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Colgate-Palmolive (India) (CLGT)

Consumer Staples

REDUCE

CMP(₹): 2,536

Fair Value(₹): 2,425

 Sector View: **Attractive**

NIFTY-50: 21,572

January 23, 2024

Powered by pricing

CLGT's domestic revenues grew 8.8% yoy (KIE: 6.7%), led by ~1.5%/DD volume/value growth in toothpastes (KIE: flat/7%) and partly offset by a decline in toothbrushes. GMs touched a new high of 72%, led by steep price hikes and a better mix. We see an overarching focus on pricing (especially at the premium end, and in the case of variants where competition is weak) and margins that could weigh on volume growth and premiumization in the medium term. We increase estimates by 4-5% (margin-led) and raise FV to Rs2,425 (from Rs2,325), valuing CLGT at 41X FY2026E PE. Maintain REDUCE.

3QFY24: Volumes slightly ahead; steep price hikes drive margin beat

Colgate's revenues grew 8.1% yoy to ~Rs14 bn, 1.3% ahead of our estimate. Domestic sales grew 8.8% yoy—toothpastes grew in double-digits even as toothbrushes declined. We estimate domestic volume growth for toothpastes at +1.5% (KIE: flat) versus (-)1%/+6-7% in 2Q/1Q. Colgate noted that rural demand in 3Q was marginally better than the subdued 2Q. GM created a new all-time high of 72.2% (KIE: 69.1%), up 630/340 bps yoy/qoq, aided by incessant price hikes (Nov-22, Feb-23, Aug-23, Sep-23) and a better mix (both exports and toothbrushes are margin-dilutive). Colgate partly reinvested gains on the GM front to increase A&P spends to Rs2 bn (+20%/(-)0.8% yoy/qoq), equivalent to 14.6% (KIE: 13.6%) of sales. Other expenses (+2.1%) remained on a tight leash. EBITDA grew 29.6% yoy to Rs4.7 bn (KIE: Rs4.4 bn) and EBITDA margin stood at 33.6% (KIE: 32.2%). Depreciation declined by 5.3%/6.6% yoy/qoq to Rs414 mn, 10% below our estimate. PBT/PAT grew by ~36% each to Rs4.4 bn/Rs3.3 bn.

Volume growth continues to lag peers, even as margins scale new highs

While Colgate's revenue growth in 3Q is likely among the best in the staples pack, we note that its volume growth of about 1% continues to lag peers—HUVR (MSD in BPC), GCPL (MSD), and DABUR (KIE: ~3%). Even as CLGT management has called out volume growth as its #1 priority, we note that (1) it has used the inflationary cycle to push disproportionate price increases (even as RM prices have eased) and expand GM by 450-500 bps to about 70%+ (industry leading), and (2) the premium segment in the toothpaste category is under-indexed, with <15% salience versus 25% for similar BPC categories. Colgate has taken steeper price increases in the premium portfolio, widening the gap between base and premium brands (Exhibit 4). Nevertheless, the increase in A&P spends in 3Q, to support the relaunch of *Colgate MaxFresh* and to push the twice-a-day brushing habit (*Brush at Night* campaign reached over 300 mn people in urban India), was encouraging.

We raise estimates by 3-5%; maintain REDUCE with a revised FV of Rs2,425

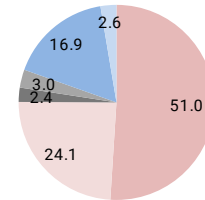
We tweak the revenue forecast, raise EBITDA margin estimates by 50-100 bps (led by higher GM and partly offset by higher A&P). Net-net, our FY2024-26E EPS increases by 3-5%. We maintain REDUCE with a revised FV of Rs2,425 (Rs2,325 earlier), valuing it at 41X FY2026E PE.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	2,536/2,425/REDUCE
52-week range (Rs) (high-low)	2,550-1,435
Mcap (bn) (Rs/US\$)	690/8.3
ADTV-3M (mn) (Rs/US\$)	961/11.6

Shareholding pattern (%)



■ Promoters ■ FPIs ■ MFs ■ BFI ■ Retail ■ Others

Price performance (%)

	1M	3M	12M
Absolute	7	20	69
Rel. to Nifty	6	10	49
Rel. to MSCI India	4	6	46

Forecasts/Valuations

	2024E	2025E	2026E
EPS (Rs)	48.6	53.5	58.9
EPS growth (%)	24.9	10.2	10.0
P/E (X)	52.2	47.4	43.1
P/B (X)	37.7	35.6	33.6
EV/EBITDA (X)	36.1	32.7	29.8
RoE (%)	74.5	77.3	80.4
Div. yield (%)	1.8	2.0	2.2
Sales (Rs bn)	57	61	66
EBITDA (Rs bn)	19	21	23
Net profits (Rs bn)	13	15	16

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of January 20, 2024

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Exhibit 1: Interim results of Colgate Palmolive India (as per Ind-AS), March fiscal year-ends (Rs mn)

	3QFY24	3QFY24E	3QFY23	2QFY24	(% chg)			9MFY24	9MFY23	% yoy
					KIE Est	yoy	qoq			
Net sales	13,864	13,677	12,812	14,624	1.4	8.2	(5.2)	41,635	38,462	8.3
Other operating income	92	106	101	87	(12.5)	(8.2)	6.1	269	294	(8.5)
Net operating revenues	13,957	13,783	12,913	14,711	1.3	8.1	(5.1)	41,904	38,756	8.1
Material cost	(3,883)	(4,259)	(4,407)	(4,594)	(8.8)	(11.9)	(15.5)	(12,657)	(13,467)	(6.0)
Gross profit	10,073	9,524	8,506	10,117	5.8	18.4	(0.4)	29,248	25,289	15.7
Gross margin (%)	72.2	69.1	65.9	68.8	307 bps	630 bps	340 bps	69.8	65.3	454 bps
Total expenditure	(5,389)	(5,093)	(4,891)	(5,295)	5.8	10.2	1.8	(15,561)	(14,338)	8.5
Staff cost	(1,098)	(1,013)	(989)	(1,062)	8.4	11.0	3.4	(3,118)	(2,872)	8.6
Advertising & sales promotion	(2,043)	(1,874)	(1,699)	(2,060)	9.0	20.2	(0.8)	(5,916)	(4,912)	20.4
Other expenditure	(2,248)	(2,205)	(2,203)	(2,173)	2.0	2.1	3.5	(6,527)	(6,554)	(0.4)
EBITDA	4,684	4,431	3,615	4,821	5.7	29.6	(2.8)	13,686	10,951	25.0
OPM (%)	33.6	32.2	28.0	32.8	141 bps	556 bps	78 bps	32.7	28.3	440 bps
Other income	179	140	104	210	27.8	71.9	(14.9)	539	332	62.1
Interest	(15)	(12)	(13)	(11)	25.8	19.8	43.8	(36)	(38)	(5.2)
Depreciation	(414)	(460)	(437)	(443)	(10.1)	(5.3)	(6.6)	(1,294)	(1,317)	(1.7)
Pretax profits	4,434	4,099	3,269	4,578	8.2	35.6	(3.1)	12,895	9,928	29.9
Tax	(1,133)	(1,029)	(837)	(1,178)	10.1	35.4	(3.8)	(3,261)	(2,526)	29.1
Recurring net income	3,301	3,070	2,432	3,401	7.5	35.7	(2.9)	9,633	7,403	30.1
Extraordinaries	-	-	-	-	-	-	-	(195)	(93)	-
Reported profits	3,301	3,070	2,432	3,401	7.5	35.7	(2.9)	9,438	7,309	29.1
Income tax rate (%)	25.6	25.1	25.6	25.7	45 bps	-5 bps	-18 bps	25.7	25.7	0 bps
Recurring EPS (Rs/share)	12.1	11.3	8.9	12.5	7.5	35.7	(2.9)	35.4	27.2	30.1
Cost as a % of Net op revenues										
Material cost	27.8	30.9	34.1	31.2	-308 bps	-631 bps	-341 bps	30.2	34.7	-455 bps
Staff cost	7.9	7.4	7.7	7.2	51 bps	20 bps	64 bps	7.4	7.4	3 bps
Advertising & sales promotion	14.6	13.6	13.2	14.0	103 bps	147 bps	63 bps	14.1	12.7	144 bps
Other expenditure	16.1	16.0	17.1	14.8	10 bps	-95 bps	133 bps	15.6	16.9	-134 bps

Source: Company, Kotak Institutional Equities

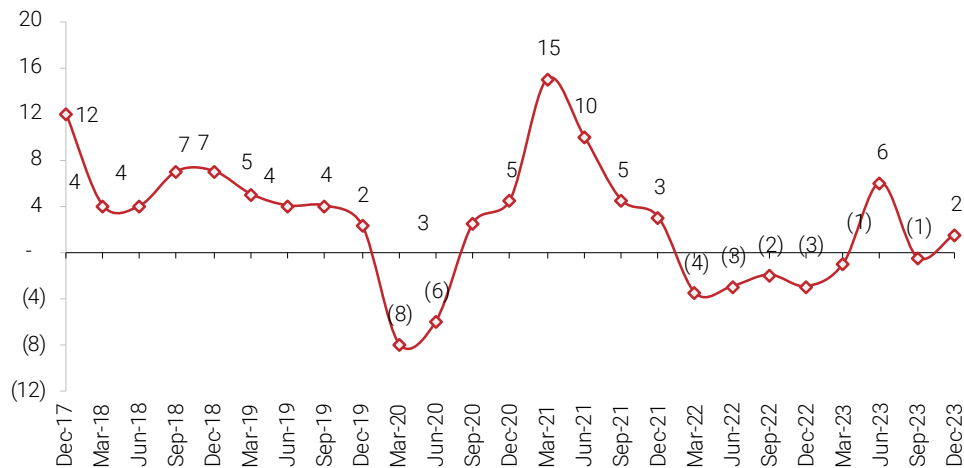
Exhibit 2: Key changes to estimates, Colgate-Palmolive India, March fiscal year-ends, 2024-26E

	Revised			Earlier			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Net operating revenues (Rs mn)	56,699	61,247	66,065	56,305	60,824	65,611	0.7	0.7	0.7
Revenue growth (%)	8.5	8.0	7.9	7.7	8.0	7.9			
Gross profit (Rs mn)	39,818	43,012	46,594	38,781	42,046	45,519	2.7	2.3	2.4
Gross margin (%)	70.2	70.2	70.5	68.9	69.1	69.4	135 bps	110 bps	114 bps
EBITDA (Rs mn)	18,807	20,677	22,647	18,395	19,987	21,802	2.2	3.5	3.9
EBITDA margin (%)	33.2	33.8	34.3	32.7	32.9	33.2	50 bps	90 bps	105 bps
Net income (Rs mn)	13,219	14,561	16,018	12,778	13,986	15,325	3.5	4.1	4.5
Recurring EPS (Rs/share)	48.6	53.5	58.9	47.0	51.4	56.3	3.5	4.1	4.5

Source: Company, Kotak Institutional Equities estimates

CLGT's volumes grew by 1.5% in 3QFY24 as per our estimate

Exhibit 3: Quarterly volume growth trend (%)



Source: Company, Kotak Institutional Equities estimates

CLGT's price increases post-Covid is higher than peers and ~5X of price hikes executed during 2015-20

Exhibit 4: Comparison of normalized prices of key SKUs across companies (per 100 gms)

Key SKUs	Normalized price (Rs per 100 gms)				
	Dec-15	Jan-20	Dec-23	% change 2015-19	% change 2019-23
Colgate					
Colgate Cdc 150gm	40	43	61	8.3	41.5
Colgate Cibaca 175gm	25	29	36	13.6	26.0
Colgate Active Salt 100gm	48	52	73	8.3	40.4
Colgate Herbal 200G	43	49	78	15.3	58.2
Colgate Maxfresh Blue 150gm	59	61	91	4.5	47.8
Colgate Sensitive 80gm	125	124	138	(1.0)	11.1
Colgate Total Adv Health 120gm	73	81	158	10.9	95.9
Average price increase (%)				10.2	51.8
Other players					
Pepsodent 2 In 1 150gm (HUVR)	59	65	69	10.2	6.2
Pepsodent Germicheck 200gm (HUVR)	43	43	61	(1.2)	43.5
Close Up Red 150gm (HUVR)	54	57	79	4.9	38.8
Lever Ayush Anti-cavity 150gm (HUVR)	NA	53	63	NA	17.5
Sensodyne Fresh Gel 75gm (HUVR)	125	147	173	17.3	18.2
Babool 175gm (Dabur)	23	25	34	7.1	34.4
Dabur Red 200gm (Dabur)	44	48	63	8.0	31.6
Meswak 200gm (Dabur)	45	48	65	6.7	35.4
Patanjali Dant Kanti 200gm (Patanjali)	NA	48	58	NA	21.1
Average price increase (%)				7.6	27.4

Note: Prices as of Dec 2015, Jan 2020, and Dec 2023 are considered for comparison purpose

Source: Kotak Institutional Equities

CLGT's volume growth is the weakest and margin expansion the highest among peers (FY2020-24E)

Exhibit 5: Comparison of volume CAGR, value CAGR and margin change of select FMCG companies, March fiscal year-end, 2020-24E

	FY2020-24E / CY2019-23E			
	Volume CAGR (%)	Value CAGR (%)	Gross margin change (bps)	EBITDA margin change (bps)
Colgate	1.8	6	498 bps	661 bps
HUVR	3.6	9	-402 bps	-232 bps
GCPL India	5.4	12	-117 bps	12 bps
Dabur India	7.2	10	-234 bps	-139 bps
Marico India	4.8	6	-51 bps	71 bps
Britannia	4.1	10	219 bps	223 bps
Nestle	5.5	12	-234 bps	12 bps

Note: HUVR's volume CAGR, value CAGR and margin change is LFL adjusted for GSK-CH acquisition

Source: Kotak Institutional Equities

Exhibit 6: Colgate: Profit model, balance sheet and cash flow (based on Ind-AS), 2017-2026E, March fiscal year-ends (Rs mn)

	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Profit model										
Net sales	39,515	41,594	44,324	44,876	48,105	50,665	51,879	56,278	60,783	65,555
Other operating income	304	285	300	375	307	333	383	422	464	510
Net operating revenues	39,818	41,880	44,624	45,251	48,412	50,998	52,262	56,699	61,247	66,065
EBITDA	9,435	11,124	12,361	12,017	15,096	15,659	15,470	18,807	20,677	22,647
Other income	411	388	377	492	304	263	536	722	731	816
Interest	-	-	(25)	(96)	(73)	(59)	(49)	(49)	(49)	(49)
Depreciation	(1,332)	(1,565)	(1,592)	(1,979)	(1,825)	(1,773)	(1,748)	(1,736)	(1,814)	(1,914)
Pretax profits	8,514	9,947	11,121	10,434	13,502	14,090	14,209	17,743	19,544	21,500
Tax	(2,902)	(3,480)	(3,844)	(2,730)	(3,148)	(3,307)	(3,625)	(4,525)	(4,984)	(5,483)
PAT	5,613	6,467	7,277	7,704	10,354	10,783	10,584	13,219	14,561	16,018
Extraordinary items	162	267	479	461	-	-	(112)	-	-	-
Reported Net profit	5,774	6,734	7,756	8,165	10,354	10,783	10,471	13,219	14,561	16,018
Earnings per share (Rs)	20.6	23.8	26.8	28.3	38.1	39.6	38.9	48.6	53.5	58.9
Balance sheet										
Total equity	12,738	15,246	14,468	15,942	11,659	17,347	17,164	18,312	19,359	20,506
Total borrowings	-	-	777	-	-	-	-	-	-	-
Deferred tax liabilities (net)	275	355	309	50	-	-	-	-	-	-
Total liabilities and equity	13,013	15,601	15,553	15,992	11,659	17,347	17,164	18,312	19,359	20,506
Net fixed assets (Incl CWIP)	12,747	13,045	13,896	13,129	12,096	10,848	9,759	8,999	8,728	8,430
Investments	312	312	312	186	186	-	-	-	-	-
Cash	2,943	4,562	3,994	4,213	8,676	7,547	9,230	11,416	13,036	14,814
Net current assets (excl cash)	(2,989)	(2,317)	(2,647)	(1,536)	(9,300)	(1,049)	(1,825)	(2,103)	(2,405)	(2,737)
Total assets	13,013	15,601	15,553	15,992	11,659	17,347	17,164	18,313	19,359	20,506
Free cash flow										
Operating cash flow (excl working capital)	6,569	7,828	8,336	8,934	11,665	12,107	11,852	14,283	15,693	17,165
Working capital	311	(889)	1,494	(35)	(3,826)	4,151	(89)	278	302	332
Capital expenditure	(3,212)	(2,087)	(1,042)	(604)	(573)	(496)	(695)	(977)	(1,543)	(1,616)
Free cash flow	3,668	4,852	8,788	8,295	7,266	15,762	11,068	13,584	14,452	15,881
Key assumptions, growth (%)										
Volume growth	(1.9)	3.0	5.8	0.6	3.3	3.3	(2.5)	2.0	3.6	3.9
Net operating revenue growth	2.9	5.2	6.6	1.4	7.0	5.3	2.5	8.5	8.0	7.9
EBITDA growth	0.5	17.9	11.1	(2.8)	25.6	3.7	(1.2)	21.6	9.9	9.5
EPS growth	(8.4)	15.2	12.5	5.9	34.4	4.1	(1.9)	24.9	10.2	10.0
EBITDA margin (%)	23.7	26.6	27.7	26.6	31.2	30.7	29.6	33.2	33.8	34.3
Gross margin (%)	62.9	64.4	65.1	65.2	68.0	67.3	65.7	70.2	70.2	70.5
A&SP (% of sales)	12.9	12.6	12.7	13.8	12.9	12.6	12.1	14.3	13.8	13.7
Employee cost (% of sales)	7.2	7.3	6.6	7.3	7.6	7.6	7.2	7.3	7.2	7.2
Tax rate (% of PBT)	34.1	35.0	34.6	26.2	23.3	23.5	25.5	25.5	25.5	25.5
Ratios (%)										
ROE (%)	48.7	46.2	49.0	50.7	75.0	74.4	61.3	74.5	77.3	80.4
ROCE (%)	67.9	65.7	68.2	60.7	88.2	89.7	75.9	91.8	95.5	99.1

Source: Company, Kotak Institutional Equities estimates

Persistent Systems (PSYS)

IT Services

REDUCE

CMP(₹): 7,922

Fair Value(₹): 7,330

 Sector View: **Neutral**

NIFTY-50: 21,572

January 23, 2024

Strong execution comes to the fore

Persistent reported healthy revenue growth of 3.1% in c/c, driven by the deal ramp-up in healthcare. The strong momentum in bookings ACV suggests revenue growth acceleration in FY2025. Persistent has grown at a CAGR of 20.3% in FY2021-24E, among the highest in the industry, driven by excellent execution under the current CEO and management team, relentless sales focus and a strong suite of capabilities. We increase FY2024-26 revenue and EPS estimates by 0.3-1.5% and 1.5-2%, respectively. We like the business but find the stock expensive at 34X FY2026E, and await a better entry point. Maintain REDUCE with a revised FV of Rs7,330 (Rs6,985 earlier).

Healthy revenue growth of 3.1% in c/c driven by healthcare

Persistent reported qoq revenue growth of 3% in US\$ terms to US\$301 mn. Revenue grew 50 bps above our estimate on c/c basis. Growth was entirely driven by the healthcare vertical, which grew 16.4% qoq in US\$ terms. BFSI and technology verticals were impacted by furloughs and were flat as a result. North America and RoW grew at healthy 3+% growth rates, while Europe declined 3.5%. EBIT margin increased 80 bps qoq to 14.5%, 10 bps lower than estimate, aided by a 30 bps tailwind from higher utilization, 30 bps from lower travel costs, 60 bps from SG&A rationalization and 80 bps from higher IP revenue, partially offset by 60 bps headwind from higher onsite ramp-up costs and 60 bps from furloughs. Net profit increased 8.7% qoq and 20.2% yoy to Rs2.86 bn, 4.2% above our estimate, aided by higher other income.

Strong order bookings provide hope of pickup in near-term revenue growth

The strong ACV in the last couple of quarters can result in a pickup in growth in FY2025. The quarter was good for both renewals and new bookings. The total ACV of US\$392 mn increased by 24.1% qoq and 20.2% yoy. New ACV increased 27.2% yoy on a quarterly basis and 23.2% yoy on a ttm basis. An analysis of the deal-win commentary indicates broad-based wins across verticals, with a good chunk in existing clients, both positive. We forecast 16.3% and 15.9% growth in FY2025 and FY2026, respectively, up from 14% in FY2024E. Note that Persistent enjoyed an industry-leading 20.3% organic c/c CAGR in FY2021-24E.

Top-20 accounts drive FY2024 growth despite an adverse revenue mix

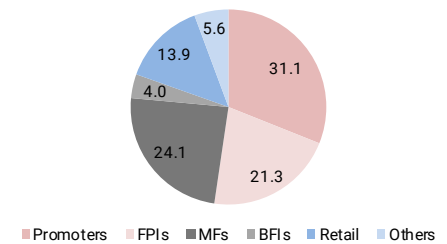
Persistent has relatively higher exposure to (1) discretionary spending and (2) 53% combined exposure to problem verticals of BFSI and hi-tech. Yet the company stands to grow at 14% in FY2024E, among the highest in the industry, driven by share gains in existing clients. Top-20 has grown at a 5.2% CQGR in the last four quarters (Exhibit 5). Growth in top-20 is broad-based. Top account grew 9.3%, top 2-5 grew 5.3% and top 5-10 grew 5.7% on a four-quarter CQGR basis. Top 10-20 grew at a moderate 1.8% due to the ramp-down in Mar-23; last eight-quarter CQGR is strong at 9.1%. Note that top accounts do have a few clients that posed difficulties for peers; share gains indicate the increasing relevance of Persistent in top accounts.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	7,922/7,330/REDUCE
52-week range (Rs) (high-low)	7,965-3,951
Mcap (bn) (Rs/US\$)	609/7.3
ADTV-3M (mn) (Rs/US\$)	3,368/40.5

Shareholding pattern (%)



Price performance (%)

	1M	3M	12M
Absolute	13	34	84
Rel. to Nifty	12	24	64
Rel. to MSCI India	10	20	61

Forecasts/Valuations

	2024E	2025E	2026E
EPS (Rs)	147.5	186.7	230.9
EPS growth (%)	22.4	26.6	23.7
P/E (X)	53.7	42.4	34.3
P/B (X)	13.2	11.0	9.1
EV/EBITDA (X)	34.2	27.4	22.4
RoE (%)	26.4	28.2	29.0
Div. yield (%)	0.7	0.8	1.0
Sales (Rs bn)	98	115	135
EBITDA (Rs bn)	17	21	26
Net profits (Rs bn)	11	14	18

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of January 20, 2024

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Retain REDUCE on expensive valuations; revise FV to Rs7,330 from Rs6,985 earlier

We increase FY2024-26E revenue and EPS estimates by 0.3-1.5% and 1.5-2%, respectively. Strong execution, prowess in software engineering, presence in high-growth areas, increase in addressable market and consistent large deals will aid industry-leading growth in FY2024E and beyond. The company has enough headroom to maintain robust growth in the next 4-5 years. The stock has had a nice run in the last several months and has diminished risk-reward characteristics at current market price. We await a better entry point to recommend the stock to investors. We value the stock at 33X Dec-2025E EPS (32X earlier), leading to a revised FV of Rs7,330 (Rs6,985 earlier). Retain REDUCE on expensive valuations.

Confident on strong growth in the next 4-5 years

Persistent is well-established as a leader in product engineering. Under the current CEO, Persistent has doubled down sales focus and account mining, the right thing to do in our view. This approach reminds us of CTSH's strategy of doubling down on S&M during global financial crisis. Several IT companies pulled back spending, while CTSH did the exact opposite. CTSH reaped the benefits of these as the markets and decision-making revived outperforming peers on growth by 15%.

The company is emerging as a credible challenger in IT services and gaining share in marquee accounts. It caters to all major hyperscaler cloud ecosystems, has the largest number of certified experts in the Salesforce ecosystem among mid-tier and the highest number of certifications in OutSystems, a leader in low-code application platforms, among all Indian system integrators. The presence in high-growth segments and lower exposure to legacy services provide natural tailwinds to demand. Tapping of private equity channel of clients and onsite operations centric software firms adds additional layer of growth opportunity. The company is also gaining share in managed services, expanding addressable market. Cross-selling to existing accounts, expanding new logos in the existing verticals, Europe expansion, continuity of large deal wins and deepening of partnerships with a wider set of ecosystem partners offer enough headroom for strong growth for the next 4-5 years.

High multiples constrain stock recommendation despite positive view on the business

Persistent trades at 45X 1-year forward Bloomberg consensus estimates, just 6% lower than all-time high of 48X in CY2022 (see Exhibit 19). Current valuations are expensive and assume a very high growth rate for an extended period of time. This requires (1) flawless execution every quarter, (2) capturing all inflection points in technology, (3) ability to quickly replenish loss in revenue from external factors such as insourcing, a vendor consolidation loss, client budget cuts and client bankruptcy, and (4) strong industry growth characteristics over an extended time period, challenging for any company. Take EPAM as an example. Despite strong US\$ revenue CAGR of 27.2% in 2023-2022 and EPS CAGR of 22.6%, EPAM commanded multiple of less than 32X 1-year forward pre-Covid. The multiple expanded beyond 45X for a brief period during April 2021 and January 2022 during post-Covid tech spend boom (Exhibit 20). Multiples have corrected since.

A couple of debate points on growth

Persistent does have a few challenges in maintaining growth momentum over the long term. We discuss a couple of key factors below:

- ▶ **Scaling up further in top accounts.** Growth in a few large accounts in FY2025E can be significantly below company growth. The balance needs to be replenished by rest of the portfolio. For instance, IBM, the top account has grown at a handsome pace in the last few quarters, aided by the ramp-up of a large deal. Otherwise, the account has been a drag on growth in last few years. A more fundamental challenge is ensuring consistent scale up of accounts beyond US\$100 mn. Strong cross-selling across both engineering and IT services and expansion in managed services is required.
- ▶ **Incremental growth opportunities in smaller companies.** Persistent has won multiple large deals with PE-owned companies. These tend to be mid-level enterprises. Room to expand beyond the current scope can be limited given limited IT budget. Either the enterprises need to grow at a fast pace providing natural increase in budgets or Persistent has to continually increase the pace of wins to continue the growth momentum.

Expanding managed services business in applications—helps expand addressable market

Persistent has recognized the need to diversify revenue offerings beyond implementation and has focused on strengthening application management and offerings. This has increased addressable market and enabling Persistent to gain share in both existing and new clients. The company focuses on cloud, data and AI capabilities in managed services to create differentiation. Persistent aims to gain share from incumbents by aided by proactive proposals and propensity of large enterprises to include challengers in the mix in deal RFP. Strong execution on managed services business has helped ensure strong TCV in FY2024 despite slowdown in discretionary spending by clients.

Expands leadership team with hires from a diverse set of companies

Persistent has hired a few laterals at the senior management level (see Exhibit 22). The company has hired Dhanashree Bhat from TechM for role of Chief Operating Officer. She headed delivery for CMT vertical at TechM. Barath Narayan has joined from Wipro where he headed cloud and digital practice. He will head global BFSI and Europe geo at Persistent. The company has also hired a few other people: (1) Ayon Banerjee (ex-MD and Partner and BCG) as chief strategy and growth officer, (2) Sumit Arora (ex-Wells Fargo) responsible for setting up and driving the consulting practice and (3) Rajiv Sodhi (ex-Microsoft) as head of alliance partnerships.

Reiterates margin guidance of 200-300 bps expansion in the next 2-3 years

We forecast 220 bps margin expansion to 16.8%, 220 bps higher than FY2024. Key margin levers include (1) higher utilization, (2) lower subcon and onsite mix, (3) SG&A leverage and (4) lower capex spending relative to growth.

Strong revenue growth in healthcare aided by deal ramp-ups

Strong growth was due to the ramp-up of deal(s) won in earlier quarters. Note that Persistent won a US\$75-100 mn TCV deal with a payer client in 2QFY24. Onsite ramp-up is visible in (1) lower healthcare vertical margin, (2) increased onsite effort mix and (3) higher subcontractor costs as a % of revenue. Offshoring of the healthcare deal can aid margins when transition happens perhaps a few quarters down the line. Persistent has strong presence in the medical devices sub-segment. Despite a slowdown in the sub-segment, the company is focusing on expanding presence in other sub-segments notably payers.

Launches open-source maintenance service—can lead to multi-million deals as per management

Persistent launched open-source maintenance services in the quarter to facilitate keeping an organization's open-source software up to date with all patches, bug fixes, and incorporating the latest software releases. It leverages generative AI to delivery services quickly and is offered on subscription model. Management indicated that the service offering has the potential for multimillion multi-year deals replicable across organizations.

Headcount increases by 2.2% qoq; among the lowest attrition on ttm basis

Net headcount increased by 2.2% qoq to 23,336. Note that headcount increased just 3.3% yoy as the company used up bench strength. Utilization, including trainees, increased by 390 bps yoy to 81.5%. Attrition declined by 160 bps qoq to 11.9%, among the lowest in the industry.

1:2 stock split approved by Board

Existing equity shares with face value of Rs10 will be converted to two shares of face value Rs5 each. The stock split will be completed in approximately three months.

Key highlights from the earnings call

- ▶ **Demand outlook.** There are some green shoots in discretionary spending, but the environment is not significantly different from earlier quarters.
- ▶ **Revenue mix.** The revenue mix has become less discretionary oriented than it was 3-4 years ago.
- ▶ **Margin walk-through.** EBIT margin increased 80 bps qoq to 14.5%, aided by higher utilization, lower travel costs, cost optimization measures, partially offset by impact of furloughs, higher subcontractor costs and higher onsite mix.
- ▶ **Furlough impact.** Furloughs impacted both hi-tech and BFSI.

- ▶ **Margin outlook.** Persistent remains committed to improve EBIT margin by 200-300 bps in the next 2-3 years. The key margin levers include: (1) utilization, (2) SG&A leverage and (3) lower facilities expenses and capex. Persistent can operate at 85% utilization rate, providing margin tailwind for ~100 bps (assuming 30 bps benefit from every 1% increase in utilization rate).
- ▶ **Higher renewal bookings.** Renewal ACV and TCV were aided by seasonality in North America in the December quarter as it corresponds to the end of financial year for most of Persistent's customers in the region.
- ▶ **Strong order bookings.** Focus on account mining and large deals aided strong order bookings.
- ▶ **Hiring.** Net addition of 494 on a qoq basis, out of which 75% is laterals. Persistent has hired 400 freshers in the last couple of quarters.
- ▶ **Dividend.** The board declared a dividend of Rs32/share.
- ▶ **Client metrics.** The number of US\$20 mn clients increased by 2 qoq and 4 yoy to 11. The number of US\$10 mn clients was flat qoq and increased by 4 qoq to 16.
- ▶ **Strong AI roots.** Persistent started off in 1990s working with ISVs and enterprise clients on database products and implementations. Early partnerships with IBM Research Labs and SPS (acquired by IBM) enabled accumulation of experience in working with data and AI techniques. In 2000s, Persistent set up analytics center of excellences and worked with clients on data integration, data profiling, data processing, model preparation and model maintenance and calibration. Persistent has worked on niche projects involving latest techniques in AI such as early detection of lung cancer and chronic kidney diseases, automation of sanctions etc.
- ▶ **Gen AI update.** Persistent intends to be a net gainer from trend of clients reprioritizing budgets towards applications leveraging generative AI. Current engagements in GenAI are modest from a revenue perspective. Green shoots of large-scale opportunities at the convergence of AI, data, cloud computing and automation are visible. Persistent believes that AI will be a driving force, driving significant productivity in engineering transformation and enterprise modernization and can spawn off downstream work through the need for improved data quality. Persistent has appointed current Chief of Staff, Praveen Bhadada who joined the company in 2022 from Zinnov to head the GenAI business portfolio company wide. Praveen will unify overall AI initiatives, including GenAI across the organization under one umbrella to power AI powered digital engineering and enterprise modernization.
- ▶ **M&A.** From capability perspective focus is on AI and cyber security. From a vertical perspective, Persistent will double down on existing verticals with focus on micro-verticals. From a geo perspective, the focus is on Western Europe for clients and Eastern Europe for delivery.
- ▶ **Largest client.** Revenue declined 6.1% qoq in US\$ terms due to planned decline in a large program.

Exhibit 1: Persistent interim results (consolidated Ind AS), March fiscal year-ends, Rs mn

	3QFY24	3QFY24E	3QFY23	2QFY24	% chg.			9MFY24	9MFY23	% chg.	FY2024E	% chg.
					KIE	yoy	qoq					
Revenue (US\$ mn)	301	299	264	292	0.6	13.7	3.0	875	761	14.9	1,185	14.3
Revenues	24,982	24,907	21,694	24,117	0.3	15.2	3.6	72,311	60,961	18.6	98,064	17.4
Direct costs	(16,539)	(16,510)	(14,360)	(16,127)	0.2	15.2	2.6	(47,945)	(40,422)	18.6	(64,882)	17.3
Gross Profit	8,443	8,397	7,334	7,990	0.6	15.1	5.7	24,366	20,540	18.6	33,182	(155.9)
SG&A expense	(4,025)	(3,995)	(3,318)	(3,938)	0.7	21.3	2.2	(11,666)	(9,512)	22.7	(15,758)	(234.0)
EBITDA	4,418	4,401	4,016	4,052	0.4	10.0	9.1	12,699	11,028	15.2	17,424	14.7
Depreciation	(787)	(777)	(684)	(744)	1.3	15.2	5.8	(2,295)	(2,022)	13.5	(3,094)	13.8
EBIT	3,631	3,624	3,332	3,308	0.2	9.0	9.8	10,405	9,006	15.5	14,330	14.9
Other Income	383	196	31	373	95.0	1,135.0	2.8	618	90	587.0	879	(19.2)
Forex gains/(loss)	84	-	(91)	(64)	-	-	-	101	56	-	150	-
Finance costs	(121)	(129)	(135)	(123)	(6.4)	(10.4)	(1.4)	(370)	(325)	13.8	(499)	5
Profit Before Tax	3,977	3,691	3,137	3,494	7.7	26.8	13.8	10,754	8,827	21.8	14,859	12.3
Provision for Tax	(1,032)	(945)	(848)	(925)	9.2	21.6	11.5	(2,739)	(2,307)	18.8	(3,798)	18.8
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-
Net Profit (before EO)	2,945	2,746	2,288	2,569	7.2	28.7	14.7	8,014	6,520	22.9	11,061	10.2
Extraordinary charge (net of taxes)	-	-	-	-	-	-	-	(486)	-	-	(486)	-
Net Profit- Reported	2,945	2,746	2,288	2,569	7.2	28.7	14.7	7,528	6,520	15.5	10,575	5.3
Recurring EPS (Rs/share)	37.2	35.7	31.1	34.2	4.2	19.5	8.8	101.2	87.6	15.5	141.2	17.2
As % of revenues												
Gross margin	33.8	33.7	33.8	33.1	-	-	-	33.7	33.7	-	33.8	-
SG&A expense	16.1	16.0	15.3	16.3	-	-	-	16.1	15.6	-	16.1	-
EBITDA margin	17.7	17.7	18.5	16.8	-	-	-	17.6	18.1	-	17.8	-
EBIT margin	14.5	14.6	15.4	13.7	-	-	-	14.4	14.8	-	14.6	-
Net profit margin (%)	14.5	14.6	15.4	13.7	-	-	-	14.4	14.8	-	14.6	-
Effective tax rate (%)	25.9	25.6	27.0	26.5	-	-	-	25.5	26.1	-	25.6	-

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Key changes to estimates, March fiscal year-ends, 2024-26E (Rs mn)

	New			Old			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenues	98,064	115,041	134,890	97,846	113,458	133,026	0.2	1.4	1.4
EBITDA	17,424	21,474	25,877	17,506	21,422	25,808	(0.5)	0.2	0.3
EBIT	14,330	18,302	22,474	14,393	18,212	22,360	(0.4)	0.5	0.5
Net profit	11,345	14,358	17,757	11,188	14,074	17,441	1.4	2.0	1.8
EPS (Rs/ share)	141	187	231	139	183	227	1.5	2.0	1.8
Revenues (US\$ mn)	1,185	1,378	1,596	1,181	1,359	1,574	0.3	1.4	1.4
US\$ revenue growth (%)	14.3	16.3	15.9	14.0	15.0	15.9	-	-	-
Revenue growth (c/c, %)	14.0	16.3	15.9	13.7	15.0	15.9	-	-	-
Revenue growth (organic c/c, %)	13.8	16.3	15.9	13.5	15.0	15.9	-	-	-
EBIT margin	14.6	15.9	16.7	14.7	16.1	16.8	-	-	-
Net profit margin (%)	-	-	-	-	-	-	-	-	-
Exchange rate (Rs/US\$)	82.8	83.5	84.5	82.8	83.5	84.5	(0.1)	0.0	0.0

Source: Kotak Institutional Equities estimates

Exhibit 3: Segmental revenue breakdown, December 2023 quarter

	Revenues	Growth (%)		Contribution to	C/C growth (%)	
	US\$ mn	qoq	yoy	revenues (%)	qoq	yoy
Total revenues	301	3.0	13.7	100.0	3.1	NA
Geographical split of revenues						
North America	240	3.7	17.5	79.7		
Europe	27	(3.5)	12.4	8.9		
RoW	34	3.9	(6.8)	11.4		
Vertical split of revenues						
BFSI	94	(0.5)	8.8	31.2		
Healthcare & life sciences	66	16.4	26.5	21.8		
Software, hi-tech & emerging verticals	141	0.1	11.8	47.0		
Revenue metrics						
Top client	28	(6.1)	42.9	9.3		
Top 5 clients	84	1.9	28.9	28.0		
Top 10 clients	118	2.5	27.7	39.3		
Top 20 clients	154	4.7	22.3	51.4		
Ex top 20	146	1.4	5.9	48.6		

Source: Company, Kotak Institutional Equities

Strong growth in top-25 clients, excluding top client, on qoq basis in Dec-23 quarter

Exhibit 4: Growth trend across client buckets, Dec-2021-Dec-2023

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	4 qtr CQGR (%)
Revenue (US\$ mn)										
Top client	35	30	28	22	20	26	29	30	28	9.3
Top 5 clients	72	71	74	69	65	73	79	83	84	6.5
Top 10 clients	90	91	98	94	93	103	112	115	118	6.3
Top 20 clients	108	113	124	124	126	132	143	148	154	5.2
Ex- Top 10 clients	91	104	118	132	138	143	140	144	146	1.4
Total	199	217	242	256	264	275	283	292	301	3.3
Growth (qoq %)										
Top client	13.1	(12.7)	(7.1)	(21.3)	(12.0)	30.5	13.0	3.1	(6.1)	
Top 5 clients	10.1	(1.7)	5.3	(7.6)	(5.0)	11.4	8.5	4.6	1.9	
Top 10 clients	8.3	2.1	7.4	(4.6)	(1.4)	11.0	9.1	2.9	2.5	
Top 25 clients	6.9	5.1	9.2	0.0	2.1	4.1	8.4	3.5	4.7	
Ex- Top 10 clients	12.2	13.9	13.2	11.9	4.6	3.7	(1.9)	2.7	1.4	
Total	9.2	9.1	11.1	5.8	3.4	3.9	3.0	3.1	3.0	

Source: Company, Kotak Institutional Equities

Strong growth in top-20 accounts in the last several quarters

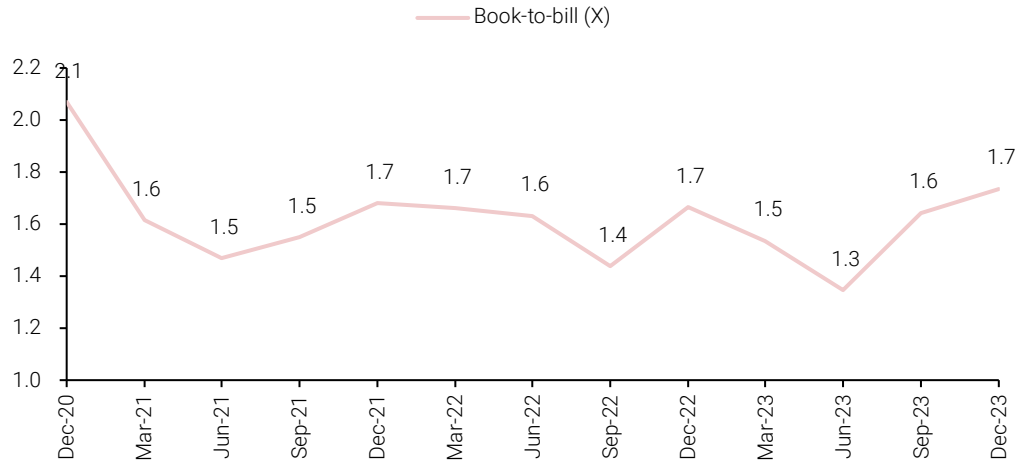
Exhibit 5: Growth trend across client buckets, Dec-2021-Dec-2023

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	8 qtr CQGR (%)	4 qtr CQGR (%)
Revenue (US\$ mn)											
Top client	34.8	30.4	28.3	22.2	19.6	25.5	28.9	29.8	28.0	(2.7)	9.3
Top 2-5	37.0	40.2	46.1	46.5	45.7	47.2	50.1	52.8	56.2	5.4	5.3
Top 5-10	17.7	20.9	23.9	25.0	27.2	29.9	33.1	32.7	34.0	8.5	5.7
Top 10-20	18.1	21.7	25.4	29.9	33.8	28.8	30.6	32.4	36.4	9.1	1.8
Top 20	107.7	113.2	123.7	123.7	126.4	131.5	142.6	147.6	154.5	4.6	5.2
Top 2-20	72.9	82.8	95.4	101.5	106.8	106.0	113.7	117.9	126.5	7.1	4.3
Ex-Top 20	91.4	104.1	117.9	131.9	138.0	143.0	140.3	144.1	146.1	6.0	1.4

Source: Company, Kotak Institutional Equities

Strong book-to-bill trend

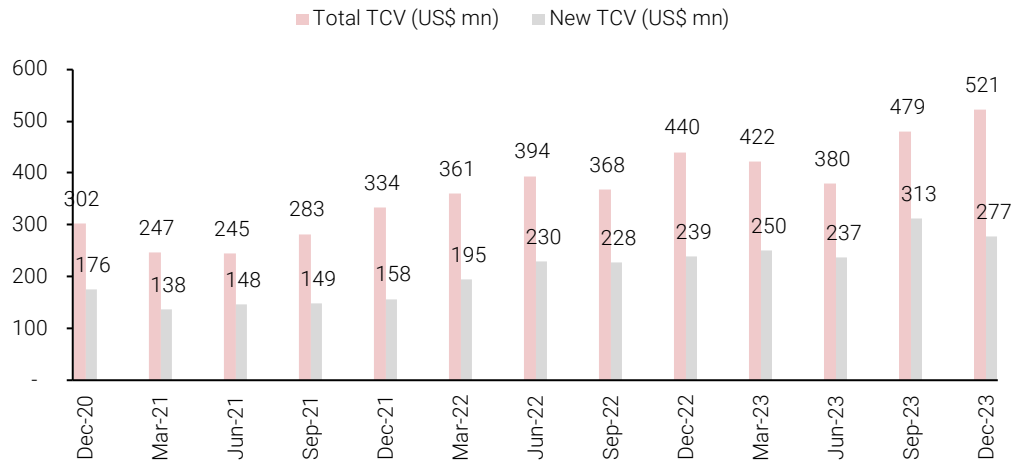
Exhibit 6: Book-to-bill ratio (X), Dec-20-Dec-23



Source: Company, Kotak Institutional Equities

Record high TCV of US\$521 mn

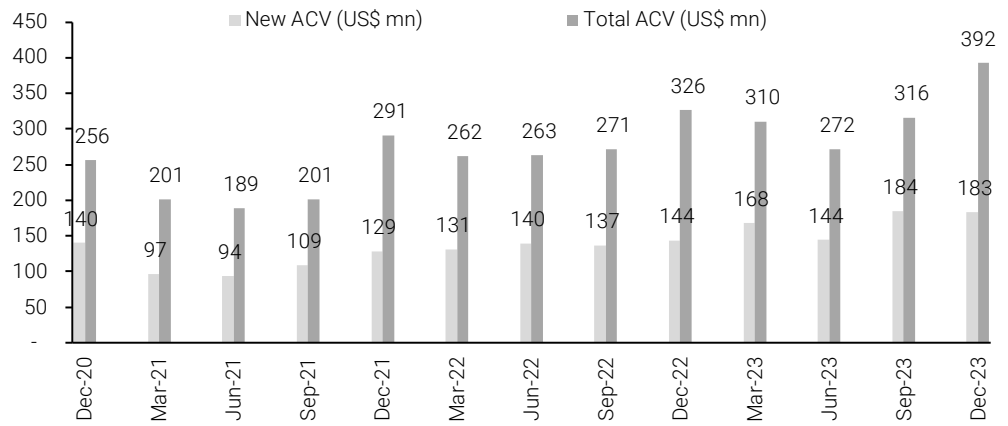
Exhibit 7: Trend in total and new TCV Dec-20-Dec-23



Source: Company, Kotak Institutional Equities

Very strong ACV numbers bodes well for near-term growth acceleration

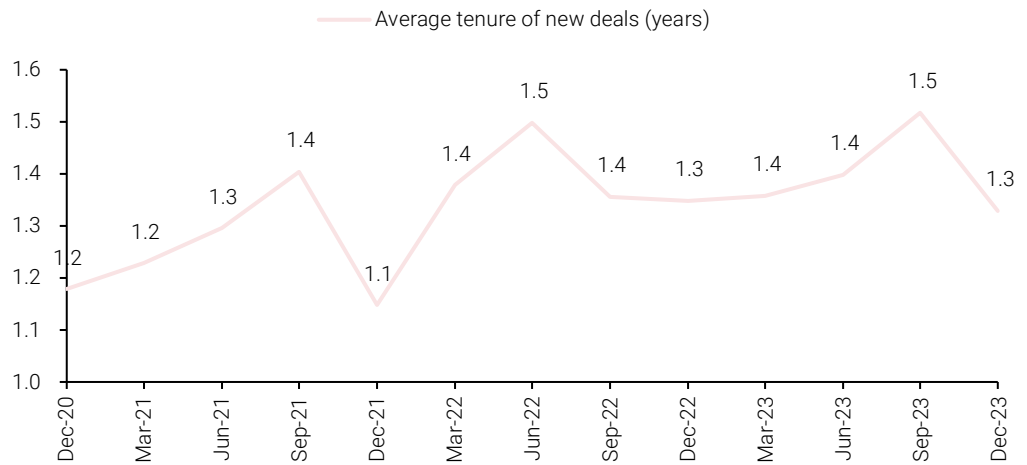
Exhibit 8: Trend in total and new ACV, Dec-20-Dec-23



Source: Company, Kotak Institutional Equities

Order book tenure decreased to 1.3 years in Dec-23 from 1.5 years in the previous quarter

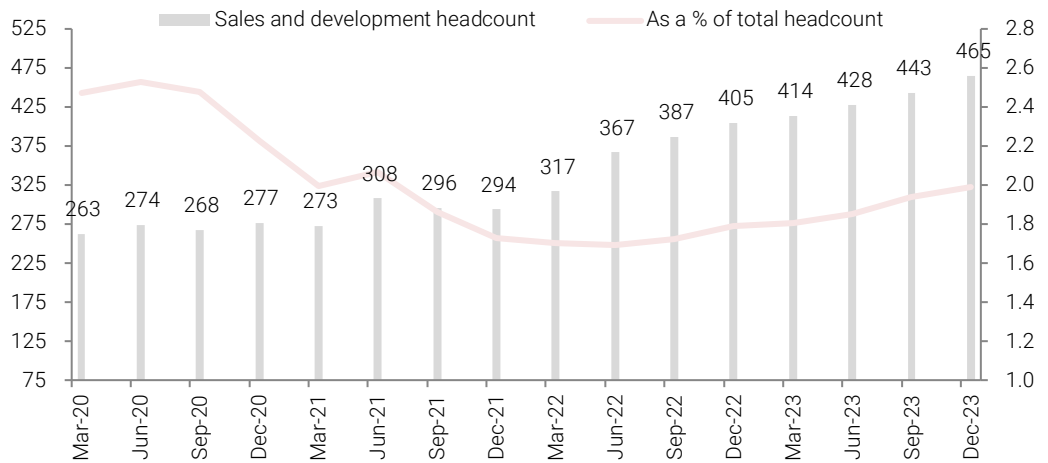
Exhibit 9: Trend in average tenure of new deals, Dec-20-Dec-23



Source: Company, Kotak Institutional Equities

Persistent has continued to invest significantly in building sales muscle despite industry woes

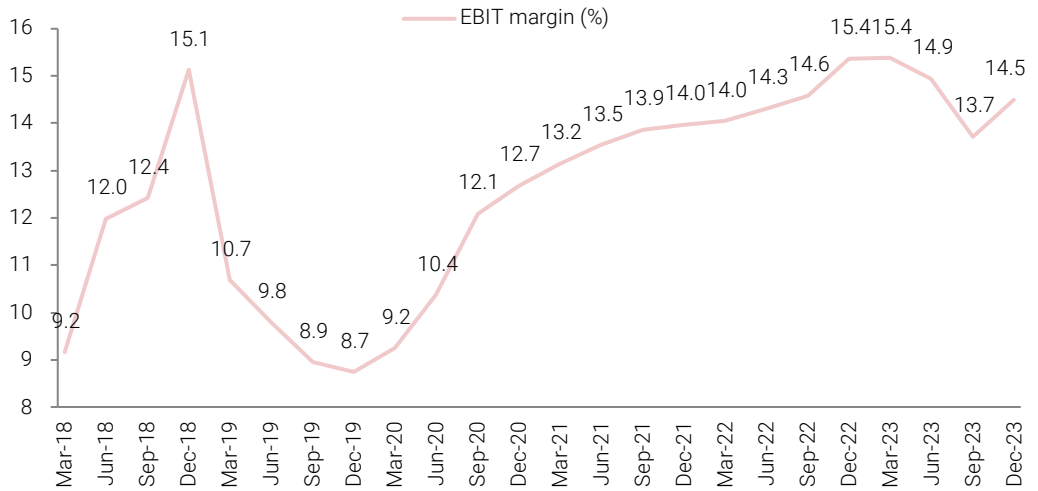
Exhibit 10: Trend in headcount of sales and development employees, Mar 2020-Dec 2023



Source: Company, Kotak Institutional Equities

EBIT margin increased 80 bps qoq aided by efficiency measures despite pressure from deal ramp-up costs

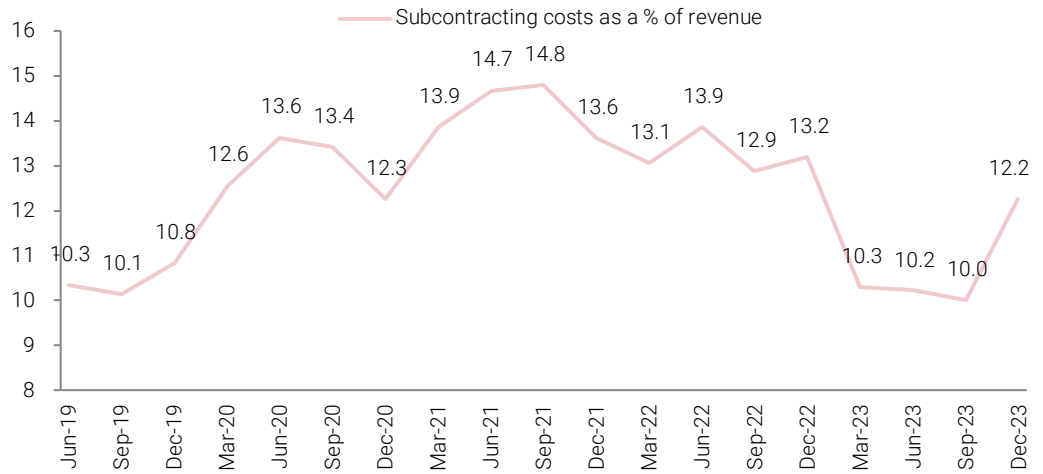
Exhibit 11: EBIT margin trend, %, Mar-2018-Dec-2023



Source: Company, Kotak Institutional Equities

A 220 bps sequential increase in subcontracting costs as a % of revenue in Dec-23 quarter

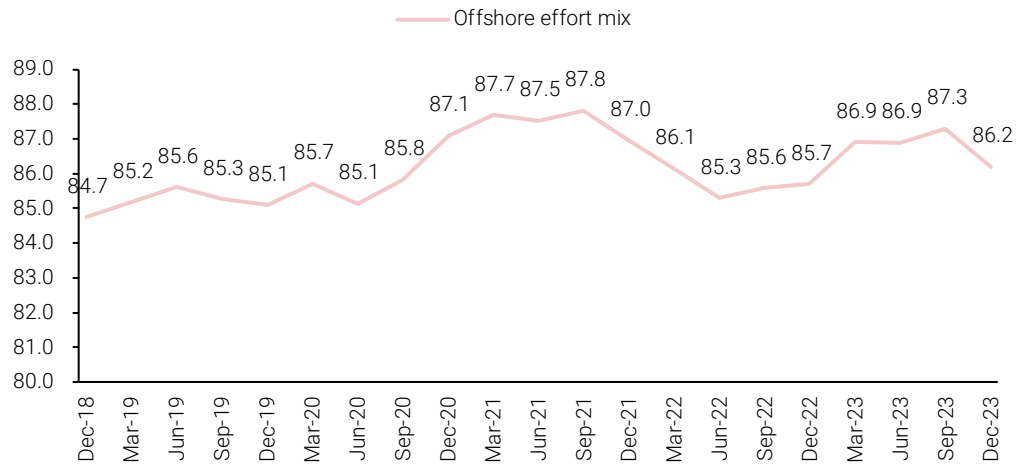
Exhibit 12: Subcontracting costs as a % of revenue trend, %, June 2019–December 2023



Source: Company, Kotak Institutional Equities

110 bps sequential decline in offshore effort mix in Dec-23 quarter

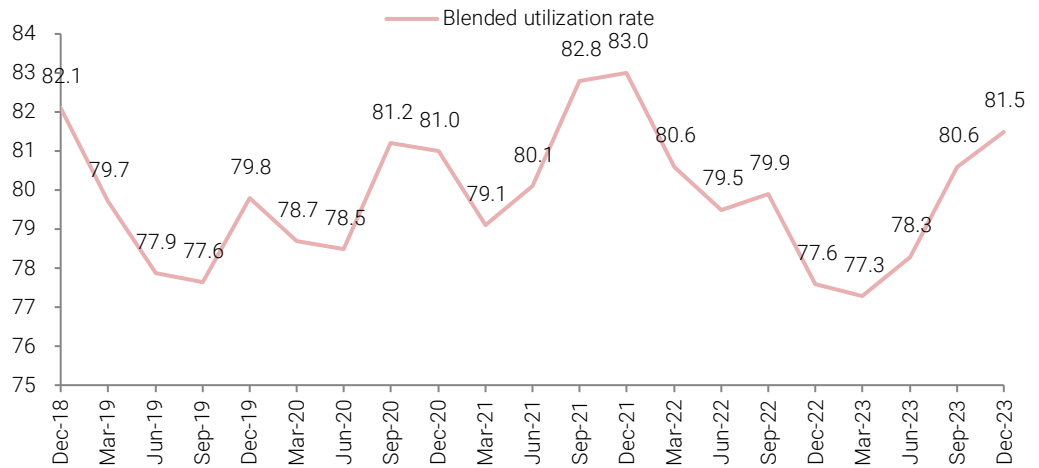
Exhibit 13: Offshore effort mix trend (%), Dec 2018–Dec 2023



Source: Company, Kotak Institutional Equities

Utilization rate increased 90 bps to 81.5% and will increase further

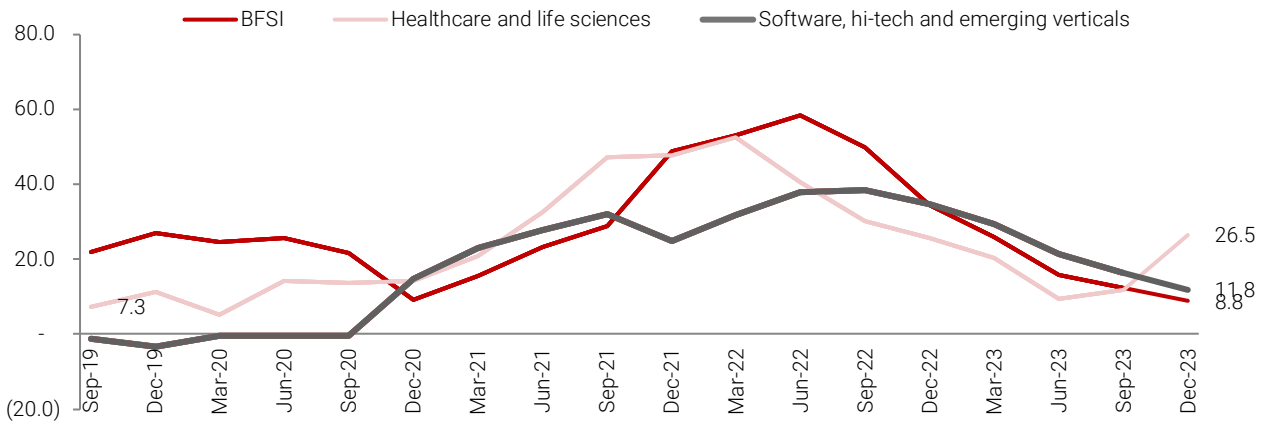
Exhibit 14: Utilization trend (%), Dec 2018-Dec 2023



Source: Company, Kotak Institutional Equities

Growth picks up in healthcare; continues to decelerate in BFSI and tech verticals

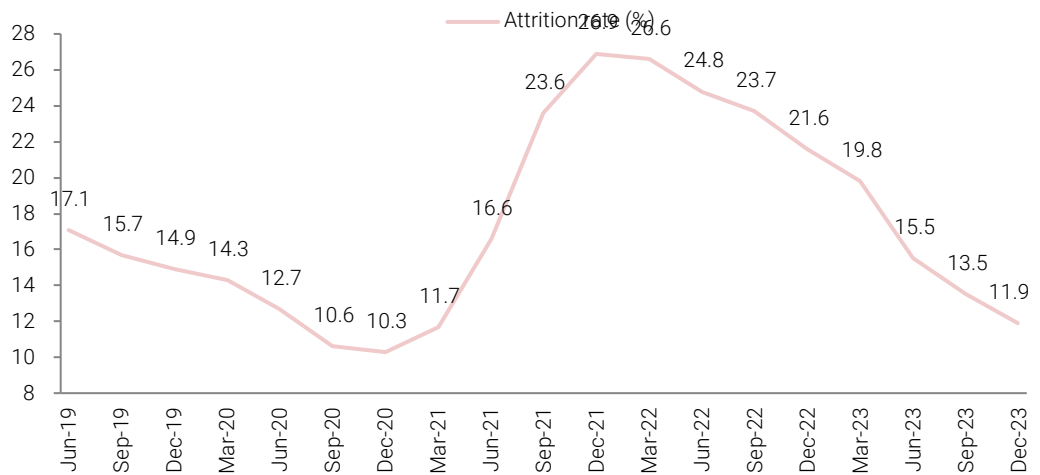
Exhibit 15: Vertical-wise revenue growth trend (US\$ yoy, %), Dec 2019-Dec 2023



Source: Company, Kotak Institutional Equities

Attrition rate declines to 11.9%, among the lowest among peers

Exhibit 16: Attrition (LTM) trend, %, Jun 2019-Dec 2023



Source: Company, Kotak Institutional Equities

Decline in healthcare margin due to deal ramp-up costs; IP revenue boost aids hi-tech margins

Exhibit 17: Segmental EBITDA margin, %, Dec 2021-Dec 2023

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Revenue (Rs mn)									
BFSI	4,808	5,321	6,344	6,636	6,960	7,291	7,737	7,791	7,786
Healthcare	3,086	3,372	3,721	3,863	4,140	4,438	4,309	4,657	5,448
Hi-tech	7,022	7,686	8,716	9,988	10,594	10,816	11,166	11,668	11,748
Total	14,917	16,379	18,781	20,486	21,694	22,545	23,212	24,117	24,982
Segmental EBITDA (Rs mn)									
BFSI	1,779	1,492	2,269	2,328	2,595	2,813	2,995	2,990	2,658
Healthcare	1,570	1,692	1,830	1,931	2,080	2,172	2,068	2,178	1,979
Hi-tech	2,447	2,874	2,299	3,368	3,566	2,050	2,584	2,939	3,498
Segmental EBITDA margin (%)									
BFSI	37.0	28.0	35.8	35.1	37.3	38.6	38.7	38.4	34.1
Healthcare	50.9	50.2	49.2	50.0	50.3	48.9	48.0	46.8	36.3
Hi-tech	34.8	37.4	26.4	33.7	33.7	19.0	23.1	25.2	29.8

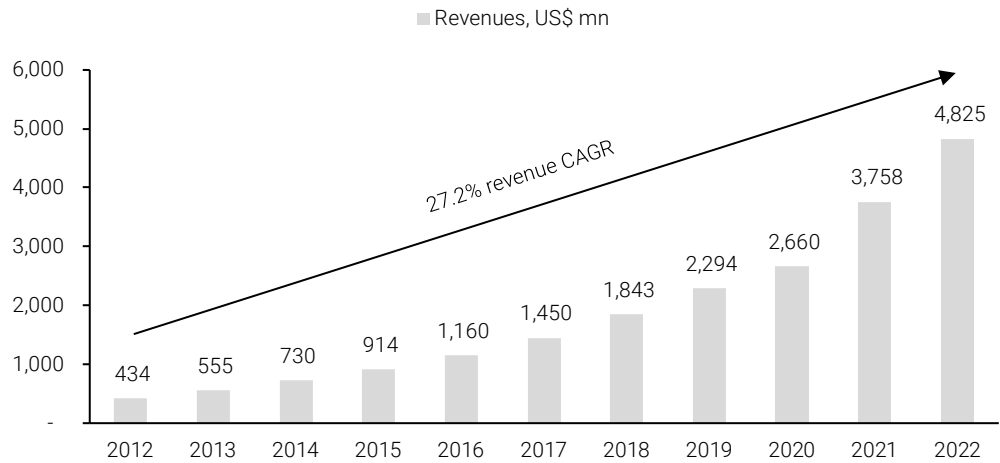
Notes

(a) Segmental EBITDA margin is significantly higher than company average due to significant expenses not allocated to any vertical

Source: Company, Kotak Institutional Equities

EPAM grew at a strong pace in 2013-2022

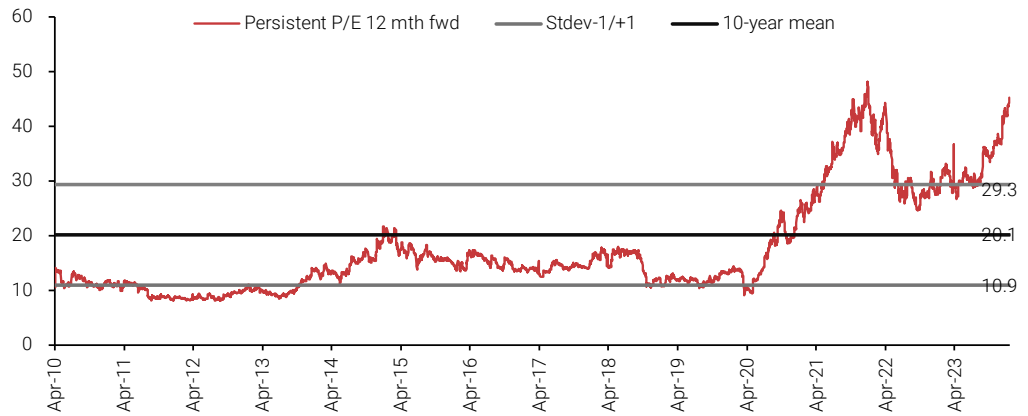
Exhibit 18: EPAM: Historical revenue trend, 2013-2022, calendar year ends



Source: Company, Kotak Institutional Equities

Persistent trades at 45X 1-year forward PE, just 6% lower than peak multiple in 2022

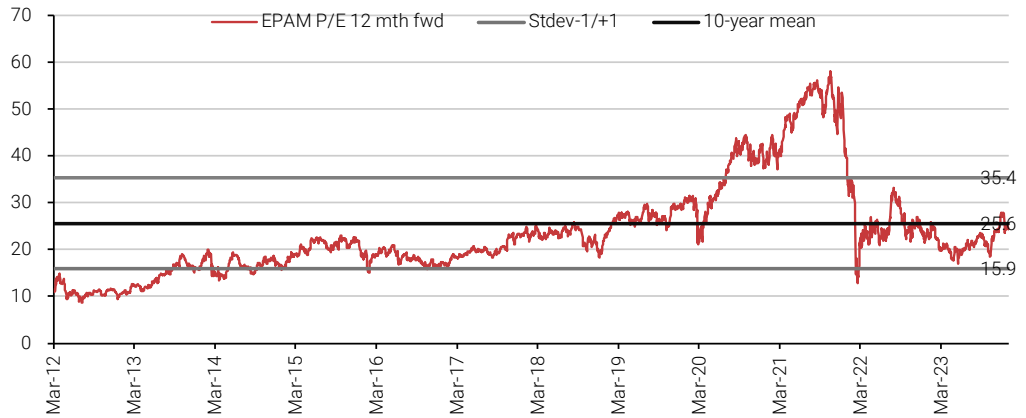
Exhibit 19: Persistent: Historical 1-year forward PE chart



Source: Bloomberg consensus estimates

EPAM traded below 32X 1-year forward PE multiple during high growth phase pre-Covid

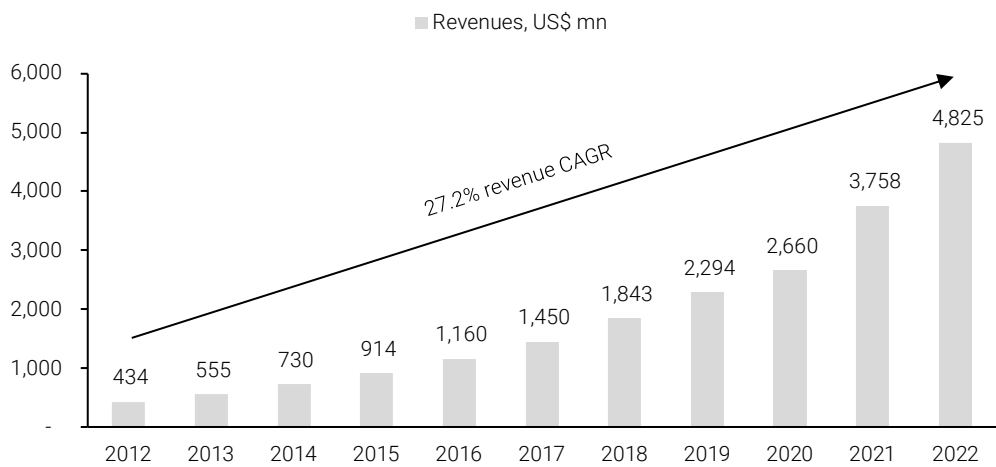
Exhibit 20: EPAM: Historical 1-year forward PE chart



Source: Bloomberg consensus estimates

EPAM grew at a strong pace in 2013-2022

Exhibit 21: EPAM: Historical revenue trend, 2013-2022, calendar year ends



Source: Company, Kotak Institutional Equities

Persistent has expanded senior leadership team with lateral hires from diverse companies

Exhibit 22: Key lateral hires in recent months

Personnel	Designation	Earlier role
Dhanashree Bhat	COO	TechM, Delivery head, CMT
Barath Narayanan	Head of BFSI and Europe	Wipro, Head of digital and cloud
Ayon Banerjee	Chief strategy and growth officer	BCG, MD and Partner
Sumit Arora	Global head, consulting	Wells Fargo, SVP
Rajiv Sodhi	SVP, Hyperscalers BU and Global Partnerships	Microsoft, General Manager

Source: Company, Kotak Institutional Equities

Exhibit 23: Key model assumptions, March fiscal year-ends, 2019-2026E

	2019	2020	2021	2022	2023	2024E	2025E	2026E
INR/USD rate	70.0	71.1	74.0	74.6	80.6	82.8	83.5	84.5
Revenues (US\$ mn)	481	502	566	766	1,036	1,181	1,359	1,574
% growth	2.2	4.3	12.8	35.2	35.3	14.0	15.0	15.9
C/c revenue growth (%)	3.1	5.0	12.1	35.0	37.0	13.7	15.0	15.9
C/c revenue growth (organic %)	2.3	4.1	11.0	31.3	26.1	13.5	15.0	15.9
EBITDA margin (%)	17.2	13.8	16.3	16.8	18.2	17.9	18.9	19.4
EBIT margin (%)	12.6	9.2	12.1	13.9	14.9	14.7	16.1	16.8
SG&A (%)	19.9	19.6	19.2	20.3	17.7	16.9	15.6	15.9
Headcount	9,962	10,632	13,680	18,599	22,889	24,291	28,073	32,367
Employee addition	986	670	3,048	4,919	4,290	1,402	3,782	4,294
Onsite pricing change (USD, %)	0.1	4.2	(0.7)	(2.4)	(2.0)	(0.9)	0.3	0.5
Offshore pricing change (USD, %)	3.3	1.3	(4.1)	1.0	3.3	0.1	0.3	0.5

Source: Company, Kotak Institutional Equities estimates

Exhibit 24: Key quarterly operating metrics, Dec 2021-Dec 2023

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Revenue (US\$ mn)	199	217	242	256	264	275	283	292	301
Exchange rate	74.9	75.4	77.8	80.2	82.1	82.1	82.0	82.7	83.1
Vertical-wise revenues (%)									
BFSI	32.20	32.40	33.7	32.80	32.60	32.30	33.3	32.3	31.2
Healthcare & life sciences	20.70	20.70	19.9	19.70	19.60	19.70	18.6	19.3	21.8
Software, hi-tech & emerging verticals	47.10	46.90	46.4	47.50	47.80	48.00	48.1	48.4	47
Geographical split (%)									
North America	79.2	78.6	78.4	78.6	77.1	77.9	79.2	79.2	79.7
Europe	8.3	8.4	8.5	8.3	9	10.3	9.7	9.5	8.9
India, Asia Pacific	12.5	13	13.1	13.1	13.9	11.8	11.1	11.3	11.4
Onsite-offshore revenue mix (%)									
Onsite	31.4	34.5	36.5	34.8	34.5	32.8	NA	NA	NA
Offshore	55.3	56.6	56.5	57.4	57.3	60.4	NA	NA	NA
IP driven	13.3	8.9	7	7.8	8.2	6.8	7.1	NA	NA
Customer size									
US\$30 mn+	2	2	3	3	5	5	5	6	5
US\$20-30 mn	2	2	1	3	2	4	5	3	6
US\$10-20 mn	6	6	7	6	9	8	7	7	5
US\$5-10 mn	14	15	15	18	18	17	21	23	22
> US\$5 mn	24	25	26	30	34	34	38	39	38
> US\$1 mn and <US\$5 mn	90	93	104	116	118	126	129	136	138
Revenue concentration (%)									
Top client	17.5	14	11.7	8.7	7.4	9.3	10.2	10.2	9.3
Top 5 clients	36.1	32.5	30.8	26.9	24.7	26.5	27.9	28.3	28
Top 10 clients	45	42.1	40.7	36.7	35	37.4	39.6	39.5	39.3
Top 20 clients	54.1	52.1	51.2	48.4	47.8	47.9	50.4	50.6	51.4
Customers billed (#)- services	625	678	735	735	770	743	NA	NA	NA
Customers billed (#)- services- >250K billing			340	345	344	359	367	375	375
Customers billed (#) products	122	125	129	134	134	133	NA	NA	NA
DSO (# of days)	58	59	60	60	67	68	67	66	66
Billing rates (US\$ per person per month)									
Onsite	16,043	16,383	16,423	16,181	15,962	15,972	NA	NA	NA
Offshore	4,252	4,317	4,387	4,498	4,424	4,434	NA	NA	NA
Employee metrics									
Technical	15,721	17,283	20,144	20,941	21,033	21,295	21,511	21,263	21,738
Sales and development	294	317	367	387	405	414	428	443	465
Others	974	999	1,127	1,148	1,160	1,180	1,191	1,136	1,133
Total	16,989	18,599	21,638	22,476	22,598	22,889	23,130	22,842	23,336
Employee split (%)									
Technical	92.5	92.9	93.1	93.2	93.1	93.0	93.0	93.1	93.2
Non technical	7.5	7.1	6.9	6.8	6.9	7.0	7.0	6.9	6.8
Effort mix (%)									
Onsite	13.0	13.9	14.7	14.4	14.3	13.1	13.1	12.7	13.8
Offshore	87.0	86.1	85.3	85.6	85.7	86.9	86.9	87.3	86.2
Utilization									
Utilization (%) (incl. trainees)	83	80.6	79.5	79.9	77.6	77.3	78.3	80.6	81.5
-Onsite	86.1	87	84.6	85.4	86.8	87.9	NA	NA	NA
-Offshore	82.5	79.6	78.7	79	76.3	75.9	NA	NA	NA
Attrition rate (%)	26.9	26.6	24.8	23.7	21.6	19.8	15.5	13.5	11.9
Industry revenue mix (%)									
Services	86.7	91.1	93.0	92.2	91.8	93.2	92.9	NA	NA
IP led	13.3	8.9	7.0	7.8	8.2	6.8	7.1	NA	NA
Deal win metrics (US\$ mn)									
Total TCV	334	361	394	368	440	422	380	479	521
New TCV	158	195	230	228	239	250	237	313	277
Total ACV	291	262	263	271	326	310	272	316	392
New ACV	129	131	140	137	144	168	144	184	183

Source: Company, Kotak Institutional Equities

Exhibit 25: Condensed consolidated financials for LTIMindtree, March fiscal year-ends, 2019-26E (Rs mn)

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Profit model								
Revenue	33,659	35,658	41,879	57,107	83,506	98,064	115,041	134,890
Direct costs	(21,378)	(23,494)	(27,650)	(37,895)	(55,315)	(64,882)	(75,490)	(88,646)
SG&A expenses	(6,476)	(7,234)	(7,398)	(9,631)	(12,999)	(15,758)	(18,077)	(20,366)
EBITDA	5,805	4,930	6,830	9,582	15,191	17,424	21,474	25,877
Depreciation and amortization	(1,573)	(1,660)	(1,756)	(1,660)	(2,719)	(3,094)	(3,172)	(3,404)
EBIT	4,233	3,270	5,075	7,922	12,472	14,330	18,302	22,474
Other income, net	631	1,254	1,020	1,321	(64)	813	996	1,393
Pretax profits	4,863	4,523	6,094	9,243	12,409	15,143	19,299	23,866
Tax expense	(1,347)	(1,121)	(1,588)	(2,339)	(3,198)	(3,798)	(4,940)	(6,110)
Minority interest and exceptional items	–	–	–	–	–	(486)	–	–
Profit after tax	3,517	3,403	4,507	6,904	9,211	10,859	14,358	17,757
Dil. EPS (Rs)	44	45	59	90	121	141	187	231
DPS (Rs)	11	12	20	31	50	56	65	81
Balance sheet								
Total equity	23,447	23,858	27,957	33,682	39,651	46,203	55,563	67,091
Borrowings	12	46	44	4,325	4,285	2,285	–	–
Lease liabilities	–	662	938	1,457	2,269	2,669	3,069	3,469
Provisions	1,939	1,794	2,719	4,195	5,022	5,833	6,778	7,883
Other non-current liabilities	–	–	–	2,089	2,937	2,937	2,937	2,937
Other current liabilities	3,158	4,562	4,997	8,443	12,028	13,222	14,996	16,905
Total liabilities and equity	28,556	30,922	36,655	54,191	66,191	73,149	83,342	98,284
Cash and bank	6,724	4,572	9,809	9,145	9,033	15,686	20,976	30,120
Fixed assets	2,647	3,095	3,376	5,347	7,220	7,599	9,629	11,823
Intangible assets including goodwill	1,677	1,524	1,315	11,060	16,355	15,155	14,052	13,044
Receivables	4,923	5,922	5,709	9,484	15,830	16,015	18,807	22,063
Investments	7,641	9,786	9,996	8,225	6,396	6,396	6,396	6,396
Other assets	4,944	6,023	6,450	10,931	11,358	12,299	13,483	14,839
Total assets	28,556	30,922	36,655	54,191	66,191	73,149	83,342	98,284
Cashflow statement								
Operating cash flow, excl. wc	6,019	5,925	7,363	11,224	17,340	16,938	21,474	25,877
Working capital changes	(580)	(2,162)	3,156	(814)	(8,755)	1,759	(2,514)	(3,197)
Cash taxes paid	(1,405)	(1,328)	(1,582)	(2,367)	(3,405)	(3,798)	(4,940)	(6,110)
Capital expenditure	(374)	(746)	(1,251)	(3,808)	(4,321)	(1,773)	(3,599)	(4,090)
Acquisitions	(148)	(435)	(448)	(6,154)	(4,311)	–	–	–
Other income	43	(143)	(613)	237	500	499	361	294
Free cash flow	3,659	1,689	7,686	4,235	859	13,126	10,421	12,481
Key ratios and assumptions								
Revenue growth (%)	11.0	5.9	17.4	36.4	46.2	17.4	17.3	17.3
EBITDA margin (%)	17.2	13.8	16.3	16.8	18.2	17.8	18.7	19.2
EBIT margin (%)	12.6	9.2	12.1	13.9	14.9	14.6	15.9	16.7
RoAE (%)	15.7	14.4	17.4	22.4	25.1	25.3	28.2	29.0
RoACE (%)	13.7	10.2	14.0	17.3	21.6	22.1	24.8	25.9

Source: Company, Kotak Institutional Equities estimates

Karur Vysya Bank (KVB)

Banks

BUY

CMP(₹): 170

Fair Value(₹): 195

Sector View: **Attractive**

NIFTY-50: 21,572

January 23, 2024

Ahead of expectations on most metrics

KVB reported ~40% yoy earnings growth on the back of flat operating profit and a 60% yoy decline in provisions. Loan growth stood at 13% yoy, while NIM (adjusted) was flat qoq. Asset quality showed a marginal improvement, with no signs of stress as yet. RoE was healthy at ~17%. We maintain BUY (FV of Rs195 versus Rs170 earlier). Re-rating higher would take time, though we note that the bank has been delivering ahead of expectations.

Another quarter of stable performance; one-off income aids higher NIM/RoE

KVB reported ~40% yoy earnings growth despite flat operating profits and a 60% yoy decline in provisions. Revenues grew 13% yoy on the back of NII growth of 13% yoy. Non-interest income grew 13% yoy. NIM improved 25 bps qoq to 4.3%, but it was mostly aided by the recovery from written-off income and changes in the loan mix. Loan growth stood at 13% yoy as the bank saw slow growth in corporate loans. Deposits grew 13% yoy. Operating expenses grew ~32% yoy, led by higher staff costs. Gross NPLs declined 15 bps qoq to 1.6% and net NPLs stood unchanged at 0.4%. The provision coverage ratio stands comfortable at about 75%. The bank reported about 1% slippages, while restructured loans stood at 1%. RoA was 1.6% and RoE was 18%.

Familiar challenges on revenue growth; asset quality is holding up well

The near-term NIM outlook is better than expectations. However, we have not yet completed the re-pricing of the deposit book. Management is guiding for ~15 bps increase in the cost of deposits for 4QFY24 and a further increase in FY2025. The bank is looking to protect its NIM through a mix of (1) an increase in MCLR rates, (2) reducing the exposure toward lower-yielding corporate loans and (3) focusing a lot more on the mid-corporate segment. The strategy should help protect NIMs against an increase in the cost of deposits, but it would also imply that there is a change in the risk that the loan book is carrying as a slowdown would increase the risk of higher credit costs. The portfolio is holding up well today as reflected by SMA 1 and 2, and hence, we are comfortable with the strategy adopted by the bank today. FY2025 has two additional levers, which can help protect the RoE profile. Operating expenses are likely to grow 25% yoy with staff costs (due to wage settlement) growing at 35% yoy. We could see a sharp deceleration in this expenses line to support operating profit growth. In addition, the bank has been making contingency provisions, which can be pushed back in case earnings are under pressure. On the whole, we do believe that the bank is well-positioned with familiar challenges for the bank.

Maintain BUY: Holding up well; best-in-class metrics among regional banks

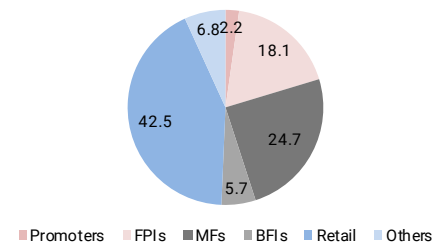
We maintain BUY with a FV at Rs195 (Rs170 earlier), reflecting the changes on account of the rollover and higher multiple to book value. At our FV, we are valuing the bank at 1.3X book and ~9X FY2026 EPS for RoEs of ~15% levels in the medium term. The bank has seen a healthy re-pricing of its multiple, led by steady performance and industry-leading return ratios among the regional banks. A strong re-rating from the current levels looks unlikely, though we do see the book value compounding in the medium term.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	170/195/BUY
52-week range (Rs) (high-low)	177-93
Mcap (bn) (Rs/US\$)	136/1.6
ADTV-3M (mn) (Rs/US\$)	530/6.4

Shareholding pattern (%)



Price performance (%)

	1M	3M	12M
Absolute	5	18	62
Rel. to Nifty	4	8	42
Rel. to MSCI India	2	4	39

Forecasts/Valuations

	2024E	2025E	2026E
EPS (Rs)	18.1	19.8	22.3
EPS growth (%)	31.4	9.5	12.8
P/E (X)	9.4	8.6	7.6
P/B (X)	1.5	1.3	1.2
BVPS (Rs)	117.0	131.0	146.4
RoE (%)	15.9	15.5	15.6
Div. yield (%)	2.8	3.0	3.4
NII (Rs bn)	38	41	46
PPOP (Rs bn)	25	27	30
Net profits (Rs bn)	15	16	18

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of January 20, 2024

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Exhibit 1: KVB – quarterly financial statements, March fiscal year-ends, 3QFY23-3QFY24 (Rs mn)

	3QFY24	3QFY24E	3QFY23	2QFY24	(% chg.)			2024E	2023	(% chg.)	9MFY24	9MFY23	(% chg.)	2025E
					3QFY24E	3QFY23	2QFY24							
Interest Earned	21,394	20,620	16,952	19,971	3.8	26.2	7.1	80,916	65,244	24.0	60,194	47,482	26.8	91,712
Interest on loans	17,937	17,079	13,958	16,567	5.0	28.5	8.3	67,426	53,269	26.6	50,194	38,660	29.8	76,171
Interest on Investment	3,393	3,474	2,813	3,334	(2.3)	20.6	1.8	13,145	10,991	19.6	9,774	8,067	21.1	14,717
Interest on balance with RBI and others	64	67	181	70	(5.8)	(64.9)	(9.2)	345	983	(64.9)	226	755	(70.1)	824
Interest expense	11,381	11,348	8,062	10,817	0.3	41.2	5.2	43,302	31,677	36.7	32,056	22,920	39.9	51,095
Net interest income	10,013	9,273	8,890	9,154	8.0	12.6	9.4	37,614	33,567	12.1	28,137	24,562	14.6	40,618
Other Income	3,578	2,699	3,175	3,389	32.6	12.7	5.6	13,103	11,589	13.1	10,298	7,581	35.8	14,787
Commission & exchange	2,260	2,069	1,840	1,970	9.3	22.8	14.7	9,715	7,473	30.0	6,270	5,450	15.0	11,172
Total Income	13,591	11,971	12,065	12,543	13.5	12.6	8.4	50,717	45,156	12.3	38,436	32,144	19.6	55,405
Operating Expenses	6,832	6,189	5,175	6,164	10.4	32.0	10.8	25,372	20,347	24.7	18,814	14,776	27.3	28,559
Employee expenses	3,747	3,309	2,557	3,276	13.2	46.5	14.4	13,537	10,060	34.6	10,213	7,253	40.8	15,187
Other operating expenses	3,085	2,880	2,618	2,887	7.1	17.8	6.8	11,835	10,287	15.1	8,601	7,523	14.3	13,372
Operating Profit Before Prov. & Cont.	6,759	5,782	6,889	6,379	16.9	(1.9)	6.0	25,345	24,809	2.2	19,622	17,367	13.0	26,845
Provisions & Contingencies	1,497	1,138	3,641	1,264	31.6	(58.9)	18.4	5,749	10,389	(44.7)	4,355	7,459	(41.6)	5,383
Loan loss provisions	1,280	981	2,750	1,090	30.5	(53.5)	17.4	5,098	9,330	(45.4)	3,610	6,370	(43.3)	5,032
Profit before tax	5,262	4,644	3,249	5,115	13.3	62.0	2.9	19,596	14,420	35.9	15,267	9,908	54.1	21,462
Provision for Taxes	1,146	1,207	356	1,331	(5.1)	222.1	(13.9)	5,095	3,308	54.0	3,780	2,226	69.8	5,580
Net Profit	4,116	3,437	2,893	3,785	19.8	42.3	8.8	14,501	11,112	30.5	11,487	7,683	49.5	15,882
Tax rate	21.8	26.0	10.9	26.0				26.0	22.9		24.8	22.5		26.0
PBT - treasury + investment dep.	5,202	4,669	4,269	4,995	11.4	21.9	4.1	19,696	15,129	30.2	15,067	10,848	38.9	21,062
Key balance sheet items (Rs bn)														
Deposits	857	856	759	831	0.1	12.8	3.1				857	759	13	1,032
Saving	185		179	186		3.3	(0.7)				185	179	3	249
Current	85		79	82		8.0	4.3				85	79	8	107
CASA (%)	32.0		34.0	32.0		-200 bps	0 bps				32.0	34.0	-200 bps	34.4
Advances	727	727	642	704	0.0	13.3	3.2				727	642	13	820
Retail	171		141	162		20.9	5.3							
Agriculture	168		141	163		19.3	3.3							
Commercial/SME	244		203	235		20.2	3.8							
Corporate	144		135	144		6.2	(0.3)							
Gold loans	181		153	177		18.1	2.5							
Investment	215	221	194	214	(2.6)	10.8	0.3				215	194	10.8	280
AFS	49		33	51		51.5	(3.9)							
Key calculated ratios (%)														
Yield on advances	10.0	9.5	8.9	9.6	48 bps	116 bps	38 bps	9.9	9.0	88 bps	9.8	8.5	131 bps	9.8
Yield on investment	6.3	6.4	5.9	6.3	-6 bps	44 bps	-1 bps	6.4	6.1	24 bps	6.4	5.8	58 bps	5.8
Cost of deposit	5.4	5.4	4.3	5.3	1 bps	108 bps	11 bps	5.0	4.2	82 bps	5.3	4.2	104 bps	5.1
NIM	3.9	3.6	3.9	3.7	30 bps	-2 bps	20 bps	4.0	4.1	-8 bps	3.8	3.7	9 bps	3.8
Cost-income	50.3	51.7	42.9	49.1	-143 bps	737 bps	113 bps	50.0	45.1	489 bps	48.9	46.0	298 bps	51.5
CD ratio	84.9	85.0	84.5	84.8	-10 bps	35 bps	5 bps	81.7	82.4	-73 bps	84.9	84.5	35 bps	79.5
Asset quality measures														
Gross NPL (Rs mn)	11,519		16,743	12,191		(31.2)	(5.5)				-	-	#DIV/0!	12,315
Gross NPL (%)	1.6		2.7	1.7		-108 bps	-15 bps				-	-	0 bps	1.5
Net NPL (Rs mn)	3,053		5,504	3,236		(44.5)	(5.7)				-	-	#DIV/0!	4,303
Net NPL (%)	0.4		0.9	0.5		-47 bps	-5 bps				-	-	0 bps	0.5
Provision coverage ratio (%)	73.5		67.1	73.5		637 bps	4 bps				73.5	67.1	637 bps	65.1
PCR inc. technical write off (%)	94.8		90.9	94.5		394 bps	32 bps							
Slippages (gross, Rs mn)	1,970	2,480	1,620	1,550	(20.6)	21.6	27.1	7,054	4,792	47.2	5,020	4,320	16.2	9,659
Slippage ratio (gross, %)	1.1	1.4	1.0	0.9	-29 bps	7 bps	19 bps	1.1	0.8	26 bps	1.0	1.0	4 bps	1.3
Slippages (net, Rs mn)	838		(282)	404										
Slippage ratio (net, %)	0.6		(0.2)	0.3										
Credit cost (%)	0.7	0.5	1.8	0.6	18 bps	-109 bps	8 bps	-	-	0 bps	0.7	1.4	-69 bps	-
Restructured (Rs mn)	7,950		11,550	8,470		(31.2)	(6.1)							
Restructured loans (%)	1.1		1.8	1.2		-71 bps	-11 bps							
Capital adequacy details (%)														
CAR	15.4		17.9	16.8		-247 bps	-145 bps							
Tier-I	13.9		16.0	15.2		-213 bps	-132 bps							
Tier-II	1.5		1.9	1.7		-34 bps	-13 bps							
Key parameters														
Branches	831		792	824		4.9	0.8				831	792	4.9	839
ATMs	2,251		2,233	2,244		0.8	0.3				2,251	2,233	0.8	2,440

Source: Company, Kotak Institutional Equities estimates

Loan growth at 13% yoy; broad-based growth across non-wholesale segments

Gross advances grew 13% yoy with broad-based growth across segments – retail, commercial and agri advances grew ~20% yoy each, while corporate advances grew 6% yoy (flat qoq).

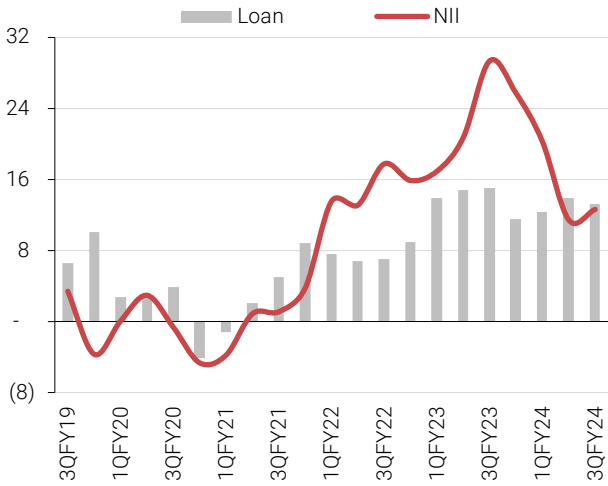
Within retail, loan growth was quite robust in the LAP (up ~30% yoy) segment, while home loans grew by 14% yoy. The bank also saw robust demand in the personal loans portfolio, led by the BNPL product on the Amazon platform. Management indicated that there was a spike in 3QFY24 on account of the festive season and the growth trend is unlikely to sustain.

On the corporate book, the bank continues on its path of granulizing its portfolio. It has capped advances to new customers at ~Rs1.25 bn. The bank recently let go of select corporate exposures because the bank was unable to pass on higher yields to these customers (after the revision in risk weights).

The commercial banking segment remains a strategic priority for the bank. This is a highly profitable segment for the bank. Management indicated that credit demand in this segment is holding up well.

NII growth was in line with loan growth

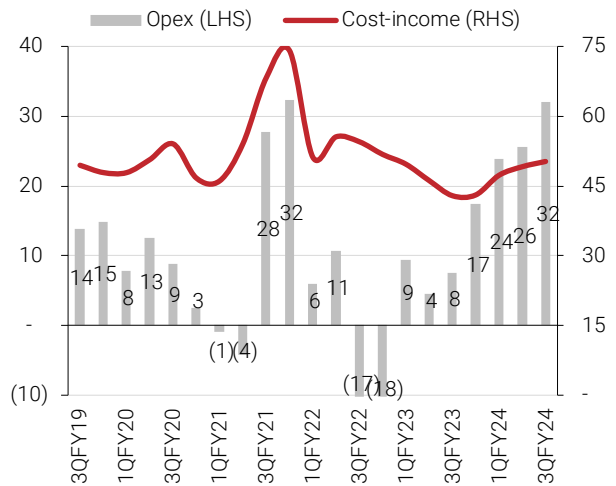
Exhibit 2: NII and loan growth, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Cost-income ratio has declined from the peak of ~70%

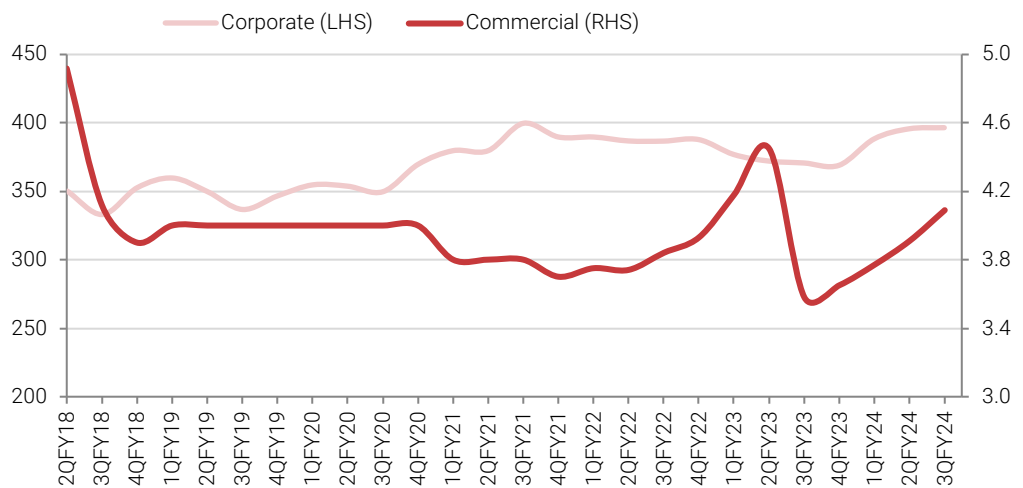
Exhibit 3: Operating expenses growth and cost-income ratio, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Average ticket size on corporate loans stands at ~Rs400 mn

Exhibit 4: Average ticket size, March fiscal year-ends (Rs mn)



Source: Company, Kotak Institutional Equities

Retail loans at ~24% of loan book

Exhibit 5: Break-up of loan book, March fiscal year-ends (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	3QFY24
Agriculture	14.3	15.7	18.3	17.7	17.0	17.8	16.8	17.1	16.0	18.4	21.8	22.7	23.3	23.2
Retail	7.5	8.2	11.9	12.5	13.4	15.0	15.3	16.6	22.3	23.1	23.2	23.0	23.5	23.5
SME	13.4	34.0	32.3	32.5	32.4	32.3	35.0	35.0	33.7	32.2	31.6	32.5	33.4	33.6
Corporate and others	64.8	42.1	37.6	37.3	37.2	34.9	32.9	31.3	28.0	26.3	23.4	21.8	19.8	19.8
Gold loans	16.2	21.5	26.3	23.4	19.6	16.1	14.9	15.4	15.4	19.0	24.3	24.6	25.1	24.9

Source: Company, Kotak Institutional Equities

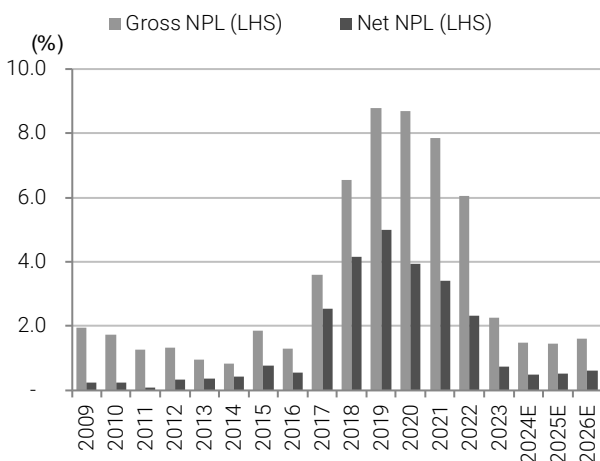
Asset quality continues to be stable; gross and net NPLs at multi-year lows

- ▶ **Headline NPL ratios declines further.** GNPL ratio declined ~15 bps qoq to 1.6%, while net NPL ratio declined ~5 bps qoq to 0.4%. Gross NPL and net NPL ratios are currently at multi-year lows for the bank. The provision coverage ratio remained broadly flat qoq at ~73%
- ▶ **Slippages stay under control.** Gross slippages stood at ~1.1% (annualized) – marginally higher qoq from 0.9%. Slippages were either flat or marginally higher across segments. Recoveries and upgradations stayed strong, thereby resulting in modest net slippages (~0.6%). Total SMA 30+ book stood at ~50 bps of advances with SMA-1 at ~30 bps of advances and SMA-2 at ~20 bps of advances.
- ▶ **Credit cost.** Credit cost for the quarter stood at ~70 bps of advances (annualized). This included the addition of ~Rs250 mn to the floating provision buffer, which now stands at ~Rs750 mn (~10 bps of advances).
- ▶ **Restructuring and provisions.** The bank’s restructured advances declined ~10 bps qoq to ~1.1% of loans. The bank holds ~28% provision cover on standard restructured advances.

We are building credit costs of <100 bps for the bank in the medium term. Further, management has guided for slippages of ~1% during FY2024E. The guidance on credit cost for FY2024E is ~75 bps.

NPL ratios have declined sharply in the past few years

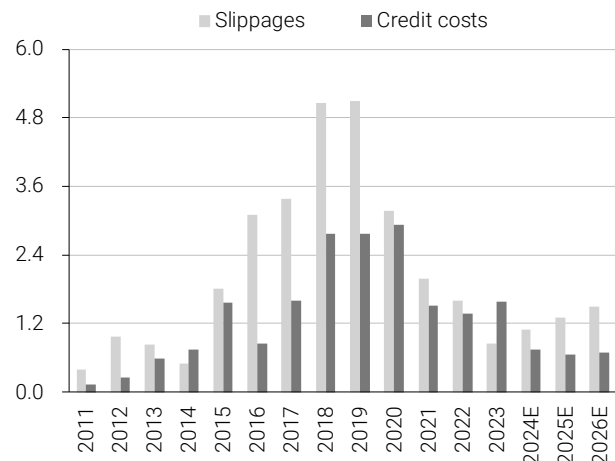
Exhibit 6: NPL ratios, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Slippages have been low recently

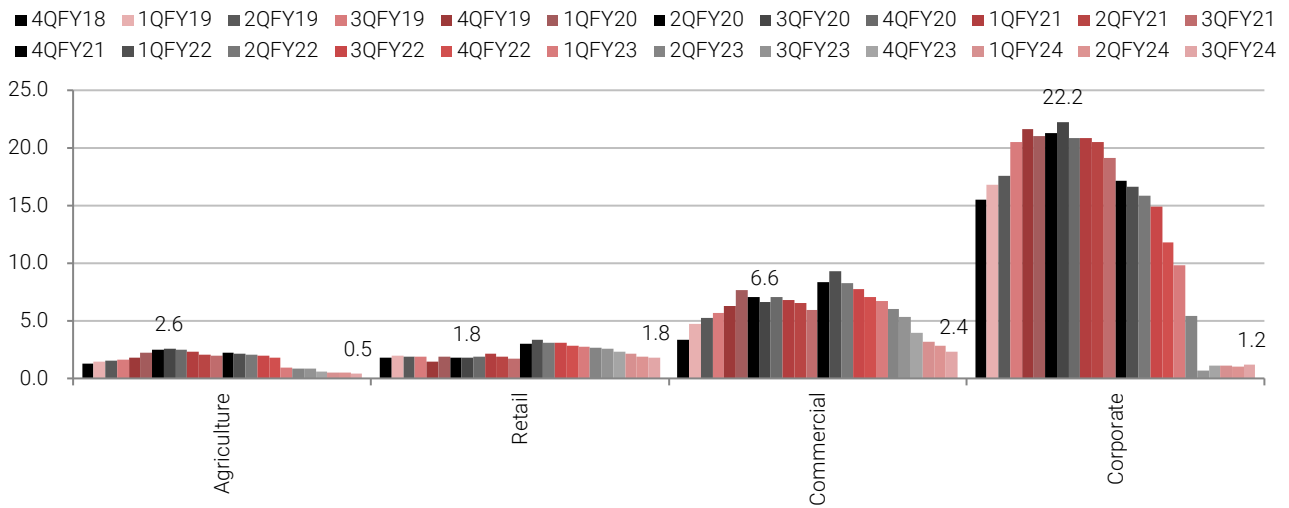
Exhibit 7: Slippages and credit cost, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Gross NPL ratio has declined significantly across segments in the past few years

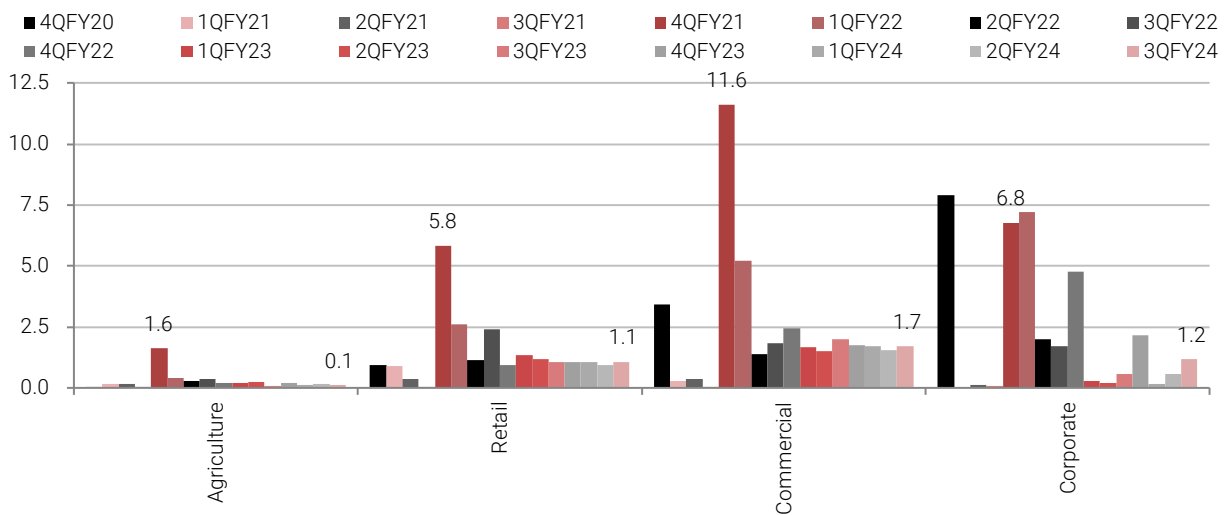
Exhibit 8: Gross NPL ratio across segments, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Slippages were either flat or marginally higher qoq across segments

Exhibit 9: Slippages across loan segments, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Business landscape changed with competition from new private banks picking pace

Exhibit 10: Deposit and credit market share of various banks in Tamil Nadu, March fiscal year-ends (%)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	4Y chng (%)
Market share comparison in deposits (%)													
PSU banks													
SBI Group	15.9	17.0	16.9	16.5	16.9	17.9	17.9	18.3	19.1	18.3	19.5	19.0	66 bps
Indian Overseas Bank	10.0	11.0	10.4	10.5	9.8	9.7	9.0	8.7	8.6	8.4	8.4	8.0	-78 bps
Canara Bank	6.5	7.3	6.8	7.1	7.2	7.1	7.1	7.3	7.8	7.1	8.6	8.3	110 bps
Indian Bank	11.4	13.2	13.2	11.8	11.3	9.8	10.2	10.7	11.4	10.9	11.0	10.8	8 bps
Private banks													
Axis Bank	2.3	3.1	2.4	2.7	2.9	3.0	3.2	3.2	3.6	3.6	4.1	4.5	129 bps
City Union Bank	2.7	3.2	3.2	3.4	3.5	3.4	3.6	3.8	3.9	3.8	3.7	3.7	-14 bps
Federal Bank	0.4	0.6	0.5	0.5	0.5	0.7	0.6	0.7	0.7	0.7	0.9	0.9	20 bps
Karur Vysya Bank	3.1	3.5	5.5	4.4	4.4	4.1	4.4	4.4	4.1	3.8	3.7	3.8	-63 bps
HDFC Bank	3.4	3.7	4.0	4.6	5.5	5.6	6.3	7.2	8.3	9.1	9.4	9.9	267 bps
ICICI Bank	3.9	4.1	4.3	4.3	4.5	4.6	5.0	5.4	6.2	6.4	6.5	6.8	139 bps
Market share comparison in loans (%)													
PSU banks													
SBI Group	18.1	21.1	19.9	19.1	18.9	17.9	18.7	18.5	19.0	17.7	17.8	17.6	-92 bps
Indian Overseas Bank	8.7	8.6	8.1	7.7	6.9	6.1	5.9	5.4	5.1	5.3	5.1	4.9	-53 bps
Canara Bank	7.2	6.7	7.3	7.7	7.9	9.5	8.0	8.2	8.7	11.1	10.2	10.2	195 bps
Indian Bank	7.8	7.8	7.6	7.1	7.8	7.3	7.7	8.0	8.7	9.5	8.5	8.3	31 bps
Private banks													
Axis Bank	2.6	2.8	3.9	4.1	3.1	4.9	5.1	5.2	5.3	5.3	5.5	5.9	77 bps
City Union Bank	1.9	2.1	1.9	1.9	2.0	2.2	2.3	2.4	2.3	2.4	2.3	2.3	-10 bps
Federal Bank	0.9	0.9	0.9	0.9	0.9	1.2	1.4	1.6	1.7	1.8	1.8	1.8	21 bps
Karur Vysya Bank	2.4	2.6	2.6	2.5	2.6	2.4	2.7	2.6	2.5	2.5	2.3	2.3	-32 bps
HDFC Bank	4.0	4.5	4.9	5.3	6.9	7.7	8.5	9.0	10.1	10.4	11.1	11.8	283 bps
ICICI Bank	4.5	4.2	3.3	3.3	3.5	4.1	3.9	4.3	4.3	4.8	5.1	5.5	120 bps

Source: Company, Kotak Institutional Equities

Other highlights in the quarter

- ▶ Operating expenses grew 32% yoy, driven by a 46% yoy increase in employee expenses. Non-interest income grew 13% yoy. The bank has absorbed the one-time impact of bipartite settlement on wage expenses, but the full impact on retirement benefits will be completed by 4QFY24. Management indicated that the cost-income ratio is expected to be in the range of 48-50% expected in FY2024E.
- ▶ The bank saw ~Rs0.7 bn of recoveries from written-off accounts during the quarter.
- ▶ Deposits grew ~13% yoy, driven by ~17% yoy growth in term deposits, while CA and SA deposits grew by 3-8% yoy. The CASA ratio stood at ~32% (flat qoq). Management indicated that a few existing customers continue to shift deposits from SA to TD which is putting some pressure on the CASA ratio. However, the bank continues to add new CASA deposit customers which is supporting the deposit mix.
- ▶ NIM (reported) increased by ~25 bps qoq to 4.3% boosted by a ~20 bps impact from one-time interest income recovery from a large corporate NPA account. Management indicated that NIM for the bank is likely to stay at ~4.0% for 4QFY24. As of 4QFY23, ~84% of the loan book of the bank is linked to a floating rate, with ~47% linked to MCLR and 37% linked to EBLR.
 - Accordingly, yield on advances increased qoq by ~40 bps to 10.2% (~15-20 bps estimated impact from the large interest recovery). Management indicated that yield on advances might increase by ~10 bps qoq during 4QFY24 (adjusting for the one-time impact in 3QFY24) on account of the repricing of the MCLR-linked book.
 - Cost of funds increased by ~10 bps qoq to 5.3%. Management expects that the bank might see a further increase of ~15 bps of increase in cost of deposits during 4QFY24 assuming no further hike in deposit rates.
- ▶ Capital position is comfortable with CAR at ~15.4% (excluding 9MFY24 profits).

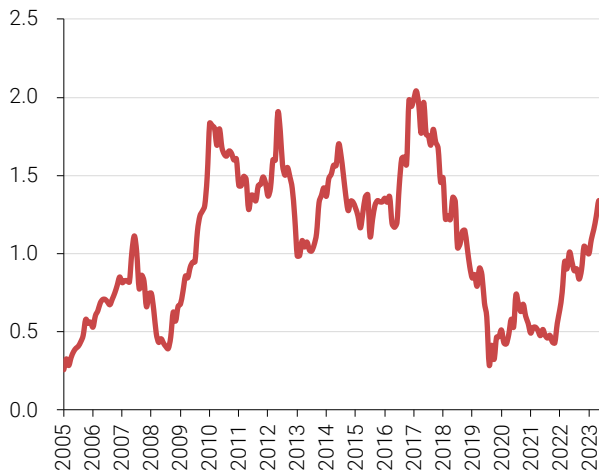
Exhibit 11: KVB - estimate changes, March fiscal year-ends

	New estimates			Old estimates			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Net interest income	37,614	40,618	45,604	36,563	40,517	45,543	3	0	0
Loan growth (%)	15.3	12.7	12.6	14.8	12.7	12.6	51 bps	0 bps	0 bps
NIM (%)	4.0	3.8	3.7	3.9	3.7	3.7	11 bps	1 bps	1 bps
Loan loss provisions	5,098	5,032	6,105	4,747	5,010	5,644	7	0	8
Other income	13,103	14,787	16,897	11,834	13,734	15,890	11	8	6
Fee income	9,715	11,172	12,848	8,366	9,621	11,065	16	16	16
Operating expenses	25,372	28,559	31,839	24,366	27,419	30,567	4	4	4
Cost-income ratio (%)	50	52	51	50	51	50	-32 bps	101 bps	118 bps
PBT	19,596	21,462	24,206	18,634	21,471	24,870	5	(0)	(3)
Tax	5,095	5,580	6,294	4,845	5,582	6,466	5	(0)	(3)
Net profit	14,501	15,882	17,912	13,789	15,888	18,404	5	(0)	(3)
RoA (%)	1.5	1.4	1.4	1.4	1.4	1.4	7 bps	0 bps	-4 bps
RoE (%)	15.9	15.5	15.6	15.2	15.6	16.1	74 bps	-9 bps	-47 bps
EPS (Rs)	18.1	19.8	22.3	17.2	19.8	22.9	89 bps	-1 bps	-61 bps
Adjusted BVPS (Rs)	117	131	146	116	132	147	1	(1)	(1)
Gross NPA (%)	1.5	1.5	1.6	1.7	1.7	2.1	-17 bps	-22 bps	-48 bps
Slippages (%)	1.1	1.3	1.5	1.0	1.3	1.5	10 bps	0 bps	0 bps
Credit cost (%)	0.8	0.7	0.7	0.7	0.7	0.7	5 bps	0 bps	5 bps

Source: Company, Kotak Institutional Equities estimates

KVB trades at 1.3X one-year forward book

Exhibit 12: P/BV (12-month rolling forward adjusted book, X)



Source: Company, Kotak Institutional Equities

KVB is trading at a discount to private bank peers

Exhibit 13: Valuation discount to private bank peers (X)



Source: Company, Kotak Institutional Equities

Exhibit 14: KVB – key growth rates and financial ratios, March fiscal year-ends (%)

	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Growth rates (%)										
Net loan	4.7	9.5	8.4	(5.1)	9.3	8.5	15.5	15.3	12.7	12.6
Total asset	7.2	8.3	3.6	(1.5)	9.3	7.3	12.6	15.6	14.6	14.7
Deposits	7.2	5.9	5.2	(1.3)	7.1	8.2	11.9	16.3	15.8	15.7
Current	22.2	13.3	4.3	(5.3)	17.0	7.5	7.7	19.9	19.2	19.1
savings	30.4	10.4	10.0	7.4	17.0	11.6	6.0	17.8	17.2	17.1
Fixed	1.1	3.9	4.1	(3.3)	2.6	7.1	14.8	15.3	14.7	14.6
Net interest income	16.4	10.8	2.8	(0.6)	0.5	15.1	23.3	12.3	8.0	12.3
Loan loss provisions	100.2	86.6	8.6	7.0	(47.3)	(0.6)	28.8	(45.4)	(1.3)	21.3
Total other income	10.7	15.0	7.0	19.9	(8.5)	(27.2)	50.7	13.1	12.9	14.3
Net fee income	4.5	28.5	6.1	0.5	(16.7)	15.6	17.9	30.0	15.0	15.0
Net capital gains	116.8	(50.6)	(30.3)	382.4	4.3	(114.1)	(158.1)	71.5	40.0	28.6
Net exchange gains	(29.5)	13.2	(4.1)	(10.5)	(15.0)	18.0	(8.3)	30.0	15.0	15.0
Operating expenses	2.6	10.6	13.7	7.9	14.1	(6.7)	9.7	24.7	12.6	11.5
Employee expenses	11.1	5.1	19.1	12.5	34.7	(18.1)	6.4	34.6	12.2	11.8
Key ratios (%)										
Yield on Average earning assets	9.8	9.1	8.8	9.0	7.9	7.5	8.0	8.7	8.5	8.2
Yield on Average loans	11.0	10.3	9.8	9.9	9.2	8.6	9.0	9.9	9.8	9.7
Yield on Average investments	7.9	7.4	7.5	7.5	5.9	5.6	6.1	6.4	5.8	5.6
Average cost of funds	6.6	5.9	5.7	6.0	4.9	4.2	4.3	5.1	5.2	5.0
Interest on deposits	6.6	6.0	5.7	5.9	4.9	4.2	4.2	5.0	5.1	5.0
Spread	3.2	3.2	3.1	3.0	3.0	3.3	3.7	3.6	3.3	3.2
Net interest income/earning assets	3.6	3.7	3.6	3.5	3.4	3.6	4.1	4.0	3.8	3.7
Spreads on lending business	4.4	4.4	4.2	3.9	4.3	4.4	4.8	4.8	4.7	4.7
New provisions/Average net loans	1.6	2.8	2.8	2.9	1.5	1.4	1.6	0.8	0.7	0.7
Total provisions/gross loans	1.1	2.5	4.0	5.0	4.6	3.8	1.5	2.0	2.4	2.8
Interest income/total income	72.6	71.9	71.0	67.0	69.1	77.9	74.3	74.2	73.3	73.0
Other income / total income	27.4	28.1	29.0	33.0	30.9	22.1	25.7	25.8	26.7	27.0
Fee income to total income	16.8	19.3	19.7	18.8	16.0	18.2	16.6	19.2	20.2	20.6
Fee income to advances	1.2	1.4	1.4	1.4	1.1	1.2	1.3	1.4	1.4	1.5
Fees income to PBT	54.4	122.5	203.2	241.8	102.6	68.1	52.1	49.6	52.1	53.1
Net trading income to PBT	18.8	2.0	0.4	96.9	37.0	(4.8)	(4.9)	(0.5)	1.9	2.5
Exchange income to PBT	4.4	8.7	13.0	13.8	6.0	4.0	2.4	2.3	2.4	2.4
Operating expenses/total income	45.0	44.4	48.6	49.7	58.2	53.2	45.1	50.0	51.5	50.9
Operating expenses/assets	2.2	2.2	2.4	2.5	2.8	2.4	2.4	2.6	2.6	2.5
Tax rate	31.4	31.4	34.6	13.7	32.7	27.7	23.1	26.0	26.0	26.0
Dividend payout ratio	26.1	12.6	22.7	-	11.1	19.0	14.5	26.0	26.0	26.0
Share of deposits										
Current	18.6	19.3	20.2	22.0	24.0	24.8	23.5	23.8	24.1	24.4
Fixed	72.3	70.9	70.1	68.7	65.8	65.1	66.8	66.2	65.6	65.0
savings	18.6	19.3	20.2	22.0	24.0	24.8	23.5	23.8	24.1	24.4
Loans-to-deposit ratio	76.2	78.7	81.1	78.0	79.6	79.8	82.4	81.7	79.5	77.4
Equity/assets (EoY)	8.1	9.4	9.3	9.7	9.3	9.5	9.5	9.3	9.1	8.9
Loan impairment ratios (%)										
Gross NPL	3.6	6.6	8.8	8.7	7.8	6.0	2.3	1.5	1.5	1.6
Net NPL	2.5	4.2	5.0	3.9	3.4	2.3	0.7	0.5	0.5	0.6
Slippages	3.4	5.1	5.1	3.2	2.0	1.6	0.8	1.1	1.3	1.5
Provision coverage	30.4	38.2	45.6	57.1	58.5	63.3	67.9	67.6	65.1	63.5
Dupont analysis (%)										
Net interest income	3.5	3.6	3.5	3.4	3.3	3.5	3.9	3.9	3.6	3.6
Loan loss provisions	1.1	1.8	1.9	2.0	1.0	0.9	1.1	0.5	0.4	0.5
Net other income	1.3	1.4	1.4	1.7	1.5	1.0	1.4	1.3	1.3	1.3
Operating expenses	2.2	2.2	2.4	2.6	2.8	2.4	2.4	2.6	2.6	2.5
(1- tax rate)	68.6	68.6	65.4	86.3	67.3	72.3	76.9	74.0	74.0	74.0
ROA	1.0	0.5	0.3	0.3	0.5	0.9	1.3	1.5	1.4	1.4
Average assets/Average equity	12.4	11.4	10.7	10.6	10.5	10.6	10.5	10.7	10.9	11.2
ROE	12.6	6.1	3.3	3.6	5.3	9.3	13.6	15.9	15.5	15.6

Source: Company, Kotak Institutional Equities

Exhibit 15: KVB – key financials, March fiscal year-ends (Rs mn)

	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Income statement										
Total interest income	56,224	56,997	58,158	59,900	54,704	55,877	65,165	80,916	91,712	102,636
Loans	44,017	44,208	45,964	46,651	44,535	45,255	53,269	67,426	76,171	84,243
Investments	11,060	11,229	11,506	11,497	9,418	9,248	10,991	13,145	14,717	17,462
Cash and deposits	1,146	1,559	689	1,753	751	1,374	905	345	824	932
Total interest expense	35,486	34,015	34,530	36,420	31,109	28,723	31,677	43,302	51,095	57,032
Deposits from customers	34,450	33,097	33,414	35,188	30,133	27,802	30,545	41,685	49,370	55,362
Net interest income	20,737	22,981	23,628	23,479	23,595	27,154	33,488	37,614	40,618	45,604
Loan loss provisions	6,379	11,904	12,933	13,834	7,287	7,246	9,330	5,098	5,032	6,105
Net interest income (after prov.)	14,358	11,077	10,695	9,646	16,308	19,907	24,158	32,516	35,585	39,499
Other income	7,822	8,999	9,628	11,546	10,566	7,691	11,589	13,103	14,787	16,897
Net fee income	4,802	6,171	6,549	6,580	5,482	6,340	7,473	9,715	11,172	12,848
Net capital gains	2,046	1,011	705	3,400	3,548	(502)	292	500	700	900
Net exchange gains	385	436	418	375	318	376	345	448	515	592
Operating expenses	12,850	14,207	16,148	17,417	19,868	18,542	20,347	25,372	28,559	31,839
Employee expenses	6,080	6,391	7,612	8,566	11,537	9,450	10,060	13,537	15,187	16,987
Depreciation on investments	389	911	691	763	1,572	(59)	1,000	601	301	301
Other provisions	107	(78)	262	290	91	(195)	59	50	50	50
Pretax income	8,835	5,036	3,222	2,722	5,344	9,309	14,341	19,596	21,462	24,206
Tax provisions	2,775	1,580	1,114	372	1,750	2,577	3,308	5,095	5,580	6,294
Net profit	6,060	3,457	2,109	2,350	3,594	6,733	11,034	14,501	15,882	17,912
% growth	7	(43)	(39)	11	53	87	64	31	10	13
PBT - Treasury + Provisions	13,663	16,762	16,403	14,209	10,746	16,804	24,439	24,845	26,145	29,762
% growth	20	23	(2)	(13)	(24)	56	45	2	5	14
Balance sheet										
Cash and bank balance	43,451	42,969	36,970	43,926	63,203	49,262	46,951	51,611	58,300	65,974
Cash	5,649	7,259	5,415	7,766	8,355	6,960	6,983	7,332	7,698	8,083
Balance with RBI	22,256	22,341	23,932	19,561	22,885	28,983	35,812	40,122	46,446	53,735
Net value of investments	148,575	158,032	148,816	157,624	160,189	172,161	188,083	226,012	279,855	344,521
Govt. and other securities	128,955	140,128	126,710	132,119	149,390	153,751	167,347	206,666	261,760	327,550
Shares	939	1,051	538	326	384	1,020	1,049	1,049	1,049	1,049
Debentures and bonds	7,985	12,459	13,981	10,220	5,775	14,648	13,896	12,507	11,256	10,130
Net loans and advances	409,077	448,001	485,808	460,981	503,635	546,612	631,341	728,038	820,398	923,950
Fixed assets	4,186	5,282	5,830	5,866	5,391	4,785	4,350	5,162	4,051	2,901
Net Owned assets	4,186	5,282	5,830	5,866	5,391	4,785	4,350	5,162	4,051	2,901
Other assets	12,787	15,007	15,977	14,384	13,814	27,894	31,068	31,689	32,323	32,969
Total assets	618,076	669,291	693,401	682,782	746,232	800,713	901,794	1,042,512	1,194,928	1,370,315
Deposits	536,998	568,901	598,680	590,751	632,784	684,860	766,376	891,610	1,032,123	1,194,101
Borrowings and bills payable	20,495	26,987	18,411	13,977	28,258	17,024	20,720	25,473	25,623	25,777
Other liabilities	10,226	10,761	12,083	12,051	15,592	22,867	28,858	28,858	28,858	28,858
Total liabilities	567,719	606,649	629,173	616,779	676,634	724,751	815,954	945,941	1,086,604	1,248,736
Paid-up capital	1,219	1,453	1,599	1,599	1,599	1,600	1,604	1,604	1,604	1,604
Reserves & surplus	49,138	61,189	62,629	64,404	67,999	74,362	84,236	94,967	106,720	119,975
Total shareholders' equity	50,357	62,642	64,228	66,003	69,597	75,962	85,841	96,571	108,324	121,579

Source: Company, Kotak Institutional Equities

Sunteck Realty (SRIN)

Real Estate

BUY

CMP(₹): 452

Fair Value(₹): 550

 Sector View: **Attractive**

NIFTY-50: 21,572

January 23, 2024

Modest pre-sales, Kalyan launch offers some support

Sunteck reported 3QFY24 pre-sales of Rs4.5 bn (+15% yoy, +15% qoq), taking 9MFY24 pre-sales to Rs12.4 bn (+16% yoy), lagging the targeted growth of 20% yoy. The Kalyan launch happened toward the end of the quarter, contributing Rs730 mn. Upcoming launches at Mira Road (new tower) and Nepean Sea Road (FY2025E), as well as sales at Kalyan and BKC should aid future pre-sales. The weak revenue recognition led to EBITDA and PAT losses—we expect the completion of the Naigaon project in 4QFY24E. Sunteck has Rs297 bn of unrealized GDV from unsold projects, which it plans to double to Rs600bn within three years. Sunteck's pre-sales performance has been unexciting in the recent times, and an uptick in the sales trajectory is key for stock performance. Maintain BUY with a FV of Rs550/share.

Modest sales performance; weak revenue recognition

Sunteck reported 3QFY24 revenue of Rs424 mn (-52% yoy, +70% qoq), EBITDA loss of Rs148 mn (EBITDA of Rs180 mn in 3QFY23, EBITDA loss of Rs141 mn in 2QFY24), and PAT loss (incl. profit from associates) of Rs97 mn (profit of Rs21 mn in 3QFY23, loss of Rs139 mn in 2QFY24). Management expects to recognize revenue of Rs7.5-8.5 bn in FY2024E and Rs9.5-10.5 bn in FY2025E from the delivery of its projects in Naigaon and Oshiwara, respectively.

Sunteck reported 3QFY24 pre-sales of Rs4.5 bn (+15% yoy, +15% qoq), taking 9MFY24 pre-sales to Rs12.4 bn (+16% yoy). We highlight that the operational performance for Sunteck remains unexciting, and pre-sales are currently tracking behind the management guidance of 20-25% yoy growth. Sunteck launched a new project at Kalyan (Crescent Park), which contributed Rs730 mn to 3QFY24 pre-sales. The 3QFY24 pre-sales of Rs4.55 bn for 0.41 mn sq. ft of area were led by upper mid-income segment (Rs1.8 bn from Sunteck City, Beach Residences and Sky Park), while the lower mid-income segment (Sunteck World and Crescent Park) and BKC contributed Rs1.4 bn and Rs0.8 bn, respectively. Management expects to launch a new Tower at Mira Road in 4QFY24E, and a new project at Nepean Sea Road in FY2025E. Collections improved significantly to Rs4.4 bn (+44% yoy, +104% qoq), with 9MFY24 collections at Rs9.4 bn (+2% yoy). Net debt as of December 2023 reduced further to Rs0.5 bn (Rs2.6 bn as of September 2023), with net debt/ equity at 0.02X.

Extant inventory and new launches to support growth; maintain BUY

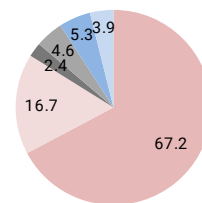
Sunteck has lagged peers in terms of pre-sales performance due to delayed launches as well as slower sustenance sales. Management highlighted that it has Rs297 bn of GDV and over Rs150 bn of net surplus (net of pending costs) from unsold projects and upcoming launches; it plans to double the GDV to Rs600 bn within three years through the addition of projects at Borivali, Nepean Sea Road and South Mumbai. The launch of the Kalyan project (Rs90 bn total GDV) and Nepean Sea Road (Rs25 bn GDV) should aid pre-sales of Rs19 bn/Rs23 bn in FY2024/25E. We fine-tune our financial estimates and pre-sales estimates, and maintain BUY with a revised FV of Rs550/share (Rs520/share earlier).

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	452/550/BUY
52-week range (Rs) (high-low)	512-271
Mcap (bn) (Rs/US\$)	66/0.8
ADTV-3M (mn) (Rs/US\$)	490/5.9

Shareholding pattern (%)



■ Promoters ■ FPIs ■ MFs ■ BFI's ■ Retail ■ Others

Price performance (%)	1M	3M	12M
Absolute	4	(4)	23
Rel. to Nifty	3	(14)	4
Rel. to MSCI India	1	(18)	0

Forecasts/Valuations	2024E	2025E	2026E
EPS (Rs)	19.4	22.2	59.6
EPS growth (%)	19,221.7	14.3	168.7
P/E (X)	23.3	20.4	7.6
P/B (X)	2.1	1.9	1.5
EV/EBITDA (X)	19.5	15.9	6.0
RoE (%)	9.3	9.7	22.3
Div. yield (%)	0.2	0.2	0.2
Sales (Rs bn)	11	15	29
EBITDA (Rs bn)	4	4	12
Net profits (Rs bn)	3	3	8

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of January 20, 2024

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Slow revenue recognition led to loss at EBITDA and PAT level

Exhibit 1: Quarterly results for Sunteck Realty, March fiscal year-ends, 2023–2025E (Rs mn)

	3QFY24	3QFY24E	3QFY23	2QFY24	Change (%)			9MFY24	9MFY23	% chg	2024E	2023	% chg	2025E
					KIE	3QFY23	2QFY24							
Net sales	424	1,527	893	249	(72)	(52)	70	1,380	3,136	(56)	11,038	3,624	205	14,855
Operating costs	(573)	(1,202)	(713)	(391)	(52)	(20)	47	(1,744)	(2,403)	(27)	(7,345)	(2,983)	146	(10,473)
EBITDA	(148)	325	180	(141)	(146)	(182)	5	(364)	733	NM	3,693	642	475	4,382
Other income	185	144	81	113	29	128	64	477	204	134	567	284	100	316
Interest costs	(171)	(154)	(196)	(158)	11	(13)	8	(502)	(570)	(12)	(588)	(859)	(32)	(569)
Depreciation	(24)	(23)	(22)	(22)	3	9	8	(64)	(67)	(4)	(97)	(92)	5	(101)
PBT	(158)	291	44	(209)	(154)	(463)	(24)	(454)	300	NM	3,575	(25)	na	4,028
Taxes	55	(73)	(42)	64	(176)	(233)	(13)	146	(93)	NM	(997)	(31)	3,144	(1,133)
PAT	(103)	218	2	(145)	(147)	(5,274)	(29)	(308)	206	NM	2,577	(56)	na	2,895
PAT (incl. profit from associates)	(97)	257	21	(139)	(138)	(570)	(30)	(304)	(293)	NM	2,722	14	19,222	3,111
Net comprehensive income	(57)	257	49	(92)	(122)	(218)	(38)	(229)	397	NM	2,722	14		3,111
EPS (Rs/share)	(0.7)	1.8	0.1	(1.0)				(2.2)	2.1		19.4	0.1		22.1
Key ratios														
EBITDA margin (%)	(35)	21	20	(57)				(26)	23		33	18		29
PAT margin (%)	(24)	14	0	(58)				(22)	7		23	(2)		19
Effective tax rate (%)	35	25	95	30				32	31		28	(122)		28

Source: Company, Kotak Institutional Equities estimates

Operational performance across projects

Ongoing projects continue to provide cash inflows.

- ▶ **BKC.** Sunteck sold Rs840 mn of inventory across 2 units at Signature Island and Pearl in BKC, taking 9MFY24 pre-sales at BKC to Rs1.3 bn. This follows Rs760 mn of sales in FY2023. The company has Rs14.3 bn of unsold inventory at BKC.
- ▶ **Sunteck Beach Residences, Vasai.** Sunteck saw sales of Rs521 mn in 3QFY24 at the Sunteck Beach Residences project (Rs1.1 bn in 9MFY24 and Rs4.3 bn in FY2023).
- ▶ **Naigaon.** Sunteck World (West, One and Maxx) saw sales of Rs704 mn in 3QFY24 (Rs2.2 bn in 9MFY24 and Rs2.2 bn in FY2023).
- ▶ **Sunteck City, Goregaon.** Sunteck City (Avenue 1, 2 & 4) contributed to Rs790 mn of sales in 3QFY24 (Rs1.7 bn in 9MFY24 and Rs5 bn in FY2023).
- ▶ **Sunteck Sky Park, Mira Road.** The Sky Park project at Mira Road (launched in March 2023) contributed to Rs476 mn of sales in 3QFY24 (Rs3.9 bn in 9MFY24 and Rs2.9 bn in FY2023)
- ▶ **Sunteck Crescent Park, Kalyan.** The recently launched project at Kalyan (1 tower) contributed Rs726 mn of sales in 3QFY24.

Launches. Sunteck expects to launch another tower at Mira Road in 4QFY24E. It could also launch more towers at the Kalyan project in the coming months. Finally, it plans to launch the Nepean Sea Road Project in FY2025E, with GDV of Rs25 bn.

Rs297 bn of unsold inventory across existing projects and new launches. Management highlighted that it has Rs297 bn of unsold inventory across its existing projects (BKC, Naigaon, Vasai, Goregaon, Mira Road and Kalyan) and yet to be launched project (Nepean Sea Road)/phases at existing projects. It has a net surplus of over Rs150 bn to be realized in the coming years (including pending receivables from booked sales, and less pending costs of ~Rs160 bn). Management is targeting to double the GDV to Rs600bn (from Rs297 bn) over the next 3 years, through the addition of projects at Borivali, Nepean Sea Road, Bandra, and other micro-markets in South Mumbai.

Rs700 mn of rental income from FY2025E. Management highlighted that it plans to increase its rental income to Rs700 mn by FY2025E from Rs350 mn currently, as it completes the leasing of Sunteck Icon (0.12 mn sq. ft) in BKC that would contribute an incremental Rs350 mn of rentals. Sunteck’s BKC 51 is already leased to Upgrad, and has annual rentals of Rs350 mn. The annuity business has EBITDA margins of 75-80%. Sunteck also plans to add an annuity asset in Goregaon, which would add Rs2.5 bn of rentals by FY2027E; construction is expected to begin in FY2025E.

Sunteck's 3QFY24 pre-sales at Rs4.55 bn saw sequential improvement aided by project launch at Kalyan

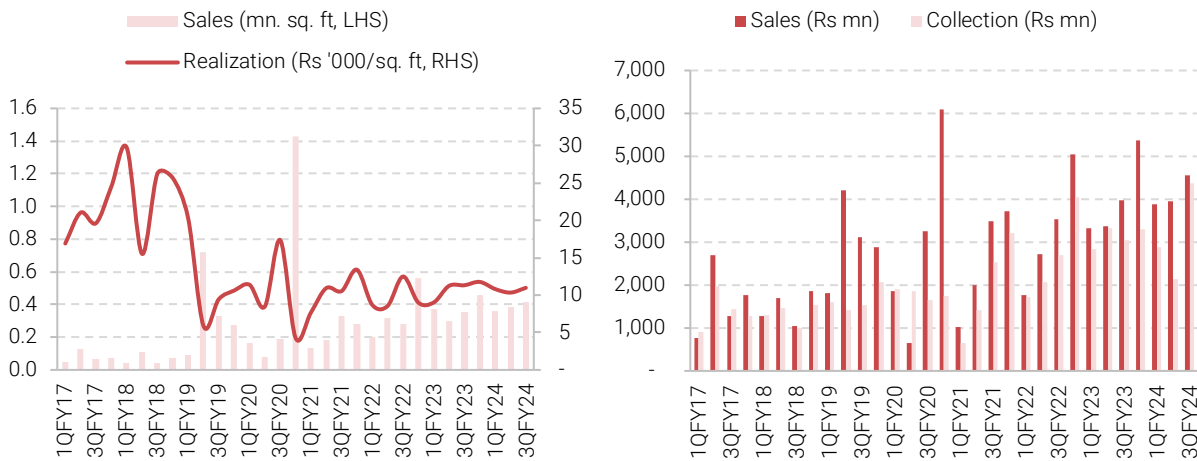
Exhibit 2: Sunteck's operational performance, March fiscal year-ends, 2023–2025E (sq. ft, Rs mn, Rs)

	3QFY24		3QFY23		2QFY24		Growth (%)		9MFY24	9MFY23	Growth (%)	2024E	2023	Growth (%)	2025E
	Sales (sq. ft)	Sales (Rs mn)	Realization (Rs/sq. ft)	Collection (Rs mn)	Sales (sq. ft)	Sales (Rs mn)	Realization (Rs/sq. ft)	Collection (Rs mn)							
Sales (sq. ft)	414,619	350,000	382,367	18	8	1,155,090	1,020,000	13	2,000,639	1,476,601	35	2,453,494			
Sales (Rs mn)	4,547	3,960	3,950	15	15	12,367	10,660	16	18,875	16,020	18	23,367			
Realization (Rs/sq. ft)	10,967	11,314	10,330	(3)	6	10,707	10,451	2	9,434	10,849	(13)	9,524			
Collection (Rs mn)	4,376	3,040	2,143	44	104	9,398	9,190	2	18,514	12,490	48	16,688			

Source: Company, Kotak Institutional Equities

Sunteck's sales pick-up sequentially during the course of the year

Exhibit 3: Sunteck's operational performance, March fiscal year-ends, 4QFY16-3QFY24 (mn sq. ft, Rs '000/ sq. ft, Rs mn)



Source: Company, Kotak Institutional Equities

We expect Sunteck to report Rs19 bn of pre-sales in FY2024E

Exhibit 4: Key assumptions driving our financial model, March fiscal year-ends, 2020-26E (Rs mn)

	2020	2021	2022	2023	2024E	2025E	2026E
Development							
Sales (Rs mn)	12,210	10,217	13,027	16,020	18,875	23,367	37,486
Sales (mn sq. ft)	1.86	0.92	1.36	1.48	2.00	2.45	3.81
Sales (Rs/sq. ft)	6,576	11,056	9,558	10,849	9,434	9,524	9,844
Collections (Rs mn)	7,137	7,800	10,530	12,490	18,514	16,688	28,307
Construction (Rs mn)	4,926	3,789	1,017	5,143	7,575	8,729	16,543
GCF (Rs mn)	2,211	4,011	9,513	7,346	10,939	7,959	11,763
GCF (Outstanding)	226,294	222,570	215,200	214,217	205,836	201,312	194,987
Revenue (Rs mn)	6,078	6,141	5,131	3,624	11,038	14,855	29,245
EBITDA (Rs mn)	1,619	1,331	953	642	3,693	4,382	11,935
EBITDA (%)	27	22	19	18	33	29	41

Source: Company, Kotak Institutional Equities estimates

SoTP-based FV of Rs550/share

Exhibit 5: SoTP value of Sunteck Realty based on March 2025E (Rs mn)

Project	Location	Ownership (%)	Value			Inventory / Area			Receivables (Rs mn)	Cost (Rs mn)	GCF (Rs mn)
			(Rs mn)	(Rs/share)	(%)	(mn sq. ft)	(Rs/sq. ft)	(Rs mn)			
Residential											
Ongoing											
Signature Island	BKC	100	3,143	22	4	0.20	58,987	11,596	2,222	0	13,819
Signia Isles	BKC	100	701	5	1	0.03	57,089	1,599	2,516	110	4,004
Signia Pearl	BKC	100	2,432	17	3	0.10	57,952	5,889	1,797	(20)	7,706
Sunteck City	Oshiwara	100	1,954	14	2	0.60	16,783	10,146	3,831	4,345	9,632
Sunteck World	Naigaon	JDA (74%)	-	-	-	0.53	6,480	3,440	6,407	3,419	3,868
Vasai	Vasai	JDA (75%)	6,284	45	8	4.50	9,683	43,575	-	13,500	19,181
Glibert Hill		JDA (65%)	-	-	-	0.05	29,326	1,569	217	160	1,001
Signia Waterfront		50	-	-	-	0.05	17,415	906	679	(47)	1,632
Sunteck Icon		57	239	2	0	0.08	28,269	2,290	-	932	1,358
Gateway 51		55	-	-	-	0.11	28,930	3,182	-	1,063	2,119
Ongoing			15,655	112	19	6	13,516	86,473	24,995	24,329	73,060
Upcoming											
Sunteck World	Naigaon	JDA (74%)	15,831	113	20	7.00	12,672	88,704	-	18,000	47,641
Sunteck City	Oshiwara	100	13,579	97	17	3.37	20,683	69,715	-	19,408	50,308
Vasind	Vasind	JDA (80%)	1,877	13	2	2.50	5,024	12,559	-	5,500	4,547
Borivali	Borivali	JDA (72%)	1,738	12	2	1.00	14,503	14,503	-	5,100	5,342
Kalyan	Kalyan	JDA (78%)	9,339	67	12	10.00	8,586	85,865	-	35,000	31,974
Mira Road	Mira Road	JDA (78%)	4,486	32	6	2.50	11,241	28,103	-	12,000	9,920
Upcoming			46,850	334	58	26	11,355	299,449	-	95,008	149,732
Future			18,126	129	22						
Total			80,631	575	100						
Net debt			(3,518)	(25)	(4)						
Equity Value			77,113	550	96						

Source: Company, Kotak Institutional Equities estimates

We lower Sunteck's revenue and profitability estimates for FY2024E

Exhibit 6: Sunteck Realty, change in estimates, March fiscal year-ends, 2024-26E (Rs mn)

	New estimates			Old estimates			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	11,038	14,855	29,245	11,878	15,145	28,382	(7)	(2)	3
EBITDA	3,693	4,382	11,935	4,046	4,640	11,843	(9)	(6)	1
PAT	2,722	3,111	8,360	2,802	3,226	8,196	(3)	(4)	2

Source: Company, Kotak Institutional Equities estimates

Revenue recognition should pick up from FY2024E after a slow performance in FY2023

Exhibit 7: Sunteck: Profit model, balance sheet, cash flow model, March fiscal year-ends, 2020-26E (Rs mn)

	2020	2021	2022	2023	2024E	2025E	2026E
Profit model							
Net sales	6,078	6,141	5,131	3,624	11,038	14,855	29,245
EBITDA	1,619	1,331	953	642	3,693	4,382	11,935
Other income	237	168	209	284	567	316	326
Interest	(435)	(848)	(776)	(859)	(588)	(569)	(492)
Depreciation	(36)	(52)	(73)	(92)	(97)	(101)	(104)
Pre-tax profits	1,385	598	314	(25)	3,575	4,028	11,665
Tax	(378)	(164)	(29)	(82)	(997)	(1,133)	(3,424)
Deferred taxation	—	—	(46)	51	—	—	—
Net income	1,007	434	239	(56)	2,577	2,895	8,240
Adjusted net income	1,003	497	251	14	2,722	3,111	8,360
Earnings per share (Rs)	7	4	2	0	19	22	60
Balance sheet							
Total equity	29,201	27,723	27,904	27,879	30,460	33,431	41,650
Gross debt	7,678	6,544	7,869	6,854	7,854	7,125	6,542
Non-current liabilities	74	50	169	150	149	150	149
Current liabilities	5,021	6,256	18,973	37,703	8,358	8,449	245
Total liabilities and equity	41,974	40,573	54,915	72,586	46,822	49,155	48,586
Fixed assets	870	625	1,225	2,515	1,073	993	912
Non-current financial assets	2,964	2,817	3,225	3,524	2,918	2,536	2,385
Other non-current assets	248	461	520	617	617	617	617
Current assets	37,892	36,670	49,945	65,930	42,214	45,009	44,672
Total assets	41,974	40,573	54,915	72,586	46,822	49,155	48,586
Free cash flow							
Operating cash flow, excl. working capital	1,174	278	436	212	2,820	3,212	8,464
Working capital changes	(2,376)	2,040	(2,483)	5,777	(4,633)	(1,188)	(10,269)
Capital expenditure	(182)	194	(673)	(1,382)	1,345	(21)	(23)
Free cash flow	(1,384)	2,512	(2,720)	4,607	(468)	2,003	(1,828)
Ratios (%)							
Debt/equity	31.6	29.2	28.2	24.6	25.8	21.3	15.7
Net debt/equity	25.9	25.6	24.7	18.9	19.3	10.5	12.7
RoE (%)	3.5	1.7	0.9	0.1	9.3	9.7	22.3
RoCE (%)	3.5	2.9	2.3	5.3	8.1	8.5	19.5
Book value per share (Rs/share)	208	198	199	199	217	238	297

Source: Company, Kotak Institutional Equities estimates

CESC (CESC)

Electric Utilities

SELL

CMP(₹): 138

Fair Value(₹): 115

 Sector View: **Attractive**

NIFTY-50: 21,572

January 23, 2024

Patience pays off, time to cash out

CESC stock has nearly doubled in the past six months, in sharp contrast to the near-flat price movement in the preceding five years. Business prospects have changed only a little, barring the ambition to pursue renewable opportunities aggregating 3 GW of generation capacity. At CMP, the company is trading at 1.3X book value (2X on regulated equity), with ROE of ~13% and limited growth prospects besides the aspirations on new renewable assets and incremental distribution circles. Accordingly, we downgrade the stock to SELL (from BUY), with a revised FV of Rs115/share (from Rs105/share).

Steady quarter; higher depreciation and lower other income impact net profit

CESC reported 3QFY24 consolidated revenue of Rs38 bn (+10% yoy, -19% qoq), EBITDA of Rs9.1 bn (+10% yoy, -10% qoq) and PAT of Rs3 bn (-10% yoy, -17% qoq). The PAT declined yoy despite growth in EBITDA, owing to higher depreciation charges at Rs3 bn (+38% yoy), and lower other income at Rs570 mn (-40% yoy). Consolidated PAT of Rs3 bn comprised (1) standalone PAT of Rs1.7 bn (-8.6% yoy, -26% qoq), which was impacted by lower other income; (2) PAT of Rs480 mn (-32% yoy, -27% qoq) at Haldia, with PLF declining to 72.8% in 3QFY24 (81% in 3QFY23); (3) PAT of Rs420 mn (-17.6% yoy, -38% qoq) at Dhariwal, with PLF declining to 63.7% (80% in 3QFY23); (4) PAT of Rs480 mn (-13% yoy, +30% qoq) at the Noida distribution business; and (5) PAT of Rs210 mn (+200% yoy, +40% qoq) at Crescent Power in 3QFY24. The Rajasthan subsidiaries had a negligible profit contribution in the quarter.

Kolkata distribution saw healthy 8.3% yoy growth in unit sales

CESC reported standalone revenue of Rs23.1 bn (+19% yoy, -16% qoq) on the back of healthy unit sales at 2,383 MU (+8.3% yoy, -23.5% qoq), while tariffs improved to Rs9.7/kwh (+10% yoy, +10% qoq). PLFs were sequentially lower at 86.2% (70% in 3QFY23 and 92.7% in 2QFY24). Fuel costs at Rs3.3/ kwh were up 26% yoy and down 2.5% qoq. We highlight that while standalone EBITDA at Rs5.5 bn (+21% yoy, -10% qoq) was on expected lines, PAT at Rs1.7 bn lagged due to higher depreciation and lower other income.

Stock movement has been sharp; growth prospects less promising

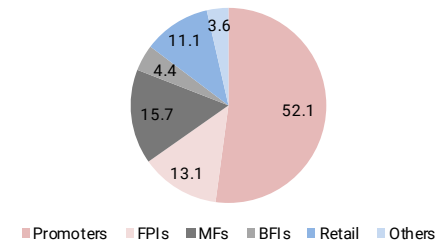
We downgrade CESC to SELL (from BUY), noting the near doubling of stock price in the past six months—key changes in business being: (1) aspirations to invest in 3 GW of renewable assets (departure from past strategy) and (2) setting up of 10,500 MT/annum green hydrogen production facility. We highlight that CESC had previously restrained from investments in renewable energy due to concerns about the return profile. We note that at CMP, CESC is trading at 2X regulated equity in operational projects, which presumes healthy returns and growth even as earnings for CESC have been largely flat in the past four years. We have raised FV to Rs115/share (from Rs105/share) as we roll forward to March 2026E earnings, assigning a 1.5X multiple to regulated equity across business verticals. While we have not ascribed any value to the announced 3 GW renewable project, owing to the questionable return profile of RE projects, we highlight that it could add another Rs8-10/share to the SoTP.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	138/115/SELL
52-week range (Rs) (high-low)	146-62
Mcap (bn) (Rs/US\$)	183/2.2
ADTV-3M (mn) (Rs/US\$)	1,419/17.1

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	20	55	87
Rel. to Nifty	18	45	67
Rel. to MSCI India	16	41	64

Forecasts/Valuations	2024E	2025E	2026E
EPS (Rs)	10.5	12.3	13.1
EPS growth (%)	3.5	17.7	5.9
P/E (X)	13.2	11.2	10.6
P/B (X)	1.3	1.3	1.2
EV/EBITDA (X)	6.8	6.6	6.3
RoE (%)	10.9	11.5	11.6
Div. yield (%)	3.3	3.1	3.4
Sales (Rs bn)	171	174	180
EBITDA (Rs bn)	39	40	39
Net profits (Rs bn)	14	16	17

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of January 20, 2024

[Full sector coverage on KINSITE](#)

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We have cut our earnings estimates by 2% for FY2024E and 9% for FY2025E, primarily on account of lower other income and higher depreciation costs.

PAT growth was impacted by higher depreciation and lower other income, despite the yoy EBITDA growth

Exhibit 1: Quarterly results (consolidated) for CESC, March fiscal year-ends, 2023-25E (Rs mn)

	(% chg.)					(% chg.)			(% chg.)			
	3QFY24	3QFY23	2QFY24	yoy	qoq	9MFY24	9MFY23		2024E	2023		2025E
Net sales	38,040	34,600	47,130	9.9	(19.3)	130,910	119,790	9.3	170,828	155,220	10.1	174,386
Operating costs												
Cost of electrical energy purchased	(12,140)	(9,640)	(17,070)	25.9	(28.9)	(45,600)	(42,400)	7.5	(58,415)	(51,640)	13.1	(60,240)
Cost of fuel	(9,460)	(9,400)	(12,430)	0.6	(23.9)	(33,710)	(31,250)	7.9	(42,906)	(39,670)	8.2	(42,168)
Personnel costs	(3,030)	(2,870)	(3,200)	5.6	(5.3)	(9,280)	(9,000)	3.1	(12,485)	(11,890)	5.0	(13,109)
Other expenses and provisions	(4,350)	(4,420)	(4,360)	(1.6)	(0.2)	(13,310)	(12,430)	7.1	(17,566)	(17,770)	(1.2)	(18,986)
Total operating expense	(28,980)	(26,330)	(37,060)	10.1	(21.8)	(101,900)	(95,080)	7.2	(131,371)	(120,970)	8.6	(134,503)
EBITDA	9,060	8,270	10,070	9.6	(10.0)	29,010	24,710	17.4	39,457	34,250	15.2	39,884
EBITDA margin (%)	23.8	23.9	21.4			22.2	20.6		23.1	22.1		22.9
Depreciation	(3,030)	(2,190)	(3,030)	38.4	0.0	(9,060)	(6,570)		(12,135)	(8,780)		(12,429)
EBIT	6,030	6,080	7,040	(0.8)	(14.3)	19,950	18,140	10.0	27,322	25,470	7.3	27,455
Other income	570	950	620	(40.0)	(8.1)	1,780	2,030	(12.3)	2,818	3,090	(8.8)	4,338
Interest	(2,960)	(2,890)	(3,050)	2.4	(3.0)	(9,090)	(8,280)		(12,232)	(11,170)		(11,301)
PBT	3,640	4,140	4,610	(12.1)	(21.0)	12,640	11,890	6.3	17,909	17,390	3.0	20,492
Tax	(630)	(780)	(980)			(2,320)	(2,370)		(3,219)	(3,420)		(3,622)
Net profit	3,010	3,360	3,630	(10.4)	(17.1)	10,320	9,520	8.4	14,690	13,970	5.2	16,870
Profit from associates / minority interest	(200)	(170)	(150)			(560)	(420)		(788)	(540)		(510)
Net profit	2,810	3,190	3,480	(11.9)	(19.3)	9,760	9,100	7.3	13,902	13,430	3.5	16,360
Extraordinary income/ (expenses)	-	-	-			-	-		-	-		-
EPS (Rs/share)	2	3	3			8	7		10	10		12

Source: Company, Kotak Institutional Equities estimates

Other highlights from the results

- ▶ **Haldia** reported a decline of 32% yoy and 27% qoq in 3QFY24 PAT to Rs480 mn, on revenue of Rs4.3 bn (-32% yoy, -20% qoq). The decline was on account of lower unit sales at 893 MU (-10% yoy, -23% qoq) as PLF declined to 72.8%, from 81.3% in 3QFY23 and 94.9% in 2QFY24.
- ▶ **Dhariwal** reported PAT of Rs420 mn (-18% yoy, -38% qoq). Dhariwal's revenue of Rs3.7 bn (-28% yoy, -30% qoq) was impacted by a decline in unit sales to 783 MUs (-20% yoy, -30% qoq), as PLF declined to 64%, from 80% in 3QFY23 and 90.8% in 2QFY24.
- ▶ **Malegaon** distribution franchise business posted a PAT loss of Rs270 mn in 3QFY24 on revenue of Rs1.7 bn. Distribution circles in Rajasthan saw negligible PAT of Rs1 mn in the quarter.
- ▶ **New projects:** CESC had in the previous quarter announced its plan to set up 3 GW of renewable generation capacity. The company has now highlighted that it has 250 acres of land in Bikaner under physical possession, and an application has been submitted for RREC registration and Transmission connectivity. CESC is also in advanced stages for further acquisition of 2,000 acres, and an EOI has been submitted to the Gujarat Government for requesting allotment of ~20,000 hectares of government land for setting up Solar-Wind Hybrid portfolio in Gujarat.

CESC, through its wholly owned subsidiary, has also been selected as the successful bidder for setting up 10,500 MT/annum of Green Hydrogen Production facility in India under the Strategic Interventions for Green Hydrogen Transition scheme, issued by the Solar Energy Corporation of India (SECI). The Green Hydrogen project is expected to be commissioned within three years. CESC has stated that this would be a pilot project and further capacity addition would be planned at a later date.

Standalone earnings supported by healthy 8.3% yoy growth in unit sales

Exhibit 2: Quarterly results for CESC (Standalone), March fiscal year-ends, 2023-25E (Rs mn)

	(% chg.)													
	3QFY24	3QFY24E	3QFY23	2QFY24	KIE	yoy	qoq	9MFY24	9MFY23	(% chg.)	2024E	2023	(% chg.)	2025E
Net sales	23,090	22,095	19,390	27,370	4.5	19.1	(15.6)	77,810	67,720	14.9	101,112	87,600	15.4	103,264
Operating costs														
Cost of electrical energy purchased	(7,500)	(7,145)	(6,610)	(10,200)	5.0	13.5	(26.5)	(28,750)	(25,980)	10.7	(35,173)	(31,260)	12.5	(38,046)
Cost of fuel	(5,070)	(4,605)	(3,150)	(5,970)	10.1	61.0	(15.1)	(16,420)	(12,900)	27.3	(21,211)	(16,640)	27.5	(21,011)
Personnel costs	(2,470)	(2,574)	(2,380)	(2,570)	(4.0)	3.8	(3.9)	(7,610)	(7,450)	2.1	(10,543)	(9,830)	7.3	(11,095)
Other expenses and provisions	(2,530)	(2,354)	(2,690)	(2,510)	7.5	(5.9)	0.8	(7,850)	(7,460)	5.2	(10,665)	(10,230)	4.3	(11,122)
Total operating expense	(17,570)	(16,678)	(14,830)	(21,250)	5.3	18.5	(17.3)	(60,630)	(53,790)	12.7	(77,592)	(67,960)	14.2	(81,274)
EBITDA	5,520	5,417	4,560	6,120	1.9	21.1	(9.8)	17,180	13,930	23.3	23,520	19,640	19.8	21,990
EBITDA margin (%)	23.9	24.5	23.5	22.4				22.1	20.6		23.3	22.4		21.3
Depreciation	(1,800)	(1,838)	(1,190)	(1,780)	(2.1)	51.3	1.1	(5,370)	(3,580)		(7,211)	(4,800)		(7,505)
EBIT	3,720	3,578	3,370	4,340	4.0	10.4	(14.3)	11,810	10,350	14.1	16,309	14,840	9.9	14,485
Other income	220	592	560	470	(62.9)	(60.7)	(53.2)	900	1,240	(27.4)	1,415	1,800	(21.4)	2,006
Interest	(1,770)	(1,766)	(1,560)	(1,760)	0.2	13.5	0.6	(5,340)	(4,380)	21.9	(7,131)	(6,040)	18.1	(6,339)
PBT	2,170	2,405	2,370	3,050	(9.8)	(8.4)	(28.9)	7,370	7,210	2.2	10,593	10,600	(0.1)	10,152
Tax	(470)	(529)	(510)	(750)	(11.2)	(7.8)	(37.3)	(1,670)	(1,540)		(2,382)	(2,300)		(2,463)
Net profit	1,700	1,876	1,860	2,300	(9.4)	(8.6)	(26.1)	5,700	5,670	0.5	8,211	8,300	(1.1)	7,688
Extraordinary income/ (expenses)	-	-	-	-				-	-		-	-		-
EPS (Rs/share)	1	1	1	2				4	4		6	6		6
Key operating parameters														
Units sold (MU)	2,383	2,376	2,201	3,117	0.3	8.3	(23.5)	8,774	8,206	6.9	11,107	10,162	9.3	12,982
Units generated - gross (MU)	1,535	1,396	1,203	1,762	10.0	27.6	(12.9)	5,083	4,551	11.7	6,375	5,966	6.9	6,825
Units purchased (MU)	1,247	1,348	1,309	1,838	(7.5)	(4.7)	(32.2)	5,019	4,763	5.4	6,343	5,745	10.4	8,718
Tax rate (%)	22	22	22	25				23	21		22	22		24
Tariff (Rs/kwh)	9.69	9.30	8.81	8.78	4.2	10.0	10.3	8.87	8.25	7.5	9.10	8.62	5.6	7.95
Fuel cost(Rs/kwh)	3.30	3.30	2.62	3.39	0.1	26.1	(2.5)	3.23	2.83	14.0	3.33	2.79	19.3	3.08
Power purchased (Rs/kwh)	6.01	5.30	5.05	5.55	13.5	19.1	8.4	5.73	5.45	5.0	5.55	5.44	1.9	4.36

Source: Company, Kotak Institutional Equities estimates

Lower profit contribution from Haldia and Dhariwal on account of lower unit sales

Exhibit 3: Subsidiaries performance of CESC, March fiscal year-ends, 2023-25E (Rs mn)

	(% chg.)												
	3QFY24	3QFY23	2QFY24	yoy	qoq	9MFY24	9MFY23	(% chg.)	2024E	2023	(% chg.)	2025E	
Haldia													
Revenue (Rs mn)	4,280	6,270	5,370	(31.7)	(20.3)	15,040	15,620	(3.7)	21,302	21,963	(3.0)	21,569	
PAT (Rs mn)	480	710	660	(32.4)	(27.3)	1,760	1,920	(8.3)	2,185	2,610	(16.3)	2,658	
Sales (MU)	893	992	1,162	(10.0)	(23.1)	3,190	3,076	3.7	4,205	3,868	8.7	4,013	
Tariff (Rs/kwh)	4.8	6.3	4.6	(24.2)	3.7	4.7	5.1	(7.4)	5.0	5.6	(11.1)	5.1	
Dhariwal (Chandrapur)													
Revenue (Rs mn)	3,700	5,110	5,300	(27.6)	(30.2)	14,160	14,440	(1.9)	19,080	19,185	(0.5)	18,756	
PAT (Rs mn)	420	510	680	(17.6)	(38.2)	1,890	1,660	13.9	2,592	2,435	6.4	2,495	
Sales (MU)	783	981	1,120	(20.2)	(30.1)	3,000	2,944	1.9	3,913	3,913	0.0	3,816	
Tariff (Rs/kwh)	4.7	5.2	4.7	(9.3)	(0.1)	4.7	4.9	(3.9)	4.8	4.8	0.0	4.8	
Crescent													
Revenue (Rs mn)	530	540	460	(1.9)	15.2	1,500	1,230	22.0	1,991	1,771	12.4	1,969	
PAT (Rs mn)	210	70	150	200.0	40.0	560	210	166.7	743	328	126.9	500	
Noida													
Revenue (Rs mn)	5,570	4,750	7,120	17.3	(21.8)	19,050	18,300	4.1	23,181	22,746	1.9	24,415	
PAT (Rs mn)	480	550	370	(12.7)	29.7	1,390	1,300	6.9	1,890	1,612	17.3	1,986	
Kota/ Bharatpur/ Bikaner													
Revenue (Rs mn)	3,970	3,840	5,910	3.4	(32.8)	15,580	15,120	3.0	18,986	18,540	2.4	19,947	
PAT (Rs mn)	1	(110)	(20)	(100.9)	(105)	151	(290)	(152.1)	539	(248)	(317.6)	815	

Source: Company, Kotak Institutional Equities estimates

PLFs declined for Haldia and Dhariwal

Exhibit 4: Gross generation (MUs) and PLF of key plants of CESC, March fiscal year-ends, 4QFY20-3QFY24

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Generation (MUs)																
Haldia	873	1,007	1,209	1,107	902	1,163	1,220	1,058	836	1,168	1,102	1,079	872	1,230	1,162	965
Chandrapur	1,013	993	1,027	730	1,102	1,113	996	840	1,042	1,131	990	1,060	1,048	1,184	1,120	844
PLF (%)																
Haldia	66.9	76.9	91.3	83.6	69.6	88.8	92.1	79.8	64.3	89.1	83.2	81.4	67.6	93.9	94.9	72.8
Chandrapur	77.4	75.7	77.6	83.5	85.0	85.0	75.3	63.3	80.5	86.4	74.8	80.0	80.3	90.4	90.8	63.7

Source: Company, Kotak Institutional Equities

We downgrade CESC to SELL with a revised FV of Rs115/share as we roll forward to March 2026E earnings

Exhibit 5: Sum-of-the-parts valuation for CESC based on March 2026E

	Methodology	Regulated equity	Multiple (X)	Value		
				(Rs bn)	(Rs/share)	
Standalone	The business enjoys very high predictability of cash flows, regular reinvestments and high profitability (>20% RoE) from operational efficiencies and incentives.	P/B	55,918	1.5	82	62
Chandrapur	480 MW tied-up so far with Tamil Nadu, Noida Power and Railways; balance sold in the merchant market	P/B	22,428	1.5	33	25
Haldia	600 MW sold to Kolkata distribution business	P/B	12,034	1.5	18	13
Crescent Power	40 MW capacity based on coal rejects available for merchant sale and 15 MW solar plant	P/B	600	1.5	1	1
Other distribution	Bharatpur/Kota/Bikaner/Noida/Malegaon/ Chandigarh				12	9
Cash	Marketable securities & cash on books				7	5
Total					153	115

Source: Company, Kotak Institutional Equities estimates

We tweak our estimates; while incorporating the higher depreciation run-rate

Exhibit 6: Changes in estimates for CESC, March fiscal year-ends, 2024-26E (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	170,828	174,386	179,549	173,504	178,562	183,725	(2)	(2)	(2)
EBITDA	39,457	39,884	39,335	39,232	40,658	40,109	1	(2)	(2)
Net profit	13,902	16,360	17,322	14,235	17,914	18,989	(2)	(9)	(9)

Source: Company, Kotak Institutional Equities estimates

We expect CESC's earnings to compound steadily over FY2023-26E

Exhibit 7: Profit model, balance sheet and cash model of CESC, March fiscal year-ends, 2020-26E (Rs mn)

	2020	2021	2022	2023	2024E	2025E	2026E
Profit model (Rs mn)							
Net sales	116,772	120,630	132,810	155,220	170,828	174,386	179,549
EBITDA	35,355	36,100	36,540	34,250	39,457	39,884	39,335
Other income	2,025	2,350	2,760	3,090	2,818	4,338	5,649
Interest	(13,574)	(12,260)	(11,290)	(11,170)	(12,232)	(11,301)	(10,939)
Depreciation	(7,814)	(8,670)	(8,850)	(8,780)	(12,135)	(12,429)	(12,643)
Pretax profits	15,993	17,520	19,160	17,390	17,909	20,492	21,402
Minority interest	693	(320)	(460)	(540)	(788)	(510)	(504)
Tax	(3,627)	(3,890)	(5,110)	(3,420)	(3,219)	(3,622)	(3,576)
Net profits	13,059	13,310	13,590	13,430	13,902	16,360	17,322
Extraordinary items	—	—	—	—	—	—	—
Earnings per share (Rs)	9.9	10.0	10.3	10.1	10.5	12.3	13.1
Balance sheet (Rs mn)							
Total equity	96,270	98,730	103,970	109,100	117,020	127,778	138,946
Total borrowings	121,810	124,650	147,390	140,620	123,410	123,994	124,364
Consumer security deposits	16,280	19,980	18,610	20,070	24,322	19,733	20,573
Advance against depreciation	(29,850)	(36,200)	(43,560)	(56,370)	(44,501)	(46,241)	(47,982)
Deferred tax liability	40,950	41,590	42,870	42,790	42,795	42,797	42,798
Minority interest	860	3,970	4,340	4,790	5,578	6,088	6,591
Total liabilities and equity	246,320	252,720	273,620	261,000	268,624	274,149	285,290
Cash	17,910	18,580	32,500	25,880	41,968	48,736	66,448
Net current assets	(15,776)	(12,260)	3,340	4,690	(2,074)	3,048	3,055
Total fixed assets	237,333	243,310	233,190	229,660	227,960	221,595	215,017
Investments	6,853	3,090	4,590	770	770	770	770
Deferred Expenditure	—	—	—	—	—	—	—
Total assets	246,320	252,720	273,620	261,000	268,624	274,149	285,290
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	20,874	23,470	24,190	23,190	26,829	29,301	30,469
Working capital	3,789	(3,516)	(15,600)	(13,410)	6,764	(5,122)	(8)
Capital expenditure	(9,441)	(20,418)	1,270	(6,910)	(10,435)	(6,064)	(6,064)
Investments	5,007	3,763	(1,500)	4,270	—	—	—
Free cash flow	20,229	3,299	8,360	7,140	23,158	18,115	24,397

Source: Company, Kotak Institutional Equities estimates

Uno Minda (UNOMINDA)

Automobiles & Components

SELL

CMP(₹): 689

Fair Value(₹): 625

 Sector View: **Cautious**

NIFTY-50: 21,572

January 23, 2024

Risk-reward turns unfavorable; downgrade to SELL

We remain positive on the company's growth prospects, driven by: (1) capex plans, (2) increase in content due to premiumization and the addition of newer products to the portfolio and (3) order wins across segments. However, we expect margin recovery to be gradual due to (1) aggressive pricing strategy, (2) foray into newer segments (margin dilutive) and (3) higher costs in its greenfield plants in the near term. The valuation remains expensive at 41X FY2025E (consol.) EPS. Downgrade to SELL (from ADD).

Capex plans to drive revenue growth for the company in the coming years

The company plans to invest more than Rs20 bn as capex in the coming years to ramp up the production capacities of alloy wheels, EV components and lighting businesses, which should drive growth. Overall, we expect the company to outperform the industry growth, led by (1) an increase in content, driven by the premiumization trend, (2) product portfolio expansion and (3) growing order book in newer segments, led by a focus on localization. Overall, we expect the company to deliver 15% revenue CAGR over FY2023-26E.

EV shift will further drive premiumization for Uno Minda's product portfolio

We expect Uno Minda's revenues to grow 7-8% above the blended growth of the two-wheeler and PV segments as EV penetration accelerates in the coming years (see Exhibit 4). The accelerating EV shift will increase the kit value offerings for Uno Minda, which should drive higher growth for the company. Electric vehicles have a higher content of select parts as compared to ICE vehicles due to the higher usage of electronics and sensors, and are positioned as premium offerings with better features compared to equivalent ICE vehicles. Further, the company has commenced the supplies of EV components, which will further aid Uno Minda's revenue growth in the coming years.

New product additions and capacity ramp-up to weigh on the margins

The company is focused on gaining market share with OEMs and ramping up the contribution from its new product segments; however, we believe this will weigh on margins. It continues to win new orders and gain market share with various OEMs, given its strong execution record and aggressive pricing strategy. In addition, the company's aggressive capex plans and foray into the EV component segment (margin-dilutive segment) will also weigh on margins as newer plants will incur higher start-up costs. Overall, we expect the company's EBITDA margin to be in the range of 11-11.5% over FY2023-26E.

Retain our consolidated EPS estimates; downgrade to SELL

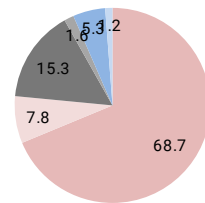
We are downgrading the stock to SELL (from ADD) due to expensive valuations. The stock is up by ~35% in the past one year, driven by strong revenue outperformance and multiple re-rating. Although we expect the company's revenue trend to continue to outpace industry growth, we believe the margin recovery will be gradual. Valuations remain expensive at 41X FY2025E consolidated EPS. We revise our FV to Rs625 (from Rs600) on account of the roll-over.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	689/625/SELL
52-week range (Rs) (high-low)	727-433
Mcap (bn) (Rs/US\$)	395/4.8
ADTV-3M (mn) (Rs/US\$)	355/4.3

Shareholding pattern (%)



■ Promoters ■ FPIs ■ MFs ■ BFI s ■ Retail ■ Others

Price performance (%)

	1M	3M	12M
Absolute	5	14	35
Rel. to Nifty	4	3	15
Rel. to MSCI India	2	(0)	12

Forecasts/Valuations

	2024E	2025E	2026E
EPS (Rs)	14.8	16.8	19.0
EPS growth (%)	29.3	13.5	13.0
P/E (X)	46.6	41.0	36.3
P/B (X)	8.0	6.8	5.8
EV/EBITDA (X)	26.3	22.9	20.1
RoE (%)	17.2	16.6	16.1
Div. yield (%)	0.3	0.4	0.4
Sales (Rs bn)	138	152	170
EBITDA (Rs bn)	15	18	20
Net profits (Rs bn)	8	10	11

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of January 20, 2024

Full sector coverage on KINSITE

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The company plans to invest in EV components, switching, alloy wheels and lighting segments

Exhibit 1: Uno Minda Industries capex plans, March fiscal year-end, 2023-29E (Rs mn)

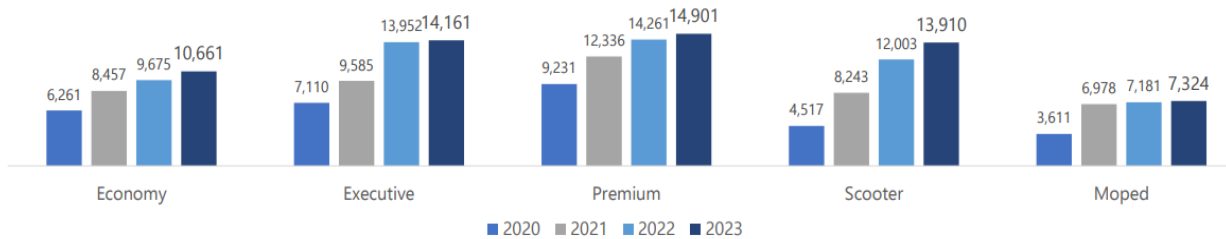
Capex plans for Uno Minda						
Product Line	Entity	Total cost (Rs mn)	Location	Capacity	Expected SOB	Update
Blow Moulding	Minda Kyoraku Ltd	900	Bengaluru	Blow moulding and paint shop facility	4QFY23	Stabilized
4W Alloy Wheels	Minda Kosei Aluminium Wheels	740	Ahmedabad	360k wheels pa	2QFY24	Capex on track
2W Alloy Wheels	Uno Minda Ltd	1,900	Pune	2 mn wheels pa	2QFY24 Phase-I	Capex on track
4W Lighting	Minda Industries Vietnam (MIVCL)	370	Hanoi, Vietnam	New lighting facility	2QFY24	Capex on track
EV Specific	Uno Minda EV Systems Pvt Ltd	3,900	Gurugram	New facility for EV specific products	2QFY24 Phase-I	Construction started (To be spent over 6 years)
4W Switches	Mindarika Pvt Ltd	730	Chennai	New switch facility	2QFY24	Commenced and under stabilisation
4W Alloy Wheels	Minda Kosei Aluminium Wheels	1,900	Bawal	60k wheels per month	2QFY25	Project announced
4W Switches	Mindarika Pvt Ltd	1,100	Gurugram	New switch facility	3QFY24	Construction on track
4W Lighting	Uno Minda Ltd	4,000	Under evaluation	New lighting facility	2QFY25	Project announced - to be spend over 5 years
EV Specific	Buehler Motor JV	1,100	Bawal	Traction Motor Production Facility	4QFY24	Project announced - to be spend over 6 years
4W Alloy Wheels	Uno Minda Ltd	5,420	Yet to be finalised	120k wheels per month	2QFY26	Project announced - to be spend over 5 years

Source: Company, Kotak Institutional Equities estimates

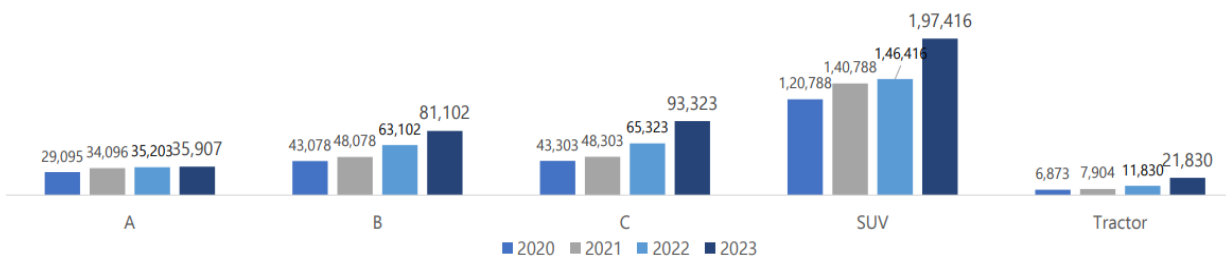
Kit value has been growing all the segments over the last 4 years

Exhibit 2: Uno Minda Industries kit value, March fiscal year-end, 2020-23 (Rs)

Kit Value – 2 Wheelers



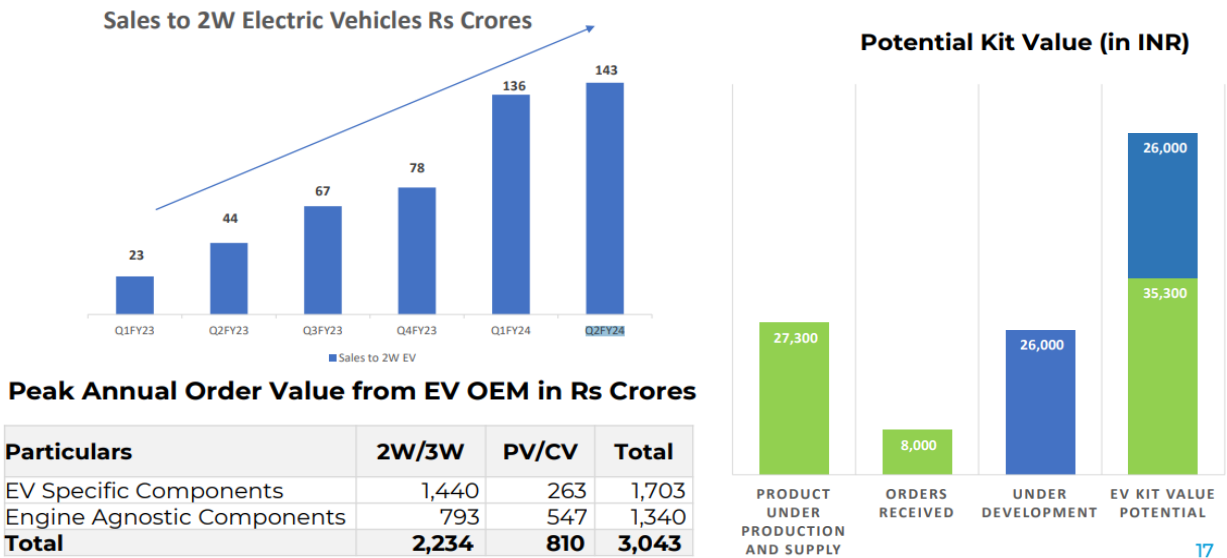
Kit Value – 4 Wheelers



Source: Company, Kotak Institutional Equities

The company has consistently improved the share of revenue from EVs and new order wins from EV OEMs

Exhibit 3: EV sales, order book and potential kit value, March fiscal year-end, 2024 (Rs cr, Rs)



Source: Company, Kotak Institutional Equities

Premiumization, EV transition, import substitution and localization will drive strong revenue growth for Uno Minda

Exhibit 4: Uno Minda long-term growth prospects, March fiscal year-ends, 2031-35E (Rs bn, %)

Business segment	Industry size in 2023 (Rs bn)	Industry size in 2035E (Rs bn)	CAGR 2023-35E (%)	MNDA growth forecast (%)	MNDA 2023 revenue (Rs bn)	MNDA 2035E revenue (Rs bn)	Comments
Switch industry	47	148	10.1	12.0	32	125	
Lighting industry	65	205	10.0	13.0	26	112	
LMT industry	40	221	15.3	17.0	22	143	
Acoustic industry	45	123	8.6	8.0	7	19	
Seating industry				11.0	11	37	
Sensor industry	14	58	12.7	15.0	3	17	
Other products				15.0	12	63	
EV 2W specific products (Smart Plugs, DC-DC converter, Body control module, On and Off board charger, Battery management systems, RCD Cable, Battery Packs, Acoustic Vehicle Alert Systems and Motor Controllers)	26	1,338			2	100	Assuming 7.5% market share and Rs30,000 of content per vehicle
Total				15.1	114	615	

Source: Company, Kotak Institutional Equities estimates

We expect domestic switch industry to see ~11% CAGR over FY2023-35E

Exhibit 5: Domestic switch industry growth forecast, March fiscal year-ends, 2021-35E (Rs bn, units, %)

	2021	2022	2023	2024E	2025E	2026E	2035E	CAGR (%) FY2023-35E
Domestic PV switch industry growth potential								
Domestic PV production volumes (units)	3,062,221	3,650,698	4,552,801	4,825,969	5,019,008	5,420,528	10,835,661	7.5
EV mix (%)	0.2	0.7	1.3	3.0	5.7	7.4	58.9	
Domestic EV volumes (units)	5,910	25,863	59,513	143,249	287,950	399,576	6,384,482	47.6
Domestic ICE volumes (units)	3,056,311	3,624,835	4,493,288	4,682,720	4,731,057	5,020,953	4,451,179	(0.1)
Switch content in ICE PV (Rs per vehicle)	4,560	4,942	5,140	5,089	5,038	5,189	6,138	
Switch content in EV PV (Rs per vehicle)	6,385	7,023	7,023	7,023	7,023	7,164	8,150	
Domestic ICE PV switch industry size (Rs bn)	13.9	17.9	23.1	23.8	23.8	26.1	27.3	1.4
Domestic EV PV switch industry size (Rs bn)	0.0	0.2	0.4	1.0	2.0	2.9	52.0	49.5
Domestic PV switch industry size (Rs bn)	14.0	18.1	23.5	24.8	25.9	28.9	79.4	10.7
Domestic 2W switch industry growth potential								
Domestic 2W production volumes (units)	18,349,941	17,714,846	19,459,009	21,404,910	23,117,303	24,966,687	40,228,225	6.2
EV mix (%)	0.3	1.7	4.5	5.1	7.8	14.4	95.0	
Domestic EV volumes (units)	56,000	304,256	881,248	1,094,162	1,803,433	3,584,274	38,216,814	36.9
Domestic ICE volumes (units)	18,293,941	17,410,590	18,577,761	20,310,748	21,313,870	21,382,413	2,011,411	(16.9)
Switch content in ICE 2W (Rs per vehicle)	959	1,059	1,178	1,167	1,155	1,190	1,407	
Switch content in EV 2W (Rs per vehicle)	1,342	1,476	1,476	1,476	1,476	1,506	1,713	
Domestic ICE 2W switch industry size (Rs bn)	17.5	18.4	21.9	23.7	24.6	25.4	2.8	(15.7)
Domestic EV 2W switch industry size (Rs bn)	0.1	0.4	1.3	1.6	2.7	5.4	65.5	38.6
Domestic 2W switch industry size (Rs bn)	17.6	18.9	23.2	25.3	27.3	30.8	68.3	9.4
Domestic switch industry size (Rs bn)	31.6	37.0	46.7	50.1	53.1	59.7	147.7	10.1

Source: Company, Kotak Institutional Equities

We expect domestic lighting industry to grow by 10% CAGR over FY2023-35E

Exhibit 6: Domestic lighting industry growth forecast, March fiscal year-ends, 2021-35E (Rs bn, units, %)

	2021	2022	2023	2024E	2025E	2026E	2035E	CAGR (%) FY2023-35E
Domestic PV lighting industry growth potential								
Domestic PV production volumes (units)	3,062,221	3,650,698	4,552,801	4,825,969	5,019,008	5,420,528	10,835,661	7.5
EV mix (%)	0.2	0.7	1.3	3.0	5.7	7.4	58.9	
Domestic EV volumes (units)	5,910	25,863	59,513	143,249	287,950	399,576	6,384,482	47.6
Domestic ICE volumes (units)	3,056,311	3,624,835	4,493,288	4,682,720	4,731,057	5,020,953	4,451,179	(0.1)
Halogen light (Rs per vehicle)	7,500	7,500	7,500	7,650	7,803	7,959	9,055	
LED light (Rs per vehicle)	16,000	16,000	15,200	14,440	13,718	13,032	14,212	
Penetration of LED in ICE PV segment (%)	20.0	22.0	24.0	26.0	28.0	30.0	70.0	
Penetration of LED in EV PV segment (%)	50.0	55.0	55.0	60.0	63.0	66.0	80.0	
Domestic ICE PV lighting industry size (Rs bn)	28.1	34.0	42.0	44.1	44.8	47.6	56.4	2.5
Domestic EV PV lighting industry size (Rs bn)	0.1	0.3	0.7	1.7	3.3	4.5	84.2	49.1
Domestic PV lighting industry size (Rs bn)	28.2	34.3	42.7	45.8	48.1	52.1	140.5	10.4
Domestic 2W lighting industry growth potential								
Domestic 2W production volumes (units)	18,349,941	17,714,846	19,459,009	21,404,910	23,117,303	24,966,687	40,228,225	6.2
EV mix (%)	0.3	1.7	4.5	5.1	7.8	14.4	95.0	
Domestic EV volumes (units)	56,000	304,256	881,248	1,094,162	1,803,433	3,584,274	38,216,814	36.9
Domestic ICE volumes (units)	18,293,941	17,410,590	18,577,761	20,310,748	21,313,870	21,382,413	2,011,411	(16.9)
Halogen light (Rs per vehicle)	750	750	773	796	820	844	923	
LED light (Rs per vehicle)	1,750	1,750	1,663	1,579	1,500	1,425	1,600	
Penetration of LED in ICE 2W segment (%)	35.0	38.0	41.0	44.0	47.0	50.0	95.0	
Penetration of LED in EV 2W segment (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Domestic ICE 2W lighting industry size (Rs bn)	20.1	19.7	21.1	23.2	24.3	24.3	3.2	(14.7)
Domestic EV 2W lighting industry size (Rs bn)	0.1	0.5	1.5	1.7	2.7	5.1	61.1	36.5
Domestic 2W lighting industry size (Rs bn)	20.2	20.2	22.6	24.9	27.0	29.4	64.3	9.1
Domestic lighting industry size (Rs bn)	48.4	54.5	65.3	70.7	75.1	81.5	204.8	10.0

Source: Company, Kotak Institutional Equities estimates

We expect domestic alloy wheel industry to record ~15% CAGR over FY2023-35E

Exhibit 7: Domestic alloy wheel industry growth forecast, March fiscal year-ends, 2021-35E (Rs bn, units, %)

	2021	2022	2023	2024E	2025E	2026E	2035E	CAGR (%) FY2023-35E
Domestic PV alloy wheel industry growth potential								
Domestic PV production volumes (units)	3,062,221	3,650,698	4,552,801	4,825,969	5,019,008	5,420,528	10,835,661	7.5
EV mix (%)	0.2	0.7	1.3	3.0	5.7	7.4	58.9	
Domestic EV volumes (units)	5,910	25,863	59,513	143,249	287,950	399,576	6,384,482	47.6
Domestic ICE volumes (units)	3,056,311	3,624,835	4,493,288	4,682,720	4,731,057	5,020,953	4,451,179	(0.1)
Price of alloy wheel (Rs per vehicle)	14,000	14,000	14,000	14,000	14,000	14,140	15,010	
Penetration in ICE PV segment (%)	33.0	35.0	37.0	39.0	41.0	43.0	60.0	
Penetration in EV PV segment (%)	50.0	55.0	55.0	60.0	63.0	66.0	80.0	
Imports (%)	30.0	25.0	20.0	10.0	10.0	5.0	2.5	
Domestic ICE PV alloy wheel industry size (Rs bn)	9.9	13.3	18.6	23.0	24.4	29.0	39.1	6.4
Domestic EV PV alloy wheel industry size (Rs bn)	0.0	0.1	0.4	1.1	2.3	3.5	74.7	55.8
Domestic PV alloy wheel industry size (Rs bn)	9.9	13.5	19.0	24.1	26.7	32.5	113.8	16.1
Domestic 2W alloy wheel industry growth potential								
Domestic 2W production volumes (units)	18,349,941	17,714,846	19,459,009	21,404,910	23,117,303	24,966,687	40,228,225	6.2
EV mix (%)	0.3	1.7	4.5	5.1	7.8	14.4	95.0	
Domestic EV volumes (units)	56,000	304,256	881,248	1,094,162	1,803,433	3,584,274	38,216,814	36.9
Domestic ICE volumes (units)	18,293,941	17,410,590	18,577,761	20,310,748	21,313,870	21,382,413	2,011,411	(16.9)
Price of alloy wheel (Rs per vehicle)	2,500	2,500	2,500	2,500	2,500	2,550	2,817	
Penetration in ICE 2W segment (%)	85.0	85.0	86.0	88.0	90.0	91.0	100.0	
Penetration in EV 2W segment (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Imports (%)	60.0	55.0	50.0	45.0	40.0	35.0	5.0	
Domestic ICE 2W alloy wheel industry size (Rs bn)	15.5	16.6	20.0	24.6	28.8	32.3	5.4	(10.4)
Domestic EV 2W alloy wheel industry size (Rs bn)	0.1	0.3	1.1	1.5	2.7	5.9	102.3	45.9
Domestic 2W alloy wheel industry size (Rs bn)	15.6	17.0	21.1	26.1	31.5	38.2	107.6	14.6
Domestic alloy wheel industry size (Rs bn)	25.5	30.5	40.1	50.2	58.2	70.7	221.5	15.3

Source: Company, Kotak Institutional Equities

We expect 20-21% CAGR growth in domestic sensor industry due to EV shift and localization over FY2023-35E

Exhibit 8: Domestic sensor and acoustics industry growth forecast, March fiscal year-ends, 2021-35E (Rs bn, units, %)

	2021	2022	2023	2024E	2025E	2026E	2035E	CAGR (%) FY2023-35E
Domestic PV sensor industry growth potential								
Domestic PV volumes (units)	3,062,221	3,650,698	4,552,801	4,825,969	5,019,008	5,420,528	10,835,661	7.5
EV mix (%)	0.2	0.7	1.3	3.0	5.7	7.4	58.9	
Domestic EV volumes (units)	5,910	25,863	59,513	143,249	287,950	399,576	6,384,482	47.6
Domestic ICE volumes (units)	3,056,311	3,624,835	4,493,288	4,682,720	4,731,057	5,020,953	4,451,179	(0.1)
Sensor content in ICE PV (Rs per vehicle)	2,500	2,500	2,500	2,500	2,500	2,500	2,500	
Sensor content in EV PV (Rs per vehicle)	3,500	3,500	3,750	3,750	3,750	3,750	3,750	
Domestic ICE PV sensor industry size (Rs bn)	7.6	9.1	11.2	11.7	11.8	12.6	11.1	(0.1)
Domestic EV PV sensor industry size (Rs bn)	0.0	0.1	0.2	0.5	1.1	1.5	23.9	47.6
Domestic PV sensor industry size (Rs bn)	7.7	9.2	11.5	12.2	12.9	14.1	35.1	9.8
Domestic 2W sensor industry growth potential								
Domestic 2W volumes (units)	18,349,941	17,714,846	19,459,009	21,404,910	23,117,303	24,966,687	40,228,225	6.2
EV mix (%)	0.3	1.7	4.5	5.1	7.8	14.4	95.0	
Domestic EV volumes (units)	56,000	304,256	881,248	1,094,162	1,803,433	3,584,274	38,216,814	36.9
Domestic ICE volumes (units)	18,293,941	17,410,590	18,577,761	20,310,748	21,313,870	21,382,413	2,011,411	(16.9)
Sensor content in ICE 2W (Rs per vehicle)	100	100	100	100	100	100	100	
Sensor content in EV 2W (Rs per vehicle)	600	600	600	600	600	600	600	
Domestic ICE 2W sensor industry size (Rs bn)	1.8	1.7	1.9	2.0	2.1	2.1	0.2	(16.9)
Domestic EV 2W sensor industry size (Rs bn)	0.0	0.2	0.5	0.7	1.1	2.2	22.9	36.9
Domestic 2W sensor industry size (Rs bn)	1.9	1.9	2.4	2.7	3.2	4.3	23.1	20.8
Domestic acoustics industry growth potential								
Domestic PV+2W volumes (units)	21,412,162	21,365,544	24,011,810	26,230,879	28,136,311	30,387,215	51,063,887	6.5
Horn content per vehicle (Rs per vehicle)	182	186	189	193	197	201	240	2.0
Domestic PV+2W acoustic industry size (Rs bn)	39.0	39.7	45.5	50.7	55.4	61.1	122.6	8.6

Source: Company, Kotak Institutional Equities

We value the company at Rs625 per share

Exhibit 9: Uno Minda Industries DCF, March fiscal year-end, 2020-35E (Rs mn, %)

	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2035E	CAGR (%) 2023-35E
Switching	20,533	20,715	24,440	32,030	35,933	38,062	42,125	47,180	52,842	116,816	11.4
Lighting	12,444	13,704	18,621	25,750	31,570	34,220	37,462	43,081	49,543	112,458	13.1
Acoustics	6,844	6,055	6,650	7,360	8,367	8,940	9,571	10,337	11,163	17,261	7.4
LMT	7,466	7,330	13,301	21,750	28,991	33,040	38,332	45,999	54,278	148,047	17.3
Seating	7,572	6,692	9,144	10,530	11,583	12,973	14,530	15,983	17,581	33,637	10.2
EV 2W products				793	985	1,623	5,376	7,939	25,247	107,860	50.6
Other Products	7,361	9,242	10,973	14,152	21,034	23,198	22,639	26,035	29,940	79,641	15.5
Total revenues	62,220	63,737	83,130	112,365	138,462	152,056	170,035	196,553	240,595	615,721	15.2
EBIT	3,317	3,497	4,936	8,121	10,376	11,652	13,082	15,498	19,690	53,336	20.1
EBIT (1-tax)	2,468	2,602	3,673	6,042	7,720	8,669	9,733	11,530	14,649	39,682	
Depreciation	3,401	3,753	3,918	4,299	5,003	5,886	6,622	8,089	9,182	20,551	13.9
Inc/Dec in working capital	4,464	(3,508)	(3,930)	(2,842)	991	(1,113)	(1,724)	4,591	(2,202)	(3,410)	
Capex	(7,681)	(4,437)	(7,071)	(12,069)	(12,000)	(10,000)	(10,000)	(9,828)	(12,030)	(21,550)	5.0
FCFF	2,651	(1,590)	(3,410)	(4,570)	1,713	3,442	4,631	14,383	9,599	35,272	
Discounted cash flow						3,442	4,135	11,466	6,832	11,357	
WACC (%)	12.0										
Terminal growth rate (%)	6.5										
Discounted free cash flow (Rs mn)	91,183										
Terminal cash flow (Rs mn)	11,357										
Terminal value (Rs mn)	219,909										
Enterprise value (Rs mn)	311,092										
Net debt (Rs mn) as of March 2025	3,800										
Share of associates (Rs mn)	54,022										
Minority interest (Rs mn)	3,658										
Equity value (Rs mn)	303,634										
Fair value	625										

Source: Company, Kotak Institutional Equities estimates

We expect Minda Industries revenue to witness 15% CAGR over FY2023-26E

Exhibit 10: Uno Minda Industries revenue forecast by segments, March fiscal year-end, 2018-26E (Rs mn, %)

	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	CAGR (%) FY2023-26E
Revenue by segments (Rs mn)										
Switch	14,753	22,451	20,533	20,715	24,440	32,030	35,933	38,062	42,125	9.6
Lighting	11,623	12,998	12,444	13,704	18,621	25,750	31,570	34,220	37,462	13.3
Acoustics	6,706	7,090	6,844	6,055	6,650	7,360	8,367	8,940	9,571	9.2
Light Metal Technology (Alloy wheels)	5,812	8,862	7,466	7,330	13,301	21,750	28,991	33,040	38,332	20.8
Seating	—	—	7,572	6,692	9,144	10,530	11,583	12,973	14,530	11.3
Others	5,812	7,681	7,361	9,242	10,973	14,945	22,019	24,821	28,015	23.3
Net Revenues	44,706	59,081	62,220	63,737	83,130	112,365	138,462	152,056	170,035	14.8
Revenue mix by segments (%)										
Switch	33.0	38.0	33.0	32.5	29.4	28.5	26.0	25.0	24.8	
Lighting	26.0	22.0	20.0	21.5	22.4	22.9	22.8	22.5	22.0	
Acoustics	15.0	12.0	11.0	9.5	8.0	6.6	6.0	5.9	5.6	
Light Metal Technology (Alloy wheels)	13.0	15.0	12.0	11.5	16.0	19.4	20.9	21.7	22.5	
Seating	—	—	12.2	10.5	11.0	9.4	8.4	8.5	8.5	
Others	13.0	13.0	11.8	14.5	13.2	13.3	15.9	16.3	16.5	
Net Revenues	100	100	100	100	100	100	100	100	100	
EBITDA by segments (Rs mn)										
Switch	1,756	2,829	2,033	2,279	2,566	3,443	3,953	4,567	5,055	13.7
Lighting	1,139	1,326	958	1,233	1,583	2,833	3,552	4,106	4,495	16.6
Acoustics	543	666	493	484	333	294	418	581	670	31.5
Light Metal Technology (Alloy wheels)	1,348	2,074	1,994	2,052	2,660	3,480	4,204	4,626	5,367	15.5
Seating	—	—	514	496	640	948	1,158	1,297	1,453	15.3
Others	506	776	692	786	823	1,420	2,092	2,358	2,661	23.3
Eliminations	46	(419)	35	(81)	249	2	2	2	2	0.0
EBITDA	5,338	7,252	6,718	7,250	8,854	12,420	15,379	17,538	19,704	16.6
EBITDA margin by segments (%)										
Switch	11.9	12.6	9.9	11.0	10.5	10.8	11.0	12.0	12.0	
Lighting	9.8	10.2	7.7	9.0	8.5	11.0	11.3	12.0	12.0	
Acoustics	8.1	9.4	7.2	8.0	5.0	4.0	5.0	6.5	7.0	
Light Metal Technology (Alloy wheels)	23.2	23.4	26.7	28.0	20.0	16.0	14.5	14.0	14.0	
Seating	—	—	—	—	7.0	9.0	10.0	10.0	10.0	
Others	8.7	10.1	9.4	8.5	7.5	9.5	9.5	9.5	9.5	
EBITDA margin	11.9	12.3	10.8	11.4	10.7	11.1	11.1	11.5	11.6	

Source: Company, Kotak Institutional Equities estimates

We expect EPS to grow at 18% CAGR over FY2023-26E

Exhibit 11: Financial summary of Uno Minda Industries, March fiscal year-ends, 2017-26E (Rs mn, %)

	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Profit model (Rs mn)										
Net sales	33,863	44,706	59,081	62,220	63,737	83,130	112,365	138,462	152,056	170,035
EBITDA	3,740	5,338	7,252	6,718	7,250	8,854	12,420	15,379	17,538	19,704
Other income	138	334	270	405	470	629	489	389	539	689
Interest	398	351	632	942	737	623	695	1,081	911	911
Depreciation	1,362	1,649	2,344	3,401	3,753	3,918	4,299	5,003	5,886	6,622
Profit before tax	2,119	3,672	4,547	2,781	3,231	4,943	7,914	9,684	11,281	12,860
Tax	465	977	1,341	686	1,005	1,468	1,911	2,518	2,933	3,344
Minority interest	200	207	539	328	418	568	467	416	459	512
Share of Profit from Associates	197	231	189	130	242	652	999	1,699	1,699	1,835
PAT from continued operations	1,652	3,102	2,856	1,552	2,066	3,558	6,536	8,449	9,588	10,839
Adjusted net profit	1,652	3,383	2,856	1,811	2,054	3,558	6,536	8,449	9,588	10,839
Adjusted EPS (Rs)	3.5	6.5	5.4	3.5	3.8	6.2	11.4	14.8	16.8	19.0
Balance sheet (Rs mn)										
Equity	10,595	13,917	17,042	18,611	22,566	34,385	41,559	49,156	57,764	67,490
Minority interest	1,170	2,110	2,667	2,828	3,065	3,263	2,784	3,200	3,658	4,170
Deferred tax liability	—	—	6	410	424	624	487	487	487	487
Other long-term liabilities & provisions	1,125	1,552	1,752	2,980	3,152	2,876	2,930	2,930	2,930	2,930
Total borrowings	5,014	6,089	10,812	11,968	10,485	10,003	14,010	13,010	13,010	13,010
Current liabilities	6,073	9,983	10,027	19,011	20,208	17,167	21,318	28,970	31,391	34,593
Total liabilities	23,976	33,651	42,306	55,809	59,899	68,317	83,087	97,753	109,240	122,680
Net fixed assets	9,928	14,495	18,464	27,483	26,494	28,784	33,233	38,230	40,345	41,723
Investments	1,111	1,552	3,556	3,983	5,302	6,067	8,692	10,692	12,692	14,692
Other long-term assets	830	1,215	1,310	1,273	1,059	1,157	2,435	2,435	2,435	2,435
Cash	3,742	1,595	1,101	3,409	2,382	2,342	1,732	2,739	6,579	11,714
Other current assets	898	1,588	1,605	2,011	2,322	2,866	3,315	3,315	3,315	3,315
Total assets	23,976	33,651	42,306	55,809	59,899	68,317	83,087	97,753	109,240	122,680
Free cash flow (Rs mn)										
Operating cash flow excl. working capital	3,257	4,652	6,374	6,022	6,935	7,758	10,825	15,364	17,301	19,396
Working capital changes	89	(1,031)	(2,234)	4,464	(3,508)	(3,930)	(2,842)	991	(1,113)	(1,724)
Net finance income	(378)	(222)	(578)	(846)	(678)	(448)	(580)	(1,081)	(911)	(911)
Cash flow from operations	2,968	3,398	3,562	9,640	2,749	3,381	7,402	15,274	15,278	16,761
Capital expenditure	(2,542)	(5,165)	(8,617)	(7,836)	(4,547)	(7,198)	(12,330)	(12,000)	(10,000)	(10,000)
Free cash flow	427	(1,767)	(5,056)	1,804	(1,797)	(3,817)	(4,927)	3,274	5,278	6,761
Ratios										
Gross margin (%)	37.5	38.2	38.7	38.8	38.5	36.6	35.7	35.2	35.7	35.3
EBITDA margin (%)	11.0	11.9	12.3	10.8	11.4	10.7	11.1	11.1	11.5	11.6
PAT margin (%)	4.9	6.9	4.8	2.5	3.2	4.3	5.8	6.1	6.3	6.4
Net debt/equity (X)	0.1	0.3	0.6	0.4	0.4	0.2	0.3	0.2	0.1	0.0
Book value (Rs/share)	22.3	26.7	32.5	35.5	41.5	60.2	72.8	86.1	101.1	118.2
RoCE (%)	15.6	14.7	12.9	9.3	7.9	8.3	11.5	12.9	13.4	14.1
RoE (%)	15.6	24.3	16.8	9.7	9.1	10.3	15.7	17.2	16.6	16.1

Source: Company, Kotak Institutional Equities estimates

Zee Entertainment Enterprises (Z)

Media

SELL

CMP(₹): 231

Fair Value(₹): 150

Sector View: **Attractive**

NIFTY-50: 21,572

January 23, 2024

Zee-Sony merger called off

Sony has sent a termination notice calling off the merger with Zee. Zee's valuation re-rating (31X 1-yr fwd PE from 12X) post-announcement of the Zee-Sony merger was in anticipation of an improvement in corporate governance and the benefits of merger synergies. We downgrade to SELL from REDUCE, given multiple risks: (1) CG concerns/pending investigations, (2) weak operating performance and significant downside risks to our/Street's EPS estimates from potential sports losses in FY2025/26E and (3) structural risk to the core broadcasting business. We cut Zee's FY2024-25 EPS estimates by 8-13% and FV to Rs150 (from Rs275), implying about 16X FY2026E PE and 10X EV/EBITDA.

Event– Sony calls off merger with Zee

Sony has sent a notice to Zee terminating the definitive agreements relating to the merger of Sony and Zee (announced in Dec-21). Further, Sony has claimed a termination fee of US\$90 mn, invoking arbitration, on account of alleged breaches of the terms of MCA (Merger Co-operation Agreement) by Zee. Zee's board has denied allegations and stated that (1) it has consistently worked toward the implementation of the merger scheme, (2) held deliberations with Sony to extend the merger completion timeline, that did not materialize and (3) Punit Goenka was agreeable to step down and some proposals in this regard were discussed. Zee board has indicated that it would contest Sony's termination fee claim in arbitration proceedings.

Implications–Expect a meaningful valuation de-rating

The proposed merger of Zee and Sony led to a valuation re-rating of Zee (31X 1-yr fwd PE at CMP Rs230 from 12X in Sep-21) in anticipation of an improvement in corporate governance and significant merger synergies. We expect significant valuation de-rating as (1) CG concerns would come to the fore once again, especially in view of weak cash generation and depletion in cash balance to Rs5-6 bn from Rs20 bn over FY2021-1HFY24, (2) Zee's operating performance has deteriorated in the past couple of years and OTT losses have doubled to Rs12-13 bn in FY2024E and (3) sports losses could be around Rs5 bn/Rs3 bn pertaining to ICC cricket events (ODI WC in FY2025E/Champions Trophy in FY2026E), presenting meaningful downside risk to our and Street's estimates and (4) structural risk to the core linear TV business.

We downgrade to SELL from REDUCE with revised FV of Rs150 from Rs275

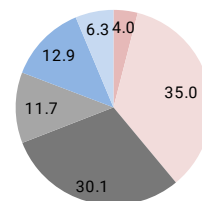
We cut FY2024-26E EPS estimates by 8-11% as we factor in the continued weakness in operating performance. Our estimates do not bake in potential sports loss of about Rs5 bn/Rs3 bn (ODI WC in FY2025E/Champions Trophy in FY2026E), given the lack of clarity on the sports rights contract with Star India. We downgrade to SELL with a FV of Rs150 (Rs275 earlier), valuing Zee at 16X FY2026E PE and 10X EV/EBITDA. It implies ~10X FY2026E earnings of the core TV business post sports loss (EPS of Rs9.1/share + OTT loss of Rs8.2/share – sports loss of Rs2.3/share) and about 6.5X EV/EBITDA of the core TV business (EBITDA of Rs14.4 bn + OTT EBITDA loss of Rs10.5 bn – sports loss of Rs3 bn).

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	231/150/SELL
52-week range (Rs) (high-low)	300-170
Mcap (bn) (Rs/US\$)	222/2.7
ADTV-3M (mn) (Rs/US\$)	5,955/71.7

Shareholding pattern (%)



■ Promoters ■ FPIs ■ MFs ■ BFI ■ Retail ■ Others

Price performance (%)

	1M	3M	12M
Absolute	(8)	(12)	4
Rel. to Nifty	(9)	(22)	(16)
Rel. to MSCI India	(11)	(25)	(19)

Forecasts/Valuations

	2024E	2025E	2026E
EPS (Rs)	6.5	7.5	9.1
EPS growth (%)	8.1	14.1	22.5
P/E (X)	35.3	31.0	25.3
P/B (X)	2.1	2.0	2.0
EV/EBITDA (X)	22.0	18.1	15.3
RoE (%)	5.9	6.6	7.9
Div. yield (%)	1.3	1.7	1.7
Sales (Rs bn)	86	89	95
EBITDA (Rs bn)	10	12	14
Net profits (Rs bn)	6	7	9

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of January 20, 2024

[Full sector coverage on KINSITE](#)

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Exhibit 1: Estimate revision, March fiscal year-ends, 2024-26E (Rs mn)

	Revised			Earlier			% change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2025E
Consolidated									
Ad revenues	39,767	42,949	45,955	43,014	46,455	50,171	(7.5)	(7.5)	(8.4)
Subscription revenues	36,265	38,506	40,904	36,265	38,506	40,904	0.0	0.0	0.0
Other operating revenues	9,960	7,081	8,077	6,210	7,081	8,077	60.4	0.0	0.0
Total revenues	85,993	88,536	94,936	85,489	92,042	99,152	0.6	(3.8)	(4.3)
Direct costs	49,022	48,731	51,489	46,541	48,971	52,188	5.3	(0.5)	(1.3)
Employee cost	10,215	10,624	11,155	9,391	10,706	12,205	8.8	(0.8)	(8.6)
SG&A expenses	16,738	16,914	17,852	17,438	18,675	20,002	(4.0)	(9.4)	(10.8)
Total expenditure	75,975	76,268	80,495	73,370	78,352	84,395	3.6	(2.7)	(4.6)
EBITDA	10,018	12,268	14,441	12,119	13,690	14,757	(17.3)	(10.4)	(2.1)
Adj PAT	6,280	7,168	8,782	6,832	8,081	8,600	(8.1)	(11.3)	2.1
Adj EPS (Rs)	6.5	7.5	9.1	7.1	8.4	9.0	(8.1)	(11.3)	2.1
Key assumptions									
Ad revenue growth (%)	(2.0)	8.0	7.0	6.0	8.0	8.0			
Subscription revenue growth (%)	8.7	6.2	6.2	8.7	6.2	6.2			
EBITDA margin (%)	11.6	13.9	15.2	14.2	14.9	14.9			

Notes:

(a) Our estimates do not bake in potential sports loss of Rs5 bn/Rs3 bn (ODI WC in FY2025E/Champions Trophy in FY2026E).

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Consolidated financial summary of Zee Entertainment, March fiscal year-ends, 2018-26E (Rs mn)

	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Profit model (Rs mn)									
Total revenues	66,857	79,339	81,299	77,299	81,893	80,879	85,993	88,536	94,936
EBITDA	20,761	25,639	16,346	17,901	17,221	11,011	10,018	12,268	14,441
Other income	2,795	2,515	2,836	1,104	1,213	797	1,622	1,103	1,103
Interest	(1,448)	(1,305)	(1,449)	(571)	(451)	(702)	(950)	(550)	(450)
Depreciation	(1,821)	(2,347)	(2,706)	(2,649)	(2,459)	(3,128)	(3,080)	(3,133)	(3,225)
Pretax profits	20,287	24,501	15,028	15,786	15,524	7,979	7,610	9,688	11,869
Extraordinary items	2,955	(218)	(2,843)	(1,266)	(1,333)	(5,391)	(2,500)	0	0
Taxes	(8,409)	(8,673)	(4,317)	(4,625)	(4,597)	(2,167)	(1,329)	(2,519)	(3,086)
Minority interest	25	23	(5)	69	88	(1)	(1)	(1)	(1)
RPS dividends (incl tax)	-	-	-	-	-	-	-	-	-
PAT	14,791	15,670	5,266	8,001	9,645	478	3,780	7,168	8,782
Adj PAT (pre-exceptional; excl RPS impact)	14,428	15,852	10,706	11,229	11,015	5,811	6,280	7,168	8,782
EPS (Rs)	15.4	16.3	5.5	8.3	10.0	0.5	3.9	7.5	9.1
Adj EPS (Rs) - (excl RPS impact)	15.0	16.5	11.1	11.7	11.5	6.0	6.5	7.5	9.1
Balance sheet (Rs mn)									
Total Equity	75,617	89,239	93,439	100,945	108,627	107,219	107,288	109,588	113,502
Preference capital	-	-	-	-	-	-	-	-	-
Minority interest	141	143	110	129	-	-	-	-	-
Total borrowings	15,254	11,133	5,950	3,833	-	-	-	-	-
Current liabilities	20,284	28,814	24,238	23,281	23,768	29,852	27,275	28,082	30,111
Total capital	91,012	100,515	99,499	104,908	108,627	107,219	107,288	109,588	113,502
Cash and cash eq	33,264	23,798	11,750	20,044	14,445	9,675	2,063	770	1,417
Inventories	26,278	38,505	53,475	54,030	63,862	73,079	76,579	80,079	83,579
Receivables	15,365	18,274	20,847	19,452	17,375	16,088	16,963	17,465	18,727
Loans and advances	13,114	24,744	15,421	13,392	16,065	14,163	15,322	16,704	18,314
Other current assets	7,026	7,982	7,789	8,123	6,952	9,928	10,328	10,728	11,128
Net fixed assets	14,125	14,155	13,182	12,147	12,039	13,288	12,458	11,075	9,600
Investments	2,124	1,872	1,274	836	1,492	849	849	849	849
Deferred tax assets	0	0	0	0	0	0	0	0	0
Total assets	91,012	100,516	99,499	104,908	108,628	107,219	107,288	109,588	113,502
Free cash flow (Rs mn)									
Operating cash flow, excl. W-cap, ex-taxes	22,390	27,802	22,371	19,679	17,318	7,905	7,517	12,267	14,440
Working capital	(8,551)	(17,151)	(16,758)	809	(9,638)	(2,722)	(8,510)	(4,977)	(4,742)
Taxes paid	(8,295)	(9,299)	(3,114)	(5,011)	(4,965)	(3,893)	(1,329)	(2,519)	(3,086)
Capital expenditure	(4,605)	(2,823)	(1,451)	(1,740)	(2,286)	(2,560)	(2,250)	(1,750)	(1,750)
Other income (net)	1,107	956	1,300	400	168	324	672	553	653
Free cash flow (prior to RPS dividends)	2,046	(515)	2,348	14,137	596	(946)	(3,900)	3,574	5,515
RPS redemption + RPS dividend payout (excl DDT)	(3,834)	(4,121)	(5,183)	(2,117)	(6,333)	(2,500)	(2,500)	(2,500)	(2,500)
Free cash flow to equity holders	(1,788)	(4,636)	(2,835)	12,020	(5,737)	(3,446)	(6,400)	1,074	3,015
Key assumptions / metrics									
Ad revenue growth (%)	14.5	19.8	(7.1)	(19.9)	17.3	(7.7)	(2.0)	8.0	7.0
Domestic subscription revenue growth (%)	11.8	17.4	33.2	13.7	(1.6)	1.5	10.0	7.0	7.0
Overseas subscription revenue growth (%)	(2.8)	(0.7)	(16.0)	1.2	15.4	11.8	-	-	-
Content cost as % of revenue	35.3	36.1	44.4	45.6	46.5	52.3	54.1	52.1	51.4
Effective tax rate (%)	41.5	35.4	28.7	29.3	29.6	27.2	17.5	26.0	26.0
EBITDA margin (%)	31.1	32.3	20.1	23.2	21.0	13.6	11.6	13.9	15.2
ROAE	20.8	19.0	5.8	8.2	9.2	0.4	3.5	6.6	7.9
ROACE	15.7	21.1	13.2	13.7	12.5	7.1	7.3	8.4	10.1

Source: Company, Kotak Institutional Equities estimates

Crompton Greaves Consumer (CROMPTON)

Consumer Durables & Apparel

ADD

CMP(₹): 310

Fair Value(₹): 350

Sector View: **Cautious**

NIFTY-50: 21,572

January 23, 2024

'Crompton 2.0' strategy indicates renewed aggression

We resume coverage on Crompton with an ADD after emerging out of a period of research restriction tied to the proposed merger of Butterfly with Crompton (now called off). Under the 'Crompton 2.0' strategy, management is focused on driving double-digit growth in revenues and PAT while leaving themselves leeway on EBITDA margins. We broadly agree with the strategy, though much still needs to be done. Our March 2025 FV of Rs350 is 31X FY2026E P/E.

'Crompton 2.0' strategy represents a more aggressive push for volume growth

Post-1QFY24 results, management revealed the 'Crompton 2.0' growth strategy—a response to the company's sluggish growth in years post-demerger, when the primary focus was on margins. Evidence of the new strategy is visible thus far from the aggressive pricing positions taken by Crompton in premium (BLDC) fans and pumps. This has helped the company gain market share in premium fans, where it now ranks second only behind Atomberg, as well as turn around the previously-underperforming pumps business. The appliances business has anyway been growing briskly for Crompton. However, Butterfly continues to suffer from the industry-wide downturn in kitchen appliances, while the turnaround of the lighting business is also work-in-progress, given industry headwinds and Crompton's own need to reposition.

Expense reductions, price increases could drive margins up in coming quarters

Management is working on extracting cost synergies from the Butterfly acquisition, and sees potential to reduce the overhead cost base of Rs8 bn (across Crompton and Butterfly combined) by 7-10%. Results from this exercise—which is focused on line items such as logistics, marketing and after-sales service—are expected to be visible around 1QFY25. Separately, Crompton has taken modest price increases in fans (to offset the cost push post transition to new energy norms) in September 2023 and December 2023, and though some further increase is required to fully offset cost increases, the benefits from price hikes already taken should be visible in 3Q-4QFY24. Meanwhile, the newly started large appliances business is incurring EBITDA losses in the range of Rs60-70 mn per quarter, and these too should moderate after a few quarters.

Easy base, consumer demand recovery could be near-term tailwinds

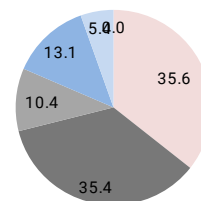
The fan business faces an easy year-ago base in 3QFY24, as Crompton had refrained from pushing inventories of older models into the channel in 3QFY23 ahead of the change in norms. Besides, the lighting and Butterfly segments have each registered yoy declines in revenues for five consecutive quarters (as of 2QFY24), and so will benefit from an easy base going forward. We would also expect consumer demand in the entry-level segment to start to recover in the coming quarters as lower-income households rebuild their balance sheets following the devastation brought by Covid. In the longer term, we see potential for Crompton to deliver a double-digit revenue CAGR in the next few years without assuming expansion into any new categories. Our DCF-based March 2025 Fair Value stands at Rs350 and implies a 31x FY2026E P/E.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	310/350/ADD
52-week range (Rs) (high-low)	341-251
Mcap (bn) (Rs/US\$)	199/2.4
ADTV-3M (mn) (Rs/US\$)	697/8.4

Shareholding pattern (%)



■ Promoters ■ FPIs ■ MFs ■ BFI's ■ Retail ■ Others

Price performance (%)	1M	3M	12M
Absolute	4	9	(4)
Rel. to Nifty	3	(2)	(24)
Rel. to MSCI India	1	(5)	(27)

Forecasts/Valuations	2024E	2025E	2026E
EPS (Rs)	7.3	9.5	11.5
EPS growth (%)	(3.1)	30.9	20.8
P/E (X)	42.7	32.6	27.0
P/B (X)	6.6	5.7	4.8
EV/EBITDA (X)	27.3	21.9	18.2
RoE (%)	16.3	18.6	19.3
Div. yield (%)	0.8	0.8	0.8
Sales (Rs bn)	73	81	91
EBITDA (Rs bn)	7	9	11
Net profits (Rs bn)	5	6	7

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of January 20, 2024

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We expect the ECD segment to drive all of Crompton's growth in 3QFY24

Exhibit 1: Consolidated quarterly earnings preview of Crompton Greaves Consumer, March fiscal year-ends (Rs mn, unless specified)

	3QFY23	2QFY24	3QFY24E	Change (%)		Comments	
				yoy	qoq		
Net sales	15,162	17,823	16,245	7.1	(8.9)	We estimate 7% yoy growth in revenues, driven entirely by the ECD segment, whereas we expect the Lighting and Butterfly segments to post revenue declines due to price erosion (in LED lights) and subdued demand for kitchen appliances, respectively. In the ECD segment, Crompton faces an easy yoy base for the fans business—the company's most important—as the company had lost market share last year because it refrained from pushing older models of fans into the marketplace ahead of the transition to new BEE norms.	
EBITDA	1,524	1,745	1,675	9.9	(4.0)		
EBIT (incl other income)	1,227	1,424	1,335	8.8	(6.3)		
PBT	1,146	1,358	1,285	12.1	(5.4)		
Tax	264	349	321	21.6	(7.9)		
Reported PAT	853	972	943	10.7	(3.0)		
Extraordinaries	—	—	—				
Adjusted PAT	853	972	943	10.7	(3.0)		
EPS (Rs/share)	1.4	1.5	1.5	6.9	(3.0)		
EBITDA margin (%)	10.1	9.8	10.3	25 bps	51 bps		
Segment Revenue							
Lighting Products	2,477	2,387	2,229	(10.0)	(6.6)	We expect margins to remain largely stable qoq. However, on a yoy basis, ECD segment margins will likely be down as the company continues to pursue its new strategy of focusing on volume growth at the expense of margins.	
Electric Consumer Durables	10,201	12,380	11,706	14.8	(5.4)		
Butterfly Gandhimathi	2,484	3,056	2,310	(7.0)	(24.4)		
Total	15,162	17,823	16,245	7.1	(8.9)		
EBIT							
Lighting Products	255	250	234	(8.1)	(6.3)		
Electric Consumer Durables	1,617	1,755	1,639	1.4	(6.6)		
Butterfly Gandhimathi	181	202	162	(10.4)	(20.0)		
Total	2,052	2,207	2,035	(0.9)	(7.8)		
EBIT margin(%)							
Lighting Products	10.3	10.5	10.5	22 bps	4 bps		
Electric Consumer Durables	15.8	14.2	14.0	(185)bps	(18)bps		
Butterfly Gandhimathi	7.3	6.6	7.0	(27)bps	39 bps		
Total	13.5	12.4	12.5	(101)bps	14 bps		

Source: Company, Kotak Institutional Equities

Crompton has offered aggressive pricing across its key categories in recent times

Exhibit 2: Comparison of prices of fans with peers (Rs)

Fans	January 2024	January 2024	Product description
	BLDC	Economy	
Bajaj electricals	2,299	1,299	3 blade, 1200 mm sweep area ceiling fan
Crompton	2,399	1,299	
Atomberg	2,699		
Orient electric	2,999	1,549	
Havells	2,998	2,199	

Source: Amazon.in, Kotak Institutional Equities

Across other categories as well, Crompton/Butterfly are generally among the lowest-priced (except stoves)**Exhibit 3: Comparison of prices across other product categories with peers (Rs)**

	January 2024	Product description
Lighting		
Crompton	229	
Havells	229	20W LED batten
Bajaj Electricals	321	
Pumps		
Crompton	3,799	
Kirloskar	3,949	1HP single phase regenerative residential pump
Havells	4,438	
Water heaters		
Crompton	5,489	
Bajaj Electricals	5,899	
V-Guard	6,199	15-L water capacity, 5-star rated
AO Smith	6,699	
Havells	7,299	
Chimneys		
Crompton	9,490	
Elica	10,999	60 cm hood width, 1200 m3/hr suction capacity, autoclean chimneys
Faber	11,490	
LPG stoves		
Pigeon (Stovekraft)	1,699	
Sunflame (V-Guard)	2,707	
Elica	2,799	2 burners, glass-top gas stove
TTK Prestige	2,955	
Butterfly	3,199	
Mixer Grinder		
Butterfly	2,799	
TTK Prestige	3,199	
Havells	3,200	750W
Morphy Richards (Bajaj electricals)	3,299	
Phillips	3,699	

Note: We have considered the lowest available price for each brand across every category.

Source: Amazon.in, Kotak Institutional Equities

Revenue growth in FY2024 is being driven largely by fans and appliances, whereas other divisions have been soft

Exhibit 4: Key assumptions for Crompton Greaves Consumer, March fiscal year-ends, 2017-26E (Rs mn, unless specified)

	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Segmental revenue breakup (Rs mn)										
ECD	28,039	28,281	32,136	33,890	37,571	43,110	47,557	53,709	60,532	67,695
Lighting	10,970	12,770	12,653	11,312	10,464	10,831	10,581	9,523	9,904	10,597
Butterfly Gandhimathi							10,566	9,445	10,831	12,328
Net sales	39,009	41,051	44,789	45,203	48,035	53,941	68,696	72,677	81,267	90,620
Segmental revenue growth assumptions (%)										
ECD	11.0	0.9	13.6	5.5	10.9	14.7	10.3	12.9	12.7	11.8
Lighting	(0.8)	16.4	(0.9)	(10.6)	(7.5)	3.5	(2.3)	(10.0)	4.0	7.0
Butterfly Gandhimathi								(10.6)	14.7	13.8
Overall	5.8	5.2	9.1	0.9	6.3	12.3	27.4	5.8	11.8	11.5
EBITDA margin (%)	12.4	13.6	13.0	13.3	15.0	14.3	11.2	10.3	11.2	11.7
EBIT margins (%)										
Electric consumer durables	17.7	18.9	19.2	19.9	19.7	19.2	16.6	14.5	15.0	15.2
Lighting products	9.0	11.5	8.4	6.2	12.6	11.8	9.5	11.0	11.2	11.4
Butterfly Gandhimathi							7.6	6.8	9.3	9.5
Total EBIT margin (%)	15.2	16.6	16.1	16.5	18.1	17.7	13.8	12.5	13.3	13.7
Other key assumptions										
Raw material / sales (%)	70.1	68.2	69.0	67.9	68.0	68.6	68.1	68.1	67.8	67.8
Employee expenses (excl. ESOP) / sales (%)	6.0	6.9	6.5	6.9	7.0	6.7	7.9	8.3	8.4	8.4
Other expenses / sales (%)	11.6	11.4	11.4	11.9	10.0	10.4	12.8	13.3	12.6	12.1

Source: Company, Kotak Institutional Equities estimates

Sluggish growth and margin compression weighed on earnings in FY2024

Exhibit 5: Consolidated financial summary, March fiscal year-ends, 2017-26E (Rs mn, unless specified)

	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Income statement										
Operating income	39,009	41,051	44,789	45,203	48,035	53,941	68,696	72,677	81,267	90,620
Total operating expenses	(34,163)	(35,486)	(38,946)	(39,212)	(40,830)	(46,247)	(60,991)	(65,197)	(72,187)	(80,043)
EBITDA	4,847	5,565	5,843	5,991	7,205	7,694	7,705	7,480	9,080	10,577
Other income	195	308	480	591	758	727	668	668	818	818
Interest expense	(655)	(637)	(596)	(407)	(429)	(353)	(1,092)	(532)	(313)	(104)
Depreciation	(110)	(126)	(129)	(268)	(297)	(423)	(1,159)	(1,243)	(1,383)	(1,526)
Pre-tax profit	4,276	5,109	5,598	5,907	7,236	7,645	6,122	6,374	8,201	9,765
Tax	(1,419)	(1,617)	(1,869)	(943)	(1,070)	(1,732)	(1,358)	(1,593)	(1,968)	(2,246)
Recurring net profits	2,857	3,493	3,729	4,964	6,167	5,891	4,764	4,618	6,045	7,300
Extraordinary items	(25)	—	285	—	—	(130)	—	—	—	—
Reported PAT	2,832	3,493	4,014	4,964	6,167	5,792	4,764	4,618	6,045	7,300
Recurring EPS (Rs)	4.5	5.5	5.9	7.8	9.7	9.3	7.5	7.3	9.5	11.5
Balance sheet										
Shareholders funds	5,178	7,895	10,973	14,683	19,314	24,530	26,692	30,030	34,795	40,815
Equity share capital	1,254	1,254	1,254	1,255	1,255	1,267	1,272	1,272	1,272	1,272
Reserves and surplus	3,924	6,641	9,659	13,369	17,999	23,203	25,360	28,698	33,462	39,483
Loan funds	6,478	6,486	6,486	3,500	2,988	16,075	9,222	5,972	2,972	-
Total sources of funds	11,656	14,381	17,459	18,183	22,302	48,429	40,391	40,641	42,594	45,861
Net block	758	760	786	1,251	1,328	4,045	4,080	4,037	3,854	3,528
Intangible assets	63	62	52	45	28	15,124	15,016	15,016	15,016	15,016
CWIP	1	6	10	199	109	130	55	55	55	55
Net current assets (excl. cash)	(1,141)	(169)	1,373	2,499	(1,279)	746	1,453	2,244	2,509	2,798
Cash	3,886	5,450	6,843	5,889	13,737	15,548	6,764	6,266	8,137	11,441
Net deferred tax asset	295	479	603	507	586	(18)	169	169	169	169
Total application of funds	11,656	14,381	17,459	18,183	22,302	48,429	40,391	40,641	42,594	45,861
Free cash flow										
Operating profit before w cap. changes	3,674	4,087	4,197	4,830	6,858	6,229	6,565	6,185	7,409	8,629
Change in working capital / other adjustments	(548)	(933)	(1,208)	(721)	1,445	1,005	(1,039)	(791)	(265)	(289)
Capex	(148)	(133)	(156)	(483)	(198)	(1,706)	(708)	(1,200)	(1,200)	(1,200)
Free cash flow (CFO + net capex)	2,977	3,021	2,834	3,627	8,105	5,528	4,818	4,194	5,944	7,140
Ratios										
Gross margin(%)	29.9	31.8	31.0	32.1	32.0	31.4	31.9	31.9	32.2	32.2
EBITDA margin (%)	12.4	13.6	13.0	13.3	15.0	14.3	11.2	10.3	11.2	11.7
Debt/equity	1.3	0.8	0.6	0.2	0.2	0.7	0.3	0.2	0.1	-
Net debt/equity	1.1	0.6	0.5	0.2	(0.2)	0.3	0.3	0.2	0.0	(0.1)
Book value per share (Rs)	8.1	12.4	17.3	23.1	30.4	38.6	42.0	47.2	54.7	64.2
RoAE (%)	76.5	53.4	39.5	38.7	36.3	26.9	18.6	16.3	18.6	19.3
RoACE (%)	32.3	30.2	25.9	29.8	32.3	17.4	12.6	12.8	15.5	17.2

Source: Company, Kotak Institutional Equities estimates

December 2023: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
22-Jan	23-Jan	24-Jan	25-Jan	26-Jan	27-Jan
	Axis Bank	Aarti Drugs	ACC		APL Apollo Tubes
	CG Power & Industrial	Bajaj Auto	Adani Power		Capri Global
	Glenmark Life Sciences	Balkrishna Industries	Asahi India Glass		Craftsmen Automation
	Granules India	Bharat Dynamics	AU Small Finance Bank		Macrotech Developers
	Havells India	Birlasoft	Cholamandalam		Yes Bank
	Hitachi Energy	Blue Dart Express	Cyient		
	ICRA	Canara Bank	Equitas Small Finance Bank		
	Indus Towers	CEAT	HPC		
	Infbeam Avenues	Chalet Hotels	IEX		
	JSW Energy	Container Corp.	Indraprastha Gas		
	KEI Industries	Dalmia Bharat	Intellect Design		
	L&T Finance Holdings	DCB Bank	JSW Steel		
	Mahanagar Gas	DLF	KTiN Technologies		
	Podite Industries	Exide Industries	Maharashtra Scooters		
	Rallis India	Indian Bank	Prvi Speciality Chemicals		
	REC	Indian Overseas Bank	Punjab National Bank		
	Route Mobile	IOCL	SBFC		
	Sona BLW Precision	Laurus Labs	SBI Cards and Payment Services		
	Tanla Platforms	Laxmi Organic	SBI Life Insurance		
	Tata Exel	MAZ Financial Services	Shriram Finance		
	United Spirits	Mittal Oswal Financial Services	Steris Technologies		
		PNB Housing	Syngene International		
		Rainbow Children's Medicare	Tata Technologies		
		Tata Steel	Vedant Fashions		
		Tech Mahindra	Vedanta		
		TVS Motor			
		UCO Bank			
		Ujjivan Small Finance Bank			
29-Jan	30-Jan	31-Jan	1-Feb	2-Feb	3-Feb
ABSL AMC	Adani Total Gas	Ajanta Pharma	Avas Financiers	Akyl Amines	Clean Science & Technology
Adani Green Energy	Apar Industries	Amara Raja Energy & Mobility	Abbott India	Bank of India	Grindwell Norton
Bajaj Finance	Bajaj Finserv	Ambuja Cements	Aditya Birla Capital	Bkaji Foods	State Bank of India
Bharat Electronics	Bajaj Holdings & Investment	Bank of Baroda	Aether Industries	LIC Housing Finance	
BPL	Blue Star	Carborundum Universal	Aptus Value Housing Finance	Mahindra Holidays	
CSB Bank	Dr Reddy's Laboratories	Dabur India	Bata India	Mahindra Lifespace Developers	
GAIL (India)	Gillette India	DCM Shriram	Castrol India	Medplus Health Services	
Gateway Distriparks	Jubilant Ingrevia	GE Shipping Co.	Deepak Fertilisers	RateGain	
ITC	Kaynes Technology	Godrej Consumer Products	Five Star Business Finance	Tata Motors	
Latent View	KPIIT Technologies	IDFC	Gujarat Alkalies	Torrent Pharmaceuticals	
Mahindra Logistics	L&T	IRB Infrastructure	HFCL		
Marico	Mahindra & Mahindra Financial	Jubilant Foodworks	Mphasis		
Nippon AMC	Primal Pharma	Jyothy Laboratories	Prism Johnson		
NTPC	SIS	Kajaria Ceramics	Raymond		
Nuveco Vistas Corp	Star Health and Allied Insurance	Kalyan Jewellers	Rites		
Petronet LNG	TeamLease Services	Mankind Pharma	Sumitomo Chemical		
Tata Investment Corp.	Vaibhav Global	Maruti Suzuki	Titan Company		
UTI AMC	Voltas	Max Healthcare	Tube Investments		
	ZF Commercial	Motherson Sumi Wiring	V-Guard Industries		
		PKG Hygiene			
		Poly Medicare			
		Relaxo Footwear			
		Shree Cement			
		Sun Pharmaceuticals			
		Swan Energy			
		Westlife Foodworld			
5-Feb	6-Feb	7-Feb	8-Feb	9-Feb	10-Feb
Alembic Pharmaceuticals	Akzo Nobel India	Cummins India	Apollo Hospitals	Emami	MCX India
Avanti Feeds	CAMS	Manappuram Finance	Biocon	Indigo Paints	
Bharti Airtel	Endurance Technologies	Nestle India	Esab India	Tata Power	
Cholamandalam Financial	Godrej Properties	Tata Consumer Products	Escorts Kubota		
Kansai Nerolac	Gujarat State Fertilizers & Chemicals	Varroc Engineering	Page Industries		
Orient Cement	Max Financial Services				
	Navin Fluorine				
	PKG Health				
	Timken				
	TTK Prestige				
12-Feb	13-Feb	14-Feb	15-Feb	16-Feb	17-Feb
BASF India	Bosch	Crompton Greaves Consumer			
GlenSmithline Pharma	Hindalco Industries	Gland Pharma			
Gujarat Pipavav Port	RHI Magnesita				
HEG					
JM Financial					
Lakshmi Machine Works					
Samvardhana Motherson					
TCI Express					
19-Feb	20-Feb	21-Feb	22-Feb	23-Feb	24-Feb
	ABB			Rain Industries	

Source: BSE, NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US\$ mn)				
		20-Jan-24	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	Traded	Delivered			
Automobiles & Components																														
Apollo Tyres	SELL	525	345	(34)	333	4.0	638	27	27	28	19	20	19	2.3	2.1	2.0	8	8	8	13	11	11	1.0	1.1	1.3	17	7			
Ashok Leyland	REDUCE	174	170	(3)	512	6.2	2,936	9	9	9	18	18	19	4.9	4.2	3.7	11	11	11	29	25	21	2.2	2.2	2.2	28	14			
Bajaj Auto	SELL	7,095	4,900	(31)	2,053	25	283	258	270	295	28	26	24	7.5	7.1	6.7	22	20	18	28	28	29	2.9	3.0	3.3	42	22			
Balkrishna Industries	SELL	2,766	1,900	(31)	535	6.4	193	68	78	89	41	35	31	6.3	5.5	4.9	24	20	18	16	17	17	0.6	0.7	0.8	9	5			
Bharat Forge	SELL	1,224	760	(38)	570	6.9	466	24	34	40	50	36	31	7.5	6.5	5.5	23	20	18	16	19	19	0.5	0.5	0.6	15	7			
CEAT	SELL	2,914	1,400	(52)	118	1.4	40	149	118	117	20	25	25	3.0	2.8	2.6	9	9	9	16	12	11	1.3	1.0	1.0	8	4			
CiE Automotive	SELL	490	470	(4)	186	2.2	378	22	26	29	23	19	17	3.1	2.8	2.5	13	11	10	15	15	16	1.1	1.3	1.5	4	2			
Eicher Motors	SELL	3,698	2,900	(22)	1,012	12.2	272	145	147	160	25	25	23	6.6	5.8	5.2	21	20	18	28	25	24	1.2	1.4	1.6	28	13			
Endurance Technologies	SELL	2,060	1,280	(38)	290	3.5	141	46	57	65	45	36	31	5.9	5.2	4.6	22	18	16	13	14	15	0.5	0.6	0.7	5	3			
Escorts Kubota	SELL	2,937	2,100	(28)	325	3.9	111	96	104	111	31	28	26	3.5	3.1	2.9	26	24	22	11	11	11	0.5	0.5	0.6	12	5			
Exide Industries	SELL	322	250	(22)	273	3.3	850	12	15	16	26	22	20	2.3	2.1	1.9	15	12	11	9	10	10	0.8	0.8	0.8	12	5			
Hero Motocorp	REDUCE	4,402	3,475	(21)	880	10.6	200	205	227	240	21	19	18	4.9	4.6	4.3	14	13	12	24	25	24	3.3	3.6	3.8	35	16			
Mahindra & Mahindra	ADD	1,624	1,780	10	2,019	24.3	1,159	88	83	92	18	19	18	3.6	3.1	2.7	15	14	12	21	17	16	0.8	0.8	0.9	49	29			
Maruti Suzuki	SELL	9,973	8,450	(15)	3,135	37.7	314	377	385	420	26	26	24	4.6	4.2	3.8	17	17	15	19	17	17	1.5	1.5	1.7	71	43			
MRF	SELL	145,363	77,500	(47)	617	7.4	4	4,961	4,567	4,935	29	32	29	3.7	3.3	3.0	14	14	13	13	11	11	0.3	0.2	0.3	11	4			
Samvardhana Motherson	ADD	107	100	(7)	728	8.8	6,776	4	5	6	30	21	18	3.0	2.7	2.4	10	8	8	10	14	14	0.7	0.7	0.8	19	10			
Schaeffler India	SELL	3,271	2,720	(17)	511	6.2	156	61	69	78	54	47	42	10.6	9.4	8.3	36	31	28	21	21	21	0.1	0.1	0.0	4	2			
SKF	SELL	4,638	3,925	(15)	229	2.8	49	107	138	158	43	34	29	8.5	7.3	6.3	31	24	21	20	22	21	0.7	0.9	1.0	2	1			
Sona BLW Precision	REDUCE	587	520	(11)	344	4.1	583	9	12	14	65	50	41	12.7	10.6	8.9	38	29	25	21	23	23	0.4	0.5	0.6	13	7			
Tata Motors	REDUCE	819	630	(23)	3,136	37.8	3,829	52	64	67	16	13	12	4.9	3.5	2.7	6	5	5	37	32	25	0.3	0.3	0.3	96	40			
Timken	SELL	3,429	2,450	(29)	258	3.1	75	55	69	88	62	50	39	10.6	8.8	7.3	42	33	26	19	19	20	0.1	0.1	0.0	4	2			
TVS Motor	SELL	2,012	1,150	(43)	956	11.5	475	42	47	53	48	43	38	12.8	10.6	8.9	28	25	22	30	27	25	0.5	0.6	0.7	23	12			
Uno Minda	SELL	689	625	(9)	395	4.8	571	15	17	19	47	41	36	8.0	6.8	5.8	26	23	20	17	17	16	0.3	0.4	0.4	4	2			
Varroc Engineering	SELL	543	420	(23)	83	1.0	153	16	25	30	35	21	18	6.7	5.1	4.0	12	10	8	19	24	22	-	-	-	5	2			
Automobiles & Components Cautious																														
					19,637	236.4						24.8	22.7	20.9	5.0	4.3	3.8	12.7	11.6	10.5	20	19.0	18.0	1.1	1.2	1.3	523	258		
Banks																														
AU Small Finance Bank	SELL	748	615	(18)	500	6.0	667	24	33	44	31	23	17	4.1	3.3	2.8	-	-	-	14	16	18	-	-	-	20	9			
Axis Bank	BUY	1,121	1,100	(2)	3,458	41.6	3,077	79	84	94	14	13	12	2.4	2.1	1.8	-	-	-	18	17	16	1.1	1.1	1.3	112	61			
Bandhan Bank	BUY	230	270	18	370	4.5	1,611	23	26	30	10	9	8	1.7	1.5	1.2	-	-	-	17	17	17	1.5	1.7	1.9	33	15			
Bank of Baroda	ADD	233	250	8	1,202	14.5	5,178	30	29	32	8	8	7	1.2	1.1	1.0	-	-	-	15	13	13	2.6	2.5	2.8	48	20			
Canara Bank	ADD	477	500	5	865	10.4	1,814	79	91	100	6	5	5	1.2	1.0	0.9	-	-	-	18	18	17	3.4	3.9	4.3	37	13			
City Union Bank	ADD	144	140	(3)	107	1.3	740	12	14	17	12	10	9	1.5	1.3	1.1	-	-	-	12	12	13	1.7	2.0	2.3	8	4			
DCB Bank	BUY	148	150	1	46	0.6	312	19	21	26	8	7	6	1.0	0.9	0.8	-	-	-	12	12	14	1.3	1.7	2.5	7	4			
Equitas Small Finance Bank	ADD	113	110	(3)	128	1.5	1,122	7	10	12	15	12	9	2.3	2.0	1.7	-	-	-	15	17	19	-	-	-	7	4			
Federal Bank	BUY	146	175	20	354	4.3	2,419	15	15	18	10	10	8	1.3	1.2	1.1	-	-	-	14	12	13	2.0	2.1	2.4	24	11			
HDFC Bank	BUY	1,479	1,860	26	11,228	135.2	7,580	84	95	109	18	16	14	2.7	2.4	2.1	-	-	-	18	16	16	1.3	1.4	1.6	356	218			
ICICI Bank	BUY	1,009	1,220	21	7,077	85.2	6,984	57	56	60	18	18	17	3.2	2.8	2.5	-	-	-	18	16	15	1.1	1.1	1.2	175	97			
IndusInd Bank	BUY	1,535	1,800	17	1,194	14.4	776	109	124	142	14	12	11	2.0	1.8	1.6	-	-	-	15	15	15	1.0	1.2	1.4	72	35			
Karur Vysya Bank	BUY	170	195	15	136	1.6	802	18	20	22	9	9	8	1.5	1.3	1.2	-	-	-	16	16	16	2.8	3.0	3.4	6	4			
Punjab National Bank	REDUCE	105	95	(10)	1,156	13.9	11,011	8	13	14	14	8	7	1.3	1.1	1.0	-	-	-	8	13	13	2.1	3.5	3.8	60	17			
SBI Cards and Payment Services	BUY	745	925	24	708	8.5	946	25	31	46	30	24	16	5.9	4.8	3.8	-	-	-	22	22	26	0.4	0.5	0.6	17	10			
State Bank of India	BUY	631	760	20	5,635	67.8	8,925	61	63	71	10	10	9	1.7	1.5	1.3	-	-	-	16	14	14	1.9	1.9	1.9	116	52			
Ujjivan Small Finance Bank	ADD	59	58	(2)	115	1.4	1,928	6	6	7	10	9	9	2.1	1.7	1.5	-	-	-	24	20	18	0.0	0.0	0.0	9	4			
Union Bank	ADD	142	145	2	1,051	12.7	7,412	19	24	26	7	6	5	1.3	1.1	0.9	-	-	-	17	18	17	3.3	4.2	4.5	31	13			
YES Bank	REDUCE	25	17	(33)	726	8.7	31,315	0	1	1	90	30	18	1.9	1.8	1.6	-	-	-	2	6	9	0.0	0.0	0.0	90	26			
Banks Attractive																														
					36,056	434.1						13.8	12.5	11.1	2.0	1.8	1.6						14.6	14.2	14.2	1.4	1.6	1.7	1,228	617

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US\$ mn)		
		20-Jan-24	(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
Building Products																												
Astral	SELL	1,823	1,600	(12)	490	5.9	269	23	29	35	78	63	52	15.1	12.5	10.4	47	39	33	21	22	22	0.2	0.2	0.3	12	6	
Building Products		Cautious			490	5.9		78.2	62.8	52.0	15.0	12.5	10.3	46.6	38.7	32.7	19.2	19.9	19.9	0.2	0.2	0.3	12	6				
Capital goods																												
ABB	REDUCE	4,780	4,200	(12)	1,013	12.2	212	58	66	80	83	72	60	16.7	13.8	11.4	66	57	46	22	21	21	0.1	0.1	0.1	13	6	
Bharat Electronics	SELL	193	118	(39)	1,414	17.0	7,310	5	5	6	41	39	34	9.2	8.3	7.5	30	27	24	24	23	23	1.1	1.2	1.4	37	20	
BHEL	SELL	220	65	(70)	765	9.2	3,482	(1)	(0)	2	NM	NM	107	2.8	2.9	2.8	NM	111	41	NM	NM	3	0.0	0.0	(0.1)	78	25	
Carborundum Universal	REDUCE	1,130	1,120	(1)	215	2.6	190	24	32	41	47	35	28	6.7	5.9	5.0	29	22	17	15	18	20	0.4	0.6	0.7	3	2	
Cochin Shipyard	REDUCE	874	530	(39)	230	2.8	263	23	24	32	38	37	27	4.8	4.4	4.0	29	24	17	13	13	15	0.8	0.9	0.9	49	12	
Cummins India	ADD	2,083	2,040	(2)	577	7.0	277	51	59	68	41	35	31	9.8	8.9	8.0	39	33	28	25	26	27	1.4	1.6	1.8	12	6	
Dixon Technologies	SELL	6,019	4,200	(30)	360	4.3	59	76	99	129	79	61	47	20.6	15.4	11.6	45	35	28	30	29	28	0.0	0.0	0.0	38	11	
G R InfraProjects	SELL	1,157	1,010	(13)	112	1.3	97	77	81	99	15	14	12	1.9	1.7	1.5	10	9	8	13	12	13	0.0	0.0	0.0	1	1	
IRB Infrastructure	ADD	49	46	(7)	297	3.6	6,039	1	2	2	38	24	20	2.3	2.2	2.2	13	11	10	6	10	11	3.3	4.1	4.6	19	7	
Kalpataru Projects	BUY	723	745	3	117	1.4	160	37	55	68	19	13	11	2.2	1.9	1.6	8	6	5	12	16	17	0.4	0.6	0.7	4	2	
KEC International	REDUCE	617	610	(1)	159	1.9	257	19	34	47	33	18	13	3.8	3.2	2.6	13	9	7	12	19	22	0.3	0.6	0.8	3	2	
L&T	REDUCE	3,635	2,700	(26)	4,996	60.1	1,373	93	111	131	39	33	28	7.1	6.3	5.6	25	21	19	18	21	21	0.8	0.9	1.1	72	43	
Siemens	SELL	4,074	3,700	(9)	1,451	17.5	356	62	75	84	65	54	49	9.9	8.7	7.7	49	41	37	16	17	17	0.4	0.5	0.5	16	8	
Thermax	ADD	3,059	3,150	3	364	4.4	113	53	63	77	58	49	40	46.9	36.9	28.2	47	37	28	15	16	17	0.4	0.5	0.5	4	2	
Capital goods		Cautious			12,071	145.3		47.4	39.1	32.4	6.6	6.0	5.4	29.2	24.4	20.8	14.0	15.4	16.7	0.7	0.8	0.9	350	146				
Commercial & Professional Services																												
SIS	BUY	516	500	(3)	75	0.9	147	23	28	35	23	18	15	2.8	2.5	2.1	14	11	10	13	14	15	0.0	0.0	0.0	0	0	
TeamLease Services	REDUCE	3,125	2,430	(22)	52	0.6	17	70	96	125	45	32	25	6.3	5.3	4.4	38	28	22	14.4	17.8	19.2	-	-	-	2	1	
Commercial & Professional Services		Neutral			128	1.5		28.3	22.2	17.7	3.7	3.1	2.7	18.1	14.7	12.2	12.9	14.1	15.1	0.0	0.0	0.0	3	1				
Commodity Chemicals																												
Asian Paints	REDUCE	3,140	3,100	(1)	3,012	36.3	959	58	60	62	54	52	50	16.1	14.1	12.6	38	36	34	32	29	26	1.0	1.0	1.1	35	20	
Berger Paints	SELL	575	500	(13)	671	8.1	1166	11	11	12	53	51	48	12.9	11.3	9.9	33	32	31	26	23	22	0.8	0.8	0.8	8	4	
Indigo Paints	REDUCE	1,461	1,375	(6)	70	0.8	48	33	37	40	45	39	37	7.7	6.7	6.0	28	24	22	19	18	17	0.5	0.6	0.9	2	1	
Kansai Nerolac	REDUCE	342	295	(14)	276	3.3	808	9	9	10	37	37	35	5.4	5.1	4.7	24	24	23	15	14	14	1.0	1.3	1.4	2	1	
Tata Chemicals	SELL	1,052	790	(25)	268	3.2	255	53	39	42	20	27	25	1.3	1.3	1.2	8	9	8	7	5	5	1.8	1.3	1.4	13	5	
Commodity Chemicals		Cautious			4,297	51.7		47.2	47.8	45.6	8.5	7.8	7.2	29.1	29.2	27.7	18.0	16.3	15.8	1.0	1.0	1.1	59	30				
Construction Materials																												
ACC	REDUCE	2,290	1,970	(14)	430	5.2	188	92	111	130	25	21	18	2.8	2.5	2.2	14	11	9	12	13	13	0.8	1.0	1.1	14	6	
Ambuja Cements	SELL	541	350	(35)	1,074	12.9	2,463	14	19	20	38	29	27	2.7	2.5	2.3	12	10	9	9	9	9	0.4	0.6	0.6	23	10	
Dalmia Bharat	ADD	2,208	2,350	6	414	5.0	185	55	102	126	40	22	17	2.5	2.3	2.0	14	10	8	6	11	12	0.4	0.7	0.9	11	5	
Grasim Industries	NR	2,090	-	-	1,383	16.7	658	124	133	145	17	16	14	1.6	1.5	1.3	9	8	6	10	10	10	0.5	0.7	0.8	15	8	
J K Cement	SELL	3,992	2,600	(35)	308	3.7	77	103	127	152	39	32	26	5.7	4.9	4.2	16	14	12	16	17	17	0.4	0.4	0.4	6	3	
Nuvoco Vistas Corp	ADD	344	365	6	123	1.5	357	5	11	15	67	31	23	1.4	1.3	1.2	9	9	8	2	4	5	0.0	0.0	0.0	2	1	
Orient Cement	REDUCE	267	200	(25)	55	0.7	205	11	14	16	23	19	17	3.0	2.7	2.4	11	9	7	14	15	15	0.7	0.7	0.7	5	2	
Shree Cement	SELL	27,594	17,900	(35)	996	12.0	36	643	753	867	43	37	32	4.9	4.4	4.0	22	18	16	12	13	13	0.4	0.5	0.6	8	3	
The Ramco Cements	SELL	955	690	(28)	226	2.7	236	27	36	48	35	27	20	3.0	2.8	2.4	15	12	10	9	11	13	0.3	0.4	0.5	6	3	
UltraTech Cement	SELL	9,997	7,150	(28)	2,886	34.7	289	261	341	377	38	29	27	4.8	4.2	3.8	22	18	15	13	15	15	0.4	0.5	0.3	41	23	
Construction Materials		Cautious			7,895	95.0		30.2	24.4	21.7	2.9	2.6	2.4	13.7	11.6	10.1	9.6	10.8	11.0	0.5	0.6	0.5	129	65				

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US\$ mn)		
		20-Jan-24	(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
Consumer Durables & Apparel																												
Aditya Birla Fashion and Retail	REDUCE	226	200	(11)	214	2.6	998	(8)	(6)	(4)	NM	NM	NM	5.7	4.8	5.3	17	12	10	NM	NM	NM	--	--	--	10	4	
Campus Activewear	ADD	277	290	5	85	1.0	304	4	5	6	76	61	47	12.7	10.5	8.9	34	29	24	18	19	20	--	--	0.5	4	2	
Crompton Greaves Consumer	ADD	310	350	13	199	2.4	636	7	10	11	43	33	27	6.6	5.7	4.8	27	22	18	16	19	19	0.8	0.8	0.8	8	5	
Eureka Forbes	BUY	479	670	40	93	1.1	208	4	6	10	111	75	49	2.4	2.3	2.2	53	39	27	2	3	5	--	--	--	1	0	
Havells India	SELL	1,376	1,140	(17)	862	10.4	628	20	25	30	68	55	46	11.9	10.7	9.5	45	37	31	18	20	22	0.6	0.7	0.9	13	7	
Page Industries	SELL	37,400	34,500	(8)	417	5.0	11	539	663	778	69	56	48	25.1	20.7	17.3	43	35	30	40	40	39	0.8	1.0	1.2	13	6	
Polycab	SELL	4,335	4,060	(6)	651	7.8	150	115	125	144	38	35	30	8.3	7.0	6.0	26	23	20	24	22	22	0.6	0.7	0.8	72	31	
TCNS Clothing Co.	REDUCE	378	420	11	24	0.3	69	(3)	1	4	NM	446	107	4.1	3.9	3.5	18	14	11.8	NM	1	3	--	--	--	1	0	
Vedant Fashions	REDUCE	1,092	1,200	10	265	3.2	248	18	22	27	60	49	41	16.2	13.2	10.7	37	30	25	29	29	29	--	--	--	4	3	
Voltas	SELL	1,025	770	(25)	339	4.1	331	11	22	27	97	47	38	6.0	5.5	5.0	68	35	31	6	12	14	0.4	0.6	0.8	20	10	
Whirlpool	SELL	1,355	1,020	(25)	172	2.1	127	20	28	39	67	49	35	4.6	4.3	3.9	35	26	19	7	9	11	0.3	0.3	0.4	3	1	
Consumer Durables & Apparel	Cautious				3,320	40.0					73.8	54.5	43.2	8.2	7.3	6.5	34.2	26.7	22.4	11.2	13.3	15.15	0.5	0.6	0.7	148	69	
Consumer Staples																												
Britannia Industries	ADD	5,166	4,800	(7)	1,244	15.0	241	88	98	110	59	53	47	31.8	28.6	25.8	41	37	33	57	57	58	1.5	1.7	1.9	19	11	
Colgate-Palmolive (India)	REDUCE	2,536	2,425	(4)	690	8.3	272	49	54	59	52	47	43	37.7	35.6	33.6	36	33	30	75	77	80	1.8	2.0	2.2	12	6	
Dabur India	ADD	538	590	10	954	11.5	1,772	11	13	14	48	43	38	9.6	8.6	7.7	38	33	29	21	21	21	1.0	1.2	1.3	14	9	
Godrej Consumer Products	ADD	1,127	1,150	2	1,152	13.9	1,023	19	23	26	59	49	43	7.6	7.0	6.4	40	34	29	13	15	16	0.7	0.9	1.2	15	10	
Hindustan Unilever	ADD	2,469	2,725	10	5,801	69.8	2,350	43	49	55	57	51	45	11.3	10.9	10.5	40	35	32	20	22	24	1.6	1.7	2.0	51	35	
ITC	ADD	468	470	0	5,844	70.4	12,428	16	18	20	29	26	24	8.3	7.9	7.6	22	20	18	27	30	32	3.0	3.3	3.6	58	36	
Jyothy Labs	REDUCE	518	370	(29)	190	2.3	367	10	11	13	50	45	41	10.8	9.6	8.5	38	35	31	23	22	22	0.9	1.1	1.2	6	2	
Marico	REDUCE	524	550	5	678	8.2	1,290	12	13	14	45	42	37	15.0	12.8	11.0	32	29	26	36	33	32	1.1	1.3	1.4	9	6	
Nestle India	ADD	2,480	2,450	(1)	2,391	28.8	964	31	37	42	80	68	60	83.6	79.0	76.7	53	45	40	113	120	130	1.1	1.4	1.6	29	16	
Sula Vineyards	ADD	623	600	(4)	53	0.6	84	11	13	15	56	49	42	8.7	7.7	6.8	31	27	24	16	17	17	0.4	0.5	0.7	7	4	
Tata Consumer Products	NR	1,150	-	-	1,068	12.9	929	15	18	20	79	65	56	6.4	6.1	5.8	47	40	35	8	10	11	0.8	0.9	1.0	20	11	
United Breweries	ADD	1,841	1,675	(9)	487	5.9	264	19	31	38	97	59	48	11.4	10.3	9.5	57	38	31	12	18	21	0.8	1.3	1.6	6	3	
United Spirits	ADD	1,109	1,075	(3)	806	9.7	727	16	19	22	71	58	51	11.4	10.4	9.5	47	39	34	17	19	19	0.2	0.9	1.1	13	7	
Varun Beverages	ADD	1,260	1,250	(1)	1,638	19.7	1,299	16	20	24	80	65	51	23.8	18.0	13.8	47	37	30	34	32	30	0.1	0.2	0.2	31	18	
Consumer Staples	Attractive				22,997	276.8					48.3	42.5	37.9	11.7	10.9	10.2	34.5	30.2	26.8	24	26	27	1.6	1.8	2.0	291	174	
Diversified Financials																												
360 One	BUY	638	750	18	229	2.8	355	21	24	30	31	27	21	6.6	6.3	5.8	--	--	--	23	24	28	2.4	2.8	3.5	5	3	
Aavas Financiers	BUY	1,526	2,025	33	121	1.5	79	64	78	95	24	20	16	3.2	2.8	2.3	--	--	--	14	15	16	0.0	0.0	0.0	5	3	
ABSL AMC	REDUCE	489	480	(2)	141	1.7	288	24	25	27	21	19	18	5.0	4.6	4.2	--	--	--	NM	NM	NM	2.9	3.1	3.3	1	0	
Aptus Value Housing Finance	ADD	356	330	(7)	177	2.1	498	12	14	17	30	26	21	4.7	4.0	3.4	--	--	--	17	17	17	1.1	0.0	0.0	3	2	
Bajaj Finance	REDUCE	7,301	7,400	1	4,512	54.3	617	234	294	363	31	25	20	6.0	4.9	4.1	--	--	--	22	22	22	0.4	0.5	0.6	101	51	
Bajaj Finserv	ADD	1,581	1,725	9	2,522	30.4	1,593	67	84	98	24	19	16	4.6	3.9	3.6	--	--	--	21	22	23	0.1	0.1	0.1	26	12	
Cholamandaram	ADD	1,261	1,250	(1)	1,059	12.7	839	40	50	61	32	25	21	5.7	4.8	3.8	--	--	--	20	20	20	0.2	0.2	0.3	26	15	
Computer Age Management Services	ADD	2,766	2,800	1	136	1.6	49	67	79	93	41	35	30	14.9	12.9	11.1	--	--	--	39	40	40	1.6	1.9	2.2	17	10	
CRISIL	SELL	4,040	3,300	(18)	295	3.6	73	87	93	105	47	43	38	--	--	--	--	--	--	33	32	32	1.4	1.5	1.7	2	1	
Five Star Business Finance	ADD	751	840	12	220	2.6	291	26	32	39	29	24	19	4.3	3.6	3.1	--	--	--	16	17	17	--	--	--	7	4	
HDFC AMC	ADD	3,406	3,650	7	727	8.8	214	87	101	113	39	34	30	10.9	10.1	9.3	--	--	--	29	31	32	1.9	2.2	2.5	18	9	
Home First Finance	BUY	985	1,200	22	87	1.0	88	34	40	50	29	24	20	4.1	3.6	3.1	--	--	--	15	16	17	--	--	0.5	5	3	
ICRA	REDUCE	5,650	5,100	(10)	55	0.7	10	162	180	201	35	31	28	--	--	--	--	--	--	15	16	17	--	--	0	0	0	
Kfin Technologies	ADD	553	520	(6)	94	1.1	169	13	15	18	41	36	31	8.8	7.2	6.3	--	--	--	17	17	18	--	0.8	1	9	5	
L&T Finance Holdings	SELL	167	100	(40)	415	5.0	2,480	8	10	12	21	17	14	1.8	1.7	1.6	--	--	--	9	10	12	1.5	1.8	2.1	16	7	
LIC Housing Finance	BUY	578	650	13	318	3.8	550	88	82	85	7	7	7	1.2	1.1	1.0	--	--	--	17	14	13	2.5	2.3	2.4	15	6	
Mahindra & Mahindra Financial	ADD	282	310	10	348	4.2	1,234	14	20	26	20	14	11	2.0	1.9	1.7	--	--	--	10	13	15	1.0	1.4	1.8	14	7	
Muthoot Finance	ADD	1,408	1,500	7	565	6.8	401	100	122	144	14	12	10	2.3	2.0	1.7	--	--	--	18	19	19	1.4	1.7	2.0	8	3	
Nippon AMC	ADD	511	500	(2)	321	3.9	623	15	17	19	35	30	27	8.8	8.6	8.8	--	--	--	26	29	32	2.6	3.0	3.3	7	3	
SBFC	REDUCE	86	75	(13)	92	1.1	1,091	2	3	3	41	31	25	3.8	3.4	3.0	--	--	--	10	10	12	0.0	0.0	0.0	3	2	
Shriram Finance	BUY	2,299	2,300	0	864	10.4	376	187	224	263	12	10	9	1.8	1.6	1.4	--	--	--	15	16	17	1.2					

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares	EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US\$ mn)	
		20-Jan-24	(Rs)	(%)	(Rs bn)	(US\$ bn)	(mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	Traded	Delivered
Electric Utilities																											
CESC	SELL	138	115	(16)	183	2.2	1,326	10	12	13	13	11	11	1.3	1.3	1.2	7	7	6	11	12	12	3.3	3.1	3.4	17	7
JSW Energy	SELL	511	225	(56)	840	10.1	1,640	10	15	18	53	35	28	4.2	3.8	3.4	20	14	13	8	12	13	0.4	0.4	0.4	24	9
NHPC	ADD	81	55	(32)	809	9.7	10,045	4	5	6	18	17	14	2.1	2.0	1.8	18	11	8	12	12	14	2.9	3.1	3.7	28	13
NTPC	SELL	308	265	(14)	2,989	36.0	9,895	19	22	24	15.9	13.9	13	1.9	1.7	1.6	11	9	8	12	13	13	2.4	2.6	2.8	52	28
Power Grid	ADD	237	220	(7)	2,206	26.6	9,301	18	19	20	12.9	12.4	12	2.4	2.3	2.1	8	7	7	20	19	18	4.6	4.8	4.8	47	30
Tata Power	SELL	346	245	(29)	1,105	13.3	3,196	9	8	10	39	43	33	3.5	3.2	2.9	15	14	13	9	8	9	—	—	—	76	28
Electric Utilities		Attractive			8,131	97.9					17.5	15.9	14.6	2.3	2.1	1.9	10.6	9.3	8.4	13.0	13.2	13.4	2.5	2.7	2.9	243	116
Fertilizers & Agricultural Chemicals																											
Bayer Cropscience	REDUCE	5,777	5,080	(12)	260	3.1	45	188	210	232	31	28	25	9.1	8.7	8.3	21	19	17	30	32	34	2.8	3.1	3.4	2	1
Godrej Agrovet	ADD	542	530	(2)	104	1.3	192	17	23	30	32	24	18	3.6	3.2	2.9	19	14	11	11	14	17	1.3	1.8	2.4	1.5	0.7
Rallis India	REDUCE	262	210	(20)	51	0.6	195	9	11	13	29	24	21	2.8	2.6	2.4	15	13	12	10	11	12	1.3	1.5	1.7	5	2
UPL	REDUCE	552	550	(0)	415	5.0	751	27	40	52	20	14	11	1.4	1.3	1.2	7	6	5	7	10	12	1.1	1.6	2.1	18	9
Fertilizers & Agricultural Chemicals		Cautious			829	10.0					24.4	18.1	14.3	2.3	2.1	1.9	9.1	7.8	6.6	9.4	11.7	13.4	1.7	2.1	2.5	26	13
Gas Utilities																											
GAIL (India)	SELL	166	125	(25)	1,094	13.2	6,575	12	13	13	14	13	13	1.9	1.8	1.7	11	10	9	14	14	14	4.5	4.8	5.1	42	20
GSPL	BUY	345	375	9	195	2.3	564	22	17	19	16	20	18	1.9	1.8	1.8	8	10	9	13	9	10	2.4	2.6	2.7	5	3
Indraprastha Gas	SELL	444	390	(12)	311	3.7	700	31	29	30	15	15	15	3.7	3.3	3.0	11	11	10	28	23	21	2.3	2.4	2.5	14	8
Mahanagar Gas	SELL	1,320	1,050	(20)	130	1.6	99	131	93	90	10	14	15	2.6	2.3	2.1	6	9	9	28	17	15	3.2	2.5	2.4	8	3
Petronet LNG	SELL	247	175	(29)	370	4.5	1,500	23	23	24	11	11	10	2.2	1.9	1.6	6	7	7	21	19	17	4.1	2.0	1.0	16	9
Gas Utilities		Cautious			2,100	25.3					13.1	13.4	12.8	2.1	2.0	1.8	9.4	9.2	8.8	16.2	14.7	14.2	3.8	3.6	3.6	85	42
Health Care Services																											
Apollo Hospitals	BUY	6,123	5,900	(4)	880	10.6	144	64	103	135	96	60	45	12.6	10.7	8.9	38	28	23	14	19	21	0.2	0.3	0.3	28	13
Aster DM Healthcare	ADD	434	415	(4)	217	2.6	498	9	13	16	48	32	27	4.5	4.0	3.6	12	10	9	10	13	14	—	—	—	5	2
Dr Lal Pathlabs	SELL	2,425	2,000	(18)	202	2.4	83	42	50	58	57	48	42	11.0	10.0	9.0	32	27	23	20	22	22	0.9	1.1	1.3	8	3
Global Health	REDUCE	1,089	885	(19)	292	3.5	268	18	20	25	62	54	44	10.3	8.9	7.6	34	30	25	18	18	19	0.2	0.3	0.3	4	2
KIMS	ADD	2,057	2,075	1	165	2.0	80	45	55	68	46	37	30	8.1	6.7	5.5	24	19	16	20	20	20	0.0	0.0	0.0	3	2
Max Healthcare	REDUCE	749	630	(16)	728	8.8	971	13	16	20	57	48	37	7.7	6.8	5.8	39	32	25	15	15	17	0.2	0.2	0.2	13	8
Metropolis Healthcare	REDUCE	1,583	1,525	(4)	81	1.0	51	30	41	49	53	39	32	7.4	6.6	5.8	26	21	18	15	18	19	0.6	0.8	0.9	8	3
Narayana Hrudayalaya	REDUCE	1,237	1,170	(5)	253	3.0	204	39	42	49	32	30	25	8.6	6.7	5.3	21	18	15	31	26	24	—	—	—	6	3
Rainbow Children's Medicare	REDUCE	1,259	1,100	(13)	128	1.5	102	22	28	31	56	45	40	10.2	8.6	7.3	29	24	21	20	21	20	0.3	0.4	0.4	3	2
Health Care Services		Cautious			2,946	35.5					58.8	46.0	37.1	8.9	7.6	6.5	29.0	23.5	19.4	15.1	16.6	17.4	0.2	0.3	0.3	78	39
Hotels & Restaurants																											
Chalet Hotels	ADD	731	660	(10)	150	1.8	205	12	19	29	59	39	26	8.3	6.9	5.4	28	21	16	15	19	24	0.0	0.0	0.0	3	1
Devyani International	ADD	182	195	7	219	2.6	1,204	1	2	2	136	119	90	19.4	17.9	16.3	32	26	22	15	16	19	0.0	0.0	0.0	6	3
Indian Hotels	ADD	479	460	(4)	682	8.2	1,420	9	14	17	53	35	29	7.4	6.2	5.1	30	21	17	15	19	19	0.1	0.1	0.1	15	8
Jubilant Foodworks	REDUCE	523	500	(4)	345	4.2	660	4	7	8	126	80	63	15.5	13.4	11.4	31	24	21	13	18	19	0.2	0.3	0.4	15	8
Lemon Tree Hotels	REDUCE	134	105	(22)	106	1.3	792	3	5	6	42	28	24	11.0	8.9	7.3	18	13	11	28	36	34	1.1	1.3	1.5	10	5
Restaurant Brands Asia	REDUCE	131	110	(16)	65	0.8	495	(1)	(1)	(0)	NM	NM	NM	3.5	3.6	3.6	26	20	15	NM	NM	NM	0.0	0.0	0.0	4	2
Samhi Hotels	BUY	184	230	25	40	0.5	218	(8)	6	9	NM	31	20	3.7	3.3	2.9	21	13	11	NM	11	15	0.0	0.0	0.0	2	2
Sapphire Foods	BUY	1,472	1,640	11	94	1.1	64	10	11	15	153	130	97	7.1	6.7	6.3	20	17	14	5	5	7	0.0	0.0	0.0	4	2
Westlife Foodworld	REDUCE	837	800	(4)	130	1.6	156	6	7	10	136	121	83	20.3	18.0	15.5	33	29	23	16	16	20	0.0	0.0	0.0	2	1
Hotels & Restaurants		Attractive			1,832	22.1					85.5	51.1	39.5	9.1	7.9	6.7	28.1	21.0	17.3	10.6	15.4	16.9	0.1	0.2	0.2	59	30

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.			EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US\$ mn)	
		20-Jan-24	(Rs)	(%)	(Rs bn)	(US\$ bn)	O/S shares (mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	Traded	Delivered
Insurance																											
HDFC Life Insurance	BUY	608	800	32	1,308	15.7	2,020	8	9	10	79	67	58	9.5	9.0	8.4	—	—	—	12	14	15	0.3	0.4	0.4	26	14
ICICI Lombard	REDUCE	1,473	1,400	(5)	725	8.7	491	39	48	57	38	31	26	6.1	5.3	4.6	—	—	—	17	19	19	0.7	0.8	1.0	11	6
ICICI Prudential Life	BUY	491	625	27	707	8.5	1,439	6	7	8	82	73	61	6.6	6.1	5.7	—	—	—	8	9	10	0.7	0.7	0.7	15	9
LIC	BUY	937	1,040	11	5,926	71.3	6,325	47	47	51	20	20	18	8.6	6.5	5.1	—	—	—	51	37	31	—	—	—	36	17
Max Financial Services	BUY	889	1,100	24	307	3.7	345	2	2	2	536	477	415	—	—	—	—	—	—	1	1	1	—	—	—	10	6
PB Fintech	ADD	868	850	(2)	392	4.7	450	0	6	12	8,344	151	72	—	—	—	—	—	—	0	5	9	—	—	—	14	9
SBI Life Insurance	BUY	1,442	1,625	13	1,444	17.4	1,004	19	20	21	77	73	68	11.1	9.9	8.8	—	—	—	15	14	14	0.2	0.2	0.2	21	12
Star Health and Allied Insurance	ADD	574	550	(4)	336	4.0	582	12	18	23	47	32	25	5.4	4.6	3.9	—	—	—	12	16	17	—	—	—	5	3
Insurance	Attractive				11,144	134.2					30.4	28.9	26.1	8.2	6.7	5.6				27	23	22	0.1	0.1	0.1	138	75
Internet Software & Services																											
Cartrade Tech	SELL	715	460	(36)	34	0.4	51.5	8	11	13	85	64	56	1.8	1.7	1.7	51	32	25	2.1	2.7	3.0	0.0	0.0	0.0	3	1
FSN E-commerce Ventures	ADD	171	170	(0)	488	5.9	2,875.0	0	1	2	470	182	105	33.4	28.3	22.3	127	76	52	7.3	16.9	24	—	—	—	19	9
Indiamart	SELL	2,573	2,400	(7)	154	1.9	60.7	57	68	81	45	38	32	8.2	6.7	5.6	36	29	23	17.6	19.5	19.1	0.1	0.1	0.1	9	4
Info Edge	ADD	5,026	5,360	7	650	7.8	129.0	62	69	81	81	73	62	5.6	5.4	5.1	66	58	48	7.1	7.5	8.4	0.3	0.3	0.4	17	8
Just Dial	BUY	842	1,050	25	72	0.9	85.0	40	51	59	21	17	14	1.8	1.6	1.4	14	8	5	9.0	10.2	10.6	—	—	—	4	2
Zomato	BUY	133	130	(2)	1,159	14.0	9,131	0	1	3	800	99	48	6.1	5.6	5.0	(20,622)	92	41	0.8	5.9	10.9	0.0	0.0	0.0	101	46
Internet Software & Services	Attractive				2,557	30.8					143	78	50	6.2	5.8	5.2	121	64	41	4.4	7.4	10.3	0.1	0.1	0.1	153	70
IT Services																											
Cyent	BUY	2,243	2,400	7	249	3.0	111	70	87	98	32	26	23	5.5	4.9	4.4	18	16	14	19	20	20	1.6	2.1	2.3	12	6
HCL Technologies	ADD	1,544	1,650	7	4,190	50.4	2,714	58	65	72	27	24	22	6.1	5.9	5.6	16	15	13	24	25	27	3.2	3.6	3.8	45	26
Infosys	BUY	1,649	1,800	9	6,843	82.4	4,146	59	66	75	28	25	22	8.4	7.8	7.1	18	16	14	31	32	34	2.7	3.0	3.4	114	69
KPIT Technologies	SELL	1,524	940	(38)	418	5.0	273	21	28	36	72	55	43	18.9	15.0	11.9	42	33	26	30	31	31	0.4	0.5	0.7	24	10
L&T Technology Services	SELL	5,416	4,700	(13)	573	6.9	106	123	142	164	44	38	33	10.0	8.7	7.6	29	25	22	24	24	25	0.8	1.0	1.1	12	4
LTIMindtree	REDUCE	5,657	5,500	(3)	1,675	20.2	296	160	187	225	35	30	25	8.7	7.5	6.3	24	21	18	26	27	27	1.2	1.4	1.6	33	15
Mphasis	REDUCE	2,587	2,590	0	488	5.9	188	83	97	114	31	27	23	5.8	5.4	5.0	20	17	15	19	21	23	2.3	2.5	2.7	17	8
Persistent Systems	REDUCE	7,922	7,330	(7)	609	7.3	77	148	187	231	54	42	34	13.2	11.0	9.1	34	27	22	26	28	29	0.7	0.8	1.0	41	16
RateGain	ADD	756	650	(14)	89	1.1	109	12	15	17	63	50	43	9.7	8.1	6.7	45	37	30	17	18	17	0.0	0.0	0.0	5	2
Tata Elxsi	SELL	8,290	5,450	(34)	516	6.2	62	132	157	185	63	53	45	21.0	17.8	15.2	46	39	32	36	37	37	0.9	1.1	1.3	16	7
TCS	ADD	3,861	4,115	7	14,126	170.1	3,649	127	141	157	30	27	25	14.7	13.2	11.9	21	19	17	49	51	51	1.5	2.9	3.2	94	56
Tech Mahindra	REDUCE	1,386	1,300	(6)	1,219	14.7	890	35	59	72	40	23	19	4.4	4.3	4.1	21	14	11	11	19	22	2.2	3.2	3.3	33	16
Wipro	REDUCE	478	430	(10)	2,497	30.1	5,287	21	23	25	22	21	19	3.4	2.9	2.7	13	12	11	15	15	15	0.2	0.2	1.9	47	20
IT Services	Neutral				33,493	403.2					29.9	26.5	23.5	8.5	7.7	7.0	19.5	17.4	15.5	28.3	29.1	29.9	1.8	2.5	2.9	494	256
Media																											
PVR INOX	ADD	1,522	1,700	12	149	1.8	98	18	41	56	82	37	27	1.8	1.7	1.6	19	14	11	2	5	6	0.1	0.3	0.4	12	6
Sun TV Network	BUY	665	725	9	262	3.2	394	49	52	55	14	13	12	2.6	2.3	2.2	9	8	8	20	19	19	3.8	4.1	4.5	7	3
Zee Entertainment Enterprises	SELL	231	150	(35)	222	2.7	960	7	7	9	35	31	25	2.1	2.0	2.0	22	18	15	6	7	8	1.3	1.7	1.7	72	27
Media	Attractive				634	7.6					23.1	20.0	17.6	2.2	2.1	1.9	14.3	12.1	10.6	9.4	10.3	11.0	2.0	2.4	2.6	91	35
Metals & Mining																											
Hindalco Industries	ADD	561	535	(5)	1,261	15.2	2,220	38	41	45	15	14	13	1.2	1.1	1.0	7.0	6.5	5.8	9	9	9	0.7	0.7	0.8	36	17
Hindustan Zinc	SELL	315	270	(14)	1,332	16.0	4,225	20	20	21	16	16	15	10.3	10.3	10.3	9.2	8.9	8.5	66	66	68	6.4	6.4	6.6	3	2
Jindal Steel and Power	BUY	730	800	10	744	9.0	1,020	48	60	83	15	12	9	1.7	1.5	1.3	8.0	7.0	5.3	12	13	16	0.3	0.8	1.7	19	7
JSW Steel	REDUCE	808	820	1	1,976	23.8	2,417	53	69	89	15	12	9	2.6	2.2	1.8	8.3	6.9	5.6	18	20	22	1.0	1.3	1.7	20	9
National Aluminium Co.	SELL	135	75	(45)	249	3.0	1,837	7	7	7	21	20	20	1.8	1.7	1.6	10.5	10.0	9.6	9	9	8	1.9	2.0	2.0	37	15
NMDC	SELL	213	200	(6)	624	7.5	2,931	21	20	20	10	11	11	2.4	2.2	2.0	6.6	6.9	6.7	25	21	20	4.9	4.6	4.7	34	15
SAIL	SELL	115	60	(48)	475	5.7	4,130	4	6	7	26	20	17	0.8	0.8	0.8	8.6	8.1	7.8	3	4	5	1.4	1.8	2.1	43	17
Tata Steel	REDUCE	134	145	8	1,647	19.8	12,224	5	11	16	26	12	8	1.6	1.5	1.3	9.9	6.7	5.5	6	13	17	0.9	2.1	3.0	56	27
Vedanta	SELL	265	220	(17)	985	11.9	3,717	17	20	21	16	13	13	2.3	2.3	2.2	5.4	5.0	4.7	15	18	18	5.6	6.6	6.8	32	15
Metals & Mining	Cautious				9,292	111.9					16.5	13.0	10.8	2.0	1.8	1.6	7.8	6.7	5.9	11.8	13.8	14.9	2.4	2.9	3.3	280	123

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares			EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US\$ mn)	
		20-Jan-24	(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	Traded
Oil, Gas & Consumable Fuels																													
BPCL	SELL	483	400	(17)	1,048	12.6	2,093	121	47	49	4	10	10	1.5	1.4	1.3	3.1	6.4	5.9	43	14	14	11.2	4.4	4.5	45	22		
Coal India	REDUCE	399	275	(31)	2,458	29.6	6,163	33	28	31	12	14	13	3.7	3.5	3.2	11.5	15.9	13.7	34	26	26	5.0	5.0	5.0	56	25		
HPCL	SELL	469	310	(34)	665	8.0	1,419	100	59	57	5	8	8	1.8	1.6	1.4	5.1	8.1	8.1	44	21	19	8.5	5.0	4.9	44	17		
IOCL	SELL	148	100	(32)	2,091	25.2	14,121	24	15	14	6	10	11	1.4	1.3	1.2	4.6	6.1	6.1	23	14	12	8.0	5.2	4.7	44	19		
Oil India	ADD	420	335	(20)	456	5.5	1,084	53	55	56	8	8	8	1.2	1.1	1.0	6.4	6.0	5.8	16	15	14	3.2	4.8	5.0	19	9		
ONGC	ADD	242	210	(13)	3,045	36.7	12,580	41	41	39	6	6	6	1.0	0.9	0.8	3.5	3.5	3.4	17	15	13	5.1	5.4	5.0	40	20		
Reliance Industries	ADD	2,713	2,900	7	18,358	221.0	6,766	101	128	140	27	21	19	2.4	2.1	1.9	13.1	10.9	9.5	9	11	10	-	0.3	0.3	188	117		
Oil, Gas & Consumable Fuels	Neutral				28,120	338.5					12.9	14.0	13.6	1.9	1.8	1.6	7.8	8.1	7.4	15.1	12.6	11.8	2.4	2.0	1.9	436	230		
Pharmaceuticals																													
Aurobindo Pharma	NR	1,144	-	(100)	670	8.1	586	52	60	69	22	19	17	2.3	2.1	2.0	12	10	9	11	12	12	1.3	1.6	1.9	27	12		
Biocon	REDUCE	274	235	(14)	329	4.0	1,202	4	9	16	63	30	17	1.4	1.4	1.3	15	12	9	2	5	8	0.6	1.2	2.0	15	6		
Cipla	ADD	1,316	1,320	0	1,063	12.8	806	49	55	59	27	24	22	4.0	3.5	3.1	16	14	13	16	16	15	0.8	1.0	1.0	26	14		
Concord Biotech	REDUCE	1,395	1,300	(7)	146	1.8	105	29	38	49	48	37	29	9.6	8.0	6.6	33	26	20	22	24	25	0.5	0.7	0.9	3	2		
Divis Laboratories	SELL	3,650	2,775	(24)	969	11.7	265	64	83	102	57	44	36	7.2	6.6	6.0	40	30	25	13	16	18	1.0	1.1	1.3	21	10		
Dr Reddy's Laboratories	REDUCE	5,635	5,375	(5)	940	11.3	166	323	339	322	17	17	17	3.3	2.8	2.5	11	10	10	21	18	15	0.7	0.8	0.8	30	16		
Gland Pharma	SELL	1,940	1,365	(30)	319	3.8	164	54	65	72	36	30	27	3.6	3.2	2.9	22	18	16	11	11	11	-	-	-	8	4		
Glenmark Life Sciences	NR	799	-	(100)	98	1.2	123	45	49	53	18	16	15	4.1	3.6	3.2	12	11	10	24	24	23	3.1	3.1	3.1	1	1		
Laurus Labs	SELL	402	270	(33)	217	2.6	536	7	12	16	57	33	25	4.9	4.3	3.6	22	16	13	9	14	16	-	-	-	10	4		
Lupin	SELL	1,411	1,005	(29)	642	7.7	455	39	45	56	36	31	25	4.6	4.1	3.6	18	16	13	13	14	15	0.5	0.6	0.7	21	10		
Mankind Pharma	ADD	2,169	2,000	(8)	869	10.5	401	45	56	69	48	39	31	9.9	8.3	6.9	34	28	23	22	23	24	0.5	0.6	0.8	25	14		
Sun Pharmaceuticals	ADD	1,326	1,280	(3)	3,182	38.3	2,399	38	46	53	35	29	25	5.0	4.4	3.9	23	19	16	15	16	16	0.6	0.7	0.8	29	17		
Torrent Pharmaceuticals	REDUCE	2,532	1,950	(23)	857	10.3	338	49	60	76	52	42	33	11.3	9.3	7.5	25	22	19	24	24	25	0.3	0.4	0.5	8	4		
Pharmaceuticals	Neutral				10,301	124.0					33.1	27.8	24.2	4.5	4.0	3.5	19.4	16.6	14.4	13.5	14.2	14.5	0.5	0.6	0.7	224	113		
Real Estate																													
Brigade Enterprises	BUY	977	780	(20)	226	2.7	231	14	21	28	72	46	34	6.5	5.8	5.0	21	15	11	9	13	16	0.3	0.3	0.3	6	3		
Brookfield India Real Estate Trust	ADD	250	280	12	110	1.3	439	6	12	17	44	20	15	1.1	1.1	1.2	17	12	11	2	4	6	7.5	9.1	10.0	1	1		
DLF	ADD	777	590	(24)	1,923	23.2	2,475	13	16	20	61	48	40	4.8	4.4	4.0	69	55	44	8	10	10	0.3	0.3	0.3	38	17		
Embassy Office Parks REIT	ADD	348	360	3	330	4.0	948	10	14	17	35	25	20	1.4	1.5	1.6	16	13	11	4	6	8	6.4	7.4	8.5	18	16		
Godrej Properties	SELL	2,309	1,370	(41)	642	7.7	278	21	43	50	110	54	46	6.5	5.8	5.2	(280)	181	209	6	11	12	-	-	-	19	7		
Macrotech Developers	ADD	1,128	910	(19)	1,088	13.1	964	17	50	59	65	23	19	7.6	5.7	4.4	42	16	13	12	29	26	-	-	-	20	9		
Mindspace REIT	ADD	328	350	7	195	2.3	593	10	13	15	32	26	22	1.3	1.4	1.4	14	13	12	4	5	6	6.3	6.7	7.1	1	1		
Nexus Select Trust	ADD	132	135	3	200	2.4	1,515	5	5	6	28	25	21	6.7	8.3	10.9	15	14	13	28	30	44	7.0	7.0	7.5	1	1		
Oberoi Realty	REDUCE	1,504	1,080	(28)	547	6.6	364	47	57	103	32	26	15	3.9	3.4	2.8	22	17	9	13	14	21	0.1	0.1	0.1	15	7		
Phoenix Mills	ADD	2,493	2,190	(12)	445	5.4	179	49	74	85	51	34	29	4.8	4.3	3.7	21	16	15	10	13	14	0.1	0.2	0.2	11	6		
Prestige Estates Projects	ADD	1,287	910	(29)	516	6.2	401	41	14	22	31	93	58	4.5	4.3	4.0	23	21	18	15	5	7	0.1	0.1	0.1	17	8		
Signature Global	ADD	1,127	910	(19)	158	1.9	141	14	24	30	81	47	37	18.7	13.3	9.8	61	34	25	44	33	30	-	-	-	4-	2		
Sobha	BUY	1,475	835	(43)	140	1.7	95	29	66	50	50	22	29	5.1	4.2	3.8	26	13	13	11	21	14	0.2	0.3	0.4	14	4		
Sunteck Realty	BUY	452	550	22	66	0.8	140	19	22	60	23	20	8	2.1	1.9	1.5	20	16	6	9	10	22	0.2	0.2	0.2	6	3		
Real Estate	Attractive				6,586	79.3					50.0	34.7	26.9	4.1	3.8	3.5	31.7	21.5	16.9	8.2	11.0	12.9	1.0	1.1	1.2	171	84		
Retailing																													
Avenue Supermarts	SELL	3,677	3,650	(1)	2,392	28.8	651	40	51	64	93	72	58	12.8	10.9	9.2	58	46	37	15	16	17	-	-	-	18	12		
Metro Brands	REDUCE	1,140	1,125	(1)	310	3.7	272	12	16	20	93	71	58	17.5	14.9	12.6	43	35	29	20	23	23	-	-	1-	2	1		
Titan Company	ADD	3,785	3,775	(0)	3,360	40.5	888	41	50	62	91	75	61	35.3	26.8	20.4	61	49	40	34	40	38	0.3	0.4	0.5	36	19		
Trent	ADD	3,193	2,700	(15)	1,135	13.7	356	25	36	51	126	88	62	32.5	23.7	17.2	65	48	36	30	31	32	-	-	-	23	12		
Retailing	Neutral				6,062	86.6					96.2	75.7	59.7	21.5	17.4	13.9	59.5	46.8	37.8	22	23	23	0.2	0.2	0.2	79	44		

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	Rating	Price (Rs)	Fair Value	Upside	Mkt cap.		O/S shares			EPS (Rs)			P/E (X)			P/B (X)			EV/EBITDA (X)			RoE (%)			Dividend yield (%)			ADV-3M (US\$ mn)	
		20-Jan-24	(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	Traded
Specialty Chemicals																													
Aarti Industries	SELL	670	540	(19)	243	2.9	363	11	16	25	63	42	27	4.6	4.2	3.8	28	22	16	8	11	15	0.2	0.4	0.7	18	7		
Atul	SELL	6,488	4,050	(38)	191	2.3	29	134	167	203	49	39	32	3.8	3.5	3.2	27	22	18	8	9	11	0.3	0.5	0.6	4	2		
Castrol India	ADD	179	150	(16)	177	2.1	989	9	10	10	21	18	17	8.6	8.0	7.4	14	12	11	43	45	45	3.9	4.5	4.8	12	6		
Clean Science & Technology	ADD	1,481	1,480	(0)	157	1.9	106	18	32	53	82	47	28	13.5	10.9	8.2	58	34	21	18	26	34	0.2	0.4	0.6	3	2		
Deepak Nitrite	REDUCE	2,318	2,120	(9)	316	3.8	136	60	69	79	39	34	29	6.6	5.6	4.8	26	24	21	18	18	18	0.3	0.3	0.3	12	4		
Navin Fluorine	ADD	3,442	3,620	5	171	2.1	50	69	99	143	50	35	24	6.8	5.8	4.7	31	21	16	15	18	22	0.2	0.2	0.3	9	5		
Pidlite Industries	ADD	2,678	2,750	3	1,362	16.4	508	38	45	52	70	60	52	16.6	14.7	13.2	47	41	36	25	26	27	0.7	0.9	1.2	13	7		
PI Industries	ADD	3,382	3,630	7	513	6.2	152	103	110	124	33	31	27	6.0	5.1	4.4	25	22	20	20	18	17	0.4	0.4	0.6	19	11		
SRF	BUY	2,290	2,630	15	679	8.2	296	50	73	102	45	31	22	5.9	5.1	4.3	24	18	14	14	17	21	0.5	0.6	—	13	6		
Vinati Organics	SELL	1,707	1,510	(12)	175	2.1	104	36	49	62	47	35	28	6.7	5.7	4.9	34	25	19	15	18	19	0.3	0.4	0.5	1	1		
Specialty Chemicals	Neutral				3,985	48.0					47.7	38.3	30.5	7.7	6.7	5.8	30.4	24.6	20.1	16.2	17.6	19.1	0.6	0.8	0.8	105	51		
Telecommunication Services																													
Bharti Airtel	ADD	1,124	1,050	(7)	6,606	79.5	5,967	26	39	51	44	29	22	7.6	5.8	4.8	10	8	7	18	23	23	0.4	0.5	0.5	63	41		
Indus Towers	ADD	216	200	(7)	581	7.0	2,695	19	21	13	11	10	16	2.2	1.8	1.8	4	4	5	22	20	11	0.7	6.0	3.5	26	9		
Vodafone Idea	RS	15	—	—	730	8.8	48,680	(7)	(6)	(7)	NM	NM	NM	NM	NM	NM	19	19	22	NM	NM	NM	—	—	—	72	19		
Tata Communications	SELL	1,740	1,595	(8)	496	6.0	285	39	52	69	44	34	25	26.9	17.2	11.6	14	11	9	67	62	55	0.8	1.1	1.4	26	12		
Telecommunication Services	Attractive				8,413	101.3					NM	2,234.0	261.4	90	62	111	10.9	9.2	8.3	NM	2.8	43	0.5	0.9	0.7	186	81		
Transportation																													
Adani Ports and SEZ	BUY	1,193	1,340	12	2,577	31.0	2,160	44	52	62	27	23	19	4.8	4.0	3.4	18	15	13	19	19	19	0.3	0.3	0.5	88	34		
Container Corp.	SELL	873	700	(20)	532	6.4	609	21	24	28	42	36	31	4.5	4.3	4.0	26	23	19	11	12	13	1.1	1.3	1.5	13	7		
Delhivery	BUY	400	410	3	294	3.5	729	(5)	(1)	1	NM	NM	281	3.2	3.1	3.0	1,512	71	40	NM	NM	1	—	—	—	8	5		
Gateway Distriparks	ADD	114	124	9	57	0.7	500	6	7	8	21	17	15	2.9	2.6	2.3	15	12	10	15	16	17	1.5	1.6	1.8	2	1		
GMR Airports	REDUCE	82	55	(33)	494	6.0	6,036	(1)	(0)	0	NM	NM	394	NM	NM	NM	27	15	13	83	16	NM	—	—	—	46	19		
Gujarat Pipavav Port	REDUCE	163	154	(6)	79	0.9	483	8	9	10	21	18	16	3.3	3.1	2.9	13	11	10	16	18	19	3.2	3.6	4.2	6	3		
InterGlobe Aviation	BUY	3,045	3,300	8	1,175	14.1	383	179	175	199	17	17	15	196.3	16.0	3.5	6	5	3	NM	170	68	—	—	—	24	14		
JSW Infrastructure	SELL	214	180	(16)	450	5.4	2,100	4	6	7	48	34	29	5.8	5.1	18.4	25	20	18	16	16	17	0.2	0.6	0.7	15	7		
Mahindra Logistics	REDUCE	436	340	(22)	31	0.4	71	3	10	20	135	42	22	5.4	5.0	4.2	14	10	8	4	12	21	—	—	—	2	1		
Transportation	Attractive				5,690	68.5					31.3	26.5	22.3	6.5	5.3	4.4	15.3	12.1	10.2	21	20	19.6	0.3	0.4	0.5	206	91		
KIE universe					263,546	3,173					24.4	22.0	19.5	3.8	3.4	3.1	14.4	13.0	11.6	15.6	15.5	15.7	1.3	1.5	1.6				

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.

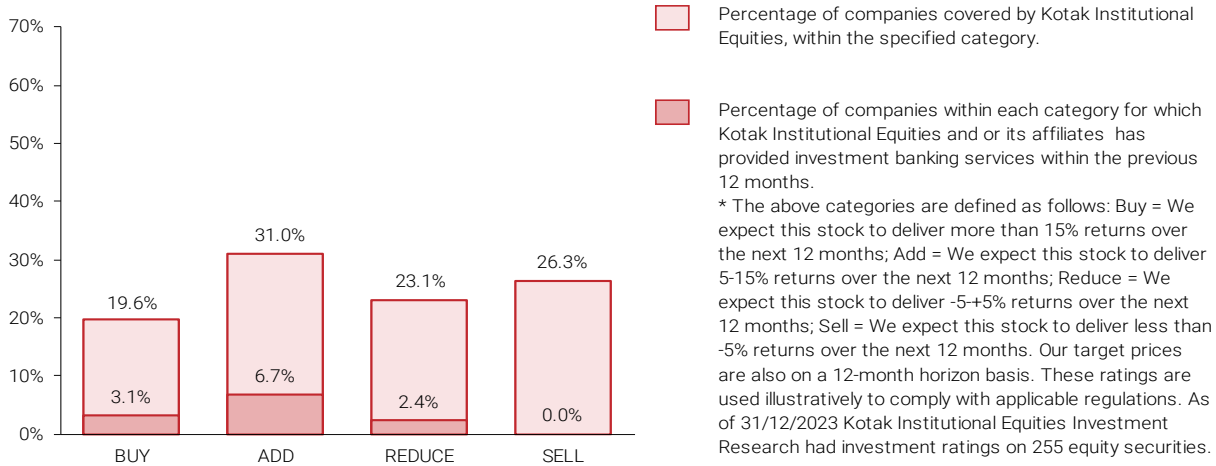
(c) Exchange rate (Rs/US\$)= 83.1

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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Distribution of ratings/investment banking relationships

Kotak Institutional Equities Research coverage universe



Source: Kotak Institutional Equities

As of December 31, 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.

Our Fair Value estimates are also on a 12-month horizon basis. Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

Other definitions

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