

INVESTING IN INDIA

We believe significant investment opportunities exist in India for long-term, strategic investors. Horizon's investment methodology, taking a private market approach to the public markets is well suited to pursue these opportunities.

This report examines the Indian equity markets, their structure, constituents and metrics over time.

India is a unique market globally. It offers an abundance of businesses, all for sale, at significant discounts to their global franchise values via the country's stock markets. The environment is conducive for corporate ownership. The Indian market operates on a system of English common law and on the basis of the English language. Stock market participation is broad and deep, with a wealth of retail and institutional market participation.

We at Horizon believe India is entering a phase of massive consolidation and corporate change, driven by an open government policy for foreign investment, combined with companies seeking access to new markets, technologies, and capital partners. Family businesses are experiencing a generational changes leading to mergers and acquisitions. This backdrop offers significant return potential utilizing the Horizon disciplined investment methodology.

The Indian Stock Market

India has a deeply rooted equity culture dating to the period of British rule. The Bombay Stock Exchange (BSE), founded in 1875, is Asia's oldest public bourse. In addition to the BSE, investors can trade through the National stock exchange (NSE). There are approximately 18 other stock exchanges in existence but with little traded market volume.

There are approximately 3,500 actively traded companies in India, offering a sizeable group of businesses for superior stock selection. Most companies that trade on the BSE have a dual listing on the NSE. An additional feature of the Indian equity markets is that there is a single stock futures market with 206 companies traded on 30/60/90 day contracts. These future contracts assist the price discovery process and are a vehicle for short selling.

The Horizon Investment Process

We follow a methodology deployed by Warren Buffet in the United States of America, resting on the principles set forth by Professors Graham and Dodd in 1934 in the sentinel text book "Securities Analysis". We are bottom up investors. Idea generation is a rigorous and often contrarian process and adherence to fundamental discipline in volatile markets is tantamount to success. At the core of our process is identification of securities and sectors for investment along with an on-going maintenance of the valuation and event universe to provide advanced insights to unfolding investment landscapes.

Some of the characteristics we ideally look for:

- o Discount to replacement and private trade sale valuations
- o Strong franchise that has barriers to entry in their respective markets with the ability to price products well above costs
- o A business that is understandable
- o The right price in stock market establishing a margin of safety
- o Attractive cash flow characteristics
- o Strong existing management that will remain in place
- o Oriented for the growth of the Indian Subcontinent
- o We also like special situation opportunities that require Horizon's managerial oversight. These include balance sheet reorganizations, turnarounds, restructurings and companies whose assets will benefit from a change from an outright of control

The Indian businesses available on the equity market have many of these attributes to earn risk-adjusted returns through superior stock selection using the Horizon process. We believe that it is possible to identify pockets of value/price misalignment especially within domestic demand led industries. With secular trends led by increasing GDP, favorable demographics and increasing disposable income among other long-term factors there are ample opportunities to invest in companies that will benefit.

INDIA EQUITY MARKET ANALYSIS

Trading and participation

The annual value traded on the NSE in 2014 was USD 1,017 billion and the ratio of value traded to market capitalisation was 44%, which is well below the value traded to market capitalisation ratios of NASDAQ and NYSE of 104% and 50% respectively (Table 1).

Table 1: Annual value of share trading (USD billion)

Bourse	2011	2012	2013	2014	2015	2016	2017
NASDAQ	28,913	24,479	26,644	31,044	32,984	31,944	33,407
As a % of GDP	186	151	159	185	189	176	179
As a % of Mcap	185	131	157	160	132	117	104
NYSE	19,329	14,747	15,309	18,234	19,991	19,737	16,140
As a % of GDP	124	91	91	109	115	109	87
As a % of Mcap	124	79	90	94	80	72	50
BATS	-	-	-	13,163	14,217	13,683	12,302
As a % of GDP	-	-	-	79	82	76	66
As a % of Mcap	-	-	-	68	57	50	38
NSE	589	526	479	652	677	691	1017
As a % of GDP	31	29	26	35	33	33	45
As a % of Mcap	58	42	46	43	45	44	44
BSE	150	112	87	125	122	110	183
As a % of GDP	8.0	6.1	4.7	6.7	5.9	5.3	8.1
As a % of Mcap	14.8	8.9	8.1	8.0	8.0	7.0	7.9

Source: Horizon Research, WFE, World Bank

An analysis of trading per market participant reveals that retail investor participation has increased from INR 62 billion in FY14 to INR 189 billion in FY18 (Table 2). Retail investor share in the average daily value of share trading increased from 47.2% in FY14 to 55.9% in FY18 (Table 2). To incentivize greater retail participation in the stock market the Indian government is introducing a series of tax policy and legislative changes.

Table 2: Average daily value of share trading and % share of participants

Particulars	FY10	FY11	FY12	FY13	FY 14	FY15	FY17	FY18
Proprietary trades								
Value of shares traded (INR billion)	58	41	33	30	30	44	40	60
% of total shares traded	25.5%	22.1%	23.2%	23.4%	22.4%	20.9%	16.3%	17.8%
Domestic Institutions (excluding MFs)								
Value of shares traded (INR billion)	6	6	5	6	9	8	1	9
% of total shares traded	2.6%	3.4%	3.9%	4.6%	6.8%	3.9%	0.3%	2.8%
FIIIs								
Value of shares traded (INR billion)	26	28	25	24	27	43	47	54
% of total shares traded	11.5%	14.9%	17.6%	18.7%	20.1%	20.4%	19.1%	16.0%
MFs								
Value of shares traded (INR billion)	8	7	6	5	5	9	14	25
% of total shares traded	3.6%	3.8%	4.1%	4.1%	3.6%	4.2%	5.9%	7.4%
Retail Investors								
Value of shares traded (INR billion)	129	103	72	64	62	106	142	189
% of total shares traded	56.9%	55.9%	51.3%	49.3%	47.2%	50.5%	58.3%	55.9%
Total (INR billion)	227	185	141	130	132	210	244	338

Source: Horizon Research, SEBI

Note: Domestic Institutions (excluding MFs) includes Banks, Domestic Financial Institutions (DFIs), Insurance companies and New Pension Scheme. Others Include Retail, Non- resident Indian (NRI) and Qualified Foreign Investor (QFI).

The Indices

There is a heavy concentration of market capitalization represented through, the primary indices. The NIFTY¹, which comprises of 50 companies, and the SENSEX², which comprises of 30 companies, are the two major indices, and represent 53.9% and 43.1% of the total market capitalisation respectively. The broad market index (we use the CNX 500³ Index as a proxy for the broad market) with an 18.2% CAGR between 2002-2017 and the NIFTY index with a 16.3% CAGR between 2002-2017 have outperformed both the MSCI EM Index (9.6% CAGR between 2002-2017) and the S&P 500 (7.7% CAGR between 2002-2017) over the past 15 years (Table 3).

Table 3: Performance of Indian Vs. International Indices (2002-2017)

Index	Index Level				CAGR		
	2002	2007	2012	2017	2002-17	2007-17	2012-2017
S&P 500	880	1,468	1,426	2,674	7.7%	6.2%	13.4%
NIFTY	1,094	6,139	5,905	10,531	16.3%	5.5%	12.3%
NIFTY (USD)	23	156	107	165	14.1%	0.6%	9.0%
CNX500	773	5,355	4,743	9,491	18.2%	5.9%	14.9%
CNX500 (USD)	16	136	86	149	16.0%	0.9%	11.5%
MSCI EM - MXE	292	1,246	1,055	1,158	9.6%	-0.7%	1.9%

Source: Horizon Research, S&P, Bloomberg (Index level taken at the last trading day of December)

The balance of shares not captured by the indices equates to approximately 4,000 companies, and result in opportunities for superior stock selection. Our efforts emphasize valuations with catalysts, and believe that a significant portion of small and mid-caps present opportunities for investment.

The Indian equity market quantity of traded companies offers investment diversification opportunities within the Indian market itself. The NIFTY also offers diversity of the market, with the NIFTY comprising companies across each of the 10 broad industry segments.

Concentration offers opportunities

A closer look at the market focusing on company size helps identifying divergences among the listed companies. The largest 50 companies by market capitalisation represent 56% of the broad market capitalization. On an aggregate basis, these companies offer attractive values (Table 4).

The largest 50 companies have a net debt to enterprise value of 9.2%, FY18 FCF yield of (0.7)%, FY18 dividend yield of 1.4%, FY18 P/E of 37.1x, FY18 EV/ EBITDA of 28.9x and a FY18 PEG of 19.1x. In contrast after extracting the top 1,000 companies by market capitalisation, the remaining 2,976 companies have a net debt to enterprise value of 65.4%, FY18 FCF yield of (0.2)%, FY18 dividend yield of 0.2%, FY18 P/E of 5.4x, FY18 PEG of (0.3)x and FY18 and EV/ EBITDA of 7.4x. As investors, we find opportunities masked in the aggregates and underscore that these broad differences provide opportunities in individual stock selection.

Table 4: Analysis of performance highlights by market capitalisation

¹ The NSE Nifty index is computed using the Free Float Market Capitalisation weighted method, wherein the level of index reflects the free float market capitalisation of all stocks in the Index. (Source NSE Website)

² The BSE Sensitive Index, or Sensex, consists of companies selected on the basis of market capitalization, liquidity and industry representation. (Source BSE Website)

³ The CNX S&P500 Equity Index (now renamed as the NIFTY 500) reflects the market as closely as possible and represents ~ 95.2% of the free float market capitalization of the stocks listed on NSE as on March 31, 2017. 

By market capitalisation	Number of Co's	Mkt Cap (INR BN)	Enterprise Value (INR BN)	Net Debt (INR BN)	ROE: FY18	FCF Yld: FY18	Dvd Yld: FY18	P/E: FY18	EV/EBITDA: FY18	P/BV: FY18	PEG Ratio: Y	Total Return: Y-5 (I)	Total Return: Y-1 (I)	EPS T12M	Value traded as percentage of all stocks
NSE NIFTY	50	84,536	94,749	9,231	20.0%	-0.6%	1.6%	33.9	26.4	7.0	18.9	209.7%	21.9%	57.4	40.6%
S&P BSE SENSEX	30	67,543	75,329	7,122	20.3%	-1.4%	1.3%	34.5	28.5	6.9	23.3	152.4%	25.2%	52.2	30.2%
Top 10 Companies by M Cap	10	42,456	45,172	2,534	22.7%	-1.5%	1.0%	22.3	30.2	8.5	2.3	174.2%	33.2%	62.0	13.2%
Top 25 Companies by M Cap	25	65,893	71,767	5,447	20.3%	-0.6%	1.4%	36.5	25.4	7.2	23.9	205.3%	27.1%	50.4	24.7%
Top 50 Companies by M Cap	50	87,860	97,831	9,003	20.6%	-0.7%	1.4%	37.1	28.9	8.0	19.1	217.1%	24.4%	60.4	38.6%
Top 100 Companies by M Cap	100	108,965	121,476	11,439	20.4%	-0.8%	1.4%	36.2	29.3	7.9	16.1	246.0%	22.2%	68.7	54.0%
Top 500 Companies by M Cap	500	148,006	176,850	27,210	18.0%	-1.5%	1.2%	34.5	29.5	7.3	12.8	277.4%	21.9%	58.7	93.5%
Top 1,000 Companies by M Cap	1,000	154,675	187,464	31,038	17.6%	-1.4%	1.2%	34.0	28.9	7.0	12.4	288.4%	21.5%	57.1	98.6%
Remaining 2,976 by M Cap	2,976	2,185	6,481	4,239	2.7%	-0.2%	0.2%	5.4	7.4	1.0	(0.3)	317.2%	5.4%	9.6	1.4%
LARGE CAP	104	110,180	123,519	12,266	20.3%	-0.9%	1.4%	36.1	29.2	7.9	15.9	244.9%	22.1%	68.4	55.3%
MID CAP	250	32,243	45,561	12,850	11.8%	-3.0%	0.9%	31.0	32.8	5.9	4.2	357.8%	24.7%	32.2	29.5%
SMALL CAP	3,622	14,437	24,864	10,161	7.8%	-1.3%	0.6%	20.0	14.7	2.5	1.9	470.1%	8.0%	19.6	15.3%
All traded equities, Cap Wgt.	3,976	156,860	193,945	35,276	17.4%	-2.2%	1.2%	33.6	34.9	3.3	(9.6)	288.8%	21.3%	56.5	100.0%

Source: Horizon Research, Bloomberg

We observe that the market capitalisation of a small number of companies within each industry sector constitute a majority of that industry sectors broad market capitalisation. This heavy concentration is observed in most industry sectors. For example in the broad market there are 1,282 consumer discretionary companies of which 8 companies constitute 34.6% of the market capitalisation. This trend is repeated in the consumer staples industry where 2 out of 201 companies constitute 48.9% of the market capitalisation (Table 5).

By industry	BROAD MARKET		NIFTY		Market Cap of NIFTY securities as a % of broad market
	Number of securities	Market Cap (INR BN)	Number of securities	Market Cap (INR BN)	
Consumer Discretionary	1,282	23,726	8	8,198	34.6%
Consumer Staples	201	15,848	2	7,750	48.9%
Energy	26	13,531	5	12,857	95.0%
Financials	631	38,012	10	22,362	58.8%
Health Care	204	8,639	4	2,931	33.9%
Industrials	606	12,877	3	3,415	26.5%
Information Technology	236	15,820	5	13,100	82.8%
Materials	722	21,218	9	9,400	44.3%
Telecommunication Services	27	2,692	2	2,064	76.7%
Utilities	41	4,496	2	2,458	54.7%
	3,976	156,860	50	84,536	53.9%

Source: Horizon Research, Bloomberg

Industry sectors oriented for growth

The informational technology, consumer discretionary, energy, industrials, materials and consumer staples are amongst the largest industry sectors by market capitalisation in the Indian equity market with respective participation of 10.1%, 15.1%, 8.6%, 8.2%, 13.5% and 10.1% respectively. Only the financial industry, with 24% is larger than the aforementioned.

Each sector of the Indian market has its particular economics, and it would not always be accurate to compare two industries using the same financial indicator. However, certain trends are discernible when we analyze performance highlights by industry grouping (Table 6).

Table 6: Analysis of performance highlights by industry

By industry	Number of Co's	Mkt Cap (INR BN)	Enterprise Value (INR BN)	Net Debt (INR BN)	ROE: FY18	FCF Yld: FY18	Dvd Yld: FY18	P/E: FY18	EV/EBITDA: FY18	P/BV: FY18	PEG Ratio: Y	Total Return: Y-5 (I)	Total Return: Y-1 (I)	EPS T12M	Value traded as percentage of all stocks
Consumer Discretionary	1,282	23,726	26,790	2,805	17.0%	0.8%	0.6%	37.8	30.7	6.9	7.4	389.2%	11.6%	143.4	18.4%
Consumer Staples	201	15,848	16,107	226	38.1%	1.7%	1.5%	57.5	43.2	24.2	7.1	199.1%	30.1%	36.7	5.7%
Energy	26	13,531	16,337	2,678	12.6%	1.7%	2.3%	13.7	11.9	1.9	1.1	162.7%	25.2%	46.6	4.9%
Financials	631	38,012	52,897	14,527	11.4%	-11.1%	0.6%	35.2	37.1	5.2	(0.6)	390.2%	10.7%	37.1	26.6%
Health Care	204	8,639	9,342	674	12.1%	-1.4%	0.6%	50.6	33.0	5.3	6.2	213.2%	31.1%	48.4	6.9%
Industrials	606	12,877	16,907	3,639	13.3%	0.2%	0.9%	30.9	28.8	5.3	11.4	377.8%	26.1%	42.2	10.1%
Information Technology	236	15,820	14,820	-1,016	26.1%	3.7%	1.8%	16.9	22.0	4.2	2.8	129.5%	60.6%	60.9	9.3%
Materials	722	21,218	26,044	4,454	19.2%	3.4%	1.7%	27.1	19.2	5.5	6.0	315.5%	15.5%	39.8	13.8%
Telecommunication Services	27	2,692	4,796	2,013	-2.0%	2.0%	1.2%	81.1	12.4	3.7	(4.7)	61.6%	-15.7%	0.5	2.1%
Utilities	41	4,496	9,905	5,276	6.9%	2.3%	2.4%	8.7	13.1	2.8	1.9	59.7%	-1.1%	14.0	2.1%

Source: Horizon Research, Bloomberg

The consumer discretionary industry, which includes textiles, media, automobiles, hotels and household durables, represent 15.1% of market capitalisation and 18.4% of traded volume. This sector has 10.5% net debt to enterprise value ratio, FY18 ROE of 17%, FY18 FCF yield of 0.8%, and FY18 dividend yield of 0.6%. The sector traded at FY18 P/E ratio of 37.8x and 30.7x EV/EBITDA, significantly above the Index. These disconnects in financial ratios versus the index respond to secular trends in the sector (e.g. increasing disposable income leading to higher demand).

The consumer staples industry, which includes alcohol, tobacco, packaged foods, and agricultural products, represents 10.1% of all market capitalisation and 5.7% of value traded. It has a 1.4% net debt to enterprise value ratio, and FY18 ROE of 38.1%, with FCF yield of 1.7% and dividend yield of 1.5%. The sector is trading at 57.5x FY18 P/E and 43.2x FY18 EV/EBITDA. Valuations for the 'consumer staples' sector are a reflection of high expectations of earnings growth in this sector with the PEG ratio at 7.1.

The energy industry, which includes oil, gas and coal exploratory companies and allied services represents 8.6% of all market capitalisation and only 4.9% of value traded, has a 16.4% net debt to enterprise value ratio, and FY18 ROE of 12.6%, with FCF yield of 1.7% and dividend yield of 2.3%. The sector is trading at 13.7x FY18 P/E and 11.9x FY18 EV/EBITDA.

The financial industry, which includes banks, asset management, mortgage finance and thrifts represents 24.2% of all market capitalisation and 26.6% of value traded which is the highest amongst all industry groups. The financial industry has weighted average ROE of 11.4% for FY18 and dividend yields of 0.6% for FY18. The sector traded at FY18 P/E of 35.2x and a FY18 P/B ratio of 5.2.

The health care industry represents 5.5% of the total market capitalisation and 6.9% of total value traded. It has an ROE of 12.1%, FY18 FCF yield of (1.4)%, and a FY18 dividend yield of 0.6%. The sector traded at FY18 P/E of 50.6x and 33x FY18 EV/EBITDA.

Industrials represent 8.2% of all Indian market capitalisation and 10.1% of all value traded. The sector has net debt to enterprise value of 21.5%. The FY18 ROE of the sector is 13.3%, FY18 FCF yield is 0.2%, while still maintaining 0.9% FY18 dividend yield. The sector traded at FY18 P/E of 30.9x and 28.8x FY18 EV/EBITDA.

The information technology industry represents 10.1% of all market capitalisation and 9.3% of value traded. It has negative net debt (with cash and cash equivalents exceeding debt). The FY18 ROE of the sector is 26.1%, FY18 FCF yield is 3.7% (the highest amongst all industry groups), while still maintaining a 1.8% FY18 dividend yield. The sector traded at FY18 P/E of 16.9x and 22x FY18 EV/EBITDA.

The materials industry, which includes chemicals, metals and mining, construction material, paper and pulp and fertilizers, represents 13.5% of all market capitalisation and 13.8% of value

traded. The sector has net debt to enterprise value of 17.1%. The FY18 ROE of the sector is 19.2%, FY18 FCF yield is 3.4% and the FY18 dividend yield is 1.7%. The sector traded at FY18 P/E of 27.1x and 19.2x FY18 EV/EBITDA.

Telecommunication services represent 1.7% of all Indian market capitalisation and 2.1% of all value traded. The sector has net debt to enterprise value of 42%. A single telecom company Bharti Airtel (BSE: 532454) is responsible for 42.5% of the entire net debt of the industry. The FY18 ROE of the sector is (2)% (the lowest amongst all industry groups), FY18 FCF yield is 2% and the FY18 dividend yield is 1.2%. The sector traded at FY18 P/E of 81.1x and 12.4x FY18 EV/EBITDA.

The utilities industry, which includes independent power producers & energy traders, electric, water and gas utilities represents 2.9% of all market capitalisation and 2.1% of value traded. The sector has net debt to enterprise value of 53.3%. The FY18 ROE of the sector is 6.9%, FY18 FCF yield is 2.3% and the FY18 dividend yield is 2.4%. The sector traded at FY18 P/E of 8.7x and 13.1x FY18 EV/EBITDA.

THE INDIAN ECONOMY

While Indian GDP (at market prices) has increased at a CAGR of 11.5% from USD 508 billion in 2002 to USD 2,597 billion in 2017, the total market capitalisation to GDP ratio is below global levels indicating that a higher expansion of Indian equity markets is possible. Indian broad market capitalisation of USD 2,332 billion in 2017 represents 90% of Indian GDP. This is significantly lower than the peak percentage of 151% in 2007. In comparison, the ratio of US market capitalisation to GDP was ~ 166% in 2017 (Table 7).

We believe Indian GDP will continue to grow at its 2002-17 CAGR of 7.3% in the long term, which will provide an added impetus to companies across capitalisation and industry sectors. India is the ninth largest economy in the world with an estimated GDP in 2014 of USD 2,597 billion in current dollars.⁴

Table 7: Market cap of listed companies as a % of GDP (2002-17)

Indicator	Year				CAGR		
	2002	2007	2012	2017	2002-17	2007-2017	2012-2017
GDP India (current US\$ billion)	508	1,201	1,828	2,597	11.5%	8.0%	7.3%
GDP US (current US\$ billion)	10,978	14,478	16,155	19,391	3.9%	3.0%	3.7%
GDP China (current US\$ billion)	1,471	3,552	8,561	12,238	15.2%	13.2%	7.4%
M Cap India (current US\$ billion)	131	1,819	1,263	2,332	21.2%	2.5%	13.0%
M Cap US (current US\$ billion)	13,855	11,098	19,947	32,121	5.8%	11.2%	10.0%
M Cap China (current US\$ billion)	NA	4,479	3,697	8,711	NA	6.9%	18.7%
M Cap/GDP India (%)	26%	151%	69%	90%			
M Cap/GDP US (%)	126%	77%	123%	166%			
M Cap/GDP China (%)	NA	126%	43%	71%			

Source: Horizon Research, The World Bank

Indian exports are diversified, though in general refined petroleum products, gems and jewelry, software, pharmaceuticals and agri-commodities are the largest export items in most years. With export/GDP ratio increasing, India is becoming more integrated with and sensitive to global economic conditions. The degree of openness to trade represented by the percentage of merchandise trade to GDP is lower in India at 29% in 2017, as compared to 33% for China and 37% for Russia.

Net FDI that had increased to a record USD 43 billion in 2008, was USD 40 billion in 2017 (Table 8). Portfolio inflows reached a record USD 33 billion in 2007 but declined to 5.9 billion in 2017.

Table 8: India: Economic indicators for the past 15 years

Indicator	2002	2007	2012	2017
Foreign direct investment, net inflows (BoP, current US\$)	5.2	25.2	24.0	40.0
GDP growth (annual %)	3.8%	9.8%	5.5%	6.6%
GDP per capita, PPP (current international \$)	2,159	3,485	4,916	7,056
Merchandise trade (% of GDP)	20.8%	31.6%	43.0%	28.7%
Portfolio equity, net inflows (BoP, current US\$)	1.1	32.9	22.8	5.9

Source: Horizon Research, The World Bank

⁴ Source World Bank

SUMMARY – INVESTMENT OPPORTUNITY IS NOW

With deeply rooted equity culture and a favorable environment for corporate ownership, Indian stock markets offer unprecedented opportunity to own business at significant discount to their global franchise value. Secular trends led by rapidly rising GDP, favorable demographics, growing disposable income combined with increasing levels of corporate actions offer investment returns amongst the highest in the global marketplace.

Horizon's investment methodology, taking a private equity approach to the public markets, is optimally suited to pursue these opportunities and earn high risk adjusted returns.

SELECTED BEST IDEAS

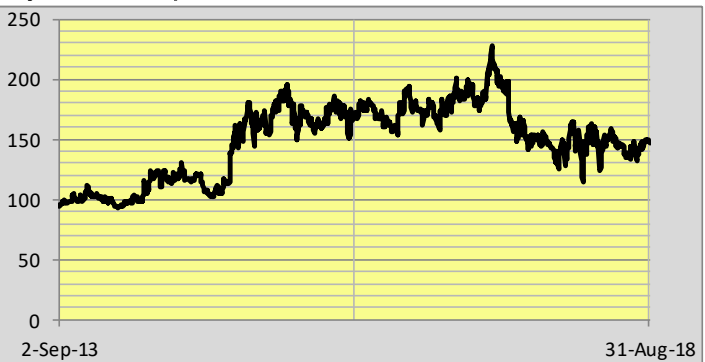
Fortis Healthcare (INR 142– FORH)

PMV: INR 209

Capitalization (in INR million, except per share data)

Balance Sheet as of:	03/31/2018
Common Shares	518.6
Options	
Fully Diluted Shares	518.6
Market Price	142.2
Equity Market Capitalization	73,721.5
Less: Investment in RHT SP	9,546.4
Less: Cash and Equivalents	5,547.4
Plus: Debt	14,004.2
Plus: Minority	12,552.3
Total Capitalization	85,184.3

5 year share price



FORH is a healthcare service provider with two segments – (1) The Hospital segment with ~ 3,500 operational beds spread across 45 hospitals in India and (2) The Diagnostic segment (SRL) which had 366 labs and performed 38 million tests in FY18. Hospital segment revenue (India) grew at a CAGR of 10% from INR 22.9 billion in FY13 to INR 36.8 billion in FY18. SRL’s revenue grew at a CAGR of 8% from INR 5.8 billion in FY13 to INR 8.5 billion in FY18. In addition, FORH owns a 29.8% stake in Religare Health Trust (RHT SP), which in turn owns hospitals operated by FORH.

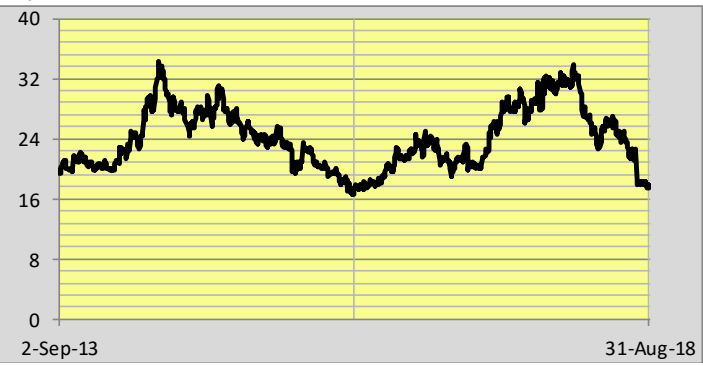
An adverse ruling by the Delhi High Court in an unrelated matter has forced the erstwhile majority shareholders of FORH (RHC Holdings and Fortis Healthcare Holdings, promoted by Malvinder Singh and Shivinder Singh) to sell their holding in FORH. On July 13, 2018, FORH announced that IHH Healthcare Berhad (IHH MK) would invest INR 40 billion in FORH through a preferential allotment of 235.3 million shares. At the preferential allotment price of INR 170, FORH is valued at 1.9x FY20E sales of INR 53.6 billion and 28.7x FY20E EBITDA of INR 3.5 billion. Post preferential allotment, IHH would make a tender offer to shareholder at INR 170 per share to acquire an additional 26% stake in FORH. FORH would use proceeds from preferential allotment to acquire all the assets of RHT at an EV of INR 46.5 billion and increase its ownership in SRL from 56.5% to 87.4% by acquiring ~ 30% stake from existing private equity investors (International Finance Corporation, NYLIM Jacob Ballas and Avigo Capital Partners) for INR 11 billion. This series of transactions is expected to be complete by Q4FY19.

The culmination of the announced transactions will help surface the underlying value of FORH. FORH has an EV of INR 85.2 billion and trades at 1.6x FY20E sales of INR 53.6 billion and 24.5x FY20E EBITDA of INR 3.5 billion. We recommend buying FORH at the current share price as it trades at a 32% discount to our FY20 PMV of INR 209. Factoring the above transaction would improve our FY20 PMV by INR 5 to INR 213.

Capitalization (in INR million, except per share data)

Balance Sheet as of:	31-Mar-18
Common Shares	1,809.5
Options	
Fully Diluted Shares	1,809.5
Market Price	17.7
Equity Market Capitalization	31,937.7
Less: Investments	
Less: Cash and Equivalents	
Plus: Debt	
Plus: Minority	
Total Capitalization	na

5 year share price



SIB is a mid-size regional bank with operations mostly concentrated in South India. SIB has a well-diversified shareholder base with no identifiable majority shareholder. Mid-size banks are on the radar of potential acquirers. In December 2016, The Reserve Bank of India (RBI) gave an in-principle approval to Canadian Prem Watsa’s Fairfax Financial Holdings to acquire a 51% stake in Kerala-based Catholic Syrian Bank (CSB) with a lock in of 5 year and a mandate to reduce its stake in CSB to 15% over 12 years. On September 19, 2018, Livemint reported that Baring PE Asia would acquire 26% stake in Lakshmi Vilas Bank (LVB IN) valuing the bank at USD 400 million (or forward price to book value multiple of 1.3x). In addition, financial institutions such as Mitsubishi UFJ Financial Group Inc. (8306 JP) are considering expanding in India through acquisitions in addition to organic growth.

SIB has attracted value investor interest in the recent past when in January to March 2017, Ashish Dhawan purchased 19.8 million shares (1.1% of 1,802.8 million shares outstanding) of SIB (Price range January to March 2017: INR 20 – INR 23; Price to book multiple range: 0.7x – 0.9x). On January 20, 2014, Yusuffali Musaliyam Veetil Abdul Kader purchased 30 million shares (2.2% of shares outstanding) of SIB at INR 21 per share valuing SIB at a 0.8x FY15 book value per share of INR 26.6. Ashish Dhawan and Yusuffali Musaliyam Veetil Abdul Kader have raised their stake to a 1.5% and 4.9%, respectively, through incremental purchases.

SIB has a market capitalization of INR 31.9 billion and trades at 0.6x FY18 book value of INR 52.4 billion. In comparison, the median trading price to book value multiple of private sector banks (non-government owned bank) in India is 4.2x. We recommend buying SIB at the current share price of INR 18 as SIB trades at a 53% discount to our FY20 PMV of INR 38. Our PMV is based on a 70% provision coverage ratio (as prescribed by RBI in 2011) and significantly exceeds the current (FY18) provision coverage ratio of 27.3%.

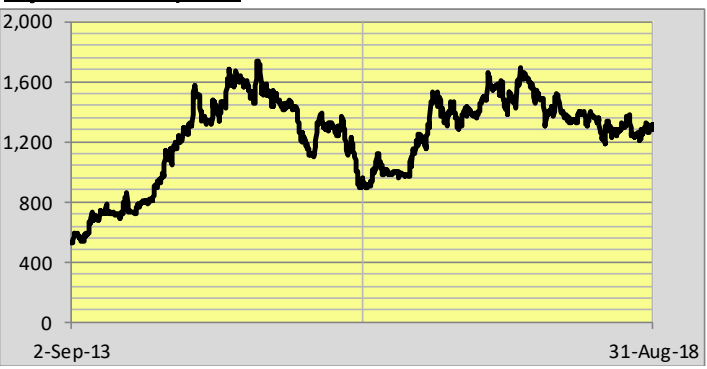
CARE Ratings (INR 1,304 – CARE IN)

PMV: INR 2,107

Capitalization (in INR million, except per share data)

Balance Sheet as of:	03/31/2018
Common Shares	29.4
Options	0.1
Fully Diluted Shares	29.5
Market Price	1,304.4
Equity Market Capitalization	38,473.4
Less: Investments	
Less: Cash and Equivalents	5,469.7
Plus: Debt	0.0
Plus: Minority	
Total Capitalization	33,003.6

5 year share price



CARE is the second largest credit rating agency (by revenues) in India. It has rated debt issues totalling ~INR 108,470 billion from inception. By solely focusing on ratings CARE has historically maintained a higher EBITDA margin over their Indian peers (CRISIL IN & ICRA IN). CARE had an EBITDA margin of 63.4% in FY18 compared to 27.5% for CRISIL and 37.3% for ICRA.

From August 2017 onwards, the Reserve Bank of India has mandated that companies raising more than INR 10 billion by issuing commercial papers (CP) must have their CPs rated by at least two credit rating agencies. This requirement has not only helped increase the number of short term instruments to be rated but has also added to the stock of debt which will require surveillance in the coming years.

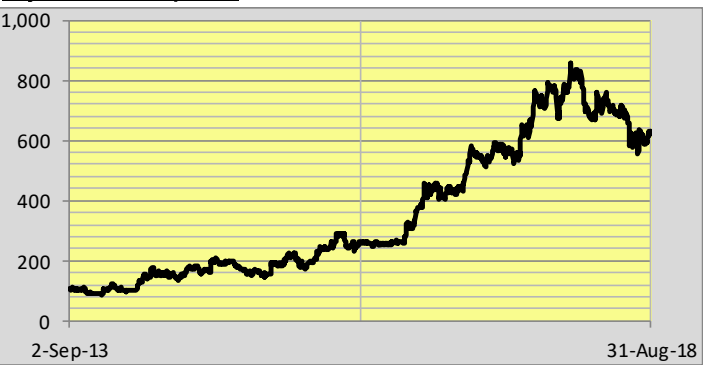
Unlike other rating agencies like CRISIL and ICRA, CARE is a pure play on rating business which makes it an ideal target for large global rating agencies. In December 2015, Japan Credit Rating Agency, Ltd. (JCR) and CARE signed a Memorandum of Understanding (MoU) to collaborate with each other as strategic business partners. On June 29, 2017, CRISIL, an S&P Global Company, acquired 2.6 million shares (8.9% of 29.5 million shares outstanding) of CARE from Canara Bank (CBK IN) for INR 4.4 billion. At the acquisition price of INR 1,659.8 per share, CARE was valued at an EV of INR 45.2 billion or 24.7x FY17 EBITDA of INR 1.8 billion.

The acquisition of a significant stake in CARE by any global rating agencies will help surface the underlying value of CARE. Currently, CARE has an EV of INR 33 billion and trades at 12.5x FY20E EBITDA of INR 2.6 billion. In comparison the median trading EV/EBITDA multiple of Indian rating companies is 24.4x. We recommend buying CARE at the current share price of INR 1,304 as it trades at a 38% discount to our FY20 PMV of INR 2,107.

Capitalization (in INR million, except per share data)

Balance Sheet as of:	31-Mar-18
Common Shares	46.4
Options	
Fully Diluted Shares	46.4
Market Price	622.9
Equity Market Capitalization	28,901.3
Less: Investments	4,683.4
Less: Cash and Equivalents	688.3
Plus: Debt	2,799.7
Plus: Minority	105.6
Total Capitalization	26,434.9

5 year share price



HTFL, located in Andhra Pradesh, is the second largest listed dairy products producer in India with installed milk processing capacity of ~2.1 million litres per day (FY18). In addition to dairy products, HTFL had a small food retailing segment, which they sold to Future Retail (FRETAIL IN) in an all share deal in early 2017. HTFL had revenues of INR 23.7 billion in FY18. HTFL was founded in 1992 by Telugu Desam Party leader and current Chief Minister of Andhra Pradesh, Nara Chandrababu Naidu.

The presence of a number of catalysts makes HTFL an attractive stock within the Indian dairy industry. Catalysts include: (i) A growing number of acquisitions of EM dairy companies led by a lack of growth opportunities in western markets and rising consumption in emerging markets (ii) Recent changes in bovine culling and slaughter laws in India that have made milk production unviable in several Indian states. (HTFL stands to benefit from their presence in Andhra Pradesh where these laws are not applicable). (iii) Appointment of KPMG to help HTFL determine their long term strategy and the appointment of SBI Capital Markets to help setting up of a JV with a leading European Co to collaborate on dairy products in India and overseas market. (iv)

On November 7, 2016, HTFL announced the sale of their retail, bakery and agri-sourcing businesses to FRETAIL IN in an all share deal. HTFL owns 17.8 million FRETAIL shares (3.6% of 502.5 million shares outstanding). The complex structuring of HTFL’s investment in FRETAIL, masks the performance of HTFL’s core business (dairy). Sale of FRETAIL shares by HTFL would untangle the transaction and act as long term catalyst that will assist in surfacing the underlying value of HFTL. HFTL has an EV of INR 26.4 billion and trades at 12.5x FY20E EBITDA of INR 2.1 billion. We recommend buying HTFL at the current share price of INR 623 as HTFL trades at a 38% discount to our FY20 PMV of INR 999.

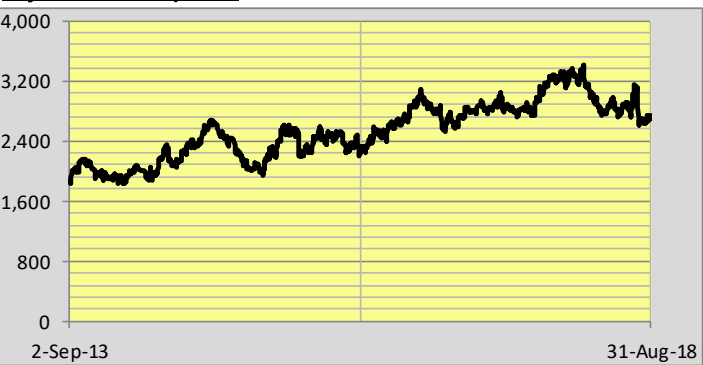
Bajaj Auto (INR 2,746 – BJAUT IN)

PMV: INR 3,862

Capitalization (in INR million, except per share data)

Balance Sheet as of:	31-Mar-18
Common Shares	289.3
Options	
Fully Diluted Shares	289.3
Market Price	2,746.4
Equity Market Capitalization	794,626.8
Less: Investments (KTM AV)	54,649.6
Less: Cash and Equivalents	197,443.4
Plus: Debt	1,207.7
Plus: Minority	0.2
Total Capitalization	543,741.7

5 year share price



BJAUT, headquartered in Pune, India, is a leading Indian motorcycle manufacturer. In addition to selling in India, BJAUT exports to 78 countries and holds market-leading positions (top 2) in ~ 20 of these countries. BJAUT sold 2.0 million motorcycles and 369.6k 3-wheelers in India in FY18. It also exported 1.4 million motorcycles and 254.4k 3-wheelers in FY18. BJAUT generated INR 255.6 billion of revenue and INR 47.8 billion of EBITDA in FY18. BJAUT has a 49% stake in KTM valued at INR 54.6 billion (INR 189 per share).

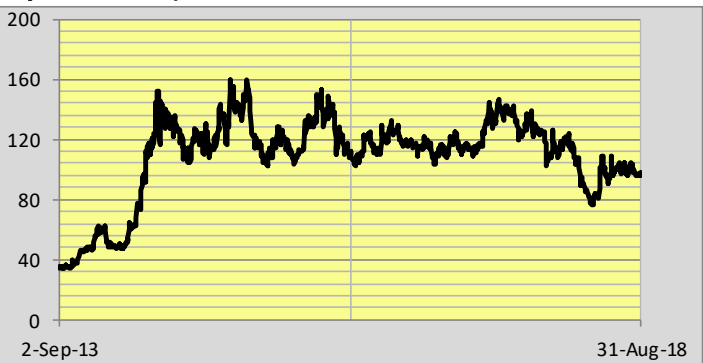
BJAUT aims to create product categories for their motorcycles by making a motorcycle brand occupy a distinct position, relative to competing brands, in the mind of the customer. An asset light business model ensures that BJAUT capex spend is the lowest amongst its peers. Manufacturing related capex cost is borne by vendors with BJAUT investing in R&D and final assembly and BJAUT runs on a negative working capital cycle. BJAUT has a 15.7% market share in India's motor cycle market and has recently changed their strategy by lowering product prices to gain market share.

BJAUT has an EV of INR 543.7 billion and trades at 11.2x FY20E EBITDA of INR 48.7 billion. BJAUT's EV/EBITDA multiple is 34% lower than the median EV/EBITDA multiple of 17.4x of comparable auto companies in India. We recommend buying BJAUT at the current share price of INR 2,746 as BJAUT trades at a 29% discount to our FY20 PMV of INR 3,862.

Capitalization (in INR million, except per share data)

Balance Sheet as of:	31-Mar-18
Common Shares	86.6
Options	
Fully Diluted Shares	86.6
Market Price	89.6
Equity Market Capitalization	7,760.4
Less: Investments	
Less: Cash and Equivalents	1,554.1
Plus: Debt	1,009.6
Plus: Minority	
Total Capitalization	7,215.9

5 year share price



ASTM is India’s largest defense components exporter and designs, develops and manufactures assemblies, sub-systems and components for the defense, space, aircraft, telecommunication and meteorology Industry. ASTM had sales of INR 3.7 billion in FY18. ASTM is the single source supplier on many upcoming programs including the Indo-French Rafale Strike fighter.

There are three factors that will drive ASTM’s revenue growth 1) India is the world’s largest arms importer, accounting for 12% of global imports between 2013-17 (SIPRI). India mandates that arms imports have to be setoff by domestic purchases (offsets). ASTM is one of the largest manufacturers in the defense-offset space in India and will continue to benefit from higher imports. 2) The Government of India has recently permitted 100% foreign investment in defense sector. This will lead to increasing interest in acquiring domestic manufacturers and leverage India’s comparative advantage in manufacturing to make products for the global market. 3) India has pledged to spend USD 250 billion by 2025 on weapons and military equipment to make up for lower spend in the past decade.

ASTM has an EV of INR 7.2 billion and trades at 4.6x FY20E EBITDA of INR 1.6 billion. Forward EV/EBITDA multiple of 4.6x and forward price to earnings ratio of 7.8x make ASTM one of the cheapest defense stock in the world. We recommend buying ASTM at the current share price of INR 90 as ASTM trades at a 54% discount to our FY20 PMV of INR 194.

Manjit Singh Kalha, the analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Important Disclosures

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Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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