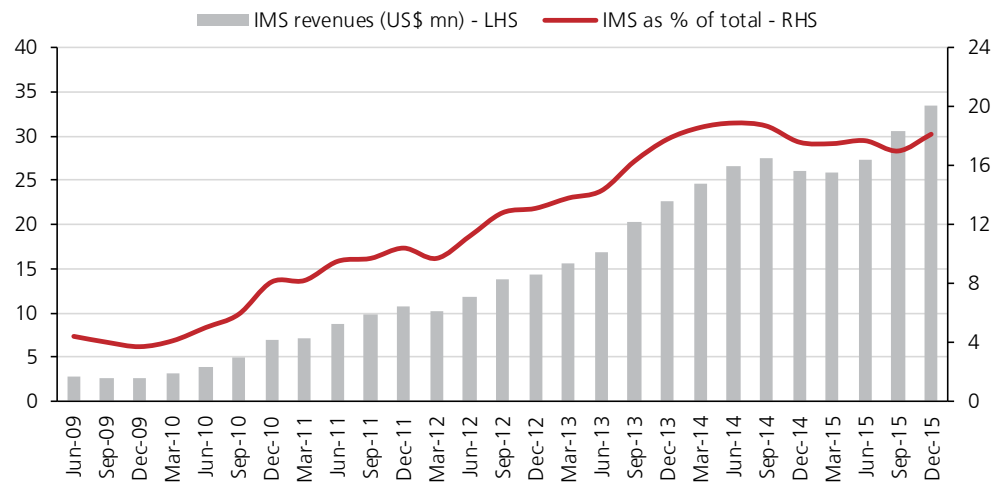
Source: Company, Kotak Institutional Equities

Exhibit 5: Strong growth in Europe partly aided by acquisitions



Source: Company, Kotak Institutional Equities

Exhibit 6: Strong growth in IMS in the past 2 years as Mindtree stepped up account mining



Source: Company, Kotak Institutional Equities

Exhibit 7: Mindtree: Key operational metrics

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
<b>Revenues (US\$ mn)</b>	124.0	127.1	132.8	141.3	147.1	147.7	147.8	154.9	180.3	184.4
<b>Revenue by geographical segment (%)</b>										
USA	57.5	57.6	58.8	59.2	60.4	63.1	64.9	67.5	63.2	63.5
Europe	28.8	28.3	28.0	26.8	26.1	24.2	23.7	21.9	26.6	26.4
India	4.9	4.7	3.7	3.5	4.0	4.1	3.6	3.4	3.2	2.7
Rest of the world	8.8	9.4	9.5	10.5	9.5	8.6	7.8	7.2	7.0	7.4
<b>Revenue by service offering (%) - new classification</b>										
Development	26.1	25.3	23.3	24.2	24.0	23.7	23.2	24.4	23.2	23.7
Engineering	11.1	10.1	9.8	9.7	9.4	10.3	10.0	9.0	8.6	8.3
Maintenance	22.7	23.7	22.6	20.6	21.2	21.4	20.8	21.7	21.0	19.8
Consulting	3.0	3.3	3.8	3.8	4.2	4.1	3.9	3.7	2.8	2.6
Package implementation	2.5	2.4	4.1	5.4	5.4	5.8	7.5	7.2	13.3	12.9
IP led revenue	0.8	0.7	1.1	1.7	1.6	1.6	1.7	1.4	1.3	1.8
Independent testing	17.6	16.6	16.7	15.7	15.5	15.4	15.4	14.9	12.8	12.8
Infrastructure management & Tech support	16.3	17.8	18.6	18.9	18.7	17.6	17.5	17.7	17.0	18.1
<b>Revenue by industry (%) - new classification</b>										
Hi-Tech & Media Services	33.1	31.7	31.8	32.7	32.7	32.7	32.6	31.7	30.4	30.2
BFSI	22.7	23.3	23.3	22.7	22.8	23.5	25.0	26.4	24.7	25.1
Retail, CPG & Manufacturing	21.6	21.5	22.1	21.2	21.6	22.2	21.7	22.0	20.6	20.3
Travel & Hospitality	15.5	15.9	15.4	16.4	17.1	16.2	16.0	15.5	13.9	15.6
Others	7.1	7.5	7.4	7.0	5.8	5.4	4.7	4.3	10.5	8.7
<b>Revenue by project type (%)</b>										
Fixed price	40.4	41.4	42.5	43.8	43.6	46.5	46.5	48.9	49.7	50.0
Time & materials	59.6	58.6	57.5	56.2	56.4	53.5	53.5	51.1	50.3	50.0
<b>Effort mix (%)</b>										
Onsite	16.5	16.3	17.2	17.0	17.6	18.2	18.5	18.6	20.0	21.1
Offshore	83.5	83.7	82.8	83.0	82.4	81.8	81.5	81.4	80.0	78.9
<b>Revenue mix (%)</b>										
Onsite (%)	41.4	42.8	43.8	44.2	45.6	45.8	47.1	48.1	52.4	54.5
Offshore (%)	58.6	57.2	56.2	55.8	54.4	54.2	52.9	51.9	47.6	45.5
<b>Effort and Utilization</b>										
Onsite - Billed hours	703,139	712,041	764,071	800,872	865,381	880,982	909,540	976,426	1,152,159	1,193,345
Offshore - Billed hours	3,564,643	3,643,072	3,685,294	3,917,308	4,046,150	3,957,435	4,019,146	4,265,360	4,613,339	4,469,299
Total	4,267,782	4,355,113	4,449,365	4,718,180	4,911,531	4,838,417	4,928,686	5,241,786	5,765,498	5,662,644
<b>Fee revenues (US\$ mn)</b>										
Onsite	50.5	53.6	57.4	61.8	66.3	67.0	68.9	73.7	93.7	99.2
Offshore	71.6	71.7	73.6	77.9	79.2	79.3	77.4	79.7	85.0	82.9
<b>Utilization (%)</b>										
Including trainees	65.9	67.4	68.5	72.1	73.5	71.8	70.2	70.3	71.4	68.5
Excluding trainees	70.3	68.7	68.7	72.4	74.2	74.2	71.1	71.9	73.3	69.9
<b>Client metrics</b>										
Number of active clients	220	208	207	206	200	201	217	218	296	294
New clients added	9	9	15	3	8	5	8	16	18	23
US\$1 mn clients	70	68	73	75	77	83	88	88	92	93
US\$5 mn clients	21	22	24	26	27	27	28	28	29	29
US\$10 mn clients	10	13	13	13	13	13	14	13	13	13
US\$20 mn clients	5	6	6	6	7	6	6			
US\$25 mn clients				5			6	6	6	5
US\$30 mn clients	3	3	3	3	4	4	4			
US\$50 mn clients							1	2	2	2
<b>Client contribution to revenue (%)</b>										
Top customer	7.9	7.8	8.2	8.7	9.1	9.6	10.1	11.0	10.7	10.9
Top 5 customers	31.6	32.3	33.1	32.3	32.4	32.5	32.3	33.2	31.8	32.1
Top 10 customers	47.5	48.9	49.2	49.0	48.8	48.1	47.3	48.5	45.4	46.2
Revenue from repeat business	99.4	99.6	99.1	99.2	99.7	99.4	99.2	98.9	98.9	98.5
<b>Total Contract Value signed (TCV), US\$ mn</b>										
Renewals					102		114	120	130	153
New					63		50	88	63	51
<b>Total</b>				<b>165</b>	<b>165</b>		<b>164</b>	<b>208</b>	<b>193</b>	<b>204</b>
Expiring within 1 year							157	159	157	180
Expiring >1 year							7	49	36	24
Digital								63	105	82
<b>Employee metrics</b>										
Software professionals	12,169	12,193	12,122	12,037	12,204	12,500	13,350	13,560	14,655	15,296
Sales and support	772	799	804	808	814	823	852	867	927	947
<b>Total</b>	<b>12,941</b>	<b>12,992</b>	<b>12,926</b>	<b>12,845</b>	<b>13,018</b>	<b>13,323</b>	<b>14,202</b>	<b>14,427</b>	<b>15,582</b>	<b>16,243</b>
Gross addition	1,122	397	397	516	810	1,016	1,517	900	1,801	1,306
Net addition	702	51	(66)	(81)	173	305	879	225	1,155	661
Attrition (LTM) (%)	11.9	11.6	12.7	14.2	15.7	18.1	18.2	18.4	17.1	16.0
Quarterly annualised attrition (%)	13.3	10.7	14.3	18.5	19.7	21.6	18.5	18.9	17.2	16.2

Source: Company, Kotak Institutional Equities



Exhibit 8: Condensed consolidated financials for Mindtree, March fiscal year-ends, 2013-18E (Rs mn)

	2013	2014	2015	2016E	2017E	2018E
<b>Profit model</b>						
Revenues	23,618	30,316	35,619	46,457	56,929	65,976
<b>EBITDA</b>	<b>4,860</b>	<b>6,100</b>	<b>7,092</b>	<b>8,346</b>	<b>10,162</b>	<b>11,809</b>
Interest (expense)/income	(10)	(4)	(1)	(1)	—	—
Depreciation	(624)	(809)	(1,018)	(1,338)	(1,536)	(1,740)
Other income	10	496	835	816	422	650
<b>Pretax profits</b>	<b>4,236</b>	<b>5,783</b>	<b>6,908</b>	<b>7,824</b>	<b>9,048</b>	<b>10,718</b>
Tax	(847)	(1,275)	(1,545)	(1,768)	(2,092)	(2,477)
<b>Profit after tax</b>	<b>3,389</b>	<b>4,508</b>	<b>5,363</b>	<b>6,056</b>	<b>6,956</b>	<b>8,241</b>
<b>Diluted earnings per share (Rs)</b>	<b>40.8</b>	<b>53.7</b>	<b>63.7</b>	<b>71.9</b>	<b>82.6</b>	<b>97.9</b>
<b>Balance sheet</b>						
Total equity	13,137	16,405	20,128	24,295	28,997	34,568
Deferred taxation liability	(360)	(402)	(449)	(449)	(449)	(449)
Total borrowings	249	27	23	23	23	23
Current liabilities	3,524	4,562	6,398	7,575	8,691	9,877
<b>Total liabilities and equity</b>	<b>16,551</b>	<b>20,593</b>	<b>26,101</b>	<b>31,445</b>	<b>37,264</b>	<b>44,020</b>
Cash	1,238	1,184	3,763	1,978	4,062	6,934
Other current assets	7,881	10,141	11,077	14,530	17,907	20,870
Tangible fixed assets	3,160	3,932	5,909	14,084	14,442	15,364
<b>Total assets</b>	<b>16,551</b>	<b>20,593</b>	<b>26,101</b>	<b>31,445</b>	<b>37,264</b>	<b>44,020</b>
<b>Free cash flow</b>						
Operating cash flow, excl. WC	4,933	6,081	7,218	8,346	10,162	11,809
Tax paid	(969)	(1,297)	(1,539)	(1,768)	(2,092)	(2,477)
Working capital changes	(1,022)	(1,766)	28	(2,276)	(2,260)	(1,778)
Capital expenditure	(1,057)	(1,517)	(1,987)	(2,169)	(1,894)	(2,662)
<b>Free cash flow</b>	<b>1,885</b>	<b>1,501</b>	<b>3,720</b>	<b>2,133</b>	<b>3,916</b>	<b>4,892</b>
<b>Ratios (%)</b>						
EBITDA margin	20.6	20.1	19.9	18.0	17.8	17.9
EBIT margin	17.9	17.5	17.1	15.1	15.2	15.3
Net debt/equity	(0.4)	(0.4)	(0.5)	(0.1)	(0.2)	(0.2)
RoAE	29.8	30.5	29.4	27.3	26.1	25.9
<b>RoACE</b>	<b>29.0</b>	<b>27.7</b>	<b>25.8</b>	<b>24.4</b>	<b>24.9</b>	<b>24.3</b>

Source: Company, Kotak Institutional Equities estimates

JANUARY 19, 2016

UPDATE

Coverage view: **Attractive**

Price (₹): 175

Target price (₹): 250

BSE-30: 24,188

**Long-term outlook strong; near-term expectations need to be managed.** Capital allocation is drifting towards annuity business. We believe this vertical alone will contribute at least 1.2X the CMP by FY2018. Prestige's residential business, after growing for five years at a CAGR of 50%, will consolidate in the near-term with more deliveries than launches. Expansion into newer markets is the key for residential growth. Adjusting for new deals and residential sales, we alter our target to ₹250/share.

#### Company data and valuation summary

Prestige Estates Projects

Stock data		Forecasts/Valuations			
		2015	2016E	2017E	
52-week range (Rs) (high,low)	323-180	EPS (Rs)	8.9	12.1	14.4
Market Cap. (Rs bn)	72.9	EPS growth (%)	(1.3)	36.0	19.5
<b>Shareholding pattern (%)</b>		P/E (X)	21.9	16.1	13.5
Promoters	70.0	Sales (Rs bn)	34.2	49.2	61.4
FIs	21.0	Net profits (Rs bn)	3.3	4.5	5.4
MFs	4.7	EBITDA (Rs bn)	9.9	12.5	16.6
<b>Price performance (%)</b>		EV/EBITDA (X)	10.7	8.9	6.9
Absolute	1M (4.5) 3M (7.8) 12M (19.1)	ROE (%)	9.8	11.3	12.2
Rel. to BSE-30	(4.2) (8.7) (14.8)	Div. Yield (%)	0.8	0.8	0.8

#### Residential business liquidity driven: Prestige needs to expand to newer markets to grow

- ▶ Prestige's residential business thrives on liquidity as it focusses on high pre-sales at project launch followed by brisk construction. Sales have grown at a CAGR of 50% between FY2010-15 and collections by 45%. FY2016 is going to be a consolidation year with more deliveries than launches. But, sales have been much slower and Prestige is unlikely to meet FY2015 numbers (1HFY16=0.26XFY2015 sales), leave alone FY2016 guidance.
- ▶ As highlighted earlier too, Prestige needs to manage two near-term hurdles in its residential business: (a) Bangalore is a market with high base and much larger supply than other metros and (b) Prestige too has a high base in Bangalore with a presence in most markets within the city. It needs to expand into newer markets or gain market-share. We expect overall launches in Bangalore to continue to slow down in CY2016 as the market recalibrates on unsold area. Prestige's foray into other markets will start materializing, at the earliest by FY2018 only.
- ▶ At near completion projects, Prestige has 3.5 mn sq. ft of unsold area worth ₹27 bn, ₹6.8 bn of collections from the area sold and around ₹7 bn on expenses to be incurred to complete construction. Adjusting for Prestige Golfshire, which we believe will sell slowly, Prestige can generate gross cash flows of over ₹20 bn in the next four quarters from such projects alone.

#### Annuity business on track, to more than double the rental income

Vacancy at Prestige's completed assets is around 10% (less than a mn sq. ft). Prestige has been increasing its capital allocation towards annuity business and is expanding through new project construction as well as acquisitions. Rental has grown at a CAGR of 24% between FY2012-16E and we expect it to double in the next 5-6 years. Borrowings will continue to rise, but we remain comfortable as residential business remains OCF positive and rentals continue to rise.

#### 3QFY16 to be low on sales too; but collections from pre-sales to remain strong

3QFY16 sales are expected to be low with no new launches; but collections will remain strong on construction progress and pre-sales. In Jan'16, Prestige launched two projects in Bangalore, and we expect more launches in Bangalore, Chennai and Kochi. Excluding sales guidance, Prestige is likely to achieve its guidance on other parameters for FY2016, we believe.

#### QUICK NUMBERS

- Last five-year CAGR of rental business 24%; residential sales 50%
- Base case annuity business growth at 8% at-least
- Prestige needs newer markets to expand residential business

**Exhibit 1: Prestige's rental income has grown by a CAGR of 24% from FY2012-16E**

Prestige: Exit rental income from office and malls, March fiscal year-ends, 2012-16E (Rs mn)

	2012	2013	2014	2015	2QFY16	2016E
Exit rental	1,870	2,289	2,950	3,840	4,048	5,548
Guided	NA	2,318	3,473	3,931		4,706

Notes:

FY2016E includes stake acquisition in Exora Business Park

Source: Company, Kotak Institutional Equities estimates

**Exhibit 2: Prestige's rental income will increase two fold over the next 5-6 years**

Prestige: Ready, ongoing and planned annuity assets, as on December 2015

	Total area (mn sq. ft)	Prestige's share (mn sq. ft)	Area leased (mn sq. ft)	Exit rental (Rs mn)	Remarks
Area leased	10.6	6.7	6.7	4,048	Ready and leased; 2QFY16
Increase in Exora Business Park	2.1	1.5	1.5	1,000	Ready and leased; by FY2016
Completed and yet to be leased	1.4	1.0	0.0	663	Ready and to be leased; by 2QFY17
Area under-construction	7.1	4.5		1,973	To be constructed over 2-4 years
Planned projects	11.8	7.3		3,637	To be constructed over 5-8 years
<b>Total</b>	<b>33.0</b>	<b>21.0</b>		<b>11,321</b>	

Source: Company, Kotak Institutional Equities estimates

**Exhibit 3: Rental business to have a minimum growth rate of 8%**

Illustrative NAV for annuity business: As on Mar'2017 and Mar'2018 (Rs mn)

Value as on	Mar-17	Mar-18	Remarks
Sale: Ongoing and completed	15,845	15,845	
Sale: Forthcoming	11,465	11,465	
Sale: Land bank and new acquisitions	38,325	38,325	
<b>(a) Residential</b>	<b>65,634</b>	<b>65,634</b>	Assuming residential business wont grow (a)
Annuity: Completed	61,961	64,947	
Annuity: Under-construction	11,653	12,924	
Annuity: Planned	6,151	8,229	
<b>(b) Annuity</b>	<b>79,765</b>	<b>86,100</b>	Discounted at 12% while rental growth at 5%
<b>(c) Net debt</b>	<b>(50,079)</b>	<b>(52,375)</b>	
<b>Total</b>	<b>95,321</b>	<b>99,359</b>	

Notes:

(a) Taken as an example only

Source: Kotak Institutional Equities estimates

**Exhibit 4: Brisk construction and high pre-sales result in better OCF**

Prestige: Profit model, balance sheet, cash flow model, March fiscal year-ends, 2013-18E (Rs mn)

	2013	2014	2015	2016E	2017E	2018E
<b>Profit model</b>						
Net sales	19,476	25,492	34,198	49,244	61,389	71,438
<b>EBITDA</b>	<b>5,849</b>	<b>7,203</b>	<b>9,939</b>	<b>12,513</b>	<b>16,640</b>	<b>17,852</b>
Other income	636	975	986	447	359	403
Interest	(1,489)	(2,290)	(3,214)	(3,808)	(4,180)	(4,553)
Depreciation	(682)	(893)	(1,397)	(1,483)	(1,880)	(2,172)
<b>Pre-tax profits</b>	<b>4,313</b>	<b>4,995</b>	<b>6,314</b>	<b>7,669</b>	<b>10,938</b>	<b>11,530</b>
Tax	(1,323)	(1,798)	(2,697)	(2,569)	(3,664)	(3,863)
<b>Net income</b>	<b>2,999</b>	<b>3,245</b>	<b>3,668</b>	<b>5,100</b>	<b>7,274</b>	<b>7,667</b>
Adjusted net income	2,917	3,143	3,324	4,519	5,401	5,921
<b>Earnings per share (Rs)</b>	<b>8.2</b>	<b>8.9</b>	<b>8.9</b>	<b>12.1</b>	<b>14.4</b>	<b>15.8</b>
<b>Balance sheet</b>						
Total Equity	27,423	29,792	38,206	42,049	46,774	52,020
Minority interests	2,620	2,990	3,975	3,975	3,975	3,975
Non-current liabilities	11,604	13,684	19,235	19,003	21,056	22,716
Current liabilities	34,921	46,958	62,142	66,401	69,684	70,994
<b>Total liabilities and equity</b>	<b>76,567</b>	<b>93,424</b>	<b>123,558</b>	<b>131,428</b>	<b>141,490</b>	<b>149,705</b>
<b>Non-current assets</b>						
Net fixed assets	29,419	33,725	37,856	54,480	60,576	64,461
Other non-current assets and advances	9,700	12,073	12,301	11,396	11,699	11,740
Current assets	35,697	44,739	70,614	62,675	66,383	70,650
Investments	1,750	2,887	2,787	2,877	2,832	2,855
<b>Total assets</b>	<b>76,567</b>	<b>93,424</b>	<b>123,558</b>	<b>131,428</b>	<b>141,490</b>	<b>149,705</b>
<b>Free cash flow</b>						
Operating cash flow, excl. working capital	3,590	3,988	4,670	6,004	7,281	8,093
Working capital changes	(845)	(4,887)	(12,359)	8,096	(2,539)	(3,909)
Capital expenditure	(9,423)	(5,198)	(5,528)	(18,107)	(7,976)	(6,057)
Investments	(9)	(1,137)	100	(90)	45	(23)
<b>Free cash flow</b>	<b>(6,688)</b>	<b>(7,234)</b>	<b>(13,117)</b>	<b>(4,097)</b>	<b>(3,189)</b>	<b>(1,896)</b>
<b>Ratios (%)</b>						
Debt/equity	93	106	106	111	105	106
Net debt/equity	75	94	92	92	91	89
RoE (%)	11.7	10.8	9.8	11.3	12.2	12.0
RoCE (%)	8.5	8.1	7.8	9.1	10.9	10.5
Book value per share (Rs)	78	85	102	112	125	139

Source: Company, Kotak Institutional Equities estimates

JANUARY 19, 2016

UPDATE

BSE-30: 24,188

**Trends reverse in multiple areas.** The ownership of deposits showed trends reversing across most segments. There has been a marked improvement in deposit growth by the corporate sector, slowdown in overall savings and improvement in current account deposits. Private banks continue to do well especially on household deposits. The data does suggest that the corporate sector is recovering gradually, but a firm trend would be visible only in the next two years. Recovery in urban market is still not visible.

#### Contribution from the corporate sector improves for the first time since FY2010

The data for FY2015 provides insights that are different from what we have seen in the past few years: (1) While overall deposits grew by 10% yoy, current account deposits posted the strongest growth in recent years at 15% yoy; savings deposits slowed to 8% yoy and term deposits grew at 11% yoy (2) the contribution from the private corporate sector improved to 10% of overall deposits after the peak last seen in FY2010, but there has been a marked decline in the contribution from financial companies. The growth of 13% yoy was largely through term deposits. (3) trends are unchanged for the share of metro/urban markets which declined 80bps yoy to 75%

#### Growth in current account deposits is a good sign; slowdown in savings driven by households

The breakdown of the growth in current account shows the following trends: (1) growth is driven by the household segment (46% of CA deposits) and essentially by small businesses. After two years of decline, the corporate sector (25% share) has shown a growth of 5% yoy. While this improvement does give greater confidence that the broader economy is probably getting into shape, we would probably need to wait a bit more to get confirming trends it. On the other hand, the slowdown in savings deposits is entirely driven by the household segment, but the growth in government deposits was impressive at 18% yoy. Weak growth in urban markets is a bit disappointing, as it is more driven by the salaried segment.

#### Broad trends unchanged for SBI; private banks mixed

SBI did not see any major change in its deposit profile. The bank saw strong growth from households and the corporate sector, but witnessed some marginal weakness in the growth of government deposits. Private banks had a volatile year with strong performance in household deposits and foreign sectors, weakness in the financial sector and surprisingly, lack of progress in the government sector. However, what is comforting is that the share of volatile deposits for these banks is on a decline with the share of the household segment contributing to 55% of overall deposits as compared to less than 50% in FY2012 (see exhibit 5). **Private banks have 33% market share in the overall current account deposits, but their share in savings deposits have not changed in FY2015 (see exhibit 10).**

#### Deposits still in urban markets; urban and metro regions account for ~75% of the total deposits

Our expectation has been contradicted so far that there would be a negative impact of the recent slowdown in economic/investment activity in rural and semi-urban markets. We note that the growth in deposits in the rural and semi-urban markets continues to be faster than in urban/metro markets. Within the metro market, a large share of the slowdown is still with the salaried segment. **Note that India is still a market where the top 200 cities or the urban/metro markets contribute to ~75-80% of the overall deposits (see exhibit 7).**

#### QUICK NUMBERS

- **Growth in current account deposits the best since FY2012 at 15% yoy**
- **Savings by the corporate sector improves for the first time by 13% yoy**
- **Private banks gained a market share of 120bps in CASA, but only through current accounts**

**Exhibit 1: A relatively better performance by the private sector**

Break-up and growth in deposits across client segments, March fiscal year-ends, 2007-15 (%)

	Proportion of deposits (%)									Growth (%)							
	2006	2007	2008	2009	2010	2012	2013	2014	2015	2007	2008	2009	2010	2012	2013	2014	2015
Government	14.4	14.5	13.5	14.0	13.5	14.6	13.9	14.0	14.4	25.2	14.6	26.2	15.9	42.9	5.9	15.0	13.1
Public sector	4.8	4.6	4.0	4.7	3.9	4.7	3.8	4.6	4.1	19.6	6.1	43.0	-	60.6	(9.6)	37.0	(0.4)
Private corporate	10.1	11.2	13.0	14.5	14.8	14.6	12.4	9.9	10.1	39.2	42.4	35.7	21.6	31.5	(5.4)	(9.1)	12.5
Finance	9.7	10.5	10.3	8.9	10.0	9.4	10.0	9.8	8.2	34.7	21.4	4.4	34.6	24.9	18.8	10.9	(7.2)
Household	58.5	57.4	58.1	58.3	58.0	58.1	59.6	59.7	60.1	22.6	24.4	22.2	19.1	32.8	14.3	14.1	11.0
Foreign	7.3	6.4	5.1	4.3	3.7	3.3	4.1	6.6	7.2	10.7	(3.3)	4.1	3.4	16.1	41.2	80.7	21.1

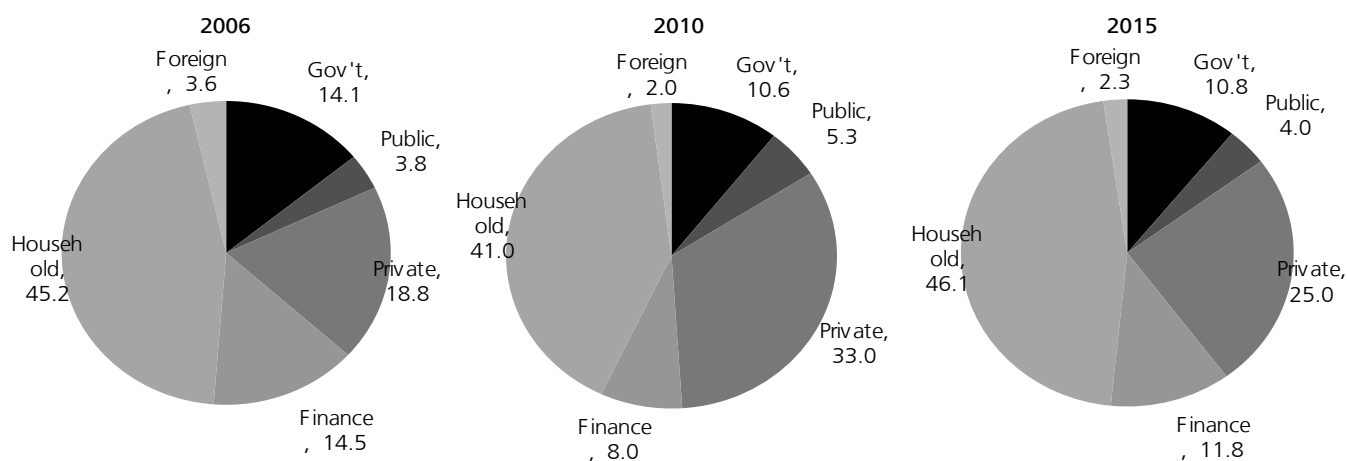
Notes:

- (A) Government includes central and state government, public sector corporations and others.  
 (B) Private corporate sector is primarily non-financial companies. Finance sector includes banks, financial institutions (MF, Insurance companies, capital market intermediaries) and financial companies (NBFCs)  
 (C) Household sector includes individuals, trusts/association, proprietary and partnership, educational institutions, religious institutions and others

Source: RBI, Kotak Institutional Equities

**Exhibit 2: Contribution from households have improved sharply in recent years**

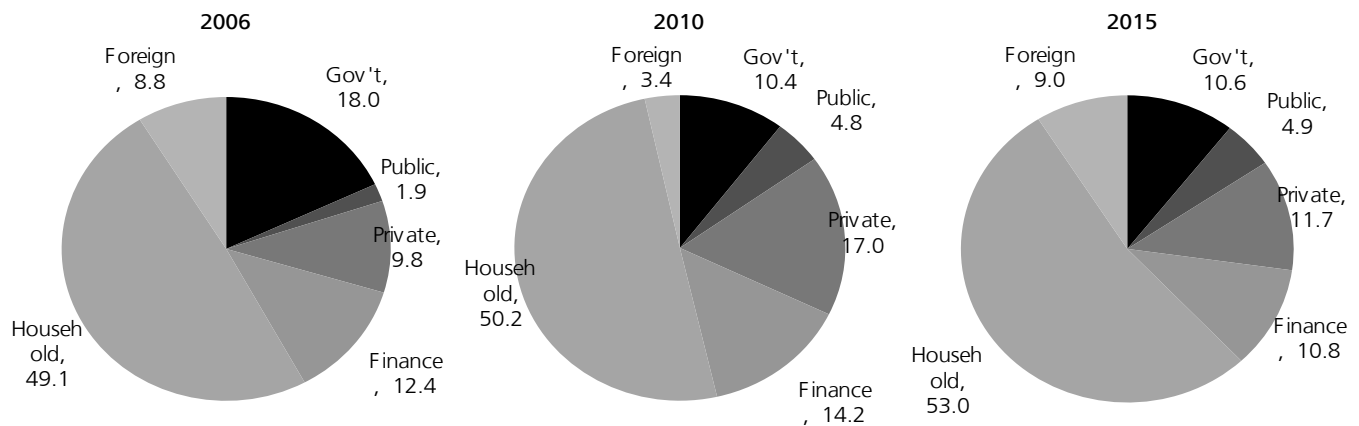
Contribution of current account balances across various client segments, March fiscal year-ends, 2006-15 (%)



Source: RBI, Kotak Institutional Equities

**Exhibit 3: A similar trend can be seen in term deposits as well**

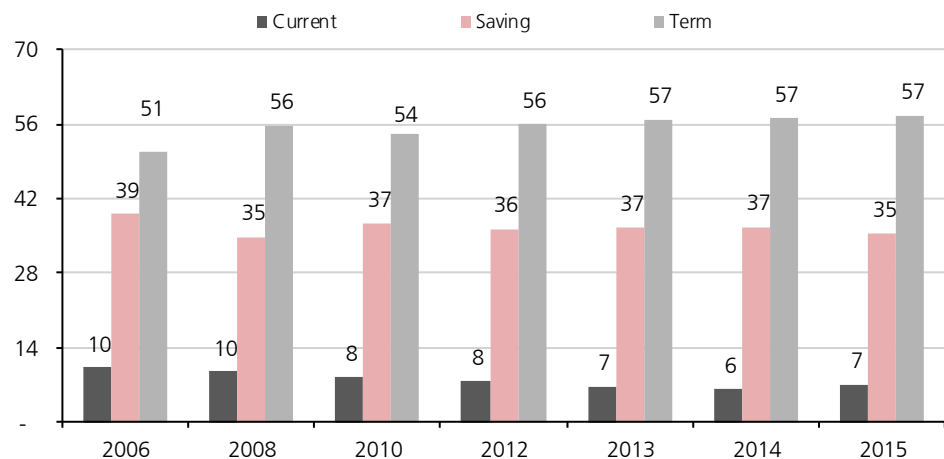
Contribution of term deposit balances across various client segments, March fiscal year-ends, 2006-15 (%)



Source: RBI, Kotak Institutional Equities

**Exhibit 4: Households primarily keep their money in the form of term deposits**

Break-up of deposits, March fiscal year-ends, 2006-2015 (%)



Source: Company, Kotak Institutional Equities

**Exhibit 5: Private banks are seeing an improvement in liability profile with a larger share of less volatile household deposits**

Break-up of deposits for each individual bank, March fiscal year-ends, 2012-15 (%)

	SBI and associates				Nationalised banks				Private banks				Foreign banks			
	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
Gov't	18.4	14.2	19.1	17.6	17.9	17.9	16.3	17.6	3.7	5.6	5.6	4.9	5.3	4.2	3.2	7.8
Public companies	6.9	4.0	8.6	7.7	5.4	4.6	4.2	4.2	1.9	2.7	2.1	1.4	0.6	0.4	2.9	0.1
Private	11.0	12.2	7.7	8.7	9.8	8.1	7.5	7.2	28.4	20.3	15.6	14.9	44.1	41.5	32.7	38.0
Finance	3.1	3.5	2.4	1.5	11.1	11.6	11.5	10.7	12.8	14.3	14.5	8.9	11.1	11.2	10.7	14.8
Household	63.0	65.9	63.7	64.6	59.9	60.4	62.8	61.5	49.0	51.6	50.8	55.8	28.6	27.8	19.1	14.9
Foreign	4.6	4.3	7.2	7.6	1.3	2.0	1.9	3.0	6.1	8.2	13.5	15.4	4.7	4.8	4.6	4.9

Source: RBI, Kotak Institutional Equities

**Exhibit 6: High share of government balances moves through public banks; household still have a high share with nationalized banks**  
Break-up of share of deposits with various types of banks, March fiscal year-ends, 2012-15 (%)

	Government				Private companies				Finance companies				Household				Foreign companies			
	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
SBI and associates	26.7	22.3	29.2	26.7	15.9	21.3	16.6	18.8	7.0	7.5	5.2	4.0	23.0	24.1	22.8	23.4	29.9	22.4	23.5	22.8
Nationalised banks	65.6	67.7	61.1	63.0	35.6	34.4	39.7	36.8	62.9	60.8	61.9	66.7	55.1	53.3	55.4	52.6	21.5	25.3	15.5	21.0
Regional rural banks	1.5	1.3	1.3	1.4	0.1	0.2	0.1	0.1	0.2	0.3	0.3	0.4	4.5	4.4	4.4	4.5	0.2	0.2	0.1	0.1
Private banks	4.7	7.6	7.4	6.8	35.3	30.8	29.5	29.3	24.7	27.0	28.0	21.6	15.3	16.3	16.0	18.5	33.9	37.4	38.6	42.5
Foreign banks	1.6	1.2	1.0	2.2	13.1	13.3	14.1	15.0	5.1	4.4	4.7	7.2	2.1	1.8	1.4	1.0	14.5	14.7	22.3	13.6

Source: RBI, Kotak Institutional Equities

**Exhibit 7: Metropolitan regions are the largest contributors of deposits, but this is gradually declining**

Region-wise break-up of deposits, March fiscal year-ends, 2006-15 (%)

	2006	2007	2008	2009	2010	2012	2013	2014	2015
Rural	10.8	9.6	9.1	7.8	8.8	9.0	9.5	9.7	9.9
Semi urban	14.2	13.5	13.0	13.6	13.0	13.5	14.2	14.3	14.9
Urban	21.2	20.5	20.6	22.1	20.3	20.7	21.5	21.7	22.3
Metropolitan	53.8	56.4	57.3	56.5	57.8	56.8	54.8	54.3	52.8

Source: RBI, Kotak Institutional Equities

**Exhibit 8: Top 50 centers contribute to about 62% of the total deposits for Indian banks**  
Concentration of branches and deposits across top 'N' centers, March fiscal year-ends, 2009-14 (%)

	Branches						Deposits						Loans					
	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
Percentage of top-10 centers	12.0	12.4	12.4	12.8	12.5	12.1	50.1	50.4	50.6	49.3	48.1	47.2	62.5	61.5	61.4	60.3	59.8	59.2
Percentage of top-50 centers	21.1	21.7	21.8	21.9	21.8	21.3	63.6	63.8	64.1	63.4	62.6	61.9	74.1	73.6	74.2	73.8	72.8	71.9
Percentage of top-100 centers	26.2	26.6	26.8	26.9	26.7	26.2	69.2	69.4	69.7	69.1	68.6	68.0	78.5	78.0	78.6	78.3	77.2	76.2
Percentage of top-200 centers	31.3	32.1	32.1	32.0	31.7	31.2	74.2	74.4	74.6	74.1	73.6	73.0	82.0	81.5	82.0	81.7	80.8	79.8

Source: RBI, Kotak Institutional Equities



**Exhibit 9: Deposits per branch are significantly higher in urban India**

Branches, accounts and deposits/branch in rural, semi-urban and urban India, March fiscal year-ends, 2002-2014

	Rural				Semi-urban				Urban/metro			
	Branch (#)	Account (mn)	Deposits /branch (Rs mn)	Growth (%)	Branch (#)	Account (mn)	Deposits /branch (Rs mn)	Growth (%)	Branch (#)	Account (mn)	Deposits /branch (Rs mn)	Growth (%)
2002	32,443	133	49	15	14,910	117	144	14	20,544	190	365	18
2003	32,283	137	55	11	15,042	118	161	11	20,753	192	413	13
2004	32,107	139	61	11	15,252	121	176	9	21,286	198	492	19
2005	31,967	142	67	10	15,619	125	189	8	22,383	200	553	12
2006	30,610	140	74	11	15,471	122	195	3	24,695	224	633	14
2007	30,393	150	83	13	16,352	133	219	12	26,454	237	751	19
2008	30,898	168	98	18	17,695	148	243	11	29,106	265	865	15
2009	31,549	200	115	17	19,021	170	279	15	31,232	293	970	12
2010	32,320	224	130	13	20,601	189	298	7	34,039	321	1,036	7
2011	33,367	250	148	14	22,725	212	315	6	36,025	348	1,160	12
2012	35,936	283	160	8	25,818	240	326	3	39,051	380	1,194	3
2013	39,233	335	171	7	28,529	284	343	5	41,517	426	1,292	8
2014	44,653	407	176	3	31,663	341	360	5	44,649	480	1,350	4

Source: RBI, Kotak Institutional Equities

**Exhibit 10: Private banks gained 700 bps in CASA since FY2005**

Market share of CASA deposits, March fiscal year-ends, 2005-15 (%)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>CASA</b>											
SBI and associates	25.3	24.9	24.2	26.6	25.8	24.7	24.6	24.7	25.5	25.6	25.4
Nationalized banks	49.0	48.1	47.8	45.3	47.1	47.1	47.8	46.2	45.1	44.7	44.4
Private banks	14.9	15.5	16.6	17.5	16.7	17.8	17.8	19.0	20.2	20.9	22.1
Foreign banks	5.8	6.7	6.5	5.9	5.6	5.7	5.2	5.4	4.6	4.3	3.6
Regional rural banks	4.9	4.9	4.9	4.6	4.8	4.6	4.6	4.7	4.6	4.6	4.5
<b>Savings account market share</b>											
SBI and associates	27.0	27.1	26.2	26.3	27.1	26.2	27.5	27.6	27.7	27.5	28.5
Nationalized banks	52.7	51.1	51.0	48.5	48.6	49.5	48.0	46.7	46.4	46.2	46.5
Private banks	10.8	12.5	13.0	15.3	14.7	15.2	15.6	16.9	17.7	18.4	17.9
Foreign banks	3.0	2.9	3.2	3.3	3.0	3.0	2.7	2.6	2.3	2.1	1.3
Regional rural banks	6.5	6.4	6.6	6.6	6.6	6.2	6.2	6.1	5.9	5.7	5.8
<b>Current account market share</b>											
SBI and associates	21.7	19.9	20.1	27.2	22.9	21.2	18.2	17.7	19.7	19.8	16.8
Nationalized banks	40.8	41.3	40.9	39.6	44.1	42.0	47.3	44.8	41.6	40.1	38.6
Private banks	24.1	22.2	24.2	21.6	20.8	23.5	22.7	24.1	26.9	28.2	33.5
Foreign banks	12.1	15.3	13.5	10.4	11.0	11.9	10.6	12.1	10.6	10.8	10.1
Regional rural banks	1.3	1.3	1.3	1.1	1.2	1.3	1.2	1.2	1.2	1.2	1.0

Source: RBI, Kotak Institutional Equities

**Exhibit 11: Top three private banks and select PSU banks gained market share**

Market share in current accounts and savings accounts, March fiscal year-ends, 2008-2015 (%)

Banks	Savings accounts								Current accounts							
	2008	2009	2010	2011	2012	2013	2014	2015	2008	2009	2010	2011	2012	2013	2014	2015
Allahabad	3.1	3.0	2.9	2.9	2.9	2.9	2.8	2.8	1.7	1.8	1.9	1.8	2.0	1.8	1.5	1.4
Andhra	1.9	1.8	1.7	1.6	1.6	1.6	1.5	1.6	1.3	1.4	1.5	1.4	1.3	1.3	1.3	1.5
Axis	3.1	3.4	3.5	3.4	3.8	4.1	4.3	4.4	5.9	6.8	7.2	7.3	8.3	8.6	8.1	8.5
BoB	5.5	5.5	5.4	5.4	5.5	5.4	5.4	5.5	3.4	3.9	4.2	4.6	6.1	6.4	8.4	8.0
Bol	5.2	5.0	4.9	4.9	4.9	5.0	4.9	4.9	3.7	3.4	3.5	3.3	3.8	3.6	3.6	3.3
BoMH	1.9	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.5	1.4	1.4	1.3	1.8	2.0	1.8	1.7
Canara	5.5	5.5	5.1	4.9	4.8	4.5	4.8	4.7	3.9	3.9	4.1	4.9	3.1	2.7	3.0	3.0
Central	4.6	4.4	4.2	4.0	3.9	3.8	3.7	3.7	2.9	2.8	3.4	3.1	2.7	2.6	2.3	2.0
City Union	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.3
Corporation	1.4	1.3	1.3	1.4	1.3	1.3	1.4	1.3	3.1	3.6	3.0	2.8	2.6	2.7	2.5	2.0
DCB	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Dena	1.6	1.5	1.4	1.4	1.4	1.4	1.3	1.3	0.9	1.0	1.0	1.1	1.5	1.2	1.1	1.0
Federal	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6
HDFCB	4.1	4.6	5.1	5.3	5.4	5.6	5.8	6.3	8.5	7.7	8.3	9.2	9.5	9.3	10.3	11.2
ICICI	6.1	5.4	5.5	5.6	5.6	5.5	5.5	5.8	7.3	5.9	6.9	6.9	7.3	6.6	7.2	7.5
Indian	2.3	2.3	2.2	2.2	2.2	2.1	2.1	2.0	1.4	1.4	1.5	1.3	1.5	1.2	1.2	1.3
IndusInd	0.2	0.2	0.2	0.3	0.3	0.4	0.6	0.7	0.5	0.8	1.0	1.2	1.4	1.6	1.6	1.9
IOB	3.0	2.9	2.7	2.7	2.6	2.6	2.4	2.4	2.6	2.2	2.1	2.3	2.6	2.4	2.3	2.2
J&K Bank	1.1	1.0	1.1	1.1	1.2	1.2	1.1	0.9	1.3	1.3	1.1	1.1	1.2	1.1	1.1	1.0
KVB	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.4	0.5	0.5	0.5	0.5	0.6	0.5
OBC	2.2	2.0	2.0	2.1	2.1	2.0	2.0	1.8	2.3	2.1	2.3	1.9	2.0	2.1	2.0	2.0
PNB	8.3	8.2	8.0	7.8	7.8	7.9	7.9	7.6	5.2	5.1	5.3	5.3	6.0	5.3	5.3	5.1
PSB	1.1	1.0	0.9	0.9	0.9	0.8	0.7	0.8	0.6	0.6	0.7	0.7	0.7	0.6	0.7	0.8
SBI	23.9	25.8	26.4	27.5	27.2	27.2	27.1	26.5	28.9	30.1	27.3	26.0	20.6	20.1	18.9	18.9
SIB	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Syndicate	2.9	2.8	2.7	2.6	2.5	2.4	2.3	2.3	3.1	2.9	2.3	2.1	2.6	2.5	2.3	2.6
UCO	2.3	2.2	2.2	2.0	1.9	1.9	1.9	1.9	1.7	2.0	2.0	1.5	1.7	4.6	4.2	4.4
Union	3.8	3.7	3.9	3.7	3.7	3.7	3.6	3.6	3.5	3.6	3.6	3.9	4.0	4.3	3.8	3.2
United	2.0	2.0	2.0	1.9	2.0	1.9	1.8	1.8	1.5	1.5	1.5	1.7	2.0	1.7	1.3	1.3
Vijaya	1.3	1.2	1.1	1.1	1.0	1.0	0.9	1.0	1.4	1.1	1.0	1.0	1.0	0.9	1.0	1.0
Yes	0.0	0.0	0.0	0.1	0.2	0.4	0.5	0.6	0.3	0.3	0.5	0.8	1.0	1.2	1.2	1.3

Notes:

(a) Market share has been calculated based on 29 banks.

Source: RBI, Kotak Institutional Equities

**Prices slide—recovery to be gradual.** The devaluation of yuan and a strong US\$, weak global demand and large inventories will delay metal price recovery, especially for aluminum and steel despite large losses incurred by many mills. We cut our FY2016-18E commodity price assumptions by 0-9% and TPs of VEDL to ₹110 (₹140), HZ to ₹175 (₹180), HNDL to ₹60 (₹65), TATA to ₹175 (₹190) and JSTL to ₹980 (₹1,000). We maintain BUY on VEDL and HZ; REDUCE on HNDL and TATA; SELL on NACL. We prefer Vedanta due to its exposure to zinc and low-cost operations. The earnings trajectory of steel stocks will largely depend on expected government measures to restrict imports.

### Aluminum—price recovery can be delayed given multiple global headwinds

At spot aluminum prices (including premiums), about 30% of the aluminum smelters globally are incurring cash losses. Despite these losses, the pricing recovery for aluminum can be delayed due to multiple headwinds, including (1) devaluation of yuan, which can pose higher risks of Chinese aluminum exports as China's markets remain in surplus despite announced capacity cuts, (2) a stronger US\$ is negative for prices as it lowers smelting costs and delays closures, (3) weak demand globally can itself alter the demand-supply economics, and (4) more importantly, **the large aluminum inventories tied up in cash-and-carry trades risk fast unwinding due to expected interest rate hikes by Fed over CY2016-17** (Exhibit 5).

The global aluminum inventories are largely stored in off-exchange warehouses than in LME-SHFE (exchange warehouses). These aluminum inventories are at high levels of 14.9 mn tons in December 2015 or about 136 days of consumption (for world ex-China). Assuming normal levels of inventory of 60-70 days on consumption (pre-GFC levels), we estimate excess aluminum inventory of about 4-4.5 mn tons. This compares to expected FY2016E deficit of only 100 kt factoring in announced closures and global demand of +3.8% in CY2016E.

### Zinc—fundamentals stack up better relatively but risks emanate from weaker demand

Zinc is better-placed compared to aluminum due to (1) lower global inventories and (2) closure of large mines, especially in 4QCY15. The global zinc markets were in surplus of 325,000 tons in CY2015 led by 3.6% growth in production to 13.7 mn tons while demand was flat at 13.4 mn tons. We expect zinc markets to be in deficit of 200,000 tons in CY2016E due to 4% decline in production led by closures. The major mine cuts are from (1) announced closure of Glencore (0.5 mn tons) and (2) closure of Century/Lisheen mines (due to reserve depletion), which account for another ~0.5 mn tons. The deficit can be at risk in case of weaker-than-expected demand in China (+2% in CY2015) and world ex-China (-1%) (Exhibit 6).

### Steel—import restrictions to determine earnings trajectory over FY2017-18E

The global steel prices remain under pressure due to China overcapacity and lower raw material prices. While we expect China steel prices to recover given large losses of Chinese steel mills and will be led by improvement in spreads, steel prices will still be 30% lower compared to FY2015 average due to low raw material prices. We expect the government to impose more safeguarding measure to restrict imports to help the domestic steel industry.

### Leverage high and unsustainable at spot prices; we cut EBITDA estimates by 0-9%, TP by 2-21%

Exhibit 2 summarizes leverage details of various metal companies. We highlight that debt is high and unsustainable at spot prices for many large metal names. The earnings sensitivity to changes in the metal price is high and at spot global prices most of leverage names will incur net losses (Exhibit 3). However, select India operations are positioned in lower quartile of the cost curve with earnings resilient than global peers. Vedanta and JSW Steel are more cost-efficient.

We cut our base metal price assumption for FY2016-18E by 0-9% and China steel price assumption by 0-6%. We also incorporate our KIE energy team's revised crude price assumption for FY2016-18E and our economist's revised Fx rate. This results in cut in our EBITDA estimate by 0-9% and TP by 2-21%. Exhibit 1 summarizes key changes to our assumptions, estimates.

### Steel stocks—earnings trajectory to depend on import restrictions

As per unauthenticated media reports, the government may notify more measures to curtail cheap steel imports, which may include measures such as adoption of a minimum import price (MIP) and restricting the port of import to one. The details of likely structure of these restriction remain sketchy with many possible scenarios (*refer to our December 22, 2015 note 'Safeguarding steel—more measures, measured benefits'*).

We believe our estimates for steel stocks, including Tata Steel and JSW Steel, will likely change based on the new measures announced and we await more clarity. Our revised assumption in this note for steel companies only factors in (1) continuation of safeguard duty on HRC for 3 years (it is currently imposed for only 200 days and can be extended) at the rate of 20% for first year, 15% for second year and 10% for third year, and (2) builds in gradual recovery in China steel export prices with closure of more loss-making steel mills.

### Changes in our estimates

#### Non-ferrous—we cut our commodity price assumption by 0-9%

- ▶ **All-in aluminum prices.** We cut our all-in aluminum price assumption by 0-6% to US\$1,725/ton, US\$1,700/ton and US\$1,750/ton for FY2016E, FY2017E and FY2018E, respectively.
- ▶ **Zinc and lead prices.** We cut our LME zinc price assumption by 0-8% to US\$1,775/ton, US\$1,750/ton and US\$1,800/ton for FY2016E, FY2017E and FY2018E. We cut our LME lead price assumption by 0-5% to US\$1,725/ton, US\$1,800/ton and US\$1,850/ton for FY2016E, FY2017E and FY2018E.
- ▶ **Crude oil prices.** We incorporate KIE energy team's revised crude price (Brent) assumption of US\$49/bbl, US\$52/bbl and US\$60/bbl for FY2016E, FY2017E and FY2018E from US\$52/bbl, US\$57/bbl and US\$62/bbl. We assume long-term prices of US\$65/bbl in our model starting FY2019 (with 2% annual escalation).

#### Ferrous—we cut our steel price assumption by 0-6%

- ▶ **Steel.** We cut our China export HRC price assumption for FY2016-18E by 0-6% to US\$300/ton, US\$320/ton and US\$330/ton for FY2016E, FY2017E and FY2018E. Steel spreads for Chinese steel companies are at historical lows and majority of companies are incurring losses. We expect closures in CY2016, which can aid prices though lower iron-ore prices underpinning cut in our assumptions.

Exhibit 1 highlights key changes in our estimates and revised price assumptions.

- ▶ **Vedanta.** We cut our FY2016-18E EBITDA estimate by 5-11% to ₹143 bn, ₹175 bn and ₹207 bn for FY2016E, FY2017E and FY2018E, respectively. Our revised EPS estimates for Vedanta (pro-forma Cairn merger) are ₹7.7, ₹10.6 and ₹18.3 for FY2016E, FY2017E and FY2018E, respectively.
  - ▶ We cut our fair value to ₹110/share from ₹140/share and roll over to September 2017E financials. **Maintain BUY.**
- ▶ **Hindalco.** We cut our consolidated EBITDA by 4-9% to ₹90 bn and ₹104 bn for FY2017E and FY2018E, respectively. Our revised EPS estimates for Hindalco are ₹-0.1, ₹1.6 and ₹6.5 for FY2016E, FY2017E and FY2018E respectively. **Maintain REDUCE.**

We cut our fair value to ₹60/share (on September FY2017E financials) from ₹65/share.

- ▶ **Hindustan Zinc.** We cut our FY2016-18E EBITDA by 1-11%. We estimate EPS of ₹17.5, ₹16.8 and ₹17.9 for FY2016E, FY2017E and FY2018E, respectively. We revise our fair value to ₹175/share from ₹180/share earlier. **Maintain BUY.**
- ▶ **Nalco.** We cut our FY2017-18E EBITDA by 18-27% to ₹5.7 bn, ₹8 bn for FY2017E, FY2018E, respectively. We estimate EPS of ₹2.6, ₹1.7 and ₹2.2 for FY2016E, FY2017E and FY2018E, respectively. We revise our fair value to ₹30/share from ₹33/share earlier. **Maintain SELL.**
- ▶ **Tata Steel.** We cut our FY2016-18E EBITDA by 6-8% to ₹80 bn, ₹146 bn and ₹166 bn for FY2016E, FY2017E and FY2018E. We account cash accrual from safeguard duty of ₹43/share assuming allowable period of safeguard duty of three years. We have assumed safeguard duty at 20% for 1st year, 15% for 2nd year and 10% for 3rd year.  
We estimate EPS (adjusted) of ₹-24.3, ₹10 and ₹16.8 for FY2016E, FY2017E and FY2018E. We cut our target price to ₹175 from ₹190 earlier. **Maintain REDUCE.**
- ▶ **JSW Steel.** We cut our FY2016-18E EBITDA by 5-8% to ₹62 bn, ₹111 bn and ₹114 bn for FY2016E, FY2017E and FY2018E. We account cash accrual from safeguard duty of ₹157/share assuming allowable period of safeguard duty of three years. We have assumed safeguard duty at 20% for 1st year, 15% for 2nd year and 10% for 3rd year.  
We estimate EPS (adjusted) of ₹-12.2, ₹117.4 and ₹141.7 for FY2016E, FY2017E and FY2018E. We cut our target price to ₹980 from ₹1,000 earlier. **Maintain ADD.**

### Debt—high for most of names and unsustainable at spot metal prices

Exhibit 2 summarizes the leverage details of various metal companies. The leverage is high for large metal companies due to investments in recent capacity expansions and acquisitions. The situation is worse for the steel names compared to non-ferrous due to sharp price fall.

- ▶ **Steel stocks.** The Indian steel sector had net debt/EBITDA of 8X on FY2015 financials. The leverage ratios have deteriorated sharply in FY2016E given FY2015 financials were largely insulated from sharp decline in steel prices considering lower prices affected earnings mostly from 4QFY15. The domestic steel prices have declined by 25% since FY2015 average and at the spot prices, the debt of domestic steelmakers is unsustainable. Most companies are eroding their net worth for each month the prices remain at such low levels.

The larger steel companies are better off due to lower costs (raw-material integration or better efficiency) compared to smaller companies. However, the leverage ratios are weak even for the larger names and at spot steel prices, we estimate (1) Tata Steel's net debt/EBITDA of 6.5X-5.9X for FY2017-18E, (2) JSW Steel's net debt/EBITDA of 4.8X-5X for FY2017-18E, and (3) Jindal Steel & Power's net debt/EBITDA of 7.2X-9.2X for FY2017-18E.

Given that recovery in global steel prices will be slow due to large overcapacity and declining demand in China, the domestic steelmakers are looking up to more measures by Indian government to restrict imports including 'adoption of minimum import price' and restricting the port of import to one.

- ▶ **Non-ferrous stocks.** The debt problems for non-ferrous names are largely due to investments in aluminum business and weak prices (beside, Vedanta's high leverage is also due to investment in Cairn India). At spot metal prices, we estimate (1) Hindalco's net debt/EBITDA of 7.1X-6.3X for FY2017-18E, and (2) Vedanta's attributable net debt/EBITDA of 4.7X-4.8X for FY2017-18E.

However, we highlight that in Vedanta's case, the standalone debt (including wholly owned subsidiaries) is high at ₹857 bn in FY2016E while cash reserves are in Hindustan Zinc and Cairn India. The completion of Cairn merger (subject to approval of minority shareholders) can sort out the cash fungibility issue.

Exhibit 1: We cut our FY2016-18E commodity price assumption by 0-9% and EBITDA estimate by 0-27%  
Metal companies, changes in estimates, March fiscal year ends, 2016-18E (US\$/ton, Rs mn)

	Revised estimates			Previous estimates			Change (%)		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
<b>Commodity prices (US\$/ton)</b>									
Aluminium (all- in)	1,725	1,700	1,750	1,725	1,800	1,850	—	(5.6)	(5.4)
Zinc	1,775	1,750	1,800	1,775	1,900	1,950	—	(7.9)	(7.7)
Lead	1,725	1,800	1,850	1,725	1,850	1,950	—	(2.7)	(5.1)
Crude Brent (US\$/bbl)	49	52	60	52	57	62	(5.8)	(8.8)	(3.2)
China HRC export price	300	320	330	300	340	350	0.0	(5.9)	(5.7)
INR:USD	65.1	67.4	69.0	64.9	66.5	67.0	0.3	1.4	3.0
<b>Vedanta - consolidated (Rs mn)</b>									
Revenues	638,904	751,326	859,327	650,360	774,527	867,869	(1.8)	(3.0)	(1.0)
EBITDA	142,978	175,311	207,104	150,407	197,822	219,667	(4.9)	(11.4)	(5.2)
EPS (Rs)	7.7	10.6	18.3	10.9	14.6	20.9	(29.9)	(27.3)	(12.2)
<b>Hindustan Zinc (Rs mn)</b>									
Revenues	142,312	149,723	159,629	143,847	159,570	167,609	(1.1)	(6.2)	(4.8)
EBITDA	67,485	68,142	72,572	68,234	76,559	79,407	(1.1)	(11.0)	(8.6)
PAT	73,967	71,105	75,747	74,618	78,097	81,906	(1)	(9)	(8)
EPS (Rs)	17.5	16.8	17.9	17.7	18.5	19.4	(0.9)	(9.0)	(7.5)
<b>Hindalco (Rs mn)</b>									
Revenues	1,020,280	1,146,930	1,228,566	1,017,200	1,163,407	1,226,322	0.3	(1.4)	0.2
EBITDA	74,610	90,082	103,912	74,003	98,405	108,241	0.8	(8.5)	(4.0)
PAT	(183)	3,335	13,372	(571)	9,806	17,366	(68)	(66)	(23)
EPS (Rs)	(0.1)	1.6	6.5	(0.3)	4.7	8.4	(67.9)	(66.0)	(23.0)
<b>Nalco (Rs mn)</b>									
Revenues	68,314	66,370	73,649	68,189	69,769	76,513	0.2	(4.9)	(3.7)
EBITDA	8,850	5,710	8,024	8,730	7,824	9,823	1.4	(27.0)	(18.3)
PAT	6,733	4,442	5,763	6,653	5,838	6,950	1	(24)	(17)
EPS (Rs)	2.6	1.7	2.2	2.6	2.3	2.7	1.2	(23.9)	(17.1)
<b>Tata Steel (Rs mn)</b>									
Revenues	1,274,120	1,391,661	1,468,621	1,274,059	1,410,313	1,471,979	0.0	(1.3)	(0.2)
EBITDA	80,116	145,906	166,856	86,692	156,857	176,777	(7.6)	(7.0)	(5.6)
PAT	(23,559)	9,733	16,351	(16,640)	20,387	27,362	42	(52)	(40)
EPS (Rs)	(24.3)	10.0	16.8	(17.1)	21.0	28.2	41.6	(52.3)	(40.2)
<b>JSW Steel (Rs mn)</b>									
Revenues	441,999	549,616	584,530	466,806	554,853	585,269	(5.3)	(0.9)	(0.1)
EBITDA	62,034	110,866	113,714	67,517	118,072	119,136	(8.1)	(6.1)	(4.6)
PAT	(2,953)	28,372	34,252	743	33,345	38,098	NM	(15)	(10)
EPS (Rs)	(12.2)	117.4	141.7	3.1	137.9	157.6	NM	(14.9)	(10.1)

Source: Kotak Institutional Equities estimates

**Exhibit 2: The leverage of metal names is high; assuming spot metal prices, debt appears unsustainable for most**  
Consolidated leverage details of metal companies, March fiscal year-ends, 2016-18E (Rs mn, X)

	Base case			At spot prices		
	2016E	2017E	2018E	2016E	2017E	2018E
<b>Tata Steel</b>						
EBITDA (Rs mn)	80,116	145,906	166,856	80,116	118,757	130,040
Shareholders funds (Rs mn)	307,425	307,832	314,857	307,425	289,235	273,067
Net debt (Rs mn)	765,378	780,130	799,119	765,378	768,051	761,080
<b>Net debt/EBITDA (X)</b>	<b>9.6</b>	<b>5.3</b>	<b>4.8</b>	<b>9.6</b>	<b>6.5</b>	<b>5.9</b>
<b>Net debt/Equity (X)</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.7</b>	<b>2.8</b>
<b>JSW Steel</b>						
EBITDA (Rs mn)	56,787	105,555	108,264	62,034	82,012	80,298
Shareholders funds (Rs mn)	224,001	248,837	279,553	224,001	229,216	237,209
Net debt (Rs mn)	393,572	378,205	357,090	393,572	396,072	399,948
<b>Net debt/EBITDA (X)</b>	<b>6.9</b>	<b>3.6</b>	<b>3.3</b>	<b>6.3</b>	<b>4.8</b>	<b>5.0</b>
<b>Net debt/Equity (X)</b>	<b>1.8</b>	<b>1.5</b>	<b>1.3</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>
<b>Jindal Steel and Power</b>						
EBITDA (Rs mn)	38,993	54,959	67,819	39,192	48,336	61,450
Shareholders funds (Rs mn)	183,101	172,380	174,206	183,245	167,150	163,708
Net debt (Rs mn)	441,118	443,346	434,059	441,017	447,075	442,746
<b>Net debt/EBITDA (X)</b>	<b>11.3</b>	<b>8.1</b>	<b>6.4</b>	<b>11.3</b>	<b>9.2</b>	<b>7.2</b>
<b>Net debt/Equity (X)</b>	<b>2.4</b>	<b>2.6</b>	<b>2.5</b>	<b>2.4</b>	<b>2.7</b>	<b>2.7</b>
<b>Hindalco</b>						
EBITDA (Rs mn)	74,610	90,082	103,912	74,610	79,429	88,659
Shareholders funds (Rs mn)	380,984	381,857	392,768	380,984	373,701	372,892
Net debt (Rs mn)	560,723	555,848	528,442	560,723	566,815	554,945
<b>Net debt/EBITDA (X)</b>	<b>7.5</b>	<b>6.2</b>	<b>5.1</b>	<b>7.5</b>	<b>7.1</b>	<b>6.3</b>
<b>Net debt/Equity (X)</b>	<b>1.5</b>	<b>1.5</b>	<b>1.3</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>
<b>Vedanta</b>						
EBITDA -attributable (Rs mn)	120,609	150,192	180,023	120,609	92,324	99,324
Shareholders funds (Rs mn)	612,440	635,649	683,867	612,440	589,344	572,623
Standalone debt (inclgd. wholly owned subsidiaries)	856,940	881,390	895,417	856,940	888,294	915,856
Hindustan Zinc' cash & equivalents	(334,159)	(370,797)	(412,383)	(334,159)	(359,631)	(385,768)
Cairn India's cash & equivalents	(260,063)	(268,460)	(280,085)	(260,063)	(241,340)	(213,176)
Balco's debt	63,203	67,309	69,253	63,203	69,380	74,771
<b>Consolidated net debt (Rs mn)</b>	<b>325,920</b>	<b>309,442</b>	<b>272,201</b>	<b>325,920</b>	<b>356,703</b>	<b>391,684</b>
Net debt -attributable	407,440	396,082	365,549	407,440	438,411	472,990
<b>Net debt/EBITDA (X)</b>	<b>3.4</b>	<b>2.6</b>	<b>2.0</b>	<b>3.4</b>	<b>4.7</b>	<b>4.8</b>
<b>Net debt/Equity (X)</b>	<b>0.7</b>	<b>0.6</b>	<b>0.5</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>

Source: Kotak Institutional Equities estimates

### Earnings at spot prices—weak/losses for most leveraged names

Exhibit 3 compares the earnings of metal companies at spot commodity prices and our base case assumptions. The earnings sensitivity to changes in the metal price is high and at spot global prices, majority of the leverage names will incur net losses.

However, we also highlight that a few Indian operations are positioned well to global peers on the cost curve and will be relatively more earnings resilient. Vedanta's zinc operations fall in the 1<sup>st</sup> decile of the global cost curve while its Jharsuguda aluminum operation is in the 2<sup>nd</sup> quartile. The new smelters of Hindalco (Mahan/Aditya) will also fall in the 2<sup>nd</sup> quartile of the global cost curve although Nalco is relatively cost-inefficient.

Among steel names, we highlight that JSW Steel is the most efficient converter due to lower employee and other conversion costs.

**Exhibit 3: The earnings of metal companies are highly sensitive to movement in commodity prices**  
 Analysis of earnings of metal companies at spot prices, base case assumptions, March fiscal year-ends (Rs mn)

	Base case		Spot prices	
	2017E	2018E	2017E	2018E
<b>Commodity prices (US\$/ton)</b>				
Aluminium (all- in)	1,700	1,750	1,570	1,570
Zinc	1,750	1,800	1,470	1,470
Lead	1,800	1,850	1,612	1,612
Crude brent (US\$/bbl)	52	60	30	30
China HRC export price	320	330	280	290
INR:USD	67.4	69.0	66.5	67.0
<b>Vedanta - consolidated (Rs mn)</b>				
Revenues	751,326	859,327	680,679	759,820
EBITDA	175,311	207,104	110,725	117,498
EPS (Rs)	10.6	18.3	(1.8)	0.8
<b>Hindustan Zinc (Rs mn)</b>				
Revenues	149,723	159,629	131,631	136,922
EBITDA	68,142	72,572	52,388	52,802
PAT	71,105	75,747	58,502	59,931
EPS	16.8	17.9	13.8	14.2
<b>Hindalco (Rs mn)</b>				
Revenues	1,146,930	1,228,566	1,105,748	1,169,173
EBITDA	90,082	103,912	79,429	88,659
PAT	3,335	13,372	(4,821)	1,653
EPS	1.6	6.5	(2.3)	0.8
<b>Nalco (Rs mn)</b>				
Revenues	66,370	73,649	61,256	66,267
EBITDA	5,710	8,024	1,303	1,613
PAT	4,442	5,763	1,533	1,531
EPS	1.7	2.2	0.6	0.6
<b>Tata Steel (Rs mn)</b>				
Revenues	1,391,661	1,468,621	1,364,512	1,431,805
EBITDA	145,906	166,856	118,757	130,040
PAT	9,733	16,351	(8,864)	(6,843)
EPS	10.0	16.8	(9.1)	(7.0)
<b>JSW Steel (Rs mn)</b>				
Revenues	549,616	584,530	520,690	551,031
EBITDA	110,866	113,714	82,012	80,298
PAT	28,372	34,252	8,751	11,529
EPS	117.4	141.7	36.2	47.7

Source: Kotak Institutional Equities estimates

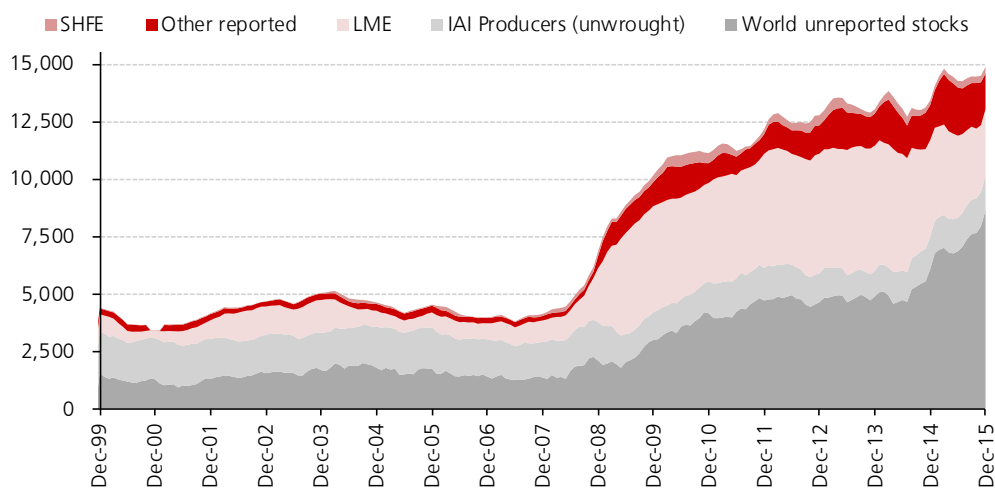


**Exhibit 4: We expect aluminum deficit of 100 kt globally in CY2016E led by large deficit in world ex-China as China remains in surplus**  
Aluminum demand-supply for China and world ex-China ('000 tons)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E
China capacity	14,020	16,554	18,984	21,789	23,210	26,140	29,470	34,287	38,286	39,551
World ex-China capacity	27,499	28,590	29,199	30,413	31,357	31,881	33,132	33,751	33,170	32,727
<b>Global</b>	<b>41,519</b>	<b>45,144</b>	<b>48,183</b>	<b>52,202</b>	<b>54,567</b>	<b>58,021</b>	<b>62,602</b>	<b>68,038</b>	<b>71,456</b>	<b>72,278</b>
World ex-China production (000' tons)	25,546	26,430	23,968	24,965	26,395	25,758	25,685	25,834	26,292	25,854
World ex-China consumption (000' tons)	25,915	24,793	20,371	24,097	25,513	25,789	26,123	26,813	27,290	27,836
<b>World ex-China Surplus/(Deficit) (000' tons)</b>	<b>(369)</b>	<b>1,637</b>	<b>3,597</b>	<b>869</b>	<b>882</b>	<b>(31)</b>	<b>(438)</b>	<b>(979)</b>	<b>(999)</b>	<b>(1,982)</b>
China production (000' tons)	12,573	13,695	13,642	16,968	19,251	21,548	24,453	28,108	31,287	32,432
China consumption (000' tons)	12,070	12,603	13,931	16,834	19,421	21,153	23,904	26,864	28,959	30,551
<b>China Surplus/(Deficit) (000' tons)</b>	<b>503</b>	<b>1,092</b>	<b>(289)</b>	<b>134</b>	<b>(170)</b>	<b>395</b>	<b>548</b>	<b>1,244</b>	<b>2,328</b>	<b>1,881</b>
Global production (000' tons)	38,119	40,125	37,610	41,933	45,646	47,306	50,138	53,942	57,578	58,286
Global consumption (000' tons)	37,985	37,396	34,302	40,931	44,934	46,942	50,028	53,677	56,249	58,387
<b>Global Surplus/(Deficit) (000' tons)</b>	<b>134</b>	<b>2,729</b>	<b>3,308</b>	<b>1,002</b>	<b>711</b>	<b>363</b>	<b>110</b>	<b>265</b>	<b>1,330</b>	<b>(101)</b>
<b>Utilization rates (%)</b>										
World ex-China	93	92	82	82	84	81	78	77	79	79
China	90	83	72	78	83	82	83	82	82	82
<b>Global</b>	<b>92</b>	<b>89</b>	<b>78</b>	<b>80</b>	<b>84</b>	<b>82</b>	<b>80</b>	<b>79</b>	<b>81</b>	<b>81</b>

Source: CRU, Kotak Institutional Equities estimates

**Exhibit 5: World ex-China inventories at record >130 days of consumption**  
Aluminum, monthly inventory details, December year-ends, (000 tons)



Source: CRU, Kotak Institutional Equities

**Exhibit 6: Zinc markets to be in deficit in CY2016 due to large mine closures**  
Zinc mine production, capacity and demand supply details, December year-ends, ('000 tons)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E
Total world mine production	11,201	11,882	11,605	12,346	12,590	12,770	13,191	13,257	13,497	12,972
YoY change (%)	7.4	6.1	(2.3)	6.4	2.0	1.4	3.3	0.5	1.8	(3.9)
Total smelter production capacity	13,378	13,976	14,644	14,378	14,618	14,715	14,928	14,965	15,157	15,748
YoY change (%)	4.6	4.5	4.8	(1.8)	1.7	0.7	1.4	0.2	1.3	3.9
Total world smelter production	11,367	11,596	11,260	12,730	12,973	12,322	12,871	13,247	13,725	13,191
YoY change (%)	7.3	2.0	(2.9)	13.1	1.9	(5.0)	4.5	2.9	3.6	(3.9)
Total world zinc consumption	11,329	11,273	10,381	12,134	12,515	12,540	13,021	13,377	13,400	13,400
YoY change (%)	3.0	(0.5)	(7.9)	16.9	3.1	0.2	3.8	2.7	0.2	—
Government sales	7	—	(259)	150	—	(150)	5	—	—	—
<b>Surplus/(Deficit)</b>	<b>45</b>	<b>323</b>	<b>620</b>	<b>746</b>	<b>458</b>	<b>(368)</b>	<b>(145)</b>	<b>(130)</b>	<b>325</b>	<b>(209)</b>

Source: CRU, Kotak Institutional Equities estimates

Exhibit 7: Vedanta (pro-forma post Cairn merger), change in estimates, March fiscal year-ends, 2016-18E (Rs mn)

	Revised Estimate			Old Estimate			% change		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
<b>Prices (US\$/ton)</b>									
Aluminium (all- in)	1,725	1,700	1,750	1,725	1,800	1,850	—	(5.6)	(5.4)
Zinc	1,775	1,750	1,800	1,775	1,900	1,950	—	(7.9)	(7.7)
Lead	1,725	1,800	1,850	1,725	1,850	1,950	—	(2.7)	(5.1)
Crude brent (US\$/bbl)	49	52	60	52	57	62	(5.8)	(8.8)	(3.2)
<b>Sesa Sterlite Consolidated</b>									
Net sales	638,904	751,326	859,327	650,360	774,527	867,869	(1.8)	(3.0)	(1.0)
EBITDA	142,978	175,311	207,104	150,407	197,822	219,667	(4.9)	(11.4)	(5.7)
EPS (Rs)	7.7	10.6	18.3	10.9	14.6	20.9	(29.9)	(27.3)	(12.2)
EPS ex- goodwill (Rs)	7.7	10.6	18.3	10.9	14.6	20.9	(29.9)	(27.3)	(12.2)
<b>Standalone</b>									
Net sales	301,562	341,536	402,407	300,864	343,859	400,838	0.2	(0.7)	0.4
EBITDA	35,590	41,129	49,494	35,448	44,451	52,622	0.4	(7.5)	(5.9)
<b>Hindustan Zinc</b>									
Revenues	142,312	149,723	159,629	143,847	159,570	167,609	(1.1)	(6.2)	(4.8)
EBITDA	67,485	68,142	72,572	68,234	76,559	79,407	(1.1)	(11.0)	(8.6)
<b>BALCO</b>									
Revenues	43,043	59,982	71,271	42,928	62,168	72,911	0.3	(3.5)	(2.2)
EBITDA	(2,663)	2,479	3,312	(2,736)	3,917	4,384	(2.7)	(36.7)	(24.5)
<b>Zinc International</b>									
Net sales	24,386	16,275	14,439	24,311	17,257	15,150	0.3	(5.7)	(4.7)
EBITDA	3,059	1,796	2,605	3,049	2,970	3,659	0.3	(39.5)	(28.8)
<b>Cairn India</b>									
Net sales	90,465	104,693	121,766	94,673	112,556	121,545	(4.4)	(7.0)	0.2
EBITDA	38,145	50,012	64,429	42,416	58,171	64,904	(10.1)	(14.0)	(0.7)
Re/ US\$ rate	65.1	67.4	69.0	64.9	66.5	67.0	0.3	1.4	3.0

Source: Kotak Institutional Equities estimates

Exhibit 8: Vedanta, key assumptions, March fiscal year-ends, 2014-18E (Rs mn)

	2014	2015	2016E	2017E	2018E
<b>Volumes (tons)</b>					
Zinc	750,766	736,000	762,576	776,820	781,049
Lead	121,120	127,143	141,235	161,172	166,161
Copper	297,000	361,658	367,984	374,059	384,184
Aluminum - Balco	252,172	300,135	320,144	411,950	500,225
Aluminum - Jharsuguda I	542,000	534,000	534,000	550,000	550,000
Aluminum - Jharsuguda II	—	—	78,125	312,500	625,000
Refined silver	347	328	389	410	412
Power (mn units)	7,530	8,419	9,768	16,742	19,161
Iron ore sales (dmt)	—	1,198	1,500	1,500	1,500
Cairn India net production (O+OEG) (000's b/d)	218	213	210	209	207
<b>Average realization (Rs/ton)</b>					
Zinc	130,493	150,761	132,905	134,684	141,878
Lead	143,907	140,314	131,536	139,292	144,580
Copper cathode	442,810	416,584	353,832	386,875	413,583
Aluminium ingots	134,733	149,158	123,366	125,874	132,652
Silver (Rs mn/ton)	43	36	32	31	34
Power (Rs/unit)	3.3	3.1	3.5	4.0	4.1
<b>Base assumptions (US\$/ton)</b>					
Zinc	1,909	2,176	1,775	1,750	1,800
Lead	2,092	2,021	1,725	1,800	1,850
Copper	7,108	6,558	5,200	5,500	5,750
Aluminium (all in)	2,030	2,290	1,725	1,700	1,750
Dated Brent crude price (US\$/bbl)	108	86	49	52	60

Source: Company, Kotak Institutional Equities estimates

**Exhibit 9: SOTP-based target price of Vedanta is Rs110/share**

SOTP-based target price of Vedanta, March fiscal year-ends, September 2017E basis (Rs mn)

	EBITDA (Rs bn)	Multiple (X)	EV (Rs bn)	Net debt (Rs bn)	Implied M Cap (Rs bn)	Vedanta's stake (%)	Attributable M Cap (Rs bn)	Contribution Rs/ share
BALCO	3	6	17	68	(51)	51	(26)	(7)
<b>Zinc business</b>								
Hindustan Zinc	70	6	429	(392)	821	65	533	143
Zinc International	2	5	11	(4)	15	100	15	4
Cairn India (fair value of KIE's energy team)								109
Debt from Cairn India acquisition				379				(102)
Standalone (ex-power, iron ore)	36	6	220	410	(190)	100	(190)	(51)
Iron ore business								3
Power business								10
<b>Vedanta share price (Rs/ share)</b>								<b>110</b>
<b>Target price of Vedanta (Rs/ share)</b>								<b>110</b>

Source: Kotak Institutional Equities estimates

**Exhibit 10: Vedanta , pro-forma (Cairn merger) profit model, balance sheet and cash flow model, March fiscal year-ends, 2014-18E (Rs mn)**

	2014	2015	2016E	2017E	2018E
<b>Profit model (Rs mn)</b>					
Net sales	722,341	737,095	638,904	751,326	859,327
<b>EBITDA</b>	<b>256,650</b>	<b>220,446</b>	<b>142,978</b>	<b>175,311</b>	<b>207,104</b>
Other income	24,460	29,772	40,572	45,071	49,774
Interest	(61,110)	(56,588)	(55,194)	(62,189)	(60,710)
Depreciation	(55,840)	(51,096)	(68,456)	(70,256)	(69,935)
Goodwill amortization	(28,400)	(20,496)	—	—	—
<b>Profit before tax</b>	<b>135,760</b>	<b>122,039</b>	<b>59,900</b>	<b>87,938</b>	<b>126,233</b>
Extraordinaries	(2,290)	(221,289)	—	—	—
Current tax	(10,000)	(27,736)	(16,604)	(29,688)	(34,915)
Deferred tax	—	13,253	7,523	3,631	913
<b>Net income before minorities</b>	<b>123,470</b>	<b>(113,734)</b>	<b>50,819</b>	<b>61,881</b>	<b>92,231</b>
Minority interest	(73,420)	(42,764)	(22,371)	(22,435)	(24,205)
Net income	50,050	(156,498)	28,448	39,446	68,027
<b>Adjusted net income</b>	<b>50,200</b>	<b>50,601</b>	<b>28,448</b>	<b>39,446</b>	<b>68,027</b>
<b>EPS adjusted (Rs)</b>	<b>16.9</b>	<b>17.1</b>	<b>7.7</b>	<b>10.6</b>	<b>18.3</b>
<b>EPS (ex-goodwill amortization) (Rs)</b>	<b>26.5</b>	<b>24.0</b>	<b>7.7</b>	<b>10.6</b>	<b>18.3</b>
<b>Balance sheet (Rs mn)</b>					
Shareholder's funds	730,087	538,753	612,440	635,649	683,867
Borrowings	805,660	777,523	810,898	797,447	761,996
Minority Interest	337,975	355,297	125,197	130,510	138,924
Deferred tax liability	27,352	33,297	25,774	22,143	21,230
Current liabilities	240,110	197,942	172,404	187,378	201,371
<b>Total liabilities</b>	<b>2,141,183</b>	<b>1,902,812</b>	<b>1,746,712</b>	<b>1,773,128</b>	<b>1,807,387</b>
Net fixed assets	479,671	523,181	699,502	811,117	810,796
Capital work-in-progress	431,277	387,480	207,607	90,069	91,269
Goodwill	392,383	177,897	—	—	—
Cash and cash equivalents	507,970	462,126	484,978	488,005	489,795
Current assets	329,882	352,128	354,626	383,937	415,527
<b>Total assets</b>	<b>2,141,183</b>	<b>1,902,812</b>	<b>1,746,712</b>	<b>1,773,128</b>	<b>1,807,387</b>
<b>Free cash flow (Rs mn)</b>					
Operating cash flow excl. working capital	119,495	140,498	71,180	83,434	111,479
Working capital changes	(10,239)	(25,345)	(28,036)	(14,336)	(17,598)
Capital expenditure	(72,317)	(105,742)	(64,904)	(64,333)	(70,814)
<b>Free cash flow</b>	<b>36,939</b>	<b>9,411</b>	<b>(21,760)</b>	<b>4,765</b>	<b>23,067</b>
<b>Ratios</b>					
Debt/equity (X)	1.1	1.4	1.3	1.3	1.1
Net debt/equity (X)	0.4	0.6	0.5	0.5	0.4
RoE (%)	7.2	8.0	4.9	6.3	10.3
<b>RoACE (%)</b>	<b>9.0</b>	<b>7.4</b>	<b>3.9</b>	<b>4.8</b>	<b>6.4</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 11: Hindustan Zinc, changes in estimates, March fiscal year-ends, 2016-18E

	Revised estimate			Previous estimate			Change (%)		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
<b>Price (US\$/ton)</b>									
Zinc	1,775	1,750	1,800	1,775	1,900	1,950	—	(7.9)	(7.7)
Lead	1,725	1,800	1,850	1,725	1,850	1,950	—	(2.7)	(5.1)
<b>Volumes (tons)</b>									
Mined metal	928,074	979,820	992,951	948,395	999,472	1,011,900	(2.1)	(2.0)	(1.9)
Zinc ingots	762,576	776,820	781,049	782,288	782,403	782,546	(2.5)	(0.7)	(0.2)
Lead ingots	141,235	161,172	166,161	141,235	161,172	166,161	—	—	—
Refined silver	389	410	412	389	410	412	—	—	—
<b>Earnings estimates (Rs mn)</b>									
Revenues	142,312	149,723	159,629	143,847	159,570	167,609	(1.1)	(6.2)	(4.8)
EBITDA	67,485	68,142	72,572	68,234	76,559	79,407	(1.1)	(11.0)	(8.6)
PAT	73,967	71,105	75,747	74,618	78,097	81,906	(0.9)	(9.0)	(7.5)
EPS	17.5	16.8	17.9	17.7	18.5	19.4	(0.9)	(9.0)	(7.5)
Re/US\$ rate	65.1	67.4	69.0	64.9	66.5	67.0	0.3	1.4	3.0

Source: Kotak Institutional Equities estimates

Exhibit 12: Hindustan Zinc, assumptions, March fiscal year-ends, 2013-18E (Rs mn)

	2013	2014	2015	2016E	2017E	2018E
<b>Volumes (tons)</b>						
Zinc	674,958	750,766	736,000	762,576	776,820	781,049
Lead	117,445	121,120	127,143	141,235	161,172	166,161
Silver	374	347	328	389	410	412
<b>Average realizations (Rs/ton)</b>						
Zinc	114,664	130,493	150,761	132,905	134,684	141,878
Lead	130,976	143,907	140,314	131,536	139,292	144,580
Silver (Rs mn/ton)	56	43	36	32	31	34
<b>LME-assumptions (US\$/ton)</b>						
Zinc	1,948	1,909	2,176	1,775	1,750	1,800
Lead	2,113	2,092	2,021	1,725	1,800	1,850
Silver (US\$/ozt)	33.1	23.0	19.0	16.0	15.0	16.0
Cost per ton (US\$/ton)	1,425	1,256	1,363	1,272	1,290	1,332
Rs/US\$ rate	54.4	60.5	61.1	65.1	67.4	69.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: Hindustan Zinc, valuation details, September 2017E basis

	EBITDA	Multiple	Enterprise Value		
	(Rs bn)	(X)	(Rs bn)	(US\$ mn)	(Rs/share)
EBITDA estimate	70	5	352	5,404	83
Less: Net debt (dividend adjusted)			(392)	(6,015)	(93)
Arrived market capitalization			743	11,419	175
Target price (Rs/share)					175

Source: Kotak Institutional Equities estimates

Exhibit 14: Hindustan Zinc, profit model, balance sheet and cash flow model, March fiscal year-ends, 2013-18E (Rs mn)

	2013	2014	2015	2016E	2017E	2018E
<b>Profit model (Rs mn)</b>						
Net sales	126,998	136,360	147,884	142,312	149,723	159,629
<b>EBITDA</b>	<b>64,816</b>	<b>69,615</b>	<b>74,196</b>	<b>67,485</b>	<b>68,142</b>	<b>72,572</b>
Other income	20,321	18,994	28,211	28,088	29,079	31,327
Interest	(291)	(449)	(235)	(118)	(59)	(29)
Depreciation	(6,470)	(7,846)	(6,442)	(7,399)	(8,281)	(9,186)
<b>Profit before tax</b>	<b>78,200</b>	<b>79,697</b>	<b>95,701</b>	<b>86,295</b>	<b>88,881</b>	<b>94,684</b>
Current tax	(15,536)	(16,401)	(19,846)	(17,259)	(17,776)	(18,937)
MAT Credit	7,985	9,640	14,497	13,739	10,801	11,341
Deferred tax	(1,656)	(3,890)	(8,572)	(10,287)	(10,801)	(11,341)
<b>Net profit</b>	<b>68,994</b>	<b>69,046</b>	<b>81,780</b>	<b>72,488</b>	<b>71,105</b>	<b>75,747</b>
<b>Earnings per share (Rs)</b>	<b>16.4</b>	<b>16.5</b>	<b>19.4</b>	<b>17.5</b>	<b>16.8</b>	<b>17.9</b>
<b>Balance sheet (Rs mn)</b>						
Equity	322,757	374,176	433,531	474,075	522,871	576,308
Deferred tax liability	12,799	16,581	25,186	35,473	46,274	57,615
Current liabilities	19,094	26,010	31,203	30,354	30,638	31,018
<b>Total liabilities</b>	<b>354,654</b>	<b>416,767</b>	<b>489,920</b>	<b>539,903</b>	<b>599,784</b>	<b>664,942</b>
Net fixed assets	95,656	106,882	114,509	126,385	137,954	149,018
Investments	145,399	225,064	272,536	302,536	332,536	362,536
Cash	69,421	30,314	35,315	31,623	38,261	49,847
Other current assets	44,178	54,507	67,560	79,359	91,033	103,541
<b>Total assets</b>	<b>354,654</b>	<b>416,767</b>	<b>489,920</b>	<b>539,903</b>	<b>599,784</b>	<b>664,942</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow (excl. work cap.)	49,345	53,460	54,357	48,347	50,307	53,606
Interest Income	5,731	7,292	7,745	28,088	29,079	31,327
Working capital changes	(1,829)	1,905	947	1,091	(589)	(787)
Capital expenditure	(17,526)	(17,742)	(16,174)	(19,275)	(19,850)	(20,250)
<b>Free cash flow</b>	<b>35,721</b>	<b>44,915</b>	<b>46,875</b>	<b>58,251</b>	<b>58,947</b>	<b>63,896</b>
<b>Ratios</b>						
Net debt/equity (X)	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
RoAE (%)	23.3	19.8	20.2	16.0	14.3	13.8
RoACE (%)	23.5	20.1	20.3	16.3	14.3	13.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 15: Hindalco, change in estimates, March fiscal year-ends, 2016-18E (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
<b>Hindalco standalone</b>									
Aluminium metal sales (tons)	1,050,000	1,250,000	1,250,000	1,050,000	1,250,000	1,250,000	—	—	—
Aluminium price (US\$/ton)	1,725	1,700	1,750	1,725	1,800	1,850	—	(5.6)	(5.4)
Net revenues (Rs mn)	324,534	362,483	388,142	323,602	366,765	386,568	0.3	(1.2)	0.4
EBITDA (includes Utkal) (Rs mn)	32,091	20,642	26,657	31,612	27,341	30,383	1.5	(24.5)	(12.3)
<b>Novelis</b>									
Shipments (tons) (inldg. Ingots)	3,172	3,356	3,423	3,172	3,356	3,423	—	—	—
Net revenues (Rs mn)	666,752	753,487	806,789	664,704	765,741	806,336	0.3	(1.6)	0.1
EBITDA (Rs mn)	43,414	69,949	77,469	43,281	71,555	78,043	0.3	(2.2)	(0.7)
Adjusted EBITDA* (Rs mn)	60,991	70,818	78,407	60,804	72,413	78,954	0.3	(2.2)	(0.7)
Adjusted EBITDA* (US\$ mn)	937	1,051	1,136	937	1,089	1,178	—	(3.5)	(3.6)
<b>Consolidated</b>									
Net revenues (Rs mn)	1,020,280	1,146,930	1,228,566	1,017,200	1,163,407	1,226,322	0.3	(1.4)	0.2
EBITDA (Rs mn)	74,610	90,082	103,912	74,003	98,405	108,241	0.8	(8.5)	(4.0)
PAT (Rs mn)	(183)	3,335	13,372	(571)	9,806	17,366	(67.9)	(66.0)	(23.0)
EPS (Rs)	(0.1)	1.6	6.5	(0.3)	4.7	8.4	(67.9)	(66.0)	(23.0)
INR:USD	65.1	67.4	69.0	64.9	66.5	67.0	0.3	1.4	3.0

Source: Kotak Institutional Equities estimates

Exhibit 16: Hindalco Industries, key assumptions, March fiscal-year ends, 2013-18E (Rs mn)

	2013	2014	2015	2016E	2017E	2018E
<b>Aluminium</b>						
<b>Hindalco</b>						
Aluminium all-in price (US\$/ton)	2,154	2,030	2,290	1,725	1,700	1,750
<b>Metal sales volume (tons)</b>	<b>541,531</b>	<b>586,835</b>	<b>834,000</b>	<b>1,050,000</b>	<b>1,250,000</b>	<b>1,250,000</b>
Blended realization (Rs/ton)	139,664	149,341	153,462	120,164	120,955	127,672
Alumina sales volume (tons)	281,427	368,492	369,720	228,720	228,720	228,720
Standalone EBITDA (Rs mn)	22,037	24,919	34,165	24,866	12,856	17,944
Utkal EBITDA	—	—	2,610	7,225	7,786	8,713
<b>Novelis</b>						
Average realization (US\$/ton)	3,522	3,373	3,655	3,229	3,331	3,416
Conversion premium (US\$/ton)	1,544	1,595	1,765	1,629	1,731	1,766
Shipments ('000 tons)	2,786	2,895	3,050	3,172	3,356	3,423
Adjusted EBITDA/ton (US\$/ton)	345	306	296	252	313	332
<b>Adjusted EBITDA (US\$ mn)</b>	<b>961</b>	<b>885</b>	<b>902</b>	<b>798</b>	<b>1,051</b>	<b>1,136</b>
EBITDA (Rs mn)	48,479	47,937	53,602	45,693	69,949	77,469
<b>Copper</b>						
Price (US\$/ton)	7,852	7,115	6,571	5,200	5,500	5,750
Copper cathode volumes (tons)	165,512	179,571	236,571	255,571	265,571	275,571
Copper rods volumes (tons)	147,935	147,935	147,935	147,935	147,935	147,935
TCRC margin (cents/lb)	17	13	22	22	21	21

Source: Company, Kotak Institutional Equities estimates

Exhibit 17: Hindalco (consolidated), profit model, balance sheet and cash flow model, March fiscal year-ends, 2013-18E (Rs mn)

	2013	2014	2015	2016E	2017E	2018E
<b>Profit model (Rs mn)</b>						
Net sales	801,928	876,955	1,042,811	1,020,280	1,146,930	1,228,566
<b>EBITDA</b>	<b>78,368</b>	<b>82,863</b>	<b>89,446</b>	<b>74,610</b>	<b>90,082</b>	<b>103,912</b>
Other income	10,122	10,172	11,047	13,235	7,725	7,597
Interest	(20,791)	(27,016)	(41,784)	(50,515)	(49,791)	(48,697)
Depreciation	(28,611)	(35,528)	(35,906)	(40,616)	(43,487)	(43,834)
<b>Profit before tax</b>	<b>39,088</b>	<b>30,491</b>	<b>22,803</b>	<b>(3,286)</b>	<b>4,529</b>	<b>18,978</b>
Extraordinaries	—	(3,960)	(19,401)	344	—	—
Taxes	(8,857)	(5,249)	(8,594)	261	(3,956)	(8,278)
<b>Profit after tax</b>	<b>30,231</b>	<b>21,282</b>	<b>838</b>	<b>(2,681)</b>	<b>573</b>	<b>10,700</b>
Minority interest	196	(200)	5,957	1,060	945	855
Share in profit/(loss) of associates	(158)	668	1,747	1,782	1,818	1,818
<b>Reported net income</b>	<b>30,269</b>	<b>21,750</b>	<b>8,542</b>	<b>160</b>	<b>3,335</b>	<b>13,372</b>
<b>Adjusted net income</b>	<b>30,269</b>	<b>25,710</b>	<b>20,632</b>	<b>(183)</b>	<b>3,335</b>	<b>13,372</b>
<b>Fully diluted EPS (Rs)</b>	<b>14.7</b>	<b>12.5</b>	<b>10.0</b>	<b>(0.1)</b>	<b>1.6</b>	<b>6.5</b>
<b>Balance sheet (Rs mn)</b>						
Equity	353,302	405,992	383,285	380,984	381,857	392,768
Deferred tax liability	34,677	31,889	39,481	39,481	37,779	35,116
Total Borrowings	569,507	647,558	684,676	696,332	684,860	666,612
Current liabilities	232,461	276,713	314,385	309,082	331,374	354,277
Minority interest	17,593	17,806	9,561	8,501	7,557	6,701
<b>Total liabilities</b>	<b>1,207,540</b>	<b>1,379,957</b>	<b>1,431,388</b>	<b>1,434,380</b>	<b>1,443,427</b>	<b>1,455,475</b>
Net fixed assets	264,158	481,442	587,986	713,599	700,385	681,801
Capital work in progress	338,311	230,593	141,113	13,424	8,000	7,999
Goodwill	118,397	130,192	131,602	131,602	131,602	131,602
Investments	124,476	129,611	123,463	125,245	127,063	128,880
Cash	37,695	50,213	53,090	69,409	62,813	71,971
Other current assets	324,504	357,767	380,206	367,172	399,635	419,291
Deferred tax	—	139	13,930	13,930	13,930	13,930
<b>Total assets</b>	<b>1,207,540</b>	<b>1,379,957</b>	<b>1,431,389</b>	<b>1,434,380</b>	<b>1,443,427</b>	<b>1,455,475</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow excl. working capital	36,622	28,479	26,781	37,935	42,357	51,871
Working capital changes	(38,740)	9,623	(863)	7,730	(10,170)	3,246
Capital expenditure	(118,711)	(94,236)	(59,776)	(38,540)	(24,850)	(25,250)
<b>Free cash flow</b>	<b>(120,830)</b>	<b>(56,134)</b>	<b>(33,858)</b>	<b>7,125</b>	<b>7,337</b>	<b>29,867</b>
<b>Ratios</b>						
EBITDA margin (%)	9.8	9.4	8.6	7.3	7.9	8.5
EBIT margin (%)	6.2	5.4	5.1	3.3	4.1	4.9
Debt/equity (X)	1.6	1.6	1.8	1.8	1.8	1.7
Net debt/equity (X)	1.3	1.3	1.5	1.5	1.5	1.3
Net debt/EBITDA (X)	5.9	6.4	6.3	7.5	6.2	5.1
RoAE (%)	9.0	6.8	5.2	(0.0)	0.9	3.5
<b>RoACE (%)</b>	<b>4.7</b>	<b>4.0</b>	<b>4.2</b>	<b>3.0</b>	<b>4.2</b>	<b>4.8</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 18: Nalco, changes in estimates, March fiscal year-ends, 2016-18E (Rs mn)

	Revised estimates			Old estimates			% change		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
Net sales	68,314	66,370	73,649	68,189	69,769	76,513	0.2	(4.9)	(3.7)
EBITDA	8,850	5,710	8,024	8,730	7,824	9,823	1.4	(27.0)	(18.3)
PAT	6,733	4,442	5,763	6,653	5,838	6,950	1.2	(23.9)	(17.1)
<b>EPS (Rs)</b>	<b>2.6</b>	<b>1.7</b>	<b>2.2</b>	<b>2.6</b>	<b>2.3</b>	<b>2.7</b>	<b>1.2</b>	<b>(23.9)</b>	<b>(17.1)</b>
Aluminium deliveries (tons)	349,288	322,340	322,000	349,288	322,340	322,000	—	—	—
Aluminium price (US\$/ton)	1,725	1,700	1,750	1,725	1,800	1,850	—	(5.6)	(5.4)
Alumina deliveries (tons)	1,457,489	1,534,756	1,567,669	1,457,489	1,534,756	1,567,669	—	—	—
Alumina price (US\$/ton)	287	272	281	287	289	298	—	(5.9)	(5.7)
<b>Re/US\$ rate</b>	<b>65.1</b>	<b>67.4</b>	<b>69.0</b>	<b>64.9</b>	<b>66.5</b>	<b>67.0</b>	<b>0.3</b>	<b>1.4</b>	<b>3.0</b>

Source: Kotak Institutional Equities estimates

Exhibit 19: Nalco, key assumptions sheet, March fiscal year-ends, 2013-18E

	2013	2014	2015	2016E	2017E	2018E
<b>Aluminium</b>						
Aluminium metal sales ('000 tons)	403,102	319,986	325,078	349,288	322,340	322,000
Average LME aluminium price (US\$/ton)	2,193	2,030	2,280	1,725	1,700	1,750
<b>Alumina</b>						
Alumina production ('000 tons)	1,802,000	1,925,000	1,915,200	2,154,600	2,166,000	2,200,200
Alumina sales ('000 tons)	985,000	1,342,761	1,283,980	1,457,489	1,534,756	1,567,669
Average Alumina price (US\$/ton)	335	316	335	287	272	281
<b>Re/US\$ rate</b>	<b>54.5</b>	<b>60.5</b>	<b>61.1</b>	<b>65.1</b>	<b>67.4</b>	<b>69.0</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 20: Nalco, valuation details, September 2017E (Rs mn)

	Multiple (X)	EV (Rs mn)	Value (Rs/share)
EBIT (post tax)	1,510	8	11,400
Net debt			(58,652)
<b>Market capitalization</b>			<b>70,051</b>
Value of coal block			3
<b>Target price</b>			<b>30</b>

Source: Kotak Institutional Equities estimates



Exhibit 21: Nalco, profit model, balance sheet and cash flow model, March fiscal year-ends, 2013-18E (Rs mn)

	2013	2014	2015	2016E	2017E	2018E
<b>Profit model (Rs mn)</b>						
Net sales	69,165	67,809	73,828	68,314	66,370	73,649
<b>EBITDA</b>	<b>9,069</b>	<b>9,343</b>	<b>17,060</b>	<b>8,850</b>	<b>5,710</b>	<b>8,024</b>
Other income	5,111	5,577	6,726	5,658	5,507	5,379
Interest	(75)	—	—	—	—	—
Depreciation	(5,055)	(5,247)	(4,137)	(4,308)	(4,487)	(4,673)
<b>Profit before tax</b>	<b>9,050</b>	<b>9,672</b>	<b>19,650</b>	<b>10,199</b>	<b>6,730</b>	<b>8,730</b>
Current tax	(2,582)	(2,683)	(5,964)	(2,743)	(1,653)	(2,408)
Deferred tax	(540)	(72)	(1,951)	(724)	(634)	(560)
<b>Net profit</b>	<b>5,928</b>	<b>6,424</b>	<b>13,219</b>	<b>6,733</b>	<b>4,442</b>	<b>5,763</b>
<b>Adjusted net profit</b>	<b>5,928</b>	<b>6,750</b>	<b>12,239</b>	<b>6,733</b>	<b>4,442</b>	<b>5,763</b>
<b>Earnings per share (Rs)</b>	<b>2.3</b>	<b>2.6</b>	<b>4.7</b>	<b>2.6</b>	<b>1.7</b>	<b>2.2</b>
<b>Balance sheet (Rs mn)</b>						
Equity	119,324	121,224	127,973	129,446	130,883	133,641
Deferred tax liability	9,031	9,101	11,053	11,776	12,410	12,970
Current liabilities	34,914	35,159	22,751	22,945	23,212	24,078
<b>Total liabilities</b>	<b>163,269</b>	<b>165,485</b>	<b>161,777</b>	<b>164,167</b>	<b>166,506</b>	<b>170,689</b>
Net fixed assets	76,308	75,607	71,952	73,606	75,320	77,096
Investments	14,901	12,440	9,500	9,500	9,500	9,500
Cash	35,044	40,483	46,280	46,421	48,702	49,601
Other current assets	37,017	36,955	34,045	34,640	32,984	34,492
<b>Total assets</b>	<b>163,269</b>	<b>165,485</b>	<b>161,777</b>	<b>164,168</b>	<b>166,506</b>	<b>170,689</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow excl. working capital	9,487	6,434	9,612	6,107	4,057	5,616
Working capital changes	(726)	3,379	(4,709)	(248)	2,245	(642)
Capital expenditure	(6,489)	(6,187)	(4,004)	(5,963)	(6,201)	(6,449)
<b>Free cash flow</b>	<b>2,272</b>	<b>3,627</b>	<b>899</b>	<b>(104)</b>	<b>101</b>	<b>(1,475)</b>
<b>Ratios</b>						
Net debt/equity (X)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
RoAE (%)	5.0	5.6	9.8	5.2	3.4	4.4
RoACE (%)	2.2	2.4	6.2	2.3	0.6	1.7

Source: Company, Kotak Institutional Equities estimates

Exhibit 22: Tata Steel, changes in estimates, March fiscal year-ends, 2016-18E

	Revised estimates			Old estimates			Change (%)		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
<b>Earnings (consolidated)</b>									
Net sales	1,274,120	1,391,661	1,468,621	1,274,059	1,410,313	1,471,979	—	(1.3)	(0.2)
EBITDA	80,116	145,906	166,856	86,692	156,857	176,777	(7.6)	(7.0)	(5.6)
Adj. PAT	(23,559)	9,733	16,351	(16,640)	20,387	27,362	NM	(52.3)	(40.2)
<b>Adjusted EPS (Rs)</b>	<b>(24.3)</b>	<b>10.0</b>	<b>16.8</b>	<b>(17.1)</b>	<b>21.0</b>	<b>28.2</b>	<b>NM</b>	<b>(52.3)</b>	<b>(40.2)</b>
<b>Volumes</b>									
India (mn tons)	9.2	10.7	11.7	9.2	10.7	11.7	—	—	—
Europe (mn tons)	13.0	12.5	12.5	13.0	13.0	13.0	—	(3.7)	(3.7)
<b>Pricing</b>									
HRC price India -landed (US\$/ton)	300	320	330	300	340	350	—	(5.9)	(5.7)
Corus Realization (US\$/ton)	824	853	855	828	853	855	(0.5)	—	—
<b>Re/US\$ rate</b>	<b>65.1</b>	<b>67.4</b>	<b>69.0</b>	<b>64.9</b>	<b>66.5</b>	<b>67.0</b>	<b>0.3</b>	<b>1.4</b>	<b>3.0</b>
<b>Tata Steel India</b>									
Net sales	395,861	482,452	534,131	394,986	485,402	535,731	0.2	(0.6)	(0.3)
EBITDA	72,382	107,121	118,869	71,598	110,631	121,893	1.1	(3.2)	(2.5)
<b>EBITDA/ton</b>	<b>7,868</b>	<b>10,011</b>	<b>10,160</b>	<b>7,782</b>	<b>10,339</b>	<b>10,418</b>	<b>1.1</b>	<b>(3.2)</b>	<b>(2.5)</b>
<b>Re/US\$ rate</b>	<b>65.1</b>	<b>67.4</b>	<b>69.0</b>	<b>64.9</b>	<b>66.5</b>	<b>67.0</b>	<b>0.3</b>	<b>1.4</b>	<b>3.0</b>
<b>Tata Steel Europe</b>									
Net sales	696,075	718,400	737,178	697,305	736,068	743,342	(0.2)	(2.4)	(0.8)
EBITDA	467	27,506	35,268	3,834	34,659	41,984	(87.8)	(20.6)	(16.0)
<b>GBP/USD</b>	<b>1.55</b>	<b>1.53</b>	<b>1.53</b>	<b>1.55</b>	<b>1.53</b>	<b>1.53</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>EBITDA/ton</b>	<b>1</b>	<b>33</b>	<b>41</b>	<b>5</b>	<b>40</b>	<b>48</b>	<b>(87.9)</b>	<b>(18.7)</b>	<b>(15.3)</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 23: Tata Steel, key assumptions, March fiscal year-ends, 2013-18E (Rs mn)

	2013	2014	2015	2016E	2017E	2018E
<b>Tata Steel (India)</b>						
Average HRC price (US\$/ton)	574	526	485	300	320	330
Crude Steel capacity (mn tons)	9.7	9.7	9.7	12.7	12.7	12.7
Volume (mn tons)	7.5	8.5	8.8	9.2	10.7	11.7
EBITDA margin (%)	29.1	30.7	24.0	18.3	22.2	22.3
EBITDA/ton (US\$/ton)	273	249	187	121	149	147
<b>Corus</b>						
Average HRC price (US\$/ton)	1,053	981	957	824	853	855
Premium over HRC price (US\$/ton)	363	395	412	504	513	505
Crude Steel capacity (mn tons)	17.8	17.8	17.8	17.8	17.8	17.8
Volume (mn tons)	13.1	13.9	13.7	13.0	12.5	12.5
EBITDA margin (%)	1.0	3.7	5.4	0.1	3.8	4.8
EBITDA/ton (US\$/ton)	10	36	51	1	33	41
<b>Re/US\$ rate</b>	<b>54.4</b>	<b>60.5</b>	<b>61.1</b>	<b>65.1</b>	<b>67.4</b>	<b>69.0</b>
<b>India</b>						
Steel ASP (US\$/ ton)	938	810	781	661	669	662
Iron ore cost (US\$/ ton)	43	38	69	47	37	38
Coking coal cost (US\$/ ton)	185	134	128	95	104	106
Other raw material (US\$/ton)	26	23	36	31	28	25
<b>Raw material cost (US\$/ ton)</b>	<b>254</b>	<b>195</b>	<b>232</b>	<b>172</b>	<b>169</b>	<b>170</b>
<b>Conversion cost (US\$/ ton)</b>	<b>411</b>	<b>366</b>	<b>362</b>	<b>368</b>	<b>351</b>	<b>344</b>
Employee costs	89	71	86	79	70	67
Power and fuel	62	54	51	49	48	47
Stores	51	51	43	38	37	36
Other expenses	210	190	183	201	196	194
<b>EBITDA/ton (US\$)</b>	<b>273</b>	<b>249</b>	<b>187</b>	<b>121</b>	<b>149</b>	<b>147</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 24: Tata Steel, valuation, March fiscal year-ends, September 2017E basis (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	Enterprise value (Rs mn)	EV (Rs/share)
Tata Steel standalone	91,642	6.5	595,673	613
Tata Steel Europe	31,387	6.5	204,646	211
Tata Steel thailand and other businesses	4,922	6.5	32,191	33
<b>Total Enterprise Value</b>	<b>127,952</b>		<b>832,510</b>	<b>857</b>
Consolidated group net debt			788,261	
<b>Total borrowings</b>			<b>788,261</b>	<b>812</b>
Arrived market capitalization			44,249	46
Add: Value of investments			23,977	25
Add: CWIP at Kalinganagar			60,325	62
<b>Arrived market capitalization</b>			<b>128,551</b>	<b>132</b>
<b>Discounted cash flow benefit from safeguard duty</b>			<b>41,618</b>	<b>43</b>
<b>Target price (Rs)</b>				<b>175</b>

## Notes:

(a) We account cash accrual from safeguard duty of Rs43/share assuming allowable period of safeguard duty of three years. We have assumed safeguard duty at 20% for 1st year, 15% for 2nd year and 10% for 3rd year.

Source: Kotak Institutional Equities estimates

Exhibit 25: Tata Steel (consolidated), profit model, balance sheet and cash flow model, March fiscal year-ends, 2012-18E (Rs mn)

	2012	2013	2014	2015	2016E	2017E	2018E
<b>Profit model (Rs mn)</b>							
Net sales	1,328,997	1,347,115	1,486,136	1,395,037	1,274,120	1,391,661	1,468,621
<b>EBITDA</b>	<b>124,168</b>	<b>123,212</b>	<b>164,110</b>	<b>125,358</b>	<b>80,116</b>	<b>145,906</b>	<b>166,856</b>
Other income	15,730	4,792	5,168	7,962	5,170	5,233	5,300
Interest	(42,501)	(39,681)	(43,368)	(48,478)	(44,945)	(56,039)	(59,094)
Depreciation	(45,167)	(55,753)	(58,412)	(59,436)	(55,836)	(68,604)	(73,739)
<b>Profit before tax</b>	<b>52,231</b>	<b>32,569</b>	<b>67,498</b>	<b>25,406</b>	<b>(15,494)</b>	<b>26,496</b>	<b>39,323</b>
Extraordinaries	33,619	(73,899)	(276)	(39,287)	31,000	—	—
Taxes	(36,365)	(32,294)	(30,582)	(25,674)	(12,392)	(16,878)	(23,081)
<b>Profit after tax</b>	<b>49,485</b>	<b>(73,624)</b>	<b>36,640</b>	<b>(39,555)</b>	<b>3,113</b>	<b>9,618</b>	<b>16,242</b>
Minority interest	1,731	2,145	(699)	133	93	65	59
Share in profit/(loss) of associates	2,681	903	8	167	50	50	50
<b>Reported net income</b>	<b>53,898</b>	<b>(70,576)</b>	<b>35,949</b>	<b>(39,255)</b>	<b>3,256</b>	<b>9,733</b>	<b>16,351</b>
Adjusted net income	25,321	3,323	36,225	32	(23,559)	9,733	16,351
<b>Fully diluted EPS (Rs)</b>	<b>26.1</b>	<b>3.4</b>	<b>37.3</b>	<b>0.0</b>	<b>(24.3)</b>	<b>10.0</b>	<b>16.8</b>
<b>Balance sheet (Rs mn)</b>							
Equity	430,436	341,722	405,320	313,494	307,425	307,832	314,857
Deferred tax liability	24,424	31,185	25,550	28,618	28,773	29,832	31,405
Total Borrowings	620,719	683,705	839,037	829,963	829,963	829,963	829,963
Current liabilities	385,297	395,393	428,754	400,115	402,982	429,805	448,370
Minority interest	10,912	16,694	17,377	17,039	16,945	16,880	16,822
<b>Total liabilities</b>	<b>1,471,787</b>	<b>1,468,699</b>	<b>1,716,037</b>	<b>1,589,228</b>	<b>1,586,087</b>	<b>1,614,313</b>	<b>1,641,417</b>
Net fixed assets	421,003	549,366	591,581	546,928	652,693	783,988	757,749
Capital work in progress	200,397	142,766	268,225	286,781	230,181	107,781	157,781
Goodwill	173,546	130,650	157,488	134,075	134,075	134,075	134,075
Investments	40,213	32,577	50,935	34,551	34,601	34,651	34,701
Cash	108,016	98,597	86,045	87,499	50,839	36,087	17,097
Other current assets	528,613	514,744	561,763	499,393	483,699	517,731	540,014
<b>Total assets</b>	<b>1,471,787</b>	<b>1,468,699</b>	<b>1,716,037</b>	<b>1,589,228</b>	<b>1,586,087</b>	<b>1,614,313</b>	<b>1,641,417</b>
<b>Free cash flow (Rs mn)</b>							
Operating cash flow excl. working capital	74,197	69,507	108,192	60,833	59,102	79,282	91,554
Working capital changes	11,590	31,293	(12,696)	3,514	18,562	(7,209)	(3,718)
Capital expenditure	(119,586)	(154,715)	(164,201)	(134,924)	(105,000)	(77,500)	(97,500)
<b>Free cash flow</b>	<b>(33,800)</b>	<b>(53,915)</b>	<b>(68,705)</b>	<b>(70,578)</b>	<b>(27,336)</b>	<b>(5,427)</b>	<b>(9,664)</b>
<b>Ratios</b>							
EBITDA margin (%)	9.3	9.1	11.0	9.0	6.3	10.5	11.4
EBIT margin (%)	5.9	5.0	7.1	4.7	1.9	5.6	6.3
Debt/equity (X)	1.4	2.0	2.1	2.6	2.7	2.7	2.6
Net debt/equity (X)	1.2	1.7	1.8	2.3	2.5	2.5	2.5
Net debt/EBITDA (X)	4.0	4.7	4.4	5.8	9.6	5.3	4.8
RoAE (%)	6.4	0.9	9.7	0.0	(7.6)	3.2	5.3
<b>RoACE (%)</b>	<b>5.3</b>	<b>7.5</b>	<b>6.0</b>	<b>7.4</b>	<b>3.3</b>	<b>5.1</b>	<b>5.9</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 26: JSW Steel, change in estimates, March fiscal year-ends, 2016-18E (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
<b>Consolidated (Rs mn)</b>									
Net sales	441,999	549,616	584,530	466,806	554,853	585,269	(5.3)	(0.9)	(0.1)
EBITDA	62,034	110,866	113,714	67,517	118,072	119,136	(8.1)	(6.1)	(4.6)
PAT (reported)	(3,004)	28,372	34,252	741	33,345	38,098	NM	(14.9)	(10.1)
PAT (adjusted)	(2,953)	28,372	34,252	743	33,345	38,098	NM	(14.9)	(10.1)
<b>EPS (a)</b>	<b>(12.2)</b>	<b>117.4</b>	<b>141.7</b>	<b>3.1</b>	<b>137.9</b>	<b>157.6</b>	<b>NM</b>	<b>(14.9)</b>	<b>(10.1)</b>
<b>Standalone (Rs mn)</b>									
Net sales	375,469	110,866	113,714	400,347	118,072	119,136	(6.2)	(6.1)	(4.6)
EBITDA	56,787	105,555	108,264	62,271	112,770	113,707	(8.8)	(6.4)	(4.8)
PAT (reported)	4,186	38,964	42,664	7,916	43,869	46,365	(47.1)	(11.2)	(8.0)
PAT (adjusted)	5,966	38,964	42,664	9,696	43,869	46,365	(38.5)	(11.2)	(8.0)
<b>EPS (a)</b>	<b>24.7</b>	<b>161.2</b>	<b>176.5</b>	<b>40.1</b>	<b>181.5</b>	<b>191.8</b>	<b>(38.5)</b>	<b>(11.2)</b>	<b>(8.0)</b>
Steel volumes (mn tons)	12.0	13.8	14.8	12.9	13.8	14.8	(7)	—	—
HRC price (US\$/ton)	300	320	330	300	340	350	—	(5.9)	(5.7)
Domestic HRC prices (Rs/ton)	28,137	30,865	31,929	28,051	31,475	32,330	0.3	(1.9)	(1.2)
EBITDA/ton (US\$/ton)	72	113	106	74	123	115	(2.7)	(7.6)	(7.5)
Standalone EBITDA/ton (Rs/ton)	4,713	7,633	7,310	4,827	8,155	7,677	(2.4)	(6.4)	(4.8)
<b>INR: USD</b>	<b>65.1</b>	<b>67.4</b>	<b>69.0</b>	<b>64.9</b>	<b>66.5</b>	<b>67.0</b>	<b>0.3</b>	<b>1.4</b>	<b>3.0</b>

Source: Kotak Institutional Equities estimates

Exhibit 27: JSW Steel, key assumptions, March fiscal year-ends, 2013-18E (Rs mn)

	2013	2014	2015	2016E	2017E	2018E
<b>Assumptions (US\$/ton)</b>						
Average HRC Price (US\$/ton)	573	526	485	300	320	330
Average realization (Rs/ton)	39,998	38,386	38,297	31,160	34,877	34,879
Crude steel capacity ('000 tons)	11,000	14,300	14,300	18,000	18,000	18,000
Steel deliveries ('000 tons)	8,873	11,801	12,034	12,050	13,828	14,810
<b>Standalone assumptions (Rs/ton)</b>						
<b>Steel ASP (Rs/ton)</b>	<b>39,998</b>	<b>38,386</b>	<b>38,297</b>	<b>31,160</b>	<b>34,877</b>	<b>34,879</b>
Iron ore cost (Rs/ton)	6,369	7,482	8,968	6,101	6,123	6,116
Coking coal cost (Rs/ton)	12,252	10,856	9,502	7,856	8,578	8,746
Other raw material (Rs/ton)	6,655	4,086	2,868	3,615	3,652	3,688
<b>Raw material cost (Rs/ton)</b>	<b>25,276</b>	<b>22,424</b>	<b>21,338</b>	<b>17,573</b>	<b>18,352</b>	<b>18,550</b>
Conversion cost (Rs/ton)	7,613	8,100	9,266	8,874	8,891	9,019
Employee costs	756	678	787	869	818	825
Power & fuel	2,213	2,808	2,888	2,683	2,963	3,164
Stores	1,795	1,725	1,820	1,638	1,638	1,638
Others	2,848	2,889	3,772	3,684	3,473	3,392
<b>Total</b>	<b>32,888</b>	<b>30,524</b>	<b>30,605</b>	<b>26,447</b>	<b>27,243</b>	<b>27,569</b>
<b>Standalone EBITDA/ton (Rs)</b>	<b>7,110</b>	<b>7,442</b>	<b>7,372</b>	<b>4,713</b>	<b>7,633</b>	<b>7,310</b>
<b>Re/US\$ rate</b>	<b>54.4</b>	<b>60.5</b>	<b>61.2</b>	<b>65.1</b>	<b>67.4</b>	<b>69.0</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 28: JSW Steel, valuation details, September 2017E basis (Rs mn)

	EBITDA (Rs bn)	Multiple (X)	Value (Rs bn)	Value (Rs/share)
Consolidated EBITDA	93	6.5	607	2,512
Net debt*			409	1,691
<b>Arrived market capitalization for JSW</b>			<b>198</b>	<b>821</b>
Discounted cash flow benefit from safeguard duty			38	157
<b>Target price (Rs)</b>				<b>980</b>

Notes:

(a) We account cash accrual from safeguard duty of Rs157/share assuming allowable period of safeguard duty of three years. We have assumed safeguard duty at 20% for 1st year, 15% for 2nd year and 10% for 3rd year.

Source: Kotak Institutional Equities estimates

Exhibit 29: JSW Steel (consolidated), profit model, balance sheet and cash flow model, March fiscal year-ends, 2013-18E (Rs mn)

	2013	2014	2015	2016E	2017E	2018E
<b>Profit model (Rs mn)</b>						
Net sales	382,097	512,196	529,715	441,999	549,616	584,530
<b>EBITDA</b>	<b>65,039</b>	<b>91,655</b>	<b>94,023</b>	<b>62,034</b>	<b>110,866</b>	<b>113,714</b>
Other income	697	858	1,114	2,067	1,463	4,088
Interest	(19,675)	(30,479)	(34,930)	(33,102)	(31,438)	(27,732)
Depreciation	(22,375)	(31,826)	(34,345)	(32,403)	(34,577)	(36,109)
<b>Profit before tax</b>	<b>23,687</b>	<b>30,208</b>	<b>25,862</b>	<b>(1,405)</b>	<b>46,315</b>	<b>53,960</b>
Extra-ordinary items	(3,694)	(17,128)	(471)	(22)	—	—
Current tax	(5,151)	(4,441)	(7,440)	(1,191)	(11,420)	(12,532)
Deferred tax	(6,243)	(9,043)	(7,945)	(739)	(6,876)	(7,529)
<b>Net profit</b>	<b>11,541</b>	<b>3,880</b>	<b>17,197</b>	<b>(3,356)</b>	<b>28,019</b>	<b>33,899</b>
Minority interest	343	504	748	331	331	331
Share of earnings from associates	(2,253)	135	21	21	21	22
<b>PAT</b>	<b>9,631</b>	<b>4,519</b>	<b>17,966</b>	<b>(3,004)</b>	<b>28,372</b>	<b>34,252</b>
Adjusted PAT	12,106	15,995	18,285	(2,953)	28,372	34,252
<b>Earnings per share (Rs)</b>	<b>54.3</b>	<b>66.2</b>	<b>75.6</b>	<b>(12.2)</b>	<b>117.4</b>	<b>141.7</b>
<b>Balance sheet (Rs mn)</b>						
Equity	173,437	219,383	230,541	224,001	248,837	279,553
Deferred tax liability	32,720	21,234	28,894	29,633	36,509	44,038
Total Borrowings	213,460	347,621	379,898	394,427	378,372	356,598
Current liabilities	153,539	186,490	216,229	187,165	215,742	210,807
Minority interest	1,972	1,670	976	645	314	(17)
<b>Total liabilities</b>	<b>575,128</b>	<b>776,399</b>	<b>856,539</b>	<b>835,871</b>	<b>879,774</b>	<b>890,978</b>
Net fixed assets	393,004	548,838	588,562	608,498	612,273	608,524
Goodwill on consolidation	13,143	15,619	15,854	15,854	15,854	15,854
Investments	17,500	6,627	5,993	6,014	6,035	6,057
Cash	16,534	6,630	19,133	854	167	(493)
Other current assets	134,948	198,685	226,998	204,651	245,445	261,037
<b>Total assets</b>	<b>575,128</b>	<b>776,399</b>	<b>856,539</b>	<b>835,871</b>	<b>879,774</b>	<b>890,978</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow excl. working capital	37,368	36,999	55,146	29,786	69,472	77,537
Working capital changes	5,888	(35,195)	(11,748)	(6,717)	(12,217)	(20,526)
Capital expenditure	(56,180)	(57,443)	(65,134)	(52,340)	(38,352)	(32,360)
<b>Free cash flow</b>	<b>(12,924)</b>	<b>(55,639)</b>	<b>(21,735)</b>	<b>(29,271)</b>	<b>18,903</b>	<b>24,651</b>
<b>Ratios</b>						
Debt/equity (X)	1.3	1.6	1.7	1.8	1.6	1.3
Net debt/equity (X)	1.2	1.6	1.6	1.8	1.6	1.3
RoAE (%)	7.2	8.4	8.4	(1.3)	12.4	13.4
<b>RoACE (%)</b>	<b>8.8</b>	<b>8.3</b>	<b>8.9</b>	<b>4.1</b>	<b>9.5</b>	<b>9.5</b>

Source: Company, Kotak Institutional Equities estimates

## December 2015: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
<b>18-Jan</b>	<b>19-Jan</b>	<b>20-Jan</b>	<b>21-Jan</b>	<b>22-Jan</b>	<b>23-Jan</b>	<b>24-Jan</b>
	HCL Technologies	Axis Bank	Biocon	Ashoka Buildcon	PC Jeweller	
	Reliance Industries	Indiabulls Housing Finance	Exide Industries	Cairn India		
	Reliance Power	JSW Energy	Hindustan Zinc	Coromandel International		
		Reliance Infrastructure	Idea Cellular	ITC		
		South Indian Bank	Indiabulls Real Estate	L&T Finance Holdings		
		UltraTech Cement	M&M Financial Services	Reliance Communication		
			Reliance Capital			
<b>25-Jan</b>	<b>26-Jan</b>	<b>27-Jan</b>	<b>28-Jan</b>	<b>29-Jan</b>	<b>30-Jan</b>	<b>31-Jan</b>
Container Corporation		Bharat Electronics	Bharti Airtel	Cholamandalam	Grasim Industries	
HDFC Bank		Bharti Infratel	Dabur India	JSW Steel	IDFC	
		Colgate Palmolive (India)	Emami	Larsen & Toubro		
		Godrej Consumer Products	Gujarat Pipavav	Pdillite Industries		
		Havells India	ICICI Bank	Shriram City Union Finance		
		HDFC	Info Edge (India)	Thermax		
		Power Grid Corporation	Jyothy Laboratories	TVS Motor Company		
		SKS Microfinance	Muthoot Finance	WABCO India		
		United Spirits	Titan Company	Yes Bank		
<b>1-Feb</b>	<b>2-Feb</b>	<b>3-Feb</b>	<b>4-Feb</b>	<b>5-Feb</b>	<b>6-Feb</b>	<b>7-Feb</b>
Ajanta Pharma	Crompton Greaves	Bajaj Finance	ABB India	Carborundum Universal	JK Cement	
Century Textiles	Godrej Properties	Bajaj Finserv	Bajaj Auto	Tata Power Company		
Tech Mahindra		Hexaware Technologies	Bajaj Holdings & Investment			
		Indian Oil	Berger Paints			
		Shree Cements	Gillette India			
			Mphasis			
			Tata Steel			
<b>8-Feb</b>	<b>9-Feb</b>	<b>10-Feb</b>	<b>11-Feb</b>	<b>12-Feb</b>	<b>13-Feb</b>	<b>14-Feb</b>
	ACC	GlaxoSmithKline Pharma		Godrej Industries		
	Britannia Industries			Mahindra & Mahindra		
	Dr. Reddy's Laboratories			Nestle India		
	Minda Corporation			PI Industries		
	Motherson Sumi					
	Suprajit Engineering					
	The Ramco Cements					

Source: BSE, NSE, Kotak Institutional Equities

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

Company	Rating	Target price		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)
		18-Jan-16	(Rs)		(%)	(Rs mn)		(US\$ mn)	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	
<b>Automobiles</b>																													
Amara Raja Batteries	SELL	788	680	(13.7)	134,592	1,988	171	28.3	31.9	36.4	17.2	12.8	14.1	27.9	24.7	21.7	16.4	14.3	12.7	6.5	5.4	4.6	0.7	0.8	0.9	25.6	24.0	22.9	4.4
Apollo Tyres	BUY	134	240	79.4	68,108	1,006	509	21.6	24.0	24.3	0.3	11.1	1.2	6.2	5.6	5.5	3.6	3.6	3.8	1.1	1.0	0.8	1.6	1.7	1.7	19.8	18.5	16.1	5.3
Ashok Leyland	ADD	83	95	14.3	236,492	3,493	2,846	3.3	5.1	6.5	262.3	54.3	27.1	25.3	16.4	12.9	13.3	10.0	8.4	4.1	3.6	3.0	1.2	1.8	2.3	17.3	23.4	25.4	19.9
Bajaj Auto	BUY	2,250	2,900	28.9	651,047	9,617	289	136.2	151.7	170.6	25.0	11.4	12.5	16.5	14.8	13.2	12.9	11.7	10.5	5.1	4.3	3.7	2.4	2.7	3.0	33.6	31.4	30.0	10.5
Balkrishna Industries	BUY	626	770	23.0	60,508	894	97	58.7	57.0	70.7	20.2	(3.1)	24.0	10.7	11.0	8.9	6.6	6.2	4.8	2.1	1.8	1.5	0.4	0.4	0.5	22.3	17.9	18.7	0.6
Bharat Forge	BUY	776	965	24.4	180,625	2,668	237	30.7	38.1	48.2	(4.4)	24.0	26.4	25.3	20.4	16.1	13.6	11.3	8.9	4.6	3.9	3.3	0.8	0.9	1.2	19.6	20.8	22.2	12.2
Eicher Motors	SELL	15,250	11,600	(23.9)	414,100	6,117	27	473.8	573.5	664.7	108.7	21.0	15.9	32.2	26.6	22.9	17.5	15.4	13.0	11.2	8.0	6.0	0.2	0.2	0.2	41.3	35.1	30.0	13.6
Exide Industries	REDUCE	130	145	11.7	110,373	1,630	850	7.0	7.6	8.3	8.4	8.7	9.5	18.7	17.2	15.7	11.0	10.0	9.2	2.5	2.3	2.1	1.9	1.9	1.9	14.0	14.0	14.1	2.5
Hero Motocorp	BUY	2,436	3,000	23.2	486,349	7,184	200	154.3	174.0	196.3	21.3	12.7	12.8	15.8	14.0	12.4	11.8	10.5	9.4	6.2	5.3	4.5	3.2	3.6	4.0	42.9	40.9	39.3	13.7
Mahindra CIE Automotive	BUY	209	300	43.4	67,626	999	323	10.1	13.2	15.6	36.0	30.3	17.9	20.7	15.8	13.4	12.8	9.0	7.5	3.1	2.6	2.2	—	—	—	16.0	17.6	17.4	0.7
Mahindra & Mahindra	ADD	1,166	1,330	14.1	723,976	10,695	569	63.9	70.9	77.7	17.7	11.0	9.5	18.3	16.4	15.0	13.3	12.1	10.9	3.0	2.6	2.3	1.4	1.5	1.7	17.2	16.9	16.5	19.6
Maruti Suzuki	BUY	4,236	5,100	20.4	1,279,672	18,903	302	173.4	240.3	273.7	41.1	38.6	13.9	24.4	17.6	15.5	13.8	10.9	9.7	4.6	3.9	3.2	0.8	1.1	1.3	20.4	23.8	22.8	58.2
Minda Corp.	BUY	87	110	27.0	18,126	268	209	4.4	6.2	7.9	6.0	39.8	27.2	19.5	14.0	11.0	9.7	7.4	6.0	3.3	2.7	2.2	0.6	0.7	0.8	18.3	21.5	22.4	0.3
Motherson Sumi Systems	SELL	242	240	(0.8)	320,099	4,728	1,323	9.3	12.2	15.4	27.3	30.8	26.6	25.9	19.8	15.7	9.4	7.4	5.6	7.7	6.2	4.9	1.2	1.5	1.9	33.1	34.6	35.0	15.1
Suprajit Engineering	BUY	125	165	31.5	15,057	222	120	5.2	7.4	8.9	25.2	41.1	19.6	23.9	16.9	14.2	13.0	9.4	8.2	5.2	4.2	3.4	0.7	1.1	1.4	23.7	27.4	26.6	0.1
Tata Motors	BUY	340	500	47.0	1,112,905	16,440	3,395	28.8	42.8	55.5	(31.0)	48.5	29.9	11.8	8.0	6.1	4.2	3.6	3.1	1.6	1.3	1.1	—	—	—	15.2	18.2	19.5	53.1
WABCO India	ADD	5,400	7,700	42.6	102,423	1,513	19	117.5	173.5	201.4	84.7	47.7	16.1	46.0	31.1	26.8	28.7	19.5	16.4	9.7	7.6	6.1	0.2	0.3	0.4	23.2	27.3	25.2	0.7
<b>Automobiles</b>	<b>Attractive</b>				<b>5,982,077</b>	<b>88,367</b>					<b>3.1</b>	<b>29.5</b>	<b>19.7</b>	<b>18.0</b>	<b>13.9</b>	<b>11.6</b>	<b>8.6</b>	<b>7.2</b>	<b>6.3</b>	<b>3.3</b>	<b>2.8</b>	<b>2.3</b>	<b>1.1</b>	<b>1.3</b>	<b>1.5</b>	<b>18.5</b>	<b>20.1</b>	<b>20.2</b>	<b>230.5</b>
<b>Banks/Financial Institutions</b>																													
Axis Bank	BUY	373	620	66.1	887,824	13,115	2,371	35.4	41.8	46.8	14.0	18.2	11.8	10.5	8.9	8.0	—	—	—	1.7	1.5	1.3	1.4	1.7	1.9	17.4	17.8	17.2	68.5
Bajaj Finserv	ADD	1,834	1,810	(1.3)	291,859	4,311	159	120.9	141.4	166.0	13.7	17.0	17.4	15.2	13.0	11.1	—	—	—	2.1	1.8	1.9	0.7	0.7	0.7	15.7	15.2	16.7	1.7
Bank of Baroda	ADD	126	180	43.2	289,633	4,278	2,449	10.6	20.2	26.8	(31.0)	91.1	32.6	11.9	6.2	4.7	—	—	—	0.7	0.7	0.6	1.7	3.3	4.3	6.4	11.1	13.4	14.6
Bank of India	ADD	92	145	56.9	37,173	1,081	813	(6.0)	35.7	41.7	(123.5)	693.6	16.6	(15.3)	2.6	2.2	—	—	—	0.2	0.2	0.2	(1.3)	7.5	8.8	(1.7)	9.3	10.0	5.0
Canara Bank	REDUCE	177	300	69.3	96,245	1,422	515	43.4	64.4	85.0	(23.7)	48.5	31.8	4.1	2.8	2.1	—	—	—	0.3	0.2	0.2	4.5	6.7	8.8	6.7	9.1	11.2	7.1
Cholamandalam	ADD	599	710	18.5	93,525	1,382	155	33.3	40.4	49.8	10.3	21.5	23.3	18.0	14.8	12.0	—	—	—	2.6	2.3	2.0	0.9	1.1	1.3	16.5	16.3	17.5	1.0
City Union Bank	BUY	80	110	37.2	47,945	708	597	7.3	8.1	9.3	10.2	11.0	14.8	11.0	9.9	8.6	—	—	—	1.6	1.4	1.2	1.5	1.7	1.9	15.2	14.9	15.2	0.7
Dewan Housing Finance	BUY	191	285	49.5	55,625	822	291	28.6	34.2	41.1	(39.9)	19.8	19.9	6.7	5.6	4.6	—	—	—	1.1	0.9	0.8	1.6	1.9	2.3	16.5	17.1	17.6	2.9
Federal Bank	BUY	48	75	56.3	82,444	1,218	1,713	3.8	5.7	7.0	(34.5)	48.4	22.4	12.5	8.4	6.9	—	—	—	1.0	0.9	0.8	1.6	2.4	3.0	8.2	11.3	12.7	4.2
HDFC	ADD	1,132	1,385	22.4	1,786,803	26,395	1,575	51.9	54.1	62.6	28.6	4.2	15.8	21.8	20.9	18.1	—	—	—	5.2	4.8	4.3	1.9	2.0	2.3	24.0	22.2	22.8	43.0
HDFC Bank	ADD	1,026	1,150	12.1	2,590,360	38,265	2,507	49.1	59.4	72.1	20.6	20.8	21.4	20.9	17.3	14.2	—	—	—	3.6	3.1	2.7	0.9	1.1	1.4	18.5	19.3	20.1	20.0
ICICI Bank	BUY	223	375	68.1	1,296,707	19,155	5,798	20.7	23.8	26.4	7.4	15.1	10.9	10.8	9.4	8.4	—	—	—	1.5	1.3	1.2	2.8	3.2	3.6	14.2	14.9	15.0	44.3
IDFC	BUY	40	105	165.2	63,123	932	1,593	(4.4)	5.2	6.9	(141.2)	216.8	33.5	(9.0)	7.7	5.8	—	—	—	0.6	0.6	0.5	(4.7)	1.4	1.6	(4.9)	11.5	14.7	4.7
IFL Holdings	BUY	190	245	29.3	59,773	883	310	17.3	20.4	22.1	19.9	17.8	8.2	10.9	9.3	8.6	—	—	—	1.8	1.5	1.2	0.0	0.0	0.0	19.6	18.7	17.8	0.8
IndusInd Bank	ADD	899	1,040	15.7	533,750	7,885	589	37.4	46.9	56.9	10.4	25.4	21.2	24.0	19.2	15.8	—	—	—	3.0	2.7	2.3	0.5	0.6	0.7	16.3	15.0	15.9	15.1
J&K Bank	BUY	69	110	59.4	33,450	494	485	17.2	17.7	19.1	63.6	3.2	8.0	4.0	3.9	3.6	—	—	—	0.5	0.5	0.4	5.0	5.1	5.5	12.9	12.1	11.9	0.9
Karur Vysya Bank	BUY	425	580	36.4	51,385	759	122	49.0	61.6	71.5	30.7	25.9	16.0	8.7	6.9	5.9	—	—	—	1.1	1.0	0.9	2.9	3.6	4.2	13.4	15.2	15.8	0.9
L&T Finance Holdings	ADD	57	80	41.1	99,406	1,468	1,750	4.9	5.7	7.0	(1.7)	16.4	23.0	11.7	10.0	8.1	—	—	—	1.3	1.1	1.0	1.0	1.0	1.5	12.3	12.7	13.7	1.5
LIC Housing Finance	ADD	464	515	11.1	233,987	3,456	505	36.8	39.9	46.0	22.5	8.4	15.4	12.6	11.6	10.1	—	—	—	2.6	2.2	1.9	1.4	1.5	1.7	19.9	18.5	20.3	13.3
Magma Fincorp	ADD	73	110	50.4	17,321	256	236	8.5	10.7	13.1	(3.0)	25.7	22.5	8.6	6.8	5.6	—	—	—	0.7	0.7	0.6	1.2	2.2	2.7	10.0	10.6	11.5	0.2
Mahindra & Mahindra Financial	BUY	216	300	38.8	122,967	1,816	564	13.3	17.2	22.1	(10.2)	29.8	28.6	16.3	12.6	9.8	—	—	—	2.0	1.8	1.6	1.6	2.1	2.7	12.6	14.9	17.1	3.4
Max India	ADD	449	565	25.9	119,831	1,770	266	10.5	13.9	20.8	0.4	31.9	49.4	42.5	32.3	21.6	—	—	—	2.8	2.4	2.1	1.6	2.1	3.2	7.5	8.1	10.4	2.3



## 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)		
		18-Jan-16	Target price (Rs)	Upside (%)			2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E			
<b>Cement</b>																														
ACC	SELL	1,224	1,300	6.2	229,847	3,395	188	38.1	59.9	77.6	(16.7)	57.4	29.5	32.2	20.4	15.8	18.0	10.2	7.5	2.8	2.5	2.3	1.9	1.9	1.9	8.6	12.9	15.3	4.1	
Ambuja Cements	SELL	191	190	(0.6)	296,568	4,381	1,550	5.5	8.5	10.4	(35.5)	54.0	22.4	34.8	22.6	18.4	20.0	13.0	10.4	2.8	2.7	2.5	2.2	2.2	2.7	8.1	12.3	14.1	7.4	
Dalmia Bharat	BUY	741	820	10.6	60,234	890	81	17.2	65.5	92.0	1,424.9	280.3	40.5	43.0	11.3	8.1	9.8	6.4	5.0	1.9	1.6	1.4	0.2	0.3	0.3	4.5	15.4	18.4	0.5	
Grasim Industries	ADD	3,500	4,200	20.0	321,540	4,750	92	215.7	278.7	369.8	13.0	29.2	32.7	16.2	12.6	9.5	8.1	5.5	3.9	1.3	1.2	1.1	1.1	1.1	1.1	8.3	9.9	11.9	2.6	
India Cements	REDUCE	81	87	7.0	24,974	369	307	5.1	10.0	16.0	4,819.8	96.2	60.0	NM	8.1	5.1	7.0	5.5	4.2	0.7	0.6	0.6	2.6	2.6	2.6	4.4	8.1	11.9	4.8	
J K Cement	BUY	465	680	46.2	32,508	480	70	3.2	38.7	66.2	(82.5)	1,127.5	70.8	147.4	12.0	7.0	12.3	7.0	5.3	2.0	1.8	1.4	1.1	1.1	1.1	1.4	15.8	22.7	0.2	
JK Lakshmi Cement	BUY	275	340	23.6	32,371	478	118	(5.7)	16.6	29.6	(138.6)	390.6	79.0	(48.3)	16.6	9.3	22.1	9.8	6.3	2.6	2.3	1.9	0.7	0.7	0.7	(5.2)	14.8	22.4	0.3	
Orient Cement	BUY	142	170	20.1	28,999	428	205	3.7	9.1	18.7	(61.5)	147.4	106.2	38.6	15.6	7.6	19.4	9.5	5.9	2.9	2.5	2.0	1.4	1.4	1.4	7.6	17.4	29.3	0.3	
Shree Cement	SELL	9,702	8,850	(8.8)	337,975	4,993	35	156.3	338.7	450.5	17.9	116.7	33.0	62.1	28.6	21.5	20.7	12.4	9.2	5.9	5.0	4.1	0.2	0.2	0.2	9.9	18.8	20.8	1.8	
UltraTech Cement	SELL	2,641	2,450	(7.2)	724,779	10,706	274	66.2	107.3	149.9	(9.9)	62.2	39.7	39.9	24.6	17.6	19.1	13.1	9.9	3.4	3.1	2.6	0.3	0.3	0.3	9.1	13.2	16.1	11.6	
<b>Cement</b>	<b>Cautious</b>				<b>2,089,795</b>	<b>30,870</b>					<b>(9.8)</b>	<b>70.2</b>	<b>37.3</b>	<b>33.5</b>	<b>19.7</b>	<b>14.3</b>	<b>14.3</b>	<b>9.4</b>	<b>7.0</b>	<b>2.6</b>	<b>2.3</b>	<b>2.1</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>7.7</b>	<b>11.9</b>	<b>14.3</b>	<b>33.5</b>	
<b>Consumer products</b>																														
Asian Paints	REDUCE	850	800	(5.9)	815,606	12,048	959	19.0	22.4	26.5	28.0	17.8	18.5	44.8	38.0	32.1	28.4	23.8	20.0	14.6	12.3	10.4	1.0	1.1	1.4	35.3	35.2	35.2	13.8	
Bajaj Corp.	BUY	390	495	26.9	57,518	850	148	17.1	19.4	21.8	15.0	13.5	12.2	22.8	20.1	17.9	19.2	16.0	13.5	11.7	10.7	9.7	2.9	3.2	3.8	51.6	55.8	56.9	0.5	
Britannia Industries	ADD	2,765	3,500	26.6	331,769	4,901	120	71.6	91.9	114.1	58.4	28.3	24.2	38.6	30.1	24.2	25.3	19.6	15.8	19.0	13.7	10.3	0.9	1.1	1.4	57.4	53.0	48.7	7.2	
Coffee Day Enterprises	ADD	244	310	27.3	50,161	741	206	0.9	5.1	8.4	117.2	479.8	66.2	278.0	48.0	28.8	44.7	12.6	10.8	2.3	2.2	2.0	-	-	-	1.3	4.6	7.2	-	
Colgate-Palmolive (India)	REDUCE	911	1,000	9.8	247,657	3,658	272	22.4	27.2	31.9	8.9	21.3	17.4	40.7	33.5	28.6	25.4	20.7	17.4	27.8	23.4	19.5	1.6	1.9	2.2	73.4	75.9	74.5	4.2	
Dabur India	ADD	247	300	21.3	435,036	6,426	1,759	7.1	8.2	9.5	19.1	15.5	15.1	34.7	30.1	26.1	28.3	24.4	20.7	10.7	8.9	7.5	1.1	1.3	1.5	33.7	32.3	31.2	4.4	
GlaxoSmithKline Consumer	REDUCE	5,898	6,300	6.8	248,050	3,664	42	164.8	186.7	215.3	18.7	13.3	15.3	35.8	31.6	27.4	24.9	21.3	17.9	9.9	8.5	7.4	1.1	1.3	1.5	29.9	28.9	28.8	1.4	
Godrej Consumer Products	ADD	1,211	1,350	11.5	412,249	6,090	340	34.2	40.5	47.8	30.1	18.3	18.2	35.4	29.9	25.3	25.3	21.3	17.7	8.0	6.7	5.7	0.6	0.7	0.9	24.6	24.5	24.3	4.4	
Hindustan Unilever	REDUCE	810	825	1.9	1,752,627	25,890	2,164	18.7	21.5	24.2	7.3	14.9	12.8	43.4	37.8	33.5	30.0	26.0	22.9	44.0	41.6	40.0	1.9	2.1	2.4	104.7	113.2	121.8	15.8	
ITC	ADD	315	370	17.3	2,534,772	37,443	8,064	12.5	14.3	16.4	5.1	13.9	14.8	25.1	22.1	19.2	16.5	14.5	12.4	7.5	6.7	6.1	2.2	2.6	3.0	28.1	29.1	32.0	33.8	
Jubilant Foodworks	SELL	1,204	1,250	3.8	79,196	1,170	66	19.7	28.9	40.4	16.8	46.5	39.7	61.1	41.7	29.8	24.7	18.2	13.6	10.6	8.8	7.1	0.3	0.4	0.6	18.7	23.2	26.7	6.7	
Jyothy Laboratories	NR	278	-	-	50,395	744	181	8.6	10.3	11.8	49.0	20.4	14.2	32.4	27.0	23.6	21.2	18.2	15.0	5.8	5.9	5.2	1.4	1.4	1.8	24.2	26.7	23.4	0.5	
Manpasand Beverages	BUY	440	500	13.6	22,024	325	50	10.8	17.0	21.7	36.0	56.4	28.1	40.6	25.9	20.2	18.5	13.9	10.8	3.6	3.2	2.9	0.3	0.6	0.9	13.5	13.1	15.0	0.2	
Marico	REDUCE	220	210	(4.4)	283,386	4,186	1,290	5.6	6.5	7.5	25.1	17.3	15.0	39.4	33.6	29.2	26.2	22.3	19.4	12.7	10.4	8.7	0.9	1.0	1.3	35.4	34.0	32.3	7.8	
Nestle India	REDUCE	5,436	5,800	6.7	524,116	7,742	96	99.3	133.1	159.5	(18.7)	34.0	19.8	54.7	40.8	34.1	31.1	23.1	19.7	18.9	17.4	16.0	1.1	1.7	2.0	37.3	46.9	51.4	5.2	
Page Industries	SELL	12,503	11,500	(8.0)	139,462	2,060	11	232.3	294.2	360.4	32.2	26.6	22.5	53.8	42.5	34.7	34.2	27.3	22.2	26.0	18.8	13.9	0.7	0.8	0.8	56.2	51.4	46.0	1.9	
PC Jeweller	BUY	355	500	40.7	63,634	940	179	23.9	29.8	35.8	13.1	24.6	20.4	14.9	11.9	9.9	7.9	6.3	5.2	2.7	2.3	1.9	1.0	1.3	1.7	19.8	20.9	21.2	1.6	
Pidlite Industries	REDUCE	539	530	(1.8)	276,563	4,085	513	14.1	15.9	18.4	39.4	12.7	16.1	38.3	34.0	29.3	24.0	21.4	18.3	10.0	8.5	7.2	0.7	0.9	1.1	28.7	27.0	26.5	2.9	
Speciality Restaurants	REDUCE	115	130	13.4	5,381	79	47	2.1	3.9	5.9	6.5	82.9	50.7	53.4	29.2	19.4	15.4	10.1	7.2	1.7	1.6	1.5	0.9	1.1	1.3	3.2	5.6	7.9	0.1	
Tata Global Beverages	BUY	122	150	23.1	76,903	1,136	631	6.0	7.1	8.2	10.7	17.6	15.5	20.2	17.2	14.9	11.1	9.5	8.3	1.4	1.3	1.3	2.1	2.5	2.9	6.8	7.7	8.6	2.3	
Titan Company	REDUCE	334	320	(4.3)	296,743	4,383	888	9.2	11.1	12.6	(0.5)	20.2	13.4	36.2	30.1	26.5	25.1	21.0	17.8	8.2	7.0	6.0	0.8	1.0	1.1	24.5	25.0	24.2	5.7	
United Breweries	SELL	829	700	(15.6)	219,271	3,239	264	10.2	14.1	18.4	3.6	38.3	30.2	81.3	58.8	45.2	32.2	26.3	21.6	10.6	9.2	7.9	0.2	0.3	0.3	13.7	16.8	18.8	2.2	
United Spirits	BUY	2,590	4,000	54.4	376,435	5,561	145	38.7	73.4	88.1	447.2	89.8	20.0	NM	35.3	29.4	29.5	19.5	17.1	19.3	10.7	7.7	0.2	0.4	0.5	43.1	39.1	30.5	9.5	
<b>Consumer products</b>	<b>Cautious</b>				<b>9,298,953</b>	<b>137,363</b>					<b>14.7</b>	<b>19.1</b>	<b>16.5</b>	<b>35.2</b>	<b>29.5</b>	<b>25.4</b>	<b>22.8</b>	<b>19.2</b>	<b>16.4</b>	<b>10.7</b>	<b>9.3</b>	<b>8.1</b>	<b>1.4</b>	<b>1.7</b>	<b>2.0</b>	<b>30.3</b>	<b>31.4</b>	<b>32.0</b>	<b>132.1</b>	
<b>Energy</b>																														
Aban Offshore	RS	191	-	-	11,162	165	58	83.0	81.4	84.3	(7.2)	(1.9)	3.5	2.3	2.3	2.3	6.2	6.1	5.7	0.2	0.2	0.2	3.1	3.1	3.1	8.6	8.2	8.0	5.1	
BPCL	ADD	897	960	7.1	648,317	9,577	723	88.4	89.5	91.7	25.8	1.1	2.5	10.1	10.0	9.8	6.4	6.1	5.2	2.4	2.1	1.8	2.5	2.5	2.6	25.9	22.2	19.6	14.9	
Cairn India	RS	111	-	-	207,641	3,067	1,875	13.4	14.8	17.3	(61.6)	10.2	17.2	8.3	7.5	6.4	4.1	2.8	2.3	0.3	0.3	0.3	6.3	6.3	7.2	4.2	4.6	5.3	4.6</	

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

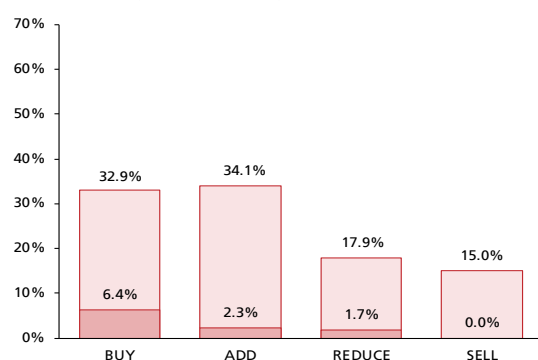
Company	Rating	Price (Rs)		Upside (%)	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			ADVT-3mo (US\$ mn)	
		18-Jan-16	Target price (Rs)		(Rs mn)	(US\$ mn)		2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E		
<b>Industrials</b>																														
ABB	SELL	996	800	(19.7)	211,114	3,119	212	14.5	23.4	34.8	34.6	61.2	48.6	68.7	42.6	28.7	29.4	22.3	16.4	7.0	6.2	5.2	0.4	0.4	0.4	10.5	15.4	19.6	1.1	
BHEL	SELL	142	145	2.0	347,804	5,138	2,448	4.9	9.6	14.2	(16.0)	97.3	47.5	29.2	14.8	10.0	15.2	4.5	2.0	1.0	0.9	0.9	0.7	1.4	2.1	3.5	6.6	9.1	10.3	
Carborundum Universal	ADD	178	190	6.7	33,522	495	188	8.0	10.6	12.6	53.9	33.5	18.1	22.3	16.7	14.2	10.6	8.5	7.2	2.8	2.4	2.1	0.8	1.1	1.3	13.0	15.4	16.1	0.1	
Crompton Greaves	REDUCE	175	195	11.6	109,555	1,618	627	1.7	6.8	9.1	(42.8)	307.3	33.0	104.1	25.6	19.2	20.5	13.6	11.5	2.5	2.3	2.1	0.9	0.5	0.6	2.6	9.4	11.5	5.5	
Cummins India	REDUCE	964	950	(1.5)	267,304	3,949	277	27.5	34.2	41.3	1.8	24.0	20.8	35.0	28.2	23.4	31.4	25.0	20.3	8.3	7.4	6.5	1.5	1.8	2.1	25.0	27.8	29.8	2.5	
Havells India	REDUCE	276	270	(2.3)	172,542	2,549	624	6.8	8.8	10.1	(11.6)	30.0	14.6	40.7	31.3	27.3	19.7	19.1	16.6	8.3	7.3	6.4	0.4	1.1	1.4	21.7	24.8	25.1	9.6	
Kalpataru Power Transmission	BUY	184	310	68.3	28,267	418	153	10.4	18.3	21.4	32.9	75.2	17.4	17.7	10.1	8.6	7.4	6.2	5.4	1.2	1.1	1.0	0.8	0.8	0.8	7.0	11.3	12.0	0.3	
KEC International	ADD	120	165	37.3	30,902	456	257	8.4	13.6	17.2	34.6	61.4	26.3	14.3	8.8	7.0	6.9	5.3	4.4	2.0	1.7	1.4	1.0	1.6	2.1	15.2	21.1	22.2	1.5	
L&T	ADD	1,084	1,450	33.8	1,009,018	14,905	930	43.7	57.2	70.3	24.4	31.0	22.9	24.8	18.9	15.4	16.9	14.2	12.1	2.6	2.4	2.2	1.4	1.4	1.4	10.9	13.3	14.7	46.8	
Siemens	SELL	1,014	750	(26.0)	360,999	5,333	356	18.2	23.2	29.6	7.7	27.4	27.4	55.6	43.6	34.2	32.2	25.7	20.3	6.5	5.9	5.3	0.5	0.7	0.9	12.2	14.2	16.4	4.5	
Thermax	REDUCE	840	850	1.2	100,085	1,478	119	27.0	26.5	33.6	23.9	(1.7)	26.8	31.2	31.7	25.0	19.0	19.6	15.3	4.2	3.9	3.5	0.8	0.8	0.9	14.2	12.7	14.6	0.9	
Voltas	ADD	272	300	10.4	89,918	1,328	331	10.0	12.6	15.3	(2.1)	25.4	21.8	27.1	21.6	17.8	22.1	18.2	14.2	3.9	3.5	3.1	0.9	1.2	1.4	15.0	16.9	18.2	6.4	
<b>Industrials</b>	<b>Cautious</b>				<b>2,761,031</b>	<b>40,786</b>						<b>9.8</b>	<b>43.8</b>	<b>28.6</b>	<b>31.8</b>	<b>22.1</b>	<b>17.2</b>	<b>18.1</b>	<b>13.9</b>	<b>11.3</b>	<b>2.7</b>	<b>2.5</b>	<b>2.3</b>	<b>1.0</b>	<b>1.2</b>	<b>1.4</b>	<b>8.6</b>	<b>11.4</b>	<b>13.2</b>	<b>89.4</b>
<b>Infrastructure</b>																														
Adani Port and SEZ	ADD	219	310	41.4	454,160	6,709	2,084	12.4	16.2	14.7	11.2	31.3	(9.2)	17.8	13.5	14.9	13.5	11.2	9.8	3.5	2.9	2.5	0.6	0.7	1.1	21.7	23.3	17.8	13.8	
Ashoka Buildcon	BUY	174	235	35.0	32,583	481	188	5.0	5.0	1.8	(3.1)	0.6	(63.5)	35.0	34.8	95.2	9.7	8.6	8.1	1.7	1.7	1.7	0.9	1.2	1.2	5.7	4.8	1.8	0.6	
Container Corporation	ADD	1,155	1,520	31.6	225,205	3,327	195	47.2	55.6	66.5	(12.3)	17.9	19.6	24.5	20.8	17.4	16.1	13.2	10.7	2.7	2.5	2.3	1.0	1.2	1.4	11.6	12.5	13.7	3.7	
Gujarat Pipavav Port	ADD	142	175	23.4	68,552	1,013	483	3.4	5.5	7.5	(61.6)	59.9	36.9	41.3	25.8	18.9	17.6	13.4	10.3	3.4	3.0	2.6	—	—	1.1	8.7	12.2	14.7	2.0	
IRB Infrastructure	BUY	213	300	40.7	74,947	1,107	351	19.2	18.1	18.4	24.1	(5.7)	1.6	11.1	11.8	11.6	8.0	7.1	7.0	1.4	1.1	1.0	1.8	1.8	1.8	13.9	10.7	9.3	6.0	
Sadbhav Engineering	BUY	281	355	26.5	48,132	711	172	9.5	15.0	18.3	34.7	56.7	22.4	29.4	18.8	15.3	16.0	12.0	9.9	3.2	2.8	2.4	—	—	—	11.5	16.0	16.9	0.5	
<b>Infrastructure</b>	<b>Attractive</b>				<b>903,578</b>	<b>13,348</b>						<b>1.3</b>	<b>24.5</b>	<b>0.1</b>	<b>19.7</b>	<b>15.8</b>	<b>15.8</b>	<b>12.3</b>	<b>10.2</b>	<b>9.0</b>	<b>2.8</b>	<b>2.4</b>	<b>2.1</b>	<b>0.8</b>	<b>0.9</b>	<b>1.2</b>	<b>14.3</b>	<b>15.2</b>	<b>13.5</b>	<b>26.6</b>
<b>Internet</b>																														
Info Edge	BUY	800	955	19.4	96,573	1,427	121	11.5	16.7	22.9	(29.0)	45.4	37.2	69.9	48.0	35.0	62.3	36.7	25.2	5.5	5.2	4.8	0.5	0.7	1.0	8.1	11.1	14.2	1.3	
Just Dial	BUY	800	1,000	25.0	56,412	833	69	17.6	27.1	39.3	(10.6)	54.1	44.8	45.4	29.5	20.4	33.4	19.1	12.7	9.6	8.1	6.6	0.8	1.2	1.7	19.5	29.7	35.6	11.8	
<b>Internet</b>	<b>Attractive</b>				<b>152,985</b>	<b>2,260</b>						<b>(21.7)</b>	<b>49.5</b>	<b>40.9</b>	<b>58.7</b>	<b>39.3</b>	<b>27.9</b>	<b>47.4</b>	<b>27.7</b>	<b>18.7</b>	<b>6.6</b>	<b>6.0</b>	<b>5.3</b>	<b>0.6</b>	<b>0.9</b>	<b>1.3</b>	<b>11.2</b>	<b>15.3</b>	<b>19.1</b>	<b>13.2</b>
<b>Media</b>																														
DB Corp.	ADD	309	350	13.1	56,836	840	184	19.2	23.3	28.2	11.1	21.5	21.0	16.1	13.3	11.0	9.1	7.4	6.1	4.0	3.6	3.2	3.2	4.1	5.1	25.9	28.3	30.8	0.2	
DishTV	BUY	82	125	52.4	87,398	1,291	1,066	2.2	3.8	5.3	7,478.1	71.8	36.9	NM	21.4	15.6	8.7	7.1	5.7	5.2	5.2	5.2	—	—	—	14.3	24.5	33.6	7.1	
Jagran Prakashan	ADD	152	160	5.2	49,723	735	327	10.0	11.5	13.3	24.8	14.8	16.4	15.2	13.3	11.4	8.6	7.3	6.2	3.6	3.2	2.9	3.0	3.6	4.6	25.9	25.5	26.8	0.3	
PVR	BUY	781	900	15.2	36,367	537	47	26.4	26.4	34.4	922.5	0.1	30.5	29.6	29.6	22.7	12.4	10.6	8.9	4.2	3.7	3.3	0.3	0.3	0.4	19.2	13.3	15.3	1.5	
Sun TV Network	ADD	366	390	6.5	144,294	2,132	394	23.0	26.3	29.2	16.0	14.2	11.1	15.9	13.9	12.5	10.1	8.6	7.5	4.0	3.6	3.3	3.6	4.2	4.7	25.9	27.2	27.6	6.9	
Zee Entertainment Enterprises	BUY	394	465	18.1	378,321	5,589	961	9.5	12.8	16.2	9.5	34.9	26.9	41.5	30.8	24.3	24.8	19.3	15.0	6.2	5.5	4.8	1.1	1.4	1.8	15.6	18.9	21.2	14.9	
<b>Media</b>	<b>Neutral</b>				<b>752,939</b>	<b>11,122</b>						<b>30.0</b>	<b>25.9</b>	<b>21.8</b>	<b>26.3</b>	<b>20.9</b>	<b>17.2</b>	<b>13.6</b>	<b>11.2</b>	<b>9.2</b>	<b>5.0</b>	<b>4.5</b>	<b>4.1</b>	<b>1.5</b>	<b>1.9</b>	<b>2.3</b>	<b>18.9</b>	<b>21.6</b>	<b>23.8</b>	<b>30.9</b>
<b>Metals &amp; Mining</b>																														
Coal India	ADD	311	390	25.5	1,963,442	29,004	6,316	23.4	26.1	29.7	7.7	11.4	14.0	13.3	11.9	10.5	7.2	6.7	5.6	4.0	3.5	3.0	3.8	4.2	4.8	31.9	31.1	31.0	15.6	
Hindako Industries	REDUCE	71	60	(15.7)	147,027	2,172	2,065	(0.1)	1.6	6.5	(100.9)	1,920.4	301.0	(802.6)	44.1	11.0	9.5	7.8	6.5	0.4	0.4	0.4	1.4	1.4	1.4	(0.0)	0.9	3.5	11.7	
Hindustan Zinc	BUY	139	175	25.9	587,319	8,676	4,225	17.5	16.8	17.9	(9.6)	(3.9)	6.5	7.9	8.3	7.8	3.8	3.2	2.4	1.2	1.1	1.0	4.5	3.2	3.2	16.3	14.3	13.8	2.0	
Jindal Steel and Power	RS	60	—	—	54,894	811	915	(19.1)	(11.7)	2.0	(375.3)	38.5	117.0	(3.1)	(5.1)	30.1	13.1	9.3	7.4	0.3	0.3	0.3	—	—	—	(8.7)	(5.9)	1.0	11.6	
JSW Steel	ADD	991	980	(1.1)	239,534	3,538	242	(12.2)	117.4	141.7	(116.1)	1,060.8	20.7	(81.1)	8.4	7.0	10.2	5.6	5.2	1.1	1.0	0.9	1.2	1.2	1.2	(1.3)	12.0	13.0	12.8	
National Aluminium Co.	SELL	34	30	(12.4)	88,270	1,304	2,577	2.6	1.7	2.2	(45.0)	(34.0)	29.7	13.1	19.9	15.3	3.7	5.3	3.6	0.7	0.7	0.7	5.1	2.9	2.9	5.2	3.4	4.4	0.5	
NMDC	SELL	85	80	(5.4)	335,217	4,952	3,965	8.5	7.8	7.8	(48.2)	(8.3)	(0.3)	9.9	10.8	10.8	5.4	6.4	6.2	1.1	1.1	1.1	10.1	8.3	8.3	10.6	9.8	9.9	2.2	
Tata Steel	REDUCE	236	175	(25.8)	229,110	3,384	971	(24.3)	10.0	16.8	(74,890.0)	141.3	68.0	(9.7)	24	14.0	12.4	6.9	6.2	0.7	0.7	0.7	3.4	3.4	3.4	(7.6)	3.2	5.2	25.3	
Vedanta	BUY	69	110	60.1	203,675	3,009	3,717	7.7	10.6	18.3	(55.2)	38.7	72.5	9.0	6.5	3.8	6.5	5.2	4.3	0.4	0.4	0.4	4.8	4.8	4.8	4.9	6.3			

## 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)			
		18-Jan-16	Target price (Rs)	Upside (%)			2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E				
<b>Pharmaceutical</b>																															
Biocon	SELL	482	375	(22.1)	96,310	1,423	200	33.1	24.9	31.5	33.4	(24.7)	26.1	14.5	19.3	15.3	13.6	11.6	9.3	2.1	2.0	1.8	1.7	1.8	2.3	16.6	10.6	12.2	4.4		
Cipla	BUY	591	790	33.7	474,754	7,013	805	23.6	29.2	40.1	61.0	23.6	37.6	25.0	20.3	14.7	16.2	13.3	9.8	3.8	3.3	2.8	0.8	1.0	1.4	16.2	17.6	20.8	12.6		
Dr Reddy's Laboratories	REDUCE	2,875	3,000	4.4	490,273	7,242	170	151.8	136.0	151.2	11.9	(10.4)	11.2	18.9	21.1	19.0	11.2	11.6	10.2	3.7	3.2	2.8	0.8	0.7	0.8	21.1	16.1	15.7	42.8		
Lupin	REDUCE	1,703	1,700	(0.1)	766,993	11,390	450	50.7	71.6	82.8	(5.1)	41.3	15.6	33.6	23.8	20.6	21.7	15.0	13.3	7.1	5.6	4.6	0.4	0.6	0.7	23.1	26.4	24.6	25.9		
Sun Pharmaceuticals	SELL	785	730	(7.0)	1,889,066	27,905	2,406	22.1	30.6	35.0	11.1	38.3	14.3	35.5	25.7	22.4	21.9	17.3	13.3	6.1	5.1	4.2	0.6	1.0	1.1	18.5	21.6	20.5	49.3		
Torrent Pharmaceuticals	REDUCE	1,330	1,320	(0.7)	224,971	3,323	169	87.0	59.3	67.7	96.1	(31.9)	14.2	15.3	22.4	19.6	10.2	14.3	12.9	6.0	4.9	4.1	1.0	0.8	0.8	47.2	24.2	22.7	4.0		
<b>Pharmaceuticals</b>		<b>Cautious</b>				<b>3,942,366</b>	<b>58,236</b>																								
<b>Real Estate</b>																															
DLF	BUY	96	180	87.4	171,269	2,530	1,799	8.2	3.3	3.5	172.3	(60.2)	8.5	11.7	29.4	27.1	14.9	11.9	10.7	0.6	0.6	0.6	2.1	2.1	2.1	5.0	1.9	2.1	20.0		
Godrej Properties	REDUCE	313	280	(10.6)	62,498	923	199	18.2	17.6	6.3	90.0	(3.1)	(64.5)	17.2	17.8	50.0	12.1	11.9	13.1	2.9	2.6	2.5	0.8	0.8	0.8	18.2	15.3	5.0	1.3		
Oberoi Realty	BUY	246	345	40.3	83,435	1,232	339	13.3	18.0	43.5	51.0	35.0	141.5	18.4	13.7	5.7	11.6	7.8	2.8	1.6	1.4	1.2	0.8	0.8	0.8	9.1	10.9	22.5	0.7		
Prestige Estates Projects	BUY	175	250	42.9	65,588	969	375	11.2	14.1	15.8	26.0	26.6	12.0	15.7	12.4	11.0	8.8	6.5	6.2	1.6	1.4	1.3	0.9	0.9	0.9	10.5	12.0	12.1	0.3		
Sobha	BUY	287	545	89.6	28,184	416	98	22.0	29.7	49.0	(9.5)	35.2	65.0	13.1	9.7	5.9	7.5	6.3	4.5	1.1	1.0	0.9	2.4	2.4	2.4	8.6	10.9	16.1	0.6		
Sunteck Realty	BUY	230	420	82.6	14,482	214	60	25.6	82.9	53.3	124.9	224.1	(35.6)	9.0	2.8	4.3	8.1	2.1	0.1	0.9	0.7	0.6	0.9	0.9	0.9	10.0	26.8	14.2	0.1		
<b>Real Estate</b>		<b>Attractive</b>				<b>425,455</b>	<b>6,285</b>																								
<b>Technology</b>																															
HCL Technologies	REDUCE	842	850	0.9	1,187,138	17,536	1,414	54.5	59.0	64.1	6.3	8.1	8.7	15.5	14.3	13.1	11.0	9.5	8.2	3.9	3.3	2.8	1.9	2.1	2.1	28.2	25.0	23.0	18.5		
Hexaware Technologies	SELL	217	230	6.0	65,424	966	304	13.2	15.9	17.4	22.3	19.8	9.7	16.4	13.7	12.5	10.9	9.1	8.1	4.7	4.3	3.9	3.7	4.4	4.8	29.8	32.8	32.8	3.5		
Infosys	ADD	1,132	1,300	14.9	2,599,912	38,406	2,286	57.8	66.0	75.8	7.2	14.3	14.8	19.6	17.1	14.9	13.5	11.3	9.5	4.5	4.0	3.5	2.0	2.4	2.7	24.4	24.5	24.7	52.0		
Mindtree	REDUCE	1,470	1,425	(3.1)	123,304	1,821	84	71.9	82.6	97.9	12.9	14.9	18.5	20.4	17.8	15.0	14.4	11.7	9.8	5.1	4.3	3.6	1.3	1.5	1.8	27.3	26.1	25.9	4.5		
Mphasis	REDUCE	448	390	(12.9)	94,104	1,390	210	35.7	38.8	40.3	10.6	8.7	3.9	12.5	11.5	11.1	7.6	6.5	6.0	1.6	1.5	1.5	4.0	4.3	4.5	13.3	13.7	13.4	2.8		
TCS	ADD	2,278	2,525	10.9	4,487,945	66,296	1,970	121.7	136.0	152.8	21.3	11.8	12.4	18.7	16.7	14.9	13.6	11.6	10.1	6.4	5.4	4.5	2.1	2.4	2.7	37.6	34.8	32.8	39.0		
Tech Mahindra	ADD	517	600	16.0	500,290	7,390	865	33.7	40.1	48.5	12.1	19.0	21.0	15.4	12.9	10.7	10.8	8.5	6.8	3.1	2.6	2.1	1.2	1.2	1.2	21.7	21.7	21.9	11.6		
Wipro	REDUCE	547	585	6.9	1,351,681	19,967	2,467	36.8	40.1	44.5	5.1	8.7	11.2	14.9	13.7	12.3	10.0	8.7	7.4	2.9	2.6	2.3	2.6	2.9	2.9	20.9	20.1	19.9	10.8		
<b>Technology</b>		<b>Attractive</b>				<b>10,409,798</b>	<b>153,773</b>																								
<b>Telecom</b>																															
Bharti Airtel	ADD	300	385	28.2	1,200,219	17,730	3,997	10.5	13.2	17.2	(30.5)	25.7	30.5	28.6	22.8	17.4	6.2	5.5	4.9	1.9	1.8	1.7	0.9	1.1	1.7	6.7	8.1	10.2	16.7		
Bharti Infratel	ADD	380	395	4.1	719,975	10,635	1,903	12.6	15.7	17.9	19.6	24.6	14.5	30.2	24.2	21.2	12.8	11.0	9.7	4.1	4.0	3.9	2.3	2.9	3.4	13.9	16.9	18.9	10.1		
IDEA	BUY	111	180	61.5	401,260	5,927	3,598	8.1	4.0	6.6	(7.6)	(50.3)	62.5	13.7	27.6	17.0	6.5	6.0	5.1	1.6	1.5	1.4	0.9	1.4	1.8	12.1	5.6	8.7	9.2		
Reliance Communications	SELL	71	60	(15.0)	175,598	2,594	2,488	3.0	3.6	5.7	5.7	19.3	58.3	23.3	19.5	12.3	7.9	7.3	6.6	0.5	0.5	0.5	—	—	—	2.3	2.7	4.1	18.1		
Tata Communications	ADD	400	480	19.9	114,086	1,685	285	2.3	6.7	14.1	(39.3)	193.6	112.2	176.6	60.1	28.3	7.2	6.6	5.9	29.0	19.5	11.5	1.4	1.6	1.6	1.9	38.8	51.1	2.7		
<b>Telecom</b>		<b>Cautious</b>				<b>2,611,137</b>	<b>38,572</b>																								
<b>Utilities</b>																															
Adani Power	SELL	26	31	17.4	77,506	1,145	2,872	(5.5)	0.0	1.5	(23.9)	100.9	2,859.4	(4.8)	535.2	18.1	10.0	8.0	7.6	1.8	1.8	1.7	—	—	—	(32.2)	0.3	9.6	4.1		
CESC	ADD	445	620	39.4	58,955	871	133	35.6	54.9	71.5	139.1	54.1	30.4	12.5	8.1	6.2	6.8	6.0	5.6	0.7	0.6	0.6	1.9	1.9	2.0	5.6	8.2	10.0	3.9		
JSW Energy	ADD	70	92	31.0	115,214	1,702	1,640	8.9	11.3	13.2	5.7	26.3	17.3	7.9	6.2	5.3	6.1	4.6	4.3	1.3	1.0	0.9	—	—	—	17.6	18.4	18.0	3.0		
NHPC	REDUCE	19	20	4.4	212,003	3,132	11,071	2.6	2.4	3.3	12.3	(9.1)	37.9	7.4	8.1	5.9	5.9	6.1	5.0	0.6	0.6	0.6	3.7	3.4	4.7	9.1	7.8	10.1	1.2		
NTPC	BUY	135	150	11.4	1,109,839	16,394	8,245	11.5	13.0	15.4	13.3	13.3	18.6	11.7	10.4	8.7	11.8	9.3	7.3	1.3	1.2	1.1	2.6	2.9	3.4	11.2	11.7	12.8	9.0		
Power Grid	BUY	138	175	26.7	722,744	10,676	5,232	11.5	14.5	15.9	20.0	25.9	9.5	12.0	9.5	8.7	9.8	8.2	6.7	1.7	1.5	1.3	1.7	2.1	2.3	14.9	16.6	16.0	5.2		
Reliance Power	SELL	49	40	(17.9)	136,610	2,018	2,805	5.0	5.7	7.2	35.2	15.4	26.1	9.8	8.5	6.8	10.3	8.1	6.8	0.6	0.6	0.5	—	—	—	6.5	7.0	8.2	7.0		
Tata Power	ADD	62	78	26.5	166,740	2,463	2,800	3.3	5.0	5.1	547.1	49.3	3.3	18.5	12.4	12.0	7.1	5.9	5.6	1.2	1.1	1.0	1.9	1.9	1.9	6.4	9.1	8.8	3.2		
<b>Utilities</b>		<b>Attractive</b>				<b>2,599,612</b>	<b>38,401</b>																								
<b>Others</b>																															
Astral Poly Technik	BUY	409	470	14.9	48,978	723	120	9.0	13.5	17.9	39.9	50.0	33.3	45.6	30.4	22.8	21.7	16.3	12.6	6.8	5.6	4.6	0.1	0.1	0.3	16.0	20.2	22.1	0.2		
Dhanuka Agritech	BUY	500	640	28.0	25,010	369	50	20.7	27.6	34.3	(4.3)	33.4	24.5	24.2	18.1	14.6	17.5	13.5	10.8	5.1	4.2	3.5	0.9	1.2	1.5	22.9	25.5	26.2	0.2		
Godrej Industries	ADD	342	425	24.3	114,891	1,697	336	20.8	20.6	22.3	73.6	(0.9)	8.2	16.4	16.6	15.3	13.5	12.1	9.0	3.0	2.6	2.2	0.5	0.5	0.5	19.7	16.6	15.6	1.7		
InterGlobe Aviation	BUY	1,132	1,500	32.5	407,852	6,025	351	76.8	92.3	106.7	103.6	20.2																			

### Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

\* The above categories are defined as follows: 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 less than -5% returns over the next 12 months. Our target prices are also on a 12-month horizon basis. These ratings are used illustratively to comply with applicable regulations. As of 31/12/2015 Kotak Institutional Equities Investment Research had investment ratings on 173 equity securities.

Source: Kotak Institutional Equities

As of December 31, 2015

## Ratings and other definitions/identifiers

### Definitions of ratings

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

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

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

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

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

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