kotak Institutional Equities

India Daily

November 28, 2023 NIFTY-50 [Nov 24]: 19,795

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UPDATE

kotak Institutional Equities

Balkrishna Industries (BIL)

Automobiles & Components

SELL

CMP(₹): **2,571** Fair Value(₹): **1,900** Sector View: **Cautious** NIFTY-50: **19,795**

November 28, 2023

Mixed demand outlook; valuations remain expensive

Overall demand outlook for the OHT segment remains mixed. India business continues to outperform and Europe agri segment is expected to recover; however, demand challenges persist in the US agri segment (unfavorable terms of trade) and global OTR segment (higher interest rates). Also, the recent uptick in crude oil and international rubber prices will weigh on margin recovery. CMP implies 10% revenue CAGR (15% market share in global OHT market) at Rs132 EBITDA per kg (70% higher than 2QFY24 levels) over FY2027-35E. Retain SELL on expensive valuations.

Agriculture segment—EU demand to recover; US demand to remain muted

Demand for agricultural tires in developed markets have sharply declined over the past few quarters on account of (1) weakness in demand from EU and US regions due to adverse weather conditions resulting in lower production and (2) decline in food prices coupled with sharp increase in input cost resulting in lower farmers profitability. Recovery in agri tire demand in Europe will be driven by (1) improvement in crop production in 2HFY24E and (2) sharp decline in input costs compared to output. However, demand trend in the US is expected to remain weak owing to (1) depressed farm income levels owing to reduced government subsidies and (2) sustained higher input costs.

OTR segment—higher interest rates to weigh on recovery

Demand for OTR tires has remained soft over the past couple of quarters driven by (1) weak end-user demand in domestic market and (2) inventory correction by OEMs and channel partners. However, the outlook for OTR demand tires remains muted due to (1) higher interest rates weighing on demand outlook and (2) slowdown in ordering inflow in the mining segment. Also, Caterpillar and John Deere expect the OTR segment demand to decline in CY2024E.

RM tailwinds to partly reverse in the coming quarters

With recent uptick in crude oil and international rubber prices, we expect gross margins to come under pressure for the company. Given mixed demand outlook, we believe it will be challenging for the company to offset the inflationary pressures with price hikes. Overall, we expect profitability to sustain at current levels (uptick unlikely in the near term) as benefits from operating leverage (base effect) and better hedge rate will be offset by RM headwinds.

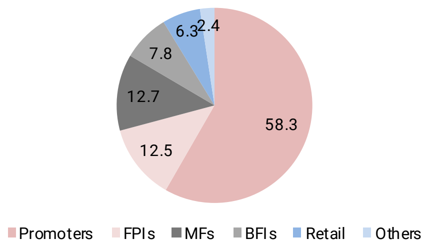
Fine-tune our FY2024-26 EPS estimates; maintain SELL rating

We have fine-tuned our FY2024-26 EPS estimates. India business continue to perform well and Europe agri business is expected to recover; however, muted outlook for OTR segment (high margin segment) and agri segment in the US will weigh on recovery. While we expect the company to gain market share in OHT segment over the medium term, we believe current valuations are not capturing the near-term headwinds to the business. Despite baking in recovery over the coming years, the stock is trading at 33X FY2025E consolidated EPS, which we believe is expensive. Maintain SELL with an unchanged FV of Rs1,900.

Company data and valuation summary

Stock data	
CMP(Rs)/FV(Rs)/Rating	2,571/1,900/SELL
52-week range (Rs) (high-low)	2,683-1,909
Mcap (bn) (Rs/US$)	497/6.0
ADTV-3M (mn) (Rs/US$)	638/7.7

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	0	8	30
Rel. to Nifty	(3)	6	23
Rel. to MSCI India	(4)	4	23

Forecasts/Valuations	2024E	2025E	2026E
EPS (Rs)	67.8	78.0	88.8
EPS growth (%)	23.9	15.2	13.8
P/E (X)	37.9	32.9	28.9
P/B (X)	5.8	5.1	4.5
EV/EBITDA (X)	21.9	18.6	16.4
RoE (%)	16.3	16.6	16.6
Div. yield (%)	0.7	0.8	0.8
Sales (Rs bn)	93	102	111
EBITDA (Rs bn)	23	26	29
Net profits (Rs bn)	13	15	17

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of November 24, 2023

Full sector coverage on KINSITE

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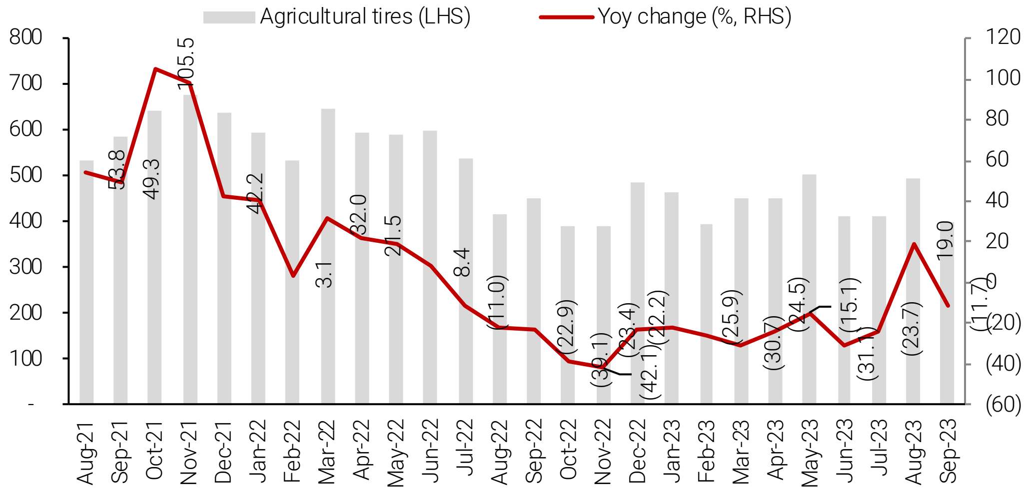
Reverse DCF analysis implies Rs132 per kg of EBITDA (70% higher than 2QFY24 levels)

To justify the CMP, the company has to clock in an EBITDA of Rs132 per kg (70% higher than 2QFY24 profitability) over FY2027-35E, which we believe will be challenging for the company. We expect profitability to improve gradually over the coming years driven by (1) richer product mix (higher mix of OTR segment), (2) favorable hedge rate (EUR:INR) and (3) operating leverage benefits; however, sharp uptick in profitability (on a sustainable basis) is unlikely given (1) the commoditized nature of the industry, which tends to be cyclical and (2) increase in competitive intensity in these segments as the domestic tire companies are incrementally focusing on OHT segment due to higher profitability. In our reverse DCF analysis, we are building in volume growth CAGR of 7-8% and revenue growth CAGR of 10-11% over FY2023-35E, which will result in revenue market share of around ~15% by FY20235E in global OHT market.

Agri export volumes declined by 16% yoy in FYTD24 led by weak demand trends in Europe and NA

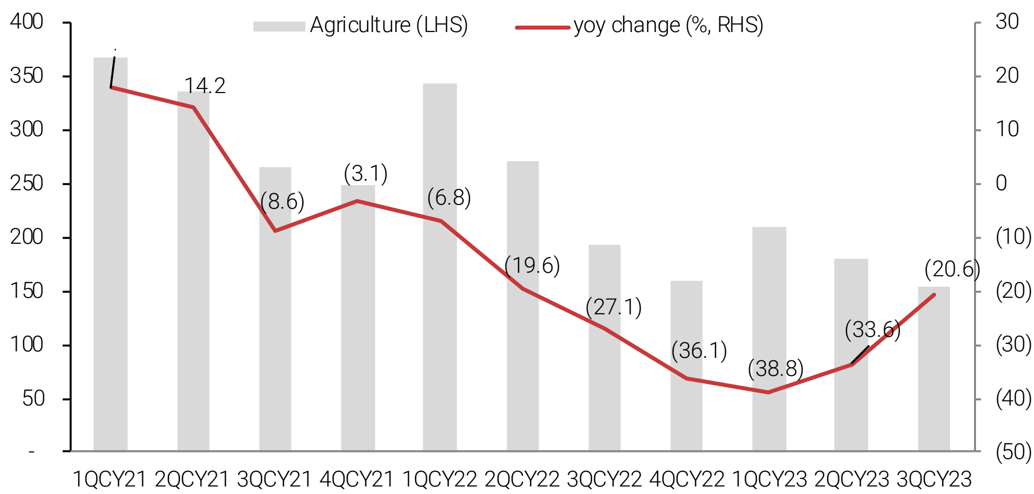
Exhibit 1: Trend in yoy growth in agri export volumes from India, March fiscal year-ends, 2022-24 (%)



Source: Ministry of Commerce, Kotak Institutional Equities

Agri replacement tire segment sales declined by >20% in the each of the past 6 months

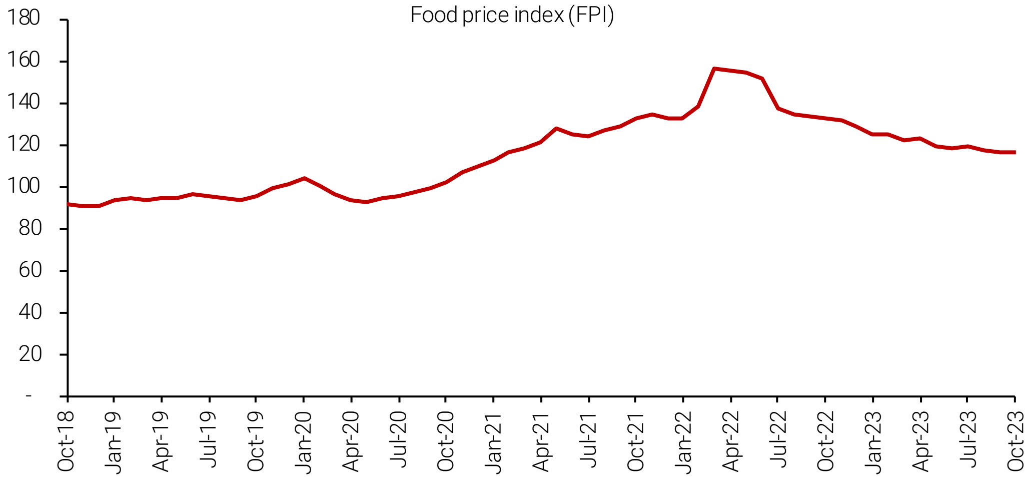
Exhibit 2: Agri replacement tire sales trend in Europe, calendar year-ends, 2021-23 ('000 units, %)



Source: ETRMA, Kotak Institutional Equities

Food price index continues to decline, impacting the farm revenues globally

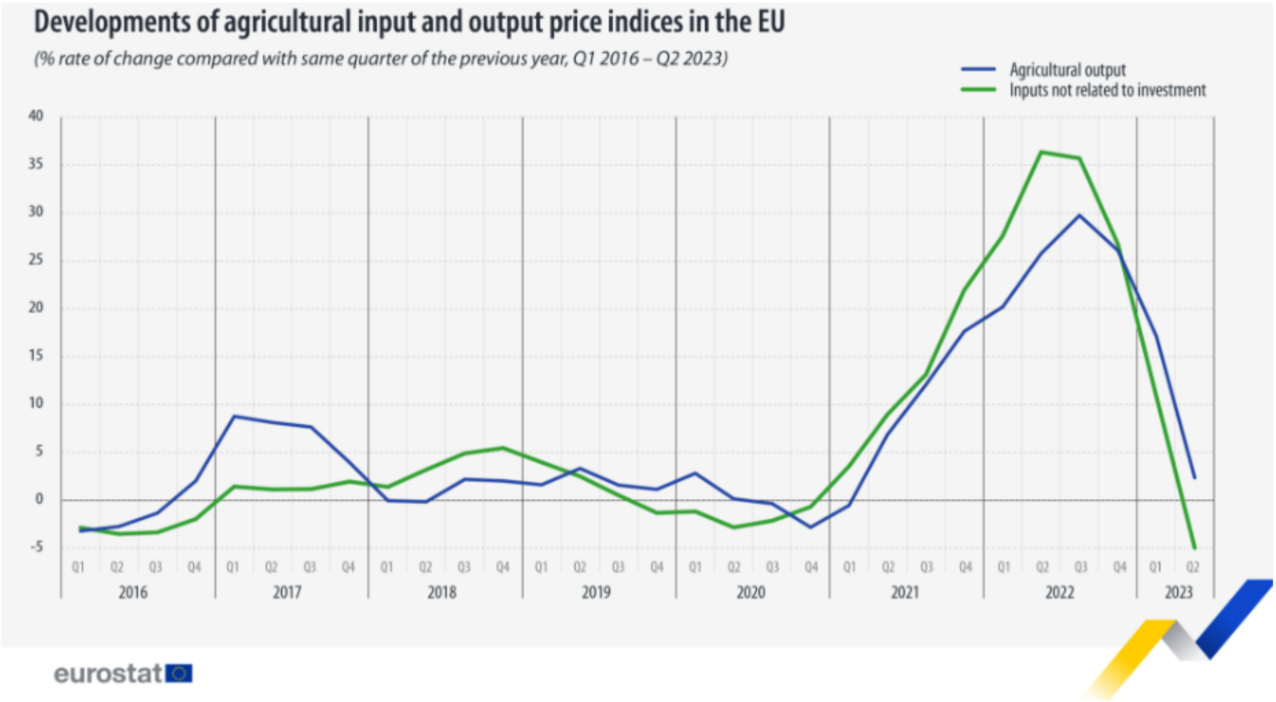
Exhibit 3: Trend of Food price index, calendar year-ends, 2018-23



Source: FAO, Kotak Institutional Equities

The input costs declined sharply compared to output prices in 2QCY23, thereby improving the profitability of farmers

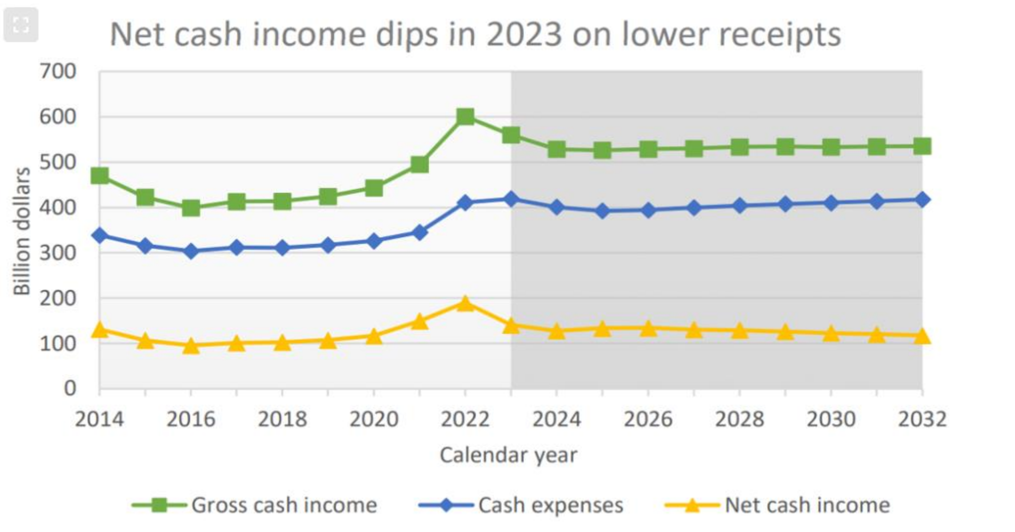
Exhibit 4: Agri output prices versus input costs movement in Europe, calendar year-ends, 2016-23



Source: EUROSTAT, Kotak Institutional Equities

The net cash farm income is expected to decline in CY2023 owing to reduction in government subsidies and higher input costs

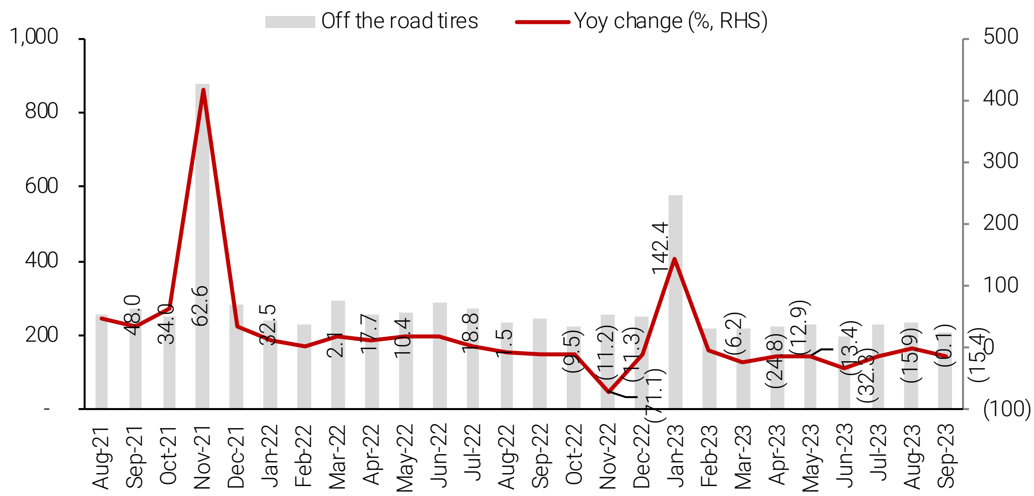
Exhibit 5: Net cash farm income trends in US, calendar year-ends, 2014-32E



Source: US Agriculture Market Outlook, Kotak Institutional Equities

OTR tires export demand remained weak in FYTD24

Exhibit 6: Yoy trend of OTR tires export volumes from India, March fiscal year-ends, 2022-24 (%)



Source: Ministry of Commerce, Kotak Institutional Equities

Overall outlook for agri demand in EU is likely to recover albeit at a slow pace whereas the US demand is likely to be muted

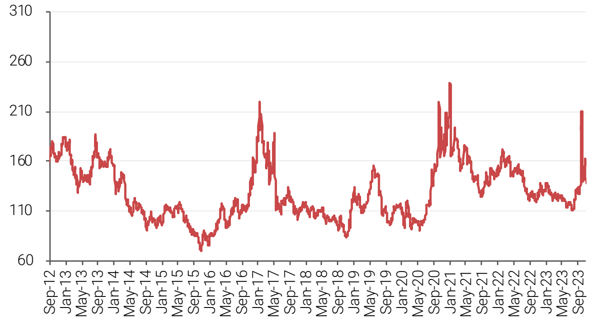
Exhibit 7: Commentary of global tire and equipment manufacturing companies

Company	Region	Comments
Michelin	EU	(1) Soft demand trends in agriculture and construction segments primarily due to high interest costs (2) Mining demand is likely to grow modestly
Titan International	USA	(1) Robust demand trends in mining and construction segments (2) Agriculture segment demand was muted owing to inflation and high interest rates
	EU	(1) Agriculture segment demand trends remain steady
Caterpillar	USA	(1) The company highlighted that customer product utilization remains high in mining indsutry with no of parked trucks remaining low and elevated age of the fleet. However, order inflow has slowed down due to capital discipline employed by the customers (2) The construction segment continues to see positive momentum driven by growth in non-residential construction
	EU	(1) Construction industry demand continues to be weak
John Deere	USA	(1) Agriculture segment demand likely to decline in CY2024E due to moderating farm fundamentals (2) Outlook for construction segment in CY2024E is mixed as the growth in commercial investments to be offset by decline in housing investments.
	EU	(1) Europe agri machinery industry is likely to be down by 10% yoy in CY2024E (2) Construction segment demand to decline by 10% yoy in CY2024E for the company

Source: Companies, Kotak Institutional Equities

International rubber prices remain at elevated levels

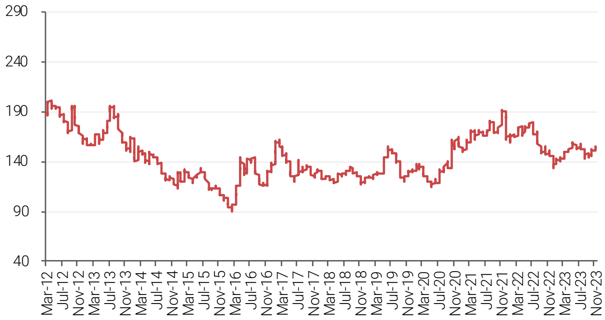
Exhibit 8: Tokyo commodity exchange rubber futures, 2012-24 (Rs per kg)



Source: Bloomberg, Kotak Institutional Equities

Domestic natural rubber prices have inched up in past 2 months

Exhibit 9: Kottayam natural rubber RSS4 prices, 2012-24 (Rs per kg)



Source: Bloomberg, Kotak Institutional Equities

To justify CMP, the company has to clock in EBITDA per kg of Rs130 over FY2027-35E

Exhibit 10: Reverse DCF analysis, Balkrishna Industries, March fiscal year-ends, 2021-35E (Rs mn, %)

												CAGR (%)
	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2035E	2023-35E
Tonnage (tons)	227,132	288,795	301,181	291,691	316,567	341,893	376,082	413,690	455,059	500,565	749,115	7.9
Realization/ton	253,826	292,495	332,741	316,878	319,676	322,862	332,547	342,524	352,800	363,384	413,121	1.8
Revenues	57,652	84,471	100,215	92,431	101,199	110,384	125,065	141,699	160,545	181,897	309,475	9.9
Yoy (%)	17.0	46.5	18.6	(7.8)	9.5	9.1	13.3	13.3	13.3	13.3	10.2	
EBITDA	18,344	22,158	20,201	22,430	25,947	28,776	48,891	53,780	59,158	65,073	97,385	
EBITDA/kg	81	77	67	77	82	84	130	130	130	130	130	
EBIT/ton	62,437	60,956	48,121	53,524	58,237	60,316	106,492	106,976	107,367	107,671	110,019	7.1
EBIT	14,181	17,604	14,493	15,612	18,436	20,622	40,050	44,255	48,858	53,896	82,417	15.6
Tax expense	(3,442)	(4,856)	(3,812)	(4,044)	(4,775)	(5,341)	(10,373)	(11,462)	(12,654)	(13,959)	(21,345)	
EBIT (1-tax)	**10,739**	**12,748**	**10,681**	**11,569**	**13,661**	**15,281**	**29,677**	**32,793**	**36,204**	**39,938**	**61,071**	
Depreciation	(4,163)	(4,554)	(5,708)	(6,818)	(7,511)	(8,154)	(8,841)	(9,525)	(10,299)	(11,177)	(14,968)	
Change in working capital	(1,273)	(8,289)	(1,865)	2,363	(1,362)	(1,393)	(2,713)	(2,393)	(3,392)	(3,843)	(4,852)	
Capex	(9,262)	(15,953)	(17,625)	(9,000)	(6,500)	(10,000)	(8,755)	(9,919)	(11,238)	(12,733)	(18,569)	
FCFF	**4,368**	**(6,940)**	**(3,101)**	**11,750**	**13,310**	**12,042**	**27,050**	**30,006**	**31,873**	**34,538**	**52,619**	
Key assumptions												
WACC	**11.5**											
Sum of discounted cash flows	198,372											
Terminal cash flow	18,570											
Terminal growth rate (%)	5.0											
Terminal value	285,688											
Enterprise value	484,061											
Net debt/(cash) as of March 2025	(8,784)											
Equity value	492,845											
Equity value per share	**2,550**											

Source: Company, Kotak Institutional Equities estimates

We build in 5% volume CAGR over FY2023-26E

Exhibit 11: Historical volume growth across segments and forecasts for BIL, March fiscal year-ends, 2017-26E (tons, %)

											CAGR (%)	
	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	2017-23	2023-26E
Segment-wise volumes (tons)												
Agricultural	107,567	124,247	129,118	124,112	145,364	189,161	188,840	173,733	189,369	204,519	9.8	2.7
OTR (Industrial, mining, construction)	58,230	67,289	74,963	70,656	72,682	89,815	103,004	108,154	116,806	126,151	10.0	7.0
Others	6,623	7,677	7,180	6,992	9,085	9,819	9,337	9,803	10,392	11,223	5.9	6.3
Total volumes	**172,420**	**199,213**	**211,261**	**201,760**	**227,132**	**288,795**	**301,181**	**291,691**	**316,567**	**341,893**	**9.7**	**4.3**
Channel-wise volumes (tons)												
OEM	40,516	51,055	56,779	51,449	59,054	79,996	84,029	81,509	88,029	95,072	12.9	4.2
Replacement	127,172	142,325	150,321	144,258	158,992	199,269	209,321	205,134	221,545	239,269	8.7	4.6
Off-take (contract manufacturing)	4,732	5,833	4,161	6,053	9,085	9,530	7,831	5,048	6,993	7,552	8.8	(1.2)
Total volumes	**172,420**	**199,213**	**211,261**	**201,760**	**227,132**	**288,795**	**301,181**	**291,691**	**316,567**	**341,893**	**9.7**	**4.3**
Region-wise volumes (tons)												
Europe	93,456	107,299	106,494	102,898	113,566	155,661	152,096	136,887	147,838	159,665	8.5	1.6
America	26,404	29,840	35,369	34,299	34,070	50,828	53,911	49,598	53,566	57,852	12.6	2.4
Rest of World	25,667	29,235	30,914	24,211	27,256	32,345	30,118	29,516	31,877	34,427	2.7	4.6
India	26,893	32,839	38,484	40,352	52,240	49,962	65,055	75,690	83,286	89,949	15.9	11.4
Total volumes	**172,420**	**199,213**	**211,261**	**201,760**	**227,132**	**288,795**	**301,181**	**291,691**	**316,567**	**341,893**	**9.7**	**4.3**
Segmental volume mix (%)												
Agricultural	62.4	62.4	61.1	61.5	64.0	65.5	62.7	59.6	59.8	59.8		
OTR	33.8	33.8	35.5	35.0	32.0	31.1	34.2	37.1	36.9	36.9		
Others	3.8	3.9	3.4	3.5	4.0	3.4	3.1	3.4	3.3	3.3		
Total volumes	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**		
Channel-wise mix (%)												
OEM	23.5	25.6	26.9	25.5	26.0	27.7	27.9	27.9	27.8	27.8		
Replacement	73.8	71.4	71.2	71.5	70.0	69.0	69.5	70.3	70.0	70.0		
Off-take (contract manufacturing)	2.7	2.9	2.0	3.0	4.0	3.3	2.6	1.7	2.2	2.2		
Total volumes	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**		
Region-wise mix (%)												
Europe	54.2	53.9	50.4	51.0	50.0	53.9	50.5	46.9	46.7	46.7		
America	15.3	15.0	16.7	17.0	15.0	17.6	17.9	17.0	16.9	16.9		
Rest of World	14.9	14.7	14.6	12.0	12.0	11.2	10.0	10.1	10.1	10.1		
India	15.6	16.5	18.2	20.0	23.0	17.3	21.6	25.9	26.3	26.3		
Total volumes	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**		

Source: Company, Kotak Institutional Equities estimates

We expect EBITDA margin to improve to ~25-26% over FY2025-26E

Exhibit 12: Assumptions for BKT consolidated financials, March fiscal year-ends, 2017-26E (Rs mn)

	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Volumes (MT)	172,420	199,213	211,261	201,760	227,132	288,795	301,181	291,691	316,567	341,893
Sales from core operations (Rs mn)	37,969	46,683	53,355	48,975	56,199	81,787	96,225	86,618	95,096	103,976
EBITDA from core operations (Rs mn)	12,158	13,517	14,291	13,814	17,975	21,607	19,459	20,462	23,923	26,697
RMs from core operations (Rs mn)	15,814	21,499	24,628	21,268	21,948	35,604	45,885	40,536	44,197	48,515
Net sales per kg from core operations (Rs)	220.2	234.3	252.6	242.7	247.4	283.2	319.5	297.0	300.4	304.1
RM per kg from core operations (Rs)	91.7	107.9	116.6	105.4	96.6	123.3	152.4	139.0	139.6	141.9
EBITDA per kg from core operations (Rs)	**70.5**	**67.9**	**67.6**	**68.5**	**79.1**	**74.8**	**64.6**	**70.2**	**75.6**	**78.1**
EBITDA margin from core operations (%)	**32.0**	**29.0**	**26.8**	**28.2**	**32.0**	**26.4**	**20.2**	**23.6**	**25.2**	**25.7**

Notes:
(a) Core operations excludes sales of carbon black

Source: Company, Kotak Institutional Equities estimates

We expect BKT to deliver 18% EPS CAGR over FY2023-26E partly on account of lower base

Exhibit 13: P&L, cash flow statement and balance sheet for BKT consolidated, March fiscal year-ends, 2017-26E (Rs mn, %)

	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Profit model (Rs mn)										
Sales	37,923	46,648	53,010	49,262	57,652	84,471	100,215	92,431	101,199	110,384
EBITDA	**12,150**	**13,466**	**14,201**	**14,033**	**18,344**	**22,158**	**20,201**	**22,430**	**25,947**	**28,776**
Other income	1,696	948	1,002	1,188	1,482	2,309	335	3,202	2,711	3,069
Interest	(220)	(139)	(111)	(89)	(114)	(92)	(480)	(924)	(774)	(524)
Depreciation	(3,040)	(3,114)	(3,326)	(3,736)	(4,163)	(4,554)	(5,708)	(6,818)	(7,511)	(8,154)
Profit before tax	**10,586**	**11,160**	**11,766**	**11,395**	**15,549**	**19,822**	**14,348**	**17,891**	**20,373**	**23,167**
Tax expense	(3,418)	(3,803)	(4,029)	(1,799)	(3,774)	(5,468)	(3,774)	(4,634)	(5,245)	(5,966)
PAT	7,169	7,358	7,737	9,597	11,775	14,354	10,574	13,257	15,128	17,201
Adjusted PAT	**6,897**	**7,229**	**7,667**	**9,597**	**11,775**	**14,354**	**10,574**	**13,257**	**15,128**	**17,201**
Adjusted EPS	**35.7**	**37.4**	**39.7**	**49.6**	**60.9**	**74.3**	**54.7**	**68.6**	**78.3**	**89.0**
Balance sheet (Rs mn)										
Equity	35,429	40,834	46,537	50,083	59,998	69,330	75,569	85,424	96,810	109,895
Deferred tax liability	3,529	3,289	3,255	1,783	2,035	2,509	2,419	2,419	2,419	2,419
Total borrowings	13,909	8,675	8,711	9,310	10,004	25,285	33,418	30,418	25,418	20,418
Current liabilities and provisions	5,025	5,985	6,287	6,888	9,628	12,665	12,024	12,226	13,299	14,456
Total liabilites	**57,891**	**58,782**	**64,790**	**68,064**	**81,665**	**109,789**	**123,429**	**130,486**	**137,945**	**147,187**
Net fixed assets	29,584	29,678	33,866	38,931	42,257	52,778	67,757	69,939	68,928	70,774
Investments	13,492	11,027	10,826	10,625	14,177	18,967	20,367	25,367	30,367	35,367
Cash & cash equivalents	248	334	656	691	780	517	763	2,799	3,834	3,680
Other current assets	14,567	17,743	19,442	17,816	24,452	37,528	34,542	32,381	34,815	37,366
Total assets	**57,891**	**58,783**	**64,790**	**68,064**	**81,665**	**109,789**	**123,429**	**130,486**	**137,945**	**147,187**
Free cash flow (Rs mn)										
Operating cash flow excl. working capital	9,351	9,561	10,138	11,188	14,663	17,369	16,345	16,873	19,928	22,286
Working capital changes	(1,111)	(2,154)	(1,934)	544	(1,273)	(8,289)	(1,865)	2,363	(1,362)	(1,393)
Net financial income	1,476	809	890	1,099	1,368	2,218	(145)	2,278	1,937	2,545
Cash flow from operations	**9,716**	**8,216**	**9,095**	**12,830**	**14,758**	**11,298**	**14,335**	**21,514**	**20,503**	**23,439**
Capital expenditure	(1,849)	(4,203)	(7,397)	(7,841)	(9,262)	(15,953)	(17,625)	(9,000)	(6,500)	(10,000)
Free cash flow	**7,867**	**4,013**	**1,697**	**4,989**	**5,496**	**(4,655)**	**(3,290)**	**12,514**	**14,003**	**13,439**
Ratios										
Gross margin	58.3	54.1	53.9	56.6	59.9	55.3	51.0	52.0	52.3	52.1
EBITDA margin (%)	32.0	28.9	26.8	28.5	31.8	26.2	20.2	24.3	25.6	26.1
PAT margin (%)	18.2	15.5	14.5	19.5	20.4	17.0	10.6	14.3	14.9	15.6
Net debt/equity (X)	0.0	(0.1)	(0.1)	(0.0)	(0.1)	0.1	0.2	0.0	(0.1)	(0.2)
Book value (Rs/share)	183.3	211.2	240.7	259.1	310.4	358.7	390.9	441.9	500.8	568.5
RoAE (%)	21.8	19.0	17.5	19.9	21.4	22.2	14.6	16.5	16.6	16.6
RoACE (%)	**17.4**	**18.5**	**17.5**	**18.9**	**20.8**	**19.6**	**13.1**	**13.2**	**15.6**	**17.1**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

UPDATE

Narayana Hrudayalaya (NARH)

Health Care Services

REDUCE

CMP(₹): **1,238** Fair Value(₹): **1,170** Sector View: **Cautious** NIFTY-50: **19,795**

November 28, 2023

Cracking the Cayman code

A remarkable turnaround in Cayman has been one of the key factors driving NARH's robust 36% 5-year consolidated EBITDA CAGR in 1HFY24. Based on the 1HFY24 run-rate, NARH's annualized Cayman EBITDA has surged ~5X in the past five years. We believe the mix in Cayman could have been better—IP discharges have been flat over this period with the recovery being primarily driven by a towering 16% CAGR in realization per patient. Furthermore, at 25X FY2025E pre-Ind AS-116 EV/EBITDA, NARH's domestic valuations encapsulate its subpar margins and future dilution in RoCEs due to the ongoing elevated capex phase. Retain REDUCE with FV of Rs1,170.

With ~40% EBITDA contribution in 1H, Cayman's relevance continues to grow

Post commencing operations in CY2014, the Cayman facility underperformed for the initial 4-5 years. Contrary to its original plan of attracting medical tourists, a huge majority of the current patient volumes are locals from Cayman. Pre-Covid, NARH's Cayman operations were contributing ~23% to its overall EBITDA. With greater acceptance from locals post Covid coupled with a better case mix, Cayman contributed ~40% to NARH's consolidated EBITDA in 1HFY24. With a 16% 5-year CAGR in realization per patient amid flat IP discharges, we highlight the turnaround has been largely led by realizations.

Despite radiation being margin accretive, the new facility will lead to dilution

We estimate NARH is clocking ~Rs200 mn quarterly sales, with 75+% EBITDA margins, in the recently commissioned radiation oncology block in Cayman. Apart from higher occupancy in the existing Health City hospital, we expect Cayman's margins to stay elevated for the next 2-3 quarters due to traction in the radiation block. Once the Camana Bay hospital commences operations in 1QFY25 with ~50 beds, we expect Cayman's margins to decline 300 bps yoy to 40.5% in FY2025E. Baking in a gradual ramp-up of this facility, we expect Cayman to report sales/EBITDA CAGRs of 17/18%, over FY2023-26E.

Higher cash generation in Cayman comes with a rider

One of the challenges in utilizing the Cayman proceeds is that NARH is liable to pay ~25% tax if it utilizes the Cayman cash for expenditure incurred in India. If NARH chooses to dividend out the Cayman proceeds, the tax incidence is nil. Given management's focus on growth as well as limited track-record of payout since inception, we expect NARH to utilize the Cayman proceeds in being more aggressive in scouting for expansion opportunities in the Caribbean Islands and eventually the US. Even as its Cayman business has clicked, albeit after the initial drag, we remain a bit concerned of any major overseas expansion.

Fairly priced; retain REDUCE with FV of Rs1,170

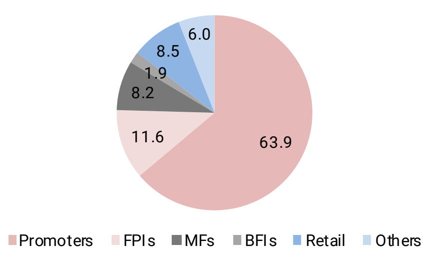
Aided by higher occupancies, ramp-up of new hospitals and better mix, we bake in 15%/18% India sales/EBITDA CAGRs over FY2023-26E. We raise FY2024-26E EBITDA by 2-4%, due to higher margins across India and Cayman. Given the elevated capex intensity (cumulative capex of Rs27.4 bn over FY2024-26E), compared to its average annual capex of Rs2.7 bn over FY2018-20, we stay wary of further RoCE dilution. REDUCE with FV of Rs1,170 (Rs1,115 earlier).

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	1,238/1,170/REDUCE
52-week range (Rs) (high-low)	1,314-705
Mcap (bn) (Rs/US$)	253/3.0
ADTV-3M (mn) (Rs/US$)	414/5.0

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	22	22	62
Rel. to Nifty	19	20	55
Rel. to MSCI India	18	18	55

Forecasts/Valuations	2024E	2025E	2026E
EPS (Rs)	38.8	41.9	49.5
EPS growth (%)	30.8	7.9	18.2
P/E (X)	31.9	29.6	25.0
P/B (X)	8.7	6.7	5.3
EV/EBITDA (X)	21.5	18.5	15.4
RoE (%)	31.4	25.5	23.6
Div. yield (%)	0.0	0.0	0.0
Sales (Rs bn)	52	61	69
EBITDA (Rs bn)	12	14	16
Net profits (Rs bn)	8	9	10

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of November 24, 2023

Related Research

→ NARH: Margins climb across India & Cayman

→ APHS: Gaining ground

→ Hospitals: Per bed profitability outlook

Full sector coverage on KINSITE

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Post a decadal journey of ups and downs, Cayman is now a vital cog in NARH's wheels

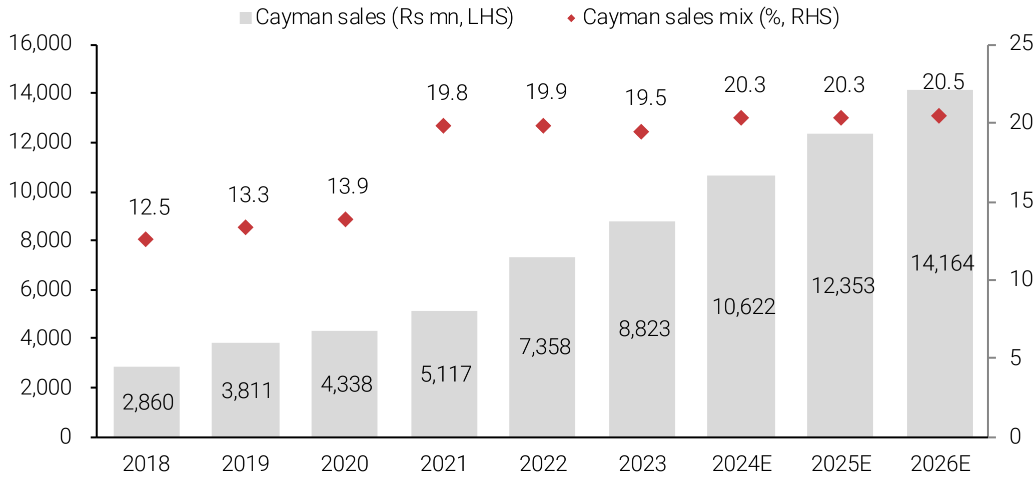
In April 2010, NARH entered into an agreement with the Government of Cayman Islands to set up an integrated hospital and medical university in phases in the Cayman Islands. In CY2011, NARH invested ~US$22 mn for a 104-bed Cayman Island facility, thereby acquiring ~28.6% stake in the facility. NARH was provided an option to acquire the remaining stake in the hospital at the same valuation. In November 2017, NARH announced the acquisition of the remaining 71.4% stake in the hospital and it became a fully owned subsidiary of the company effective January 2018. In order to finance this acquisition, it had borrowed the entire amount, with US$25 mn borrowings secured by the Indian entity.

Cayman's relative importance in NARH's overall mix has increased meaningfully

We highlight sales and EBITDA contribution of Cayman to NARH's overall mix has increased by ~700 bps and ~1,400 bps respectively over FY2019-23. Pre-Covid, NARH's Cayman operations were contributing ~23% to NARH's overall EBITDA. With greater acceptance from the local population post Covid coupled with a better case mix, Cayman's contribution to NARH's consolidated EBITDA has increased significantly and stood at ~40% in 1HFY24.

Post FY2020, Cayman's contribution to NARH's overall sales has increased to ~20%

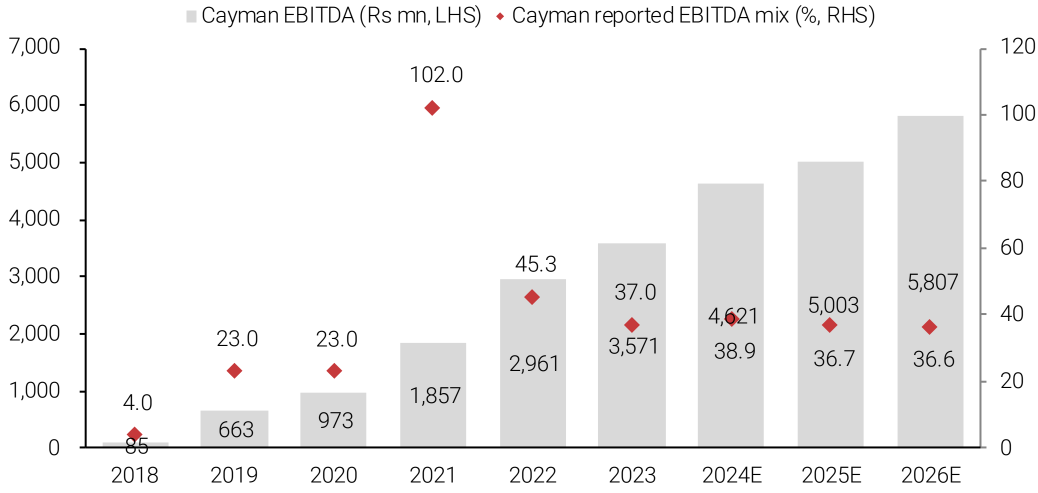
Exhibit 1: NARH – sales contribution, March fiscal year-ends, 2018-26E (Rs mn, %)



Source: Company, Kotak Institutional Equities estimates

We expect Cayman to constitute 37-39% of NARH's EBITDA over FY2024-26E

Exhibit 2: NARH – reported EBITDA contribution, March fiscal year-ends, 2018-26E (Rs mn, %)



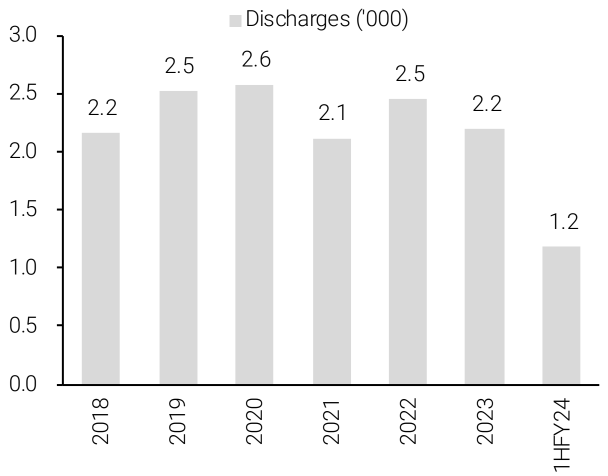
Source: Company, Kotak Institutional Equities estimates

Contrary to NARH's original plan, majority of the footfalls in Cayman remain local

Having commenced operations in CY2014, NARH's Cayman facility underperformed for the initial 4-5 years. At the time of its inception, NARH intended the Cayman unit to primarily focus on attracting patients from the US, Canada and Latin America. However, attracting overseas patients proved to be a challenge for NARH. Currently, a huge majority of the patient volumes are locals from Cayman, with some from other Caribbean islands and very few patients flying in from the US. As a result, given the small population of Cayman (~70,000), medium to long term growth is likely to be constrained.

NARH – Cayman IP discharges

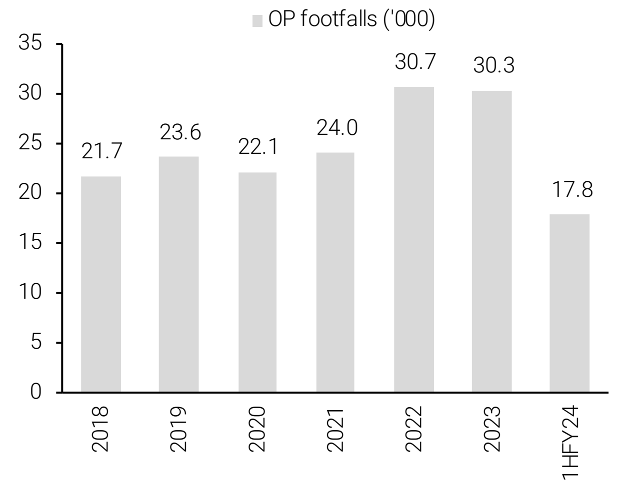
Exhibit 3: March fiscal year-ends, 2018-24E ('000)



Source: Company, Kotak Institutional Equities

NARH – Cayman OP footfalls

Exhibit 4: March fiscal year-ends, 2018-24E ('000)



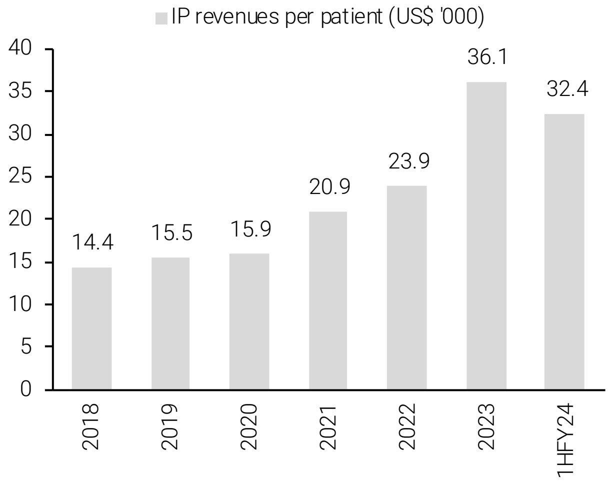
Source: Company, Kotak Institutional Equities

Not exactly an IP volume-led turnaround in Cayman

Competitive intensity in Cayman remains benign with there being a very large tertiary care government hospital and another private hospital, in addition to NARH's Health City facility. In FY2021, Aster DM had signed an agreement with the government of Cayman Islands to invest up to US$100 mn in the region, and set up a tertiary and quaternary care hospital. However, pending clarity on Aster DM's GCC restructuring, there has been no progress on that front. As a result, NARH's Health City facility, remains the dominant hospital in the country. ARPOBs in this region are much higher compared to NARH's India business due to (1) higher cost of treatment in the region and (2) higher contribution from high-end elective procedures, such as bone marrow transplants, organ transplants, etc. While the turnaround of Cayman has been very impressive, we believe the mix could have been better. For instance, IP discharges have been flat over the past five years and OP footfalls have reported an 8.6% 5-year CAGR, with the recovery being primarily driven by a towering 16% 5-year CAGR in realization per patient. In our view, a large chunk of the improvement in realizations is due to an improved case mix and higher OPD penetration. However, we do not have clarity on the exact quantum of benefit from price hikes in Cayman.

NARH – Cayman IP revenues per patient

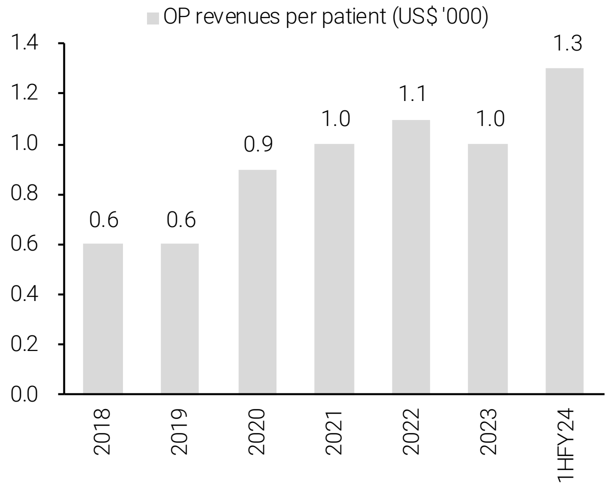
Exhibit 5: March fiscal year-ends, 2018-24E (US$ '000)



Source: Company, Kotak Institutional Equities

NARH – Cayman OP revenues per patient

Exhibit 6: March fiscal year-ends, 2018-24E (US$' 000)



Source: Company, Kotak Institutional Equities

We build in 300 bps margin contraction in Cayman due to the upcoming second hospital

While NARH had a medical oncology practice in Cayman, it didn't commence oncology surgeries or radiation oncology. Hence, in FY2020, it decided to invest further in Cayman to set up a radiation oncology block, which commenced operations in 1QFY24. In addition, NARH remains on track to commission the new ~50 bed hospital at Camana Bay in Cayman in 1QFY25. While there will be fixed costs associated with this hospital, due to NARH's existing brand equity in Cayman, NARH expects the breakeven to be much faster than the ~4 years taken by the existing Health City hospital. At the Camana Bay hospital, there will be lot of services which NARH is already offering at its Health City hospital and hence will be utilizing the services of its existing doctors. Nevertheless, there will still be additional doctors required to handle the increased volumes. In addition, there will be services such as robotic surgeries, oncology surgeries and chemotherapy, which are not available in any other facility at Caribbean Islands. Also, NARH will need to hire more nurses.

Currently, apart from traction in the Health City hospital, EBITDA margins in Cayman continue to be driven by traction in the highly profitable radiology block. We estimate NARH is clocking ~Rs200 mn quarterly sales, with 75+% EBITDA margins, in the recently commissioned radiation oncology block. Apart from higher occupancy in the existing Health City hospital, we expect overall margins in Cayman to remain elevated for the next 2-3 quarters due to the radiation block. Once the Camana Bay hospital commences operations in 1QFY25 with ~50 beds, we expect Cayman's margins to decline 300 bps yoy to 40.5% in FY2025E. Baking in a gradual ramp-up of this facility, we expect Cayman to report sales/EBITDA CAGRs of 17/18%, over FY2023-26E.

Cayman's EBITDA margins have increased from 22% in FY2020 to 40+% since FY2022

Exhibit 7: NARH – EBITDA split, March fiscal year-ends, 2018-26E (Rs mn)

	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Revenues (Rs mn)									
India sales (Rs mn)	19,949	24,798	26,940	20,706	29,655	36,424	41,681	48,410	54,882
Cayman sales (Rs mn)	2,860	3,811	4,338	5,117	7,358	8,823	10,622	12,353	14,164
Consolidated sales	**22,809**	**28,609**	**31,278**	**25,823**	**37,013**	**45,248**	**52,303**	**60,762**	**69,046**
EBITDA (Rs mn)									
India (pre-IndAS) EBITDA (Rs mn)	2,038	2,215	2,865	(447)	3,026	5,515	6,661	8,026	9,433
India (reported) EBITDA (Rs mn)	2,038	2,215	3,256	(36)	3,574	6,087	7,250	8,632	10,058
Cayman EBITDA (Rs mn)	85	663	973	1,857	2,961	3,571	4,621	5,003	5,807
Consolidated EBITDA (pre-IndAS)	**2,123**	**2,878**	**3,838**	**1,410**	**5,987**	**9,086**	**11,282**	**13,028**	**15,240**
Consolidated EBITDA (reported)	**2,123**	**2,878**	**4,229**	**1,821**	**6,535**	**9,658**	**11,871**	**13,635**	**15,865**
Margin (%)									
India (pre-IndAS)	10.2	8.9	10.6	(2.2)	10.2	15.1	16.0	16.6	17.2
India (reported)	10.2	8.9	12.1	(0.2)	12.1	16.7	17.4	17.8	18.3
Cayman	3.0	17.4	22.4	36.3	40.2	40.5	43.5	40.5	41.0
Consolidated EBITDA (pre-IndAS)	**9.3**	**10.1**	**12.3**	**5.5**	**16.2**	**20.1**	**21.6**	**21.4**	**22.1**
Consolidated EBITDA (reported)	**9.3**	**10.1**	**13.5**	**7.1**	**17.7**	**21.3**	**22.7**	**22.4**	**23.0**

Source: Company, Kotak Institutional Equities estimates

NARH is likely to utilize the Cayman proceeds for overseas expansion

Cayman remains a business with nil tax rate. One of the challenges is that NARH is liable to pay ~25% tax if it utilizes the Cayman proceeds for expenditure incurred in India. If NARH chooses to dividend out the Cayman proceeds, the tax incidence is nil. Given management's focus on growth as well as limited track-record of payout since inception, we expect NARH to utilize the Cayman proceeds in being more aggressive in scouting for expansion opportunities in the Caribbean Islands and eventually the US. Owing to its existing presence in Cayman, NARH has also received a lot of interest from the other Caribbean islands as well as the US for O&M arrangements. To address this demand, NARH had set up a subsidiary in the US in FY2019. Through this subsidiary, NARH would act as a consulting arm to several smaller US hospitals (especially in the Mid-West) to improve their efficiencies by offering its software and tools for business intelligence. These contracts ranged in the low-to-mid hundred thousand dollars, in terms of revenue accretion. While NARH remains keen on pursuing growing opportunities, which would complement its presence in Cayman, NARH does not intend to pursue any large-scale overseas inorganic opportunities. In our view, while its Cayman operations have clicked, albeit after the initial drag, we remain a bit wary of any major overseas expansion.

We estimate NARH's Cayman RoCE stood at a robust ~29% in FY2023

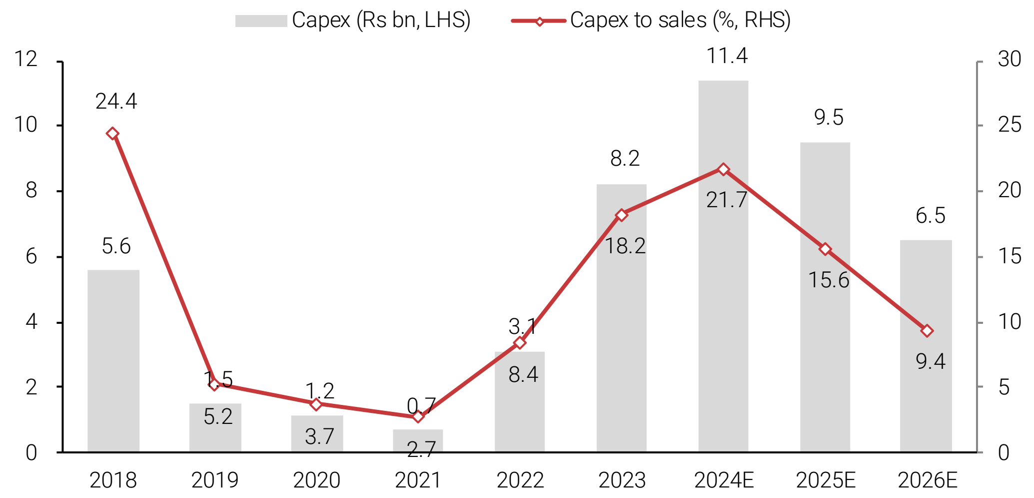
Exhibit 8: NARH – RoCE split, March fiscal year-end, 2023 (Rs mn, %)

	FY2023
Reported EBITDA (Rs mn)	
Overall reported EBITDA	9,658
India reported EBITDA	6,087
India EBITDA contribution (%)	63.0
Capital employed (Rs mn)	
Average capital employed (long-term loans + short-term loans + lease libalities + equity)	26,139
India capital employed (assuming 65% of overall capital employed)	**16,991**
Cayman capital employed	**9,149**
EBIT (Rs mn)	
Overall EBIT	7,558
India EBIT (assuming 65% of overall EBIT)	**4,913**
Cayman EBIT	**2,645**
Tax expenses	1,450
Post-tax India EBIT (assuming nil tax in Cayman)	3,462
RoCE (%)	
India RoCE (%)	**20.4**
Cayman RoCE (%)	**28.9**

Source: Company, Kotak Institutional Equities estimates

Compared to FY2019-22 levels, NARH's capex intensity remains significantly elevated

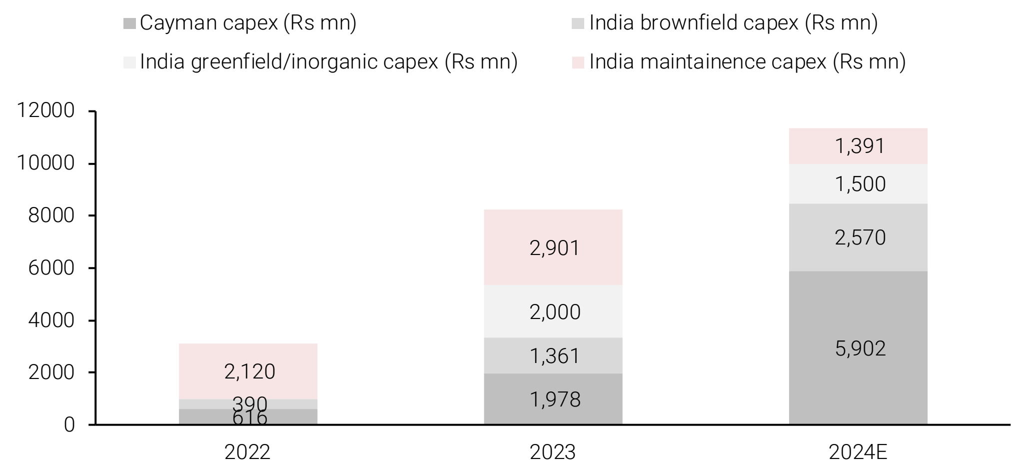
Exhibit 9: NARH – capex details, March fiscal year-ends, 2018-26E (Rs bn, %)



Source: Company, Kotak Institutional Equities estimates

NARH plans to invest Rs11.4 bn in capex in FY2024E (Rs3.94 bn spent in 1HFY24)

Exhibit 10: NARH – capex plan, March fiscal year-ends, 2022-24E (Rs mn)



Source: Company, Kotak Institutional Equities estimates

NARH's India business lags its peers in terms of most key metrics

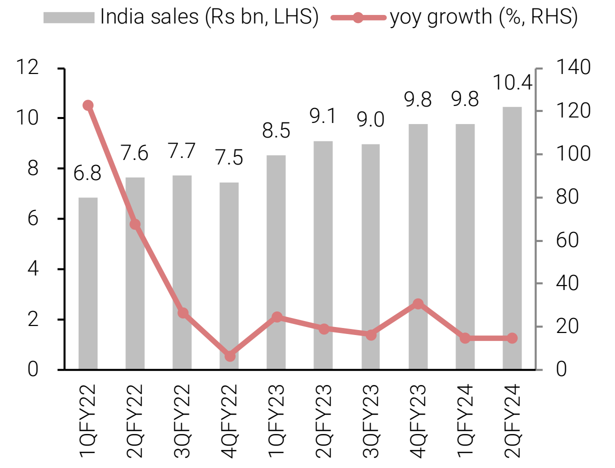
Exhibit 11: Comparison of listed hospitals, March fiscal year-ends, 2020-23 (Rs mn, %)

	2020	2021	2022	2023
EBITDA margin (%)				
Rainbow	27.4	25.0	31.3	33.8
Max	17.6	17.1	26.8	28.3
KIMS	21.8	27.9	31.2	27.5
Yatharth		29.3	27.6	25.7
Apollo (hospitals)	15.3	10.7	22.6	24.6
Medanta	13.2	13.5	20.6	22.8
Jupiter	17.8	13.8	20.9	22.6
Fortis (hospitals)	11.3	8.4	15.8	18.1
Aster (India)	11.2	10.9	17.4	18.0
Narayana (India)	**17.9**	**6.1**	**12.1**	**16.7**
RoCE (%)				
Yatharth		18.3	25.2	27.5
Rainbow	17.0	13.3	28.8	27.1
Narayana	**9.0**	**(0.0)**	**18.5**	**23.3**
KIMS	17.0	22.1	24.7	19.1
Max	6.8	25.8	13.0	16.6
Apollo	9.5	5.0	14.4	13.0
Medanta	2.5	3.3	10.1	11.9
Jupiter	9.7	4.0	10.3	10.9
Aster	10.6	6.7	13.9	10.8
Fortis	4.5	2.2	10.5	9.8
ARPOB (Rs '000/day)				
Max	45	45	56	60
Medanta	45	48	55	59
Fortis	44	43	49	55
Apollo	37	40	49	51
Jupiter	42	44	49	51
Rainbow	29	41	46	49
Aster (India)	29	30	33	35
Narayana (India)	**27**	**28**	**32**	**34**
KIMS	18	21	25	30
Yatharth		21	24	27
Revenue/occupied bed (Rs mn)				
Max	16.5	16.6	20.3	22.1
Medanta	16.5	17.6	19.9	21.6
Rainbow	12.8	16.8	18.9	17.9
Jupiter	15.6	16.1	17.9	17.8
Apollo	12.8	14.1	16.1	17.2
Fortis	16.9	14.9	17.1	16.9
Narayana (India)	**9.2**	**10.0**	**11.8**	**13.0**
Aster (India)	10.5	11.0	12.2	12.9
KIMS	6.6	7.7	9.1	10.8
Yatharth		7.8	8.6	9.7
EBITDA/occupied bed (Rs mn)				
Max	2.9	2.8	5.4	6.2
Rainbow	3.5	4.2	5.9	6.0
Medanta	2.2	2.4	4.1	4.9
Apollo	2.0	1.5	3.6	4.2
Jupiter	2.9	2.4	3.9	4.0
Fortis	1.9	1.3	2.7	3.1
KIMS	1.4	2.2	2.8	3.0
Yatharth		2.3	2.4	2.5
Aster (India)	1.2	1.2	2.1	2.3
Narayana (India)	**1.7**	**0.6**	**1.4**	**2.2**

Source: Company, Kotak Institutional Equities estimates

NARH – quarterly India sales

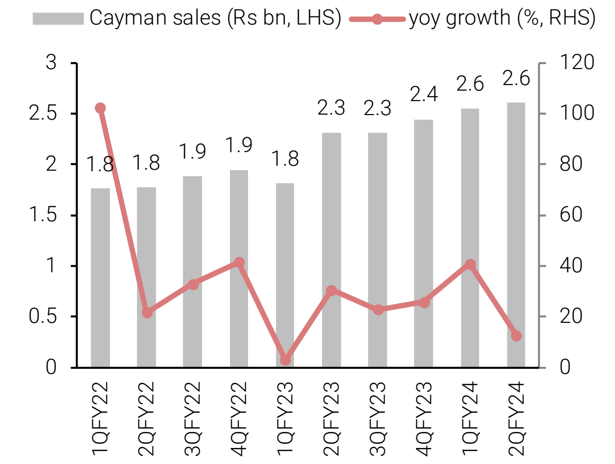
Exhibit 12: March fiscal year-ends, 2022-24E (Rs bn, %)



Source: Company, Kotak Institutional Equities

NARH – quarterly Cayman sales

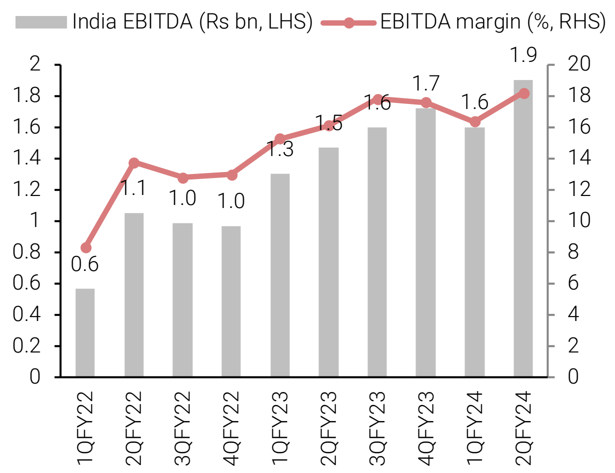
Exhibit 13: March fiscal year-ends, 2022-24E (Rs bn, %)



Source: Company, Kotak Institutional Equities

NARH – quarterly India EBITDA

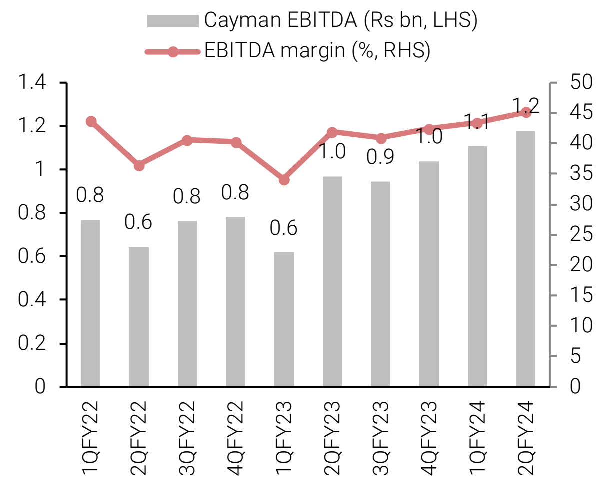
Exhibit 14: March fiscal year-ends, 2022-24E (Rs bn, %)



Source: Company, Kotak Institutional Equities

NARH – quarterly Cayman EBITDA

Exhibit 15: March fiscal year-ends, 2022-24E (Rs bn, %)



Source: Company, Kotak Institutional Equities

We raise NARH's FY2024-26E EBITDA by 1-4% on higher margins across India and Cayman

Exhibit 16: NARH – earnings revision table, March fiscal year-ends, 2024-26E (Rs mn, %)

	New estimates			Old estimates			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenues	**52,303**	**60,762**	**69,046**	**52,303**	**60,762**	**69,046**	**-**	**-**	**-**
Gross profits	40,954	47,212	53,925	40,954	47,212	53,925	-	-	-
Gross margin (%)	**78.3**	**77.7**	**78.1**	**78.3**	**77.7**	**78.1**	**0 bps**	**0 bps**	**0 bps**
EBITDA	11,871	13,635	15,865	11,699	13,087	15,245	1.5	4.2	4.1
EBITDA margin (%)	**22.7**	**22.4**	**23.0**	**22.4**	**21.5**	**22.1**	**33 bps**	**90 bps**	**90 bps**
EBITDA pre-IndAS	11,282	13,028	15,240	11,110	12,481	14,620	1.5	4.4	4.2
EBITDA pre-IndAS margin (%)	**21.6**	**21.4**	**22.1**	**21.2**	**20.5**	**21.2**	**33 bps**	**90 bps**	**90 bps**
PAT	7,927	8,556	10,112	7,774	8,085	9,584	2.0	5.8	5.5
EPS	**38.8**	**41.9**	**49.5**	**38.0**	**39.6**	**46.9**	**2.1**	**5.7**	**5.5**

Source: Company, Kotak Institutional Equities estimates

We expect NARH to deliver 15% revenue CAGR over FY2023-26E

Exhibit 17: NARH – cluster-wise revenue split, March fiscal year-ends, 2017-26E (Rs mn)

	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Operational beds										
Bangalore	2,049	2,107	1,646	1,591	1,588	1,479	1,545	1,625	1,825	1,895
Southern Peripheral			514	513	529	528	528	528	528	528
Kolkata	1,548	1,666	1,337	1,334	1,376	1,374	1,374	1,350	1,650	1,710
Eastern peripheral			360	359	423	423	554	554	804	854
Western	833	1,394	874	872	953	1,004	358	355	355	375
Delhi NCR			412	411	423	475	975	1,156	1,156	1,156
Heart centers	386	371	322	345	318	256	266	266	266	266
Managed centers	720	587	498	112	112	212	178	178	178	178
Cayman		106	106	106	106	110	110	110	164	164
Total	**5,536**	**6,125**	**6,070**	**5,644**	**5,828**	**5,861**	**5,888**	**6,122**	**6,926**	**7,126**
Occupancy (%)										
Bangalore	53.0	55.0	51.5	51.1	30.5	41.9	52.3	54.0	54.5	56.0
Southern Peripheral			40.7	41.5	31.1	40.0	38.3	39.0	40.5	42.5
Kolkata	57.0	60.0	58.5	57.2	40.8	50.2	51.7	52.0	46.0	48.0
Eastern peripheral			51.6	51.6	34.0	42.8	62.1	62.0	48.0	50.0
Western	47.0	37.1	45.9	51.4	36.1	42.4	52.3	52.0	53.0	54.0
Delhi NCR			26.4	35.6	31.5	34.0	34.5	36.0	40.0	43.0
Heart centers	40.0	40.0	50.0	48.0	35.0	45.0	47.2	48.0	50.0	52.0
Managed centers	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Cayman		27.0	32.1	39.0	34.3	47.3	47.5	52.0	39.0	43.0
Total	**52.2**	**51.0**	**49.3**	**50.4**	**34.7**	**43.4**	**48.5**	**49.0**	**47.6**	**49.7**
ARPOB (Rs)										
Bangalore	21,507	22,740	29,315	31,781	34,247	38,630	41,918	45,271	47,988	50,867
Southern Peripheral			17,808	19,178	25,205	26,575	27,123	29,293	31,051	32,914
Kolkata	19,863	20,000	23,014	24,932	24,932	30,411	34,795	38,274	40,188	42,197
Eastern peripheral			16,712	18,356	21,644	22,740	26,575	28,967	30,995	33,164
Western	18,630	23,288	21,644	22,740	27,123	29,863	29,315	31,660	33,243	34,905
Delhi NCR			34,247	37,260	38,904	46,301	38,082	39,986	41,986	44,085
Heart centers	20,000	20,001	21,001	22,051	23,154	31,754	38,104	42,296	45,256	48,424
Managed centers	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Cayman		273,781	306,542	287,671	385,205	387,860	462,518	508,770	529,120	550,285
Overall ARPOB	**20,822**	**21,918**	**24,543**	**26,213**	**28,413**	**32,651**	**35,482**	**38,659**	**40,970**	**43,260**

Source: Company, Kotak Institutional Equities estimates

Despite the significant capex phase, we expect NARH to generate cumulative FCF of Rs7.6 bn over FY2024-26E

Exhibit 18: NARH – summary financials, March fiscal year-ends, 2018-26E (Rs mn)

	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Proit and loss									
Net revenues	**22,809**	**28,609**	**31,278**	**25,823**	**37,013**	**45,248**	**52,303**	**60,762**	**69,046**
Gross profit	**17,244**	**21,734**	**23,825**	**19,045**	**27,921**	**35,236**	**40,954**	**47,212**	**53,925**
EBITDA	**2,123**	**2,878**	**4,229**	**1,821**	**6,535**	**9,658**	**11,871**	**13,635**	**15,865**
EBITDA (adjusted for Ind-AS)	**2,123**	**2,878**	**3,821**	**1,314**	**5,987**	**9,086**	**11,282**	**13,028**	**15,240**
Depreciation & amortisation	(1,000)	(1,374)	(1,858)	(1,835)	(1,835)	(2,100)	(2,635)	(3,205)	(3,595)
EBIT	**1,123**	**1,505**	**2,371**	**(14)**	**4,700**	**7,558**	**9,236**	**10,430**	**12,271**
Net interest	(279)	(547)	(615)	(478)	(317)	(40)	(307)	(441)	(333)
Profit before tax	**845**	**957**	**1,756**	**(492)**	**4,383**	**7,518**	**8,929**	**9,990**	**11,938**
Tax & deferred tax	(290)	(341)	(423)	418	(877)	(1,450)	(982)	(1,399)	(1,791)
Less: minority interest	-	1	1	0	2	3	5	10	10
Net income (reported)	**514**	**592**	**1,189**	**(143)**	**3,419**	**6,062**	**7,927**	**8,556**	**10,112**
EPS (reported) (Rs)	**2.5**	**2.9**	**5.8**	**(0.7)**	**16.7**	**29.7**	**38.8**	**41.9**	**49.5**
Balance sheet									
Cash & equivalents	353	1,007	1,841	2,421	3,034	6,312	8,691	11,907	17,328
Debtors	2,790	2,664	2,622	2,785	4,369	4,315	4,988	5,795	6,585
Other current assets	1,651	1,602	1,401	1,445	1,687	2,312	2,424	2,557	2,688
Current assets	**4,793**	**5,274**	**5,864**	**6,651**	**9,090**	**12,939**	**16,102**	**20,259**	**26,601**
Fixed assets (incl. goodwill)	18,830	18,943	18,662	17,806	18,779	24,650	33,378	39,673	42,578
Other non-current assets	1,733	2,154	4,384	3,243	3,428	4,032	4,032	4,032	4,032
Total assets	**25,356**	**26,370**	**28,911**	**27,700**	**31,297**	**41,621**	**53,512**	**63,963**	**73,211**
Short-term loans	376	115	108	212	1,127	1,258	1,258	1,258	1,258
Creditors and other liabilities	4,722	4,988	5,894	6,435	6,231	8,179	9,138	10,287	11,413
Current liabilities	**5,098**	**5,103**	**6,003**	**6,647**	**7,358**	**9,437**	**10,396**	**11,546**	**12,671**
Long-term loans	6,963	8,020	7,070	5,041	4,321	6,264	9,264	10,000	8,000
Other liabilities (incl. deferred)	2,935	2,432	4,474	4,803	4,724	4,596	4,596	4,596	4,596
Total liabilities	**14,996**	**15,555**	**17,546**	**16,492**	**16,403**	**20,297**	**24,256**	**26,141**	**25,267**
Equity	**10,357**	**10,811**	**11,360**	**11,203**	**14,886**	**21,314**	**29,241**	**37,797**	**47,909**
Total equity and liabilities	**25,356**	**26,370**	**28,911**	**27,700**	**31,297**	**41,621**	**53,512**	**63,963**	**73,211**
Cash flow									
Operating cash flow excl. working capital	**2,088**	**2,703**	**3,946**	**2,527**	**6,127**	**9,200**	**10,889**	**12,237**	**14,075**
Working capital	(265)	83	488	563	(1,277)	1,646	175	209	205
Interest expenses	(316)	(553)	(509)	(606)	(494)	(695)	(857)	(1,035)	(975)
Capex	(5,575)	(1,500)	(1,159)	(701)	(3,126)	(8,240)	(11,363)	(9,500)	(6,500)
FCF	**(4,068)**	**733**	**2,766**	**1,783**	**1,230**	**1,911**	**(1,157)**	**1,911**	**6,805**
Ratios (%)									
Gross margin (%)	75.6	76.0	76.2	73.8	75.4	77.9	78.3	77.7	78.1
EBITDA margin (%)	9.3	10.1	13.5	7.1	17.7	21.3	22.7	22.4	23.0
RoE (%)	5.1	5.6	10.7	(1.3)	26.2	33.5	31.4	25.5	23.6
RoCE (%) (post-tax)	5.0	5.3	9.0	(0.0)	18.5	23.3	23.1	19.6	19.2
Net debt/equity (X)	0.7	0.7	0.5	0.3	0.2	0.1	0.1	(0.0)	(0.2)

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Diversified Financials
India

Sector View: **Attractive** NIFTY-50: **19,795** **November 28, 2023**

AMCs: Active fund performance in an upswing

Active equity funds in India have solid longer-term (10Y) track-record of delivering alpha, with mid-term (3Y/5Y) also seeing an upswing of late. There is also reaffirmation of 'high active' funds delivering outsized alpha, even as the share of such funds at an industry level remains low (~20%). We believe a commission-driven distribution structure and healthy performance track-record will limit passive substitution risk. HDFC and Nippon are well-placed to benefit, but returns will likely be driven by earnings growth with dependence on market returns.

Nearly 70-80% of active AUM outperforms on 10Y returns; 3Y/5Y also improves to 50-60%

We revisit last year's report 'Active performance and passive potential' for a status check on fund performance of active equity funds. Industry has a solid track-record to deliver alpha on 10Y returns (70-80% of AUM beat benchmark, post fees), with shorter duration performance also on an upswing. The share of AUM outperforming on 5Y basis has improved to 55-60% (from 35-40% in Sep 2022) and 3Y basis to 45-50% (from 35-40%). Large-cap category is seeing recovery in alpha, whereas mid-cap/flexi are struggling and small-cap performance is moderating off a high base. Recent rebound in performance augurs well for the industry, even as we note that outperformance of active funds moves in cycles and is influenced by dispersion, momentum, etc. (see Exhibits 1-5).

Truly active funds deliver sizable alpha

Our analysis measured the 'activeness' of equity funds (using tracking error) across ~Rs20 tn active equity AUM. 'Most active' funds generated strong excess returns on average, suggesting that deviation versus benchmarks tends to reward investors with alpha. However, industry's share of top quartile (high active) AUM remains around ~20% with ~30% AUM in the bottom quartile. While differentiating versus benchmark is inevitable to combat passive substitution, highly differentiated positions can sometimes lead to performance issues and subsequent market share loss for AMCs (see Exhibits 6-8).

Scale versus skill of active asset management

While evidence from mature markets suggests decreasing returns to scale in active investing (at fund and industry level), we are less sure if scale is prevailing over skill for Indian MF industry yet. MF ownership in equity free float has risen to ~17% (~3X in 10Y) but has no correlation with ability to extract alpha. Further, the data on fund size versus tracking error/alpha gives an impression that even for large fund sizes, managers are able to differentiate versus the benchmark and deliver outsized alpha (see Exhibits 9-12).

Passive penetration is a function of distribution and alpha

In our view, passive adoption is not only a function of (1) long-term alpha track-record of active funds but also equally of (2) distribution models that can accommodate low-cost ETFs or index funds. We believe that India as a market will remain commission-driven over the medium term, which automatically restricts the runaway adoption of passive funds through the advisory route. Current regulations have nice alignment of interests across customers/distributors/AMCs with pass-through of scale benefits built into TER.

HDFC and Nippon well-placed but valuations have limited room for expansion

We look at equity fund performance of large listed and unlisted AMCs (see Exhibits 14-21). HDFC AMC followed by Nippon are likely to be best-placed to benefit from strong fund performance, industry flow tailwinds and fading concerns about impactful regulatory intervention. Flow market share is tracking higher than stock and will continue to drive market share gains. However, investment thesis is earnings-led with the key risk being earnings sensitivity to markets through MTM and slowdown in retail inflows.

Full sector coverage on KINSITE

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Active fund performance in an upswing

Our last year's note 'Active performance and passive potential' (August 2022) has a more detailed discussion on drivers of active performance, global examples and estimation of passive substitution. This note looks at updated trends for some of the key data points such as fund performance, alpha delivery and active-ness of the industry in general. Key takeaways: (1) Industry is seeing an upswing in terms of share of AUM outperforming the industry as well as alpha delivery, and (2) large-cap category is seeing recovery in outperformance trends whereas mid cap continues to struggle while small-cap remains strong with declining trends.

Updated study covers ~200 equity funds with ~Rs15 tn in AUM

We considered a sample of equity funds with overall AUM of close to Rs14 tn across the major categories. We compiled rolling CAGR returns at monthly frequencies across four time horizons, viz. 1, 3, 5 and 10 years. For each of these ~200 funds, we compared their annualized alphas every month versus the respective benchmarks. While we cover returns starting from 2003, one of the drawbacks of the study is a lack of coverage of funds that have been closed or merged in this time period. The performance throughout is net of expense ratios. We show outperformance both in terms of AUM and the number of funds to provide a more complete picture. We comprehensively rely on ACE MF for raw data.

About 70-80% of AUM outperforms on 10Y; lower bucket returns also rebound in past 12 months

The mutual fund industry's track record (see Exhibit 1) in delivering outperformance remains solid on a long-term basis (10Y), with nearly 70-80% of AUM outperforming benchmarks. Excess returns for the industry have improved in 5Y and 3Y buckets as well since our last update in Sep 2022. Share of AUM outperforming on 5Y basis has improved to 55-60% (from 35-40% in Sep 2022) and 3Y basis to 45-50% (from 35-40%). Recovery in fund performance augurs well for the overall industry even as there are losers and winners across fund houses (discussed later). Another takeaway from these exhibits is the low proportion (30-60% across measurement periods) of funds that end up outperforming across time durations, creating fund selection challenges for end investors (see center charts in Exhibit 1).

Positive alpha (post fees) across measurement periods

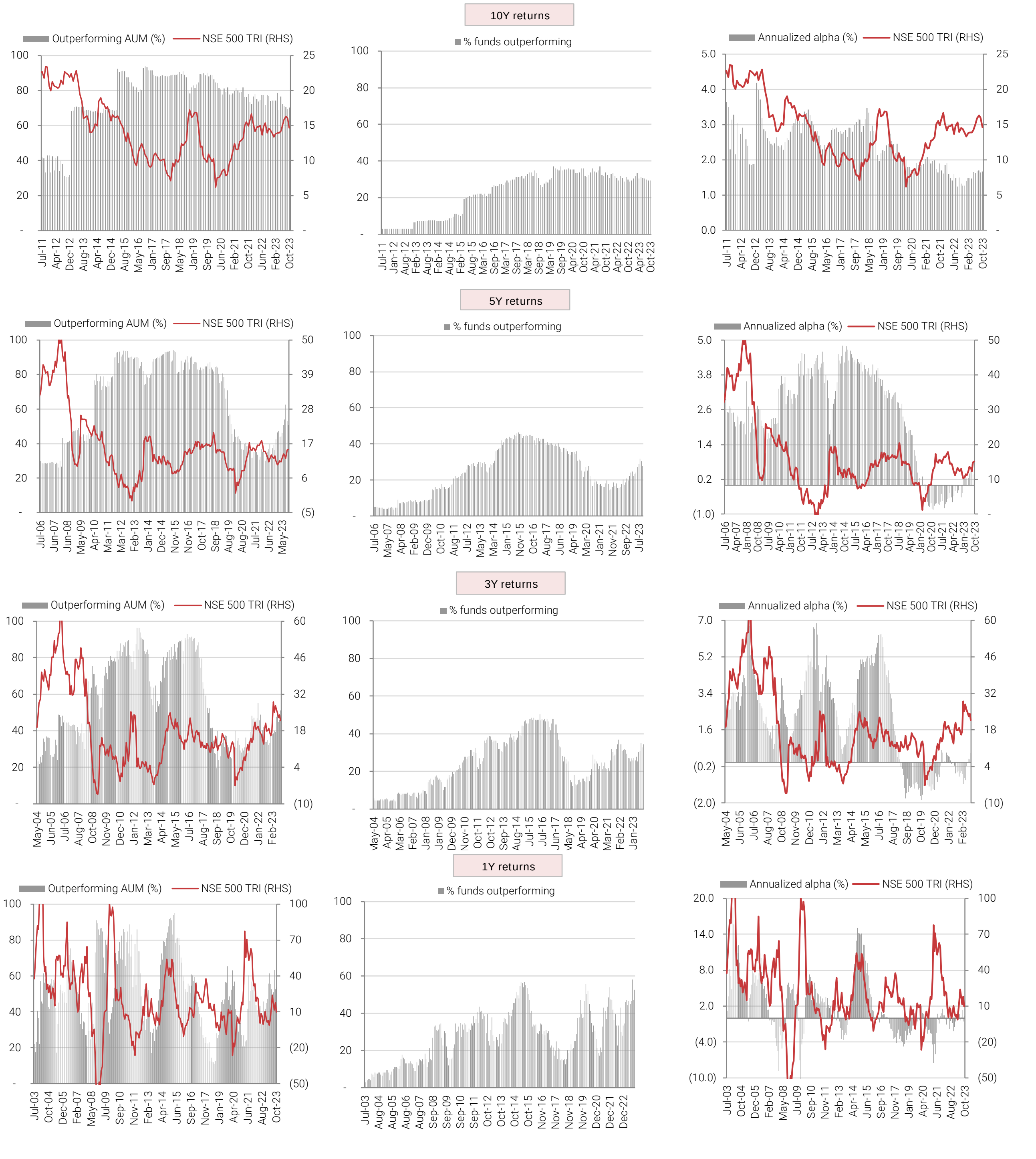
We next looked at the real impact in terms of actual excess returns generated by the entire universe of funds we have considered in the above-mentioned study (see right most charts in Exhibit 1). While 1Y data is quite volatile, 3Y and 5Y alphas have declined sharply over 2015-21, similar to what we see in the data above. However, this trend is showing signs of a reversal, with 3Y and 5Y returns slipping back into the positive zone. On the longer 10Y returns, alpha is around ~1.5-2%. These are post-fee returns, and as a result, represent very healthy outperformance.

Large and mid-cap and small-cap funds have done better; value funds make a strong comeback

We have run a similar analysis (see Exhibits 2-3) across major fund categories. There are varying trends across categories with large-cap funds showing recovery trends in 1Y and 3Y outperformance. Small cap funds have strong outperformance across 1, 3 and 5Y returns, albeit with declining trend in 1 and 3Y returns. Flexi cap category continues to struggle with only 30-50% of AUM outperforming benchmarks. Value funds have made a strong comeback in the recent period, with a big swing to ~75% of AUM outperforming compared with just 10% as of March 2020.

About 70-80% of AUM outperforms on 10Y; lower bucket returns also rebound in past 12 months

Exhibit 1: Percentage of AUM and funds outperforming benchmark and post-fee alpha across 1, 3, 5 and 10Y returns, July 2011-May 2022 (%)



Source: ACE MF, Kotak Institutional Equities

Large-cap outperformance has improved whereas small and mid-cap has become weaker in 1Y and 3Y returns

Exhibit 2: Share of AUM outperforming across fund categories on 1/3/5/10Y returns, 2010-23 (%)

Category	AUM (Rs bn)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Oct-23
10Y returns																
Large cap	2,590	NA	NA	NA	NA	NA	NA	55	72	71	78	78	77	76	72	76
Flexi cap	2,701	NA	NA	68	70	69	65	62	72	64	61	80	63	49	63	67
Mid cap	2,369	NA	NA	NA	NA	NA	NA	52	39	70	74	75	75	59	60	36
Large & mid cap	1,571	NA	NA	NA	NA	NA	NA	43	51	51	25	50	57	47	57	36
Focused equity	1,042	NA	NA	NA	NA	NA	NA	28	42	70	61	51	48	46	59	65
Small cap	1,936	NA	NA	NA	NA	NA	NA	36	37	53	59	43	76	72	71	66
Value	674	NA	NA	NA	NA	NA	NA	83	82	83	83	86	98	84	83	83
Multi cap	821	NA	NA	NA	NA	NA	NA	85	93	94	93	93	91	45	47	49
5Y returns																
Large cap	2,590	NA	64	76	79	74	97	78	82	84	83	23	28	19	19	30
Flexi cap	2,701	57	71	96	92	93	94	61	88	83	80	61	42	25	35	42
Mid cap	2,369	NA	69	73	92	69	79	84	82	80	51	31	24	23	45	36
Large & mid cap	1,571	NA	62	69	43	21	64	60	52	51	48	52	33	21	52	42
Focused equity	1,042	NA	18	70	81	83	85	89	89	93	86	45	56	29	9	57
Small cap	1,936	NA	19	30	71	70	76	93	93	81	82	93	76	79	85	80
Value	674	NA	84	86	98	98	97	100	87	91	91	10	0	-	60	59
Multi cap	821	NA	78	83	93	93	98	98	97	94	93	4	1	7	32	41
3Y returns																
Large cap	2,590	71	79	70	97	37	54	93	97	38	30	25	15	40	39	59
Flexi cap	2,701	92	95	97	94	90	95	89	90	44	60	43	25	31	34	37
Mid cap	2,369	74	92	54	54	72	82	84	69	4	9	35	31	46	10	38
Large & mid cap	1,571	52	53	22	71	56	54	71	43	35	26	52	33	40	21	28
Focused equity	1,042	58	80	76	49	72	89	95	98	55	20	22	15	59	34	63
Small cap	1,936	NA	68	44	85	92	92	92	88	93	77	89	79	74	65	60
Value	674	82	96	97	68	78	100	80	87	54	17	10	11	72	75	76
Multi cap	821	69	93	93	93	97	100	100	100	27	5	0	4	16	48	54
1Y returns																
Large cap	2,590	54	76	96	17	60	98	63	57	23	33	64	18	29	77	79
Flexi cap	2,701	58	93	95	38	86	96	47	58	19	51	74	22	29	54	53
Mid cap	2,369	31	33	60	45	64	83	43	40	3	73	68	5	26	53	29
Large & mid cap	1,571	9	62	60	49	87	76	30	53	10	34	72	11	29	41	22
Focused equity	1,042	75	25	74	42	49	98	45	100	25	23	54	33	67	24	64
Small cap	1,936	NA	61	83	100	77	85	99	23	75	87	77	5	68	96	47
Value	674	80	28	98	35	66	98	72	87	34	-	10	80	71	92	89
Multi cap	821	68	92	86	89	97	100	11	25	8	83	16	1	50	55	77

Source: ACE MF, Kotak Institutional Equities

Strong 3Y outperformance in large-cap, balanced advantage and select thematic categories

Exhibit 3: % of AUM outperforming benchmark across categories in 1/3/5/10Y returns, October 2023 (%)

		% of AUM beating benchmark			
Category	**AUM (Rs bn)**	**1Y**	**3Y**	**5Y**	**10Y**
Flexi cap	2,816	52	35	41	80
Large cap	2,607	79	59	29	76
Mid cap	2,391	29	37	35	41
Balanced advantage	2,146	94	69	34	89
Thematic	1,978	84	68	49	82
Small cap	1,960	42	58	78	85
ELSS	1,727	56	52	40	77
Hyrbid equity	1,720	53	93	44	91
Large & mid cap	1,600	19	28	41	37
Focused	1,111	55	32	53	63
Multi cap	836	62	45	35	70
Value	835	91	79	76	90
Equity savings	228	89	89	30	73

Source: AMFI, Kotak Institutional Equities

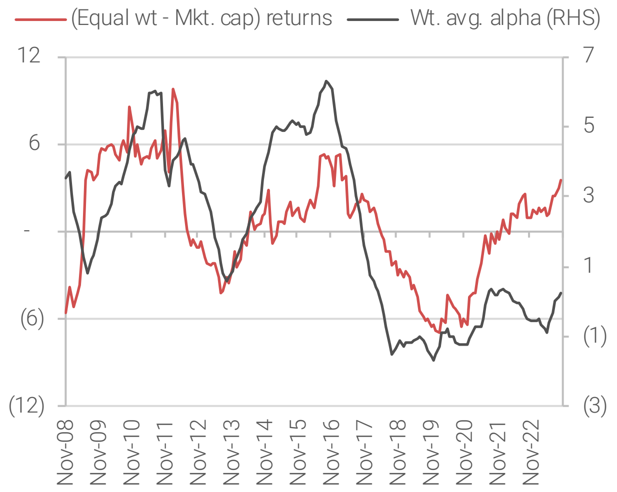
Increasing market dispersion favorable for active fund managers

Dispersion measures the spread of returns within the constituents of the broader market. There is a direct linkage between the level of dispersion and the ability to generate alpha. Easy way to measure dispersion is to compare market cap weighted returns on a broad index with its equal weighted counterpart. We plot the difference between the 3Y returns for the two for NSE 500 and compare it with 3Y alpha on active equity funds. There is a good positive correlation over the past 15 years. Data also shows that dispersion trends move in cycles with current trends being on the upside (see Exhibits 4-5).

In a low-dispersion scenario, stock returns are more homogenous. Active managers would find it difficult to identify attractive return opportunities that can justify the management fees. A high dispersion environment is favorable to active managers as the wider breadth allows them to express their skills through buying/avoiding stocks and hence deliver performance that compensated for the management fees.

Dispersion in returns across stocks favors active returns…

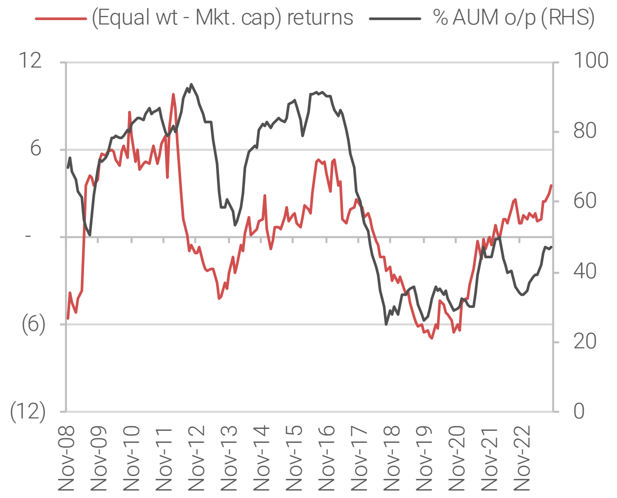
Exhibit 4: Difference between 3Y returns in equal and market cap weight NSE500 index vs 3Y alpha delivered by active equity funds (%)



Source: Bloomberg, ACE MF, Kotak Institutional Equities

…which should support flows into well-performing active funds

Exhibit 5: Difference between 3Y returns in equal and market cap weight NSE500 index vs % of outperforming active equity AUM (%)



Source: Bloomberg, ACE MF, Kotak Institutional Equities

How active are active equity funds?

Performance of active managers leaves potential for passive investing to gain AUM share. However, the challenge is framing a logical construct that helps us size up this potential. One of the approaches presented by research is evaluating the ‘active share’ for actively managed funds. Active share refers to the extent to which a fund portfolio deviates from the benchmark both in terms of weights and stock selection. A fund with a high active share would imply that the fund manager is willing to differentiate against the market (i.e., index).

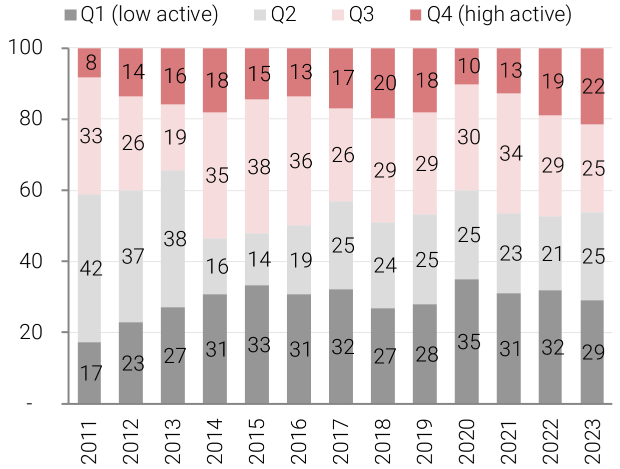
While a high active share implies a deviation from the index, it does not necessarily imply superior stock-picking skill. However, research supports the view that when presented with favorable opportunities, high active funds have shown outperformance. Experience from the US market at the time of the dot com crash shows that funds with active share were richly rewarded during the 2000-02 bear market.

More active = better chance of outperformance

For a similar analysis in India, we considered a sample size of around 350 equity funds (as of October 2023, lower in earlier years) and Rs20 tn AUM. We calculated the active share using the proxy of tracking error. Tracking error is the annualized standard deviation of the difference in returns between a fund and its target index. A low tracking error would mean that the fund consistently gives returns closer to its benchmark. In the past decade, least active quartile funds (i.e., Q1 in exhibits) have been around 30% of the sample size and most active funds were nearly 20% of AUM (see Exhibit 6). Secondly, top-quartile active funds as a group have delivered the highest asset growth in the past decade (see Exhibit 7).

Nearly ~20% of AUM falls under lowest active quartile

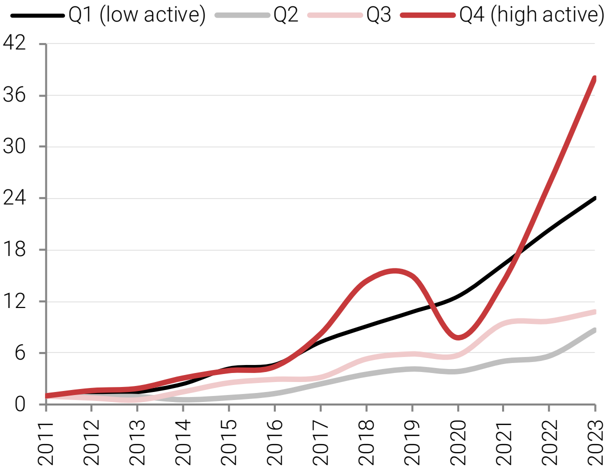
Exhibit 6: Breakdown of India active equity AUM (Rs20 tn) across quartiles of tracking error (proxy for active share), May 2011-October 2023 (%)



Source: Kotak Institutional Equities

Highest active funds (Q4) have delivered highest growth followed by lowest active funds (Q1)

Exhibit 7: Indexed growth of equity funds across quartiles of tracking error (proxy for active share), May 2011-October 2023 (%)

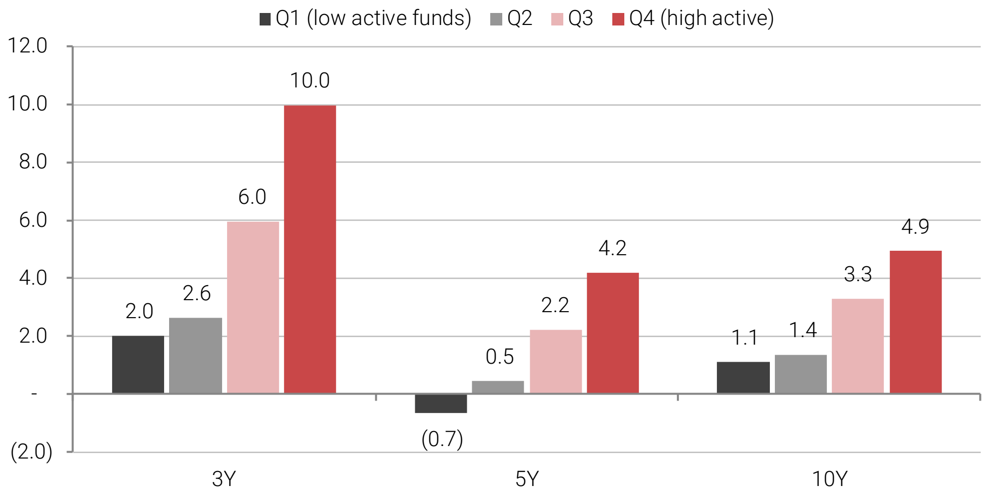


Source: Kotak Institutional Equities

Our bottom-up analysis measuring 'activeness' of equity funds indicates that truly active funds richly reward investors, with top-quartile active funds delivering ~200-300 bps net excess returns (at lower expense ratios) over bottom-quartile funds across 3/5/10Y performance periods. We believe this is a crucial conclusion as it provides credence to the view that truly active fund managers have a rightful place given their ability to deliver alpha in the long term. In this analysis, we are still looking at excess returns after fees (see Exhibit 8).

Most active funds (i.e., Q4) deliver ~200-300 bps excess returns over 3Y/5Y/10Y periods

Exhibit 8: Excess returns over benchmark (simple average) across quartiles of active funds for 3/5/10Y returns, October 2023 (%)



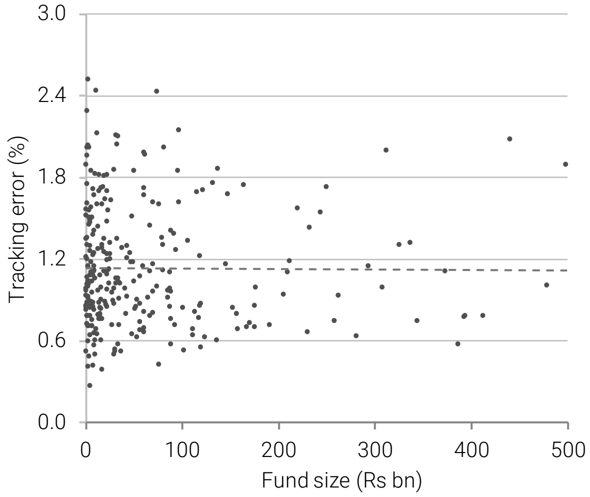
Source: ACE MF, Kotak Institutional Equities

No clear evidence of size hurting fund performance

Research from markets with mature asset management industry has shown that active fund manager's ability to outperform declines with the increase in fund size, and this is hypothesized to play out at the fund level (larger fund's trades have impact costs) and at the industry level (more money chasing same opportunities). To see the effect of size on ability to differentiate (through tracking) or deliver outperformance (we use 3Y alpha), we show scatter plots of fund size versus tracking error (see Exhibit 9) and fund size vs 3Y alpha (see Exhibit 10). Both exhibits do not show any strong relationship. In fact, there is a mild positive correlation between fund size and alpha. This probably indicates relative fund manager skill is still able to extract excess returns from the market.

Some of the large funds also operate at high tracking error

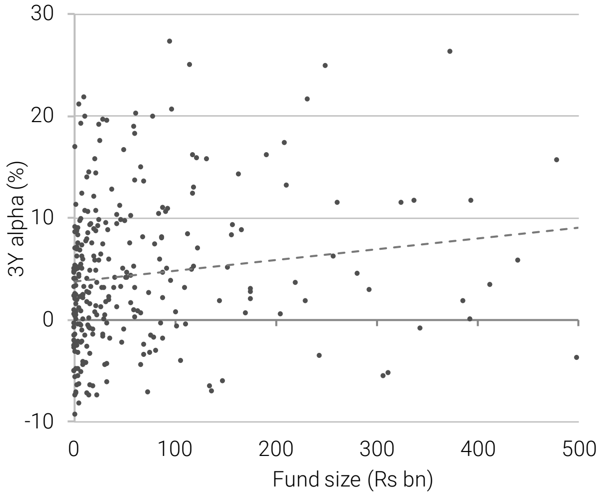
Exhibit 9: Fund size vs tracking error, October 2023



Source: ACE MF, Kotak Institutional Equities

Mild positive correlation between fund size and alpha (3Y)

Exhibit 10: Fund size vs 3Y alpha, October 2023



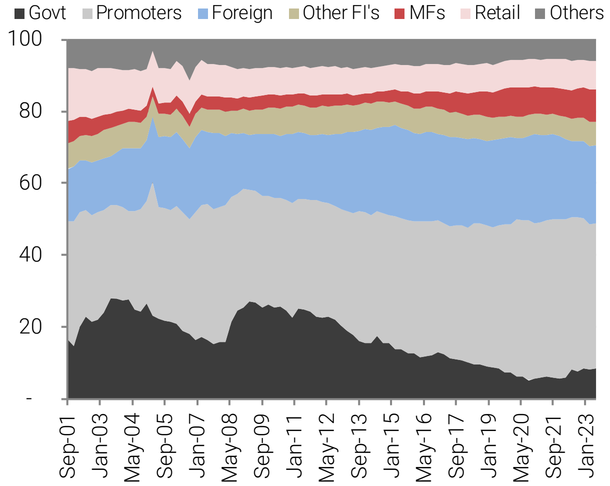
Source: ACE MF, Kotak Institutional Equities

Rising MF ownership yet to reflect in capacity constraints

Ownership of the Indian equity market (see Exhibit 11) continues to be dominated by promoters (~40% share), followed by foreign participants (FPIs and ADR/GDR; owning 22%). Mutual funds own 9% and retail own 8%. While still low, the participation of mutual funds in the Indian equity market has risen consistently in the past few years (~3X in last decade). There are many variables that could determine the ability to generate alpha by fund managers. Ownership of retail investors (less informed) being as high as mutual funds (more informed) should work in favor of active funds (see Exhibit 12). On the other hand, a large share of promoter (insiders) holding probably hinders the liquidity needed for active managers to fully execute their fundamental views on stocks. This limitation has other crucial implications for the mutual fund industry in its ability to deploy flows (underlying tailwinds of financial inclusion, etc.) in the absence of sufficient market depth. This is even more pertinent for mid-cap and small-cap stocks, given that is one area where active managers have relatively higher potential to add value.

MF ownership of Indian equities has tripled in 10 years, but remains much lower than FIIs

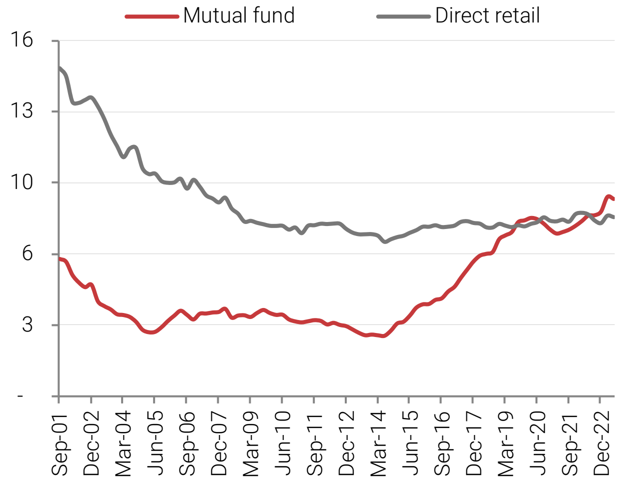
Exhibit 11: Stock market ownership by investor category, 2001-23 (%)



Source: Primeinfobase, Bloomberg, Kotak Institutional

MF ownership has recently surpassed direct retail ownership of public equities

Exhibit 12: Stock market ownership by mutual funds and retail, 2001-23 (%)



Source: Primeinfobase, Bloomberg, Kotak Institutional

Large PMS funds seeing outflows; MFs are potential beneficiaries

We believe MF industry is potentially a net beneficiary of outflows seen from PMS funds. We look at the SEBI data for large PMS funds by comparing their discretionary AUM, 1Y alpha and net inflows in 1HFY24 (see Exhibit 13). This covers nearly Rs2 tn of AUM and likely covers about three-fourths of discretionary PMS AUM. We note that quite a few of these funds are seeing net outflows over the past 6-9 months, unlike the mutual fund industry. PMS inflows have been largely concentrated in funds with very strong outperformance versus benchmarks, whereas struggling fund houses have seen outflows.

Mixed track record of large PMS funds in the past one year

Exhibit 13: AUM, performance and flows in select large PMS funds, as of September 2023

	# of clients	Discretionary AUM (Rs bn)	1Y alpha (%)	1HFY24 net flows (Rs bn)
Enam Asset Management	1,058	353	6.4	5
ASK Investment Managers Limited	18,207	264	(9.8)	(27)
Quantum Advisors	7	183	2.0	(17)
IIFL Asset Management	7,473	176	2.2	(3)
Unifi Capital	9,232	170	3.9	16
White Oak Capital Management	6,187	133	(1.2)	(13)
Motilal Oswal AMC	11,338	106	(0.9)	(16)
Abakkus Asset Manager LLP	5,352	101	19	15
Marcellus Investment Managers	7,535	92	(14)	(12)
Valuequest Investment Advisors	590	92	14	22
ICICI Pru AMC	8,198	82	15	23
IIFL Wealth Portfolio Managers	1,881	82	0.8	(17)
Banyan Tree	1,900	47	1.3	2
Alchemy Capital	1,877	46	(3.3)	(4)
NJ AMC	3,748	36	(2.2)	(3)
Ambit Investment Advisors	1,760	26	(4.7)	(1)
Sundaram Alternate Assets	2,573	24	(9.5)	(1)
Old Bridge	413	13	12	(1)
Anvil Wealth Management	569	9	(2.0)	(1)
Trust Investment Advisors	273	8	(1.6)	1
Total of above	**90,171**	**2,044**	**1.8**	**(34)**

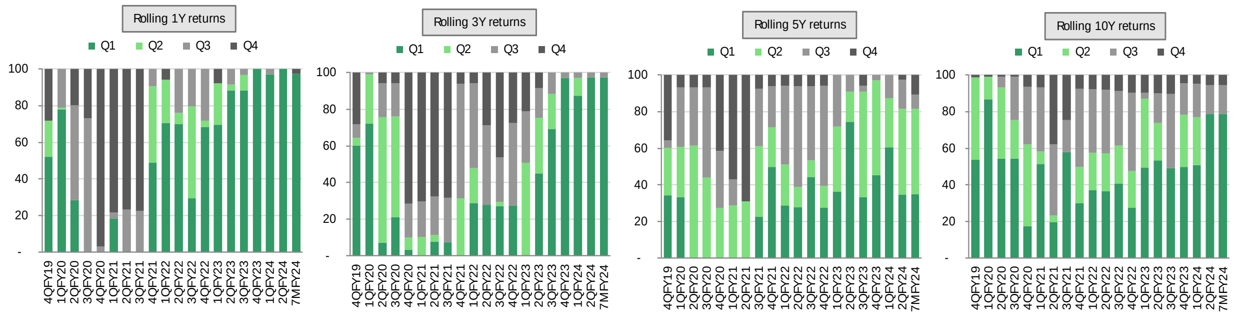
Source: SEBI, Kotak Institutional Equities

Fund performance for large AMCs: HDFC and Nippon lead

The following exhibits provide an overview of active fund performance for large mutual fund houses. The sample covers a large sample of equity-oriented portfolio for each AMC. HDFC AMC is going through a strong run of fund performance, followed by Nippon AMC. This augurs well for market share gains.

HDFC AMC: Strong fund performance in 1/3/5Y buckets

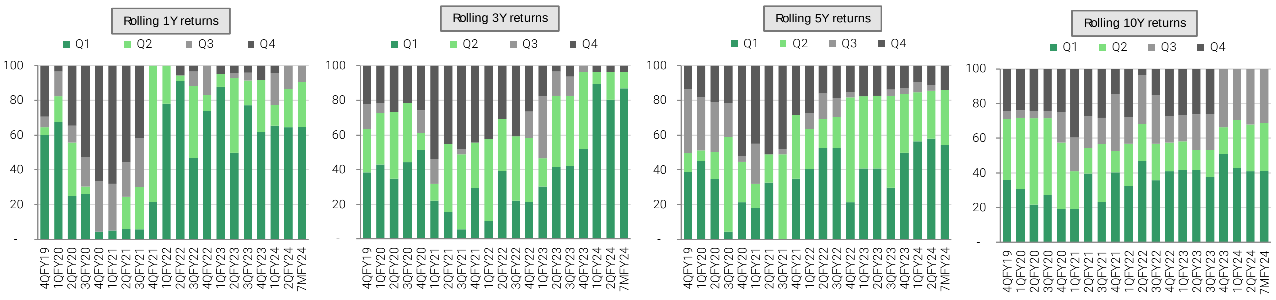
Exhibit 14: Share of active equity AUM (covering ~80% of active equity AUM across quartiles of performance (%)



Source: AMFI, Kotak Institutional Equities

Nippon AMC: Improved fund performance in 1/3/5Y

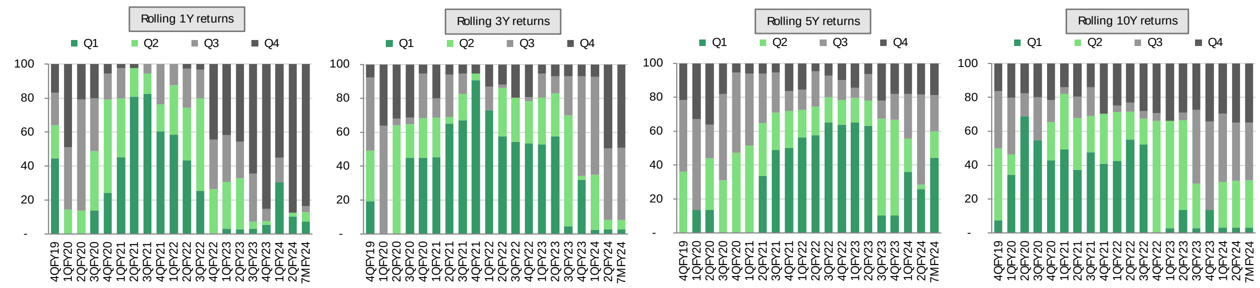
Exhibit 15: Share of active equity AUM (covering ~80% of active equity AUM across quartiles of performance) (%)



Source: AMFI, Kotak Institutional Equities

UTI AMC: Fund performance has become weaker in recent quarters

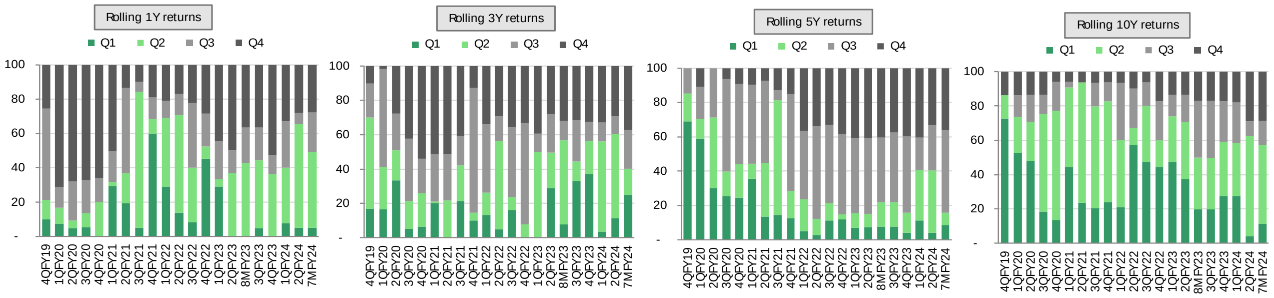
Exhibit 16: Share of active equity AUM (covering ~80% of active equity AUM across quartiles of performance) (%)



Source: AMFI, Kotak Institutional Equities

ABSL AMC: Fund performance is weak in 1Y and 5Y, while 3Y remains volatile

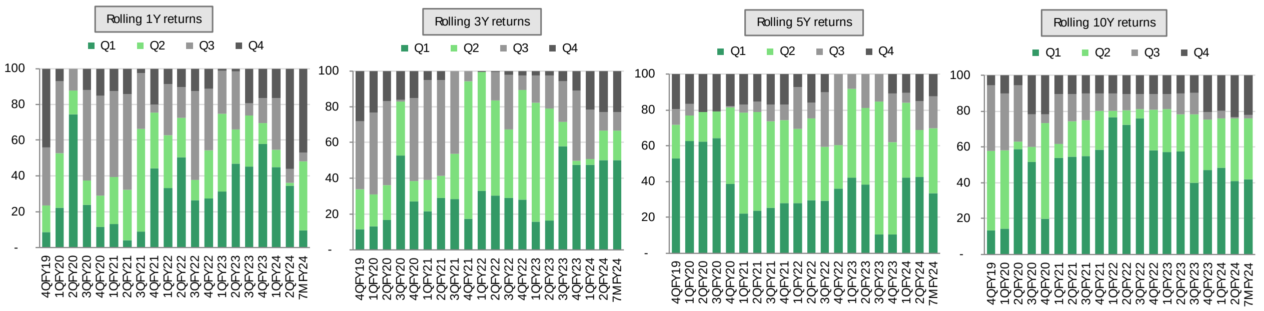
Exhibit 17: Share of active equity AUM (covering ~80% of active equity AUM across quartiles of performance) (%)



Source: AMFI, Kotak Institutional Equities

SBI MF: Fund performance is weak in 1Y and relatively healthy in 3Y and 5Y

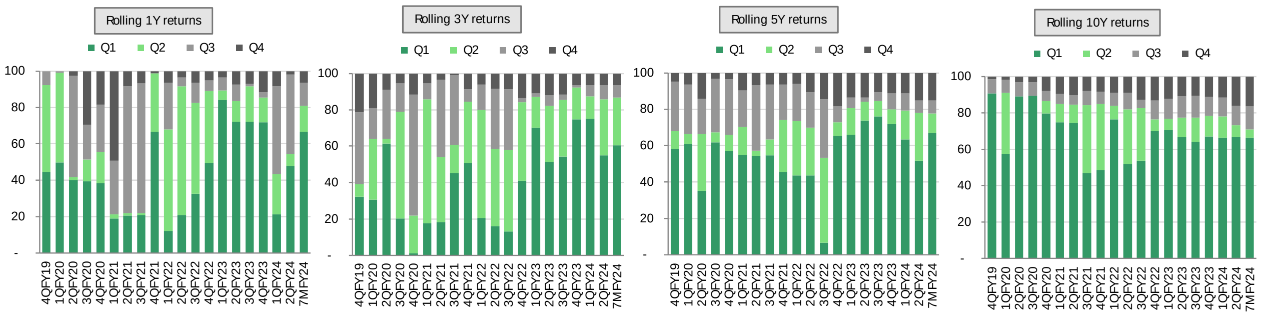
Exhibit 18: Share of active equity AUM (covering ~65-70% of active equity AUM across quartiles of performance) (%)



Source: AMFI, Kotak Institutional Equities

IPRU AMC: Fund performance is strong across 1Y, 3Y and 5Y

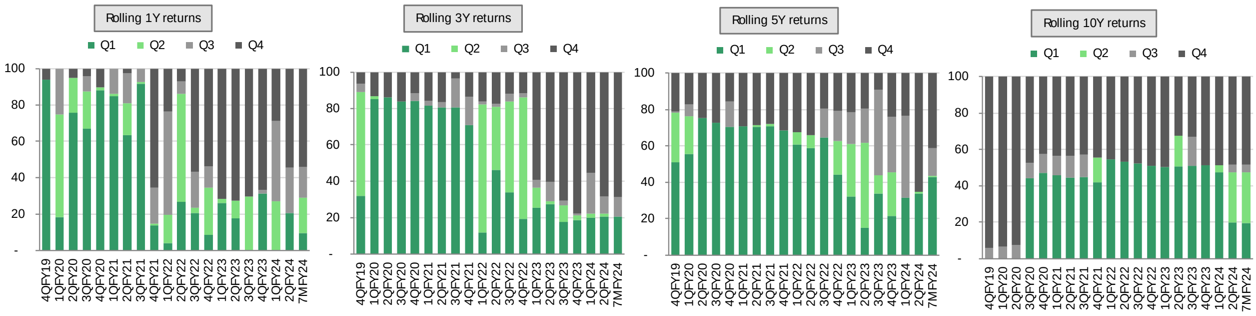
Exhibit 19: Share of active equity AUM (covering ~80% of active equity AUM across quartiles of performance) (%)



Source: AMFI, Kotak Institutional Equities

Axis AMC: Fund performance is weak across 1Y, 3Y and 5Y

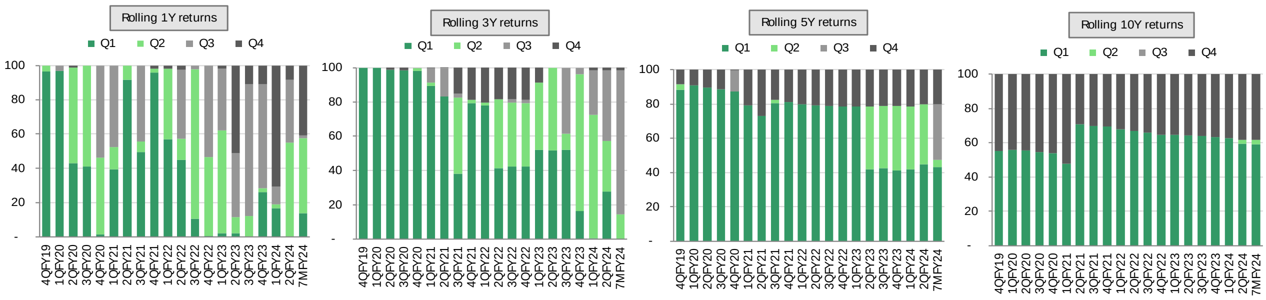
Exhibit 20: Share of active equity AUM (covering ~80% of active equity AUM across quartiles of performance) (%)



Source: AMFI, Kotak Institutional Equities

Mirae AMC: Fund performance has weakened in 3Y and 5Y

Exhibit 21: Share of active equity AUM (covering ~80% of active equity AUM across quartiles of performance) (%)



Source: AMFI, Kotak Institutional Equities

Market share gains for HDFC AMC and Nippon AMC in recent months

Exhibit 22: Actively-managed equity oriented MAAUM market share, March fiscal year-ends, 2014-24 (%)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	1HFY24	7MFY24
Market share in equity oriented MAAUM												
Aditya Birla Sun Life	6.0	7.2	7.7	8.7	9.2	8.8	7.7	7.2	6.4	5.5	5.2	5.1
Axis AMC	1.5	2.3	3.1	3.3	3.6	4.6	6.8	8.0	8.4	7.1	6.3	6.2
Bandhan AMC	4.0	3.8	2.9	2.2	2.1	2.2	2.6	2.0	1.6	1.5	1.5	1.5
DSP Mutual Fund	4.5	4.1	3.7	4.4	4.4	3.9	3.9	4.1	3.8	3.4	3.3	3.3
Franklin Templeton	7.1	6.8	7.5	7.5	5.6	5.2	4.3	3.7	2.8	2.6	2.6	2.5
HDFC AMC	19.9	18.5	15.1	15.8	16.2	15.6	14.4	13.0	11.4	12.2	12.6	12.7
ICICI Prudential AMC	11.2	13.5	14.2	15.2	15.0	14.3	13.5	12.5	12.4	13.0	12.9	12.9
Kotak AMC	1.8	2.5	3.2	3.7	4.7	5.1	6.4	6.7	7.0	7.0	7.1	7.2
Mirae AMC	0.3	0.5	0.7	1.2	1.5	2.2	3.5	4.7	4.9	4.9	4.8	4.7
Nippon Life India AMC	12.3	12.2	11.2	9.7	9.2	8.9	7.4	6.9	6.3	6.4	6.7	6.7
SBI AMC	7.3	6.1	7.0	8.0	7.9	8.9	9.7	10.2	12.0	12.6	12.9	12.9
Tata AMC	2.2	2.0	2.5	2.1	1.7	2.3	2.3	2.5	2.9	2.8	2.9	2.9
UTI AMC	10.6	8.7	7.4	6.3	4.8	4.7	4.4	4.8	4.8	4.5	4.3	4.2
Total of above players	**88.8**	**88.1**	**86.4**	**88.2**	**86.1**	**86.5**	**86.9**	**86.3**	**84.7**	**83.5**	**82.9**	**82.8**
Top 10	**85.2**	**83.3**	**80.2**	**82.7**	**80.7**	**79.9**	**78.5**	**78.0**	**77.4**	**76.6**	**76.0**	**75.9**
Others	11.2	11.9	13.6	11.8	13.9	13.5	13.1	13.7	15.3	16.5	17.1	17.2

Source: AMFI, Kotak Institutional Equities

Increase in actively-managed equity oriented mix

Exhibit 23: Share of actively-managed equity MAAUM to total MAAUM, March fiscal year-ends, 2014-24 (%)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	1HFY24	7MFY24
Proportion of actively-managed equity oriented MAAUM												
Aditya Birla Sun Life	13.8	21.8	23.7	26.8	34.8	36.9	33.5	36.3	41.0	42.5	43.5	42.8
Axis AMC	18.5	30.9	33.4	33.3	44.9	52.2	50.6	55.4	60.5	62.2	62.3	61.9
DSP Mutual Fund	28.4	41.9	40.9	40.7	47.6	51.9	51.7	57.1	65.2	63.0	64.9	64.9
Franklin Templeton	30.3	35.5	48.1	54.3	51.9	44.5	42.4	63.7	84.6	86.8	87.8	87.7
HDFC AMC	34.7	41.8	35.8	40.3	50.4	47.2	42.0	43.7	50.6	56.5	61.1	61.4
ICICI Prudential AMC	21.0	32.6	33.5	37.3	45.8	46.4	41.1	41.9	49.4	54.2	56.3	56.5
IDFC Mutual fund	19.4	26.6	24.1	23.0	29.4	31.6	26.2	22.6	25.4	26.9	30.3	30.8
Kotak AMC	10.6	21.2	22.3	23.7	36.1	35.0	36.4	39.5	46.4	50.1	54.4	55.0
Mirae AMC	85.2	93.3	93.5	93.4	86.4	87.8	87.6	89.6	90.5	88.2	85.7	86.0
Nippon Life India AMC	23.6	32.2	29.6	27.5	35.5	40.7	39.3	41.3	41.8	44.8	47.7	47.7
SBI AMC	21.4	28.9	26.7	30.0	33.9	31.9	27.3	27.6	34.7	36.9	39.7	40.3
Tata AMC	19.3	26.6	32.2	29.6	34.4	44.1	48.7	56.6	61.4	59.2	57.4	59.4
UTI AMC	28.9	34.7	29.8	27.9	30.4	31.6	32.5	35.2	40.0	39.4	41.2	41.3
Total of above players	**23.7**	**32.3**	**31.4**	**33.2**	**40.7**	**41.4**	**38.6**	**41.2**	**47.2**	**49.7**	**52.2**	**52.4**
Total (ex-SBI, UTI)	**23.4**	**32.4**	**32.2**	**34.4**	**43.0**	**44.5**	**42.2**	**46.4**	**53.2**	**56.9**	**59.5**	**59.6**
Others	14.2	23.5	29.2	29.7	43.1	51.5	49.7	54.7	61.5	63.4	65.6	65.9

Source: AMFI, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs) 24-Nov-23	Fair Value (Rs)	Upside (%)	Mkt cap. (Rs bn)	Mkt cap. (US$ bn)	O/S shares (mn)	EPS (Rs) 2024E	EPS (Rs) 2025E	EPS (Rs) 2026E	EPS growth (%) 2024E	EPS growth (%) 2025E	EPS growth (%) 2026E	P/E (X) 2024E	P/E (X) 2025E	P/E (X) 2026E	EV/EBITDA (X) 2024E	EV/EBITDA (X) 2025E	EV/EBITDA (X) 2026E	P/B (X) 2024E	P/B (X) 2025E	P/B (X) 2026E	RoE (%) 2024E	RoE (%) 2025E	RoE (%) 2026E	Dividend yield (%) 2024E	Dividend yield (%) 2025E	Dividend yield (%) 2026E	ADVT-3M (US$ mn)
Automobiles & Components																													
Apollo Tyres	SELL	415	345	(17)	263	3.2	638	27	27	28	70	(2)	3	15	15	15	7	6	6	1.9	1.7	1.6	13	11	11	1.2	1.4	1.7	12
Ashok Leyland	REDUCE	178	170	(5)	523	6.3	2,936	9	9	9	114	0	(1)	19	19	19	11	12	12	5.0	4.3	3.8	29	25	21	2.1	2.1	2.1	28
Bajaj Auto	SELL	5,930	4,500	(24)	1,716	21	283	253	264	287	27	4	9	23	23	21	18	17	15	6.2	5.9	5.6	27	27	28	3.4	3.6	3.9	31
Balkrishna Industries	SELL	2,571	1,900	(26)	497	6.0	193	68	78	89	24	15	14	38	33	29	22	19	16	5.8	5.1	4.5	16	17	17	0.7	0.8	0.8	8
Bharat Forge	SELL	1,116	760	(32)	519	6.2	466	24	34	40	110	38	18	46	33	28	21	18	16	6.9	5.9	5.0	16	19	19	0.5	0.6	0.7	16
CEAT	SELL	2,099	1,400	(33)	85	1.0	40	149	118	117	188	(21)	(1)	14	18	18	7	7	7	2.2	2.0	1.8	16	12	11	1.8	1.4	1.3	6
CIE Automotive	SELL	475	470	(1)	180	2.2	378	22	26	29	20	19	14	22	18	16	12	11	10	3.0	2.7	2.4	15	15	16	1.1	1.4	1.5	3
Eicher Motors	SELL	3,849	2,900	(25)	1,054	12.6	272	145	147	160	36	1	9	26	26	24	22	21	19	6.9	6.0	5.4	28	25	24	1.2	1.3	1.6	23
Endurance Technologies	SELL	1,619	1,280	(21)	228	2.7	141	46	57	65	33	25	15	35	28	25	17	14	12	4.6	4.1	3.6	13	14	15	0.6	0.8	0.9	2
Escorts Kubota	SELL	3,229	2,100	(35)	357	4.3	111	98	107	111	78	9	4	33	30	29	28	25	24	3.8	3.4	3.1	12	11	11	0.5	0.5	0.5	17
Exide Industries	REDUCE	282	250	(11)	239	2.9	850	12	15	16	16	18	12	23	19	17	13	11	10	2.0	1.8	1.7	9	10	10	0.9	0.9	0.9	8
Hero Motocorp	REDUCE	3,549	2,900	(18)	709	8.5	200	195	204	216	34	5	6	18	17	16	12	11	10	4.0	3.7	3.5	23	22	22	3.8	4.0	4.3	21
Mahindra & Mahindra	BUY	1,553	1,680	8	1,931	23.2	1,159	89	84	93	35	(5)	11	17	18	17	14	13	11	3.5	3.0	2.6	22	17	17	0.9	0.8	0.9	47
Maruti Suzuki	SELL	10,516	8,450	(20)	3,177	38.1	314	377	385	420	41	2	9	28	27	25	18	17	15	4.9	4.4	4.0	19	17	17	1.4	1.5	1.6	63
MRF	SELL	111,315	77,500	(30)	472	5.7	4	4,961	4,567	4,935	174	(8)	8	22	24	23	10	11	10	2.8	2.6	2.3	13	11	11	0.3	0.3	0.3	8
Samvardhana Motherson	ADD	88	100	14	593	7.1	6,776	4	5	6	56	45	13	24	17	15	8	7	6	2.4	2.2	1.9	10	14	14	0.8	0.9	1.0	10
Schaeffler India	SELL	2,795	2,720	(3)	437	5.2	156	61	69	78	9	14	12	46	40	36	31	27	24	9.1	8.0	7.1	21	21	21	0.1	0.1	0.0	4
SKF	SELL	4,602	3,925	(15)	228	2.7	49	107	138	158	1	29	15	43	33	29	31	24	21	8.5	7.3	6.3	20	22	21	0.7	0.9	1.0	2
Sona BLW Precision	REDUCE	568	520	(8)	333	4.0	583	9	12	14	33	31	21	63	48	40	36	28	24	12.3	10.3	8.6	21	23	23	0.4	0.5	0.6	8
Tata Motors	REDUCE	674	630	(6)	2,580	30.9	3,829	53	60	62	2,665	13	4	13	11	11	5	5	4	4.0	2.9	2.3	37	30	24	0.3	0.4	0.4	79
Timken	SELL	2,932	2,450	(16)	221	2.6	75	55	69	88	6	24	28	53	43	33	36	28	22	9.1	7.5	6.2	19	19	20	0.1	0.1	0.0	3
TVS Motor	SELL	1,800	1,000	(44)	855	10.3	475	41	45	50	29	10	13	44	40	36	26	23	21	11.6	9.6	8.1	29	26	25	0.6	0.6	0.7	19
Uno Minda	ADD	679	600	(12)	389	4.7	571	15	17	19	29	13	13	46	41	36	26	23	20	7.9	6.7	5.8	17	17	16	0.3	0.4	0.4	4
Varroc Engineering	SELL	561	420	(25)	86	1.0	153	16	25	30	129	63	17	36	22	19	12	10	9	6.9	5.3	4.1	19	24	22	—	—	—	5
Automobiles & Components	**Cautious**				**17,672**	**212.0**					**92.2**	**6.4**	**8.1**	**22.3**	**20.9**	**19.4**	**11.4**	**10.5**	**9.4**	**4.5**	**3.9**	**3.4**	**20**	**18.6**	**17.6**	**1.2**	**1.3**	**1.4**	**427**
Banks																													
AU Small Finance Bank	SELL	722	615	(15)	483	5.8	667	24	33	44	12	36	34	30	22	16	—	—	—	3.9	3.2	2.7	14	16	18	—	—	—	15
Axis Bank	BUY	1,009	1,100	9	3,109	37.3	3,077	79	84	94	14	7	12	13	12	11	—	—	—	2.2	1.9	1.6	18	17	16	1.2	1.3	1.4	103
Bandhan Bank	BUY	212	270	27	342	4.1	1,611	23	26	30	68	13	15	9	8	7	—	—	—	1.6	1.3	1.1	17	17	17	1.6	1.8	2.1	25
Bank of Baroda	ADD	193	215	11	999	12.0	5,178	30	29	32	11	(6)	14	6	7	6	—	—	—	1.0	0.9	0.8	15	13	13	3.2	3.0	3.4	46
Canara Bank	BUY	390	425	9	707	8.5	1,814	79	91	100	35	16	9	5	4	4	—	—	—	1.0	0.8	0.7	18	18	17	4.1	4.8	5.3	39
City Union Bank	ADD	146	140	(4)	108	1.3	740	12	14	17	(1)	13	17	12	10	9	—	—	—	1.5	1.3	1.1	12	12	13	1.7	1.9	2.3	9
DCB Bank	BUY	112	150	34	35	0.4	312	19	21	26	26	10	27	6	5	4	—	—	—	0.8	0.7	0.6	12	12	14	1.7	2.3	3.4	3
Equitas Small Finance Bank	ADD	94	110	17	106	1.3	1,122	7	10	12	41	32	25	13	10	8	—	—	—	1.9	1.6	1.4	15	17	19	—	—	—	6
Federal Bank	BUY	147	170	15	358	4.3	2,419	13	16	18	(6)	17	17	11	9	8	—	—	—	1.3	1.2	1.1	13	13	13	1.8	2.1	2.5	26
HDFC Bank	BUY	1,532	1,800	17	11,627	139.5	7,580	87	99	113	10	14	14	18	15	14	—	—	—	2.7	2.4	2.1	19	16	16	1.2	1.4	1.6	360
ICICI Bank	BUY	929	1,150	24	6,515	78.1	6,984	53	56	61	17	4	10	17	17	15	—	—	—	2.9	2.6	2.3	17	16	15	1.1	1.2	1.3	157
IndusInd Bank	BUY	1,476	1,600	8	1,148	13.8	776	110	123	141	16	12	14	13	12	10	—	—	—	1.9	1.7	1.5	15	14	15	1.1	1.2	1.4	53
Karur Vysya Bank	BUY	152	155	2	122	1.5	802	17	20	23	25	15	16	9	8	7	—	—	—	1.3	1.2	1.0	15	16	16	2.9	3.4	3.9	5
Punjab National Bank	BUY	76	82	8	836	10.0	11,011	8	13	14	240	65	11	10	6	5	—	—	—	0.9	0.8	0.7	8	13	13	2.9	4.8	5.3	60
SBI Cards and Payment Services	BUY	739	925	25	702	8.4	946	25	31	46	5	24	48	29	24	16	—	—	—	5.9	4.8	3.8	22	22	26	0.4	0.5	0.6	14
State Bank of India	BUY	560	725	29	5,001	60.0	8,925	61	63	71	8	3	13	9	9	8	—	—	—	1.5	1.3	1.1	16	14	14	2.1	2.1	2.1	105
Ujjivan Small Finance Bank	ADD	55	58	6	107	1.3	1,928	6	6	7	5	8	8	9	9	8	—	—	—	1.9	1.6	1.4	24	20	18	0.0	0.0	0.0	15
Union Bank	BUY	107	115	8	793	9.5	7,412	18	22	23	47	20	4	6	5	5	—	—	—	1.0	0.8	0.7	16	16	15	4.1	5.0	5.2	38
YES Bank	REDUCE	20	17	(14)	569	6.8	31,315	0	1	1	13	202	62	70	23	14	—	—	—	1.5	1.4	1.3	2	6	9	0.0	0.0	0.0	50
Banks	**Attractive**				**33,667**	**403.8**					**26.8**	**11.6**	**13.1**	**13.0**	**11.6**	**10.3**				**1.9**	**1.7**	**1.5**	**14.5**	**14.3**	**14.3**	**1.5**	**1.7**	**1.9**	**1,128**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M
Company	Rating	24-Nov-23	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	(US$ mn)
Building Products																													
Astral	SELL	1,934	1,600	(17)	519	6.2	269	23	29	35	37	25	21	83	67	55	50	41	35	16.0	13.2	11.0	21	22	22	0.2	0.2	0.3	19
Building Products	**Cautious**				**519**	**6.2**					**36.8**	**24.6**	**20.7**	**82.9**	**66.6**	**55.2**	**49.5**	**41.1**	**34.8**	**15.9**	**13.2**	**11.0**	**19.2**	**19.9**	**19.9**	**0.2**	**0.2**	**0.3**	**19**
Capital goods																													
ABB	REDUCE	4,262	4,200	(1)	903	10.8	212	58	66	80	78	15	20	74	64	53	58	50	41	14.9	12.3	10.2	22	21	21	0.1	0.1	0.1	13
Bharat Electronics	SELL	140	118	(16)	1,026	12.3	7,310	5	5	6	16	6	12	30	28	25	21	19	17	6.7	6.0	5.4	24	23	23	1.6	1.7	1.9	24
BHEL	SELL	152	65	(57)	530	6.4	3,482	(1)	(0)	2	(187)	60	554	NM	NM	74	(7,913)	81	30	2.0	2.0	1.9	NM	NM	3	0.0	0.0	(0.2)	57
Carborundum Universal	REDUCE	1,134	1,120	(1)	216	2.6	190	24	32	41	9	34	29	48	36	28	29	22	17	6.8	5.9	5.0	15	18	20	0.4	0.6	0.7	3
Cochin Shipyard	REDUCE	1,122	1,060	(6)	148	1.8	132	46	48	64	121	4	34	25	23	18	16	13	9	3.1	2.8	2.6	13	13	15	1.2	1.4	1.5	46
Cummins India	ADD	1,872	2,040	9	519	6.2	277	51	59	68	13	17	15	37	32	28	35	30	25	8.8	8.0	7.2	25	26	27	1.5	1.8	2.0	19
Dixon Technologies	SELL	5,278	4,200	(20)	316	3.8	59	76	99	129	77	30	30	69	53	41	40	31	24	18.0	13.5	10.1	30	29	28	0.0	0.0	0.0	27
G R Infraprojects	SELL	1,057	1,010	(4)	102	1.2	97	77	81	99	(12)	5	22	14	13	11	9	9	7	1.7	1.5	1.3	13	12	13	0.0	0.0	0.0	1
IRB Infrastructure	BUY	39	38	(3)	236	2.8	6,039	1	2	2	3	57	19	32	20	17	11	10	8	1.8	1.8	1.8	6	9	10	3.9	4.7	5.4	17
Kalpataru Projects	BUY	636	745	17	103	1.2	160	37	55	68	37	48	24	17	12	9	7	6	5	1.9	1.7	1.4	12	16	17	0.5	0.7	0.8	3
KEC International	REDUCE	578	610	6	148	1.8	257	19	34	47	171	85	38	31	17	12	12	9	7	3.5	3.0	2.5	12	19	22	0.3	0.6	0.9	4
L&T	REDUCE	3,054	2,700	(12)	4,294	51.5	1,373	93	111	134	24	19	20	33	27	23	22	19	16	6.0	5.3	4.7	18	21	22	0.9	1.1	1.3	71
Siemens	SELL	3,629	3,300	(9)	1,292	15.5	356	61	73	84	12	20	15	59	50	43	42	35	31	8.8	7.8	6.9	16	17	17	0.4	0.5	0.6	14
Thermax	REDUCE	2,626	2,730	4	313	3.8	113	52	62	74	31	18	20	50	43	36	40	32	25	40.4	32.3	25.4	15	15	16	0.5	0.5	0.6	2
Capital goods	**Cautious**				**10,145**	**121.7**					**19.5**	**21.1**	**22.6**	**40.0**	**33.1**	**27.0**	**24.9**	**20.9**	**17.6**	**5.6**	**5.1**	**4.5**	**14.0**	**15.3**	**16.8**	**0.8**	**1.0**	**1.1**	**300**
Commercial & Professional Services																													
SIS	BUY	459	500	9	67	0.8	147	23	28	35	(4)	24	24	20	16	13	12	10	9	2.5	2.2	1.9	13	14	15	0.0	0.0	0.0	1
TeamLease Services	REDUCE	2,635	2,430	(8)	44	0.5	17	70	96	125	8	38	30	38	27	21	32	23	18	5.4	4.5	3.7	14.4	17.8	19.2	—	—	—	1
Commercial & Professional Servi	**Neutral**				**111**	**1.3**					**(1.5)**	**27.3**	**25.7**	**24.6**	**19.4**	**15.4**	**15.8**	**12.8**	**10.6**	**3.2**	**2.7**	**2.3**	**12.9**	**14.1**	**15.1**	**0.0**	**0.0**	**0.0**	**2**
Commodity Chemicals																													
Asian Paints	REDUCE	3,136	3,050	(3)	3,008	36.1	959	59	60	62	35	3	3	54	52	51	37	35	34	16.1	14.1	12.5	32	29	26	1.0	1.0	1.1	34
Berger Paints	SELL	574	500	(13)	669	8.0	1166	11	11	12	48	3	7	53	51	48	33	32	31	12.8	11.2	9.8	26	23	22	0.8	0.8	0.8	9
Indigo Paints	REDUCE	1,482	1,375	(7)	71	0.8	48	33	37	40	35	14	6	45	40	37	28	24	23	7.8	6.8	6.1	19	18	17	0.5	0.6	0.9	2
Kansai Nerolac	REDUCE	320	295	(8)	259	3.1	808	9	9	10	53	(0)	5	35	35	33	22	22	21	5.1	4.7	4.4	15	14	14	1.0	1.4	1.5	1
Tata Chemicals	SELL	961	790	(18)	245	2.9	255	53	39	42	(43)	(26)	8	18	25	23	7	8	8	1.2	1.1	1.1	7	5	5	2.0	1.4	1.5	9
Commodity Chemicals	**Cautious**				**4,251**	**51.0**					**14.8**	**(1.5)**	**4.2**	**46.6**	**47.3**	**45.4**	**28.5**	**28.6**	**27.2**	**8.4**	**7.7**	**7.1**	**18.0**	**16.3**	**15.7**	**1.0**	**1.0**	**1.1**	**55**
Construction Materials																													
ACC	REDUCE	1,821	1,970	8	342	4.1	188	92	111	130	66	20	17	20	16	14	11	9	7	2.2	2.0	1.8	12	13	13	1.0	1.2	1.4	12
Ambuja Cements	SELL	414	350	(16)	823	9.9	2,463	14	19	20	4	30	8	29	22	21	8	7	6	2.1	1.9	1.8	9	9	9	0.5	0.7	0.8	14
Dalmia Bharat	ADD	2,231	2,350	5	418	5.0	185	55	102	126	61	87	24	41	22	18	14	10	8	2.5	2.3	2.1	6	11	12	0.4	0.7	0.8	10
Grasim Industries	REDUCE	1,949	1,925	(1)	1,284	15.4	658	124	133	145	18	8	9	16	15	13	8	7	6	1.5	1.4	1.3	10	10	10	0.6	0.7	0.8	16
J K Cement	SELL	3,502	2,600	(26)	271	3.2	77	103	127	152	87	22	20	34	28	23	14	12	11	5.0	4.3	3.7	16	17	17	0.4	0.4	0.4	5
Nuvoco Vistas Corp	ADD	362	365	1	129	1.5	357	5	11	15	(56)	115	34	70	33	24	10	9	8	1.4	1.4	1.3	2	4	5	0.0	0.0	0.0	2
Orient Cement	REDUCE	229	200	(13)	47	0.6	205	11	14	16	90	21	15	20	17	14	9	8	6	2.6	2.3	2.0	14	15	15	0.9	0.9	0.9	4
Shree Cement	SELL	25,645	17,900	(30)	925	11.1	36	643	753	867	75	17	15	40	34	30	20	17	15	4.6	4.1	3.7	12	13	13	0.4	0.5	0.6	9
The Ramco Cements	SELL	962	690	(28)	227	2.7	236	27	36	48	105	31	35	35	27	20	15	12	10	3.1	2.8	2.5	9	11	13	0.3	0.4	0.5	6
UltraTech Cement	SELL	8,556	7,200	(16)	2,470	29.6	289	277	357	405	58	29	13	31	24	21	18	14	12	4.1	3.6	3.2	14	16	16	0.5	0.6	0.3	31
Construction Materials	**Cautious**				**6,936**	**83.2**					**38.8**	**23.6**	**13.3**	**26.1**	**21.1**	**18.6**	**12.0**	**10.2**	**8.7**	**2.5**	**2.3**	**2.1**	**9.8**	**10.9**	**11.2**	**0.5**	**0.7**	**0.6**	**109**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M
Company	Rating	24-Nov-23	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	(US$ mn)
Consumer Durables & Apparel																													
Aditya Birla Fashion and Retail	REDUCE	228	210	(8)	217	2.6	998	(8)	(6)	(4)	(2,009)	31	34	NM	NM	NM	17	12	10	5.7	4.9	5.3	NM	NM	NM	—	—	—	8
Havells India	SELL	1,294	1,140	(12)	811	9.7	628	20	25	30	19	22	20	64	52	43	42	35	29	11.2	10.0	9.0	18	20	22	0.6	0.8	0.9	14
Page Industries	SELL	37,504	34,500	(8)	418	5.0	11	539	663	778	5	23	17	70	57	48	43	35	30	25.2	20.8	17.4	40	40	39	0.8	1.0	1.2	11
Polycab	SELL	5,280	4,120	(22)	793	9.5	150	116	128	149	35	10	16	46	41	36	32	28	24	10.0	8.5	7.3	24	22	22	0.5	0.6	0.7	34
TCNS Clothing Co.	REDUCE	375	420	12	24	0.3	69	(3)	1	4	(22)	127	316	NM	442	106	18	14	11.7	4.1	3.8	3.5	NM	1	3	—	—	—	1
Vedant Fashions	REDUCE	1,344	1,200	(11)	326	3.9	248	18	23	27	5	24	21	74	59	49	46	37	31	19.9	16.1	13.0	29	30	29	—	—	—	3
Voltas	SELL	824	770	(7)	273	3.3	331	11	22	27	(7)	104	25	78	38	30	55	28	25	4.8	4.4	4.0	6	12	14	0.5	0.8	1.0	12
Whirlpool	SELL	1,561	1,020	(35)	198	2.4	127	20	28	39	17	38	41	77	56	40	41	31	23	5.3	4.9	4.5	7	9	11	0.3	0.3	0.4	2
Consumer Durables & Apparel	**Cautious**				**3,241**	**38.9**					**2.0**	**34.6**	**12.2**	**73.3**	**54.5**	**48.6**	**34.4**	**27.1**	**23.4**	**9.1**	**7.9**	**7.8**	**12.4**	**14.6**	**16.14**	**0.5**	**0.6**	**0.7**	**92**
Consumer Staples																													
Britannia Industries	ADD	4,644	4,800	3	1,119	13.4	241	88	98	110	9	11	13	53	48	42	37	33	30	28.6	25.7	23.1	57	57	58	1.7	1.9	2.2	19
Colgate-Palmolive (India)	ADD	2,195	2,075	(5)	597	7.2	272	46	51	55	19	9	9	47	43	40	32	30	27	32.9	31.2	29.6	71	74	77	2.0	2.2	2.4	12
Dabur India	ADD	537	590	10	952	11.4	1,772	11	13	14	16	13	13	48	43	38	38	33	29	9.5	8.6	7.7	21	21	21	1.0	1.2	1.3	11
Godrej Consumer Products	ADD	1,010	1,150	14	1,033	12.4	1,023	19	23	26	11	21	15	53	44	38	36	30	26	6.8	6.2	5.7	13	15	16	0.7	1.0	1.3	9
Hindustan Unilever	ADD	2,515	2,775	10	5,910	70.9	2,350	45	50	57	8	13	12	56	50	44	40	35	31	11.5	11.1	10.6	21	23	24	1.6	1.8	2.0	46
ITC	ADD	438	470	7	5,460	65.5	12,428	16	18	20	7	11	9	27	24	22	21	18	16	7.7	7.4	7.1	27	30	32	3.2	3.5	3.8	49
Jyothy Labs	REDUCE	440	370	(16)	161	1.9	367	10	11	13	64	10	11	42	39	35	32	29	26	9.1	8.1	7.2	23	22	22	1.0	1.3	1.4	6
Marico	REDUCE	524	550	5	677	8.1	1,290	12	13	14	14	9	11	45	42	37	32	29	26	15.0	12.8	11.0	36	33	32	1.1	1.3	1.4	10
Nestle India	ADD	24,139	24,500	1	2,327	27.9	96	312	367	415	26	18	13	77	66	58	52	44	39	80.5	76.1	73.9	112	119	129	1.2	1.4	1.7	20
Sula Vineyards	ADD	480	530	10	41	0.5	84	11	13	15	11	14	18	43	38	32	24	21	18	6.7	5.9	5.3	16	17	17	0.6	0.7	0.9	4
Tata Consumer Products	ADD	927	915	(1)	861	10.3	929	15	18	20	30	21	15	63	52	45	38	32	28	5.1	4.9	4.7	8	10	11	1.0	1.1	1.2	16
United Breweries	ADD	1,584	1,675	6	419	5.0	264	19	31	38	42	63	24	84	51	41	49	32	27	9.8	8.9	8.2	12	18	21	0.9	1.5	1.8	5
United Spirits	ADD	1,043	1,075	3	758	9.1	727	16	19	22	16	23	13	67	54	48	44	36	32	10.7	9.8	9.0	17	19	19	0.2	1.0	1.2	12
Varun Beverages	ADD	1,068	1,025	(4)	1,388	16.6	1,299	16	19	23	36	21	22	68	56	46	40	32	27	20.2	15.3	11.9	34	31	29	0.2	0.2	0.3	22
Consumer Staples	**Attractive**				**21,703**	**260.3**					**11.9**	**13.7**	**11.9**	**45.4**	**39.9**	**35.7**	**32.4**	**28.3**	**25.1**	**11.0**	**10.3**	**9.6**	**24**	**26**	**27**	**1.7**	**2.0**	**2.2**	**239**
Diversified Financials																													
360 One	BUY	543	600	10	195	2.3	355	20	24	29	9	16	22	27	23	19	—	—	—	5.7	5.3	5.0	23	24	27	2.8	3.3	4.0	4
Aavas Financiers	BUY	1,486	2,025	36	118	1.4	79	64	78	95	17	22	22	23	19	16	—	—	—	3.1	2.7	2.3	14	15	16	0.0	0.0	0.0	5
ABSL AMC	ADD	457	450	(2)	132	1.6	288	22	24	27	8	10	9	21	19	17	—	—	—	4.7	4.3	3.9	NM	NM	NM	2.9	3.2	3.5	1
Aptus Value Housing Finance	ADD	283	330	16	141	1.7	498	12	14	17	18	17	21	24	21	17	—	—	—	3.8	3.2	2.7	17	17	17	1.4	0.0	0.0	3
Bajaj Finance	REDUCE	7,021	7,400	5	4,339	52.0	615	238	301	372	25	27	24	30	23	19	—	—	—	5.7	4.7	3.9	23	22	22	0.4	0.5	0.7	93
Bajaj Finserv	ADD	1,617	1,725	7	2,580	31.0	1,593	67	84	98	66	25	18	24	19	16	—	—	—	4.7	4.0	3.7	21	22	23	0.1	0.1	0.1	29
Cholamandalam	ADD	1,095	1,250		919	11.0	839	40	50	61	23	26	22	27	22	18	—	—	—	5.0	4.1	3.3	20	20	20	0.2	0.3	0.3	28
Computer Age Management Servi	ADD	2,786	2,500	(10)	137	1.6	49	68	80	94	17	18	17	41	35	30	—	—	—	15.0	13.0	11.2	40	40	40	1.6	1.9	2.2	7
CRISIL	SELL	4,306	3,300	(23)	315	3.8	73	85	92	104	10	9	13	51	47	41	—	—	—	#DIV/0!	#DIV/0!	#DIV/0!	33	32	32	1.3	1.4	1.6	3
Five Star Business Finance	ADD	786	840	7	230	2.8	291	26	32	39	27	20	22	30	25	20	—	—	—	4.5	3.8	3.2	16	17	17	—	—	—	8
HDFC AMC	ADD	2,842	3,000	6	607	7.3	214	82	95	105	22	16	11	35	30	27	—	—	—	9.1	8.5	7.9	27	29	30	2.2	2.5	2.8	25
Home First Finance	BUY	886	1,175	33	78	0.9	88	33	40	49	26	22	24	27	22	18	—	—	—	3.7	3.3	2.8	15	16	17	—	—	0.6	4
ICRA	REDUCE	5,547	5,100	(8)	54	0.6	10	162	180	201	14	11	12	34	31	28	—	—	—	#DIV/0!	#DIV/0!	#DIV/0!	15	16	17	—	—	0	1
Kfin Technologies	ADD	525	465	(11)	89	1.1	169	13	15	17	9	15	19	42	36	30	—	—	—	8.3	6.9	6.1	16	16	18	—	0.8	1	3
L&T Finance Holdings	SELL	140	100	(29)	348	4.2	2,480	8	10	12	(16)	23	22	18	14	12	—	—	—	1.5	1.4	1.3	9	10	12	1.8	2.2	2.6	18
LIC Housing Finance	BUY	455	600	32	250	3.0	550	85	79	82	61	(7)	3	5	6	6	—	—	—	1.0	0.9	0.8	16	13	12	3.0	2.8	2.9	14
Mahindra & Mahindra Financial	ADD	264	310	17	326	3.9	1,234	14	20	26	(12)	43	28	19	13	10	—	—	—	1.9	1.7	1.6	10	13	15	1.1	1.5	2.0	14
Muthoot Finance	ADD	1,325	1,500	13	532	6.4	401	100	122	144	16	22	18	13	11	9	—	—	—	2.2	1.9	1.6	18	19	19	1.5	1.8	2.2	7
Nippon AMC	ADD	407	400	(2)	254	3.1	623	14	15	17	20	11	11	29	26	24	—	—	—	7.0	6.9	7.0	24	26	29	3.1	3.4	3.8	4
SBFC	REDUCE	88	75	(15)	94	1.1	1,091	2	3	3	29	32	25	42	32	25	—	—	—	3.9	3.4	3.0	10	10	12	0.0	0.0	0.0	-
Shriram Finance	BUY	1,948	2,300	18	731	8.8	376	187	224	263	17	19	18	10	9	7	—	—	—	1.5	1.3	1.2	15	16	17	1.5	1.7	2.0	30
UTI AMC	ADD	790	840	6	100	1.2	127	45	42	46	31	(8)	11	17	19	17	—	—	—	2.5	2.5	2.4	15	13	14	4.6	4.2	4.7	1
Diversified Financials	**Attractive**				**12,568**	**150.8**					**27.3**	**21.0**	**19.1**	**22.3**	**18.5**	**15.5**				**3.7**	**3.2**	**2.8**	**16.6**	**17.4**	**18.0**	**0.8**	**0.9**	**1.0**	**301**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3M
Company	Rating	24-Nov-23	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	(US$ mn)
Electric Utilities																													
CESC	BUY	98	105	7	130	1.6	1,326	11	14	14	6	26	6	9	7	7	6	5	5	0.9	0.9	0.8	11	13	13	5.3	5.4	5.8	8
JSW Energy	SELL	421	225	(47)	692	8.3	1,640	10	15	18	17	52	23	43	29	23	17	12	11	3.5	3.1	2.8	8	12	13	0.5	0.5	0.5	26
NHPC	ADD	55	55	1	549	6.6	10,045	4	5	6	13	8	24	13	12	9	14	8	6	1.4	1.3	1.2	12	12	14	4.2	4.6	5.5	18
NTPC	ADD	254	260	2	2,462	29.5	9,895	19	22	24	14	14	8	13.1	11.5	11	9	8	7	1.5	1.4	1.3	12	13	13	2.9	3.2	3.4	39
Power Grid	ADD	210	220	4	1,957	23.5	9,301	18	19	20	10	4	3	11.5	11.0	11	7	7	6	2.2	2.0	1.9	20	19	18	5.1	5.4	5.6	36
Tata Power	SELL	258	220	(15)	825	9.9	3,196	9	9	11	(12)	(1)	25	28	28	23	12	11	10	2.6	2.4	2.2	10	9	10	—	—	—	34
Electric Utilities	**Attractive**				**6,616**	**79.4**					**10.1**	**10.5**	**9.5**	**14.2**	**12.8**	**11.7**	**9.3**	**8.1**	**7.3**	**1.9**	**1.7**	**1.6**	**13.1**	**13.4**	**13.5**	**3.1**	**3.3**	**3.6**	**162**
Fertilizers & Agricultural Chemicals																													
Bayer Cropscience	REDUCE	5,263	5,080	(3)	237	2.8	45	188	210	232	24	11	11	28	25	23	19	17	16	8.3	7.9	7.5	30	32	34	3.0	3.4	3.8	2
Godrej Agrovet	ADD	497	530	7	95	1.1	192	17	23	30	40	35	35	30	22	16	17	13	10	3.3	3.0	2.6	11	14	17	1.4	1.9	2.6	1.1
Rallis India	REDUCE	228	210	(8)	44	0.5	195	9	11	13	90	21	15	25	21	18	13	11	10	2.4	2.2	2.1	10	11	12	1.5	1.8	2.0	3
UPL	REDUCE	559	550	(2)	420	5.0	751	27	40	52	(40)	46	31	20	14	11	7	6	5	1.5	1.3	1.2	7	10	12	1.1	1.6	2.0	19
Fertilizers & Agricultural Chemica	**Cautious**				**796**	**9.5**					**(23.4)**	**35.0**	**26.3**	**23.4**	**17.3**	**13.7**	**8.8**	**7.6**	**6.4**	**2.2**	**2.0**	**1.8**	**9.4**	**11.7**	**13.4**	**1.7**	**2.2**	**2.6**	**25**
Gas Utilities																													
GAIL (India)	REDUCE	125	120	(4)	819	9.8	6,575	12	13	13	48	6	4	10	10	10	9	8	7	1.4	1.3	1.3	14	14	14	6.0	6.4	6.8	23
GSPL	BUY	278	375	35	157	1.9	564	22	17	19	32	(22)	9	13	16	15	6	7	6	1.6	1.5	1.4	13	9	10	3.0	3.2	3.4	3
Indraprastha Gas	REDUCE	392	375	(4)	274	3.3	700	30	28	30	27	(6)	6	13	14	13	9	10	9	3.3	3.0	2.7	27	23	21	2.6	2.7	2.8	12
Mahanagar Gas	REDUCE	1,025	975	(5)	101	1.2	99	111	88	85	39	(21)	(4)	9	12	12	6	7	7	2.1	1.9	1.7	24	17	15	3.5	3.0	2.9	8
Petronet LNG	SELL	195	165	(16)	293	3.5	1,500	21	21	22	20	(0)	5	9	9	9	5	6	6	1.8	1.5	1.3	20	18	16	5.1	2.6	1.3	12
Gas Utilities	**Cautious**				**1,644**	**19.7**					**36.5**	**(1.2)**	**4.1**	**10.7**	**10.8**	**10.4**	**7.7**	**7.5**	**7.2**	**1.7**	**1.6**	**1.4**	**15.7**	**14.4**	**13.9**	**4.8**	**4.6**	**4.6**	**57**
Health Care Services																													
Apollo Hospitals	BUY	5,401	5,900	9	777	9.3	144	64	103	135	12	61	31	85	53	40	33	24	20	11.1	9.4	7.9	14	19	21	0.2	0.3	0.4	26
Aster DM Healthcare	ADD	337	350	4	168	2.0	498	9	13	16	7	47	18	37	25	21	10	8	7	3.5	3.1	2.8	10	13	14	—	—	—	2
Dr Lal Pathlabs	SELL	2,688	1,850	(31)	224	2.7	83	42	49	56	46	17	14	64	55	48	36	31	26	12.2	11.1	10.0	20	21	22	0.8	1.0	1.1	8
Global Health	REDUCE	903	885	(2)	242	2.9	268	18	20	25	45	15	23	51	44	36	28	25	20	8.6	7.4	6.3	18	18	19	0.3	0.3	0.4	4
KIMS	ADD	1,917	2,075	8	153	1.8	80	45	55	68	11	22	23	42	35	28	22	18	15	7.6	6.2	5.1	20	20	20	0.0	0.0	0.0	2
Max Healthcare	REDUCE	613	585	(5)	595	7.1	971	13	15	19	(4)	17	26	47	40	32	31	26	21	6.3	5.4	4.6	14	15	16	0.0	0.0	0.0	12
Metropolis Healthcare	REDUCE	1,658	1,425	(14)	85	1.0	51	30	43	52	7	44	20	55	38	32	28	22	19	7.8	6.9	6.0	15	19	20	0.5	0.8	0.9	7
Narayana Hrudayalaya	REDUCE	1,238	1,170	(6)	253	3.0	204	39	42	49	31	8	18	32	30	25	21	19	15	8.7	6.7	5.3	31	26	24	—	—	—	5
Rainbow Children's Medicare	REDUCE	1,097	1,100	0	111	1.3	102	22	28	31	8	25	12	49	39	35	25	21	18	8.9	7.5	6.4	20	21	20	0.4	0.5	0.5	4
Health Care Services	**Cautious**				**2,610**	**31.3**					**13.0**	**27.9**	**23.3**	**52.2**	**40.8**	**33.1**	**25.7**	**20.8**	**17.2**	**7.9**	**6.7**	**5.7**	**15.0**	**16.4**	**17.2**	**0.2**	**0.2**	**0.3**	**70**
Hotels & Restaurants																													
Devyani International	ADD	182	195	7	220	2.6	1,204	1	2	3	(39)	49	26	128	86	68	31	24	20	20.0	17.9	15.9	17	22	25	0.0	0.0	0.0	6
Jubilant Foodworks	REDUCE	545	500	(8)	360	4.3	660	5	8	10	(4)	45	22	101	70	57	29	23	20	15.5	13.1	11.0	16	20	21	0.2	0.3	0.4	17
Lemon Tree Hotels	REDUCE	115	105	(8)	91	1.1	792	3	5	6	122	51	17	36	24	20	16	11	10	9.4	7.6	6.3	28	36	34	1.3	1.5	1.7	10
Restaurant Brands Asia	REDUCE	116	110	(5)	57	0.7	495	(1)	(1)	0	24	53	115	NM	NM	1,465	22	16	13	3.1	3.2	3.1	NM	NM	0	0.0	0.0	0.0	5
Sapphire Foods	BUY	1,410	1,700	21	90	1.1	64	15	20	26	(60)	39	29	97	69	54	18	15	13	6.6	6.1	5.4	7	9	11	0.0	0.0	0.0	3
Westlife Foodworld	REDUCE	866	845	(2)	135	1.6	156	7	9	12	(3)	32	35	124	94	69	32	27	22	20.6	17.7	14.9	18	20	23	0.0	0.0	0.0	2
Hotels & Restaurants	**Attractive**				**952**	**11.4**					**(11.0)**	**51.0**	**26.0**	**102.6**	**68.0**	**53.9**	**25.5**	**19.9**	**16.9**	**11.6**	**10.3**	**9.1**	**11.3**	**15.2**	**16.8**	**0.2**	**0.2**	**0.3**	**43**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs) 24-Nov-23	Fair Value (Rs)	Upside (%)	Mkt cap. (Rs bn)	Mkt cap. (US$ bn)	O/S shares (mn)	EPS (Rs) 2024E	EPS (Rs) 2025E	EPS (Rs) 2026E	EPS growth (%) 2024E	EPS growth (%) 2025E	EPS growth (%) 2026E	P/E (X) 2024E	P/E (X) 2025E	P/E (X) 2026E	EV/EBITDA (X) 2024E	EV/EBITDA (X) 2025E	EV/EBITDA (X) 2026E	P/B (X) 2024E	P/B (X) 2025E	P/B (X) 2026E	RoE (%) 2024E	RoE (%) 2025E	RoE (%) 2026E	Dividend yield (%) 2024E	Dividend yield (%) 2025E	Dividend yield (%) 2026E	ADVT-3M (US$ mn)
Insurance																													
HDFC Life Insurance	BUY	668	830	24	1,436	17.2	2,020	8	9	10	21	19	15	87	74	64	—	—	—	10.5	9.8	9.2	12	14	15	0.3	0.3	0.4	21
ICICI Lombard	REDUCE	1,439	1,300	(10)	707	8.5	491	41	49	57	18	18	16	35	29	25	—	—	—	5.9	5.2	4.5	18	19	19	0.7	0.8	1.0	9
ICICI Prudential Life	BUY	555	650	17	800	9.6	1,439	6	7	8	6	13	20	93	82	69	—	—	—	7.4	6.9	6.4	8	9	10	0.6	0.6	0.6	12
LIC	BUY	678	1,040	53	4,286	51.4	6,325	47	47	51	(18)	1	8	14	14	13	—	—	—	6.2	4.7	3.7	51	37	31	—	—	—	8
Max Financial Services	BUY	969	1,100	13	335	4.0	345	2	2	2	312	12	15	585	520	453	—	—	—	—	—	—	1	1	1	—	—	—	13
PB Fintech	ADD	817	850	4	368	4.4	450	0	6	12	101	5,432	110	7,855	142	68	—	—	—				0	5	9	—	—	—	10
SBI Life Insurance	BUY	1,410	1,625	15	1,411	16.9	1,004	19	20	21	10	5	8	75	72	67	—	—	—	10.9	9.7	8.6	15	14	14	0.2	0.2	0.2	16
Star Health and Allied Insurance	ADD	571	620	9	333	4.0	582	14	19	23	30	34	23	41	31	25	—	—	—	5.3	4.5	3.8	14	16	17	—	—	—	7
Insurance	**Attractive**				**9,676**	**116.1**					**(11.7)**	**4.7**	**10.5**	**26.2**	**25.1**	**22.7**				**7.1**	**5.8**	**4.9**	**27**	**23**	**22**	**0.1**	**0.1**	**0.1**	**95**
Internet Software & Services																													
Cartrade Tech	SELL	842	470	(44)	39	0.5	51.5	8	11	13	28	32	15	100	75	66	64	41	32	2.1	2.0	2.0	2.1	2.7	3.0	0.0	0.0	0.0	2
FSN E-commerce Ventures	ADD	172	170	(1)	490	5.9	2,875.0	0	1	2	321	158	73	472	183	106	128	76	52	33.6	28.5	22.4	7.3	16.9	24	—	—	—	13
Indiamart	SELL	2,599	2,700	4	159	1.9	60.7	57	70	83	30	22	19	45	37	31	38	29	23	8.3	6.8	5.6	17.6	20.0	19.6	0.1	0.1	0.1	7
Info Edge	ADD	4,597	5,000	9	595	7.1	129.0	62	69	81	13	11	18	74	67	57	60	52	44	5.2	4.9	4.6	7.1	7.5	8.4	0.3	0.4	0.4	15
Just Dial	BUY	715	920	29	61	0.7	85.0	39	47	54	102	20	17	18	15	13	9	5	3	1.5	1.4	1.3	8.7	9.4	10.0	—	—	—	1
Zomato	BUY	113	130	15	987	11.8	9,131	0	1	3	115	711	105	681	84	41	(17,087)	76	34	5.2	4.8	4.2	0.8	5.9	10.9	0.0	0.0	0.0	100
Internet Software & Services	**Attractive**				**2,331**	**28.0**					**780**	**84**	**55**	**131**	**71**	**46**	**110**	**58**	**37**	**5.7**	**5.3**	**4.7**	**4.3**	**7.4**	**10.3**	**0.1**	**0.1**	**0.1**	**139**
IT Services																													
Cyient	BUY	1,858	2,000	8	206	2.5	111	70	87	98	36	24	12	27	21	19	15	13	12	4.5	4.1	3.6	19	20	20	1.9	2.5	2.8	10
HCL Technologies	BUY	1,309	1,410	8	3,553	42.6	2,714	57	65	72	5	14	11	23	20	18	14	12	11	5.2	5.0	4.7	23	25	27	3.8	4.2	4.4	35
Infosys	BUY	1,437	1,700	18	5,966	71.6	4,146	60	69	78	3	16	13	24	21	18	16	14	12	7.3	6.7	6.2	31	34	35	3.1	3.6	4.1	92
KPIT Technologies	SELL	1,469	940	(36)	403	4.8	273	21	28	36	51	31	29	69	53	41	40	31	25	18.2	14.5	11.5	30	31	31	0.4	0.5	0.7	20
L&T Technology Services	SELL	4,569	3,850	(16)	483	5.8	106	123	142	161	11	15	14	37	32	28	24	21	19	8.4	7.4	6.4	24	24	24	0.9	1.2	1.3	9
LTIMindtree	REDUCE	5,473	5,350	(2)	1,619	19.4	296	166	197	233	11	19	18	33	28	23	22	19	16	8.3	7.1	6.0	27	28	28	1.3	1.5	1.6	21
Mphasis	REDUCE	2,319	2,160	(7)	438	5.2	188	83	97	114	(4)	17	17	28	24	20	17	15	13	5.2	4.9	4.5	19	21	23	2.6	2.8	3.0	13
Persistent Systems	ADD	6,390	6,000	(6)	492	5.9	77	145	183	227	21	26	24	44	35	28	27	22	18	10.5	8.8	7.3	26	28	28	0.8	1.0	1.2	29
RateGain	ADD	660	650	(2)	78	0.9	109	12	15	17	131	27	15	55	44	38	39	32	26	8.5	7.0	5.9	17	18	17	0.0	0.0	0.0	4
Tata Elxsi	SELL	8,335	5,450	(35)	519	6.2	62	132	157	185	9	19	18	63	53	45	46	39	33	21.1	17.9	15.3	36	37	37	0.9	1.0	1.3	13
TCS	ADD	3,457	3,760	9	12,650	151.7	3,649	127	142	157	10	12	10	27	24	22	19	17	15	13.2	11.8	10.6	49	51	51	1.7	3.3	3.6	82
Tech Mahindra	REDUCE	1,198	1,150	(4)	1,054	12.6	890	35	59	72	(39)	71	23	35	20	17	18	12	10	3.8	3.8	3.6	11	19	22	2.5	3.7	3.9	31
Wipro	REDUCE	396	375	(5)	2,068	24.8	5,287	21	23	25	3	9	9	19	17	16	11	10	9	2.8	2.4	2.2	15	15	15	0.3	0.3	2.3	24
IT Services	**Neutral**				**29,527**	**354.2**					**4.4**	**14.7**	**12.2**	**26.3**	**23.0**	**20.5**	**17.2**	**15.0**	**13.4**	**7.5**	**6.8**	**6.2**	**28.4**	**29.5**	**30.1**	**2.0**	**2.9**	**3.3**	**383**
Media																													
PVR INOX	ADD	1,652	1,850	12	162	1.9	98	34	62	75	242	85	21	49	27	22	18	12	10	1.9	1.8	1.7	4	7	8	0.2	0.4	0.5	11
Sun TV Network	BUY	670	725	8	264	3.2	394	49	52	55	14	6	6	14	13	12	9	8	8	2.6	2.4	2.2	20	19	19	3.7	4.1	4.5	11
Zee Entertainment Enterprises	REDUCE	253	275	9	243	2.9	960	7	8	9	18	18	6	36	30	28	20	18	17	2.2	2.1	2.1	6	7	7	1.2	1.6	1.6	30
Media	**Attractive**				**669**	**8.0**					**43.5**	**17.6**	**8.7**	**22.7**	**19.3**	**17.7**	**14.0**	**11.8**	**10.7**	**2.2**	**2.1**	**2.0**	**9.9**	**11.0**	**11.2**	**2.0**	**2.3**	**2.5**	**51**
Metals & Mining																													
Hindalco Industries	ADD	508	535	5	1,141	13.7	2,220	38	41	45	(15)	7	9	13	12	11	6.5	6.0	5.4	1.1	1.0	0.9	9	9	9	0.8	0.8	0.9	35
Hindustan Zinc	SELL	301	265	(12)	1,272	15.3	4,225	20	20	20	(20)	(1)	3	15	15	15	8.9	8.6	8.3	9.8	9.8	9.8	65	64	66	6.6	6.5	6.7	2
Jindal Steel and Power	BUY	660	800	21	674	8.1	1,020	48	60	83	7	26	39	14	11	8	7.3	6.4	4.9	1.6	1.4	1.2	12	13	16	0.4	0.9	1.9	17
JSW Steel	REDUCE	782	820	5	1,912	22.9	2,417	53	69	89	108	31	28	15	11	9	8.1	6.7	5.4	2.5	2.1	1.7	18	20	22	1.0	1.3	1.7	19
National Aluminium Co.	SELL	91	75	(18)	167	2.0	1,837	7	7	7	(22)	1	1	14	14	14	6.7	6.5	6.3	1.2	1.1	1.1	9	9	8	2.9	2.9	3.0	11
NMDC	ADD	173	180	4	508	6.1	2,931	19	18	18	32	(7)	(2)	9	10	10	5.7	6.0	6.0	2.0	1.8	1.7	24	20	18	5.6	5.2	5.1	31
SAIL	SELL	89	60	(33)	368	4.4	4,130	4	6	7	(5)	32	16	20	15	13	7.4	6.9	6.7	0.6	0.6	0.6	3	4	5	1.8	2.3	2.7	19
Tata Steel	BUY	126	140	11	1,539	18.5	12,224	5	11	16	(17)	125	40	25	11	8	9.5	6.4	5.3	1.5	1.4	1.2	6	13	17	1.0	2.3	3.2	53
Vedanta	SELL	232	220	(5)	863	10.4	3,717	17	20	21	(42)	22	2	14	11	11	5.0	4.6	4.4	2.1	2.0	2.0	15	18	18	6.3	7.5	7.8	27
Metals & Mining	**Cautious**				**8,445**	**101.3**					**(2.7)**	**27.0**	**20.1**	**15.2**	**11.9**	**9.9**	**7.3**	**6.3**	**5.5**	**1.8**	**1.6**	**1.5**	**11.7**	**13.6**	**14.8**	**2.7**	**3.1**	**3.5**	**212**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3mo
Company	Rating	24-Nov-23	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	(US$ mn)
Oil, Gas & Consumable Fuels																													
BPCL	REDUCE	411	360	(12)	891	10.7	2,093	84	46	48	482	(45)	5	5	9	9	3.8	6.1	5.5	1.4	1.3	1.2	31	15	14	9.1	5.0	5.3	20
Coal India	REDUCE	333	275	(17)	2,051	24.6	6,163	33	28	31	(27)	(16)	10	10	12	11	9.3	12.8	11.0	3.1	2.9	2.6	34	26	26	6.0	6.0	6.0	47
HPCL	REDUCE	320	270	(16)	454	5.4	1,419	71	60	60	213	(17)	1	4	5	5	5.8	7.1	7.1	1.3	1.2	1.0	33	23	21	8.9	7.4	7.5	18
IOCL	REDUCE	103	90	(13)	1,461	17.5	14,121	17	15	14	190	(13)	(6)	6	7	7	4.6	5.1	4.9	1.0	0.9	0.9	17	14	12	8.2	7.1	6.7	24
Oil India	ADD	299	335	12	324	3.9	1,084	53	54	57	(15)	2	5	6	6	5	4.9	4.7	4.4	0.9	0.8	0.7	16	15	15	4.5	6.7	7.2	9
ONGC	ADD	189	210	11	2,376	28.5	12,580	41	41	39	10	0	(5)	5	5	5	2.9	2.9	2.8	0.8	0.7	0.6	17	15	13	6.6	6.8	6.5	23
Reliance Industries	BUY	2,394	2,725	14	16,197	194.3	6,766	109	130	138	11	19	6	22	18	17	11.6	9.8	8.8	2.1	1.9	1.7	10	11	10	—	0.4	0.4	189
Oil, Gas & Consumable Fuels	**Neutral**				**23,754**	**284.9**					**35.0**	**(0.7)**	**2.1**	**11.7**	**11.8**	**11.5**	**7.2**	**7.1**	**6.6**	**1.6**	**1.5**	**1.4**	**14.1**	**12.7**	**11.8**	**2.5**	**2.3**	**2.3**	**332**
Pharmaceuticals																													
Aurobindo Pharma	SELL	1,033	840	(19)	605	7.3	586	52	60	69	58	16	14	20	17	15	11	9	8	2.1	1.9	1.8	11	12	12	1.5	1.8	2.1	23
Biocon	REDUCE	235	235	(0)	283	3.4	1,202	4	9	16	(30)	110	73	54	26	15	13	11	8	1.2	1.2	1.1	2	5	8	0.6	1.4	2.4	9
Cipla	ADD	1,199	1,320	10	968	11.6	806	49	55	59	41	14	7	25	22	20	15	13	12	3.6	3.2	2.9	16	16	15	0.9	1.1	1.1	24
Concord Biotech	REDUCE	1,258	1,300	3	132	1.6	105	29	38	49	28	28	30	43	34	26	30	23	18	8.7	7.3	6.0	22	24	25	0.6	0.7	1.0	-
Divis Laboratories	SELL	3,765	2,775	(26)	999	12.0	265	64	83	102	(6)	29	23	59	45	37	41	31	25	7.4	6.8	6.2	13	16	18	1.0	1.1	1.3	17
Dr Reddy's Laboratories	REDUCE	5,646	5,375	(5)	942	11.3	166	323	339	322	33	5	(5)	18	17	18	11	10	10	3.4	2.9	2.5	21	18	15	0.7	0.8	0.8	29
Gland Pharma	SELL	1,757	1,365	(22)	289	3.5	164	54	65	72	14	19	11	32	27	24	19	16	14	3.3	2.9	2.6	11	11	11	-	-	-	7
Laurus Labs	SELL	373	270	(28)	201	2.4	536	7	12	16	(52)	73	33	53	31	23	21	15	12	4.5	3.9	3.4	9	14	16	-	-	-	9
Lupin	SELL	1,243	970	(22)	566	6.8	455	38	45	53	300	18	18	33	28	24	16	14	12	4.1	3.6	3.2	12	13	14	0.5	0.6	0.7	15
Mankind Pharma	ADD	1,913	2,000	5	766	9.2	401	45	56	69	40	25	23	43	34	28	30	24	20	8.7	7.3	6.1	22	23	24	0.6	0.7	0.9	5
Sun Pharmaceuticals	ADD	1,195	1,280	7	2,868	34.4	2,399	38	46	53	6	20	14	31	26	23	20	17	14	4.5	4.0	3.5	15	16	16	0.6	0.8	0.9	27
Torrent Pharmaceuticals	REDUCE	2,085	1,950	(6)	706	8.5	338	49	60	76	33	24	26	43	35	27	21	18	15	9.3	7.6	6.2	24	24	25	0.4	0.5	0.6	10
Pharmaceuticals	**Neutral**				**9,402**	**112.8**					**23.2**	**19.2**	**14.5**	**30.3**	**25.4**	**22.2**	**17.7**	**15.1**	**13.0**	**4.1**	**3.6**	**3.2**	**13.5**	**14.2**	**14.5**	**0.5**	**0.6**	**0.8**	**177**
Real Estate																													
Brigade Enterprises	BUY	738	780	6	170	2.0	231	14	21	28	8	57	33	54	35	26	17	11	8	4.9	4.4	3.8	9	13	16	0.3	0.3	0.3	3
Brookfield India Real Estate Trust	ADD	239	280	17	105	1.3	439	6	12	17	44	119	37	42	19	14	16	12	10	1.0	1.1	1.1	2	4	6	7.8	9.5	10.4	1
DLF	ADD	629	590	(6)	1,558	18.7	2,475	13	16	20	55	27	21	50	39	32	56	44	35	3.9	3.6	3.2	8	10	10	0.3	0.3	0.3	27
Embassy Office Parks REIT	ADD	320	345	8	303	3.6	948	10	14	17	84	44	21	33	23	19	15	12	11	1.3	1.4	1.4	4	6	8	6.9	8.1	9.2	2
Godrej Properties	SELL	1,841	1,370	(26)	512	6.1	278	21	43	50	(6)	104	18	87	43	36	(225)	142	156	5.2	4.6	4.1	6	11	12	—	—	—	15
Macrotech Developers	ADD	891	910	2	860	10.3	964	17	50	59	1	184	20	51	18	15	33	13	10	6.0	4.5	3.5	12	29	26	—	—	—	15
Mindspace REIT	ADD	324	350	8	192	2.3	593	10	13	15	45	23	15	31	25	22	14	13	12	1.3	1.3	1.4	4	5	6	6.4	6.8	7.2	1
Nexus Select Trust	ADD	131	135	4	198	2.4	1,515	5	5	6	35	13	15	27	24	21	15	14	13	6.6	8.3	10.8	28	30	44	7.1	7.1	7.6	1—
Oberoi Realty	REDUCE	1,390	1,080	(22)	505	6.1	364	47	57	103	(10)	22	79	30	24	14	21	15	8	3.6	3.2	2.6	13	14	21	0.1	0.1	0.1	10
Phoenix Mills	ADD	2,364	2,190	(7)	422	5.1	179	49	74	85	3	49	16	48	32	28	20	16	14	4.6	4.0	3.6	10	13	14	0.1	0.2	0.2	7
Prestige Estates Projects	ADD	925	910	(2)	371	4.4	401	41	14	22	161	(67)	60	22	67	42	18	16	14	3.2	3.1	2.9	15	5	7	0.2	0.2	0.2	10
Sobha	BUY	896	835	(7)	85	1.0	95	29	66	50	179	124	(24)	30	14	18	17	8	8	3.1	2.6	2.3	11	21	14	0.4	0.5	0.6	8
Sunteck Realty	BUY	491	520	6	72	0.9	140	20	23	58	19,785	15	154	25	21	8	20	16	7	2.3	2.0	1.7	10	10	22	0.2	0.2	0.2	3
Real Estate	**Attractive**				**5,353**	**64.2**					**33.8**	**43.8**	**28.8**	**41.3**	**28.7**	**22.3**	**26.5**	**17.9**	**14.0**	**3.3**	**3.1**	**2.8**	**8.1**	**10.8**	**12.8**	**1.2**	**1.3**	**1.4**	**102**
Retailing																													
Avenue Supermarts	SELL	3,843	3,600	(6)	2,501	30.0	651	41	54	68	11	32	25	94	71	57	59	45	36	13.3	11.2	9.4	15	17	18	—	—	—	16
Titan Company	ADD	3,397	3,350	(1)	3,016	36.2	888	41	50	61	11	21	22	83	69	56	55	44	37	21.0	17.4	14.3	28	28	28	0.4	0.5	0.5	34
Trent	ADD	2,650	2,700	2	942	11.3	356	25	36	51	127	43	41	105	73	52	54	39	30	26.9	19.7	14.2	30	31	32	—	—	—	19
Retailing	**Neutral**				**5,516**	**77.5**					**19.0**	**28.0**	**26.1**	**89.8**	**70.1**	**55.6**	**56.4**	**43.9**	**35.5**	**17.6**	**14.5**	**11.9**	**19.6**	**21**	**21**	**0.2**	**0.2**	**0.2**	**69**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

		Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			P/E (X)			EV/EBITDA (X)			P/B (X)			RoE (%)			Dividend yield (%)			ADVT-3mo
Company	Rating	24-Nov-23	(Rs)	(%)	(Rs bn)	(US$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	(US$ mn)
Specialty Chemicals																													
Aarti Industries	REDUCE	531	490	(8)	193	2.3	363	11	16	25	(29)	50	55	50	33	21	22	18	13	3.7	3.4	3.0	8	11	15	0.3	0.5	0.9	10
Atul	SELL	6,541	4,070	(38)	193	2.3	30	134	167	203	(23)	24	21	49	39	32	27	22	19	3.9	3.6	3.3	8	9	11	0.3	0.5	0.6	4
Castrol India	ADD	141	150	7	139	1.7	989	9	10	10	4	12	7	16	15	14	11	10	9	6.8	6.3	5.8	43	45	45	5.0	5.7	6.0	3
Clean Science & Technology	ADD	1,344	1,480	10	143	1.7	106	18	32	53	(35)	75	67	74	42	25	53	31	19	12.2	9.9	7.5	18	26	34	0.2	0.4	0.7	2
Deepak Nitrite	REDUCE	2,195	2,120	(3)	299	3.6	136	60	69	79	(4)	15	15	37	32	28	25	22	20	6.2	5.3	4.5	18	18	18	0.3	0.3	0.4	11
Navin Fluorine	ADD	3,733	3,620	(3)	185	2.2	50	69	99	143	(8)	42	45	54	38	26	33	23	17	7.4	6.3	5.1	15	18	22	0.2	0.2	0.3	13
Pidilite Industries	ADD	2,504	2,750	10	1,274	15.3	508	38	45	52	52	17	16	66	56	48	44	38	33	15.5	13.7	12.3	25	26	27	0.8	1.0	1.2	12
PI Industries	ADD	3,766	4,110	9	571	6.9	152	111	126	148	36	13	18	34	30	25	27	22	19	6.6	5.5	4.6	21	20	20	0.3	0.4	0.5	11
SRF	BUY	2,359	2,630	11	699	8.4	296	50	73	102	(31)	45	40	47	32	23	25	19	14	6.1	5.3	4.4	14	17	21	0.5	0.6	—	11
Vinati Organics	SELL	1,727	1,730	0	177	2.1	104	41	56	68	(7)	34	23	42	31	25	30	22	18	6.6	5.6	4.7	17	20	20	0.4	0.5	0.6	1
Specialty Chemicals	**Neutral**				**3,874**	**46.5**					**0.0**	**25.6**	**25.9**	**45.4**	**36.2**	**28.7**	**29.2**	**23.5**	**19.0**	**7.5**	**6.5**	**5.6**	**16.4**	**18.0**	**19.5**	**0.7**	**0.8**	**0.9**	**78**
Telecommunication Services																													
Bharti Airtel	ADD	973	975	0	5,696	68.3	5,967	26	38	47	62	47	25	38	26	21	9	7	6	6.6	5.0	4.2	19	22	22	0.5	0.6	0.6	56
Indus Towers	ADD	186	185	(0)	500	6.0	2,695	19	21	13	106	9	(37)	10	9	14	4	3	4	1.9	1.6	1.6	22	20	11	0.8	7.0	4.0	21
Vodafone Idea	RS	13	—	—	650	7.8	48,680	(7)	(6)	(7)	NM	NM	NM	NM	NM	NM	19	18	21	(0.6)	(0.5)	(0.4)	NM	NM	NM	—	—	—	49
Tata Communications	SELL	1,724	1,400	(19)	491	5.9	285	37	44	64	46	18	46	46	39	27	14	11	9	25.0	17.5	11.8	61	52	53	0.8	0.9	1.4	19
Telecommunication Services	**Attractive**				**7,337**	**88.0**					**32**	**93**	**256**	**NM**	**NM**	**615.8**	**10.0**	**8.4**	**7.7**	**78**	**59**	**161**	**NM**	**NM**	**26**	**0.5**	**1.0**	**0.8**	**145**
Transportation																													
Adani Ports and SEZ	BUY	796	940	18	1,718	20.6	2,160	40	48	55	4	19	16	20	17	14	14	11	10	3.2	2.7	2.3	18	18	17	0.3	0.4	0.5	47
Container Corp.	SELL	749	660	(12)	456	5.5	609	21	24	28	8	17	17	36	31	27	22	19	16	3.9	3.7	3.5	11	12	13	1.3	1.5	1.8	10
Delhivery	REDUCE	383	390	2	281	3.4	729	(4)	(0)	2	69	92	596	NM	NM	216	1,725	65	37	3.1	3.0	2.8	NM	NM	1	—	—	—	7
Gateway Distriparks	BUY	108	97	(10)	54	0.6	500	5	6	7	10	18	13	20	17	15	14	11	10	2.8	2.5	2.2	14	15	15	1.6	1.7	1.9	1
GMR Airports	REDUCE	60	55	(9)	364	4.4	6,036	(1)	(0)	0	12	86	225	NM	NM	290	22	12	10	(37.1)	(119.3)	(202.7)	83	16	NM	—	—	—	10
Gujarat Pipavav Port	ADD	137	140	3	66	0.8	483	8	9	10	14	15	15	18	15	13	10	9	8	2.7	2.6	2.5	16	17	19	3.8	4.3	5.0	5
InterGlobe Aviation	BUY	2,568	3,300	28	991	11.9	383	179	175	199	2,295	(2)	13	14	15	13	5	4	3	165.6	13.5	2.5	NM	170	68	—	—	—	24
Mahindra Logistics	REDUCE	362	340	(6)	26	0.3	71	3	10	20	(34)	222	90	112	35	18	12	9	7	4.5	4.1	3.5	4	12	21	—	—	—	1
Transportation	**Attractive**				**3,958**	**47.5**					**106.9**	**16.9**	**17.2**	**24.2**	**20.7**	**17.6**	**11.8**	**9.3**	**7.7**	**5.0**	**4.1**	**3.4**	**21**	**19.8**	**19.2**	**0.4**	**0.4**	**0.5**	**105**
KIE universe					**234,216**	**2,809**					**24.5**	**12.9**	**12.3**	**22.1**	**19.6**	**17.5**	**13.1**	**11.6**	**10.4**	**3.4**	**3.0**	**2.7**	**15.4**	**15.5**	**15.6**	**1.4**	**1.6**	**1.8**	

Notes:

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

(b) 2022 means calendar year 2021, similarly for 2023 and 2024 for these particular companies.

(c) Exchange rate (Rs/US$)= 83.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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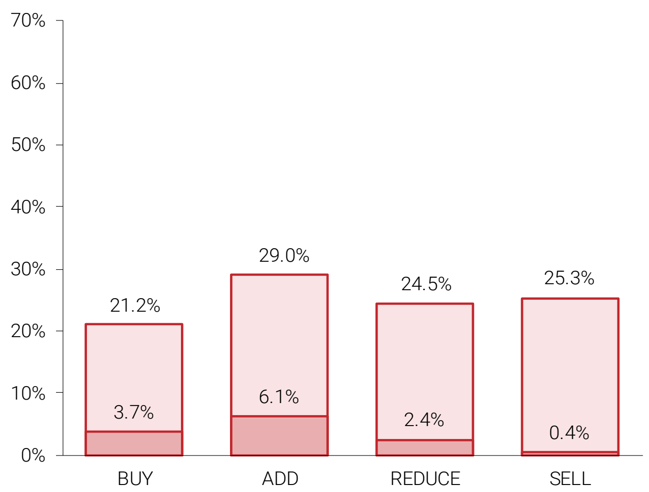
Distribution of ratings/investment banking relationships

Kotak Institutional Equities Research coverage universe



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

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Source: Kotak Institutional Equities

As of September 30, 2023

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.

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