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Thematic

Good-to-Great

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Contents

Good-to-Great

Investment Framework: Static & Dynamic Value

Identifying companies migrating from Good-to-Great

- **In this report, we introduce our proprietary Static and Dynamic Value framework of investing and use the Good-to-Great theme to identify the top large capitalization investment opportunities within our coverage universe.**
- **Our studies indicate that combining our framework and the Good-to-Great theme has generated 1,500%+ outperformance over three years in Static Value stocks and ~500% outperformance over 10 years in Dynamic Value stocks.**

The Framework: Static and Dynamic Value

Our Static and Dynamic Value framework of investing finds academic support from the residual income model and revolves around the central concept of Intrinsic Value (IV). While Static Value hinges upon deep discount to IV, Dynamic Value is driven by growth in IV.

Using a set of quantitative filters on our coverage universe that reflect the characteristics of static and dynamic value, we arrive at the shortlist of attractive stocks.

The theme: Good-to-Great

We adapt Jim Collins' 'Good-to-Great' theme to Indian equities to identify businesses that have used the economic downturn over the last 2-3 years to transform themselves from 'good' to 'great'. We believe these businesses could reap disproportionate benefits in an economic up-cycle.

We apply this theme to narrow down our shortlist to top attractive investment opportunities.

Our top Static Value picks: From our coverage universe, our top static value picks are Tata Motors, IOCL, ICICI Bank and IDFC.

Our top Dynamic Value picks: Within our coverage universe, our top Dynamic Value picks are Maruti Suzuki, Larsen & Toubro, Ultratech Cement, Zee Entertainment, IndusInd Bank, ITC and United Spirits.

The Static and Dynamic Value Framework

The theory

To illustrate the Static and Dynamic Value framework, we start with the concept of 'margin of safety'.

"A margin of safety is achieved when securities are purchased at prices sufficiently below underlying value to allow for human error, bad luck, or extreme volatility in a complex, unpredictable and rapidly changing world."

- **Seth Klarman**

'Margin of safety' is the key to investment returns on a stock. From an investment point of view, narrowing of price discount to underlying value or Intrinsic Value of the stock leads to superior investment returns.

Hence, estimating Intrinsic Value is a core area of analysis. Intrinsic Value is defined as net present value of cash flows of a firm available to equity investors. While Intrinsic Value is central to find attractive stocks, it is subjective, as it is highly dependent on analyst assumptions.

"Intrinsic value is an all-important concept that offers the only logical approach to evaluating the relative attractiveness of investments and businesses. Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life.

The calculation of intrinsic value, though, is not so simple. As our definition suggests, intrinsic value is an estimate rather than a precise figure, and it is additionally an estimate that must be changed if interest rates move or forecasts of future cash flows are revised. Two people looking at the same set of facts, moreover – and this would apply even to Charlie and me – will almost inevitably come up with at least slightly different intrinsic value figures."

- **Warren Buffett (Berkshire Hathaway's 2014 Annual Report, page 123)**

Of various approaches to estimate Intrinsic Value, we prefer the residual income model. This is mainly due to its relatively low dependence on future assumptions compared with other approaches like DCF. We reclassify the two key elements of intrinsic value from residual income model as highlighted below:

Intrinsic Value (IV) = Static Value + Dynamic Value

Wherein,

Static Value = Starting Book Value + Terminal Value, and

$$\boldsymbol{Dynamic\ Value = \sum_{t=1}^{m-1} \frac{(RoE_t - r)}{(1+r)^t} B_t}$$

Academic Derivation: Static & Dynamic Value

As per our Residual Income model,

$$\textbf{Intrinsic Value}, IV = B_o + \sum_{t=1}^{m-1} \frac{(RoE_t - r)}{(1+r)^t} B_t + \sum_{t=m}^{\infty} \frac{RI_t}{(1+r)^t}$$

$$= \boldsymbol{B_o + \sum_{t=1}^{m-1} \frac{(RoE_t - r)}{(1+r)^t} B_t + \left[\frac{RoE - r}{r - g}\right] B_m}$$

Where, **B** = Book Value (at time = m)
RI_t = Residual Income (at time = t)
r = Cost of Capital

$$\boldsymbol{Static\ Value = B_o + \left[\frac{RoE - r}{r - g}\right] B_m}$$

$$\boldsymbol{Dynamic\ Value = \sum_{t=1}^{m-1} \frac{(RoE_t - r)}{(1+r)^t} B_t}$$

➔ Intrinsic Value = Static Value + Dynamic Value

As Warren Buffett says in the annual report:
"Our long-term economic goal (subject to some qualifications later) is to maximize Berskshire's annual rate of gain in intrinsic business value on a per-share basis."

In the context our framework, he is pointing to his intention to grow the Dynamic Value of Berkshire Hathaway over time. More specifically, the characteristics of the two groups as defined above are:

(a) **Static Value:** This component of the equation is relatively stable over time and is easier to calculate for a stock. For purposes of our analysis, we have used our in-house calculation of IV as a proxy for the same.

(b) **Dynamic Value:** This component of the equation varies over time, is more subjective and derives from growth in Intrinsic Value of the firm.

Static Value: From an investor perspective

Static Value is typically created by a negative stock/sector/market specific event, which leads to indiscriminate selling, thus creating a steep valuation discount compared to its Intrinsic Value.

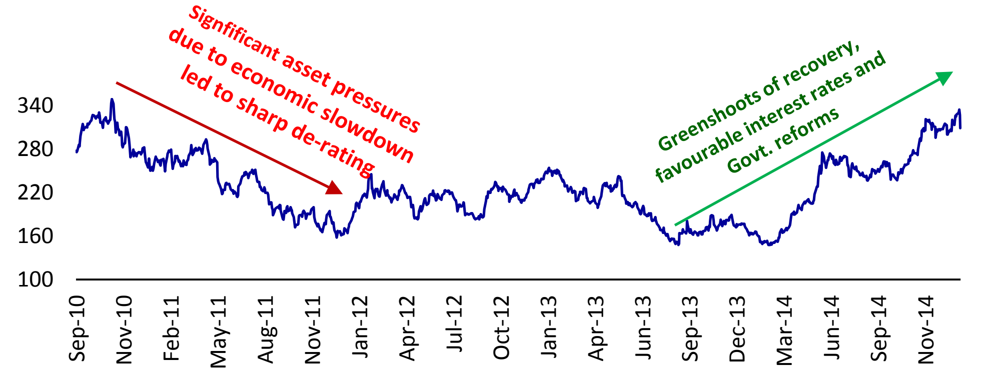
While industry dynamics may not be in their favor over the long term, as investors, we can look to capitalize on this anomaly, as the sequence of negative events normalizes over a period of time.

Case Study 1: State Bank of India

For example, in mid-2013, as the rate-rise scare hit equity markets globally, Indian banking stocks, particularly, State Bank of India (SBIN) corrected about 40% over 3-4 months, creating Static Value. A reasonably well-timed purchase decision would have led to strong gains over the next 6-9 months, as the stock bounced back by about 70% during this period.

It is worth noting that the long-term business dynamics are not in favor of Indian public sector (PSU) banks, as they are likely to lose market share to private sector banks. In the context of our framework, we would say that we do not expect the Intrinsic Value to grow over time.

Exhibit 1: State Bank of India – price performance

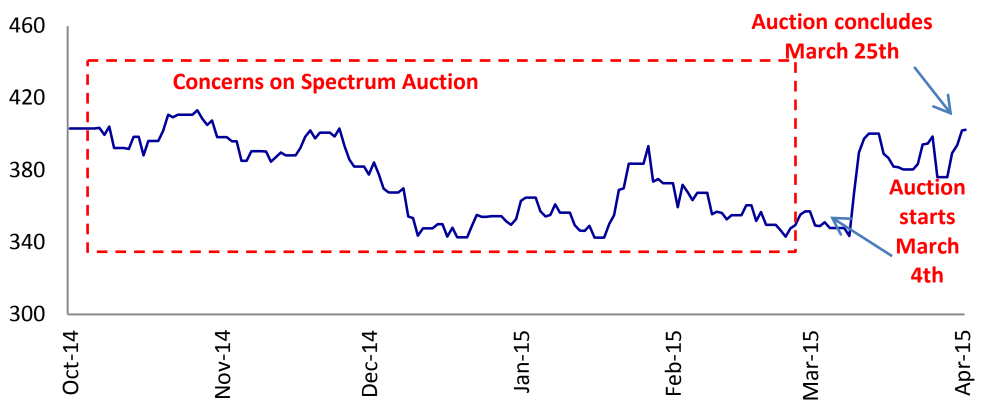


Source: MOSL, Company

Case Study 2: Bharti Airtel

During November 2014-March 2015, the stock corrected by ~20% from the peak, led by concerns on the spectrum auction scheduled in March 2015. Despite overbidding in the spectrum auction, the stock price rallied back by March 25, 2015, when the spectrum auction concluded.

Exhibit 2: Bharti Airtel – price performance

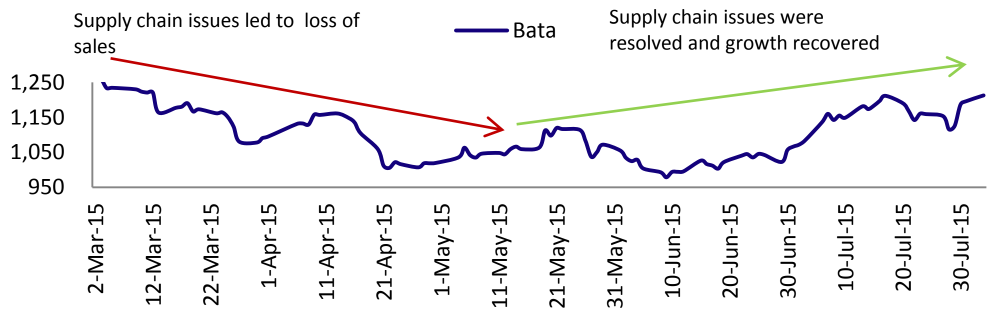


Source: MOSL, Company

Case Study 3: BATA

The stock had fallen 24% in the short-term, driven by supply chain issues due to migration to SAP in March 2015 quarter, thus creating Static Value. BATA resolved these issues in the subsequent quarter, leading to a rebound in sales growth as well as share-price performance of about 30% over the following months. This is also adequately captured in Exhibit 3.

Exhibit 3: Bata – price performance

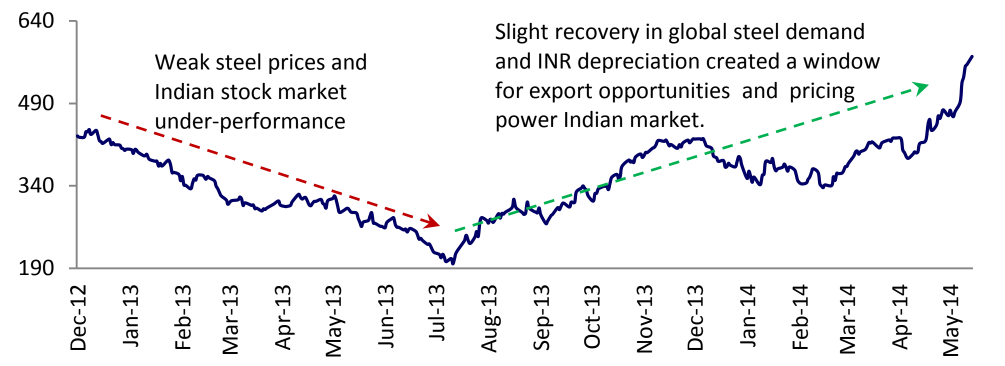


Source: MOSL, Company

Case Study 4: Tata Steel

Tata Steel's stock-price almost halved during 1H CY13 due to negative events like weak Indian steel prices and overall under-performance of the Indian stock market on fiscal/current account deficit concerns, thus creating static value. However, the stock doubled over the next 6-9 months as the extremely severe macro-fears didn't materialize by 2H2013. The share-price chart highlighted below captures this time-frame adequately.

Exhibit 4: Tata Steel – price performance



Source: MOSL, Company

Dynamic Value: From an investor perspective

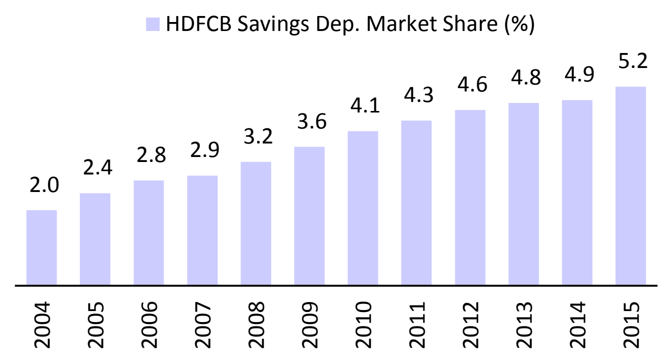
As seen from the equation, Dynamic Value is typically created by a company that generates higher returns on capital employed / equity (RoCE / RoE) than the cost of capital and is able to grow by reinvesting its earnings to generate higher incremental returns.

As a corollary, Dynamic Value is typically associated in businesses wherein the industry attractiveness is high in the form of under-penetrated markets or a favorable market structure. Also, it is particularly advantageous for companies with an industry leading position to capitalize on the industry dynamics.

Case Study 1: HDFC Bank

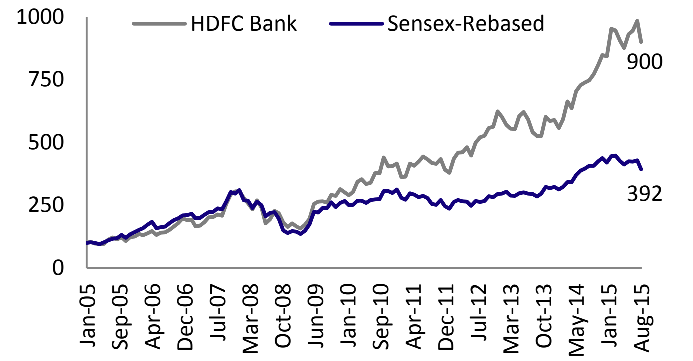
For example, we expect 18%+ CAGR in banking industry loans over the medium term, driven by industry tailwind of low credit penetration of 52% versus 90% in other emerging markets. With its strong positioning amongst private sector banks, HDFC Bank has leveraged its position to create strong Dynamic Value for investors over the last 10 years as shown in Exhibit 6.

Exhibit 5: Aggressive expansion into India's hinterland led to doubling of savings deposit m/s over last decade



Source: Company, MOSL

Exhibit 6: HDFCB - 25% CAGR returns over FY05-15

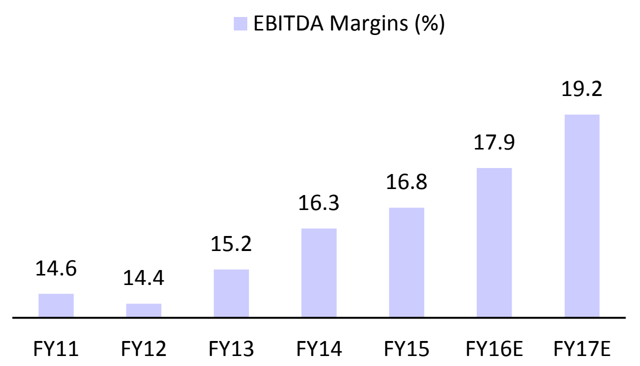


Source: Company, MOSL

Case Study 2: Amara Raja Batteries

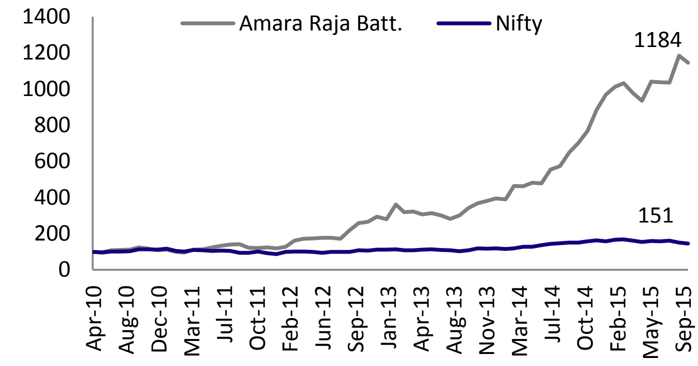
Amara Raja Batteries has created dynamic value by being a successful challenger to the incumbent, Exide since 2000. In this process, AMRJ has garnered 38% share of OEM market and 28% share of the after-market, mainly through technological innovations, witty advertising, and unique franchisee-based distribution model supported with competitive pricing. This led to improving margins and strong stock-price performance over long-term as shown in Exhibit below.

Exhibit 7: EBITDA margin to expand from 16.8% in FY15 to 19.2% by FY17 on back of lower commodity prices



Source: Company, MOSL

Exhibit 8: Stock generated return of 84% CAGR over FY11-FY15

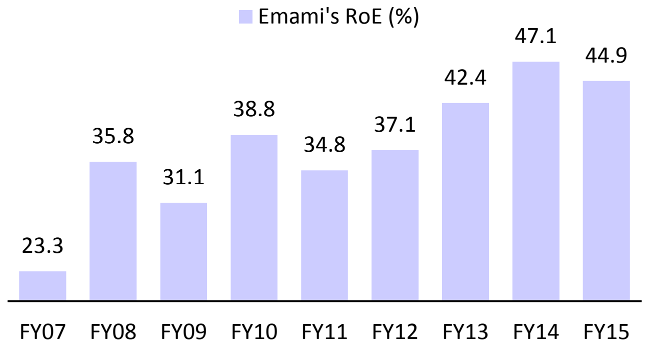


Source: Company, MOSL

Case Study 3: Emami

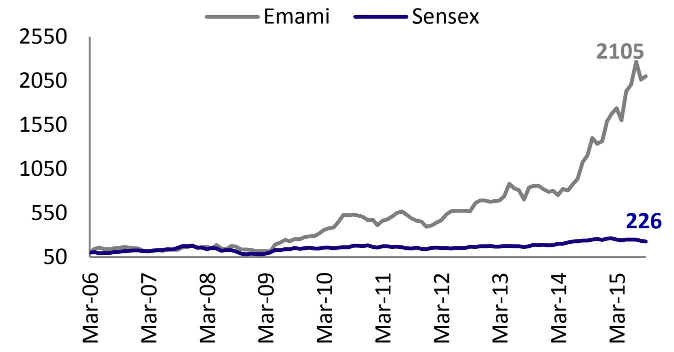
Emami has created dynamic value over long-term by gaining market-share in niche and under-penetrated categories through innovations, coupled with aggressive advertising and promotion strategy. This has resulted in an meaningful improvement in ROE from 23% to 45% over the last 8 years as shown in exhibit below. The subsequent stock-price performance is also highlighted below.

Exhibit 9: Consistently improving RoE (%)



Source: Company, MOSL

Exhibit 10: Performance of Emami v/s Sensex

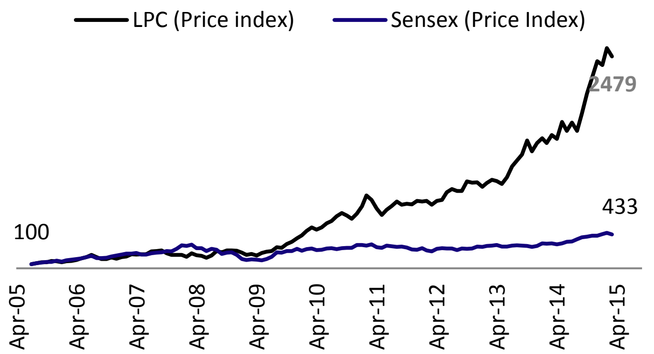


Source: Company, MOSL

Case Study 4: Lupin

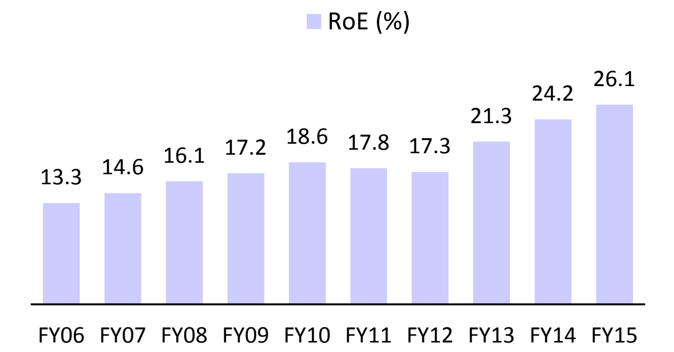
Lupin has created dynamic value over longer-term by improving its product mix from lower margin API revenue stream towards higher margin revenue streams. This has resulted in an improvement in its RoE from 13% to 26.1% over the last decade. Subsequently, the stock has out-performed the benchmark meaningfully over the last 10 years as highlighted in the exhibit 11.

Exhibit 11: Outperformance of LPC vs. Sensex



Source: IMS, MOSL

Exhibit 12: Superior RoEs over time



Source: IMS, MOSL

From theory to practice: The shortlist

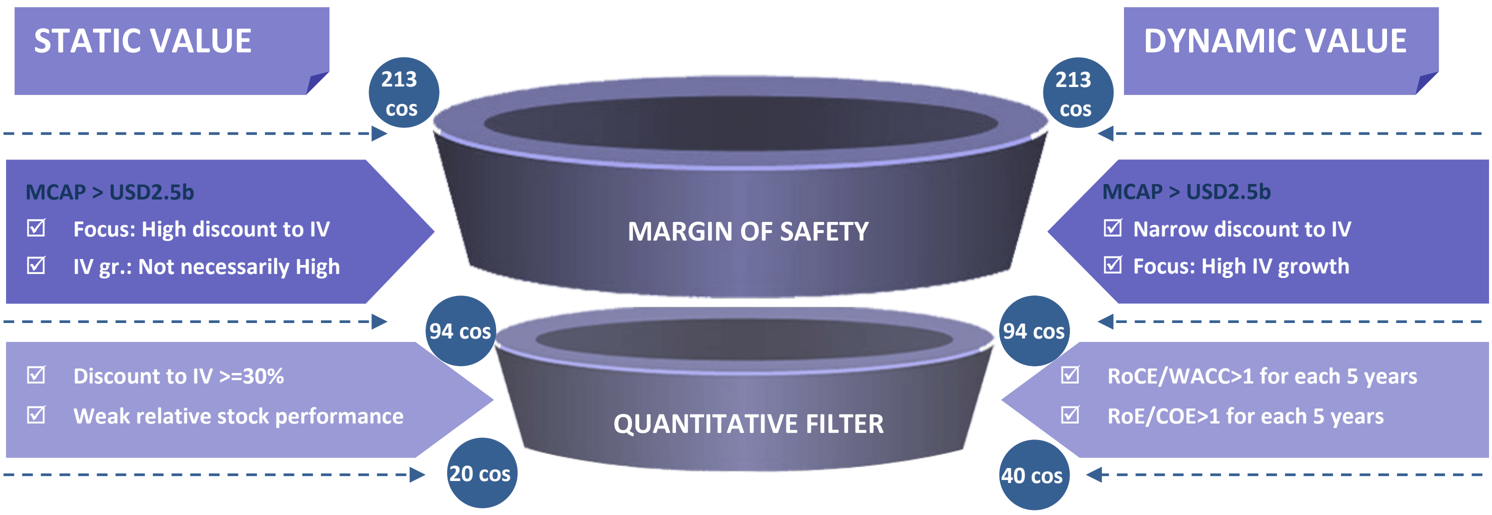
With the above background, we looked through our coverage universe to find investment opportunities that score high on Static Value or on Dynamic Value. A few observations on Static and Dynamic Value from a practical viewpoint:

(a) Stocks with high Static Value are ones with high valuation discount, while underlying business may not necessarily have favorable dynamics over the medium term.

(b) Stocks with high Dynamic Value are ones, wherein returns classified as RoE or RoCE are higher than cost of capital and are on an upward slope over time.

With the above objective in mind, we set out quantitative filters to get to the right catchment area for static and dynamic value stocks within our coverage universe, as highlighted in exhibit below.

Exhibit 13: THE THEME APPLIED TO OUR FRAMEWORK



As a result of this exercise, we narrow down our coverage universe of 213 companies to a shortlist of about 60 companies with the following characteristics:

(a) **Static Value shortlist:** The shortlist of stocks with high Static Value comprises of about 20 companies that satisfy our screening criteria of meaningfully high discount of 30% to our estimate of Intrinsic Value, trading at valuation discount to their history, and have suffered weak stock performance in the past.

(b) **Dynamic Value shortlist:** The shortlist of stocks with high Dynamic Value comprises of about 40 companies that satisfy our screening criteria of strong industry dynamics and high returns on capital over each of the last five years. We reckon that high returns on capital over meaningfully long-period brings out strong company positioning and lessens the impact of economic cycle.

How are the characteristics of Static & Dynamic Value stocks different?

As elaborated in the previous sections, the characteristics of the stocks in each of the categories are material different from each other. A brief summary of such differences in encapsulated in the exhibit below:

Exhibit 14: Comparison of Static Value and Dynamic Value stocks on valuation, growth and return parameters

	P/B (x)			P/E (x)			EPS growth (%)			ROE (%)			ROCE/ROA (%)		
	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Static Value stocks	1.2	1.1	1.0	10.5	8.4	7.7	(3.6)	13.3	16.5	13.0	14.8	15.7	7.2	7.6	8.2
Dynamic Value stocks	6.7	5.6	5.0	31.4	26.7	21.4	10.0	22.4	24.3	22.3	24.9	25.3	19.8	23.2	26.3

Source: MOSL, company

As seen above, the contrasting features are clearly visible between Static Value and Dynamic Value stocks. For example:

The static value stocks have material valuation discount…..

a) The median FY17E P/B(x) of Static Value stocks is nearly one-fifth that of Dynamic Value stocks.

b) Also, median FY17E P/E(x) for Static Value stocks is nearly one-third of Dynamic Value stocks, clearly indicating that Static Value stocks trade at deep discount.

c) Also, static Value stocks under our coverage offer ~50% target price upside compared with ~20% in case of Dynamic Value stocks.

….While dynamic value stocks have materially higher growth and returns

d) Similarly, Dynamic Value stocks have much higher growth forecasts and return ratios as visible in median FY17E EPS growth differential of almost 800bps.

e) Also, the return ratios of dynamic value stocks are materially higher, namely, 1,000bps in the case of RoE and 2,000bps in the case of RoCE.

The complete list of 60 companies along with key metrics can be seen in **Exhibit 16**.

Now, we apply the Good-to-Great theme to cull out our list of most attractive investment opportunities.

The theme: Good-to-Great

What is Good-to-Great?

In the early 2000s, Jim Collins and his research team undertook a 5-year research project to find an answer to the following question:

*Can a **Good** company become a **Great** company and if so, how? Could the findings be generalized to form a timeless, universal framework that can be applied by any organization?*

They encapsulated their findings in the form of a generalized framework highlighted below and noticed that their sample size of such Good-to-Great businesses that made the final cut averaged cumulative stock returns that are 6.9x the general market over the 15 years following their transition point.

The theme: Good-to-Great

We have summarized our understanding of the key blocks below:

a) **Disciplined management:** We refer this as quality of management with regards to capital allocation policies, shareholder focus and a strong drive to succeed.

For example, UltraTech Cement's focus on consistent growth and cost leadership has ensured that it has had no year of revenue decline during the last decade despite being in a cyclical industry.

Post Diageo's assuming control, United Spirits is focusing more on compliance and business ethics, translating into better capital allocation. Also, after 15 years of underinvestment, its power brand portfolio of 14 brands is set to receive significant jump in brand investments.

Larsen & Toubro has incubated and grown service businesses like IT and finance. By creating independent companies for different businesses and listing subsidiaries, it has kept business structure simple and promoted managerial talent.

b) **Disciplined thought:** We looked for businesses wherein management has set out clear goals to widen their moat during the downturn.

For example, having learnt its lessons during the previous deregulation period (2004-06), Indian Oil Corporation has focused on (a) expanding its retail reach, and on (b) improving service/fuel quality at its outlets to levels at par with global standards. This makes it better prepared to stand up to competition from the private sector as and when the industry is fully deregulated.

Maruti Suzuki is focusing on being future-ready by adding more premium products to its bouquet of offerings. Tata Motors has focused on filling gaps in its domestic and overseas product portfolios. ICICI Bank is focusing on capital management to improve return ratios and enhance shareholder value.

c) **Disciplined action:** We focus on those companies that have converted their thoughts into detailed action plan and are in the process of executing the same.

For example, Indian Oil Corporation has (a) almost doubled its outlets (>24,000 now), and (b) automated retail outlets having monthly sales of over 200KL.

UltraTech has been targeting 20-25% of its annual capex on garnering land and limestone reserves, which give it the ability to add 20-25m tons of capacity in a relatively short period.

With the *Ciaz* launch tasting good success, Maruti Suzuki intends to launch several other premium products (*S-Cross*, a premium hatchback, and a compact SUV) over the next 15 months. It has launched *Nexa* dealerships, focusing on premium products.

Tata Motors has planned two launches per annum under JLR, along with several refreshes. Similarly, its India business has also planned two launches per annum till 2020.

ICICI Bank has regularly repatriated capital (USD2b till date) from overseas subsidiaries and increased dividend payout from domestic subsidiaries (INR29b over FY13-15).

d) **Expected results:** We narrow down on those businesses that have translated all the management strategy and action points into improving market-share, operating margins or returns on capital employed over the next 3 years.

For example, we expect Indian Oil Corporation's profit to more than double by FY18, led by lower interest cost and higher marketing margins and RoE should sustain at >15%.

For IDFC, we expect RoE to be healthy at 11-12% in the first full year of operations as a bank and then steadily rise to ~18% in the next four years.

Larsen and Toubro's consolidated RoE is likely to increase from 14% to 20% over the next three years.

Maruti Suzuki's market share should increase by ~200bp to ~48% over FY15-18.

For United Spirits, we look for EBITDA margin of 20% by 2020 against our estimate of 12.6% for FY17. Its market share in the Prestige+ segment should inch up by 100-150bp per annum. We also expect its net debt to halve by FY18.

Has Good-to-Great worked in Indian equities?

We back-test the theme to understand and illustrate that following this theme has been a fruitful investing experience within Indian equities in the past.

In this context, we present our thoughts on Britannia and Eicher Motors as examples of Static Value and reflect on their performance over the last three years.

- **Britannia:** Following seven years of stagnant profits, Varun Bery, the newly-appointed CEO, generated a thought of premiumization. He chose five brands to focus on and concentrated advertising spending in these brands.

  This resulted in revenue CAGR of 12%, EBITDA margin expansion of 500bp, and RoCE expansion from 16% to 54% over the next three years. During this process, the stock outperformed the local benchmark by 750%.

- **Eicher Motors:** Following its initial success, the management of Eicher Motors generated a thought of extending its dominant position in leisure bikes and followed this up by action of tripling capacity over three years, expanding the target segment through model launches, and entering multiple countries.

  This resulted in a volume CAGR of 63%, EBITDA margin expansion of 1,300bp, while returns improved by 1,500bp over the next three years. During this process, the stock outperformed the local benchmark by 1,400%.

Also, we highlight HDFC Bank as an example of Dynamic Value stock over 10-year period.

- **HDFC Bank:** HDFC Bank set out a three-pronged thought of growing its retail banking franchise, lowering its cost of funds, and focused expansion almost a decade ago. With a stable management team, the bank achieved flawless and disciplined execution on all these counts.

  This has resulted in an earnings CAGR of 33% since inception, along with industry leading RoA of 2%. Over the last 10 years, the stock has outperformed the local benchmark by 129%.

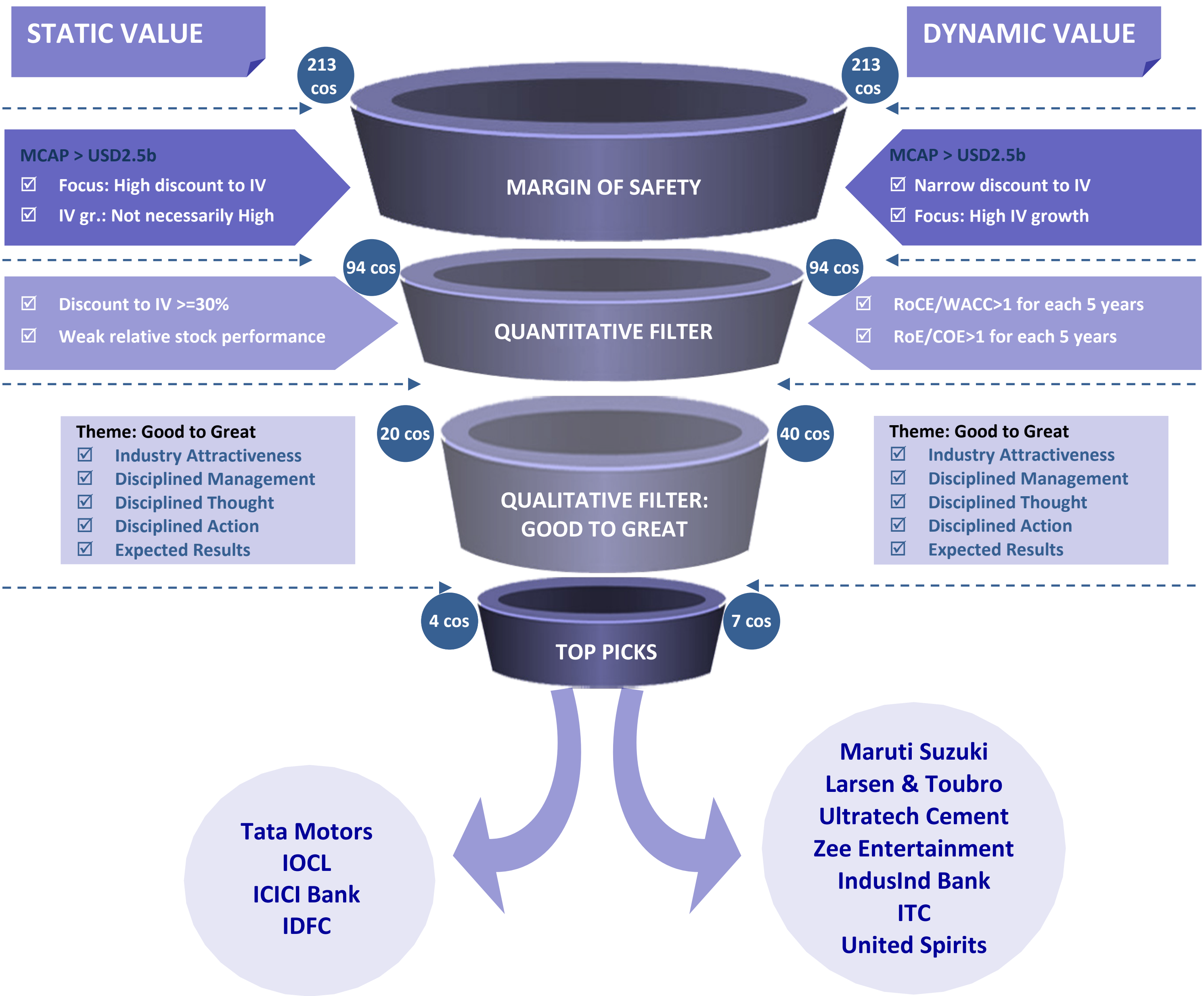
A detailed account of the industry dynamics, key elements of management strategy along with the actions and the results are presented in annexure-III.

Applying Good-to-Great theme to our Framework

From shortlist to top picks

We put together all the concepts discussed earlier in the following exhibit to illustrate our process to get to our top picks within our coverage universe.

Exhibit 15: THE THEME APPLIED TO OUR FRAMEWORK



Post our initial screening driven by quantitative filters, we sieve through the list of about 60 companies with a fine comb to look for those companies have all attributes of our Good-to-Great theme. A summary of our key observations during this process is highlighted below:

(a) **Industry attractiveness is a key differentiating factor between Static and Dynamic Value:** We note 84% of companies rich in Dynamic Value score high on favorable industry dynamics, while only 48% of the companies in the Static Value shortlist have similar dynamics.

(b) **While most companies had disciplined thought, winners followed this up by disciplined action.** We note that 70-80% of the companies in the shortlist had disciplined thought, but only 50% followed up with disciplined action.

A brief description of how our top picks across each of the elements of Good-to-Great theme is summarized below.

Static Value Applications

Industry Attractiveness: Drives Intrinsic Value Growth

Tata Motors

- ☑ The global luxury car industry has grown at a CAGR of ~17% over CY10-14, driven by a CAGR of ~26% in China. While Chinese luxury car demand has cooled off, with ~3% growth in 1HCY15, the long-term growth potential of Chinese markets remains intact.
- ☑ JLR is a niche player in the global luxury car market, with ~8% share. While it enjoys strong brand equity in SUVs, it is yet to enjoy similar success with *Jaguar* in luxury cars.
- ☑ India CV business is expected to benefit from cyclical recovery. However, increasing competitive intensity would result in pressure on market share / margins.

IOC

- ☑ Per capita consumption to move towards world average: At 160 liters, India's per capita petroleum consumption is significantly lower than the world average of 730 liters. Increasing vehicle population led by per capita GDP growth would boost India's per capita petroleum consumption.
- ☑ Oligopolist market: Three players control 99% of market (IOCL's share at ~46%).
- ☑ IOCL well placed for next 2-3 years led by (a) higher volume growth (1x of GDP), (b) negligible private player presence, and (c) pricing power, led by auto fuel deregulation.

ICICI Bank

- ☑ India presents a huge opportunity for banks. Only 40% of the population has access to banking. Credit-to-GDP is just ~52% against an average of ~90% for emerging markets and ~100% for developed markets.
- ☑ Deepening financial penetration, increasing urbanization, and expansion of private banks into rural and semi-urban areas would drive retail loan growth. Consumer loans-to-GDP stands at just 15% against 20%+ for major economies.

IDFC

- ☑ India presents a huge opportunity for banks. Only 40% of the population has access to banking. Credit-to-GDP is just ~52% against an average of ~90% for emerging markets and ~100% for developed markets.
- ☑ The industry is likely to grow at a CAGR of 18%+ over the next five years.
- ☑ Incumbent state-owned banks still have 75%+ market share. In this digital era, private sector banks should continue to gain share, with superior products and services.

Disciplined Management: Credibility builds over time

Tata Motors

- ☑ Recently, Mr Cyrus Mistry took over as Chairman of Tata Motors (TTMT). Further, TTMT appointed Mr Mayank Pareek (ex-Marketing Head of Maruti Suzuki) as Head – PV Business, to revive its lost franchise in PVs.
- ☑ Since TTMT's acquisition of JLR, it has been investing aggressively in building capabilities in products, capacity and global footprint.
- ☑ India business has seen significant pressure on balance sheet due to continued investments in products, impacting medium-term capital efficiency.

IOC

- ☑ Effective capital allocation: Besides focusing on its core business of marketing and refining, IOCL has also invested meaningfully in petrochemicals and pipelines.
- ☑ High payouts: While government (69% ownership) policies have influenced its profitability, IOCL has rewarded minority shareholders with high dividend payout.
- ☑ Diversified earnings: Though refining margins are volatile, IOCL's investments in petchem (6% of EBITDA) and pipelines (~20% of EBITDA) ensure earnings stability.

ICICI Bank

- ☑ Since Ms Kochhar took charge in 2009, ICICI Bank (ICICIBC) has focused on improving profitability (16% PAT CAGR over FY10-15), with structural changes in ALM profile (helping NIM to expand ~100bp) and strong cost control (700bp decline in cost-to-income ratio to 37%, the lowest since 2002), leading to RoA improvement (from 1% in FY09 to 1.6%).
- ☑ Growth consolidation and profit focus has helped improve subsidiaries' performance. From a loss of INR6.7b in FY08, they posted a PAT of INR33.7b in FY15.
- ☑ Focus on subsidiaries is now bearing fruits - have now started throwing back capital

IDFC

- ☑ IDFC is an infrastructure financier, generating RoE of 12-15%. Despite the infrastructure segment going through tough times, IDFC has maintained healthy profitability while creating floating provisions on the balance sheet.
- ☑ Corporate governance levels are best in class; this has helped IDFC to become one of the two from 26 contenders to get a banking license from the RBI.

Disciplined Thought: Leveraging the economic down-turn

Tata Motors

- ☑ Focus on products: JLR has been focusing on filling gaps in its product portfolio. Similarly, India PV business is focused on correcting under-investment in products.
- ☑ Focus on modular platform: JLR is focused on improving its platform efficiency by increasing model to platform ratio, in turn reducing capital intensity.
- ☑ Focus on diversification of manufacturing footprint: JLR's manufacturing base is entirely located in UK, resulting in high cost structure and forex volatility on imports.

IOC

- ☑ Geared to counter private competition: Having learnt its lessons during the previous deregulation period (2004-06), IOCL (a) has almost doubled its outlets (>24,000 now) to ensure wide reach, and (b) is focusing on improving service/fuel quality at its outlets to levels at par with global standards.
- ☑ Financial cost control in difficult times: While debt levels were high (peak D/E of 1.4x) in an era of high under-recoveries (FY11-14), the management significantly increased the share of overseas loans to cut interest costs.

ICICI Bank

- ☑ The management is focusing on secured loans to augment loan market share and maintain healthy credit quality. The retail segment remains a key focus area.
- ☑ It is focusing on capital management to improve return ratios and enhance shareholder value, in which subsidiaries would play a major role.
- ☑ To sustain dilution-free growth, ICICIBC is focusing on core profitability. It has enhanced margins and operating leverage, and is keeping a check on credit cost.

IDFC

- ☑ Focus on long-term shareholder value creation even at the cost of immediate profitability
- ☑ Diversification: Considering the challenges in infrastructure financing, the management focused on diversification of assets and liabilities.
- ☑ For the banking business, IDFC is focusing on innovation, technology and cross-selling to existing customers to increase profitability.

Disciplined Action: Putting Strategy to Work

Tata Motors

- ☑ Focus on products: JLR has planned two launches per annum, along with several refreshes. This will help to fill gaps in its portfolio and expand addressable market manifold. Similarly, India business has also planned two launches per annum till 2020.
- ☑ Focus on modular platform: Modular platform strategy is on track, with target of four cars per platform by FY18-19 (currently, two cars per platform).
- ☑ Focus on diversification of manufacturing footprint: JLR now has plants in China and Brazil (upcoming), and is planning a plant in East Europe (Slovakia).

IOC

- ☑ Continuous capex to match volume growth: With 6-8% auto fuel volume growth, IOCL will continue its retail network expansion to grow market share from the current ~46%.
- ☑ Focus on low cost expansions: Post 15mmt greenfield refinery at Paradeep, medium-term expansions will be brownfield, and hence, cost effective.
- ☑ Improving retail network efficiency: (a) Automated retail outlets with >200KL per month – ready for differential pricing, (b) increased pipeline network – lowers logistics cost.

ICICI Bank

- ☑ Healthy retail loan growth: Retail loans have grown at a CAGR of 24% over FY13-15. The share of the retail segment has increased from 37% in FY12 to 42% in FY15. By moderating growth in loans to sensitive sectors (3% CAGR over FY13-15), ICICIBC has gradually lowered its exposure to these sectors to ~16%.
- ☑ ICICIBC has regularly repatriated capital (USD2b till date) from overseas subsidiaries and increased dividend payout from domestic subsidiaries (INR29b over FY13-15).
- ☑ Focus on operating leverage: Employees/branch have halved to 16 since 2008, CASA ratio has doubled, and share of retail fees has grown from 33% in 2011 to 52%.

IDFC

- ☑ During the troubled times of FY12-15, IDFC’s loan CAGR was just 2%. It created provisions of ~4% of loans though reported NPAs were lower at <0.5%. Further, it also created provisions of 60bp on disbursements.
- ☑ IDFC is one of the two from 26 contenders to receive a banking license. Operating under the banking model would enhance sustainable RoE by ~500bp.

Expected Results: Strong improvement in returns

Tata Motors

- ☑ Success of *Jaguar XE* and *F-Pace* should result in ~2% market share gain for JLR in the luxury vehicle segment, and drive benefits of operating leverage for JLR.
- ☑ JLR's margins would see step-down due to (a) normalization of margins in China business, and (b) accounting for JV. We expect JLR's reported EBITDA margin to decline 380bp by FY18 (as compared with FY15).
- ☑ However, strong volume growth in JLR (~13% CAGR incl JV) and sharp India business recovery would drive ~16% EPS CAGR over FY15-18.

IOC

- ☑ IOCL's profit is likely to more than double, led by fall in interest cost and higher marketing margins (we model an increase from INR1.4/liter to INR2.4/liter by FY18). RoE should sustain at >15%.
- ☑ While refining margins would be governed by global demand-supply; likely higher marketing margins provide predictability to its earnings and should lead to re-rating, in our view. Fair value of INR570 implies 44% upside. The stock trades at 7.2x FY17E EPS.

ICICI Bank

- ☑ In the medium term, we expect loan growth to continue being driven by the retail segment (25%+ CAGR), with funding from relatively low cost retail liabilities.
- ☑ Cost control and productivity gains should continue. Focus on core profitability would lead to further improvement in core RoE (~17% in FY17, up 150bp from FY15).
- ☑ Release of capital from subsidiaries would ensure dilution-free growth till FY18.

IDFC

- ☑ RoE is expected to be healthy at 11-12% in the first full year of operations as a bank and then steadily rise to ~18% in the next four years.
- ☑ IDFC would command significantly higher value as a bank (with higher retail deposits and loans) than as an infrastructure financier.
- ☑ Investors are likely to focus more on the expected improvement in business, higher and sustainable RoE, strong management team, and good corporate governance.

Dynamic Value Applications

Industry Attractiveness: Enables Intrinsic Value Growth

IndusInd Bank

- ☑ Low Credit-to-GDP is just ~52% against an average of ~90% for emerging markets and ~100% for developed markets presents tailwind.
- ☑ With consumer loans-to-GDP stands at just 15%, industry loan growth is expected to be at 18%+CAGR over medium-term.

ITC

- ☑ Lower per capita cigarette consumption in India of 1/18th of China, 1/10th of USA, leaves ample scope for growth.
- ☑ ITC has an effective monopoly, with ~84% value share in organized segment. While industry volumes have grown at ~1.5% over FY95-15, ITC's volumes have grown at a CAGR of 2.4%.

Larsen & Toubro

- ☑ With Infrastructure spending (as % of GDP) having declined to 3-4% from peak levels of 7-8%, we expect meaningful traction as large projects in segments like urban infrastructure, water & irrigation, railways, and power T&D pick up.
- ☑ Manufacturing segments like defense, power generation, and forgings provide strong opportunities. Another important driver is industrial capex – particularly hydrocarbons, metals, and fertilizers – both in India and overseas.

Maruti Suzuki

- ☑ After muted volumes in last 4 years, India's personal vehicle (PV) industry is poised for strong growth of 15%+ CAGR, driven by economic recovery, increasing penetration and muted fuel inflation (vs. 13% CAGR over last 5 years).
- ☑ As an industry leader in domestic PV market, with ~46% share, we expect MSIL to benefit disproportionately over medium-term.

UltraTech Cement

- ☑ With half per capita cement usage in India compared with global average leaves material scope of expansion. The industry is also cyclically poised for recovery after prolonged weakness. We expect 8-10% growth in FY17/18.
- ☑ In a consolidated market, UTCEM is the industry leader, enjoys 15-30% market share across regions and hence, could benefit in an economic uptick.

United Spirits

- ☑ Lower per capita consumption of 0.9 in India vs. world average of 4.6 liters, up-trading from country liquor to branded ones presents significant opportunity. We expect the industry to post healthy double-digit value CAGR.
- ☑ United Spirits (UNSP) enjoys a dominant position, with ~42% volume market share and several first mover advantages in a regulated industry.

Zee Entertainment

- ☑ Ongoing digitization of analog cable platform would drive incremental lucrative yearly subscription opportunity, implying 22% revenue CAGR till FY2020.
- ☑ ZEE is uniquely positioned as one of the only two networks having a leading GEC across Hindi/major regional markets along with presence across all relevant genres.

Disciplined Management: Credibility builds over time

IndusInd Bank

- ☑ IndusInd Bank (IIB) is a classic case of management change (Mr Sobti and his team took charge in 2008) scripting a turnaround in fortunes.
- ☑ The management targets to be a forerunner in terms of profitability (RoA best in class at 1.9% in FY15; up from 35bp in FY08), productivity (profit/employee up 4x over FY08-15), and efficiency (C/I ratio down from 68% in FY08 to 46%).

ITC

- ☑ ITC has consciously diversified its business in last decade – non-cigarette FMCG, with INR90b sales, now contributes 18% of gross revenue vs. 4% a decade ago.
- ☑ ITC has demonstrated excellence in managing its core cigarettes business, with 12 consecutive years of margin expansion, despite punitive legislative actions.
- ☑ Dividend payout ratio in last 5 years has been ~60% against ~40% over 2000-10.

Larsen & Toubro

- ☑ L&T has continuously evolved by building new skill sets and competencies to effectively benefit from emerging trends. It has incubated and grown service businesses like IT and finance and expanding share of manufacturing businesses like power BTG, defense, and forgings.
- ☑ By creating independent companies for different businesses and listing subsidiaries, it has kept its structure simple and promoted managerial talent.

Marusti Suzuki

- ☑ The management has been focused on increasing localization and reducing imports (from ~27% to 15-16% of net sales) over the last two years.
- ☑ They plan to outsource manufacturing to the parent on cost basis to reduce capital intensity, and improve FCFF and RoIC profile without diluting low cost structure.

UltraTech Cement

- ☑ UTCEM has an impressive track record, with focus on consistent growth and cost leadership. It has had no year of revenue decline during the last decade.
- ☑ UTCEM has prudently used the economic downturn to add capacity headroom and critical resources like land and limestone for future growth.

United Spirits

- ☑ After Diageo transaction, complexion of the company is set to change with clear focus on value growth, right brand investments and balance sheet deleveraging.
- ☑ Disproportionate focus on compliance and ethics means better allocation of capital, a key improvement vis-à-vis the erstwhile management.

Zee Entertainment

- ☑ ZEE has a young and dynamic management team in place. Post Mr Punit Goenka taking over as the MD in 2010, ZEE went through a restructuring process.
- ☑ Inter group balance sheet exposures were largely eliminated so as to bring forth discipline in capital allocation.
- ☑ The entire entertainment business was brought into one fold, with the merger of the fast growing regional business with ZEE

Disciplined Thought: Leveraging the economic down-turn

IndusInd Bank

- ☑ In the current Three-year planning cycle (2014-17), management plans to:

a) Focus on loan growth at double that of industry by capitalizing on niche areas (vehicle loans).
b) Build at least 15 home markets (5%+ branch share) to sustain savings accounts.

ITC

- ☑ Despite four consecutive years of 15%+ excise duty hikes, ITC continues to pass on duty hikes to consumers through price increases and use its wide product portfolio (presence across segments) to retain market-share in cigarettes.
- ☑ It plans to become a FMCG player by entering into various Home & Personal care and Foods categories. Notably, it has set target of INR1t for FMCG-others by 2030 from the current INR90b.

Larsen & Toubro

- ☑ L&T intends to increase opportunity set in its core E&C business by building competencies in emerging segments and build manufacturing businesses in long term (including from privatization of defense and entry into power BTG).
- ☑ It plans to improve capital allocation through various initiatives and thus improve consolidated RoE.

Maruti Suzuki

- ☑ Focus on rural markets: To offset the cyclical downturn in urban markets, MSIL has started to develop underpenetrated rural markets.
- ☑ Focus on product portfolio expansion: During downturn, MSIL has focused on launching new products to retain freshness in model-cycle.
- ☑ Focus on premiumization: MSIL is focusing on being future-ready by adding more premium products to its bouquet of offerings.

UltraTech Cement

- ☑ Ultratech plans meaningful capacity addition and attenuate growth constraints though backward integration to remain prepared for an industry upcycle.
- ☑ **Cost leadership:** UTCEM continues to focus on optimizing energy mix, logistics and synergies to widen profitability gap vs. peers (10-15% above Ambuja now).

United Spirits

- ☑ Drive premiumization through power brand portfolio of 14 brands is the key priority and represents a strategic departure from the past.
- ☑ Cost leadership: To drive cost cuts across all P&L line items – RM, PM, overheads. Notably, it has appointed AT Kearney to identify areas of cost saving.
- ☑ Deleveraging: Over next 3 years, UNSP plans to raise INR20b by divesting non-core assets.

Zee Entertainment

- ☑ Grow market leadership: ZEE aims to be amongst top global media conglomerates and is targeting 4-5x growth in viewership and content consumption by the year 2020.
- ☑ High cost discipline to drive superior margins: With best-in-class cost management and margin focus, we believe target EBITDA margin of 30%+ is achievable.

Disciplined Action: Putting Strategy to Work

IndusInd Bank

- ☑ Management plans to focus on high yielding retail loan portfolio by capitalizing on strong presence in vehicle loans and addition of new retail products.
- ☑ Increase share of low cost CASA deposits (15.5% in FY08 to 34%) through focused branch expansion and improving brand image.
- ☑ Gain forex MS (from 1% in FY08 to ~4%) from state-owned banks, driven by lower turnaround time.

ITC

- ☑ To counter the impact of higher price points, ITC is tactically driving 64mm segment to capture down-trade from 69mm with similar percentage margins.
- ☑ Inorganic initiatives like acquisition of brands like *B-Natural*, *Savlon* and *Shower to Shower* to aid INR1t FMCG-others revenue target by 2030.

Larsen & Toubro

- ☑ L&T has expanded offerings across segments, with competency additions in power T&D, water, smart cities, and renewables among others.
- ☑ It has invested ~INR100b in setting up manufacturing businesses (defense, power BTG, forgings), which are difficult to replicate.
- ☑ It is focusing on improving RoE through monetization of mature assets, exiting non-core activities, and fund infusion (including listing of subsidiaries).

Maruti Suzuki

- ☑ It plans to ramp its rural presence and focus on select customer groups not impacted by slowdown like government employees, teachers, priests.
- ☑ The parent, Suzuki is planning to launch 20 new models globally in 5 years, large part of which would be launched in India.
- ☑ Following on from success of *Ciaz*, MSIL plans to launch several premium products (*S-Cross*, a premium hatchback, and a compact SUV) and *Nexa* dealerships, focusing on premium products over next 15 months.

UltraTech Cement

- ☑ Growing capacity, gaining market share: Capacity is likely to grow 45% over FY14-16, aided by both organic and inorganic initiatives.
- ☑ Cost optimization underway: Initiatives like higher pet coke mix, waste heat recovery, logistics enhancements have begun showing cost benefits.

United Spirits

- ☑ Re-launching premium brands: New look *Royal Challenge* has already been rolled out. Next brands to hit the market – *McDowell No 1*, *Antiquity*, *Signature*.
- ☑ Cost leadership: High cost plants have been closed in West Bengal and Kerala. UNSP sold direct operations in Tamil Nadu and plans to replicate this in Kerala.
- ☑ Divestment of non-core assets to help pay off debt.

Zee Entertainment

- ☑ Expanded channel portfolio: Almost 1/3rd of ZEE's channel portfolio has been launched since FY12, including biggest launch '&TV', aimed at non-ZEE viewers.
- ☑ Continued operating leverage: ZEE is confident of flat margins in FY16 despite higher investments, implying continued operating leverage in existing portfolio.

Expected Results: Strong improvement in returns

IndusInd Bank

- ☑ Healthy core revenues (5.6% of assets: best in industry), strong growth, high margins and productivity gains should enable steady-state RoA of 2%+ and ~30% earnings CAGR over FY15-18.
- ☑ Recent capital infusion would result in >600bp increase in tier-I ratio – sufficient for 3-4 years of 25%+ loan growth.
- ☑ CASA ratio is expected to improve by 500bp+ to ~40% over FY15-18.

ITC

- ☑ We expect operating margins to expand from 37.4% in FY15 to 39.2% in FY17.
- ☑ RoE and RoCE should remain steady at 33-34% and 40-42%, respectively.
- ☑ We view ITC as a medium-term play, given its dominance in its core franchise, relatively cheap valuations in consumer universe, and muted expectations.

Larsen & Toubro

- ☑ Core E&C revenue could double over next three years, as domestic intake in FY15 was INR943b while revenue was INR460b.
- ☑ ‘Portfolio churn’ in concession portfolio and service segments would aid value unlocking. Manufacturing business would be an important growth driver.
- ☑ We expect consolidated RoE to improve from 14% to 20% over next 3 years.
- ☑ Infotech / Tech Services IPO is expected by July 2016.

Maruti Suzuki

- ☑ We expect MSIL’s market share increase (of ~200bp), coupled with better mix would drive ~20% revenue CAGR in FY15-18.
- ☑ Discount moderation (+150bp over FY15), weak commodity prices (~100bp) and op. leverage (50bp) could improve margin, leading to ~42% EPS CAGR (FY15-18).
- ☑ We expect RoE to improve by ~6pp to 22.6%, RoIC by 33.7pp to 59.3% by FY18.

UltraTech Cement

- ☑ Growth: UTCEM would have ~18% capacity market share by FY18, aiding industry-leading volume growth (11-12%) and strong operating leverage.
- ☑ Significant margin/RoE expansion: Cost initiatives and increase in pricing power would drive 7-8pp margin and RoE expansion over FY16-18.
- ☑ Self-sustaining growth: FCFE generation of INR40b-45b per year from FY18 would help annual capacity growth of ~8% using only internal accruals.

United Spirits

- ☑ We expect EBITDA margin to expand to 12.6% by FY17, as initial rounds of cost saving kick in. We build in 20% EBITDA margin by 2020.
- ☑ We expect UNSP’s market share to remain steady in the Popular segment, but inch up 100-150bp per annum in the Prestige+ segment.
- ☑ We also expect net debt to halve by FY18 from the existing INR46b [D/E of 1.3x].

Zee Entertainment

- ☑ 20% revenue CAGR: 22%/24% ad/domestic subs revenue CAGR led by mkt share gains in rebounding ad market and increase in broadcasters' share of subscription revenue
- ☑ 25%+ EBITDA/PAT CAGR: EBITDA/PAT to double over FY15-18 (we are 10-20% above consensus). EBITDA margin to rebound sharply in FY17/18 to ~30% by FY18. We model 170bp margin decline in FY16 due to first year losses for &TV
- ☑ RoE/RoCE of 30%+: RoE of 30%+; RoCE to increase from 27% to 36% (FY15-18).

A detailed account of the industry dynamics, key elements of management strategy along with the actions and the results is presented in annexures.

Exhibit 16: The complete list of 60 companies along with key metrics

Company	Sector	Static Value	Dynamic Value	Industry Attractiveness	Disciplined Management	Disciplined Thought	Disciplined Action	Expected Results	Mkt Cap (USD B)	P/B (x) FY15	FY16E	FY17E	FY18E	P/E (x) FY15	FY16E	FY17E	FY18E	EPS growth (%) FY15	FY16E	FY17E	FY18E	ROE (%) FY15	FY16E	FY17E	FY18E	ROCE/ROA (%) FY15	FY16E	FY17E	FY18E
Bajaj Auto	**Auto**	Y		N	Y	Y	Y	Y	9.5	6.0	5.2	4.4	3.8	21.0	16.9	13.1	12.0	-6.0	23.9	29.0	9.2	30.0	33.0	36.5	34.2	42.7	46.5	49.1	47.1
Tata Motors	**Auto**	Y		Y	Y	Y	Y	Y	15.8	1.8	1.4	1.1	0.9	7.4	7.5	6.0	4.6	-1.1	-1.0	25.3	30.0	23.1	21.9	21.2	22.3	24.2	18.0	18.5	19.6
ACC	Cement	Y		Y	Y	Y	N	N	3.9	3.1	3.0	2.9	2.6	29.5	32.4	19.0	12.9	-5.3	-9.1	70.9	47.4	10.7	9.5	15.8	21.6	13.4	12.2	20.4	27.7
Cadila Health	Healthcare	Y		Y	N	N	N	N	5.7	8.8	6.7	5.0	3.8	31.2	23.3	17.4	13.5	45.5	33.7	34.3	28.7	30.8	34.7	34.8	32.3	24.9	31.2	33.3	33.2
Hindustan Zinc	Metals	Y		N	N	Y	Y	N	7.8	1.3	1.2	1.1	1.0	6.9	8.2	8.0	7.8	18.0	-16.4	3.1	1.5	20.1	14.9	13.9	12.9	22.5	16.9	16.5	15.5
Cairn India	Oil & Gas	Y		N	N	N	N	N	3.5	0.5	0.5	0.4	0.4	6.1	8.6	9.8	8.1	-63.3	-28.7	-11.9	20.7	12.0	5.3	4.5	5.3	12.2	6.0	6.4	7.4
HPCL	**Oil & Gas**	Y		Y	Y	Y	Y	Y	3.9	1.7	1.4	1.3	1.1	9.7	8.0	7.4	6.5	57.6	21.9	8.2	13.0	17.6	19.3	18.4	18.5	11.0	14.5	14.2	14.8
IOC	Oil & Gas	Y		Y	Y	Y	Y	Y	13.8	1.4	1.3	1.1	1.0	30.5	7.8	7.4	6.4	-39.2	289.9	5.8	15.2	4.7	17.2	16.1	16.7	6.4	16.4	15.5	16.5
Oil India	Oil & Gas	Y		N	Y	Y	N	N	3.9	1.2	1.1	1.0	0.9	10.5	7.4	6.6	6.2	-15.8	40.6	13.0	6.6	11.7	15.3	15.9	15.5	12.8	17.6	18.3	18.3
ONGC	Oil & Gas	Y		N	Y	Y	N	N	29.2	1.0	1.0	0.9	0.8	10.8	7.7	6.3	5.9	-32.0	40.6	22.7	5.9	10.0	13.1	14.7	14.2	9.3	10.9	12.3	12.1
DLF	Real Estate	Y		N	N	N	N	N	2.6	0.7	0.7	0.7	0.7	38.4	23.4	19.7	15.2	-16.5	64.0	19.0	29.8	1.9	3.0	3.5	4.4	5.7	6.9	7.3	8.0
NTPC	Utilities	Y		N	N	Y	Y	N	14.2	1.2	1.2	1.1	1.0	10.4	9.8	8.6	6.8	-8.9	6.8	13.9	25.7	10.8	12.2	13.8	16.0	8.4	9.7	11.3	13.3
Power Grid Corp.	Utilities	Y		N	N	Y	Y	N	10.3	1.7	1.5	1.4	1.3	12.7	11.3	9.2	8.8	13.1	13.1	21.8	4.9	13.9	14.3	15.8	15.0	8.0	8.3	9.0	9.0
Axis Bank	Banking	Y		Y	Y	Y	Y	Y	17.2	2.5	2.1	1.8	1.6	15.1	12.8	10.8	9.1	17.3	18.3	18.7	18.6	17.8	18.0	18.4	18.7	1.7	1.8	1.8	1.8
ICICI Bank	**Banking**	Y		Y	Y	Y	Y	Y	23.4	2.2	2.0	1.7	1.5	13.4	11.8	10.0	8.4	13.5	13.2	17.8	18.9	15.2	15.0	15.6	16.3	1.8	1.8	1.8	1.8
IndusInd Bank	Banking	Y		Y	Y	Y	Y	Y	7.5	4.3	2.9	2.5	2.2	24.8	20.1	16.1	12.6	26.5	23.5	24.5	27.8	19.0	18.0	16.8	18.5	1.8	2.0	2.1	2.2
State Bank	Banking	Y		Y	N	Y	Y	Y	27.5	1.1	1.0	0.9	0.8	9.9	8.8	7.1	5.6	19.9	12.0	23.9	27.3	11.9	12.1	13.4	15.2	0.7	0.7	0.8	0.8
IDFC	**NBFCs**	Y		Y	Y	Y	Y	Y	3.0	1.2	1.1	1.0		11.5	13.1	11.1		-6.1	-12.6	18.5		10.9	10.1	11.4	13.9	2.3	1.1	1.5	1.6
Power Finance Corp	NBFCs	Y		N	N	N	N	N	3.9	0.8	0.7	0.6	0.5	4.3	3.8	3.3	2.9	12.1	13.3	15.3	15.8	20.7	20.3	20.2	20.2	3.1	3.1	3.1	3.1
Rural Electric. Corp.	NBFCs	Y		N	N	N	N	N	3.3	0.9	0.8	0.7	0.6	4.5	3.7	3.1	2.7	7.6	20.4	19.4	16.3	22.7	22.9	22.9	22.3	3.2	3.2	3.2	3.2
Shriram Transport Fin.	NBFCs	Y		Y	N	N	N	N	2.8	2.1	1.9	1.6	1.4	18.9	13.1	10.6	8.4	-24.3	44.0	24.1	25.8	14.1	14.7	16.5	17.9	2.0	2.2	2.5	2.7
* ROE/ROA for IDFC Bank; scheduled to start operations in 2HFY16																													
Eicher Motors	Auto		Y	Y	Y	Y	Y	Y	7.5	19.5	16.0	10.6	5.3	79.9	49.6	28.5	17.9	55.6	61.2	73.9	59.5	26.9	35.4	44.7	34.3	27.6	38.3	52.5	43.8
Maruti Suzuki	**Auto**		Y	Y	Y	Y	Y	Y	19.3	5.2	4.5	3.7	3.0	32.4	22.9	16.2	12.6	32.9	41.7	40.9	29.0	15.7	19.2	22.7	23.8	20.8	26.5	30.1	31.6
Bajaj Auto	Auto		Y	N	Y	Y	Y	Y	9.5	6.0	5.2	4.4	3.8	21.0	16.9	13.1	12.0	-6.0	23.9	29.0	9.2	30.0	33.0	36.5	34.2	42.7	46.5	49.1	47.1
Mahindra & Mahindra	Auto		Y	Y	N	Y	Y	N	11.6	3.4	3.0	2.5	2.2	23.3	15.5	11.4	9.0	-34.2	50.4	35.9	26.9	15.9	16.9	18.0	17.2	16.3	18.7	20.2	19.5
Bharat Forge	Auto		Y	Y	Y	Y	Y	Y	3.9	7.3	6.0	4.9	3.9	34.2	26.0	19.5	15.1	64.8	31.5	33.0	29.0	24.1	25.4	27.7	28.7	22.0	26.5	30.6	34.0
Havells India	Capital Goods		Y	Y	Y	Y	Y	Y	2.3	8.8	7.6	6.4	5.4	31.0	27.5	21.5	17.2	-4.7	12.9	27.6	25.2	28.4	27.6	29.9	31.2	27.7	35.7	40.0	43.3
Bharat Electronics	Capital Goods		Y	Y	Y	N	N	Y	3.8	3.3	2.9	2.6	2.3	22.2	19.6	16.7	16.6	25.4	12.9	17.9	0.5	14.7	14.7	15.3	14.1	18.5	18.5	19.2	17.6
Cummins India	Capital Goods		Y	Y	Y	Y	Y	Y	4.4	10.1	9.1	8.0	6.9	42.8	35.0	28.3	24.3	15.9	22.4	23.4	16.6	23.6	25.9	28.3	28.3	22.2	24.3	27.3	28.4
Larsen & Toubro	**Capital Goods**		Y	Y	Y	Y	Y	Y	22.7	3.8	3.5	3.1	2.7	31.7	29.4	22.2	15.8	11.5	7.8	32.4	40.0	12.9	13.3	15.1	17.5	11.9	12.1	13.5	15.6
ACC	Cement		Y	Y	Y	Y	N	N	3.9	3.1	3.0	2.9	2.6	29.5	32.4	19.0	12.9	-5.3	-9.1	70.9	47.4	10.7	9.5	15.8	21.6	13.4	12.2	20.4	27.7
Ultratech Cement	**Cement**		Y	Y	Y	Y	Y	Y	11.7	4.2	3.8	3.3	2.8	39.7	31.3	22.7	15.2	-2.9	26.9	37.6	49.7	11.2	12.8	15.6	19.9	14.1	15.5	18.6	21.8
Colgate	Consumer		Y	N	Y	Y	Y	Y	4.0	33.3	30.2	27.0	22.6	45.9	41.1	32.2	27.4	13.9	11.7	27.8	17.4	81.6	77.1	88.8	89.9	111.3	107.3	124.7	125.7
Godrej Consumer	Consumer		Y	Y	Y	Y	N	Y	6.3	9.4	7.9	6.6	5.5	47.6	34.2	28.2	24.0	19.6	38.9	21.4	17.7	21.4	24.2	25.5	25.0	18.9	21.7	23.9	23.7
Marico	Consumer		Y	Y	Y	Y	Y	N	3.8	14.3	10.2	8.6	7.2	45.4	37.0	29.6	25.5	18.1	22.6	25.1	16.0	36.0	32.1	31.5	30.6	35.6	35.3	35.2	34.8
Hind. Unilever	Consumer		Y	Y	Y	Y	Y	N	27.7	48.2	47.0	46.9	39.6	47.5	41.2	34.6	30.5	6.4	15.3	19.1	13.3	108.1	115.6	135.8	140.8	137.6	153.5	179.4	186.1
Pidilite Inds.	Consumer		Y	Y	Y	Y	Y	N	4.2	11.5	9.7	8.3	6.7	54.7	41.3	35.5	31.0	9.9	32.3	16.6	14.5	23.1	25.5	25.2	23.3	28.2	33.1	32.7	30.9
Asian Paints	Consumer		Y	Y	Y	Y	Y	N	12.1	16.4	13.9	11.5	9.4	54.8	41.7	33.8	29.4	15.8	31.4	23.4	15.0	32.4	36.1	37.2	35.2	34.6	39.2	41.3	38.7
GSK Consumer	Consumer		Y	N	Y	Y	Y	Y	3.7	12.0	10.2	8.6	7.1	43.5	35.3	29.3	24.9	-13.5	23.2	20.5	17.5	29.7	31.2	31.8	31.2	36.4	37.1	37.7	36.2
ITC	**Consumer**		Y	Y	Y	Y	Y	Y	38.5	8.3	7.3	6.5	5.7	26.4	23.3	21.1	19.2	8.5	13.3	10.4	9.6	33.7	33.3	32.7	31.5	41.8	41.1	40.6	39.3
Dabur	Consumer		Y	Y	Y	Y	Y	N	7.2	14.9	12.1	10.0	8.1	47.0	38.5	32.8	28.7	15.7	22.2	17.1	14.2	35.5	34.8	33.4	31.2	29.7	30.7	30.8	29.7
United Spirits	**Consumer**		Y	Y	Y	Y	Y	Y	6.8	14.1	12.4	10.2	8.1	-67.7	103.2	56.6	38.4	426.4	-165.6	82.2	47.3	-21.7	12.8	19.8	21.1	0.7	14.8	20.4	25.3
GSK Pharma	Healthcare		Y	Y	Y	Y	Y	Y	4.3	15.6	16.1	16.6	16.1	53.9	50.0	45.2	38.5	11.1	7.9	10.5	17.6	23.1	32.3	36.8	41.8	35.3	47.4	54.0	61.4
Cadila Health	Healthcare		Y	Y	N	N	N	N	5.7	8.8	6.7	5.0	3.8	31.2	23.3	17.4	13.5	45.5	33.7	34.3	28.7	30.8	34.7	34.8	32.3	24.9	31.2	33.3	33.2
Divis Labs	Healthcare		Y	Y	Y	Y	Y	Y	4.4	8.3	7.1	6.1	5.1	33.9	28.1	22.7	18.4	10.1	21.0	23.5	23.4	26.4	27.3	28.8	30.2	33.0	34.8	36.8	38.6
Glenmark Pharma	Healthcare		Y	Y	N	Y	Y	Y	4.6	9.3	7.1	5.4	4.1	58.7	29.3	23.3	17.4	-37.8	100.4	25.9	33.3	15.8	24.3	23.0	23.4	14.4	22.0	25.4	26.4
Cipla	Healthcare		Y	Y	N	N	N	N	7.6	4.8	4.1	3.6	3.1	44.2	25.6	23.9	20.0	-14.8	72.8	6.7	19.5	11.0	16.2	15.0	15.4	14.1	20.1	18.9	19.6
Dr Reddy's Labs	Healthcare		Y	Y	Y	Y	Y	Y	10.3	6.2	5.1	4.3	3.6	31.2	25.5	21.3	18.1	4.5	22.3	19.5	17.8	19.9	20.2	20.0	19.6	16.9	19.5	19.9	20.7
Zee Entertainment	**Media**		Y	Y	Y	Y	Y	Y	5.2	9.8	8.2	6.6	5.1	35.5	31.8	23.8	18.0	9.7	11.5	33.5	32.7	31.2	28.0	30.5	32.0	27.3	27.3	31.8	36.4
Oil India	Oil & Gas		Y	N	Y	Y	N	N	3.9	1.2	1.1	1.0	0.9	10.5	7.4	6.6	6.2	-15.8	40.6	13.0	6.6	11.7	15.3	15.9	15.5	12.8	17.6	18.3	18.3
Reliance Inds.	Oil & Gas		Y	Y	N	N	Y	N	40.2	1.1	1.0	0.9	0.8	10.8	9.8	8.4	7.0	3.2	9.3	17.9	20.2	11.0	11.0	11.9	12.8	10.2	10.2	11.2	12.8
GAIL	Oil & Gas		Y	N	Y	Y	N	N	5.2	1.2	1.1	1.1	1.0	11.9	12.5	9.2	8.1	-31.6	-4.9	35.9	13.5	10.8	9.4	11.9	12.4	11.1	10.9	13.9	14.7
Coal India	Utilities		Y	N	N	Y	Y	N	31.9	5.4	5.2	5.0	4.8	16.0	14.8	12.5	11.2	-14.1	7.9	18.0	12.0	34.0	35.4	40.1	43.0	54.3	56.7	63.3	66.9
Axis Bank	Banking		Y	Y	Y	Y	Y	Y	17.2	2.5	2.1	1.8	1.6	15.1	12.8	10.8	9.1	17.3	18.3	18.7	18.6	17.8	18.0	18.4	18.7	1.7	1.8	1.8	1.8
IndusInd Bank	**Banking**		Y	Y	Y	Y	Y	Y	7.5	4.3	2.9	2.5	2.2	24.8	20.1	16.1	12.6	26.5	23.5	24.5	27.8	19.0	18.0	16.8	18.5	1.8	2.0	2.1	2.2
LIC Housing Fin	NBFCs		Y	Y	N	N	N	N	3.2	2.7	2.3	1.9	1.6	15.5	12.1	9.7	8.3	12.1	28.1	25.2	17.0	17.5	20.3	21.4	21.1	1.4	1.5	1.6	1.5
Shriram Transport Fin.	NBFCs		Y	Y	N	N	N	N	2.8	2.1	1.9	1.6	1.4	18.9	13.1	10.6	8.4	-24.3	44.0	24.1	25.8	14.1	14.7	16.5	17.9	2.0	2.2	2.5	2.7
Indiabulls Housing	NBFCs		Y	Y	N	Y	Y	Y	3.8	3.9	3.5	3.0	2.5	13.5	11.5	9.6	8.0	14.2	17.1	19.9	19.9	30.8	32.3	33.5	34.3	4.0	3.9	3.8	3.6

Source: MOSL, Company

Annexure I: Static Value Picks

BSE Sensex: 25,202 | S&P CNX: 7,655 | 4 September 2015

- Tata Motors
- IOCL
- ICICI Bank
- IDFC

Tata Motors | **CMP: INR323** | **TP: INR488 (+51%)** | **Buy**

Industry Attractiveness

- The global luxury car industry has grown at a CAGR of ~17% over CY10-14, driven by a CAGR of ~26% in China. While Chinese luxury car demand has cooled off, with ~3% growth in 1HCY15, the long-term growth potential of Chinese markets remains intact.
- JLR is a niche player in the global luxury car market, with ~8% share. While it enjoys strong brand equity in SUVs, it is yet to enjoy similar success with *Jaguar* in luxury cars.
- India CV business is expected to benefit from cyclical recovery. However, increasing competitive intensity would result in pressure on market share / margins.

Disciplined Management

- Recently, Mr Cyrus Mistry took over as Chairman of Tata Motors (TTMT). Further, TTMT appointed Mr Mayank Pareek (ex-Marketing Head of Maruti Suzuki) as Head – PV Business, to revive its lost franchise in PVs.
- Since TTMT's acquisition of JLR, it has been investing aggressively in building capabilities in products, capacity and global footprint.
- India business has seen significant pressure on balance sheet due to continued investments in products, impacting medium-term capital efficiency.

Disciplined Thought

- Focus on products: JLR has been focusing on filling gaps in its product portfolio. Similarly, India PV business is focused on correcting under-investment in products.
- Focus on modular platform: JLR is focused on improving its platform efficiency by increasing model to platform ratio, in turn reducing capital intensity.
- Focus on diversification of manufacturing footprint: JLR's manufacturing base is entirely located in UK, resulting in high cost structure and forex volatility on imports.

Disciplined Action

- Focus on products: JLR has planned two launches per annum, along with several refreshes. This will help to fill gaps in its portfolio and expand addressable market manifold. Similarly, India business has also planned two launches per annum till 2020.
- Focus on modular platform: Modular platform strategy is on track, with target of four cars per platform by FY18-19 (currently, two cars per platform).
- Focus on diversification of manufacturing footprint: JLR now has plants in China and Brazil (upcoming), and is planning a plant in East Europe (Slovakia).

Expected Results

- Success of *Jaguar XE* and *F-Pace* should result in ~2% market share gain for JLR in the luxury vehicle segment, and drive benefits of operating leverage for JLR.
- JLR's margins to see step-down due to (a) normalization of margins in China, and (b) accounting for JV, reflecting in 330bp decline in margins to 15.6% by FY18 (over FY15).
- We lower our FY16/17E EPS by 17%/6% to INR43/54 to factor in for transitory issues.
- However, strong volume growth in JLR (~13% CAGR incl JV) and sharp India business recovery would drive ~17% EPS CAGR over FY15-18.

Exhibit 17: China market huge potential to grow (Luxury car as % of total car volumes)

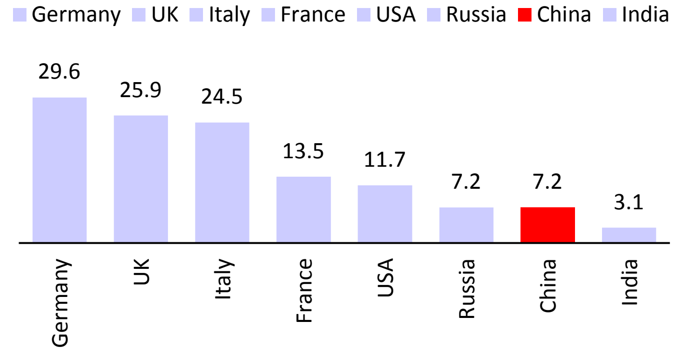


Exhibit 18: JLR to launch 9 new products (incl. replacement) over next 5 years

Timeline	Model Name	Segment	Seg. Size* '000 units
1QFY16	XE	Premium Compact (P)	1,171
2QFY16	XF replacement	Mid Size (M)	1,262
3QFY16	XE Cross (F-Pace)	Luxury SUV/Crossover (S)	1,706
4QFY16	Evoque convertible	Sportscar (Sp)	42
FY16	Discovery replacement	Luxury SUV/Crossover (S)	1,706
FY17	Evoque XL	Luxury SUV/Crossover (S)	1,706
FY17	XJ replacement	High End (H)	284
FY18	Defender replacement	Luxury SUV/Crossover (S)	1,706
FY18	XJ Coupe	Sportscar (Sp)	42
FY20	Super Mini	Premium Compact (P)	1,129

* Category (Audi, Daimler, BMW and JLR)

Exhibit 19: No. of platforms v/s no. of models

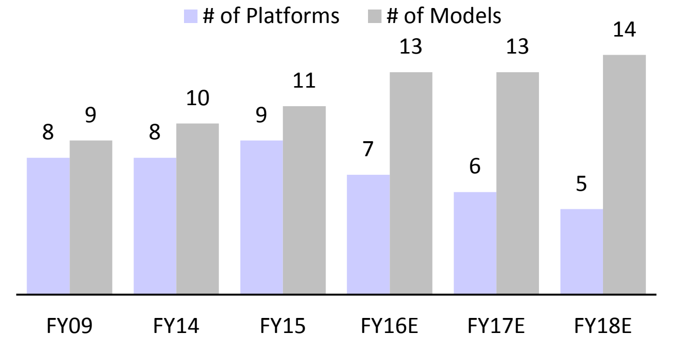


Exhibit 20: Share of volumes of models on modular platform to be ~92% by FY17

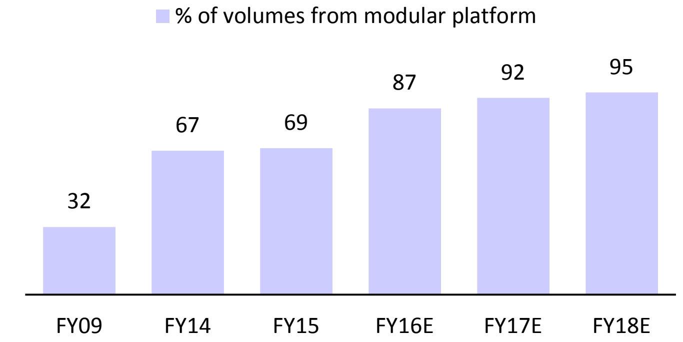


Exhibit 21: JLR EBITDA margins to remain healthy at 14-15% levels (post impact of JV)

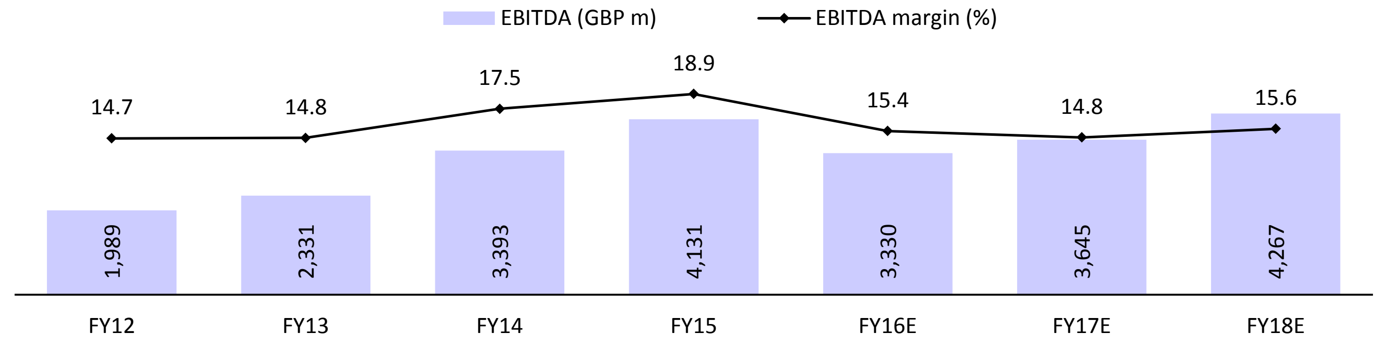


Exhibit 22: S/A profitability to improve sharply

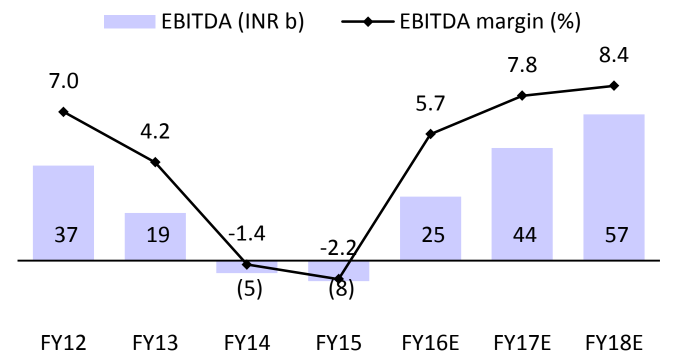
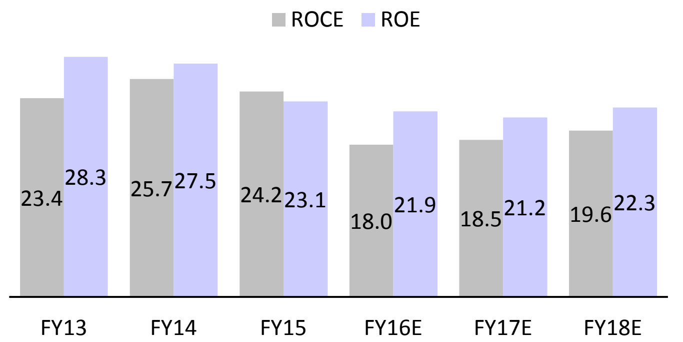


Exhibit 23: TTMT's consolidated RoEs to remain stable (%)



Financials and Valuations: TATA MOTORS (Consolidated)

Income Statement (Consolidated) (INR Million)

Y/E March	2011	2012	2013	2014	2015	2016E	2017E	2018E
Total Income	**1,221,279**	**1,656,545**	**1,888,176**	**2,328,337**	**2,627,963**	**2,687,092**	**3,167,870**	**3,579,512**
Change (%)	32.0	35.6	14.0	23.3	12.9	2.2	17.9	13.0
Expenditure	1,043,129	1,419,540	1,622,487	1,954,308	2,206,825	2,292,539	2,712,358	3,041,632
EBITDA	**178,150**	**237,005**	**265,689**	**374,029**	**421,138**	**394,553**	**455,512**	**537,879**
% of Net Sales	14.6	14.3	14.1	16.1	16.0	14.7	14.4	15.0
Depreciation	46,555	56,254	75,693	110,782	133,886	164,020	178,488	206,388
EBIT	**131,595**	**180,751**	**189,996**	**263,248**	**287,252**	**230,533**	**277,024**	**331,491**
Product Dev. Exp.	9,976	13,892	20,216	25,652	28,752	30,995	34,140	37,929
Interest	23,853	29,822	35,533	47,338	48,615	34,218	29,286	25,079
Other Income	4,295	6,618	8,115	8,286	8,987	13,246	10,521	9,971
PBT	**104,372**	**135,339**	**136,335**	**188,690**	**217,026**	**193,261**	**224,120**	**278,454**
Effective Rate (%)	11.7	-0.3	27.7	25.3	35.2	24.8	24.2	23.8
Adj. PAT	**92,736**	**119,008**	**99,560**	**141,986**	**140,465**	**146,775**	**183,873**	**239,090**
Change (%)	492.4	28.3	-16.3	42.6	-1.1	4.5	25.3	30.0

Balance Sheet (Consolidated) (INR Million)

Y/E March	2011	2012	2013	2014	2015	2016E	2017E	2018E
Share Capital	6,377	6,348	6,381	6,438	6,438	6,792	6,792	6,792
Reserves	185,338	320,638	369,992	649,597	556,181	773,411	950,352	1,178,417
Net Worth	**191,715**	**326,985**	**376,373**	**656,035**	**562,619**	**780,203**	**957,144**	**1,185,209**
Loans	303,622	471,490	557,223	549,545	692,115	699,031	685,947	667,863
Deferred Tax	14,638	-23,743	-24,094	-7,748	-13,900	-13,900	-13,900	-13,900
Capital Employed	**512,440**	**777,803**	**913,206**	**1,202,038**	**1,245,167**	**1,470,759**	**1,635,892**	**1,847,339**
Gross Fixed Assets	715,231	897,791	1,205,654	1,329,282	1,582,066	2,111,367	2,432,982	2,776,505
Less: Depreciation	396,987	495,125	570,818	688,154	744,241	908,260	1,086,748	1,293,136
Net Fixed Assets	**318,245**	**402,667**	**634,836**	**641,128**	**837,825**	**1,203,106**	**1,346,234**	**1,483,369**
Capital WIP	117,289	159,458	60,000	332,626	286,401	70,000	70,000	70,000
Goodwill	35,848	40,937	41,024	49,788	46,970	46,970	46,970	46,970
Investments	25,443	89,177	90,577	106,867	153,367	155,979	171,305	199,594
Curr.Assets	**506,995**	**711,679**	**829,538**	**1,046,103**	**1,034,685**	**1,040,093**	**1,233,814**	**1,439,983**
Inventory	140,705	182,160	209,690	272,709	292,723	294,476	347,164	392,275
Sundry Debtors	65,257	82,368	109,427	105,742	125,792	125,152	147,545	166,717
Cash & Bank Bal.	114,096	182,381	211,127	297,118	321,158	318,953	431,094	566,479
Loans & Advances	178,422	249,952	280,739	273,241	256,948	261,948	266,948	271,948
Current Liab. & Prov.	**491,378**	**626,116**	**742,769**	**974,474**	**1,114,081**	**1,045,389**	**1,232,432**	**1,392,577**
Sundry Creditors	279,031	366,863	447,801	573,157	574,073	588,952	694,328	784,550
Other Liabilities	112,776	130,835	134,250	199,707	328,305	235,581	277,731	313,820
Net Current Assets	**15,616**	**85,564**	**86,769**	**71,629**	**-79,396**	**-5,296**	**1,382**	**47,406**
Appl. of Funds	**512,440**	**777,803**	**913,206**	**1,202,038**	**1,245,167**	**1,470,759**	**1,635,892**	**1,847,339**

E: MOSL Estimates

Financials and Valuations: TATA MOTORS (Consolidated)

Ratios

Y/E March	2011	2012	2013	2014	2015	2016E	2017E	2018E
Basic (INR)								
EPS	**29.1**	**37.5**	**31.2**	**44.1**	**43.6**	**43.2**	**54.1**	**70.4**
EPS Fully Diluted	**28.8**	**37.0**	**30.9**	**44.1**	**43.6**	**43.2**	**54.1**	**70.4**
Cash EPS	43.7	55.2	54.9	78.5	85.2	91.5	106.7	131.2
Book Value (Rs/Share)	60.1	103.0	118.0	203.8	174.8	229.7	281.9	349.0
DPS	4.0	4.0	2.0	2.0	0.0	1.0	3.0	4.0
Payout (Incl. Div. Tax) %	15.8	12.4	7.4	5.3	0.0	2.8	6.7	6.8
Valuation (x)								
Consolidated P/E				7.3	7.4	7.5	6.0	4.6
Normalized P/E				18.2	23.0	33.7	17.3	9.8
EV/EBITDA				3.2	3.0	3.3	2.6	1.9
EV/Sales				0.5	0.5	0.5	0.4	0.3
Price to Book Value				1.6	1.8	1.4	1.1	0.9
Profitability Ratios (%)								
RoE	48.4	45.9	28.3	27.5	23.1	21.9	21.2	22.3
RoCE	26.5	29.0	23.4	25.7	24.2	18.0	18.5	19.6
Turnover Ratios								
Debtors (Days)	20	18	21	17	17	17	17	17
Inventory (Days)	42	40	41	43	41	40	40	40
Creditors (Days)	83	81	87	90	80	80	80	80
Asset Turnover (x)	2.4	2.1	2.1	1.9	2.1	1.8	1.9	1.9
Leverage Ratio								
Debt/Equity (x)	1.6	1.4	1.5	0.8	1.2	0.9	0.7	0.6

Cash Flow Statement **(INR Million)**

Y/E March	2011	2012	2013	2014	2015	2016E	2017E	2018E
OP/(Loss) before Tax	92,736	135,165	98,926	139,910	139,863	146,775	183,873	239,090
Int/Div. Received	4,115	5,376	8,062	6,933	7,777	13,246	10,521	9,971
Depreciation	46,510	56,209	75,648	110,736	133,864	164,020	178,488	206,388
Direct Taxes Paid	-13,912	-17,679	-22,231	-43,083	-41,940	-48,006	-54,297	-66,188
(Inc)/Dec in WC	-40,484	-22,801	-680	57,744	-36,718	-76,304	105,462	89,362
Other Items	29,639	24,401	64,617	88,983	136,570	1,091	1,276	1,465
CF from Op Activity	**118,604**	**180,670**	**224,343**	**361,223**	**339,415**	**200,822**	**425,323**	**480,088**
Extra-ordinary Items	-7,773	8,549	4,342	7,221	20,191	0	0	0
CF after EO Items	**110,830**	**189,219**	**228,684**	**368,444**	**359,606**	**200,822**	**425,323**	**480,088**
(Inc)/Dec in FA+CWIP	-81,128	-137,829	-187,203	-269,252	-315,396	-312,900	-321,616	-343,522
(Pur)/Sale of Invest.	4,158	-72,976	-54,984	-36,611	-37,570	-2,611	-15,326	-28,289
CF from Inv Activity	**-76,970**	**-210,804**	**-242,188**	**-305,863**	**-352,966**	**-315,511**	**-336,942**	**-371,812**
Issue of Shares	32,550	1,386	7	1	0	74,901	5,344	5,344
Inc/(Dec) in Debt	-11,677	113,054	45,082	30,092	122,288	6,916	-13,084	-18,084
Interest Paid	-24,691	-33,737	-46,560	-61,706	-63,070	-34,218	-29,286	-25,079
Dividends Paid	-10,195	-15,031	-15,087	-7,220	-7,204	-4,092	-12,276	-16,368
CF from Fin Activity	**-14,013**	**65,672**	**-16,558**	**-38,832**	**52,014**	**43,508**	**-49,302**	**-54,188**
Inc/(Dec) in Cash	**19,848**	**44,087**	**-30,061**	**23,749**	**58,655**	**-71,182**	**39,079**	**54,089**
Add: Beginning Bal.	67,920	104,244	153,550	142,531	152,629	211,283	140,101	179,181
Closing Balance	**87,768**	**148,330**	**123,488**	**166,280**	**211,283**	**140,101**	**179,181**	**233,270**

IOCL CMP: INR408 TP: INR570 (+40%) Buy

Industry Attractiveness

- Per capita consumption to move towards world average: At 160 liters, India's per capita petroleum consumption is significantly lower than the world average of 730 liters. Increasing vehicle population led by per capita GDP growth would boost India's per capita petroleum consumption.
- Oligopolist market: Three players control 99% of the market (IOCL's share at ~46%).
- IOCL well placed for next 2-3 years led by (a) higher volume growth (1x of GDP), (b) negligible private player presence, and (c) pricing power, led by auto fuel deregulation.

Disciplined Management

- Effective capital allocation: Besides focusing on its core business of marketing and refining, IOCL has also invested meaningfully in petrochemicals and pipelines.
- High payouts: While government (69% ownership) policies have influenced its profitability, IOCL has rewarded minority shareholders with high dividend payout.
- Diversified earnings: Though refining margins are volatile, IOCL's investments in petchem (6% of EBITDA) and pipelines (~20% of EBITDA) ensure earnings stability.

Disciplined Thought

- Geared to counter private competition: Having learnt its lessons during the previous deregulation period (2004-06), IOCL (a) has almost doubled its outlets (>24,000 now) to ensure wide reach, and (b) is focusing on improving service/fuel quality at its outlets to levels at par with global standards.
- Financial cost control in difficult times: While debt levels were high (peak D/E of 1.4x) in an era of high under-recoveries (FY11-14), the management significantly increased the share of overseas loans to cut interest costs.

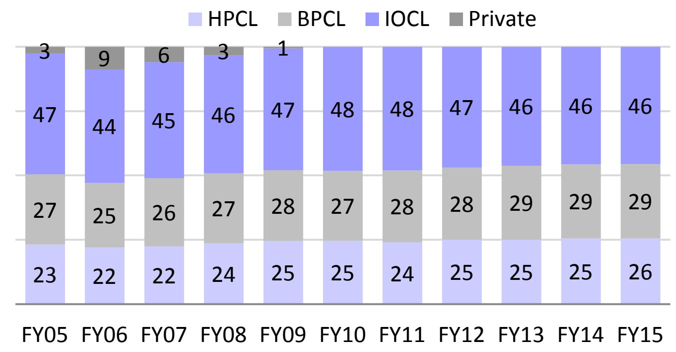
Disciplined Action

- Continuous capex to match volume growth: With 6-8% auto fuel volume growth, IOCL will continue its retail network expansion to grow market share from the current ~46%.
- Focus on low cost expansions: Post 15mmt greenfield refinery at Paradip, medium-term expansions will be brownfield, and hence, cost effective.
- Improving retail network efficiency: (a) Automated retail outlets with >200KL per month – ready for differential pricing, (b) increased pipeline network – lowers logistics cost.

Expected Results

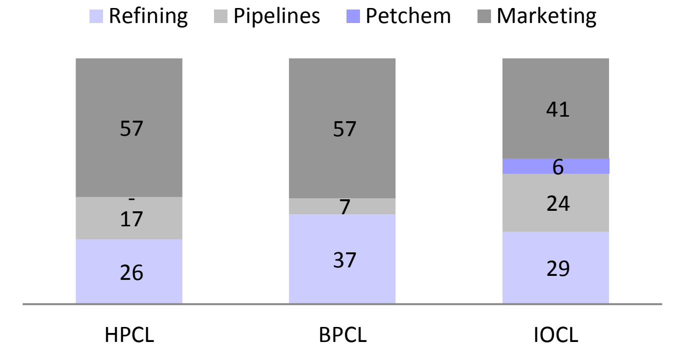
- IOCL's profit is likely to more than double, led by fall in interest cost and higher marketing margins (we model an increase from INR1.4/liter to INR2.4/liter by FY18). RoE should sustain at >15%.
- While refining margins would be governed by global demand-supply; likely higher marketing margins provide predictability to its earnings and should lead to re-rating, in our view. Fair value of INR570 implies 43% upside. The stock trades at 7.3x FY17E EPS.

Exhibit 24: Auto fuel retail market share (%): IOCL operating in an oligopolistic market



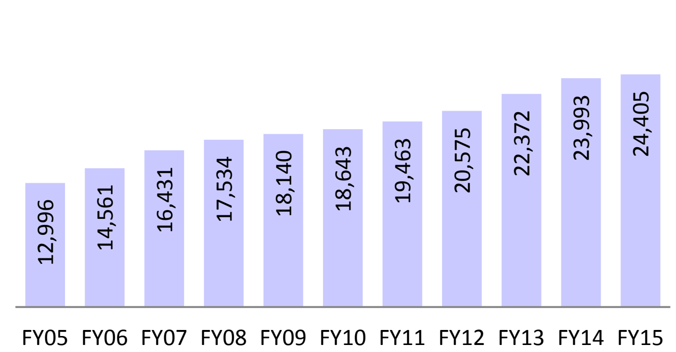
Source: PPAC, MoPNG, MOSL

Exhibit 25: IOCL has well-diversified earnings (%)



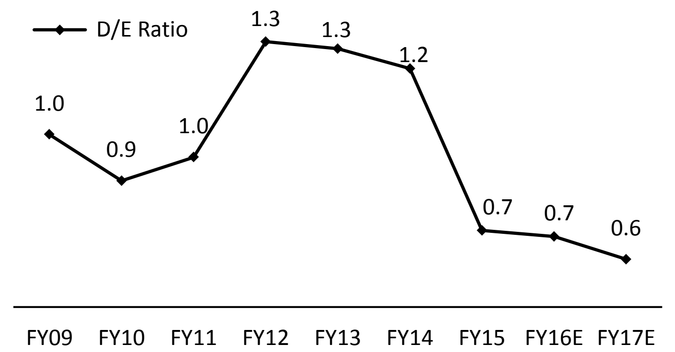
Source: Company, MOSL

Exhibit 26: IOCL has almost doubled its retail network in the last few years (number)



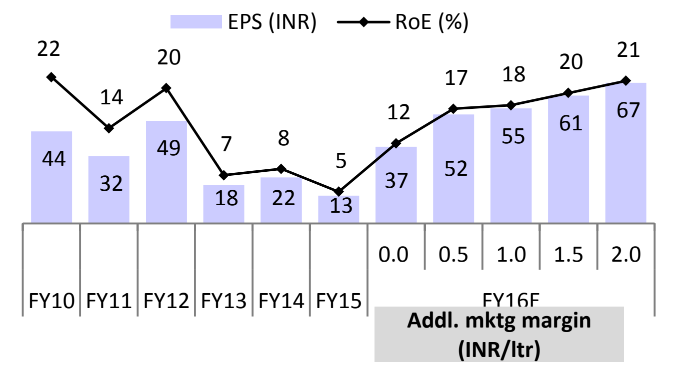
Source: Company, MOSL

Exhibit 27: IOCL's balance sheet to strengthen with lowering of leverage



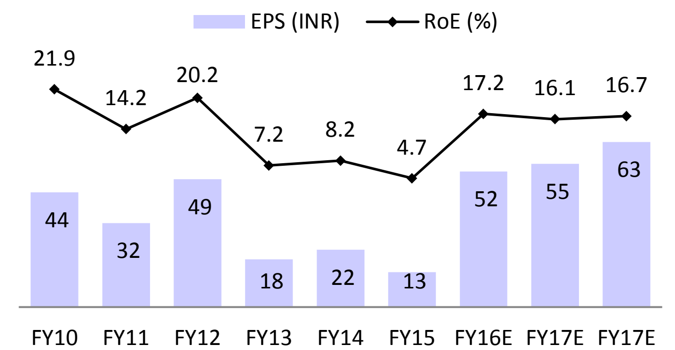
Source: Company, MOSL

Exhibit 28: Reforms give pricing power and scope to increase marketing margins



Source: Company, MOSL

Exhibit 29: Expect RoE to sustain at high levels



Source: Company, MOSL

Financials and Valuations: IOCL

Income Statement (Consolidated)									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Net Sales	**2,501,053**	**3,081,315**	**4,072,314**	**4,607,497**	**4,872,595**	**4,483,152**	**3,056,179**	**3,375,281**	**3,644,027**
Change (%)	-12.6	23.2	32.2	13.1	5.8	-8.0	-31.8	10.4	8.0
Finished Gds Pur.	1,007,775	1,275,911	1,572,508	1,555,286	1,560,457	1,408,174	1,224,966	1,045,748	1,100,858
Raw Materials Cons	1,158,063	1,445,071	2,041,610	2,590,820	2,767,619	2,583,039	1,255,663	1,745,272	2,036,362
Other Operating Costs	206,462	235,028	277,923	334,015	384,808	398,514	323,602	317,692	207,978
EBITDA	**128,753**	**125,305**	**180,273**	**127,377**	**159,711**	**93,424**	**251,948**	**266,568**	**298,829**
% of Net Sales	5.1	4.1	4.4	2.8	3.3	2.1	8.2	7.9	8.2
Depreciation	35,552	49,326	53,093	56,915	63,600	52,190	51,897	63,730	74,222
Interest	17,262	29,803	58,947	70,835	59,079	41,746	29,880	36,584	32,984
Other Income	74,547	54,964	48,797	45,416	45,278	53,975	32,455	37,654	40,382
Excep/Prior period items	0	0	-77,078	0	17,468	16,681	16,725	0	0
PBT	**150,486**	**101,140**	**39,953**	**45,042**	**99,778**	**70,143**	**219,351**	**203,908**	**232,006**
Tax	40,499	20,284	-2,700	8,770	30,113	21,426	75,812	68,074	77,100
Rate (%)	26.9	20.1	-6.8	19.5	30.2	30.5	34.6	33.4	33.2
PAT	**109,987**	**80,856**	**42,653**	**36,273**	**69,666**	**48,718**	**143,539**	**135,834**	**154,905**
Minority interest	-2,855	-2,549	-393	8,217	1,190	402	-1,022	-892	-848
Group net profit	**107,132**	**78,307**	**42,260**	**44,490**	**70,856**	**49,120**	**142,517**	**134,942**	**154,058**
Adj. net profit	**107,132**	**78,307**	**119,338**	**44,490**	**53,388**	**32,439**	**125,792**	**134,942**	**154,058**
Change (%)	312.1	-26.9	52.4	-62.7	20.0	-39.2	287.8	7.3	14.2

Balance Sheet									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Share Capital	24,280	24,280	24,280	24,280	24,280	24,280	24,280	24,280	24,280
Reserves	500,344	551,473	579,454	606,092	654,851	664,043	761,109	847,759	947,844
Net Worth	**524,623**	**575,752**	**603,734**	**630,372**	**679,130**	**688,323**	**785,389**	**872,039**	**972,123**
Minority interest	**18,330**	**19,930**	**19,437**	**12,618**	**11,706**	**10,733**	**11,755**	**12,647**	**13,494**
Loans	494,726	578,376	800,153	867,894	889,325	581,541	601,551	601,551	529,071
Deferred Tax	54,170	70,282	59,696	63,323	64,228	68,356	100,680	102,670	104,935
Capital Employed	**1,091,849**	**1,244,341**	**1,483,020**	**1,574,207**	**1,644,389**	**1,348,952**	**1,499,376**	**1,588,908**	**1,619,625**
Gross Fixed Assets	788,886	1,008,694	1,076,256	1,151,002	1,269,522	1,375,223	1,478,123	1,911,023	2,003,923
Less: Depreciation	334,111	382,229	430,447	484,133	544,856	608,119	660,015	723,745	797,967
Net Fixed Assets	**454,775**	**626,465**	**645,809**	**666,869**	**724,666**	**767,104**	**818,107**	**1,187,277**	**1,205,956**
Capital WIP	227,678	142,842	154,496	272,400	380,609	403,781	403,781	73,781	73,781
Investments	214,298	186,469	175,879	173,508	158,950	160,687	160,687	160,687	160,687
Goodwill	224	235	244	870	878	705	705	705	705
Cash & Bank Balance	15,984	15,374	8,220	12,198	37,045	12,211	79,200	134,604	152,804
Inventory	410,765	549,171	638,510	666,043	723,394	499,174	463,147	505,269	535,014
Debtors	56,062	76,546	115,518	125,021	125,517	76,448	79,968	86,887	92,156
Loans & Advances	152,070	233,573	436,202	456,188	470,905	385,358	363,996	364,062	364,128
Other assets	15,264	15,060	23,387	44,148	44,484	31,487	31,802	32,120	32,441
Curr. Assets, L & Adv.									
Liabilities	351,658	532,103	561,218	619,702	751,018	707,229	623,426	677,893	719,458
Provisions	103,612	69,291	154,028	223,335	271,040	280,773	278,590	278,590	278,590
Net Current Assets	**194,874**	**288,330**	**506,591**	**460,560**	**379,287**	**16,676**	**116,097**	**166,459**	**178,497**
Application of Funds	**1,091,849**	**1,244,341**	**1,483,020**	**1,574,207**	**1,644,389**	**1,348,952**	**1,499,376**	**1,588,908**	**1,619,625**

E: MOSL Estimates

Financials and Valuations: IOCL

Ratios

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Basic (INR)									
Adj. EPS	**44.1**	**32.3**	**49.2**	**18.3**	**22.0**	**13.4**	**51.8**	**55.6**	**63.5**
Reported EPS	**44.1**	**32.3**	**17.4**	**18.3**	**29.2**	**20.2**	**58.7**	**55.6**	**63.5**
Cash EPS	58.8	52.6	71.0	41.8	48.2	34.9	73.2	81.8	94.0
Book Value	216.1	237.1	248.7	259.6	279.7	283.5	323.5	359.2	400.4
Dividend	13.0	9.5	5.0	6.2	8.7	6.6	16.0	17.0	19.0
Payout (incl. Div. Tax.)	36.1	38.4	12.2	35.2	35.2	52.0	36.9	36.5	35.7
Valuation (x)									
P/E					18.6	30.5	7.8	7.3	6.4
Cash P/E					8.5	11.7	5.5	5.0	4.3
EV / EBITDA					11.1	16.1	5.9	5.4	4.5
EV / Sales					0.4	0.3	0.5	0.4	0.4
Price / Book Value					1.5	1.4	1.3	1.1	1.0
Dividend Yield (%)					2.1	1.6	3.9	4.2	4.7
Profitability Ratios (%)									
RoE	21.9	14.2	20.2	7.2	8.2	4.7	17.1	16.3	16.7
RoCE	16.0	11.2	12.9	7.6	8.8	6.4	16.3	15.6	16.5
Turnover Ratios									
Debtors (No. of Days)	7.6	7.9	8.6	9.5	9.4	8.2	9.3	9.0	9.0
Asset Turnover (x)	3.4	3.4	3.9	4.1	4.0	3.4	2.1	2.0	1.9
Leverage Ratio									
Debt / Equity (x)	0.9	1.0	1.3	1.4	1.3	0.8	0.8	0.7	0.5

Cash Flow Statement (INR Million)

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
OP/(Loss) before Tax	150,486	101,140	39,953	45,042	99,779	70,144	219,351	203,908	232,006
Depreciation	35,677	49,529	49,839	57,103	63,691	51,904	51,897	63,730	74,222
Interest Paid	17,263	29,832	59,016	71,184	59,101	41,746	29,880	36,584	32,984
Direct Taxes Paid	-27,296	-40,032	-4,066	-11,690	-18,956	-23,442	-43,488	-66,084	-74,836
(Inc)/Dec in WC	-182,446	-50,193	-132,204	-44,530	54,506	348,952	-32,432	5,042	6,162
Other op activities	-9,774	-19,684	-20,192	-23,715	-16,081	-29,542	0	0	0
CF from Op. Activity	**-16,090**	**70,592**	**-7,654**	**93,395**	**242,040**	**459,762**	**225,209**	**243,180**	**270,537**
(Inc)/Dec in FA & CWIP	-138,236	-137,164	-170,184	-127,995	-218,243	-131,590	-102,900	-102,900	-92,900
Free Cash Flow	**-154,325**	**-66,572**	**-177,838**	**-34,600**	**23,797**	**328,172**	**122,309**	**140,280**	**177,637**
(Pur)/Sale of Investments	174,184	53,856	39,652	1,153	-1,889	-1,918	0	0	0
CF from Inv. Activity	**35,948**	**-83,308**	**-130,532**	**-92,936**	**-185,944**	**-101,770**	**-102,900**	**-102,900**	**-92,900**
Inc / (Dec) in Debt	21,257	83,652	222,728	96,681	55,975	-304,857	20,010	0	-72,480
Dividends Paid	-10,907	-38,124	-28,057	-14,922	-18,501	-26,090	-45,451	-48,292	-53,973
Interest Paid	-24,276	-33,418	-63,643	-78,240	-68,722	-51,879	-29,880	-36,584	-32,984
CF from Fin. Activity	**-13,925**	**12,110**	**131,028**	**3,519**	**-31,248**	**-382,827**	**-55,321**	**-84,876**	**-159,437**
Inc / (Dec) in Cash	**5,933**	**-606**	**-7,158**	**3,978**	**24,847**	**-24,835**	**66,988**	**55,405**	**18,200**
Add: Opening Balance	10,052	15,985	15,379	8,221	12,199	37,046	12,212	79,200	134,605
Closing Balance	**15,985**	**15,379**	**8,221**	**12,199**	**37,046**	**12,212**	**79,200**	**134,605**	**152,805**

E: MOSL Estimates

ICICI Bank CMP: INR258 TP: INR450 (+74%) Buy

Industry Attractiveness

- India presents a huge opportunity for banks. Only 40% of the population has access to banking. Credit-to-GDP is just ~52% against an average of ~90% for emerging markets and ~100% for developed markets.
- Deepening financial penetration, increasing urbanization, and expansion of private banks into rural and semi-urban areas would drive retail loan growth. Consumer loans-to-GDP stands at just 15% against 20%+ for major economies.

Disciplined Management

- Since Ms Kochhar took charge in 2009, ICICI Bank (ICICIBC) has focused on improving profitability (16% PAT CAGR over FY10-15), with structural changes in ALM profile (helping NIM to expand ~100bp) and strong cost control (700bp decline in cost-to-income ratio to 37%, the lowest since 2002), leading to RoA improvement (from 1% in FY09 to 1.6%).
- Growth consolidation and profit focus has helped improve subsidiaries' performance. From a loss of INR6.7b in FY08, they posted a PAT of INR33.7b in FY15.

Disciplined Thought

- The management is focusing on secured loans to augment loan market share and maintain healthy credit quality. The retail segment remains a key focus area.
- It is focusing on capital management to improve return ratios and enhance shareholder value, in which subsidiaries would play a major role.
- To sustain dilution-free growth, ICICIBC is focusing on core profitability. It has enhanced margins and operating leverage, and is keeping a check on credit cost.

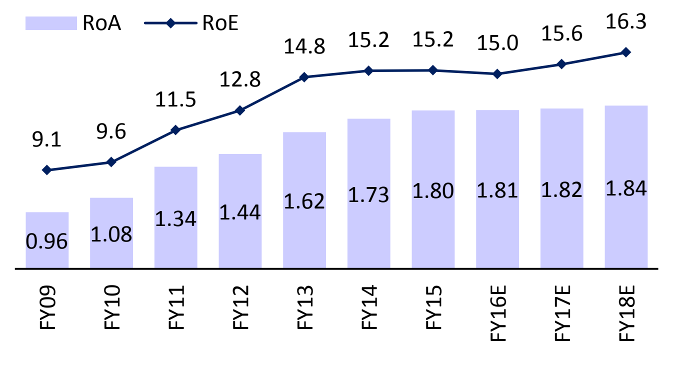
Disciplined Action

- Healthy retail loan growth: Retail loans have grown at a CAGR of 24% over FY13-15. The share of the retail segment has increased from 37% in FY12 to 42% in FY15. By moderating growth in loans to sensitive sectors (3% CAGR over FY13-15), ICICIBC has gradually lowered its exposure to these sectors to ~16%.
- ICICIBC has regularly repatriated capital (USD2b till date) from overseas subsidiaries and increased dividend payout from domestic subsidiaries (INR29b over FY13-15).
- Focus on operating leverage: Employees/branch have halved to 16 since 2008, CASA ratio has doubled, and share of retail fees has grown from 33% in 2011 to 52%.

Expected Results

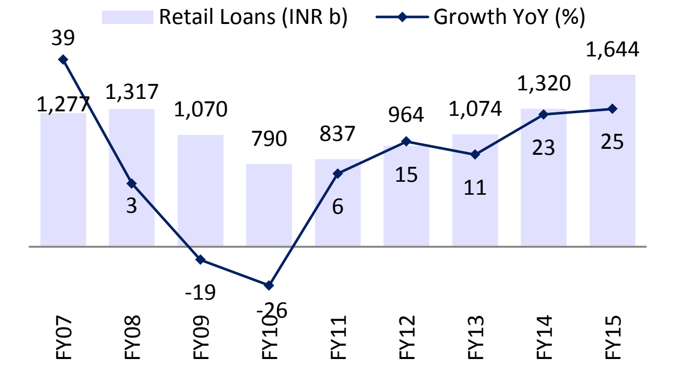
- In the medium term, we expect loan growth to continue being driven by the retail segment (25%+ CAGR), with funding from relatively low cost retail liabilities.
- Cost control and productivity gains should continue. Focus on core profitability would lead to further improvement in core RoE (~17% in FY17, up 150bp from FY15).
- Release of capital from subsidiaries would ensure dilution-free growth till FY18.

Exhibit 30: Strong focus on core profitability would lead to further improvement in core RoA (1.8%+) and RoE (15%+)



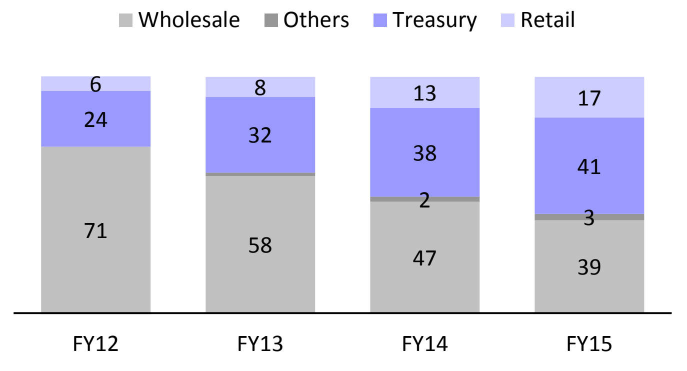
Source: Company, MOSL

Exhibit 31: Retail loan growth is back to 25% levels (highest since FY08) - will remain a key focus area



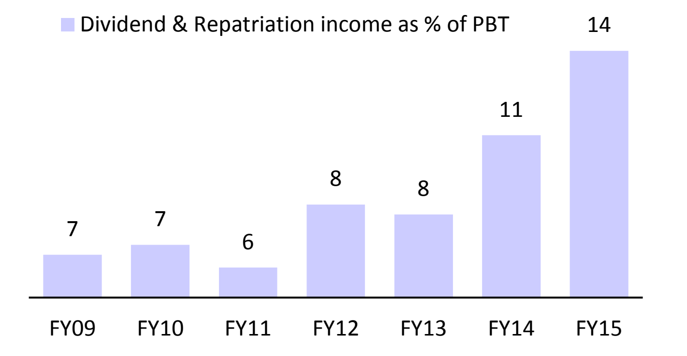
Source: Company, MOSL

Exhibit 32: Contribution from retail segment now accounts for 17% of overall PBT v/s 6% in FY12



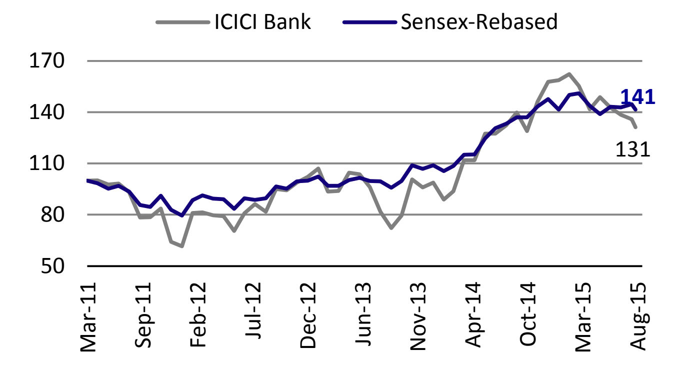
Source: Company, MOSL

Exhibit 33: Dividend income and capital repatriation from subsidiaries remains a key focus area



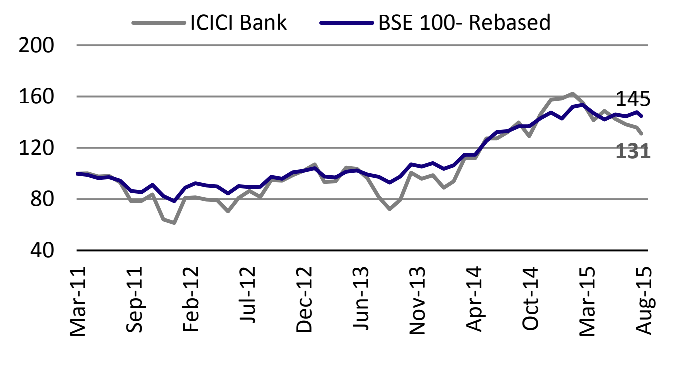
Source: Company, MOSL

Exhibit 34: In-line performance v/s Sensex...



Source: Company, MOSL

Exhibit 35: ...and BSE100



Source: Company, MOSL

Financials and Valuations: ICICI Bank

Income Statement									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Interest Income	257,069	259,741	335,427	400,756	441,782	490,911	542,208	625,289	742,776
Interest Expended	175,926	169,572	228,085	262,092	277,026	300,515	328,285	370,681	437,920
Net Interest Income	**81,144**	**90,169**	**107,342**	**138,664**	**164,756**	**190,396**	**213,923**	**254,608**	**304,856**
Change (%)	-3.0	11.1	19.0	29.2	18.8	15.6	12.4	19.0	19.7
Other Income	74,777	66,479	75,028	83,457	104,279	121,761	137,791	157,528	183,336
Net Income	**155,920**	**156,648**	**182,369**	**222,121**	**269,034**	**312,157**	**351,714**	**412,137**	**488,192**
Change (%)	-2.4	0.5	16.4	21.8	21.1	16.0	12.7	17.2	18.5
Operating Exp.	58,598	66,172	78,504	90,129	103,089	114,958	130,777	153,253	179,604
Operating Profits	**97,322**	**90,475**	**103,865**	**131,992**	**165,946**	**197,199**	**220,937**	**258,884**	**308,588**
Change (%)	9.0	-7.0	14.8	27.1	25.7	18.8	12.0	17.2	19.2
Provisions & Cont.	43,869	22,868	15,830	18,025	26,264	39,000	41,502	47,524	57,177
PBT	**53,453**	**67,607**	**88,034**	**113,967**	**139,682**	**158,199**	**179,434**	**211,360**	**251,411**
Tax	13,203	16,093	23,382	30,712	41,577	46,446	52,933	62,351	74,166
Tax Rate (%)	24.7	23.8	26.6	26.9	29.8	29.4	29.5	29.5	29.5
PAT	**40,250**	**51,514**	**64,653**	**83,255**	**98,105**	**111,754**	**126,501**	**149,009**	**177,245**
Change (%)	7.1	28.0	25.5	28.8	17.8	13.9	13.2	17.8	18.9
Dividend (Including Tax)	**15,020**	**18,170**	**21,228**	**25,996**	**28,336**	**31,729**	**36,179**	**42,617**	**50,692**
Core PPP*	**85,512**	**92,625**	**103,995**	**127,042**	**155,776**	**180,269**	**202,314**	**238,399**	**286,054**
Change (%)	0.8	8.3	12.3	22.2	22.6	15.7	12.2	17.8	20.0

*Core PPP is (NII+Fee income-Opex)

Balance Sheet									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Share Capital	**14,649**	**15,018**	**15,028**	**15,036**	**15,050**	**15,097**	**15,097**	**15,097**	**15,097**
Equity Share Capital	11,149	11,518	11,528	11,536	11,550	11,597	11,597	11,597	11,597
Preference Capital	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Reserves & Surplus	**505,035**	**539,391**	**592,525**	**655,523**	**720,583**	**792,697**	**883,019**	**989,411**	**1,115,964**
Net Worth	**519,684**	**554,409**	**607,552**	**670,560**	**735,633**	**807,794**	**898,115**	**1,004,508**	**1,131,061**
Of which Equity Net Worth	516,184	550,909	604,052	667,060	732,133	804,294	894,615	1,001,008	1,127,561
Deposits	**2,020,166**	**2,256,021**	**2,555,000**	**2,926,136**	**3,319,137**	**3,615,627**	**4,431,595**	**5,386,187**	**6,548,418**
Change (%)	-7.5	11.7	13.3	14.5	13.4	8.9	22.6	21.5	21.6
Of which CASA Deposits	**842,158**	**1,016,465**	**1,110,194**	**1,225,763**	**1,423,784**	**1,643,799**	**1,876,717**	**2,148,858**	**2,430,502**
Change (%)	34.4	20.7	9.2	10.4	16.2	15.5	14.2	14.5	13.1
Borrowings	939,136	1,092,043	1,398,149	1,449,915	1,544,091	1,720,673	1,857,719	2,029,978	2,226,575
Other Liabilities & Prov.	155,012	159,864	329,987	321,336	347,555	317,199	366,744	424,408	491,121
Total Liabilities	**3,633,997**	**4,062,337**	**4,890,688**	**5,367,947**	**5,946,416**	**6,461,293**	**7,554,173**	**8,845,080**	**10,397,174**
Current Assets	388,737	340,901	362,293	414,175	415,296	423,046	495,612	569,779	678,209
Investments	**1,208,928**	**1,346,860**	**1,595,600**	**1,713,936**	**1,770,218**	**1,581,292**	**1,818,486**	**2,045,797**	**2,301,521**
Change (%)	17.3	11.4	18.5	7.4	3.3	-10.7	15.0	12.5	12.5
Loans	**1,812,056**	**2,163,659**	**2,537,277**	**2,902,494**	**3,387,026**	**3,875,221**	**4,603,983**	**5,533,709**	**6,656,065**
Change (%)	-17.0	19.4	17.3	14.4	16.7	14.4	18.8	20.2	20.3
Net Fixed Assets	**32,127**	**47,443**	**46,147**	**46,471**	**46,781**	**47,255**	**48,166**	**49,076**	**49,987**
Other Assets	192,149	163,475	349,371	290,871	327,094	534,479	587,927	646,719	711,391
Total Assets	**3,633,997**	**4,062,337**	**4,890,688**	**5,367,947**	**5,946,416**	**6,461,293**	**7,554,173**	**8,845,080**	**10,397,174**

Asset Quality									(%)
GNPA (INR m)	94,807	100,343	94,753	96,078	105,058	150,947	159,819	167,953	179,873
NNPA (INR m)	38,411	24,074	18,608	22,306	32,980	62,555	61,852	58,897	54,519
GNPA Ratio	5.1	4.5	3.6	3.2	3.0	3.8	3.4	3.0	2.7
NNPA Ratio	2.1	1.1	0.7	0.8	1.0	1.6	1.3	1.1	0.8
PCR (Excl Technical write off)	59.5	76.0	80.4	76.8	68.6	58.6	61.3	64.9	69.7

E: MOSL Estimates

Financials and Valuations: ICICI Bank

Ratios									
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Spreads Analysis (%)									
Avg. Yield - Earning Assets	**7.9**	**7.7**	**8.5**	**8.8**	**8.7**	**8.9**	**8.9**	**8.7**	**8.7**
Avg. Yield on loans	8.7	8.3	9.4	10.1	10.0	9.8	9.3	9.2	9.3
Avg. Yield on Investments	5.8	6.2	6.6	6.7	6.6	6.3	6.5	6.1	6.1
Avg. Cost-Int. Bear. Liab.	**5.2**	**4.8**	**5.6**	**5.7**	**5.5**	**5.5**	**5.3**	**5.1**	**5.1**
Avg. Cost of Deposits	5.5	4.7	5.9	6.2	5.7	5.9	5.5	5.3	5.4
Interest Spread	**2.7**	**2.9**	**2.8**	**3.0**	**3.2**	**3.5**	**3.6**	**3.6**	**3.6**
Net Interest Margin	**2.5**	**2.7**	**2.7**	**3.0**	**3.2**	**3.47**	**3.5**	**3.5**	**3.6**
Profitability Ratios (%)									
RoE	8.0	9.7	11.3	13.3	14.4	15.0	15.3	16.1	17.0
Adjusted RoE	9.6	11.5	12.8	14.8	15.2	15.2	15.0	15.6	16.3
RoA	1.1	1.3	1.4	1.62	1.73	1.80	1.81	1.82	1.84
Int. Expended/Int.Earned	68.4	65.3	68.0	65.4	62.7	61.2	60.5	59.3	59.0
Other Inc./Net Income	48.0	42.4	41.1	37.6	38.8	39.0	39.2	38.2	37.6
Efficiency Ratios (%)									
Op. Exps./Net Income*	40.7	41.7	43.0	41.5	39.8	38.9	39.3	39.1	38.6
Empl. Cost/Op. Exps.	32.9	42.6	44.8	43.2	40.9	41.3	40.7	40.3	39.9
Busi. per Empl. (INR m)	99.8	72.4	81.6	88.0	86.8	104.6	112.5	128.7	147.7
NP per Empl. (INR lac)	9.8	9.0	11.1	13.4	13.6	16.5	17.2	19.2	21.7
* ex treasury									
Asset-Liability Profile (%)									
Loan/Deposit Ratio	89.7	95.9	99.3	99.2	102.0	107.2	103.9	102.7	101.6
CASA Ratio %	41.7	45.1	43.5	41.9	42.9	45.5	42.3	39.9	37.1
Invest./Deposit Ratio	59.8	59.7	62.5	58.6	53.3	43.7	41.0	38.0	35.1
G-Sec/Invest. Ratio	56.6	47.6	54.5	53.9	53.8	66.8	68.7	72.4	76.6
CAR	19.4	19.5	18.5	18.7	17.7	17.0	16.2	15.6	15.0
Tier 1	14.4	13.2	12.7	12.8	12.8	12.8	12.4	12.2	12.0
Valuation									
Book Value (INR)	92.6	95.7	103.3	113.2	122.9	135.2	150.8	169.1	191.0
BV Growth (%)	5.1	3.4	7.9	9.6	8.5	10.0	11.5	12.2	12.9
Price-BV (x)			2.5	2.3	2.1	1.9	1.7	1.5	1.4
ABV (for Subsidaries) (INR)	70.7	74.1	81.7	91.9	102.1	116.1	131.7	150.0	171.8
ABV Growth (%)	6.6	4.8	10.2	12.5	11.1	13.7	13.4	13.9	14.5
Price-ABV (x)			2.7	2.4	2.1	1.7	1.5	1.2	1.0
ABV (for Subs Invst & NPA) (INR)	65.9	71.2	79.5	89.2	98.1	108.5	124.2	142.9	165.3
Adjusted Price-ABV (x)			2.8	2.4	2.2	1.9	1.6	1.3	1.0
EPS (INR)	7.2	8.9	11.2	14.4	17.0	19.3	21.8	25.7	30.6
EPS Growth (%)	6.9	23.9	25.4	28.7	17.7	13.5	13.2	17.8	18.9
Price-Earnings (x)			23.0	17.9	15.2	13.4	11.8	10.0	8.4
Adj. Price-Earnings (x)			19.5	15.0	12.5	10.5	8.9	7.2	5.7
Dividend Per Share (INR)	2.4	2.8	3.3	4.0	4.6	5.0	5.7	6.7	7.9
Dividend Yield (%)			1.3	1.6	1.8	1.9	2.2	2.6	3.1

E: MOSL Estimates

IDFC | **CMP: INR128** | **TP: INR213 (+66%)** | **Buy**

Industry Attractiveness

- India presents a huge opportunity for banks. Only 40% of the population has access to banking. Credit-to-GDP is just ~52% against an average of ~90% for emerging markets and ~100% for developed markets.
- The industry is likely to grow at a CAGR of 18%+ over the next five years.
- Incumbent state-owned banks still have 75%+ market share. In this digital era, private sector banks should continue to gain share, with superior products and services.

Disciplined Management

- IDFC is an infrastructure financier, generating RoE of 12-15%. Despite the infrastructure segment going through tough times, IDFC has maintained healthy profitability while creating floating provisions on the balance sheet.
- Corporate governance levels are best in class; this has helped IDFC to become one of the two from 26 contenders to get a banking license from the RBI.

Disciplined Thought

- Focus on long-term shareholder value creation even at the cost of immediate profitability
- Diversification: Considering the challenges in infrastructure financing, the management focused on diversification of assets and liabilities.
- For the banking business, IDFC is focusing on innovation, technology and cross-selling to existing customers to increase profitability.

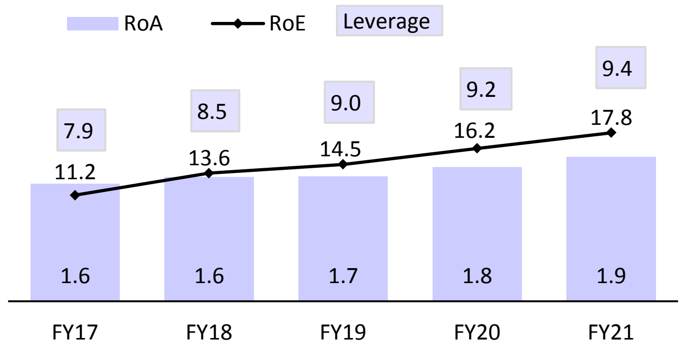
Disciplined Action

- During the troubled times of FY12-15, IDFC's loan CAGR was just 2%. It created provisions of ~4% of loans though reported NPAs were lower at <0.5%. Further, it also created provisions of 60bp on disbursements.
- IDFC is one of the two from 26 contenders to receive a banking license. Operating under the banking model would enhance sustainable RoE by ~500bp.

Expected Results

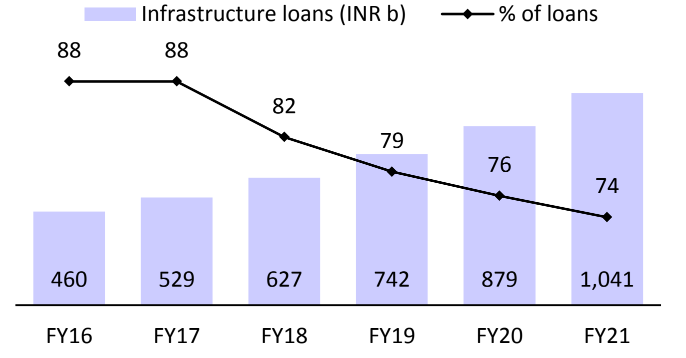
- RoE is expected to be healthy at 11-12% in the first full year of operations as a bank and then steadily rise to ~18% in the next four years.
- IDFC would command significantly higher value as a bank (with higher retail deposits and loans) than as an infrastructure financier.
- Investors are likely to focus more on the expected improvement in business, higher and sustainable RoE, strong management team, and good corporate governance.

Exhibit 36: Leverage of IDFC Bank to increase gradually; RoE to be similar to peers, led by higher core profitability (%)



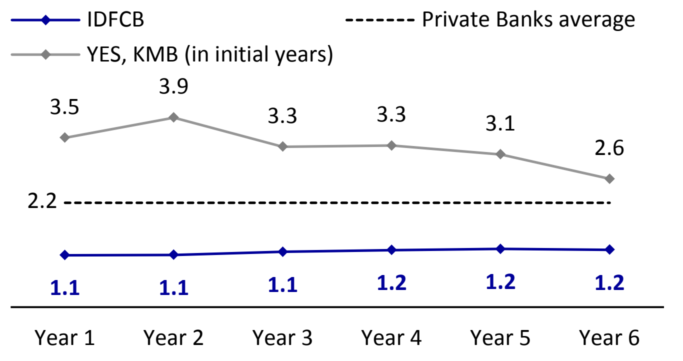
Source: Company, MOSL

Exhibit 37: Steady diversification of loan portfolio



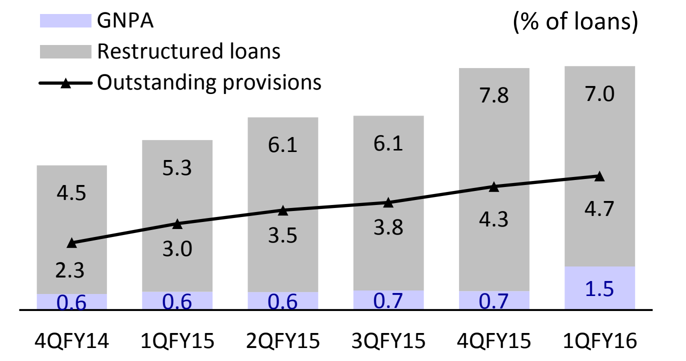
Source: Company, MOSL

Exhibit 38: Cost efficiency to be key differentiator for IDFC Bank (opex; % of assets)



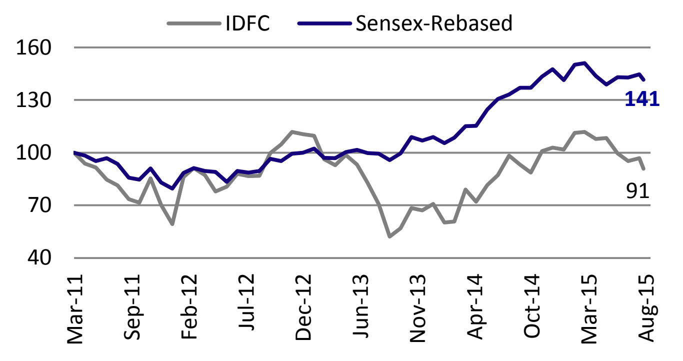
Source: Company, MOSL

Exhibit 39: Stress loans adequately provided for; unlikely to be a drag in banking setup



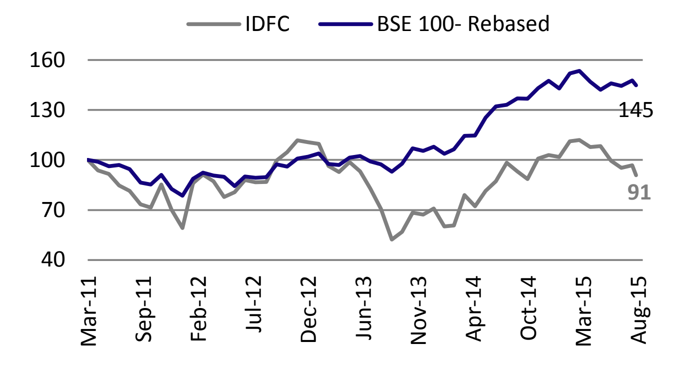
Source: Company, MOSL

Exhibit 40: Stock has underperformed Sensex…



Source: Company, MOSL

Exhibit 41: …and BSE100 post banking announcement



Source: Company, MOSL

Financials and Valuations: IDFC

Income Statement (Consolidated) **(INR Million)**

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
Interest Income*	30,797	40,276	55,679	72,279	77,384	84,562	90,391	102,396
Interest Expended	19,535	23,875	34,562	46,758	50,552	56,556	62,707	71,734
Net Interest Income	**11,262**	**16,401**	**21,117**	**25,521**	**26,831**	**28,006**	**27,685**	**30,662**
Change (%)	21.4	45.6	28.8	20.9	5.1	4.4	-1.1	10.8
Other Income	**9,829**	**9,054**	**8,672**	**9,205**	**10,516**	**12,235**	**13,700**	**15,216**
Fees Based income	6,182	6,413	4,587	5,807	5,991	5,092	6,457	7,824
Principal Invt (Incl Carry Inc)**	3,330	2,260	3,890	2,060	3,280	4,067	3,917	4,017
Fixed income gains and others	317	382	195	1,339	1,245	3,075	3,325	3,375
Net Income	**21,091**	**25,455**	**29,788**	**34,726**	**37,348**	**40,241**	**41,385**	**45,879**
Change (%)	35.6	20.7	17.0	16.6	7.5	7.7	2.8	10.9
Operating Expenses	5,526	5,321	5,216	5,294	5,438	6,338	10,760	11,928
Operating Income	**15,566**	**20,135**	**24,572**	**29,432**	**31,910**	**33,903**	**30,625**	**33,950**
Change (%)	30.9	29.4	22.0	19.8	8.4	6.2	-9.7	10.9
Other Provisions	1,283	2,346	2,846	3,496	6,283	8,500	8,061	7,664
PBT	**14,283**	**17,788**	**21,726**	**25,936**	**25,627**	**25,403**	**22,564**	**26,286**
Tax	3,666	4,998	6,219	7,511	7,385	7,367	6,769	7,623
Tax Rate (%)	25.7	28.1	28.6	29.0	28.8	29.0	30.0	29.0
PAT	**10,617**	**12,791**	**15,508**	**18,424**	**18,242**	**18,036**	**15,795**	**18,663**
Change (%)	40.1	20.5	21.2	18.8	-1.0	-1.1	-12.4	18.2
(MI)/Associate profit	5.2	25.7	32.0	-62.3	-215.1	-300.0	-300.0	-300.0
Consolidated PAT	**10,623**	**12,817**	**15,540**	**18,362**	**18,027**	**17,736**	**15,495**	**18,363**
Change (%)	41.7	20.7	21.2	18.2	-1.8	-1.6	-12.6	18.5
Proposed Dividend	1,951	2,925	3,478	3,938	3,942	3,902	3,409	4,040

*Includes debt trading gains; **
Excludes debt trading gains

Balance Sheet **(INR Million)**

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
Capital	13,006	14,609	15,124	15,147	15,163	15,893	15,893	15,893
Reserves & Surplus	57,097	89,475	107,733	121,682	135,241	157,703	169,226	182,883
Net Worth	**70,103**	**104,084**	**122,856**	**136,829**	**150,404**	**173,596**	**185,119**	**198,776**
Borrowings	**265,439**	**371,439**	**472,750**	**542,270**	**565,650**	**673,164**	**742,987**	**879,497**
Change (%)	12.7	39.9	27.3	14.7	4.3	19.0	10.4	18.4
Total Liabilities	**335,605**	**475,526**	**595,784**	**679,353**	**716,456**	**847,161**	**928,508**	**1,078,675**
Investments	**46,554**	**69,611**	**75,339**	**110,042**	**113,087**	**294,026**	**352,831**	**423,398**
Change (%)	-28.4	49.5	8.2	46.1	2.8	160.0	20.0	20.0
Loans	**250,311**	**376,523**	**481,846**	**557,370**	**585,450**	**526,905**	**553,250**	**636,238**
Change (%)	21.5	50.4	28.0	15.7	5.0	-10.0	5.0	15.0
Goodwill	**11,596**	**11,638**	**9,668**	**9,568**	**9,571**	**9,571**	**9,571**	**9,571**
Net Fixed Assets	4,415	4,469	4,165	3,445	3,285	3,449	3,622	3,803
Deferred Tax Assets	1,755	2,480	3,180	3,938	4,875	4,875	4,875	4,875
Net current Assets	20,974	10,804	21,587	-5,008	188	8,334	4,358	791
Total Assets	**335,605**	**475,526**	**595,784**	**679,353**	**716,456**	**847,161**	**928,508**	**1,078,675**

E: MOSL Estimates

Financials and Valuations: IDFC

Ratios

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
Spreads Analysis (%)								
Avg. Yield - Infra. loans	11.3	11.0	11.2	12.3	11.8	12.0	11.5	11.5
Avg. Yield - Earning Assets	10.7	11.0	11.1	11.9	11.4	11.1	10.4	10.4
Avg. Cost-Int. Bear. Liab.	7.8	7.5	8.2	9.2	9.1	9.1	8.9	8.8
Interest Spread on loans	2.9	3.5	2.9	2.7	2.2	2.0	1.6	1.6
Net Interest Margin	3.0	3.8	3.7	3.8	3.6	3.3	2.9	2.8
Profitability Ratios (%)								
RoE	16.1	14.7	13.7	14.1	12.6	10.9	8.6	9.6
Core RoE	17.6	17.8	16.2	15.1	13.1	11.4	8.8	9.8
RoA	3.4	3.2	2.9	2.9	2.6	2.3	1.7	1.8
Int. Expended/Int.Earned	63.4	59.3	62.1	64.7	65.3	66.9	69.4	70.1
Other Income./Net Income	46.6	35.6	29.1	26.5	28.2	30.4	33.1	33.2
Efficiency Ratios (%)								
Total Assets/Equity(x)	4.8	4.6	4.8	5.0	4.8	4.9	5.0	5.4
Debt/Equity (x)	3.8	3.6	3.8	4.0	3.8	3.9	4.0	4.4
Fee income/Net Income	29.3	25.2	15.4	16.7	16.0	12.7	15.6	17.1
Op. Exps./Net Income	26.2	20.9	17.5	15.2	14.6	15.8	26.0	26.0
Empl. Cost/Op. Exps.	55.8	55.6	58.4	55.1	53.0	55.6	50.0	50.0
Asset Quality and capitalization (%)								
Gross NPAs		797	1,483	851	3,330	3,576	9,899	18,197
Gross NPAs to Adv.		0.2	0.3	0.2	0.6	0.7	1.8	2.8
Net NPAs		389	714	289	2,206	1,196	5,019	10,817
Net NPAs to Adv.		0.1	0.1	0.1	0.4	0.2	0.9	1.7
Valuation								
Book Value (INR)	53.9	71.2	81.2	90.3	99.2	109.2	116.5	125.1
Price-BV (x)			1.6	1.4	1.3	1.2	1.1	1.0
Adjusted BV (INR)*	42.1	60.6	72.7	81.3	89.5	99.9	107.2	115.8
Price-ABV (x)			1.5	1.3	1.2	1.0	0.9	0.9
EPS (INR)	8.2	8.8	10.3	12.1	11.9	11.2	9.7	11.6
EPS Growth (%)	41.1	7.4	17.1	18.0	-1.9	-6.1	-12.6	18.5
Price-Earnings (x)			12.5	10.6	10.8	11.5	13.1	11.1
OPS (INR)	12.0	13.8	16.2	19.4	21.0	21.3	19.3	21.4
OPS Growth (%)	30.4	15.2	17.9	19.6	8.3	1.4	-9.7	10.9
Price-OP (x)			7.9	6.6	6.1	6.0	6.6	6.0
Dividend per Share (INR)	1.5	2.0	2.3	2.6	2.6	2.5	2.1	2.5
Dividend Yield (%)			1.8	2.0	2.0	1.9	1.7	2.0

E: MOSL Estimates; *Adj. for Inv. in subsidiaries, Prices adj. for other ventures

Annexure II: Dynamic Value Picks

BSE Sensex: 25,202 | S&P CNX: 7,655 | 4 September 2015

- IndusInd Bank
- ITC
- Larsen & Toubro
- Maruti Suzuki
- UltraTech Cem.
- United Spirits
- Zee Ent.

IndusInd Bank CMP: INR840 TP: INR1,140 (+36%) Buy

Industry Attractiveness

- India presents a huge opportunity for banks. Only 40% of the population has access to banking. Credit-to-GDP is just ~52% against an average of ~90% for emerging markets and ~100% for developed markets.
- Deepening financial penetration, increasing urbanization, and expansion of private banks into rural and semi-urban areas would drive retail loan growth. Consumer loans-to-GDP stands at just 15% against 20%+ for major economies.

Disciplined Management

- IndusInd Bank (IIB) is a classic case of management change (Mr Sobti and his team took charge in 2008) scripting a turnaround in fortunes. The bank's workforce has grown 6.6x over FY08-15 to 19k+ and the top management team remains intact.
- The management targets to be a forerunner in terms of profitability (RoA best in class at 1.9% in FY15; up from 35bp in FY08), productivity (profit/employee up 4x over FY08-15), and efficiency (C/I ratio down from 68% in FY08 to 46%).

Disciplined Thought

- Three-year planning cycle (2014-17)
  a) Focus on outpacing system growth (loan CAGR of 25-30% v/s ~15% for industry) by capitalizing on niche areas (vehicle loans)
  b) Building at least 15 home markets (5%+ branch share) to sustain savings accounts
  c) Core fee growth to outpace loan growth, supporting RoA; focus remains on gaining forex market share and strong investment banking revenues

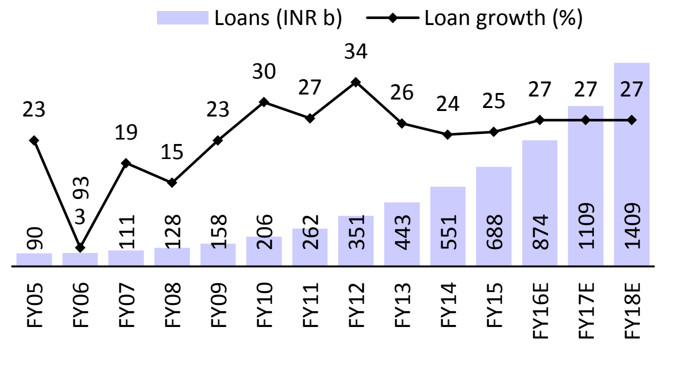
Disciplined Action

- Focusing on high yielding retail loan portfolio (42% of book) by capitalizing on strong presence in vehicle loans and addition of new retail products. Expect 30-35% CAGR in this portfolio. IIB's loan market share (MS) doubled over FY08-15 to 1%.
- Increased share of low cost CASA deposits (15.5% in FY08 to 34%) through focused branch expansion and improving brand image. SA MS: 54bp in FY15 v/s 29bp in FY12)
- Gaining forex MS (from 1% in FY08 to ~4%) at the cost of state-owned banks, driven by lower turnaround time. Fees to assets improved to 2.2% (+100bp from FY08).

Expected Results

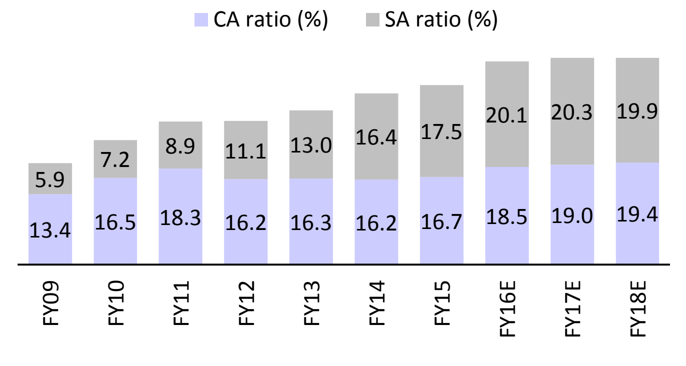
- Healthy core revenues (5.6% of assets – best in industry), strong growth, high margins (due to high yielding loans and low cost deposits), and productivity gains should enable IIB to report steady-state RoA of 2%+ and ~30% earnings CAGR over FY15-18.
- Recent capital infusion would result in >600bp increase in tier-I ratio – sufficient for 3-4 years of 25%+ loan growth. (FY16/17 RoE would be impacted by the capital raising).
- CASA ratio is expected to improve by 500bp+ to ~40% over FY15-18.

Exhibit 42: Management aims to double the balance sheet over next three years



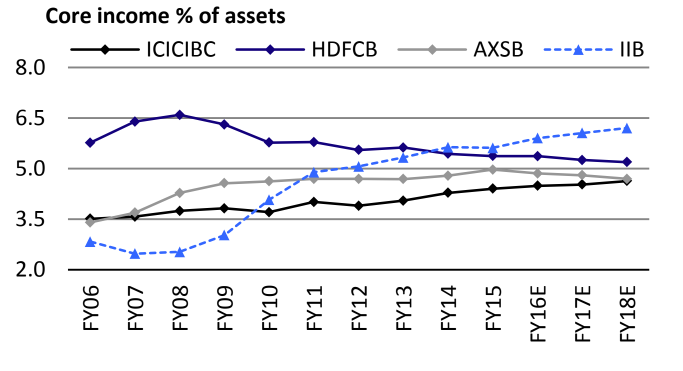
Source: Company, MOSL

Exhibit 43: Focused branch expansion and savings de-regulation key enablers - Expect CASA ratio to rise 500bp over FY15-18E



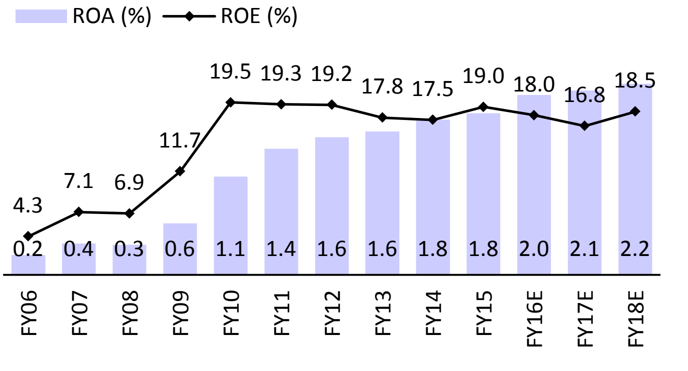
Source: Company, MOSL

Exhibit 44: Structural improvement in IIB's core income (% of average assets); higher than HDFCB's



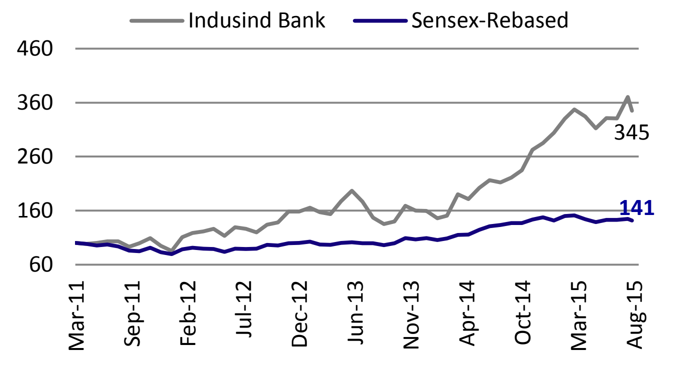
Source: Company, MOSL

Exhibit 45: IIB to be first mid-size bank to demonstrate sustainable RoA improvement



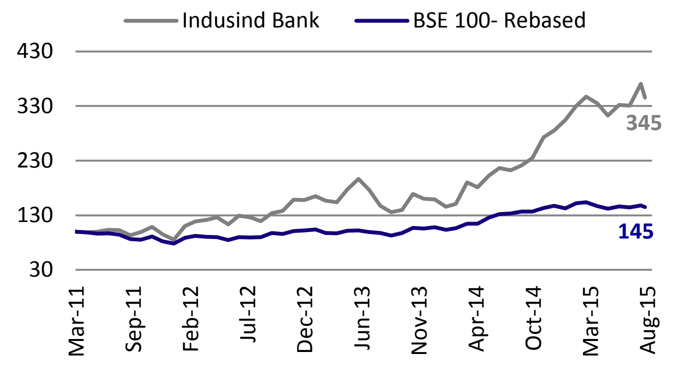
Source: Company, MOSL

Exhibit 46: Massive outperformance v/s Sensex…



Source: Company, MOSL

Exhibit 47: …and BSE100



Source: Company, MOSL

Financials and Valuations: IndusInd Bank

Income Statement									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Interest Income	27,070	35,894	53,592	69,832	82,535	96,920	114,203	134,950	167,668
Interest Expense	18,206	22,129	36,549	47,504	53,628	62,717	70,129	80,135	97,886
Net Interest Income	**8,864**	**13,765**	**17,042**	**22,329**	**28,907**	**34,203**	**44,073**	**54,815**	**69,782**
Change (%)	93.1	55.3	23.8	31.0	29.5	18.3	28.9	24.4	27.3
Non Interest Income	5,534	7,137	10,118	13,630	18,905	24,039	31,475	38,754	47,645
Net Income	**14,399**	**20,902**	**27,160**	**35,958**	**47,812**	**58,241**	**75,549**	**93,570**	**117,427**
Change (%)	57.3	45.2	29.9	32.4	33.0	21.8	29.7	23.9	25.5
Operating Expenses	7,360	10,085	13,430	17,564	21,853	27,259	33,976	41,694	51,168
Pre Provision Profits	**7,039**	**10,817**	**13,730**	**18,395**	**25,960**	**30,982**	**41,573**	**51,876**	**66,259**
Change (%)	91.1	53.7	26.9	34.0	41.1	19.3	34.2	24.8	27.7
Provisions (excl tax)	1,709	2,019	1,804	2,631	4,676	3,891	5,037	6,397	8,124
PBT	**5,330**	**8,798**	**11,927**	**15,764**	**21,283**	**27,092**	**36,536**	**45,479**	**58,135**
Tax	1,827	3,025	3,900	5,152	7,203	9,155	12,239	15,235	19,475
Tax Rate (%)	34.3	34.4	32.7	32.7	33.8	33.8	33.5	33.5	33.5
PAT	**3,503**	**5,773**	**8,026**	**10,612**	**14,080**	**17,937**	**24,296**	**30,243**	**38,660**
Change (%)	136.1	64.8	39.0	32.2	32.7	27.4	35.5	24.5	27.8
Equity Dividend (Incl tax)	**865**	**932**	**1,196**	**1,838**	**2,154**	**2,552**	**3,397**	**4,228**	**5,405**
Core PPP*	**5,827**	**9,764**	**12,680**	**17,325**	**23,327**	**28,232**	**37,073**	**46,626**	**60,259**
Change (%)	129.9	67.6	29.9	36.6	34.6	21.0	31.3	25.8	29.2

*Core PPP is (NII+Fee income-Opex)

Balance Sheet									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Equity Share Capital	4,107	4,660	4,677	5,229	5,256	5,295	5,807	5,807	5,807
Reserves & Surplus	19,866	35,842	42,740	71,074	85,173	101,151	164,755	190,708	223,900
Net Worth	**23,972**	**40,502**	**47,417**	**76,303**	**90,430**	**106,445**	**170,562**	**196,515**	**229,707**
Of which Equity Networth	23,972	40,502	47,417	76,303	90,430	106,445	170,562	196,515	229,707
Deposits	**267,102**	**343,654**	**423,615**	**541,167**	**605,023**	**741,344**	**867,372**	**1,101,563**	**1,398,984**
Change (%)	20.8	28.7	23.3	27.7	11.8	22.5	17.0	27.0	27.0
of which CASA Dep	**63,217**	**93,309**	**115,631**	**158,674**	**196,909**	**252,996**	**335,187**	**432,788**	**549,351**
Change (%)	48.6	47.6	23.9	37.2	24.1	28.5	32.5	29.1	26.9
Borrowings	49,343	55,254	86,820	94,596	147,620	206,181	217,349	247,935	283,110
Other Liabilities & Prov.	13,278	16,948	18,108	21,000	27,187	37,190	44,684	53,730	64,651
Total Liabilities	**353,695**	**456,358**	**575,961**	**733,065**	**870,259**	**1,091,159**	**1,299,967**	**1,599,743**	**1,976,452**
Current Assets	26,032	40,246	55,396	68,487	67,694	107,791	84,652	94,402	110,968
Investments	**104,018**	**135,508**	**145,719**	**196,542**	**215,630**	**248,594**	**285,883**	**328,765**	**378,080**
Change (%)	28.7	30.3	7.5	34.9	9.7	15.3	15.0	15.0	15.0
Loans	**205,506**	**261,656**	**350,640**	**443,206**	**551,018**	**687,882**	**873,610**	**1,109,485**	**1,409,046**
Change (%)	30.3	27.3	34.0	26.4	24.3	24.8	27.0	27.0	27.0
Fixed Assets	6,448	5,965	6,568	7,561	10,164	11,576	11,677	11,909	12,140
Other Assets	11,691	12,983	17,638	17,269	25,753	35,316	44,145	55,182	66,218
Total Assets	**353,695**	**456,358**	**575,961**	**733,065**	**870,259**	**1,091,159**	**1,299,967**	**1,599,743**	**1,976,452**

Asset Quality									(%)
GNPA (INR m)	2,555	2,659	3,471	4,578	6,208	5,629	5,050	7,022	10,089
NNPA (INR m)	1,018	728	947	1,368	1,841	2,105	1,524	2,499	3,495
GNPA Ratio	1.2	1.0	1.0	1.0	1.1	0.8	0.6	0.6	0.7
NNPA Ratio	0.5	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
PCR (Excl Tech. write off)	60.1	72.6	72.7	70.1	70.4	62.6	69.8	64.4	65.4

E: MOSL Estimates

Financials and Valuations: IndusInd Bank

Ratios									
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Spreads Analysis (%)									
Avg. Yield-Earning Assets	**9.7**	**9.9**	**11.5**	**11.7**	**11.3**	**10.8**	**10.4**	**10.1**	**10.1**
Avg. Yield on loans	11.6	12.1	13.8	14.1	13.3	12.5	11.6	11.0	11.0
Avg. Yield on Investments	6.0	6.1	7.7	7.5	7.2	7.2	6.8	6.7	6.7
Avg. Cost-Int. Bear. Liab.	**6.4**	**6.2**	**8.0**	**8.3**	**7.7**	**7.4**	**6.9**	**6.6**	**6.5**
Avg. Cost of Deposits	6.4	6.0	8.0	8.3	7.6	7.7	7.1	6.6	6.4
Interest Spread	**3.2**	**3.7**	**3.4**	**3.4**	**3.5**	**3.4**	**3.5**	**3.5**	**3.6**
Net Interest Margin	**3.2**	**3.8**	**3.6**	**3.7**	**3.9**	**3.8**	**4.0**	**4.1**	**4.2**
Profitability Ratios (%)									
RoE	19.5	19.3	19.2	17.8	17.5	19.0	18.05	16.8	18.5
RoA	1.1	1.4	1.6	1.6	1.8	1.8	2.0	2.1	2.2
Int. Expense/Int.Income	67.3	61.7	68.2	68.0	65.0	64.7	61.4	59.4	58.4
Fee Income/Net Income	30.0	30.1	33.6	34.5	33.7	35.8	35.1	35.3	35.1
Non Int. Inc./Net Income	38.4	34.1	37.3	37.9	39.5	41.3	41.7	41.4	40.6
Efficiency Ratios (%)									
Cost/Income*	55.8	50.3	51.3	50.6	48.6	49.5	48.1	47.4	46.1
Empl. Cost/Op. Exps.	39.5	37.9	36.1	37.7	37.0	36.0	35.8	36.2	36.5
Busi. per Empl. (INR m)	88.4	87.0	84.2	84.3	79.0	74.5	78.0	84.5	89.6
NP per Empl. (INR lac)	0.7	0.9	1.0	1.0	1.0	1.0	1.2	1.3	1.4
* ex treasury and RWO									
Asset-Liability Profile (%)									
Loans/Deposit Ratio	76.9	76.1	82.8	81.9	91.1	92.8	100.7	100.7	100.7
CASA Ratio	23.7	27.2	27.3	29.3	32.5	34.1	38.6	39.3	39.3
Investment/Deposit Ratio	38.9	39.4	34.4	36.3	35.6	33.5	33.0	29.8	27.0
G-Sec/Investment Ratio	82.0	74.0	81.7	71.8	71.3	72.0	70.2	74.2	78.3
CAR	15.3	15.9	13.9	15.4	13.8	12.1	16.1	15.1	14.2
Tier 1	9.7	12.3	11.4	13.8	12.7	11.2	15.4	14.5	13.8
Valuations									
Book Value (INR)	52.7	82.1	96.7	141.9	164.5	193.7	287.1	331.9	389.2
Change (%)	31.1	55.7	17.8	46.7	15.9	17.7	48.3	15.6	17.3
Price-BV (x)			**8.7**	**5.9**	**5.1**	**4.3**	**2.9**	**2.5**	**2.2**
Adjusted BV (INR)	51.1	81.1	95.4	140.2	162.2	191.1	285.4	329.1	385.3
Price-ABV (x)			**8.8**	**6.0**	**5.2**	**4.4**	**2.9**	**2.6**	**2.2**
EPS (INR)	8.5	12.4	17.2	20.3	26.8	33.9	41.8	52.1	66.6
Change (%)	104.2	45.3	38.5	18.3	32.0	26.5	23.5	24.5	27.8
Price-Earnings (x)			**48.9**	**41.4**	**31.4**	**24.8**	**20.1**	**16.1**	**12.6**
Dividend Per Share (INR)	1.8	2.0	2.2	3.0	3.5	4.0	5.0	6.3	8.0
Dividend Yield (%)			**0.3**	**0.4**	**0.4**	**0.5**	**0.6**	**0.7**	**1.0**

E: MOSL Estimates

ITC | CMP: INR316 | TP: INR360 (+14%) | Buy

Industry Attractiveness

- Per capita cigarette consumption in India is 1/18th of China, 1/10th of USA, 2/3rd of Bangladesh and 1/5th of Pakistan.
- ITC enjoys an unchallenged monopoly, with ~84% value share in the organized segment.
- While industry volumes have grown at ~1.5% over FY95-15, ITC's volumes have grown at a CAGR of 2.4%.

Disciplined Management

- ITC has consciously diversified its business in the last decade – non-cigarette FMCG, with INR90b sales, now contributes 18% of gross revenue against 4% a decade ago.
- ITC has demonstrated excellence in managing its core cigarettes business, with 12 consecutive years of margin expansion, despite punitive legislative actions.
- Dividend payout ratio has improved in the last five years despite continued capex. The average payout in the last five years has been ~60% against ~40% over 2000-10.

Disciplined Thought

- ITC's cigarette business is currently facing challenges due to four consecutive years of 15%+ excise duty hikes. However, underlying shares and profitability are intact.
- ITC passes on duty hikes to consumers through price increases. Its wide product portfolio (presence across segments) helps it to retain customers.
- It has set a target of INR1t for FMCG-others by 2030 from the current INR90b. To achieve this, it has entered various Home & Personal Care and Foods categories.

Disciplined Action

- Despite the harsh taxation regime, ITC has gained share due to its brand strength, unparalleled distribution, and products straddling price points.
- ITC is tactically driving the 64mm segment to capture any downtrading from 69mm. The 64mm segment contributes ~10% of volumes and has similar percentage margins.
- Inorganic initiatives to aid INR1t FMCG-others revenue target by 2030: ITC has already acquired brands like *B-Natural*, *Savlon* and *Shower to Shower*.

Expected Results

- We expect ITC's operating margins to expand from 37.4% in FY15 to 39.2% in FY17.
- RoE and RoCE should remain steady at 33-34% and 40-42%, respectively.
- Near-term modest growth notwithstanding, we see ITC as a good medium-term play, given its dominance in its core franchise, relatively cheap valuations in the consumer universe, and muted expectations.

Exhibit 48: Good scope to grow per capita cigarette consumption in India

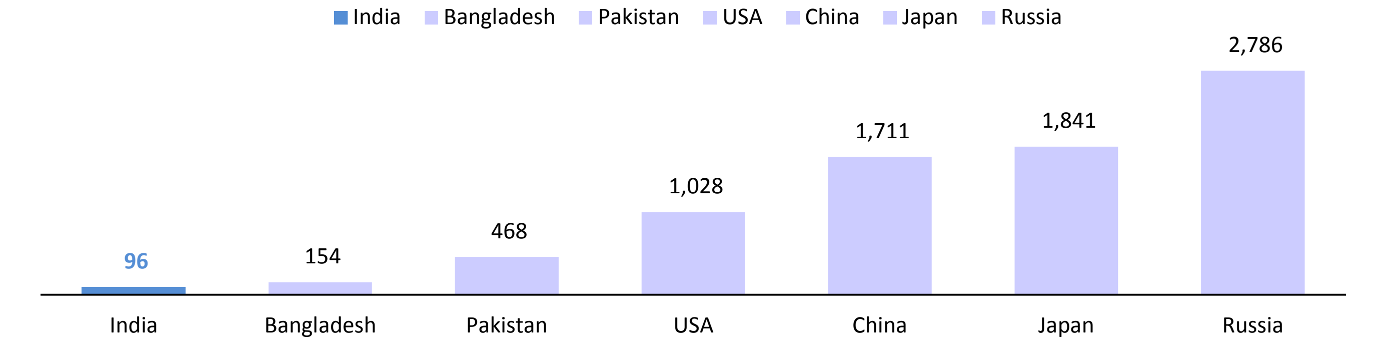
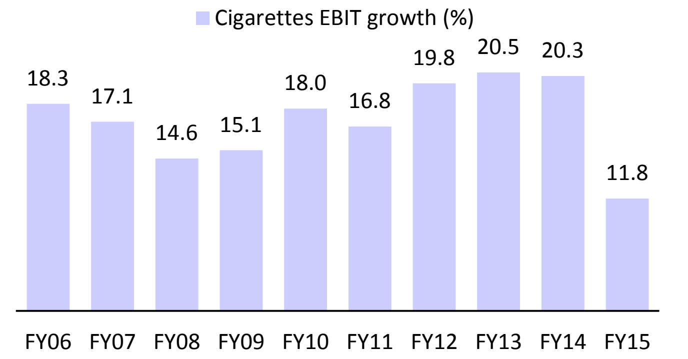
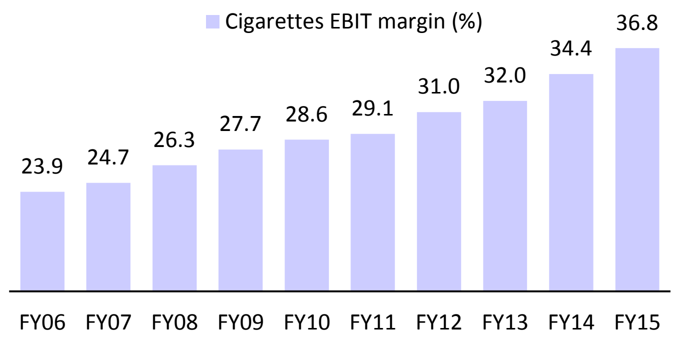


Exhibit 49: Mid-teens cigarette EBIT growth over last decade



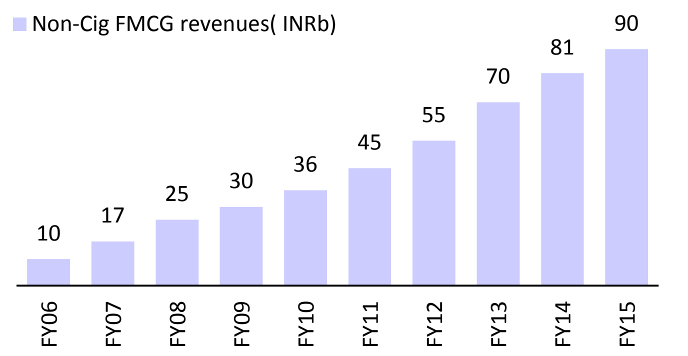
Source: Company, MOSL

Exhibit 50: Consistent expansion in cigarette margins



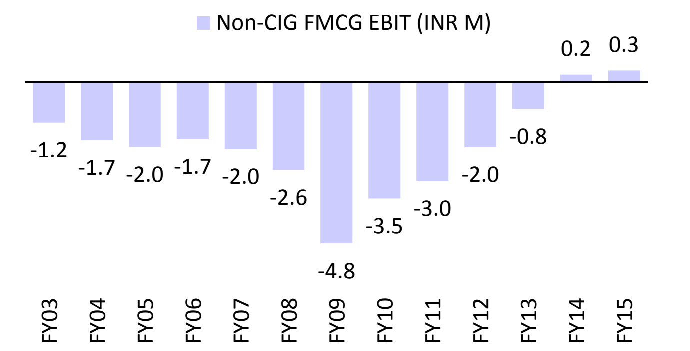
Source: Company, MOSL

Exhibit 51: Non-cigarette FMCG revenues gaining scale



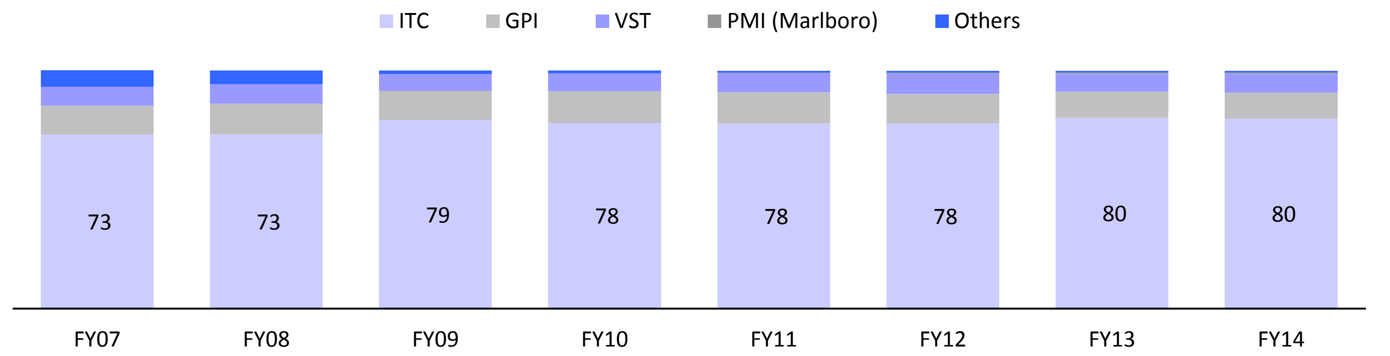
Source: Company, MOSL

Exhibit 52: Non-cigarette FMCG EBIT turned positive last year



Source: Company, MOSL

Exhibit 53: Gained market share in cigarettes in an adverse tax regime



Source: Company, MOSL

Financials and Valuations: ITC

Income Statement								(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**
Net Sales	**181,532**	**211,676**	**247,984**	**296,056**	**328,826**	**360,832**	**387,792**	**422,024**
Operational Income	2,392	2,914	3,490	2,957	3,560	4,242	4,666	5,133
Total Revenue	**183,924**	**214,590**	**251,475**	**299,013**	**332,386**	**365,074**	**392,458**	**427,157**
Change (%)	16.4	16.7	17.2	18.9	11.2	9.8	7.5	8.8
Total Expenditure	120,619	140,467	162,788	192,543	207,631	230,128	241,500	261,860
EBITDA	**63,305**	**74,123**	**88,687**	**106,470**	**124,755**	**134,946**	**150,958**	**165,297**
Change (%)	24.8	17.1	19.6	20.1	17.2	8.2	11.9	9.5
Margin (%)	34.9	35.0	35.8	36.0	37.9	37.4	38.9	39.2
Depreciation	6,087	6,560	6,985	7,956	8,999	9,617	10,806	11,956
Int. and Fin. Charges	820	679	980	1,059	236	785	490	440
Other Inc. - Recurring	3,756	5,798	8,253	9,387	11,071	15,431	18,128	21,360
Profit before Taxes	**60,153**	**72,682**	**88,975**	**106,842**	**126,591**	**139,975**	**157,790**	**174,262**
Change (%)	24.7	20.8	22.4	20.1	18.5	10.6	12.7	10.4
Margin (%)	33.1	34.3	35.9	36.1	38.5	38.8	40.7	41.3
Tax	20,286	22,804	26,777	29,348	37,911	40,210	45,128	49,839
Deferred Tax	-822	2	574	3,310	828	3,688	3,787	4,182
Tax Rate (%)	32.4	31.4	30.7	30.6	30.6	31.4	31.0	31.0
Profit after Taxes	**40,689**	**49,876**	**61,624**	**74,184**	**87,852**	**96,077**	**108,875**	**120,241**
Change (%)	24.7	22.6	23.6	20.4	18.4	9.4	13.3	10.4
Margin (%)	22.4	23.6	24.8	25.1	26.7	26.6	28.1	28.5
Reported PAT	**40,689**	**49,876**	**61,624**	**74,184**	**87,852**	**96,077**	**108,875**	**120,241**

Balance Sheet								(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**
Share Capital	3,818	7,738	7,818	7,902	7,953	8,016	8,016	8,016
Reserves	136,826	151,795	180,101	214,977	254,667	299,341	338,155	381,021
Net Worth	**140,644**	**159,533**	**187,919**	**222,879**	**262,620**	**307,357**	**346,171**	**389,037**
Loans	160	343	119	113	155	143	143	143
Deferred Liability	7,850	8,019	8,727	12,037	12,970	16,316	12,217	7,690
Capital Employed	**148,654**	**167,894**	**196,765**	**235,029**	**275,745**	**323,816**	**358,531**	**396,870**
Gross Block	119,679	127,658	138,033	165,884	181,756	209,908	234,908	259,908
Less: Accum. Depn.	38,255	44,208	48,197	54,698	62,269	72,136	82,942	94,898
Net Fixed Assets	**81,424**	**83,451**	**89,837**	**111,186**	**119,487**	**137,771**	**151,966**	**165,010**
Capital WIP	10,090	13,334	23,923	15,786	23,598	25,155	25,155	25,155
Investments	**57,269**	**55,547**	**63,166**	**70,603**	**88,234**	**84,055**	**105,774**	**127,157**
Current	46,982	42,189	43,633	50,594	63,113	59,638	78,916	97,613
Non-current	10,287	13,358	19,533	20,009	25,122	24,416	26,858	29,544
Curr. Assets, L&A	**81,279**	**97,901**	**112,957**	**142,600**	**160,975**	**194,976**	**207,985**	**226,154**
Inventory	45,491	52,692	56,378	66,002	73,595	78,368	82,367	89,652
Account Receivables	8,581	8,851	9,824	11,633	21,654	17,224	21,249	23,125
Cash and Bank Balance	11,263	22,432	28,189	36,150	32,894	75,886	77,558	84,405
Others	15,945	13,926	18,565	28,815	32,832	23,498	26,811	28,973
Curr. Liab. and Prov.	**81,408**	**82,338**	**93,117**	**105,146**	**116,549**	**118,140**	**132,350**	**146,606**
Account Payables	34,449	39,685	46,989	50,571	54,498	53,817	57,876	64,377
Other Liabilities	8,777	8,219	10,945	13,091	14,332	14,226	14,593	16,097
Provisions	38,182	34,435	35,183	41,485	47,719	50,097	59,881	66,132
Net Current Assets	**-129**	**15,563**	**19,840**	**37,454**	**44,426**	**76,835**	**75,636**	**79,548**
Application of Funds	**148,654**	**167,894**	**196,765**	**235,029**	**275,745**	**323,816**	**358,530**	**396,870**

E: MOSL Estimates

Financials and Valuations: ITC

Ratios								
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**
Basic (INR)								
EPS	**10.7**	**6.4**	**7.9**	**9.4**	**11.0**	**12.0**	**13.6**	**15.0**
Cash EPS	12.3	7.3	**8.8**	**10.4**	**12.2**	**13.2**	**14.9**	**16.5**
BV/Share	36.8	20.6	24.0	28.2	33.0	38.3	43.2	48.5
DPS	10.0	4.5	4.5	5.3	6.0	6.3	7.5	8.3
Payout %	93.8	69.0	57.1	55.9	54.3	52.1	55.0	55.0
Valuation (x)								
P/E					28.6	26.4	24.0	21.7
Cash P/E					25.9	24.0	21.8	19.8
EV/Sales					7.3	6.6	6.3	5.7
EV/EBITDA					19.3	17.6	16.1	14.5
P/BV					9.6	8.2	7.5	6.7
Dividend Yield (%)					1.9	2.0	2.3	2.5
Return Ratios (%)								
RoE	29.3	33.2	35.5	36.1	36.2	33.7	33.3	32.7
RoCE	38.6	42.7	44.8	45.6	45.3	41.8	41.1	40.6
Working Capital Ratios								
Debtor (Days)	15	15	14	13	18	20	18	19
Asset Turnover (x)	1.2	1.3	1.3	1.3	1.2	1.1	1.1	1.1
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement								(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**
OP/(loss) before Tax	60,153	72,682	88,975	106,842	126,591	139,975	157,790	174,262
Int./Div. Received	3,756	5,798	8,253	9,387	11,071	15,431	18,128	21,360
Depreciation and Amort.	6,087	6,560	6,985	7,956	8,999	9,617	10,806	11,956
Interest Paid	820	679	980	1,059	236	785	490	440
Direct Taxes Paid	19,464	22,806	27,352	32,658	38,739	43,898	48,915	54,021
Incr in WC	-35,642	4,522	-1,480	9,654	10,228	-10,583	-2,872	-2,934
Diff in dep	700	607	2,996	1,454	1,428	-250	0	0
CF from Operations	**80,183**	**47,402**	**65,811**	**65,612**	**77,217**	**101,381**	**104,915**	**114,210**
Extraordinary Items	0	0	1	2	3	0	0	0
Incr Decr in FA	12,041	11,224	20,964	19,714	23,684	29,709	25,000	25,000
Free Cash Flow	**68,142**	**36,178**	**44,847**	**45,898**	**53,532**	**71,673**	**79,915**	**89,210**
Pur of Investments	28,891	-1,722	7,619	7,437	17,631	-4,180	21,719	21,383
CF from Invest.	**-40,933**	**-9,502**	**-28,582**	**-27,149**	**-41,313**	**-25,529**	**-46,719**	**-46,383**
Issue of shares	7,207	5,220	7,650	9,223	6,911	9,788	0	0
Incr in Debt	-1,616	183	-224	-6	43	-12	0	0
Interest Income	3,756	5,798	8,253	9,387	11,071	15,431	18,128	21,360
Interest Paid	820	679	980	1,059	236	785	490	440
Dividend Paid	13,965	38,182	34,435	35,183	41,485	47,719	50,097	59,881
Others	-32,860	929	-11,737	-12,864	-15,464	-9,563	-24,064	-22,020
CF from Fin. Activity	**-38,298**	**-26,731**	**-31,472**	**-30,502**	**-39,160**	**-32,859**	**-56,523**	**-60,981**
Incr of Cash	**953**	**11,170**	**5,757**	**7,961**	**-3,256**	**42,993**	**1,672**	**6,846**
Add: Opening Balance	10,310	11,263	22,432	28,189	36,150	32,894	75,886	77,558
Closing Balance	**11,263**	**22,432**	**28,189**	**36,150**	**32,894**	**75,887**	**77,558**	**84,404**

E: MOSL Estimates

Larsen & Toubro CMP: INR1,534 TP: INR2,150 (+40%) Buy

Industry Attractiveness

- Infrastructure spending as a percentage of GDP has declined meaningfully to just 3-4% from peak levels of 7-8%. We expect meaningful traction, as large projects in segments like urban infrastructure, water & irrigation, railways, and power T&D pick up.
- Manufacturing segments like defense, power generation, and forgings provide strong opportunities. Another important driver is industrial capex – particularly hydrocarbons, metals, and fertilizers – both in India and overseas.

Disciplined Management

- L&T has continuously evolved by building new skill sets and competencies to effectively benefit from emerging trends. Portfolio rationalization is an important priority.
- It has incubated and grown service businesses like IT and finance. It is also expanding the share of manufacturing businesses like power BTG, defense, and forgings.
- By creating independent companies for different businesses and listing subsidiaries, it has kept business structure simple and promoted managerial talent.

Disciplined Thought

- L&T intends to increase the opportunity pie in its core E&C business by building competencies in emerging segments and emerge as the E&C partner of choice in India.
- It believes manufacturing businesses present interesting possibilities in the longer term (including from privatization of defense and entry into power BTG).
- It is attempting to correct capital allocation through various initiatives and improve consolidated RoE.

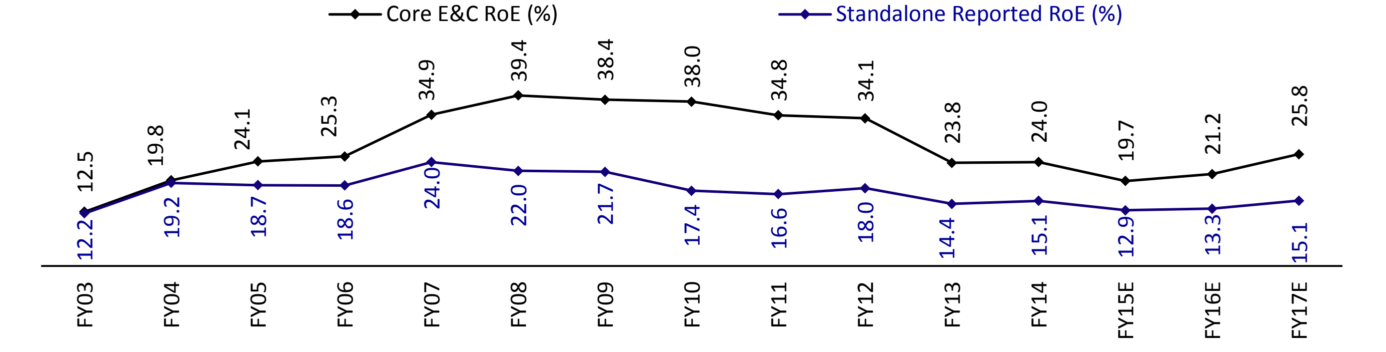
Disciplined Action

- L&T has expanded offerings across business / geographic segments, with competency additions in buildings & factories, power T&D, water, smart cities, and renewables among others.
- It has invested ~INR100b in setting up manufacturing businesses (defense, power BTG, forgings), which are difficult to replicate and L&T is positioned as a dominant player.
- It is focusing on improving RoE through monetization of mature assets, exiting non-core activities, and fund infusion (including listing of subsidiaries).

Expected Results

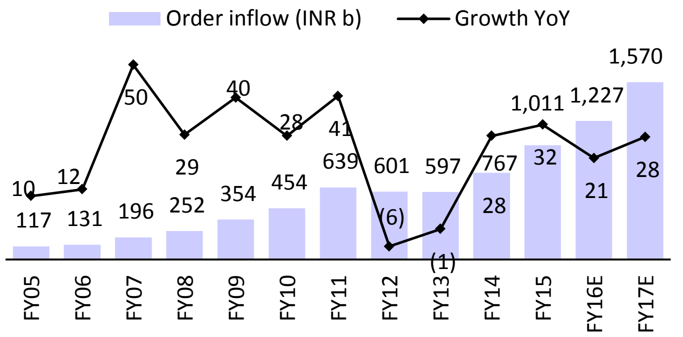
- Core E&C revenue could double over the next three years, as domestic intake in FY15 was INR943b while revenue was INR460b.
- 'Portfolio churn' in concession portfolio and service segments would aid value unlocking. Manufacturing business would be an important growth driver.
- We expect consolidated RoE to improve from 14% to 20% over the next three years.
- Infotech / Tech Services IPO is expected by July 2016.

Exhibit 54: Core standalone RoE robust, despite challenging macro environment



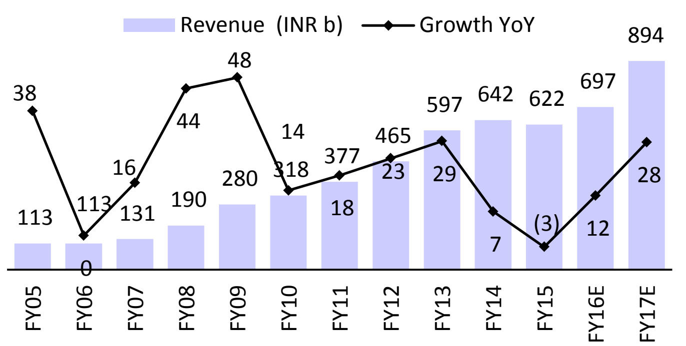
Source: Company, MOSL

Exhibit 55: Diversified business/geographic presence has ensured robust order inflow momentum



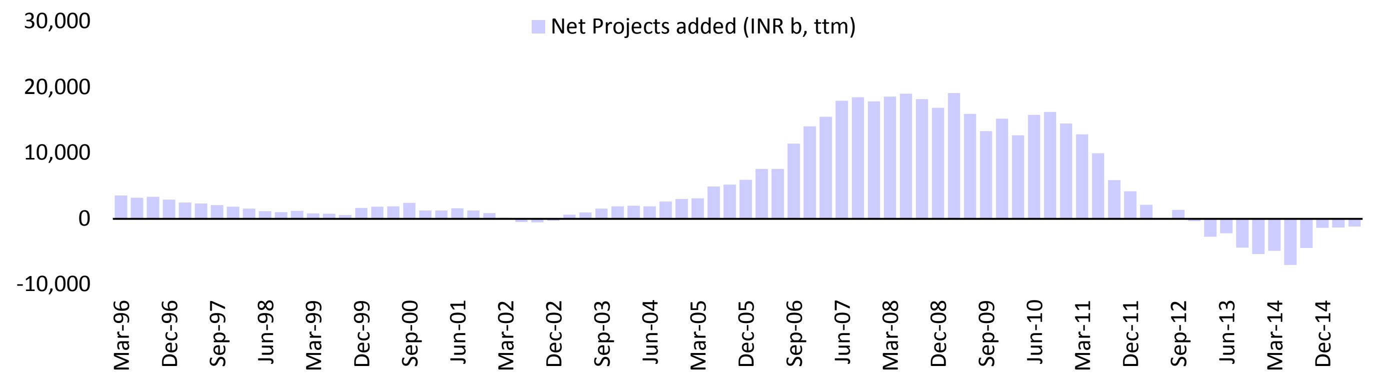
Source: MOSL, Company

Exhibit 56: Revenue CAGR of 19% over FY05-15 reflects strong execution skill sets in a constrained environment



Source: MOSL, Company

Exhibit 57: Net project addition in negative zone for over two years, indicating constrained macro environment



Source: Company, MOSL

Financials and Valuations: Larsen & Toubro

Income Statement									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Net Revenues	**370,348**	**439,059**	**531,705**	**516,110**	**565,989**	**595,213**	**635,099**	**819,957**	**1,108,675**
Growth Rate (%)	9.1	18.6	21.1	-2.9	9.7	5.2	6.7	29.1	35.2
Manufacturing Expenses	285,374	334,681	410,224	402,048	433,464	443,966	491,432	645,803	883,447
Staff Cost	23,791	28,301	36,661	38,609	46,624	41,508	45,659	50,225	55,248
S G &A Expenses	13,789	19,778	22,182	20,857	19,320	19,822	25,645	33,109	44,768
EBITDA	**47,394**	**56,299**	**62,639**	**54,595**	**66,581**	**89,918**	**72,364**	**90,819**	**125,213**
Change (%)	21.6	18.8	11.3	-12.8	22.0	35.1	-19.5	25.5	37.9
Adj EBIDTA	**47,394**	**56,299**	**64,639**	**57,445**	**67,161**	**64,879**	**72,364**	**90,819**	**125,213**
EBITDA Margin (%)	12.8	12.8	12.2	11.1	11.9	11.4	11.4	11.1	11.3
Depreciation	3,797	5,905	6,807	7,141	7,835	10,082	10,754	12,304	15,016
EBIT	**43,597**	**50,394**	**55,831**	**47,454**	**58,746**	**79,836**	**61,610**	**78,516**	**110,198**
Net Interest	5,053	6,193	6,661	9,548	10,761	14,190	13,000	12,000	12,000
Other Income	7,422	9,106	11,748	16,364	18,558	22,834	25,468	28,968	28,968
Non-recurring Other Income	2,280	2,369	1,635	2,509	251	0	0	0	0
Profit before Tax	**48,259**	**55,686**	**62,553**	**56,779**	**66,794**	**88,480**	**74,078**	**95,484**	**127,166**
Tax	16,409	19,436	18,538	15,478	17,748	16,450	19,631	25,781	34,335
Effective Tax Rate (%)	34.0	34.9	29.6	27.3	26.6	18.6	26.5	27.0	27.0
Reported Profit	**43,760**	**39,580**	**44,565**	**43,845**	**54,931**	**72,029**	**54,447**	**69,703**	**92,831**
EO Adjustments	11,910	3,329	550	2,544	5,885	0	0	0	0
Adjusted Profit	**31,850**	**36,250**	**45,375**	**41,861**	**50,718**	**47,705**	**54,447**	**69,703**	**92,831**
Growth (%)	17.6	13.8	25.2	-7.7	21.2	-5.9	14.1	28.0	33.2
Cons. Profit (Reported)	**54,507**	**44,562**	**46,937**	**52,056**	**49,019**	**47,648**	**48,389**	**64,086**	**89,746**
Cons. Profit (Adj)	**37,110**	**42,416**	**47,730**	**49,327**	**40,244**	**44,867**	**48,389**	**64,086**	**89,746**
Growth (%)	23.5	14.3	12.5	3.3	-18.4	11.5	7.8	32.4	40.0

Balance Sheet									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Equity Capital	1,204	1,218	1,225	1,231	1,854	1,854	1,854	1,854	1,854
Reserves and Surplus	181,912	217,245	251,005	290,196	334,764	369,166	408,975	459,939	527,812
Net Worth	**183,116**	**218,463**	**252,230**	**291,427**	**336,618**	**371,020**	**410,829**	**461,793**	**529,666**
Debt	68,008	71,611	98,958	88,342	114,589	120,000	120,000	120,000	120,000
Deferred Tax Liability	774	2,635	1,328	2,420	4,099	4,099	4,099	4,099	4,099
Capital Employed	**251,899**	**292,708**	**352,516**	**382,190**	**455,307**	**495,119**	**534,928**	**585,892**	**653,765**
Gross Fixed Assets	72,901	89,465	105,544	119,856	116,632	128,756	148,756	168,756	188,756
Less : Depreciation	17,916	23,025	29,495	36,806	39,884	50,160	60,913	73,217	88,232
Add : Capital WIP	8,742	7,713	7,587	5,968	5,624	4,500	4,500	4,500	4,500
Net Fixed Assets	**63,727**	**74,153**	**83,636**	**89,018**	**82,372**	**83,096**	**92,343**	**100,039**	**105,024**
Investments	137,054	146,848	158,719	161,034	192,146	219,714	230,297	303,451	211,605
Inventory	14,154	15,772	17,766	20,642	19,825	21,096	25,404	30,748	41,575
Sundry Debtors	111,584	124,276	187,169	226,130	215,388	222,368	254,040	311,584	421,297
Cash & Bank	14,319	17,296	17,781	14,557	17,829	35,442	60,663	29,408	137,905
Loans & Advances	60,365	82,253	90,616	94,128	100,672	97,449	104,043	124,275	138,410
Other Current Assets	63,532	110,501	120,636	118,730	154,814	154,575	165,754	205,617	277,797
Current Assets	263,883	350,099	433,968	474,187	508,527	530,929	609,903	701,632	1,016,983
Current Liabilities	212,765	278,392	323,807	342,049	327,739	338,621	397,614	519,230	679,847
Net Current Assets	**51,118**	**71,707**	**110,162**	**132,138**	**180,788**	**192,308**	**212,289**	**182,402**	**337,137**
Capital Deployed	**251,899**	**292,708**	**352,516**	**382,191**	**455,306**	**495,119**	**534,928**	**585,892**	**653,765**

E: MOSL Estimates

Financials and Valuations: Larsen & Toubro

Ratios

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Basic (INR)									
Standalone EPS Adj	**35.3**	**39.7**	**49.4**	**45.3**	**54.7**	**51.5**	**58.7**	**75.2**	**100.2**
Growth (%)	14.3	12.6	24.4	-8.2	20.7	-5.9	14.1	28.0	33.2
Consolidated EPS Adj	**41.1**	**46.4**	**52.0**	**53.4**	**43.4**	**48.4**	**52.2**	**69.1**	**96.8**
Growth (%)	20.1	13.0	11.9	2.8	-18.7	11.5	7.8	32.4	40.0
Cash EPS	39.9	46.3	57.0	53.2	63.3	62.3	70.3	88.5	116.4
Book Value	202.7	239.2	274.6	315.7	363.2	400.3	443.2	498.2	571.4
Dividend Per Share	8.3	9.7	11.0	12.3	14.3	16.2	14.7	18.8	25.0
Div. Payout (Incl. Div Tax) %	27.6	28.4	25.0	27.9	25.5	32.0	26.9	26.9	26.9
Valuation (x)									
P/E (Standalone)					17.7	30.6	26.1	20.4	15.3
P/E (Consolidated)					22.2	32.5	29.4	22.2	15.8
Price / CEPS					24.2	24.6	21.8	17.3	13.2
EV/EBITDA					14.3	22.8	19.6	15.4	10.3
EV/ Sales					1.7	2.6	2.2	1.7	1.2
Price / Book Value					2.7	3.9	3.5	3.1	2.7
Dividend Yield					1.5	1.0	1.0	1.2	1.6
Return Ratio (%)									
RoE	17.4	16.6	18.0	14.4	15.1	12.9	13.3	15.1	17.5
RoCE	14.0	13.9	14.3	12.9	13.0	11.9	12.1	13.5	15.6
Turnover Ratios									
Debtors (Days)	109.0	102.4	127.1	158.1	137.5	141.0	144.6	137.4	137.4
Inventory (Days)	13.8	13.0	12.1	14.4	12.7	13.4	14.5	13.6	13.6
Asset Turnover (x)	1.5	1.5	1.5	1.4	1.3	1.2	1.2	1.4	1.7
Leverage Ratio									
Current Ratio (x)	1.2	1.3	1.3	1.4	1.6	1.6	1.5	1.4	1.5
D/E (x)	-0.1	-0.1	0.1	0.1	0.2	0.1	0.0	-0.1	-0.3

Cash Flow Statement **(INR Million)**

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
PBT before EO Items	**48,259**	**55,686**	**63,103**	**59,323**	**72,679**	**67,012**	**74,078**	**95,484**	**127,166**
Add : Depreciation	4,159	6,003	7,005	7,277	7,924	10,082	10,754	12,304	15,016
Interest	5,053	6,193	6,661	9,548	10,761	14,190	13,000	12,000	12,000
Less : Direct Taxes Paid	16,409	19,436	18,538	15,478	17,748	16,450	19,631	25,781	34,335
(Inc)/Dec in WC	11,407	-9,338	-34,430	-27,542	-43,718	-772	6,762	-5,469	-52,456
CF from Operations	**52,469**	**39,107**	**23,801**	**33,127**	**29,899**	**74,061**	**84,963**	**88,538**	**67,391**
(Inc)/Dec in FA	-15,940	-16,429	-16,487	-12,660	-1,278	-10,806	-20,000	-20,000	-20,000
Free Cash Flow	**36,529**	**22,678**	**7,313**	**20,467**	**28,621**	**63,255**	**64,963**	**68,538**	**47,391**
(Pur)/Sale of Investments	-26,536	6,812	4,968	12,065	14,334	-18,527	0	-55,000	0
Investment in subs	-27,880	-16,607	-16,839	-14,380	-46,457	-8,030	-10,583	-18,154	91,846
Advances to subs	-1,366	-9,598	-4,703	1,217	-2,393	3,681	0	0	0
CF from Investments	**-71,722**	**-35,822**	**-33,061**	**-13,758**	**-35,794**	**-33,682**	**-30,583**	**-93,154**	**71,846**
(Inc)/Dec in Net Worth	23,851	7,927	-978	8,687	5,924	0	0	0	0
(Inc)/Dec in Debt	2,448	3,603	27,347	-10,616	26,247	5,411	0	0	0
Less : Interest Paid	5,053	6,193	6,661	9,548	10,761	14,190	13,000	12,000	12,000
Dividend Paid	7,338	8,973	9,962	11,119	12,243	13,987	16,160	14,638	18,740
CF from Fin. Activity	**13,908**	**-3,636**	**9,746**	**-22,595**	**9,167**	**-22,766**	**-29,160**	**-26,638**	**-30,740**
Inc/Dec of Cash	**6,566**	**2,979**	**485**	**-3,226**	**3,272**	**17,613**	**25,221**	**-31,255**	**108,497**
Add: Beginning Balance	7,753	14,319	17,296	17,781	14,557	17,829	35,442	60,663	29,408
Closing Balance	**14,319**	**17,298**	**17,781**	**14,555**	**17,828**	**35,441**	**60,663**	**29,408**	**137,905**

E: MOSL Estimates

Maruti Suzuki CMP: INR4,069 TP: INR5,290 (+30%) Buy

Industry Attractiveness

- After muted volumes in the last four years, India's personal vehicle (PV) industry is poised for strong growth of over 15% CAGR, driven by economic recovery, increasing penetration, and muted fuel inflation (against 13% CAGR over the last five years).
- PV penetration in India is just 1.7% against 11.3% in China and 81% in the US.
- Maruti Suzuki (MSIL) is the leader in the domestic PV market, with ~46% share.
- We expect competitive intensity in the PV industry to remain stable, with top-5 players controlling ~80% market share.

Disciplined Management

- The management has been focused on increasing localization and reducing imports (from ~27% of net sales to 15-16% of net sales) over the last two years.
- Plans to outsource manufacturing to the parent on cost basis would reduce capital intensity, and improve FCFF and RoIC profile without diluting low cost structure.
- MSIL enjoys significant competitive advantage due to (a) wide product portfolio, (b) widest distribution network, and (c) lowest total cost of ownership.

Disciplined Thought

- Focus on rural markets: To offset the downturn in urban markets due to economic headwinds, MSIL has started to develop underpenetrated rural markets.
- Focus on product portfolio expansion: During the downturn, MSIL has focused on launching new products to create excitement in the market.
- Focus on premiumization: MSIL is focusing on being future-ready by adding more premium products to its bouquet of offerings.

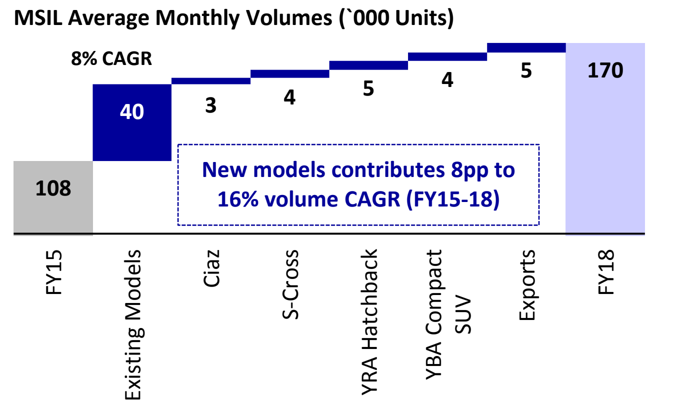
Disciplined Action

- Increasing rural presence: Having ramped up its rural presence to ~125k villages as at the end of FY15, MSIL plans to expand to 150k villages by the end of FY16. It has also focused on select customer groups not impacted by the slowdown (for example, government employees, teachers, priests).
- Strong new product pipeline: The parent, Suzuki is planning to launch 20 new models globally in five years, a large part of which would be launched in India as well.
- Premiumization drive: With the *Ciaz* launch tasting good success, MSIL plans to launch several premium products (*S-Cross*, a premium hatchback, and a compact SUV) over the next 15 months. It has launched *Nexa* dealerships, focusing on premium products.

Expected Results

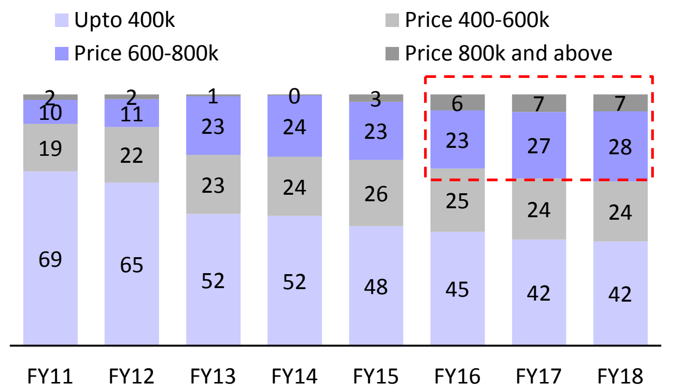
- We expect MSIL's market share to increase by ~200bp to ~48%, led by ~16.5% volume CAGR over FY15-18. This coupled with better mix would drive ~20% revenue CAGR.
- We expect EBITDA margin of 18% in FY18 driven by discount moderation along with a few other factors. We estimate EPS CAGR of ~42% over FY15-18.
- We expect RoE to improve by ~6pp to 22.6% and RoIC by 33.7pp to 59.3% by FY18.

Exhibit 58: Estimate 16% volume CAGR, of which 8% driven by new models



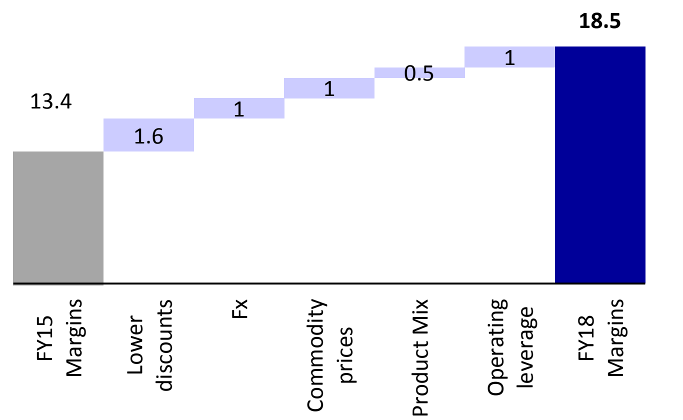
Source: Company, MOSL

Exhibit 59: Product mix improves as new launches are in premium segment



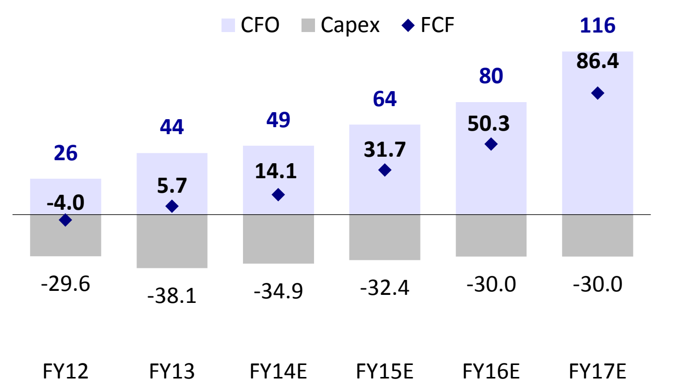
Source: Company, MOSL

Exhibit 60: EBITDA margin could be 18% v/s estimate of 17%



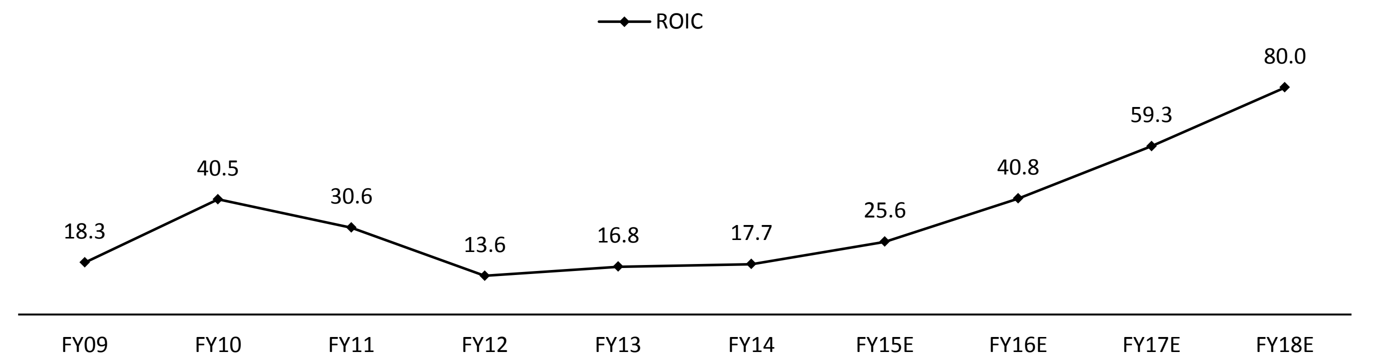
Source: Company, MOSL

Exhibit 61: FCF generation would be substantial, as capacity-related capex to be incurred by Suzuki



Source: Company, MOSL

Exhibit 62: RoIC to improve, driven by strong operating performance and lower capex intensity (%)



Source: Company, MOSL

Financials and Valuations: Maruti Suzuki

Income Statement									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Total Op. Income	**296,231**	**369,199**	**355,872**	**435,879**	**437,918**	**499,706**	**582,929**	**725,858**	**855,986**
Change (%)	41.7	24.6	-3.6	22.5	0.5	14.1	16.7	24.5	17.9
Total Cost	256,883	333,363	330,741	393,583	386,047	432,577	487,318	603,400	710,120
EBITDA	**39,348**	**35,837**	**25,130**	**42,296**	**51,871**	**67,129**	**95,611**	**122,458**	**145,866**
Change (%)	92.0	-8.9	-29.9	68.3	22.6	29.4	42.4	28.1	19.1
EBITDA Margins (%)	13.3	9.7	7.1	9.7	11.8	13.4	16.4	16.9	17.0
Depreciation	8,250	10,135	11,384	18,612	20,844	24,703	27,693	30,252	32,231
EBIT	**31,098**	**25,702**	**13,747**	**23,684**	**31,027**	**42,426**	**67,918**	**92,205**	**113,635**
Interest	335	244	552	1,898	1,759	2,060	1,750	1,750	1,750
Other Income	4,998	5,665	8,268	8,124	7,317	8,316	6,594	8,736	16,080
PBT	**35,925**	**31,088**	**21,463**	**29,910**	**36,585**	**48,682**	**72,762**	**99,191**	**127,965**
Effective tax Rate (%)	30.5	26.4	23.8	20.0	23.9	23.8	27.5	25.0	25.0
PAT	**24,976**	**22,886**	**16,353**	**23,921**	**27,830**	**37,112**	**52,752**	**74,393**	**95,974**
Change (%)	104.9	-8.4	-28.5	46.3	16.3	33.4	42.1	41.0	29.0
Adj. PAT	**25,068**	**23,101**	**16,353**	**23,921**	**27,830**	**37,112**	**52,752**	**74,393**	**95,974**
Change (%)	88.0	-7.8	-29.2	46.3	16.3	33.4	42.1	41.0	29.0

Balance Sheet									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Share Capital	1,445	1,445	1,445	1,510	1,510	1,510	1,510	1,510	1,510
Reserves	116,906	137,230	150,429	184,279	208,270	235,532	273,760	328,183	402,371
Net Worth	**118,351**	**138,675**	**151,873**	**185,790**	**209,781**	**237,043**	**275,271**	**329,693**	**403,881**
Loans	8,214	3,093	11,749	14,928	16,851	1,802	1,802	1,802	1,802
Deferred Tax Liability	1,370	1,644	3,025	4,087	5,866	4,810	4,810	4,810	4,810
Capital Employed	**127,935**	**143,412**	**166,647**	**204,805**	**232,498**	**243,655**	**281,883**	**336,305**	**410,493**
Net Fixed Assets	**50,247**	**55,294**	**75,207**	**97,992**	**107,904**	**122,593**	**133,728**	**133,476**	**131,245**
Capital WIP	3,876	14,286	9,419	19,422	26,214	18,828	10,000	10,000	10,000
Investments	71,766	51,067	61,474	70,783	101,179	128,140	128,140	128,140	128,140
Curr.Assets, Loans	**37,724**	**63,563**	**76,922**	**78,683**	**70,061**	**65,949**	**106,202**	**181,490**	**274,099**
Inventory	12,088	14,150	17,965	18,407	17,060	26,150	25,553	31,818	37,523
Sundry Debtors	8,099	8,933	9,376	14,237	14,137	10,698	17,568	21,875	25,797
Cash & Bank Balances	982	25,085	24,362	7,750	6,298	183	34,163	98,878	181,861
Loans & Advances	15,707	13,722	21,193	23,940	28,895	25,221	25,221	25,221	25,221
Others	848	1,673	4,027	14,349	3,672	3,698	3,698	3,698	3,698
Current Liab. & Prov.	**35,678**	**40,798**	**56,376**	**62,076**	**72,860**	**91,856**	**96,187**	**116,800**	**132,991**
Sundry Creditors	29,365	35,540	49,391	53,335	64,103	75,326	72,415	85,337	97,102
Provisions	6,313	5,258	6,985	8,741	8,757	16,530	23,772	31,463	35,888
Net Current Assets	**2,046**	**22,765**	**20,546**	**16,608**	**-2,800**	**-25,907**	**10,015**	**64,690**	**141,109**
Appl. of Funds	**127,935**	**143,412**	**166,647**	**204,805**	**232,497**	**243,654**	**281,883**	**336,305**	**410,493**

E: MOSL Estimates

Financials and Valuations: Maruti Suzuki

Ratios									
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Basic (INR)									
Adjusted EPS	**86.7**	**79.9**	**56.6**	**79.2**	**92.1**	**122.9**	**174.6**	**246.3**	**317.7**
EPS Growth (%)	88.0	(7.8)	(29.2)	39.9	16.3	33.4	42.1	41.0	29.0
Consol EPS	**90.8**	**82.4**	**58.2**	**81.7**	**94.4**	**127.5**	**179.5**	**251.5**	**323.3**
Cash EPS	115.3	115.0	96.0	143.4	163.4	209.3	271.1	351.6	430.0
Book Value per Share	409.5	479.8	525.7	615	694	785	911	1,091	1,337
DPS	6.0	7.5	7.5	8.0	12.0	25.0	40.0	55.0	60.0
Div. payout (%)	8.1	11.0	15.4	11.7	15.2	24.5	27.5	26.8	22.7
Valuation (x)									
Consol. P/E					43.1	31.9	22.7	16.2	12.6
Cash P/E					24.9	19.4	15.0	11.6	9.5
EV/EBITDA					21.9	16.4	11.2	8.2	6.3
EV/Sales					2.7	2.3	1.9	1.4	1.1
P/BV					5.9	5.2	4.5	3.7	3.0
Dividend Yield (%)					0.3	0.6	1.0	1.4	1.5
Profitability Ratios (%)									
ROIC	40.5	30.6	13.6	16.8	17.7	25.6	40.8	59.3	80.0
RoE	21.1	16.5	10.8	12.9	13.3	15.7	19.2	22.6	23.8
RoCE	28.4	22.1	13.2	15.5	16.5	20.8	26.4	30.0	31.6
Turnover Ratios									
Debtors (Days)	9	8	9	11	11	7	10	10	10
Inventory (Days)	17	15	20	17	16	22	19	19	19
Creditors (Days)	48	45	64	60	75	78	67	63	61
Work. Cap. (Days)	-21	-21	-35	-32	-48	-49	-37	-34	-31
Asset Turnover (x)	2	3	2	2	2	2	2	2	2
Leverage Ratio									
Debt/Equity (x)	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0

Cash Flow Statement									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
OP/(Loss) before Tax	31,020	26,437	21,462	29,910	36,585	48,682	67,918	92,205	113,635
Int./Div. Received	4,103	3,595	-7,003	-4,470	-7,636	-7,228	6,594	8,736	16,080
Depreciation	8,250	10,135	11,384	18,612	20,844	24,703	27,693	30,252	32,231
Direct Taxes Paid	-10,279	-10,240	-2,509	-5,333	-8,320	-10,407	-20,009	-24,798	-31,991
(Inc)/Dec in WC	1,327	4,171	2,265	5,123	7,562	8,356	-1,941	10,040	6,564
CF from Oper.Activity	**34,421**	**34,098**	**25,599**	**43,842**	**49,035**	**64,106**	**80,254**	**116,435**	**136,519**
CF after EO Items	**34,421**	**34,098**	**25,599**	**43,842**	**49,035**	**64,106**	**80,254**	**116,435**	**136,519**
(Inc)/Dec in FA	-14,593	-24,114	-29,630	-38,100	-34,927	-32,386	-30,000	-30,000	-30,000
Free Cash Flow	**19,828**	**9,984**	**-4,032**	**5,742**	**14,108**	**31,720**	**50,254**	**86,435**	**106,519**
(Pur)/Sale of Invest.	-38,787	21,253	-1,328	2,359	-14,002	-12,613	0	0	0
CF from Inv. Activity	**-53,380**	**-2,861**	**-30,958**	**-35,741**	**-48,929**	**-44,999**	**-30,000**	**-30,000**	**-30,000**
Inc/(Dec) in Debt	1,881	-5,123	8,758	-5,493	3,373	-13,898	0	0	0
Interest Paid	-319	-278	-426	-2,003	-1,615	-2,098	-1,750	-1,750	-1,750
Dividends Paid	-1,011	-1,733	-2,167	-2,167	-2,417	-3,625	-14,524	-19,971	-21,786
CF from Fin. Activity	**551**	**-7,134**	**6,165**	**-9,663**	**-659**	**-19,621**	**-16,274**	**-21,721**	**-23,536**
Inc/(Dec) in Cash	**-18,408**	**24,103**	**806**	**-1,562**	**-553**	**-514**	**33,980**	**64,715**	**82,983**
Add: Op. Balance	19,390	982	25,085	24,362	7,750	6,298	183	34,163	98,878
Closing Balance	**982**	**25,085**	**25,891**	**22,799**	**7,197**	**5,784**	**34,163**	**98,878**	**181,861**

Ultratech CMP: INR2,917 TP: INR3,704 (+27%) Buy

Industry Attractiveness

- Per capita cement usage in India is sub-normal at ~200kg v/s the global average of ~400kg. The top-5 cement groups control ~50% of the pan-India market.
- UTCEM is the industry leader, with ~17% capacity market share (71m tons by FY16) and enjoys 15-30% market share across regions (#1 in South & West; #2 in North & East).
- The industry is poised for recovery after prolonged weakness (~4% CAGR over FY12-15 v/s normal demand CAGR of 8%). We expect 5% growth in FY16 and 8-10% in FY17/18.

Disciplined Management

- UTCEM has an impressive track record, with focus on consistent growth and cost leadership. It has had no year of revenue decline during the last decade.
- Cash PAT CAGR of ~30% over the past 10 years was well harmonized with doubling of payout ratio from 7% in FY07 to 14% in FY15.
- UTCEM has prudently used the economic downturn to add capacity headroom and critical resources like land and limestone for future growth.

Disciplined Thought

- Gaining market share and bridging regional weak links ahead of demand up-cycle. UTCEM targets capacity of 100m tons by 2020 (1.5x next largest group). It would lead to strong utilization levers, higher pricing power, and logistics synergies across regions.
- Cost leadership: UTCEM continues to focus on optimizing energy mix, logistics and synergies to widen the profitability gap with peers (10-15% above Ambuja now).
- Attenuate growth constraints: Garnering land and limestone (20-25% of annual capex) before competition makes it better prepared to face macro / regulatory headwinds.

Disciplined Action

- Growing capacity, gaining market share: Capacity is likely to grow 45% over FY14-16, aided by both organic and inorganic initiatives. Market share would grow from 15% to 18% by FY17-18 (20-22% by FY19-20 assuming merger of BK Birla group assets).
- Cost optimization underway; benefits visible: Initiatives like higher pet coke mix (70% v/s 45% a year ago), waste heat recovery (5-6% mix), logistics enhancements (bulk terminus, jetty) have begun showing cost benefits over 1QCY15, ahead of peers.
- Better placed to tackle supply constraints: UTCEM has the ability to add 20-25m tons of capacity in a relatively short period, given its current land and limestone reserves.

Expected Results

- Growth outperformance: UTCEM would have ~18% capacity market share by FY18, aiding industry leading volume growth (11-12%) and strong operating leverage.
- Significant margin/RoE expansion: Cost initiatives and increase in pricing power would drive 7-8pp margin and RoE expansion over FY16-18.
- Self-sustaining growth: FCFE generation of INR40b-45b per year from FY18 would give it the ability to execute annual capacity growth of ~8% using only internal accruals.

Exhibit 63: UTCEM has delivered consistent performance over the last 10 years (FY05-15 CAGR, %)

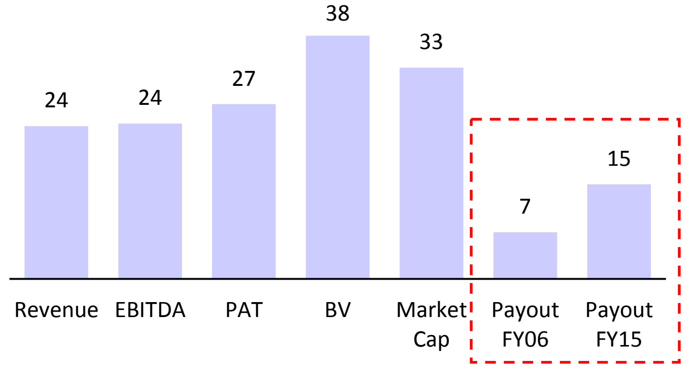


Exhibit 64: Consistent addition of capacity aids strong levers to ramp up utilization and drive up market share

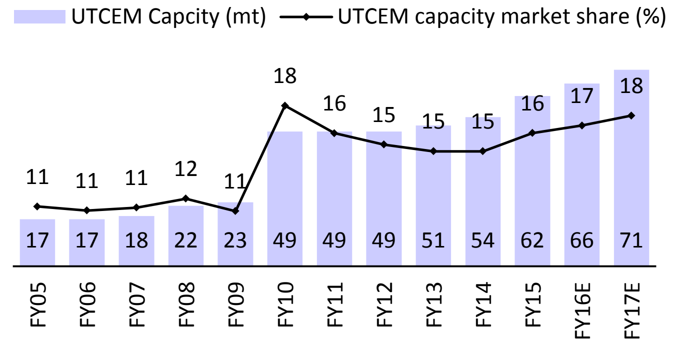
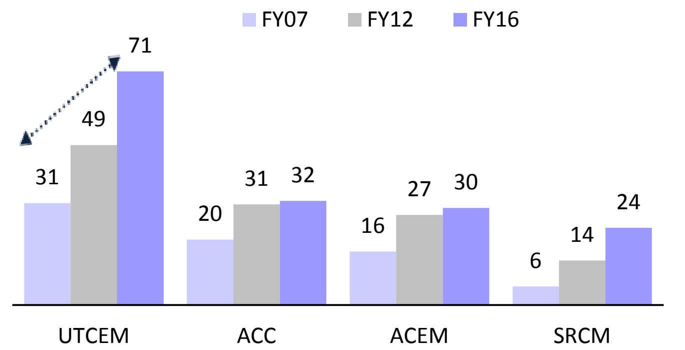
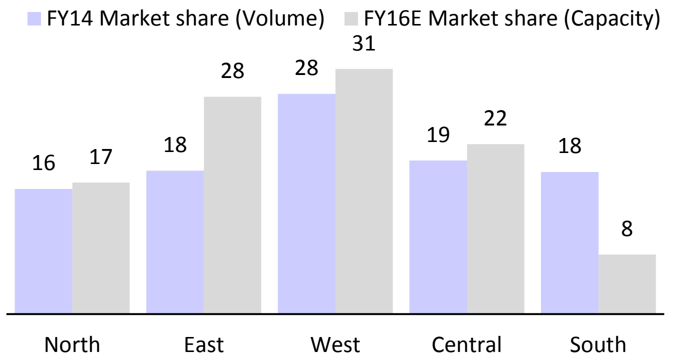


Exhibit 65: Created capacity faster than peers (m tons)



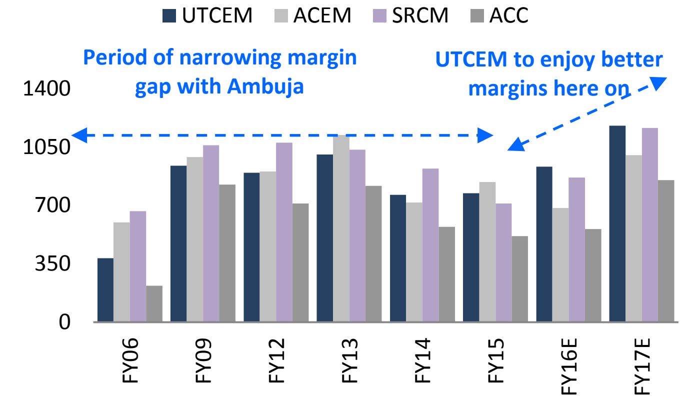
Source: Company, MOSL

Exhibit 66: UTCEM's market share in different regions (%) shows the strong pricing power it is gaining



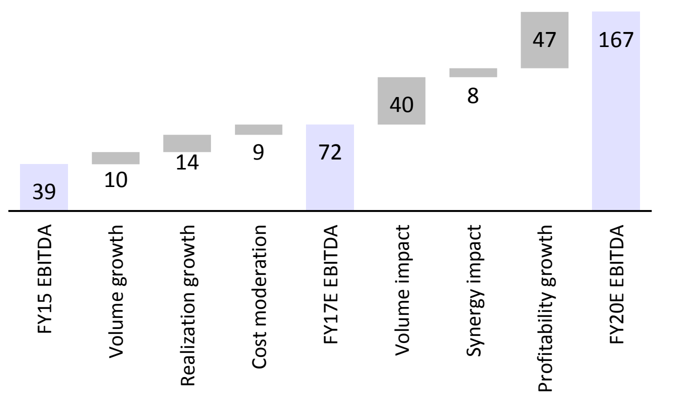
Source: Company, MOSL

Exhibit 67: UTCEM steadily emerging as profit leader among peers, led by cost measures and strong price resilience (INR/t)



Source: Company, MOSL

Exhibit 68: UTCEM could record 4x scale-up in EBITDA over next five years assuming 100mt by 2020 (INR b)



Source: Company, MOSL

Financials and Valuations: UltraTech Cement

Income Statement (INR Million)

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Net Sales	**70,497**	**132,062**	**181,664**	**199,991**	**200,779**	**226,565**	**248,544**	**311,589**	**370,829**
Change (%)	10.4	87.3	37.6	10.1	0.4	12.8	9.7	25.4	19.0
Total Expenditure	50,786	106,465	141,625	155,045	164,619	187,411	203,783	245,508	283,007
% of Sales	72.0	80.6	78.0	77.5	82.0	82.7	82.0	78.8	76.3
EBITDA	**19,711**	**25,597**	**40,039**	**44,946**	**36,160**	**39,153**	**44,761**	**66,080**	**87,823**
Margin (%)	28.0	19.4	22.0	22.5	18.0	17.3	18.0	21.2	23.7
Depreciation	3,881	7,657	9,026	9,454	10,523	11,331	13,851	18,373	19,053
EBIT	**15,830**	**17,939**	**31,013**	**35,492**	**25,637**	**27,822**	**30,910**	**47,708**	**68,770**
Int. and Finance Charges	1,175	2,725	2,239	2,097	3,192	5,475	6,154	10,061	9,772
Other Income - Rec.	1,227	2,619	4,568	4,620	5,310	6,515	5,000	6,000	8,000
PBT	**15,882**	**17,833**	**33,343**	**38,015**	**27,755**	**28,863**	**29,756**	**43,646**	**66,998**
EO Expense/(Income)	0	0	-666	0	-956	0	0	0	0
PBT after EO expense	**15,882**	**17,833**	**34,009**	**38,015**	**28,711**	**28,863**	**29,756**	**43,646**	**66,998**
Tax	4,949	3,791	9,467	11,700	7,266	8,715	8,927	12,221	19,429
Tax Rate (%)	31.2	21.3	27.8	30.8	25.3	30.2	30.0	28.0	29.0
Reported PAT	**10,932**	**14,042**	**24,542**	**26,315**	**21,445**	**20,147**	**20,829**	**31,425**	**47,568**
Adj PAT	**10,932**	**14,042**	**24,062**	**26,315**	**20,731**	**20,147**	**20,829**	**31,425**	**47,568**
Change (%)	11.9	28.4	71.4	9.4	-21.2	-2.8	3.4	50.9	51.4
Margin (%)	15.5	10.6	13.2	13.2	10.3	8.9	8.4	10.1	12.8

Balance Sheet (INR Million)

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Equity Share Capital	1,245	2,740	2,741	2,742	2,742	2,744	2,744	2,744	2,744
Reserves	44,842	103,920	125,858	149,606	168,233	185,833	203,001	229,644	271,634
Net Worth	**46,087**	**106,660**	**128,598**	**152,348**	**170,975**	**188,576**	**205,745**	**232,388**	**274,377**
Deferred liabilities	8307	17301	17378	19059	22958	27920	29408	30936	33950
Secured Loan	16,045	26,373	41,529	54,085	51,993	74,142	74,142	123,142	118,142
Unsecured Laon									
Loans	16,045	26,373	41,529	54,085	51,993	74,142	74,142	123,142	118,142
Capital Employed	**70,439**	**150,334**	**187,505**	**225,493**	**245,927**	**290,638**	**309,295**	**386,465**	**426,469**
Goodwill								29,000	29,000
Gross Block	80,781	179,423	190,138	213,822	250,778	325,662	375,662	423,162	433,162
Less: Accum. Deprn.	31,365	65,420	73,797	82,599	92,059	105,044	118,896	137,269	156,322
Net Fixed Assets	**49,417**	**114,003**	**116,342**	**131,224**	**158,718**	**200,212**	**256,767**	**285,894**	**276,840**
Capital WIP	2,594	6,831	18,965	35,054	20,384	30,000	15,000	22,500	27,500
Investments	16,696	37,303	37,888	51,087	53,917	52,088	24,500	29,500	34,500
Curr. Assets	**14,724**	**41,809**	**56,257**	**56,723**	**64,489**	**69,850**	**77,718**	**96,402**	**144,987**
Inventory	8,217	19,565	20,359	23,505	23,684	27,514	30,642	38,415	45,719
Debtors	2,158	6,023	7,660	10,172	12,810	12,032	13,619	15,366	18,287
Cash & Bank Bal	837	1,448	1,896	1,427	2,775	2,139	2,814	4,206	35,262
Others	3,511	14,773	26,342	21,619	25,220	28,165	30,642	38,415	45,719
Curr. Liability & Prov.	**12,991**	**49,612**	**41,947**	**48,595**	**51,614**	**61,511**	**64,689**	**76,830**	**86,358**
Creditors	11,381	43,877	33,740	37,903	41,884	48,481	51,071	64,025	71,118
Provisions	1,610	5,735	8,207	10,692	9,730	13,030	13,619	12,805	15,240
Net Current Assets	**1,733**	**-7,803**	**14,310**	**8,128**	**12,875**	**8,339**	**13,028**	**19,572**	**58,629**
Appl. of Funds	**70,439**	**150,334**	**187,505**	**225,493**	**245,927**	**290,638**	**309,295**	**386,465**	**426,469**

E: MOSL Estimates

Financials and Valuations: UltraTech Cement

Ratios

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Basic (INR)									
EPS	**87.8**	**51.2**	**87.8**	**96.0**	**75.6**	**73.4**	**93.2**	**128.3**	**191.9**
Cash EPS	119.0	79.2	120.7	130.5	114.0	114.7	138.6	193.8	261.4
BV/Share	370.2	389.2	469.2	556	623	687	767	878	1,050
DPS	6.0	6.0	8.0	9.0	9.0	9.0	11.0	15.0	17.5
Payout (%)	8.0	13.6	10.4	11.0	13.5	14.2	13.7	13.6	10.6
Valuation (x)									
P/E					38.6	39.7	31.3	22.7	15.1
Cash P/E					25.6	25.4	21.1	15.1	11.1
P/BV					4.7	4.2	3.8	3.3	2.8
EV/Sales					3.9	3	3	2.7	2.2
EV/EBITDA					21.4	20.2	16.6	11.9	8.5
EV/Ton (Cap-USD)					223	200	195	189	178
Dividend Yield (%)					0.3	0.3	0.4	0.5	0.6
Return Ratios (%)									
RoIC	17.2	13.0	15.7	14.2	9.1	7.1	8.2	9.4	12.8
RoE	26.6	18.4	20.5	18.7	12.8	11.2	12.8	15.6	19.9
RoCE	28.5	21.1	23.5	21.3	14.4	14.1	15.5	18.6	21.8
Working Capital Ratios									
Fixed Asset Turnover (x)	1.1	1.4	1.0	1.1	1.2	1.4	1.5	1.3	1.2
Debtor (Days)	11	17	15	19	23	19	20	18	18
Creditor (Days)	59	121	68	69	76	78	75	75	70
Inventory (Days)	43	54	41	43	43	44	45	45	45
Wkg. Capital Turnover (Days)	9	-22	29	15	23	13	24	32	71
Leverage Ratio									
Current Ratio	1.1	0.8	1.3	1.2	1.2	1.1	1.3	1.4	1.9
Interest Cover Ratio	13.5	6.6	13.9	16.9	8.0	5.1	6.3	5.4	7.8
Debt/Equity	0.3	0.2	0.3	0.4	0.3	0.4	0.4	0.5	0.4

Cash Flow Statement (INR Million)

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Op. Profit/(Loss) before Tax	19,692	25,635	41,304	46,244	36,160	39,153	49,909	72,302	94,991
Interest/Dividends Recd.	562	1,223	478	566	5,310	6,515	5,000	6,000	8,000
Direct Taxes Paid	-3,891	-5,190	-7,340	-7,165	-3,367	-3,753	-9,132	-12,315	-18,171
(Inc)/Dec in WC	-642	-925	158	-3,887	-3,399	3,900	-4,095	-5,188	-10,106
CF from Operations	**15,721**	**20,743**	**34,600**	**35,759**	**34,704**	**45,815**	**41,682**	**60,799**	**74,715**
EO expense	2	0	22	32	-956	0	0	0	0
CF from Operating incl EO Exp.	**15,719**	**20,743**	**34,578**	**35,727**	**35,660**	**45,815**	**41,682**	**60,799**	**74,715**
(inc)/dec in FA	-2,741	-12,169	-31,575	-32,676	-23,348	-62,440	-55,406	-84,000	-15,000
Free Cash Flow	**12,979**	**8,574**	**3,003**	**3,051**	**12,312**	**-16,625**	**-13,725**	**-23,201**	**59,715**
(Pur)/Sale of Investments	-5,776	-4,321	2,159	-10,349	-2,830	1,829	27,588	-5,000	-5,000
CF from investments	**-8,517**	**-16,489**	**-29,416**	**-43,025**	**-26,178**	**-60,611**	**-27,819**	**-89,000**	**-20,000**
Issue of Shares	1	14	16	79	69	323	-154	0	0
(Inc)/Dec in Debt	-4,547	-664	83	12,557	-2,092	22,149	0	49,000	-5,000
Interest Paid	-1,459	-2,930	-2,907	-3,268	-3,192	-5,475	-5,931	-10,061	-9,772
Dividend Paid	-1,405	-728	-1,905	-2,539	-2,887	-2,869	-3,507	-4,782	-5,579
CF from Fin. Activity	**-7,410**	**-4,309**	**-4,714**	**6,829**	**-8,102**	**14,128**	**-9,592**	**34,156**	**-20,351**
Inc/Dec of Cash	**-208**	**-55**	**448**	**-469**	**1,380**	**-668**	**4,271**	**5,955**	**34,364**
Add: Beginning Balance	1,045	1,503	1,448	1,896	1,427	2,775	2,139	6,410	12,365
Closing Balance	**837**	**1,448**	**1,896**	**1,427**	**2,775**	**2,139**	**6,410**	**12,365**	**46,729**

E: MOSL Estimates

United Spirits CMP: INR3,191 TP: INR4,250 (+33%) Buy

Industry Attractiveness

- The Indian liquor industry offers tremendous potential. Per capita consumption in India is just 0.9 liters against the world average of 4.6 liters. Uptrading from country liquor to branded IMFL also presents a significant opportunity.
- United Spirits (UNSP) enjoys a dominant position, with ~42% volume market share and several first mover advantages in an industry characterized by a plethora of regulations.
- We expect the industry to post healthy double-digit value CAGR.

Disciplined Management

- After the Diageo transaction, the complexion of the company is set to change with clear focus on value growth, right brand investments, and balance sheet deleveraging.
- Disproportionate focus on compliance and ethics means better allocation of capital, a key improvement vis-à-vis the erstwhile management.
- After underinvestment for 15 years, the key identified power brand portfolio of 14 brands (e.g. *Royal Challenge*) is set to receive significant jump in brand investments.

Disciplined Thought

- Driving premiumization through power brand portfolio of 14 brands is the key priority and represents a strategic departure from the past.
- Cost leadership: To drive cost cut in every P&L line item – RM, PM, overheads. Towards this goal, it has already appointed AT Kearney to identify areas of cost saving.
- Deleveraging: Over the next three years, UNSP plans to raise INR20b by divesting non-core assets. This would help bring down debt from the existing INR46b [D/E of 1.3x].

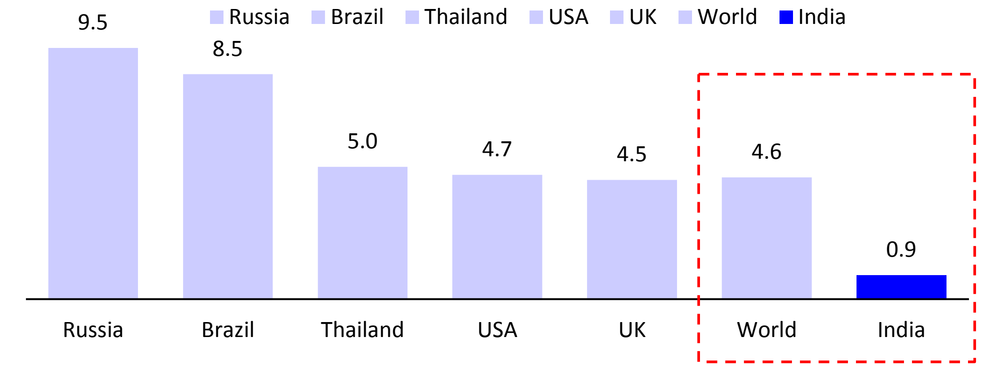
Disciplined Action

- Re-launching premium brands: New look *Royal Challenge* has already been rolled out. Next brands to hit the market – *McDowell No 1*, *Antiquity*, *Signature*.
- Cost leadership: Several high cost plants have been closed in West Bengal and Kerala. UNSP has sold direct operations in Tamil Nadu and is looking to replicate this in Kerala.
- Divestment: UNSP has already commenced with divestment of non-core assets – UBL stake has been sold recently for INR8.7b and the receipts would help pay off debt.

Expected Results

- We expect EBITDA margin to expand to 12.6% by FY17, as initial rounds of cost saving kick in. We build in 20% EBITDA margin by 2020.
- We expect UNSP's market share to remain steady in the Popular segment, but inch up 100-150bp per annum in the Prestige+ segment.
- We also expect net debt to halve by FY18 from the existing INR46b [D/E of 1.3x].

Exhibit 69: Per capita liquor consumption in India is a fraction of even developing market peers



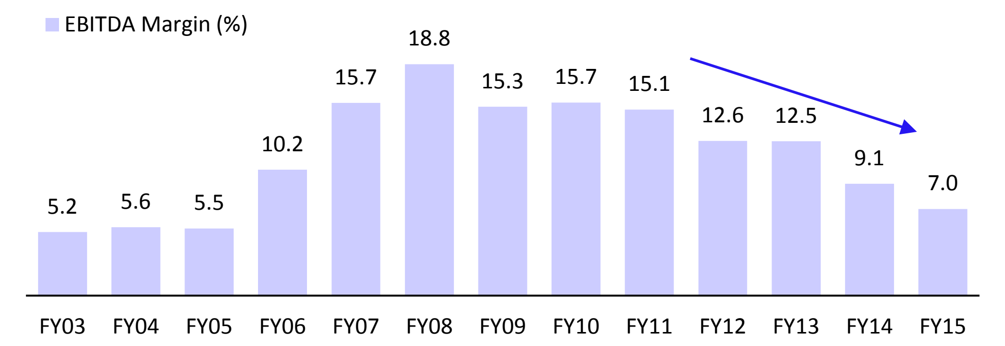
Source: Company, MOSL

Exhibit 70: IMFL industry expected to post healthy double-digit value CAGR

INR m	2013	2014	2015E	2016E	2017E	CAGR
Spirits	994.7	1,110.3	1,227.2	1,345.8	1,463.7	12.5
Brandy and Cognac	164.2	185.8	207.8	229.7	250.5	13.7
Rum	115.1	125.0	134.6	144.4	154.8	9.7
Whiskies	666.9	745.1	824.2	904.6	984.7	13.3
Gin	6.9	6.8	6.7	6.7	6.6	3.3
Vodka	41.5	47.5	53.8	60.4	67.1	25.0

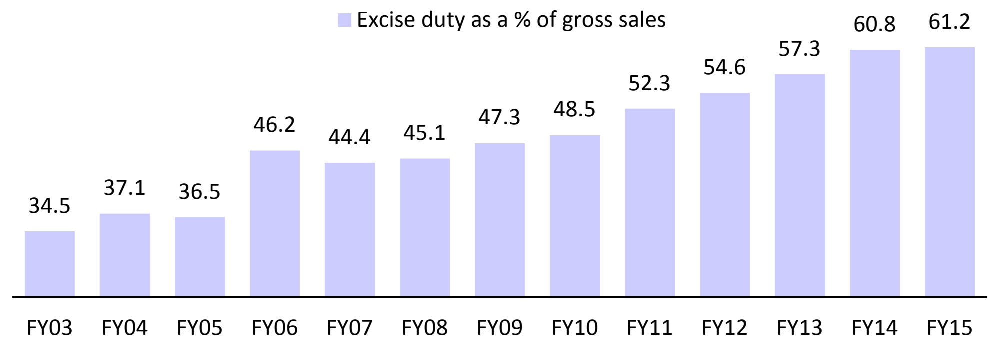
Source: Industry Sources, Company, MOSL

Exhibit 71: Significant EBITDA margin decline over the years



Source: Company, MOSL

Exhibit 72: Excise duty as a % of gross sales has gone up substantially



Source: Company, MOSL

Financials and Valuations: United Spirits

Income Statement									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Net Sales	**58,530**	**68,586**	**86,372**	**98,524**	**99,116**	**91,594**	**93,868**	**108,904**	**128,593**
Other Operating Inc	5,093	5,175	5,493	5,591	5,894	1,756	7,034	7,706	8,492
Total Revenue	**63,623**	**73,762**	**91,865**	**104,115**	**105,009**	**93,350**	**100,903**	**116,609**	**137,085**
Change (%)	16.4	15.9	24.5	13.3	0.9	-11.1	8.1	15.6	17.6
Total Expenditure	-52,500	-63,109	-81,262	-94,078	-96,298	-85,677	-90,687	-101,910	-118,711
EBITDA	**11,123**	**10,653**	**10,603**	**10,037**	**8,711**	**7,673**	**10,215**	**14,699**	**18,374**
Change (%)	12.9	-4.2	-0.5	-5.3	-13.2	-11.9	33.1	43.9	25.0
Margin (%)	17.5	14.4	11.5	9.6	8.3	8.2	10.1	12.6	13.4
Depreciation	-950	-1,023	-1,474	-1,784	-2,026	-2,229	-2,472	-2,752	-1,971
Int. and Fin. Charges	-6,069	-4,985	-7,773	-8,861	-12,771	-6,873	-4,059	-3,050	-2,056
Other Income - Recurring	849	904	2,106	1,446	7,550	-4,904	3,025	3,328	3,660
Profit before Taxes	**4,952**	**5,549**	**3,461**	**838**	**1,463**	**-6,333**	**6,709**	**12,224**	**18,007**
Change (%)	77.5	12.1	-37.6	-75.8	74.5	-532.8	-205.9	82.2	47.3
Margin (%)	7.8	7.5	3.8	0.8	1.4	-6.8	6.6	10.5	13.1
Tax	1,932	2,098	1,481	1,781	2,762	520	2,214	4,034	5,942
Tax Rate (%)	39.0	37.8	42.8	212.4	188.8	-8.2	33.0	33.0	33.0
Minority Interest	-4.9	-11.9	-7.2	-38.3	3.1	0.0	0	0	
Adjusted PAT	**3,026**	**3,463**	**1,988**	**-904**	**-1,302**	**-6,854**	**4,495**	**8,190**	**12,065**
Change (%)	61.4	14.5	-42.6	-145.5	44.1	426.4	-165.6	82.2	47.3
Margin (%)	4.8	4.7	2.2	-0.9	-1.2	-7.3	4.5	7.0	8.8
Non-rec. (Exp)/Income	-3,253	2,238	-108	-108	-43,589	-10,020	0	0	0
Reported PAT	**-227**	**5,701**	**1,880**	**-1,012**	**-44,891**	**-16,873**	**4,495**	**8,190**	**12,065**

Balance Sheet									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**	**2018E**
Share Capital	1,207	1,259	1,259	1,259	1,453	1,453	1,453	1,453	1,453
Reserves	36,529	40,527	45,359	46,614	28,869	31,385	35,877	44,064	55,702
Minority Interest	85	175	146	111	7	7	7	7	7
Net Worth	**37,820**	**41,961**	**46,764**	**47,984**	**30,330**	**32,845**	**37,338**	**45,525**	**57,163**
Loans	58,504	67,107	75,231	72,517	81,563	41,563	36,063	30,063	22,563
Deffered Tax Liabilities	-715	-325	-592	-589	-967	-905	-794	-592	-295
Capital Employed	**95,610**	**108,743**	**121,403**	**119,911**	**110,927**	**73,504**	**72,607**	**74,996**	**79,431**
Gross Block	23,745	26,972	29,620	31,026	35,317	31,317	35,317	39,317	43,317
Less: Accum. Depn.	-6,493	-7,573	-9,432	-10,721	-13,413	-14,884	-17,357	-20,109	-22,080
Net Fixed Assets	**17,251**	**19,399**	**20,188**	**20,305**	**21,905**	**16,433**	**17,961**	**19,208**	**21,238**
Capital WIP	943	1,291	1,080	1,312	1,097	1,097	1,097	1,097	1,097
Goodwill	42,444	44,320	58,618	58,386	35,099	20,099	20,099	20,099	20,099
Investments	1,265	1,544	2,358	2,179	2,380	2,380	2,380	2,380	2,380
Foregin Monetary term	1,413	-	-	-	-	-	-	-	-
Curr. Assets, L&A	**49,490**	**61,842**	**75,729**	**82,059**	**87,129**	**68,535**	**71,917**	**78,788**	**90,980**
Inventory	17,462	21,168	27,548	25,112	29,351	22,549	23,498	28,753	32,675
Account Receivables	13,401	14,825	17,737	24,170	22,652	18,751	21,839	23,961	28,168
Cash and Bank	3,189	4,944	2,690	1,115	1,063	1,500	1,500	1,500	1,500
Bank Deposit	4,497	1,426	942	1,701	5,984	3,187	1,582	614	469
Others	10,940	19,479	26,812	29,960	28,078	22,549	23,498	23,961	28,168
Curr. Liab. and Prov.	**17,644**	**20,102**	**36,570**	**44,330**	**36,683**	**35,040**	**40,846**	**46,577**	**56,362**
Account Payables	10,280	13,304	16,792	15,653	14,267	13,055	16,587	19,169	24,412
Other Liabilities	4,516	5,026	17,328	24,864	16,275	15,428	17,969	20,766	24,412
Provisions	2,848	1,771	2,451	3,812	6,141	6,557	6,291	6,642	7,538
Net Current Assets	**31,846**	**41,741**	**39,159**	**37,729**	**50,447**	**33,495**	**31,070**	**32,212**	**34,618**
Msc Expenses	448	448	-	-	(1)				-
Application of Funds	**95,610**	**108,742**	**121,403**	**119,911**	**110,927**	**73,504**	**72,607**	**74,996**	**79,431**

Financials and Valuations: United Spirits

Ratios									
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Basic (INR)									
EPS	**25.8**	**28.3**	**16.2**	**-7.4**	**-9.0**	**-47.2**	**30.9**	**56.4**	**83.0**
Cash EPS	32.9	36.7	28.3	7.2	5.0	-31.8	47.9	75.3	96.6
BV/Share	313.4	342.8	382.0	392.0	208.7	226.0	256.9	313.3	393.3
DPS	2.5	2.5	2.5	2.5	2.5	0.0	0.0	0.0	2.5
Payout %	9.7	8.8	15.4	-33.9	-27.9	0.0	0.0	0.0	3.0
Valuation (x)									
P/E					-356.2	-67.7	106.6	58.5	39.7
Cash P/E					640.4	-100.3	68.8	43.8	34.1
EV/Sales					4.7	4.9	4.5	3.8	3.2
EV/EBITDA					56.9	59.3	45.4	31.1	24.5
P/BV					15.3	14.6	12.8	10.5	8.4
Dividend Yield (%)					0.1	0.0	0.0	0.0	0.1
Return Ratios (%)									
RoE	9.8	8.7	4.5	-1.9	-3.3	-21.7	12.8	19.8	21.1
RoCE	11.5	9.7	9.3	8.1	12.8	0.7	14.8	20.4	25.3
Working Capital Ratios									
Debtor (Days)	77	73	70	85	79	73	79	75	75
Asset Turnover (x)	0.7	0.7	0.8	0.9	0.9	1.3	1.4	1.6	1.7
Leverage Ratio									
Debt/Equity (x)	1.5	1.6	1.6	1.5	2.7	1.3	1.0	0.7	0.4

Cash Flow Statement									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
OP/(loss) before Tax	4,952	5,549	3,461	838	1,463	-6,333	6,709	12,224	18,007
Int./Div. Received	-849	-904	-2,106	-1,446	-7,550	4,904	-3,025	-3,328	-3,660
Depreciation and Amort.									
Interest Paid	6,069	4,985	7,773	8,861	12,771	6,873	4,059	3,050	2,056
Direct Taxes Paid	-1,932	-2,098	-1,481	-1,781	-2,762	-520	-2,214	-4,034	-5,942
Incr/Decr in WC	-4,741	-11,211	-156	614	-8,487	14,591	820	-2,109	-2,551
CF from Operations	**3,500**	**-3,679**	**7,492**	**7,086**	**-4,564**	**19,515**	**6,349**	**5,804**	**7,910**
Extraordinary Items	-3,253	2,238	-108	-108	-43,589	-10,020	0	0	0
(Incr)/Decr in FA	815	-5,452	-16,736	-1,406	19,211	19,000	-4,000	-4,000	-4,000
Free Cash Flow	**1,063**	**-6,893**	**-9,352**	**5,572**	**-28,942**	**28,495**	**2,349**	**1,804**	
(Pur)/Sale of Investments	8,236	-279	-814	179	-201	0	0	0	0
Msc Exp	-285	0	-448	0	-1	1	0	0	0
CF from Invest.	**5,513**	**-3,493**	**-18,106**	**-1,335**	**-24,580**	**8,981**	**-4,000**	**-4,000**	**-4,000**
Issue of Shares	14,494	-1,179	3,303	2,611	27,278	19,389	-3	-3	-3
(Incr)/Decr in Debt	-19,532	8,603	8,124	-2,714	9,047	-40,000	-5,500	-6,000	-7,500
Dividend Paid	-366	-381	-379	-379	-41	0	0	0	-424
Others	-413	-1,186	-3,172	-6,085	-2,910	-10,245	1,549	3,231	4,888
CF from Fin. Activity	**-5,817**	**5,856**	**7,876**	**-6,568**	**33,375**	**-30,856**	**-3,954**	**-2,772**	**-3,039**
Incr/Decr of Cash	**3,197**	**-1,316**	**-2,738**	**-816**	**4,231**	**-2,361**	**-1,605**	**-968**	**871**
Add: Opening Balance	4,490	7,686	6,370	3,632	2,816	7,047	4,687	3,082	2,114
Closing Balance	**7,687**	**6,370**	**3,632**	**2,816**	**7,047**	**4,686**	**3,081**	**2,113**	**2,985**

E: MOSL Estimates

Zee Entertainment | CMP: INR361 | TP: INR475 (+32%) | Buy

Industry Attractiveness

- India's advertising-spending-to-GDP ratio is only 0.33% against the global average of 0.66%. A 10bp increase led by higher discretionary spending would imply 5-year CAGR of 19% in advertising spending against a CAGR of 13% in nominal GDP.
- Ongoing mandatory digitization of the analog cable platform would drive an incremental yearly subscription opportunity of ~USD2b for broadcasters by FY20, implying 22% revenue CAGR.

Disciplined Management

- ZEE has a young and dynamic management team in place. Post Mr Punit Goenka taking over as the MD in 2010, ZEE went through a restructuring process.
- Inter group balance sheet exposures were largely eliminated so as to bring forth discipline in capital allocation.
- The entire entertainment business was brought into one fold, with the merger of the fast growing regional business with ZEE.

Disciplined Thought

- Grow market leadership: ZEE aims to be amongst the top global media conglomerates and is targeting 4-5x growth in viewership and content consumption by the year 2020.
- High cost discipline driving superior margins: ZEE has historically avoided high cost celebrity/non-fiction shows, which bring in TRPs but lack RoI. With best-in-class cost management and margin focus, we believe target EBITDA margin of 30%+ is achievable.
- Improve shareholder returns: ZEE has committed payout to shareholders.

Disciplined Action

- Expanded channel portfolio: Almost one-third of ZEE's channel portfolio was launched post FY12, including its biggest launch '&TV', aimed at non-ZEE viewers.
- Continued operating leverage: ZEE is confident of holding flat margins in FY16 despite higher investments. This implies continued operating leverage in the existing portfolio.
- Committed payout: ZEE paid INR12b (~32% of cumulative PAT) in dividend / buyback during FY10-15 and committed INR20b in the form of bonus preference shares.

Expected Results

- 20% revenue CAGR: We expect 22% CAGR in advertising revenue and 24% CAGR in domestic subscription revenue over FY15-18, led by market share gains in a rebounding ad market and increase in broadcasters' share of subscription revenue.
- 25%+ EBITDA / PAT CAGR: We expect EBITDA / PAT to double over FY15-18 (our estimates are 10-20% above consensus). EBITDA margin is likely to reach ~30% by FY18, though we model 170bp margin decline in FY16 due to first-year losses for &TV.
- RoE / RoCE of 30%+: We expect RoE of 30%+; RoCE is likely to increase from 27% to 36% over FY15-18.

Exhibit 73: Ad/GDP ratio: Global comparison (%)

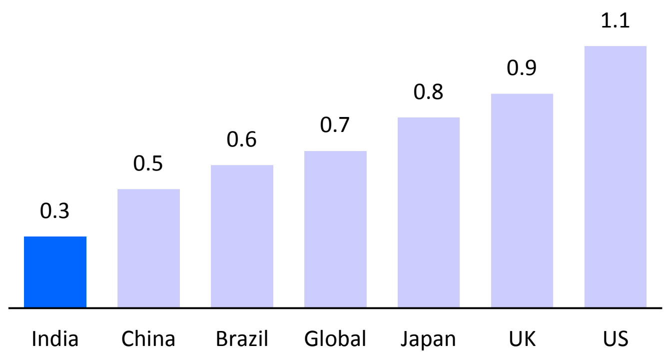


Exhibit 74: Pay TV ARPU: Global comparison (USD)

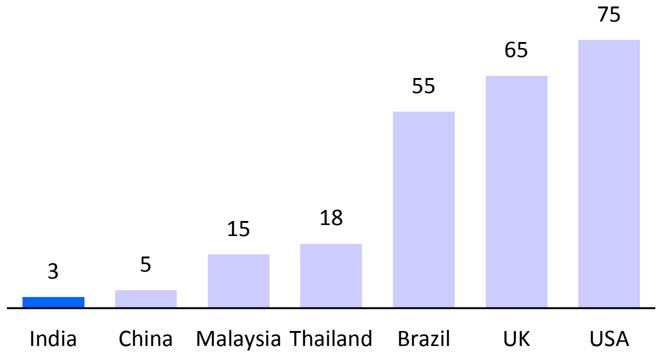


Exhibit 75: FY15-18 incremental ad revenue analysis for Zee

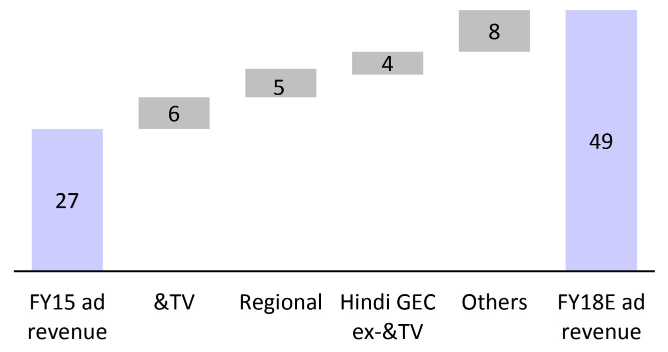


Exhibit 76: Analysis of Broadcaster's share of Pay TV subscription revenue

	FY15	FY18E
Pay TV subscription rev (INR b)		
-Analog	132	66
-Digital	213	463
Total	**346**	**529**
Broadcaster's share (INR b)		
-Analog	13	7
-Digital	65	139
Total	**79**	**146**
Broadcaster's share (%)		
-Analog	10	10
-Digital	31	30
Total	**23**	**28**

Exhibit 77: EPS impact of &TV launch

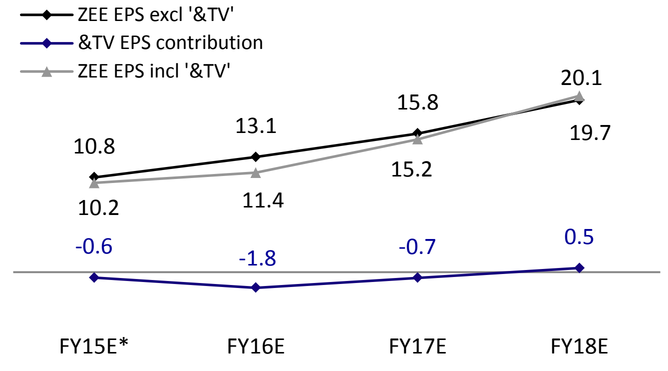


Exhibit 78: EBITDA margin trajectory

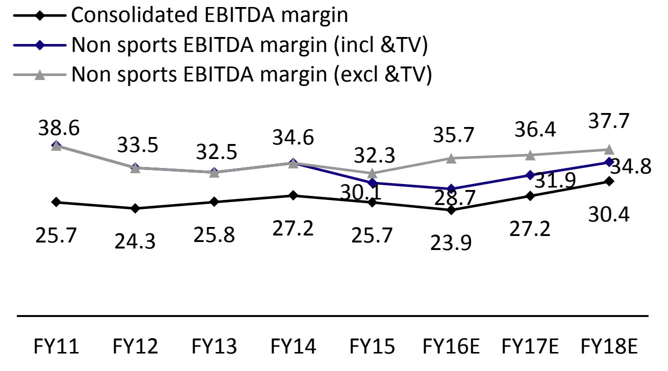


Exhibit 79: We are meaningfully ahead of consensus

	FY16E	FY17E	FY18E
Revenue (INR b)			
MOSL	57.6	69.4	83.8
Consensus	56.7	66.0	76.7
MOSL vs Consensus (%)	1.5	5.1	9.3
EBITDA (INR b)			
MOSL	13.8	18.9	25.5
Consensus	14.3	18.1	22.3
MOSL vs Consensus (%)	**-3.3**	**4.2**	**14.6**

	FY16E	FY17E	FY18E
EBITDA margin (%)			
MOSL	23.9	27.2	30.4
Consensus	25.1	27.4	29
MOSL vs Consensus (bp)	-118bp	-24bp	140bp
EPS (INR)			
MOSL	11.4	15.2	20.1
Consensus	10.4	13.2	16.6
MOSL vs Consensus (%)	**9.4**	**14.7**	**21.2**

Source: Company, MOSL

Financials and Valuations: Zee

Income Statement (INR Million)

Y/E March	2012	2013	2014	2015	2016E	2017E	2018E
Advertisement Revenues	15,841	19,639	23,800	26,603	33,737	41,188	48,857
Subscription Revenues	13,245	16,234	18,022	17,944	19,741	24,148	30,867
Other Sales & Sevices	1,320	1,123	2,395	4,299	4,084	4,089	4,094
Net Sales	**30,406**	**36,997**	**44,217**	**48,846**	**57,561**	**69,425**	**83,817**
Change (%)	3.4	21.7	19.5	10.5	17.8	20.6	20.7
Total Income	**30,406**	**36,997**	**44,217**	**48,846**	**57,561**	**69,425**	**83,817**
Total Expenses	**23,010**	**27,452**	**32,175**	**36,299**	**43,778**	**50,572**	**58,318**
EBITDA	**7,396**	**9,545**	**12,042**	**12,547**	**13,783**	**18,854**	**25,499**
Change (%)	-2.3	29.0	26.2	4.2	9.9	36.8	35.2
% of Net Sales	24.3	25.8	27.2	25.7	23.9	27.2	30.4
Depreciation	323	399	501	673	730	792	860
EBIT	**7,073**	**9,146**	**11,541**	**11,874**	**13,054**	**18,062**	**24,639**
Other Income	1,384	1,461	1,807	2,278	3,189	3,603	4,083
Interest & Finance Charges	50	86	158	103	113	113	123
PBT	**8,407**	**10,521**	**13,191**	**14,049**	**16,130**	**21,552**	**28,598**
Tax	2,500	3,337	4,291	4,284	5,242	7,004	9,295
Effective Rate (%)	29.7	31.7	32.5	30.5	32.5	32.5	32.5
PAT	**5,907**	**7,184**	**8,900**	**9,765**	**10,888**	**14,548**	**19,304**
Minority Interest	-15	14	21	20	20	20	20
Adj. PAT	**5,892**	**7,198**	**8,921**	**9,785**	**10,908**	**14,568**	**19,324**
Change (%)	-7.5	22.2	23.9	9.7	11.5	33.6	32.6

Balance Sheet (INR Million)

Y/E March	2012	2013	2014	2015	2016E	2017E	2018E
Share Capital	959	954	960	960	960	960	960
Reserves	33,349	38,161	26,247	34,449	41,465	51,967	66,934
Net Worth	**34,308**	**39,115**	**27,207**	**35,410**	**42,426**	**52,927**	**67,895**
Preference capital	**0**	**0**	**20,170**	**20,170**	**20,170**	**20,170**	**16,136**
Minority Interest	14	33	61	4	4	4	4
Loans	21	28	29	22	22	22	22
Other non-current liabilities	0	174	324	288	288	288	288
Capital Employed	**34,343**	**39,350**	**47,791**	**55,894**	**62,910**	**73,411**	**84,345**
Net Fixed Assets	**2,305**	**2,779**	**3,108**	**3,490**	**3,295**	**3,086**	**2,858**
Goodwill	**6,894**	**7,127**	**7,625**	**7,887**	**7,887**	**7,887**	**7,887**
Capital WIP	201	69	997	878	828	778	728
Investments	675	651	2,941	1,464	1,464	1,464	1,464
Deferred tax assets (net)	337	288	298	531	531	531	531
Other non-current assets	314	329	361	378	378	378	378
Curr. Assets, Loans&Adv.	**32,428**	**39,500**	**44,987**	**55,431**	**64,519**	**76,957**	**90,001**
Program Films	7,339	8,745	11,736	11,878	15,266	17,451	19,835
Sundry Debtors	8,660	9,890	10,281	10,692	12,358	14,905	17,994
Cash & Bank Balances	11,100	13,100	15,300	20,480	25,081	30,352	34,968
Loans & Advances	4,975	7,430	6,788	11,053	10,512	12,679	15,307
Other Current assets	354	335	882	1,328	1,302	1,571	1,896
Current Liab. & Prov.	**8,820**	**11,404**	**12,538**	**14,256**	**15,993**	**17,669**	**19,502**
Sundry Creditors	3,872	5,172	5,050	4,204	5,591	6,449	7,388
Other Current Liabilities	3,015	3,445	3,842	4,980	5,330	6,148	7,043
Provisions	1,933	2,787	3,646	5,072	5,072	5,072	5,072
Net Current Assets	**23,608**	**28,096**	**32,449**	**41,153**	**48,527**	**59,288**	**70,499**
Appl.of Funds	**34,343**	**39,350**	**47,791**	**55,894**	**62,910**	**73,411**	**84,345**

E: MOSL Estimates

Financials and Valuations: Zee

Ratios

Y/E March	2012	2013	2014	2015	2016E	2017E	2018E
Basic (INR)							
EPS	**6.1**	**7.5**	**9.3**	**10.2**	**11.4**	**15.2**	**20.1**
Cash EPS	6.4	7.9	9.8	10.9	12.1	16.0	21.0
EPS (excl '&TV' loss)	6.1	7.5	9.3	10.8	13.1	15.8	19.7
Book Value per Share	35.4	40.9	28.5	36.9	44.2	55.1	70.7
DPS	1.5	2.0	2.0	2.3	2.1	2.3	2.5
Payout (Incl. Div. Tax) %	24.4	26.5	21.5	22.1	18.5	14.8	12.4
Valuation							
P/E				35.4	31.8	23.8	17.9
P/E (excl '&TV' loss)				33.4	27.5	22.8	18.4
EV/EBITDA				27.6	24.8	17.9	12.9
EV/Sales				7.1	5.9	4.8	3.9
Price/Book Value				9.8	8.2	6.6	5.1
Dividend Yield (%)				0.6	0.6	0.6	0.7
Profitability Ratios (%)							
RoE	18.0	19.6	26.9	31.2	28.0	30.6	32.0
RoCE	25.8	28.8	30.6	27.3	27.3	31.8	36.4
Turnover Ratios							
Debtors (No. of Days)	104	98	85	80	78	78	78
Inventory (No. of Days)	162	169	181	201	201	201	201
Creditors (No. of Days)	78	69	66	53	53	53	53
Asset Turnover (x)	0.9	1.0	1.0	0.9	1.0	1.0	1.1
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement **(INR Million)**

Y/E March	2012	2013	2014	2015	2016E	2017E	2018E
EBITDA	7,396	9,545	12,042	12,547	13,783	18,854	25,499
Other Inc/excep. items	1,384	1,461	1,807	2,278	3,189	3,603	4,083
Interest paid	-50.0	-85.5	-157.8	-102.6	-112.6	-112.6	-122.6
Direct Taxes Paid	-2,645.0	-3,288.0	-4,301.0	-4,517.0	-5242.4	-7004.4	-9294.5
(Inc)/Dec in Wkg. Capital	-4,622.2	-3,837.9	-462.0	-5,132.4	-4114.2	-6944.4	-8049.2
Preference dividend paid							
CF from Oper. Activity	**1,463**	**3,794**	**8,929**	**5,072**	**7,504**	**8,395**	**12,115**
(Inc)/Dec in FA + CWIP	-1,617	-974	-2,256	-1,198	-485	-532	-583
(Pur)/Sale of Invest.	-52	24	-2,290	1,477	0	0	0
CF from Invest. Activity	**-1,669**	**-950**	**-4,546**	**279**	**-485**	**-532**	**-583**
Issue of Shares	606	1,348	-20,159	2,472	0	0	0
Inc/(Dec) in Debt	4	7	20,171	-7	0	0	-4,034
Dividends Paid	-1,683	-2,232	-2,244	-2,601	-2,439	-2,613	-2,903
Others	-120	33	49	-37	20	20	20
CF from Finan. Activity	**-1,193**	**-844**	**-2,183**	**-173**	**-2,419**	**-2,593**	**-6,917**
Inc/(Dec) in Cash	**-1,399**	**2,000**	**2,200**	**5,179**	**4,600**	**5,270**	**4,615**
Add: Beginning Balance	12,500	11,100	13,100	15,300	20,480	25,081	30,352
Closing Balance	**11,100**	**13,100**	**15,300**	**20,480**	**25,081**	**30,352**	**34,968**

E: MOSL Estimates

Annexure III: The Backtest

BSE Sensex: 25,202 | S&P CNX: 7,655 | 4 September 2015

- Britannia Inds.
- Eicher Motors
- HDFC Bank

Britannia CMP: INR2,985 TP: INR3,600 (+21%) Buy

Industry Attractiveness

- Biscuits industry is the largest processed foods industry in India at INR250bn.
- Britannia is the second largest player (~30% market share), close on the heels of leader Parle (32%). On a monthly basis, it has crossed Parle as leader now in value terms.
- Though the industry is witnessing a slowdown (4-5% value growth for the last two years), Britannia has outperformed with 13-14% revenue growth.

Disciplined Management

- Mr. Varun Berry was appointed the COO in 2013 and MD in 2014.
- Before Mr. Berry's appointment, profit growth was stagnant at 2.3% CAGR over FY05-12; margins collapsed from 12% to 5% due to RM inflation and heightened competition.
- Shareholder Focus: Mr. Berry brought about the following changes in approach a) focus on value growth in Biscuits instead of only volumes, b) leveraging distribution (direct + indirect reach of 4mn outlets), c) leveraging scale to bring in cost efficiencies.

Disciplined Thought

- Premiumization: Value segment of the industry was flattish over CY10-12; as a result, the company decided to focus on top 5 power brands in Biscuits and expand the reach of its portfolio.
- Cost containment: Cost cutting in manufacturing, distribution, logistics and conversion were outlined as priority areas.
- Innovation: As value segment (Glucose) of the industry was stagnant (2.5% CAGR decline over CY10-12), Britannia used innovation.

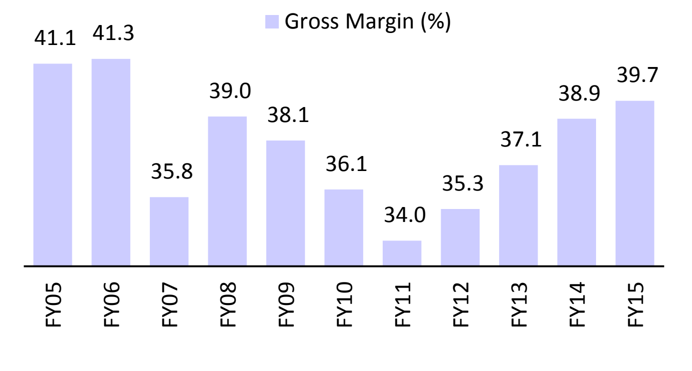
Disciplined Action

- Premiumization: The company restricted its advertisement investments in top 5 brands and implemented split-route strategy in select urban markets to drive penetration.
- Cost containment: 300 projects were implemented in the supply chain to save costs; the proportion of in-house manufacturing increase from 33% to 60% over FY13-15.
- Innovation: It sped up innovation and launched 6 new products (all in premium segments) in the last 12 months.

Expected Results

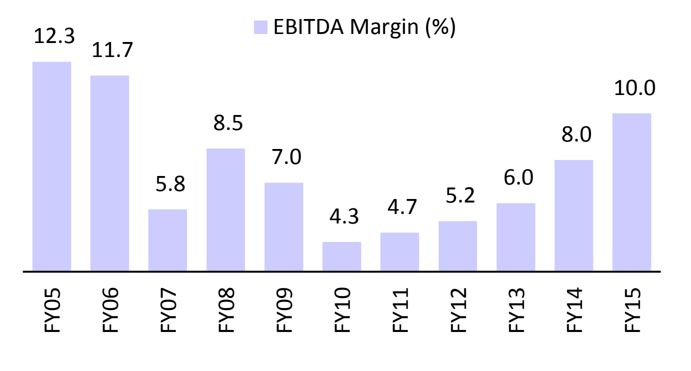
- Share gains: Britannia posted revenue CAGR of 12% over FY12-15 v/s industry's ~7-8% CAGR over the similar period.
- Premiumization: Gross margins improved from 34% to 39.7% while EBITDA margins expanded from 4.7% to 10% over FY12-15, implying an Impressive EBITDA CAGR of 38.
- Capital efficiency: RoCE expanded from 16.1% in FY11 to 54% in FY15.

Exhibit 80: Gross margin improved from 34% to 39.7% over FY11-FY15



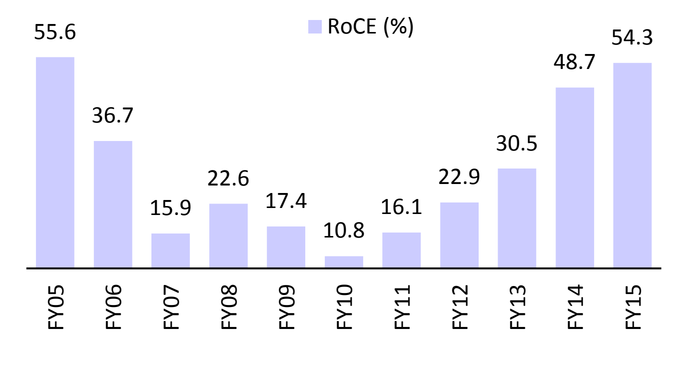
Source: Company, MOSL

Exhibit 81: …while EBITDA margins expanded from 4.7% to 10% over the same period



Source: Company, MOSL

Exhibit 82: RoCE consistently improving over FY11-FY15

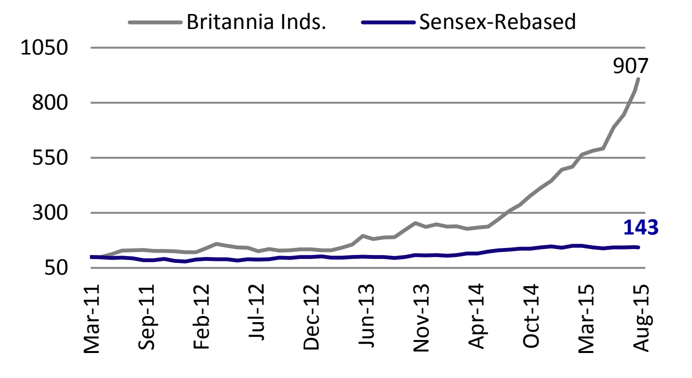


Source: Company, MOSL

Exhibit 83: Innovations in the past one year

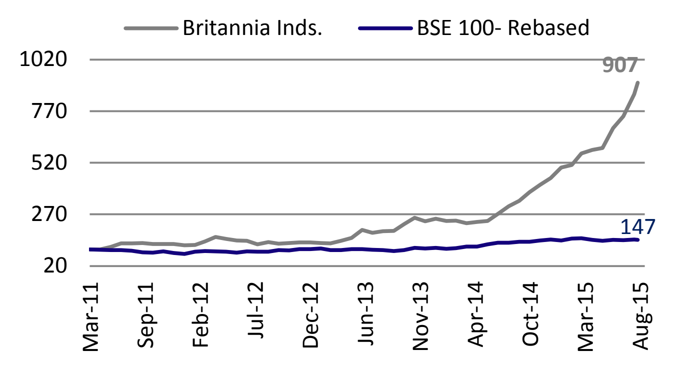
Source: Company, MOSL

Exhibit 84: Massive outperformance v/s Sensex….



Source: Company, MOSL

Exhibit 85: …and BSE100



Source: Company, MOSL

Financials and Valuations: Britannia

Income Statement (INR Million)

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
Net Revenues	**37,729**	**45,897**	**54,608**	**61,359**	**68,293**	**77,751**	**89,157**	**103,905**
Change (%)	10.3	21.6	19.0	12.4	11.3	13.8	14.7	16.5
Gross Profit	**13,614**	**15,621**	**19,280**	**22,746**	**26,583**	**30,833**	**37,857**	**44,528**
Margin (%)	36.1	34.0	35.3	37.1	38.9	39.7	42.5	42.9
Other Expenditure	8,976	10,123	12,221	13,691	15,108	16,510	18,151	21,059
EBITDA	**1,629**	**2,170**	**2,863**	**3,711**	**5,438**	**7,806**	**12,217**	**14,845**
Change (%)	-31.6	33.3	31.9	29.7	46.5	43.5	56.5	21.5
Margin (%)	4.3	4.7	5.2	6.0	8.0	10.0	13.7	14.3
Depreciation	582	649	618	732	832	1,445	1,513	1,671
Int. and Fin. Charges	235	436	416	413	83	39	31	32
Financial Other Income	547	472	584	514	336	880	950	1,140
Operating Other Income	36	314	253	504	834	833	923	973
PBT	**1,394**	**1,871**	**2,666**	**3,584**	**5,693**	**8,035**	**12,545**	**15,256**
Tax	216	409	650	934	1,775	2,553	3,889	4,729
Deferred Tax	-160	120	19	52	-39	-260	0	0
Tax Rate (%)	4.0	28.3	25.1	27.5	30.5	28.5	31.0	31.0
PAT	**1,338**	**1,342**	**1,997**	**2,599**	**3,957**	**5,743**	**8,656**	**10,526**
Change (%)	6.9	0.3	48.8	30.1	52.3	45.1	50.7	21.6
Margin (%)	3.5	2.9	3.7	4.2	5.8	7.4	9.7	10.1
Non-rec. (Exp.)/Income	-307	0	0	0	0	1,142	0	0
Reported PAT	**1,032**	**1,343**	**1,996**	**2,595**	**3,953**	**6,886**	**8,656**	**10,526**

Balance Sheet (INR Million)

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
Share Capital	239	239	239	239	240	240	240	240
Reserves	2,589	3,021	3,853	5,269	7,698	12,176	17,147	23,392
Networth	**2,828**	**3,260**	**4,092**	**5,508**	**7,938**	**12,415**	**17,387**	**23,632**
Loans	6,570	6,188	6,042	3,800	1,498	1,451	1,499	1,499
Capital Employed	**9,419**	**9,469**	**10,155**	**9,401**	**9,503**	**13,926**	**18,886**	**25,131**
Gross Block	9,247	9,691	11,211	12,893	14,930	16,065	17,565	19,565
Less: Accum. Depn.	-5,112	-5,498	-5,912	-6,517	-7,524	-8,731	-10,244	-11,915
Net Fixed Assets	**4,135**	**4,193**	**5,300**	**6,376**	**7,406**	**7,334**	**7,321**	**7,650**
Goodwill on consolidation	858	856	944	992	1,070	1,107	1,107	1,107
Capital WIP	102	128	1,113	1,473	1,071	484	484	484
Investments	**3,664**	**3,885**	**2,485**	**1,082**	**1,979**	**5,179**	**8,554**	**12,054**
Current	2,776	2,461	1,064	729	1,629	4,859	8,359	11,859
Non-current	889	1,424	1,421	353	350	321	195	195
Deferred Liability	-61	58	76	128	89	-234	-234	-234
Currents Assets	**6,313**	**7,126**	**8,579**	**8,912**	**9,543**	**13,596**	**17,402**	**22,034**
Inventory	3,042	3,470	4,318	3,747	4,203	4,040	5,349	6,234
Account Receivables	733	810	1,130	1,228	1,087	1,358	1,561	1,808
Cash and Bank Balance	427	769	613	1,029	1,091	2,263	4,433	7,609
Others	2,111	2,078	2,518	2,908	3,163	5,934	6,058	6,383
Curr. Liab. & Prov.	**5,714**	**6,661**	**8,189**	**9,306**	**11,477**	**14,007**	**16,214**	**18,431**
Account Payables	1,614	2,680	3,870	3,935	5,567	7,034	7,345	8,312
Other Liabilities	3,163	2,700	2,748	3,722	3,799	4,273	4,571	4,893
Provisions	936	1,280	1,570	1,649	2,111	2,700	4,298	5,227
Net Current Assets	**599**	**465**	**390**	**-394**	**-1,934**	**-411**	**1,187**	**3,603**
Net Assets	**9,419**	**9,470**	**10,156**	**9,401**	**9,503**	**13,926**	**18,886**	**25,131**

E: MOSL Estimates

Financials and Valuations: Britannia

Ratios								
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**
Basic (INR)								
EPS	**11.2**	**11.2**	**16.7**	**21.7**	**33.0**	**47.9**	**72.2**	**87.8**
BV/Share	23.7	27.3	34.3	46.1	66.2	103.5	145.0	197.0
DPS	5.0	6.5	8.5	8.5	12.0	16.0	25.3	30.7
Payout (%)	44.6	57.9	50.8	39.1	36.4	33.4	35.0	35.0
Valuation (x)								
P/E					96.3	66.4	44.0	36.2
EV/Sales					5.3	4.6	3.9	3.3
EV/EBITDA					69.8	48.1	30.3	24.4
P/BV					45.5	29.1	21.9	16.1
Dividend Yield					0.4	0.5	0.8	1.0
Return Ratios (%)								
RoE	26.7	44.1	54.3	54.1	58.9	56.4	58.1	51.3
RoCE	10.8	16.1	22.9	30.5	48.7	54.3	65.2	59.9
Working Capital Ratios								
Debtor (Days)	7	6	8	7	6	6	6	6
Asset Turnover (x)	4.0	4.8	5.4	6.5	7.2	5.6	4.7	4.1
Leverage Ratio								
Debt/Equity (x)	2.3	1.9	1.5	0.7	0.2	0.1	0.1	0.1

Cash Flow Statement								(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**
OP Profit	1,394	1,871	2,666	3,584	5,693	8,035	12,545	15,256
Dep	582	649	618	732	832	1,445	1,513	1,671
Financial Other Income	-547	-472	-584	-514	-336	-880	-950	-1,140
Interest Paid	-235	-436	-416	-413	-83	-39	-31	-32
Direct Taxes Paid	216	409	650	934	1,775	2,553	3,889	4,729
Inc in WC	-427	-475	81	-1,200	-1,602	350	-572	-760
CF from Operations	**1,875**	**2,550**	**2,385**	**4,481**	**6,099**	**5,736**	**9,822**	**11,849**
Extraordinary Items								
(Inc)/Dec in FA	-504	-470	-2,505	-2,042	-1,634	-548	-1,500	-2,000
(Pur.)/Sale of Investments	109	-221	1,400	1,403	-897	-3,201	-3,375	-3,500
Other Non Rec Exp	307	0	0	0	0	-1,142	0	0
CF from Investments	**-87**	**-690**	**-1,105**	**-639**	**-2,531**	**-4,891**	**-4,875**	**-5,500**
Issue of Shares	0	0	0	0	1	0	0	0
Inc in Debt	3,821	-381	-146	-2,242	-2,302	-47	48	0
Dividend Paid	1,118	696	902	1,180	1,189	1,684	2,309	3,520
Other Item	4,752	441	387	4	15	-2,058	516	-347
CF from Fin. Activity	**-2,049**	**-1,519**	**-1,436**	**-3,426**	**-3,506**	**327**	**-2,777**	**-3,173**
Inc/Dec of Cash	**-261**	**341**	**-155**	**416**	**62**	**1,172**	**2,170**	**3,175**
Add: Beginning Balance	688	427	769	613	1,029	1,091	2,263	4,433
Closing Balance	**428**	**769**	**613**	**1,029**	**1,091**	**2,263**	**4,434**	**7,609**

E: MOSL Estimates

Eicher Motors CMP: INR18,147 TP: INR24,137 (+33%) Buy

Industry Attractiveness

- Eicher's key product Royal Enfield (RE) was part of the nascent leisure biking industry, which was estimated to contribute ~1% of domestic 2W volumes in CY12.
- RE enjoyed virtual monopoly in the leisure biking segment, with ~78% market share of the segment.
- The Leisure biking segment in India posted ~54% CAGR over CY12-14E, restricted by capacity constraints with Royal Enfield.

Disciplined Management

- After witnessing initial success with UCE-based engine for Royal Enfield, Eicher channelized its energy toward expanding production capacity and improving efficiencies.
- More importantly, it worked on its marketing strategy—with focus on creating experiential marketing and building community of RE riders.
- Eicher has a majority ownership in VECV JV with Volvo but its management is focused just on RE, leaving VECV's management to Volvo.

Disciplined Thought

- Focus on building capacity: With strong demand and consistent waiting period of over six months for RE, the entire focus of the management was on building capacity. Subsequently it worked to expand its distribution network.
- Focus on developing products: To ensure continued success of RE, Eicher's next step was to broadbase product portfolio and expand addressable market.
- Focus on developing export markets: With an eye on global mid-level motorcycle segment and noticeable gap in leisure segment in the 250-750cc category, Eicher was focused on replicating its India success globally.

Disciplined Action

- Expanding capacity: Eicher expanded capacity from 100k in CY12 to ~300k in CY14 and ~600k in CY15. Subsequently, it expanded its capacity from ~180 dealers in CY11 to ~400 in CY14 and ~500 in CY15.
- Focus on developing products: Eicher launched Thunderbird and Continental GT on its existing platform. It plans to launch two platforms over the next two years.
- Focus on developing export markets: Apart from its existing export markets in the developed world, Eicher has started working on developing export markets in LatAm and Southeast Asia.

Expected Results

- RE's volumes posted 60% CAGR over CY12-15E, driven by new capacities and products. New capacities also led to improvement in efficiencies, driving S/A gross margin and EBITDA margin expansion of 7.3pp/13pp over CY12-15E.
- As a result, RoEs improved ~15.4pp to 35.4% in CY15E.

Exhibit 86: EPS and EPS growth (%)

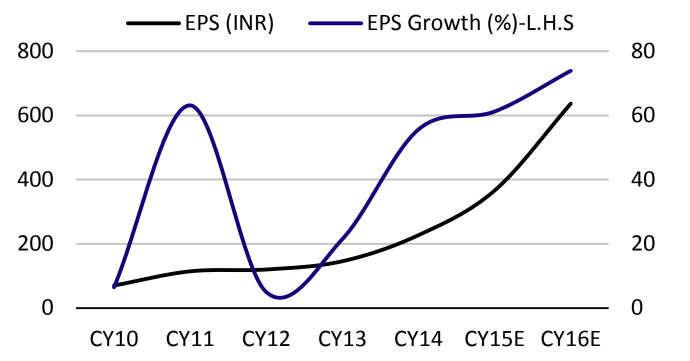


Exhibit 87: RoE and RoCE (%)

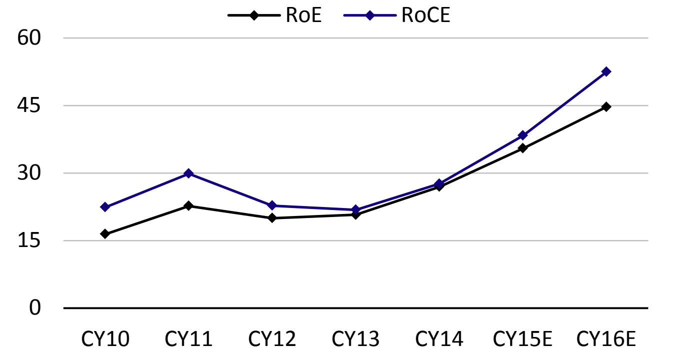


Exhibit 88: Gross margins and EBITDA margins

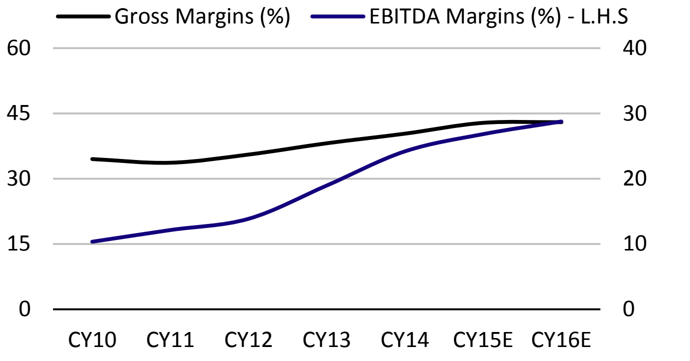


Exhibit 89: Capacity and sales

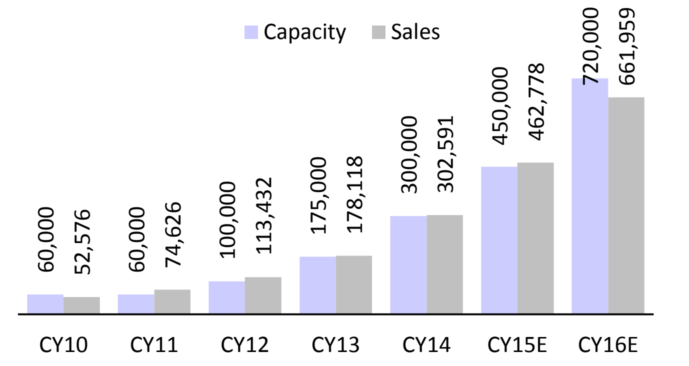
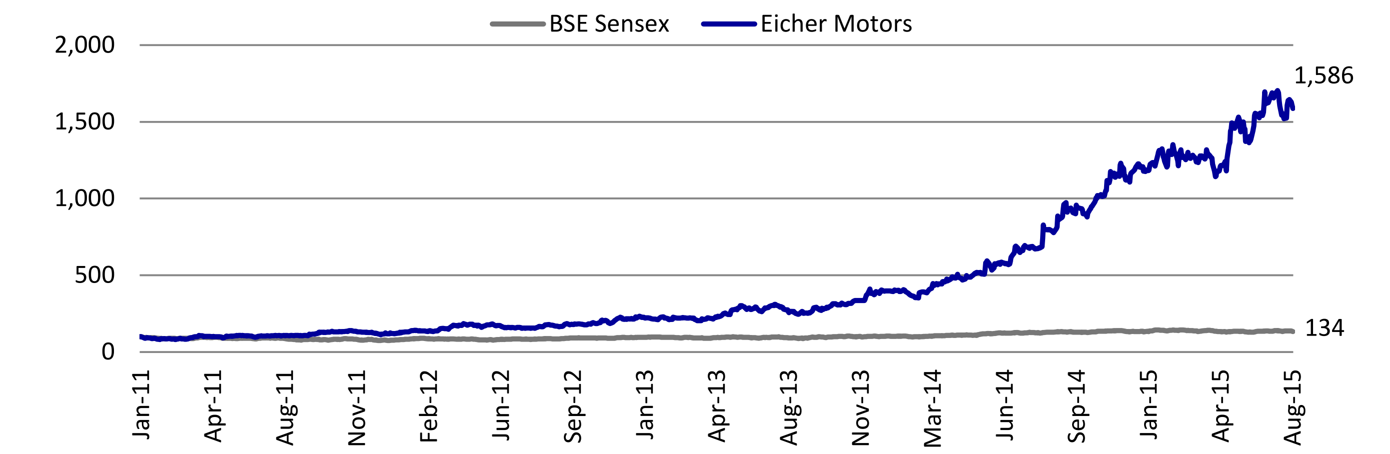


Exhibit 90: Eicher Motors outperform Sensex



Financials and Valuations: Eicher Motors

Income Statement (Consolidated)								(INR Million)
Y/E December	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Net Sales	**43,971**	**56,775**	**63,299**	**66,858**	**85,987**	**120,418**	**170,426**	**209,646**
Change (%)	49.6	29.1	11.5	5.6	28.6	40.0	41.5	23.0
EBITDA	**3,811**	**6,037**	**5,490**	**7,137**	**11,148**	**19,052**	**32,478**	**41,863**
EBITDA Margin (%)	8.6	10.5	8.6	10.5	12.8	15.6	18.8	19.7
Depreciation	573	640	822	1,300	2,198	3,375	4,243	5,197
Interest cost	95	77	38	79	98	78	78	78
Other Income	1,034	1,281	1,366	953	1,074	685	1,218	2,315
PBT	**4,177**	**6,602**	**5,997**	**6,711**	**9,926**	**16,284**	**29,374**	**38,903**
Tax	1,108	1,628	1,249	1,452	2,909	4,854	8,744	11,550
Effective Rate (%)	26.5	24.7	20.8	21.6	29.3	29.8	29.8	29.7
PAT	**3,068**	**4,974**	**4,749**	**5,259**	**7,017**	**11,430**	**20,630**	**27,353**
Change (%)	137.0	62.1	-4.5	10.8	33.4	62.9	80.5	32.6
Less: Minority Interest	1,179.3	1,886.3	1,505.9	1,314.4	863.8	1,508.5	3,376.3	4,480.1
Adj. PAT	**1,889**	**3,088**	**3,243**	**3,945**	**6,154**	**9,921**	**17,254**	**22,873**
Change (%)	126.6	63.4	5.0	21.7	56.0	61.2	73.9	32.6

Balance Sheet (Consolidated)								(INR Million)
Y/E December	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Share Capital	269	270	270	270	271	271	271	271
Net Worth	**12,321**	**14,931**	**17,549**	**20,554**	**25,159**	**30,815**	**46,401**	**67,424**
Minority Interest	**6,774**	**8,377**	**9,485**	**10,397**	**10,851**	**12,359**	**15,735**	**20,215**
Deferred Tax	249	645	1,232	1,805	2,394	2,647	3,146	3,806
Loans	956	504	384	839	584	584	584	584
Capital Employed	**20,301**	**24,456**	**28,649**	**33,595**	**38,986**	**46,405**	**65,865**	**92,029**
Application of Funds								
Gross Fixed Assets	8,113	9,887	15,260	22,993	31,374	43,243	53,243	64,493
Less: Depreciation	4,269	4,843	5,342	6,431	8,280	11,655	15,898	21,095
Net Fixed Assets	**3,844**	**5,044**	**9,918**	**16,561**	**23,093**	**31,588**	**37,345**	**43,398**
Capital WIP	703	4,128	5,044	4,636	4,188	1,250	1,250	1,250
- of which Goodwill	223	223	223	223	223	223	223	223
Investments	**4,586**	**5,126**	**6,385**	**8,255**	**10,777**	**9,171**	**9,171**	**9,171**
Curr.Assets, L & Adv.	**20,500**	**23,501**	**23,368**	**23,914**	**26,018**	**34,390**	**60,340**	**90,259**
Inventory	3,265	4,280	4,888	5,268	6,455	8,893	12,583	15,442
Sundry Debtors	2,609	3,434	4,459	5,125	5,622	5,332	7,346	8,776
Cash & Bank Balances	12,457	11,973	8,035	6,826	4,806	12,453	29,674	52,851
Loans & Advances	1,814	3,391	5,503	6,163	8,578	6,837	9,507	11,689
Others	355	424	483	532	557	875	1,231	1,501
Current Liab. & Prov.	**9,332**	**13,343**	**16,066**	**19,771**	**25,089**	**29,994**	**42,241**	**52,049**
Sundry Creditors	7,596	11,238	14,356	17,612	21,876	22,057	31,287	38,492
Other Liabilities	346	608	6	0	0	4,602	6,814	8,727
Provisions	1,391	1,497	1,704	2,159	3,213	3,336	4,141	4,830
Net Current Assets	**11,168**	**10,157**	**7,302**	**4,143**	**928**	**4,396**	**18,099**	**38,210**
Application of Funds	**20,301**	**24,456**	**28,649**	**33,595**	**38,987**	**46,405**	**65,865**	**92,029**

E: MOSL Estimates

Financials and Valuations: Eicher Motors

Ratios (Consolidated)

Y/E December	2010	2011	2012	2013	2014	2015E	2016E	2017E
Basic (INR)								
EPS	**70.1**	**114.4**	**120.1**	**145.9**	**227.1**	**366.1**	**636.7**	**844.0**
EPS Growth (%)	6.5	63.1	5.0	21.5	55.6	61.2	73.9	32.6
Cash EPS	91.4	138.1	150.5	194.0	308.2	490.6	793.2	1,035.8
Book Value per Share	457.4	553.2	650.0	760.1	928.4	1,137.1	1,712.2	2,488.0
DPS	11.0	16.0	20.0	30.0	35.0	40.0	45.0	50.0
Payout (Incl. Div. Tax) %	18.3	16.3	19.5	24.1	27.5	12.8	8.3	6.9
Valuation (x)								
P/E				124.4	79.9	49.6	28.5	21.5
Cash P/E				93.5	58.9	37.0	22.9	17.5
EV/EBITDA				88.6	51.0	29.0	16.8	12.5
EV/Sales				10.6	7.8	5.4	3.6	2.8
Price to Book Value				23.9	19.5	16.0	10.6	7.3
Dividend Yield (%)				0.2	0.2	0.2	0.2	0.3
Profitability Ratios (%)								
RoE	16.4	22.7	20.0	20.7	26.9	35.4	44.7	40.2
RoCE	22.4	29.8	22.7	21.8	27.6	38.3	52.5	49.4
RoIC	35.0	40.0	20.0	19.5	25.7	39.2	63.3	74.5
Turnover Ratios								
Debtors (Days)	22	22	25	27	23	16	15	15
Inventory (Days)	27	27	28	28	27	27	27	26
Creditors (Days)	63	72	82	94	91	66	66	66
Working Capital (Days)	-14	-22	-29	-39	-41	-23	-24	-24
Asset Turnover (x)	2.2	2.3	2.2	2.0	2.2	2.6	2.6	2.3
Fixed Asset Turnover								
Leverage Ratio								
Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement (Consolidated) (INR Million)

Y/E December	2010	2011	2012	2013	2014	2015E	2016E	2017E
Profit before Tax	4,177	6,602	5,997	6,706	9,926	16,284	29,374	38,903
Depreciation & Amort.	573	640	822	1,300	2,198	3,375	4,243	5,197
Direct Taxes Paid	-831	-1,668	-1,077	-1,504	-2,810	-4,600	-8,245	-10,890
(Inc)/Dec in Working Capital	374	-234	391	1,491	2,020	-1,968	3,527	2,916
Interest/Div. Received	1,039	1,316	1,351	1,023	950	685	1,218	2,315
Other Items	-933	-1,305	-1,308	-819	-1,809	5,541	-1,148	-2,087
CF from Oper. Activity	**4,399**	**5,351**	**6,177**	**8,197**	**10,475**	**19,316**	**28,968**	**36,354**
(Inc)/Dec in FA+CWIP	-1,315	-4,173	-7,820	-7,054	-9,682	-8,932	-10,000	-11,250
Free Cash Flow	**3,084**	**1,178**	**-1,644**	**1,143**	**793**	**10,385**	**18,968**	**25,104**
(Pur)/Sale of Invest.	-1,645	-540	-1,263	-1,879	-1,190	1,606	0	0
CF from Inv. Activity	**-2,960**	**-4,713**	**-9,083**	**-8,933**	**-10,872**	**-7,326**	**-10,000**	**-11,250**
Issue of Shares	88	24	4	17	79	-2,996	-242	-264
Inc/(Dec) in Debt	-307	-453	-43	610	-255	0	0	0
Interest Paid	-118	-84	-40	-80	-98	-78	-78	-78
Dividends Paid	-351	-609	-895	-1,020	-1,348	-1,268	-1,427	-1,585
CF from Fin. Activity	**-689**	**-1,122**	**-974**	**-474**	**-1,622**	**-4,343**	**-1,747**	**-1,928**
Inc/(Dec) in Cash	**750**	**-484**	**-3,880**	**-1,209**	**-2,020**	**7,648**	**17,221**	**23,177**
Add: Beginning Balance	11,707	12,457	11,915	8,035	6,826	4,806	12,454	29,675
Closing Balance	**12,457**	**11,973**	**8,035**	**6,826**	**4,806**	**12,454**	**29,675**	**52,852**

E: MOSL Estimates

HDFC Bank | CMP: INR996 | TP: INR1,350 (+36%) | Buy

Industry Attractiveness

- Only 40% of the population has access to banking. Credit-to-GDP is lowest at ~52% v/s ~90% for emerging market average and ~100% for the developed market
- The industry is expected to grow at 18%+ CAGR over the next five years; retail loans-to-GDP stands at just 15% and is a key growth driver.
- The incumbent state-owned banks still have 75%+ MS in the industry. In this digital era, private banks will continue to gain market share with superior product and services.

Disciplined Management

- Mr. Aditya Puri (MD since inception) is widely credited for the success of HDFC Bank, which has the highest market capitalization among private banks in India.
- Under his leadership, the bank reported earnings and loan CAGR of 20%+ for ~80 consecutive quarters.
- Most of the senior management has been with the bank since its inception in 1994; the board boasts of best-in-class corporate governance practices.

Disciplined Thought

- Built expertise in secured retail segment like Home and Auto to gain loan and profit MS—avoided risky/high-yielding segments like Infrastructure and Iron & Steel.
- Building a strong retail liability franchise through aggressive branch network expansion and digital offerings to ensure stable cost of funds.
- Focus on long-term shareholder value creation by maintaining best-in-class return ratios—internal accruals a key source of growth capital.

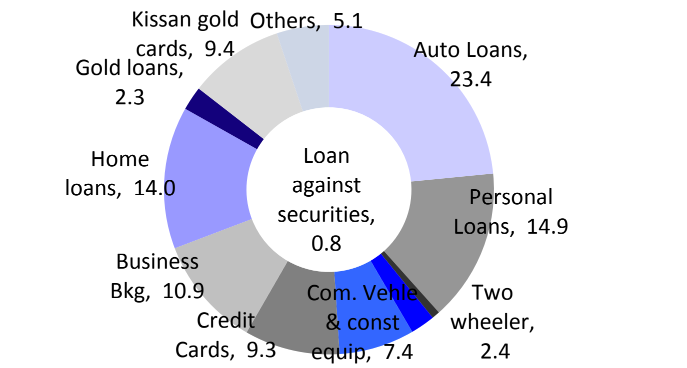
Disciplined Action

- Retail loans largely secured, form 50% of the book; exposure to sensitive sectors (<10%) is significantly lower than peers—net stressed loans remain at just 50bp.
- Consistently maintained best-in-class CASA ratio of >40%—thrust on the Indian rural sector will continue to pay rewards.
- Equity capital raised by HDFCB since inception forms ~40% of the net worth, lowest amongst peers—showcasing the bank's strong accruals; despite sporadic capital infusions, the bank has maintained T1 ratio 300-400bp more than the regulatory requirements.

Expected Results

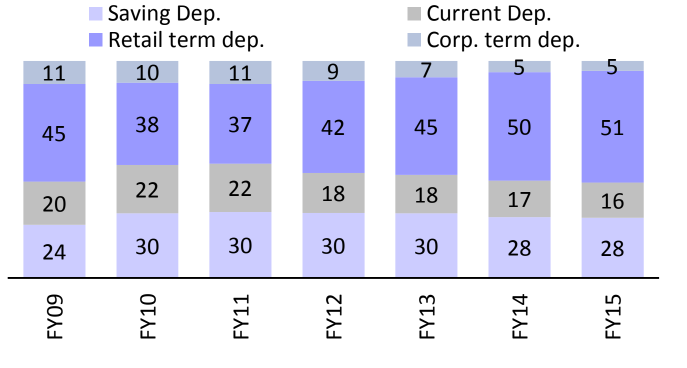
- Since inception, average RoE has stood at 19.9% and EPS CAGR at 33%; considering overall growth of ~20%+ and RoE of 20%, we expect internal accruals to take care of the next 4-5 years of growth.
- SA market share gains to continue, led by aggressive expansion in rural and competitive digital offerings.
- Cost control and productivity gains to continue. Focus on core profitability would lead to 20%+ earnings CAGR over FY15-18E; RoA to remain healthy at 1.9-2%.

Exhibit 91: Focus remains on granular retail book—largely secured



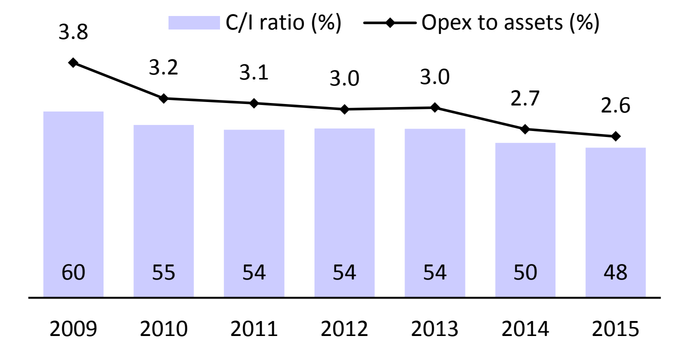
Source: Company, MOSL

Exhibit 92: Share of retail deposits continues to improve, demonstrating power of strong liability franchise (Deposits mix %)



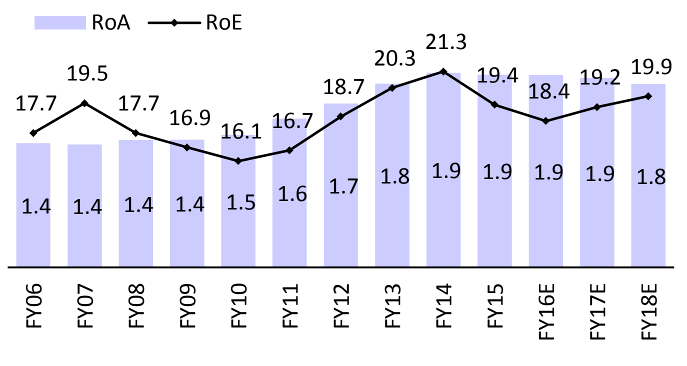
Source: Company, MOSL

Exhibit 93: Strong cost control; productivity gains continue



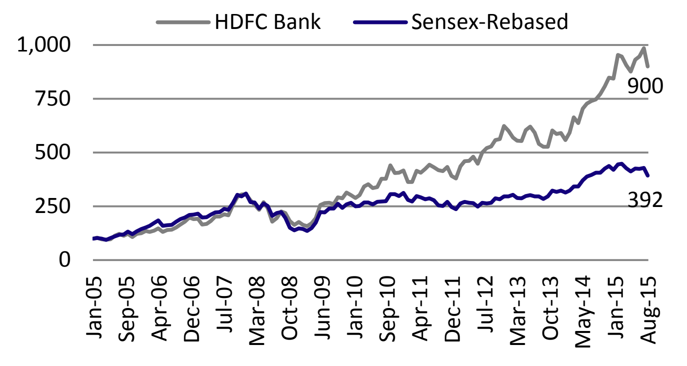
Source: Company, MOSL

Exhibit 94: Healthy core operating performance and low delinquencies to sustain RoA near the current levels



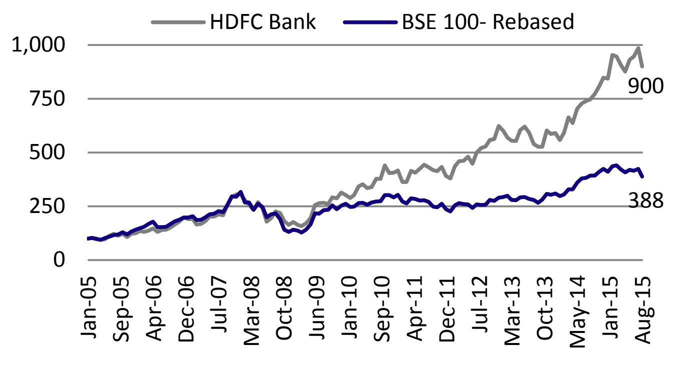
Source: Company, MOSL

Exhibit 95: Massive outperformance v/s Sensex....



Source: Company, MOSL

Exhibit 96: ...and BSE100



Source: Company, MOSL

Financials and Valuations: HDFCB

Income Statement									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Interest Income	164,679	203,808	278,742	350,649	411,355	484,699	595,995	704,552	863,899
Interest Expense	77,863	93,851	149,896	192,538	226,529	260,742	324,277	378,990	465,423
Net Interest Income	**86,816**	**109,957**	**128,846**	**158,111**	**184,826**	**223,957**	**271,718**	**325,563**	**398,475**
Change (%)	13.1	26.7	17.2	22.7	16.9	21.2	21.3	19.8	22.4
Non Interest Income	45,736	49,452	57,836	68,526	79,196	89,964	108,593	126,398	147,234
Net Income	**132,553**	**159,409**	**186,682**	**226,637**	**264,023**	**313,920**	**380,311**	**451,960**	**545,709**
Change (%)	16.5	20.3	17.1	21.4	16.5	18.9	21.1	18.8	20.7
Operating Expenses	64,757	77,800	92,776	112,361	120,422	139,875	172,469	204,653	246,952
Pre Provision Profits	**67,795**	**81,609**	**93,906**	**114,276**	**143,601**	**174,045**	**207,843**	**247,307**	**298,757**
Change (%)	25.0	20.4	15.1	21.7	25.7	21.2	19.4	19.0	20.8
Provisions (excl tax)	24,904	23,422	18,774	16,770	15,880	20,758	21,476	27,525	35,032
PBT	**42,891**	**58,187**	**75,132**	**97,506**	**127,721**	**153,287**	**186,366**	**219,782**	**263,725**
Tax	13,404	18,923	23,461	30,249	42,937	51,128	63,364	71,429	85,711
Tax Rate (%)	31.3	32.5	31.2	31.0	33.6	33.4	34.0	32.5	32.5
PAT	**29,487**	**39,264**	**51,671**	**67,257**	**84,784**	**102,159**	**123,002**	**148,353**	**178,014**
Change (%)	31.3	33.2	31.6	30.2	26.1	20.5	20.4	20.6	20.0
Equity Dividend (Incl tax)	6,414	8,948	11,749	15,360	19,275	24,142	28,659	34,566	41,477
Core PPP*	**52,167**	**68,179**	**79,428**	**97,607**	**122,227**	**150,674**	**177,943**	**213,588**	**260,704**
Change (%)	24.6	30.7	16.5	22.9	25.2	23.3	18.1	20.0	22.1

*Core PPP is (NII+Fee income-Opex)

Balance Sheet									(INR Million)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Equity Share Capital	4,577	4,652	4,693	4,759	4,798	5,013	5,013	5,013	5,013
Reserves & Surplus	210,648	249,140	294,553	357,383	429,988	615,081	709,423	823,210	959,747
Net Worth	**215,225**	**253,793**	**299,247**	**362,141**	**434,786**	**620,094**	**714,436**	**828,223**	**964,760**
Deposits	**1,674,044**	**2,085,864**	**2,467,064**	**2,962,470**	**3,673,375**	**4,507,956**	**5,499,707**	**6,819,636**	**8,456,349**
Change (%)	17.2	24.6	18.3	20.1	24.0	22.7	22.0	24.0	24.0
of which CASA Dep	**871,039**	**1,099,083**	**1,194,059**	**1,405,215**	**1,646,214**	**1,984,921**	**2,421,603**	**3,027,004**	**3,783,755**
Change (%)	37.5	26.2	8.6	17.7	17.2	20.6	22.0	25.0	25.0
Borrowings	129,157	143,941	238,465	330,066	394,390	452,136	524,290	613,534	724,051
Other Liabilities & Prov.	206,159	289,929	374,319	348,642	413,444	324,845	405,668	506,844	633,314
Total Liabilities	**2,224,586**	**2,773,526**	**3,379,095**	**4,003,319**	**4,915,995**	**5,905,031**	**7,144,101**	**8,768,237**	**10,778,474**
Current Assets	299,424	296,688	209,377	272,802	395,836	363,315	433,880	513,773	617,645
Investments	**586,076**	**709,294**	**974,829**	**1,116,136**	**1,209,511**	**1,664,599**	**1,914,289**	**2,297,147**	**2,756,577**
Change (%)	-0.4	21.0	37.4	14.5	8.4	37.6	15.0	20.0	20.0
Loans	**1,258,306**	**1,599,827**	**1,954,200**	**2,397,206**	**3,030,003**	**3,654,950**	**4,532,138**	**5,665,173**	**7,081,466**
Change (%)	27.3	27.1	22.2	22.7	26.4	20.6	24.0	25.0	25.0
Fixed Assets	21,228	21,706	23,472	27,031	29,399	31,217	34,654	40,091	45,528
Other Assets	59,551	146,011	217,216	190,144	251,246	190,949	229,139	252,053	277,258
Total Assets	**2,224,586**	**2,773,526**	**3,379,095**	**4,003,319**	**4,915,995**	**5,905,031**	**7,144,101**	**8,768,237**	**10,778,474**

Asset Quality									(%)
Y/E March	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
GNPA (INR m)	18,168	16,943	19,994	23,346	29,893	34,384	43,263	61,840	90,584
NNPA (INR m)	3,921	2,964	3,523	4,690	8,200	8,963	12,374	20,458	32,335
GNPA Ratio	1.4	1.0	1.0	1.0	1.0	0.9	0.9	1.1	1.3
NNPA Ratio	0.3	0.2	0.2	0.2	0.3	0.2	0.3	0.4	0.5
PCR (Excl Tech. write off)	78.4	82.5	82.4	79.9	72.6	73.9	71.4	66.9	64.3

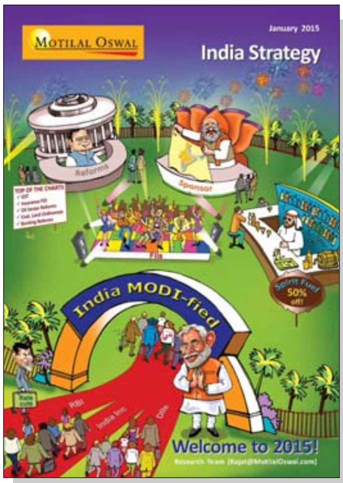
Financials and Valuations: HDFCB

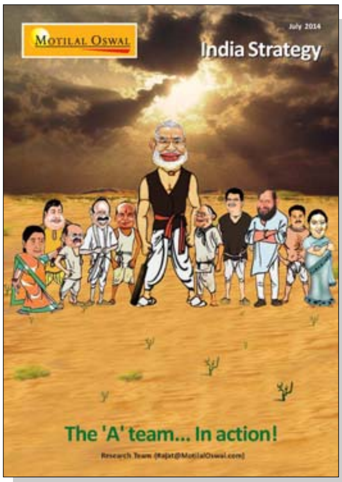
Ratios

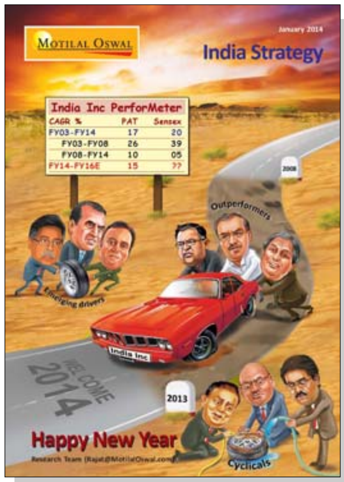
Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Spreads Analysis (%)									
Avg. Yield-Earning Assets	**9.1**	**9.4**	**10.4**	**10.6**	**10.3**	**9.9**	**9.9**	**9.5**	**9.5**
Avg. Yield on loans	11.0	10.9	11.9	12.3	11.7	11.1	10.9	10.4	10.2
Avg. Yield on Invt	6.8	7.2	7.7	7.5	7.8	7.4	7.5	7.4	7.4
Avg. Cost-Int. Bear. Liab.	**4.7**	**4.7**	**6.1**	**6.4**	**6.2**	**5.8**	**5.9**	**5.6**	**5.6**
Avg. Cost of Deposits	4.5	4.3	5.6	6.0	5.7	5.7	5.9	5.6	5.6
Interest Spread	**4.4**	**4.7**	**4.4**	**4.2**	**4.1**	**4.1**	**4.0**	**3.9**	**3.9**
Net Interest Margin	**4.8**	**5.1**	**4.8**	**4.8**	**4.6**	**4.6**	**4.5**	**4.4**	**4.4**
Profitability Ratios (%)									
RoE	16.1	16.7	18.7	20.3	21.3	19.4	18.4	19.2	19.9
RoA	1.5	1.6	1.7	1.8	1.9	1.9	1.9	1.9	1.8
Int. Expense/Int.Income	47.3	46.0	53.8	54.9	55.1	53.8	54.4	53.8	53.9
Fee Income/Net Income	27.4	27.5	29.3	27.3	27.2	24.5	24.1	23.9	23.4
Non Int. Inc./Net Income	34.5	31.0	31.0	30.2	30.0	28.7	28.6	28.0	27.0
Efficiency Ratios (%)									
Cost/Income*	50.2	48.6	49.2	49.9	45.8	47.0	47.8	47.7	47.6
Empl. Cost/Op. Exps.	35.4	36.5	36.6	35.3	34.7	34.0	33.1	33.4	33.8
Busi. per Empl. (INR m)	51.2	61.5	66.5	72.4	87.9	102.7	116.5	138.8	166.6
NP per Empl. (INR lac)	0.6	0.7	0.8	1.0	1.2	1.4	1.6	1.8	2.1
* ex treasury									
Asset-Liability Profile (%)									
Loans/Deposit	75.2	76.7	79.2	80.9	82.5	81.1	82.4	83.1	83.7
CASA Ratio	52.0	52.7	48.4	47.4	44.8	44.0	44.0	44.4	44.7
Investment/Deposit	35.0	34.0	39.5	37.7	32.9	36.9	34.8	33.7	32.6
CAR	17.4	16.2	16.5	16.8	16.1	16.8	15.6	14.4	13.3
Tier 1	13.3	12.2	11.6	11.1	11.8	13.7	13.0	12.2	11.4
Valuation									
Book Value (INR)	94.0	109.1	127	152	181	247	285	330	385
Change (%)	32.9	16.0	16.8	19.4	19.2	36.5	15.2	15.9	16.5
Price-BV (x)	10.6	9.1	7.8	6.5	5.5	4.0	3.5	3.0	2.6
Adjusted BV (INR)	92.8	108.2	126.4	150.7	178.9	244.9	281.6	324.7	375.9
Price-ABV (x)	10.7	9.2	7.9	6.6	5.6	4.1	3.5	3.1	2.6
EPS (INR)	12.9	16.9	22.0	28.3	35.3	40.8	49.1	59.2	71.0
Change (%)	22.1	31.0	30.4	28.4	25.0	15.3	20.4	20.6	20.0
Price-Earnings (x)		59.0	45.2	35.2	28.2	24.4	20.3	16.8	14.0
Dividend Per Sh (INR)	2.4	3.3	4.3	5.5	6.9	8.0	9.8	11.8	14.2
Dividend Yield (%)		0.3	0.4	0.6	0.7	0.8	1.0	1.2	1.4

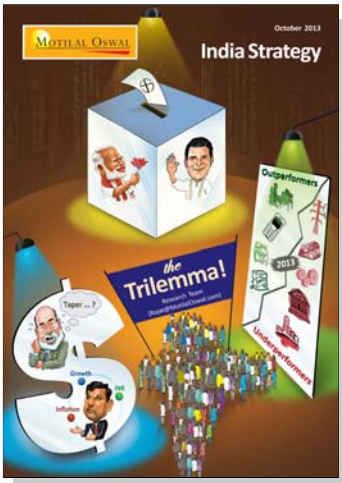
E: MOSL Estimates

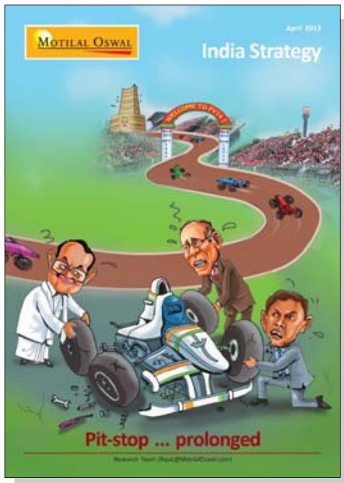
Motilal Oswal India Strategy Gallery

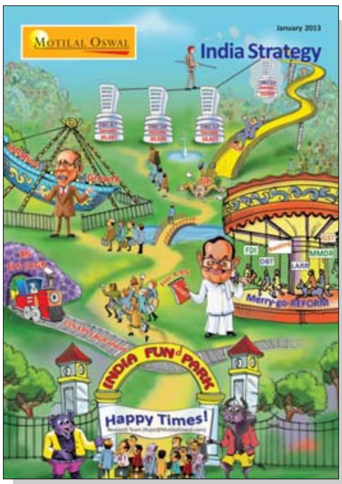


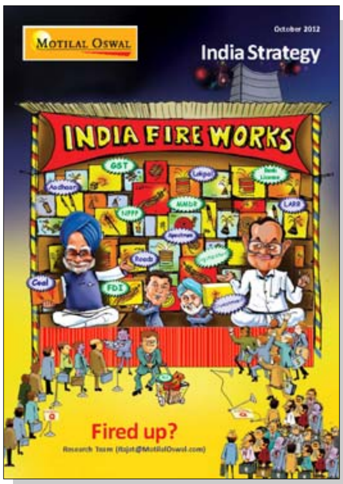












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